

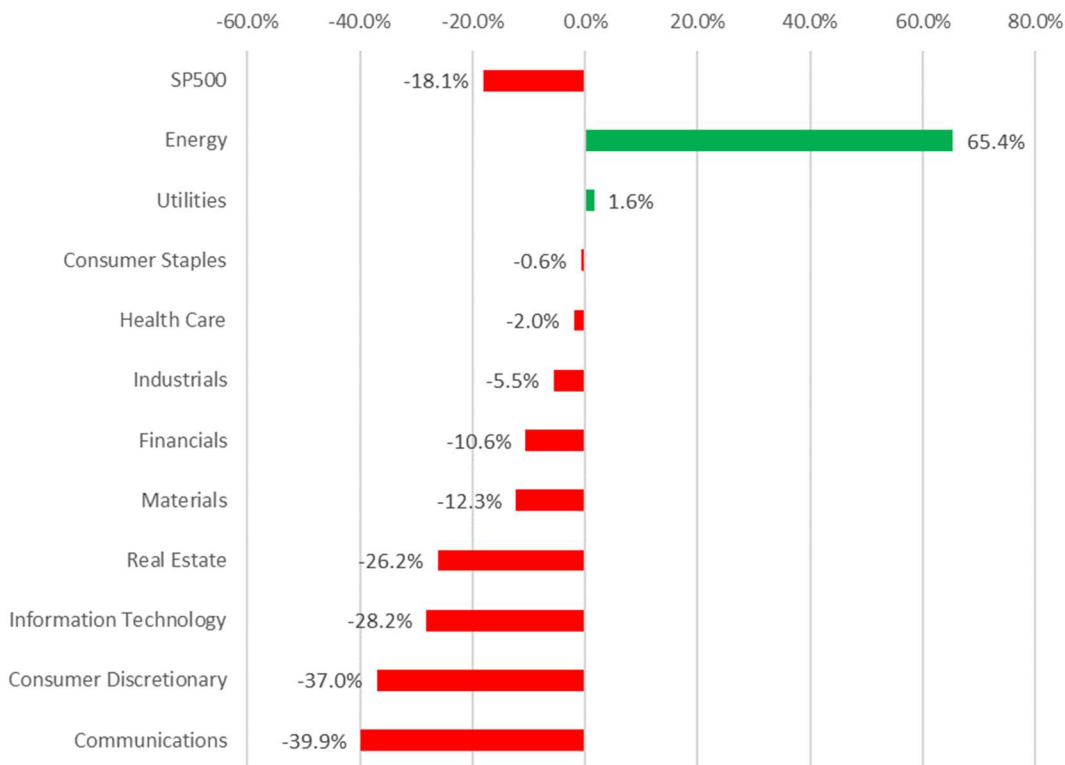
January 17, 2023

Fellow Investors:

Market Review

It’s doubtful any investor will remember 2022 with fondness. The S&P 500 Total Return Index lost 18.1% overall. Only the energy sector had substantial positive returns. Nearly every other sector was down—and many down significantly. Detailed sector performance is shown in the chart below. Even bonds, which are usually a safer investment, suffered double digit losses. During times like these, it is understandably difficult remain committed to long-term investing. Most of you also follow the markets and are already aware of the losses. If not, please remember that you can check balances at any time via the Interactive Brokers’ website.

S&P 500 Total Return in 2022 by Sector



Looking forward to 2023, there are still many uncertainties. Inflation is declining but remains higher than the Federal Reserve would like. Geopolitical tensions are high, but supply chain tensions have been relieved. Recession fears abound, but labor markets remain strong. Market valuations—as I’ve said for some time—are fair, but that doesn’t mean stocks won’t continue to decline. The future is and always will remain unpredictable.

Behavior Revisited

In Q2 of last year, I wrote in some detail about managing our own emotions as investors. If I may be so bold, it may be worth rereading that letter to ensure we have the proper mindset for the new year. The letter can be found on www.niemanninvestments.com.

A large body of research examines the behavioral biases of investors. I won’t go into the details of that research here, but in summary, these biases typically lead to investors losing money by buying and selling at exactly the wrong times. While I generally agree with the research’s findings and lessons for investor behavior, I usually disagree with the characterization of timing. Often these studies (and many market participants) assume the market is on some predestined course. This is not true. Rather, it is investor behavior, through buying and selling, that creates the market’s path. When the research claims that investors buy or sell at the wrong times, it’s not that they get the timing wrong, but that they themselves cause the lows and the highs in the first place. It is investor psychology that causes the market’s fluctuations. The market will reach lows when people are most pessimistic because they are selling. And conversely, the market will reach new highs when everyone is buying and overly optimistic. Reiterating the point from my previous letter, most investors would do well to not trust their emotions. When you feel terrible and pessimistic about the future, it is likely a good time to buy more stocks. And conversely, when you feel euphoric, it may be time to reduce your positions. These contrarian actions will help prevent you falling prey to the common behavioral biases. One of the main benefits of hiring an investment advisor (such as myself) is to help temper emotions by delegating investment decisions.

Housekeeping

Here are a few updates and reminders as we begin the new year:

1. Please remember that I cannot conduct business via text message. You can of course contact me to arrange a call or meeting this way, but all official business must be conducted via email or phone calls. This is a regulatory requirement that I need to comply with. You'll find that if you do reach out with any questions, I will reply with a request for a phone call.
2. I've sent a risk questionnaire out several times, but I'm still waiting for a few of you to respond. Please check your old and junk email folders for this message, sent from Interactive Brokers. If needed, let me know and I can resend it.
3. As a reminder, tax forms for 2022 will be mailed to you from Interactive Brokers, or can be accessed from their website.
4. At least annually I need to speak in detail with each of you to ensure your financial situation has not materially changed and that the investment portfolios are still appropriate for your needs. I will be reaching out soon to set up these meetings.

Conclusion

As always, thank you for entrusting me to manage a portion of your funds. I do not take this responsibility lightly. Overall, I still feel the portfolios are well built and have substantial upside potential. I spend time each day thinking about how I can do better for each of you.

Kind regards,

Todd Niemann, CFA