R|W INVESTMENT MANAGEMENT

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To The R|W Family of Clients,

The first six months of 2022 saw the S&P 500 decline 23.6% from its all-time high at 4,796.56 on January 3 to a closing low (so far) of 3,666.77 on June 16. The index finished its worst first half of the year since 1970 at 3,785.38.

More noteworthy than the extent of the decline was its gathering intensity. In mid-June, there was a period where, in five out of seven trading days, 90% of the S&P 500 component stocks closed lower. This is one-sided negativity on a historic scale. However, let's pause and reflect on what this information may mean to us. Because, regardless of any of the other points we wish to make in this communication, the most important is to remind you that the best way to diminish your likelihood for lifetime investment success has historically been to sell one's quality equity portfolios into a bear market.

With that, we'd like to take a moment to highlight some of the contributing factors to the current environment. Let's start by looking back to the bottom of the Great Panic on March 9, 2009, when the S&P 500 closed at 676.53. From that panic-driven trough, the S&P 500, with dividends reinvested, compounded at 17.6% annually for the next twelve years, through the end of 2021. At its peak on January 3, the Index was up seven times from its low. This was one of the greatest runs in the entire history of American equities. Moreover, the Index's compound return over the last three of those years—2019 through 2021, encompassing the worst of the coronavirus plague—grew 24% annually.

But when inflation soared late last year, it became obvious that equities' fantastic advance over those three years had been fueled, to some extent, by an excess of fiscal and monetary stimulus, intended to offset the economic devastation of the pandemic. The Federal Reserve created far too much money, and then allowed it to persist in the markets much longer than it should have. We investors now find ourselves having to give back some of the extraordinary 2009–2021 market gains, as the Fed moves to soak up that excess liquidity by raising interest rates and shrinking its balance sheet.

Yes, the war in Eastern Europe and supply chain woes of various kinds have exacerbated inflation, but in our judgment they're only part of the problem. Monetary policy, combined with a bit too much fiscal stimulus, got us into this mess and monetary policy must now get us out. The fear, of course, is that the Fed will overtighten, forcing the economy into recession. If an

economic slowdown over a few calendar quarters is what it takes to stamp out inflation, it would be the lesser of the two evils by far. Inflation is an economic disease, and it must be cured.

With regard to our investment philosophy, nothing has changed. We believe in long-term, goal-focused, plan-driven equity portfolios. We own diversified portfolios of companies who have demonstrated the ability to increase earnings (and in most cases dividends) over time, thus supporting increases in their value. We act continuously on our financial and investment plans and we must not react to current events, no matter how distressing they may be.

After 30 months of chaos—the pandemic's numerous variants, the election that would not end, roaring inflation (most painfully experienced by gas price increases), supply chain difficulties, the war in Europe and so on—we're all understandably exhausted. That's when the impulse to capitulate—to get to the perceived "safety" of cash, becomes strongest. So that is precisely when the impulse must be resisted. And that is our job, to encourage you to stay the course for this too shall pass.

We are always here to talk this through with you.

Thank you for your continued trust and confidence.

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Sources: S&P 500 prices: Standard & Poor's, as reported by Yahoo Finance. Compound growth rates: Standard & Poor's, DQYDJ S&P 500 return calculator, Ibbotson 2022 Yearbook.

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