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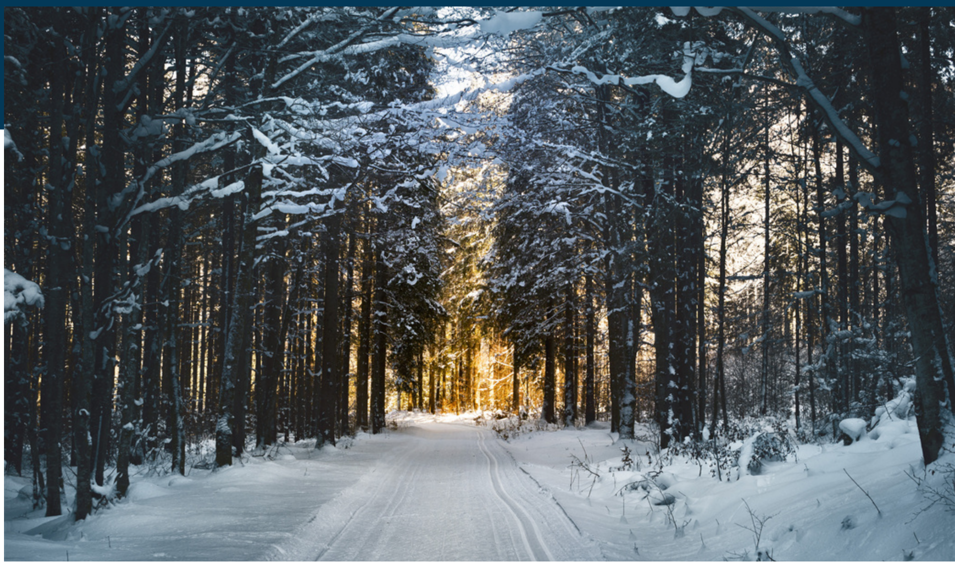
RZHadvisors

RZH INSIGHTS



Dear Clients and Friends of RZH:

Based on returns, 2021 *appeared* to be a good year for investors. US large company stocks rose 28% and international developed market stocks gained 11%. However, emerging market stocks fell 2% and the world's second-largest economy, China, saw its stock market fall 5%. Taxable bonds declined slightly and municipal bonds rose slightly. And, surprisingly, even with rising inflation, gold fell 4%. Diversification did not help returns, 2021 was all about US large company stocks.

For a comprehensive review of the capital markets in 2021 **CLICK HERE**

Emotionally however, 2021 was a difficult year for investors - beginning with a contested presidential election, followed by “meme” stock mania, supply chain disruptions, the Delta and Omicron variants, labor shortages, historically high inflation, rising interest rates and political drama over the Build Back Better legislation. Despite all these worries, the US stock market was extremely resilient and barely declined by more than 5% at any point during the year. The market was positive in 9 of 12 months with two of those monthly declines being roughly 1%. Believe it or not, 2021 was one of the lowest volatility years in recent history for the US stock market. I do not expect the same for 2022.

However, it would be counterproductive to look at these past 12 months in isolation. In 2020 the world responded to the onset of the pandemic essentially by shutting down the global economy to prevent the spread of Covid. In this country, we experienced the fastest economic recession ever and a 35% decline in the S&P 500 in just 33 days.

Congress and the Federal Reserve responded with a wave of fiscal and monetary stimulus which was and remains without historical precedent. This point cannot be overstressed: we are in the midst of a fiscal and monetary experiment that has no direct precedent. This renders all economic forecasting - and all investment policy based on such forecasts - quite speculative.

If 2020 was the year of the virus, 2021 was the year of the vaccines. Hopefully, 2022 will be the year of a return to “normalcy.”

In general, consensus for the coming year is that (a) the lethality of the virus continues to wane, (b) the world economy continues to reopen and supply chain issues clear (c) corporate earnings continue to advance, (d) the Federal Reserve begins draining excess liquidity from the banking system, (e) inflation subsides somewhat, and (f) barring some other exogenous variable - which we can never really do - equity values continue to advance, though at something less (and probably a lot less) than the blazing pace at which they've been soaring since the market trough of March 2020.

Please don't mistake this for a forecast on my part. This is merely market consensus of outcomes that seem more likely than not. I'm fully prepared for any or all of the above points to be wrong; if and when they are, my recommendations to you will be unaffected, since our investment policy is driven entirely by the plan we've made, and not by current events.

With that said, I'll offer a personal observation: these have undoubtedly been the two most shocking and nerve-wracking years for investors since the Global Financial Crisis of 2008-09 - first the outbreak of the pandemic, next the bitterly partisan election, then the pandemic's second major wave, and most recently a 40-year inflation spike. You might not be human if you haven't experienced serious headline fatigue at some point. I know I have.

But like 2008-09, what came to matter most was not what the economy or the markets did, but what the investor themselves did. If the investor fled the equity market during either crisis - their investment results seem unlikely ever to have recovered. If on the other hand they kept acting on a long-term plan rather than reacting to current events, positive outcomes followed. It has always been this way and I expect it always will be.

As we look ahead to 2022 there remains more than enough uncertainty to go around: inflation, the Fed's response to inflation, rising interest rates, Covid, mid-term elections, a concentrated stock market, geopolitical unease in Russia and China…the list (always) goes on and on. So, might the coming year be a lackluster or even declining year for the stock market as is usually the case when the Federal Reserve tightens monetary policy?

CARL BEING CARL…Yes, this is certainly possible. Now, how do you and I - as long-term, goal-focused investors - make investment policy out of that possibility? My answer: we don't, because one can't. Volatility and uncertainty are inherent components of investing and we know that attempts to predict and avoid pullbacks are generally futile. Our strategy, as 2022 dawns, is entirely driven by the steadfast principles of the RZH Investment Philosophy (see below). I have no doubt that equities will probably experience increased volatility, but we have a plan for this. We act on your plan and do not react to the markets or current events. This was the most effective approach to the uncertainty of 2020 and 2021, and I believe it is the most sensible approach going forward.

We look forward to discussing this further with you in our annual review session. Until then, all of us at RZH thank you again for being our clients. It is a privilege to serve you.

Best regards,

Carl

General Principles of the RZH Investment Philosophy

- It is goal-focused and planning-driven, as sharply distinguished from an approach that is market-focused and current-events-driven. Long-term investment success comes from continuously acting on a plan. Investment failure often results from continually reacting to current events in the economy and the markets.

- History has shown that the economy cannot be consistently forecast, nor the markets consistently timed. You and RZH are long-term investors, working steadily toward the achievement of your most cherished lifetime goals. We make no attempt to forecast, much less time, the equity markets; these efforts have a historically very low probability of success.

- Since we accept that the stock market cannot be consistently timed by us or anyone, we believe that the only way to be sure of capturing the full premium return of stocks is to ride out their frequent but ultimately temporary declines.

- Since 1980, the average annual price decline from a peak to a trough in the S&P 500 exceeded 14%. One year in five, the decline has averaged at least 30%. On two occasions (in 2000-02 and 2007-09), the Index has actually declined 50%. Yet the S&P 500 came into 1980 at 106 and went out of 2021 at 4,766. Over those 42 years, its average annual compound rate of total return (with dividends reinvested) was more than 12%.

- Factors that add a significant amount of value to an investment plan are: keeping costs low, being diversified, focusing on tax efficiency, staying relatively liquid, and matching asset allocation and investments with objectives.

- Our essential principles of goal-focused portfolio management remain unchanged:

    - The performance of a portfolio relative to a market benchmark is largely irrelevant to long-term financial success.
    - The only benchmark we should care about is the one that indicates whether we are on track to accomplish your financial goals.
    - Risk should be measured as the probability that we won't achieve our goals.
    - **Investing should have the exclusive goal of minimizing the risk of not achieving your goals.**