

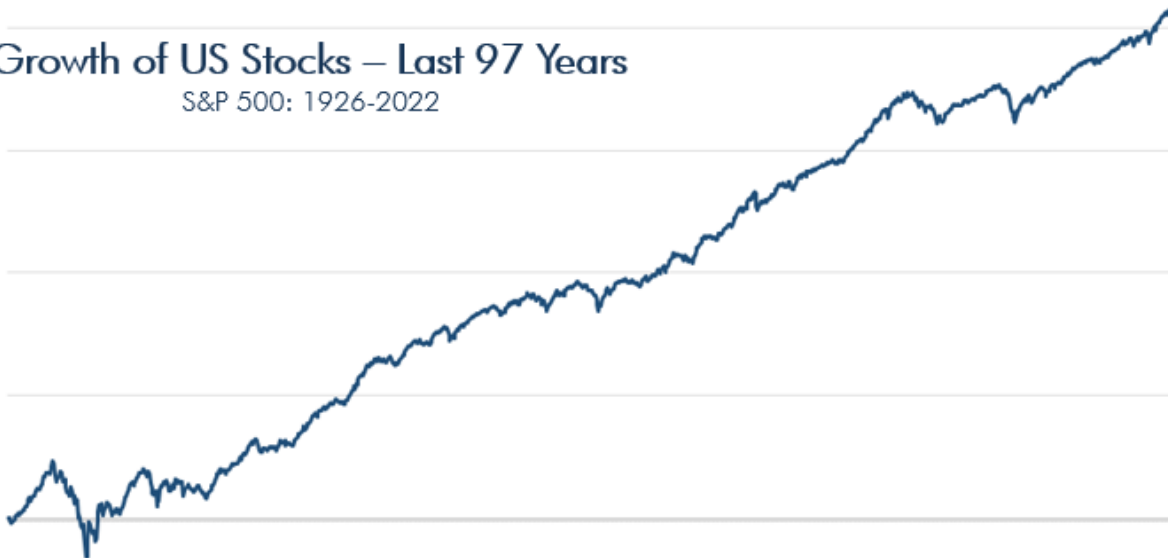


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2023 First Quarter Review

Growth of US Stocks – Last 97 Years

S&P 500: 1926-2022



Can you locate the Great Depression, Great Recession and pandemic on the line above?

Greetings Clients:

We finished the first quarter with respectable gains: U.S. stocks appreciated 7.5%, world stocks rose 7.3%, and bonds appreciated 3.0%, as represented by the S&P 500 Index, the MSCI All Country World Index, and the Bloomberg Barclays Aggregate Bond Index.

The tech sector rewarded investors with a quarterly return of nearly 10% despite layoffs and the failure of SVB. Our international stocks continued to outperform US stocks. Our defensive high-quality holdings underperformed after helping our portfolios beat the benchmark last year by 2.2% on average; these holdings will provide ample protection if (when) the economy ever slows down.

Does it surprise you that the economic data is strong? Last Friday's personal consumption expenditure index provided further evidence that inflation continues to slow, and yesterday's JOLTS report indicated that job openings are shrinking (600,000 fewer) while we have largely avoided layoffs. No jolts! Perhaps the perfect soft landing is underway: avoid 70's-style stagflation without the recession part. There are still more jobs than available workers, but maybe don't have your heart set on a position at Facebook or Amazon. (As you can see in the graphic below, tech companies comprise a significant slice of our markets; fortunately, their proportion of the labor market is much smaller.)

Ironically, strong economic news often drives down the markets because investors assume more rate hikes are coming and they will push us into recession. The Fed is attempting to thread the needle, and just to keep it interesting, let's throw in a potential banking crisis. So far so good: the banking regulators seem to have prevented the SVB failure from spreading. In another Bizarro World twist, the resulting contraction in lending may actually provide the inflation solution that has eluded the Fed's rate increases. Not that there aren't systemic problems in our banking system; if you would like to go deep, take a look at [The Money Problem](#) by Morgan Ricks. He was a financial restructuring expert in the Treasury Department during the 2008-09 financial crisis.

There has been a lot of uncertainty and unprecedented action over the past few quarters. And yet it is always like this in the markets: every day presents dangers, and the unknowns are always scary. But average returns over the past 10 decades have been remarkably constant. Did you locate the Great Depression, Great Recession and pandemic in the chart that kicked off this letter? World economies grow due to innovation and progress. War, natural disaster and rebuilding also result in economic growth.

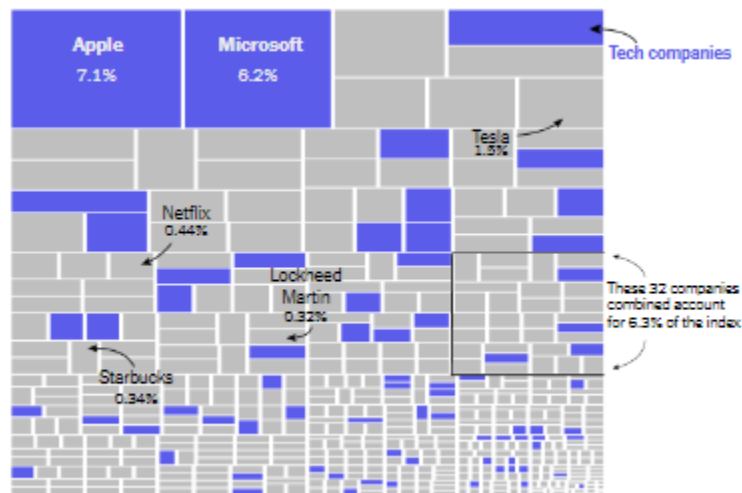
Most of you are familiar with our investment strategy: start with low-cost index funds for access to the world, identify threats and opportunities, and make modest, incremental adjustments to reduce risk and increase returns. Nothing drastic because we aren't asking for more than the 8% average annualized return that a 70/30 portfolio has delivered over the past 97 years of reliable data. Thank you, Chief Allocation Strategist and former pension consultant, Steve Bobo. You are an extraordinary technician and educator. I hope Ridley Cove makes you proud.

Quarterly Review

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We continue to see tech, high-quality, international and bond duration as our primary levers. Simple in concept, but implementation requires thoughtfulness; here's a great graphic and article that both elaborate:

The companies that make up the S&P 500, sized by share of market value.



Source: S&P Dow Jones Indices · By Eli Murray

<https://www.nytimes.com/2023/03/31/business/tech-stocks-sp-500.html?searchResultPosition=2>

Please keep us updated on your cash requirements, especially if you will need more than \$250,000 at any given time.

Please contact me if you have any questions about your investments, our strategy, or your financial goals. Our money is invested right alongside yours.

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