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2022 Second Quarter Review

Greetings Clients:

Happy Independence Day! May the United States continue to grow more just and inclusive and be a model for of civil rights around the world.

In the first half of the year, U.S. stocks declined 20.0%, world stocks were down 20.2%, and bonds declined 10.4%, as represented by the S&P 500 Index, the MSCI All Country World Index, and the Bloomberg Barclays Aggregate Bond Index. The financial mood has grown increasingly dark, with more and more commentators opining that our economy is already in recession. The sharp bump in the Federal Funds Rate and inflation expectations make for a troublesome environment. However, Americans are employed and flush with cash. Without a doubt the pandemic caused major mismatches between supply and demand that we are working through. Is a 20% discount on stocks the correct assessment of the long-term prospects for the global economy? Possibly. History suggests that investors are often too pessimistic. Fortunately, the Ridley Cove discipline does not require us to precisely predict the future. It is, however, predicated on knowing your spending needs. Is your cash (and short bond) cushion adequate? Don't hesitate to contact me any time to talk this through.

Today, let's look at some tables and charts!

For our first graphic, we will compare some of your investments:

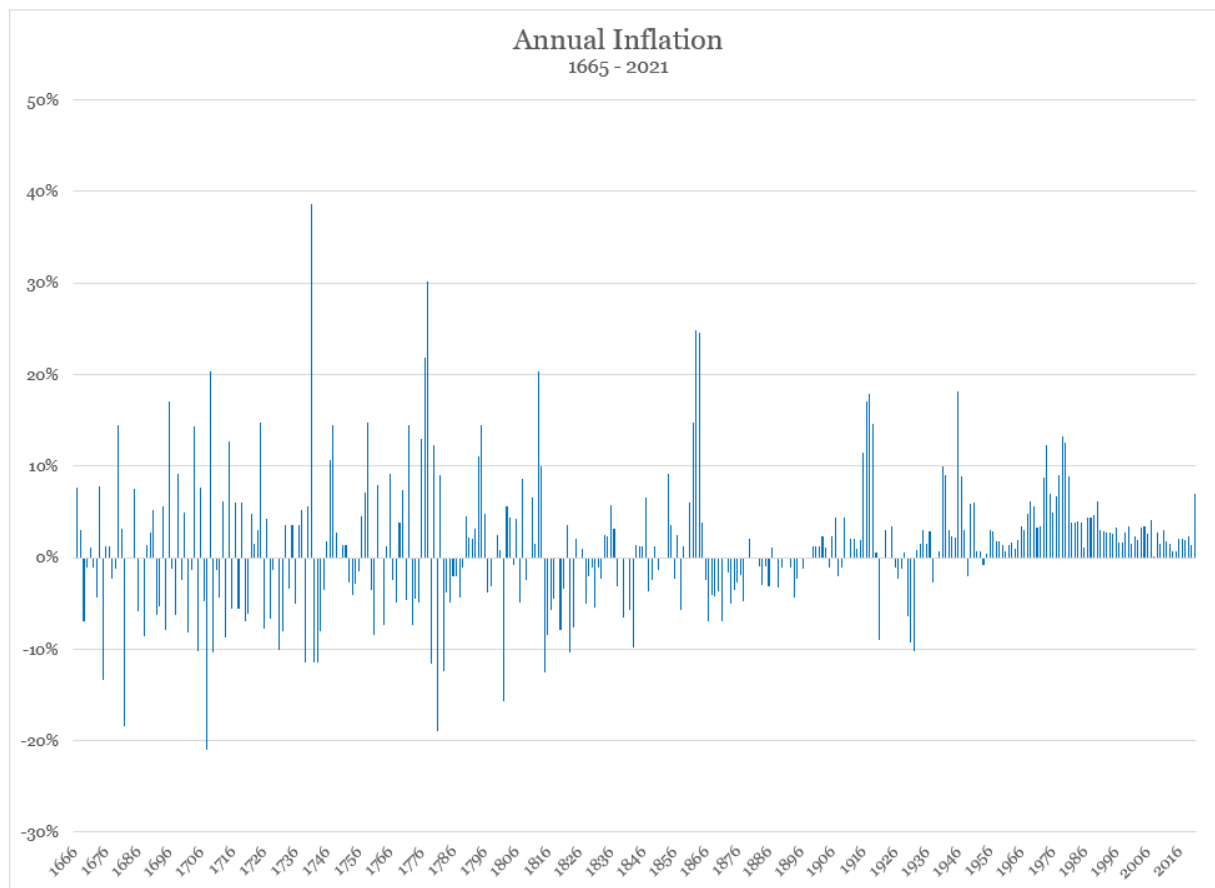
Quarterly Review

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Name	Ticker	% Total Return YTD	Total Return 2021	% Total Return 5 Year
Fidelity® Floating Rate High Income	FFRHX	-4.74	5.55	2.53
iShares Core S&P 500 ETF	IVV	-20.00	28.76	11.27
iShares Currency Hedged MSCI EAFE ETF	HEFA	-9.93	19.58	5.94
iShares MSCI EAFE ETF	EFA	-18.78	11.46	2.23
SPDR® Portfolio Aggregate Bond ETF	SPAB	-10.22	-1.78	0.79
SPDR® Portfolio Short Term Treasury ETF	SPTS	-3.00	-0.72	0.75
Vanguard Dividend Appreciation ETF	VIG	-15.69	23.76	11.19
Vanguard S&P 500 Growth ETF	VOOG	-27.61	31.95	13.33
Vanguard S&P 500 Value ETF	VOOV	-11.43	24.85	8.07

This is a table from Morningstar showing performance through June 30th. First, look at the difference in year-to-date (YTD) returns between the bottom two investments: large US growth companies have plummeted close to three times as much as large US value companies. That's why we take pains to reduce your exposure to growth stocks. Similarly, our quality US stocks (Ticker: VIG) have done over 4% less worse than the S&P 500 index of large US stocks (IVV). International stocks (EFA) have only done slightly less worse than US stocks (IVV), but when those international stocks are valued in their home currencies (HEFA), they have only declined half as much as US stocks (IVV). This is an opportunity to buy international stocks at a discount when the dollar is strong as it is now, and then realize the gains when the dollar weakens. Regarding bonds, while the aggregate index (SPAB) is down over 10%, short Treasuries are down 3% and floating rate bank notes (FFRHX) are down less than half of the index. We don't expect you to be eternally grateful when your investments do almost but not quite as badly as their benchmarks: "Less worse," as we say. But rest assured, doing a percentage point or two less worse over time really adds up. And we are not market-timing: we simply keep rebalancing to take advantage of the best discounts.

Here's one last chart that goes back a little farther than six months or 5 years: annual inflation in the U.S. since 1665. Chief Allocation Strategist Steve Bobo has been maintaining this beauty for many years; however, he was not alive for the entire span of data.



If you think our current inflation is bad, imagine 1741 when it was 38.6%. And even worse, imagine trying to pay down your mortgage with whipsawing years of deflation as high as 15 or 20%. Notice how much more stable prices become after the creation of the Federal Reserve in 1913 and the lessons of the Great Depression. Let's please not abolish The Fed.

Thank you for your indulgence with these charts; we hope that they give you a deeper understanding of our methodology and some historical perspective. We have uploaded your quarterly reports to your portals, and you can access them with the following link:

<https://main.yhlsoft.com/auth/users/webportal/ridleycove>.

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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