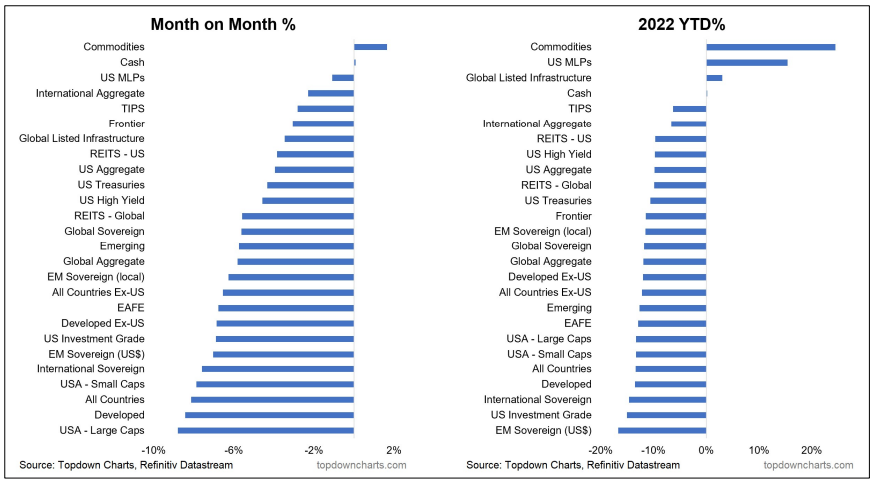
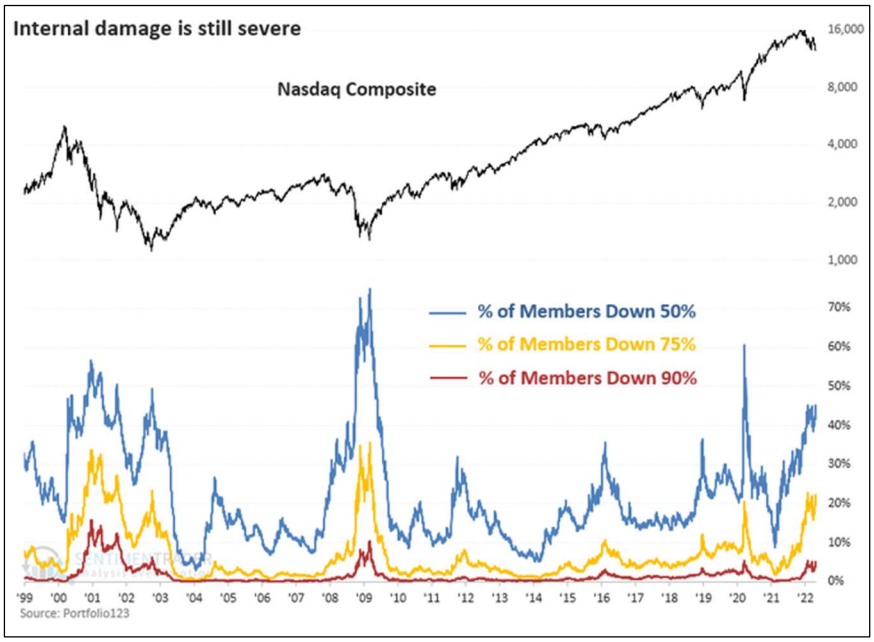
Ulman Financial™
tailored wealth strategies

May 6, 2022 – Mid-Quarter Update

No, it's not July already. This is just a quick mid-quarter market update and an invitation to contact us if you have any questions or concerns about the state of markets, the economy or your portfolio. This one will be mercifully shorter than our usual quarterly commentaries.



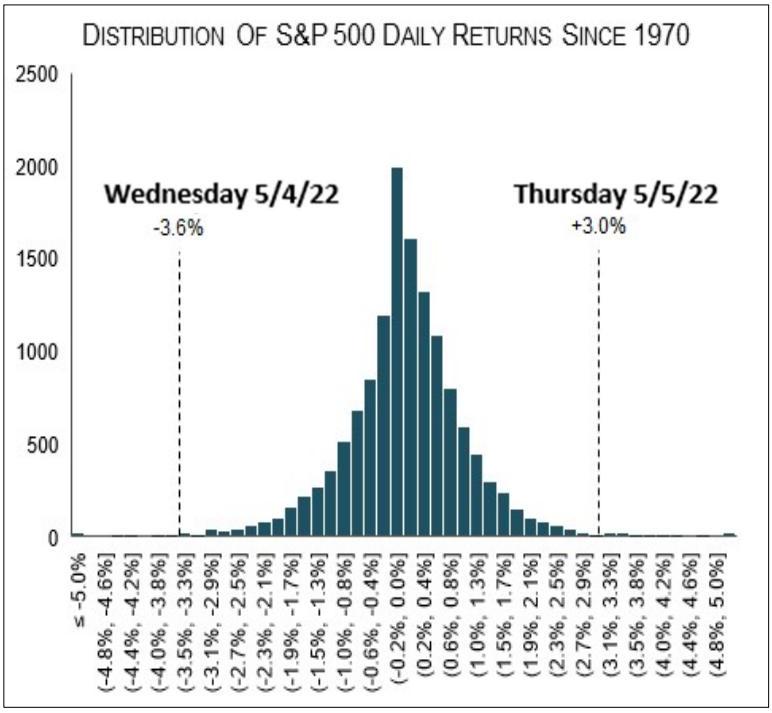


Since our letter in the first week of April both the stock and bond markets have broken decisively lower. Inflation and the Fed's expected path of tightening to combat it, the war in Ukraine and its expected impact on global food and energy prices, and China's zero covid policy and its effect on both global demand and supply chains are all causing institutional investors to take a second look at their risk exposures. For the past few weeks, once again, the only place to hide has been cash and commodities (top left.)

Despite the S&P 500 "only" being down by -13.5% year-to-date as of the time of writing this note, the damage under the hood has been significant. The tech and high growth darlings of the March 2020-November 2021 bull market rally have been taken to the woodshed. Close to 50% of the companies in the Nasdaq Composite Index have been cut in half and one in five of members of the Nasdaq is down by more than 75% from its 2021 peak (bottom left), rivaling the carnage of the worst bear markets of the past several decades.

The five largest US companies by market cap, whose names you certainly know and interact with on a regular basis, make up approximately 20% of the total market cap of the S&P 500 and over 35% of the total market cap of the Nasdaq. These five stocks had been supporting the broader stock indices while the above-mentioned damage was being done to the rest of the market. It is only in the past week or two that these five stocks have

LPL Compliance Tracking #1-05278146



also come under significant selling pressure. This leads us to believe that there is a good deal of downside left in this bear market.

Historically, bear markets are characterized by extreme volatility in both directions, up and down, as we saw very clearly this week. Wednesday's face-ripping rally following the latest FOMC meeting and then Thursday's absolutely demoralizing give back of those gains are extremely rare in the context of the S&P 500's historic daily return distribution (top left) but are likely to be closer to par for the course over the coming months. You will undoubtedly read headlines proclaiming that "the end is nigh" as well as "the worst is behind us, everyone back in the pool!" Sometimes you'll read these conflicting headlines in the same week, or even in the same day.

During the 2000-2003 and 2007-2009 bear markets the S&P 500 saw multiple double digit relief rallies (middle & bottom left), some of which lasted months. Trying to time these swings, or pick absolute bottoms or tops, is an almost impossible task and is a good way to lose money and drive yourself crazy doing it. The better strategy is to have a plan and stick to it.

So, what is our plan? As we wrote in our April letter, which is available to read at our website www.UlmanFinancial.com, our plan is as follows:

"…we recommend a portfolio that is hedged against extreme tail risk in the equity market via volatility exposure, an overweight to commodities and commodity producing companies (next page, top left) and countries, an underweight to inflation-sensitive long duration bonds and long duration growth stocks, and tactical exposure to themes such as infrastructure build out, nearshoring of supply chains and cannabis legalization, which we expect will see a strong push heading into the midterm elections this fall."

LPL Compliance Tracking #1-05278146

Bloomberg Barclays Aggregate, Total Return (1977 - 2022)

Year	Return	Year	Return	Year	Return
1977	3.0%	1993	9.7%	2009	5.9%
1978	1.4%	1994	-2.9%	2010	6.5%
1979	1.9%	1995	18.5%	2011	7.8%
1980	2.7%	1996	3.6%	2012	4.2%
1981	6.2%	1997	9.7%	2013	-2.0%
1982	32.6%	1998	8.7%	2014	6.0%
1983	8.4%	1999	-0.8%	2015	0.6%
1984	15.1%	2000	11.6%	2016	2.7%
1985	22.1%	2001	8.4%	2017	3.5%
1986	15.3%	2002	10.3%	2018	0.0%
1987	2.8%	2003	4.1%	2019	8.7%
1988	7.9%	2004	4.3%	2020	7.5%
1989	14.5%	2005	2.4%	2021	-1.5%
1990	9.0%	2006	4.3%	2022 YTD	-10.2%
1991	16.0%	2007	7.0%		
1992	7.4%	2008	5.2%		

COMPOUND @CharlieBilello

So far, our plan has protected us from the worst of the sell-off. Year-to-date our target allocations are outperforming both the S&P 500 and the US Aggregate Bond Index by healthy margins. Looking to the longer term, we have predefined price levels at which we will shift portions of our tail risk hedge into a beaten down and more attractively valued broad stock market, but those levels are still considerably lower than where the market sits today. With this strategy in mind, lower stock prices are actually going to serve as an opportunity.

If the Fed sticks to its guns over the course of the summer and continues to hike rates aggressively, we expect that the market's focus will eventually shift from fear of inflation, which has been undeniably bad for bonds (top right), to fear of recession, which will be good for bonds. There will likely be an opportunity to recoup some of the losses bond holders have experienced later in the year, so we urge patience. For our more aggressive clients, an allocation to the long end of the yield curve could be an opportunity for capital appreciation at that point, but we'll have to see how the economy and inflation data develops over the coming months.

We promised to keep it short, so we'll stop there. As we began this note and as is always the case, we invite you to contact us via phone or email with any questions or concerns: 443-226-7716 / cbu@ulmanfinancial.com.

Sincerely,

Clay Ulman, CFP®

Jim Ulman, ChFC, CLU, MBA

LPL Compliance Tracking #1-05278146

**The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of the 500 stocks representing all major industries. The Dow Jones Industrial Average (Dow) is a price-weighted index of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. The Nasdaq 100 Index is a basket of the 100 largest, most actively traded US companies listed on the Nasdaq stock exchange. Indices such as the S&P 500 Index, the Dow Jones Industrial Average and the Nasdaq 100 Index are unmanaged, and investors are not able to invest directly into any index. Past performance is no guarantee of future results.*

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful. All investing involves risk, including loss of principal. No strategy assures success or protects against loss.

All indices are unmanaged and cannot be invested into directly.

LPL Compliance Tracking #1-05278146