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## GPM Aspire ETF Portfolios - Third Quarter (Q3) 2022 Summary

October 3, 2022

- **Stocks ended lower in Q3 after rebounding 18% from June lows and surrendering all by quarter-end. Now down three-straight quarters in 2022, following SP500 gains of 31.2%, 18.2%, and 28.8% in 2019, 2020, and 2021, respectively.**
- **Bond losses continued – making 2022 the worst year on record for fixed income markets.**
- **GPM Aspire stock portfolios lost ground with the market in Q3.**
- **Bear markets create excellent opportunities for longer term investors like GPM.**
- **GPM balanced portfolios declined less than stock ETF accounts, helped by short duration bonds and substantial money market balances.**

## Markets

| | Q3 | YTD | *Performance for the Period* | | | *Average Annual Performance* | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Reference Index Fund** | **2022** | **2022** | **2021** | **2020** | **2019** | **3 Yrs** | **5 Yrs** | **10 Yrs** | **15 Yrs** |
| **Short-Term Treasury Bond** | -2.0 | -5.2 | -0.9 | 4.0 | 3.6 | -0.7 | 0.4 | 0.5 | 1.4 |
| **Intermediate-Term Treasury Bond** | -4.3 | -11.2 | -2.3 | 8.2 | 6.3 | -2.3 | 0.0 | 0.6 | 2.7 |
| **Intermediate-Term Investment Grade Bond** | -4.6 | -16.7 | -1.1 | 10.4 | 10.5 | -2.9 | 0.0 | 1.5 | 3.6 |
| **High-Yield Bond** | -0.9 | -13.2 | 3.8 | 5.4 | 15.9 | -0.9 | 1.4 | 3.6 | 5.0 |
| **S&P 500 Stock ETF (SPY)** | -4.9 | -23.9 | 28.8 | 18.2 | 31.2 | 8.1 | 9.2 | 11.6 | 7.9 |
| **Small-Cap Stock** | -2.6 | -23.8 | 17.6 | 19.0 | 27.2 | 4.9 | 5.2 | 9.4 | 7.4 |
| **Total International Stock** | -10.5 | -26.8 | 8.6 | 11.2 | 21.4 | -1.2 | -0.8 | 3.2 | 0.6 |

*Except for SPY, data is for Vanguard funds. All returns include reinvested income. Income (dividend) yield shown is SEC format.*

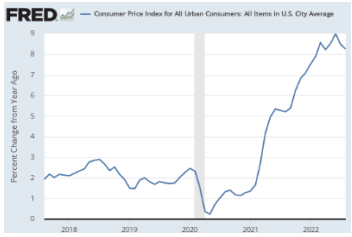
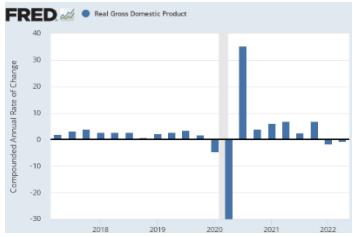
**Brief Markets Recap**

Financial assets worldwide remain mired in a bear market. Negative sentiment is driven by monetary policy tightening, high inflation, lingering but improving supply chain bottlenecks, and labor shortages. All are largely due to conflicted political and government policies that continued since the pandemic started in early 2020. The U.S. Fed and other central banks continue to hike rates to slow economic expansion to cool inflation. During the pandemic, governments injected massive amounts of "free money" fiscal stimulus which prompted a surge in demand for goods. Policymakers simultaneously enforced supply chain constraints and rules to restrict travel, services, and related spending, leaving even more to spend on goods. Stimulus driven demand and broad supply shortages put upward pressure on prices of nearly everything including housing and labor as many people left the labor force.

Aggressive hikes in the Fed funds rate from 0.25% at the start of '22 to 3.25% now have reverberated throughout financial markets. The two-year Treasury yield quickly surged from 0.75% to 4.25% and sits well above maturities longer than five years. Corporate bond spreads have widened to attractive levels for income investors, especially on lower credit quality issues. The average yield on a 30-year fixed rate mortgage has more than doubled to near 7.00%. The U.S. dollar has rallied to a near 20-year-high.

***Stocks declined well into bear market territory***. *The S&P 500 Index and NASDAQ Composite are down 24% and 32% YTD, respectively.* Fed tightening increases the risk of overshoot and recession, which we believe is substantially priced-in given the broad decline in stocks to late 2020 levels. GPM stock ETF portfolios are heavily weighted in large, high quality, sustainable U.S. growth companies which have become very attractive with long-term *expected returns now significantly higher than at year-end.* Historically, stocks have delivered strong inflation adjusted returns with outsized gains coming out of bear markets and recessions.

***Bond YTD losses are the worst on record***. Bonds yields are at or near the highest in ten years (excluding the March 2020 Covid spike). Corporate and high-yield bond spreads have widened to provide very attractive levels of income to balanced portfolios. The look ahead return on bonds appears to be very favorable vs recent years. The bond component of GPM balanced ETF portfolios is allocated primarily to short duration corporates, a money market fund, and less so to high yield bonds. This composition has helped buffer much of the negative impact of the broader bond market while continuing to capture reasonable and rising income pending deployment into longer maturities at materially high yields.

| S&P 500 Stock Index | 10 Yr. U.S. Treasury Yield | Consumer Price Index (CPI) | U.S. Real GDP Annualized % |
|---|---|---|---|
|  |  |  |  |









## Outlook

- ✓ **Inflation should moderate in the quarters ahead** as the lagging effect of Fed rate hikes thus far takes full hold, goods demand continues to soften as stimulus winds down, and supply chain pressures continue to ease. This should further improve product availability as already most evident in bulging retailer inventories and associated markdowns. The sharp decline in many commodity prices (see charts – page 4) from early '22 highs will begin to meaningfully cycle into year-over-year inflation comparisons during the first quarter of 2023. While the strong dollar is curbing exports, a beneficial effect is being seen via lower import costs.

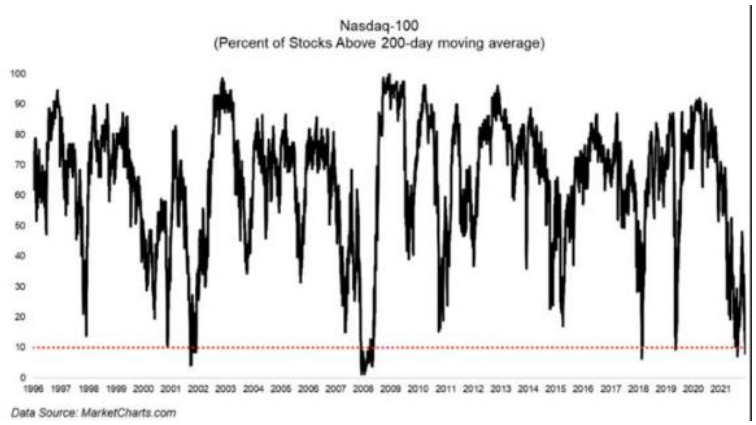
  S&P Global reported, "While the strong dollar is curbing exports, a beneficial effect from the greenback's strength is being seen via lower import costs. With supply chain delays also easing substantially again in September and shipping costs falling, upwards pressure on firms' costs has moderated sharply, which will feed through to lower goods prices to consumers."

- ✓ While the Fed continues to talk tough and may overshoot with another 100 bps of hikes to 4.00%, the lagging effect of prior hikes has yet to be fully felt. Longer duration bonds are pricing in an end to the rate hike cycle in early '23. With the economy deceleration and assuming inflation pressures back-off as expected, the Fed can and likely will back away from additional hikes beyond 100 bps and will have good cover to do so without forcing excessive unemployment.

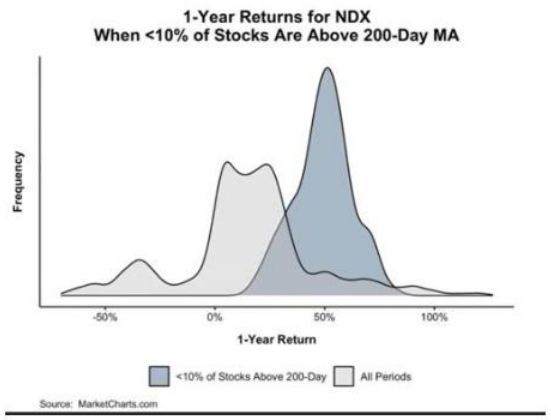
- ✓ The U.S. financial system remains solid with healthy underlying demand. Consumer and corporate balance sheets are well-positioned to handle higher rates and a shallow recession.

- ✓ We think the U.S. economy, with a strong consumer is better positioned than Russian-energy-dependent Europe.

- ✓ The pendulum has swung from high quality stocks being overvalued to undervalued now. A favorable setup in our opinion.









- ➢ The left chart shows the percent of Nasdaq 100 stocks above the 200-day moving average. Right now, it is below 10%.
- ➢ The right chart shows the distribution of 1-year returns when <10% of stocks are above the 200-day moving average as true today.
- ➢ As you can see, the results skew hugely positive and there were no negative returns in the past when this occurred.

## *GPM Aspire Portfolios – Overview*

**GPM Aspire ETF-Based portfolios are actively managed by GPM**. We use two distinct and clearly defined model strategies.

Stock ETF accounts are normally 100% invested in stock funds for growth in value and dividend income. GPM takes a U.S. centric, multi-cap approach with an ETF portfolio core comprised of large, high quality U.S. companies. We use a combination of broad market ETFs and select sector focused funds that we believe have substantial upside potential.

Balanced ETF accounts hold stock and bond funds for a more conservative approach.

***GPM Aspire stock portfolios*** **lost ground with the broader market in Q3**. From June lows to mid-August stocks recovered more than half of YTD losses as investors sensed that Fed hikes were on hold. Fed Chairman, Powell squelched that notion in a terse hawkish speech August-26. Indices broke down with significant and broad-based technical (chart) selling.

This bear market began mid-2021, and much of the speculative excess that built up since mid-2020 has been unwound. We believe stock prices and valuations of high-quality companies, the primary focus in Aspire portfolios, look very attractive and should begin to reward longer-term investors nicely when sentiment becomes less negative.

**Morningstar Equity Style Box %**

| | Value | Blend | Growth |
|---|---|---|---|
| Large | 12 | 25 | 32 |
| Mid | 7 | 4 | 4 |
| Small | 7 | 8 | 1 |

Total Stock Holdings 2,172

% Not Classified 0

0-10 10-25 25-50 >50

***Aspire balanced portfolios*** **also lost ground in the quarter**. All three portfolio components were incrementally negative in Q3 - much less so than in Q2. ***Stocks*** weighed most heavily on performance for the quarter and YTD. ***High yield bonds (HYB)*** **and** ***Investment grade corporate bonds*** posted relatively modest losses in the quarter. As discussed earlier, 2022 has been challenging with yields rising sharply, placing downward pressure on bond prices. The bond component of balanced portfolios holds substantial cash and short duration corporates, which has helped buffer much of the negative price impact of the broader bond market while continuing to capture reasonable income. While the Fed has telegraphed its intention to hike short-term rates, most market interest rates and bond yields have already risen to near 10-year highs, signaling better return potential going forward. We intend to deploy cash opportunistically into higher yields.

## *Stock ETF Portfolio Insight*

| Sector Allocation | |
|---|---|
| **Sensitive** | **47.87%** |
| Commun Svs | 6.82% |
| Energy | 3.28% |
| Industrials | 9.58% |
| Technology | 28.19% |
| **Cyclical** | **27.70%** |
| Basic Matls | 2.33% |
| Consumer Cyc | 10.07% |
| Financial Svs | 13.14% |
| Real Estate | 2.16% |
| **Defensive** | **24.43%** |
| Consumer Def | 6.79% |
| Healthcare | 16.99% |
| Utilities | 0.65% |

| Top 10 Stocks in ETFs | |
|---|---|
| **Company** | **Portfolio %** |
| Apple Inc | 7.00% |
| Microsoft Corp | 5.48% |
| Amazon.com Inc | 2.54% |
| Broadcom Inc | 1.97% |
| Tesla Inc | 1.88% |
| Texas Instruments Inc | 1.52% |
| IBM Corp | 1.50% |
| Merck & Co Inc | 1.47% |
| Alphabet Class A | 1.46% |
| Cisco Systems | 1.44% |
| **Portfolio Total** | **26.26%** |

Quarter-end data above is model aggregate for GPM Aspire stock ETF portfolios.

We've included two additional pages of charts and tables for context this quarter.

Feel free to contact us for any reason.

**The GPM Team**

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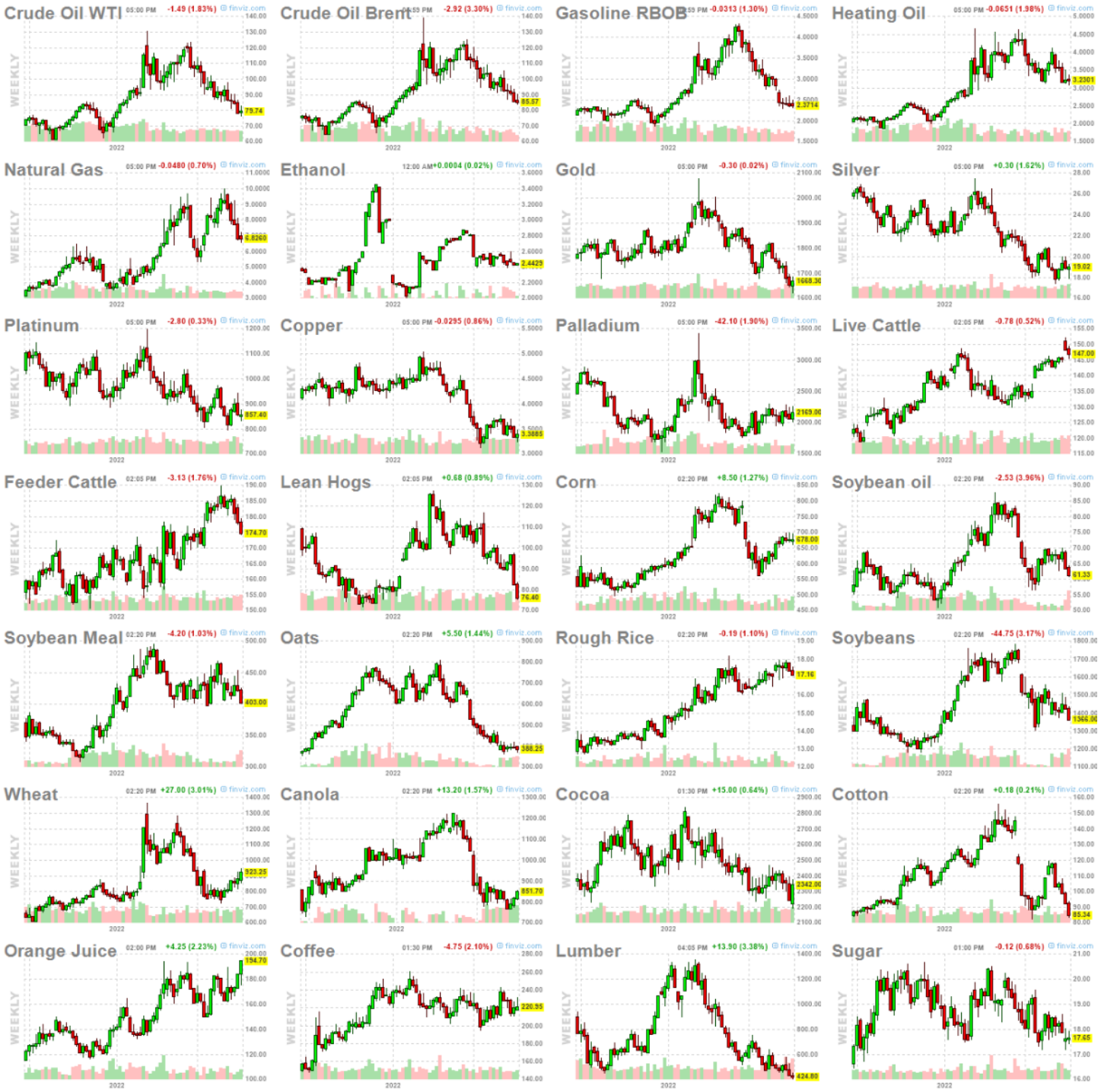
GROWTH INVESTORS, INC.

**Commodities over the past year through 9/30/22**



## Food for Thought – Bear Markets and Recessions (from Q2-22 Review)

***Bear markets since 1950 and bull markets that follow***

| Start | End | Index Start | Index End | Secular or Cyclical? | Duration Years | Duration Months | Duration Days | % Decline | 6 Months Later | 1 Year Later | 5 Years Later | 10 Years Later |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 10/11/07 | 3/6/09 | 1,576.09 | 666.79 | **Secular** | 1 | 4 | 23 | -57.69% | 52.43% | 70.77% | 181.50% | 315.64% |
| 3/24/00 | 10/10/02 | 1,553.11 | 768.63 | **Secular** | 2 | 6 | 16 | -50.51% | 13.39% | 35.05% | 103.28% | 86.38% |
| 1/11/73 | 10/4/74 | 121.74 | 60.96 | **Secular** | 1 | 8 | 23 | -49.93% | 32.68% | 40.99% | 80.73% | 167.24% |
| 12/2/68 | 5/26/70 | 109.37 | 68.61 | Cyclical | 1 | 5 | 24 | -37.27% | 24.02% | 45.15% | 32.02% | 61.22% |
| 8/25/87 | 10/20/87 | 337.88 | 216.46 | Cyclical | 0 | 1 | 25 | -35.94% | 18.32% | 30.68% | 91.94% | 341.47% |
| 2/19/20 | 3/23/20 | 3,393.52 | 2,191.86 | Cyclical | 0 | 1 | 4 | -35.41% | 47.68% | 78.41% | | |
| 12/12/61 | 6/25/62 | 72.64 | 51.35 | Cyclical | 0 | 6 | 13 | -29.31% | 23.89% | 36.40% | 79.16% | 110.85% |
| 11/26/80 | 8/9/82 | 141.96 | 101.44 | Cyclical | 1 | 8 | 14 | -28.54% | 42.94% | 57.86% | 218.41% | 312.93% |
| 1/4/22 | 6/17/22 | 4,818.62 | 3,636.87 | Cyclical | 0 | 5 | 13 | -24.52% | | | | |
| 2/9/66 | 10/10/66 | 94.72 | 72.28 | Cyclical | 0 | 8 | 1 | -23.69% | 22.08% | 33.98% | 37.47% | 41.89% |
| 7/20/98 | 10/8/98 | 1,190.58 | 923.32 | Cyclical | 0 | 2 | 18 | -22.45% | 45.56% | 44.70% | 11.96% | 6.67% |
| 7/15/57 | 10/22/57 | 49.13 | 38.98 | Cyclical | 0 | 3 | 7 | -20.66% | 9.80% | 31.02% | 41.00% | 144.69% |
| 7/17/90 | 10/11/90 | 369.00 | 294.00 | Cyclical | 0 | 2 | 24 | -20.33% | 28.23% | 29.59% | 97.10% | 364.15% |
| 9/21/18 | 12/26/18 | 2,940.91 | 2,346.58 | Cyclical | 0 | 3 | 5 | -20.21% | 24.17% | 38.07% | | |

*Courtesy of Tom Bowley, Earningsbeats.com.*

***Has the stock market bottomed yet****? Maybe. We'll have a better sense in a few months*. When a bear market bottoms, the next year has been extremely bullish. The worst 1-year return after a major cyclical bear market bottom is +29.59% (1990). The best 1-year return is +78.41% (2020 pandemic). The average 1-year return is +42.59%. If we assume the S&P 500 index bottomed June 17, 2022 (it may not have), at 3,622 and apply the one-year later returns above, the projected index and returns on June 17, 2023, would be as follows:

- 4713 if the S&P 500 rises 29.59% (worst 1-year return)
- 5186 if the S&P 500 rises 42.49% (average 1-year return)
- 6489 if the S&P 500 rises 78.41% (best 1-year return)

Investors have experienced a brutal nine months and the S&P 500 has discounted a lot of bad "forecasts" into the current price. We should not believe that stocks must continue going lower just because the news is bad. Historically, the stock market bottoms before news turns positive.

**According to The Behavioral Investor, the U.S. economy has been in recession 20% of the time since 1928**, meaning, the average investor will experience 10 to 15 recessions over their lifetime. Recessions are a historical trend that have never materially disrupted the long-term potential for the market to generate wealth.

Our view is that the broad decline in stocks and valuations is substantially pricing-in the likelihood that we are in or are entering a recession. History strongly suggests as with past recessions, the economy will recover and expand, and the broad stock market will rebound and hit new highs over time.

***The potential opportunity cost of waiting for an economic bottom and recovery before investing***

| Equity market bottom | GDP bottom | Days in between | Equity market return by the time that GDP bottomed | Equity market return by the time that GDP started rising again |
|---|---|---|---|---|
| 3/31/2020 | 6/30/2020 | 91 | 20% | 30% |
| 2/28/2009 | 6/30/2009 | 122 | 25% | 44% |
| 10/31/1990 | 3/31/1991 | 151 | 23% | 22% |
| 7/31/1982 | 9/30/1982 | 61 | 12% | 31% |
| 9/30/1974 | 3/31/1975 | 182 | 31% | 50% |
| 12/31/1957 | 3/31/1958 | 90 | 5% | 13% |

Source: Bloomberg, JPMAM. 2022.

If we do go into a recession, there is a high probability the downturn could be minor because consumer balance sheets are still in good shape. They have substantial cash, record levels of home equity, and a lot of people locked in very low borrowing rates on their largest financial asset. We think the U.S. consumer can handle a recession.

***Featured links***: Economy at a Glance – St. Louis Fed. Report On Business - Institute for Supply Management.