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Our longer-term view for our clients' portfolios remains much more positive than what is currently reflected in market prices. The Fed has raised interest rates by 300 basis points so far this year and expects to raise an additional 125-150 basis points in the next few meetings. This has negatively impacted pricing for all asset classes with even the risk-free, 10-year Treasury bond declining by 17% thru Q3 of this year.

In this environment, our client accounts are down on average 20% for the year (just 3% more than the 10-year risk-free Treasury) while the S&P500 index is down 24% and the Nasdaq is down 34%. We attribute this outperformance against the indexes to the high-quality nature of the businesses and the management teams represented in our client portfolios. The operating performance of these businesses has been solid throughout this year despite all the unusual economic circumstances. Generally speaking, the decline in equity values this year is primarily due to the decline in PE multiples driven by the increase in interest rates. Going forward, the Fed's policies may reduce earnings growth for a few quarters; but it won't cause an earnings decline. Solid businesses like the ones in our portfolios will still generate healthy profits and pay dividends during a slowdown and will see an acceleration in earnings growth as the economy improves.

The Fed was late in recognizing the extent of underlying inflation and is now acting aggressively to make up for it. This is one of the Fed's most rapid monetary tightening cycles and it is becoming apparent to many economists that inflation may no longer be the problem. Unfortunately, the Fed has articulated their intent to monitor inflation progress by focusing on the job market, which is a lagging indicator, and which may ultimately lead the Fed to remain too tight for too long. Many fear that an unnecessary and potentially deeper recession may be the outcome.

The Fed's dual mandates are domestic and include maintaining price stability and full employment. The Fed prefers to focus their communication within these parameters, and they have not adequately addressed publicly the potential global repercussions of their interest rate and quantitative tightening policies. There have already been a few liquidity events since the last Fed meeting and the strong US$ is wreaking havoc on weaker economies in Europe and Asia.

We have confidence that the Fed will act on new data as it becomes available and won't be as dogmatic as some fear. It is also our view that as inflationary data continues to decline, the Fed will want to reduce the amount of stress its policies put on the global financial system, and they will seek to moderate interest rate expectations. As monetary policy expectations loosen, both equities and bonds will rebound. We also believe that as we get closer to the end of this rate cycle, investor and consumer sentiment may improve. Both are strikingly below what an objective read of the macroeconomic data would suggest.

During this past year, we have focused our attention on further improving the quality of companies in our client portfolios including adding additional dividend growth. Despite currently having lower account balances than at the start of the year, our clients are now receiving more income from their portfolios. This has helped reduce the declines this year and will better position client portfolios to meet liquidity and long-term income objectives as interest rates and the economy normalize going forward.

Finally, we wish to thank all our clients for having the courage to be long-term investors.

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