Performance Dashboard as of March 31, 2023, Source: DFA Returns Web							
Index:	MSCI ACWI	S&P 500	Russell 2000	MSCI EAFE	MSCI EM	Barclays Global Agg. (Hedged)	Gold
Q1 2023:	+7.08%	+7.50%	+2.74%	+8.62%	+4.02%	+2.86%	+7.96%

Q1 2023 Market Rundown:

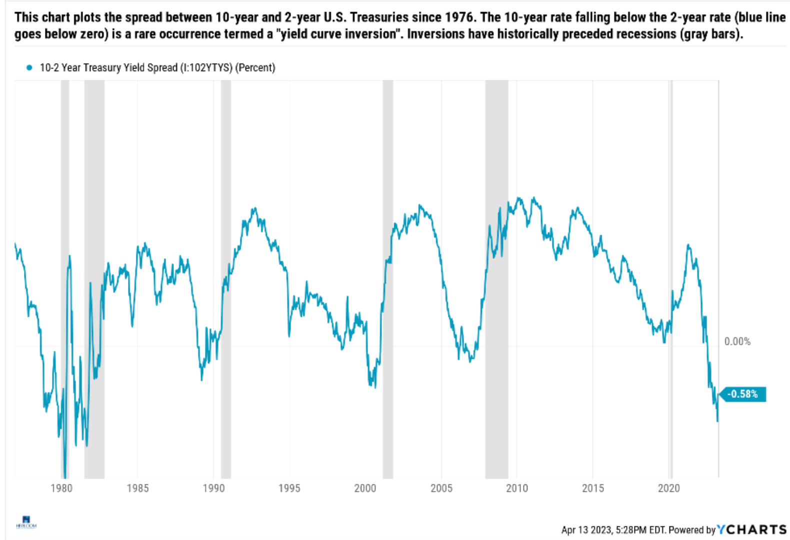
A quick glance at the performance dashboard will tell you the first quarter was a nice rebound for assets across the board after a lousy year in 2022. Bonds benefitted from declining rates (bond prices move inversely to interest rates) and low defaults. Stocks too were buoyed by hopes interest rates are headed lower and optimism that earnings might remain more resilient than forecasted. The S&P 500's +7.50% rally in Q1 2023 was the second straight quarter of 5%+ gains. Since WWII, there have been 25 prior back-to-back quarterly gains of 5%+ for the S&P 500. Over the next two quarters, the index's median gain was +8.2% with positive returns 92% of the time. For all two-quarter periods, the S&P 500's average increase was +4.3% with gains 68% of the time (Source MFS). International stocks were the top-performing asset class, bucking the trend of consistently lagging U.S. stocks over the last decade. This relative outperformance is likely due to a combination of cheaper starting valuations and favorable currency moves. After peaking in September 2022, the U.S. Dollar Index (DXY) declined by -10.16% through the quarter's end. This enhances returns for U.S. investors in international stocks as they benefit from both rising stock prices and favorable exchange rates when they convert profits from foreign currencies back into dollars. Gold is nearing a new all-time high price. With crypto in the doghouse, maybe investors seeking refuge from fiat currency will shift some money to gold and perpetuate the uptrend.

But it was not all smooth sailing. SVB and Signature Banks went belly up after customer fears over the safety of deposits led to bank runs evoking memories of the Financial Crisis. Terrible risk management appears to be to blame for these bank failures. Startlingly, SVB which was the 13th largest bank in the U.S. at the time of failure did not even have a risk manager for most of 2022. To stem the risks of contagion, a joint statement was issued by the U.S. Treasury, Federal Reserve, and the FDIC declaring all deposits at these banks would be insured, even beyond FDIC limits.

Rising rates tend to expose entities that take on too much leverage or poorly manage risks during boom times. However, the impact of rising rates on the economy is not immediate, working with long and variable lags 12-18 months into the future. These bank failures are a sign that rate increases, which began last March, are now taking effect. As Warren Buffett famously said, "Only when the tide goes out do you learn who is swimming naked." Well, the tide has gone out and these banks are unlikely to be the last institutions that will be caught skinny dipping.

We expect turbulence to persist but remain cautiously optimistic. Inflation is now in a downtrend, while financial markets enter Q2 2023 heading upward. Both stocks (SPY & ACWI) and bonds (AGG) recently broke above their 200-day moving averages, a bullish technical signal. We are confident client portfolios are well-positioned to weather what may come and remain disciplined in our security selection and risk management processes. Our well-diversified approach seeks to preserve capital in difficult markets and is nimble enough to opportunistically exploit market dislocations should they occur.

The Economy:



Legendary investor Peter Lynch famously said, "If you spend 13 minutes a year on economics, you've wasted 10 minutes". We generally agree with that sentiment as there is a lot of noise in economic data. However, there are a few indicators we feel are worthy of monitoring as they provide insight into where the economy might be heading. One indicator we monitor closely is the shape of the yield curve. "Yield" is defined as annual interest paid divided by the loan balance stated as a percentage. Normally when an investor lends money via a bond, mortgage, etc., the longer it takes to get repaid (all else equal), the higher the yield that is demanded in return. Occasionally yields for short-term loans rise above those for longer-term loans. This is termed a "yield curve inversion" where investors are willing to accept these lower yields because they anticipate a worsening economy and thus even lower future yields than they could lock in today.

Indeed, as the chart above illustrates, past yield curve inversions (where the yield for 2-year U.S. Treasuries rises above the yield for 10-year U.S. Treasuries and the blue line goes below zero) have consistently occurred 12-18 months before economic recessions (gray vertical bars). The yield curve inverted in July of 2022 and has remained inverted through the end of the last quarter. This does not mean a recession is baked into the cake, nor does it foretell how deep a recession might be. But we think it is wise to pay heed to this omen and shore up your personal finances now:

- **Job Security:** The job market is robust today, but it is still important to monitor your job security. I found out the hard way during the 2008 GFC that even if you are personally doing a good job, you could still get laid off if a recession hits. Look for signs that your company might be struggling. Are they cutting back on hiring, failing to backfill vacant positions or stagnating compensation? If your company is publicly traded or you have access to financial data, look for declining revenues and profits. Spend more time networking with current and former colleagues now & keep your resume up to date.
- **Emergency Fund:** We recommend keeping 3-6 months' worth of living expenses stashed in an emergency fund. Inflation has been high over the last couple of years, so you need to ensure the amount you have set aside is still sufficient to cover rising costs. Most Americans fail to save and must tap their investments at inopportune times such as recessions. One crazy stat I saw recently is that 41.4% of employees cash out their 401k's when they leave a job despite a 10% penalty. 90% of these are full liquidations. A fully funded emergency fund can reduce the risk you might need to do this if you lose your job.
- **Eliminate Consumer Debt:** We advise that you never borrow to consume. However, if you have consumer debt make it a priority to pay it off. This will free up your future cash flow and help stabilize your finances. Also, a clean personal balance sheet puts you in a position to take career risks with great upside but low starting pay, and better positions you to potentially work for yourself or start a business. Debt burdens keep you bound to a "steady" job so you can make payments. To eliminate debt, the "snowball" method has proven to be the best approach. List your debts from smallest to largest. Pay the minimum on all debts but the smallest. Put everything you can towards paying off the smallest debt. Once that is eliminated, "snowball" the extra cash flow to the next smallest debt and so forth until all debts are eliminated.

Bond Spotlight:

Last year bonds got shellacked by interest rate increases, with prices declining by more than -10% (bond prices move inversely to interest rates). The most common question we field today is with money market, CD, and bank deposit accounts paying +4-5% interest, does it still make sense to invest in bonds? We think bonds remain an important component of a diversified portfolio. Now is a good time to revisit why.

Bank deposit and money market accounts provide investors with valuable liquidity and safety of principal. Their yields reset in real-time with changing short-term interest rates which are heavily influenced by the Fed Funds rate, while principal balances remain stable. This feature was great last year during what became the fastest interest-rate hiking cycle in U.S. history. But the opposite is also true when rates fall. This poses a "reinvestment risk" because today's higher-yield deposits might need to be reinvested at lower yields in the future. As we approach what might be the peak of the Fed Funds interest rate cycle, reinvestment risk is particularly high.

Like deposit and money market accounts, bond yields reset in real-time, but the mechanism is different. While interest payments remain stable for bonds paying "fixed income", yields rise because prices fall:

(Yield%↑ = Annual Income ↔ / Price↓)

This decline is temporary as bond prices eventually climb towards "par value" at maturity. Thus, today bonds offer investors an opportunity to lock in attractive rates for longer periods of time than deposit or money market accounts and offer potential price appreciation if they can be purchased at a discount to maturity value (because of falling prices last year). While CDs offer investors the ability to lock in today's rates, they have no price appreciation potential like bonds. Prospective total returns (combined income and capital appreciation) for U.S. government-guaranteed Treasury and Agency bonds are as high as at any time in the last 15 years. For more adventurous investors, riskier investment grade and high-yield bonds (subject to default risk) can be purchased at substantial discounts to par value yielding +6-10%.

Finally, we think now is an essential time to own high-quality bonds for portfolio diversification benefits. Historically, following yield curve inversions high-quality bonds such as U.S. Treasury & Agency securities have generated relative outperformance on average compared to most other asset classes including stocks, over 1, 2, and 3-year time horizons (see the table to right). This relationship makes sense as inversions have been reliably shadowed by recessions and a subsequent lowering of rates across the yield curve (boosting bond prices), and a return to a "normal" yield curve where short-term rates again fall below long-term rates (this can be observed on the chart from the previous page where the blue line rises above zero post inversion).

Bloomberg U.S. Treasury Bond Index Performance Following U.S. 10-2 Yield Curve Inversions Since 1976. (Source DFA)			
Month Post Inversion	1 Year Return	2 Year Return	3 Year Return
Treas. Avg	+6.91%	+8.36%	+8.81%
S&P 500 Avg	+.31%	+5.16%	+6.28%

***Important side note**: while rates have climbed, according to the FDIC, the average savings account pays a meager +.39% interest. If you are presently earning less than +4%, get proactive and find a better option for your deposits.*