

Performance Dashboard as of September 30, 2023, Source: DFA Returns Web							
Index:	MSCI ACWI	S&P 500	Russell 2000	MSCI EAFE	MSCI EM	Barclays Global Agg. (Hedged)	Gold
Q3 2023:	-3.30%	-3.27%	-5.13%	-4.05%	-2.79%	-.78%	-3.68%
YTD 2023:	+9.82%	+13.07%	+2.54%	+7.59%	+2.16%	+2.80%	+1.35%

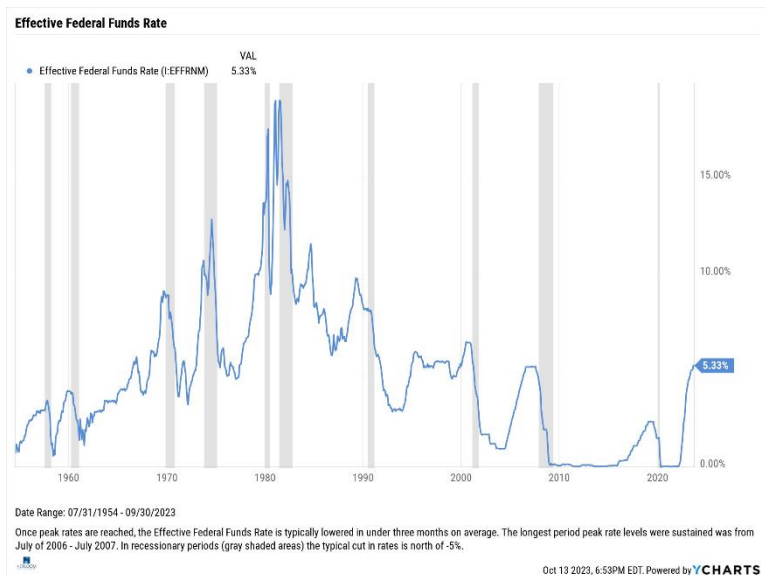
### Q3 Market Rundown:

Assets across the performance dashboard saw declines in the third quarter. Equities remain in positive territory this year and there has been pronounced outperformance for U.S. large-cap (S&P 500) relative to U.S. small-cap, foreign, and emerging market stocks. Equity returns have been propped up by resilient earnings and widening profit margins, confounding analysts [who predicted](#) stocks would decline this year for the first time since 2001. The fourth quarter has historically been the [strongest quarter](#) for stocks, as gauged by the S&P 500 Index, with stocks rising two-thirds of the time. Entering October, if the S&P 500 was up greater than +10%, the fourth quarter turned out to be [positive 23 of 24 times](#) with average [returns of +4%](#). Despite higher starting yields, bonds have not generated much in the way of gains this year as persistently rising rates continue pushing prices down (bond prices move inversely to interest rates). However, there is a silver lining for bonds, as real rates, meaning the rate of interest you can receive from high-quality bonds after subtracting inflation, are at [15-year highs](#). Moreover, according to research by PIMCO, there is a 94% correlation between the return a bond investor earns over the duration of their portfolio and their starting yield. Prospective returns should be significantly better than over the last decade. This is especially positive for retirees who can now source a greater portion of their retirement portfolio distributions from less risky sources of income, decreasing reliance on more volatile assets like stocks for capital gains.



### Higher for Longer?

When inflation and economic growth spike upward and the economy “overheats”, the U.S. Federal Reserve uses its ability to raise the [Effective Federal Funds Rate](#) (EFFR) to cool things down by increasing the cost of borrowing. After inflation jumped following COVID-19, a series of rate increases brought the EFFR from zero in April of 2022 to 5.33% at the end of the third quarter, the highest level in 22 years. This [might be the peak](#) of the hiking cycle according to the Fed, but they have left room for an additional +.25% increase prior to year-end.



The Fed’s storyline is the EFFR will remain [higher for longer](#). If the past is any indication, this might be wishful thinking on the Fed’s part. Historically, once peak rates are reached for a cycle, the Fed has quickly about-faced and lowered rates, on average between 2-3 months. In the post-WWII era, the longest the Fed ever held rates at peak levels before cutting was for the twelve months from July 2006 to July 2007. If the cutting of rates was in response to a recession, [which happened 80% of the time](#) (gray shaded areas in the chart above), rate decreases were very pronounced, averaging 550 basis points (-5.5%).

**Real Value:**

When we meet with prospective clients, the big question they want answered is: "With so many advisory firms out there, why should I choose Heirloom? What makes Heirloom different?" Thank you for asking, I'd love to share why I think Heirloom is the best wealth management firm in the business.

First and most importantly, I think our team of advisors is the best. When you work with an advisor at Heirloom, you have an expert, highly credentialed planner in your corner that advises with the heart of a teacher to increase your confidence and understanding. Heirloom operates in a fee only capacity (no commissions) and has zero proprietary products, avoiding the potential conflict of interests all too common at the big banks. Augmenting the advisor and client relationship is a team-oriented approach with our tax and estate planning partners. Everyone is reinforced by an attentive and caring support staff.

Second, I believe our investment solutions are the best in the industry and our clients are realizing returns far beyond their peer group. That is a bold statement, and I want to provide some data to back that up. Please review the investment performance for our core strategies that were attached to this email. Results are audited by a third party and are net of all investment expenses *and* advisory fees. We are nearing an eight-year track record of outperforming both benchmarks and what third-party research firm Morningstar considers to be the best investments in their respective categories, to which they assign a "gold" rating. Moreover, after adjusting for risk, portfolios are generating sizable alpha. Like the old Miller Lite commercials used to say, "Great taste. Less filling." I know of few firms that achieve this level of performance, transparency, and accountability. We truly believe the Heirloom approach to asset management works. How do I know that? Each advisor at our firm has invested the bulk of their liquid net worth in the exact solutions used for our clients. We eat our own cooking.

Compare the investment results Heirloom clients have earned with the average mutual fund and ETF investor. The table of data to the right, sourced from [Dalbar's](#) long-running research study on investor behavior, shows the returns earned by actual investors in mutual funds and ETFs over the 30 years from 1993-2022. Both bond and stock fund investors woefully underperformed their respective benchmarks. The average stock fund investor harvested returns closer to the bond index than the stock index and the average bond fund investor *lost money*. The data is disheartening and hard to believe. How can this happen?

SUMMARY RETURNS: DALBAR'S 2022 QAIB STUDY

Period	Average Equity Fund Investor	S&P 500 Index Return	Difference	Average Fixed Income Fund Investor	Bloomberg U.S. Aggregate Bond Index Return	Difference	Inflation (U.S. Consumer Price Index)
1 Year	-21.2%	-18.1%	-3.1%	-13.8%	-13.0%	-0.8%	6.5%
3 Years	4.0%	7.7%	-3.6%	-5.2%	-2.7%	-2.4%	4.9%
5 Years	5.2%	9.4%	-4.2%	-2.3%	0.0%	-2.3%	3.8%
10 Years	9.3%	12.6%	-3.2%	-1.3%	1.1%	-2.4%	2.6%
20 Years	9.0%	9.8%	-0.8%	-0.3%	3.1%	-3.4%	2.5%
30 Years	6.8%	9.7%	-2.8%	-0.1%	4.6%	-4.7%	2.5%

As of 12.31.2022. DALBAR Quantitative Analysis of Investor Behavior. SOURCE: DALBAR

As Dalbar points out, investors are their own worst enemy by succumbing to behavioral mistakes like [performance chasing](#) (buying what has performed well recently, while selling what has performed poorly), and [market timing](#) (switching funds between asset classes based on predictive methods). Additional common pitfalls such as failing to abide within one's personal tolerance for risk, or behavioral biases like "[herding](#)", and "[FOMO](#)" (fear of missing out), contribute to the deficit. Perhaps most glaringly, about [one-third of Americans](#) have no financial plan.

When you consider Heirloom's outstanding investment advisors, in conjunction with the market beating returns their clients are reaping after all expenses and advisory fees are paid, the Heirloom difference is clear. Maybe the next time someone asks, "Why should I choose Heirloom?", I'll just respond with a different question: "Why wouldn't you?"

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*Investment Advisory Services offered through Heirloom Wealth Management LLC, a Registered Investment Adviser.*