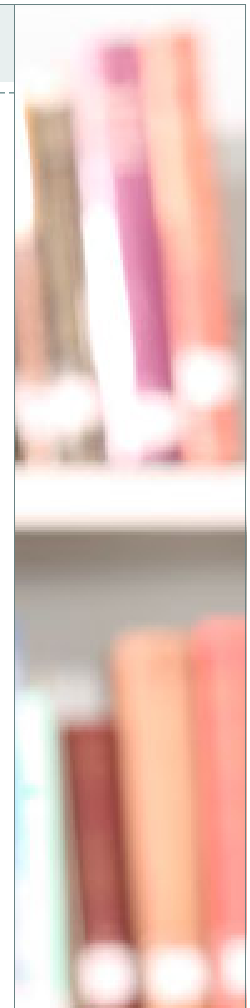
S.F. EHRLICH ASSOCIATES, INC.

December 31, 2022



Managing Your Money

STAN'S WORLD—APPRECIATION

It seems like I just wrote a column for the last newsletter of the year, except the year that was ending was 2021. Is it me, or does it seem like the years are tumbling by even faster?

I've read a lot of 'end-of-year' commentary over the past few weeks, and each typically includes the words "good riddance" when looking back at 2022. The words 'good riddance' can apply to another year of learning to live with COVID, or to a down stock market, or to a historically bad bond market, or to a resurgence in inflation, or to an increasingly tragic war in Ukraine, or, well, you get it.

The start of a new year is often a time for personal reflection. How did we fare over the past 12 months? If, for example, 2022 didn't go as well as we hoped, is there anything we can do in 2023 that would make things better? Taking things a step further, is there anything we can do in 2023 to help someone else improve their life, be it a family member, a friend, or even a stranger (through a charitable organization)?

Many people start each year with New Year's resolutions, but I'm not a big fan. Like new gym memberships, I think resolutions are fleeting in nature. "This year I'm going to (fill in the blank)" always sounds better than it turns out to be. To me, it's akin to all the diets that start on Mondays, and we all know how well those work. (Perhaps I should only speak for myself.)

As more and more years have passed, I start each new year more mindful of an expression my mother used to say after she passed a certain age: "We're nearer than further." It's not morbid, it's just an acknowledgment. When I say I'm 'nearer than further,' it simply means there are more years behind me than ahead of me. Having friends and clients who have passed and knowing friends and clients who are ill, I don't have to look far for reminders that my personal relationships should be cherished in the moment. (I know it's not always easy to do, but it's still a worthy goal.) Regardless of whether you're 'nearer than further,' I hope you feel the same way.

STAN'S WORLD—APPRECIATION (CONT'D)

I'll end by wishing each of you and your loved ones a Happy and Healthy New Year. I hope 2023 brings you unexpected pleasures, and I hope you get to appreciate the people around you who bring you joy.

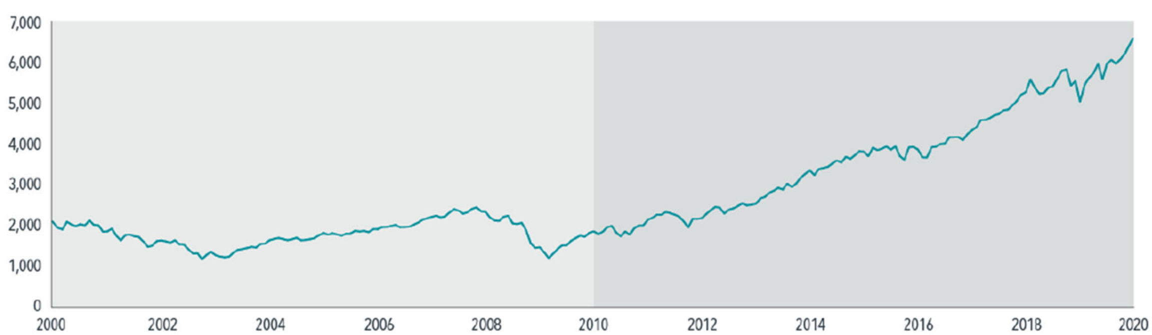
A TALE OF TWO DECADES: LESSONS FOR LONG-TERM INVESTORS

A year like 2022 can test even the most committed long-term investor. With the benefit of 20/20 hindsight, we can all say we saw the market drop coming or that interest rates were obviously going to dramatically increase. Unfortunately, when you're in the moment, clarity is always difficult. When markets are going up, there's the desire to stay on the ride because you don't want to risk missing out on future gains. In the end, as we've written so many times over the years, trying to time markets is nearly impossible.

Dimensional offers a look back at the first two decades of the 21st century (2000 – 2009; 2010 – 2019) to provide us with lessons in both timing and diversification[1]. For long-term investors, it's information worth repeating. For those investors who think too short-term, they may be lessons worth learning.

A chart showing the performance of the S&P 500 from 2000-2019 is impressive, especially when viewing only the start and end dates (see Ex. 1). As with all things financial, the devil is in the details.

Exhibit 1
S&P 500 (Total Return)
January 2000–December 2019, monthly levels



The Lost Decade: The period 2000 – 2009 is often referred to as The Lost Decade. Prior to the year 2000, the S&P 500, which is primarily viewed as a domestic large cap stock index, had averaged more than 10% in annualized gains. During The Lost Decade, however, the S&P 500 averaged annual losses of 0.95% (See Ex. 2). "Yet it was a good decade for investors who diversified their holdings globally beyond U.S. large cap stocks and included other parts of the market with higher expected returns – companies with small market capitalizations or low relative price (value stocks)."

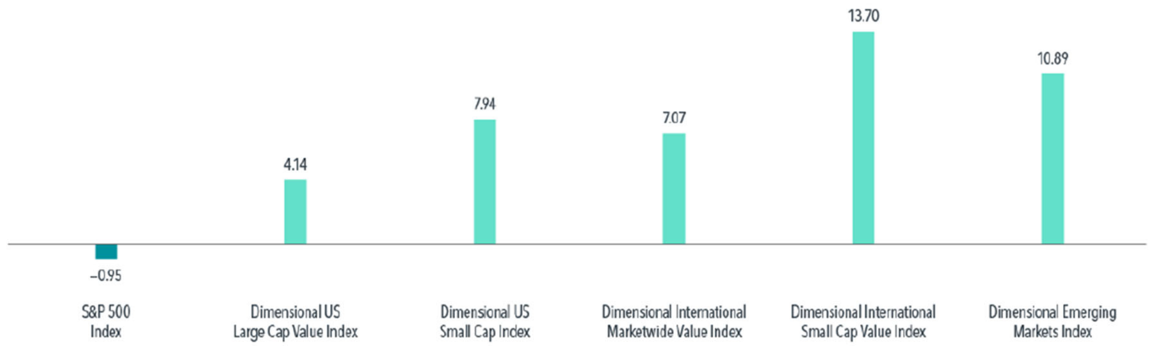
A TALE OF TWO DECADES: LESSONS FOR LONG-TERM INVESTORS (CONT'D)

In fact, for the entire decade, asset classes such as U.S. large cap value, U.S. small cap, international large cap value, international small cap value, and emerging markets all had annualized gains that dwarfed the S&P 500.

Exhibit 2

The 2000s

Annualized returns (%): January 2000–December 2009

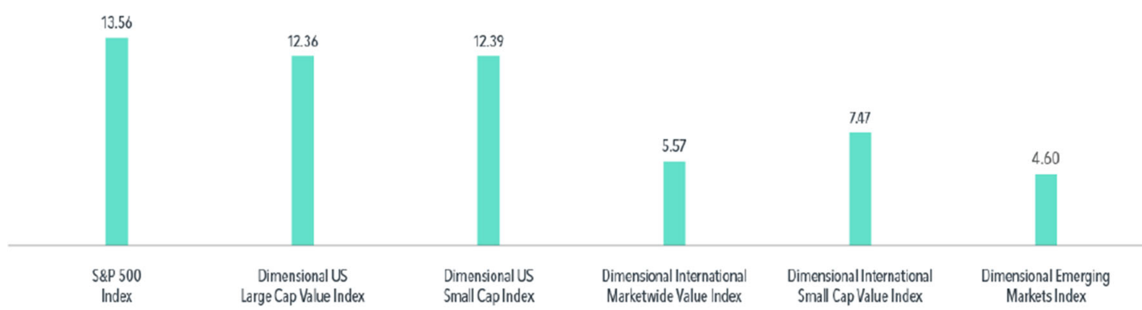


Flipping the Script: "The next period…reveals quite a different story." In fact, the star performer for the decade 2010 - 2019 was the S&P 500, with average annualized gains of 13.56%. (U.S. large cap value and U.S. small cap weren't too far behind.) International and emerging markets had positive returns but were no longer in the forefront. (See Exhibit 3) This was nearly the complete opposite of the previous decade.

Exhibit 3

The 2010s

Annualized returns (%): January 2010–December 2019



Lessons Reaffirmed: A Tale of Two Decades is noteworthy because it reinforces not only the need to own a diversified portfolio but the necessity to periodically and opportunistically rebalance it. When the performance of one asset class within the portfolio greatly exceeds the performance of another asset class, it's important to sell a slice of the out-performer and invest those dollars into one of the portfolio's laggards. At some point, whether it's months, years, or even an entire decade, we've seen that out-performing asset classes eventually slow and give way to other parts of the market. Similarly, under-performers will, at some point, exceed expectations.

A TALE OF TWO DECADES: LESSONS FOR LONG-TERM INVESTORS (CONT'D)

While we may not know when these events will occur, we've seen that they do. Rebalancing allows a portfolio to take advantage of growth opportunities and minimize losses, losses that might have been even more pronounced if an investment category had been allowed to grow too large[2].

CYBERSECURITY AND FRAUD: ARE YOU TIRED OF US YET?

If not for the risk of you eventually blocking our emails, we would send out this reminder via email every week. In the past several months, at least three clients have fallen victim to cyber thefts. Aside from the dollar cost, these crimes are an assault against our dignity. Victims replay the events countless times, and there's virtually nothing that law enforcement can do.

To help protect you against a cyber-criminal act, here are a few more suggestions on do's and don'ts[3,4]. We strongly urge you to take heed and share these comments with those you love.

Protect yourself from phishing emails: Pay attention to any email claiming to be a bill or a security alert. If anything looks odd such as misspelled words, your name not appearing on the email, links that don't appear to go to the right place, requests for you to "verify" your account or personal information, delete the message…

Recognize pressure tactics: Fraudsters will create a false sense of urgency to get you to act. Don't fall for it.

Go to the source: Trust your gut. If you're questioning the person who called you, texted you, or sent you an e-mail, hang up and call the phone number on the back of your (credit) card (or other financial statement).

Be a smart sender: Never send money to someone you don't know in real life, especially through third-party services such as Zelle, Venmo, and Cash App. Don't send payment with gift cards. Legitimate businesses will never request a gift card to satisfy a bill.

Use strong passwords: Traditional passwords aren't secure enough. Use the strongest authentication options provided, and don't share or save these details on public devices.

Don't respond to unsolicited messages. Ignore and delete random texts and emails that ask you to click a link or provide personal information. Don't ever click links from untrusted sources.

Enable multifactor authentication: Set up two-factor authentication on any account that allows it.

CYBERSECURITY AND FRAUD: ARE YOU TIRED OF US YET? (CONT'D)

Be careful what you share online: Scammers often use personal or common information, such as pet names, schools you attended, links to family members, and your birthday to send phishing emails, guess your password or answer your security questions.

Think before downloading: Never open an email attachment from someone you don't know, and be wary of email attachments forwarded to you.

Verify email addresses: Carefully examine the email address, URL address, and spelling used in any emails or text messages. Scammers use slight differences to trick your eyes and gain your trust.

Compare the From address to the Reply-To address: Scammers are sometimes able to spoof a legitimate email address. Before sending a reply, confirm that the reply-to email address is accurate.

Bottom line: If you feel pressured, uncertain, or stressed about an email, phone call, or pop-up on your computer, the best thing you can do is STOP. There is virtually nothing so urgent that it can't wait until you call a relative, best friend, or financial advisor to get a second opinion. Scammers are very good at what they do, which is why they continue to do these sorts of things. But they can only succeed with your help. If you hang up, turn off the computer, or fail to respond, they're forced to move on to the next victim.

S.F. EHRLICH ASSOCIATES, INC.

S.F. Ehrlich Associates, Inc. has been providing financial advice on a fee-only, independent basis for over 25 years.

Managing Your Money is compiled entirely by Stanley F. Ehrlich and John Zeltmann.

Questions or comments are always welcome (and encouraged!).

Did we mention? If you have a friend or family member who you think might benefit from a discussion with us about financial planning and asset management, please pass along our phone number and email address. Long-term growth is not only crucial to portfolios, it's also critical to a business.

If you have a friend, co-worker, or relative who's in need of financial advice due to a pending or actual job loss, please give them our contact information. We're always glad to speak **pro bono** with people who need a hand.

CLIENTS: Please remember to contact S.F. Ehrlich if: a) there are any changes in your financial situation or investment objectives, b) you wish to impose, add or modify any reasonable restrictions to our investment management services, or c) you've changed your permanent residence.

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1 "A Tale of Two Decades: Lessons for Long-Term Investors." *Dimensional*, 28 Dec. 2022.

2 Kinniry, Francis M., et al. "Putting a Value on Your Value: Quantifying Advisor's Alpha." *Vanguard*, July 2022.

3 "Tips to Be Cyber Smart." *USAA*, 16 Nov. 2022.

4 "Schwab: Cybersecurity News." *Charles Schwab*, 30 Nov. 2022.