EAGLE RIDGE
INVESTMENT MANAGEMENT, LLC

HIGHLIGHTS

- The markets once again had a down quarter. Both the S&P 500 and the Bloomberg Aggregate Bond Index were down almost 5%. This is the same pattern that occurred during the first two quarters.
- This round of inflation is a global event and the Fed is not alone in raising rates. Both the Bank of England and the European Central Bank (ECB) have raised rates this year.
- Our financial planning process is designed to help our clients organize their financial lives and achieve their priorities.

3rd Quarter 2022 Investment Commentary

The markets once again had a down quarter. Both the S&P 500 and the Bloomberg Aggregate Bond Index were down almost 5%. This is the same pattern that occurred during the first two quarters. It is a frustrating investment environment, exemplified by the 15% decline in the bond market through September. Bonds are supposed to provide a hedge against a falling stock market, but not when rates are rising. On a positive note, bonds are providing a competitive yield for the first time in about a decade.

The causes of the markets' fall are obvious- inflation, the resulting increase in interest rates by the Federal Reserve (Fed), and the assumed recessionary environment. The Consumer Price Index was up 8.3% in August. Partially in response, the Federal Reserve increased the benchmark lending rate 75 basis points (bps) to 3% (lower bound). The odds are the Fed will increase rates another 75bps at their November meeting. The Fed also lowered its Gross Domestic Product growth estimates for 2023, now expecting only 1.2% of real (inflation adjusted) growth.

Rising rates send bond prices down- why pay $100 for a bond with a coupon of 2% when the same bond in quality and duration now pays 4%? As a result, the 2% bond must sell for less. Rising rates also mean future stocks' earnings are less valuable as they're discounted more. When future earnings are less valuable, investors pay less for the current earnings, sending multiples and stock prices down. Add in concerns over companies' abilities to grow earnings in a slowing environment, and stocks are discounted even more.

A natural question becomes why we don't exit the market and wait until the Fed is done raising rates. The reason is it is impossible to forecast market bottoms and we don't want to miss the rebound. The market is forward-looking and will recover once expectations for interest rates stabilize and confidence in earnings growth returns. For example, the S&P 500 was up 9% in July as expectations increased that the Fed would start cutting rates in 2023. In other words, the market started to rebound six to twelve months prior to any actual dovish action by the Fed.

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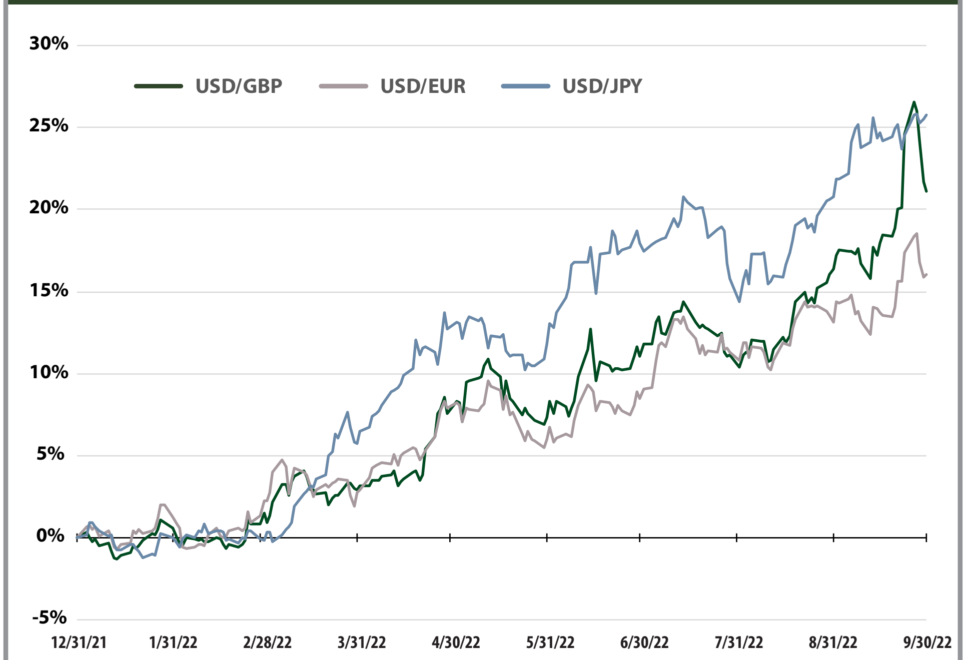
Currency Volatility

This round of inflation is a global event and the Fed is not alone in raising rates. Both the Bank of England and the European Central Bank (ECB) have raised rates this year. In fact, about 90 central banks have raised rates this year. Notably the Bank of Japan has kept rates negative, most likely welcoming the prospect of inflation.

The Fed's target rate of 3% is both higher than the Bank of England's target of 2.25% and the European Central Bank's (ECB) target of 0.75%. The United Kingdom and the Eurozone have both raised rates this year, but not as quickly as the U.S. and, for the ECB, the starting rate was lower (-0.50%) as well. As a result, the dollar has appreciated against both currencies: 21% vs. the Pound and 16% vs. the Euro. The dollar has appreciated 26% against the Yen.

USD vs GBP, EUR & JPY (YTD % Change)



This currency movement has added volatility to the equity market. It was readily apparent during the end of the quarter when the United Kingdom's new prime minister, Liz Truss, introduced a new growth plan which called for unfunded tax cuts. This raised fears about further inflation, interest rates increased, and the pound fell to an all-time low against the dollar, almost reaching parity. The Bank of England even had to intervene to prevent a gilt market (i.e., the government bond market) crash, which was threatening U.K. pension plans. Parts of the plan were reversed, and the pound has appreciated against the dollar over the last week.

The U.K. is most likely not out of the woods yet just as the U.S. is not done fighting inflation. However, the Fed is resolved to tame inflation even if its actions slow the economy and hurt the job market. While we do not know when the market will bottom, we are confident the market will move on the expectations for improvement, and therefore waiting for the improvement is too late. Finally, we have high confidence in the underlying holdings' ability to continue to successfully operate through the current environment.

Eagle Ridge's Financial Planning Process

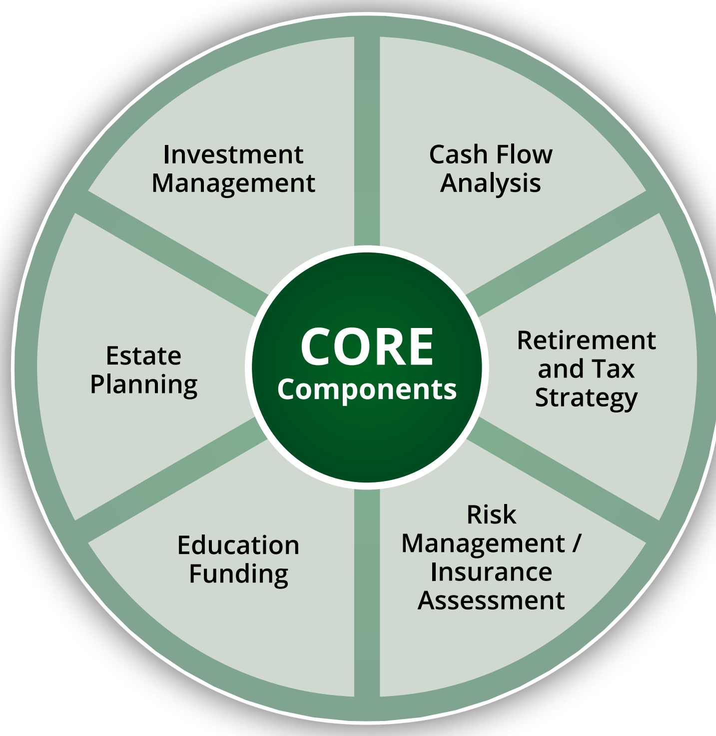
Our financial planning process is designed to help our clients organize their financial lives and achieve their priorities. Certain individuals are extremely self-aware and able to understand and outline their financial goals without much reflection. However, others need wide ranging discussions to clarify their financial goals. In some respects, the goals of many individuals and families are similar in that most people want to maintain a comfortable lifestyle during retirement and leave their assets to their loved ones. Other common goals include limiting estate and income taxes, funding children's and grandchildren's' educations and protecting against risks.

After discussing planning goals, the next step in the process is to obtain detailed information to understand each client's unique situation. This data gathering is collaborative between the planners and clients as we ask questions and request documents. Current investment and liabilities statements such as mortgages allow us to build a personalized balance sheet. Similarly, paystubs, pension statements and budgets help us prepare an income and expense statement. Other items in this inventory include:

- Family Demographics
- Recent Tax Returns
- Estate Planning Documents (Wills and Trusts)
- Insurance Policies

This information collection stage requires the most effort on the clients' part. However, once it's complete, Eagle Ridge's financial planners can enter the information into our financial planning software. The software helps aggregate the data and provides an overview of investment holdings including those not managed by Eagle Ridge.

The software also allows us to project future cash flows by modeling income and expenses annually as long into the future as helpful (usually life expectancy). Most income and expense items are expected to increase with the rate of inflation. Any savings are added to net investments while net withdrawals are deducted from total investments. Investment funds are projected to grow at their historical rates based on the asset classes held in the existing or proposed portfolio. This data then provides a "base case" showing how assets are projected to grow or decline over time depending on the clients' savings or withdrawal rates. The software provides helpful graphics which allow a better understanding of future outcomes.



Eagle Ridge's Financial Planning Process continued

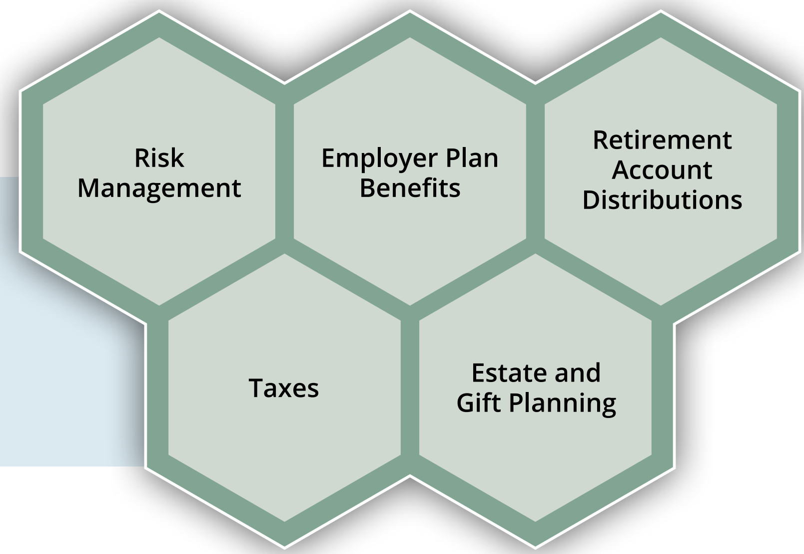
Our planners can model alternative scenarios and visualize the impacts of those scenarios quickly and intuitively. For instance, we can model different withdrawal rates to support clients' lifestyles and project distinct levels of returns for their assets. Some clients may reduce their expenses if the models suggest that there is the possibility that they will not be able to maintain their lifestyle in retirement. Alternatively, others may worry much less about day-to-day spending given the ongoing support provided by their portfolio.

Our financial planning process allows our clients to understand their circumstances and plan accordingly to create the future that they envision. In addition to the mentioned projections, we review outside investments, insurance policies, estate planning, etc., in the context of a client's overall plan and provide recommendations.

We are not selling investment or insurance products; instead, our goal is to provide objective advice which can provide peace of mind. The above description provides an overview of our financial planning process. We will expand on these basics and discuss other aspects of the process in upcoming posts over the next couple of months.

2022 Year-End Planning Reminders

Review the following list of financial and estate planning tips to keep in mind before the end of the year.



Risk Management

- Review your home, auto, liability, life, and disability insurance policies to determine if you have enough coverage and to ensure your beneficiaries are up to date.

Employer Plan Benefits

- Make sure you take advantage of any matching contributions to retirement accounts or Health Savings Accounts (HSA) your employer may offer.
- Individuals participating in employer 401(k)/403(b)/457(b) plans may contribute up to $20,500 ($27,000 if age 50 or older) in 2022.
- Check your Flexible Savings Account (FSA) balance. If your employer does not allow rolling the money to the following year, make sure you spend the balance on qualified expenses.

2022 Year-End Planning Reminders continued

Retirement Account Distributions

- If you own accounts that have Required Minimum Distributions (RMDs), you must take them by the end of the year or face penalties and taxes. Eagle Ridge tracks RMDs for accounts that we manage, but it's necessary to calculate the amount based on total balances of which we may not be aware.
- If you have multiple IRA's, each will have its own separate RMD amount, but you can aggregate your distributions and withdraw the total from one IRA. This is not true for other types of retirement plans, such as 401(k) and 457(b) plans. Consult your advisor or retirement plan administrator with any questions.
- If you own an IRA, and you do not want to withdraw this money for yourself, consider a Qualified Charitable Distribution (QCD). This distribution is a direct transfer from your IRA to qualified public charities - 501(c)(3) organizations.
- QCD's satisfy your annual RMD and excludes the amount donated from your taxable income. The maximum annual amount that can qualify for a QCD is $100,000.

Taxes

- Converting Traditional IRA account balances to Roth IRAs (Roth Conversions) may make sense in 2022 given the severe market correction this year. Roth conversions involve upfront payments of taxes but converted assets will be tax free for you and your beneficiaries.
- If you have stock positions with unrealized losses, consider selling them to offset gains and reduce taxable income. The IRS only allows $3,000 of losses per year to deduct against ordinary income, and you can carry forward the remaining losses to future years.
- Eagle Ridge harvests tax losses in your accounts as appropriate, however, there may be opportunities in other accounts such as those that hold cryptocurrencies or other assets with losses.

Estate and Gift Planning

- If you have not done so recently, make sure all your estate planning documents are up to date. This includes trusts, wills, and health care powers of attorney.
- Annual Exclusion Gifts (up to $16,000 per recipient) and Adjusted Taxable Gifts (gifts more than $16,000 per recipient) may be desirable using appreciating assets for those taxpayers seeking to reduce the size of their taxable estates.
- If you are considering gifts to minors, a gift giver can open a new 529 plan account in a child's name or contribute to an existing account. Contributions to a custodial 529 plan account or to a parent-owned 529 plan will minimize the impact on eligibility for need-based financial aid. Gift contributions can be sent by check to almost any 529 plan.

Please contact Eagle Ridge and/or your other professional tax advisers before implementing the above strategies to make sure they are appropriate for your unique circumstances.

About Eagle Ridge

Eagle Ridge Investment Management is an independently owned, SEC-registered investment advisory firm. Our goal is to provide superior investment performance and a high level of service to a select group of clients, unencumbered by the need to sell products or meet corporate goals. We strive to help our clients meet their needs and compound their wealth through a disciplined investment process.

For more information, please contact Alie Hamilton at **a.hamilton@eagleridgeinvestment.com** or **203-227-4515**.