

CROWELL WEEDON ASSET MANAGEMENT
MONTECITO INVESTMENT PORTFOLIOS

1Q 2022

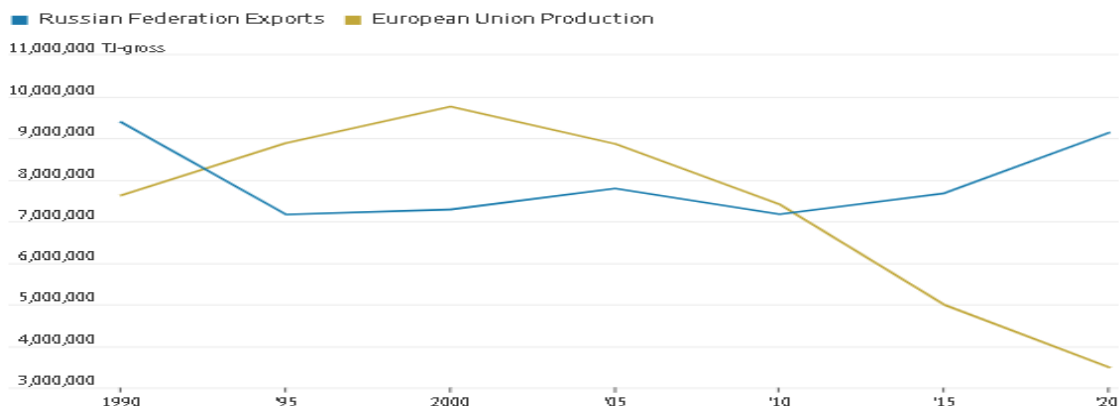
Dear Fellow Investors,

When things happen these days, it seems to be on a historic level. Just about two years removed from the COVID market crash of 2020, the decline witnessed in Q1 2022 saw the [second worst January return](#) for the NASDAQ composite ever and all major indexes enter correction or bear market declines. Initially, the market was focused on the Fed as they're about to embark on a path of hiking interest rates which potentially acts as a headwind to equity valuations and stock prices (please recall from our recent e-mail and annual letter – we view rising rates as good due to the economy no longer needing emergency financing). As the quarter progressed, the narrative quickly shifted from fears of rising interest rates to fears that stretch well beyond investing. It appears most of the world now has a shared villain, a man that controls a military with more nuclear warheads than any country on earth, and he is now acting with aggression.

Russia's invasion of Ukraine is real, it is scary, and it's quickly waking much of the world that has been blanketed in comfort largely dealing with "issues" of political correctness. We're now witnessing someone that is truly offensive, cares zero about your feelings or even the well-being of his own citizens, and creating injustice for 44 million people. As much of the world begrudgingly recognizes the foolishness in thinking, "that could never happen here", a renewed sense of what is truly important is quickly being realized. Why it takes catastrophes to remember this is beyond us, but we are glad to see a rapid response from the U.S., much of Europe, corporations, and people around the world.

It's easy to point fingers and look back at how all this could have happened. There are [numerous thoughts](#) in regards to what Putin's ultimate goals may be ranging from him utterly despising Ukrainian people, to wanting a NATO buffer by forcing Ukraine into becoming a neutral state, to a full-scale rebuild of the old Soviet empire. The fact is we will never know his thinking. However, what has certainly not been a secret is much of the EU [ceding leverage](#) to Russia as they literally supply the fuel needed to keep them warm during winter. Fifteen years ago countries in the EU produced more gas than Russia exported. In 2020 Russia exported nearly three times more gas than the EU produced.

Natural Gas Production, Russia vs. Europe, 1990-2020



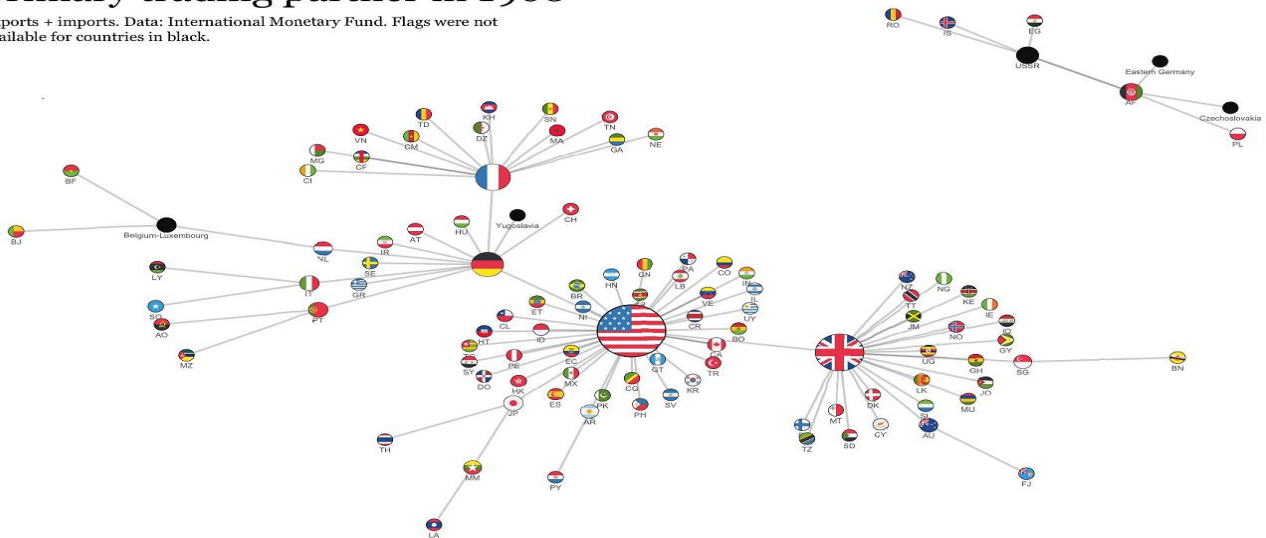
Source: IEA Natural Gas Information

WHERE HAVE WE CEDED LEVERAGE?

As much of Europe realizes they made a deal with the devil, it begs the question – where have we given away too much? **Certainly, the exporting of manufacturing has robbed our country of decent paying jobs with purpose, weakened our middle class, and given very few pathways to young people not interested in the traditional college route.** After The Great Depression and World War II, globalization gradually enjoyed an insurgence and significantly intensified during the 1990's. Trade in goods and services as well as capital flows across borders grew to unprecedented levels. While this brought many positives like ultra-efficient production, driving down prices for goods, and millions of people rising from poverty, we are now seeing the potential negatives as well. COVID first showed how vulnerable this system was, dependent upon complex international supply chains strung together to optimize profitability. We were not very capable of cranking up production for simple items likes masks, gloves, gowns, and ventilators. While “Just In Time” let’s you operate very lean it is painfully obvious there is significant value in “Just In Case”. Being able to produce your own stuff is incredibly valuable.

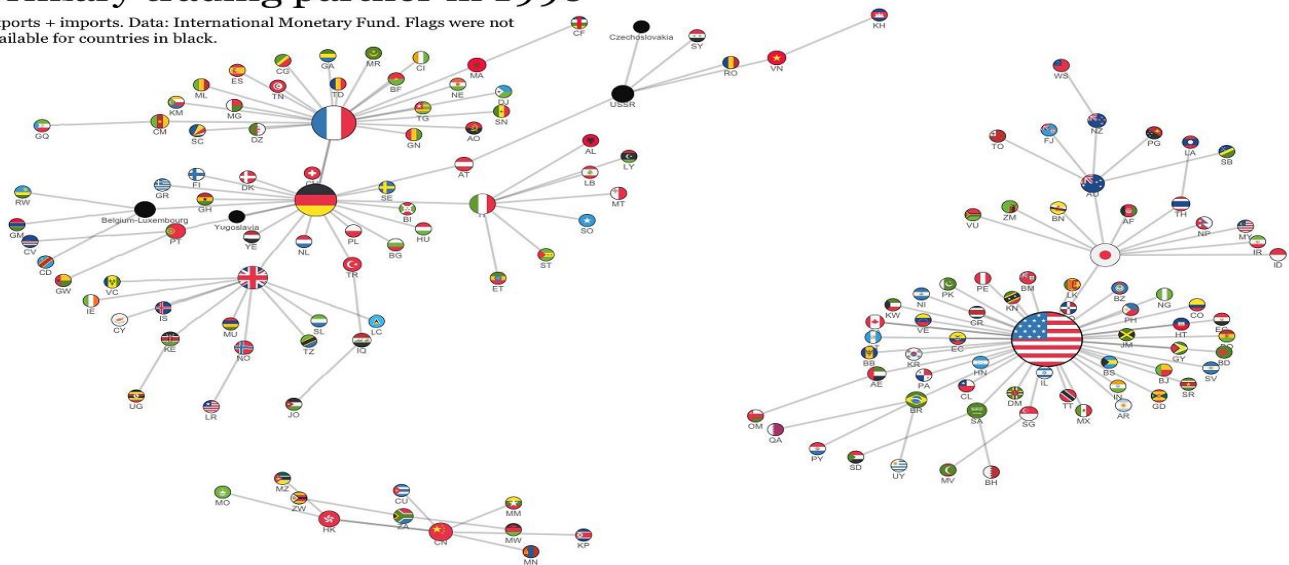
Countries connected to their primary trading partner in 1960

Exports + imports. Data: International Monetary Fund. Flags were not available for countries in black.



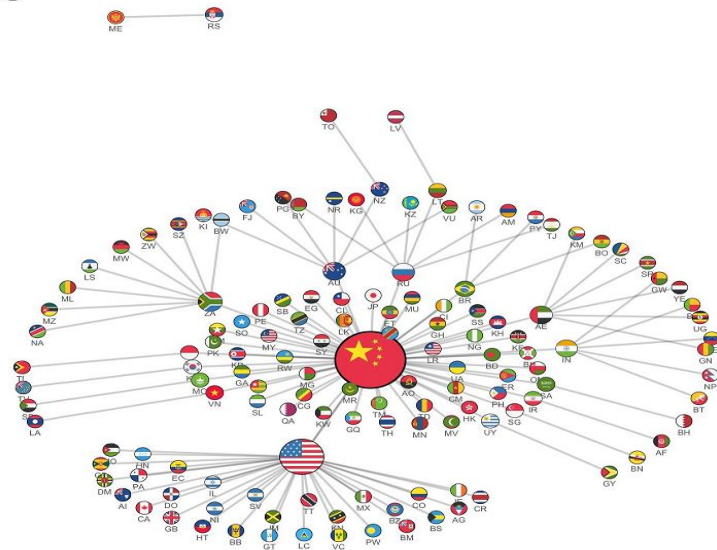
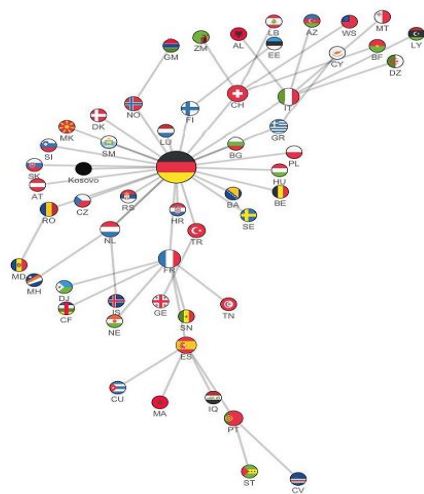
Countries connected to their primary trading partner in 1990

Exports + imports. Data: International Monetary Fund. Flags were not available for countries in black.



Countries connected to their primary trading partner in 2020

Exports + imports. Data: International Monetary Fund. Flags were not available for countries in black.



[Trade imbalances](#) are significant but we don't believe they give away immediate leverage. However, these imbalances have played a part in something that does have immediacy. **We've now seen the world weaponize the financial system against Russia – could this happen to the U.S.?** The public currently holds over \$22 trillion of our [\\$30 trillion national debt](#). Foreign and international investors own approximately \$7 trillion or just under ¼ of our debt. Japan owns the most at \$1.3 trillion followed by China at just over \$1 trillion. What would happen if China decided tomorrow to liquidate their holdings? Probably a massive spike in interest rates causing prices for all assets like stocks, real estate, farmland, and oil wells to drop. What if China took those proceeds and converted to their home currency? Probably a huge decline in the value of the dollar. Does China have ambitions to become the new global reserve currency? Is any of this possible?

Fortunately, we believe this has a very remote chance of happening. This would take a complete strategy reversal from China. They would have to believe they are now self-sufficient and no longer reliant on outside consumption to keep their industrial machine alive. With such a huge population to keep content, cutting off demand from your largest trade partner seems remote. Further, to become the global reserve currency implies that the world trusts you. Mentioning China and trust in the same sentence currently seems like an oxymoron.

WE ARE EXCEPTIONALLY FORTUNATE TO CALL AMERICA HOME

This should serve as the ultimate wake-up call for those of us that have enjoyed freedoms and conveniences in life unlike any time in human history. America remains rich in natural and human resources. We are protected by two vast oceans on each side and friendly neighbors to the North and South. When was the last time you lost sleep over the thought of the Mexican or Canadian military invading our country? America is filled with wonderful people willing to make a difference. While it is nice to show support for Ukraine by lighting your building in blue and yellow, Elon Musk literally turned the internet back on for their country. The [Starlink](#) satellite system from Space X was also configured so it can be used in moving vehicles and powered from the cigarette lighter. Or how about Airbnb offering to house up to 100,000 refugees in Poland, Germany, Hungary, and Romania. Further, hundreds of people are booking stays in Ukraine with no intention of traveling, but

merely to get funds into the hands of Ukrainian citizens. American citizens are stepping up and making a difference which is wonderful to see.

LOOKING FORWARD

As we've worked with many of you for decades, our belief is that looking backwards can provide valuable historical context but looking forward is how we can help you preserve and create wealth. With so much changing in such a short amount of time we want to recap some high-level, forward looking thoughts when it comes to the job you've hired us to do:

- Energy remains the lifeblood of an economy
- Energy independence is exceptionally valuable
- While it is nice to reduce your country's carbon footprint, it makes little sense if you're merely going to import the same oil / gas products from another country
- Renewable sources are not ready to shoulder the load of a developed country's energy demands
- Renewable sources like wind and solar need batteries to store energy when the wind isn't blowing and the sun isn't shining
- With the electrification of transport, energy demand will continue to grow
- Advancements in nuclear design could see this play a larger role in the grid of the future
- We need to get back to building and building fast – it took us 4 years to build the Golden Gate Bridge, just over 1 year for the Empire State Building, and a couple of decades to fully build out the Interstate highway system, railroads, and the California State Water Project. We seem incapable of building a train now connecting LA to San Francisco.
- Outsourcing manufacturing merely to find the low cost producer does carry substantial risks
- Knowing how to make stuff is important
- Disruptive innovation continues its exponential growth bringing massive advancements in fields such as electric vehicles, robotics, AI, space exploration, synthetic biology, and financial technology.
- We will see a renewed value for being able to produce your own energy, grow your own food, build your own products, and provide education and employment opportunities for your people.
- Independence will be cherished
- Much of the developed world has been complacent and comfortable for far too long

PERSPECTIVE

Despite the recent atrocities, the world continues to progress at an amazing pace. Imagine taking someone from the year 1000 putting them in the world today – their mind would be blown. Heck, imagine someone from 1600, 1700, 1800, 1900 – you would not see their amazement fade one bit at the progress humanity has been able to achieve. While they would struggle to comprehend how we've created such things as the automobile, airplane, refrigerator, television, rockets, internet, and smartphones, one thing they would absolutely understand is people being at odds and destroying one another in the process.

Even the financial media, who never waste a crisis, aren't running stories about "the nuclear apocalypse trade." There are no modern day financial answers to protect you when you're dealing with an actor operating from the crudest human instincts – *I'm bigger, stronger, and more powerful and I'll take whatever I want.* Those pointing to bitcoin as saviors may find it hard to use their internet money in a world where the bad guys shut off the power. Gold might hold up but we don't see many Ukrainians fighting for their lives lugging around backpacks full of gold. Real estate is nice to own as long as the authority backing your ownership claim

is still in existence. Russia doesn't seem to be respecting many property rights these days. Wealth and value would go back to food, water, shelter, and protection - when stuff goes down, talking and diplomacy matter little.

When it comes to investing, times of conflict and fear have typically resulted in initial market drops that have all eventually recovered. This includes other frightening events like the attack on Pearl Harbor, the Cuban Missile Crisis, JFK's assassination, Iraq invading Kuwait, the Oklahoma City bombing, and the September 11th attacks. Some of you may remember [Bert the Turtle](#) teaching you how to duck and cover during an atomic attack. Life has always been somewhat scary. While we don't know how the current situation ends or where it escalates to, it is worth remembering that humanity has always found a way forward. We're seeing a unified front condemn these horrible actions and millions of people showing kindness, love, and compassion for one another. The complacent have been awakened.

While it's easy to let today's ugliness get you down, rest assured, we continue to look forward with optimism. Our constructive view is founded on the belief that human curiosity, innovation, and advancement will continue to stimulate the economy and drive progress forward. Above all else, our freedom will continue to be a guiding light for humanity. As always, we welcome your comments and feedback. Thank you for your continued confidence and the opportunity to manage your investments. We take very seriously our responsibility. ***Montecito Investment Portfolio's Mission: To provide diversified, disciplined long-term investment solutions, service and guidance to help our clients achieve, and maintain, their "Financial Independence".***

Sincerely,

Blake Todd, CWS
Senior Vice President, Financial Advisor
Portfolio Manager
btodd@dadco.com

Jarrett Perez, CFA
Associate Vice President, Financial Advisor
Portfolio Manager, Branch Manager
jperez@dadco.com

Important Disclosures

- The information contained in this report has been taken from trade and statistical services and other sources, which we deem reliable. We do not represent that it is accurate or complete and it should not be relied upon as such.
- The opinions expressed herein are those of the authors and Montecito Investment Portfolios at this date, are subject to change, and are not necessarily that of DA Davidson & Co. The same is true of statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and statements described may not be suitable for all investors.
- This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for accounting, legal or tax advice. Reference to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.
- Neither this presentation, nor any chart or graphs within this presentation may be used, in or of themselves, to constitute investment advice, to determine which securities to buy or sell, or when to buy or sell such securities.
- There are risks inherent in any investment and there is no assurance that any money manager, asset class, style or index will provide positive performance over time.
- The Standard & Poor's 500 Index is a capitalization weighted index comprised of 500 widely-held stocks on US stock exchanges. Companies included in the index are selected by the S&P Index Committee, a team of analysts & economists at Standard & Poor's.