D|A DAVIDSON
D.A. Davidson & Co. member SIPC

CROWELL WEEDON ASSET MANAGEMENT
MONTECITO INVESTMENT PORTFOLIOS

3Q 2022

Dear Fellow Investors,

Markets do not like uncertainty and the world is currently full of it. An area where some clarity is starting to appear is in regards to inflation and interest rates. Inflation remains high and central banks around the world are pivoting. The days of next-to-zero interest are ending. As we entered this year, our hope was that rates could rise as the world returned to normalcy post COVID. Unfortunately, rates are rising to combat inflation. Near-term, this most likely results in asset values declining and economic contraction. We've already seen equity and bond markets have one of their worst starts in history and real estate prices are starting to show signs of significant weakness as well. What are investors to do?

Step 1 – Remember that we're investors, not traders. The stock market exists as a way to bring together buyers and sellers in an efficient manner, hence the name, exchanges. Don't fall victim of personifying the market. When you hear about the market struggling, diving, or staggering it's typically a sign that emotions have taken over. Emotion is the enemy of long-term financial success. Investors focus on owning businesses. We look to own businesses with promising long-term prospects. The daily, weekly, or even yearly stock price is of little relevance when we're thinking about what a company can build over the long-term. Further, no one possesses the ability to consistently predict what stock prices will be today, tomorrow, next month, or next year. Businesses make investments (such as building a new factory) that can take years to complete. Their expected return from projects like this can take years to realize. To measure their supposed value each day in the market will quickly make you lose sight of the long-term opportunity. Thinking long-term is perhaps the simplest and greatest advantage that investors possess. Utilize it.

To highlight how rampant short-termism is in the market, please note the amount of shares outstanding for the below businesses and the average daily trading volume:

Company	Shares Outstanding (millions)	200 Day Average Daily Trading Volume (millions)	Days to Turnover
Apple Inc.	16,273	89.92	181
Microsoft Corp.	7,551	31.40	241
Amazon.com Inc.	10,555	73.61	143
Tesla Inc.	3,598	80.59	45

Source: FactSet, Refinitiv

If we assume approximately 250 trading days in a year, this means the equivalent of Apple's entire shareholder base changes hands approximately 1.4 times per year, Microsoft approximately once per year, Amazon approximately 1.75 times per year, and Tesla approximately 5.5 times per year! This is obviously a very simplistic example as there are numerous reasons for buying and selling a stock. Nonetheless, it highlights how rampant short-termism is when it comes to owning businesses. For further evidence, please note the recent statistics from the New York Stock Exchange and Refinitiv that show the average holding period for a stock was only 5 ½ months as of 2020. This is not investing, it is speculating. Wealth creation takes time and patience, there is no short-cut.

Step 2 – Identify where you are in your stage of life

- **Accumulation Stage (financial goals are 10 + years away): Bear markets should be celebrated.** Now is the time when each contribution you make buys more ownership in a company. More ownership is a very good thing. We do not want to pay higher prices for ownership stakes in businesses we like.
- **Transition Stage (financial goals are approximately 5 – 10 years away): Time is still on your side.** Although we can't predict the future, we can look to history and see that recoveries from bear markets do happen. In this stage of life we've started to transition away from a heavier allocation to younger companies and are utilizing investments in asset classes that tend to hold up better in times of uncertainty. This is when established growth companies, dividend paying stocks and real estate start to play a far bigger role in portfolio construction.
- **Distribution Stage (funding financial goals now): This is why we diversify.**
  Market environments like today highlight why we construct portfolios for maximum diversification at this stage. A mix of dividend paying companies, growth companies, real estate, commodities, infrastructure, precious metals, high yield fixed income, and government issued fixed income provide a diverse mix of assets to produce an income stream to help fund financial goals.
- **Peace of Mind allocation: Allows your long-term plan to work.**
  Wherever you may be in your stage of life, we believe in carving out anywhere from one to three years worth of living expenses in an account invested in cash and cash equivalents. The importance of this account is on full display in market environments like today, bringing you the "peace of mind" to allow your long-term investment strategy to work through long-term market cycles.

Keep in mind, for those investors who have achieved their Financial Independence (assets owned produce cash flow equal to or greater than expenses) and want to leave behind a legacy, their portfolio will most likely come full circle and allocate a portion of assets back to the Accumulation Stage for the next generation.

Step 3 – Stick to your plan
We last saw this level of fear and panic during the Great Recession of 2008 – 2009. You can pull up numerous opinions from exceptionally credible people that predicted the following decade for investors would be bleak. Those that sold their long-term investments back then missed out on quite the opposite. Tremendous gains took place from the March 2009 low as the economy recovered, new innovations emerged, and the world didn't fall apart. Those that sold their long-term ownership stakes in solid businesses missed the returns generated and saw their portfolios fall behind as they interrupted the compounding process. Going back to Investing 101 and what is needed to help achieve your Financial Independence, the process is rather straightforward:

- Savings are invested
- Investments compound
- Compounding grows your portfolio
- Portfolio value determines how much income can be produced
- Income generation funds your lifestyle

The most critical components of this process are the amount of time you can compound for and the rate at which you compound. History has shown interrupting this process or turning to the supposed safety of investments like money markets, CDs, treasuries, or gold will fail to compound anywhere close to what the market can produce. Financial goals dependent upon long-term compounding will not be met with such low but “safe” returns locked in.

Today, we’re hearing similar pessimistic outlooks for “the market” calling for another lost decade. When you read these scary headlines, please remember that all businesses are not the same. To lump them together as “the market” and proclaim they will be horrible for the next decade is not wise. Certain entrepreneurs have a better vision of the future, attract better talent, create better products, and will go on to produce amazing things. We are fortunate to be able to invest in their visions. In some ways we think of investing as being similar to running a professional sports team. If we draft the next Michael Jordan or Tom Brady we’re going to be hard to beat for a very long time. Yet, when we analyze sports, we would scoff at anyone who proclaims all the athletes to be the same. How much time does sports-talk spend on arguing over who the greatest of all time is … Brady or Montana, Jordan or LeBron?? The beauty with investing is that a company’s competitive advantages can last a lot longer than an athlete’s knees, back, or elbows (Tom Brady might be the exception ☺). Also, we’re not limited to only selecting a handful of players, we get to assemble the best and brightest we can identify, our own All-Star Team.

There’s some debate in our industry about who the greatest investors of all time are. However, we believe Warren Buffett is always in the conversation. He has a great way of bringing perspective to the process of investing. Please watch this clip to hear how one of the best investors of all time thinks about the process. In our opinion, if you believe our modern day society will not crumble, then it is a poor decision to give up your ownership stake in a quality business. If you believe we’re headed back in time, then modern day financial instruments like stocks, bonds, CDs, annuities, or even cash will be of little relevance. There are numerous companies that have survived and thrived despite the challenges our country and the world have faced. We don’t believe this time will be any different.

As always, we welcome your feedback and would love to talk about these and other topics that may be important to you. We 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
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.

- Investors cannot invest directly in an index. These unmanaged indexes do not reflect management fees and transaction costs that are associated with some investments.

- Goldman Sachs Commodity Index is a world-production weighted total return index, including reinvested dividends, measuring investor returns from a fully-collateralized commodity futures investment. Due to market fluctuation, the commodities represented by this index may experience of invested principal and are subject to investment risk.

- Gold: London PM is an index based on the price at the end of month close for London gold. This index represents asset types which are subject to risk, including loss of principal.