THE GORTON
WEALTH MANAGEMENT GROUP
of Wells Fargo Advisors

2022 Mid Year Review

August 2022

An update of performance, trends, research, and topics for the long-term investor

Relevant rates of return a/o:	7/31/2022	vs. 12/31/2021
Russell 1000® Growth Index: Stocks within this index include: Amazon, Facebook, Google (Alphabet) Home Depot, Visa	-19.44%	+27.60%
Russell 1000® Value Index: Stocks within this index include: Berkshire Hathaway B, Exxon Johnson & Johnson, JP Morgan	-7.08%	+25.16%
Bloomberg U.S. Agg Bond Index:	-8.16%	-1.54%
S&P 500 Index:	-12.58%	+28.71%
Russell 2000® Value Index:	-9.30%	+28.27%
MSCI EAFE® Index:	-15.56%	+11.26%

Long Term Historic Returns, compounded annually (1970-2020)[1]

- Small Value +13.6%
- Large Value +10.3%
- Small Growth +9.9%
- Large Growth +9.4%

Growth and value stocks in this example are represented by the Ibbotson Associates Growth and Value Indexes for 1970–1997 and the Morningstar Style Indexes thereafter. Ibbotson Associates Growth and Value Indexes calculated based on data from CRSP US Stock Database and CRSP US Indices Database, Center for Research in Security Prices (CRSP®). The data assumes reinvestment of income and does not account for transaction costs or taxes.

I have had the opportunity to work with the team here at Gorton Wealth Management Group now for over a year. What originally drew me into the practice was observing the team's passion to truly put clients first in regards to the service level they provided. Earlier this year I asked Mike for some advice on a client's account. Mike asked me a simple question, "If this was your brother's account what would you do or recommend?" That really resonated with me and I can honestly say here at Gorton Wealth Management Group, we truly do view you as part of our family and put your interests first. As the industry continues to move towards cookie cutter investment management operations I'm proud to be a part of a unique team that still does individual securities research and are able to build and maintain customized individual portfolios through the PIM program that are in synch with your risk tolerance and long-term plan.

— Brian Gallagher

"The stock market is filled with individuals who know the price of everything, but the value of nothing."

—Phillip Fisher[2]

Navigating the sum of all fears. Midyear update.

Hello, hopefully you are starting to see your lives return to a somewhat normal pre-pandemic lifestyle. As we have our annual meeting it's nice to hear that some are back to traveling, eating out, and seeing friends they have not for several years. All good for the soul. A lot has happened in the last 7 months and we would like to take a moment to share our view of the world.

Reviewing the past newsletter discussions:

As we have discussed in previous newsletters, predicting markets is difficult, as we never can predict what the world's backdrop will be. We recently looked back through our past newsletters and thought it would be interesting to share some of the previous topics that are still in focus today.[3-4]

What could have led to higher or lower markets this year, with the lower market case playing out.

Higher Markets

- Inflation wanes more than expected and the Fed is softer with their rate increases.
- Covid finally becomes an annual endemic, masks come off and we go back to business as usual with annual flu shots to include the latest Covid variant.
- More people come back to work easing the labor shortage.
- Stimulus bill creating more fiscal spending and excess liquidity in the system.
  - Although a smaller version of this bill is in process of being passed.

- o Positive outlook – Mood, money and momentum drive the markets, which have driven stocks and real estate markets this last year.
  - o Social security benefits to rise 5.9%[5] in 2022 and I assume pension COLAs to be similar.
- Lower Markets
  - o The higher market cases being worse than expected.
  - o China, and to a lesser degree Russia and the Middle East destabilizing the world.
    - – And Russia turned out to be the bad actor.
  - o Then of course there is always what does not even show up on the radar!
- **Hegemony and de-globalization.**

  As we have talked about in our previous newsletters we are watching the U.S. try to withdraw from our hegemonic role within the world. What is a hegemon and what is their role in the world? Simply put the world's hegemon – is the dominant influence. In my opinion, their role in the world is to 1. Help provide a reserve currency for world trade, 2. Be able to run a large trade deficit, 3. Be a global importer, 4. Provide global security, 5. Keep trade routes open and 6. Prevent small wars/conflicts from becoming big ones (i.e. we left Iraq, we have avoided being a big player in Ukraine, and we are bringing manufacturing back to the U.S.)[4]
  - o What it means for us?
    - – Bringing manufacturing back to the U.S. creates more jobs – Good for labor, good for U.S., not so good for countries losing jobs.
    - – Cost of goods increase – Cost of goods may rise as we lose access to cheaply manufactured goods from overseas. Trade-off of our technologic advantage, lower transportation costs vs. higher cost of production (labor and factory) for what is moved to U.S.
  - o Not good for the developing world as they lose the ability to create jobs and sell goods and services.
  - o Destabilizes the world – With no one policing the world's small conflicts they may turn into larger ones.
    - – Russia invades Ukraine, is China/Taiwan next?
- **What felt like the dot-com bubble.**
  - o For two years we have been discussing how we believe some stocks had become too popular and overvalued. We have avoided this riskier portion of the market in our portfolios for these exact worries. While always difficult to stay away while these stocks have had large gains we have just recently seen them drop substantially. Many of the popular companies that ran up during Covid as well as cryptocurrencies have dropped 60%+ this past year.[6]
- **Stickier inflation.**
  - o The Fed has a tough time because they are always looking in the rear view mirror, not out the windshield. When we were discussing in spring 2021 about inflation being stickier and more permanent in our annual meetings, the Govt/Fed and many economists were still saying it was temporary. Now the Fed is aggressively raising rates to try and tame inflation.
  - o The U.S. may have reported the peak inflation numbers in June, with a print above 9%. With gas prices starting to drop and commodity prices retreating, we may be close to or at the high print. We think at some point the Fed may back off on aggressive rate raises as they see the economy contract before they get to the 2% inflation number. If you look back to the 80's after the high inflation was tamed, it seemed like the Fed was happy with inflation in the 3-4% range. Then after the financial crisis they had trouble getting it above 2%, and that became their new target. It would be better for the economy to target something closer to the 3-4%.[7]

- **How inflation affects your portfolio.**
  - o We all know retail prices have risen significantly as have our utility, insurance bills, etc. each dollar you keep in cash is worth 9% less in purchasing power vs this time last year, yes a 9% loss sitting in cash.[8]
  - o We try to own companies that have lower debt levels, making them less vulnerable to the Fed raising rates to tame inflation.
  - o We try to own companies that can effectively pass on their higher costs and not have their sales drop.
  - o We typically recommend clients have a higher weighting in stocks vs. the traditional stock/bond portfolios, especially in the lower rate environment we have been in. By the time you factor in taxes and inflation, bonds rarely have a real rate of return, whereas stocks have provided real rates of return over the long-term (rate of return over the rate of inflation) as good companies can adapt. Keeping in mind that past performance cannot predict future results.
- **Recession** – As I write this we have experienced our second quarter of negative GDP which technically is a recession. However, with a drop of only 1.6%, it may only be considered an economic contraction. (The National Bureau of Economic Research is the final arbiter and it can take up to a year for them to make the determination.) Some investors try to avoid loss in market downturns by selling positions and converting more of their portfolio to cash, however they can incur upwards of 33% in taxes on their capital gains, which then becomes a permanent loss.[9-12] Then after making this first decision, they have to make the second of when to get back into the market. We try not to worry too much about recessions and take them in stride as part of investing and like navigating inflation, try to own companies that can also navigate a recession.
- **Preparing for what could happen next**
  - o **IF** this is a bear market, we have then just seen a bear market rally, so may retest the lows before market rises. The "**IF**" is why we don't predict markets. Instead we try to add companies that have a high probability of success in current and future markets. (Trying to prepare folks without scaring them that markets may drop from here and that is OK: 1. Because we build into our Envision® plans that a down market will happen periodically and 2. This gives us the opportunity to add companies to portfolios at lower prices.)
  - o **A reminder to worry about what you can control, not what you can't.**

What We Cannot Control	What We Can Control
The annual market returns.	The age when you retire.
The volatility of market returns.	The amount you save annually.
The sequence of market returns.	Your projected retirement income.
The timing of unexpected cash flows.	Your annual vacation fund.
The inflation rate.	The amount you leave in your estate.
Tax law changes.	The acceptable level of risk in your portfolio.
Unexpected life events.	What you donate to charity.
Health changes.	What you gift to your children.
How long you live.	Funding education.
Social Security and Medicare changes.	

By now you have likely been warmly greeted by our newest team member Jonathan in the office or on the phone. Jonathan has now been with our team for 4 months and has quickly learned the ins and outs of the industry from Emma. We are enjoying having Jonathan's personality in the office and as part of our team. He has been a good addition to complement Emma and Brian.

Our commitment to you:

Annually we provide a formal review for all of our clients, which includes: Updating your plan on file, reviewing your portfolio, and sharing our perspective of the world and how it may impact the markets. We know life events don't just wait around for your annual review to happen. We will always make time available for those that may have a question or concern about the markets or have had a life event and need to discuss the potential impact to your plan. If you are wondering whether or not something is important to discuss with us, always err on the side of giving us a call! We are fully invested in your success and want to make sure you are on track to meet all your life goals.

This year we were often asked if we are taking new clients. The answer is yes! We are always looking to help others achieve their life goals. If you have someone in your circle that you believe would benefit from working with us we invite you to spread the word. We would love the opportunity to meet them and see if we can help.

We remain grateful for your trust, loyalty, and friendship!

Michael Gorton
Managing Director – Investment Officer

THE GORTON
WEALTH MANAGEMENT GROUP
of Wells Fargo Advisors

770 Tamalpais Drive, Suite 400, Corte Madera, CA 94925
Office: 415-257-2508 | Fax: 415-454-5173
Email: michael.gorton@wellsfargoadvisors.com | Website: www.gortonwealthmanagementgroup.com

1. Wells Fargo Advisors. Growth and Value Investing Morningstar Market Charts 2021 Series. (CAR# 0821-00629)
2. Fisher, Phillip. Quote retrieved 8/1/22 from www.investopedia.com
3. Gorton, Michael. 2021 Annual Review. January 2022. (CAR# 0122-01270)
4. Gorton, Michael. 2020 Annual Review. January 2021. (CAR# 012x-00932)
5. Social Security Administration. SSI Federal Payment Amounts For 2022. Retrieved 8/1/22 from https:www.ssa.gov/OACT/COLA/SSI
6. S&P Dow Jones Indices. S&P Cryptocurrency Top 5 Equal Weight Index. Retrieved 8/1/22 from https://www.spglobal.com/spdji/en/indices/digital-assets/sp-cryptocurrency-top-5-equal-weight-index/#overview
7. Amadeo, Kimberly. US Inflation Rate by Year From 1929 to 2023. 7/27/2022. Retrieved 8/1/22 from https://www.thebalance.com/u-s-inflation-rate-history-by-year-and-forecast-3306093
8. U.S. Bureau of Labor Statistics. Consumer Price Index. As of June 2022. Retrieved 8/1/22 from CPI Home : U.S. Bureau of Labor Statistics (bls.gov)
9. Bureau of Economic Analysis. GDP. 7/28/22. Retrieved 8/1/22 from https://www.bea.gov/news/2022/gross-domestic-product-second-quarter-2022-advance-estimate#:~:text=BEA%2022%2D36-,Gross%20Domestic%20Product%2C%20Second%20Quarter%202022%20(Advance%20Estimate),real%20GDP%20decreased%201.6%20percent
10. IRS. Topic No. 409 Capital Gains and Losses. Retrieved 8/1/22 from https://www.irs.gov/taxtopics/tc409
11. State of California Franchise Tax Board. Capital gains and losses. Retrieved 8/1/22 from https://www.ftb.ca.gov/file/personal/income-types/capital-gains-and-losses.html
12. H&R Block. Tax Information Center. California Tax Rates. Retrieved 8/1/22 from https://www.hrblock.com/tax-center/filing/states/california-tax-rates/

Description of Indexes

An index is unmanaged and not available for direct investment.

S&P 500 Index - a market capitalization-weighted index, composed of 500 widely held common stocks, including reinvestment of dividends, that is generally considered representative of the US stock market.

Russell 1000 Growth Index - offers investors access to the large-cap growth segment of the US equity universe. The index is constructed to provide a comprehensive and unbiased barometer of the large-cap growth market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine growth probability approximates the aggregate large-cap growth managers' opportunity set.

Russell 1000 Value Index - measures the performance of those Russel 1000 companies with lower price-to-book ratios and lower forecasted growth values. These stocks are selected from the 1000 largest companies in the Russell 3000 Index.

MSCI EAFE Index - the MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada.

Russell 2000 Value Index - measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Barclays U.S. Aggregate Bond Index - an index comprised of approximately 6000 publicly traded bonds, including U.S. Government, mortgage-backed, corporate, and yankee bonds with an approximate average maturity of 10 years.