ROCKBRIDGE INVESTMENT MANAGEMENT

OFFERING ROCK-SOLID FINANCIAL ADVICE

Capital Market Activity

Bob Ryan

Stocks

Stocks have given back the gains realized earlier in the quarter. The S&P 500, along with other market indices, was off over 3% - the domestic small cap stock index was down more than 5%. Investors are facing myriad uncertainties including historically high valuations of Tech stocks, the economic impact of the rapid run up in interest rates engineered by the Fed, deficits, inflation, striking auto workers, and political dysfunction. It's not surprising that stocks turned in a difficult quarter.

Stocks have done better since the beginning of the year. Over this period our international market index (EAFE) increased just over 7%; other market indices, except for the S&P 500, are up from 2% to 3%. The S&P 500, on the other hand, returned over 13%. Of course, this index is heavily weighted by the largest Tech companies (Apple, Microsoft, Amazon, Alphabet (Google) NVIDIA and Meta (Facebook)) which have done remarkably well reaching historically high valuations, due no doubt to continued optimism for Artificial Intelligence (AI).

NEWSLETTER HIGHLIGHTS

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  - Bonds
  - Inflation, Interest Rates and the Fed
- **Diversification Can Be Frustrating, but Hang on for a Hero**
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- **Quarter 3 Market Returns**

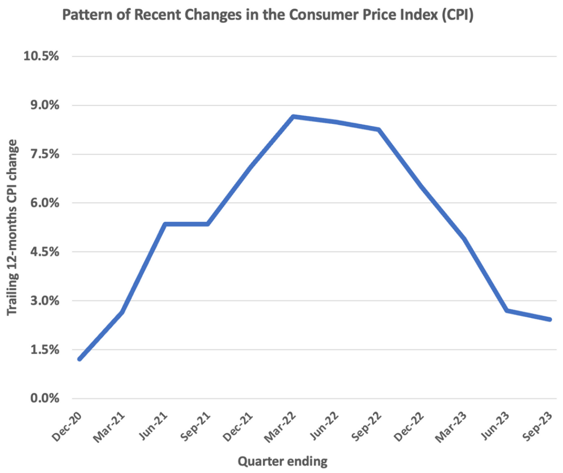
Stocks are forward looking - prices discount an uncertain future. As this future becomes more and more murky, the discount becomes greater, which helps to explain the stock market's fall off. By the same token, the potential for surprises on the upside becomes greater. Market prices best reflect this uncertain future – avoid seeking to predict the ups and downs.

Bonds

Market determined yields on longer maturing bonds jumped in the 3rd quarter, producing negative returns (price reductions offsetting coupon payments). The yield on 10-year Treasuries climbed to 4.6%, up nearly 1% over the quarter. Observed yields include a measure of "real" interest rates plus expected inflation. The current uptick is in real interest rates, as the spread between nominal and inflation adjusted yields has remained at a little more than 2%.

Inflation, Interest Rates, and The Fed

The Fed announced that it's keeping the Federal Funds rate where it is, but leaving room for future increases should the economy and inflation rebound. The stock market was not impressed.



The Fed has been criticized for not increasing rates sooner and letting inflation get out of control. Consequently, it has been maintaining a relentless focus on keeping inflation in check. The accompanying chart shows this record using the Consumer Price Index (CPI) as a measure of inflation. It may be time to acknowledge success on the inflation front. It seems the Fed has done a reasonable job thus far: inflation is down, unemployment remains low, and we have avoided a recession.

While inflation seems in check, interest rates have risen significantly. The inflation adjusted yield on 10-year Treasures has jumped 3% in the past two years from a negative 1% to 2.3% today. While this dramatic increase can be worrisome, a 2.3% yield after inflation on 10-year Treasuries is more "typical" and reflects a reasonable cost for capital – negative interest rates were not sustainable.

With uncertainties abound, except for Tech stocks, valuations seem reasonable. Yet, the impact of a changing interest rate environment may not be felt. We'll see, but for now we continue to recommend that clients remain diversified and steady in their investment strategy.

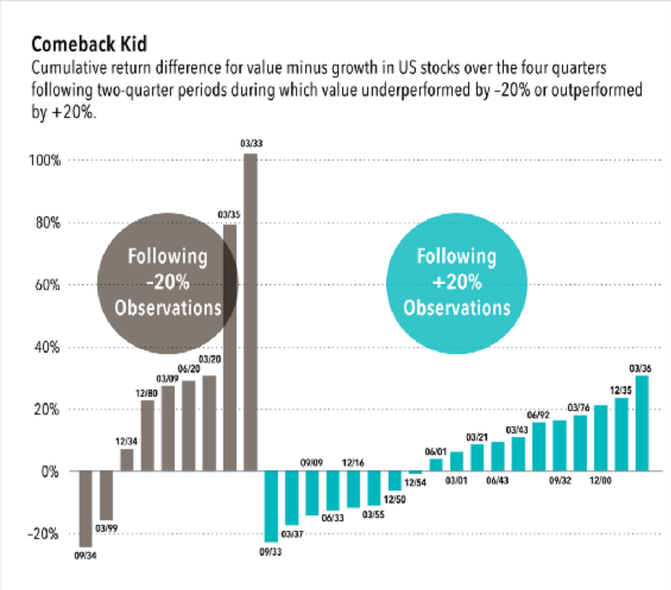
Diversification Can Be Frustrating, but Hang on for a Hero

Adam Underwood

Year to date, large-cap growth has been the leading asset class in a globally diversified portfolio, while value stocks have struggled. This is primarily due to the impact of AI and belief in its impact on the future innovations of companies such as Apple, Microsoft, NVIDIA, and, recently, Amazon. These four companies make up roughly a fifth of the S&P 500, and like other growth-oriented companies, they are sensitive to high interest rates because it affects their cost of capital.

This marks the tenth time since 1926 that value stocks have underperformed growth stocks by more than 20 percentage points over a two-quarter period. History has shown us that value has responded like the hero in an action movie, beating growth over the following four quarters in seven of the nine previous instances, averaging a cumulative outperformance of nearly 29 percentage points.

While it's a small sample size, it's not surprising that value stocks can rebound. These stocks, by name, have high book-to-market ratios and are priced or valued lower than growth stocks. In fact, looking at the other side of the value performance distribution, there have been 19 two-quarter periods with the value premium exceeding positive 20%. In 11 of these periods, value outperformance continued over the next four quarters. The average premium across all 19 was 3.6%.



It's difficult to find any indicators that consistently predict negative value premiums. Regardless of value's recent performance, investors should expect favorable premiums. That's a strong incentive for investors to maintain a disciplined stance on asset allocation to capture the outperformance when value stocks deliver. The disparity between growth and value returns over the past two quarters is one example of how stock performances can differ. The story behind diversification remains true for all portfolio areas.

If all market areas moved in sync, there wouldn't be any protection for a downturn. A great case for diversification and overall resource to explore is Jay Kloepfer's Callan Period Table of Investment Returns. Data over the past 20 years suggests that the best-performing asset class for each year is varied and unpredictable.

The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices Ranked in Order of Performance (2003–2022)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Emerging Market Equity 55.82%	Real Estate 37.96%	Emerging Market Equity 34.00%	Real Estate 42.12%	Emerging Market Equity 39.38%	U.S. Fixed Income 5.24%	Emerging Market Equity 78.51%	Small Cap Equity 26.85%	U.S. Fixed Income 7.84%	Real Estate 27.73%
Small Cap Equity 47.25%	Emerging Market Equity 25.55%	Real Estate 15.35%	Emerging Market Equity 32.17%	Dev ex-U.S. Equity 12.44%	Glbl ex-U.S. Fixed 4.39%	High Yield 58.21%	Real Estate 19.63%	High Yield 4.98%	Emerging Market Equity 18.23%
Real Estate 40.69%	Dev ex-U.S. Equity 20.38%	Dev ex-U.S. Equity 14.47%	Dev ex-U.S. Equity 25.71%	Glbl ex-U.S. Fixed 11.03%	Cash Equivalent 2.06%	Real Estate 37.13%	Emerging Market Equity 18.88%	Glbl ex-U.S. Fixed 4.36%	Dev ex-U.S. Equity 16.41%
Dev ex-U.S. Equity 39.42%	Small Cap Equity 18.33%	Large Cap Equity 4.91%	Small Cap Equity 18.37%	U.S. Fixed Income 6.97%	High Yield -26.16%	Dev ex-U.S. Equity 33.67%	High Yield 15.12%	Large Cap Equity 2.11%	Small Cap Equity 16.35%
High Yield 28.97%	Glbl ex-U.S. Fixed 12.54%	Small Cap Equity 4.55%	Large Cap Equity 15.79%	Large Cap Equity 5.49%	Small Cap Equity -33.79%	Small Cap Equity 27.17%	Large Cap Equity 15.06%	Cash Equivalent 0.10%	Large Cap Equity 16.00%
Large Cap Equity 28.68%	High Yield 11.13%	Cash Equivalent 3.07%	High Yield 11.85%	Cash Equivalent 5.00%	Large Cap Equity -37.00%	Large Cap Equity 26.47%	Dev ex-U.S. Equity 8.95%	Small Cap Equity -4.18%	High Yield 15.81%
Glbl ex-U.S. Fixed 19.36%	Large Cap Equity 10.88%	High Yield 2.74%	Glbl ex-U.S. Fixed 8.16%	High Yield 1.87%	Dev ex-U.S. Equity -43.56%	Glbl ex-U.S. Fixed 7.53%	U.S. Fixed Income 6.54%	Real Estate -6.46%	U.S. Fixed Income 4.21%
U.S. Fixed Income 4.10%	U.S. Fixed Income 4.34%	U.S. Fixed Income 2.43%	Cash Equivalent 4.85%	Small Cap Equity -1.57%	Real Estate -48.21%	U.S. Fixed Income 5.93%	Glbl ex-U.S. Fixed 4.95%	Dev ex-U.S. Equity -12.21%	Glbl ex-U.S. Fixed 4.09%
Cash Equivalent 1.15%	Cash Equivalent 1.33%	Glbl ex-U.S. Fixed -8.65%	U.S. Fixed Income 4.33%	Real Estate -7.39%	Emerging Market Equity -53.33%	Cash Equivalent 0.21%	Cash Equivalent 0.13%	Emerging Market Equity -18.42%	Cash Equivalent 0.11%

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Small Cap Equity 38.82%	Real Estate 15.02%	Large Cap Equity 1.38%	Small Cap Equity 21.31%	Emerging Market Equity 37.28%	Cash Equivalent 1.87%	Large Cap Equity 31.49%	Small Cap Equity 19.96%	Large Cap Equity 28.71%	Cash Equivalent 1.46%
Large Cap Equity 32.39%	Large Cap Equity 13.69%	U.S. Fixed Income 0.55%	High Yield 17.13%	Dev ex-U.S. Equity 24.21%	U.S. Fixed Income 0.01%	Small Cap Equity 25.52%	Large Cap Equity 18.40%	Real Estate 26.09%	High Yield -11.19%
Dev ex-U.S. Equity 21.02%	U.S. Fixed Income 5.97%	Cash Equivalent 0.05%	Large Cap Equity 11.96%	Large Cap Equity 21.83%	High Yield -2.08%	Dev ex-U.S. Equity 22.49%	Emerging Market Equity 18.31%	Small Cap Equity 14.82%	U.S. Fixed Income -13.01%
High Yield 7.44%	Small Cap Equity 4.89%	Real Estate -0.79%	Emerging Market Equity 11.19%	Small Cap Equity 14.65%	Glbl ex-U.S. Fixed -2.15%	Real Estate 21.91%	Glbl ex-U.S. Fixed 10.11%	Dev ex-U.S. Equity 12.62%	Dev ex-U.S. Equity -14.29%
Real Estate 3.67%	High Yield 2.45%	Dev ex-U.S. Equity -3.04%	Real Estate 4.06%	Glbl ex-U.S. Fixed 10.51%	Large Cap Equity -4.38%	Emerging Market Equity 18.44%	Dev ex-U.S. Equity 7.59%	High Yield 5.28%	Large Cap Equity -18.11%
Cash Equivalent 0.07%	Cash Equivalent 0.03%	Small Cap Equity -4.41%	Dev ex-U.S. Equity 2.75%	Real Estate 10.36%	Real Estate -5.63%	High Yield 14.32%	U.S. Fixed Income 7.51%	Cash Equivalent 0.05%	Glbl ex-U.S. Fixed -18.70%
U.S. Fixed Income -2.02%	Emerging Market Equity -2.19%	High Yield -4.47%	U.S. Fixed Income 2.65%	High Yield 7.50%	Small Cap Equity -11.01%	U.S. Fixed Income 8.72%	High Yield 7.11%	U.S. Fixed Income -1.54%	Emerging Market Equity -20.09%
Emerging Market Equity -2.60%	Glbl ex-U.S. Fixed -3.09%	Glbl ex-U.S. Fixed -6.02%	Glbl ex-U.S. Fixed 1.49%	U.S. Fixed Income 3.54%	Dev ex-U.S. Equity -14.09%	Glbl ex-U.S. Fixed 5.09%	Cash Equivalent 0.67%	Emerging Market Equity -2.54%	Small Cap Equity -20.44%
Glbl ex-U.S. Fixed -3.08%	Dev ex-U.S. Equity -4.32%	Emerging Market Equity -14.92%	Cash Equivalent 0.33%	Cash Equivalent 0.86%	Emerging Market Equity -14.57%	Cash Equivalent 2.28%	Real Estate -9.04%	Glbl ex-U.S. Fixed -7.05%	Real Estate -25.10%

The Callan Periodic Table of Investment Returns conveys the strong ***case for diversification*** across asset classes (stocks vs. bonds), capitalizations (large vs. small), and equity markets (U.S. vs. global ex-U.S.). The Table highlights the uncertainty inherent in all capital markets. Rankings change every year. Also noteworthy is the difference between absolute and relative performance, as returns for the top-performing asset class span a wide range over the past 20 years.

A printable copy of The Callan Periodic Table of Investment Returns is available on our website at ***callan.com/periodic-table/****.*

Callan Institute

Research | Education | Dialogue

Overall, we don't recommend any changes to our strategy, and we remain committed to owning a globally diversified portfolio of stocks and bonds. Please consult with your Rockbridge Advisor if you have any questions or concerns.

ROCKBRIDGE UPDATES

For clients moving from TD Ameritrade to Charles Schwab:

Over Labor Day weekend, all TD Ameritrade accounts transitioned to Charles Schwab. Please be advised that these accounts will receive a monthly September statement from both TD Ameritrade and Charles Schwab. Additionally, in early 2024, you should expect to receive partial-year tax forms from each custodian when applicable.

If you have not done so already, we recommend setting up Charles Schwab online access through **www.schwaballiance.com** to access these documents and view your new Schwab accounts. Please contact your Rockbridge advisor with any questions!

Another IRS Rule Change for RMDS!

In July 2023, the IRS released a notice that provided another year of relief for Non-Eligible Designated Beneficiaries for decedents that passed away AFTER their Required Beginning Date. Effectively, this class of beneficiaries are NOT required to take any distributions from their Inherited IRAs in 2023, kicking the can down the road another year.

However, this relief further compresses the 10-year distribution schedule and may not be in the best interest of all clients. Beneficiaries of Inherited IRAs can take voluntary distributions at any time, and you should consult with your advisor to better understand your options for your specific tax situation.

Moreover, the July IRS notice also provides RMD relief for any retirement account owner turning 72 in 2023 (anyone born in 1951). When the SECURE Act 2.0 was enacted in late-December 2022, the RMD age was pushed back again from age 72 to age 73 (and ultimately age 75 in year 2033). This last-minute change caused some confusion for those turning 72 in 2023, so the IRS is excusing 2023 RMDs for anyone turning 72 this year.

As with many financial planning decisions, it's important to understand your unique tax situation. If you have an Inherited IRA or if you're turning 72 in 2023, please reach out to your Rockbridge advisor to best understand your options!

New Rockbridge Client Portal

At Rockbridge, we're always seeking unique ways to improve and optimize our client experience. We're excited to announce new enhancements to the Rockbridge Client Portal.

Existing Users: We will begin rolling this new version out over the next couple of weeks. It's understandable that you might not want to change your portal view, which is why we'll still offer the old view as an option. We will be switching over to the new Client Portal view in the next few weeks and we're confident you'll enjoy the improvements but please let us know if you wish to keep your existing view.

New Users: If you don't currently use our Client Portal, we strongly encourage doing so. You can get the latest information on all of your accounts here with us at Rockbridge and access to our secure document vault. If you want to start using the Client Portal, please contact us so we can assist you in getting your portal activated.

Rockbridge Names Adam C. Gagas as Chief Investment Officer

Adam C. Gagas

Rockbridge Investment Management is pleased to announce the appointment of Adam C. Gagas as its Chief Investment Officer. With an impressive background in finance and extensive experience in the investment industry, Adam brings a wealth of knowledge and expertise to his new role

Rockbridge Investment Management is confident that Adam's vast experience in finance, particularly in public companies, will provide invaluable insights to our team. His leadership and expertise will undoubtedly enhance our ability to deliver exceptional investment solutions to our valued clients.

Market Returns

Returns from Various Markets:

The following table shows the returns from various markets over periods ending September 30, 2023:

Market/Asset Class	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
FIXED INCOME						
3-Month US Treasury Bills	1.31%	4.47%	1.70%	1.72%	1.11%	1.41%
Bloomberg US Agg Bond	-3.23%	0.64%	-5.21%	0.10%	1.13%	2.85%
Bloomberg 1-5 Yr Credit	0.25%	3.72%	-1.14%	1.60%	1.67%	2.89%
DOMESTIC STOCKS						
S&P 500	-3.27%	21.62%	10.16%	9.92%	11.91%	9.72%
S&P 500 Value	-4.09%	22.19%	13.40%	8.41%	9.64%	8.56%
S&P 500 Growth	-2.59%	19.82%	6.80%	10.44%	13.46%	10.48%
Russell 2500	-4.78%	11.32%	8.40%	4.55%	7.91%	9.13%
Russell 2500 Value	-3.66%	11.35%	13.33%	4.00%	6.95%	8.48%
Russell 2500 Growth	-2.59%	19.82%	6.80%	10.44%	13.46%	10.48%
MSCI US REIT	-7.02%	3.18%	5.70%	2.81%	5.94%	7.69%
INTERNATIONAL STOCKS						
MSCI EAFE	-4.11%	25.65%	5.76%	3.24%	3.82%	5.90%
MSCI Emerging Markets	-2.93%	11.70%	-1.73%	0.55%	2.07%	7.30%
U.S. Consumer Price Index	0.63%	3.44%	5.66%	3.99%	2.75%	2.56%

Market Benchmark Portfolios:

The following table shows the returns from our market benchmarks over periods ending September 30, 2023:

Rockbridge Portfolio	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
All Equity (99/1)*	-4.05%	18.15%	7.79%	5.63%	7.52%	8.29%
Aggressive (70/30)*	-3.59%	13.15%	4.32%	4.54%	5.90%	7.01%
Mod/Aggressive (60/40)*	-3.43%	11.42%	3.11%	4.08%	5.30%	6.51%
Moderate (50/50)*	-3.28%	9.71%	1.89%	3.58%	4.69%	5.98%
Mod/Conservative (40/60)*	-3.12%	8.01%	0.67%	3.03%	4.04%	5.42%
Conservative (30/70)*	-2.62%	6.64%	0.00%	2.58%	3.38%	4.69%
Cap Preservation (10/90)*	-1.53%	3.99%	-1.26%	1.57%	1.98%	3.14%

*Values represent the ratio of stocks to bonds in the portfolio benchmark.

Note: These results were developed by simulating past returns in the various markets included in each benchmark, assuming the reinvestment of dividends and other earnings. The BofA Merrill Lynch 3-Month U.S. Treasury Bill Index represents money market/cash; the Bloomberg US Aggregate Bond Index represents the total U.S. bond market; the Bloomberg 1-5 Yr Credit Index represents the U.S. corporate bond market; the S&P 500, S&P 500 Value Index and S&P 500 Growth Index represent the domestic large-cap market; the Russell 2500, Russell 2500 Value Index and Russell 2500 Growth Index represent the domestic small-cap market; the MSCI U.S. REIT Index represents the U.S. real estate market; the MSCI EAFE Index represents the developed international equity market; the MSCI Emerging Markets Index represents international emerging markets. Benchmark Portfolio returns include Real Estate and Emerging Markets allocations beginning in July 2011. Benchmark Portfolio returns do not include allocations to these asset classes prior to June 30, 2011. Benchmark portfolio returns include Corporate Bond Market as of January 1, 2019 and do not include an allocation to this asset class prior to this. This data is presented to show the long-term relationship between returns at various levels of investment risk. It is not intended to present performance results experienced by clients of Rockbridge Investment Management, but is intended to provide a benchmark against which actual performance might be judged. Also, readers should recognize that future investments would be made under different economic conditions. It should not be assumed that future investors would experience returns, if any, comparable to those shown above. The information given is historic and should not be taken as any indication of future investment results.