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A Closer Look:
Our Global Strategies Recap

Our Founder

Robert C. Stimson, CPA
Founder, Chief Executive Officer
And Chief Investment Officer

Company Overview

Little House Capital, LLC is an SEC Registered Investment Advisor. The firm was established to redefine the wealth management experience by integrating investment management, financial planning, and complex estate and tax strategies. We provide seamless and comprehensive goal-based solutions that seek to achieve desired outcomes for individuals, families, trusts, foundations, and endowments.

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LHC manages and oversees the following investment strategies:

- ***Global (includes International)***
  (Maximizers—Income, Core, Growth)
- ***Institutional/Corporate***
- ***Fixed Income Active Allocation***
- ***Smart Active Passive***
  (Small Accounts Only)

For the sake of simplicity, the following discussion will reference our "Income Maximizer Global Growth with Income" strategy, which is the typical 60% Equity/40% Fixed Income strategy/allocation used for comparison and discussion purposes. Our current positioning is similar to that of last quarter end, but we made adjustments that will change the composition of each client's specific strategy.

Chart 1 below shows our tactical positioning in relation to our strategic benchmark. Our approach to building multi-asset class strategies evaluates each major asset class in relation to their fundamental prospects and valuations in the context of the overall risk profile of the capital markets. Trading activity is designed to optimize the return-to-risk profile of client portfolios given our current views regarding projected asset class performance and risk. Our Income Maximizer Global Growth with Income strategy posted a return of 7.4% in Q4 compared to 7.0% for the benchmark. For the year of 2022, our strategy posted returns of –9.4% versus the benchmark return of -11.8% for total outperformance of 2.4%.

Current Top-Down Asset Class Views:

ASSET CLASS	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
EQUITIES		=	
US LARGE CAP			↑
US SMIDCAP		=	
INTERNATIONAL	↓		
EMERGING MARKETS	↓		
BONDS		=	
TREASURIES	↓		
CORPORATES			↑
HIGH YIELD	↓		
MUNICIPALS			↑
ALTERNATIVES	↓		
PRECIOUS METALS	↓		
COMMODITIES	↓		
EQUITY HEDGES	↓		
HEDGE FUNDS			↑
CASH			▲

Chart 1: Tactical vs. Strategic Weighting

The following is a recap of the performance and decisions we made in our strategies in Q4 2022.

Equities:

U.S equites made robust gains in Q4, with much of the progress made in November. The key factor driving the market's turnaround was the unexpected resilience of the US economy balanced with indications of caution from the Federal Reserve for a slowing tightening pace. Despite widespread predictions of a collapse due to rapid rate hikes, the economy remained stable and even saw improvements in the job market. As a result, the US entered the tail end of the hiking cycle in a relatively strong position.

CY 2022: S&P500 Forward P/E

Chart 2: S&P500 Forward Price to Earnings / Source: FactSet

Improved sentiment surrounding general economic outlook and the perceived moderate impact of rate hikes fueled an expansion in price-to-earnings multiples during the quarter. The underlying narrative has not significantly changed given the abundance of downward earnings revisions for 2023 made during the quarter.

The effects from the ongoing hiking cycle are slowly seeping across the U.S. Economy as falling commodity prices, softening housing demand, and structural improvements in supply chain dynamics contributed to a developing narrative of peak interest rates and descending inflation levels. To that end, the market has been in a strange disposition where bad economic data is often perceived as good news for stocks.

Our equity products continue to be tailored toward low-multiple, cash-flow-oriented companies amid the uncertainty and various conflicting narratives on Wall Street. As shown in chart 3, this allocation strategy was additive for the portfolio in Q4 as growth stocks (Russell 1000 Growth) largely underperformed value (Russell 1000 Value) in the quarter.

CY 2022: Value Versus Growth

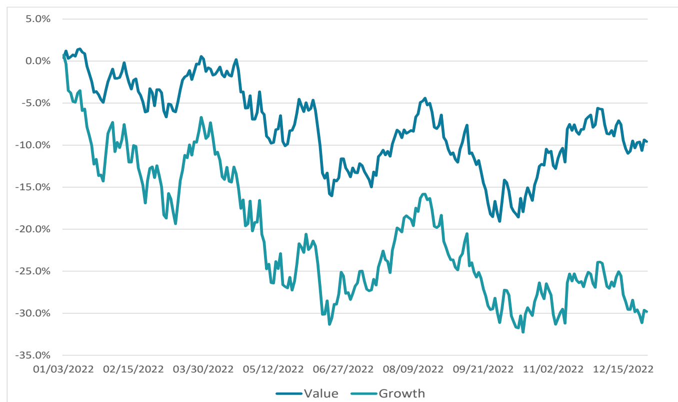

Chart 3: Value vs Growth Returns CY 2022/ Source: Bloomberg

Our equity allocations in our broader strategies remain overweight US large cap stocks. As displayed in chart 4, US Small Cap underperformed Large Cap significantly in both the calendar year 2022 as well as the fourth quarter.

Our investment strategy has been designed to carefully manage our exposure to international markets. While international markets can offer diversification benefits, they can also introduce additional volatility and risk. With 50% of the U.S. large cap stock universe exposed to international markets (emerging and developed), we have been overweighted to U.S. large cap in order to avoid excess volatility while still allowing us to benefit from global economic growth. Both emerging and developed markets outperformed broader U.S equity markets in the fourth quarter. However, ongoing uncertainties and the threat of deglobalization have remained key themes.

CY 2022 Equity Performance

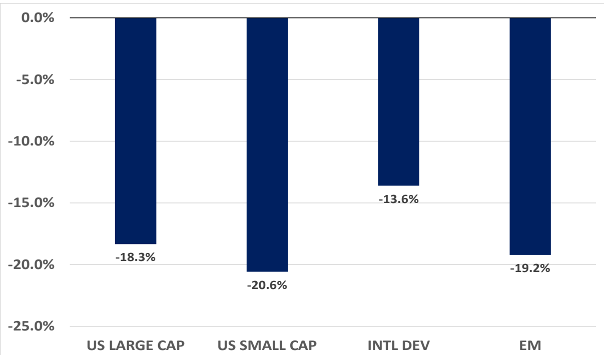

Chart 4: CY 2022 Total Returns by Asset Class/ Source: Bloomberg

Per Chart 1, LHC maintained underweight international exposure during the quarter while favoring developed over emerging markets.

Bonds:

In Q4 yields held steady for the most part as financial markets and the Federal Reserve seemed to be at odds. Despite continued aggressive rate hikes and "higher for longer" commentary, the bond market posted positive returns in the quarter with investors focusing on a pickup in disinflation. The U.S. 10-year yield rose from 3.83% to 3.88% and the two year rose from 4.28% to 4.42% representing little change despite two rate hikes in the quarter.

U.S. Interest Rates

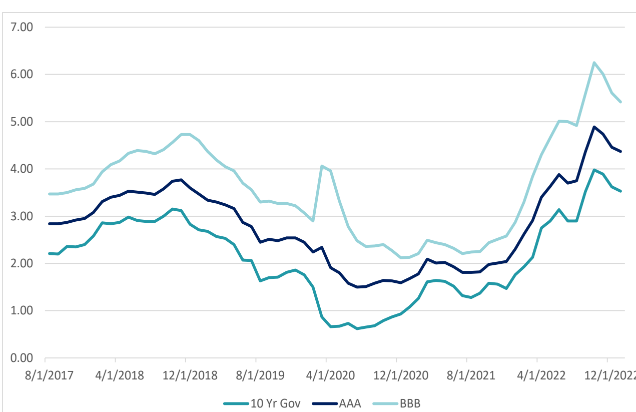

Chart 5: United States Interest Rates / Source: Bloomberg

Our positioning for Fixed Income was equal-weight throughout the quarter in relation to our strategic benchmark. Our fixed income holdings returned 2.41% in Q4 and –9.38% in the year, outperforming the benchmark returns of 2.39% and –11.80%. Pivoting from our traditional bond ladder to a barbell strategy proved to be amongst the best decisions made in the year as we reduced our exposure to intermediate term bonds, eliminating the middle of the curve. Shorter maturity bonds offer more flexibility and liquidity to the portfolio as principal can be reinvested in bonds offering higher interest rates as the Fed continued aggressive policy adjustments. The following summarizes our specific positioning during the quarter:

⇒ ***Maintained exposure to ultra short corporates and repurchase agreements to further shorten duration***

⇒ ***Remained long intermediate corporate and municipal bonds***

⇒ ***Reinforced barbell approach to hedge against interest rate volatility***

In relation to our benchmark, these moves have been accretive to overall annual performance, especially further shortening duration. Instruments such as the Clearshares Ultra Short Maturity ETF and PGIM Ultra Short Bond Fund posted returns of 1.73% and 1.57%, far exceeding overall bond market returns of –13.0%.

CY 2022 Bond Duration Performance

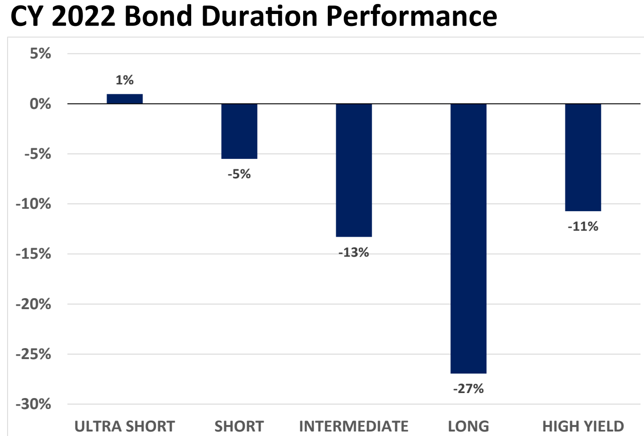

Chart 6: Duration Performance / Source: Bloomberg

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Alternatives:

The alternative segment of our strategies is designed to behave differently than stocks or bonds. During the fourth quarter of 2022 we held the Merger Fund (MERIX). This fund is designed to capitalize on publicly announced mergers, acquisitions, takeovers, and other corporate reorganizations globally. This fund exhibits a low or inverse correlation to the traditional asset classes. As a result, this sleeve of the portfolio gave us the ability to de-risk the strategies but still provide appreciation upside. One goal for the Alternatives basket was to have a beta of 0.1, or neutral to the market.

We finished the quarter with a 3.80% allocation toward alternatives representing a slight underweight (20 basis points) in relation to the benchmark. For the year, our alternatives basket posted a weighted return of +3.64%, far exceeding fixed income and equity market returns.

Cash:

We were overweight cash as of December 31th, 2022. Our cautious outlook on global capital markets leaves us inclined to hold more cash reserves than we are accustomed to. As Central Banks continue to hike rates into CY 2023 leading to price volatility, we view an overweight cash reserve to be prudent for the time being, as money markets rates were about 3.9% at the end of the year.

Appendix

Asset Class Performance

(Numbers in %)

ASSET CLASS	5 Days	30 Days	3 Months	6 Months	Year to Date	Last 12 Months	Since the Beginning of 2021	Last 3 Years	Last 5 Years
US LCAP	-0.1%	-5.8%	7.5%	1.2%	-18.1%	-18.3%	5.4%	7.6%	9.4%
US SCAP	0.1%	-6.5%	6.2%	2.7%	-20.5%	-20.6%	-8.7%	3.1%	4.1%
INTL EQ	0.1%	0.1%	17.3%	7.2%	-14.5%	-14.4%	-4.8%	0.9%	1.5%
EM EQ	0.3%	-1.4%	9.7%	-2.2%	-20.1%	-19.5%	-22.1%	-2.7%	-1.4%
COMMODITIES	0.3%	-2.4%	2.2%	-2.1%	16.1%	15.8%	47.6%	12.7%	6.4%
REAL ESTATE	-0.3%	-5.1%	5.2%	-6.9%	-24.5%	-24.4%	8.0%	-0.1%	3.7%
US BONDS	-0.7%	-0.5%	1.9%	-3.6%	-13.0%	-12.9%	-14.4%	-2.7%	0.0%
INTL BONDS	-0.8%	-2.9%	-0.1%	-4.0%	-12.9%	-12.9%	-14.9%	-3.8%	-0.2%
EM BONDS	-0.7%	-1.4%	8.4%	0.6%	-18.6%	-18.7%	-20.5%	-5.7%	-1.8%
BONDS (1-3 YRS)	-0.3%	0.0%	1.2%	-1.4%	-5.5%	-5.5%	-6.5%	-0.7%	0.8%