LITTLE HOUSE CAPITAL

September 30, 2023 • littlehousecapital.com

A Closer Look:
Our US-Focused 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 offers the following global investment strategies:

- ***Income Maximizer***
- ***Core Maximizer***
- ***Growth Maximizer***

For more information visit our website:

Asset Allocation Strategies - Little House Capital

Our comments in the note below will reference the “Core Maximizer USF Growth with Income” strategy, which represents the typical 60% equity/40% fixed Income strategy/allocation. Our investment team incorporates active (i.e. tactical) allocations of various asset classes and compares these performance results against a pre-determined standard benchmark (i.e. strategic weighting)

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 related risk/reward profiles. Our Core Maximizer USF 60/40 strategy achieved a quarterly return of –2.24% (-2.51% net) in Q3 compared to –2.56% versus its strategic benchmark. This brings the strategy’s year-to-date performance to 8.13% (7.38% net) versus its benchmark of 7.41%.

Current Top-Down Asset Class Views:

ASSET CLASS	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	PRIOR RATING
EQUITIES		=		=
US LARGE CAP			↑	↑
US SMIDCAP	↓			↑
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 Q3 2023.

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Equities:

Heading into the final months of 2023, the bullish sentiment that previously uplifted stocks has faded due to a recent market selloff. The earlier optimism, especially hopes for the Federal Reserve to reduce rates, proved premature. "Higher for longer" has subsequently become Wall Street's prevailing phrase, bogging down the first-half rally for stocks. The anticipated aggressive rate cuts for 2024 now seem less probable, continued rate hikes pose a higher risk of materially slowing economic growth, and inflation persists. US stocks traded lower overall during the quarter, with the S&P 500 registering a decline of –3.2% with September accounting for a significant 4.8% drop.

Market Multiples Retreat

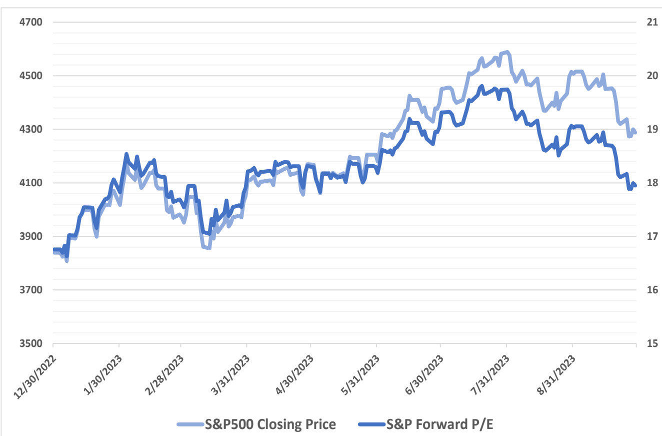

Chart 2: S&P 500 Forward Price to Earnings / Source: Bloomberg

As market valuations retracted to more normalized levels (see chart 2), the market continued to flock to safety, demonstrating its continued preference for large cap equity over small and mid-cap counterparts. This style bet played to our favor during the quarter with our large cap overweight.

We continue to prefer US large cap investments over small and mid cap as increasing uncertainty arises on the macroeconomic front. Chart 3 highlights the performance delta as large cap investments have returned 13.02% year-to-date, widely outperforming the returns of 4.28% and 2.54% for mid cap and small cap investments, respectively.

Large Cap Outperformance Continues

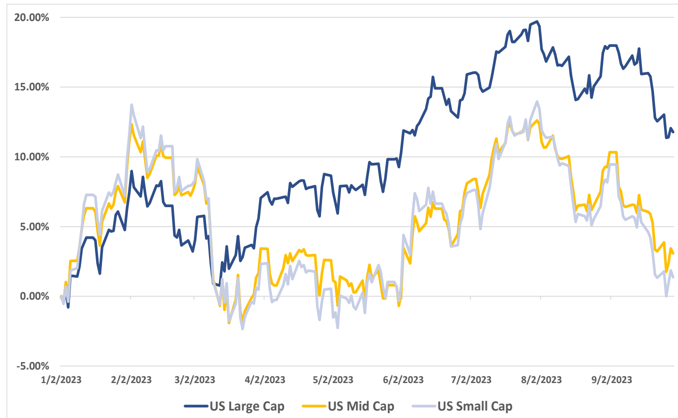

Chart 3: Year-To-Date Returns by Capitalization / Source: Bloomberg

Year-to-date, the equity holdings in our strategy have returned 12.84% versus our strategic benchmark of 12.73%. Such performance was anchored by our Core+ equity product that returned 13.30% versus its S&P benchmark of 13.02%. Our three equity products (Dividend Income+, Core+, Absolute Opportunity+) continue to favor companies generating substantial free cash flow with strong underlying fundamentals (e.g. Hospitality, Pharmaceuticals, Energy, Semiconductors).

Bonds:

Our bond positioning still remains on the shorter end of the curve as our bond holdings have returned 1.32% year-to-date, exceeding the benchmark return of –0.12%. Long-term bonds—those due in 10 years or more, whose longer durations make them the most sensitive to interest rates—were hit hardest. While the overall bond market took a beating from the Fed's "higher for longer" stance, our short duration positioning provided client portfolios with some insulation from the downturn. Treasury yields reached their highest levels in 16 years, with the 10 year reaching 4.6% and the 2-year reaching 5.1%. We are slowly beginning to see a unique opportunity on the longer end of the curve to lock in rates above 5% for clients over the long term.

Historical Federal Reserve Tightening Cycles

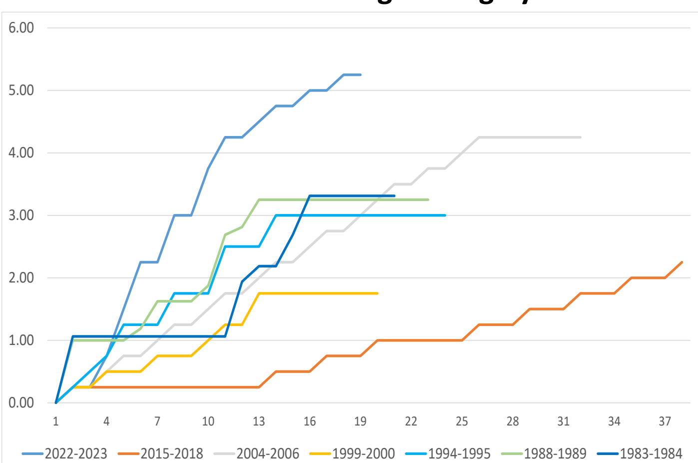

Chart 5: U.S. Tightening Cycles By Number of Months / Source: FactSet

Our portfolio allocation is 37.2% fixed income, representing a 1.2% overweight to the strategic benchmark.

Throughout the quarter, we maintained a barbelled approach in Fixed Income, which consisted of individual corporates and municipals with long duration as well as bond ETFs with short duration. Our short term ETFs gave us exposure to repurchase agreements (OPER), treasuries (SHY), and corporates (PULS, JPST). In Q3 these funds returned 1.34%, 0.64%, 1.58%, and 0.33%, respectively. The emphasis on shorter maturity bonds offered more flexibility and liquidity to the portfolio as principal can be reinvested into higher-yielding instruments in response to the Federal Reserve's continued aggressive policy adjustments.

Bond Duration Performance

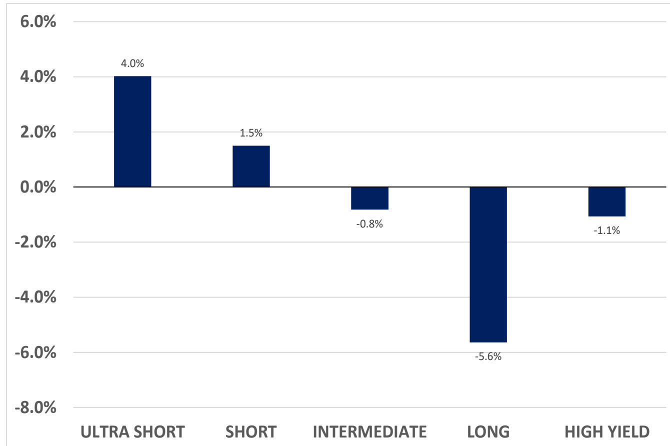

Chart 6: Q2 2023 Duration Performance / Source: Bloomberg

The yield curve remains inverted with short-term yields exceeding that of their longer-term counterparts. However, it seems to be flattening as long-term inflation expectations are on the rise.

The following summarizes our specific positioning during the quarter as it relates to fixed income:

⇒ *Maintained ~1.20% overweight to fixed income as opportunities continue to arise*

⇒ *Introduced J.P. Morgan Ultra-Short Income ETF to benefit from steepest part of the curve*

⇒ *Maintained positions in short-term treasuries, repurchase agreements, and corporates*

10-2 Treasury Spread Inversion

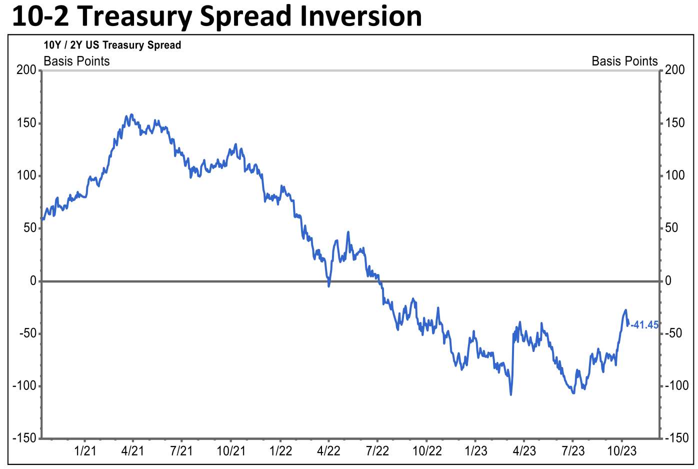

Chart 7: 10- and 2-yr Treasury Spread / Source: FactSet

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Alternatives:

We remain significantly underweight alternatives and deployed this capital into bonds earlier in the year. The alternative segment of our strategies is designed to behave differently than stocks or bonds. During the third quarter of 2023 we held a market neutral income fund from Victory Capital (CBHIX) and the Fulcrum Diversified Absolute Return Fund (FARIX). Both funds exhibit a low or inverse correlation to the traditional asset classes. As a result, this sleeve gave us the ability to reduce the risk profile of our strategies but still provide potential for appreciation. One goal for the alternatives basket is to have a beta of 0.1, not correlated to market returns

The Victory Capital Neutral Income fund uses a multi-strategy, rules-based approach using high-dividend stocks and equity index futures to limit correlation. The Fulcrum Diversified Absolute Return Fund is a macro-based diversified portfolio that aims to provide consistently low correlated returns. It serves as a valuable hedge and provides a critical layer by offering market-neutral exposure that seeks to reduce overall portfolio volatility and enhance long-term risk-adjusted returns.

We finished the quarter with a 1.96% allocation to alternatives representing an underweight (2.04%) in relation to the benchmark.

Cash:

Our cash weighting at the end of the quarter was 3.8%, representing a slight underweight to our strategic benchmark. Excess cash within client portfolios remains in government money market funds offered by our custodians (Schwab and Fidelity). These funds are designed to offer investors stability of capital, liquidity and current income by investing in taxable, short-term securities guaranteed by the U.S. government, minimizing default risk.

For now, the current interest rate environment provides us an opportunity for higher yields given the Fed's posturing, but investors should not get comfortable that this environment will remain indefinitely.

Money Market Yields Surpass 5%

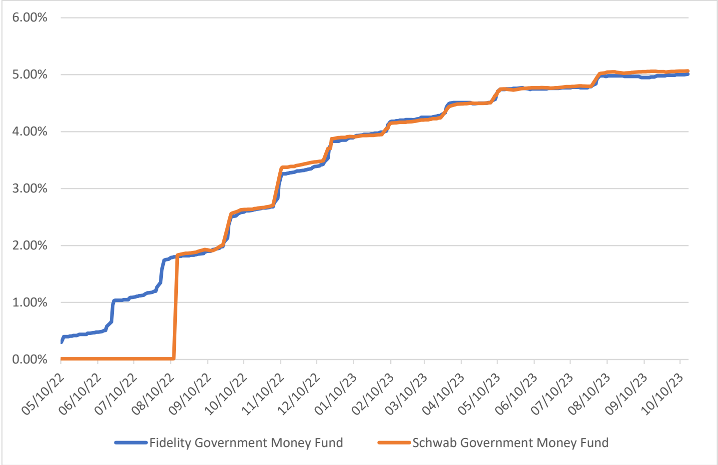

Chart 8: SNVXX and FDRXX Money Market Yields / Source: FactSet

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Appendix

Asset Class Performance

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	-0.7%	-4.9%	-3.3%	5.2%	13.1%	19.8%	19.1%	10.4%	9.9%
US SCAP	0.6%	-6.0%	-5.1%	-0.2%	2.5%	8.2%	-6.4%	7.2%	2.4%
INTL EQ	-1.4%	-3.8%	-4.1%	-1.3%	7.1%	26.1%	1.9%	5.5%	3.2%
EM EQ	-1.1%	-3.4%	-2.9%	-2.1%	1.8%	12.0%	-20.7%	-1.3%	0.6%
COMMODITIES	-1.2%	-0.8%	4.7%	2.0%	-3.4%	-2.2%	42.5%	16.5%	6.1%
REAL ESTATE	-1.5%	-7.4%	-7.0%	-4.6%	-1.9%	4.5%	5.9%	5.8%	2.8%
US BONDS	-1.0%	-2.4%	-3.2%	-4.0%	-1.2%	0.3%	-15.4%	-5.3%	0.1%
INTL BONDS	-0.6%	-1.3%	-1.5%	-1.3%	2.2%	2.4%	-13.0%	-4.3%	0.0%
EM BONDS	-1.5%	-3.4%	-3.5%	-2.0%	0.8%	9.0%	-19.8%	-5.1%	-0.7%
BONDS (1-3 YRS)	0.0%	-0.3%	0.1%	-0.5%	1.4%	2.5%	-5.2%	-1.7%	1.1%