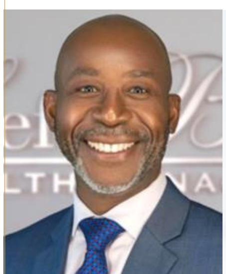
Left Brain® WEALTH MANAGEMENT

A PUBLICATION OF LBWM



NOLAND'S Notes

Creating, Building, and Preserving Wealth

What did 2021 tell us about investment opportunities? How does 2021 inform Left Brain's investment strategies for 2022? CEO Noland Langford analyzes the investment landscape of the past year, evaluating the events and dynamics of 2021 within the unique perspective of our Left Brain Lens. Then, looking forward, he offers expert insights on the economic factors that will shape investment opportunities in the year to come.

2021 RE-CAP / 2022 OUTLOOK

For those of you who are new clients or those who are reading this note for the first time, let me explain Noland's Notes: each year I sit and write you a note. In it, I analyze the prior year in my own words, so you have a better understanding of the investment environment in which we are managing your accounts. I also offer my views of the landscape as we enter the new year. Our brief discussions we have throughout the year do not permit me time to describe my full market analysis. My hope is that in the 20 minutes (or so) that it takes you to read my note, you will gain a better feel for how we view the present investment climate, as well as our general thought process of how we discover winners in the ever-changing investment markets. ***Welcome aboard (or welcome back) and I appreciate your feedback!!!!***

Though this note was written with you, the client, in mind, feel free to send it to your inner circle of family, relatives, or friends, should you think it appropriate. This letter offers an introduction to the philosophy and "feel" of our work, should you wish to introduce Left Brain to your circle.

Let's Get Started!

Here are the official returns from 2021

INDEX	CLOSE PRICE	RETURN (%)
DOW JONES IND. AVERAGE (LARGEST U.S. STOCKS)	36,338.30	+18.73%
S&P 500® (U.S. STOCKS)	4,766.18	+26.89%
RUSSELL 2000 (SMALL CAP COMPANIES)	2,245.31	+13.69%
NASDAQ (TECH AND GROWTH FOCUS)	15,644.97	+21.39%
MSCI EAFE® (INTL STOCKS)	2,336.07	+8.78%
MSCI EMERGING MARKETS	1,232.01	-4.59%
MSCI US REIT (REAL ESTATE)	1,577.23	+38.77%
AGGREGATE U.S. BOND INDEX	114.08	-3.48%
GOLD (PER OUNCE)	1,827.50	-3.36%
OIL (PER BARREL)	75.21	+54.66%
BITCOIN	46,306.45	+59.67%

(Source: S&P Dow Jones Indices, FTSE Russell, Nasdaq, MSCI, S&P U.S. Aggregate Bond Index, FactSet)

(For those of you wishing for the abridged version of this note, feel free to jump straight to the summary which starts on page 9. For everyone else, we have lots to discuss since it has been a whole year. And, what a year it has been. So, let's jump right in!)

WHAT HAPPENED IN 2021?

This is a good, but complex question. In many ways, 2021 seemed to me like a continuation of 2020, with no strong break from one year to the next. From my vantage point, it seems that we are still sorting out both our personal and professional lives. We're all adjusting to a collective new normal. For better or worse, Covid remains with us. The supply chain issues that appeared in 2020 persisted into 2021 and beyond. What began as temporary bottlenecks in the worldwide supply of goods may have lit the fuse for full-fledged inflation. If you had the unfortunate experience of shopping for a new or used car lately, you'll know the impact of inflation all too well.

The financial markets also saw big rotations. Growth stocks, which had long provided the leadership in the markets, began to take a back seat to value stocks in 2021. Large companies (such as Apple, Microsoft, and Google) outperformed small-cap stocks. Energy prices climbed sharply (the price of crude oil was up 55% in 2021).

In 2020, we observed that companies benefiting from the pandemic experienced large increases in their share prices. As Covid restrictions slowly relaxed in 2021, Americans ventured out into the world again, causing companies that benefited from the economic reopening to take the market leadership baton. As 2022 unfolds, we will be watching carefully to determine whether 2020's leaders reemerge, 2021's reopening companies remain strong, or if an entirely new group of stocks emerges.

Bonds did not perform well in 2021. The safest bonds had the worst returns among fixed income securities: US long-dated Treasuries (TLT) fell 4.60% and investment grade corporate bonds fell 1.77%. In 2022, we will be watching intently to see if the Federal Reserve follows through with its plan to raise interest rates 4 times (or more) during the year. We're also interested to see if elevated inflation is here to stay. If so, will the 7% inflation rate stick around or it revert to its historic rate of 2-3%?

From an investment standpoint, our view on business and overall economic conditions is still murky. As you receive this year's letter, we will be toward the end of 4th quarter earnings release season, which means we will have more details on which businesses are performing well and posting positive financial results. However, with even with that knowledge, we know that it is difficult to find the exact price (i.e., earnings multiple) investors are willing to pay for a given company's earnings.

In short, 2021 was a year of transition, both in markets and in the world at large. We transitioned from living with Covid locked inside to learning to live with the risk of Covid while we tried to return to more normal lives. This change had profound implications on financial markets.

WHAT SURPRISED US IN 2021

- That there still is no solution to end the Covid pandemic
- The dramatic sell off in growth stocks in the second half of the year
- Inflation in the price of most goods, including and especially: Cars, Houses, Energy
- Companies with little or no sales growth did well, as investors began to value Free Cash Flow (FCF) increases more. A company's FCF increases as it improves its profitability.
- The strength of the semiconductor sector (Nvidia, AMD, Qualcomm, and many more)
- The Great Resignation: record numbers of workers voluntarily quit their jobs in search of better pastures (or retirement)
- Bitcoin and other digital assets went mainstream (with a bang!)
- Many Americans still have not returned to the office
- Technology-see below

DIVIDENDS

The great sector rotation, from growth to value, is underway. Rising interest rates will garner lots of media attention this year, and for good reason. Rates have been unbelievably low for years. It is difficult to remember a time when money market funds paid even 1% interest.

With the onset of the pandemic, the Federal Funds interest rate was cut to zero, which is where it currently sits. With the economy beginning to "get its groove back," the Federal Reserve Board has announced its intention to start raising interest rates off the zero bound. With interest rates on the rise, amid talk of pervasive inflation, there will likely be a lot of investor focus on dividends and dividend yields. That sounds reasonable to us here at Left Brain.

Rising rates have a negative impact on fixed rate bonds. The classical economic relationship tells us that the price of bonds fall, as interest rates rise. Dividends are cash (or stock) payouts from corporations to investors, funded by cash left over after paying taxes and investing in growth initiatives for their companies. Given the choice of holding low-yielding fixed rate bonds, versus the prospect of owning shares in a healthy company, with a fair dividend, we would opt for the latter, considering our expectation that interest rates will rise in 2022. While most investors will be focused on companies' current dividend yields, we are much more focused on *growth* of the dividend.

Ten-year US Treasuries yielded 2.06% at the time we wrote this letter compared to the average dividend yield of the S&P 500 of 1.27%. Since many companies in the S&P 500 pay no dividend, you may not be surprised that there are stocks available with dividends of 3-5% or higher, in some extreme cases.

TECHNOLOGY

Hardly a day goes by that I don't reflect on how amazing and widespread technology is in our lives. I can sit at my desk pull up a document and use Bluetooth to send that same document to my phone or iPad within milliseconds. I can send a photo, movie, or song to almost anyone anywhere within milliseconds. This is not even to mention the productivity boost we get from technology, we can all work from almost anywhere in the world with the same productivity as if we were sitting next to the boss. Conversely, the fact that auto assembly lines shut down due to the lack of semiconductors gives us all some perspective that there is a negative side to our economy's dependence on technology.

Technology has certainly transformed our lives. In my lifetime, I've witnessed the beginning of cable television programming as our viewing choices increased from 3 networks (ABC, NBC and CBS) to the near unlimited number of stations we have today. And today we use the internet to stream these programs anywhere and at any time. We've seen incredible advances in communication, how we consume entertainment, the Internet, and so much more, all of which are crucial to the way we live our lives!

We are facing two glaring economic issues as we move into 2022

1. A shortage of qualified workers, for all types of jobs and,
2. Rapidly increasing costs for both goods and services (inflation).

Technology is the solution to both afflictions. Though shares in technology-focused companies may suffer in 2022 for a variety of reasons, there is no doubt the value that many of these businesses and their products and services bring to the quality of our lives and our productivity.

SIZING UP THE INVESTMENT CLIMATE

I am often asked for my thoughts of the current investment climate. At Left Brain, we think it is important for you to understand how we size up the investing landscape at any given time. This is the lens through which we view the investment climate: The Left Brain Lens. The lens (our decision-making process) never changes, but quite often the landscape we see through that lens does change. Here is what we see through the Left Brain Lens for 2022:

Interest Rates

It has been a long time since we have experienced a rise in interest rates. In the current climate, it is well-known that interest rates are on their way up. The Federal Reserve has been saying this repeatedly to anyone with a television or a Bloomberg terminal. What is unknown is how fast rates will rise, and for how long they will be elevated.

Making the task of forecasting the future path of rates more difficult is that the Federal Reserve itself is uncertain of their upcoming moves. They have been clear with investors that what they do next will be dependent on the incoming data.

Of all the variables that affect investment returns, none is more important than interest rates. We often intuitively recall the relationship between interest rates and most bonds (rates up, bond prices down), but there are exceptions and there are stock impacts as well. We have witnessed this with certain stocks recently.

When rates decrease, companies that need to borrow money today to produce profits in the future receive a great benefit, given the low cost of capital. However, when interest rates rise, investors evaluate those future profits with a higher discount rate. As a result, the market tends to assign a lower price to those future profits, which is why you see prices of growth stocks fall as rates rise.

The fact that interest rates are going up is not terrible in itself, especially if rates are going up to cool down a booming economy. However, if the economy is only mildly or temporarily strong, then raising rates could lead to weak economic conditions. Our concern is that the latter case *may* describe the current environment.

We are calling the Interest Rate outlook Unfavorable.

Inflation

It has been a long time since the U.S. has experienced sustained inflation. The classic definition of inflation is a sustained increase in the cost of goods and services. Retirees got the largest increase in Social Security checks ever this past year because of inflation, coming in at a 5.9% year-over-year increase.

The government closely tracks inflation through the Consumer Price Index (CPI). Not long ago, we worried about deflation (goods and services decreasing in price). We didn't need the government to tell us inflation is here: gas prices are up and home prices are up. Amazon Prime just increased its annual fee and even the price of a Netflix subscription increased recently. Here we are still in the thick of Covid and, as a result, the prices of far too many items are increasing. We can only hope that workers' paychecks rise enough to offset the increased prices of the goods and services they routinely consume.

We are calling the Inflation outlook Unfavorable.

Earnings

In the end, the most important factor that determines whether an investment will bring us a profit is whether it generates cash flows to distribute to its owners (shareholders). Earnings and Cash Flows are influenced by general economic conditions, conditions within a specific industry, and an individual company's competitive positioning. A good economy can lead to a tailwind for business, while a lackluster economy can lead to a headwind for individual companies.

According to Yardeni Research, the consensus estimate of economists is for earnings to increase by 8.4% for 2022 over 2021. Here at Left Brain, we are more interested in microeconomics: which sectors and which companies have improved outlooks, and which expect tougher business conditions. Often, developments in the overall economy are very different and belies what happens at the individual company level. U.S. companies have done a wonderful job of producing record earnings over the last few years, especially given the economic impact of Covid. We do wonder whether this string of ever-increasing earnings will break, given the stiff headwinds of inflation, interest rates, and an uneven economic recovery.

We are calling the Earnings outlook Neutral.

Valuations

The quality of a business's earnings is important to investors. Perhaps equally important is the price investors must pay for a dollar of earnings, in other words, a stock's valuation. What is tricky in investing is determining whether a given business will trade at a higher or lower valuation than its historical average.

Sometimes there are factors that entice us to pay more for shares (high growth or improving business conditions, for example). Other times there may be factors that tempt us to pay less for shares (higher interest rates, increased competition). When interest rates are rising rapidly, all things being equal, investors are less willing to pay a premium for shares. When economic conditions are strengthening, investors may be willing to pay a higher price for shares. What happens when both are happening at the same time?

We may be in that situation today. Though it may be rather straightforward to determine which companies have superior business models with healthy financial characteristics and strong earnings power, we still need to consider the price investors are willing to pay for each dollar of earnings, given the current economic circumstances. Because much of this data is impossible to know with certainty, shares of many businesses are operating in an unknown environment, causing bouts of high volatility (defined as extreme and unexplained stock price movement).

One question we are grappling with is: if falling interest rates have caused valuations to stretch, should we expect rising interest rates to cause valuations to fall? In our view, the answer is "Yes", but the impact will not be the same for all sectors and all companies. Companies that have benefited the most from falling rates will likely be more vulnerable, should interest rates continue to move persistently higher. However, another group of companies have valuations that have fallen in the low interest rate environment of yesteryear. Should their valuations rise along with interest rates? We think "Yes" and so those are the businesses we are spending most of our time tracking.

We are calling the Valuation outlook mixed.

FREDDY'S CORNER

For our readers I will focus on a current and important retirement planning topic. With rising inflation, still-lofty stock valuations, and a Federal Reserve committed to raising interest rates, we have seen an increase in daily living expenses, coupled with a near-term below average portfolio performance. With these factors in place, it is time to go back and take a look at monthly expenses.

Most advisors plan for their clients using the Bengen rule, which calls for a 4% withdrawal rate for retirees and investors planning for retirement. Bengen found that, historically, a 4% annual withdrawal rate would leave 30 years of income for sustainable withdrawals. In retirement planning, we often mark 4% as the magic number: the percentage of your portfolio that you can withdraw each year and not outlive your savings.

Typically, a 4% withdrawal rate built into a plan works. The one exception is that investors must be particularly mindful during periods of high inflation and here's why: if an investor has been planning a 4% withdrawal rate and expenses increase quickly because of inflation, then they will exceed their normal, planned withdrawal rate. Just a 1% increase in withdrawal rate can substantially drop the likelihood that the portfolio can be sustained over a client's planning horizon.

Adjusting withdrawals for inflation, while practical and often necessary, does create a planning concern for an investment portfolio. Since a retiree will have to increase withdrawals for spending to keep up with inflation, he/she becomes exposed to the risk of high and rising inflation rates, and the ability for their portfolio to support those larger withdrawal increases over time. At Left Brain we have done retirement planning reviews for many of you who are currently in retirement, thinking about retiring, and getting close to retirement. During these times it is important to go back and review your retirement plan.

When you think in terms of balancing income and withdrawals in retirement, you can understand the need to review investment portfolios. We define income in the portfolio as the combination of the gains made from capital appreciation, along with the cash flow you receive from interest and dividend payments. With higher rates of volatility in the markets, and valuations on stocks coming down, current capital appreciation has been less predictable. One way to offset this is by adjusting the dividend component of the portfolio by adding more stocks that pay high dividends to help offset the impact of inflation.

The other factor to consider when planning for retirement withdrawals is your current investment mix. It is important to remember that over the long-term, stocks are much more likely to provide you the total return needed to address higher withdrawals driven up by inflation. Most retirees and pre-retirees will need the exposure to the market to generate enough periodic growth from their portfolios, which can then support higher withdrawals needed down the road. If you have too little stock exposure, your portfolio may not grow and last because your withdrawals will continue (and even increase) over time.

Regarding asset allocation, at Left Brain we construct portfolios to take advantage of bullish markets. Taking advantage of bullish markets is important because when we do enter bearish and volatile markets, coupled with times of higher inflation, there can be some cushion from the bullish times to compensate for growing withdrawal needs. Over the past several years, investors have been very fortunate with the investment returns their portfolios generated, coupled with an environment of relatively low inflation. Growth has been strong, and the need for increasing withdrawal rates has been low. Portfolios have grown and clients have been able to maintain their standard of living without having to raise their withdrawal rates. Performance over the prior period sets investors up well to cope with the current inflationary, potentially lower-return environment.

At Left Brain, we consider client living expenses with the goal of positioning stock portfolios with enough growth to respond to inflation. With volatile markets like the one we are seeing, many investors might feel the impulse to drastically change your investment allocation. We understand the feeling, but it is important to carefully consider your plan. The reason is that the Bengen 4% rule was based on a portfolio that had at least 50% equity exposure. The 4% withdrawal rule will not work in a portfolio containing 0% equity exposure. Therefore, during times of high inflation, shifting the portfolio to new opportunities for growth is still an important part of the strategy, while capturing growth during bullish markets is extremely important as that allows you to offset negative returns during bearish markets.

I'd also like to remind Left Brain clients to contact us right away if your financial circumstances have changed. If you have had a change with regard to your career, investment objectives, health, or family composition these will impact your financial model and may require adjustments. Feel free to reach out to us and we would be happy to go through the retirement planning process with you and to do a comprehensive portfolio review for you.

SUMMARY – OUR 2022 PLAYBOOK

2021 was an interesting market environment, especially considering the unprecedented strangeness of the 2020 pandemic year. Some of 2021's biggest winners were 2020's laggards (and vice versa). Growth stocks peaked in February 2021 and have yet to find their footing since. In some ways this was healthy, as the market's rally broadened to include more sectors.

Where does that leave us as 2022 begins? Our view is that this investment year will be tricky. We have the Federal Reserve Board removing the emergency liquidity they pumped into the economy during the Covid-19 lockdowns. The Fed is also fighting inflation according to its mandate (Economic enemy #1). The inflation that initially looked like residue from supply chain constraints caused by the pandemic now appears to be more enduring. The question on investors' minds is: "how much will rates rise and how long will it take for them to top out?" Historically speaking, rising interest rates, coupled with rising inflation, doesn't end well.

As always, there will be winners and losers from these changing economic conditions. Our expectation is that financial companies (banks, insurance companies, etc.), energy businesses, and value stocks (with larger than average dividends) will experience an economic tailwind this year. Should this condition persist, we could see a new group of market winners this year.

Over the last 5 years, the technology sector and growth stocks have experienced large outperformance when compared to the broader market (NASDAQ has had a 28% annualized return vs 16% for the broader S&P 500). Meanwhile, we have seen pronounced underperformance from Small companies (+10.59% annualized), emerging markets (+9%) and international stocks (+9%).

The rotation in leadership could be underway

Of all of the laggards that could leap to leadership, none is more attractive to us than energy. Not only have energy shares posted a negative return over the last 5 years, but energy shares have also underperformed the price of the oil commodity itself (-1.29% vs. +6.95%).

However, of all potential investments, none has our attention more than bonds. We are watching all bonds closely, but watching government bonds with an especially keen eye. Investors buy safe bonds for safety. They buy safe bonds for income. They buy safe bonds to keep pace with inflation. Today, safe bonds aren't providing safety, income, or beating inflation. The ten-year treasury returned -4.6% last year and is down another 8.6% in 2022 (as of 2/16).

We are concerned about the U.S consumer. Consumer spending accounts for over 70% of economic activity (GDP) here in the U.S. No matter where we look, it seems prices are increasing. As stated above, prices of almost everything have increased. Yes, wages are starting to trend upwards for some. But the consumer reaction to these sudden price increases is top of mind for us. If the consumer decides to save more because of inflation, instead of spending, this can have a cooling effect on the economy.

One area that does intrigue us is healthcare. Historically, this is a sector that does well in weak markets, as it is a non-discretionary expense. Healthcare businesses have been dramatically impacted by Covid, with Covid patients taking up hospital capacity and crowding out routine healthcare procedures. We think these are delays and not cancelations, creating a potential opportunity for healthcare-focused businesses and their investors.

Every year is unique. Each year has its own sets of challenges and opportunities. Though the economic backdrop this year makes our windshield a bit foggier, our destination does not change. We are, as always, looking for winners. This year, our search leads us to Energy, Financials, and Healthcare. No matter what turmoil and volatility the markets may bring, we will be here looking for opportunities to help you Create, Build and Preserve your Wealth.

Investing involves risk, including the possible loss of principal and fluctuation of value. Past performance is no guarantee of future results.

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Additional information about Left Brain Wealth Management, LLC is available in its current disclosure documents, Form ADV, Form ADV Part 2A Brochure, and Client Relationship Summary report which are accessible online via the SEC's investment Adviser Public Disclosure (IAPD) database at www.adviserinfo.sec.gov, using SEC # 801-113256

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