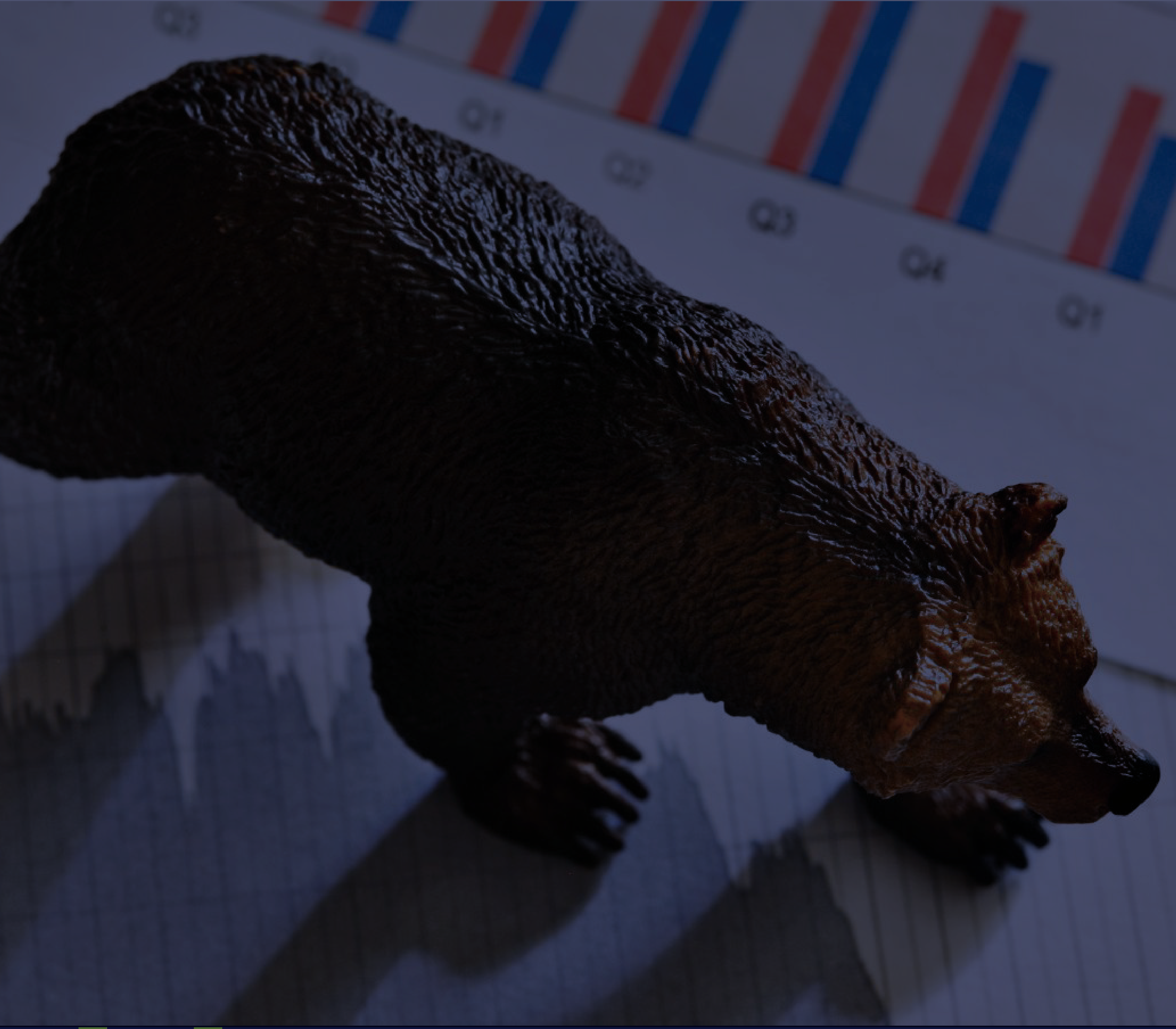


Bear Market Recovery
Strategy Update Qtr 2

By Matthew Gaude & Shawn McGuire

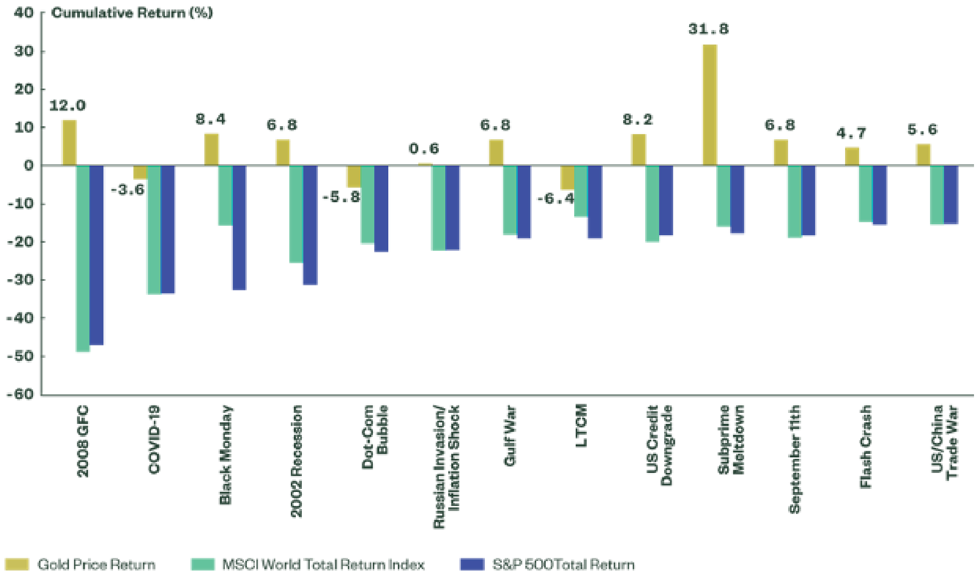
Precious Metals

Heading into 2023, we have been positive on gold and silver's prospects after a muted performance in 2022. As we have witnessed the first half of this year, the regional banking crisis, the U.S. debt ceiling, and ongoing geopolitical turmoil globally have put risk front and center as another catalyst, on par with rates and recession, to continue to support the case for gold for the remainder of this year.

Market risks are always a focus for gold investors, and 2023 has had no shortage of events to keep investors on their toes. With ongoing uncertainty on the global geopolitical front and recent risk events, the potential for further unforeseen risk events remains elevated.

Looking at major drawdowns in U.S. equity markets, according to State Street Global Advisors, "gold has not only outperformed U.S. equities on a relative basis but also on an absolute basis in the majority of cases. During peak-to-trough drawdowns greater than 15% on the S&P 500 Index, gold averaged 5.8% total return versus -24.2% total return on the S&P 500 and -21.9% on the MSCI World Total Return Index. And during these 13 drawdown events, gold delivered positive returns in 10 of those periods. In the three periods when gold had a negative return, it still reduced portfolio drawdowns and volatility when compared to a portfolio with no gold. Furthermore, gold tends to maintain gains over time even as markets recover.

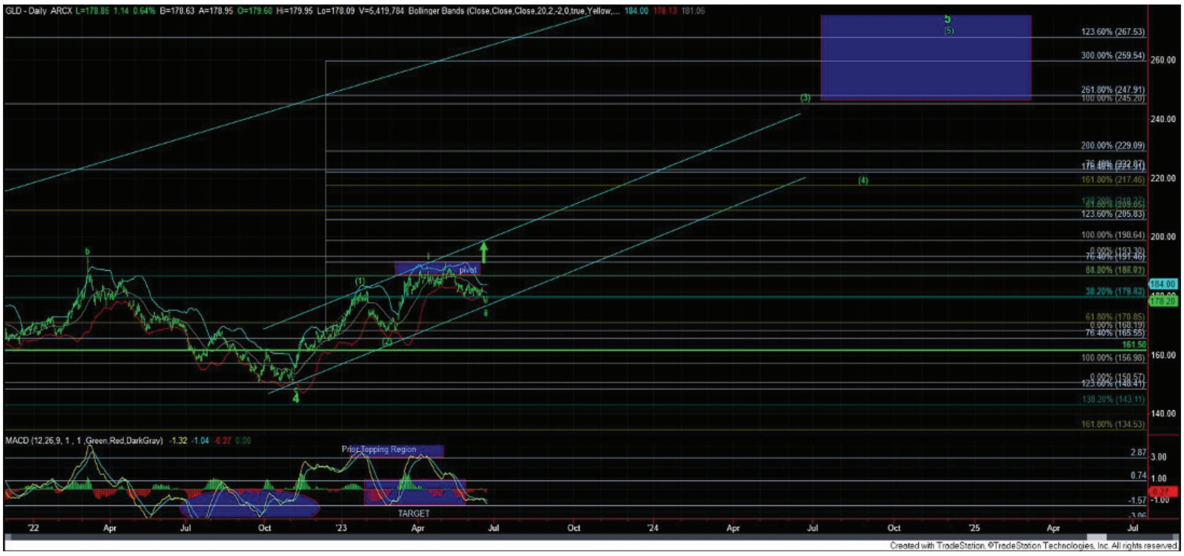
Gold Stands Out During Market Turmoil Events



Source: Bloomberg Finance, L.P., State Street Global Advisors. Data from August 25, 1987 to May 31, 2023. Date ranges for the time periods noted are: 2008 Great Financial Crisis (GFC): 08/11/08 - 03/09/09; COVID-19: 02/19/20-03/23/20; Black Monday: 08/25/87-12/04/87; 2002 Recession: 03/19/02-07/23/02; Dot-Com Bubble: 09/29/00-04/04/01; Russian Invasion/Inflation Shock: 01/01/22-06/17/22; Gulf War: 07/16/90-10/11/90; Long Term Capital Management (LTCM): 07/17/98-08/31/98; US Credit Downgrade: 07/07/11-10/03/11; Subprime Meltdown: 10/09/07-03/10/08; September 11th: 08/24/01-09/21/01; Flash Crash: 04/23/10-07/02/10; US/China Trade War: 09/21/18-12/26/18. Gold = gold spot price. Index returns are unmanaged and reflect peak-to-trough returns for the stated period. Index returns do not reflect the deduction of any fees or expenses. **Past performance is not a reliable indicator of future performance.**

We believe the metals market is starting to bottom in terms of price. When we introduced our Bear Market Recovery Strategy in January, precious metals, specifically gold and silver, were one of the markets that were very bullish as we entered 2023. At that time, our expectation was that we were going to start seeing a bottoming in the complex and a multi-year rally out of that bottoming.

And that's pretty much what we've gotten. We saw gold bottom back in early November 2022. And since then, we have had a sizable rally; but we think that that was just the beginning. We can foresee a little bit more of a pullback if we're lucky. Our initial target for gold is 2428.

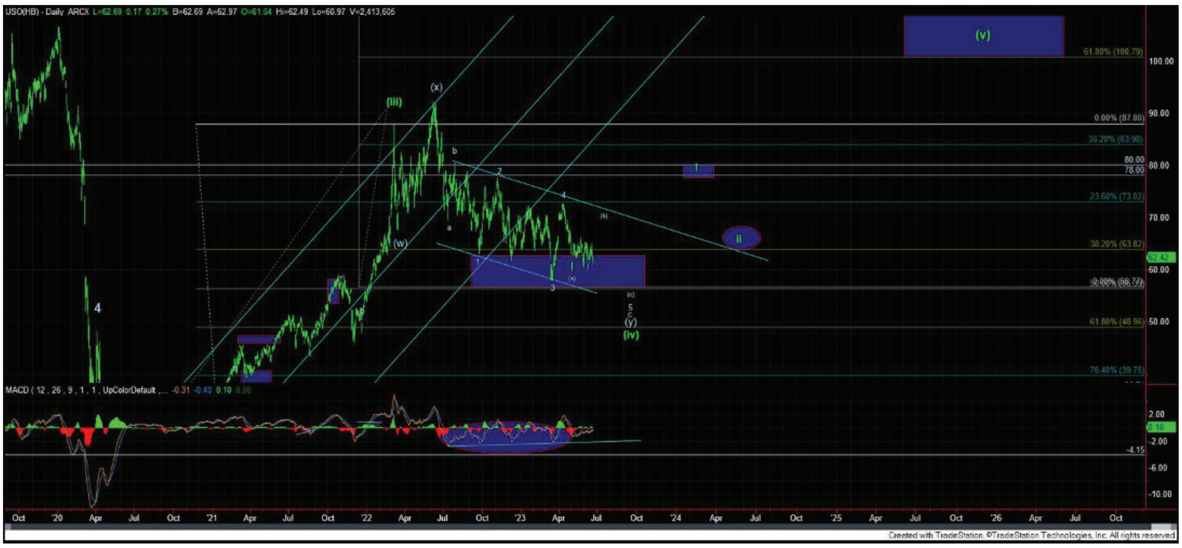


And in fact, the way it is set up and because it has lagged so much over these last years, silver could see a massive catch-up move over these coming next two years. Following is a shorter-term chart of silver showing that we may see slightly lower prices before we potentially start the next move higher.

Energy & Oil

Oil has been involved in a sizable, very long pullback. Our expectation is we think we can potentially see a lower low in the coming months, maybe into the summer months, possibly declining to the $56-$58 area as measured by the USO (U.S. Oil ETF). That is where we will begin initiating positions in oil and energy stocks.

And then we are expecting a nice rally where we could possibly see oil double off the low or come close to double off the low we complete later in the summer. We believe we will see the same in oil equities. We're seeing some downside that we've been expecting for some time, which will allow us to enter energy investments at what we believe will be attractive prices. We're expecting oil equities to outperform most everything else as well once the energy complex has bottomed.



U.S. Stocks

When the S&P 500 bottomed in October 2022, most analysts and investors were expecting much lower, mostly based on the worse-than-expected CPI report published that month. Yet, that news actually ignited the 20% rally off the low and caught most market participants by surprise.

Today, we seem to be in the exact opposite environment. While many of the former bears are now turning bullish, it seems the market has decidedly turned quite bullish. As you can see from the headlines we are seeing across the market, many are now embracing the "new bull market." (Read our investor sentiment article in our Q2 quarterly update here.)

From wsj.com:

MARKETS | U.S. MARKETS

S&P 500 Starts a New Bull Market as Big Tech Lifts Stocks

Tesla shares rise for a 10th straight session; Nasdaq climbs

From cnbc.com:

BMO raises S&P 500 outlook, says 'all the doom and gloom' has yet to happen

PUBLISHED TUE, JUN 6 2023-10:01 AM EDT

Bank of America turns bullish on stocks and recommends these strategies

PUBLISHED FRI, JUN 9 2023-11:14 AM EDT

As we entered this year, our target for the S&P 500 was 4310-4370. As we have surpassed our target for this rally, it seems that many in the media and investing community are now turning quite bullish. In fact, with the market now rallying 20% off the October lows, many are declaring the end to the bear market and proclaiming the start of a new bull market.

However, the titles of the articles we've all seen this past month are hyping this "new bull market" concept. In fact, the June 12th cover of Barron's displays what seems to be the new common view of the market:

Source: Barron's

Yet, for those that have a sense of market sentiment and market history, you would know that when Barron's comes out with such a bullish cover, it often marks a topping in the market, as it displays the general bullish sentiment of the general market.

As I have tried to convey through the years, understanding market sentiment as an indicator of market direction is more valuable than all the other factors that many focus upon. (See our sentiment section in our [Q2 market update report].)

You see, when the market reaches a bearish extreme, there is no one else left to sell as sellers become exhausted, and that is when the market turns in the other direction. The same happens when we reach bullish extremes. It is really that simple. The difficult part of the equation is understanding when the market reaches those extremes.

In the meantime, as we entered 2023, our expectation was for the S&P 500 to rally to 4310-4370+; we are now there. And as the market seems to be turning quite bullish, I am starting to turn cautious.

We believe the market still has more room for the upside, but I think it is time to tighten our risk management. We need to hold the 4275-4315SPX region, and if we continue to pull back, then the market is setting up its next move towards the 4505SPX region. The pullback from there will determine if we are indeed next heading to 4800SPX or if we will begin a larger decline.

There are times when the market presents us with a very clear path. And then there are other times when the market shows us we are heading into a very important turning point, which tells us to reduce our risk and wait until the market makes its next intention clear. Currently, we are in the latter circumstance.

We have now reached the decision point we have been expecting for many months, and this summer will likely tell us which side emerges victorious.

As for us, we have no desire to join this battle, nor do I have a desire to place your money to work when I clearly see the risk to both sides of the market. Yet, the market has provided very clear parameters to us to this point. But for now, I would much prefer to let the bulls and bears battle it out, and I will gladly deploy your money on the winning side. Until then, fixed income is a reasonable position for us.

In the bigger picture, our expectation was for a major bottom to be seen in October 2022 in the 3500SPX region, with an expectation to rally to 4300+ from there. As we approached the 4310-4370PX region, we started to raise cash and tighten the stops on all remaining long positions until the market provided clarity regarding its next major move. I am expecting such clarity will be seen in the coming month or two, which should set the tone for the rest of 2023 and potentially well beyond.

Reasons for Optimism After a Midterm Election

We highlighted the following chart in our January update. I wanted to revisit it and provide an update. The average midterm year since 1950 corrected 17.1% on average, the most out of the four-year presidential cycle. That's the bad news. The good news is stocks gained 32.3% a year on average off those lows and have never been lower.

Midterm Years Tend To Bottom Later In The Year And See Larger Corrections
S&P 500 Index Peak-To-Trough During A Midterm Year

Year	Date of Low	Peak-To-Trough	S&P 500 Index Return Return 1-Year Later
1950	7/17/1950	(14.0%)	30.9%
1954	8/31/1954	(4.4%)	43.9%
1958	2/25/1958	(4.4%)	36.3%
1962	6/26/1962	(26.4%)	32.7%
1966	10/7/1966	(22.2%)	33.2%
1970	5/26/1970	(25.9%)	44.5%
1974	10/3/1974	(37.6%)	34.6%
1978	11/14/1978	(13.6%)	11.3%
1982	8/12/1982	(16.6%)	57.7%
1986	9/29/1986	(9.4%)	40.6%
1990	10/11/1990	(19.9%)	28.8%
1994	4/4/1994	(8.9%)	14.3%
1998	8/31/1998	(19.3%)	37.9%
2002	10/9/2002	(33.8%)	33.7%
2006	6/13/2006	(7.7%)	24.5%
2010	7/2/2010	(16.0%)	31.0%
2014	10/15/2014	(7.4%)	8.7%
2018	12/24/2018	(19.8%)	37.1%
2022*	10/12/2022	(25.4%)	?
Average	August 14	(17.1%)	32.3%
Median	September 4	(16.3%)	33.5%

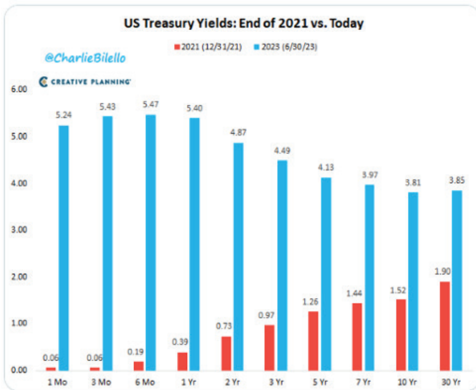
Source: YCharts 8/19/2022 *Low for the year isn't official, as the year isn't over yet.
@ryandetrick

CARSON

Bonds and Fixed Income

Although 2022 was a very difficult year for bond investors due to the rapid rise in interest rates, the start to 2023 has only been slightly better. The Federal Reserve continued its aggressive pace of rate hikes, which resulted in instability and bank failures in the banking sector with government intervention; and tense negotiations over raising the debt ceiling led to heightened fears that the U.S. government might default.

Yet as the first half of 2023 has ended, we have continued to see both long-term and short-term yields push higher as the Fed has raised interest rates. Following is a chart comparing interest rates on 12/31/2021 to 6/30/2023:



Rate Hikes: June Skip and Resume in July?

Based on recent comments from Jay Powell and the Federal Reserve, the Fed should continue to raise interest rates at the July meeting to help fight inflation. It has raised rates rapidly over the last year, bringing interest rates to the highest level since 2007.

On June 28th at a conference in Sintra, Portugal Federal Reserve Chair Jerome Powell and his peers from Japan, Europe, and the UK all delivered a unified "higher for longer" message about interest rates.

Here are a few quotes from Powell, along with our analysis:

"We believe there's more restriction coming, what's really driving it…is a very strong labor market."

Powell said the U.S. labor market in particular needed to soften further to take pressure off prices. While acknowledging a "significant probability" that could lead to a downturn, he said it was "not the most likely case."

In addition, Powell said, *"It's going to take some time. Inflation has proven to be more persistent than we expected and not less. Of course, if that day comes when that turns around, that'll be great. But we don't expect that."*

Powell is concerned that while rates are in restrictive territory now, the risk of doing too little (not raising rates or keeping them high) is still greater than doing too much (raising rates to a level that could cause a recession).

Following is a headline from pymnts.com:

Fed Chair Says Core Inflation Won't Reach 2% Target Until 2025

This is important, as Powell says inflation is a long way from returning to 2%—meaning that the Fed may not lower rates until 2025. Two years is a long time to be making forecasts when it has proven difficult to make quarterly forecasts for the Federal Reserve.

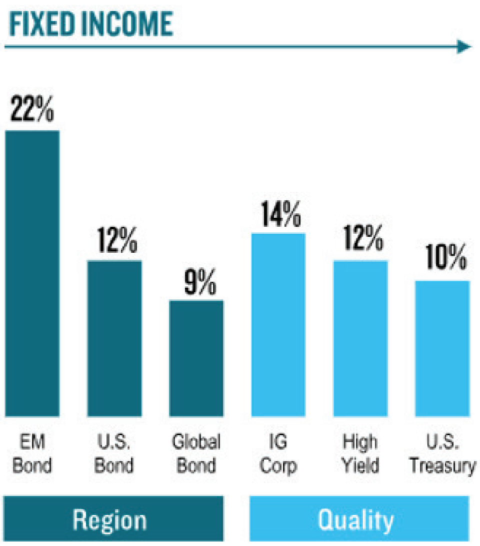
And finally, from a cnbc.com article:

FEDERAL RESERVE

Powell says more 'restriction' is coming, including possibility of hikes at consecutive meetings

PUBLISHED WED, JUN 28 2023·9:48 AM EDT | UPDATED 6 MIN AGO

Although the Federal Reserve's interest rate hiking cycle may be nearing its end, broad-based market rallies followed the conclusions of the past four rate hiking cycles.



BOND PERFORMANCE AFTER FED PAUSES

- Following the last hike for the previous 7 Fed tightening periods, bonds have delivered positive returns in 100% of the subsequent 6-month, 1-year, 3-year, and 5-year time periods.

Total Return %	+ 6 mos.	+ 1 Yr.	+3 Yrs.	+5 Yrs.
% of positive periods	100%	100%	100%	100%
1– Aug 1984	10%	24%	15%	14%
2– Aug 1987	8%	8%	10%	11%
3– Feb 1989	9%	13%	12%	11%
4– Feb 1995	9%	17%	10%	7%
5– May 2000	7%	14%	11%	8%
6– Jun 2006	5%	6%	7%	7%
7– Dec 2018	6%	9%	5%	—
Average	8%	13%	10%	10%

Source: https://www.pgim.com/investments/markets-tend-rally-when-rate-hike-cycles-end?utm_medium=email&utm_content=NS19952_week21_Newsletter_STATIC_IBD-All&utm_campaign=Newsletter&etid=145033360

So how does this affect our bond strategy? It only enhances it. Currently, bonds are offering excellent opportunities based on interest rates being at 16-year highs. For instance, we have been purchasing:

- 3, 4 & 6-month T-Bills: As they mature, we are reinvesting at higher yields. Refer to U.S. Treasury Yield chart above for current Treasury rates.
- Corporate Bonds: We are purchasing 12-month corporate bonds from high-quality banks such as JPMorgan, Bank of America, Citigroup, Royal Bank of Canada, and Goldman Sachs with most recent yields at 5.55%-5.70%. To give you an example, the first corporate bond we bought in October 2022 was Royal Bank of Canada, yielding 4.50% over 12 months. Now yields have increased to 5.50%-5.70% over 12 months.
- Preferred Stocks: There are still good opportunities in the preferred market with yields in the 6-8% with high-quality companies.
- Our core fixed-income funds of Leader Capital High Quality Income Fund, yielding 6.65%, and Allspring Short-Term High Income Fund, yielding 6.05%, continue to perform very well with little volatility.
- We are also purchasing 1- to 5-Year Corporate Bond ETF, yielding 5.45%, and 10+-Year Corporate Bond ETF, yielding 5.56%. These ETFs hold investment-grade companies such as Apple, JPMorgan, Citigroup, Oracle, and United Health, among others.

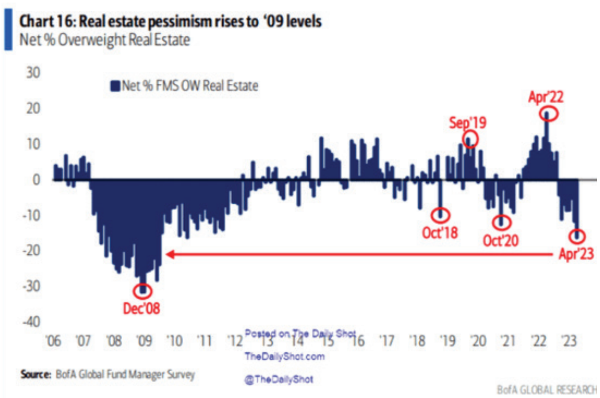
Real Estate (REITs)

We are adding another investment thesis this quarter where we believe there are opportunities. This is a sector that is cheap, hated, and beginning an uptrend. Which is exactly what we want to see.

According to an April 19, 2023 Bank of America Fund Manager survey:

- Investors are the most bearish on real estate since July 2009. Half of the investors surveyed think that the U.S./European Union commercial real estate will be the most likely source of a credit event/credit default.

Following is a chart illustrating the pessimism of the real estate sector among global fund managers:



We are investing in leading companies and sectors in the real estate market such as cell towers, warehouse and distribution centers, self-storage facilities, data centers and single-family homes and apartments. The companies that own these properties are industry leaders in growth areas of the real estate sector. We believe this is a great time to add to our positions in the publicly traded real estate sector at discounted prices and enticing yields.

About Matthew

Matthew Gaude is an *investment advisor representative and the co-founder of Live Oak Wealth Management, a financial services firm in Roswell, Georgia. He serves the planning and investment needs of corporate employees, those approaching or in retirement, and 401(k) plan sponsors. Working first as a commodity broker and then as a Business Development Manager for a national broker-dealer in previous jobs, he has the insight and experience to help clients understand the complexities of the market and implement strategies to minimize risk. To learn more about Matthew, connect with him on LinkedIn or visit www.liveoakwm.com.

About Shawn

Shawn McGuire is a financial advisor and the co-founder of Live Oak Wealth Management, a financial services firm in Roswell, Georgia. He serves the planning and investment needs of corporate employees, those approaching or in retirement, and 401(k) plan sponsors. He has worked in financial services since 2002 in positions ranging from financial advisor to stock broker and portfolio manager. As a CERTIFIED FINANCIAL PLANNER™ professional, he is trained to help clients with virtually all their financial needs. To learn more about Shawn, connect with him on LinkedIn or visit www.liveoakwm.com.

Live Oak Wealth Management | 10892 Crabapple Rd Suite 100 Roswell, GA 30075 | www.liveoakwm.com
P/Fax: 770.552.5968 | **matthew@liveoakwm.com | shawn@liveoakwm.com**