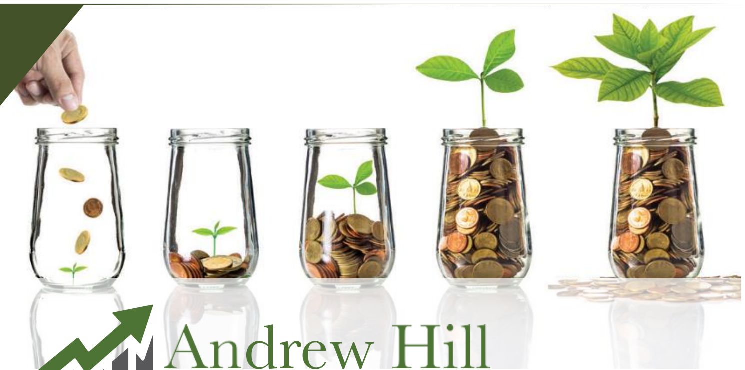
The Client Letter



As of December 27 2022

Andrew Hill
Investment Advisors, Inc.
ResponsibleAdvisors.com

Andrew D.W. Hill

President & Co-Founder, CFA

Andy Hill has more than 30 years of portfolio management experience. Andy holds an MBA from Syracuse University and a Bachelor of Science degree from Canisius College. Andy often contributes to Investor's Business Daily, Naples Daily News, and Fort Myers News Press. He has also appeared on CNBC and FOX.

Jennifer R. Figurelli

Managing Director & Co-Founder, CTFA

Jennifer Figurelli has over 20 years of experience in the trust administration field. Jennifer has a Bachelor of Arts degree in Business Administration from Florida Southern College and a Legal Assistant's Certificate from Florida Atlantic University. She also is a graduate of the Florida Bankers Association Graduate Trust School and holds a Series 65 license and Life, Health and Variable Annuity designations.

Investment Wrap Up of 2022 & Outlook for 2023

Dear Clients and Friends,

2022 is ending as a bad year after several strong years. Stocks and bonds have declined as the Federal Reserve aggressively raised short-term interest rates to combat inflation. Generally, most clients' portfolios declined less than the market averages due to a few key strategic moves to limit losses. Our "sell discipline" was often tested.

In equities, we reduced exposure to technology stocks which helped, although it will create tax bills in April 2023. In fixed income, our strategy was to keep bond maturities short-term and "park" a significant balance in the Fidelity Conservative Income Bond Fund, which was a key strategy to protect clients' assets during the height of the decline of the bond market.

HIGHLIGHTS

Federal Reserve's Myopic Strategy continues with Jacking Up Interest Rates

In 2022, the Federal Reserve raised interest rates (Fed Funds is their tool which prices loans to banks) at a historic pace. Federal funds have risen from .25% to 4.5% this year. The initial increases were warranted and long overdue. However, further increases in interest rates above 5% poses a significant risk to investors. As the chart of the consumer price index shows, inflation appears to be peaking. Barron's, the leading financial market magazine, emphasized this risk in its recent edition. The Federal Reserve's recurrent statement of being "data dependent" evidences their inability to look into the future. *Written by Andrew Hill*

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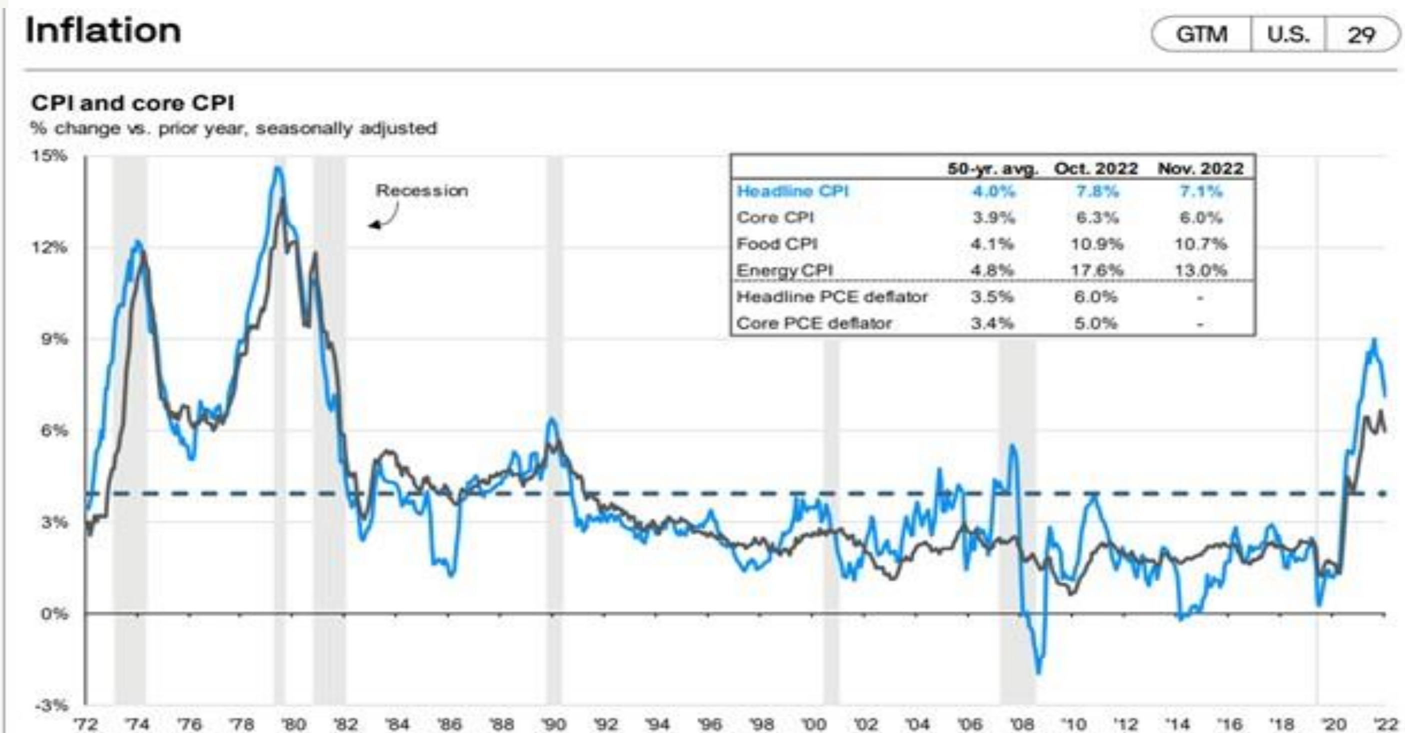
In our opinion, the Federal Reserve is making numerous mistakes. First, their "proxy" for the economy is the labor market. They view the low unemployment rate and high wage growth as a sign of excessive demand, thus, the need to raise interest rates. It is apparent that the Federal Reserve does not recognize that the reduction of the supply of workers was resulting from the pandemic, not excessive demand. Second, other areas of inflation that are product related are improving. Supply chains are flowing better and the demand for certain products during the pandemic has reverted to normal usage. The Amazon app will highlight many price discounts. These data points suggest that inflation of goods is moderating. Written by Andrew Hill

Inflation looks to have peaked and now in decline. Not sure the Federal Reserve has seen this chart. Thanks to JP Morgan Asset Management for this chart



	50-yr. avg.	Oct. 2022	Nov. 2022
Headline CPI	4.0%	7.8%	7.1%
Core CPI	3.9%	6.3%	6.0%
Food CPI	4.1%	10.9%	10.7%
Energy CPI	4.8%	17.6%	13.0%
Headline PCE deflator	3.5%	6.0%	-
Core PCE deflator	3.4%	5.0%	-

Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
Guide to the Markets – U.S. Data are as of December 20, 2022.

Commodity related inflation surged as the Russian invasion of Ukraine created panic in oil, natural gas, and agriculture markets. The mid-year surge in the consumer price index and producer price index were most likely a result of the war, but the effects are now mitigated. Oil is cheaper now than at the beginning of the year. The third mistake the Federal Reserve has made is to raise interest rates to lessen inflation resulting from extraordinary reduction in supplies due to the war. The European Central Bank (the Federal Reserve of Europe) has also made this mistake by raising interest rates just as residents are facing huge heating bills. Currently, interest rates are high enough to slow the economy. However significantly higher interest rates may “tank” the economy. The Federal Reserve committee members speak in unison by stating the same line that “inflation is too high, and rates need to rise further”. Is the Federal Reserve so focused on inflation that they are willing to cause a significant increase in unemployment, leading to collateral damage to the economy, and most certainly the financial markets?

Hypothetically, perhaps there is a better way to manage high inflation. How about a national sales tax when inflation exceeds 5%? Revenues from this tax could be used to reduce the deficit, but not increase expenditures. The chances of that idea being implemented are highly unlikely.

Written by Andrew Hill

Economic Outlook for 2023

The economy may grow in 2023, but in a slow and scattered pattern. Accounting for GDP (Gross Domestic Product) has many unique items that can lead to unusual figures, such as net exports. This year’s exports of oil and gas to Europe dramatically increased GDP. According to Bloomberg data, GDP should advance 1.9% in 2022.

The Bloomberg survey predicts the economy will slow down to 0.3% growth in 2023 with a 65% chance of a recession in the next 12 months. That projection seems reasonable. Housing and other industries that are sensitive to interest rates are in decline. Consumer spending will moderate from 2022, but those who are employed will still spend money. Spending by retirees may be a challenge. Inflation and lower portfolio values may limit major discretionary purchases by this demographic segment. Despite the financial press reporting a dire outlook for next year, there are segments which will grow. First, the three recent government bills: chips, infrastructure, and the Inflation Reduction Act, will help some industries and regions. Steel and engineering will benefit from all three bills. Industrial companies will be another segment benefiting from the government bills and restoring. Overall, the economy may hold up better than feared in 2023, unless the Federal Reserve raises interest rates materially higher than the 5% anticipated peak level of Fed Funds.

The healthcare sector may benefit from the lack of government action although the winners and losers may shift from 2022. It is unlikely that the drug industry will be attacked politically in 2023, since it’s a non-election year, so spending on research and development should be steady. Written by Andrew Hill

In the technology sector, we can expect a challenging year. After years of investing money in technology, in part due to the pandemic, corporations will scale down their spending. Technology providers will use the downturn to reduce staff, especially weak performers. We began reducing exposure to technology stocks in the fourth quarter of 2021 and continue to underweight the sector.

The auto industry is on the verge of a significant transformation as electric vehicles become mainstream. With domestic manufacturing becoming a requirement for the significant tax benefits from the Inflation Reduction Act, we can anticipate that many new manufacturing facilities will be constructed over the next few years. With the legacy manufactures finally getting electric vehicle production in gear, expect many new offerings. GM has announced an EV version of the Equinox with a starting price around $30,000. Written by Andrew Hill

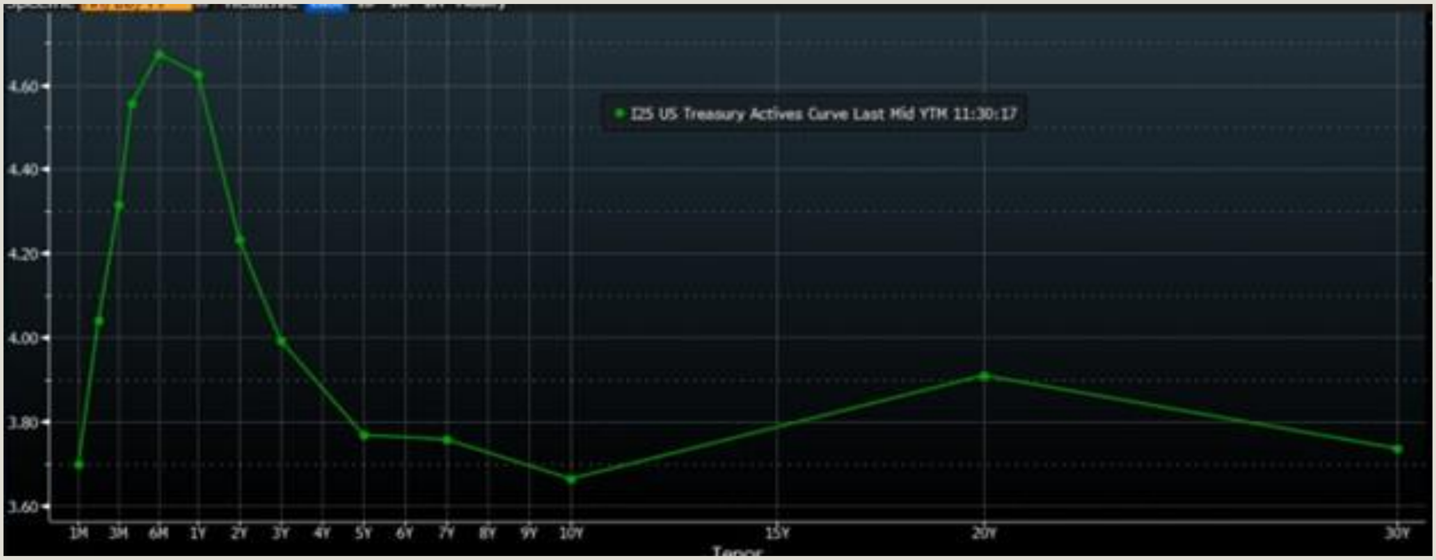
Portfolio Strategy - 2023

After aggressively reducing exposure to stocks and long-term bonds earlier in 2022, beginning in the fourth quarter, we have begun inching back into both stocks and bonds. Fixed income offers the best appeal now, while stocks are still in the bottoming process. Both asset classes offer long term appeal. Since we began our firm in 2010, we have not changed our macro strategy of first building out bond ladders of annual maturities to meet client's cash needs, and then investing the residual for long-term capital appreciation in stocks. Given the chaos during 2022, there will be some tactical refinements with fixed income markets now offering the most attractive yields that we have seen in 20 years, while the equity market searches for long- term support. Written by Andrew Hill

Fixed Income: Focusing on Short-Term Treasury Bills & Long-Term Municipal Bonds

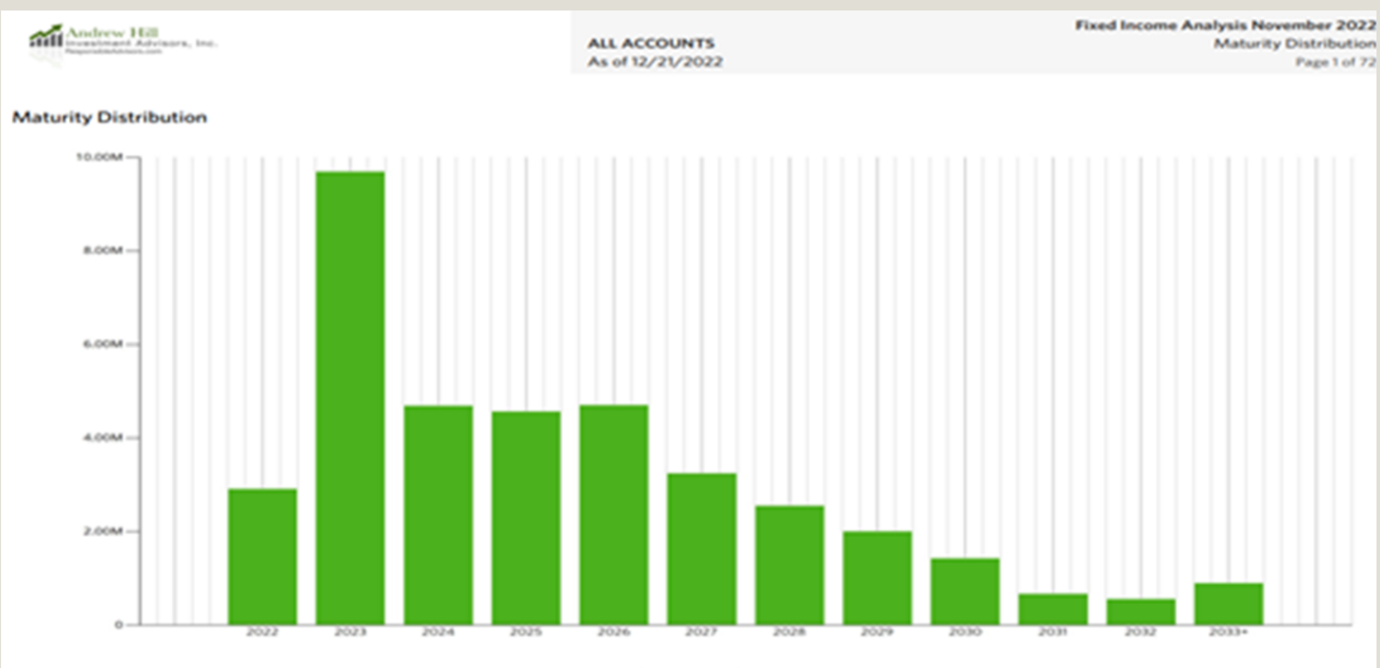
We began 2022 by placing a significant percentage of clients' exposure in fixed income in the Fidelity Conservative Income Fund. Up until the 4th quarter 2022, this was an appropriate defensive strategy in anticipation of the rising interest rates. Now, we are starting to reduce exposure to this Fund and look for opportunities in longer-term high-grade bonds. With the likelihood that bond yields have already peaked on intermediate to long-term issues, it's time to add bonds to the portfolios. With the Federal Reserve determined to kill the economy, inflation risk should soon lessen, making long-term bonds attractive. As we review clients' bonds, we are looking to add maturities of five to twelve years. For taxable accounts, high grade municipal bonds with yields over 4%. For IRA 's and other non-taxable accounts, high grade corporate issues offer yields of about 1% above Treasury bonds with similar duration. Written by Andrew Hill

US Treasury Yield Curve. Short term rates are the highest, 10-year; the lowest yield, a situation that will not last. Chart from Bloomberg



Due to the Federal Reserve aggressive interest rate hikes, the highest yields are 6-month Treasury bills which yield 4.6%. We have been able to accommodate several clients with special circumstances by investing cash that was previously held in bank deposits and earning not much, by investing it in Treasury bills with maturities no longer than 1 year. Written by Andrew Hill

Fixed Income bond ladder composite of all client portfolios. We will be building out the bond ladder with longer term issues from 2027 to 2032

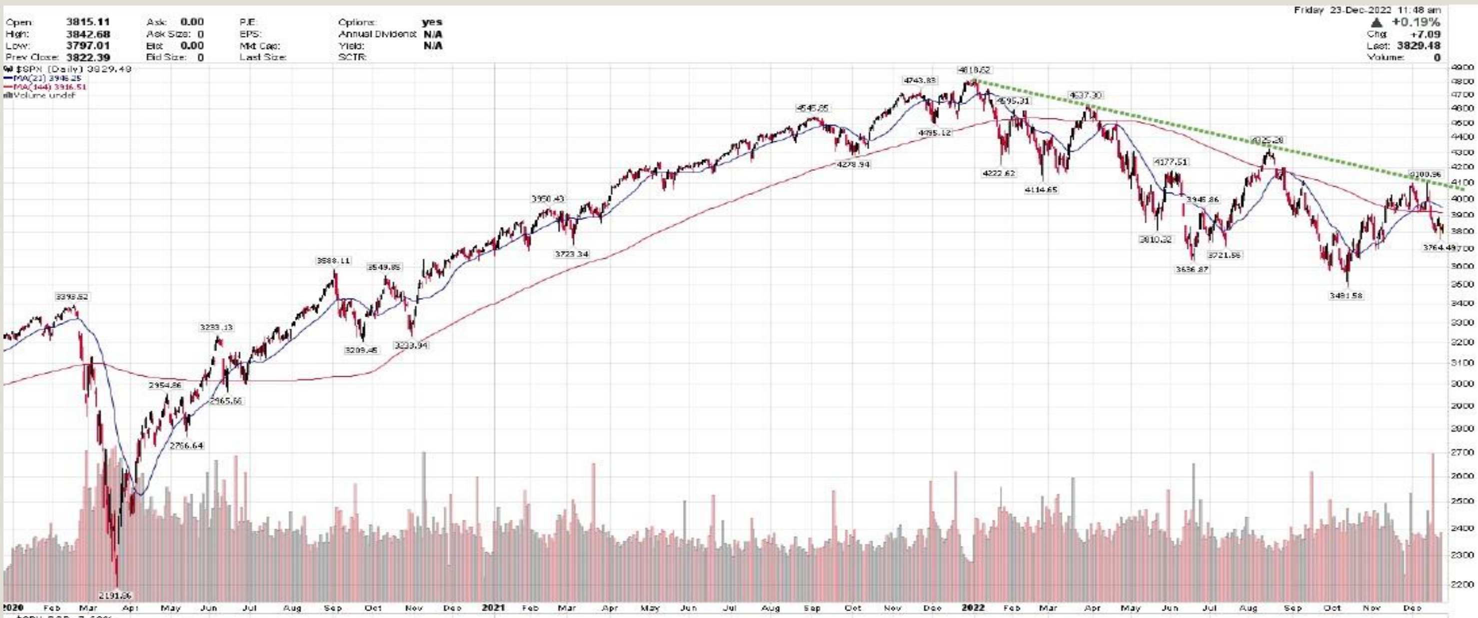


Andrew Hill Investment Advisors, ResponsibleAdvisors.com

Equity Market: It Might Perform Better than 2022

The role of equities/stocks in a portfolio is simple: long-term appreciation. Historically, equities have produced annual returns of over 10%, a common fact that investors tend to forget in the bear market years. As 2022 ends, the SP500 is attempting to find a long-term bottom.

SP500 attempting to bottom out but needs to break the downward trend in green to be confirmed



The backdrop to 2023 is much improved from a historic perspective. 2023 will be the third year and the strongest year of the four-year presidential cycle for stock historical performance. Further, according to the Stock Traders' Alliance 2023 Edition, the mix of a Democratic president and a Republican Congress is the best political scenario with an annual return of 16%. While the positive historical data is encouraging, in the near term, the Federal Reserve's interest rate policy will dominate the stock market. Interest rates significantly impact the valuation of any security, and in general, as interest rates rise, the value of a stock declines. We are also not expecting good news early in 2023 on corporate earnings. Anticipate management comments providing a gloomy outlook "Sandbagging", although actual results could be better. Investors are fully aware of all the negatives. Sentiment as measured by investor sentiment surveys, the lack of IPO's (Initial Public Offerings), or the put/call ratio all tell a similar story of excessive pessimism. Although extreme pessimistic sentiment is a bullish sign, the challenge is timing a reversal. Year- end tax loss selling is expected to be very heavy that may lead to short term bounce in late December or early January. However, for a sustained rally in stocks the Federal Reserve will need to stop raising interest rates. Further with many investors having sold out of stocks, there is a minority chance of sharp 15% to 20% jump in the SP500 once a few positive developments line up.

Written by Andrew Hill

Selected Core Equity Holdings Comments

Royal Bank of Canada – (RY) serves as a core holding due to its dividend yield of 4% and moderate appreciation potential. Canadian banks operate in a stable environment relative to the U.S. banking industry. We consider RY "boring but predictable" which makes it a sound long- term holding.

Vertex Pharmaceuticals – (VRTS) is developing drugs for diseases that were previously non-treatable. The company's leading drug treats Cystic Fibrosis, a genetic disorder that affects the lungs, digestive tract, and other organs. VRTS is also developing treatments for Sickle Cell Anemia and pain management. We consider VRTS a holding for long-term capital appreciation.

NextEra Energy – (NEE) is a long-time core holding. NEE business includes FPL, the leading Florida utility and energy resource, and the largest renewable energy provider in the United States. NEE is one of the leaders in the transition from fossil fuels to renewables. Always in front of completion, NEE is working on green hydrogen that they hope will replace natural gas in 10 to 20 years. After NEE's stock underperformed the utility sector in 2022, we see 2023 to be a better year once interest rates stabilize. NEE is a long-term growth opportunity, increasing earnings at a steady pace.

Deere – (DE) A favorite among many clients, DE is bringing technology to the farm. Agriculture cycles tend to have a low correlation to the overall economy and the stock market. DE's "See & Spray" technology is a winner for the farmer and the ecosystem. The technology sprays weeds only where needed, which reduces the cost to the farmer and reduces the impact on waterways. Check out the YouTube videos of this technology. See & Spray™ – the Next Generation | John Deere Precision Ag - Bing video

Enphase – (ENPH) – In most portfolios, ENPH was the biggest gainer in 2022. ENPH designs, manufactures, and sells solar energy systems. ENPH's business is business thanks to the unreliable energy grid in the U.S., rising electric cost just about everywhere, and Putin's actions in Europe. With solar power the cheapest way to produce electricity at the utility scale (see NextEra Energy data) and the homeowner's desire for electricity security, ENPH should continue to grow rapidly as the segment technology leader.

Lincoln Electric-(LECO) one growing trend is "re-shoring" manufacturing to the U.S. which has been previously offshore to Asia or other locations with low labor costs. LECO provides sophisticated welding equipment and consumables, including robotic products. LECO does have risk associated with economic activity and industrial production.

Merck- (MRK) – MRK was recently added to client accounts. The motivation was a combination of safety (A+ credit rating with Standard Poor's) and growth. Growth is led (unfortunately) by Keytruda, a leading cancer drug, generates 40% of MRK's total revenue. Keytruda is used to treat melanoma, lung, head, and neck cancers.

There have been several holdings that we have deleted from portfolios to limit losses in a difficult financial market environment. In many cases, we need to anticipate forthcoming problems, because by the time the news comes out, a stock will already have declined. Bank of America, Ford, and Hertz fell into this situation.

Earlier in the years, we reduced exposure to long time big winners such as Nvidia, Apple and Microsoft when interest rates began to rise. Good thing we did, as technology stocks are still declining. One notable deletion from the portfolio was Tesla. Most clients and friends know that Andy is a long-time customer and a believer of Tesla's products and what they can potentially do for society. Unfortunately, the non-existence of any form of corporate governance in Tesla was a risk that we identified years ago and the key factor in reducing and finally eliminating the position. The Twitter saga may turn out to be one of the biggest CEO blunders in business history of this century. Written by Andrew Hill

Community Spotlight

We are proud to announce that Andrew Hill Investment Advisors, Inc. will be a Signature Sponsor for the 4th Annual Rev. Dr. Martin Luther King, Jr. Prayer Breakfast to benefit Trinity Life Foundation, Inc. on January 13, 2023. In addition, Jennifer Figurelli will be serving as the Honorary Chair for this fundraiser which provides mentorship to youth who have been involved in the Collier County Juvenile Justice System. For more information about the fundraiser, please visit the website at https://www.trinitylifefoundation.org or contact Jennifer directly at 239-777-3129 or jf@responsibleadvisors.com.