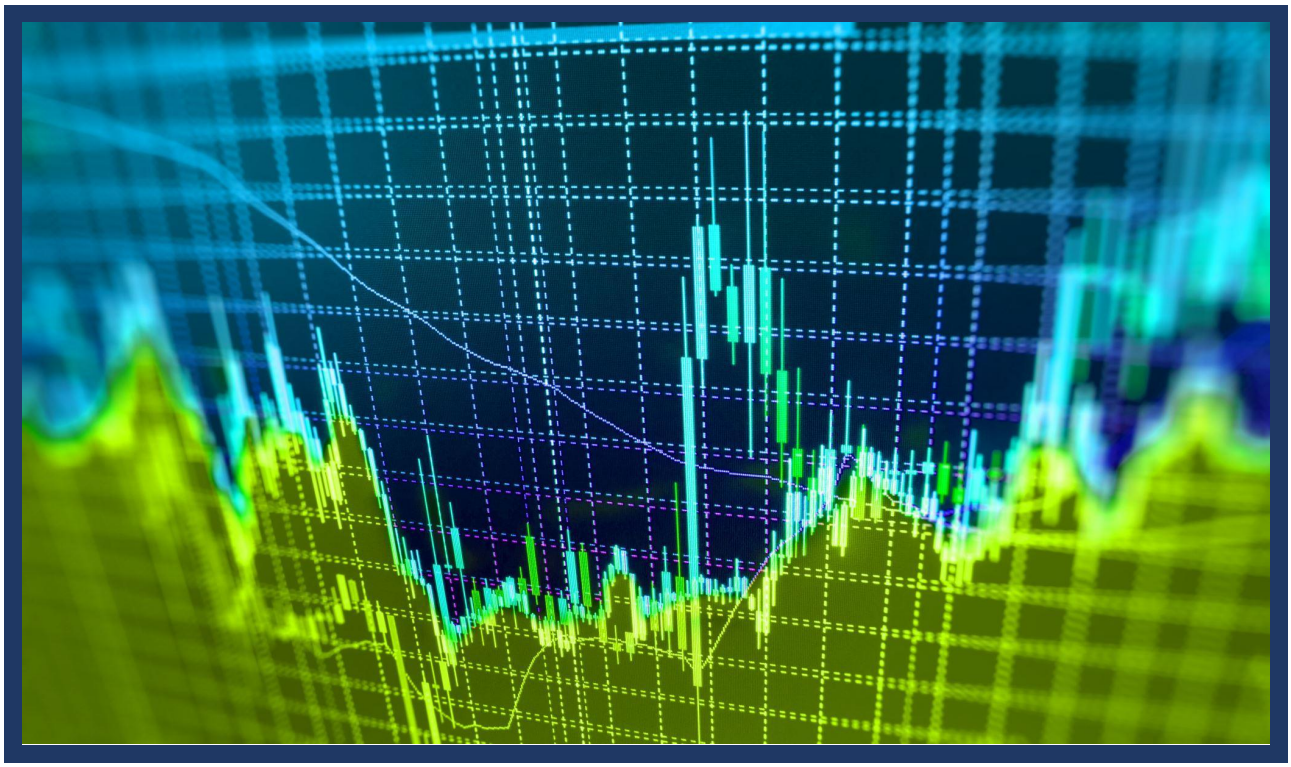

THE BLEEDING EDGE OF INFLATION

While it's true there is only so much we can do to control what happens to us in a time of great uncertainty, that doesn't mean we are helpless in terms of how we respond – By Wendy Videlock

Welcome to another episode of ***"Ethel's Diamond Post."*** Most Americans desire to put most of 2021 in the past, except the stock market's stellar performance. The *"stay-at-home"* season is over, and many uncertainties are looming over the economy. How do we know? The proof is in the evaporation of your bottom line since December 31, 2021. Presently, the capital markets are experiencing a steep downturn. The technology sector has suffered the greatest due to major sell-offs from retail investors. They are dumping growth stocks left and right, causing much of the recent volatility. However, the Federal Reserve is moving toward the first rate hike since 2018 to ramp down inflation. Regrettably, this year's market lacks the same drivers of 2021, and the stock market will need different protagonists. What is fueling the increased turbulence and volatility? The three primary catalysts igniting the correctional levels are - anticipated rate hikes from the Federal Reserve, runaway inflationary prices, and supply chain disruptions. The spread of the Omicron virus is dampening growth, for it contributes to the restrictions placed on public and private companies alike.

What does this mean in terms of performance for the stock market barometers? Everything appears to be in disarray, including but not limited to the stock market, fixed income community, and cryptocurrencies. The six most prominent players of the S&P 500 are – Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Meta Platforms (FB), and Telsa (TSLA), which accounts for nearly 25 percent of the total S&P 500 index. These technology-driven companies are the ones that have fallen the most since the beginning of the year.

Presently, the Dow Jones is down 6 percent, the S&P down 8 percent, and the technology-driven NASDAQ down 12 percent, which takes us back to March 2020 index levels. Retail investors are rotating out of growth-oriented companies and purchasing out-of-favor companies and sectors forgotten during the lockdown period. At the same time, the Federal Reserve discussions are causing anxiety-driven investors to sell without much consideration for the risk and reward spectrum. The new waves of COVID-19 will not derail the recovery, but will change the trajectory of 2022 performance. The emergence of the omicron variant signals a transition from pandemic to endemic. Shipping disruptions, supply-chain troubles, and energy prices increases will fuel prices in the first half of 2022. Hopefully, inflation rates will slow by year-end. Plus, the "Great Resignation" is an epidemic, for the "help wanted" signs are everywhere. Therefore, we are witnessing temporary school closings due to the shortage of teachers and the number of students falling ill to the coronavirus and other diseases. We must extend our patience and gratitude reservoirs due to long lines in the grocery stores, restaurants, and medical facilities due to a shortage of employees. However, it is an ongoing problem, and a sustainable solution is not right around the corner.

At ***VZD Capital Management, LLC***, we dissect, reassess, and dig deep into holdings' fundamentals and current evaluations to determine if they pass our proprietary screening process and growth standards. Our priority is to transition from the pure growth model to an undervalued, dividend-paying composite more compatible with the rising inflationary environment. Next, we review the beta numbers, debt-to-equity ratio, institutional ownership, and the price-earnings-growth numbers to determine the intrinsic value of the companies. Did you know that technology, consumer discretionary, and communication services make up about 50 percent of the S&P 500, the barometer we measure our performance standards? Based on the current price and other factors, it assists

us to dollar-cost average into new positions or sells entire holdings based on the overall health of the companies. We are decreasing our positions in technology, health care, and consumer discretionary sectors into inflation-protected market segments. We are moving into areas of the market that have been neglected for a long time, especially in the last two years, as we were homebound due to the pandemic.

Pullbacks can be opportunities to purchase quality companies that are dividend-paying stocks compared to sub-par yields on fixed-income vehicles. At the same time, fixed interest rates from bond investments will lose purchasing power to inflation over time. In comparison, the purchasing power of income from dividend growth stocks is more protected because companies tend to raise their dividend payments every year. Yet, it can be difficult to witness your bottom line numbers evaporating without a proactive memo advising that such changes would be forthcoming in a blink of an eye. Frequently, downturns go astray due to knee-jerk reactions by market participants selling in droves, which we witnessed last Friday. *VZD* is cautious and intelligent about transitioning between the cycles, even in short-term correction periods.

As we move into the tax season, Nikisha and I will schedule quarterly meetings again either by zoom video conference calling or in person. We realize we are running behind but have invested in various software to assist our offerings and forward-thinking services. If you know of others who might benefit from our offerings, please feel free to refer them to VZD and become part of our boutique family environment. Thank you for allowing us to serve you, and we look forward to better days coming – soon.

Remember, we are only a telephone call away and would be happy to answer your questions or concerns. Thank you again for the trust and confidence you have placed in us.

With Gratitude,

Ethel, Nikisha, and Michelle

VZD CAPITAL MANAGEMENT

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