MONONGAHELA CAPITAL MANAGEMENT

PERCEPTIONS

3rd Quarter, September 30, 2022	9/30/2022	% Change 3rd Quarter	% Change Year to date
Dow Jones Industrials	28,725.51	(6.17) %*	(19.72) %*
S & P 500	3,585.62	(4.88) %*	(23.87) %*
Russell 2000	1,664.72	(2.19) %*	(25.10) %*
BC Aggregate BD Index		(4.75) %	(14.61) %
10 YR. Treasury Yield	3.83 %		
30 YR. Treasury Yield	3.78 %		

** Includes reinvested dividend*

Stocks for the Long Run

Jeremy Siegel, the Russell E. Palmer Professor of Finance at the Wharton School of the University of Pennsylvania, published the 6th edition of "Stocks for the Long Run" on September 27th, 2022. The 1st edition was released in 1994 and the subsequent editions have been seminal in their analysis of equity performance over the long term. While copyright laws prohibit us from reproducing some of Professor Siegel's fascinating charts, suffice it to say that bear markets are a blip on the screen in the long term total return of equites. In Chapter 2 of the new edition, Siegel notes:

> Swings in investor sentiment resulting from political or economic crises can throw stocks off their long-term path, but the fundamental forces producing economic growth have always enabled equities to regain their long-term trend. That is why stock returns have displayed such stability despite the radical political, economic, and social changes that have impacted the world over the past two centuries.

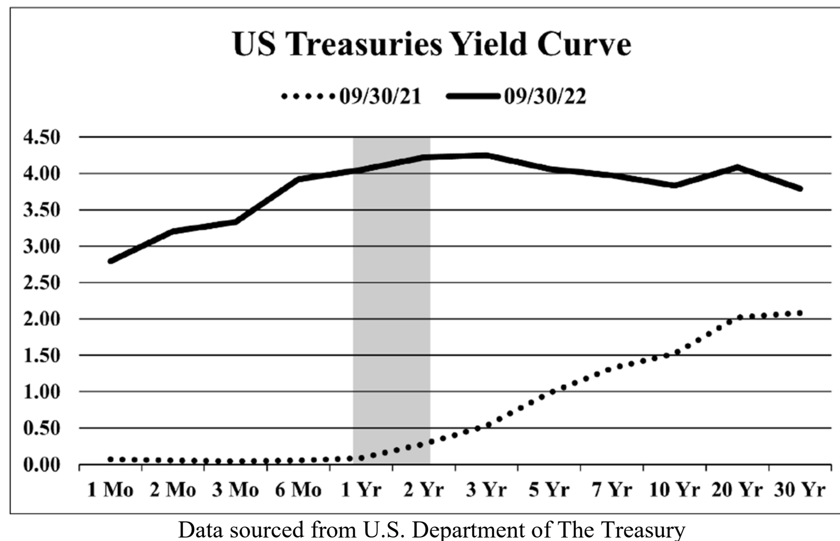
Siegel examines total nominal returns from 1802-2021, noting the relative performance of stocks, bonds, gold and the CPI. 220 years is very long term, but in that period, $1 invested in stocks would be worth $54,200,000 and $1 invested in bonds, the next highest return category, would have returned $50,206. The annualized return for stocks during that long period was 8.4% while the bonds had an annual return of 5.0%. Annualized returns for the S&P 500 reviewed for the last 50 and 100 years are slightly higher. With the wonders of compounding, an average return of 8.4% would double a portfolio in approximately 8.6 years.

Our quarterly reports are meant to present a snapshot of a portfolio's value at a given moment and present comparisons with broad benchmarks. While the declines presented in this report are painful, they represent a mark to market, placing a current value on all assets in the portfolio. Profits or losses are unrealized or "paper losses" until a sale occurs. We position your portfolio

so that sales occur when valuations dictate as opposed to having to sell at less attractive price during market declines.

The current bear market, marked from the peak of prior market highs, is approaching one year; the average bear market lasts slightly less than 10 months. The constant barrage of negative news, economic and social, makes it difficult to stay the course, but that is exactly the path forward. The market is essentially a discounting machine, pricing in anticipated future conditions. Our fundamentally based research strongly suggest that value-oriented portfolios anchored with individual equities should "regain the long-term trend" as we approach 2023.

Opportunity in Inflationary Environment



Data sourced from U.S. Department of The Treasury

The chart above depicts the dramatic shift in short term interest rates over the last year. In our opinion, the "sweet spot" of the yield curve, the one-two year maturities, presents investors with a safe, short duration alternative to the zero bound interest rate environment of the last decade. As we write today, a one-year Treasury Bill is yielding 4.45%, up from approximately 0.10% a year ago and the two-year currently yields 4.5%. Fixed income has historically been an integral component of a portfolio, but the extraordinarily easy monetary policy of the last decade and zero rate policies rendered short term fixed investments non-contributory to total return. As we return to a normalized interest rate environment, when appropriate, we will be developing your fixed income portfolio anchored in Treasuries with blended short-term maturities. U.S Treasuries, backed by the full faith and credit if the U.S. government, are considered one of the safest investments, if not the safest, in the global financial markets. Staying with shorter term maturities, we will minimize volatility and maximize yield.

Managing your portfolio requires us to look forward. Perhaps sooner than the markets expect, the Federal Reserve will pause in its rapid tightening. Milton Freidman, who coincidently worked with Jeremy Siegel at the University of Chicago early in Siegel's career, wrote at length about the lag effect of monetary policy; it takes anywhere from six months to two years for the effect of changes in monetary policy to take hold in the economy. When the pause occurs, and it will, we will be well positioned with the short-term Treasuries and your value-oriented portfolio.