Atherean
Wealth Management, LLC

101 Hudson Street, 21st Floor
Jersey City, NJ 07302
Ph: 1-347-409-1499
cgething@atherean.com
http://www.atherean.com

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Dear Atherean Wealth Management client:

Enclosed is your portfolio summary report for the quarter ending September 30, 2022, a summary of your investment objectives and target asset allocation as per our records, and an investment advisory fee statement for the fourth quarter of 2022. It is important that you review your investment objectives and target asset allocation and let us know if any of it is incorrect or if there are any changes to your financial profile or liquidity needs. For a full report of the holdings in your accounts we encourage you to refer to your statements generated by the custodian.

Economic Review and Outlook

The Fed has continued to react forcefully to the sustained inflationary environment with three 75 bp hikes, a 50 bp hike and a 25 bp hike since March of this year. We believe that much of the hot air which was pumped into the U.S. economy via loose fiscal and monetary policies post-COVID has been let out as we have witnessed commodity (i.e. lumber, copper) prices, home prices, and many speculative asset (i.e. cryptocurrencies and equity securities of yet-to-be profitable companies) prices decline substantially since the Fed began its hiking regimen. Indeed, we believe that the Fed may very well have already accomplished its objectives of price stability and low inflation however due to the rapid pace of the rate hikes it is too soon to know for sure.

The U.S. economy is thus far showing remarkable resilience in the face of rapid interest rate increases with real GDP increasing at a 2.6% rate in the third quarter. That being said, weak ISM PMI® data indicate that a slowdown may be imminent. In the event that an economic slowdown does occur, we believe that there is a high likelihood of it being mild in the U.S., as consumer debt levels remain historically low and consumer savings balances remain near historical highs. We believe that the underlying economy is robust and that the neutral policy rate which reflects the equilibrium rate of economic growth, r*, is much higher than the Fed believes it to be[1]. Accordingly we do not believe that the Fed has already overshot the neutral policy rate as the consensus seems to believe. That being said, the consumer savings rate was at a multi-decade low in August with the American consumer saving on average 3.5% of their income[2], which indicates that the cushion

[1] We believe that the Fed has a secular stagnation bias left over from the previous decade and that the real equilibrium rate of economic growth has increased substantially over the past few years. For a detailed explanation see MRB Partners, "Government Bonds: This Is What Capitulation Looks Like", April 21, 2022

[2] Source: FRED, St Louis Fed, Domestic Capital Account (Saving and Investment)

in the consumer spending portion of the economy in the form of household free cash flow has become thin. The strong dollar is having the effect of the U.S. effectively exporting inflation to the rest of the world, and we remain concerned about the so-called weak-link economies with high levels of household debt (such as Australia, Canada and the U.K.) as we believe that these economies will be less able to withstand a higher cost of capital in the event that their central banks are forced to raise rates further.

Equity and Fixed Income Markets – Recent Performance and Valuation

Throughout this year global equity markets have been in a combination of a derating regime (decreased present value of future earnings due to higher interest rates) and a devaluation regime (expectations of future economic and hence earnings slowdown). Year-to-date as of the end of the third quarter of 2022 the U.S. large-cap (S&P 500) index was down 24%, the U.S. mid-cap (S&P 400) index was down 22%, the U.S. small-cap (S&P 600) index was down 23%, and the Europe, Australasia, and Far East (EAFE) index was down 27% on a total-return basis. Equity valuations have come down but remain mixed with the S&P 500 trading at a current P/E multiple of just over 16[3] and the Shiller CAPE ratio recently settling in at a level of just under 28[4] as of the writing of this letter. Global bond markets have had one of their worst years in several centuries, with the British long-bond market having its worst year-to-date performance since 1753[5]. As correlations between stocks and bonds high and both asset classes posting abysmal returns thus far this year, the classic 60/40 portfolio has had its worst year-to-date performance in over a hundred years[6].

Portfolio Management

Although it remains to be seen if we will remain in a high interest rate environment for an extended period of time, we believe that if we do remain in such an environment companies which return capital to shareholders sooner rather than later will be attractive. For this reason we have been searching for companies with substantial cash flows and high current rates of return to shareholders whether in the form of stock repurchases or dividends.

In the third quarter we took a position in Charter Communications[7]. The current incarnation of the company came into being in 2016 through the merger of Legacy Charter, Time Warner Cable, and Bright House Networks. The company has demonstrated exceptional capital allocation and discipline which has resulted in free cash flow per share growing at an steady annualized rate of over 35 percent over the past three and a half years. When we purchased the stock it was trading at a price to free cash flow ratio of just over five. The company continuously and consistently generates substantial free cash flows which it uses to aggressively repurchase its shares through an opportunistic combination of open market purchases and purchases from related entities[8]. In the first six months of 2022 the company has repurchased 7.2% of its fully diluted shares outstanding, and since 2016 the company has repurchased over forty percent of fully diluted shares outstanding. We are very confident in the company's ability to continue to grow its free cash flow per share in

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[3] Source: Yardeni Research, Inc, "Stock Market Briefing: Selected P/E Ratios", October 26, 2022

[4] For September 2022. Source: Robert Shiller via YCharts

[5] British long bonds plunged 37% recently. The weakest performance of British bonds prior to this year was British perpetual securities declining 20% during the American Revolution (1778-1779) and 23.2% during the first year of the Napoleonic wars (1803). Source: Grants Interest Rate Observer, "The Stocks Look Pale", October 14, 2022.

[6] The classic 60/40 portfolio, consisting of 60 per cent equities and 40 per cent bonds, has returned an annualized rate of return of minus 34.4 per cent thus far in 2022, its worst performance in the last hundred years. Source: Bank of America Global Investment Strategy

[7] The securities which we discuss in this letter are not necessarily allocated to all of our client accounts. Whether or not we choose to allocate a particular security to your account will depend on your risk tolerance, investment objectives, tax situation and objectives, and liquidity needs. Nothing printed in this letter should be construed as a solicitation or an attempt to effect transactions in securities.

[8] Since September of 2016 Charter Communications has repurchased 113.0 million shares via open-market purchases, 17.6 million shares from Advance/Newhouse, and 9.3 million shares from Liberty Broadband. Source: Charter Communications Q2 2022 Investor Presentation

the coming years due to a combination of share count reduction, subscriber growth and the ability to raise prices on new and existing subscribers.

In the frequently-discussed "convergence apocolypse" scenario, telecommunications companies such as Verizon and AT&T are investing in building out their fiber networks in an effort to take market share away from established cable providers such as Comcast and Charter Communications. The cable providers in turn are attempting to take market share away from the telecom companies in the wireless segment, and through bundling of cable and wireless services the telecom companies and cable companies each seek to take market share away from the other in their respective core businesses. Building out fiber is a capital-intensive endeavor with high upfront costs and the exercise requires significant discipline over long time frames in order to execute successfully and profitably. Providing cellullar phone service, on the other hand, is a variable-cost exercise for the cable companies as they operate their cellular services as mobile virtual network operators where they can lease the required cellular bandwidth from the telecom companies. Cable is a high cash-flow margin business, while cellular phone service is a high-volume, low-margin business due to substantial price competition and low switching costs. We believe that the cable companies have the advantage long-term as they already own and control substantial infrastructure and have consistently demonstrated the ability to allocate capital successfully across projects which generate superior rates of return on investment over long time periods. The telecommunications companies would need to shift their capital allocation strategy and focus significantly in order to successfully compete with the cable companies long term. On the other hand, the cable companies could easily abandon and exit their tit-for-tat price war with the telecom companies in the cellular segment at any time with minimal losses or impairments, as the endeavor involves negligible capital expenditures.

As always, we are available to discuss your investment portfolio, discuss your financial plan, or address any other questions or concerns which you may have. Please feel free to reach out via phone or email if you would like to speak with us.

Sincerely,

Atherean Wealth Management

Atherean Wealth Management, LLC