Atherean
Wealth Management, LLC

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

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Dear Atherean Wealth Management client:

Enclosed is your portfolio summary report for the quarter ending December 31, 2023, a summary of your investment objectives and target asset allocation as per our records, and an investment advisory fee statement for the first quarter of 2024. 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.

Market and Economic Environment

The U.S. economy grew at a 3.0% annualized rate in the fourth quarter of 2023[1] and while core inflation has cooled substantially, cyclical components of inflation, which include rent and housing, remain high. On one hand the economic outlook is solid as unemployment claims have pulled back from last year, the unemployment rate remains close to an all-time low, retail sales remain robust and corporate credit spreads remain tight. That being said we are seeing some signs of weakness, including increasing delinquencies and chargeoffs on less-than-prime loan receivables[2] and a reduction in the ratio of job openings to job seekers. The Fed anounced the end of its rate-hiking cycle in December and while the bond market is implying rate cuts later this year we believe that this imminent loose-money scenario may end up being a short-term phenomenon as many long-term structural inflationary forces remain present[3].

Equity and Fixed Income Markets – Recent Performance and Valuation

Global equity markets rallied in 2023 with the U.S. large-cap (S&P 500) index up 26%, the U.S. mid-cap (S&P 400) index up 16%, the U.S. small-cap (S&P 600) index up 16%, and the Europe, Australasia, and Far East (EAFE)

[1] Estimated real (inflation-adjusted) annualized GDP rate as of 1/30/2024. Source: Federal Reserve Bank of Atlanta

[2] Synchrony Bank (SYF) and Discover Financial Services (DFS) both reported an increase in loan delinquencies and chargeoffs in the fourth quarter of 2023. Synchrony reported net charge-offs of 5.58% of loan receivables in Q4 of 2023 versus 3.48% in Q4 of 2022, and Discover reported a net charge-off rate of 4.11% in Q4 2023 versus 2.13% in Q4 of 2022. Source: Synchrony Bank and Discover Financial Services Q4 2023 earnings presentations

[3] We believe that there are many long-term structural forces in place which will cause inflation to persist for a long time. Some of these include demographic factors, such as the aging population in the United States and the corresponding reduction in labor participation and labor supply.

index up 19%. Bond markets had a solid year with the Barclays Aggregate Bond index up almost 6%[4]. Due to the strong performance of both stocks and bonds the classic "60/40" portfolio rebounded sharply from one of its worst-performing years in recent history, returning 18%[5]. The S&P 500 is currently trading at a forward price-to-earnings multiple of just over 22[6] and its corresponding earnings yield remains below the short-term treasury yield.

Portfolio Management and Investment Philosophy

In the fourth quarter we took a position in financial services provider Ameriprise[7] (NYSE: AMP). Founded in 1894 and spun out of American Express in 2005, Ameriprise currently partners with over ten thousand financial advisors. These independent, entrepreneurial individuals manage the wealth of and provide financial planning for over two million individuals and insitutions and are effectively small business owners who operate within the framework of the Ameriprise infrastructure. We believe that the wealth management and financial planning business, while facing some temporary headwinds, will remain attractive in the long term. The number of individuals and families with investable assets has grown over recent decades and continues to grow. Unlike many of the bank-owned financial advisory firms[8] Ameriprise is a pure-play financial advice company and is a higher-margin, less capital-intensive business than its highly-leveraged bank competitors. With its low valuation, high growth rate and solid operating metrics the company is the epitome of what we call "quality at a reasonable price"[9]. As is typical of the capital-light compounding businesses which we invest in for the long term, the company has returned over eighty five percent of its operating cash flow to shareholders in the form of stock buybacks and dividends over the past ten years. Ameriprise's free cash flow per share has grown at a twenty percent annualized rate and its dividend per share has grown at an eleven percent annualized rate over the past ten years.

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, LLC

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[4] All return figures are total return (price return plus dividends and interest)

[5] Source: "Naysayers Were Wrong About the 60/40 Portfolio. Here's Why", Morningstar, January 9, 2024

[6] As of 1/22/2024. Source: Standard and Poor's via YCharts

[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] Ameriprise has a bank subsidiary but its deposits and assets are small relative to the size of its asset and wealth management business. The primary purpose of the bank is to keep money market and bank deposit assets from Ameriprise's client brokerage accounts in-house.

[9] As of 1/22/2024 Ameriprise has a forward price-to-earnings ratio of just over eleven and a return on invested capital of almost twenty five percent.