

**PERFORMANCE**

	<b>FMR Performance</b>		<b>Dow Jones</b>	<b>S&amp;P 500</b>
	<b>Taxable</b>	<b>Retirement</b>	<b>Industrial</b>	<b>Dividends*</b>
<u>2022 Q1</u>	<u>0.20%</u>	<u>0.96%</u>	<u>-4.50%</u>	<u>-4.60%</u>

Five Mile River (FMR) client account performance was essentially unchanged at the end of Q1 2022. This contrasts with the declines in the Dow (-4.50%), the S&P 500 (-4.60%) and the NASDAQ (-9.1%) in 1Q22. The FMR mid-quarter email blast (3.13.22) stated that FMR portfolios had been repositioned in the final quarter of 2021, to buffer against the coming threat of rising inflation coupled with the anticipated economic slowdown.

Specifically, FMR portfolios were adjusted to increase holdings in energy and most accounts now hold a weighting of approximately 15%, depending on the investment style employed for a specific client portfolio. This weighting is significantly above the S&P 500 energy weighting of 4% at year-end. FMR’s energy over-weight was based on the analysis that the energy markets were far tighter than conventional wisdom. This opinion was driven by the fact that demand was being understated, all the while supply reduction was greater than anticipated. This tightening has been in the works for well over a year and will remain a longer-term cause for elevated inflation. Nevertheless, the trigger for energy stocks’ performance (+30% in Q1) was the invasion of Ukraine. The enclosed piece titled “Energy Reality Today” discusses the oil market in more detail.

The effects of inflation and higher interest rates will cause a slowdown in U.S. consumer spending (two-thirds of GDP). Anticipating that this will unfold over the latter part of 2022 and into 2023, FMR reduced exposure in cyclical consumer companies, e.g., Home Depot and Simon Property Group. In 2021 both stocks rose over 50%, anticipating continued strength in consumer purchasing. In the case of Simon Property Group, it is the largest mall operator in the country, and is particularly vulnerable to a consumer spending slowdown.

Five Mile River clients have strong weightings in technology and in many cases as strong as energy. Unlike the tech rout this past quarter, which contributed to the NASDAQ’s -9.1%, FMR’s technology exposure is mainly in the form of Real Estate Investment Trusts (REITs) such as: cell towers (American

Tower and Crown Castle), data centres (Equinix and Digital Realty), and supply chain warehouses (Prologis). These REITs all enjoy tremendous growth because in many ways they provide the backbone for the digital age. And, as REITs they are required to distribute 90+% of their income in quarterly dividends. FMR clients are paid in dividends (yields of 3% to 4%) and capture the deferred long-term capital gains these stocks' performance have generated.

The "long bond" (10-year Treasury Note) declined in Q1 2022 from a yield of 1.5% to 2.7%, the largest single quarter decline in over 40 years! While the rise in interest rates does have a dampening effect on stock prices (P/E's decline), this quarter's rout in bonds was historic. FMR clients have heard a mantra consistently repeated that, as part of FMR's investment strategy, client assets have avoided owning bonds. During Q1 2022, this was especially fortuitous. In early January it became crystal clear that bond prices would decline because Federal Reserve Chairman, Jerome Powell communicated a far more aggressive policy stance for tightening money. Powell waited over a year to start tightening even though the inflation tsunami was already underway. This may well be regarded as one of Powell's biggest errors.

What is in store for 2022? Consider the myriad of potential market influences, such as: the implications of a protracted war between Russia and the Ukraine; further Covid variants; energy price pressures; rising interest rates; and economic slow-down across the world's leading economies. These considerations all contribute to increasing global political and economic risk. This mix of events could cause the S&P 500 in 2022 to fall 10% to 15%. Remember, after the first quarter the "markets" are down between a third to a half of this anticipated drop. As of this writing, year-to-date the Dow is down 7.5%, the S&P 500 is down 11.5%, and NASDAQ is down 19%. Clearly, April has been a punishing month, nevertheless, bull market corrections typically end with declines of about this amount. If the economy continues to remain healthy, even in the face of rising rates, and if there is a moderation in the rate of inflation this could result in the S&P 500 rising 8% to 10%. We note that since WWII, there have been thirteen cycles of Fed tightening and only in three did this does not result in a recession.

Five Mile River believes that a handful of influences will be dominant in 2022: Inflation will remain stubbornly high courtesy of both energy and food prices; the U.S. and world economies will slow; and Putin's resolve will make a year-long backdrop of war a probability. Having said this, FMR does not believe that there will be a U.S. recession. The downside risk in the market is whether Powell chooses a more aggressive policy stance to fight inflation by increasing interest rates more rapidly than currently anticipated. Suffice it to say, higher interest rates will have little effect in lessening the rise in the price of oil or food. Nevertheless, past Federal Reserve Chairmen, notably Paul Volker and Alan Greenspan, committed the mistake of raising interest rates to fight commodity inflation. Investors justifiably still have this memory, and many are concerned that Powell may induce a replay of this same mistake.

Five Mile River client portfolios hold positions in dominant companies that have excellent growth prospects, that generate cash, pay increasing dividends, and in many instances pursue share repurchasing plans. One of the pillars of FMR research is to study and track companies' quarterly results and stated outlook, and to use this information as one of the important metrics for investing client assets. Investors who are successful in wealth creation are almost universally those who build positions in great companies and hold them, particularly through the tough times.

In March, Five Mile River Investment Management moved its main office from Darien, CT to, Okatie, SC. A change of address card is enclosed, and please note that all FMR phone numbers are unchanged. The objective in the move was to find a business-friendly state with favourable business tax

policies and costs that are lower than Connecticut. South Carolina fits that objective and the timing for making this move seemed to fit many of the variables that drive such a change. Five Mile River has enjoyed tremendous growth over the past few years, and South Carolina provides a climate that makes our business more efficient. The Savannah Airport is just 35 minutes away and we invite you to visit in our home and our offices. Lee Garcia, CFA continues to operate FMR's Scottsdale, AZ office.

Included in this quarterly letter is a separate write-up, "Energy Reality Today," that provides the fundamental backdrop to explain FMR's strategy to invest in and continue to hold an overweighting in energy securities in client portfolios.

We thank you for the confidence you have placed in FMR's stewardship of your assets and welcome your questions.

Most sincerely,



Lee



Todd



Martha

*\*The S&P 500 Index is a market capitalized weighted index of 500 companies. It is a growth-biased index because the larger the capitalization of a company, the larger the weighting it contributes to the S&P 500 Index performance. The index referenced includes the dividends issued by these 500 companies. This index is used for a comparison for FMR accounts. The performance data included in this letter are not audited and have not been otherwise reviewed or verified by an outside party. While Five Mile River Investment Management, LLC endeavors to furnish accurate information, investors should not rely upon the accuracy or completeness of this information.*

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