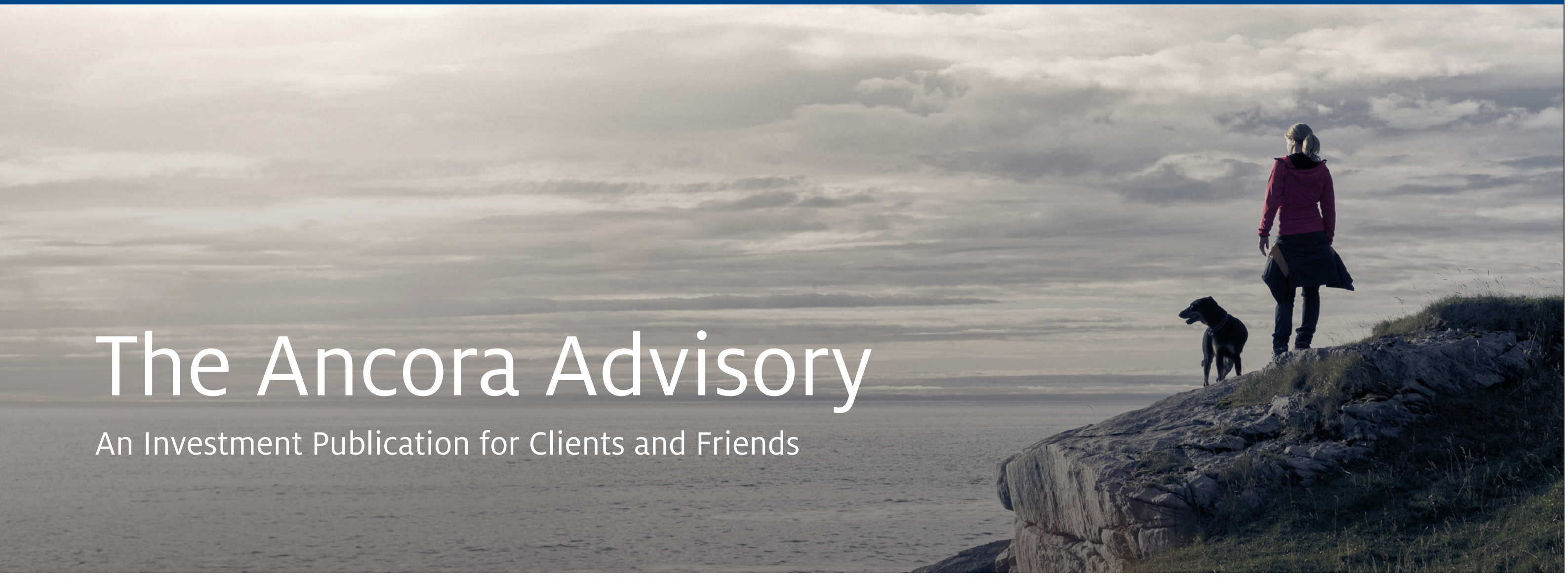
ANCORA
Fourth Quarter 2022



The Ancora Advisory

An Investment Publication for Clients and Friends

Ancora consists of four primary business units; Family Wealth, Asset Management, Retirement Plans and Insurance Solutions. With experienced portfolio managers, proprietary investment strategies and an entrepreneurial spirit, Ancora delivers tailored solutions so you can achieve more ... on your terms.

Time to Make a List

John Micklitsch, CFA, CAIA
Chief Investment Officer

Fresh off a pair of jam-packed and high-stakes college football weekends (Thanksgiving and Conference Championship Editions), a coaching philosophy I heard espoused recently provided inspiration for this article. Texas Tech's new head coach Joey McGuire was on a radio broadcast recently and shared how he and the coaching staff figured out that if they did seven specific things during four quarters of football, the odds of winning would improve dramatically. They even looked back and plotted out all the games they had played at a previous school, and the regression analysis was convincing that they were on to something. These were all basic football goals that, when all were accomplished during a game, tilted the playing field in the team's favor.

Similarly, Tiger Woods famously developed five golden rules for elite-level golf. Lists like these had us thinking about what a similar list might look like for being a successful investor. Since a financial adviser is a lot like a coach in many regards, we thought we would give it a try in the hopes that it would be useful and shorten the learning curve based on our experience. Therefore, here are seven things you can do as an investor to increase the odds of being successful over the long term.

1. **Invest in quality.** In the investing world, the term *quality* carries with it a lot of metrics around things like consistency of earnings, margins, balance sheet strength and management, to name a few. Though in its simplest form, quality is something that you are confident will endure, to the point that if it dropped significantly in price, you would be confident to buy more. This is a good thing to ask yourself as you make investment decisions.

2. **Diversify.** Traditionally, diversification has meant to not put all your eggs in one basket, such as investing in all stocks or all bonds. We are in an era, however, where additional layers of diversification are now more accessible than ever. Investors can think beyond stocks and bonds to include alternative investment return streams in their portfolios. This additional diversification benefit can be thought of as a third leg of the stool supporting your portfolio, which can give investors another way to win

across different market conditions and economic environments.

3. **Don't try to time the market.** Not only is it an exercise that is unlikely to be successful (the odds of getting two coin tosses correct in a row is 25% (50% x 50%)), but it can also end up costing you far more in the long run than any temporary market drawdown will. Rarely do we see anybody get out of the market and then get back in at a lower price. On the other hand, the odds of generating a positive return from a diversified portfolio of stocks held for ten years is over 95%. Play the high odds.

4. **Avoid things that don't make sense or seem too good to be true.** If you can't grasp the basic investment pitch in five minutes or understand the core economics driving the opportunity, then perhaps the opportunity is not right for you. As Warren Buffett likes to say, there is no strike count in investing. You can swing how you like to swing, and only swing at the pitches that are right for you.

5. **Shift your performance evaluation horizon.** We have written previously about how, in the short-term, markets can be very volatile. Lengthening the time-frame you use for evaluation can shift things into a better perspective.

6. **Save like a pessimist, invest like an optimist.** Optimism pays off for investors in the long run as economic clouds of uncertainty give way to the long-term benefits of innovation and growth, but, to build an even higher margin of safety, it is a good idea to save like a pessimist.

7. **Invest in your own human capital.** Investing is a wonderful way to accumulate wealth, but it takes financial capital to do so. The best way to obtain financial capital is via your human capital, which is the creativity, problem solving, effort and determination you bring to your business, career and workplace. An investment in human capital (education, public speaking skills, industry certifications, etc.) paves the way for the accumulation of financial capital.

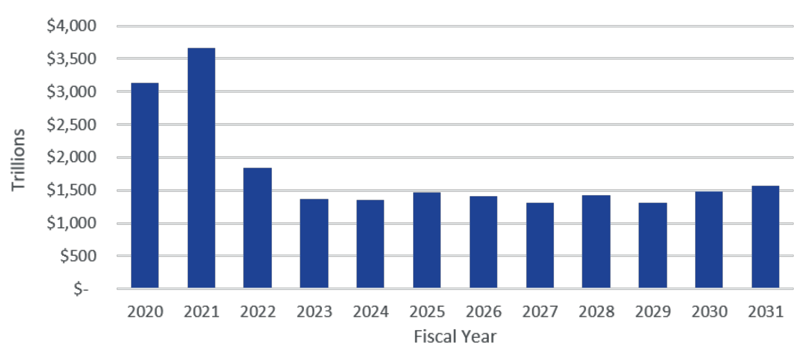
These seven ideas are powerful building blocks for a successful long-term investment program. As the saying goes, "investing is simple, but it's not easy." A good coach can step in to make the process easier, but it is still not easy. On that note, after some research in the four major professional sports leagues in the U.S. (football, baseball, basketball and hockey), no team in the modern era has won a championship with a player-coach model. The independent coach who can motivate players, chart a course or strategy for winning and then hold the team accountable, is the coaching model that yields the best results. We believe the same holds true with investing and are happy to serve as your coach. Just like for Tiger Woods and Joey McGuire in their respective sports, we think this list might have the power to transform the seemingly chaotic and uncertain world of investing into something more principled and enduring. ◊

Can Budget Deficits Lead to a Liquidity Crisis

Kevin Gale
Managing Director, Head of Fixed Income

The United States Government is used to running deficits. In fact, the Federal Government has only had a surplus in 33 of the past 121 years since 1901, with the most recent surplus coming in 2001 at $130 billion. For comparison, in fiscal year 2022 the U.S. Federal Government spent $6.0 trillion, resulting in a deficit of $1.8 trillion for the year. Based on the most recent Budget of the U.S. Government published by the Office of Management and Budget, these deficits are expected to continue with proposed deficit spending of at least $1 trillion in each of the next 10 years.

U.S. Proposed Deficits

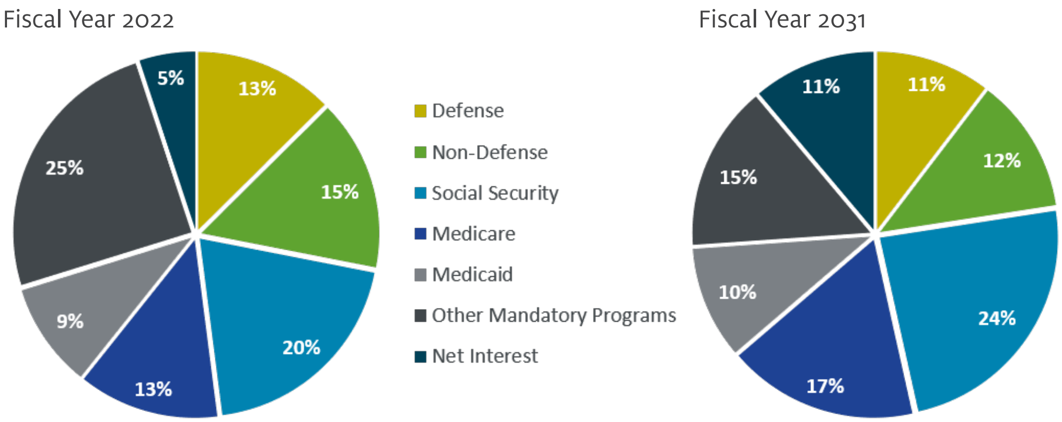


Source: Office of Management and Budget

A significant portion, about 60% per year, of federal spending is on Mandatory Programs, which include Social Security ($1.2 trillion in 2022), Medicare ($766 billion in 2022), Medicaid ($571 billion in 2022) and other programs ($1.5 trillion in 2022). Most of these programs are indexed to inflation, which will result in significantly higher spending in 2023 as we face the highest inflation levels in 40 years.

With rising interest rates and rising debt levels, interest expense is projected to become a larger burden on the federal Budget. Within the next 10 years, interest expense on the federal debt is expected to approach $1 trillion, up from $305 billion in fiscal year 2022. In fact, the budget proposal has interest expense accounting for 11% of Federal Government spending in 2031, up from 5.1% in 2022.

U.S. Federal Budget



Source: Office of Management and Budget

The continuous budget deficits that the Federal Government runs has led to a significant increase in the amount of outstanding Treasury securities. The total amount of outstanding U.S. Treasuries, including securities held by the Federal Reserve, has reached $31.2 trillion as of October 31, 2022. This is up from $23.3 trillion as of the end of 2019. As the size of the Treasury market grows, liquidity in the market becomes a concern.

Dealers that are responsible for providing liquidity to the Treasury market are under strict capital rule requirements that were put in place after the financial crisis of 2008. At the time these capital requirements were implemented, the Treasury market was about half of its current size. Given the sharp rise in outstanding Treasuries, dealers have not been able to keep up with the day-to-day trading demands of the larger market due to the capital requirements they must adhere to. This has led to higher volatility in the Treasury market and higher trading costs (wider bid/offer spreads). If regulators do not address this situation, volatility will likely increase, which could lead to a potential liquidity crisis in the Treasury market.

We believe that regulators are fully aware of the massively growing Treasury market. A possible outcome includes looser capital requirements for trading firms that are deemed liquidity providers for Treasuries. In addition, it is possible the Federal Reserve could become a liquidity provider as they have in the past (i.e., with quantitative easing). This is an area of the market we are keeping a close eye on, and believe that regulators and the Federal Reserve are too.

Liquidity is an important part of the Treasury market. While we do not expect liquidity to become an issue, if it does, yields could rise significantly, pushing bond prices lower. If this were to happen, we believe the Federal Reserve would do whatever it takes to stabilize the market. Nevertheless, we continue to believe that a laddered fixed income portfolio remains the prudent approach to a fixed income allocation. ◊

Behavioral Wisdom from the Most Successful Investors

Jeffrey van Fossen, CFA
Managing Director, Portfolio Manager

After 35 years working in finance, I have seen a lot. Not everything, but almost! Managing money for clients through different market environments has not only taught me what does and does not work in investing, but also how human behavior can interfere with successful investment outcomes.

Successful investing requires patience, discipline and the ability to control one's emotions in both bull and bear markets. Believe it or not, there is little disagreement among the most well-known successful investors about what works in investing. Yet human nature, society, culture and even our subconscious have a harmful tendency to distract us. So, here are some insightful quotes about investor behavior that we hope you'll find both entertaining and instructive, especially in this a time of heightened uncertainty.

On Practicing Patience

Being patient with your investments means that, once you have selected an asset to invest in, you should ignore short-term price volatility in the value of the investment and remain invested for the long-term.

> *"The stock market is a device to transfer money from the 'impatient' to the 'patient'." - Warren Buffett*

> *"Waiting helps you as an investor and a lot of people just can't stand to wait. If you didn't get the deferred-gratification gene, you've got to work very hard to overcome that." - Charlie Munger*

On Maintaining Discipline

Smart, successful investors know that the price you pay impacts returns when it comes to making money in stocks, real estate or a private business. You can erode future returns and potentially lose money, even in the world's greatest businesses, if you pay too much at purchase.

> *"Most people get interested in a stock when everyone else is. The time to get interested is when no one else is. You cannot buy what is popular and do well." - Warren Buffett*

> *"People start being interested in something because it's going up, not because they understand it or anything else. But the guy next door, who they know is dumber than they are, is getting rich and they aren't." - Warren Buffett*

> *"In the short run, the market is a voting machine. In the long run, it is a weighing machine." - Benjamin Graham*

On Controlling One's Emotions

Investing based on emotion (particularly greed and fear) is the main reason unsuccessful investors move with the herd, buying at market tops and selling at market bottoms.

> *"Everything about our human makeup conspires to make us do the wrong thing. Most people get excited at the highs and depressed at the lows instead of being able to buy low and sell high. That's the human failing." - Howard Marks*

> *"If you are emotional about investing, you're not going to do well." - Warren Buffett*

> *"Winning at money is 80 percent behavior and 20 percent head knowledge." - Dave Ramsey*

On Market Timing

A major investor pitfall is trying to time markets. Even though we all know that the stock market is always vulnerable to occasional 10%, 20% or even larger drawdowns, historical data clearly shows that there is no evidence that you'll benefit by trying to time a market bottom or top.

> *"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves." - Peter Lynch*
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> *"It must be apparent to intelligent investors that if anyone possessed the ability to do so [forecast the immediate trend of stock prices] consistently and accurately he/she would become a billionaire so quickly they would not find it necessary to sell their stock market guesses to the general public." - David L. Babson*
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> *"I don't know when to buy stocks, but I know whether to buy stocks." - Warren Buffett*

Times of heightened uncertainty can lead to reactionary decisions that may harm, or at the very least decrease the odds of achieving your long-term goals. Revisiting time-tested behavioral principals referenced in the above quotations, combined with communication around any changes in your personal circumstances and liquidity needs, can ensure proactive steps in managing your portfolio through volatility. ◊

Growth Q&A: Ancora's Insurance Agency Acquisition

Brian Spear
Managing Director, Employee Benefits

John Bartels
President, Family Wealth

Andrew Page
Director, Corporate Development

Following Ancora's recent acquisition of an independent property and casualty (P&C) and health benefits agency, we asked Brian Spear, John Bartels and Andrew Page to discuss the strategic rationale for the deal and the benefit it brings to clients of both firms.

Q: Brian, please briefly walk us through what Ancora's newly-acquired insurance group does day in and day out for clients?

A: As a full-service insurance brokerage firm, we place and service policies for individuals and families as well as businesses of all sizes. Our approach involves identifying the best coverage solutions, making coverage changes as needed, providing claims assistance and educating our clients on their policies. We often educate our clients on the importance of certain coverages that might be overlooked. In our experience, those coverages are an important tool to protect businesses, attract and retain employees, protect property and mitigate personal liability, among other risks.

Q: Brian, what types of insurance do you place and with what carriers?

A: As an independent agency, we are able to place policies with most of the major carriers in the business. On the employee benefits side, the typical group plans we place are Health, Dental, Vision and Group Life/Disability insurance. The ability to work with essentially any carrier allows us to find the best fit for our clients from a large list of providers, as not every carrier's solution will be right for every business.

On our property and casualty side, policies we frequently place for individuals and families include home (primary and secondary residences) and auto, as well as umbrella insurance. For commercial or business clients, we often place property, liability and cyber liability policies among others. Like our employee benefits team, we work through the same lens of seeking the best fit for our clients, reviewing a range of variables to land on the most well-suited protection and give our clients peace of mind.

Q: Brian, what is one piece of advice you would give to families or business owners when shopping for P&C insurance?

A: Placing P&C insurance can be complicated as everyone's situation is unique and there are many variables at play. The more conversations we can have with our clients about their concerns or risks, as well as being provided with details about their current coverages, the better the solution we can land on for them. We value the trust and communication we have from our clients, which allows us to better understand their risks and more accurately place the coverages they need.

Q: John, Ancora has been placing life insurance for clients for a while, how does adding property and casualty insurance and health benefits help Ancora better serve its clients and expand its value proposition?
A: We have been helping clients evaluate and place life and long-term care policies for over seven years now. We not only help clients evaluate their current policies, but we also can help clients secure new policies to transfer wealth more efficiently, hedge against estate taxes and protect income for their families. In this light, our wealth planning group can now help our clients review the protection side of their balance sheet.

For example, when working with our wealth planning group, we can now provide an even more complete approach to protecting assets from risk with this additional expertise. A potential blind spot we have found among many clients, for example, is that as their net worth has grown, they did not know to update their umbrella protections to reduce risk and protect their growing assets. Umbrella policies tend to be very affordable and almost a no-brainer in this litigious society we live in today.

Lastly, we now are able to help our business owner clients review their total benefits solution that they offer to their employees. Our Retirement Plans team already serves over 150 plans and 14,000 participants. Now, we can round out our services and build a single service model for employee benefits, both health insurance and retirement plans, managed by a single trusted relationship and partner. That is a powerful model for business owners who already have a lot on their plates.

Q: Andrew, from your corporate development vantage point, have you seen many Registered Investment Advisers like Ancora enter the property and casualty space, or do you think Ancora is ahead of the curve in this regard?
A: We are starting to see a growing number of RIAs expand into the insurance space, either through M&A or strategic third-party partnerships. Like Ancora, these firms will be early players in enhancing their service models to meet the complex needs of their clients. When combined with traditional wealth management solutions, P&C and employee benefits are integral to creating a comprehensive financial plan. We believe that more and more clients will start looking for, and can benefit from, a single firm that has the capacity and expertise to internally manage their entire financial profile.

Q: If people have any P&C insurance or employee benefits related questions, what would be the best way for them to go about speaking with Ancora?
A: Clients should reach out to their existing team or relationship manager at Ancora. Their relationship manager will ask a few background questions and then connect them with the appropriate insurance team member(s) for their situation. For anyone who is not already a client, you can fill out the contact form on our website. We look forward to hearing from you. ◊

As always, don't hesitate to contact your Ancora advisor or relationship team if you have any questions or would like to learn more about these topics. Visit our website at www.ancora.net to read past newsletters and find other news and insights from the investment professionals at Ancora.

Market Data Center
As of 11/30/2022

Stocks	1 month	3 months	6 months	YTD	1 year	3 years	Dividend Yield	NTM P/E	P/B
S&P 500	5.6%	3.6%	-0.5%	-13.2%	-9.2%	35.3%	1.51%	17.1x	3.9x
Dow Jones	5.9%	10.2%	5.8%	-3.2%	2.2%	29.6%	1.80%	17.1x	4.5x
Russell 2000	2.2%	2.6%	1.8%	-15.0%	-13.0%	19.8%	1.29%	20.1x	2.0x
Russell 1000 Growth	4.5%	-0.2%	-1.9%	-23.4%	-21.8%	38.6%	0.76%	23.1x	9.6x
Russell 1000 Value	6.2%	6.6%	0.6%	-4.0%	2.1%	25.3%	1.88%	14.5x	2.5x
MSCI EAFE	13.2%	8.8%	-2.0%	-12.8%	-8.7%	7.9%	4.49%	12.3x	1.6x
MSCI EM	15.6%	0.2%	-6.5%	-18.4%	-16.8%	0.0%	2.77%	11.3x	1.5x
NASDAQ 100	5.5%	-1.8%	-4.5%	-25.9%	-25.0%	45.7%	0.67%	22.3x	6.4x

Fixed Income	Yield	1 month	3 months	YTD	1 year	3 years
U.S. Aggregate	4.56%	3.8%	-1.8%	-12.2%	-12.5%	-6.8%
U.S. Corporates	5.43%	6.6%	-0.5%	-16.6%	-16.5%	-7.8%
Municipal Bonds	3.94%	4.8%	1.0%	-7.1%	-7.1%	-0.9%
High Yield Bonds	8.66%	3.4%	2.9%	-9.4%	-7.3%	0.4%

Key Rates	11/30/2022	10/31/2022	8/31/2022	5/31/2022	11/30/2021	11/30/2019
2 yr Treasury	4.38%	4.49%	3.44%	2.54%	0.52%	1.60%
10 yr Treasury	3.70%	4.07%	3.13%	2.84%	1.44%	1.78%
30 yr Treasury	3.82%	4.20%	3.25%	3.05%	1.78%	2.20%
30 yr Mortgage	6.78%	7.22%	5.95%	5.35%	3.23%	3.73%
Prime Rate	7.00%	6.25%	5.50%	4.00%	3.25%	4.75%

Commodities	Level	1 month	YTD
Oil (WTI)	80.55	-6.9%	7.1%
Gasoline	2.11	-25.9%	-5.1%
Natural Gas	6.93	4.9%	94.8%
Propane	0.79	-10.5%	-24.3%
Ethanol	2.33	-1.3%	-5.3%
Gold	1,760	7.3%	-3.8%
Silver	21.78	13.9%	-6.7%
Copper	3.73	9.3%	-16.3%
Steel	655	-8.1%	-54.4%
Corn	6.67	-3.5%	12.4%
Soybeans	14.67	4.6%	11.8%

Data Reflects Most Recently Available As of 11/30/2022