

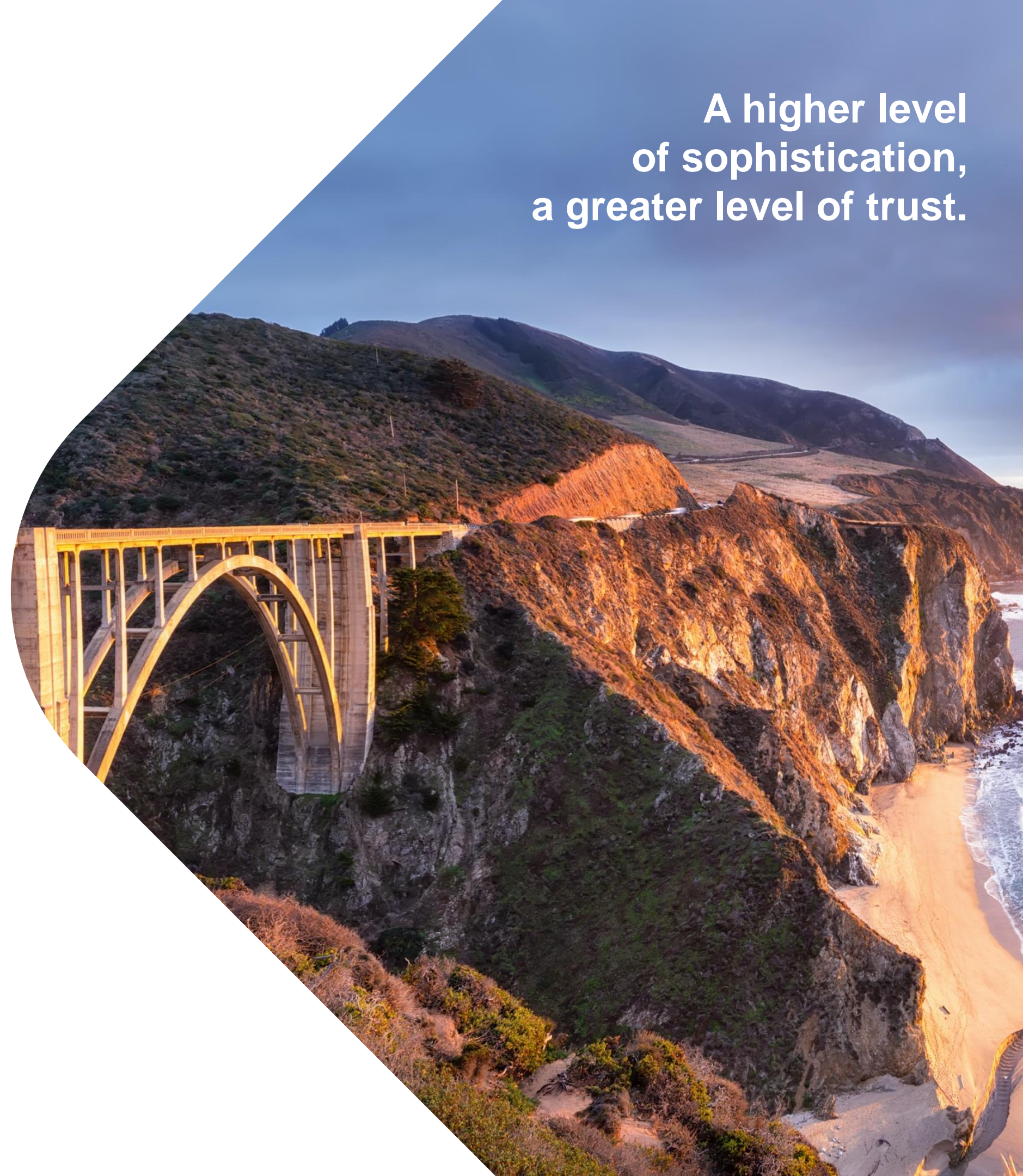


## World of Investments

**It's Your Money**  
October 12<sup>th</sup> 2023

450 Newport Center Drive, Suite 630, Newport Beach, CA 92660  
(949) 644 4444 / [www.knightsb.com](http://www.knightsb.com) / [knightsbridge@knightsb.com](mailto:knightsbridge@knightsb.com)

A higher level  
of sophistication,  
a greater level of trust.





# Your Presenter

## **John G. Prichard, CFA** Founder & President

### **Experience:**

**25+ years** investing experience  
Equity and fixed income security selection  
Fund & manager selection

**Previous Employers:**  
Canterbury Consulting

**Education:**  
BA - UCSD  
MA - Boston University

**Credentials:**  
CFA - Chartered Financial Analyst

John founded Knightsbridge in 1998. He earned an MA in finance and banking from Boston University and a BA in economics from the University of California San Diego. John is a Chartered Financial Analyst (CFA) Charterholder and served as a past President of the CFA Society of Orange County. He has served as a Trustee of the South Coast Repertory Theatre, Newport Beach Public Library and Boys and Girls Club of Laguna Beach. John currently serves on the board of the Newport Beach Public Library Foundation and is a member of the United Way's Tocqueville Society.



# Ask First – John Prichard

① **MY EDUCATION-** I have achieved the following level of education (check HIGHEST level achieved):

<input type="checkbox"/> Some High School	<input type="checkbox"/> High School Diploma	<input type="checkbox"/> Bachelors Degree
<input type="checkbox"/> GED	<input type="checkbox"/> Some College	<input checked="" type="checkbox"/> Masters or other Advanced Degree

② **MY CREDENTIAL(S)-** I have the following specialized credential(s) and training (examples: CFP, ChFC, CLU, CPA, JD, MBA, years of relevant experience):

CFA: CHARTERED FINANCIAL ANALYST

③ **MY RELEVANT LICENSE(S)-** I have the following license(s) giving me the legal authority to provide the services I am offering to you (examples: bar license (attorney); securities license; insurance license):

License Type	Covers What Activities	Issued By	License No.
N/A			

④ **LEGAL SERVICES-** (Check ONE):

☒ I DO NOT practice law, and the services I am offering to you do not involve practicing law.

☐ I DO practice law, and have an active license to practice law in California.

☐ I DO practice law, but DO NOT have an active license to practice law in California. I am, however, under the supervision of the following attorney who has an active license to practice law in California:

Name of attorney:	Telephone:
Address:	

⑤ **OUR BUSINESS RELATIONSHIP-** Check TRUE or FALSE:

☒ True / ☐ False: In our business relationship, I will at all times serve as a fiduciary and put your interests before my interests and those of my employer.

⑥ **MY COMPENSATION-** I will be paid in the following way (commission, fee, salary, etc.), by the named person or company, in connection with the services I am offering to you:

Way(s) I'll Be Paid	Payment Will Be Made By (name each person or company)
ASSET BASED FEE	CLIENT
(% OF ASSETS UNDER MGMT)	
DECLINES ANNUALLY	

⑦ **FINANCIAL PRODUCTS / AFFILIATED ORGANIZATIONS-** Check TRUE or FALSE:

☐ True / ☒ False: I offer or sell annuities, insurance, mutual funds or other financial products; or I am, or my employer is, affiliated with a person or organization that offers or sells annuities, insurance, mutual funds or other financial products.

⑧ **I certify under penalty of perjury that the responses herein are true to the best of my knowledge.**

Date: 10/20/22	Business Name: KNIGHTSBRIDGE WEALTH MANAGEMENT
Signature: [Signature]	Address: 450 NEWPORT CENTER DR # 630
Print Name: JOHN PRICHARD	Telephone: (949) 644-4444



# Today's Agenda

1. The power of the stock market



2. Bonds are good

3. Cash is King



4. What does a good investment advisor look like?

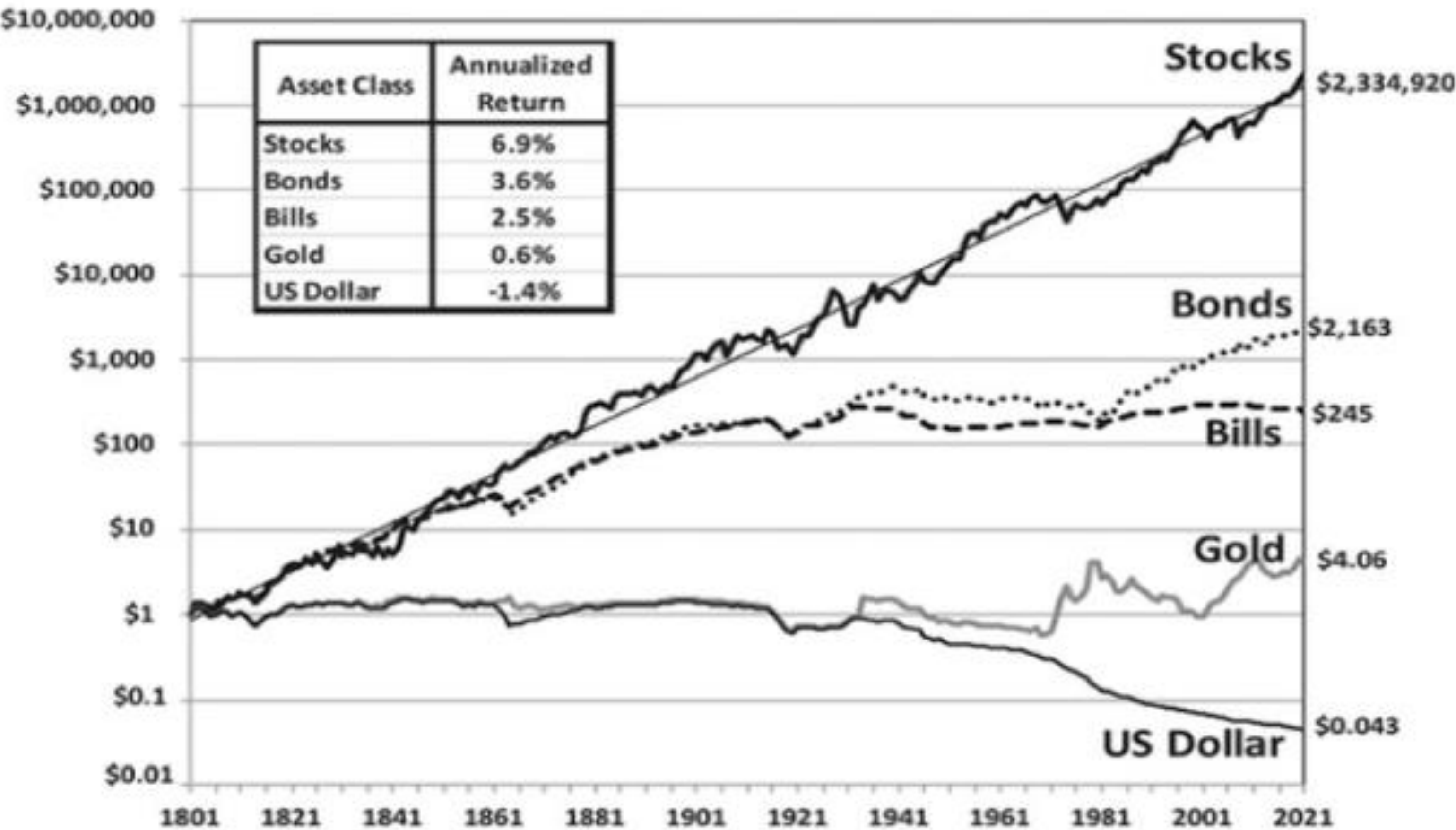




# The Power of the Stock Market



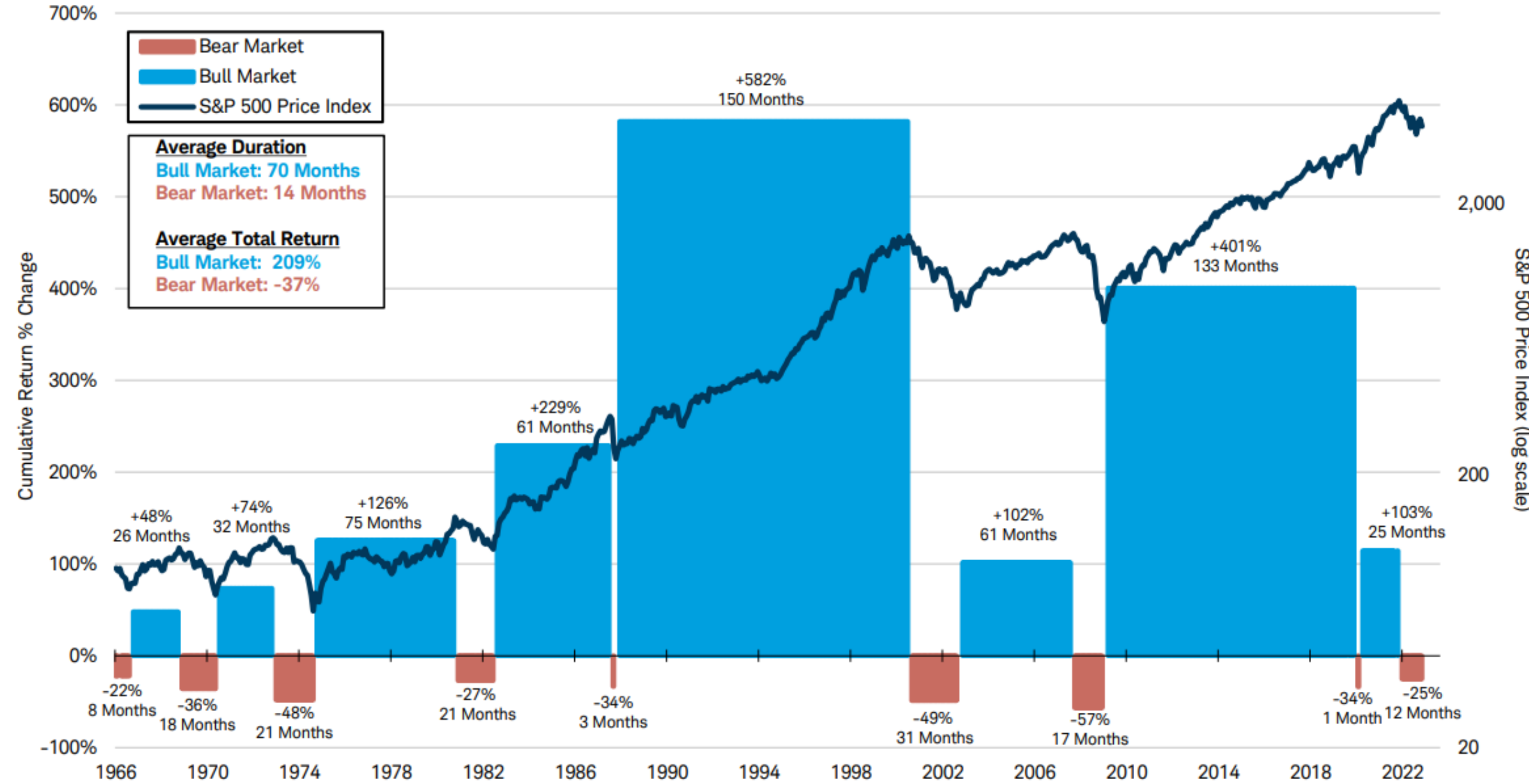
# Historical Annualized Return by Asset Class





# U.S. bull and bear markets

With most markets hitting bear market territory this year, it is notable that bull markets have generally been longer in duration and greater in magnitude than bear markets, resulting in gains over time.

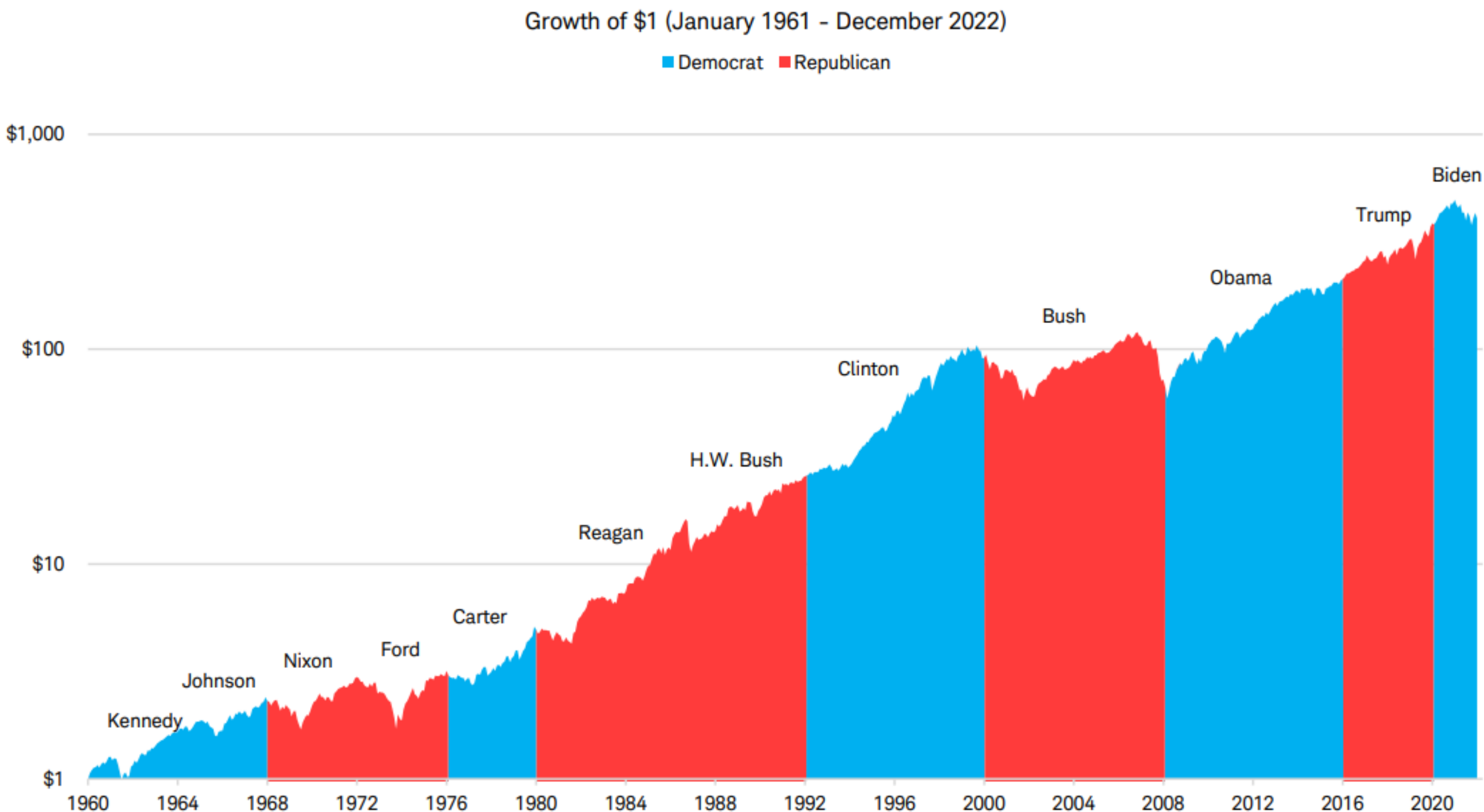




# Don't Bring Politics to Investing

## Politics versus sound investment principles

Markets have historically rewarded long-term investors regardless of the presidential party.

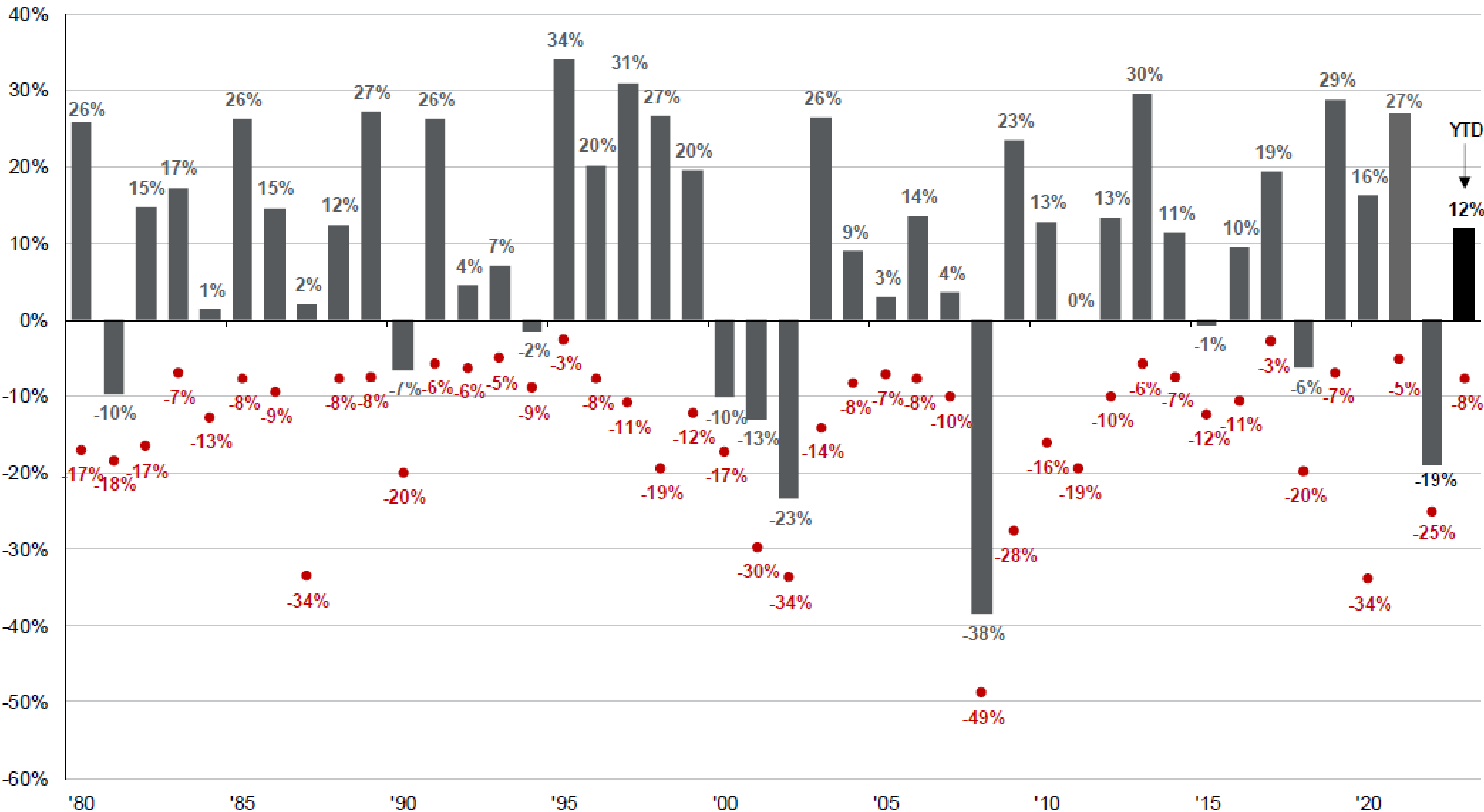




# Accept that Stocks Fluctuate in the Shorter Term

## S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.3%, annual returns were positive in 32 of 43 years



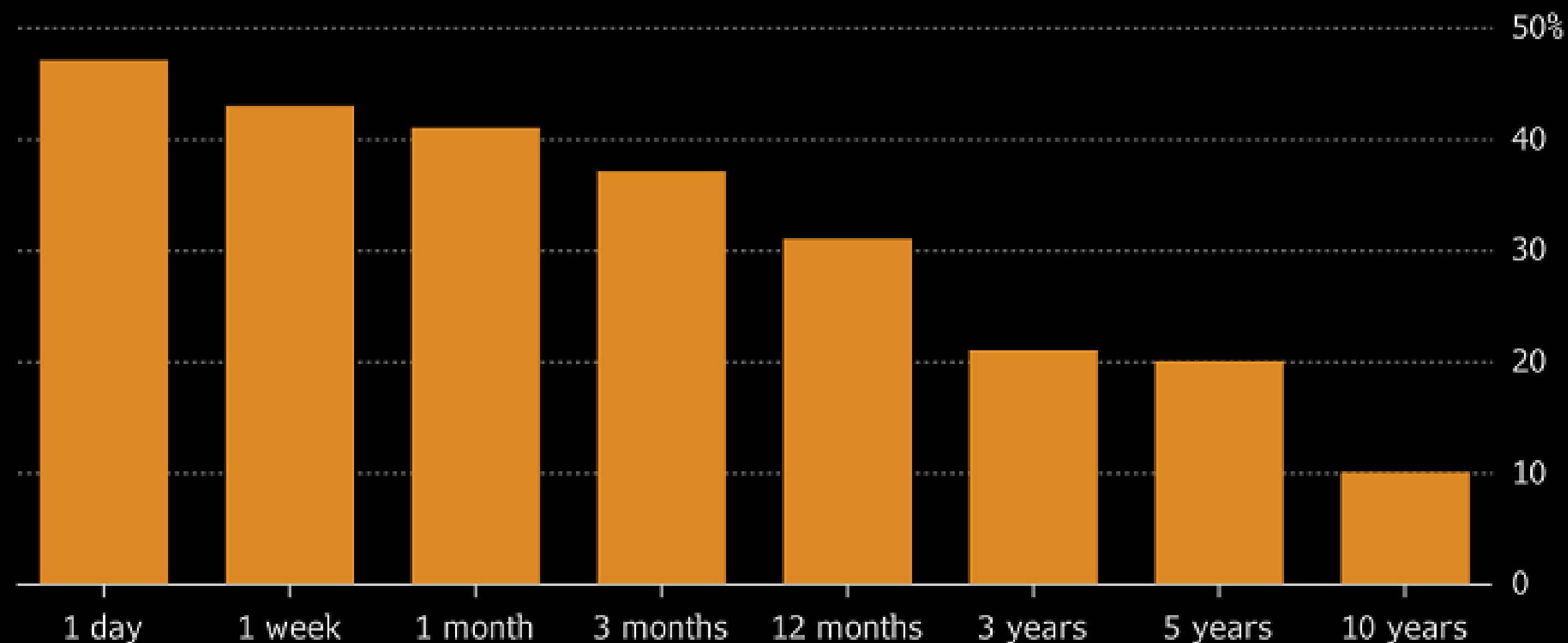


# Stocks Have Delivered Positive 5-Year Returns 80% of the Time

## Time Is on Their Side

U.S. stocks are less likely to post losses over longer holding periods, history shows

■ S&P 500 Index's probability of loss

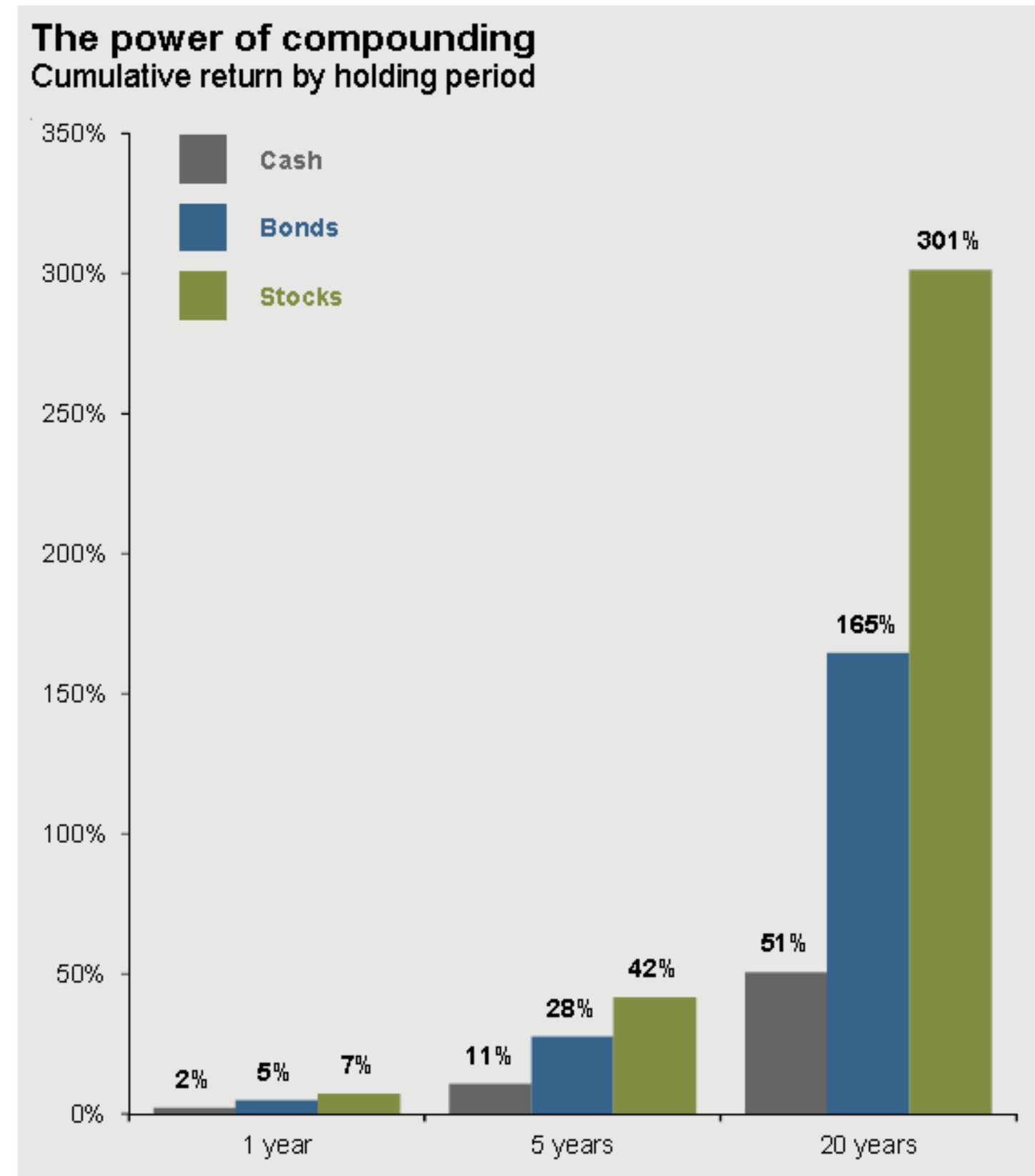


Figures are based on performance from January 1930 to May 2018.  
Source: Richard Bernstein Advisors LLC

**Bloomberg**



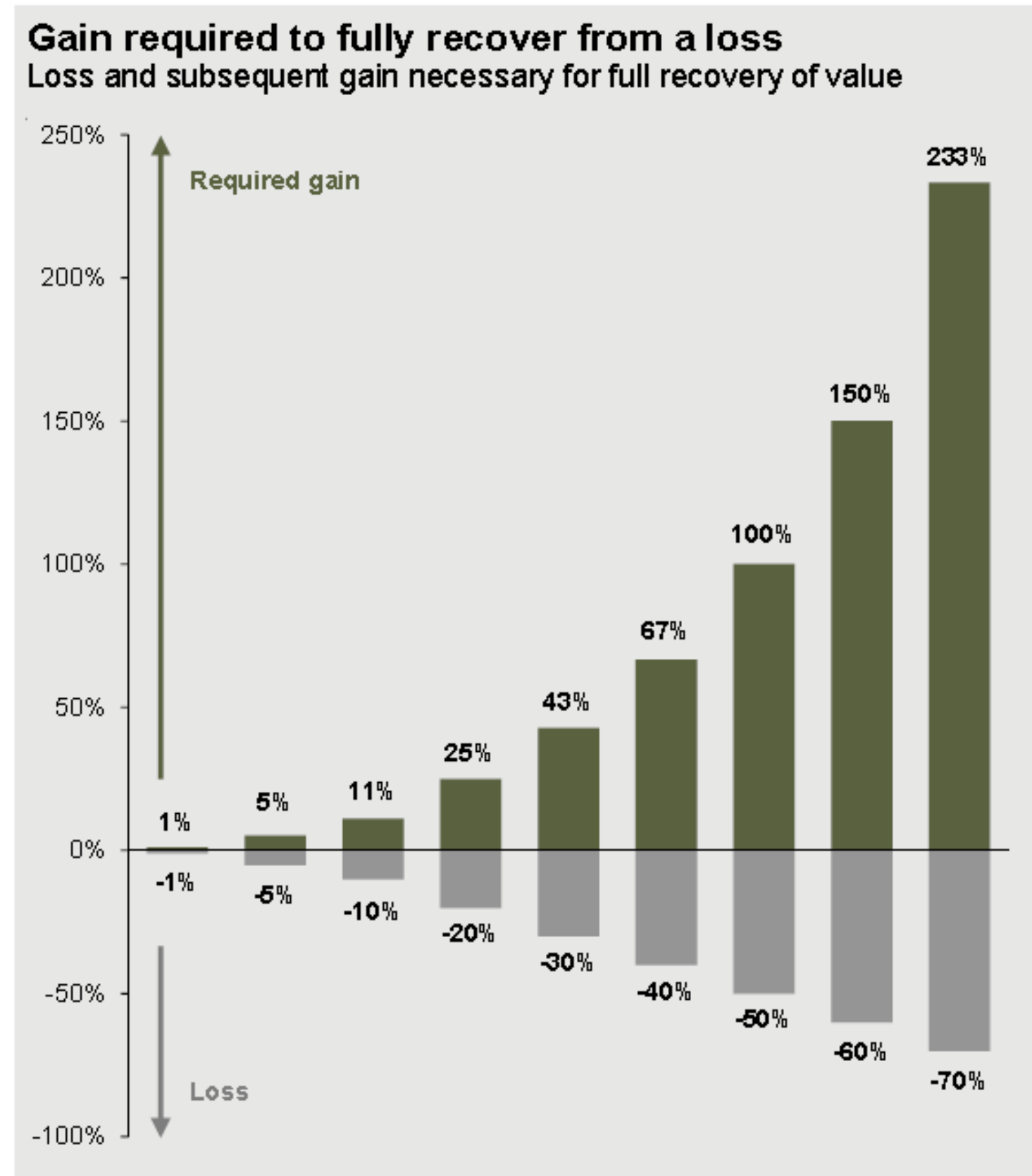
# Stock Returns Compound Over Time



Source: J.P. Morgan Asset Management, BLS, FactSet, Standard & Poor's

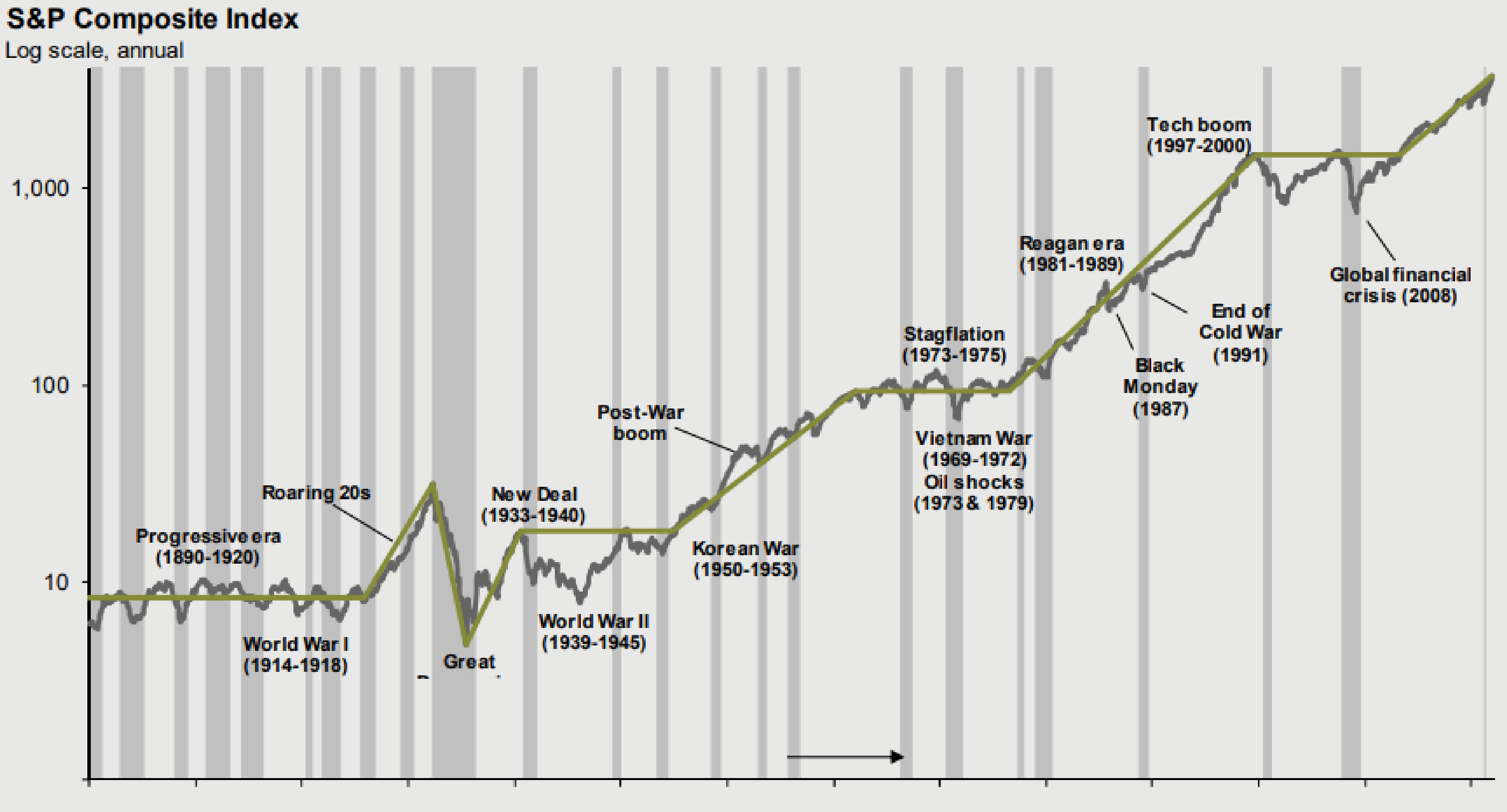


# But Don't Speculate in the Stock Market





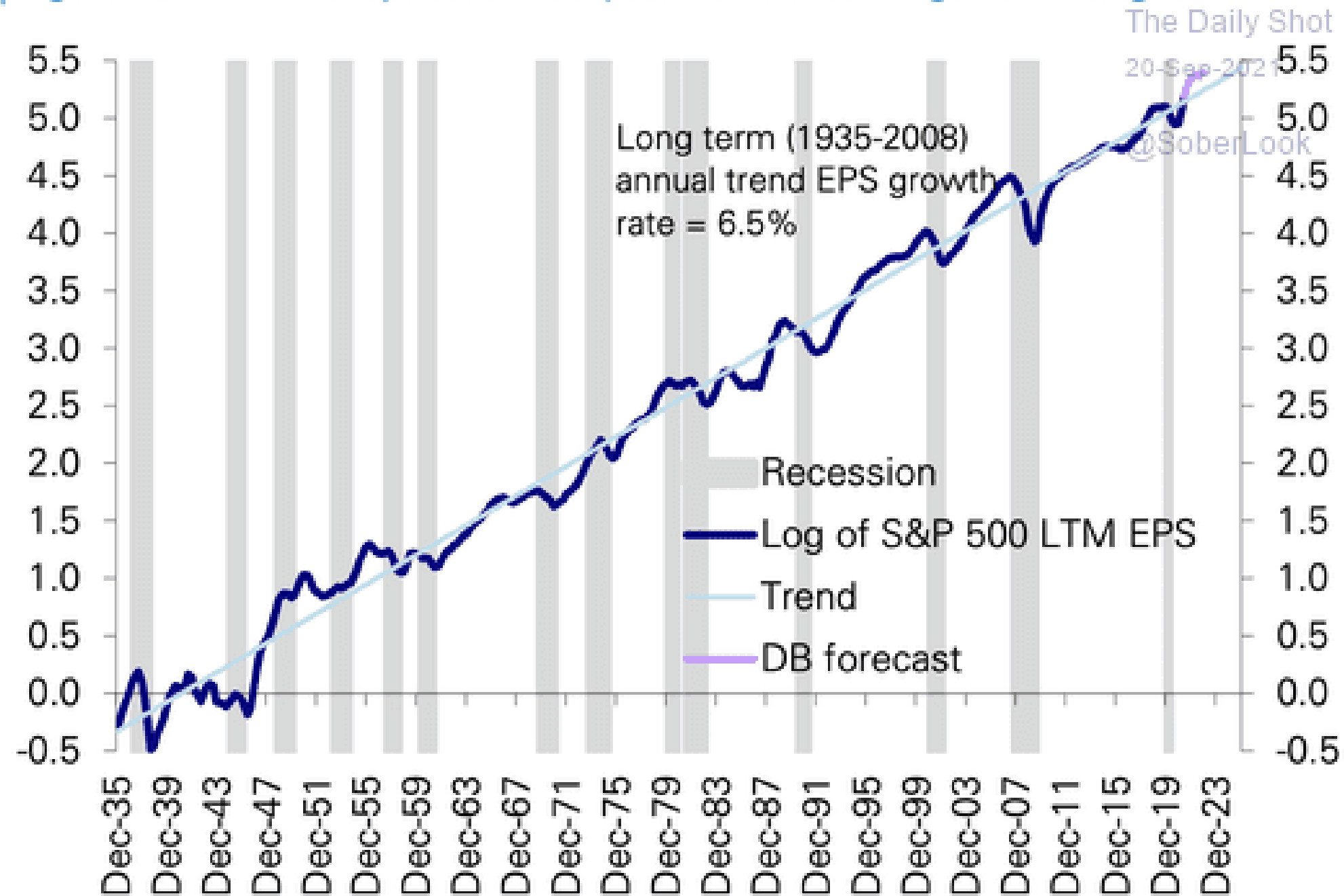
# The Stock Market Rises Through Time and Events





# Corporate Earnings Drive Stocks Higher

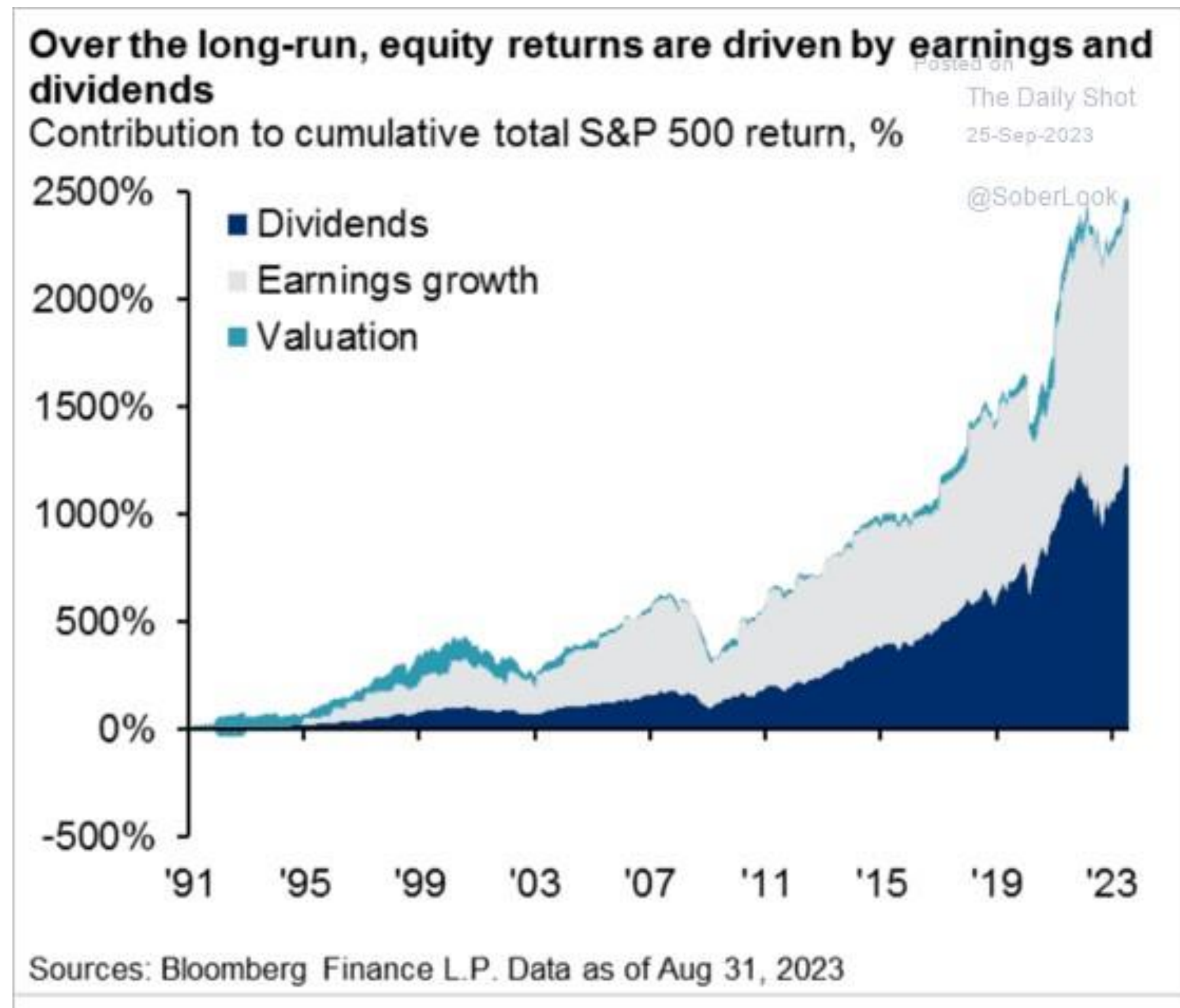
Figure 32: We are skeptical the 85-year trend in earnings has changed



Source : Bloomberg Finance LP, Deutsche Bank Asset Allocation



# Own Dividend Paying Stocks



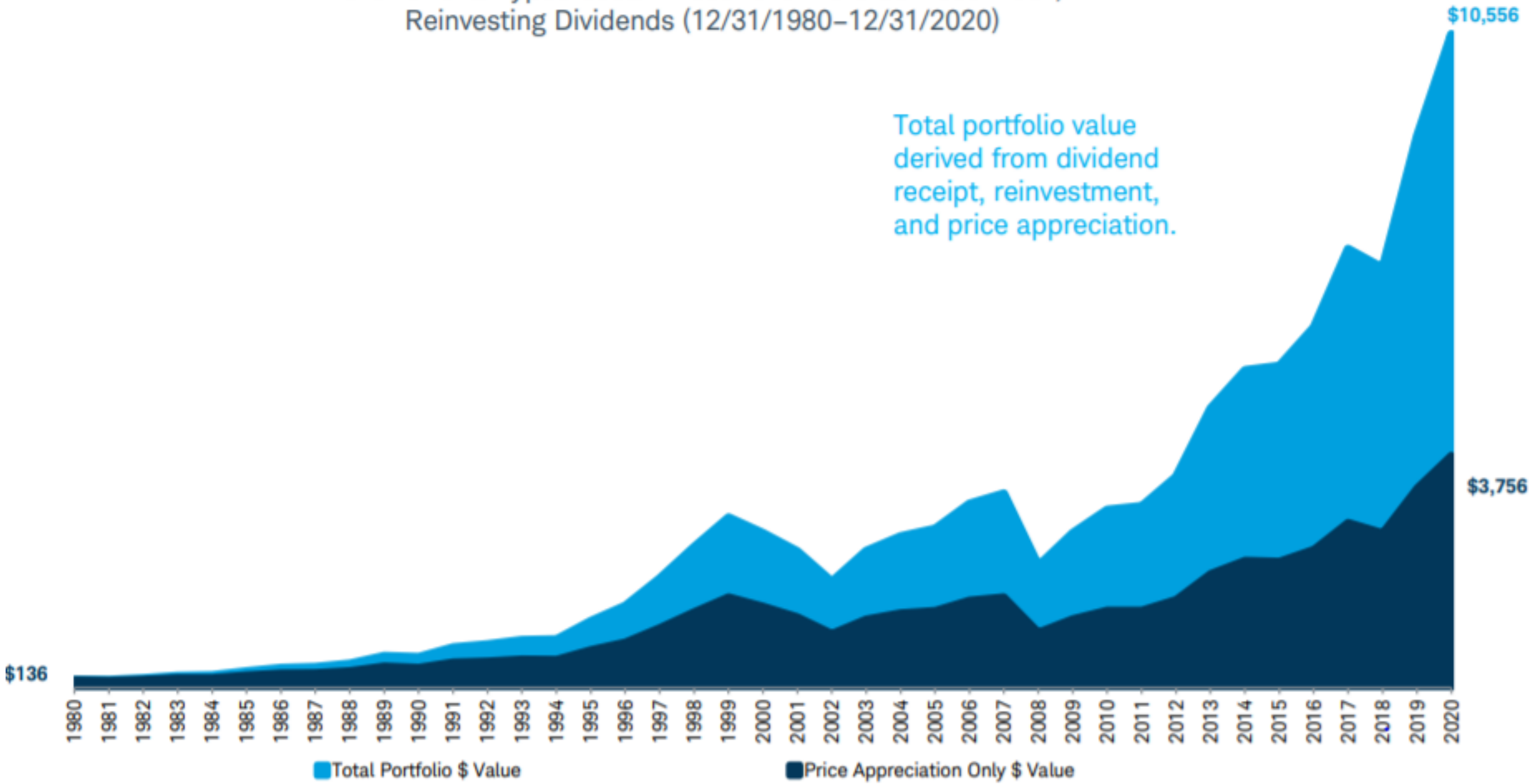


# Reinvest Your Dividends

## Impact of dividends on total return

Dividend-paying stocks are another income-generating security.

Growth of a Hypothetical Investment in the S&P 500 Index,  
Reinvesting Dividends (12/31/1980–12/31/2020)



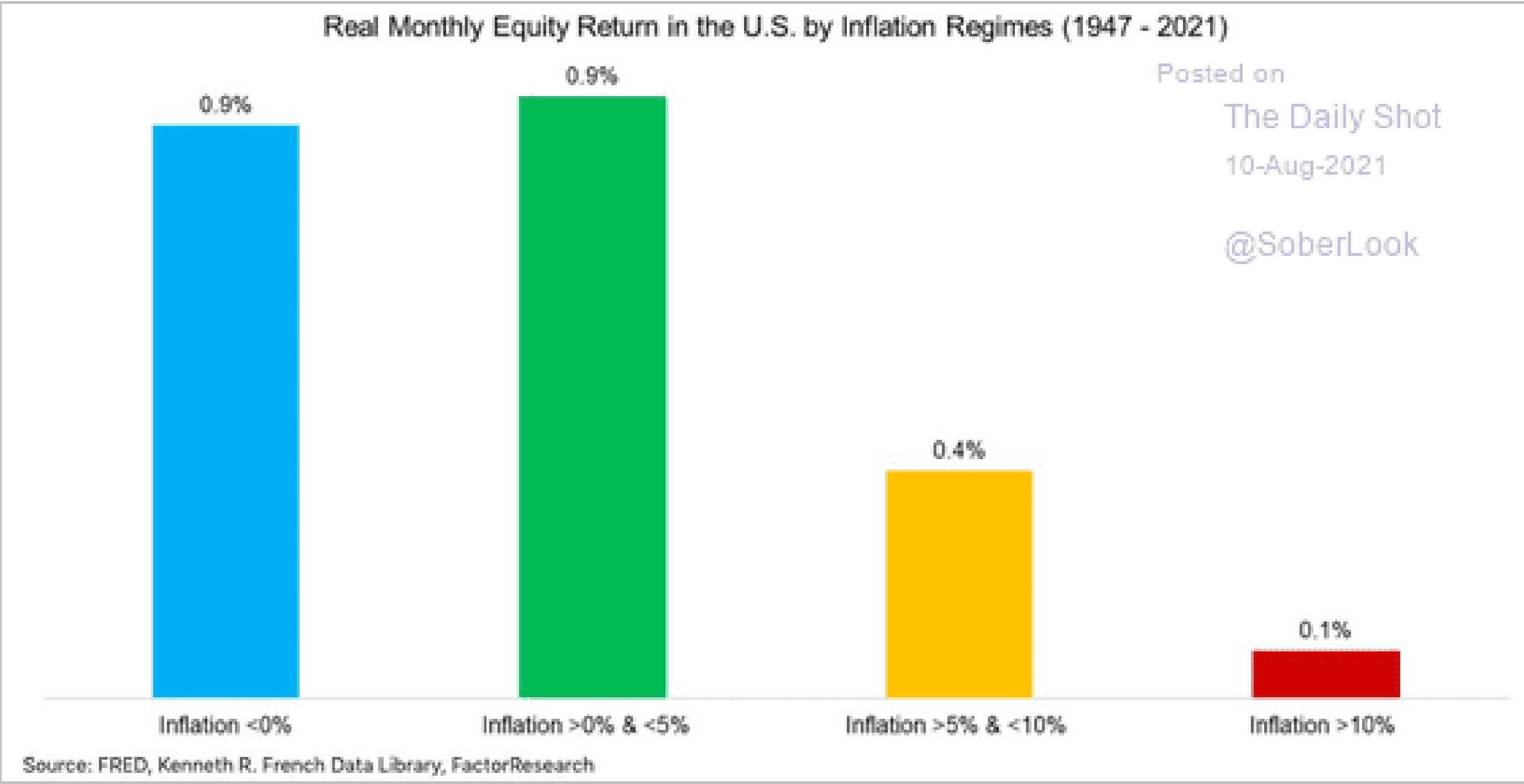
Growth of the S&P 500 Total Return Index assumes reinvestment of dividends, includes capital gains, and does not reflect the effect of taxes and fees. Source: S&P Global Indices and Bloomberg as of 12/31/2020. Indexes are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past performance is no guarantee future results.**



# Current Stock Market Conditions



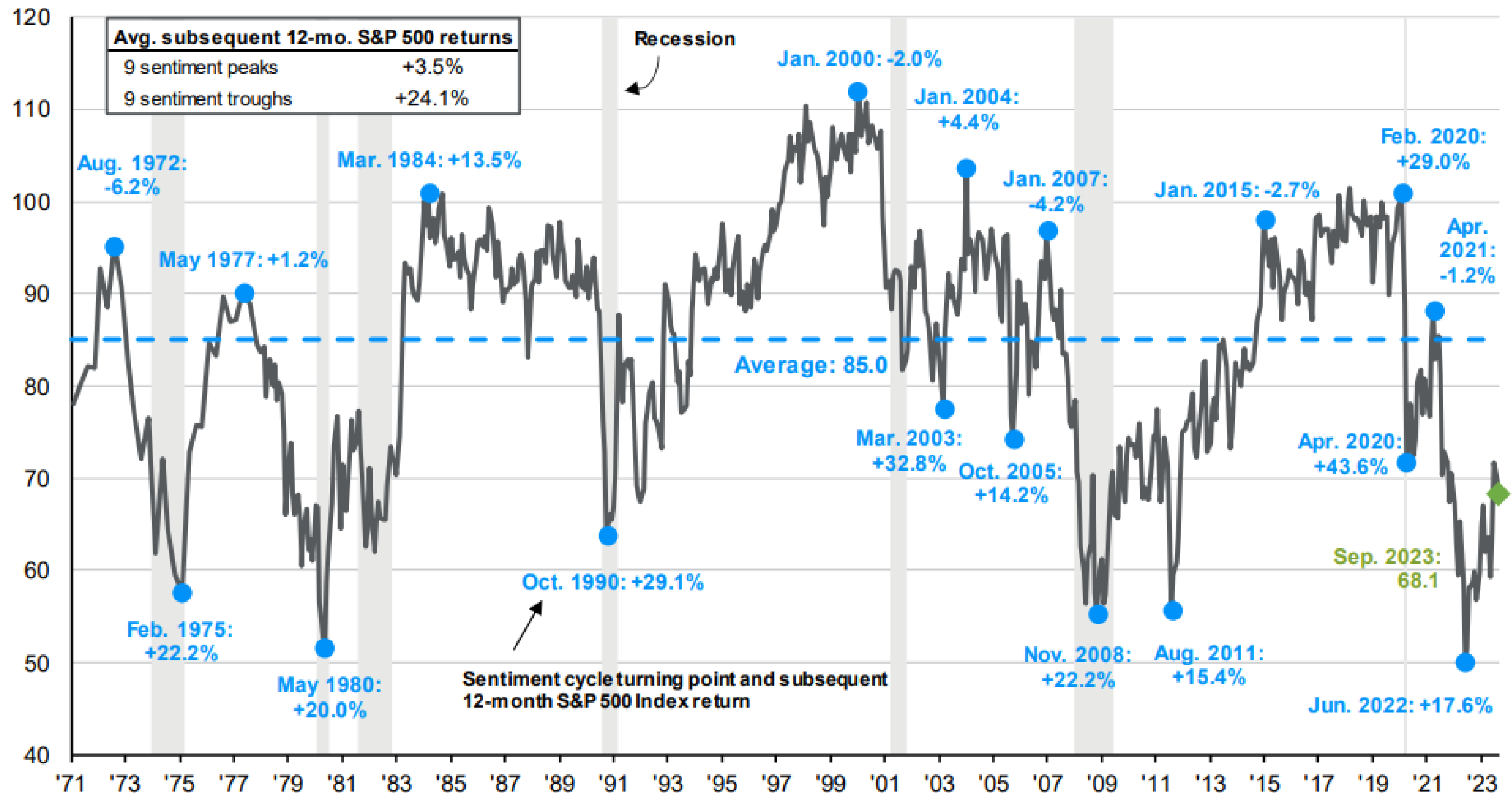
# Inflation Decline Favorable for Stocks





# Strong Returns Follow Depressed Sentiment

Consumer Sentiment Index and subsequent 12-month S&P 500 returns

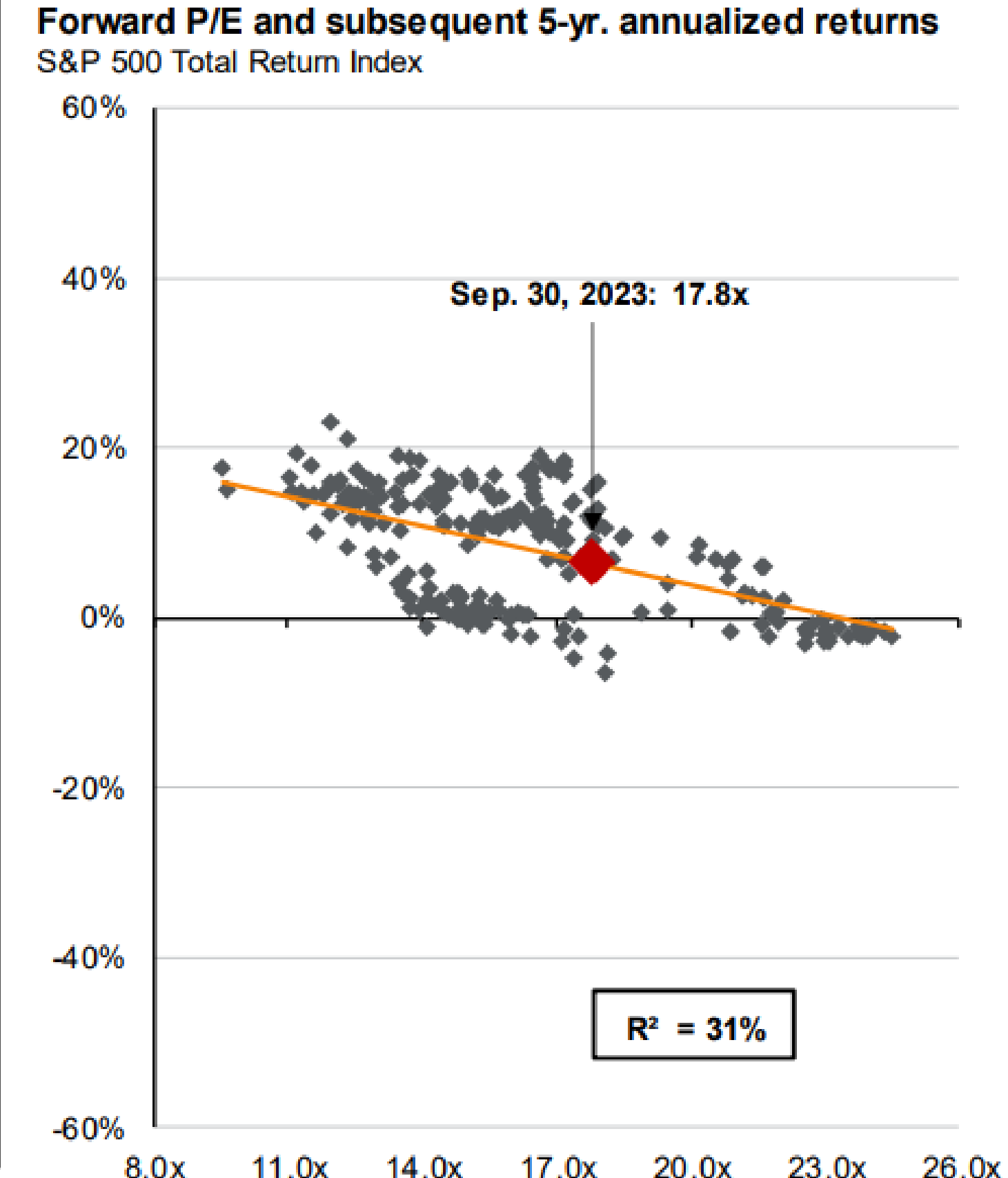
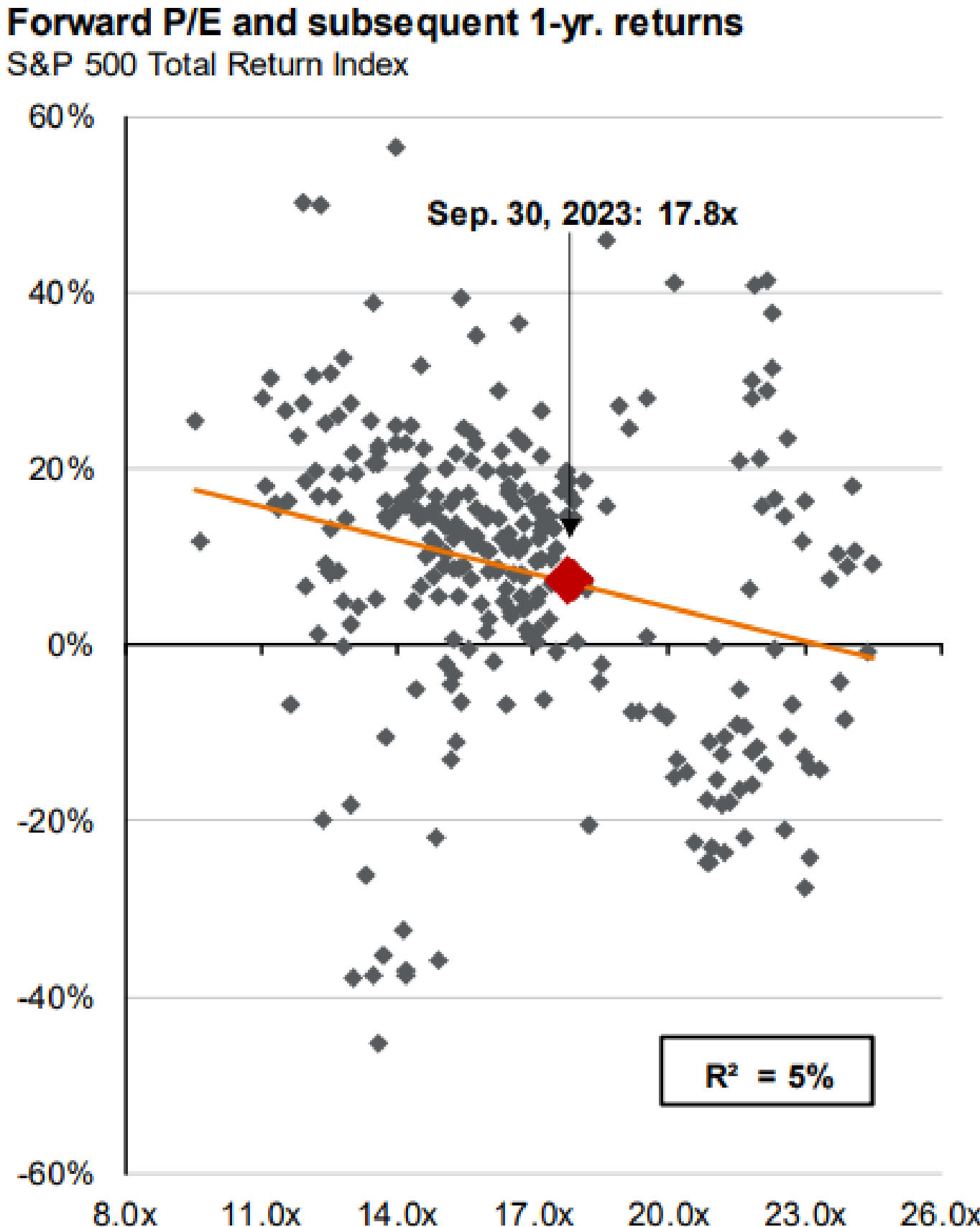




# Favorable Long-Term Value

Comprehensive Wealth Management

Knightsbridge Wealth Management 2022

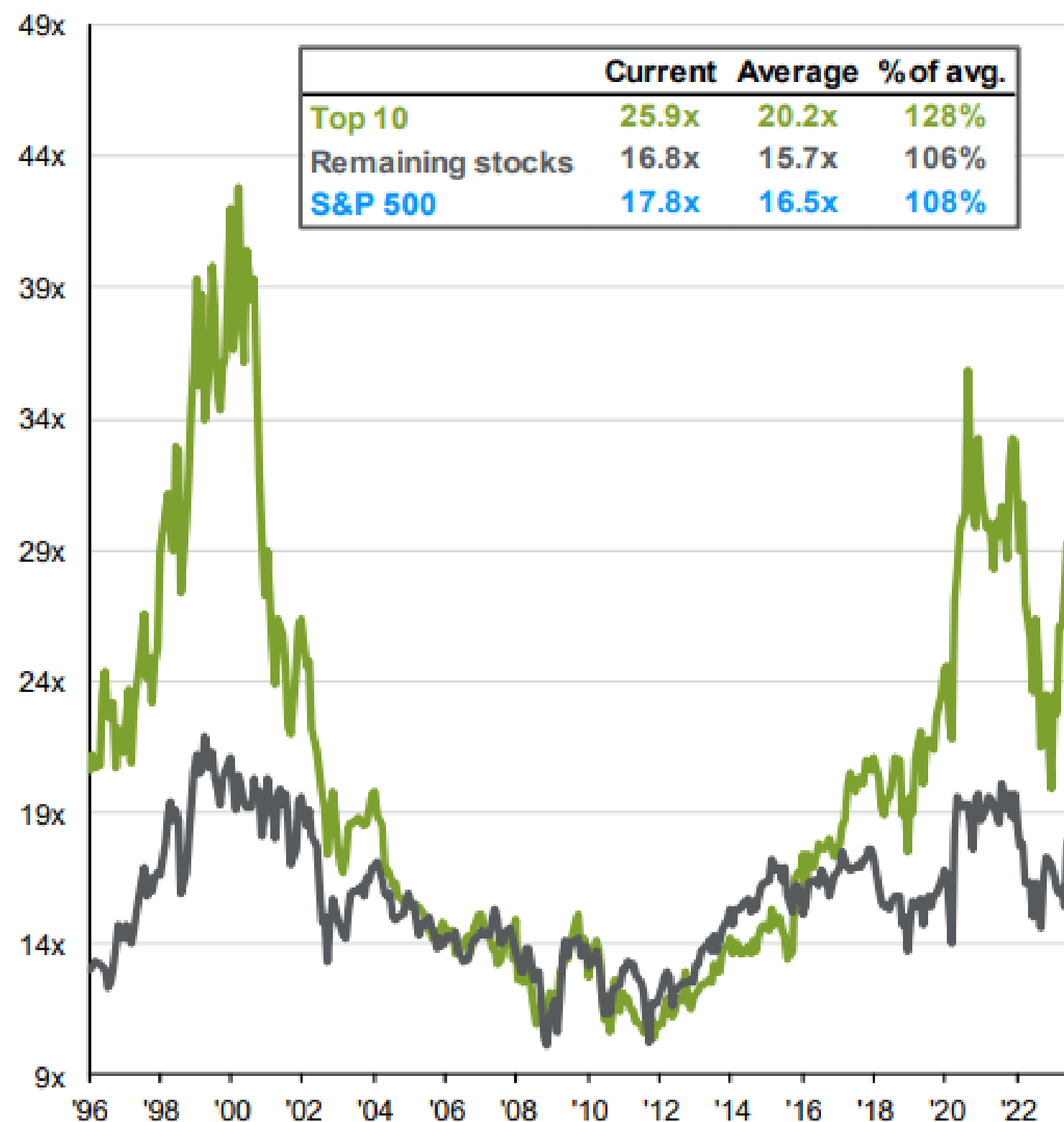




# A Time to Diversify

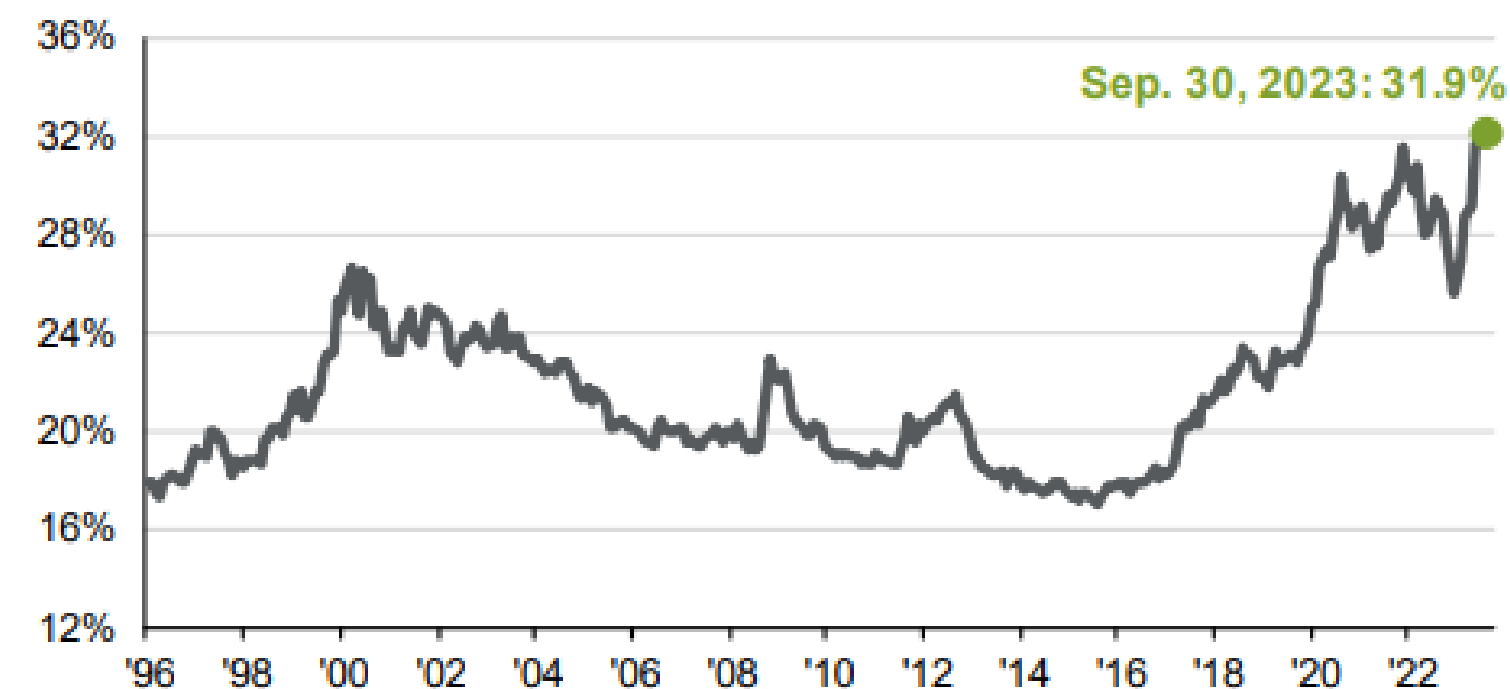
## P/E ratio of the top 10 and remaining stocks in the S&P 500

Next 12 months, 1996 - present



## Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500



## Earnings contribution of the top 10 in the S&P 500

Based on last 12 months' earnings





# Small Cap Stocks Valued Attractively



Source: Datastream, shaded bars denote recession



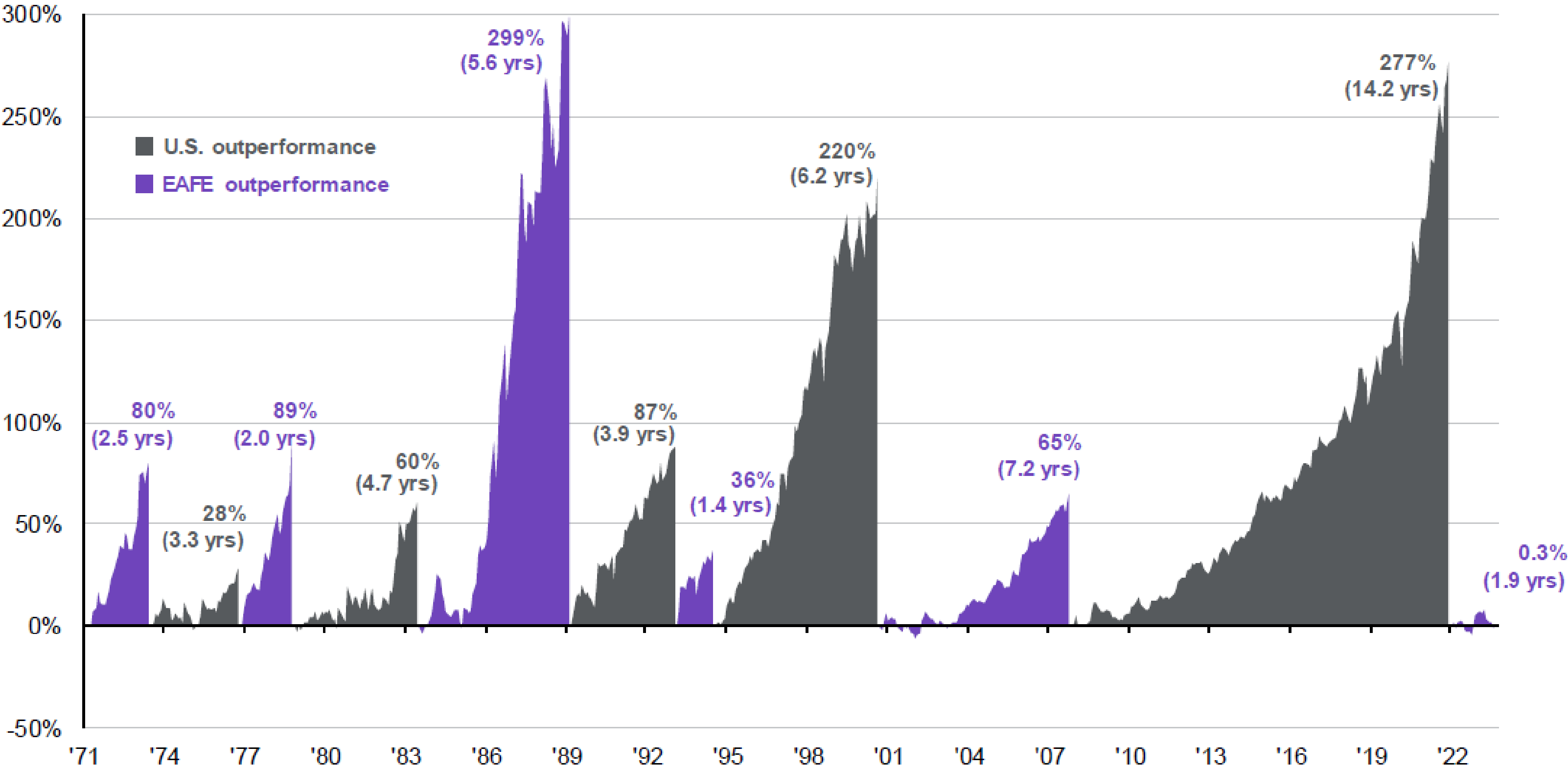
# 2023: A Time to Invest Globally



# U.S. and Foreign Stock Market Cycles

## MSCI EAFE and MSCI USA relative performance

U.S. dollar, total return, cumulative outperformance



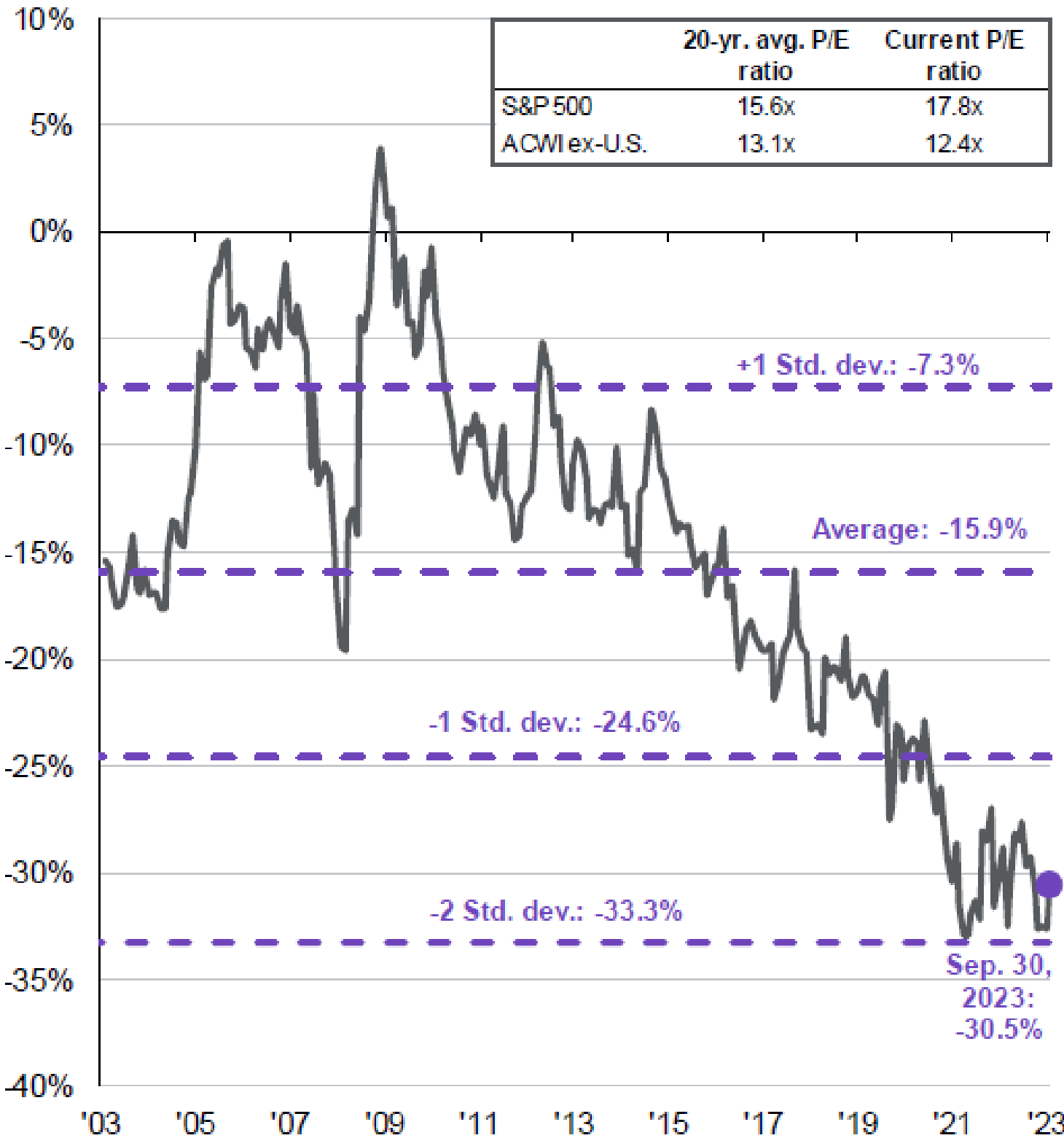


# Compelling Valuations Abroad

Comprehensive Wealth Management

Knightsbridge Wealth Management 2022

**International: Price-to-earnings discount vs. U.S.**  
MSCI All Country World ex-U.S. vs. S&P 500, next 12 months



**International: Difference in dividend yields vs. U.S.**  
MSCI All Country World ex-U.S. minus S&P 500, next 12 months





# The Basics on Stocks



# What is a stock?

- A share of ownership in a business
- Synonymous with the term “equity”
- There are two types of stocks
  - Common Stock
  - Preferred Stock



# Different Ways to Invest in the Stock Market

- Individual stocks
- Mutual funds
- Exchange-traded funds (ETFs)
- Brokerage firms
- Investment Advisors



# The Investment “Style Box”

Morningstar Style Box™

			Large
			Medium
			Small
Value	Blend	Growth	



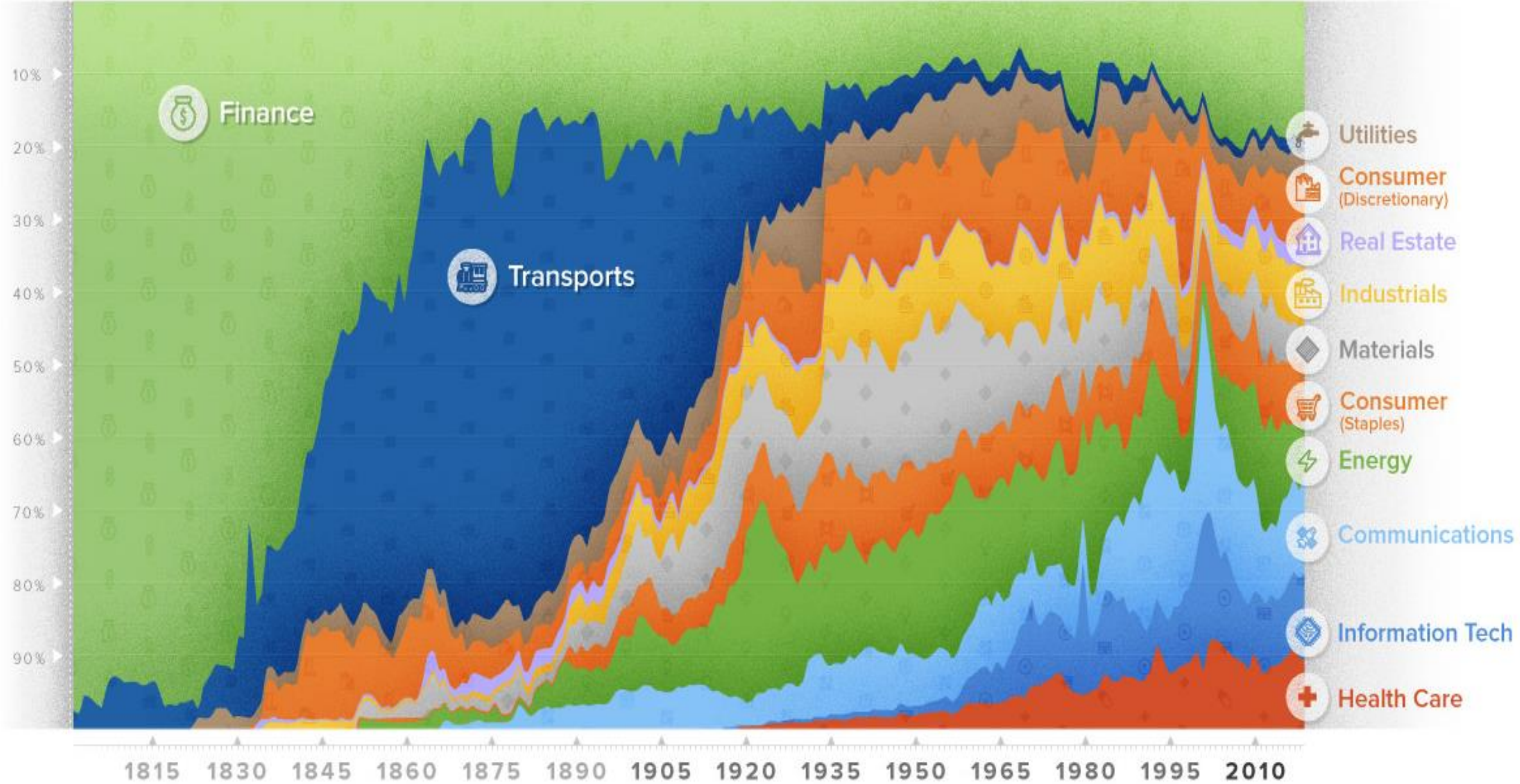
# Investing on Company Fundamentals

Buying....

1. Below “intrinsic value” (i.e. for less than the company is worth)
2. Companies who can grow their revenue, earnings & cash flows
3. Stocks with a low “valuation”
  - price to earnings (P/E)
  - price to book (P/B)
  - price to sales (P/S)
  - price to cash flow (P/CF)



# Evolution of the Stock Market





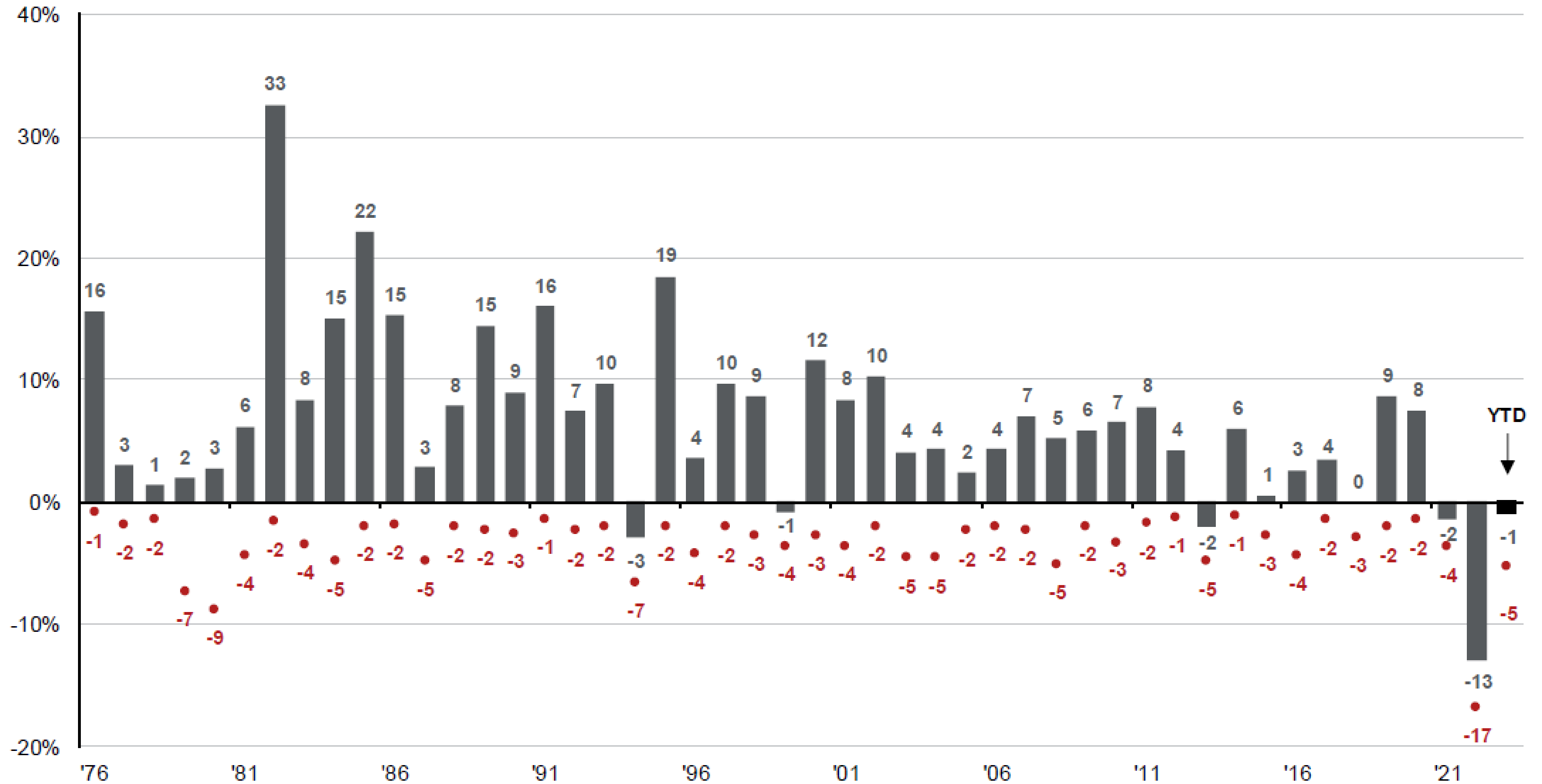
# 2022-2023: Generational Reset by the Bond Market



# 2022 & 2023 Historically Bad Years for Bonds

## Bloomberg U.S. Aggregate intra-year declines vs. calendar year returns

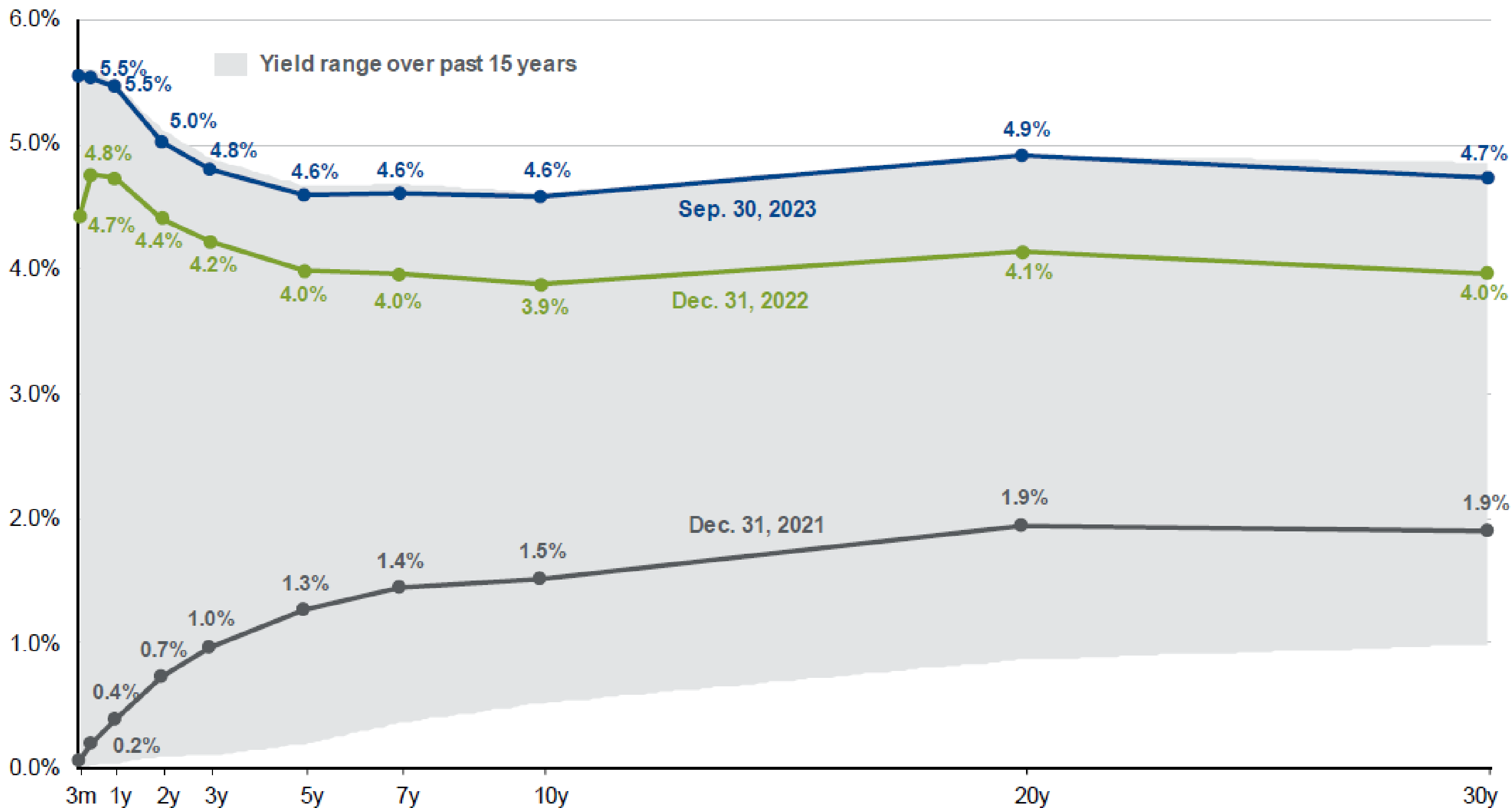
Despite average intra-year drops of 3.3%, annual returns positive in 42 of 47 years





# Bond Yields More Attractive Today

U.S. Treasury yield curve

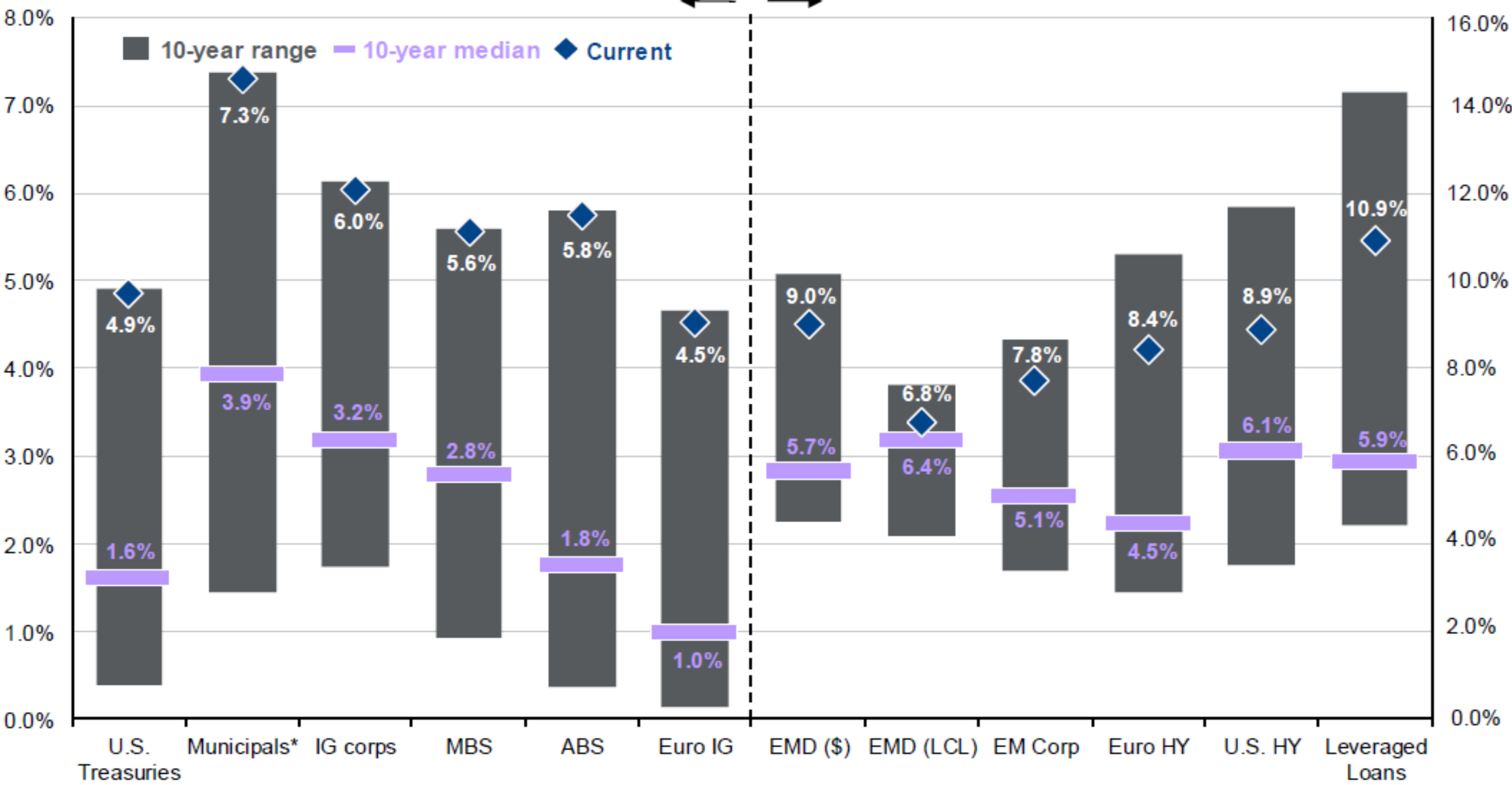




# Bond Yields at Decade Highs

Yield-to-worst across fixed income sectors

Percent, past 10 years





# Bond Yield Now in Line with Stock Earnings Yield





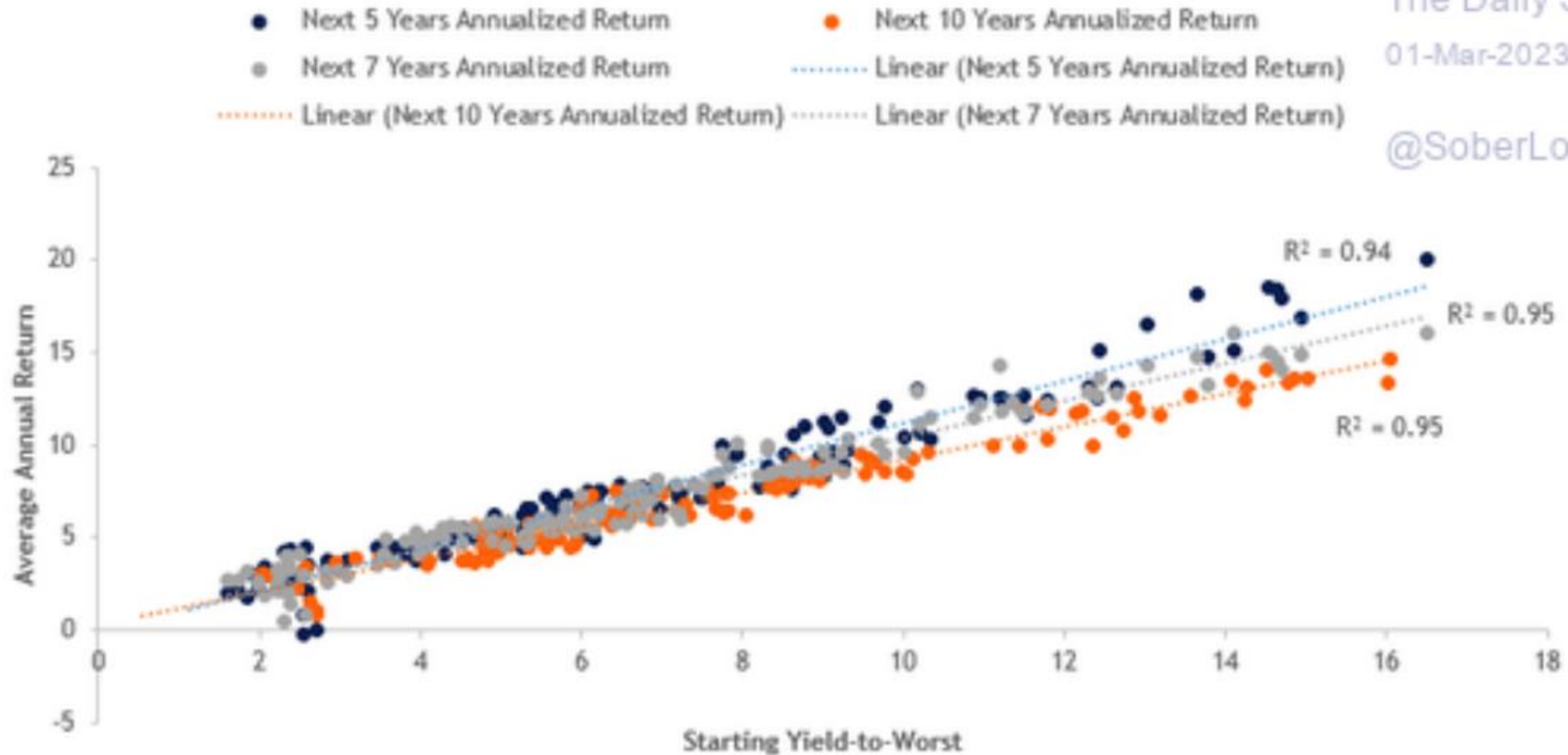
# Bond Market Pointing Toward 5% to 6% Annual Return

Starting Yields Are The Best Predictor of Future Returns (Bloomberg Aggregate Index)

The Daily Shot

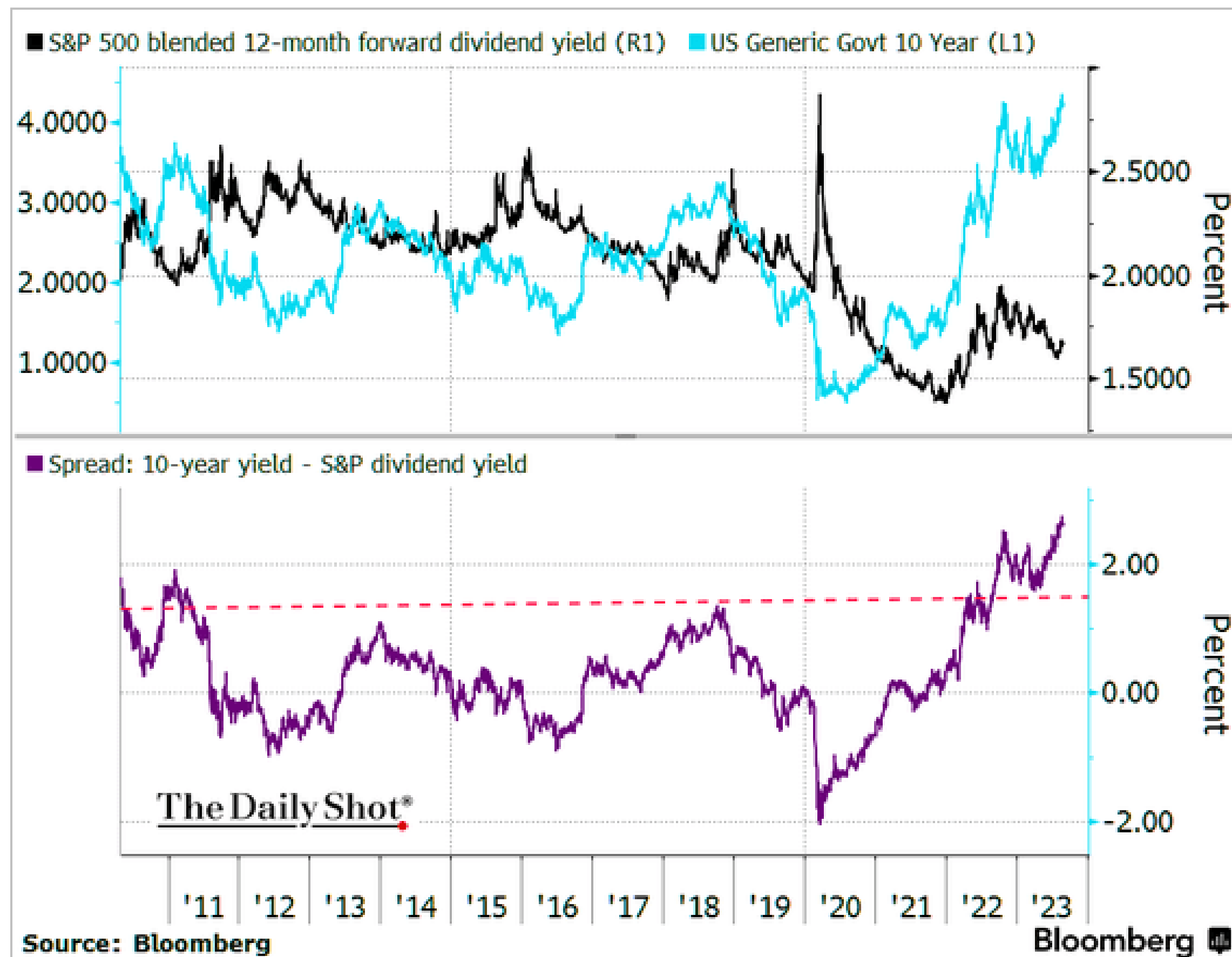
01-Mar-2023

@SoberLook





# Bond Yield Superior to Dividend Yield

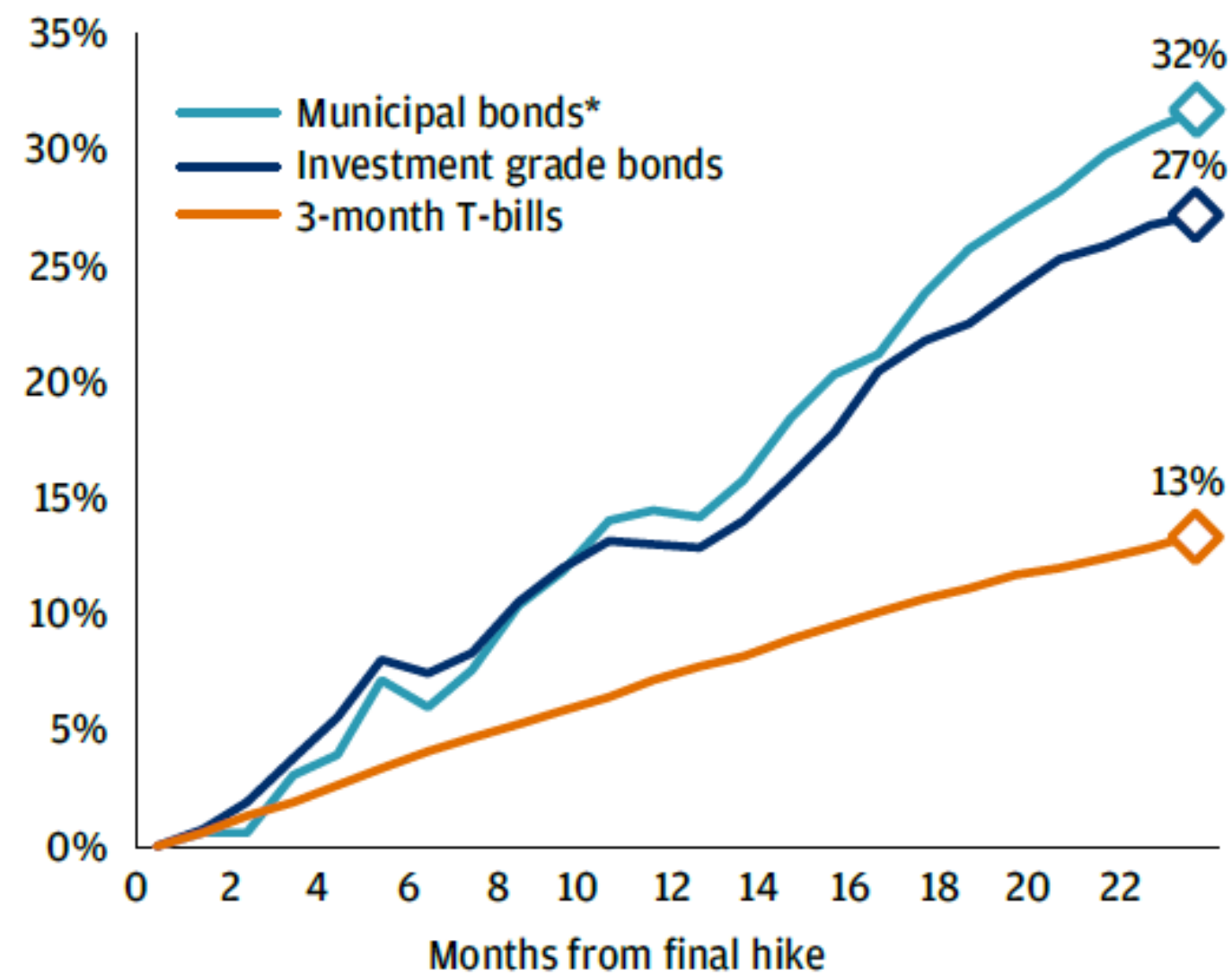




# Fed Likely on Hold = Time to Own Bonds

**FOR SEVEN STRAIGHT CYCLES, CASH HAS UNDERPERFORMED BONDS IN THE TWO YEARS AFTER THE FED'S LAST RATE HIKE**

Bond returns after the last rate hike



Source: Bloomberg Finance L.P. Data as of 2018. Includes seven hiking cycles: 1981, 1984, 1989, 1995, 2000, 2006 and 2018. \*Tax-equivalent yield assumes a 40.8% tax rate. Municipal bonds shown using the Bloomberg Municipal Bond Total Return Index, and investment grade bonds by the Bloomberg U.S. Aggregate Index.



# Fixed Income Basics



# What is Fixed Income?

- The term 'fixed income' is often used interchangeably with 'bonds'
- Loan to an institution that is obligated to pay you back with interest at a prespecified future date
- Owner of a bond is a creditor (lender); issuer of a bond is a debtor (borrower)





# Role of Fixed Income in a Portfolio

1. Steady source of income
2. Portfolio diversification
  - i. Hedge against stock market risk
  - ii. Reduce portfolio volatility
3. Hedge against deflation
4. Source of liquidity



# Key Components

- Issuer (credit rating)
- Coupon (rate, frequency)
- Price
- Maturity Date (duration)
- Optionality or Call Features
- Yield to Maturity



# Total Return

Two components of total return...

$\text{Income Return} + \text{Price Return} = \text{Total Return}$



# Increasing Yield

There are only two ways to increase yield...

1. Extend Maturity → Increases duration and **interest rate risk**
2. Lower Credit Quality → Increases **credit risk**



# How to Optimize Your Bond Portfolio



# Cash is Compelling... in the Right Place

- Brokerage accounts are passing on the full interest rate to you – banks are not.
- The money market funds we currently hold yield 5.3%.
- We move all cash held across the firm to the highest yielding money market fund on a monthly basis.
- Unlike a bank, your cash always remains inside your brokerage account.
- Call us if you would like to set up a courtesy cash account at no cost.



# How to Maximize Your Income

<u>Investment Objective</u>	<u>How We Do It</u>
Minimize Cost	Own individual securities
Manage to Your Tax Bracket	Consider tax-equivalent yield specific to your tax bracket
Balance Income & Liquidity	Ladder bond maturities
Utilize Full Opportunity Set	Generate income through real estate
Identify Optimal Allocation	Match maturities to your liquidity needs



# Manage to Your Tax Bracket

CALIFORNIA	
<u>Tax Bracket</u> <u>(Joint)</u>	Marginal Tax Rate
\$0	1.00%
\$20,198	2.00%
\$47,884	4.00%
\$75,576	6.00%
\$104,910	8.00%
\$132,590	9.30%
\$677,278	10.30%
\$812,728	11.30%
\$1,000,000	12.30%
\$1,354,550	13.30%
FEDERAL	
<u>Tax Bracket</u> <u>(Joint)</u>	Marginal Tax Rate
\$0	10%
\$22,000	12%
\$89,450	22%
\$190,750	24%
\$364,200	32%
\$462,500	35%
\$693,750	37%

Federal Capital Gains	
Tax Bracket Joint	Marginal Tax rate
\$0	0%
\$83,350	15%
\$517,200	20%

*Does Your Advisor Know Your Tax Bracket?*



# Much More Income Now Available

- **Municipal bonds** offer tax-equivalent yields that approach 7% for high bracket income earners in California
- High quality **corporate bonds** pay around 5% across a wide range of maturities
- Mutual funds that invest in high quality **mortgage and asset-backed securities** yield approximately 6%
- **Preferred stocks** generate tax-advantaged income above 6%
- Our **Managed Income** strategy is currently yielding 8%
- **Interval funds** invest in less liquid portions of the fixed income market, offer quarterly liquidity, and yield in the 9 –10% range
- For those willing to accept a one-year lockup and quarterly liquidity, **private credit** yields approximately 9.5%



# How We Deliver Income

## Knightsbridge Portfolio

<u>Investment Strategy</u>	<u>Optimal Account to Hold</u>	<u>Internal / External</u>	<u>Liquidity</u>	<u>Maturity Profile</u>	<u>Expected Yield PRE-Tax *</u>	<u>Expected Yield AFTER Tax *</u>	<u>Notes</u>
Municipal Bonds	Taxable	Internal	Daily	5-15 Years	3.5%	3.5%	Laddering and Hold to Maturity
Corporate Bonds	IRA	Internal	Daily	2-10 Years	5.0%	5.0%	Laddering and Hold to Maturity
Preferred Stocks	Taxable	Internal	Daily	Perpetual	6.0%	4.5%	Qualified Dividends Are Tax-advantaged
Managed Income	IRA	Internal	Daily	5 Year Range	9.0%	9.0%	Emphasis on Capital Preservation
Interval Credit Fund	IRA	External	Quarterly	5-6 Year Range	9.5%	9.5%	Invests Across Capital Structure
Interval Municipal Fund	Taxable	External	Quarterly	7-8 Year Range	4.5%	4.5%	Seeks Capital Gains During Times of Stress
Real Estate Lending Fund	IRA	External	1 Year then Quarterly	1 Year	8.5%	8.5%	Collateralized by Real Estate
Real Estate Equity Fund**	Taxable	External	1 Year then Quarterly	Evergreen	9.0%	8.0%	5% Yield Tax-sheltered by Depreciation

*\*Total returns will vary from year to year*

*\*\*Expected yields include cash distributions plus fund appreciation*

*Assumed CA + Federal Ordinary Income / Short-term Capital Gains Tax Rate: 38%*

*Assumed Long-term Capital Gains Tax Rate: 25%*



# What's a Good Investment Advisor Look Like?



# Tax Optimization Employed by Knightsbridge

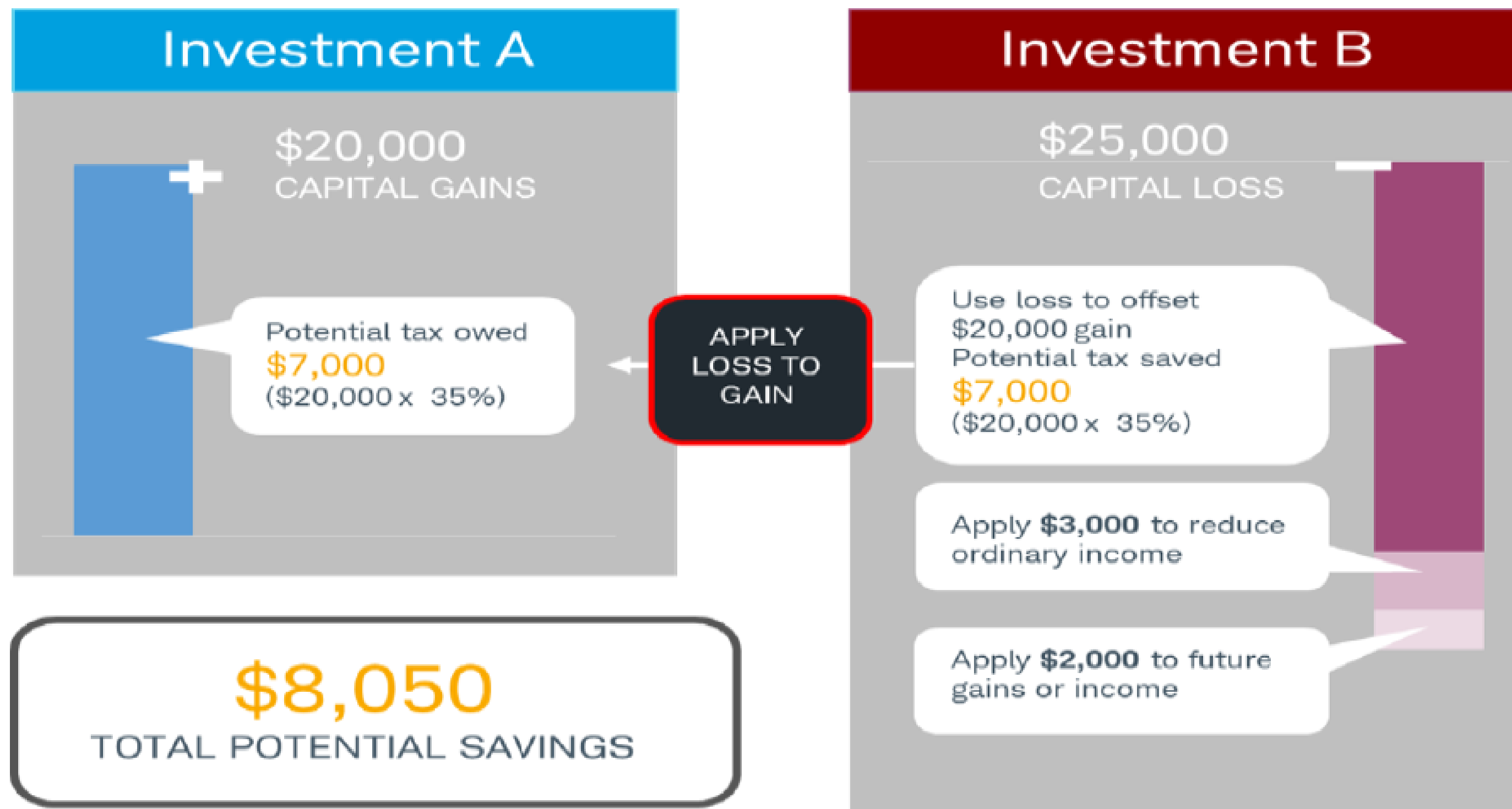
- We make investment choices specific to your tax bracket
- We manage your taxable accounts in a tax efficient manner
  - Emphasizing longer term holding periods
  - Seeking long-term capital gains
  - Holding tax-efficient passive funds
- We methodically harvest losses as we progress through each year
- We consider tax equivalency of taxable vs. tax free fixed income



# Tax-efficient investing

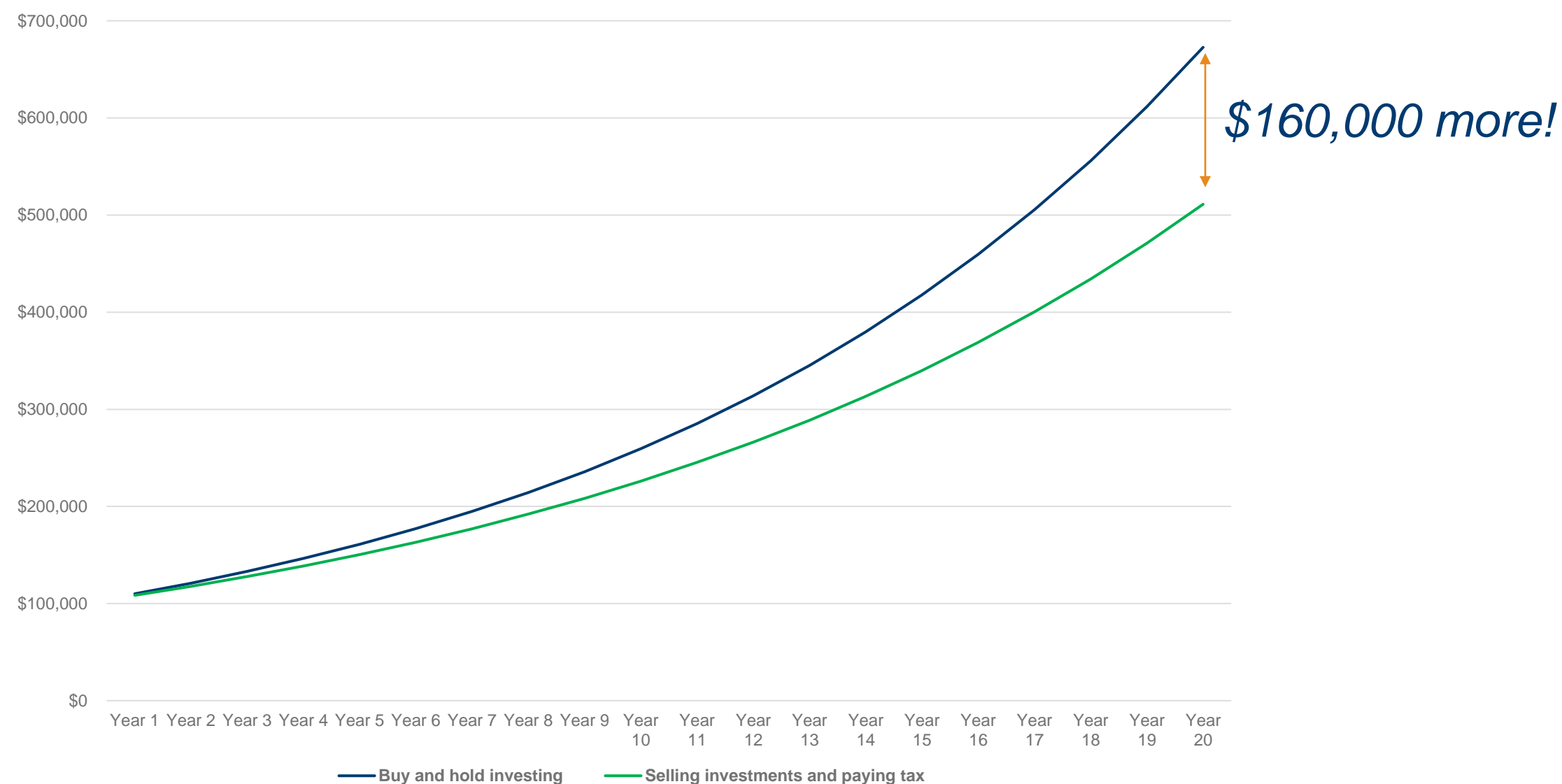
Use losses to your advantage with tax-loss harvesting.

Expert's commentary: Use your losses to get a tax break. In this example, an investor realized \$20,000 in capital gains from Investment A, and a \$25,000 capital loss from Investment B. Capital losses offset gains first; the excess is then applied to ordinary income, and finally to future gains or income.





# The Power of Deferring Taxes



Result: \$160,000 difference after 20 years (32% more with buy and hold investing)

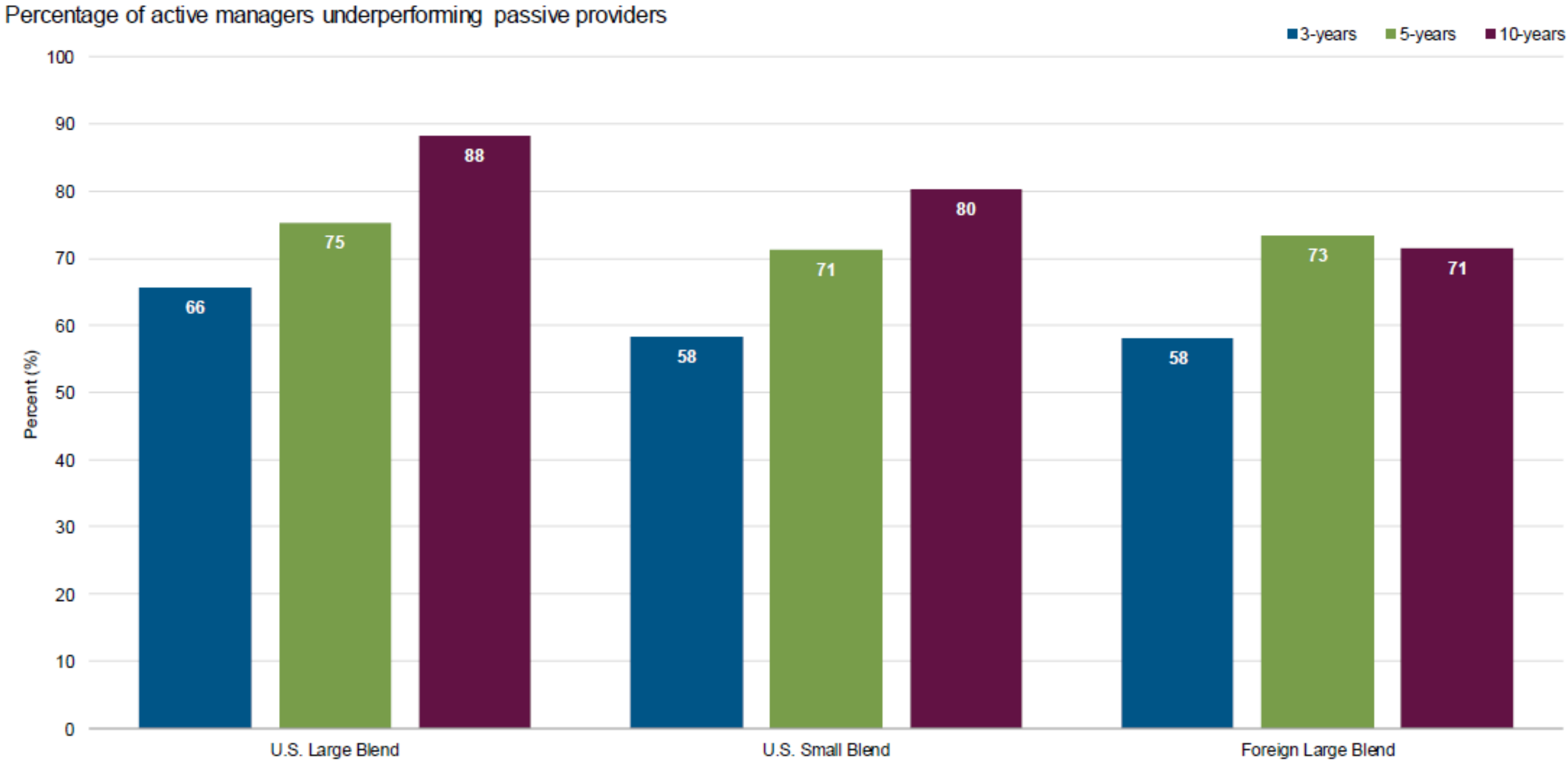
Assumptions:

- 6% annual appreciation
- 30% tax rate (20% capital gain tax + 10% state tax)
- 50% turnover, i.e. selling every two years



# Emphasize Long-term Buy & Hold and Passive Investing

*71-88% of active managers have underperformed over the last 10 years*

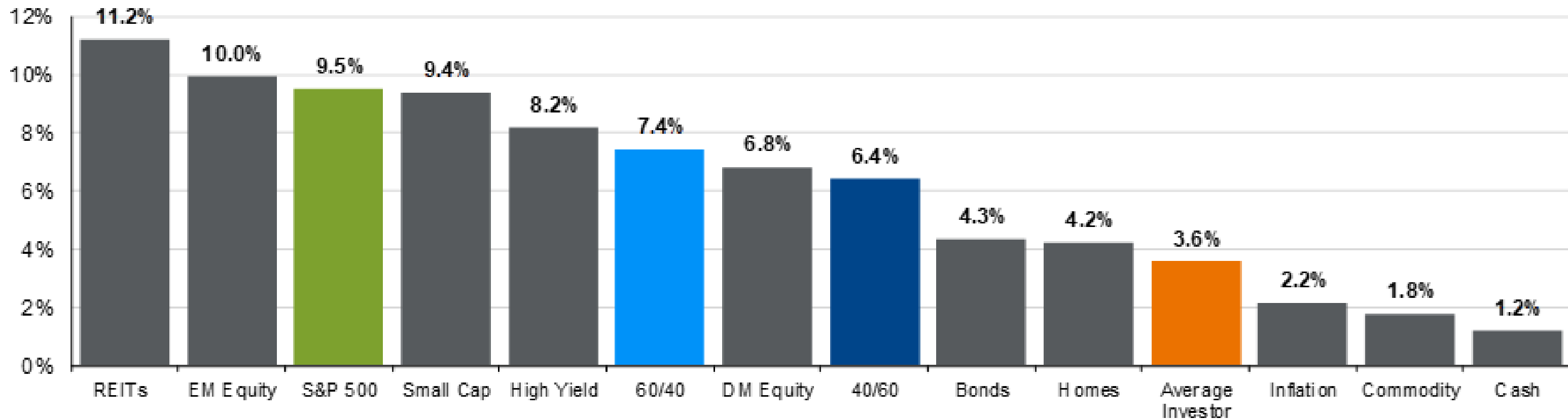


As of 30 June 2022  
SOURCE: Morningstar, performance of U.S. active funds against a composite of passive peers in their respective Morningstar category, including all share classes.



# The Cost of Moving Investments Around

20-year annualized returns by asset class (2002 – 2021)





# Knightsbridge Wealth Management



## FIRM OVERVIEW

- Independent, fee-only Registered Investment Advisor (RIA)
- \$500+ Million Assets Under Management
- 25+ Year History
- 100% employee-owned
- Fiduciary duty to place client interests first



## HOW WE WORK WITH CLIENTS

- You work directly with the owners who make the investment decisions
- Your portfolio is designed to tax-efficiently meet your goals while complementing your outside investments
- Your assets are held externally at the custodian of your choice
- Your fee declines annually
- We are always invested alongside you





KNIGHTSBRIDGE  
WEALTH MANAGEMENT:

# Investment Principles

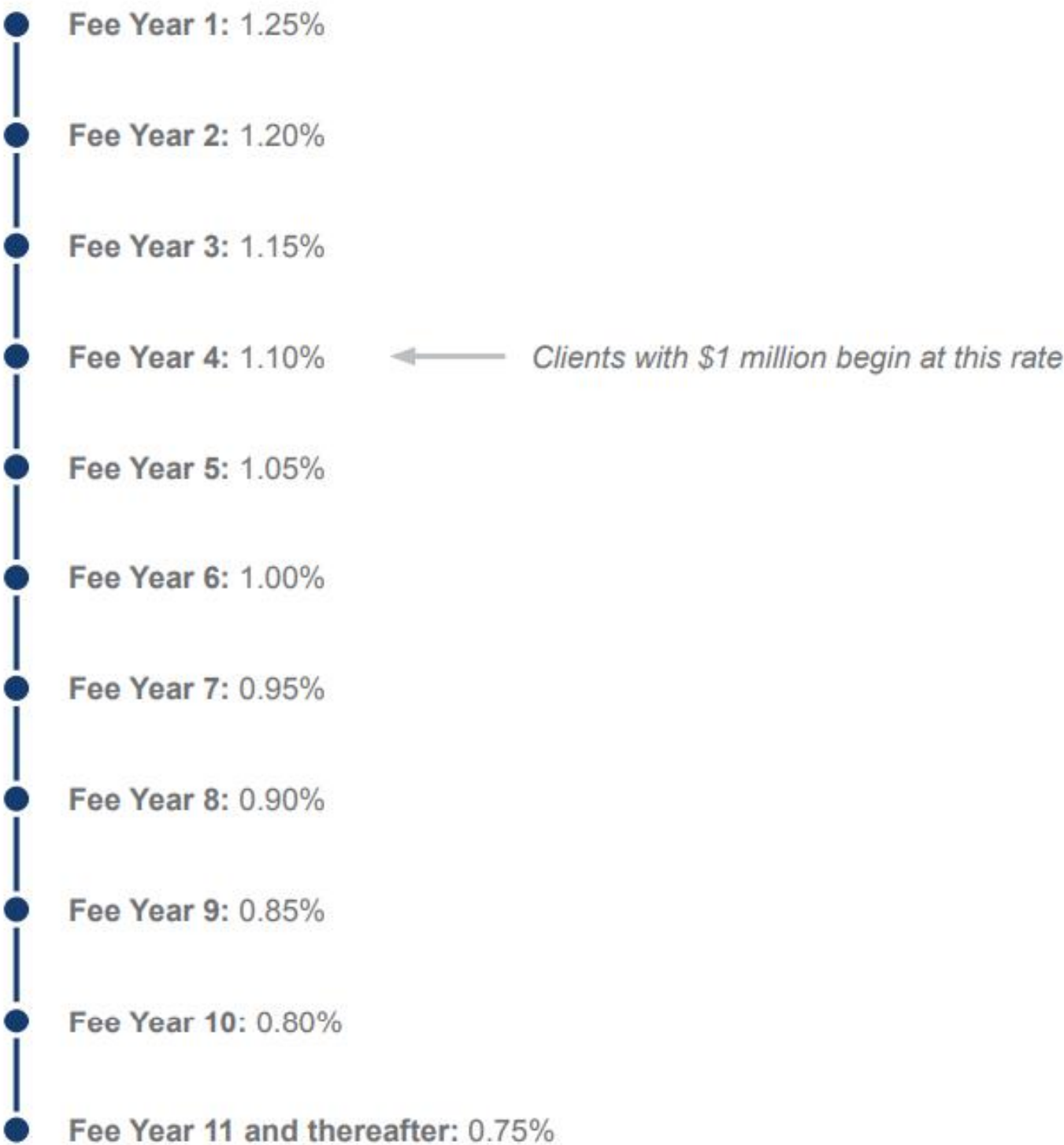




# Knightsbridge Fee Schedule

Our declining fee structure makes sense because:

- More of the “work” is performed in the early years...we want to pass the savings on to clients
- We want to reward our most loyal clients



# How Knightsbridge Can Help You

## OUR TYPICAL CLIENT IS SOMEONE WHO:

- Wants to know there is a plan for their financial security
- Is questioning the sophistication of their existing investment portfolio
- Wants to talk with the people making their investment decisions
- Wants more than just a basket of mutual funds and ETFs
- Wants to know their specific tax bracket is being taken into account
- Wants their investment plan designed specific to their situations and goals

## WE ARE:

- **Fiduciaries.** We are legally required to put your interests first
- **Analysts.** We offer in-house security selection
- **Investors.** We invest our money alongside yours
- **Independent.** We are 100% employee-owned



# Thank you!

## Contact us for a commitment-free portfolio review:

John Prichard, CFA  
[jprichard@knightsb.com](mailto:jprichard@knightsb.com)

Kurt Beimfohr  
[kbeimfohr@knightsb.com](mailto:kbeimfohr@knightsb.com)

450 Newport Center Drive, Suite 630, Newport Beach, CA 92660  
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[www.knightsb.com](http://www.knightsb.com)



# Disclosures

Knightsbridge Wealth Management (“Knightsbridge”) may only transact business in those states in which it is registered or qualifies for an exemption or exclusion from registration requirements. The firm is located in Newport Beach, California. The information provided in this document is intended for residents of the United States. Investors outside of the United States are subject to the securities and tax laws and regulations within their applicable jurisdictions.

The information in this document is provided for educational or informational purposes only. Nothing herein should be construed as financial advice. Financial advice is available solely to clients of Knightsbridge under written agreement. Accordingly, the information contained in this document does not constitute an offer to sell, a solicitation to buy, or a recommendation for any security in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the securities laws or regulations of such jurisdiction.

Any performance information presented in this document is historical. Past performance does not guarantee nor is it indicative of future results. Therefore, no current or prospective client should assume that the future performance of any specific investment or investment strategy (including those undertaken or recommended by Knightsbridge), or product made reference to directly or indirectly in this document, will be profitable or equal to corresponding indicated performance levels.

A copy of Knightsbridge’s current ADV Part 2 discussing business operations, services, and fees is available upon request.



**Knightsbridge Wealth Management**

450 Newport Center Drive, Suite 630  
Newport Beach, CA 92660

**PHONE** (949) 644 4444  
**EMAIL** [knightsb@knightsb.com](mailto:knightsb@knightsb.com)