

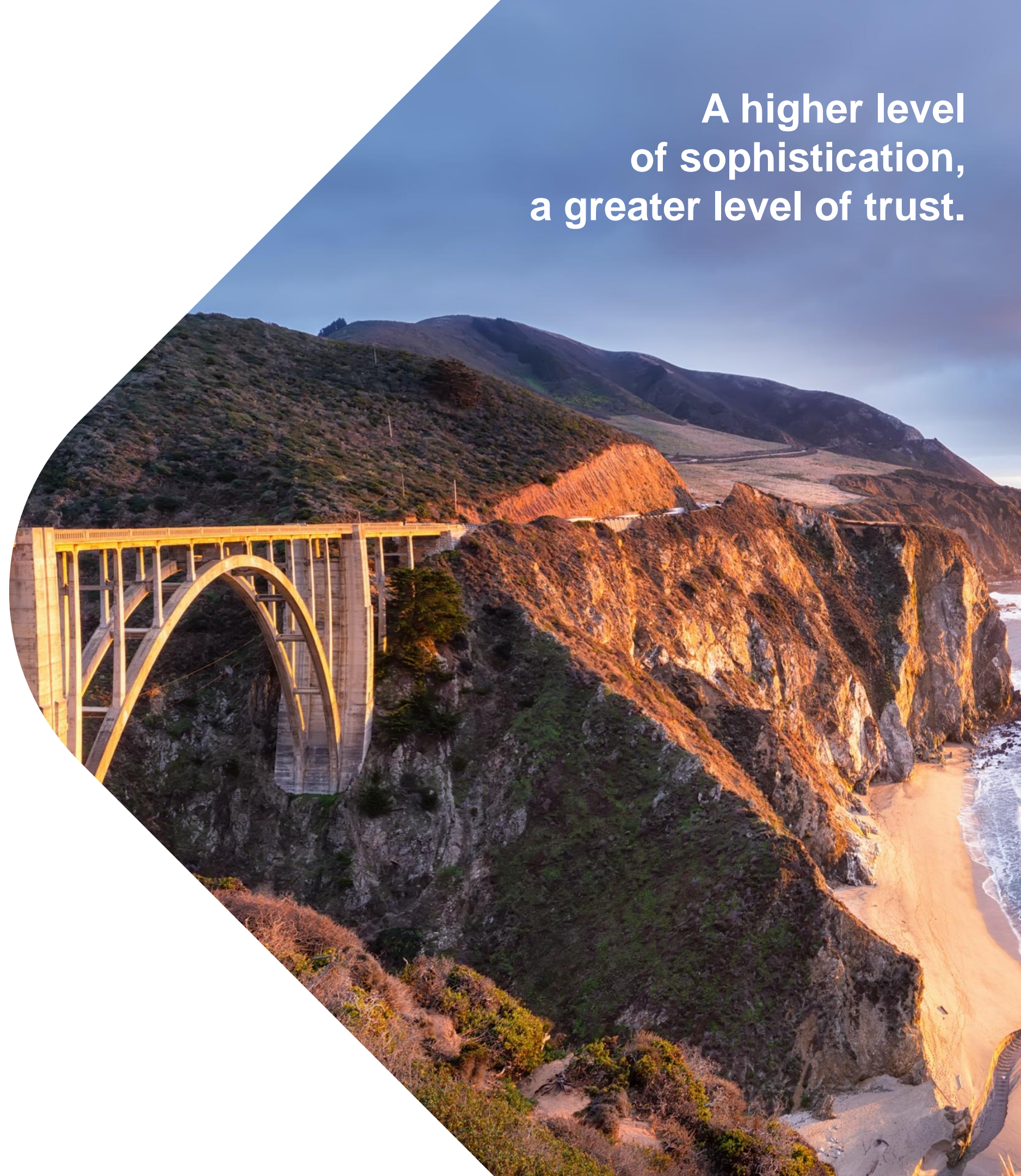


Equity & Fixed Income Investing

It's Your Money
Spring 2023

450 Newport Center Drive, Suite 630, Newport Beach, CA 92660
(949) 644 4444 / www.knightsb.com / 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 (% OF ASSETS UNDER MNGMT) DECLINES ANNUALLY	CLIENT

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.**

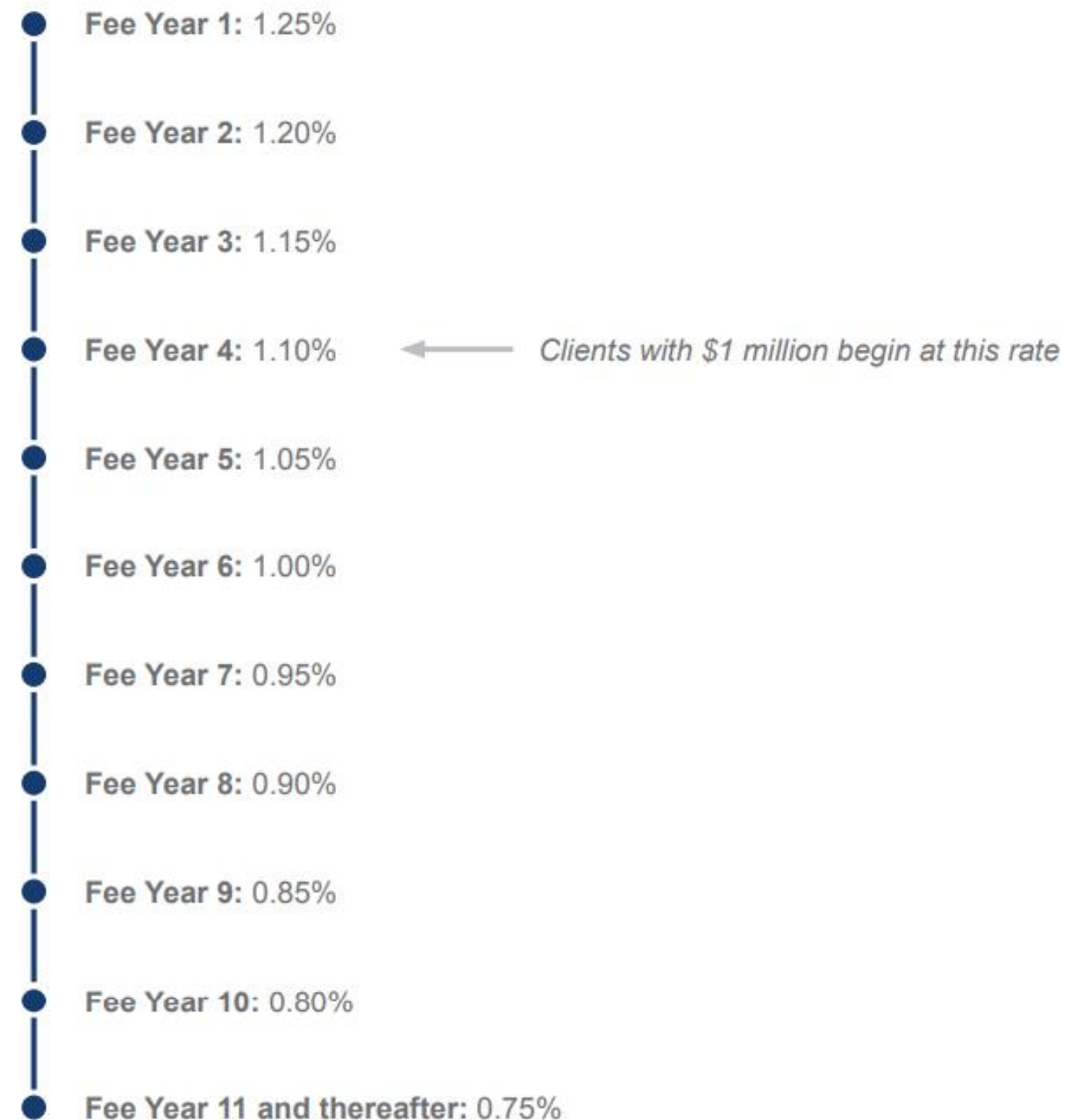
Date: 10/20/22	Business Name: KNIGHTSBRIDGE WEALTH MANAGEMENT
Signature: [Signature]	Address: 450 NEWPORT CENTER DR # 630
Print Name: JOHN PRICHARD	Telephone: (949) 644-4444



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





Today's Agenda

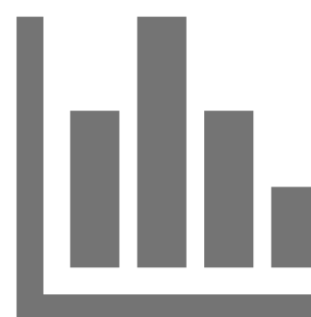
1. Stock market fundamentals



2. How to prosper in the stock market



3. Investing in stocks in 2023



4. Fixed income basics

5. How to optimize your bond portfolio

6. Assessing the current fixed income landscape



Stock Market Fundamentals



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



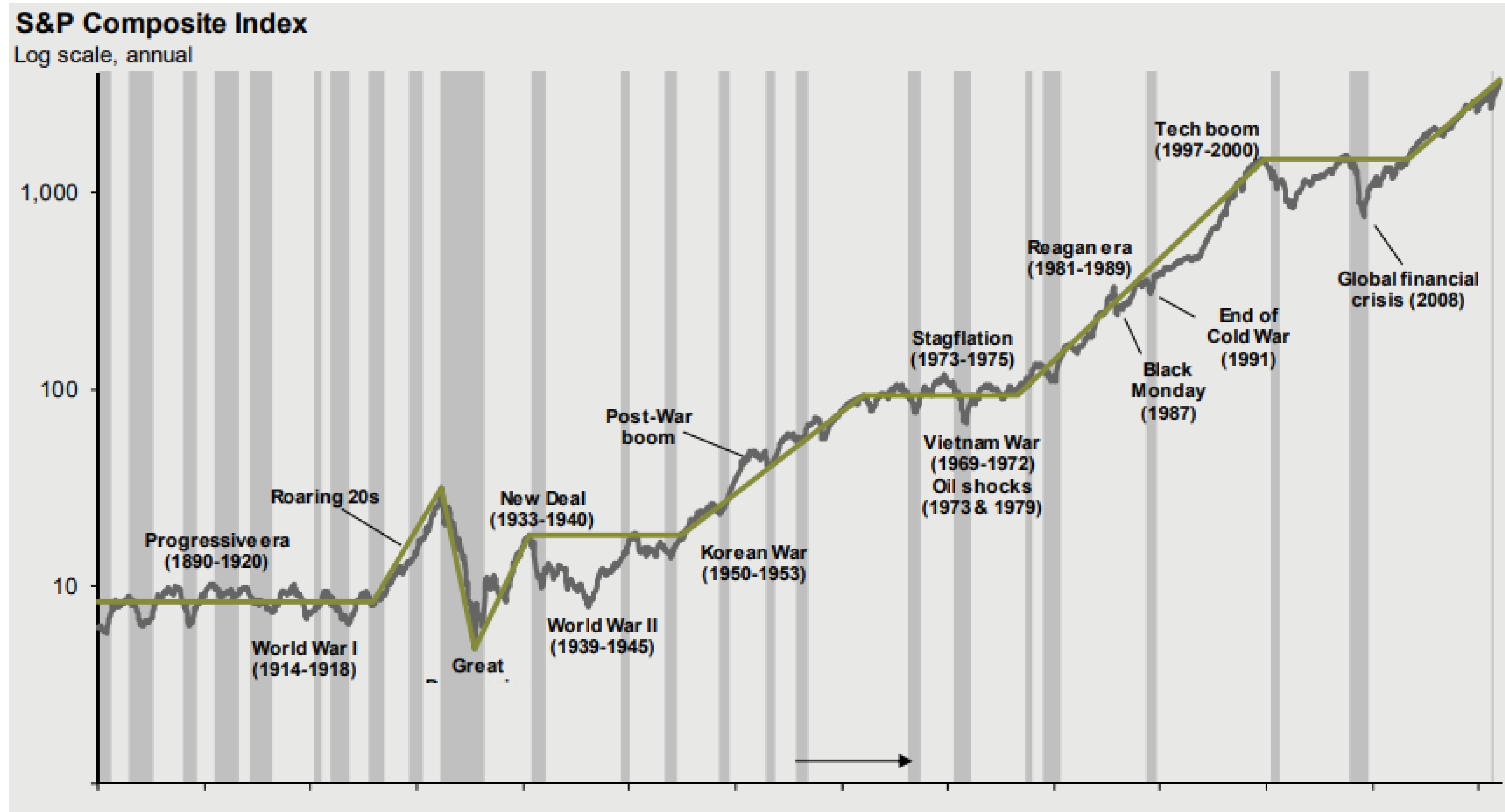
The Investment “Style Box”

Morningstar Style Box™

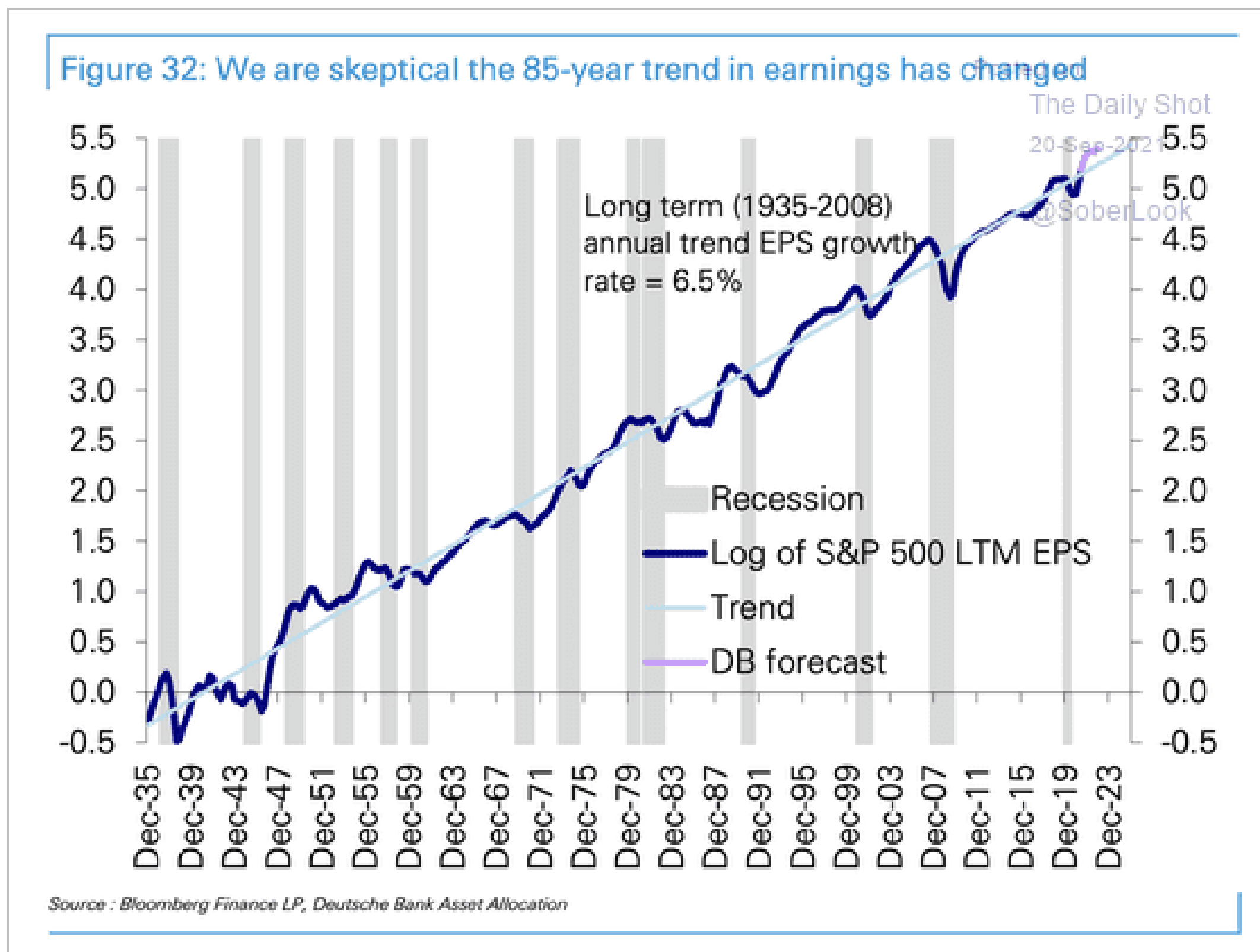
			Large
			Medium
			Small
Value	Blend	Growth	



The Stock Market Rises Through Time and Events



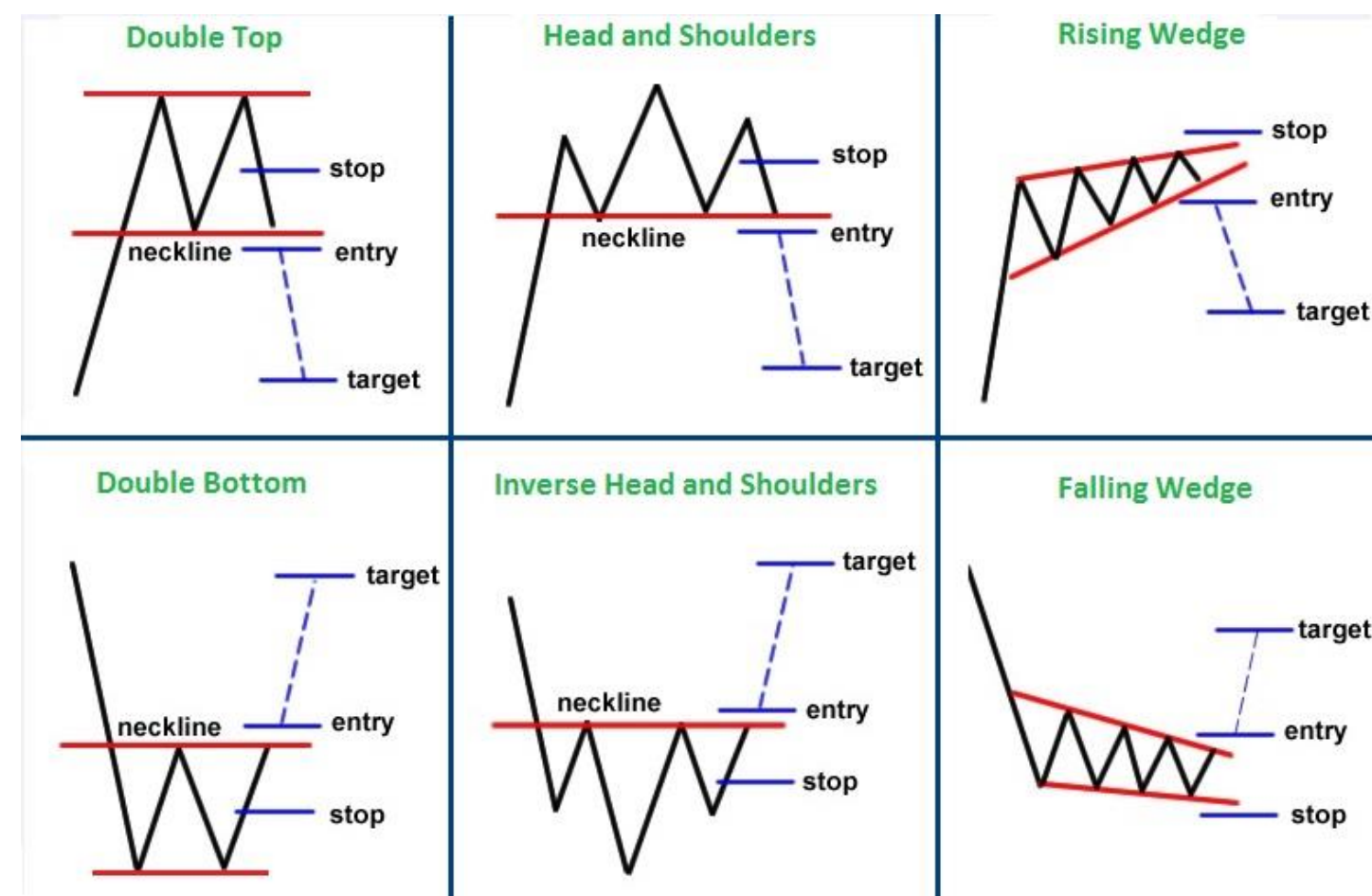
Corporate Earnings Drive Stocks Higher





Investing on Market “Technicals”

- Looking for predictive patterns in the market
- Using price and volume and trendlines
- Ignores “Fundamentals”
- Relies on charts

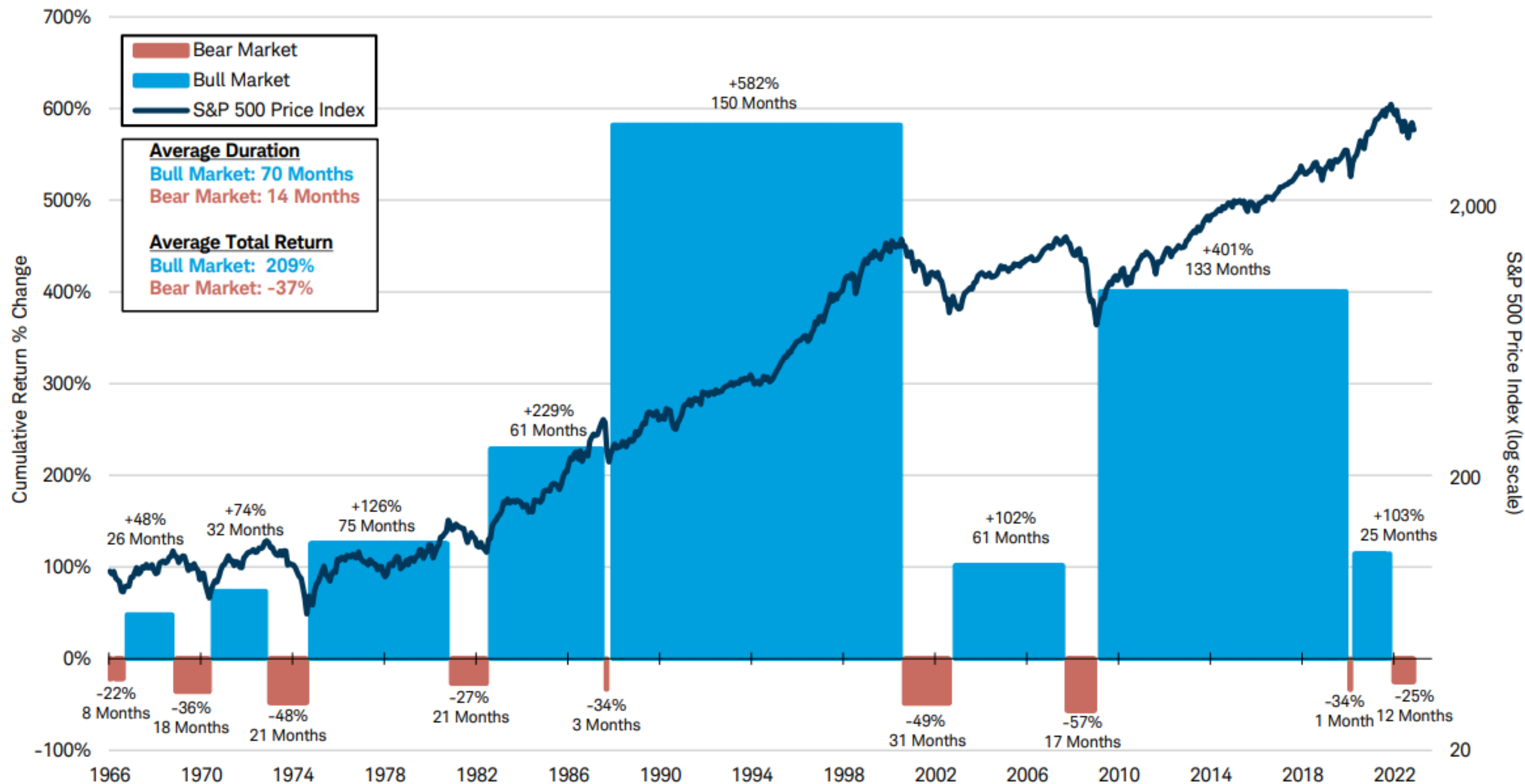


Rule #1: It's not this easy. Technical analysis does not work. It really doesn't. I PROMISE.



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.





Investing on Company Fundamentals

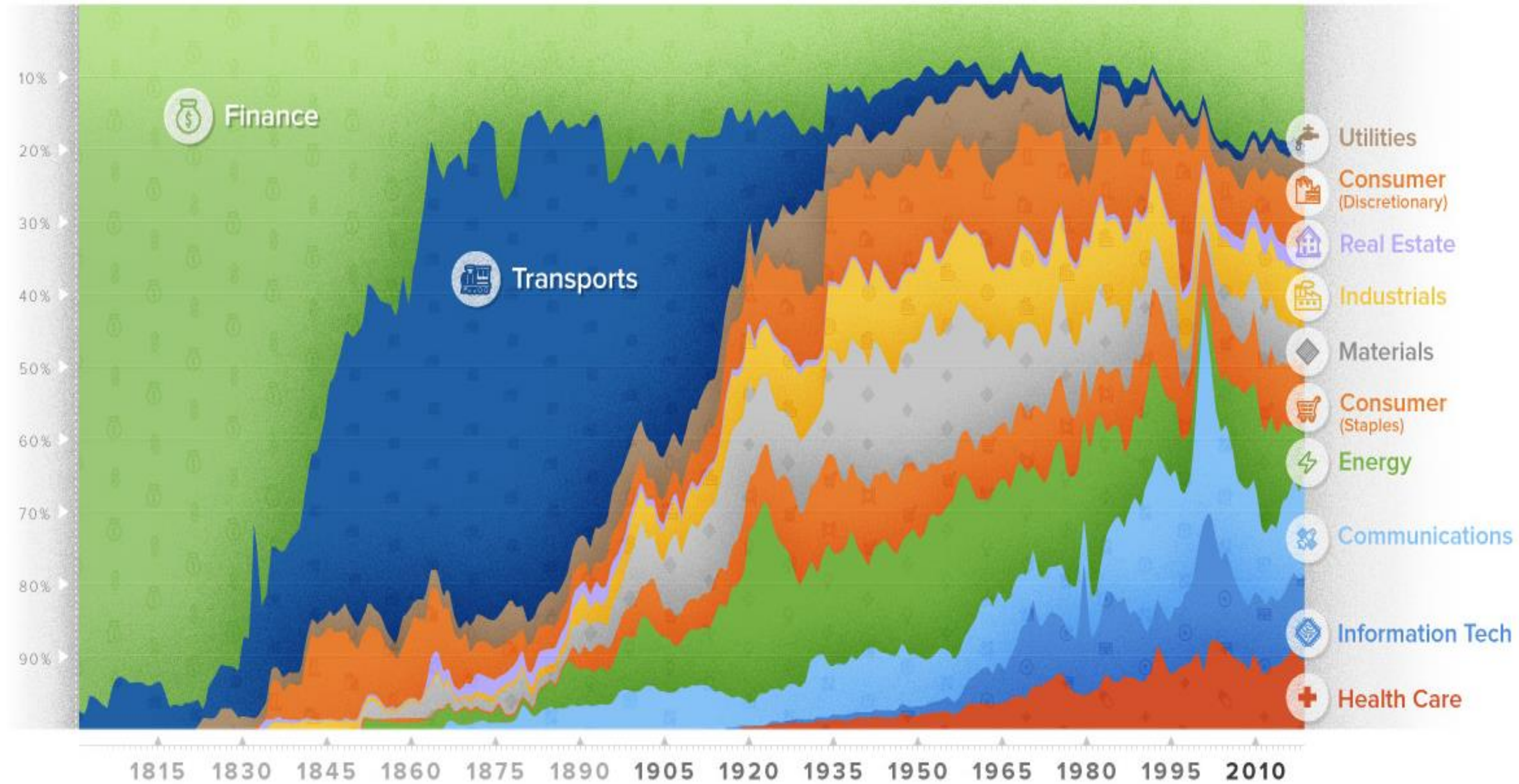
Buying....

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)

Rule #2: Investing this way is very, very hard. Very. Hard.



Evolution of the Stock Market





Why We Diversify

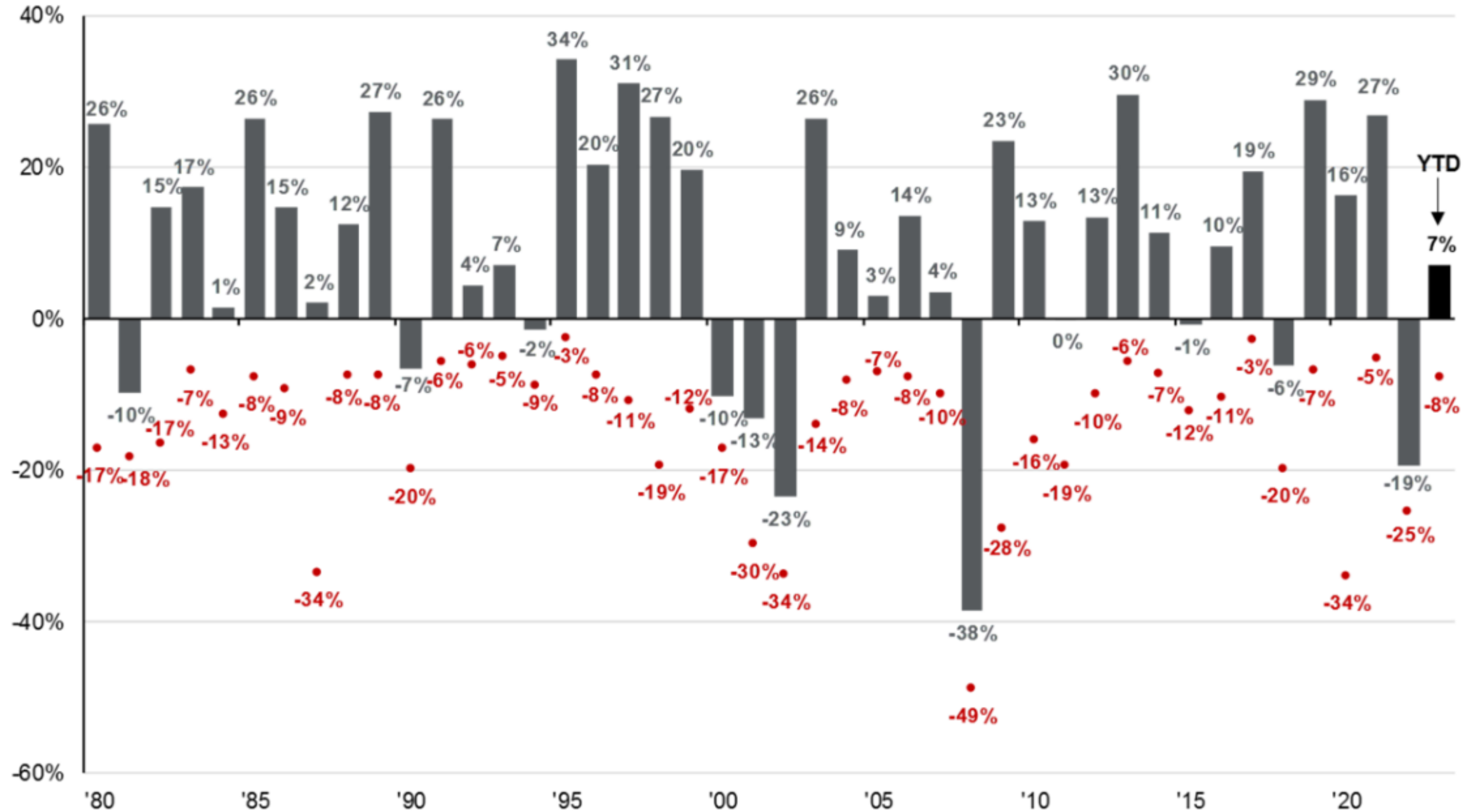
																2008 - 2022	
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	Ann.	Vol.
Min. Vol. -25.7%	Value 38.8%	Small Cap 26.9%	High Div. 14.3%	Cyclical 20.1%	Value 43.2%	Value 17.7%	Momen. 9.3%	Small Cap 21.3%	Momen. 37.8%	Min. Vol. 1.5%	Cyclical 36.3%	Momen. 29.6%	Value 29.2%	Defens. 5.3%	Cyclical 12.6%	Min. Vol. 9.5%	Small Cap 23.2%
Defens. -26.7%	Cyclical 36.9%	Multi-Factor 18.3%	Min. Vol. 12.9%	Value 16.8%	Small Cap 38.8%	Min. Vol. 16.5%	Min. Vol. 5.6%	High Div. 16.3%	Cyclical 27.3%	Momen. -1.6%	Quality 34.4%	Cyclical 27.8%	Cyclical 27.6%	High Div. -3.8%	Quality 9.2%	Momen. 9.2%	Value 21.4%
High Div. -27.6%	Multi-Factor 29.8%	Momen. 18.2%	Defens. 10.1%	Small Cap 16.3%	Multi-Factor 37.4%	High Div. 14.9%	Quality 4.6%	Value 15.9%	Quality 22.5%	High Div. -2.3%	Momen. 28.1%	Small Cap 20.0%	Quality 27.2%	Min. Vol. -9.2%	Multi-Factor 4.6%	Quality 9.2%	Cyclical 20.9%
Quality -31.2%	Small Cap 27.2%	Cyclical 17.9%	Quality 7.5%	Multi-Factor 15.7%	Cyclical 35.0%	Multi-Factor 14.8%	Cyclical 2.6%	Cyclical 14.0%	Value 22.2%	Defens. -2.9%	Min. Vol. 28.0%	Quality 17.1%	Multi-Factor 25.1%	Value -14.0%	Small Cap 2.7%	High Div. 9.1%	Momen. 19.0%
Small Cap -33.8%	Quality 24.9%	High Div. 15.9%	Multi-Factor 7.3%	Momen. 15.1%	Momen. 34.8%	Momen. 14.7%	High Div. 0.7%	Multi-Factor 13.7%	Multi-Factor 21.5%	Cyclical -5.3%	Value 27.7%	Multi-Factor 11.4%	Defens. 25.0%	Multi-Factor -15.5%	Value 2.5%	Cyclical 8.9%	Multi-Factor 18.5%
Value -36.9%	High Div. 18.4%	Min. Vol. 14.7%	Momen. 6.1%	Quality 12.8%	Quality 34.3%	Cyclical 13.6%	Multi-Factor 0.4%	Min. Vol. 10.7%	High Div. 19.5%	Quality -5.6%	Multi-Factor 26.6%	Min. Vol. 5.8%	High Div. 21.9%	Momen. -17.4%	Min. Vol. 1.3%	Multi-Factor 8.5%	Quality 17.0%
Multi-Factor -39.3%	Min. Vol. 18.4%	Quality 14.2%	Value -2.7%	Min. Vol. 11.2%	High Div. 28.9%	Defens. 13.0%	Defens. -0.9%	Quality 9.4%	Min. Vol. 19.2%	Multi-Factor -9.7%	Small Cap 25.5%	Defens. 5.2%	Min. Vol. 21.0%	Quality -20.3%	High Div. -0.7%	Defens. 8.3%	High Div. 15.7%
Momen. -40.9%	Momen. 17.6%	Value 12.7%	Cyclical -3.4%	Defens. 10.7%	Defens. 28.9%	Quality 10.7%	Small Cap -4.4%	Defens. 7.7%	Small Cap 14.6%	Small Cap -11.0%	High Div. 22.5%	High Div. 1.7%	Small Cap 14.8%	Small Cap -20.4%	Defens. -3.0%	Value 8.0%	Defens. 14.5%
Cyclical -44.8%	Defens. 16.5%	Defens. 12.0%	Small Cap -4.2%	High Div. 10.6%	Min. Vol. 25.3%	Small Cap 4.9%	Value -6.4%	Momen. 5.1%	Defens. 12.3%	Value -11.1%	Defens. 21.4%	Value -0.2%	Momen. 12.9%	Cyclical -27.2%	Momen. -4.2%	Small Cap 7.2%	Min. Vol. 13.9%



Accept that Stocks Fluctuate in the Shorter Term

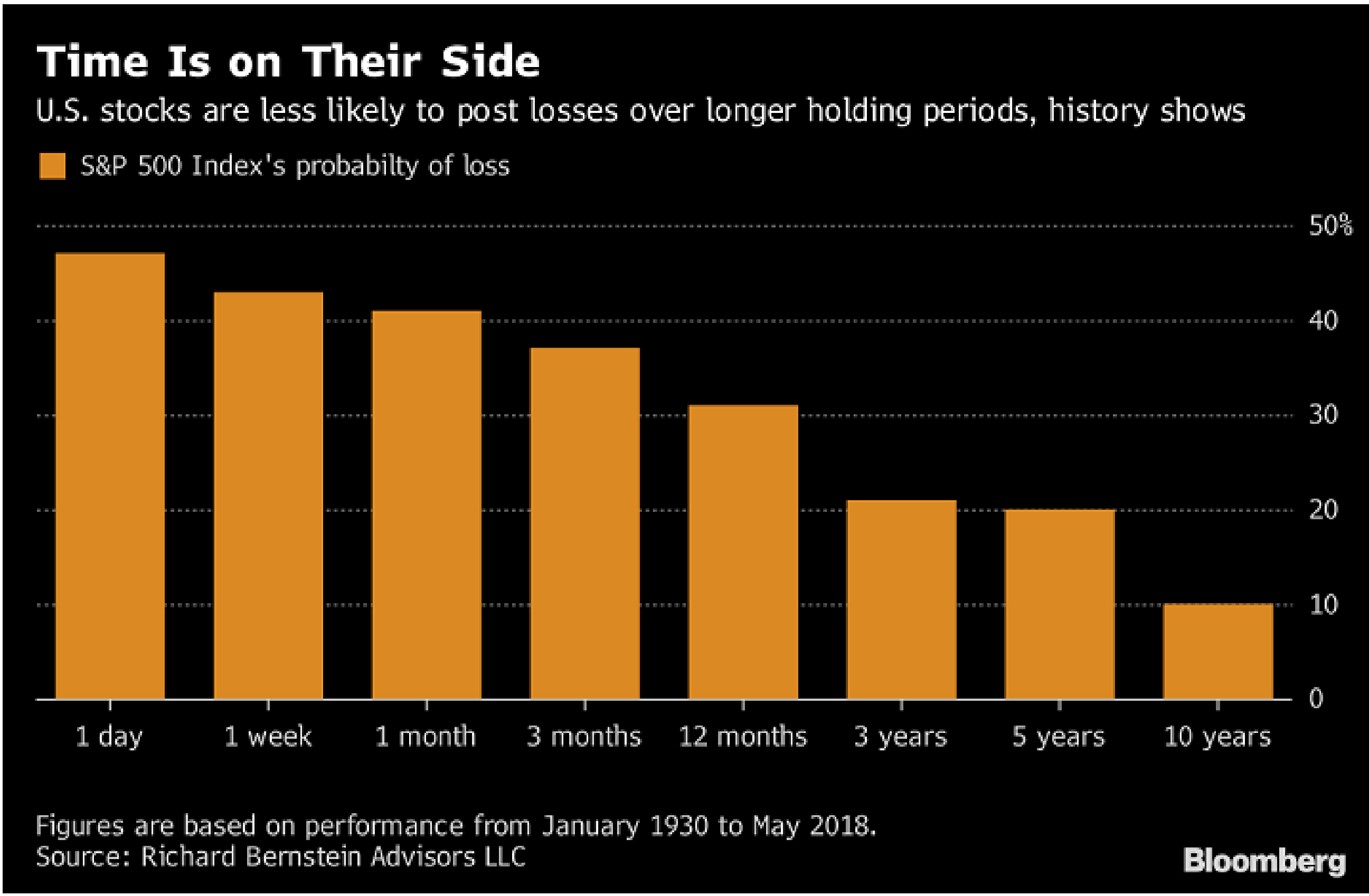
S&P intra-year declines vs. calendar year returns

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



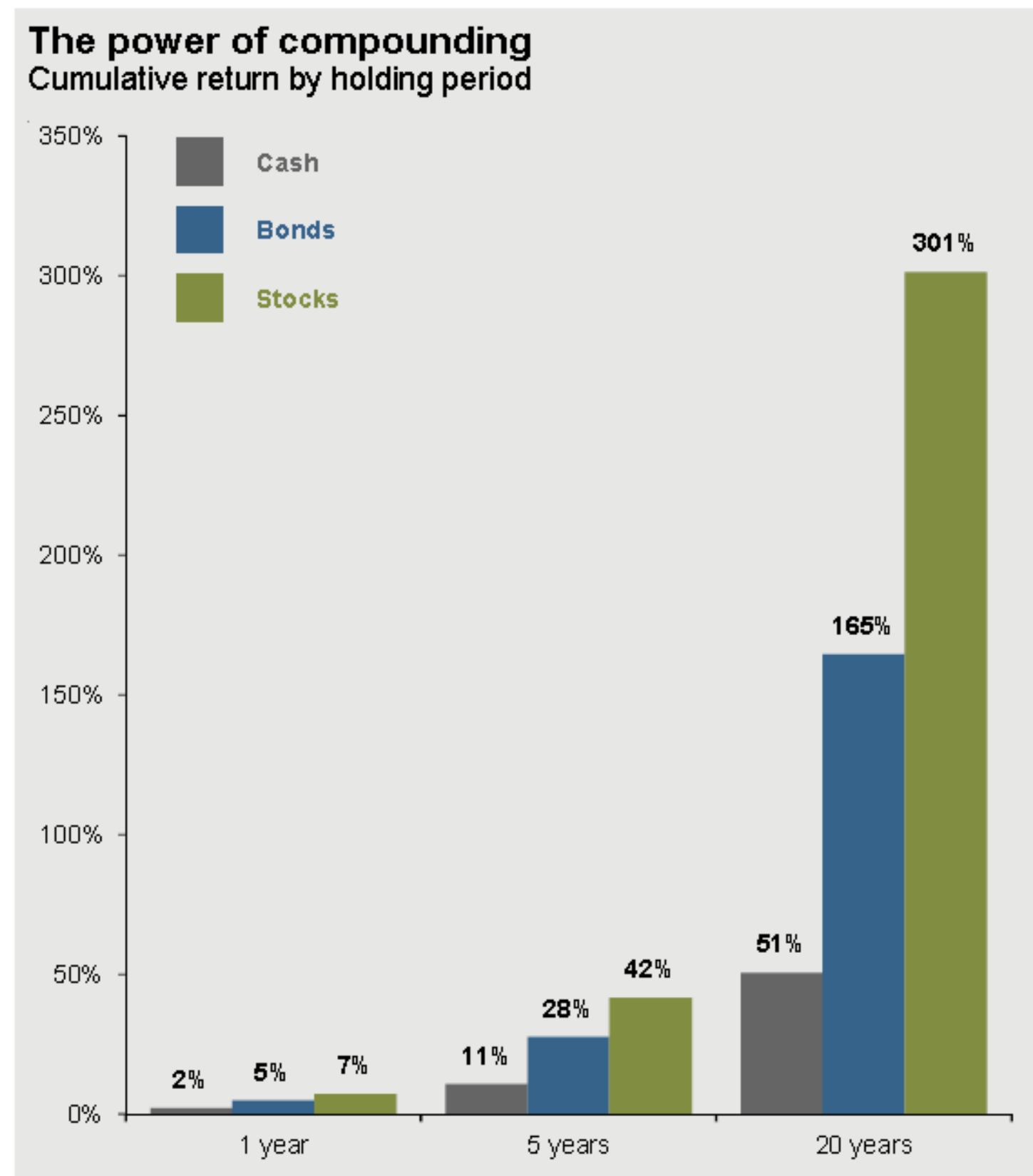


Stocks Have Delivered Positive 5-Year Returns 80% of the Time





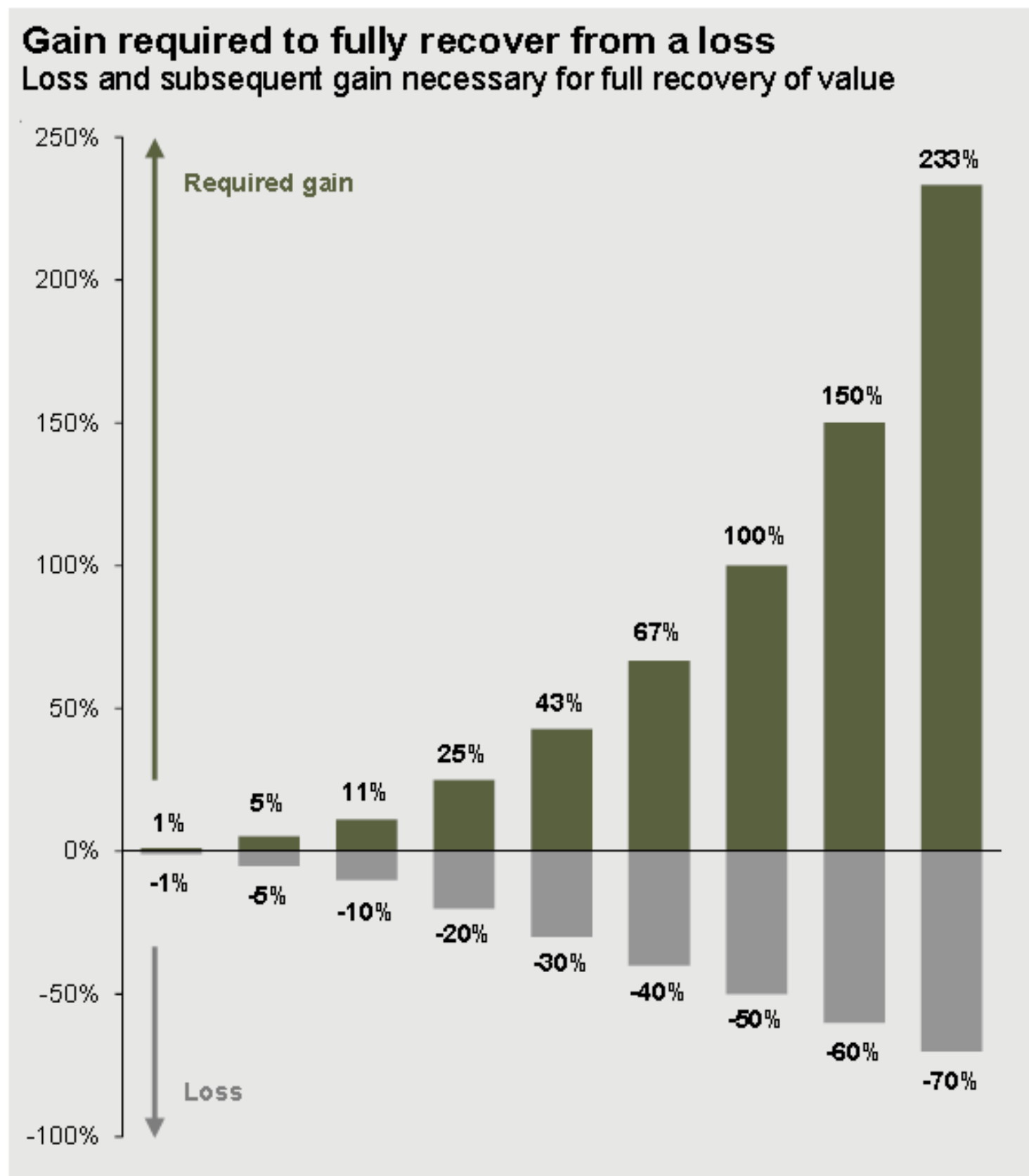
Stock Returns Compound Over Time



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



But Don't Speculate in the Stock Market



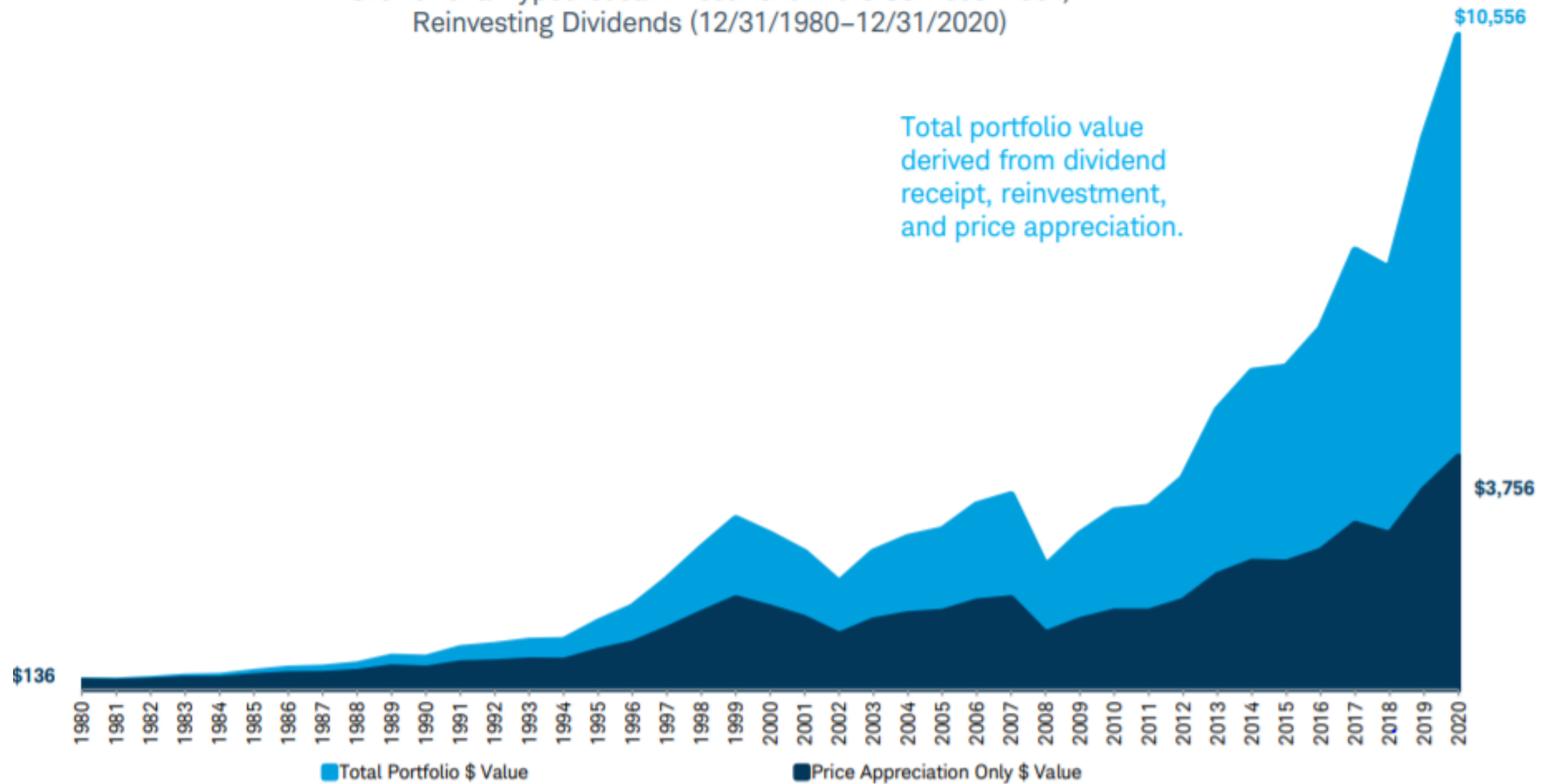


Reinvest Your Dividends

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)



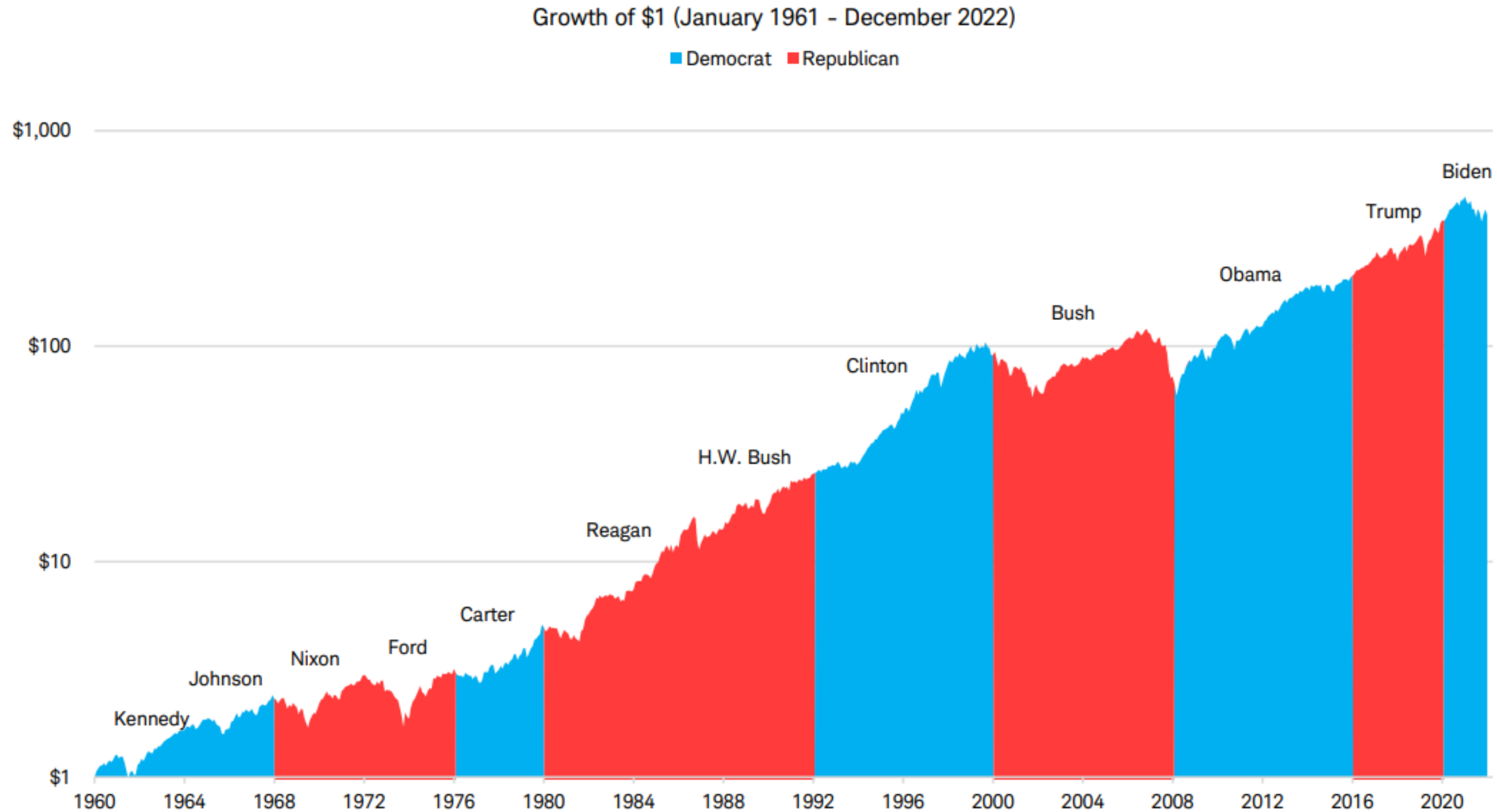
Growth of the S&P 500 Total Return Index assumes reinvestment of dividends, includes capital gains, and does not reflect the effect of taxes and fees. Source: S&P Global Indices and Bloomberg as of 12/31/2020. Indexes are unmanaged, do not incur fees or expenses, and cannot be invested in directly. **Past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



Don't Bring Politics to Investing

Politics versus sound investment principles

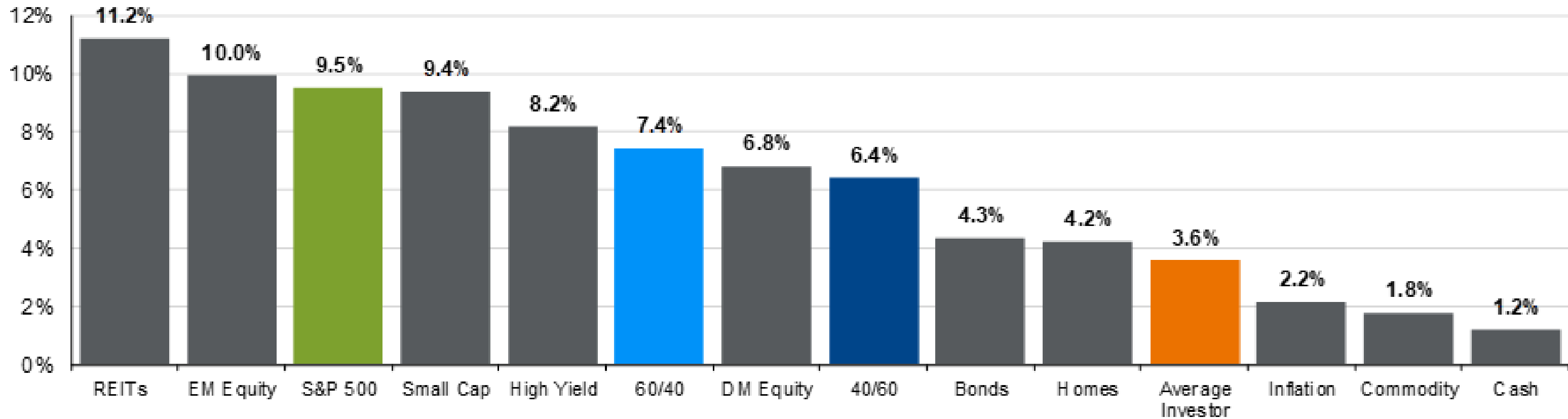
Markets have historically rewarded long-term investors regardless of the presidential party.





The Cost of Moving Investments Around

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

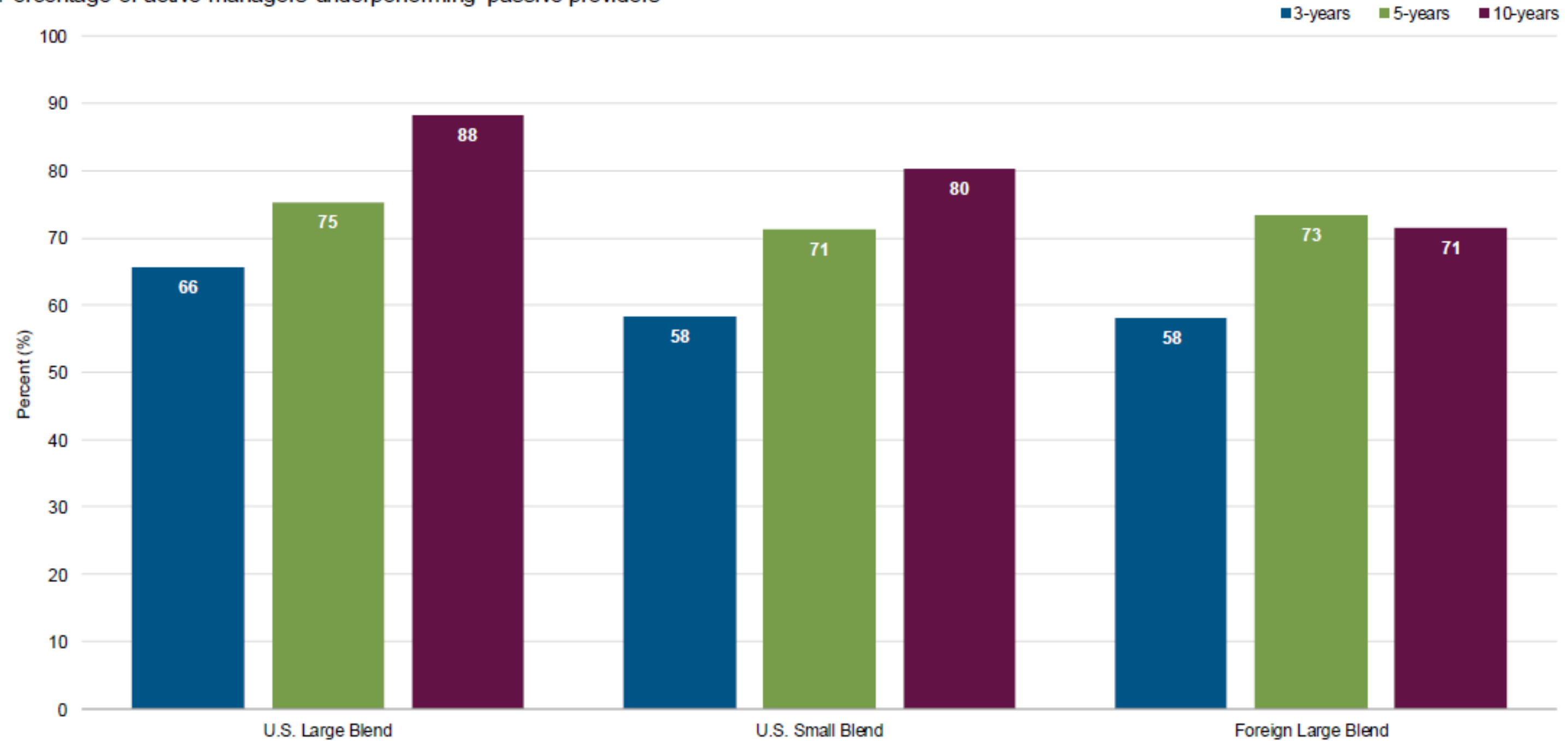




Beware of Actively Managed Mutual Funds

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

Percentage of active managers underperforming passive providers

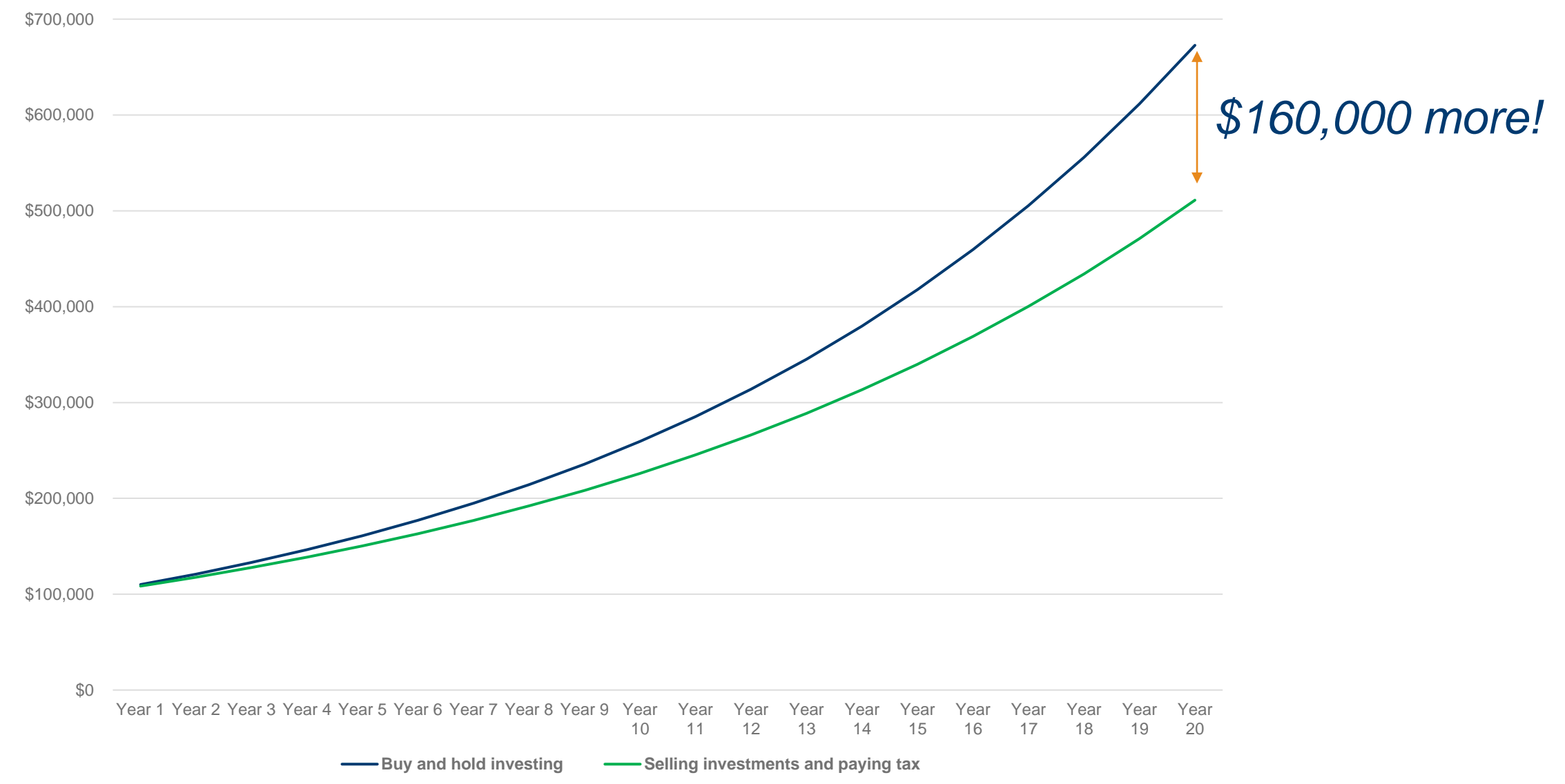


As of 30 June 2022

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



The Power of Deferring Taxes



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

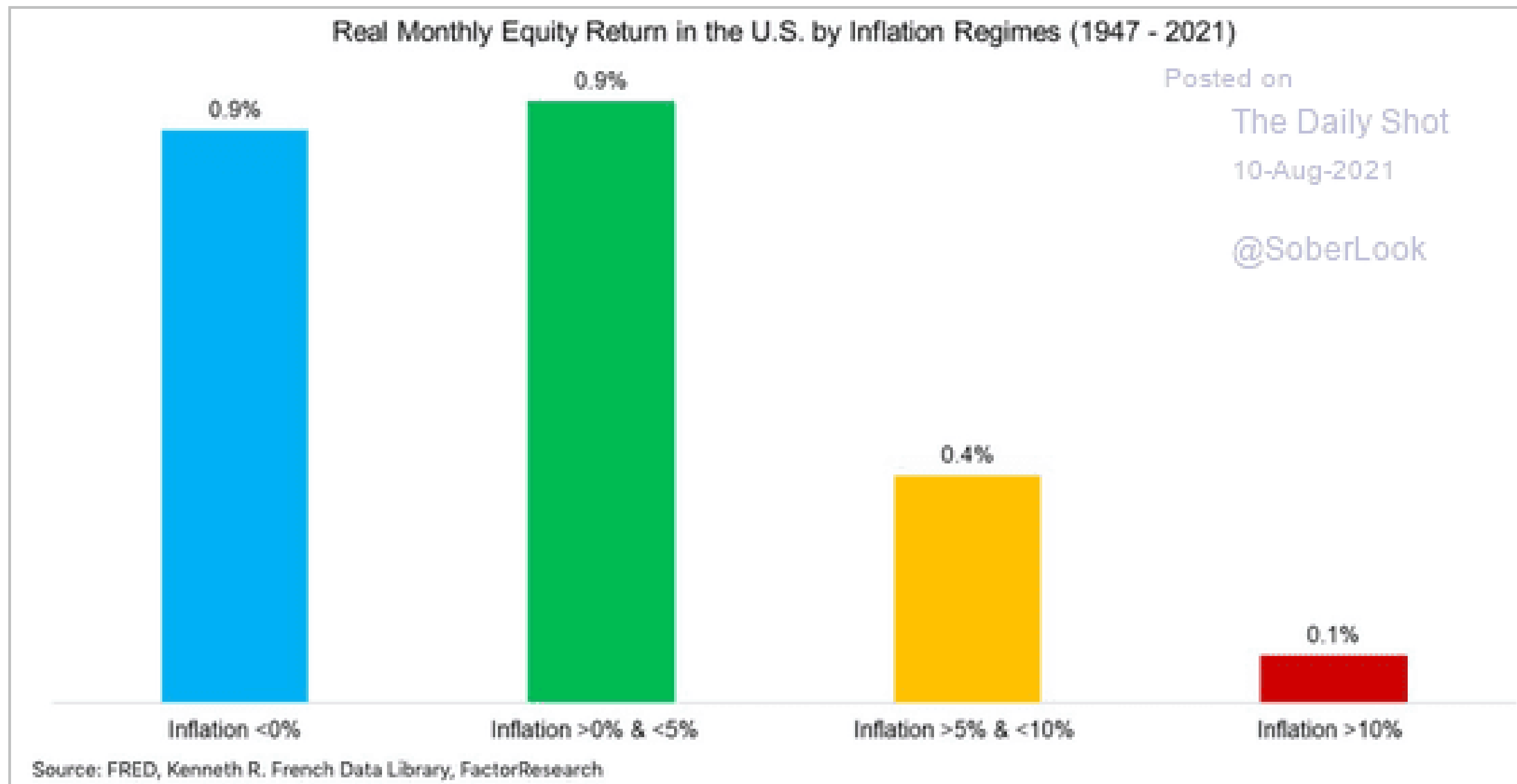
- Assumptions:
- 6% annual appreciation
 - 30% tax rate (20% capital gain tax + 10% state tax)
 - 50% turnover, i.e. selling every two years



Investing in Stocks in 2023



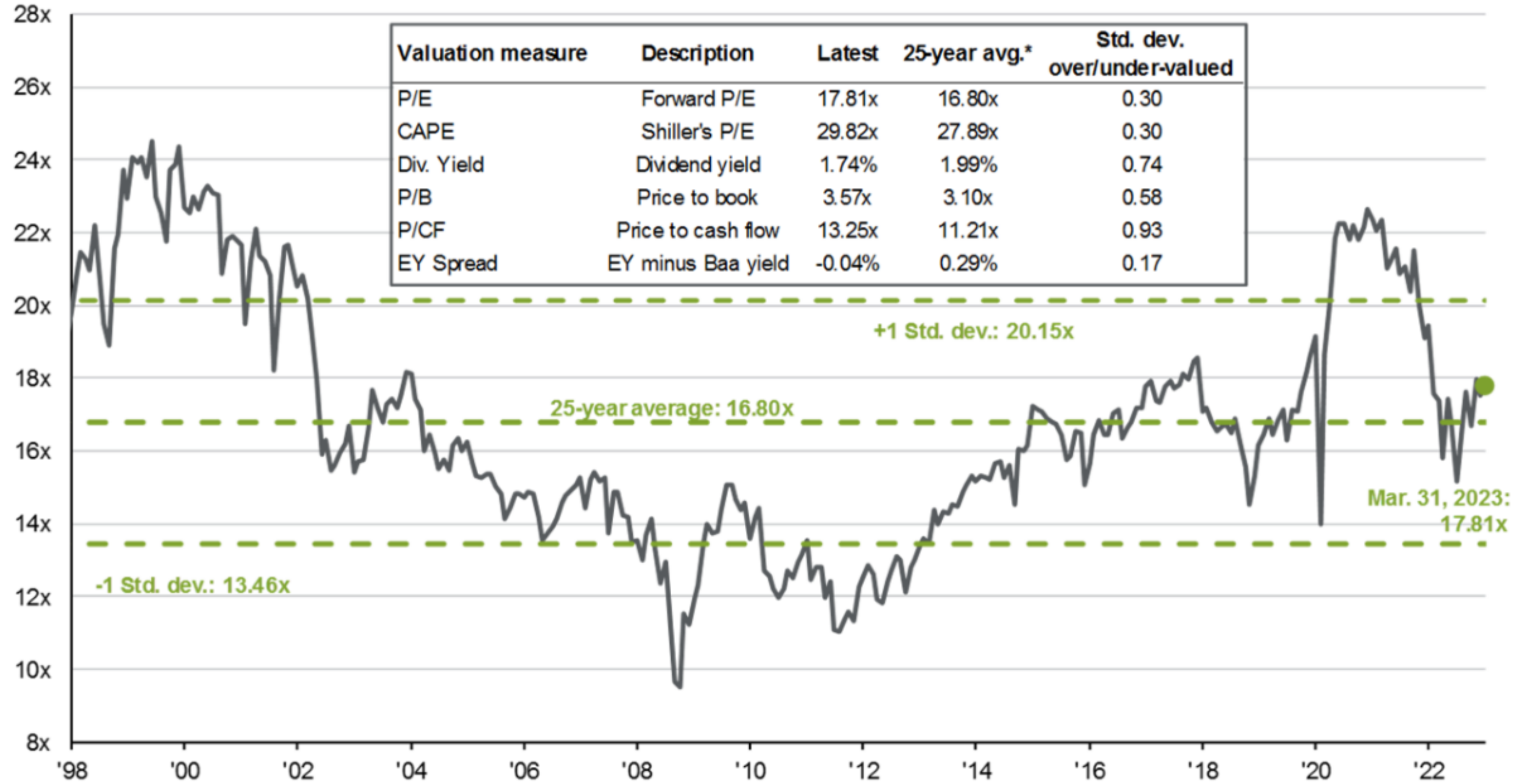
Stocks and Inflation





Stocks Are Fairly Priced

S&P 500 Index: Forward P/E ratio

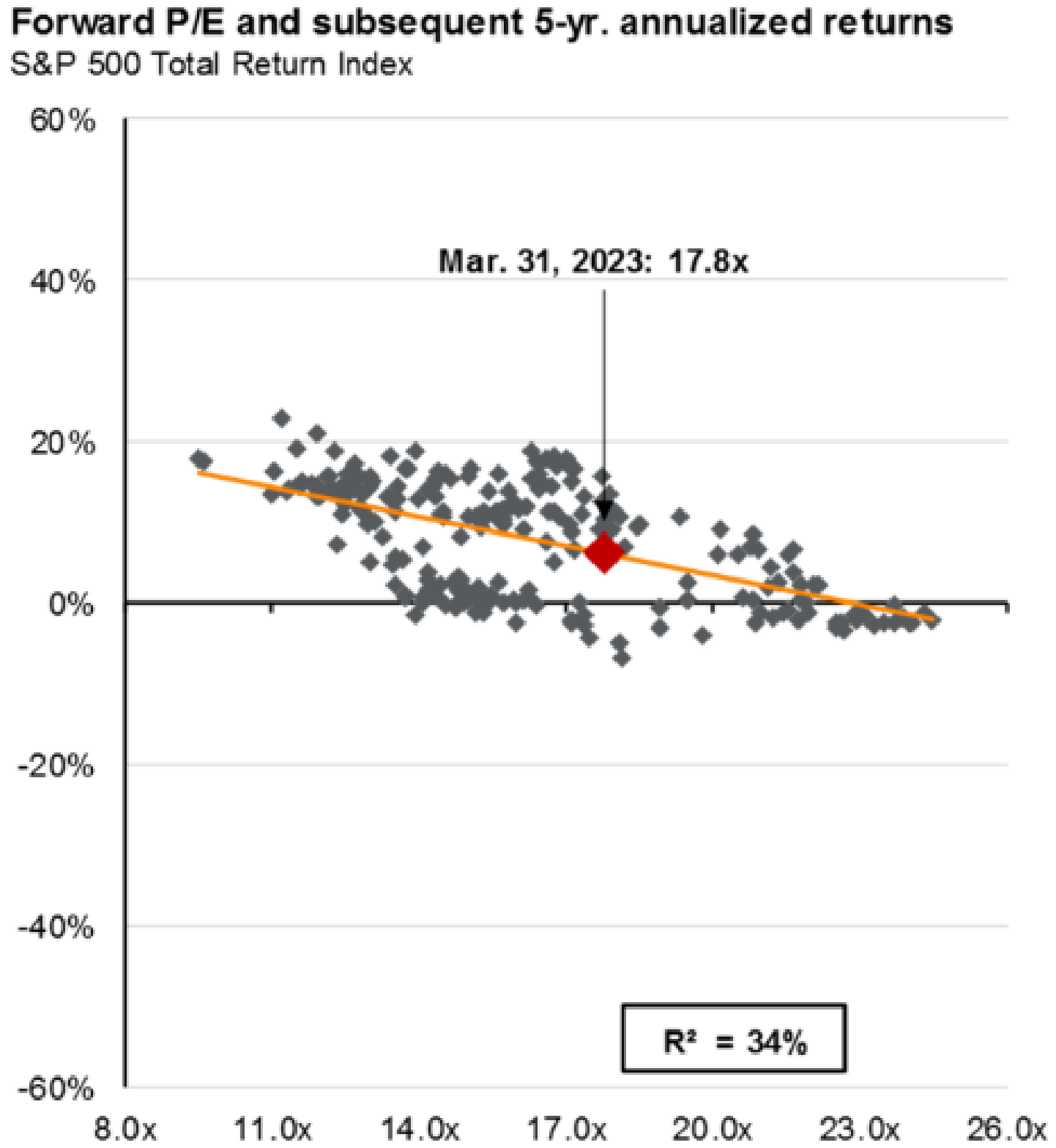
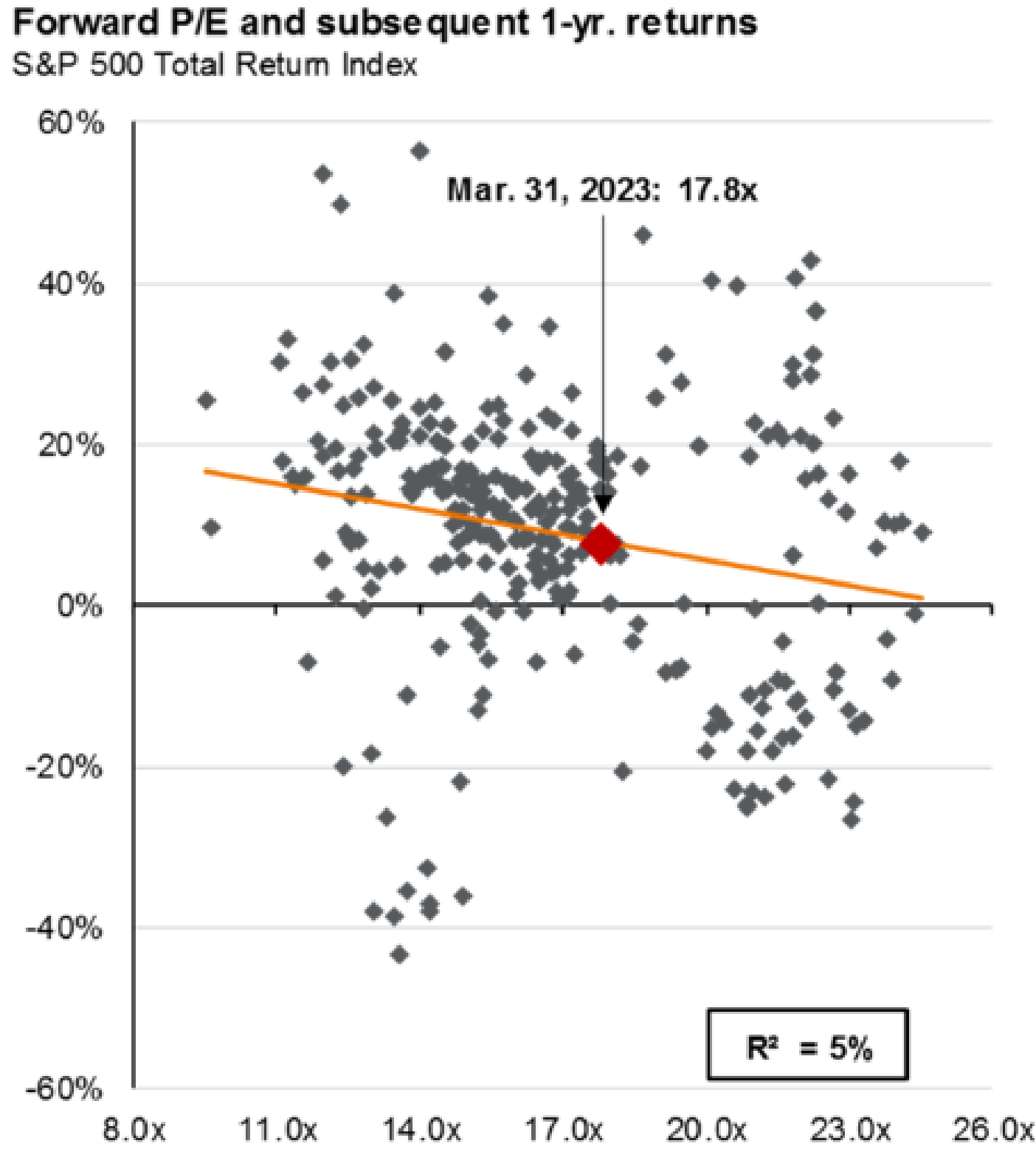




Favorable Five-Year Investment Horizon

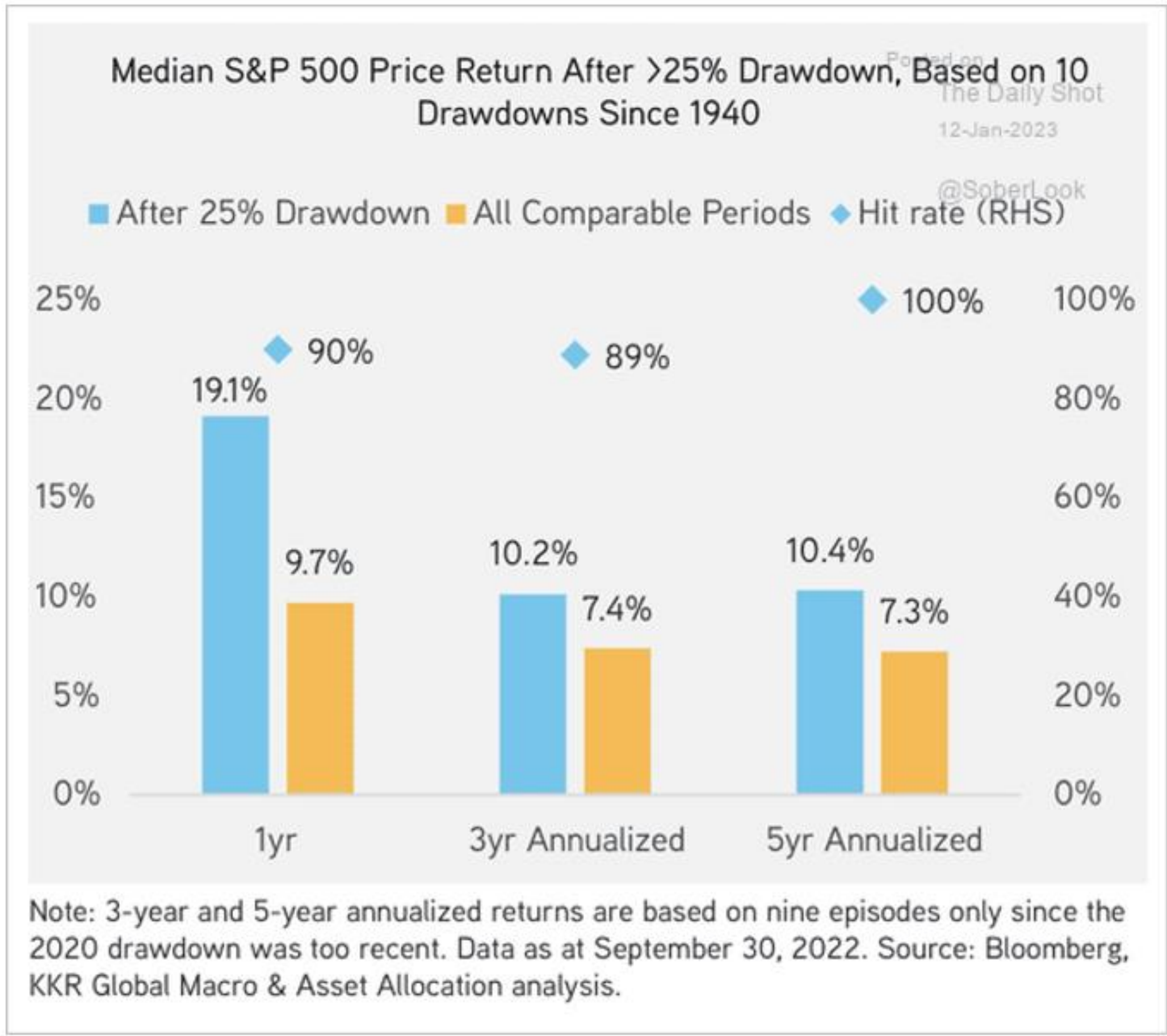
Comprehensive Wealth Management

Knightsbridge Wealth Management 2022





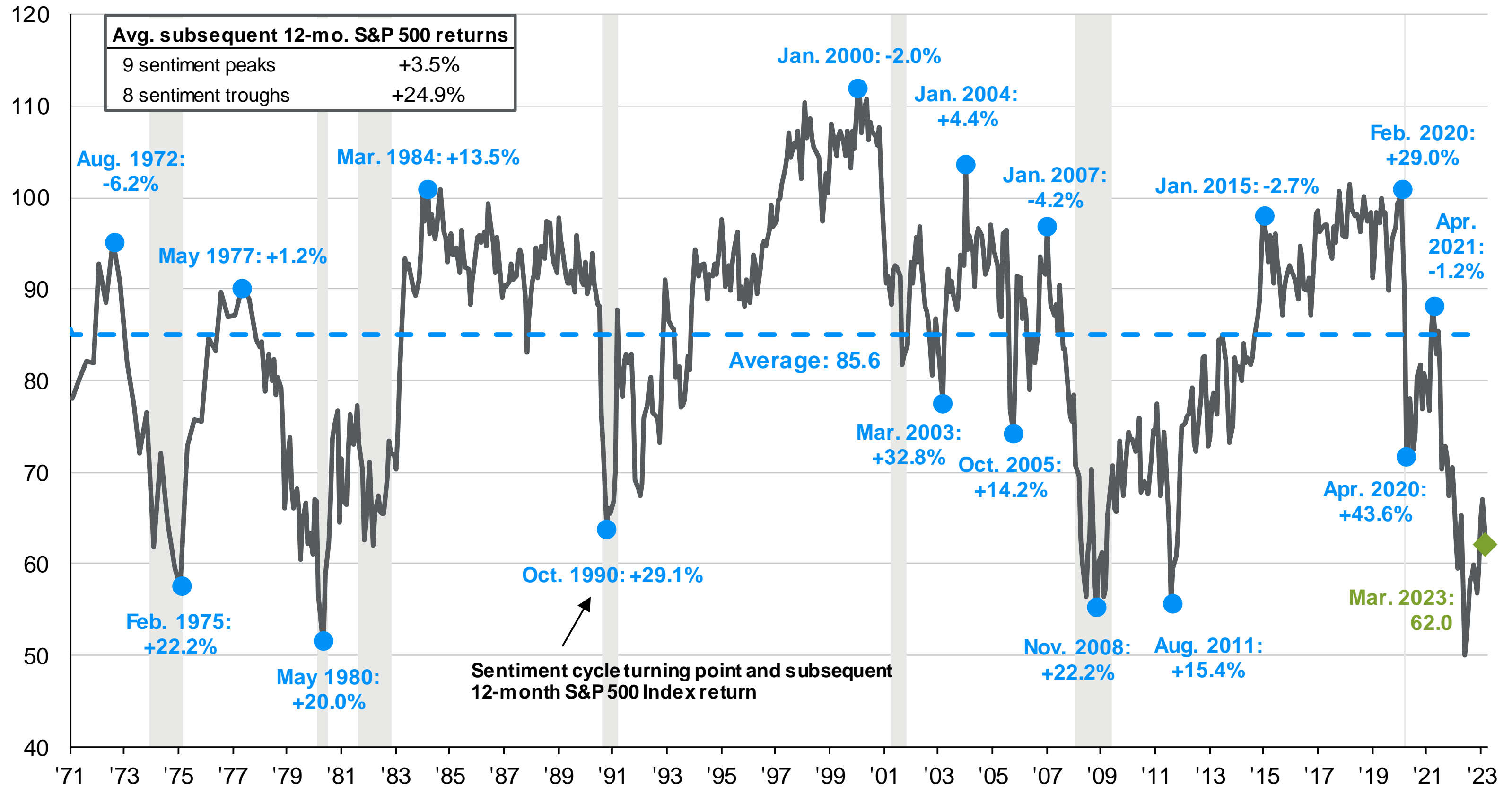
We Expect Above Average Forward Returns





Strong Returns Follow Depressed Sentiment

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





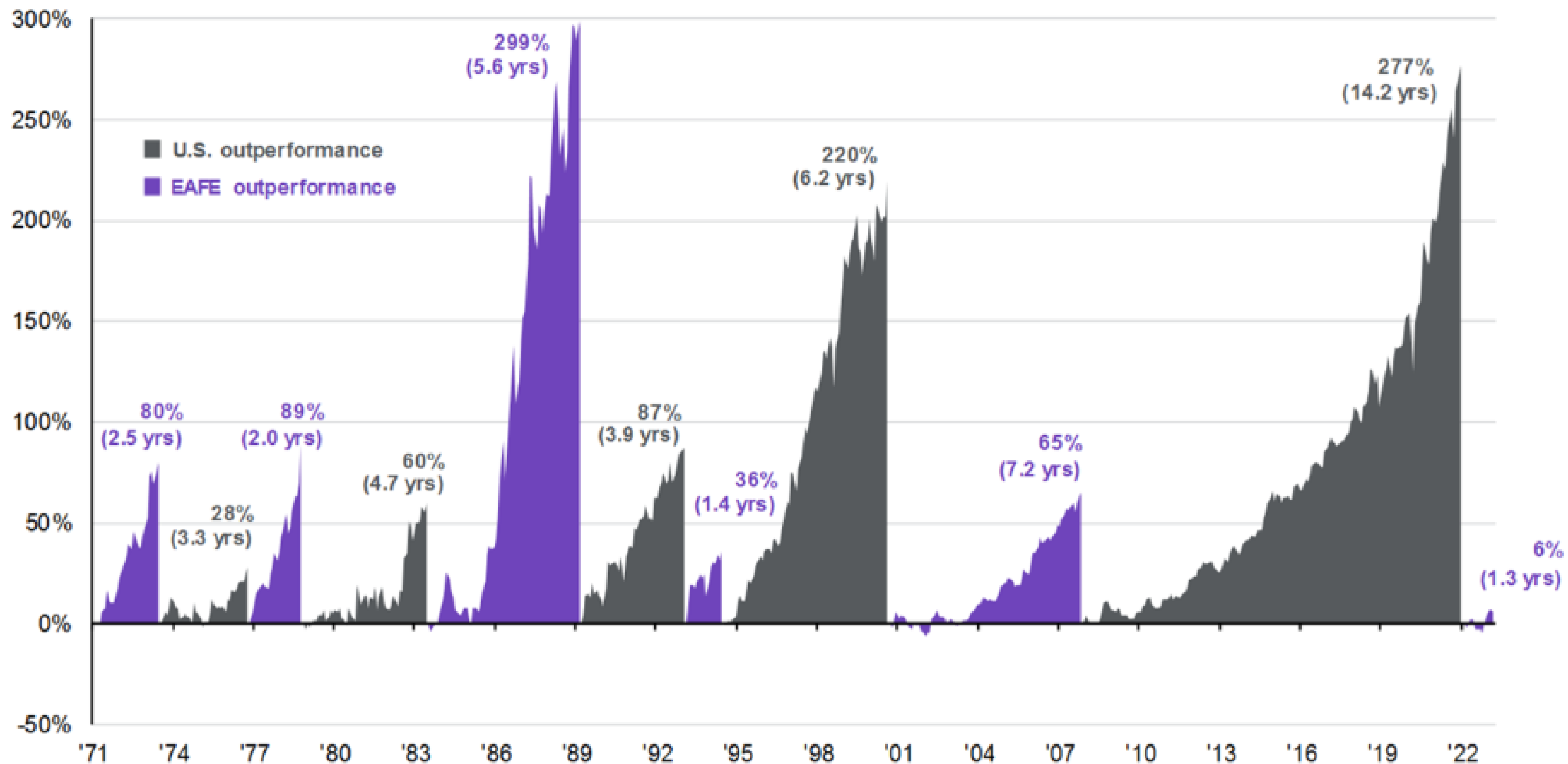
2023: A Time to Invest Globally



U.S. and Foreign Stock Market Cycles

MSCI EAFE and MSCI USA relative performance

U.S. dollar, total return, cumulative outperformance

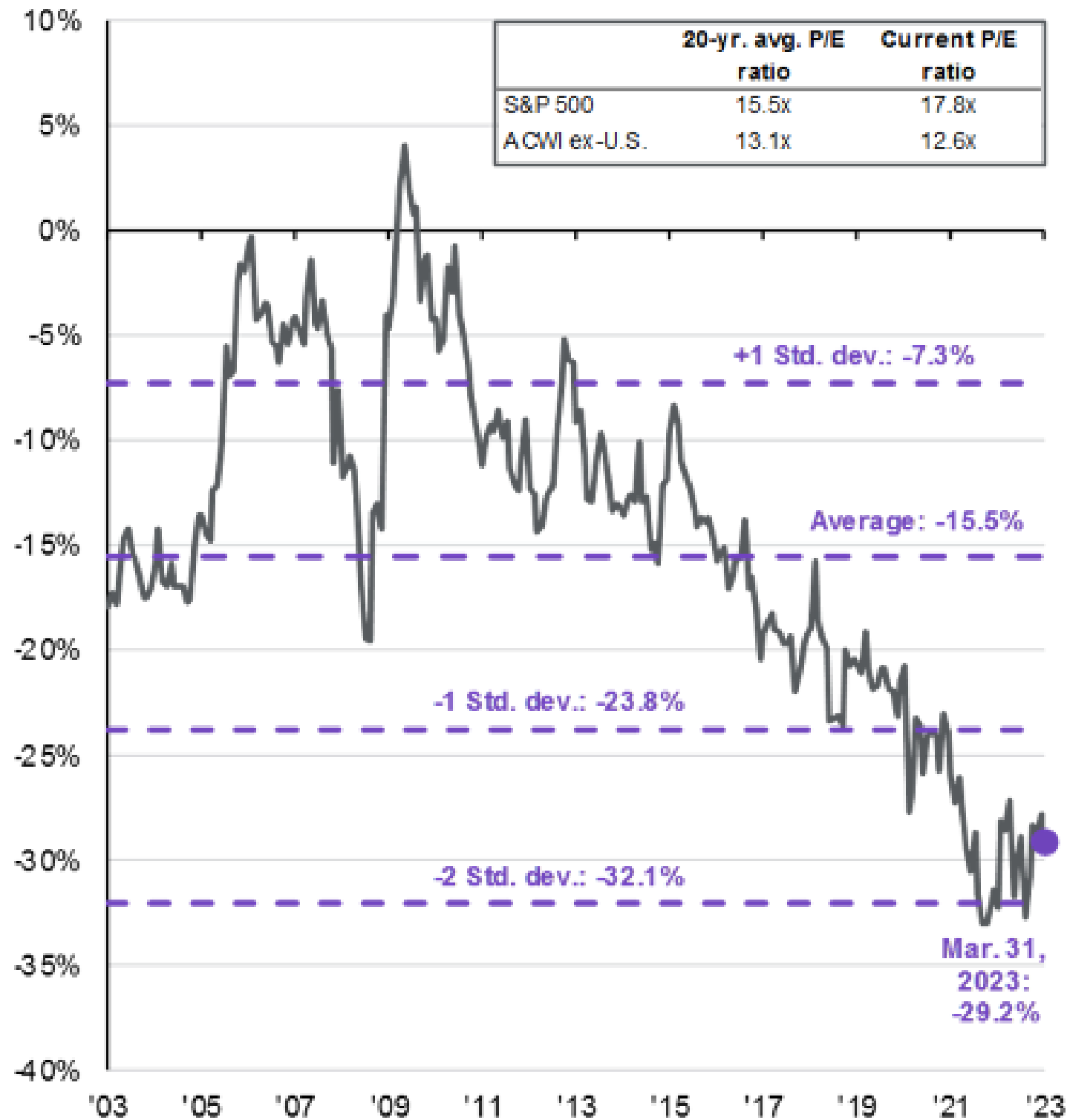




Compelling Valuations Abroad

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





International Value Stocks Historically Cheap





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**



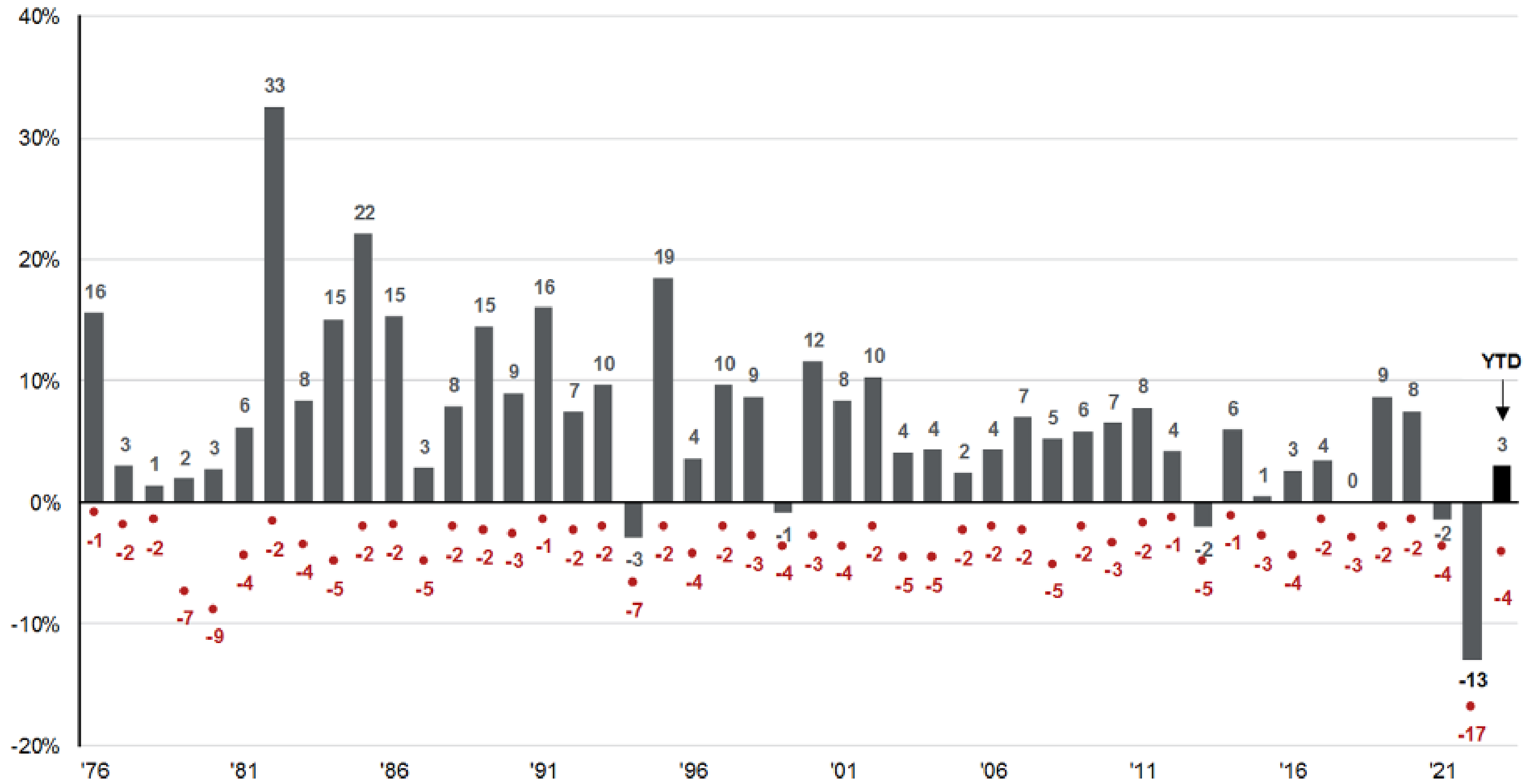
Bonds: Now a Worthwhile Component of your Portfolio



2022 Was a Historically Bad Year 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

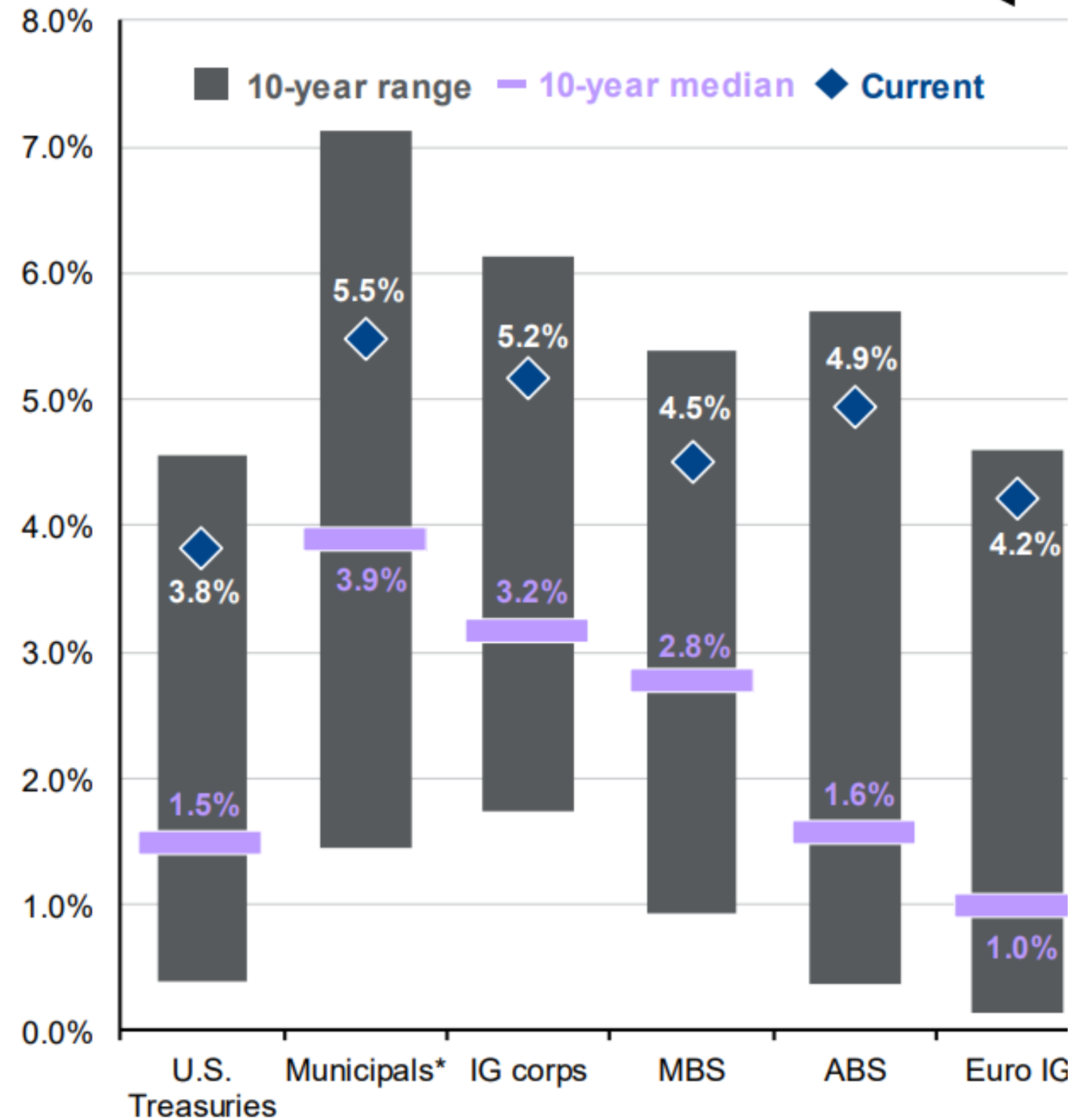




Bond Yields Have Become Attractive

Yield-to-worst across fixed income sectors

Percent, past 10 years





Bond Yields More Attractive

U.S. Treasuries	Yield		Return	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
	3/31/2023	12/31/2022	2023 YTD			
2-Year	4.06%	4.41%	1.46%	2 years	0.74	-0.15
5-Year	3.60%	3.99%	2.39%	5	0.93	-0.13
TIPS	1.16%	1.58%	3.34%	10	0.61	0.37
10-Year	3.48%	3.88%	3.76%	10	1.00	-0.14
30-Year	3.67%	3.97%	5.99%	30	0.93	-0.17
Sector						
U.S. Aggregate	4.40%	4.68%	2.96%	8.5	0.86	0.22
IG Corps	5.17%	5.42%	3.50%	11.1	0.54	0.47
Convertibles	7.63%	7.58%	3.60%	-	-0.14	0.87
U.S. HY	8.52%	8.96%	3.57%	5.3	-0.10	0.74
Municipals	3.25%	3.55%	2.78%	13.0	0.53	0.22
MBS	4.51%	4.71%	2.53%	7.4	0.78	0.15
ABS	5.61%	5.89%	1.86%	3.5	0.21	-0.01
Leveraged Loans	11.31%	11.41%	3.26%	2.4	-0.34	0.59



Bond Yield Now in Line with Stock Earnings Yield

Comprehensive Wealth Management

Knightsbridge Wealth Management 2022



@SoberLook



Bond Market Pointing Toward 5% Annualized Return

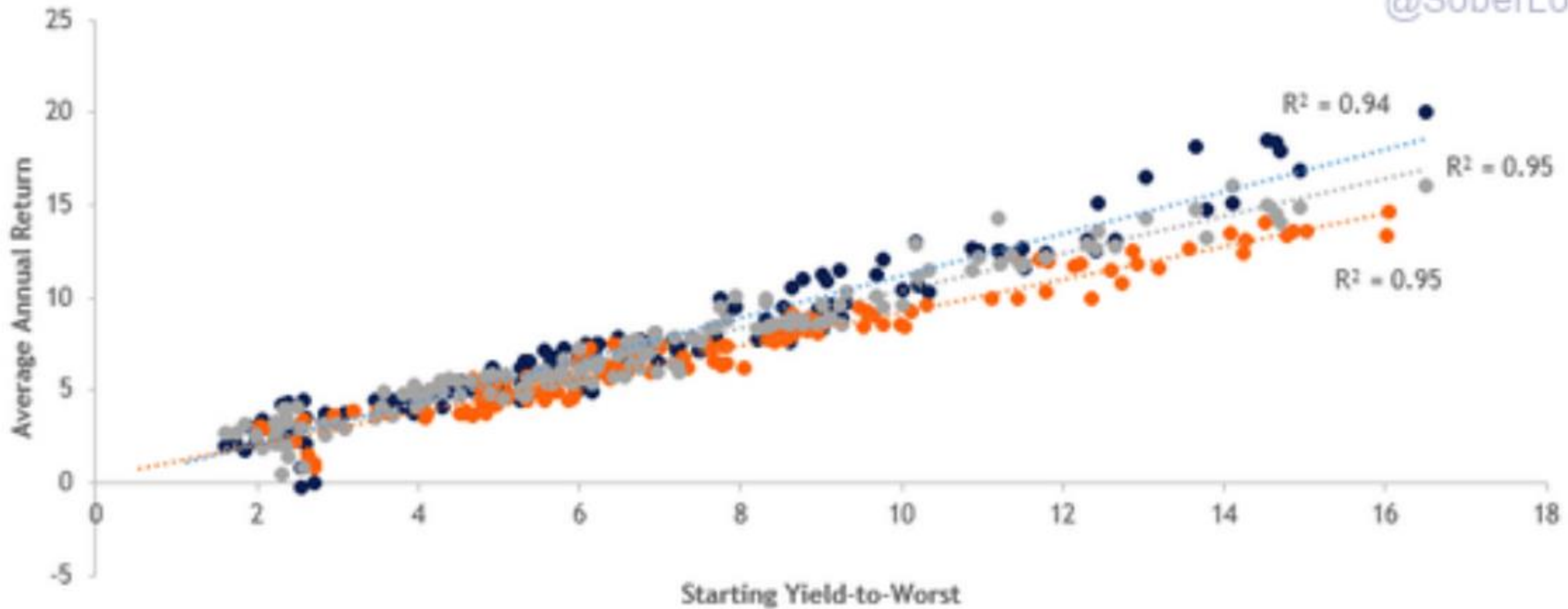
Starting Yields Are The Best Predictor of Future Returns (Bloomberg Aggregate Index)

The Daily Shot

01-Mar-2023

@SoberLook

- Next 5 Years Annualized Return
- Next 7 Years Annualized Return
- Next 10 Years Annualized Return
- Linear (Next 5 Years Annualized Return)
- Linear (Next 7 Years Annualized Return)
- Linear (Next 10 Years Annualized Return)





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 4.7%.
- 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 (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 (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?

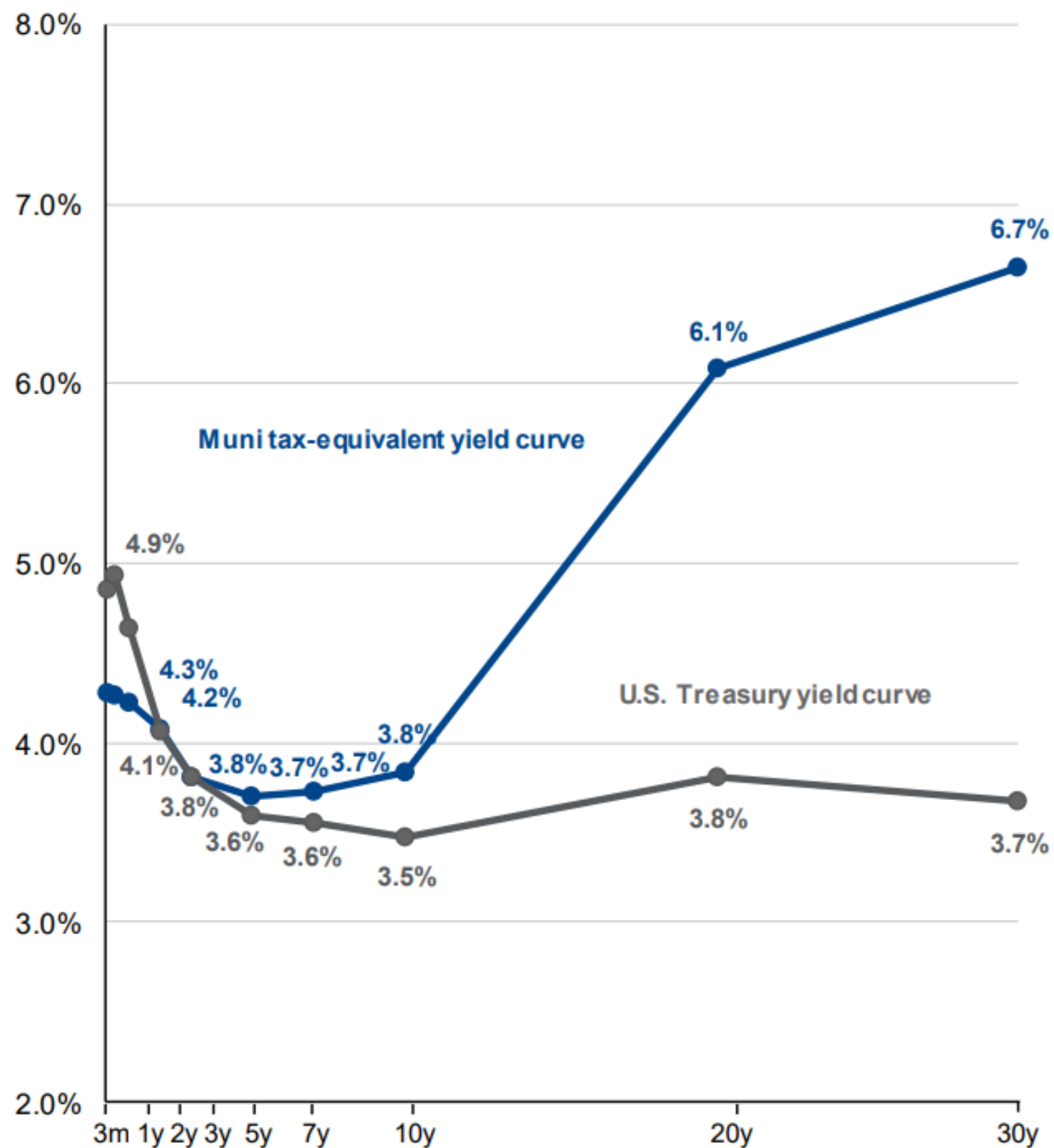


CA Municipal Bond Yields Are Attractive

Comprehensive Wealth Management

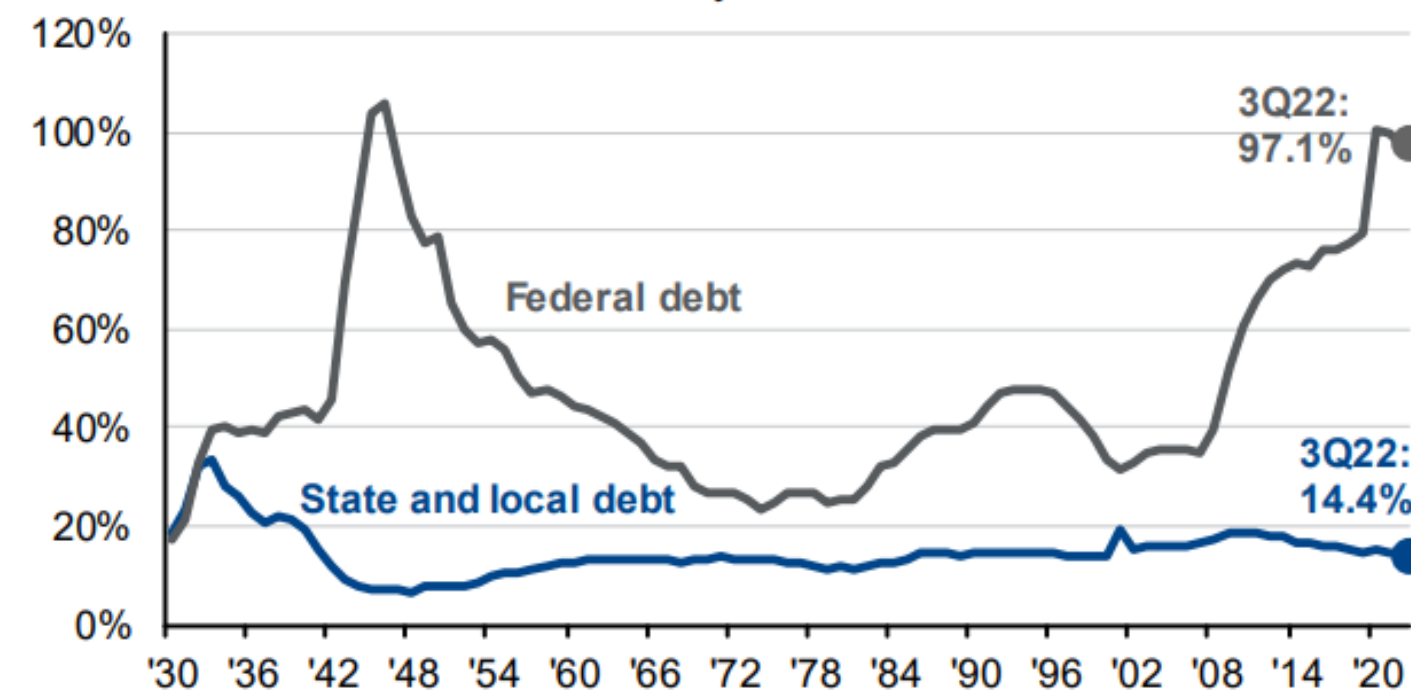
Knightsbridge Wealth Management 2022

Muni tax-equivalent and Treasury yield curves



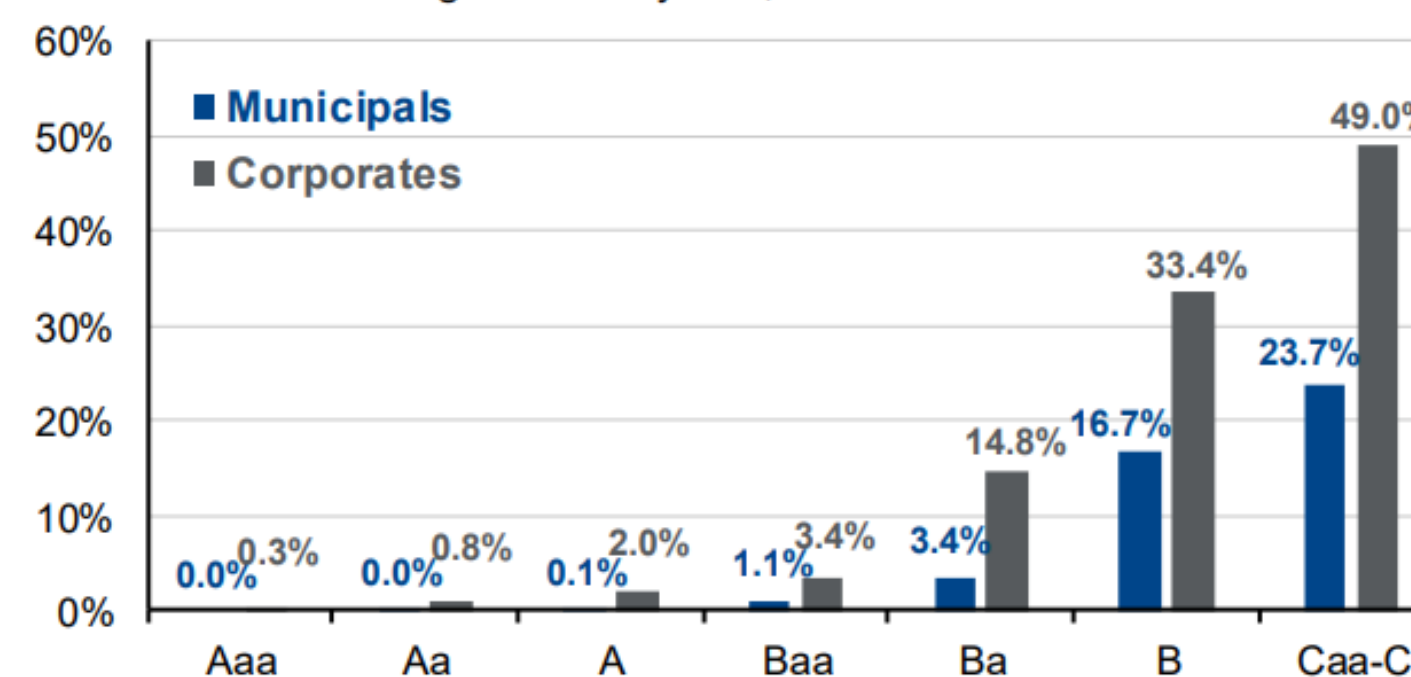
State and local and federal net debt

% of GDP, 1930-2022, end of fiscal year



Muni and corporate default rates

% of issuers defaulting within 10 years, 1970-2021





Are you capturing yield available today?

- **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%



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



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:

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Disclosures

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



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