

January 4, 2023



Annual Commentary and Opinion

Dear Clients and Friends of Kondracki Advisory,

Our **2022 composite total return** was **-2.97%**, which **compares very favorably** to the **-18.14%** return for the S&P 500 Index, **-6.98%** return for the DJIA, **-33.10%** return for the Nasdaq, and **-13%** total return for bonds*. Taking a longer term look at our investment performance, our **three-year** average annual composite total return through December 31, 2022, was **9.87%**, vs. **7.66%** for the S&P 500 Index and was achieved with nearly **40% less volatility** than that of the S&P 500. Our portfolios have generated **significant alpha** (risk-adjusted returns) relative to the S&P 500 over every measured time frame since the inception of our firm and have demonstrated **superior downside protection** as compared to the S&P 500 Index during periods of considerable market volatility, with 2022 being another very good example. **Risk-adjusted outperformance** has **always** been our goal, and consistently achieving it is foundational to our value proposition for clients.

Rising interest rates and stock market volatility in 2022 offered, what I believe to be **considerable investment opportunities for our portfolios in both short-term U.S. Treasuries, and equities**. A considerable amount of our cash positions was opportunistically used to purchase guaranteed **Treasury Bills and Notes at the highest yields that we have seen in nearly 12 years**, along with the addition of **14 entirely new equity positions**, offering significant upside potential and a degree of downside protection superior to that of the broad stock market. Our portfolios are currently invested in **50 of world's most important and honorable companies**, purchased and held at what I believe to be reasonable prices and dividend yields.

As we begin 2023, our investment approach and portfolios are **well-positioned to benefit from higher Treasury and cash yields**. With approximately **30%** of our portfolios currently invested in **short-term U.S. Treasuries**, the resulting guaranteed income increases our returns and reduces risk and volatility. We continue to be very careful with our equity selections, **opportunistically adding only those companies that meet or exceed our rigorous financial and moral screening process standards**.

Our portfolios significantly outperformed the market in 2022 on an absolute, relative and risk-adjusted basis. Our approach to **active investment management, rooted in MoneyMorality™**, is **value-oriented**, and focused on achieving a reasonable return, while offering **better downside protection** than that of the S&P 500 Index. At times, we can and will be more opportunistic with our company and sector selections, deploying some of our cash positions in order to do so, as we did throughout much of 2022. At other times, we will hold even larger cash positions and become more defensive. **I believe that our active investment approach offers far more control and greater flexibility as we strive to achieve our goal of providing excellent long-term risk-adjusted returns while exclusively investing in companies that we can be proud of both financially and morally.**

Sincerely,

Chris Kondracki, Principal and Portfolio Manager

* iShares Core U.S. Bond ETF (AGG)

*Volatility is measured by portfolio Beta. *Risk-adjusted performance is measured by portfolio Alpha. Kondracki Advisory, LLC is a registered investment adviser. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein. *Composite Return Performance is net of all fees and charges. The Composite is comprised of 100% of the accounts managed by Kondracki Advisory, LLC meeting the minimum initial investment requirement and invested in the KA Model Portfolio Strategy over the measured time frame. Performance calculations have not been audited by any third party. Actual performance of client portfolios may differ materially due to the timing related to additional client deposits or withdrawals and the actual deployment and investment of a client portfolio, the length of time various positions are held, the client's objective and restrictions, and fees and expenses incurred by any specific individual portfolio. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.