January 8, 2024

Annual Commentary and Opinion

Dear Clients and Friends of Kondracki Advisory,

Our **2023 composite total return** was **12.70%**. Our **equity position**, which was **53%** of the total portfolio, achieved a return of **20.67%,** and our **Treasury Bills** position of **46%**, generated **a return of 5.11%**. Total returns on the **100% equities S&P 500 Index** and the **DJIA** were **26.29%** and **16.18%**, respectively. Our portfolio positioning in 2023 produced a very solid return, especially in the context of our very considerable **outperformance** in **2022** when our portfolio positioning **protected our portfolio downside** to **-2.98%** vs. the **-18.11%** return on the S&P 500 Index. It has been my decades-long experience that the best way for investors to achieve superior long-term returns is by losing far less money in difficult down markets, while still achieving much of the stock market upside in up markets. We have consistently been able to achieve this.

Taking a longer term look at our investment performance, our **three-year** average annual composite total return through December 31, 2023, was **10.3%** and our **five-year** average annual total return was **12.11%**. With a total portfolio **beta** of **.57**, our very solid total returns have been achieved with **43% less volatility*** than that of the S&P 500 Index. Our low portfolio volatility and excellent equity positions total return have combined to generate **superior risk adjusted returns*** over every measured time frame since the inception of our firm. **Risk-adjusted outperformance** has **always** been our goal, and consistently achieving it is foundational to our value proposition for clients.

Throughout 2023, markets became increasingly concentrated in a small group of stocks which were responsible for the vast majority of market returns. This market concentration has significantly increased the longer term risk of investing in the S&P 500 Index, which due to its current company and sector concentration, is not properly and prudently diversified, in my opinion. **Our equity portfolios are less concentrated and offer true company and sector diversification.** Our actively managed portfolios also utilize a **rigorous financial** and **moral screening process**. We want to be proud of all of the companies in which we are invested, as we are truly sharing in the profits of these businesses.

Our Portolios and 2023 Portfolio Standouts

The **58 industry-leading and time-tested companies** in which we are invested offer us excellent long-term total return potential, considerable dividend income, and beneficial company and sector diversification. We had a number of portfolio standouts in 2023, including, Broadcom, Tesla, General Electric, Adobe, Intel, Microsoft, FedEx, Paccar, Apple, Costco, Honda Motor Co., Toyota Motor Corp., GE HealthCare, Boeing, Nucor, Accenture, JPMorgan Chase, Gartner, Visa and Wells Fargo, where we achieved total returns of 113%, 99%, 95%, 93%, 92%, 60%, 58%, 57%, 50%, 42%, 41%, 40%, 38%, 37%, 35%, 31%, 31%, 31%, 26% and 25%, respectively

2023 was a very solid year of performance for our portfolios and our equity positions, in particular. We remain prudent and cautious with our total equity allocation percentage, as I continue to see considerable long-term opportunity for gain, but slightly mitigated in the near term by stretched stock market valuations and significantly lower stock dividend yields as compared to short-term U.S. Treasuries, where increased yields have benefited our returns and more conservative approach to investing.

We are so fortunate to live in a country where we can share in the ownership of the companies from which we buy goods and services nearly every day. As a shareholder, in a very real way, when we purchase from these companies, we are paying ourselves. This is why the long-term returns of the stock market have exceeded virtually every other asset class. However, stock price and valuation really do matter, and we will always be very careful about the price that we pay for securities. This is one of the most important ways that we effectively manage risk and have been able to achieve superior risk adjusted returns. And, provide our clients with considerable peace of mind.

Sincerely,

Chris Kondracki, Principal and Portfolio Manager