NEPSIS®
INVEST WITH CLARITY®

4TH QUARTER
2021 UPDATE

THOUGHTS FROM THE FOUNDER: Once again, we find ourselves in a wild period of uncertainty in the markets (no surprise!). As I write this update, year to date the S&P500 is down 8.04%, the Dow is down 5.68% and the Nasdaq is down 12.58%. Not a wonderful way to start a new year!

However, it is important to remember that the values of businesses do not go straight up! Volatility is MANDATORY for long term successful investing! The ability to Strategic Cost Average into the businesses we own is an extremely critical part of the overall process. Remember, "**Process before Progress®.**"

Our investment committee has been telling our advisors, that we believe the investment landscape is going through significant changes. As we come out of the pandemic, we believe we will continue to see higher interest rates as inflation grows and the Federal Reserve System tightens their monetary policy.

This was no surprise to us. Over the last 18 months, decisions on how to allocate portfolios were made based on the anticipation that we would be entering this new era in the markets. Valuations of businesses are changing. Investors are and will continue to become more particular about the companies they want to invest into.

It is important to remind our clients that investing in businesses is a long-term process. If you have reviewed the Nepsis® Investment Policy Statement, it specifically lays out what type of time horizon you should consider when determining the appropriate investment objective for your portfolio. It is important to stick to the process and have reasonable expectations for the performance of your portfolio – over time.

While we do not expect to have the same type of performance as we did over the last 3 years, I do believe our portfolios are allocated in a manner to take advantage of this new era in the markets. I continue to be quite satisfied with the allocations we have for our various investment objectives.

It is important to remind our clients that every position in their portfolio is owned for a specific reason. While markets have been in a correction mode, quite frankly, our portfolios continue to hold up quite well.

While there is a lot of noise in the marketplace, we continue to strongly believe in the power of Clarity! Clarity creates stability. We have been through many periods like the one we are in now. In my opinion, it is about time we see a correction like this! We are excited about opportunities to invest in great businesses over time.

If you have questions or need additional information about your portfolio, please contact your advisor for more information.

Respectfully,
Mark Pearson
Founder & CIO
Nepsis, Inc.

MARK PEARSON
President & CIO

"CLARITY CREATES STABILITY."

– MARK PEARSON

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COULD IT REALLY BE DIFFERENT THIS TIME?

Charles D. Etzweiler, *MBA, CIMA®, CMT, CFP®*
Chief Research Officer & Senior Vice President

Just like serious golfers cringe at the words, "You are still away.", investment portfolio managers are careful not to utter the words, "Things are different this time!" **Although it is unlikely that Tiger Woods or Phil Mickelson would be told that they are still away following a putt, could it be that the phrase, "Things are different this time!" in the investment field may be ringing true. We say, not only perhaps, but probably so.**

Yes, it could be that the "Great Rotation," as it has been called and falsely predicted for the last decade, could finally be coming to fruition. This rotation references moving the focus away from Growth Stocks toward that of Value Stocks. And, because we don't really like the conventional definition of Growth vs. Value (after all, what investor doesn't want companies whose earnings are growing and increasing in value?), we would suggest that the Great Rotation would be turning its focus away from speculative companies and toward companies possessing characteristics of quality.

Speculative companies are typically disruptive in nature, focusing on new technologies that have taken years to develop with steep upfront costs. They have, in essence, developed, if you will, the new or better mousetrap. Moreover, speculative companies tend to thrive in an environment where interest rates are low, and inflation is benign or nonexistent. Reason being that speculative companies typically finance the early stages of their growth cycle, thus resulting in lower expenses and higher margins. Moreover, if inflation is low, it is usually accompanied with lower economic growth. When growth is hard to find, investors will pay a premium or pay-up for it. However, when the opposite occurs, interest rates rise accompanied with higher inflation. This in turn is associated with higher borrowing costs and typically stronger growth, which harm speculative companies.

Quality companies have the opposite characteristics. They are established, borrow very little or no money, have stable cashflow, and wide moats negating the competition from penetrating their marketplace. Although they possess mighty earnings in numbers, they are further along in their lifecycle and the earnings rate of growth is not as fast as it once was. When rates rise, it does not affect these businesses because they didn't borrow or borrowed very little. In addition, because the economy is usually growing in periods of inflation, the rising tide lifts all boats, and one is no longer forced to pay a premium to own speculative growth stocks because investors can get it now from mature companies as well.

We believe that the time may just be right for the Great Rotation to unfold as the Powell-led Federal Open Market Committee seems convicted to the core to raise interest rates and has removed the word "Transitory" as it pertains to inflation from their lexicon and replaced it with "Persistent" as they believe it to be real this time. **This could just allow for the ideal backdrop that permits the words "Things are different this time!" to finally ring true.**

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W.A.I.T.

OUR THEME FOR 2022

Charles D. Etzweiler, *MBA, CIMA®, CMT, CFP®*
Chief Research Officer & Senior Vice President

As Americans, especially those with Type-A Personalities, one of the hardest things to do is wait.

Although we recognize that patience is both a virtue and a fruit of the Spirit, it is one of the most difficult character traits to exhibit. So, it begs the question, why would any financial advisor, or portfolio manager for that matter, ask their investor clients to wait? This is an excellent question. In our featured article we hope to not only answer it, but also make the case that what we are ultimately waiting for is worthwhile. We say this because for the first time in over a decade, we enter a calendar year with a bearish tone to our expectations for most asset class returns, including both stocks and bonds. Our not so optimistic view is supported by the first three letters in our acronym and is defined below. **What we are waiting for is the T in the acronym W.A.I.T. and is also described below:**

- **Washington, D.C.** – With gridlock already abounding in congress, the outcome of the mid-term elections provides even more numerous unanswered questions as to who controls congress and where fiscal policy may lie. This creates market volatility and facing year two of a U.S. president's term, which (according to data from Bespoke) on average going back to 1928 is the worst of the four, only compounds this uncertainty. We believe this will weigh heavily on the markets in the first three quarters of 2022 until the outcome of the election is sealed.

- **Accommodation of the Fed** – When we say the Fed is accommodative, we mean that they are willing to keep interest rates lower for longer. Equity investors usually like this posture. When they are the opposite or restrictive, it suggests the opposite. As to which course the Fed will take, we just don't know. Many questions abound. Will they accelerate the taper? When will they begin to raise rates and how many times? Who will fill the three vacant seats on the Federal Open Market Committee? The Fed probably doesn't know the answers to these questions, thus providing more market stress on top of the dealings in D.C.

- **Inflation** – Is it transitory, intermediate, or long lasting? Will the Fed have to raise rates more quickly to squelch it if it rises higher than anticipated? We are of the belief that this is not a 1970s redux, but we do feel that it is persistent and will last another 9-12 months – but only time will tell. Another uncertainty in 2022 that will place pressure on both the stock and bond markets.

- **Technological Advancement** – What investors are "waiting" for are the productivity gains ultimately garnered from new technologies the likes of 5G connectivity, robotics, artificial intelligence, fintech, biopharma, autonomous vehicles, alternative energy and blockchain. We believe these advancements will be the driving forces that propel this secular bull market in the second half of the decade of the 2020s. Our belief is that if investors are patient and can wait through 2022, great opportunities will abound in these areas.

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THE ROAD AHEAD — INCREMENTAL & ATTAINABLE

Nepsis Financial Planning Team

Every New Year is an opportunity to take a fresh look at life. Often this results in goals, resolutions, and a sense of optimism. Yet, the immutable fact remains that every new year is filled with uncertainty. This has felt especially true over the past two years of political and economic volatility driven by a worldwide pandemic.

Many attempt to cope with uncertainty by looking to predictions. However, we have seen this folly. Every rational person knows that no one can accurately and consistently predict the future. Instead, the best way to deal with uncertainty is to accept it, and in fact, expect it.

A valuable financial planning exercise aimed at preparing for uncertainty is to visualize varying degrees of market volatility and think through your potential emotions and reactions. How would you feel if your portfolio value fell by 10% in a relatively short amount of time? What would you do? How would you react at -20%, -30%, or -40%? **Preparing for volatility before it happens is vital to helping avoid making mistakes due to an emotional reaction.**

This same exercise should be applied to unexpected life events such as job loss, illness, unplanned expenses, etc. It is important to write down your answers for how you would handle each situation and keep this as a part of your financial plan throughout the year. **Thinking through the 'what-ifs' is an important part of attaining clarity and confidence for the road ahead.**

Patience & Resolve — Most New Year's resolutions don't make it past the month of January. Over the years, numerous studies have shown that the majority of resolutions fail by the end of the month. Various psychological explanations have been offered for this, as well as some that are more strategic.

New Year's resolutions are really a form of goal setting. A problem for many is that they do not set good goals to begin with. Their instinct is to look at all the areas of life where they are dissatisfied and then resolve to change everything to become the people they wish they were. **The result is often a goal so big and daunting it discourages them from even starting.**

A more practical strategy is to focus on incremental and attainable steps that lead to achieving your larger vision. This is as relevant in life as well as in your financial plan. Rather than fixating on the total nest egg you will need for retirement, concentrate on progressively increasing your retirement plan contribution by a realistic amount each year, such as 2 or 3%. **Small adjustments in the course of a long journey can have considerable impact on how and when you reach your destination**.

As cliched as it may sound, retirement is not merely a destination, it is part of the journey.

Disclaimer: *Please note that Nepsis, Inc. is not a tax advisor; the preceding items are suggestions that you may want to consult with your tax advisor about before making any decisions.*

As Nepsis, Inc. continues to grow, we appreciate your continued confidence and support. We believe successful investing requires Investing with Clarity®. We look forward to continually providing you with the Clarity needed to be a successful investor long-term.

Respectfully,

Mark Pearson
President, Founder & CIO
Nepsis, Inc.

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