THREE CORNERS CAPITAL

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2024 Annual Letter

Personal

Amber

This past year has been a year of great personal and professional growth. The phrase "older and wiser" rings true; each year I discover more about myself (both who I am and who I want to be). I am looking forward to continuing to solidify my purpose within my passions. Passions my kids and I share is camping and travel, so I look forward to continuing our tradition of exploring in 2024. Last year we went to Mohican State Park and Indian Lake State Park. This year we have several camping trips planned as well as a trip to Washington DC.

Chris

After having major knee surgery at the end of the summer in 2023 that slowed me down, I am looking forward to further recovery and getting back to "myself" in 2024. My girls turn 3 and 7 this year and it's fun to see them become better friends. They're already excited for summer! After 16 years in finance and leading clients, I am entering the second half of my career. The first half built personal and professional networks, experiences, and mastery. The second half will be more about adding value through thought leadership. I get excited when sharing about my experiences in wealth management, generous living, charitable planning, and the role companies play in human flourishing. I expect to begin sharing these musings over the year on our website, LinkedIn, and YouTube.

Steve

2023 was an exciting year for our family. Amy and I became quasi "empty-nesters" in the spring as our middle child Ben moved out to a great apartment near his work downtown. With Sam living on campus at Xavier in his junior year, we are nearing full-time status empty-nester hood. Emily transitioned to an exciting new job teaching Montessori at Summit Country Day. Amy and I celebrated our 30th anniversary with the kids on an adventurous driving trip through southern France and Italy in July. We witnessed FC Cincinnati's fantastic season with season tickets and saw Lionel Messi play vs FCC twice; in Cincy and then traveled to Miami and witnessed FCC's revenge! Amy also completed her Master's Degree in Nursing Leadership in November. I also ran the Flying Pig Half-marathon in May, weathering the rainstorms while being cheered and supported by great people in our wonderful city. We'll see if we can top all that in 2024!

Practice Growth

2023 brought changes to our practice as we continue to focus on delivering more long-term value for our clients. As an independent and privately owned wealth management practice, our only motivation is to help our clients manage their wealth with confidence and success.

It is commonplace in our industry for publicly traded companies or private equity firms to squeeze every penny or view clients as revenue generators as they seek to benefit the shareholders/investors. We are not affiliated with any of those.

We hope to never lose sight of the reason we are in this business – to altruistically serve people's unique financial planning and investment needs. If we can uphold our goal to serve clients as best as possible, then everything else will take care of itself.

It's in that spirit that, as we move into 2024 that we look to build upon our client-centric foundation to better serve and grow.

One of the challenges we face is how much to communicate and when to communicate. Too much and no one pays attention. Too little and we're not serving well. We try our best to avoid unnecessary communications (why you don't see emails for every holiday, etc.) We know that your time is valuable, and that your attention is pulled in many directions. Our goal is to ensure that when you receive something from us, you feel it's worth your attention.

With that in mind, we want to remind you of our normal cadence for practice-wide communication.

- Each quarter we begin with a letter. We take a practical approach based on what comes up in our client reviews and discussions by combining our personal take on planning along with market and economic insights from some of the most well-respected leaders in our industry.
- The 2nd month of each quarter we host a 30-miunute call, typically with one of the investment managers used in client portfolios. We pride ourselves on providing this uncommon access to the firms responsible for the day-to-day security decisions. February's call will be slightly longer (45 minutes) as we will have multiple industry experts share their insights as we kick off 2024. Mark your calendar for February 13 at 12pm ET.
- **New this year** - we are adding an educational webinar on the 3rd month of each quarter beginning in March. Our first webinar will focus on the hot topic of residential real estate with subject matter experts from both the realtor side and the mortgage/financing side. Moving forward, we plan to cover topics that add value beyond just dollars and cents.

We will try our best to record these webinars. With clients across the country, it's hard to schedule the perfect time but we know everyone can watch at their convenience. It's important to note, however, that the financial services industry is heavily regulated, and some firms/people may have limitations on being recorded.

Planning and Economic/Market Review

We will be sending an email in the next couple of weeks with some tax information for 2023/2024 including a reminder that, for 2023 only, clients with 1099s from IRAs and/or nonretirement accounts will receive two 1099s – one from our affiliation with Lincoln Financial Advisors and one from our new affiliation with Cambridge.

Speaking of taxes, we would expect headlines this year to include more debate about the federal government budget etc. Additionally, our current income and estate tax laws are slated to sunset at the end of 2025. We are very aware of the sunset and already considering/planning for that potential. However, many attorneys and CPAs are cautioning against making any irrevocable decisions at this point.

Our Recap of Markets in 2023

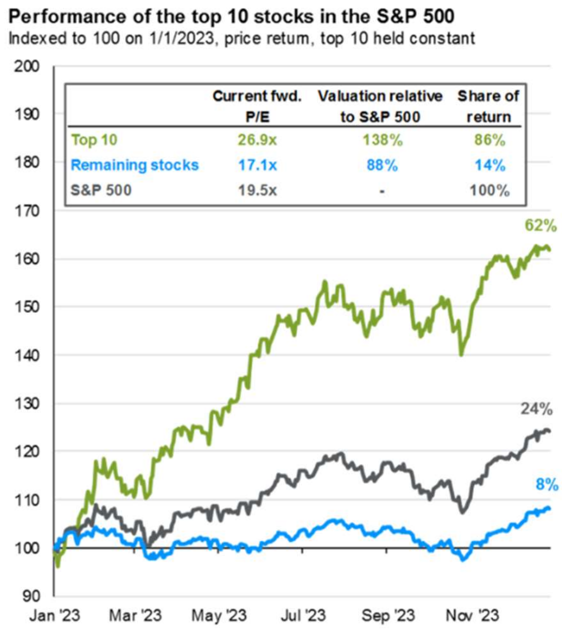
- 2023 surprised many investors who expected stocks and bonds to continue to struggle with the Fed's continued unprecedented rate hiking cycle and concerns of another economic recession. The good news is that, while varied, asset classes across the board finished the year with positive 12-month returns.

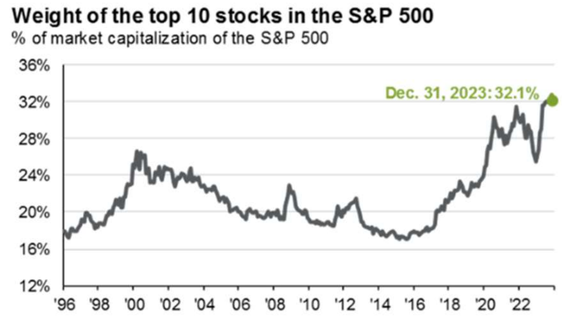
- Markets started the first half of the year strong despite regional banking concerns stemming from the failure of Silicon Valley Bank and others in March. Then markets meaningfully declined beginning in July and through the end of October. This decline was rooted in concerns that the first half was overblown, and the Federal Reserve may not be pivoting towards interest rate cuts as soon as thought.

- Then, almost as quickly, the Federal Reserve became dovish and projected rate cuts in 2024. This led to a strong rally in November and December. Specifically, the asset classes hit hardest in 2022 and 2023 rallied the most. This included small-mid capitalization stocks, international, real estate, and bonds.

- The last couple of years have also reminded us of the "ying and yang" of growth stocks versus value stocks. Value outperformed in 2022 and growth outperformed in 2023.

- Peeling back the curtain, much of the 2023 returns were driven by the "magnificent 7" stocks due to the Artificial Intelligence (AI) breakthroughs. The rest of the market was much more muted as seen in the charts on the next page from JP Morgan's 1Q24 Guide to the Markets. Taking out the top 10 stocks in the S&P 500, the remaining 490 stocks were up 8%.





- The sharp reversal from a negative 3rd quarter to a positive 4th quarter is also a good reminder of how missing the best days in the market has a disproportionately negative impact on long-term returns. In the chart from Calamos Investments Guide to Managing Volatility, you can see the comparison to a fully invested account versus missing best days.

Our Thoughts on 2024

- JP Morgan's well-known economist, David Kelly, has recently framed their outlook around the calendar year digits "2024".
  - 2% inflation will be achieved.
  - 0 recessions will occur.
  - 2% GDP growth.
  - 4% unemployment continues.

- Given the resilience of consumers and corporations over the past few years, the powerful demographic realities of our labor force, and the trends of diversifying our supply chains and incentivizing sophisticated domestic manufacturing, we think their outlook may be reasonable.
  - Of course, prudent investment management does not rely on any one short-term view of economic projections.
  - It focuses on core principles of asset allocation and sound security selection.

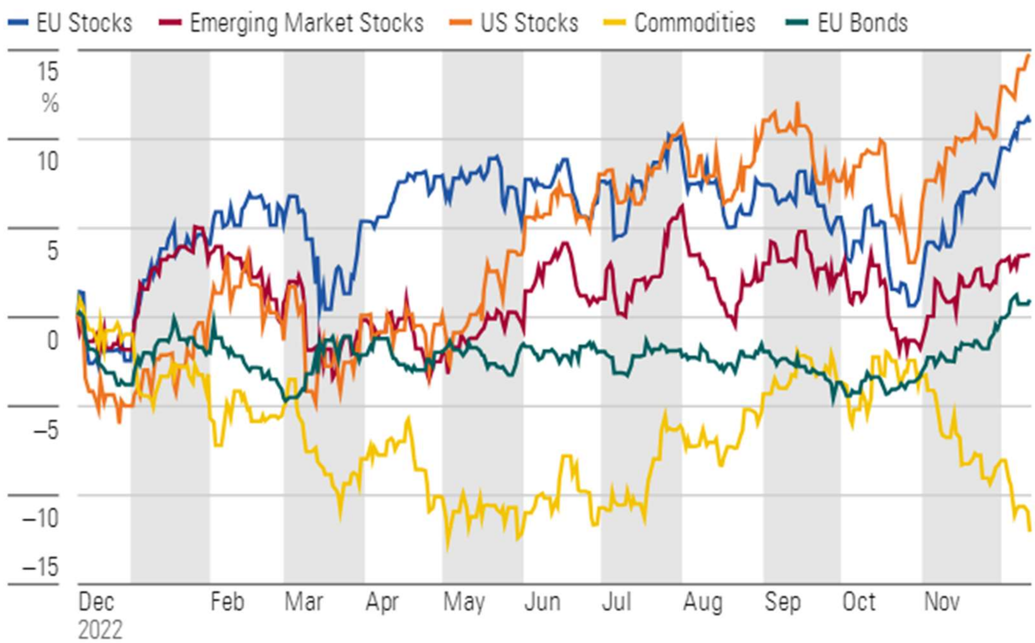
- Cash/money market funds have been a great place recently for conservative investors and patient capital. But with rates expected to decline in 2024, we believe high-quality bonds also should serve investors well by capturing both attractive interest and potential total return from positive price movements in bonds.

- Despite the recent run-up in the markets at the end of 2023, there are reasonable valuations across the capital markets beyond the top 7 or 10 stocks in the S&P 500.

- With rate increases in 2022 causing small-cap stocks to sell-off, these same stocks are now trading at levels historically "on-sale" relative to large-cap US stocks.

- As seen from the chart on the next page, in 2023 European stocks helped diversify from US equity risks in the first quarter and provided strong 12 month returns. Looking outside the US in 2024 could offer value to investors. For example:
  - Dividends are higher, on average, outside of the United States which is helpful for portfolios that are looking to generate income (e.g. people in retirement).
  - Valuations are attractive; since the markets began to recover in the 4th quarter of 2022, developed international markets have performed well.

Trailing 12-Month Performance of Major Asset Classes

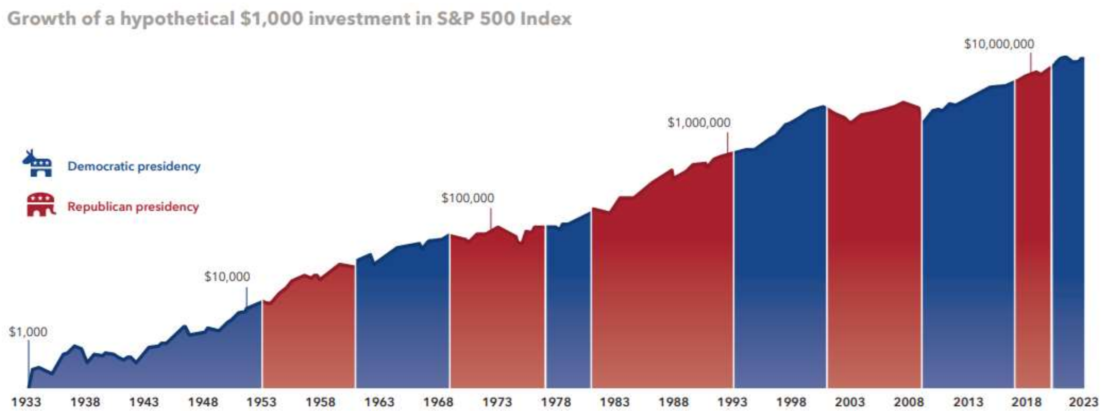


Source: Morningstar. Data as of Dec 12, 2023.

- What are some risks? Normally, "shocks" to the market are caused by things unseen/unknown, and it's for this reason we diversify and use cash, bonds, and alternative trading strategies in client portfolios. We don't know when we'll need a buffer – but like insurance, you want to have coverage before you have a claim. That said, here are a couple things we're watching:
    - Investors could place too much hope in a "soft" economic landing, and a surprise in economic data or inflation could lead to volatility.
    - Even with rate cuts in 2024, the lagged effects of higher rates may cause some challenges at the corporate and/or consumer level.
    - And of course, the geopolitical risks continue but trying to predict outcomes is a distraction from disciplined and fundamental investing.

- For some, investing during an election year can elicit strong emotions. Current geopolitics and economic challenges may seem unprecedented, but history shows that controversy and uncertainty have always been there. Successful investors stay the course, tune out the noise and focus on the long-term with their long-term money.

- The chart below shows how US stocks, over time, have trended up regardless of which party won the White House.



SOURCES: Capital Group, RIMES, Standard & Poor's. Chart shows the growth of a hypothetical $1k investment made on March 4, 1933 (the date of Franklin D. Roosevelt's first inauguration) through June 30, 2023. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale. Past results are not predictive of results in future periods.

Please reach out with any questions. Thank you for your continued trust.

Best Regards,

Steve & Chris

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