LIVE OAK
PRIVATE WEALTH

First Quarter Letter March 31, 2023

"Risk is not inherent in an investment; it is always relative to the price paid. Uncertainty is not the same as risk. Indeed, when great uncertainty-such as in the fall of 2008-drives securities to especially low levels, they often become less risky investments."

-Seth Klarman, The Baupost Group
"The Forgotten Lessons of 2008"

"This current banking crisis involves far fewer financial players and fewer issues that need to be resolved."

-Jamie Dimon, JP Morgan Chase & Co.
Annual Letter to Shareholders - March 2023

We feel one of our most important responsibilities is to communicate with you frequently about the markets, what we are paying attention to, as well as to provide planning insights to enhance your overall financial well-being. In the past, we have provided you with a deep dive into our portfolios alongside market data on a quarterly basis. As we mentioned in our 2022 Year End Letter, we will be adjusting the content of our quarterly letters to ensure that we are touching upon other important aspects of your financial life, while continuing to provide in depth commentary on our portfolio holdings in our Mid and Year-End Letters. The Q1 2023 letter will be the first one of these. In this letter you will find first quarter market data, a brief commentary on the disruption in the banking sector, as well as a piece from our Financial Planning team on digital assets and estate planning. So, while we may be changing the format of our quarterly letters, we remain dedicated to our philosophy about investing, our focus on financial planning, and our commitment to our clients.

As we have stated on many occasions, the stock market can be irrational and unpredictable. If we told you that the Fed would continue hiking interest rates, we would experience the 2nd and 3rd largest bank failures in US history[1]; and, additionally, in a flight to safety, the 2 Year US Treasury Yield would fall 5.07% to 3.55% (the fastest drop since October 1987)[1], a logical conclusion would be that equity returns would suffer. However, Mr. Market had other ideas and decided to climb that wall of worry.

The markets in the first quarter of 2023 (see chart below) continued their winning streak with the S&P 500 posting back-to-back quarterly gains. The tech heavy NASDAQ led the major indices with a return of 17.05% followed by the S&P with a gain of 7.5%, and DJIA finishing just under 1%.[2]

Market Statistics as of 03/31/2023

Index	2023 1st Quarter
DJIA	0.93%
S&P 500	7.50%
S&P (equal weight)	2.93%
S&P Mid Cap	3.81%
Russell 1000/Growth	14.73%
Russell 100/Value	1.01%
Russell 2000	2.74%
NASDAQ Comp.	17.05%
Long-Term Treasury Bonds	2.00%
Inv. Grade Corp Bonds	1.82%
3 Month T-Bill	1.15%

[1] "*Elevation: Largest Stocks to Market's Rescue?; April 3,2023; Charles Schwab Asset Management*
[2] *Sterling Capital Weekly Market Recap; April 3, 2023*

Diving deeper into returns shows that, once again, the S&P 500 is being led by the Top Ten holdings. These companies, led by Apple* (AAPL) and Microsoft*[3] (MSFT), were responsible for 90% of the first quarter increase in this Cap weighted index. [4] Financials were not surprisingly the worst performer (-6%), followed by Energy (-5.6%). Even defensive sectors like Healthcare (-4.7%) and Utilities (-4%) were down. The leaders were Tech (+21.5%), Communication Services (+20%) and Consumer Discretionary (+15.8%).[5] While we pay attention to markets, we do not invest in sectors. Rather, we focus more on the businesses we own, their current valuation, and the price we paid or want to pay. With earnings season right around the corner, we will hear management teams tell us about how their companies performed in Q1, and more importantly their forecast for future quarters. As always, we will be listening and will adjust our portfolios, if warranted.

"Deposits are not contractual, they are behavioral." - Christopher Davis, Davis Funds

The famous line "Beware the Ides of March" held true in spring 2023. Overall, U.S. Banks lost nearly $400 billion in deposits in March, the biggest monthly loss in U.S. History.[6] Silicon Valley Bank (SVB) was the largest bank to fail in the U.S. since Washington Mutual in 2008. [7] While there were multiple factors that contributed to their demise, one of the main effects was the rapid rise in interest rates. When management made the decision to increase the duration on their bond portfolio, it left them vulnerable to rising rates. With rates rising from basically zero, SVB faced billions of dollars in unrealized losses. Their clients, upon hearing about these losses, became nervous and started to move their deposits out of the bank. For a bank whose clientele was concentrated in the Venture Capital industry, word traveled fast and what we saw was a classic run on the bank. The deposits were moving out so fast that the bank had to liquidate its bond portfolio, realizing those losses, which exacerbated the problem and eventually ended up with the Federal Deposit Insurance Corporation (FDIC) stepping in to take over SVB on March 26, 2023. For now, this turmoil could just be a crisis in a teacup. While no one can predict the future, we do think the banking regulations put in place after the 2008 Global Financial Crisis will help to maintain stability in the banking world. While our portfolios did not own SVB, or others suffering from the same fate, our financial exposure, like the entire financial sector, traded down during the First Quarter.

Whether it is rising interest rates, turmoil in the banking sector, geo-political events, the price of oil, or noise out of Washington, the First Quarter of 2023 had plenty to discuss. The volatility that comes out of this uncertainty, while at times unsettling, can create opportunity. We believe this volatility could continue as the market adjusts to the higher rate environment. Our entire team is monitoring these events very carefully and, if necessary, will make changes in our portfolios that we think will offer better risk-adjusted returns for you in the long run. Our entire team is grateful for the opportunity to work with you, and we look forward to our continued shared success together.

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[3] *Apple (AAPL) and Microsoft (MSFT) are holdings in Live Oak Private Wealth portfolios and is subject to change without notice They were selected to help illustrate the investment process described herein. A complete list of holdings is available upon request. This information should not be construed as a recommendation to purchase of sell any particular security.*
[4] "*Elevation: Largest Stocks to Market's Rescue?"; April 3,2023; Charles Schwab Asset Management*
[5] *"What Recession? Everything rallied in 1Q; April 4, 2023; Bank of America Global Research*
[6] *re:Venture Consulting; Monthly Change in Bank Deposits 1973-2023(Federal Reserve BOG)*
[7] *"Silicon Valley Bank's Meltdown Visualized"; Wall Street Journal, March 11, 2023*

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Digital Estate Planning: Protecting Your Digital Assets

We are living in a world that is becoming increasingly digital. Many of our transactions these days can be completed online or through an app on our phone/device. And everything we do seems to need a password. Most people go through their day using their phone, storing files, and interacting online, and never consider what would happen to all these online accounts should something happen to them.

What are Digital Assets and how should I incorporate them into my estate planning process?

A digital asset is essentially anything that is not on paper that you access with a computer or other electronic device. This could range from digital currency to online accounts (i.e., Facebook), to reward points, to photos on your phone. We all have digital assets of some sort.

Digital assets are not too different from any other property or asset. Digital assets, like tangible assets can be passed on to other people through an estate plan. Unlike tangible assets which have been transferring ownership for many generations, digital assets are still relatively new. Therefore, the laws and practices of transferring ownership are still evolving and if not carefully planned for, can present challenges.

How to assess what digital assets should be incorporated into your estate plan?

To plan for your digital assets, you should start by creating an inventory. Begin by making a list of your digital accounts and the passwords associated with each account. Once you have your full inventory, assess which accounts are most important and would need to be accessed in the event of your incapacity or death. These would be accounts that are essential to your financial life or have high sentimental value for you and your family. Once you have identified the important digital assets, you will want to make provisions for them in your estate plan.

How do you make provisions for digital assets under your estate plan?

Your estate planning attorney can include language in your legal documents (Power of Attorney and Will) that provides consent for your named fiduciaries to gain access to your digital accounts. It is important to note that having *authority* to access accounts does not always grant your fiduciary the *ability* to access them. Some digital platforms have very strict rules related to access of accounts by a third party. It will be necessary to also provide your named fiduciaries with the information needed to access your accounts (usernames and passwords).

Once you have identified your digital assets and who will be responsible for handling them, you then need to decide what you want to happen to them. Designate who you want to receive your digital assets and for accounts that do not transfer, decide how you want them to be handled. For example, do you want your Facebook page to be deleted, or memorialized after your passing? These wishes can be provisions made in your estate planning documents, or in a separate letter to your Executor, trustee, and/or Power of Attorney.

Just like your home, investment accounts, personal property, and other valuables, it is important to have a proper plan in place to ensure your digital assets are also taken care of in the event of your death or incapacity. Working with your estate planning professional to produce an appropriate plan for your digital assets will make life easier for your loved ones down the road.

What are the best/safest ways to save your passwords?

- Most smart phones have built-in password management applications.
- For digital assets, inexpensive password management apps such as LastPass or 1Password.
- You can also save passwords in an offline setting, writing them down on paper, or storing them on a flash drive.

If you have any questions regarding digital assets, financial and estate planning, or anything else, please contact your Live Oak Private Wealth Advisor.

DISCLOSURES:

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