WOODARD & COMPANY

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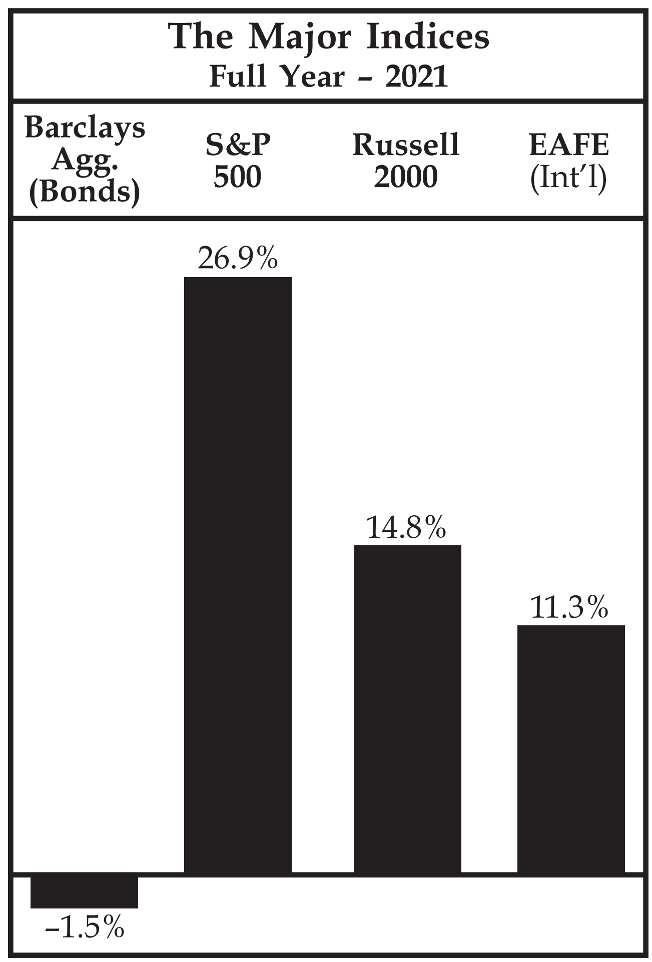
First and foremost, as you are likely aware we have a staff addition. Matt Blades is our new advisor here at Woodard & Company. He is a Certified Financial Planner and has been getting up to speed with state-of-the-art financial planning software that we have recently purchased. If you wish to have a full financial plan developed for you (there is no charge), please let us know. As you are likely aware of the way we work, unlike brokerage, insurance, and annuity folks, we do not use financial planning to sell investment products. So if you need planning, it can be a useful tool for assistance in assessing the future. If you wish to contact Matt and request a plan, he will get you on his schedule. Matt may not be able to immediately develop the report, but he will get to it.

It is probably wise to be mentally prepared for 2022. Please remember the mid-term election year is historically the most volatile for the markets of the four-year political cycle. On average, we get a 17% downturn in the stock market in the mid-term election year. For example, with the DJIA now at 36,800 as we write this, a 17% decline would be a 6200-point drop. Quite a hefty correction should it occur. That said; we are also looking for reasonable earnings growth this year which is the best performance correlation for stocks. Therefore theoretically, it would likely support an 8% return for the stock market this year.

Market Review and Forecast. 2021 was quite a year. There were some really good… and some less than good aspects of the various markets. Bonds (as measured by the Barclay's Agg. Index) were down -1.5% for the year. The Dow Jones Industrials Averages was up 18.7%. International Stocks (MSCI EAFE Index) were up 11.3%, while small caps (Russell 2000 Index) gained 14.8%.



The S&P500 Index took the prize with a remarkable 26.9% return. Please note the top six stocks, Apple, Microsoft, Amazon, Alphabet, Facebook (now Meta), and Tesla, comprise a whopping 25% of the value of the S&P index. With one-fourth of the capitalization of the entire S&P in just these six companies, the performance of these few stocks becomes remarkably outsized in the index relative to the other 494 stocks in the S&P 500. These top stocks obviously did well this year, however you might imagine the downside volatility of the index if that were not the case.

As you can see from what was written above, the bond market has not been performing well. We fortunately shortened maturities and were able to achieve modest overall positive returns for fixed income clients. The artificial manipulation of longer-term rates by the Federal Reserve since 2008 has punished savers and investors (especially CD holders) by pushing down interest rates. The Fed's policy of forcing down rates, "Quantitative Easing," has painted us back into a corner and interest rates have begun pushing back. We believe the "pushback" will accelerate in 2022.

As interest rates rise, intermediate to longer-term bonds, especially high-quality issues, typically decline in value. As we expect rates to rise much more this year, your shortened maturities should mitigate the negative effects of these rising rates and provide some protection from principal loss. This trend is reminiscent of the late 70's when we had rampant inflation and interest rates on money market funds which rose from 5% in the 1970's to 21% in 1981. We have assuredly ended a 40-year bull market in bonds. One of the big questions is how high can the Fed allow rates to rise with a $30 trillion deficit. Paying higher interest rates on such a large debt would be difficult. Also, can the Fed stop inflation without markedly higher interest rates if things get out of hand as they did in the late 70's early 1980's?

John Woodard started in the investment business 43 years ago and has seen inflation, stagflation, modest inflation with and without growth, virtually no inflation with anemic growth, as well as pretty much every combination of the above. The current trends would suggest we will be dealing with the inflation issue for some time to come, and at some point, it will likely get really ugly.

We do however believe that we may have a way to go before we pitch into another recession. You may recall that after the Reagan years, recessions moved out to roughly ten-year intervals. Before Reagan, in the 1960s and 70's, we had recessions every 3-5 years. Unfortunately, we may likely start heading back to the 3–5-year boom-bust cycle as we move forward.

Overall, we are still modestly overweight stocks and underweight bonds (for those accounts with bonds). We expect to move back to normal weight in the not-too-distant future. Typically, the supply from the large February U.S. Treasury auction (one of the two biggest Treasury auctions of the year) causes yields to rise. We hope to take advantage of that and consequently may modestly extend maturities if we see the ten-year treasury top 2%.

In regard to stocks, we are currently essentially "style neutral" in our growth vs value balance. We expect the twelve-year outperformance by growth stocks may be shared with value stocks as interest rates rise. Growth stocks may finally underperform. We also anticipate replacing a number of fund positions in the near future due to the inability by some managers to achieve acceptable relative performance.

Finally, we have eliminated the small gold position that we had for many clients. The position did not contribute to performance as anticipated. Our expectations were for higher inflation (which we very obviously got) and for a weaker dollar due to massive Federal spending (we got the massive spending but the dollar held up). Evidently gold has been replaced as an inflation hedge and currency hedge by Bitcoin and other cryptocurrencies which have no intrinsic value but are very popular nonetheless. There is virtually no analysis supporting cryptocurrencies as they have no intrinsic value, and therefore we must abstain from investment for our clients at present.

Market Leaders Stock Portfolio. Reviewing our methodology, relative to our baseline index (S&P 500), we are now seriously looking to invest up to 10% in small to midcap equities. Since we endeavor to compete with the S&P500 and the S&P has 10% in middle capitalization stocks, it seems appropriate to endeavor to correlate more closely to the index. We have had virtually no exposure in the portfolio over the years to this smaller capitalization component. So in our effort to correlate more closely to the index, we anticipate expanding investment into this asset class. In addition, we are also increasing the number of our underlying individual stock positions to around 30 securities in the portfolio.

Interest Rates. 2021 saw the Federal Reserve begin the tapering process (the gradual slowing of the pace of the Fed's large scale asset purchases which stimulates the economy by artificially lowering interest rates) in November and accelerate the process in December. Fed Chairman Powell was recently renominated to his post and has not wasted any time shifting to a more hawkish monetary policy position. In their December 2021 meeting they signaled plans to make three, separate, interest-rate increases over the course of this year. The Fed is also considering three rate hikes in 2023 and possibly two in 2024. In addition, they are also planning a "balance sheet runoff," also known as "quantitative tightening," to begin this year shortly after the first-rate hike. Time will tell if the Fed is ahead of the "inflation bus" or about to get run over by it.

Currently, headline inflation is running around 5.7% and core inflation is at 4.7%, reaching a 39 year high in November of last year. Consumer prices are increasing at the fastest pace in 40 years. Inflation is expected to stay around for at least another year to eighteen months which will most likely impact consumer spending at some point. Based on their December 2021 meeting minutes, the Fed said that at this point inflation poses more of a risk than the pandemic.

The Bloomberg US Aggregate Bond Index finished 2021 with a negative return of 1.5%. Investment grade corporate bonds were down 1.8% for the year and high yield bonds were up 4.1%.

The 10 Year Treasury began 2021 yielding 0.95% and ended 2021 yielding 1.51%. The first quarter saw the benchmark 10 Year Treasury move from 0.95% to 1.75% by March 31. The second quarter saw the 10 Year go from 1.75% (a pandemic high) down to 1.44% by 2nd quarter's end and continue back down to the 200-day moving average of 1.24% in early July. By the third week of July the 10 Year hit 1.19% and tested that level two weeks later in early August, appearing to bottom (at least in the short term) with a 1.17% yield. In early January, 2022, the 10 Year yield climbed to 1.8%

The volatility in fixed income, as described above, is expected to continue into the foreseeable future. However, the stock market seems to be adjusting to the reality of a more hawkish Fed with cautious optimism.

Taxes. Taxable accounts (i.e., non-IRA/ retirement accounts) will receive a 1099 from Fidelity **which will show realized gains/ losses** in your account. Since Fidelity may not have all cost basis information, they have what is termed "covered" and "not covered" assets. For example, they may or may not have the cost for the entire number of shares purchased, but may appear to report it as though they do.

The following is your decision. However, we would recommend that you consider asking your tax preparer to wait until March 15th to file your return. On occasion there are revisions to the 1099's after they are initially issued. The revisions have become fewer as the years pass but they still do occur. Unfortunately, we have on rare occasion seen data corrections even after March 15. Please understand that all of the financial institutions involved do their best to provide accurate data, but 1099's are generally sent by the end of January and unfortunately sometimes that data requires revision.

We are pleased to discuss your account tax information on your behalf with your tax preparer, we simply need your verbal authorization.

As always in the past when 1099's are issued, they are coded by the issuing firm; even if the code is wrong the custodial financial institution (in our case Fidelity) will not change or reissue the 1099. It is our understanding that all financial institutions are now essentially the same as they have gone to a more generalized coding system and will not correct and/or reissue the 1099. In order to change 1099 code instructions, the tax preparer must go to IRS.gov to get the IRS form to make the change.

Required minimum distributions (RMD). For those of you over 72 you are aware of the RMD requirements for your Individual Retirement Account (IRA). The materials for this will go out to you in January. It will include a sheet that details your minimum distribution amount. It also enables you to instruct us the amount of tax withholding you wish us to implement on your behalf, and tell us when and in what manner it would be convenient for you to receive the distribution. The Federal penalty for not taking an RMD is 50% (that is in addition to the required taxes). If you have any questions or you would like a distribution before this material is available, please give us a call.

ADV Document. We are happy to provide you with a copy of our "ADV" which is our disclosure document that we file annually with the U.S. Securities and Exchange Commission (SEC). You can also view it on the SEC's website at www.sec.gov and there is a link to it on our website. We are also pleased to provide our confidentiality statement and code of ethics. If you wish to receive a copy let us know and we will mail you one, it is also on our website at www.wcamg.com.

Security transactions. You may wish to do a stock trade or other securities transaction in your account which we are pleased to implement for you; please however do not leave these transactions on our voicemail or email. Please speak with an individual; otherwise transaction may not be implemented in a timely fashion, if at all.

Non-Managed Assets. Many clients have brought in stocks, bonds, funds, and other assets that were purchased previously which they either do not wish to sell due to the tax implications or other reasons. We have placed these assets in a "non-bill" category to take into consideration these facts. We are pleased to facilitate custodial services and furthermore we are pleased to consult on these assets when requested for the convenience of our clients. However, we do not assume responsibility for tracking these assets or responding to news, mergers, events or information regarding these unmanaged assets.

Change in Objectives, Risk Tolerance, or Circumstances. Take a look at your current allocation; does it reflect your objectives, risk tolerance, and needs? Please let us know if your circumstances, needs, risk tolerance, or objectives shift which may have an impact on the way we manage your assets. We can and will respond to your needs by tailoring the allocation to meet your criteria. We look forward to hearing from you and discussing any issues that would relate to our management of your assets.

If you have any other questions about your account or any concerns, please give us a call at 336-998-7000. We always enjoy talking with our clients.