JUNE 2022 UPDATE

We provide composite returns for Growth, Growth & Income (a combination of "Growth & Income" and "Moderate Balanced" accounts), Conservative Balanced, Retirement Income (a combination of "Retirement Income" and "High Monthly Payout" accounts) and Closed-End Income. We present net-of-fee results in the following table. (SSB composites are in boldface.) For the sake of comparison, we also include returns for various indexes and blended benchmarks that we believe are commensurate in risk to our strategies, as well as passively managed funds-of-funds from Vanguard.

Salzinger Sheaff Brock	May 2022	YTD	12 Months	3 Years	5 Years
Growth	**-0.8%**	**-16.7%**	**-10.7%**	**11.0%**	**9.1%**
Benchmark (90% Lipper Multi-cap Core/10% Lipper General Bond Fund)	*0.9%*	*-12.6%*	*-8.6%*	*10.4%*	*7.6%*
Growth & Income	**-0.9%**	**-15.1%**	**-9.7%**	**8.7%**	**7.7%**
Benchmark (75% Lipper Multi-cap Core/25% Lipper General Bond Fund)	*0.8%*	*-11.9%*	*-8.3%*	*9.1%*	*6.9%*
Conservative Balanced	**-0.7%**	**-13.3%**	**-8.9%**	**6.4%**	**5.9%**
Closed-End Income	**0.0%**	**-13.1%**	**-9.6%**	**5.1%**	**4.5%**
Benchmark (60% Lipper Multi-cap Core/40% Lipper General Bond Fund)	*0.7%*	*-11.3%*	*-8.0%*	*7.8%*	*6.1%*
Retirement Income	**-0.6%**	**-11.1%**	**-7.5%**	**3.9%**	**4.1%**
Benchmark (50% Lipper Multi-cap Core/50% Lipper General Bond Fund)	*0.6%*	*-10.9%*	*-7.9%*	*6.9%*	*5.6%*
Index					
S&P 500	0.2%	-12.8%	-0.3%	16.4%	13.4%
Russell 3000 &&	-0.1%	-13.9%	-3.7%	15.6%	12.8%
Russell 2000 ##	0.2%	-16.6%	-16.9%	9.7%	7.7%
FTSE Global All Cap X-US@@	0.6%	-10.6%	-11.8%	7.4%	5.0%
Barclays Aggregate Bond	0.6%	-8.9%	-8.2%	0.0%	1.2%
Mutual Fund/ETF Comparisons					
Vanguard LifeStrategy Growth &	0.3%	-12.1%	-7.5%	9.6%	7.9%
Vanguard LifeStrategy Moderate Growth #	0.3%	-11.2%	-7.6%	7.2%	6.3%
Vanguard LifeStrategy Conservative Gr @	0.2%	-10.4%	-7.7%	4.8%	4.6%
Vanguard LifeStrategy Income ^	0.2%	-9.5%	-8.0%	2.2%	2.9%

Through 5-31-2022. PLEASE SEE IMPORTANT DISCLAIMER ON BACK. Returns over 12 months annualized. Notes: &&A benchmark for the entire U.S. stock market, ##Small-cap stocks. @@ Foreign stocks, including developed foreign countries and emerging markets. Style Comparisons: &A good comparison for SSB Growth and SSB Growth & Income. #A slightly lower risk comparison for SSB Growth & Income. @A good comparison for Salzinger Sheaff Brock, LLC (SSB) Conservative Balanced. ^A good comparison for SSB Retirement Income. Composites include all fully discretionary, management fee-paying including those accounts no longer with the firm of reasonable size that are substantially invested in accordance with the composite strategy or style. Returns are presented net of maximum management fees and all trading expenses, and the reinvestment of all income. Net-of-fee performance was calculated using maximum management fees. Actual advisory fees and transaction fees will vary depending on, among other things, the portfolio, account size, and activity. Fees are described in SSB's ADV Part 2A. Securities mentioned in this report may be owned by clients and employees of SSB. Past performance is not indicative or a guarantee of future results (continued on back).

The market basically tread water in May and has continued to be volatile in June, with losses bringing the broad indexes down toward a loss of 20% by late in the latter month.

I wish I could be more sanguine than I am about the market's likely trajectory over the next several months, but I feel it is likely that the markets will experience more pain before assuming a sustained recovery, perhaps beginning next year. It's not that I don't think stocks can muster some rallies over the next few months (they surely can, and likely will); it's just that I don't think they will be robust enough to allow the market to emerge from the current bear market.

The main reason is that over the next several months the fundamentals are unlikely to support the return of the bull. Perhaps the most *positive* aspect of the market's near-term potential is that valuations on current earnings projections are actually quite low historically. For example, according to FactSet, the forward 12-month price/earnings (P/E) ratio of the S&P 500 is 15.8, well below the average P/Es of both the past five (18.6) and 10 years (16.9). On indexes of smaller stocks, the current P/Es are even lower: market strategist Ed Yardeni pointed out in a June 27 research report that the forward P/Es for the S&P 400 Mid Cap and S&P 600 Small Cap indexes were just 11.8 and 11.4, respectively. Vanguard says that as of May 31, the P/E of its Extended Market Index fund, which encompasses mid- as well as small-cap stocks (with a slight tilt toward the 'growth' style of investing), was only 13.8 on earnings of the past 12 months.

Historically, valuation has been a pretty good indicator of returns from the stock market over the next decade, even if not necessarily for shorter periods. Therefore, why not be more positive now? One reason is I suspect current earnings estimates are too high in aggregate, which, if true, would mean that actual forward P/Es are higher than the market currently estimates. FactSet notes that the current average estimate in Wall Street for year-over-year earnings growth of S&P 500 companies is 4.3%, down from an estimate of 5.9% growth at the beginning of the quarter. In other words, though Wall Street analysts have lowered their earnings estimates based on various factors, including guidance from the companies they cover, I fear they haven't lowered them enough.

Why do I think earnings estimates are likely to be too high? One, given that prices of labor, commodities and other inputs to production have risen so much in recent months, profit margins are likely to shrink. Two, inventories of unsold goods have apparently become quite ubiquitous at various retailers, which is likely to lead to discounting and lower profits at these companies (which would help lower inflation, however). And three, with new supply of energy, food and other in-demand goods and services unlikely to increase much over the coming months, the Federal Reserve Board is likely to continue doing what it thinks it must to bring supply and demand into equilibrium by reducing the latter significantly. That's going to hurt corporate profits, too.

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I also believe the Fed is likely quite far away from finishing its rate hiking. Despite the market turbulence this year, we should remember that the Fed started raising the rates under its control only in March, and that the federal funds rate is still at just a maximum level of 1.75%. Traditionally, to reduce aggregate demand significantly, the Fed needs to increase this rate to the inflation rate, or even higher. Right now, the inflation rate is about 8%! Assuming the Fed follows through on current plans to increase the federal funds rate to about 3.5% by year end, it may still have a way to go, unless inflation has fallen into the 4% range by then. Could happen, but I wouldn't bet the farm on it.

The current Fed tightening cycle is just a few months old. In eight Fed tightening cycles since 1972, the shortest such cycle was 11 months (mid-1999 to mid-2000); the longest was 53 months, when Paul Volcker jacked up the fed funds rate to about 20%. (I don't expect the Fed to go anywhere near that high this cycle.)

A bit of "good" news, at least for those of us with money waiting on the sidelines, is that the equity markets already discount quite a few future Fed rate hikes, even if not as many as current P/Es on potentially inflated earnings estimates suggest. With a drop year to date (through nearly the end of June) of about 20%, the market has already fallen more than the average maximum drawdown during prior Fed tightening cycles.

Of course, as I've noted previously in these monthly letters and elsewhere, next year may be much better. The war in Europe could end, supply constraints from China could ease considerably, and demand could slow quite a bit here in the U.S. (especially once pandemic-era assistance is spent), encouraging the Fed to pause or end its tightening cycle. But for now, I think it's best to steel ourselves for tough times, by leaving more than usual in cash and preparing ourselves emotionally to stay strong, and to stay invested in expectations of a rosier environment down the road.

To get started in any of our strategies, see the information below. Thank you!

SALZINGER SHEAFF LLC BROCK

8801 River Crossing Blvd.
Suite 100
Indianapolis, Indiana 46240

salzingersheaffbrock.com
866-575-5700

For more information on our strategies, call us at 866-575-5700, or send an email to info@salzingersheaffbrock.com. We look forward to hearing from you!

Thank you for your interest in Salzinger Sheaff Brock (SSB), the only source of personalized money management by me,

Mark Salzinger

Mark Salzinger
Chief Investment Officer and Portfolio Manager