

## PORTFOLIO UPDATE AND MARKET OUTLOOK

December 31, 2023

*“It’s difficult to make predictions,  
especially about the future.”*

– Yogi Berra

Over the holiday, I read the book *Same as Ever* by Morgan Housel. It was an excellent read. The overriding theme of the book is that short-term forecasts miss the surprises that move markets. However, there are behaviors and biases that never change and repeat throughout time. Understanding those behaviors can give you an advantage. With that in mind, I would like to share 10 of the book’s key points and relate them to how we think about money management.

1. We are good at predicting the future, except for surprises, and it’s the surprises that matter. No one saw Pearl Harbor, 9/11, or the COVID lockdowns.
2. Some things never change. People will always cycle between fear and greed, pessimism and optimism.
3. Calm plants the seeds of crazy. Economic stability leads to optimism. Optimism leads to taking on debt. Debt leads to instability. *(continued on page 2)*

### Preliminary Performance (%) Representative Accounts

	MTD			QTD			YTD		
	Gross	Net	vs. Benchmark*	Gross	Net	vs. Benchmark*	Gross	Net	vs. Benchmark*
Small Cap Value	10.00	9.97	-2.45	12.14	11.93	-3.11	18.87	17.76	+4.23
Small/Mid Cap Value	9.28	9.20	-1.21	9.86	9.63	-3.89	15.40	14.42	-0.58
Mid Cap Value	6.88	6.81	-0.91	9.67	9.45	-2.44	13.55	12.62	+0.83
Micro Cap Value	12.59	12.56	-2.00	16.87	16.65	+0.57	16.14	15.06	+7.29

Source: SEI

**Past performance does not guarantee future results.** Representative accounts include: Integrity Small Cap Value Equity Strategy, Integrity Small/Mid Cap Value Equity Strategy, Integrity Mid Cap Value Equity Strategy, Integrity Micro Cap Value Equity Strategy. Performance is preliminary and subject to change. Benchmark comparison is versus gross performance.

### Market Returns (%)

	MTD	QTD	YTD
S&P 500® Index	4.54	11.69	26.29
Nasdaq 100® Index	5.56	14.60	55.13
Russell 2000® Growth Index	11.97	12.75	18.66
Russell 2000® Value Index	12.45	15.26	14.65

**Past performance does not guarantee future results.** Indices represent different segments of the market and are not correlated to the strategies above, with the exception of the Russell 2000® Value Index, which is the benchmark for Integrity Small Cap Value Equity.



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4. The world breaks every 10 years or so. In between, there will always be disasters. In a world of 8 billion people, all connected by technology, something terrible happens every day. If there are over 100 possible once-in-a-hundred-year events that can happen in a year, the odds of one happening are pretty good. Crazy, therefore, is normal.
5. The best story wins. Every market valuation is just a number today multiplied by a story about tomorrow.
6. Good news takes time, bad news occurs instantly. Things are created step-by-step and piece-by-piece but can be broken or destroyed by one event.
7. Compounding is powerful. Don't ask, "what is the highest return I can achieve?" Ask, "what's the highest level of return I can sustain for the longest period of time?" Concentration maximizes return. Diversification increases the odds of owning a winner.
8. Everything dies. Competitive advantage doesn't last forever. Almost 40% of public companies lost ALL their value between 1980 and 2014!
9. It's better to be approximately right than exactly wrong. There are typically a handful of simple variables that drive most outcomes. Too much focus on precision loses the big picture where you have a higher chance of being correct.
10. We can say we are in it for the long run. We must remember that the long run is full of short-term disasters.

For the last 20+ years, Integrity has wrestled with a lot of these concepts. We know nothing lasts forever. Our valuation models incorporate competitive advantage decay. We believe diversification at the sector and characteristic level increases our chances of sustaining consistent returns over time. Our Flexible Value philosophy of investing is built on the knowledge that markets cycle between fear and greed, and always will. We believe by being cognizant of that cycle, we can better position the portfolio to benefit from these changes. Our simple goal is to provide consistent returns for our clients, control risk, and take advantage of changes in market psychology, where appropriate.

So, what will the market do this year: volatility and some major surprises along the way. That's the forecast. We will be monitoring, as usual, for what we see as the best risk/reward opportunities for our clients and trying to take advantage of them.

**Attribution:**

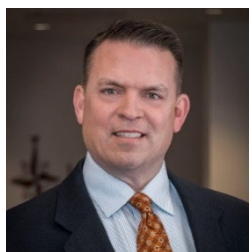
U.S equity markets continued to rally in December to close out the year. Falling interest rates helped spark the rally, which shifted into overdrive when the Federal Reserve opened the door to U.S. interest rate cuts in 2024 after a rate hike campaign that helped bring inflation down toward the central bank's 2% annual target. The Russell 2000 Value Index, up 12.5%, outperformed both the S&P 500 and the tech heavy Nasdaq (4.5% and 5.6% respectively). For the month, value outperformed growth across three of our four benchmarks (Russell 2500 Value Index underperformed Russell 2500 Growth Index). All four of our strategies underperformed its respective benchmark for the month of December. On a longer-term basis, for the calendar year 2023, three of our four strategies outperformed its benchmark. Our small/mid cap value strategy slightly lagged its benchmark.

## Composite Performance (%) as of December 31, 2022

	1 Year		5 Year		10 Year	
	Gross	Net	Gross	Net	Gross	Net
Small Cap Value	-6.67%	-7.61%	5.76%	4.71%	10.74%	9.64%
Small/Mid Cap Value	-6.97%	-7.90%	6.75%	5.68%	10.91%	9.81%
Mid Cap Value	-6.04%	-6.84%	7.29%	6.43%	11.69%	10.78%
Micro Cap Value	-10.73%	-11.63%	5.29%	4.24%	11.56%	10.45%

Returns for periods greater than one year are annualized. Returns reflect the reinvestment of dividends and other earnings and are expressed in U.S. dollars. Gross-of-fees returns for the representative account are presented before management and custodial fees but after all trading expenses.

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**All investments carry a certain degree of risk including the possible loss of principal**, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice from qualified tax and financial experts regarding the best options for your particular circumstances.

Each representative account serves as the model against which all accounts in each respective strategy are managed. The representative accounts are actual portfolios and the information provided, including performance, will vary for other accounts. The representative accounts are being used solely as tools to help demonstrate how performance can be attributed to the investment policies applied in the management of each strategy.

Net-of fees returns reflect gross performance less investment management fees, which are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found in Part 2A of its Form ADV.

\*The Integrity Small-Cap Value Equity Strategy is benchmarked to the Russell 2000® Value Index. The Integrity Small/Mid-Cap Value Equity Strategy is benchmarked to the Russell 2500™ Value Index. The Integrity Mid-Cap Value Equity Strategy is benchmarked to the Russell Midcap® Value Index. The Integrity Micro-Cap Value Equity Strategy is benchmarked to the Russell Microcap® Value Index.

Index returns reflect the reinvestment of dividends and other income but do not reflect advisory fees or any other expenses. Indexes are unmanaged and one cannot invest directly in an index.

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