ACROPOLIS®
INVESTMENT MANAGEMENT

PORTFOLIO INSIGHTS

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Acropolis was born from a simple idea:

In an industry where high quality, objective advice is hard to come by, we make a difference by putting the client's interests above our own.

STOCKS ENJOY BANNER YEAR

One year ago, the newly approved vaccines just started making their way into the arms of healthcare workers, and it wouldn't be long before the rest of us could get jabbed. By then, the S&P 500 had already recovered all of its pandemic losses and ended 2020 up 18.4 percent.

That made sense because it was clear that the economy would reopen, unemployment was already falling, the massive amounts of monetary and fiscal stimulus were working, and despite all of the pain caused by the pandemic, many companies operated profitably.

Perhaps because all of those phenomena largely continued in 2022, the S&P 500 followed suit, rising 28.7 percent with less than average volatility.

Even though the omicron variant is seemingly everywhere right now, its economic impact appears mild thus far. The most recent economic picture shows that Gross Domestic Product from the third quarter shows year-over-year growth of 9.8 percent. Estimates for the fourth quarter suggest annualized growth of 6-7 percent.

The unemployment rate peaked at 13.3 percent at the height of the pandemic and was down to 4.2 percent in November, not too far above the pre-pandemic low of 3.5 percent.

The downside of such rapid expansion is higher inflation, which was 6.8 percent for the 12-months that ended in November.

The Federal Reserve removed the word 'transitory' from their statement about inflation and will end their bond-buying program this year and raise interest rates three to four times.

As a result, bond prices are lower (but yields are higher, which is a good thing for long-run investors), and investors seem to be paying more attention to valuations, which are on the high side, especially for the growth segment of the S&P 500.

We can't say what 2022 will bring, but we continue to have confidence in our valuation-minded, broadly-diversified balanced portfolios. We know that volatility is in the forecast because it always is, and we'll respond to whatever comes with deliberate and measured action.

> **"Defeat is not the worst of failures. Not to have tried is the true failure."**
>
> *- George Edward Woodberry, American Poet*

STOCK MARKET SUMMARY

By David Ott

Stocks enjoyed spectacular returns in the fourth quarter. The S&P 500 added 11.0 percent to its already terrific results and ended the year up 28.7 percent.

Only one sector, communications, lost ground in the fourth quarter, falling by -2.8 percent. Five sectors posted double-digit returns in the fourth quarter. Technology stocks and materials were the best performers, up 16.6 and 15.1 percent, respectively. For the year, every single sector posted double-digit gains. The worst performing were utilities, which gained 17.7 percent, and energy stocks fared best, up 54.4 percent.

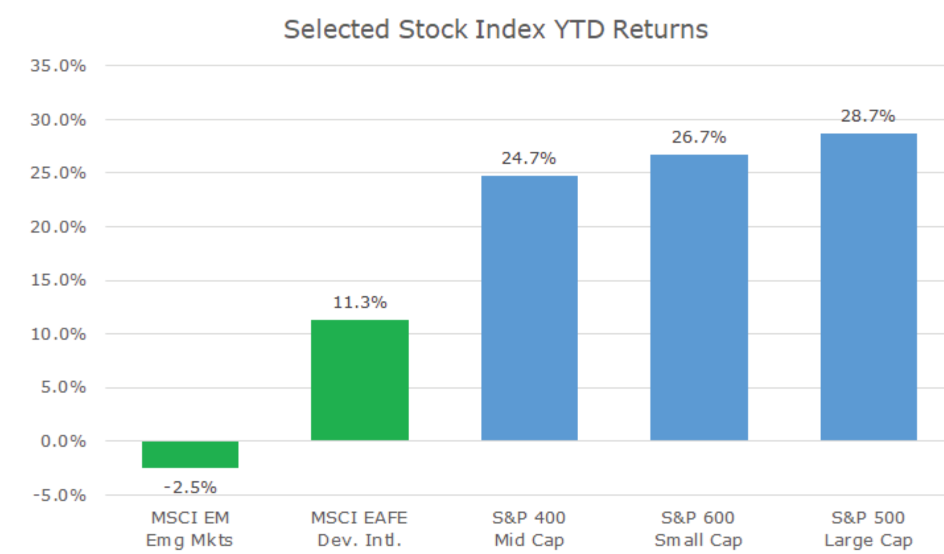
Although large-cap stocks fared best last year, as measured by the S&P 500, it was a pretty close race: mid-cap stocks and small-cap stocks, as measured by S&P, were up 25.7 and 26.7 percent, respectively.

Overseas markets didn't fare as well. As measured by the MSCI EAFE index, developed international markets gained 11.3 percent. Most of the underperformance can be explained by the strong US dollar. If we remove the currency effects and look at the MSCI EAFE on a hedged basis, the index gained 19.4%. While that isn't as strong as the US markets, it does show the substantial impact of currency returns in 2021.

Emerging markets are a different story entirely. Emerging markets lost value last year in local currency or dollar terms, mostly because of the Chinese stock market. China now accounts for more than a third of the MSCI emerging markets index, and there were two issues last year.

First, the government interfered with several large companies which caused investors to reevaluate the political risk. Second, a massive real estate development company teetered on bankruptcy, which has caused investors to wonder about the leverage and stability of the Chinese economy.

Given the relatively low returns overseas, valuations are much more attractive than those in the US. That has been true for several years but is particularly acute right now.



Data Source: Bloomberg

BOND MARKET REVIEW

By Ryan Craft, CFA

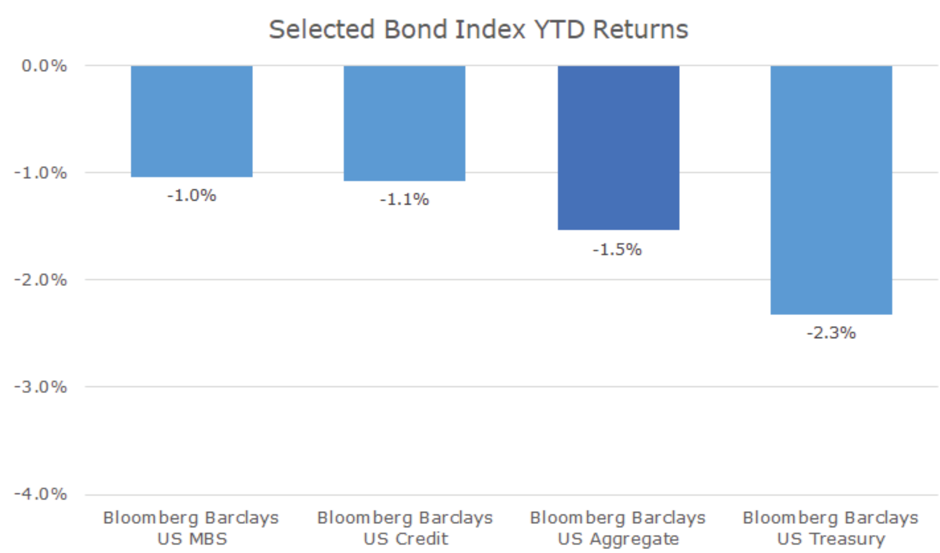
How quickly the winds can change. After two stellar years with returns of +8.2 percent and +7.5 percent in 2019 and 2020, the bond market experienced a historically poor year in 2021. The US Aggregate's loss of -1.54 percent was the third-worst annual return in the index's history, which began in 1976.

The combination of the economic recovery, Federal Reserve policy, inflation, and investor risk appetites caused yields on Treasury bonds to increase by 60-80 basis points across most maturities. Mortgages and Corporate bonds outperformed Treasuries as investors looked to add risk across the spectrum, yet still lost one percent on the year.

Half of this increase in yields can be attributed to inflation concerns. The second half of the year saw consumer inflation increase at rates not seen in decades. Markets continue to view this as a somewhat temporary issue that will resolve over the next couple of years, which explains why long-term Treasury bonds remain low by historical standards despite the threat of high inflation.

The rest of the increase in yields is simple supply and demand as investors left the safety and low yield prospects of bonds to invest in riskier assets. Last year saw some astounding returns from risky market segments, both traditional and esoteric. Stock indices and junk bonds did better than the most optimistic of forecasts, but even their returns were tame compared to the crazy parts of the market like cryptocurrencies, NFT's, and meme stocks.

In a year where excessive risk-taking was handsomely rewarded, it is not surprising that bonds experienced poor performance. After all, we invest in bonds because they do not act like stocks. Bonds are the hedge in the portfolio and are there to be stable. Poor returns in the face of high-flying stock returns mean that bonds are doing their job and remain negatively correlated to stocks. In this environment where so many systems appear broken, the poor year for bonds just means that their relationship to stocks continues. Therefore, we can still expect them to protect a portfolio when that day comes that risk appetites run dry.



Data Source: Bloomberg

"The secret to success is constancy to purpose."

- Benjamin Disraeli, British Prime Minster

VISUALIZING INFLATION

By David Ott

For years, inflation was an afterthought because it was largely dormant. In fact, for a few years, the worries about aggregate prices were centered around deflation.

Today, the main worries center around supply-chain bottlenecks, high commodity prices, and tight labor markets. The latest government data shows that the Consumer Price Index (CPI) is 6.9 percent for the 12-months that ended in November.

Naturally, there is a lot of discussion about whether the current bout of inflation is temporary or here to stay. And, if it is here to stay, how high will it go? In other words, just how worried should we be?

In my opinion, the Federal Reserve added to the confusion by using the word 'transitory' for a long time. Chair Powell defined transitory as a rise that won't leave 'a permanent mark in the form of higher inflation.'

Many people think that the Fed was wrong to call the current pace of inflation transitory and others are worried about 1970s-style inflation.

No one, including the Federal Reserve, knows where inflation will go from here. Since media reports often drum up fear to drive clicks and ratings, the purpose of this article is to describe what the bond market thinks.

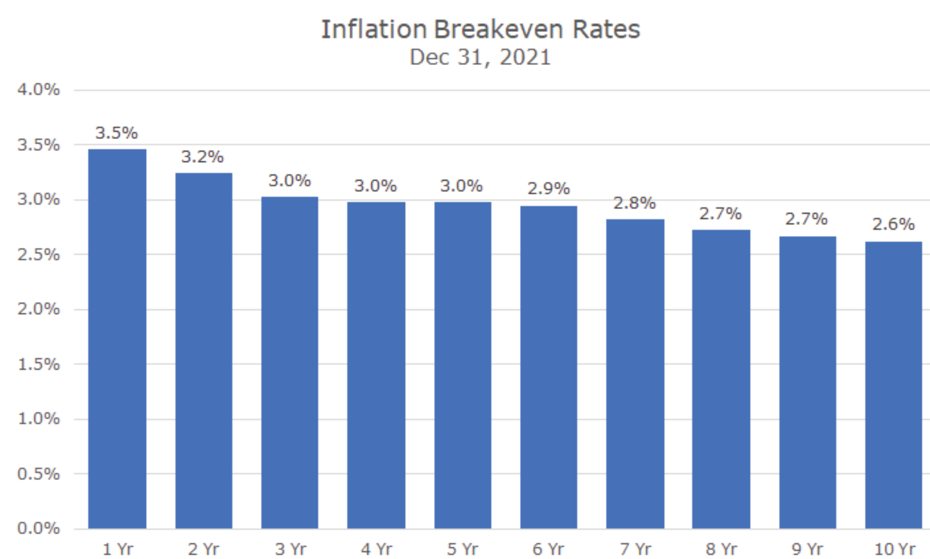
For Treasury bond investors who don't have to worry about the issuer defaulting, inflation is the number one risk and, therefore, the number one factor in setting prices and yields.

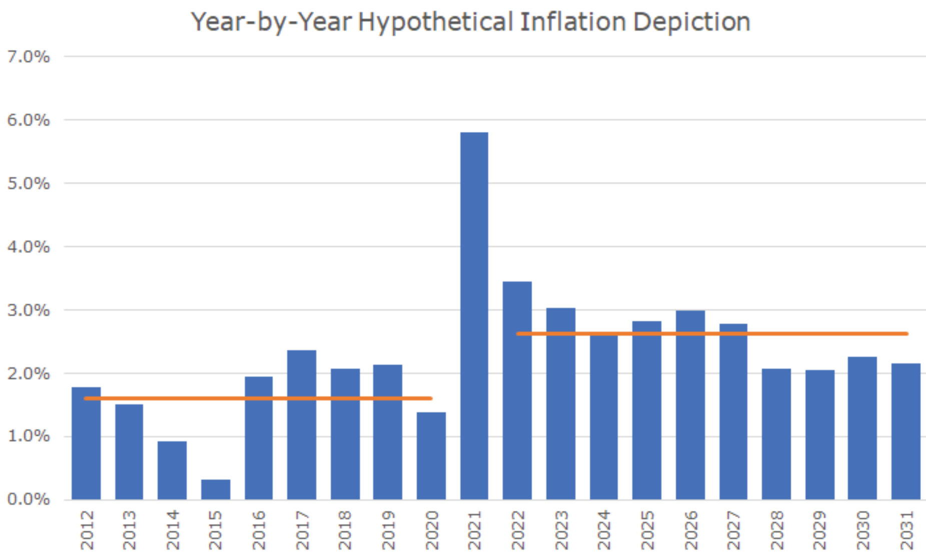
That's not to say that the bond market is always right - they're not. But, if you believe that all of the bond market investors in the world have some collective wisdom, it's worth seeing what they expect.

Let me be clear that the inflation forecast derived from the bond market isn't my personal view, the view of anyone in particular at Acropolis, or the firm's view. It's what the bond market

"I love quotes... but in the end, knowledge has to be converted into action or it's worthless."

- Tony Robbins
American Author & Coach





thinks; the firm doesn't have an official view, and opinions vary across company team members.

With that non-legal but real disclaimer out of the way, the best way to see what the bond market thinks inflation will do is to look at the difference between traditional Treasury bonds and Treasury Inflation-Protected Securities (TIPs). The difference between those yields is called a 'breakeven.'

The chart on the opposite page shows the breakeven rate for every year of the next decade. For example, the one-year breakeven shows that the bond market thinks inflation will be 3.5 percent, and that's a lot less than 2021, which is why some people call the current bout of inflation transitory.

You can see that over the next five years, the market expects the annualized inflation rate to be 3.0 percent. And over the next ten years, the breakeven rate suggests that the market thinks the inflation rate will be around 2.6 percent per annum.

The big point of the breakeven rates is that the market expects a lot of inflation over the next few years and then revert to something like what we experienced over the last decade.

I like this chart, but I don't think in annualized terms like this, so I decided to create a chart that shows the inflation year by year based on this data and the annual data from the last decade, which is above. But I have another disclosure: this is far too precise to expect reality to turn out like this illustration. There are also a lot of technical details that I skimmed over to create it, which is why I didn't label the columns.

I'm showing it because it highlights the point that the market expects that inflation will be front-loaded, but I don't want anyone to look at it and think that there is a true forecast for, say, the 10th year of the decade.

Over the last decade, you can see that inflation barely budged over two percent in any given year until last year (and I cheated and used 11-months, but I'm confident we will see more of the same in December's data).

The orange line shows the average inflation rate for the previous ten years

"You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets."

- Peter Lynch
Famed Investor

“Genius is eternal patience.”

- Michelangelo
Italian Sculptor, Painter, Architect, and Poet

INFLATION EXPECTATIONS TODAY

By: David Ott

and then again for the next ten years. You can see that the average rate going forward looks about like the ten-year breakeven rate, which makes sense.

You can also see that the expected inflation rate in the coming decade is almost a percentage point higher than it was over the last ten years, which is one of the arguments for why this inflation isn’t transitory.

The second five years of the ten-year forecast sort of looks like the last five years, but I don’t think anyone should pay a lot of attention to that because it’s five years from now, and anything can happen between now and then.

The other big point from both of the charts is that the market does not expect anything like the 1970s, which I think is what people worry about, especially if you lived through it.

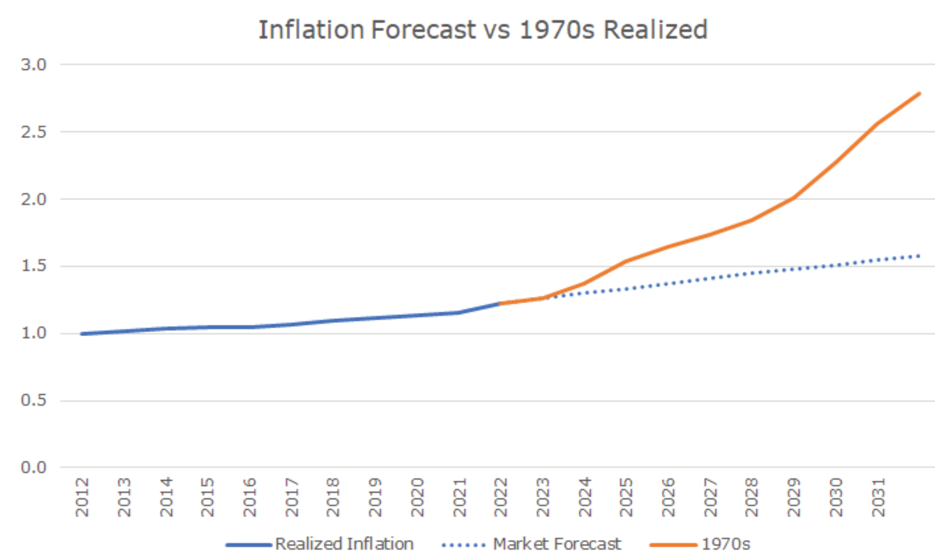
I don’t think most people are worried that inflation comes in at 2.6 percent on average over the coming decade. Our financial planning software assumes 3.0 percent, so if that’s right, our planning assumptions are still conservative compared to the bond market forecast.

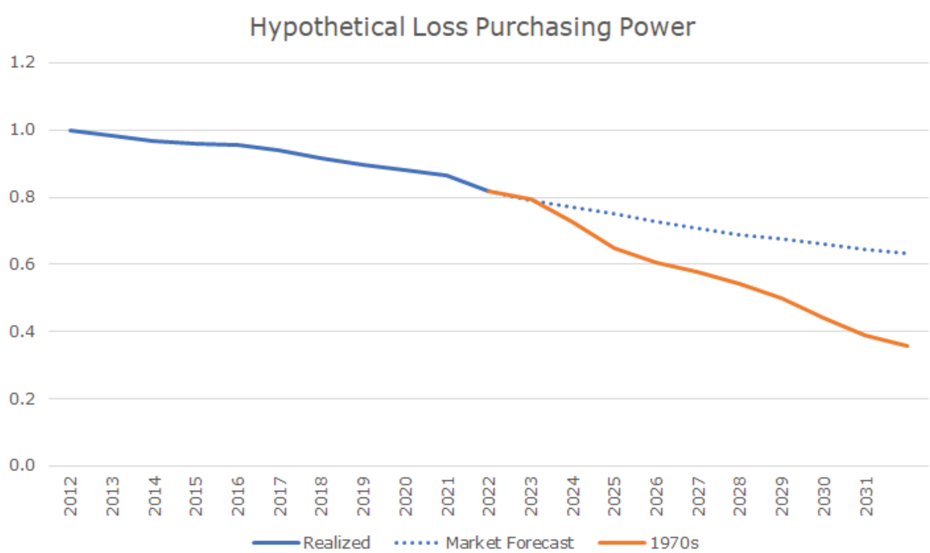
The chart below helps illustrate how the current expectations differ so markedly from the 1970s. The solid blue line shows the growth of inflation over the last ten years. Then, it turns into a dotted blue line to indicate where the bond market thinks prices will go.

Then, I overlay what happened in the 1970s to illustrate the point: there is a drastic difference between what happened then and what the market thinks will happen now.

I actually started the 1970s data in 1972 because inflation was higher in the first few years of the 1980s than in the first few years of the 1970s.

The last chart on the opposite page inverts the chart from below to illustrate the pernicious impact of inflation. Over the last decade, even at the two percent inflation rate, we’ve lost almost 20 percent of our purchasing power,





meaning that a dollar ten years ago can only buy 80 cents of goods and services today. But it was a slow drip, and everyone expected it, so it wasn't too hard to manage.

If we get the inflation that the market expects, that dollar from ten years ago will only be 63 cents worth of goods and services (since we don't think about our dollar from ten years ago so easily, a dollar today should only be 82 cents worth of goods and services in ten years).

If, however, we get the 1970s-style inflation, our dollar from ten years ago will only get us 36 cents in goods and services.

Hopefully, salaries will increase by the inflation rate (or more). Social Security will cover inflation, but most retirees need more than that to meet their goals, which is why we need the value of the savings to grow as well.

I believe we can reasonably expect the Federal Reserve to respond to higher inflation. In recent months, they dropped the term transitory from their statement, indicated that they will stop their bond-buying program known as quantitative easing, and will raise interest rates several times this year.

And, if that doesn't do the trick, they will tighten monetary policy further, although too much will take a toll on the economy given the substantial debt outstanding.

Please be aware that the coming months will continue to show high inflation rates. Each month, the government reports what happened in the previous 12 months. So, with each new data point, we revisit 11-months of data we already had.

If the annual rate declines to 3.5 percent as expected by the end of 2022, we will still likely have three or four readings over six percent and another four or five readings of more than five percent. It gets better from there, but the high monthly rates of late won't drop off for months.

Inflation is the most important data to watch right now, and we are monitoring it closely.

"The four most dangerous words in investing are: this time it's different."

- Sir John Templeton
Famed Investor

Data Center	2021 YTD
Dow Jones	20.95%
S&P 500	28.68%
S&P 400 Mid-Cap	24.73%
S&P 600 Small-Cap	26.74%
MSCI EAFE (Intl)	11.26%
MSCI Emerging Mkt	-2.54%

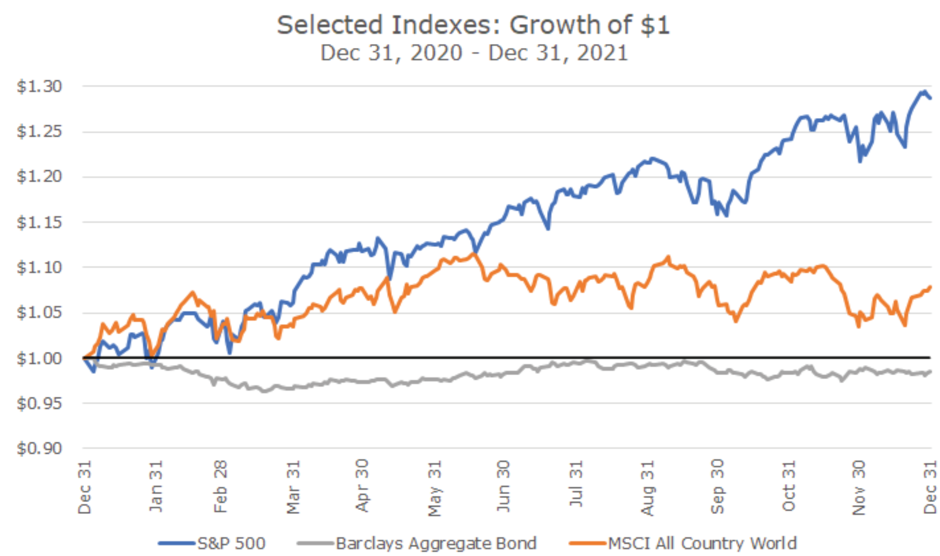
S&P Sectors	2021 YTD
Basic Materials	27.28%
Communications	21.57%
Consumer Discretion.	24.43%
Consumer Staples	18.63%
Energy	54.39%
Financials	34.87%
Healthcare	26.13%
Industrials	21.10%
REITs	46.14%
Technology	34.52%
Utilities	17.67%

Interest Rates	2021 Q4
Fed Funds	0.25%
Prime Rate	3.25%
3-mo. Treasuries	0.04%
2-yr. Treasuries	0.73%
5-yr. Treasuries	1.26%
10-yr. Treasuries	1.51%

Currencies	2021 Q4
Euro	1.1400
Japanese Yen	115.08
British Pound	1.3500

All Data as of 12/31/21

THE BIG PICTURE



FAST FACTS: ACROPOLIS EDITION

20 Although it won't be official until August, Acropolis turns 20 years old this year. We started from scratch as a bank subsidiary in 1999 but didn't have any clients until 2000. Two years later, we launched as an independent firm.

$40.8 Million Our private client assets under management at the launch. We managed the bank's bond portfolio, which brought our total assets under management to $238.1 million. As of December 31st 2021, we manage approximately $2.25 billion.

6 The number of employees at Acropolis on day one, including the four founding partners. As of December 31st, we have a total of 40, and we are excited to add a few more members to the team in the coming months.

29 The number of designations held by our team members today, compared to zero when we started (outside of regulatory licenses). Areas of expertise include financial planning, securities analysis, accounting, performance measurement, compliance and qualified plans.

Notice to Clients

Please remember to contact ACROPOLIS® Investment Management, LLC if there are any material changes to your financial situation or investment objectives or if you wish to impose, add or modify any reasonable restrictions to our investment management services. A copy of our current written disclosure statement as set forth on Part II of Form ADV continues to remain available for your review upon request.

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