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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.

MARKETS GAUGE RECESSION RISK

In the first quarter of this year, surging inflation and the Federal Reserve's policy shift towards more aggressive interest rate hikes dominated the news, hurting both stock and bond returns.

That sentiment shifted to some degree in the second quarter after the Federal Reserve raised the benchmark rate by three-quarters of a percent and updated its forward guidance.

After that, the market took the view that the Fed would hike interest rates too much and send the economy into recession while attempting to get inflation under control.

Stock market losses accelerated in the second quarter, from -4.6 percent in the first quarter to -16.1 percent in the second quarter, and ended the first half of the year down -20.0 percent.

The bond market lost money again but fared a little better, losing -4.7 percent in the second quarter, compared to -5.9 percent in the first quarter, and is now down -10.3 percent for the year.

However, the losses within the bond market shifted. In the first quarter, most of the losses resulted from changing interest rates. In the second quarter, higher interest rates still hurt bond prices, but the bulk of the losses came from corporate bonds, which are more sensitive to the economy, suggesting that recession fears outpaced fear of further rising rates.



Dave Coverly.
"Is this a piece of artwork or a chart of current market trends?"

While the Federal Reserve argues that it can raise rates but still avoid a recession, some analysts say a recession has already started, based on real-time data. However, that's hard to reconcile with unemployment at 3.6 percent.

Regardless of what happens next, we will continue to do what we have done for nearly 20 years now: invest for the long-term, knowing that there is much to gain, but it isn't pain-free.

Without risk, there is no reward, and since market timing hasn't worked for anyone, even the investing greats, our primary responsibility is finding an asset allocation that provides a high probability of success for our clients, and sticking with it through thick and thin. It's a simple approach, but years like this are a good reminder that it's not always easy.

STOCK MARKET SUMMARY

By David Ott

On June 13th, the stock market entered a bear market, generally defined as a 20 percent decline from the recent high.

Outside of The Great Depression, which was far worse than a regular bear market, this is the 11th bear market in the US since the start of high-quality data in 1926.

With the help of a summer intern a few years ago, we built a proprietary database of daily total returns since 1926. By including daily returns and dividends, we can better measure bear markets.

To measure a bear market, we find the peak-to-trough losses that exceed -20 percent, pictured in orange below. Then, we measure the recoveries, which track the time between the bottom of the trough earning back what was lost. Recoveries are pictured below in yellow. Finally, we include bull markets, which are in green.

We find that, on average, the peak-to-trough declines are -33.5 percent. The decline lasts 1.2 years, and the recovery takes 1.5 years.

However, there are significant deviations from the average. The shortest bear market was during the pandemic, at 34 days. The recovery was also the shortest at 139 days.

The longest bear market was in 2000, which was 2.1 years between the top and bottom. The recovery was also the longest, taking four years to recover what was lost. While that was the second deepest loss at -47.5 percent, it wasn't the worst, which was -55.3 percent in 2008.

Acropolis was actively in business for three of the ten completed bear markets, including the shortest, longest, and deepest (but not the shallowest, in 1948).

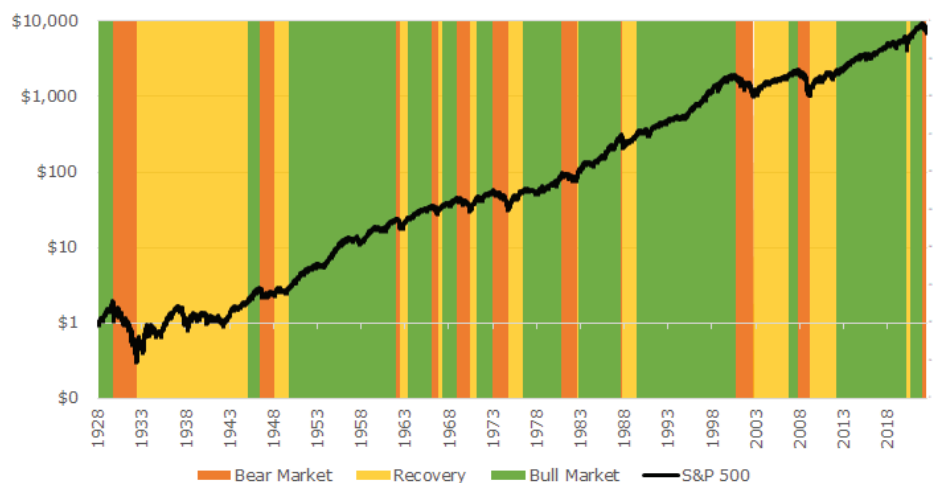
While certainly unpleasant, hopefully, the chart below indicates that bear markets are transitory, and there has always been a bull market to follow.

The key from a planning perspective is ensuring you have enough remaining capital invested to capture the recovery.

“A problem is a chance to do your best.”

- Duke Ellington, American Muscian

S&P 500 Growth of \$1
Jan 2, 1928 - Jun 30, 2022



Data Source: Bloomberg

Investing In Your Interests.



BOND MARKET REVIEW

By Ryan Craft, CFA

After a dismal first quarter, the US bond market struggled throughout the second quarter. The Bloomberg US Aggregate Index was down -4.7 percent in the second quarter as yields continue to rise in the face of persistent inflation. Credit fared poorly, down -6.9 percent, with US Treasury bonds down -3.8 percent for the quarter.

Interest rates rose across the curve throughout the quarter as inflation has remained higher for longer than expected. The worsening inflation outlook has caused the Federal Reserve to pivot and become much more hawkish on monetary policy. At their June meeting, the Fed surprised markets with a 75 basis point (bps) hike to the overnight Fed Funds rate. This was significant as it was not only the largest hike since 1994 but one of the rare occasions that the Fed surprised markets with a rate hike.

They had carefully crafted expectations for a consistent upward trajectory of 50bps hikes, so it was a shocking change to hike 75 bps. Projecting subsequent 75bps hikes for the next few meetings,

shows how concerned the Fed has become with the threat from inflation.

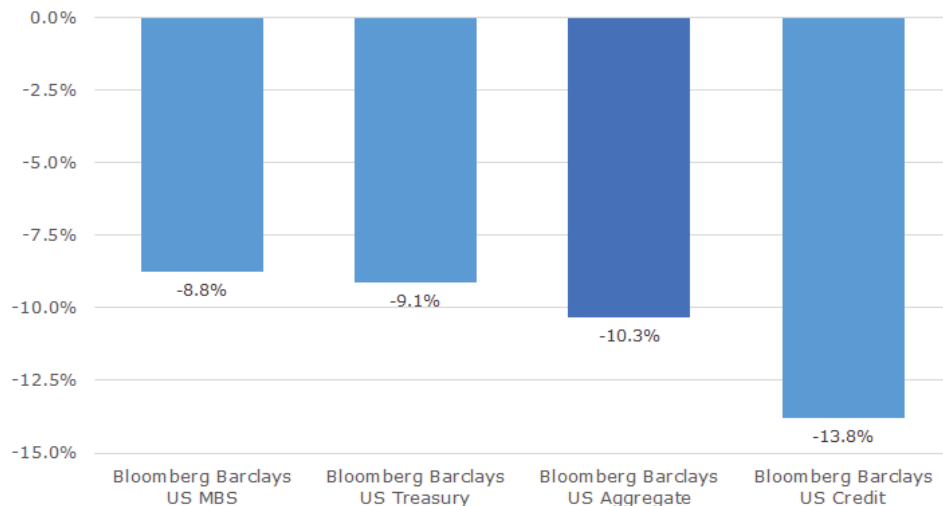
For most of this year, inflation drove rates higher. Now, long-term rates are beginning to fall as investors price in a recession on the horizon. The 10yr US Treasury yields peaked at 3.5 percent on June 14th, one day before the Fed's 75bps hike. Since then, the 10yr has fallen back to 2.8 percent while the outlook for equities and the economy has turned sour. Futures markets are even pricing in the Fed cutting rates in mid-2023, which could signal that this rate hike cycle is nearing an end, but will end in a recession like so many other tightening cycles in recent history.

On the positive side, yields are now attractive and should provide a buffer to portfolios even if rates rise further. Additionally, the safe haven quality of bonds is showing signs of returning. Since the Fed meeting in June, yields have fallen when stocks have struggled, restoring the normal relationship between these asset classes that has been missing this year.

“Do not go where the path may lead, go instead where there is no path and leave a trail.”

- Ralph Waldo Emerson, American Writer

Selected Bond Index YTD Returns



Data Source: Bloomberg



INFLATION: A DEEP DIVE

By David Ott

Inflation is more top of mind today than it has been in decades. The high levels are prompting a lot of questions and concerns from clients that this article will address.

Let's start with the most recent reading of the Consumer Price Index (CPI) from the Bureau of Labor Statistics (BLS), which showed that the headline inflation rate for the 12-months ending in May was 8.6 percent.

That number comes from price comparisons of what is called an inflation basket, which tracks the prices of goods and services and is designed to measure the cost of living. The chart below shows the current makeup of the basket.

The three elements of green in the chart are related to shelter. One of the largest is called owner equivalent rent, and it's a little controversial, which I'll describe momentarily.

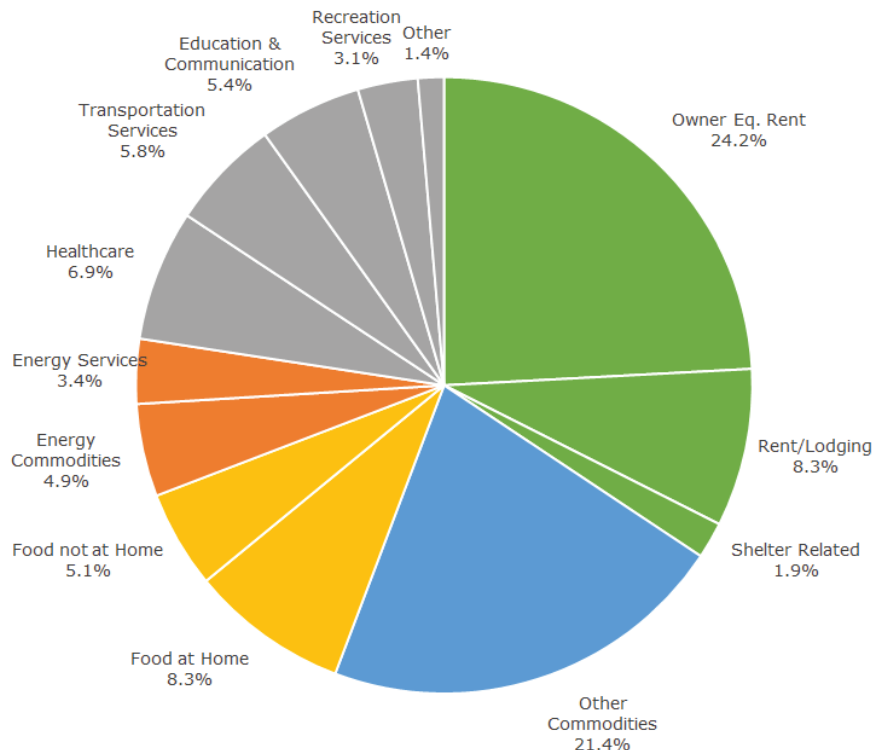
Then you see all other commodities in blue, which include things like home furnishings, clothes, new and used cars, and alcohol. Next are food and energy, which are large and volatile components (as seen in orange and red, the 'hot' colors).

The gray represent other services, like healthcare, education, transportation, and recreation, which are pretty self-explanatory.

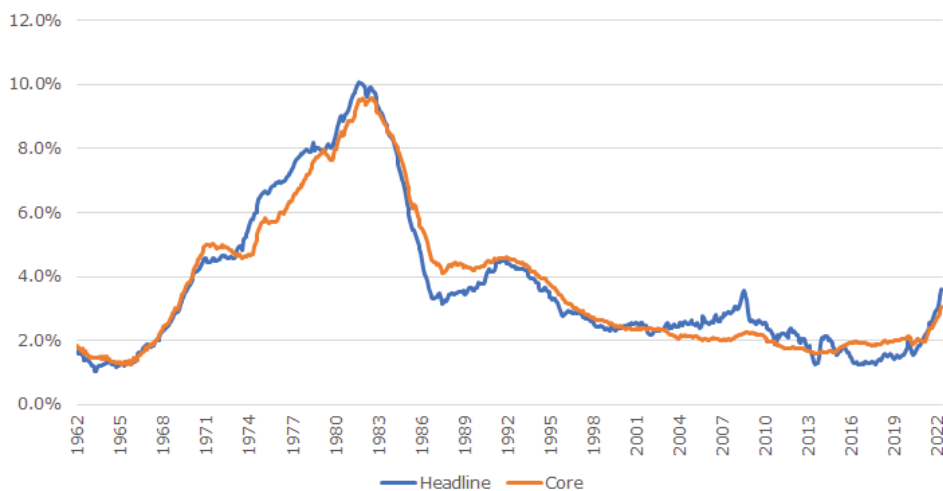
“Let us not look back in anger, nor forward in fear, but around in awareness.”

*- Jams Grover Thurber
American Cartoonist & Author*

Consumer Price Index Components
As of May, 2022



Consumer Price Indexes, Headline & Core
Rolling 5-Year Rate: Jan 1962 - May 2022



While those are self-explanatory, owner's equivalent rent, which I mentioned above, is a little less obvious. The basic idea is to show what homeowners would pay if they rented their homes instead of owning them.

It's controversial, because it's an estimate - there is nothing for the BLS to measure. They undoubtedly have a detailed process, but any estimate that doesn't measure anything will be subject to error, which is what bothers critics.

Now that we have a sense of what makes up the Consumer Price Index (CPI), let's look at how it has fared over the decades. In the chart above, I'm actually showing the five-year rolling average, just like we often do with returns to take out some of the noise and show the big trend.

This isn't to minimize what's happening now - in fact, the five-year trend is bothersome because it shows the first material medium-run increase in rates since the debacle that started in the 1960s and ended in the 1980s. And equally bad is that the five-year rate hasn't even breached four percent, and we're over eight now - as some of the

older data points drop off, this will go a lot higher.

This chart also shows both the headline rate, and the core rate, which strips out energy and food costs. While we all endure those costs, they are very volatile, although the five-year rolling date smooths it out enough that you can see that it corresponds reasonably well to headline inflation.

This chart also highlights the big difference with the inflation of decades ago because it shows how persistent it was for so long. Today, we're acting as if we know exactly what to do: raise interest rates until we break the back of inflation.

We don't know where inflation will go from here, which is the cause for concern. Right now, the bond market is signaling that the Federal Reserve's tightening monetary policy will do the trick, but the bond market doesn't always get it right. It's clear now that the Fed was behind the curve, but hopefully their aggressive stance today will get inflation to more manageable levels in the next year or two.

“The main ingredient of stardom is the rest of the team.”

*- John Robert Wooden
Basketball Coach*

“The four most dangerous words in investing are: this time it’s different.”

*- Sir John Templeton,
Famed American-born British
Investor*

CYBERSECURITY AT ACROPOLIS

By: Matt Binder, Technical Support Specialist

It can be a terrible and violating feeling when you realize you have been hacked.

Whether it is your credit card information being stolen or your email getting hijacked, being hacked is just downright awful.

This is why cybersecurity plays such a large part in our world of technology today. At Acropolis, we and our vendors take cybersecurity very seriously and want to share a few ways we are keeping you and your information secure.

We work closely with our IT team to implement and maintain many cybersecurity measures across our systems; a couple of the most important are patching and anti-virus software.

Patching applies a set of fixes to a device or its programs that addresses known issues or vulnerabilities. Frequent patching is paramount to keeping our devices and programs running properly and securely. In addition, Acropolis has anti-virus software that protects all workstations and servers on our network.

Similarly, the use of data backups is very important to cybersecurity. We make data backups to ensure that if our live data were ever compromised, we would have the ability to recover it from one of the most recent backups.

Data backups are taken multiple times a day and stored securely in multiple locations for redundancy.

The use of multi-factor authentication, or MFA, has become an increasingly useful tool in the world of cybersecurity.

Multi-factor authentication requires you to have at least two ways to verify

yourself to access your device or certain applications. Some people like to explain this as “something you know and something you have.”

For example, Acropolis employees must enter their unique password and then authenticate from an MFA application on their phone to log in to their Acropolis computers. The same goes for many of the applications we use daily.

When COVID hit and required many to work from home, using a Virtual Private Network, or a VPN, became one of the most important tools we had to securely access our internal network and its data.

A VPN is a program that allows users to access data from a remote location securely. Using our VPN at home, Acropolis employees can still access important client data and continue to assist our clients in a timely fashion.

Another cybersecurity tool that has become popular at Acropolis in the last few years is the use of a password manager.

A password manager is a tool that allows you to securely store your passwords in one area and access them wherever you are. Besides helping you keep track of all of your passwords, the main goal of a password manager is to help make your passwords more complex and unique, since you don’t necessarily have to remember them anymore.

A wise person once said, “Passwords are like underwear: don’t let people see them, change them often, and don’t share them with strangers.”

In addition to all of the cybersecurity

(Continued on next page)

tools we use, Acropolis employees undergo cybersecurity training multiple times a year.

This training includes phishing email simulations, cybersecurity quizzes, and instructional videos. Our IT vendor also does an informational seminar for our employees annually.

Some of our processes have reverted back to using the telephone instead of email. Because of the email threats, we will call you to verify requests for disbursements of funds.

We work very closely with the custodian of your funds. We have stopped several attempts to gain access to client funds just by being vigilant, knowing our clients, and our mantra of verify, verify, verify.

CRYPTO WINTER IS HERE

By: David Ott

I first wrote about bitcoin in 2017, when it was about \$4,500 per coin. I first investigated Bitcoin in 2013, when the price was less than \$500.

As a speculative trade, I missed the boat because even after the recent price declines, it closed the second quarter at \$18,700. Still, it's down -59.5 percent this year and -72.3 percent from its peak in November. I bought a few hundred dollars worth last year but sold it when it felt more like a video game than an investment. And, yes, I lost money.

Although Bitcoin has been a miss for me, I don't regret anything since I don't see Bitcoin as much more than a tool for speculation.

A reasonable way to view crypto is as

At Acropolis, we make it a priority to keep in touch with our vendors to ensure that they keep our data secure and stay on top of emerging cybersecurity issues and trends. Acropolis has yearly engagements with Schwab, other vendors, and custodians to discuss how current and future cybersecurity landscapes can be safely traversed.

While technological advances can be exciting, we must understand that they also present new cybersecurity challenges. We regularly update our processes and investigate new tools to address those challenges along with our IT partners.

If you would ever like to discuss our cybersecurity policies and procedures, we would be happy to discuss them with you.

digital gold: a scarce asset, free from government intervention, with enough people who believe it has value. So far, I don't think crypto has worked as a diversifying asset or hedge against inflation, but it could in the future.

I agree that gold and crypto can both serve as a medium of exchange, a unit of account, and a store of value, which are the key ingredients for money and their substitutes.

For investing, I prefer owning a business (a stock) or loaning money to a government or corporation (a bond). Even though the price of Bitcoin is much lower now than it was recently, I have no idea whether it's a better value. It may be a great value today – I just have no way to gauge it and plan to stay away.

**“Energy is
eternal delight.”**

*- William Blake
English Poet & Painter*

Data Center 2022 YTD

Dow Jones	-14.44%
S&P 500	-19.97%
S&P 400 Mid-Cap	-19.57%
S&P 600 Small-Cap	-18.97%
MSCI EAFE (Intl)	-19.57%
MSCI Emerging Mkt	-17.63%

S&P Sectors 2022 YTD

Basic Materials	-17.90%
Communications	-30.16%
Consumer Discretion.	-32.82%
Consumer Staples	-5.58%
Energy	31.64%
Financials	-18.73%
Healthcare	-8.33%
Industrials	-16.79%
REITs	-20.11%
Technology	-26.91%
Utilities	-0.56%

Interest Rates 2022 Q2

Fed Funds	1.75%
Prime Rate	4.75%
3-mo. Treasuries	1.67%
2-yr. Treasuries	2.96%
5-yr. Treasuries	3.04%
10-yr. Treasuries	3.02%

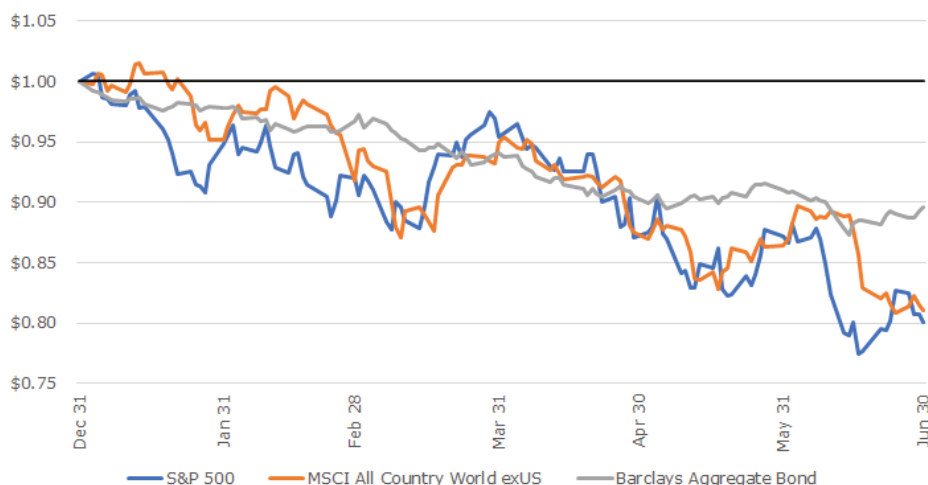
Currencies 2022 Q2

Euro	1.0484
Japanese Yen	135.72
British Pound	1.2178

All Data as of 06/30/22

THE BIG PICTURE

Selected Indexes: Growth of \$1
Dec 31, 2021 - Jun 30, 2022



FAST FACTS: CYBERSECURITY

38 The number of seconds that pass between hacker attacks, according to a study from the University of Maryland. The near-constant attacks now affect one in three Americans every year.

600% The rate of increase of cybercrime during the pandemic. Cybercrime was a material problem before the pandemic, but being locked up at home without much else to do gave cybercriminals the time to step up their attacks on everyone else. Sadly, as the pandemic subsides, the attacks have not.

95% The percentage of cybersecurity breaches that are due to human error. Hackers infiltrate through the weakest link, which isn't typically software or the IT department – it's everyday people.

90% The percentage of attacks that start as phishing emails, according to the 2021 Cisco Cyber Security Threat Trends report. Nearly 65 percent of organizations fell victim to a phishing attack in 2020. Software now exists to protect from phishing attacks, but it isn't foolproof.

Notice to Clients

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