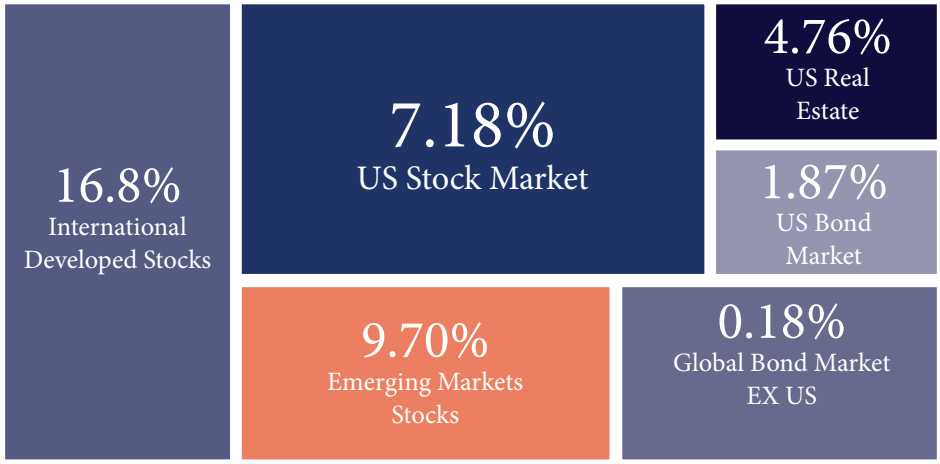
Quarterly Market Review: Fourth Quarter 2022

The fourth quarter of 2022 ended the year with economic and market conditions remaining challenging. Volatility was a defining feature of the markets in 2022. A year dominated by surging inflation that begat higher interest rates, Russia's war with Ukraine, and recession fears that sent the market tumbling. Both stocks and bonds suffered unusually large losses, making 2022 the worst year for a balanced portfolio since 2008. Fortunately, there are convincing signs that an inflation downtrend is underway, and a lack of over-building in the most cyclical sectors of the economy suggests that any recession would likely be mild.



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Time the Market at Your Peril by David Booth

Forward—David Booth is the Founder and Executive Chairman of Dimensional Fund Advisors (DFA). DFA has been a foundational component of Voyager's investment philosophy from the beginning. There is a plethora of investment guru's and pundit's that have come and gone over the years, but only a few that have been true champions of the investor, to pursue a better investment experience. David constantly reminds us of the principles of investing in his writings, so that we can have this better experience. Some of these principles include letting the market work for you, resisting past performance and practicing smart diversification. Today's reminder is don't try to outguess the market with David's most recent article "Time the Market at Your Own Peril".

Technology enables immediate access to everything wherever and whenever we want it. In many cases, such as staying in touch with friends and family, or learning about world events, that's a good thing. However, when it comes to investing and money management, my fear is that faster and easier ways of investing will allow people to lose more money faster and easier.

As access to investing expands, it becomes even more important to adopt an investment plan that doesn't try to actively pick stocks or time the market. The purpose of having an investment plan is so you can relax. So, you don't look at the market every day, stressing out and asking, "How am I doing? How am I doing?" Investors actively trading are not just potentially missing out on the expected return of the market—they're stressed out, worrying about how the news alert they just received will impact their long-term financial health, and whether they can or should do anything about it.

I don't blame people for this. The financial services industry has not done a good enough job educating investors that the best approach for their long-term financial well-being is to make a plan, implement it, and stick with it.

But it has done a great job selling index funds. Over the past decade, the percentage of the stock market that is passively held has grown considerably, with equity index funds representing 52% of the US equity fund market at the end of 2021. And yet some investors appear to be using index funds to pursue an active investment approach. For example, the largest S&P 500 ETF had

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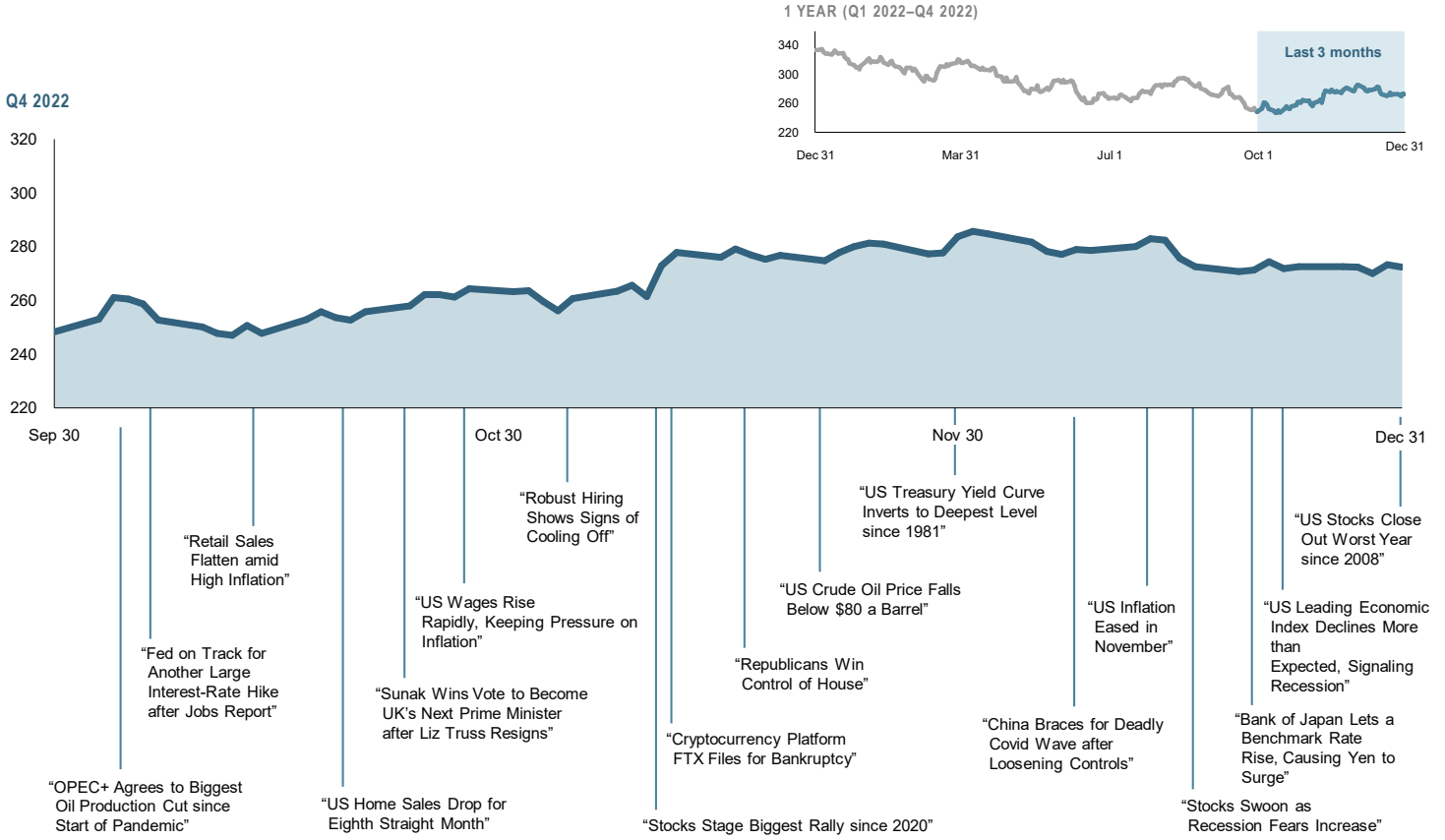
World Stock Market Performance

MSCI All Country World Index with selected headlines from Q4 2022



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. Index level based at 100 starting January 2001.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

Despite the recent cooling in inflation, the Federal Reserve has stuck with its hawkish stance, reducing its balance sheet, raising the federal funds rate a whopping 4.25% percent in 2022 and signaling further rate hikes ahead. This has narrowed the window for a soft landing as the economy faces strong headwinds posed by lower household savings, poor sentiment, weakness overseas and sharp increases in both interest rates and the dollar.

Not surprisingly, this has coincided with steep declines in both the stock and bond markets. However, calmer waters should lie ahead. Inflation is falling, the Fed is nearing the end of its tightening cycle, and much of the weakness in economic growth is already reflected in the market valuations. Valuations are at much more reasonable levels today than at the start of the year.

As we consider the 2022 performance, it is important to take a longer-term view. In particular, it is worth noting that a broadly diversified portfolio could have risen by more than 30% between the end of 2018 and the end of 2022. Even after losses from 2022, many portfolios are well ahead of the game in their long-term plans and, after the year's global reset in valuations, portfolios now have a broader menu of investment opportunities and higher potential returns than a year ago.

Market Snapshot

Despite a volatile December, global stocks and bonds generally advanced in the fourth quarter amid expectations for central banks to change course. But the fourth-quarter rebound wasn't enough to offset the year-to-date effects of inflation, rising interest rates, geopolitical unrest and growth uncertainty. Accordingly, most stock and bond indices posted steep losses for 2022.

- Market optimism resigned in October and November, as inflation's pace eased and expectations for a Fed policy pivot mounted. Nevertheless, the Fed remained steadfast in its rate-hike outlook for 2023, and the market sold off in December.

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- Gains in October and November gave the S&P 500 Index a 7.6% return for the fourth quarter. For the year, the S&P 500 lost more than 18%, its worst performance since 2008.
- All sectors of the S&P 500 Index declined in December, but most sectors gained for the quarter. The consumer discretionary sector was the quarter's weakest, declining more than 10%, while the top-performing energy sector rallied 23%.
- Non-U.S. developed markets stocks declined slightly in December, and they rallied in the fourth quarter to sharply outperform U.S. stocks. Emerging markets stocks also outperformed U.S. stocks.
- Annual U.S. headline and core inflation moderated in the fourth quarter. Against this backdrop, the Fed raised rates 75 bps in November and downshifted to a 50 bps rate hike in December. Central banks in Europe and the U.K. also raised rates 50 bps in December as annual inflation eased but still topped 10%.
- U.S. Treasury yields ended the quarter modestly higher, but bonds delivered positive fourth-quarter returns.

ONE CURRENT EXTREME – DAMPENING THE 2023 OUTLOOK

The national average interest rate on credit cards is currently at 19.07%. We know that there were higher rates in the 1970's, but this is the highest in this most recent series from the Federal Reserve, dating back and prior to 1996. Consider that 61% of households are currently living paycheck to paycheck and household savings rates are at their second-lowest level ever. A challenging environment for the average household.

Equity Returns

	U.S.				Non-U.S. Developed Markets				Emerging Markets			
	QTD (%)		YTD (%)		QTD (%)		YTD (%)		QTD (%)		YTD (%)	
	Value	Growth	Value	Growth	Value	Growth	Value	Growth	Value	Growth	Value	Growth
Large	12.42	2.20	-7.54	-29.14	18.30	14.58	-3.94	-21.50	9.03	9.39	-16.52	-24.60
Small	8.42	4.13	-14.48	-26.36	16.80	13.58	-13.99	-27.02	9.61	6.78	-12.48	-23.25

- All major size and style categories advanced for the fourth quarter but maintained steep year-to-date losses.
- Large-cap stocks fared better than small-caps in the quarter. Year to date, the broad large-cap index was down 19% and the small-cap index lost 20%.
- Style performance across capitalizations favored value over growth stocks for the quarter, and large-cap value stocks advanced more than 12%. Year to date, losses were widespread, but they were less severe among value stocks.

- International developed markets stocks surged sharply higher for the fourth quarter but declined more than 14% for the year.
- Large-cap stocks fared better than small-cap stocks in the quarter. Year to date, small caps declined much more than large caps.
- Value stocks generally outperformed growth stocks in the fourth quarter, and their year-to-date losses were less severe across size categories. With a return of -4%, large-cap value stocks were top performers for the year.

- The broad emerging markets stock index gained nearly 10% for the quarter but lost 20% for the year-to-date period.
- Large-cap stocks outperformed small-cap stocks for the fourth quarter but underperformed small caps for the year.
- For the quarter, growth stocks slightly outpaced value stocks among large caps but lagged among small caps. For the 12 months, losses were widespread, but value stocks fared better than growth stocks.

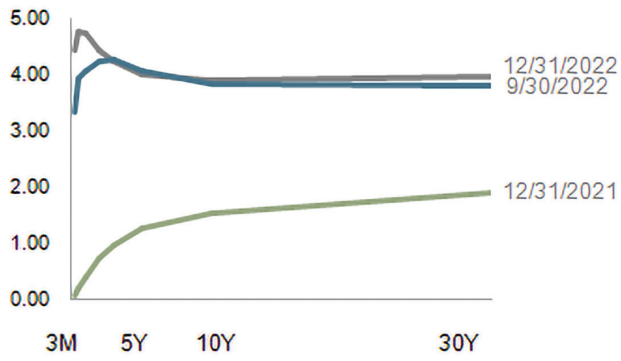
Fixed Income

Fixed Income Returns

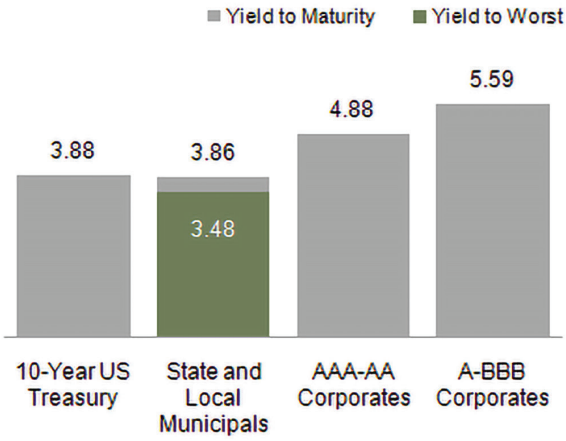
U.S Treasury yields were volatile and ended the fourth quarter modestly higher. U.S. bonds declined in December, delivered gains for the fourth quarter and posted a historic loss for the year.

- The Bloomberg U.S. Aggregate Bond Index declined slightly for December but advanced nearly 2% for the quarter. All sectors delivered quarterly gains, with corporate bonds returning 4%. For the year, the index declined 13%, logging its worst yearly performance.
- Treasury yields climbed to more than 4% early in the fourth quarter before dropping through November and modestly rising again in December. The 10-year Treasury yield ended the quarter at 3.88%, up 5 bps from September 30. The two-year Treasury yield rose from 4.28% to 4.42%, and the yield curve remained inverted.
- Annual headline CPI dropped 8.2% in September to 7.1% in November. Annual core CPI eased from 6.6% to 6.0%. TIPS outperformed nominal Treasuries as longer-termed inflation expectations modestly increased from their quarter lows.
- The Fed maintained its tightening campaign, raising rates 75 bps in November and 50 bps in December. Easing inflation led to expectations for a Fed pause or pivot, but policymakers indicated they expect to continue raising rates into 2023.

US Treasury Yield Curve (%)



Bond Yield Across Issuers (%)



Period Returns (%)

Asset Class	QTR	1 Year	Annualized 3 Years	5 Years	10 Years
Bloomberg U.S. High Yield Corporate Bond Index	4.17	-11.19	0.05	2.31	4.03
Bloomberg Municipal Bond Index	4.10	-8.53	-0.77	1.25	2.13
FTSE World Government Bond Index 1-5 Years	3.83	-8.73	-2.44	-1.15	-1.20
Bloomberg U.S. TIPS Index	2.04	-11.85	1.21	2.11	1.12
Bloomberg U.S. Aggregate Bond Index	1.87	-13.01	-2.71	0.02	1.06
ICE BofA US 3-Month Treasury Bill Index	0.84	1.46	0.72	1.26	0.76
ICE BofA 1-Year US Treasury Note Index	0.76	-1.02	0.23	1.09	0.74
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.57	-4.49	-0.75	0.73	0.98
Bloomberg U.S. Government Bond Index Long	-0.59	-29.19	-7.39	-2.19	0.61

the highest average daily trade volume of US-listed securities in 2021, at $31 billion. So instead of picking individual stocks, people seem to be acting like stock pickers when buying and selling index funds and ETFs.

Despite the overwhelming evidence and compelling story to the contrary. When economist Michael Jensen published his landmark 1968 paper, which showed that active stock pickers added no consistent value, other academics soon confirmed his insights. More than five decades and 50 years of data later, the theory still holds up. There are some stock pickers who experience success, but we don't know how to identify them before the fact. We can't separate skill from luck. Picking stocks is more like gambling than investing.

This academic research inspired the invention of the index fund, which allowed investors not only to buy the broad stock market, but also to track the performance of the manager and compare costs. I worked on one of the first index funds. When I co-founded Dimensional, we built strategies that were informed by indices but weren't limited by the same mechanical constraints. So I accepted this research early on and built a company based on it. I still believe it 50 years later. My colleagues and I weren't sure at the beginning that it would appeal to a lot of people, but it did.

I'm proud of the fact that we have always viewed marketing as a way to educate financial professionals and investors. In fact, we started by working with institutions and only expanded to individual investors by working with financial advisors who could help teach their clients how to think about the market and invest for the long term. We wanted to prevent people from making the mistake I still see too many people making.

But I fear it will only get worse. ETFs make it easier to trade. So do free platforms that allow people to trade on their phones. There seem to be as many ETFs as there are stocks that make up those ETFs. I really like ETFs. They are another chapter in this 50-year story of creating safer and better financial products

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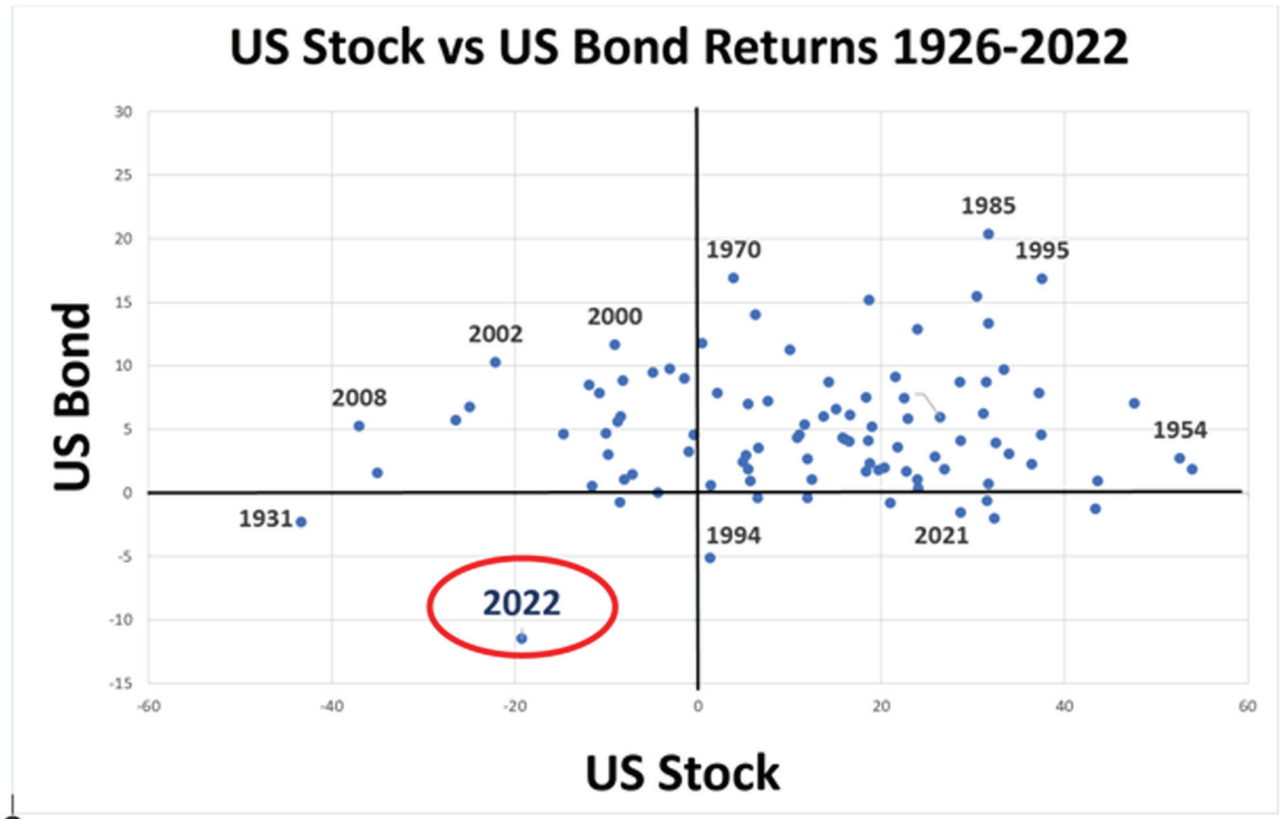
2022 – A Special Year In Its Own Way

The chart below adds a bit of perspective as to the kind of year it was, a special one. There have been plenty of years where the stock market has been negative and a few years when bonds are negative. But only on rare occasions that both stock and bonds negative. 2022 stands out like a sore thumb for a balanced portfolio.



* IA SBBI US Large Stock TR and IA SBBI US IT Govt TR used for prior History

** S&P 500 TR and Bloomberg US Aggregate used since 1996

for investors. Our firm has been using them to give financial professionals and investors more choice in how they access Dimensional Investing. But they are tools, and they have to be used effectively.

Which is why you may need an advisor more than ever—to help keep you from jumping from one thing to another. Our approach is to get you out of the game of worrying and guessing by having a plan that can provide peace of mind. It's a sensible approach you can live with. Trust the financial advisor who trusts the market.

The financial industry has made great strides improving the investment options available, but we have more work to do helping investors with those options. There are great solutions right in front of people. As an industry, we need to do a better job of educating current and potential clients. How the bulk of our society lives out their later years depends on it.

VOYAGER NEWS-*Name Change*

Voyager is currently transitioning its name from Voyager Capital Management, LLC to Voyager Wealth Management, LLC to better describe our comprehensive wealth management services. Voyager's value proposition to clients is based upon its wealth management formula, wealth management = investment consulting + advanced planning + relationship management. It is our goal to continue to expand our services within the comprehensive wealth management services.

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VOYAGER™ WEALTH MANAGEMENT, LLC

Holiday Calendar

Presidents Day	2/20
Good Friday	4/7
Memorial Day	5/29
Independence Day	7/04
Labor Day	9/04
Thanksgiving	11/23-25
Christmas Day	12/25