Be Liquid, Agile, and Open Minded:

Important Changes Are Taking Place

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Meet Our Investment Committee

Monty Guild
Founder

Anthony Danaher
President/Portfolio Manager

Rudi von Abele
Senior Research Analyst

Why Do You Need To Do Anything Differently?

"When events change, I change my mind. What do you do?" (Attributed to John Maynard Keynes, really from economist Paul Samuelson.)

Current events are inaugurating epochal changes in

- **Currencies…**
- **Commodities…**
- **Global geopolitical alignments…**
- **Market stability mechanisms…**
- **Shifting capital flows…**

And are calling many widely accepted investment truisms into question.

New Geopolitical Realities Bring New Stresses to Markets

(Russia vs. NATO and the EU, U.S. vs. China, U.S. failure in Afghanistan, China's BRI, Saudi snubbing of U.S. energy overtures)… indicate the end of the "unipolar moment" that followed the end of the Cold War.

Whatever Post Cold War "Peace Dividend" there may have been was spent... not reinvested.

The economic, financial, and investing environment has entered a period of profound transformation.

2022 is not looking "easy."

Global economy and corporate profits vulnerable to shocks

Earnings growth stagnating. Investors should recognize how much earnings have been pulled forward. Many companies will *never* achieve the same high growth rates of 2020-2021.

How should an investor respond to periods of change, slowing earnings growth, and volatile, rotational markets?

Option 1: 60/40 or Index (ride it out and cross your fingers)

Or you can...

Option 2: Research, be liquid, be selective, be active, and keep an open mind to new bull markets being created by change

- **Have cash to take advantage when volatility creates value**
- **Focus new buys on earnings growth at a reasonable price -- GARP**
- **Don't rush back to 2020-2021 winners; seek accelerating *earnings*, not *revenues***
- **Raw materials and scarcity will be important themes and will drive capital flows ... creating some large price moves**
- **Investigate the new: Don't ignore digital money or blockchain evolutions**
- **Look abroad (international markets could outperform U.S.)**

2022 -- How it Started

December 31, 2021 -- Riding high after strong year

January -- Fear of rising interest rates, peaking earnings growth, and lofty valuations, and high inflation led to a sharp selloff. Excess exuberance taken out of many overheated stocks.

February -- Markets tried to regain footing, even after it was clear inflation didn’t peak in January. Market accepted the idea that more rate increases were likely.

And then... war.

2022 -- How It's Going

Plenty of Concerns for Stocks:

- Fed is now increasing rates, and will be tightening
- Have earnings and profit margins peaked?
- Valuations are still rich
- High inflation kicking into a higher gear?
- Geopolitical accident more likely

Q: What about the Fed?

A: 1) Headwinds are baked into market (market pricing in series of rate increases),

2) Tailwinds (asset purchases) ending, and tightening is coming... unless it looks like it will lead to job losses.

Q: Can Fed actions kill the bull?

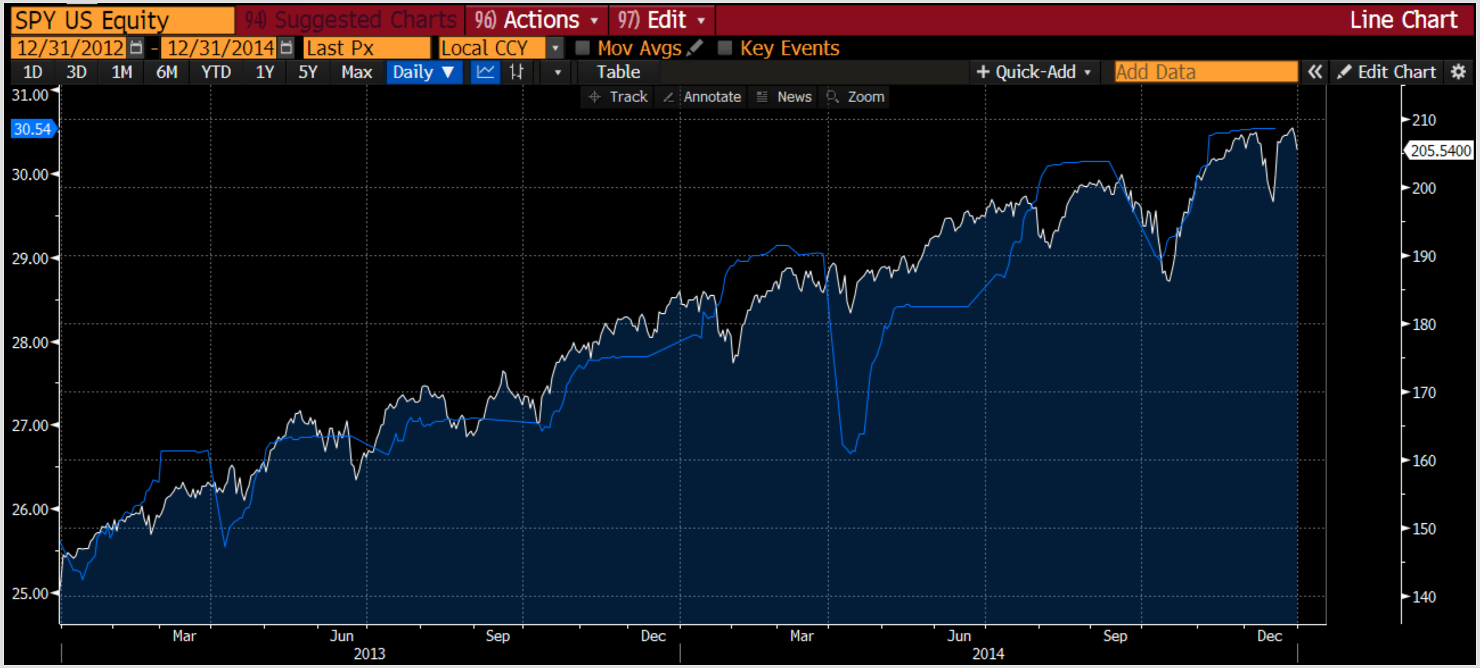
A: Yes, but while interest rates are important…

Stock markets have demonstrated the ability to rise during a Fed tightening cycle…

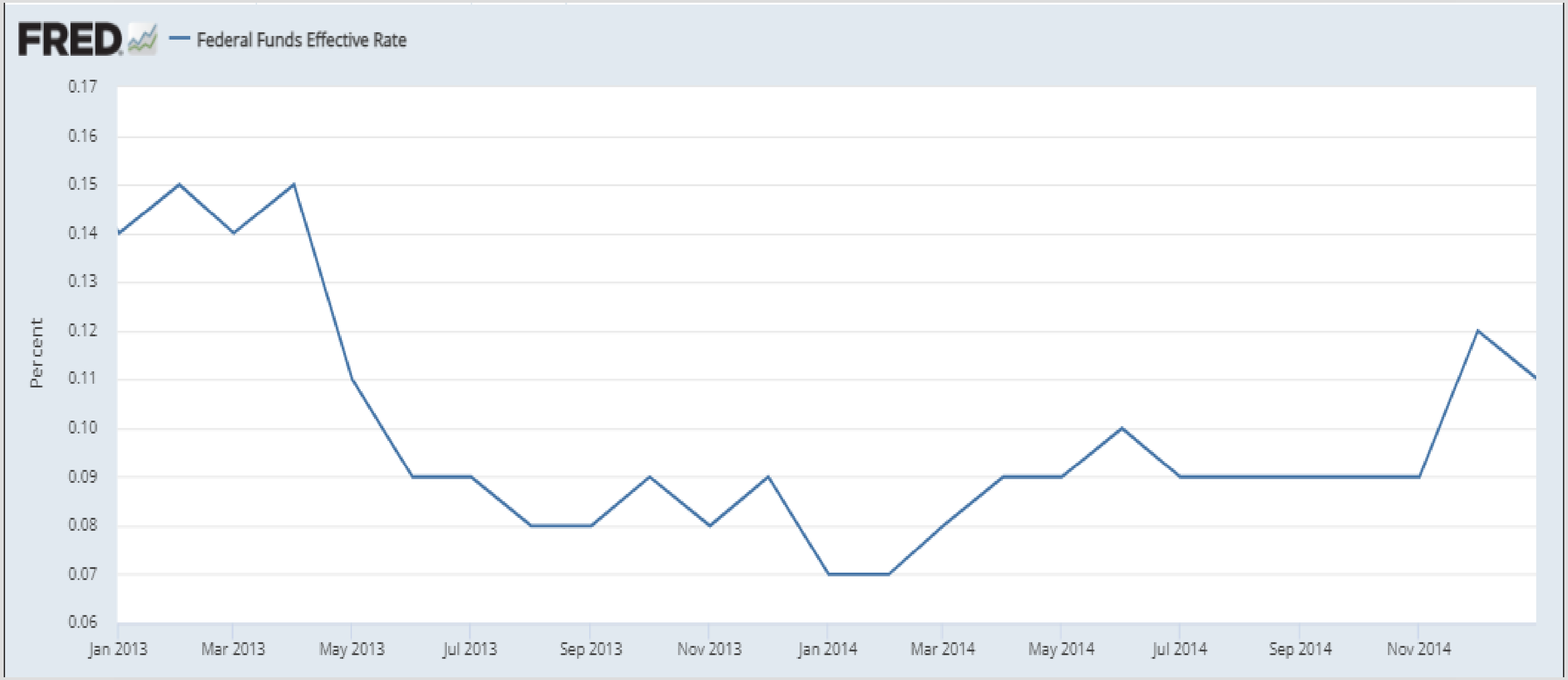
as long as earnings are growing.

Example: 2013 to 2018

2013 and 2014 were good years for US Stocks (white line=SPY) as corporate earnings were growing (blue line=S&P earnings per share), and...

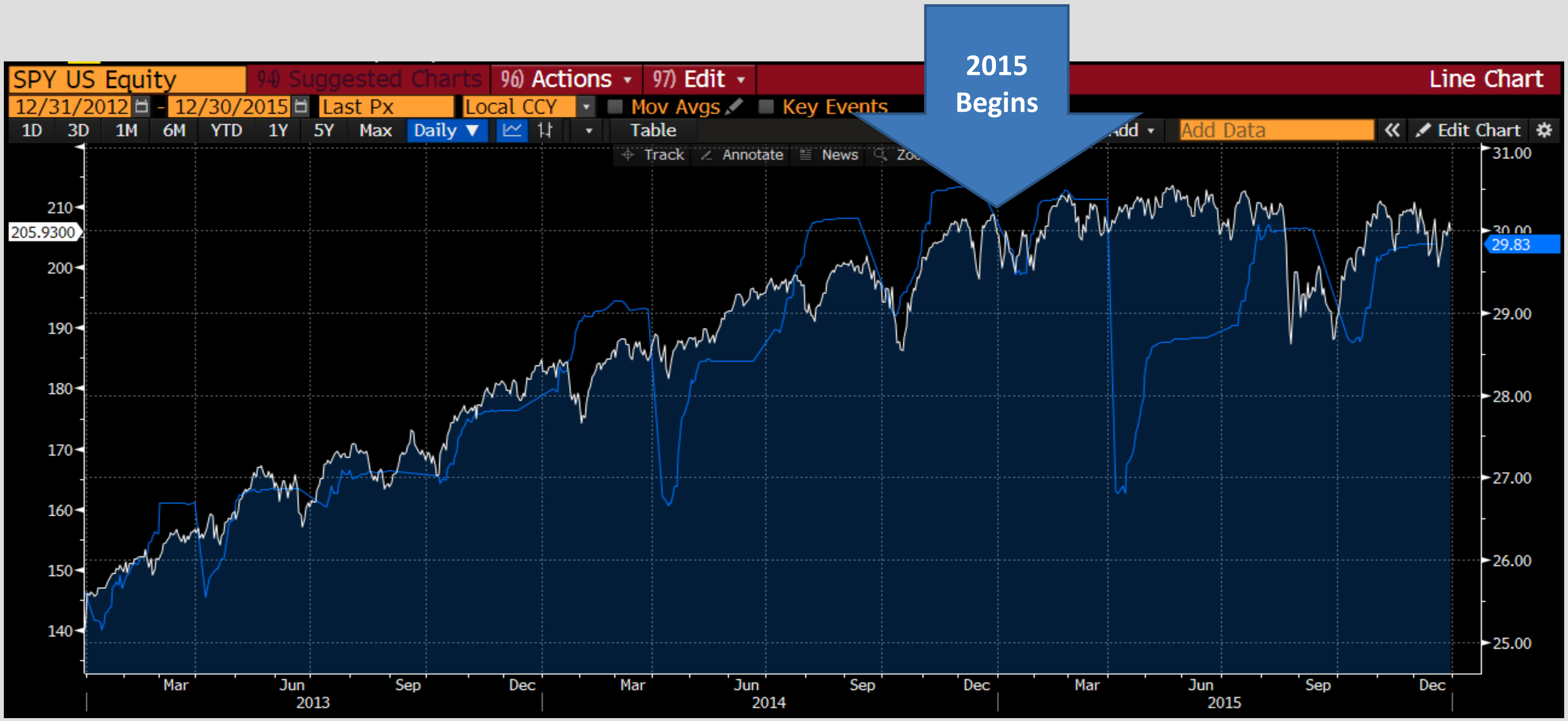


Money was historically very cheap, with short rates near 10 basis points

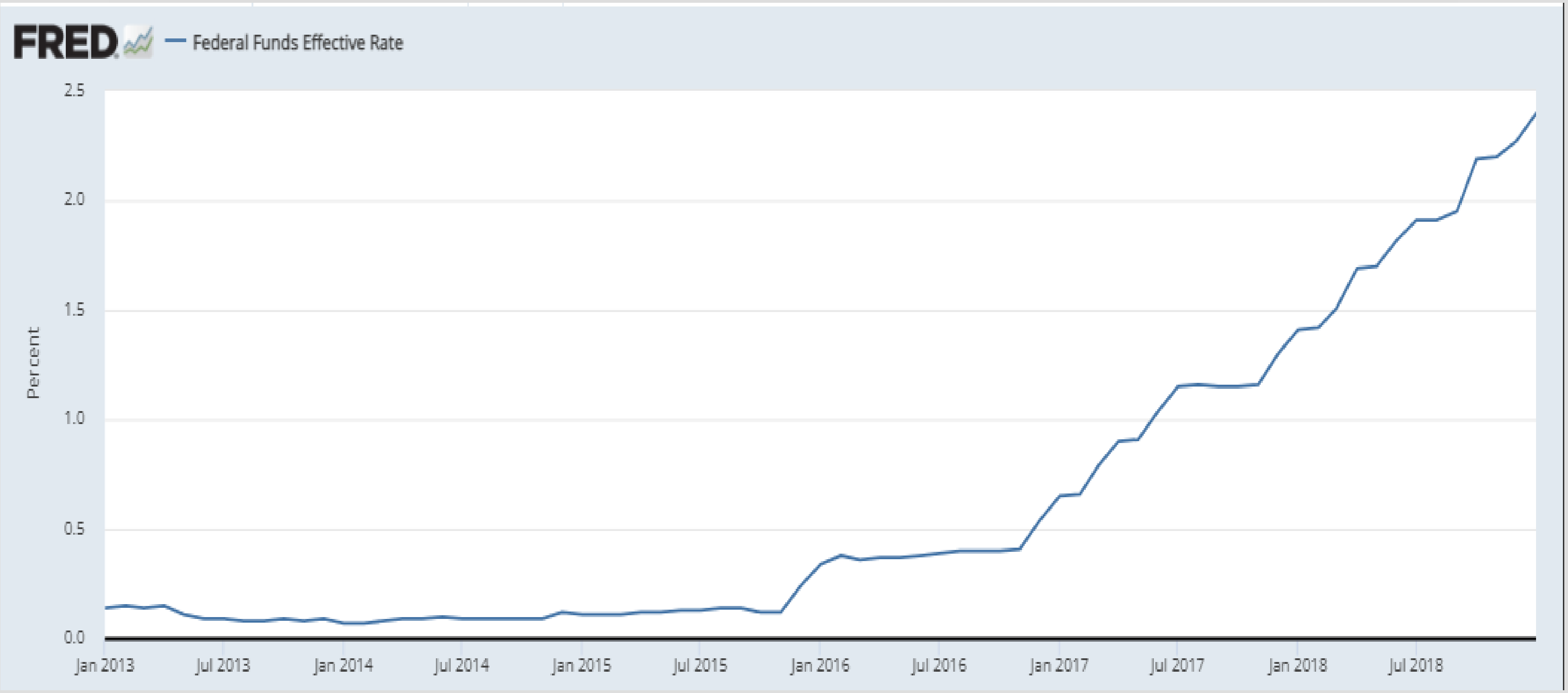


2015 -- The market trend changed

Rates remained low, but it was a much tougher environment for investors… as earnings growth stalled.



Interest rates eventually started going up in late 2015, and went up for almost 3 years...



Earnings growth re-accelerated in mid 2016

Stocks resumed their climb... in spite of rising rates. So, focus on corporate earnings growth, not on rates. Fear of rate hikes often worse for stocks than actual rate hikes.

So, what about earnings growth in 2022?

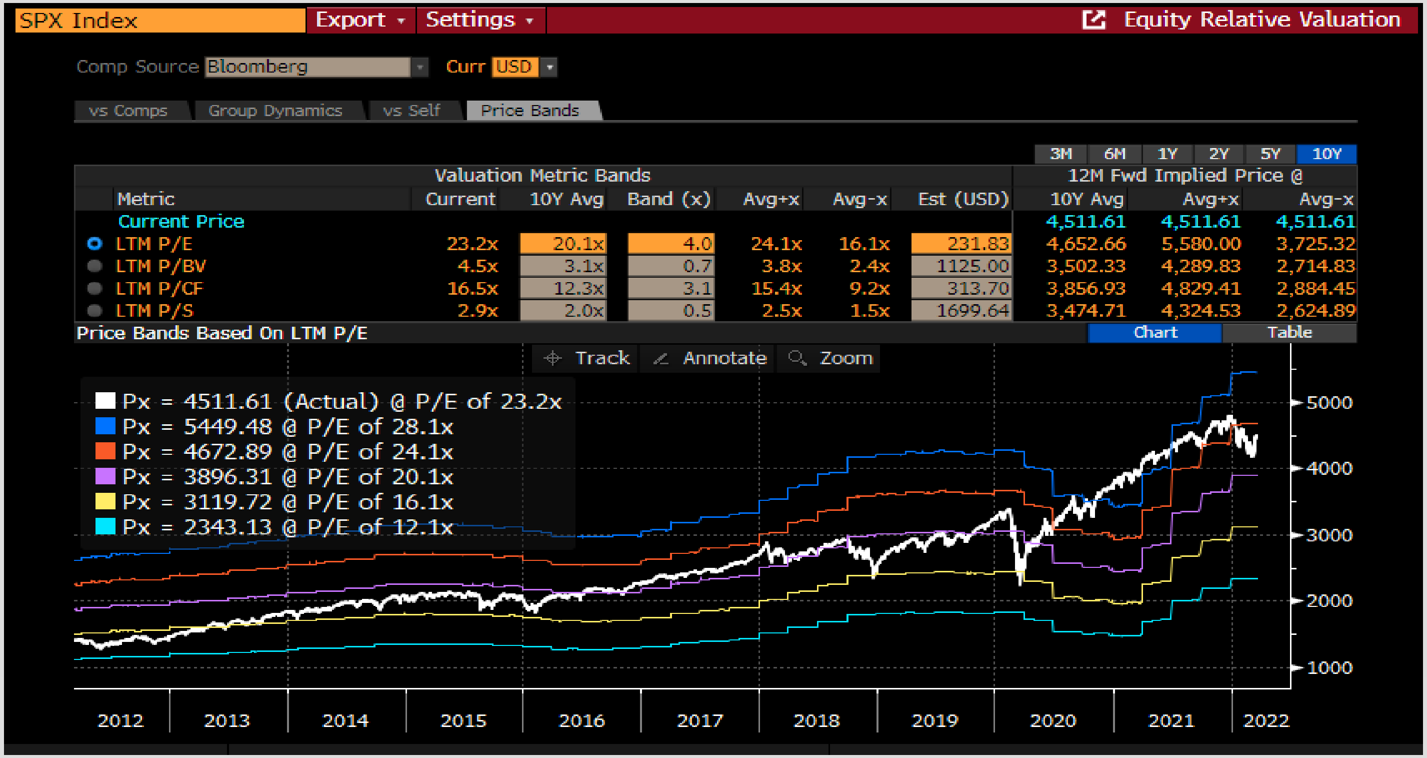
While 2022 estimates are for 6% to 8%, the macro environment makes forecasting earnings very difficult.

Note: Q1 earnings reports in April and May are critical.

What's a fair valuation for those earnings?

S&P 500 still expensive at 23x 2022 estimates (about 15% above 10-yr average of 20x).

Yet within S&P, there are values.



Valuation Metric Bands							12M Fwd Implied Price @		
Metric	Current	10Y Avg	Band (x)	Avg+x	Avg-x	Est (USD)	10Y Avg	Avg+x	Avg-x
Current Price							4,511.61	4,511.61	4,511.61
LTM P/E	23.2x	20.1x	4.0	24.1x	16.1x	231.83	4,652.66	5,580.00	3,725.32
LTM P/BV	4.5x	3.1x	0.7	3.8x	2.4x	1125.00	3,502.33	4,289.83	2,714.83
LTM P/CF	16.5x	12.3x	3.1	15.4x	9.2x	313.70	3,856.93	4,829.41	2,884.45
LTM P/S	2.9x	2.0x	0.5	2.5x	1.5x	1699.64	3,474.71	4,324.53	2,624.89

Q: What About Inflation Tanking the Market?

February CPI 7.9% year-on-year. While some think it may be peaking… it could run at elevated levels for years. Also, March 2022 price spikes are not even in the February number.

A: Inflation is boogeyman for some; tailwind for others. Well-managed business in certain industries can turn inflation into pricing power... fueling above-trend <u>earnings</u> growth.

Inflation Can Provide Tailwinds

Energy

Commodities, materials, precious metals

Real estate

Consumer discretionary
(brands with pricing power)

Financials (only if not accompanied by a recession)

Certain industrials

Companies financed w/ fixed-rate debt

Who is hurt by inflation?

Slow growth utilities

Slow growth consumer staples

Financials with mismatched balance sheets (long-duration, fixed-rate loans, but are funded with short rates)

Companies with fixed-rate contracts…

Long duration, illiquid investments*

Bond Investors

…and the poor

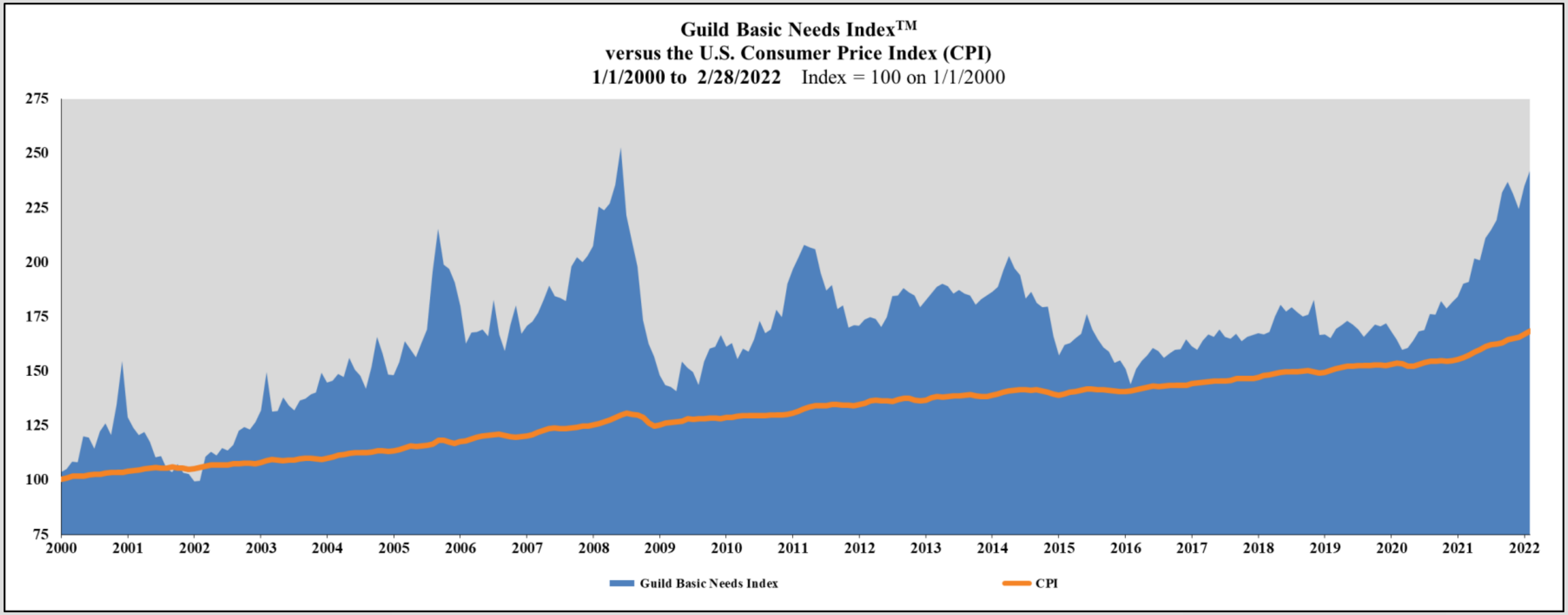
Inflation-Resistant Industries: Tech

Thematic growth stories that remain relevant even in an inflationary environment.

Innovative Fourth Industrial Revolution technologies continue to generate efficiencies; geopolitics, inflation, and higher interest rates won't stop it.

Innovation has pricing power.

Look to software, business digitization, financial technology, cybersecurity, automation, big data, artificial intelligence – all themes that remain relevant… and for companies that can grow earnings.



Index Comparisons For The Period Ending: 2/28/2022	1 year	5 years	Since 1/1/2000
Guild Basic Needs Index ™			
Estimated Total Change For The Period:	27.4%	51.5%	142.0%
Annualized Change:	27.4%	8.7%	4.1%
U.S. Consumer Price Index			
Estimated Total Change For The Period:	7.9%	16.5%	68.6%
Annualized Change:	7.9%	3.1%	2.4%

Q: How to Invest Around Geopolitical Concerns?

- Russia / Ukraine
- US / China
- China / Taiwan
- Middle East
- U.S. Midterms
- Leadership in question around the globe
- Monetary Policy / Currency Accident

A: Stay Liquid, Agile, and Look for Volatility

Russia’s Ukraine Invasion: Source of Potential Shifts

- Freezing of Russia’s currency reserves puts in question what “reserves” actually are.
- Long-term risk of fracturing global trade, financial, and monetary systems. Some markets and instruments may crack.
- Short-term risk of ongoing elevated commodity inflation, financial stress from levered counterparty failure.
- No clear off-ramp from sanctions against Russia… except in the event of regime change.

Can Foreign Do Well In This Environment?

If the dollar falls, and capital flows change...**Yes**

- ***India:*** fast growth, but isn't cheap, innovation and unicorn creation is high
- ***Europe:*** hard to make bullish case, except it is quite cheap. Lacks growth, facing an energy and refugee crisis, and now war within its borders
- ***South Korea*** makes things the world wants, and isn't expensive
- ***Japan*** benefits greatly from global supply chains debottlenecking
- ***Indonesia*** has large growing consumer economy
- ***China***... Investable? In spite of the "Xi put," the prospects for foreign investors hinge on Chinese politics and geopolitics
- **Brazil…** has lots of commodities the world needs, but an upcoming election poses risks

Behavioral Changes with Respect to Commodities and Industrial Materials

Scarcity and disruption spurring large price moves

Agricultural Commodities, Oil & Gas, Uranium, Industrial Metals, Lithium, Rare Earth Elements, etc.

Under-owned sector in institutional portfolios

Companies spent decades looking for efficiencies from “just in time...” now forced to store more “just in case.”

Upstream producers and their suppliers -- many sat out the last bull run, but may lead the next one

Don’t Forget the Important Utility Provided By Precious Metals

Digital assets stole some of gold’s luster… but we believe current events argue strongly for precious metal exposure

Many options for exposure (bullion ETFs, miners, physical possession) -- each has unique costs and risks

With miners, pay particular attention to jurisdiction, property rights, and the rule of law where the reserves are located as contracts are only good if government officials honor them

Contract security is a problem crypto is trying to solve.

Speaking of Crypto, Stay Open Minded

You will be using digital currencies and owning digital assets in coming years, whether you like it or not…

Therefore, be curious, be aware, and keep an open mind.

Various events suggest the utility of "censorship resistant money…"

Especially as currencies, currency reserves, settlement systems, and other financial infrastructure are weaponized under the stress of current conflicts.

Digital Assets and Decentralized Finance: A Revolution In the Making

Two basic areas: digital store of value, and DeFi (decentralized finance).

DeFi = the digitization of the financial universe on blockchain smart contracts, the tokenization of all assets.

High risk, high reward.
Winning platforms might be hundred baggers.

Investment Climate Is Changing

Avoid oversimplifying, respect complexity and nuance

It isn't ***value vs. growth***

It isn't ***tech vs. non-tech***

It isn't ***U.S. vs. foreign***

It isn't ***2020–2021***

It isn't ***2000–2002***

…and it isn't the ***1970s***

Instead…

we want to uncover new bull markets created in 2022

Message for 2022: Invest Differently

Shifting geopolitics have lasting ramifications for: global trade, property rights, government reach, commodity availability, and currency stability.

Markets may seem orderly today, but market functioning should not be taken for granted

The macroeconomic backdrop and reward/risk setup resembles nothing we have seen in recent decades

Commodities (after decades of underperformance) should be a larger part of your portfolio

Why you shouldn't be too bearish on stocks: 1) Companies can grow earnings in a lot of environments. 2) Ultimately, central banks will resume printing as interest rate hikes are predicated on geopolitical stability

2022 Tougher? YES

While commodities look to have promise, here are two examples of why you should not give up on stocks

The Venezuelan Stock Market

The Turkish Stock Market

Discussion and Q&A

If we do not get to your questions, please feel free to send questions to afford@guildinvestment.com, and we will respond.

Or call us: 310-826-8600

www.guildinvestment.com

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