INVESTMENT UPDATE

Have we missed IT?

In our decades of experience, after extended moves higher by the broad markets, investors begin asking us the unanswerable question "have I missed it?" In each instance the "it" refers to something slightly different. Rather than simply dismissing this question, below we have attempted to offer our insights and thoughts on what COULD lie ahead for investors asking that question in mid-2025.

First, allow us to take a brief trip down memory lane. When pondering such a question, one is tempted to reference the 1970's Nifty Fifty (not the popular index of India today), the late 1980's Japanese Real Estate bust, the 1990's Tech Bubble, or the more recent Meme and Pot stock phenomena. In each instance, these ended in pain for a vast majority of investors.

Must the highly appreciated assets of the last 5 years realize a similar fate? Will the rapid appreciation in Cryptocurrencies, Art, and "unicorn" companies end violently? Must the AI-centric companies be dealt a painful "death blow?" Not necessarily.

What is the "it" today?

Looking backwards (as an "armchair quarterback") is a way to insure 100% success as an investor. With the benefit of hindsight, investors would have been well served to have piled into NVDA, PLTR, Cryptocurrencies, and others over the past 5 years. The runup of each of these is truly remarkable. An objective analysis of each cause one to ponder whether there is another big run left or whether other names are more opportune.

What might be in the rear-view mirror?

For the types of names listed above, there may be no end to their growth. They could press higher with limited interruption. History suggests a different idea should also be considered. General Motors was the first $10 Billion company in 1958 and GE the first $100 Billion company in 1995. Microsoft became the most valuable company in 1999 before the market rolled over. From 2005-2011 Exxon topped the list (at a smaller valuation than Microsoft a decade earlier).

We are not predicting doom nor comparing any of today's biggest winners to companies of the past. Instead, we are emphasizing how difficult it has been for the world's most dominant names to stay at the top. Rather than trying to identify the 3-5 "best" names for the decade ahead, we believe it is appropriate to own a basket of professionally managed names that benefit from the compounding effect of earnings growth over time. Being 3 for 5 on next decade's winners would make you historic. Owning those 3 among 50 names is far more probable.

What still lies ahead?

There are themes for the decade ahead that few will debate. AI, reshoring, electrification and power transmissions, infrastructure enhancements and data center expansion are among the leading topics. Pull in adjacencies of data structuring and analytics, logistics, cybersecurity and healthcare innovation and you have a roadmap with immense opportunity. *The challenge: you are not the only one with this roadmap.*

Wall Street and the "market" is a collection of the smartest minds in the world playing "4-D Chess." The stock market functions as competing brilliant minds exchange blows centering around these beliefs. Believing we have unique perspectives in publicly available information is borderline foolish. The biggest winners win DESPITE these factors. Unlike the days of when Peter Lynch ran Fidelity Magellan, access to information is rarely a differentiator in today's markets. Discipline is the single biggest differentiator between the successful and the disappointed.

Should your portfolio be positioning to capture "it" or not?

The only things that should matter to you are YOUR goals and objectives! Owning a collection of "it" names, sectors, or themes may be an appropriate risk to take in meeting your goals. And it may not. As someone wiser than us once said, the shortest distance between two points is a straight line. What if one can meet his/her goals with 100% of the portfolio generating a 6% return? Should we carve off 20% into a bucket seeking 25% plus? Perhaps (but that is a very personal decision made at client-level). That approach also introduces a greater probability of not reaching the goal.

Owning broad market exposure has been an incredibly rewarding experience over the last decade plus. Today's winners (largest index components) have climbed the ranks of the index because of their successes. Tomorrow winners will do likewise. Our belief is that active management can marry that truth with an ability to mitigate a portion of the downside risk (when little is behaving well) for your peace-of-mind and your timeline.

There will always be another "it" name on the horizon. Owning such names early enough, often enough, and on enough scale has been a challenge that has rewarded the select few well and left many others wishing they had resisted the temptation to try to outsmart the markets. A select few opportunities will surface that our team will own in scale across portfolios.

Sometimes the easiest "IT" opportunities are the consensus picks and sometimes it's a contrarian allocation that is rewarded. In 1999 Barron's ran an article titled "What's Wrong, Warren?" questioning the skill of investing legend Warren Buffett. Jean Marie Evillard's early 2000's performance was nothing short of remarkable. Consensus has been rewarded for the last 15 years. Perhaps there's merit to looking a bit away from consensus for what may reward investors in the years ahead!

To discuss what names we believe could reside among the "IT" names for the next few years, please give us a call. We are always grateful to hear from you.

We consider it an honor to serve you and would be grateful for your introduction to other likeminded families.

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