INVESTMENT UPDATE

2025: Another Exceptional Year for Disciplined Investors

Another year marked by turbulence and volatility has rewarded the patient and disciplined investor. Stumbling out of the blocks in 2025, the S&P 500 briefly experienced a -20% correction in early April. What followed was the single largest return day outside of a Recession ever (more than +9% in a single day)...and we were off to whet eventually became the third straight year of double-digit returns.

Achieving double-digit returns required patience and discipline in 2025. Healthy skepticism and a level of defensiveness wasn't punished so long as it didn't devolve into panic and reactionary investing. While 2025 saw some "broadening" of market returns, the pace and cadence of returns in the US were largely dominated by AI-related or AI-adjacent companies.

Below is a look at the top 10 holdings for 4 of the largest US Stock indices. Do you detect a pattern? Concentration can be a double-edged sword. For the last 3 years it has rewarded risk-taking.

Unlike most of the last 15+ years, this year was also marked by outperformance by non-US equities. While US equities struggled through April, non-US managers were posting their largest stretch of outperformance in a decade. While many would have anticipated President Trump's tariff initiatives would have hurt non-US momentum, it seemed to reinvigorate European leaders and drew increased attention to their markets.

Russell 1000 Value		Russell 1000 Growth		S&P 500		Nasdaq 100	
IWD	%	IWF	%	SPY	%	QQQ	%
BRKB	3.08%	NVDA	12.44%	NVDA	7.25%	NVDA	9.24%
JPM	2.93%	AAPL	12.01%	AAPL	7.02%	AAPL	8.72%
GOOGL	2.11%	MSFT	10.58%	MSFT	6.16%	MSFT	7.57%
AMZN	1.96%	AVGO	4.80%	AMZN	3.74%	AVGO	5.68%
GOOG	1.73%	TSLA	4.32%	GOOGL	3.00%	AMZN	5.08%
JNJ	1.68%	AMZN	4.21%	AVGO	2.67%	TSLA	3.82%
XOM	1.66%	GOOGL	3.51%	META	2.45%	GOOGL	3.81%
WMT	1.51%	META	3.35%	GOOGL	2.42%	GOOG	3.57%
BAC	1.14%	GOOGL	2.87%	TSLA	2.28%	META	3.05%
PG	1.14%	LLY	2.70%	BRKB	1.61%	PLTR	2.25%
Top 10	**18.94%**	**Top 10**	**60.79%**	**Top 10**	**38.60%**	**Top 10**	**52.79%**

** Data as of 12/16/25 close from Morningstar*

While the pace of outperformance versus the S&P 500 faded in the back half, investors were again prudent to diversify equity exposure globally. We began ramping up non-US equity exposure in the Fall of 2024 and sit with more than 2x the exposure today vs. where we were a year ago. This isn't a reflection of us making a "market call" but rather a recognition of and appreciation for the opportunity outside the US. With the Trump election, a new catalyst (beyond valuation) overseas emerged!

Below are returns for major indices in 2025:

S&P 500	+17.9%	MSCI EAFE	+31.5%
Russell 2000	+12.8%	Bitcoin ETF	-6.4%
Nasdaq	+20.8%	Gold ETF	+62.3%

2026: Another Year Filled with Twists & Turns

The year ahead can be broken down into a series of key questions (below). Time will tell what other questions we failed to list. We have a high level of confidence that there will be more unexpected outcomes in the year ahead (and we seek to be prepared for anything the markets throw our clients' way).

1.Will the Non-US Momentum Continue?

2.Will US Large Cap Growth post a fourth straight banner year?

3.Will anything unrelated to AI find momentum in 2026?

4.Will the performance of Small Caps finally catch up to the Wall Street narrative?

5.How should one navigate fixed income today?

6.Given the economic backdrop and current market valuations, where/how should one play defense within equities?

7.The economy and markets aren't aligned, are they?

Non-US Viewpoint:

After nearly 2 decades of lagging the US markets, we feel non-US markets have a distinct possibility of performing in-line with or better than US markets over the next 3-5 years. We are not trying to make a "market call" by precisely timing our exposure (we have ramped up non-US/global assets throughout the last 5 quarters). Instead, the case of non-US is no longer one of just hope and attractive valuations. New catalysts have emerged to make exposure to these markets attractive on a larger scale.

Historically, owning non-US markets (along with value-oriented and dividend growing US companies) has provided a diversifying benefit when US large cap growth becomes expensive. A weakening US Dollar has historically also served as a tailwind to non-US equities. With US large cap growth priced at today's levels, we feel the sector exposure, lower valuations, potential currency tailwinds, and potential shift in asset allocations by institutional investors makes a strong case for a larger allocation to non-US equities. Furthermore, for the first time in years, these companies' projected growth is within earshot of their US peers.

US Large Cap Growth Outlook:

With a favorable view of non-US equities, does it necessarily follow that we are bearish US large cap growth? No.

Instead, we view US large cap growth as the lynchpin of performance for the last decade plus. Some of the world's most dominate cash flow machines and most recognizable brands live in this "style box." An investor needs exposure to this segment of the market to continue to participate in the momentum that has led markets higher over that stretch. Companies who miss expectations (ORCL in Q4) have been harshly treated by market participants. That trend will likely continue.

Large cap growth remains an area where valuations have priced in a lot of positive outcomes. According to Bloomberg data, the consensus 2026 EPS growth rate is 14% for the S&P 500. Valuations today sit in the 91st percentile for the last 35 years. Of all parts of one's allocation, this is an area where having a defensive element is prudent!

Anything other than AI?

Among the highest correlations to stock performance in 2025 was the number of times AI was mentioned in one's earnings reports. OK, not literally, but it felt that way. The AI narrative drew more eyes and dollars than any other in 2025 and looks to keep that momentum in the years ahead. Seemingly, every company tied to the AI narrative has seen explosive stock performance in the last 18 months, whether in the semiconductor arena or adjacent in the utility, cooling, and data center spaces.

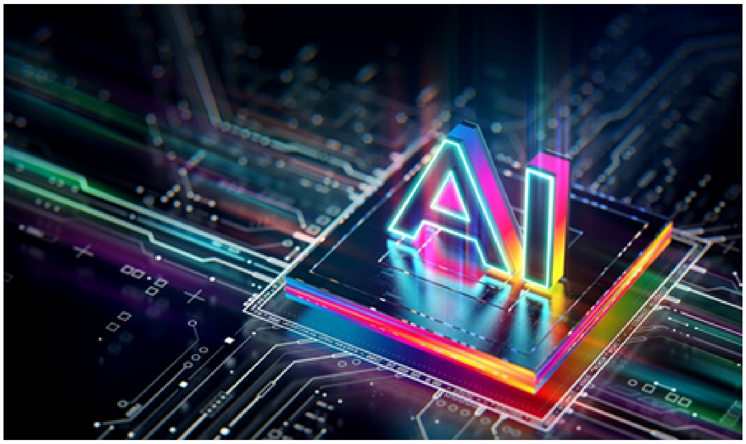
We remain constructive on AI as a long-term driver of increased productivity for the global economy but also recognize that not every AI participant will be a winner. As a PIMCO panelist recently surmised "one of the key outcomes of an arms race is that NOT everyone wins."

Some have suggested that the ultimate "winners" from AI are not even names we know today. Consider that Google conquered the search arena years after AOL and Yahoo battled. Meta emerged years after MySpace burst onto the scene.

As with any new technology, the ultimate beneficiary may be the consumer himself. In a race to develop the best models, there is a high probability that they will eventually converge into similar tools that ultimately becomes commoditized.

This isn't to suggest we don't want to own GOOGL, AMZN, META, MSFT, AVGO, and NVDA! Rather, it is to **emphasize** that we also want to own **meaningful exposure** to those in line to most benefit from what they are spending Trillions to create. Banks, energy companies, biotechnology forms and others are potentially among the biggest enterprise winners from AI…and all trade a far lower P/E multiples than the companies leading the spending spree on AI.

As we've emphasized several times in recent months, price paid for future earnings will again matter! We choose to be patient.



Finally…time for Small Caps?

This is a question, in ways like non-US, that investors have been asking themselves for several years. Both trade below historical valuations and have lagged US Large caps. With Small Cap US stocks, however, the narrative has largely centered around the Fed rate cutting cycle. We remain hesitant to make this asset class a meaningful overweight in our portfolios.

As mentioned earlier, valuation is NOT a catalyst. To paraphrase the late great Charlie Munger, valuations can remain cheap longer that investors can remain disciplined. Today's small caps represent 3 main buckets of stocks: those struggling for survival and unprofitable, those emerging growers who are small and very capital sensitive, and those who seem stuck. Only one of those buckets is particularly appealing.

Fixed Income…back to the basics:

For 3 years we have significantly outpaced the index in fixed income (and with lower realized volatility). Our average bond portfolio outpaced Bloomberg Agg by more than 10% cumulatively over the last 3 years! That is meaningful in both maintaining portfolio balance and risk management. The greater the return of our bond allocation, the less "octane" required from equity to meet our clients' target returns.
Heading into 2026, we see the total return opportunity in fixed income mostly a function of income and less about a tactical duration bet. Furthermore, garnering an additional 1-2% of total return could expose a person to meaningfully greater risk. We see 2026 as a year for taking risk in equities and managing bonds to behave like bonds.

Some of the companies 35-50 years ago that came public as small caps now stay private far longer. Just because the asset class trades cheap relative to history doesn't suggest when/if that will change. In this space, we have primarily focused on 2 strategies for extracting value…cash flow on profitable companies and companies supporting the infrastructure buildout of the AI complex and the reindustrialization of US manufacturing. We have elected to be underweighted to small caps as well as highly selective on specific opportunity sets.

We still regard mortgages and municipal bonds as attractive areas relative to Treasuries. Accordingly, we are largely maintaining a duration of about 2 years lower than the Bloomberg AGG with a yield 1-2% higher. We remain unwilling to sacrifice liquidity to make a big bet in private credit or on the next Federal Reserve move.

Playing Defense in Equities:

For 3 years in a row, the S&P 500 has posted double-digit gains. From the 2022 lows the S&P 500 sits more than 85% higher!

There's no trophy awarded for predicting when this rally will end, but the longer this pace of gains is sustained, the more prudent it is to explore ways to hedge / preserve these gains. Among our preferred tools are cash flow and options-based solutions that allow us to participate in further higher moves with a backstop against a portion of the next drawdown.

Cash flow (dividends and options premiums) provide a source of resilience and capital discipline as these dollars are reinvested. Rather than exclusively generating returns through appreciation, these strategies help nudge the portfolio forward during slow/bumpy times. Consider a year where markets start and end at the same level. If the portfolio generated 5% in cash flow, we would have increased the probability of gains for that year.

We currently own strategies that distribute cash flow above 5% tied to the Nasdaq, Gold, S&P 500, and Russell 2000. A typical 60% stocks and 40% bond portfolios currently generate around 2.4% in annual cash flow. With our current allocations, we are achieving the cash flow of a bond portfolio while maintaining 60% in equities. We are encouraged that this will help us keep pressing forward when choppier times resurface.

The Economy vs. the Markets 2026:

We've written many times over the years about the dichotomy of the stock markets versus the economy. They are inexorably linked, but don't always move as one might suspect. We could see 2026 as another year where the economy sputters and faces challenges, but one where markets either price in the likeliest outcomes and move forward or sputter as it prices in greater odds for pain the economy has yet to face.

In 2026 we will have mid-term elections (often a source of volatility and hesitation for investors). As mentioned above, playing defense and lowering concentration to a single theme is prudent as we head into this year.

For a 60/40 portfolio, the difference between capturing 100% of the index return and 75% of the upside can be the difference between anxiety and calm when index returns shift negatively. If diversification outside the US, to non-AI related and dividend growing companies are rewarded, we will likely be beneficiaries. If we run back a duplicate of 2023-25, we figure to do just fine!

RESPONSIBLY Taking Risk in 2026

The S&P 500 just closed with one of the best 3 year stretches in its history to end 2025. To find a more impressive run, investors must go back more than 25 years.

As we have written countless times recently, these outsized returns don't necessarily have to give way to an epic collapse in equities. Earnings projections for 2026 & 2027 are both more than 10% for US equities. Europe and emerging markets are also likely to post healthy numbers in 2026 as well. Global central banks are largely moving toward their neutral rates, with a bias toward further easing. Fiscally, governments are spending aggressively on security, defense, infrastructure, and building back manufacturing of critically important industries.

All of these could be considered positives for stocks. Nevertheless, US markets have priced in meaningful growth and optimistic outcomes. The US markets trade at higher premiums relative to what is historically considered a normal P/E ratio. For prices to be pushed higher, earnings must likely exceed these expectations. History suggests forward outcomes (given current valuations) could disappoint if earnings begin to disappoint. Finally, demographic trends in much of the developed world are disconcerting as well (low birth rates and a record number of retirees could put further pressure on productivity and fiscal policies).

Put it all together and you can see why this section speaks to RESPONSIBLY taking risks. Having little to no exposure to risk assets is making a bearish market call and has hampered performance for many skeptics over the years. Being fully "long" risk assets is taking the position that risks are limited, a position that we believe shows too little respect for current valuations and risks.

Below is a quick illustration of how capturing less of the upside of markets can mathematically be countered for better performance by losing less. The question, in our opinion isn't whether we will encounter another challenging year, but when. Whether 4 or 5 years is considered, losses dramatically impair compound returns when no "defense" is played.

Market Returns vs. Buffered Outcomes (Hypothetical Illustration)

	Market	15% Buffered
Year 1	20%	15%
Year 2	20%	15%
Year 3	20%	15%
Year 4	-20%	-5%
Annualized	8.43%	9.64%

Market Returns vs. Buffered Outcomes (Hypothetical Illustration)

	Market	15% Buffered
Year 1	20%	15%
Year 2	20%	15%
Year 3	20%	15%
Year 4	20%	15%
Year 5	-20%	-5%
Annualized	10.65%	10.69%

We prefer to take measured risks that rely minimally on a big market call. We are not betting on nor against the markets posting another outsized increase in the coming year. We aren't making a big bet for nor against a specific market sector (although we do believe allocating differently that the broad markets are merited). Rather, we prefer to maintain exposure to further market upside with an additional focus on (1) cash flow generation (2) owning a greater allocation in less expensively priced markets and (3) maintaining a structural hedge to a portion of our equity exposures. We also acknowledge that a weakening US Dollar has ramifications we should consider (adding to gold exposure, commodities, and non-US Equities).

Finally, going into 2026 we have a lot of information. As the year progresses, many data points will allow us to pivot and shift allocations as circumstances dictate. A healthy percentage of our assets are overseen by managers who can move geographically and across sectors. While exactly how it will play out is uncertain, we believe it will be fluid and that ACTIVE portfolio allocations will add value in 2026.

We Want to Hear from You...

2025 marks another great year for our clients and our business. Over the years our practice has grown because of trusted partnerships and strategic relationships in the professional community. We do not advertise! **Our clients find us through people like you.**

Our business spans the country and ranges from young professionals to retirees. We are looking to grow in 2026, and we would be grateful for your assistance!

If any of the items below resonate, please reach out and share your thoughts with us:

- Individuals selling a business, real estate, inheriting money, settling a divorce
- People new to the area
- Individuals transitioning from one job to another
- Skeptics: an investor whose outlook is bleak/cautious or whose window is staring to close to tolerating a lot of volatility is a great fit for our approach
- Professionals looking for a trusted partner to grow alongside

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