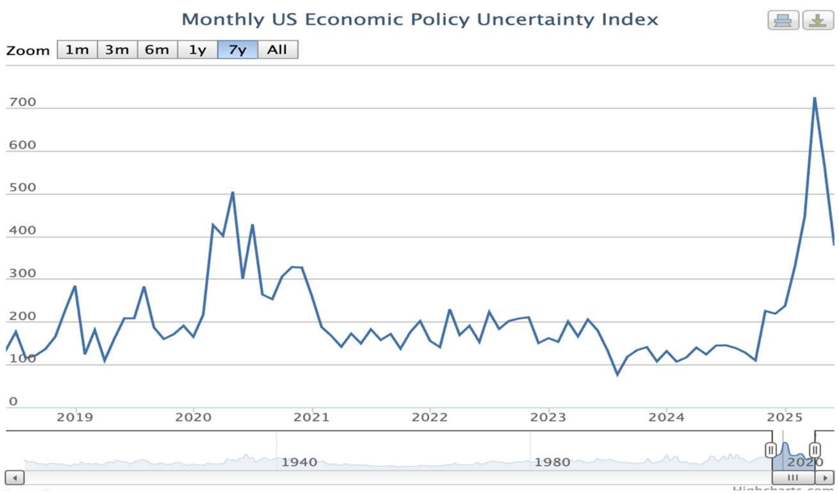
Q2 2025 Investment Update

Current Observations

The **ECONOMY** has softened but continues to grow with U.S. GDP chugging along at about a 2% real growth rate—stripping out the effects of inflation. The unemployment rate is running about 4% which is slightly BELOW economists' normal long-term unemployment rate. One of the concerns is that spending is top-heavy—the top 10% of U.S. households account for roughly 50% of spending. If this well-heeled crowd gets jittery—via stock market volatility or tariff tantrums—spending could weaken.

As shown below, there's still plenty of uncertainty, which commenced shortly after the presidential election in November 2024. Donald Trump upset the apple cart and spilled Honeycrisp, Fuji and Granny Smith varieties up and down Pennsylvania Avenue. Uncertainty among businesses and consumers has slowed decision making and spending. These uncertainty levels have declined since Trump reversed his "Liberation Day" tariff bombshell, but remain near levels associated with the peak of COVID fears in 2020:



After multiple extensions, the current tariff deadline is August 1st for countries yet to sign an agreement with the U.S. We'll see what happens, but consumers and businesses are tariff-weary and would like this process wrapped up so they can plan accordingly.

The Big Beautiful Bill tax bill was signed on July 4, extending the previous tax bill in many ways, while providing some new tax breaks and making certain provisions permanent. Unless a future Congress decides otherwise.

Here's a summary of some of the interesting parts of the new tax bill that might be relevant to your financial situation:

Qualified charitable contributions from IRA distributions can be made up to $108,000 in 2025. If you were planning to give to a qualified charity, and if you are taking IRA distributions, then this might be a good option. Why? Any IRA distribution that goes to a qualified charity would not be taxable, unlike an ordinary IRA distribution, up to the $108,000 limitation.

As an example, let's say you are planning to take a $100,000 distribution from your IRA this year. If you donate $25,000 from your IRA to a charity that you were going to donate to anyway, then you only pay income tax on the remaining $75,000 of IRA distributions. You pay no income tax on the $25,000 charitable donation. Something to think about. Contact us if you would like to discuss this further.

Another worthwhile consideration is 529 Qualified Tuition Plans which can be set up for educational purposes for children, grandchildren, nieces, nephews, friends, really anyone. The key feature of a 529 plan is that the account balance grows tax deferred like an IRA. And here's the kicker, if the funds are spent on education all the earnings are tax-free upon withdrawal. A great way to save for expensive future college costs. Let us know if you want more details.

One additional POTENTIAL TAX BENEFIT of 529 plans is A BIG ONE. The SECURE 2.0 Act of 2024 allows a tax-free rollover from a 529 plan to a Roth IRA with a lifetime limit of $35,000 per beneficiary. The 529 must be open at least 15 years, and the rollover funds must have been held in the 529 for at least 5 years prior to rollover.

Here's another big kicker. When those funds are distributed from the Roth IRA many decades down the road, ALL the earnings will be tax-free. As an example, an 18-year-old who transfers $35,000 from a 529 to a Roth IRA, which then grows at 8% for 40 years, will see the account balance grow to over $2 million. Assuming a 10% return results in just under $4 million. Bottom line? A little planning now combined with the power of long-term compounding can result in millions of dollars of tax-free wealth. Let us know if you'd like more details.

Another major part of the BBB tax bill is the extension of the lifetime estate tax exemption, which was due to expire at the end of this year but has been made permanent. For 2025 each person will be able to EXCLUDE FROM ESTATE TAX up to $13.99 million. In 2026 that exempt amount increases to $15 million per person. Which means a married couple in 2026 will be able to pass on $30 million free of Federal estate tax. Many more estates will be passed on to future generations tax-free because of this tax bill provision.

The BBB also made the current income tax rates permanent, subject to a future Congress that can certainly make changes.

The controversial State and Local Tax (SALT) provisions were also modified and it's a bit complicated to say the least, with many limitations. You'll want to speak with your tax preparer.

One MAJOR NEGATIVE ASPECT of the new tax bill is the continuation of large annual budget deficits, projected at $1.9 trillion for 2025, having averaged roughly 6% of GDP over the past five years. The Congressional Budget Office estimates another $3.4 billion will be added to the national debt, currently around $36 trillion, pushing the national debt to $40 trillion. Where we come from, that's considered real money.

With our national debt around $36 trillion and an interest cost per year of roughly 3% our annual interest cost is running around $1 trillion. Which is more than the United States spends annually on national defense. It gets worse. As the debt is rolled over at now higher interest rates, the annual interest tab will increase. At 4% the interest cost is $1.44 trillion, while 5% raises the cost to $1.8 trillion. In other words, unsustainable at some point.

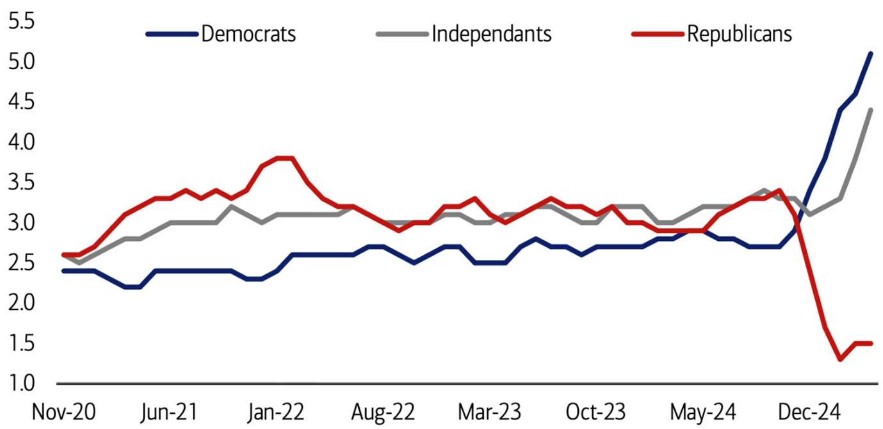
Something must give, but so far, Washington politicians on both the right and the left seem to be disinterested in addressing the growing burden we are placing on future generations. Party now, pay later? Or kicking the can down the road? Whatever you call it, it ain't good.

The way Trump has handled this growing debt is by demanding that Fed chairman Jerome Powell lower interest rates to reduce annual interest costs. Trump publicly asked Powell to lower interest rates up to 3%, which would result in rates of 1%-2%, to stimulate the economy and lower the interest cost of the national debt

Of course, very low interest rates would also stimulate inflation. In other words, completely impractical. The Fed's mandate from Congress is to balance both full employment and stable inflation. We'd also likely have a bond market revolt, as investors demanded much higher yields on U.S. Treasury debt to offset future inflation risks. As in most other areas of life, there is no free lunch in the world of economics.

Speaking of **INFLATION, it** has receded meaningfully from its COVID induced peak of around 9% to just under 3% currently. Below is an amusing look at inflation expectations, according to political affiliation:

Exhibit 1: Inflation expectations have diverged significantly across the political spectrum
5-10 year inflation expectations (%)



Source: U of Michigan

Democrats must believe that an economic boom is coming—or perhaps runaway inflation. Republicans must be anticipating a depression or some magical force that's going to push inflation back down to microscopic levels. Our best guess is that both will prove to be wrong. Remember, we can't predict; we do try to be prepared.

The Federal Reserve Board is concerned about the impact of tariffs on long-term inflation trends, and for that reason has been holding off on interest rate reductions until the tariff dance has concluded.

While it's good to see that inflation has declined, the reality is that prices have not declined. Only the rate of increases has declined. Prices are still high, just not rising as rapidly for groceries, gasoline, restaurants, housing, healthcare, automobiles, etc. If we see outright price declines, we can start to declare victory. Don't hold your breath.

INTEREST RATES are unlikely to decline much in either the short or long-term as the forces pushing rates up are likely balanced by forces that could keep a lid on inflation and thereby interest rates. Short term rates may decline a little bit over the next six months, but that's likely about all investors should expect. The days of 3% mortgage rates are long gone and unlikely to return in the foreseeable future. Higher rates mean more challenges for large ticket purchases such as housing, automobile, sales, business investment, etc. We'd love to be proven wrong and always consider other scenarios such as lower rates.

Financial Market Conditions

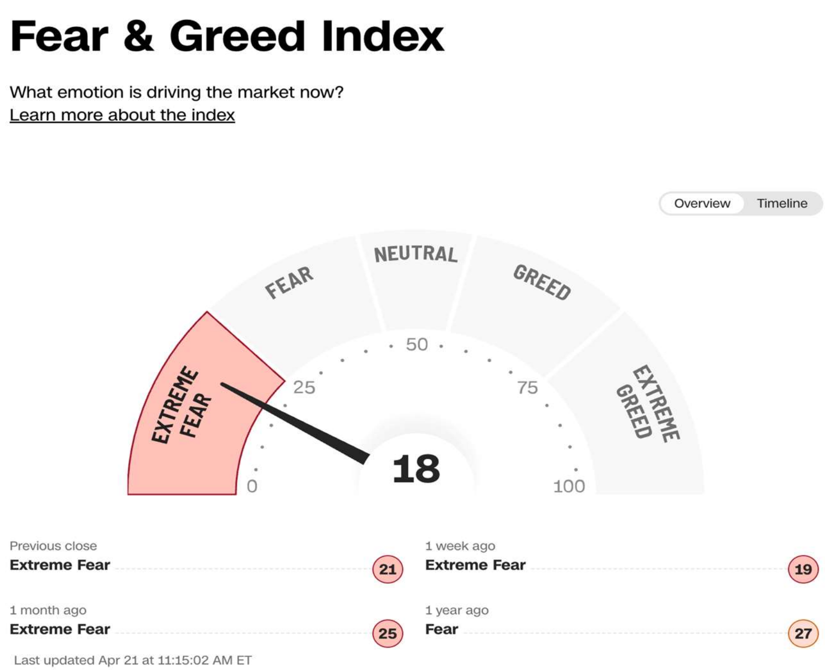
The **STOCK MARKET** has gone from being "tariffied" in early April to a "tariffic" rebound in only three months. In fact, ***the recent rebound has been the fastest on record after a decline of at least 15%, taking only three months for full recovery***. You can thank Trump for the April stock market decline. You can also thank Trump for the subsequent rebound, after he paused the tariff war.

If the current rebound isn't the best example of the futility of predicting short-term stock market movements, we don't know what else could provide greater proof. We preach often, to the point of perhaps client exasperation, that ***trying to time the stock market is a complete waste of time*** and is likely to have a significant detrimental impact on your wealth, and possibly many future generations' wealth.

If people, with human emotions of fear and greed, continue to participate in the stock market, you can and should expect short-term volatility. Just think of our own daily lives. We have good days, and we have bad days. We can go through short-term stretches that seem tough, and other short-term periods that seem like a breeze. We're all ultimately emotional beings. But over the long-term, most people have an inherent tendency to be productive and relatively rational. The same applies to the stock market; emotional in the short-term yet rational in the long-term.

The stock market is no different than a living breathing human, because it's run by humans with all our faults, foibles, frailties, flaws and failings. Now that is some pretty good alliteration, you must admit.

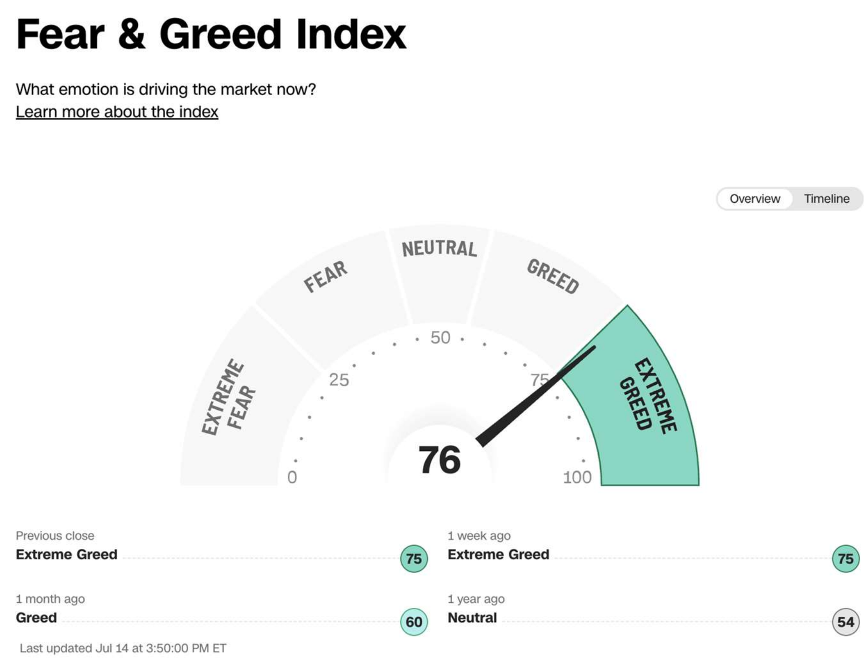
The CNN Fear and Greed Index only three months ago looked like this, in the aftermath of the Trump "Liberation Day" stock market wipeout, solidly in the "***end of the world is coming***" camp:



We cautioned in our last quarter letter that ***"many of the recent stock market departees will find themselves still sitting on the sidelines as the market eventually resumes its upward climb, and they find it difficult to reinvest, expecting another downward move, and a chance to catch the bottom. In our experience, it's unlikely anyone can do that."***

We had no idea the stock market would rebound so quickly—although we are ***never surprised*** by SHORT-TERM stock market volatility, whether it's an upward or downward movement. In the LONG-TERM, we expect the U.S. stock market to reflect the continual progress of the amazingly innovative American productivity machine. Remember, you are invested in the U.S. economy via real businesses, not pieces of paper or stock market ticker symbols.

Right on schedule, the collective lizard brain of the stock market has decided it's time to jump back into the market, as the recent rebound has moved the CNN fear gauge into happy land:



Voila, investors have shifted from extreme fear three months ago to greed today. Now keep in mind this is an imprecise read on investor sentiment, but directionally we think it's worth observing.

Does this change our short term or long-term outlook? Not really. While we were enthusiastic buyers back in early April, we're a bit more cautious today, which doesn't mean we are negative about long-term business prospects.

It's such an easy thing to talk about…yet difficult for so many investors to practice. Think about emotional control. We're talking about a LONG-TERM investing approach to enhance YOUR financial life:

- Creating a financial plan based on YOUR PERSONAL GOALS
- Selecting an APPROPRIATE INVESTMENT ASSET ALLOCATION to meet those goals
- (Most importantly) STICKING WITH THE PLAN THROUGH THE UPS AND DOWNS THAT INEVITABLY—ALWAYS—occur over many years.

While we believe that market timing doesn't work, we also believe that at times the market can get too pessimistic, and too optimistic. We still believe that certain areas of the stock market continue to exhibit what we'd call "**BUBBLE-LIKE**" valuations. We continue to steer clear of these areas and instead STAY FOCUSED ON REAL BUSINESSES, GENERATING REAL SALES, EARNINGS, AND SIGNIFICANT FREE CASH FLOW. It's the best way we know to reliably compound your wealth over time.

FIXED INCOME investments are more attractive now that interest rates are higher than they have been in many years. It's much easier for us to find higher levels of income in relatively attractive fixed income investments. Our focus is shorter-term maturities in case interest rates rise instead of decline. Since fixed income generally fluctuates less than the stock market these holdings can provide a buffer during particularly volatile economic and financial market conditions. However, fixed income is no substitute for the inflation protection and higher appreciation potential available from high-quality stock market investments.

CASH holdings are no longer "trash" since money market yields are around 4% today compared to near 0% years ago. In this environment we don't mind having a little extra cash on hand as it's generating a decent yield while we wait for attractive investment opportunities.

Other Current Topics

While our investment focus is still in the United States, we also pay attention to international events as the current geopolitical situation is the most difficult and dangerous since perhaps World War II. Let us hope World War III isn't on the horizon.

The Trump Administration will likely stay focused on a couple of primary themes over the coming months. We've already touched on tariffs, which will be front and center until agreements are made. We believe it's a matter of months for the tariff situation to be resolved.

Immigration is another Trump focus and border crossings at this point have ground to a halt. We'll see what happens in the future, but you gotta admit Trump hit his goal of reducing illegal border crossings significantly. We applaud sensible border and immigration control.

Lest we forget, we still have plenty of global adversaries, including China, Russia, Iran, North Korea—CRINK—we should have trademarked this acronym, now others are copying us. Oh, also Venezuela, Cuba and a few other dictatorships with failed economies. There seems to be a connection between dictatorships and underperforming or outright failing economies. In our view command

and control economies have a hard time succeeding. We'll see what's in store for our biggest command-and-control adversary—China.

Other global trouble spots include the broader Middle East, although the recent bombing of Iranian nuclear sites and other weapons facilities could compel the Iranian dictatorship to play nicer and abandon its proxy wars in surrounding countries such as Israel, Gaza, Iraq, Lebanon, Syria, Yemen, etc. We hope for peaceful change in the Middle East, but after many decades of strife we are realistic that it will be challenging and perhaps drawn out to reach lasting agreements.

As we mentioned above, China remains the biggest long-term challenge for the United States. Given its enormous population—1.4 billion people now, heading toward 700-800 million by the year 2100 thanks to 35 years of "one child policy"—and global ambitions, we will be contending with the Chinese pressing forward in all parts of the globe.

One of the goals of the Trump administration is to pressure our trading partners to limit their trading with China's economy in exchange for more favorable trade relations with the US. Already many countries are beginning to diversify their supply sources away from China due to ongoing trade pressures. Expect this to continue over the long-term.

No matter what the future holds, we've designed your investments to withstand severe economic environments. For those clients who are drawing distributions from your account, we've planned your account so we won't need to liquidate any significant stock market investments to make your periodic distributions. For those who are not taking current distributions, we don't need to be concerned about monthly distributions, and are focused on long-term growth. Every situation is different, and we structure your investments accordingly.

We've been readers of Berkshire Hathaway annual shareholder reports for many decades, and we continue to find inspiration in chairman Warren Buffett's words. Below are a few excerpts from the 2024 annual report (yes, Buffett is a big booster of the U.S., for good reasons):

"Berkshire shareholders can rest assured that we will forever deploy a substantial majority of their money in equities – mostly American equities although many of these will have international operations of significance. Berkshire will never prefer ownership of cash equivalent assets over the ownership of good businesses…"

"Paper money can see its value evaporate if fiscal folly prevails. In some countries, this reckless practice has become habitual, and, in our country's short history, the U.S. has come close to the edge...Fixed coupon bonds provide no protection against runaway currency."

"Businesses, as well as individuals with desired talents…will usually find a way to cope with monetary instability as long as their goods or services are desired…Lacking such assets as athletic excellence, a wonderful voice, medical or legal skills or, for that matter, any special talents, I have had to rely on equities throughout my life. In effect, I have depended on the success of American businesses, and I will continue to do so."

"Our country's progress over its mere 235 years of existence could not have been imagined even by the most optimistic colonists in 1789, when the constitution was adopted, and the country's energies were unleashed."

"The American process has not always been pretty. Our country has forever had many scoundrels and promoters who seek to take advantage of those who mistakenly trust them with their savings. But even with such malfeasance…and also much deployment of capital that eventually floundered because of brutal competition or disruptive innovation, the savings of Americans have delivered a quantity and quality of output beyond the dreams of any colonist."

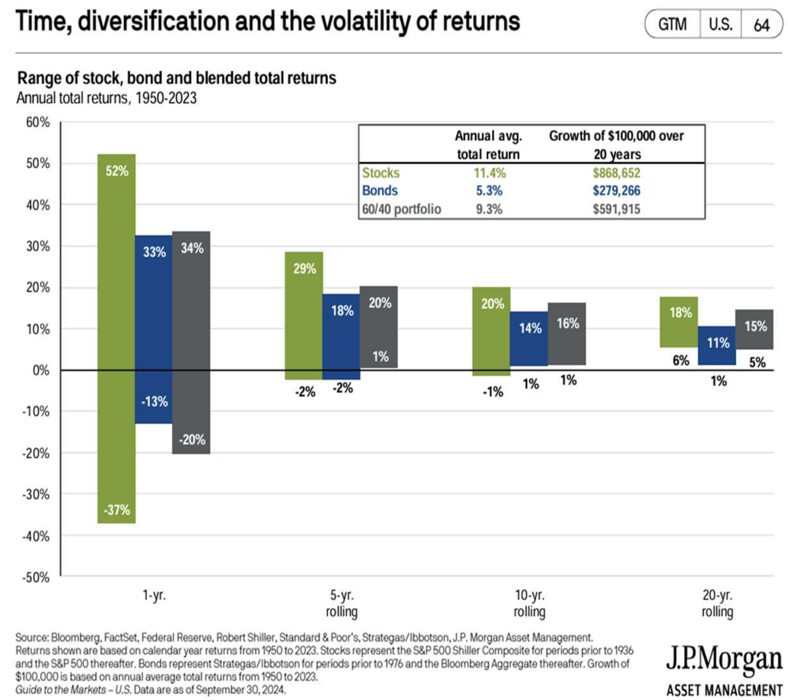
"So thank you, Uncle Sam.…take care of the many who, for no fault of their own, get the short straws in life. They deserve better. And never forget that we need you to maintain a stable currency, and that result requires both wisdom and vigilance on your part."

Let's conclude with some important long-term investment ideas.

We think it's helpful to periodically remind ourselves that investment progress comes ONLY over long periods, as the short-term fluctuations of the economy and markets tend to be smoothed over time. The next chart reminds us that ***as you extend your time horizon, the probability of earning a positive return increases***.

In simple terms, anything can happen over one year, whether it's big gains or big declines. As you extend out to 5-, 10- and 20-year rolling periods, we've seen positive results in just about every period under consideration since 1950. Something to remind yourself the next time the financial media talking head screams at you to dump your investments. That's a road to personal financial disaster, in our opinion.

The other important consideration is that a ***sizable portion of your nest egg*** could be inherited by children, grandchildren, relatives or charitable organizations, so ***the lifespan of your funds is very likely measured in years if not decades beyond your own lifetime.*** Something to ponder very seriously.



General Principles

Together, we are **long-term, goal-focused, planning-driven investors**. We've found in our experience that the best course for you is to formulate a financial plan—and to build portfolios to serve the plan—based **not** on a short-term view of the economy or the markets, but on **your most important lifetime financial goals**.

- Since 1960, the S&P 500 Index has appreciated approximately **76 times**; the cash dividend of the Index has gone up about **33 times**. Over the same period, the Consumer Price Index has increased **10 times**. So historically, **equities have functioned as an extremely efficient hedge against long-term inflation and a generator of real wealth** over time. We believe this is likely to continue in the long run, hence our investment policy of primarily owning successful companies rather than lending to them.

- We believe that **acting continuously on a rational plan**—as distinctly opposed to reacting to current events—offers the best chance for your long-term investment success. The best recent example of sticking to the plan was seeing the market's reaction to COVID. More recently, the Tariff Tantrum. Simply stated: **unless your goals change, there is little reason to alter your financial plan**. And if your portfolio is well-suited to that plan, we don't often make significant changes.

- **We do not believe the economy can be consistently forecast, nor the markets consistently timed**. We're therefore convinced that the most reliable way to capture the long-term return of equities is to ride out their frequent but ultimately temporary declines. In practice, this means being mentally prepared to handle roughly 15% short-term declines annually, and roughly 33% declines every 5 years or so.

- **Avoiding costly changes in reaction to short-term volatility provides you the potential to earn higher long-term returns.**

- The performance of your portfolios relative to their benchmark(s) is irrelevant to your investment success as we define it. **The benchmark we care about is the one that indicates whether you are on track to achieve your financial goals**. **One of the biggest goals is making sure you don't run out of money during your lifetime.**

- Our investment philosophy is to **invest in businesses with a history of providing essential products and services**. We **prefer significant management ownership** to create an alignment of interests with us. **We seek to invest at reasonable prices and hold these exceptional businesses for many years**. Assuming no nuclear annihilation or World War III…we expect this approach will do well over long periods.

As always…please keep us updated with any changes to your financial situation that might suggest altering your asset allocation and investment portfolio and let us know if you'd like a current copy of our Form ADV Part 2.

Your LOYALTY and PATIENCE remain our secret weapons. We value our relationship with you and appreciate the opportunity to continue to serve you and your family. For the long-term.

Thank you for being our client. It is our privilege to serve you.

Sincerely,

John Heldman, CFA Dave Hutchison, CFA

July 21, 2025

"The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and a behavioral discipline that are likely to get you where you want to go. In the end, what matters isn't crossing the finish line before anybody else but just making sure that you do cross it."

-Benjamin Graham, The Intelligent Investor (and Warren Buffett's mentor)

"Forecasts are highly uncertain. Forecasting is very difficult. Forecasters are a humble lot with much to be humble about."

-Jerome Powell, Federal Reserve Board Chairman

Past performance does not guarantee future results. Results are presented net of fees and include the reinvestment of all income. The opinions expressed herein are those of Triad Investment Management, LLC and are subject to change without notice. Consider the investment objectives, risks, and expenses before investing. The information in this presentation should not be considered as a recommendation to buy or sell any particular security and should not be considered as investment advice of any kind. You should not assume that any securities discussed in this report are or will be profitable, or that recommendations we make in the future will be profitable or equal the performance of any securities discussed in this presentation. The report is based on data obtained from sources believed to be reliable but is not guaranteed as being accurate and does not purport to be a complete summary of the available data. Recommendations for the past twelve months are available upon request. In addition to clients, partners and employees or their family members may have a position in any securities mentioned herein.