

Q3 2025 Investment Update

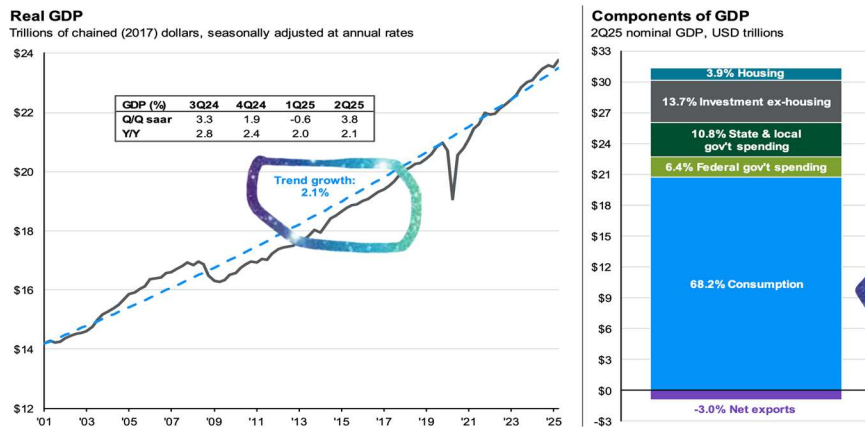
Current Observations

The **ECONOMY** has softened but is still expanding slowly. Labor markets continue to soften, and the Federal Reserve lowered rates last month to combat softer conditions. In the Fed's view, the risks are balanced between inflation and maximum employment. If job growth slows further the Fed will move toward further rate reductions. Should inflation rebound the Fed could pause additional rate reductions.

Why the slowing job growth? Several explanations are possible. Demographics, or aging of the U.S. population and lower births is one reality. Another possibility is increasing productivity due to Artificial Intelligence (A.I.) resulting in lower demand for workers. Lastly, lower levels of immigration have reduced the labor force and job growth.

Here's a look at economic growth over time. Real growth—deducting inflation's impact—averages around 2% over the long run. Note that two thirds of Gross Domestic Product (GDP) is consumer spending:

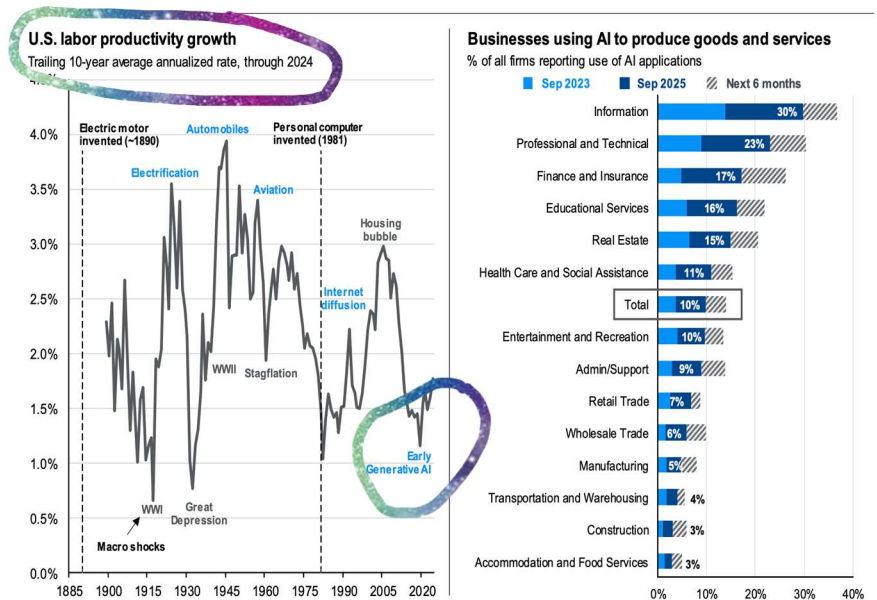
Economic growth and the composition of GDP



A.I. is likely to be a big deal. A very big deal. In our experience so far we can already see the impacts will reverberate throughout the global economy. Below are a couple of charts showing the initial impact of A.I. And we underscore initial, as the impact will only grow over time:

Artificial intelligence: Implementation

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Current labor productivity levels are positive but relatively low. A.I. has the potential to supercharge productivity growth from today's ~ 1.5% up to perhaps 2%-3% annualized levels. While that may not seem like much, an extra 1.5% per year creates a significantly larger economy and per capita wealth over the next 30 years and beyond. A big deal.

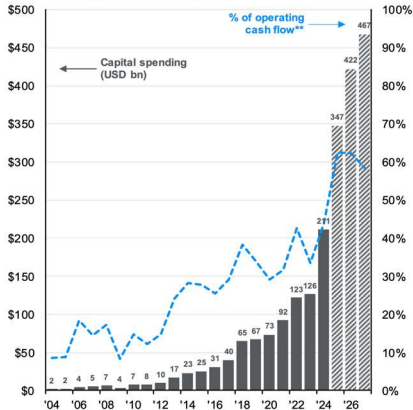
How soon will this enormous investment in A.I. provide economic dividends? We'd guess the benefits will start flowing as soon as a couple years from now. Spending levels are in the hundreds of billions of dollars now, with expectations of trillions of dollars over the next 10 years. Technology companies are responding to demand signals as the current number of estimated A.I. users are 2 billion+ and growing:

Artificial intelligence: Investment

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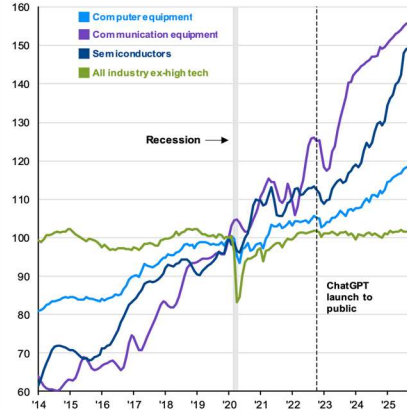
Capex from the major AI hyperscalers*

USD billions; Alphabet, Amazon (AWS), Meta, Microsoft, Oracle



U.S. industrial production of high tech industries

Indexed to 100 in Jan 2020



The major technology companies are spending large sums on A.I. hoping to gain a leading position and not miss out on the potential bonanza. This spending has also boosted the current economy and offset lower spending elsewhere.

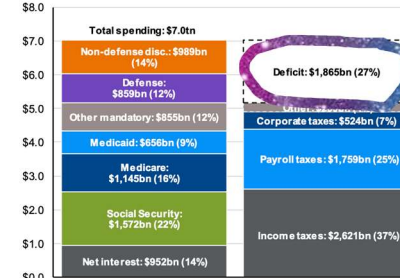
One area of concern is Federal government deficit spending and the need to finance spending through additional borrowing, creating higher levels of national debt. The United States is fortunate that investors around the world have been willing to finance our deficits and buy our debt. However, at some point, the national debt could approach levels that result in financial hardship. That obligation will be transferred to future generations. Here's a look at Uncle Sam's position:

Federal finances

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The 2025 federal budget

USD trillions

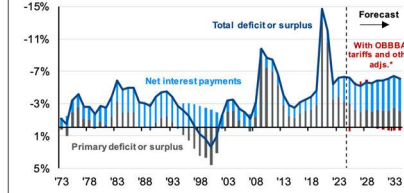


CBO's Baseline economic assumptions

	2025	'26-'27	'28-'29	'30-'35
Real GDP growth	2.2%	1.8%	1.8%	1.8%
10-year Treasury	4.1%	3.9%	3.9%	3.8%
Headline inflation (CPI)	2.3%	2.4%	2.3%	2.2%
Unemployment	4.2%	4.4%	4.4%	4.4%

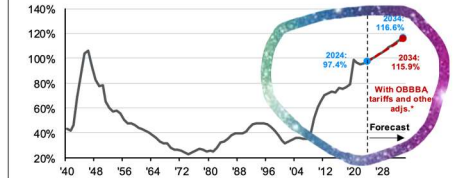
Federal deficit and net interest payments

% of GDP, 1973 - 2034, CBO Baseline Forecast



Federal net debt (accumulated deficits)

% of GDP, 1940 - 2034, CBO Baseline Forecast, end of fiscal year



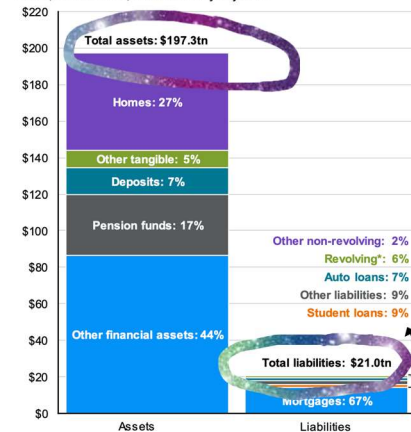
As recently as 20 years ago, our federal debt to GDP ratio was under 40% but is now approaching 100% of GDP and current estimates show the level climbing to 120% or more over time. As an offset to that at least consumer finances are in reasonably good shape:

Consumer finances

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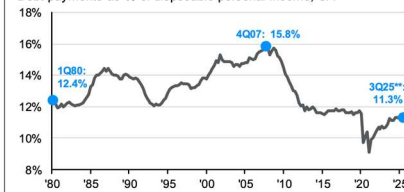
Consumer balance sheet

2Q25, USD trillions, not seasonally adjusted



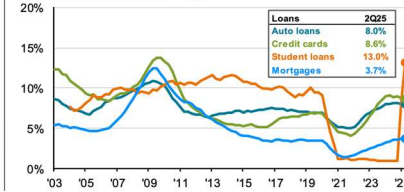
Household debt service ratio

Debt payments as % of disposable personal income, SA



Flows into early delinquencies

% of balance delinquent 30+ days



Consumers have almost \$200 trillion of assets against around \$21 trillion of liabilities. Sounds great, right? Unfortunately, our wealth is heavily concentrated among the top 10% of households, accounting for roughly 50% of consumer spending. So, pat yourself on the back, because that's you, Mr. and Mrs. Client. Most Americans are having a tougher time. Recent reports put the number of consumers concerned about their finances at around 70% currently.

Overall, it appears that the economy will keep growing given strong investment in artificial intelligence and other infrastructure. The new tariff regime along with tax cuts is creating a domestic boom as companies bring investment back into the US. The recent tax bill will reduce tax rates and more Federal Reserve rate cuts will add to the stimulus. We could experience a growing economy through the end of 2026.

INFLATION has receded meaningfully from its COVID induced peak of around 9% to just under 3% currently. We mentioned the productivity benefits of A.I. on long-term inflation, but increased spending on national and global defense, along with A.I. infrastructure and out of control healthcare spending are likely to push inflation in the other direction—up. Where inflation settles longer-term is unknown, but we'd guess rampant inflation is unlikely in the future.

While it's good to see that the inflation rate has declined, prices haven't 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. We're not holding our breath.

INTEREST RATES are poised to decline in the next 6-12 months but beyond that it remains difficult to predict. While A.I. could usher in a new era of higher productivity, lower inflation and lower interest rates, other spending pressures could work against much lower rates. The days of 3% mortgage rates are 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.

Financial Market Conditions

The **STOCK MARKET** has gone from being “tariffed” in early April to a “tariffic” rebound over the past six months. You can thank Mr. Trump for the April stock market decline. You can also thank Trump for the subsequent rebound, after he loosened up on the tariff war.

If this year's stock market 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 future generations' wealth.

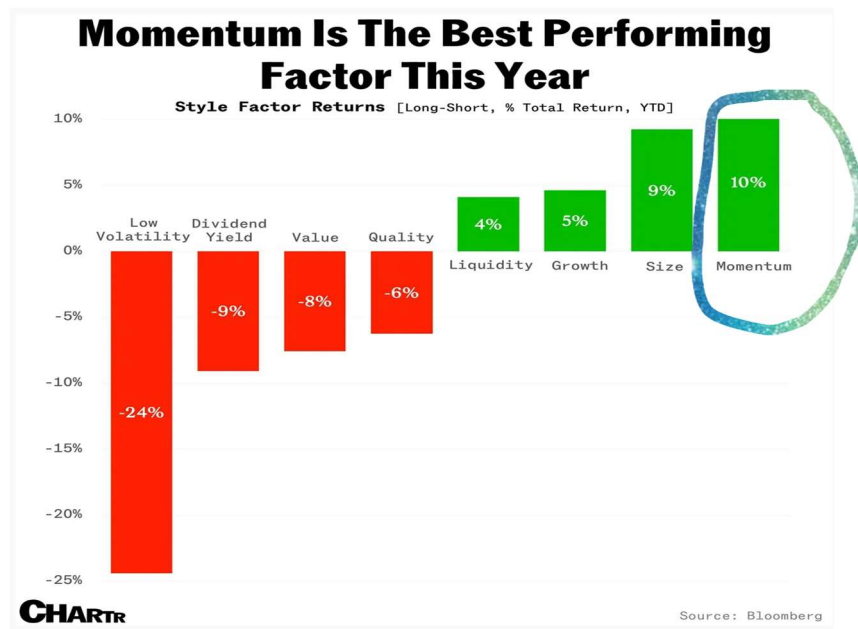
If people, with our human emotions of fear and greed, continue to participate in the stock market, you can and should expect short-term volatility. Just think of our own daily emotions. We have good days, and we have bad days. We can go through short-term stretches that seem tough, and other short-term 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.

While the stock market has been relatively buoyant this year we do believe there are risks that need to be recognized and avoided.

There has been talk of a stock market bubble, partly due to the massive spending on A.I., cryptocurrencies, and other speculative areas of the investment world. We've lived through multiple economic and stock

market bubbles, and *while each bubble is different, the one common denominator is a lack of caution*, tempting many investors to chase after the highflyers without regard to the investment merits.

In fact, many investors simply chase whatever has been going up on the not-so-sophisticated theory that what's gone up will continue to go up. This is called momentum investing, and it's easy to do. You see a stock has doubled? Just buy it. This works until it stops working. When does it stop working? When it stops working. In other words, nobody knows when it stops, but when it does, it can be brutal. Brutal to your net worth. We don't believe in exposing clients to large permanent losses of capital, so we will not participate in the momentum game. The chart below shows how lucrative this approach has been in the short run:



Will we hop on the “momentum” bandwagon to make a few quick bucks?

No.

Our game plan is based on the long-term. Significant investment results only occur over longer periods of time. Years, not weeks or months. Remember, the stock market is where you invest in real businesses, not pieces of paper to be traded like baseball cards.

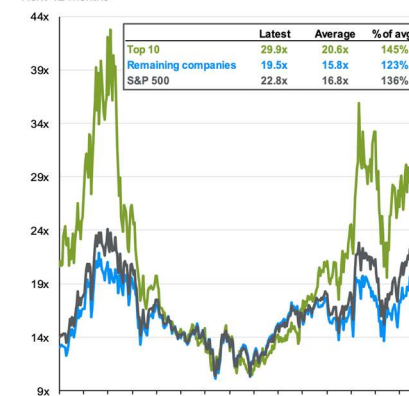
Most stock market investors are familiar with the so-called Magnificent Seven stocks. They are Alphabet/Google, Amazon, Apple, Broadcom, Meta/Facebook, Microsoft and Nvidia. These are real businesses with great customer bases, global reach, good growth potential, strong earnings, and significant free cash flow.

Nothing about the businesses to complain about. On the other hand, these businesses are widely recognized as successful by investors. In fact, these companies have grown to represent a very large percentage of the overall stock market. If we focus on just the top 10 companies in the S&P 500, here's how much they represent of the index:

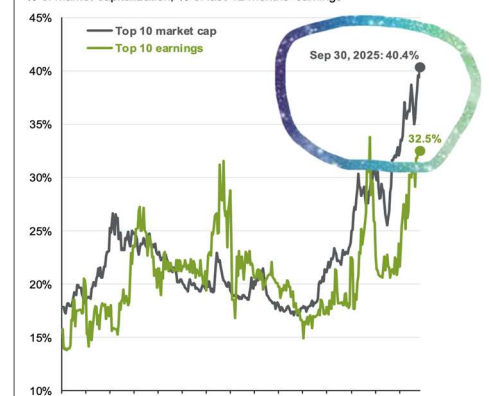
S&P 500: Index concentration

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P/E of top 10 and remaining companies in S&P 500
Next 12 months



Weight of the top 10 companies in the S&P 500
% of market capitalization, % of last 12 months' earnings



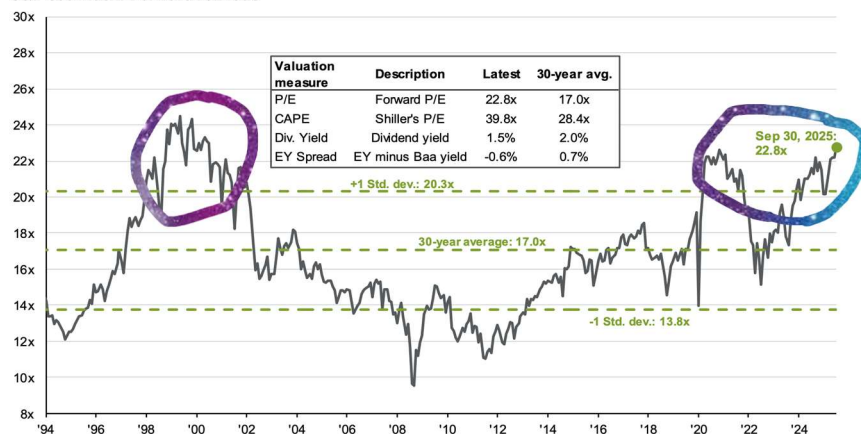
The Magnificent 7 plus 3 other large companies today account for 40% of the value of the entire S&P 500. Think about that. This level of concentration exceeds the crazy “dotcom era” of the late 1990’s when the Top 10 represented 25% of the S&P 500. As recently as 2016, the Top 10 accounted for only 17%. It’s possible that these companies could account for an even higher percentage of the stock market, but that seems very unlikely to us.

Overall, the stock market is trading at lofty levels, and we are being careful about navigating through this environment. Here’s a view of current price/earnings multiples compared to the past 30 years:

S&P 500 valuation measures

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S&P 500 index: Forward P/E ratio



Broadly speaking, P/E multiples have ranged between 10 times and 20 times earnings over the past 30 years. Excluding extreme periods. Such as now. Higher multiples mean investors are willing to pay more for a dollar of earnings. Lower multiples are the opposite. Today’s multiples are roughly in the same neighborhood as the bubble era of the late 1990’s dotcom boom. We lived through that boom and the subsequent bust and we’re here to say it was a bloodbath. For your sake, we aim not to participate in a future bloodbath.

We continue to steer clear of “bubblicious” investments and **STAY FOCUSED ON REAL BUSINESSES, GENERATING REAL SALES, EARNINGS, AND SIGNIFICANT FREE CASH FLOW, AVAILABLE AT REASONABLE VALUATIONS.** It’s the best way we know to reliably compound your wealth over time.

Responsible financial management is an easy thing to talk about...yet difficult for many investors to practice. It’s a rational process based on emotional control. We’re talking about a LONG-TERM approach to protect and enhance YOUR financial life:

- Creating a FINANCIAL PLAN based on YOUR VALUES, DESIRES AND 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.

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 almost 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.

What about gold? While gold has been shining this year—pun intended—over the past 30 years gold has returned about 5% per year. With no income. That’s including the big runup in gold over the past couple of years. Prior to the past few years, gold was a miserable long-term investment speculation. Meanwhile the stock market has trounced gold over the same 30 years earning around 10% per year. Doesn’t seem like much of a difference? Well, \$10,000 invested in stocks for 30 years at 10% grows to about \$175,000. That same amount in gold at 5% grows to about \$43,000 over 30 years. Not even close. Reject gold.

Gold is shining now, but great businesses will shine in the future and shine much longer, in our opinion.

Other Current Topics

While our investment focus is still on the United States, we also pay attention to what else is going on in the world. International events and the current geopolitical situation create the most difficult and dangerous environment 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. Tariffs will continue in the news over the near term. Eventually the tariff drama will die down and life we go on. We live in a very resilient country and people adjust.

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.

The recent Israel/Hamas peace agreement has been negotiated, and we are hopeful that true peace emerges. We have our doubts. Decades of hostility will take time to be resolved, if ever. Perhaps relative peace can be obtained in an area that has seen more than its fair share of strife.

As we mentioned above, China remains the biggest long-term challenge for the United States. Given its enormous population—1.4 billion people now, declining—yes declining—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. Recently, the Chinese government has restricted exports of “rare earth minerals”, which are critical in many technology, industrial and national security related applications. These restrictions were in response to the United States slapping high tariffs on China.

One of the goals of the Trump administration is to pressure our trading partners to limit their trading with China 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.

We believe one of the best defenses against the vagaries and unforeseen risks in the global economy is to hold a portfolio of outstanding businesses that can thrive despite adverse economic conditions.

For those clients who are drawing distributions from your account, we’ve set up your financial plan 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

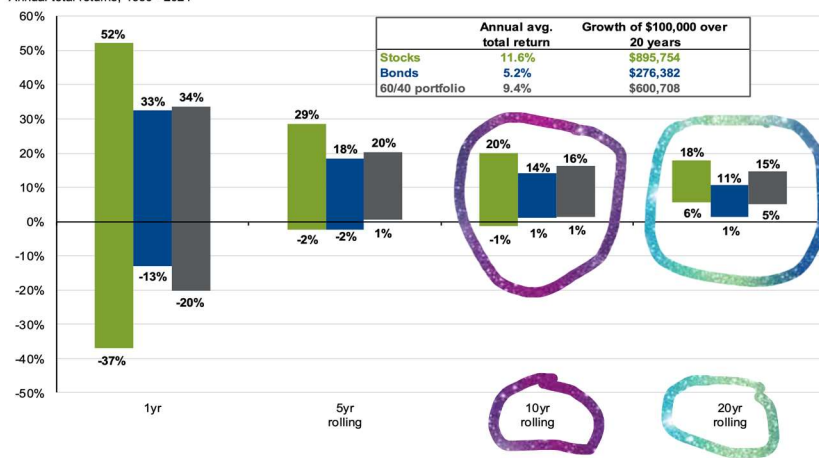
about monthly distributions and are focused on long-term growth. Every situation is different, and we structure your investments accordingly.

We 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*.

Time, diversification and the volatility of returns

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Range of stock, bond and blended total returns
Annual total returns, 1950 - 2024



In simple terms, anything can happen over one year, whether it's large gains or declines. As you extend to 5-10-20-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 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.

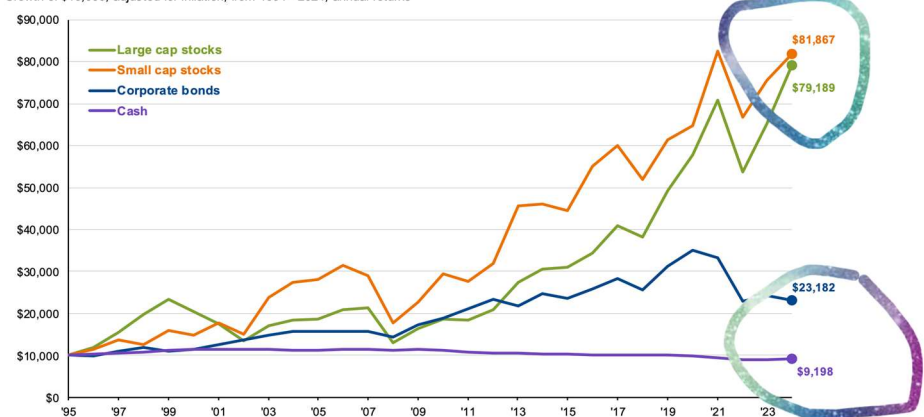
The other powerful concept is the idea of growing your wealth over long periods of time in "real" terms. Which means after considering inflation, the purchasing power of your wealth has grown in real terms so you can buy more goods and services despite higher prices. This concept of real growth of your wealth is something that some investors do not grasp, but we find it to be vitally important.

The chart below shows the tremendous growth of stock market investments in "real" terms, or adjusted for inflation, compared to fixed income and cash over long periods of time.

Risk investing and the power of compounding

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Change in purchasing power by investment in major asset class
Growth of \$10,000, adjusted for inflation, from 1994 - 2024, annual returns



This is how you can protect the real value of your wealth and pass it along, knowing that you have enhanced the ability of future generations to live a better life. It's truly a remarkable legacy.

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

October 23, 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

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