March 13, 2025

Dear Clients and Friends:

This is a challenging letter to write as any discussion of politics these days invokes strong reactions. So, I'll apologize in advance for not saying what you want to hear…or for saying exactly what you want to hear, but with too much equivocation.

In recent weeks, the financial headlines have been filled with a steady stream of concerns about market volatility, tariffs and global uncertainties. As advisors, we understand these headlines can create anxiety, regardless of where you get your news or which perspectives you find most compelling. This market uncertainty can trigger very real emotional responses. Whether you're worried about retirement security, helping your children, or simply preserving what you've worked so hard to build, these concerns are valid and deserve recognition. Financial anxiety isn't just about numbers—it's about the life goals and dreams attached to those numbers. What's important to remember is that these emotional responses are universal, regardless of political viewpoint or news source. The human desire for security and predictability transcends these divisions, and it's something we all share as investors and as people.

I often say that investing should generally be pretty boring. That is to say that engineering a portfolio that shoulders the varying risks of global capitalism is a pretty straightforward thing to do. Unfortunately, investing is rarely boring. This is due largely to the reality that (i) the markets are made up of human beings who are fraught with behavioral biases (both cognitive and emotional) and (ii) that despite our best efforts, the future cannot be predicted with absolute certainty (or any certainty for that matter). I do believe that accepting that reality is a foundational element of being a good investor and ultimately why investing offers return as a reward…because you're willingly bearing the risk of the future. You're enduring the anxiety of the roller coaster.

In talking with clients, it does seem that there is a blending of anxieties. Folks can't help but merge their concerns about the world at large, what I view as concerns as a human being, and conflate them with economic concerns. Whatever your view, our role as financial counselors is to assess the economic risks and how they may impact your financial lives. And the truth is that while the future is unique and history doesn't repeat, it often rhymes. We've seen tariffs before, we've dealt with recessions, and we've adjusted GDP forecasts. As long as you believe that global capitalism exists and will persist in 6 months…18 months…48 months—which I absolutely do—then the underlying premise behind investing still holds. Economies grow over time, so do profits, and this results in stock market growth. Unfortunately, it's an unpredictable ride that doesn't travel in a straight line. Tolerance, discipline, and restraint in the face of provocation from markets is a time-tested way to improve your investment outcomes. The markets ultimately "don't care about red or blue—only green."

Tariffs, Uncertainty & Adjustment

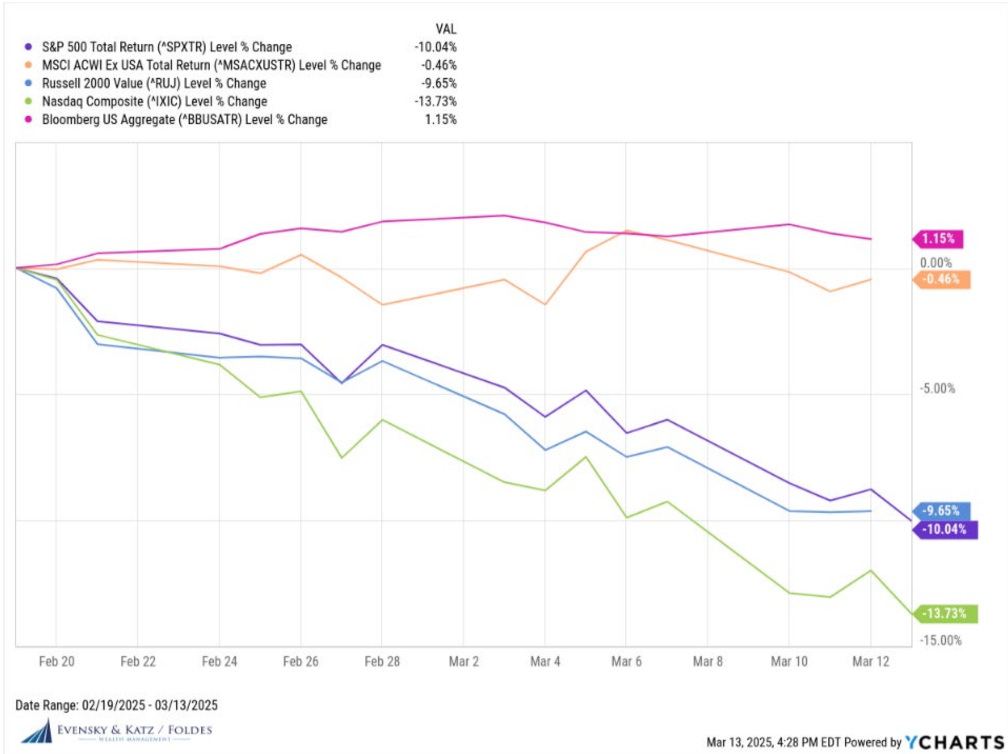
The world at large is adjusting to the new U.S. administration and global investors are no different. Trump 2.0 has injected an increased level of unpredictability into the global economy, and the uncertainty that "flooding the zone" creates for investors is driving much of the volatility in markets. The primary headline has been the escalation of trade wars and the almost daily ping-pong of retaliatory tariffs with some of our biggest trade partners. These tariffs are currently larger and broader-based than those imposed in 2018 and, as a result, are expected to have a more pronounced impact on economic growth and inflation. Current expectations are that if tariff policy holds, U.S. economic growth for 2025 should be reduced by about half a percent, while inflation expectations, which continue to moderate from their recent 2022 highs, may uptick a bit back towards 3%. The big part is the "if tariff policy holds." There is considerable speculation that the daily escalation of tariffs is simply a negotiating tool and that it's possible, perhaps likely, that they'll be far less severe in both amount and time. If so, this would be a reprieve for growth forecasts and by extension, capital markets.

It's also worth mentioning that the President's goals are ultimately to better position the U.S. for international trade. We currently run significant trade deficits around the world, which is to say that we buy more from other countries than we sell to them. In economic terms, this is viewed as lost U.S. economic output (i.e. things that could have been done here are allowed to be done elsewhere). It's well understood that the globalization effort of the past 35 years had the benefit of decreased cost for goods (very low inflation) at the expense of U.S. jobs and manufacturing. The latter showed its strategic importance in Covid when our reliance on Asia was highlighted as a significant Achilles' heel to both our economic and national security interests.

I'm not here to opine on whether a game of tariff chicken will work or not, or if it's a good strategy or bad, only to highlight the uncertainty present in financial markets and how it can make the instruments normally used to price markets go haywire. Instruments that don't work well most certainly make investment pilots take less risk and ultimately fly a little closer to the ground. And playing fast and loose always runs the risk of making a mistake that leads to something "breaking." While the administration may view the tariffs as negotiating leverage, consumers and corporate CEOs may not have the same luxury. Sentiment can be self-fulfilling, which is that it doesn't take an actual recession to have one…the fear or expectation of one can be enough to cause a pullback in economic activity as folks are forced to take a conservative posture or take shelter out of the fear of the unknown. My personal opinion is that the Trump administration will be willing to press harder than Trump 1.0 and will likely tolerate a period of market declines and slower growth. They've signaled as much in their mentions of a period of "detox," an "economy in transition," and a country undergoing an "adjustment." But despite that willingness to press harder to accomplish their longer-term goals, they do ultimately have the "trump card," which is they can remove the tariffs at any time if they don't like how it's going. This leaves me cautiously optimistic that the trade situation can be navigated before too much damage is done and to further allow enough time for some of the pro-growth initiatives (tax cuts and deregulation) to take hold. I'll admit however that that opinion, like a Trump tariff, tends to change on a daily basis.

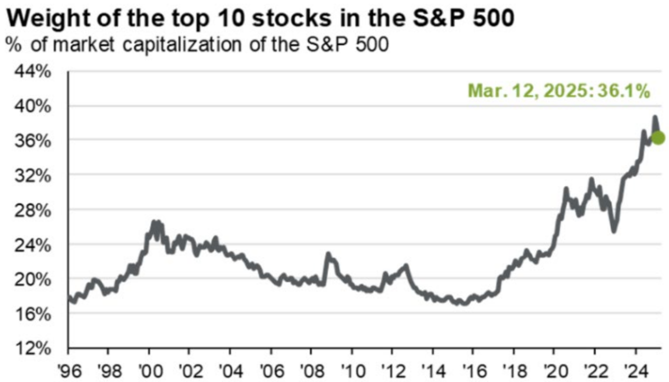
Markets & Diversification

The U.S. stock market as of this writing has officially crossed into "correction" territory, which represents a decline of greater than 10% from its recent February peak. The tech-heavy Nasdaq is down a bit more, roughly -13%, while broader global stocks are doing comparably better, being down approximately 7%. Thus far in 2025, international stocks have outperformed their U.S. counterparts by over 13%. Bonds have produced positive returns. Despite the scary headlines, diversification is working.



Concentration Risk, Trading and Portfolio Rebalancing

Coming into 2025, one of our most pressing agenda items was our concern over the concentration of the top 10 stocks in the S&P500. These stocks (Microsoft, Apple, Nvidia, Amazon, etc.) are no doubt great companies, but they're stocks that had appreciated so much over the past 5 years that they represented almost 40% of the entire U.S. stock market's value. Further, they are considerably more "expensive" than the rest of the market, making the market indices vulnerable to these stocks coming back to earth should their lofty growth expectations even modestly disappoint.



After reviewing our exposure to these large tech stocks, we concluded that our “average” client equity portfolio had reduced this exposure down to 15-20% from the lofty 35-40% concentration found in the S&P500. This is of course due to our diversification into international markets and our tilt towards smaller, cheaper companies. Ultimately, we concluded that this was a sufficient mitigation of this concentration problem. It doesn’t mean we have no exposure, which would bring its own set of risks and tracking error, but we do feel comfortable with the current design.

Another recent Investment Committee initiative was to price and negotiate a new structured note in client portfolios. For those clients with an alternative investment sleeve, we purchased a new note earlier in March. This note was issued by JPMorgan and is similar to a recent Goldman Sachs note that matured at the end of February. The full terms we negotiated are beyond the scope of this note, but focus around downside protection on the S&P500 and an opportunity to earn a 10% coupon over the 18-month maturity. If you’d like to discuss further, we’d be happy to share the full details.

Finally, we continue to review portfolios for rebalancing opportunities. Often this means taking profits on stock holdings that have done very well over the past two years, the past few weeks notwithstanding. In the same breath, I’ll share that we’re cautious about selling stocks during significant volatility and markets that have declined 10% in just a few weeks. We frequently look for ways to accomplish a portfolio's cash flow needs without being forced to sell stock at the wrong time. Each client situation is unique, however, so it’s worth a conversation with your advisor if you’ve got a change in strategy or a sudden cash flow request.

Of course, equity markets can continue to decline. Fortunately, we've built our trading discipline in advance, and as uncomfortable as it may seem, should markets continue to fall, we'll likely start buying stock at these lower prices. It always feels scary to do, because markets are always falling for what feels like a good reason, but it ultimately is prudent portfolio management and tends to help returns over time. In the coming months, we'll continue monitoring markets and adjusting portfolios as needed. We'll be watching not just for risks, but also for opportunities that market volatility can create.

Remember that your financial plan wasn't built on assumptions of perpetual market calm. It was designed with an understanding that volatility is inevitable and that the path to financial security isn't a straight line. Our job isn't to predict the future—it's to prepare for various possibilities and adjust accordingly.

If recent headlines have left you concerned about your financial plan, please don't hesitate to reach out. Sometimes our most valuable service isn't portfolio management but rather the perspective and reassurance that comes from reviewing your planning and confirming that you remain on track despite short-term market movements.

As always, we appreciate the trust you place in us.

Warmest regards,

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