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LOOKING BACK AND LOOKING FORWARD

We're happy to report on another very successful year in our shared pursuit of your lifetime financial goals. Our plan and your portfolio continue to be driven by these goals, rather than by prognostication around the economy or the markets. That will always be the case throughout the coming year, and beyond.

We'll begin by restating some of the core beliefs that guide our planning and investment approach and then offer a few comments about the economic/financial backdrop.

GENERAL PRINCIPLES

- We are long-term, goal-focused investors. Our core investment policy is to pursue your goals by investing in broadly diversified portfolios of high-quality equities and fixed income if appropriate.
- We believe that the economy can't be consistently forecast, nor the markets consistently timed. Moreover, we find no predictable pattern in the way markets react to – or choose to ignore – economic developments.
- We conclude from these beliefs that the only way to be reasonably confident of capturing the full premium return of equities is to ride out their frequent, sometimes significant, but historically always temporary declines.

CURRENT OBSERVATIONS

- In 2025, the broad equity market completed its third straight year of double-digit returns, driven by a strong economy and significantly increased corporate earnings. The S&P ended the year up 16.4%.
- The consensus of analysts' forecasts is for even stronger earnings gains approaching 15% in each of 2026 and 2027 (source: Yardeni Research).
- Remarkably, profit margins have continued to expand—to 13.1% in the third quarter of 2025, the highest in 15 years (source FactSet). One would have thought that inflation in companies' costs colliding with the consumer's resistance to price increases would have been a significant headwind here. So far, at least, one would have been quite wrong.
- The single important weak spot has been the employment picture, which has continued to soften. But even this has its significant bright side: strong economic growth and a flattish employment situation mean that per capita productivity has been rising strongly. Unemployment may have recently ticked up to 4.7%, but the other 95%-plus of the workforce is putting out significantly increased products/services per hour; that allows companies to raise wages without triggering inflation.
- After six straight rate cuts, Federal Reserve monetary policy is 175 basis points looser than it was a year ago, even with sticky CPI inflation still pushing three percent. It seems more than reasonable to expect the lagged effects of all this easing to begin showing up in 2026.
- The middle class in particular is set to enjoy tax refunds this filing season which have been variously estimated around $150 billion, or half a percentage point bump in GDP. The main engines of this are a higher standard deduction and (especially) a temporary restoration of the SALT tax deduction cap to $40,000 from $10,000. This would seem to be a potentially meaningful near-term economic tailwind.
- The fact remains that a very strongly rising equity market may (and indeed should) have taken this data into account—and maybe then some. Thus, the burning question all year long was "Are we in an AI bubble?" This replaced the previous year's burning question "When and by how much will the Fed cut rates?" Which in turn replaced 2023's "Will there be a recession?"
- There can be no question that the broad equity market is more heavily concentrated in a few huge tech stocks—which can't all be going to win the AI race—than it's ever been in our investing lifetimes. And that this concentration has the Index selling at a price/earnings multiple in the neighborhood of its historic peaks. Valuation is not, never was and never will be an effective market timing tool.
- All of this suggests to us that the next significant market shock—and there always is one; they

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"In investing, what is comfortable is rarely profitable."

\- ROBERT ARNOTT

Looking Back and Looking Forward

(continued)

come along with almost the frequency of the crosstown bus—will probably come out of deep left field (in the jargon, an unknown unknown, as opposed to a known unknown like valuation or the national debt). And like all the shocks past, and all those yet to come, it will have very little to do with us, other than as a potential bargain-hunting exercise.

- We are following a plan that has always "worked" in the long run, in that it has ultimately achieved the goals of investors like us. We do not accept that "this time is different" regardless of what "this" may be at any given moment. And thus, we don't adjust our strategy to accommodate the fads or fears of that moment. We don't go to cash during market panics, and we don't bet the ranch on "new era" miracles…like AI.

We wish all our friends and clients — because to us, they're the same—a healthy, happy, and prosperous 2026. We're always here to address your questions and concerns. Thank you for being our clients. It is a privilege to serve you.

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OUR OFFICE WILL BE CLOSED MONDAY, JANUARY 19TH IN HONOR OF MARTIN LUTHER KING DAY.