CLADIS
INVESTMENT ADVISORY, LLC

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JULY 2026

YOUR MID-YEAR LETTER

We're happy to report on the continued progress of our long-term plan during the very eventful first six months of 2026.

Please note that we don't mean "progress" in the narrow sense that our account values rose—although they did. If our account balances were actually down during this period, in one of the equity market's quite frequent drawdowns, the things that matter most to us—the remarkable increases in the earnings of our portfolio companies, as well as our rising dividend income—would still have produced genuine progress toward our goals.

As always, we divide this note into two parts: a restatement of our unchanging investment principles and policies, followed by whatever current observations can sensibly be drawn from this most turbulent half year.

GENERAL PRINCIPLES

- We are goal-focused, plan-driven, long-term equity investors, working over years and even decades toward the attainment of your most important financial goals.
- The sequence of our decision-making process is always: first to quantify your goals, then to make a rational plan for achieving those goals, and finally to create a portfolio whose historic returns seem best suited to your plan.
- Unless your goals change, there should be no reason to alter your plan. And if your plan remains in place, so—broadly speaking—will our portfolio.
- **We do not react to current events of any kind**, be they economic, financial, geopolitical, or whatever.
- We believe that the economy can never be consistently forecast, nor the markets consistently timed.
- Hence, we've decided that to capture the full long-term returns of our equity portfolio, we must remain fully invested in it in "good" markets and "bad."

CURRENT COMMENTARY

- There has rarely in our experience been a more eventful six-month period than the one just past. A major war, severe disruption in energy prices, inflation, the sudden threat of higher rather than lower interest rates, equity valuations near historic highs, extreme concentration in the broad market averages, the total collapse of Bitcoin and the precious metals, and by far the biggest initial public offering in history—around spacecraft, of all things. Have we left anything out?
- How would one go about making rational investment policy out of this maelstrom? The answer—as we believe will be intuitive to all our clients—is that one doesn't, because one can't. It's at such times that we can stand back and almost celebrate such chaos, for one compelling reason: **it has nothing to do with us.**
- As indicated above, we have goals, a plan, and a portfolio as closely aligned with both as we know how to make it. In practice, we are very broadly diversified equity investors, and we rebalance to systematically reduce our exposure to richly valued market sectors so we can increase our ownership in out-of-favor (and perhaps relatively more reasonably valued) areas.
- It will not have escaped your notice that this is the opposite of what most investors do, especially

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"Life is really simple, but we insist on making it complicated."

\- CONFUCIUS

YOUR MID-YEAR LETTER

(continued)

at times like this: they go chasing the market sectors that have already appreciated the most, in the apparent belief that they can only go up even more.

- Meanwhile, we who see ourselves as long-term owners of consistently superior businesses **as distinctly opposed to traders in "the stock market"** can only marvel at the extent to which the earnings of those companies have soared and are continuing to do so. Moreover, their profit margins are at all-time highs, and they continue to raise their dividends, even as they invest in even more innovation and the growth of their businesses.

- None of this is meant to suggest that this hugely emotion-driven equity market can't significantly and even savagely correct at any moment. It can, and if history is any guide, it will—probably when the consensus is least expecting it. And because we know that our inability to time it is total, we will plan to ride it out, as we always have.

We're here to respond to any questions and concerns you may have. Thank you, as always, for being our clients. It is a privilege, and indeed a joy, to serve you.

WE HOPE YOU AND YOUR FAMILY ARE HAVING A WONDERFUL SUMMER!