Investing - A Long & Winding Road

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Over the past five to six months, we have made tactical adjustments to our portfolios in response to inflated valuations of the so-called "Magnificent 7" stocks, the artificial intelligence frenzy, and concerns over potential tariffs post-election in November 2024. This tactical cautionary positioning softened the impact of the material sell-off that occurred over the first 100 days of 2025.

By late April, a rhetorical softening of the initial tariff stance triggered a sharp market reversal, leading to an extended streak of consecutive gains. Although our tactical changes were designed with caution in mind, that caution was targeted toward the risks that we saw, not to be broadly defensive. Thus, when the markets staged a strong recovery in late April, our portfolios were positioned to broadly participate in such a snap-back rally. This wasn't luck—it resulted from forward-looking, risk-calibrated portfolio management, the cornerstone of our active investment process.

Despite reduced tariffs and market stabilization, we remain cautiously optimistic and continue to invest opportunistically, with a slightly more tactical approach than usual. Some portfolio additions, such as those within the European defense sector and select Chinese mega-cap stocks, may become long-term strategic positions, while others—like buffered equity-linked ETFs—serve as short-to-intermediate-term tactical plays. We will incrementally ease our cautious stance as policy uncertainty clears and economic impacts become more evident.

Market volatility amplifies investor sentiment swings, as demonstrated over the past 45 days. While short-term turbulence is inevitable, equities remain one of the longest-horizon investment asset classes. Attempting to time market shifts carries immense risk, not just in exit timing but reentry timing, which is even more critical.

As active portfolio managers, we consistently remind clients that we remain steadfastly optimistic in the long run, whether in the near term, intermediate term, or amid heightened caution. With 25 years of experience navigating bull markets, corrections, and bear cycles, we firmly believe long-term, equity-focused asset allocation is our clients' most effective wealth-building strategy.

Our confidence in long-term equity management stems from our belief in U.S. capitalism. Capitalist economies self-correct, steering markets away from short-term sentiment and toward the boundless opportunity capitalism fosters. More capitalism drives more growth. While global trade currently faces challenges, its long-term benefit to the U.S. economy remains intact. Despite necessary strategic exceptions, lowering trade barriers is in every major economy's best interest. We remain optimistic that capitalism's self-correcting forces will lead to increasingly frictionless global trade, unlocking new pro-growth opportunities.

As always, we deeply appreciate the trust our clients place in our ability to navigate the long, complex road of investing.

Any market indexes discussed are unmanaged, and generally, considered representative of their respective markets. Index performance is not indicative of the past performance of a particular investment. Indexes do not incur management fees, costs, and expenses. Individuals cannot directly invest in unmanaged indexes.

Exchange-traded funds (ETFs) are sold by prospectus. Please consider the investment objectives, risk, charges, and expenses carefully before investing. The prospectus provides a balanced analysis of the investment risks and benefits. Read it carefully before you invest.

- ***The Standard & Poor's 500, or simply the S&P 500, is a stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States. It represents the stock market's performance by reporting the risks and returns of the biggest companies. Investors use it as the benchmark of the overall market, to which all other investments are compared.***
- ***The NASDAQ Composite Index is a large market-cap-weighted index of more than 2,500 stocks, American depositary receipts (ADRs), and real estate investment trusts (REITs), among others. Along with the Dow Jones Average and S&P 500, it is one of the three most-followed indices in US stock markets. The composition of the NASDAQ Composite is heavily weighted towards information technology companies.***
- ***The Dow Jones Industrial Average (DJIA), also known as the Dow 30, is a stock market index that tracks 30 large, publicly owned blue-chip companies trading on the New York Stock Exchange (NYSE) and the Nasdaq.***
- ***The Russell 2000 index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest US stocks. The Russell 2000 serves as a benchmark for small-cap stocks in the United States.***

The Russell 2500 Index measures the performance of the 2,500 smallest companies in the Russell 3000 Index, with a weighted average market capitalization of approximately $4.3 billion, median capitalization of $1.2 billion and market capitalization of the largest company of $18.7 billion.