

Investments Group

January 28, 2026 at 1:30PM

Ron Reedy and Mike Flannery Co-chairs

In-person and Zoom Meeting

Disclaimer: The information provided here is for informational purposes only and does not constitute individual investment advice. Investing involves inherent risks, and past performance is not necessarily indicative of future results. Always consult with a qualified financial professional before making any investment decisions. We are not your financial advisor and no advisor-client relationship is created by your use of this information.

Agenda

- ❖ Markets review
- ❖ Federal Reserve policy – John McDonagh
- ❖ Investment competition scorecard
- ❖ Review of recent interesting investments articles
- ❖ Launch new investments competition for FY 2026. Additional investment options: Gold, Bitcoin, Mag7, Emerging markets, International bonds. Allocation between the 12 options (5 new options plus 7 existing options shown on page 16) due to Ron by 2/6.

Market Update



Market Update – U.S. Equities

<u>Index/Market/Stock</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total US Stock Market	17.2%	23.8%	26.0%	-19.5%	25.7%
S&P 500	17.9%	25.0%	26.3%	-18.2%	28.7%
S&P 500 Equal Weight	11.4%	13.0%	13.8%	-11.5%	29.6%
NASDAQ 100	20.8%	25.9%	54.4%	-32.4%	26.9%
Russell 2000	12.8%	11.5%	15.1%	-21.5%	13.6%
S&P 500 Value Index	13.2%	11.5%	22.2%	-5.2%	24.9%
S&P 500 Growth Index	22.2%	35.8%	30.0%	-29.4%	32.0%

Note: returns/data from outside sources presumed to be reliable

Market Update – International Equities

Index/Market/Stock	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total International Stock Mkt (MSCI ACWI ex-USA)	32.0%	5.5%	15.6%	-16.0%	7.8%
China (CSI 300)	26.0%	14.5%	-12.3%	-25.7%	-3.3%
India (Nifty 50)	2.4%	13.5%	17.4%	1.9%	22.4%
Europe (STOXX 600)	19.8%	8.8%	11.3%	-11.8%	22.3%
Japan (NIKKEI 225)	28.7%	21.3%	28.0%	-9.4%	22.6%
Dollar Index	98.3	108.9	102.4	103.5	96.0

Note: returns/data from outside sources presumed to be reliable

Market Update – Topical/Commodities

<u>Index/Market/Stock</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Magnificent Seven (equal weighted)	23.0%	64.0%	111.0%	-45.0%	
Nvidia	38.9%	171.2%	239.0%	-50.0%	125.0%
Bitcoin	-6.3%	124.8%	164.3%	-64.9%	63.3%
Gold (COMEX)	63.7%	26.0%	13.3%	0.6%	
PCE (at end of period)	2.8%	2.8%	4.9%	5.3%	
Oil (WTI)	-20.3%	-3.0%	0.0%	0.0%	53.0%
Natural Gas (NYMEX near-month futures)	29.0%	19%	-60%	22%	90%

Note: returns/data from outside sources presumed to be reliable

Market Update - Fixed Income

<u>Index/Market/Stock</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
US T Bond 10-year return	4.0%	1.2%	3.9%	-17.8%	
Bond Agg Index return	7.2%	1.2%	5.7%	-13.0%	-1.8%
Intermediate Term Tax-Exempt (Bloomberg Muni 1-15)	5.2%	0.9%	5.3%	-6.0%	0.9%
Cash (Vanguard Fed MMkt Fund)	4.2%	5.2%	5.1%	1.6%	0.0%
10 yr T yield (at end of period)	4.2%	4.6%	3.9%	3.9%	1.5%
2 yr T yield (at end of period)	3.5%	4.3%	4.2%	4.4%	0.73%
Fed Funds (at end of period)	3.6%	4.3%	5.3%	4.3%	0.07%

Note: returns/data from outside sources presumed to be reliable

The Federal Reserve/ QE&QT



John P. McDonagh January 28, 2026

Content

- Why did they create the Fed
- History of The Fed
- Tools of The Fed
- QE&QT



— Cumulative Real Wealth — Peak Cumulative Value ■ Market Crash Episode

■ Logarithmic Scale

WHY?



History of The Fed

- **In the beginning**
- **Changes to the Fed over time**
- **Independence**



Federal Reserve Balance Sheet (1995-2024)

Tracking 30 years of Fed assets, highlighting QE programs and major policy shifts



QE & QT

- The Great Recession
- Covid Pandemic



Friendly Investments Competition

- How would each of you allocate a total of \$100,000 to these options to maximize overall return for 2025:
 - Cash (Vanguard Federal Money Market Fund)
 - Bonds (Bloomberg Float Adj Agg Index)
 - International Stocks (MSCI ACWI ex-US)
 - U.S. Stocks (S&P 500). Can also divide between S&P 500 Growth and S&P 500 Value and S&P 500 Equal Weight
- Rules:
 - \$ investment by asset class submitted by 1/31
 - Return period: full year 2025
 - Will announce who is leading competition at each quarterly meeting
 - Full year winner will be announced at January 2026 meeting
- Note: Average returns by asset class (approx.):
 - Last 20 years: Cash: 1.5%, Bonds: 3%, International Stocks: 5%, U.S. Stocks: 10%
 - Last 10 years: Growth Stocks: 17%, Value Stocks 11%

Friendly Investments Competition Scorecard

	<u>Cash</u>	<u>Bond Agg</u>	<u>Intl</u>	<u>S&P 500</u>	<u>SP Gr</u>	<u>SP Val</u>	<u>SP EW</u>	<u>Total</u>	<u>Value end FY 2025</u>
Number of Players								22	
Top Allocation to Each Option	100	100	40	100	100	100	30		
Average Allocation to Options	7.5	12.7	5.7	12.7	37.5	19.1	4.8	100	
FY Returns by Investment Option	4.2%	7.2%	32.0%	17.9%	22.2%	13.2%	11.4%	16.7	116.7
# players that made FY25									22
Winning player: Jim Albes									122.9

Interesting Articles – Valuation/Forecast

Value Method Points to Rough Years Ahead. WSJ 11/5/25

- Multiple of sales is higher than at any point in history
- Asset-light companies make up more of the index than they did in the past and they earn a lot more profits on their sales
- Cyclically adjusted price earnings ratio just hit 40 for only the second time in history
 - Cyclical peaks have coincided with negative real returns for stocks over the ensuing 10 years
 - Including 1929, 1966 and 2000
 - Long run average CAPE ratio has been 17
 - CAPE ratio has averaged 27 since 1990
- Forecasted annual real returns next 10 years:
 - US large growth: -1.1%, US large: 0.6%, US small: 4.8%, Europe: 5%, Emerging markets: 5.4%, Emerging value: 6.7%

Interesting Articles – Forecasts

How Strategists Tell the Future. WSJ 12/13/25.

- Average forecasted (23 targets) S&P 500 gain for 2026: 11%
- Note: Average projected profit growth is 14%
- If 95% probability: loss of 29% to a gain of 47%
- 50-year average gain: 8.9%
 - But only 2 years in the past 30 did S&P actually rise between 5-10%!

Interesting Articles – Forecasts

Looking at the Odds that the Market Forecasts are Right. NYT. 12/21/25.

- Since 2000, market forecasters, on average, have forecasted an S&P 500 gain each year
 - S&P 500 fell in 7 of 25 calendar years between 2000 and 2024
- Average gain projected: 8.9%, actual average gain 7.7%
- Annual forecast was off by an average of 14.1%!
- Actual performance:
 - up years avg gains of 16%
 - down years avg loss of 16%

Interesting Articles – Forecasts

Your Exuberance is Irrational. The Market is Headed Down. Barrons 1/5/26.

- Mid-term election year
 - S&P 500 ends up just 53% of the time with an average gain of 4.6%
- AI trade unlikely to boost market
 - Only NVDA and Alphabet out-performed the index in 2025
- Expect a 2% gain (last year's forecast was 20% gain)

Interesting Articles – Income Investing

2025 Was Boffo for Bonds. Why a Repeat is Unlikely in 2026. Barron's 1/12/26.

- If Fed cuts short-term rates twice in 2026 (current forecast June and September), long end could actually rise
- Strong growth, higher than average inflation and large budget deficits
- 10-year at 4-4.2% doesn't provide adequate protection when inflation about 3%
- Current yield curve very flat
 - 30 year at 4.8%, Fed Funds at 3.6%, for 1.2% spread
 - Spread was as wide as 3.5% in 1993, 3.3% in 2002 and 3.75% in in 2010, times viewed as good bond buying opportunity

Interesting Articles – Income Investing

Bond Market Worries are Rising. Don't Sell. Barron's 12/22/25.

- Credit spreads-the difference between higher and lower rated bonds-are as tight as they have been in 25-plus years
- Morgan Stanley: Triple easing (monetary, fiscal, regulatory) in 2026 will create another good year
- Focus should be higher-rated bonds, agency mortgages over corporates and shorter-duration

Interesting Articles – Global Stocks

Global Stocks' Great Year Was About More than the Dollar. WSJ 1/3/26.

- MSCI ACWI ex-US rose 33% in 2025 vs 18% for S&P 500
 - Ex-US returns expressed in dollar terms
 - Helped by a 9% decline in the value of the UD dollar (also helped gold and crypto returns)
- Goldman Sachs: all but one of the major national indexes beat the S&P 500 in terms of earnings growth, valuation multiple, dividends and currency adjustments.
- Japan stock market was up 25% even though Yen basically kept pace with USD
- Spain was up 60% in Euro terms
- S. Korea up 100% on a dollar basis
- Most of these markets benefited from a rising PE multiple (still below US PE, which is at 2x average since 2005)
- Yardeni Research: No longer makes sense to over-weight US stocks, as it has done since 2010

Interesting Articles – YE Portfolio Review

Retirees, It's Time For Your Year-End Portfolio Review. Barron's 12/5/25.

- Review asset mix. 2020 60/40 now 76/24 without rebalancing.
- Consolidate your Accounts. Though be cognizant of FDIC limitations (\$250k/ depositor/bank)
- Diversify, truly. One recommendation: keep less than 50% of equities allocation in S&P 500 due to valuations and concentrations. International (35% of world's market cap), small and mid cap, value, equal weight, etc.
- Bonds are back. More normal valuations.
- Manage taxes wisely. Rebalance in 401(k)s. RMD as a rebalancing tool. Transfer appreciated shares to a DAF.
- Note: Calculate last year's cash flow. Check tax return to determine if better ways to manage investments.

Interesting Articles – End of Bull Market Prep

Be Prepared for the End of This Long Bull Market. NYT 11/9/25.

- Assess what effects would be if stocks plunge as deeply as they did in the 4 bear markets since start of 2000
- 15 bear markets starting with the 1929 crash
- S&P 500 dropped 57% in 17 months during 2007-8 GFC and 49% over 30 months after dot-com crash
- Took 29 years to recover from the 1929 crash
- Still, sticking with the stock market over the long run has been the “secret” to investing
 - Since 2000, even with 4 bear markets, average annual return 8.1%
- Always good to review mix of cash, bonds, equities

Interesting Articles – Equities

Should you just buy stocks until you die? WSJ 10/31/25

- New research suggests that all investors – even retirement savers should only hold equities in order to beat inflation over 30-year time horizons (assumed retirement period). Returns from 39 developed countries dating to 1890 were analyzed – the central finding was that bonds tend to go up and down with equities – making them poor diversifiers and with a lower return.
- With equity valuations high, authors acknowledge that this strategy is extraordinarily risky – the found that 12% of the time that investors with a 100% domestic stock portfolio underperformed against inflation. Although in US, a domestic portfolio always beat inflation in their research.
- While equity returns always seem to be best over 30 years, consider the investors that start retirement on 12/31/99 (Investor 1) with \$1MM and another (Investor 2) with the same amount that starts on 12/31/02 and each use the 4% rule related to withdrawals. At the end of 20 years, Investor 1 has \$890M and Investor 2 has \$4MM (not accounting for taxes, fee, or inflation).
- Therefore timing – some might say luck – of when one retires is important and a huge reliance on the future will act like the past. Maybe a few bonds are OK.

Interesting Articles – Global Investments

How to Invest for a Fracturing World. Barron's 1/12/26

- Diversifying globally now makes sense, unlike the last decade plus
- Asia stocks still look attractive. US dominates software, Asia dominates hardware
 - iShares Asia 50
- Europe: banks and tanks
 - Vanguard FTSE Europe (23% financials, 20% industrials- including defense)
- Gold or silver
 - iShares Gold Trust or iShares Silver Trust

Interesting Articles – ACATS

Her Stocks Were Quietly Stolen From Her IRA. NYT 10/3/25.

- Nine securities worth \$120,000 transferred out of her Vanguard IRA without authorization and were sent to an account at Merrill
- Luckily, the transfer was accidentally discovered by her spouse four days later and before the assets could be liquidated/further transferred
- Merrill froze the assets and returned them to Vanguard within a week
- Transfer completed thru ACATS (automated customer account transfer service)
 - System is fast and largely automated, transfer must happen within 3 days of request “verification”
 - Relatively easy to open a brokerage account
 - Transfer requires knowing details of target accounts
 - Brokerages normally send notices only after transfer complete
- Account locking feature available at brokerage firms

Interesting Articles – Trailing Stop Loss

- A stop order exits a long or short position when the price hits a certain level. A trailing stop is simply a stop order that automatically follows—or trails—the market once the price of a security has initially begun moving in a favorable direction. If the market later reverses direction, the stop price will remain fixed, and the exit order will be placed if the stop price is hit.¹
- The goal is to protect existing profits on the trade. Otherwise, if you leave only your initial stop, or none at all, a once-winning trade could turn into a loser.

The Challenge:

- The concept is simple enough. But deciding where to place the trailing stop is challenging. If you set the trailing stop too close to the current price, normal price swings that don't constitute a true reversal could stop you out, leaving money on the table. If the stop is too far away, a true reversal could end up chewing up more of your potential profit than necessary—or even all of it.
- The answer depends on several factors, including the time frame you're trading, the volatility of the market you're trading, and personal choice.

Important

Trailing stops help eliminate emotion when exiting trades, perhaps the most important part of trading.

Interesting Articles – Trailing Stop Loss

The Pros

- Locks in profits: An effective trailing stop can help protect existing profits on a trade while still giving the market room to run. This helps traders stick to the adage to "let your profits run."
- Reduces emotional trading: In addition to protecting your profits, a major benefit of using a trailing stop is that it forces traders to think clearly about their exits before entering a trade and set rules based on the resulting decisions.
- Automates risk management: Most trading platforms will let you automate basic trailing stops, so you don't have to manually adjust your stop as the market moves.
- Especially useful in trending markets: Trailing stops are most effective when used with a trend-following strategy, although they're also handy for protecting yourself in cases of false breakouts from a rangebound market.

Interesting Articles – Trailing Stop Loss

The Cons

- Requires some understanding of technical trading: Making sound decisions in setting a trailing stop requires hard thinking about the market, as well as a basic understanding of technical analysis. Like trading strategies in general, anyone can borrow a strategy for trailing stops. But if you don't understand its logic, it may not be appropriate for the market you're trading.
- Not suited for all market stages or time frames: Different types of exits are better suited for most day trading strategies unless the trading strategy is limited to trend days. Similarly, swing trading by definition is not about riding a trend, so exits are likely best chosen based on price levels or other criteria—trailing stops aren't well-suited for sideways markets.
- Risk of premature exits: If the trailing stop is set too close to the current price, even a moderate surge in volatility can stop a trader out of a still-trending market.
- Potentially creates a taxable event: Discuss with financial advisor – may be best suited in tax advantaged accounts.

Q&A/General Discussion

Open forum

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