

Investments Group

October 22, 2025 at 1:30PM

Ron Reedy and Mike Flannery Co-chairs

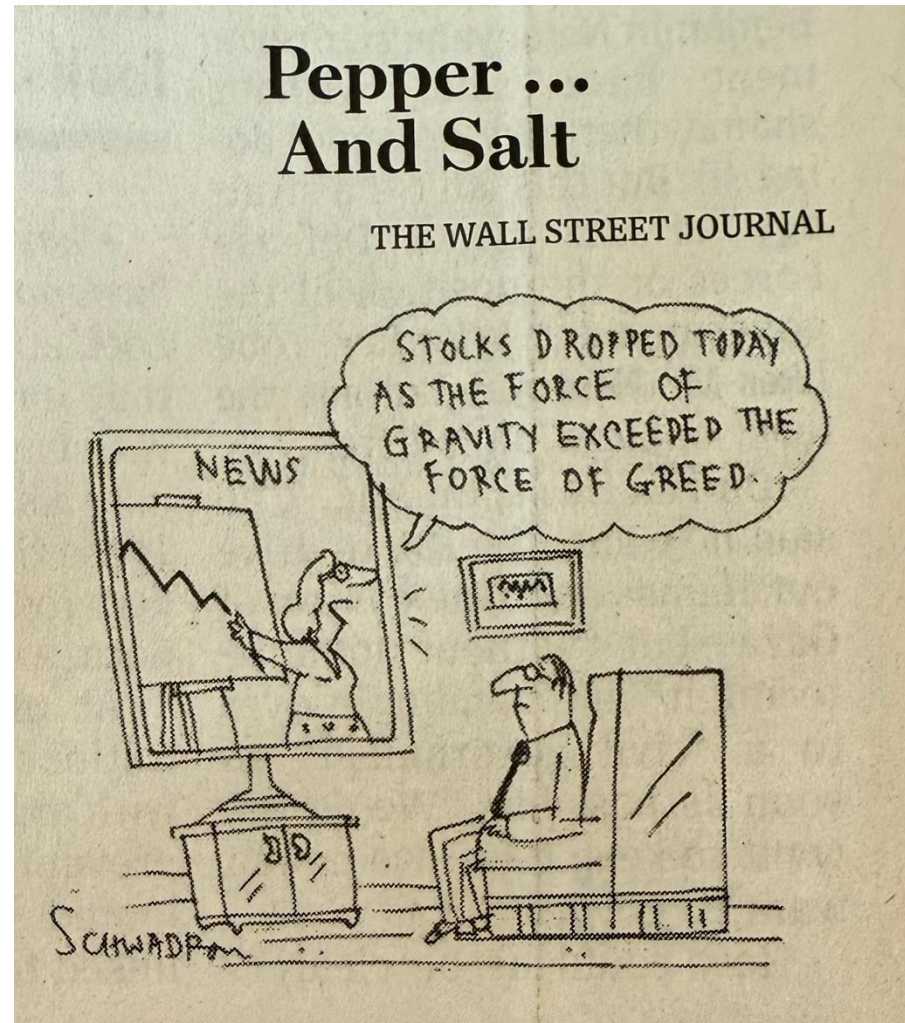
In-person and Zoom Meeting

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Agenda

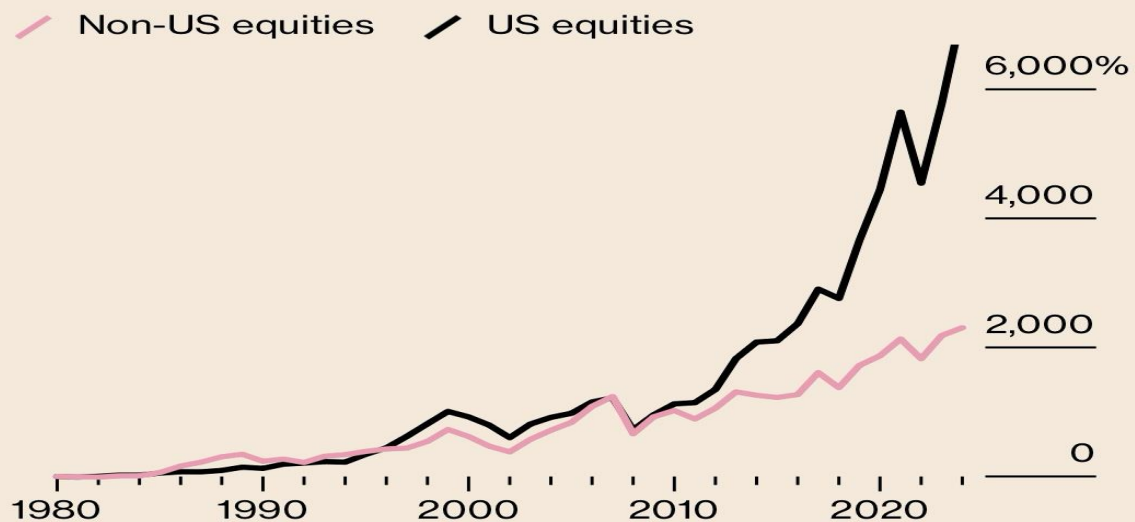
- ❖ Markets review
- ❖ Investment competition scorecard
- ❖ Quiz
- ❖ Review of recent interesting investments articles
- ❖ Crypto/Stablecoins discussion

Market Update



Market Update

Market Return

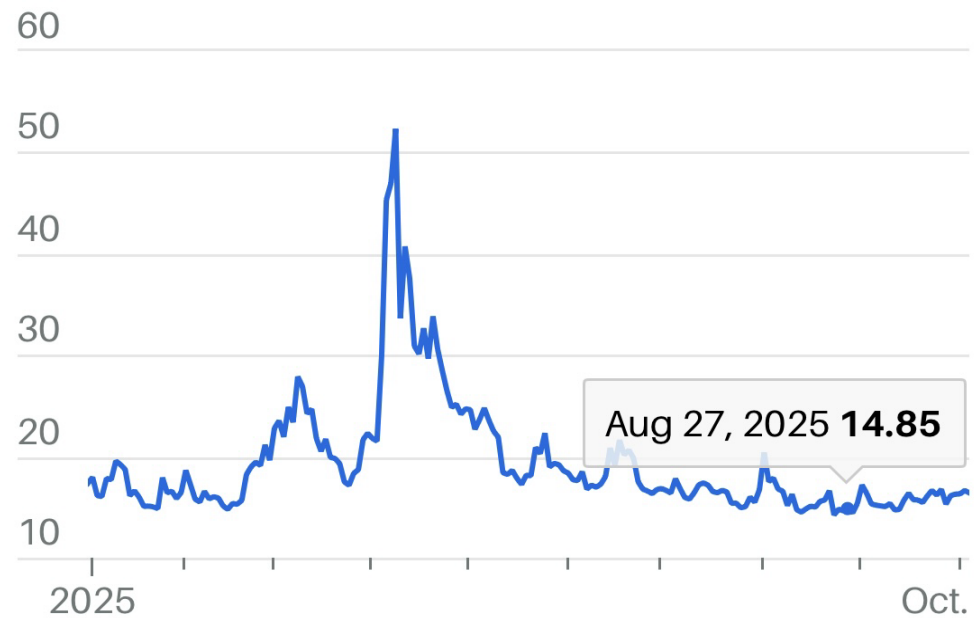


Note: US equities are the Russell 1000 Index; world minus US equities are MSCI world excluding the US index

Source: Bloomberg

Market Update

Wall Street's so-called fear gauge is signaling calm at the moment.



As of Oct. 3, 8:13 a.m. ET

Source: FactSet

Market Update – U.S. Equities

<u>Index/Market/Stock</u>	<u>YTD</u> <u>9/30/25</u>	<u>1 Year</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total US Stock Market	14.4%	17.4%	23.8%	26.0%	-19.5%	25.7%
S&P 500	14.8%	17.6%	25.0%	26.3%	-18.2%	28.7%
S&P 500 Equal Weight	9.9%	7.9%	13.0%	13.8%	-11.5%	29.6%
NASDAQ 100	17.0%	23.0%	25.9%	54.4%	-32.4%	26.9%
Russell 2000	10.4%	10.8%	11.5%	15.1%	-21.5%	13.6%
S&P 500 Value Index	9.2%	6.1%	11.5%	22.2%	-5.2%	24.9%
S&P 500 Growth Index	19.4%	26.7%	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>YTD</u> 9/30/25	<u>1 Year</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total International Stock Mkt (MSCI ACWI ex-USA)	25.9%	16.4%	5.5%	15.6%	-16.0%	7.8%
China (CSI 300)	23.7%	16.6%	14.5%	-12.3%	-25.7%	-3.3%
India (Nifty 50)	-2.3%	-5.4%	13.5%	17.4%	1.9%	22.4%
Europe (STOXX 600)	14.7%	9.6%	8.8%	11.3%	-11.8%	22.3%
Japan (NIKKEI 225)	14.0%	20.3%	21.3%	28.0%	-9.4%	22.6%
Dollar Index	99.0		108.9	102.4	103.5	96.0

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

Market Update – Topical/Commodities

Index/Market/Stock	<u>YTD</u> 9/30/25	<u>1 Year</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Magnificent Seven (equal weighted)	17.6%	37.1%	64.0%	111.0%	-45.0%	
Nvidia	35.0%	50.0%	171.2%	239.0%	-50.0%	125.0%
Bitcoin	27.3%	87.0%	124.8%	164.3%	-64.9%	63.3%
Gold (COMEX)	47.0%	45.0%	26.0%	13.3%	0.6%	
PCE (at end of period)	2.7%		2.8%	4.9%	5.3%	
Oil (WTI)	-13.0%	-16.0%	-3.0%	0.0%	0.0%	53.0%
Natural Gas (NYMEX near-month futures)	-14.7%	53.0%	19%	-60%	22%	90%

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

Market Update - Fixed Income

Index/Market/Stock	<u>YTD</u> 9/30/25	<u>1 Year</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
US T Bond 10-year return	5.1%	2.4%	1.2%	3.9%	-17.8%	
Bond Agg Index return	6.1%	2.9%	1.2%	5.7%	-13.0%	-1.8%
Intermediate Term Tax-Exempt (Bloomberg Muni 1-15)	3.1%	2.2%	0.9%			
Cash (Vanguard Fed MMkt Fund)	3.2%	4.4%	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)	3.6%		4.3%	4.2%	4.4%	0.73%
Fed Funds (at end of period)	4.1%		4.3%	5.3%	4.3%	0.07%

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

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 3Q</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	
YTD Returns by Investment Option	3.2%	6.1%	25.9%	14.8%	19.4%	9.2%	9.9%	13.9%	113.9
# players that made YTD								22	
Leading players: Tom Cahill, John Randolph, Bob Reily, Jack Rosenberg									119.4

Interesting Articles – Quiz

Are You an Investment Genius? WSJ 9/10/25.

- Which of these 4 stocks created most wealth from 1925? Coke, Nvidia, Altria, Apple (\$1 to \$2.7MM)
- If you "only" earned 1% of BH's returns since Buffet took over 60 years ago, did you beat the market?
- If one started with \$1 and invested it in the best performing asset class for the next year and repeated that for the last 100 years, how much \$ would they have? \$10B, \$100B, \$100T, \$10 quintillion (more \$ than exists in the entire world)
- Has "Sell in May and Go Away" been successful since 1950? On a \$10k investment, earned \$3k (May-October) vs. \$1.3MM (Nov-April)
- Bonus Q: Are there more McDonald's restaurants or Private Equity Funds in the U.S.?

Interesting Articles – Valuations

The Market is Riskier – Investors Love It. WSJ 9/13/25.

- Risks:
 - Concentration
 - Top 5 S&P 500 stocks represent 28% of index, up from 12% a decade ago and same as in 1964. In '64, concentration spread across various industries (AT&T, GM, Exxon Mobil).
 - Stocks that dominate the market are heavily exposed to one big bet, generative artificial intelligence.
 - Group think.
 - Editor's note: Forward PE of S&P 500 at 99th percentile, per UBS.

Interesting Articles – Valuations

Why is the Stock Market Ignoring Jack Bogle’s “Iron Rule”? Barron’s 9/1/25.

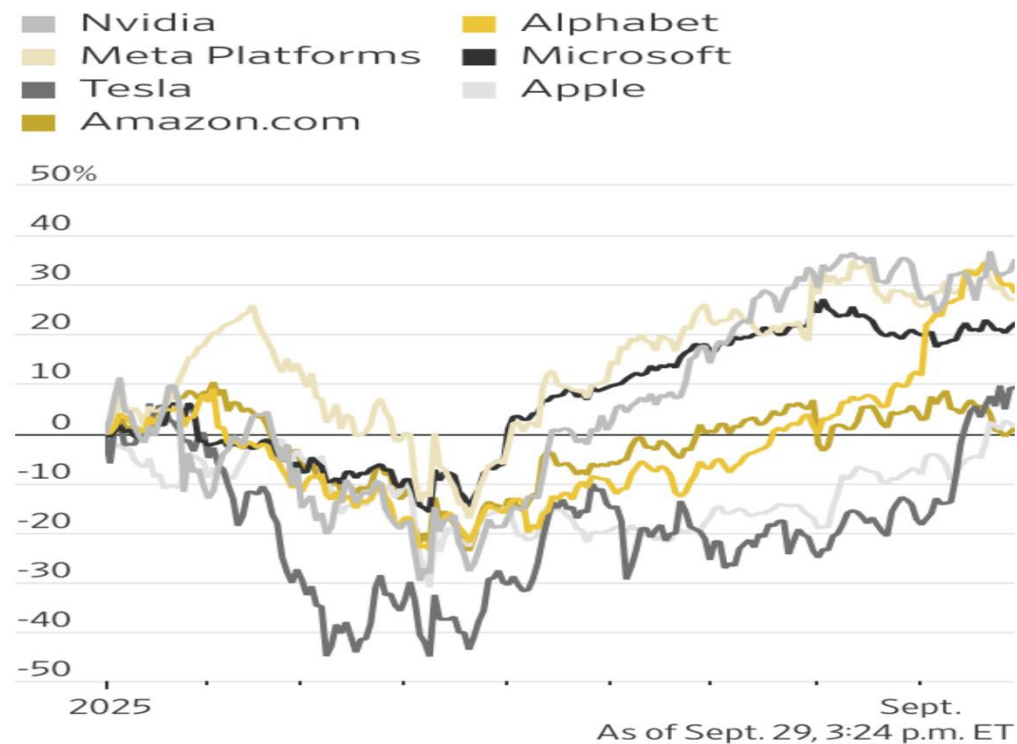
- Iron Rule: Reversion to the Mean.
- Stubbornly high interest rates, a bewildering series of tariffs, slowing job growth, and housing market weakness, and still the market climbs higher.
- Price to book now at 5.34 (exceeding 5.05 in 1999), trailing PE 30x (forward earnings growth projection 13%).
- Passive investing skewing markets. \$17.6T, 53.4% of all mutual funds and ETFs.
 - Investors in passive funds more likely to hold during downturns and reinvest in funds. Leads to more money piling into the market cap heavyweights.
 - Reduced price elasticity, amplified price movements, decreased liquidity, concentrations

Interesting Articles – Valuations

Investors are Fretting that the Stock Market is on Borrowed Time. WSJ 9/30/25.

- Mag seven (36.4% of S&P 500 market cap at 9/30/25) gained 17.6% for first nine months of 2025, with individual performance varying from up 35% for Nvidia to down 0.3% for Amazon.

Share-price performance, this year



Interesting Articles – U.S. Dollar

The US \$ Paradox Explained. NYT 8/19/25

Why is the value of the US\$ falling while stocks keep rising?

- Foreign investors may be spooked by trade-war tension, etc., and are reducing their US\$ currency exposure.
- They still feel the need to be invested in US equities because of strong AI growth prospects. Rather than sell their stakes, they are placing bets against the currency. “It’s not about selling stocks but controlling exposure”.
- US investors haven’t had the same worry, but ignoring currency risk may mean leaving money on the table. Generally, US investors hold too few foreign stocks and bonds. International stocks have underperformed for years, but as of August, they were up 21.9% (MSCI EAFE) vs 9.7% for the S&P 500.

Interesting Articles – Fed Rate Cuts

Rate Cuts are Coming. Here's Where to Look for Loftier Yields. Barron's 9/15/25

- Market is looking for two more rate cuts after the one delivered on 9/17, for a total of 75 bps by YE.
- Forecasters are also looking for another three cuts in '26, to a Fed Funds target of 2.75%-3%.
- Bond market has already factored in rate cuts.
- Suggestions:
 - Invest in T-bills for now (< 1-year maturities). Term premium likely to rise.
 - Corporates look expensive. Near record low extra margin of income.
 - Munis are richly priced too. 10-yr AAA munis yield 73% of comparable Treasuries, vs. an historical range of 75-85%.
 - Investments to consider:
 - Short to intermediate munis rated A- and AA
 - Emerging market debt. Higher yields, benefits from declining dollar

Interesting Articles – Rate Cuts

Make Rate Cuts Work for You With These Investments. Barron's 9/22/25.

- Depends on the number of rate cuts.
 - Since 1976, cyclical sectors beat defensive ones when the Fed cut two or fewer times. In cycles with four or more rate cuts, defensive sectors outperformed over the following six months.
- Defense: Health Care Select Sector SPDR, Consumer Staples (e.g. P&G, Coke, Philip Morris, CVS), certain Energy and Utilities individual stocks
- Cyclical: Certain banks, IShares Core S&P Small Cap ETF, (Tech is very expensive and Industrials also have lofty valuations)
- Bonds:
 - Multisector bond funds: Hartford Strategic Income, PIMCO Income
 - Specialty: Vanguard Mortgage-Backed ETF
 - Foreign: PIMCO Global Bond Opportunities Fund (USD hedged)

Interesting Articles – Income Investing

5 Places Investors Can Still Find Reliable Income. Barron's 9/15/25.

- Stick to maturities of about three to seven years
- Corporates: Oakmark Bond fund, iShares 1-5 Year IG Corp Bond ETF, Vanguard Intermediate-Term Corporate Bond ETF
- Foreign: BrandywineGlobal Global Opportunities (60% U.S.), SPDR Bloomberg International Corporate Bond (20% U.S., 50% Europe)

Interesting Articles – Income Investing

10 Stocks With Strong *Shareholder* Yields. Barron's 9/29/25.

- Picking stocks with high dividend yields is a time-tested strategy. Yet picking stocks with high *shareholder* yields can be a better bet.
- Shareholder yields take into account stock buybacks and dividends.
- Though best to focus on companies that produce enough net income to cover buybacks and dividends.
- Comcast, Molson Coors, General Mills, Kraft Heinz, HP, Devon, EOG, Lenar, Halliburton, Eastman Chemical.
 - Combined stats: 4% dividend yield vs. 1.2% for S&P 500. 9% shareholder yield vs. 2.8% for S&P 500. Trade at 10 times estimated 2026 earnings vs. 22 x for S&P 500. Though down 12% YTD vs. 13% S&P 500 gain.
- Widom Tree U.S. Value ETF (WTV) has a shareholder yield close to 7%.
- Cambria Shareholder Yield ETF (SYLD) selects its stocks based upon dividends, share repurchases and debt reductions and has a shareholder yield of 9%.

Interesting Articles – Markets

Variations on the Classic 60/40 Portfolio to Consider. WSJ 9/6/25.

- 60/40: 60% U.S. Stocks, 40% U.S. Bonds. Last 25 years: 6.9% annualized return.
- 30/40/15/7.5/7.5: 30% stocks, 40% long-term Treasuries, 15% intermediate bonds, including TIPS, 7.5% gold, 7.5% other commodities. Bridgewater. Last 25 years: 6.5%.
- 30/70: 30% stocks (value, small-cap, international), 70% bonds (U.S. IG, international bonds, Treasury bonds with > 10-year maturities). Vanguard. Expensive current valuation of U.S. growth stocks. Last 25 years: 5.6%.
- 25/25/25/25: stocks, bonds, commodities, cash. BofAML. Higher interest rates and inflation lead to an environment where cash and commodities can outperform stocks and bonds. Last 25 years: 4.5%.

Interesting Articles – Mutual Funds vs ETFs

Your Mutual Fund is Now an ETF. What to Expect. Barron's 9/22/25

- Tax efficiency is a big reason for the conversion.
- Mutual funds must pay out taxable capital gains realized when a fund manager sells appreciated stock shares. But ETFs allow managers to hand off their appreciated shares to financial intermediaries without distributing capital gains*.
- Since 2021, 145 mutual funds have converted to ETFs.
- Typically, management fees on ETFs are lower than for mutual funds.
- ETFs have intraday pricing.
- Some investment companies allow investor-initiated tax-free exchanges from mutual funds to ETFs.

* Editors' note: Not all ETFs take advantage of this process.

Interesting Articles – Gold/Commodities

A Golden Age for Uncertainty. WSJ 10/2/25.

- Gold tends to act as a hedge against a range of undesirable things, including inflation and debasement of the dollar and other currencies, but also political and general uncertainty.
- YTD thru 9/30, Gold was up 47%, trouncing the S&P 500 (up 14%). Weakening dollar and the start of a Fed easing cycle have helped drive the gains.
- Silver (up 60%) and platinum (up 75%) also benefited from the current environment but usually perform well when monetary policy is being loosened and economic conditions still are not terrible (as they, unlike gold, have real-world industrial uses).
- Recommended allocation to gold: 5-10% of portfolio.
- Editor's note (per Fortune): Silver has underperformed S&P 500 by 96% since 1921.

Interesting Articles – Crypto

Crypto Crash Course. NYT August 14, 2025

- Cryptocurrencies are digital money not issued by any particular government. Unlike paper currencies, whose value can be at least partly controlled by central bank interventions (think: printing more money), the price of crypto is set by supply and demand. Usually, the more people who want it, the more the price goes up, and vice versa.
- That might be ideal for speculators who want to bet on crypto price swings, but it's a huge drag for anyone who wants to use cryptocurrency to buy stuff. It creates uncertainty about whether a transaction today will cost the same tomorrow (and taxes are due on any capital gain).
- As a result, more people have turned in recent years to a form of cryptocurrency called a stablecoin. Unlike Bitcoin, stablecoins have a fixed value and a price that theoretically doesn't swing up or down. Those being developed now are pegged to the U.S. dollar (and are required to be backed on a 1:1 basis by high quality, liquid assets).

Interesting Articles –Crypto

Crypto Crash Course. NYT August 14, 2025 (continued)

What is happening?

- Now the biggest banks in the country — Chase, Bank of America and Citi, among them — are planning to launch their own stablecoins. Retailers like Amazon and Walmart are also studying coins of their own. This is all newly permissible under the GENIUS Act, a bipartisan law passed this summer with encouragement from the banks.
- The law is significant for a couple of reasons:
 - Eliminating cash: It created a way for banks to offer customers stablecoins instead of handing back their money in cash. The stablecoins have to be exchangeable for U.S. dollars.
 - Keeping the interest: Unlike the interest accrued in your checking and savings accounts, the law tells banks to keep the interest earned on stablecoins. If you have \$25,000 in a high-yield savings account that pays 4 percent annually, you amass \$1,000 every year. You'd forego that with stablecoins.

Interesting Articles – Crypto

Crypto Crash Course. NYT August 14, 2025 (continued)

- Bank executives told me they foresaw a not-too-distant future in which banks direct people with checking accounts to exchange their money for stablecoins. You could then use those stablecoins to buy things instead of using cash or credit cards. Banks' stablecoins could be available as early as next year.
- The benefits?
 - For you, this could potentially mean low fees and fast speeds for tricky transactions like overseas transfers.
- The drawbacks?
 - Beyond losing interest on accounts, you would also forgo the federal insurance that pays back depositors in the event of a bank failure. That's because the regulators treat stablecoin accounts as "investments," not ordinary deposits. In short, your accounts would have fewer protections than they do now.
 - Almost every banker I spoke to brought up a historical parallel: The so-called Wildcat banking era of the 1800s, in which small state banks issued competing currencies with little oversight from Washington. Mini financial crises ensued as tiny currencies crashed — and the federal government had to intervene.

Interesting Articles – Crypto

Stablecoins Could Upend the Old Financial Order. NYT 8/13/25

- Stablecoins work like a digital i.o.u. Their value is pegged to the U.S. dollar, unlike cryptocurrencies like Bitcoin, which have no such constraint and thus can swing wildly in price.
- Here's how they would work at scale:
 - A bank customer places his or her cash with the bank and gets a stash of stablecoins in return. The consumer can then use these coins, for instance, to send money overseas or make international payments less expensively than wiring money. The funds that a customer exchanges in return for stablecoins is, to the bank, the equivalent of a guaranteed profit.
 - That's because a federal law passed this summer with bipartisan support requires banks to take the money they receive for stablecoins and invest it in government bonds and other virtually risk-free assets. Those bonds generate interest, which the bank keeps. Unlike traditional bank accounts, these savings don't earn even nominal interest for depositors.

Interesting Articles – Crypto

Stablecoins Could Upend the Old Financial Order. NYT 8/13/25 (continued)

Another big change:

- Stablecoins eschew the century-old practice of automatic federal deposit insurance. If they fail, there is no guarantee of a government backstop.
- Bankers say stablecoins, if widely adopted, could bring a radical change to the nuts and bolts of their industry, and they have the potential to upend a century of accepted banking practices. One reason is that the money that a customer places with a bank in exchange for a stablecoin cannot be lent out in the same way that money placed in a traditional checking and savings account can be.
- Any dollar that goes into a stablecoin and not a consumer's traditional bank account essentially shrinks the size of a bank's lending book and the bank's deposit base overall. This means banks could have fewer deposits to make home or business loans with, which the Federal Reserve Bank of Kansas City last week warned could carry unintended consequences for the economy.

Interesting Articles – Crypto

Stablecoins Could Upend the Old Financial Order. NYT 8/13/25 (continued)

- “The genie is out of the bottle,” said Mike Cagney, a former chief executive of SoFi and now the head of the digital lender Figure. He predicted that the rise of stablecoins would come at the expense of bank deposits. “You don’t need a lot of deposit flight to really buckle the banks,” Mr. Cagney said.
- Not everyone agrees that the result will be cataclysmic.
- “The consumer checking account is probably safe,” said Tim Spence, the chief executive of Fifth Third, a Cincinnati bank with \$210 billion in assets that traces its roots back to 1858. It plans to accept stablecoins issued by a large group of banks.

Interesting Articles – Crypto

Stablecoins, Money-Market Funds and the S&L Crisis. WSJ 9/15/25.

- U.S. Treasury report: Stablecoins could lure \$6.6T in bank deposit outflows.
- Outflow of deposits to money market funds led to the S&L Crisis in the late 1970's to the late 1980's. S&L's were forced to borrow ST at high rates to match money market rates but were receiving much lower rates on 30-year fixed mortgages. 1,400 S&Ls collapsed, as did the U.S. housing market. 1,600 commercial banks also failed.
- New regs don't allow stablecoins to pay interest but no there are no such limitation on crypto exchanges and other intermediaries.
- Washington needs to be alert to risks and act as needed.

Interesting Articles – Crypto

Everyone is Along for the Ride Now, Even if it Ends Badly. Barron's 8/7/25.

- Trump administration published a 160 page road map for embedding crypto in Americans' everyday life.
- Lawsuits/investigations dropped. Encouraging banks to become active.
- Crypto prices have soared since Trump's election. Bitcoin up 71% to \$116k, Ether up 56%.
- Recent history suggests stablecoins may be riskier than other forms of payment.
 - In 2023, the value of Circle Internet Group's USDC, the biggest U.S.-based stablecoin (\$60B market cap), dropped to as low as 88 cents on the dollar on crypto exchanges after the company revealed that 8% of its reserves were locked up in in Silicon Valley Bank, which subsequently failed. Note that after the U.S. Government agreed to bailout unsecured depositors, the token recovered.
- SEC is exploring ways to allow companies to quickly begin offering "tokenized securities" – essentially stocks that trade 24 hours a day, seven days a week, on blockchains.

Interesting Articles – Crypto

The \$300T Fat-finger Mistake Exposes Crypto's Greatest Flaw. Barron's 10/16/25.

- Paxos, which handles a cryptocurrency pegged to the dollar on behalf of PayPal, accidentally digitally printed \$300T worth of digital assets on Wednesday. Corrected 30 minutes later.
- Dollar-pegged stablecoins are the heart of the crypto economy and are widely used as a form of collateral in trading as well as a main on-ramp and off-ramp between fiat currency and crypto markets.
- It was the meltdown of TerraUSD (think FTX) that caused the 2022 crypto crash and worries over the backing and dollar peg of Tether, the third largest digital asset by market cap, have also rattled markets in the past.
- Bitcoin is decentralized. Stablecoins are centralized and thus carry concentration risks.

Q&A/General Discussion

Open forum

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