3 Market Myths Debunked & Investment Team Q&A

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With more than 80 years of collective experience in a wide variety of market environments, the California Team maintains a consistent approach of buying relatively undervalued stocks for their appreciation potential.

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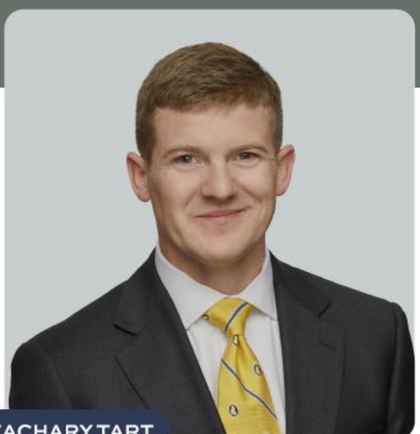

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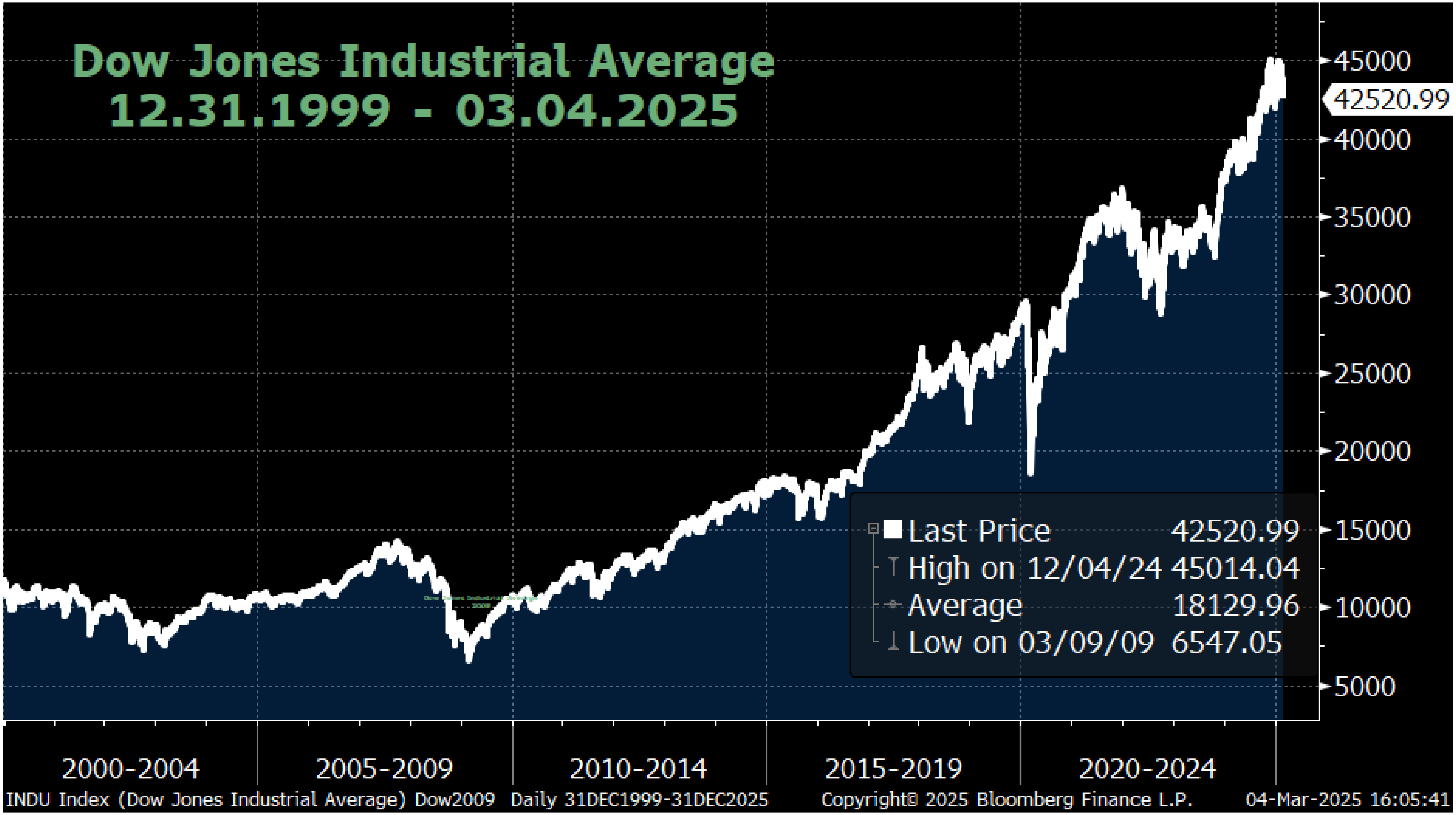
"The secret to making money in stocks is not to get scared out of them."

—Peter Lynch

"In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497."

— Warren Buffett



Dow Jones Industrial Average
12.31.1999 - 03.04.2025
45000
42520.99
40000
35000
30000
25000
20000
15000
10000
5000
Last Price 42520.99
High on 12/04/24 45014.04
Average 18129.96
Low on 03/09/09 6547.05
2000-2004
2005-2009
2010-2014
2015-2019
2020-2024
INDU Index (Dow Jones Industrial Average) Dow2009 Daily 31DEC1999-31DEC2025
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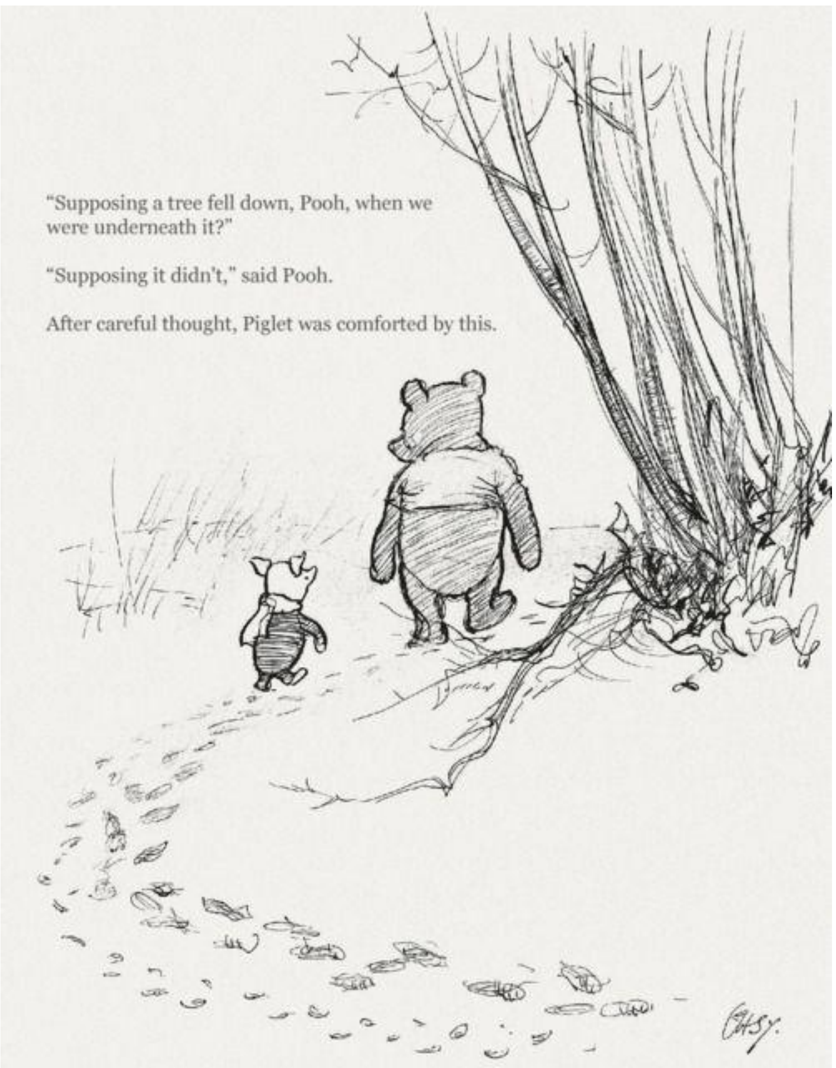
There is usually something about which to worry, yet equities have proved very rewarding through the years for those who remember that the secret to success in stocks is not to get scared out of them.



Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	66469%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	38421%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	34520%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	13461%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	12577%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	14723%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	10702%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	8201%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	6094%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	7559%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	6170%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	8156%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	5391%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	5783%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	4736%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	3469%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	2261%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	2470%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1728%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1435%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	1303%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	1203%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	1164%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	1044%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	559%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	502%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	370%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	331%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	498%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	531%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	429%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	382%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	754%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**7982%**

As of 03.04.25. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

S&P 500

Advancing Markets

20.0%	111.9%	990	28	3.3	10/12/2022	2/19/2025
17.5%	68.3%	589	40	2.3	10/12/2022	2/19/2025
15.0%	65.8%	561	47	2.0	10/12/2022	2/19/2025
12.5%	45.0%	343	74	1.3	10/12/2022	2/19/2025
10.0%	35.1%	247	102	0.9	10/27/2023	2/19/2025
7.5%	23.7%	149	163	0.6	8/5/2024	2/19/2025
5.0%	14.7%	73	319	0.3	8/5/2024	2/19/2025

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-35.1%	286	27	3.4	1/3/2022	10/12/2022
-17.5%	-30.3%	219	39	2.4	1/3/2022	10/12/2022
-15.0%	-28.0%	185	46	2.0	8/16/2022	10/12/2022
-12.5%	-22.7%	137	73	1.3	8/16/2022	10/12/2022
-10.0%	-19.5%	101	101	0.9	7/31/2023	10/27/2023
-7.5%	-15.4%	65	162	0.6	7/16/2024	8/5/2024
-5.0%	-10.8%	36	319	0.3	2/19/2025	3/4/2025

From 02.20.1928 through 03.04.2025. S&P 500 Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.1%	25.9%
Growth Stocks	9.7%	21.3%
Dividend Paying Stocks	10.8%	18.0%
Non-Dividend Paying Stocks	9.2%	29.1%
Large-Company Stocks	10.3%	18.7%
Small-Company Stocks	11.8%	28.1%
Long-Term Gov't Bonds	5.0%	9.0%
Intermediate Gov't Bonds	4.9%	4.4%
Treasury Bills	3.3%	0.9%
Inflation	3.0%	1.8%

From 06.30.1927 through 12.31.2024. Growth stocks = 50% Fama-French small growth and 50% Fama-French large gr returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. Small company stocks, via Ibbotson Associates, are the bottom twenty percent of the New York Stock Exchange. Large company stocks, via Ibbotson Associates, are represented by the S&P 500 index. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

"Fear cannot be banished, but it can be calm and without panic; it can be mitigated by reason and evaluation."

– Vannevar Bush

Reason & Evaluation Myth Busting

Donald J. Trump @realDonaldTrump

When a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win. Example, when we are down $100 billion with a certain country and they get cute, don't trade anymore-we win big. It's easy!

5:50 AM - 2 Mar 2018

There is plenty of uncertainty about how Trump 47's tariffs will impact the equity markets, but stocks persevered and went on to significantly higher levels in the ensuing years despite Trump 45 initiating a Trade War in March 2018.

An Economic Recession (Assuming It Could be Predicted) is Not Reason to Sell Stocks

While the measure is volatile and could reverse as new statistics come in, a slowdown in economic activity appears to be in the cards, The Atlanta Fed's latest formulaic estimate of real (inflation-adjusted) U.S. GDP for Q1 just plunged from growth of 2.3% to a contraction of 2.8% as numbers on housing, consumer confidence, unemployment and auto sales all came in below expectations.

THE WALL STREET JOURNAL.

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DJIA 33852.53 ▲ 3.07 0.01% NASDAQ 10983.78 ▼ 0.6% STOXX 600 437.29 ▼ 0.1% 10-YR. TREAS. ▼ 12/32, yield 3.746% OIL $78.20 ▲ $0.96 GOLD $1,748.40 ▲ $8.10 EURO $1.0331 YEN 138.71

U.S. Defeats Iran 1-0 to Move to Next Round at World Cup

ALL IN: Members of the U.S. soccer team celebrate after beating Iran 1-0 in their win-or-go-home match against Iran on Tuesday in Qatar. The U.S. will face the Netherlands on Saturday for a place in the quarterfinals. A14

Treasury Yield Curve Inverts To Deepest Level Since 1981

By Sam Goldfarb

Yields on longer-term U.S. Treasurys have fallen further below those on short-term bonds than at any time in decades, a sign that investors think the Federal Reserve is close to winning its inflation battle regardless of the cost to economic activity.

A scenario in which short-term yields exceed long-term yields is known on Wall Street as an inverted yield curve and is often seen as a red flag that a recession is looming.

Yields on Treasurys largely reflect investors' expectations for what short-term interest rates set by the Fed will average over the life of a bond. Longer-term yields are generally higher than shorter-term yields because investors want to guard against the risk of unexpected inflation and rate increases.

At a basic level, an inverted curve means that investors are confident that short-term rates will be lower in the longer term than they will be in the near term. Typically, that is because they think the Fed will need to slash borrowing costs to revive a faltering economy.

The yield curve is more than just a little bent out of shape at the moment.

Last week, the yield on the 10-year U.S. Treasury note dropped to 0.78 percentage point below that of the two-year yield, the largest negative gap since late 1981, at the start of a recession that pushed the unemployment rate even higher than it would later reach in the 2008 financial crisis.

Please turn to page A2

Inverted Yield Curve Deepens

Continued from Page One

Still, many investors and analysts see reasons to think that the current yield curve might presage waning inflation and a return to a more normal economy, rather than an approaching economic disaster.

The current yield curve is "the market saying: I think inflation is going to come down," said Gene Tannuzzo, global head of fixed income at the asset management firm Columbia Threadneedle.

Investors, he said, believe "the Fed does have credibility. Ultimately the Fed will win this inflation fight and in the meantime, we have to bear higher short-term interest rates."

Notably, the yield curve has become more deeply inverted in recent weeks due largely to good economic news.

For months starting in the summer, the 10-year yield had repeatedly failed to drop much further than 0.5 percentage point below the two-year yield. That only changed earlier this month, when the Labor Department released better-than-expected consumer-price index data, raising hopes that inflation might be easing.

The October CPI report did cause short-term yields to fall a little, with the two-year yield slipping to around 4.47% as of Tuesday from 4.63% earlier in the month. Investors, though, haven't adjusted their near-term rate expectations nearly as much as their longer-term bets, with the 10-year yield sliding to 3.75% from 4.15%.

Taking cues from Fed officials, investors still expect the central bank to raise the federal-funds rate to about 5% by early next year, up from its current level between 3.75% and 4%. However, the encouraging CPI report has led many to believe the Fed will start cutting rates later in 2023—a bet that officials will be able to shift to promoting economic growth without worrying too much about prolonging the inflation problem.

Treasury yields shape the economic outlook as much as they reflect it. Longer-term yields, in particular, play a role in determining borrowing costs across the economy. They also heavily influence stock prices, with rising yields often causing stocks to fall as investors demand more attractive prices to reflect the better returns they can now get by simply holding ultrasafe government debt to maturity.

Stubbornly high inflation and rapidly rising expectations for short-term interest rates have already led to huge increases in Treasury yields this year, with the prices of existing bonds dropping to reflect higher rates offered on new bonds. That in turn has led to the worst returns for major bond indexes in records going back to the 1970s.

The S&P 500 has also lost 17% this year. But, as longer-term yields have fallen, it too has stabilized in recent weeks, gaining 6% since the day before the Nov. 10 inflation report.

One threat for investors: The recent decline in yields and gains in stocks might not last precisely because they have made it a little easier for businesses to raise and spend money—undermining the conditions that led to the possible moderation of inflation in the first place.

On more than one occasion this year, Fed Chairman Jerome Powell has snuffed out rallies in stocks and bonds by delivering the message that the central bank is likely to not just raise rates higher but keep them at elevated levels for longer.

At a news conference following the Fed's Nov. 1-2 meeting, Mr. Powell emphasized that inflation remained a major threat and that, even though the Fed might raise rates in smaller increments going forward, it was still likely to lift them higher than officials had signaled in their last official forecast in September.

That November meeting, though, took place before the latest inflation data, and investors are now eagerly looking forward to what Mr. Powell has to say when he speaks at an event hosted by the Brookings Institution think tank on Wednesday.

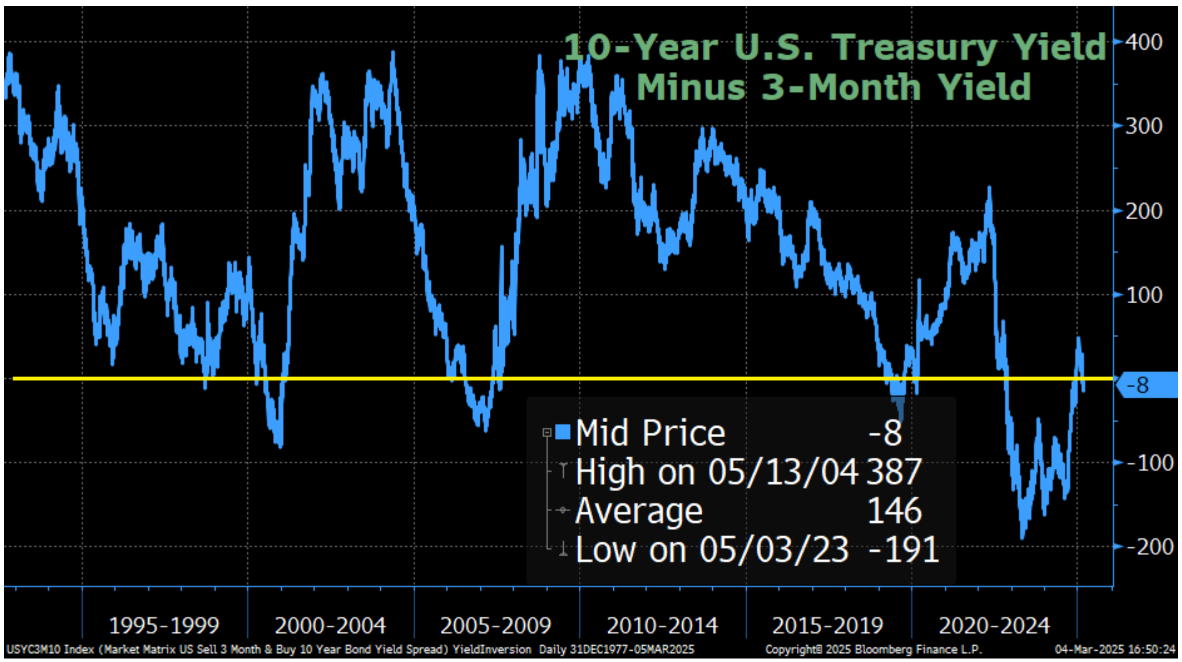
Bonds "have rallied significantly since the last meeting," so there is a risk that Mr. Powell could use Wednesday's event as "an opportunity to push back," said Jan Nevruzi, U.S. rates strategist at NatWest Markets.

CORRECTIONS & AMPLIFICATIONS

A fire on Thursday in the city of Urumqi killed 10 people, according to Chinese officials. A Page One article on Tuesday about protests against China's zero-tolerance approach to Covid-19 incorrectly said the fire occurred Friday; the article appeared in the World News section in some editions. The error also appeared in a Markets article on Tuesday about Chinese stocks.

Readers can alert The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com or by calling 888-410-2667.

With the 4.24% yield on the 10-Year U.S. Treasury now 8 basis points below the yield on the 3-Month, we wonder if the financial press will remember that not all inversions lead to a recession and if they will note that such an event historically has been OK, on average, for subsequent stock returns.

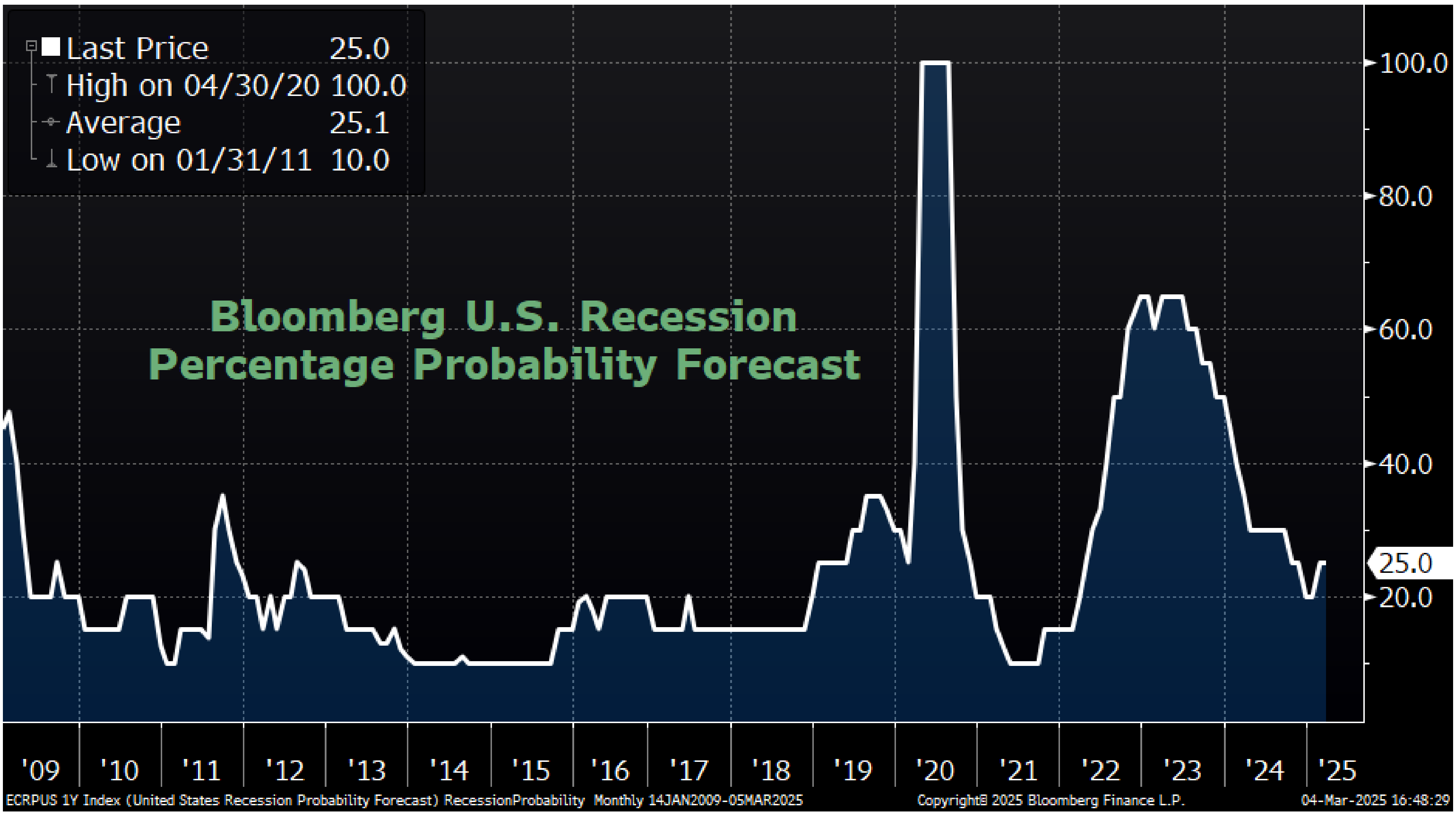


S&P 500 Total Return Post 10-Year/3-Month Yield-Curve Inversion

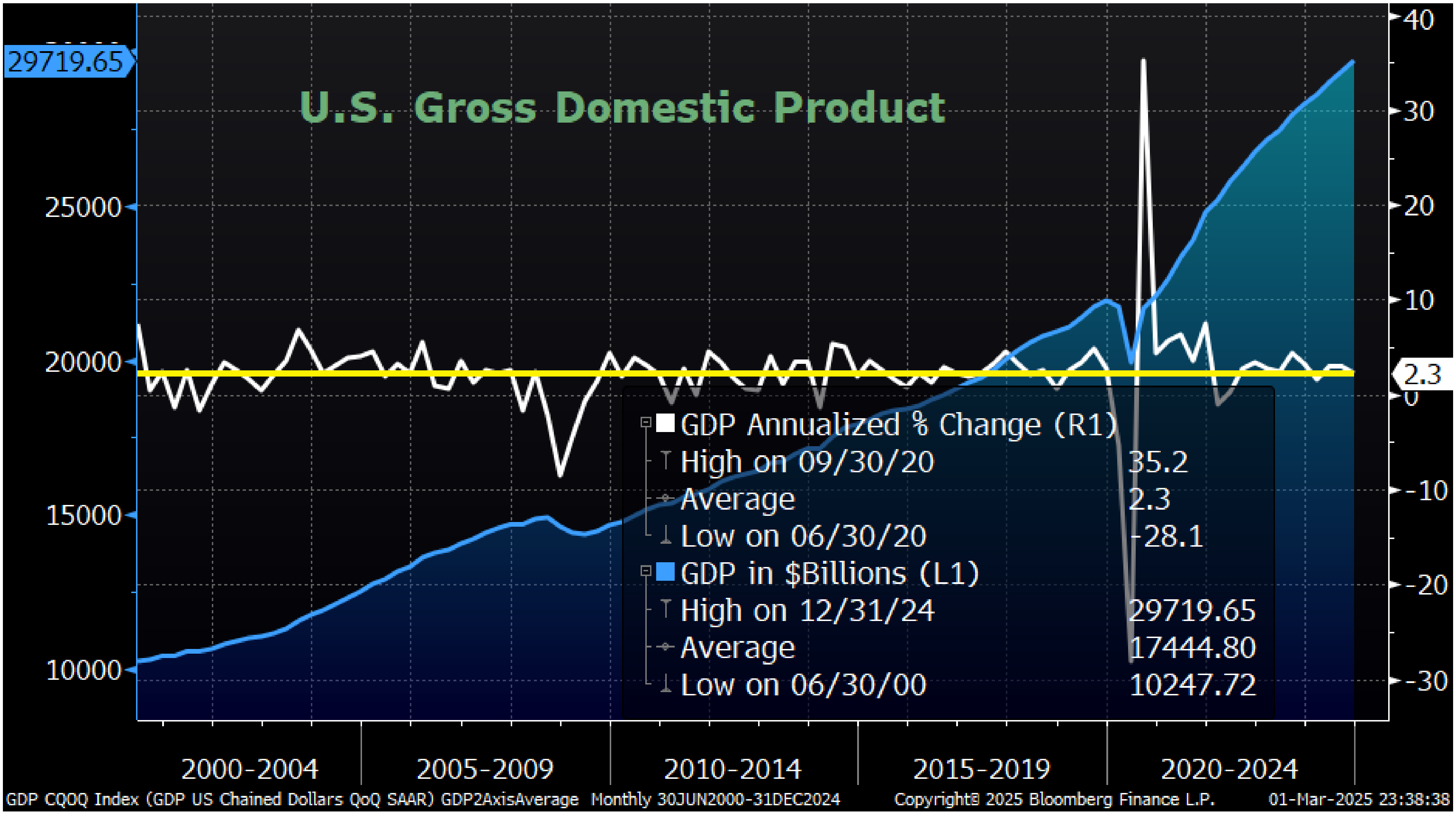
Inversion Date	1 Year S&P 500 TR	3 Year S&P 500 TR	5 Year S&P 500 TR	10 Year S&P 500 TR	To Present S&P 500 TR
1/12/1966	-6.8%	19.3%	17.6%	46.2%	33370%
9/8/1966	28.4%	34.2%	58.3%	97.0%	40265%
12/19/1968	-11.8%	4.3%	4.8%	30.6%	26582%
2/12/1973	-19.1%	-2.6%	-4.4%	105.0%	21267%
7/4/1978	13.3%	58.4%	131.5%	352.6%	20602%
9/1/1980	5.6%	56.7%	96.8%	300.4%	14204%
5/29/1989	16.0%	42.6%	66.2%	423.9%	3639%
9/10/1998	39.8%	15.7%	10.7%	48.2%	857%
1/20/2006	15.5%	-36.2%	16.0%	84.3%	550%
5/23/2019	6.8%	48.0%	102.6%		124%
S&P Total Return	**8.8%**	**24.0%**	**50.0%**	**165.4%**	**16146.0%**

As of 03.04.2025. Source: Kovitz using data from Bloomberg and Refinitiv via The Wall Street Journal

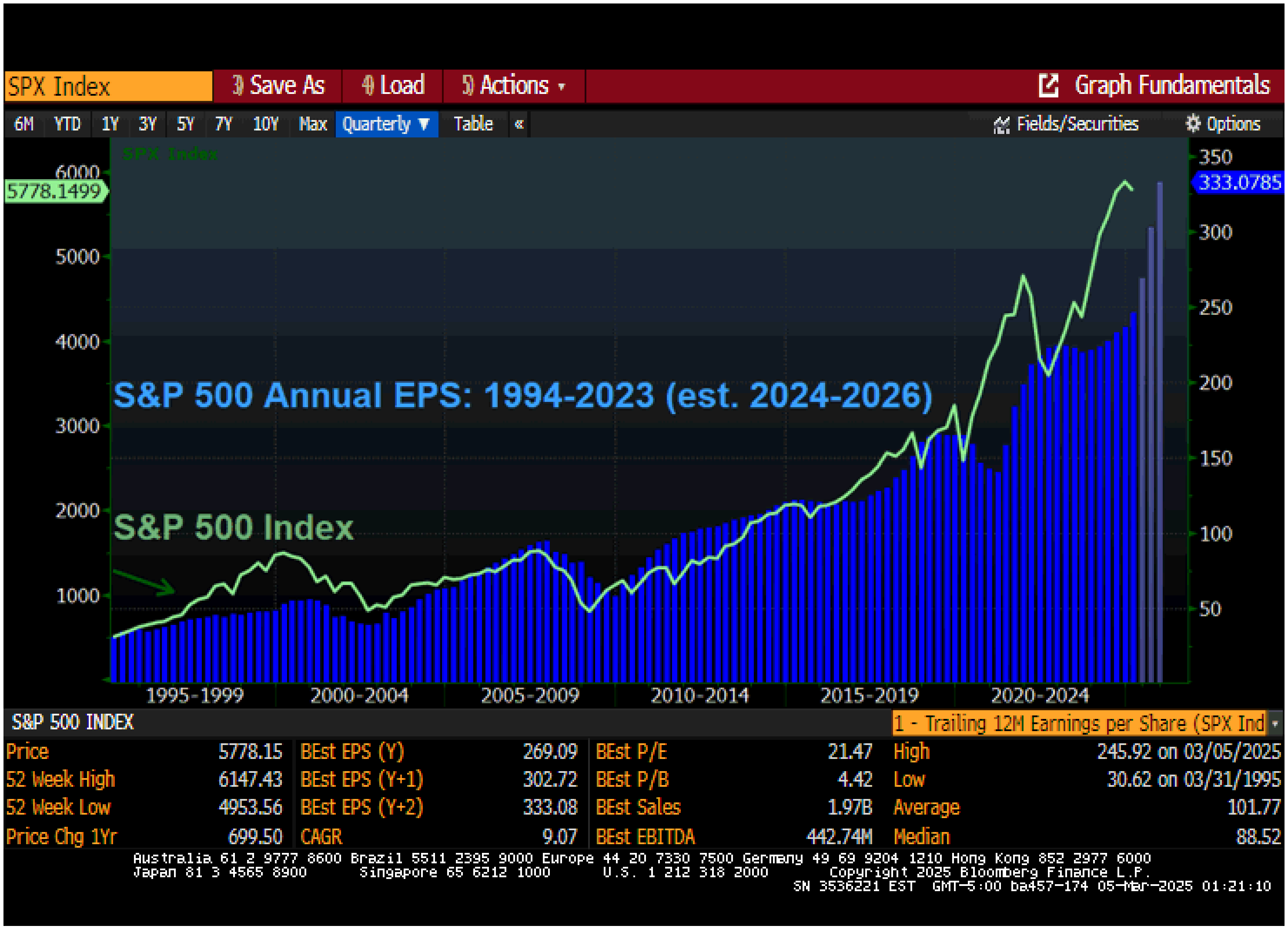
Bloomberg's Recession Probability Forecast just edged up to 25%, after residing at a very-low 20% for much of January and February. Of course, the current projection is right at the average for the measure dating all the way back to 2009, while the odds of a contraction stood at more than 50% for much of 2022 and 2023, yet two quarters of negative GDP growth did not occur.



The second estimate of real (inflation-adjusted) U.S. GDP growth for Q4 2024 came in at 2.3%, a solid tally that pushed nominal GDP close to $30 trillion. True, the near-term economic outlook is uncertain and the Trump tariffs won't help the cause, but we point out that nominal U.S. GDP stood at $20 trillion at the time of the initiation of Trump 45's Trade War seven years ago.



Q3 report cards generally were favorable with 75.7% of companies in the S&P 500 topping bottom-line expectations while Q4 saw 74.5% beating the Street. Tariffs are a big potential headwind, but the outlook for 2025 & 2026 corporate profits has been healthy, and EPS grew nicely in 2018 and 2019, despite a Trump 45 Trade War.



S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2026	$81.46	$306.74
9/30/2026	$79.83	$297.65
6/30/2026	$75.28	$287.69
3/31/2026	$70.17	$277.74
12/31/2025	$72.37	$267.35
9/30/2025	$69.87	$256.65
6/30/2025	$65.33	$245.94
3/31/2025	$59.78	$238.97
12/31/2024	$61.67	$233.82
ACTUAL		
9/30/2024	$59.16	$226.05
6/30/2024	$58.36	$219.14
3/31/2024	$54.62	$215.62
12/31/2023	$53.90	$213.53
9/30/2023	$52.25	$210.00
6/30/2023	$54.84	$208.10
3/31/2023	$52.54	$200.13
12/31/2022	$50.37	$196.95
9/30/2022	$50.35	$203.31
6/30/2022	$46.87	$204.98
3/31/2022	$49.36	$210.16
12/31/2021	$56.73	$208.21

Source: Standard & Poor's. As of 02.28.2025

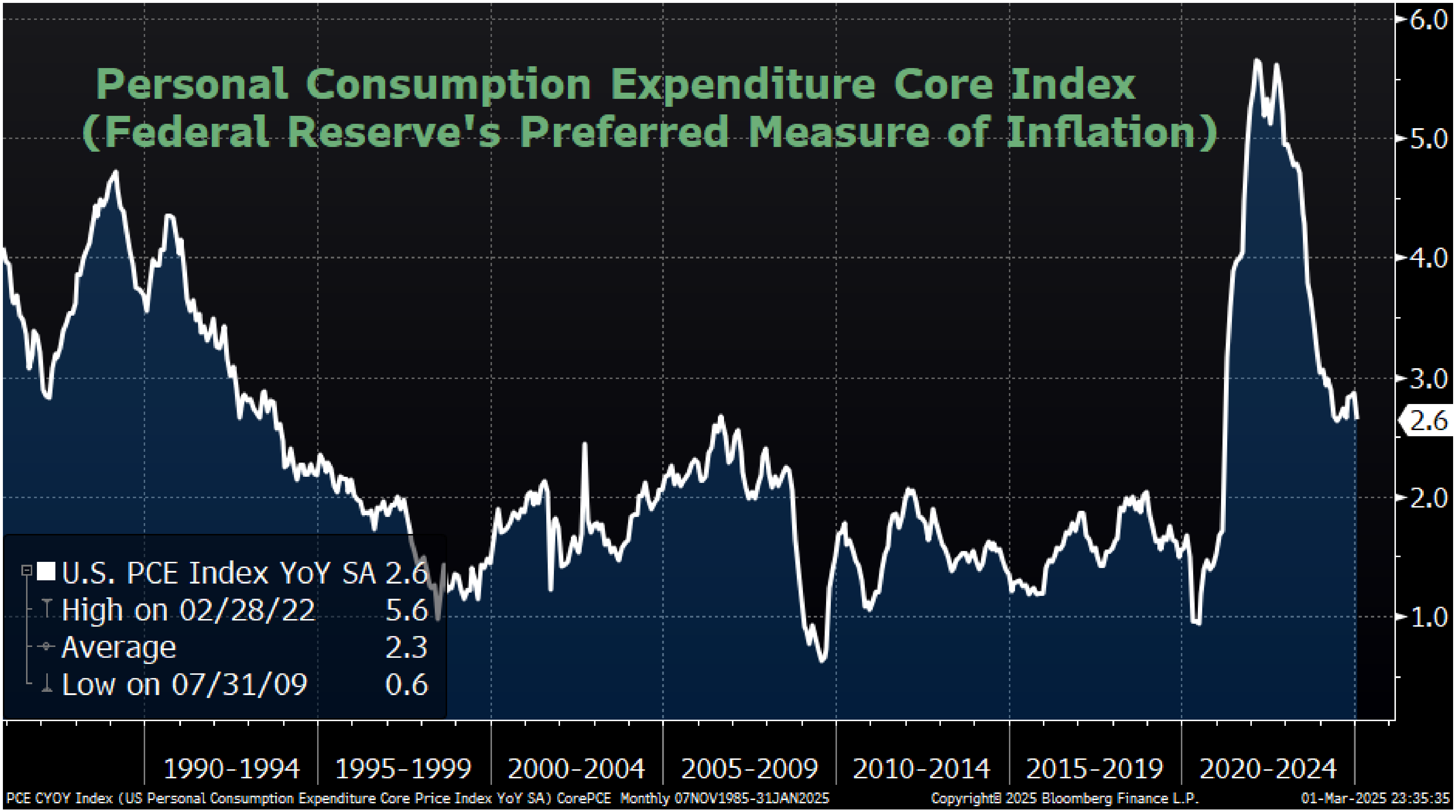
Modest equity losses could be avoided if one knew in advance when a recession officially began and when it ended, but unless one's timing was perfect, it is likely that a trader would be sitting on the sidelines before and after an economic contraction, missing out on sizable rewards.

Recession Start Date	Recession End Date	One Year Prior Value	One year Prior Div Payers	Return During Value	Return During Div Payers	One Year Post Value	One Year Post Div Payers	Five Years Post Value	Five Years Post Div Payers
08.31.1929	03.31.1933	30.9%	44.4%	-81.0%	-77.8%	205.5%	101.9%	123.3%	99.3%
05.31.1937	06.30.1938	42.0%	14.3%	-43.1%	-21.5%	-14.5%	2.1%	128.7%	58.2%
02.28.1945	10.31.1945	54.5%	30.0%	25.6%	20.0%	-2.3%	-4.5%	75.7%	58.1%
11.30.1948	10.31.1949	4.8%	2.4%	11.4%	15.7%	43.4%	31.2%	174.6%	153.9%
07.31.1953	05.31.1954	4.7%	3.0%	13.6%	22.8%	60.2%	38.1%	200.7%	151.2%
08.31.1957	04.30.1958	-0.4%	-1.0%	-2.0%	-0.2%	61.1%	42.7%	129.3%	102.3%
04.30.1960	02.28.1961	-6.4%	-2.5%	21.5%	21.5%	16.9%	14.6%	136.8%	73.7%
12.31.1969	11.30.1970	-20.9%	-10.9%	1.1%	-2.3%	11.1%	12.5%	44.1%	28.7%
11.30.1973	03.31.1975	-19.3%	-17.5%	13.0%	-3.3%	51.7%	31.4%	156.1%	76.4%
01.31.1980	07.31.1980	30.5%	24.0%	3.5%	8.7%	23.2%	16.4%	207.3%	109.4%
07.31.1981	11.30.1982	23.2%	16.4%	33.1%	15.7%	39.5%	25.6%	122.8%	99.8%
07.31.1990	03.31.1991	-7.3%	4.2%	5.1%	8.6%	25.6%	13.4%	150.6%	102.1%
03.31.2001	11.30.2001	22.3%	7.9%	3.7%	0.5%	-11.6%	-10.1%	93.4%	47.3%
12.31.2007	06.30.2009	-7.9%	4.9%	-39.2%	-34.4%	24.5%	14.2%	156.5%	136.5%
02.29.2020	04.30.2020	-9.7%	5.6%	-16.9%	-3.4%	85.8%	47.0%	N/A	N/A
	AVERAGE	**9.4%**	**8.4%**	**-3.4%**	**-2.0%**	**41.3%**	**25.1%**	**126.7%**	**86.5%**

Returns are not annualized. SOURCE: Kovitz using data from Bloomberg Finance L.P and Professors Fama and French

Elevated Inflation is Not Reason to Sell Stocks

Although a 0.5% reduction in consumer spending during January was cause for concern, the core personal consumption expenditures (PCE) price index, the Federal Reserve's preferred measure of underlying inflation, rose 0.3% from December and 2.6% on a year-over-year basis, matching the smallest annual increase since early 2021.



Concurrent Stock Performance & Change in Inflation Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 2.7%	586	14.7%	13.9%	12.2%	14.2%
More than 2.7%	571	11.3%	5.1%	8.9%	3.9%
3-Month Drop	628	14.2%	12.3%	13.0%	11.6%
3-Month Rise	525	11.7%	6.0%	7.7%	5.8%
6-Month Drop	600	14.5%	12.3%	12.7%	12.0%
6-Month Rise	547	11.4%	6.2%	8.2%	5.6%
12-Month Drop	580	13.0%	10.4%	11.6%	9.4%
12-Month Rise	555	12.8%	8.1%	9.2%	8.1%

From 12.31.1927 through 06.30.2024. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Subsequent Stock Performance & Change in Inflation Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 2.7%	587	11.7%	10.6%	10.1%	10.4%
More than 2.7%	572	14.3%	7.9%	10.7%	7.1%
3-Month Drop	622	14.2%	10.2%	11.3%	10.3%
3-Month Rise	522	11.4%	8.0%	9.3%	6.7%
6-Month Drop	595	14.6%	10.3%	11.4%	10.1%
6-Month Rise	546	11.0%	7.9%	9.2%	6.9%
12-Month Drop	580	15.2%	10.8%	11.9%	11.1%
12-Month Rise	555	10.5%	7.5%	8.6%	5.9%

From 12.31.1927 through 06.30.2024. Subsequent 12-month return. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Believe it or not, equities, ON AVERAGE, have been a strong hedge against inflation through the years, yet many supposed experts are using an elevated Consumer Price Index (CPI) as a warning against stock market investments. As our tables illustrate, we like how Value stocks have performed both as the CPI is rising and after it has risen, with it very intriguing that they have done better subsequent to a CPI reading above 2.7% than below!

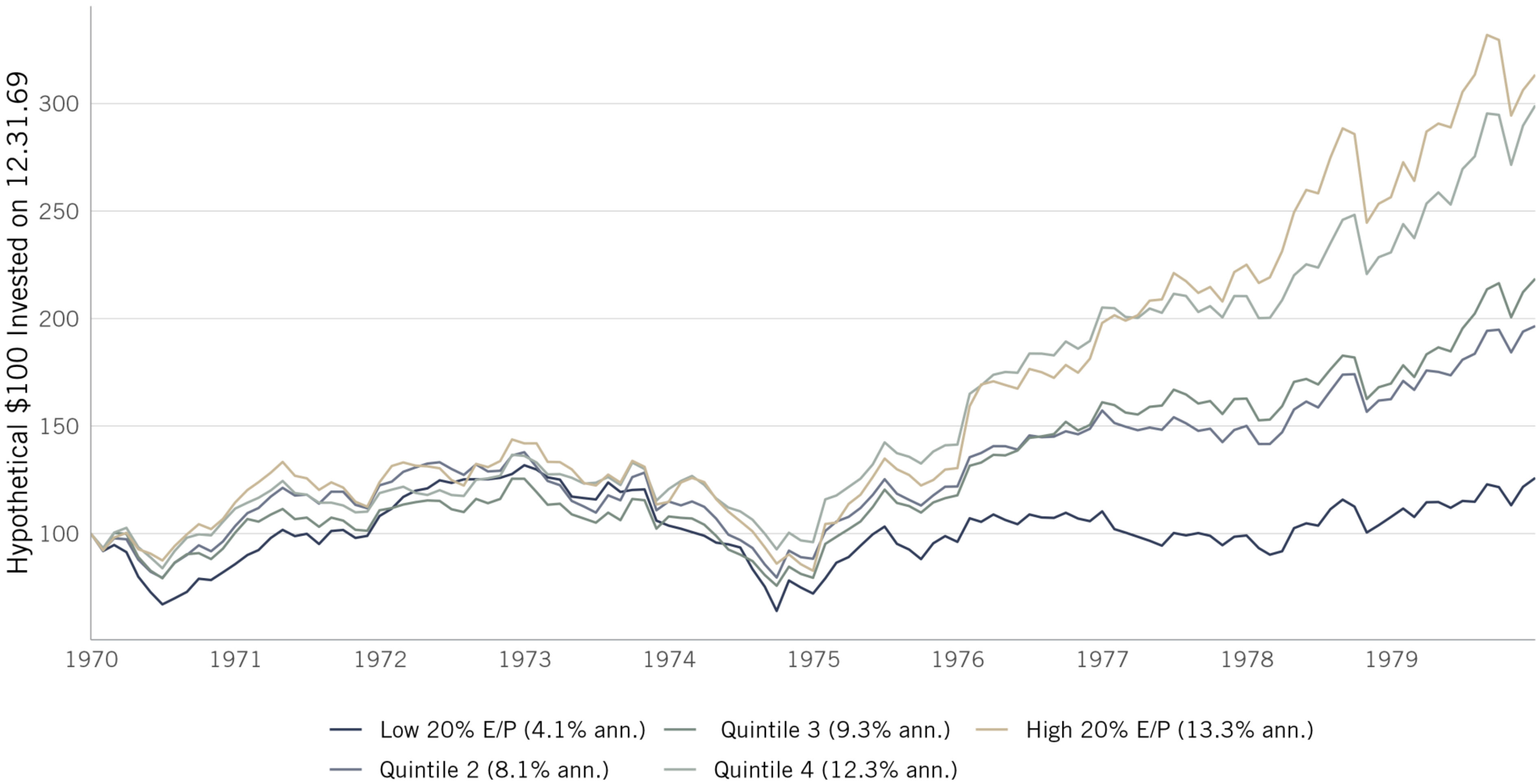
The approach took two tries to get its intended effect. Volcker's tightening slowed economic activity enough that by January 1980, the U.S. was in recession. But Fed interest rates actually began falling sharply after April, which limited the effectiveness of the Fed's anti-inflation efforts. The Fed tightened again after that and sparked another recession in July 1981. This one was far worse than the first; while unemployment peaked at 7.8 percent during the 1980 recession, it would peak at 10.8 percent in December 1982 in the middle of the 16-month second Volcker recession. That's a higher level than at the peak of the Great Recession in 2009. Over the course of the 1980s, this policy regime would become known as the "Volcker shock." – Vox.com

Volcker Vanquishes The Great Inflation Equity Returns

Year	FF Value	FF Growth	FF Div Payers	FF Non Div	Inflation	Fed Funds Rate
1979	30.5%	32.3%	22.5%	60.5%	13.3%	14.0%
1980	19.5%	44.2%	30.8%	63.3%	12.4%	18.0%
1981	16.0%	-9.0%	-1.1%	-16.1%	8.9%	12.0%
1982	34.1%	20.8%	21.7%	13.6%	3.9%	8.5%
1983	37.5%	17.5%	22.8%	20.7%	3.8%	9.5%
1984	11.9%	-7.3%	5.1%	-18.3%	4.0%	8.3%
1985	32.5%	31.2%	33.7%	24.0%	3.8%	7.8%
1986	18.1%	8.6%	18.2%	2.2%	1.1%	6.0%
Annualized	**24.7%**	**15.9%**	**18.7%**	**15.3%**	**6.3%**	

Total Return. Value Weighted Equity Portfolios. Year-End Federal Funds Rate. Source: Kovitz Investment Group using data from Bloomberg and Professors Eugene F. Fama & Kenneth R. French

During the 1970s, as inflation climbed, the anticipation of high inflation became entrenched in the economic decision making of households and businesses. The more inflation rose, the more people came to expect it to remain high, and they built that belief into wage and pricing decisions. As former Chairman Paul Volcker put it at the height of the Great Inflation in 1979, “Inflation feeds in part on itself, so part of the job of returning to a more stable and more productive economy must be to break the grip of inflationary expectations.” – Jerome H. Powell



From 12.31.69 through 12.31.79. E/P is the Earnings to Price ratio. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

Neither Fed Tightening/Easing nor Rising/Falling Interest Rates are Reason to Sell Stocks

Concurrent Stock Performance & Change in Federal Funds Eff. Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 4.245%	419	13.6%	10.6%	10.8%	10.7%
More than 4.245%	419	14.6%	9.7%	12.4%	9.3%
3-Month Drop	388	17.8%	12.3%	14.3%	10.9%
3-Month Rise	446	11.0%	8.2%	9.2%	9.1%
6-Month Drop	366	16.4%	12.7%	14.3%	11.0%
6-Month Rise	462	12.1%	8.0%	9.4%	8.9%
12-Month Drop	371	14.4%	11.7%	12.8%	9.6%
12-Month Rise	445	13.3%	8.5%	10.2%	9.5%

From 07.31.1954 through 06.30.2024. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Subsequent Stock Performance & Change in Federal Funds Eff. Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 4.245%	420	12.2%	10.2%	10.6%	10.1%
More than 4.245%	420	15.5%	9.6%	12.1%	9.1%
3-Month Drop	383	13.8%	10.3%	11.1%	10.2%
3-Month Rise	442	13.6%	9.4%	11.3%	8.8%
6-Month Drop	366	15.4%	11.8%	12.2%	12.0%
6-Month Rise	456	12.2%	8.2%	10.4%	7.4%
12-Month Drop	371	16.9%	11.8%	12.3%	11.9%
12-Month Rise	445	10.9%	8.0%	10.1%	7.3%

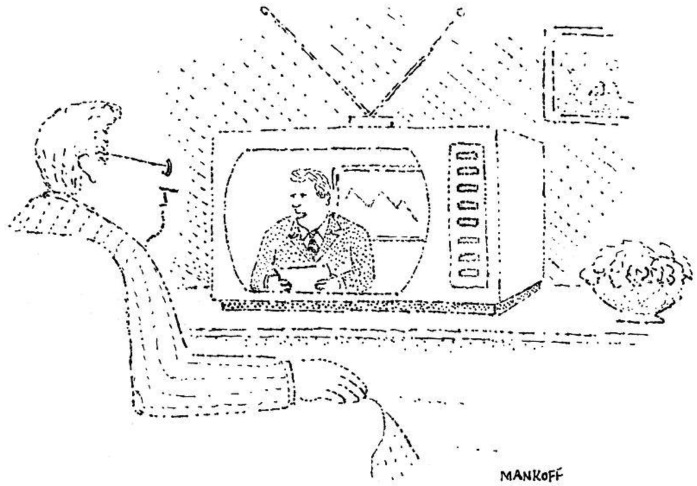
From 07.31.1954 through 06.30.2024. Subsequent 12-month return. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Many thought the Federal Reserve hiking the Fed Funds would be a big headwind for equities, but such was again not the case. Anything could have happened, of course, but seven decades of annualized data showed that equities performed admirably, ON AVERAGE, both concurrent with and subsequent to increases in the Fed Funds rate over 3-, 6-, and 12-month time spans. More importantly today, given that the Fed has been cutting rates, stocks have performed even better, historically speaking, in a falling rate environment.

Concurrent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 3.92%	585	10.9%	9.9%	9.8%	9.2%
More than 3.92%	578	15.4%	9.4%	11.7%	9.1%
3-Month Drop	577	13.9%	12.0%	13.9%	11.5%
3-Month Rise	582	12.3%	7.2%	7.6%	6.7%
6-Month Drop	561	13.7%	11.1%	12.9%	10.9%
6-Month Rise	592	12.5%	8.1%	8.5%	7.3%
12-Month Drop	561	11.5%	9.8%	11.2%	7.7%
12-Month Rise	580	14.5%	9.1%	9.9%	10.0%

From 06.30.1927 through 06.30.2024. Concurrent annualized 12-month returns. SOURCE: Kovitz using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French



"On Wall Street today, news of lower interest rates sent the stock market up, but then the expectation that these rates would be inflationary sent the market down, until the realization that lower rates might stimulate the sluggish economy pushed the market up, before it ultimately went down on fears that an overheated economy would lead to a reimposition of higher interest rates."

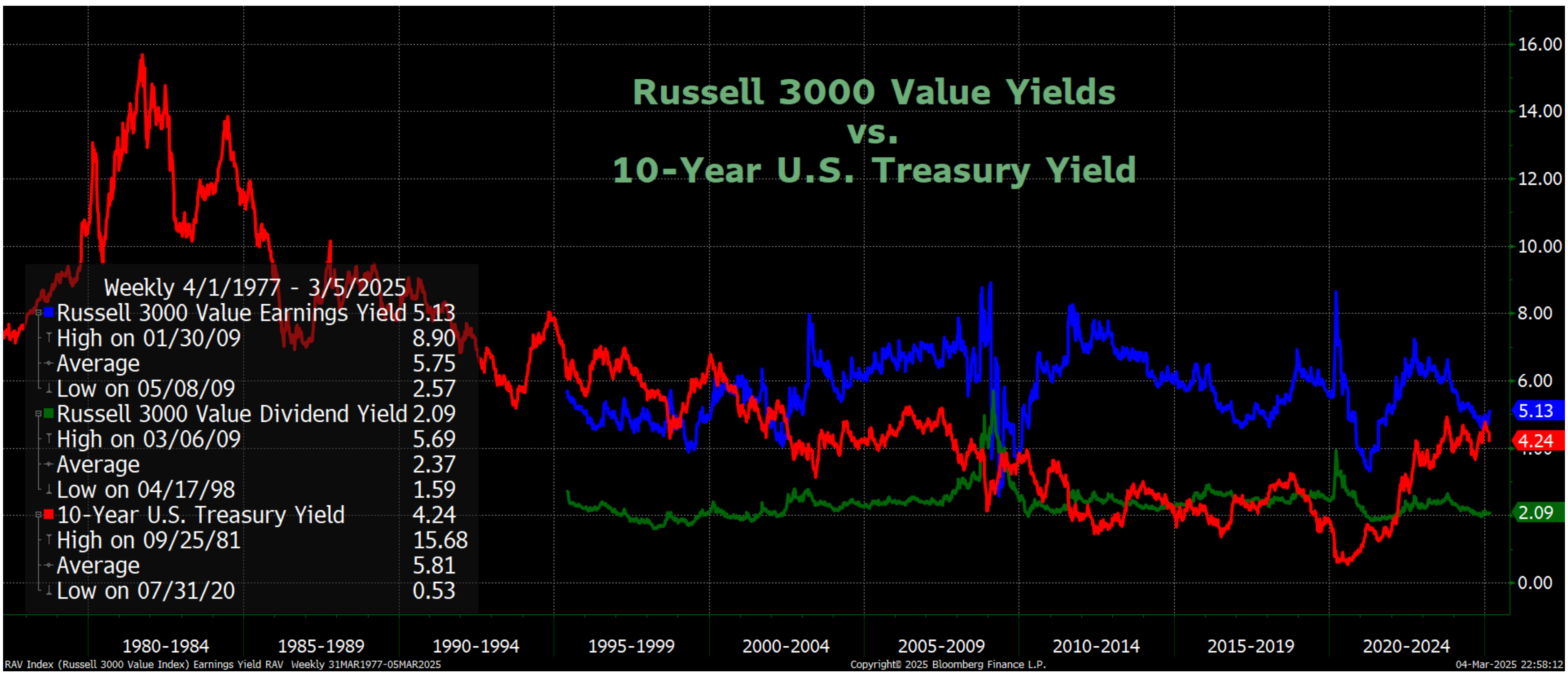
Subsequent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 3.92%	586	11.8%	10.4%	10.5%	9.7%
More than 3.92%	579	14.3%	8.4%	10.5%	8.0%
3-Month Drop	574	16.7%	13.7%	13.7%	13.5%
3-Month Rise	576	9.4%	5.2%	7.4%	4.4%
6-Month Drop	561	15.1%	12.5%	12.5%	11.5%
6-Month Rise	586	10.9%	6.3%	8.5%	6.2%
12-Month Drop	561	12.8%	10.9%	10.8%	9.9%
12-Month Rise	580	12.9%	7.4%	9.9%	7.3%

From 06.30.1927 through 06.30.2024. Subsequent 12-month return. SOURCE: Kovitz using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

It is logical to think that higher yields on "safe" investments like the 10-Year U.S. Treasury make equities less appealing, and vice versa, but more than nine decades of returns figures show that stocks in general have performed admirably, ON AVERAGE, with Value Stocks leading the charge no matter the direction of interest rates.

While the Earnings Yield, which is the inverse of the P/E ratio, on the S&P 500 (4.05%) is still reasonable relative to the current (and well below average) 4.24% yield on the 10-Year U.S. Treasury, we like that Value stocks, as measured by the Russell 3000 Value index, boast a much higher Earnings Yield (5.13%) AND a generous dividend yield (2.09%), both of which are not too far from the historical norms for those measures dating back to 1995.



We continue to sleep very well at night, given the inexpensive valuations and generous dividend yields for our broadly diversified portfolios of what we believe are undervalued stocks. We also note that our price and yield metrics are far more attractive than those of the broad-based market indexes, and they even compare very favorably to most of the Value benchmarks.

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	17.1	14.4	0.9	2.3	2.5
ValuePlus	18.0	14.7	1.1	2.3	2.3
Dividend Income	17.0	14.3	0.9	2.2	2.8
Focused Dividend Income	16.3	13.6	1.1	2.3	2.9
Focused ValuePlus	17.1	14.7	1.0	2.3	2.5
Small-Mid Dividend Value	11.7	11.1	0.6	1.4	3.1
Russell 3000	25.5	21.8	2.7	4.5	1.3
Russell 3000 Growth	34.3	27.7	5.1	11.5	0.6
Russell 3000 Value	19.9	17.6	1.8	2.7	2.0
Russell 1000	25.0	21.6	2.8	4.8	1.3
Russell 1000 Growth	33.6	27.4	5.5	12.5	0.6
Russell 1000 Value	19.5	17.5	1.8	2.8	2.0
S&P 500 Index	25.0	21.7	3.0	5.0	1.3
S&P 500 Growth Index	32.0	26.9	5.6	9.4	0.7
S&P 500 Value Index	21.0	18.7	2.1	3.5	1.9
S&P 500 Pure Value Index	10.8	11.1	0.5	1.3	2.9

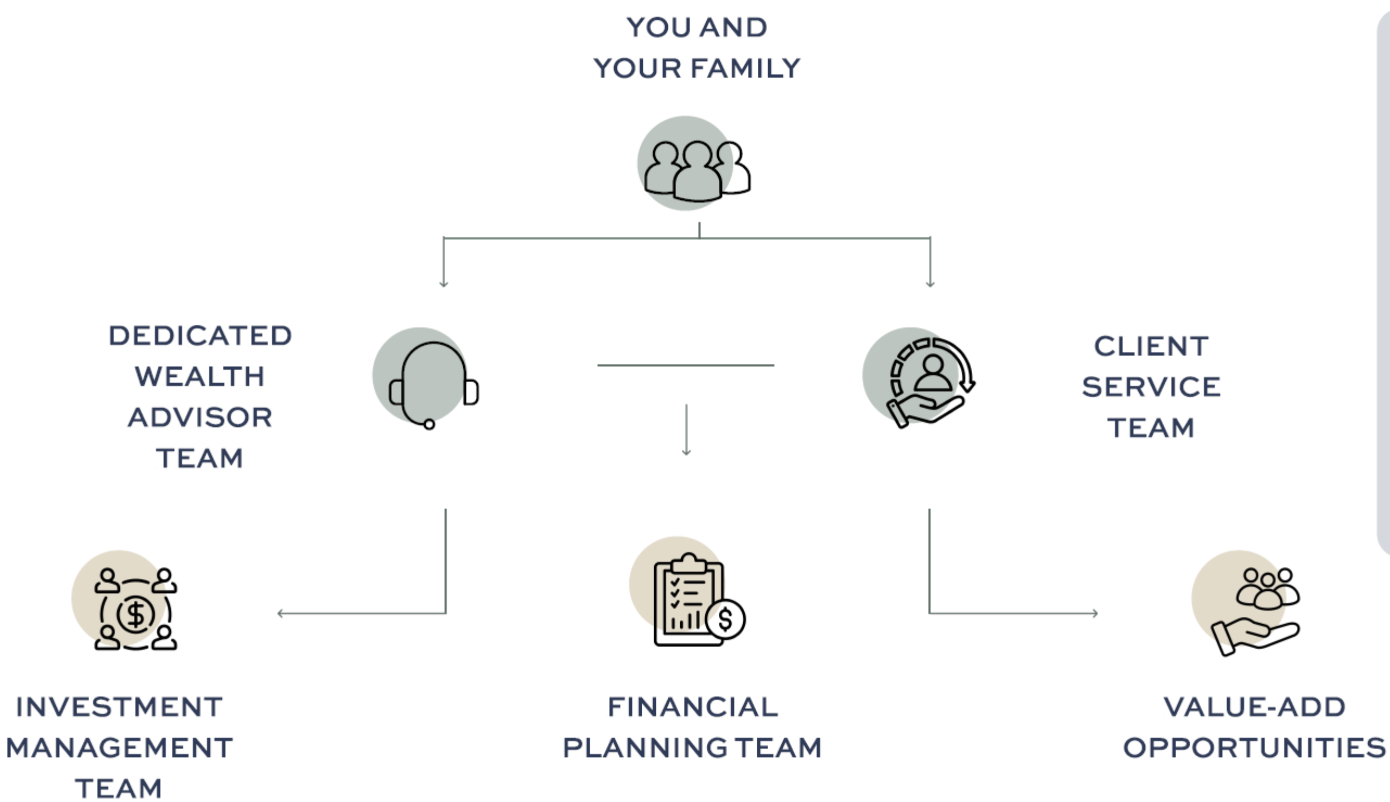
As of 03.04.2025. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

"The first rule of compounding is to never interrupt it unnecessarily."

— Charlie Munger

Your Dedicated Team

Each client and their family partners with a Wealth Advisor Team to support all parts of your financial life, including investment management, estate planning and tax-related issues.



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