INVESTMENT INSIGHTS

How to Invest in an Uncertain World: A Guide for 2025 and Beyond

This Investment Insight underscores the enduring value in a disciplined, long-term approach.

the Prudent Speculator

IN PARTNERSHIP WITH KOVITZ

Key Points

#1: Market Volatility Fueled by Policy and Behavioral Reactions

The stock market experienced a sharp decline triggered by President Trump's aggressive initial tariffs, and fear-driven responses to headlines have exacerbated volatility.

#2: Value Investing as a Strategic Anchor Amid Uncertainty

We advocate a disciplined Value-oriented approach to weather market turbulence and achieve long-term gains.

#3: Asset Allocation is the Foundation of Wealth Management

We stress the importance of aligning strategy with personal objectives and risk tolerance through a thoughtful asset allocation as emotions can derail long-term goals.

Your *The Prudent Speculator* Team

John Buckingham
Editor
Principal, Portfolio Manager

Greetings!

We are a team of investment professionals at Kovitz. We write *The Prudent Speculator* newsletter and manage a series of stock strategies, all of which are firmly planted in the Value category. By Value, we mean we like stocks that trade well below our estimates of their future worth.

The newsletter, weekly market commentaries and other periodic communications form the base by which we communicate with our subscribers and wealth management clients.

Our goal is to keep our readers and clients on the long-term path to financial success (we often quip the secret to investing in stocks is to not get scared out of them!), and we do that in ways that are unique to each individual client.

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Navigating Market Uncertainty

Despite a sizable rebound since April 8, the stock market remains unsettled by geopolitics. The S&P 500 (so far) narrowly avoided Bear Market territory, and investors anxiously anticipate future trade developments amid heightened volatility.

As this Investment Insight went to press in early May, the stock market had recovered some—but not all—losses experienced earlier this year on the heels of President Donald Trump's sweeping "Liberation Day" tariff announcement. Between February 19 and April 8, the price of the S&P 500 index, a benchmark measuring the largest 500 stocks in the U.S., fell 18.9% on an end-of-day basis, narrowly avoiding the customary -20% threshold to be considered a Bear Market.

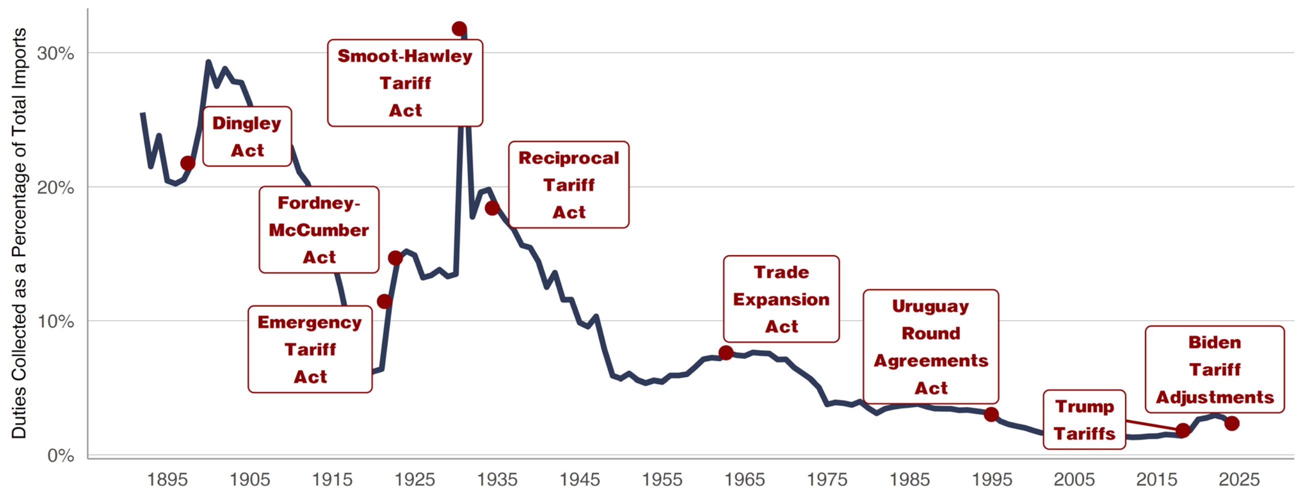
Official Bear Markets have occurred once every three and a half years, on average, since 1928, with the most recent occurring in 2022. By that figure, investors are due for a Bear Market, even as we hit -20% down intraday on both April 7 & April 8, but the nature of this market turmoil makes it feel like this time is different (of course, every time is different).

While Trump and his administration reversed course quickly enough on many fronts to avoid an even-deeper plunge, investors have spent the last month-plus on the edge of their seats as they await more details on American trade policy.

GLOBAL CONCERNS

Generally speaking, President Trump has made good on his campaign promises, which were to apply broad, sweeping tariffs to other nations, implement reciprocal tariffs and punish China with very steep rates. The administration's

Figure 1: Tariffs & Duties since 1891



From 1891 through 2024. SOURCE: Kovitz using data from USITC DataWeb

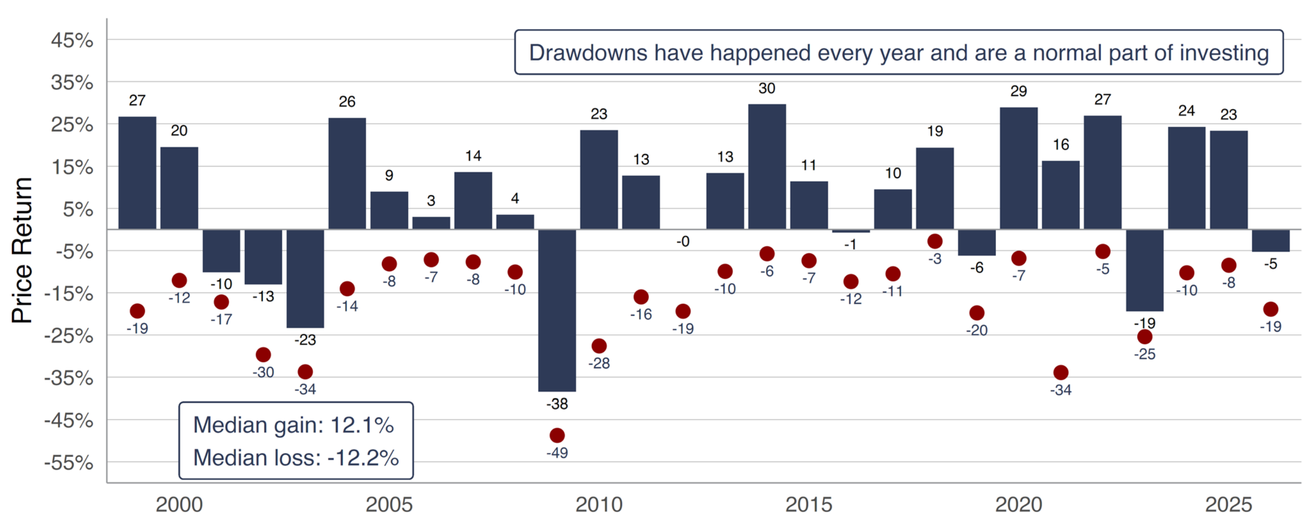
interest in raising duties, which we believe are likely to reach or exceed levels Americans have not seen in quite some time (Figure 1), is unlikely to go away anytime soon.

Still, equities have proved extraordinarily rewarding over the long term despite some level of tariffs existing all the time, and some of Trump's other promises may be on the way (deregulation, lower taxes). We continue to like our stock-picking approach, which allows us to pick and choose our way through the carnage.

We've used the gyrations to pick up several quality companies that have had their share prices battered for what we view is no good reason. Uncertainty is always unsettling for investors (the short-term ones in particular), but we've found volatility to offer terrific opportunity over the last 48 years.

And as always, tariffs aren't the only headwind to contend with at present. There are a multitude of other factors to watch, including inflation, consumer health and other geopolitical skirmishes.

Figure 2: S&P 500 Yearly Returns & Low Points



From 12.31.1997 through 04.30.2025. Price returns do not include dividends. Intra-year drops refer to the largest drops for the S&P 500 Index between high and low close prices during a calendar year. This year's return is year to date. SOURCE: Kovitz using data from Bloomberg Finance L.P.

The Nature of Uncertainty

"The most important lesson an investor can learn is to be dispassionate when confronted by unexpected and unfavourable outcomes."
— Peter Bernstein

Investors remain on edge, and it does not help that a social media post from the President, a media headline from a member of his cabinet, a push notification or foreign government statement could trigger another big selloff at any moment. The rebound at the end of April ended the 103rd correction of 10%+ for the S&P 500 since 1928 and the 39th since the launch TPS in 1977.

Although the popular stock benchmark remains in the red this year and the average stock in the broad-based Russell 3000 index is off 11.2% in 2025, we are now in the 104th rally of 10% over the past 97 years, providing yet another reminder that downside volatility is always part of the investment equation and every prior scary event has been overcome in the fullness of time.

We concede that this time could be different (and our highly polarized political climate has caused angst for many), but it remains hard to bet against America's economy in general and its stock market where Bear Markets have been followed by Bull Markets with gains that far outpace the losses.

Figure 3 shows the average gain in a Bull Market is 112% and spans about 1,000 days, compared with a 35% average drop for stocks in Bear Markets over 286 days. Even as the Bull Markets take longer and Bear Markets are comparatively steep, pinpointing the peaks and troughs of Bull and Bear Markets is virtually impossible. The practical outcome is the likelihood of closing the barn doors after the horses have run out AND sitting on the sidelines waiting for an all-clear signal that often never comes.

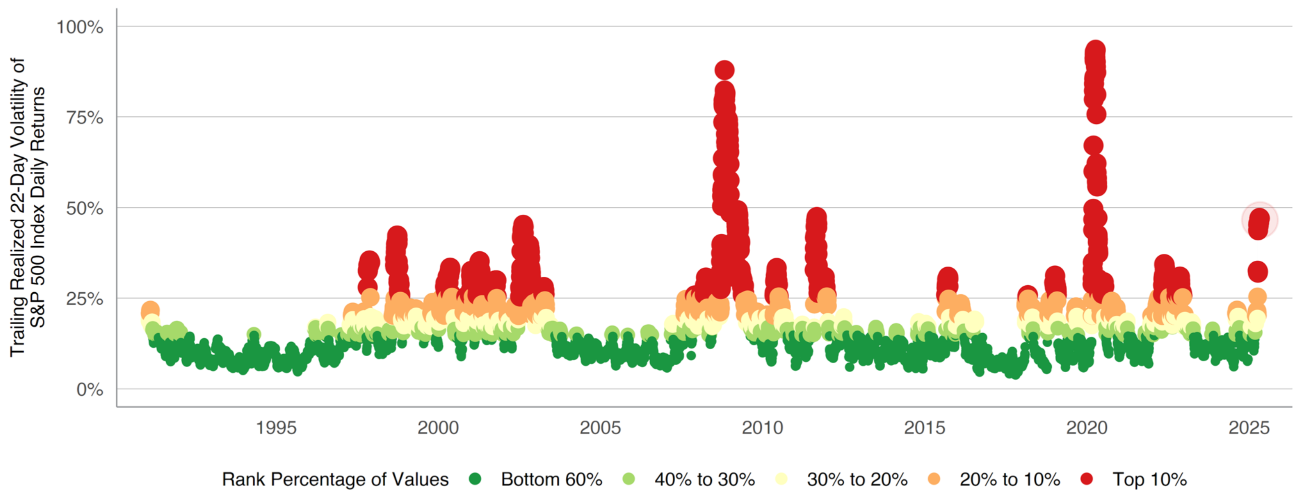
Figure 3: Market Ups & Downs

Advancing Markets			
Minimum Rise	Average Gain	Average # Days	Frequency (Years)
20%	112%	990	3.5
15%	67%	572	2.1
10%	35%	243	0.9
5%	15%	72	0.3

Declining Markets			
Minimum Decline	Average Gain	Average # Days	Frequency (Years)
-20%	-35%	286	3.4
-15%	-28%	183	2.0
-10%	-19%	100	0.9
-5%	-11%	36	0.3

From 02.21.1928 through 04.30.2025. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal or greater magnitude and an Advancing Market as an instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg Finance L.P.

Figure 4: Volatility Spikes Show Up in Clusters



From 12.31.1990 to 04.30.2025. SOURCE: Kovitz using data from Bloomberg Finance L.P.

SHORT TERM VOLATILITY

Short-term stock volatility often feels more intense due to a combination of psychological biases, market mechanics and the granularity of information flow. This effect arises due to several factors explained by behavioral finance theory.

First, recency bias posits that humans give more weight to recent events. A sharp drop in stock prices a few days ago is more impactful than gradual changes some months ago, even if the change is similar. Secondly, loss aversion bias leads investors to feel losses more intensely than gains. Since Bull Markets unfold gradually and Bear Markets are often sharp and steep, downturns can trigger emotional reactions that far outweigh the gratification of long-term gains. Thirdly, there's information overload. We're constantly hit with alerts and sensational headlines, making every market move feel bigger than it is.

Historical volatility data in Figure 4 shows that price swings tend to be clustered, meaning volatile periods tend to occur in close proximity to each other. When the market is gyrating wildly, it can do so for a while, putting investors onto an emotional roller coaster. On that note, short-term returns are much noisier than long-term returns. Daily or intraday movements are influenced by random factors, order flow, sentiment shifts or unexpected headlines. The headlines may even be wrong or interpreted incorrectly! Over the long term, these effects often come out in the wash, but in the short term, they dominate without regard for the health of long-term investors.

There's also a lack of context in the short term. Because many market participants are dissecting information second-to-second (or faster!), we find there is little time for trend formation. Long-term volatility is often contextualized by economic cycles, earnings trends and structural shifts.

Daily market influences also have a significant impact emotionally on investors, A mismatch between objectives and your overall financial allocation can undo years of success. It's critical for your portfolio to align with your attitude about risk, financial goals and other considerations unique to you.

STAYING INVESTED

Though investor attention remains focused on President Donald J. Trump and American trade policy, we caution against letting politics dictate long-term investment decisions. While recent economic data has painted a mixed picture—strong economic data with weakening "soft" indicators like consumer surveys and long-term inflation expectations—we are reminded that markets tend to look beyond the present. The daily movements of equity prices are heavily influenced by imperfect forecasts of the future. And in our view, long-term fundamentals are more informative than a mixed bag of macroeconomic data.

In fact, periods of uncertainty, such as the current environment where earnings growth forecasts are being revised and geopolitical tensions remain elevated, often present fertile ground for disciplined Value investors. Happily, we are equal opportunists and continue to find compelling Value opportunities in all sectors. Recently, we purchased companies in specialty retail, renewable energy, homebuilding, utility and banking with reasonable valuations and long-term earnings power. Our approach remains rooted in bottom-up analysis, identifying companies with durable competitive advantages and sound capital allocation strategies.

Importantly, we believe that staying the course through periods of short-term volatility is essential for capturing long-term gains. Investors who attempted to sidestep the volatility of 2022 and 2023 by exiting equities missed the robust rallies that followed. With markets now digesting a blend of slowing growth and sticky inflation, we believe the prudent path lies in maintaining diversified exposure to fundamentally sound businesses. History has shown that those who remain patient and invested through economic cycles are ultimately rewarded, not by reacting to each twist in the macro narrative, but by trusting their thoughtful, Value-driven investment process and having an appropriate asset allocation.

EMOTIONS

DALBAR's annual Quantitative Analysis of Investor Behavior (QAIB) shows that the average investor underperforms the market, not due to poor investment selection, but because of poor timing, often influenced by emotions. Investors tend to chase performance by buying after markets have risen and then panic-sell during downturns, creating a behavioral gap that erodes their actual returns compared to market benchmarks.

Figure 5 illustrates how equity and fixed income investor returns significantly lag those of the broad market indexes they aim to track. While index-tracking ETFs provide the opportunity to earn near-market returns, many investors still erode their long-term wealth by shifting between assets or asset classes at inopportune moments. This not only reduces portfolio performance but can also derail progress toward personal financial goals and can cause tax issues. The key takeaway is that maintaining a long-term perspective and avoiding emotionally driven decisions is essential for investment success.

Figure 5: Quantitative Analysis of Investor Behavior (QAIB)

2024 STUDY OF INVESTOR RETURNS						
Time Horizon	Average Equity Fund Investor Return	S&P 500 Index Return	Equity Investor Difference	Average Fixed Income Fund Investor Return	Bloomberg U.S. Aggregate Bond Return	Fixed Income Investor Difference
1 Year	16.5	25.0	**-8.5**	-1.1	1.3	**-2.3**
3 Years	3.3	8.9	**-5.6**	-3.9	-2.4	**-1.5**
5 Years	9.7	14.5	**-4.8**	-2.1	-0.3	**-1.8**
10 Years	9.8	13.1	**-3.3**	-0.9	1.4	**-2.3**
20 Years	9.2	10.4	**-1.1**	-0.3	3.0	**-3.3**
30 Years	10.1	10.9	**-0.9**	-0.1	4.6	**-4.6**

Through 12.31.2024. SOURCE: Kovitz using data from DALBAR

Core Tenets of Value Investing

"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case."
— Robert G. Allen

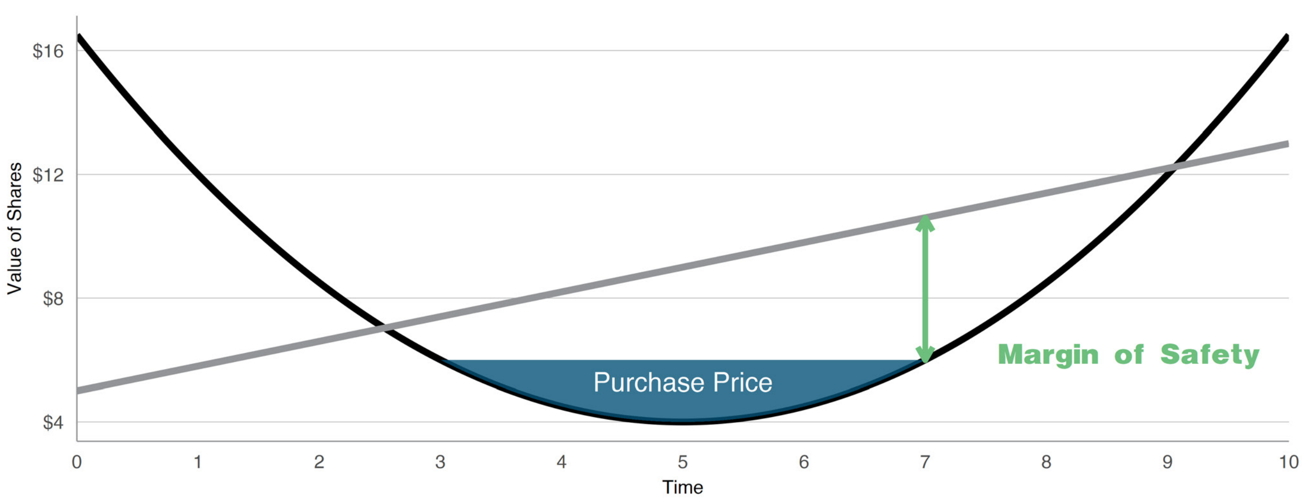
MARGIN OF SAFETY

In a world of 24/7 news cycles, algorithmic trading and uncertainty (from geopolitical instability to policy unknowns to shifting interest rate regimes), the concept of "margin of safety" remains as relevant today as ever. Originally championed by Benjamin Graham in 1934, this foundational principle calls for investing in securities priced below their intrinsic values. Doing so provides a cushion against errors in analysis, unexpected market shocks or temporary business setbacks.

Today's investors must contend with conflicting headlines and a slew of other challenges. These factors may not be new, but they do incentivize investors to apply the margin of safety concept. While popular stocks may command high multiples based on growth expectations or hot trends, shares of many overlooked or less flashy businesses still trade at discounts to their long-term worth. By demanding a margin of safety, we focus on businesses that have already priced in bad news or low expectations, reducing the risk of permanent capital loss and increasing the likelihood of attractive future returns.

In practical terms, this means concentrating on solid balance sheets, durable competitive ad-

Figure 6: Margin of Safety



Price is the grey line. Value is the black line. SOURCE: The Prudent Speculator and Kovitz vantages and inexpensive valuation metrics. A margin of safety isn't just about portfolio protection. It's also about positioning portfolios to capture upside as sentiment inevitably shifts.

PRICE VS. VALUE

Investing is as much a test of temperament as it is of intelligence. One enduring lesson from decades of market history (and our decades of investing experience) is that price and value are not the same. While price is determined moment-to-moment, value is rooted in the underlying fundamentals of a business, including earnings power, asset quality and business prospects.

We find investors often conflate price and value. When prices fall, fear takes over. When prices rise, the fear of missing out often lures one to buy after stocks have already risen. This emotional cycle—buying high, selling low—erodes returns and leaves investors chasing short-term trends instead of long-term worth.

By focusing on intrinsic value with a long time horizon (3 to 5 years or more), we endeavor to ignore the daily distractions and remain steadfast in our investment process. Market volatility, though often portrayed as a peril, is more often friend than foe to the patient Value investor, offering the opportunity to accumulate sound businesses at more favorable prices. Understanding the difference between what a business is worth and what the market is currently willing to pay is fundamental to successful investing. History has repeatedly shown that periods of heightened uncertainty often precede outsized gains.

TPS TENET 1: SELECTION

Using a quantitative framework, we evaluate over 3,000 publicly traded companies in the U.S. plus several hundred abroad each day, ensuring we benefit from the full breadth of the market.

Our selection process begins with fundamental metric screening, looking for companies with relatively reasonable valuation multiples, strong cash flow, manageable debt levels and estimated profitability. The quantitative work gets us "fishing in the right pond" and is only the starting point. We dig deeper to understand qualitative elements of individual companies, including competitive advantages, business dynamics and market positioning. After distilling the full universe into a shortlist and diving deep into individual companies, we use a forward-looking pricing engine to set Target Prices.

This bottom-up, fundamentals-driven approach helps us uncover opportunities others may have ignored or misunderstood.

TPS TENET 2: DIVERSIFICATION

No matter how compelling or well-researched a single investment might seem, relying too heavily on a small set of positions can increase the risk of adverse outcomes. Market conditions can shift unexpectedly, and even the most promising companies or sectors can experience setbacks due to factors beyond their control.

Diversification is not simply more stocks. It's a group of holdings that are thoughtfully spread across sectors, industries and regions. This approach reduces the portfolio's vulnerability to any single economic, regulatory or geopolitical event. We believe this creates a resilient portfolio that is well-positioned to weather market volatility and capture upside opportunities.

TPS TENET 3: PATIENCE

We believe patience remains one of the greatest competitive edges in investing. Our investment approach often requires waiting for sentiment to shift, fundamentals to improve or the market to recognize what we already see in a business. This patience is not passive. It's a conviction rooted in discipline and experience.

We understand that markets move in cycles and believe that short-term volatility is a feature, not a bug. By holding steady through downturns, resisting the urge to chase momentum (giving our investments time to bear fruit), we put the odds in our favor. Indeed, many of the best-performing stocks in our portfolios took years to deliver their full value. The key was not predicting the exact timing of the rebound, but being there when it happened.

Characteristics of Value Stocks

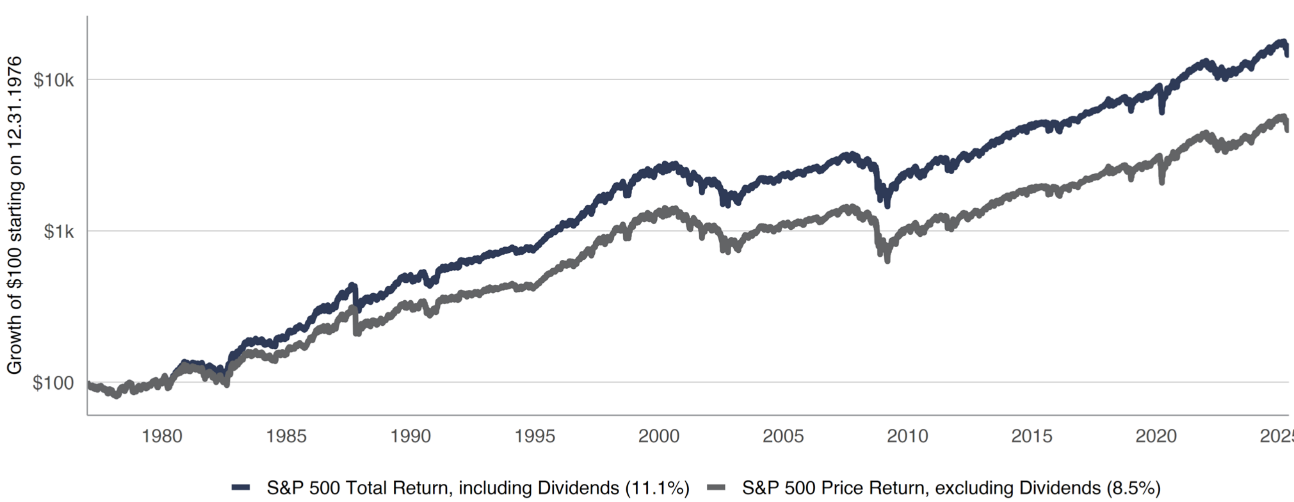
"In the short run, the market is a voting machine but in the long run, it is a weighing machine."
— Benjamin Graham

FUNDAMENTALS

Successful investing begins with fundamentals. In the first edition of *The Prudent Speculator* in March 1977, editor Al Frank wrote on his typewriter, "Essentially, the TPS method is to *buy low and sell high*. Low refers to "undervalued" (in the market place) stocks, and high refers to fully- or overvalued stocks. These valuations are based upon historical, current, and projected: 1) tangible book value; 2) net working capital; 3) price/earnings ratio; 4) earnings; 5) dividends and dividend policy; 6) price; 7) earned on net-worth percentage; 8) other special considerations unique to the company being analyzed (e.g., management, products, cultural trends); 9) stock market climate; and 10) the individual's needs, capacities, and portfolio. I include items 9) and 10) in the notion of valuation because it is silly to consider any equity independently of them. Thus, any "recommended" stock is in an individual- and market-dependent context."

We've built on that approach over the years, but have remained true to our original, core beliefs. Over the last 48 years, hype over the latest technological wave, investment fad or economic excess have been met by intermittent busts.

Figure 7: Contribution of Dividends to Total Returns Over Time



From 12.31.1976 through 04.30.2025. Logarithmic scale. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

These serve as harsh reminders that shareholder value is created by businesses that generate real cash and operate from a position of actual financial strength. That's why we keep our focus on owning companies with robust balance sheets, the ability to produce positive free cash flow and inexpensive relative valuations.

DIVIDENDS & INCOME

In an investment landscape increasingly captivated by the next hot trend or macro forecast, we believe it is essential to ground ourselves in the time-tested fundamentals that have driven wealth creation across generations. One such cornerstone, often overlooked in a market enthralled with momentum and speculative narratives, is the humble dividend. Together with capital returns like share repurchases, dividends have historically played a significant role in equity total returns. They continue to do so today.

Indeed, throughout market history, dividends have not merely supplemented capital gains. Over long stretches, they tend to comprise a substantial portion of the total return experience (Figure 7), especially when price appreciation was hard to come by—think inflationary periods like the 1970s—and can serve to buffer draw downs from bear markets. Dividends were more than a consolation, they were a critical component of investor success.

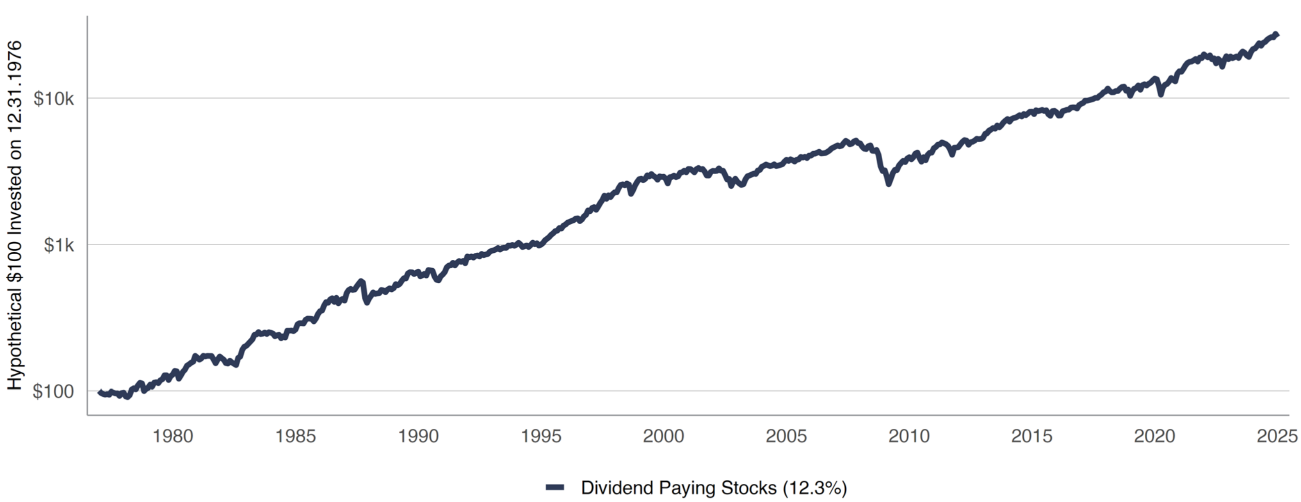
That is why we focus not on fads but on companies with a commitment to rewarding shareholders. We seek out businesses that marry attractive dividend yields with a demonstrated history of consistency and growth in their cash distributions (and in their businesses).

These regular cash flows are especially important for investors focused on generating income from their investments (and retirees in particular) without sacrificing the potential for long-term capital appreciation.

Of course, prudence is paramount. We do not chase high yields indiscriminately. Instead, we emphasize sustainability, prioritizing firms with reasonable payout ratios, ample free cash flow generation, solid balance sheets and durable competitive advantages. These are the hallmarks of businesses capable of maintaining and even increasing their dividends through the inevitable ups and downs of the economic cycle.

A healthy dividend policy, when paired with opportunistic share repurchases and disciplined reinvestment in the business, reflects a comprehensive capital allocation framework—one that aligns closely with our long-term philosophy of value investing.

Figure 8: Dividend-Payers since 1977



From 12.31.1976 through 12.31.2024. Logarithmic scale. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

QUALITATIVE ANALYSIS

Although we tend avoid big changes in our portfolios to match anticipated business cycle dynamics (the only problem with market timing is getting the timing right), we understand that volatile markets and uncertain economic climates make defensive sectors like Health Care and Consumer Staples become more attractive.

Companies in these sectors usually provide essential products and services, allowing them to maintain revenue streams in challenging environments. As a result, defensive stocks see extra dollars flow in when headwinds are expected to blow strongly.

Within these two sectors in particular, pricing power is valuable. Firms can pass rising costs through to customers without sacrificing demand and protect their margins and earnings stability. Whether it's a pharmaceutical company with patented therapies or a consumer goods company with brand loyalty, pricing power is an important quality in our selection process.

Such companies also can benefit from high returns on invested capital, durable competitive positions and consistent dividend payments. While they may not capture headlines like high-flying growth stocks, they contribute to reliable performance and serve as a foundation for long-term wealth building, especially when we are able to acquire them before they are popular at reasonable valuations.

Whether the companies operate in markets that have headwinds or tailwinds, we consider many qualitative factors in our investment process, a selection of which are listed in Figure 9. Additionally, there are dozens of sector-specific considerations we review, which we believe enhance our process and avoid a one-size-fits-all approach. They are listed in Figure 10. We believe stocks should be evaluated at a high level and with great detail, a process we apply to purchase candidates and current holdings.

INFORMATION TECHNOLOGY

While Value investing is often associated with traditional industries, we have benefited from a healthy allocation to Information Technology companies over the years. Although valuations appear expensive compared to other areas of the market, we like that many information technology firms generate strong free cash flow, carry reasonable debt on their balance sheets and have significant pricing power. In addition, the businesses tend to have healthy growth potential and global economic trends to support them.

Some of the world's largest and most profitable businesses now reside in the Technology sector. These names offer both durability and

Figure 9: Key Factors - All Stocks

QUALITATIVE CONSIDERATIONS	
Factor	**Description**
Quality	Strong leadership is reflected in prudent capital allocation, long-term focus and shareholder-friendly decisions.
Competitive Position	Companies with durable competitive advantages are better positioned to sustain earnings over time.
Industry Position	A firm aligned with favorable industry trends or secular tailwinds may outperform despite near-term headwinds.
Pricing Power	Businesses that can raise prices without losing customers tend to preserve margins and navigate inflation effectively.
Risks	Exposure to political, legal or regulatory uncertainties can impact long-term stability and returns.

SOURCE: The Prudent Speculator and Kovitz

Figure 10: Key Factors - Special Considerations

SECTOR-SPECIFIC FACTORS	
Factor	**Description**
Interest Rate Sensitivity (Financials & Real Estate)	Sectors like banks, insurers and REITs are directly impacted by interest rate changes, influencing margins and asset valuations.
Commodity Price Exposure (Energy & Materials)	Earnings in these sectors often rise and fall with commodity cycles, making them sensitive to global supply-demand dynamics.
Regulatory Environment (Health Care & Utilities)	Government policy, reimbursement rates and regulatory oversight can materially affect profitability and risk.
Cyclicality (Industrials & Consumer Discretionary)	These sectors typically follow the economic cycle, with revenues rising in expansions and falling in contractions.
Innovation (Technology)	Rapid innovation can create high growth potential but also elevates the risk of product or platform obsolescence.

SOURCE: The Prudent Speculator and Kovitz

growth, along with shareholder-friendly capital return policies. When such companies trade at attractive multiples relative to earnings, they fit nicely into our Value-oriented portfolios.

Importantly, we continue to keep our long-term view. We don't chase trends, but we do recognize the strategic opportunity ahead for most of these companies in big-picture themes, like cloud computing or artificial intelligence (A.I.). We look for leaders with competitive positions, resilient operating models and financial strength.

FINANCIALS

Banks and financial services firms have generally strengthened their balance sheets since the Global Financial Crisis and operate with more conservative risk profiles. Interest rate changes can boost net interest margins, while improved credit conditions support loan growth and profitability. The evolution of the sector, we believe, is healthy for the global economy. In Figure 11, we list five Financials-specific factors we believe are important to evaluate.

Figure 11: Key Factors - Bonus Items

FACTORS FOR FINANCIALS	
Factor	**Description**
Efficiency Ratio	This compares non-interest expenses to total revenue, providing a key indicator of how effectively a bank is controlling its costs; a lower ratio generally reflects better operational efficiency and profitability.
Leverage Ratios	Financial ratios like debt-to-equity or loan-to-deposit ratios reveal important insights into a bank's financial stability and its exposure to risk.
Loan Loss Provisions	Loan loss reserves are funds set aside for potential loan defaults, which can significantly impact both earnings quality and a bank's risk profile.
Net Interest Margin (NIM)	Net interest margin represents the difference between interest earned on assets and interest paid on liabilities, a crucial measure of profitability for banks and other lenders.
Price to Sales Ratio	We skip P/S for the Financials and Real Estate sectors because they do not have classic sales. They could print $1 trillion of revenue, but that doesn't give a helpful sense for the business.

SOURCE: The Prudent Speculator and Kovitz

Investing in Volatile Periods

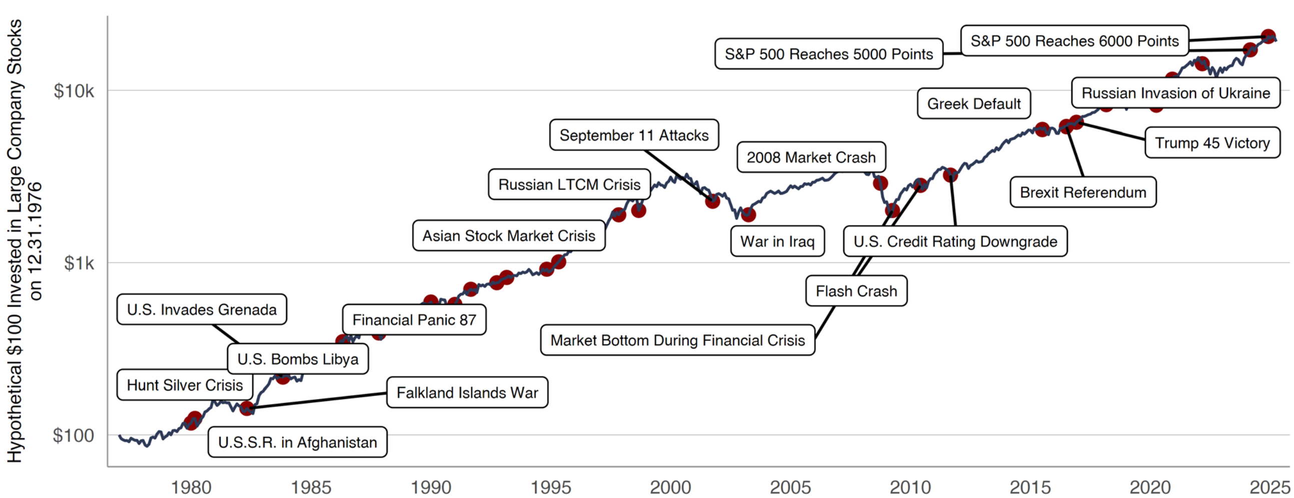
"Real investors should never feel bearish because the time to buy value is when markets go down!"
– Thomas Kahn

We've weathered eight separate official Bear Markets since our first issue went to press in March 1977, plus dozens and dozens of other scary events including war, plague, recessions and terrorist attacks. Over that time, stocks marched higher at an annualized pace of 11.5%, despite the occasional interruption (a sample of which are plotted in Figure 12).

Among the most impactful, Black Monday occurred on October 19, 1987, when the Dow Jones Industrial Average plunged 22.6% in a single day—the largest one-day percentage drop in U.S. stock market history. The crash was triggered by a mix of investor panic, programmatic trading and overvaluation fears, sending shockwaves through global markets. Even though much of the volatility that followed was nauseating, the Dow Jones and S&P 500 indexes had recovered their losses by the end of 1988 (on a total return basis).

The New Millennium Tech Bubble, also known as the Dot-Com Bubble, peaked in the late 1990s and burst in early 2000, after excessive speculation drove valuations of internet and technology companies far beyond their fundamentals. When investor confidence collapsed, the NASDAQ plunged nearly 80% from its high, wiping out

Figure 12: Market Crises since 1977



From 12.31.1976 through 03.31.2025. Logarithmic scale. SOURCE: Kovitz using data from Bloomberg Finance L.P.

trillions in market value and leading to the failure of many high-flying startups. The Bear Market started on March 24, 2000 and lasted until September 21, 2001 and saw the S&P 500 drop 37% without dividends. There was another brief Bear Market in 2002, but the S&P 500 nearly doubled between 2001 and the Great Recession in 2007.

Speaking of which, the Great Recession was triggered by the collapse of the U.S. housing market and the widespread failure of mortgage-backed securities held by major financial institutions. It led to a global crisis, massive job losses and the deepest economic downturn since the Great Depression, prompting unprecedented government bailouts and central bank intervention. The worst was over by March 2009, with the subsequent Bull Market spanning nearly 11 years and returning 401% before dividends.

The COVID-19 stock market crash in early 2020 was sparked by the rapid global spread of the coronavirus, which caused widespread economic shutdowns and uncertainty. Major indexes, including the S&P 500, fell over 30% in just a few weeks, before rebounding sharply amid massive fiscal stimulus and unprecedented central bank support. Stocks moved wildly up and down, but the S&P 500 ultimately recouped its losses by mid-August with a Bull Market that saw stocks gain 114% from the trough by January 2022.

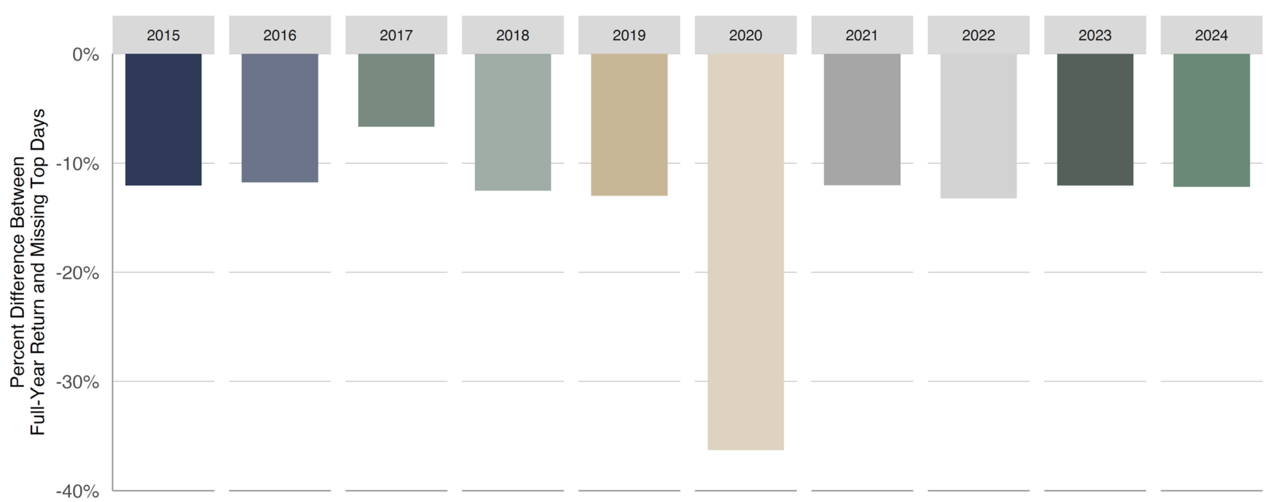
Market volatility can test even the most seasoned investors. Sharp declines, negative headlines and economic uncertainty often tempt us to retreat to the sidelines. But history teaches a powerful lesson: staying invested through market turbulence is one of the most important keys to success.

Many of the market's strongest days occur close to its worst. Investors who sell during downturns risk missing the early stages of a rebound, often when returns are the highest. Figure 13 shows that missing the five best days would have reduced an investor's *annualized* return by an average of 14.2% over the last decade. Because these turning points are nearly impossible to predict, maintaining consistent exposure is critical.

While volatility may feel unsettling, it's a natural part of investing. Markets move on sentiment, news, and data, but over time, they've consistently trended upward as businesses grow and economies recover. For long-term investors, temporary setbacks have historically been opportunities, not reasons to abandon a financial plan.

Each of these events may have felt like the end of the world at the time, yet markets rebounded, and those who remained invested were rewarded. Sure, diversification and strong fundamentals improve odds, but it's the ability to stay the course that makes a successful investor.

Figure 13: Missing the 5 Best Days Damages Returns



From 12.31.2014 through 12.31.2024. The 5 most-positive stock market performance days were skipped each year. After excluding the specified number of best days, the geometric average return was calculated and subtracted from the S&P 500's full-year total return. SOURCE: Kovitz using data from Bloomberg Finance L.P.

Positioned for Volatility and Beyond

In times of broad-based pessimism, we plant the seeds of long-term opportunity by investing in quality companies trading at a discount.

Positioning a portfolio to navigate near-term volatility while remaining focused on long-term growth requires a thoughtful blend of resilience, discipline, patience and opportunism. In our view, a portfolio should own good stocks that trade at reasonable valuations (we want to buy quality merchandise when it is marked down).

In turbulent markets, investors tend to gravitate toward safer companies. They usually have strong balance sheets, consistent free cash flow and durable business models. We've found that these companies weather storms better than their peers. Still, in times of broad-based pessimism, even the best businesses can be indiscriminately sold off. When quality stocks are thrown out with the bathwater (a reciprocal of the "rising tide lifts all boats"), we pounce on the chance to plant the inexpensively purchased seeds of long-term opportunity.

Importantly, a portfolio rooted in quality doesn't just aim to endure tough times. It's also well-positioned to thrive in more favorable, calm and growth-oriented environments.

Think of it like planting a garden. Market downturns are like the early days of spring: cold, muddy and unwelcoming, but ideal for sowing seeds.

Figure 14: Strategy Metrics Are Discounted

TPS PORTFOLIO, SMID & INDEX METRICS					
Series	Price to Earnings	Price to Est. Earnings	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	***14.8***	***12.9***	***0.9***	***2.4***	***2.7***
Russell 3000 Value	18.8	17.3	1.7	2.5	2.2
Russell 3000	24.3	21.3	2.5	4.3	1.4
Russell 3000 Growth	33.0	26.9	4.9	10.9	0.7
Small-Mid Dividend Value	***11.4***	***10.2***	***0.5***	***1.6***	***3.3***
Russell 2000 Value	27.5	19.5	0.9	1.2	2.5
Russell 2000	52.1	26.7	1.2	1.9	1.6
Russell 2000 Growth	79.2	40.1	1.8	3.9	0.7

As of 04.30.2025. SOURCE: Kovitz using data from Bloomberg Finance L.P.

It's the right moment to plant, as those seeds (e.g. your portfolio of stocks) have the chance to establish strong roots while prices are low. Then, when the sun is shining and markets are flourishing, those seeds will have grown into sturdy, fruitful plants. That's when you trim and harvest, reaping the benefits of the work.

As with gardening, success in investing requires a steady hand, an eye on the long term, and the discipline to plant during the bad weather in order to enjoy the bloom that follows.

TPS PORTFOLIO

The TPS Portfolio is designed to closely track the recommendations of *The Prudent Speculator* newsletter. Launched on March 10, 1977, it was originally managed by the newsletter's founder, Al Frank. Today, the portfolio is managed by John Buckingham and his team, who maintain its long-standing philosophy of broad diversification across a wide range of major market sectors and industry groups, typically holding between 70 and 90 individual positions.

Like our other strategies, TPS emphasizes identifying undervalued stocks through a disciplined, bottom-up fundamental research process, informed by macroeconomic and industry trends. John and his team analyze company fundamentals and growth prospects to develop forecasts for earnings, revenue and shareholders' equity. These projections are measured against internally derived fair-value multiples to establish TPS's published Target Prices.

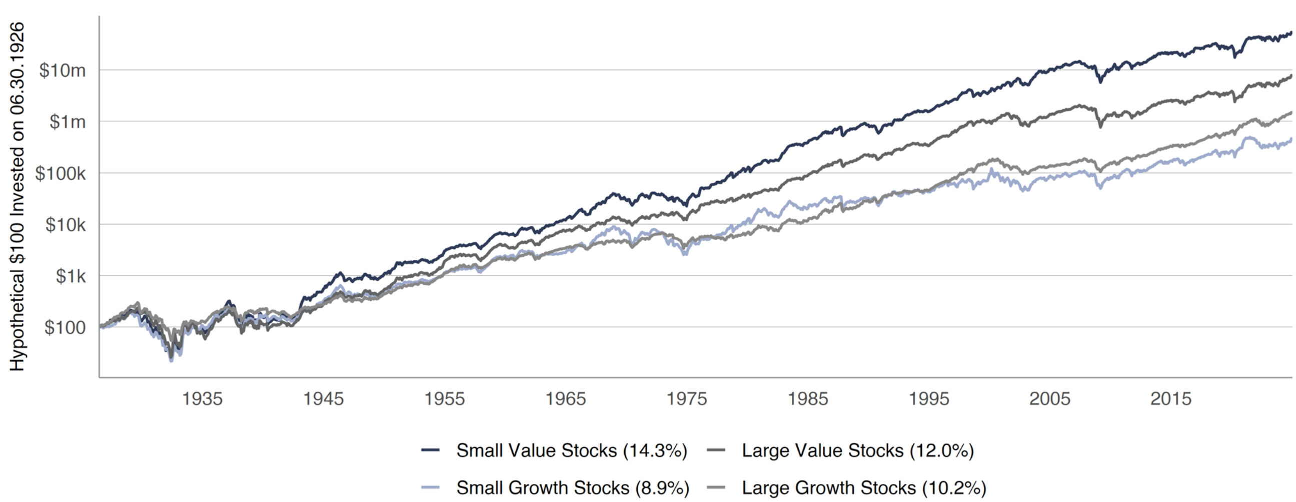
SMALL-MID DIVIDEND VALUE (SMID)

The Small-Mid Dividend Value (SMID) strategy follows the same rigorous research process employed by TPS and our other California-based strategies but focuses on companies with market capitalizations generally under $20 billion—including micro-, small- and mid-cap stocks. A distinguishing feature of SMID is its requirement that every portfolio holding pays a dividend, setting it apart from many other small-cap investment approaches. This dividend criterion allows investors to participate in the growth potential of smaller companies while also generating current income. As illustrated in Figure 15, small-company stocks have historically delivered strong long-term growth, reinforcing their appeal as a component of a diversified asset allocation.

A GENERAL NOTE

Navigating market volatility while remaining focused on long-term growth requires a disciplined approach centered on owning high-quality, attractively valued companies that can weather downturns and capitalize on recovery.

Figure 15: The Long-Term Power of Small & Large Value Stocks



From 06.30.1926 through 12.31.2024. 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. Logarithmic scale. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

Why Asset Allocations Matter

"The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and a behavioral discipline that are likely to get you where you want to go."
– Charles D. Ellis

For nearly 50 years, we've devoted an entire newsletter to stock investing philosophy. It continues to be our North Star and driving force. But we can't overlook the importance of an asset allocation and comprehensive wealth planning, which are areas in which we've devoted tremendous attention and effort to expand.

Ultimately, your personal wealth needs to work for you in a way that supports your goals, risk-taking ability and attitude about investing. For many families, stocks will be a large part of their allocation, driving growth, generating income and keeping their goals on track. For others, stocks may play a smaller role, while fixed income (bonds), real estate or alternative investments are added for characteristics like income generation, risk management and diversification.

ASSET ALLOCATION

An asset allocation should be revisited regularly, but constant tinkering is to be avoided. It's important to ensure that your asset allocation still aligns with your time horizon and risk tolerance, especially if the investing environment has shifted. Sharp market swings and emotional impulses often drive investors toward cash or

Figure 16: Characteristics of Major Asset Classes

KEY ATTRIBUTES OF COMMON ASSET CLASSES			
Asset Class	Primary Role	Liquidity	Volatility
U.S. Stocks	Capital appreciation	High	High
International Stocks	Diversification & growth	High	High
Bonds (Fixed Income)	Income generation	High	Low to Medium
Real Estate (REITs or Private)	Inflation hedge & income	Medium to Low	Medium
Cash & Cash Equivalents	Capital preservation	Very High	Very Low
Commodities	Inflation hedge	Medium	High
Alternatives (e.g. Hedge Funds)	Diversification & return	Low to Medium	Medium to High

References to specific asset classes are for illustrative purposes only and do not constitute a recommendation or investment advice. SOURCE: The Prudent Speculator and Kovitz defensive assets, yet history shows these moves frequently lead to missed recoveries and unmet goals. Instead, volatile markets offer opportunities to make modest adjustments to allocations, just as a rising market offers an opportunity to harvest winners.

BEHAVIORAL DISCIPLINE

One of the underappreciated benefits of a well-designed asset allocation is that it helps investors remain disciplined in the face of uncertainty. Emotions can result in impulsive decisions, such as selling after a market drop or chasing returns after a rally. A high-quality allocation anchored with a long-term plan serves as a behavioral guardrail. It provides a rational framework for navigating irrational markets and helps keep investors focused on what truly matters: their personal goals.

REBALANCING STRATEGY

Maintaining the intended mix of assets through regular rebalancing is an essential part of allocation discipline. Left alone, asset classes can drift significantly due to market performance, altering a portfolio's risk profile. Rebalancing sometimes happens on a fixed schedule, but we prefer to employ some flexibility, adjusting when necessary to restore an appropriate balance. Generally speaking, periodic rebalancing is a systematic way to buy low and sell high, helping remove some of the emotion of the current environment from the equation. Rebalancing is not about chasing performance, rather it's about managing risk and staying on course.

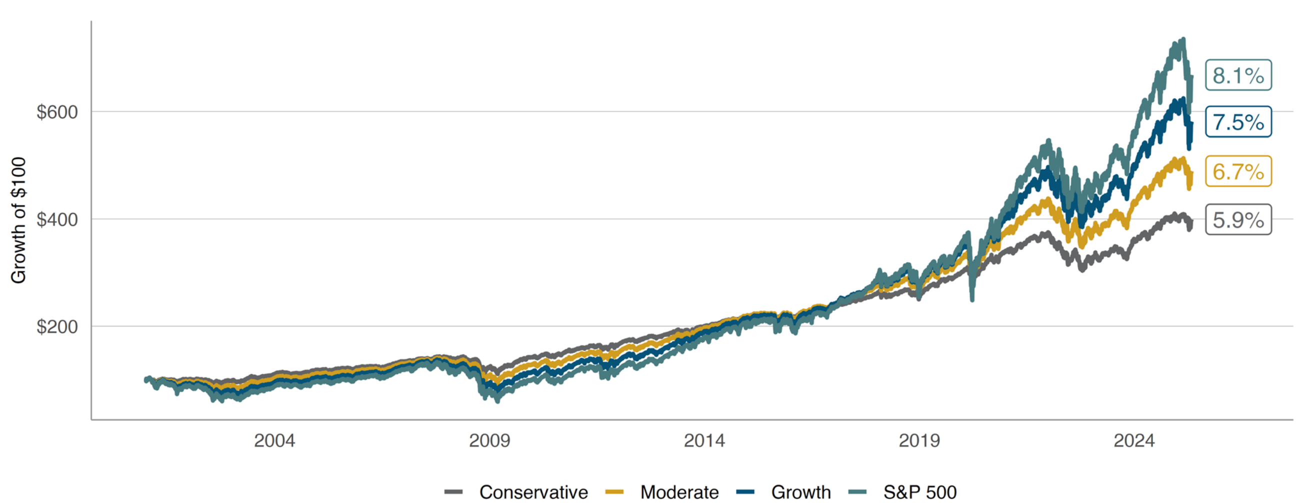
DIVERSIFICATION

Figure 17 shows that simple allocation portfolios that blend stocks (S&P 500 index) and bonds (Bloomberg U.S. Aggregate Bond index) maintained a more stable growth trajectory than the S&P 500 alone. Importantly, the allocation portfolios softened the impact of 19 market declines of 10% or more during this period, adding value in situations where stability is important.

TAX AND LIQUIDITY CONSIDERATIONS

Asset allocation also plays a role in tax efficiency and liquidity management. Investors can improve after-tax returns by thoughtfully placing investments in taxable vs. tax-deferred accounts (e.g., keeping high-turnover or high-yield investments in Individual Retirement Accounts). Likewise, ensuring sufficient liquidity (particularly in retirement or for short-term goals) helps avoid selling long-term growth assets at inopportune times. Allocation decisions should account for both market risks and real-world cash flow needs.

Figure 17: Allocation Portfolios Can Smooth Out the Ride



From 12.31.2000 through 04.30.2025. The conservative allocation is 40% S&P 500 index, 60% Bloomberg U.S. Aggregate Bond index. The moderate allocation is 60% S&P 500, 40% Bloomberg U.S. Agg index. The growth allocation is 80% S&P 500, 20% Bloomberg U.S. Agg index. The portfolio is rebalanced quarterly. SOURCE: Kovitz using data from Bloomberg Finance L.P.

INCOME NEEDS

As a general guideline, we use a 4% withdrawal rate as a reasonable starting point for retirement planning, aiming to provide sustainable income while preserving capital over a retirement that may span several decades. Commonly known as the “4% Rule,” this approach is based on historical data and assumes a well-diversified portfolio of stocks and bonds that can endure different market conditions. While it offers a useful benchmark, it is not a one-size-fits-all solution and the appropriate withdrawal rate can vary widely. For instance, in low-yield environments or in early retirement scenarios, a more conservative (i.e. lower) withdrawal rate may be a prudent move.

Additionally, the structure of an asset allocation plays a significant role in sustaining income. A thoughtful allocation can ensure that income-producing assets such as dividend-paying stocks, bonds or even certain alternatives are included in proportions that meet ongoing cash flow needs. Many retirees also benefit from a “bucket” approach, where near-term withdrawals are funded from lower-volatility assets like cash or short-term bonds and longer-term growth comes from equities.

This strategy helps reduce the risk of selling growth assets in a downturn to meet income needs. Additionally, the flexibility to adjust withdrawal rates over time helps improve sustainability and peace of mind throughout retirement.

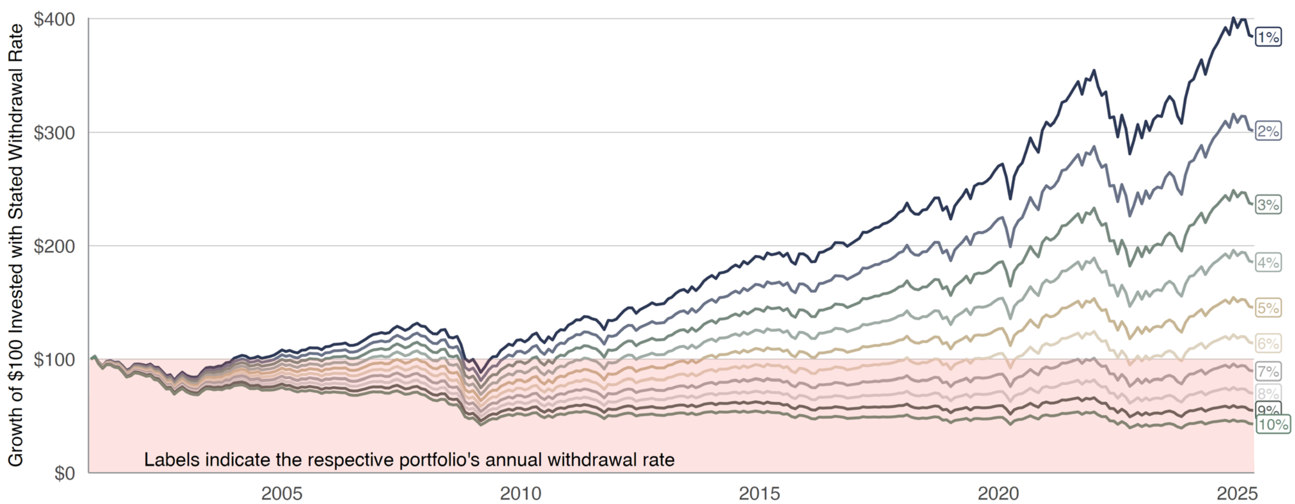
YOUR FINANCIAL FOUNDATION

Asset allocation is the foundation of a sound investment strategy, reflecting your long-term goals, risk tolerance and time horizon into a balanced portfolio that can weather whatever the future throws at it. While stocks are loved for their capital appreciation potential, bonds and alternatives offer important benefits like income generation, diversification and risk management.

A thoughtful allocation helps investors remain disciplined, resist emotional decision-making, and stay aligned with their plan even in volatile environments. Regular, thoughtful adjustments, rather than constant tinkering, ensure the strategy remains relevant without being reactionary.

Beyond performance, asset allocation serves multiple practical roles. It helps manage taxes, meet liquidity needs, and deliver reliable income—especially critical during retirement. Strategies like systematic rebalancing, withdrawal planning and layering assets based on time horizon can improve both financial outcomes and peace of mind. Ultimately, allocation isn’t just about markets, it’s about making your wealth work for you, supporting your life’s needs and aspirations with confidence and resilience.

Figure 18: Spending Rates Matter



From 12.31.2000 through 04.30.2025. The conservative allocation is 40% S&P 500 index, 60% Bloomberg U.S. Aggregate Bond index. The moderate allocation is 60% S&P 500, 40% Bloomberg U.S. Agg index. The growth allocation is 80% S&P 500, 20% Bloomberg U.S. Agg index. The portfolio is rebalanced quarterly. SOURCE: Kovitz using data from Bloomberg Finance L.P.

Final Thoughts

"The mantra is patience, patience and more patience. Think long-term and remember that the big rewards accrue with compound annual rates of return."
– Peter Cundill

A FRAMEWORK FOR 2025 & BEYOND

In an increasingly complex investment landscape, clarity begins with a disciplined asset allocation aligned to your goals, risk profile and overall financial situation. Whether you're conservative, balanced or growth-oriented, the composition of your portfolio should reflect both your long-term objectives and your emotional comfort with market volatility.

Equally important is maintaining consistency through proven approaches over time, which helps reduce the temptation to time markets and make reactionary decisions. This kind of process-driven discipline anchors your plan in thoughtful action—not impulsive reaction.

Beyond a personalized asset allocation and consistency, tax efficiency plays a critical role in maximizing after-tax returns. Strategic techniques such as tax-loss harvesting and Roth conversions can materially enhance long-term outcomes, especially when integrated into a comprehensive wealth plan.

Leveraging a broad array of investment tools within a Value-oriented framework allows investors to remain diversified, goal-focused and positioned to capitalize on market dislocations as they arise. Ultimately, success comes from building an allocation that fits who you are with the conviction to continue through all market and economic cycles.

PRINCIPLES FOR THE LONG-TERM

The temptation to time markets is as old as investing itself. History continues to demonstrate that time in the market trumps market timing. Long-term investors are rewarded not for making perfect calls, but for participating through the full arc of market cycles. Staying invested through downturns, and even leaning into them when others are retreating, has been a hallmark of lasting success. The framework may evolve, but the discipline it requires does not.

As noise grows louder, from headlines, short-term fads or fleeting fears, Value investing's principles remain a steady compass. Selection, Diversification and Patience are not relics, they are core tenets.

For those committed to the long game, moments of uncertainty often plant the seeds of future opportunity. So we end with a simple call to action: stay the course and maintain a long-term view. In the end, enduring wealth is rarely built in moments of euphoria, but rather in times of uncertainty, by those with the foresight to remain patient and focused when it matters most.

We believe true wealth management goes beyond numbers–it's built on trust, transparency and a deep understanding of your goals. As fiduciaries, we're committed to putting your best interests first, always.

Whether you're navigating life transitions, planning for future generations or seeking a partner to help you make confident financial decisions, we're here to help.

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The description of products, services, and performance results contained herein is not an offering or a solicitation of any kind. Past performance is not an indication of future results. Securities investments are subject to risk and may lose value.

The Standard & Poor's 500 index (S&P 500) is a broad stock market index based on the market capitalizations of the largest 500 companies listed in the U.S. 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. The S&P 500 Growth Index is a market capitalization weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices. Prior to 12/19/2005 this index represented the S&P 500/Barra Growth Index. The S&P 500 Value Index is a market capitalization weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices. Prior to 12/19/2005 this index represented the S&P 500/Barra Value Index.

The factor-based (book value-to-price) portfolio data is from Eugene F. Fama and Kenneth R. French. The dataset is broken into four groups: large value, large growth, small value and small growth. The aggregate Value and Growth portfolios are monthly averages of the two returns.

Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth 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 Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. 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.

The Russell 3000 Index is composed of 3000 large U.S. companies, as determined by market capitalization. This portfolio of Securities represents approximately 98% of the investable U.S. equity market. The Russell 3000 Index is comprised of stocks within the Russell 1000 and the Russell 2000 Indices. Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The MSCI ACWI Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31 1987. It includes both emerging and developed world markets. The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. The DJ US Real Estate Index represents REITs & other companies that invest directly or indirectly in real estate through development, management or ownership, including property agencies. The index is a subset of the Dow Jones U.S. Index, which covers 95% of U.S. securities based on float-adjusted market capitalization. The S&P GSCI Total Return Index in USD is widely recognized as the leading measure of general commodity price movements and inflation in the world economy. Index is calculated primarily on a world production weighted basis, comprised of the principal physical commodities futures contracts.

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