Annual Letter

To our Clients, Business Partners, and Friends

"By 2005 or so, it will become clear that the Internet's impact on the economy has been no greater than the fax machine's."

– Paul Krugman, Nobel Laureate

As we embark on a new year, the month of January invites us to reflect on its namesake, Janus, the Roman god often depicted with two faces—one looking back at the past year and the other toward the future. Facing both ways, Janus is the guardian of passages and overseer of beginnings and endings. This duality symbolizes our opportunity to review the events of 2024 while reiterating our general principles which will guide us into the unknowns of the upcoming year.

Although the general tone of these letters is usually one of cautious optimism, allow me to say that I'm particularly happy to report on another very successful year in our shared pursuit of your most cherished lifetime financial goals.

As we witness a market surge led by a narrow group of technology stocks, I found the headline quote fitting. When it was written in 1998, it sounded plausible, sentient, even prophetic. Alas, the further we get from 2005, the more shortsighted, comical, and erroneous it becomes. With the emergence of AI, there are no shortage of such predictions from (what I refer to as) the "PhD class."

It's more important than ever to remember that hindsight is 20/20, but there are no facts about the future. As such, we remain driven by your goals, rather than by market prognosticators or economic soothsayers. In sticking to our general principles outlined below, we can avoid another duality: the cardinal sins of panic selling and it's inverse, performance chasing.

Our plan continues to be driven by your goals, and this will continue to be the case in the coming year, and beyond.

I begin, as always, by restating some of our core beliefs, and proceed to a few comments about the current economic/financial backdrop.

The ideas that guide us

- The economy cannot be consistently forecast, nor the market consistently timed. Thus, we believe that the highest-probability method of capturing equities' long-term return is simply to remain invested all the time.
- We are long-term owners of high-quality businesses, as opposed to speculators on the near-term trend of stock prices.
- Declines in the mainstream equity market, though frequent and sometimes quite significant, have historically been surmounted, as America's most consistently successful companies ceaselessly innovate.
- Long-term investment success most reliably depends on making a plan and acting continuously on that plan.
- An investment policy based on anticipating (or reacting to) current economic, financial, or political events/trends most often fails in the long run.

Current commentary

- Powered largely by a very few of the largest technology stocks, the past year was another exceptionally good one for the diversified equity investor. As the year ended, the market gave evidence of broadening out to some extent.[1] That would certainly be welcome.
- The presidential election result was at least clear and uncontested. The economic backdrop continued favorable. The job market remained fairly strong, though showing signs of cooling due to relatively stringent monetary policy. Corporate earnings and dividends reached record highs and are forecast to increase further in 2025.[2]
- If anything, late in the year many investors feared that the equity market had gotten ahead of itself, as evidenced by somewhat stretched valuations.[3] Since valuations have never proven to be a reliable timing tool—any more than anything else has—we encouraged clients to stay true to their plan.
- Inflation has not gone away. Nor, as Fed Chair Powell observed in mid-December, is it going away. A frothy market took this statement rather badly,[4] as indeed it should have, in my opinion.
- And while the fiscal condition of the United States remains undeniably appalling, the consumer is (perhaps surprisingly) in very good shape. The household debt service ratio (debt payments as a percentage of disposable personal income), at 11.3% in the fourth quarter of 2024, is near 40-year lows.[5]
- It doesn't seem reasonable to suppose that the broad equity market can go on indefinitely compounding at the nearly 16% it's been producing since the March 2009 Global Financial Crisis lows.[6] Nor do we need it to. The hundred-year return of the S&P 500 is around ten percent,[7] and our long-term plans incorporate an even-more conservative figure.

In closing

We wish all our clients and friends—because to us they're the same—a healthy, happy, and prosperous 2025. We're always here to answer your questions or address your concerns. Thank you for being my client. It is a privilege to serve you.

All my best,

Jonathan Israel

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[1] JP Morgan Asset Management (2025). « Review of Markets over 2024 » https://am.jpmorgan.com/be/en/asset-management/adv/insights/market-insights/market-updates/monthly-market-review/. Accessed January 8, 2025.

[2] Charles Schwab (2025). "Schwab Market Perspectiev: 2025 Outlook." https://www.schwab.com/learn/story/stock-market-outlook. Accessed January 8,2025.

[3] George Budwell. The Motley Fool (2024). "Are Tech Valuations Stretched to The Breaking Point? The Answer May Surprise You." https://www.fool.com/investing/2024/11/05/are-tech-valuations-stretched-to-the-breaking-poin/. Accessed January 8, 2025

[4] James Appleby. Tees Law (2025). "December 2024: Inflation rises, growth stalls, markets shift." https://www.teeslaw.com/insights/december-2024-inflation-rises-growth-stalls-markets-shift/. Accessed January 8, 2025

[5] JP Morgan Asset Management. JP Morgan Guide to the Markets (2025). Page 18.

[6] BlueTrust (2023). "US vs. Emerging Markets: Comparing Performance Since the Global Financial Crisis." https://www.bluetrust.com/blogs/u-s-vs-emerging-markets-comparing-performance-since-the-global-financial-crisis/. Accessed on January 8, 2025.

[7] Nerd Wallet (2024). "What is the Average Stock Market Return?" https://www.nerdwallet.com/article/investing/average-stock-market-return#:~:text=The%20average%20stock%20market%20return%20is%20about%2010%25%20per%20year,other%20years%20it%20returns%20less. Accessed January 8, 2025.