

Reasons for Investor Gratitude During This Holiday Season



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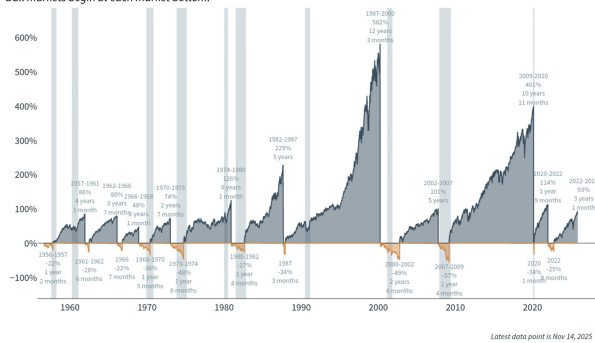
The holiday season offers an opportune moment to reflect on our blessings, including those related to our financial well-being. Investors often concentrate on potential risks rather than acknowledging positive outcomes. Given the current strong market performance, taking time to review the past year can provide valuable perspective as we look toward new challenges and opportunities ahead.

Historical data shows that financial markets have consistently delivered robust returns, and the current year continues this trend. Year-to-date, the S&P 500 has risen more than 15% including dividends, while the Bloomberg U.S. Aggregate Bond Index has delivered approximately 7% returns. For the first time in several years, international equities have surpassed their U.S. counterparts in performance. Diversified portfolios have generally benefited from this widespread strength across multiple asset classes. What considerations should investors bear in mind as they look ahead to the upcoming year?

The bull market has reached its fourth year

Stock Market Bull and Bear Cycles

S&P 500 price index since 1956 bear market with recessions shaded.
For the purposes of this chart, bear markets are 20% declines in price from prior peaks.
Bull markets begin at each market bottom.



Source: Clearnomics,
Standard & Poor's
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Investors have reason to appreciate that markets have delivered solid performance this year, even amid periods of volatility. The current bull market, which started following the October 2022 market trough, is now in its fourth year.

Although historical performance doesn't guarantee future outcomes, data indicates that bull markets generally persist significantly longer than bear markets, frequently continuing for five years or more, and sometimes extending beyond a decade. Historical bull markets have generated cumulative returns substantially higher than what this cycle has produced thus far, despite numerous obstacles that

investors encountered during those periods. While legitimate concerns exist regarding valuations and market concentration, successful long-term investing requires weathering various market environments.

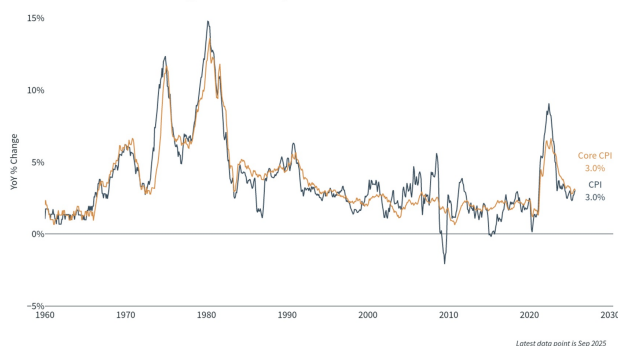
The positive performance in the bond market deserves recognition following several difficult years characterized by rising interest rates and elevated inflation. With rates stabilizing and the Federal Reserve resuming monetary policy easing, bond values have improved. This illustrates why maintaining exposure to both equities and fixed income remains crucial for portfolio balance and income production.

This strength highlights a critical concept: attempting to predict market movements based on near-term events is challenging and potentially harmful if not aligned with your overall financial strategy. This proved true even during April when markets declined nearly to bear market territory following new tariff announcements. Markets recovered swiftly and reached fresh record highs. Disciplined investors were compensated for their patience, whereas those who responded emotionally to news may have forfeited gains and could still be waiting on the sidelines.

Inflation has moderated and the Fed is reducing rates

Consumer Price Index

CPI and Ex Food and Energy, YoY % Change



Sources: Clearnomics,
Bureau of Labor Statistics
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Investors can also be thankful that inflation has declined, despite the pace of improvement being slower than many anticipated. Consumer prices have increased roughly 3% over the past twelve months, which remains difficult for families and monetary authorities. From an investment perspective, however, inflation has become considerably more predictable, with diminished concerns about accelerating price pressures compared to previous years.

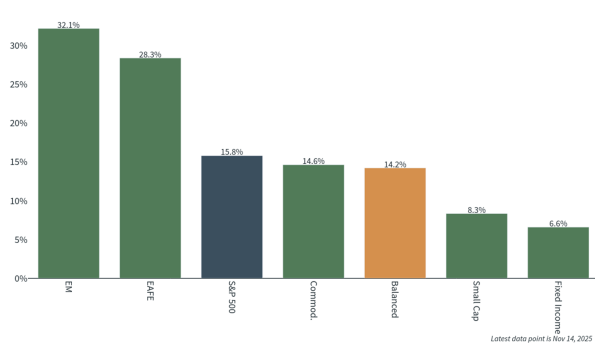
This improvement has enabled the Fed to start lowering interest rates after maintaining them at elevated levels throughout most of the year. These rate

reductions also aim to bolster the labor market, which has shown signs of softening since summer. Over time, declining rates have typically supported both equity and fixed income markets by decreasing the cost of capital for corporations and households while increasing the appeal of existing bonds offering higher yields. Therefore, while inflation and interest rates will continue influencing markets, concerns about perpetually rising inflation and rates seem to have subsided.

Asset allocation supports risk management while pursuing returns

Asset Class Performance Year-to-Date

Total Returns



The Balanced Portfolio is a 40/60 historical index calculation consisting of 40% U.S. Large Cap, 20% Small Cap, 10% International Developed Equities, 5% Emerging Market Equities, 20% U.S. Bonds, and 5% Commodities.

Sources: Clearnomics, ISEF
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Lastly, investors should recognize the value of continuous risk oversight and thoughtful asset allocation. The coming year will undoubtedly introduce fresh uncertainties, as every year does. During these periods, concerns about economic contractions, market downturns, and cycle endings will naturally arise. Instead of responding to each market development, long-term investors benefit from maintaining well-structured portfolios capable of performing through various market and economic conditions.

We can appreciate having access to diverse assets that help achieve an appropriate balance between risk and

return. Managing risk matters throughout an investor's journey, particularly following a three-year market advance. The S&P 500's price-to-earnings ratio stands at 22.6x, exceeding historical averages and gradually nearing levels last seen during the dot-com peak.

While valuations don't necessarily indicate short-term market direction—meaning markets could certainly continue their upward trajectory—they do suggest that prospective returns may be more moderate, particularly relative to less expensive asset classes and sectors. Consequently, maintaining reasonable expectations and holding exposure to market segments with more favorable valuations becomes increasingly important.

Debates surrounding artificial intelligence will continue. Given the revolutionary potential of this technology, uncertainty about its impact on equity prices is understandable. This mirrors the difficulties investors faced when attempting to forecast the consequences of the internet revolution that began in the mid-1990s. Political uncertainty will probably persist as well, driven by evolving tariff policies, international tensions, expanding federal debt, and additional factors. Recent experience confirms that excessive reactions to these developments are not only unhelpful but can jeopardize long-term financial objectives.

The bottom line? The holiday season provides an excellent opportunity to appreciate your investment progress and examine your portfolio structure. A well-designed portfolio harmonizes various asset classes and directs them toward achieving your financial objectives. This approach remains essential for successfully managing both obstacles and prospects in the coming year.

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