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Dear Client,

It's hard to believe that the first quarter was a record setting success when you look at the news and the results from the popular indexes. Our accounts showed very strong positive returns, in some cases double digit returns, which contrasted with declines in the S&P 500, Dow Jones, and Nasdaq. How could this be? Last fall, the overhyped "Magnificent Seven" stocks peaked in value along with other technology related stocks. The decline in these stocks continued dramatically in the first quarter. Tesla is down more than 30% since its December 2025 peak. The "Magnificent Seven" stocks make up a large weighting in the index, causing the index value to move significantly lower in January and February (for the S&P 500 and Nasdaq, the larger a company is, the bigger the weighting the stock receives in the index). Meanwhile, the more reasonably valued blue-chip stocks that pay dividends finally gained recognition in the market. We expect both trends, a bear market in technology stocks and a bull market in value stocks, to continue. The same scenario played out in the 2000 reversal, with many of the market darlings of that era languishing for a generation before advancing, if at all.

Then March came – confrontation with Iran. You would expect this would have hurt the market more, but surprisingly, companies that produce and manufacture products continued to show strength over those that create intellectual property. While these categories aren't mutually exclusive, the winners were companies producing and manufacturing products that have plants, machinery, refineries, raw materials, and natural resources. Yes, boring stuff.

When will this conflict with Iran end? The best answer is, "I don't know". I am entertained and amused at the media talking heads who claim to be able to predict when a resolution will occur. Will oil prices decline back to $60 a barrel when this conflict ends? Probably not. The recent oil glut from a few months ago is gone as we approach peak demand during the prime travel and cooling season. Lower oil prices, yes. Maybe $75ish, but this is a guess. Regardless, the entire energy industry will see significantly better earnings from producers to refiners to service companies. Unfortunately, we can probably expect higher, not lower, interest rates as well as more inflation.

Speaking of oil and gas, valuations of some of these companies may have gotten a little ahead of themselves. Exxon and Chevron, just six years ago, were trading at bargain basement prices. We were told that hydrocarbons were dead. Remember? Last year, more coal was burned than any other time in recorded history. Shamefully, China turned to their vast deposits of some of the foulest, dirtiest, high sulphureous polluting coal rather than pay to import clean burning natural gas or coal. The Chinese population suffers from terrible pollution not to mention the harm to the planet.

One last comment – you may hear about problems investors are having with private equity and private debt. These investments are sold by brokerage firms or by direct mail. These investments have been hit with a surge of redemption requests due to concerns about rising loan defaults and higher interest rates. Unfortunately, investors have been met with "redemption caps," causing significant concern and anguish. Please be advised: we do not and will not invest in this area. We have no exposure to private equity or private debt.

I wish I could tell you what is going to happen in the second quarter. History suggests the second quarter of a mid-term election year can be a difficult time. We'll see what the ongoing ceasefire discussions bring. Whatever comes our way, we're ready. Enjoy the Spring.

Very truly yours,

Richard J. Fruth

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