Quarterly Commentaries

Our Perspectives on Volatile Markets

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Apr 8, 2025

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During the first quarter of 2025, the domestic stock markets reversed course following a strong two-year run. The S&P 500, a broad measure of the US stock markets, declined by -4.3%, including dividends. The Dow Jones Industrials, tech-heavy Nasdaq Composite Index and small cap Russell 2000 Index, including dividends, declined by -0.9%, -9.4% and -9.5%, respectively during the period. Last year's winners, predominantly tech stocks, struggled out of the gates in 2025. International stocks outperformed on US dollar weakness and a shift in investor sentiment, providing a positive return in Q1 for the MSCI EAFE Index of +7.0%. US bonds provided a relative haven, with the Bloomberg Aggregate Bond Index returning +2.8%.

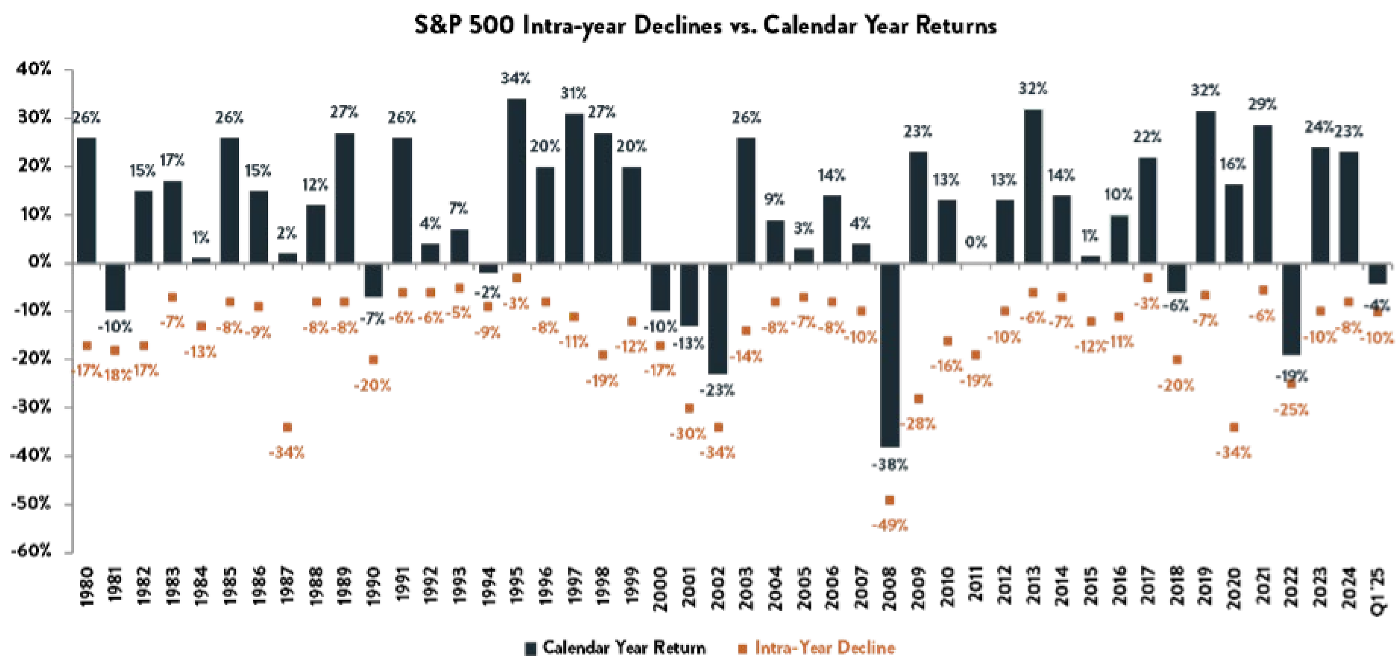
The first quarter saw an increase in market volatility driven by several factors, but principally by investor uncertainty about the new Trump Administration's plans for tariffs. In true Trump fashion, he campaigned on "Fair and Reciprocal Trade Deals," prioritizing "American Producers over Foreign Outsourcers" and bringing "critical Supply Chains back home,"[1] but left the markets guessing at the details about how exactly his chosen tool, import tariffs, would be applied to accomplish these objectives. What followed were months of speculation about how our allies and foes would be impacted, what retaliatory measures they would take in response, and whether these actions would fuel inflation and/or stifle economic activity. The markets reflected this uncertainty, with a remarkable 37% of trading days during the first quarter seeing the S&P 500 benchmark close up or down by more than 1.0%. His so-called "Liberation Day" was set for April 2nd, when all would be revealed.

The markets aren't partisan but merely reflect the consensus view of buyers and sellers on information relevant for the valuation of stocks and bonds. Having participated in them for decades, we know that markets tend to overshoot, but they are sending a clear and emphatic signal. Markets are giving the Administration's policy a definitive "thumbs-down." We believe that this is because Liberation Day raised more questions than it answered, even for those who might believe in the overarching goals of the Administration. Investors are puzzled as to the rationale for the tariff levels chosen, which seemed arbitrary, whether the intention of the Administration is to hold firm on these levels or if they're a negotiating ploy. As it turned out, the first quarter was just the dress rehearsal for market volatility. As this letter is being written, global equity markets have dropped meaningfully from quarter-end levels.

President Trump has indicated that he's undeterred by this volatility; his policy is intended to drive a fundamental change in our economy and among our trading relationships, with any benefits from the change to accrue over the long term. His thinking runs squarely against a well-entrenched status quo that most believe has served the US and our foreign trading partners well for decades, even if it has helped to hollow out the manufacturing base across much of industrial America. This is the constituency that Trump purports to serve with these actions. They are likely to feel pain before they feel any relief.

None of this is news to you, as you've lived through this just as we have. The question we expect you or any individual who has wealth (but a finite amount of it) contemplates during times like this is, "How do we protect ourselves from this uncertainty and market volatility?" To that, we offer the following:

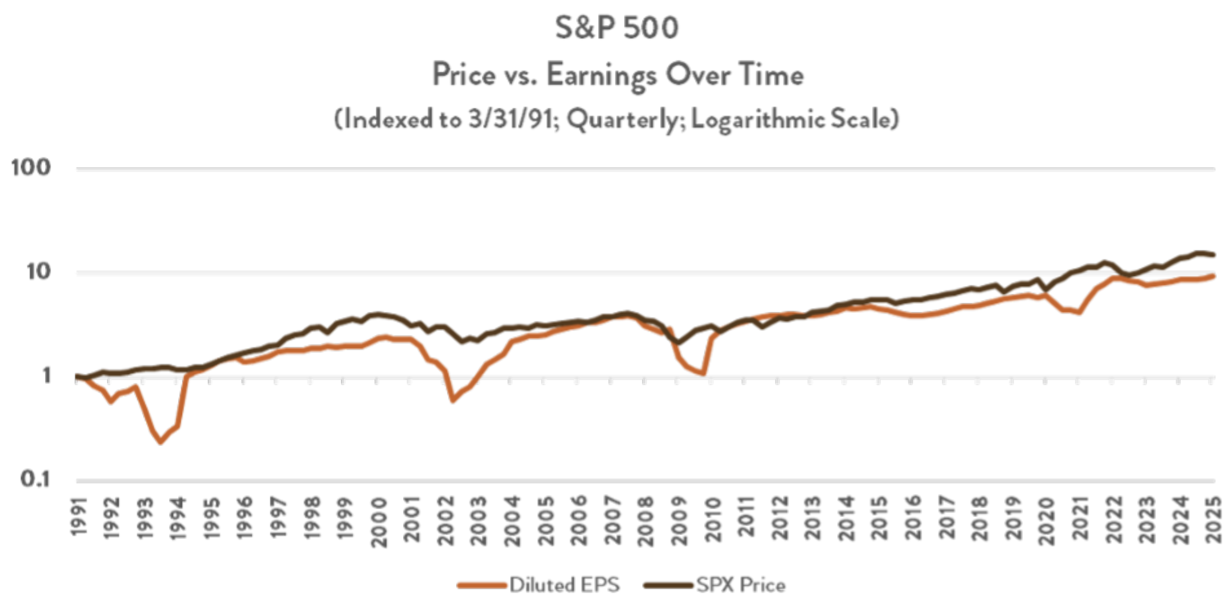
First, we always expect volatility in the equity markets. It's the nature of the beast, and we've lived through it many times. Every time we experience a correction, it feels like something new, but market history shows us that it's not. Over a 44-year period since 1980, drawdowns occurred every year in the S&P 500, and the average drawdown over this period was a loss, from peak to trough, of -14%. The Index's drawdown in the first quarter of 2025 from the February 19th peak was -10.1%. As of the date of this writing, the losses from this peak value for the Index have totaled -18.9%. We never enjoy experiencing declines in value, but seeking to avoid this kind of volatility over the years would have required perfect timing, a lot of trading, and the willingness to pay a lot of taxes along the way. Staying the course through volatility resulted in a compounded annual return of 9.8% for the Index, enough to turn $1,000,000 in 1980 into $61,161,448 by the end of 2024. Will it be different this time? We sincerely doubt it.



Source: JP Morgan Asset Management

Second, we subscribe to a long-term fundamentals and earnings-driven approach to investing. As such, we don't see volatility as a risk, but rather as a potential source of opportunity. Market prices reflect a current perception of the value of the stocks that make up the market. This perception swings between manic and depressive over market cycles, overshooting as it were, but it ultimately settles on reasonable. As long-time investors through many cycles, we have confidence that prices will settle again at levels that reflect intrinsic value. Looking back to the Covid crisis period as an example, we recall that fear and uncertainty drove markets downward, creating an opportunity for us to acquire new names into the portfolio at prices that our research concluded were bargains. Rather than seek the exits, we turned to offense. The second quarter of 2025 may offer a similar opportunity.

The growth in wealth that comes from long-term holdings of common stocks should not come as a surprise. The primary driver of wealth creation in stocks is the growth of earnings for the business of which the stock represents an ownership interest. The chart below demonstrates the close long-term correlation between earnings and valuation. Volatile periods for either prices or earnings disrupt this path, but only temporarily.



Source: Bloomberg

Therefore, our rule of investing is to focus on the long-term earnings power of companies we own and the long-term trajectory of their earnings. The benefits of doing this are twofold. First, by investing in long-term growth in earnings per share, we improve our chances that we'll make money over market cycles. Second, we avoid the mental anguish and likely failure of trying to speculate as to the near-term direction of the markets.

We'll leave short-term market speculation to the hedge fund industry. One study that observed that the average life span of hedge funds is about five years[2], which means they failed their clients so badly that they closed shop. This is not to malign a few great managers who use the fund vehicle to manage investment portfolios, but they are few and far between. Why, as guardians of our clients' wealth, would we want to emulate that model?

These markets remind us of the importance of personal financial planning. Our investment team buys shares of companies with a "margin of safety." We encourage individuals to manage their financial affairs with a similar level of conservatism. Ideally, one will conduct stress tests on one's financial plan under a range short-term market environments in preparation for volatile periods like the one we're experiencing. With the recent declines in equities, we think it's not the right time to get more conservative. That ship has sailed. But feeling unsettled at times like these is normal, so please don't hesitate to reach out to your Financial Advisor and have a discussion about your plan and its margin of safety. We will be here to offer guidance and assurance.

Q1 Portfolio Changes

Please keep in mind, these commentaries should not be construed as a recommendation to buy or sell the securities discussed. Such decisions are made only within the context of the market environment as we perceive it at the time of the decisions and the structure of the diversified portfolio of which the securities are a component.

During the quarter we exited our position in Berkshire Hathaway.

Berkshire Hathaway

Berkshire Hathaway is a conglomerate led by legendary investor Warren Buffett. Berkshire was also one of our longest-held investments and a stellar compounder of earnings and intrinsic value.

Berkshire's outperformance stemmed from Buffett's leadership and capital allocation acumen—providing a permanent home for successful businesses, capitalizing on market uncertainty to buy stocks, and repurchasing shares of Berkshire at opportune times. The result is a diversified portfolio of exceptional businesses with dominant positions in their industries, protected by a wide moat.

While Berkshire's qualities remain intact, its stock price appears to reflect overly optimistic expectations for growth in earnings and intrinsic value. In other words, the stock is too expensive for us to continue holding. Selling an exceptional business is never easy, but any company can become a bad investment at the wrong price—even one led by the greatest investor of all.

New Summitry Teammates

During the first quarter, we welcomed Phil Campit and Mary Miranda to the Summitry team.

Phil Campit is our newest Financial Advisor, serving clients with their broad financial planning needs, guiding them to asset allocations that meet their long-term goals and risk appetites, and responding to questions about the markets and their portfolios. Phil is well known to members of the Summitry team due to his previous work with Charles Schwab, where he was a Financial Consultant in their Menlo Park office. With over 20 years of experience in wealth management, he hits the ground running at Summitry. Phil earned his Bachelor of Arts degree in Finance from San Jose State University. Phil, his wife and daughter live in San Mateo, and his passions outside of work include cooking, traveling and watching English Premier League football ("soccer").

We are thrilled that Mary Miranda joined Summitry in March in the role of Associate Financial Advisor. In this position, Mary will support the firm's Financial Advisors in building financial plans, helping to devise solutions to address specific client needs, and ensuring that clients are well served in all market environments. Mary has spent her career in financial services, with previous roles at Bank of America and two Registered Investment Advisory firms, Yellow Brick Road and Allworth Financial. She earned a Bachelor of Arts degree in Psychology from San Francisco State University (with recognition from the National Honor Society in Psychology). Mary and her husband live in Pinole, and outside of work she enjoys cooking, spending time with family and friends, and visiting Yosemite Park once a year.

As always, we have included with this commentary your quarterly performance figures, management fee invoice(s), and a copy of your portfolio allocation as of 03/31/2025. You will receive statements from your custodian as well. We urge you to compare both statements to ensure accurate reporting. Please let us know if you do not receive a separate statement from your custodian.

We are required to offer you a copy of our latest Form ADV, which is our registration statement with the SEC and state regulators. If you would like to receive a copy, please contact us at jennifer@summitry.com or at (866) 604-6582 and we would be happy to send you a copy. The offer of the ADV and a list of material changes will also be sent to you in a separate mailing later this week.

[1] DJT 2024 Campaign Platform

[2] John Lanchester, New Yorker Magazine 7/28/14