



September 2025

Our portfolio lagged the S&P 500 Index modestly this past quarter. Color us not surprised. The overall picture painted by investors in 2025 has so far been a surprisingly romantic one, with little in the way of clouds gathered on the horizon or dramatic tension in the foreground. We, on the other hand, would portray a more naturalistic scene, envisioning ourselves as a farmer in the field, planting and harvesting crops against a backdrop of wan sunshine and developing cumulonimbus.

Certainly, this depiction of where we are in time is grittier than the market's more pastoral take on it. Not that we're foretelling a crash, an acceleration of inflation, or the onset of stagflation—much less a recalibration of the elaborate investment thesis around AI. But we believe viscerally that, in a complicated and changing landscape, blue skies and lush greenery don't have to remain the backdrop for either the economy or the stock market indefinitely. Realists that we are, we know that the emeralds of Spring inevitably yield to the russets of Autumn and that there's often a skull lurking among the bounty of fruit and flowers in an otherwise placid still life.

The S&P 500 Index, top-heavy with tech stocks, has in effect cast its lot in favor of an abstraction: an idealized world in which technology transforms commercial activity by massively reducing its labor costs. Even if accurate, this portrait centers Silicon Valley while largely failing to acknowledge the knock-on effects through the economy should the technology prove truly revolutionary. To our minds, though we acknowledge the usefulness of AI in certain (still mostly limited) contexts, we see it largely as table stakes spending for some (if not all) industries, much like the computing systems and software suites that have come before it. Sure, tech is sold and requires updating and refinements over time. Certainly, the producers of it are and will continue to be paid handsomely. But the extravagant valuations supporting the current prices of the "Magnificent Seven" are, if not unsustainable, then at least untested against actual earnings over a cycle in real-world, sustainable use cases.

Finally, it's well worth remembering that the remainder of the economy is itself a huge canvas in its own right, with success painted in the indelible hues of innovation, ingenuity, and the imaginative deployment of others' inventions, including but not limited to AI. Even given the uncertainty around so much today—trade, inflation, job growth, political strife—opportunities beckon. It is among these less avant-garde offerings that we continue to find interesting possibilities, as exemplified by our recent investments in **United Healthcare** and **Progressive**.

We thus continue to believe in the clarifying solvent of our discipline, which permits us to separate excellent companies from kitsch, to hold cash while awaiting a protective entry price, and to withstand the temptation to be beguiled by the hustlers of the investing world. Companies whose future is impressionistic at best, sold at surreally high prices, are not the masterworks we're hoping to add to our permanent collection.

The information contained herein should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any securities transactions, holdings or sectors discussed were or will be profitable, or that the investment recommendations or decisions that we make in the future will be profitable. The opinions stated and strategies discussed in this commentary are subject to change at any time.