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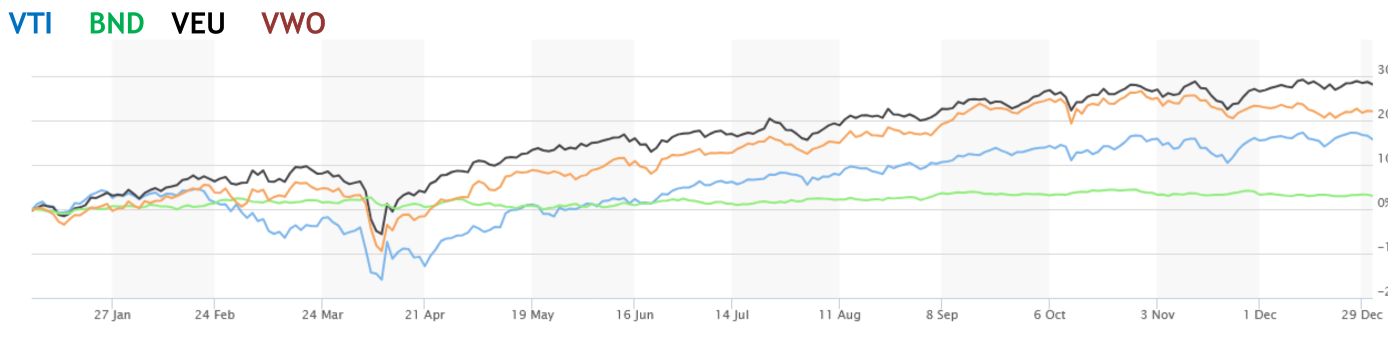
2025 In Review

2025 FUND PERFORMANCE



This chart shows the ongoing change in the share price (not including dividends) of four popular Vanguard index ETFs in 2025. Last year provided a reminder of the potential long-term benefit of having a globally diversified equity allocation. Vanguard's All World ex-US Index ETF (**VEU**) tops the chart with a total return, including dividends, of 32.4%, according to Morningstar. In second place was the Vanguard Emerging Markets Index ETF (**VWO**) with a total return of 24.8% for the year. The performance of these two ETFs reflects an awakening in the performance of foreign stocks after a decade long slumber. Their returns were a combination of share price increases and a 9% (according to FactSet) decrease in the value of the dollar last year compared to a basket of other currencies. Investments in global equities reduce home-country concentration and function as a hedge against a falling dollar. When the dollar declines vs. foreign currencies, the dollar share price of foreign stock funds increases in proportion to the dollar's decline. Vanguard's Total Stock Market Index Fund ETF (VTI) had a total return of 17.1%. The 15.3% performance advantage for VEU over VTI was the most in the past 15 years. Vanguard's Total Bond Market Index Fund ETF (**BND**) gained 7.1%. It is worth noting in the chart that all three stock funds declined precipitously during the "tariff tantrum" in early April while **BND** maintained a steady value. This, in pictorial form, shows the diversification benefits that bonds provide in your portfolio. You don't own them for capital appreciation, but to moderate portfolio volatility.

Every stock and bond index fund that I use in client portfolios produced a positive return last year. This rare and unexpectedly good performance is something for which wise investors should give thanks. The only way to lose money last year was from behavioral mistakes or sitting on the sidelines. If you controlled your emotions, ignored the talking-head Chicken Littles, owned and continued to fund a diversified portfolio of stock and bond funds, you should be happy about your portfolio's performance in 2025.

Once again last year, to the ongoing dismay of market timers, there was no way to predict stock market performance from one day, week, or month to the next. After the S&P 500 netted back-to-back gains that exceeded 20% in 2023 and 2024, the "tariff tantrum" in the first week of April saw back-to-back daily declines of -5% and -6%. By April 8th, the S&P 500 was down over 15% for the year, its fourth worst start to a year. This meaningless fact didn't go unnoticed in the financial media, which intentionally accentuates all things negative. But one week later, stocks rose almost 10% in a single day, the start of a 38% rally that netted a total return for the S&P 500 Index of 17.9% for 2025. According to data provided by Advisor Perspectives, in 2025 there were 56 days in which the S&P 500 Index rose or fell more than 1% (27 up and 29 down) and there were 39 all-time highs in the index. Since 1980, the average intrayear drawdown in the S&P 500 Index has been 14% and last year's largest drawdown was 19%. Wise investors understand that this type of volatility is common, a permanent feature of investing in stocks. While the magnitude of the 2025 comeback was greater than most, the story of the stock market is really the story of one comeback after another. Day-to-day price changes in the stock market are caused by institutional investors attempting to get to the trough first and profit from the latest piece of financial news. This herd-like stampeding leads to an inevitable market overreaction to whatever event is currently tickling or poking their fancy. Today it's AI. Tomorrow it will be something else. The names change but the game goes on. You can't make market volatility the reason to avoid investing in the stock market. The stock market is not unpredictable because it is volatile; it is volatile because it is unpredictable.

2025 presented active managers ideal conditions to demonstrate their value. Among the stocks in the S&P 500 Index, 11 had gains in excess of 100% and four had gains in excess of 200%. On the other hand, there were 20 stocks that lost at least 32% and the five worst performing stocks each fell by more than 50%. With this degree of performance dispersion, skilled active managers should have been able to overweight the high performers and avoid the bottom feeders and easily outperform the S&P 500 Index. So how did they do? The Vanguard 500 Index ETF (VOO) is the largest S&P 500 Index fund. According to Morningstar, in 2025 VOO finished in the 25th percentile of the 1,386 large blend domestic stock funds in its database. That means it outperformed 75% (1,040) of similar funds. For the past five years, VOO has outperformed 80% of its competitors, 87% over the past 10 years and over the past 15 years it has outperformed 91% of comparable funds. Even more disheartening for proponents of active management is that these rankings suffer from survivorship bias. About 7% of actively managed funds bite the dust every year and their poor performance is buried with them. Thus, VOO has not only outperformed 91% of large blend funds that have survived for the past 15 years but also all those that have ceased to exist since 2011. Despite decades of research showing that passive index investing consistently outperforms active management, many individual investors continue to pay fees for actively managed funds, often under the advice of financial advisors who use promises of outperformance as part of their value proposition. From where I sit, their career prospects don't look too bright. As hard as it might be to outperform in a single year, outperformance over longer time horizons is a formidable task. While some managers add value every year, the outperformance rarely persists. S&P noted – "*consistent outperformance, both relative to peers and versus the benchmark, is typically hard to find. Among top-quartile funds (top 25%) within all reported active domestic equity categories as of December 2020, not a single fund remained in the top quartile over the next four years*". For most investors, the evidence remains clear: passive strategies offer the best risk-adjusted returns after fees.

I remain underwhelmed by so-called alternative investments - hedge funds, master limited partnerships, private equity, commodities, and other nontraditional investments. These funds use strategies that utilized hedging, shorting, or trend-following, and sport names with terms like "multi-alternative," "market-neutral," and "absolute return". I have found little or no evidence that these alternatives offer higher long-term risk adjusted returns than traditional assets such as stocks and bonds. Many are the result of questionable back testing, laden with debt, hold concentrated portfolios, trade excessively, lack liquidity, have high annual expenses, and rely on economic forecasts of questionable value. The popularity of alternative funds soared after the financial crisis by promising to make money (or at least not lose money), regardless of what happens. So far, most have failed to live up to their promises. On Jan. 1, 2015, there were 1,345 alternative mutual funds in Morningstar's database. By June 30,2025, only 341 still existed. The other 1,004 have been liquidated or merged away, a 75% mortality rate.

Coming soon to a 401(k) near you - Wall Street's product providers now want to offer funds that offer access to private markets to ordinary investors like you. These investments typically involve privately held companies or non-public assets that up until now have been available only to institutions and high net worth individuals. Common types of private investments include private equity, which focuses on buying and improving established companies; venture capital, which funds early-stage or high-growth startups; private credit, which involves lending directly to companies outside the public bond market; and private real estate or infrastructure investments, such as commercial properties, utilities, or energy assets. Why should rich folks have all the fun? Proponents of making private investments available to ordinary folk promise that investing in private funds will further diversify and enhance risk-adjusted returns. What's not to like?

While private investments promise diversification and the potential for higher long-term returns compared with public markets, they also carry notable risks, including limited transparency, valuation uncertainty, and the inability to easily sell the investment before the end of its term. Private investments are not traded on public exchanges and therefore there is no way investors can know the current value of their investment. Often the only valuation comes from the investment manager in a quarterly update, and some well-known private funds have recently been selling for less than the managers' proclaimed net asset value. Private investments often require investors to commit their capital for several years with severe restrictions on how and when they can get their money back. The investment manager, not you, determines if and when you can sell fund shares. I doubt that the push to make private markets more widely accessible will accrue to individual investors' benefit. But the high fees will surely make some people rich, it's just unlikely to be you. It's hard for me to see how increasing complexity, high fees, and illiquidity work for the benefit of investors, most of whom will have no idea what they're investing in. Alternative mutual fund investors could at least sell those funds if they found them unsuitable or otherwise wanting. But investors in illiquid private funds don't have that option, making it even more critical that they understand what they own and the manager's investment strategy. The promise of higher returns than those available in public markets is unlikely to materialize, especially after their extraordinarily high management fees which will reduce net gains and real-world results. But the good news is that most investors can attain their long-term financial goals without owning private market investments.

The financial media has spent the past month bombarding us with predictions about what's ahead for 2026. It's easy to make economic and market forecasts; it's just not easy to make accurate ones. Attempts at predicting what the stock and bond markets or the economy will do in 2026 or identifying individual stocks that will outperform the market are futile – short-term results are just too random. By now you've surely heard some talking head spout the lame refrain that we are in extremely uncertain times. They say this because they know that there's nothing investors hate more than uncertainty, and many of them are charlatans who claim to have the cure for your anxiety. How many times must I hear the ludicrous notion that there's a sliding scale to life's uncertainty? Suggesting that 2026 contains more uncertainty than other years is like saying that we will experience inordinately cold ice this year or that water will be inordinately wet in 2026. Everyone repeat after me; life = nonstop 100% uncertainty. In good times we ignore uncertainty. In volatile times we fixate on it. I'll go out on a limb and predict that in 2026 financial media pundits will check their consciences at the door and provide us with their (often updated) predictions for the stock market and the economy. Doing this without the benefit of divine revelation has always been problematic but they'll remain undeterred because a year from now no one will hold them accountable for their mistakes. Investors bear some responsibility for seeking predictions from media pundits but it's a sure sign of vanity that so many of them accept the challenge. In 2026, the financial media will continue to abide by the mantra – "Make predictions, never blush."

I've read many economic forecasts for 2026. They bore me. In order to have any value they must satisfy two criteria. First --the forecast must be correct. Second -- it must not already be priced into the market. It's highly unlikely that any forecast you hear this year will satisfy both criteria. I have no idea where markets, inflation, oil prices, interest rates, or the economy are headed in 2026. This is the 22nd year that I've made this statement and my inability to see past the next minute hasn't yet hindered my ability to do my job as a financial advisor.

We'll end our review of 2025 by looking at the performance of my Lazy Golfer Portfolio. This portfolio contains five Vanguard index funds -- allocated 40% to the Total Stock Market Index Fund (VTSAX), 20% to the Total International Stock Index Fund (VTIAX), 20% to the Inflation Protected Securities Fund (VIPSX), 10% to the Total Bond Market Index Fund (VBTLX) and 10% to the REIT Index Fund (VGSLX). It returned 15.5% in 2025, according to Morningstar. For the past five years, its annualized average return was 7.5%, despite the bear market of 2022 in which domestic and international stocks and bonds declined. For the past ten years, the annualized average return was 8.9%. You could have done worse. The advantage of buying, holding, and rebalancing a globally diversified portfolio of index funds is its simplicity. To paraphrase Winston Churchill — buy, hold, and rebalance is the worst form of investing, except for all the others.

In 2026, just like in years past, investors will need to face the future with optimism and courage. You should have a financial plan that reflects your goals, time horizon, and risk tolerance. Throughout the year there will be good news and bad news. There will be a case for optimism and a case for pessimism. Along the way I recommend that you ignore the financial media's talking heads and focus on these unchanging investing truths –

- There are no reliable economic forecasts. Your investment decisions should come from a goals based financial plan.
- Market timing is the modern-day equivalent of alchemy, the pursuit of an illusion. As long as your financial goals remain unchanged, annual rebalancing should be the driving force behind any portfolio changes.
- The correct time to invest in stocks is when you have the money to invest.
- The correct time to sell equities is when you need the money for something more important.
- The first law of compounding is to never interrupt it unnecessarily.
- This time isn't likely to be different, regardless of what the latest "this" might be.

These investment truths are rooted in experience and supported by academic research. While stock market performance might disappoint in the short-term, history has demonstrated that patient, disciplined investors are likely to be rewarded over the long term. Probably 90% of good financial planning is just common sense. No investment strategy works 100% of the time, we are looking for one that will work over the long haul. While diversification can't fully shield a portfolio from market pullbacks, it remains one of the most effective ways to reduce volatility and achieve your long-term financial goals. Planning or lack thereof, your behavior and emotional responses to the headlines will have a greater impact on your retirement lifestyle than anything that happens on Wall Street in 2026.