July 9, 2025

Dear Clients and Friends,

This spring, both the S&P 500 and Nasdaq saw steep drops – down 19% and 24% from their respective highs – before soaring to record levels to end the first half of the year. The entire ride lasted just three months. Much of the volatility was sparked by the Trump administration's announcement (and later rollback) of some of the most sweeping tariffs in modern history. Average tariff rates imposed by the US rose from 2.5% in January to a peak of about 27% in April (the highest since 1903), and they have since been softened to an average of about 15%. Inflation has continued to moderate, although retailers are still largely selling pre-tariff inventory. We may not know the true effects of the administration's trade policy for a few months, and of course the policy may continue to evolve. The Federal Reserve expects tariffs to lead to higher inflation in the coming months.[1]

Potentially contributing to inflationary concerns was the signing by President Trump of the One Big Beautiful Bill Act on July 4th. The Bill extends the 2017 tax cuts that were set to expire at the end of 2025, avoiding a near-term economic headwind. The Bill narrowly passed despite losing some Republican support in part because it is estimated by the Congressional Budget Office to add $3.4 trillion to the national debt over ten years.[2]

This is all a clear reminder of just how unpredictable the news cycle – and by extension the stock market – can be over the short-term. As the market has roared up to its highest level, we are asked where it will go from here. The simple answer is that it is very likely to move higher over the long-term, lifted by the growth of the underlying companies in the market. But there will undoubtedly be some sharp swoons along the way, the timing, severity, and duration of which are unpredictable.

In his recent book *How Not To Invest*, Barry Ritholtz delivers an engrossing account of the inaccuracy of predictions made by seasoned experts across various fields, including Hollywood executives, music critics, and magazine editors. Business magazine covers are notorious for blunders. *BusinessWeek* published an article titled "The Death of Equities" in August 1979 on the eve of one of the great bull markets for stocks. *Forbes* crowned Nokia the "cell phone king" in October 2007, four months after the iPhone was first introduced. *Fortune* lionized Cisco CEO John Chambers in its May 2000 issue, right at the peak of the dotcom mania. Shares of Nokia and Cisco both lost over 80% of their value following the publication of these cover stories.

Financial news as entertainment has proliferated and devolved into a short-term focused dramatization of every story or prediction. This spotlight on noise, along with the gamification of trading used by some investment companies, leaves traders vulnerable to their worst instincts. We believe it's a key reason why most investors trade much more frequently than in the past.

The average holding period for stocks on the New York Stock Exchange has collapsed from about eight years in the 1950s and 1960s to about six months today.[3] That has coincided with the rise in passive investing, highlighting the continued need for level-headed guidance regardless of whether one invests directly in stocks or passively

[1] https://www.reuters.com/business/feds-powell-says-he-expects-see-more-tariff-driven-price-hikes-coming-months-2025-06-18/

[2] *Information Concerning the Budgetary Effects of H.R.1*, Congressional Budget Office, July 1, 2025

[3] Dresdner Kleinwort Macro Research; World Economic Forum

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through an index or ETF. In past generations when investors bought shares, they would typically take physical possession of the stock certificate and store it in a safe deposit box at their bank. Perhaps ironically, the clunkiness of the old way forced people into being investors rather than traders. As trading has become universally accessible and nearly free, investors have become more vulnerable to their emotions.

“The big money is not in the buying or the selling, but in the waiting.” – Charlie Munger

The significance of this change is the fact that heavy trading is associated with underperformance. Inactivity is against our natural instincts, but it’s a virtue when it comes to investing. In a pivotal study titled *Trading is Hazardous to Your Wealth*, Brad Barber and Terrance Odean found that the most active traders underperformed the market by more than 6% annually. A study by Dalbar and Lipper titled *Quantitative Analysis of Investor Behavior* found that average stock fund investor returns were less than half of the returns of the funds in which they invested because of ill-timed trades in and out of the funds. An extreme example of this phenomenon was experienced with the CGM Focus Fund, which was the best performing mutual fund of the 2000s. The fund returned 18% annually for the decade, but the typical investor in the fund *lost* 11% annually.[4] That’s because investors would buy the fund after it had a good year and sell the fund when it had a bad year. This performance-chasing behavior was very costly.

Holding stocks for short periods doesn’t make sense because it requires an accurate prediction of the news cycle, investor sentiment and the associated changes in stock *multiples* of earnings, which are the primary drivers of stock prices for short time periods. In contrast, it’s the company earnings themselves that ultimately drive share prices over the long-term. A six-month holding period is detached from what can be best analyzed and understood: the fundamentals of a particular business.

“Far more important than predicting the future is the ability to respond to it.” – Gerd Gigerenzer

Instead of trying to predict the next headline or downturn, we focus our energy on identifying strong, resilient businesses that are best equipped to adapt to an ever-changing landscape. We seek to buy them at sensible prices, and we intend to own them for the long-term to ensure that our shares are tethered to the progression of company earnings and cash flow rather than to the whims of the market at any point in time. We believe this is the optimal strategy to satisfy our mandate to both protect and to grow client capital.

For example, our investment in **Deere & Company** rests on ballast from the following factors: (i) a large installed base of equipment that fosters continued new purchases, as well as recurring aftermarket revenue; (ii) an unparalleled dealer network that ensures strong service and parts availability and increases customer retention; and (iii) high market share that funds investments in innovation, delivering industry-leading technology for autonomous tractors and other precision agriculture engineering. **American Tower**, a large owner of cell towers globally, offers our clients a different set of durable attributes: (i) a toll booth on the continued growth in data consumption; (ii) high incremental margins from each additional tenant that adds revenue with no additional cost to a tower; and (iii) contractual revenue growth from long-term leases with embedded rent escalators.

Our investment in **Martin Marietta**, the second-largest aggregates producer in the United States, is buttressed by the scarcity value of the company’s assets. Aggregates – things like crushed stone and gravel – are the basic building blocks for roads, bridges, tunnels, railroads, buildings, drainage systems, and other infrastructure. Our investment isn’t predicated on correctly guessing the exact pace of construction spending year-to-year, or on the

[4] https://www.wsj.com/articles/BL-258B-6497

price trend of aggregates, but rather on the simple idea that America will continue to grow and build over time. That growth will inevitably flow through Martin Marietta's strategic assets.

The aggregates business is naturally moated because quarry permits near cities are very rare. This point was hammered home in a meeting with Ward Nye some years ago. The Martin Marietta CEO explained that his 15-year effort to obtain a permit to expand a quarry near Chapel Hill, NC was unsuccessful. The material is heavy and expensive to transport; it costs as much to ship aggregates 90 miles as it does to produce it. That gives a big pricing advantage to producers that are closest to where it's needed. These two factors – the expense of transporting the material combined with the "not-in-my-backyard" mentality of local governments – make for localized monopolies for the owners of quarries nearest population centers.

We view Martin Marietta's stock as a long-term compounder – the kind you would feel comfortable sticking in a safe deposit box to let grow for many years. We remain committed to investing in high-quality businesses with the strength and flexibility to weather uncertainty and deliver long-term value. We don't claim to know where the market is headed next – but we do know what kind of businesses we want to own along the way.

Multi-Generational Continuity

Thank you for your continued trust in Douglass Winthrop. As part of our ongoing effort to build lasting relationships, we are investing internally in the development of our younger leaders. In that process, our team made a pilgrimage to honor and learn from one of our investment heroes, Warren Buffett. His steadfast approach is one we've tried to emulate in many ways: buy high-quality businesses, hold them through thick and thin, and let time and compounding do the heavy lifting. Anticipating Mr. Buffett might announce his retirement from Berkshire Hathaway, the company he has helmed for six decades, we traveled to Omaha to witness what is likely to be his final turn presiding over Berkshire's storied annual meeting, the "Woodstock of Capitalism." We were delighted that Mr. Buffett responded to a question asked by one of our young team members – no small feat considering the many thousands of people in attendance.

Along similar lines, we believe that investment success is enhanced when families work together across generations to establish a financial plan and embrace a long-term investment strategy. We recently hosted a successful event for the next generation of our clients' families. It was a pleasure to engage with many thoughtful and curious individuals, and we were encouraged by their interest in investing and stewardship. We look forward to deepening these connections to serve your families and foundations with continuity.

Warm regards,

Douglass Winthrop Advisors