October 6, 2025

Dear Clients and Friends,

Dr. Robert Triffin published “Gold and the Dollar Crisis” in 1960. Triffin argued that the Bretton Woods system of backstopping the dollar with gold contained an inherent contradiction: for the dollar to serve as the world's reserve currency, the US would need to run persistent trade deficits to supply global liquidity—but these very deficits would eventually undermine confidence in the dollar itself. This thesis became widely known as the Triffin Paradox, and history proved him correct.

President Nixon responded to mounting dollar weakness by taking the United States off the Gold Standard in 1971.[i] Gold has since risen from $35 to over $3,800 per ounce—a 99% decline in the dollar's purchasing power against gold.[ii] Even so, the US continues to run large trade deficits while the dollar remains relatively strong, supported by its reserve currency status and demand for Treasury securities.

Fed Chairman Jerome Powell now confronts his own Triffin Paradox. Inflation exceeds the Fed's targets, yet policy uncertainty around tariffs and immigration, combined with labor market softness, has prompted rate cuts. Powell’s dilemma: lowering rates to support growth risks re-accelerating inflation.

Second-Order Thinking About Uncertainty

Politics compounds the uncertainty faced by both the Fed Chair and investors. Tariffs' effects on growth and inflation remain unclear. Congress appears incapable of fiscal responsibility and, as this letter goes to press, the government is unnecessarily shutting down because both parties prefer to play the blame game rather than governing. As US foreign policy drifts closer to isolationism, post-WWII "Pax Americana" seems to be fracturing while bad actors probe new power vacuums from Europe to the South China Sea.

Against this backdrop, the third quarter delivered another lesson in what seems like an ongoing masterclass in volatility. After April's 20% drawdown from its intraday high, the S&P 500 recovered to new all-time highs in September.[iii] This whipsaw action mirrors investors’ struggle to better handicap the impacts of trade policy, geopolitics, monetary shifts, and fiscal concerns.

Despite these gyrations, and adhering to our philosophy of patient, long-horizon investing, we have counseled our clients to remain steadily invested in equities to the extent of their personal risk tolerance. As Warren Buffett observed: "The stock market is a device for transferring money from the impatient to the patient."

Buffett's remarkable career offers perspective. Since taking control of **Berkshire Hathaway** in 1965, he has navigated the company through Vietnam, civil unrest, the Arab Oil Embargo, Nixon's resignation, stagflation, Black Monday, the Dotcom collapse, the Great Financial Crisis, and COVID-19. His stewardship has generated nearly 20% annual returns.[iv] Buffett knows to let time and compounding do the heavy lifting.

Concentration Risk: What Could Go Wrong?

The market's concentration demands attention. The ten largest S&P 500 companies represent 40% of the index, with eight of these ten in the relatively expensive technology sector. A hiccup in the technology sector could, at least temporarily, derail the stock market more broadly.

Douglass Winthrop Advisors, LLC
521 Fifth Avenue, 19th Floor, New York, NY 10175
Telephone 212-557-7680 | Fax 212-401-4770

In such a narrowly focused market, Buffett's principles of quality investing have become even more crucial. With the current market environment characterized by extreme concentration, persistent volatility, and brewing fiscal and national security challenges, we must employ discipline and adhere to the timeless principles that guide our investment approach. By focusing on businesses with durable competitive advantages, strong balance sheets, and skilled management teams across multiple sectors, we aim to position our clients to preserve and compound wealth over the long haul, regardless of the short-term "noise" of volatility driven by market concentration.

The Contrarian Case: What Could Go Right?

With all these sources of worry, it is important to remember that pessimism is not an investment strategy. When markets are overly pessimistic, the greatest returns accrue to the optimists, and vice versa. What if the trillions being invested globally in AI, high-performance computing, and energy infrastructure deliver a productivity boom? Multiple studies suggest this is a plausible outcome.[v] A 2025 Federal Reserve Bank of St. Louis study found AI adoption growing at double the rate of previous transformative technologies like personal computers or the internet.[vi] If a productivity boom were to materialize, stronger earnings, lower inflation, and a defused debt crisis could follow.

We are seeing AI and advanced computing being adopted by nearly every company in our portfolio with the singular goal of improving productivity. Examples abound:

- **John Deere** integrates AI and machine learning throughout its operations. AI-enabled sensors monitor soil, crops, and pests, reducing water and pesticide usage by 25% and 20% respectively. Management targets fully autonomous production cycles for major crops by 2030.
- **Mastercard** uses AI for fraud detection, using proprietary systems like "Decision Intelligence" to analyze billions of transactions in real time. The company offers AI-powered analytics tools to help its merchant customers better understand customer behavior, run personalized loyalty programs, and optimize operations like inventory management.
- **Aon** leverages analytics, machine learning, and climate science to help clients measure, manage, price and transfer risks more precisely.
- **Microsoft**, **Amazon**, and **Alphabet**, of course, use AI to improve their operations while building the infrastructure needed to sell advanced cloud computing and analytics tools to their global customers.

"Someone is sitting in the shade today because someone planted a tree a long time ago." —Warren Buffett

Sixty years ago, Buffett planted Berkshire Hathaway. Its owners have been sitting in the shade for a very long time. While we lack a crystal ball, we believe we are better off as owners of great companies like Berkshire, Deere, Aon, Mastercard, Microsoft, Amazon, and Alphabet over the coming years and decades than as holders of cash or gold.

At 95, Warren Buffett's mental acuity remains remarkable. He always has been open about the lessons he has learned and the mistakes he has made. Our sense of loss upon Buffett's announcement that he would step down as CEO is tempered by our appreciation of the grace, wisdom and humility that characterized his extraordinary career. We are grateful to our clients for their trust, and we will endeavor to reward that trust by emulating, to the extent possible, Buffett's example.

We are pleased to announce developments within Douglass Winthrop over the last quarter. Keith Ardizzone joined the firm after a long career at Northern Trust Corporation where he led a team of professionals providing holistic wealth management services for individuals and families. Prior to joining Northern Trust in 2009, Keith worked at US Trust for 18 years, where he served as a Managing Director in its Wealth Management Group. We are excited to have Keith bring his years of experience and thoughtful leadership to our firm. Also, during the quarter, Barron's added Douglass Winthrop to its list of the **Top 100 Registered Investment Advisors**.[vii] While our clients' satisfaction is the measure we care about most, we were happy to be recognized by a widely respected publication.

With warm regards,

Douglass Winthrop Advisors

[i] https://www.federalreservehistory.org/essays/gold-convertibility-ends#:~:text=The%20international%20monetary%20system%20after,rate%20of%20$35%20an%20ounce.

[ii] It should be noted that since 1971, if dividends are reinvested, equities have outperformed gold. Gold pays no income. https://ronanmcgovern.com/sp-500-returns-since-1971-rely-on-dividends-to-beat-gold/

[iii] Bloomberg.com

[iv] https://www.berkshirehathaway.com/2024ar/2024ar.pdf

[v] https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/the-economic-potential-of-generative-ai-the-next-productivity-frontier?cid=eml-web; https://news.outsourceaccelerator.com/generative-ai-productivity-st-louis-fed-study/#:~:text=The%20report%2C%20authored%20by%20Alexander,Widespread%20adoption%20across%20industries;

[vi] https://s3.amazonaws.com/real.stlouisfed.org/wp/2024/2024-027.pdf

[vii] https://www.barrons.com/advisor/report/top-financial-advisors/100?page=1&mod=faranking_subnav_top100