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Sandpiper Capital

Gleanings

Index Returns	2022	2023	2024	2025
S&P 500	-18.3	26.3	24.9	17.9%
ML 1-5 yr Gov't/Corp	-5.5	5.2	4.6	6.1%
EAFE (Dev Fgn Mkts)	-14.4	18.2	3.8	27.9%
Emerging Markets	-20.9	10.1	7.5	30.6%

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A path forward

One of the greatest obstacles to successful investing is the sometimes paralyzing fear that comes when markets move faster than the frameworks used to understand them. Especially in the context of rapidly evolving technologies such as artificial intelligence, the overwhelming temptation is to stand aside and wait until we have clarity. When, as in the graph below, we can see that objective measures of market valuations are stretched to the most extreme levels of the last 25 years, it's entirely reasonable to expect that overvaluation today might give way to undervaluation, that is much lower prices, tomorrow.

Alternatively, when we also are aware that corporate profits are consistently double where they have been historically, and that has happened even as we've barely begun to see the reduction in costs that comes from replacing employees with computers, there is certainly an argument that the returns to capital are entering an entirely new golden age.

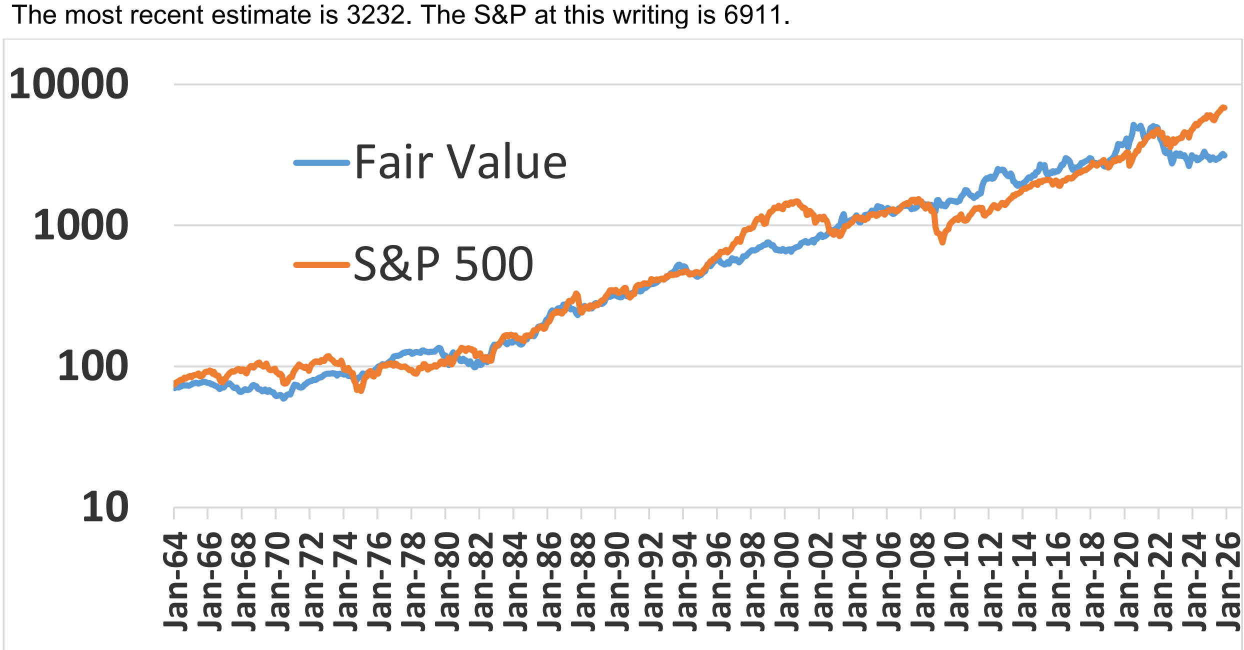
It is neither productive to put your head in the sand and hope that markets will conform to your expectations eventually, nor is it constructive to just assume that the pattern of the last few years will continue into the future. In convulsive times, the clarity is not going to come from the markets. It will come from a disciplined, clear-headed, well thought-out plan of action. To wit:

1) Invest gradually.

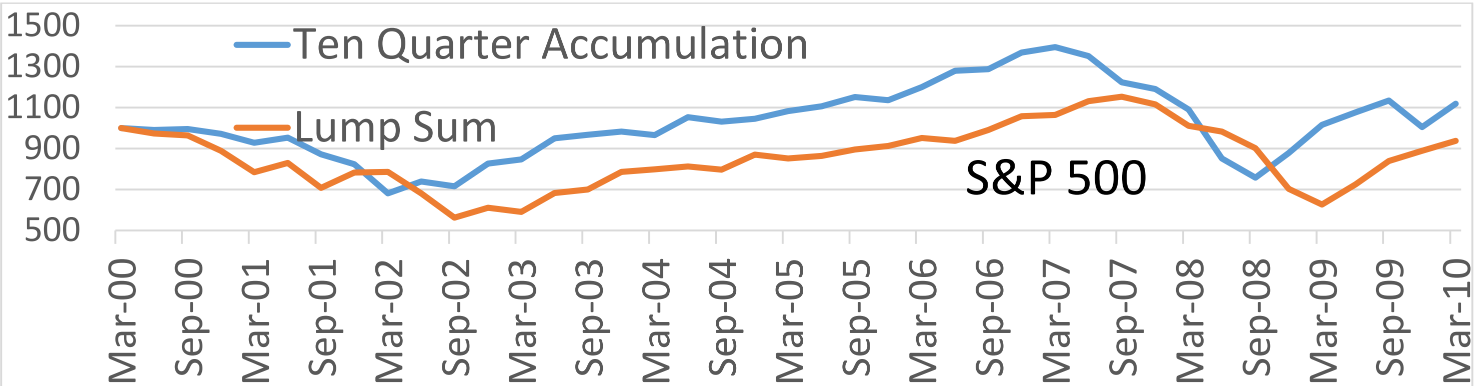
Waiting for a market drop is like waiting for grocery prices to come back down. You have to eat. Without enough stocks in your portfolio, it's impossible to grow your wealth in excess of inflation.

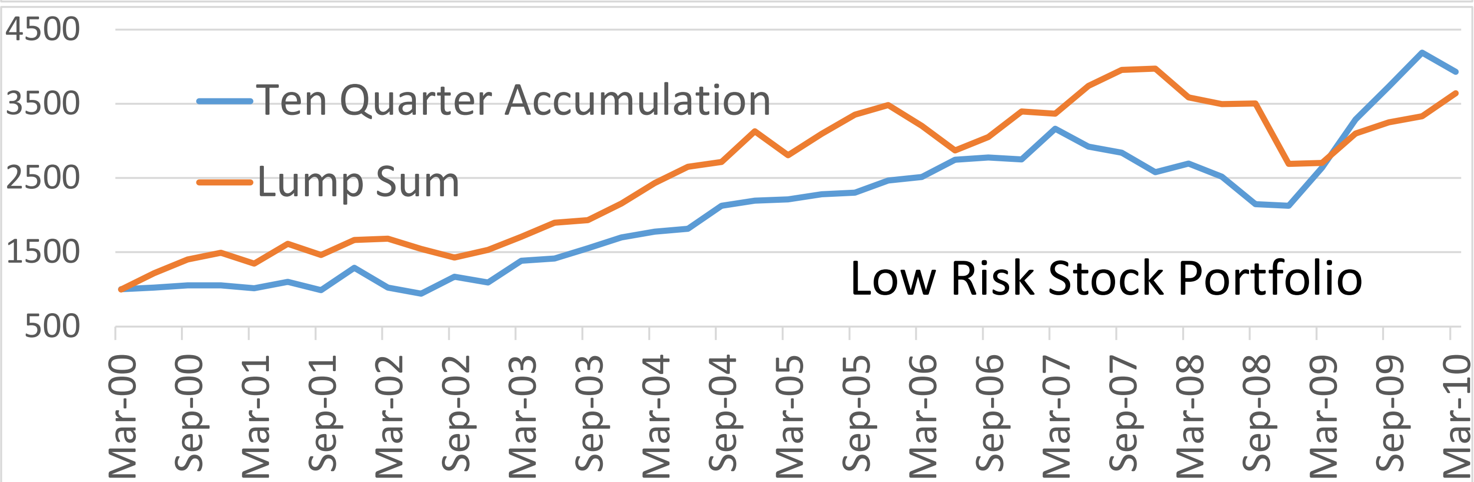
Historically, as in March of 2000, when the S&P is at very extreme levels of valuation, the mistake would have been to put all your money into the market in one shot. By gradually adding stocks each quarter over 2 to 3 years, you would have been able to take advantage of lower prices when, as and if they happened. While that means you give up stock exposure

The "Fair Value" estimate uses interest rates and economic growth to estimate where the S&P should be. The most recent estimate is 3232. The S&P at this writing is 6911.



initially, the end result is that you've got a good portfolio that you've accumulated over time that, if past is precedent, will make the potential downdrafts in your account value much more palatable. The charts below show that effect for $1000 invested at the market top in 2000 in (top chart) the S&P index and (next chart) our Low Risk, High Margin stock list.





2) Buy low risk, highly profitable S&P listed companies.

Having back-tested this idea for all the quarterly periods from 1994 until 2018, I come away with a high degree of confidence that if you screen the S&P 500 and select those companies that have the highest profit margins and the most predictable cash flows that you will have the highest probability of long-term success. Having personally applied the same screen in real time since 2019 it is obvious to me that buying quality, even when the market is at a peak, will be worth the worry, *if* you hold them long enough.

3) Keep a cash reserve for spending needs.

You don't want to disturb your portfolio once you've acquired it. If we've set aside enough money in safe investments such that it will meet all of your spending needs for the next 5 to 10 years, that means that you can leave your portfolio intact for long enough to realize the potential that comes from holding high quality companies.

4) Patience is a virtue.

While long-term returns, that is 8, 10, 12 years out, are very consistent from each of these portfolios, short-term returns can vary pretty widely depending upon when you start. All this means is that you have to be a long-term investor. For these portfolios, short-term volatility has no meaning. Typically, the performance comes from the 15 or 20% of the names that end up giving you 80% to 90% of the returns. You never know in advance which ones they're going to be, so it's important that you let them evolve untouched.

We have begun to buy the names generated by this stock screen in your portfolio during 2025. Will continue over 2026 and 27 so that you will be fully invested, except for the money you need for cash flow, by the end of 2027. Again, if past is precedent, that portfolio should be generating solid double-digit returns over the long run.

We are living in a pretty unusual time. Lots of pluses, and lots of minuses. There is a through-path. We just need to acknowledge the risks and move forward as cautiously and constructively as we can.

Tom Lukic