

J.W. Burns & Company

Investment Counsel

Quarterly Update - October 2025

The Big Easy That Ain't So Easy

One of the troubles with Wall Street is that people feel it's either "impossible" or they figure it's "easy."

John Magee, author -
Wall Street, Main Street, And You (1972)

Dear Clients and Friends,

Stocks have continued to power forward this year, despite significant economic uncertainty and headline risks. Through 9/30/2025, the S&P 500 Index is up 14.1%, the blue-chip Dow Jones Industrial Average is up 10.4%, and, after years of subpar returns, international stocks have been the clear leader, up approximately 25%.



We are quite pleased with your portfolio performance and positioning, and our bullish forecast that we presented at the beginning of the year remains intact.

"The stress-free appreciation in stocks has many wondering if this is too easy...for now, the tailwinds behind the market's rise are significant."

It has been a smooth, one-way ride for stocks following the steep and short-lived market drop following President Trump's Liberation Day tariff announcement on April 2. After reaching a bottom on April 8, the broad stock market is now up over 30%, marking one of the sharpest recoveries on record. In the third quarter alone, the S&P 500 rose 8%, recorded 24 all-time closing highs, and was never down more than 2%.¹

This stress-free appreciation in stocks has many wondering if this is too easy and for some to even question if we are in bubble territory. We will discuss this in more detail later. But for now, the tailwinds behind the market's rise are significant and will likely persist through the fourth quarter – historically the market's best.

We believe there are five powerful trends that are pushing equity valuations higher:

- 1) A goldilocks economy (with added power from tax cuts and deregulation)
- 2) Easing monetary policy
- 3) Robust corporate earnings growth
- 4) Very high levels of liquidity amongst global investors, and
- 5) Continued hyper spending and optimism around the adoption of artificial intelligence.

Taken alone, any one of the above five trends could support a healthy stock market. Together, however, you have a very potent mix for above-average returns. As

I've stated many times in the past, the market is a forward-looking animal, and right now, it likes what it sees.

The underlying strength of the economy is undeniable. Yes, employment has shown some softness - likely the result of changing

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immigration policy and some early AI adoption² - but the data continues to support our case that the economy is actually getting stronger, not weaker. Specifically, GDP grew at a robust 3.8% in the second quarter of 2025 (third quarter data has not been released yet), almost a percentage point greater than the 3% estimate.³ Inflation remains contained – for now – and consumer spending has been better than expected, with real consumer spending growing on a month-to-month basis four out of the last five months from April to August.⁴ Finally, the University of Michigan's Survey of Consumers came in at 55.1 in September, much higher than when we entered the summer in May, when the survey came in at 52.2.

How much of this is due to AI investment spending? This is a good place to start taking your questions.

Q: Renowned investor Howard Marks – who you have quoted many times in the past – says we are in “early bubble stages.” Even Federal Reserve Chairman Jerome Powell has stated that equities are overvalued. What do you say?

A: Based on historical valuation metrics, the stock market is overvalued.

On price-to-earnings, price-to-book, the Schiller Index, the “Buffett Rule,” etc., stock valuations are high. Furthermore, the returns over the past three years have been remarkably smooth. I am reminded of the iconic Grateful Dead song, “Uncle John's Band,” when Jerry Garcia sings, “*When life seems like easy street, there's danger at your door.*” No doubt, these have been very pleasant days for stock market investors.

Ultimately, the high valuation of stocks must be justified by continued AI spending that translates to higher productivity and higher corporate profits.

On this point, I'm optimistic. This week, Bank of America released a report stating they expect investments in artificial intelligence to nearly triple over the next five years to \$1.2 trillion ***annually***, “constrained only by the ability to scale buildings and power.” It should be noted that capital expenditures are coming from various industries, not just technology companies, including industrials, utilities, materials, pipelines and the like.

Conversely, Morgan Stanley's Chief Investment Officer of Wealth Management, Lisa Shalett, who I follow and respect, believes we are now in the “seventh inning” of AI buildout spending.

So, who knows?

“Ultimately, the high valuation of stocks must be justified by continued AI spending that translates to higher productivity and higher corporate profits.”

Well, while I don't know what “inning” we are in or what the annual spending on AI will be a few years hence, I do know that nothing grows to the sky.

As we have stressed in our communications, we want our clients to be emotionally prepared when inevitable corrections and bear markets arise. It goes without saying

that sooner or later, we're going to have another recession, sharp corrections, bear markets, etc., and the financial media will turn from reporting “boom” to “gloom.” And that's what makes the stock market truly a human organism, because it is simply the aggregate of all equity owners' intellect and emotion.

I have written in past client letters that when you get your monthly statement, you should discount your current portfolio value by 10-15%. That will give you a margin of safety, in your own mind, as to what your portfolio value is worth. Now, with markets at all-time highs, I'm going to recommend you mentally discount it 15-20% – or more.

I'm not suggesting that is what's about to happen, but it is a worthwhile exercise.

We are confident that we have positioned your portfolio in only the highest-quality businesses and solid, core index funds that should weather economic and stock market distress better than most.

Q. What do you think of gold as an investment in my portfolio?

Gold is seen as a hedge against political instability, geopolitical turmoil, inflation, and most of all, weakness in the U.S. dollar.

Gold has been a strong investment over the last few years, and the gold tracking ETF, the iShares Gold Trust ETF (symbol IAU) is up over 50% year to date at the time of this writing. Gold's rise this year is almost exactly inversely correlated with the weakness in the U.S. dollar.

As we all know, neither political party has been willing to address the staggering increase in the U.S. debt and deficit, which has added to the dollar's weakness. Political violence and President Trump's seeming challenge to Fed independence are also weighing on the global supremacy of the U.S. dollar. Many foreign countries are buying gold to hedge against a potential long-term decline in the dollar.

So, while I generally prefer great businesses with a valuable product and proven record of rising earnings power, I have no problem buying gold, and we have actually done so for some clients with new monies.

Q: Following up on question #1. I'm retired and dependent on my investments to support my living expenses. How much of my investments should I have "off the table" in case the market drops 15-20% – or more?

A: I'm joined for this answer by firm partner, Drew Derrenbacher, CFA, and a Certified Financial Planner®, to give his thoughts.

Drew: The composition of your investment portfolio, including your allocation between stocks, bonds, and cash will be unique to your individual circumstances and goals. Generally speaking, I like to see clients in this position have about two – three years of projected spending needs set aside in cash/fixed income to provide buffer protection from market volatility. This way, as liquidity events arise (intermittent withdrawals, required minimum distributions, gifts to children, etc.) we don't have to sell stock positions in a down market.

Where this cash/fixed income buffer resides can depend on the client. Some of our clients have robust social security benefits, pensions, or outside cash holdings on hand that comprise a solid chunk of this buffer. Others are more dependent on their investment portfolio itself for this, which is where we'd typically recommend the client has adequate cash/fixed income holdings in their investment accounts tailored to their specific circumstances.

Jim: I'll add that for a lot of retired clients I talk to, they are in a fortunate position where their liquidity needs from their investments are modest, and much of their portfolio will eventually pass to the next generation. I encourage these clients to maintain as long-term, equity-oriented asset allocation as reasonably possible so their assets can continue to grow for their heirs. While markets are no doubt volatile in the short run, the long-term benefit of maintaining a growth-oriented portfolio is indisputable.

Drew: At the end of the day, it's about you and your specific circumstances. As your investment advisor, we work with you to thoughtfully construct your portfolio and, as needed, your long-term financial plan. Helping you stick with your investment plan, especially during volatile markets, is paramount.

Jim: It is worth noting that the Vanguard Total Bond Market Fund is up only 1.80% per annum over the last 10 years. This is significantly less than

the rate of inflation, as measured by the consumer price index (CPI), which comes in at 2.7%. So, over the last decade, you've actually lost money owning bonds relative to inflation.

As I have stated before, you simply cannot time the direction of the stock market. You have to remain invested in equities, even through the tough times, in order to reap the benefits that accrue during the swift, sharp "up moves" that develop over the course of any bull market.

As Ken Fisher of Fisher Investments recently penned, "Enduring volatility and corrections won't prevent you from reaping stock's long-term returns. Missing bull markets will."

To close, we remain constructive on stocks heading into the seasonally strong fourth quarter. It seems like every October we remind our clients of this fact, but it has been spot on for the last several years running.

Jim Caron, CIO of the Portfolio Solutions Group, refers to the current environment as "The Big Easy", highlighting favorable fiscal policy through tax cuts and deregulation, and favorable monetary policy from expected interest rate cuts.

Market tailwinds such as these are hard to fight.

So, while we must be prepared for sharp corrections at any time, for any reason. I'll end with the same line from our July client letter:

"...barring a major exogenous event, the path of least resistance is up."

Have a great fall.

Best wishes,



James C. Burns, CFA
President

P.S. - On October 1st, J.W. Burns & Company Investment Counsel surpassed \$1 billion in assets under management. This is a major milestone, and I am very proud of our team and this achievement. As I have previously written, we have no dedicated sales or marketing staff whatsoever. Our firm's growth has only come from prudent investing and client referrals.

As we cross this important threshold, we are more invigorated than ever to provide our clients with quality, straightforward investment advice and prompt personalized service.

Thank you for your continued trust and confidence in our firm.

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1 Haverford, *Fall Investment Outlook*, October 2025.

2 Torsten Slok, *The Daily Spark*, September 26, 2025

3 Bloomberg, "US Economy growth at fastest pace in nearly two years on Consumer Spending," 09/25/25.

4 Bureau of Economic Analysis, September 26, 2025