October 2025 Investor Letter

Picture the changing fall leaves upon us and my 2 high school aged kids rushing out of the house to the homecoming game. I get home hours later to see the front door wide open and the equivalent of dollar bills shooting out as the furnace is working nonstop.

Cue my old man attitude and what we have next is the classic setup.
"It was his fault."
"No it was her fault".

Frankly, I don't care whose fault it is. At this point I'm almost willing to say it was my fault for having kids! I just want someone to take responsibility and prevent it from happening again.

That is where I am with the government shutdown. For more than a month, both sides have masterfully pointed their fingers at each other. Despite the hiatus congress is on, American business continues to hum along. If I were a politician, I'd be concerned citizens might start questioning if they really needed me… just saying.

Given the government shutdown has halted the release of economic statistics, investors have been even more focused on earnings season and parsing management calls with increased scrutiny. Below are my 5 takeaways for last month.

- **3Q earnings season is extremely robust** with reporting companies generating more than 11% in earnings growth YoY.
- **Most MAG 7 stocks continued their run** as AI dominated investors' mindset
  - One exception was META. While they had more than 20% top line growth, outlook on expenses was higher and investors still have PTSD from Zuckerburg's past spending habits – let this be a caution to other CEOs
- **Gold's rally took a breather** as China changed its position on taxes regarding the metal. While Gold is off its highs, it is still up over 50% year-to-date. In my opinion, golds rally is a function of the uncertainty in geopolitics
- **International markets continue their run** as many developed indices are up over 30% when accounting for USD weakness.

- **Bank earnings came in positively but show warning signs** as a couple large ripples of defaults took hold of the market. In addition, liquidity is showing to be an issue for some banks as traditional measures start to show abnormalities. Time will tell if this is an isolated instance or problematic of other issues hiding below the surface.

Valuations between AI related companies and everyone else continue to stretch the bounds of investor imagination. Mag 7 P/Es are above 30 while the remaining companies in the S&P 500 hover closer to 20 (a number that still seems elevated when compared to historical levels of the index and interest rates).

But, I was the annoying child growing up always asking *why*, and this is no different.

In asking *why is there a valuation gap*, we look toward profit growth and can see why the market is so excited for Mag 7 stocks. Net income growth for Q3 Mag 7 companies came in close to 28%! As the kids say, “it’s fire.” (Full disclosure I usually get my kids new-age slang wrong. I doubt I used that correctly.) In comparing this to the rest of the S&P at 10.5% growth, we can see why there is such a difference in valuations.

The million-dollar question *is will the future earnings growth rate continue on this trajectory to justify the higher valuations, or will the economics start to balance itself out*. History shows large advancements in technology start out with above average profits. This leads to increased competition as high profit garners attention, and that segues into larger adoption and normalized income amongst a larger number of companies. Unfortunately, we don’t know *when* that will happen.

For this reason, we continue to trim profits where things have run up and reinvest in more reasonably priced companies that will benefit from incorporating AI into their operations.

In closing, I look at the market and can’t help but think of my old friend Cal (who had 40+ years on me). He used to say as we parted ways “may we live in interesting times Brando.” Well Cal, you got your wish. But I’d be alright with a boring time or two somewhere mixed in.

All the best,

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