QUARTERLY COMMENTARIES

ADJUSTING EXPECTATIONS IN AN ENVIRONMENT OF HIGH VALUATIONS

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Quarterly Commentary – January 1, 2025

Domestic equity markets closed the fourth quarter and full-year 2024 with gains across the board. The S&P 500 rose +2.4% for the quarter and +25.0% for the year, including dividends. The NASDAQ Composite rose +6.3% in the quarter and +29.6% for the year. The Dow Jones Industrials logged gains of +0.9% and +15.0% for the quarter and year, respectively. Domestic small cap stocks, accessed by Summitry through our “Explore” strategy, also gained. In the fourth quarter, the Russell 2000 small cap benchmark eked out gains of +0.3%, and for the year, the index gained +11.5%. Broad international equity market indexes trailed, driven principally by weakness in emerging markets. International exposure may also be accessed by Summitry clients through our Explore strategies. The MSCI ACWI (excluding US) Index produced returns of -7.6% and +5.5% in the fourth quarter and full-year 2024, respectively. Bond markets reversed direction and closed the quarter with losses. The final quarter of the year saw two Fed Funds moves totaling 50 basis points, bringing the benchmark rate down to a target range of 4.25% to 4.50%. Notwithstanding the decline in short-term rates, 10-year Treasury bond yields rose during the quarter by 79 basis points, ending at 4.57%. Rising rates weighed on bond market indexes, with the Bloomberg Aggregate Bond Index declining by -3.1% in the quarter. The bond benchmark’s total return for the year was +1.3%.

Following a second year of solid gains, US stock markets trade at levels that are flashing yellow to many investors who operate as we do, i.e., those who seek to buy good assets at discounts to their intrinsic value. We believe caution is appropriate, but this has nothing to do with who controls Washington or what is going on geopolitically around the world. Markets go through valuation cycles, and we happen to be at a point where valuations look stretched to us.

Over the past five years, the revenues and net earnings before extraordinary items for the companies that make up the S&P 500 grew at an annual rate of +6.5% and +8.1%, respectively (Bloomberg data). These are respectable rates of growth, particularly given the unusual events that occurred over this period. The S&P 500 Index (market value) grew at an annualized rate of +12.7%, meaningfully outstripping the Index’s underlying fundamentals over this time frame and rendering stocks more expensive today than they were prior to the pandemic relative to their fundamentals. We acknowledge that the rear-view mirror should not usually be the basis for making decisions for the present and future. Markets are said to be forward looking, so the higher valuations today can be interpreted as a signal that Wall Street is optimistic that the fundamentals will continue to improve at a rapid pace. While some companies certainly will thrive, driven in part by a revolution in A.I. technologies, we’re not counting on the kind of broad-based strength to justify market returns anywhere near what we have seen in the recent past. Therefore, we’ve chosen to add some conservatism to our investment posture. This may come in several forms, including an increase in our cash reserves or reductions in position sizes to some of the names in our portfolio whose shares, in our judgment, have outperformed our outlook for their fundamentals.

High prices do not necessarily presage market losses, but they temper our expectations as to the returns that we will see in the coming year or two (or perhaps longer) in stocks. It would be a mistake to change our strategy in any fundamental way simply because we have lowered these return expectations, since we do not know with any certainty what the future will hold. The better course of action is to sharpen our pencils, review again our assumptions as to the business fundamentals of companies we own, apply reasonable valuation multiples to the earnings we anticipate a few years from now, and make a reasoned judgment as to whether the current stock price offers us a fair return for dollars invested today in the company's shares. This decision is made stock-by-stock, company-by-company, and has nothing to do with the stock market level as a whole, and the objective is to build a diversified portfolio of great businesses that offer attractive long-term return potential.

For you, we believe, the best course of action is to work with your Financial Advisor to evaluate your long-term objectives and your current financial means, estimate the returns needed from your portfolio to accomplish these objectives, allow for the fact that markets—particularly stock markets—are volatile, and allocate among asset classes in the proportions that will deliver returns that meet your goals with the highest degree of certainty. Further, clients who have a concentration in any particular company that has benefitted from the strong markets for technology stocks in the past several years should be aware of the higher risk they're assuming with that concentration. This is not the first time that a new technology has driven outsized gains for investors in shares of well-positioned companies. In our experience, long-term stock performance is ultimately tied to fundamental business performance, and many stocks that got ahead of the fundamentals became drags on portfolios as this valuation disparity corrected.

Summitry & Aspen Standard

It was an eventful quarter for Summitry. On November 1st, we closed our transaction with Aspen Standard Wealth, LLC. As a subsidiary of Aspen Standard, the deal provides Summitry with the capital to pursue our goals of improving our service offering and growing our client base, all while maintaining our operational independence. Summitry's partners rolled over a meaningful portion of their ownership into shares of Aspen Standard, maintaining an alignment of interests between the firm's leadership and our new partner, and demonstrating their confidence in benefits that will accrue to Summitry from the partnership with Aspen Standard. At the same time, we launched a program to provide equity-linked incentives to a broader group of Summitry employees. We deeply appreciate the support of our clients for this change. A key "asset" that drew the interest of our suitor was our longstanding and productive relationships with our clients, so your collective vote of confidence was critical to bringing the deal to completion. Our pledge to you is that we maintain the good things that attracted you to Summitry in the first place, even while we leverage our new relationship with Aspen Standard to deliver more and better services to you over time.

Q4 Portfolio Changes

Please keep in mind, these commentaries should not be construed as a recommendation to buy or sell the securities discussed. Such decisions are made only within the context of the market environment as we perceive it at the time of the decisions and the structure of the diversified portfolio of which the securities are a component.

During the quarter we exited our positions in The Walt Disney Company and CarMax.

Disney

The Walt Disney Company is a legendary media powerhouse with a rich history of entertaining generations. We were drawn to its dominant market position, must-have content, and unmatched scale in premium video production. While Netflix disrupted the industry by reshaping consumer habits, we believed Disney could pivot to a direct-to-consumer streaming model, leveraging its iconic content and thriving amusement parks. Our expectation was that streaming revenue would outpace declines in legacy media.

During our holding period, Disney grew its streaming business, attracting millions of subscribers. However, profitability remains elusive. Legacy media profits continue to slide, and streaming has yet to fill the gap. Intensifying competition from Netflix and others, coupled with CEO succession challenges, added instability and uncertainty for investors. Unlike a classic Disney tale, this investment didn't have a happy ending.

CarMax

CarMax, the largest used car retailer in the U.S., built its success on a standout experience: no-haggle pricing, high-quality vehicles, and accessible financing for all. For decades, these strengths, combined with stellar execution, drove solid growth and industry-leading profits.

We invested in March 2020 when pandemic fears sent the stock tumbling. Our thesis was that CarMax, despite short-term challenges, was poised for long-term growth through market share gains.

As online car buying gained traction, we believed management could effectively pivot to an omnichannel strategy.

Unfortunately, CarMax fell short. The shift to omnichannel proved challenging, and mounting competition from Carvana added pressure. Facing these hurdles, we decided it was time to take the off-ramp.

New to the Summitry Team

During the quarter, we brought aboard three new teammates, Curt Tyler, Julian Weiswasser, and Jenny Ge. We also missed the opportunity in last quarter's letter to properly introduce Jack Stannard, but will do so here.

Curt Tyler joined Summitry as an Investment Associate, supporting the Investment Team with equity research and strategic asset allocation. He earned a B.S. in Business Administration (with an emphasis in Finance) and a B.A. in Economics from Chapman University, where he also participated in the Investment Group. Before Summitry, Curt interned with The Interlink Group. Outside of investing, Curt enjoys spending time with friends and family, exercising, and traveling.

Julian Weiswasser joined the firm as a Client Service Specialist, serving Summitry's clientele with a wide range of operational tasks. He comes to us from Silicon Valley Bank's wealth management arm, where he performed similar duties. Julian graduated in 2018 from the University of California, Santa Cruz, with a Bachelor's degree in Economics and a minor in Technology and Information Management. While at UCSC, Julian served as co-captain for the University's sailing team and as a sailing instructor to kids aged eight to fourteen.

Jenny Ge joined Summitry as Finance Manager and Controller. Given the change in ownership and our growth as a firm, it is time for us to add some additional discipline to the financial management of the firm. Jenny is a CPA and has served as controller and finance manager for companies across several industries, and she will apply her knowledge and experience to help Summitry make informed decisions with its capital as it seeks further growth. Jenny graduated from Central Washington University with a Bachelor of Science degree in Accounting (Cum Laude), and received an undergraduate diploma of Higher Education, Business Studies and German from the University of Edinburgh. When she's not crunching numbers, she would be baking and collecting new experiences with her family and friends.

Jack Stannard joined Summitry in August as a Business Development Associate, working with that team and our Advisors to cultivate relationships with our business partners, and to ensure that the process of bringing new clients to Summitry is smooth and efficient. Jack comes to us from SAM Wealth Management in Dallas, Texas, where he performed a business development function. He received a Bachelor's degree in Finance from the Leavy School of Business at Santa Clara University.

We look forward to speaking with you, and if you would like to come in for a visit, please drop us a note or give us a call.