L&M WEALTH MANAGEMENT

www.lmwm.net

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Dear Clients:

Happy New Year! We wish you and yours a very happy and healthy 2026!

We are delighted to report on another very successful year in our plan for the pursuit of your most important financial goals. Our long-term views, and therefore your portfolio, continue to be driven by your goals rather than by any prognostication around the economy or the markets.

As in the past, the new year is an especially good time to revisit our core beliefs and to share our views on the current landscape. Before our regularly-scheduled programming though, unfortunately, financial fraud remains widespread as bad actors attempt to exploit honest people. Please keep your skepticism at the ready. If anything doesn't seem or feel right, please call our office at 716-839-1234, and be especially cautious with your bank/credit card information; your online logins; suspicious calls/texts/emails; and any attempt to gain access to control your computer (even in the name of a "security" issue).

Core Beliefs:

- Equity markets are extremely volatile. We embrace that volatility because it's inextricably paired with good long-term returns. If we had to predict 2026 US market returns using a 35% total range, we might guess that the market would return between -17.5% and +17.5%. But since 1926, it has been more likely for returns to fall outside of that range than inside it. In fact, the S&P 500's annual return has fallen outside of this range for the last 7 years in a row.
- We are long-term, goal-focused, plan-driven investors. Our core investment policy is to invest in broadly diversified portfolios of high-quality businesses.
- We believe that the economy can't be consistently forecast, nor the markets consistently timed. We conclude from this that the only practical way to capture the long-term return of markets is to ride out their frequent, sometimes significant but historically always temporary, declines. (We endured one such violent decline in 2025 surrounding the Liberation Day tariff announcement, which one of our clients joked had "liberated her from her money.")
- We do not react to economic or market events. As long as your long-term goals remain unchanged, so will our plan for achieving those goals.
- The biggest market impact in 2026 will be caused by something that we're not thinking about today. As recently-retired Warren Buffett noted: "If there is only one chance in thirty of an event occurring in a given year, the likelihood of it occurring at least once in a century is 96.6%." Many very-low-probability events will happen in 2026.
- When the next downturn comes, and even on the day when the global market reaches a bottom and pessimism reaches a peak, our long-term approach and investment philosophy will not change. As we enjoy today very near all-time market highs, historically, the best time to be invested in a globally diversified portfolio of high-quality businesses has been at those low points.

Current Commentary on Artificial Intelligence:
In one of the great strategic missteps in corporate history, Facebook changed its name to "Meta" in October 2021, as it shifted its long-term strategy to focus on the "metaverse." If you've not heard of the metaverse, we (and Meta's CEO Mark Zuckerberg) wish we could join you. The metaverse is a virtual, video-game-like environment, where real humans can put on video headsets and interact with animated characters of their real-world friends, and you can even buy fake real estate. Over a couple of years, Meta lost more than $70 billion and what remained of its corporate dignity on this miscalculation.

But when it became clear that these tens of billions of dollars wouldn't create any return-on-investment for the company and its shareholders, Zuckerberg stopped. He stopped talking about the metaverse, he took off his virtual reality headset, and he redirected corporate spending to more promising opportunities.

As the inimitable Nick Murray wrote:
"Companies offering homeowners insurance in California, confronted with legislation effectively preventing them from making a profit, will stop writing it. Whole Foods, Walmart and other retailers, faced with massive theft which the electorate evinces no interest in preventing, will close their money-losing center city stores. Marriott, the largest hotelier in the world by number of rooms, simply shuttered its hotels and furloughed their staffs during the pandemic's global lockdown. One can think of numberless other examples. The most fundamental imperative of a rationally managed business will always be to protect, to the greatest extent possible, the permanent capital of the owners."

Today, the biggest tech companies are investing hundreds of billions of dollars in artificial intelligence (AI). If we prompt the leading AI software to draft a complex legal agreement or explain quantum theory to 4th graders, it does so flawlessly and instantly. When we ask it to help with the 4th grader's math homework (how many ways can you make $0.30 using quarters, dimes, nickels and pennies?) it stumbles.

While this technology is remarkable, the most commonly-asked question in today's market is: "is AI a bubble?" Meta's incompetence is instructive: if these companies do not see a clear path to a meaningful return on their AI investment, they will stop. The world's best managers adapting to changing conditions is key to all successful long-term investing. If AI is a bubble, we expect it will be a self-correcting one.

Current Commentary on Politics:
Tariffs are paid by whoever is importing foreign goods, but the actual cost may be borne in four different ways: either a) by us as consumers through higher prices; b) by American companies who import products; c) by foreign companies who reduce their prices to adjust for tariffs; or d) by some combination of these. Either consumers or corporations must be paying these tariffs, and in either case, we'd expect that to impact corporate returns.

But our world is a counter-intuitive place. Since the Trump Tariffs were implemented last year, US corporate profit margins have increased to their highest in 15 years.

With this year's mid-term elections, it is not obvious to us that the government has an important role or ability in lowering prices – only free market capitalism can reliably do that. When Wegmans gets too expensive, we shop at Aldi. When a bad mattress costs $900, we order one on Amazon for $250.

If the same cart-full of groceries that cost $100 in 2023 increased to $110 in 2024, that's an example of 10% inflation. If those same groceries went up to $112 in 2025, that would be ~2% inflation. We could accurately say that inflation is falling, but all that means is that prices are still rising, just more slowly than they were rising before. Lower inflation does not mean lower prices. Fair or not, any politician who attempts to explain this distinction to voters is likely to have a problem (as Biden and the Democrats had in 2024, and Trump and Republicans now have in 2026).

The One Big Beautiful Bill Act provided slight tax cuts, especially helpful for taxpayers age 65+, and many taxpayers will either receive a bigger refund or owe less in taxes than last tax season. Many economists expect this to boost the economy early this year. (Pardon this friendly reminder that L&M offers tax preparation service.)

Current General Commentary:

- Early 2026 is among the best times in history to be an investor because global markets are very near all-time highs, and interest rates remain high enough to safely earn meaningful returns.
- If you have a significant amount of cash in a low-yielding bank account – now is a great time to schedule a review with your advisor. There are a number of options that might better fit your objectives.
- The Federal Reserve has cut rates 6 times by 1.75%. Lower rates are generally stimulative to the economy: the less we all spend on interest payments, the more we have available to spend on everything else.
- Importantly, the Fed only controls very short-term rates. We haven't yet seen mortgage rates or auto loan rates follow the Fed.
- While the economy and corporate earnings appear very strong, the most important weak spot in the economy is the softening employment picture. Unemployment has ticked up slightly to 4.7%.
- The US stock market is extremely concentrated in a few huge technology stocks: Nvidia, Apple, Microsoft, Amazon, Meta, and Alphabet. Because high valuations are not an effective market-timing tool, we believe disciplined rebalancing (including to small-cap, non-tech, and international companies) will forcefully address this valuation concern.
- When we write this letter next year, there will be a major surprise that we look back on. The more impactful this surprise will be, the less predictable it is in advance.
- Steady, disciplined, diversified investing has always worked in the long-run. And thus, we won't adjust our core strategy in light of fears or fads.

We sign-off with a tip of our hat to Warren Buffett, the greatest to ever operate in our industry, who retired at the end of 2025. We admire Buffett for his honorable stewardship of his investors' money. In Buffett's words: "The one thing you should very definitely understand about Berkshire is that we run the business in a way that we think is consistent with serving shareholders who have virtually all of their net worth in Berkshire." We here at L&M cannot think of a better North Star for serving you.

We are here for you, and we look forward to connecting with you in the new year. Please don't ever hesitate to call us if there's anything we can do to be helpful.

Thank you for being our clients. It is a privilege to serve you.

Warmly,

Your Friends at L&M