Our Report for Mid-Year 2025

OVERVIEW

After a turbulent market that began in April 2025, the stock market has made a strong recovery. On April 3, the S&P 500 dropped 1,600 points (6.65%) following the announcement of aggressive tariffs, marking one of the sharpest declines of the year. However, the market quickly regained its momentum and the S&P500 is now up 6.2% year-to-date. Investors have responded positively to signs of a more measured approach to trade policy, although uncertainties about long-term economic implications still exist. Additionally, first-quarter earnings have largely exceeded expectations, which has further bolstered investor confidence.

For the 6 months of 2025: **The S&P500 gained 6.2%, DJ Dividend Index gained 4.4%, the 10-Yr US Bond gained 4.0%. The S&P Conservative Allocation Index gained 5.9%, the S&P Moderate Allocation Index (stocks and bonds) gained 6.6% and the S&P Aggressive Index (primarily stocks) gained 9.2%.**

These are benchmark returns for diversified portfolios which most investors have. A diversified portfolio is designed to reduce risk by spreading risk over different asset classes (bonds, equities, international, cash, real estate, currencies, commodities, etc.). Your risk level should be compatible with your risk tolerance and your goals. **Let us know if your risk tolerance has changed**. A diversified portfolio will not look like the return of a one asset portfolio such as all stocks or all bonds. Your personal return will differ based on the timing of when assets were bought or sold. A portfolio that is designed to meet one index such as the S&P500 means your portfolio would have to be in those stocks that make up the index. (*Benchmarks from iShares Blackrock*).

> "The best investment by far is anything that develops yourself, and it's not taxed at all."
>
> Warren Buffet

Despite mounting tariffs and ongoing inflation, the U.S. economy remains surprisingly resilient. Although GDP growth is projected to ease from 2.4% in 2024 to an estimated 1.9% in 2025 largely due to the drag on global trade, U.S. exports continue to gain momentum. Robust international demand, particularly in advanced manufacturing and technology sectors, has helped offset some of the broader economic headwinds. This shows that American manufacturing isn't fading, it's transforming. Factories are becoming more efficient by using automation and focusing on specialized, high-value products. Sectors like aerospace, semiconductors, and precision engineering are staying competitive, even with ongoing global supply chain challenges.

The labor market is strong, with unemployment rates consistently below 4.5%. Positive hiring trends in sectors such as technology, finance, and skilled trades are helping to mitigate some challenges brought about by economic uncertainty. Although rising interest rates and ongoing geopolitical risks do pose difficulties, they also present opportunities for businesses to innovate and enhance their investment strategies and efforts to create jobs. Historically, most business innovations have emerged during challenging economic periods.

Consumer spending is a powerful force driving growth, supported by consistent income gains. With wage growth keeping up with inflation, households are retaining their purchasing power, which is crucial for maintaining economic momentum. Additionally, the expansion of digital and service-based economies is significantly boosting consumer demand, especially in dynamic sectors like e-commerce, entertainment, and healthcare. This adaptability not only reinforces current trends but also positions these industries for future success and innovation. Overall, the continued evolution of these sectors presents exciting prospects for economic growth.

All in all, the U.S. remains the largest and most influential economy, with a GDP nearing $30 trillion. Its stock and bond markets are valued at $79 trillion, far surpassing other global economies. This is a driving reason why the stock market remains resilient. Looking ahead, while the U.S. economy has avoided a recession, uncertainty remains high. One of the most pressing concerns is the risk of stagflation—a combination of slowing growth and persistent inflation, which has increasingly drawn attention from economists.

The Federal Reserve has chosen to keep interest rates unchanged at 4.25% to 4.5%, pointing to elevated risks tied to both inflation and unemployment. With the economy at a critical juncture, policymakers are treading carefully, knowing that poorly timed moves could either reignite inflation or stall growth. Navigating this delicate balance introduces uncertainty, which in turn contributes to continued market volatility.

Investors are closely watching trade policy developments, particularly the impact of new tariffs on imports, which have contributed to rising costs and supply chain disruptions. While the economy has demonstrated resilience, the path forward depends on monetary policy decisions, global trade dynamics, and consumer confidence. If the Federal Reserve can stay in front of any economic weakness, a rate cut(s) could further support equities, boost bonds, and ease inflationary pressures.

What we are Doing

What occurred in April was defined as a waterfall stock market decline, which has occurred about 12 times over the last 100 years. Out of these 12 times, 4 resulted in a recession. The other 8 turned into a V-shape recovery, which is generally defined as when the market realizes that the sell-off was due to panic selling. Since we didn't observe signs of a recession, we remained invested. The markets recently endured another geopolitical stress test amid the Israel-Iran conflict. While the situation carried the potential to escalate into a Black Swan event—an unpredictable shock with outsized consequences—it ultimately triggered only modest volatility and a limited uptick in oil prices. This muted reaction reinforced the view held by many analysts: that U.S. economic fundamentals remain resilient enough to absorb external shocks without derailing broader market stability. For these reasons, the stock market is expected to trend higher, driven by strong corporate earnings and a resilient consumer base. This suggests continuing to "buy the dips"—using short-term market pullbacks as opportunities to invest, rather than reacting by selling during periods of weakness. However, if signs of a potential recession begin to surface, the strategy would pivot, trimming exposure to growth-oriented assets and reallocating toward more defensive positions such as bonds.

We are focused on sectors that depend on international trade, specifically manufacturing and technology. Despite facing challenges from rising costs and supply chain disruptions, these sectors have proven their resilience and delivered impressive returns this year, with manufacturing up 5% and technology soaring over 8%. We believe these sectors will continue to excel and remain a top choice for investment.

Transformative technologies are evolving rapidly and often converging in unexpected ways, shaping various industries. Key sectors we are interested in include Artificial Intelligence (AI) and robotics, quantum computing, biotechnology, and cyber-physical systems and automation. We believe these technologies will intersect in ways that redefine industries, such as AI assisting in quantum research or biotechnology leveraging robotics. Our investment management approach has always been technology-driven, and we continue to see promising opportunities in this space.

AI & Robotics: AI-driven robotics will become more autonomous, with enhanced dexterity for complex tasks in healthcare, logistics, and defense.

Quantum Computing: Advancements in quantum algorithms will accelerate drug discovery, materials science, and financial modeling.

Biotechnology & AI: AI-powered gene editing and protein design will lead to revolutionary treatments for rare diseases.

Cyber-Physical Systems & Automation: Smart cities will integrate AI-driven infrastructure for energy efficiency and mobility optimization.

Planning

Living Longer, Planning Smarter: Rethinking Retirement in the Age of Longevity

When Social Security was born in 1935, the average American wasn't expected to live past 65—the very age the system designated for full retirement. Fast forward to today, and the story has changed dramatically: a 65-year-old can expect to live another 20 years, if not more. But with those extra golden years comes a pressing question: *Can your money last as long as you do*?

Retirement now stretches across one-third of your adult life, funded by what you saved or earned during the other two-thirds. That means your retirement income must not only sustain your lifestyle but *withstand inflation, increased healthcare costs, increased home repairs, and the financial impact of losing a spouse*. These are the curveballs that can derail even the most carefully laid plans.

The Three-Legged Stool (and Its Wobbles) The Social Security Administration paints a familiar picture of retirement planning as a three-legged stool: Pensions, Personal Savings, and Social Security. It's a stable structure—*unless one leg is weak*. And with pensions disappearing and Social Security covering only 25% to 40% of pre-retirement income, the burden falls squarely on personal savings, the one leg you have full control over. But even the strongest savings plan can falter if it doesn't keep up with inflation.

Why Inflation Is the Silent Threat Inflation doesn't arrive with a bang—it creeps in. A modest 3% inflation rate may not sound alarming, but over 15 years, a $100 item becomes nearly $156. That's a 56% increase in cost, with no corresponding boost in your fixed retirement income—unless you've planned for it.

Smart Strategies to Outsmart Inflation Modern retirement planning demands more than conservative investing—it calls for dynamic strategies:

- **Diversify assets early in retirement** to balance growth and safety. The rules regarding a higher percentage of bonds as one nears retirement are not necessarily a valid approach, as it likely will not keep up with inflation. Keep what you need for cash flow and short-term goals in a high-yielding money market account and invest the rest for additional growth that you will need in the future.
- **Delay retirement** to increase Social Security payouts, allow savings to grow, and give compound interest time to work its magic.
- **Work part-time or consult**, not just for income, but for purpose and connection.

What Every Retirement Plan Needs At its core, a retirement plan must provide capital growth that beats inflation. Growth-oriented investments, like stocks or equity funds, offer the potential to keep pace with or exceed inflation. The challenge isn't just to *make your savings last*—it's to make your retirement secure. Many costs in retirement are expensive, such as healthcare and housing. A growth component in your portfolio can help fund unexpected expenses later in life, especially if you want to maintain independence or avoid burdening loved ones. And if leaving a financial legacy is part of your estate plan, growth assets can help preserve and expand wealth for heirs or charitable causes. All in all, a conservative portfolio may protect what you have, but a growth portfolio can build what you need.

Enclosed Statements

Our managed clients will be mailed a personalized report: The "Position Performance Summary Report" which shows performance for the period 12/31/2024 through 06/30/2025 (six months of 2025). The Actual IRR Column is a <u>percentage</u> change (<u>not</u> a dollar change); it is not annualized. The IRR discounts all cash flows and is net of fees (Money Plans fees and any trading costs). Included will be a quarterly invoice for the previous quarter management (do not pay this as it is deducted from your account and is reported on your Schwab statement as Advisor fee).

Our ADV and Code of Ethics are available upon request and can be found on our website, www.moneyplans.com.

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