



Practical | Tactical



Summary

We're pleased to report that our ETF was awarded its 5th star (Morningstar's top rating) as of May 2025: <https://www.morningstar.com/etfs/xnas/lexi/performance>.

April was a roller coaster ride for investors. Stocks were extremely volatile as the correction morphed into a crash when aggressive tariffs were announced April 2nd. Stocks then rebounded as the most severe tariffs were suspended pending negotiations. **Despite the S&P 500 falling as much as -12% during the month, it ended only slightly down.** The Tech Heavy Nasdaq fell harder through the lows but finished April with a modest gain.

The key to avoiding costly emotionally driven investment mistakes in volatile times is having a plan and the discipline to follow through. It also helps that we've been through many corrections, crashes and bear markets in the last 30 years. Focusing on news and listening to analysts, each time is different. From a practical perspective as long-term, tactical investors, we've learned to ignore these differences allowing us to manage and profit through volatility.

Key Market and Economic Data

- The S&P 500 fell -0.8% in April while the Nasdaq rose +0.9%. For the year, the S&P 500 is down -5.3%.
- Bonds gained +0.4% in April and are up +3.2% for the year.
- The U.S. dollar weakened to a three-year low.
- Prices rose +2.4% compared to last year, the slowest increase since September.
- US GDP shrank -0.3% in the first quarter, mainly due to increased imports.

Our goal with frequent communication is to be as transparent as possible about our thoughts and actions. We hope this adds to your confidence, but if anything is unclear or you want to discuss your personal portfolio, we encourage you to reach out.

What to Expect in Portfolios

Last month we wrote: "Tariffs and trade wars were telegraphed but implementation may prolong the current correction even if much of the damage is priced in quickly. Any news may also prompt a spike to the upside, making this **an especially challenging time to make major portfolio changes.**"

April volatility showed how quickly bad news can be priced in, but also how quickly stocks can rebound even as news remains unresolved.

Once issues are known, investors react to things getting better or worse (not being good or bad). We believe a bottoming process is underway leading to gains in the coming months despite potential near-term volatility.

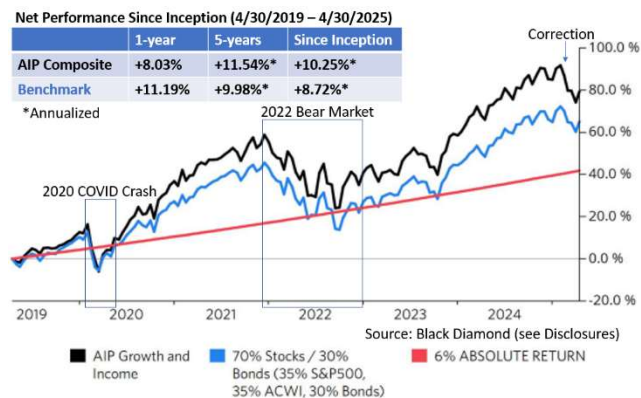
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The chart below shows trailing 1-year performance. The vertical blue lines start 2025 and April. April was volatile but finished strong. The best performer for the trailing year (including the full 2025 decline) had the deepest pullback (QQQ - Nasdaq). The best performer in 2025 and April (EFA – foreign stocks) was weak prior.

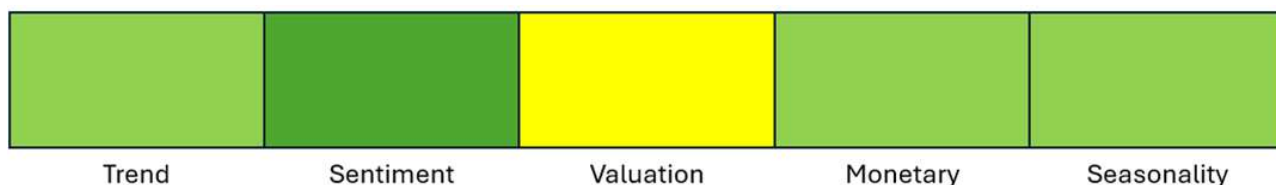


The chart below shows the net performance of our most popular composite since inception (120 accounts – see disclosures on page 4). The 6 years shown have been volatile including COVID and the 2022 Bear market. **Our strategy and discipline led to greater participation in gains than declines, allowing us to add value through this volatile time.**



Insights and Commentary

Investing can be an emotional roller coaster, leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants, (Don't Fight the Fed, Don't Fight the Trend, Follow Sentiment Except at Extremes) The tiles below summarize current conditions:



Be Wary of Narratives

Confidence is critical, especially for investors facing heightened volatility. It's natural to think the best defense is to rationalize recent moves so you can properly analyze the road ahead, but ironically, this tends to lead to poor decisions (locking in losses and prolonging recovery as opposed to buying low to boost long-term performance). Why?

Media stories are consumed by investors seeking insights and advice but written with tight deadlines by reporters focused on finding a compelling story that sells. This leads to sensationalism, limited fact checking and biased assumptions.

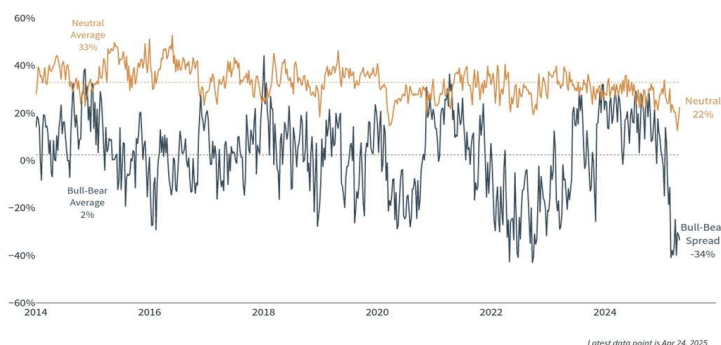
Perhaps more important is that **logical arguments can almost be made to support a popular thesis** using selective observations taken out of context. **Separating fact from opinion is difficult when the story is consistent with one's fears at a time of heightened concern.**

Market and Economic Chartbook | May 1, 2025

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Investor Sentiment

AAll Investor Sentiment Survey



- Investor sentiment has swung wildly on a weekly basis over the past few years.
- Sentiment is often a contrarian indicator since stock market bubbles are often characterized by irrational exuberance.
- Staying disciplined often means not over-reacting to short-term market movements.

Sources: Clearnomics, AAll
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One of the keys to our success through market cycles is our **focus on what we observe** as opposed to why it's happening or what we fear might happen.

If you find yourself saying, "This time is different" you are probably making or contemplating costly mistakes.



Update, Observations, Indicators and Outlook:

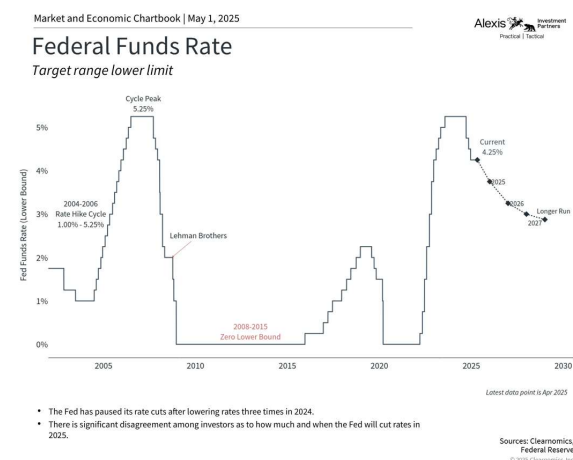
In terms of our current Market Pulse (right), the **Bull Market** remains intact but major indexes are in a bottoming process following a steep correction that pushed several indexes into bear market territory.

Trend has improved following a sharp correction. A bottoming process may include multiple re-tests of lows as investors who feel like they missed an opportunity to sell at prior highs get another chance thanks to a rebound. That said, breadth and other indicators suggest stocks to challenge recent highs in the relatively near future.

Sentiment continues to be the strongest indicator that the worst is behind us and there is potential for upside in the months ahead. As we stressed in last month's letter, **extreme investor pessimism implies less risk and greater return potential** because fearful investors raise cash, meaning they have less stock exposure to sell and are underweight stocks relative to long-term allocation goals.

Valuations are the greatest headwind, especially for the mainstream indexes. There are many stocks at more reasonable valuations, and we have seen broadening of leadership. Stocks are long-term investments (so **what happens over time is much more important than what happens at any given point in time**). Foreign markets trade at lower multiples but have struggled with slower growth and / or greater geopolitical risks.

Monetary conditions are restrictive as the Fed remains reluctant to ease. We **expect improvement** as the year progresses (see the Fed's own projections below).



Seasonality is less favorable but Sell in May and Go Away has been a poor choice over the last decade.

Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline). **We can expect periodic pullbacks and corrections, but these should be relatively short and shallow – followed by resumption of the up-trend.**

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks.

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3- 6 months.

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18- 24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from.

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery.

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Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor.

We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Although our focus is on financial planning and investments, we also have relationships and resources to help with life and LTC insurance and annuities.

AIP acts as a 3(38) Fiduciary Advisor to 401k plans and has been able to help several small business owners reduce costs, significantly improve their plans and offload some of their liability as plan sponsors while creating a better experience for employees.

Please call and/or email me personally for most of your account servicing needs and especially when you have questions or concerns.

Disclosures

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