



Practical | Tactical



## Summary

September was strong, especially considering its reputation as a difficult month, capping off a solid Q3. Although we shifted to our current, relatively cautious posture late July, our portfolios enjoyed good participation in both August and September gains.

The Fed finally budged from its modestly restrictive policy stance towards neutral. Historically, cash investments like money market funds whose yield follow the Fed funds rate earn a similar return to current inflation rates. We explain why this matters on page 3.

2025 has been a great year so far, but it hasn't been easy for many investors. Stocks have been resilient in part because many investors were caught offside having sold in the -19% mini-bear panic through April and missed much of the rebound. It would be normal to see some cyclical/seasonal profit taking (in fact, that's our base case) but strong momentum, still healthy skepticism and massive money market balances may fuel further gains through year-end.

## Key Market and Economic Data

- Throughout Q3, the S&P 500, Nasdaq, and Dow Jones Industrial Average advanced +7.8%, +11.2%, and +5.2% respectively, with all three establishing new peaks in September. For the year through September, they are up +13.7%, +17.3%, and +9.1%.
- The Bloomberg U.S. Aggregate Bond Index gained +2.0% in Q3 and has risen +6.1% year-to-date.
- Developed international equities (MSCI EAFE) gained +4.2% while emerging market equities (MSCI EM) climbed +10.1% in the quarter.
- Gold surged to a record \$3,841 per ounce, marking a +16% quarterly increase!
- The Consumer Price Index rose +2.9% in August while core CPI increased +3.1%.
- According to the Bureau of Labor Statistics' most recent report, August saw only 22,000 net new jobs created. From May onward, monthly job gains have averaged merely 26,800.

## What to Expect in Portfolios

Last month we discussed the potential to, "Sacrifice potential bragging rights, which we believe is a fair price to pay for locking in solid results and retaining the firepower to buy cyclical pullbacks."

Fortunately, we outpaced our benchmark and delivered strong results in September despite our relatively defensive posture in part because our portfolios were weighted towards leading sectors, geographic regions and industries – but also because gold had a great month.

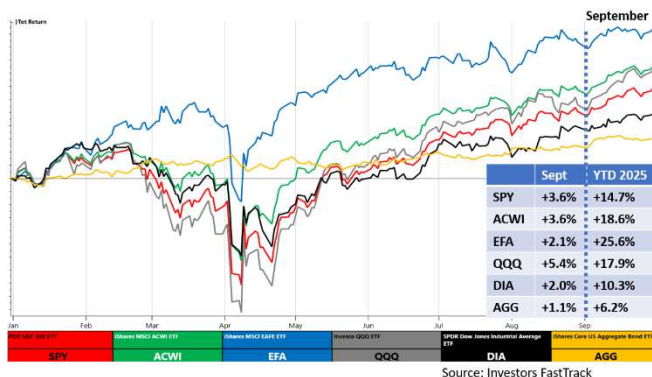
We continue to believe prudent risk management is more important than trying to maximize upside until markets have had more time to digest recent gains.

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September strength capped off a strong quarter. 2025 gains are impressive in their own right especially considering the sharp -19% drop through April. **The rebound has been spectacular but is not unprecedented.** A pullback or consolidation would be normal. Knowing that, we never bet against a market with strong momentum.

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.**

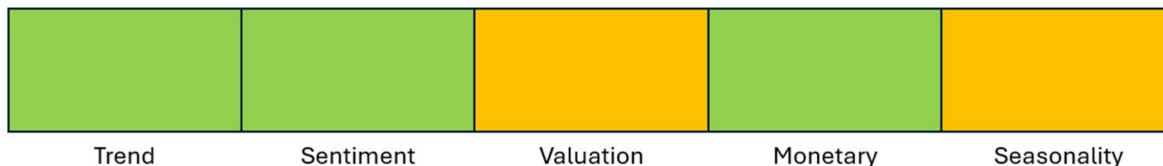


Net Performance Since Inception (4/30/2019 – 9/30/2025)



## 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:



Our models and indicators continue to reflect a **cautiously optimistic outlook**. September's surge is a great example for why we use a weight of the evidence approach to risk management decisions and resist the temptation to over-react to widely known concerns. Stocks remain in a seasonally challenging period, especially considering high valuations and overbought conditions – offset by strong momentum and **a more constructive monetary environment**.

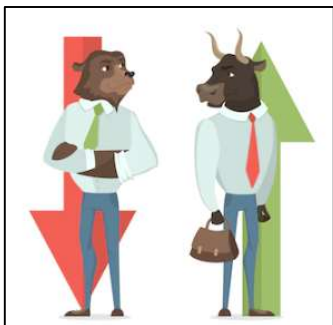
Strong performance has emboldened investor confidence, but **we also continue to see a large pool of bears. This healthy skepticism keeps people underinvested relative to their long-term objectives.** This may be one reason money market fund assets are more than \$7.5 Trillion even as yields decline.

**Trend strength is undeniable.** The only reason we rate trend light green is that many charts are extended to the upside. This is common in up-trending markets but mean reversion suggests stocks are overdue for some consolidation or correction.

**Valuations are in a dangerous zone.** The implication is that forward returns should eventually be lower than the outsized gains we have enjoyed the last few years. **Valuations influence our projections and prompt us to place greater emphasis on risk management over time – but it is a terrible short-term timing indicator.**

Some great years (notably the late 1990s) offered exception gains despite high valuations – even if much of that excess gain was lost in the subsequent bear market. We also note that **some domestic sectors and many foreign markets trade at much more reasonable valuations** than large cap US benchmarks like the S&P500 or Nasdaq 100.

In summary, **stocks have come a long way off the lows a few months ago.** Trees don't grow to the sky – and **we believe it is prudent to respect that risks are more balanced** than they were when fear was high and stocks were "on sale" prompting us to move tactically overweight. This is why we rebalanced to a neutral, and ultimately a mildly defensive allocation.

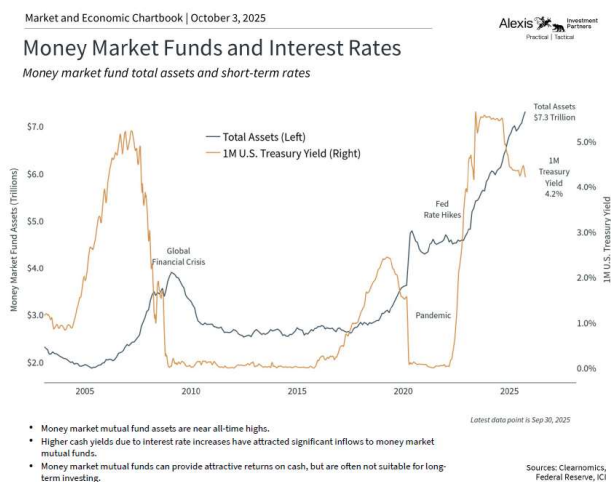


## Update, Observations, Indicators and Outlook:

In terms of our current Market Pulse (right), **the Bull Market remains intact**. Until this changes, we tend to lean optimistically even when our actions seem relatively defensive. In other words, we will tend to be quicker to buy dips and slower to sell rallies. That said, **stocks are volatile, and it is common to see pullbacks and corrections of 5% to 10% multiple times per year** and more significant corrections (like this past April) every few years – **even in a bull (up-trending) market**.

We have found that if we have cash available to buy into these declines, that allows us to speed our recovery and add value through the full (up and down) cycle. To do this, **we have a process to tactically scale back exposure based on a range of indicators overlaid with judgement** derived from our experience managing portfolios through many different market cycles.

One reason we focus a lot of attention on monetary policy is **that cash yields (treasury bills, CDs and money market funds) are heavily influenced by the Fed Funds rate. Over time, the neutral rate tends to be very close to inflation**. This makes sense as a rate higher than inflation incentivizes savings over investment and spending. This reduces demand for more productive investments like stocks and bonds.



Similarly, **the reason Fed stimulus (lowering rates significantly below long-term inflation trends) is so effective is by degrading the future purchasing power of savings**. Borrowing is essentially free, making it easier to justify large purchases. Savers are forced to consider more productive investments, or they are guaranteed to lose purchasing power (earn a yield lower than inflation). Lower rates should incentivize some of the \$7.3 trillion sitting on the sidelines in cash to fund stock, bond and real estate purchases which the real economy relies upon to grow.

## 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.

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