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Market Update – *The Weighing Machine Casts Its Vote*

by David A. Jaffe, M.D.

From a financial market perspective, it would be an understatement to say that the early weeks of the new administration are off to a rocky start. Investors initially celebrated the re-election of President Trump, the S&P 500 gaining 6.7% from the date of the election to an all-time high on February 19th of this year. Expectations of business-friendly policies, including less regulation and lower tax rates, buoyed investor enthusiasm.

Market mood soured during the first quarter, first tainted by worries that enthusiasm for Artificial Intelligence (AI) related businesses was overdone and related stocks overpriced, leading to a decline in the collective "Magnificent 7." Expectations of new tariffs, with early concern focused on trade with Mexico and Canada, further depressed investor confidence.

Then came April 2nd, when the administration unveiled details of tariffs touted to "liberate" the U.S. economy, plans far more draconian than even the most extreme forecasts. The far-reaching program, promoted to dramatically restructure domestic business and global trade relationships, was greeted with the most severe and rapid stock market decline since the Pandemic Crash of 2020. The S&P 500 plunged over 10% in two days, while the NASDAQ dropped 11% and entered an official bear market.

Extreme day-to-day stock price volatility followed, including an eight percent swing on April 7th – exuberant gains in the morning sparked by a rumor that tariffs would be suspended – followed by a sharp decline when a White House spokesperson declared the rumor false. Two days later the market rallied over 9% in a single session, as implementation of "reciprocal tariffs" was abruptly paused for 90 days.

Pressure on the administration to accept a more measured adoption of the announced tariffs has been widely credited to the unexpected response of the bond market. While expectations for slowing growth most often lead to falling interest rates, as the bond market digested the potential consequences of current economic policies interest rates rose sharply, including the swiftest weekly jump in the 30-year treasury yield since 1987. Moves by large investors such as hedge funds, forced to raise cash as expectations of further stock price appreciation evaporated, likely explain some of the bond market behavior. But a more global worry has been disseminated – *faith in the security and stability of U.S. credit is in doubt*. The value of the U.S. dollar has been falling against other currencies, reinforcing the worry that large investors are preferring to park money outside of the U.S.

Our country carries $28.6 *trillion* in treasury obligations, and if our creditors demand higher interest rates to help finance our national debt, the U.S., and likely global financial markets, are in trouble. It is widely believed that this reality was a key factor leading to suspension of most tariffs on April 9th, having been introduced with fanfare just a week earlier.

The pessimism pervasive among economists, asset managers, and the public at large is based on multiple concerns:

- Tariffs and the associated trade war will raise production costs, and create obstacles and planning challenges for businesses – higher prices will ultimately be passed to consumers
- Modification of current trade practices impairs production efficiencies, worsening slowing domestic and global economic growth
- Higher prices and slower growth lead to an economic recession and its consequences, including business failures and rising unemployment
- Recession risk and widespread government layoffs lead to job insecurity
- Consumer confidence is weakened in the current economic environment, depressing consumption and heightening recession risk
- Concern about the stability and integrity of existing trade agreements will damage trust, making new agreements more challenging

The degree to which these worries are ultimately manifested is yet to be seen. Trade negotiations and compromise should temper economic impact. Meanwhile, businesses in a strong financial and competitive position often emerge from times of economic turbulence in a superior position as weaker players fail or are absorbed by those rivals.

In the context of the April turmoil, the market behavior of the first quarter feels largely irrelevant. The S&P 500, reflecting fading investor enthusiasm for AI related companies, declined 4.27%, while the PASI composite stock portfolio held up relatively well, ending the quarter with a decline of 1.03% (both include reinvested dividends). With some protection from bond holdings, the *average* PASI balanced account (overall 61% stock, 39% bonds) was very slightly positive for the quarter, with a return of 0.08% YTD.[1]

In a stock market characterization usually attributed to Benjamin Graham, the renowned value investor and mentor of Warren Buffett, "In the short term, the market is a voting machine, but in the long term, it is a weighing machine." While we must wait to see how the market weighs in on current policies long-term, as an aggregation of the collective wisdom and perspectives of millions of investors (*of all political stripes*) digesting all elements of the administration's economic strategy, financial markets have cast a clear vote against the current program. In all likelihood, policy makers will bend to market forces and moderate their actions. Meanwhile, we are comforted by the conservative nature of our diversified portfolio, financial strength of our companies, stability of our bond holdings, and our current mix including a bit of extra cash.

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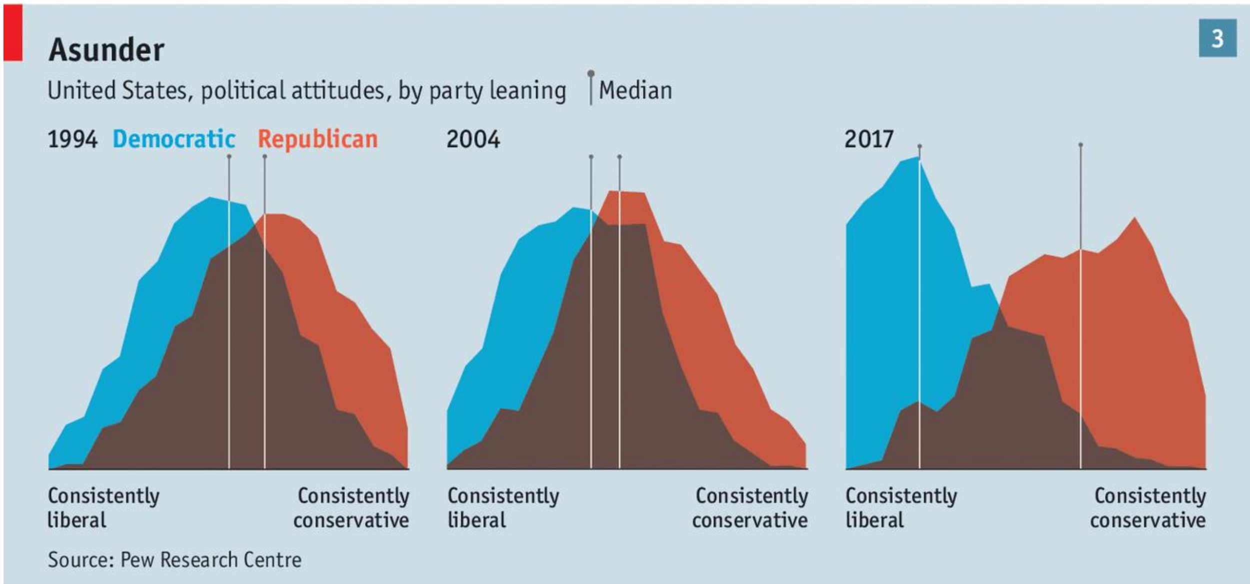
[1] Please see additional PASI Performance and Index disclosures on page 11.

Investing and Politics: *Like Oil and Water*

By: Nathan Polackwich

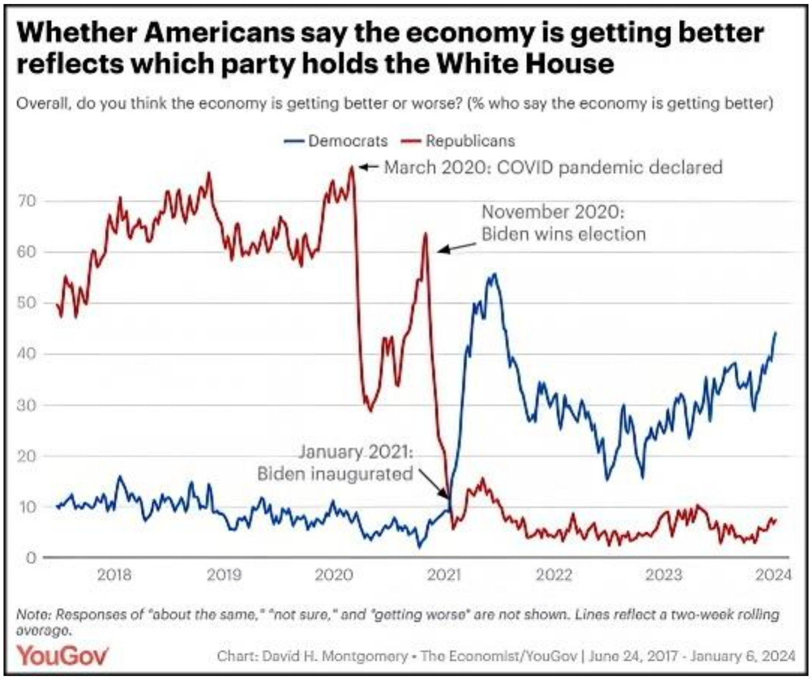
Since the topic is foremost on many investors' minds, I'm going to wade into some perilous waters and talk about politics. As everyone is aware, America has become an increasingly polarized nation.



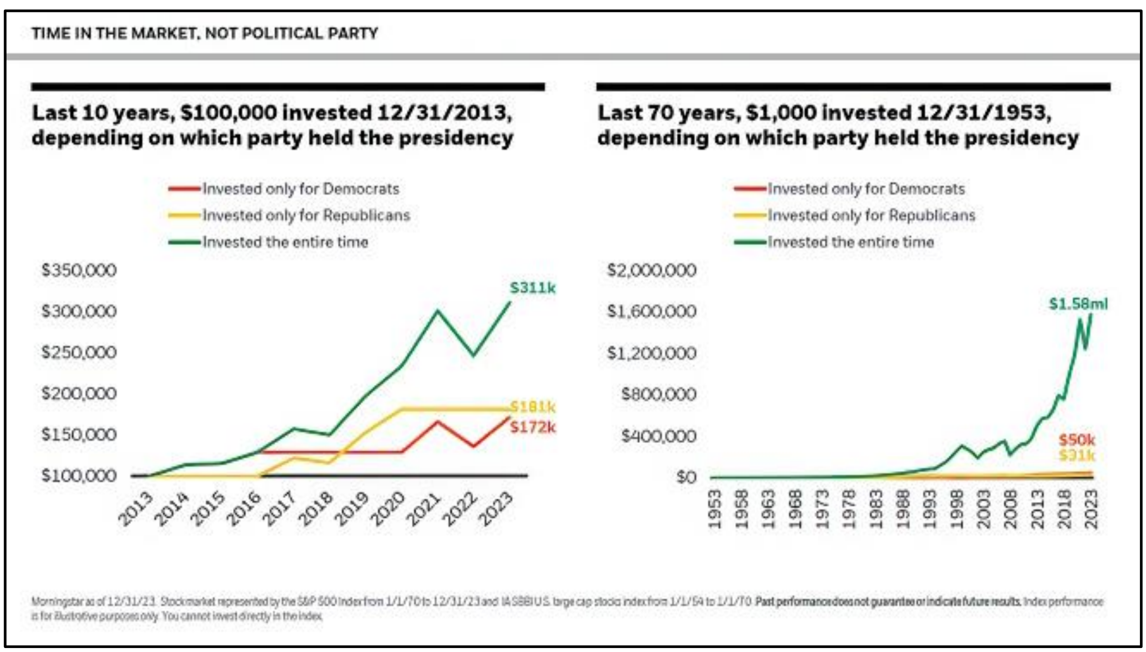
Economist.com

Although there hasn't been an update to the chart above since 2017, I have no doubt the divide between the two parties has widened even further. While normally politics would play only a minor (if any) role in how investors manage their portfolios, we've noticed a shift in the level of many investors' ebullience or despondency depending on which political party holds the White House. For instance, a national poll found that before President Trump took office in January, 48% of Democrats and 14% of Republicans thought economic conditions in the U.S. were good. Two months later (and before the stock market started falling), the numbers were a mirror image with 48% of Republicans and 14% of Democrats feeling that way.

As depicted by the following chart, this trend of viewing the economy through an increasingly partisan lens has been prevalent for a while:



While perceptions of the economy now swing dramatically based on who holds office, long-term investment returns have been more consistent. Stocks have done well under both Democratic and Republican Presidents, though returns have indeed been a bit higher under the former since WWII. Specifically, since 1945 the U.S. stock market returned 13.8% annually with Democratic Presidents vs. 8.9% under Republican administrations. As the chart below shows, the opportunity cost of being out of the stock market when either political party is in charge is enormous.



As the old saying goes, it’s *time in* rather than *timing* the market that’s the biggest determinant of investment success.

That said, there is a case to be made that President Trump is a unique political entity (good or bad depending on your perspective) and that investment returns under his Administration will be atypical. While history demonstrates that Presidents can have some impact on the economy (particularly shorter term), it's the *system* of government rather than the leader that primarily drives countries' long-term economic and financial market outcomes. And the American system, as evidenced by our extraordinarily high household disposable income per capita (highest in the world) just happens to be remarkably effective. But probably not for the reasons you might think.

The late Supreme Court Justice Antonin Scalia (a polarizing figure in his own right) spoke to the Senate Judiciary Committee a few years before his death about the factors underlying American exceptionalism. Although Scalia's speech focused on the reasons Americans enjoy greater freedoms than most other countries, his same arguments apply to U.S. economic outperformance.

In response to why Americans have managed to retain their individual freedoms where so many other countries' citizens have not, Scalia noted that when he speaks to law students across the country, they invariably attribute it to the rights enshrined in the Constitution. To which he would reply (paraphrasing),

> If you think that a bill of rights is what sets us apart, you're crazy. Every banana republic in the world has a bill of rights…Of course, just words on paper, what our Framers would have called a parchment guarantee…The real key to the distinctiveness of America is the structure of our government – the independence of the judiciary, a bicameral legislature equally powerful, a separately elected Chief Executive.
>
> [Foreign countries] look at this system and they say, well, it passes one House, and it doesn't pass the other; sometimes the other House is in the control of a different party; it passes both, and then this President, who has a veto power, vetoes it. And they look at this and say, "Ah, it is gridlock."
>
> And I hear Americans talk about a "dysfunctional government" because there's disagreement. And the Framers would have said, "Yes, that's exactly the way we set it up. We wanted this to be power contradicting power." As Hamilton said in The Federalist when he talked about a separate Senate, "It seems inconvenient, but inasmuch as the main ill that besets us is an excess of legislation, it won't be so bad." This is 1787 – he didn't know what an excess of legislation was.

Scalia's point is that the uniquely decentralized nature of the American system of government makes it extraordinarily difficult for one party or person to amass enough power to easily pass legislation. Far from being an obstacle to progress, these legislative and judicial bottlenecks are precisely what *preserve* our political and economic freedoms.

Of course, Presidents do have some ability to make unilateral changes through executive orders and foreign policy, including trade agreements. But even here a President is limited by judicial review as well as Congress' power of the purse. In just his first two months in office, for instance, lower courts temporarily blocked more than 15 of President Trump's executive orders through injunctions and more are in the process of being challenged in court. While this has frustrated Republicans, you can be sure conservative judges will avail themselves of the same power the next time a Democrat is President.

Concerning Congress' power of the purse, all Federal expenditures and/or cuts to government programs like Medicare and Social Security must pass Congress via the budgetary process and appropriations bills. A President can't advance their agenda without strong Congressional support, as opposition (including intraparty) can easily block or significantly alter spending proposals and other legislative initiatives. Presidents do have latitude to eliminate waste and inefficiencies and reorganize certain functions within departments of the executive branch like the Department of Education or Homeland Security. But they cannot unilaterally abolish entire departments or make significant spending cuts without congressional approval.

Finally, while Presidents have the ability to implement tariffs, Congress actually delegated this responsibility to the executive branch through key acts passed between 1934 and 1988. So if a President's tariff policies were needlessly destructive to the economy, Congress could enact new legislation to curtail those powers. In the current trade war, the judiciary might also step in, as President Trump has invoked the International Emergency Economic Powers Act (IEEPA) to justify his tariff program. While the IEEPA gives presidents the right to regulate economic transactions during a national emergency, the courts will review whether the declaration of an economic emergency in this case was warranted (the act has historically only been used for sanctions against hostile nations). If courts find the tariffs lack a sufficient legal basis, they could issue injunctions to stop them or strike them down entirely.

That said, the U.S. economy is predominantly service based, with services accounting for approximately 77% of GDP, while goods make up 23%. Of those goods, imports are 16% of GDP and exports 11%. Given that we don't know how long President Trump's tariff plan is likely to stick – whether because deals are made with our trading partners, Congress or the courts get involved, or he simply changes his mind – it's hard to speculate on how the economy will be affected. So far I'm seeing estimates of perhaps a 1-1.5% hit to GDP growth this year in a worst-case scenario. But this assumes no other fiscal levers are pulled such as large tax cuts that could provide an offsetting stimulus to the economy. Long story short, while so far the financial market reaction to the tariffs has been sharply negative, there's no guarantee it will remain so or that the policies won't be changed or reversed before their full economic impact is felt.

I want to close with what I feel is a hopeful note on the current political climate. Some of it, at least, seems to be based on misunderstanding, what the authors of a research paper[2] on the topic call false polarization. Specifically, most people dislike their political enemies for opinions they don't actually hold. As the authors found, "for every extreme view [whether on the left or right], people guessed that a majority of their political opponents agreed with it, when in fact a majority disagreed." Unfortunately, both the media and political parties have a vested interest in amplifying more extreme (but less common) views. The media does it to grab your attention and sell more ads, while both political parties want to paint their rivals as radical and unelectable. Don't be fooled. Things are neither as good nor as bad as your political perspective might suggest. The American system continues to work as intended, and most Americans share far more common ground than what television or social media would have you believe.

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[2] Parker, Victoria A., et al. *The Ties that Blind: Misperceptions of the Opponent Fringe and the Miscalibration of Political Contempt.* October 2021, https://doi.org/10.31234/osf.io/cr23g.

Visa: *Commerce Happens, They Collect*

by Jeremy Goldberg, CFA, CFP®, MSF

In the early days of American railroads, laying track across the country was more than just connecting cities. It was about building the infrastructure beneath commerce itself that enabled goods, people, and ideas to move farther and faster than ever before. Visa, the global digital payments company behind many of the credit and debit cards in our wallets, has become a modern version of that network. It doesn't own the trains or the goods being moved, but it owns the rails. And today, the money-moving equivalent of those rails spans over 4.7 billion active Visa cards and digital accounts, connects to 14,500 financial institutions, serves 150 million merchant locations, and has processed more than $13 trillion in transactions over the past year.

While Visa may seem like just a credit card company, it's better understood as the network behind the transaction. It doesn't actually issue cards, make loans, or hold deposits. It doesn't collect interest or take on credit risk. Visa simply moves money. When someone swipes a card, taps a phone, or pays online, Visa's systems authorize the transaction, connect the consumer's bank with the merchant's bank, and settle the funds behind the scenes. In return, Visa earns fees from both sides of the transaction – not a cut of the purchase, but fixed fees for processing, data routing, and access to the network. It's essentially a toll on the digital highway, and the more transactions that run through the system, the more tolls Visa collects. Since it gets paid whether the transaction is debit or credit, physical or digital, the company is agnostic to how people spend. Visa's scale and efficiency have given it a cost advantage over competitors and translated into steady earnings growth of 16% per year over the past decade.

While most of Visa's growth historically came from consumers spending with physical cards, that's no longer the full story. Increasingly, Visa is expanding into payments that don't look like traditional purchases at all: insurance payouts, business reimbursements, gig economy wages, government disbursements, and cross-border remittances. These are one-way transfers, where funds are pushed from one party to another, whether it's a business reimbursing an employee or a rideshare app paying a driver. Visa is building the infrastructure to support these flows through services like Visa Direct, which allows money to move between bank accounts, debit cards, and digital wallets, often in real time. These payments now account for roughly a third of Visa's revenue and are growing faster than the core consumer payments business. It's not just about enabling more card swipes. It's about broadening the kinds of payments that can flow through the Visa network, regardless of whether a card is involved. As the economy goes digital and more transactions happen behind the scenes, Visa is positioning itself not just as a credit card company, but as a global platform for moving money.

The company's scale not only makes the business efficient – it also reinforces its dominance. Visa processes about twice as many transactions as its closest competitor, Mastercard, and together they control roughly 80% of the U.S. credit payments market. American Express and Discover make up the rest, but neither has the same level of global acceptance. In most developed countries, Visa is the default rail for payments – with near-universal merchant coverage and deep integration into financial institutions. That global presence makes it harder for smaller companies to gain traction and gives Visa a powerful network effect: the more consumers and merchants use it, the more attractive it becomes to everyone else. Scale also drives cost advantages, helping Visa maintain better margins than peers and invest more heavily in security, uptime, and new capabilities.

Of course, Visa's dominance brings scrutiny. Regulators are looking closely at its role in setting fees and controlling access to its network. The Department of Justice has filed suit, and international regulators are exploring ways to reduce reliance on global players like Visa and Mastercard. At the same time, real-time payment systems like FedNow, launched by the Federal Reserve, are being positioned as low-cost alternatives to card networks. Rather than fighting these shifts, Visa is adapting. It now offers services that help financial institutions securely operate alongside FedNow, allowing Visa to remain involved even when money moves outside its traditional rails. The same approach applies to consumer-facing platforms. Services like PayPal, Venmo, Square, and Apple Pay all run on Visa's network in the background – letting the company stay central to the transaction, even when no card is swiped.

Visa continues to operate with impressive efficiency. Last year, the company generated nearly $21 billion in profit and returned almost all of it to shareholders through dividends and buybacks. Capital needs are low, the balance sheet is clean, and its return on invested capital consistently ranks among the highest of all large-cap businesses. Shares currently trade at 28x forward earnings, right in line with Visa's ten-year average. While that represents a premium to the broader market, it reflects the company's margins, scale, and durability – all of which have held up through economic cycles. Annual sales and earnings are expected to grow 10% and 13%, respectively, over the next three to five years, supported by both the steady rise of digital payments and the faster growth of newer transaction types, such as disbursements and real-time transfers. This isn't a company that needs a major change in consumer behavior to succeed. It just needs the world to keep transacting.

In a year when attention has shifted toward emerging technologies and more speculative stories, Visa offers something far more grounded. It is not trying to reinvent commerce. It is making sure commerce continues to work, reliably and securely, in more places and through more channels than ever before. As the world continues to digitize, Visa's role becomes *more* fundamental, not less. And despite headlines about regulation or new forms of competition, few companies are more quietly essential to the functioning of the global economy. It's the kind of business we're happy to own.

Is Long-Term Care Insurance Right for You?

By Kelly Meinders, CFP®, MSF

As CERTIFIED FINANCIAL PLANNER™ professionals we've often been asked to create a scenario we call "Provide Care" when creating client's financial plans. Clients want to understand the impact disability, dementia, or other chronic illnesses may have on their financial plan. Does it mean selling their house if a spouse needs memory care? Where would they go? Are there enough resources to afford in-home care and if so, for how long? All valid questions as we rarely know what the future will hold. Part of our job is to help you choose the best strategy to address potential adverse events in the context of your overall financial plan.

That's where Long-Term Care Insurance (LTCI) can play a role. LTCI is designed to cover the costs of extended care services, including nursing homes, assisted living, memory care, and in-home care. The cost of long-term care can be staggering, with nursing home expenses exceeding $100,000 per year and memory care costs of more than $180,000 per year in some areas. LTCI helps protect personal savings and assets from being depleted by these expenses, providing financial security for policyholders and their families.

When a person requires long-term care, the initial responsibility often falls on family members. LTCI helps alleviate this burden by covering professional care services, reducing the physical, emotional, and financial strain on loved ones. Some policies only cover specific types of care, leading to unexpected out-of-pocket costs if policyholders require services not included in their plan. If staying in your home or being cared for by a family member is important to you, confirm whether in-home care by a family member or non-medical professional is a covered expense.

LTCI requires medical underwriting and has strict eligibility requirements. The best time to buy is typically in one's 50s or early 60s, but even then, approval is not guaranteed. When buying a LTCI policy, ask if (1) benefits are inflation protected, ensuring benefits increase over time to keep up with rising care costs; (2) waiting periods are as short as possible, preferably 90 days or less, so that coverage kicks in sooner rather than later; and (3) daily benefit limits match those for facilities in your area as costs vary widely throughout the nation. LTCI often comes with high premiums, which may or may not be level throughout the life of the policy. If you may not be able to afford premium increases, be sure to buy a level premium policy so you don't lose your long-term care coverage just as you enter the phase of life when you may need it. If you do decide on LTCI, choose a reputable insurance company with strong financial ratings to ensure they can pay claims when needed. Last, traditional LTCI policies are "use it or lose it." This may not be the case if you buy a traditional Life Insurance policy with a Long-Term Care rider, an alternative to consider.

LTCI can be a valuable tool for protecting assets and ensuring access to quality care, but it is not the right choice for everyone. Before purchasing an LTCI policy, reach out to your Portfolio Manager for a review. Your PASI team is here to help you evaluate the costs, benefits, and alternatives. Understanding the key attributes of a strong policy can help buyers make an informed decision that aligns with their financial situation and future care needs.

Disclosure

Performance Disclosure

To obtain a detailed analysis of Professional Advisory Services, Inc.'s (PASI) historical performance, inclusive of gross and net results from our balanced accounts and performance data for our segregated asset classes, please contact our office at 800-847-7274. It is important to note that PASI performance data presented in this newsletter is stated before the deduction of fees and in the context of each article. For a clearer understanding of the impact of fees, please refer to the following disclosures including a hypothetical example based on the maximum PASI investment management fee.

The **PASI Stock Portfolio** includes the reinvestment of dividends; and is reduced by brokerage commissions but is gross of Professional Advisory Services, Inc. fee, which is described in Part II of form ADV, available upon request. Our fee is a maximum of 1% and decreases based on assets under management. As an example of fee impact, over a ten-year period, $100,000 invested in stocks growing at 8% per year would increase at the end of ten years to $205,419 net of 1% fee versus $220,804 gross return.

PASI Stock Portfolio Benchmark: The ***S&P 500 Index (Market-Cap-Weighted)*** is an unmanaged index of the 500 leading publicly traded common stocks in the U.S., including reinvestment of dividends. This index is weighted according to the market capitalization of each participating company. As a result, companies with larger market capitalizations exert greater influence on the index's overall return, reflecting their proportionate size to the overall market.

The **PASI Balanced Account Portfolio** reflects the monthly weighted average of all fee managed accounts beginning in January of each year. Monthly aggregated returns are then linked to produce a time-weighted annual return. The percentage of stocks and bonds used in the Benchmark matches the weighted average target asset allocation of accounts managed by PASI each month. Returns are shown prior to impact of our fee for comparison to the Benchmark but have been reduced by brokerage commissions.