

BRADYCO

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2025 Results

The stock market – as represented by the S&P 500 index – gained 17.9% (including dividends) during 2025. This performance extends a decade of strong stock market performance with annualized returns averaging 14.8% over the last ten years. Needless-to-say, this has been great news for our portfolios. But this good news has also had some other implications.

Investment Implications

You may have noticed that I sold portions of certain high-performing stocks during 2025. I want to emphasize that this does not represent a change in strategy or an attempt to "time the market."

The rationale was to reduce our exposure to companies whose valuations have climbed so significantly that they become an excessive proportion of our portfolios. By reducing these positions, I am ensuring our future results are not overly reliant on the fate of any single firm.

Where these moves occurred in taxable accounts, they will result in capital gains for 2025. While none of us want to pay more in taxes, I believe we must balance a potential tax liability against the risk of an over-concentrated position.

Is the AI bubble about to burst?

Regarding the "AI Bubble" debate: I believe it is a mistake to view the industry as a monolith. The AI industry includes everything from chipmakers to utilities powering data centers. Some businesses are highly profitable and self-funding, while others have yet to turn a profit and rely on significant debt. My approach is to evaluate these firms individually in light of the broader market forces. While there could be a sharp drop in valuations at any point, I believe the firms we are invested in are fundamentally strong companies that are positioned to prosper long-term, regardless of possible shifts in short-term investor sentiment.

A Turbulent Backdrop

Our strong 2025 returns have been achieved despite an unprecedented domestic and international political environment. The current administration's "ad hoc" and transactional approach to governing has made long-term planning difficult for many businesses.

For example, our country's tariff policy—the most aggressive in our nation's history—has experienced frequent sizeable shifts and now faces a pending Supreme Court challenge which could result in even more change. More recently, the administration has floated limitations to credit card interest rates, restrictions on investor ownership of single-family dwellings plus possible military activities involving Iran and Greenland. While our companies are doing their best to adapt to this new unstable environment, doing so will have a cost.

What's Next?

The start of 2026 has already brought significant shocks, including the takeover of Venezuela and threats to the independence of the Federal Reserve.

In this environment, I believe caution is the wisest course. In a repeat of what happened in 2024, the stock market finished 2025 "fully valued." Thus, I have found it challenging to find places to invest cash.

My focus remains on maintaining a long-term strategy of investing in high-quality companies while ensuring we have sufficient cash reserves for those taking predictable distributions. And finally, when individual stock positions become excessive, I will consider trimming them.

Thank you for your confidence.



P. S. A reminder that Marylou and I moved in 2025. Our new address is listed at the bottom of page 1.