THE BIRCH LANE PERSPECTIVE

Preserving and Growing Wealth
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The One-Eyed Doe

A doe that had only one eye used to graze near the sea, so she could keep her blind eye toward the water and her good eye toward the woods. This way she could watch out for hunters. One day, however, some men in a boat saw her and were able to come close to the shore and shoot her. As she was dying, she cried out, "Alas, what fate! I was shot from the side where I expected no harm and was safe on the side where I looked for danger."

– *From* Aesop's Fables.

When Life Happens

While managing our money, we naturally think about the risks of the markets and different types of investments. This makes sense as we have all known people who have lost a significant amount of wealth, perhaps even their life savings, to poorly thought out or highly speculative investments.

But for those of us with a prudent, diversified portfolio, life events are at least as big a risk, if not a greater risk. Think of all the wealth lost due to things such as divorce, premature death, unexpected disability, lawsuits, business failures, fraud, and elder abuse. While there is no way to eliminate the risk of life, there are a variety of ways that you can protect yourself and your loved ones as part of a comprehensive financial plan.

For this month's letter, we will focus on **protecting your family from financial elder abuse**. With the aging population, financial elder abuse is a significant and growing problem that affects millions of older adults each year. This type of abuse involves the illegal or improper use of an elder's funds, property, or assets. It is a crime that can be perpetrated by strangers, caregivers, and sadly, even family members.

The methods of exploitation vary. Scammers might employ phone scams, email phishing, or fraudulent investment schemes. They play on fear or urgency, convincing the elder to part with their money. Caregivers or relatives might misuse their trust or authority, manipulating their loved ones into giving them access to bank accounts or valuable possessions.

Every member of our team knows someone who has been impacted by acts (or attempts) of financial exploitation, including the following four scenarios:

1. **Family Member Exploitation.** One of our clients was recently diagnosed with Alzheimer's disease. After the diagnosis, her son took her across the country to his home, raising suspicions about his intentions. It appeared he was trying to gain

control over her finances. We alerted her daughter, who was listed as a trusted contact. She hired a lawyer, and the case went to court. Ultimately, the daughter was granted conservatorship over her mother and her finances, ensuring that they were protected. Unfortunately, the client has not since heard from her son.

2. **Scam by Impersonation.** A relative was deceived by someone impersonating a PayPal representative. The scammer gained access to her account information and manipulated her into paying a large sum of money, which to date has not been recovered. This case highlights the importance of being vigilant about potential scams and educating older adults on how to recognize and avoid them.

3. **Trust Exploited in Assisted Living.** A relative in an assisted living facility lent money to an aide who promised to repay it. Although the money was eventually returned, this situation was inappropriate and could indicate a broader issue within the facility. It's crucial to have open conversations with older relatives about such incidents to ensure that they feel comfortable reporting them.

4. **Romance Scam.** A 25-year-old man convinced an 80-year-old woman with dementia that he was in love with her and proceeded to have a private wedding ceremony without witnesses. He spent as much of her money as he could before she passed away a few months later from pancreatic cancer and then claimed that she rewrote her will to leave everything to him, producing a handwritten will, also without witnesses or notarization. Sorting it out took eight years in court and cost the family hundreds of thousands of dollars in legal fees. Thanks to the trust structures she had created when she was sound in mind, the family was able to preserve a good portion of her wealth, but millions of dollars were lost. Without the trust structures, however, it is likely that everything would have been lost.

The consequences of elder abuse can be devastating. Financial losses can be substantial, often leaving victims destitute and unable to support themselves. Beyond the monetary damage, the emotional toll can be severe, leading to depression, anxiety, and a loss of trust.

Detection is challenging because the signs can be subtle. Unusual bank activity, missing belongings, or changes in wills and financial documents can be red flags. However, seniors may be too embarrassed or afraid to report the abuse, particularly if family members are involved.

Importance of Communication and Preventative Measures

It is essential to have conversations with older relatives about the risks of elder abuse. Many seniors feel shame and embarrassment when taken advantage of, which can delay reporting and make it harder to recover lost assets. Cognitive decline can also make older adults more vulnerable, underscoring the importance of having a Power of Attorney in place and having assets held in trusts with successor trustees named.

Preventing elder financial abuse requires vigilance and education. Families should have open discussions about finances and the importance of safeguarding personal information. Institutions should implement stronger safeguards and regular monitoring to detect irregularities. We emphasize the importance of the following proactive steps to help safeguard the dignity and financial security of our elder loved ones.

1. **Designate a Financial Power of Attorney.** Choose a trusted individual to manage financial affairs if the elder becomes incapacitated.

2. **Prepare Appropriate Trust Structures.** There are a variety of trust structures that can protect family members and make it more difficult for scammers to access their wealth. Setting these up early allows for your family to have reliable trustees and successor trustees in place in case the need arises.

3. **Appoint a Trusted Contact.** Authorize a bank or financial institution to contact a trusted person about questionable activity.

4. **Stay Connected.** The most vulnerable elderly are those who have lost regular contact with friends and family, becoming isolated. It is much harder for scammers to succeed when family and friends are involved in the daily life of their loved ones.

5. **Monitor Financial Activity.** Regularly check bank statements and financial transactions for any unusual activity.

6. **Educate Seniors on Scams.** Inform older adults about common scams and how to avoid them.

7. **Vet Caregivers.** If you hire caregivers, check references or go through a reputable agency. Watch for red flags in your loved one, like impatience, unusual mood changes, secrecy, isolation or withdrawal from family and social activities, or unexplained bruises or injuries.

8. **Legal Protections.** Understand and utilize legal measures, such as conservatorships and guardianships, to protect vulnerable elders.

Key Wealth Principles

- A foundation of good habits is more important than fancy techniques
- Invest in quality businesses at an attractive price
- Build a portfolio of good businesses in different industries
- Maintain appropriate reserves and income sources
- Consider your financial circumstances, liquidity and timing needs, goals, tax considerations, and risk exposure

Building Your Resource Network

Steve Jobs wrote an email to himself a year before he died to remind himself that he did not create many of the things that he relied on to innovate and grow. Things like the food supply, a legal system to protect his rights, medicine, technologies, math, etc. The fact is we all succeed by building on the efforts of others.

We can help directly with wealth management. This includes tax planning, estate planning, financial planning, asset allocation, investment management, and risk management. We have found that clients with a net worth of $5 million to $50 million—including illiquid assets, such as business interests, executive compensation, real estate, etc.—benefit the most from our services.

To further help our clients, we have built a network of resources both internally and externally. These resources include M&A advisors, M&A attorneys, SBA lenders, fractional CFOs, CPAs, bookkeepers, business consultants, estate attorneys, mortgage lending, high-yield savings, and more.

If you are looking to grow your business, considering a business exit in the next five years, or just want to preserve and grow your wealth, we are happy to talk. The conversation is no obligation and we may be able to help you, either directly or by introducing you to someone in our network.

To learn more, please visit my calendar online at Calendly or email me at Randall.Watsek@RaymondJames.com for a no obligation consultation. The earlier you start planning, the better prepared you'll be.

Last Month's Winners and Losers

Winners	**Losers**
Large cap	Risk
Value	Theme stocks
Profitability	Semiconductors / tech
Gold and silver	Retail and consumer discretionary
Dividend stocks	Banks

Last month saw a big move away from assets perceived to be risky: theme stocks, Big Tech, growth stocks trading at high valuations, retail and consumer discretionary stocks vulnerable to tariffs, and small cap stocks. Holding up relatively better were large cap stocks, value stocks, profitable companies, and dividend stocks.

Stocks

	S&P 500	Dow Jones U.S. Select Dividend	Russell 2000	Bloomberg US Long Treasury
1mo Return	-5.6%	-2.0%	-6.8%	-0.9%
YTD Return	-4.3%	3.3%	-9.5%	4.7%
10yr Return	12.5%	9.8%	6.3%	-0.5%
20yr Return	10.2%	8.5%	7.5%	3.6%
30yr Return	10.4%	11.0%	8.5%	5.4%

Source: FactSet as of 3/31/2025. We use the S&P 500 index as an illustration of the performance of large cap stocks, the Dow Jones U.S. Select Dividend index as an illustration of the performance of high dividend stocks, the Russell 2000 index as an illustration of the performance of small cap stocks, and the Bloomberg US Long Treasury index to illustrate the performance of treasury bonds with maturities greater than 10 years out.

The decline in the S&P 500 and especially the Big Tech stocks got all the headlines last month, but there was a significant disparity in the performance of groups within the market. For example, dividend stocks are actually up year-to-date. They were relatively steady in 2023 and 2024 as the market roared, and have continued plodding along as the market gets shaky.

This brings up an interesting dynamic. Because the Big Tech stocks were up so much in 2023 and 2024, their valuations were quite stretched vs. historical levels, to the point of entering bubble territory, as I pointed out in previous letters. This carried over to the S&P 500 since Big Tech is such a large component of the S&P 500.

Having experienced a number of bubbles and busts over the last 30 years, what I notice is that bubbles tend to continue inflating until something pops them. In this case, nervousness over tariffs and uncertainty over changing government policies were the pins that pricked the bubble. However, prices have only fallen a modest amount and are still not in attractive territory; they are just a little less bubbly.

On the other hand, stocks that never participated in the bubble, such as dividend stocks, have not felt that much of an effect from the increased risk environment. Their valuations remain around fair level overall, and I am still finding reasonable values among individual stocks. Of course, if the market takes a serious downturn, like -20% to -40%, everything will likely fall, but companies that have a strong balance sheet, cash flow, profitability, and a mature market position have historically held up better than their flakier or overvalued counterparts.

Small cap stocks took quite a hit year-to-date and are at fairly attractive values overall. Among individual stocks, I believe there are some very attractive values to be found. Because they are such a small part of the market and are viewed as speculative, they tend to get thrown out whenever people are feeling risk-averse. But there is a great variety of companies within the space, some of which have strong balance sheets, cash flow, profitability, and a solid position within a niche. There are also a lot of companies losing money in the space, so investing there requires care. For the enterprising and long-term investor with the appropriate risk tolerance, it can be worthwhile to explore the space.

	Large Cap Stocks	Dividend Stocks	Small Cap Stocks
Dividend Yield	1.3%	3.2%	1.7%
Earnings Yield	5.2%	5.9%	6.8%
Earnings Growth	11.6%	9.2%	17.6%
Return on Equity	16.9%	11.8%	9.6%
% Losing Money	4.6%	3.4%	37.0%

Source: FactSet as of 3/31/2025. Dividend Yield is an estimate based on the weighted average of all companies in the category (by market cap). Earnings Yield, Earnings Growth, and Return on Equity are estimates based on the median profitable company. The % Losing Money statistic represents the percent of stocks with negative earnings in the preceding 12-month period. Large Cap stocks are defined here as the stocks in the S&P 500, according to FactSet. Dividend Stocks are defined here as the stocks within the S&P 500 that pay an above-median dividend yield, according to FactSet. Small Cap stocks are defined here as U.S. stocks ranked 1,001 to 3,000 in market capitalization, according to FactSet.

Artwork

"Grandmother with Three Grandchildren" by Ferdinand Georg Waldmuller (1854). Source: WikiArt.org.

Income Investing

Interest Rates	
1yr Treasuries	4.0%
10yr Treasuries	4.3%
10yr TIPS	1.9%
Municipal Bonds (5yr AAA)	2.9%
Corporate Bonds (5yr A)	4.6%
30yr Fixed Rate Mortgages	6.8%

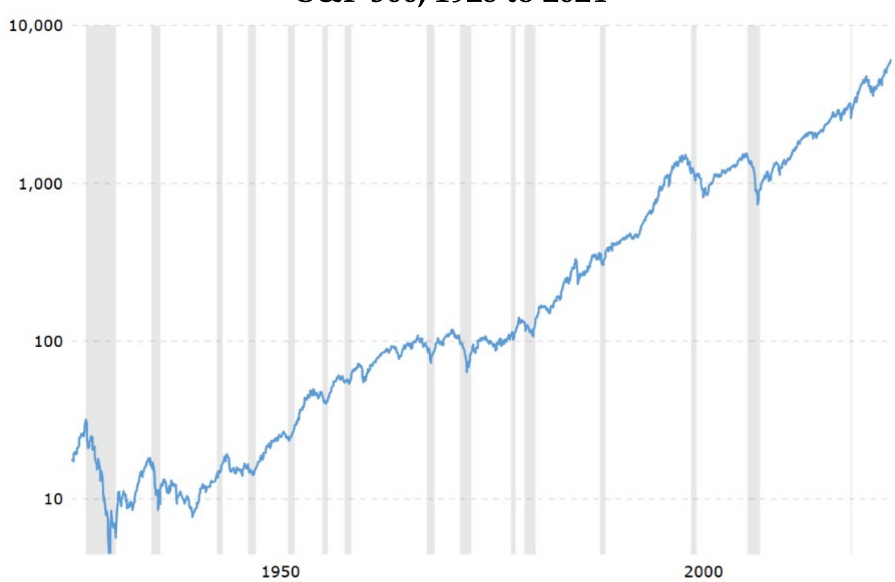
Dividend Yields	
Common Stocks	1.3%
—Top 25%	4.3%
—Next 25%	2.5%
Preferred Stocks	6.3%
Utilities	3.2%
Real Estate (REITs)	3.6%

Source: Interest rates from Raymond James' Weekly Interest Rate Monitor as of 3/31/2025 and The Wall Street Journal as of 3/31/2025. Source for the Dividend Yields is from FactSet as of 3/31/2025. Common Stocks uses the estimated weighted average dividend yield for the S&P 500. The top 25% yield is the median yield of the top quartile of dividend-paying stocks out of the largest 1,000 stocks. The next 25% yield is the median of the second quartile. Preferred Stocks is the median dividend yield of the 100 largest traded preferred stocks (by dollar volume, per FactSet). REIT and Utilities dividend yields are the median of those sector stocks included in the 1,000 largest common stocks.

Long-term interest rates fell primarily on concerns about economic weakness and a resulting softening of inflation expectations. On the other hand, there are inflation concerns due to tariff changes. While inflation may or may not cool over the next year or two, the long-term drivers of budget deficits and money supply expansion continue to impose long-term risks.

The Long View

S&P 500, 1928 to 2024



Source: MacroTrends.net

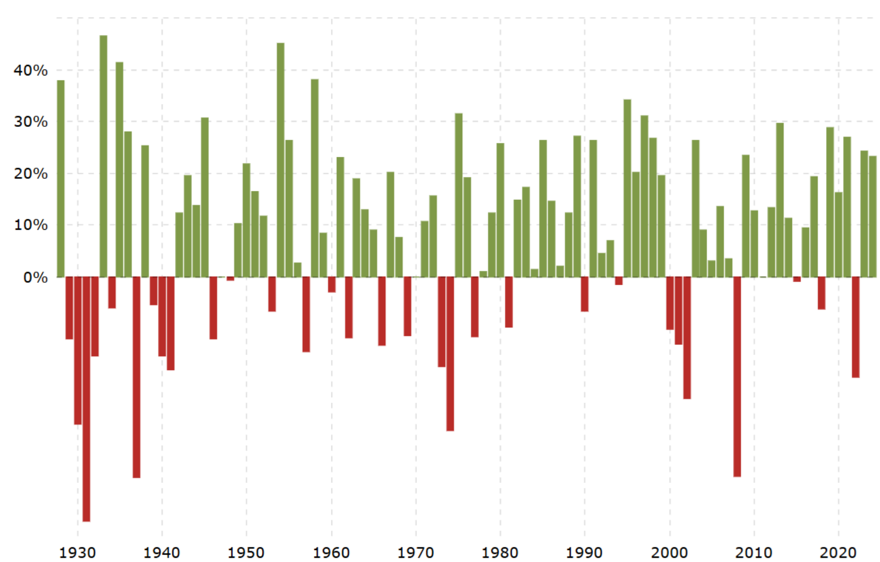
For the last 20, 30, and 100 years, stocks have averaged around an 8-10% annual return, driven by dividend yield, reinvestment of earnings, and earnings growth. Long-term bonds have yielded about 5% on average over the last century while inflation has been about 3%.

Throughout this period, there have been major upheavals, such as the Great Depression, World War II, the Korean War, the Vietnam War, dropping the gold standard, 1970s high inflation, 1987's Black Monday Crash, the Dot.com bust, the 9/11 terror attacks, the Global Financial Crisis, and the Covid Crash, among others.

These events led to severe market downturns about once every decade, with a median price decline of 33% and a median time to recover back to the previous high of 3.5 years. If we were to include dividends, the recovery to previous highs is actually a little faster. *

Meanwhile, a 3% inflation rate results in a 59% decline in the value of a dollar over 30 years. Meaning that people who retire at 60 years old on a fixed income face a high risk of a lower quality of life as they get further into retirement. *

The Price of Market Returns: Significant Volatility



S&P 500 Yearly Returns, 1928 to 2024. Source: MacroTrends.net

** Source: Morningstar Direct via cfainstitute.org, FactSet. Past performance is not necessarily indicative of future performance. Depreciation of the dollar: $1 / (1 + 3%)^30 = $0.41 real value 30 years later.*

Market Outlook

Now I'll put on my "Nostradamus Hat" and make some predictions, for whatever they're worth:

- Inflation will average 2-5% over the next 10 years.

- Interest rates will fall in the 3-6% range for 10yr Treasuries over the next several years, in line with inflation and historical experience.
- The economy will grow 2-3% in real terms over the next several years.
- Stocks in general will average an 8-10% return over the next 10+ years. Large stocks have a wider expected range of 6-10% annual returns due to elevated valuation multiples, but also the possibility of higher-than-average earnings growth. There is likely to be at least one big decline every decade or so.

From the standpoint of where you and your family will be in 30 years, none of this matters. What matters is finding good quality investments that are likely to grow over the decades. For this reason, I largely ignore my own general market forecast and invest whenever I find a business that I am confident in and that trades at an attractive valuation.

Help Secure Your Golden Years

I first began managing money in the late 1990s, right when the Dot.com boom was taking off. People who didn't know anything about business were making money buying whatever stock was hyped on TV. Wall Street firms were overflowing with profits by selling stocks to the public they knew were worthless. One notorious analyst earned $12 million a year, while privately putting down the stocks he was promoting.

Then it all came crashing down.

Most of the Internet stocks of that era went bankrupt or lost most of their value. The market went down for three straight years from 2000 to 2002. Millions of investors lost a huge chunk of their retirement savings.

Did people learn the right lessons? Only a few years later, we had the Great Financial Crisis from 2007 to 2009. Again, Wall Street was selling worthless financial instruments. This time it took down the real estate market too. Again, millions of investors lost a large portion of their retirement savings.

We want our clients to hold positions of real value, so we **personally research** all the positions in our strategies and review them regularly.

While it may surprise you, we believe this commitment to personal research and investment management sets us apart from other advisors. The vast majority of advisors outsource research to fund managers or their firm's cookie cutter options.

Instead, we personally research each position to develop the confidence that it is right for you. This commitment to research develops the trust, for us, that all the strategies we recommend are the right ones for our clients, in line with their risk tolerance, time horizon, and future goals. **Your finances are too important for a cookie cutter solution.**

At The Birch Lane Group of Raymond James, we work as a team to provide our clients with personal service, custom financial planning, and investment management tailored to your needs. I specialize in working with business owners, executive compensation issues, retirement planning, and investment management. Donna Colucci also does extensive financial planning, with expertise in life transitions, divorce planning, estate planning, and long-term care insurance. Tricia Jones works tirelessly on client service, trading, and account management.

We are dedicated to helping you achieve financial independence and a comfortable, stress-free retirement.

What Can a Comprehensive Financial Plan Do for You?

Having a well-designed financial plan and investment strategy is important for your financial future. It can help improve your security, confidence, and comfort. It can answer questions like:

- How much will you need to be financially independent?
- Are your assets structured in a tax-efficient manner?
- Does your estate planning protect you and your family from liability, the consequences of unexpected death or illness, and excessive death taxes?
- How will you handle unique circumstances, such as executive compensation, kids' college education, elderly parents, special needs children, and the other elements of life?
- Should you change any savings or investing habits?
- Could you improve your asset allocation or current investment choices?
- What are the odds that you will run out of money if market conditions are poor?
- Do you have a comprehensive risk mitigation strategy to incorporate business and career risk, concentrated wealth risk, market and economic risk, personal and family liability, liquidity needs, debt service, intergenerational risk, and unexpected death or illness?

If you have never had a financial plan run for you or have not reviewed yours recently, we would be happy to create a financial plan and investment strategy for you.

To set up a time, please visit my calendar online at Calendly or email me at Randall.Watsek@RaymondJames.com.

Sincerely,
Randy Watsek

P.S. If you know anyone who might benefit from the information in this letter, please pass it along.

Biography

Randall Watsek and the Birch Lane Group currently maintain or advise on over $250 million in client assets. He has managed money for over 28 years, first as a credit portfolio manager at City National Bank and then as an equity research analyst, sector portfolio manager, and quantitative researcher at DGHM, a quality value boutique managing money for pension funds, endowments, businesses, and high net worth individuals. He leveraged this experience to join Raymond James and advise business owners and executives.

Watsek earned an MBA from the University of Chicago in Analytical Finance and Accounting, and a BA from Claremont McKenna College in Economics and History. He also earned the CHARTERED FINANCIAL ANALYST (CFA®) and CERTIFIED FINANCIAL PLANNER (CFP®) designations.

Watsek has been quoted in a variety of publications on investing and personal finance topics, including *MarketWatch*, the *Wall Street Journal*, *Investor's Business Daily*, *Money Magazine*, the *Arizona Republic*, *ThinkAdvisor*, *The Business Journals*, and *ReThinking65*.

Watsek is the father of two young children and lives in Westchester County, New York.

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The Birch Lane Group of Raymond James

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The Birch Lane Group advises clients collectively holding over $250 million in assets. The team consists of:

Donna Colucci, CFP®, Associate Vice President
Tricia Jones, AAMS®, Registered Client Service Associate
Randall Watsek, CFA®, CFP®, CEPA®, Financial Advisor

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International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. Gold and silver are subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated. Be advised that investments in real estate and in REITs have various risks, including possible lack of liquidity and devaluation based on adverse economic and regulatory changes. Additionally, investments in REIT's will fluctuate with the value of the underlying properties, and the price at redemption may be more or less than the original price paid. Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise. Treasury Inflation-Protected Securities (TIPS) provide protection against inflation by adjusting their principal amount annually based on the Consumer Price Index (CPI) and then paying interest on that new amount. The principal amount is readjusted every year based on the prior year's CPI, meaning it can go down as well as up. There are special risks associated with investing with bonds such as interest rate risk, market risk, call risk, prepayment risk, credit risk, reinvestment risk, and unique tax consequences. To learn more about these risks and the suitability of these bonds for you, please contact our office. 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