THE BIRCH LANE PERSPECTIVE

Preserving and Growing Wealth
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Charlie Munger: *"There's a lot to be said for developing a temperament that can own securities without fretting. The fretful disposition is the enemy of long-term performance."*

Warren Buffett: *"It's almost impossible to do well in equities if you go to bed every night thinking about the price."*

– From a Berkshire Hathaway Annual Meeting.

Cultivating a Zen-Like Approach to the Market

Have you ever felt the knot in your stomach when the market dips, or the fleeting thrill of a sudden gain? Most of us are aware that historical stock returns have been attractive compared to cash or bonds, particularly over long periods. The S&P 500 has averaged about 10% a year over the last 30 years, a pattern that holds true over the last century. In contrast, cash and quality bonds currently yield around 4-5%. With the quiet magic of compounding, that gap becomes a life-changing difference in wealth over time—a legacy for your family, a dream realized, or simply the freedom to live on your terms.

We've all heard stories of high-flying investments—the friend who boasts about their stock market or crypto "home run" at a gathering, their eyes gleaming with triumph. Yet, the data tells a humbler truth: most investors do worse than the market over time. Those dazzling wins often come with unspoken losses, or a reckless streak that courts disaster. Taking excessive risk might feel like a shortcut to success, but it's often just luck masquerading as skill—and luck has a way of running out when you least expect it.

Despite knowing the long-term rewards, why do so many of us waver? The reasons pile up like storm clouds—scary headlines, political upheaval, global crises, tax changes, or sky-high valuations. Fear creeps in, whispering doubts, urging us to act. And so, many investors jump in and out of the market, often at the worst moments, chasing the news only to find regret waiting on the other side.

Here's the curious thing: stocks are simply shares of a business. Imagine you own a cozy coffee shop down the street. If sales are steady and customers keep coming, would you obsess over what someone might pay for it today? Likely not. You'd focus on the revenue, the growth, and the joy of building something lasting. Yet, when that same business is traded on an exchange, its price swings can feel like a judgment on your worth. In reality, a small business or single property is often riskier than a multi-billion-dollar company or REIT, but the market's daily noise makes us forget this.

So, how do we find peace amid the market's chaos? Here are four steps to cultivate a calm, Zen-like approach, helping you stay anchored to your goals and open to the wealth-building potential of time.

- Build a foundation of calm with smart asset allocation. If you need cash next month but your money is all in stocks, every market dip will feel like a personal crisis. Keep enough liquidity and income sources to give yourself breathing room, so you can ride out volatility with confidence and focus on the long game.

- See stocks for what they are: pieces of living, breathing businesses. Too many view the market as a casino, a place of wild bets and heart-pounding gambles. Instead, picture yourself as a partner in some of America's greatest companies. Like a business owner, let go of daily price worries and trust in the enduring value of what you've built.

- Anchor yourself in what truly matters: value creation. Returns come from revenue, profits, cash flow, and financial strength—not fleeting price swings. The fear or greed of the moment is just a gust of wind; it passes. If you own a resilient, growing business bought at a fair price, you're planting seeds for a harvest that endures, no matter the headlines.

- Protect your peace with a strong financial foundation. Even the steadiest investor can falter if stretched too thin. Life's uncertainties—illness, lawsuits, or excessive debts—can amplify market stress. Ensure you have enough liquidity, proper insurance, manageable debt, and controlled expenses. This safety net lets you face the market with quiet strength.

In Zen Buddhism, the Enso circle—a single, imperfect brushstroke—captures the beauty of a fleeting moment. It's not about perfection but about presence, strength, and acceptance of life's ebb and flow. (See the Artwork section below for an example). Investing, at its best, mirrors this wisdom. It doesn't fight the market's ups and downs or chase fleeting trends. It flows with them, grounded in a clear philosophy, a balanced portfolio, and a life built to weather any storm.

This is a path to not just wealth, but to a tranquil approach that can enhance your quality of life. If you'd like to explore how to bring this calm to your financial journey, I'd love to connect and walk this road together. Please schedule a call at your convenience.

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

Why Preparation is Key in Today's Resilient M&A Market

The M&A market in early 2025 has shown resilience despite economic fluctuations. Lower middle market transactions are seeing steady deal flow, with strong buyer demand in industries such as healthcare services, niche manufacturing, and business services.

Recent deal highlights (*source: Topsail Capital Advisors*):

- A specialty HVAC service company with $3 million in EBITDA recently sold for a 4.8x multiple to a private equity-backed strategic buyer.
- A regional IT managed services provider with $1.5 million in EBITDA was acquired by a larger competitor for a 5.2x multiple.
- A precision machining business with $2.2 million in EBITDA went to an independent sponsor for a 4.5x multiple, with an earnout based on revenue growth.

But to realize the full potential value of your business requires careful planning and preparation. These are some common barriers to closing the deal cited by corporate and private equity buyers:

Barriers to Closing the Deal

	Unfavorable diligence findings	Insufficient capabilities/ budget to execute	Uncertainty surrounding regulatory and anti-trust issues	Altered risk appetite and stricter internal guidelines for M&A	General market uncertainty	Integration issues and post-transaction execution risks	Difficulty in securing financing due to tight credit markets	Elevated interest rates and rate uncertainty	Decision to prioritize organic growth over external acquisition opportunities	High valuation expectations
Total	26%	29%	29%	30%	32%	33%	34%	35%	36%	37%
Corporate	29%	30%	29%	31%	32%	31%	35%	41%	38%	43%
Private Equity	20%	28%	30%	27%	31%	37%	34%	25%	32%	24%

Source: [KPMG 2024 M&A Deal Market Study]

Building out a team of advisors is the best way to maximize the potential value of your business, keep the most of your proceeds, and maintain the lifestyle you want for the rest of your life. Your core team should include an M&A advisor, transaction attorney, accountant, and a wealth advisor to ensure that you cover your business, transaction, and personal financial planning. Your core team can bring in additional specialists as needed, such as an exit planner, business consultant, estate planning attorney, SBA Lender, etc.

M&A market commentary contributed by Mark Griffin of Topsail Capital Advisors. Raymond James is not affiliated with the aforementioned organization.

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.

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, you can schedule a meeting with me here. The earlier you start planning, the better prepared you'll be.

Last Month's Winners and Losers

Winners	Losers
Large cap	Value
Momentum	Profitability
Gold	Capital efficiency
International markets	Crude oil
Long-term bonds	Chinese Internet stocks
Aerospace and defense	Dividend stocks

Last month saw some reversal from the winning stocks earlier in the year (value stocks, dividend payers, profitable companies). Stocks that had done poorly had somewhat of a relative bounce (big tech companies). Still, the overall picture did not change much as Big Tech has had a poor year-to-date result and value and dividend stocks have done better.

Due to the tariff issue and fears of a recession, gold and long-term bonds did well while crude oil (demand for which goes down in a recession) did poorly. International stocks continued to do well as investors shifted away from U.S. markets due to the tariff uncertainty.

Stocks

	S&P 500	Dow Jones U.S. Select Dividend	Russell 2000	Bloomberg US Long Treasury
1mo Return	-0.7%	-4.4%	-2.3%	-1.1%
YTD Return	-4.9%	-1.3%	-11.6%	3.5%
10yr Return	12.3%	9.3%	6.3%	-0.3%
20yr Return	10.3%	8.3%	7.7%	3.3%
30yr Return	10.3%	10.8%	8.3%	5.3%

Source: FactSet as of 4/30/2025. 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.

Despite all the hubbub, markets have not been that bad overall year-to-date, outside of Big Tech (the Nasdaq is down about -9.5% year-to-date) and small cap stocks (represented by the Russell 2000). Dividend stocks are just slightly below breakeven and the S&P is down just under 5%. If all you looked at was the data, you'd think it was a pretty normal year.

It did look worse earlier in the month, with the market reacting strongly to the Trump Administration's tariff strategy, before partially recovering as the administration softened its stance and negotiations began with our trading partners.

For what it's worth, my take is that tariffs will be a negative no matter what, but the question is how much of a negative they'll be. If we have a few successful deals negotiated that can serve as a model, then the negative impact might be muted. If things get nasty with China, perhaps it'll be more of a negative.

Longer term, tax policy changes and regulatory changes may be a positive for the market, but the details are still developing, so it's not clear what the impact will be.

In terms of individual companies, the market is still not a bargain, but I am finding it easier to uncover good, growing businesses that trade at a price I think is below their intrinsic value. For that reason, I am optimistic about long-term returns.

While I pay attention to political, geopolitical, and economic events, I invest primarily in a "bottom up" fashion. This means I choose companies on a case-by-case basis depending on the quality of the business, growth potential, and valuation, rather than some thematic call. News and world events are interesting, but far less important for long-term returns than the success or failure of a business, in my opinion.

	Large Cap Stocks	Dividend Stocks	Small Cap Stocks
Dividend Yield	1.3%	3.4%	1.8%
Earnings Yield	5.3%	6.1%	7.0%
Earnings Growth	11.2%	9.3%	17.1%
Return on Equity	17.1%	12.3%	9.7%
% Losing Money	4.8%	4.9%	36.3%

Source: FactSet as of 4/30/2025. 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

"Enso" by Deiryu (1895-1954). Source: WikiArt.org.
The calligraphy loosely translates to "As life unfolds, we go with the flow."

Income Investing

Interest Rates	
1yr Treasuries	4.0%
10yr Treasuries	4.3%
10yr TIPS	2.0%
Municipal Bonds (5yr AAA)	3.1%
Corporate Bonds (5yr A)	4.6%
30yr Fixed Rate Mortgages	6.9%

Dividend Yields	
Common Stocks	1.3%
—Top 25%	4.5%
—Next 25%	2.6%
Preferred Stocks	6.5%
Real Estate (REITs)	3.8%
Limited Partnerships	6.5%

Source: Interest rates from Raymond James' Weekly Interest Rate Monitor as of 4/28/2025 and The Wall Street Journal as of 4/30/2025. Source for the Dividend Yields is from FactSet as of 4/30/2025. 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. Limited Partnerships dividend yields are the median of U.S. exchange-traded limited partnerships.

One of the few silver linings of recession fears is that inflation is likely to be moderated, at least in the near-term. Nonetheless, rates have held fairly steady over last month. I do think there is a possibility of short-term rate cuts, particularly if the economy continues to deteriorate.

Longer term, ongoing budget deficits imply continued upward pressure on inflation once the economy stabilizes. For that reason, I continue to favor short- and intermediate-term bonds over long-term bonds unless yields spike higher.

The Long View

S&P 500, 1928 to 2024

Source: MacroTrends.net

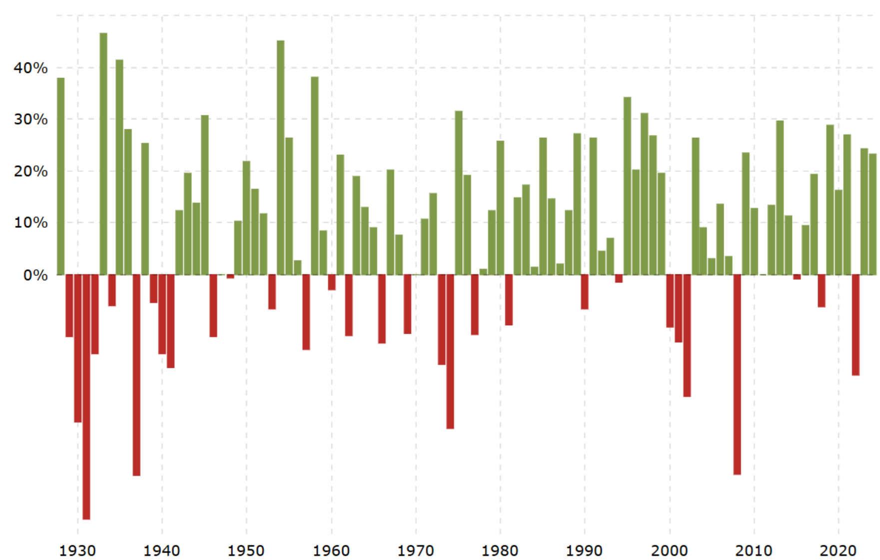
For the last 20, 30, and 100 years, stocks have averaged around an 8-10% annual return, driven by dividend yield, reinvestment of earnings, and earnings growth. Long-term bonds have yielded about 5% on average over the last century while inflation has been about 3%.

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. 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 Prepare for 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 <u>personally research</u> 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. The industry provides many avenues to outsource investment management, but we choose not to. We take pride in our process and the time we put into doing what we believe is best for our clients.

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 appropriate for our clients, in line with their risk tolerance, time horizon, and future goals. <u>Your finances are too important for a cookie cutter solution.</u>

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 any questions or would like to discuss your financial plan, you can schedule a meeting here or you can 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 $280 million in client assets as of 3/31/2025. 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

Raymond James held over $1.5 trillion in client assets as of 12/31/24, has been profitable for 148 consecutive quarters (since 1988), has equity research coverage of over 1,200 companies, and maintains investment grade credit ratings by Moody's and S&P.

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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Inclusion of the S&P 500 index is for illustrative purposes only. Index performance does not include transactions costs or other fees, which will affect actual investment performance. The Dow Jones U.S. Select Dividend Index aims to represent the U.S.'s leading stocks by dividend yield and measures the performance of 100 high dividend paying companies, excluding REITs, meeting specific criteria for dividends, earnings, size and liquidity. The Bloomberg US Long Treasury Index measures the performance of US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with a maturity greater than 10 years. The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. Inclusion of these indexes is for illustrative purposes only. Holding investments for the long term does not ensure a profitable outcome. 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. Bitcoin issuers are not registered with the SEC, and the bitcoin marketplace is currently unregulated. Bitcoin and other cryptocurrencies are a very speculative investment and involves a high degree of risk. Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™, CFP® (with plaque design) and CFP® (with flame design) in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements. The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation. Any opinions are those of Randall Watsek and not necessarily those of Raymond James. Links are being provided for information purposes only. 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