THE BIRCH LANE PERSPECTIVE

Preserving and Growing Wealth
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"It's not about timing the market, but about time in the market."

– Famous Wall Street adage

Lessons from the Rebound:
Staying Steady in Stormy Markets

When tariff news hit, fear swept through the markets. Investors, rattled by headlines, sold off holdings or fled to international stocks. Pundits warned of recessions or falling interest rates, and the S&P 500 took a hit, dropping 18% from its high this year. Yet, just weeks later, the index clawed its way back to positive territory for the year.

Was this a fluke, or is there a deeper lesson here?

The truth is, those dire predictions missed the mark—as they often do. But they *could* have been right. No one, not even the sharpest experts, can predict the future. Hindsight makes it easy to feel wise, but in the moment, uncertainty reigns.

What we *do* know is that market scares like this are nothing new. They're as old as investing itself. The trigger changes—tariffs today, something else tomorrow—but fear is a constant. So is the hype that fuels bubbles. After nearly 30 years as a professional investor, I can tell you: this year's rollercoaster felt like just another ride.

Here's the real takeaway: those who stick to a thoughtful plan come out ahead over time. Why do so many investors lag the market? It's not just poor stock picks. It's chasing headlines, reacting to pundits, or betting on predictions. The news thrives on drama—it grabs attention, boosts ratings, and drives ad revenue. But it's a lousy guide for your portfolio.

Fear makes people bail out after a dip, missing the rebound. Greed pulls them into hot assets at their peak, only to crash with the inevitable decline. Both are traps, and they sting.

A solid financial plan, tailored to your life—your goals, cash needs, and risk tolerance—acts like an anchor. It's not about chasing the highest possible return on paper. It's about building a strategy that holds up in any market, giving you the confidence to stay the course and seize opportunities when others panic.

If you're ready to revisit your financial plan, refine your asset allocation, or strengthen your investment strategy, I'm here to help. Let's schedule a call at your convenience to chart a path that keeps you steady, no matter the storm.

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.

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	Mortgage-backed securities
Profitability	Long-term bonds
Value	Biotech / Pharma
Growth	Homebuilding
Tech / Semiconductors	Natural gas
Retail	Saudi Arabian stocks

Large-cap stocks, profitable growth companies, and value stocks spearheaded last month's robust market rebound. Among sectors, technology and retail shone brightly, rebounding after earlier struggles this year.

Conversely, rising long-term interest rates weighed heavily on mortgage-backed securities, long-term bonds, and homebuilding stocks, driving noticeable declines. Biotech and pharmaceutical sectors continued to face challenges, hampered by unfavorable developments in the drug approval process, pricing restrictions, and elevated interest rates, which diminished the present value of long-term drug development projects.

Stocks

	S&P 500	Dow Jones U.S. Select Dividend	Russell 2000	Bloomberg US Long Treasury
1mo Return	6.3%	2.2%	5.3%	-2.9%
YTD Return	1.1%	1.0%	-6.8%	0.6%
10yr Return	12.9%	9.5%	6.6%	-0.5%
20yr Return	10.5%	8.2%	7.7%	3.0%
30yr Return	10.4%	10.7%	8.5%	4.9%

Source: FactSet as of 6/1/2025. 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.

Last month, the market's spirited recovery gained momentum, lifting large-cap and mid-cap stocks back into positive territory for the year. Among large-cap stocks, valuations seem balanced, while dividend-paying and small-cap stocks appear modestly undervalued, yet still within historical norms. That said, the diverse range of stock valuations offers ample opportunities, and I'm finding compelling companies that I believe are trading at attractive prices.

	Large Cap Stocks	Dividend Stocks	Small Cap Stocks
Dividend Yield	1.3%	3.3%	1.7%
Earnings Yield	5.1%	6.0%	6.4%
Earnings Growth	11.1%	8.7%	17.0%
Return on Equity	16.3%	11.9%	9.6%
% Losing Money	5.2%	4.9%	37.5%

Source: FactSet as of 6/1/2025. 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

"Sea Horses" by Frederick Morgan (1894). Source: WikiArt.org.

Income Investing

Interest Rates	
1yr Treasuries	4.2%
10yr Treasuries	4.5%
10yr TIPS	2.2%
Municipal Bonds (5yr AAA)	3.0%
Corporate Bonds (5yr A)	5.1%
30yr Fixed Rate Mortgages	7.0%

Dividend Yields	
Common Stocks	1.3%
—Top 25%	4.2%
—Next 25%	2.6%
Preferred Stocks	6.5%
Real Estate (REITs)	3.7%
Limited Partnerships	6.9%

Source: Interest rates from Raymond James' Weekly Interest Rate Monitor as of 5/27/2025 and The Wall Street Journal as of 6/1/2025. Source for the Dividend Yields is from FactSet as of 6/1/2025. 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.

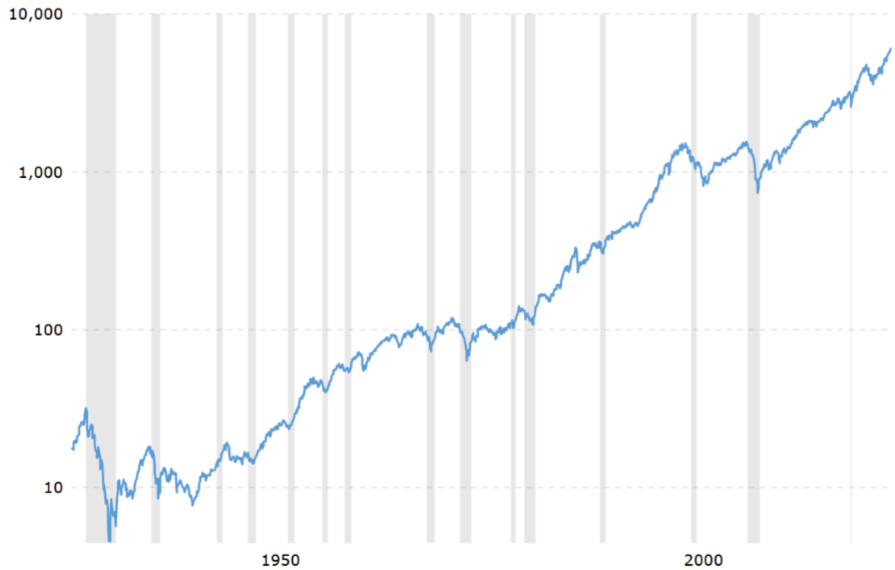
Last month, corporate and long-term government bond rates climbed noticeably, likely driven by a mix of persistent government deficits pushing up borrowing costs and fading recession fears, which lowered expectations for Federal Reserve rate cuts.

While long-term bonds offer slightly higher yields, they carry significantly greater risk if interest rates or inflation rise further. For most investors, I recommend focusing on short- to intermediate-term bonds, tailored to your income needs, to balance safety and returns in this uncertain environment.

Municipal bonds, on average, align with taxable bonds on a tax-equivalent basis. However, select high-quality, investment-grade municipal bonds currently yield 4-4.5% *after taxes*. For someone in a 40% tax bracket, that's equivalent to a pre-tax yield of 6.6–7.5%, which could be an appealing opportunity for high-income investors seeking tax-efficient allocations in their portfolio.

The Long View

S&P 500, 1928 to 2024



Source: MacroTrends.net

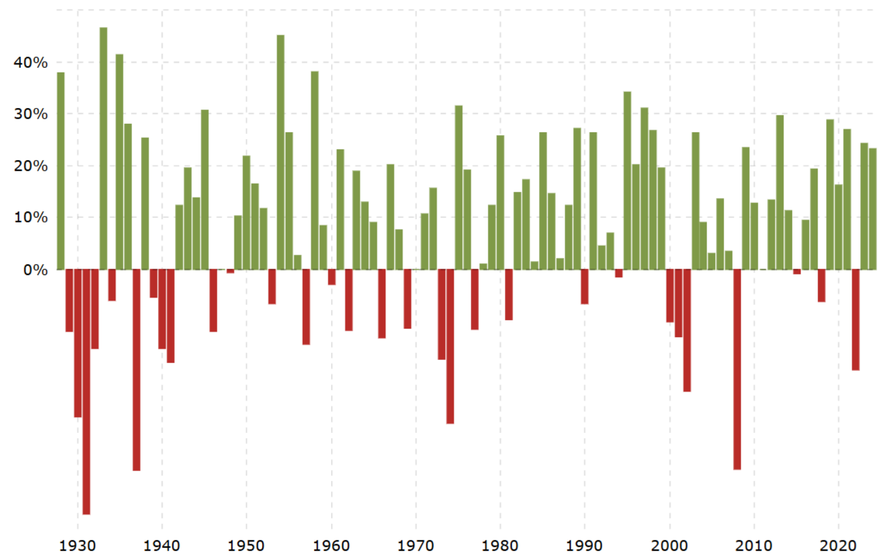
For the last 20, 30, and 100 years, stocks have averaged around an 8-10% annual return, driven by dividend yield, reinvestment of earnings, and earnings growth. Long-term bonds have yielded about 5% on average over the last century while inflation has been about 3%.

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 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 for a complimentary consultation, 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 $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. 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