GREENROCK
RESEARCH

444 W. Lake St., Suite 1700
Chicago, IL 60606
greenrockresearch.com

INVESTOR INSIGHTS – FOURTH QUARTER 2025

Those who cannot remember the past are condemned to repeat it.

Those words from Irish philosopher Edmund Burke should be top of mind for us today. The specific period we think you need to remember is 1998 and 1999. Those years were the top of the domestic stock market that started in 1982. The decades of the 1980s and the 1990s were a remarkable time to invest in domestic equities, the returns of the S&P 500 during the 1980s of 17.5% followed by annualized returns in the 1990s of 18.2%. We did experience a decline in stock prices in the fourth quarter of 1987 of -22.5% but that was short lived and after a significant rise in the first 9 months of that year. The annual return of the index was positive 5.2% for the 1987 calendar year.

The top of that market at the end of this period saw dramatic concentration. The return of the S&P 500 in 1998 was 28.6% followed by 21.0% in 1999. The euphoria of investing in 1998 and 1999 came from how the internet and the cell phone would improve our lives, and they did. The problem with that logic is that it did not factor in the price relative of the stocks in those sectors. The 6 stocks that were 99% of the returns of the index for 1998 and 1999 declined starting in 2000 and only one of them showed positive returns for the decade of the 2000s. So, the improvements to our lives were dramatic, but the improvement to our investment returns was also dramatic, just not the kind of dramatic we like.

Today we are experiencing similar dramatic returns and similar concentration. The S&P 500 index was up 17.9% last year and the contribution to that return from the top 7 stocks was 8.5%. Said another way, the S&P 500 index was up 17.9% while the return of the S&P 493 was up 9.4% as configuration in the index. The previous 3 years saw concentration as well but more severe. The return on the Magnificent 7 was 12.1% for these 3 years and that represented 53% of the total return of the S&P 500 (23.0%).

The premise of today's stock prices is that we need not worry about highly priced stocks, 30 times earnings for companies that grow at 12% per year is just fine. We would suggest rereading our opening quote. If that does not move you, revisit the 1998 and 1999 period.

What will happen to the 7 stocks leading the index today? While we would love to know that answer, no one knows. What we can do is to look back at periods when stocks were highly priced and see what happened after the market determined their prices were too high.

Price to Sales History

The measurement we use for this is price to sales. We do this for two reasons. First, we have over 150 years of data, and we like to study lots of periods to see what the issues were and what the outcome was. Our second reason has to do with what we believe is the reliability of

444 W. Lake St., Suite 1700
Chicago, IL 60606
greenrockresearch.com

sales data rather than earnings data. In its simplest terms, sales can be manipulated but not as easily as earnings. You may recall the issues related to the manufacturing of consistent growth earnings in the 1990s which saw companies attempting to show earnings growth consistently and annually until they could no longer do so.

Today the euphoria comes from how AI will change our world. Many analysts believe those changes will be dramatic, and perhaps they will be. The investment question we need to ask is, “Will buying these stocks at their current elevated prices produce attractive returns?” We worry the answer will be one we do not like. We also worry that the top may come soon or perhaps has even come already.

What about dividend strategies?

While we have had many periods of real protection from dividend strategies, last year when the S&P 500 was up 17.9% and growing dividend strategies did not do well. Standard and Poor’s divides investment strategies into 25 categories and reports returns annually for those strategies. Last year, growing dividends were among the worst category for investment returns. Measured as Standard and Poor’s Dividend Aristocrats (Growing Dividends) index was up 7.3%, the S&P Low Volatility High Dividend index was the worst performer up 3.7% while the S&P 500 index was up 17.9% and the magnificent 7 were up 23.0%.

This tells us we have nothing to worry about, just buy the magnificent 7 and the returns will be fabulous. That was the logic investors used at the end of 1999! We cannot make that mistake today. Could last year be 1998 and not 1999? Sure. Could we have more than two years of this phenomenon? Absolutely. The problem with hoping for that is that if you are wrong, history tells us the punishment will be severe. In addition, history shows us that many investors piled into stocks in 1929 and 1999. Those investors may not have been fortunate enough to experience the gains but were certainly unfortunate enough to experience the losses that followed. Remember the return of the S&P 500 for the decade of the 2000s was -0.10% per year, for the decade. Said another way, $100 invested at the start of 2000 was worth $90 a decade later.

We have two points to make on this question. Our Global Equity Portfolio significantly outperformed the growing dividend index of S&P (S&P Dividend Aristocrats), up 16.8% versus the index up 7.3%. The second point is that we are global investors and our international strategy saved us. Our equity strategy was up 16.8% last year because our international strategy was up 31.3%.

GREENROCK
RESEARCH

444 W. Lake St., Suite 1700
Chicago, IL 60606
greenrockresearch.com

What about Bonds?

As you are aware, we exited bonds entirely 6 years ago. We use a portfolio with identical volatility as the 10 Year U.S. Treasury. For the past 5 years, the 10 Year has produced slightly negative returns while our portfolio has annualized slightly under 5%.

There is discussion in Washington about lowering interest rates to 2%. If this were to happen, all rates would be lower. We have two thoughts. First, the current data on rates suggests rates may rise not fall. Second, the Fed is designed to be an independent body and have always made rate decisions without regard to the desires of the person who is President. You may recall that Paul Volker ran the Fed when rates were very high. He took over when Fed Funds were 10% and with the committee of the Fed raised rates to 18%. He worked for three Presidents, all of whom we would say hated him. So, we doubt the influence of our current President will succeed in lowering rates unless the data suggests doing so would be the right thing to do.

So, all of this brings us to the belief that rates will more likely rise from here rather than fall. Last year was a good year for bonds with the 10 Year showing a 8.2% return. While that is a nice return, our substitute, 3EDGE Total Return, was up 15.3%, an even nicer return. So, we conclude that staying out of bonds is the best move for now.

Future Returns

All of this suggests we may not be in for a period of compelling returns. Our reference for staying on this course is best examined by looking at the decade of the 2000s. It was a remarkable period. The S&P 500 showed a negative return for the decade, and we had dramatic volatility. The first decline lasted 3 years, 2000, 2001 and 2002. The S&P 500 index declined an annualized -14.6% for those 3 years. Our dividend strategy showed positive returns for the 3-year period up 5.0% annualized. Now 5.0% annualized for this period may not be compelling for some, we understand that. We believe that looking for linear returns is impossible. We have periods of protection from big losses and periods of significant rises. Right now is a period to emphasize protection.

GREENROCK
RESEARCH

444 W. Lake St., Suite 1700
Chicago, IL 60606
greenrockresearch.com

Disclosures

Greenrock Research is a registered investment advisor.

The information provided herein is intended for financial professionals and represents the opinions of Greenrock Research management and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

Past performance is not necessarily indicative of future returns and the value of investments and the income derived from them can go down as well as up.

Our views expressed herein are subject to change and should not be construed as a recommendation or offer to buy or sell any security or invest in any sector and are not designed or intended as basis or determination for making any investment decision for any security or sector.

There is no guarantee that the objectives stated herein will be achieved.

All factual information contained herein is derived from sources which Greenrock believes are reliable, but Greenrock cannot guarantee complete accuracy.

Any charts, graphics or formulas contained in this piece are only for the purpose of illustration.

The performance data shown represents past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so that investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited.

Kevin Malone: 312.463.1301 | Dave McGahay: 312.463.1303 | Brendan Malone: 312.463.1304