Harris Associates

PRIVATE WEALTH MANAGEMENT

It's not meant to be exciting

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"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas."— Paul Samuelson.

As 2025 comes to a close, we are again reminded of how unexcitable the U.S. stock market can be, even during what felt like a turbulent year. Events that we intuitively believe should affect the stock market often don't. As Neil Degrasse Tyson says, "The universe is under no obligation to make sense to you." Defying many fears, dire predictions and heightened expectations of a recession, the U.S. economy has largely brushed off geopolitical strife, two high-profile wars, tariff concerns and a government shutdown. However, the threat of tariffs has changed some consumers' behaviors, prompting them to accelerate large purchases to save themselves from potentially higher tariff-affected prices down the road. We don't know yet if subsequent spending and economic activity will slow as a result.

Despite the longest government shutdown in history, investors weren't overly concerned, and equity markets reached all-time highs during the fourth quarter. But the shutdown took a significant toll on federal employees, many of whom continued to do their jobs, even when the timing of their next paycheck was uncertain. In addition to market returns, economic activity over the year remained ebullient, but consumer spending was fueled disproportionately by the wealthy while younger and lower-income demographics showed signs of stress.

With all this said, domestic equities have experienced an unusually strong run over the past three years. The S&P 500 has wrapped up its third straight year of double-digit gains, a feat only achieved three times in the last 70+ years. And while we believe expectations for 2026 should be tempered, history has been kind to "year four" of these sorts of runs, and stocks continued to post gains more than 50% of the time. Yet, as the saying goes, no good deed goes unpunished. When stocks exhibit this kind of consistent strength, excessive speculation often accompanies it. Today, the proliferation of brokerage services that encourage frequent trading has led to a gamification of sorts, where the thrill of the trade overrides the logic of the decision. A cohort of investors today may not discern between their betting and their brokerage apps. And that would be understandable, as the company Robinhood, for example, has created a platform where one can bet on NFL games on a Sunday and trade stocks on Monday. The company very colorfully positions this as "another way to turn [the customer's] nuanced sports knowledge into an investment opportunity." The reality is that the line between gambling versus investing continues to blur. It feels like we are in an environment where more and more people seek entertainment value from their investments, and Paul Samuelson's message has gotten lost.

Investing should be boring, not thrilling like Vegas or playing the lottery. I recently spoke with an acquaintance who had just learned to trade options. "It's great," he said. "It's like gambling in Vegas." I bit my tongue and smiled. If one has the inclination to learn, playing basic blackjack should also be somewhat boring. There is an unambiguous set of mathematical rules that provides the highest probability of winning based on the player's hand versus the dealer's up card. (Sometimes you hit a 16, sometimes you don't.) While these rules don't eliminate the house odds, they can minimize them. But gambling is meant to be fun, and no one is under the illusion that casinos exist to put the player's best financial interest at the fore. And to get to my point—just as you were becoming skeptical I had one—just like gambling, there are a lot of ways to make investing exciting, whether it be the frequency in which one trades or the types of instruments you trade (like meme stocks, as an example).

At Harris, we employ a value investing approach that involves buying businesses at a significant discount to our estimate of intrinsic value, have a clear path to growing per share value over time, and are run by management teams that think and act as owners. Once we invest, we intend to hold a stock for years. As it approaches our estimate of full value (or we lose confidence in the idea), we sell and redeploy the proceeds into names we feel have a better risk/reward profile. No one will be criticized for wanting to have fun while at a casino. But when it comes to creating long-term wealth, poor judgment and rash investment choices can have an irreversible impact. There is a Wall Street adage:

> *"I can't counsel you on how to get rich quickly, but I can provide input on how to get poor quickly… by trying to get rich quickly."*

Asset allocation is an indisputably important component of sound investing. When broad-based selloffs occur, like during the Great Financial Crisis, Covid, or more recently, "Liberation Day," clients often tell us they want less risk in their portfolios. This typically means decreasing equity holdings and increasing exposure to less volatile assets like fixed income or cash. But positioning a portfolio to be less volatile does not necessarily make a portfolio less risky. To wit, if your allocation becomes too conservative you may increase the chances that you will outlive your money due to a lack of growth. In that context, the less volatile allocation is not safer or less risky.

The strength of our economy is always weighed against its vulnerabilities. When unanticipated shocks happen, investors can trick themselves into believing, "but this time it's different." Ahh, what haunting (and expensive) words. Over time, great companies have consistently triumphed over macroeconomic crises and market crashes of just about every description. Equities have performed well because companies continue to innovate, which propels their earnings, which in turn propels stock prices. As long as creating wealth remains an incentive, entrepreneurs will work hard to create new products and services. Consider the following:

In 1956, IBM shipped a 5MB hard drive, which weighed over a ton and required a forklift and cargo plane to transport. Today, that same machine may have enough storage capacity to hold a single smart phone photo.

Similarly, the first commercially available cell phone, made by Motorola, affectionately referred to as “the brick,” launched in 1984 and cost $3,995 (that equates to nearly $12,500 in 2025 dollars!). It weighed two-and-a-half pounds, took ten hours to charge, and offered all of 30 minutes of talk time. Calls were frequently dropped, eavesdropping was a risk because signals were unencrypted, and there were so few cell towers that owners struggled to find a spot to use it at all. In today’s dollars, even the most expensive smartphones are a small fraction of the cost, weigh approximately seven ounces, and have more than one million times the memory of the computer that sent Apollo 11 to the moon.

Just like the steam engine, telephone, automobile and the internet (to name just a few), technologies that we cannot even imagine today will become commonplace in the future, and habits that we never knew human beings needed will become routine. This statement was as true 50 years ago as it is today and will be equally valid 50 years hence. Innovation is a constant, and that is good for stocks.

The past year proved to be another resilient year for equities. This happened in the face of difficult times for many. Our job at Harris Associates is to remain unemotional and continue to look for companies that meet our investment criteria. As unsettling as world events may be, history has taught us that stocks seldom react commensurately. Our objective is to create long-term wealth for our clients by basing decisions on what we can anticipate and what is supported by historical precedent. Admittedly, it’s not very exciting, but it was never meant to be.

As always, we thank you for entrusting us with your investment assets and your continued support. Lastly, the best compliment we can receive is a referral from a satisfied client. We appreciate your referrals and handle them with the utmost care.

From your team at Harris Associates Private Wealth Management, we wish you and yours a healthy and prosperous 2026!

Andrew M. Gluck, CFA
Portfolio Manager

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All information provided is as of 12/31/2025 unless otherwise specified.

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