# Quarterly letter Q4 2024

## Brown Lisy Wealth Management Group

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**"The investor of today does not profit from yesterday's growth."**

– Warren Buffett

US financial markets were strong in 2024, with the S&P 500 index increasing 25%.[1] This follows a robust +26.3% in 2023.[2] These figures compare positively to an average and median market return of 11.8% and 14.8%, respectively, over the last 97 years. Since 1928, there have been 36 years (37%) the market generated a return of 20%+, 57 years of 10%+ growth (59%), and just ten instances when the S&P 500 generated double-digit returns at least three years in a row.[3]

We don't know what will happen with markets in the coming years, but we know what has happened in the past—and it's been quite good. Even considering a significant drawdown in 2022 and a scary few months in 2020, the stock market is up about 82% in the past five years. And the five years before that were pretty good too. If, in January 2015, we had created a retirement plan for you assuming that you were going to retire in January 2025, we would have made a guess about how much annual income would be generated by your portfolio. After the strong investment performance of the past decade, that annual return number is quite a bit higher than we would have expected. But what had been a long-term investment horizon is now 10 years shorter. More scary moments lie ahead, the question is always when, how bad and for how long? That answer is anyone's conjecture. Now is a good time to review your time horizon and cash needs.

As we look to 2025, the outlook is mixed. We are at full employment; US consumer balance sheets are in good shape and debt service as a percent of disposable income remains low relative to history. Corporate balance sheets remain strong, and financing is plentiful with corporate credit spreads tight relative to historical averages.[4] On the other hand, there have been pockets of weakness—early delinquencies of auto and credit cards are elevated relative to the last decade, equity market valuations (S&P 500) are well above historic averages.[5] Federal net debt as a percent of GDP is elevated and projected to increase further. This fact, in conjunction with uncertainty surrounding tariffs and other policies, could create some nervousness in the bond market which could have broader implications.

We continue to diligently examine investment opportunities with a focus on owning good businesses we believe will survive and thrive over the longterm. Also, something to keep in mind—companies that have performed well in one period, may not be the same that perform well over the next period, which is why we invest in a well-diversified portfolio of businesses. Specific areas of interest continue to be related to generative artificial intelligence and the energy transition, communication and networking equipment as well as infrastructure (data centers). Small and mid-cap companies are relatively inexpensive compared to large caps and may stand to benefit from lower interest rates, deregulation, and may be nimbler in implementing solutions to take advantage of generative AI in their businesses.

Lastly, a significant component of our business growth is being introduced to new people by our existing clients, which we graciously appreciate. We don't anticipate and frankly don't deserve introductions to be made unless you are completely satisfied—that is our primary goal. We simply ask you to keep us in mind during conversations with those you care about—maybe someone that's thinking about selling their business, contemplating retirement, changing jobs, or simply looking for a second opinion from a friend they can trust.

We thank you for your continued trust and confidence and look forward to talking soon.

Sincerely,
Kristan, Grant and John

[1] UBS CIO PAG December 31, 2024 Total return.
[2] UBS CIO PAG December 31, 2023 Total return.
[3] Historical return data https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datacurrent.html.
[4] JPMorgan Guide to the markets December 31, 2024 p. 37.
[5] JPMorgan Guide to the markets December 31, 2024 p. 18.

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