



Missive

AUGUST 28, 2025

S&P 500 Index: All Twisted Up in the Game

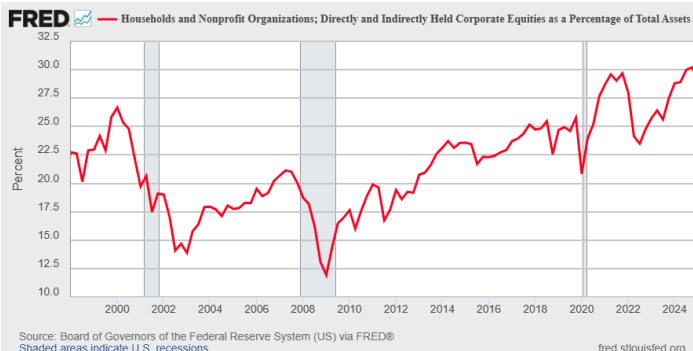
Dear fellow investors,

One of my favorite comedy movies was *Bringing Down the House*, starring Steve Martin, Eugene Levy and Queen Latifah. It featured Martin as a lonely lawyer who meets a woman on the internet, only to learn later that she has escaped prison to prove her innocence. His best friend, played by Levy, falls in love with the escaped prisoner and declares that the two of them are “all twisted up in the game!”

Is the U.S. economy “all twisted up in the game” with the S&P 500 Index dominated by technology/AI stocks? How much is investor confidence affecting consumer confidence? How much has the increase in financial advice and advisors been fed by the success of this stock market?

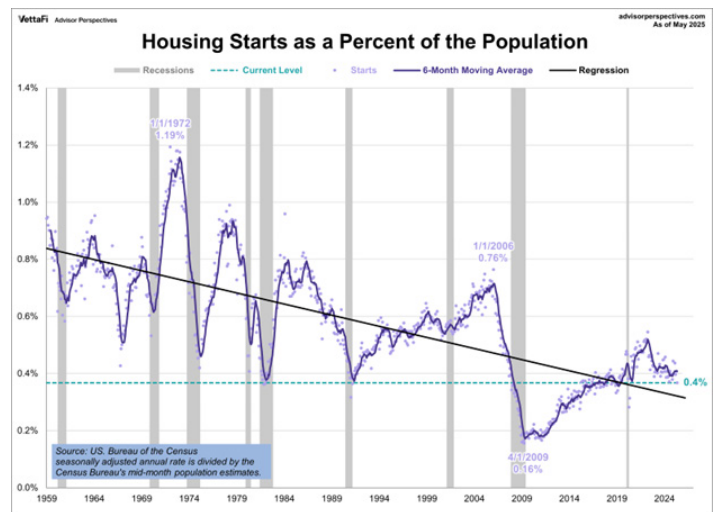
We ran across an interesting Charlie Munger interview recently when, in early 2008, he compared household equity participation in the stock market to 1929:

The economy hasn't contracted as much as the Great Depression, but the malfeasance and silliness—which was the triggering event—was greater and more widespread. In the '20s, a tiny little class of people were our financial promoters and a tiny little class of people were the people who bought securities. This, now, is deep into the whole culture, it was way more extreme. If sin and folly get punished, we're in for a hell of a punishment.



Source: FRED. Data for the time period 1/1/1998 - 1/1/2025.

We ended up with the deepest recession in 2007-2009 since the 1930s and the most anemic economic recovery as a “hell of a punishment.” The economic recovery, which started in 2009, was especially difficult because homes were massively overbuilt in 2003-2006 and home building is a strong driver of economic growth because of its multiplier effect. Therefore, lower interest rates couldn't make the difference coming off a recession like borrowing costs normally do.



Fortunately, this time home buyers have been greatly impacted by childbearing statistics in the U.S. The average age of a first-time parent has gone from 23 in 1980 to 28 in 2023 and the average age of a first-time home buyer is up to 38 years old. Therefore, what we don't seem to need to worry about is a big drop-off in the historically normal home-buying population. The largest single birth year age contingent in the U.S. is 33 years old, and out of 330 million people, there are 180 million under 40.

However, consumption in the U.S. has been greatly affected by stock market wealth held by people 50 and older. The visible symptoms are second homes, lavish cruises, expensive forms of alcohol, expensive hobbies and very spendy automobiles. We just read today that seven-year auto loans are becoming very popular as average vehicle prices have risen to \$50,000. Therefore, you want to build relatively inexpensive homes for first-time buyers, not expensive homes for a dwindling number of baby boomers.

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There are more RIAs and Series 7 licensed stockbrokers than we ever had, so this isn't anything like 1929. As the baby boomer generation leaves this earth, their stock market assets will pass to the younger generations. This might help these younger generation folks to consume or buy houses, but my observation is that when push comes to shove, difficult stock market declines will send equity participation statistics back to more historical levels. Momentum is a great thing until it is momentum against you, and the malfeasance and silliness will end at some point in time. To quote Levy's character, "You got me straight trippin', boo!"

We own a portfolio of stocks that are massively under-owned by the S&P 500 Index and, in many cases, out of favor among active stock pickers. Stock picking itself is well discredited by the momentum of the last 15 years. Healthcare and energy are as small a part of the index as they have just about ever been. In a stock market that could become difficult at some point, we feel we are at a competitive advantage to most professional participants

Play The Long Game,



Bill Smead
Chairman & Chief Investment Officer

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