



Missive

MARCH 26, 2026

Iran War Investment Ramifications

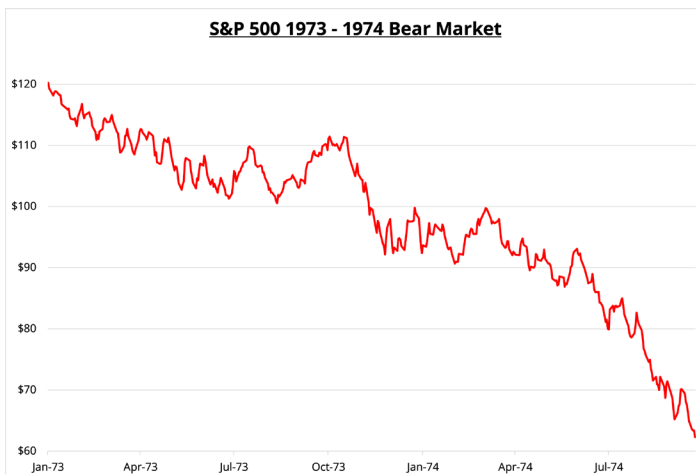
Dear fellow investors,

Almost everyone is attempting to sort out the ongoing investment ramifications of the U.S. effort to eliminate Iran's ability to attack their neighboring countries. We would like to think of this from multiple angles via the academic disciplines of history, math, economics and psychology. In doing so, we would like to gain perspective on how it could affect investments and performance.

Iran (historically known as Persia) has a rich history spanning from prehistoric settlements to the modern Islamic Republic. Its powerful empires, cultural achievements and religious transformations have been epic. The United States, in comparison, is less than 300 years old, yet it is the most powerful nation on earth. Many wars have been fought in the Middle East, and the U.S. has been involved multiple times in our lifetime.

As stock pickers and portfolio managers, we have a little history with war in the Middle East. Israel was attacked on October 6th, 1973, by Egypt and Syria during the Jewish holy day of Yom Kippur. The goal back then was to regain land they had lost to Israel in the Six-Day War of 1967. As a follow-up, Arab nations coordinated an oil embargo in October of 1973 to punish the countries that had supported Israel in the Yom Kippur War, including the United States.

This is where math and economics kicked into gear. Gasoline and other oil-based products doubled in price, the U.S. fell into a deep recession, and the U.S. stock market plummeted 48%.



Source: Bloomberg.

I got my driver's license on April 22nd, 1974. This was a few weeks after the President of the U.S. (Richard Nixon) began nationwide gasoline rationing. Therefore, most of my driving in the first year of having a license was to drive one of my parents' cars to the gas station, where I would sit in a 20-minute-long line to buy 10 gallons of rationed gasoline. President Nixon also mandated that all Federal highways have a 55-mile-per-hour speed limit. This was to increase miles per gallon and stretch the use of the scarce resource.

As you can imagine, the psychology of Americans got very dour in the land of the free and the home of the brave. As if these problems were not enough, we spent the summer of 1974 watching the Watergate hearings on T.V. The ultimate outcome was that the President resigned in disgrace when the truth about the Watergate break-in became known. At the market bottom in 1974, almost nobody was enthusiastic. However, in November of 1974, Warren Buffett was quoted in Forbes on how cheap stocks were. He said, "I feel like an over-sexed man in a harem."

Where are we in today's stock market in relation to history, math, economics and psychology while this current war in Iran is carried out? The history of this episode coincides with a major market high point, remarkably similar to the end of 1972's Nifty-Fifty bull market in stocks. Second, the S&P 500 Index looks very stretched mathematically, as every major market valuation system is near an all-time high. Third, a sustained jump in gasoline and heating oil could dampen economic activity. Lastly, this could damage the momentum and positive psychology of an uninterrupted momentum in the stock market over the last 15 years.

An optimist would look at today's situation and hope for the following: 1) the fighting in Iran gets over quickly, 2) no other countries are drawn into this fracas, and 3) the price of oil goes back to \$60 per barrel. The optimists would then expect to "live happily ever after."

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We are optimists (there is no choice among long-only active managers)! However, we are also realists. It is unlikely to think that oil prices will return to \$60 per barrel quickly, when that geographic area of the world has been destabilized like it has been. This all comes at the end of the longest period of extremely low interest rates in modern history.

Play The Long Game,



Bill Smead

Chairman & Chief Investment Officer

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