LETTER TO SHAREHOLDERS: VALUE MATTERS / 4Q 2025

Patience, Perspective, and the Wall of Worry



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One of Wall Street's favorite cliches is that "Bull Markets climb a wall of worry." Perhaps more apt, but less catchy, might be "Investors are followers and like to pile onto 'what's working." The current bull market dates back to March 6, 2009, when the S&P 500 bottomed out at 666. Since then, it has appreciated more than 10-fold, not counting dividends. During this 16-year stretch, there have been four corrections of about 20% that came on suddenly, two triggered by Fed rate hikes, one by Covid, and the most recent in response to the "Independence Day" announcement of the president's tariff program. There has been plenty to worry about throughout this period—there always is—but it has not paid to try to sidestep the periodic drawdowns.

A somewhat analogous period was the 18 years from 1982 to 2000. To extinguish the inflation of the 1970s, Fed President Paul Volcker had raised short-term rates to over 20% and long Treasuries yielded 14%. That bull market famously ended with the Internet-related "Tech Bubble," which burst in March of 2000. There were market stumbles along the way—in October 1987, after falling 20% over a period of a few months, the Dow industrials dropped an alarming 500 points, from 2200 to 1700 ***in one day.*** Yet, the S&P 500 rose over 10-fold in that 18-year period, and trying to avoid the interim drawdowns risked missing the major move.

In both of these bull markets, fiscal and monetary policy were "accommodative." (Some might say "profligate.") There was plenty of money available, and the "narrative" was positive. Stock prices rose and valuations (P/E multiples) expanded. More and more capital was invested in the leaders of the day, and passive investment flows (index funds and ETFs) reinforced the trend. Today, roughly 40% of the market capitalization of the S&P 500 is in ten stocks. These stocks produced roughly one-third of the earnings, so they deserve their popularity, but their performance skews the indices and distorts perceptions of how well "the market" is doing.

We would argue that the current bull market is getting "long in the tooth" (to use a term that dates me). Conditions have been very favorable and markets for stocks (as well as for crypto and gold) have been "working." The good news is that the opposite of a long, rising stock market does not have to be a long, steadily falling market. The two major "interim" periods in my memory—1966 to 1982 and 2000 to 2009—were more "choppy sideways" periods than extended bear markets. During these periods, "momentum" investing, or "trend following," was less successful and "business analysis" and , yes, "value investing," were more fruitful.

The past 16 years have been "good" in the sense that ignoring risk—the wall of worry—has worked well for investors and speculators. At some point, we will enter another "interim" period. This does not need to be a "bad" time for investors. In fact, in a "sideways" market, characterized by periods of negative narratives and occasional panic selling, both investors and the companies they invest in can build portfolios and businesses that set them up for long-term success. Many of our companies are serial acquirers, and the opportunities for bargain purchases occur only when investor sentiment is negative. For example, Berkshire Hathaway has been in our portfolios since our founding in 1983, and it would be a pale shadow of its current self if there had not been periods like the "Great Financial Crisis" of 2007 to 2009.

We are not "looking" for trouble, but some of the worry bricks in the wall are real. We are not trying to anticipate the timing of when trouble will find us, but we are trying to invest in a way that will allow us to avoid permanent loss of capital and take advantage of opportunities that may arise. This caution has kept us out of the fast lane—currently the "AI trade"—and we are resigned to missing the hottest of the winners. We are annoyed, though, that our chosen "safe havens" have not participated more in the recent run-up in the market. Tariff and government spending cuts have held back some of our favorites, like the life science companies that serve medical and other scientific research customers. More frustrating has been investor assumptions that the advent of AI will hurt software and business service providers. We expect our companies in these categories to benefit from AI, but for now, the narrative on them is negative.

HEADWINDS FOR THE BULL MARKET

We will not dwell on the details of the lurking negatives. We write about them regularly, and the financial media thrives on scary stories. But, as they say in the police dramas, BOLO (be on the lookout).

TRADE WARS

The noise and headlines have settled down, but the cost and uncertainty around tariffs continue to affect businesses around the world. The president's tactics in pursuit of restoring America's manufacturing capabilities are still at odds with China's interests. A quiet standoff began when China reminded the world that its near monopoly on rare earth magnets enables it to shut down major swaths of global manufacturing at will. The impasse continues.

PATIENCE, PERSPECTIVE, AND THE WALL OF WORRY

NATIONAL DEBT AND BUDGET DEFICITS—INTEREST RATES

The condition of our national balance sheet is a bipartisan failure. Our debt and deficits as a percentage of GDP are at wartime levels, and there is no apparent willingness of Congress to raise taxes or cut spending. Neither tariff revenue nor DOGE spending cuts have made a significant dent in the problem. The alternative is to print money, that is, sell more government bonds, and we have been. It's anybody's guess when bond buyers will demand significantly greater interest rate incentives to buy these bonds, but it does seem inevitable.

ARTIFICIAL INTELLIGENCE

AI is important and may have a bigger impact on our lives than we can imagine. Expectations for profits and productivity gains are very high, as are fears for jobs and control over the bots themselves. Technology is changing fast, and predictions are mostly guesswork. This is not good or bad, per se, but unrealistic expectations seem likely to result in some stock price air pockets.

INVESTOR CONFIDENCE

If money and narrative move stock prices, then investor confidence—in the economy and in the country—is an important variable. This is an intangible and more a matter of psychology than sales and earnings. It is hard to write about in a politically neutral way since the actions of the President and Congress are major contributors to the feelings of well-being among investors and citizens in general. Traditions and norms of behavior have been challenged, benefits cancelled, institutions overturned, and military actions taken unilaterally. We cannot necessarily draw a direct line from DC to Wall Street, but the raw materials for investor angst are present.

OUTLOOK AND GAME PLAN

As Warren Buffett likes to say, "It has never paid to sell America short." My own list of worries for the country and the world is robust. We could all use some healthy doses of empathy, humility, and generosity. Hopefully, we will find a way to move in that direction.

In the meantime, though (and it is always uncomfortable to put it this way), from the narrow perspective of an investor, we believe that the world remains a place where strong, well-managed companies can do business, grow, and provide reasonable returns for their investors.

The new year got off to a quick start, as U.S. troops flew into Venezuela, captured its (self-anointed) president, and announced that for now, the U.S. would "run" Venezuela. "Unprecedented" is beginning to lose its meaning. Midterm elections are coming this Fall, an experience that only an advertiser could love. These are interesting times! We will be doing our best to make the new year a profitable one for our clients, and we look forward to the challenge.

IMPORTANT DISCLOSURES

The opinions expressed are those of Weitz Investment Management and are not meant as investment advice or to predict or project the future performance of any investment product. The opinions are current through 1/8/2025, they are subject to change at any time based on market and other current conditions, and no forecasts can be guaranteed. This commentary is being provided as a general source of information and is not intended as a recommendation to purchase, sell, or hold any specific security or to engage in any investment strategy. Investment decisions should always be made based on an investor's specific objectives, financial needs, risk tolerance and time horizon.

As of 12/31/2025, the following portfolio companies constituted a portion of the net assets of Conservative Allocation Fund, Large Cap Equity Fund, Multi Cap Equity Fund, and Partners III Opportunity Fund as follows: Berkshire Hathaway,Inc.: 2.9% C.A, 4.8% L.C, 8.4% M.C and 15.2% P3

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