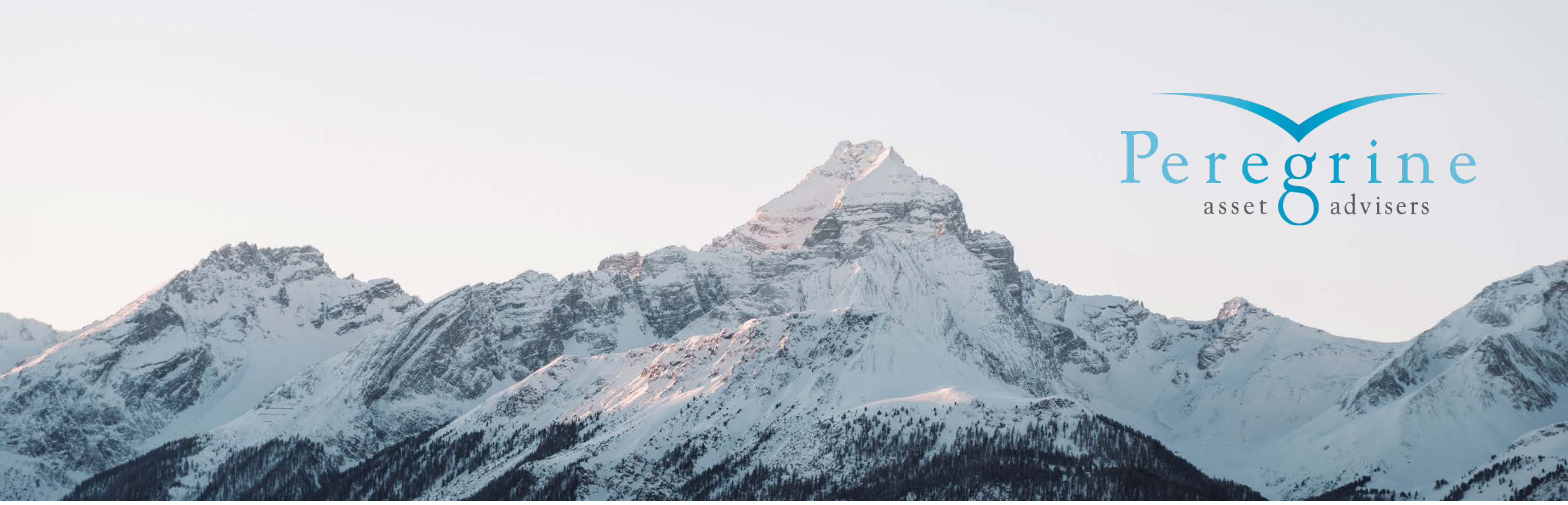

1ST QUARTER 2025 MARKET OVERVIEW

UNCERTAINTY. WHERE IS THE LOW?

A gloomy first quarter, and a subsequent precipitous plunge, has left us all hoping for stabilization in the markets. This kind of turmoil calls for our principal objective, which is to preserve our clients' capital and prepare for a better environment to invest. So far, "Uncertainty" is the buzzword causing gloom on Wall Street. With certainty, drastic tariff measures hold immeasurable threats to economic models.

It is arguable how badly tariffs and DOGE stand to harm the economy. In response, stock and bond markets are clearly opposed to these policies and they are staging a protest. It seems that markets will continue to fall until they receive relief from the government, more specifically, from the Administration.

How far does the market need to fall before the administration acquiesces? This is a key question for investment planning.

For now, the stock market needs to feel that its health is recognized as being an important element for our economy.
A crashing market brings all sorts of ill effects that no one wants, even the administration. In an early March address to Congress, President Trump described his programs and quipped, "... There'll be a little disturbance but we're okay with that." Later, he actually said, "Sometimes a little medicine is necessary." Really? A "little?" Well, how much is that?

The market wants some favorable rhetoric, at least. It would assuage Wall Street, and, darn it, that would be good for our country! In the meantime, no one knows how low the market will go. Over time, it's typical for stocks to fall, periodically. Last year, there was a 10% decline in August. More drastically, we recall the 31% decline in 2022 amidst the Fed rate hikes. We also remember the 35% swoon in 2020 from the COVID outbreak.

Is this "Uncertainty" as bad as those instances?

At some point, the market should reach an interim low. The magnitude of this decline, so far, supports the idea that we may be close to *at least a temporary* low point for stocks.

HOW LONG WILL THE MALAISE LAST?

Strong defensive measures are highly desirable if stocks were to continue to decline through the rest of the year. No one can predict how long the downturn will last. However, signals will become evident when odds favor an end to this malaise.

If you remember, at the beginning of the year, Wall Street strategists unanimously predicted an 11% gain in the S&P 500. Only four months later, all of the positive factors that supported an advance have been discarded.

For now, we need to see more cards come out of the deck in order to implement appropriate investment strategies.

ARE WE IN A BEAR MARKET?

Recent days have sent the S&P 500 and the NASDAQ down over 20% from their highs, so this meets the qualification. A bear market implies that a period of time is required to resolve the difficulties that caused the bear market. Historically, the average bear market lasts 1.5 years from its former peak. This time frame varies and some are as brief as several months.

One source of encouragement, is that most stocks topped out last fall and have been trending down since then. Therefore, it makes this bear market five months old already.

Another possible ray of sunshine is that the economic effect of tariffs could be swiftly discounted. The storm could pass. Whereas, past bear markets caused by recession, inflation, and financial crises might be longer lasting.

PEREGRINE STRATEGY

Bend but don't break.

Our client holdings have suffered a blow during this latest downturn. Certainly, we expect to overcome this setback, and that accounts will regain their high water mark, at some point.

Usually, our model emphasizes the importance of selecting the best stocks in the market. Disturbingly, stock selection has been rendered irrelevant. All stocks appear as targets for intense selling, regardless of the characteristics of the underlying company. Conversely, in sudden reverses to the upside, the entire market rushes to the upside, again lessening the impact of stock selection.

The challenge is to minimize the decline in account values and still maintain adequate equity exposure. We hope to capture gains from sharp rebounds that are likely to occur, frequently, even amidst this deleterious period.

During the last quarter and in early April, we reduced the allocation to equities. This should cushion account values and also offers the potential to improve our list of holdings.

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