The Conservative Strategist

APRIL 2025

A QUARTERLY INVESTMENT NEWSLETTER PUBLISHED EXCLUSIVELY FOR CLIENTS OF SEASONAL STRATEGY

How we proceed

This we know. The direction of the US, and its economic prospects, are far more volatile today than they were a year ago at this time. Coupled with historically high valuations, it presents an environment of risk at home, mixed with opportunity elsewhere. We proceed under at least four assumptions:

More economic idiocy

Last quarter in this space, we warned of "the economic idiocy ahead." Clearly it has begun. Trade wars are being initiated even against our neighbors and economic allies. Mass deportations are in the advanced planning stages. Key cabinet departments and federal agencies are being gutted. And international alliances that have endured for decades are getting cast aside.

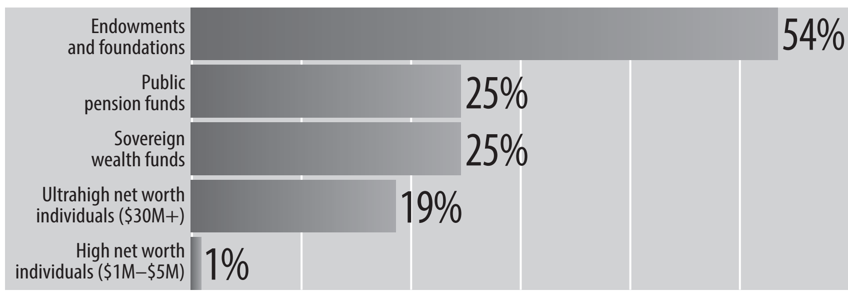
The markets are beginning to notice. As of mid-March, our major indices have swooned below their Election Day levels, and well below Inauguration Day marks. Markets hate uncertainty and unpredictability, and that's the hallmark of our leadership today.

Top-heavy risks

Yes, we know all about the winner-take-all economy. But even that has its limits. The top ten companies in the S&P 500 now constitute 36% of its total market value. When ten stocks in an index are worth considerably more than half of the other 490 combined by dint of their ultra-high valuations, and when nine of the ten are in one sector (tech), you have to question the validity of the index as a representation of the American economy. And its future.

HNW investors far behind in adopting private assets

Share of investor's global wealth in alternative assets, 2022



Long-time-horizon institutions and ultra-high-net worth individuals have known for years that private assets are effective diversifiers. Investors in the same category as our clients are just beginning to scratch the surface. But at Seasonal Strategy, we already have 15% to 25% allocations to private assets (private credit, real assets and infrastructure interval funds) for our clients. Source: Bain and Associates

Opportunity abroad

Ironically, as European and Asian economies are forced to bear more of their own defense in an increasingly hostile environment, a planned stimulative burst of military spending has goosed several stock markets and currencies. After years of lagging the US, overseas markets are much cheaper than ours and likely have much catching up to do. And as Trump pulls back from age-old alliances, more countries seek to strengthen trade among each other and leave the US behind.

Investing democratized

The playing field for the smaller investor continues to improve. In the past few years, the world of private assets has opened wide. Not long ago, it was the exclusive province of large institutions and the ultra-rich. Today, RIAs like us can diversify client portfolios into private equity, private credit, private infrastructure, private real estate, even farmland and timberland. Given that we have been superdiversifying portfolios for years, we are ready for the kind of due diligence that these assets require. ■

The Markets March 31, 2025	Price/Yield	Gain, Qtr	Gain, YTD
US Stocks (S&P 500/Vanguard Index)	5611.85	-4.31%	-4.31%
International Stocks (Vanguard Index)	19.93	5.46%	5.46%
Emerging Markets Stocks (Vanguard Index)	28.59	2.08%	2.08%
Real Estate Stocks (Vanguard REIT Index)	30.10	2.64%	2.64%
Bonds (30 year US Treasury/Vanguard Index)	4.59%	4.36%	4.36%
Dollar (US Dollar Index)	104.16	-3.98%	-3.98%
Gold (London Afternoon Fix)	$3071.60	17.73%	17.73%
Money Market Funds (Vanguard Federal - VMRXX)	4.24%	-0.18%	-0.18%*

*change in yield

Portfolio Planning

What Seasonal Strategy does for you

This is the 35th year (140th consecutive issue!) of ***The Conservative Strategist,*** and my 38th year as an investment advisor. I thought it might be time to list the ten things *Seasonal Strategy* does for clients which they would be challenged to duplicate themselves.

The Seasonal Strategy 10-Point Value Proposition

1 ***An institutional-quality portfolio***
Seasonal Strategy's client portfolios encompass seven asset classes and more than forty subclasses. They span the gamut of public and private assets, and more closely resemble the portfolios of large endowments like those of Harvard, Yale, and Princeton, than that of smaller retail investors.

2 ***A plan***
Every client portfolio starts with the construction of a detailed investment policy that acts as a blueprint for your portfolio.

3 ***A disciplined contrarian approach***
We're in the business, and the habit, of buying assets when they are out of favor and shedding them when the crowd is running for them. That counters, even exploits, some of the most damaging investor behavioral impulses.

4 ***A process of scouting and vetting new investments***
For every prospective new investment we ask two questions. Does it offer the prospect of attractive risk-adjusted returns? Does it enhance the portfolio's diversification? Sounds simple. But a lot of work goes into getting the answers.

5 ***Preferred access***
This includes access to funds only available to clients of advisors, including lower-cost institutional-class funds, load-waived funds, and funds closed to retail such as the new class of interval funds.

6 ***Time***
Seasonal Strategy constructs your portfolio and then monitors and adjusts it amidst changes in investment quality, investment availability, changing market conditions, changing economic conditions, and evolving legislation. Even if you were capable of these tasks, they may take you dozens of hours per year.

7 ***Asset location***
Seasonal Strategy blends all of your accounts into one coordinated portfolio that is optimized among your tax-free, tax-deferred, and taxable accounts.

8 ***Portfolio sustainability***
Seasonal Strategy offers portfolio sustainability advice, including our recommended maximum withdrawal rate for your portfolio, as well as alternative withdrawal strategies that may enhance your spending potential.

9 ***Reporting***
We leverage the power of ***Portfolio Center*** reporting software to bring you sophisticated quarterly reports that help you feel in control of your portfolio's composition, performance, and outlook.

10 ***Advice***
Seasonal Strategy acts as a knowledge resource for you, to answer all of your investment and planning-related questions, and to get you the help you need when you require expertise and advice outside of our capabilities. ■

A Wealth of Experience

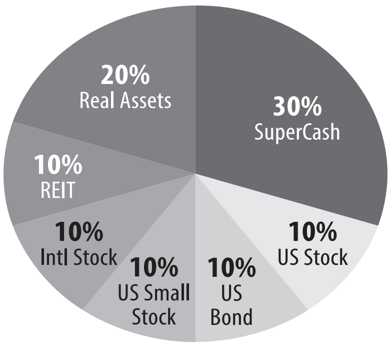
Seasonal Strategy metrics, as of 3/31/25

According to research by Kitces.com, the median solo RIA without employees serves 40 households. Seasonal Strategy, with a great deal more industry experience than the typical solo RIA, serves 30. This means more attention and more expertise.

SuperDiversified Portfolios (SDPs)

The tracks of risk aversion

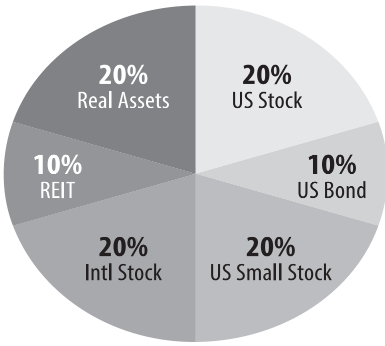
SDP1 Conservative



1st Quarter **1.62%**   *Last 12 Months* **5.32%**

This quarter showed signs that investors are finally pulling back from risk-taking. SDP1 beat SDP2 by a sound mark. And among conventional assets, our conservative benchmark *Vanguard LifeStrategy Conservative Growth* (VSCGX) finished ahead of the S&P 500 by the widest margin in years.

SDP2 Moderate



1st Quarter **1.14%**   *Last 12 Months* **3.70%**

Research firm *Bespoke Investment Group* reports that the stocks that did the best from Election Day to mid-February have done the worst since then. Clearly, this newfound risk aversion is a no-vote for Trump's poor economic leadership thus far.

The above model portfolios are not intended to indicate the performance of any real account, but reflect the composite performance, before fees, of the percentage allocations in the asset classes and funds listed in the table below. Seasonal Strategy's actual allocations vary from these models, and among portfolios.

How the Sectors Performed

As recession fears grow, bonds take a front seat

Asset Class	Mutual Fund	Performance 1st Quarter '25	Performance Last 12 Months	
SuperCash	PIMCO Instl Low Duration	1.32%	5.61%	Best
	Merger	2.22%	5.01%	Worst
	Calamos Market Neutral	1.29%	6.60%	
US Stock	Vanguard Index Trust 500	-4.31%	8.10%	
US Bond	Vanguard Long-Treasury	4.36%	0.95%	
US Small Stock	Vanguard Small-Cap Index	-7.40%	-1.71%	
Intl Stock	Vanguard Intl Index	5.46%	6.27%	
REIT	Vanguard REIT Index	2.64%	8.83%	
Real Assets	PIMCO Commodity Real Return	10.64%	12.81%	

Bonds beat US Stocks by a fair distance this quarter, in part because of investor concern about an economic contraction that has been long in coming. High-quality bonds of course do well when business declines and loan demand slackens. And stocks get hit from fears of an earnings slowdown.

This can be especially serious for US Stocks, as they are pricing in nothing but perfection until recently. Bear in mind that in the typical recession, stocks fall about 35% from their peaks. And seldom are they falling from such lofty peaks as this.

Our mainstream benchmark

The closest index benchmark to our client portfolios is *SDP1*, the pie on the opposite page. It's composed of the funds in the table below it, in the percentages noted in the pie. The assumption is that the allocation is rebalanced back to the percentages every quarter.

SDP1 is the classic conservative SuperDiversified portfolio. Its mainstream counterpart is *Vanguard LifeStrategy Conservative Growth* (VSCGX), an asset allocation index fund run by low-cost pioneer *Vanguard Group* and composed of a mix of other Vanguard funds.

VSCGX is designed to replicate a 40/60 portfolio: 40% stocks/60% bonds. However, it diversifies among large-, mid-, and small-company stocks, among domestic and international stocks, among short-, intermediate-, and long-term bonds, among high-grade and high-yield bonds, and among domestic and international bonds.

So quite diversified — but among only mainstream assets. No dedicated REIT allocation, no Real Assets, no SuperCash alternative funds, and of course no private assets. In short, no SuperDiversifiers.

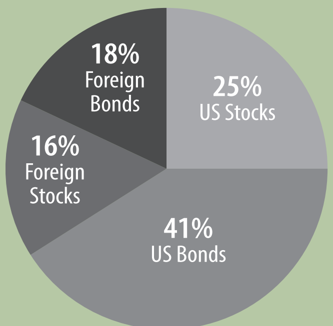
VSCGX has been beating *SDP1*, and many of our portfolios, for some time now, as the AI phenomenon pumps up US (and foreign) tech stocks to dizzying heights. But when they come off the bubble, as they did this quarter, VSCGX should take a backseat for a while.

Covering the globe

Composition of VSCGX, 1/31/2025

VSCGX hews quite closely to its 40/60 stock/bond mandate, but allocates more than a third of its portfolio to foreign assets.

Source: Vanguard Group



[Allocations rounded to nearest full percent]

SEASONAL STRATEGY

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And all of that is worth . . .?

Very few studies have tried to quantify the value of a financial advisor. *Vanguard Group* conducted such a study a few years back and found that what it called ***Advisor Alpha*** — the edge gained by hiring a financial advisor — amounted to roughly three percentage points per year to the typical investor before the advisor fee. This resonated because *Vanguard* was typically thought of as the firm that catered to go-it-alone investors.

More recently, the consumer financial information firm *SmartAsset* sought to answer the same question in our headline. Their answer was quite similar to that of *Vanguard*.

Nearly identical results

SmartAsset found that before the typical advisor fee of 0.75% for larger accounts (note that *Seasonal Strategy* charges less), advisor-led portfolios outperform those without an advisor by 3.14 percentage points to 3.53 percentage points per year.

This is a highly significant number, especially when compounded over the typical tenure of an investment management client. Over a generation (25 years), it means more than a doubling of the end value of a portfolio.

(Of course the value that *Seasonal Strategy* may add can differ from the average found in this study, and vary from client to client.)

The edge

How is this edge achieved? In *SmartAsset*'s words: "A financial advisor strategizes both offensively to grow wealth and defensively to protect it, navigating through external factors such as market dynamics, regulatory policies and technological innovation, as well as internal factors such as psychological, emotional and circumstantial nuances that could derail financial success for a client. Such obstacles, often unrecognizable by the layperson, can cost individuals hundreds of thousands of dollars over their lifetime — or more."

Behavioral finance and technical finance

Most of a financial advisor's value comes from his/her ability to understand behavioral finance and technical finance, and to blend the two into a cohesive plan.

Behavioral finance relates to the investor's own personal situation, including emotions, attitudes, beliefs, values, goals, biases and family dynamics. Biases can be especially costly. There are over 300 documented cognitive investor biases, and it's a financial advisor's role to exercise focus and discipline to minimize or eliminate their damage.

Technical finance speaks to the world outside the investor's own control, including market dynamics, economic dynamics, evolving technology, the changing landscape of financial products, and evolving legislation.

It's no easy task to be on top of the often turbulent domains of behavioral and technical finance, and to create a cohesive plan that incorporates the two and then monitor, update, and adjust it, while reporting regularly on its progress to the investor.

But without such rigor, a lot can go wrong. That explains the substantial and persistent ***Advisor Alpha*** found by both *Vanguard Group* and *SmartAsset*. ■

Not all edges are quantifiable