

The Optimistic Investor[®]

Focus on What Really Matters



Don't Let Bubble Headlines Burst Your Confidence

In recent weeks, we've had quite a few clients ask whether we're worried about an equity market decline. That's a question we often get following strong market rallies, and we're nearing the end of a third consecutive great year for equities. Global markets have returned 17.49% in 2023, 22.20% in 2024, and 21.07% this year through November.¹ After such a period of growth, it's only natural to wonder when the good times will end.

That innate curiosity has led some forecasters to a preoccupation with the idea that equity markets might be experiencing an artificial intelligence (AI) "bubble." Much of the growth we've experienced since 2023 has been driven by large technology firms that are trying to capitalize on the immense potential of AI. And the media, always hungry for a good "catastrophe" story, has been eager to draw comparisons between today's markets and the multi-year rally associated with the internet craze of the late 1990s. Of course, that rally ended with the bursting of the dot.com bubble, which ushered in a prolonged bear market.

As noted above, it's inevitable that our minds will drift to the potential for market disruption against this backdrop. We see our portfolio values reaching all-time highs and obviously want that trend to continue. At the same time, however, we must remember that our portfolios are only at record levels because, for the last three years, we've looked beyond short-term fears and invested based on our long-term plans.

Reinforcing your confidence in this disciplined approach is the most important part of what we do. It's how we help you maintain the right focus and earn the premium returns you need to stay on track for the long run. Our goal for this edition is therefore twofold. First, we'll help you look beyond the headlines about bubbles by highlighting some facts that distinguish the current market rally from the internet mania of the 1990s. Then we'll review how, bubble or not, your long-term plan has you prepared for whatever the future brings.

¹ Source: MSCI – ACWI Index net return, available at www.msci.com/documents/10199/255599/msci-acwi-net.pdf.

Letting Some Air Out of the Bubble Narrative

On the one hand, the technological nature of AI invites easy comparisons to the dot.com era. Once again, new technology has emerged with the potential to transform how work is done and bring mass efficiencies to a wide range of businesses. And that tremendous potential has generated optimism that's fueled huge investments, increased expectations for future profits, and driven equity markets and valuations to record levels.

At the same time, however, there are important differences between today's equity markets and the 1990s internet mania. Most notably, the companies driving much of the recent growth are highly profitable; they're collectively generating hundreds of billions of dollars in profits each year. That's a big difference from the speculative craze of the dot.com era, when loss-making companies drew in massive investments on the "theory" that traditional methods of valuation (based on revenue and profits and cash flow) were no longer applicable.

To give you a sense of just how profitable some of these companies are, it's helpful to compare the great companies of today with the great companies of 30 years ago. In 1995, the three largest companies in the S&P 500 were General Electric, Exxon, and Coca-Cola; their average return on equity was 31% and their average profit margin was 10.6%. Today, the three largest companies are Nvidia, Apple, and Microsoft, which have an average return on equity of 89% and average profit margin of 36%.²

That incredible difference in profitability levels matters. The earnings generated by today's leading companies are so large that those firms can largely finance their massive investments in AI from free cash flow.³ In other words, they can comfortably afford the huge investments they're making in the transformative potential of AI.

None of this is to say that 2026 will see AI reach its potential or that broad markets will continue generating returns like we've seen over the last three years. Nor are we trying to say that there won't be a bear market in near future; that's always

a possibility. But there's an old Wall Street adage that bull markets don't die of old age – meaning bad years don't happen just because we've had a series of good ones. And there are compelling reasons to look beyond fearful headlines about bubbles and be optimistic about the future.

We Don't Need a Crystal Ball

Of course, we all know that bear markets can happen at any point and are an inevitable part of the equity market cycle. And we also know that trying to predict short-term market movements is always an exercise in futility; equity markets simply can't be reliably timed. Fortunately, as columnist Jason Zweig recently observed in the Wall Street Journal, successful "[i]nvesting isn't about mastering the markets; it's about mastering yourself."⁴

Mr. Zweig's column discussed Benjamin Graham's classic treatise, *The Intelligent Investor*, highlighting Graham's belief that the individual investor's greatest strength is that he's rarely (if ever) forced to sell investments. This is an advantage because it allows the investor to maintain discipline in the face of uncertainty and avoid getting "stampeded" into bad decisions by crowd mentality.

“Investing isn't about mastering the markets; it's about mastering yourself.”
- Jason Zweig

This insight from one of the great investors of all time is another way of saying what we often stress to our clients: successful investing flows from consistently making decisions based on your long-term plan. We always want to be *acting* on

² Source: Rice, Bob. "Radical Consequences of a Digital Society." Presented at Advanced Planners Study Group, Aspen, CO, December 2025.

³ Ibid.

⁴ Zweig, Jason. 2025. "The Intelligent Investor: You're Not Paranoid. The Market is Out to Get You." *The Wall Street Journal*, October 19.

your plan rather than *reacting* to market dynamics or headlines.

Our investment framework is designed to help you do exactly that. We know that down markets are an inevitable part of investing, but we have a plan for those difficult times. Your portfolio has specific targets for cash and quality bonds (based on your unique goals and needs), so that during periods of distress we can let your equities ride out the storm and fund your needs from more stable assets. That framework is how we avoid being "forced" to

sell equities at inopportune moments of market distress, thereby preserving the advantage that Benjamin Graham identified 75 years ago. It's also why you don't need to worry about whether there's a bubble or where markets go from here. You can take comfort knowing we have a plan to keep you on track through the good years and the difficult ones.

We hope this gives you renewed confidence as we turn the page on 2025. And we look forward to continuing our journey together in the New Year!

Innovation and Good News

1. A privately-owned mineral production company has discovered a [major deposit of critical minerals](#) and rare earth elements in Utah. The reserve is thought to be the largest in the United States and could eventually reduce our dependence on other countries (like China) for such minerals.
2. Achieving the full potential of AI will require massive increases in the amount of electricity we can generate, and many people think nuclear power is part of the answer. This summer the Department of Energy announced a [Reactor Pilot Program](#) designed to fast-track eleven nuclear reactor projects towards testing and deployment. In a promising sign, a start-up [recently announced](#) that it was the first participant to achieve a self-sustaining nuclear chain reaction, which is an early milestone in reactor development.
3. A study led by Stanford researchers found that elderly adults who received the shingles vaccine were [20% less likely to have developed dementia](#) seven years later. The study also found that the vaccine reduced mortality in those who already had dementia when they received it.
4. This year the United Kingdom's National Health Service rolled out a pilot program that [used AI to read the CT scans of stroke patients](#). On average, the AI tool reduced the time it took to administer a blood clot removal procedure by more than an hour, which doubled patients' chances of regaining independence after a major stroke.
5. Earlier this month, the American Association for Cancer Research issued a report detailing [progress in the fight against pediatric cancer](#). It noted that pediatric cancer mortality in the United States declined 57% from 1970-2000 and then another 19% from 2001-2023. This reflects an overall decline of nearly 70% in the last 55 years.
6. In past editions we've highlighted the great potential of CAR-T therapy in treating (and sometimes curing) certain cancers. With CAR-T, a patient's T-cells are removed, genetically modified to target the cancer, and then injected back into the patient's body. A similar approach is [being used to treat patients with autoimmune diseases](#) like lupus and ulcerative colitis, and many are reporting total remission of symptoms after receiving the therapy.
7. Google has achieved another [milestone in quantum computing](#). In late October, it announced the successful use of its quantum chip (called Willow) to run a verifiable algorithm (modeling how parts of a molecule behave) more than 13,000 times faster than the best "classical" supercomputers. This was a significant step towards the practical use of quantum computers, because past demonstrations of so-called quantum advantage (i.e., quantum running faster than supercomputers) were theoretical "proofs of concept" rather than performance of a task with real-world application.

8. In another noteworthy quantum development, Harvard physicists designed and built the first quantum computer than can [operate continuously without restarting](#). Until now, quantum computers have only been able to

operate for a matter of seconds, because the subatomic particles they run on (called qubits) quickly escape the system. The Harvard team designed a way to replenish qubits faster than they can escape.

Financial Planning Updates

Contribution limits – new limits on retirement account contributions have been announced for 2026:

- IRAs and Roth IRAs - \$7,500, plus an extra \$1,100 for individuals age 50 and over.
- 401k, 403b and TSP plans - \$24,500, plus an extra \$8,000 for those ages 50 and over or an extra \$11,250 for people ages 60-63.

Mandatory Roth catch-up contributions – for those making the 401k, 403b or TSP "catch-up" contributions noted above, you will be forced to make them as Roth contributions (instead of pre-tax) if you received compensation of more than \$150,000 from your employer in 2025.

Changes in itemized deductions – there will be several important changes to itemized deductions in 2026, including:

- Charitable contributions – the deduction for charitable contributions will be subject to a floor of 0.5% of adjusted gross income.
- Top earner "haircut" – people in the 37% tax bracket who itemize deductions will have their deductions reduced by 2/37. This effectively limits the economic benefit of their deductions to ~35% (instead of the 37% that corresponds to their tax bracket).

QCD limit – for those who make qualified charitable distributions from their IRAs, the limit will be \$111,000 in 2026.

Gifting thresholds – the federal gift tax annual exclusion will remain \$19,000 in 2026, but the lifetime exemption will increase to \$15 million.

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- If there are any changes in your personal/ financial situation or investment objectives, so we can review, evaluate and/or revise our previous recommendations as needed; or
- If you would like to impose, add or modify any reasonable restrictions on our investment advisory services.

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Please also remember to advise us if you have not been receiving account statements (at least quarterly) from your account custodian.