January 10, 2025

Dear Money Management Client,

Closing out the year with solid returns is always gratifying. As one of our clients likes to remind us of every holiday season, "Those gains are now mine. Get back to work and do it again!" Rest assured, we get the message.

The Federal Reserve began raising interest rates in March 2022 to cool inflation and slow economic growth. Historically, monetary policy changes take about 12 to 18 months to affect the economy. Yet, as we enter the 32nd month since the Fed started this hiking cycle, the anticipated slowdown has yet to materialize. This unexpected resilience is due to robust consumer spending and capital investments. For those of us with four decades or more of economic study, this prolonged strength has been surprising, often prompting a more conservative investment stance in anticipation of an eventual slowdown.

The economy's durability can be attributed to five key factors:

1. **Low-Interest Rate Lock-Ins:** During the pandemic, consumers and businesses secured historically low interest rates, making them less sensitive to subsequent rate increases.
2. **Advances in Artificial Intelligence:** The ongoing global technological revolution, led by AI, continues to drive innovation and productivity.
3. **Data Center Expansion:** The proliferation of AI applications has necessitated the rapid buildout of data centers and power plants to run them.
4. **Supportive Fiscal Policy:** Legislation such as the CHIPS Act, the Inflation Reduction Act (IRA), the Infrastructure Investment and Jobs Act, and increased defense spending have all contributed to economic momentum.
5. **Recent Rate Cuts:** The Fed shifted its stance by reducing interest rates by half a percentage point in September and an additional quarter point in November.

With the economy in such strong shape and the Fed signaling a more accommodative approach, one might wonder—what could go wrong? Looking ahead, we anticipate significant changes with a new administration taking office this month. These changes may include a wave of executive orders and new trade tariffs. While we remain optimistic that these shifts will yield positive outcomes, we are also cautious about persistent deficit spending, recurring inflation, and the potential for rising long-term interest rates. Rest assured, we're here to manage the complexities so you can focus on enjoying the benefits of your portfolio.

Wrapping up, we are fielding more client calls, who recognize the economy and markets have been more volatile and riskier. We love the challenge of picking great growth stocks

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for the long run, but we also appreciate the desire to own less volatile and more predictable income assets. Options typically include bonds, interest earning credit instruments and high dividend-paying common stocks. If you're interested in shifting the focus of your portfolio or updating your investment objectives, please feel free to call Kyle or Clay.

As always, we remain committed to a conservative investment philosophy, which emphasizes the preservation of capital. If you have any questions or would like to discuss your portfolio, please do not hesitate to call.

Very truly yours,

Kyle Campbell
Vice President

Clay Campbell
Chief Investment Officer

SEC Disclosure:
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