

## Equity Market Commentary

SLIMMON'S TAKE | APPLIED EQUITY TEAM | December 2025

Please note we will host our 2026 Market Outlook webcast and 2025 Portfolio Review on Thursday, January 15<sup>th</sup> at 1pm EST.

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**1** I often hear active equity managers explain how they just focus on investing in good companies, not paying much attention to the macro environment.

Classic bottom-up investing.

While that sounds great in theory, the movement of any stock over a reasonable period is largely influenced by factors beyond simple company fundamentals.<sup>1</sup>

*For instance, Federal Reserve policy has historically had a massive impact not only on the direction of the stock market but also on what kind of stocks investors should own.<sup>2</sup>*

**2** Likewise, I hear macro investors say they just focus on big picture concepts and don't get involved with the micro-decisions of stock picking.

Generally referred to as thematic investing.

**3** In my opinion, *the odds of active management successfully delivering superior results over time without employing every investment tool at one's disposal is very low.*

This is why Applied Equity embraces a top-down investment approach overlaid with bottom-up stock picking analysis.

**4** While the Slimmon TAKEs typically focus on our top-down views, this Slimmon TAKE will touch on some of **the bottom-up stock picking techniques we employ.**<sup>3</sup>

*This is a timely discussion, as the team's fundamental work is what has led to a recent shift in our global strategies' regional allocations.*

<sup>1</sup> Morningstar. Rolling 18-month R-squared for Global Equity Managers Time Series Regression. Information as of 12/31/2015.

<sup>2</sup> Bloomberg as of December 26<sup>th</sup>, 2025. S&P 500 since inception.

<sup>3</sup> The information presented represents how the portfolio management team applies their investment process under normal market conditions. There is no assurance that the investment process will be successful.

The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment. **Past performance is no guarantee of future results.**

**5** My home office is chock full of investment books by authors explaining their stock picking techniques. I must have over 100 books on the topic dating back to my high school days (when I sorted the mail at the local brokerage office.)

I've kept them all.

Every one of them has a different opinion. "Buy undervalued stocks," "buy growth stocks with moats," or "buy solid dividend-paying companies," etc., etc.

But what has really worked?<sup>4</sup>

*Where should our focus be when determining whether a company is worth an investment?*

**6** Bloomberg gives us some actual empirical answers.<sup>5</sup>

Bucketing stocks based on specific company characteristics, we can see which of these attributes truly mattered long-term and which did not.

Bloomberg assesses stocks using various attributes, including low price-to-earnings ratios, strong growth, high dividends, robust balance sheets, high profitability, and numerous other characteristics.

No opinion, just facts.

***The attributes that have generated the most excess returns over the last ten years are in stocks with the following characteristics:***

- 1) **Strong earnings revisions.**<sup>6</sup>
- 2) **Top stock price momentum.**<sup>7</sup>
- 3) **High share buybacks.**<sup>8</sup>

Intuitively, this makes sense. I've believed this for years, but it's nice to see the actual data!

- 1) If analysts raise their projections for future **earnings**, and if stock prices reflect the present value of these expectations, then stock prices should adjust in response.
- 2) As per **stock price momentum**, there are two simple quotes I never forget:
  1. One from Warren Buffett: "*Turnarounds seldom turn.*" (That is, don't buy the new low list.)<sup>9</sup>
  2. And one from Sir Isaac Newton "*Objects in motion tend to stay in motion.*" (That is, if a stock is moving upward, it's likely to continue that way.)<sup>10</sup>
- 3) Corporations have several strategic options for utilizing their surplus cash flows, such as acquisitions, capex investments, etc.

Sometimes the options are accretive to earnings, and sometimes they are not.

But there is one move that is guaranteed to be accretive to earnings... **Reducing share count through buybacks.**<sup>11</sup>

<sup>4</sup> Past performance is no guarantee of future results.

<sup>5</sup> As of December 26, 2025. Over the past ten years returns for securities in the U.S. equally weighted.

<sup>6</sup> Best current year earnings per share three-month revision percent change.

<sup>7</sup> The trailing 12-month return minus the most recent month.

<sup>8</sup> One year share buyback percentage.

<sup>9</sup> A-Z Quotes.

<sup>10</sup> Paraphrase of Sir Isaac Newton's First Law of Motion.

<sup>11</sup> Assuming all else is equal.

**7** Phillip Kim, my co-portfolio manager, refers to companies possessing these three attributes as “**trifecta stocks**.”

But if all we did was simply buy companies when they meet these three criteria and sell when they did not, we would be turning over our portfolios too frequently.

It would be virtually impossible to implement.

Great long-term investments do not necessarily meet all three criteria all the time.

*And therein lies the function of our fundamental research analysts: rigorous interpretation within context.*

**8** While these three quantifiable attributes are a good starting point, the “art” of fundamental analysis is the ability to decipher the durability of these attributes for a specific company.

Not to mention, there are other attributes to consider as well. A stock becoming too expensive, a company’s profitability deteriorating, or a company altering its strategy are three such examples.

Phillip and I review these considerations with our research analysts daily.

**9** If these three attributes are the foundation of our stock picking, how do we then overlay the top-down part of the process?

Top-down analysis provides clues as to whether our portfolios should own more growth, value, or defensive stocks, in each part of the world.

For instance, since the bear market lows of 2022, our quantitative top-down analysis has indicated a preference for growth and value stocks over defensive, less cyclical companies.

In essence, more technology and financial stocks and less consumer staples.

Only once these macro conclusions have been made can the fundamental analysis determine the **actual** stocks to own.

**10** Finally, to bring this conversation full circle, our non-US percentage allocation has grown higher than we have had over the past few years.<sup>12</sup>

For years we have heard many top-down “experts” advise for an increased allocation to other parts of the world versus the U.S.

Often they cite “valuation” as the leading reason for an allocation shift.

However, when we fundamentally filtered non-U.S. regions for “trifecta stocks” (with suitable market capitalization), we struggled to find many companies outside the U.S that met our initial “trifecta” criteria.

For instance, stocks have been cheap in Europe, but earnings revisions have been largely consistently negative.

Stocks have also been cheap in Japan, but companies have not as efficiently deployed their cash flow into buybacks.

Yet that’s changing.

And with this change come more investment opportunities.

*In conclusion, as we will discuss on our January webcast, we are not necessarily negative on the U.S market in 2026.*

*But we do see more intriguing “trifecta” non-U.S. stocks than we have been able to identify in the past.*

**Andrew**

<sup>12</sup> As of December 26th, 2025, Global Concentrated’s non-U.S. allocation is 43% and Global Core 36% versus low 30% tiles last few years.

## Risk Considerations

Diversification does not eliminate the risk of loss. There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this portfolio. Please be aware that this portfolio may be subject to certain additional risks. In general, equities securities' values also fluctuate in response to activities specific to a company. Stocks of **small- and medium-capitalization** companies entail special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. Investments in **foreign markets** entail special risks such as currency, political, economic, market and liquidity risks. **Illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risks). Non-diversified portfolios often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility. **AI**: Investing in companies in anticipation of a catalyst event, such as AI adoption, carries the risk that such catalysts may not occur, may be delayed, or that the market may react differently than expected. Companies focused on AI may have limited product lines, markets or financial resources, and their management and performance may be particularly impacted by events that adversely affect AI adoption, such as rapid changes in product technology cycles, product obsolescence, government regulation, cybersecurity concerns and competition.

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