Wealth Management Report

Dear Investors:

"Forecasts may tell you a great deal about the forecaster; they tell you nothing about the future." - Warren Buffett

Year ahead outlooks always seem like more of a marketing ploy than anything else. They also send bad messages. As investors, are we really supposed to look out over the next twelve months just once a year? We should be doing this all the time! Like last year, for our annual *Bespoke Report* this year, we provided an update to our quarterly *Pros and Cons* report, which highlights the issues we view as positive for the market (Pros) and negative (Cons).

If you haven't already had a chance to read the latest edition, you can do so here. As you'll see, or already saw, the Pros and the Cons were almost evenly split heading into 2026. That would suggest a neutral stance on the market, but there's nuance to each Pro and Con. First, they're not equally weighted as some are more important than others. Second, the banner of 'pro' or 'con' isn't a 100% bullish or bearish call. Instead, it indicates that we expect the issue to be more of a tailwind or headwind over the next twelve months.

Closing out 2025, the AI bull market remained vibrant with the S&P 500 hitting a new high on Christmas Eve. Markets made additional new highs in the first few days of 2026. We've been comparing the AI bull market that began with the launch of ChatGPT in late 2022 to the mid-1990s Internet bull market that began with the launch of Netscape in late 1994 (see chart on page five). Based on this analogue, there are more gains ahead. The economy also appears to be picking up steam as inflation eases. Earnings growth is expected to remain strong, and investors remain eager to buy the dip.

On the downside, while there's much working in the market's favor, look at how far we've already come. The gains over the last three years have been among the strongest on record, and valuations are lofty, suggesting a lot of good news is already priced in. We got through the tariff tantrum and government shutdown last year, but dysfunction remains the only way to describe the situation in Washington. Based on history, Democrats are likely to take back control of the House in November, so if you think nothing is getting done now, just wait a few months!

Every January, we're always asked how much the market is going to be up or down over the course of the year, and our response is always the same – we don't know. All we can do is look at the current backdrop for the market, historical trends, and areas where we think the economy or market might play out differently than the consensus suggests. We don't have a crystal ball. Where we differ from a lot of others in this field, though, is that we don't pretend to have one.

Our process is the same every day – what, if anything, is different today that would cause us to change our view?

The Future is Uncertain:

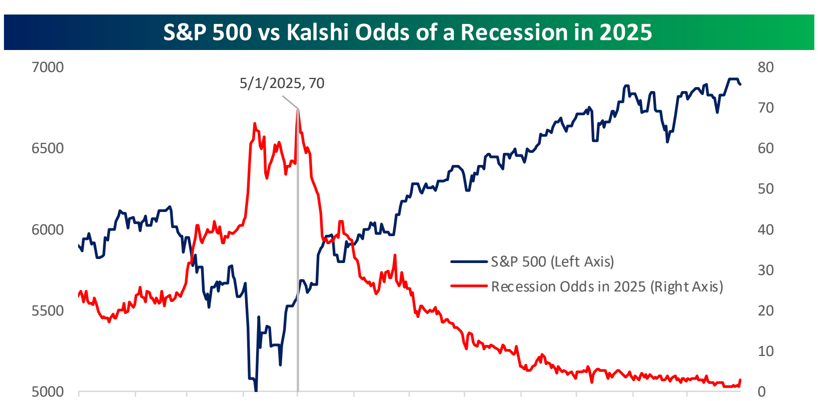
"The years ahead will occasionally deliver major market declines -- even panics -- that will affect virtually all stocks. No one can tell you when these traumas will occur." - Warren Buffett

Investors are always on the lookout for new ways to predict the future. In 2025, they turned their attention to prediction markets. Kalshi, one of the leading platforms, announced earlier this month that the volume of contracts traded there surged more than 1,100% relative to the prior year. This is the type of growth that existing players in the financial sector drool over, and it led to a flood of investments in the space. In October, ICE, the parent company of the NYSE, announced a $2 billion investment into Polymarket, a Kalshi competitor. It valued the company at $9 billion and opened up the potential for a one-stop shop where investors could sell Nvidia (NVDA) and put those proceeds into a bet on who will win the Oscar for best actor!

Besides the gamification of everything that we discussed in our *Wealth Management Report* a year ago, "investors" have become attracted to prediction markets as a gauge for how likely an event is to occur in the future. *But that's all they are.* Too often, though, we've heard comments like, "Kalshi is predicting a 90% chance of X happening, so it's basically a lock." We're all for the idea of the wisdom of crowds, but if there's one thing prediction markets aren't, it's predictors of the future.

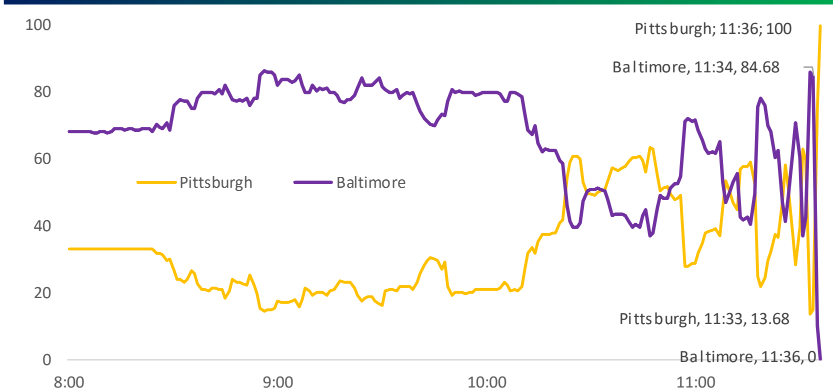
Of the thousands of contracts listed on various prediction markets, there are countless examples where their "wisdom" went terribly wrong. One example is the contract on whether the US economy would enter a recession in 2025. In the weeks leading up to Trump's *Liberation Day* in early April last year, the contract for a recession in 2025 surged and continued rising until it peaked at 70% on May 1st. A US recession would be bad for the stock market, so it's not surprising that the S&P 500 fell in those weeks as recession odds increased.

While the stock market bottomed in early April, though, the odds of a recession kept rising, and on May 1st, if you were following the recession odds on Kalshi, you'd be thinking the equity market was a major short. Ultimately, the opposite proved to be true, and from May 1st through year end, recession odds fell to near zero while the stock market surged.



In another example, the last game of the NFL regular season was the Sunday night game between the Pittsburgh Steelers and the Baltimore Ravens on 1/4. Baltimore was the clear favorite as the Kalshi contract for the Ravens to win was consistently priced between 65% and 90% during the first half. The second half was much more volatile, though. Two minutes before the game ended, Baltimore was priced at 85%. Two minutes later, the game was over with Pittsburgh winning and Ravens coach John Harbaugh finding himself out of a job!

Kalshi Odds of Winner in Pittsburgh vs Baltimore Game on 1/4

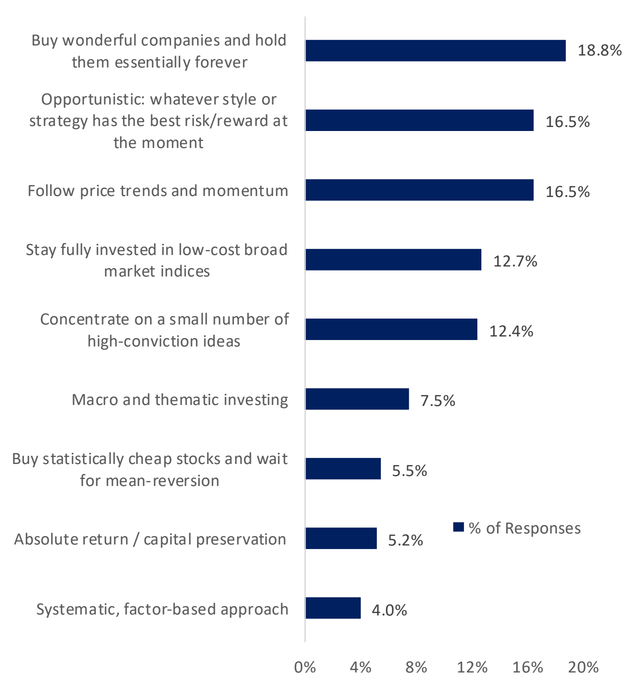


More than One Road to Success:

"An idiot with a plan can beat a genius without a plan." - Warren Buffett

Our *2026 Investor Survey* (read it here) gave us some helpful insights on market views heading into the new year. One particularly interesting question asked respondents "*which statement best describes your investment philosophy*?" Of the nine different investment approaches respondents could choose from, the leading one was to "Buy wonderful companies and hold them essentially forever." Even though it was the leading choice, though, it received less than 20% of the votes, while five different choices got at least 10%. The full results are included in the chart at right. The fact that there was such dispersion in responses is ultimately what makes a market, and it reinforces the idea that there are multiple ways to achieve success, with the main criteria being to *have a plan and stick to it*. Doing the opposite and simply chasing what's popular will always keep you behind the curve.

Which Best Describes Your Investment Philosophy?



A *Buffet* of our Favorite Warren Buffett Quotes:

At the top of each section in this quarter's note, we started with a quote from Warren Buffett. With his retirement as Berkshire's CEO becoming official on the last day of 2025, we wanted to memorialize his career as the most famous investor to ever live with some of our favorite Buffett quotes. There have been an almost limitless number of books, papers, and articles written over the last 95 years about how to invest, but you could do a lot worse than reading Buffett's annual letters or simply reading through some of the hundreds of famous quotes that have come from his mouth or pen in the last several decades. These are our favorites:

"What we learn from history is that people don't learn from history."

"We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

"Someone's sitting in the shade today because someone planted a tree a long time ago."

"What the wise do in the beginning, fools do in the end."

"The stock market is a device to transfer money from the impatient to the patient."

"In the business world, the rearview mirror is always clearer than the windshield."

"You don't need to be a rocket scientist. Investing is not a game where the guy with the 160 IQ beats the guy with 130 IQ."

"Fear is the most contagious disease you can imagine. It makes the virus look like a piker."

"The most important thing to do if you find yourself in a hole is to stop digging."

"Never invest in a business you cannot understand."

"The stock market is a no-called-strike game. You don't have to swing at everything -- you can wait for your pitch."

"I won't say if my candidate doesn't win, and probably half the time they haven't, I'm going to take my ball and go home."

"Only when the tide goes out do you discover who's been swimming naked."

"Predicting rain doesn't count, building the ark does."

"It's better to hang out with people better than you. Pick out associates whose behavior is better than yours and you'll drift in that direction."

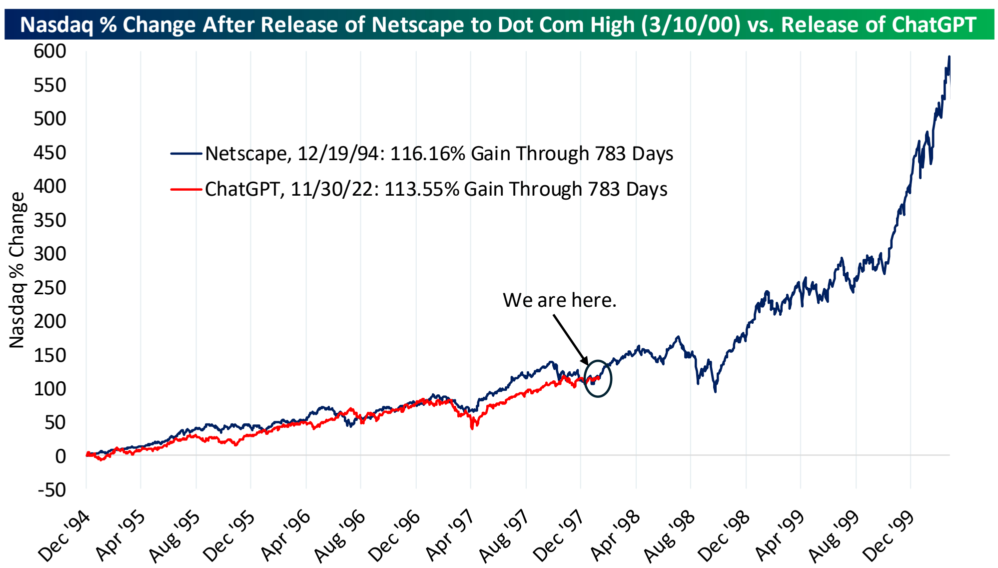
"Interest rates are like gravity on valuations. If interest rates are nothing, values can be almost infinite. If interest rates are extremely high, that's a huge gravitational pull on values."

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

"I'd be a bum on the street with a tin cup if the markets were always efficient."

We'd like to conclude by getting back to the analogue between the current AI Boom and the Internet Boom of the 1990s. Below is an updated look at the near-perfect correlation between the Nasdaq's rally after the release of Netscape in late 1994 and its rally after the release of ChatGPT in October 2022. Based on the 1990s analogue, we'd be just crossing into 1998, which was actually a volatile year because of the Asia/Russia debt crisis and the blowup of Long Term Capital Management. Needless to say, however, the Internet Boom still hadn't gone parabolic, which wouldn't come until the end of 1998 through early 2000.

What makes the analogue so intriguing is that at this point in the 1990s, the rally had been led mostly by Internet infrastructure names, while the Internet implementation stocks that would eventually IPO are what set off the final few innings (and massive gains) of what turned into the Internet bubble. During the current AI Boom, the same thing has happened, with the AI infrastructure companies leading the charge (chips and datacenters). We've yet to see a rush of IPOs on the AI implementation side of the trade. If we had to guess, the final innings of the AI Boom will be here when we start seeing bigger rallies and more IPOs in the AI implementation space. It would be fitting if the AI Boom finally ran out of steam just after the AI implementation company that started it all — OpenAI — goes public.



If you'd like to speak with us about our wealth management services and our various strategies, please email us at client@bespokeinvest.com or give us a call any time at 914-315-1248. You can also learn more about Bespoke Wealth Management at our website here.

Justin + Paul