S.F. EHRLICH ASSOCIATES, INC.

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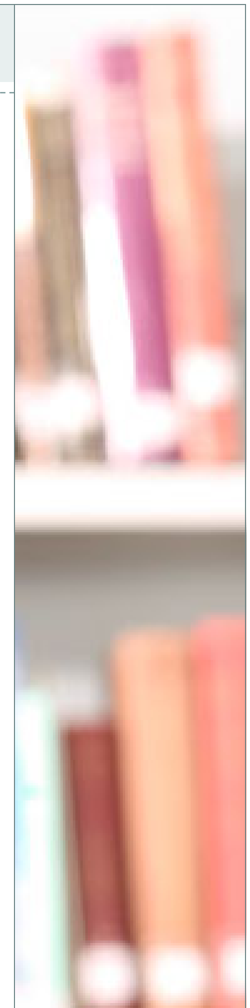

Managing Your Money

STAN'S WORLD — BUILDING TRADITIONS

If you want to stay close to your family, or to your friends, start a tradition. You don't necessarily have to announce it's a tradition, but you will have to repeat it for it to become a tradition. My hunch is repeating the same event a few times will put it on everyone's calendar, and voila, a tradition is born.

About 25 years ago, though we can't recall the exact date, we baked holiday cookies with our daughters. They were in college, home on vacation, and everyone was available. The mix of cookies we baked isn't significant. The fact that we baked together, however, is.

The next year, we did it again. And then again. When they met their future husbands, they joined us. As they had children, they participated as well. The years went by; the number of bakers grew, and the tradition endured.

We've reached the point where we collectively bake about 2,000 cookies, including 11 varieties. And while I don't want to appear as a cookie snob peering down at the mere ho-ho-ho sugar cookie, I will point out our varieties are a tad more complex. We're talking about three types of biscotti; butterscotch; Linzer tortes; pecan poppers; snowballs; cranberry with white chocolate chips; chocolate caramel bars; oatmeal walnut; and so forth. If your mouth is watering, you're getting the point, because they're darn good.

What we refer to as Cookie Weekend is an event. It starts with a typed, two-page list of ingredients (e.g., 16 pounds of flour, 13 pounds of butter). I get dispatched to the local ShopRite for multiple shopping expeditions.

Then there are the three large blue bins in the basement, holding cooling racks, cookie sheets, and dozens of cookie tins. They've got to be dragged upstairs and put into position.

STAN'S WORLD — BUILDING TRADITIONS (CONT'D)

We line up all the ingredients on the dining room table, set up folding tables in the garage where the cookies cool, and start the dough-making process on Thursday morning. By Saturday evening, all baking is complete. On Sunday morning, the cookies go into boxes, wrapped with ribbons, and are gifted to family, friends, and neighbors. The residual cookies remain in our garage as compensation for using our kitchen and sleeping in our beds. (For obvious reasons, I refuse to have blood work before March.)

Why keep doing it after all these years? We do it to bring as many of our family members home as possible. Not only do we want them close to us, but close to each other.

Other than baking cookies and eating a lot of take-out food (and cookies), another tradition on Cookie Weekend is me loading our grandchildren into a car to drive around and look at Christmas lights. Admittedly, this hasn't always gone as smoothly as baking cookies.

There was, for example, the year we never got out of the driveway because of tears from a car seat arrangement that didn't go as planned. Then there was the drive that was cut short because the driver (me) couldn't tolerate the yelling and fighting from the backseats. But even those stories are part of Cookie Weekend's history.

My mom was a baker, so she used to attend some of the Cookie Weekend festivities. Inevitably, she would tell the bakers they were doing something wrong. It may have been how they rolled out the dough, assembled the rugelach (Google it), or set the oven to the incorrect temperature. Her baking critiques aside, I suspect my mom enjoyed each experience for its true value: family.

Yes, Cookie Weekend is a ton of work. By Sunday afternoon, once everyone has gone, we're drained. But everyone knows we'll all do it all over again next year.

I don't know who 'they' are, but 'they' say that social interaction gets more important as we age. And if you're aging like we are, think of a tradition that would be fun to do with your family or friends. And if you already engage in a holiday or other tradition, consider asking an elder to join you. Sure, you may be told you don't know how to properly assemble the rugelach, but you'll remember the story for years to come.

RESISTING COMPLACENCY IN THE STOCK MARKET

You won't have to search for long before you find a headline blaring a warning that the market is too high. Or too richly valued. Or it's been these many days since the last recession. Or these many days since the previous bear market. It's not profound to state that each day brings us closer to a market peak because we're always one day closer to a market peak. (Conversely, we're always one day closer to a market bottom, so these types of statements carry little significance.)

RESISTING COMPLACENCY IN THE STOCK MARKET (CONT'D)

A recent Wall Street Journal article[1] put an interesting spin on the subject. The article notes that "Stocks have experienced only brief downturns over the past 16 years, creating dangerous complacency." What that means is that many investors have never experienced a prolonged market correction. (NOTE: A market correction is defined as a drop of 10% or more.)

Worse, an increasing number of investors have never experienced a prolonged bear market, defined as a knee-buckling drop of 20% or more. Rather, over the past 16 years, investors have been exposed to market corrections and bear markets that have been relatively brief, as in April 2025. (You probably blinked and missed it.) Unfortunately, complacency sets in when investors believe that any drop will result in an immediate recovery. More seasoned investors know that is nowhere near the truth.

As the article notes, "In the past century, there have been 25 bear markets, including some that barely met the definition…The average time to reach the previous high when a bear market was accompanied by a recession was 81 months. It took just 21 (months) without a recession. Over the past 16 years, downturns have lasted less than eight months before the old high was reached."

The crippling bear market that began in 2007, when stocks lost more than half their value, took 66 months for the S&P 500 to regain its previous high. When you realize that investors under 40 have never experienced a downturn that lasted anything close to five and a half years - not to mention the lost decade of 2000-2009 - one wonders how 'young' investors will react when they realize the market bounce back is taking longer than they've ever experienced.

While we all may know that bad things ultimately happen to markets, there's no predictability as to when a bear market or recession will occur. Jeff Sommer, writing in the New York Times[2], notes that "Investors' odds of success are better if they just hang on and aim for average returns…Most of us are better off living with the reality that the stock market moves down as well as up, and that we can't beat it."

Citing extensive research by Dimensional Funds - Sommer reports there are no strategies that can be followed to time markets. "Timing the market is, for the vast majority of us, a recipe for losses. It may work sometimes, but it's unlikely to work all the time. The problem isn't just knowing when to sell. You also need to know when to get back into the market, and getting both decisions right – selling at a peak and buying at a trough – is rare in any single market cycle. Over decades, it may be impossible."

Striving for average market returns isn't exciting, but it works, and we strive to accomplish that by paring equities as markets hit highs, and buying equities when markets move toward lows. (In a word: rebalancing.)

RESISTING COMPLACENCY IN THE STOCK MARKET (CONT'D)

There is one headline, however, that is worth noting[3]. "For the second time ever, U.S. stocks have crossed a valuation milestone suggesting low future returns." In research that is most commonly linked to Nobel Prize-winning economist Robert Schiller, "Schiller looks back at 10 years of earnings and adjusts them for inflation to cover an entire business cycle. It recently broke above 40 for the second time ever." Since the first time was in 1999, which preceded the period commonly known as the lost decade, this merits further examination.

Schiller's metric forecasts large cap growth stocks, such as the Magnificent 7, will have small negative returns over the next decade; US small cap and US large value are forecast to have modest positive returns; and International and Emerging Markets are expected to perform at higher levels.

What's the best thing we can do after reading all the headlines? If we can't predict market downturns (and we can't), and if we can't predict the recessions that often go with them (and we can't), at least we can hold a diversified group of assets within our portfolios and rebalance, rebalance, rebalance. We're not looking for sexy; we're looking for results.

PRIVATE EQUITY: BE CAREFUL WHAT YOU WISH FOR

For years, large private equity firms have lobbied to gain access to smaller investors. Specifically, there has been a long-running campaign to add private equity investments to 401(k) plans. It appears those efforts may be starting to pay off.

What is private equity? Private equity is pooled capital that is often invested in non-publicly traded companies. Investors are limited partners, and their capital is used to invest in or acquire companies the general partner believes can deliver long-term growth. (The general partner is the entity that collects capital from the investors.) Sometimes, publicly traded companies are taken private because the general partner believes there are ways to make the companies more profitable.

How does it work? When a general partner takes over a company, the emphasis is on profitability. While many private equity investments yield more efficient companies, some general partners are known for slashing jobs and related expenses. The goal is to turn a profit and to set the company up for sale in a timeframe that's often 5-7 years. Once sold, the limited partners hope to get a return of their capital and a return on the use of their capital (e.g., profit).

The downside: For investors, the worst investment is one that doesn't provide a return, such as when a business fails or is ultimately sold for less than its original purchase price. Fortunately, general partners often invest in multiple companies, so if one fails, another (or others) may provide better returns.

PRIVATE EQUITY: BE CAREFUL WHAT YOU WISH FOR (CONT'D)

The upside: A host of successful company turnarounds and success stories have come out of private equity. If a privately held company goes public or is sold at a valuation that is multiples of the initial investment, limited partners are likely to realize handsome returns.

What can go wrong?

There are a few significant issues related to private equity 401(k) plans, including valuations, accessibility, and fees.

- Valuations: Publicly traded companies are traded on public stock exchanges, so investors know the price of their stock from minute to minute. Valuations for private equity investments, however, are set by the general partner, who has a vested interest in making the company's investments look good so they can raise even more capital from other investors for future investments. Thus, absent market pricing, investors can never be certain as to the true value of their investments.
- Accessibility: Unlike publicly traded companies, limited partners cannot sell their investments when they want to do so. They do not have unlimited access to those funds. Rather, the dollars they invest are likely to be locked up for some period of time (e.g., 5-7 years). While general partners often release a percentage of invested dollars each year for those who want to redeem, not everyone who wants to redeem can. Thus, during market downturns or if an individual investor has an emergent need, their private equity dollars are likely not available. (For an in-depth look at accessibility, Jason Zweig of the Wall Street Journal wrote an excellent column titled: This Small-Town Pension Fund Has a Warning for Millions of Retirement Savers[4]. But it's the tag line that says it all: "If you think cashing out of a private fund is easy, just ask a guy who used to manage $750 billion."
- Fees: Notes Zweig[5]: "Asset managers…have concocted a zillion ways to disguise their fees." In the case of private equity investments, it's possible that the general partners may not even be required to disclose fees in the fund prospectus. "Despite overwhelming evidence to the contrary, many individual investors still want to believe higher fees are associated with higher returns."

Who benefits?

- General partners are typically first to benefit on these types of investments, regardless of how their investments perform. They benefit because they collect a fee each year, and then a much larger percentage when investments are sold. (2 & 20 is a common fee structure. General partners receive 2% of invested dollars each year, and then 20% of profits, typically after returning capital.) If you're a general partner, the more dollars you can collect, the greater your return.

PRIVATE EQUITY: BE CAREFUL WHAT YOU WISH FOR (CONT'D)

- Investors are likely to benefit if the general partner invests their dollars into businesses that grow and are sold at a higher valuation. That's why it's so important for general partners to cut costs and reduce expenses once they take over a struggling company.
- Investors may also benefit from diversification, as private equity investments don't necessarily perform in-line with publicly traded stocks or bonds. Thus, a well-structured private equity fund may add diversification to an investor's portfolio.

If your company offers a 401(k) plan that includes an investment option for private equity, let's talk. Yes, it may be beneficial for you to invest some dollars into that option, but a little research into the general partner is a prudent first step.

S.F. EHRLICH ASSOCIATES, INC.

S.F. Ehrlich Associates, Inc. has been providing financial advice on a fee-only, independent basis for over 25 years.

Managing Your Money is compiled entirely by Stanley F. Ehrlich and John Zeltmann.

Questions or comments are always welcome (and encouraged!).

Did we mention? If you have a friend or family member who you think might benefit from a discussion with us about financial planning and asset management, please pass along our phone number and email address. Long-term growth is not only crucial to portfolios, it's also critical to a business.

If you have a friend, co-worker, or relative who's in need of financial advice due to a pending or actual job loss, please give them our contact information. We're always glad to speak **pro bono** with people who need a hand.

CLIENTS: Please remember to contact S.F. Ehrlich if: a) there are any changes in your financial situation or investment objectives, b) you wish to impose, add or modify any reasonable restrictions to our investment management services, or c) you've changed your permanent residence.

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1 Jakab, Spencer. "Why We Could Use a Good, Long Bear Market." The Wall Street Journal, 17 Nov. 2025.
2 Somers, Jeff. "In the Stock Market, Don't Buy and Sell. Just Hold." The New York Times, 26 Nov. 2023.
3 Jakab, Spencer. "This Famous Method of Valuing Stocks Is Pointing Toward Some Rough Years Ahead." 4 Nov. 2025.
4 Zweig, Jason. "This Small-Town Pension Fund Has a Warning for Millions of Retirement Savers." The Wall Street Journal, 7 Nov. 2025.
5 Zweig, Jason. "Congress Thinks Hiding Fund Fees Is Good for You." The Wall Street Journal, 10 Oct. 2025.

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