STARBOARD ADVISORS
YOUR RIGHT OF WAY
A DIVISION OF KELLEHER FINANCIAL ADVISORS, LLC

March 14, 2025

Greetings from Starboard,

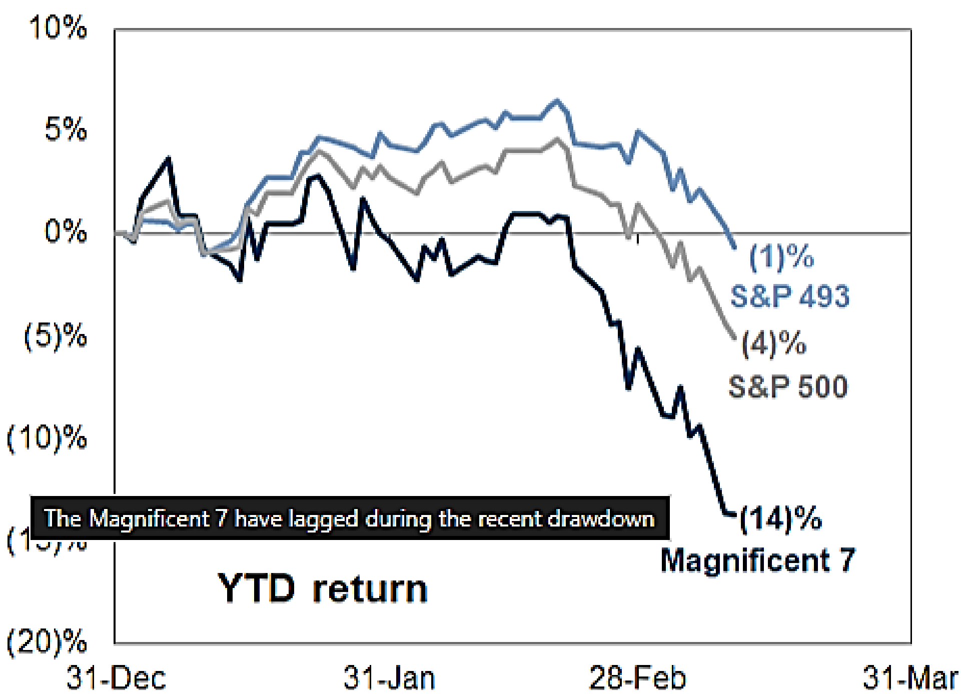
In light of the recent market volatility, we thought it would be helpful to send some brief commentary to the families we serve.

What's going on?

The primary driver of the market decline is uncertainty. With a new year and a returning president in the White House, key market variables have become very unpredictable. Heightened political noise, particularly regarding tariff policies, and the 24/7 news/social media cycles have led to increased uncertainty for companies as well as investors. As this uncertainty has risen, pressure on elevated valuations of stocks has increased. In short, at the beginning of the year the stock market was priced close to "perfection" and is now being tested. In addition, recent economic data has shown vulnerability across several metrics, including jobs and future GDP growth. The Atlanta Fed's GDPNow model has revised its Q1 2025 GDP growth forecast downward, reflecting these concerns. The combination of these factors has significantly contributed to a change in market pricing dynamics.

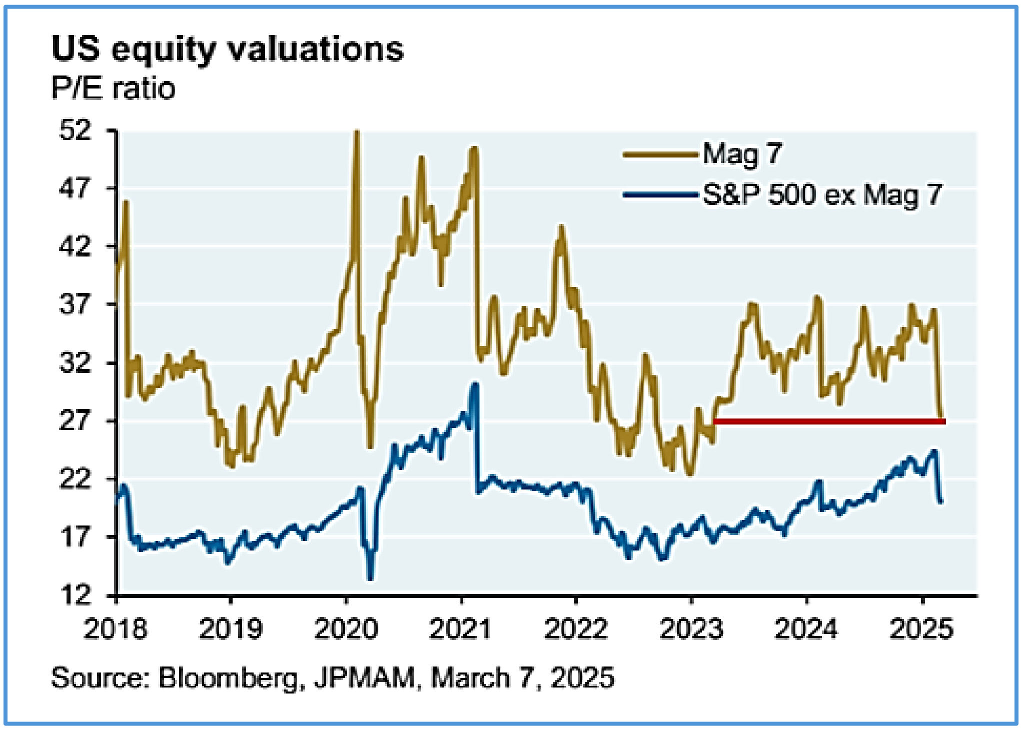
Risk

Regardless of where you sit with various economic and political opinions, one thing has become clear in the first three months of 2025: the prevalence of *risk*. Risk, which we define as "the possible loss of capital," is inherent to the investment markets. The bellwether S&P 500 stock index has fallen nearly -10% from its highs over the past 3 weeks and the Magnificent 7 (MAG 7) group of stocks (GOOG, AMZN, AAPL, META, MSFT, NVIDIA, and TSLA) has dropped nearly -20% over the same time period. Approximate year to date returns are shown in the chart below. Most notable is the underperformance of the MAG 7, which had been the leadership group of the previous 24 months.



Have valuations changed?

The short answer is "yes," and many experts would argue that small "corrections" of -5% to -10% are a healthy and normal part of investment cycles that help avoid dramatic bubble bursting down drafts. The market reached a historic level of concentration last year within the MAG 7 stocks. This level of narrow leadership was unsustainable and is in the process of unwinding now. The chart below reflects the magnitude of valuation compression in the MAG 7 group vs the S&P 500 index excluding those seven companies. Furthermore, the market downturn has led to a shift in performance where a broader section of the stock market has shown resiliency with sectors such as health care and financials demonstrating relative strength in recent months compared to the technology focused stocks of the MAG 7 that have experienced significant declines (as noted above).



Looking ahead & reviewing your "financial moat"

In this environment focusing on quality remains crucial. Equity portfolios with strong balance sheets and growing revenues, as well as high-quality bonds such as US Treasuries continue to be Starboard's recommendation. Going forward, enthusiastic financial speculation will be fraught with volatility, continued uncertainty, and potential financial loss – particularly with equities. We believe quality stock portfolios with a focus on portfolio balance and reasonable valuation are the keys. On the bond side of portfolios, credit spreads remain narrow (the price differences between various types of bonds) making investments in Treasury Bills (T-bills) more attractive than riskier assets yielding only slightly more.

Most important for families, from a financial planning perspective, is to be comfortable with your funds that serve as your contingency assets, safe harbor funds, and/or your "financial moat." We frequently recommend (particularly for retired families) to have annual cashflows in reserve to endure 3 to 5 years. This amount of time protects investors from "selling" under pressure (or for emotional reasons) and hopefully provides piece of mind with its durability. Currently, T-bills provide this security with a yield of 4%-4.5%, as well as being state tax free and fully liquid.

Finally, for those investors who are inquiring on whether it's time to buy – this remains less clear. Valuations are still elevated, and the market/political noise remains HIGH. As investors adjust to the new economic and political realities so will the markets and the opportunities they present. Our investment team's charge will continue to be the identification and research of these opportunities, and we would anticipate client portfolios to reflect that.

From the halls of Starboard, we wish you a happy early Spring and look forward to seeing many of you in the coming months. As always, the environment can change quickly. If you are interested in a face-to-face meeting or just a call to check in, we would be delighted to schedule time with you.

Our very best,

Bart, Mike, Neil & the Starboard Team