

July 25, 2025

Dear PCM Clients and Friends:

We are now at midyear. It is a time to get out and enjoy the summer weather – have good times with family and friends. Take some time off. We do not want to wish these special moments away. Yet, from an investment perspective, all too soon summer will shift to fall and the market's focus will shift from looking at today toward looking forward into 2026. We need to begin managing your portfolio with this in mind.

The first half of the year was certainly a reflection of the historical pace of governmental policy changes initiated by the Trump presidency. This will continue. There is much more to come. As we wrote in February: the “pendulum” has begun to swing.

Despite the uncertainty that normal change creates and “shock and awe” change amplifies, the U.S economy has so far continued to prove incredibly resilient and strong. We appear to be weathering the storm of uncertainty; though we should expect continued periods of volatility ahead, within periods of smooth sailing.

What do we do in this environment?

Interestingly, we think the answer lies in a broad understanding of a quote from Benjamin Graham, a financial analyst who is widely known as the “father of value investing” and authored the definitive core investment textbook, *Security Analysis*, on systematic investment analysis. Several of his key investment tenets were: to invest, don't speculate, to focus on quality and value, to use volatility to your advantage (buy low and sell high), and diversify one's investments to protect against losses.

Benjamin Graham also stated: “Abnormally good or abnormally bad conditions do not last forever.” This is a very general sounding statement; yet, one which we think Graham made in reference to individual companies and is applicable to today as we review investments with a thought toward 2026. Graham was strictly focused on investing in undervalued companies. We at PCM have always felt that valuation, what we are paying today for a company's future, is a key component in our investment decision process.

At this time, we think it is important to focus our attention, as we review portfolios, on each individual investment and their current price or value relative to their future potential. We think it is prudent to again do some trimming in investments who have “gotten ahead of themselves.” To continue to avoid, however tempting, chasing the current overpriced fad “musical chair” investments. We continue to find opportunity in the health care sector which is at a historic low valuation extreme similar to past important low inflection points; despite increasing demand as our population ages and a wave of continuing healthcare innovation.

THE MARKET SCOREBOARD

The second quarter started with the markets dropping sharply in the first week of April following the April 2 announcement by President Trump of sweeping and substantial tariffs on virtually all U.S. trading partners. The tariff amounts were significantly larger than expected and their announcement sparked fears of a trade-war-driven worldwide economic recession. This hit stocks hard as the S&P 500 dropped more than 10% in the days following the tariff announcement. This sharp four-day drop was a dramatic continuation of a more orderly 10% decline which started after the January presidential inaugural and mid-February first quarter “honeymoon” highs. We wondered if the “honeymoon” was over. The April 8 low in the markets turned out to be the low for the quarter after the administration declared a 90-day tariff delay while it “negotiated,” clarified and reduced its announced tariff burdens.

After much drama, the S&P 500 closed April with just a slight loss, down 0.68%. In May, the S&P 500, turned YTD positive and finished May with very strong gains, up 6.29%.

Indexes	% Return YTD 2025	% Return Q2 2025	% Return Q1 2025
NASDAQ Composite	5.48	17.75	-10.42
NYSE Composite	6.98	5.33	1.56
Dow Jones Industrial Average	3.64	4.98	-1.28
S&P 500 Total Return	6.20	10.94	-4.27
Wilshire 5000	5.09	10.91	-5.25

The rally continued in June, despite many continuing unresolved geopolitical risks; including, even, the risk of the U.S. in a foreign war. The S&P 500, despite all of this and even more domestic

uncertainty, rose to a new all-time high in the final trading days of June.

By market capitalization, large caps outperformed small caps in the second quarter, as they did in the first quarter. Tech-heavy growth massively outperformed value. An S&P 500 growth index-based ETF (IVW) was up over 18% while, in comparison, an S&P 500 value index-based ETF (IVE) was up around a mere 2.5%. The tech-heavy Nasdaq 100 was up over 17%. On a sector level, seven of the 11 S&P 500 sectors finished the second quarter with positive returns. The best-performing sectors in the second quarter were the AI-linked technology and communications services sectors. Within technology, semiconductors as a subgroup were up over 30% off their April lows. Energy and healthcare posted solidly negative returns for the quarter, as both were pressured by negative industry-specific news. For healthcare, uncertainty over pharmaceutical tariffs as well as a legislative focus on reducing prescription drug costs weighed on healthcare stocks.

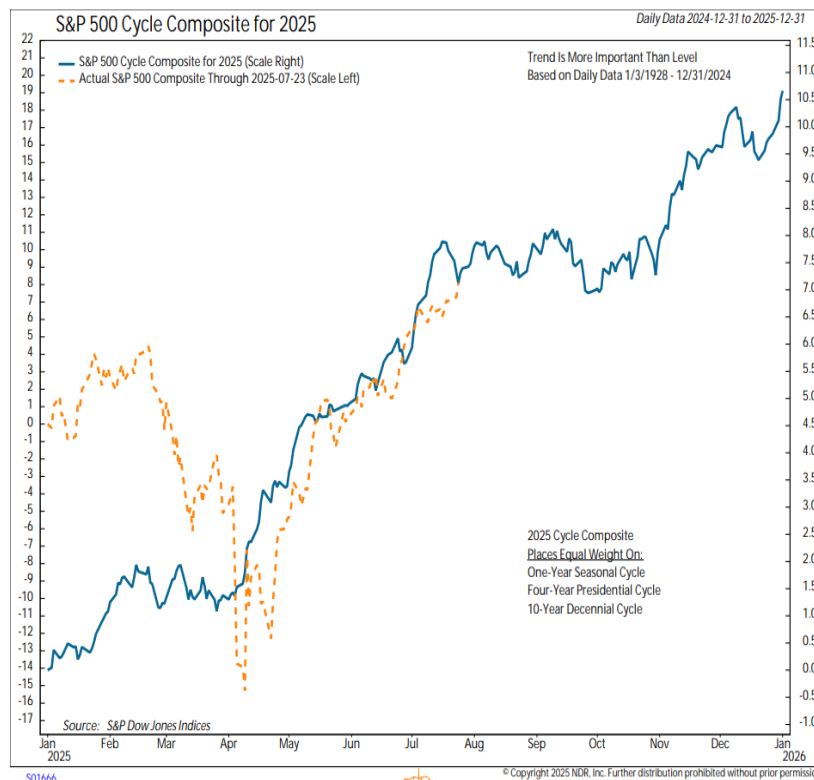
The gains in the second quarter were particularly impressive considering the intense selling witnessed in early April. Steps by the administration to ease the tariff burden helped to boost investor confidence while corporate earnings remained strong and economic growth proved resilient, yet again, even in the face of geopolitical uncertainty and elevated policy volatility.

STOCK MARKET OBSERVATIONS

While the market was impressively resilient over the past three months, it would be a mistake for investors to become complacent in this environment, because there remain risks facing the economy and markets.

In our May 6, 2025 letter, we published two charts. On page three was a historical comparison of long-term bull and bear markets by Ned Davis Research which not only showed the long-term trend of the S&P 500; but also highlighted periods of market corrections against the current trend. This chart showed corrections within a bull market and also periods where the S&P increased against an existing flat or down-market trend.

On page four, was a chart from RBC's Technical Strategist, Robert Sluymer, CFA which clearly highlighted the trend channel which the S&P 500 has remained within from 2008 to today. From the 2009 low when the S&P 500 was around 720 to today when it is around 6300, the S&P has stayed within this channel touching the top, or near the top, of the channel six times and the bottom of the channel four times. When we wrote our May 6, 2025 letter, the S&P 500 was near the middle of this channel at 5650. We wrote: Today the distance between the top and the bottom of the light green channel is approximately 2,000 S&P 500 points with the top around 6500 and the bottom of the channel around 4500. With the S&P 500 at 5650 it is near the middle of the trend channel. It could go up 18% from here to the top of the trend. We think this will happen in the future; but we do not think it will happen at this time. The S&P could also go down 20% from here to around 4500, to the bottom of the trend channel.



In May we felt that we needed to have another test of the April 7, 2025 S&P low which was 4835. Our prediction was wrong. Instead, the market has gone straight up, in terms of the S&P 500, toward the top of the trend channel.

We also wrote: At this time, with what is "known," we believe that the S&P will likely continue to stay within the trend channel." We still feel this way – that the S&P will continue to trade within the trend channel it has traded within since 2008.

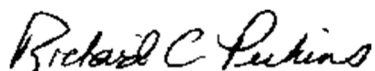
We have often included in our letters a copy of the entire Ned

Davis Four-Year Presidential Chart, which we will include again this October. The Ned Davis S&P 500 Cycle Composite for 2025 focuses on just this year, the election year. As you can see in the chart on the previous page, when you compare the actual YTD S&P 500 composite, in orange, to the NDR S&P 500 Cycle Composite for 2025, in blue, the NDR 2025 Cycle has been reasonably accurate so far this year. For the rest of the year, the cycle predicts a flat market for the S&P 500 index beginning soon, with a year-end rally.

The cartoon speaks to an aspect of the immigration crisis which is in the media that won't be solved by AI.

We are always available to meet with you by phone, Zoom, FaceTime, or in person to review your investments or for you to update us on your personal investment objectives. If you have any questions, please give us a call. Or call and ask to schedule a time to talk or meet in person.

Sincerely,



Richard C. Perkins, C.F.A.
President
Portfolio Manager



Daniel S. Perkins, C.F.A.
Chief Operating Officer
Portfolio Manager

RCP:DSP/jah



I thought I had a handle on the meaning of the word “service.” The act of doing things for other people. Then I heard these terms:

- Internal Revenue Service
- Postal Service
- Telephone Service
- Civil Service
- City/County Public Service
- Customer Service
- Service

And, over time, I had encounters with these service providers, and so I became confused about the word “service.” What I was getting was not what I thought “service” meant.

Then today, I overheard two farmers talking and one of them mentioned that he was having a bull over to “service” a few of his cows.

It has all came into perspective. Now I understand what all those “service” agencies have been doing to us.

The math teacher saw that little Johnny wasn’t paying attention in class. She called on him and said, “Johnny! What are 2 and 4 and 28 and 44?” Little Johnny quickly replied, “NBC, FOX, ESPN and the Cartoon Network!”

A new teacher was trying to make use of her psychology courses. She started her class by saying, “Everyone who thinks they’re stupid, stand up!” After a few seconds, Little Johnny stood up. The teacher said, “Do you think you’re stupid, Little Johnny?” “No, ma’am, but I hate to see you standing there all by yourself!”

Little Johnny attended a horse auction with his father. He watched as his father moved from horse to horse, running his hands up and down the horse’s legs and rump, and chest. After a few minutes, Johnny asked, “Dad, why are you doing that?” His father replied, “Because when I’m buying horses, I must make sure that they are healthy and in good shape before I buy. Johnny, looking worried, said, “Dad, I think the UPS guy wants to buy Mom.”

Little Johnny’s kindergarten class was on a field trip to their local police station where they saw pictures tacked to a bulletin board of the 10 most wanted criminals. One of the youngsters pointed to a picture and asked if it really was the photo of a wanted person. “Yes,” said the policeman. “The detectives want very badly to capture him.” Little Johnny asked, “Why didn’t you keep him when you took his picture?”

An American investment banker was at the pier of a small coastal Mexican village when a small boat with just one fisherman docked. Inside the small boat were several large yellowfin tunas. The American complimented the Mexican on the quality of his fish and asked how long it took to catch them.

The Mexican replied, "only a little while."

The American then asked why didn't he stay out longer and catch more fish?

The Mexican said, "I have enough to support my family."

The American then asked, "But what do you do with the rest of your time?"

The Mexican fisherman said, "I sleep late, fish a little, play with my children, take siesta with my wife, Maria, stroll into the village each evening where I sip wine and play guitar with my amigos. I have a full, busy life."

The American scoffed, "I am a Harvard MBA and could help you. You should spend more time fishing and with the proceeds, buy a bigger boat and with the proceeds from the bigger boat you could buy several boats. Eventually, you would have a fleet of fishing boats. Instead of selling your catch to a middleman, you would sell directly to the processor, eventually opening your own cannery. You would control the product, processing, and distribution. You would need to leave this small coastal fishing village and move to Mexico City, then Los Angeles and eventually New York City where you will run your expanding enterprise."

The Mexican fisherman asked, "But how long will this all take?"

To which the American replied, "fifteen to twenty years."

"But what then?" asked the Mexican.

The American laughed and said, "That's the best part. When the time is right you would announce an IPO and sell your company stock to the public and become very rich. You would make millions."

"Millions . . . Then what?" the Mexican asked.

The American said, "Then you would retire and move to a small coastal fishing village where you would sleep late, fish a little, play with your kids, take siesta with your wife, stroll to the village in the evenings where you could sip wine and play your guitar with your amigos."

WHY GOD MADE MOMS

Answers given by 2nd grade school children to the following questions:

Why did God make mothers?

1. She's the only one who knows where things are.
2. Mostly to clean the house.
3. To help us out of there when we were getting born.

Why did God give you your mother and not some other mom?

1. We're related.
2. God knew she likes me a lot more than other people's moms like me.

What kind of little girl was your mom?

1. I don't know because I wasn't there, but my guess would be pretty bossy.
2. They say she used to be nice.

What did Mom need to know about Dad before she married him?

1. His last name.
2. She had to know his background. Like is he a crook? Does he get drunk on beer?
3. Does he make at least \$800 a year? Did he say no to drugs and yes to chores?

Why did your mom marry your dad?

1. My dad makes the best spaghetti in the world. And my mom eats a lot.
2. She got too old to do anything else with him.
3. My grandma says that Mom didn't have her thinking cap on.

Who's the boss at your house?

1. Mom doesn't want to be boss, but she has to because Dad's such a goofball.
2. Mom. You can tell by room inspection. She sees the stuff under the bed.
3. I guess Mom is, but only because she has a lot more to do than Dad.

If you could change one thing about your mom, what would it be?

1. She has this weird thing about me keeping my room clean. I'd get rid of that.
2. I'd make my mom smarter. Then she would know it was my sister who did it and not me.
3. I would like for her to get rid of those invisible eyes on the back of her head.

A young Southern boy goes off to college, but about one-third of the way through the semester, he has foolishly squandered away all his money that his parents gave him. Then he gets an idea. He calls his dad. "Dad," he says, "you won't believe the wonders that modern education is coming up with! Why, they actually have a program here at college that will teach our dog, Ole Blue, how to talk!"

"That's absolutely amazing," his father says. "How do I get him in that program?"

"Just send him down here with \$1,000" the boy says. "I'll get him into the course."

So, his father sends the dog and the \$1,000. About two-thirds of the way through the semester, the money runs out. The boy calls his father again. "So, how's Ole Blue doing, Son," his father asks. "Awesome, Dad, he's talking up a storm," he says, "but you just won't believe this - they've had such good results with this program that they've implemented a new one to teach the animals how to read." "Read," says his father, "No kidding! What do I have to do to get him in that program?"

Just send \$2,500, I'll get him in the class." The boy now has a problem. At the end of the year, his father will find out that the dog can neither talk, nor read. So, he shoots the dog.

When he gets home at the end of the semester, his father is all excited. "Where's Ole Blue? I just can't wait to see him talk and read something!" "Dad," the boy says, "I have some grim news. Yesterday morning, just before we left to drive home, Ole Blue was in the living room kicking back in the recliner, reading the morning paper, like he usually does. Then he turned to me and asked, 'So, is your daddy still messing' around with that little redhead who lives on Oak Street?' The father says, "I hope you SHOT him before he talks to your mother!"

"I sure did, Dad!"

"That's my boy!"

UNNATURAL LAWS

The Unspeakable Law: As soon as you mention something . . . If it's good, it goes away . . . If it's bad, it happens.

Hoare's Law of Large Problems: Inside every large problem is a small problem struggling to get out.

Boren's First Law: When in doubt, mumble.

Brownworth's Law: Any time things seem to be going better, you've overlooked something.

Finagle's Law: Once a job is fouled up, anything done to improve it makes it worse.