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3rd Quarter Commentary

2025

Prudence

The Stein-Holding Showdown — and What It Teaches Us About Today's Markets

For our father's birthday, my brother — a former international speed skater — decided to join a local strength competition. He weighed about 150 pounds and stood just shy of six feet tall, hardly the build you'd expect in an event like this. But this wasn't your typical weightlifting contest — it was a traditional German stein-holding challenge.

The rules were simple: hold a full beer stein with your arm extended straight out, and whoever lasts the longest wins.

Among the contestants was a massive German man, easily 300 pounds, with arms the size of most men's legs. He looked like he could crush my brother with a handshake. The crowd roared for their hometown hero, confident he'd make quick work of the lean American newcomer.

But as the minutes passed, something remarkable happened. One by one, the other competitors dropped out until only two remained — my brother and the German giant.

The crowd was electric, shouting for their local favorite. Then, suddenly, the unthinkable began to unfold. The German's arm started to tremble. The beer inside his stein sloshed violently, spilling over the edge. Across from him, my brother stood motionless — calm, expressionless, and steady as stone.

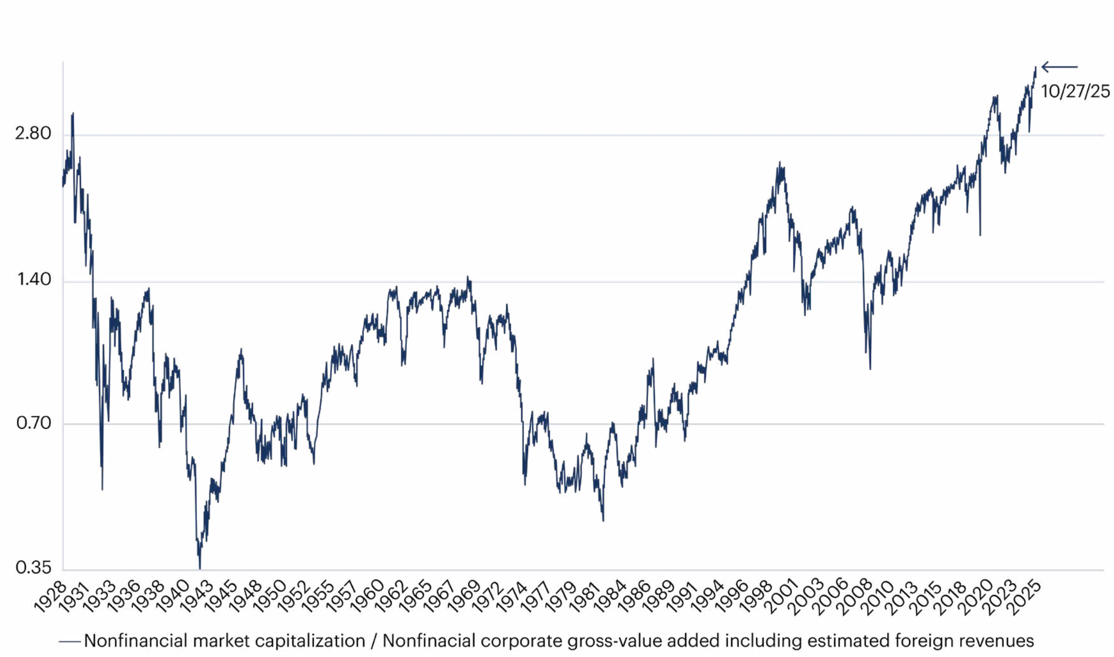
Moments later, the giant's arm gave way, crashing down as the crowd fell silent in disbelief.

My brother, without a word or a hint of triumph, accepted the victory stein, walked over to our father, handed it to him, and simply said, "Happy birthday."

The Market Parallel

I can't help but draw parallels from that story to today's financial markets.

Despite the political chaos dominating headlines, a handful of mega-cap stocks continue to lift the markets to extraordinary levels — valuations that now surpass the peaks seen in 1929, 1999, 2007, and even 2020.



Hussman Strategic Advisors

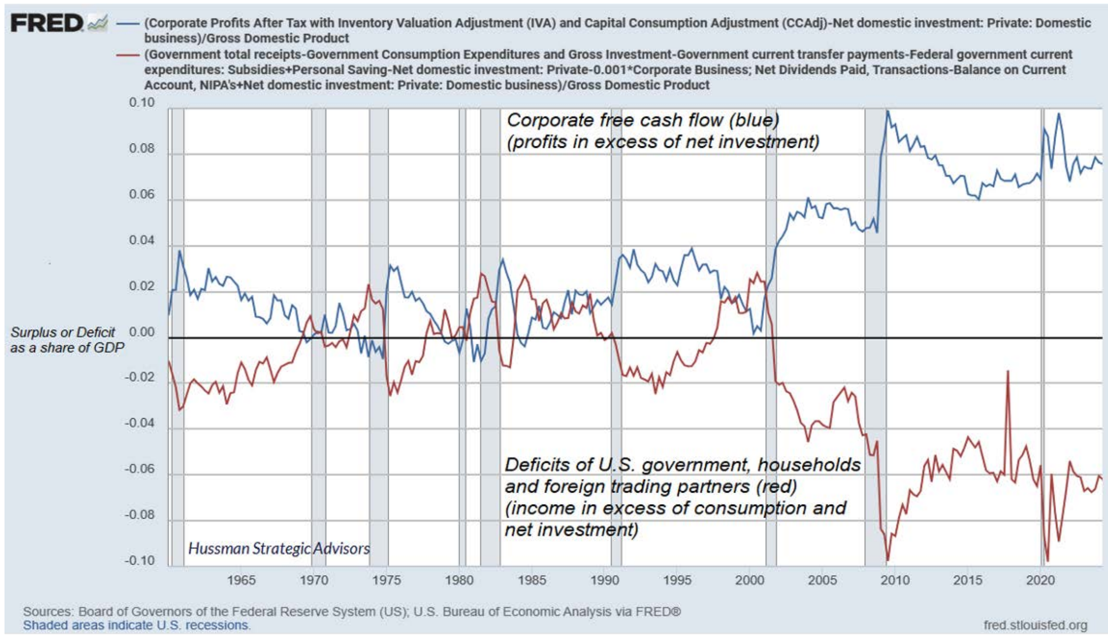
National nonfinancial corporate gross value-added (GVA) estimated as Domestic nonfinancial GVA * (1+ProfitsRestOfWorld/DomesticProfits) |

Data: Federal Reserve Z.1 flow of funds, Standard & Poors

Gross value-added is the total value of output generated incrementally at each stage of production, avoiding the double-counting of intermediate inputs Rest-of-world / domestic profit ratio uses 5-year average of each Market capitalization updated intra-quarter based on S&P 500 weekly close Estimates prior to 1950 based on Hussman Margin-Adjusted P/E (MAPE)

Source: Hussman Valuation Assessment

Yet beneath the surface of this impressive performance lies a sobering reality. The driving force behind these soaring valuations is not innovation or productivity, but a simple and unsettling correlation: valuations rise in step with deficits. Whether it's governments, corporations, or individuals, the more debt that piles up, the higher markets seem to climb — at least for now.



Source: Corporate Free Cash Flow vs. Deficits of U.S. Government, Households, and Foreign Trading Partners

But to what end? The law of diminishing returns tells us that the further we drift from true financial strength, the more fragile the system becomes. It's not a theory — it's a law. So how sustainable is a $39 trillion national debt, alongside record levels of credit card, student loan, auto, and mortgage debt?

The answer, though uncomfortable, is simple: every cycle has a breaking point.

Staying Strong Through the Strain

Much like the German strongman, today's global economy appears powerful and unstoppable. Yet when the weight of government, corporate, and household debts reaches an unsustainable level, it will be the lean, disciplined investor — not the overextended — who endures the strain and ultimately takes home the prize: a successful financial plan built for themselves and their families.

Now more than ever, the coming years will demand prudence. Markets may appear invincible, but even the strongest eventually reach their breaking point — and that moment is rarely recognized until after it happens.

This is the time to get your financial house in order: review your plans, assess your investment risks, and have thoughtful conversations about what truly matters most to you.

Reach out to your Financial Advisor to ensure your strategy is built to endure whatever comes next.

Love life,

Todd M. Schwartz, CFP®

Founding Partner

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