# Year-End Letter December 31, 2024

*"It shouldn't come as a surprise that the return on investment is significantly a function of the price paid for it. For that reason, investors clearly shouldn't be indifferent to today's market valuations."*

*- Howard Marks*

## YEAR IN REVIEW
### COMMENTARY & THOUGHTS

Market Statistics as of 12/31/24

| Index | 2024 4th Quarter | 2024 12 Months |
|---|---|---|
| DJIA | 0.93% | 14.99% |
| S&P 500 | 2.41% | 25.02% |
| S&P 500 (equal weight) | -1.87% | 13.01% |
| S&P Mid Cap | 0.34% | 13.93% |
| Russell 1000/Growth | 7.07% | 33.36% |
| Russell 1000/Value | -1.98% | 14.37% |
| Russell 2000 | 0.33% | 11.54% |
| NASDAQ Comp. | 6.35% | 29.57% |
| Long Term Treasury Bonds | -8.68% | -5.93% |
| Inv Grade Corp Bonds | -2.84% | 2.76% |
| Gold | -0.79% | 25.53% |
| 3 Month T-Bill | 1.17% | 5.25% |

Despite year-end weakness, the equity markets closed out the year with strong gains fueled by AI (artificial intelligence) and the Magnificent Seven. The Magnificent Seven stocks (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla) accounted for a whopping 55% of the S&P 500's return and those seven names now comprise approximately 34% of the index. Nvidia alone accounted for 21% of the return of the S&P 500 index for 2024. The S&P 500 equal weight index lagged the S&P 500 Index (market cap weighted) by a whopping 12% for the year. Market breadth was one of the worst in history, as only 30% of stocks outperformed the S&P 500. The Russell 1000 Growth Index trounced the Russell 1000 Value Index by 19% in 2024, with approximately 8% of the outperformance coming in the month of December. The small and mid-cap indexes also lagged the S&P 500 index by a wide margin. Small caps have now lagged large cap stocks every year since 2017. Ten out of the eleven economic sectors were up in 2024, led by communication services (up 39%), technology (up 36%), and consumer discretionary (up 29%). Laggard sectors included materials (down 2%), health care (up 1%) and real estate (up 1.7%). Long term treasury bonds lost 5.9% for the year. Most bond strategies barely generated

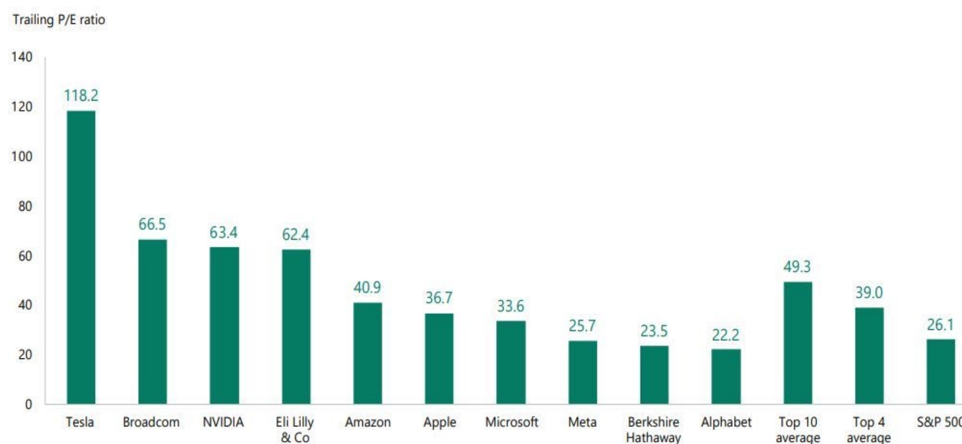
positive returns despite three rate cuts by the Fed since September. Gold and 3-month T-Bills returned 25.5% and 5.3%, respectively.

The chart below shows just how big an impact that the Magnificent Seven are having on the S&P 500 index returns. As we have discussed on numerous occasions, the S&P 500 index is market capitalization weighted, meaning companies with a larger market cap exert a greater impact on the index returns. When looking at 2024, you can see that the Magnificent Seven saw returns of 48%, contributing 55% of the total return for the index. Yes, we are talking about seven companies. The remaining 493 companies returned 10% in 2024, a respectable return, but far behind the index return of 23%.

| Returns* | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| **S&P 500** | **27%** | **-19%** | **24%** | **23%** |
| **S&P 500 (ex Mag 7)** | **17%** | **-8%** | **8%** | **10%** |
| **Magnificent 7** | **40%** | **-40%** | **76%** | **48%** |
| ***Share of returns*** | **33%** | **56%** | **63%** | **55%** |

**Price change only (not including dividends)* *Source: J P Morgan Asset Management*

The S&P 500 index is currently trading at 21.5 times forward earnings estimates. The numbers are somewhat skewed due to the heavy concentration in the top 10 stocks, which now make up 38.7% of the index. The top ten names (S&P 500) trade at just under 30 times forward estimates, while the remaining stocks trade at a more reasonable 18 times forward estimates. For the past twenty-five years the average price earnings multiple on forward earnings has approximated 16.6 times. Keep in mind that the price/earnings ratios we are discussing are based on forward estimates not actual earnings. If one were to look at trailing earnings, you would find that the top ten names in the S&P 500 index trade at an average price/earnings ratio of approximately 49 times, versus 26 times for the S&P 500. Diversification is one of the key principles of investing, however with today's concentrations, investors in the S&P 500 might not be as diversified as they think. Torsten Slok of Apollo Global Management recently told investors "Not to mistake owning the S&P 500 with having a diversified portfolio". Slok further states that the high and growing concentration in the S&P 500 continues to be a major problem.



In summary, the S&P 500 is concentrated in mega-cap technology and is very expensive from a valuation perspective. Despite owning 500 companies, the market-capitalization weighted index is essentially non-diversified. Apple, which has a 7.3% weighting in the S&P 500 index, has more impact than the bottom 200 names in the index. Apple and Nvidia have a weight in the index of 14.34%, which is more than the bottom 300 names in the S&P 500 combined. The point of all this is investors allocating capital to the S&P 500 today are not truly invested in the broad market, but rather are heavily concentrated in mega-cap tech. Thus far, that strategy has worked splendidly, but the same could be said in late 1999 early 2000, just before the index had a 50% drawdown. Index investing has outpaced most active strategies over the past ten years or so, however, we believe it is important that investors understand the risk associated with such a strategy. There are many ways to successfully grow your wealth over the long term and we prefer building our portfolios company by company with a focus on risk versus reward. We believe this strategy will serve our clients well over the coming years.

| S&P 500 By Market Cap | % of Mkt Cap |
|---|---|
| Top 100 Companies | 73.4% |
| 101-200 | 12.9% |
| 201-300 | 7.0% |
| 301-400 | 4.2% |
| Bottom 100 Companies | 2.5% |
| **Total** | **100.0%** |

## LIVE OAK PRIVATE WEALTH CLASSIC VALUE STRATEGY

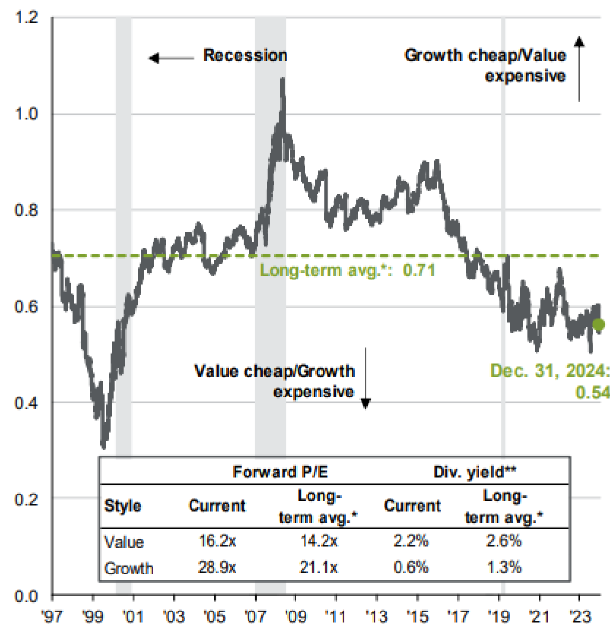
### COMMENTARY & THOUGHTS

*"In bubbles, investors treat the leading companies –and pay for their stocks—as though the firms are sure to remain leaders for decades. Some do and some don't, but change seems to be more the rule than persistence."*

*-Howard Marks*

As we discussed earlier in the "Year in Review" section, domestic stocks are not cheap statistically. The S&P 500 is trading at 21.5 times forward earnings, approximately 30% over the average for the last thirty years. On a price/book value basis, the S&P 500 is 40% above the 30-year average. The dividend yield for the S&P 500 is currently 1.33% versus a thirty-year average of 1.98%.

For the second year running, growth stocks and the Magnificent Seven dominated the markets, so let us take a look at valuations of both growth and value. The chart on the next page shows that the Russell 1000 Value index trades 16.2 times forward earnings, while the Russell 1000 Growth index trades at 28.9 times. The price earnings ratio for the value index is 14% above the twenty-seven-year average, while the growth index is currently trading at 37% above its average for the same time period. Dividend yields tell the same story, as the value index yields almost four times what the growth index does. It should be pointed out that we are currently seeing a number of high-quality companies with dividend yields in the 3-4% range. Since 1940, dividends have contributed approximately 34% of the total return of the S&P 500 index.




| | Forward P/E | | Div. yield** | |
|---|---|---|---|---|
| Style | Current | Long-term avg.* | Current | Long-term avg.* |
| Value | 16.2x | 14.2x | 2.2% | 2.6% |
| Growth | 28.9x | 21.1x | 0.6% | 1.3% |

*Source: JP Morgan Asset Management*

As we have often discussed, growth and value styles tend to cycle in and out of favor over time. Except for a few short time periods in 2020 and 2021, value has not been this cheap relative to growth since the internet bubble (late 1999). When the bubble burst in early 2000, momentum shifted to areas of the market that had lagged, leading to a strong value cycle. The Russell 1000 Value index outperformed the Russell 1000 Growth index for seven consecutive years (2000-2006) and dominated for the decade (2000-2009). Valuations tend to matter very little in the near term, however, over the long term tend to be mean reverting Currently, the valuation premium for growth is 12.7x, well above the thirty-five-year average of approximately 6.7 times. We believe the odds favor a period like early 2000, where the market rotates from the AI darlings and growth to the areas of the market that have been left behind. A small reallocation from the Magnificent Seven (34% of S&P 500) could have a significant positive impact on sectors such as energy (3.1% of S&P 500), consumer staples (5.1% of S&P 500) or materials (1.89% of S&P 500).

Given the current infatuation with AI and growth, we found the most recent memo from Howard Marks to be most timely and interesting. The memo from January 2, 2025, was entitled, "On Bubble Watch" and Marks discusses his guiding principles that he has used for the past 50 years in investing. Those principles are below:

- It is not what you buy, it is what you pay that counts.
- Good investing does not come from buying good things, but from buying things well.
- There is no asset so good that it cannot become overpriced and thus dangerous, and there are few assets so bad that they cannot get cheap enough to be a bargain.

In summary, while growth strategies have led the market over the past two years, we believe the odds favor a rotation to value moving forward. We believe our value strategy with a continued focus on risk versus reward will serve our clients well over the coming year.

## Second Half Portfolio Activity

Portfolio activity for the second half of 2024 was comprised of a new position in SLB and exits from positions in Warner Brothers Discovery, Unilever, Coca-Cola, and Comcast. We are actively researching ideas to allocate our excess cash to.

### SLB

SLB (SLB) shares were purchased on 7/30/24 at a price of $47.34. We later added to the SLB position on 9/25/24 on weakness at $41.91. SLB (formerly known as Schlumberger) is a leading oilfield services company with operations in over 120 countries. SLB trades at approximately 11 times projected 2025 earnings and has a dividend yield approaching 3%. SLB also has a fast growing, high-margin digital business that uses cloud computing to help energy companies operate more efficiently.

### Warner Brothers Discovery

Warner Brothers Discovery (WBD) was eliminated from the portfolio on 7/19/24 at a price of $8.86 per share. WBD has struggled to maintain profitability, as the shift from linear television to streaming has been extremely challenging for the entire industry. WBD has done a commendable job reducing their debt load. However, it remains elevated, and we felt that the prudent action to take was to sell the shares. Also playing a role in the decision to exit the position was the fact that we also held positions in media companies Comcast and Disney at the time.

### Unilever

Unilever (UL) shares were sold from the portfolio on 7/29/24 at $60.78, as the shares rallied as the company reported improved operating results after struggling for a number of years. UL shares had risen approximately 30% from their April lows and we felt the shares were fully priced above $60. Activist Trian Partners (Nelson Peltz) reduced his position on August 15$^{th}$ and the shares are currently trading $56. We would likely become interested in this high-quality consumer goods company if the shares returned to the $50 level.

### Coca-Cola

Coca-Cola (KO) shares were sold from portfolios on 8/1/24 at $67.65 and 8/2/24 at $69.33. KO shares were originally purchased in portfolios during the pandemic in 2020 at price levels close to ten-year lows. Like Unilever, the sale was largely due to valuation and our view that most of the pandemic-based snap-back recovery was behind us. Coca-Cola is a wonderful franchise company, and we have owned it on a number of occasions, but our view remains that the shares are fully valued at current levels.

### Comcast

Comcast (CMCSA) shares were sold on 10/31/24 at a price of $44.48 as shares spiked based on news that they planned to spin-off MSNBC and other cable networks into a separate publicly traded company. We had been looking for an opportunity to exit the position for many of the same reasons we sold Warner Brothers Discovery. Legacy media companies have been squeezed, seeing rapid declines in cable subscribers, while streaming services are still burning cash. Debt remains elevated largely due to the acquisition of British based Sky in 2018.

We also trimmed positions in JP Morgan, Novartis, and Fiserv during the second half of 2024. While we remain constructive on each of the above names, the position sizes were reduced to be more in line with our model weights. Keep in mind as a value manager we tend to buy weakness and sell strength, which ironically is the opposite of how the market cap weighted indexes operate. Please remember that not all client accounts may have had the above activity due to a myriad of reasons, primarily tax related.

### Notable Stock Price % Change June 1, 2024 – December 31, 2024

| Contributors | Detractors |
|---|---|
| Fiserv (FI) +39.61% | Dollar Tree Stores (DLTR) -30.13% |
| Jabil (JBL) +32.60% | Qualcomm (QCOM) -23.20% |
| Sony (SONY) +24.93% | Vishay Intertechnology (VSH) -22.26% |
| Cisco Systems (CSCO) +24.58% | Merck (MRK) -22.22% |
| Invesco Ltd (IVZ) +17.71% | SLB (SLB) -19.48% |

## LIVE OAK PRIVATE WEALTH FOCUSED OPPORTUNITY STRATEGY
### COMMENTARY & THOUGHTS

*"The market is extremely expensive, don't sell your stocks."*

*- Barron's Headline 11/4/2024*

Our goal in writing these commentaries is to share with you our thoughts behind the businesses we are invested in. This is because we invest in businesses, not the stock market. We try to tune out the noise regarding the Fed, inflation, and politics as they are too unpredictable and not worth spending time on.

One aspect that we are tuned into relates to the changing market structure. Much of the change relates to the growth in passive investing through index funds and exchange traded funds (ETFs). Computer and algorithmic Wall Street quant trading firms are high frequency trading these unmanaged index pools. These quant trading firms are momentum driven and trend following and therefore have piled into the mega cap growth stocks, particularly the Mag 7. Fundamental active investment managers, like us, are valuation disciplined and more risk adverse and are investing more in the "rest of the market". As discussed earlier, the "rest of the market" is underperforming the S&P 500 Index due to the money flow predominantly accruing to the mega cap growth stocks. We feel the odds support a broadening out.

The Focused Opportunity Strategy delivered solid results for the second half of the year, and 2024 overall. It was quite the eventful second half culminating with the senseless, heinous killing of the CEO of United Healthcare. The second half of 2024 also saw the U.S. Justice Department taking aim at two of our larger positions, Alphabet (Google) and Visa, both over anti-trust concerns.

The DOJ has loosely proposed breaking up Google as a remedy for its monopolistic practices in search and advertising. Google will likely fight this for years and if they lose, through appeals. Most analysts feel that if Google were broken up, the standalone parts would likely be more valuable to shareholders. Investors should temper their expectations for Google share returns anyway due to slowing search and advertising revenue in light of the popularity of Chat GPT, Perplexity and the probability of a deceleration of the Mag 7 trade.

With Visa, we participated in an expert call with financial payments analysts from one of our Wall Street research sources in September. On that call were former Justice Department attorneys and payment and processor financial analysts. Unlike a breakup proposed for Google, the DOJ case against Visa centers on contracts between Visa and issuers and merchants. Much of this relates to contracts that make it difficult for the likes of PayPal or Square to compete against Visa for alternative payment rails. The case, if it goes to trial, will be lengthy (as in years). The key for us as shareholders of Visa and MasterCard is not the DOJ case, it will be the spending of global consumers and interest rates which could impact Visa and Mastercard's premium P/E multiple.

As we moved through the second half of this year, and artificial intelligence became even more dominant of a market mover, we heightened our research efforts around our exposure. Specifically, Microsoft, who up until recently, was what we like to refer to was "capital light" and therefore could grow revenue without having to spend commensurably more on costs. Microsoft's rate of growth on spending on the AI buildout is getting serious... $40 billion spent this year and projected to be $60 billion in 2025. Microsoft has enjoyed marvelous returns on capital and free cash flow margins for years, but we do worry how they can keep those returns up when spending more and more... and Microsoft trades north of 30 times earnings. The financial math does not set up for rosy returns going forward. Ben Graham is famous for saying "at one price a company can be a great investment and at another price a poor investment". We do not think Microsoft is a poor investment, we just respect the math, and its returns may be mediocre going forward until we see how stout the returns are on the massive dollars being invested today. This same argument applies to Amazon, Tesla, and many of the large cap technology stocks.

The markets in the second half gravitated to our two positions in Brookfield. Some of this relates to their legacy as REITs. REITs (Real Estate Investment Trusts) historically have moved inversely to interest rates, but the Brookfield machine today is barely 25% real estate. We feel the markets also sense the growth opportunity Brookfield has with hundreds of billions of capital to invest in infrastructure, especially the electrical grid. The growth in popularity for private credit (vs. traditional bank lending) has given the company shares a boost too as Brookfield owns the majority of Oaktree, who is one of the preeminent private credit managers in the U.S.

Our new position in Lululemon is off to a good start. There were several Lulu boxes under our family's Christmas tree this year. Make sure to update your spring athleisure wear with Lulu! We enter 2025 in hopes of a bottoming in sentiment with our Dollar Tree investment. We frankly have been surprised at the market's price action. We honestly do not feel the situation with the business is nearly as bad as the stock's reaction has been. We did tax swap shares in taxable accounts to lower our basis and used the loss to offset other portfolio gains, and we continue to closely follow the business and think that it offers good value.

Our healthcare investments in Danaher, HCA Healthcare, United Healthcare, and Thermo Fisher Scientific end the year under a veil of uncertainty related to noise regarding the new administration and potential changes in everything from the Affordable Care Act to pharma research and development, to pharmacy benefit managers role in prescription drug pricing. We continue to like our lineup with these four, especially at today's valuations. We are

hopeful that market sentiment is too bearish due to its notorious short termism. Our thoughts and prayers go out to Brian Thompson's family, as the CEO of United Healthcare was fatally shot in midtown Manhattan in December.

### Notable Stock Price % Change June 1, 2024 – December 31, 2024

| Contributors | Detractors |
|---|---|
| Brookfield Asset Management (BAM) +44.51% | Dollar Tree Stores (DLTR) -30.13% |
| Brookfield Corporation (BN) +40.36% | Microsoft (MSFT) -7.71% |
| Lululemon Athletica (LULU) +26.48% | Danaher (DHR) -6.12% |
| AON PLC (AON) +22.38% | Analog Devices (ADI) -5.65% |
| Mastercard (MA) +20.33% | HCA Healthcare (HCA) -4.75% |

## Second Half Portfolio Activity

Activity was light for the second half of 2024. We did sell our position in Walt Disney. We still own the position in the classic value strategy but elected to move on to hopefully better growth prospects. The transition of Disney's media assets from linear to streaming is ongoing and showing promise but feel like in a 20-stock strategy with more emphasis on growth, we can find something better.

Some of the Disney proceeds were recycled into additional Thermo Fisher Scientific shares as they weakened around the election and into Nestle in accounts modeled to our global strategy.

Several of Bill's long-standing clients noticed some small selling in Berkshire Hathaway. This is the first time since January of 2015 that we have trimmed any shares. The thinking here is that Berkshire Hathaway, now with an almost $1 trillion valuation, has been caught up in the positive money flows into the mega cap stocks. Berkshire's businesses are mostly fine, some better than others, but the valuation feels quite rich to us. Buffett showed us what he thought about valuation, as buybacks of Berkshire stock dried up in the second half of the year. Then Ajit Jain, longtime top insurance executive at Berkshire, in September, sold more than half of his Berkshire holdings. To us this may have been a telling clue as to the perception inside Berkshire of valuation. This is not to mention Warren Buffett himself selling a large portion of the company's position in Apple and holding a larger allocation of cash reserves. Bill reminds himself the last time he trimmed a few shares of Berkshire due to valuation was in 2015 at $150 a share versus today's $450! Nothing like a decision journal to keep you humble. Please remember that not all client accounts may have had the above activity due to a myriad of reasons, primarily tax related.

We enter 2025 on the hunt for 2-3 new businesses for inclusion in the strategy. We have about 10-12 we are constantly monitoring and waiting patiently for a better pitch across the plate that will offer more of a margin of safety in today's expensive market.

## LIVE OAK PRIVATE WEALTH INTERNATIONAL STRATEGY

### COMMENTARY & THOUGHTS

We end 2024 on another sour note regarding equity returns in International Markets. It feels like 10 years or more now that international returns trailed those of the US. The almost singular focus on U.S. tech stocks from FANG to Mag 7 for the last several years has dominated the world markets. When the global financial crisis finally ended in 2009, the U.S. staged a larger and faster recovery than the rest of the world. Indexation and increased passive investing became even more popular in the last decade and has resulted in global money flows to accrue disproportionally to the U.S., especially big tech stocks. This multiyear market structure phenomenon, along with geopolitical conflict rearing its ugly head, China experiencing an economic slowdown, has sucked all the air out of the room. The U.S. dollar has strengthened as well which further pressures demand for international equities.

We continue to believe it to be intelligent to invest globally for the long term in stocks of high-quality businesses that can grow across economic cycles. So, we think the durability of cash flows and brand strength of the likes of Nestle, Heineken, Siemens, Phillip Morris, and Taiwan Semiconductor, to name a few, will show promising returns in the future.

We are watching India, as we think it may be the growth engine of the world. Millions of Indians are evolving into the middle class and becoming consumers of many household foods, beverages, and electronics we take for granted in the U.S. and Western Europe. We are watching and hoping that small steps toward peace in the Middle East, may spill over eventually to Ukraine and Russia. China could stimulate itself out of the doldrums and get back on a growth track as well. And who knows... Maybe the Mag 7 trade which has been responsible for a third of the gains in the MSCI-ACWI index, gives up the ghost and international stocks might be on the radar again. Cheap valuations of stocks are not necessarily a catalyst, but we are reminded of the old Wall Street saying, “good things come to cheap stocks”.

In the second half of the year, there was not a theme that formed any logic that drove performance with our strategy leaders, DBS Group, Willis Towers, Phillip Morris or Airbus. Slight idiosyncrasies, but nothing major. We still like these businesses going into 2025.

There was indeed a theme that continued to weigh on our laggards. And one in particular that we are debating continuously in our investment committee meetings. That theme relates to global pressure on most of the alcoholic beverage businesses as well as grocery spending on savory sweets. Our investments in Diageo, Nestle, Heineken and Pernod have been wonderful compounders for years, yet growth has slowed to a crawl. Maybe the weight loss drugs are having an impact, but we feel it is more a pricing issue in this inflationary world as well as continued destocking from the Covid 19 Pandemic era. We are monitoring this closely and you may see us reduce our exposure. We hate to do that as these three strong, globally branded businesses are trading at attractive valuations.

## Second Half Portfolio Activity

We did add to our long-held position Nestle in September at $99. It is a much-diversified business as the world's largest food and beverage company, not to mention Purina, the second largest pet food company. We think the sentiment has gotten overly negative here and therefore the shares are attractive on a risk reward basis for long term investors. We added slightly to Icon PLC shares, in November under $200, as they were caught up in the negative sentiment across the Healthcare sector.

Late in December we initiated a position in Novo Nordisk at $82. Novo Nordisk had become Europe's largest company by market capitalization on booming sales of the popular weight loss drugs Ozempic and Wegovy. Eli Lilly has another GLP-1 drug, Zepbound and these two companies are in a race for global domination of the obesity market. Future growth from new compounds is very important as Medicare drug price negotiations may weigh on future profitability of the current drugs. This is why the perception of disappointing results of Novo's closely watched clinical trial of a new anti-obesity drug, dubbed CagriSema, knocked $94 billion in value off of Novo's stock price. We bought into this sell off viewing it as an overreaction and typical of today's market structure. Novo Nordisk has a very strong history of stellar execution, especially in Diabetes. We based much of our judgment in this investment on a historical track record of growth with revenues +10%, earnings +11%, and dividend growth of +12% for the last 10 years.

We funded the investment with the sale of neighboring Norwegian bank DNB at $19.50. DNB Bank of Norway has been in the strategy since inception and has been a mediocre performer at best. We felt Novo, at its price, would offer better upside and potentially higher growth. Again, not all accounts may have seen this activity.

We enter 2025 with hopes that global markets continue to broaden out, away from obsessive focus and momentum of the Large Cap Growth and the Mag 7. Valuations are very attractive outside of the US and therefore offer the potential for better risk adjusted returns. We are monitoring at least 10 other businesses outside of the US for potential inclusion in the strategy. We are looking forward to participating in MOI Global's best ideas conference in January for additional perspective and portfolio manager presentations.

### Notable Stock Price % Change June 1, 2024, thru December 31, 2024

| Contributors | Detractors |
|---|---|
| DBS Group Holdings (DBSDY) +20.91% | Icon PLC (ICLR) -33.74% |
| Willis Towers Watson (WTW) +20.75% | Heineken NV (HEINY) -26.61% |
| Phillip Morris International (PM) +18.86% | Evolution AB (EVVTY) -11.40% |
| Taiwan Semiconductor LTD (TSM) +14.60% | Nestle SA (NSRGY) -19.48% |
| Airbus Group (EADSY) +13.01% | Pernod Ricard (PRNDY) -17.69% |

## FINAL THOUGHTS

Successful investing requires thoughtful attention to various aspects, at the same time. Investing is complex with no instructional manual, and our investment philosophy has developed over our careers. It developed from four decades plus of many ideas, successes, and failures... life's lessons.

Our thinking and resulting philosophy has been shaped by reading widely and learning from the greats such as Charlie Munger, Seth Klarman, Howard Marks, and of course Ben Graham. Investing, like economics, is more art than science and it is essential that the investor be innovative and adaptive rather than rigid in your approach.

We spend a great deal of time looking at high quality businesses and trying to ascertain the relationship between price and value. As Warren Buffett said... “Price is what you pay, value is what you get”. Prices of stocks are a lot more volatile today than earlier in our careers. Much of that is related to the change in market structure discussed earlier. But psychology plays a very important role in security pricing. Much of the price to value relationship lies in investor psychology and is driven by emotional fear and greed. The psychological factors that weigh on investors’ minds and influence their actions weigh on us too, and at times influence us. Fortunately, our tenure in this business as portfolio managers, insulates us somewhat but we can on occasion succumb to fear and greed as well.

Many of you know and embrace our conservative stance on investing. Hopefully, new clients of Live Oak Private Wealth understood our stance as well in the beginning of the relationship. Why are we conservative? We believe money is hard to come by and is precious. We understand the math behind the effects of losing it. We despise losing it, and therefore are very careful (too careful at times) what we pay for a security and what types of securities we invest in. We are dyed in the wool disciples of the concept of having a margin of safety in investing your money. The most important thing in investing and becoming and staying wealthy is understanding risk. Risk is inescapable because we need to deal with the future, and it is uncertain. Our job is to develop portfolios of equity securities along with fixed income and cash reserves that will have a high probability of you meeting your goals. Investment risk is hard to see before the fact, and many of the large drawdowns we have lived through in our careers, were difficult to see in advance.

Since we cannot see much of the risks ahead of time, we operate in a mindset of, “You can't predict but you can prepare”. This used to be an old tag line of the Mass Mutual Insurance Company. We prepare by trying to invest defensively. At Live Oak Private Wealth, our prejudice for defense is clear. We always maintain some level of cash reserves, and the majority of our assets are managed in a balanced fashion which includes fixed income. In good years like this year, we feel it is OK not to keep pace with market indices, and we earned solid risk adjusted returns this year. We are wired and set up to outperform in bad markets, which we have not seen in a while. We strive for above average results over long term full cycles with lower than average volatility.

Therefore... we enter 2025... prepared, as we cannot predict what it has in store for us.

As we wrap our sixth year, Live Oak Private Wealth had a very good year business wise. We grew revenues and profits and added valuable new talent to the team. We honed our operations to align with the growth of the business. Thanks to you, our valued clients, we are blessed to be able to grow our service capabilities and our value proposition. Our entire Live Oak Private Wealth team is responsible for our success. As leaders of the investment team, we are thankful and appreciative of the other highly talented financial professionals who make us who we are. So, we thank Terry, Angel and Bill in Rocky Mount and Missy, Amanda, Amy, Adam, Daniel, Andy, and Connor in Wilmington.

We enter a new year, full of opportunity, grateful for your willingness to compensate us for something that we love to do and is so important to us all. We are humbled by the privilege of our relationship as partners and thankful to be on this journey with you and we all look forward to our continued shared success together.

With warmest regards,

| Frank G. Jolley, CFA<br>Co-Chief Investment Officer | J. William Coleman, III<br>Co-Chief Investment Officer |
|---|---|

## DISCLOSURES:

*This material is not financial advice or an offer to sell any product and is not a recommendation to buy or sell any particular security. Past performance is not indicative of future results. The opinions expressed are those of the Live Oak Private Wealth Management Investment Team. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass.*

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