

February 2026

Snow!

After a high-energy year of market exuberance centering on Artificial Intelligence and the ways it promises to change the world, investors are coming back to their senses and re-evaluating the 'bottom-line' *financial value* of AI. The tech-heavy Nasdaq index has fallen several percent in the past couple weeks as profits are being taken and margin-lending has been trimmed through selling of positions. Many software companies 'took it on the chin' as well, as AI threatens to make them obsolete. AI stocks haven't become a 'bargain' yet. But, we're keeping our eye on buying opportunities. Similar declines have been seen in the prices of gold and bitcoin, as well. Volatility has increased notably. The world is changing quickly, very quickly!

In spite of the volatility, in general 2026 looks positive, market-wise. The Big Beautiful (Tax) Bill will provide tax benefits to Americans this April. With cash-for-spending in their pockets, the expectation is that growth will continue in 2026. The US Budget is close to approval, and will continue to support the economy through continued deficit spending.

We expect a new Fed Chairman this Spring. Short term interest rates are flat recently, while market expectations are that short term rates may continue to fall (which should help stock values). Longer term yields are uncertain as they're influenced by inflationary expectations.

In 2025, it's clear that the major indices, such as the Nasdaq and S&P500 grew caused by *at least* two reasons; a combination of *earnings improvement* and *multiple expansion*. These are two important financial concepts. We have to know 'how much we're paying' and 'what we're paying for'. At the end of the day, we buy companies in order to own *a share of their profit-making*. Let's look at a simple example to illustrate the point. Imagine a company whose stock trades for \$10, and is currently earning \$1 per share of its stock. There are 1 million shares of the company stock outstanding. If the company earns 10mm then each of the 1mm shares of stock earned \$1. If the market is willing to pay \$10 for each share of stock, then this represents a *10x multiple*. That's the multiple.

Let's say that the same company does really well selling its widgets, and its profits are 20mm the following year, which is \$2 per share (20 million divided by 1 million outstanding shares). IF the stock price didn't change, then the \$10 per share of stock divided by the \$2 per share profit would give us a multiple of 5. Wow, what a bargain, we'd exclaim! In a normal market, the price of the share of stock increases in order to keep the multiple *in line with historical levels*, a multiple of 10 in this example, and so the price of the stock would increase to \$20 per share. Thus, the 10x multiple stays intact. This is a case of *earnings improvement*, and a consistent multiple, which 'justifies' the stock price moving from 10 to 20. This is a change in stock price due to *earnings improvement*. Effectively, the company earned more money. Thus, we're willing to pay more to own a share of stock in the company.

Consider a change in our example. After trading at a historical multiple of **10x** for many years, and after watching the price of the stock move up and down, based upon how well the earnings do each year, **for whatever reason**, the price of the stock starts to rise, even though the earnings haven't changed from \$1 per share. The price of the stock goes up to \$15 per share with the earnings are still at \$1 per share. The 'multiple' has effectively gone up from 10x (Ten Times) to 15x (Fifteen Times). Is this rational, normal, expected, correct? Here we enter an interesting part of market analysis. Without getting too far into the weeds, let's simply say that these historic multiples have some precedent, typically affected by the industry and many other factors. Big blue chip companies may have multiples between 13-17, while tech companies may have multiples over 25-30. These are rough ranges.

Back to the point. In 2025 the markets did very well, in part, due to both of these two factors. Earnings did improve, as a matter of fact. But, in addition, the multiples also expanded. It's the latter that causes concern for investors, and leads to comments such as 'the market is expensive', or 'the market is overpriced', or 'the market is pricing in perfection.'

It's the determination of 'how much should we pay' as investors, for a share of stock, that keeps us busy as financial advisors. Over the past year, our team has slowly been selling off the 'increasing multiple' stocks, and taking some profits, and re-deploying those monies into stocks that are 'less overvalued'. We continue with this bias toward historically less-overvalued positions.

Of course, this analysis requires a continuous revaluation of the health of our economy, both the United States' and the entire world's. For this reason, we relentlessly dive into research in order to ensure that our investment recommendations meet each of our client's investment needs. To stay on top of the markets, join us for 15 minutes during our monthly teleconference. For the 16<sup>th</sup> year at Wells Fargo Advisors, our commitment is to be communicative and transparent in our thinking, and in the development of our recommendations. These 15-minute calls are held at both noon and 7:45 p.m.

Wednesday Mar 18<sup>th</sup>  
Wednesday April 15<sup>th</sup>  
Wednesday May 13<sup>th</sup>  
Wednesday June 10<sup>th</sup>

It's tax season. In preparation to meet with tax professionals, consider bringing up the Planning issues *mentioned later in this email*.

Let's move on to 'saving'. Retirement plan contribution limits increase a bit in 2026. If you're between the ages of 60-63, then there's an additional catch-up opportunity (highlighted in yellow, below). Please contact our office for details. Does your employer offer a matching-contribution in its retirement plan? If you're not certain, we can help find the answer. Also, many companies are offering after-tax, non deductible, additional contributions to their 401k plans. Be sure to ask your employer if you have the opportunity to add additional funds, which are then typically immediately converted to a Roth 401k.

**Data to Know: 2026 Retirement Plan Contribution Limits:**

Plan Type:                      Employee Contribution + “Over 50” or “60-63” catchup = Total Contribution

401k	\$24,500 plus \$8,000 catch up, or 60-63 \$11,250 = <u>\$32,500/\$35,250</u>
Simple IRA	\$17,000 plus \$4,000 catch up or 60-63 \$5,250 = <u>\$21,000/\$22,250</u>
IRA	\$7,500 plus \$1,100 catch up = \$8,600

Phase-out income limits for contributions to Traditional and Roth IRA accounts change again this year. Be sure to speak with your tax professional about whether you qualify to make contributions to an IRA or can participate in a ‘back door’ Roth IRA conversion. Wednesday, April 15th, 2026 is (currently) the Federal deadline to make a 2025 personal IRA contribution. Specific States’ rules may vary.

Speaking of income taxes, consider speaking with your tax professional about Roth IRA Conversions and 2025/2026 marginal and effective tax brackets. Asset prices are still elevated, so it’s important to have a plan for ‘realizing’ Capital Gains in 2026 and beyond. Remember, Medicare premiums are based upon income. Keep an eye on how increased income (from stock sales for example) will affect the annual household income numbers. If you’re philanthropic, consider creating a Donor Advised Fund in order to benefit from gifts made today. Ask us for details. And, give thought to writing your IRA checks to charities throughout the year in 2026. Waiting until the last minute can cause issues with the organization’s having enough time to cash the checks!

We have several client events planned in 2026. Watch for more details!

- Shred Day in May. May 1<sup>st</sup>. Bring your sensitive materials that need confidential shredding and join us for lunch!
- Newport Gulls Baseball, July 10<sup>th</sup> American Heroes night. Free tickets and food at the ball game!
- Ragged Island Brewery – Summer Celebration (tbd)

We believe in creating and maintaining strong, communicative, relationships with your team of financial professionals. Please let us know if you would like us to speak with your accountant or attorney in order to address the myriad of issues that overlap between investment planning and tax/estate issues. This year, we’ve added a new capability for your tax professional to be able to download your tax forms directly. Contact Darcy for more details.

In closing, over the past years many of you have shared our updates and content with your friends, family and professional networks. We want to thank you and express how honored we are. This letter is no exception. Please don’t hesitate to share it. If someone important to you is in need of financial expertise, guidance, or that they simply don’t know what they don’t know, our “20-Minute Ask Anything Sessions” are available.

Feel free to share our monthly teleconferences and regular updates/newsletters. We’re thrilled to hear many of you are already doing so. The content of the newsletter is curated with our highest conviction insights and information. Let us know if you’d like to add an email address to the distribution list.

Sincerely,

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**2025 Forbes Best-In-State Wealth Advisors; Awarded April 2025; Data compiled by SHOOK Research LLC based on the time period from 6/30/23 - 6/30/24 (Source: Forbes.com).**

**2024 Forbes Best-In-State Wealth Advisors; Awarded April 2024; Data compiled by SHOOK Research LLC based on the time period from 6/30/22 - 6/30/23 (Source: Forbes.com).**

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**2021 Forbes Best-In-State Wealth Advisors; Awarded February 2021; Data compiled by SHOOK Research LLC based on the time period from 6/30/19 - 6/30/20 (Source: Forbes.com).**

**2019 Forbes Best-In-State Wealth Advisors; Awarded February 2019; Data compiled by SHOOK Research LLC based on the time period from 6/30/17 - 6/30/18 (Source: Forbes.com).**

**2018 Forbes Best-In-State Wealth Advisors; Awarded February 2018; Data compiled by SHOOK Research LLC based on the time period from 6/30/16 - 6/30/17 (Source: Forbes.com).**

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