NOTTINGHILL
INVESTMENT ADVISERS, Ltd.

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Quarterly Update

SCORECARD

	2025 QI-QII	One Year	Three Years	Five Years	10 Years
S&P 500 Index	**6.20%**	**15.17%**	**19.71%**	**16.64%**	**13.65%**
10-Year Treasury Note	**5.20**	**7.22**	**1.12**	**-2.63**	**1.30**
Gold	**25.52**	**40.95**	**21.66**	**13.17**	**10.83**

All multi-year returns are annualized, and all returns are associated with time periods ending June 30, 2025

2025 QI-QII — A Healthy Apple Cart...For Now

Tariffs, Big Beautiful tax bills, the Israelis and the B2s vs. Iran. We recently told an economist we know that all of us currently are dealing with more variables than the average computer can handle. A new challenge/uncertainty seems to pop up daily, and yet, with only one exception (an April 2-8 tariff-related hissy fit), U.S. equites and the bond market have marched ahead as if all was tranquil everywhere. And, if one looks only at the macroeconomic data, all does appear to be tranquil everywhere. What can upset the apple cart? Unforeseen problems with tariffs and geopolitics, of course, and with the unforeseen in general; but for now the trends are our friends.

The U.S. stock market took a bit of a breather in the first quarter but resumed its 2024 uptrend in the second. The large company Value stocks that we prefer played second fiddle to Growth, and large company stocks in general outperformed small company stocks. Of particular note, however, the dollar was weak versus other currencies, and, primarily for that reason, the international markets for the most part outperformed the U.S. markets. Bonds? They did well. A 10-year Treasury, our proxy as most friends of the Firm know, provided a total investment return of 1.07% (5.20% for the six-month period). But gold among the major asset classes continued to glitter the most, i.e., 5.36% in the second quarter and 25.52% year-to-date.

THE CURRENT SITUATION — Will Tariffs Upset the Balance?

Worldwide Economy
Most economists are surprised that the prospect of widespread tariffs still is being shrugged off. Granted, their ultimate form in many cases has yet to be determined, but for now the worldwide pluses, i.e., decent growth, fairly-low inflation, solid employment, seem to be the major focus.

Equities
"Resilient" is every strategist's favorite word. Investors have been asked to deal with a lot and have yet to waver. And finally, the international markets, where valuations are considerably better, are joining the competition.

Interest Rates
Wisely, we believe, Chairman Powell and the Fed are waiting to see how the tariff situation evolves before cutting interest rates. Assuming things play out as expected, though, the interest rate path of least resistance still appears to be down. Maybe two rate cuts in 2025?

At the moment, those who see the glass as half-full have the advantage over the half-empty side. The unexpected can come at us fast, however, so there is no substitute for broad diversification.

Speaking of which, how about a few more thoughts on this important subject?

ABOUT THE FIRM

Nottinghill Investment Advisers, Ltd., is a registered investment adviser founded in May 1996. A long history of achievement.

Nottinghill is a team of seasoned professionals serving taxable and tax-exempt investors, as well as other investment advisers. Asset management and otherwise serving asset management clients are the Firm's only business. The twin results: commitment and focus.

Nottinghill is a manager of large capitalization equity and widely diversified balanced portfolios. The Firm can serve in a specialized role, or as a client's sole adviser.

Nottinghill's equity and balanced investment strategies constitute the Firm's Yield Plus Approach to investing. The Yield Plus Approach is a straightforward, all-encompassing investment philosophy and a set of well-defined investment processes. Precision and discipline.

A long history of achievement. Commitment and focus. Specialization, or single-manager responsibility. Precision and discipline.

Nottinghill is your ideal partner as you go down the financial path ahead.

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August 2025

Perspective

Diversify, Diversify, Diversify

"Too much of a good thing can be wonderful."
-Mae West

"As long as it stays good."
-Editor

In mid-2017, Kroger Co., a hometown gem to be sure, issued a disappointing earnings report; and, in a totally unrelated move, Amazon announced the next day that the company was buying Whole Foods, a direct Kroger competitor. Kroger stock fell 26% over that two-day period. Unfortunately, equity investors often do vote with their feet when troubling news comes down the pike, but what about Kroger's loyal employees? In the wake of this two-day drubbing, someone took a look, and Kroger common stock at that time constituted 28% of the company's largest retirement plans and 53% of the Savings Plan. We hasten to point out that the defined contribution plans of several other companies held even larger positions in company stock, but regardless, does this make sense from a diversification standpoint? For openers, we'll bring up a name from the past.

Years before the housing bubble, the subprime mess, and all those bank bailouts, there was Enron. You remember that Houston energy company with its revolutionary ways of doing business <u>and</u> unfortunately, its cooked books. Well, diversification was a large part of the Enron story since over 60% of the average Enron employee's 401(k) supposedly was invested in Enron common stock, which ultimately became worthless.

To diversify, Webster tells us, is to "balance defensively," and the emphasis is where it should be: the risk side of the equation. There's something commendable about loyalty and pride in one's employer, but having 60% (or more) of one's assets exposed to the same risk is, well, risky. But risk comes in many forms. Here are a few more examples of what proper diversification is <u>NOT.</u>

1) Having assets invested in different securities of the same issuer

Surprisingly, we have heard more than one of these tragic stories. A company goes the way of an Enron or a Lehman Brothers, and an investor expresses total shock at what happened to his/her portfolio. After all, the investor did own a lot of the company's common stock, but wasn't his/her risk ratcheted down by also owning the company's bonds and preferred stocks? Not much to say here.

2) Owning 10 tech, or 10 bank, or 10 gold (or 10 of some other group of) stocks instead of just one

A common sin, particularly during the 2000-2002 and 2007-2008 bear markets. What happened is that investors committed way too much of their portfolios to <u>several</u> tech (2000-2002) or <u>several</u> bank (2007-2008) stocks, and considered their portfolios well-diversified. Not so fast. The group effect, an important stock market phenomenon, was a huge factor in the widespread carnage of these two periods. Specifically, all the tech companies in that earlier era were victimized by the same incendiary combination of supply/demand imbalance and high valuations, and most banks in 2007-2008, of course, were victimized by the same bout of complacency and lax lending standards. Diversification means owning different industries and/or stock market sectors because the same forces continually can pound the stocks of homogeneous groups.

3) Having 60%, 70%, 80% or more of one's assets tied up in one stock...any stock

We hear it all the time, particularly about another hometown favorite: "XYZ is a great company, and it's been good to me." That's fine, but keep in mind that's what thousands of people at Enron said. Bad things can happen to the best of companies, and nobody is smart enough always to see trouble just before the music stops. We advise everyone to have no more than 15-20% or so of his/her common stocks invested in even a low-cost, "emotional" favorite and to have no more than 5-10% invested in anything else.

4) Having everything invested in one asset class

In calendar year terms, 2007-2008 was one of the stock market's all-time worst two-year periods. The damage was significant, but of course, much more palatable if other asset classes had been represented in one's overall portfolio. Treasuries, for example, had a very good 2008 as fearful investors exited the stock market in droves, and the price of gold (+5.50%) also increased in 2008...for the eighth straight year. The lesson? Balance is a good thing, and the absolute key is to be well-represented in asset classes that typically do not go up and down in price together.

Take a look at Figure 1, which shows how a five-year Treasury note performed in 2007-2008, as well as in four other difficult two-year periods for the stock market. Investing in five-year Treasuries may be a lot like watching paint dry, and they almost certainly will not beat U.S. equities over any meaningful time frame. But the notes would have been valuable members of the team during these times of considerable stress. Same with gold during the latter periods when it was allowed to trade freely.

Figure 1
Asset Class Performance —
Periods of Stock Market Stress
1926-2024

	S&P 500 Index*	Five-Year Treasury*	Gold*
1929-1930	-31.22%	13.13%	—
1930-1931	-57.43	4.24	—
1973-1974	-37.27	10.56	—
2001-2002	-31.36	21.54	26.83%
2007-2008	-33.54	24.48	38.77

**Unannualized investment returns*

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Again, we don't mean to focus exclusively on Kroger, a hometown gem whose stock eventually recovered. And frankly, we're a little uncomfortable talking about Kroger and that little energy company mentioned earlier in the same article. But there is the very important issue of high-risk concentration within a company's retirement plans or anywhere else for that matter. In all cases, no one can predict the future with any kind of certainty. So, diversify by issuer, diversify by group/sector, diversify by asset class. Diversify in an uncertain world. The investor who does will sleep a lot better.