



# Northwest Cedar

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## FINANCIAL

Dear Client:

We are happy to report on another very successful year in our plan for the pursuit of your most important financial goals. Our plan, and therefore your portfolio, continue to be driven by these goals, rather than by any prognostication around the economy or the markets. That will always be the case, throughout the coming year, and beyond. We will start by restating some of the core beliefs that guide our planning and investment approach and then offer a few comments about the economic/financial backdrop.

### General Principles:

- We are long-term, goal-focused, plan-driven investors. Our core investment policy is to pursue your goals by investing in broadly diversified portfolios.
- We believe that the economy cannot be consistently forecast, nor the markets consistently timed. Moreover, we find no predictable pattern in the way markets react *or choose to ignore*—economic developments.
- We conclude from these beliefs that the only way to be reasonably confident of capturing the full return of equities is to ride out their frequent, sometimes significant, but historically always temporary declines.
- We do not react to, much less try to anticipate, economic and/or market events. As long as your long-term goals remain unchanged, so will our plan for their achievement. And as long as our plan remains constant, so (except for annual rebalancing) will your portfolio.

### Current Commentary:

- In 2025, the broad equity market completed its third straight year of double-digit returns, driven by a strong economy and significantly increased corporate earnings.
- The single important weak spot has been the employment picture, which has continued to soften. But even this has its significant bright side: strong economic growth and a flattish employment situation mean that per capita productivity has been rising strongly.

Unemployment may have recently ticked up to 4.7%, but the other 95%- plus of the workforce is putting out significantly increased products/services per hour; that allows companies to raise wages without triggering inflation.

- After six straight rate cuts, Federal Reserve monetary policy is 175 basis points looser than it was a year ago, even with sticky CPI inflation still pushing three percent. It seems more than reasonable to expect the lagged effects of all this easing to begin showing up in 2026.
- The middle class in particular, is set to enjoy tax refunds this filing season which have been variously estimated around \$150 billion, or half a percentage point bump in GDP. The main engines of this are a higher standard deduction and (especially) a temporary restoration of the SALT tax deduction cap to \$40,000 from \$10,000. This would seem to be a potentially meaningful near-term economic tailwind.
- The fact remains that a very strongly rising equity market may (and indeed should) have taken these data into account—and maybe then some. Thus, the burning question all year long was “Are we in an AI bubble?” This replaced the previous year’s burning question “When and by how much will the Fed cut rates?” Which in turn replaced 2023’s “Will there be a recession?”
- There was no recession, but that’s beside the point. Which is that *the universal burning question is usually if not always the wrong question*, and a distraction to the well diversified long-term investor—like us.
- All of this suggests to us that the next significant market shock—and there always is one; they come along with almost the frequency of the crosstown bus—will probably come out of deep left field (in the jargon, an unknown unknown, as opposed to a known unknown like valuation or the national debt). And like all the shocks past, and all those yet to come, it will have very little to do with us, other than as a potential bargain-hunting exercise.
- We are following a plan that has always “worked” in the very long run, in that it has ultimately achieved the goals of investors like us. We do not accept that “this time is different” regardless of what “this” may be at any given moment. And thus we don’t adjust our strategy to accommodate the fads or fears of that moment. We don’t go to cash during market panics, and we don’t bet the ranch on “new era” miracles...like AI.

We wish all our friends and clients—because to us they’re the same thing—a healthy, happy and prosperous 2026. We’re always here to address your questions and concerns. Thank you for being our clients. It is a privilege to serve you.

Warm regards,

Northwest Cedar Financial

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