



Majestic Oak Financial

A Registered Investment Advisor

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Happy Spring! As you finish off those tax returns, please don't forget to ask your preparer to email me a copy. It much easier to help you make good decisions when I can see the big picture!

What is Going On?

Most of you know that I loathe writing about market performance itself. You can hear one-hundred conflicting expert opinions everywhere every day on a future that is impossible to predict, and I will not add to the noise. However, right now, with all the chaos in every facet of the political and market sectors, I cannot ignore the elephant in the room. So here goes my explanation for why the market has turned so sharply downward with volatility: The market, the economy, we hate uncertainty. And that makes perfect sense. After all, remember that, at its core, the market and the economy are merely a bunch of businesses: small single owners and mom & pop shops to mega conglomerates, local and international, and everything in between. How do you make solid, informed business decisions when the ground under you is constantly shifting? And not just a little ground settling but damn big earthquakes? You don't. You pull into your shell, you make plans for the worst-case scenario, and you do the best you can. And it's not much different for consumers right now either. When consumers are nervous, they hunker down, they cut spending. Survival is the theme for everyone and the economy does not thrive in survival mode.

As a rule, I will never get into politics with clients. It serves no good purpose. No one is completely right and no one is completely wrong. But right or wrong, political decisions do move the "ground" under business owners' feet. Republicans and Democrats signal intentions and create policies regarding business, trade, taxes, and the economy all the time. It's part of their job. Usually, there is discussion, arguments, negotiation, fretting, name-calling, feet-dragging. We're used to it. But the signals and intentions are generally clear while the whole process crawls slowly. That's not the case right now. The upheaval, whether necessary or ridiculous, feels like riding one of those upside-down loopy roller coasters and we're barely buckled in.

What are these conflicting economic forces at play right now? Let's start with the tariff wars that are well underway. Firstly, what are tariffs? A tariff is simply a tax that is added onto a product as it crosses an international border. One intent is to increase the price of the foreign good as it comes into a country so that it is more expensive relative to the equivalent good made in-country. The theory is that we have a choice of a foreign-made product or the same thing made domestically. If the foreign-made product is more expensive and the same quality, then we should rationally always select the product made at home. Tariffs can be used as a way to protect local producers of the same product or punish the foreign country by decreasing the demand for their products, thus hurting them economically. It's a reasonable tool to use. Except for one thing. What if there is no equivalent product made in the home country? If there's no choice, consumers either go without that product or pay more for it. The foreign business is not just going to absorb the cost of the additional tax.

They pass it on to the consumer. The way the US economy has developed, 77% of the production of the US economy is services. We domestically produce very little "stuff". We rely on the outside world for "stuff". Buying "stuff" will become more expensive for us because we don't have domestic alternatives available. It takes years, large capital investments, and concerted re-training/education efforts to bring manufacturing back to the US. The materials we need to build manufacturing facilities, like steel, currently come from abroad, subject to tariffs. So, we can't manufacture all this "stuff" in the near term. And to make this more unsavory, foreign countries are inflicting retaliatory tariffs on our goods. Bottom line, costs increase all over the world and US businesses lose out on sales abroad.

The next force in the picture is job cuts. We have already been in an environment in which job losses, especially in the tech sector, were occurring. The job market has been tougher. If you are a business creating a product that you sell abroad upon which a retaliatory tariff has been levied, your entire business is at risk. At best, you certainly are not hiring. At worst, you are letting people go. And you are not investing in any new equipment. Business spending decreases. Now that hurts the businesses that do business with that business - who then do not hire or invest. It's a vicious downward spiral. Couple that with the job cuts in the federal government, which employs about 3 million Americans, and unemployment will increase. We have already seen an increase in first-time unemployment benefits applications. Where do these people go for jobs if neither the government or the private sector is hiring?

What happens now according to economic theory? High unemployment means that those employers who are hiring have the upper hand at negotiating wages. Wages generally stagnate (best case) or drop (worst case). Those who remain employed will be lucky to see raises or bonuses. If people have less money either because they earn a lower wage or they are not working at all, the demand for all goods and services decrease. Spending falls which would slow the rate of inflation. I guess that's an upside, but at what cost?

In addition to a decrease in the federal government workforce, government spending both abroad and domestically is down. Yes, there's no denying that government spending is rife with waste. An entity that big is wasteful. Historically (and again, according to economic theory), the government is supposed to play the supporting role as the purchaser of goods and services when the consumer is broken. When consumer spending is strong, the federal government should cut back their spending as to not create so much demand that inflation accelerates. When the consumer cannot buy lots of goods and services, the government steps in to create the demand to keep the economy humming along. It's supposed to be like a see-saw. For so many decades, the government has been happy to support demand but then forgets to step back when the consumer is strong. So now we have a government who is (rightly or wrongly) cutting spending. Again, this is an action that will slow the rate of inflation. However, it also impacts businesses that sell goods and services to the federal government. Their revenue goes down and again, we're in the spiral of layoffs and decreased business investment.

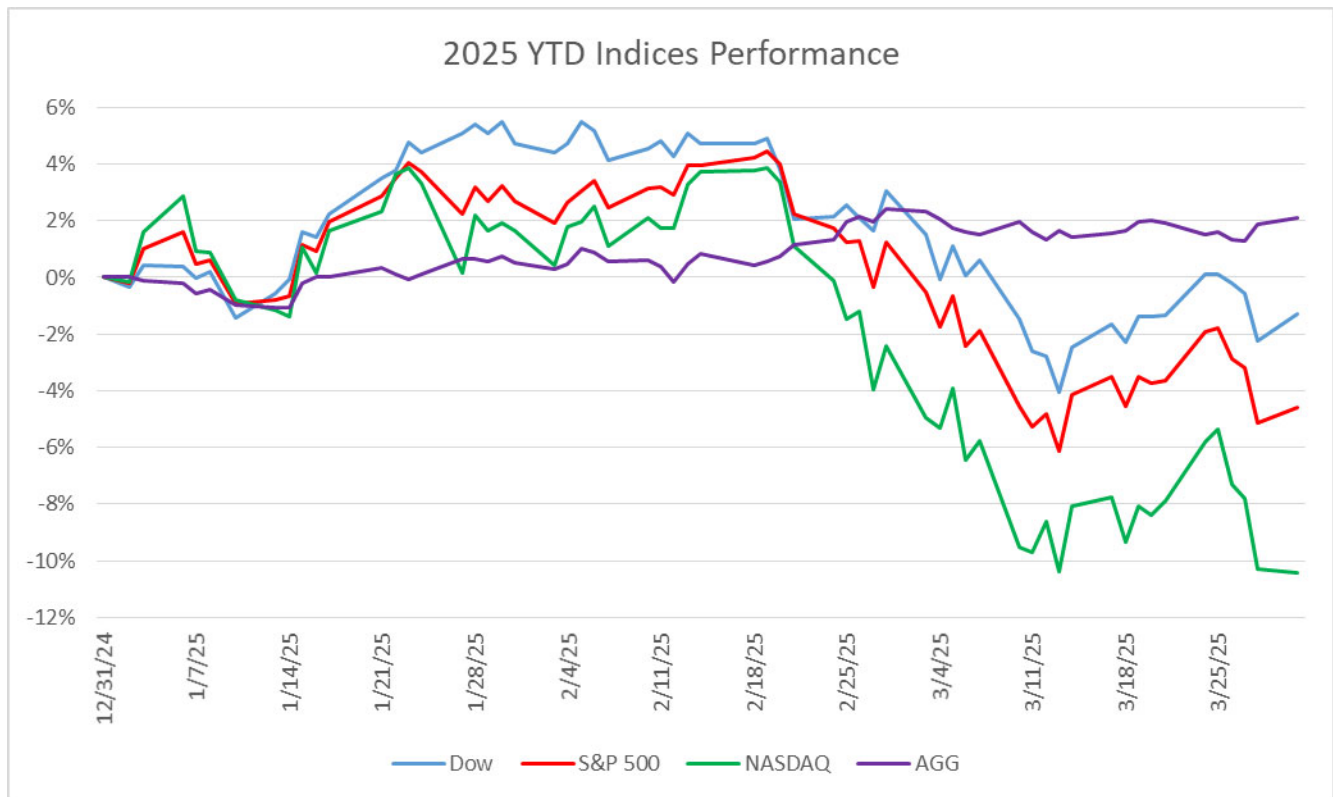
We've been through each of these scenarios before - tariffs, job cuts, high inflation. All at once is a little more rare. The particular difficulty now is that businesses and consumers do not know what's happening from day to day. Will tariffs be 50% or 10%? On which country, which products, and for how long? Which government department is facing job cuts this week? And once they happen, will workers get called back if the courts decide that the terminations were not done correctly? It's chaos and no economic entity, businesses and consumers alike, can plan confidently in the face of chaos. And so we stop everything. I suppose that's one way to wrestle some sense of control over our

situation, try to stabilize the shaking ground under our feet. But it's a terrible way to function as an economy.

We've been through market downturns before. After the last couple of very strong market performance years, we were due. This downturn just feels faster and more volatile than others. If you are in your working/accumulating years, see this as an opportunity to buy investments on sale. If you are retired or nearing retirement, we've talked about making sure you have sufficient cash reserves such that we don't have to sell assets at fire sale prices. If you need to talk, have questions or concerns, or just vent, please don't hesitate to call me. Together, we'll get through this like we've always done.

1st Quarter 2025 Market Performance*

Index	03/31/2025 Ending Value	1Q 2025 Performance	Calendar Year 2024 Performance
Dow Jones	42,001.76	<1.28%>	12.88%
S&P 500	5,611.85	<4.59%>	23.31%
NASDAQ	17,299.29	<10.42%>	28.64%
Lehman Aggregate Bond	98.92	2.08%	<2.37%>



Your Individual Investment Reports

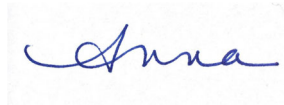
The following reports for 1st Quarter 2025 are provided for your review:

- **1st Quarter 2025 Portfolio Performance** – Compares the 1st Quarter 2025 performances of the S&P 500 & Lehman Aggregate Bond Index with your portfolio performance
- **1st Quarter 2025 Portfolio Performance vs. Inflation** – Performance of your investment portfolio compared to the rate of inflation as measured by the Consumer Price Index (CPI) for both the since inception period of your accounts and 1st Quarter 2025
- **Account Summary** – Current market value of each asset within your accounts as of 03/31/2025
- **Investment Billing Statement** for the 2nd Quarter 2025^{**}: Investment advisory fees for the period of 04/01/2025 through 06/30/2025 (based on 03/31/2025 values). *This is an informational billing only.* Your account is automatically debited unless other arrangements have been made.

Please remember that this investment reporting is for informational purposes only. You should also refer to the monthly account statements you receive from Charles Schwab & Co., Inc..

As always, please do not hesitate to contact me if you have any questions about your reports or wish to discuss any other financial matters.

Sincerely,



Anna M. Popke, CFP[®], RICP[®]

*Index performance is provided as a benchmark only. The performance of your individual investment portfolio will vary from that of any one index. Past performance of an index is never a guarantee of future results.

****PLEASE NOTE:** Clients who hold “cash reserves” within their brokerage accounts will have slightly different portfolio balances depicted on the Statement of Assets Summary and the Billing Statement. This is because “cash reserves” are excluded from the advisory fee. However, cash held awaiting investment in the upcoming quarter *will* be subject to the normal quarterly fee.

Investment Advisory Fee Calculations:

Fees are paid in advance on the 7th (or prior closest business day) of the month following the end of the quarter. The amount due is calculated by applying the prorated annual fee percentage to the previous quarter-end account value(s). Fees are further prorated for accounts opened after the beginning of a new quarter. Fees may be paid directly from the investment account(s) or consolidated and paid from a specified account. Money market/cash reserves are excluded from totals. Statements have been prepared by Majestic Oak Financial from information provided by Schwab and while deemed reliable, are not guaranteed.