

Boredom and Curiosity

Weekender

October 11, 2025

A calm and modest life brings more happiness
than the pursuit of success combined with constant restlessness.

Albert Einstein

Curiosity is the cure for boredom.
There is no cure for curiosity.

Ellen Page

He is really wise who is nettled at nothing.

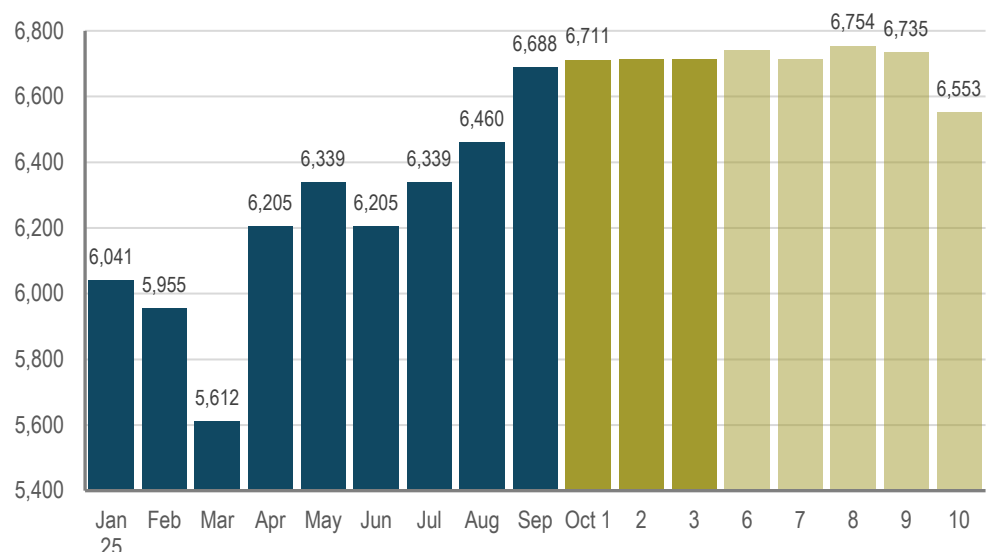
de La Rochefoucauld

Good morning and welcome to the *Weekender* for Saturday, October 11, 2025. US equity markets, as measured by the S&P 500, hit an all-time high on Wednesday, softened a little on Thursday, and tanked on Friday on news that President Trump would impose a 100% tariff on Chinese goods. The president's announcement is likely part of his grand negotiation strategy, so no one knows how much of the statement is fact or fiction. But it moved markets that are all priced for perfection.

Over the week, the S&P 500 was down -2.4%.

S&P 500 Index Levels

(Source: Bloomberg)



While we remain fully invested, our stock portfolios are more conservative than the broader market. That said, their return is slightly ahead of the markets despite their less speculative stance. The fixed-income and dividend sleeves of our more conservative portfolios have not yet met our expectations. Interest rates have been slower to come down than we anticipated. However, we remain convinced that they will begin to fall by the end of this year and continue falling into next year until the elusive neutral rate is achieved.

This *Weekender* provides a staccato of graphs on valuation and fundamentals, each with brief narration. The general theme is valuation. Our one more thing section is a short diary on boredom and curiosity.

Be sure to consult a qualified financial advisor before making financial decisions that may impact your life in the long term.

Next week, third-quarter earnings results begin to trickle in. By the end of the month, more than half of the S&P 500 companies will have released earnings, which we believe will be critical for charting a reasonable outlook for 2026.

Economic Narrative

Most government-released economic data is on hiatus during the federal government shutdown. In a testament to certifiable incompetence, there seems to be no light at the end of the tunnel. Elected officials are nonplussed by anything other than their petulant game of chess. Never has there been a better justification for term limits.

Outside of government data, private data continues to manifest a strong and resilient economy. The Institute of Supply Management's PMI data showed a pickup in inflation and contraction in new orders and employment. University of Michigan poll data also confirmed expectations of higher inflation. Without government data on the economy, trying to home in on a year-end and new year outlook is tantamount to flying blind.

Outside the United States, the Chinese economy is strengthening. European data increasingly show a move away from dependence on the United States and a willingness to go it alone. The rest of Asia is becoming increasingly independent of both the United States and China, which for them is a good thing. Vietnam is leading by example in this regard. India, the world's largest democracy with the fastest-growing middle class, is leaning away from the United States. A more concerted shift in the red direction would be a massive loss for the United States.

Market Narrative

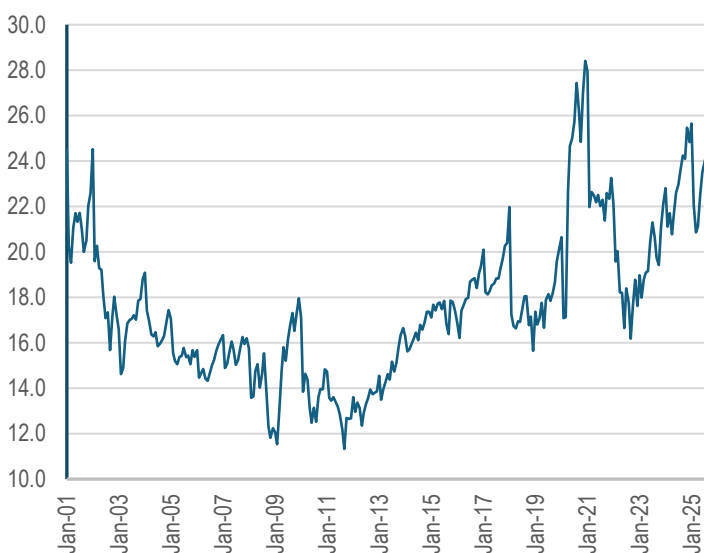
Markets rarely make big moves due to indigestion from high prices and overvaluation. Even so, financial markets that are priced for perfection are more susceptible to wild fluctuations when news and outcomes run counter to expectations. Equity markets in the United States are priced for perfection, which we believe is hard to come by.

The most common valuation metric for stocks is the price-to-earnings ratio. The S&P 500 is currently trading close to its all-time high. The peak during the pandemic should be disregarded because the nature of the pandemic pushed earnings to unrealistic lows and prices to highs. As we are unlikely to experience such a situation in a typical economic environment, the graph suggests valuations are at or near highs, even during the internet bubble.

Price-to-Earnings Ratio for S&P 500

January 3, 2001 - October 11, 2025

(Source: Bloomberg)



Some apologists suggest the following factors can justify peak valuations. First, corporations are currently operating at peak profit margins. Second, we are at the beginning of a generational wave of efficiency and productivity brought about by artificial intelligence. Third, a declining global population will continue to push wages higher and fuel a consumer spending boom. Fourth, the United States, which has largely fueled global economic growth for generations, is being joined by China and India as relatively wealthy consumers take their place.

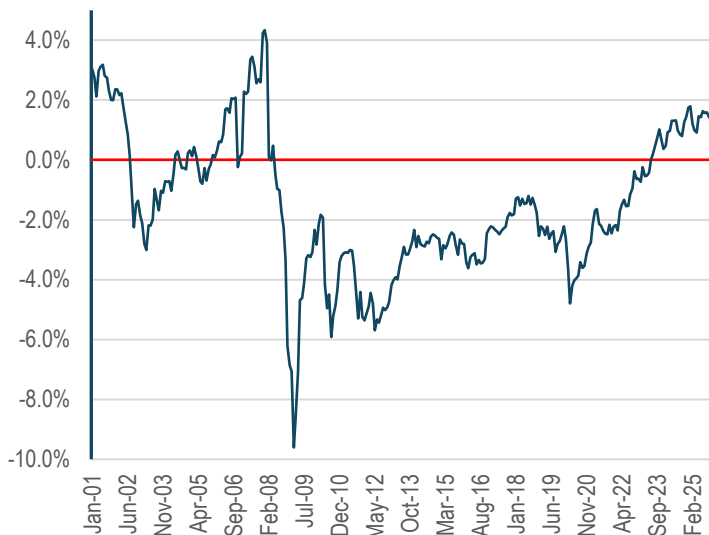
Relative to bonds, stocks are rich. Free cash flow yield is a way to compare stock yields to bond yields. The free cash flow yield for the S&P 500 is only 2.6%, compared to the yield on a 10-year government bond at 4.0%. As stock

prices rise, free cash flow yield falls. The excess yield of bonds over stocks has rarely been as high as it is currently.

US Government Bond Minus S&P 500 Free Cash Flow Yield

January 3, 2001 - October 11, 2025

(Source: Bloomberg)



Artificial intelligence is likely the driver of overvaluation, not because of any direct impact on corporate profits, but because the rising trend in artificial intelligence is unleashing investors' animal spirits, tolerance for risk, and expectations of returns.

Fundamental Narrative

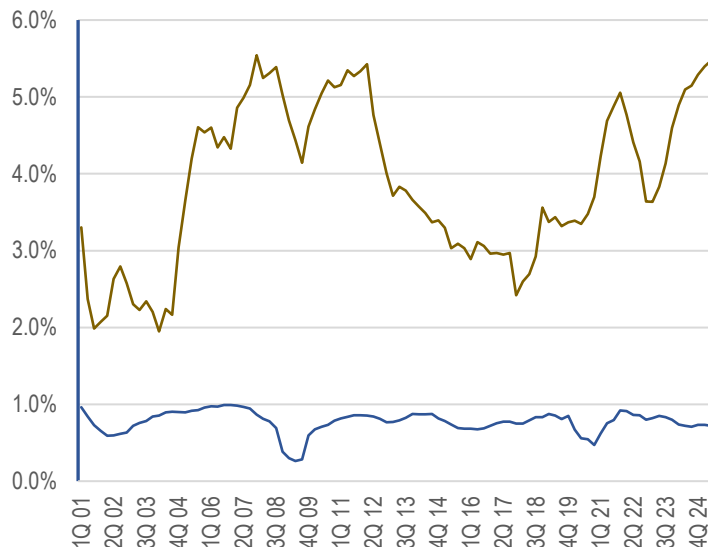
At the most fundamental level, a company buys assets to generate revenue. Successful companies are those that can buy the right assets and apply their franchise skills to produce products profitably. Return on Assets is a measure that shows how well a company generates profit from the assets it has purchased and managed.

In the graph below, the gold line represents the return on assets for the Magnificent 7 (Apple, Microsoft, Meta, Alphabet, Amazon, Nvidia, and Tesla) over time. Assets for the Magnificent 7 include patents, trademarks, goodwill, etc. They have a significant advantage over the S&P 500 without the Magnificent 7 (the blue line). Such an advantage may be a partial justification for a valuation premium.

ROA for Mag 7 (Gold) and S&P 500 Minus Mag 7 (Blue)

January 3, 2001 - October 11, 2025

(Source: Bloomberg)

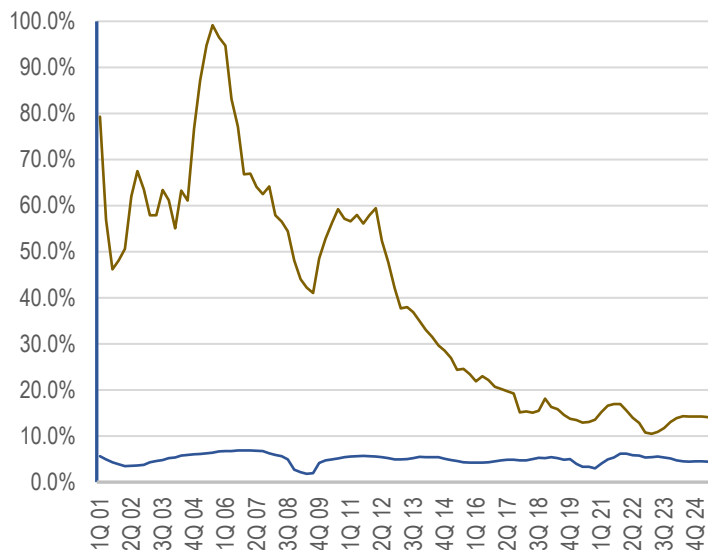


When intangible assets are removed from the denominator, a fascinating story emerges. The graph below shows return on fixed assets. While a Magnificent 7 advantage persists, the advantage is much shallower than it has been.

ROFA for Mag 7 (Gold) and S&P 500 Minus Mag 7 (Blue)

January 3, 2001 - October 11, 2025

(Source: Bloomberg)



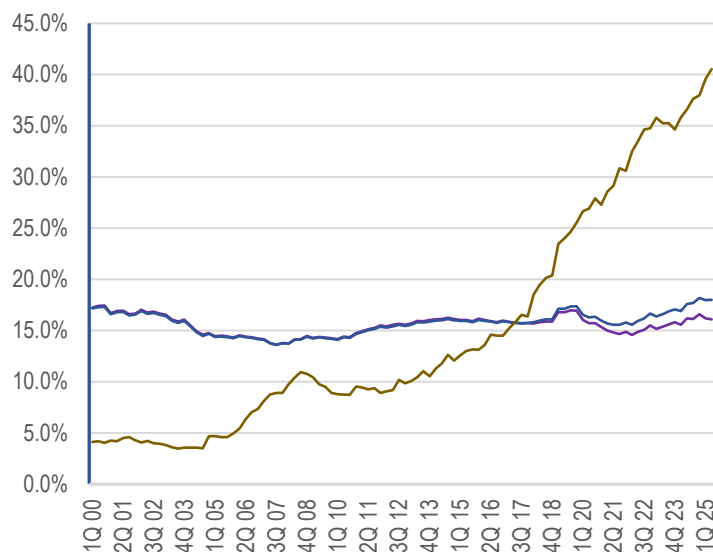
What's the point? For most of their existence, the Magnificent 7, except Tesla, have benefited from being asset-light companies with limited capital needs, high margins, and relatively low employee burdens. With the voracious need for compute at every level of artificial intelligence, their asset-light heritage is and will continue to give way. This will make the companies more sensitive to economic cycles and capital allocation. Suppose we have

jettisoned the historical past of very low interest rates. In that case, the profitability of the Magnificent 7, in addition to the whole cohort of AI picks and shovels, will be constrained in the future. This will also limit their ability to be perpetual equity leaders in financial markets. The day of reckoning is not today, nor tomorrow, but it is coming. Probably in the next three to five years.

Fixed Assets Percent of Total Assets Mag 7 (Gold), S&P 500 (Blue), S&P Minus the Mag 7 (Purple)

January 3, 2001 - October 11, 2025

(Source: Bloomberg)



One More Thing

One more thing. Blaise Pascal famously said that “all men’s miseries derive from not being able to sit in a quiet room alone.” As I read that statement, my mind conjures up the blissful image of sitting alone with a book, a lamp, an easy chair, a fireplace, and a blanket—an introvert’s paradise. Boredom laced with curiosity.

Charlie Munger was once asked about the factor behind Warren Buffett’s successful investment track record. It was his capacity for boredom. Not the heavy boredom that slakes energy. The boredom that yields its quiet time to curiosity. In our world of synthetic extroverts, always on and broadcasting live, there seems to be no time for sitting still and delving into life’s profound and persistent mysteries.

Being able to sit undistracted with a vexing problem without giving in to TikTok, Instagram, or Facebook is a superpower for those of the rising generation. Take some time. Shut everything off except a piano concerto and allow yourself to be bored with the minutiae of life and yield to its curiosities regularly.

Conclusion

That’s it for this week’s *Weekender*. Have a wonderful week.

Disclosure Statement

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