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To: State Central Bank Trust Customers Re:
Report on "Wall of Worry" Allocation

At State Central Bank, each of you is responsible for determining the allocation of your investments based upon your particular objectives. The allocations we have available are Hi Yield, Market Perform, Value, Growth and Cash. With this report I am Initiating an additional allocation termed the **"Wall of Worry" allocation.**

The Wall of Worry allocation is for those times when, due to the level of uncertainty in market conditions, you would like your portfolio to "take a pause" from the market and hold a bit more cash.

It is an established rule of investing that trying to completely time the market is a losing game, but there is no doubt that from time to time the market does "correct":
On October 19, 1987, the market dropped 22.6% in a single day; during the "dot com bubble burst" of the early 2000's, the Nasdaq lost 80% and the S & P 500 lost 49% before they started to recover; during the Great Recession of 2008 - 2009, the S & P 500 lost 60% of its value before bottoming out; and in the Covid crash of 2020, the S & P 500 lost 34% of its value in 33 days. Yet despite all of these "corrections", the market has always, always come back over time and provided a respectable average annual return for investors.

So, while trying to time the market by being "fully in" or "fully out" is a losing game, there would obviously be an advantage to having a bit heavier allocation to cash when the market does enter a correction. A heavier allocation to cash will reduce losses as the market corrects and provide wonderful investment opportunities as it starts to recover. In the first quarter of 2025, Warren Buffett increased his allocation to cash to 25%; the highest it has been in at least 34 years. When asked about being "out of the market", he pointed out that he was still 75% invested in equities. He was just holding cash in anticipation of better investment opportunities down the road.

The current price / earnings ratio of the market is 18.1x which is at a market high. The market low in March of 2020 (the Covid correction) was 11x.
The current dividend yield of the market is 2.2% which is also at a market high.

The market low in March of 2020 saw the dividend yield at 3.7%.

The U.S. debt to GDP ratio is currently at 124% and, with the passage of the Big, Beautiful Bill is projected to increase 2x faster than the economy's growth rate for the foreseeable future.

The Social Security Trust funds are running out of money. If nothing changes, benefits are expected to decrease by 25% in 2033 - only eight years from now.

Many "corrections" can be traced to a particular asset market that got wildly overvalued. The "dot com crash" was defined by the irrational exuberance associated with the absurd valuations being given to internet stocks with no earnings. The Great Recession was brought on through the magical transformation of junk mortgages being "repackaged" into "A rated" securities by investment banks only to find out that they really were junk mortgages. Today, I have concern for the absurd valuations being given to cryptocurrencies. One bitcoin was worth $11,000 in 2021 and in 2025 has been priced at around $115,000. I still don't know what a bitcoin really represents in terms of a recognizable "value", but if that "value" goes back to $11,000 ("when the tide goes out") hidden problems may become apparent ("we find out who has been swimming naked").

And then there is the issue of tariffs. Companies loaded up on merchandise early in the year to protect themselves against the beginning of a new tariff regime. Those inventories have been getting worked down and soon the tariffs will be showing their full impact. Price increases are the first and most obvious impact which will result, but additional disruptions to trade and commerce which can't yet be quantified may also be on the horizon.

So those are some of the items in the current "Wall of Worry" for investors to consider. Note that there is almost always some "wall of worry" which equity investors must be concerned about. And, of course, the market has currently "priced in" these concerns since everyone knows they exist. What is not currently "priced in" is a sudden and unexpected change regarding the status of these concerns - a "black swan" event. Anticipation of some such "black swan" event is probably the reason Warren Buffett believes there may be more favorable Investment opportunities sometime in the next couple of years. Timing when that will happen is impossible so one does not "exit the market" and miss out on continuing price appreciation, they just keep a bit more of their powder dry.

The "Wall of Worry" allocation I am now initiating will allow you to ask for an immediate increase in the cash allocation in your account. You determine the percentage of cash you want in your account ("how much dry powder") and we will make the trades to get you there. The trades we will make will focus more heavily on taking profits - selling those stocks with the most appreciation. Since the concern is for a possible correction, the stocks which probably have the most to lose are those that have gained the most. In addition, since our quarterly "rebalancing" focuses on selling those stocks we believe have more limited potential going forward, having the Wall of Worry allocation focus on profit taking from winners, which is a different approach, makes sense.

As quarterly rebalancing takes place after you have made your Wall of Worry allocation, investments will be made based on your "normal" cash allocation. Through this process, your portfolio will gradually work its way back from your Wall of Worry allocation to be "fully invested" as you had previously defined that for your situation.
The reinvestments we make after the Wall of Worry allocation will be made in those stocks, we find to be the most undervalued in the market. The whole process works for your State Central Bank Trust account because we invest in individual stocks and not mutual funds or ETF.

If you are interested in making a "Wall of Worry" allocation at this time, I would be happy to discuss it further with you in order to answer any questions or concerns. If you would like to discuss this, just call Hope or Nicole at the Trust Office and they will set up a time for us to talk. Thank you for your business.

Ty Logan,
Investment Manager State Central Bank