

# Is Winter Coming?

December 2025

*Markets climb a wall of worry.*

**- Unknown**

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Hello, great investors. There's an old saying that markets climb a wall of worry, meant to capture the perverse reality that the stock market often rises when most investors are fearful about global conditions, and ironically tends to peak and crash when investors become too confident and complacent. Let's hope that old saying holds true today. There certainly is plenty to worry about.

## Reason for Investor Anxiety

Valuations are very extended. The financial media constantly compares today's AI-driven rally in 2025 to the internet bubble of 1999. We appear to be in an economic war with China, and we must hope it stays only economic, especially given China's attitude toward Taiwan and its collapsing demographics from the one-child policy. Russia faces similar demographic and economic challenges and has already become dangerous. Western Europe is struggling with stagnation caused by green energy policies and the loss of cheap Russian energy. In the U.S., the government shutdown ended, but the underlying fight over unsustainable entitlements and soaring debt continues. Meanwhile, gold, inflation, and interest rates keep rising even as stocks climb — a puzzling and concerning combination. And history shows the worst market declines almost always come from completely unexpected “unknown unknowns.”

Both literally and figuratively, winter may be coming.

## What Should Long-Term Investors Do?

What should a prudent long-term investor do? Even if you're concerned, is now the time to sell your equity portfolio?

One of my favorite analogies for stock market investing is growing a tree. As Warren Buffett said, “Someone is sitting in the shade today because someone planted a tree a long time ago.” You plant seeds, let nature work, and eventually enjoy the shade. Crucially, when winter arrives, you don't dig up the tree and store it in the garage. The tree isn't dying; it's

dormant, storing energy in its roots so it can burst forth again in spring. Even in harsh winters, you leave it alone and let the cycle continue.

Successful businesses operate the same way during economic adversity. Earnings may suffer, but management teams shore up capital, reduce headcount, close losing divisions, acquire distressed assets, and keep innovating. Digging up your portfolio because “winter is coming” interrupts this natural, wealth-creating process.

## Focusing on Income, Not Headlines

The analogy becomes even more powerful if we think of an apple tree instead of a shade tree. Our primary interest is the harvest — the fruit that nourishes us every year. We care far more about how many apples we can pick than about temporary dormancy or even the exact size of the tree (though bigger trees generally produce more fruit).

Your investment portfolio is exactly the same. For most people, the ultimate goal is to create a reliable, growing stream of income in retirement — income that keeps pace with or exceeds rising living costs. You don’t take your brokerage statement to Starbucks or the grocery store; you take the cash flow your investments produce.

Let’s test this with the actual 1999–2009 “lost decade.” Suppose in December 1999, with the S&P 500 around 1,400, I told you the index would get cut in half twice and end the decade lower at about 1,240. Would you sell? Now consider only the dividends. In 1999, S&P 500 companies paid roughly \$16.27 per share in cash dividends. Today in 2025, that figure is expected to be about \$78.56 — almost five times higher. Over the same period, the CPI roughly doubled. Cost of living up 2×, dividend income up 5×. Even if your capital value had remained completely flat for 26 years, the income alone would have made staying invested the obvious choice. Fixed-income investments can never replicate that growing cash flow.

## Final Thoughts and a Few Requests

Fixed-income strategies eventually fail retirees because bond coupons are static while expenses rise with inflation. Once living costs surpass fixed interest payments, you must invade principal, creating a death spiral where you hope to die before the money runs out. The only proven way to generate income you cannot outlive is an asset class that keeps producing more fruit every year after year — equities.

Even if frost is on the ground and an “AI winter” lies ahead, there is rarely sense in digging up your portfolio. Stay focused on the growing harvest, enjoy the holiday season, and I look forward to your comments and questions below. If someone you know panicked and sold earlier this year, please share this message with them. All the best, and happy holidays!

## **Disclosures**

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