SAPPHIRE
FIDUCIARY ADVISORS

July 15, 2026

Dear clients and friends,

Compounding is the simple idea that money earns a return, and then those returns earn returns of their own. Its power over time is extraordinary. It's the eighth wonder of the world. A useful image is a snowball rolling downhill. What matters most is not how fast it starts but how long the hill is. For that reason, we care far more about how durable a business is than about how quickly it is growing at this moment.

A share of stock is not a flashing symbol on a screen or a sliver of a generic basket. It is part-ownership of a real, operating business with employees, customers, and cash flows. The modern financial industry has made this easy to forget. Investors can now buy a single investment product that holds nearly every public company on earth, often without paying a trading fee, and the more abstract an investment becomes, the easier it is to trade on a whim and abandon at the first sign of trouble. As John Neff of Akre Capital Management observed, the average holding period for a stock listed on the New York Stock Exchange fell from roughly eight years in the 1950s to about eight months by 2023, while the typical holding period for the largest fund tracking the S&P 500 was just seventeen days. No business compounds meaningful value for its owners over a handful of days or weeks.

That short-termism is on vivid display in today's market. As of June 30, 2026, the ten largest companies in the S&P 500 accounted for roughly 38% of the index by market value, a historic high. Most of the ten are technology or technology-adjacent businesses and trade at roughly 22 times forward earnings, versus about 20 times for the index as a whole. Hundreds of billions of dollars have been committed to building data centers behind artificial intelligence. Among the largest operators of these facilities, capital spending reached roughly $416 billion in 2025 and is expected to approach $758 billion in 2026 and nearly $1 trillion by 2028. The economics of this buildout remain unproven, yet many companies with even a tangential connection to the theme (e.g. Caterpillar) have seen their share prices rise sharply.

Some of our clients' portfolios are exposed to this trend, but our discipline around security selection, valuation, and risk management stays firmly in place to help mitigate the risk of a bubble. Against this backdrop, which we characterize as a speculative rally, our clients should expect the equity portion of their portfolios to trail broad market indices. That is the cost of our discipline, and it is also the source of the downside protection that our approach is designed to provide.

After contributing an extraordinary 55% of the Index's price return in 2024 and 46% in 2025, the largest technology companies have contributed just 1% of the S&P 500's return on a year-to-date basis through June 30, 2026, with a price return of roughly zero, while the remaining 493 companies have advanced about 15%. We do not know whether this rotation will persist, but we do know that when leadership finally broadens, disciplined portfolios that avoided overpaying for the crowd's favorites will be positioned to benefit.

It is worth remembering that an investor's experience depends greatly on when s/he started. Two clients who own the very same securities can have meaningfully different results simply because they began at different times, and therefore at different prices. For that reason, no single index return describes any one client's experience. When we welcome a new client, their documented investment policy guides how much is allocated to equities, bonds, and other assets. As a result, the moment a client begins has a lasting influence on their experience, particularly in the short run, when the market behaves more like a voting machine than a weighing machine.

As our loyal readers know, we maintain a concentrated portfolio, generally twenty-five to thirty businesses that we have studied and expect to hold for years. We judge the durability of each business through *The Seven Powers of Competitive Advantage* framework developed by the strategist Hamilton Helmer.

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This mental model helps us identify specific sources of a company's earnings power, such as economies of scale, cost of switching to a competitor, strength of a brand, or control of a scarce resource. That said, concentration cuts both ways. The elation or disappointment caused by any single holding affects our portfolios more than it would in a broadly diversified index, and our results can diverge from the broad market for meaningful stretches in either direction. We accept that trade-off deliberately. As the value investor Tom Russo, a like-minded practitioner, has argued, successful long-term investors must possess a "capacity to suffer," a willingness to endure short-term pain in order to capture long-term rewards.

Our objective has not changed. It is to grow your capital meaningfully over time while being especially mindful of the risk that matters most: permanent loss. We pursue that objective by owning businesses we believe to be exceptionally durable, buying them only when the price is reasonable, and holding them with patience. When the price of a stock we own declines while its underlying value continues to grow, we often view that as an opportunity to buy more rather than a reason to flee. You hired a fiduciary, and acting in your interest sometimes means looking out of step with certain popular indices. We are entirely comfortable with that reality and remain confident in our investment approach.

We welcome the opportunity to discuss these observations and your portfolio with you. Please email info@sapphirefiduciary.com, call (502) 509-2568, or visit sapphirefiduciary.com/contact to schedule time with us.

Sincerely,

Paul Stropkay

Paul Stropkay, CFA

Sources

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- Akre Capital Management, "Why Compounding Is So Difficult," February 1, 2024.
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- Thomas A. Russo, Gardner, Russo & Quinn, on the "capacity to suffer."