

INVESTMENT VIEWS

APRIL 30, 2026

FINDING A WAY

We are nearing the halfway point for 2026 and uncertainty in financial markets and the economy remains elevated. This uncertainty can be seen as both a threat and an opportunity for investors. The threat is obvious to most people, whether it is the geopolitical situation in the Middle East that poses serious risks to the global economy, or anxiety over how AI will impact the economy or a myriad of other issues. At the same time, investors are also presented with opportunities as good assets become cheaper, forgotten sectors of the market wake up, and brand-new industries sprout up before us all.

It is an investors' job to find a way to protect their portfolio from inflation, grow the value, and watch and prepare for volatility. Our approach to managing portfolios faces these challenges head-on, finding ways to succeed.

As active managers, our portfolios will always be dynamic and subject to change as market and economic conditions change. When stocks are cheap, it is easy to add good companies, when stocks become expensive, stocks are sold with proceeds invested in alternatives with "value" in them. We carefully and thoughtfully pick stocks and investment themes that combined, are durable and resilient even in the face of uncertainty. This approach – an active and dynamic portfolio is how we manage through uncertain times.

PASSIVE MARKET INTELLIGENCE

Within the investment management profession there is a hallowed assumption that the market is "efficient." This efficiency is characterized by the idea that every stock is properly priced according to the available information on the stock. Yet many professionals, including us, understand that this is blatantly false. It is purely an academic trick meant to encourage investors to passively invest in the general market through ETFs or mutual funds.

We have written previously about how stock market investment has reached a new threshold where over 50% of investment is now passively invested. From our perspective this only means that the market is becoming even less efficient as instead of investment capital investing in individual stocks, that capital is placed into a large pool, with most of it going into the biggest and most liquid names. Essentially the market is becoming more "dumb," with many stocks becoming both overvalued and undervalued.



This is one key area of our strategy – to exploit the passivity of the market to our advantage. We scour the market to find names that have been left behind, written off and thrown into the proverbial trashcan. Over the years we have found many investment gems that have paid off handsomely by doing the work that is not being done by the majority right now. Eventually the market "discovers" the discarded stocks and the repricing happens quickly.

SIZE MATTERS

As a boutique investment management firm our size is another important advantage. In this day and age, investment information is plentiful and analysis easy to do with modern software tools. Yet as a boutique-sized firm we can enter and exit positions in a much quicker and liquid manner. Whether we are exiting a position in a trillion-dollar market cap stock, or buying a position in a microcap stock, we can do so with ease compared to far larger managers who must have dedicated teams and strategies to enter and exit stock positions. This advantage is another tactic we use in our portfolios to "find a way".

SELL IN MAY?

Historically, May tends to have very subdued returns, averaging a positive +0.4% since 1950. Based on a study by Wayne Whaley, since the same 1950, when the S&P 500 is up at least 5% in April (which it is this year), the following May has seen positive performance nine out of the ten times it has occurred for an average return of +2.6%. The last time there was a negative May following such an impressive April was 1983 which saw a negative return of -1.2%. Since then there have been seven instances of a greater than 5% S&P return and all have seen positive returns in the following month. However, it is not always smooth sailing, as the previous two instances (2020 & 2021) saw maximum S&P corrections of roughly 3% each. As always, we will stay vigilant.

BIOGEN COMEBACK

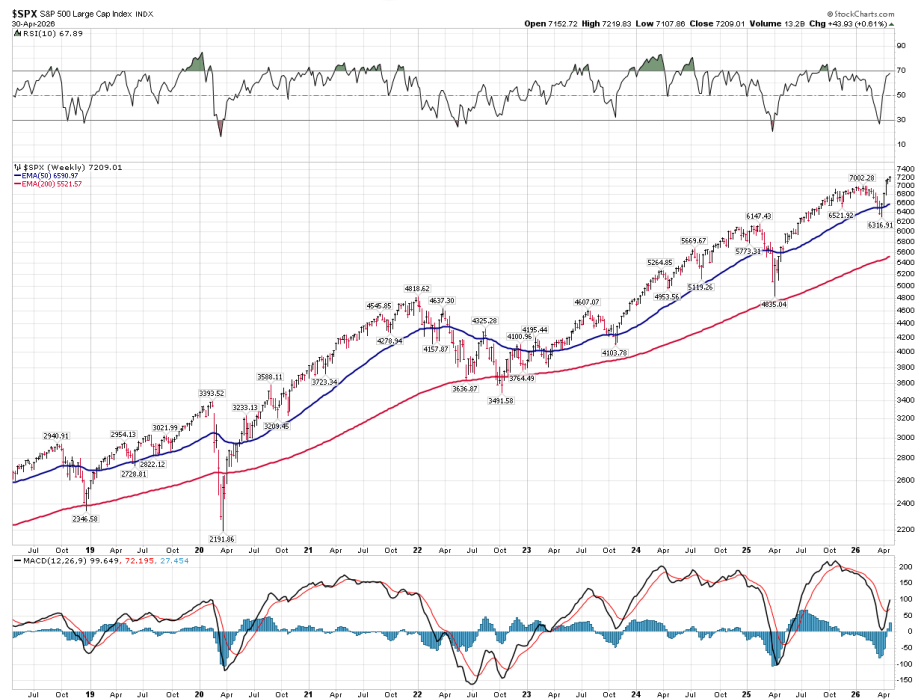
We took a position in Biogen (BIIB) over a year ago after it had spent years struggling and had fallen to 10-year lows. At that point investors had indeed given up on it, assuming the company would never grow again. While the future was not clear to us at that point, we saw that there are a number of things to be encouraged about and that at the very least it was a low risk entry after falling over 50%. As it is turning out, Biogen is getting back on it's feet with some success in its Alzheimer's drug and a few other specialty drugs. Additionally, there are some early promising signs from a trio of drug candidates for Lupus, a disease for which there are currently zero treatment options. A wise investor once said, the price you pay for a stock is everything.



TECHNICALLY Speaking

The first question we are generally ever asked is "where does the market go from here?". We can obviously never know exactly what will happen, but looking at the weight of the evidence we can have a more educated guess as to the market's future direction. The top window shows the Relative Strength Index (RSI) and the bottom window shows what is called the Moving Average Convergence/Divergence (MACD). To put them into simple terms, one gives us overbought/oversold readings (RSI) and the other measures the momentum of a trend.

What we like about what we are seeing right now is that the Iran sell-off could not generate enough negative momentum to drop the MACD below the zero line. All the previous large sell-offs we have seen since 2018 have sported a fairly deeply negative reading. Also, so far the RSI is not in an overbought condition and has room to rise farther. You will notice that when the RSI goes below 30 it tends to be a buying opportunity and above 70 a chance to take profits. Currently, we would like the RSI to rise higher than the reading last summer when the S&P was hitting fresh highs nearly every day. The same is true for the MACD as we would want it to eclipse the October highs. If these do not occur then we have a divergence in readings which tends to precede a change in price direction. As of right now though, the market is hitting higher highs as both indicators continue to climb, this is a good sign on confirmation.



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