

INVESTMENT VIEWS

SEPTEMBER 30, 2025

THE MARKET IS NOW PASSIVE....AND MORE RISKY

So-called passive investment strategies have steadily grown in popularity for nearly two decades driven by the ease and popularity of exchange traded funds (ETFs). The aim of these strategies is not to “beat the market” but rather to mimic or replicate an index such as the S&P 500 or Nasdaq. Some research has shown that it is difficult for most investors to outperform the market in the long-run - so the thinking is don't try to beat the market just be invested in it. A popular financial publication recently announced that over 50% of investor money is now passively invested. Is this a good thing and what does this mean for investors?

Like most innovations, the advent of passive investing has positive and negative aspects to it. It has lowered costs and created an accessible way for more people to easily invest in equities. However, some of the drawbacks to passive investing becoming so large include overall market stability and increased mispricing of stock valuations.

Market Stability

As passive investing becomes a larger portion of total equity investments, the risks grow that those passively invested do not respond to changes in earnings or other corporate news or events. Passive fund investors also tend to just add to holdings and buy dips. While this sounds good, the actual effect is to reduce market liquidity and amplify market volatility – up and down. When passive investors decide to sell their index funds as a group, there really is not any other party to sell to since it is the whole market and not individual stocks that other investors might be interested in.

Mispriced Valuations

Since passive investing does not react to excellent or poor earnings by buying or selling an individual stock, the case can be made that good stocks and bad stocks end up mispriced. In the past, a large stock would often have over a dozen analysts closely following it, scrutinizing every aspect of earnings reports. To be sure, there are still plenty of analysts left - just not as many investors listening. Eventually, the market will “catch up” with these stocks and reward or punish them all at once. While this can be seen as a risk – it is also an opportunity as good stocks can be left undervalued.

To summarize, the advent of passive investing has brought certain benefits to investors. It is easier and cheaper for people to become investors. However, there are untested issues and side-effects that need to be considered for their real potential to harm markets. As active investors, we do not passively invest – we recognize the risks and also the opportunities.

GOVERNMENT SHUTDOWN AGAIN

As we write, the federal government is headed for a shutdown as the political parties cannot agree on a spending bill. This is not a unique event anymore, with the last shutdown occurring in 2019 and many other times it nearly happened. While this is not directly applicable to equity markets, a prolonged and tense shutdown will start to impact markets as billions in salaries, program funding and regulatory processes would impact the economy. It is unclear how long it will last – usually the party that the public perceives is more to blame will eventually cave in.

In the meantime, we will observe the rhetoric and blame game, looking for an eventual resolution that involves the same mega trillion-dollar spending and deficits that the U.S. public has become accustomed to.

PAYPAL IS WAKING UP



PayPal was added to our portfolio over 2 years ago and has certainly tested our patience while management worked on turning things around. To be fair, a certain portion of their struggles has to do with the stock becoming overhyped and overvalued during the COVID pandemic. There are many investors who became big bag holders as the stock plummeted from parabolic heights.

We became involved near the lows, believing that while PYPL was way overvalued in 2021, by 2023 and after any 83% decline investors had overreacted and thrown a quality stock in the trashcan. New management was introduced and laid out a plan to reinvigorate the growth, and the dynamic culture PayPal was known for. While it was slow in coming, we are seeing signs that management's efforts are paying off, with big innovations in cross border payments, blockchain technology and the expansion of Venmo into broader financial services. With a healthy balance sheet, low valuation and a serious stock buyback program, PYPL is a stock we can afford to be patient with.

BIAGEN UPDATE



Biogen (BIIB) was added to our portfolios in late 2024 after investors had all but given up on it. It was and still is a cheap, quality stock with plenty of potential ahead in its drug development pipeline. Most recently, management has detailed positive progress on a pair of drugs for Lupis, an autoimmune disease with few current treatments. Furthermore, their Alzheimer's treatment, Leqembi is showing great potential for early treatment results, as opposed to waiting to start treatment at later phases of the disease. BIIB also received approval for an at home maintenance version, which will make it easier for patients to continue treatment. Most recently, Biogen received approval in China for early treatment of Alzheimer's, which could be a very significant opportunity. We believe much better days are ahead for Biogen shareholders.

SILVER TAKES THE LEAD

We have written extensively about gold over the years as it has been an asset we believed had been neglected by investors across the globe. Silver – the other precious metal has a long history of being ignored by investors who could not decide if it was an actual precious metal or an industrial metal. No matter, as it is among the top performing assets of 2025, rising nearly 60% to almost \$50 an ounce. That \$50 number is important as it marked previous tops way back in 1980 and in 2011. As it approaches this price again, silver investors are anticipating higher volatility as it tries to break through this price barrier.



There are several bullish dynamics in play for higher silver prices. First, as gold becomes increasingly expensive, people around the world will turn to silver as a way to save and preserve the value of their savings. Fiat, or paper

currency, is rapidly falling in value not only in the U.S., but in many other countries as well. Second, silver is rapidly finding uses in many high technology products, from lasers and solar panels to solid state batteries. In fact, the latest solar panel design calls for a doubling of silver content per panel! Lastly is mine supply, which has fallen for nearly 3 years as demand rises. So far, the demand has been balanced with above ground inventory, but this stockpile is running out. Additional mine supply could be 5 to 10 years away, possibly inducing a sharp rise in prices.



Spot prices in silver nearly closed at its highest monthly close in history this month after forming a massive base over the last decade. The metal seems primed for a continued move up and there is enough fundamental and technical momentum to continue carrying it.

Recommendation List: A list of all previous specific investment discussions published over the past 12 months will be provided upon request. Please email lara@mhandassociates.com or call our office for this list.



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