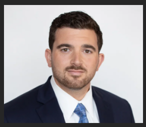
Lessons from Warren Buffett for Today’s Market



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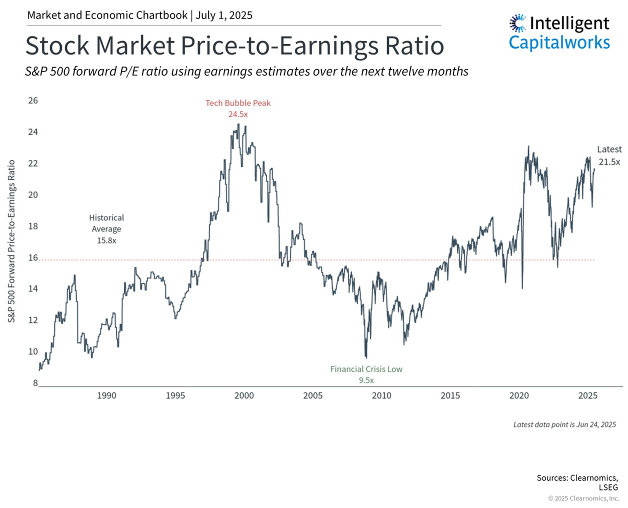
A key principle of investing is that patience, discipline, and maintaining a long-term perspective are what drive financial success. Perhaps no investor has captured this wisdom as eloquently as Warren Buffett over his five-decade career as CEO of Berkshire Hathaway. Buffett’s recent retirement announcement is an opportunity to revisit investment principles that are not only relevant in today’s market environment, but have also stood the test of time.

An often-used Buffett quote is to “be fearful when others are greedy, and greedy when others are fearful.” While steady markets are more comfortable, it’s during difficult periods that opportunities truly present themselves. April’s market volatility is a perfect example, spurred by tariffs, inflation, interest rates, and more. Those investors who have been able to look past short-term news and market swings, and instead consider their overall portfolios, are likely to be better positioned for the future.

Even though the stock market has regained much of its year-to-date losses, valuations continue to be more attractive than at the start of the year. These are times when patient investors can potentially benefit from more attractive valuations and long run market trends. Taking a disciplined approach to volatility has historically rewarded those who, like Buffett himself, look past short-term market swings and maintain their investment objectives. Here are some Buffett principles that can guide us through current market conditions.

Market volatility has improved valuations



"Whether we're talking about stocks or socks, I like buying quality merchandise when it is marked down." - Warren Buffett, 2018 Berkshire Hathaway annual letter

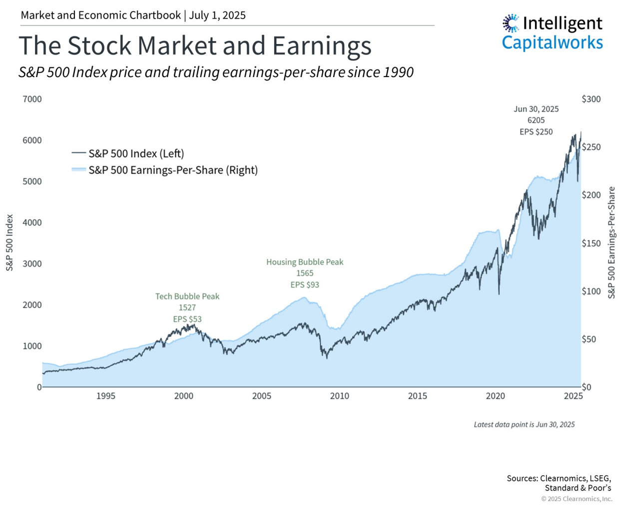
An important tenet of Buffett's approach is investing in companies that are undervalued. While broad stock market valuations rose to nearly historic highs earlier this year, the recent pullback and steady earnings growth have brought valuations back to more attractive levels. At just around 20x, the S&P 500's price-to-earnings ratio is now in-line with its average over the past decade. This "valuation reset" is the result of short-term concerns about tariffs and economic uncertainty, but might also reflect opportunities.

This is because, over longer time horizons, valuation ratios serve as the best gauge of market attractiveness. While market moves that occur over days and months are often dominated by news headlines, company-specific events, and geopolitics, these concerns typically settle and fade over time. When looking out over years and decades, what matters more are the overall growth trends and whether investors paid a reasonable price when they made their original investment.

Valuations are one way to gauge whether investors are paying a reasonable price. Rather than focusing on stock prices alone, valuations tell us what you get for that price - in terms of earnings, book value, cash flow, dividends, and more. Purchasing assets when valuations are attractive typically improves the odds of stronger future returns, while investing when markets appear expensive often leads to more modest long-term results. For this reason, valuations have historically shown a strong correlation with long-term portfolio performance.

It's important to recognize that valuations should not be viewed as market timing instruments for making all-or-nothing investment decisions. Rather, they are an important input into building appropriate portfolios. Understanding current valuation levels can help identify opportunities and set expectations in all phases of the market cycle.

Corporate earnings have grown steadily



"Focus on the future productivity of the asset you are considering. If you don't feel comfortable making a rough estimate of the asset's future earnings, just forget it and move on." - Warren Buffett, 2013 Berkshire Hathaway annual letter

In addition to more attractive prices, another important reason valuations have improved is the steady growth of corporate earnings. With more than three-quarters of S&P 500 companies having reported first-quarter results, earnings have grown an impressive 12.8%, according to FactSet. This significantly exceeds the 7.2% growth rate expected at the beginning of earnings season. This positive surprise has been driven by several sectors, particularly Communication Services, Financials, Healthcare, and Information Technology, which continue to grow their profit margins.

In contrast, the Consumer Discretionary and Consumer Staples sectors have shown relative weakness, beating their sales targets at a lower rate. This aligns with survey data indicating consumers are becoming more cautious about spending as they prioritize necessities amid inflation concerns.

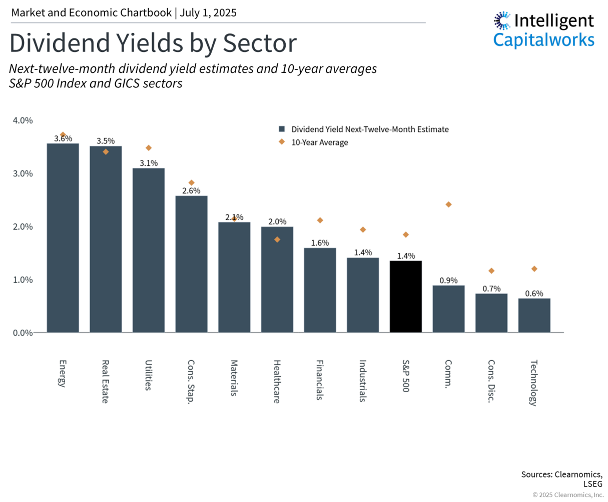
Beyond the numbers, earnings calls have provided valuable insights into how companies are navigating the current environment. Three key themes have emerged.

First, many companies have adopted a "wait-and-see" approach to the tariff situation. Given limited visibility, some have suspended guidance, while others have incorporated preliminary tariff estimates into their forecasts.

Second, despite near-term uncertainty, plans to make capital investments remain strong, particularly in technology sectors. Major technology companies have maintained or increased their capital expenditure plans for 2025, especially in areas related to artificial intelligence infrastructure. This suggests that management teams have continued confidence in long-term growth opportunities.

Third, companies across various sectors are undergoing transformations to adapt to technological advancements, changing consumer preferences, and economic shifts. These strategic adjustments, while sometimes challenging in the short term, position companies to better weather uncertainty and capitalize on emerging opportunities.

Dividends continue to support portfolios



"It's not good news when any company cuts its dividend dramatically" - Warren Buffett, 2023 Berkshire Hathaway annual meeting

Even though Berkshire Hathaway has rarely paid dividends, Buffett has benefited from the earnings and dividend-generating ability of his portfolio companies. His mentor, Benjamin Graham, focused heavily on the importance of dividends as an indicator of corporate financial health in the book "The Intelligent Investor." While investors typically focus on stock prices, dividends have historically been a major contributor to long run returns.

Despite ongoing market uncertainty, dividends have continued their upward trajectory, adding to stock market total return for investors. The accompanying chart shows that many sectors have healthy dividend yields, many of which are still around their 10-year averages.

For investors who rely on their portfolios for income, dividends are an important source of yield. Companies are typically reluctant to cut dividends except during periods of financial stress. Dividends are also an important signal of the underlying financial health of corporations. This is because dividend payments are not just accounting figures, but require actual cash. The continued growth in dividends suggests confidence among corporate leaders despite near-term uncertainties.

The bottom line? As Warren Buffett's career shows, the best way to navigate uncertainty is with a patient, long-term approach to investing. This remains relevant in today's market environment, especially as investment fundamentals improve.

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