April 2025

Belleros Capital Management

The Passionate Investor

1Q2025 Market Review and Commentary

*Market Review **

- *Equity markets **underperformed** fixed-income markets with the Russell 3000 declining 4.72% (including dividends) and the S&P U.S. Aggregate Bond index climbing 2.63%.*
- *Small caps **underperformed** large cap stocks as the Russell 2000 retreated 9.48% and the S&P 500 fell 4.27%.*
- *Growth **underperformed** Value during the quarter (as determined by the Russell 3000 market index which includes large, mid, and small capitalization stocks).*
- *International or developed, non-U.S. equity markets (as determined by the MSCI EAFE**) **outperformed** U.S. markets in both U.S. dollars (+6.86%) and local currency terms (+2.89%).*
- *The MSCI Emerging Markets Index **underperformed** developed, non-U.S. equity markets (international) in both U.S. dollars (+2.93%) and local currency (+2.65%) terms.*

** Unless otherwise noted, performances stated above reflect data provided by Standard and Poor's, Russell Investments, NASDAQ, MSCI, and Barclay's Capital.*
*** The MSCI EAFE Index is a large capitalization, developed market benchmark that tracks non-U.S. or international equity markets.*

Quarterly and Year-To-Date Performance

Index	QTD	YTD
S&P 500 (Large Caps)	-4.27%	-4.27%
S&P 500 Equal Weight	-0.61%	-0.61%
Russell 2000 (Small Caps)	-9.48%	-9.48%
Russell 3000 (All Caps)	-4.72%	-4.72%
NASDAQ	-10.42%	-10.42%
S&P U.S. Aggregate Bond index	+2.63%	+2.63%
MSCI EAFE (USD)	+6.86%	+6.86%
MSCI Emerging Markets (USD)	+2.93%	+2.93%

Source: FactSet

Inside this issue

Tim Hai, CFA®, CAIA®

"Risk is not inherent in an investment; it is always relative to the price paid. Uncertainty is not the same as risk. Indeed, when great uncertainty – such as in the fall of 2008 – drives securities prices to especially low levels, they often become less risky investments."
— Seth Klarman

Company Description

Belleros Capital Management actively manages direct stock portfolios on a fully discretionary basis for institutional clients. Our primary goal is to help them outperform their benchmarks by exploiting short-term market inefficiency through a long-term investment strategy that produces investment portfolios that are differentiated in nature and is concentrated in its number of holdings. The strategy seeks to invest in the stocks of quality companies at a price that is sufficiently below our calculation of its intrinsic value. Additionally, the strategy is all capitalization in nature but tends to have a small and mid-capitalization bias that we believe is secular in nature.

Market Commentary

Stocks generally closed-out the first quarter down after a period of optimism following the 2024 Presidential election. Tariff[1] uncertainty from the new administration that threatened slower growth was the main culprit. Although the threats were widely reported and announced leading up to the election, they either weren't taken seriously or perhaps were not expected to be as broadly implemented as they now appear to be. Widespread uncertainty as to their effect on the US and global economy spread rapidly into stocks in the form of volatility. However, safe havens were available for those looking for stability or at least more moderate losses.

Most stocks that rallied since the last bear market in 2022 underperformed in the first quarter. Large cap stocks (the S&P 500) fell 4.27% during the quarter. Growth, technology, and "mega" cap stocks in particular, including members of the "Magnificent 7" (-16%) group of stocks that were speculated to be beneficiaries of artificial intelligence ("AI") technology, retreated from their highs. Shares of stocks that did not benefit from the AI trade outperformed. The S&P 500 Equal Weight Index (-0.61%), which basically represents the other 493 stocks in the standard S&P 500 index that did not enjoy the gains of the past two years, outperformed. International, value, energy, and healthcare stocks outperformed similarly. Bonds offered (+2.63%) safe harbor during a benign period for interest rates and uncertainty in monetary policy.

Small caps and the stocks of companies that make consumer discretionary goods (non-essential items that are wanted by consumers but not necessarily needed) failed to benefit from the strong quarter for contrarian investing (i.e. strategies that favor investing against the crowd). Small caps were weak because they suffered from multiple sources of uncertainty. Inflation, recession, and even "stagflation" (a combination of both inflationary and recessionary threats) threats limited these stocks from participating alongside the other undervalued investments. These stocks underperformed as many of the items that these companies make are made or are put together with components from abroad – consumer goods or parts that may be adversely affected by tariffs.

[1] Tariffs are taxes or "duties" imposed (by the host country) to manipulate the level the imports of foreign goods and products coming into the country. Additionally, tariffs generate revenues for the host country and may be used to protect home grown or manufactured products that are deemed to be at an unfair disadvantage relative to imported goods. Tariffs are sometimes imposed in retaliation for another country's imposition of a tariff.

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As We Went To Press

Stock market volatility has been rising since February, but rose considerably in the early days of April, after the administration's so called "liberation day" for tariff implementation. The day marked a new period of even more uncertainty and volatility. Some market indices moved into correction[2] period, and a few briefly entered into bear market[3] territory.

Continued Perseverance

We understand that the level of volatility experienced during the quarter has made investors more nervous collectively. We continue to advise investors to avoid making short-term trading decisions ("market timing") that are driven by fear. It is never a good idea to make decisions under these circumstances, whether for investing or most other matters (outside of matrimony). These emotionally driven decisions can lead to real and permanent losses of capital, and potentially higher opportunity costs. This in turn could lead to investors failing to meet their long-term investment and retirement goals and increases the risk that they outlive their wealth.

Investors should maintain a long-term view that typically coincides with their investment time horizon. They should also understand stock market behavior and history. Stocks are inherently volatile but that is precisely the reason they offer potentially high rates of return over the long term. But potentially higher rates of return only accrue to investors that are disciplined and stay invested. And, although stocks are prone to bouts of excessive volatility and correction, they have always (our emphasis) rebounded to higher levels (see chart below) – even after periods of existential threat (like World War 2 and COVID) or extreme correction (i.e. the great depression and great recession). The current period's economic policy change doesn't (seemingly) rise to that level.

"In the short run, the market is a voting machine but in the long run, it is a weighing machine."
— Benjamin Graham

Investment Philosophy

Market Efficiency (or Inefficiency)

Stocks are inherently volatile assets due to the sheer number of participants involved, the diversity of their motives, and the wide range of emotions they employ. Stocks are frequently prone to excessive volatility when emotions particularly run hot. We believe this excessive volatility is a sign of short-term stock market inefficiency. However, we believe the stock market is more efficient over the long-term as rational investment behavior reasserts itself. Similarly, excessive volatility causes the market prices of stocks to deviate from their intrinsic values.

As time progresses, the market prices of stocks generally return to their intrinsic values. We believe that stock market inefficiency as represented by excess volatility is exploitable and represents an opportunity for profit. In our experience, excessive volatility can and does extend to all manner of companies and stocks. Even the best companies and their stock can be affected by stock market inefficiencies and come to exhibit excess volatility, creating exploitable investment opportunity for the astute investor.

"We steer clear of the foolhardy academic definition of risk and volatility, recognizing, instead, that volatility is a welcome creator of opportunity"
— Seth Klarman

Investment Philosophy

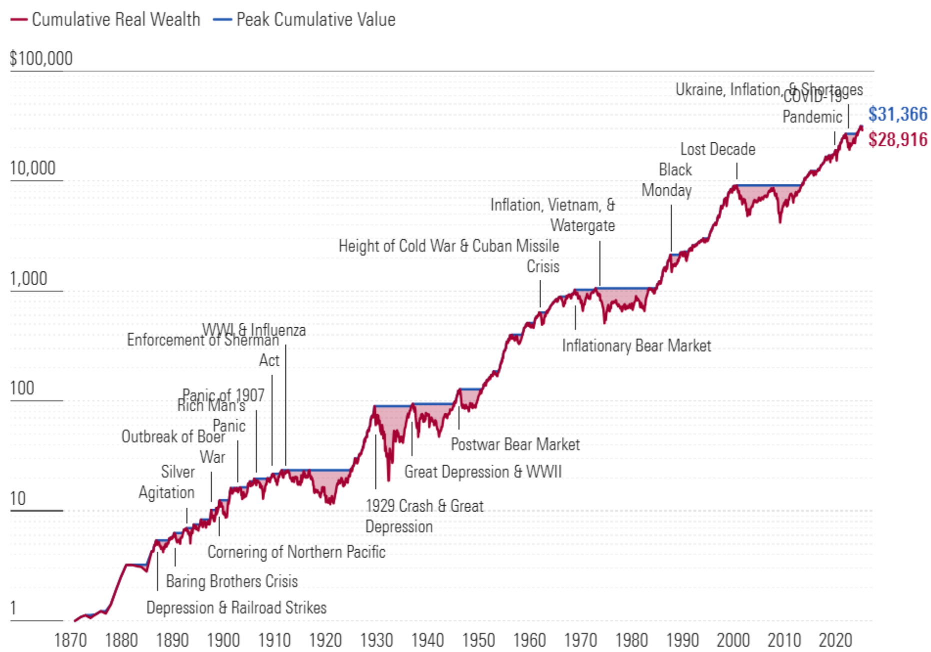
The Main Source of Risk to Long-term Investors

Belleros Capital Management believes that the investment community's definition of risk as volatility is inappropriate and generally does not apply to all participants. Although the effects of volatility can be particularly disastrous to investors that have near-term income or liquidity requirements, long-term investors can and should be less constrained by it. As opposed to gambling or speculation, we believe that investing is by definition a long-term strategy.

We believe that stock market volatility is a source of investment opportunity for long-term investors, especially when it is excessive. Investors with a strategy to benefit and exploit stock market inefficiencies and excessive volatility should therefore concern themselves with (and try to avoid) greater risks such as a permanent loss of capital, the risk of outliving one's wealth, or the failure to meet their long-term investment and retirement goals.

Stock Market Resilience

Market Crash Timeline: Growth of $1 and the US Stock Market's Real Peak Values



Logarithmic scale

Source: Kaplan et al. (2009); Ibbotson (2023); Morningstar Direct; Goetzmann, Ibbotson, and Peng (2000); Pierce (1982); www.econ.yale.edu/~shiller/data.htm, Ibbotson Associated SBBI US Large-Cap Stock Inflation Adjusted Total Return Extended Index, S&P 500 (2025), Bureau of Labor Statistics, Non-Seasonally Adjusted Consumer Price Index (2025). Data as of Mar. 31, 2025.

Source: MorningStar

Not So Efficient

It is often suggested (by academia or the consulting world) that the stock market (and large cap stocks in particular) is efficient with few opportunities for active management and opportunistic investing. We believe this to be demonstrably false given the poor quarter for stocks and large caps in particular. This belief is reinforced given the history of corrections[2] and bear markets[3]. Their frequency of occurrence every few years (there have been 27 corrections over the past 50 years) suggest they are more "ordinary" and commonplace than "extraordinary" (see chart below) and rare. Opportunities for long-term value adding strategies are available even during docile periods in the stock market. The opportunities become even more plentiful and robust during times of excessive stock market volatility and upheaval. Adding value over the long-term, through an actively managed investment strategy, is difficult but achievable if fees (are minimized) and goals (i.e. no closet indexing) between the manager and clients are aligned.

[2] A correction occurs when the index in question falls by 10% from its previous high.
[3] A bear market occurs when the index in question falls by 20% from its previous high.

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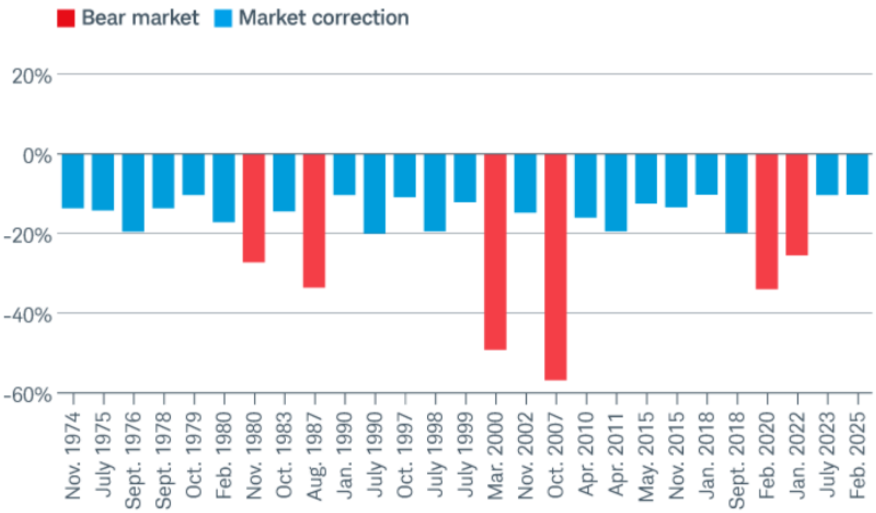
Stock Market Corrections and Bear Markets



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc.
Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. Each period listed represents the beginning month/year of either a market correction or a bear market. The general definition of a market correction is a market decline that is more than 10%, but less than 20%. A bear market is usually defined as a decline of 20% or greater. The market is represented by the S&P 500 index. **Past performance is no guarantee of future results.** Indexes are unmanaged, do not incur management fees, costs and expenses and cannot be invested in directly.

Source: Charles Schwab

Asset Allocation Worked

Unlike the last bear market in 2022, asset allocation helped those whose portfolios were sufficiently diversified. In 2022, inflation was near 40-year highs but was thought to be brief or "transitory" in nature, and so monetary policy was implemented slowly. When the Federal Reserve finally realized their mistake, they raised interest rates sharply (425 basis points or 4.25%) from near zero and at a brisk pace (over a nine-month period) to compensate for their slow start. The quick and abrupt increase in interest rates caused a lot of volatility and contraction in the stock market.

The bond market, which typically offers safe harbor when stock prices are down, surprised many investors when it too fell victim to the rapid climb in interest rates[4]. The poor returns experienced in tandem by both bonds (the S&P U.S. Aggregate Bond index fell 19% in 2022) and stocks (the S&P 500 fell 19% in 2022) led to poor performances in typically "safe" 60/40 portfolios (i.e. an investment portfolio typically recommended to retirees, with a ratio of 60% stocks to 40% bonds). The 60/40 portfolio based on these indices fell 15% in 2022. The 60/40 portfolio fell a more moderate 1.41% in the first quarter of 2025.

[4] There is an inverse relationship between interest rates and bond prices. Bond prices fall (rise) when interest rates rise (fall).

"Wide diversification is only required when investors do not understand what they are doing."
— Warren Buffett

Investment Philosophy

Diversification (or Not)

Belleros Capital Management believes the idea of portfolio diversification is counter-intuitive and works against our active management goals. The idea of diversification is meant to limit the impact of stock market volatility. We believe stock market volatility represents an investment opportunity that is exploitable. Therefore, limiting the opportunities we seek to exploit would seem rather perverse. Diversification is a sliding scale. Too little and you risk putting all your eggs in too few baskets; too much and your portfolio and expected return mimics the broader stock market (index).

We believe excessive diversification (in addition to high investment-related fees) is a main contributor to poor active management performance relative to passive/ index investing. We believe investors who seek excess returns above and beyond what one could expect to receive from the broader stock market should choose an investment manager that minimizes fees and seeks to differentiate their investment portfolio to ward off the indexing-like characteristic of diversification.

"Owners of stocks, however, too often let the capricious and often irrational behavior of their fellow owners cause them to behave irrationally as well. Because there is so much chatter about markets, the economy, interest rates, price behavior of stocks, etc., some investors believe it is important to listen to pundits – and, worse yet, important to consider acting upon their comments."
–– Warren Buffett

Please contact us to learn more about our investment strategy and how we try to add value for our clients.

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Peak 65

Many Americans are racing towards a period people are referring to as "Peak 65" - a three-year period (2025-2027) in which a record number of people are retiring. Experts estimate that over 4 million people will retire annually over the next three years. A severe bear market would not be ideal for anyone but especially a potential 12 million-plus group of prospective retirees. Getting off on the wrong foot during a stock market correction or bear market can seriously impair one's goals and increase the risk that they outlive their wealth. It is very important investors review their financial plan (or create one if necessary) and investment portfolio to make sure they are optimal and specific to them. Reviewing your financial plan and investment portfolio is ideal on a regular basis, but especially before a life-changing event like retirement.

Longevity Risk

We believe most Americans are underprepared for retirement with regards to their savings and investments. First, several polls suggests that the typical investor believe they will require $1 million or more in retirement savings to live "comfortably" in retirement. Yet, those same people on average (median) will say that their retirement savings only amounts to a fraction (i.e. 10% or $100k) of their desired amount. Secondly, we believe most investors under-estimate their life expectancy. The average American is expected to live to 80 years. But this just means half will live beyond that. And, although most people will live longer than they expect, they will not be as healthy as they once were pre-retirement. The AARP "suggests that the lifetime probability of becoming disabled…or of being cognitively impaired, is 68% for people aged 65 and older".

Investors can expect to pay over $250k in out of pock healthcare expenses during retirement. Additionally, many (if not most) Americans will require some level of assisted living for themselves, their spouse, or both of them. Assisted living can cost over $75k in Maryland (annually) depending on location and level of need. The median annual cost of a private room in a nursing home is $116,800. Importantly, this is not covered by Medicare. Many investors who are planning for a best-case scenario may reflexively want to ease back on growth as they reach retirement. We believe investors should plan for the worst and hope for the best. This may mean maintaining a higher level of growth exposure in your investment portfolio even into your retirement years. We believe that doing so will place you in the best position to succeed and lower the risk that you outlive their wealth.

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Closing Remarks

Americans have not had a lot of help in saving for retirement or investing generally through the years. Most Americans own investments in stocks and bonds through their employer 401k plans. Many of these plans were poorly thought-out with very little help offered to investors. Investment options can range from too many to too few. Employers usually do not offer investment advice and so investors/employees are oftentimes left to their own devices. When they do get help, it is generic and sub-optimal and the result is that most investors are inappropriately allocated for their specific needs. For instance, we believe many investors do not have enough growth exposure in their investment portfolio to help them stave off inflation or longevity risk. Some investors may find that they don't have the protection they need during periods of stock market contraction – especially if their nest egg is their main source of income.

Fortunately, for many, there is time left and steps they can take to get back on track. Many investors should develop a financial plan if they don't already have one. They can review and update their plans if they do. Investors can review their investment portfolios to determine if they have an optimal asset allocation that is specific to their needs. The idea is to move from generic advice that they might have received earlier in their life and get tailored or customized help that is distinct to their unique needs. Investors must get their financial houses in order while they have time. Despite the current malaise in the stock market, a financial plan and investment portfolio review will help them increase their confidence in their retirement future. It will also help lower longevity risk and place them in a better position to succeed. We can help. Please contact us if you need help with financial planning, a portfolio review, or if you have any general questions regarding investments, financial planning, or retirement. Enjoy the spring!

"By failing to prepare, you're preparing to fail."
-- Benjamin Franklin

"Invest for the long haul. Don't get too greedy and don't get too scared."

— Shelby M.C. Davis

Please contact us to learn more about our investment strategy and how we try to add value for our clients.

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Investment Strategy

We seek to exploit stock market volatility in the short-term through a ***long-term****, active investment management strategy that seeks to purchase higher* ***quality*** *stocks with sustainable competitive advantages and economic moats, and at prices below our calculation of intrinsic value (otherwise known as "****value*** *investing"). These characteristics help us defend against what we believe is* ***the biggest risk in investing: a permanent loss of capital.*** *In addition, we intend to show our discipline and conviction in our investments by employing a concentrated portfolio mandate that is differentiated and allows us to focus on only the best investment candidates available. Further, we seek to show our conviction through our portfolio weighting scheme which skews exposure to the best investment candidate.*

- Active investment management
- Long-term investing
- Seek higher quality opportunities
- Value investing
- Minimizing permanent losses of capital
- High conviction
- Invest with confidence
- Disciplined approach
- Volatility is an opportunity
- Concentrated stock portfolio
- Differentiated from the index

"Risk is not inherent in an investment; it is always relative to the price paid. Uncertainty is not the same as risk. Indeed, when great uncertainty – such as in the fall of 2008 – drives securities prices to especially low levels, they often become less risky investments." — Seth Klarman

"We don't have to be smarter than the rest. We have to be more disciplined than the rest." — Warren Buffett

Biography

Tim Hai, CFA®, CAIA®
Chief Investment Officer and Senior Portfolio Manager

- 28 years of experience in the investment industry
- 16 years of equity portfolio management experience
- 6 years experience overseeing public equity and fixed-income assets for a $10 billion multi-employer pension plan
- 8 years exp. manager research and due diligence
- M.B.A. - Loyola College of Maryland, 2000
- B.S. Finance – University of Maryland, College Park, 1996

Tim has 28 years of diversified investment experience that includes the research and direct investment management of stocks and bonds for high net worth and small business clients. Additionally, Tim has experience in manager research and due diligence, having helped oversee and manage a $10 billion institutional pension fund. Tim had direct oversight of the pension fund's equity and fixed-income investment portfolios that were managed by outside investment managers. Tim had specific oversight over the pension fund's $1.2 billion concentrated managers program that sought to extract value add from some of the country's best investment managers through a mandate that required high conviction and a limited number of stock positions.

Tim received his B.S. in Finance from the University of Maryland, College Park and his MBA from Loyola College of Maryland. More recently, he also completed coursework in international investing and currency management with the Oxford International Investment Programme at the Said Business School at the University of Oxford, United Kingdom. Tim holds the Chartered Financial Analyst ("CFA") and Chartered Alternative Investment Analyst ("CAIA") designations. He is a member of the CFA Institute and the CFA Society Washington, DC. He is also a member of the Washington, DC Chapter of the CAIA Association.