"Achieving Successful Outcomes"

Compound Interest

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NEW YEAR'S RESOLUTIONS FOR YOUR PORTFOLIO

As we turn the page on 2024 and move into 2025, there are inevitably rumblings of resolutions. As is always the case this time of year, people are pledging to do anything from saving more money, eating healthier, going to the gym more, or watching less TV. Many people hope to achieve their resolutions but few do. In fact, research suggests that only 9% of Americans typically keep their resolutions. In the spirit of the New Year, we have decided to think through five resolutions we believe everyone should have, and keep, for their investment portfolios.

The good news about these resolutions? We are certain we will keep them. We have a time-tested philosophy and a 40+ year history of sticking to it. We have a well-defined process and a high degree of philosophical alignment among our team members. Our fundamental, bottom up investment process is engineered to create successful outcomes, and aside from process enhancements, we do not plan on changing it.

1. Practice Dividendification

We have long believed dividends are an excellent indicator of quality. In fact, this is the basis of the investment philosophy our firm was founded on. At Crawford, we invest only in dividend-paying stocks, preferring those who raise their dividends. A company's ability to pay, and raise, its dividend can signal a number of things about its underlying business strength including sustainable earnings, strong free cash flow, and shareholder-friendly management, to name a few. However, we do not stop there. Once a company has made it into our initial universe, our research team gets to work and undergoes a rigorous scrutiny process so only what we believe are the highest-quality businesses make it into our portfolios.

We recently published a piece called *Not Diversification, Dividendification!* that highlights the way our simplified, quality- and dividend-oriented approach enables investors to adequately diversify with a more concentrated portfolio. In other words, investing in high-quality, dividend-paying stocks reduces risk and enhances return, eliminating an investor's need to allocate assets to a variety of asset classes.

2. Be Sensitive to Valuation

It is no secret that the price of the stock market is currently very elevated. The S&P 500 Index is currently experiencing the greatest amount of concentration since our firm was founded over 40 years ago with the weight of the top 10 stocks in the S&P 500 Index at nearly 39%. Mega-cap growth stocks, especially those with exposure to Artificial Intelligence, have dominated market returns as of late. Our experience reminds us that unusually high investor expectations, which are reflected in high stock valuations, are seldom met over long periods of time, which can lead to investor disappointment. This is why, at Crawford, we prefer to invest in companies with what we believe are more reasonable valuations and somewhat modest growth expectations. Our goal is that the companies we own in our portfolios will meet and exceed expectations, leading to both fundamental progress and enhanced valuations.

3. Prepare for the Worst

Just because we cite that prices are currently high does not mean we are necessarily suggesting a poor investment outcome. We just note that there is a likelihood we will experience more pedestrian returns in the not too distant future. More so, we note there is a high degree of uncertainty in the markets today. In addition to elevated valuations, this uncertainty is related to interest rates, inflation, Federal Reserve (Fed) policy, the recent election and incoming administration, and geopolitics. Our investment approach is engineered to bring more certainty to the investment equation, which should be a good thing in 2025.

This year, and every other year, we recommend an approach that can creates successful outcomes regardless of the market environment. Because of our focus on quality as the starting point, and income from dividends as a key element in our approach, we have been able to participate on the upside in the best of times and preserve capital on the downside in the worst of times. This combination of upside participation and downside protection helps smooth out investment returns over time and enables investors to enjoy the benefits of compounding investment returns. We have a high degree of conviction in the ability of the companies we own to prosper through an uncertain market and economic environment. While we do not know what will happen in the markets and economy, we believe that shareholder-friendly businesses with financial strength will persevere.

4. Remember It Isn't Easy

We put out a piece earlier this year that highlighted a study that found that the majority of stocks fail to match the returns of one-month Treasury bills. This is hard to believe but serves as a good reminder of the importance of quality and durability in a portfolio. It also underscores the importance of having a philosophy and remaining invested. For many of the reasons outlined above, our approach and time-tested process remove much of the emotion associated with investing. By doing this, we believe we increase the likelihood our investors will remain invested and in turn create successful outcomes.

5. Consider Small Caps

While the market is expensive, small cap stocks are trading at the largest valuation gap relative to large cap stocks in recent memory. Large caps have recently demonstrated dramatic outperformance over small caps, and we do not believe this outperformance is sustainable. In turn, we believe a reversion to the mean is likely. We believe this should result in outperformance of small and mid cap stocks at some point in the not too distant future.

We believe the resolutions outlined above will lead to success for our clients, and we intend to keep them on their behalf. We will continue to invest according to our long-held principles, and we wish everyone a happy, healthy 2025.