



Quarterly Commentary

March 2025
First Quarter

“You have power over your mind not outside events.”

Marcus Aurelius, *Meditations*

It's Time in the Market, Not Timing the Market

Five years and two weeks ago to the day, we wrote to our clients, “Great businesses have endured the Tech Bust, 9/11, and The Great Recession (GFC), and they will eventually emerge from the 2020 coronavirus panic.” We now face a new set of circumstances, but once again believe great businesses will endure.

Today's stock market action is ironically similar to 2020 as investors “sell first and ask questions later.” As with the Pandemic, there is no historical playbook for what is transpiring today, and market participants have no prior context for appropriately underwriting financial assets. We have been digesting both sides of the tariff argument but have only arrived at one conclusion: the fear of a global economic shutdown is forcing market participants to liquidate equities to reduce risk. As the saying goes, public equity investing is the only business where when everything goes on sale, people run for the exits.

Liberation Day has started what feels like the dogfight in *Top Gun: Maverick*. US leadership and the rest of the world are like the two fighter jets spiraling straight for the earth and inevitable death. Neither pilot is willing to back down and Maverick (pilot) eventually says, “your strategy is about to run us into the ground.” We can only focus on what we can control and ensuring our investments have fortress balance sheets to endure once again. Today, the portfolio trades for a weighted average Net Debt/EBTIDA of 1.0x (ex. financial companies) with an average maturity of debt termed out over five years at an interest rate of 5.3%. This flexibility should allow our companies to be opportunistic, enhancing their long-term value.

Sentiment Nearing Maximum Pessimism

Equities have quickly discounted the incorrect Trump 2.0 thesis of animal spirits extending the bull market. In fact, the deterioration in market sentiment is at historical levels. Consider the following:

- » VIX Index (fear gauge) is over 55. This is the third highest reading since 1990 and only surpassed by the GFC and 2020 Pandemic
- » The Michigan Consumer Confidence index fell below 60 for only the fifth time since 1971
- » AAll Sentiment Bearish Reading of 61.9 is the highest since 2009
- » U.S. Economic and Trade Policy Uncertainty Indexes are both at record highs over the last 45 years

Our philosophy is that significant investment opportunities arise when there is a momentous shift in market sentiment (psychology). All prior periods of maximum pessimism represented incredible buying opportunities for those with reasonable time horizons. The setup exists for the same today and we will use the volatility to take advantage of excellent opportunities.

Portfolio Statistics

We want to own superior companies at attractive prices with the goal of achieving the 12x30x30 maxim: 12% compounded over 30 years generates a 30x return on the original capital. Our portfolio today has the following qualitative and quantitative attributes:

Qualitative

- » 15 of our holdings are #1 as it relates to market share, active users, or scale



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- » Insider ownership of our companies totals billions of dollars (multiple CEOs/founders own >5% of shares outstanding)
- » Over 60% of portfolio is buying back stock

Quantitative

- » Weighted average market capitalization of \$26 billion
- » Portfolio trades for 10.8x cash flow with an adjusted EBITDA margin over 18% and an estimated ROE of 14%
- » Sales growth estimate of 7.5% over the next two years with earnings estimated to grow at over 18%
- » Currently hold >12% cash and are looking to deploy opportunistically

As previously stated, negative investor psychology coupled with market volatility creates opportunity. Those favorable investment conditions are evident today, but we would also be cautious that our time horizon extends beyond 2025. Our expectation is that market volatility will persist over the coming months.

Temperament – Key to Winning Long Term

Times like these prove to be some of the most difficult for investors as rational thinking becomes shadowed by nerves. Fayed Sarofim famously said that “nervous energy is one of the greatest destroyers of wealth.” This is because stress shortens people’s time horizons as the psychological impact of losing money is exponentially greater than gain. We will remain rationally optimistic and take advantage of the dislocations and nervous energy in the market.

We appreciate you entrusting us to manage your wealth during these turbulent periods. We’ve experienced this volatility in the past and are certain there will be more in the future. Please reach out directly if you have any questions or want to discuss individual positions.

The Nixon Capital Team

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