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FINANCIAL MARKET OVERVIEW

The final quarter of 2025 ended with average stock price performance. The three most popular stock indexes posted average quarterly returns - up between 2.5% to 3.59% (equivalent to a 10% - 14% annualized return). The 2025 full-year stock market returns for the three largest stock indexes ranged between 13% and 17%. While the 2025 annual stock index returns were above average, the volatility was extreme. The first quarter was negative, the second and third quarter stock returns were well above-average (28 record high days for stocks) and the fourth quarter returns were average.

Large-company *growth* stocks - dominated by 20 AI and tech companies, were leading the pack for top stock market performance in 2025 until the fourth quarter. Large-company growth stocks barely advanced 1.15% and the Tech Index was up only a modest 1.32% during the fourth quarter. As suggested last quarter, large-company *value* stocks - up 3.82% during the fourth quarter, are currently a much better choice for consistent performance and fair valuations.

Mid-size *growth*-company stocks posted a slightly negative return (-3.73%) during the fourth quarter and mid-cap *value* stocks were up a modest 1.45%. The same results regarding *value* stocks outperforming *growth* also applied to the small-company stock sector. Small-company *value* stocks were up just over 3% while small-company *growth* stocks barely advanced 1% during the fourth quarter.

The biggest positive changes in stock performance for the second quarter in a row was International and Emerging Market (smaller international) stocks. Both categories continue to benefit from a weaker U.S. Dollar and deferred tariffs. The EAFE (Europe Australasia & Far East) Index was up 31.5% in 2025 while EEM (Emerging Markets-small international companies) increased 34%.

Gold (and Silver) prices have once again posted the largest gains. Gold was up 11.5% during the fourth quarter and up a whopping 63.68% during 2025. Silver prices were up an astonishing 52% during the fourth quarter and 145% for the entire 2025 calendar year! The primary takeaway we mentioned in our previous newsletter is: metal prices and stock values have an inverse relationship over 90% of the time. When both stocks and metal prices are making all-time highs at the same time, one of these opposing categories is “wrong” and a price adjustment is just a matter of when.

It’s worth repeating again: gold and silver prices jump with: high uncertainty, rising world conflict (wars), new tariffs, higher inflation, a weak U.S. dollar (and/or when the world economies are in decline). Stocks perform well when confidence is rising, world conflict is low, the U.S. Dollar is strong, interest rates are declining, inflation is modest and the economy is growing. These well-above average returns for both metals and stocks over the past 12 months suggest that either stocks or metals (or both) are due for adjustment.

Bitcoin continues to display extreme volatility – this time on the downside. Bitcoin was down **23.65%** during the fourth quarter alone and posted a negative 6.5% return in 2025.

Real Estate Investment Trusts (REITS) was the other negative performer – down 2.32% during the fourth quarter and up only 3.24% during the 2025 calendar year. Not surprising. After 4 years of well-above average price performance because of extremely low interest rates, real estate mortgage rates are now back at 6% are no longer a bargain – just average.

Fixed income investments had modest returns – up about 1% for short-term maturities during the fourth quarter and up 4.96% for the year. Intermediate-term fixed income category was up 1% during the fourth quarter and about 8% for the 2025 calendar year. Currently 3-month Treasuries pay 3.6%, 2-year Treasuries pay 3.5% and 30-year maturity Treasuries pay 4.8%. Essentially, the yield curve is still flat – normally investors are paid higher interest for longer maturity dates.

The following chart displays sample returns of various asset categories for the calendar year and during the fourth quarter of 2025:

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Yr-To-Date 2025	4th Qtr. 2025	Index Return (includes dividends reinvested)
+ 12.97%	+ 3.59%	Dow Jones Industrial Average (^DJI)
+ 17.72%	+ 2.66%	Standard & Poor's 500 Index (^GSPC)
+ 17.10%	+ 2.45%	DJ U.S. Total Stock Market (VTI)
+ 18.33%	+ 1.15%	Large-company stock-Growth (IWF)
+ 15.68%	+ 3.82%	Large-company stock-Value (IWD)
+ 8.45%	- 3.73%	Mid-Size Stocks – Growth (IWP)
+ 10.82%	+ 1.45%	Mid-Size Stocks – Value (IWS)
+ 12.90%	+ 1.15%	Small-company stock- Growth (IWO)
+ 11.71%	+ 3.08%	Small-company stock- Value (IWN)
+ 31.55%	+ 4.71%	International (EFA)
+ 33.99%	+ 3.91%	Emerging Markets (EEM)
+ 3.24%	- 2.32%	Real Estate Investment Trusts (VNQ)
<u>Fixed Income (includes appreciation)</u>		
+ 4.96%	+ 1.07%	Short-term U.S. Treasury (SHY)
+ 8.03%	+ 0.93%	Intermediate U.S. Treasury (IEF)
<u>Alternative Investment Category</u>		
+ 63.68%	+ 11.49%	Gold (GLD)
+145.96%	+ 52.04%	Silver (SLV)
- 6.47%	- 23.66%	Bitcoin (IBIT)
- 15.00%	+ 10.8%	Nasdaq Crypto Index (^NCI)

*All returns calculated using adjusted historical quotes from finance.yahoo.com

FINANCIAL MARKET OUTLOOK

“Momentum Investing” continues to grow in popularity – whatever is moving up rapidly attracts dollars like a magnet. It’s a *trading* strategy that involves trading stocks, gold, silver, bitcoin, etc. that are moving rapidly up (or down) and then exiting the strategy before the prices begin to move in the opposite direction.

For the past few years, Tech and AI stocks had the spotlight and experienced abnormally high stock price appreciation. AI and Tech stocks have legitimate growth potential. Bitcoin joined the momentum club in 2023-2024 (but down 6.5% in 2025). This year, gold, silver, palladium, cobalt, copper and other metals are basking in the momentum spotlight. Several of these metals are “base” metals that are used extensively in cell phones, batteries, defense applications and rightfully deserve a higher value as countries around the world are buying mines and securing deals to keep the supply available. While gold and silver are used in some commercial applications, it appears more likely that these two metals have momentum investing as their primary attraction. Historically, gold and silver have very pronounced and short-term advances usually lasting about 1 year. Gold and silver spiked in 2011, 2020 and now 2025. In our view, metal prices have the biggest exposure to a change in momentum investing.

As stated in our previous newsletter, the price movement of stocks versus gold/silver normally (90% of the time) move in opposite directions to each other. In 2025, stocks performed well above average (17%) and metals had astounding returns ranging from 15% - 150%. One or both of these asset classes may be due for an adjustment to normal valuation levels and when momentum investors change direction, the price adjustment can be swift.

The broad U.S. stock market isn’t cheap either. One timeless measure of fair valuation is the price-to-earnings ratio. The combined companies in S&P 500 index are selling for 28 times earnings versus just under 18 times earnings (on average) over the past 20 years. P/E ratios should not be ignored. However, a reasonable case can be made for further stock market advances.

The U.S. economy is showing resilience with lower oil prices and lower interest rates. Economic growth is expected to move up modestly – a 2.3% GDP forecast compared to approximately 1.7% in 2025. Current interest rates levels are reasonable and may even move slightly lower. The tax cuts contained in the One Big Beautiful Bill Act take effect in 2026. Inflation has been easing slightly and is not expected to be a major factor.

The best positive is the bull market in stocks is spreading out beyond tech and AI stocks. Other sectors that we refer to as “Value” stocks – such as industrials, financial and healthcare have recently posted solid gains of 10% to 20%. Small-company stocks and “value” stocks of all sizes are beginning to advance. Over the past six months, international and emerging market stocks are also advancing faster than the U.S. stock market.

Clearly any one or combination of the above topics could have a material impact on our economy, precious metal prices and the stock market in either direction. In summary, the direction of our future economic and financial market conditions is not clear, but improving.

INVESTMENT OUTLOOK AND RECOMMENDATIONS

All of the above discussions and topics will impact our outlook and the investment decisions we make. Bottom line: There is no certainty in the near future and different asset classes that normally have an inverse relationship to each other are now moving in the same direction. Our advice is to not make significant changes in any direction at this time. New deposits or additions to your Schwab accounts should be invested periodically over a period of 6-8 months rather than making 100% purchases on one particular date.

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We are still taking a moderate/balanced approach to risk and return possibilities after increasing our clients' exposure to stocks during both the fourth quarter 2024 and again during the first six months in 2025.

We will continue to add *value stocks, dividend-paying stocks*, and especially *emerging markets/international stocks* to client portfolios during the next six months and prefer *short-term fixed income securities (CD's and Treasuries)* until the inflation, interest rate and tariff picture becomes clearer. *Emerging markets (mid-to-small international stocks)* look promising.

Again, we have identified several stock investments that we intend to add to client portfolios outlined on your blue recommendation sheets, but the timing of when to make additional stock purchases is still uncertain. If a Blue Recommendation Sheet is not included in any of your quarterly reports, then your current account holdings are adequate "as is".

TAX LAW CHANGES

Many changes have been made to our tax code that are effective in 2025 and 2026. Below is a brief summary of a few of the changes we believe will impact our clients the most. Three are related to charitable contributions, one highlights the changes to 529 College Savings account, and two are deductions/exemptions.

New Charitable Contributions Deduction:

Our current 2025 tax code regarding charitable contributions does not allow for a charitable contribution *deduction* if a taxpayer does not "itemize deductions." Itemized deductions are a sum total of personal residence property taxes, limited state income taxes paid/withheld, mortgage interest, charitable contributions, limited medical expenses and limited casualty losses. Since taxpayers already receive a "standard deduction" of \$15,750 (Single), \$31,500 (Married filing Joint) or \$23,625 (Head of Household), if their total itemized deductions do not exceed these standard deduction amounts, then charitable contributions are not deductible.

Beginning in the 2026 tax year, a permanent *charitable deduction limit of \$1,000* (single filers) or *\$2,000* (married filing jointly) will apply even when a taxpayer does not have total itemized deductions that exceed the "standard deduction" amounts. Essentially, taxpayers may claim a charitable deduction (\$1,000 or \$2,000) regardless of income level or other deductions. It's not a significant change, but taxpayers can now deduct some small charitable contributions even when they use the standard deduction amount.

New Reduction to Charitable Contributions:

Beginning in the 2026 tax year, the charitable contribution deduction for taxpayers *who itemize deductions* is limited. Total charitable contributions are reduced by 1/2% of adjusted gross

income. For example, if a taxpayer's adjusted gross income (computed without including any charitable deductions) is \$100,000, then the first 1/2% or \$500 of charitable contributions is NOT deductible. In this example, if the taxpayer itemizes deductions, makes a total of \$2,000 of charitable contributions AND the taxpayer's Adjusted Gross Income is \$100,000, then the \$2,000 total charitable deduction is reduced by \$500 (1/2% of AGI) to \$1,500.

Qualified Charitable Distributions (directly from an IRA):

A Qualified Charitable Distribution from an IRA (QCD) allows people *age 70½ and older* to donate up to \$111,000 (for 2026) directly from their traditional IRA to a charity, receive tax benefits without having to itemize deductions, and satisfy annual Required Minimum Distributions (RMDs) rules by counting the donation as income but not being taxed - thus providing a powerful tax-saving strategy for charitable donors. With Charles Schwab IRAs, you must provide the charity name, address, donation amount and the checks will be mailed to the IRA account holder's address and made payable to the charity. You must then deliver/mail the check to the charity. Note, this does require Schwab paperwork to initially set up.

The charitable distribution is not included in your taxable income; therefore, it is just like a deduction but you don't have to worry about itemizing deductions or having the distribution amount reduced by 1/2% of your adjusted gross income. Further, if you are age 73 or older, you must withdraw "minimum required distribution" amounts from the IRA each year anyway. Making QCD's directly from the IRA helps reduce taxable income - without having to worry about itemizing deductions in order to receive a deduction for charity contributions when made with personal funds.

Lastly, taxpayers who inherited an IRA from a *non-spouse* (after 2020) have 10 years to withdraw and deplete the entire IRA balance. For large inherited IRAs, any required annual distribution can be quite large and the final year 10 withdrawal could also be very large. Making a QCD from the Inherited IRA can help reduce the taxable income on regular/required withdrawals (but you must be 70 1/2).

Expanded Use of 529 Education Savings Accounts:

Initially, 529 Plan accounts were created and intended to help pay for ONLY college education costs. Contributions to 529 Plan accounts grow tax-free and if withdrawals are used to pay for "qualified education expenses" in college, the withdrawals and the earnings in the account were *not taxed*.

The next change to 529 Plan accounts was allowing up to \$10,000 per year to be "qualified withdrawals" (not taxed) if used for public, private, or religious school tuition for *kindergarten through high school*. Beginning in 2026, the annual limit increases for K-12 students to \$20,000.

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Now, the law allows these 529 plan accounts to be used for two new expenditures:

- 1) **New qualified expenses** (not just school tuition) such as curriculum and learning materials, online educational tools and platforms, tutoring, national test fees (SAT, ACT etc.), and computer/tablet purchases, software, internet access even if not specifically “required” by the school.
- 2) **529 Plan funds can now be used for pursuing Career Credentials** not offered by traditional colleges and universities such as: a) skilled trades for commercial driver’s license, HVAC, plumbing, electrical etc. certifications, cosmetology school, welding certification or b) for professional license applications, exam prep fees, testing fees and books/materials required for credential programs, and testing fees to earn or maintain a certification or license such as nurses, teachers, and real estate agents and c) continuing education fees and classes to maintain all of the above.

Expanded Deduction for State and Local Taxes (SALT):

Effective in 2025 through 2029, the SALT itemized deduction cap has been raised (temporarily) from \$10,000 to \$40,000. The \$40,000 limit will increase an additional 1% each year through 2029 and then reverts back to \$10,000. The \$10,000 SALT deduction was implemented back in 2018 and has caused the biggest pain and loss of deductions as most taxpayers pay more than a \$10,000 combined amount for property taxes plus state income taxes. Beginning in 2025, the SALT cap is raised to \$40,000 for 5 years. Note, taxpayers with \$500,000 to \$600,000 reported income will lose a portion of the deduction and for taxpayers above \$600,000 incomes, the SALT deduction limit stays at \$10,000.

Expanded Estate and Gift Tax Exemptions:

Beginning in 2026, the federal estate and lifetime gift tax exemption will be set at \$15 million per individual and will increase annually for inflation. A married couple has a \$30 million combined limit. In brief, this means an individual can make gifts **below** the annual exclusion amount (currently \$19,000) during lifetime **plus** pass an estate at death free of estate tax as long as the combined total (gifts above the annual exclusion amount plus estate value at death) is 15 million or less. Estates valued at \$15 million or higher are taxed at 40% on the excess above the exemption amount.

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Best Regards,



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