Second Quarter 2026 Commentary

At the end of the first quarter, near the beginning of the military morass in Iran, the stock market seemed preternaturally preoccupied with the amount of traffic flowing through the Strait of Hormuz. With the strait accounting for about a quarter of global seaborne oil, the thinking was that the ensuing rise in energy prices would then exacerbate inflationary tendencies, which would necessitate a rise in interest rates, which would put a damper on asset prices. Accordingly, most major market averages declined during the first three months of the year.

Over the course of the second quarter the strait remained effectively closed, with commercial crossings closer to zero than to where they had been before the conflict began. Most major news media have continued their focus on that part of the world. However, the stock market quickly moved on from that story and focused its attention elsewhere. Specifically, the market renewed its interest in all things related to Artificial Intelligence, especially the chips that power the processing behind all that AI computing.

Led by the technology sector, the S&P 500 came roaring back after its brief slump in the first quarter, returning more than 15% in Q2. The Dow Jones was not far behind, at just over 13%.

Happy Anniversary!

A few weeks ago, our firm celebrated its fifteenth anniversary of operations. From our humble beginnings in 2011 when we managed just $7 million spread over a handful of accounts, we are now in charge of $115 million and over 100 individual accounts. From our original client group representing eight distinct family units, through word of mouth and organic growth we are now honored to work with more than fifty families. When we started, we were primarily regulated by the individual states in which we and our clients were located, but now we are big enough for the federal representatives of the Securities and Exchange Commission to keep track of our doings on a quarterly and annual basis.

It has been a deeply rewarding journey, and we thank you for being along for the ride with us. Whether you are a member of one of those original eight families, or you have only just recently engaged our services, we appreciate you and the trust you have placed in us to manage your hard-earned assets. Thank you! And if you are not yet a client but happen to be reading this, please reach out to see if we might be a good fit for each other over the next fifteen years.

Investing Is Hard

Because we have written about him so often over the past decade and a half, we know you are intimately familiar with the successful track record of Warren Buffett. But did you know that he has also made his fair share of mistakes along the way, some of them quite large in scale? He and his fellow shareholders of Berkshire Hathaway would all be much wealthier today if he had avoided a few of his more costly poor investments. From overpaying for Dexter Shoe in the early 1990s, to buying a multi-billion dollar stake in ConocoPhillips a couple of decades ago just before oil prices cratered, to several other purchases along the way, Mr. Buffet has cost Berkshire many billions in value.

While we often describe Mr. Buffett as the greatest investor ever, another Wall Street legend—Stanley Druckenmiller—is often regarded as one of the best traders ever. Over the course of at least three decades, he did very well for the minority partners in his hedge fund, successfully managing many billions for them and somehow avoiding any losing calendar years.

Despite that success, he too made his share of mistakes along the way. Most famously, near the end of the Dot Com mania of the late 1990s, he caught a bad case of FOMO (Fear Of Missing Out) and bought a huge stake in the most popular and over-valued tech stocks of the day. That investment very quickly went down by about 50%.

So if Druckenmiller and Buffett are not immune to investing mistakes, what hope is there for the rest of us mere mortals? In other words, any professional investor should go into the enterprise with the expectation of making the occasional mistake. The important thing is to try to minimize the financial impact of those mistakes, and to try to learn from them in order to not repeat them going forward. As the old saying goes, “success is a lousy teacher,” so we try to pay attention to the lessons contained in our shortcomings.

To that end, we have a ritual that we go through every five years. We look back at our investment successes and failures during that time frame and try to discern what aspects of them we can either try to replicate, or avoid as the case may be, in the future. Yes, we do celebrate the good things that happen along the way. ExxonMobil more than tripling over the last five years has been a good thing for our portfolios. Having two of our largest holdings—Berkshire Hathaway and Alphabet—nearly double and triple, respectively, also brings a smile to our faces. And, though it was a relatively small position, we were pleased to more than double our money in Mercury General in a little under two years.

We won’t go through the laundry list of the investing sins we committed during the prior five years. Some were peccadilloes barely worth mentioning; others were, shall we say, venial sins that are more or less understandable given the extenuating circumstances. But we do want to share with you our three biggest lessons learned of the last half decade, presented as usual in Olympic medal order…

Bronze Mistake: CarMax
Economics can outweigh business strength

Nearly ten years ago we began purchasing shares of CarMax (KMX), a used car retailer. The used car market in America is a highly fragmented business. That is, unlike carbonated soft drinks which is a field dominated by Coca-Cola and Pepsi, there are many more competitors each with a much smaller market share all battling it out against each other. CarMax has a unique customer proposition with its no-haggle pricing: cars have a price tag just like groceries on the shelves, and you either take it or leave it. There’s no “let me check with my manager” or other stall tactics designed to weaken a customer’s resolve. Since this eliminates one of the most painful parts of car shopping for consumers, it’s a popular feature and CarMax has been steadily gaining share over the years.

However, CarMax can't just immediately blanket the country with dealerships, as each one requires a significant investment in terms of land, buildings, inventory, and personnel, so its growth strategy has been more like Aesop's tortoise than the hare. Still, we liked what we saw and began investing our money and yours into KMX shares.

Our first significant purchase was for a little under $50 a share in late 2016, and we slowly doubled that initial investment over the next three years at prices that averaged in the mid $60s. Then came covid. That severely impacted the availability and prices of all kinds of consumer goods, from toilet paper to oil to plane tickets to used cars. You may recall that the price of oil futures briefly went below $0, and in a similar way used car prices were temporarily higher than new car prices. KMX shares took off, at one point cresting over $150 per share.

We did lighten our KMX holdings as the stock price rose, but in hindsight we did not do this quickly enough. Eventually, the post-pandemic world began to normalize, and KMX stock came back down to earth, settling in the $70-90 range for much of 2023 and 2024.

Over the past year and a half, though, the economic headwinds CarMax has been facing have revealed the difficulties of running a cyclical business like car sales. As post-pandemic inflation heated up, consumers began cutting back on their big-ticket purchases like automobiles. Economic cyclicality can also whipsaw the profit margins of a company that has to buy in its inventory before selling it back out: if CarMax has to buy in a used car at the prevailing price one month but then tries to sell it back off the lot two months later at a potentially lower price, that is not a good situation.

Earlier this year, we concluded that the overall economic forces have more impact on CarMax's profits than do its customer-friendly business model, and we exited the position. Over the course of those ten years, we invested a little over $6.75 million in KMX shares at an average price of $57. Our sales were done at an average price of $46, yielding proceeds of about $5.5 million. This ~$1.25 million represents a loss of just under 20% in aggregate, or about 2% per year. KMX typically ranged from a 2.5% to 4.0% position in our portfolios, so that 2% annual decline had an overall effect on our average portfolio of about 0.05% to 0.10%. This is not a retirement-killing amount, but it's also less than we would have earned by just parking the money in cash.

Silver Mistake: Alibaba
A little patience can go a long way

The covid pandemic significantly impaired many businesses and stock prices, and it allowed us to take advantage of some attractive deals. For instance, we purchased shares of Amazon.com in early 2020 at prices that now seem like real bargains. We thought we had found a similar opportunity in Alibaba (BABA) in early 2021. Shares in the Chinese e-commerce company (primarily a retailer like Amazon, but also several other businesses as well) had declined from over $300 to just over $200, about a 30% drop. What's more, one of our investing heroes, the late Vice Chairman of Berkshire Hathaway Charlie Munger, had just bought a sizable stake. We too began purchasing BABA at prices in the low $200s.

Over the course of 2021 and 2022, the shares continued to sink, eventually dropping below $100. Alibaba's businesses were doing fine, but it was being penalized by the market for being (a) Chinese, and (b) a conglomerate. In the go-go era of the late 1960s, the stock market actually rewarded companies for being multi-business conglomerates. ITT, LTV, Gulf + Western, and other similar companies saw their share prices advance far beyond what their businesses alone justified. In more recent years, though, the stock market has looked on conglomerates less favorably, tending to prefer what is known as more "pure play" companies with one predominant line of business.

From our first purchase in early 2021 until we eventually sold out completely in late 2024, we had aggregate BABA purchases of about $6.75 million, almost equivalent to our KMX stake. Also similar to KMX, we were able to cycle in and out of BABA shares occasionally, taking advantage of a technique known as tax loss harvesting, which slightly diminishes the financial pain of a declining stock price by allowing an investor to claim realized losses on their tax return.

The average price we paid for BABA over those three and a half years was about $143, and the average price at which we sold was just over $91, for aggregate proceeds of just over $4.25 million. This loss of $2.5 million was 36% of our total outlay, which works out to about 12% per year of our ownership. BABA was typically a smaller position than KMX, usually in the 2-3% range, which means that on an annual basis it represented a performance drag of about 0.25% to 0.35%. Again, these are not numbers that will doom a portfolio, but they are a far cry from the types of returns we would prefer to see.

Following our sale of BABA in late 2024, the stock did rise over the course of 2025, eventually topping out at over $180. It has since returned to levels more like where we sold, closing the second quarter of 2026 below $100. Would we have been wise enough or lucky enough to sell out above our average cost of $143 during the five-month period that it spent higher than that price? There's no way of knowing, but with a little more patience we could have given ourselves a chance to find out.

Gold Mistake: Intel
Politics makes strange fellow shareholders

In August 2024 we began buying shares of Intel (INTC) at around $21. A quarter century ago Intel was the 800-pound gorilla in the semiconductor market, dominating its rivals like AMD, Micron, and Nvidia. It steadily lost its cachet in the ensuing decades, but it was still a profitable and significant player in the manufacture of computer chips. We always like a bargain, and we thought that Intel was just too cheap, even if its business was at a relative disadvantage to its more AI-aligned peers.

The stock did basically nothing over the next year, bouncing around between $20 and $24. Then in August 2025 a funny thing happened, one that we had not personally experienced in our twenty-two years of professionally managing money. The U.S. government bought a 10% stake in the company. We tend to be skeptical of government overreach in matters of business and capitalism. We knew from history books that Mussolini nationalized many Italian firms during

World War II, and we knew from recent memory that Chavez had taken state control of various industries in Venezuela. Neither of those scenarios ended well for shareholders.

We concluded that we didn't know what would happen with Intel during this partial nationalization of its business, but we didn't want to take the risk of sticking around to find out just in case it was disastrous. We sold the $1 million of INTC that remained in our portfolios at a price just above $24. Over those 367 days, we earned a return of 15%.

OK, wait. The worst mistake over the last five years was earning a 15% *gain*? What gives? Well, as the stock market has become completely enthralled with anything connected to Artificial Intelligence, many related industries have seen their stock prices rise stratospherically. Data centers, AI software producers, and of course chip makers. Intel's stock now trades at about $100 a share, which is four times as much as we sold it for eleven months ago. If we had held on for that entire ride—granted, that's a big "if," because we very well may have sold it along the way at prices lower than today's—our $1 million would have turned into $4 million. That "lost" $3 million outranks both KMX and BABA, so it earns our gold medal mistake this time around.

Conclusion

We hope that, five years from now, we will have a different set of investment lessons learned to share with you, and perhaps they will be less financially painful than these. Once again, we so appreciate the special relationship that we have with each one of our clients, and we are grateful that you have allowed us to serve as stewards of your family's portfolio. We welcome any and all client input, whether it's a compliment or a critique. So please feel free to reach out to us at any time if you have any questions about your investments, concerns about your personal finances, or just want an independent sounding board for a money-related issue that you may have. We will continue our efforts to find sensible investments for your portfolio, and we look forward to reporting back to you on that front three months from now.

Sincerely,

FELIPE

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