

In this Market Update:

- **Tails On Fire**
- **Friend Passing**
- **Crazy Valuations**
- **Blackjack ideas and the stock markets (at the bottom)**

Been a bit since my last note. With the Trump presidency, so much seems to be happening all the time that it's hard to be "timely" with updates since whatever I'm writing about may change as the electrons are hitting the screen. The world's stock markets are on fire. Gold is on fire. Daughter Madelyn in on fire...on the volleyball court (she served 20 consecutive times before losing a point in a recent game). Stock markets never seem to surprise me with the manias that seemingly occur more frequently than maybe they ought. One of my favorite books, "The Black Swan" by Nassim Taleb, discusses the phenomenon of "right (or left) tails" happening far more in stock markets than what normal stats would predict. A "tail" occurs when the outcome is far out of the norm. For example, most of the players in 8th grade serve 2-5 times before missing. For Madelyn to serve 20 consecutive times without missing is a "right tail." Taleb has made a lot of money running a fund which sits in cash earning some interest most of the time and buying "options" betting on exogenous events causing market disruptions. Most of the time the fund declines. But when something crazy happens, it makes a mint.

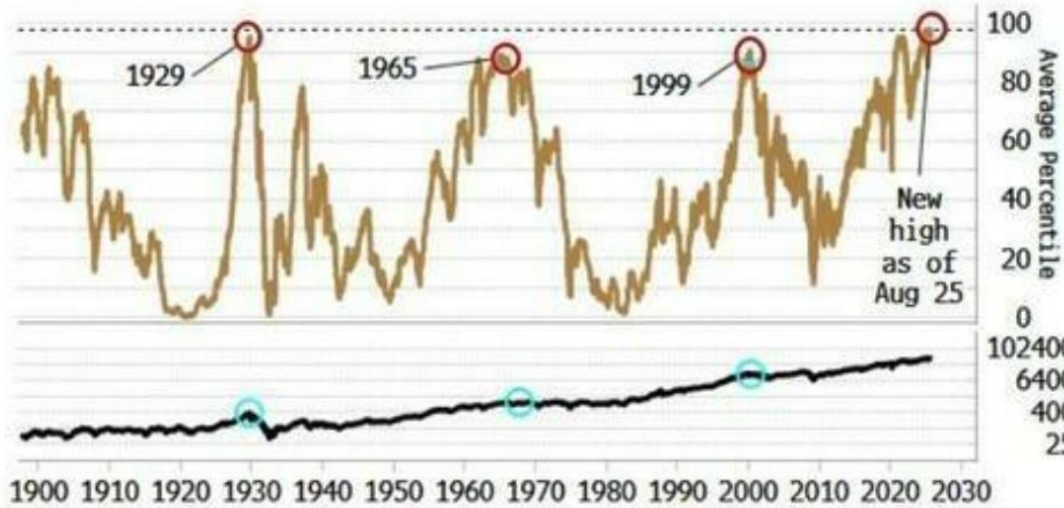
A long time client and very good friend, Diann Avila, passed away a couple months ago. I met her and her husband, Vasco, in 2005. They sat next to each other on a plane and settled into a 50+ year love affair and farming life in the valley. They were dairy farmers and were selling the farm to reap the rewards of a long life of challenges and hard work when we met. That began a client friendship that lasted 20 years. I would travel to their house or they would come into my office to discuss their investments, their family, and the world. The two of them would "argue" about this and that but it was all bluster and it was easy to see the love between them. He passed during the Covid era due to lymphoma and 5 years later she still missed him and talked about him. We miss you Diann (and Vasco). Rest in peace.

As anyone who's seen a stock market chart lately knows, it has rocketed since Oct 2022 and especially the past 5+ months since the "liberation day" tariff announcement caused a 20% whoosh in April 2025 that terrified the world (including me). Much of the scare was walked back as cooler thoughts prevailed (although tariffs remain an issue). Those in the markets have made a bunch lately and the question always is, when and where is the music going to stop? If I knew with certainty, I would tell you. What I do know is, every day we are approaching, or have exceeded, numerous metrics that have presaged previous peaks. Here's one such graph. It is a single index containing 8 different measures of value in the stock market. As you can see by the red circles, we are at similar valuations to 1929, 1965, and 1999. Seems scary. While 1965 wasn't so bad (market peaked 2.5 years later), 1929 and 1999 are cuss words in the stock market language.

US Stock Valuations Hit New All-Time High

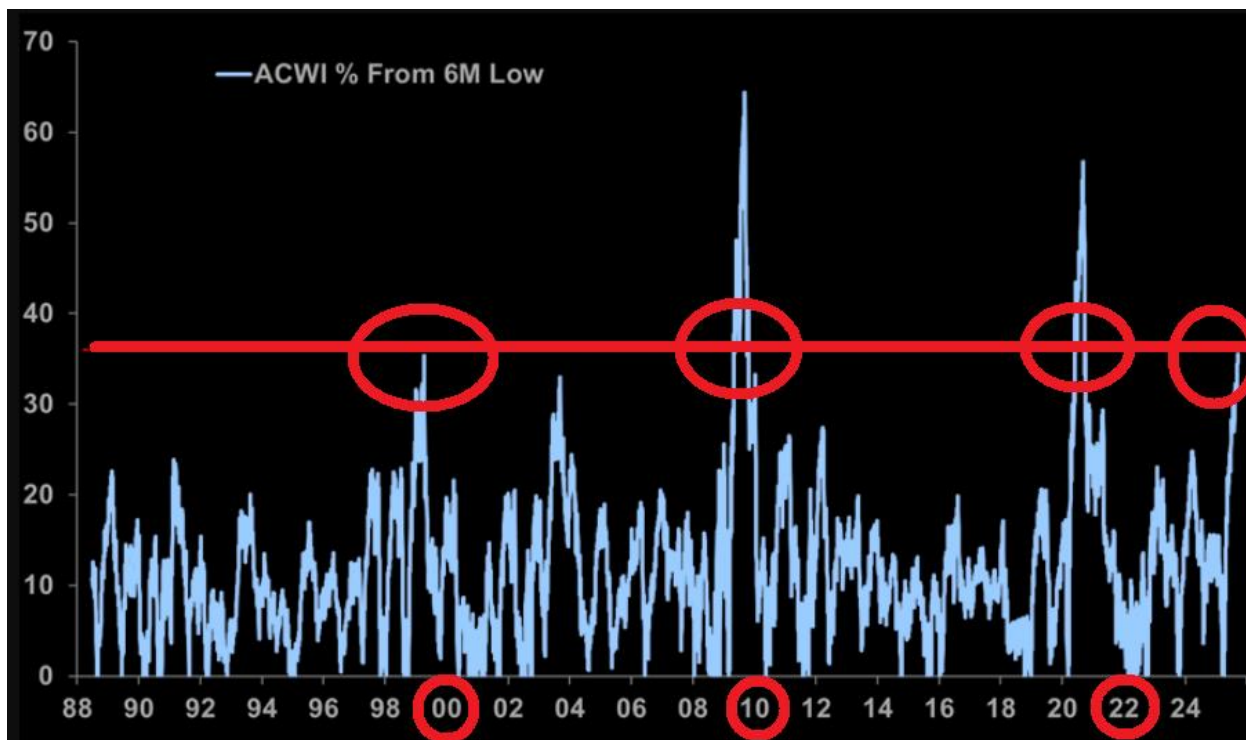
— Trailing P/E, Forward P/E, CAPE, P/B, P/S, EV/EBITDA, Q Ratio, Mkt Cap to GDP
(Average Percentile, Full History)

— S&P (Log)



Source: Bloomberg

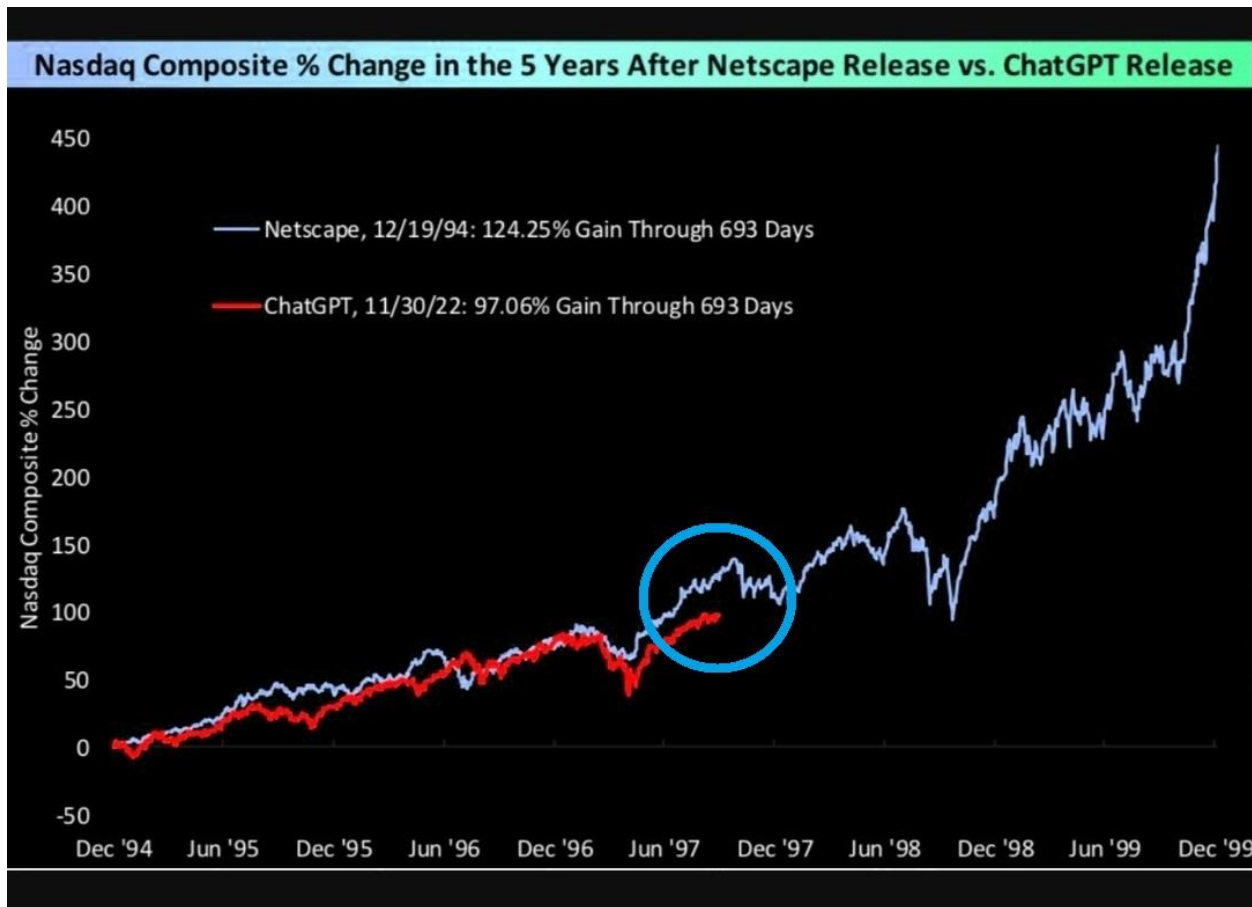
Here's a graph showing how much the world's stock markets have increased since the bottom in April 2025 (far right circle – about 35%). Other circles are at times of a similar rebound from a big market drop (1998, 2008, 2020). Historically, when markets have this kind of rebound, it doesn't necessarily mean doom is immediately ahead. But it hasn't necessarily been a good sign long term either. In the 3 previous instances, there were significant market drops within 2 years and one would have been able to buy more cheaply had one waited (this is really, really hard to do and potentially career threatening for advisors who get out "too soon.").



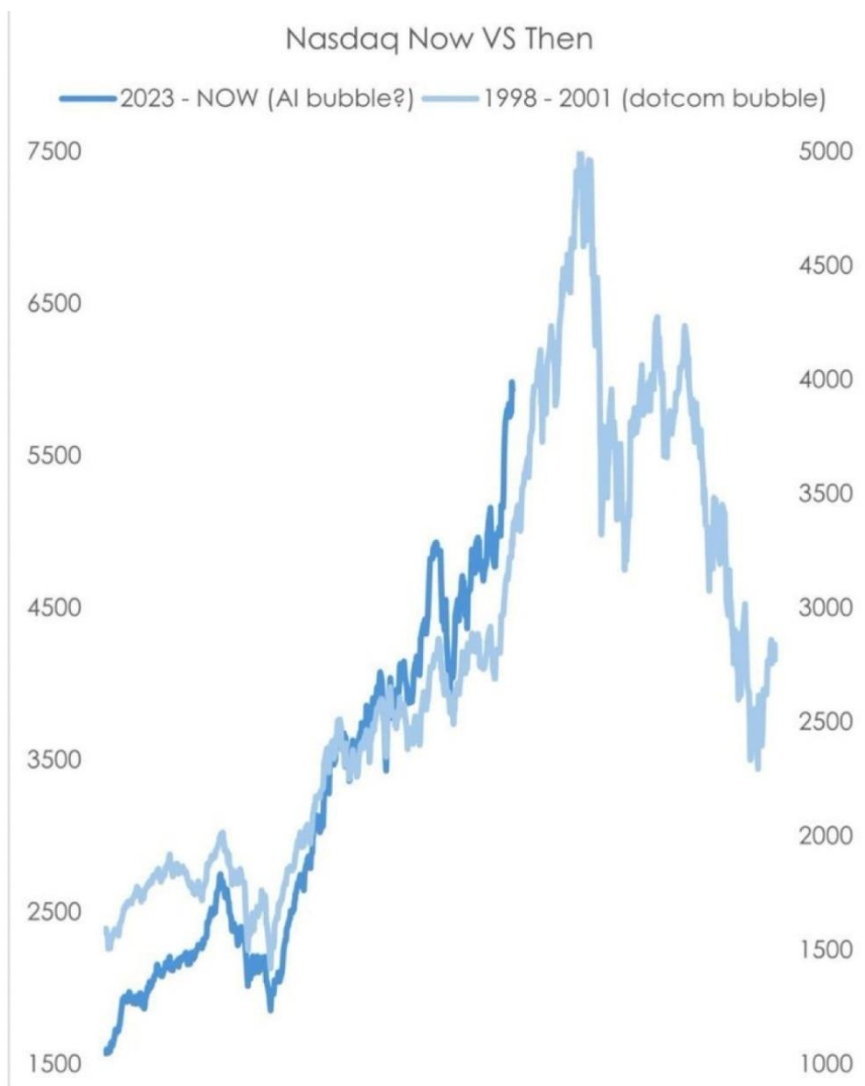
I'm not going to focus too much on the potential for disaster. If you want to look at more charts/graphs that highlight how we compare to past pre-crash times, click the link below.

Instead, I'm going to focus on two charts that show we may be, possibly after a pause to refresh, on the way to more upside. The first shows a comparison between how the Nasdaq index performed after the Netscape* browser was released in 1994 (blue line) vs. how the index has performed since the release of ChatGPT in Nov 2022 (red line). As you can see, based on this chart, there's still plenty of time to get rich, as we are only about halfway through the total length of the bull market of the late 90s and not even close to the "melt-up" that began in the 2nd half of 1999 (this is written a bit tongue-in-cheek).

*(one of the original internet browsers enabling people to "surf the web." <https://en.wikipedia.org/wiki/Netscape>),

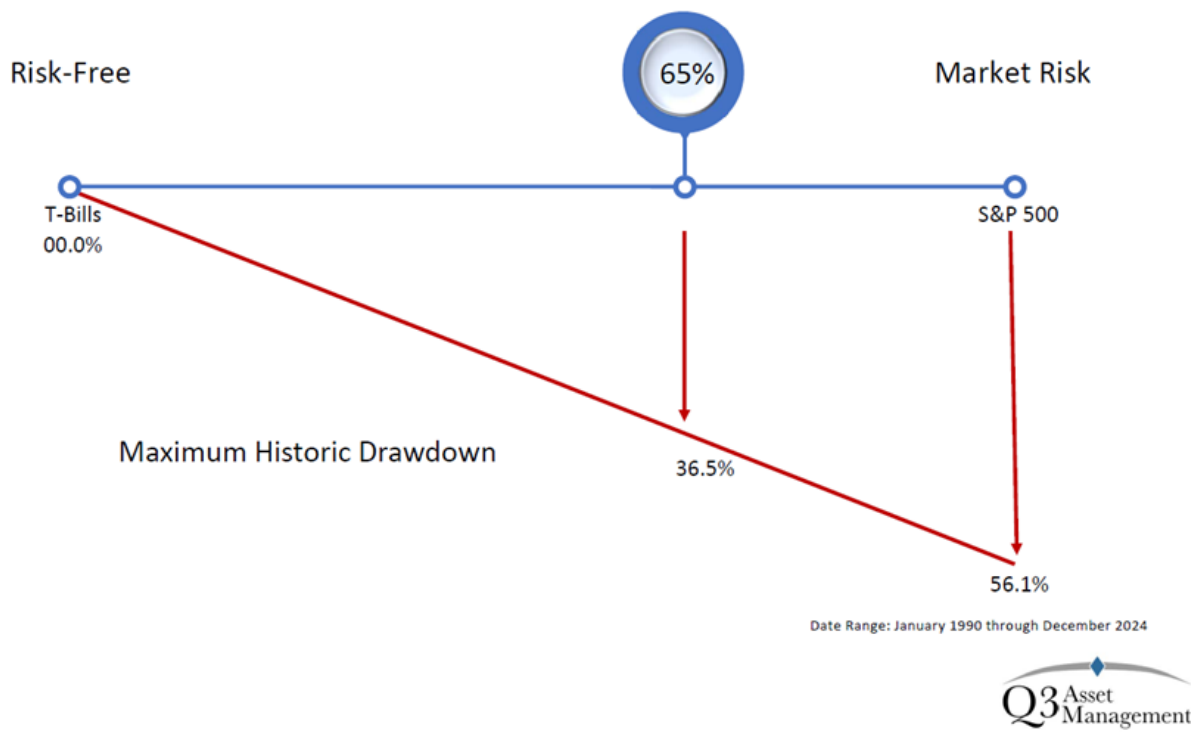


If you don't think that last chart is going to come true, here's another one showing the Nasdaq Index from 1998 – 2001 (light blue line) vs 2023 – Sept 2025 (dark blue line). Based on this chart, there's another 20% to go (again, written tongue-in-cheek). Stock markets have a way of going, in both directions, farther than what people think may be "right."



So, what's an investor to do with this information? The key is to know your risk level and how much you don't want to lose. For those fully immersed in the overall stock market, your historic risk level since 1990 is a **-56%** loss from Nov 2007 – March 2009 and a similar loss from Fall 2000 – Fall 2002[^]. For those heavily oriented towards big tech stocks, the drop from 2000 – 2002 was **-83%**[^]. From those numbers, you then work backwards to reduce your potential for loss to what you deem acceptable (see the chart below). Of course, the problem is, if we make “standard” changes today, everyone gets upset that something is “left on the table” if the market keeps going up. When we can't stand it anymore, all our money goes back into the market just as it's about to dive. While you may think I'm kidding, I'm not. This is how human psychology works. We are crazy beings. So, maybe there's a better way (see below the graph).

[^]Source: [Yahoo.com](https://www.yahoo.com)



For those who have done well in the stock markets the past few years, perhaps it's reasonable to start planning for the inevitable downturn (yes, it will happen someday), especially if you are withdrawing funds from your accounts. My clients and I have been doing this type of planning for a while now and it's working well using a couple of different methods:

- 1) Imagine one could play blackjack with no risk of loss. One puts one's money on the table and the dealer deals. If one has a better hand, one wins. If the dealer has a better hand, one "pushes" and plays the next hand. Using certain no load "structured contracts" is exactly like that. They allow one to "bet" the indexes are going up for the next year. If they do, one makes money. If they don't, one starts over the next year. These investments allow us to link our gains to the performance of various stock market indexes while providing complete^ or significantly reduced risk of loss should the indexes chosen decline in value during the term period selected. Depending on the contract, one has the potential to make as much as 13% - 25%* or more in a single year (These potential gains are based on the indexes chosen increasing. If they decline, no gains will be made).
- 2) Using "tactical" allocation strategies that have reduced correlations to the general stock markets while not necessarily reducing gains. Performance reports are attached for two such strategies, Bull Cipher (BC) and Scarecrow Tactical Growth (STG). The performance report for STG only shows the past year since that's when it's been available on our platform. The underlying manager has been offering a similar strategy since 2005 with comparable results. BC is about +20% and STG is about +16% in the past 12 months through 08.31.2025. As always, past performance does not predict future performance. There is risk of loss.
- 3) Using fixed accounts currently paying as much as 5.8%/year (\$100k minimum deposit. 5.50% under \$100k).

***Potential crediting rates may change and vary based on index and time period chosen. ^Guarantees provided by the insuring company. See disclosures for details.**

Any of the above complements a standard allocation and may enhance your ability to withstand a significant decline in the stock markets. It is next to impossible to know when the top is in. Better to take action now that may help to eliminate the need to know that information while not necessarily reducing your ability to make significant market gains should the fun continue.

If you want more information on any of these ideas, please call/email us. If you've read this far, you deserve a nice coffee. Let us know and we'll send a gift card for a Starbucks.

As always, thank you for allowing us to be of service. If you need anything, please let us know.

Enjoy,

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