2024 Year-End Investment Review

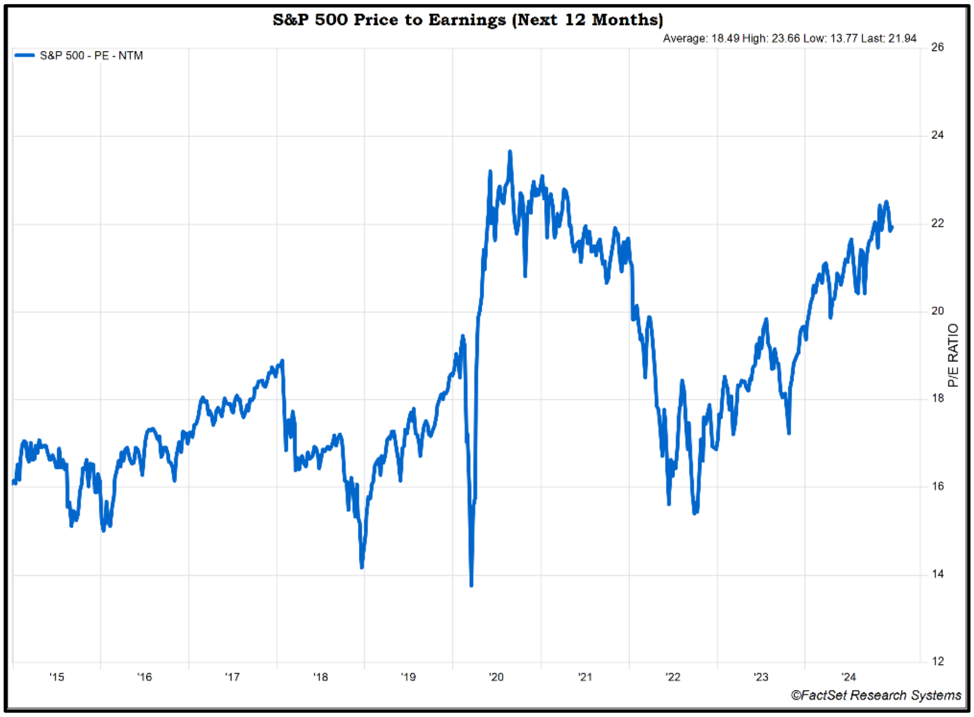
Saybrook investments performed well overall in 2024. The stock market rose significantly for the second year in a row, driven by the continued downward trend for inflation and steady job growth – a rare economic soft landing. Saybrook's 2024 average equity portfolio results were above our historical 48-year average annual return of 12%. In the first half of the year, market returns were primarily driven by a narrow group of mega-cap technology companies and enthusiasm for the expansion of artificial intelligence. As the stock market rally broadened, our portfolio outperformed in the second half of the year.

The following table illustrates the range of returns for domestic and foreign stocks, bonds, real estate, and commodities in 2024. For U.S. investors, it is worth noting that, because of the strength in the dollar, international equity returns listed below become significantly reduced once translated back into U.S. currency.

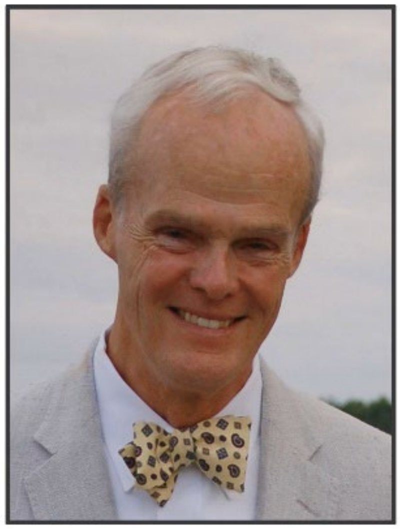
2024 Price Changes (not including dividends)

Dow Jones Industrial Average	+13%	GSCI Commodities Index	+9%
S&P 500	+23%	Nymex Crude Oil	-3%
NASDAQ Composite	+29%	3-Month U.S. T-Bill (current yield)	+4%
FTSE 100 (Great Britain)	+6%	Gold Spot $/oz	+27%
DAX 30 (Germany)	+15%	S&P Municipal Bond Index	+2%
Nikkei 225 (Japan)	+19%	HFRI Equity Hedge Fund Index	+12%
Shenzhen A Shares (China)	+7%	U.S. Aggregate Bond Index	+2%
MSCI Emerging Market	+8%	Dow Jones REIT Index (real estate)	+8%

Market fervor in the fall was boosted by prospects of tax and regulatory reductions from the incoming administration, accompanied by a rise in animal spirits manifested through higher business confidence and the likelihood of increased deal-making. However, this optimism has been partly offset by potential tariff and immigration actions that could reduce the supply of goods and labor. These policies could stoke a second wave of inflation, particularly in conjunction with continued strong consumer demand. Caution is also warranted with valuations at 22 times forward earnings for the S&P 500, near ten-year highs, as shown in the chart below.



In an environment of relatively high equity market valuations, an accelerating economy could ironically become a challenge for financial markets by driving long-term interest rates higher and, in turn, pressuring stock and bond prices. While the Federal Reserve has *lowered* its benchmark Fed Funds rate by 1% since September 2024, the bond market has not followed suit as the benchmark 10-year Treasury yield has *risen* nearly 1%, reflecting expectations of higher economic growth and potentially higher inflation. The first weeks of the new year have demonstrated this push-pull tension in markets. For example, stocks sold off on stronger-than-expected December employment data and the resulting rise in long-term interest rates, then rallied on reports that inflation, while sticky in certain areas, has continued to trend downward. Returns for stocks and bonds in 2025 may hinge on the outcome of this strain between continued economic expansion and the direction of interest rates.



Bruce McDaniel Babcock
SAYBROOK CAPITAL FOUNDER
December 15, 1940 - December 14, 2024

In this letter we look back on the life of Bruce Babcock and his lasting impact on Saybrook, which he started in 1976. Engaged in investing to his last day, Bruce died on December 14, one day short of his 84th birthday. In addition to being the father of one of us, at Saybrook he was our mentor, partner, and, after his 2010 retirement, client.

Born in upstate New York, Bruce lost both of his parents by the age of 10, and he and his brother were raised in North Carolina by their uncle and aunt, Charles and Mary Reynolds Babcock. This experience fostered his appreciation of family, hard work, thirst for knowledge and education, and desire to help others. He built these core values into the fabric of Saybrook. In particular, Bruce focused on investing for families: serving the unique investment needs of multigenerational family groups became a core competency of Saybrook. He spent his entire adult life actively participating in school, museum, and foundation boards, where his investment expertise, thoughtfulness, and compassion were highly valued. Many of these institutions were connected to client families, and he particularly enjoyed how his deep interests in investing and philanthropy combined to help others.

Bruce graduated from Yale University in 1962, where he was in Saybrook College, hence the origin of the firm's name. Incidentally, he earned a degree in History, and he believed in the importance of a broad historical perspective when investing. He often said one of the things he loved about being a professional investor was that, unlike a specialist in any one industry, he got to learn and know *something about everything*. After serving in the U.S. Navy for four years, he earned an MBA from Columbia Business School, but he knew that business was best learned by experience. Bruce began his Wall Street career in New York City in 1969 as an equity research analyst at Smith Barney following industrial companies.

Trained in fundamental investment analysis and on the heels of the brutal mid-1970s bear market, he left the security of a corporate job to establish Saybrook Capital. This step would not have been possible without a small group of early, loyal investors, many of whom are still clients of Saybrook. He felt he could sustain this business with no marketing or corporate backing: do a good, honest job for clients, and referrals will come.

Key to the Saybrook investment philosophy is what Bruce referred to as "Undervalued Growth" – investing in businesses that can grow profitably and be acquired at reasonable valuations. While the investing climate has ebbed and flowed dramatically over the last half century, this strategy has enabled Saybrook to provide safety of principal and superior returns for the last 48 years. One example of how our Undervalued Growth discipline helps avoid trouble came during the late 1990s internet boom and subsequent bust. Saybrook did not chase fast-growing tech stocks that traded at unreasonably high valuations. Conversely, in 2006-08, we avoided bank stocks that appeared undervalued yet did not offer sufficient growth prospects. In both cases, sticking to our strategy helped shield Saybrook clients from the worst losses of the most severe stock market crashes of the last generation.

The way Bruce approached the investment business made an indelible mark on us and is foundational to many of our values:

Conduct Yourself with Integrity

Bruce's high ethical standards were highlighted by many of his past clients and colleagues (in recent condolence messages) as the principal reason for doing business with Saybrook. While honesty was a built-in moral code for Bruce, it is also, once earned, the most important component in building and maintaining a professional financial relationship with a client. Bruce knew that stock performance means nothing unless accompanied by trust, prudence, confidentiality, transparency, and aligned interests.

Keep it Simple

Bruce believed that investing in a stock is akin to owning a piece of a business, ideally one of high quality. If acquired at a fair price and held for the long term, wealth is built through the compounding effects of share price appreciation and steadily rising dividend payments. It is really that simple. He was always skeptical of more complicated investment instruments that have enriched Wall Street, but not necessarily investors. More complex strategies are often closer to speculation or to get-rich-quick schemes, which usually end ruinously.

Read and Communicate

Bruce believed that reading was essential to investment success. He read three or four daily newspapers, and a similar number of weekly periodicals, not to mention company research reports. He read to seek investment ideas, analyze economic trends, and examine Saybrook portfolio companies. When he forwarded something to read, not only was it going to be insightful, but it would also be carefully underlined and annotated. He followed current events and politics the way others watched spectator sports, challenging himself to sift through the day-to-day events and capture important trends. He eagerly consumed the daily editorials, both the opinions in which he agreed and persuasive alternative perspectives, but he knew it was foolish to let ideological or partisan sentiments interfere with the investment process. He was proud of his quarterly investment letters to his clients and understood the importance of clear communication to explain investment concepts, as well as to reassure clients during difficult markets. He always sought to inform readers by telling them something they might not already be hearing in the financial press. In his retirement years, he eagerly awaited our quarterly letters, providing both praise and critique when warranted.

Work with Good People

Bruce knew that if you found good, trustworthy people and trained them well, it was important to retain them and treat them generously. While always a small firm with no more than five employees, Saybrook has benefitted from a loyal, hardworking staff, with a current average tenure of over 20 years. His collegial relationships also extended to outside brokers and service providers. And, if you were a client of Bruce's, you were someone he enjoyed working with and he considered you a friend.

Demonstrate Confidence

After Bruce's retirement in 2010, he became our most discerning client and was always the first to cheer our successes. However, it was his encouragement during difficult market periods that was most valuable. For example, amid the Great Financial Crisis, with the real possibility of an economic depression looming, Bruce provided thoughtful perspective and assured us that we would get through that challenging time. In March of 2020, at the outset of Covid-19, he wrote not only to make sure we were OK and that our families were well, but also to let us know that he had confidence in our ability to manage through that unprecedented period. His faith in us, in turn, boosted our sense of self-confidence.

Invest with Optimism and Have Fun

Bruce understood you could not successfully invest in stocks for the long run, unless you were constructive on the future prospects for society, the economy, and business. Stocks can and do decline, and his career certainly saw many painful market drawdowns that tested his convictions, but an underlying belief in human progress enables investors to hold onto good companies through difficult periods and ultimately enjoy the compounding of returns. Investing should also be fun. He shared his enthusiasm with his children, when they were young, through stock-picking games (with real cash prizes!). He found clever ways that his personal interests (family, reading, writing, current events, philanthropy, philosophy, and travel) dovetailed with investing. This interplay heightened his curiosity for the business, while making it more enjoyable.

At college reunions, Bruce wrote in published updates to his classmates, giving us today a perspective on how he viewed his life and career at various periods. For his 25th reunion, during the heady days of the 1980s bull market, he contrasted that era's relentless focus on money and profits with what he called the "moral attributes of his career," which he saw as "serving many individual accounts as well as foundations and endowments." For his 50th reunion, coinciding with his retirement, he revisited the age-old philosophical question about happiness, which he defined not as mere contentment, but rather by Aristotle's definition: "A whole life, lived in accordance with moral virtue, accompanied by a moderate possession of wealth." While concluding that he had achieved this definition of a life well-lived, he also took a candid look back at his career. But rather than focus on the typical metrics of the modern-day investment advisory industry, such as assets under management and annual performance, he states his belief that: "we served our clients well."

Saybrook Team Update

Cindy Rosenfeld will be retiring at the end of February, after nearly a quarter-century of working with us in our New York City office. Cindy came to us by way of a trusted recommendation from a client accounting firm in 2002 and has been instrumental in the growth of our business and in serving the individual needs of many of our NYC-based clients. She has a tireless work ethic, always puts client needs first, is creative and tenacious in problem solving, and always trustworthy and discreet with sensitive client information. She has a warm sense of humor and really cares about clients and co-workers. While hard to say goodbye, we wish her a happy, well-earned retirement. She and her husband, Steve, plan to travel more, including spending time with their three young grandchildren in Colorado. As part of a carefully planned transition period, she has generously helped to make this a smooth process.

We are fortunate that Laureen VanLandingham will be taking on many of Cindy's responsibilities. Laureen, who was hired and trained by Bruce, joined Saybrook back in 1997. Since Bruce retired in 2010, Laureen continued working part time for us (and part time for Bruce personally) and will now be fully committed to Saybrook. With Laureen and our long-time office manager, Liz Grodski, we are in good hands! Cindy, Laureen, and Liz are the very personification of *Good People*. We are blessed.

We wish you a New Year of peace, prosperity, and happiness.

Sincerely,

Luke M. Babcock

Scott R. Hirsch