

# SAYBROOK CAPITAL

INVESTMENT COUNSEL & MANAGEMENT

## 2025 Year-End Investment Review

Saybrook investments performed well overall again in 2025. It was the third year in a row that Saybrook's average equity portfolio results were above our historical 49-year average annual return of 12%. As we enter Saybrook Capital's 50th year and our 20th year as co-managing principals, we mark the half-billion-dollar milestone in assets under management and thank our steadfast clients.

Google's ascendancy on the AI frontier was the highlight of the year. Our largest position, Google rose 65% in 2025 (by far the best performer of the so-called Mag 7 group of tech stocks). Most of the stock surge occurred in the last four months, as we witnessed an incredible stretch of good outcomes for the company. The news from Berkshire Hathaway, our second largest position and up 11% last year, was the long-anticipated CEO transition from Warren Buffett to Greg Abel. In this letter we focus on the evolution of our large investments in Berkshire and Google, how we view each company today, and the risks and rewards of owning such concentrated positions. We begin with some comments on our portfolio and broad market indices.

### 2025 Price Changes (not including dividends)

Dow Jones Industrial Average	+15%	GSCI Commodities Index	+7%
S&P 500	+16%	Nymex Crude Oil	-21%
NASDAQ Composite	+21%	3-Month U.S. T-Bill (current yield)	3.6%
FTSE 100 (Great Britain)	+22%	Gold Spot \$/oz	+65%
DAX 30 (Germany)	+20%	S&P Municipal Bond Index	+4%
Nikkei 225 (Japan)	+26%	HFRI Equity Hedge Fund Index	+16%
Shenzhen A Shares (China)	+29%	U.S. Aggregate Bond Index	+7%
MSCI Emerging Market	+34%	Dow Jones REIT Index (Real Estate)	+3%

Our results were carried by a handful of high-performing stocks, while several Saybrook holdings were modestly up or down – even as their underlying businesses improved. A notable recent portfolio addition, defense and aerospace company RTX, was up 61% last year and more than double our initial purchase two years ago. The onset of President Trump's unilateral trade war sent the stock market down 20% from its February high to its April low. Our high-quality companies and more conservative positioning helped insulate our results during that selloff but tempered our performance during the rapid and somewhat speculative rebound. Offsetting the costs of tariffs, Mr. Market's bullish sentiment focused on U.S. economic resilience, strong corporate earnings growth, and the potential for AI productivity gains. Despite sticky inflation, the Federal Reserve lowered interest rates three times during the fall as employment growth slowed.

*Berkshire & Alphabet: Our “Trip to the Pie Counter”*

The late Vice Chairman of Berkshire Hathaway, Charlie Munger, emphasized that: 1) over the course of a lifetime, significant investment opportunities are rare, and 2) when they emerge, take a consequential position. “You only get a few trips to the pie counter,” Munger said, “when you get your invitation, for God’s sakes, don’t take a small helping.” Two of the most important decisions of our careers have been to maintain large investments in Berkshire Hathaway and Google parent Alphabet Inc.

We started investing in Berkshire Hathaway 30 years ago, and it is the first company in which we jointly became comfortable building larger-than-average portfolio positions. We believed that if we bought Berkshire at a reasonable price-to-book value, we could own a diversified collection of enduring businesses at a discount to intrinsic value. More important was our confidence in Buffett’s ability to grow Berkshire’s intrinsic value over time.

We first bought Google during the Great Financial Crisis at an approximate split-adjusted price per share of \$8 on October 10, 2008. The company had gone public four years earlier. Our basic insight on the company was that, given the essential nature of advertising, Google’s increasingly dominant digital Search platform would enable it to continue growing by taking ad dollar share from TV networks and newspapers, the leading media franchises of the day.

Witnessing both companies’ owner-oriented cultures, consistent growth rates, and reasonable valuations, we continued to opportunistically add to each position. In 2018, another period of stock market weakness, we decided to meaningfully increase the portfolio weightings of Berkshire and Google. For fully invested equity accounts, we would own a minimum of 12% in each stock, about twice the size of our next largest positions at that time. Patiently holding on through the volatility of market cycles as both companies continued to grow, the power of compounding – like a snowball getting bigger as it rolls, to borrow a favorite Buffett metaphor – worked its magic. Now, as your portfolio appraisal indicates, Google and Berkshire have become very large slices of your pie!

*A New Era at Berkshire*

At the company’s spring shareholder meeting, Buffett unveiled his decision to step down as CEO, effective January 1, after 60 years at the helm. While the timing caught investors by surprise, the succession of Abel did not. Abel joined the company in 2000 with Berkshire’s acquisition of Mid-American Energy (the utility business, now Berkshire Energy) and has served as Vice Chairman overseeing all noninsurance subsidiaries. Although Abel has long been anointed, any CEO transition brings a degree of risk. Mitigating that danger is the soundness of Berkshire’s Board of Directors and the quality of its wide-ranging group of managers (although Todd Combs has left as CEO of GEICO to lead JP Morgan’s new strategic investment arm). Buffett, at 95, will remain Chairman of the Board and continue working from his Omaha office five days a week. There is certainly no way to replicate

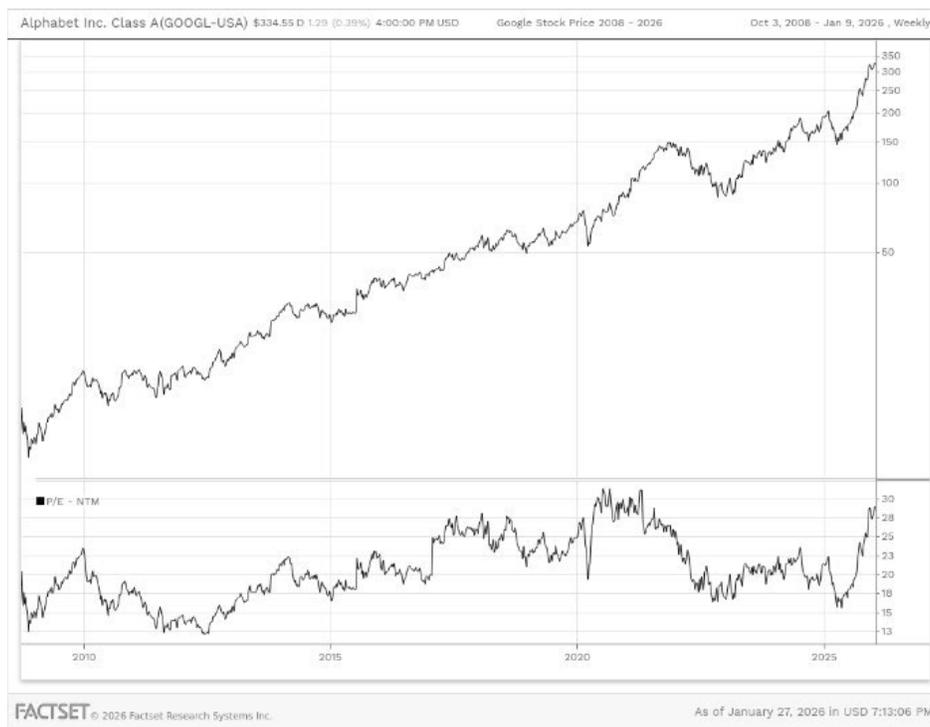
the leadership of Buffett and Munger; they were a one-of-a-kind team, each brilliant in his own right. Yet, we believe that Abel brings a special talent that could greatly enhance the company at this stage of its life: deft management. Given Buffett's famously hands-off management style (he often quips "We delegate almost to the point of abdication") and the company's size today, it could be argued that Berkshire is undermanaged. Abel's integrity, temperament, collaborative approach, deep knowledge of Berkshire's vast array of businesses and, most importantly, his commitment to maintaining the company's unique culture and long-term shareholder orientation will serve the company well. Abel does not need to be a Buffett-like genius to be a great manager. An analogy with which we hope this CEO transition will rhyme is Apple's Tim Cook following the genius that was Steve Jobs.

We view Berkshire as a long-term store of value and, given its enormous cash pile, as a hedge against a pricy stock market that is trading at the high end of its 10-year valuation range. Berkshire's primary businesses include world class lines of insurance with disciplined underwriting; a top group of electric utilities with significant renewable energy capacity; and BNSF Railway, one of two western U.S. freight rail networks. These essential businesses – which Buffett describes as "a few non-correlated and sizable gems" – will endure over the next century. In addition, Berkshire owns a diversified group of other wholly owned and free cash flow generating subsidiaries, ranging from manufacturing and services to retail and an approximately \$300 billion portfolio of blue-chip common stocks. Given Berkshire's overall size, Buffett has said that investors should have realistic expectations for future growth. "In aggregate," he said, "Berkshire's businesses have moderately better-than-average prospects...." These prospects currently produce real *operating earnings* (not including fluctuations in the stock portfolio) of over \$50 billion annually.

Where Berkshire stands apart from any other public company today is its fortress balance sheet. Buffett has always viewed himself, and by extension Berkshire, as a steward for its shareholders, many of whom have most of their life savings entrusted to the company. In his Thanksgiving letter, Buffett wrote: "Berkshire has less chance of a devastating disaster than any business I know. And, Berkshire has a more shareholder-conscious management and board than almost *any* company with which I am familiar (and I've seen a lot)." The war chest, held in short-term U.S. Treasury bills, now stands at over \$380 billion. This provides huge optionality for transformative acquisitions where Berkshire can strategically deploy capital and buy high-quality businesses, especially during periods of disruption. Likewise, Berkshire has the cash reserves to buy back a significant portion of its own stock: one-third of its total market capitalization at today's price and *almost half* if Berkshire's stock were to decline 25%. If the shares trade below management's appraisal of the company's intrinsic value, buying back stock (as Berkshire has at various times in the past) can greatly increase value for remaining shareholders. In short, Berkshire's cash becomes substantially more valuable as asset prices fall.

### *All Hands on Deck at Google*

During the 17 years we have owned Google, the company expanded beyond Search to dominate many technologies, and its stock price compounded 40x our original investment. Throughout this period, Google has generally been an inexpensive stock relative to its growth profile, making it easier for us to accumulate given our Undervalued Growth discipline. For the past two decades it has generally traded at only a modest premium to the stock market and, on occasion, even at a discount – extraordinary considering Google’s profits have grown 2.5x more than the aggregate earnings of the S&P 500 during this period. As the charts below illustrate, the stock’s 3,800% appreciation since 2008 has occurred while its valuation has remained in a relatively narrow range of 18x to 25x. Almost the entire return has come from earnings growth rather than multiple expansion – an ideal compounder.



The period has not been without challenges, but Google successfully navigated the transition from desktop to mobile and the rise of social media, all while facing numerous U.S. and E.U. antitrust allegations. Our conviction in the company has been tested during Google’s crisis moments, nonetheless, the company’s engineering-based philosophy, founders’ culture, and the network effects of its wide userbase gave us the confidence to retain our large positions and add during times of weakness. Perhaps Google’s greatest test came with OpenAI’s launch of the first consumer-focused large language model. The start-up’s sudden introduction of ChatGPT in late 2022, and its 100 million new users in just two months, awakened Google investors to the risk of formidable competition to Search. While Google was a pioneer and decade-long leader in AI research, the new pessimistic narrative focused on management’s caution and the company’s apparent Innovator’s Dilemma (the

potential for AI chatbots to cannibalize Google’s lucrative Search franchise). Our own gut check led us to a more constructive conclusion than the consensus: the company’s culture of urgent innovation and deep expertise would ultimately win the day. As we wrote in our First Quarter 2023 Update letter:

Alphabet has long considered itself an “AI-first” company, having assembled a massive in-house technology talent pool, boosted by its 2014 acquisition of AI lab DeepMind, and having pioneered research in large-language-models. With its adaptation culture, Google is well-positioned for the AI era. It is worth remembering that the company did not launch the *first* search engine (AltaVista, Yahoo! et al.) nor the *first* mobile operating system (Palm OS, BlackBerry et al.), but its technological prowess and capacity to adjust to market forces has enabled Google to dominate these waves. Alphabet CEO Sundar Pichai anticipates its superior AI capabilities “supercharging Google’s ability to answer an array of search queries,” and he says more broadly, “the opportunity space is bigger than before,” e.g., transforming services ranging from Gmail to autonomous vehicle systems. Alphabet has an all-hands-on-deck mentality, incentivizing staff to direct even more resources towards AI. CFO Ruth Porat has been reengineering Alphabet’s cost structure, reorienting funds away from peripheral areas with a goal of making the company 20% more productive and freeing up cash for what she calls “our incredible investment opportunities to drive technology forward – particularly in AI.”

Pichai’s all-hands included bringing back co-founders Sergey Brin and Larry Page to lead the high-level AI efforts and to merge Google Brain and DeepMind into a single unit in order to streamline research and production. Back in “start-up” mode, mistakes were made (e.g., a factual error in its debut chatbot, called Bard, caused Alphabet’s market capitalization to plummet by \$100 billion in a single day), highlighting the reputational risk Google had initially feared. Nevertheless, Google launched its augmented Gemini chatbot in late 2023, and it has surpassed OpenAI’s ChatGPT in terms of cognitive ability and usability, as measured by third-party analysis, app-store downloads, and our own experience. Gemini has now significantly eaten into ChatGPT’s once-monolithic market share, which fell from 87% to roughly 64% in 2025. Additionally, these capabilities go beyond language models to include graphics, code writing, and spreadsheets.

### *Best-Positioned at the Dawn of the AI Era*

Google’s AI initiatives are winning because the company has built a strong moat, based around three inherent competitive advantages which only recently became apparent to Wall Street. Google has enhanced its dominant search algorithms with **AI Overviews**. Not only is this delivering better search results, but it adds a user-friendly bridge to the deeper realm of Gemini’s AI Mode. Alphabet can **Self-Fund** its AI initiatives with its cash reserves (larger than any of its hyperscaler competitors) and its abundant annual net profits. OpenAI and other competitors need to raise money, often from opaque, off-balance-sheet sources (e.g., outside suppliers), raising concerns of circular deals and potential debt troubles ahead. The most compelling advantage going forward is Alphabet’s **Vertical Integration**. It is the *only company that controls the whole stack* from the AI model trained on the largest trove of data and video in the world, with cloud storage powered by its own chips and

distributed on Android and Chrome (the most used mobile phone operating system and internet browser, respectively).

Google has secured a pivotal multi-year deal with Apple in which Gemini will effectively be the engine under the hood for Apple's AI offerings, including its enhanced Siri. Google is also signing deals to act as the AI foundation for other companies. The next expected AI game-changer is agentic: not just writing text, but doing tasks (e.g., an AI agent guides consumers through making a purchase, changing an airline reservation, or canceling a subscription).

In terms of valuation, we still primarily assess the company through price-to-earnings metrics. However, with the company's better disclosure of its now broken-out YouTube and Cloud divisions, we are also able to evaluate its businesses through a "sum-of-the-parts" lens. In mid-2025, with Alphabet's market capitalization at just over \$2 trillion, we considered Alphabet's various businesses, making reasonable valuation comparisons to leading competitors in each space. Albeit using broad strokes, we came to a potential estimated value of \$5 trillion. Since then, Alphabet's valuation has nearly doubled to \$4 trillion. And, Google's recently commercialized Tensor Processing Unit (TPU) chip business has just emerged as a substantial franchise in its own right. Below we summarize Alphabet's distinct pillars, each of which would be a best-in-class business on a standalone basis, and each a desirable Saybrook portfolio company.

**Google Search** is still the company's primary engine, with \$200 billion of revenue in 2025. It is greatly enhanced with AI Overviews and includes related apps such as Google Maps, Translate, Shopping, and Travel.

**YouTube** has long dominated short, user-generated content and now offers long-form streaming and linear television distribution, becoming the most watched streaming platform on TVs. Total revenue at \$40 billion annually matches media giant Netflix, but we would rather own a free-standing YouTube with its far higher margins.

**Google Cloud** has become Alphabet's fastest-growing segment, hitting a \$60 billion annual revenue run rate. It has transitioned from a loss-leader to a high-margin business, as enterprises build their systems on Google's AI infrastructure. Google Cloud is third behind Amazon AWS and Microsoft Azure, but it is growing faster and, thus, gaining market share.

**Gemini** is a leading chatbot language model platform with 650 million monthly active users and now will be integrated into Apple's Siri via a recent landmark deal. The Gemini ecosystem is a foundational layer of the AI economy, with potentially lucrative licensing and agentic subscription revenue for Google.

**Waymo** completed over 14 million driverless trips in 2025, with 92% less serious accidents than human drivers, positioning it as the undisputed leader in the global robotaxi race, miles ahead of rivals

such as Tesla. We first mentioned Alphabet's self-driving car initiative in this letter 10 years ago when it was considered a far-out moonshot.

**Google Custom Silicon** designs AI-focused TPU chips, which are less expensive and more efficient than Nvidia Corp's GPUs. Companies like Meta, Anthropic, and Apple are using these chips for their models and data-centers, generating a new Google revenue stream.

**Other Businesses** include Gmail, Waze, Google Home, Chrome, Android, Life Sciences, and other numerous venture investments.

After its big stock price advance in 2025, Google's price-to-earnings valuation is back at the high end of its historic range, although we suspect the company's earnings will accelerate, partly justifying the higher valuation. Nevertheless, its current share price now discounts a lot of the good news that is expected to continue coming out over the next several quarters. Competition remains fierce, and Google will, of course, face setbacks. CEO Pichai warned in November that if a potential AI investment bubble bursts, "no company is going to be immune, including us."

### *Concentration Risks*

Even with exceptional businesses like Google and Berkshire, there can be substantial risks to owning concentrated positions. Buffett often reminds shareholders to be mentally prepared to see the stock occasionally fall 50% or so, as it has during three bear markets periods over the past 60 years (1973-75, 1998-2000, 2007-09). Google stock has also been down sharply several times during its 21-year history, selling off more than 30% three times in just the last five years (during the COVID breakout, the 2022 inflation surge, and last spring's tariff panic). These are all examples of general stock market risk; even the best companies tumble with the market – but they also come back.

If Google and/or Berkshire were to significantly underperform the broader stock market for an extended period (and each has done so in past), Saybrook's performance will suffer. Selling a large portion of the position is always an option to consider, but there can be tax consequences to selling low-cost basis shares (combined federal and local capital gains tax rates are often above 30%). Therefore, the percentage paid to the government in taxes may approximate the percentage of a bear market stock decline, while forgoing future compounding potential on the tax amount paid out. Of course, more moderate position trims have and will be considered for clients where suitable given individual risk tolerance and liquidity needs.

The most significant risk of owning concentrated positions is company-specific: business deterioration, impairment, permanent loss of market share, etc. The best defenses include durable competitive advantages, strong balance sheets, management transparency and urgency in addressing problems, and the willingness to invest for the long-term at the expense of current profits. There can be no certainty, but we believe that these qualities are currently embedded in the cultures of both Berkshire and Alphabet.

*The Barbell Strategy*

Our decision to remain highly concentrated in Alphabet and Berkshire Hathaway is rooted in the belief that these two holdings represent the most resilient and productive operating systems of the modern economy: one driven by the rapid scaling of digital advertising and search, and the other by the enduring stability of industrial infrastructure and insurance.

Alphabet serves as the primary gateway for global information. Its competitive advantage is built upon an integrated ecosystem that makes its market position difficult to displace. By holding a significant position in Alphabet, we participate in the massive scale of search and the frontier of artificial intelligence, supported by a business model that produces exceptional margins and raw cash flow. This exposure ensures our participation in high-growth sectors where information and data processing are the primary currencies.

In contrast, Berkshire Hathaway provides the bedrock for the physical world. Through its vast array of essential services, it controls the infrastructure necessary to move goods and power communities regardless of technological shifts. Berkshire's strength lies in a unique capital structure that allows it to act with precision during market panics. While valuations in the technology sector may fluctuate based on future sentiment, Berkshire's earnings remain grounded in the tangible reality of the global supply chain and the defensive nature of its insurance operations.

This barbell approach allows us to align your capital with two distinct models of value creation. In addition, both companies' massive cash reserves ensure they are not just survivors of market volatility, but potential beneficiaries of it, capable of making aggressive moves when others are most vulnerable.

*Note: For fun, we asked Gemini to draft these final "Barbell Strategy" paragraphs with initial input and minor edits by us – not bad, but for better or worse, we will continue writing these letters ourselves.*