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INVESTMENT MANAGEMENT

PORTFOLIO INSIGHTS

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Acropolis was born from a simple idea:

In an industry where high quality, objective advice is hard to come by, we make a difference by putting the client's interests above our own.

REGIME CHANGE

Although the first few days of the current quarter reflect a meaningful shift in market sentiment, it's too early to say how the events and market response will unfold.

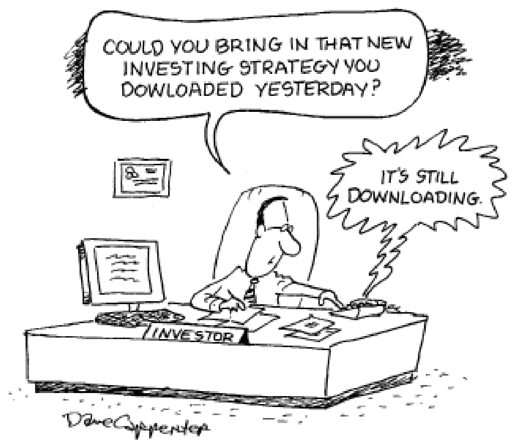
Therefore, this column won't focus on "Liberation Day" but will instead center on the market rotation partly due to earlier tariff concerns and, importantly, reversing nosebleed valuations in a handful of sectors.

In the last five calendar years, earnings for the S&P companies grew by 7.6 percent per year, or 44.0 percent from start to finish. Those are outstanding numbers but pale compared to the growth of market prices, which were 12.7 percent annualized or 82.0 percent cumulatively.

As a result, the price-earnings ratio grew from 17.7 to 24.8 at the end of last year. Other measures that compare prices to fundamentals experienced similar changes.

At least two things generally drive shifts in valuation. First, investors expect substantial fundamental growth and are willing to pay high prices that reflect their high expectations.

The much-discussed Magnificent Seven epitomized this phenomenon, as investors seemed willing to pay any price to get exposure to companies that would likely benefit from their investment and potential profits from artificial intelligence.



Another reason stocks get expensive is generalized momentum. People see stocks rising, they regret not owning them, are afraid they will miss out on further returns, and pay high prices.

Tariff uncertainties almost certainly served as a catalyst for the recent shift, but since fundamentals haven't had time to change, the price pressure must be due to lower growth expectations and a shift in momentum.

Our "all-weather" strategy benefitted from the strong market over the past five years but was watered down by exposure to value stocks, developed and emerging market stocks, and bonds - the very assets that did relatively well in the first quarter.

Our balanced approach meant trailing the strong up markets, but it should also translate into buffered losses in down markets, and good results over the long run.

STOCK MARKET SUMMARY

By David Ott

US stocks had a tough first quarter, falling by mid to high single digits. The S&P 500 fell by -4.3 percent, but the S&P 500 equal-weight index, which reflects the simple average return of all 500 companies, fell by -0.6 percent.

That difference suggests that the largest companies fell the most, which fits the -16.0 percent drop in the much-heralded Magnificent Seven, representing nearly a third of the index.

The same effect was not seen in the mid and small-cap indexes, mainly because they aren't nearly as concentrated as the S&P 500. They likely fell more because they are more sensitive to the overall economy.

The ten largest companies in the S&P 400 mid-cap index and S&P 600 small-cap index amount to 5.3 percent of the index, and the largest stock in both is about 0.8 percent.

Large-cap growth stocks suffered the most, falling -8.5 percent after two robust years of returns. Value stocks, which are less expensive than their fundamentals by definition, actually gained 0.3 percent during the quarter. Quality stocks lost -0.8 percent, and stocks with strong relative momentum fell -2.4 percent.

Overseas stocks fared well in the first quarter, with emerging markets posting a 2.9 percent gain and developed markets stocks up 6.9 percent.

Those numbers are quoted in US dollars, meaning that those are the returns we get as US investors.

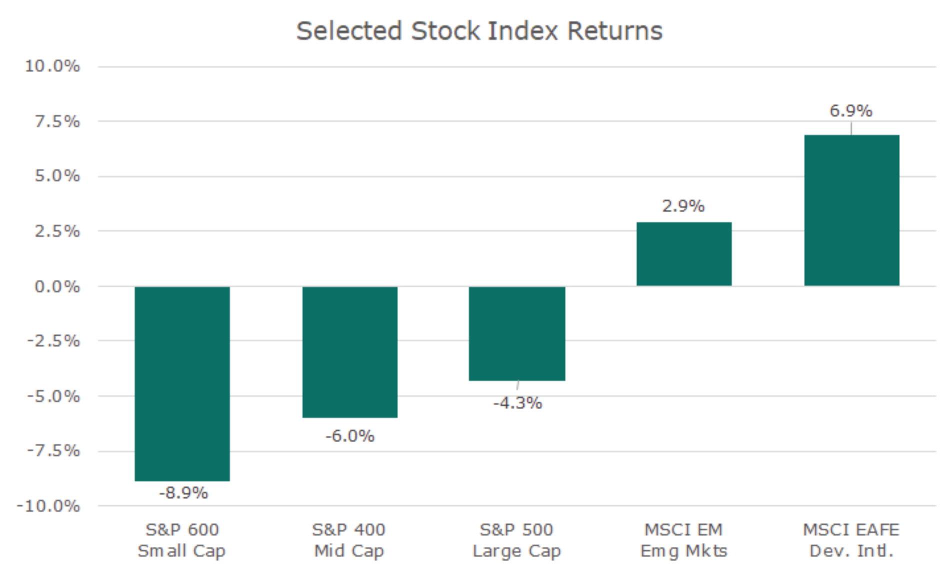
It's also interesting to look at them in local-currency terms, which means what a Germany-based investor might get on their German stocks without accounting for currency exchange.

In local currency terms, the MSCI EAFE index of developed markets gained 3.4 percent, which means that 3.5 percent of the return for US-based investors was due to a falling US dollar.

The effect was less dramatic in emerging markets, where the local currency index gained 2.5 percent, meaning that 0.4 percent was a weak US dollar compared to emerging market currencies.

"Though we see the same world, we see it through different eyes."

Virginia Woolf
English Author
1882 - 1941



Data Source: Bloomberg

BOND MARKET REVIEW

By Ryan Craft, CFA

While the first quarter proved difficult for equities, bonds enjoyed a strong start to the year.

Throughout the quarter, economic uncertainty increased, causing investors to reduce speculation and risk-taking trades. The result was a flight to safety into bonds, with US Treasury bonds being the primary beneficiary.

The Bloomberg Aggregate bond index grew by +2.78 percent for the quarter. Investment Grade Corporates posted a total return of +2.31 percent, with US Treasuries growing +2.92 percent. Junk bonds posted a return of just +1.0 percent, illustrating the reduced risk appetite among investors.

In terms of data, employment and growth remained strong. Inflation continued to decline; however, it was slower than many would prefer.

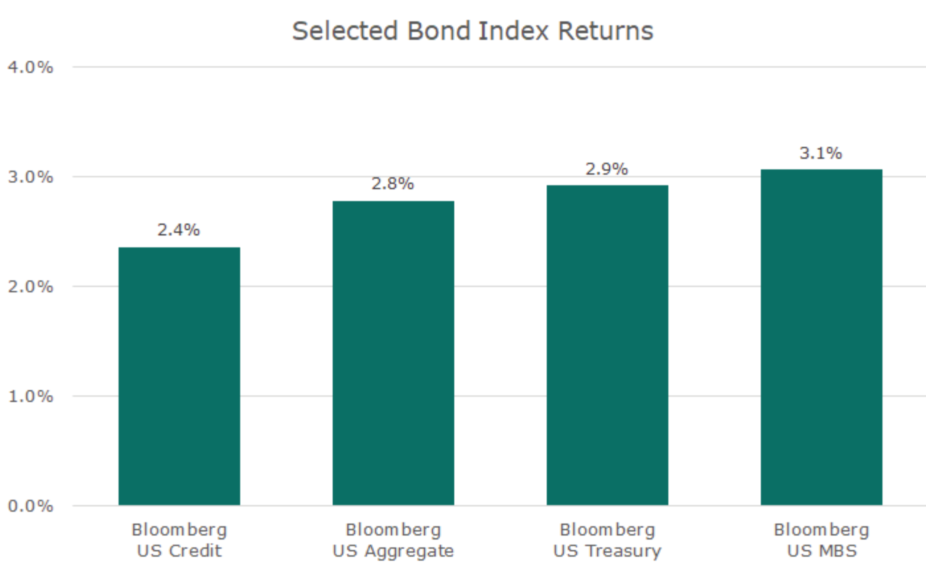
What changed was the outlook for the economy. The impact of proposed tariffs has been hotly debated, with many concerned that it will negatively impact economic growth and prolong elevated inflation.

While survey responses may show inflation concerns increasing in the future, market-based measures of inflation expectations do not share the same concern. Market-based gauges of inflation expectations, such as TIP breakevens, have remained between 2.0–2.5 percent.

Additionally, the market has again priced in additional rate cuts by the Federal Reserve. The market has priced in three rate cuts for 2025, with the first coming this summer.

Credit spreads have widened but remain low. Investment grade credit increased by 15 basis points, while junk bonds made a more significant move, rising 100 bps in March. These moves are coming off of very tight levels and may be a normalization. However, such abrupt moves can signal tighter financial conditions affecting the real economy.

After years of higher bond yields being the source of market instability, the past few months were a return to normal for bonds, with them back to fulfilling their traditional role as the safe part of a portfolio.



Data Source: Bloomberg

"The art of being wise is knowing what to overlook."

William James
American Philosopher
1842 - 1910

HOW DO TARIFFS WORK?

By David Ott

A longtime friend and reader asked me to explain how tariffs work. Of course, it's a politically charged topic, but a simple description of how they function should be apolitical and straightforward enough.

I will start with a made-up product, Wakanda's Widgets, which are made in Wakanda and imported to the US. My made-up supply chain has three players: the manufacturer in Wakanda, a US importer that also acts as a distributor, and the end retailer that puts the widgets on the shelves.

The table on the chart has several moving parts. Section A, on the left, shows widget prices as it moves from production to final sale. Both Section A and Section B show a before and after of pre- and post-tariffs, which start at 10 percent and increase to 20 percent.

I realize that pre-tariff might seem like they should be zero, but the US already imposes tariffs, so I thought starting at zero didn't make as much sense. In the end, the specifics don't matter for this example, and there are several other simplifying assumptions that you won't find in the real world.

Section B on the right shows a highly simplified profit/loss statement for each company in the supply chain. It also shows the pre- and post-tariff regimes.

Let's start in Section A with Wakanda's Widgets, which is highlighted in orange. In my example, the raw goods that go into a widget cost $6 to pull from the ground.

The company has to pay its workers $1 and spend another $1 on drills, office equipment, etc., that represent operating costs. If they sell the widget to an importer in the US for $10, that leaves a profit of $2, or 20 percent. For the manufacturer, the pre- and post-tariff regimes are the same (more on that later).

Pre-tariffs, the importer (in yellow) buys the widgets for $10 and pays $1 to transport and insure them during transport. In this example, since I'm assuming that the US already charges a 10 percent tariff on goods from Wakanda, the importer also has a $1 tariff cost. The 'landed cost' is $12. For pre-tariffs, let's assume the importer can turn around and sell the widgets for $18.2, a 40 percent markup from the landed cost.

Section B on the right is similar, but there are a few more items because what others say about tariffs is often misleading. For example, others frequently write that the importer has a $6 profit, which is the difference between the sale price and the landed cost. That may be the gross profit, but it assumes that the importer has no costs – no people to facilitate the transport, no offices or computers, etc. I'm showing that there are operating costs of $2.44, which leaves the importer with a pre-tariff profit of $3.6, or 20.0 percent of their revenue.

Pre-tariffs, the retailer (in green) has to pay $16.8 for the widgets, and if they used the standard 'keystone' pricing markup, they would sell the widgets for $33.6. Like the importer, people often think that this difference is all profit, but that's not true, so my mini-income statement on the right shows the retailer's profits, which are $6.72, or 20 percent of their revenue.

Suppose the US government doubles the tariff from 10 to 20 percent. In the post-tariff columns, the manufacturer is unchanged and the direct hit to the importer because the tariff would go

> **"Nothing is so firmly believed as that which we least know."**
>
> *Michel de Montaigne*
> *French Philosopher*
> *1533 - 1592*

Section A				
Pre Tariff		Post Tariff		
Wakanda's Widgets				
$	6.00	$	6.00	Cost of Goods Sold
$	2.00	$	2.00	Operating Costs
$	2.00	$	2.00	Profits
$	10.00	$	10.00	Wakanda Sale Price
Importer/Distributor				
$	10.00	$	10.00	Importer Purchase Price
$	1.00	$	2.00	Duties/Tariffs
$	1.00	$	1.00	Freight/Insurance
$	12.00	$	13.00	Landed Cost
$	16.80	$	18.20	Importer Sale Price
Retailer				
$	16.80	$	18.20	Retailer Purchase Price
$	33.60	$	36.40	Retailer Sale Price

Section B				
Pre Tariff		Post Tariff		
Wakanda's Widgets				
$	10.00	$	10.00	Wakanda Revenue
$	(6.00)	$	(6.00)	Cost of Goods Sold
$	4.00	$	4.00	Gross Profits
$	(2.00)	$	(2.00)	Operating Costs
$	2.00	$	2.00	Profits
	20.0%		20.0%	Profit Margin
Importer/Distributor				
$	16.80	$	18.20	Importer Revenue
$	(10.00)	$	(10.00)	Cost of Goods Sold
$	6.80	$	8.20	Gross Profits
$	(1.00)	$	(2.00)	Tariffs
$	(2.44)	$	(2.44)	Operating Costs
$	3.36	$	3.76	Profit
	20.0%		20.7%	Profit Margin
Retailer				
$	33.60	$	36.40	Retailer Revenue
$	(16.80)	$	(18.20)	Cost of Goods Sold
$	16.80	$	18.20	Gross Profits
$	(10.08)	$	(10.08)	Operating Costs
$	6.72	$	8.12	Net Profits
	20.0%		22.3%	Profit Margin

from $1 to $2, taking the landed cost from $12 to $13.

The importer keeps the 40 percent markup and sells the widget to the retailer for $18.2, which turns around and sells it for $36.4, which is 8.3 percent higher than the pre-tariff price.

That's why people often talk about inflation from tariffs, but as the Trump administration says, it's a one-time increase, so the inflation won't be sustained in their view.

If that were the end of the story, we could quickly answer the question, 'Who would pay the tariff's cost?, by saying, 'The consumer pays!' It's not that simple because, in my hypothetical story, every company in the supply chain maintains its profit margin - the importer and retailer actually get a boost to its profit margin. This assumes that all companies in the supply chain have perfect pricing power, which isn't true in the real world. The most likely scenario is that everyone is impacted, from the manufacturer to the consumer and everyone in between. The retailer worries that consumers won't come to the store if prices are too high, especially if the product has elastic demand or there are easy substitutions.

The retailer will likely eat some of the higher costs at the expense of their profit margin. But, the retailer will also go back and pressure the importer and manufacturer in search of lower prices. In this example, they all have a lot of profit margin to work with, but that's not true in the real world.

It may be worth it to reduce the deficit, increase domestic manufacturing, or impact other priorities of the country, but it won't likely be a free lunch.

"The greater the obstacle, the more glory in overcoming it."

Moliere
French Playwrite & Actor
1622 - 1673

INSIDE THE ECONOMY: BANKING

By: William R. Emmons, PhD

Silicon Valley Bank (SVB) failed two years ago on March 10, 2023. At $209 billion in assets, SVB was the 16th largest U.S. bank at the time and was the largest bank to fail since the 2008 financial crisis.

The greatest significance of SVB's failure was not the disruption it caused in financial markets or the power struggle it unleashed over stronger bank regulation. The real tragedy is that the fundamental flaw in our banking system—its built-in fragility—was graphically illustrated by SVB's failure. This avoidable fragility remains virtually undiscussed by legislators and regulators. Thus, we learned nothing from the failure of SVB, and more bank failures and financial crises are inevitable.

SVB's collapse triggered three other large-bank failures as uninsured depositors and creditors panicked, shaking the global financial system. These knock-on failures elicited massive crisis responses from the Fed, the FDIC, and the U.S. Treasury. In effect, the entire banking and financial system was bailed out again after being rescued in 2008 and 2020.

The underlying issue demonstrated by SVB's failure and the ensuing policy response is a contradiction at the heart of financial system oversight. It has been well-known by banking economists since the failure and depositor bailout of Continental Illinois National Bank in 1984.

The contradiction becomes more glaring with each new bailout. The contradiction is both well-known and officially denied (hence, a contradiction on top of a contradiction): W*e rely on market discipline—the timely actions of equity and especially debt holders (including depositors) in financial institutions—to restrain risk-taking and to limit taxpayers' exposure to loss through government guarantees. However, we do not allow market discipline to operate when it threatens overall financial stability.*

There are only two real solutions, and they are both unpalatable. First, we could turn the clock back to a world populated with many banks, none too big to fail. If every single bank was too small to matter to financial stability, if it failed, market discipline could be applied safely. But we would sacrifice efficiencies and need to break up large banks that are (or may be) too big to fail into many smaller ones. Large banks' lobbying power demonstrated in killing Basel III Endgame suggests this is unlikely.

Second, we could move to a Canadian-style banking system consisting of a few mega-banks that operate like regulated utilities. In the U.S. context, this might be 50 to 100 banks (down from the 4,000 existing banks today). Innovation might suffer, but 19th-century panics like those we saw in Silicon Valley in 2008, 2020, and two years ago would cease.

Since we are unlikely to return to a world of many very small banks or Canadianize our banking system, we are stuck with our fragile system. Consequently, we should expect to see more failures like SVB's in the future. A recurrence of a severe financial crisis like 2008 cannot be ruled out, either.

William R. Emmons, PhD, was the lead economist in the Supervision Division at the St. Louis Federal Reserve before he retired in 2022 after 27 years of service.

"You take on what's right in front of you. You want to do the best you can with the opportunties you have."

Don Shula
American Football Coach
1930 - 2020

PROACTIVE FRAUD PREVENTION

By: Michael Lissner, CFP®, CEPA

As an investor, safeguarding your wealth is not just about building it but also protecting it. Fraud prevention is an essential aspect of any comprehensive wealth management strategy, and it requires a disciplined approach to ensure that your assets remain secure in an increasingly complex digital environment.

The first line of defense is vigilance. Fraudsters often prey on individuals when they are emotionally compromised, whether due to stress, excitement, or fear. This is why it is crucial to avoid making financial decisions in the heat of the moment. Scammers will create a sense of urgency, pressuring you to act quickly and bypassing your critical thinking process. Stop and pause if someone asks for immediate disclosure of your personal information by phone, email, text, or video. Pausing and verifying the situation is always the best course of action.

It is also essential to regularly monitor your financial accounts and credit reports for unusual activity. Every day, Acropolis monitors and reviews every transaction in your Schwab accounts from the prior day. We monitor the accounts that Acropolis can see.

A simple step like shredding sensitive documents is vital. You can always bring documents to Acropolis to shred for you. Next time you come to our office, bring the documents that need shredding.

You should also consider contacting the three major credit bureaus (Equifax, Experian, and TransUnion), where you can freeze your credit and set up fraud alerts. Freezing your credit prevents others from opening credit in your name. (Unfortunately, this also prevents you from getting new credit without first unfreezing your credit.) If you do not want to freeze your credit, enable fraud alerts, which will notify you if someone opens a new credit account in your name. This allows you to address it immediately before any damage is done.

Many credit cards allow you to set up transaction notifications. For example, my credit card is set to notify me every time a transaction exceeds $100. When this happens, I typically get a text on my phone within 10 seconds. (I am not sure why, but I seem to get many more of these texts when our four kids are in town…)

Beyond these basic precautions, it is crucial to be proactive by utilizing tools like multi-factor authentication (MFA) and password managers. Keeping your security software up to date and using strong, unique passwords for each online account adds another layer of protection.

If you ever find yourself in doubt—whether an unfamiliar source has approached you, suspect a breach, or have any other concerns—it is essential to reach out. Many people hesitate to admit they've been scammed or compromised due to embarrassment, but fraud can happen to anyone, regardless of their financial acumen.

As your trusted wealth management partner, your Portfolio Manager or Portfolio Advisor at Acropolis Investment Management is here to assist. We can help assess the situation, provide guidance, and ensure you take the proper steps to mitigate potential damage. Please don't hesitate to contact us for support.

"We suffer more often in imagination than in reality."

Seneca
Roman Philosopher
4 BC - 65 AD

Major Indexes	2025 YTD
Dow Jones	-0.9%
S&P 500	-4.3%
S&P 400 Mid-Cap	-6.0%
S&P 600 Small-Cap	-8.9%
MSCI EAFE (Intl)	6.9%
MSCI Emerging Mkt	2.9%

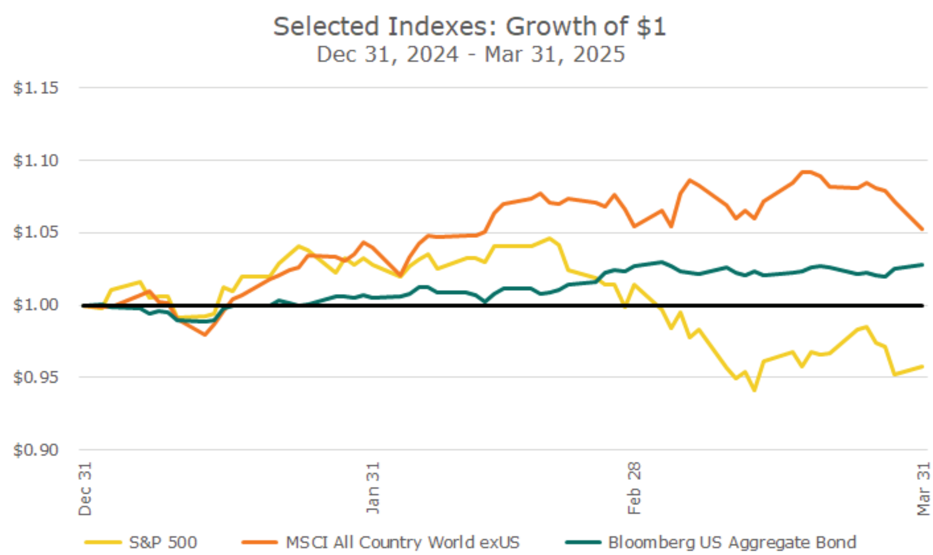
Equity Styles	2025 YTD
S&P 500 Growth	-8.5%
S&P 500 Value	0.3%
S&P 500 Quality	-0.8%
S&P 500 Momentum	-2.4%

S&P Sectors	2025 YTD
Basic Materials	2.8%
Communications	-6.2%
Consumer Discretion.	-13.8%
Consumer Staples	5.2%
Energy	10.2%
Financials	3.5%
Healthcare	6.5%
Industrials	-0.2%
REITs	3.6%
Technology	-12.7%
Utilities	4.9%

Interest Rates	2025 Q1
Fed Funds	4.5%
Prime Rate	7.5%
3-mo. Treasuries	4.3%
2-yr. Treasuries	3.9%
5-yr. Treasuries	4.0%
10-yr. Treasuries	4.2%

All Data as of 03/31/25

THE BIG PICTURE



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