Carrera Capital Advisors

DECEMBER NEWSLETTER

Cutting Through the Noise:

Winning By Not Losing – A Recurring Theme

INSIDE, WE ALSO TALK ABOUT:

DRAWDOWNS

THE MATH OF RECOVERY

NEW HIGH EARNER ROTH REQUIREMENTS

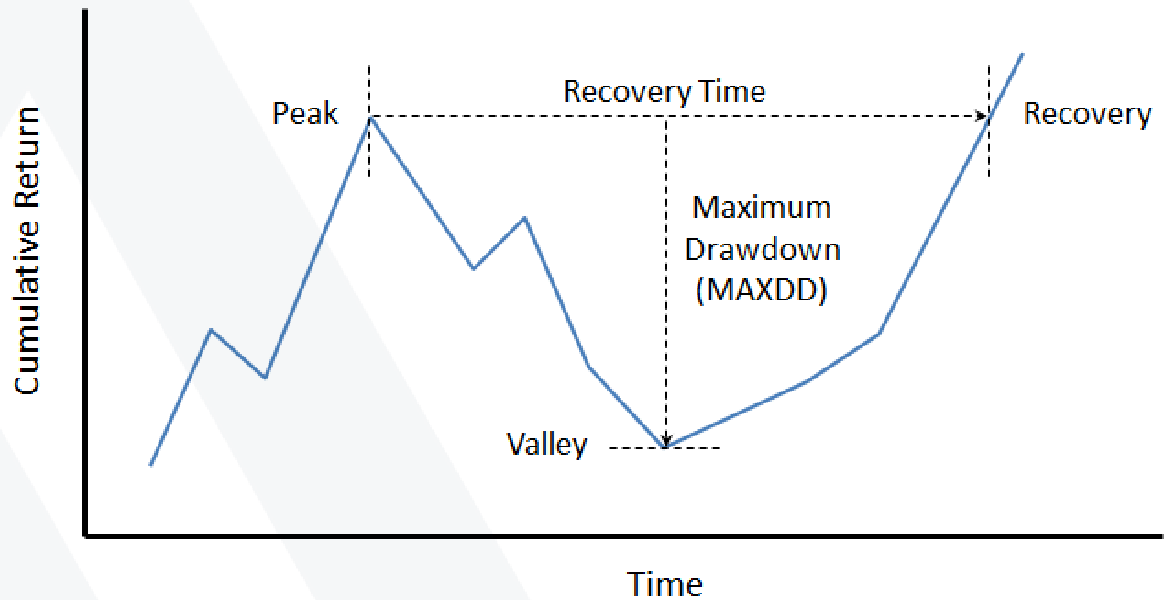
A consistent theme in our letters over the years has been the idea that one can "win by not losing."

In practice, this means recognizing that investment success is driven not only by what one earns in rising markets, but also—often more importantly—by what one protects during challenging ones.

Most investors focus on return. Far fewer spend time understanding drawdown—the peak-to-trough decline an investment experiences before recovering.

To us, drawdown is one of the most important and underappreciated risk metrics in all of portfolio management. And although we've referenced it in past letters, we've never dedicated an entire commentary to it. This month, we're changing that.

But first, a visual illustrating the Maximum Drawdown of a hypothetical investment:



Why Minimizing Drawdown Matters

Drawdowns are not just temporary declines. They shape long-term outcomes because losses are asymmetric. A 20% decline does not require a 20% gain to recover—it requires substantially more. That asymmetry becomes painful as losses get deeper.

This is where unconventional diversification plays a critical role. Rather than simply adding more securities or more asset classes, our process focuses on reducing the co-movement of portfolio components—selecting return streams that behave differently during stress, not just during normal markets.

That approach may look unconventional relative to traditional 60/40 (stock/bond) models, but it has one purpose: minimize deep drawdowns so the portfolio can compound more efficiently over time.

The Math of Recovery

Here's a simple but powerful illustration. The deeper the drawdown, the harder the path back:

Maximum Drawdown	Return Required to Breakeven
-10%	11%
-20%	25%
-25%	33%
-30%	43%
-50%	100%
-75%	300%

Drawdowns are manageable.

Large drawdowns can be catastrophic—because they consume time, opportunity, and emotional bandwidth. They force investors into reactive decisions. They slow the power of compounding.

Which brings us back to our core philosophy:

If one can limit how far one falls, one doesn't need to climb nearly as far to get back up.

What This Means for Clients

By emphasizing drawdown control and unconventional diversification, we aim to:

• reduce the magnitude of losses during market stress,
• create a smoother, more resilient return path,
• protect clients from emotionally driven decision-making, and
• preserve the power of compounding even in choppy markets.

This is how one can "win by not losing".

Financial Planning Tidbit:

New Roth Requirement for High Earners

Starting in 2026, individuals earning more than $150,000 in Social Security wages in the prior year must make all 401K catch-up contributions as Roth (after-tax) contributions.

What this means:

- You won't receive an upfront tax deduction on catch-ups.
- But your contributions will grow tax-free, and qualified withdrawals are tax-free in retirement.
- If your employer's plan doesn't offer a Roth option, you will not be able to make catch-up contributions at all. Plan sponsors are expected to update plans, but this is worth confirming.

The IRS has increased retirement plan limits for 2026:

- Standard 401(k) employee contribution limit:
  $24,500 (up from $23,500 in 2025)
- Catch-up contribution for individuals age 50+:
  Additional $8,000

→ total personal contribution capacity of $32,500

- Enhanced catch-up for ages 60–63 ("Super Catch-Up"):
  Up to $11,250 in additional contributions

→ total personal contribution capacity of $35,750, depending on the plan

Give us a follow!

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November 2025 Returns:

S&P 500 +.24% || Dow 30 +.44% || Nasdaq 100 -1.56% || Aggregate Bonds +.61% || LT Treasuries +.27%
T-Bills +0.29% || Int'l Developed +.74% || Emerging Markets +-1.78% || GSCI Commodity +.26%
REITs +2.37% || U.S.D +0.00% ||

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We use total returns that include the dividends and the expenses charged to investors for holding funds that track all corresponding benchmark indexes, so-called "Index Funds". Total returns use dividend-adjusted closing prices from Yahoo Finance as a raw input. Calculations are conducted in the R programming language by Carrera Capital Advisors.

The index returns for the month also utilize index funds that are designed to track an underlying index. Additional disclosures on each fund:

S&P 500 – iShares Core S&P 500 ETF ("IVV")

The Fund seeks to track the investment results of the S&P 500, which measures the performance of the large-capitalization sector of the U.S. equity market, as determined by S&P Dow Jones Indices LLC (the "Index Provider" or "SPDJI").

Dow 30 – SPDR Dow Jones Industrial Average ETF Trust ("DIA")

The Trust seeks to achieve its investment objective by holding a portfolio of the common stocks that are included in the Dow Jones Industrial Average (DJIA), with the weight of each stock in the portfolio substantially corresponding to the weight of such stock in the DJIA.

Aggregate Bonds – iShares Core U.S. Aggregate Bond ETF ("AGG")

The iShares Core U.S. Aggregate Bond ETF (the "Fund") seeks to track the investment results of an index composed of the total U.S. investment-grade bond market.

LT Treasuries – iShares 20+ Year Treasury Bond ETF ("TLT")

The iShares 20+ Year Treasury Bond ETF seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities greater than twenty years.

T-Bills – SPDR Bloomberg 1-3 Month T-Bill ETF ("BIL")

The SPDR Bloomberg 1-3 Month T-Bill ETF (the "Fund") seeks to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of an index that tracks the 1-3 month sector of the United States Treasury Bill market.

Int'l Developed – iShares MSCI EAFE ETF ("EFA")

The iShares MSCI EAFE ETF (the "Fund") seeks to track the investment results of an index composed of large- and mid-capitalization developed market equities, excluding the U.S. and Canada.

Emerging Markets – iShares MSCI Emerging Markets ETF ("EEM")

The Fund seeks to track the investment results of the MSCI Emerging Markets Index, which is designed to measure equity market performance in the global emerging markets.

Commodities – iShares S&P Goldman Sachs Commodity Index Trust ("GSG")

The Trust seek to replicate the performance of the S&P GSCI Excess Return Index (S&P GSCI-ER), together with collateral assets consisting of cash, U.S. Treasury securities or other short-term securities that are eligible as margin deposits for index futures on the S&P GSCI-ER.

REITs – SPDR Dow Jones Global Real Estate ETF ("RWO")

The SPDR Dow Jones Global Real Estate ETF (the "Fund") seeks to provide investment results that, before fees and expenses, correspond generally to the total return performance of an index based upon the global real estate market

U.S.D. – Invesco DB US Dollar Bullish Fund ("UUP")

The Invesco DB US Dollar Index Bullish (Fund) seeks to track changes, whether positive or negative, in the level of the Deutsche Bank Long USD Currency Portfolio Index - Excess
ReturnTM (DB Long USD Currency Portfolio Index ER or Index) plus the interest income from the Fund's holdings of primarily US Treasury securities and money market income less the Fund's expenses