



12/18/2025

Weekly Webinar

INTRODUCTION – FOCUS ON FUNDAMENTAL ANALYSIS

An analyst for several decades

Senior Analyst - Value Notes

CFO - CPA firm, business consulting

Analyst - Motley Fool and Seeking Alpha

CFO - L Capital, family office, project analysis and capital allocation

At Fountainhead, we believe that investing in businesses, whether it's a massive Google or a startup with \$200Mn in revenues. Every business must be valued based on their fundamentals, irrespective of their daily price movements over which we have little control. But we do have analytical ability to analyze and value businesses and base our decisions on how well they perform. If you've been familiar with my work in the past year and a half, I really like to go for businesses which are market leaders, and have strong, competitive advantages, very strong balance sheets, and great margins which allows them to price their products or services way higher than the competition. To me the biggest incentive to invest in a company is its "moat" or significant competitive advantages. The term "moat" was coined by the great Warren Buffett signifying an unbreachable competitive advantage, like a deep moat surrounding a castle to keep out intruders. The hugely successful Peter Lynch, also placed a tremendous emphasis on investing only in great businesses and not worrying about the market.

Four examples of companies with great moats are Nvidia with its high-powered GPUs, Google with search, Taiwan Semiconductor with its manufacturing operations, and ASML with its EUV lithography machines, without which you cannot create a high-powered GPU.

THE OCT-NOV 2025 NON-FARM PAYROLLS REPORT

Mixed is perhaps the best to describe it and convoluted if you're not feeling as charitable.

Ostensibly, the headline numbers were 105,000 jobs lost in October, and 64,000 jobs created for November, but behind the numbers was a final reflection of 162,000 DOGE cuts, for October.

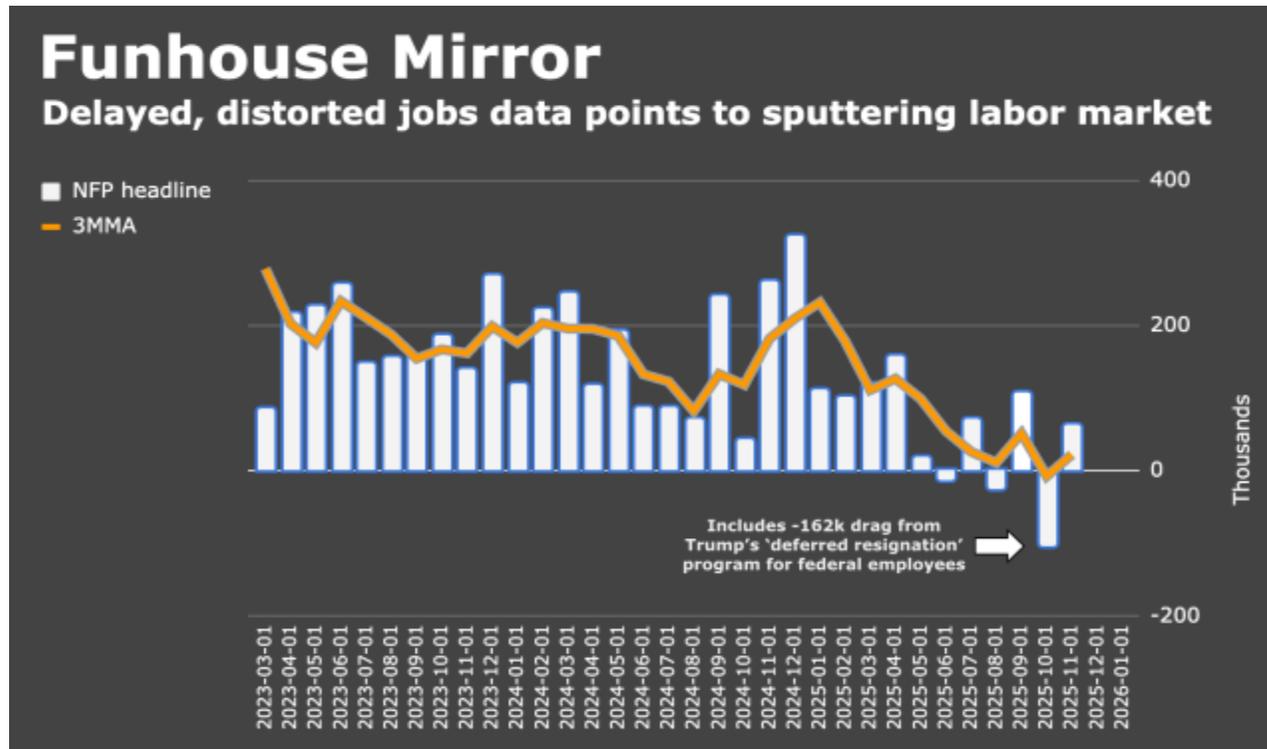
Net of the DOGE cuts jobs grew 57,000. On a 3-month basis, net job creation has been a low 22,000 per month, mostly confirming what we've seen from private payrolls.

The Unemployment rate has now trickled up to 4.6% - that is probably the most critical number going forward and will be the key metric in deciding interest rates in 2026.

Perhaps the only silver lining is the 3.5% increase in average hourly earnings suggesting that wage inflation is not reaching for the sky.

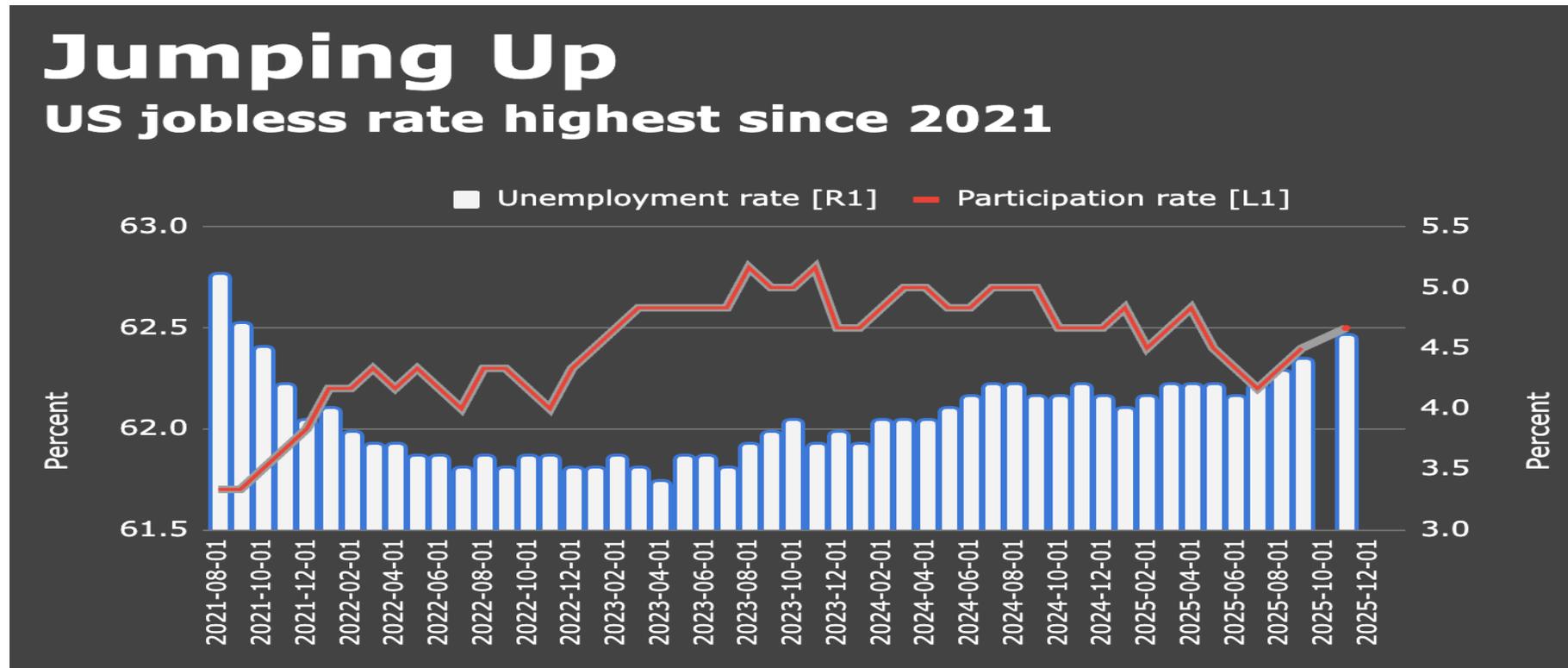
THE OCT-NOV 2025 NON-FARM PAYROLLS REPORT

What lies ahead? The graph clearly reflects that the labor market's best days are behind it. I expect 2026 to continue to remain weak as well.



THE OCT-NOV 2025 NON-FARM PAYROLLS REPORT

Here's a quick snapshot – at 4.6% we're back at a level last seen in 2021.



OCT RETAIL SALES

Month on Month: U.S. retail sales were virtually flat M/M at \$732.6B in October, compared with the 0.1% increase expected and the prior month's 0.1% rise, according to delayed data released by the U.S. Census Bureau on Tuesday. The September print was revised from +0.2%.

Annual: Retail sales rose 3.5% YoY from October 2024.

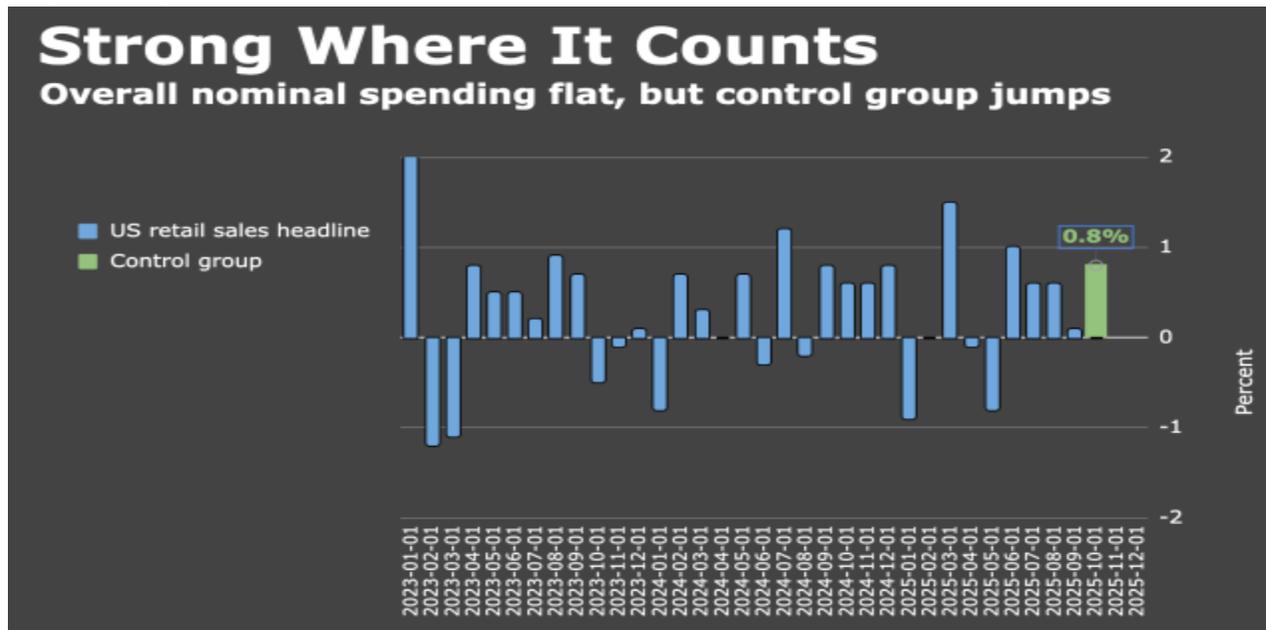
Excluding motor vehicles and parts, core retail sales gained 0.4% from a month earlier in, vs. +0.2% consensus and +0.1% in September (revised from +0.3%).

I believe the more recent data from Thanksgiving sales suggest a moderately strong customer with more upscale purchases from higher income cohorts.

At least this report didn't have anything to the contrary.

OCT RETAIL SALES

The control group for retail sales at a gain of 0.8% was significantly stronger – the control group excludes volatile categories like autos, gas stations, building materials, and food services, used to gauge underlying consumer spending trends for economic analysis, especially as an input for calculating GDP. It strips out items that are heavily influenced by gas prices (gas stations) or large, infrequent purchases.



THREEPEAT IS A RARE OCCURRENCE

The S&P 500 has risen in double digits three years in a row on only 3 occasions in the past 73 years.

This is only the third time since 1952 that the S&P 500 has gained 10% or more in three consecutive years. The other periods were 1995-1999, when it did so for five straight years during the dot-com boom; 2012-2014, during the middle of the 2010s bull market, and 2019-2021, which included the Covid-era stock market boom.

Year	S&P 500 Gain
1995	34.1%
1996	20.3%
1997	31.0%
1998	26.7%
1999	19.5%
Total	219.9%

THREEPEAT IS A RARE OCCURRENCE

The S&P 500 rose a total of 64% from 2012-2014. To put this in context, the great financial crisis after a housing bust of 2007-2009 had created havoc on the economy with the S&P 500 dropping a massive 38.5% in 2008 alone, and it would take a full 7 years before the market surpassed its 2007 peak. This three year recovery was part of that process. In 2015, the S&P 500 dropped 0.73%.

Year	S&P 500 Gain
2012	13.4%
2013	29.6%
2014	11.4%
	Total 63.7%

THREEPEAT IS A RARE OCCURRENCE

During 2019-2021 the S&P 500 rose 90.2% during the COVID boom fueled by government stimulus. But the year following the threepeat, in 2022, the S&P 500 dropped a huge 19.5% after the Fed's hiked interest rates to combat inflation.

Year	S&P 500 Gain
2019	28.9%
2020	16.3%
2021	26.9%
	Total 90.2%

THREEPEAT IS A RARE OCCURRENCE

Since 2023, 2024 and so far in 2025, we're heading for another 12.51% gain, likely closing with another rare double-digit gain.

The point is the first was an extra ordinary dot-com boom, which also had a spectacular bust. The second was following a historic, generational financial crisis, and the third was government induced financial stimulus to fight a pandemic.

<i>Year</i>	S&P 500 Gain
<i>2023</i>	24.23%
<i>2024</i>	23.31%
<i>2025 – December 18th</i>	12.51%
	Total 60.05%

THREEPEAT IS A RARE OCCURRENCE

The current boom from artificial intelligence has so far returned 60% since the beginning of 2023, and if history is any guide 2026 is highly unlikely to give double digit gain.

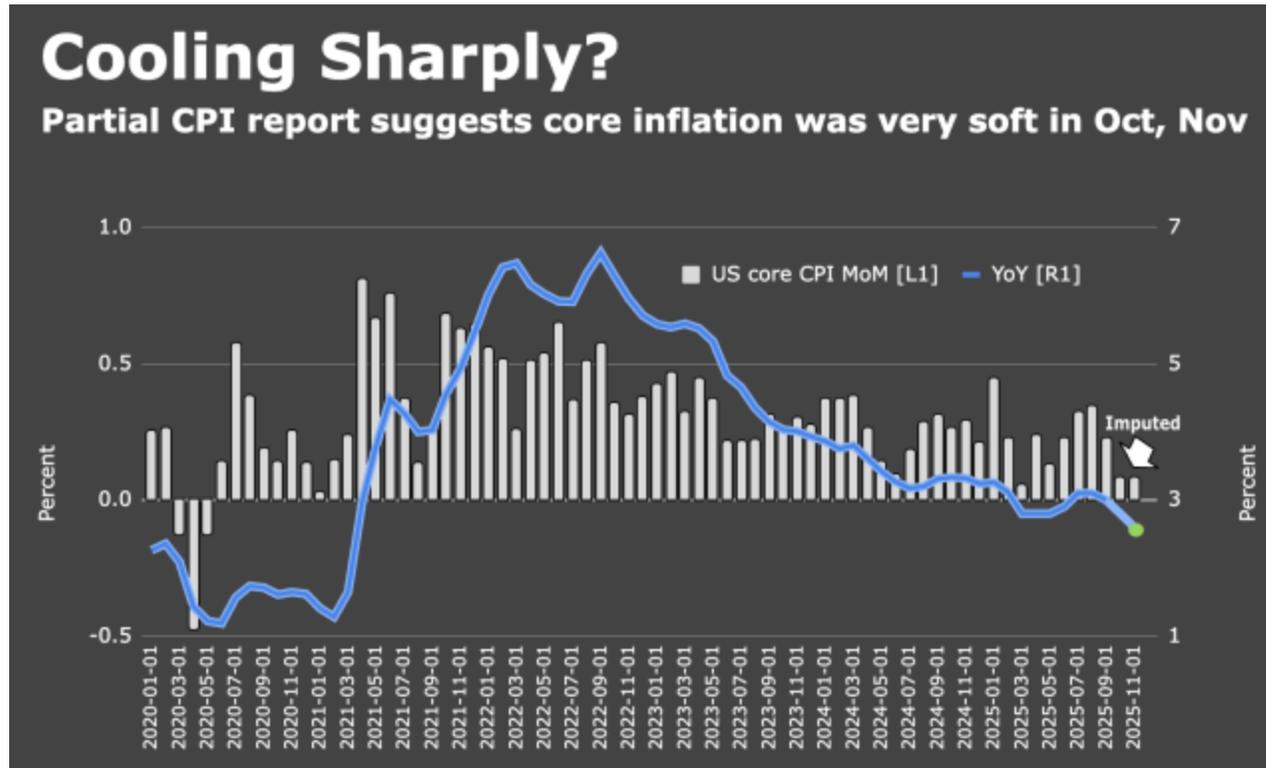
In 2015, following the threepeat the index fell, and in 2022 the index dropped almost 20%.

I believe that AI is still just in its second innings and likely to continue but the markets have priced the boom to perfection and gains will either be muted we'll see large drops the way we've seen with Oracle and Broadcom.

Unfortunately, the markets are treating the A grade Broadcom as badly as the C grade Oracle. We as investors will have to very vigilant and discerning.

CPI REPORT FOR NOVEMBER

A mostly benign report as we can see below: A reading below 3% is a pleasant surprise.



BENIGN CPI SUGGESTS INFLATION IS COOLING

While the government shutdown couldn't produce an October inflation reading, hence there was no MoM comparison for November over October, the November Core CPI 2.6% YoY reading was the lowest since March 2021 and a substantial beat over the consensus estimate of 3%. Similarly, the 2.7% annual increase in the headline CPI also beat consensus of 3.1%.

Given the lack of October data and some computational estimates made by the BLS (Bureau of Labor Statistics), the 0.4% beat of estimates is likely an anomaly and further readings should give more clarity.

Shelter inflation, which has been consistent with falling or steady home prices was only 3%, a far cry from the 5% and 7% seen in the past 2 years.

At present, the markets like it – there is decent buying on the dip, and also because Micron beat by 31% suggesting that the memory market because of the demand for HBM (High Bandwidth Memory) is likely to continue for at least another year if not two.

US GOVT BOND YIELDS- NEITHER KEVIN BRINGS RATES DOWN

Last week markets are increasingly concerned about higher inflation risk under likely incoming Fed Chair Kevin Hasset, given perceptions of his lack of inflation-fighting credibility. However, the possibility of Kevin Warsh taking the job still hasn't led to a bigger fall in treasuries.

As of Thursday morning, the 10 year was at 4.12%. That is a bit of a dampener because payrolls were relatively OK, with lower wage growth, and the CPI was also moderate, and the Feds lowered the Fed Funds rate by 25 basis points.

Even with three better data points the 10 year has remained above 4%...I don't see that as a good sign, especially for mortgages, which needs a boost and all that demand for commercial borrowing for data centers.

We'll also keep a lookout for the Bank of Japan's rate hike tomorrow. While most carry trade unwinding likely occurred from August 2024–2025, some residual volatility remains, though the upcoming BoJ hike is largely priced in..

MICRON RESULTS

Micron (MU) Q1- FY 2026 Post Earnings soaring through the clouds with a 12% gain.

Q1 Non-GAAP EPS of \$4.78 beats by \$0.82.

Revenue of \$13.64B beats by \$760M.

Next quarter guidance: \$18.7Bn V consensus of \$14.23, and EPS of \$8.19 v consensus of \$4.79 - These are very impressive beats.

As one of the largest High Bandwidth Memory (HBM) suppliers to data centers, the massive beat and guide suggest demand is still incredible and management expect this to continue through 2027, both on unit demand and higher pricing.

Last bought on 12/5 - will hold I don't want to add after a 12% jump.

2026 ANALYST TARGETS – 10% INCREASE

2026 Targets from analysts

Institution	Target	S&P 500	Change	Key notes
Goldman Sachs	7,600	6,823	11.39%	Driven by EPS to about 305 in 2026 and AI-led productivity; Mag 7 expected to contribute ~45–46% of earnings growth but with some broadening beyond mega-cap tech.
JPMorgan	7,500	6,823	9.92%	Expects double-digit EPS growth over at least the next two years, supported by AI “supercycle” and two more Fed cuts followed by a pause; Reuters survey cited a median Street target around 7,490 for 2026.
Morgan Stanley	7,800	6,823	14.32%	Described as a “rolling bull market” with laggards catching up, sees S&P potentially above 7,000 before 2026 and still delivering a double-digit gain to 7,800.
Bank of America	7,100	6,823	4.06%	One of the more conservative large-bank calls; projects roughly 5% price upside in 2026, with growth shifting from multiple expansion to earnings and an EPS growth estimate around mid-teens.
Reuters median	7,490	6,823	9.78%	Reuters median street target

2026 ANALYST TARGETS – 10% INCREASE

Of these, Bank of America's Savita Subramanian, and Morgan Stanley's Mike Wilson have been accurate and successful in the past few years.

They remain bullish, though at opposite ends; Wilson expects a 14% increase while Subramanian is more conservative with just 4% from the current index of 6,823.

The median street target is 7,490 about 10% higher.

Many expect a soft landing with the unemployment rate staying below 5% and inflation staying around 2.5%.

The biggest catalyst remains earnings with most analysts expecting the S&P 500 to increase Earnings Per Share from around \$271 for 2025 by about 14% to \$310.

The S&P 500 at 6,812 quotes around 22 times forward earnings of \$310.

It is expensive but plausible and defensible given strong earnings momentum

PORTFOLIO STRATEGY - 2026 - 1

The high % of AI related stocks in the portfolio, coupled with

- a) Lower expected returns for 2026 - (We're looking at the 4th threepeat)
- b) An overpriced market
- c) Skepticism over AI capex and excessive concentration risk on Open AI
- d) Late entrants such as Oracle imploding and dragging the market lower with it
- e) The perception of a not independent Fed, hampered by its inability to reduce interest rates

Suggest a more defensive posture for sure for 2026.

Selective purchases only significant discounts / bargains

Continuous use of hedges – These are defensive insurance positions, I feel it is worthwhile spending on premiums because the drawdown in tech tends to be very high, and strict stop losses in place for all higher risk stocks

PORTFOLIO STRATEGY - 2026 - 2

Investment Category	Percentage	Expected Annual Return
AI	17.6	15% To 30%
AI & Stalwart	36.5	12% To 20%
Cyclical	4.1	15% To 18%
Defensive Stocks and Funds	9.5	8% To 10%
Defensive - Cash	15.9	
High Risk	1.1	30%
Secular Growth	10.9	15% To 20%
Stalwart - Defensive	4.3	10% To 12%
