



ROTHMAN

Investment Management

Dear Clients and Friends,

An old phrase from questionable origin states, “May you live in interesting times.” Like it or not, the last several years have been anything but dull. This applies to geo-politics, public health, and of course, markets. The US stock market has had a long, steep climb upwards since its nadir in March of 2009, interrupted only briefly by a fleeting bear market every so often. Each time stocks decline, it appears that the long market run is finally over, and each time, stocks roar back liked a winged rodent from the underworld.

As always, this quarterly newsletter is broken into sections, so enjoy which parts you want. And as always, reach out with feedback, or with suggestions for future newsletter.

Business Update:

In the first quarter, RIM breached the assets under management level that requires us to register with the Securities and Exchange Commission instead of the states where our clients reside. We narrowly missed this in December, so this was no surprise. We have until the end of the calendar year to register, so we are learning the rules of the Federal regime we will soon be under. We are grateful to our clients for your continued confidence in us by letting us manage your assets, and by sending us your friends and family.

Personal Update:

Jake has continued to enjoy being a dad, as Jake Jr. (or JT, as I call him) continues to develop. JT’s cute gummy grin has been replaced by a still cute six-tooth smile. His personality is coming out more and more, and he is sweet, curious, smart and happy. He clearly cares about people, and his problem-solving skills are developing, so he is well on his way to being an excellent financial planner, if he so desires. He loves books – especially turning the pages.

Larson: Q1 2026 has been a season of growth for the Patty family. We are enjoying the beauty of spring and spending as much time outside as possible. Most of our discretionary time has been spent planting trees and flowers interspersed with frequent four-wheeler rides for Duncan. It's calving season in Wyoming and Duncan loves to go with dad to check on the "moos". Last but not least, the Patty family is expanding. Hannah is expecting twins in early September! Hannah and the babies are doing well, but your prayers are much appreciated.



2026 Q1 Economic Update and Outlook

After a solid start to the year, stocks swooned in March, with the Vanguard Total Stock Market Index fund (a good proxy for the entire US stock market) going from a positive year-to-date return of 2.4% in late January to -6.7% in late March. While a 9% negative return is common historically, in recent years such things are not supposed to happen. Not to worry, investors quickly got used to \$100 oil, or decided that it just didn't matter or wouldn't last, and stock prices rallied again. From the end of the quarter to the date of this writing (June 4), the S&P 500 has returned about 15%.

Damir Tokic calls the current market the “[Mother of All Bubbles](#).” This is due to what he describes as a “bubble in earnings”, with a historically high 42x Shiller Price/Earnings (P/E) ratio applied to these peak earnings.¹ Two years ago, John Hussman [wrote](#), “In general, if you want to make a lot of money, and you want to have a long bull market, you need high unemployment, depressed profit margins, and depressed P/Es. It’s beautiful double-counting. Multiplying depressed earnings by a low P/E is really double counting. Multiplying peak earnings by a high P/E, which is what we’re doing today, is also double jeopardy the other way. And the gap between peak P/E times peak profits all the way to trough P/E times trough profits, that’s a big run. That’s the kind of thing we saw ending up in 1974 and 1982, and to some extent in 2009. Yes, it was somewhat higher in 2009 than 1982, but the discount rate, interest rate, everything else had shifted, and it was down an awful lot from its peak.”² In other words, your best performance follows the worst of times – when things have nowhere to go but up, and simply looking at the P/E is inadequate because the E is also cyclical.

Tokic argues that profits have been driven by globalization, fiscal and monetary expansion, and favorable demographics, all of which are now reversing. To wit, in 2000, government debt was only 56% of GDP, but is now 125%. The monetary base in 2000 was 4.2% of GDP, but is now 23%.³ While it is impossible to know the exact peaks, government debt/GDP over 100% is consider high, and the Fed’s balance sheet is a multiple of what it has historically been, making a continuation of the recent trends unlikely. The demographics in 2000 favored continued spending and investment, with the Baby Boomer cohort 35-55 years old. Today they are 60-80, which is an age when spending typically declines.

Asset Class and Strategy Review⁴

Finally, we take a look at recent performance of various asset classes and factors. The S&P 500 lost about 4.3% in the first quarter, but has subsequently rebounded to a +10.9% (as of 6/4) for the year on one of the strongest two-month⁵ bounces in history. Small caps (IWM) briefly dipped negative in March, but finished the quarter slightly positive and now have returned 17% year to date. Value (VTV) has done a little better than the S&P

¹ (Tokic, 2026)

² (Hussman, 2024)

³ (Tokic, 2026)

⁴ Because this newsletter is available to non-clients, we won’t comment on specific funds. The funds being referenced are believed to do a good job capturing generic exposure to their strategy or asset class, and are not recommendations.

500 at 12.3%, and notably never dipped negative this year. It had a positive 3.3% return in the first quarter, but its 7.6% outperformance over the broader index has shrunk to just 1.4% year to date. Momentum (MTUM) lost 4.4% in the first quarter, but has been on an absolute tear since then and is now up 31.75% year to date. International developed markets returned about 2.7% in the first quarter and 14.9% year to date. Emerging markets (VWO) were roughly flat in the first quarter and are now up 12.2%. Bonds (AGG) were also breakeven in the first quarter, and have returned just 0.26% year to date, as interest rates have risen modestly, offsetting the yield earned. While we enjoy watching account balances rise as seeing our clients accumulate paper wealth, we expect that some part of the recent returns are borrowed from the future.

Read the full update here: <https://rothmaninvest.com/resources/2026-q1-economic-update-and-outlook>

Educational Spotlight – Alternative Investments

Alternative Investments, or “Alt’s” for short, have been gaining popularity for the last decade or so, and now have been in the headlines for some potential problems, particularly in Private Credit. Let’s take a look at what Alternative Investments are, and why investors may, or may not want to include them in their portfolio.

The two most common asset classes are equities and fixed income. Equities are stocks (ownership shares) of companies, while fixed income securities are typically bonds (debt) from companies or governments. Fixed income can also include pools of loans, such as mortgages, other collateralized loans (e.g. car loans), bank loans, etc. Stocks and bonds diversify each other – to a point. Not all stock market drops coincide with bond prices rising. 2022 was a good example of this, as rising inflation spurred higher interest rates, which devalued bonds and catalyzed the stock market drop. While it has been unusual for stocks and bonds to fall together over the last couple of decades, going a little further back in time, it wasn’t unusual at all. Stock/bond diversification failed in 2022, as it has often failed in the past. Commodities, on the other hand, did quite well in 2022. This demonstrates why there is a demand for other assets besides stocks and bonds. While there may not be any one official definition of alternative investments, the term generally stands for investments other than publicly listed stocks, bonds or funds of stocks and bonds. Some examples of alternative investments include: private equity, private debt, private real estate, gold, commodities, long-short hedge funds, commodity trading advisors (CTA), farmland, timberland, collectibles, viatical settlements, catastrophe bonds

and so-called cryptocurrency. These generally have, or claim to have, limited correlation to stocks and bonds, increasing portfolio diversification.

Alternatives offer several advantages relative to only having publicly traded investments in a portfolio. First, they can offer higher returns. Public markets are efficient, meaning there are plenty of smart participants with access to great information such that the price of publicly traded securities trends toward its fair value. Put another way, it's hard to get an edge. In private markets, there are many, many investments and often they are not large enough to attract very large investors. There is generally no way to index (i.e. capture the average return of all available investments like an index fund). The investments are often in less established businesses that need to offer a higher return to attract investors. For all these reasons, private investments may offer higher returns. (There is an argument that after adjusting for risk, private investments do not offer a higher return, and may offer a lower return, so individual mileage may vary, and investors should take the promise of higher returns with a grain of salt.) The second advantage of alternative investments is lower risk. This does not apply to all alternative investments, but there are many that offer greater stability than public markets. In general, prices of private assets do not move around as much as publicly traded securities. Finally, alternative investments offer diversification. Many have very low or no correlation to stocks or bonds, and some have even historically produced "crisis alpha", meaning they've gone up when markets were going down. Trend following CTAs are a good example of this.

Investors should carefully consider the downside of alternative investments as well. First, the fees embedded in alt's are typically much higher than those in publicly traded investment funds. Upfront charges can run 5-10% of the total investment or more. Ongoing fees are often 1-2% per year, plus 20% of returns. While these fees may be justified, they create a high hurdle. Second, alternative investments are often illiquid. Investors may be locked up for years, and often do not know when they will have access to their capital. Illiquidity is not just for the convenience of the managers – it is structural. If a fund buys real estate or private businesses, it cannot easily sell assets. It is now popular for funds to offer some liquidity, such as 5% of outstanding value per quarter. This can either be done first-come first-serve, or pro rata. Under normal circumstances, outflows should be fairly minimal, and can be funded by the cash flow of the investments and new inflows. For investments that have very little cash flow, this may be problematic. Investors should consider the concept of duration mismatch. If a private fund invests in companies or properties that require a long time to sell, offering short-term liquidity, while sounding good, can create a real problem. Once redemption requests become unmanageable, management must "gate" investors. This could prompt others who were not considering redemption to put in a redemption order just in case. This rush to the exits can spook

potential investors and ultimately require the fund to start selling assets. Similar to a bank run, this loss of confidence can cause the fund to collapse. A third drawback of private investments is the lack of transparency. Public securities are repriced whenever the market is open. Private investments can easily be held at stale prices, or marked up to inflated prices. Private investment fund managers can get paid on this performance enhancement. One recent trend is buying positions from other funds at a significant discount to listed Net Asset Value (NAV), and then marking the value back up to the predecessor fund's (NAV) and counting the difference as a gain. A fourth potential drawback is higher risk. While this appears to contradict risk as a positive for alternative investments, one should remember that there are many types of private investments, some of which may be quite safe, or at least truly uncorrelated to traditional investments, reducing portfolio risk. Others may be quite risky. People considering an investment in alt's should look beyond the stated (historical) volatility, which probably looks much lower than what the underlying assets would produce. Some private equity funds, for instance, claim to have lower volatility than treasury bonds. This is an illusion based on infrequent pricing. If you measured the value of the stock market quarterly instead of daily, it would look a lot less volatile as well, as there would be no price changes at all other than four days per year. There is nothing special about private investments that cause them to be less likely to lose money than public investments. On the contrary, they are often investments in small companies, with shorter track records. In a good economy, private investments can do a great job of hiding (or laundering as some have called it) volatility, but in a really bad economy, they are unlikely to provide the diversification they promise. (This is a very general statement. Specific alt's may be immune to economic cycles.) Rather than looking at historical correlations when one investment is only periodically repriced, consider what forces would cause an investment to go up or down. Private real estate should act a lot like public real estate. Private equity should act a lot like public equity. Private debt should act a lot like public debt.

What is an investor to do? Alternative investments make a lot of attractive promises, and they have a great track record of improving portfolio returns and diversification. On the other hand, high fees, lack of transparency, and difficulty in diversifying without committing millions of dollars to alt's present high hurdles. Investors should proceed (if they want to proceed) with caution. Don't be swayed by rosy projections. Question what environment was present when the beautiful track record was built. Look past the artificial volatility numbers. Drill down to the underlying businesses and identify risks before counting how much money you could potentially make. Engaging a professional advisor in this tricky space makes a lot of sense, and is generally required for most alt's. Make sure the advisor is knowledgeable, is willing to be open about their own limits, and sits on the same side of

the table as you. Commissions can be quite attractive for financial salespeople selling alternative investments, which can impair objectivity. A fee-only advisor will not have to overcome this conflict of interest.

If alternative investments appeal to you, tread carefully. There may be some great opportunities out there, but there are also landmines. Know what you are buying and why. Consider your own liquidity needs. And always be prepared to say no, because one can build a perfectly fine portfolio using only publicly traded securities.

Book Review –The Seven Habits of Highly Effective People by Steven Covey

This classic personal effectiveness book is one of my all-time favorites. I just read it for the third time, and believe everyone should read it at least once per decade. The book examines seven essential habits for personal effectiveness, giving detailed explanations and using real-life stories to illustrate. Dr. Covey did an extensive review of the American literature of self-improvement and found that the earlier literature (the Puritans through the 19th Century) focused more on character, while the twentieth century literature focused more on techniques. There is nothing wrong with learning techniques for success, but only if we start with the foundation of the proper character. Accordingly, the Seven Habits focus more on the type of person we are (or are becoming) than tricks to get people to like us or do what we want. He also introduces the concept of a paradigm, which is a mental model for how we see the world. We are often not aware of our own paradigms, but they influence our conclusions by determining how we view the facts. A habit is defined as “the intersection of knowledge, skill and desire.” We need to know what to do and how to do it, and we need to want to do it.

The first three habits are habits of inner change. They are done by the individual. The next three habits are for how we deal with others. Until we master the habits of inner change, we will likely not be successful at the next three habits.

The first habit is to be proactive. Between every stimulus and response, there is a decision. We may simply react without deliberately deciding how to react, but we have the opportunity to choose. By exercising this choice, we become an active participant and not a victim. Covey referenced Victor Frankl who was a Jewish Psychiatrist who was interred in a Nazi concentration camp. He learned that while his captors could control almost everything about his life, they couldn't control his mind. He still got to choose how he reacted. This gave him an element of freedom that preserved him through that terrible time. We will never grow unless we take responsibility for what we can control and acknowledge that we are responsible. We need to focus on our circle of influence (things

we can change) instead of our circle of concern (things we care about.) As we do, we will see our circle of influence grow so that we will be able to impact other things we care about. Dr. Covey aptly states, “While we are free to choose our actions, we are not free to choose the consequences of those actions.” This first habit is foundational for the next six habits.

The second habit is to begin with the end in mind. “The carpenter’s rule is ‘measure twice, cut once.’” Covey states that everything is created twice – first in the mind and then in reality. Leadership is all about knowing where we are going. Management is about efficiency. Efficiency is important – but only if we are going in the right direction. Covey suggests that we not only apply this principle to projects, but to our lives in general. When we think about how we want to be remembered, or how we want to look back on our lives, we can have clarity about what to do today. A personal mission statement is a good tool to help articulate this and to keep us focused.

The third habit is put first things first. There are endless tasks and chores, so prioritization is essential. Covey introduces The Time Management Matrix. Vertically, everything is divided into important and not important. Horizontally, the division is urgent and not urgent. Quadrant I (upper left) is urgent and important. Quadrant II is not urgent and important. Quadrant III is urgent, but not important. Quadrant IV is not urgent, not important. Time in the bottom quadrants is mostly wasted. Too much time in Quadrant I leads to burnout. It’s best to try to spend time in Quadrant II, which is where relationships, improving our skills, planning, recreation, prevention, and finding new opportunities are located. Spending time there keeps us focused on what is important, and getting things done before they become urgent. Covey suggests listing all the different roles we have (e.g. father, husband, boss, volunteer, etc.) and having goals for each and making sure we take time for each. Daily scheduling is too short-term. Weekly is much better. Start by scheduling priorities and let other things fit into the cracks. One important (and challenging) part of putting first things first is to graciously say “no”.

The fourth habit is the first of the “public victory” habits. Think win/win. Win/win isn’t compromise – it’s trying to find a better solution that meets the needs of both parties. Many people go for win/lose – they want to win a negotiation or interaction, and to do so at the expense of others. This is a long-term losing strategy, even if it can work for a while. People will avoid you. A business that makes its suppliers lose may eventually lose its suppliers when they go out of business. At the very least, they will not be priority customers, and the suppliers won’t try to find creative solutions for them. In personal relationships, win/lose people use up their friends and lose them over time. Lose/win is no better. By becoming a doormat and not standing up for ourselves, we get less than we

could, and often build resentment. This is the lazy and cowardly way out. Lose/lose is the worst – neither party gets what they want. Both give up what is important to them to get a little of what they want, but walk away feeling disappointed. Another approach is simply Win, which only cares about winning and ignores the other party completely. Win/win forces conversation about what each party values, and creativity in accomplishing that. Win/Win or no deal is a type of win/win that agrees up front that a deal will only be struck if it works for both sides. (I listened to an audiobook called “The Power of No” in which the author heavily criticized win/win as a goal. He was confused, however, because every example he gave was lose/win, not win/win. His approach was win/lose, and he was very proud of every time he took someone to the cleaners. I suspect he didn’t get a lot of repeat business.)

The fifth habit is possibly the most powerful. Seek first to understand, and then to be understood. Typically, we want other people to understand us, but until they feel heard and understood, they probably aren’t interested in our perspective. This habit takes a lot of practice, because so often we think we know what someone is going to say, or what they mean, and we want to respond from our own biography. We project ourselves onto their situation and want to provide a solution that would work for us. True empathic listening seeks to really understand what they are thinking, which often is not obvious by what they are saying. Covey suggests repeating back the general ideas we are hearing (not word for word, but paraphrasing) to make sure we are understanding correctly. Often, this leads to clarification until understanding emerges. Only once we really understand can we offer our input. In other words, diagnose before prescribing. Unfortunately, this habit is rarely exercised, leading to emotional estrangement and relational problems.

The sixth habit is to synergize. Synergy means that the whole is greater than the sum of its parts. “Synergy is the essence of principle-centered leadership. It is the essence of principle-centered parenting. It catalyzes, unifies and unleashes the greatest power within people. All the habits we have covered prepare us to create the miracle of synergy. To create synergy, we must value the differences between us and others, rather than trying to make them into our mold. Together, we can come up with better solutions than either of us can alone. Dr. Covey calls this “creative cooperation.” Synergizing not only creates much better solutions than negotiating or doing things alone, it also develops relationships.

The seventh habit is different from all the others. Take time to sharpen the saw. Dr. Covey gives the example of a man sawing down a tree. He is working very hard, but making little progress. Finally, someone asks him why he doesn’t sharpen his saw so it will cut better. He replies that he would like to, but he is too busy sawing. Focusing only on productivity does not make sense. We need to take the time to work on expanding our

productive capacity as well. The most successful people are lifelong learners. Sharpening the saw is a classic Quadrant II activity, and it helps us improve the other six habits. Dr. Covey calls out four areas for renewal – physical, mental, social/emotional and spiritual. It is important not to neglect any of these.

The Seven Habits are not tricks to employ. They are character-building habits that change what we can accomplish by changing who we are. They are not one-time decisions, but deliberate habits that need to be cultivated and improved over time. As we develop these habits in ourselves, our personal effectiveness soars, our relationships deepen, and our influence grows.

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