

HAPPY NEW YEAR

Almost a year ago, we stated, “The word of the day is Uncertainty,” and that proved to be an understatement. 2025 had more ups and downs and drama than some decades. It appears that 2026 may continue this trend. In this note we look back 250 years to another moment of uncertainty. *Here is wishing you the best possible 2026. Joe, Jim, Ernie, Rusty, Susi and Lisa.*

INVESTING IN UNCERTAIN TIMES:

Winning by Not Losing

In war, politics, and markets alike, uncertainty strips away comforting narratives and exposes what truly matters for long-term success. During the American Revolutionary War, George Washington came to a critical realization: he did not need to defeat the British in every battle to win. He needed to avoid catastrophic loss. As long as the Continental Army survived, the cause survived, and time, endurance, and discipline would eventually tilt the balance in his favor.

Investing in such environments calls for the same mindset. When economic conditions are unstable, markets are volatile, and forecasts unreliable, the primary objective is to not chase heroic outperformance. It is survival with strength intact. Investors who “win by not losing” preserve capital, generate sustainable income, and maintain the flexibility to compound returns when conditions improve. Over time, this approach more often outperforms more aggressive strategies precisely because it avoids irreversible mistakes.

Washington understood this shift intuitively. Early in the war, after suffering severe losses in New York in 1776, he abandoned the idea of decisive, conventional victories. The British had superior resources, experience, and firepower. Trying to “win big” by confronting them directly would have risked annihilation. Instead, Washington shifted to a strategy of preservation, selective engagement, and endurance.

For investors, uncertainty similarly demands a shift in priorities. The question becomes less about maximizing upside and more about avoiding permanent capital losses. This does not mean abandoning growth altogether. It means favoring forms of growth that are resilient, repeatable, and funded by real cash flow rather than optimism.

THE CASE FOR

Historically Stable Return and Income Profiles

Assets with historically stable return and income profiles play the same role in a portfolio that Washington’s army played in the Revolution: they keep you in the game.

Stability does not mean stagnation. It means consistency across cycles. Assets that generate recurring income, exhibit lower volatility, and have demonstrated resilience in past downturns provide three critical advantages during uncertain times.

First, they reduce the probability of catastrophic loss. Large drawdowns are not merely psychologically painful; they are mathematically destructive. A 50% loss requires a 100% gain to recover. Avoiding deep losses preserves the power of compounding, which is the true engine of long-term wealth.

Second, stable income provides optionality. Cash flow—whether from dividends, interest, or other distributions—gives investors flexibility. It can be reinvested opportunistically, used to rebalance into dislocated assets, or simply held to reduce risk. In contrast, assets that rely solely on price appreciation offer no such cushion when markets decline.

Third, income anchors investor behavior. Just as Washington needed to maintain morale among his troops and supporters, investors need psychological staying power. Reliable income helps investors remain disciplined when prices fluctuate, reducing the temptation to sell at precisely the wrong moment.

Dividend-Paying Businesses: Defense with Progress

Profitable, growing dividend-paying businesses are particularly well-suited to a “win by not losing” framework. They combine defense with forward momentum. >

Dividends are not theoretical—they reflect real cash generation. Companies that can sustain and grow dividends over time typically exhibit durable demand, pricing power, and disciplined capital allocation. A growing dividend signals that a business can fund operations, invest for the future, and return capital to shareholders simultaneously.

Dividends also impose accountability. Management teams that commit to regular payouts must prioritize balance sheet strength and sustainable profitability. Excessive leverage, speculative expansion, or financial engineering becomes harder to justify when cash must be delivered quarter after quarter. Over time, this discipline tends to separate resilient businesses from fragile competitors.

From a return perspective, dividends change the nature of investing during volatile markets. When valuations compress or markets move sideways, income becomes a primary driver of total return. Reinvested dividends continue to compound quietly, even when prices fail to cooperate.

Growth, on Favorable Terms

This approach does not mean avoiding growth. Washington still attacked when conditions favored him—most famously at Trenton and Princeton—but only when downside risk was contained. The same principle applies to investing.

Growth matters most when it is internally funded, demand-driven, and resilient to economic stress. Businesses that rely heavily on external capital markets are vulnerable when liquidity tightens. Those that generate excess cash internally can continue investing to strengthen their competitive position, while others retrench. Dividend growth strategies embody this balance, emphasizing profitable growth supported by rising cash flows and shareholder distributions.

Time as a Strategic Advantage

Washington's most significant advantage was time. Britain was fighting a distant, expensive war with limited public support. By avoiding defeat, he allowed time to work against his opponent.

Survival itself became progress.

In investing, time similarly rewards discipline. Investors who preserve capital during difficult periods are positioned to benefit disproportionately from recoveries. They can deploy income and liquidity when valuations are attractive, rather than when enthusiasm is highest.

Market stress is rarely permanent, but capital losses can be. The investor who avoids major mistakes does not merely endure the cycle—they emerge stronger relative to those who chased returns and paid the price.

Discipline as the Path to Victory

Washington's genius was not just tactical, but strategic. He understood what failure looked like and organized everything around avoiding it. Victory followed as a consequence of endurance.

IN VOLATILE MARKETS,
SUCCESS RARELY COMES FROM
BOLDNESS ALONE.

More often, it comes from discipline:
preserving capital, generating reliable income,
and compounding steadily
through patience and selectivity.
*Like Washington's army,
a portfolio built to endure may not
win every battle—
but it remains positioned to win the war.*