DASHINVESTMENTS®

**To Our Partners,** **November 2026**

The third quarter of 2026 was the quarter the market changed its mind. For the first half of the year, the fashionable view on Wall Street was that artificial intelligence would hollow out the software businesses we own, and our portfolios paid for that view in the short run. In the second half, the evidence won out: those same companies reported accelerating growth, and investors began to see AI as a tailwind for them rather than a threat.

At the same time, the stock market's headline gains this year have come largely from a narrow group of semiconductor, memory-chip and energy companies — cyclical businesses we have deliberately chosen not to own. Over the past several weeks, many of those stocks have fallen sharply. Your portfolio trailed the market earlier this year. It has since gained back tremendously and is now essentially back on track with it.

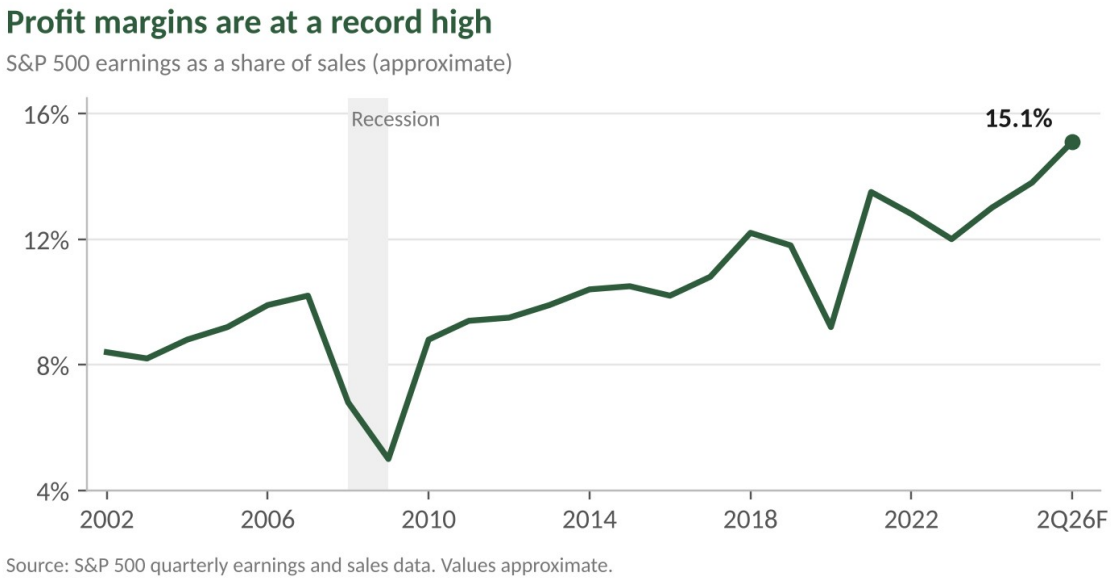
The short version: our companies are reporting excellent numbers, the narrative has turned in our favor, and your financial plan remains on track. We detail all of it below.

## Economic & Market Dynamics

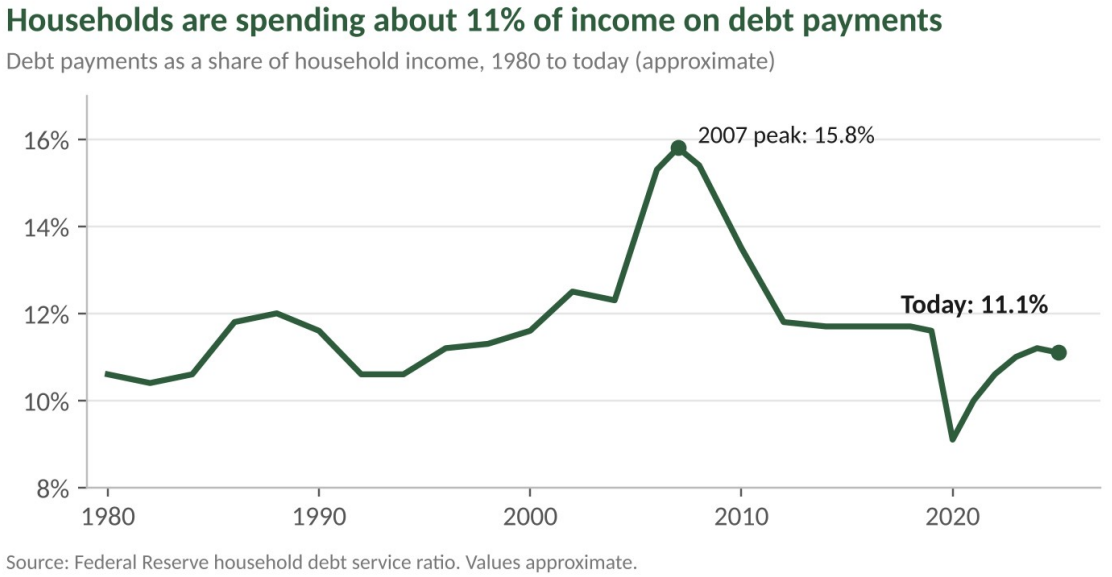
- **Earnings are still doing the heavy lifting.** Heading into reporting season, analysts expected S&P 500 earnings to grow roughly 29% from a year ago in the third quarter — the third straight quarter above 25%. Corporate profits, not speculation, remain the foundation of this market.
- **The market's gains were narrow.** A handful of very large companies carried the averages. In September, about three out of four large-company stocks actually declined.
- **Interest rates have moved higher.** The Federal Reserve began a new rate-hiking cycle during the quarter, and the 10-year Treasury yield approached 5% in early November. Higher borrowing costs matter most for companies that rely on debt to grow — one more reason we favor businesses with strong balance sheets and high returns on the money they invest.
- **The midterm elections produced a divided government.** Elections bring noise, but historically markets have digested them well: since 1970, the stock market has posted a positive return in the six months following every midterm election. Gridlock in Washington tends to mean fewer policy surprises for businesses.

Corporate America has never been more profitable. S&P 500 companies are now keeping roughly 15 cents of profit on every dollar of sales — a record, and well above the roughly 10

cents they earned at the 2007 peak. Technology and AI are making large companies more efficient, and that is a big part of why earnings keep growing even as interest rates rise.




The consumer, in aggregate, is in reasonable shape. Households are spending about 11% of their income on debt payments, far below the nearly 16% reached just before the 2008 financial crisis.

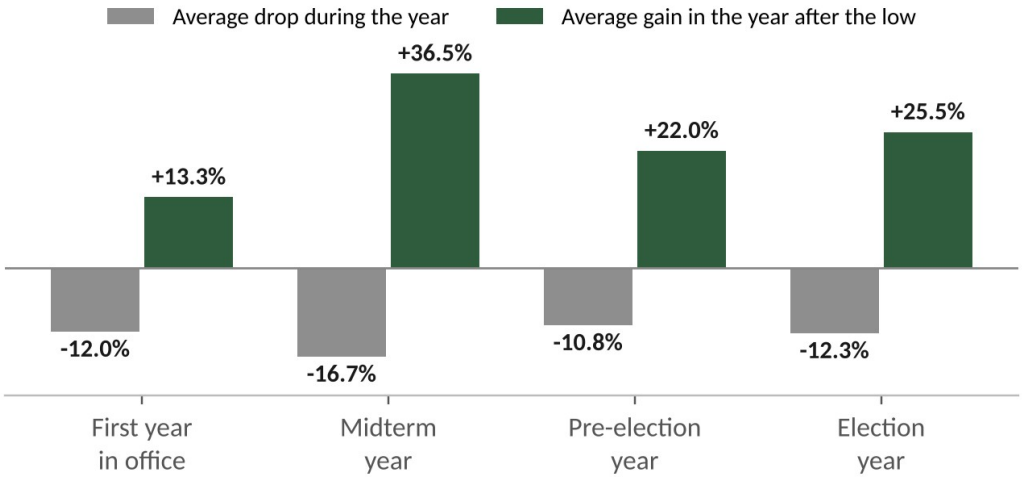



Midterm years have historically been the bumpiest stretch of the four-year presidential cycle: on average, the stock market has fallen about 17% from peak to trough at some point during the year. They have also set up the strongest rebounds, with the market returning about 36%

on average in the twelve months after the midterm-year low. This year's spring selloff, when software stocks slipped, fit that pattern, and with the elections now behind us, history has been encouraging about what tends to follow.

**Midterm years: the deepest dips, then the strongest rebounds**

Stock market average by year of the four-year presidential cycle




Source: S&P 500 total returns by year of the presidential cycle.

## The Narrative Flipped: AI Is Helping Our Software Companies, Not Hurting Them

In February, Wall Street coined a name for its fear: the “SaaSpocalypse.” The idea was that AI agents would let companies build their own tools and stop paying for enterprise software. Public software stocks lost roughly a third of their value in about ten weeks, bottoming in April. Quality franchises were sold indiscriminately, including the ones we own.

We took the other side of that argument. Our view has always been that the companies owning the workflow, the system of record and the customer relationship are exactly the ones AI makes *more* valuable — because AI is only as useful as the business data and context it can act on. As I like to put it: if a competitor offered us a different CRM for free, we wouldn't switch from Salesforce. That is pricing power.

The second half of the year proved the point. Microsoft is the clearest example: its shares fell 22.5% in the first half of 2026, then rose 37.7% in the third quarter — its best quarter since 1998, adding roughly $1 trillion in market value. Nothing about the business changed between June and September. The narrative did, because the numbers made the old story impossible to sustain. Here is what the software companies we own most recently reported:

| Company | Most Recent Quarter | The AI Signal |
|---|---|---|
| **ServiceNow** | Revenue of $4.1 billion, up 20.5%; beat the high end of guidance on every growth and profit metric; raised full-year outlook | Raised its AI contract-value target for the second time this year, to $1.7 billion (from $1 billion in January); use of its AI agents in production is up 13x |
| **SAP** | First quarter ever above €10 billion in revenue; cloud revenue up 25%; contracted cloud backlog of €24.1 billion, up 26% | AI featured in 90% of its 50 largest deals |
| **Salesforce** | Revenue of $11.3 billion, up 11%; forward contracted revenue growth accelerated to 14%; raised full-year guidance | AI and data revenue run-rate of nearly $3.9 billion, up 210%; its Agentforce AI agents alone passed $1.5 billion, up 240% |

*ServiceNow and SAP: quarter ended September 30, 2026. Salesforce: fiscal Q2 2027 (May–July 2026), its most recent report. Growth rates are year-over-year at constant currency where the company reports it that way. Source: company earnings releases.*

The debate is not completely over — ServiceNow's shares actually fell after it beat every target, a reminder that sentiment can lag reality. But the direction of the evidence is now unmistakable, and it confirms a lesson we repeat often in these letters: narratives move stocks in the short run, but earnings move them in the end.

## Our Largest Holdings Are Compounding

Our four largest holdings — Meta, Alphabet (Google), Microsoft and Amazon — are among the largest enterprises in history, and they keep growing like much smaller companies:

| Company | Quarterly Revenue | Revenue Growth | The AI Engine |
|---|---|---|---|
| **Meta** | $64.6 billion | +26% | AI-driven recommendations lifted the average price per ad 14%; 3.64 billion people use its apps daily |
| **Alphabet** | $127.6 billion | +25% | Google Cloud revenue more than doubled (+103%) to $30.7 billion; cloud backlog of $561 billion |
| **Microsoft** | $92.3 billion | +19% | Azure grew 48% to $33.2 billion; $677 billion of signed commercial commitments, up 73% |
| **Amazon** | $201.9 billion | +12% (about 16% adjusting for Prime Day timing) | AWS grew 39%, its fastest in nearly five years; operating income up 61%; expects AWS to grow more than 40% in both 2027 and 2028 |

*Quarter ended September 30, 2026 (Microsoft fiscal Q1 2027). Growth is year-over-year. Source: company earnings releases.*

Together, these four businesses generated about $486 billion of revenue in a single quarter, growing at a blended rate of roughly 18%. Just as striking is what is already contracted but not yet delivered: Google Cloud and Microsoft alone hold more than $1.2 trillion in signed customer commitments. This is demand, not hope.

Why are they spending so heavily on data centers? Because, by our own estimates, those investments are earning returns in the mid-20s to near 30% and paying for themselves in roughly two years. A decade ago, much of this cash would simply have gone to share buybacks. Now it has a high-return use, which is why we believe these companies' earnings can grow meaningfully faster over the next five years than they did over the last five. These companies also hold significant ownership stakes in the leading AI labs, OpenAI and Anthropic — a built-in hedge no matter which AI models win.

## The Market's Year Was Built on Chips — and the Chips Are Falling

Earlier this year, the market moved ahead of our portfolios. Here is why. By May, a handful of semiconductor companies accounted for more than half of the market's gain for the year. By August, SanDisk was up roughly 650% for the year and Micron about 255%. Memory chips,

semiconductors and energy — three of the most cyclical industries in the market — drove most of the market's return. We owned none of them.

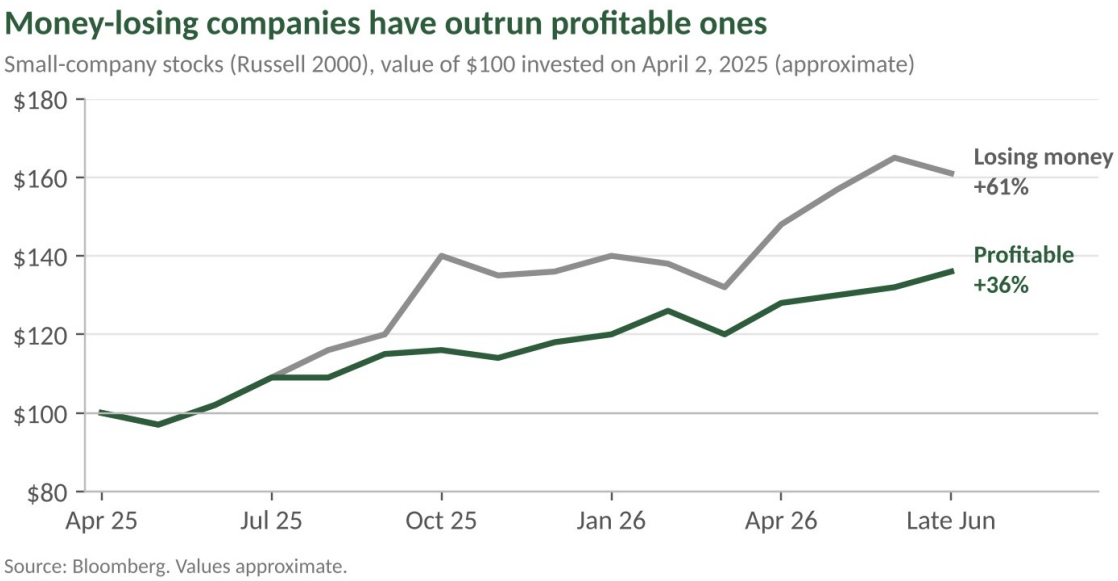
That was a deliberate choice, not an oversight. These businesses boom when supply is tight and bust when new capacity arrives, and memory chips are the most extreme example. This year, the memory makers were sold out through 2027. That sounds wonderful, but it also meant there was no surprise upside left: investors already knew what next year would look like, and every manufacturer was racing to build more capacity. When the market starts to anticipate the next glut, these stocks fall hard and fast. That is what has happened over the past three months:

| Company / Index | Decline | The Telling Detail |
|---|---|---|
| **SanDisk** | Down roughly 65% from its high | Had been up about 650% for the year in August |
| **Micron** | Down nearly 50% from its June high | Fell almost 40% in the single month to November 5 |
| **PHLX Semiconductor Index** | Down 12.25% on November 5 alone | Its second-worst day on record, erasing about $1.5 trillion in market value |

*Declines measured to the November 5, 2026 close. Source: public market data.*

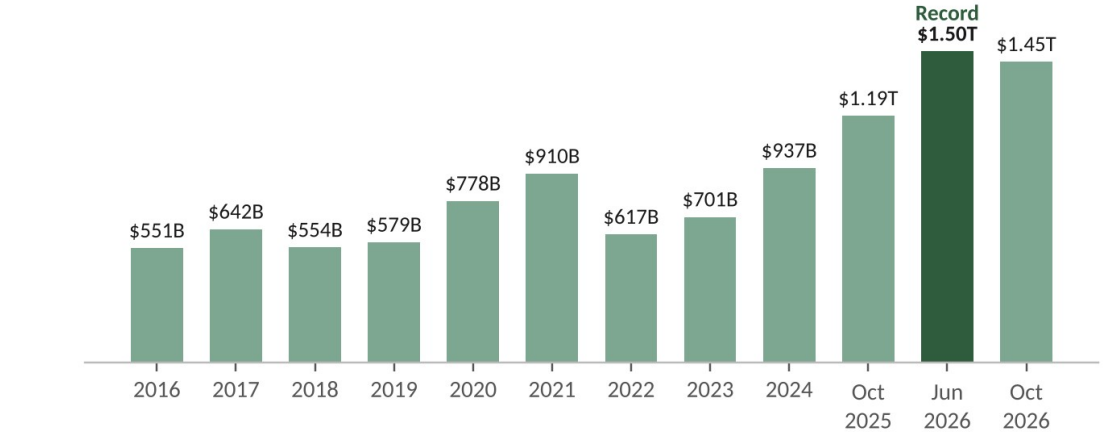
The businesses themselves have not collapsed; memory demand from AI remains real. But this is what cyclicality looks like, and it is precisely the volatility we choose not to carry in the portfolios of people who depend on their savings. As these stocks give back their gains, the market is losing the tailwind that flattered it, and your portfolio has made up that ground.

There is another reason the stock market's average has looked so strong this year, and it is worth explaining in plain terms. About a year ago, an unusual pattern took hold. Shares of small companies that are *losing* money began rising much faster than shares of small companies that actually *make* a profit. Since April 2025, the money-losing group is up about 61%, while the profitable group is up about 36%. In a healthy market, the companies earning real profits usually lead the way. When the money-losers lead instead, it tells us people are buying on hope and excitement rather than results.




A second sign points the same way. “Momentum” investing means buying a stock simply because its price has been going up, and selling it when it stops. It has little to do with how good the underlying business is. Earlier this year, according to Bloomberg, this approach beat the overall U.S. stock market by about 25 percentage points in a single quarter. That is the biggest margin in records going back to 1995, larger even than during the dot-com bubble of the late 1990s.

A third sign is how much money investors are borrowing to buy stocks. This is called “margin debt”: a loan from a brokerage firm, using the investor's own stocks as collateral. People borrow to buy more stock when they are confident prices will keep rising. Margin debt reached a record $1.5 trillion in June, roughly triple where it stood ten years ago, and in October it was still up 22% from a year earlier. Compared with the size of the overall economy, it is higher today than at the peak of the dot-com bubble or in 2021. Borrowed money makes a falling market fall faster, because when prices drop, lenders require borrowers to sell.




What does all this mean? These surges are driven by speculation: short-term traders chasing whatever is rising, not long-term investors buying good businesses. It is a sign of some froth, or "bubbliness," in parts of the market. These areas have been outperforming, and we have no exposure to them. But momentum is not something that lasts. Eventually, every stock returns to its fundamentals: the real sales, profits and cash the business produces. When the excitement fades, prices come back down toward what the businesses are actually worth, just as the chip stocks are showing right now. Because we do not own these companies, we will not be caught holding them when that happens. We would much rather own businesses that earn real profits, year after year.

The companies we own are the opposite of speculation. Their fundamentals are very strong: growing sales, record profits and enormous amounts of cash. These are great businesses, and we believe they will be among the biggest beneficiaries of the new technology arriving over the next decade. They also do well regardless of which political party is in power, because people and businesses keep relying on their products through every administration.

## The Rest of Your Portfolio — and What We're Watching

Your portfolio is not just a technology portfolio. It also holds businesses that have little to do with AI and everything to do with steady compounding: the payment networks, exchanges and ratings agencies that form the plumbing of global finance; consumer brands with decades of pricing power; and health care companies that supply the instruments and testing medicine

depends on. Like the software names, several of these were overlooked earlier in the year while investors chased chips. As that money looks for durable earnings at reasonable prices, it is finding its way back to businesses like these.

**What we're watching.** We want to be candid about the risks, too. The AI buildout is being funded mostly from these companies' own operating cash flow, with only modest borrowing to fill the gap. That borrowing is small relative to their size: these are trillion-dollar businesses issuing debt equal to a small fraction of their market value. That is a very different picture from the newer “neocloud” data-center companies, which have no other business generating cash and must borrow heavily — often against their customers' credit — to build. We do not own them. With interest rates rising, we are monitoring that borrowing closely, but for now the returns on that spending justify it, and these companies retain enormous financial strength.

## The Voting Machine and the Weighing Machine

Last quarter we revisited Benjamin Graham's Mr. Market. This year illustrated another of his famous ideas, which Warren Buffett has repeated for decades: *in the short run, the market is a voting machine; in the long run, it is a weighing machine.*

In the short run, stock prices are set by popularity — by whichever story is loudest. In the first half of 2026, the votes went to memory chips and against software, and the businesses we own looked like losers. But a weighing machine doesn't care about stories. It measures substance: revenue, profits, cash flow and the durability of all three. Over the past few months, as our companies kept reporting, the scale started to register their weight.

The practical lesson is the one we return to often. Owning great businesses sometimes means looking wrong for a while. The discipline is in not abandoning them when the vote goes against you — because the weighing always comes.

## Your Plan Is on Track

Your portfolio's job is not to beat the market in any single year. It is to provide reliable income for the rest of your life and support your family's goals. Judged that way, it is doing exactly what it should.

Most important of all: the companies in your portfolio are doing extremely well, and our investment strategy continues to fit your financial plan and your retirement income needs. For

the large majority of our clients, the plan is on track — the outcome a long-term strategy is designed to deliver, regardless of what any single quarter looks like.

As the year winds down, your financial counselor will be in touch about year-end planning. A few items to keep in mind:

- **Required minimum distributions** must be taken by December 31. We will handle these for clients who have them.
- **Roth conversion reviews** are underway for clients in lower tax brackets this year.
- **Charitable giving** with appreciated shares or a donor-advised fund can reduce your tax bill if done before year-end.
- **Your most recent tax return** helps us plan more precisely. If you haven't sent it yet, please upload it through your secure link.

## Our Principles for Building Lasting Wealth

- **Successful investing is about discipline, not prediction.** Long-term wealth is built through a well-designed investment process rather than trying to identify the next winning stock or market trend. A financial plan becomes the GPS system guiding all investing decisions.
- **Behavior matters more than market timing.** Investors who remain calm during periods of volatility are far more likely to achieve their long-term financial goals.
- **Costs matter.** Trading charges, income taxes, and the cost of being out of the market all quietly erode returns.
- **Inflation quietly erodes purchasing power.** Excessive cash holdings may feel safe but often lose real value over time as the cost of living rises.
- **Distinguish risk from volatility.** Risk, as we define it, is the possibility of permanent loss of capital. Volatility is simply the manifestation of the market's pricing mechanism.
- **Every investment should have a purpose.** Different financial goals require different strategies, time horizons, and levels of risk. Asset allocation drives long-term results.
- **Focus on value, not simply low fees.** Quality advice, tax planning, estate planning, appropriate insurance coverage, and disciplined portfolio management add significant long-term value and are critical elements of risk mitigation.

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## Looking Ahead

We enter 2027 with more reasons for optimism than concern. The companies in your portfolio are growing revenue at rates rarely seen at their scale, turning artificial intelligence into real earnings, and holding trillions of dollars in signed customer commitments. The narrative that weighed on them for much of this year has given way to the evidence. And the cyclical stocks that inflated the market's returns are now reminding investors why durability matters.

There will be volatility again — there always is. When it comes, we will treat it as we always have: as the price of admission for long-term returns, and occasionally as an opportunity.

Thank you for the trust you place in us to manage your money. We never take it for granted, and it is a responsibility we take seriously every day. We also want you to know that we invest right alongside you: the principals of our firm have more than 90% of their own net worth invested in the same strategies you are.

We wish you and your family a wonderful holiday season.

*"The stock market is a device for transferring money from the impatient to the patient."*

— Warren Buffett

Respectfully,



**Jonathan Dash**
CEO & Chief Investment Officer

## Forward-Looking Statement Disclosure

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