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Quarterly Commentary

June 2025
Second Quarter

"We miss the signs of change because we are looking in the wrong places."
Author Unknown

Media Sells Fear, But It Doesn't Compound

Anyone following the news this year would think investing in stocks is a fool's errand. Threatening tariffs, global warfare, the drumbeat of an imminent recession, mounting deficits, and persistent inflation – 2025 news headlines have been nothing short of alarming. Yet the market has once again climbed the wall of worry only to confound most observers.

A recent study by Elm Wealth put the "crystal ball" theory to the test: 118 young participants, trained in finance, were given advance knowledge of major news headlines and asked to trade stocks and bonds accordingly. The results were striking—despite this supposed advantage, about half of the participants lost money, one out of six went bust, and the average gain was a mere 3.2%, statistically indistinguishable from breaking even.

Five seasoned and successful macro traders also participated in this study. When given this edge, they only bet ~66% of the time but achieved a median gain of 60%. The veteran traders predicted the correct direction of the market 63% versus 51.5% for the young traders. So why is there such a difference in the return results? The veteran traders won because of the sizing and timing of their trades. Even though all participants had the same exact information ahead of time, the youthful traders bet irrationally and often. The trading challenge has now had roughly 1,500 participants play – the median return has been a 30% loss of capital, with 36% of participants going bust. Trading the news headlines aggressively is a surefire way to destroy wealth, and this year has proved no different.

Embrace The Volatility

Market volatility, while uncomfortable, creates opportunity. Morgan Stanley's research on drawdowns and recoveries shows that large price declines are a normal part of long-term investing. Their analysis found that the median drawdown for stocks from 1985-2024 was 85%, taking 2.5 years to reach the bottom, and roughly that amount of time to get back to par. As JP Morgans research shows, the average intra-year drop of the stock market is ~14% for the last 45 years. As investors in stocks, we must endure these drawdowns knowing that recoveries can be significant. Embracing volatility is the price of admission for long-term wealth creation. This year has been no different and our process is built to thrive amid chaos—not in spite of it.

This quarter, we took advantage of volatility, investing in three new companies we believe have tremendous upside. Our process is built for exactly these moments, and we remain confident that staying disciplined and ignoring the noise is the surest path to compounding wealth over time.

An Inflection Point for Public vs. Private Equity: The Case for Public Markets

For the past two decades, private equity has dominated investor attention, often touted as the superior choice for those seeking higher returns, risk mitigation, and access to exclusive opportunities. Yet, as we enter 2025, the landscape is shifting—and the case for public equity investing has never been stronger.

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Public Equity Deserves a Fresh Look

- **Liquidity and Flexibility:** Public equities offer unmatched liquidity. Investors can buy or sell shares instantly, with no lockups or protracted negotiations. This flexibility is invaluable, especially in volatile or rapidly changing markets.

- **Transparency and Oversight:** Public companies are subject to rigorous regulatory oversight, audited financials, and real-time portfolio valuation. This transparency reduces information asymmetry and enhances investor confidence, especially during periods of market uncertainty.

- **Efficiency:** Due diligence in public markets is streamlined by decades of historical filings, analyst coverage, and advanced technology platforms. Investors can access a wealth of information quickly, making the investment process more efficient and robust.

- **Simplicity and Cost-Effectiveness:** Public equity investing avoids the complexity of private equity fee structures, K-1 tax forms, and opaque valuations. Investors know exactly what they own and can track performance in real time.

In a world that prizes transparency, efficiency, and frictionless experiences, public equities stand out as the asset class best positioned to deliver on these values. Private equity had advantages but now that the asset class is so large, returns are now lagging, deal activity has ground to a halt, and continuation funds are agitating investors. . As private equity-backed companies seek liquidity and exit options, a wave of high-quality IPOs is expected in the coming years. This influx will offer public market investors access to the next generation of industry leaders—companies that previously remained private for longer. Jay Hoag of Technology Crossover Ventures recently stated, "The vast majority of **the best** companies will benefit by being public over the long run… "

Volatility, often cited as a drawback of public equities, should instead be seen as an opportunity. Price swings create entry points for disciplined investors and underscore the value of liquidity and speed of execution that only public markets can provide. For investors seeking liquidity, transparency, and access to the world's most dynamic companies, public equities are not just relevant, they are essential.

The Power of Simplicity: Lessons from Florida

Over the past 50 years, the Tampa Firefighters' & Police Officers' Pension Fund, managed by Jay Bowen and his late father, has quietly achieved one of the most extraordinary investment records in the country. Starting with just $12 million in 1974, the fund has grown to over $3 billion, even after paying out $1.8 billion in benefits. The stock portfolio alone has delivered an annualized return of 14.4% over five decades, compounding to more than 81,000%. According to Bloomberg, the Tampa plan ranks #1 in the Wilshire Trust Universe database for plans with over $1 billion of AUM for the 1, 3, 5, 10, 15, 20, 25, 30, 35, and 40-year periods ending their fiscal year in September.

What Makes the Tampa Model Unique?

Simplicity and Focus: Unlike most large pension funds, Tampa's plan entrusted all its assets to a single manager, Bowen, Hanes & Co., rather than spreading money across dozens of managers, hedge funds, or private equity. This "one-manager" approach is almost unheard of among public pensions of its size.

Long-Term Discipline: The fund's strategy is built on patience, investing in high-quality companies for the

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long haul, and ignoring short-term market noise. Jay Bowen and his father believed in compounding over decades, not chasing quarterly performance.

No Consultants or "Helpers": Tampa's trustees resisted the industry trend of hiring consultants and layering on complexity. They avoided the "hyper-helpers" that Warren Buffett warns about, who often add cost without adding value.

High-Quality, Thematic Investing: The fund has focused on owning high-quality businesses, often identifying future blue chips before they became widely recognized. For example, it made a fortune buying Coca-Cola before Warren Buffett did.

Avoiding Fads and Complexity: The fund shunned hedge funds, private equity, and other alternative investments, sticking to a straightforward mix of stocks and bonds. This simplicity has been a key to its resilience and outperformance.

Lessons for Investors

Compounding Wins Over Time: Sustained outperformance—even by a seemingly small margin—leads to enormous differences over decades. The Tampa fund ended up with nearly twice as much as it would have by simply matching the S&P 500.

Keep It Simple: Complexity and over-diversification often dilute returns. A focused, high-quality approach can outperform, especially when paired with discipline and patience.

Ignore the Noise: The fund's managers ignored market fads, short-term volatility, and the pressure to "do something" in turbulent times. Their discipline allowed them to take advantage of opportunities when others panicked.

Alignment and Trust: The long, trusting relationship between the fund's trustees and its managers allowed for a consistent, long-term approach—something rare in an industry obsessed with quarterly results and consultant-driven turnover.

"Simplicity is the Ultimate Sophistication"

Despite its success, the Tampa framework is rarely imitated. Most investors prefer the perceived safety of diversification, consultants, and complex strategies. As Warren Buffett put it, "Nobody wants to get rich slow." The allure of complexity, activity, and high-fee products remains strong, even when the evidence favors simplicity and patience.

The Florida story is a powerful reminder: the best results often come from simple, disciplined investing, and a willingness to ignore the crowd. The Tampa pension fund's experience stands as a testament to the power of compounding, the value of trust, and the enduring advantage of keeping things simple.

Sincerely,
Nixon Capital

Disclosure: This letter was prepared with the assistance of AI technology (Perplexity AI). What would have taken days now takes hours, and most of our time was spent refining prompts and researching data sources. We loaded our materials so that it used our voice when writing this letter – we simply had to provide a detailed outline to get started. We hope you enjoyed it.

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