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## Quarterly Commentary

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December 2025  
Fourth Quarter

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“You get one experience of a thing when you look along it and another when you look at it.” **C. S. Lewis**

### Speculation is a Waste of Time

Geopolitical experts anticipated that President Trump’s tariffs would cause inflation to surge and that the US consumer would bear the burden, leading Wall Street economists to place the probability of a US recession as high as 80% for the year. 34 billionaires were interviewed by Forbes to predict how the S&P 500 would perform over the year and half of them thought the market would be flat or down for the year. Once again, 2025 reminded investors that forecasting the future is largely a wasted effort. Michael Crichton, the acclaimed author and filmmaker, delivered a speech, [“Why Speculate”](#) that eloquently encapsulates our belief:

**No matter how many people are speculating, no matter how familiar their faces, how good their makeup and how well they are lit, no matter how many weeks they appear before us in person or in columns, it still remains true that none of them knows what the future holds.**

In the first week of the year, inboxes have been flooded with “expectations” (just a more professional term for “speculations”) for 2026. Some of these predictions will prove accurate and others will be wrong, and by this time next year, almost none of them will be remembered.

### Meditation in a Toolshed

C.S. Lewis, another brilliant author, [wrote a short story](#) titled “Meditation in a Toolshed” that highlights a central concept in how we approach investing. He describes standing in a dark toolshed and seeing a single beam of light shining through. As he looks *at* that beam of light, it radiates brilliantly, but almost

everything else around it is unobservable and hidden in the darkness. When he moves so that he is looking *along* the beam of light instead of *at* it, his perception changes: he sees things in the shed...the leaves moving outside, tools on the wall, and even the sun. He also notices that he no longer sees the beam. He states, “looking along the beam, and looking at the beam are very different experiences” and then asks a critical question:

**As soon as you have grasped this simple distinction, it raises a question. You get one experience of a thing when you look along it and another when you look at it. Which is the “true” or “valid” experience? Which tells you most about the thing?...**

**...We must, on pain of idiocy, deny from the very outset the idea that looking *at* is, by its own nature, intrinsically truer or better than looking *along*. One must look both *along* and *at* everything...**

**...But we must start with no prejudice for or against either kind of looking...**

Lewis takes a simple, familial moment and reveals the complexity in how different perspectives shape our understanding. In the investment world, it artistically mirrors our focus of separating perception from reality. Market prices frequently reflect prevailing perceptions (looking *at*) about value and growth, and sometimes they are accurate. At other times, prices fail to reflect the underlying business reality (looking *along*), and that disconnect can be a source of opportunity. Our daily work is to identify where price



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and value diverge and to judge whether investors are focused solely on looking *at* or also looking *along*.

### Looking At Versus Looking Along

A straightforward example of how “looking at” an investment can obscure “looking along” it is the exclusive focus on current financial metrics. Prices reflect expectations about the future, not merely the present or the past. Consider screening a universe of 100 companies based on sales growth, margin thresholds, and return on capital requirements while excluding any business with leverage. That filter may look prudent when looking *at* these companies, but it risks missing important changes that are only visible when looking *along*. If a levered business is actively selling an unprofitable division and intends to use the proceeds to pay down debt, the static screen will not capture it. As that business exits a money-losing segment, margins improve, leverage falls, and the equity becomes meaningfully de-risked—yet none of that is evident from a quick glance at historical ratios. Understanding that future reality requires listening to conference calls, reading filings, visiting management, and spending time looking *along* the beam of the investment rather than only *at* it.

Our most painful mistakes have occurred when we believed we were looking along but, in hindsight, we were still only looking at. In those cases, we became enamored with the brightness of the beam and ignored the surrounding landscape of risks. We might have convinced ourselves that we had found a misunderstood, deeply discounted business, only to realize later that the industry was in secular decline, pricing power had eroded, and capital allocation was poor. Once perception converged with reality, all the negative attributes were obvious. We aren't trying to be stupid, and the market has a habit of humbling participants who only look at and never along.

On the other hand, when we identify situations where the majority of market participants are focused solely on looking *at* and not *along* the opportunity set, the setup is often attractive. Historically, this has been the case for us at various points within the housing, energy, and office sectors. In 2025, tariffs created a similar dynamic within the consumer complex.

President Trump's tariffs created meaningful disruption for U.S. companies with international manufacturing footprints, both in terms of share price volatility and day-to-day operations. In April, the average U.S. consumer-related stock was down ~20% for the year with some down as much as 50%. Investors sold as the prevailing consensus “looked at” three core assumptions:

- » Effective tariff rates of over 50% would send earnings down by at least 20% for the year
- » The effects on tariffs would be a hit to the consumer as prices would be passed through and create a demand headwind
- » Valuations should reset downward to reflect lower sales growth and deteriorating margins

These observations were not irrational; they were simply incomplete. They offered a static snapshot of a dynamic situation. One analyst captured this mindset succinctly, “While tariff rates have proven to be very volatile, for the time being we will assume the current tariffs hold into perpetuity.”

We have written before about the importance of dynamic thinking—markets are always evolving, and high-quality businesses adapting. As we conducted our work, we chose to look along the beam rather than only at it. In doing so, a different set of observations emerged:

- » Companies had already begun pre-buying inventory in anticipation of tariffs



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- » Companies began shifting their manufacturing exposure rapidly – one extreme example is a company that sourced over 70% of their U.S. imports from China in 2024 and they now expect it to be ~15%
- » Companies instituted vendor concessions, and raised price moderately

These actions have reduced the tariff headwinds and estimated 30–60% and as the market recognized that reality, earnings and valuation levels reverted toward pre-tariff levels. Environments where most participants are fixated on the beam itself, without understanding what it can illuminate over time, tend to create attractive entry points.

### 2026 and Beyond

When revisiting forecasts for 2026 and beyond, the issue is not a lack of desire to “ring the bell” by getting the future exactly right; it is the recognition that such precision is impossible. The number of variables at play, combined with the string of so-called 0.01% events over the last two decades, makes forecasting a futile exercise. What remains firmly within our control is how we anticipate change: adapting to the investment landscape and looking both at and along the beams of opportunity to uncover durable, compounding businesses.

As always, we remain grateful for your trust and partnership. We wish you and your families a wonderful start to 2026.

Sincerely,  
Nixon Capital

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