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PASI NEWS

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Professional Advisory Services, Inc.
2770 Indian River Blvd. – Suite 204 • Vero Beach, FL 32960
(800) 847-7274 • (772) 778-0552 • fax (772) 770-2979

Market Update – *The Bond Market Gets "Yippy"*

by David A. Jaffe, M.D.

A casual glance at financial market performance for the second quarter of 2025 suggests an uneventful period. The MW or market cap weighted S&P 500 ended the quarter with a modest year-to-date gain of 6.20%, while the EW or equal weight S&P 500 rested up 4.82% for the year. Both include reinvested dividends.

Stock and bond market behavior was, in fact, anything but "uneventful." On the second day of the quarter the administration shocked the markets, outlining planned "reciprocal" tariffs unrivaled since the Smoot-Hawley policies of the 1930s.[1] Markets responded to the "Liberation Day" announcement with a plunge of 4.84% on April 3rd, while retaliatory tariffs promised by China sparked a further rout of 5.97% on April 4th (market weighted S&P 500). The consecutive day decline erased over $6.6 *trillion* in stock market value from U.S. listed companies, a new two-day record.

At first the bond market benefited, as fears of economic contraction and "safe haven" buying raised bond prices. Interest rates, which move in the direction opposite to bond prices, declined. April 4th marked a dramatic reversal, however, with aggressive selling of U.S. Treasuries. After an earlier dip below 4% on safe haven buying, the yield on the 10-year U.S. Treasury Note leapt to nearly 4.6%, a historically huge bond market event. Inflation fears resulting from the tariffs were the obvious catalyst, but behind the scenes lurked broader worries about the U.S. debt burden, misguided economic policies, and loss of confidence in the stability of the U.S. dollar as the global reserve currency.

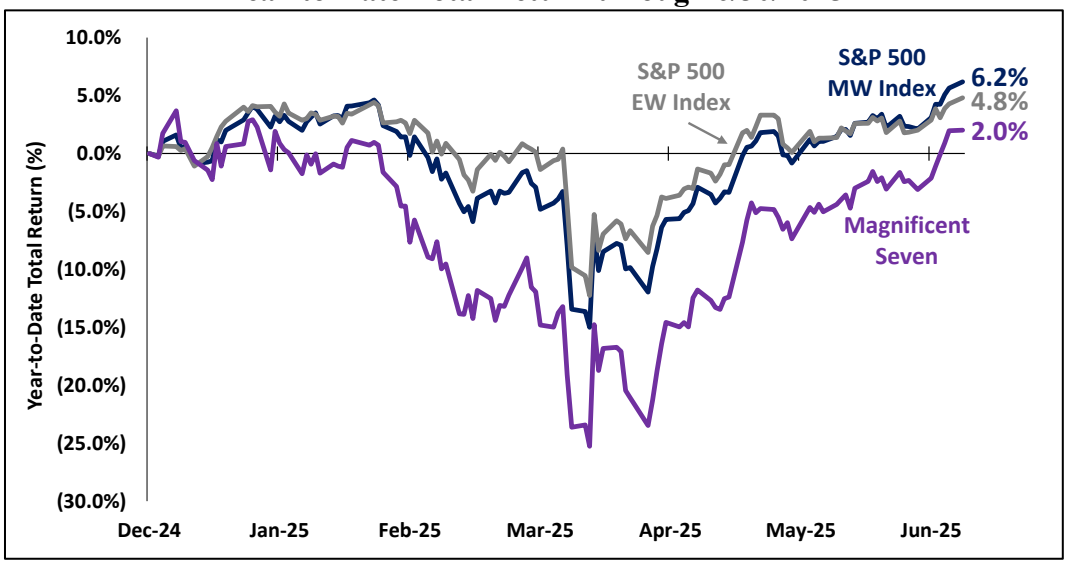
While the administration promised long-term benefits and preached patience, turmoil in the bond market was widely cited as the key factor leading to a 90-day delay in implementation of the tariffs, announced by the administration on April 9th with the President noting that bond investors were "getting a little bit yippy, a little bit afraid." The three-month reprieve eased market fears, opened questions about the seriousness of the tariff threats (the administration suggested this was a planned negotiating tactic) and helped launch a market recovery which has led us to where we are today. It is

[1] The Smoot-Hawley Tarriff Act of 1930 was implemented as a protectionist measure, and sparked a global trade war widely believed to have contributed to the depth and duration of the Great Depression.

noteworthy that while a decline in the stock market is fairly common and an acceptable risk, a jump in interest rates and therefore cost of financing the nation's debt triggered alarms and action.

The stock market volatility seen along the path from April 2nd's Liberation Day to the end of the quarter on June 30th is captured by the following chart. Noteworthy is the magnitude of the drop in the "Magnificent Seven" stocks, the seven largest components of the S&P 500 by stock market value. No surprise that these stocks, after enjoying outsized returns and reaching very high valuations on a price-earnings basis, were the most vulnerable with an average decline approximating 25% during the second quarter market correction.

Year-to-Date Total Return through 6/30/2025



Source: Professional Advisory Services, Inc. and Bloomberg L.P.

All stock market measures recovered from the early April losses as adoption of the Liberation Day tariffs has been delayed, and AI (artificial intelligence) related businesses in particular grow and attract investor dollars. At PASI, we have expanded our AI related holdings, including the adoption of Advanced Micro Devices (AMD), the addition of three semiconductor manufacturing businesses, and most recently the addition of database company Oracle, highlighted later in this newsletter.

We always work to identify companies we judge to have superior business opportunities while carrying reasonable stock valuations on the basis of anticipated earnings growth relative to stock price, depth of management, financial strength, and competitive position. These criteria apply equally to our new positions in the AI field. In the current stock market environment, such conservatism leaves our structure modestly out of favor; our consolidated portfolio ended the second quarter with a year-to-date return of 3.72% including reinvested dividends. We believe that our quality requirements, broad industry diversification, and resistance to concentration in individual market sectors ultimately reduce risk and volatility, reflecting protection of client assets as our top priority.[2]

[2] Please see additional PASI Performance and Index disclosures on page 9.

Tunnel Vision and Compounding Change

by Nathan Polackwich, CFA

I'm a status quo guy. That is, if you ask me what's going to happen in the future I'm almost always going to tell you that things will stay more or less the same, at least over the next few years. One of the biggest mistakes people, and particularly experts, make when it comes to forecasts is overpredicting change. We saw this just last quarter with the Trump tariffs that were supposed to radically transform global trade but ended up not being nearly as large or disruptive as initially feared. Typically, when a new development occurs, people extrapolate a worst (or best) case scenario, but the actual impact is fairly modest, at least at first. We're seeing the same sort of thinking now with the rapid advances in artificial intelligence (AI).

A big reason for this tendency to overestimate the pace of future shifts is a cognitive bias called tunneling. A classic example is when people estimate how long a home renovation project might take and what it will cost. We naturally assume a best case scenario – that all materials will be immediately available, workers will show up on time, there'll be no permitting problems, etc. We make a mental "tunnel" from the beginning of the project to the end, blind to the myriad issues we'll likely encounter. This happened to me recently with a project I started at the beginning of the year to replace the baseboards and door casings in my house. "How hard could it be?" I naively wondered to myself. Well, the project has snowballed into regrouting tile, repairing damaged walls, fixing a major leak (I caused), and five months later I still need to paint and caulk!

An awareness of the tendency to tunnel is helpful when thinking about how quickly, for instance, artificial intelligence might change our world. Large language models (LLMs) like ChatGPT are astonishing tools, and it's easy to envision a straight line between where the models are today and the imminent elimination of most white-collar work, as the AIs already mostly surpass humans in synthesizing, interpreting, and communicating information (the foundation of most white-collar jobs). So should we expect a rapid rise in unemployment due to this new technology? Probably not.

The first roadblock the AIs will face is simple inertia. For the most part, it's just easier for organizations to continue operating the way they always have, though they'll begin experimenting with AI around the edges of their business and slowly integrate the technology into specific use cases as time passes.

But many companies will hesitate to quickly deploy the technology due to regulatory, liability, and security concerns. The AIs still often hallucinate (make things up) and otherwise just get things wrong, which firms in heavily regulated industries and/or those where liability is an issue won't want to risk. Many businesses are also likely to be wary of feeding private or client-sensitive data into AI systems, fearing it could be compromised or inadvertently leaked.

Integrating AI into white collar work also won't be as easy as it might seem. Most organizations have their data strewn across paper files, emails, internal databases, clunky industry software, and outdated systems. Consolidating that information and structuring it in a way an AI can read and apply is a herculean task. I'm personally trying to build an AI that incorporates all the research I've done for PASI in my 24 years here (how hard could it be?), but I've run into all kinds of difficulties as basic as the AI struggling to read content inside Microsoft Word document text boxes or correctly apply even simple mathematical formulas (the AIs are great with language but seem to struggle with math). Even once I resolve these issues, getting it to synthesize my research with new information from, say,

outside web sources, will add an additional layer of complexity. The reality is that most small and medium sized businesses simply don't have the resources, ability, or inclination to set up AIs that are both private and useful enough that they can meaningfully replace their workforce. What's more likely is that the AIs will slowly increase the productivity of existing workers on specific, well-defined tasks like summarizing documents, writing emails, or generating computer code, but not replace them outright anytime soon.

That said, while the near to intermediate term is likely to be similar to the present, I do think that in 15 or so years, the world will look as different from today as today does from 2010. That's because while yearly changes tend to be modest, they compound over time until the past feels almost unrecognizable. It wasn't so long ago, for instance, that smartphones and social media didn't dominate most people's daily lives. And 15 years before that, if you can believe it, the Internet was something few people used or even thought about.

AI looks to be a similarly transformative force. As just one example, it's powering autonomous driving efforts by companies like Waymo, a subsidiary of PASI company Alphabet (formerly Google). Waymo first launched its robotaxi service in Phoenix in 2018 and has since expanded to San Francisco, Los Angeles, Austin, and Atlanta. The Company is already logging 250,000 rides a week, up fivefold from 2023. Like smartphones, I anticipate the growth of autonomous vehicles will slowly but surely compound over time until they go from being a curiosity to a routine part of daily life.

Similarly, large language models like ChatGPT will evolve from tools that summarize documents or offer health advice into agents that act on our behalf. We'll say something like, "Go through all my subscriptions – streaming, music, and other services – and cancel the ones I haven't used in the last three months," and the AI will do it. Eventually, we'll take such extraordinary capabilities for granted, just as we now unthinkingly expect that refrigerators will keep our food cold.

So the world will continue to change, more slowly than we might expect, but relentlessly. Ultimately, though, where does that leave human labor? Will AI and robotics put most people out of work within the next 15-30 years? Absolutely not.

Consider that in 1800 90% of Americans were farmers. By 1900 productivity had increased enough (mechanical reapers, steel plows, rail transportation, and refrigeration) that only 40% of Americans worked in agriculture. Today, thanks to further advances like tractors, nitrogen fertilizer, pesticides, hybrid seeds, and GMOs (genetically modified organisms) less than 1% do.

If you'd told the average American in 1800 that thanks to machines and chemistry hardly anyone would work in farming within two centuries, they likely would have feared widespread unemployment. Yet, the massive productivity increases in agriculture freed humans to focus their labor on new industries in manufacturing and services.

By 1950 half of Americans worked in services and another third worked in manufacturing. Of course, the machines (and outsourcing to foreign countries) eventually came for most of the manufacturing jobs as well. Today, even though America produces five times as many goods as it did in 1950, only 8% of Americans work in manufacturing. But once again, if you'd told the average factory worker in 1950 that only 8% of Americans would be employed in the industry 75 years later, they would have likely anticipated pervasive joblessness. While it's true that the transition away from manufacturing jobs did cause economic pain in some communities, the current national unemployment rate of 4.2% is actually below the 1950 average of 5.3%.

So what are we all doing now? Most U.S. work has shifted to services (now 80% of American jobs) in areas like healthcare, education, professional services, business, and transportation. It's likely that in 15-30 years AIs will indeed be doing some of these jobs. And like with manufacturing, there will undoubtedly be some job losses and wage pressures for workers in certain industries. But rather than disappear, most workers' roles at companies will likely evolve with the new technology, much as jobs have changed in the last 30 years due to the Internet and wireless technology. This evolution will encompass a shift to the one service AIs can never provide – an authentically human connection from the barista at the coffee shop to the doctor at your bedside to your local investment advisor around the corner. Rather than replace what they do, people will use AIs to dramatically improve the quality of their work while delivering deeper, more personalized service.

In addition, as much as the Internet, AI has the potential to create new jobs we can barely conceive of today. People tend to worry about the downsides of new technologies without considering the opportunities they unleash. Thanks to AI, for instance, the time and expense required to learn new skills and start a business is collapsing. If someone as technologically inept as me can use AI to write advanced computer code to synthesize my investment research, just imagine what the average ambitious kid graduating college will be able to achieve.

Oracle: Where Data Becomes Dollars

by Jeremy Goldberg, CFA, CFP ®, MSF

After reading a research paper by an IBM scientist about relational databases, Larry Ellison, a college dropout and young programmer, decided he could build something better. What started as a side project called Software Development Laboratories in 1977 is today the behemoth Oracle, the world's largest database company. Nearly five decades later, Oracle now holds the data behind 94% of Fortune 100 companies, managing the transactions, records, and operations that keep them running.[3] More than a database giant, Oracle has spent the last ten years turning itself into a modern cloud and artificial intelligence (AI) infrastructure company and is betting its future on making sure that data works harder than ever before.

Oracle's core business is still its database software, the system that stores information in neat rows and columns so companies can find what they need, link it together, and manage it securely. It sounds like a spreadsheet, which works for simple lists, basic tracking, and number crunching, but a *relational* database can manage millions of records at once and make them instantly available to hundreds of systems and users at the same time – for tasks like processing credit card payments, booking flights, or running payroll every hour of the day. From bank accounts to supply chains to employee paychecks, huge volumes of everyday data sit inside Oracle's databases, locked in by decades of trust, integration, and high switching costs. That strong foundation helps Oracle keep clients for years and gives it an edge as it pushes deeper into cloud services and the AI boom.

Twenty years ago, Oracle made most of its money selling perpetual software licenses and charging annual support fees. Today, most of that has moved to a subscription model. Companies pay Oracle to run their databases and applications on its own cloud or in hybrid setups that combine on-premises and cloud services. That shift is durable for the same reason the original database business was – once a company's critical operations run on Oracle, moving away is costly, risky, and rarely worth the effort. As businesses want real-time insights and AI tools, Oracle's goal is to be the platform that runs the

[3] Oracle's September 2024 Financial Analyst Meeting Presentation.

core systems every big company relies on. It also builds specialized tools for certain industries, like grid management software for utilities, network billing platforms for telecoms, and electronic health record systems for hospitals. As these workloads migrate to the cloud, Oracle locks in more recurring revenue, often under multi-year contracts that run three to five years or longer.

For the most sensitive workloads, like healthcare data, financial transactions, or confidential government records, many organizations still prefer private or hybrid cloud setups for added security and compliance. Oracle's Dedicated Region and Cloud@Customer services let companies run Oracle's entire cloud offerings, including its AI tools, inside their own data centers behind their own firewalls. For example, a large hospital system could use Oracle's AI agents to help doctors update medical charts and generate treatment summaries securely, without sending patient data outside of their private server. It's one more way Oracle makes its cloud flexible enough to meet strict security needs without sacrificing the modern AI capabilities businesses increasingly demand.

Of course, Oracle isn't the only player trying to shape the future of cloud and AI. The massive "hyperscalers," companies like Amazon, Microsoft, Google, and Meta that run huge data centers and computing networks, still dominate the public cloud market. But instead of trying to replace them, Oracle focuses on what it does best – database software. Many companies still choose to run Oracle's databases even when their data and applications are hosted on Amazon Web Services (AWS), Microsoft Azure, or Google Cloud. In practice, that means Oracle's software runs *inside* these other clouds' infrastructure, making them more of a partner than a direct competitor.

That strategy is starting to show up in real dollars. Oracle's partnership with OpenAI (the company behind ChatGPT and other leading AI models) could alone bring Oracle an estimated **$30 billion** in annual cloud revenue starting in fiscal 2028.[4] This is part of the Stargate project, a $500 billion initiative led by OpenAI, SoftBank, Oracle, and NVIDIA to build the next wave of AI infrastructure in the United States.[5] Relatedly, Oracle's expanded work with NVIDIA lets customers use the world's top AI chips and full suite of training and inference tools directly through Oracle's cloud, making it easier and faster for companies to build, deploy, and scale advanced AI models.[6]

Oracle's multicloud deals mean a company can keep its mission-critical Oracle databases while taking advantage of whichever cloud provider's tools best fit the job – from Azure's AI application programming interface (APIs) to AWS analytics to Google's data science tools. These partnerships deepen Oracle's role in how its biggest customers run their workloads and support steady growth in its cloud revenue.

In fiscal 2025, which ended on May 31st, Oracle's cloud business generated $44 billion in sales. Analysts expect it to climb to $53.6 billion in 2026 and $66.8 billion in 2027, representing 23% annualized growth over the next two years. According to Bloomberg, the hyperscalers are expected to spend more than $325 billion in 2025 alone expanding the data centers and computing power that make AI possible. Oracle's bet is that the stickiness of its database, plus its broad partnerships, will keep it firmly in the middle of that spending.

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[4] *Oracle, OpenAI Expand Stargate Deal for More US Data Centers:* https://www.bloomberg.com/news/articles/2025-07-02/oracle-openai-ink-stargate-deal-for-4-5-gigawatts-of-us-data-center-power?sref=p5GSv4Ma

[5] *Announcing The Stargate Project:* https://openai.com/index/announcing-the-stargate-project/

[6] *Oracle and NVIDIA Help Enterprises and Developers Accelerate AI Innovation:* https://www.oracle.com/news/announcement/oracle-and-nvidia-help-enterprises-and-developers-accelerate-ai-innovation-2025-06-12/

Oracle continues to translate its entrenched position into consistent earnings and a strong balance sheet. Last year, the company generated $12.7 billion in profit, which is expected to reach $19.4 billion this year, and analysts see earnings per share (EPS) growing nearly 18% annually over the next three years – roughly double the projected growth rate for the broader market – supporting the premium valuation investors are willing to pay today. We also wouldn't be surprised to see more high-profile deals announced as the AI revolution accelerates, positioning Oracle in the sweet spot as a true *picks-and-shovels* provider for this next wave of enterprise technology.

What is a Roth Conversion, and Is It Right for Me?

by Kelly Meinders, CFP®, MSF

Let's review the most common types of retirement savings accounts before we dive into Roth Conversions. A traditional IRA, Simplified Employee Pension (SEP), or 401(k) is a retirement savings account where contributions are made in **pre-tax dollars**. Taxes are eventually paid when you draw on your funds or are forced to draw your funds when required minimum distributions (RMDs) begin. Every dollar distributed is treated as ordinary income and taxed as such.

A Roth IRA is a retirement savings account where contributions are made with **after-tax dollars**. This means you pay income taxes on the money you contribute, but Roth IRAs offer the benefit of tax-free growth and withdrawals in retirement, which can be a significant advantage.

A Roth Conversion is the process of moving money from a traditional IRA or SEP to a Roth IRA (in the case of a 401(k) conversion accounting for Roth dollars is done internally). This movement of funds involves paying income taxes in the year of the conversion, but in return, future growth and qualified withdrawals from your Roth savings are tax-free. In short, pay taxes now to avoid taxes later.[7]

There are a few reasons Roth Conversions may be right for you.

1. You retire early and your tax bracket is the lowest it will ever be in your life because you a) no longer have a salary, b) your social security income has not yet begun, and c) you are not required to draw on your IRA. Time to take advantage of this low tax bracket!

2. Your IRA required minimum distributions will put you in a high tax bracket and require you to draw more than you spend annually. Moving money from a traditional IRA to a Roth IRA will reduce the balance and therefore RMD from the traditional IRA, and Roths have no required minimum distributions!

3. Your asset base comfortably exceeds your lifetime needs, and it is your expectation that your IRA will go to your heirs. A Roth conversion further enhances the value of that legacy, leaving heirs a tax-free gift.

On the inherited Roth IRA topic, the SECURE Act(s) require that most non-spouse beneficiaries who inherit an IRA after December 31, 2019 must withdraw the entire balance of the IRA by the end of the 10th year following the original owner's death. Inherited **Roth** IRAs offer not only tax-free

[7] As always, please consult your tax advisor for guidance regarding any considered tax strategies.

distributions and exemption from RMD requirements, but as a fully tax-free asset also eliminate concern about a large taxable distribution in year ten, making them an ideal inheritance option.

Welcoming: *Kelly Meinders, CFP®, MSF*

Kelly Meinders, author of the above article, joined PASI in November of 2024. Kelly graduated from University of Missouri – Kansas City in 1998 with a Bachelor of Economics and a minor in Spanish. She started her finance career in Kansas City working for a commercial and then residential mortgage bond issuer before attending graduate school. In 2003 she earned her Master of Science in Finance (MSF) from the University of Florida. Kelly continued in real estate capital markets and alternative debt markets. Following the mortgage crisis of 2007, Kelly spearheaded business in Sao Paulo and Mexico City to expand Goldman Sach's asset backed securities program. In her final real estate venture, Kelly created a commercial mortgage bond program at ING Investments in Atlanta.

In 2015, Kelly shifted focus to private wealth management. Starting with studies at Boston University, she earned the CFP® marks with completion of the 3-year CERTIFIED FINANCIAL PLANNER™ Professional process in 2018. In 2024, Kelly joined the investment team at PASI as a Portfolio Manager with emphasis on client relations and financial planning, a career move she really enjoys.

In her free time, Kelly enjoys travel, playing bridge, and attending Vero Beach's diverse music and arts events.

Hurricane Season – *It's That Time of Year Again*

Officially ranging from June 1st to November 30th, Hurricane Season is once again upon us. Our hurricane procedures include preparation of our physical office to minimize the impact of water intrusion and protecting the integrity of our central computer. Most of our team will be able to plug in phones and laptops and be ready to serve your needs quickly, limited only by availability of electricity. David's Montana office serves as remote backup. BNY will be alerted to initiate contingency processing for client needs.

While PASI has settled on a staffing structure minimizing "work from home" time, we surely have the experience, as well as resources and technology, to serve client needs remotely if required.

You can read our Disaster Recovery Policy on our website www.pa-services.com. Please follow the "contact us" tab; you will find a link to the policy on the bottom left area of that page. In the event that primary communications are affected by a storm, we will post updates and any important information on our website. If you have any questions about our contingency planning, please don't hesitate to call.

Disclosure

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Performance Disclosure

To obtain a detailed analysis of Professional Advisory Services, Inc.'s (PASI) historical performance, inclusive of gross and net results from our balanced accounts and performance data for our segregated asset classes, please contact our office at 800-847-7274. It is important to note that PASI performance data presented in this newsletter is stated before the deduction of fees and in the context of each article. For a clearer understanding of the impact of fees, please refer to the following disclosures including a hypothetical example based on the maximum PASI investment management fee.

The **PASI Stock Portfolio** includes the reinvestment of dividends; and is reduced by brokerage commissions but is gross of Professional Advisory Services, Inc. fee, which is described in Part II of form ADV, available upon request. Our fee is a maximum of 1% and decreases based on assets under management. As an example of fee impact, over a ten-year period, $100,000 invested in stocks growing at 8% per year would increase at the end of ten years to $205,419 net of 1% fee versus $220,804 gross return.

PASI Stock Portfolio Benchmark: The ***S&P 500 Index (Market-Cap-Weighted)*** is an unmanaged index of the 500 leading publicly traded common stocks in the U.S., including reinvestment of dividends. This index is weighted according to the market capitalization of each participating company. As a result, companies with larger market capitalizations exert greater influence on the index's overall return, reflecting their proportionate size to the overall market.

Other Indices: The ***S&P 500 Equal Weight Index (Equal-Weight)*** is an unmanaged index of the 500 leading publicly traded common stocks in the U.S., including reinvestment of dividends. Designed to be size-neutral, it assigns equal weight to each participating company, irrespective of their market capitalization. This approach equally captures the influence of each company on the index's overall return relative to its individual performance, providing a balanced reflection of the collective market activity.