

INVESTMENT STRATEGY: COMMON SENSE TRADE-OFFS



Daniel J. Mintz

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Imagine being tasked with investing the wealth of a family whose future generations depended on it, or a foundation with a critical social mission. Where would you start? You might start with the principle of diversification to reduce portfolio risk. You might also favor high-quality businesses—specifically those that will remain important to the economy and have attributes that help them endure and grow for decades to come. The sensible side of you would want to buy them at attractive prices. We at Clifford Swan would agree on all counts.

If you instead decided to purchase an S&P 500 index fund, you would be relaxing your diversification discipline. As of this writing, about 34 percent of

the S&P 500 is weighted to the Information Technology sector. When you include companies like Alphabet, Meta, and Tesla that sit in other sectors but are very much technology-oriented businesses, the S&P's effective technology weighting exceeds 40

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percent. Technology is an area of the market that capitalizes on innovation and produces some excellent long-term investments, yet it is sensitive to unpredictable winds of change. Concentrating a portfolio in any one sector, even technology, introduces risk.

By investing in a market index fund, you would be glossing over your valuation discipline as well. By some measures, the S&P 500 trades at valuations far above its historical average. Statistically, current valuations sit about 3 standard deviations above the mean,

which happens less than one percent of the time. Over long periods, higher starting valuations often lead to lower returns.

And yet, index funds have become the default choice for many institutional and retail investors. Amid such an environment, we're increasingly asked to explain what we seek in the companies we invest in, and how we go about finding them at reasonable prices. Our response has been that we look to three “must-haves.”

Three Requirements for Quality Investment

First, we seek out businesses with high or increasing returns on the capital invested in it. This is the signature sign that the company may be competitively advantaged

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versus its peers. As markets are fiercely competitive, any business earning high returns becomes a target for others attempting to compete those returns away.

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Rising or persistently high returns on capital indicates there might be something special keeping competition at bay.

Second, we try to find businesses that can reinvest profits to grow. This can be surprisingly difficult for highly profitable companies, as they are often in the mature phases of the corpo-

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rate lifecycle. But companies that are both profitable and able to reinvest those profits—examples might include distributors with the potential to move goods to more locations, or semiconductor companies producing new, innovative chips—allow us to benefit from a long runway of future growth. Moreover, a focus on growth via reinvestment helps us steer clear of business attributes that can get investors into trouble. Profitable companies that can reinvest often don't need to raise debt that might increase the riskiness of our investment, or additional equity that might dilute our ownership stake.

Third, we like to see multiple stakeholders winning together. We believe that if a business's customers, suppliers, employees, management, and shareholders all benefit simultaneously, the effect will be a business more likely

to stand the test of time. Such alignment maximizes the odds of long-term success and creates a positive-sum game (i.e., growth for all) instead of a zero-sum game wherein conflicting priorities may interrupt value-creation.

Certainly, there are many other characteristics that we like to see. We're fans of pricing power, industry leadership, and a host of other boxes that quality-focused investors check. But we've found that these are just symptoms of the presence of one or more of our "must-haves." If our three most important criteria are met, we're confident we've found a business that grows in value over time, such that a long holding period works in our favor.

Solving the Sensible-Price Problem

While identifying high-quality businesses is paramount for us as long-term investors, finding them in the market at sensible prices is critical for strong returns. Such opportunities can appear due to structural limitations that many market participants face. For example, many institutional investors follow a mandate to closely track their benchmark's sector weightings—a behavior often referred to as "hugging the benchmark." In essence, their analysts will spend disproportionate amounts of time looking at and recommending companies in the largest sectors (today, these are the Information Technology and Financials sectors) even if those holdings do not look attractive on a standalone basis. In the process, these same analysts overlook opportunities in sectors that aren't well represented in the index yet are very compelling.

Another way that high-quality businesses become attractive and

available to us is from the rise of short-term focused hedge funds. These firms build their strategies around predicting quarterly results or other events. Growth of these short-term oriented funds has been strong over the past decade, to the point where they now comprise more than a quarter of the hedge fund industry's holdings in U.S. stocks. Often, hedge funds are quick to exit positions when companies miss quarterly estimates or stumble for reasons that might be temporary in nature. This creates an opening for long-term investors to buy.

Ultimately, our goal is to protect and grow wealth for the long run. Determining what we want in the companies we invest in and how we find them simply involves trade-offs in pursuit of that goal. We are

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unwilling to sacrifice long-term profitability and an attractive reinvestment runway for the chance to make a quick gain. Meanwhile, we are willing to shoulder the discomfort of looking different from the market and our peers, and to lean into companies with challenges we deem transitory, in pursuit of long-term value creation. Our strategy has worked for us and our clients for years, and we believe it remains timeless. ||||

TRUMP ACCOUNTS: WHAT THEY ARE, WHAT THEY AREN'T, AND WHERE THEY FIT YOUR PLAN



Kristen LaSasso, CFP®
Associate Investment Counselor

Most families we work with don't need more accounts; they need the right ones, used in the right way. You may have noticed recent headlines about Trump Accounts, a new federal savings program launching on July 5, 2026, designed to help children build long-term financial security. Whenever something new like this appears, clients naturally wonder how it fits alongside the strategies they already have in place—and for good reason.

From our early review, Trump Accounts may be especially helpful for families who are already saving consistently, those with financially engaged grandparents, high earners who value structure, or families looking to establish a retirement foundation for the next generation. For others, particularly families still prioritizing education funding or near-term needs, the appeal may be more limited. As with most planning tools, the value depends on how it fits into the broader picture.

Begin With Purpose

Before deciding whether to open a Trump Account, it helps to pause and ask two simple questions:

1. What is this money for?

Education? Flexibility for a minor? Or a retirement base for the child?

2. When will it be needed?

Within a few years? In a decade? Or many decades from now?

The answers tend to point clearly toward the appropriate vehicle and occasionally toward the decision that nothing new is needed at all.

What Exactly Is a Trump Account?

A Trump Account is a custodial, retirement-focused account for a minor. An authorized adult oversees the account until the child turns 18. During those early years, investments must remain in low-cost, diversified U.S. equity index funds, which keeps things simple and focused on long-term growth.

At age 18, the account converts to an IRA and follows the usual retirement rules. That means limited access before retirement and potential penalties for early

withdrawals. In other words, this is a long-horizon tool designed to encourage patient saving.

One feature drawing attention is the one-time \$1,000 federal seed deposit for eligible birth years (January 1, 2025 through December 31, 2028). Because this funding comes at no cost, opening an account is often worth considering on that basis alone. Over time, even a modest starting balance can benefit from long-term compounding, even if the account ultimately plays a limited role in the overall plan.

How Trump Accounts Compare With 529s and UTMA

As summarized in the table below, each tool serves a different purpose. Trump Accounts are best suited for families who want to plant a retirement seed early and let it grow quietly in the background.

Key Considerations Trump Accounts

Pros: Long time horizon, simple investment structure, potential seed funding.

Cons: No access in childhood,

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Feature	Trump Account	529 Plan	UTMA/UGMA
Purpose	Build long-term wealth	Education	Flexible support
Availability of funds	Adulthood; then IRA rules	For education costs	Anytime, for the child's benefit
Tax treatment	Tax-deferred	Tax-free for education	Taxable annually
Flexibility	Low	Moderate	High
Control	Custodian until 18, then child	Account owner	Custodian until age of majority
Best for	Retirement foundation	Anticipated education	Near-term or broad needs

limited investment choices early on, not helpful for education.

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529 Plans

Pros: Strong tax benefits for education, high contribution limits, adult retains control.

Cons: Penalties for non-education use; risk of overfunding if plans change.

UTMAs

Pros: Maximum flexibility for a child’s broad needs; wide investment range.

Cons: Assets transfer to the child at majority; annual taxation; may affect financial aid.

When a Trump Account Might Make Sense

A Trump Account may be a good fit if:

- Your 529 plan and your own retirement savings are already in good shape.
- You want a simple, disciplined way to support long-term growth.
- Grandparents or extended family members want a structured gifting option.

You might choose to hold off if:

- Education funding needs

more attention.

- You want flexibility for expenses that could arise before age 18.
- Adding another account makes your plan harder, not easier, to understand.

A Real-World Example

Consider a family where education planning is on track through a 529 plan, but the grandparents want a thoughtful way to support the next generation. One approach is for the grandparents to fund a Trump Account early, capturing the seed deposit and giving those dollars decades to compound, while the parents continue managing college funding through the 529. Each account has a clear purpose, and the family avoids overlap.

Our Perspective

For many families we work with, Trump Accounts can play a useful, but not essential, role. They are unlikely to reshape a well-built plan, but they can complement one. What matters most is not how many accounts you have, but how intentionally they work together. Sequencing, coordination, and clear purpose matter far more than simply opening every available option.

We’re here to help you think through these choices with clarity and confidence and determine together whether a Trump Account supports your family’s long-term goals. Our focus remains the same: building durable plans that promote peace of mind not only today, but for generations to come.

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