AMI INVESTMENT MANAGEMENT
Registered Investment Advisor

Quarterly Investment Commentary

SECOND QUARTER, JUNE 2025

There's no absolute certainty in the world of investing, but the second quarter of 2025 was a masterclass on the short-term unpredictability of markets and the world around us. From the wild swings triggered by tariff announcements, trade wars, and escalating Middle East tensions to the temporary relief brought on by a 90-day trade negotiation period, investors were reminded just how quickly sentiment and momentum can shift. This whirlwind of daily news—and the market's often unpredictable reaction to the news—also reinforces the importance of keeping a cool head and having a disciplined investment strategy in place.

While many of the headlines had an alarming tone to them, the actual impact on financial markets was fairly short lived. With U.S. equity markets recovering and even surpassing pre-Liberation Day levels, investors appear to be looking past or dismissing the potential impact of looming tariffs. On the other hand, the bond markets are pricing for 2-3 upcoming Fed rate cuts, while yields on longer term maturities reflected some growing concerns over rising government deficits tied to the proposed "Big Beautiful Bill". The quarter was full of many moving parts, but there was one event that stood out as being especially poignant and marked the end of an era.

The End of an Era

The Berkshire Hathaway annual meeting in Omaha has long been viewed as a pilgrimage for devoted shareholders, business enthusiasts, and those simply wanting to be in the presence of the world's most iconic investor.

Warren Buffett, right, and his Vice Chairman Charlie Munger, left, speak during an interview in Omaha in 2018, (AP Photo)

At the May 3rd meeting, Warren Buffett announced his plans to step down as CEO at the end of the year, marking the end of a historic 60-year run leading the company. While the announcement prompted gasps from the audience, considering he is 94 years old, the news was not a total shock. Buffett isn't completely riding off into the sunset just yet. He plans to remain Chairman, keep routine office hours, and—as he put it, "still hang around and conceivably be useful in a few cases." With his departure from the day-to-day decision making, the torch will officially be passed to his successor-in-waiting, Greg Abel. This transition comes on the heels of Buffett's longtime business partner and right-hand man, Charlie Munger, passing away in 2023 at the age of 99. Chris Davis, a longtime Berkshire shareholder and member of the board of directors, made this comment on Charlie's passing: *"He was so timeless, and he had been so much a part of our universe for so long, that in a way it was like a parent being gone. It's natural in the order of things, but also for your whole existence they've been there, so it feels very unnatural."* This sentiment does a good job of capturing the current mood—we all knew this day would eventually come, but Berkshire Hathaway without the presence of Warren and Charlie leading the way will certainly feel strange.

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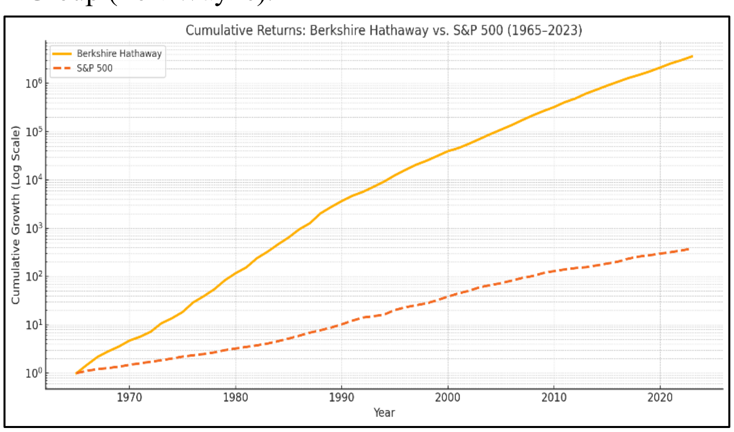
An Extraordinary Legacy

While Warren Buffett's remarkable intelligence and relentless focus are well known, what's less appreciated is his willingness to adapt to different market environments. For many, success can lead to complacency or sticking with familiar ways, but true geniuses continue to borrow ideas, adapt, and refine their approaches. Buffett's early success in the 1960s came from deep value investing, or buying a stock purely because it was cheap, irrespective of the quality of the business. When the stock price rose closer to its intrinsic value, he sold. Then in the late 1970s, his philosophy began to shift, looking beyond just the stock price to the underlying business fundamentals. Buffett, with the help of Charlie Munger, can be credited with laying out the modern principles of investing that have inspired many investment professionals—including us. A simplified version of these principles include: choose a business that has excellent economics and one you would like to be involved in, wait for an appropriate price to buy, and then hold it for a long period of time—it sounds so easy.

This change in philosophy led to Berkshire Hathaway, his publicly traded holding company, making billion-dollar investments in companies like Coca Cola, American Express, Apple, and Chevron—with many stocks being held for decades. Berkshire also has full ownership over a collection of private businesses, including GEICO insurance, Burlington Northern Railroad, See's Candy, and several energy/pipeline companies. There's even a few located here in Northern Indiana; Forest River RV (Elkhart), Chore Time Brock (Milford), and MedPro Group (Fort Wayne).



Over time, Berkshire has become a museum of carefully selected businesses spanning a wide range of industries. Its holding company structure also avoids the ebbs and flows of outside investor capital, allowing Buffett the freedom to be patient and wait for the right price, as he has sometimes gone years without making a new investment. This disciplined approach has enabled Berkshire to generate average annual returns of 20% since 1965, compared with 10.4% for the S&P 500 benchmark.[1] As a result, a $10,000 investment in 1965 is worth over $560 million today.

While Buffett's investment track record is exceptional, it's the way he achieved this success that is so admirable. What will be missed, maybe more than the returns, is the experience and teaching tidbits he offered along the way. He had a way of conveying those simple, down-to-earth principles that can be repeated to a child or parent and still resonate: Be rational instead of flashy, think long-term, stay calm when others panic, align your interests with those that have entrusted you, eliminate conflicts of interest, minimize costs—and by all means, try desperately not to overpay for an investment.

While these Buffett-isms may be considered common sense, his approach often runs counter to the short term, casino mentality of Wall Street and the financial media. It's also one thing to dispense wisdom and it's another to live by it. Buffett will be remembered for consistently walking the walk when it came to his core principles. As the largest shareholder of Berkshire Hathaway—with virtually all of his investable net worth tied up in the company—his long-term interests were directly aligned with those of the everyday shareholder. These are qualities we find deeply admirable and strive to replicate in our day-to-day work with AMI clients.

[1] Wall Street Journal, "Why There Will Never Be Another Warren Buffett" May 3, 2025

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What's Ahead for Berkshire Hathaway After Buffett?

Like many of our clients, we at AMI are shareholders of Berkshire Hathaway and are personally invested in the company's future following Warren Buffett's departure. Although the future without the "Oracle" sounds ominous, we're optimistic about what lies ahead. It's important to remember that this is not a sudden succession. Buffett had the foresight and wherewithal to build Berkshire into a fortress while also carefully handpicking his successor over many years. Board member Chris Davis has long drawn the historical parallel to Standard Oil (now ExxonMobil), a business empire that was structured in a way that allowed it to prosper following John D. Rockefeller's departure. Many current Fortune 500 companies have also thrived long after a legendary CEO moved on, such as Apple (Steve Jobs), Wal-Mart (Sam Walton), Microsoft (Bill Gates), and Amazon (Jeff Bezos), to name a few. These companies all share similar qualities of durable businesses, wide competitive moats, and deep management team models, which have enabled their successors to keep the machine humming along. The same holds true for Berkshire. That said, we see a couple of key areas that could evolve over time.

• **A Potential Dividend-** Berkshire has long shunned the practice of issuing dividend payments. Buffett firmly believed that if the company could retain all its earnings and reinvest them at a return higher than the average investor could achieve, there was no need to pay a dividend. But with Buffett slowly moving to the exit, and with over $300 billion in cash equivalents on the balance sheet, the possibility of a dividend may become increasing likely over time.

• **Larger Share Buybacks-** If Warren Buffett felt compelled to make a business acquisition for $75 billion, shareholders would largely welcome the news. A successor making the same deal will be a tougher sell. An alternative might be that the company's large cash pile slowly finds its way back into the company through reinvestment—either through existing business units or larger share buybacks.

• **Better Operational Efficiencies-** Buffett is the "deal guy", but he selected a successor that is an "operations guy". With Buffett's more hands-off management style, inefficiencies and inertia can often creep into the system. We expect Abel will rigorously examine the operational structure of the business units, possibly ringing out cost and waste.

In all, Abel has big shoes to fill, but there is no need for drastic changes. As long as he continues down the path of protecting the culture and operating in shareholders' best interest, —the rest will continue to compound, just as Buffett intended.

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AMI Updates

30 Years!

June 30th marked the 30th anniversary of our firm. As we reflect on the past three decades, we want to extend our heartfelt thanks to you, our clients. Your trust and partnership have been the foundation of our success. Through market highs and lows, political policy shifts, and changing times, your confidence and trust in our guidance has fueled our continued growth and purpose.

We are proud of the relationships we have built and grateful for the opportunity to help you pursue your goals with clarity, discipline, and a long-term perspective. What began as a small advisory practice has evolved into a dedicated team committed to serving generations of clients with integrity and care.

As we look ahead, we remain focused on what matters most…delivering thoughtful advice, acting in your best interest, and helping you navigate the financial road ahead. **Thank you for being a vital part of our journey!** Here's to the next 30 years!

Summer Intern

A tradition we started in our very first year was providing summer internships to college students considering a career in finance. We take great pride in our past interns working throughout the country from Los Angeles to New York City. We are pleased to welcome our current summer intern, Grant Fetter.

Grant will be entering his junior year at Indiana University this fall, where he is majoring in finance at the Kelley School of Business. A 2023 graduate of Dekalb High School, Grant enjoys golfing and relaxing at his family's lake cottage when not in the office. He has been a valuable help with several projects already. We hope he enjoys his time with us and learns a few things before returning to campus.