Investment Advisor

CONVERSATIONS ON INVESTMENT MANAGEMENT

"Investment is most intelligent when it is most businesslike."
The Intelligent Investor, Professor Benjamin Graham

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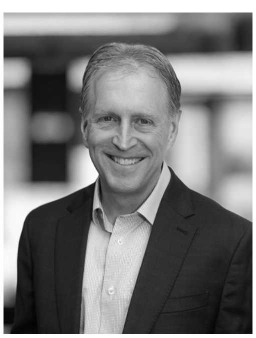


Mark A. Miller, JD, CFA
President

Miller Capital is a Registered Investment Advisor [RIA] serving individuals, families, business entities, and trusts.

SOME THINGS NEVER CHANGE

Is the current equity market similar to the build-up and popping of the tech and internet stock bubble of 25 years ago? That's the question being asked by the financial media, along with many investors. It is always wise to question investment valuations and whether future risk and return estimates are realistic.

There are some similarities and many differences between the equity markets of 2000 and 2025. We were deeply involved in navigating investment markets back then, including the "Lost Decade" - the ten year period from 2000 to 2009 when the S&P 500 Index lost nearly 1% per year on an annualized basis.

Regardless of the comparisons, some things never change. Investors [speculators] that take excessive risk, using margin and/or aggressive trading strategies, are living on the edge of large, permanent losses; a historical lesson worth remembering.

We hope this issue of *Investment Advisor* is helpful to you. If you would like more information about our investment services, please contact us.

PERSONAL REFLECTIONS: FILLING THE VOID

Frank Blake was a corporate attorney who then moved into corporate strategy roles before becoming CEO of Home Depot. Blake is credited with returning Home Depot to its roots and a position of strength around the period of the Global Financial Crisis of 2008/2009. In 2019, John Furner [named Walmart's new CEO in November 2025] was given a choice of retired executives to help coach him after he was named president of Walmart's U.S. store division. Furner chose Blake.

Filling the Void**.** Blake gave Furner some advice which I've seen quoted by other executives. Blake said that if a leader doesn't directly share thoughts with rank-and-file workers, they will "**fill in the void and you won't like what they fill it in with**." [Source: *Who Is John Furner? Meet the Walmart Insider Named New CEO,* Wall Street Journal, 11/14/2025]. Furner started hosting *The Huddle*, a video series where he interviews Walmart staffers and non-Walmart personnel, in part because of that advice.

Marketing vs. Education. Given the vast amounts of available information, from financial and social media to artificial intelligence [AI] generated content, combined with the complexity of investment markets, the level of mixed messaging is enormous. Frank Blake's advice is something we take to heart at Miller Capital. **Filling the void** with educational investment information is important. Our aim is for our public content be not only educational and helpful, but clear and backed with logic and sound reasoning. This same is true for the investment advice we provide only to our clients.

Whether the receiver of our public content is an individual, a trustee, a trust beneficiary, an attorney or a CPA, we aim to provide clarity - **filling the void** with investment education worth considering. There are many messages we do not agree with that are misleading or simply not backed with logic and sound reasoning. So we feel called to research, explain, and most important - to educate. This is marketing with a purpose; a purpose we feel strongly about.

For over a quarter century at Miller Capital, we have done our best to focus on education:

- We provide our clients with custom investment letters and reports, explaining what they own and why, important changes made to their portfolio, and what we really think – with clarity as our goal.
- When clients present us with important projects to evaluate for them, we seek to provide clear analysis, options, recommended solutions, while carefully implementing with attentive follow-up.
- While we only provide investment advice to our clients, we consistently produce our *Investment Advisor* newsletter for all to read; with a focus on education on timely or relevant topics.

Excellent client work is the best form of marketing, in our view. Beyond that, we view our next best marketing as providing investment content that is educational and helpful - **filling the void**. That's the way I see it.

Best regards,

Mark

Mark A. Miller, JD, CFA
President

PORTFOLIO STRATEGY: WITHDRAWAL RATE RISK

Many articles have been written on the amount that can be withdrawn from a portfolio "safely" over various time periods. Much depends on the assumptions made, including rates of return, tax rates, whether certain balances should be maintained near-term and longer-term, and the impact of inflation, among others.

Portfolio Return Impact on the Withdrawal Rate. A key issue that impacts the ability of a portfolio to cover various withdrawal rates is the near and long-term portfolio rate of return. If a portfolio generates a low to negative rate of return for several years, while paying out distributions and covering taxes, the portfolio may have great difficulty in reality versus a computer generated analysis that uses average historical returns.

Consider the Lost Decade [2000 to 2009]. The S&P 500 Index had a negative annual return of -.95% for the decade starting with the dot.com bubble and ending with the Global Financial Crisis [12/31/1999 to 12/31/2009]. To be fair, the measuring period for the decade started at very high valuation levels and ended at low levels. It was a very poor time period for portfolios significantly invested in the S&P 500 Index.

While a diversified portfolio of various equity categories [including mid/small cap, international and value], fixed income, and other assets may help mitigate against negative results from one index like the S&P 500 Index, a large allocation to any one category that produces poor results can still be quite harmful. While monitoring investment valuation is important to portfolio design and management, the level of concentration is also important. While valuations for the S&P 500 Index are lower today than during the start of the Lost Decade, the level of concentration among its largest companies and sectors is much higher today.

Exhibit 1 shows the concentration levels of the S&P 500 Index over the last two quarters, by company and industry. Our purpose in providing this information is not to suggest the S&P 500 Index is an over-valued or inappropriate investment. We make that determination for each client, based on their Investment Strategy. However, it is worth noting that the S&P 500 Index has become more akin to a large cap technology stock fund. As a result, we evaluate its appropriateness based on its underlying components and other key facts.

Exhibit 1 **Ten Largest Stock Weights in the S&P 500 Index**

Company	Weight % [9/30/25]	Weight % [6/30/25]	Company	Weight % [9/30/25]	Weight % [6/30/25]
Nvidia	8.00%	7.32%	Broadcom	2.72%	2.46%
Microsoft	6.75%	7.03%	Alphabet/A	2.48%	1.95%
Apple	6.62%	5.82%	Tesla	2.19%	1.69%
Amazon	3.73%	3.94%	Alphabet/C	1.99%	1.58%
Meta	2.79%	3.05%	Berkshire Hathaway/B	1.62%	1.69%
Total: Stocks 1-5	**27.89%**	**27.16%**	**Total: Stocks 6-10**	**11.00%**	**9.37%**

- The top five stocks were 27.89% of the S&P 500 Index market value at the end of the 3rd Quarter.
- The top ten stocks were 38.89% of the S&P 500 Index market value at the of the 3rd Quarter, up from 30.5% on 6/30/23, [nearly two and a half years ago] and 21.0% on 12/31/18 [nearly seven years ago].
- Technology sector stocks were 35% of the S&P 500 Index market value at the end of the 3rd Quarter.
- Amazon, Meta, Tesla and Alphabet are not in the S&P 500 technology sector but are tied to technology heavily in their core businesses. Including these four stocks as part of the technology sector would raise the technology weight of the S&P 500 Index from 35% to over 46%, or nearly half of overall index market value.

Equity concentration can create greater opportunity but can also create greater risk. These largest stocks, on a combined basis, may cause longer-term portfolio returns to vary greatly from a client's required and desired returns to meet their needs. This variation could be to the upside, as with the last fifteen years. But as to the downside potential, and the impact on future withdrawal potential, it is a risk worth monitoring.

Concentration Does Not Equate to Poor Performance. Our purpose in pointing out the current level of concentration in the S&P 500 Index is not to suggest we are in a similar environment as the internet/tech stock bubble of 1999 to 2000. But the lesson from that time is to be careful not to own too much of the most popular, expensive stocks. During the Lost Decade [2000 to 2009], the S&P 500 Index had:

- negative cumulative performance of -37.6% over the three years from 2000 to 2002
- negative annualized performance of -.95% per year over the ten years from 2000 to 2009
- four calendar years with negative, double digit price declines [-38.5% in 2008, -23.4% in 2002, -13.0% in 2001, and -10.1% in 2000].

Bottom Line: It is important to identify and mitigate the risks [especially "uncompensated risks" discussed in a later article] that can prevent achievement of required portfolio returns to cover withdrawal rates, taxes, portfolio expenses, and inflation. This includes the risk from excessive concentration in one or more investment categories, whether for an individual, company, or a trust.

INVESTMENT INSIGHTS: RESEARCH

Porters Five Forces [Competitive Advantage] in an AI Era: Back to Basics

In 1980, Professor Michael Porter published a seminal book on business strategy; "*Competitive Strategy, Techniques for Analyzing Industries and Competitors*". While change is a constant in business, the rapid rise of disruptive companies and fall of established companies from technological change including AI, is eye opening.

From Amazon to New Disruptive Trends, Including AI**.** A decade ago, Warren Buffett said that nearly every business and investing decision must consider the impact of Amazon, among other disruptive trends. Today, the issue goes well beyond Amazon, as even it faces competitive threats from technological change and AI:

> "The effect, I would say just of Amazon, but [also] others that are playing the same game,…the full effect on industry is far from having been seen. I mean it [Amazon] is a big, big force and it will/already has disrupted plenty of people and it will disrupt more. We don't make any decision involving the manufacturing of goods, the retailing, whatever it is, without thinking long and hard about what the world will look like in 5, 10 or 20 years with that really, hugely powerful trend."
> Source: Warren Buffett, Berkshire Hathaway Annual Meeting 2016]

The Five Forces. We believe Porter's five forces are very important to consider in evaluating any public company, along with company management/governance, current valuation, and future return potential. Here are Porter's Five Forces of competitive strategy for industries and companies which are detailed in his book:

1. Threat of New Entrants
2. Bargaining Power of Buyers
3. Bargaining Power of Supplies
4. Threat of Substitute Products or Services
5. Rivalry Among Existing Firms

Bottom Line: In this new age of AI and rapidly changing technology, along with changing trade rules, geopolitical realities, and financial markets, Porter's Five Forces push us to keenly focus on whether a company has deep, sustainable competitive advantages. Often times, difficult to replicate assets are a key aspect. Needless to say, we spend much of our research time evaluating sustainable competitive advantages before we delve into an analysis of company management or the valuation of the company's securities. Given the large percentage certain companies comprise in certain index funds, the issue applies there as well.

Artificial Intelligence ["AI"], Semiconductors and Supply/Demand Balances

Most Equity Investors Own AI or Semiconductor Stocks - Directly or Indirectly. AI and semiconductor related stocks are front and center of the financial headlines. With the large amount of capital being allocated to data centers and advanced computing, there is immense interest in these sectors from the investing community as well. While investors may not own individual stocks, if they own equity mutual funds or index funds, they are likely invested in these technology related companies. Notably, an investor in the S&P 500 Index will have a significant allocation to AI, semiconductor and related technology stocks, as shown in Exhibit 1 of our article *Portfolio Strategy: Withdrawal Rate Risk.*

Insufficient Supply of Leading Edge Semiconductor Chips. There is growing concern over insufficient semiconductor manufacturing capacity for the leading edge chips, as to both advanced computing and memory, though there is still capacity for lower end or trailing chips. Already, we are seeing leading edge semiconductor purchasers request greater supply and certainty of future supply, with a willingness to enter into longer-term supply agreements to induce this greater chip supply and certainty.

The Long-Term Risk is Not the U.S. China Chip War. The key business risk to the chip designers, manufacturers, and the equipment suppliers long-term is not the clash of rules adopted between the U.S. and China – eventually chips need to be made somewhere. The key risk is losing their technology lead and sustainable competitive advantage. We monitor this closely. Also, in the short-term, demand trends can change quickly, and then inventories of chips build up and sales decline just as quickly. That is the nature of the semiconductor business and presents greater short-term risk than exists in many other industries.

Bottom Line: Whether the common stocks of semiconductor companies or their chip equipment suppliers are owned directly in a portfolio, or indirectly through an index or actively managed fund, their importance to the global economy is critical and growing; an area of immense investment significance.

TRUST INVESTING: UNCOMPENSATED RISK AND FRICTION

Investing for irrevocable trusts requires attention to a different set of standards than apply to a normal investor. As most estate planning attorneys know, various trust laws and the trust documents contain investment standards that must be recognized. Trustees are responsible for navigating these investment standards, although they may be able to delegate certain investment duties to qualified investment consultants, advisors, and managers.

Avoiding Uncompensated Risks

A key concept in the trust investment landscape is avoiding uncompensated risk. While state trust laws, trust documents, or case law may not use the term "uncompensated risk", that term is specifically used and discussed in various foundational trust investment standards of care. Excessive concentration in certain securities or assets can be a significant "uncompensated risk" for trusts.

Some trusts will own larger percentage holdings of securities due to their large unrealized gains. Prudent trust management is centered around having a prudent process in place to address various risks. At Miller Capital, when we serve as a trust investment advisor, we pay close attention to the risk of concentration. Usually, we operate pursuant to a written Investment Strategy adopted by the trustee that guides this issue. However, we also use our own approach in monitoring concentrated holdings, especially for highly appreciated assets.

Evaluating Future Return Estimates and Associated Taxes. For the assets under our advisement, we have a future return estimate based on our own appraisal analysis. If the future return estimate is below average, and can be improved by a sale and reinvestment into a more diversified set of replacement investments, we consider the merits of this change on an after-tax basis. For example, if the future return of a highly appreciated asset is 5% per year, and the sale would generate a capital gain tax of 30% [roughly 3% per year over ten years], then over a ten year period the replacement asset must earn 8% per year to equal the sold asset. There are often non-tax benefits of reducing risk from a concentrated trust asset as well.

Actively Monitoring Uncompensated Risk. If a trust has a single security worth 10% to 15% or more of equity value or total trust value, it is important to have a process in place to actively evaluate a potential sale. In our view, the proper process would be to actively evaluate the future return estimate of replacement assets, after also considering the tax payable upon sale. It could be continued holding of the concentrated asset is prudent, but it requires a high level of analysis to justify that position. A large number of trust lawsuits involve this issue of holding a large, concentrated trust asset and whether continued ownership was an "uncompensated risk".

Avoiding Friction

Trustees have a duty to prudently manage trusts, including keeping taxes and expenses at reasonable levels. As discussed in the previous section, there are times when assets must be sold and taxes paid to improve longer-term returns or to reduce excessive risk. Also, trust expenses should be reasonable in relation to trust goals and operations, to support trust financial results for the benefit of the beneficiaries. Trust expenses can include tax preparation fees, trust accounting costs, investment advisory fees, and the investment management fees charged on or within certain investment securities and assets, including private assets such as real estate, private equity and venture capital.

Knowing Your Number. The term "friction" is often used at our firm to describe the detractors from trust financial performance. This concept originally came to us from Robert H. Jeffrey, author of many academic papers on trust and investment management. In business, it is often said that you should "know your numbers". The same is true for trustees in that they should know their key numbers, including investment performance metrics, trust tax cost and investment expenses, and various other financial numbers Investment advisors and managers should readily provide trustees with investment related management fees upon request, both direct and indirect, so they can "know their number".

Key Points:

- Serving as a trustee is a high calling. As most trust and estate attorneys will confirm, having a prudent investment process, in design, implementation and monitoring, is important in managing trust assets.
- Avoiding uncompensated risk and unnecessary friction are key standards to test as a trustee.
- Effective delegation to a qualified trust investment advisor can be beneficial to a trustee in their fiduciary duty. The trust investment advisor should have rigorous investment processes and clear investment reporting for trustees to confidently and effectively carry out their ultimate duty to oversee all trust duties, including supervising trust investment advisors.
- We have decades of experience serving as a trust investment advisor and know the high calling trustees have on behalf of trusts and trust beneficiaries.

WEALTH TRANSFER INVESTING: GETTING TO THE GRAT

The Grantor Retained Annuity Trust [GRAT] is a strategy for wealthier clients to transfer assets to younger generations, with gift/estate tax efficiency. GRATs can be used to transfer a wide variety of assets, including both public and private equity. While GRATs are more advantageous when the relevant IRS interest rate [known as the "Section 7520 Rate"] is low, most important is the potential for the transferred asset[s] to outperform the Section 7520 Rate.

Candidates for GRATs

The use of a GRAT should be led by a client's attorney and tax advisor because of the legal and tax issues that must be considered before, during and after implementing such a strategy. Generally speaking, the GRAT strategy is used by clients with substantial assets that could be subject to estate tax at death, providing the opportunity for a GRAT to achieve estate tax benefits through a lifetime transfer. There are many simple wealth transfer strategies that can be used before getting to the GRAT, but the GRAT has tremendous appeal.

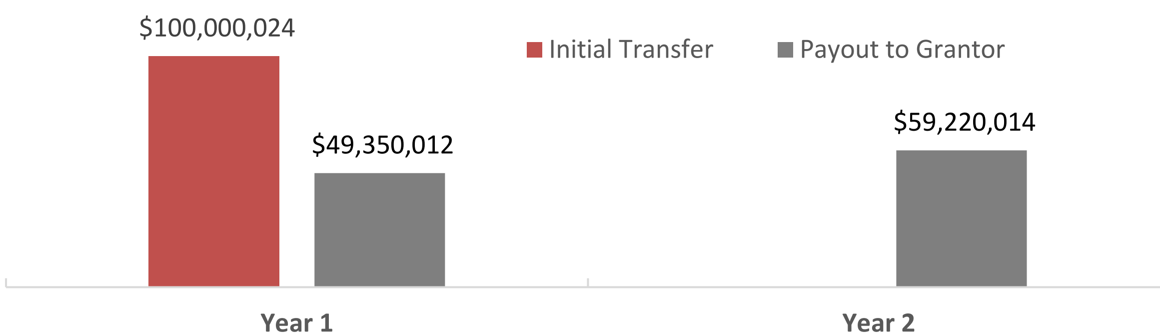
GRAT in a Nutshell

One of the most famous GRATs was established by Audrey Walton, wife of Walmart co-founder James "Bud" Walton, and sister-in-law of the more famous Walmart co-founder, Sam Walton. The Walton GRAT received notoriety not only due to the famous last name of the creator, but because the U.S. Tax Court approved its structure over the objections of the IRS. [*Walton vs. Commissioner*, 15 T.C. No. 41 (2000)]. As a result of the Walton case, it is widely recognized that a GRAT term can be as short as two years, providing greater opportunities to achieve wealth transfers efficiently, relative to the gift and estate tax code.

A GRAT, using the Walton GRAT as an example, involves transferring assets to an Irrevocable Trust, while the grantor of the trust retained the right to a payout over a set period of time. In the Walton GRAT:

- The asset transferred to the GRAT was Walmart common stock valued at $100,000,024.
- The annuity payout was 49.35% of initial asset value for year one, and 59.22% for year two.
- After two years, the remaining GRAT assets, if any, were payable to trusts for the grantor's children.

Exhibit 2: The Walton GRAT



- The value of the gift was quite small relevant to the value of the initial transfer of stock into the GRAT because of the large payouts to the grantor, calculated using the required Section 7520 Rate.
- The GRAT was structured with a term of years that the grantor was expected to survive, to prevent the GRAT assets from being included in the grantor's estate.

- The GRAT goal was for the GRAT assets to exceed the payouts back to the grantor. The remaining GRAT assets at the end of the term would represent a successful wealth transfer to grantor's children.
- Walmart stock underperformed the Section 7520 Rate, so this GRAT did not accomplish its goal.
- The grantor used numerous GRATs to increase the chances of success. Various investment strategies can be used beyond the use of one asset, and holding the asset for the entire GRAT term.

GRAT Investment Strategy

The GRAT goal is for the GRAT assets to outperform the Section 7520 Rate. Various investment strategies can be employed in selecting the initial assets transferred to the GRAT and managing the GRAT asset[s] for outperformance of the Section 7520 Rate during the GRAT term. By using multiple GRATs, a wider variety of assets and attempts can be made to achieve a successful result.

Key Points:

- GRATs can be utilized to achieve wealth transfers tax effectively.
- Legal counsel can best determine whether a GRAT can be effectively implemented for wealthier clients to achieve wealth transfer and estate planning goals.
- If the Section 7520 Rate moves lower, GRATs become more attractive as to the potential tax savings. However, the ability of the GRAT assets to outperform this Section 7520 rate is most important.
- Investing strategies must be carefully tailored and monitored to increase the potential GRAT success.

ABOUT MILLER CAPITAL

- Miller Capital was established in 1999 and is independently owned and operated.
- We are a Registered Investment Advisor.
- We offer both investment management and investment consulting services.
- We represent individuals, private trusts [serving individual and corporate trustees], businesses and investment partnerships/companies.