Murphy was an optimist.

O'Toole's Commentary on Murphy's Law (after 1949)

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Firm AUM (12/31/25)

$3.466 Billion

Edward A. Murphy, Jr. (1918-90) may very well hold the unique distinction of being largely anonymous, while at the same time being one of the most quoted people of the modern era. He's managed to carve out this particular patch of historical territory thanks to a single on-the-job utterance. Murphy certainly never set out to become a famous philosopher; a graduating member of the West Point class of 1940, he received Army Air Corps training in 1941 before serving in the Pacific Theater of World War II. Following the war, he joined the newly formed Air Force as an R&D engineer, assigned to work on Project MX981, testing high-speed rocket sleds. In the course of one of these tests, the sensors used to monitor the impact of g-forces on the body during rapid deceleration failed to pick up any of their required readings. Murphy was stunned. This was impossible. He'd designed the system. He'd checked everything. He personally inspected the harness before the test. He examined the sensors more carefully. He discovered that a technician had wired every single sensor backwards. All sixteen of them. The sensors had only two possible orientations, right or wrong, positive or negative. A 50/50 chance on each one. The technician had somehow managed to install all sixteen incorrectly. This discovery led to Murphy's famous observation: *If there are two ways to do something, and one of those ways will result in disaster, he'll do it that way*. This was soon publicized by his superior, sled "pilot" John Stapp, MD, in a press conference, thus establishing Murphy's legacy. It was meant as a sober reminder to engineers: if you don't plan for the wrong outcome, reality will gladly supply it. Others found the remark amusing, simplified it, and sent it out into the world as Murphy's Law, where it promptly abandoned engineering and took up residence in daily life. Murphy supplied only the discipline, and the uncomfortable truth that the universe doesn't hate you, it just assumes that you skipped the checklist. Captain Murphy was not trying to be funny; he was trying to be right. Stripped of its engineering intent and repackaged for everyday life, that rigorous insistence on planning for error escaped the test track and became a wry reminder that the universe favors preparation, and punishes complacency with exquisite timing. The remark wasn't a curse on humanity so much as a design principle: anticipate failure, because humanwill always discover it first. What the public remembers as cosmic mischief was, in Murphy's mind, merely poor preparation meeting reality on schedule.

Key Market Levels	12.31.25	12.31.24	12.31.23
S&P 500	6,845	5,880	4,770
Dow Jones Industrial Average	48,063	42,544	37,690
NASDAQ	23,242	19,311	15,011
S&P 500 Dividend Yield	1.15%	1.22%	1.42%
S&P 500 Trailing 4 Quarter P/E	27.6	27.0	21.9

Source: FactSet

Applied to investing, Murphy's discipline argues for diversification, margin of liquidity, and humility: assume mistakes will happen, prices will move irrationally, and your worst moment will arrive precisely when you are least prepared. In other words, the market does not hate you, it simply assumes that you skipped the checklist. The stock market, as it turns out, operates under a remarkably familiar construct. Investors are forever declaring certain outcomes "priced in," risks "contained," and strategies "fail-safe," usually moments before markets demonstrate otherwise. Just as Murphy designed systems that survived human error, successful investing depends less on brilliant forecasts than on resilient structures: *diversification* for when convictions prove wrong, *liquidity* for when timing betrays you, and *humility* for when markets behave badly longer than expected. Murphy's Law in Finance is not a curse but a counsel; assume mistakes will occur, volatility will arrive uninvited, and your best ideas will be tested at the worst possible moment. The investor who plans for that reality is not pessimistic; like Murphy, he is simply disciplined enough to anticipate the arrival of reality.

As we look back at the year just ended, we admit to having displayed our inner Murphy on a range of subjects. In the 1st quarter, we reviewed the likely negative impacts on the economy, corporate earnings and consumer confidence from the imposition of a new *tariff regime*, using the Smoot-Hawley experience of the 1930s as our guide. Our 2nd quarter piece was written close to the end of a swift bear-market decline, which suggested that *vague uncertainty*, manifest in tariff-inspired *inflation* and declining consumer *confidence,* would need to be overcome. By the 3rd quarter, we focused on the market's surprising rebound in the face of vague uncertainty that had developed into *known certainty* and credited the Federal Reserve's *indefatigable vigilance* with the market's success. Our 4th quarter piece reviewed the resilience of *corporate earnings* and reiterated our belief that in the final analysis, earnings drive the market. Despite the emergence of AI as a theme, throughout, we expressed discontent with the extreme concentration of the market in a handful of technology stocks. We cautioned that we remained skeptical on your behalf. Captain Murphy would have been proud.

For as long as we can remember, market strategists have published a "top-down" earnings estimate for the S&P 500. At the beginning of the year, these estimates tend to reflect a mathematically *convenient*, but analytically *suspect* consensus of 10% growth. *Reality* usually has other plans. Over the course of the year, we typically witness a downward revision to this single point estimate as "bottoms-up" earnings results reveal the overly optimistic bent of the initial forecast. The notable occurrence in 2025 was that not only did earnings estimates start the year at 10%, but they ended the year up 12%. We have often noted that stocks track earnings.

Earnings growth in 2025 was strong as consumer and business *spending* remained robust, despite ample cause for retrenchment in the face of *uncertainty*. Moreover, the technology sector, whose earnings represented some 68% of S&P 500 total earnings, remained intact. The story is driven by AI; the amount of self-dealing amongst a handful of companies is somewhat noisome, but for the moment, earnings came through. Another factor, rarely mentioned, is that the *weakness* in the *dollar* driven by the tariff uncertainty helped US multinationals; in the market-capitalization-weighted S&P 500, the largest companies, which often have significant international operations, skew the aggregate index exposure towards reporting higher foreign revenue.

What was most striking about 2025 was not just the strength of earnings, but the market's growing confidence that this strength will continue indefinitely. Indeed, initial expectations for 2026 suggest S&P 500 earnings rising 15%. Murphy would remind us that when things look most *predictable*, that's usually when reality sharpens its pencil. Earnings can keep growing, but disciplined investors assume a few surprises are always waiting in the wings, especially if the *consensus* is calling for acceleration after several years of solid growth.

Tariff uncertainty, we observe, never quite delivered the disaster many feared. The rhetoric was loud, but the reality was often quieter. Tariffs were delayed, narrowed, or softened through exemptions and negotiations, giving companies time to adjust supply chains and pricing. *Corporate earnings* remained resilient, supported by solid margins, pricing power, and continued consumer spending. As long as profits were rising, investors were willing to look past the noise. After several rounds of tariff threats that didn't end in catastrophe, investors grew comfortable, perhaps a little too comfortable, with the idea that uncertainty would resolve itself. We remain concerned that the reason that inflation has not come down further is because of the *marginal impact* of tariffs on producer and consumer prices.

The Federal Reserve is playing a difficult role by its stoic and unbiased weighing of the risks of inflation and employment, as is its charter. We are very certain that the Fed has repeatedly announced that it is moving towards a *neutral* rate, one that neither *stimulates* nor *retards* economic growth. We are equally certain that the punditry has not heard this and is expecting the Fed to be moving on a path towards *accommodation* that is very likely uncalled for given the underlying strength in the economy, evidenced by the earnings growth noted. The independent operation of the Fed is about to become politicized in a manner that has not been seen since Nixon replaced William McChesney Martin with Arthur Burns. We expect that there will be some back and forth about the timing and extent of future *rate cuts*. But we caution that eventually the economy may get into trouble, and we would be far better off not depleting the Fed's arsenal of *monetary options* just for show.

Those readers who love numbers may be familiar with the concept of *regression to the mean*. The one-hundred-year compound return for large cap equities is 10.4%. The last twenty years have registered a 10.9% return, in line with expectations. The five-year return is 14.4% and the three-year return stands at 22.9%. These recent elevated returns do suggest some vulnerability ahead, not necessarily in terms of a sell-off, but perhaps in terms of more modest expected returns going forward. The market P/E of 22 times forward earnings is sufficiently above the long-term trend of 17 times that it warrants some note. Stocks don't collapse because of *high prices*, but high prices make stocks more *vulnerable* to disappointment.

The top ten stocks in the S&P 500 make up some 40% of the index. And that brings us back to *complacency*. It shows up in extreme market *concentration*, in the belief that today's leaders will always lead, and in the assumption that macro uncertainty will always end happily. The Fed remains cautious, making it clear that restrictive policy will stay in place until inflation is convincingly subdued. Markets reward participation, but they have little patience for overconfidence. Murphy's Law isn't a prediction of doom; it's a reminder to plan for what can go wrong. Staying *invested* is essential, but staying alert is just as important. *Diversification*, *realistic expectations*, and a healthy *respect for uncertainty* aren't pessimism, they're simply good engineering.

Laurence R. Golding, Managing Director, January 15, 2026

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