



**The Bottom Line – Q4 2025**



# THE BOTTOM LINE

FOURTH QUARTER : 2025



## DEFENSIVE DRIVING

BY JEREMY I. BECK

Over the past couple of months, it's been a memorable time in the Beck household, as our youngest son, Sawyer, received his driver's permit on his 16th birthday. If you know Sawyer, you know he's the type who moves from point A to point B with full enthusiasm, and sometimes, full speed. His experience zipping through our neighborhood in a golf cart, making sharp turns on his way to the fishing pond, has made the transition to driving a full-sized vehicle... enlightening, to say the least.

One lesson I'm particularly focused on teaching him is the principle of defensive driving. I'm not asking him to crawl along at 20 mph in a 30 mph zone. Instead, I'm encouraging him to maintain the appropriate

### BUFFALO FINANCIAL QUARTERLY NEWSLETTER

#### TABLE OF CONTENTS

**Defensive Driving P. 2 - 5**

**Fixed Income Update:  
Q4 2025 P. 6 - 8**

**New Features • P. 9 - 10**

**529 Plans • P. 11**

**Tax-Loss Harvesting: P. 12**

**Our Partner  
P. 13**

## DEFENSIVE DRIVING - CONT'D

speed while being mindful of what's ahead, lifting his foot off the accelerator and hovering it over the brake when approaching a blind curve or crest in the road. This same principle, proactive caution, applies remarkably well to today's financial markets.

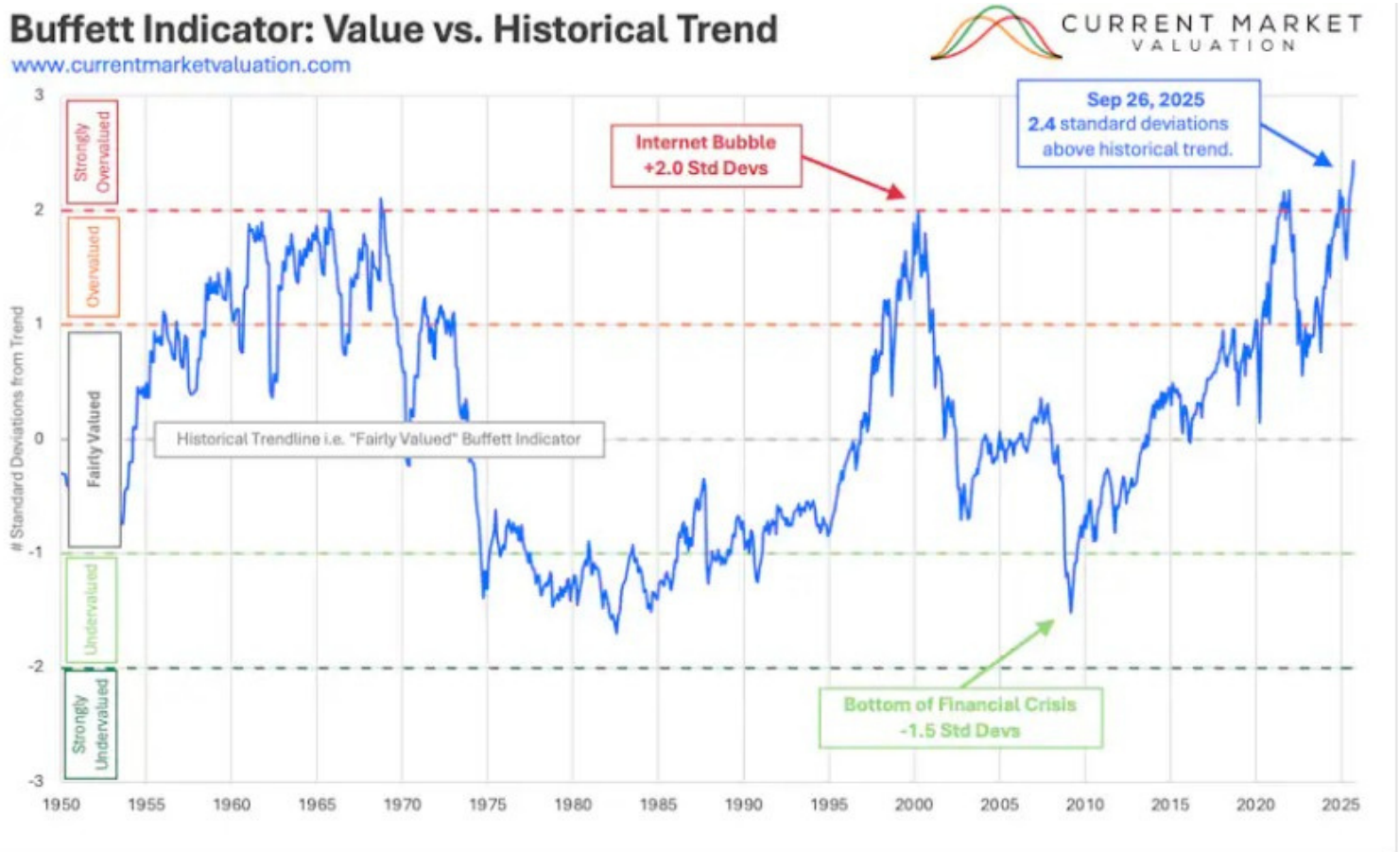
### Market Conditions: The Road Ahead Looks Uncertain

Just as a young driver must prepare for the unexpected, investors today must navigate a market landscape filled with potential hazards: geopolitical tensions, ongoing conflicts in Gaza and Ukraine, political polarization at home, slowing economic growth, and persistent inflationary pressures. These concerns are especially alarming given that we are operating in one of the most expensive market environments in history. Let's explore several key valuation metrics that highlight the need for caution.

#### 1. The Buffett Indicator: Flashing Red

Popularized by Warren Buffett, this metric compares the total market capitalization of U.S. public companies to Gross Domestic Product (GDP). Historically, when the market's value far exceeds GDP, it's a warning sign. As shown in Figure 1, the Buffett Indicator is currently tracking at 2.6 standard deviations above trend—higher than even the peak of the dot-com bubble in 2000 (which reached 2.0 standard deviations). That's a significant red flag.

Figure 1: Buffett Indicator

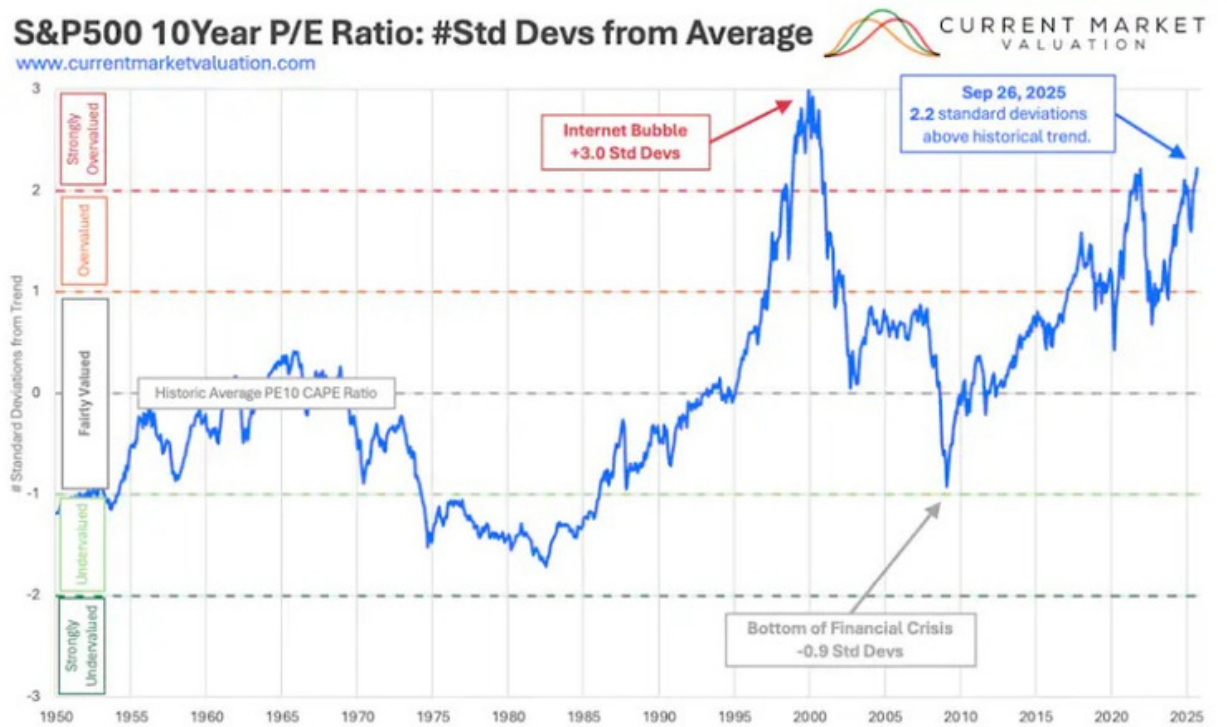


## DEFENSIVE DRIVING - CONT'D

### 2. P/E Ratio: Well Above Historical Averages

The classic Price-to-Earnings (P/E) ratio for the S&P 500 stands at 27.33 as of September 30, 2025, well above the historical average of 18.5. This places it 2.2 standard deviations over trend (**see Figure 2**). While we haven't reached the speculative extremes of the early 2000s, we are certainly in richly valued territory.

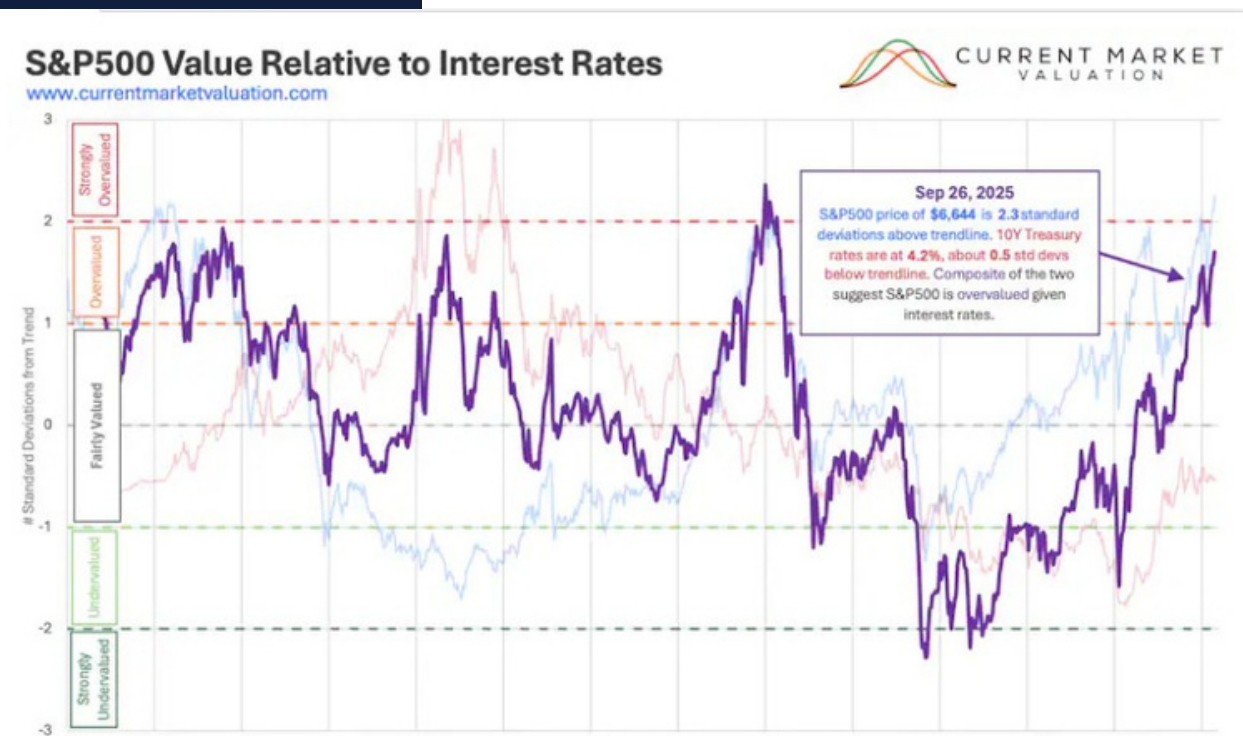
Figure 2: S&P 500 P/E Ratio



### 3. Equities vs. Interest Rates: Limited Alternatives

As interest rates gradually rise from historic lows, traditional low-risk investments (like bonds) still offer limited returns. This has funneled more capital into equities, driving higher valuations. Figure 3 shows that the current spread between stock valuations and interest rates is 2.3 standard deviations above trend, another indicator of overvaluation.

Figure 3: S&P 500 vs. Interest Rates



## DEFENSIVE DRIVING - CONT'D

### 4. The CAPE Shiller Ratio: In Rarefied Air

The Cyclically Adjusted Price-to-Earnings (CAPE) ratio, developed by economist Robert Shiller, factors inflation-adjusted earnings into long-term market analysis. Higher CAPE ratios typically forecast lower long-term returns. As illustrated in Figure 4, the current CAPE is at its second-highest level ever, confirming we are in elevated territory.

Figure 4: CAPE Shiller Ratio



Source: [www.gurufocus.com/economic\\_indicators/56/sp-500-shiller-cape-ratio](http://www.gurufocus.com/economic_indicators/56/sp-500-shiller-cape-ratio)

### How to Respond: Don't Slam the Brakes, But Ease Off the Gas

When equity markets are stretched, the prudent move may be to rebalance your portfolio rather than try to time the market. For example, if your target equity allocation is 65% but recent market gains have lifted it to 77%, it could be wise to trim back and realign with your target.

Just like I advise Sawyer not to accelerate over every hill, I encourage investors to adopt a more defensive posture. Keep your foot near the brake, not because danger is guaranteed, but because the fog is thick and visibility is low.

All the best,

*Jeremy I. Beck*

Jeremy I. Beck  
CEO, Buffalo Financial  
Financial Advisor, RJFS

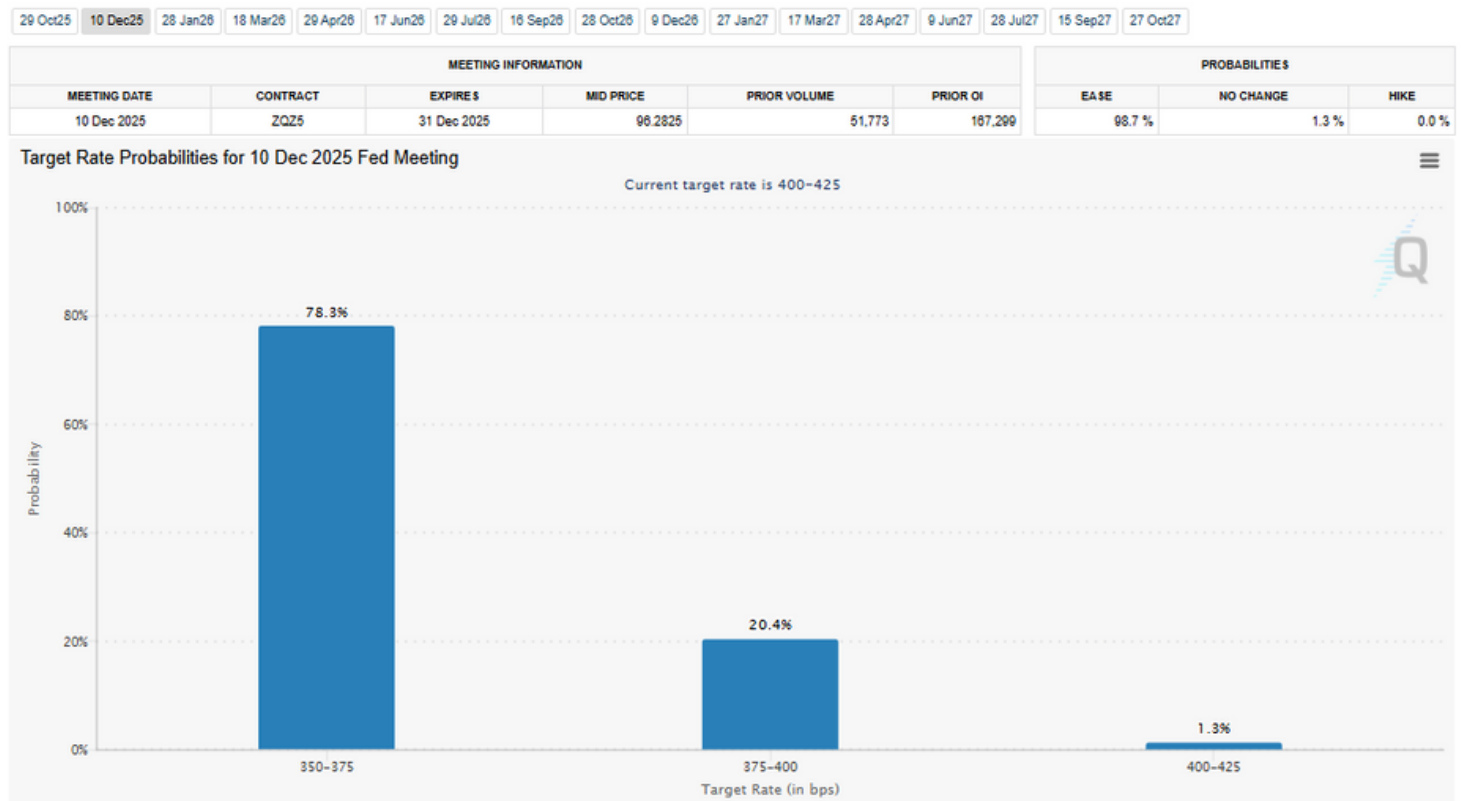
# FIXED INCOME UPDATE - Q4 2025

BY MATTHEW J. PITROLA

## How Has the Bond Market Historically Performed Following the End of Federal Reserve Rate-Hike Cycles, Particularly During Subsequent Rate Cuts?

On September 17<sup>th</sup>, 2025, the Federal Reserve's Open Market Committee approved a .25% cut in the Effective Federal Funds Rate. This decision was not unanimous, as there was one dissenter in favor of a .50% cut at this meeting. This marks a turning point for the Federal Reserve, which has been on pause since December of 2024. The consensus is currently leaning towards two interest rate cuts over the remaining months of 2025, indicated by the CME Fed Watch Tool. But Jerome Powell indicated that this is not set in stone, and rate cuts will be determined on a meeting-by-meeting basis.

**Figure One: CME Fed Watch Tool Interest Rate Cut Probabilities as of 09/30/2025**



Source: [www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html](http://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html)

With the Federal Reserve once again shifting its policy trajectory, an important question arises: How has the bond market historically performed in past post-pause rate-cutting cycles?

A recent analysis published by Franklin Templeton provides valuable insights. Looking specifically at U.S. Treasuries, the data shows an average 12-month return of 6% following a rate cut that came after a pause of 120 days or more. Historically, Treasury prices were higher 75% of the time one year after such cuts.

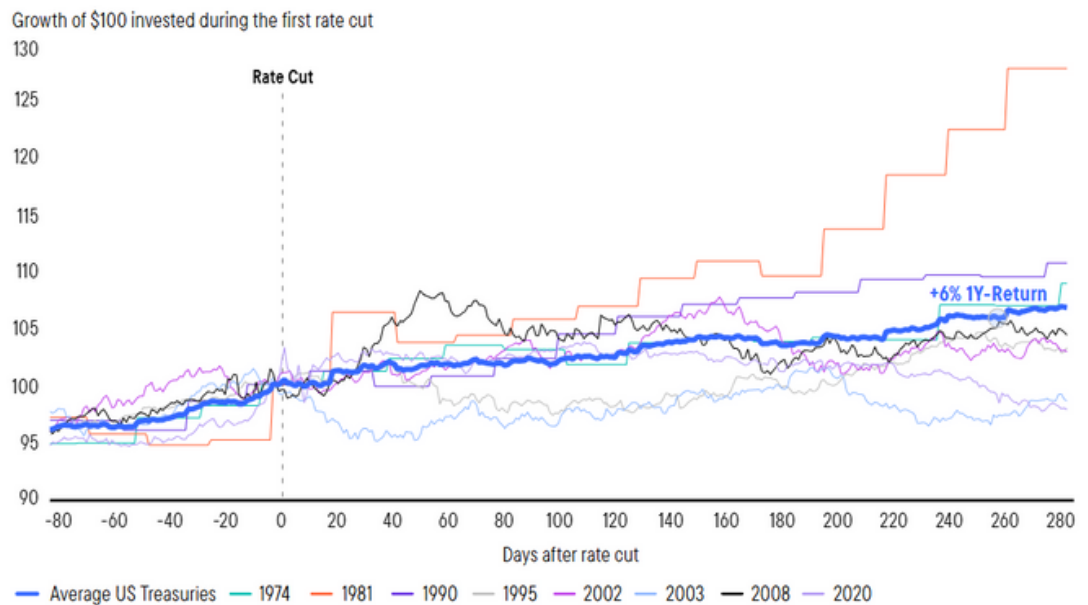
However, it's important to note the wide range of outcomes, with historical returns ranging from +24% on the high end to -3.5% on the low end.

# FIXED INCOME UPDATE – Q4 2025

**Figure Two: Treasury Bond Returns 12 Months Post Rate Cut After a Pause of 120 Days or More**

**Exhibit 10: US Treasuries Have Averaged 6% Gains One Year after Post-Pause Cuts**

**Growth of US\$100 Invested during the First Rate Cut**



Source: Macrobond. Analysis by Franklin Templeton Institute. Data as of August 2025. Pause dates: December 6, 1974; November 2, 1981; July 13, 1990; December 19, 1995; November 6, 2002; June 25, 2003; October 8, 2008; March 4, 2020. **Past performance is not an indicator or a guarantee of future results.**

US Corporate bonds have also shown a similar trajectory, with an average return of 8% and being higher in all time periods with exception to one.

**Figure Three: Corporate Bond Returns 12 Months Post Rate Cut After a Pause of 120 Days or More**

**Exhibit 11: US Corporates Have Averaged 8% Gains One Year after Post-Pause Cuts**

**Growth of US\$100 Invested during the First Rate Cut**



Sources: Bloomberg and Macrobond. Analysis by Franklin Templeton Institute. Data as of August 2025. Data starts in 1976. Pause dates: November 2, 1981; July 13, 1990; December 19, 1995; November 6, 2002; June 25, 2003; October 8, 2008; March 4, 2020. **Past performance is not an indicator or a guarantee of future results.**

# FIXED INCOME UPDATE - Q4 2025

This data presents a compelling case for the potential of another year marked by declining interest rates and attractive risk/reward opportunities in the fixed income market. However, it's important to consider what factors could challenge this outlook. We believe there are several key considerations investors should keep in mind:

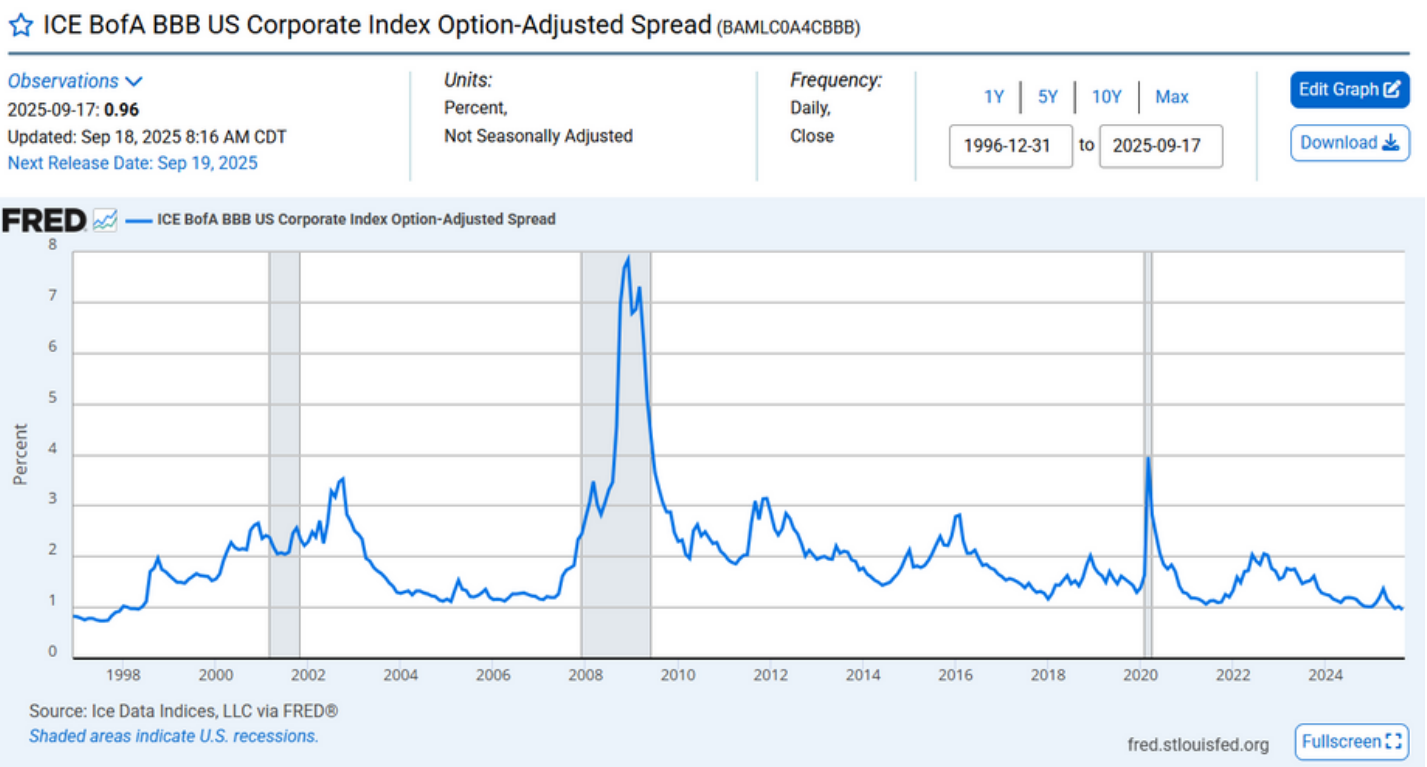
## Inflation prospects rise more than expectations:

The Federal Open Market Committee does not provide inflation forecasts, but they have noted that sticky inflation above their 2% target has been a concern. They have also acknowledged that there could be supply chain shocks along the way as tariffs continue to evolve and work their way through the economy. Although not our base case, a resurgence of inflation at any point over the next several quarters could unsettle investors and place upward pressure on interest rates. Such a development would likely weigh on fixed-income returns in the near term.

## Growth Score:

Should growth weaken, U.S. credit spreads, which are currently near historically tight levels and reflective of prevailing optimism about the economy, could begin widening. Such a shift would present considerable downside risk for corporate bonds.

**Figure Four: Investment Grade Corporate Bond Spreads**



## Summary:

The risk-reward profile in fixed income markets appears favorable as we enter the final quarter of 2025. A Federal Reserve that is now back on the interest rate cutting path benefits investors who can stay the course and continue to hold their positions while interest rates move lower. We still feel that underweighting high-yield bonds, given the tight spreads in the credit markets, makes sense. However, if a lack of confidence in growth causes a fear-driven pullback, we could consider this an opportunity to add more credit to your allocation.

Happy Fall!

Matthew J. Pitrola  
President, Buffalo Financial  
Financial Advisor, RJFS

# NEW TOOLS AND FEATURES NOW AVAILABLE

BY JACOB WOOD

We're pleased to share that, as of July 2025, Buffalo Financial has officially joined forces with Raymond James. Now that the transition is complete, we want to extend our sincere gratitude to all of you for your support and patience throughout the process, as it played a key role in making the shift as smooth and seamless as possible. With this transition, we're excited to introduce several enhanced features now available to you, including:

- No transaction fees in managed accounts
- Mobile check deposit
- Access to the Vault for secure document storage
- Expanded resources through our in-house research team

We look forward to continuing to serve you with these new capabilities and the added strength of Raymond James behind us.

## Transaction Fees in Managed Accounts

There are no longer any fees that can range from \$5 to \$35 per transaction or trade within your account. One of the key benefits of our move to Raymond James is the ability to offer no transaction fees for all managed accounts. This means you can make adjustments to your portfolio, whether it's buying, selling, or rebalancing, without worrying about incurring extra costs. Secondly, all managed retirement accounts will no longer be subject to the IRA maintenance fee every November. It ensures that more of your money stays invested and working toward your goals. This is a significant enhancement to our service, and we're excited for you to take advantage of it.

## Mobile Deposit and Bill Pay

Mobile Check Deposit lets you securely deposit checks into your investment account using the camera on your smartphone or tablet. No trip to the bank or our office is needed! Secondly, for accounts with bank instructions on file, you can move funds directly from your bank account to your investment account through Client Access. Phone calls are not required, and your advisor is automatically notified when a deposit is made. Lastly, our new "Bill Pay" feature allows you to pay bills without ever opening a checkbook or buying a stamp. You can send one-time or recurring payments to companies and private individuals. Raymond James will even save your information to make future transactions quicker and more convenient.

## The Vault

The vault is a secure and convenient file-sharing tool designed to help you stay organized and connected with your advisor. It is a feature of our new mobile app and website, Client Access. Making it easy to upload, store, and share important documents all in one place. Whether it's tax documents, wills, insurance policies, 401k statements or even copies of IDs, the vault keeps everything safe and accessible whenever you need it. It's protected by the same high-level security standards used across all Raymond James platforms, so you can trust that your personal information is well protected. To access the Vault, log in to Client Access and select 'Vault Viewer' in the mobile app, or click the 'Vault' tab when using the website. If you have any questions or need assistance, we are always here to help!



## NEW TOOLS AND FEATURES NOW AVAILABLE

### Equity Research

One of the most exciting resources now available to us is our in-house Equity Research team. This nationally recognized team of 60 analysts provides insightful analysis and timely recommendations across nearly 1,200 stocks spanning ten industries. Having direct access to these experts is incredibly valuable, as it allows us to stay ahead of market trends and make well-informed decisions for your portfolio. Although we have had access to numerous research packages over time, we have never before had the ability to speak directly with analysts to discuss their ideas on individual stocks. Plus, all of their detailed research reports are conveniently available to you anytime through Client Access, so you can review their insights at your discretion.

This is just the beginning, and we are thrilled to embark on this exciting new chapter for Buffalo Financial. We believe this transition will prove to be one of the best decisions we have made as a firm, and we are all excited to continue to take advantage of all the new features available to us here at Raymond James. As always, if you have any questions regarding the above, you can contact me directly.

All the best,

Jacob Wood  
Vice President, Buffalo Financial  
Financial Advisor, RJFS



## 529 PLANS

BY TYLER SACCO

As tuition continues to climb, paying for postsecondary education is a battle that can last for decades. While you may have your degree after you graduate, odds are you probably have some student loans too. In 2025, the outstanding federal student loan balance is over \$1.6 trillion (Hanson, 2025). On average, not including private lenders, those pursuing a degree will leave college with \$39,075 in debt and a 20-year time frame to pay it off (Hanson, 2025). These numbers rise when you factor in private loan providers.

One way to assist in paying down loans or possibly even avoiding them entirely is a 529 college savings plan. These accounts are typically opened and funded by a parent or grandparent of a child. Similar to a Roth IRA, funds that are invested can grow tax-deferred, and once it comes time to pay for school, as long as the distributions are being used for qualified education expenses, no tax is due on the withdrawal. The term qualified education expense is quite vague, but it covers a lot of the major expenses that are associated with attending college. Things such as tuition, room and board, books and supplies all qualify. You can even use up to a lifetime limit of \$10,000 to pay off student loans with 529 funds.

If you are concerned that your child may not go to college, there are some other alternatives that 529 plans can be used for that are still considered qualified education expenses:

- You can use up to \$10,000 per year to pay for private school tuition.
- Certain apprenticeship programs.
- You can convert up to \$35,000 tax and penalty-free into a beneficiary Roth IRA if you meet certain requirements.
- If the designated beneficiary has siblings going to college, you can change the beneficiary of the account.



Hanson, Melanie. "Student Loan Debt Statistics" EducationData.org, 2025-08-08, <https://educationdata.org/student-loan-debt-statistics>

Anyone who would like to help a child save for college can contribute to their 529 plan. Limits on contributions follow the annual gift tax exemption amount. This is the amount of money you can give an individual each year before incurring potential tax liabilities. For 2025, the limit is \$19,000 if you are single or \$38,000 if you are married. You may also frontload five years of contributions in one single year; however, you would not be able to contribute to this 529 plan for five years afterwards. This means that if you are single, for 2025, you can make a contribution of \$95,000, and if you are married, the limit doubles to \$190,000. Additionally, some states offer tax benefits on contributions.

With the rising cost of education, covering expenses out of pocket can feel overwhelming. A 529 plan offers a practical solution, helping ensure that your child or grandchild can concentrate on earning their degree without the added stress of financing it. If you have questions about 529 plans or are interested in supporting a loved one's education, please contact our office. One of our advisors will be glad to assist you.

Go Bills!

Tyler Sacco

Vice President, Buffalo Financial

Registered Representative, RJFS

# CONSIDER TAX LOSS HARVESTING BEFORE YEAR-END

BY MATTHEW WOJCIK

As the final quarter of the calendar year approaches, so does everyone's favorite season — tax season. This could be a good time to revisit strategies that can help minimize your tax liability, one of which is tax-loss harvesting. This technique can be a valuable tool for reducing the amount you owe in April.

In essence, tax-loss harvesting involves selling securities at a loss to offset realized capital gains, and potentially even reduce taxable income. In non-tax-advantaged accounts (such as individual or joint brokerage accounts, trusts, or separately managed accounts), selling underperforming investments can reduce your net capital gains for the year, potentially lowering your tax bill.

If your capital losses equal your capital gains, you may eliminate your capital gains tax entirely. Additionally, if your losses exceed your gains, you can deduct up to \$3,000 from ordinary income (\$1,500 if married filing separately). Any losses beyond that can be carried forward to future tax years. While tax-loss harvesting can be effective, there are important considerations to keep in mind:

## Wash Sale Rule

The IRS's Wash Sale Rule disallows a capital loss if you repurchase the same or a "substantially identical" security within 30 days before or after the sale, in any account you or your spouse owns. Violating this rule means you lose the associated tax benefit.

## Cost Basis Accounting

If you have acquired the same security in multiple transactions over time, the cost basis can vary. Unless you specify otherwise, the IRS assumes a First-In, First-Out (FIFO) method for determining gains or losses, which may not be the most tax-efficient. Using the Specific Identification method allows you to choose which lots to sell and may result in a better tax outcome.

## Capital Gains Tax Rates

Your tax rate depends on how long you've held the asset, for example:

- Short-term capital gains are securities held for one year or less and are taxed at ordinary income tax rates, from 10-37%.
- Long-term capital gains are securities held for more than a year and are taxed at preferential rates, ranging from 0-20%, depending on your income.

Tax-loss harvesting can be an effective strategy to reduce your annual tax burden, but it's important to approach it within the context of your broader investment strategy. Make sure any decision to sell aligns with your long-term financial goals. Before making any moves, it's wise to consult with your financial advisor and tax professional to ensure the strategy is appropriate for your specific situation.

Kind Regards,

Matthew Wojcik  
Client Relationship Consultant

Helping reduce taxable exposure through tax-loss harvesting—an example

### Without tax-loss harvesting:

Gain from sale of Fund A = \$10,000



**Tax owed = \$3,700**

(Based on short-term capital gain at 37% top marginal rate)

For illustration purposes only.

### With tax-loss harvesting:

Gain from sale of Fund A = \$10,000

Loss from sale of Fund B = \$10,000



**Tax owed = \$0**



**Comparative tax savings  
= \$3,700**

Courtesy: John Hancock Investments

## Our Partner – Raymond James



**RAYMOND  
JAMES**

As most of you know, we recently completed the process of joining Raymond James Financial Services as our new broker-dealer. We are excited about the opportunities ahead and confident that Raymond James provides an ideal platform to serve our clients. Since its founding in 1962, the firm has maintained a strong tradition of exceptional client service.

First incorporated as Robert A. James Investments, founder Bob James set out to build a unique financial services company; one grounded in the principles of integrity, independence, and always placing clients' needs above all else. A few years later, the firm acquired Raymond and Associates upon Edward Raymond's retirement, and the firm became known as Raymond James and Associates.

Raymond James Financial Services now oversees more than \$1.5 trillion in client assets among all its subsidiaries, and has experienced 150 consecutive quarters of profitability, as of 6/30/2025. Raymond James serves clients of approximately 8,800 advisors throughout the United States and Canada.

Much has changed in the years since Bob James founded the firm, but their approach has remained steady: "...we believe if we do what's right for clients, we'll help them achieve success while also realizing our own." Just this year, J.D. Power has awarded Raymond James as #1 for advised investor satisfaction and most trusted. At Buffalo Financial, we hold the same principles, which is why we believe that Raymond James is the perfect fit for us.

*Disclosures: The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.*

*Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise.*

*529 plans come with fees and expenses, and there is a risk they may lose money or underperform. Most states offer their own 529 programs, which may provide benefits exclusively for their residents. Please consider whether the state plan offers any tax or other benefits. Tax implications can vary significantly from state to state.*

*Investing involves risk and you may incur a profit or loss regardless of strategy selected, including diversification and asset allocation. Every investor's situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Prior to making an investment decision, please consult with your financial advisor about your individual situation.*

*While we are familiar with the tax provisions of the issues presented herein, as Financial Advisors of RJFS, we are not qualified to render advice on tax or legal matters. You should discuss tax or legal matters with the appropriate professional.*

*The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation. Any opinions are those of the authors and not necessarily those of Raymond James.*

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