



## January 2025 – Risk: Dynamic, Not Static

**“A ship is safe in a harbor, but that’s not what ships are for.”  
– William G.T. Shedd, Theologian**

### Risk Profiles

The market had a very good year. In fact, the market has had two very good years in a row. Some assume that because of this we are overdue for a bad year. However, remember that a flipped coin coming up heads twice in a row has no bearing on whether the next toss will be heads or tails.

In every ten-year period, the market generally averages three down years and seven up years; thus, there is a seventy percent chance that 2025 will be an up year. Nevertheless, we know that stock valuations are at historically high levels. That, in of itself, should cause investors to be cautious. Does this mean people should take a harder look than normal at their risk strategy? As usual the answer is: “it all depends”.

People manage their money in various styles. There are speculators, growth investors, income seekers, and capital preservationists. This last type has two subgroups (1) those trying to keep up with inflation and (2) those hiding their money under a mattress. The mattress types and speculators should not use Callahan Advisors as their money manager – that’s not what we do.

Our clients almost always start out as growth investors. They have earned enough and saved enough to invest in a diversified group of stocks. However, over the years, their circumstances change. Their health may deteriorate, their spouse dies, they retire, their children grow up, and on and on. Additionally, we sometimes manage investments for family members who may be in completely different circumstances and require different goals.

Clients who have sufficient income and assets should remain as growth investors as historically very few asset categories have provided better returns than common stocks. However, when circumstances change, as they inevitably will, the realist will want to make changes to their strategy. For example, a person may know they have sufficient assets, but they may need to increase their cash flow. They may understand that dividends, interest income, and stocks sale proceeds are all sources of cash, but they may feel differently about each source.

Clients may dislike selling stock for tax reasons or for the simple fact they will then lower their stock allocation. Such investors generally will want to have income which continues to grow through rising dividends or interest income. Allocations to income-producing assets will depend on cash requirements and interest rates. Fixed income securities have become more attractive in recent years because the very low rates we have had for a decade are now history and are unlikely to come back anytime soon. Consequently, U.S. Treasury securities along with money market funds can be a good strategy for short-term needs. Other securities such as corporate bonds, municipal bonds and dividend-paying stocks can also provide growing sources of income and a chance to earn a real return on investments. Therefore, many investors will find a 60/40 allocation or some version thereof desirable. Tax avoidance and minimization, however, will always remain a priority and can make any allocation adjustments challenging in the short run.



Your expectations of us, or any financial advisor, is that we should always strive to minimize fluctuations from your goals and to monitor your investments continuously as well as communicate often. You can aid that process by advising us as circumstances change to ensure your investments stay in harmony.

As always, we are grateful for your trust in us and encourage you to let us know if you have any comments, questions or concerns. And may we all have a splendid 2025.

### **Cybersecurity Note**

Phishing, voice cloning, deepfakes – these are frightening words that are becoming a part of our daily lexicon. We continue to hear news about more and more sophisticated cybersecurity scams involving email, phone calls, and even text messaging.

Fraud has proliferated in recent years and we encourage clients to continue to exercise extreme caution whenever you provide your personal information. Our philosophy is to treat every request for this type of information (social security numbers, credit card information, passwords, etc.) as suspicious until proven otherwise.

If you receive a communication that appears to be from Callahan Advisors, Schwab, or another financial institution, always verify before clicking or providing information. The easiest way to do this is to pick up the phone and call the official phone number for the organization.

Please reach out to us at any time if you would like to learn more about cybersecurity and ways you can protect your accounts. Thank you.