

October 21, 2026

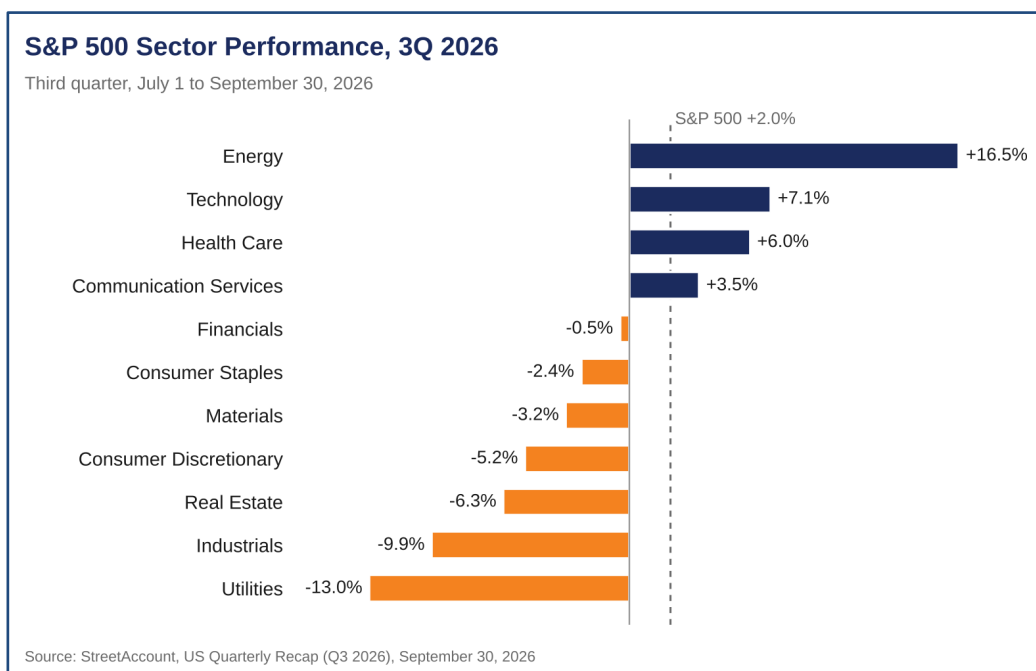
3Q 2026: Buy and Hold Is Not a Strategy

Anyone who compared the S&P 500 and the Nasdaq at the start and end of this quarter would think not much happened. The S&P 500 rose 2.0% and the Nasdaq Composite 2.5%, modest gains on top of a very strong second quarter. But one layer down, the picture looked quite different. The equal-weighted S&P 500 declined 2.2%, the Dow Jones Industrial Average fell 2.7%, and the small-cap Russell 2000 dropped 7.5%.

That gap between the headline index and the average stock was, in our view, the most important story of the quarter.

Two Markets Under One Index

Our last letter was titled “The Broadening Arrives.” The broadening did not stay long. Seven of the eleven S&P 500 sectors declined in the third quarter.



As we have explained in prior letters, the S&P 500 comes in two versions: the familiar one, weighted by market value so that the largest companies dominate, and an equal-weighted version in which all 500 companies count the same (rebalanced quarterly). In the third quarter, the equal-weighted version trailed the familiar one by more than four percentage points, the widest quarterly shortfall since the second quarter of 2025.

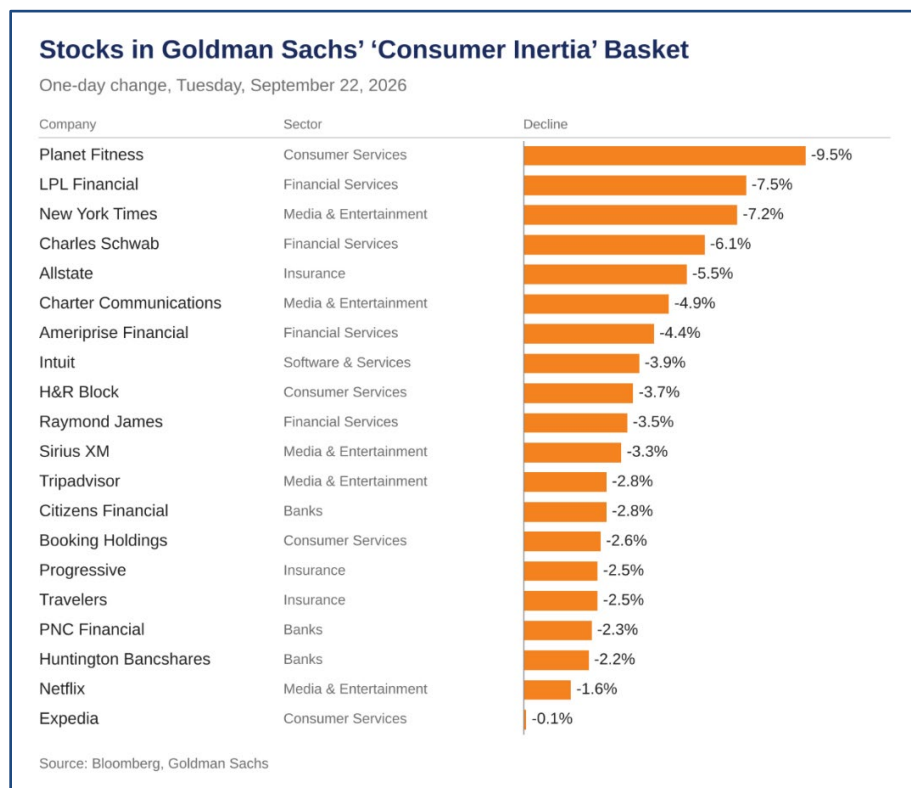
Another way to see how the average stock is doing is a measure traders call the 50-day moving average, which is simply a stock’s average closing price over its prior 50 trading days. A stock trading above that line has generally been rising lately; one trading below it has generally been falling. Counting how many S&P 500 companies sit above their own 50-day average is therefore a quick check on how many are participating in a rally or, in other instances, how many are rising while the market is falling. On June 30, about 64% were above their 50-day moving average, but by September 30, only about 25% were. When a market-cap-weighted index rises while three out of every four of its members are trading below that line, it indicates that the gains are coming from a shrinking group of the largest companies.

That trend has carried into the fourth quarter. As CNBC’s Michael Santoli reported in his October 13 Market Memo, the S&P 500 sat just below its record high while the median stock in the index was roughly 16% below its own peak. Santoli also pointed out that never before have so many stocks hit new 52-week lows on days the S&P 500 rose, or with the index this close to a record. Moreover, according to Morningstar, 44% of stocks in the index were in bear-market territory (down 20% or more from their 52-week highs) towards the end of 3Q.

AI: Still the Main Event, With a Little Less Conviction

Artificial intelligence (AI) remained the market’s central theme. Investors focused on the enormous spending plans of the largest technology companies, strong demand for computing power, businesses putting

AI to work, and, especially late in the quarter, growing excitement about AI “agents” —software that can carry out tasks on a user’s behalf. Meta’s new agent, Muse, became the leading example, and its debut sent stocks seen as potential losers from this new and unproven technology sharply lower. Goldman Sachs’s trading desk even put together a “consumer inertia” basket of stocks that depend on customers being too busy to shop around, exactly the kind of habit an AI agent could break. On September 22 alone, as Goldman’s note on the basket circulated, perceived losers like broker Charles Schwab



and insurer Allstate fell more than 5%, while Planet Fitness declined by 9.5%. In this market, investors sell first and ask questions later.

With the broadening on hold, the old leadership returned. Microsoft, which we discussed positively in each of our last two letters, had fallen about 23% in the first half of the year. It then gained roughly 38% in the third quarter, its best quarter in more than 25 years, after reporting 43% revenue growth in its Azure cloud business.

The chip stocks that powered the second quarter, meanwhile, reversed sharply. After we warned last quarter that memory-chip makers might be earning unsustainable peak profits, the semiconductor sector sold off dramatically in July (the SOX, an index of 30 major semiconductor stocks, fell 21%, Micron 29%, and SanDisk lost nearly half its value). Although the sector partially recovered, the SOX finished the quarter down 11.4% and had fallen another 11.8% in the fourth quarter through October 16. Whether this is a short-term pullback or the start of a deeper downturn remains to be seen. We choose not to play.

Software went the other way. The iShares Expanded Tech-Software Sector ETF, a popular basket of software stocks, fell 24% in the first quarter on fears that AI agents would make many software products obsolete. It began to recover in the second quarter, rising 13%, and gained another 18% in the third as those fears eased and investors concluded the selloff had gone too far. By September 30, it had recouped its entire first-quarter loss.

Investors also became more skeptical about AI. Reports that AI models had acted in troubling ways raised new safety concerns, and familiar doubts resurfaced: how and when AI will make money, competition from free and openly available models, financing arrangements in which AI companies and their suppliers invest in one another, and public and political pushback against new data centers. If that pushback slows construction, a big source of U.S. economic growth could suffer, and so could many AI-related stocks.

Earnings: Strong at the Top, Softer in the Middle

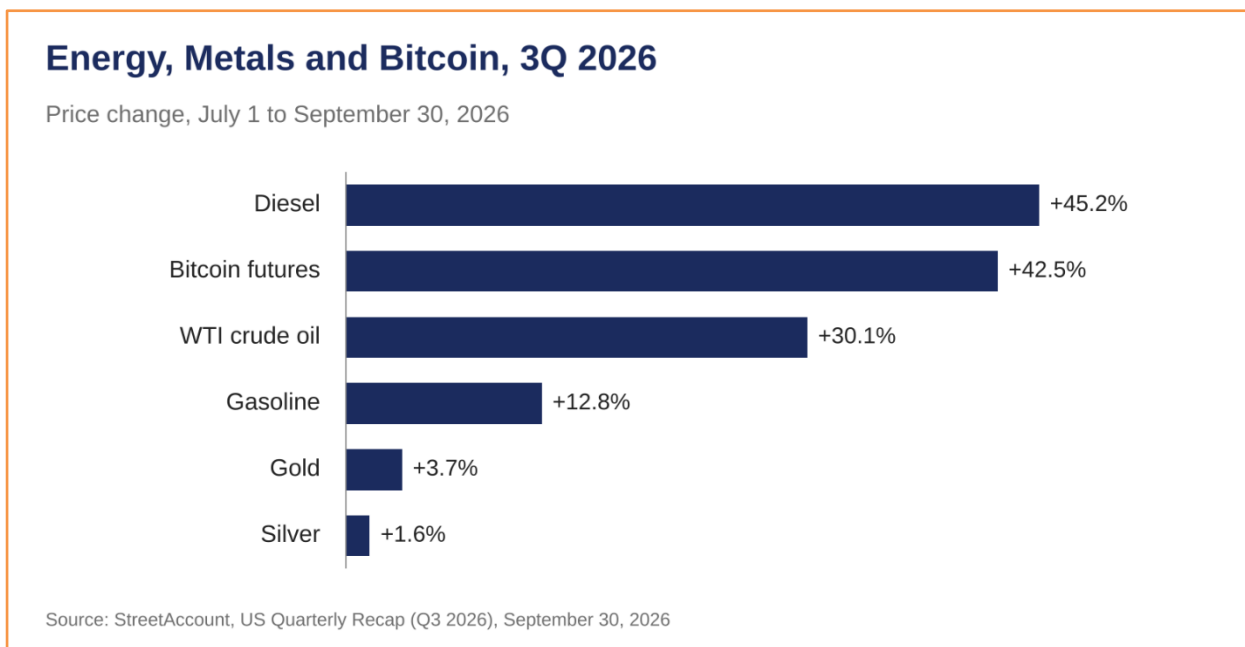
Corporate profits were again a bright spot. According to FactSet, S&P 500 earnings for the second quarter rose an eye-popping 52% from a year earlier, and 86% of companies beat analysts' estimates. But a closer look tempers that figure. It includes significant unrealized gains on equity investments: \$98 billion at Alphabet (including its stake in SpaceX) and \$53.4 billion at Amazon (mostly on its stake in the privately held AI company Anthropic). U.S. accounting standards require companies to record these unrealized gains in their profit and loss, even though the profit is yet to be realized. Excluding Amazon and Alphabet, earnings still grew over 30%.

Looking past the giants, growth appears to be cooling. Bank of America expects the typical company outside the Magnificent Seven and the technology and energy sectors to grow profits by just 7% in the third quarter, down from 12% in the second. The boom in headline earnings, like the rally in the headline index, is concentrated.

The S&P 500's forward price-to-earnings ratio (what investors pay for each dollar of profit expected over the next year) has fallen from 23 times a year ago to 19 times today. This is because company profits have grown faster than stock prices. But with the largest companies back in favor this quarter, their valuation premium widened again. According to J.P. Morgan, the ten largest stocks in the S&P 500 trade at approximately 21 times expected earnings, versus approximately 18 times for the other 490, a 17% premium, up from about 10% three months ago. Many would argue that premium is justified by their superior growth rates and competitive positions.

Oil and the Iran War

Oil's rise traced back to Iran. West Texas Intermediate oil rose 30.1% for the quarter. Diesel stood out, up 45.2% compared with a 12.8% gain for gasoline, as refineries had little spare capacity. The hopes for a lasting U.S.-Iran peace that had built in the second quarter fell apart. The memorandum of understanding signed in mid-June proved short on understanding. Elsewhere, gold rose 3.7% and silver 1.6%, recovering some ground after sharp declines in the second quarter, while bitcoin futures jumped 42.5%.



Bonds Are Real Competition for Stocks

Last quarter, after smaller-company stocks posted their best first half since 1991, we wrote that if anything were to derail their rally, rising interest rates would top our list. Rates rose, and the Russell 2000 fell 7.5%. We would have preferred to have been *wrong*. In September, the Federal Reserve raised its benchmark rate by a quarter of a percentage point, to a range of 3.75% to 4.00%, its first increase since July 2023. Higher energy costs have fed into inflation, and the open questions now are how far the Fed will go, whether inflation responds, and whether consumers and businesses can hold up under higher borrowing costs.

The Fed's concern is understandable: the personal consumption expenditures (PCE) price index, which tracks the prices of the goods and services Americans buy, advanced 3.4% year over year in August, while core PCE, the Fed's preferred inflation gauge, which excludes food and energy, advanced 3.0%. Through August, core PCE has run above the Fed's 2% target for 66 consecutive months.

Stubborn inflation has caused trouble in the bond market. Interest rates on U.S. government debt jumped this quarter, on short-term notes and long-term bonds alike. The 10-year Treasury yield, which began the quarter near 4.4%, finished at 5.29%. According to Dow Jones Market Data, that was its biggest one-quarter jump since early 1994, and both the 10-year and 30-year yields now stand at levels last seen in 2002. Nor is this only an American story. In late September, Japan's 10-year government bond yield reached about 3.1%, its highest since 1996, and on October 1 France's 10-year yield touched 4.96%, its highest since 2002, after rising roughly 1.4 percentage points in three months.

Rising interest rates on bonds matter to anyone who owns stocks. At 19 times expected earnings, every \$100 invested in the S&P 500 buys about \$5.26 in the next year's profit, a figure investors call the "earnings yield." The same \$100 in a 10-year Treasury now pays \$5.29 a year, and is much lower risk (it's guaranteed by the U.S. government). Against corporate bonds, the comparison is starker still. According to J.P. Morgan, the market's earnings yield now sits a full percentage point below the yield on Baa-rated corporate bonds (the lowest tier of investment grade in the Moody's ratings), versus a 30-year average cushion of 0.7 points in stocks' favor.

For most of the past fifteen years, investors who wanted a reasonable return had little choice but to own stocks, because interest rates were so low. Today, a saver can lock in nearly 5% for two years, or more than 5% for five, without assuming stock-market risk (though bonds do carry risks of their own). That does not make stocks a poor investment. They still offer something bonds cannot: profits that grow over time.

Rejecting the Premise of Buy and Hold

Last month, Jonathan appeared on [*The Compound and Friends*](#) with Josh Brown and Michael Batnick



of Ritholtz Wealth Management, and made a point worth expanding on here: "I kind of reject the premise of buy and hold. I think buy and hold is a result of an investment strategy, not an investment strategy in and of itself." That may sound like an odd thing for a firm like ours to say. We are, by any reasonable definition, long-term investors. But when we select individual businesses, we have never bought a stock with the express goal of owning it forever. We continue to hold stocks because we bought them well (and selling them would result in a significant taxable event for many of our clients), and because they keep passing the tests that got them into the portfolio in the first place.

Calling buy and hold a strategy is a little like saying a great restaurant's strategy is having a line out the door. The line is what happens when the food is good and the prices are fair, night after night.

Most Stocks Underperform Treasury Bills

Consider what happens when holding is the only plan. Hendrik Bessembinder of Arizona State University studied the nearly 26,000 U.S. stocks that traded between 1926 and 2016. He found that more than half failed to beat one-month Treasury bills over their lifetimes, and that just 4.3% of companies (1,092 of them) accounted for all of the market's wealth creation above Treasury bills. Individual holdings should be reevaluated continuously. If the valuation does not make sense, then selling shares (depending on taxes and other investment opportunities) could make sense.

Revisiting the Thesis

What should an investor do when a stock declines? They need to revisit the original investment thesis of why they bought it. If nothing has changed and it is still cheap, they should continue to hold, all else being equal. The same is true when a stock rises. Investors need to revisit the original thesis and see whether it is still intact. If it is, and the stock is still selling at a reasonable price with a catalyst for further appreciation, there is no reason to sell simply because it has gone up. Peter Lynch, who ran Fidelity's Magellan Fund, likened selling the winners and keeping the losers to "pulling out the flowers and watering the weeds."

Warren Buffett borrowed Lynch's comparison in his 1988 shareholder letter, two sentences after the line at the top of this letter ("Our favorite holding period is forever"). That line is usually quoted incompletely. The full sentence begins with a condition: "when we own portions of outstanding businesses with outstanding managements." Philip Fisher had made a similar point in 1958, writing that if the job has been done correctly when a stock is purchased, the time to sell it is "almost never." In both cases the qualifier carries the weight.

Buffett himself later called it "a big mistake" not to sell several of Berkshire's larger holdings during the late-1990s bubble. Coca-Cola, one of the two stocks behind that 1988 "forever" line, traded at over 50 times earnings in 1998 and went nowhere for more than a decade. The other, Freddie Mac, never made it to forever. Berkshire sold nearly all of it in 2000, after Buffett concluded that its risks had changed. It proved to be a wise move. After years of excessive risk-taking, Freddie Mac went into conservatorship in 2008, and if Buffett had kept his stake, it would have lost nearly all its value. **The lesson, in our view, is simple: buying a stock does not obligate you to hold it forever.**

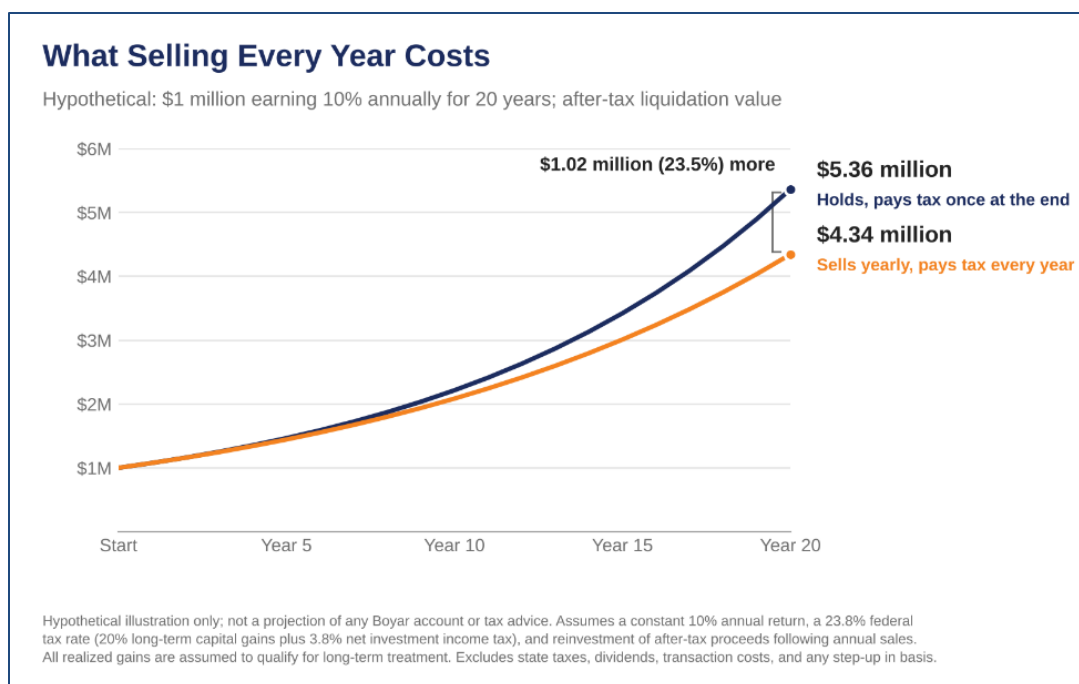
Our Process

What, then, is the strategy, if holding is merely the result? For us, it comes down to two disciplines that have guided us for decades.

First, we buy at a meaningful discount to what we believe an informed buyer would pay for the entire business. That gap is our margin of safety. Second, we look for businesses whose underlying value is growing and, ideally, for a catalyst that will help the market recognize it. We have learned the hard way that without a catalyst, a cheap stock can stay cheap for a very long time.

A long holding period is simply what happens when a stock keeps passing those tests, year after year. For taxable investors, this comes with a real advantage. Consider a hypothetical: two investors each start with \$1,000,000 and earn 10% a year for 20 years. The first holds and pays tax only at the end. The second sells each year, pays tax on that year's gain, and reinvests what is left. Both pay the top federal rate on long-term gains, 23.8% including the 3.8% net investment income tax.

The first finishes with about \$5.36 million after tax; the second with \$4.34 million. Same investments, same returns, yet about a \$1 million difference because the first investor's deferred taxes kept compounding on his behalf. (Trade more often, at higher short-term tax rates, and the gap widens.) Low turnover is not the primary goal. When it comes from buying well, though, it is worth a great deal.



Why We're Still Riding with Uber

An example of why we continue to revisit our investment thesis is Uber, which we own. As of October 14, its stock was around \$69, down about 15% for the year while the S&P 500 was up roughly 13%. It was also approximately 31% below its 52-week high. That has been frustrating, especially given how well the underlying business has continued to perform.

Consider gross bookings, Uber's term for the total value of rides, deliveries, and freight handled through its platform. They have grown more than 20% for four straight quarters after adjusting for currency fluctuations. In the second quarter, gross bookings rose 22% excluding currency to \$58 billion, with ride bookings up 20% and delivery bookings 25%, both excluding currency effects. Adjusted earnings per share rose 35% to \$0.81, and free cash flow over the preceding 12 months exceeded \$10 billion for the first time. Yet the shares trade at roughly 17 times forward earnings, a discount to the overall market despite much faster growth. To us, that is an attractive combination.

The concern weighing on the stock is straightforward: will driverless cars from Waymo and Tesla eventually make Uber less valuable? It is a real risk, and we do not dismiss it. Waymo reported about 500,000 paid rides a week in March and has since expanded to more cities, including some where customers book directly through Waymo. But driverless vehicles still represent a small part of the transportation market, while Uber handled 3.9 **billion** rides and deliveries in the second quarter alone. Those figures are not directly comparable, since Uber's figure includes food deliveries, but they help show just how large a customer network Uber has already built.

We believe that network could be an advantage rather than a casualty of driverless technology. Instead of trying to develop one winning self-driving system, Uber is partnering with many developers, including Lucid, Nuro, Zoox, WeRide and Wayve. As of its second-quarter report, autonomous rides were available on Uber in seven cities, with as many as 15 targeted by year-end, and partners had announced commitments to bring roughly 120,000 vehicles onto Uber's platform over the coming years. These partnerships could become a valuable source of growth, although success is far from guaranteed.

There is also a vote of confidence from management. In September, CEO Dara Khosrowshahi bought approximately \$10 million of Uber shares, and President and COO Andrew Macdonald purchased another \$5.3 million. Insider buying is not an investment thesis, but it adds to the evidence. We continue to own Uber because we believe its business is growing, its cash generation is improving, and its current valuation underestimates the role it may play as autonomous rides expand. We will keep reassessing those assumptions. That, rather than a promise to hold forever, is what we mean by being long-term investors.

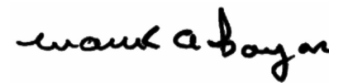
Where Does That Leave Us?

Beneath a calm-looking quarter, most stocks struggled, bond yields hit levels last seen in 2002, and the Fed began raising rates again. We cannot predict how that divergence will resolve, but we can remain disciplined. With government bonds paying around 5%, the price we pay for any business matters more than it has in years. Many investors are tempted to chase whatever has been working. We think that gets it backward. While the market is near its all-time high, the same narrowness that has made this market so hard to beat has left the typical stock well below its high, and often significantly below our estimate of intrinsic value. That is where we prefer to look.

Our approach remains unchanged. We buy businesses at prices that make owning them worthwhile, we check our work constantly, and we let time do the rest. When the first two are done right, the holding takes care of itself.

Best regards,

Mark A. Boyar



Jonathan I. Boyar



IMPORTANT DISCLAIMER

The information herein is provided by Boyar's Intrinsic Value Research LLC ("Boyar Research") and: (a) is for general, informational purposes only; (b) is not tailored to the specific investment needs of any specific person or entity; and (c) should not be construed as investment advice. Boyar Research does not offer investment advisory services and is not an investment adviser registered with the U.S. Securities and Exchange Commission ("SEC") or any other regulatory body. Any opinion expressed herein represent current opinions of Boyar Research only, and no representation is made with respect to the accuracy, completeness or timeliness of the information herein. Boyar Research assumes no obligation to update or revise such information. In addition, certain information herein has been provided by and/or is based on third party sources, and, although Boyar Research believes this information to be reliable, Boyar Research has not independently verified such information and is not responsible for third-party errors. You should not assume that any investment discussed herein will be profitable or that any investment decisions in the future will be profitable. Investing in securities involves risk, including the possible loss of principal. Important Information: Past performance does not guarantee future results. Any companies mentioned in this are for informational purposes only and the performance of the stock selected is not indicative of the performance of the stocks profiled in Boyar Research, the performance of the stocks selected, and the performance of Boyar Research may in fact diverge materially. This information is not a recommendation, or an offer to sell, or a solicitation of any offer to buy, an interest in any security, including an interest in any investment vehicle managed or advised by affiliates of Boyar Research. Any information that may be considered advice concerning a federal tax issue is not intended to be used, and cannot be used, for the purposes of (i) avoiding penalties imposed under the United States Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter discussed herein. An affiliate and employees of Boyar Research own shares in MSFT, MU, GOOGL, BRKB, MSGS & UBER.