RSD Advisors

Second quarter 2026 letter for clients of RSD Advisors 7/14/2026

We have been in a historic upswing in stock prices over the last 3 years. In the first half of this year, the S&P 500 index, a measure of large US companies, is up just shy of 10%. That is a solid not exceptional result. However, that comes on the heels of a nearly 18% total return in 2025 and 25% in 2024. That is exceptional. We have experienced two corrections over that time, but both were rather short lived and by no means catastrophic.

Meanwhile bonds have been marking time.

Why have stocks done so well? Mostly it is because the economy has proven much more resilient than expected and corporate earnings have done well. As a result, despite stock price increases, valuations though high, have not significantly increased overall. Earnings are powering this move up.

There are signs of speculative excesses. Remember bitcoin? Remember cannabis companies? Thet are now yesterday's news. Wall Street and the public's imagination are now captured by the potential of artificial intelligence. Data centers to enable AI are growing like weeds. Arguably the massive build out of these centers, and the technology to process AI has added to economic growth and possibly staved off a recession. I expect AI to eventually add to productivity and growth in the future, but I do think it may take longer for the use cases to become widely adopted and implemented. It can be tough to identify winning companies We saw an analogous case in the dotcom era in the late 1990s and early 2000s.

It is also worth contemplating some hot IPOs (initial public offerings) that signal excess. Prime example is SpaceX. Interestingly shortly thereafter the company issued a large amount of corporate debt that traded horribly. Bond investors seem to have a different view than equity investors in the company.

Another item which is cautionary is the fact that large tech companies are spending so much they are no longer generating large free cash flow. One of the prime reasons investors have loved these companies previously is that they were asset light and generated large positive cash flow. This is no longer the case. Their investment case now rests on the idea that their investment in AI related capex will generate increased returns once the investment cycle normalizes and they can garner returns from these investments. That is a bet. Meta decided to sell some compute capacity to other companies rather than using it for their own purposes – this could be a red flag.

As for interest rates and my lack of Federal Reserve comments, this will be brief. Nobody knows which way policy rates will go, including members of the FOMC. We will find out when we have a better handle on which way the economy, including geopolitics, goes.

What is an investor to do? I still think stocks in general are a good long-term investment. But I am being careful to diversify client's holdings by using dividend growth strategies, low volatility strategies, bonds, gold miners and foreign investments which are generally less exposed to AI companies. I am not naïve though. There are still risks and correlations between all these assets.

Experience tells me we are due for a correction, but I don't want to leave returns on the table due to fear and keeping too much in cash. By limiting volatility to some extent, we can avoid panic selling and catch the next upturn.

Investors benefit from time in the market, not timing the market.

Thank you for your business and enjoy the summer!

Richard Daskin CIO