

QUARTERLY LETTERS

Middle Coast Investing Q4 2025 Letter: Don't Let Me Explode

January 9, 2026

2025 was a good year for Middle Coast Investing, as it was for markets as a whole. Paranoia being a staple part of the investor experience, that leaves me feeling queasy.

Stock markets tend to go up over time, but also to regress to a mean. The S&P 500 has returned 21.2% annualized for the past three years, which is above a typical mean. Some of that was recovery from 2022, but is hard to think we can keep going up so much. That's before looking around at all the news, the indicators of slowing growth, and the feeling that the economy is hardly getting better.

We don't invest based on our economic or market predictions. Instead, we look for companies that we think will do better in the years ahead, when their stocks are priced attractively. We hope that combination – good companies and fair prices – will protect us if the market struggles. Ultimately, our goal is to avoid blowing up, to survive and advance through bad times, without missing on big years.

With that in mind, here are three things we're taking from 2025 as we look to avoid exploding in 2026.

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Knowing What Works (For Us)

The S&P 500 finished 2025 up 16.4% before accounting for dividends. Technology and artificial intelligence was again a major driver of that performance, with the Magnificent Seven leading tech stocks at the forefront.

I wrote about AI in last quarter's letter, so I won't revisit the topic or its bubble status, which remains a hot topic.

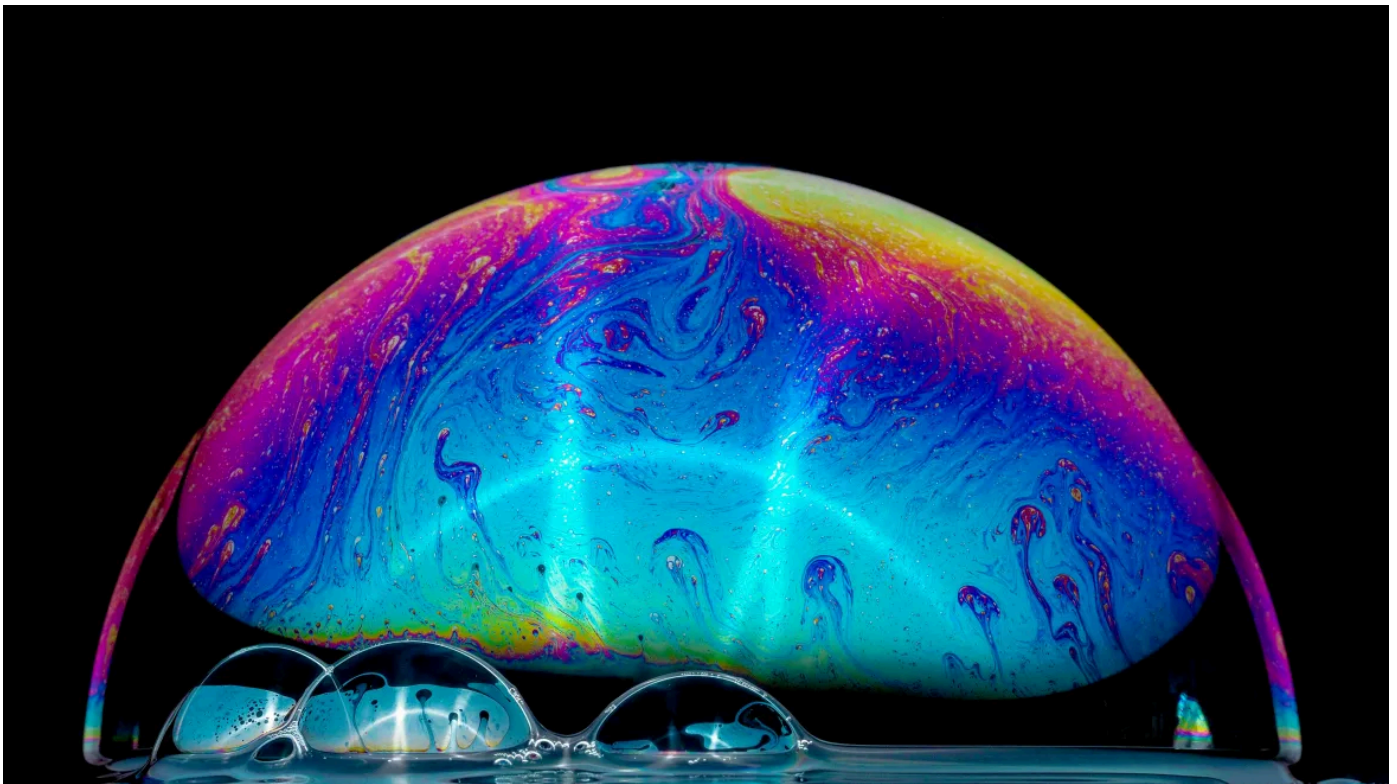


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One of the investing lessons most applicable to life is ‘figure out what’s best for you.’ There’s no one right way to invest. You don’t have to have an opinion on everything, just on the stocks you own. Understand what can go right and what can go wrong, and react to changing circumstances accordingly.

Of our top 12 performing stocks for 2025, as measured by how much value they added to our overall portfolio, only four of them could justly be called AI-related plays (#5, #8, #11, and #12), and one more of them could be lumped into tech (#9). We benefited from AI in our portfolio, but were able to keep pace with the markets by finding other types of investments.

One of the things that works for us is taking ideas we found from other investors – **Astronics (ATRO)**, Dallas News, **Aercap (AER)**, **Charles Schwab (SCHW)** – and building an understanding for what works for them and why those companies should succeed. Another is applying things we’ve learned from past investments to make new investments – **Lyft (LYFT)**, **Everus Construction Group (ECG)**, Steelcase. And

one that we need to keep in mind is just because a stock ends up a winner in one year does not mean the story is over, as with **Lululemon (LULU)**.

The bottom line in investing is more or less the same for everyone. We can benchmark against different indices, but the goal is to grow our (and your) money. How one gets to that goal can be unique for each investor. It's the investor's job to best understand that path.

Start from the Bottom

Among the many ways to categorize investing is top-down vs. bottom-up.

Top-down investing involves taking a big idea, and then finding investments that suit that idea. Artificial intelligence is an obvious example – what stocks will be AI winners? How can I then invest in them? There could be ideas to prepare for a recession, or for autonomous driving, or genetic editing, or the decline of the dollar. Each of these can then be backfilled with individual investments.

While I'll mention an example of top-down investing in our new Q4 positions, I prefer bottom-up investing. That is, read about a lot of companies, and pick the stocks that look like good values. We don't ignore what's happening outside those stocks, but I try to stay open minded about where we might invest, beyond a few basic rules or diversification aims. At most, the themes nudge us in the right direction as far as which companies to read about.

Falling on Lyft at almost the right time – I was a few months late for its full move – is an example of just following up and reading about things. We still need to be aware that autonomous driving could warp Lyft's business prospects for better or for worse, but at its fundamental level it's very cheap and still growing. I've been curious about beverage can makers as stable businesses, but it took reading through Ball Corporation (the biggest player) to get me to **Crown Holdings (CCK)**.

Bottom-up investing is also a way to control the feeling of FOMO. It is tempting to point at a line going up and say 'I want to invest in that.' Reading about many individual ideas, and evaluating them on their merits amidst that market noise, is a better long-term strategy for me, at least.

Brace for (and Learn From) Mistakes

I spent a January in New Orleans 15 years ago. I rented a room in a house near City Park, a sparsely furnished second-story bedroom I found on Craigslist. One of its most memorable elements was a small stone by the front door. The stone was painted yellow, with black text written on top the yellow. 'You May Be Right,' the stone said. Which implies, of course, that you may be wrong too.

We never think we're going to be wrong when we make an investment. I have a gut impression, sometimes, where I feel more or less excited about a stock. But my gut doesn't know any better than I do.

Losers are unavoidable. Of the S&P 500 component stocks we owned at year end, two were in the bottom ten of performers for the year. Our three biggest positions at year end 2024 underperformed the market. We had four stocks cost us at least half a percent of our portfolio value, including one that dropped 50% in the four months after we bought it.

We use rules to try to control the risks: don't buy the whole position at once. Demand at least 50% upside so that it's worth the risk. Watch out for heavily levered companies. Know why you are doubling down on a stock.

That won't eliminate losers, but if we practice that discipline across the portfolio, we hope to avoid portfolio blow-ups and thus market blow-ups. Avoid the big losses, and the rest will take care of itself.



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Entering 2026

We end 2025 with good performance but also a big cash position. We sold more than we bought in both Q4 and the full year. We've reduced our concentration in our two biggest positions (down from 26% to 18.4%) while still maintaining an overall concentration that gives us a chance at upside. Our top 12 stocks make up 53.5% of our portfolio at year end, vs. 55.7% entering 2025. We have six 4%+ portfolio positions, vs. three at the start of 2025.

The first week of 2026 has reminded us that in the current political and market climate, anything can happen. Who knows what other shocks or jolts might hit us in the next 51 weeks? And even more, who knows how the market will react to those specific shocks? I am doing my reading, but there's no sure way of predicting.

We enter 2026 with a defensive portfolio, in my view, that is not immune to huge risks by any means. We'll do our best to manage those risks, while taking advantage of opportunities that emerge. The goal in 2026, as always, is first to not explode, and then to find good stocks so that we can outperform the S&P 500 over the long term.

I'm excited to welcome a few new clients to Middle Coast Investing to round out the year. I'm also happy to announce that a former Seeking Alpha colleague of mine, Jonathan Liss, is joining Middle Coast Investing as an independent advisor. Jonathan is one of the smartest ETF-focused investors I've met, and he offers a diversified ETF strategy that will complement the equity-focused value investing I do. We're excited to grow our team and client base as well as our portfolios.

Thank you for your trust as we continue striving for that growth, and may 2026 turn out as well as 2025.

Q4 2025 Performance

	Q4 2025	2025	2024	2023	2022	2021	2020
U.S. portfolios	2.7%	16.9%	15.1%	47.0%	-13.4%	16.8%	12.0%
S&P 500	2.3%	16.4%	23.3%	24.2%	-19.4%	26.9%	16.3%

Core U.S. portfolios	1.9%	20.4%	11.2%	47.0%	-13.4%	16.8%	12.0%
Russell 2000	1.9%	11.3%	10.0%	15.1%	-21.6%	13.7%	18.4%
S&P 600	1.3%	4.2%	6.8%	13.9%	-17.4%	25.3%	9.6%
Nasdaq	2.6%	20.4%	28.6%	43.4%	-33.1%	21.4%	43.6%
Europe an Portfolios	-0.4%	23.9%	10.9%	13.4%	-15.3%	4.5%	18.3%
Euro Stoxx 50	4.7%	18.3%	8.3%	20%	-11.7%	21.0%	3.5%
DAX	2.6%	23.0%	18.8%	19.2%	-12.3%	15.8%	-6.3%

Disclaimers and notes:

- See [performance disclosures](#) for more details on performance.
- These results are net of fees and include reinvested dividends or the cash received.
- Core portfolios exclude a portfolio with outsized Amazon and Apple positions.
- All calculations are done by me and subject to error.
- Portfolio performance represents the collective results of Middle Coast Investing equity portfolios. We manage accounts separately, and individual accounts may have slightly different portfolio makeups or objectives.

Portfolio stats

- Our portfolio level price to earnings for trailing 12 months (TTM) was 20.5. This compares to 22.5 P/E at end of Q3. (Note: these calculations are not to be relied upon and are based on best efforts. I also have stopped reporting price/free cash flow ratio, as we own too many financial stocks for this to be meaningful)
- Cash and equivalents (the ETFs MINT, JPST, SGOV, and BIL, the money market fund SNOXX, and short-term U.S. T-bills) was 16.7% of our quarter end portfolio, with an estimated average yield of 2.3%. This compares to 14.6% of our portfolio and 2.9% yield at the end of Q3. We also had a bond portfolio that accounts for 3.9% of the total portfolio size compared to 5.1% at end of Q3, and a hedge position of 0.9% of the portfolio as compared to 0.9% at end of Q3.
- We sold 34% more equity positions than we bought in Q4. We sold 11% more equity positions than we bought in 2025.

Our top 15 equity positions as of January 1, 2026:

- **Amazon.com (AMZN)** – 11.4% of our portfolio
- **Apple (AAPL)** – 7%
- **Grupo Aeroportuario del Centro Norte (OMAB)** – 5.1%
- Astronics (ATRO) – 4.9%
- **Progressive Corporation (PGR)** – 4.5%
- **Capital One Financial (COF)** – 4.4%
- AerCap (AER) – 3.25%
- **Broadcom (AVGO)** – 2.8%
- Crown Holdings – 2.7%
- Everus Construction Group – 2.6%
- **HNI Corporation (HNI)** – 2.5%
- Lyft – 2.3%
- **TripAdvisor (TRIP)** – 2.3%
- Charles Schwab – 2.25%
- **Corpay (CPAY)** – 2.2%

Q4 Winners / Losers

Winners	% Gain*	Losers	% Loss*
Astronics	0.8%	Gogo (GOGO)	-0.4%
Amazon	0.6%	Progressive	-0.3%
Capital One Financial	0.5%	Lyft	-0.3%
Aercap	0.5%	TripAdvisor	-0.2%
Apple	0.5%	Portillo's (PTLO)	-0.2%

* % gain or loss in this table is of our total U.S. portfolio value (including non-core). Capital One Financial stock rose 14.4% in the second quarter, resulting in a 0.5% in total portfolio gains, for example.

2025 Winners / Losers

Winners	% Gain*	Losers	% Loss*
Astronics	4.4%	Lululemon	-1.2%
Grupo Aeroportuario del Centro Norte	2.3%	Portillo's	-0.6%
Dallas News	1.8%	GoGo	-0.6%
Capital One	1.6%	Apogee (APOG)	-0.6%
Everus Construction	1.4%	F&G Annuities & Life (FG)	-0.4%

Group			
Steelcase	1.4%	Atkore (ATKR)	-0.4%
Aercap	1.2%	Worthington Steel (WS)	-0.3%
Broadcom	1.1%	ABM Industries (ABM)	-0.2%
Lyft	0.7%	Progressive	-0.1%
Charles Schwab	0.7%		

New stocks

HNI Corporation

HNI is technically not a new buy for us. We received most of our shares when HNI bought out SCS, though I also bought a few shares in the last week of the year. As a Top 10 portfolio holding, it merits some discussion.

We've invested in office furniture companies for a decade now. The first investment was Kimball International, where I bought because the company was splitting itself in two. The office business was incidental, but we held onto shares and, until the pandemic, did well. The pandemic tanked office furniture companies, not surprisingly, but we got bailed out when HNI bought Kimball shares.

I then invested in Steelcase, a larger office furniture company. I thought it was unreasonably cheap, and that it would be likelier than not that more people would be working in offices in 5-10 years. Shares did well for a year or so, then stagnated, as the promised recovery in offices never quite came. HNI then agreed to buy it out, putting it on our winners list for 2025.

We like HNI at current prices – we bought more at \$42.25 / share – because shares have gotten cheaper since the Steelcase deal, and because the return to office theme hasn't really played out, but might be soon. Here's a table of office order growth from HNI, SCS, and MillerKnoll (MLKN), the three big public players:

		2024				2025	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
HNI Order Growth (Office)	2%	0%	1%	2%	15%	5%	2%
SCS Order Growth	-7%	-7%	15%	4%	-1%	6%	NA
MLKN Order Growth	2.90%	3.50%	-1.90%	4.10%	10.70%	-6.20%	4.50%

It's not necessarily a clear trendline, and there's a lot of choppiness in orders, but things seem to be getting better. When asked whether recent order growth strength is attributed to return to office or office renovations, Steelcase's outgoing CEO said that:

I think it's all of the above. And I would think what we definitely see is that many of these clients are rethinking their office space, whether it's rethinking existing space or moving to new space and really focused on outcomes, really asking questions about kind of what is the space designed to support, whether that's creativity or collaboration or connection.

HNI is priced for fairly low growth. It has successfully integrated Kimball into its business, which I suspect means it will have muscle memory in using the merger to cut costs and build earnings growth. I think even with just ~2% annual revenue growth and the forecast synergies, the stock could be worth \$100 in the next 5 years. And if there's any acceleration in growth, this could work out really well. If HNI has a messy integration, like Miller Knoll has had with its merger, we could be stuck for a couple years.

PagSeguro (PAGS)

I mentioned the top-down concept of diversify from US holdings. This is the rare case where I have been working top-down, looking for non-US stocks to mix in to our portfolio, and it took till Q4 to find one I liked.

PagSeguro is a payment and fintech business based in Brazil. It is trying to build a full digital bank business. Brazil is still a large, developing country with more and more people getting into banking. The new Pix payment system makes it easier to use banking services – it's a free peer to peer money transfer system run by the central bank. This on the one hand eats at a payment company's margins/business, and on the other hand may increase the TAM for PagSeguro's business.

The stock was up in 2025, but still trades very cheap. Analysts focus on classic payments platform metrics, such as TPV, while PagSeguro focuses on gross profit, which has gone up. The company is targeting 16%+ EPS growth, which would be impressive, and is also about to pay out a 8-9% dividend next year which isn't properly being reported (most sites and brokerages show it as having a 1.4% yield).

Hurco (HURC)

Hurco is a small industrial company. It makes computer numerical controlled (CNC) machines: for example, if you need to cut stone precisely, you control it digitally via these machines.

I've owned Hurco in the past. It's a fairly illiquid stock. The company depends on a cyclical industrial sector improvement. I don't have a strong opinion on if/when that happens. I do have an opinion that the company trades at half its book value, meaning if it can sell its on the books inventory of machines for close to full price, it will be worth much more as a stock. That is a speculative bet as to whether it will, but this is also a small position for us.

Sold Stocks

We sold shares in Brighthouse Financial (BHF) and most of our shares in **Hillenbrand (HI)** – we bought both on reports they were in talks to be bought out, and they both announced buyouts in the quarter.

As part of transitioning an account from a fixed income portfolio to a dividend stock portfolio, we sold two of its bonds.

We sold most of our positions in Apogee and Portillo's to take a tax loss. Both companies announced a board member taking over as CEO in the last four months of the year, which is a sign that the strategy has gone awry.

We took some profits in **Alphabet (GOOG)**, Broadcom, and Astronics.

*Interested in more from Middle Coast Investing? Or in talking to us? **Get in touch.***

Please read our full [performance disclosures](#).

Disclosure: I am long all bolded companies mentioned in this letter. I may change positions at any time. I have no immediate plans to make major changes. This is not investment advice. Investing is risky. Any investing decisions are your own responsibility and should be taken after speaking with an advisor or at your own

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