July 2026 – Buying "Boring" Stocks

"Life breaks free. Life expands to new territories. Painfully, perhaps even dangerously.
But life finds a way."
Dr. Ian Malcolm - Jurassic Park novel by Michael Crichton

Thoughts about a Possible Allocation

A basic tenet for investment advisors like us is to have discussions with our clients and assist in determining a proper investment allocation that takes into consideration their risk tolerance, and to keep that foremost in mind when we invest their funds.

Callahan Advisors' client base is very diversified. Some are old. Some are young. Some are aggressive. Some are not. Therefore, we tailor portfolios for each client. We know that one size doesn't fit all.

When Callahan Advisors was formed in 1999, the dot.com period began in full throttle. Our fourth quarter quarterly letter in 2000 was about "Irrational Exuberance". Twenty plus years later many are worried that Artificial Intelligence (AI) and Data Center stocks are likewise headed to a new irrational exuberance. Some stocks like Applied Materials, ASML, and Caterpillar are at historically high price earnings ratios (P/E) creating similar valuation concerns as during the dot.com era.

Consequently, allocations that were once aligned with client risk tolerances now may be skewed more aggressively than they may be comfortable with. Clients and Callahan Advisors are concerned not only about this, but also possible additional taxes if their portfolios are rebalanced.

However, we strongly believe that the tax tail should not wag the economic and sensible dog. The long-term objective is not to avoid taxes at all costs, but to have a thoughtful plan to manage risk and reduce oversized positions. We believe paying some taxes today is ultimately preferable to allowing a concentrated position and carrying unnecessary risks into tomorrow.

The Case for "Boring" Stocks

2026 has been a tale of two markets. New and exciting Data Center and Rocketship companies have dominated headlines and returns. Semiconductor companies are booming with some achieving 200%+ returns this year alone.

Many positions in our clients' portfolios are a part of this boom, giving rise to the above concentration and valuations concerns. But when a small number of positions begin driving the majority of portfolio returns, future results become increasingly dependent on those same companies to continue to outperform, speculating that yesterday's winners will continue to be tomorrow's winners.

Furthermore, successful investing isn't about owning the most exciting company; it's about owning quality companies at reasonable prices while managing overall portfolio risk.

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We believe some of today's more attractive opportunities may be found in businesses that investors have largely ignored or avoided during this latest boom.

Many "boring" companies — McDonald's, PepsiCo, and NextEra Energy may not generate daily headlines or dramatic price swings, but possess characteristics that long-term investors have historically appreciated, such as consistent and growing dividends, strong cash flow generation, and excellent management teams that have led their companies through previous market corrections.

Those concerned about volatility caused by AI stocks should find that decreasing exposure to AI stocks with high PE ratios and increasing allocations to stocks in "boring" sectors like Consumer Staples, Utilities, and Real Estate should provide you with very reasonable returns with a lot less angst.

Lower volatility also makes it psychologically easier to stay invested during inevitable market downturns. The portfolio you can confidently hold through difficult markets is often superior to the one that looks best during bull markets.

This year as we celebrate the 250th anniversary of the founding of the United States of America, no one should underestimate the strength of our economic engine, the quality of the U.S. stock market, or the general brilliance of the management of the underlying companies. "Boring" companies may be currently out of favor and have seen significant drops in their respective share prices, but nevertheless these companies employ very smart people, and have overcome challenges like this before. To paraphrase Michael Crichton: "But smart people find a way."

As always, we appreciate your trust in us and thank you for allowing us to be of service to you.

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