PRAETORIAN GUARD[SM]

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3RD QUARTER 2026

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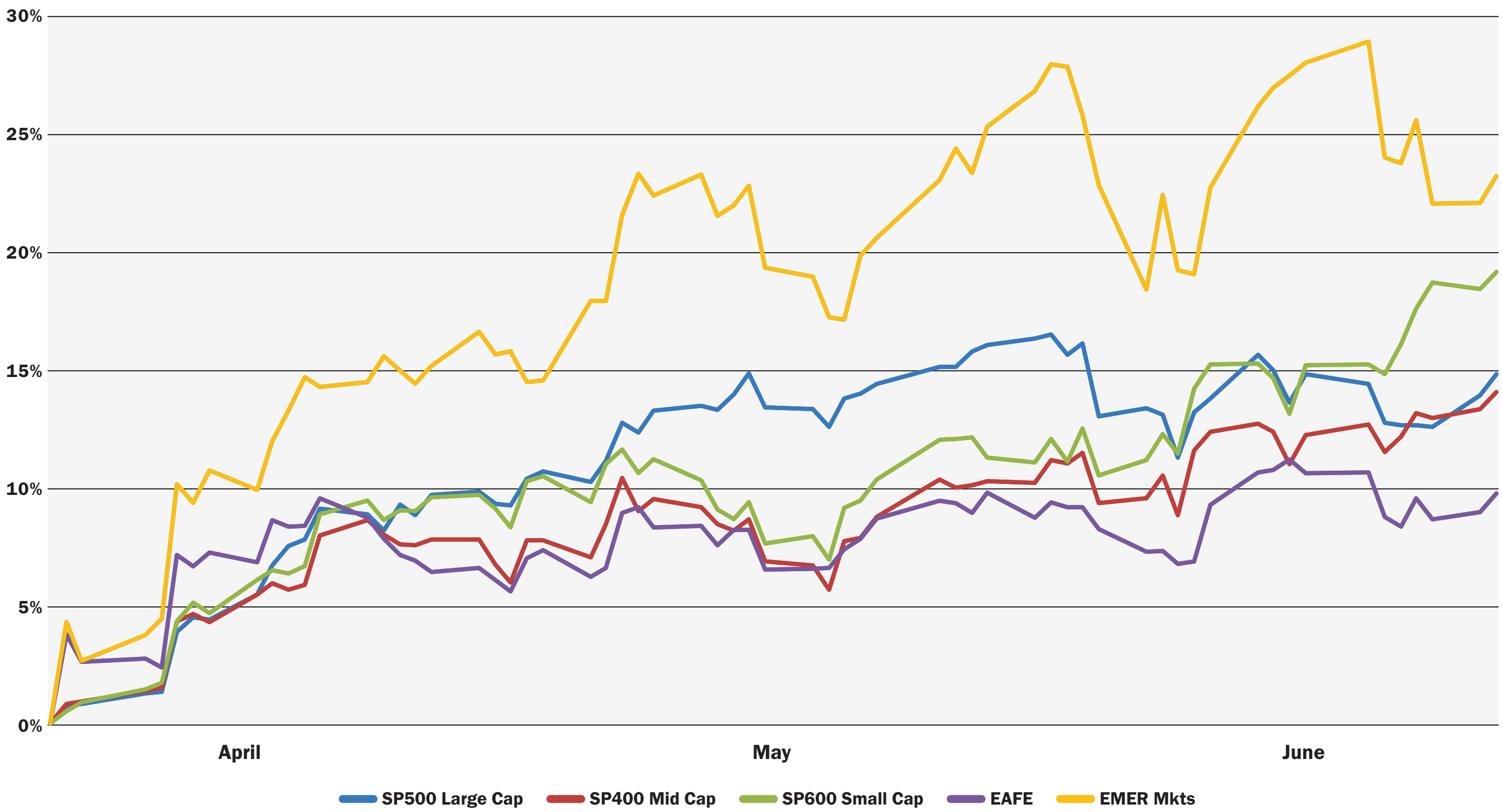
SECOND QUARTER 2026 MARKET REVIEW

By **Richard A. Hewitt, CFP®**

Both U.S. Domestic and International markets demonstrated incredible resilience during the quarter in light of the myriad of geopolitical events that normally would be expected to cause a significant adverse response. Here at home the S&P 500 Large Cap returned +14.8%, S&P 400 Mid Cap returned + 14.1% and S&P 600 Small Cap returned + 19.2%. Emerging markets led the way at +23.3% and Developed markets returned +9.7%.

Second Quarter 2026 U.S. & International Equity Market Performance



Source: S&P, MSCI

The main driver in the United States was better than expected corporate earnings for Q1 2026 with 84% of the S&P 500 reporting better than estimated results. The Artificial Intelligence buildout continued unabated and we observed a broader advancement than solely the Magnificent 7.

The economic sectors with the best returns were Information Technology (+33.5%) and Industrials (+15.4%). Energy declined -13.2% as the war premium began to wane. The price of a barrel of oil has returned to about $70 (where it was when the air attacks on Iran began) and that will help to temper inflation going forward.

The Federal Reserve has a new chair (Kevin Warsh) and a recent Supreme Court decision provides the Fed with more independence than other Federal commissions and agencies. This is a positive for monetary policy. We don't expect either a rate hike or cut for the remainder of 2026.

FIVE QUESTIONS TO ASK BEFORE LETTING AI INFLUENCE YOUR PORTFOLIO

By **Evan R. Davies, CFP®**

Many investors have already used artificial intelligence (AI) for personal finance. They may ask it to explain a Roth conversion, compare account types, summarize a tax concept, or evaluate whether they should become more conservative before a recession. The "answer" returns nearly instantaneously in plain language, which can reduce the hesitation people feel when asking a basic financial question.

That accessibility holds some value because a better-informed investor can ask better questions and participate more fully in decisions that affect their family. However, most AI tools' guidance tells users to treat the generated response as a first draft rather than a final source and to verify important information, including data and references.

When an AI-generated explanation starts to look like a recommendation, an individual may act before understanding how that decision affects the broader financial plan. A financial plan does not come from a single answer, and a portfolio does not exist apart from the household it serves. An integrated financial plan incorporates income, taxes, liquidity, estate planning, charitable goals, risk tolerance, risk capacity, and the ability to stay invested when markets become uncomfortable. An autogenerated response reflects the prompt it receives, not the full circumstances of a household. Acting on that response in isolation can lead to a decision that conflicts with the broader financial plan.

1. Is AI Explaining a Topic or Giving Advice?

AI can help explain broad financial concepts, from Roth conversions and donor-advised funds to diversification and account types. That education can make a later conversation with a wealth manager more productive because an individual arrives with better vocabulary and a clearer sense of the issues.

The line between education and advice can blur quite quickly. "What is a Roth conversion?" and "Should I do a Roth conversion this year?" sound similar, but they require different work/analysis. The first asks for an explanation while the second requires tax projections, cash flow analysis, Medicare premium awareness, future income assumptions, and the role of taxable assets in the plan.

2. Does the Answer Know Enough About You?

Generic financial guidance often sounds useful. A recommendation can appear sophisticated while ignoring the facts that drive the decision. Tax bracket, state of residence, embedded capital gains, income needs, estate structure, liquidity preferences, and family obligations can all change the answer.

Investment decisions require the same context, as a portfolio that looks aggressive for one family may look appropriate for another. A large cash position may reflect fear in one situation and a planned purchase in another. AI may suggest increasing exposure to a popular sector or concentrating assets in a handful of stocks tied to the latest market trend, but that recommendation may ignore the risks created by a lack of diversification. Concentrated stock positions can expose a household to unnecessary volatility and company-specific risk, especially when the position no longer aligns with the broader financial plan.

At Praetorian Guard, our recommendations begin with a client's goals and constraints. We evaluate risk tolerance, risk capacity, and risk need. These translate to how much volatility a client can withstand, how much risk the plan can absorb, and how much investment risk the client needs to take to achieve their desired goals.

3. Is the Strategy Appropriate for YOU, the investor?

A strategy can make sense in general and still fail for a specific client. A retiree drawing income from a portfolio faces different risks than a professional still adding to investment accounts. Even two families with the same net worth can require different portfolios because their spending, taxes, estate plans, and temperament differ.

Fiduciary judgment becomes most important when a strategy sounds attractive in isolation. AI may describe a portfolio, security, tax strategy, or withdrawal approach clearly, but clarity does not make it suitable. A wealth manager tests the idea against the plan, identifies tradeoffs, and explains when a strategy creates more complexity than benefit.

4. Is AI Reinforcing the Question You Asked?

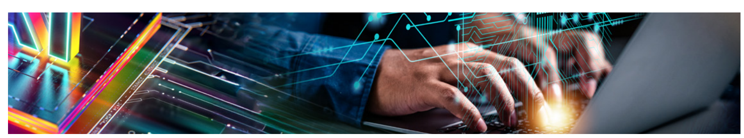
AI can sometimes organize an answer around the way a user frames the question. Consider the investor who asks, "Explain why I should move my portfolio to cash before the next recession." The tool may produce a persuasive answer about caution, downside protection, and waiting for a better entry point. A financial planner, however, would likely begin by questioning the premise. Before recommending any major portfolio change, they would consider the client's existing allocation, cash reserves, spending needs, tax situation, time horizon, and long-term objectives. What sounds prudent in response to a narrowly framed prompt may create unnecessary risk when viewed in the context of the broader financial plan.

A better planning conversation begins by returning to the client's goals, constraints, and the role the portfolio plays in the overall plan. Instead of starting with whether to move to cash, the planning conversation should consider what the portfolio needs to accomplish, how long the time horizon is, what tax costs a sale may create, what signal would determine when to reinvest, and how the investor would respond if markets rose while waiting. A fiduciary may need to challenge the premise, rather than simply "answer the prompt" the client would have typed into an AI tool. During volatile markets, restraint may protect the plan better than a portfolio change made primarily to relieve short-term anxiety. Disciplined inaction can protect a well-built plan from emotional decisions.

5. Who Is Accountable for the Recommendation? Spoiler Alert, Not AI.

Advice changes when someone is accountable for the recommendation. AI can produce an answer, but it does not carry fiduciary responsibility or help implement the decision. It also does not monitor changing facts or sit with a family after a decision creates an unexpected tax or estate consequence.

The SEC states that an investment adviser owes clients a fiduciary duty, including duties of care and loyalty. The CFP Board requires CFP® professionals to act as fiduciaries when providing financial advice, including duties of loyalty, care, and following client instructions. For our team, those standards require each recommendation to connect back to a client's goals. They also require us to evaluate conflicts, consider alternatives, and help implement decisions with care.



In Conclusion

Praetorian Guard uses technology as a tool, not as a substitute for judgment. AI can help investors ask better questions, understand planning language, and recognize issues they need to discuss. The danger comes from treating fluent language as if it were a complete financial plan. Complex wealth decisions require human judgment and contextual understanding. They also require careful implementation, a clear view of the tradeoffs, and accountability for the recommendation. AI may be most useful when it serves as a starting point for a more thoughtful planning conversation with a fiduciary CFP® professional.

TAX LESSONS IN EVERYDAY FINANCIAL DECISIONS

By **Drew W. Nelson, CFP®**

Many of our conversations with client families revolve around life's biggest financial decisions, including selling a home, welcoming a child, renting out a property, or making a charitable gift. While these moments are rarely driven by taxes, they often create planning opportunities that can have a meaningful impact on your long-term financial picture. Understanding those tax implications can help you keep more of what you've earned while ensuring your financial plan continues working as intended.

SELLING A HOME IS NOT ALWAYS TAXABLE

Homeowners can exclude up to $250,000 of capital gains from the sale of a primary residence ($500,000 for married couples filing jointly), provided they've owned and lived in the home for at least two of the past five years. For example, if you purchased your home for $250,000, lived there for 10 years, and sold it for $500,000, the entire gain may be tax-free!

Active-duty servicemembers receive an additional benefit. While on qualified extended duty, the IRS generally allows the normal five-year ownership and residency testing period to be suspended for up to 10 years, making it much easier to preserve the home sale exclusion despite PCS moves or long-term deployments.

However, not every home sale qualifies automatically. Prior rental use, business use, or moving before satisfying the residency requirements can reduce or eliminate part of the exclusion. If you are already considering a move, reviewing the tax implications beforehand may preserve benefits that cannot be recovered later.

HAVING A CHILD IS MORE THAN JUST A NEW FAMILY MEMBER

Welcoming a child can also create valuable tax planning opportunities. The Child Tax Credit can reduce your federal tax bill by up to $2,200 per qualifying child, and families paying for childcare while working may also qualify for the Child and Dependent Care Credit.

It's also an excellent time to begin saving for your child's future. A 529 education savings plan allows investments to grow tax-free, and qualified withdrawals for education expenses are also tax-free. Many states also offer additional tax incentives for contributions.

Families now have another savings option as well. Trump Accounts, which recently became available, allow eligible children under age 18 to receive up to $5,000 annually into a tax-advantaged investment account. Children born between 2025 and 2028 may also qualify for a one-time $1,000 federal seed contribution.

Although taxes are rarely top of mind when welcoming a new child, making a few planning decisions early can create tax savings today while building financial flexibility for the years ahead.

RENTING OUT YOUR HOME: A LITTLE-KNOWN TAX RULE

Many homeowners may rent their property for a short period during a major local event (ie, on the Monterey Peninsula that includes golf tournaments, Pebble Beach Concours d'Elegance car show or Pebble Beach Food & Wine, etc.). Few realize the tax code contains a special provision that may make this income completely tax-free.

Under Internal Revenue Code Section 280A(g), sometimes called the "Masters Rule," homeowners who rent their personal residence for 14 days or fewer during the year generally do not have to report that rental income on their federal tax return, provided the home remains a personal residence under IRS rules. The nickname comes from Augusta, Georgia, where many homeowners rent their homes during Masters Tournament week.

This strategy can produce meaningful tax savings, but documentation is essential. Rental rates should reflect fair market value, and the rule applies only if specific requirements are met.

CHARITABLE GIVING: GIVING SMARTER, NOT JUST MORE

For retirees age 70½ or older, Qualified Charitable Distributions (QCDs) allow gifts of up to $111,000 in 2026 to be made directly from an IRA to qualified charities. These gifts can satisfy required distribution rules, when applicable, while keeping the donated amount out of taxable income. For many households, this provides a greater tax benefit than claiming a charitable deduction.

Another effective strategy is a Donor-Advised Fund (DAF). A DAF allows you to make a large charitable contribution in one year and receive an immediate tax deduction while recommending grants to charities over many future years. This approach is often especially valuable after selling a business, realizing large investment gains, or experiencing another unusually high-income year.

GOOD FINANCIAL DECISIONS DESERVE GOOD TAX PLANNING

A comprehensive financial plan does more than just consider investment accounts. It helps coordinate tax strategy with the decisions you are already making so that your financial life works together. If you're navigating a major financial decision, we'd be happy to help you evaluate how it fits into your broader financial plan.

PRESIDENT'S COMMENTARY

The attention of the world has been on the U.S.-Iran conflict and the negotiations underway during this 60-day period. However, the larger picture appears to be that the United States has reshaped the flashpoints to our advantage. Regarding Iran, I am not hopeful of a long-term resolution as that nation's leadership has an almost five-decade track record of bad faith negotiations. But, they are also dealing (for the first time) with a U.S. administration that actually uses "all the options on the table."

Additionally, the major oil producers in the region are rapidly building pipelines to get crude oil to market without shipping it through the Strait of Hormuz. Iran's leverage at that choke point is a diminishing asset.

Ukraine and Russia's war grinds on but Ukraine's ability to strike deep into Russian territory is expanding the battlefield to their advantage. Regrettably, I predict that war only ends when Mr. Putin dies (or is assassinated) and not before.

Here at home our nation's 250th Birthday hopefully reminds all of us that this remarkable journey has not been perfect but has been a successful and never-ending journey towards a more perfect Union.

POLITICAL AND ECONOMIC OUTLOOK

By **Joseph P. Clark, CFP®**

Real-time estimates for U.S. Q2 2026 Gross Domestic Product (GDP) growth vary across Federal Reserve models, and the range is from 1.2% to as high as 2.7% with the median much closer to the lower end. The significant variance between the models reflects the ongoing effects of a wider trade gap and global economic uncertainty. When comparing these projections to the Q1 2026 actual growth rate of 2.1% based upon the latest revision, it appears that the economy may be showing signs of cooling off but we are still in a period of positive growth. The annual inflation rate (measured by the Consumer Price Index) sits at 4.2% as of the 12-month period ending in May 2026, with the core inflation rate (excluding volatile food and energy) at 2.9%. Due to the conflict with Iran, we've seen energy costs cause rising inflation for three consecutive months to put the CPI at its highest level since April 2023.

Oil, Inflation, & Equity Markets

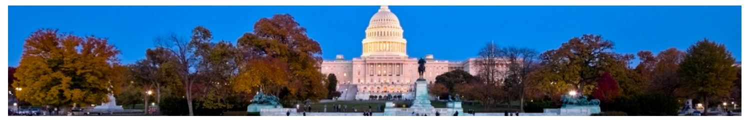
As the flow of crude oil through the Strait of Hormuz began to normalize, we saw oil prices drop to pre-conflict levels below $70 per barrel. In theory this should gradually reduce the costs of transportation and manufacturing for companies which could lead to both improved corporate profits and lower prices for consumers. However, recently some economists warn that cheaper fuel may simply stimulate consumption, keeping inflation persistently high and prompting the Federal Reserve to hold interest rates higher for longer. Higher rates increase costs for businesses and can negatively affect their output and earnings.

Federal Reserve Policy Implications

In Kevin Warsh's first meeting as chairman, the Federal Reserve voted unanimously in June to hold the federal funds target range at 3.50 percent to 3.75 percent. This is the same level where it has been since the central bank lowered rates by three quarters of a percentage point in the latter part of 2025. They noted that economic activity is expanding at a solid pace despite uncertainties surrounding the conflict in the Middle East. Productivity growth and capital investment were reported to be strong, and the unemployment rate has been stable. Given those factors and inflation above the target of two percent, the board saw no need for a lowering of rates despite pressure from the White House. The Fed's June projections forecast for the federal funds rate at year end to be 3.8%, which signals the committee sees the potential for a rate increase this year. For the time being, it seems that any concerns about the Fed's independence under new Fed Chair Warsh appear to be unwarranted.

Midterm elections

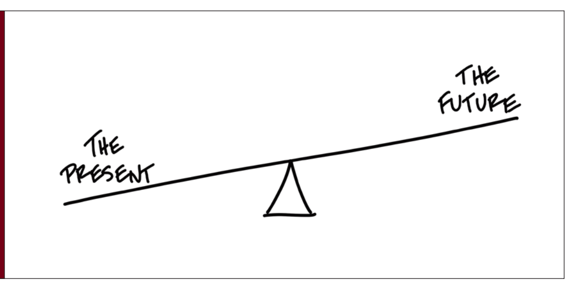
Over the next several months, much of the country will focus on the mid-term elections coming this November. The results will likely reflect how the country feels about the success or failure of the current administration's policies. Currently, prediction markets suggest that there is over an 80% chance that the Democratic Party will regain control of the House with a healthy margin. Those same markets also predict that there is nearly a 60% chance the Republican Party will retain control of the Senate, however they may lose a couple of seats. That means that we can expect a divided government this Fall, and it will become even harder to pass meaningful legislation. The good news is that in the long-term, the stock market tends to ignore these cyclical political turnovers. Instead, the markets focus on earnings and productivity, both of which have proven to thrive in different political environments.



Closing Thoughts

Over the years, the stock market has demonstrated remarkable, historic resilience, repeatedly absorbing unprecedented macroeconomic and geopolitical shocks without breaking. After surging in 2021, equities faced a punishing 2022 bear market as inflation spiked to 9.1% and the Federal Reserve aggressively raised interest rates 11 times to curb it. Just as the market began its recovery with outstanding returns in 2023 and 2024, it was met by a fresh barrage of complications. These included major global trade disruptions and the implementation of historic U.S. tariff policies in 2025, followed closely by the 2026 U.S.-Iran military conflict, which temporarily closed the Strait of Hormuz and pushed energy prices to multi-year highs. Yet, despite brief corrections and stickier-than-expected inflation (keeping rate cuts at bay), corporate earnings have remained robust. Recent resilience has been heavily anchored by a massive, revolutionary structural shift toward Artificial Intelligence (AI) infrastructure build-outs that will end no time soon. Instead of triggering a prolonged decline, these overlapping crises have ultimately highlighted a highly adaptive corporate ecosystem. This is why financial plans and investment portfolios must focus on long-term goals rather than geopolitical events that dominate the current news cycles.

WHEN VALUES COLLIDE



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CLOSING THOUGHT

"Private capitalism makes a steam engine; State capitalism makes pyramids."

— Frank Chodorov (1887-1966)

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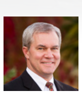

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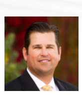

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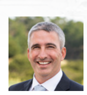

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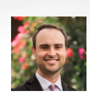

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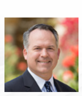

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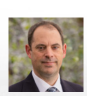

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