

## **A Letter From Our Chairman**

September 17, 2026



## Robert W. Kleinschmidt

Our primary investment objective is to preserve the long-term capital of our clients from the erosion caused by the combined forces of inflation and taxes. At first blush, this may appear to be a modest goal, but in fact, over the long haul, it is a significant challenge.

Most clients have at least two goals for their capital. One, they depend on an income flow to supplement or provide entirely for their daily living and, two, they desire to transfer their wealth to future generations. With marginal taxes on income of nearly 50% in some states and estate taxes in the 60%-65% range, preserving capital for future generations even with no inflation is a daunting task. But to make matters worse, inflation hasn't been eliminated. Even the benign rates of inflation that have prevailed over the past decade can have a pernicious cumulative effect on the value of capital. A decade of modest inflation averaging 3% per year reduces the real purchasing power of capital by more than 25%. Since most of our client relationships span the decades, our focus on capital preservation is paramount.

Of course, when we find the risk parameters acceptable, we strive to increase real wealth for clients, as we have consistently done in the past. Still, the first rule to preserving capital is not to lose it. We are simply not going to put our clients' capital into what we perceive to be risky situations, regardless of how great the potential reward. We view our clients, for whom in most cases we manage all their investable funds, as people, not portfolios. Portfolios are measured against the S&P 500, the Dow Jones Industrial Average, the Russell 2000 and many other indices. We measure our success in the long-term relationships we have developed with people who have come to us to preserve and protect their capital.

"We view our clients, for whom in most cases we manage all their investable funds, as people, not portfolios."

The financial history of the 19th and 20th centuries shows that of all asset classes, the one best equipped to preserve capital over long periods of time is equities. Thus, we focus on equities. While we are experienced in fixed income investments, capable of managing balanced portfolios, and do include bonds and preferred stocks in some portfolios when client circumstances warrant it, we strongly recommend common stocks for our clients' portfolios.

But equity investing does expose our clients to short term market volatility. While this volatility evens out over the long term, the short term gyrations of the stock market can be disconcerting, to say the least. Often, inexperienced equity investors become so shaken by short term effects that they pull out of the market at the bottom after the damage has been done, and cannot be coerced back into equities until

after a long rally in stocks restores their confidence. No wonder we have heard so many prospective clients say to us, "I have never made any money in the market."

At Tocqueville we view our most important task is to keep our client investors invested. Only by staying invested over the long term can clients' portfolios participate in the increased valuation of equities over time. Of course, if one could pick market tops to sell everything and identify market bottoms to reinvest, staying invested wouldn't be so important. But timing the market is a fool's game. Idle cocktail chatter aside, we have never encountered a consistently successful market timer.

To keep our clients comfortable enough to stay invested requires a communications and service effort which helps clients understand the dynamics of the markets and the companies in which they are invested. Not all clients have the same communication needs. Through periodic newsletters, articles published on our web site, [www.tocqueville.com](http://www.tocqueville.com), and frequent telephone and face to face meetings with our clients, we ensure our clients remain as fully informed as they feel they need to be. Good communication is only part of the story, however. Keeping clients comfortable with the markets also requires an investment style, which minimizes volatility to the extent possible. Our investment style, which we label contrarian value, is the key to our success in this area.

Contrarian value investing is a conservative approach, which is outside of the mainstream of the investment community. Most investors invest for growth. Everyone wants to own companies whose revenues and earnings are growing. Who wouldn't want to be an early investor in the next Microsoft? We have no brief against growth. Indeed, we embrace it. A company that consistently grows its earnings, cash flow, and book value is highly desirable. That is not debatable. The rub is the price the market traditionally assigns to growth expectations. Except for those occasional periods when the opportunity to invest in growth companies presents itself to value investors, the market typically assigns valuations for predictable growth which are too rich, and therefore, too risky for our conservative clients. Just as market valuations for predictable growth tend to be too high (in our view), the penalty for disappointed growth expectations can be too severe. Limiting our clients' exposure to those violent downdrafts in stock prices requires us to investigate areas of the market where investor expectations are low and investment psychology is negative. By focusing our efforts in these contrarian situations, we limit our opportunity to uncover the next Microsoft, but we also protect them against bursting speculative bubbles.

"We look for value in a company's balance sheet, in its ability to generate cash, the durability of its franchise, the reasonableness of its long-term strategy."

While going against the consensus is part of our philosophy, it is not the whole story. Sometimes the consensus is right! In order for Tocqueville to establish a position in a security, we must be convinced

that there is intrinsic and overlooked value. We look for value in a company's balance sheet, in its ability to generate cash, the durability of its franchise, the reasonableness of its long-term strategy. Unlike most of Wall Street, we are not as concerned with its near term earnings outlook. Indeed, many companies we place in our portfolios have become cheap because of an earnings shortfall or a temporarily depressed earnings outlook. As long-term investors, our focus is on the longer-term earnings power of a business franchise. Opportunities caused by disappointed short-term expectations is grist for our mill. We also like to see a catalyst for positive change in an investment situation. But we are patient investors, and if the value is there, we are willing to wait for a catalyst to emerge. Frequently, this can be a change in management, or a change in management philosophy.

The foregoing is a good summary of our investment philosophy, particularly our approach to buying stocks. What about selling them? Any value investor will tell you that the sell decision is the most difficult part of the investment process. Almost all of them will also lament their penchant for selling too early. At Tocqueville, unlike most of our peers, we believe that a price increase in a stock is not reason enough to sell. Our criterion in going into a position, (in addition to low downside risk), is the opportunity to make a 50%-100% return over a 3-5 year period, approximately a 15% annual rate of return. As long as that potential remains, we will continue to hold the position. Some positions have been held in portfolios for ten years or longer. Because of this discipline, our portfolio turnover tends to be low. Low portfolio turnover, far from being a sign of inactivity, indicates the significant research we do on companies and the high comfort level that develops when we know a company well.

We will also sell stocks for portfolio reasons. We are not comfortable holding disproportionately large positions in a portfolio, no matter how attractive a company's prospects. Outsized positions represent too much risk in the event that the company stumbles. Consequently, we will trim large positions in equities on the way up as an investment matures.

"We expect our managers, indeed all of our employees, to invest alongside our clients, to have at risk their own capital in the same investment decisions they make on behalf of our clients."

An integral piece of our investment philosophy is the marriage of our client portfolios with our own. We expect our managers, indeed all of our employees, to invest alongside our clients, to have at risk their own capital in the same investment decisions they make on behalf of our clients. To avoid any conflict of interest, we require that Tocqueville employees generally confine most of their investments to our family of mutual funds, which are managed identically to the portfolios of our larger clients. We believe that an investment idea which is good enough for one of our principals, must be good enough for our clients. Moreover, we do not want any of our managers to be distracted by their personal holdings to the

detriment of our clients' interests. By marrying our clients' portfolios with our own, we further strengthen the bond between our clients, ourselves, and the principles of long term conservative contrarian value investing.