

Anniversary Edition

Lyell Wealth Management's tenth anniversary next month brings a range of emotions, not the least is: how did we get so old? Truly, it is remarkable how quickly a decade can pass. However, if you had asked the four Lyell founders in May 2016 what we hoped our Firm could become, we could not be more pleased with today's reality.

Lyell has grown from the initial four to a team of eleven professionals, each of whom is a shareholder in the Firm. By this time next year, we will have expanded our office space for a second time, with a move upstairs to a larger suite. We currently work with more than 300 clients and have over \$1.6 billion in assets under management. Most importantly, we are fortunate to work with clients we genuinely enjoy as we help them pursue their financial and life goals.

Lyell has had to navigate numerous challenges managing client portfolios over the past decade. A global pandemic, Federal Reserve policy mistakes, AI, tariffs, and Iran among many other events, have created periods of extreme volatility. Our experience has reinforced the key principles on which we founded our Firm, and we thought that this was a good opportunity to revisit them.

We are Service Providers, Not Salespeople

Lyell professionals focus on our clients' financial needs and portfolios, as well as on evaluating new and existing investments. We do not have sales pipelines or track new business. Our priority is our existing business, not growth. We have been fortunate to add new clients over the years, but those relationships have typically resulted from introductions by existing clients or from longstanding personal relationships.

Be Accessible and Responsive

Our service orientation means being readily accessible when clients want to engage. No issue is too small if it is important to a client. Clients should expect prompt responses to emails and phone calls.

We Are Better Together

Lyell has a collaborative culture in which all professionals are invested in each client's success. Although a client may work directly with only a few Lyell people, internally we rely on a broad in-house skill set of knowledge and expertise. We have built an institutional investment process through which we collectively decide which investments belong on our "Buy List," and we regularly discuss target asset allocations and which positions we would buy, sell or trim. We intentionally created a Firm in which the approach to client portfolios is consistent across Wealth Managers.

Tailor Asset Allocation to Specific Client Circumstances

Our clients have a wide range of financial objectives and risk tolerances. We listen to them and observe their preferences, so that we can implement an appropriate asset allocation for each client. Each client has different liquidity needs, as well as different tolerances for portfolio volatility. Because a major shock is possible at any time, client portfolios should be constructed in anticipation of one. We never want to react to a shock by becoming more conservative or by building additional liquidity after the fact.

We are Investors, Not Traders

In our stock portfolios, Lyell seeks to invest in companies with organic revenue growth, strong margins and competitive moats. Over time, we view these companies as likely to outperform those that are more dependent on any particular economic environment. As such, if a company's competitive positioning is intact, it is rare for an economic event to



have a lasting effect on its business. Market structure has evolved considerably since Lyell's founding, and many retail and institutional investors now operate with extremely short-term horizons. This short-term orientation has resulted in heightened volatility, as traders move in or out of positions based on what are often minor events. We believe there are times when our longer time horizon advantages clients, as we can add to or trim positions during these periods.

Reflexivity

An important concept for us during volatile market periods is "reflexivity." Volatility is usually the result of an unanticipated shock. The idea behind reflexivity is that those affected by that shock are not going to mindlessly continue operating as if the shock never occurred. Consumers, voters, companies, and governments will adapt in an effort to avoid the worst outcomes. In the short term, market participants often buy and sell as though this is not true, or as though the worst outcome is unavoidable. Our experience has repeatedly suggested otherwise. This perspective helps us stay calm and avoid making poor decisions in the heat of a market panic.

This is Normal

Similarly, taking a long-term view means we do not wait for things to "return to normal." The truth is that markets normally go up and down, and there is always uncertainty and reasons to worry. This year has been a good example: worries about AI were followed by worries about the war in Iran, which will no doubt be replaced by something else. We do not like it when portfolio values decline, but we remain confident that, if we have done our work well, both in evaluating investments and in setting the appropriate asset allocation for each client, they will eventually rebound and perform well over time.

Diversification

Although asset allocation is the primary driver of investment returns, diversification can help smooth volatility and returns. Where appropriate, we try to incorporate various asset classes and stock sectors in portfolios in order to reduce correlations and improve risk-adjusted returns. The first quarter of this year was an extreme example of the benefits of diversification, as there was a huge dispersion in individual stock returns. Numerous stocks were up or down by 30% or more during the quarter. Fortunately, these extremes largely netted out, as the winners mostly offset the losers within clients' stock allocations. For clients with fixed income in their portfolios, the non-stock diversification improved overall returns.

Sometimes the Right Thing is to Do Nothing, or Not Much

As a result of the above principles, we tend to get "quiet" when the market gets noisy. We have found that, if portfolios are well positioned, any changes should be incremental. We spend a significant amount of time reading research, tracking existing investments, and considering new ones. Market turmoil can create opportunities to make investments that previously seemed too expensive. However, it is our observation that human nature can be biased toward "doing something" when, in fact, doing nothing may be the best course of action.

If you are a Lyell client, thank you. We are very grateful for the trust you have placed in us. It has been an extremely rewarding decade serving you and doing what we love. Here's to the next ten years!



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