MARKET COMMENTARY

EQUITY ANALYSIS

QUALITY FIRST: THE BEDROCK PRINCIPLE

At Washington Crossing Advisors, we adhere strictly to a "quality at a reasonable price" philosophy. We do not pursue "growth at a reasonable price," nor do we chase "yield at a reasonable price." Our foremost principle is quality, as we firmly believe that quality endures better than growth over time. In our view, companies with less debt, more profitable assets, and consistent business performance exemplify high quality.

To systematically assess quality, we employ a rigorous quantitative process, grading the 1,000 largest U.S. stocks from "A" (highest quality) to "F" (lowest quality). These two groups —"A" Quality (up 12% in the past year) and "F" Quality (up 25% in the past year) — serve as key references throughout this commentary.

ADDRESSING VOLATILITY: A CRITICAL FACTOR IN WEALTH ACCUMULATION

Volatility is a crucial factor in portfolio management, as it can significantly erode returns through what is known as "volatility drag." This phenomenon is a tangible detractor from long-term wealth accumulation. Moreover, our strategies aim to generate a stable stream of income for investors, and achieving this objective requires not just capturing high returns but also preserving gains during challenging market conditions. While strong upswings in bull markets may seem exhilarating, the emotional and financial toll of market downturns is often more pronounced. To stay committed for the long haul, addressing risk is just as important as pursuing returns.

THE MARKET'S PENDULUM: GREED VS. FEAR, EXPANSION VS. CONTRACTION

Market leadership shifts over time, swinging between greed and fear, bull and bear markets, and economic expansion and contraction. When markets are exuberant and risk appetite is high, lower-quality stocks, represented by our WCA "F" Quality Index, tend to lead. However, when the cycle turns and market tides recede, exposing underlying weaknesses, higher-quality stocks, represented by our WCA "A" Quality Index, tend to outperform.

For some time now, we have been in an improving economic and market environment. Our proprietary WCA Barometer (Chart A, page 3) has remained strong, and this backdrop has fueled a rally in equities. The Barometer takes the temp of the economy after assessing economic indicators and capital and credit markets- readings above 50 signify more bullish sentiment towards stocks. In this risk-embracing market, lower-quality "F" Quality stocks have led the charge, gaining 25% over the past year, while "A" Quality stocks—the type we prioritize—have risen 12%. This pattern is consistent with past cycles where speculative, riskier stocks dominate in euphoric market phases.

UNDERSTANDING THE CYCLICAL NATURE OF QUALITY LEADERSHIP

History has shown that market preferences oscillate between high- and low-quality leadership (Table A, page 3). Over the past 20 years, these shifts have played out in well-defined cycles. Currently, we are in the 22nd month of a phase favoring lower-quality stocks, with "F" Quality stocks outperforming "A" Quality stocks by 20%. Both the duration and magnitude of this trend align with historical averages. While the precise timing of a reversal remains uncertain, the extended duration of the current cycle suggests we may be closer to the end than the beginning. Now may be an opportune time to position for a shift back toward quality.

THE RISK-RETURN TRADEOFF: A WORD OF CAUTION

It is imperative to recognize the extreme dispersion of returns associated with lower-quality stocks. In bullish markets, these stocks can deliver exhilarating gains, as evidenced by their 25% return over the past year. However, their downside risk is equally pronounced. To illustrate this point, we present a dispersion analysis comparing the returns of "A" Quality and "F" Quality stocks (Chart B, page 4). The results highlight a key distinction: "A" Quality stocks exhibit far more predictable, stable returns, whereas "F" Quality stocks demonstrate extremely wide-ranging and often unpredictable performance. Investors seeking higher returns by venturing down the quality spectrum may find plenty of excitement, but this often leads to painful and outsized losses when the cycle inevitably turns. Uncertainty reigns in the low-quality group and "fat tail" downside risks like those experienced during the 2007-08 Financial Crisis are substantial, so tread carefully!

STAYING TRUE TO OUR PRINCIPLES

Time and again, we have seen the tortoise outperform the hare. Slow and steady has indeed proven to be the winning strategy over the long run (Chart C, page 4). While we acknowledge the excitement surrounding recent high-risk, high-reward market trends, we remain steadfast in our belief that a focus on quality is the most effective risk management strategy. This principle has been, is now, and will always be the foundation of our investment philosophy.

CHART A | WCA "BAROMETER" Source: WCA

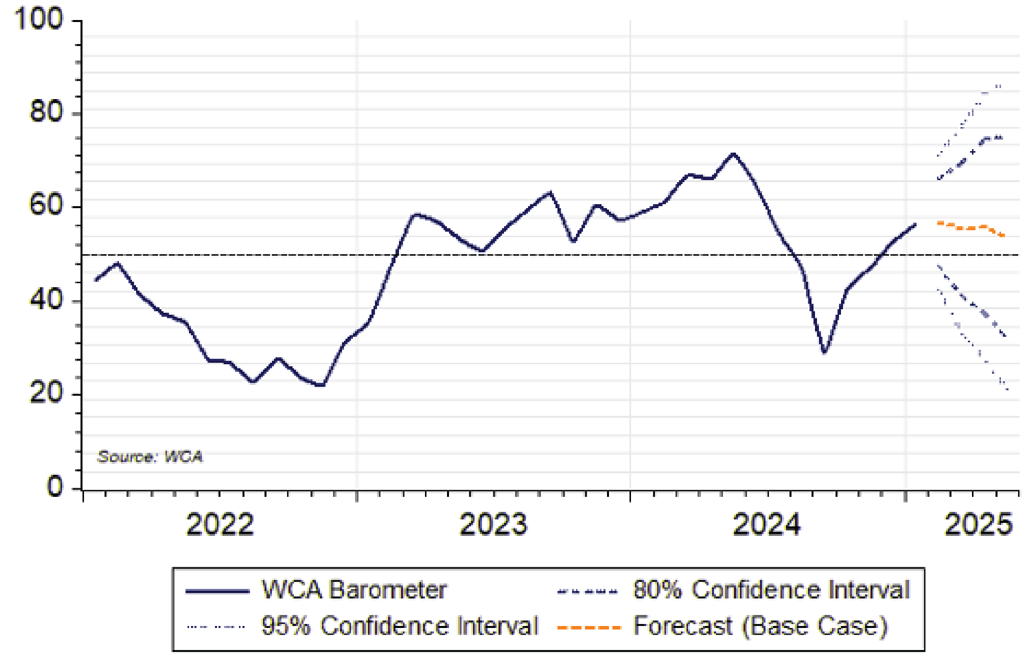


TABLE A | QUALITY CYCLES (SEPTEMBER 2004 – JANUARY 2025) Source: WCA

WCA "A" vs. "F" Quailty Indices

				WCA Barometer			Performance: Cumulative		Performance: Annualized	
Start	End	Number Months	Quality Cycle	Start	End	Change	"A" Quality	"F" Quality	"A" Quality	"F" Quality
9/1/2004	7/4/2007	35	Low	50	64	14	44%	75%	14%	22%
7/4/2007	2/25/2009	20	High	64	13	-50	-38%	-72%	-25%	-53%
2/25/2009	4/14/2010	14	Low	13	82	69	58%	227%	49%	181%
4/14/2010	9/28/2011	18	High	82	18	-65	10%	-23%	7%	-16%
9/28/2011	6/25/2014	33	Low	18	68	50	79%	120%	23%	33%
6/25/2014	2/3/2016	20	High	68	20	-48	7%	-27%	4%	-18%
2/3/2016	1/4/2017	11	Low	20	85	65	18%	45%	20%	49%
1/4/2017	3/11/2020	39	High	85	32	-53	44%	-21%	12%	-7%
3/11/2020	3/10/2021	12	Low	32	79	47	38%	119%	38%	117%
3/10/2021	4/6/2023	25	High	79	57	-22	12%	-17%	6%	-8%
4/6/2023	???	22	Low	52			34%	54%	17%	27%
Cycle Average		23					28%	44%	15%	30%
Full Period		248					1023%	634%	13%	10%

CHART B | WCA "A" QUALITY STOCKS OFFER STEADIER RETURNS THAN "F" QUALITY STOCKS Source: WCA

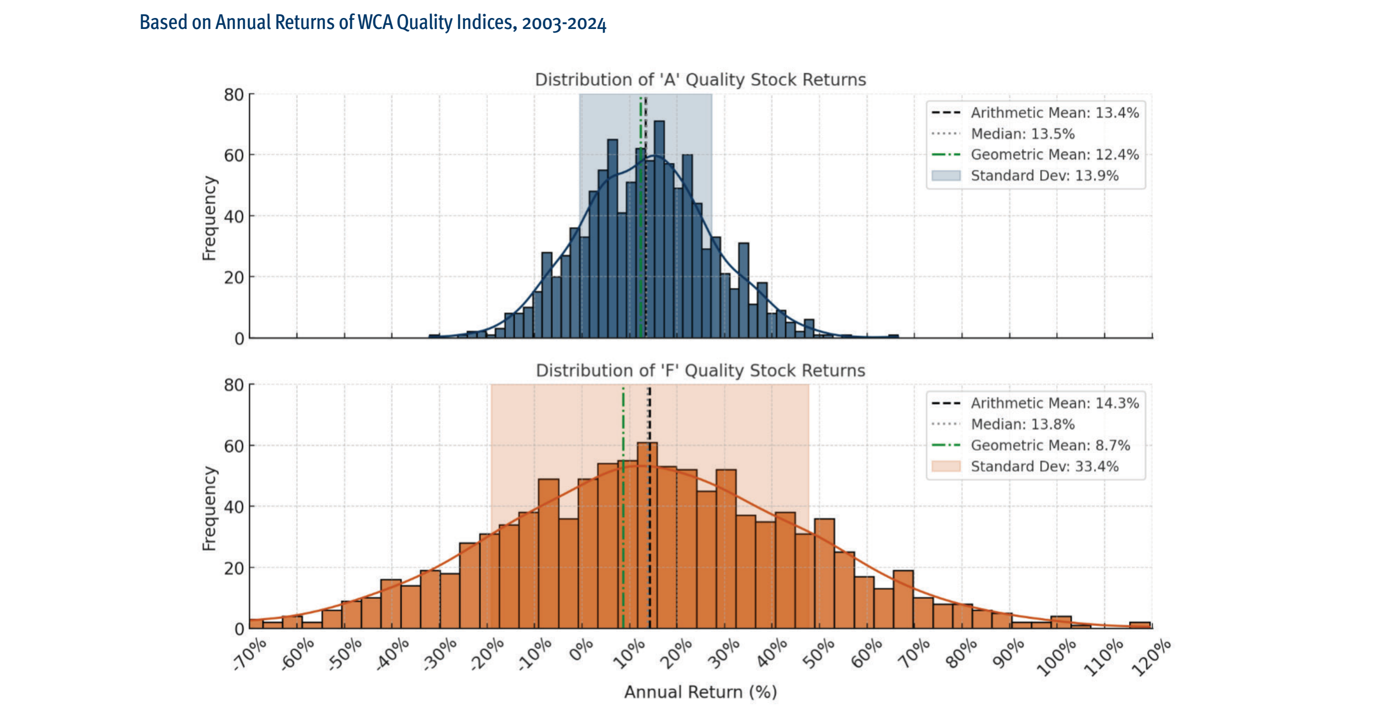
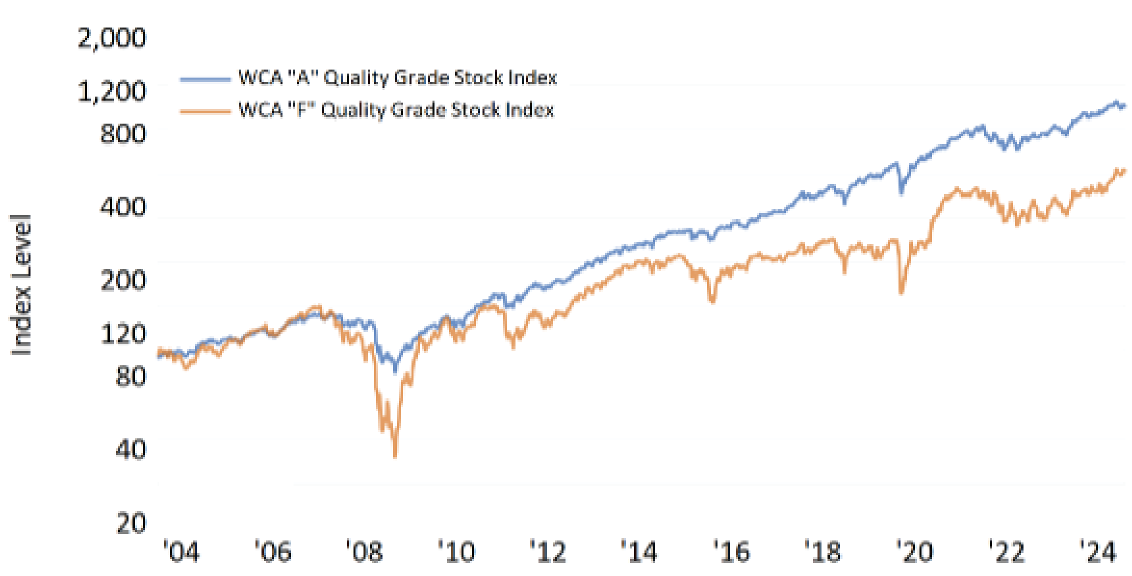
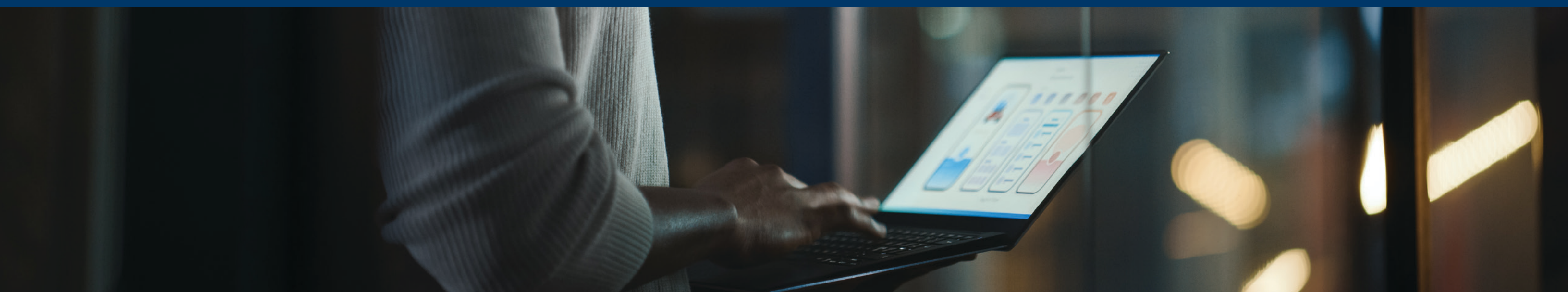


CHART C | WCA "A" VS. "F" QUALITY INDEX PERFORMANCE (2004-2024) Source: WCA



CONCLUSION



As we navigate the current market landscape, we will continue to participate in the opportunities presented, but we will not compromise our principles by chasing lower-quality stocks or overpaying for growth.

This discipline has enabled us to pursue strong, risk-adjusted returns and reliable income streams. In the long run, we believe quality remains the most effective defense against volatility and uncertainty.

IMPORTANT DISCLOSURES

Standard & Poor's 500 Index (S&P 500) is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

The Washington Crossing Advisors' High Quality Index and Low Quality Index consist of the largest 1,000 U.S. stocks by market capitalization. After these stocks are determined, each one is assigned a letter grade (A, B, C, D, F) based on consistency (earnings and stock price volatility), leverage (debt/enterprise value), and profitability (return on assets). Companies that are assigned an A or B rating will be included in the High Quality Index, while companies with C, D, and F ratings are included in the Low Quality Index.

WCA Barometer: We regularly assess changes in fundamental conditions to help guide near-term asset allocation decisions. Analysis incorporates approximately 30 forward-looking indicators in categories ranging from Credit and Capital Markets to U.S. Economic Conditions and Foreign Conditions. From each category of data, we create three diffusion-style sub-indices that measure the trends in the underlying data. Sustained improvement that is spread across a wide variety of observations will produce index readings above 50 (potentially favoring stocks), while readings below 50 would indicate potential deterioration (potentially favoring bonds). The WCA Fundamental Conditions Index combines the three underlying categories into a single summary measure. This measure can be thought of as a "barometer" for changes in fundamental conditions.

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All investments involve risk, including loss of principal, and there is no guarantee that investment objectives will be met. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Beta is a measure of the volatility, or systematic risk, of a security or a portfolio relative to the market as a whole. A beta of one is considered as risky as the benchmark and is therefore likely to provide expected returns approximate to those of the benchmark during both up and down periods. A portfolio with a beta of two would move approximately twice as much as the benchmark.

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