EQUITY MARKET ANALYSIS

SPECIAL SERIES

Over the years, the investing thesis of Washington Crossing Advisors has endured; namely, buying quality companies at reasonable valuations. Through market peaks and troughs, unpredictable inflation and interest rate swings, and periods of volatile growth, WCA remains committed to owning predictable businesses with low debt and profitable assets. In doing so, we construct our equity portfolios with a keen focus on volatility, aiming to achieve a strong risk-adjusted return over time. The following commentaries dive deeper into our quality thematic while addressing commonly misunderstood investing concepts that could present hidden dangers in portfolios.

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THE GROWTH HYPE & VALUATION REALITY

There has been much discussion recently about growth. Artificial intelligence and other emerging technologies are fueling expectations for high returns, pushing stock values to record highs. While analysts forecast uninterrupted growth, we question whether some of these expectations are realistic. Markets appear to be pricing in very high growth assumptions, which may prove difficult to meet over time.

THE THREE PILLARS OF VALUATION

Three key factors drive valuations: opportunity cost, risk, and growth. Opportunity cost reflects the need for returns that exceed what can be earned in risk-free assets, such as U.S. Treasury bonds. Riskier assets demand a premium to compensate for their uncertainty. Finally, growth expectations influence the price investors are willing to pay—higher growth justifies higher valuations.

THE ALLURE (AND DANGER) OF ENDLESS GROWTH

As enthusiasm rises, it becomes easier to justify paying elevated prices by assuming endless growth. The higher the projected growth rate and the longer the time horizon, the more plausible such prices may seem. Today, the S&P 500 Growth Index trades at nearly 33 times next year's forecasted earnings—the highest valuation in 25 years (Chart A, page 3)—and 50% higher than the 22x multiple for the average Washington Crossing Advisors holding. Analysts project an average of 12% annual earnings growth for the next three years, according to Bloomberg data.

LESSONS FROM HISTORY: WHEN GROWTH COLLAPSES

However, history warns us that lofty growth expectations can quickly crumble. During the early 2000s and the 2007-2009 Financial Crisis, growth forecasts evaporated, and high-growth stocks lost significant value—some by 50-80%. By contrast, companies with low debt, stable franchises, and consistent profitability weathered these periods far better.

THE LIMITS OF GROWTH

It is also worth noting that no company can grow faster than the economy indefinitely. As firms grow larger, sustaining high growth becomes increasingly difficult. A recent Goldman Sachs study found that only 11% of com-panies with over 10% revenue growth maintained that rate for a decade, and just 3% of companies with 20% growth sustained that lofty rate. Over time, growth inevitably slows.

BEHAVIORAL BIASES AND THE GROWTH TRAP

Behavioral factors also play a part. When conditions are favorable, we tend to take a long-term view. When conditions deteriorate, patience fades, and short-term thinking prevails. A sudden slowdown or financial crisis often leads to rapid reductions in growth forecasts and a preference for near-term dividends over long-term potential. All of this is a surefire recipe for locking in losses at the most inopportune time.

THE RISK OF CHASING GROWTH

To illustrate the risks of focusing too heavily on growth, we analyzed the *implied long-run growth rates*[1] for S&P 500 stocks (Chart B, page 3). As expected growth increases, so does beta (risk). This correlation reflects the uncertainty inherent in growth projections and the sensitivity of long-term cash flows to interest rate changes—similar to the volatility seen in long-term bonds.

Notice also that the WCA holdings tend to avoid some of the highest implied growth rates with the highest risk (beta) and cluster together more tightly than the index constituents.

GROWTH GROUNDED IN QUALITY

This is not to say growth is undesirable. Growth is a vital driver of equity returns. However, it must be grounded in durability and solidity—traits often found in companies with low debt, consistent profits, and reliable businesses. These qualities, which we call "WCA Quality," should form the foundation of any growth investment.

CONCLUSION

In the end, growth is an uncertain and sometime fickle variable that can change with the times. While high growth expectations can fuel enthusiasm, they can also create disappointment. By focusing on quality and durability, we can focus on a more enduring aspect of most businesses. This helps us navigate changing market conditions with greater confidence.

The Washington Crossing Advisors approach is not about chasing fleeting trends but about investing in what lasts. Enduring success lies not in betting on boundless growth but in finding resilient businesses at reasonable prices—this is a discipline which has stood the test of time.

1. *Calculated using the Gordon Growth model.*

CHART A | S&P 500 GROWTH INDEX PRICE-EARNINGS MULTIPLE NEAR RECORD Source: WCA, Bloomberg

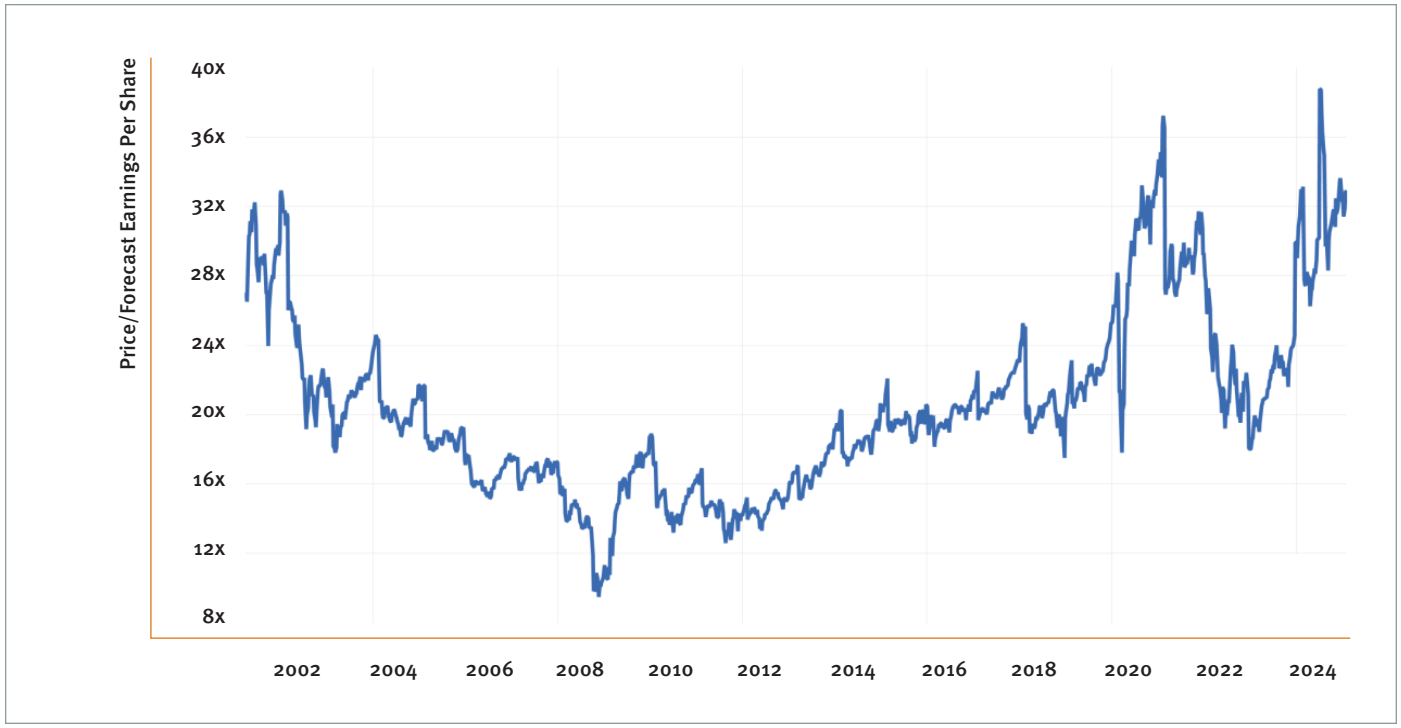
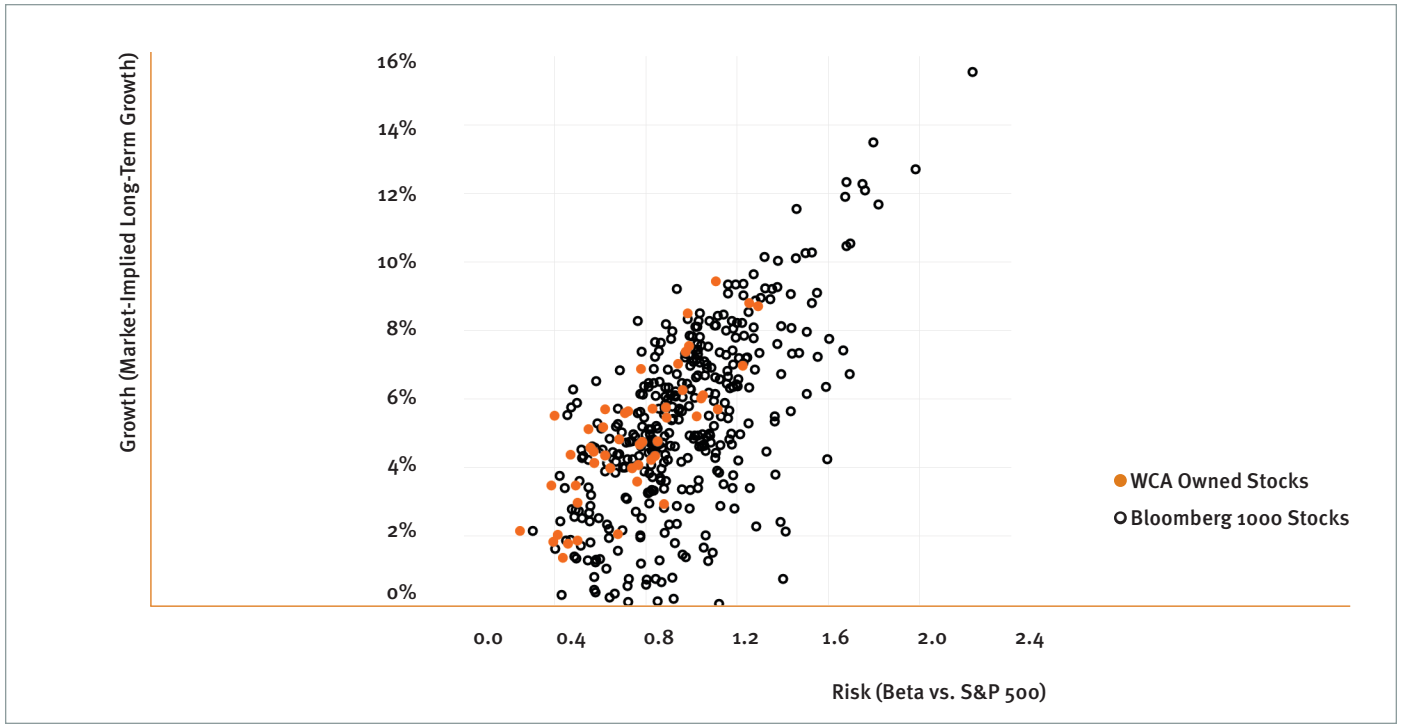


CHART B | HIGHER GROWTH IMPLIES HIGHER RISK Source: WCA, Bloomberg



IS DIVERSIFICATION OVERRATED?

Diversification is often regarded as the bedrock of sound investing. It is widely believed to reduce risk, smooth out returns, and provide stability in uncertain markets. However, this assumption deserves scrutiny, especially when considering the realities of bear markets.

MARKETS HAVE TWO ENVIRONMENTS: BULL AND BEAR

Investors must remember that markets operate in two distinct environments: bull markets and bear markets. While bull markets can be enjoyable—lifting nearly all stocks and creating an illusion of stability—bear markets expose vulnerabilities.

This reality is particularly important for:

- Investors with shorter time horizons, who may not have decades to recover from losses.
- Retirees or those dependent on portfolio income, who cannot afford dividend cuts or prolonged drawdowns.
- Individuals without steady income from a job, who cannot easily rebuild wealth lost in a downturn.

A portfolio that thrives in a bull market but collapses in a bear market is not a well-designed portfolio—especially for those who cannot afford to take long-term risks.

COMMON MISCONCEPTION ABOUT DIVERSIFICATION

Many will assume that the best way to handle risk is to diversify. The logic seems simple: by spreading investments across different sectors, asset classes, and geographies, losses in one area will be offset by gains in another.

We disagree—because diversification can unintentionally introduce unwanted risks and distract from attaining specific goals. A diversified portfolio is not necessarily a better portfolio. In fact, excessive diversification can:

- Dilute exposure to high-quality investments
- Reduce a portfolio's ability to withstand bear markets
- Introduce unrecognized risks, rather than mitigate them

For these reasons, we believe concentration in high-quality investments is a more effective strategy.

QUALITY FIRST, DIVERSIFICATION SECOND

Investing success does not come from owning more stocks—it comes from owning the right stocks. High-quality businesses tend to demonstrate:

- Lower debt levels
- Higher profitability
- More consistent earnings and dividends

These characteristics make them resilient in bear markets. However, if we diversified portfolios indiscriminately, we inevitably would end up with lower-quality businesses.

Over time, diversification-for-diversification's sake would water down the very qualities that we seek to provide protection and sustainable returns.

To use a sports analogy:
A championship team is built by concentrating on elite players, not by ensuring an "even mix" of skill levels across the roster. A football team that drafts a mix of top-tier and mediocre players for the sake of diversity will underperform compared to a team that prioritizes excellence.

Similarly, a portfolio that prioritizes diversification over quality will inevitably hold underperforming stocks that drag down returns—especially in bear markets.

THE FRAGILITY OF HIGH-YIELD INVESTING

The introduction of diversification for diversification's sake can easily cause a lack of focus. In our experience, the pursuit of high current income is a frequent distraction that draws portfolios into lower-quality areas, creating risk in the process. It is a common misconception that maximizing income through high-dividend stocks is the best way to build a stable portfolio.

We have heard this argument more than once. However, our research shows a clear *negative* correlation between quality and dividend yield—meaning the *highest-yielding* stocks are often of lower quality (Chart A, page 7). The chart groups the largest 1,000 stocks in the U.S. by our WCA Quality grade and highlights higher yield stocks in red and lower yield stocks in blue. Notice what quality grade the higher yield stocks tend to earn!

From this analysis, we conclude that chasing yield likely leads to:

- Overexposure to leveraged companies
- Businesses with unsustainable payouts
- Industries that are highly cyclical and vulnerable to downturns

For example, portfolios with large exposures to high dividends in financial stocks before 2008 suffered enormous losses when those companies cut or eliminated dividends. A similar situation unfolded in the energy sector in 2015 when oil prices collapsed.

Had focus remained on high-quality businesses with sustainable and growing dividends, instead of chasing the allure of high yield, portfolios may have been far better protected in these downturns.

THE HIDDEN RISK OF GROWTH INVESTING

On the opposite end of the spectrum, many investors assume that prioritizing growth over value is the best way to maximize returns. However, our data shows a positive relationship between growth expectations and stock beta—meaning high-growth stocks tend to be the most volatile (Chart B, page 7). While high-growth companies can thrive in bull markets, they often suffer disproportionately in bear markets. Their valuations are based on future expectations rather than current fundamentals, making them highly sensitive to economic shifts.

For example:
The dot-com bubble of the late 1990s saw speculative tech stocks soar—only to collapse when sentiment shifted. The 2021 growth stock bubble saw high-momentum names skyrocket—only for many to decline 50-80% when interest rates rose. A portfolio that overemphasizes growth may look strong in a bull market but will collapse when risk appetites change. This is why we concentrate on businesses that demonstrate steady earnings, strong balance sheets, and consistent profitability—regardless of market conditions.

THE HIDDEN RISKS OF OVER-DIVERSIFICATION

Many people assume diversification is the best way to reduce risk. However, this belief is dangerously incomplete. Consider the following:

- **Correlations Rise in Market Stress**
  In bear markets, assets that typically seem uncorrelated suddenly move together. This means that diversification fails exactly when it is needed most (Chart C, page 8).
- **Diversification Doesn't Eliminate Weakness**
  If a portfolio holds a mix of strong and weak businesses, the weak companies will still hurt performance when conditions deteriorate.
- **False Sense of Security**
  Investors often underestimate their risk because they believe their portfolio is protected by diversification.

In reality, portfolios that put diversification above all else may end up exposed to hidden vulnerabilities.

CHART A | HIGH DIVIDEND YIELD TEND TO BE LOW QUALITY Source: WCA, Bloomberg

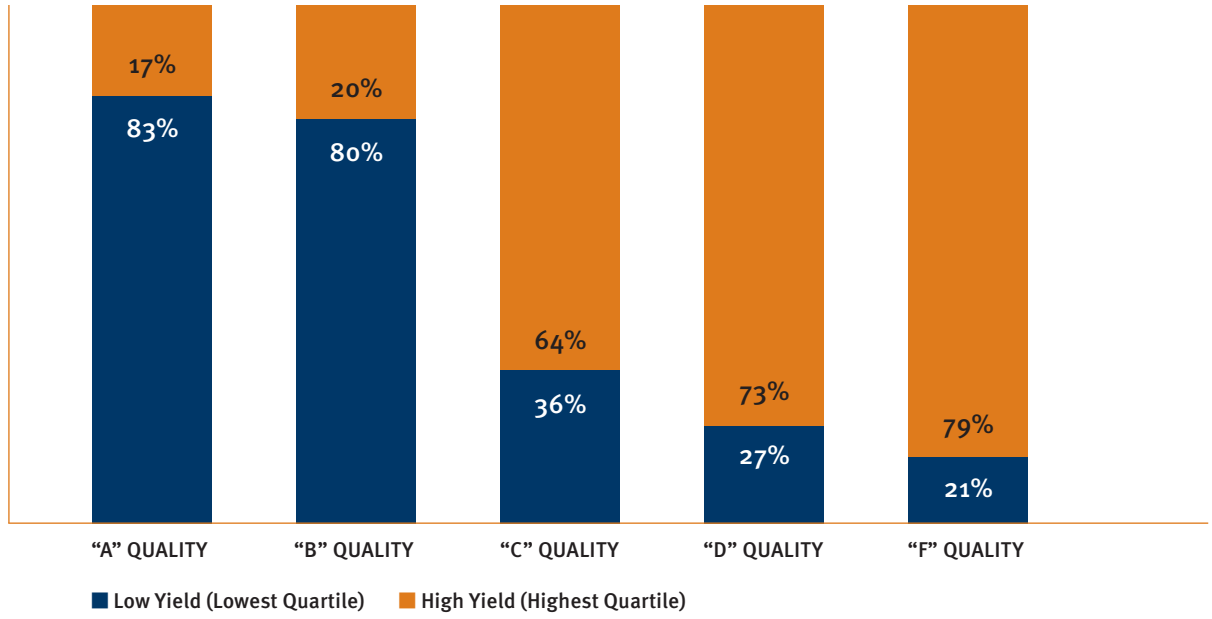


CHART B | HIGHER GROWTH IMPLIES HIGHER RISK Source: WCA, Bloomberg

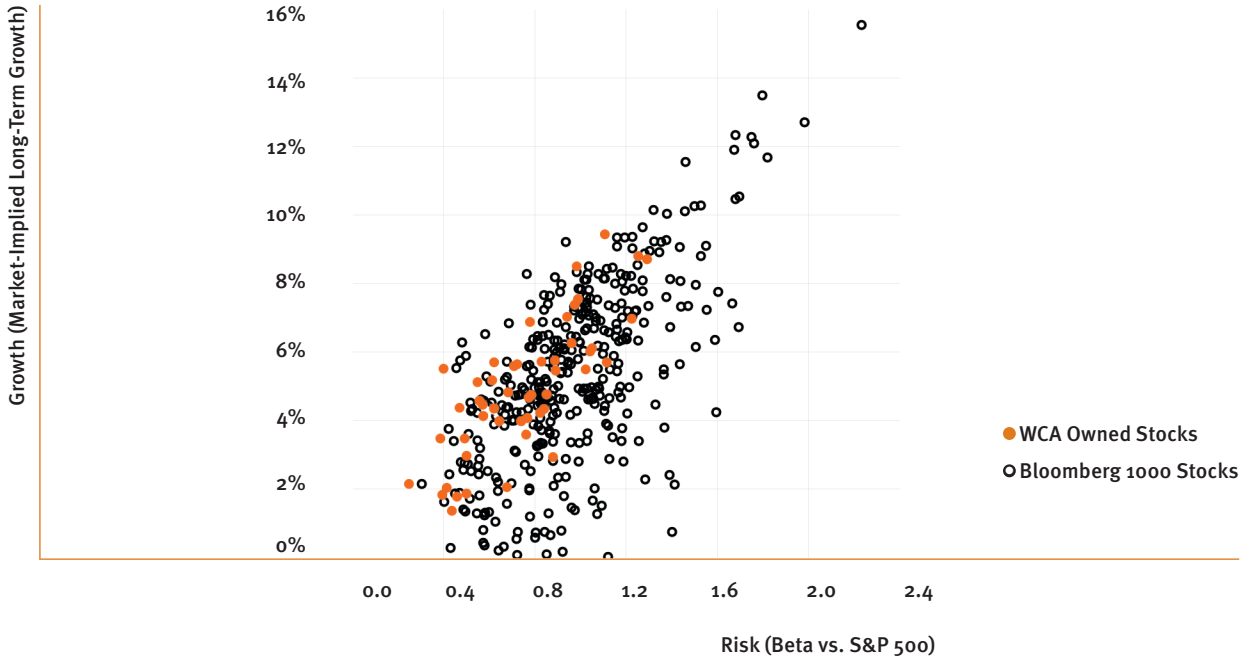
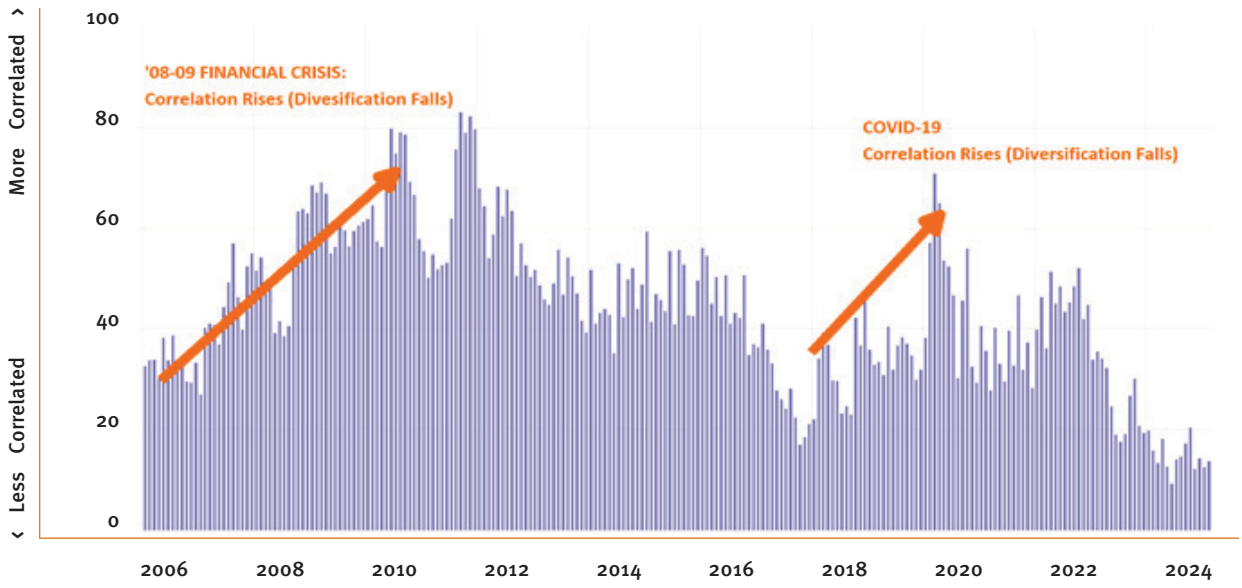


CHART C | DIVERSIFICATION WITHIN THE S&P 500 OVER TIME Source: Bloomberg, CBOE



The Implied Correlation Index provides market estimates of correlation using implied volatilities of S&P 500 Index's top 50 components.

CONCLUSION

CONCENTRATION AS A STRATEGY FOR SUCCESS

A well-designed portfolio is not one that holds more investments—it is one that holds the right investments. By concentrating on high-quality companies, we seek three key objectives:

- Downside protection in bear markets
- Solid risk-adjusted returns over time
- A growing, dependable stream of income

Diversification can dilute these benefits and introduce risks that remain hidden until market sentiment shifts. Rather than diversify for its own sake, we focus on companies that we believe can withstand both bull and bear markets. Just as an elite sports team prioritizes top talent over arbitrary balance, we prioritize quality over-diversification. The result? A strategy that is designed to be resilient, consistent, and reliable—attributes needed to navigate both good times and bad.

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 13) 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 13). 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 14). 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 14).

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.

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.

CHART A | WCA "BAROMETER"

Source: WCA

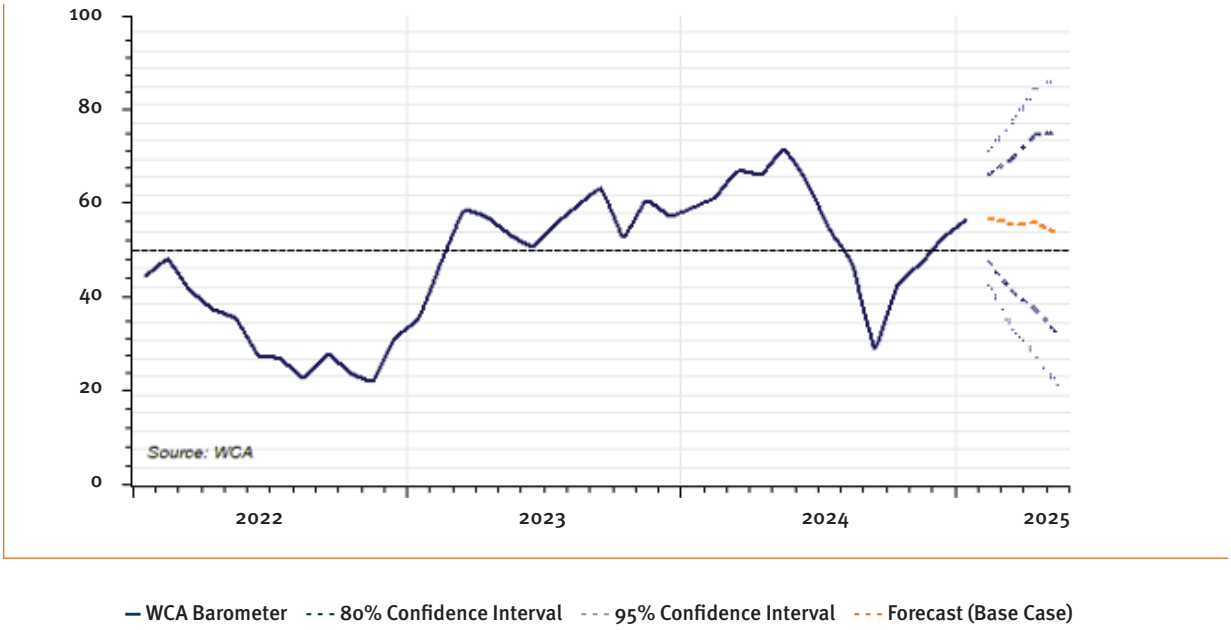


TABLE A | QUALITY CYCLES (SEPTEMBER 2004 – JANUARY 2025)

Source: WCA

WCA "A" vs. "F" QUALITY 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

Based on Annual Returns of WCA Quality Indices, 2003-2024

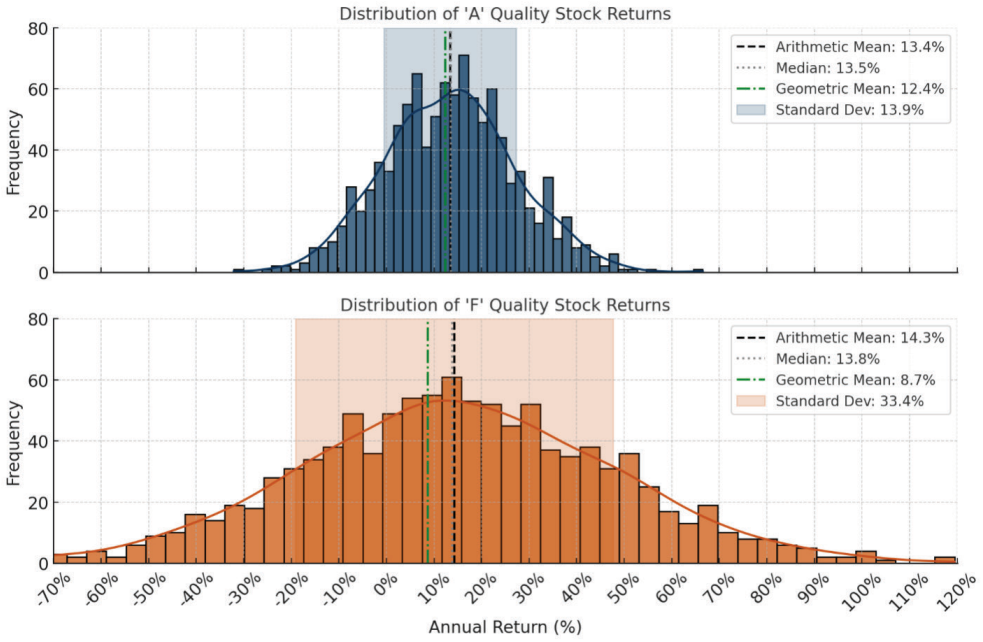
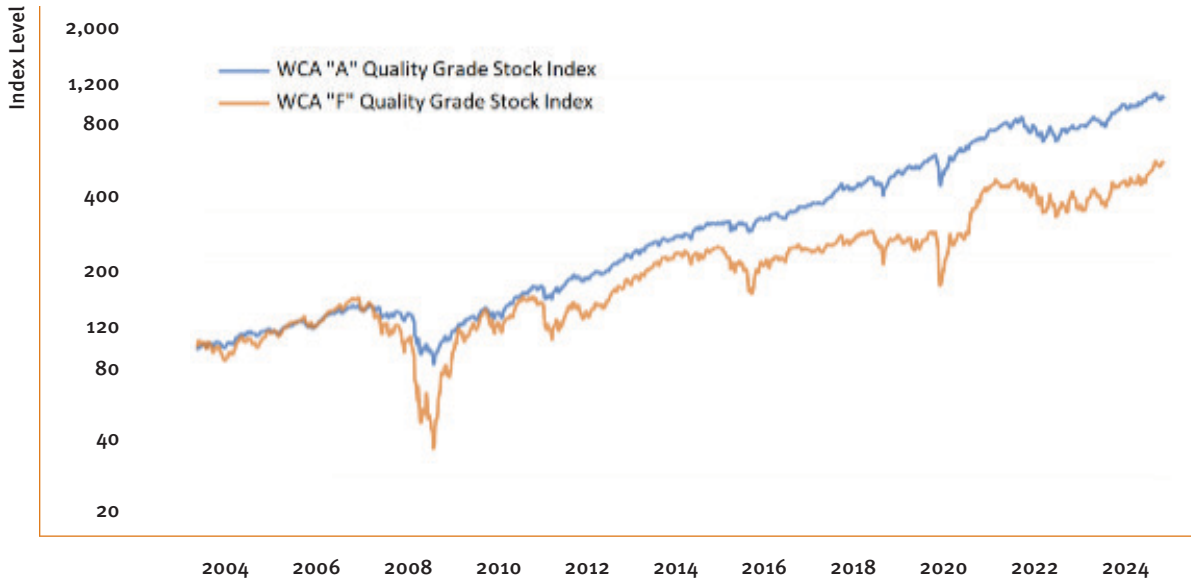


CHART C | WCA "A" VS. "F" QUALITY INDEX PERFORMANCE (2004-2024) Source: WCA



A PRACTICAL APPROACH TO RISK

WHY TRADITIONAL BETA AND SECTOR LABELS FAIL, AND HOW TO FIX THEM

Investing is about understanding risk. If you don't understand risk, you don't understand investing. And yet, for decades, the industry has relied on flawed tools—outdated beta models and rigid sector classifications—to measure it.

Some managers, particularly those obsessed with tracking benchmarks, force their portfolios into pre-defined sector categories designed decades ago, long before modern data and real-world market behavior could be fully understood. They do this because they are fearful of performing too differently from pre-defined, legacy benchmarks that were never constructed with investors' interest or risk in mind.

These legacy benchmarks and sector classifications, assigned by Standard & Poor's and embedded into index construction in a bygone age of finance, no longer reflect how companies actually behave in markets today in our view. Worse still, we believe traditional beta—the industry's standard risk metric —wrongly assumes stocks move purely because of the market itself. That is a vast oversimplification and a fundamental mistake.

Macroeconomic forces, shifting business models, and structural changes in the global economy matter a lot and are in constant flux. Beta and sector labels fail to capture this reality. We have seen other managers who continue to rely on outdated tools, marching forward as if nothing has changed. We try not to make that mistake and know that it is imperative to innovate and adapt.

THE FLAWS OF TRADITIONAL BETA AND SECTOR LABELS

Imagine leading troops into battle. The maps you've been given were drawn decades ago. The rivers have shifted, the high ground isn't where it used to be, and the enemy's tactics have changed. If you rely on the old map, you could be walking straight into an ambush.

This is basically what we imagine happening if we relied only on traditional beta and outdated sector classifications. It would be dangerous and lazy to assume stocks will always behave the way they did in the past. It would be nice to believe companies fit neatly into categories designed by Standard & Poor's or other index providers, but it would be unrealistic. We can't fight today's battles with old maps, based on old assumptions.

HOW BETA AND SECTOR LABELS MISS THE MARK (THREE REAL-WORLD EXAMPLES)

EXAMPLE 1

A bank stock collapses—not because of a market downturn, but because interest rates spike.

- **Reality:** Banks make money on the spread between borrowing and lending rates. When rates rise unexpectedly, that spread shrinks, and profits fall.
- **Blind spot:** Traditional beta ignores interest rate risk, and sector classification lumps all financials together—even though banks, asset managers, and insurers have very different exposures.

EXAMPLE 2

A global industrial giant underperforms — not because demand weakens, but because the U.S. dollar strengthens.

- **Reality:** A large U.S.-based industrial company sells lots of heavy machinery worldwide. When the dollar strengthens, foreign buyers pay more, demand drops, and revenue takes a hit.
- **Blind spot:** Yet beta would suggest the company's stock should move with the overall market. That's nonsense. The stock is moving with currency fluctuations. But legacy sector classifications still group it with other U.S.-focused industrials, and beta fails to capture this risk.

EXAMPLE 3

A leveraged corporate borrower tanks—not because of weak earnings, but because credit spreads widen.

- **Reality:** Some companies rely heavily on cheap debt. When lenders demand higher interest rates on risky borrowers, these companies suddenly face higher costs and lower margins.
- **Blind spot:** A standard beta model won't directly flag this risk, and sector labels won't differentiate between a highly leveraged firm and a cash-rich one.

It's easy to see how the conventional approach to risk creates blind spots. Companies today don't fit neatly into the same legacy sector categories they used to in the past. A financial services company, health equipment supplier, media company, and software business may all respond similarly to environmental changes even though they are in very different sectors. What matters is how the stocks behave, not what category a rating agency assigns them to.

Risk simply cannot be reduced to a single number. Many managers know this but continue fighting the last war with the same old tools. That may work for them, but it makes us uncomfortable. We focus on what's actually happening in markets today.

A SMARTER WAY: "PURER" BETAS, "REAL" MARKET GROUPINGS, AND A STRONGER DEFENSE

At Washington Crossing Advisors, we take a reality-based approach to risk assessment. Instead of blindly trusting beta and old-school sector classifications, we strip out macroeconomic distortions and analyze risk based on real-world stock behavior.

We want to understand where risk comes from as precisely as possible. To do this, we've developed the following four-step process to help us better manage portfolio risk:

STEP 1: Isolate Market Risk from Macro Factors

Before measuring beta, we remove the influence of external forces like interest rates, credit spreads, and currency fluctuations. What's left is what we call "Pure Market Beta." In our view, this measure of risk is superior to the usual "beta" because it strips out macro distortions like interest rates, credit spreads, and currency fluctuations, giving us a clearer measure of how much a stock truly moves with the broader market—without being misled by external shocks that traditional market beta fails to separate.

STEP 2: Group Companies Based on How They Actually Trade

Traditional sector labels assume companies today fit neatly into categories designed decades ago. But markets evolve.

Instead of forcing companies into old definitions, we analyze how stocks actually behave—grouping them based on their real trading patterns, not just their industry labels. The results often reveal connections that Standard & Poor's sector labels fail to capture—companies that move together in the market, even if their traditional classification suggests otherwise.

STEP 3: Compare a Stock to Its Relevant Peers

Once we identify a stock's peer group, we run our macro-adjusted beta model on the entire group. We compare the stock's Pure Market Beta to its real peers, averaging out distortions and identifying anomalies. This produces a more stable, more accurate measure of market risk—one that we actually find useful when making portfolio decisions.

STEP 4: Reinforce the Defense with Quality

One of the fastest ways to destroy wealth is through excessive exposure to high-risk companies. At Washington Crossing Advisors, we believe quality is the strongest defense against that kind of outsized risk. To this end, we analyze and grade companies from "A" (highest quality) to "F" (lowest quality).

WCA High Quality Companies Generally:

- Carry lower debt, making them less vulnerable to rising borrowing costs.
- Produce consistent profits, allowing them to weather downturns.
- Maintain stable operations, attracting investors when panic sets in.

We have found that higher-quality companies are fundamentally less susceptible to market stress—whether it's an economic slowdown, stress in credit markets, or rising fear in equity markets. No strategy can eliminate risk entirely, but prioritizing quality helps manage it in a way designed to give investors a steadier hand when uncertainty rises.

While some of this defense means that gains will tend to be more tempered in strong bull markets, that portfolio yields will be below those of deep value managers, and that some types of companies with lower quality grades will not be in the portfolio, these are sacrifices generally worth making if the goal is to generate returns while minimizing unwanted risks. So for us, quality can never be an afterthought—it is a core pillar of our process. Just as any sound military strategy requires strong defensive positions, a disciplined investment strategy requires a deliberate tilt toward quality.

THE BOTTOM LINE: A PRACTICAL APPROACH TO RISK

We don't slavishly adhere to arbitrary benchmarks or categories defined by third parties that are unconcerned with risk. Nor do we cling to outdated models that obscure hidden risks. We take a clear-eyed, reality-based approach that recognizes that macroeconomic forces, structural changes, and fundamental business quality are what really shape portfolio outcomes over time.

By combining macro-modeling, smarter risk grouping, and an emphasis on quality, we are building a more resilient, disciplined, and forward-thinking investment process. Some managers will keep relying on outdated playbooks, reacting to risks only after they've already hit.

That's not how we do things.

We adapt, evolve, and rethink how risk is measured—because in investing, as in war, the worst mistake is preparing for the last fight instead of the next one.

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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