MARKET COMMENTARY

EQUITY ANALYSIS

THE MOST DANGEROUS COMPARISON IN INVESTING

If you own a diversified, quality-oriented portfolio, the last year has likely been frustrating. Conservative strategies — including many dividend-focused portfolios — have lagged the S&P 500, even as markets have risen sharply.

That gap naturally raises questions. Why has your carefully constructed strategy trailed the S&P 500? And should you reconsider your approach?

Before answering, consider what happened the last time investors faced this choice. In March 2000, a newly retired couple sat down with $1 million, a 4% withdrawal plan, and a portfolio full of the market's biggest winners. Over the previous decade, technology stocks had made them millionaires. The future had never looked brighter.

Two and a half years later, 85% of it was gone.

The Nasdaq didn't return to its March 2000 high until 2015. By then, the retiree would have been 85 years old — assuming anything remained after fifteen years of withdrawals from a decimated portfolio.

This is not ancient history. And the conditions that made it possible are forming again.

WHAT'S HAPPENING RIGHT NOW

The S&P 500 is the world's most widely followed market index. Trillions of dollars are invested in or benchmarked to it. But beneath the surface, the character of its returns has changed in an important way.

Over the past three years, 83% of the S&P 500's gains have come from stocks with above-average risk (Chart A, page 4). This degree of concentration is highly unusual. Historically, returns have been shared more evenly between higher-risk and lower-risk stocks.

Over the past two decades, higher-risk stocks have earned roughly 3 percentage points more per year before adjusting for risk. But they have also exhibited nearly double the volatility of lower-risk stocks. Once that additional volatility is taken into account, the apparent advantage disappears. In fact, on a risk-adjusted basis, lower-risk stocks have historically produced better outcomes, while higher-risk stocks have delivered inferior results.*

This distinction matters. Markets do not reward return in isolation — they reward return per unit of risk. When you ignore that risk, performance comparisons become mis-leading. The chart accompanying this commentary illustrates the shift clearly. For most of the past twenty years, high-risk and low-risk stocks contributed together to market returns. That balance has broken down. Since 2023, nearly all of the index's gains have come from the riskiest portion of the market.

This helps explain why your portfolio has lagged — not because your strategy is flawed, but because the market is currently rewarding risk in an unusually concentrated way.

THE INDEX THAT DOESN'T KNOW YOU'RE RETIRED

Here's an important distinction you may not have considered: the S&P 500 was designed to measure market performance — not to serve as an investment strategy.

According to its own published methodology, the index is not an investment advisor and makes no representation regarding the advisability of investing. It doesn't consider your goals, your risk tolerance, your time horizon, or your income needs. It simply weights companies by market value, increasing exposure to stocks as their prices rise — regardless of valuation or risk. This structure naturally embeds momentum. It works well during periods when rising prices feed on themselves. But it offers no mechanism designed toward managing risk, protecting your income, or adapting to your changing circumstances.

Your advisor helps you work through those things. Together, you've thought through full market cycles, balancing growth, income, liquidity, and risk. That distinction matters most during periods like this — when markets reward speculation and penalize patience.

NOT A STRATEGY

No army goes to war without a plan for defense. The word strategy itself comes from the Greek *stratigos* — combining *stratos* (army) and *agein* (to lead). A general who marches into battle with no plan for when things go wrong isn't employing a strategy. He's just advancing and hoping.

We don't know a single financial advisor who manages money this way. Advisors think carefully about risk, return, liquidity, time horizon, and tax implications. They build plans that accommodate the reality that conditions change

— sometimes without warning. From your work with your advisor, a real strategy emerges that is designed to see you through your whole investing horizon, not just one kind of market environment.

The S&P 500 offers none of this. It cannot, because it was never designed to. And yet trillions of dollars are invested or benchmarked to it, as if it were.

WHY YOUR PORTFOLIO IS BUILT DIFFERENTLY

Your portfolio is built for a purpose. That purpose is to deliver a steady stream of income from quality companies. Flexibility, durability, and predictability are the watchwords for the portfolio. The WCA Rising Dividend strategy wasn't designed to capture every point of upside in a momentum-driven market. It was designed to help you stay invested through all market conditions — including the painful reversals that often follow speculative runs.

That means owning quality companies with durable businesses, consistent cash flows, and growing dividends. These aren't the stocks that lead during speculative phases. But they are the stocks that have historically provided ballast when markets turn, income when you need it, and participation in long-term growth without the extreme volatility that can derail a retirement plan.

When you compare your portfolio to the S&P 500 right now, you're comparing a strategy built on for stability against an index that is currently dominated by its riskiest components. That's not an apples-to-apples comparison. It's one of the most dangerous comparisons in investing.

WHY THIS CANNOT CONTINUE INDEFINITELY

Markets eventually correct excesses. Many of today's most popular stocks are priced for extremely high growth rates extending far into the future. But no company can sustainably outgrow the economy it operates in. At some point, expectations must converge with reality.

There is also the issue of crowding. Trillions of dollars have flowed into the same narrow group of stocks through index funds and retirement plans. Prices rise not solely because of fundamentals, but because capital continues to follow the same path. This momentum can persist — but when it reverses, it often does so abruptly.

History is filled with examples. The "Nifty Fifty" of the 1970s, the dot-com leaders of the late 1990s, and the financial stocks that dominated before 2008 all shared the same narrative: a belief that this time was different. Each time, leadership eventually changed, and investors who chased it paid a steep price.

WHAT THIS MEANS FOR YOU

When you invest in a strategy that tracks the S&P 500, you're not making a single investment. You're holding two very different exposures — high-risk and low-risk stocks — blended together in proportions that shift dramatically over time without your input.

Today, nearly all of the index's return is coming from the riskiest side of that mix. That matters because risk and return are inseparable. The same high-beta stocks delivering outsized gains today were the ones that fell sharply in prior downturns. The index makes no distinction between a 30-year-old with decades to recover and you, if you're drawing income or approaching retirement.

Your portfolio was designed with those realities in mind. It may lag during speculative phases, but it was built to endure across full cycles — not just the most aggressive ones.

TRUST THE STRATEGY YOU BUILT

Your investment strategy was not chosen casually. You and your advisor built it through thoughtful discussion about risk, time horizon, income needs, and long-term goals. It was designed to function in many market environments — including periods exactly like this one.

Now is not the time to abandon that discipline.

When market leadership eventually shifts — as it always has — the question will not be whether you captured every last point of upside. It will be whether your strategy preserved your capital, supported your income, and stayed aligned with your long-term purpose.

KEY TAKEAWAYS

Over the past three years, 83% of the S&P 500's gains have come from high-risk stocks — a historic concentration that cannot persist indefinitely. Once you adjust for volatility, lower-risk stocks have historically outperformed on a risk-adjusted basis. You're not missing out on "free" returns; you're avoiding uncompensated risk.

The S&P 500 was never designed to be an investment strategy. It has no awareness of your goals, your timeline, or your need for stability. Your portfolio was intentionally built to prioritize quality, income, and durability over momentum. That's not a flaw — it's the design working as intended.

Chasing the index now may mean abandoning a strategy built for the long term in favor of one that offers no downside protection.

NEXT STEPS

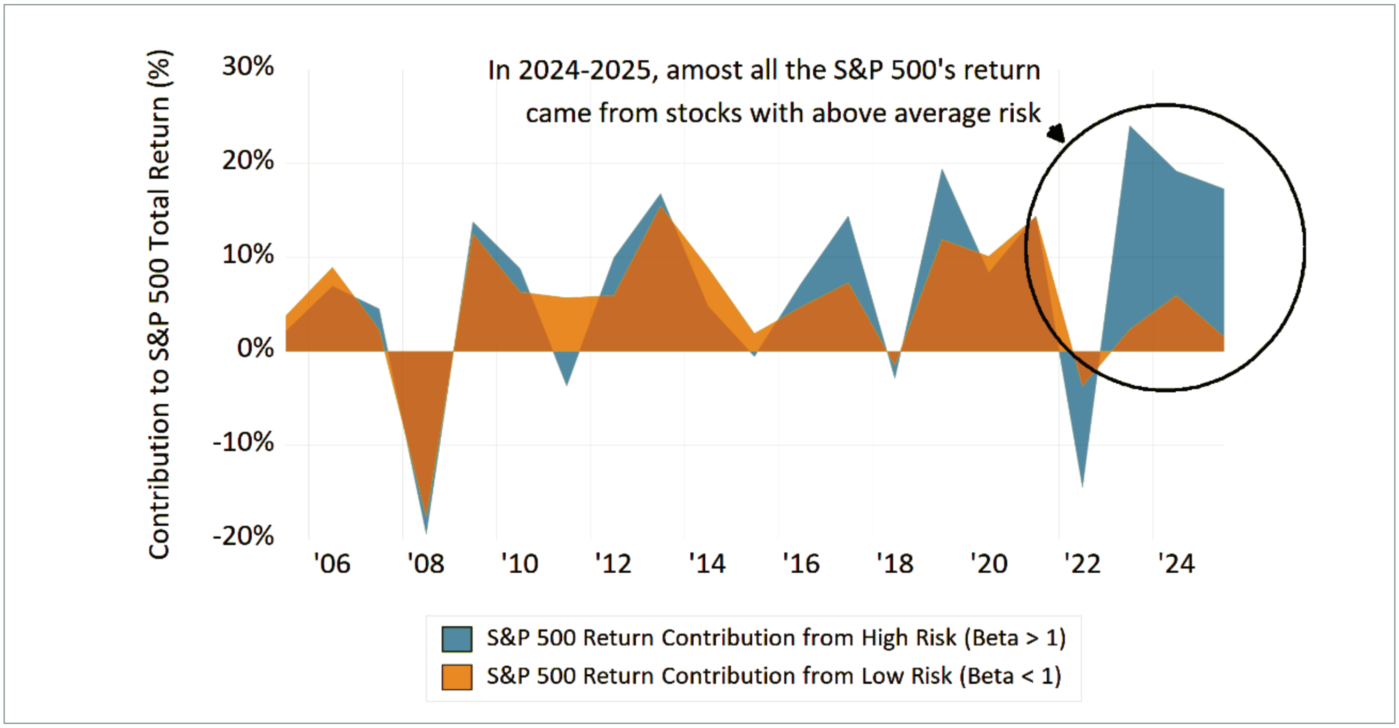
If this commentary raises questions about your portfolio or how it fits your goals, that's a conversation worth having. Reach out to your advisor to discuss what you've read here, review how your strategy is positioned, and make sure you're comfortable with the plan you have in place. The best time to reaffirm your strategy is before the market tests it — not after.

For anyone interested in a deeper dive into the breakdown of S&P 500 behavior by risk, please see our ***20-year S&P 500 Risk and Attribution (2005-2025) study***. The study is available under the Insights section at www.washingtoncrossingadvisors.com.

** Regression analysis of the S&P 500 for 2005-2025 of high risk companies (Beta>1) and low risk companies (Beta<1):*

- *High risk companies: implied Beta = 1.3, Alpha = -0.9%*
- *Low risk companies: implied Beta = 0.7, Alpha = +0.8%*

CHART A | WHERE ARE S&P 500 RETURNS COMING FROM? Source: Bloomberg, WCA



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 are objective, quantitative measures designed to identify quality in the top 1,000 U.S. companies. Ranked by fundamental factors, WCA grades companies from "A" (top quintile) to "F" (bottom quintile). Factors include debt relative to equity, asset profitability, and consistency in performance. Companies with lower debt, higher profitability, and greater consistency earn higher grades. These indices are reconstituted annually and rebalanced daily. For informational purposes only, and WCA Quality Grade indices do not reflect the performance of any WCA investment strategy.

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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.

The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

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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