

BCN ADVANTAGE: 2024 ANNUAL REPORT

February 2025	BCN Advantage Act/Mgmt	100% Invested Buy/Hold	50% Invested Buy/Hold	100% Cash
Total Return: Jan ' 97 = \$100,000 ⁴	12.44% ^{1 2 3} \$1,310,375	17.54% ^{1 2} \$1,049,250	11.20% ^{1 2} \$534,526	4.85% ^{1 2} \$189,383
Beta (2024): Risk Adjusted Return:	0.63 12.44%	1.00 17.54%	0.50 11.20%	0.00 4.85%

1 Performance results are based on the Fidelity Mid-Cap Stock Fund (14.6% for 2024), the Vanguard Index 500 Fund (24.8% for 2024), the Vanguard International Growth Fund (9.4% for 2024) and an average money market return of 4.85%. The results may not reflect the actual performance of BCN Advantage clients. Past performance does not guarantee future results.

2 Performance results show the year-over-year change to net asset values and do not include the reinvestment of dividends (if any) other than interest earned from the money market fund.

3 Performance results are net of BCN Financial management fees.

4 BCN Financial Inc. is the registered investment advisor. Performance from January 1997 to June 1998 was provided through Quest Securities as the registered investment advisor.

2024 BCN Advantage Signals

	Date	Market	Cash
1	01/01/2024	60%	40%
2	02/01/2024	60%	40%
3	05/01/2024	60%	40%
4	08/01/2024	60%	40%
5	11/01/2024	60%	40%
6	12/31/2024	60%	40%
	Present	60%	40%

Another 'Magnificent' Year

For 2024, the S&P 500 rose +23.3% to 5,882, the Nasdaq +28.6% to 19,311, and the Dow +12.9% to 42,544. The IBD Mutual Fund Index gained +8.78%. 2024 marked the second consecutive year the S&P 500 rose more than +20%, a feat not seen since 1997-1998.

In September, the Fed slashed rates by a half percentage point, followed by additional quarter-point cuts in November and December. The action marked the Fed's first easing since 2020 and the termination of its most aggressive inflation-fighting campaign since the 1980s.

The economy ended on solid footing. GDP grew 2.5% and worries the U.S. would tumble into recession finally began to fade. Enthusiasm over Gen AI caught fire. For the second year in a row, the "Magnificent Seven" drove the lion's share of gains. Apart from these 7 companies, the rest of the S&P 500 gained a mere 6.3% in 2024, and only 4.1% in 2023.

AI's Sputnik Moment

In late December, the competitive threat from Chinese artificial intelligence lab DeepSeek triggered a sharp selloff. Nvidia was especially hard hit, suffering a near \$600 billion loss of market cap in one day. DeepSeek claims its breakthrough model was developed using inferior Nvidia chips and cost less than \$6 million. That's staggeringly low, given OpenAI's ChatGPT cost more than \$100 million to train.

Two years into the Gen AI phenomenon, just 11% of companies are in large scale production with AI initiatives. DeepSeek could be good news if the reduction in Gen AI costs enables wider adoption. Accelerated innovation could lead to the development of more advanced models, better algorithms, and new use cases for AI across industries.

For investors, the problem is more immediate. The top 7 companies in the S&P 500 are all Gen AI related and comprise over 33% of the index. Gen AI capex is slated to reach \$425 billion in 2025. A foreign competitor offering a rival product at a fraction of the cost throws into question the exorbitant spending of American tech giants.

Tariffs & Trump Policies

On February 13, Trump announced his plan for reciprocal tariffs – global tariffs customized on a country-specific basis and expected to go into effect by early April. The immediate consequence is higher consumer prices. The stock market is likely to react negatively, particularly in sectors heavily reliant on international trade. Higher import costs and the threat of retaliatory tariffs could weigh on corporate earnings: Currently, 41% of corporate revenue is derived from exporting goods and services.

Over the longer term, these headwinds may largely be offset by tax cuts, deregulation, and reduced energy prices, which should cut production costs. During Trump's first administration, tariffs caused short-term volatility spikes as investors weighed the ramifications. But inflation averaged close to the Fed's 2% target, unemployment fell to one of the lowest levels on record, while the economy continued to expand.

Has Inflation Been Tamed?

Since bottoming in June, inflation has accelerated. January CPI rose 3% for the year, and 0.5% over the prior month, the largest monthly increase since August 2023. Core prices rose 3.3% for the year, and 0.4% over the prior month, the largest monthly increase since April 2023. Inflation expectations rose to 4.3%, the biggest jump in over a decade. Wage growth appears to be accelerating as well. Average hourly wages increased to 4.5% after bottoming at just 2.8% in April. In hindsight, the Fed's rate-cutting campaign looks too aggressive. Traders expect one cut for all of 2025 – and not until July, at the earliest. Powell reinforced this view: "We do not need to be in a hurry to adjust our policy stance."

Ten-year rates have jumped sharply, from about 3.6% in September (the initial rate cut) to 4.5% today. Yield curve steepening likely has further to go. Historically, ten-year rates should reach the 5.5% range and potentially 6% or higher. The negative impact is evident in an economy supported by rising debt levels. Average borrowing costs on our \$36T national debt have increased from 1.5% to 3.5%, adding more than \$700 billion per year to debt service. US corporate bankruptcies hit a 14-year high in 2024. Same for credit card delinquencies. Notably, this is occurring during a period of relatively low unemployment in an economy that's still growing.

Dangerous Headwinds

Over the past two years, ongoing fiscal stimulus from the Inflation Reduction Act (\$891B) and Secure 2.0 Act (\$1.7T) have supported economic growth. At the same time, the Fed has quietly reduced its balance sheet by nearly \$2 trillion – a pace of more than \$75 billion per month. These are the most dangerous headwinds facing the markets (because their combination is the least expected): (1) continued quantitative tightening, draining liquidity, (2) elevated inflation, forcing borrowing rates to remain high, (3) reduced fiscal stimulus as previous spending bills are exhausted without new ones to take their place.

A generation of investors has been conditioned to "buy any and all dips." Given an S&P 500 that has skyrocketed from 667 in early 2009 to over 6100 today, it's easy to understand why. Investor confidence for the next 12 months is near the highest levels on record. A recent AAIL survey of retail investors shows an average 70% allocation to stocks, levels seen at previous market peaks and only slightly lower than the peak during the Dot.com mania. At the same time, allocations to cash and bonds are near record lows. While not predictive of a near-term market correction, the survey does suggest much of the anticipated market gains are already priced in.

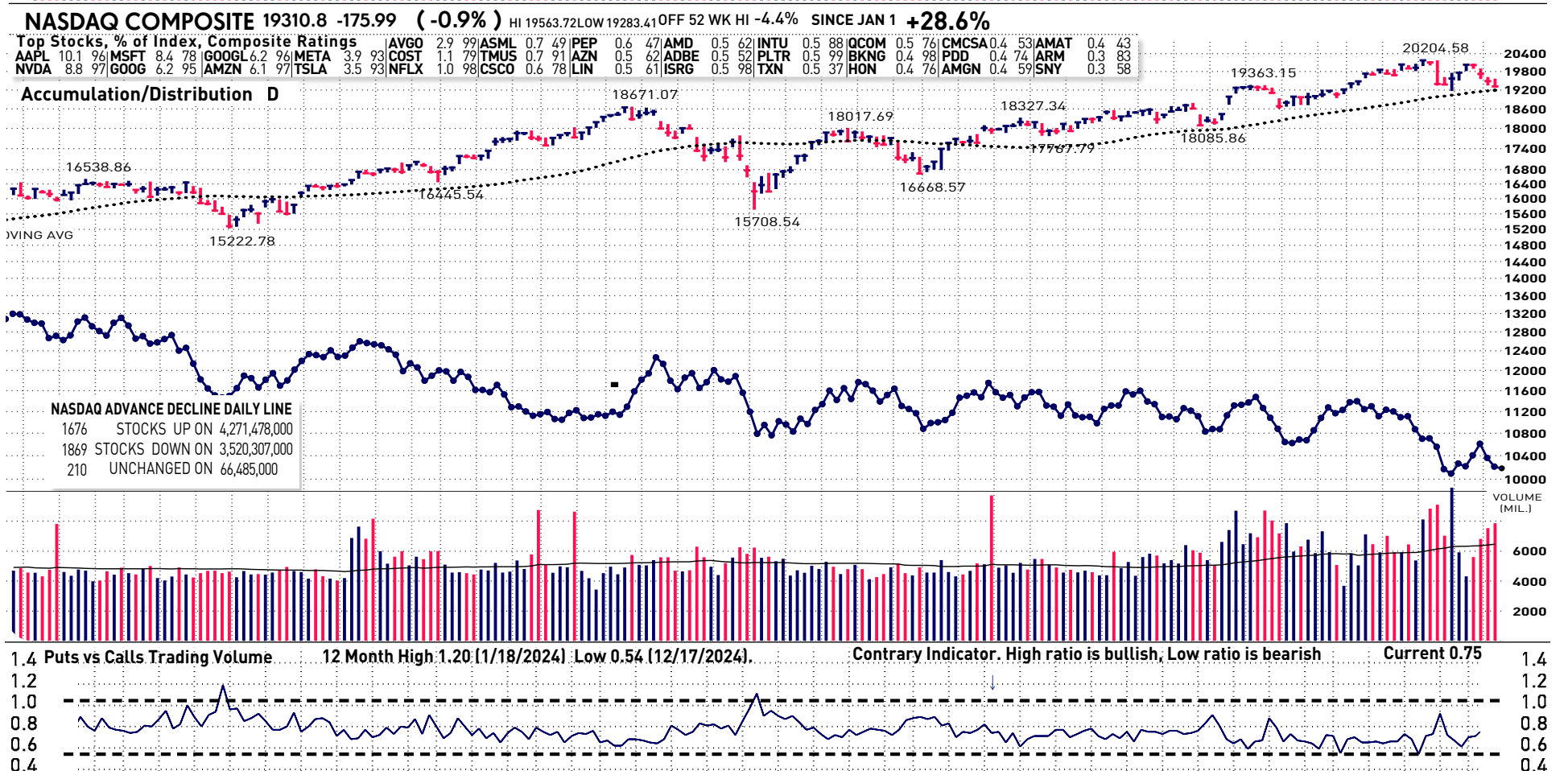
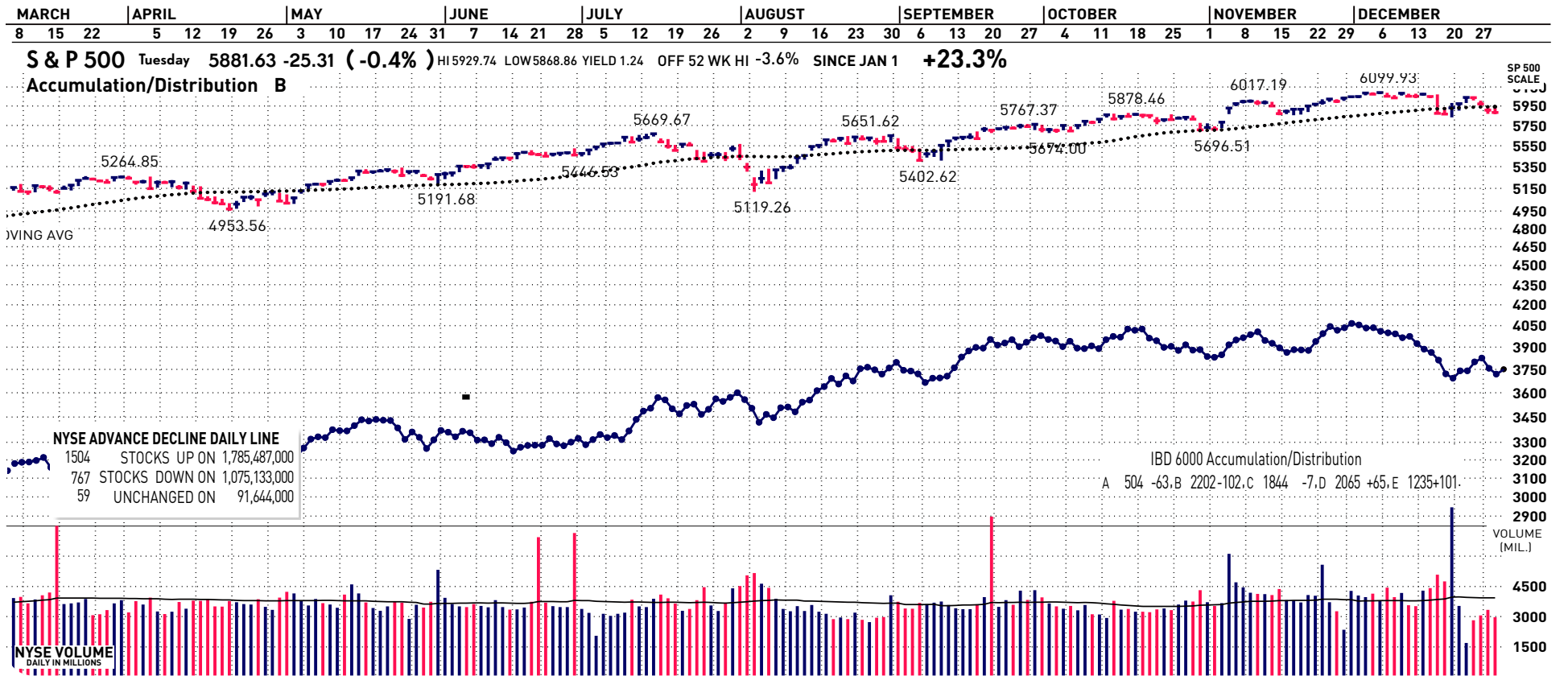
Wall Street's median estimate is for the S&P 500 to rise to 6600 this year, which would be a 'disappointing' return of just 12% after two years of 20%+ gains. The high estimate from Wells Fargo was 14%; the low estimate from UBS was 5%. As usual, no major analyst projected a negative return.

Experienced investors understand the danger of late-stage bull markets. One example: Warren Buffett, currently sitting on a record \$325 billion cash pile. When Trump entered his first term, the S&P 500 stood at 18x forward earnings. Today, the index P/E is 23x, well above the five-year average of 19.7 and 10-year average of 18.2. It's only been higher during the 2021 post-pandemic boom and the 2000 Dot.com bubble. This leaves little room for error. Investors are betting on flawless results in a year when macroeconomic uncertainties loom large.

As always, we look forward with great optimism. We appreciate your faith and confidence. And we are eager to apply the lessons learned for your benefit.

BCN Financial Inc. is the Registered Investment Advisor

We are required to offer Form ADV Part 2 to our clients each year. Contact BCN Financial for a copy.



Top 40 Groups (6 mos.) Worst 40 Groups (6 mos.)

Day's best blue, worst red. Full Group List on Income Investor page.

Rank	This Wks Ago	3 Wks Ago	6 Wks Ago	Group Industry Name	Composite YTD Rating	YTD % Chg	Days % Chg
1	1	2	2	Telcom-Fibr Optics	71	+53.7	-0.4
2	8	13	13	Trnsprt-Airline	80	+46.9	-0.2
3	11	62	62	Mchnry-Mtl Hldg	-	-14.1	-2.6
4	4	6	6	Telcom-Infrastr	-	+60.2	-0.5
5	5	3	3	Compnr Sftwr-Edu	-	+15.0	-0.7
6	10	14	14	Intrnt-Ntwrk Sftns	94	+23.4	-0.8
7	3	9	9	Security/Sfty	87	+37.3	-0.8
8	14	54	54	Rtail-Hme Frshngs	83	+62.1	-0.2
9	15	31	31	Leisure-Trvl Bking	97	+37.0	-0.5
10	6	1	1	Oil&Gas-Royalty Trust	-	+81.2	0.0
11	2	5	5	Food-Dairy Products	-	+84.9	+6.4
12	9	8	8	Financial Svc-Spec	92	+19.2	-0.5
13	21	17	17	Bldg-Heavy Constr	90	+63.0	-0.7
14	19	20	20	Media-Newsprsr	-	+55.1	+1.8
15	24	29	29	Finance-Cons Loan	87	+8.6	+0.3
16	40	24	24	Utility-Electric Pwr	82	+39.5	-0.2
17	22	37	37	Compnr Sftwr-Entr	92	+13.8	-0.7
18	17	56	56	Compnr-Intgrtd Syst	86	+49.6	-1.2
19	7	11	11	Banks-Northeast	89	+13.6	+0.1
20	25	10	10	Energy-Alt/Other	66	+37.2	-0.7
21	59	59	59	Finance-Cmrc Loan	-	+15.7	-0.3
22	89	115	115	Apparel-Cthng Mfg	87	+12.2	+0.5
23	33	125	125	Agricultural Options	77	-13.8	+1.0
24	30	35	35	Retail/Wholesale-Auto	80	+17.5	-0.2
25	18	16	16	Banks-Wst/Sthwst	84	+14.2	-0.2
26	46	67	67	Wholesale-Food	89	-4.9	-0.9
27	12	7	7	Compnr Sftwr-Fincl	90	+42.7	-0.9
28	38	33	33	Auto/Trck-Rplc Prts	-	+10.9	-0.8
29	31	57	57	Compnr-Tech Svcs	87	+18.0	-1.0
30	13	12	12	Fin-Invest Bnk/Bkrs	94	+38.7	0.0
31	32	36	36	Telcom Svc-Intgrtd	-	-2.3	-0.1
32	54	105	105	Telcom-Cbl/Sat Eqp	86	+14.8	+0.4
33	62	68	68	Banks-Foreign	88	+31.9	-0.2
34	67	46	46	Oil&Gas-US Expl Pro	74	+12.7	+0.8
35	47	70	70	Retail-Internet	88	+13.9	-1.0
36	83	117	117	Retail-Restaurants	88	+34.7	+0.8
37	26	23	23	Financ-Svngs & Lo	87	+16.2	-0.1
38	27	25	25	Steel-Splyty Alloys	77	+58.3	+1.1
39	29	26	26	Leisure-Mvies & Rel	81	+59.1	-0.6
40	43	55	55	Media-Diversified	87	+25.4	-0.3

IPO Best Price Change
EPS & RS Rating 80 or more

Comp Rtg	Stock Name	Symbol	Closing Price	Price % Chg	Vol % Chg
66	Logistic Prop Americas	LPA	10.70	+6.9%	-13%
80	Gatos Silver Inc	GATO	13.98	+2.0%	-52%
92	Vita Coco Company Inc	COCO	36.91	+1.5%	-39%
98	P10 Inc Cl A	PX	12.61	+1.4%	-27%
93	Vital Farms	VITL	37.69	+1.4%	-45%
96	PTL	PTLE	10.44	+1.3%	+23%
97	Atour Lifestyle	ATAT	26.89	+1.2%	-16%
96	Alkami Technology Inc	ALKT	36.68	+1.2%	-54%
89	Atmos Filtration Techs	ATMU	39.18	+1.2%	-27%
97	CAVA Group	CAVA	112.80	+1.1%	-30%

IBD 50's Best Price % Chg

Comp Rtg	Stock Name	Symbol	Closing Price	Price % Chg	Vol % Chg
93	Vital Farms	VITL	37.69	+1.4%	-45%
97	Atour Lifestyle	ATAT	26.89	+1.2%	-16%
99	Vertex	VERX	53.35	+0.6%	+14%
88	GeneDx Holdings	WGS	76.86	+0.4%	-47%
98	Chart Industries	GITL	190.84	+0.1%	-25%
96	Globus Medical	GMED	82.71	+0.0%	-55%
98	Cellebrite D I Ltd Cl A	CLBT	22.03	+0.0%	-47%
93	Vista Energy	VIST	54.11	+0.0%	-78%
94	Global-e Online	GLBE	54.53	+0.0%	-69%
98	A10 Networks	ATEN	18.40	-0.1%	-39%

