

BCN ADVANTAGE: 2025 ANNUAL REPORT

February 2026	BCN Advantage Act/Mgmt	100% Invested Buy/Hold	50% Invested Buy/Hold	100% Cash
Total Return: Jan ' 97 = \$100,000 ⁴	13.83% ^{1 2 3} \$1,491,880	17.64% ^{1 2} \$1,234,297	10.86% ^{1 2} \$592,549	4.07% ^{1 2} \$197,099
Beta (2024): Risk Adjusted Return:	0.63 13.83%	1.00 17.64%	0.50 10.86%	0.00 4.07%

- 1 Performance results are based on the Fidelity Mid-Cap Stock Fund (11.8% for 2025), the Vanguard Index 500 Fund (17.7% for 2025), the Fidelity International Index (32.0% for 2025) and an average money market return of 4.07%. 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.

2025 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 Year of Double-Digit Gains

For 2025, the S&P 500 rose +16.4% to 6,845, the Nasdaq +20.4% to 23,242, and the Dow +13.0% to 48,063. The S&P 500 posted its third consecutive year of double-digit gains – a feat not seen since the late 1990s – though 2025 marked a potential turning point: the MSCI All Country World Index ex-U.S. gained more than 30%. International markets had not outperformed U.S. stocks since 2009.

Market returns were achieved despite a severe 19% correction between February and April, triggered by concerns over the Trump administration's global tariff policies. Market concentration remained a defining characteristic. The "Magnificent Seven" accounted for nearly half of the S&P 500's total returns, with Nvidia and Alphabet alone contributing one-third of the index's overall performance for the year. The "debasement trade" has driven precious metals to record levels: Gold appreciated 70%, surpassing \$4,500 per ounce by year-end, while Silver outperformed all major asset classes, gaining more than 140%.

Real GDP growth, following a -0.6% contraction in the first quarter, accelerated to +3.8% in Q2 and +4.3% in Q3. Preliminary estimates from the Atlanta Fed suggest Q4 growth reached +5.4%. The annual federal deficit declined 22% from \$2.07 trillion in 2024 to \$1.6 trillion (5.9% of GDP) by the end of 2025, as total federal debt surpassed \$38 trillion. Core CPI held steady at 2.6%, a four-year low, while core PCE remained elevated and sticky at 2.8%. Unemployment edged down to 4.3%, with the labor participation rate holding steady at 62.5%.

The median sale price of an existing home rose just 0.4% from a year ago to \$405,000. Home affordability is improving as median incomes rise faster than existing home prices, and the rate for a 30-year fixed mortgage gradually settles near 6%. The National Association of Realtors' affordability index, which tracks the average family's ability to qualify for a loan, is now at its highest point in nearly three years.

Wall Street Remains Exuberant

The S&P 500 currently trades at a trailing twelve-month P/E of 26x, while the Shiller CAPE ratio hovers near 39x. Total U.S. stock market capitalization now exceeds 217% of GDP, surpassing the peak of the dot-com era. Wall Street strategists remain bullish. Their narrative is simple: inflation is falling, the economy is growing, and central banks will continue to cut rates. S&P 500 earnings are expected to grow by 15% – significantly above the long-term average of 8% to 9% and a third consecutive year of double-digit earnings expansion. Forecasts have the S&P 500 reaching 8,000 by year-end (+15%), supported by record share buybacks exceeding \$1.2 trillion.

Early 2026 has seen a notable rotation away from mega-cap technology toward small-cap and cyclical sectors. The Russell 2000 reached new all-time highs in January 2026, gaining nearly 9% as investors sought more attractive valuations. Leadership shifted to the materials and energy sectors, both up 7.5% early in the year, while the "Magnificent Seven" declined.

AI Buildout: Massive Spending Faces Rapid Obsolescence

Global AI spending is projected to reach \$2.53 trillion in 2026 and \$3.33 trillion by 2027. Tech giants have committed unprecedented capital: Meta and Microsoft anticipate 2026 capital expenditures (capex) of approximately \$100 billion each, while Amazon is on track to double its data center capacity by 2027. This has pushed capital spending to roughly 30% of sales – triple historic norms – with hyperscalers now dedicating 60% of operating cash flow to capex.

A significant valuation risk persists due to the mismatch between investment and realized revenue. Data centers may require \$2 trillion in annual revenue by 2030 to justify current spending, while 2026 AI revenues are estimated at only \$20 billion. Hardware obsolescence adds further risk, as Nvidia's new Rubin platform effectively rendered its previous Blackwell platform obsolete, potentially leading to significant corporate write-downs.

A Labor Market "Tsunami"

While AI adoption is expected to enhance workforce productivity, it is simultaneously driving a "tsunami" in the labor market. Total job cuts in 2025 reached 1.21 million – highest since 2020. Notable AI-linked layoffs include 30,000 positions at UPS, 20,000 at Citigroup, and 30,000 at Amazon. Consumer confidence has collapsed to 82.2, surpassing the depths of the COVID-19 pandemic. Middle- and lower-income households are experiencing stagnant real wages and rising defaults on credit cards and auto loans. Meanwhile, aggregate consumption remains resilient, driven by the top 10% of households who account for nearly 50% of total U.S. spending – fueled by record stock market gains.

A Federal Reserve in Transition

The Federal Reserve is entering a period of transition as Chair Jerome Powell's term expires in May 2026. At its January 2026 meeting, the FOMC held the federal funds rate at 3.5%–3.75%, signaling a pause after six rate cuts totaling 175 basis points since September 2024. Market participants anticipate two to three additional cuts in the second half of 2026 to address labor market stagnation. Following the end of quantitative tightening in December 2025, the Fed shifted to "Quantitative Easing Lite," purchasing \$40 billion per month in short-duration Treasuries.

Systemic Risks & Global Dynamics

Margin debt reached a record \$1.2 trillion in 2025, a 45% year-over-year increase. The ratio of margin debt to free credit balances has reached 6.0, far exceeding levels seen before the 2000 dot-com crash or the 2008 financial crisis. A ratio of 1.0 or less means the account holds enough free cash to cover losses on the underlying security. The higher the ratio, the sooner losses would trigger forced selling to meet a margin call.

This risk is compounded by the dominance of passive investing. Index funds and ETFs now account for over 50% of U.S. equity ownership. These vehicles allocate capital based on market capitalization, not valuation, fundamentals, or business quality. As more money flows into these funds, the largest companies receive the lion's share of new capital. This creates a powerful feedback loop, where price drives flows, and flows drive price. Any reversal in flows could trigger disproportionate selling in mega-cap leaders.

Globally, Japan's monetary normalization has pushed their 5-year government bond yields to 1.5%, the highest since 2008. As the largest foreign holder of U.S. Treasuries (\$1.2 trillion), repatriation of Japanese capital to support the yen remains a potential catalyst for destabilizing U.S. bond markets. Finally, domestic political friction remains a persistent risk, following the longest ever 43-day government shutdown in 2025 and the threat of another in early 2026 over immigration and ICE funding.

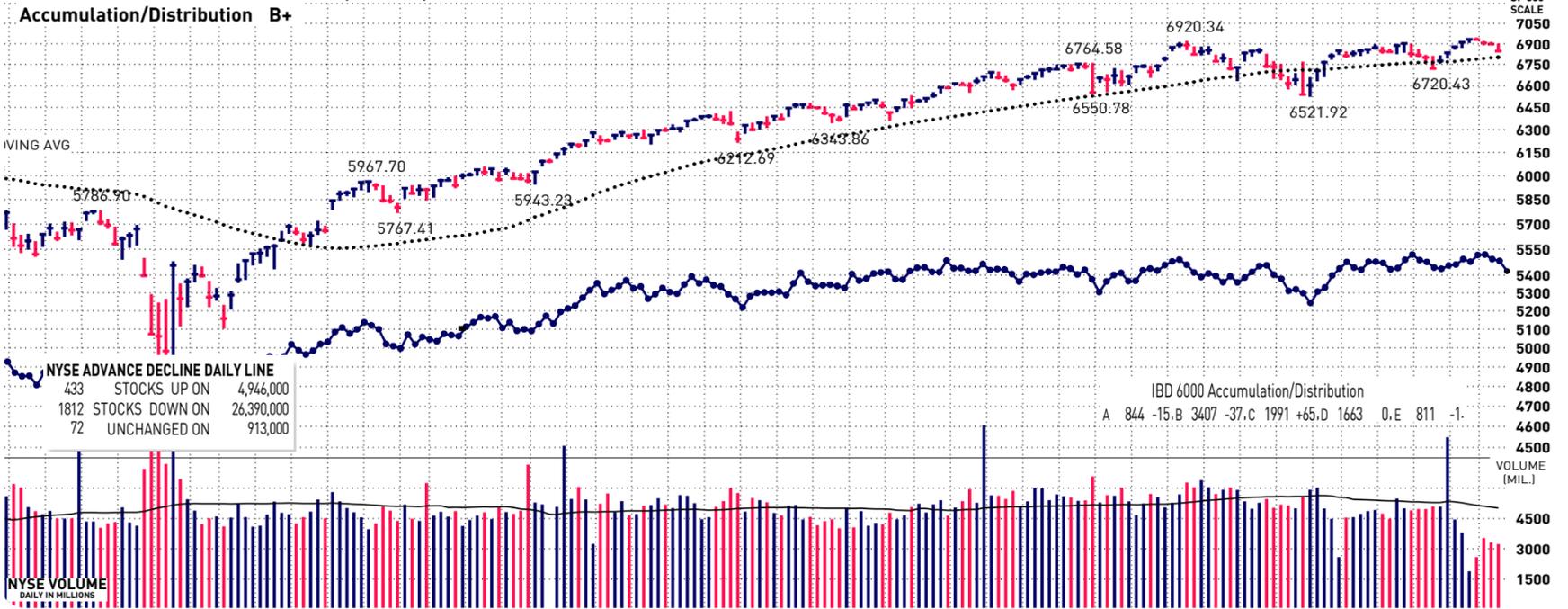
As always, we look forward with great optimism. We appreciate your faith and confidence. And we are eager to apply the lessons learned for your benefit.

BCN Financial Inc. is the Registered Investment Advisor

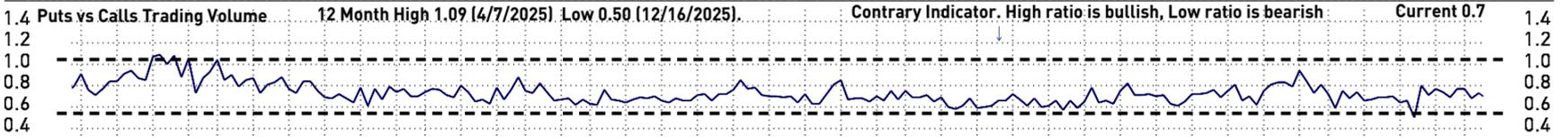
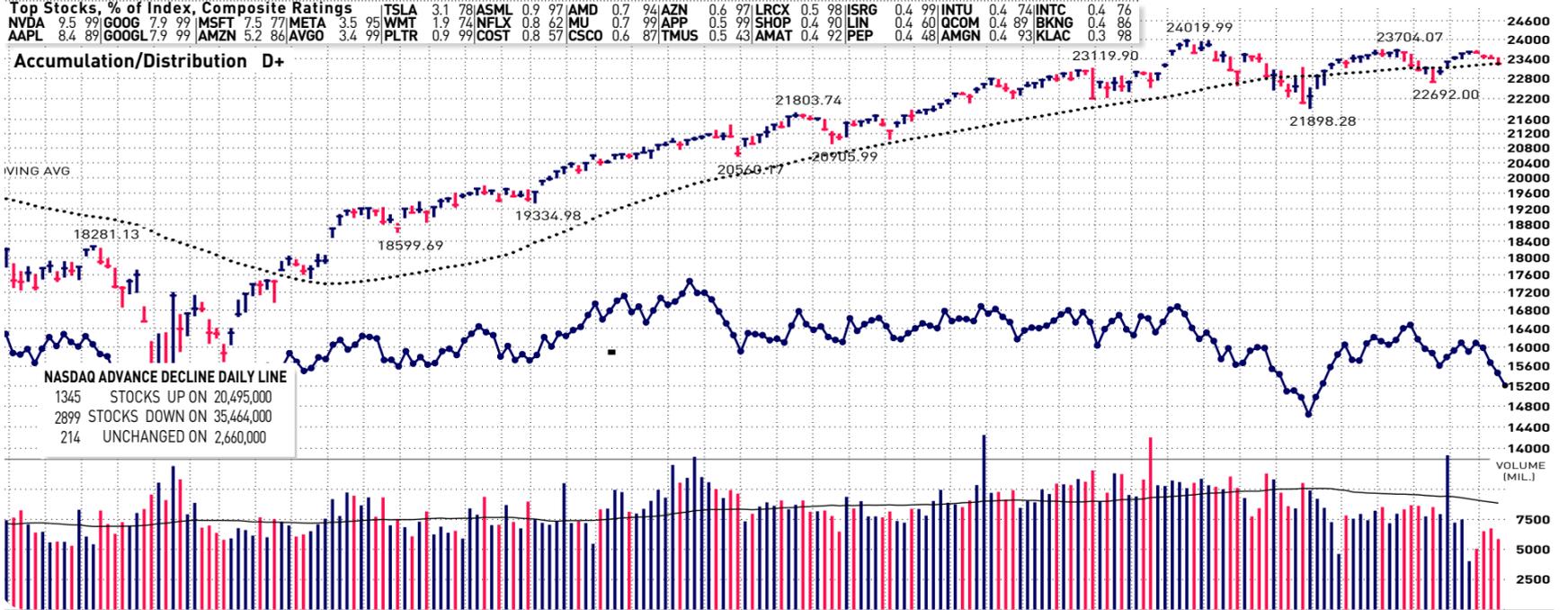
We are required to offer Form ADV Part 2 to our clients each year. Contact BCN Financial for a copy.

MARCH | APRIL | MAY | JUNE | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER
 7 14 21 28 4 11 25 2 9 16 23 30 6 13 20 27 11 18 25 1 8 15 22 29 5 12 19 26 3 10 17 24 31 7 14 21 28 5 12 19 26

S & P 500 Wednesday 6845.5 -50.74 (-0.7%) HI 6901.42 LOW 6844.55 YIELD 1.25 OFF 52 WK HI -1.4% SINCE JAN 1 **+16.4%**



NASDAQ COMPOSITE 23242 -177.08 (-0.8%) HI 23445.26 LOW 23237.78 OFF 52 WK HI -3.2% SINCE JAN 1 **+20.4%**



Top 40 Groups (6 mos.)

Rank	This Wks Ago	3 Wks Ago	6 Wks Ago	Group Industry Name	Composite YTD Rating	YTD % Chg	Days % Chg
1	1	1	1	Telcom-Fibr Optics	95	+175	-1.2
2	3	2	3	Comptr-Data Strge	87	+113	-1.5
3	2	3	3	Medical-Biomed/Bth	85	+33.6	+0.2
4	5	8	5	Mining-Gld/Silvr/Gms	97	+125	-1.4
5	7	16	16	Telcom-Cb/Sat Eqp	85	+63.7	-1.1
6	13	15	13	Elec-Semicondctr Eqp	91	+57.0	-1.6
7	8	9	9	Medical-Services	89	+41.4	-0.3
8	14	20	20	Energy Coal	72	+8.8	-0.2
9	16	27	27	Med-Long-Trm Care	98	+37.1	-1.2
10	11	11	11	Elec-Parts	95	+30.6	-1.7
11	9	5	5	Energy Solar	86	+32.8	-1.0
12	15	15	15	Dvrsified Oprtns	75	+36.4	-0.1
13	4	7	7	Elec-Contract Mfg	92	+67.6	-1.5
14	44	21	21	Oil&Gas-Drilling	78	+5.9	-0.6
15	17	26	26	Trucks & Parts-Hvy D	88	+26.7	-0.8
16	12	13	13	Mining-Metal Ores	86	+53.3	-0.7
17	24	29	29	Internet-Content	87	+20.3	-0.6
18	27	28	28	Medical-Generc Drgs	88	+32.5	-0.7
19	6	14	14	Retail-Dprrtmnt Strs	..	+46.6	-1.0
20	18	10	10	Med-Resrch Eqp/Svc	85	+12.4	-1.0
21	10	12	12	Mchnry-Cnstr/Mng	85	+50.9	-0.9
22	67	23	23	Medical-Diversified	91	+29.8	-0.5
23	50	84	84	Auto Manufacturers	82	-2.6	-0.9
24	48	47	47	Retail-Mail Order&Di	..	+14.6	-2.1
25	20	44	44	Apprel-Cthng Mfg	88	+4.1	-1.2
26	30	35	35	Consumer Prod-Elec	71	-17.6	-0.8
27	21	38	38	Elec-Semicon Mfg	89	+9.6	-1.1
28	39	113	113	Trnsprttn-Airline	89	-3.6	-0.3
29	28	61	61	Bldg-Mbile/Mfg & Rv	87	+23.8	-1.5
30	29	37	37	Mchnry-Mtl Hldg	..	+3.4	-2.8
31	25	17	17	Oil&Gas-Mchnry/Eq	81	+10.6	-0.7
32	49	34	34	Oil&Gas-Field Servc	79	+0.1	-0.8
33	66	94	94	Cmp Sftwr-Spc-Entr	77	-12.9	-1.5
34	19	22	22	Elec-Semicon Fblss	92	+33.5	-1.4
35	33	55	55	Banks-Money Cntr	92	+46.6	-0.6
36	36	72	72	Retail-Apprl/Shoes/Acc	84	-7.8	-0.7
37	23	77	77	Steel-Spcity Alloys	..	+69.0	-1.5
38	57	30	30	Medical-Ethical Drgs	84	+8.6	-0.4
39	35	45	45	Transport-Logistics	81	+15.6	-1.2
40	41	39	39	Transportation-Ship	85	-0.1	-0.2

Worst 40 Groups (6 mos.)

Rank	This Wks Ago	3 Wks Ago	6 Wks Ago	Group Industry Name	Composite YTD Rating	YTD % Chg	Days % Chg
158	168	167	167	Food-Grain&Related	..	-3.2	-0.7
159	162	138	138	Consumr Svc-Education	64	-8.7	-0.5
160	165	172	172	Telcom Svc-Wirles	..	+3.1	-0.4
161	163	184	184	Paper & Paper Produ	..	-20.7	-1.1
162	161	6	6	Rtail Whlsle Offc Sup	..	+29.0	+4.8
163	100	150	150	Intrnt-Netwk Sltms	..	-6.4	-9.6
164	150	164	164	Finance-Card/Pmntpr	79	+0.6	-1.1
165	160	142	142	Comptr Sftwr-Fincl	78	-9.6	-2.1
166	154	135	135	Food-Packaged	..	-17.6	0.0
167	156	188	188	Apparel-Shoes & Rel	..	-25.6	-0.5
168	153	173	173	Reti Whsle Bldg Prds	..	-13.0	-0.9
169	108	158	158	Bldg-Rsident/Comm	..	-10.6	-0.5
170	179	177	177	Telcom Svc-Integrtd	..	-24.7	-0.2
171	137	116	116	Cosmetics/Persnl Cre	59	-25.1	-0.5
172	166	136	136	Funeral Svcs & Rel	..	-0.6	-1.0
173	194	155	155	Food-Confectionery	..	-2.7	-0.3
174	169	159	159	Agricultural Oprtns	48	-9.1	-0.9
175	141	147	147	Wholesale-Elect	..	-15.9	-1.2
176	173	190	190	Food-Meat Products	60	-9.3	-1.4
177	183	145	145	Comptr Sftwr-Dsktp	..	-1.4	-1.0
178	176	183	183	Chemicals-Paints	..	-8.7	-0.9
179	182	185	185	Chemicals-Basic	..	-9.8	-0.9
180	177	175	175	Comptr Sftwr-Dsgn	76	-3.2	-1.1
181	175	166	166	Retail-Drug Stores	..	+25.6	-2.2
182	171	139	139	Comptr Sftwr-Scrity	69	+4.4	-1.2
183	144	157	157	Retail-Cnsmr Elec	..	-25.6	-1.5
184	191	192	192	Insurance-Brokers	..	-20.5	-1.1
185	193	197	197	Cmmi Svcs-Mrkt Rch	..	-20.6	-0.7
186	184	187	187	Machinery-Farm	..	+3.8	-1.0
187	185	191	191	Beverages-Alcoholic	45	-35.0	-1.0
188	192	179	179	Food-Dairy Products	..	-3.4	+0.5
189	186	180	180	Soap & Cng Preparat	..	-10.3	-0.7
190	188	182	182	Comm Svc-Sftng	..	-30.0	-1.2
191	189	196	196	Bldg-Wood Prds	..	-27.1	-0.8
192	195	193	193	Chemicals-Plastics	..	-28.1	-0.9
193	187	169	169	Retail/Wsl-Auto Prt	..	+4.7	-0.3
194	178	174	174	Consumr Prod-Speci	..	-2.6	-0.3
195	190	176	176	Media-Books	..	-16.3	-0.3
196	196	146	146	Comptr Sftwr-Mdcl	..	-3.1	-0.6
197	197	194	194	Cmptr Sftwr-Edu	..	-41.8	+0.5

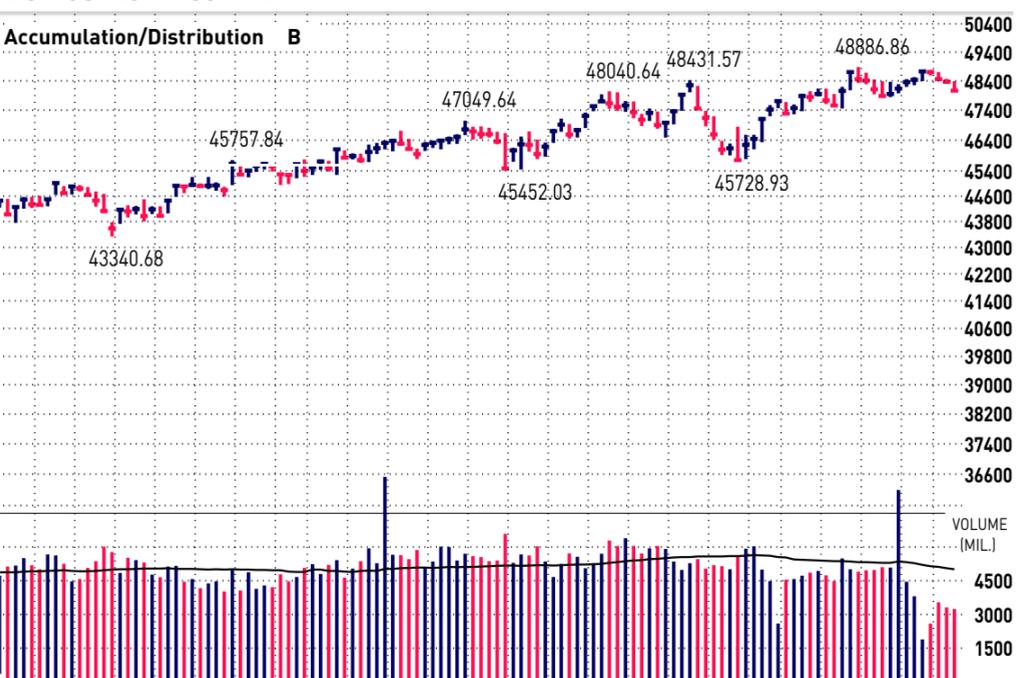
IPO Best Price Change

Comp Rtg	Stock Name	Symbol	Closing Price	Price % Chg	Vol % Chg
87	Alignment Healthcare	ALHC	19.75	+2.7%	-2%
99	Nextracker	NXT	87.11	+0.1%	-55%
96	Charming Medical	MCTA	29.36	+0.0%	-100%
92	Sun Country AirlinesHldg	SNCY	14.39	+0.0%	+8%
90	Patria Investments CI A	PAX	15.89	-0.2%	-21%
97	Atour Lifestyle	ATAT	39.40	-0.3%	-17%
94	Five Star Bancorp	FSBC	35.78	-0.4%	-24%
96	BrightSpring Hlth Svcs	BTSQ	37.45	-0.5%	-36%
90	GigaCloud Technology	GCT	39.28	-0.6%	-39%
96	Credo Tech	CRDO	143.89	-0.7%	-58%

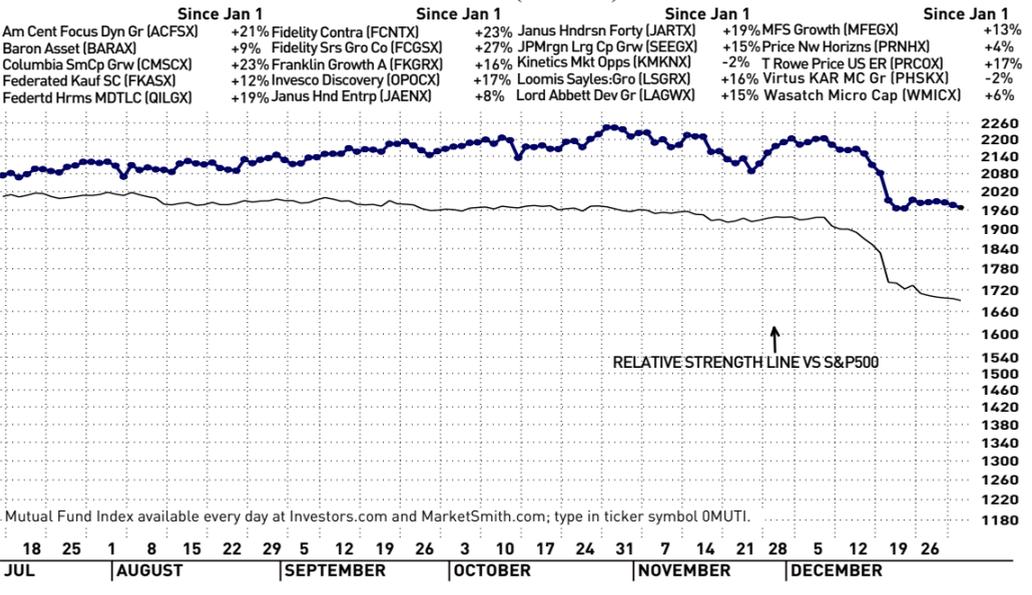
IBD 50's Best Price % Chg

Comp Rtg	Stock Name	Symbol	Closing Price	Price % Chg	Vol % Chg
84	Axsome Therapeutics	AXSM	182.64	+22.8%	+479%
96	Arcutis Biotherapeutic	AROT	29.04	+3.4%	-25%
87	Alignment Healthcare	ALHC	19.75	+2.7%	-2%
86	Guardant Health	GH	102.14	+1.5%	-61%
97	Taiwan Semiconductor	TSM	303.89	+1.4%	-30%
98	Travere Therapeutics	TVTX	38.21	+1.4%	-50%
96	AnaplysBio	ANAB	48.48	+0.5%	-33%
93	Keros Therapeutics Inc	KROS	20.36	+0.4%	-77%
96	Mirum Pharma	MIRM	78.99	+0.2%	-32%
92	Dave	DAVE	221.41	+0.1%	-52%

DOW JONES INDUSTRIAL 48063.3 -303.77 (-0.6%) HI 48394.51 LOW 48050.88 OFF 52 WK HI -1.7% SINCE JAN 1 **+13.0%**



IBD MUTUAL FUND INDEX 1967.11 -8.49 (-0.43%) Since Jan 1 **-3.83%**





BCN Advantage

29 years: Jan 1997 – Jan 2026

BCN Adv	1/1/1997	\$100,000		
9.77%	1/1/2026	\$1,491,880	Active Mgmt:	58% at risk (average 29 years)
Buy & Hold	1/1/1997	\$100,000		
9.05%	1/1/2026	\$1,234,297	Buy & Hold:	100% at risk
6.33%	1/1/2026	\$592,549	Buy & Hold:	50% at risk
Cash	1/1/1997	\$100,000		
2.37%	1/1/2026	\$197,099	100% Cash	0% at risk
S&P 500	1/1/1997	\$100,000	740.74	
7.97%	1/1/2026	\$924,143	6845.50	100% at risk

BCN Advantage began in 1997 to meet the specific needs of our public agency clients. Because you retire earlier than the general public and defer 457 distributions longer (due to your CalPERS or County '37 pension), you remain a long-term investor well into retirement.

Certain periods are better than others to be fully committed to stocks. By applying risk / reward analysis to increase or decrease your stock exposure based on prevailing market conditions, we increase the opportunity for long-term growth.

Although past performance cannot guarantee future results, the math and actual performance are compelling. Minimizing market losses (ideally to less than -10%) is far more important to long-term investment success than capturing every last percent of gain in up markets.

Since 2000, our average stock exposure has been slightly less than 60%. This means we have significantly outperformed the S&P 500 for more than 2 decades with 40 percent less risk. That's quite a track record.

Past performance does not guarantee future results.

- Like any other investment or purchase, some moments are much better than others to buy stocks or be fully invested in the markets.
- What makes our service so different is that we increase or decrease your stock exposure based on prevailing market conditions, as opposed to simply rebalancing based on your age or years to retirement.
- October 2007 was a high-risk market. We believed remaining upside was +5% and potential downside was greater than -30%. With risk / reward this negative, we were 75% defensive going into 2008.
- March 2009 was a favorable entry point. We believed remaining downside was -5% and potential upside was greater than 50%. With risk / reward this positive, we moved 100% fully invested into growth stocks.
- Today, we believe remaining upside is +10% and potential downside is -10%. With risk / reward neutral, we are 40% defensive.
- Market conditions are based on fundamental, technical and sentiment indicators developed over 3+ decades. A key indicator is valuation. The average trailing 12-month P/E for the S&P 500 is historically 20x. As valuation increases, so does market risk. Another key indicator is Fed policy. An accommodative (rate-cutting) Fed significantly reduces market risk and vice versa.
- Defensive percentage is based on the "arithmetic of loss." -50% loss requires +100% gain to recover. -25% loss requires +33% gain to recover. -10% loss only requires +11% gain to recover. Therefore, our defensive percentage is designed to minimize losses to -10% or less. For example, in 2008, a 75% defensive allocation kept losses under -9%.

Market Declines 10%

60% stocks x -10% loss = -6.0%

40% cash x 3.50% gain = +1.4%

Net = -4.6%

Market Declines 20%

60% stocks x -20% loss = -12.0%

40% cash x 3.50% gain = +1.4%

Net = -10.6%

- Greater than -20% market declines generally create a favorable entry point allowing us to once again invest more aggressively in growth stocks – and begin the process again.

- For nearly 3 decades, we have demonstrated that minimizing market losses during bear markets (ideally to less than -10%) is far more important to long-term investment success than capturing every last percent of gain in up markets.
- The BCN Advantage service is ideally suited for retirees. Many expect to be investors for decades after they retire – the main reason Target Age and Target Date funds make little sense for our clients. The first 4 or 5 years into retirement are when your portfolios are most at risk. Always remember that identical “average” returns over 20 years will vary dramatically depending on whether losses occur early or late in retirement. Our service is designed to defend against severe market declines, especially early in retirement.
- The BCN Advantage service is ideally suited for clients with high cash positions (often 100% in CDs or money market funds) who have waited for months and years now for the “right time” to get back into the market. Because we allocate based on prevailing market conditions, we offer the correct strategy for re-entering the market.
- The BCN Advantage service is ideally suited for clients who want a realistic strategy to defend against severe market declines. Traditional static portfolio allocations ask you to simply “ride out” major market declines – like the downturns we experienced in 2000, 2008 and 2022. Riding out severe market downturns causes so much stress that many investors are forced to sell (usually near the market bottom) just so they can sleep at night. Once out of the market, most investors lack a proven strategy for “getting back in.”
- Many of our clients will retire in their early- to mid-fifties but won’t take distributions from their retirement plans until much later: when they are well into their sixties or forced to take minimum distributions at age 73. Even after distributions begin, substantial balances will continue to be allocated for long-term growth. Their 457, 403b, 401k accounts and rollover IRAs will continue for years or decades after retirement. So why “target” allocations based on age or years to retirement? Instead, it makes far more sense to allocate based on prevailing market conditions, while adjusting for planned short-term distributions. Exactly what the BCN advantage service provides.

Jeff Bratzler, CFP®

BCN Financial Inc.



BCN Financial Privacy Statement

BCN Financial, Inc. (BCN), an independent financial planning firm and registered investment advisor, recognizes that our clients have an expectation that BCN and its affiliates will maintain the confidentiality of our clients' nonpublic personal information. As a result, BCN has adopted this Privacy Policy concerning information that you provide and information that is obtained in servicing your account.

BCN uses the health and financial information you provide to assist you with attaining your personal financial goals, and for the purpose of administering your account or accounts with us. We collect information about you for specific business purposes and not for resale or transfer to unaffiliated parties. The information we collect, the source of the information, and the manner in which that information is used are explained below. If you close your account or your account becomes inactive, BCN will adhere to the privacy policies and practices described in this notice.

Nonpublic Personal Information that BCN Collects

The type of nonpublic information that we collect from a client depends upon the scope of the client engagement. We may collect identifying information (such as your name, address and Social Security Number), information about your personal finances and information about your health.

Nonpublic Personal Information that BCN Discloses

All information in your account may be disclosed to any person or entity that *you* have authorized pursuant to your account establishment documents. In addition, information may be disclosed to affiliated or nonaffiliated third parties to further your financial planning goals (such as the transfer of assets to a Family Trust), to fulfill requirements of underwriting life and health insurance policies, and to properly service securities or investment advisory accounts that you have established with us. BCN does not disclose nonpublic personal information about our clients to any party, except as permitted by law.

How BCN Protects the Confidentiality of Your Nonpublic Personal Information

BCN and its affiliates value the trust you place in us. To maintain that trust, we have safeguards in place to protect the privacy of your nonpublic personal information.

- We do not share or trade your personal information with nonaffiliated companies other than as disclosed in this statement.
- We maintain your records in a secured office on a secured computer network. Access is granted to authorized personnel only with login credentials changed at least quarterly.

- When information is provided to third party providers to service your account, we require strict confidentiality in our agreements stipulating that your information will only be used for the purpose it is provided.
- Prospective employees and contractors are screened for criminal convictions. Employees and contractors are advised of BCN privacy policies and of the confidential nature of the information they handle. Employees and contractors are limited to accessing only that client information that is necessary to perform their job functions.
- We are required to keep your confidential information on file for regulatory purposes for a period of five (5) years after you close your account with us. After this period your electronic records will be erased and your paper records will be securely destroyed.
- Certain persons at BCN are registered representatives with, and offer securities through, LPL Financial LLC, member FINRA / SIPC and a separate entity from BCN Financial, Inc. LPL, as part of their duty to supervise, will be granted access to your nonpublic personal information.

