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BCN Advantage – Current Market Conditions

April 29, 2025

Keys to our strategy:
1. Have sufficient cash reserves PRIOR to declines.
2. Do not SELL into declines.
3. HOLD steady during routine corrections.
4. BUY at or near bear market bottoms.

In this way we weather market storms – while the GROWTH portion of our portfolios remains steadily invested.

As of today's close (5,561 on Apr 29th), the S&P 500 is down -9.5% from its high, -5.5% YTD.

At its most recent low, the S&P 500 sank from 6,144 (Feb 19th) to 4,983 (Apr 8th), a decline of -18.9%.

If ever you needed evidence that Wall Street doesn't believe its "buy and hold" manta, look no further than recent volatility, with the Street chasing every tariff twist and turn based on rumor, speculation or otherwise.

1. Market valuations were at historic levels prior to this downturn – and remain there. For example, at 5,561, P/E for the S&P 500 (based on 2025 full year projected earnings) is 21.3 – well above 20x and only slightly below 22x (redline).

   From my 2024 annual report (February): "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."

2. The current uptrend is based on speculation about trade deals and tariff relief.

   The markets are front-running good news ("flawless results") before so much as a single trade deal has been announced. Meanwhile, the deadline to make those deals (July) is rapidly approaching. Of course, Trump may extend his deadline yet again, but eventually even that tactic will disappoint Wall Street.

3. Baseline (across the board) 10% tariffs remain in effect. Tariffs are a tax. Even if necessary to achieve fair trade deals, tariffs will stifle economic activity and hurt earnings – either top line (reduced sales) or bottom line (cost of goods sold). The full impact of tariffs on earnings has yet to be felt – or priced in by the markets.

4. Ongoing fiscal stimulus from the Inflation Reduction Act ($891B) and Secure 2.0 Act ($1.7T) have supported economic growth.

   Federal government spending increased 53% from $4.5T to nearly $7T – as an emergency response to Covid – then averaged $6.5T during all 4 years of the Biden administration, long after the pandemic had ended (see the chart below).

   The result: $37T Federal debt, $2T ANNUAL deficits, $1T ANNUAL interest.

   This stimulus is going away – whether through spending cuts or simply as previous spending bills are exhausted without new ones to take their place.

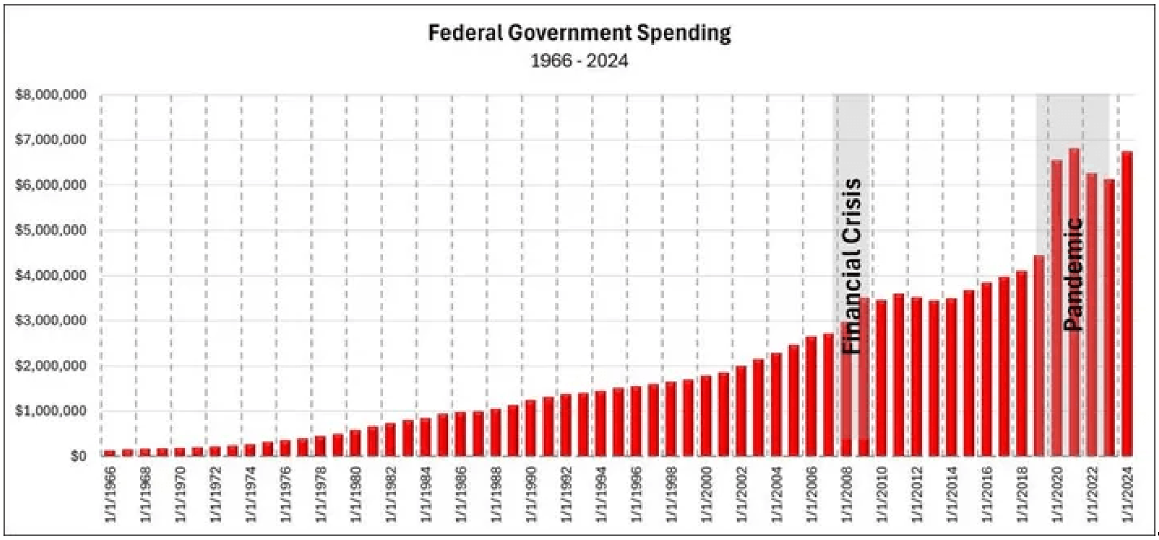
Consequently, there is a significant chance we will see new lows before we see 6,100 again – and new highs.

The good news: We don’t need to predict (the “what” or “when”). Instead, we prepare for “whatever”.

If stocks remain overvalued, we will maintain our current defensive position (60 /40).

If stocks make new lows, we have cash on hand to take advantage of a TRUE buying opportunity.

Jeff Bratzler, CFP®
BCN Financial, Inc.
Registered Investment Advisor


Federal Government Spending
1966 - 2024
$8,000,000
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$0
1/1/1966
1/1/1968
1/1/1970
1/1/1972
1/1/1974
1/1/1976
1/1/1978
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1/1/2008
1/1/2010
1/1/2012
1/1/2014
1/1/2016
1/1/2018
1/1/2020
1/1/2022
1/1/2024
Financial Crisis
Pandemic