



Quarterly Client Bulletin

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WALKER FINANCIAL ADVISORS, INC.
Registered Investment Advisor

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Dear Valued Client,

We're pleased to bring you our latest quarterly update, covering market insights, important company news, and key tax information. We always strive to keep you informed about your investments and any significant developments.

Portfolio Update & Market Overview

We continue to prioritize a balanced and risk-conscious approach to your investments. Our goal is to diversify your equity exposure across individual stocks and low-cost ETFs, complemented by fixed-income holdings for added safety and steady income.

We're happy to report that the market experienced a strong quarter, with stocks reaching record highs, buoyed by an interest rate cut and robust corporate earnings. Technology, financial, and healthcare sectors led the way, while consumer discretionary brought up the rear.

We saw strong performance from companies like **Eli Lilly**, **Merck**, **Vertex Pharmaceuticals**, and **Alphabet**. While some holdings like **Costco**, **Lowe's**, and **Microsoft** lagged, we remain confident in our long-term strategy for these high-quality companies. Our conviction remains strong in companies with competitive advantages. While large-cap growth stocks are nearing fair value, we've been selective with new opportunities. We're also pleased to see the market rally broaden to include small caps, a trend we've participated in through our position in the **DFA Small Cap Value ETF**.

On the fixed-income side, prices have moved slightly higher and yields lower, as 10-year Treasury yield ended 2025 at 4.15%. We're closely monitoring the federal deficit, which could impact long-term interest rates, and are carefully managing bond maturities.

Important Tax Updates for the 2026 Tax Year

Just a heads-up on tax season: Charles Schwab will be sending out 1099 forms in waves, starting in late January. We are happy to collaborate with your tax advisor and encourage you to work closely with them to minimize your income tax. Here are some key federal tax updates:

- **Charitable Contributions:** For non-itemizers, cash gifts up to \$1,000 can be deducted. For joint filers, this doubles to \$2,000. Itemizers can deduct donations only if they exceed 0.5% of adjusted gross income.
- **Qualified Charitable Distributions (QCDs):** If you're over 70 ½, these can be a fantastic way to satisfy your Required Minimum Distribution (RMD) by sending funds directly from your IRA to a charity, tax-free, up to an annual limit of \$111,000.
- **Gift Tax:** The annual gift tax exclusion remains generous at \$19,000 per person, allowing you to gift this amount without tax implications. The lifetime gift/estate tax exclusion has increased to \$15 million per person.
- **Retirement Plans (401k, 403b, 457b):** Good news for retirement savers: the maximum annual contribution to these plans has increased to \$24,500. Catch-up contributions for those age 50+ are \$8,000, and for ages 60-63, it's \$11,250.

- **FICA Wages (High Earners):** For high earners (over \$150,000 in 2025 FICA wages), please note that 2026 catch-up contributions for employer plans must now be Roth (post-tax).
- **Health Savings Accounts (HSAs):** HSAs continue to be an incredibly attractive option, offering triple tax advantages: tax-deductible contributions, tax-free growth, and tax-free withdrawals for medical expenses. Just remember, contributions aren't allowed once you enroll in Medicare.
- **529 Plans:** 529 plans remain a top-tier way to save for education. The annual tax-free withdrawal limit for K-12 expenses has doubled to \$20,000, and there are unlimited tax-free payouts for college costs.

Our "Dividend Achievers"

We're proud to highlight our **Dividend Achievers** – a group of nine companies we own that have consistently increased their dividends for at least ten consecutive years. We believe these companies offer excellent "sleep well at night" income durability, contributing reliably to your portfolio.

Company	Years of Consecutive Dividend Increases	Current Yield	2025 Return
Eli Lilly	10	0.6%	+52.2%
Apple	13	0.4%	+9.0%
Merck	14	3.1%	+18.7%*
American Express	14	0.9%	+25.9%
Visa	17	0.8%	+11.7%
Costco	20	0.5%	-5.4%
Microsoft	22	0.8%	+15.6%
ExxonMobil	43	3.1%	+12.8%*
Lowe's	61	1.7%	-0.3%

* New acquisition during 2025, so partial year return.

A New Equity Buy: Block, Inc.

This past quarter, we saw an attractive opportunity to repurchase **Block, Inc.** (formerly Square) for the portfolio after its price became more compelling. Block is a leader in financial technology, facilitating payments and offering solutions through its Square and Cash App ecosystems. Square helps businesses with everything from invoicing to payroll, while Cash App provides personal money management tools, including a "buy now, pay later" option. It's also notable that the company holds over 8,000 bitcoin.



Exciting Company Updates

- **Alphabet** recently unveiled its advanced Gemini 3 AI system, highlighting its strong position in the competitive AI landscape. Interestingly, Berkshire Hathaway also announced a significant new stake in Alphabet.
- **Apple** has chosen Google Gemini AI to power future Apple Intelligence features including a personalized Siri. The deal was a blow to Open AI's Chat GPT.
- **Amazon Leo** (formerly Project Kuiper) is moving forward with its ambitious satellite internet constellation, aiming to launch broadband service in Q1 2026 across several countries. They've received FCC authorization for a significant number of satellites!
- **Eli Lilly and NVIDIA** are collaborating on a groundbreaking \$1 billion AI co-innovation lab to accelerate medicine development – a truly exciting venture for the future of healthcare.
- **Boeing** received a notable order from Delta Airlines for thirty 787 Dreamliner jets, with an option for thirty more, marking Delta's first purchase of this popular model. Great news for the aviation sector!



Berkshire's New Chief

There's been a significant leadership transition at **Berkshire Hathaway**, with Greg Abel officially taking over as CEO on January 1st, while Warren Buffett remains Chairman. Mr. Abel is now at the helm of managing Berkshire's impressive \$380 billion cash reserves (as of late 2025). We anticipate a more "hands-on" approach from him, potentially including significant acquisitions, increased share buybacks, or initiating a dividend. He's already signaled a more active portfolio management style by announcing the sale of the company's stake in Kraft Heinz.

Bonds & Fixed Income Investments

In **Bonds & Fixed Income**, with short-term yields lower, we've strategically shifted our focus from U.S. Treasuries to bond ETFs that offer attractive income and stability. We currently favor four ETFs that provide monthly dividends with annualized yields from 4.3% to 6.4%. For our taxable higher-income clients, municipal bonds continue to be a strong option. We carefully construct bond ladders of California-based issuers using secondary market opportunities to provide consistent tax-exempt income.



Liquid Private Credit Vehicle: BXSL

We also hold the **Blackstone Secured Lending Fund (BXSL)**, which we classify as an "alternative" investment, but it offers the advantage of being liquid and trades like a stock. BXSL primarily invests in the senior secured debt of private U.S. companies, focusing on capital protection. This \$13.8 billion portfolio, launched in 2018, holds floating-rate loans and provides quarterly distributions. It currently offers an attractive yield of 11.5%. We're pleased to share that we repurchased the fund last quarter at a discount following a market sell-off, after having previously sold it at a higher price earlier in the year, demonstrating our opportunistic approach.

Introducing "Trump Accounts"

We're excited to share information about a new tax-advantaged savings option: **Trump Accounts**, which launch this year. These accounts can be set up for children under 18 with a Social Security number. Up to \$5,000 can be contributed annually (starting July 5, 2026), and the government will make a one-time contribution of \$1,000 for children born between 2025-2028. Personal contributions are non-deductible, but employer contributions (up to \$2,500/year) are pre-tax and tax-free to the employee. Funds are automatically invested in American companies, with earnings growing tax-deferred. The account transfers to the child at age 18 and falls under IRA rules.



We hope this update provides valuable insights into your portfolio and the broader financial landscape. Please feel free to reach out with any questions, we're always here to help!

Scott Walker, CFP®

We are a Fee-Only Independent Registered Investment Advisory firm. In addition, Warren, Nick, and I are licensed as CFP® professionals and held to the highest standards of conduct. We have a fiduciary duty to always act in your best interest. It is a privilege to serve as your advisory firm and we appreciate the opportunity to be of assistance in building and protecting your hard-earned dollars. Please let us know if you have any comments or questions.

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