Quarterly Client Bulletin

July 27th, 2026

WALKER FINANCIAL ADVISORS, INC.
Registered Investment Advisor

By: Scott Walker, CFP®

Inside This Issue:

Portfolio Update

Our 2nd quarter results were strong as both stocks and bonds rallied to push our investment gains to record highs. However, renewed hostilities in the Middle East has created some market turbulence since the end of June. We have been treading carefully with all the AI hype and are not chasing the highflyers, but one must own some technology stocks to profit from the AI revolution we are witnessing. In the tech sector, we prefer to hold large dominant companies that will utilize AI to improve productivity and customer experience. **Amazon**, **Alphabet**, and **Apple** fit the bill, and all posted double digit gains last quarter.

For more risk tolerant accounts. we purchased **Arista Networks** in early May at a favorable price. They provide networking hardware and software for data centers and have taken market share from Cisco Systems. Arista counts **Microsoft** and Meta as big customers. Microsoft has shown some signs of life as software stocks try to regain lost ground. Their Co-Pilot AI assistant has been a dud and there are lingering questions regarding the massive sums (Est. of $190 billion in '26) being spent on data centers and whether or not this will translate into meaningful future revenue.

In addition, the $75 billion acquisition of Activision Blizzard three years ago has not met expectations. We have continued to hold the shares given their huge installed base with the Windows operating system and popular tools like Outlook 365, Word and Powerpoint that we subscribe to in our office. Long-time CEO Satya Nadella is still at the helm, but our patience is wearing thin as the stock continues to flounder. Other laggards last quarter were consumer discretionary and utility stocks **Costco**, **Lowe's**, and **Sempra**. We continue to like and hold all three stocks for long-term appreciation.

After several years of bringing up the rear, small cap stocks have been the top domestic performers in 2026. Seems like we could be in the early innings of this outperformance, so we have added the **Capital Group U.S. Small and Mid-Cap ETF** as a growth counterpart to our existing position in the **Dimensional U.S. Small Cap Value ETF**. These actively managed exchange-traded funds (ETFs) are excellent vehicles to access this area of the market. All day tradability, tax-efficiency, and lower costs than mutual funds are why we like select ETFs to complement our individual security holdings.

Our preferred strategy for our private clients is to continue to hold a balanced portfolio that is allocated in line with your objectives and risk tolerance. Security selection is critical. We've typically gravitated toward large-cap market leaders and spread our bets across different industries or sectors to reduce risk. Layering in a few carefully chosen equity ETF's provides further diversification while targeting access to a specific management style or sector. Holding individual bonds provides peace of mind with the certainty of a maturity date when our principal will be returned at par value. To capture higher income payouts, we have incorporated bond ETF's for roughly half our fixed-income allocation. These are low-cost diversified baskets that are easy to trade and pay out interest earned via a monthly dividend.

New Buy

We picked up **McKesson (MCK)** during the quarter, viewing the stock's pullback from its highs as a valuation reset rather than a change in the underlying business. McKesson is the best-in-class logistics backbone of the pharmaceutical supply chain, distributing prescription drugs and medical-surgical supplies from manufacturers to pharmacies, hospitals, and physician offices at massive scale. While that core distribution business operates on thin margins, the company's faster-growing oncology and specialty services segment is increasingly driving profitability, carrying meaningfully higher margins. We were happy to learn that management feels as we do when they announced a $5 billion share buyback program in May.

SpaceX IPO

Space Exploration Technologies (SpaceX) completed the largest initial public offering (IPO) in history on June 12, raising $85.7 billion, which valued the company at over $2 trillion based on the first day closing price of $160.95 and total number of shares outstanding. We participated indirectly by owning the Baron First Principles ETF which counted privately-held shares of SpaceX as a large position prior to the IPO. The money maker so far for SpaceX has been their Starlink satellite-based internet service. It’s a life saver for more remote rural areas and a terrific option for maritime users. CEO Elon Musk also has big plans to build data centers in space facilitated by the company’s reusable rockets. A partnership with NASA is also a plus for future launches, but it was hard for us to get our arms around the valuation since the company has yet to turn a profit, so we opted to sell all shares of the Baron ETF into the strength on the day of the IPO. Longer-term, we are optimistic about Elon and his ability to produce meaningful results, but we want to see the stock stabilize before we begin building a position. Stay tuned.

New Fed Chair

President Trump's handpicked-nominee Kevin Warsh was confirmed by the Senate and was sworn in as the new Chairman of the Federal Reserve, replacing Jerome Powell, who will stay on the Board of Governors until January 2028. Despite the President's insistence on lower interest rates, Mr. Warsh has vowed that he will not succumb to political pressure. He has affirmed the importance of Fed independence and his intention to get inflation back down to their 2% target. This focus, along with strong economic data, has shifted market expectations toward a Fed rate hike before year-end. The Fed directly sets short-term interest rates, but longer-term rates are driven largely by investors' expectations for future inflation. The recent uptick in yields is overdone in our opinion, so we see value at the long end of the yield curve. Acting on this view, we extended duration by purchasing a 5% coupon U.S. Treasury bond at a discount to par.

U.S Bond Exchange-Traded Funds ETF's

These low-cost diversified baskets of bonds provide steady monthly income and are a great compliment to our individual holdings of U.S. Treasury and municipal bonds. We continue to like and own the **JP Morgan Income ETF**, **PIMCO Enhanced Short-Maturity ETF**, and **Invesco Variable Rate Preferred ETF**. They all have a relatively short duration to limit interest rate risk and pay annualized yields in the 4.0 – 5.5% range. Last quarter, interest rates moved higher as inflation accelerated primarily due to the spike in energy prices. So, we implemented a barbell strategy believing that long-term rates are overextended. New additions to our portfolios included the **Vanguard Long-Term Corporate Bond Index ETF**, and with the economy on strong footing, the recently launched **Vanguard High-Yield Active ETF**, with a 6% current yield. This cost-efficient ETF is managed by the same team behind Vanguard's top-rated high-yield mutual fund.

Empowering Women Investors

Recent research found that women who work with a financial advisor are roughly 60% more likely to report feeling confident managing their finances compared to those who go it alone, a meaningful finding given that women are controlling an increasing share of household and generational wealth. Retirement planning, investment planning, and estate planning are among the areas where women are most often seeking professional guidance. Interestingly, the same research found that most women with at least $500,000 in investable assets are currently holding more than $100,000 in cash, capital that may be sitting idle longer than necessary. While having an emergency reserve is important, 3-6 months of total expenses is the recommended guideline. Your financial security is our priority. As a client of our firm, your funds are safeguarded in line with your objectives and risk tolerance and managed strictly in our fiduciary capacity. If you or someone you know has stockpiled too much money in the bank, let us know.

In addition, if we haven't discussed your income tax and estate planning situation lately, let's schedule some time together. Phone, video, or in person meetings are available. We are also happy to coordinate a meeting with your CPA &/or attorney so that everyone becomes acquainted for a more holistic and coordinated financial planning experience.

Roth IRAs

Unlike a traditional IRA which is funded with pre-tax contributions, Roth IRAs are funded with after-tax contributions. Both types of IRA's allow earnings to compound without tax, but a Roth IRA has two big advantages over a contributory deductible IRA. Distributions from a Roth after five years and age 59 ½ are entirely tax-free (principal may be withdrawn any time without penalty or tax). In addition, Roth IRAs are not subject to required minimum distributions (RMD's). For regular IRA's these annual disbursements must commence at age 73 and are taxable as ordinary income.

So, does it make sense to convert regular IRA balances to a Roth IRA? The answer is it depends. It can make sense if your income is low, you have spare funds outside of the IRA to pay the tax bill, and you have enough time to recoup that tax cost through compound growth of the account balance. Roth IRAs are most compelling for younger investors who have earned income but are not yet in a high tax-bracket. It allows them to lock in low tax rates today in exchange for a lifetime of tax-free withdrawals later.

Health Savings Accounts (HSA's)

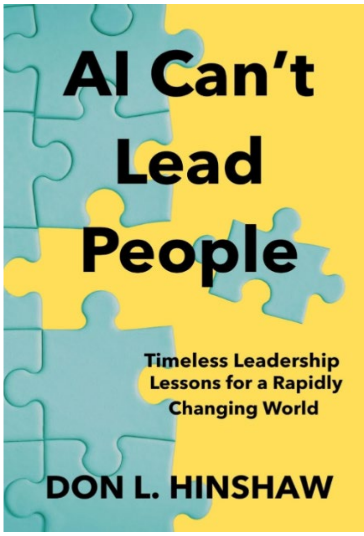
For those who are not enrolled in Medicare, a Health Savings Account (HSA) serves as one of the most efficient tax shelters available. These accounts feature a distinct "triple tax-advantaged" status: contributions are made pre-tax, earnings accumulate tax-free, and distributions for qualified medical expenses are completely tax-exempt. To take advantage of an HSA, your insurance company or employer must explicitly designate your coverage as an HSA-eligible High-Deductible Health Plan. For the 2026 calendar year, the IRS requires these qualifying plans to have a minimum annual deductible of $1,700 for self-only coverage or $3,400 for families.

If you meet these parameters, 2026 HSA contribution ceilings are set at $4,400 for individuals and $8,750 for families, inclusive of any contributions made by your employer. Savers aged 55 and older can capture an additional $1,000 catch-up contribution. Once funded, you can use your HSA capital to pay healthcare providers directly for copays and deductibles or distribute the cash straight to yourself as a tax-free reimbursement for out-of-pocket medical costs.

Donor Advised Fund (DAF)

If you want to make a lasting charitable impact but aren't quite sure which organizations to support yet, a Donor-Advised Fund (DAF) is an excellent option to consider. By opening a dedicated DAF account at Schwab, you can irrevocably contribute cash or appreciated securities that are not held in an IRA. Once the account is funded, you bypass capital gains taxes on sales and secure an immediate current-year tax deduction with a five-year carry-forward window. Schwab utilizes the services of DAFgiving360 (formerly Schwab Charitable), so you or a named donor advisor can direct them to make grants to 501(c)3 charities on your own schedule. You also can retain our asset management services until the account is exhausted. Because gifts to your DAF are treated as itemized deductions, please coordinate with us and your CPA to verify your potential tax savings before moving forward.

AI Can't Lead People



If you or someone you know is in a leadership role with an organization, this is great easy-to-read book recently written by a long-time client. Don grew up on a farm in Tennessee and learned the value of a strong work ethic from an early age. He went on to become a Senior Drill Sergent in the U.S. Army, then embarked on his climb up the corporate ladder. As a retired CEO, he distills a career of real-world experience into timeless tips for effectively managing employees and keeping customers happy. If you'd like to take your organization to the next level, I strongly encourage you to order copies on Amazon for yourself and your management team.

We are truly grateful for the opportunity to serve as your wealth manager and always welcome your questions or feedback. We hope you have a wonderful and relaxing rest of your summer!

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.

27201 Puerta Real, Suite 465
Mission Viejo, CA 92691
Phone: 800-605-6777
https://walkerfinancial.com