ENCORE
SEM's Quarterly Newsletter

A Mega Cap Growth Market

Summer 2024

If you're an investor in an S&P 500 or related index fund, you've had a pretty good 18 months. Ignoring a couple of quick, scary drops, you've had a pretty good 15 years.

SOURCE: Downtown Josh Brown | Not a recommendation to buy or sell any stocks mentioned.

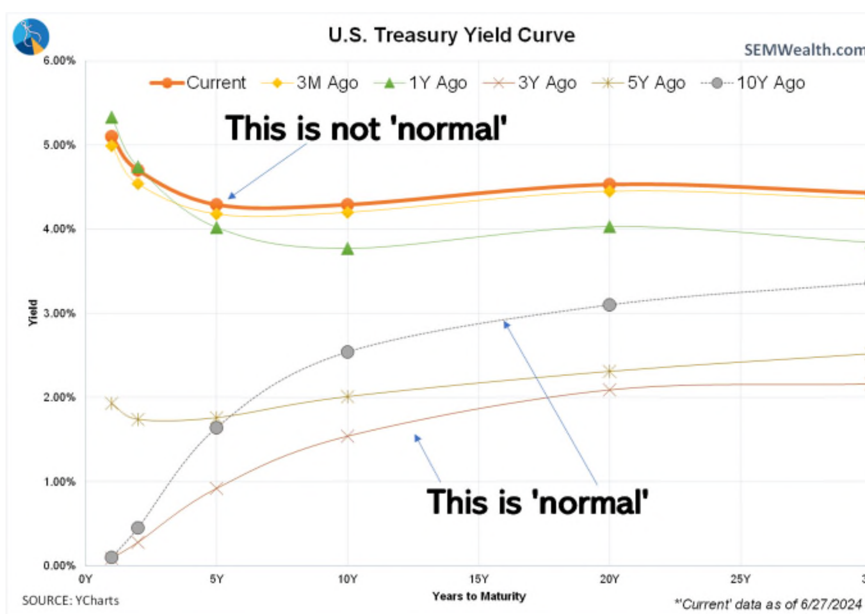
The largest companies have become behemoths who dwarf the rest of the market. While the returns have been spectacular, market history, economic fundamentals, and simple logic tells us this is not healthy for the long-term. The graphic to the right illustrates how big Nvidia has become relative to other mega-cap US companies. History will tell us whether or not this made sense, but looking back at the past, whenever just a handful of companies comprised such a large percentage of the S&P 500 it was followed by a reset of prices. These mega-cap companies have to continue to generate strong sales growth to justify their high stock prices. Those sales have to come from the rest of the economy. If the small and mid-size companies are struggling, sooner or later sales growth will slow.

When that happens is anybody's guess. At SEM we are continuing to ride this trend higher and did throughout the first half of 2024. As a fiduciary and risk manager we simply cannot blindly invest all of that money in an S&P 500 index fund because the index has become too reliant on the top 10 stocks in the index. While this diversification may reduce returns somewhat compared to the S&P 500 market history tells us this is prudent.

For the latest updates throughout the quarter go to **TradersBlog.SEMWealth.com**

This isn't normal

We've talked many times over the past 4+ years about the unprecedented actions taken before, during, and after the pandemic. This has led to many economic and financial indicators being skewed which leads to abnormal situations. One of those situations is for interest rates. This chart illustrates the yield curve over various periods of time. Normally long-term interest rates are higher than short-term interest rates, but the unprecedented policies from the Fed and Congress has led to short-term interest rates to be higher than long-term rates for a long period of time. This means CDs and other "guaranteed" investments look very attractive. However, at some point those "guaranteed" products will mature and need to be reinvested. If interest rates have returned to normal, there is an opportunity cost. SEM conducted a study of CD rates over the long-term compared to other investments. If you'd like a copy of the study, go to our website SEMWealth.com and fill out the contact section with your request.



"It's different this time"

If you are in the market for a new car and it went up by 15% in 3 months you'd probably be less likely to buy it. Conversely if it was down 15% you'd probably rush to buy it. For some reason that is not the case with stocks. Following the big jump in stock prices (already above the long-term average return for a year) we are seeing investors rushing to buy stocks, especially the big-name Mega Cap Growth stocks.

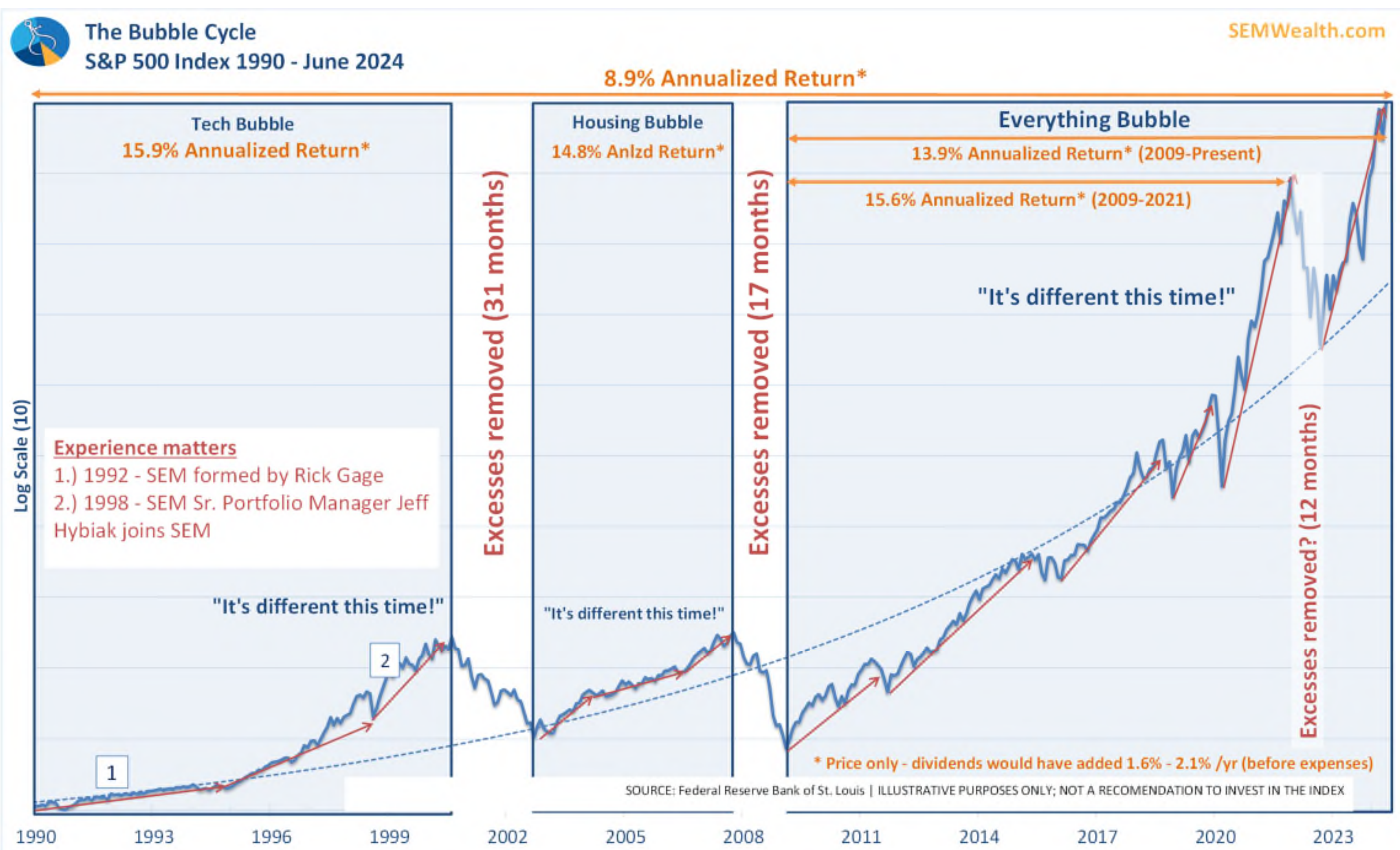
The longer you've been around (SEM is in our 33rd year) the less surprised you are at these cycles. The chart below is a good reminder of how quickly the trend in the market can reverse. Over the long-term the stock market has generated annualized returns in the 8-10% range (depending on the starting date). There have been several times where returns for 7-15 year periods were well above that as illustrated below. However, each of those times were followed by a big drop to return the market back to the "mean".

Given the big returns the first half of 2024, we thought we'd share some quotes from two successful investors who have been around longer than us:

"Quotations fluctuate constantly, reacting often illogically to all sorts of temporary and even trivial influences." – Benjamin Graham

"When the price of a stock can be influenced by a "herd" on Wall Street with prices set at the margin by the most emotional person, or the greediest person, or the most depressed person, it is hard to argue that the market always prices rationally. In fact, market prices are frequently nonsensical." – Warren Buffett

If you would like a review of your investments, go to **Risk.SEMWealth.com**



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