



## Ben's Bow Tie Brief

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### WARNING SIGNS *September 2024*

There is a cautionary signal that warrants attention. We've been talking and writing about it for the last 18+ months...the mega-cap technology stock mania taking place within the S&P 500 capitalization-weighted index. The mega-cap technology stocks carry substantial weight and have driven most of the recent index performance. The same 500 companies that make up the S&P 500 equal-weighted index have lagged dramatically. ***I strongly encourage you to read the attached piece from Lyrical Asset Management, which goes into detail on this topic.***

We believe the recent outperformance of the S&P 500 relative to the S&P 500 "Equal Weight" is a clear warning sign. Every time the S&P 500 has outperformed like this, it has underperformed in the following three and five years, usually by substantial amounts (source – FactSet via attached report from Lyrical). This time may be different, but investors should understand the historical odds they are defying if they try to continue to ride the wave of mega-cap stock performance.

In a world where little is stable or dependable and almost anything can happen, we continue to believe that a strategy of owning a diversified group of reasonably priced investments should function well.

As we enter the fourth quarter of 2024, markets are sitting at all-time highs while faced with plenty of “known unknowns”. With this as a backdrop let’s focus on financial resilience.

First, we should respect uncertainty. Second, it’s imperative to avoid excess leverage and beware of excessive expenses, all of which can make us dependent on the kindness of strangers. Third, instead of fixating on short term gains or beating benchmarks, we should place greater emphasis on becoming shock resistant and avoiding ruin. Forth, beware of overconfidence and complacency. Fifth, as informed realists we should be keenly aware of our exposure to risk and should always require a margin of safety. Lastly, keep enough cash in reserve so we will never be forced to sell stocks or any other beleaguered asset in a downturn.

We need a consistent and sustainably sensible strategy that’s good enough to achieve our financial goals. The strategy should be so simple and logical that we understand it, we believe in it to our core, and stick with it even in the tough times when it no longer seems to work. For me that means creating a comprehensive written financial plan and marrying it with a high quality globally diversified portfolio that is liquid, transparent, and cost effective.

The cumulative effect of operating this way over decades should allow us to harness the power of long-term compounding without galloping at such a pace that we raise the odds of a catastrophic disaster. The modest benefits generated by sensible habits that are directionally correct and sustainable should compound over many years. The aggregation of marginal gains is extremely powerful.

Remember, it’s possible to be a rich and successful investor without taking unnecessary risk to try and beat our peers or “the market”.

I welcome your questions and comments, and I look forward to talking with you soon.

Best,

*Ben*

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