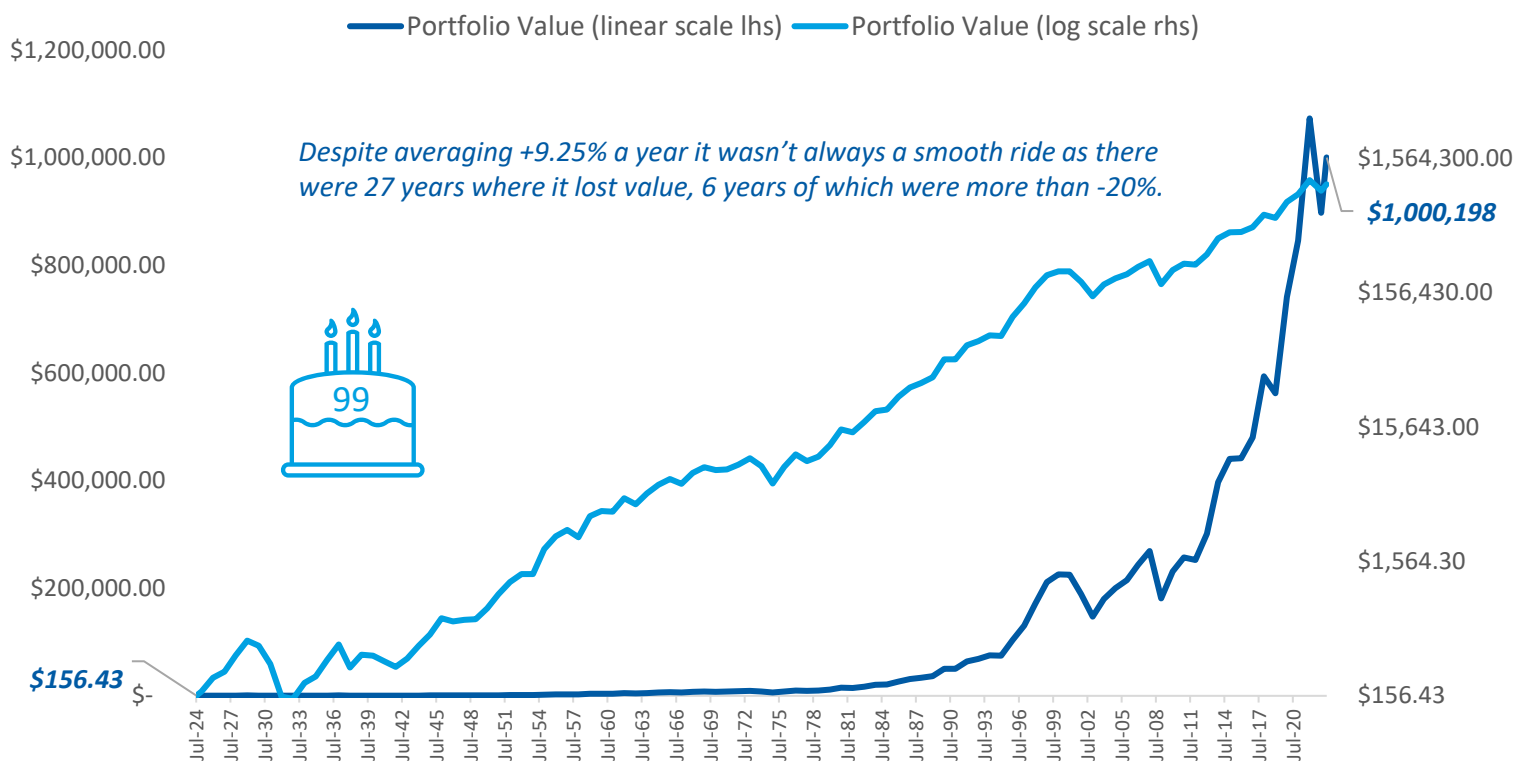


# The Balog Group at Morgan Stanley

## Charts of the Week – 07/24/2023

### Happy 99th Birthday to the Mutual Fund!

The very first mutual fund came out in 1924 and celebrated its 99th birthday this month. Had you invested \$156.43 into this fund in 1924 and reinvested all of its capital gains and distributions, it would be worth over \$1,000,000 today [as of June's month-end]. As discussed in previous letters, really long-dated charts like the one below can be very misleading when using a linear scale, so we included a logarithmic scale as well on the right-hand side.



Source: Morningstar



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## The Balog Group at Morgan Stanley

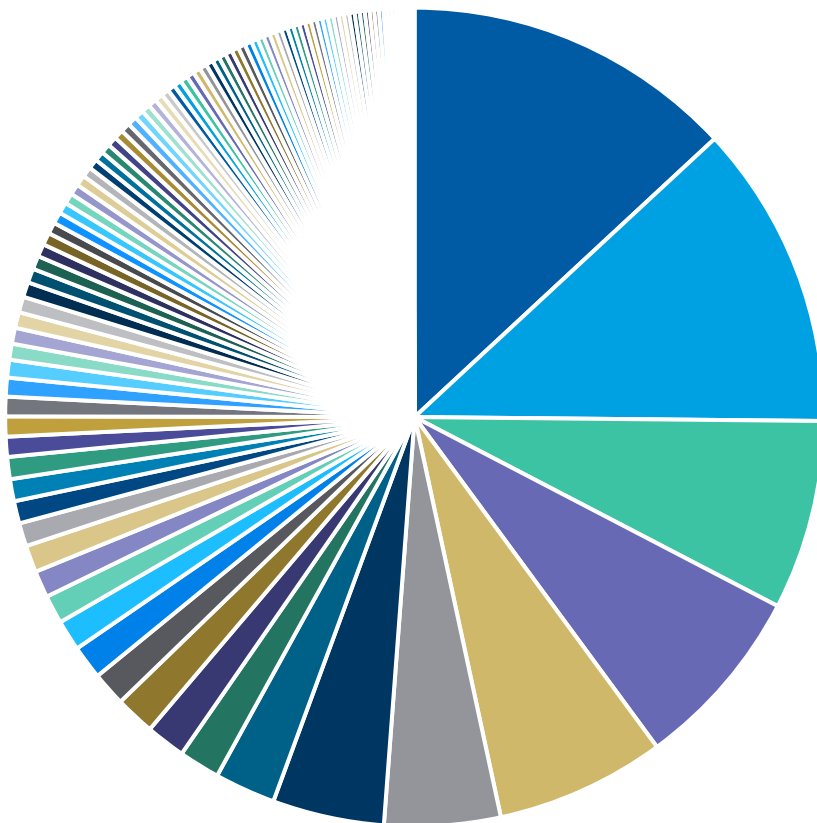
### Charts of the Week – 07/24/2023

#### How Big is Too Big?

##### NASDAQ 100 Rebalances

The NASDAQ 100 is like the S&P 500 in that it is a market-cap weighted stock index. What that means is the bigger companies are allocated a bigger percentage of the fund. For example, if company ABC is 2x as big as company XYZ, it'll make up 2x the amount of the index. Rebalancing is done in a portfolio when some investments get too big or other investment get too small. Indices that are market-cap weighted however typically won't rebalance because their investments allocations adjust automatically with their size. As a company gets bigger, it becomes a bigger allocation within the portfolio naturally and vice-versa. But the SEC sets limitations on how concentrated portfolios can be, and so if a company gets too big at some point a special rebalance is required in order to still be considered "diversified". The Nasdaq 100 has only done a special rebalancing 2 other times in history, once in 1998 and again in 2011. Due to the recent outperformance of mega-sized companies, they've gotten to be an outsized position in the Nasdaq. As of writing this letter the top 7 names are a bigger slice of the pie than the remaining 93 companies cumulatively. So investors buying into a fund with 100 companies think they may be diversified, and yet just 7 names are really driving the vehicle. See the pie chart for an illustration of the 100 companies' weights.

Investment Weights of the Companies in the NASDAQ 100



Source: Invesco



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## Sources:

1. Morningstar
2. Invesco

## Disclosures

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The Nasdaq-100 Index comprises the 100 largest non-financial companies traded on the Nasdaq. An investment cannot be made directly in a market index.

The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks. An investment cannot be made directly in a market index.

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