THOUGHTS FOR THE WEEK

DAD JOKES

June 7, 2024

Dad Joke (noun): *a wholesome joke of the type said to be told by fathers, with a punchline that is often an obvious or predictable pun or play on words, and usually judged to be endearingly corny or unfunny.*

But they aren't just told by dads!

They're told by mothers, sons, sisters, brothers, and, of course, financial advisors.

Q: How do you make a tissue dance?
A: *Put a little boogie in it.*

Q: How do frogs invest their money?
A: *They use a stock croaker.*

Q: Why did dad stare at the orange juice carton during breakfast?
A: *The label said concentrate.*

Speaking of concentration, a number of media outlets have recently published articles about heightened US Stock Market concentration, or when the value of a small number of US companies makes up a large portion of the US Stock Market. At the end of May, for example, the top 10 companies in the US Stock Market made up 25% of the market's value (source: Morningstar).

Many analysts think this phenomenon is no laughing matter, citing the level of concentration as unsustainable (source: Wall Street Journal).

They have a point. Since the 1980's, the top 10 companies have made up only 10-20% of the total US Stock Market value. Today's 25% level implies that the largest stocks *could* have their best days behind them (source: Vanguard).

But if we go back to the 1930's, markets tell a very different story, and today's market concentration levels don't feel quite as elevated.

- Throughout the 1930's, the top 10 US Stocks made up ~50% of the US Stock Market value.
- Throughout the 1940's, ~45%
- Throughout the 1950's, ~40%
- Throughout the 1960's, ~35%
- Throughout the 1970's, ~30%
  (source: Vanguard)

We don't think that increasing market concentration is necessarily a good or a bad thing, but it does provide different tradeoffs for investors.

Since 2013, the top 10 stocks in the S&P 500 have added significant value for shareholders. For example, $100,000 invested in the S&P 500 in 2013 would have grown to $272,906 at the end of 2023. Excluding the top 10 names from the S&P 500 over that time period would have reduced returns to $169,851 (source: Vanguard).

But a more concentrated market can, in theory, diminish the benefits of a broadly diversified stock portfolio, and the tailwinds from the above historical example can become headwinds. When it comes to "quantifying" those diminished benefits, however, many analysts believe that the hundreds of additional securities comprising the balance of the US Stock Market provide a sufficient level of diversification for long term investors (source: Vanguard).

So, what's an investor to do?

Doing "nothing" has historically been a rewarding option for those who can ignore the temptation to tinker. US Stock markets – despite myriad levels of concentration – have rewarded investors with 10%+ annualized returns since the mid-1920's (source: Morgan Stanley). Even if today's market leaders are "dethroned", the gains from other stock market constituents can power forward returns. Until, of course, those upstarts are dethroned. In fact, not one of the top 10 US Stocks in 1930 remained in the top 10 US Stocks in 2020. Nevertheless, patient investors, holding diversified assets, were rewarded (source: Vanguard).

Proactively owning more or less of a stock relative to the broad market – increasing or decreasing the concentration by way of "active management" – can be a rewarding strategy, as well. But remember that investing is a "zero sum game", and one investor's wins/losses are another investor's losses/wins, respectively. Successful attempts to generate above average returns by straying from broad stock market weightings has historically demanded a competitive advantage, patience, and discipline.

And finally, deferring these decisions to an investment professional can lead to good outcomes for investors in need of a helping hand. Our team assists clients and friends of the practice with these types of issues every day, so please don't hesitate to reach out with questions.

Enjoy you reading and your weekend (and one more dad joke).

Q: What did Friday say to Saturday and Sunday when they were about to give up?
A: *Weekend do it!*

Mike, Cate, Scott, Willis, Suzy, Oscar and Wes

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Sources:
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https://www.wsj.com/finance/stocks/its-the-magnificent-sevens-market-the-other-stocks-are-just-living-in-it-5d212f95
Vanguard Investment Advisory Research Center*, Historical perspective on equity concentration*, PID 3000630 (3266665) DOLU 06072025

Awards:
2024 Barron's Top 250 Private Wealth Management Teams
Source: barrons.com (Awarded May 2024) Data compiled by Barron's for the period Jan 2023-Dec 2023.

2024 Forbes Best-In-State Wealth Management Teams
Source: Forbes.com (Awarded Jan 2024) Data compiled by SHOOK Research LLC based on time period from 3/31/22-3/31/23.

Mike Burbank | **2019-2020 & 2022-2024 Forbes Best-In-State Wealth Advisors**
Source: Forbes.com (Awarded 2019-2020 & 2022-2024). Data compiled by SHOOK Research LLC based 12-month time period concluding in June of year prior to the issuance of the award.

Mike Burbank | **2017-2024 Barron's Top 1,200 Financial Advisors: State-by-State** (formerly referred to as Barron's Top 1,000 Financial Advisors: State-by-State)
Source: Barrons.com (Awarded 2017-2024). Data compiled by Barron's based on 12-month period concluding in Sept of the year prior to the issuance of the award.

Mike Burbank | **2013-2020 Financial Times 400 Top Financial Advisors**
Source: ft.com. Data compiled by the Financial Times based the following time periods:
Awarded 2013-2020; data 12/31/12 - 6/30/19
Awards Disclosures

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