The Most Important Question August 2024

The S&P 500 Stock index closed at 5667.20 on July 16th, as a high level so far for 2024. The close on August 5, 2024 was 5186.33. This represents an 8.48% decline. This was a sharp decline in just a few days as the month of August began. For those who think about these things, it solicits the question: what should I expect now?

An important factor to consider is that the majority of the increase for the S&P 500 thus far in 2024 can be attributed to just a few companies. The financial press has dubbed these few stocks as the "magnificent seven" and are a handful of mega large cap technology companies. One report we read stated that as of July 5, 2024 those seven stocks account for 62% of the total return for the S&P 500 Stock index for 2024 and the other 493 companies had a cumulative loss (unrealized) of 1.2% in market value.

That is and should be very concerning. This brings us to the most important question for August 2024: *Can the other 493 companies included in the S&P 500 Stock Index begin to increase in value so that the "Market" as defined by the S&P 500 Stock Index can continue its uptrend?* We are actively monitoring the Advance/Decline of the market to see if this becomes a facet of ongoing market activity.

The reason we believe this to be a concerning factor is based upon the past history of extreme market concentrations in the Indices. Over the past 50 years, when this distinctiveness has transpired, ensuing market corrections were led by the very stocks/companies that made up the highly concentrated performance.

In the years preceding the major market contraction of 1973-74, the market (S&P 500) performance was driven by the "Nifty Fifty." During that ensuing bear market, those fifty highly valued companies experienced major declines after the U.S. closed the gold window in 1971, leading to an acceleration in inflation and resulting fiscal policy predicated upon the new regime of 100% fiat money. In 2000 the "tech bubble" burst as another period of market concentration came to a disparaging conclusion. In both corrections, the S&P 500 Stock Index experienced declines of 40-50 percent. There have been other instances of market concentration but these two are the most acute in the past 50+ years. The current level of concentration of just a handful of stocks appears to be the most extreme we have witnessed; thus, caution and enquiry is warranted.

Nevertheless, not all periods of concentration have ended in misfortune. There have been cycles during which the underappreciated companies begin to find favor with investors as market participation expands for any number of varying reasons, leading to positive cycles/uptrends and greater impact for the broader market. It is too early to know how this current cycle closes as that would represent a guess or a forecast. The one takeaway that is most likely; Whatever the outcome to the current level of market concentration, we **need to expect that the best returns in the next cycle will come from different companies and sectors than this current or most recent cycle.**

As always, we are pleased to have a continued discussion of the "Whys" as they pertain to this essay topic and the impact they may have on your financial decisions. Please reach out for more information. (614) 457-8171.