RESEARCH AND COMMENTARY

Insights for Investors

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Consistently Good or Occasionally Great?

On a recent visit to Raymond James' headquarters in St Petersburg, FL, the Asset Management Services team pointed out their approach to the planning they offer to Financial Advisors and their clients. We found that to be somewhat thought provoking particularly if you look at certain stocks or sectors in the recent past.

Some of the most common questions we hear from investors are anything from, is the market overvalued, at a top? When is the best time to invest? Is it a good idea to wait until the election outcome is known?

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We have noted before that timing the market is next to impossible. It is time in the market vs timing the market that tends to lead to consistently good performance to occasionally great performance.

What about asset selection? Why not just invest in an index fund and not worry about individual security selection or fund selection? An S&P 500 index fund will represent 80% of the value of the US stock market. Many would find it hard to argue with utilizing this approach. What about the risk of the S&P 500 index today vs years past?

To put that into perspective, we did a little research and found some interesting contrasts for the market today vs. say 30 years ago. The top 5 stocks in 1994 were GE, Exxon, Coca Cola, Merck and IBM. Today, the top five are Apple, Nvidia, Microsoft, Amazon and Meta (Facebook).

The top 5 stocks thirty years ago accounted for about 10% of the value of the market (based upon the S&P 500). Today, the top five account for about 30% of the market.

Thirty years ago, the top sectors were industrials, energy and consumer staples. Today the top three are technology, health care and financials.

So, the way we see it, the market today is much more heavily weighted with fewer stocks and the top sector (technology) accounts for about a third of the market's .value. Thirty years ago the top sector was 8-10%.

So, what is a growth-oriented investor to do? We think, once someone has confirmed the big three: Investment objective, risk tolerance and time frame, asset selection should not be heavily weighted toward any one stock or sector, and to take a more value-oriented approach. By that we mean to look at a variety of the metrics that are available (through your own research or with the help of a financial advisor) to determine if a stock is undervalued, valued fairly, or overly valued.

While there is always the risk of being overly weighted, such as today's market there is also the risk of being too spread out in other words, overly diversified.

Is there a "right" number of stocks in a portfolio? That is difficult to answer but one rule of thumb would be approximately 20 or fewer. The alternative approach would be to invest in to mutual funds and we conclude, from observation, that that number is five or fewer.

The focus, to get to consistently good versus occasionally great, takes consistency, time and patience. It also means to ensure that your portfolio does not grow out of the intended balance over time. To that end, periodic review, in line with the big three might help you experience the results you want and desire.

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held stocks that is generally considered to be representative of the U.S. stock market. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns.

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