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Bill's Perspective XVII

Is there an "indexing bubble"? Many investors are opting for *passive investments* that are designed to mimic the returns of the market overall. They choose this because many funds don't keep up with the market. But too many investors have not considered the consequences of the fact that the market has periodic corrections.

In my training at the World Trade Center back during the mid-1990's I was warned, "If anyone ever says to you-*It's different-this-time!* Run!" In late 1999 a mid-sized national brokerage firm actually had an ad on TV that stated "It's-*different*-this-time!" Then in March of 2000 the bubble burst.

Now in the media I am hearing such statements and I am also hearing things like "This seems like *1999* all over again." **"History doesn't repeat itself, but it often rhymes." Mark Twain.**

Is the market due a correction? With the euphoria in certain sectors of the market, especially the "*magnificent seven"* (Microsoft, Amazon, Google, Meta, Apple, Nvidia, and Tesla), I "*think*" so. These 7 largest 7 stocks in the S&P 500 represent almost 28% of the capital in the index as of 02/01/24. (Source: Prairiewood Wealth Management)

The S&P 500 index does have 500+ stocks in it, but it is "capital weighted" - *meaning the bigger the company the more money it attributes to the index's value.*

If those specific companies have issues, will investors patiently wait for the market to recover? Historically investors panic sell at ANY price compounding the depth of the market's drop.

One of the biggest hurdles for investors is overcoming normal human nature. Greed pushes investors to buy irrationally and fear causes investors to sell unconditionally.

Most investors follow instead of leading – they purchase what has already done well -buying what is already up and then they want to sell to protect themselves when the market falls. For a stock market investor, you can't make money that way…**you-must-buy-low-and-sell-high to make a profit!**

Increasing the complexity of the matter, approximately 6 trillion dollars are on the sidelines. If there is a continued spike in the markets, some investors will experience the fear of missing out! Potentially creating a dramatic upward spike in the markets. Which will of course make the drop that much more substantial.

In a Nobel Prize winning study, it was established that asset allocation, diversification and periodic rebalancing are the most important factors contributing to the returns of a portfolio over time. But if your timeline is short, perhaps caution is wise?

If an investor loses 50%, they must make 100% to get back to even!

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