August 2025

From WSJ:

U.S. Stocks Are Now Pricier Than They Were in the Dot-Com Era

The S&P 500 has never been this expensive, or more concentrated in fewer companies

By *Jack Pitcher*
Aug. 31, 2025

The S&P 500's march to a record high this year hasn't come cheap: By some measures, stocks have never been pricier.

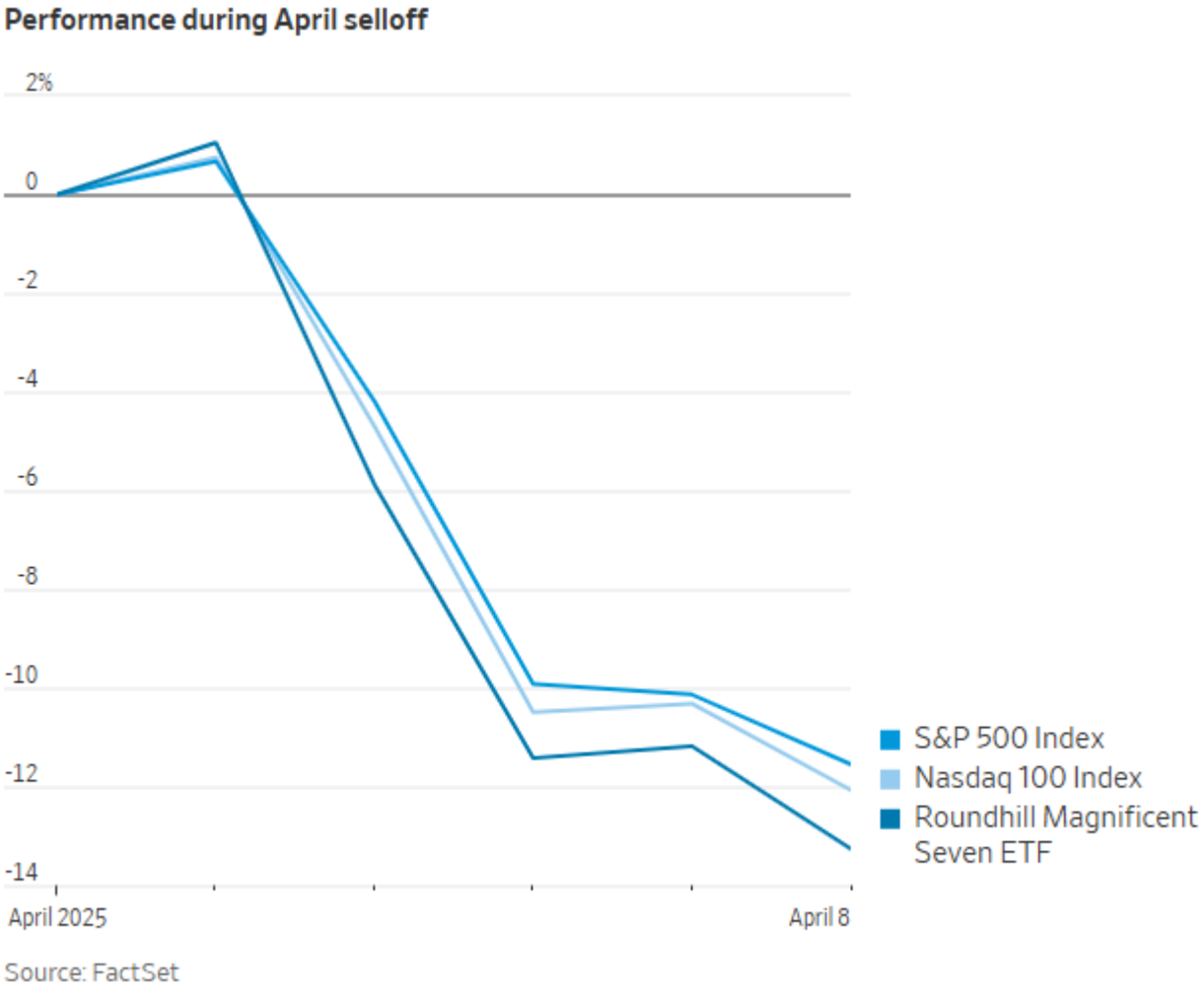
Investors are now paying more than ever for each dollar of revenue the index's members produce. The benchmark traded at 3.23 times sales on Thursday, a record high.

Price-to-earnings ratios aren't quite at records—thanks to juicy profit margins at many of the index's most valuable companies—but they still sit at the extreme end of history. The S&P 500 currently trades at 22.5 times its projected earnings over the next 12 months, compared with the average of 16.8 times since 2000.

Many investors say the biggest U.S. stocks, most of which are technology companies, are worth every penny. Companies like Nvidia and Microsoft are still boosting sales and profits at a rapid pace, and they have come to

dominate the market. The 10 largest companies in the S&P 500 accounted for 39.5% of its total value at the end of July, the most ever, according to Morningstar. Nine have a market capitalization above $1 trillion. …

Investors caught a glimpse of the downside of the market's concentration in a handful of expensive stocks in April, when President Trump's tariff plans triggered a brief selloff. The so-called Magnificent Seven tech stocks performed worse than the full S&P 500, which underperformed the same group of 500 stocks if each member were weighted equally. …



Not everything looks expensive. In fact, the average company in the S&P 500 isn't trading at eye-watering prices. If every company in the S&P 500 were weighted equally, rather than by market value, the index would be trading at 1.76 times sales, compared with its long term average of 1.43. …

From Global Investment Strategy:

Peter Berezin's Thought of the Day: Stagnant Consumer Spending So Far This Year

Aug 29, 2025

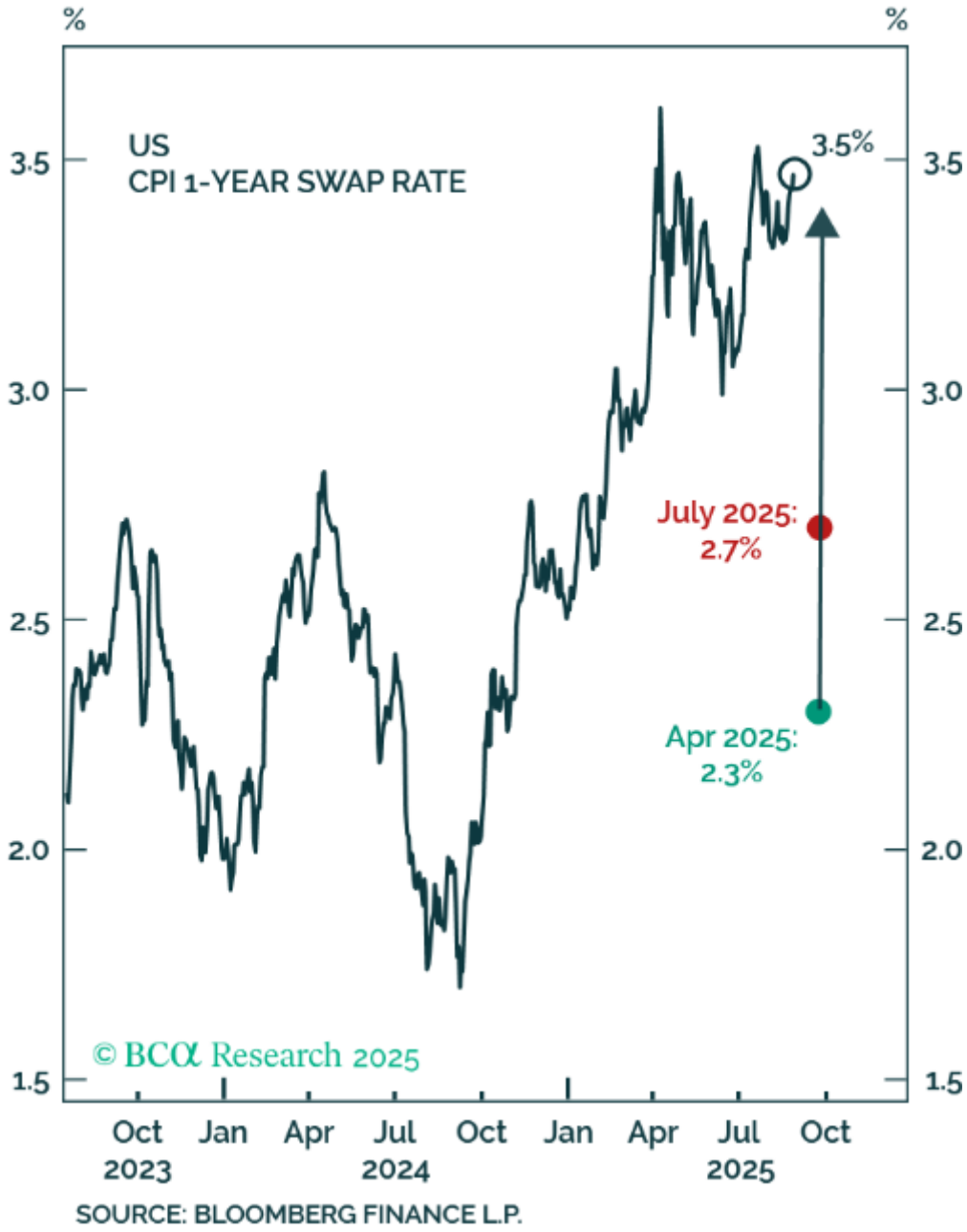
Today's PCE report (the Fed's preferred inflation gauge showed core inflation increasing to 2.9% YoY) was broadly in line with expectations. Real consumer spending rebounded in July but remains only 0.3% above

where it was in December. The second half of 2024 was quite strong, so real spending was still up 2.1% year-over-year, but this was down from around 3% at the start of the year.

Real wage and salary income was up a healthy 2.7% year-over-year in July. Looking ahead, however, real income growth should decelerate from the combination of slower employment growth and higher tariff-induced inflation.

We will get the full suite of US jobs data next week, but Fed Governor Christopher Waller did reveal a few nuggets during his speech last night. First, he said that he expects payrolls to have shrunk over the past three months once the benchmark revisions are applied. Second, he noted that weekly data which the ADP shares with the Fed, but does not disclose publicly, showed that job growth continued to deteriorate into August.

As for tariff-induced inflation, the CPI swap market sees inflation rising to around 3.5% by this time next year. This should further weigh on real income growth. Add to that a personal savings rate of only 4.4% – about two points lower than in 2018-19 – and four straight months of falling home prices, and you have a recipe for slower



consumer spending growth. Other things such as the AI capex boom could offset this, but my sense is that the risks to US growth remain to the downside.

Two from WSJ:

Trump's Deals With Companies Aren't Un-American. That's the Problem

The president's wheeling and dealing with the likes of Intel and Nvidia echoes the bad old days for stock investors

By Jason Zweig
Aug. 29, 2025

Is the U.S. turning into China?

Under President Trump, the U.S. government has become a minority owner of Intel and will take a cut of Nvidia's and Advanced Micro Devices' sales of artificial-intelligence chips to China. Trump said this might be just the beginning: "I want to try and get as much as I can," he said this week after the Intel deal. "I hope I'm going to have many more cases like it."

This might sound like Chinese-style state capitalism, not classic U.S. free enterprise. However, government investment in companies isn't un-American or unprecedented. It's as American as apple pie and was a common procedure in the 19th century.

Unfortunately, history suggests the likely results will be massive misallocation of capital and a surge in waste, corruption and conflicts of interest. For centuries, government has been the ultimate buy-high-sell-low investor, and that doesn't bode well for anybody's stock returns.

Consider the Intel deal. "I said, 'I think you should pay us 10% of the company,' and they said yes," Trump said earlier this month.

An Intel corporate disclosure was more somber. "The issuance of shares of common stock to the U.S. government at a discount to the current market price is dilutive to existing stockholders," the company warned. Investors "may suffer significant additional dilution" if the terms of the agreement aren't met and the government ends up increasing its stake.

In plain English, Intel's individual and institutional investors just had their share of the company's future earnings slashed by the U.S. government—even though they had no say in the new arrangement.

Also in recent weeks, the Trump administration has said it intends to take 15% of Nvidia's and AMD's revenues from AI chips sold to China and will invest billions of dollars for a roughly 15% equity stake in MP Materials, a maker of rare-earth magnets. Defense contractors could be the next additions to Uncle Sam's burgeoning investment portfolio.

None of this is exactly new.

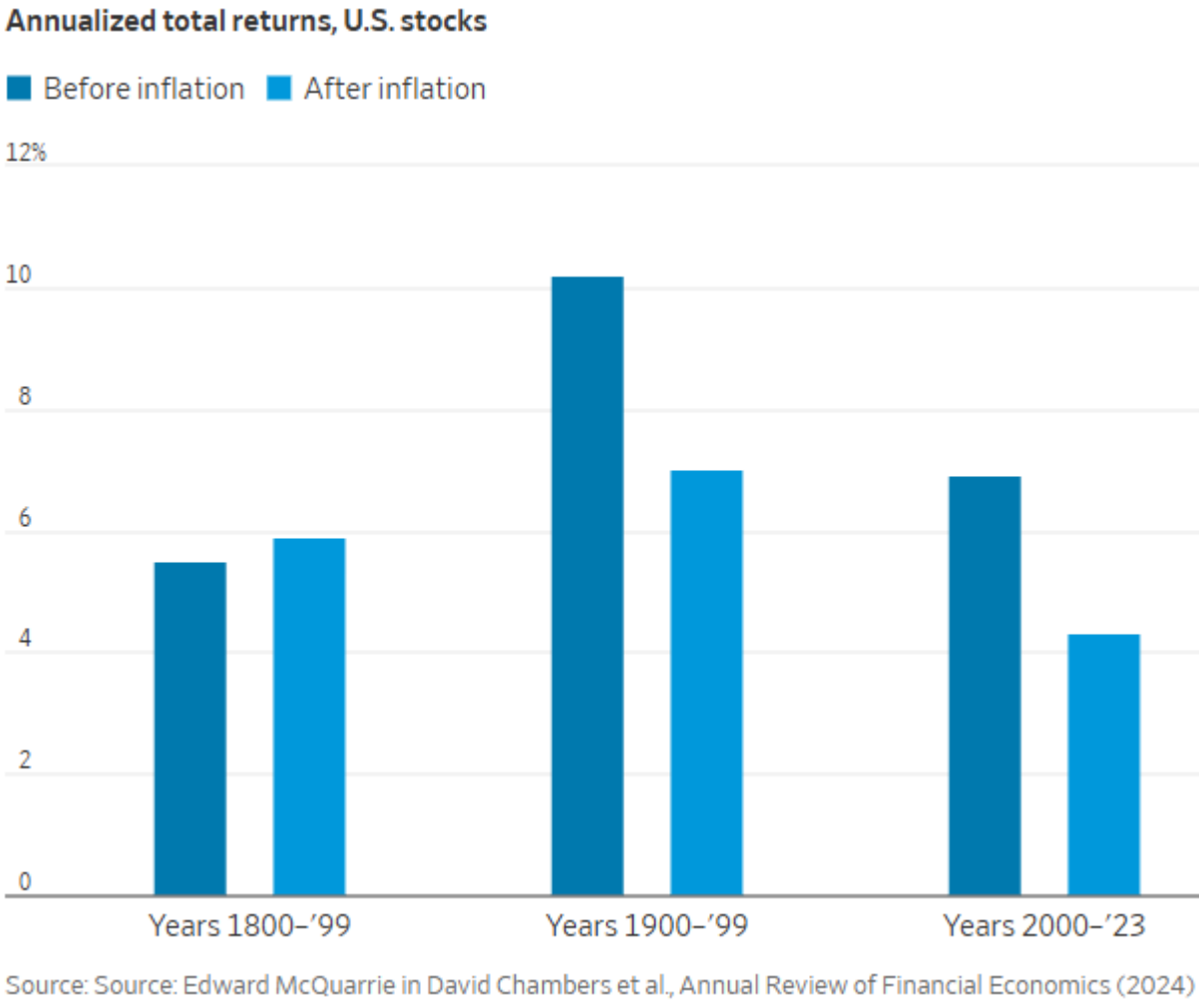
In the 1820s, states competed furiously to fund banks, canals and railroads.

During the brief boom, dividends of stocks they'd invested in were one of the biggest sources of revenue for many states. After the bust, eight states plus the territory of Florida defaulted on their bonds.

In 1844, Pennsylvania began trying to unload its stock in local railroads. Fourteen years later, it had gleaned total proceeds of $11 million on its more than $75 million of investments. That loss is probably equivalent to something like $40 billion today.

After the states got burned, the federal government stepped in.

On July 4, 1828, President John Quincy Adams scooped out the first shovelful of the Chesapeake and Ohio Canal. The U.S. government was the largest shareholder, with a $1 million investment, roughly equivalent to $1.2 billion today.



Source: Source: Edward McQuarrie in David Chambers et al., Annual Review of Financial Economics (2024)

Other than a flicker of prosperity in the 1870s, the canal "never paid any return," a later historian concluded. The U.S. bought it out of receivership in 1938 for approximately $2 million.

Between 1850 and 1871, the federal government gave away more than 6% of the total landmass of the contiguous U.S. as land grants to major railroads. The U.S. also provided approximately $60 million in bond financing, probably equivalent to $20 billion today.

The railroads rushed to sell their land grants at rapidly escalating prices. Much of the proceeds ended up in the hands of self-dealing insiders and their Congressional cronies.

The Union Pacific established a company to lay its transcontinental track at deliberately inflated cost. The excess cash funded kickbacks and secret transfers of shares to members of Congress, who obligingly ignored the cost overruns.

Many investors think that stock returns were at least as high in the 19th century, when the U.S. was an emerging market, as they've been in recent decades. In fact, stocks earned an annualized rate of return before inflation of less than 6% in the 19th century. That's far lower than in modern times.

It would be naive to say that stock investors earned lower returns in the old days solely because Uncle Sam mucked up the markets. It would be just as naive to think that fraud, waste, corruption and conflicts of interest *didn't* play any part in reducing returns.

"Why, in 2025," asks historian Brian Murphy of Rutgers University, "are we reviving economic practices that we largely abandoned in the 19th century because they were too corrupt for a 'modern' nation?"

The U.S. sporadically financed private companies in more recent decades, attempting to salvage Penn Central in the 1970s, rescuing Chrysler a few years later and several banks (as well as General Motors and, again, Chrysler) in the 2008-09 financial crisis.

But those interventions were all situational, responding to perceived emergencies, rather than a sweeping policy that might include "many more cases," as Trump has implied.

"President Trump pledged to put America First and Make America Wealthy And Strong Again," White House spokesman Kush Desai said in a statement, "and he is committed to using every lever of executive power to deliver on this pledge to the American people."

Investors had better hope that Trump pulls those levers rarely and temporarily. If Uncle Sam becomes the funder of first and last resort, it won't be good for anyone except the middlemen.

Get Ready for the End of Fed Independence

Markets haven't yet grappled with the implications of the president having control over the central bank

By *Greg Ip*
Aug. 26, 2025

The market response to President Trump's Monday attempt to fire a Federal Reserve governor was relatively subdued.

Don't let that fool you. If Trump's effort to remove Lisa Cook for cause succeeds, and perhaps even if it doesn't, this week will go down as one of the most consequential for financial markets in decades.

It could mark the end of the Federal Reserve's independence from White House control, which it effectively obtained in 1951. As a result, inflation is likely to be higher and more volatile than in the decades before 2020.

Investors aren't yet pricing in such a scenario. In part that's because the Fed was already preparing to cut rates. On Friday, chair Jerome Powell indicated that tariffs were unlikely to lead to sustained inflation given a weak labor market, opening the door to a rate cut in September. In the near term, that should boost stock prices and bring down bond yields.

More important, investors have no historical template for a politicized Fed and assume its leaders under Trump will behave as they have under previous presidents, setting interest rates according to the economic data and their forecast.

Investors would be wiser to assume that starting sometime in the next nine months, the Fed will set rates according to Trump's preferences.

This is the logical conclusion based on the lengths Trump has now shown he will go to to gain control of the Fed. In the central bank's 111-year history, no president has tried to remove a governor. As investment bank Evercore ISI said in a note to clients Tuesday: "Asset markets are not properly priced for what increasingly seems likely to be a rupture in Fed independence."

In seeking to remove Cook, Trump cited allegations of mortgage fraud, which are serious. But Cook hadn't even had a chance to respond to the allegations before Trump demanded last Wednesday that she resign. On Monday he said she was fired, though she hadn't been charged, much less convicted. Cook said Trump has no authority to fire her and would go to court to stop him.

Trump's strategy with the Fed, as with tariffs, is like boiling a frog: moving gradually enough to lull markets into thinking nothing of macroeconomic significance has happened. When he announced steep tariffs in early April, markets revolted, so he walked them back. Then, piece by piece, he restored most of them, and markets took it in stride.

Similarly, when he mused about firing Powell last month, markets were roiled. So instead of trying to remove Powell, Trump has looked for a way to accomplish the same thing. If he replaces Cook, he will have appointed four of the Fed's seven governors.

"We'll have a majority very shortly. Once we have a majority, housing is gonna swing and it's gonna be great," Trump said Tuesday.

Trump-appointed governors wouldn't necessarily control the Fed's decisions immediately, because five of the 12 members of the rate-setting Federal Open Market Committee are presidents of the reserve banks. But the board has authority over those presidents, and could force any or all of them out of office by early next year.

Removing bank presidents would be an unprecedented violation of norms. But Trump has demonstrated repeatedly he is willing to violate norms.

"This is a tail risk more than a base case," said economist Peter Williams of investment research firm 22V in a note to clients. But it "could have the most impact on policy by potentially removing important dissenting, whether formally or just verbally, voices from the FOMC."

Once confirmed, Fed governors are in theory free to vote on interest rates as they wish. But by seeking to fire Cook for cause, Trump has signaled that he could do the same for any sitting governor who doesn't vote as he prefers on interest rates.

If courts rule the president gets to define cause, it would nullify the protection the Supreme Court said Fed governors have. Even if Trump loses, he may well try again, and his next target might choose to change his vote or quit rather than fight.

Trump has also gone to much greater lengths now than in his first term to ensure that his appointees are loyal.

Typically, candidates for the Fed, like candidates for federal judgeships, don't preview how they will rule once in office. That convention has gone out the window. Trump's Fed candidates have generally said they think rates should go down even though inflation, at around 3%, is still above the Fed's 2% target.

Last September, while Joe Biden was still president, Stephen Miran, then an investment fund strategist, said it was a mistake for the Fed to cut rates with underlying inflation between 2.5% and 3%. Now chairman of Trump's Council of Economic Advisers and a candidate for a spot on the Fed and with rates a full point lower and underlying inflation the same, he has echoed Trump's criticism that the Fed has been slow to lower rates. He argues Trump's policies will deliver lower inflation.

Last week David Malpass, a former president of the World Bank who is also under consideration for a spot, wrote in the Journal that the Fed should cut interest rates and anchor itself "in forward-looking, market-based data with a goal of defending the dollar." But the dollar has fallen steadily this year, which in Malpass's framework would typically be an argument against cutting rates.

In the short term, inflation will be determined by economic conditions, not the makeup of the Fed. Right now, inflation-protected Treasury bonds see a bump in inflation in the coming year because of tariffs, then returning close to the Fed's target.

Markets aren't good at pricing in structural shifts in the economy. They didn't anticipate the high inflation of the 1970s, its collapse in the 1980s under then-Chairman Paul Volcker, the housing and mortgage crisis of 2007-09 or the pandemic inflation of 2021-22. An investor can lose a lot of money betting on something that happens so rarely.

Still, investors might want to prepare for a coming structural shift on inflation. Williams of 22V ticked off the major macroeconomic policies now at work: the highest tariffs since the Great Depression, stimulative fiscal policy, a stagnant labor force, and sustained assaults on the independence of the Fed. "It seems like an environment just right for above-target inflation."

The Hidden Costs of Trade Protection

What New Research Reveals About Tariffs and the US Economy

Larry Swedroe
Aug 18

As trade policy continues to dominate headlines and shape investment strategies, Sujan Bandyopadhyay, Domenico Ferraro, Lorenzo Octavio, and Vera Bower, authors of the study "How do tariffs impact the US economy?", published in the August 2025 issue of Economics Letters, provide important insights into how tariffs actually impact the US economy. Their research, conducted in the wake of recent trade policy changes,

shows that tariffs do more than rattle trade partners—they leave a lasting scar on the U.S. economy, permanently lowering GDP and driving fiscal costs that outweigh their short-term benefits.

What the Researchers Examined

The researchers tackled a fundamental question in economics: What happens to the broader US economy when import tariffs suddenly increase? Their analysis examined the ripple effects across the entire macroeconomic landscape. The researchers employed a statistical model (structural vector autoregressions, SVARs) that helps track how different parts of the economy react over time when tariffs rise. They analyzed data spanning from 1989 to 2019, creating an import-weighted average of tariff rates using product-level data from the World Integrated Trade Solution.

Their analysis focused on seven critical economic indicators:

- Real GDP growth
- Inflation rates
- Trade balance
- Federal deficit
- Net international investment position
- Stock market performance
- Federal funds rate (monetary policy stance)

What makes this research particularly valuable is its focus on "tariff shocks"—unexpected increases in import duties that catch markets and businesses off guard, similar to real-world policy announcements that often come without warning.

Key Findings: The Anatomy of Economic Contraction

Tariffs are contractionary. When the US unexpectedly raises import tariffs, the economy responds much like it would to any negative supply shock, with consequences that extend far beyond the immediate trade effects.

Permanent GDP Losses

Tariff increases create permanent economic scarring. The research shows that a temporary tariff hike reduces real GDP growth immediately, and the economy never fully recovers. Five years after a tariff shock, real GDP remains permanently below where it would have been without the trade restrictions. This isn't just a temporary slowdown, representing a permanent loss in economic output and productivity.

Mixed Inflationary Effects

While conventional wisdom suggests tariffs drive up prices, the reality is more nuanced. The study found that inflation initially increases following a tariff hike but then falls below average levels for several years. The overall impact on the general price level turns out to be minimal, suggesting that the contractionary effects on demand offset much of the initial price pressure.

Financial Market and Fiscal Consequences

The research documents temporary, but significant drops in stock market valuations relative to GDP following tariff increases. This reflects investor uncertainty and reduced growth expectations.
On the fiscal front, tariffs worsen the federal deficit despite generating additional government revenue. The economic contraction reduces overall tax receipts more than the tariff revenue increases, creating a net negative fiscal impact.

These findings are mostly consistent with those of The Budget Lab at Yale, a non-partisan policy research center that provides in-depth analysis of federal policy proposals for the American economy. Their August 2025 study, based on tariff policy as of August 6th, assuming they stayed in place in perpetuity, and concluded:

· Current Tariff Rate: Consumers face an overall average effective tariff rate of 18.6%, the highest since 1933. After consumption shifts, the average tariff rate will be 17.7%, the highest since 1934.

· Overall Price Level & Distributional Effects: The price level from all 2025 tariffs rises by 1.8% in the short run, the equivalent of an average per household income loss of $2,400 in 2025 dollars. This assumes the Federal Reserve does not react to tariffs and so the real income adjustment comes primarily through prices rather than nominal incomes; if the Federal Reserve reacted (tightening monetary policy), the adjustment could in part come in the form of lower nominal incomes. Annual pre-substitution losses for households at the bottom of the income distribution are $1,300. The post-substitution price increase settles at 1.5%, a $2,100 loss per household.

· Commodity Prices: The 2025 tariffs disproportionately affect clothing and textiles, with consumers facing 39% higher shoe prices and 37% higher apparel prices in the short run. Shoes and apparel prices stay 19% and 18% higher in the long run, respectively.

· Real GDP Effects: US real GDP growth over 2025 and 2026 is -0.5 percentage points lower each year from all 2025 tariffs. In the long run, the US economy is persistently -0.4% smaller, the equivalent of $125 billion annually in 2024 dollars.

· Labor Market Effects: The unemployment rate rises 0.3 percentage point by the end of 2025 and 0.7 percentage point by the end of 2026.

· Long-Run Sectoral GDP and Employment Effects: In the long run, tariffs present a trade-off. US manufacturing output expands by 2.1%, but these gains are more than crowded out by other sectors: construction output contracts by 3.6% and agriculture declines by 0.8%.

· Fiscal Effects: All tariffs to date in 2025 raise $2.7 trillion over 2026-35, with $475 billion in negative dynamic revenue effects, bringing dynamic revenues to $2.2 trillion.

A May 2025 study by the European Commission found similar GDP effects: “The US economy is hurt by the tariffs, as falling exports and weaker domestic demand drive GDP 0.6-1.0% lower.”

Investor Takeaways

1. Rethink the "Trade War Winners" Narrative
The study challenges the notion that domestic industries protected by tariffs necessarily benefit in the long run. While specific sectors may see short-term advantages, the broader economic contraction creates headwinds that affect virtually all businesses.

2. Prepare for Market Volatility

Markets respond not just to the direct trade effects, but to the broader macroeconomic implications of reduced economic growth.

3. Monitor Monetary Policy Responses

The study examined different scenarios for Federal Reserve responses to tariff shocks. The research suggests that monetary policy can influence the magnitude of economic damage, with longer periods of accommodative policy potentially mitigating some contractionary effects.

There is also the risk that markets will react to the tariff policy by demanding an increase in the risk premium demanded by investors in order to hold US assets—driving capital flows away from the US to other countries, raising US interest rates and negatively impacting US equity valuations. And, perhaps most importantly, the research underscores that tariff-induced economic damage persists long after the initial shock.

Conclusion

While tariffs may achieve certain political or strategic objectives, their economic costs are substantial and long-lasting. For investors, this research provides a framework for understanding how trade policy shocks ripple through the economy and financial markets.
Rather than viewing tariffs as simply affecting specific industries or trade relationships, investors should recognize them as macroeconomic events with broad implications for growth, market valuations, and fiscal policy. In an interconnected global economy, the costs of trade restrictions extend far beyond their intended targets.

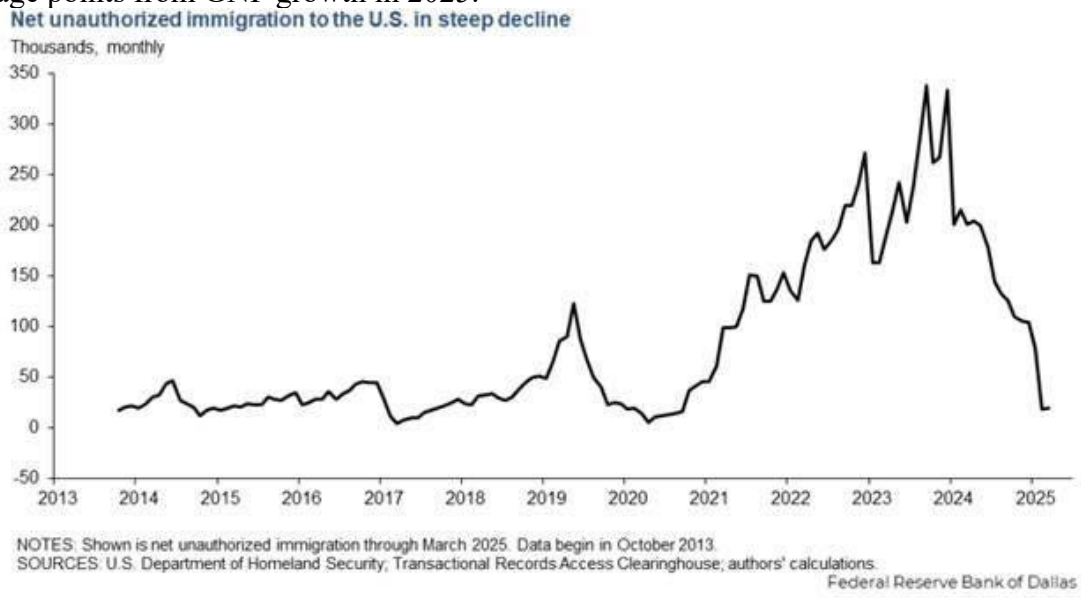
Post Script

There is another policy issue that negatively impacts economic growth.

Drop in Immigrations, Increase in Deportations: Impact on Economic Growth

If 3,000 unauthorized immigrants are deported every day, the labor force will decline by roughly 1 million people in 2025. Lowering the labor force by 1 million will reduce the participation rate by 0.4 percentage points, which will lower the unemployment rate, lower job growth, and increase wage inflation, particularly in the sectors where unauthorized immigrants work—namely construction, agriculture, and leisure & hospitality. And household formation could decline by 50% from 2024 to 2026 due to deportations and immigration restriction. A significant decline in household formations has important implications for consumer spending, housing demand and home prices. Bottom line: stagflationary effect.

According to a study from the Federal Reserve Bank of Dallas it is estimated that the drastic drop in immigrants across the southern border and increased efforts to deport more foreign-born workers could subtract 0.75 to 1 percentage points from GNP growth in 2025.



Larry Swedroe is the author or co-author of 18 books on investing, including his latest *Enrich Your Future*. He is also a consultant to RIAs as an educator on investment strategies.

From Verdad on Aug. 11th:

The Illiquidity Premium

To earn a premium, illiquidity must have a cost

Advocates of large allocations to private equity often discuss the concept of an illiquidity premium. Investors willing to lock up their capital for long periods of time, the logic goes, should earn a premium return for their patience.

But that illiquidity comes at a cost. An investor wishing to exit their illiquid private investments has to sell at an illiquidity discount in the secondary market.

The size of these discounts varies over time and across assets. Yale recently sold a cherry-picked portion of its private equity portfolio at a reported ~10% discount, and Jefferies reports average discounts of around that amount. In London, however, listed private equity investments trade at a 30% discount.
Today, allocators tend to value their private equity portfolios at NAV, ignoring these illiquidity discounts. The true mark-to-market of an asset is what you could sell it for today, so incorporating some discount into private markets valuations—and thus private market performance calculations—seems a no-brainer.

What's striking, however, is the extent to which incorporating such a discount would change our views of private equity performance. Figure 1 compares the Cambridge Associates private equity index to what the figures would look like incorporating a 10% illiquidity discount.

Figure 1: Cambridge Associates Private Equity Returns vs. 10% NAV Discount

	@ NAV			@ 10% Discount		
	CA PE Index	Russell 3000	ACWI	CA PE Index	Russell 3000	ACWI
3-year	5.7%	11.3%	9.8%	2.0%	11.3%	9.8%
5-year	16.5%	15.6%	13.2%	14.0%	15.6%	13.2%
10-year	15.3%	13.1%	10.5%	14.0%	13.1%	10.5%
15-year	16.4%	14.2%	10.5%	15.6%	14.2%	10.5%
20-year	14.5%	10.8%	8.9%	13.9%	10.8%	8.9%

Source: Cambridge Associates, Verdad

Here we see private equity has underperformed the Russell 3000 over the trailing three years on a NAV basis but outperformed at every other horizon. But incorporating a 10% discount, private equity has underperformed at a three- and five-year horizon.

The figures look even worse at a 20% or 30% discount, where the London-listed funds trade.

Figure 2: Private Equity Returns at 20% and 30% NAV Discount

	@ 20% Discount			@ 30% Discount		
	CA PE Index	Russell 3000	ACWI	CA PE Index	Russell 3000	ACWI
3-year	-1.9%	11.3%	9.8%	-6.2%	11.3%	9.8%
5-year	11.4%	15.6%	13.2%	8.4%	15.6%	13.2%
10-year	12.7%	13.1%	10.5%	11.2%	13.1%	10.5%
15-year	14.7%	14.2%	10.5%	13.7%	14.2%	10.5%
20-year	13.3%	10.8%	8.9%	12.5%	10.8%	8.9%

Source: Cambridge Associates, Verdad

At a 20% discount, private equity has underperformed through a 10-year horizon, and at a 30% discount through a 15-year horizon.

At a 15-year horizon, private equity has outperformed public equities somewhere between 0.5% underperformance and 2.2% outperformance. At a 20-year horizon, private equity has outperformed public equities somewhere between 1.7% per year and 3.8% per year.

Beauty in private markets is in the eye of the beholder, specifically in the extent to which LPs incorporate a mark-to-market discount that reflects pricing in the secondary markets or on the London exchange.

Most allocators with substantial private equity allocations likely underwrote greater outperformance than these trailing numbers would suggest, particularly when incorporating an illiquidity discount.

Two from WSJ's Markets A.M. The first on Aug. 15th:

Here's a Hot IPO Tip for You

By Spencer Jakab

Sometimes a company's name says it all: Bullish shares jumped 84% after their Wednesday debut on the New York Stock Exchange, even after underwriters raised the offering range for the cryptocurrency marketplace.

It's the latest in a string of hot IPOs this year. Space company Firefly's stock took off last week, up by a third. Software firm Figma's shares jumped 250% after last month's offering. And stablecoin issuer Circle's stock surged 170% following its June debut, eventually rising nearly tenfold.

One notable dud was artificial intelligence startup CoreWeave's offering in March, which succumbed to market jitters and ended its first day—gasp—flat. Its stock eventually appreciated by 360% before a recent stumble.

What those issuers have in common is belonging to currently red-hot industries—tech, crypto or space. When "story stocks" double or triple after a supposedly rigorous underwriting then it's a concerning sign for the market as a whole.

Years with lots of offerings, and especially many that leap, have coincided with irrational exuberance among the public. According to an extensive database maintained by University of Florida finance professor Jay Ritter,

the two years with the biggest first-day gains were 1999 and 2000, just as the tech bubble was peaking.

Looking deeper into the numbers, tech IPOs have been more likely to make such jumps and to come in waves. Between 1995 and 2000 nearly 1,400 tech companies came to market, but most did poorly and many no longer exist.

Another feature of those booms: Few companies had profits, and loss-making ones also saw bigger first-day jumps. That's likely because they reached the IPO stage with a good tale to tell about the future that appealed to individual investors, not solid financial results that fund managers traditionally like to see.

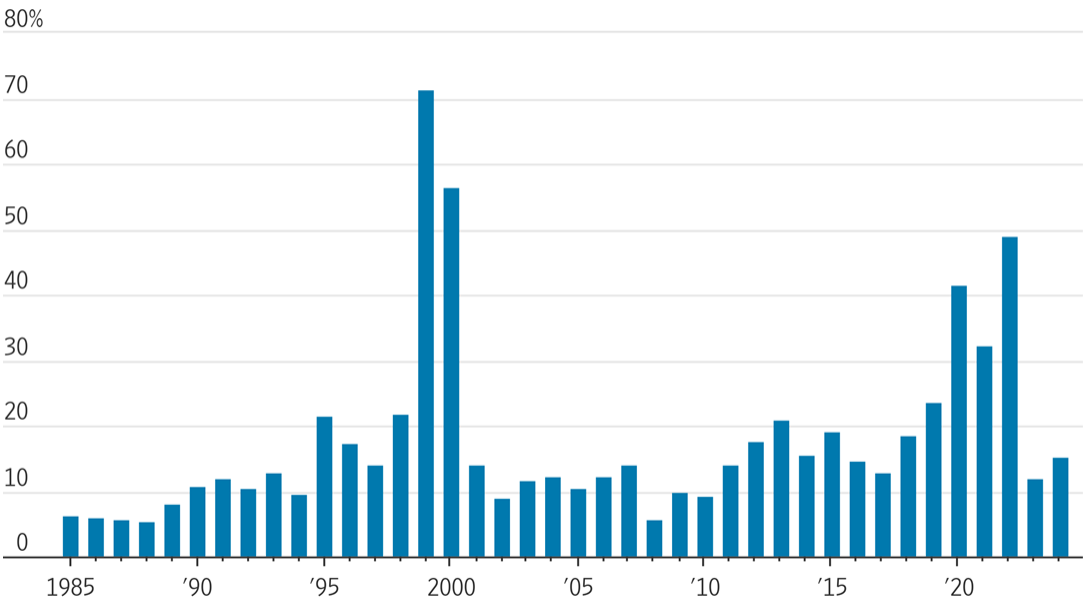
That distinction doesn't matter at times like today, of course, when fund managers beg for allocations. Hot IPOs are one of the only nearly sure things on Wall Street.

The pandemic stock boom of 2020 and 2021 echoed many of these trends with a spike in profitless company IPOs and impressive gains. Because many listed through the less-traditional route of merging with a special purpose acquisition company or SPAC that year instead of an actual listing, the poor quality of that vintage is understated.

Most IPOs bought on their first day of trading lose money for investors who hang on—particularly during frothy times. Ironically, though, years like 1980 and 2008, when investors were least excited about buying IPOs, have seen some long-term winners. Those were the years Apple and Visa went public, for example.

It's certainly possible that one of today's batch turns out to be as successful, but the odds are awfully slim.

Average first day gain of U.S. initial public offerings



Source: Prof. Jay Ritter

on Aug. 6th:

Meet the Magnificent 490

By Spencer Jakab

Congratulations if you went all-in on AI-related stocks before they tacked on trillions in value.

It's more likely that you missed the boat, though, or hopped on a slightly slower one, the way most investors did. The natural human reaction is to say "better late than never" and jump on at today's prices.

Your reasons probably have to do with emotions, not logic. If you didn't own enough Nvidia at an already lofty multiple of 10 times trailing sales then why do it at 30 times? "Fear of missing out" on future gains is a powerful foible.

But how about turning that FOMO around? Bypassing Nvidia and the rest of the Magnificent Seven right now could leave you with bragging rights—and more money—if you believe history is at least a rough guide to the future. Extreme levels of market concentration can signal lopsided returns for a portfolio that specifically avoids market leaders.

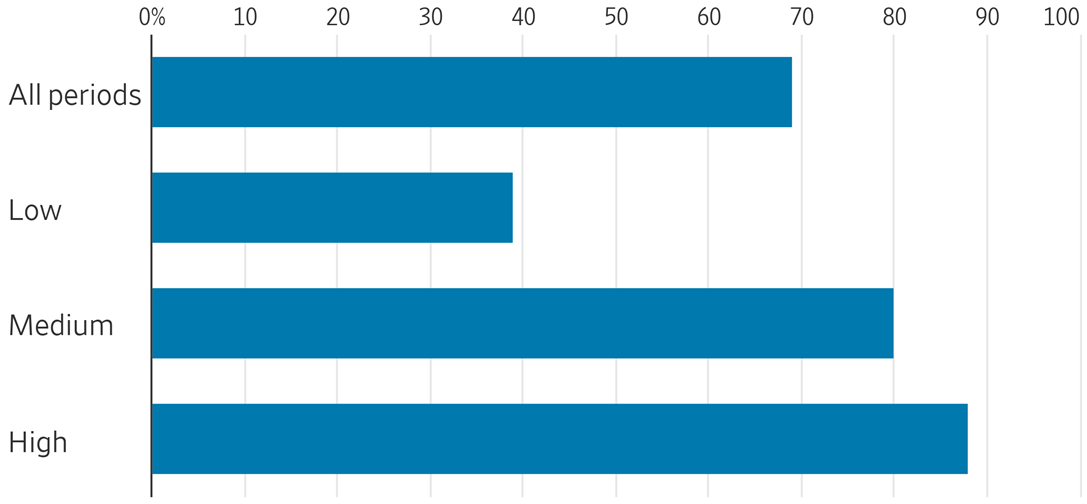
A study by three researchers at Hartford Funds highlights the opportunity. They pointed out in April that the gap between the market weight of the top 10 U.S. stocks and their contribution to the top 500 stocks' earnings was near the widest it had been in half a century.

The "Magnificent Seven" stocks alone make up about one-third of the S&P 500's value; the top 10 stocks are 38%. Consider the period starting from March 31, 2000, when the market was similarly concentrated with an almost entirely different group of wonder stocks.

From that point, an equal-weighted $10,000 investment in the top 10 shrank to just $5,684 a decade later. But an investment in the next 490 stocks grew to $13,397, or nearly two and a half times as much.

Interested? Well, there's a catch. If you just own a passive S&P 500 index fund and a third of its value winds up turning into the "Lag Seven" then that would drag down your whole portfolio's returns. A $10,000 investment in the index alone at the end of March 2000 grew to just $8,200 - not much better than owning the top 10 stocks.

How often the S&P's smallest 490 stocks outperform, based on index concentration



Note: Medium concentration means top 10 S&P 500 stocks make up 18.8% to 23.4% of index.
Shows five-year performance of equal-weight portfolios from 1964-2024.
Source: Hartford Funds

Luckily, many alternatives exist. For example, owning an equal amount of every S&P 500 stock, including Nvidia and other darlings, is possible through an equal-weight index fund. Sorting stocks by value or owning a fund of unloved mid- and small-capitalization stocks could do well too if market leaders become laggards.

Maybe AI will be the one investment theme that somehow turns out differently, but don't bet on it. Fear of missing out has a way of turning into fear of not getting out.

Positions

FIP – A 95.7% Negative Earnings Surprise on 8/7 resulted in a 13% drop on 3.1 times average volume, followed by a -20.2%, 4.8x on the 8th. Consensus Earnings Estimates were lowered for the next 2 quarters. While both analysts covering the stock continue to rate it a buy, one maintained their Target Price, while the other lowered theirs. On 8/28 we sold for both clients holding the stock @ 4.865.

KOP – On 8/8 the stock dropped 13.3% on 2.8 times average volume. While there was only a 0.7% Negative Earnings Surprise, 2 out of the 3 analysts covering the stock significantly lowered their 3Q25 Earnings Estimates, and all 3 lowered their Target Prices. On 8/28 we sold for all 3 clients holding the stock @ 29.311.


Koppers Holdings Inc. (KOP)
NYSE - Nasdaq Real Time Price • USD
29.01 -0.22 (-0.75%)
At close: August 28 at 4:00:02 PM EDT
Following
Colored HLC
Settings
O:29.40 H:29.47 L:28.94 C:29.01 V:173k
vol undr 172,900.00
yahoo!finance
40.00
37.50
35.00
32.50
30.00
29.01
27.50
25.00
172.90
Oct
Nov
Dec
2025
Feb
Mar
Apr
May
Jun
Jul
Aug