Why Now?

How to protect your gains

1

Market concentration

Indices are driven by one correlated narrative and does not provide diversification anymore

2

Rich valuations

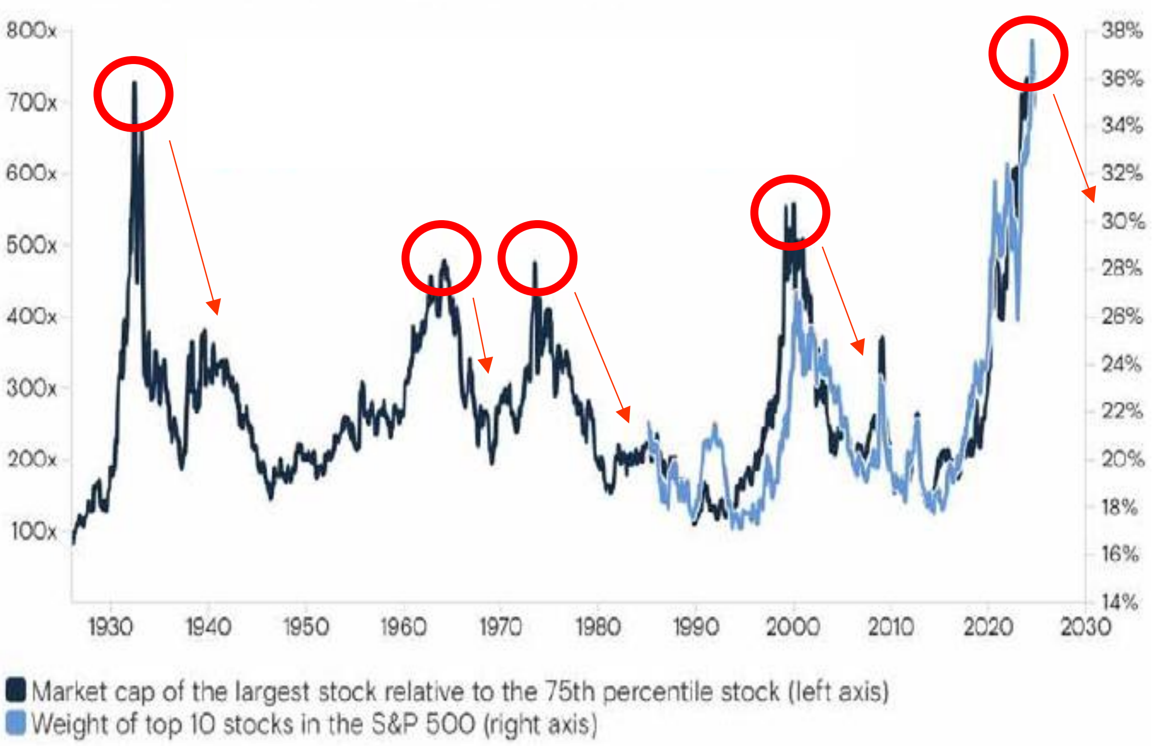
Valuations of most businesses are stretched and have a very thin margin of safety. Room for errors are small.

Regime Change

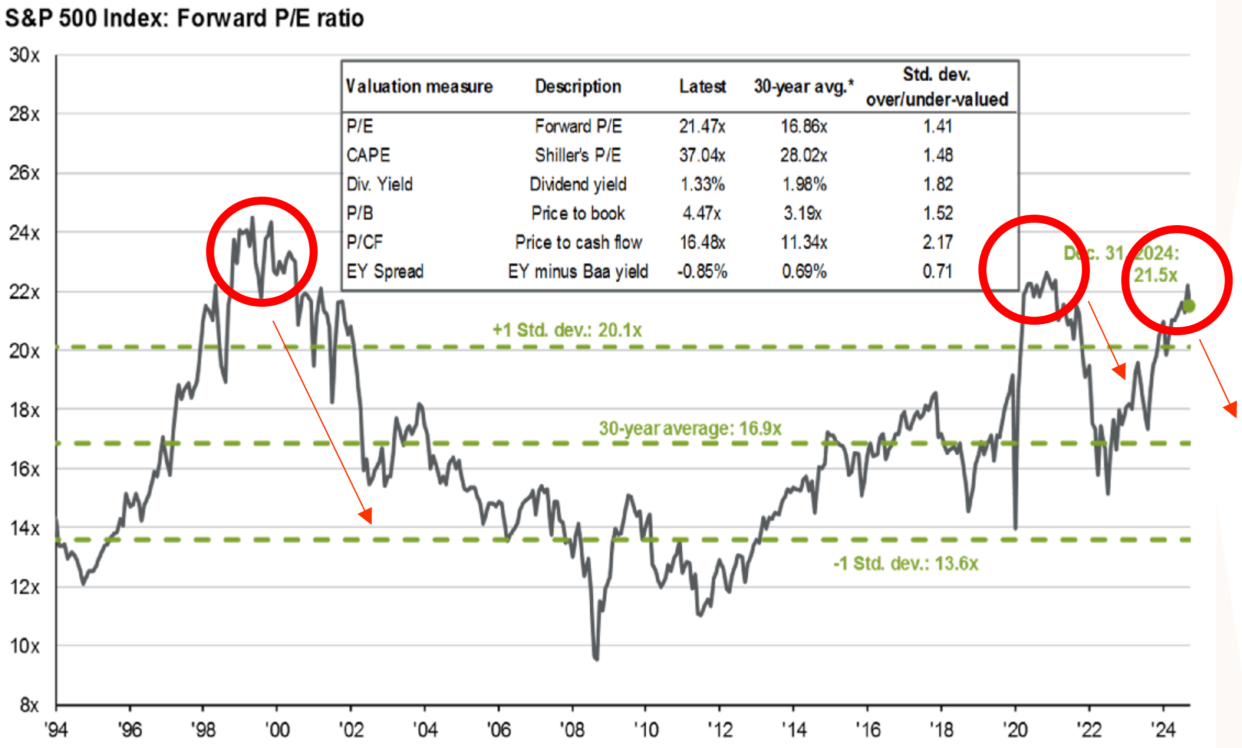
Requires Active Management

Markets hitting extremes

Market Concentration & No Diversification



Rich valuations requires to be selective



Valuation measure	Description	Latest	30-year avg.*	Std. dev. over/under-valued
P/E	Forward P/E	21.47x	16.86x	1.41
CAPE	Shiller's P/E	37.04x	28.02x	1.48
Div. Yield	Dividend yield	1.33%	1.98%	1.82
P/B	Price to book	4.47x	3.19x	1.52
P/CF	Price to cash flow	16.48x	11.34x	2.17
EY Spread	EY minus Baa yield	-0.85%	0.69%	0.71

Active managers outperforming !!!

Protect your gains from 2024

Key Takeaway: Elevated market concentration and rich valuations create the perfect storm for active managers to outperform.

1.Market Concentration Favors Active Managers

1. Historical peaks in market concentration (e.g., 1930s, 1970s, 2000s) have consistently mean-reverted.
2. During these transitions, active managers excel by diversifying away from concentrated risks and capitalizing on undervalued opportunities.

2.Rich Valuations Reward Stock Pickers

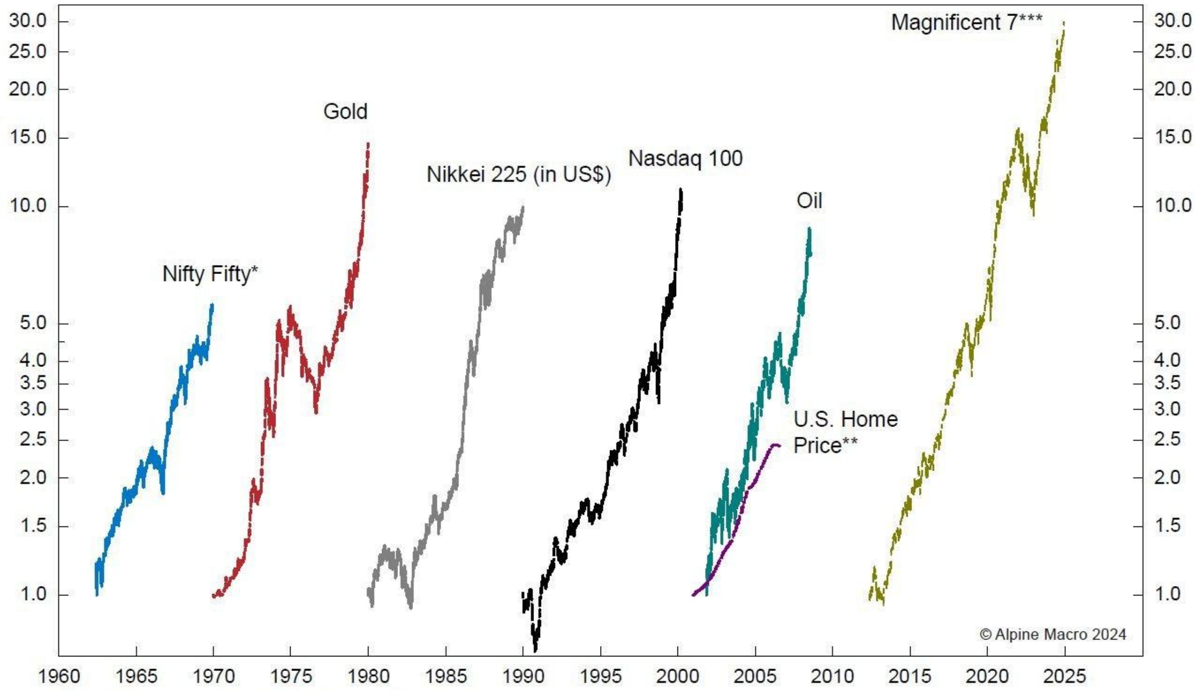
1. The S&P 500's forward P/E of 21.5x is far above historical averages, leaving little room for error.
2. Active managers can navigate stretched valuations by selecting fundamentally strong, undervalued stocks.

Conclusion: In a regime of concentrated markets and expensive valuations, **active management isn't optional - it's essential.**

Recommendation: Add minimum 1/3 of active management to your equity quota to minimize risk, increase diversification and benefit from new opportunities.

It can go both ways…

Is Mag 7 A Mania?



Note: All series are rebased to 1 at the starting period
*Equal-weighted index of Coca-Cola, Disney, GE and IBM
**S&P/Case-Shiller Home Price Index for Los Angeles
***Market-cap weighted average of Facebook, Amazon, Apple, Microsoft, Google, Nvidia and Tesla

					Contribution to S&P 500 in 2024	
	Ticker	Name	Index Weight	% Change	Contribution to % Chg	**Contribution to $ Chg**
	SP50	S&P 500	100%	23.3%	23.3%	**1111.8**
	Magnificant 7		33.3%	40.2%	13.4%	**638.3**
1	NVDA	Nvidia Corp	6.3%	171.2%	5.0%	**238.1**
2	META	Meta Platforms Inc-Class A	2.5%	65.4%	1.2%	**58.4**
3	AAPL	Apple Inc	7.3%	30.1%	2.1%	**102.4**
4	MSFT	Microsoft Corp	6.0%	12.1%	0.8%	**38.4**
5	AMZN	Amazon.Com Inc	4.4%	44.4%	1.7%	**79.2**
6	GOOGL	Alphabet Inc-Cl A	2.1%	35.5%	0.7%	**33.4**
7	GOOG	Alphabet Inc-Cl C	2.0%	35.1%	0.7%	**32.2**
8	TSLA	Tesla Inc	2.5%	62.5%	1.2%	**56.2**
	Rest of S&P 500		66.7%	14.9%	9.9%	**473.5**

57% of S&P 500 return was Mag 7