June | 2023

# AlphaWealth Monthly Brief

*"Stability leads to instability. The more stable things become and the longer things are stable, the more unstable they will be when the crisis hits."*

*- Hyman Minsky*

In this month's edition of the brief, we'll examine the factors that have driven the market higher in 2023, and why investors would be wise to exhibit some level of caution. We'll also highlight the historic threat to Putin's absolute power in Russia.

## Narrow Leadership Takes the Market Higher

The year has witnessed a robust performance in the equity market, with significant gains recorded so far. However, an air of caution lingers among investors. The market's upward trajectory has largely been propelled by the impressive performance of just a few large cap technology companies, leaving behind a trail of underperformance for a substantial portion of the remaining companies within the S&P 500 index. According to data provided by Greenrock Research, 121% of the index return year to date has come from just seven stocks. That means the other 493 stocks are down more than 3%.

This concentration of outperformance raises concerns about the health of the market and evokes memories of the dot-com bubble. Kevin Malone of Greenrock reminds investors that this has happened before in history. In 1998, the top 11 stocks of the S&P 500 contributed slightly more than all the return of the index, while in 1999, it was the top 6 stocks. This was followed by a stock market that declined for the following three years and would draw down 38%. More importantly, perhaps, is what happened to the top-performing stocks from the 1998-1999 period. Some today are still lower than they were then, and even the best companies took over a decade to get back to break even.

A healthy investment portfolio is typically diversified across various sectors, industries, and asset classes. When market gains are concentrated in a handful of companies, investors become overly dependent on the performance of those few stocks. This lack of diversification exposes investors to higher levels of risk since a downturn in the dominant companies can significantly impact the overall market and individual portfolios.

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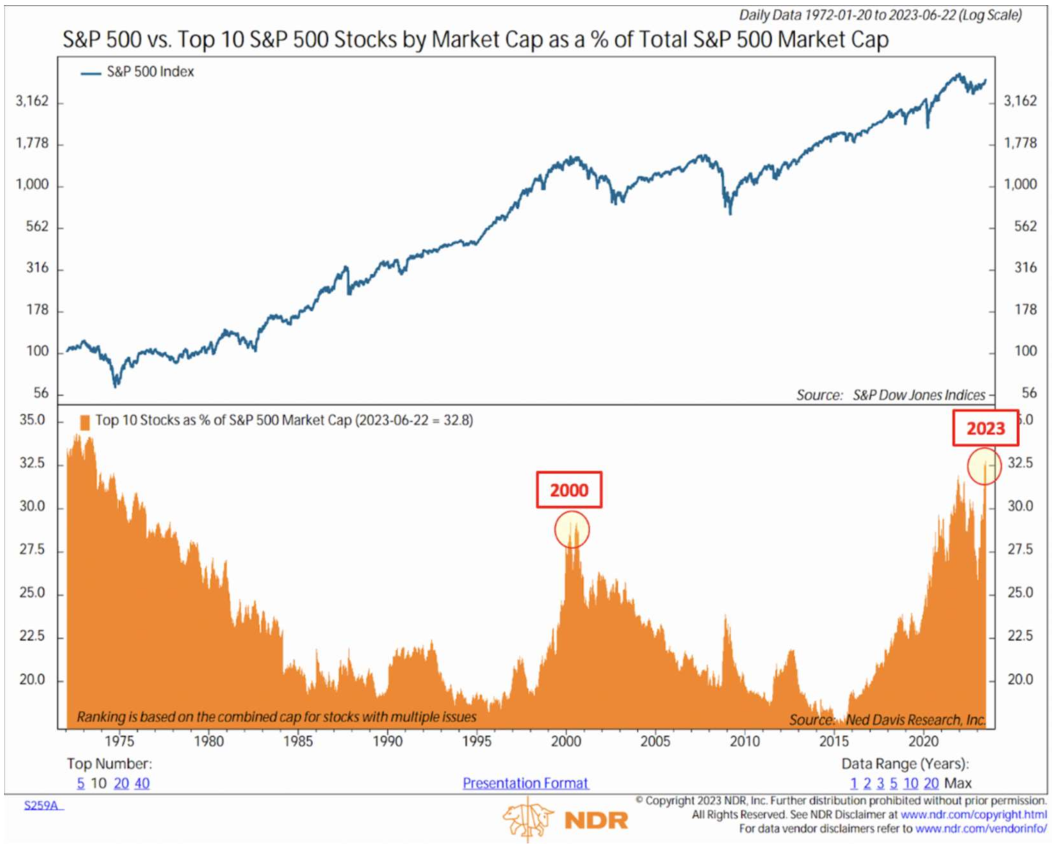
Narrow leadership can contribute to increased market volatility. If a few stocks experience significant price swings, the entire market becomes susceptible to sharp fluctuations. This lack of breadth in leadership leaves the market more exposed to systemic risks and can result in significant market declines. This heightened volatility can make it challenging for investors to make informed decisions and can lead to emotional reactions, potentially causing panic selling or irrational buying behaviors.




As we look ahead to the next 5-7 year investing cycle, there is a growing expectation that market leadership will broaden, and the reliance on a select few large-cap tech companies is likely to diminish. This shift is driven by various factors, including the natural ebb and flow of market dynamics and the assumption that both inflation and interest rates are likely to remain elevated. Investors and analysts anticipate a more balanced landscape, with opportunities emerging across different sectors and industries. This broader market leadership is expected to promote healthier market conditions, reduce concentration risk, and provide a wider range of investment prospects beyond the traditional tech giants. We continue to remain patient with market-cap weighted indices, instead favoring high quality dividend stocks, mid-caps, developed international equities, and emerging market equities.

## Putin Faces Unprecedented Threat

Russian president Vladimir Putin managed to avert an attack on Moscow through a last-minute deal with a mutinous mercenary commander, Yevgeny Prigozhin, however this event has shaken his perceived total political control over Russia. Insiders in Moscow were surprised that Putin ignored warnings about the commander's intentions, allowing heavily armed fighters to come close to the capital and requiring the deployment of tanks and troops for defense. The uprising has raised doubts about Putin's command and control, with US and European officials considering it an unprecedented challenge to his leadership. The deal that allowed the commander and his men to leave without consequences is unlikely to resolve tensions, and it highlights how the struggling invasion of Ukraine has undermined Putin's image of stability. The crisis may weaken both Putin and Russia, according to European intelligence assessments, potentially impacting Ukraine's counteroffensive and influencing discussions at the upcoming NATO summit.

## Fast Facts

Stock ownership is on the rise with 61% of people reported owning stocks, the highest percentage since 2008 - Gallup

U.S. seniors lose $28.3 billion annually as a result of financial exploitation. The vast majority of funds stolen from older Americans are purloined by someone they know. Friends, family members, or caregivers are responsible for the theft of $20.8 billion, or 72%. – Investment News

This year, the average age of a passenger vehicle on the road hit a record 12.5 years. Today, of the more than 284 million vehicles in operation, there are nearly 122 million in the U.S. that are more than 12 years old. – S&P Global

In 1989, when adjusted for inflation, total family wealth in the U.S. was about $38 trillion. By 2022, that wealth had more than tripled, reaching $140 trillion. Of the $84 trillion projected to be passed down from older Americans to millennial and Gen X heirs through 2045, $16 trillion will be transferred within the next decade. – The New York Times

## Contact Us

As always, feel free to reach out to us if you have any questions regarding your investments or financial plan or would like to schedule a meeting with our advisors.

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