Huff
Wealth Management

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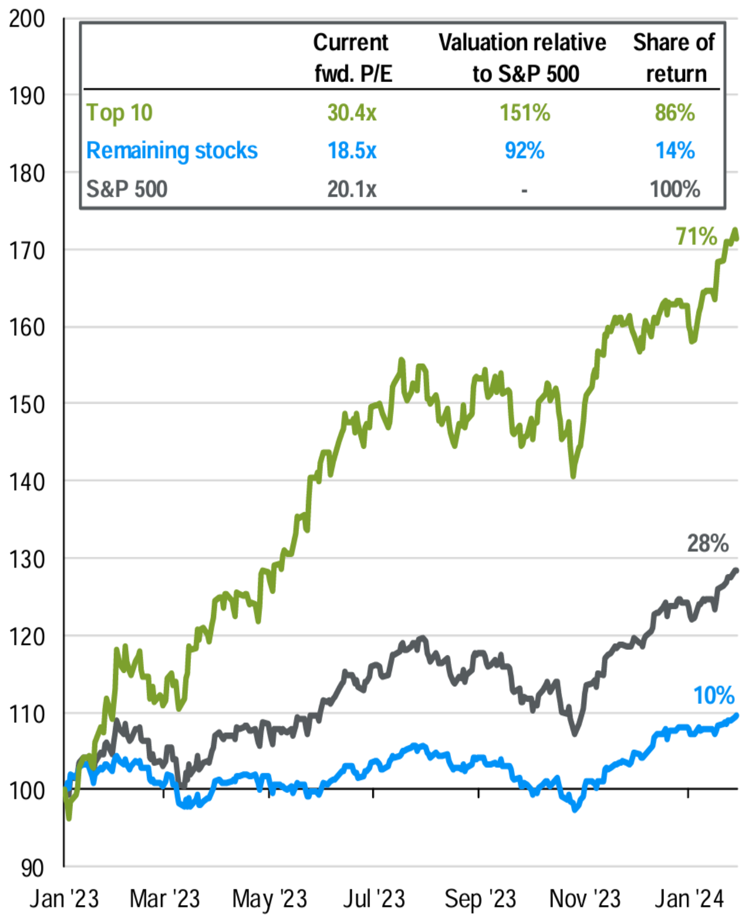
MARKETINSIGHT

Performance of the top 10 stocks in the S&P 500
Indexed to 100 on 1/1/2023, price return, top 10 held constant



What's Under the Hood?

When you hear that the market is up, what does that mean? The most common market index is the S&P500, which is a compilation of the largest 500 stocks. What most do not realize is that the S&P500 is a capitalization *weighted* index, meaning that the larger companies will hold a heavier weighting in comparison to smaller companies. In the last 13 months, the S&P500 has returned 28% - leading investors to believe that there is solid strength across the market. However, upon closer inspection, there is more to the story.

The top 10 stocks in the S&P500 are Apple, Microsoft, Amazon, Nvidia, Berkshire, Meta, Exxon, United Healthcare, Tesla, and Google (Google is counted twice for both share classes). The chart above shows the performance of the S&P500 (black line), top 10 stocks (green line), and the remaining 490 stocks (blue line). The performance gap is astounding, with the top 10 stocks up 71% versus the remaining 490 stocks only up 10%. This chart shows how misleading cap-weighted index returns can appear and serves as a reminder to investors that the underlying drivers of the S&P500 is primarily from 10 stocks.

What does this mean from an investing standpoint? If you think you are getting diversification by buying the index, think again - you have really just bought into a concentration of the top 10 stocks, and the risks associated with each of them. While these large companies have pulled the rest of the market up with them in 2023, they can have the same effect on the downside during a selloff, which can leave devastating results in an unaware investor's portfolio. Thus, it is important to know *what's under the hood*.

Chart Source: JPMorgan Guide to the Markets