Q3 2024 Quarterly Market Commentary

"Waiting helps you as an investor and a lot of people just can't stand to wait. If you didn't get the deferred-gratification gene, you've got to work very hard to overcome that." - Charlie Munger

The S&P 500 Index returned 5.89 percent in the third quarter marking another consecutive quarter of positive returns in the index. Year to date the S&P 500 (as of 10/28/2024) is up 23.43 percent and over the past 12 months the index is up a staggering 43.49 percent. The biggest contributors to these returns have been from only a few stocks and the top 10 largest companies in the S&P 500 now make up a record high 36.7 percent of the index. Furthermore, the price to earnings ratios of these 10 stocks have a current average of 30.9x as compared to a 20.5x historical average. Stripping out the top 10, the remaining 490 stocks in the index have a much more reasonable 18.4x price to earnings ratio.

In a vacuum, its hard to contextualize all these numbers but, simply put, valuations remain elevated relative to historical averages and the top 10 companies in the index are having an increasingly higher impact on the results of the overall index. There are multiple takeaways from this data, some of which are good and some of which are not so good. On the good side, although the S&P 490 has slightly higher valuation than its historical average it is in a very reasonable range. Value can be found across sectors amongst this cohort of stocks. On the not so good side, this level of concentration in the index provides a unique set of challenges for the investor. We are in a period in which if you own a company inside the top 10 of the index, or a company that derives much of its value from the hardware side of artificial intelligence (i.e. GPUs and AI servers) you very likely had outsized performance. Conversely, if you were underweight the top 10, or stayed away from AI stocks due to their extreme valuations, you likely underperformed the index materially.

These types of equity markets can be thrilling and profitable in the short run and contain an element of "FOMO" (fear of missing out) which can exacerbate the problem as investors rush into already overpriced stocks in the attempt to make a quick buck. In the long run, these bubbles burst, and investors can get hurt, so it is very important to remain disciplined and focused on process during times like now. At Patterson Andrews we will always stay committed to long-term investing and protect your hard-earned wealth from the value destructive nature of throwing investment fundamentals out the window in favor of short-term hype. Instead, we will position your portfolios for long-term success, and we believe a chief component to that success is the importance that we place on risk management. Investing in AI might be fun, but it's only fun until it isn't anymore. Building wealth is a process and it is boring. To us, boring is good.

Regards,

Justin Sly CFA, CFP®

Director of Investments

205.444.3914

justin.sly@nm.com

1500 Urban Center Drive, Vestavia Hills, AL 35242