



## Narrow Market = Opportunity

In the last couple of weekly issues, I noted that Microsoft, Apple, Nvidia, and Amazon represent nearly 21% of the weight of the S&P 500 and that I don't find the index as compelling as other investment opportunities.

I introduced a model to compare the traditional S&P 500 Index that uses market-cap weighting with the equal-weighted index.

This model handily outperforms the S&P 500 *and* with lower risk.

Index concentration is a concern. Plenty of stocks are lagging. I am one of many people marinating on the topic of index concentration.

This week, I saw a nifty JP Morgan chart outlining how concentrated the S&P 500 is.

Here's a few stats, and then the chart:

The top 10 stocks account for 32.1% of the index. That's higher than at any time since 1996.

The earnings contribution of the top 10 stocks is about 23.2%, plummeting from over 30% a year ago.

The big stocks got bigger and made up more of the index but contributed less to earnings.

That's a bearish divergence.

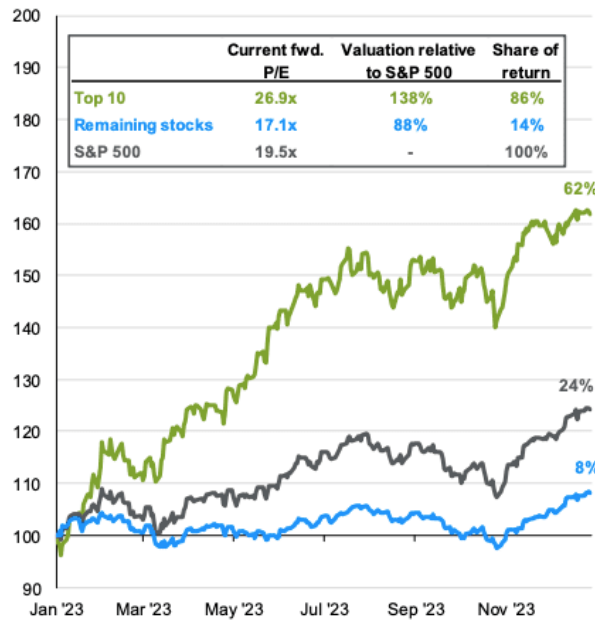
The current price/earnings ratio of the top 10 stocks is 26.9x compared with 17.1x for the rest of the index.

Meanwhile, the top 10 stocks made up 86% of the return in 2023, while the other 490 stocks contributed just 14%.

## S&P 500: Index concentration

GTM U.S. 10

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



**Weight of the top 10 stocks in the S&P 500**  
% of market capitalization of the S&P 500



**Earnings contribution of the top 10 in the S&P 500**  
Based on last 12 months' earnings



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.  
(Left) The top 10 companies used for this analysis are held constant and represent the S&P500's 10 largest index constituents at the start of 2023. The top 10 stocks are: AAPL, MSFT, AMZN, NVDA, GOOGL, BRKB, GOOG, META, XOM, UNH, and TSLA. The remaining stocks represent the rest of the 494 companies in the S&P500. (Right) The top 10 companies used for these two analyses are updated monthly and are based on the 10 largest index constituents at the beginning of each month. As of 12/31/2023, the top 10 companies in the index were AAPL (7.0%), MSFT (6.9%), AMZN (3.5%), NVDA (3.0%), GOOGL (2.1%), META (2.0%), GOOG (1.8%), TSLA (1.8%), BRKB (1.6%), AVGO (1.2%) and JPM (1.2%).  
Guide to the Markets – U.S. Data are as of December 31, 2023.

**J.P.Morgan**  
ASSET MANAGEMENT

Eventually, these vast differences between the top 10 and the rest will converge.

There's always a reversion to the mean.

As a result, I'm far more interested in the average S&P 500 stock than the massive players.

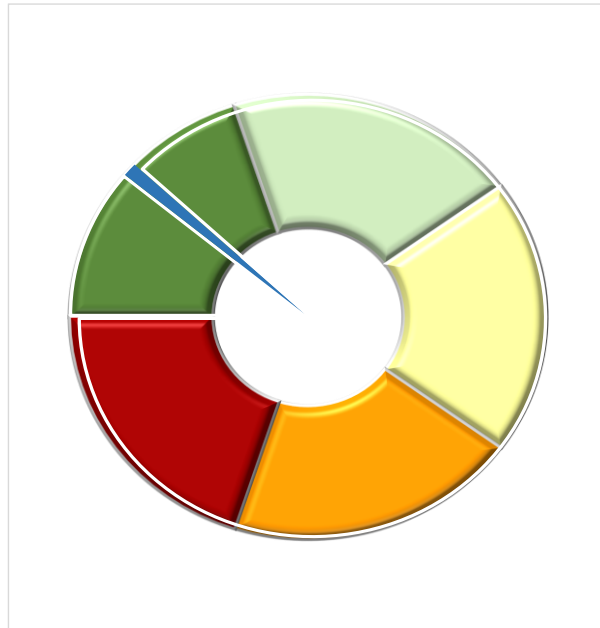
That said, I favor smaller-cap companies that are not in the S&P 500.

There is opportunity in small stocks with a narrow large-cap market.

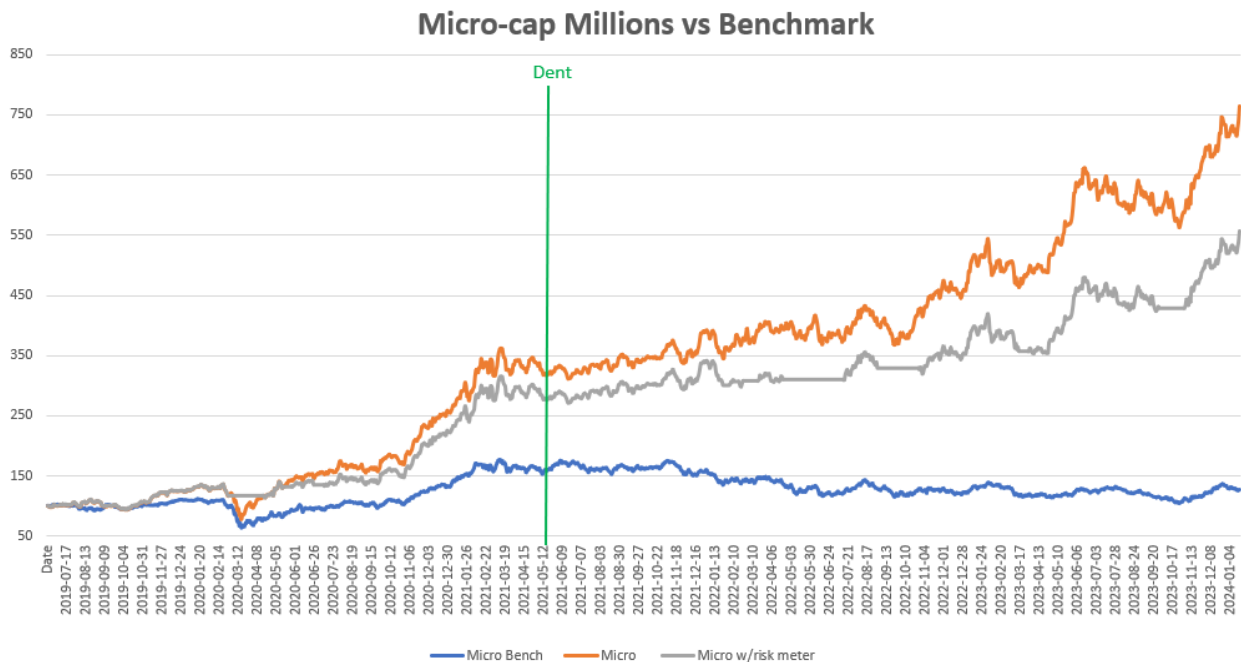
Going small and quality is the future of massive returns!

For example, *Microcap Millions* is up 7.91% in 2024 compared with a loss of 2.48% for the benchmark index.

The *Risk-O-Meter* remains in the "green zone" this week.



# Micro-Cap Millions



There is one trade this week.

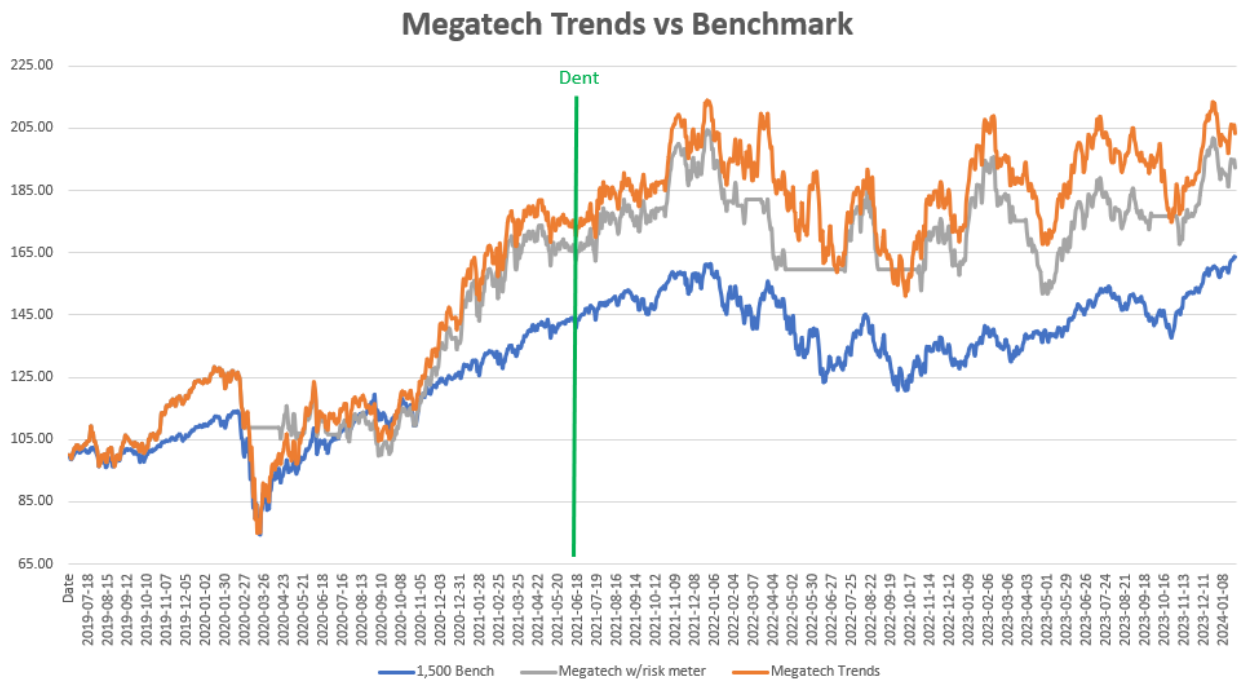
**Buy M-tron Industries, Inc. (NYSE: MPTI)**

**Sell MiX Telematics Ltd. (NYSE: MIXT)**

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
CXDO	Crexendo, Inc.	81.01%	39	Technology
DSP	Viant Technology, Inc.	65.63%	88	Technology
DTST	Data Storage Corp.	19.40%	158	Technology
EGAN	eGain Corp.	15.53%	74	Technology
ELTK	Eltek Ltd.	25.81%	39	Technology
GILT	Gilat Satellite Networks Ltd.	16.33%	256	Technology
ITRN	Ituran Location & Control Ltd.	9.23%	235	Telecommunications
<b>MPTI</b>	<b>M-tron Industries, Inc.</b>	<b>0.00%</b>	<b>NEW</b>	<b>Technology</b>
MTLS	Materialise NV	4.48%	74	Technology
NEPH	Nephros, Inc.	15.86%	31	Healthcare

# Mega-Tech Trends



There are five trades this week.

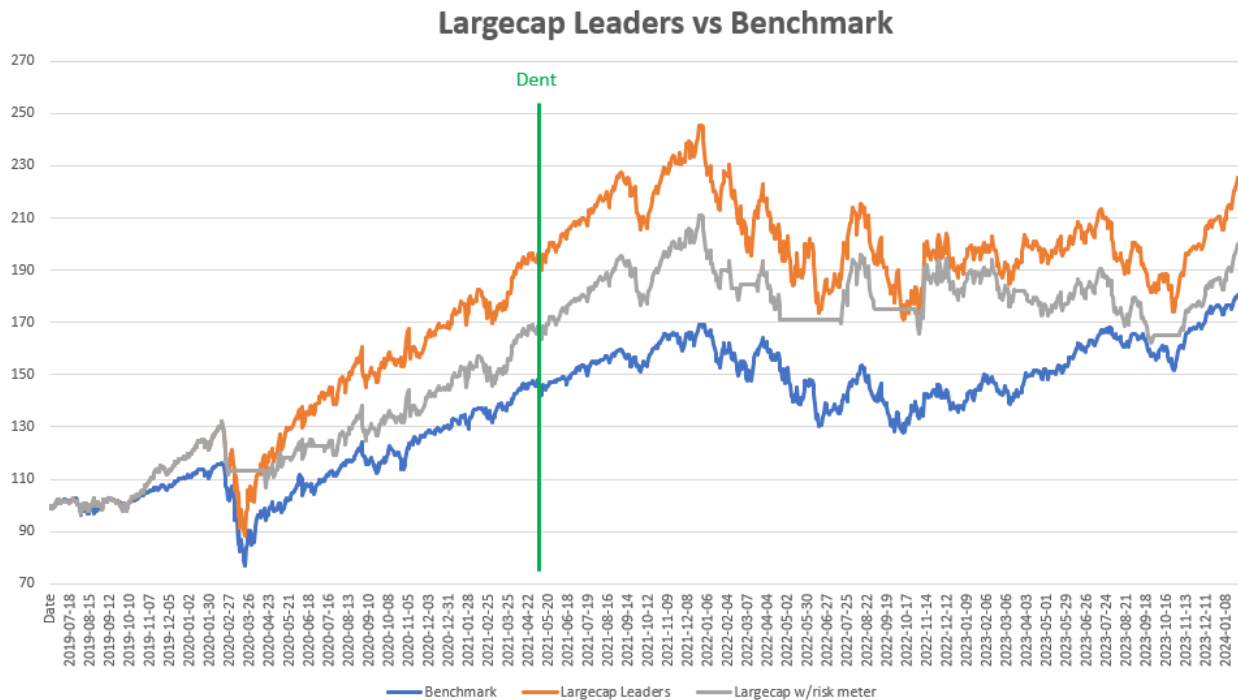
**Buy OraSure Technologies, Inc. (Nasdaq: OSUR), ScanSource (Nasdaq: SCSC), Skyworks Solutions (Nasdaq: SWKS), Thryv Holdings (Nasdaq: THRY), and Xerox (Nasdaq: XRX)**

**Sell Amkor Technologies (Nasdaq: AMKR), Enovis (ENOV), Fabrinet (NYSE: FN), SMART Global Holdings (Nasdaq: SGH), and Plantronics, (Nasdaq: PLAB)**

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
BMY	Bristol Myers Squibb Co.	-0.82%		4 Healthcare
CNXN	PC Connection, Inc.	10.48%	81	Technology
COLL	Collegium Pharmaceutical, Inc.	0.58%	4	Healthcare
EXTR	Extreme Networks, Inc.	1.61%	4	Technology
OSUR	OraSure Technologies, Inc.	0.00%	NEW	Healthcare
SCSC	ScanSource, Inc.	0.00%	NEW	Technology
SNX	TD SYNEX Corp.	0.67%	4	Technology
SWKS	Skyworks Solutions, Inc.	0.00%	NEW	Technology
THRY	Thryv Holdings, Inc.	0.00%	NEW	Technology
XRX	Xerox Holdings Corp.	0.00%	NEW	Technology

# Large Cap Leaders



There are four trades this week.

**Buy Bristol Myers Squibb (NYSE: BMY), Charter Comm. (Nasdaq: CHTR), Alphabet (Nasdaq: GOOGL), and TE Connectivity (NYSE: TEL)**

**Sell Arista Networks (NYSE: ANET), Boston Scientific (NYSE: BSX), Meta Platforms (Nasdaq: META), and Trimble (Nasdaq: TRMB)**

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ACN	Accenture PLC	1.97%	4	Technology
AMAT	Applied Materials, Inc.	-0.62%	4	Technology
APH	Amphenol Corp.	26.98%	88	Technology
BMY	Bristol Myers Squibb Co.	0.00%	NEW	Healthcare
CHTR	Charter Communications, Inc.	0.00%	NEW	Telecommunications
CMCSA	Comcast Corp.	6.71%	4	Telecommunications
FFIV	F5, Inc.	1.97%	4	Technology
GOOGL	Alphabet, Inc.	0.00%	NEW	Technology
MSFT	Microsoft Corp.	27.42%	123	Technology
TEL	TE Connectivity Ltd.	0.00%	NEW	Technology

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