



## All In

I'm highlighting an interesting chart about current market conditions this week.

Foreign investors are loaded to the gills in U.S. stocks.

Why is this important?

It means that they are "all in," and it might be a sign of an impending market top.

By John Del Vecchio

Take a look below.



Recently, foreign allocations to U.S. stock hit nearly 60%.

The last time this happened was at the peak of the tech bubble.

We all know what happened from there.

A major ass-kicking of epic proportions.

Can we expect the same this time around?

Possibly.

Markets change, but human nature does not.

**The fear of missing out is as powerful as greed or fear.**

More capital flowing into major indexes creates a positive, self-reinforcing feedback loop, driving the same few stocks that dominate those indexes higher and higher.

But now, earning 5% on your cash is attractive relative to the compensation for taking earnings exposure to companies in the S&P 500. A top could be close!

One similarity between today and the peak of technology stocks is that the market was driven by just a handful of companies near the end of the run.

In 2002, we had the "Four Horseman of the Internet".

Right before COVID, near the last peak in foreign exposure, we had "FAANG" stocks.

Today, it's the "Magnificent Seven".

*When* the market hits the "Magnificent Seven," there will likely be plenty of opportunities for other stocks.

In 2002, I managed a portfolio of short positions for a wealthy family.

Those short positions were in technology stocks, which were the obvious play as they were the most vulnerable companies to implode at the time.

Meanwhile, I also advised on a long portfolio. Even though the S&P 500 got spanked in 2002, we made money on the shorts *and* long positions.

It was a stock-pickers market.

The same might be shaping up here. It feels that way to me.

*When* the Magnificent Seven rally fades away, the market could become an excellent environment for stock pickers.

We might be close to that point with foreign investors fully exposed to U.S. stocks.

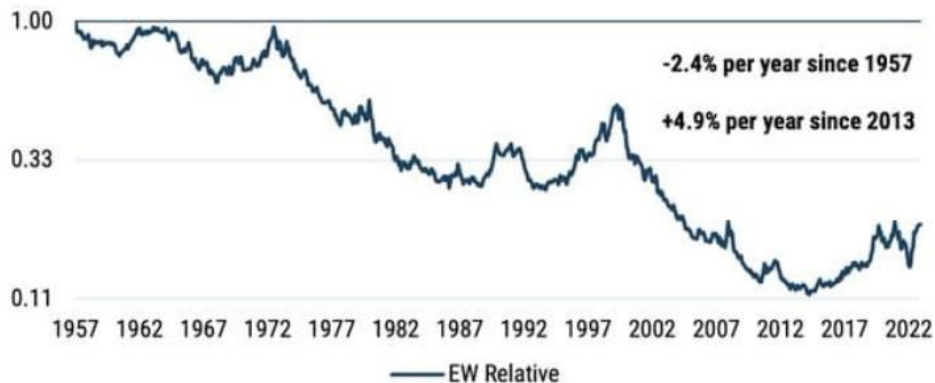
Here's another interesting chart from GMO, a massive money manager for large institutional investors.

It shows that historically, the most heavily weighted stocks in the indexes *lag* the average stock by 2.4% annually. However, in the last ten years, the big boys have

outperformed by 4.9% annually!

"Since 1957, the 10 largest stocks in the S&P 500 have underperformed an equal-weighted index of the remaining 490 stocks by 2.4% per year. But the last decade has been a very notable departure from that trend, with the largest 10 outperforming by a massive 4.9% per year on average."

EXHIBIT 2: S&P500 – TOP 10 VS. 490 EQUAL WEIGHTED



Data from 1957-2023 | Source: Compustat, Standard & Poors

All this stuff mean reverts.

Large spreads in asset classes or types of stocks converge because things get so far out of whack at some point that it makes sense to take the other side of the bet.

That's why I favor small-caps and mention that every week in this newsletter.

The *Microcap Millions* strategy is up 23.78% in 2024, after a 7.5% rally last week.

So, systematic small-company strategies like *Microcap Millions* are sneakily smoking the Magnificent Seven.

International stocks might become more attractive, particularly emerging markets — especially value-oriented strategies.

The least exciting market for me would be the market-cap-weighted S&P 500 because *when* the Magnificent Seven gets taken to the woodshed, the S&P will dramatically underperform most everything else.

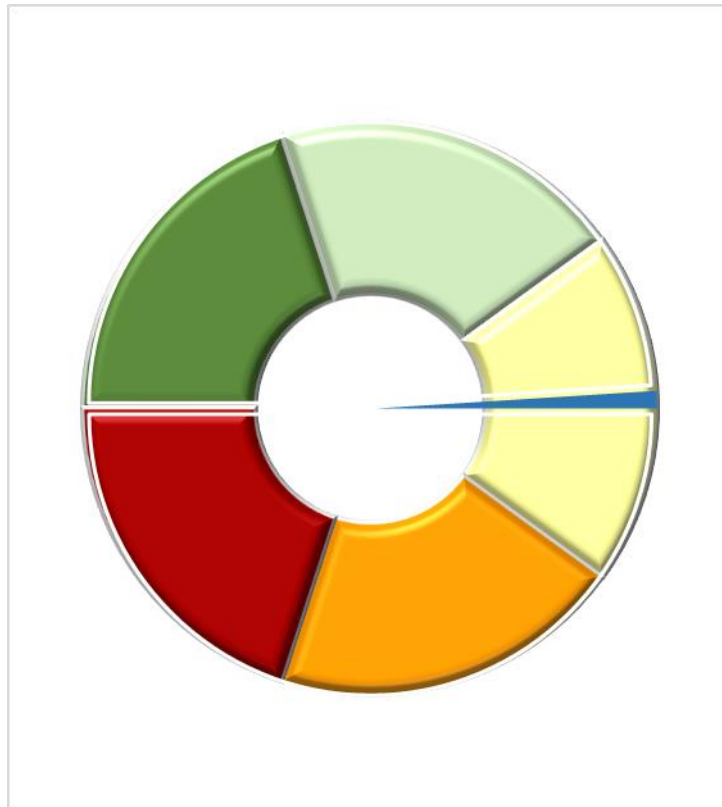
This is great for stock-picking strategies such as the ones in this newsletter.

There might be some pain initially, but if the past is prologue, the average stock will bottom out well before the indexes, and the rebound will lead to dramatic outperformance.

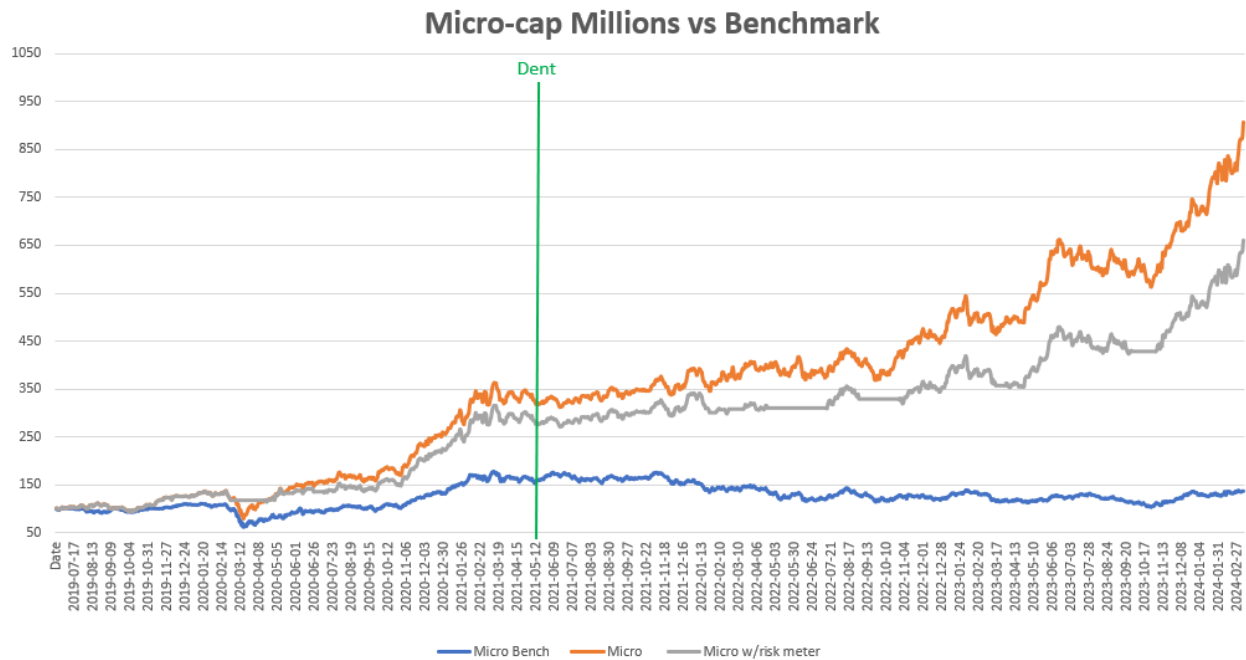
Everyone, including foreigners, is up to their eyeballs in the Magnificent Seven and, in many cases, with a boatload of leverage.

This always ends badly.

## Risk-O-Meter



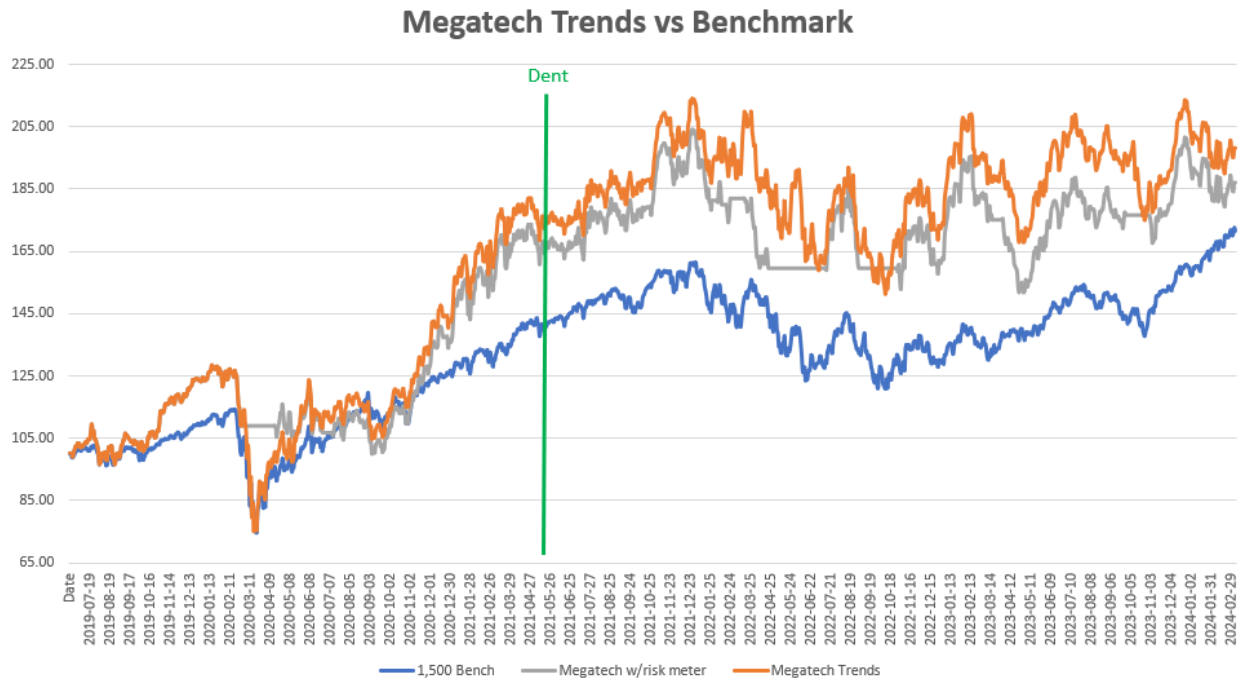
# Micro-Cap Millions



There are no trades this week. Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ALOT	AstroNova, Inc.	0.93%	4	Technology
CLMB	Climb Global Solutions, Inc.	17.17%	25	Technology
CRNT	Ceragon Networks Ltd.	3.86%	11	Technology
DDI	DoubleDown Interactive Co., Ltd.	6.01%	17	Technology
DSP	Viant Technology, Inc.	100.69%	130	Technology
DTST	Data Storage Corp.	113.06%	200	Technology
ELMD	Electromed, Inc.	25.11%	17	Healthcare
ELTK	Eltex Ltd.	2.62%	11	Technology
ITRN	Ituran Location & Control Ltd.	12.61%	277	Telecommunications
MPTI	M-tron Industries, Inc.	7.19%	4	Technology

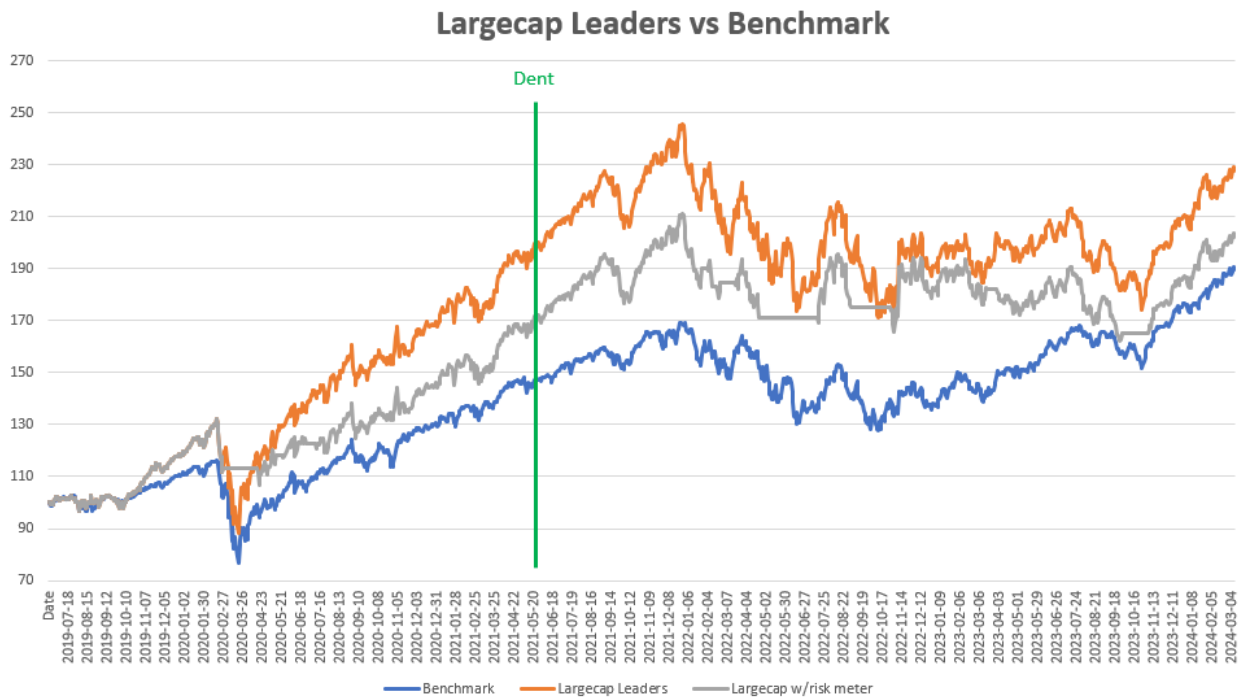
# Mega-Tech Trends



There are no trades this week. Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
BMY	Bristol Myers Squibb Co.	7.34%	46	Healthcare
COLL	Collegium Pharmaceutical, Inc.	13.97%	46	Healthcare
DBX	Dropbox, Inc.	-4.23%	17	Technology
DXC	DXC Technology Co.	-3.74%	32	Technology
OSUR	OraSure Technologies, Inc.	-4.74%	39	Healthcare
SCSC	ScanSource, Inc.	9.96%	39	Technology
SWKS	Skyworks Solutions, Inc.	1.65%	39	Technology
THRY	Thryv Holdings, Inc.	3.02%	39	Technology
XRX	Xerox Holdings Corp.	-12.34%	39	Technology
YELP	Yelp, Inc.	-14.17%	32	Technology

# Large Cap Leaders



There are no trades this week. Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ABBV	AbbVie, Inc.	6.04%	32	Healthcare
ACN	Accenture PLC	3.92%	46	Technology
AMAT	Applied Materials, Inc.	22.40%	46	Technology
APH	Amphenol Corp.	39.21%	130	Technology
BMJ	Bristol Myers Squibb Co.	8.23%	39	Healthcare
CHTR	Charter Communications, Inc.	-24.74%	39	Telecommunications
CMCSA	Comcast Corp.	-1.78%	46	Telecommunications
FFIV	F5, Inc.	7.13%	46	Technology
MSFT	Microsoft Corp.	28.14%	165	Technology
TEL	TE Connectivity Ltd.	-2.73%	39	Technology

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