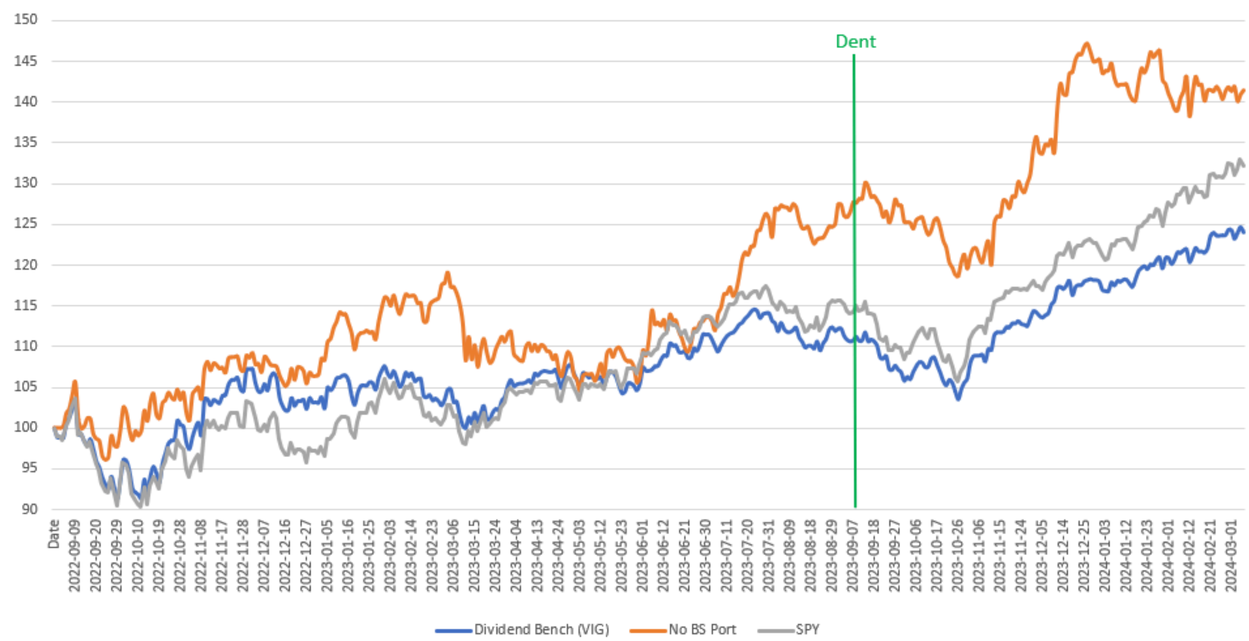
March 11, 2024

The NO BS Growth and Income Portfolio

By John Del Vecchio



New Trades this week: No Trade

Current Portfolio March 11, 2024

Ticker	Name	Return	Days Held	Sector
AVT	Avnet, Inc.	-3.40%	179	Technology
CIVB	Civista Bancshares, Inc.	-0.17%	123	Finance
FISI	Financial Institutions, Inc.	17.48%	116	Finance
HVT	Haverty Furniture Cos., Inc.	28.26%	298	Consumer Cyclicals
MCEM	The Monarch Cement Co.	24.29%	179	Non-Energy Materials
PSX	Phillips 66	58.94%	305	Energy
SCHL	Scholastic Corp.	-1.76%	46	Consumer Services
THFF	First Financial Corp. (Indiana)	12.47%	283	Finance
VLO	Valero Energy Corp.	15.74%	144	Energy
WEYS	Weyco Group, Inc.	16.19%	116	Consumer Cyclicals

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.

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 expousre, 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."*

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.

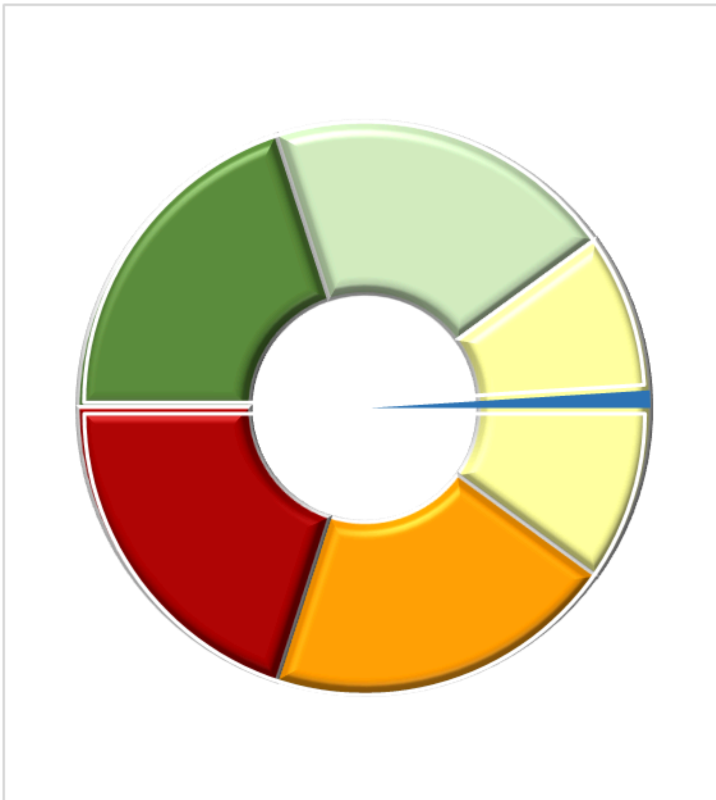
This is great for stock-picking strategies such as the ones in this newsletter.

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



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