Tale of Two Indices

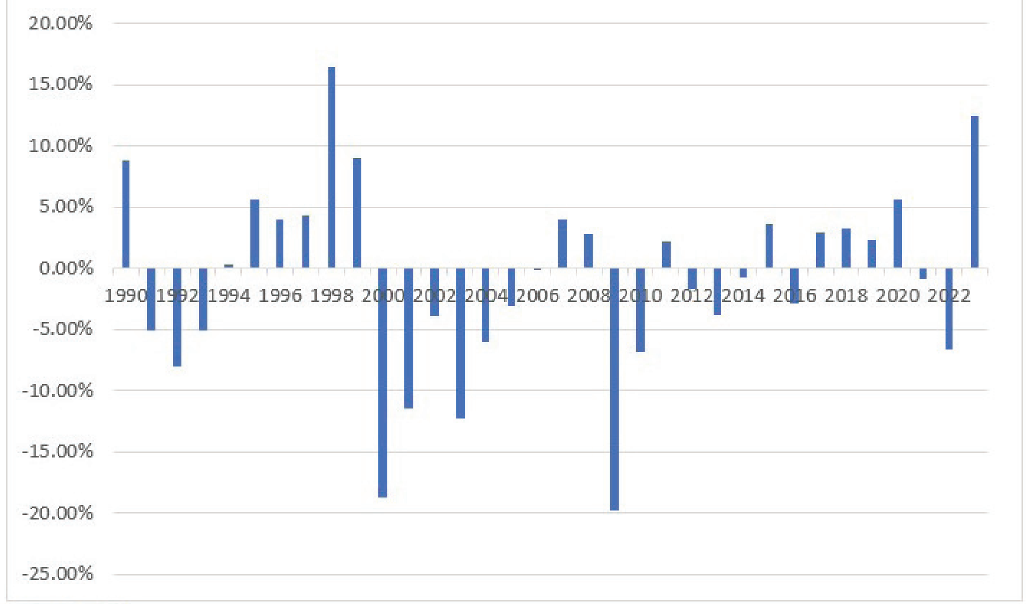
Among the many inputs we monitor, one theme stands out as we enter 2024. As 2023 ended, the top ten companies of the S&P 500—an oft-referenced market cap-weighted gauge of U.S. large cap stocks—comprised ~31% of the index's exposure. This compares to an average of ~20% over the last 35 years and surpasses the ~25% concentration witnessed during the dot-com bubble of the late 1990s.

This S&P 500 concentration in the top ten companies means that nearly a third of the index is allocated to just ten stocks. While passively investing in vehicles that track this index can simplify the decision-making process, it runs counter to one of the core underlying reasons for using such strategies, which is to diversify risk.

Digging deeper, seven of the top ten names—commonly referred to as the Magnificent 7—are either directly or peripherally connected to the Information Technology sector. The Magnificent 7 companies—Apple, Microsoft, Alphabet (Google), Amazon, Nvidia, Meta (Facebook), and Tesla—collectively represent ~28% of the S&P 500. While these companies have unquestionably done well, they are trading at valuations that are twice as expensive as the S&P 500.

We also look to the S&P 500 *equal weight* index—each stock has the same allocation—to gauge how the broader U.S. large cap universe is behaving when not disproportionately skewed by the Magnificent 7. The chart below, which looks at the return differential between the standard market cap-weighted and equal-weighted indices, tells a different tale about current market valuations. Vertical bars above the horizontal axis indicate periods where the market cap-weighted index outperformed the equal-weight index, and vice versa.

S&P 500 Market Cap Weight vs. Equal Weight Relative Return Differential



Source: YCHARTS

The chart illustrates that the difference between the two indices is among the greatest seen since the late 1990s. The period that followed, from 2000 to 2006, saw market reversion where the equal-weight index outperformed the market cap-weighted index. While we do not have the proverbial crystal ball, we believe there are meaningful similarities when looking at today's data. History has shown that when there is observable outsized performance from a select few names, a period follows where the rest of the market catches up.

The takeaway: we believe it is important to be *truly* diversified—in terms of asset classes and sectors—while managing to your long-term objectives. As always, we view market volatility opportunistically. We continue to navigate all market environments with our eyes set on building long-term wealth.

Financial Planning: Helping You See the Big Picture

Financial planning is a process that can help you target your goals by evaluating your whole financial picture, then outlining strategies that are tailored to your individual needs and available resources.

Why is financial planning important?

A comprehensive financial plan serves as a framework for organizing the pieces of your financial picture. With a financial plan in place, you'll be better able to focus on your goals and understand what it will take to reach them. One of the main benefits of having a financial plan is that it can help you balance competing financial priorities. Best of all, you'll know that your financial life is headed in the right direction.

THE FINANCIAL PLANNING PROCESS

Creating and implementing a comprehensive financial plan generally involves the following steps:

- Developing a clear picture of your current financial situation by reviewing your income, assets, and liabilities, and evaluating your insurance coverage, your investment portfolio, your tax exposure, and your estate plan
- Establishing and prioritizing financial goals and time frames for achieving these goals
- Implementing strategies that address your current financial weaknesses and build on your financial strengths
- Choosing specific financial strategies that are tailored to help meet your financial objectives
- Monitoring your plan, and making adjustments as your goals, time frames, or circumstances change

STAYING ON TRACK

The financial planning process doesn't end once your initial plan has been created. Your plan should generally be reviewed periodically to make sure that it's up-to-date. It's also possible that you'll need to modify your plan due to changes in your personal circumstances or the economy. Here are some of the events that might trigger a review of your financial plan:

- Your goals or time horizons change
- You experience a life-changing event such as marriage, the birth of a child, health problems, or a job loss
- You have a specific or immediate financial planning need (e.g., drafting a will, managing a distribution from a retirement account, paying long-term care expenses)
- Your income or expenses substantially increase or decrease
- You're affected by changes to the economy or tax laws
- Your investments have performed differently than originally projected

Contact a member of your Camden National Wealth Management team to learn more about the benefits of a comprehensive financial plan.

About Camden National Wealth Management

Camden National Wealth Management provides investment management, goals-based financial planning, and trust and estate services to individual and institutional clients in Maine and throughout the United States. Our highly credentialed team averages 25 years in the business and includes Chartered Financial Analysts, estate planning attorneys, CTFA trust specialists, and financial planners. Together, we bring a customized investment and planning approach to meet each client's unique financial needs.