MATARIN CAPITAL

Investing with Insight and Integrity

Year End 2019 Newsletter

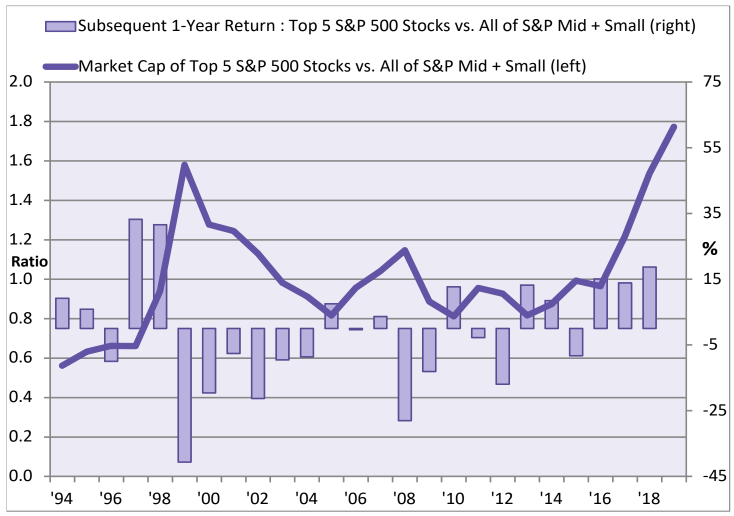
Matarin Capital Management, LLC aspires to be a symbol of stewardship within the investment management industry. We are dedicated to delivering above benchmark risk adjusted investment returns through insight, passion, and diligence. We aim to build strategic alliances with our clients based on the highest ethical standards.

Which Would You Rather Own?

Investors are trained with a mantra of portfolio diversification and disciplined rebalancing to maintain long-term asset allocation targets. But for 2019, within liquid markets, a "one decision" portfolio would have performed best: 100% US large cap. A portfolio of just the 5 very largest stocks returned 44% in 2019, even better than the S&P 500®'s 31%.

In fact, US large cap reigned over the entire decade of the '10s. After getting beaten down during the great financial crisis, these stocks had a long way to run. Consider the fact that US large cap has been among the top 3 performing asset classes in 6 of the past 7 years, although it never reached the top 3 performers in any year during the entire decade of the '00s. And in fact, if we look back over the past 20 years, instead of just a decade, the dot.com bubble of December 1999 would have been a terrible starting point for a US large cap portfolio. Over the subsequent 20-year period, US mid cap, small cap, high yield bonds and gold have all shined brighter than US large cap, even with large cap's recent outperformance included. Perhaps the example of the dot.com period serves as a reminder of how much timing and valuations still matter today.

Top 5 S&P 500 Stocks vs. All of S&P MidCap and SmallCap



After the recent run of megacap outperformance, it is notable just how large the largest cap stocks have become. The 5 largest cap stocks in the S&P 500® (Apple, Microsoft, Alphabet, Amazon, and Facebook) now have a combined market capitalization of close to $5 trillion, which is a whopping 1.8 times the total market capitalization of the 1000 stocks in the S&P MidCap 400® and S&P SmallCap 600® Indices combined. This ratio now sits at an all-time high, as you can see in the graph above.

The graph shown above supports the idea of diversifying away from these top 5, as the threat of mean reversion continues to build. Consider, for example, the period after the prior peak in this series, which occurred during 1999. The top 5 stocks went on to underperform the smaller 1000 for 8 out of the following 10 years – for a cumulative performance difference of -77%.

You may find it interesting to consider the specific journeys of the top 5 stocks over time, which is shown on the right. During the '90s the top 5 all rallied, with GE, the strongest, delivering a 900+% return for the decade. But after this '90s megacap rally, 4 out of the top 5 went on to deliver a negative return for the subsequent 10 years. The '10s look a lot like the '90s when it comes to the top 5, and today, Apple looks a lot like GE did at the end of 1999, with its 900+% return for the past decade. Of course, this performance itself will attract investors, but over the long-run, we all have to remember that trees cannot grow to the sky.

This reality begs the question: 'Which group would you rather own over the next ten years…the top 5 largest stocks in the S&P 500 or all of S&P MidCap and SmallCap combined?' Submit your response at this link, and track the votes!

Top 5 S&P 500 Stocks By Decade

	Next 10-Yr Return
1990s	
S&P 500	**433%**
Exxon	282%
General Electric	913%
IBM	385%
Philip Morris	150%
Merck & Co	472%
2000s	
S&P 500	**-9%**
General Electric	-54%
Microsoft	-38%
Cisco Systems	-55%
Exxon Mobil	98%
Intel	-44%
2010s	
S&P 500	**257%**
Exxon Mobil	41%
Microsoft	457%
Apple	931%
Johnson & Johnson	171%
Procter & Gamble	147%
2020s	
S&P 500	**TBD**
Apple	TBD
Microsoft	TBD
Alphabet	TBD
Amazon.com	TBD
Facebook	TBD

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