



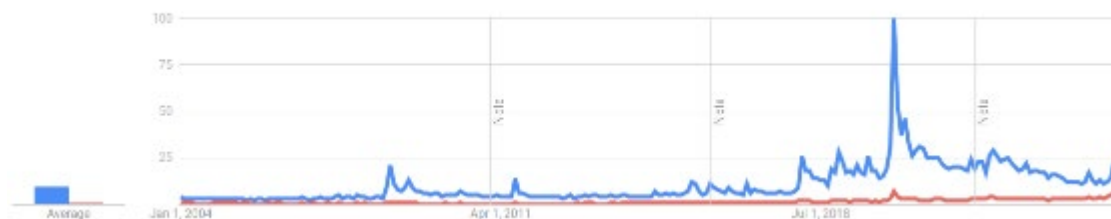
## Market Insights – What is the DOW?

April 2025 Update

You’ve likely heard me pound the table on portfolio concentration and its merits toward active management. Still, investors can have a hard time digesting why they would want to hold “only” thirty stocks. Let’s explore a widely known concentrated index *everyone* has heard of.

### What is the Dow and why does it even exist?

The component stocks in the DJIA are chosen by a panel consisting of two Wall Street Journal editors, and three staff from S&P global. Excluding any companies in the transport or utility sector, any other company the S&P 500 is fair game to be included as one of the 30 stocks in the Dow. There is no scheduled quantitative process to choose or omit companies from the index. It lacks formality in its structure. Yet it is still the most widely quoted and followed index.



\*Source: Google trends data. Blue represents searches for “Dow” while orange represents searches for “S&P 500”.

The Dow is price weighted, which means companies with a higher stock price represent a larger portion of the index, while those with lower prices have less weight. That’s why AAPL’s weighting in the index fell to 3% after its 4-1 stock split in August 2020. This is an odd feature of the Dow that goes back to its initial construction in the late 1800’s when market caps weren’t readily quoted. All other widely followed indexes are market cap weighted. The Dow is peculiar.

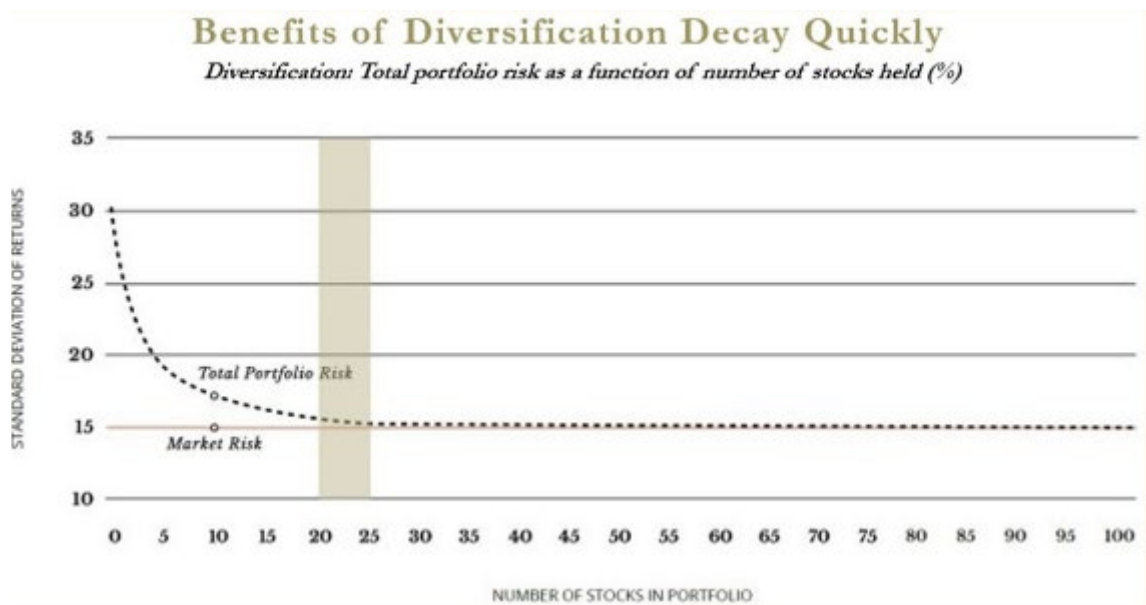
But even with only 30 stocks, illogical weightings, and unknown qualitative factors, the Dow's ups-and-downs still correlate highly to the S&P 500 over time:



\*Source: Koyfin. S&P500 vs Dow Jones Industrial Average total return

In fact, research shows that a random portfolio of equities will often highly correlate to the broader market, especially as the number of holdings increases.

**One of my favorite's...**



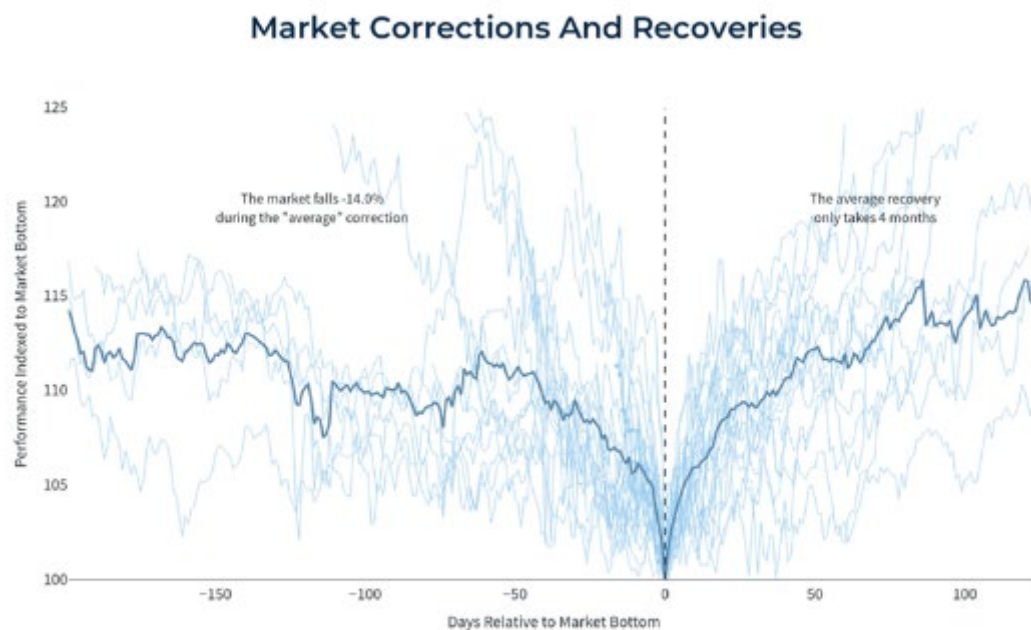
Market risk is non-diversifiable (think tariffs, pandemics, and natural disasters), but company specific risks are diversifiable (think quality of management, effective R&D, product demand/popularity). After roughly twenty-five stocks are held in an equity portfolio, nearly all the mathematical benefits of diversification have been obtained. This is why a quirky concentrated index of thirty stocks like the Dow still moves closely with the broader market over time.

At Sandhill, our main equity growth strategy, CEA, relies on concentration to diversify to the point of reducing portfolio volatility, while still allowing us to choose only our best ideas for portfolio inclusion, and monitor them vigilantly. Concentration is the key to successful active management, and without it you are basically just an index.

### Chart of the Month – Market Corrections

It's important to recognize the nature of market corrections. They can meander their way into existence but tend to resolve quickly once a bottom has formed. Of course, there are exceptions, but this is typical market behavior. **Successful market timing is not a repeatable strategy.** Risk can only be mitigated with proper asset allocation, not timing, and certainly not holding cash and equivalents for long periods of time.

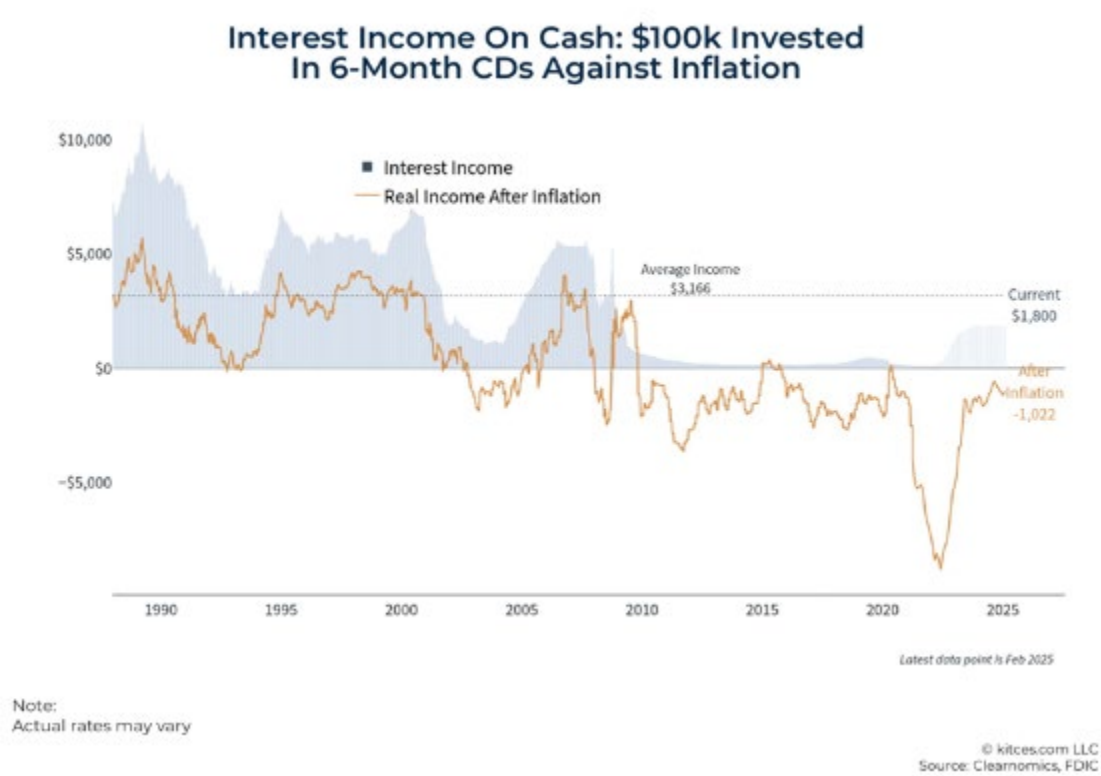
**Hang tight, it'll be over soon...**



Note:  
S&P 500 total returns since World War II. Market corrections are peak-to-trough declines of 10% to 20%. The bold line is an average across all corrections.

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Source: Clearmatics, Standard & Poor's

## Cash is trash...



## Market Run Down

Over the past three months, the U.S. stock market has experienced notable volatility, influenced by trade wars, uncertain economic policy, and investor sentiment.

### Market Performance:

- **S&P 500:** The index reached a record closing high of 6,144 on February 19, 2025. However, by March 13, it had declined to 5,504, marking a correction of over 10%. The index is currently hovering around the 5600 level.
- **Dow Jones Industrial Average:** The Dow experienced similar fluctuations, with recent gains bringing it back into positive territory for 2025 after a month-long selloff spurred by tariff concerns.
- **Nasdaq Composite:** The tech-heavy index mirrored these trends with higher volatility among mega-cap names with stretched valuations. This is a trend Sandhill has been anticipating for some time now.

### Key Influencing Factors:

- **Trade Policies:** In early March, the U.S. imposed tariffs on imports from Mexico and Canada, leading to significant market declines. The S&P 500 fell by 1.8%, and the Nasdaq-100 by 2.6% on March 3. By March 6, the S&P 500 had lost almost all gains since November 2024.
- **Economic Indicators:** The "misery index," combining inflation and unemployment rates, rose to 6.9 in March, reflecting rising economic challenges. Despite this, the economy remains stable, though concerns about stagflation persist.
- **Investor Sentiment:** Uncertainties surrounding trade policies and potential recession indicators have led to cautious investor behavior. While impossible to predict, any near-term resolution to escalating trade wars would be viewed as bullish from our standpoint.

#### Outlook:

Broad equity valuations remain high despite the recent correction; however, we are beginning to see some value in companies on our bench of candidates for inclusion in the portfolio. We'll remain selective in adding names to our holdings and deploy excess cash prudently. For existing Sandhill clients, our research team is preparing a deeper dive into the current market situation and will have a note out soon, likely early April.

Sincerely,

John

716-225-8998

***Side Note:** Last month, if you read this far you know that I played some "plane's trains & automobiles" getting out to a CFP® review course in Boston. I'm very pleased to say that the journey paid dividends, and I successfully passed the CFP® exam this past Monday. The curriculum was a great way to round out my formal education and experience in finance and provided even more tools to extend valuable advice to my clients, which is my goal! Thanks to those who encouraged me to pursue it. - John*

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