



Market Commentary – What’s In Your Portfolio?

February 2025 Update

We all know the Capital One slogan “What’s in your wallet?” More than brilliant branding, it prompts consumers to question if their current credit card offers anything worthwhile. The commercial leaves potential customers with a sense of accountability for knowing the value of their chosen provider.

The same accountability prompt could be applied to an even more significant financial product – your investment portfolio. In today’s age of fanciful-named mutual funds, active ETF’s and broad low-cost indexes, I’m certain that almost nobody knows what they actually own. In fact, even most professional advisors couldn’t look their clients in the eye and tell them for certain what stocks and bonds they hold. What’s in your portfolio? Who knows....

I was doing some light reading this weekend and stumbled on an article that highlighted a substantial problem in modern portfolio construction. Namely, the indexes we so often cite – S&P 500, Russell 2000, Wilshire 5000 – have been assumed to consist of specific market capitalization companies (market capitalization refers to the size of company’s outstanding shares of stock). The problem is, these assumptions are frequently wrong. For example, Morningstar’s style box categorizes the S&P 500 as entirely “Large Cap.” While this may have been true 15 years ago, only about 150 of the 500 companies in the index meet the definition of Large Cap today. Large and mega cap stocks are defined as the those in the top 70% of total stock market capitalization. Since so much market cap is now in the top 10 mega companies, the boundaries of what defines mid and small cap has changed.

TLDR? Basically, all you need to know is this: if your advisor, plan sponsor, or neighborhood finance bro tells you that your portfolio is balanced by market cap exposure referencing Morningstar style box definitions, well, they are wrong.

In a world that relies more on passive investment vehicles than ever before, and structured ERISA plans with little to no investment guidance, it behooves one to ask, “What’s in my portfolio?” Don’t assume that anyone else knows either, because very likely they do not.

The best asset managers are intimately aware of their portfolio holdings and can recite highlights from recent interviews with CEO’s, earnings releases, and new product offerings. They understand the strategy behind every business they own, and they constantly reassess those conditions to determine if the company is still worthy of the portfolio in which they are held.

This is Sandhill’s approach. We know exactly what we own, why we own it, and what we will do when the wind blows in a different direction. We aren’t constrained to Morningstar market cap style boxes, and anyone who manages wealth here can rattle off our top three holdings at any time.

Can your advisor do that? What’s in your portfolio!?

What's On Your Mind?

As we progress through 2025, a complex financial landscape marked by significant challenges and uncertainties is once again upon us. There are three main concerns that we are keeping front of mind for our investors:

Inflation and Monetary Policy

Inflation continues to be a major concern in 2025, with the potential for reacceleration posing risks to high-valuation stocks. Central banks worldwide are closely monitoring inflation trends, influencing interest rate decisions that impact borrowing costs, corporate profits, and consumer spending. Maintaining a properly diversified portfolio with inflation-resistant investments can help mitigate risks associated with fluctuating monetary policies. We have been actively increasing exposure to names we feel will benefit from accelerating infrastructure spending.

Geopolitical Tensions and Trade Policies

Geopolitical tensions have escalated in 2025, leading to renewed concerns over trade relations between the U.S. and China. Companies, both U.S. and abroad, are worried about the negative impacts of potential trade friction and higher tariffs on their businesses. Investors are watching these developments closely, as changes in trade policies can disrupt supply chains, affect corporate profitability, and increase market volatility. We continue to maintain our approach to invest in high quality US-based growth companies.

Market Concentration and Valuation Risks

The dominance of a few large technology companies has created significant market concentration, raising concerns about overvaluation and potential risks. In 2024, just 26 companies made up 50% of the S&P 500's total market capitalization, the highest concentration since the index's inception. While these companies have driven substantial market gains, their high valuations could pose risks if market dynamics shift, or regulatory pressures increase. We are constantly aware of this increasing concentration risk and have diversified our portfolio's sector risks accordingly.

What's Next?

We face a challenging environment. Navigating these issues requires a balanced approach, including diversification, staying informed on policy changes, and being vigilant about market valuations. Armed with this understanding, we can better position ourselves to manage risks and capitalize on opportunities in this rapidly evolving landscape.

As always, please write, call, and email me with your comments and feedback. I always enjoy the conversations these missives generate!

Sincerely,

John Canty

(716) 225-8998

jcanty@sandhill-im.com

Side Note -

Two weeks ago, I spent five days out in Boston at an intense financial planning educational seminar. I bought a train ticket from Buffalo, so I could work in relative quiet while I slowly made my way out to the Atlantic coast. The setting of peaceful scenery rolling by while working on client portfolios seemed idyllic in my mind. When I boarded the train, I quickly selected my seat and stowed my luggage. The train began to slowly pull away from Depew station when it hit me that I had forgotten the workbook that accompanied this four-day lecture. The week would have been nearly worthless without it! I had to get off, asap! "STOP THE TRAIN! I NEED TO GET OFF!" Looking at me with a very puzzled look (rightly so), the conductor replied, "but we...are...moving, sir?" I reiterated my urgent desire to disembark. "Follow me," the baffled man replied. As we RAN to the back of the train, he radioed in my request to the engineer. Bouncing my luggage through the dining car, the waiter looked at me in disbelief. I felt like a character in the movie Ratatouille as passengers and crew looked at me in disbelief. Finally, in the very back car, the train slowed to a halt as the stairs opened to reveal the last 5 feet of platform. I was allowed to exit and thanked the conductor for his effort. "You know you can't get back on, right?" "I know!"

Delta delivered me safely to Boston that evening, book in hand. The knowledge attained those four days was well worth the planes, trains, and automobiles. Thanks, Amtrak. I owe you one -
John

The Big Portfolio Management Problem No One is Talking About, Steve Elliss, CFA. FA-Mag.com, January 21, 2025

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