Diversification or Concentration

THE BEST TIME TO PLANT A TREE WAS TWENTY YEARS AGO. THE SECOND BEST TIME TO PLANT A TREE IS TODAY….YOU WILL THANK YOURSELF IN TWENTY YEARS… SOME PART OF YOUR PORTFOLIO ALWAYS HAS A TWENTY YEAR HORIZON

1. QQQ realignment. trim the tree, planet another tree
2. Playing to win, or playing NOT loss

What are you addicted to?

1. Dividends
2. Risk free interest
3. Growth
4. A singular successful stock
5. ~~To thy own self be true~~.

Returns 2022

SP 500 -19%

standard 60/40 allocation -16%

VIG -9.8%

Returns 2023 YTD

SP 500 +17%

60/40 allocation +10.5% (through 06/30) 10.76

VIG +6.60%

Best return 6 months 2023

1. NVDA +190% on 06/30 it was 423 now 411
2. META +138% on 06/30 it was 287 now 297

Worst return 6 months 2023

1. AAP -54% 151.50 on 06/30 it was 68.41 now 64.62
2. DISH -54% 14.82 on 06/30 it was 6.59 now 6.30
3. ZION -41% (4th) 48.64 on 06/30 it was 26.86 now 34.94
4. SCHW -33.6% (8th) 81.94 on 6/30 it was 56.68 now 59.33

Why is diversification valuable?

Portfolio diversification is important because it helps to reduce the overall risk and volatility of the portfolio by combining securities that have **low correlations** with each other, meaning they do not move in the same direction at the same time. This way, losses in one part of the portfolio can be offset by gains elsewhere

What are the down sides of diversification

- Generally leads to lower portfolio-wide returns.
- May cause investing to require more management.
- Can result in more and larger transaction fees.
- Does not eliminate all types of risk within a portfolio.
- May turn your attention away from large future winners.
- More investment means more mistakes can be made.

The argument of index funds is an argument for diversification

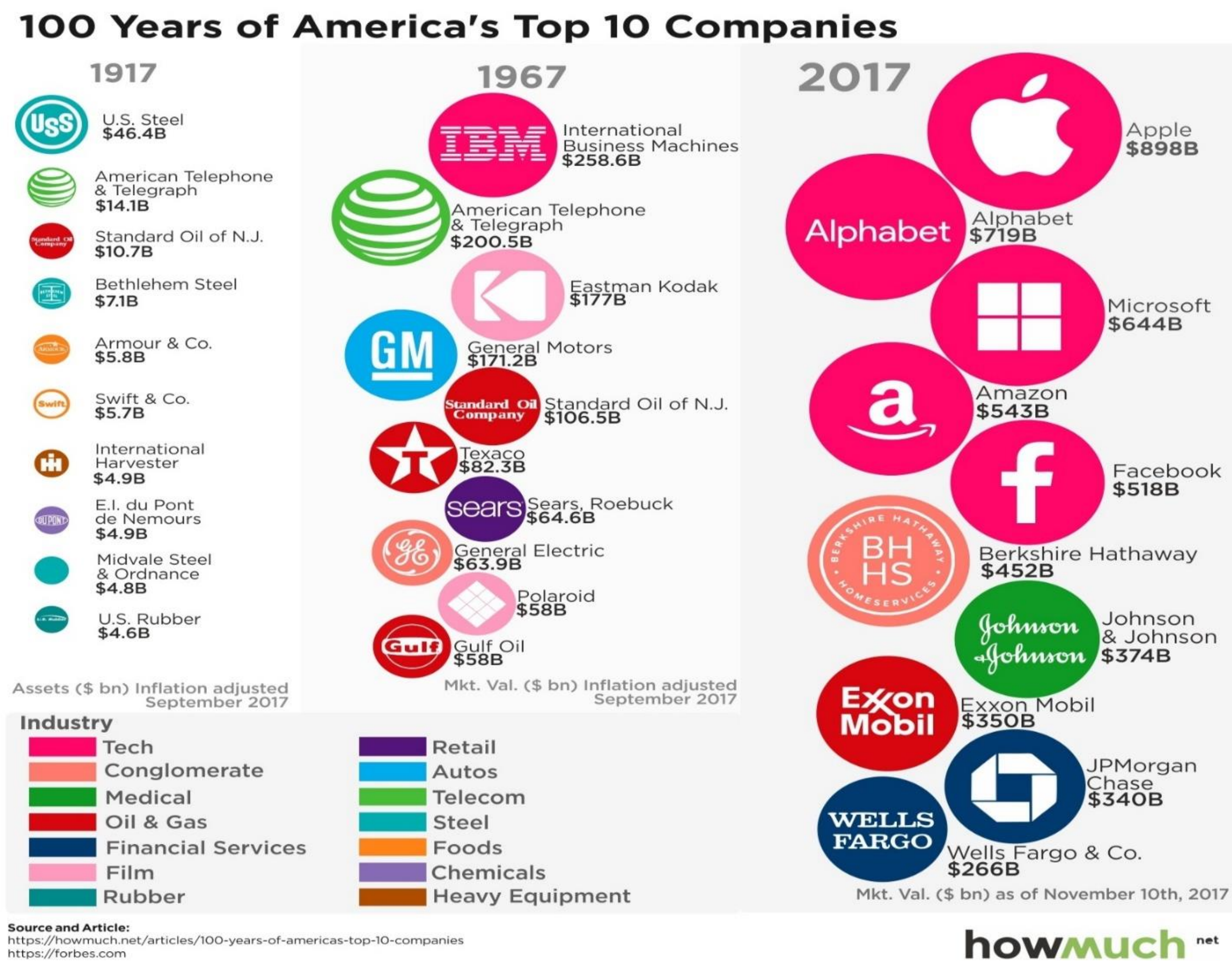
According to a Dow Joes study, from 01/2003 through 12/31/2022 less then 10% of active mutual funds out performed their respective tracking indexes

From the same study, once a fund was in the top 25% for a year, ZERO of them remained in the 25% for each of the next 5 years. There are no consistent winners

1. Top 25% performance doesn't imply the fund outperformed the index
2. Some fund might have been in the top 25% multiple years and still out performed the index in the other years.. don't know that

Correlations……

1. Data is limited to a short time frame, basically 40-45 years, and all diring a period of falling interest rates and low, and lowering inflation



Argument for diversification through indexing

Top SP 500 companies in 2003 and their annualized return (dividends re-invested) through 06/30/2023

GE .1% (1/10th of 1 percent) $10,000 then is $10,187 now

MSFT 15.8% $10,000 then is $188,595 now

PFE 4.8% $10,00 then is $25,459 now

XOM 9.2% $10,00 then is $58,540 now

WMT 7.4% $10,000 then is $41,700 now

C -9.3% (lost 85% of its value) $10,000 then is $1,426 now

INTC 4.2% $10,000 then is $22,677 now

IBM 5.9% $10,000 then is $31,253 now

SP 500 itself 9.8% $10,000 then is $63,627 now… only one stock beat the index

ATT is the same price per share as it was in 1994… 29 years… 15.40

For comparison KO was split adjusted 10.60 per share in 1994 and now is 60.00 per share, now 57.50

AAPL is a split adjusted 52 CENTS and is now 190.00 per share   now175

MSFT is also split adjusted 2.65 and is now 345.00 per share 321

SPY starts in March 1993 @ 45.00 per share and is now 450.00 433

Diversification vs concentration

1. Wall street is trying to sell you something when they tell you about the value of their diversified portfolios

BUT

2. When you eat a meal, you do not have only one item, and the same item day after day after day
    a. A balanced meal has protein, greens, fruits, carbs, etc
    b. So should your portfolio: growth, income, safety, varying industries
        i. How much of each depends on your individual taste (goals/needs)

Scotts' **opinion**: in retirement you should have multiple sources of cash flow and wealth creation

The argument for diversification through indexing

1. Broad market exposure
2. Affordability
3. Risk mitigation
4. Still have long-term growth potential

Build your own or buy the package   TIME ENERGY MONEY

1. You can move the parts around
    a. Add sectors
    b. Change weighting
    c. Panic or get greedy. oops
2. Let them do it