

CHART OF THE WEEK

May 29, 2020

CLIMB EVERY MOUNTAIN

Here is a follow-up to our [Chart of the Week last week](#) regarding the NASDAQ. This first chart looks at May 1, 1997 through May 1, 2020 using monthly intervals. The rise in the NASDAQ Composite from late 1998 into 2000 and the subsequent fall from early 2000 into 2001 looks a bit like climbing up and then going back down a very steep mountain.

You may have noticed how the mountain looks much smaller in the timeline shown than it must have seemed to a tech sector investor in the early 2000s. When viewed on a relative scale, it is certainly a notable event, but it is a small hill compared to the rise we have seen since.

FORD EVERY STREAM

What is noteworthy is the fact that it took fifteen years to recapture the dot-com-era highs. As represented by the NASDAQ, the tech sector clearly took some lumps between 2000 and 2015 before coming back into its own, so to speak.

NASDAQ Composite (^IXIC) ☆
Nasdaq GIDS - Nasdaq GIDS Real Time Price. Currency in USD
9,368.99 -43.37 (-0.46%)
At close: 5:15PM EDT



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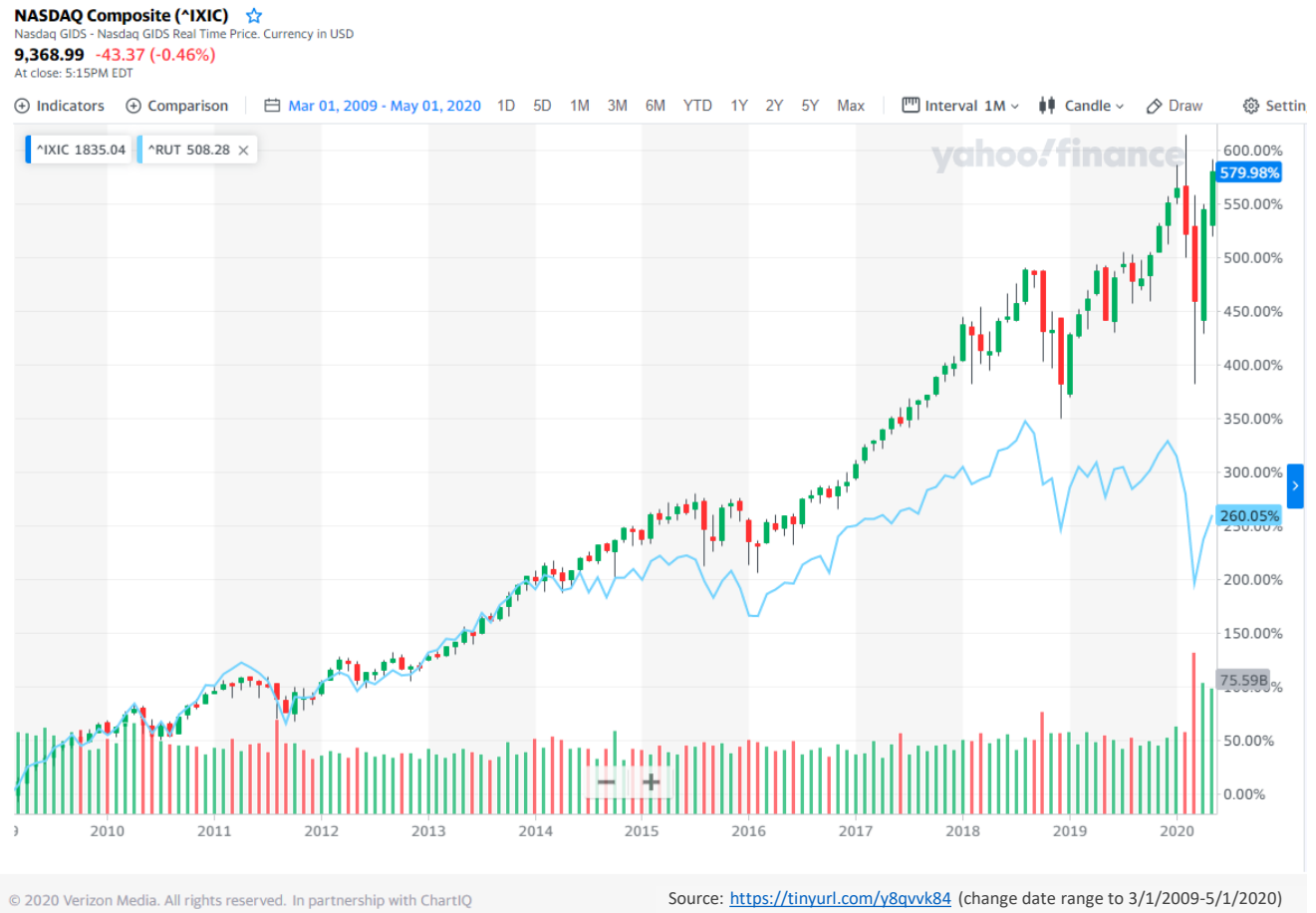
FOLLOW EVERY RAINBOW

This chart shows the strength of the NASDAQ coming out of the Great Financial Crisis in 2009, rising almost 580% from March 1, 2009 through May 1, 2020 (chart reflects one-month intervals). This compares to a 260% gain in the Russell 2000 Index over the same time period.

It's a tale of two equity indices. Historically, small cap indices have generally outperformed large cap indices over longer periods of time, although with greater volatility.¹ Not so in this comparison.

The Russell 2000 is a benchmark for small cap stocks.² Although the NASDAQ is comprised of large cap companies,³ which are generally considered lower risk investments than small cap stocks, it nearly doubled the return of the Russell 2000 following the financial crisis.

The tech story is a storied story, indeed, but where do we go from here? Time will tell.





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Chief Investment Officer

‘TIL YOU FIND YOUR DREAM

We aim to objectively bring you data and concepts for consideration. From an asset management perspective, our primary focus is risk management. As risk managers, we look for signals like “crowded” trades, questionable valuations, and key phrases such as “this time is different.” In times like these, such themes should “raise the antenna” of a risk manager, especially when they occur simultaneously.

Calls with many of our third-party strategists in recent weeks also suggest some caution is merited within certain segments of the financial markets. Growth stocks are broadly owned right now and current valuations seem to point to a continuation of the good times ahead, while economic data would tend to suggest otherwise. This is not our first market cycle and we hear some echoes from 1999 and 2007.

Recommending that investors “run for the hills” or “cash in all their chips” would be naïve, particularly after what we saw with equity prices following the Great Financial Crisis. So, we remain focused on positioning clients for long-term success in achieving their financial goals while continuing to point out potential areas of concern.

As always, we encourage you to stay focused on your goals and be sure to communicate with your advisor about any material changes in your financial situation which could affect your plan. We will do our part to continue monitoring this market cycle, reviewing fundamental data and economic trends, and enlightening you and your financial advisor accordingly.

1 <https://www.bankrate.com/investing/small-cap-funds-versus-large-cap-funds/>

2 <https://research.ftserussell.com/Analytics/FactSheets/temp/e19e0909-74d8-4db7-8ed2-b0c24fc5290e.pdf>

3 <https://www.investopedia.com/terms/n/nasdaqcompositeindex.asp>

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