Do You Know What's In Your Portfolio?
Record divergencies in U.S.indices a result of disparate portfolio composition

Following up on our last blog ("A Tale of Two Markets") today's Wall Street Journal has a front-page story regarding the diverging performance of various equity market indices so far in 2020. The article points out that the outperformance of the technology-heavy Nasdaq Composite index over the Dow Jones Industrial Average and the S&P 500 Index is the widest since 1983. The article notes that 5 stocks in the Nasdaq Composite index (Apple, Microsoft, Amazon, Alphabet and Facebook) now account for approximately 40% of the index compared to 20% for the S&P 500 index. The Dow 30 has only 2 of those 5 stocks among the 30 (Apple and Microsoft), representing about 13.5% of the index. Many other popular equity indices have even lower allocations to technology stocks in general, and those 5 stocks in particular.

I would not suggest that the outperformance of technology stocks cannot continue for some time. But, I believe it is important for investors to understand the potential risks/rewards of investing in what may seem to the novice investor as fungible index funds. For example, should one own the Nasdaq Composite ETF (exchange traded fund) such as the Fidelity NASDAQ Composite Index Track (ONEQ), one will have greater exposure to several large technology stocks when compared to the broader S&P 500 index. And even though the Dow Jones Industrial Average has only 30 stocks, investing in the Dow 30 will result in a much broader allocation across an array of industries. The Dow has significantly more generous allocation to the financial, healthcare and industrial sectors, with those 3 sectors accounting for nearly 50% of that index. This compares to about 20% for the Nasdaq Composite index.

Knowing what you own will help you avoid unwanted surprises when market dynamics change!