HBKS Wealth Advisors

Keeping Up with the Indices

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How do you judge the performance of your investments? Many of investors like to compare the movement in their portfolios with the S&P 500 or the Dow. Some people feel like they need to beat or at least keep up with those indices. But this year's markets serve as a great example of why that doesn't wash, that different indices perform at different rates and at different times — and perhaps most importantly, for different reasons.

This year, it has been especially difficult to compare a globally diversified portfolio strategy to a domestic index, such as the S&P 500. Year-to-date, through August, the S&P 500 was up 9.7 percent. For the same period, the All Country World (ACWI) ex US Index was down 3.5 percent.

Index	YTD Return	Forward P/E
S&P 500	9.7%	16.8
ACWI ex US	-3.5%	15.2
Russell 1000 Growth	16.3%	21.3
Russell 1000 Value	3.6%	14.2

Take a deeper dive and we see that the increases in stock prices have been mostly driven by growth stocks. Year to date through August, the Russell 1000 Growth Index was up 16.3 percent, while the Russell 1000 Value Index was up only 3.6 percent. Look even deeper and we see that the performance of the S&P 500 has been driven by just a handful of stocks. Five stocks — Amazon, Apple, Microsoft, Netflix and Visa — have accounted for 45 percent of the S&P 500 Index's performance year-to-date according to Morningstar Direct.

For an investor's performance to "keep up" with the S&P 500 Index, one would have had to follow a high-risk strategy that would have been to be concentrated in a few of stocks. However, we believe that the outperformance of growth stocks will prove to be unsustainable. As of the end of August, the Russell 1000 Growth Index was trading at 21.3 times future earnings while the Russell 1000 Value was trading at 14.2 times future earnings. Eventually the growth stocks are now substantially more expensive than their value counterparts and should come back to earth.

Similarly, we see the same relationship with the domestic and international markets — where the strong performance of the U.S. markets has made domestic markets more expensive than international markets based on expected future earnings. As a result, within all of the HBKS investment strategies we will soon be rebalancing the portfolios, reducing both the domestic and growth stock allocations and raising the developed international and value stock allocations.

Disclosures:
All data as of 8/31/18. Index Returns and Characteristics: Provided by JPMorgan Asset Management and MSCI

The Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price/book ratios and higher forecasted growth values.

The Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price/book ratios and lower forecasted growth values.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index with each stock's weight in the index proportionate to its market value. You cannot invest directly in an index.

The MSCI ACWI ex US Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries*. With 2,152 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

Forward P/E Ratio is a stock's current price divided by the company's estimated next 12-month earnings per share.

Historical performance results for investment indices and investment categories are provided for general comparison purposes only. Past performance of any indices or investment category may not be indicative of future results. The indices and categories generally reflect the reinvestment of dividends, but do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results.

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Kevin Pascale is a research analyst in our Pittsburgh, Pennsylvania, office. In this role, he is involved with the investment research and portfolio construction efforts for the firm's objective-based asset allocation and individual stock portfolios. These initiatives include tactical asset allocation decisions, quantitative and qualitative fund manager due diligence and selection, performance attribution, as well as fundamental equity research.

Kevin started his career in finance when he joined HBKS as an intern in 2015. He earned his Bachelor of Science in Finance with distinction from Penn State University and his Bachelor of Science in Psychology from the University of Dayton.