



## July 2023 Newsletter – Still the #1 Mid Cap Core Manager Over the Last 10 Years

- Running Oak's Efficient Growth strategy outperformed **every single** Mid Cap Core fund in Morningstar's universe, net of fees, over the last 10 years. (Note: the strategy's 10-year performance is comprised of 117 months of audited performance and 3 months of pre-Running Oak real-time, but unaudited, performance.)
- And by the way, Mid Cap stocks are trading at **the largest discount** to Large Cap in **24 years**.
- Efficient Growth is now available in multiple vehicles, depending upon a client's needs.

### Quick update:

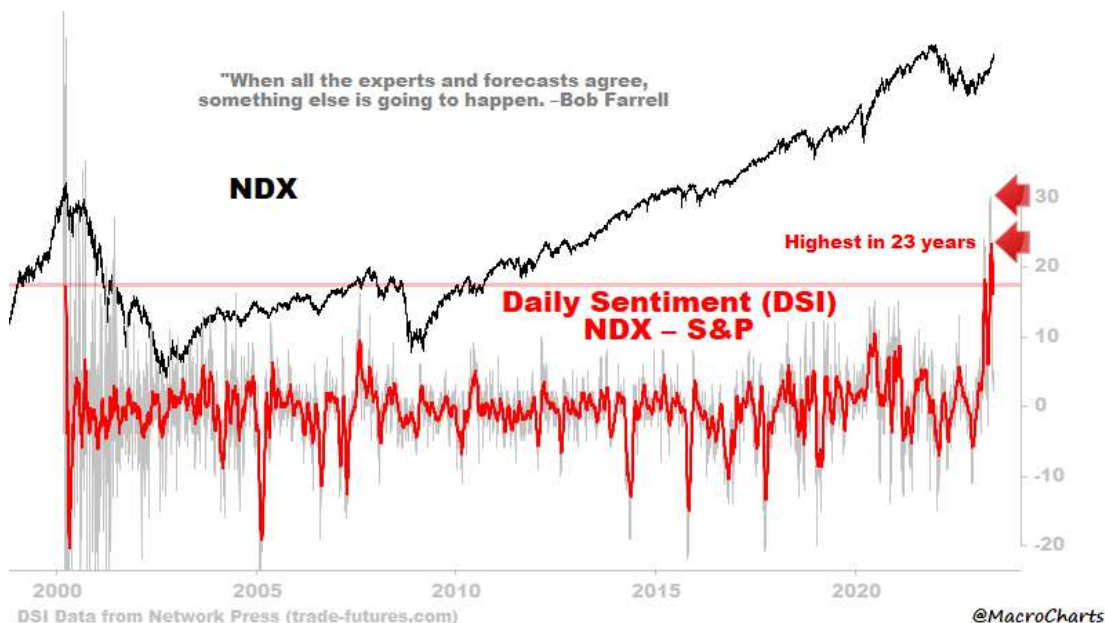
- Running Oak's Efficient Growth portfolio was up 9%, gross, in June.\*
- Efficient Growth was up 8.84%, ytd through June, gross of fees.\*
- Since inception, Efficient Growth has provided **21%** more return than the S&P 500 Equal Weight Index, given the same level of downside risk, gross of fees. (Ulcer Performance Index)

### "Goin' through the Big D and don't mean Dallas." - Mark Chesnutt

The Big Dumb is a magical place, kind of like Platform 9 ¾ in Harry Potter. To get there, you close your eyes and run as fast as you can at a wall. If the wall magically disappears, you've arrived! Sadly, a visit to the Big Dumb is finite, so enjoy the talking unicorns, liger rides, and rainbows while you can.

Personally, this is just my third trip to the Big Dumb. The first was in 2007 when I read an article in The Economist clearly laying out the inevitability of a housing crash and the likely disastrous fallout. Then, I watched the S&P 500 make new highs. My second trip to the Big Dumb was in January 2020. Big Tech had basically traded higher every single day for the prior 6 months, China – the 2<sup>nd</sup> largest economy in the world - had completely shut down, and the stock market continued to go higher and higher. That was dumb.

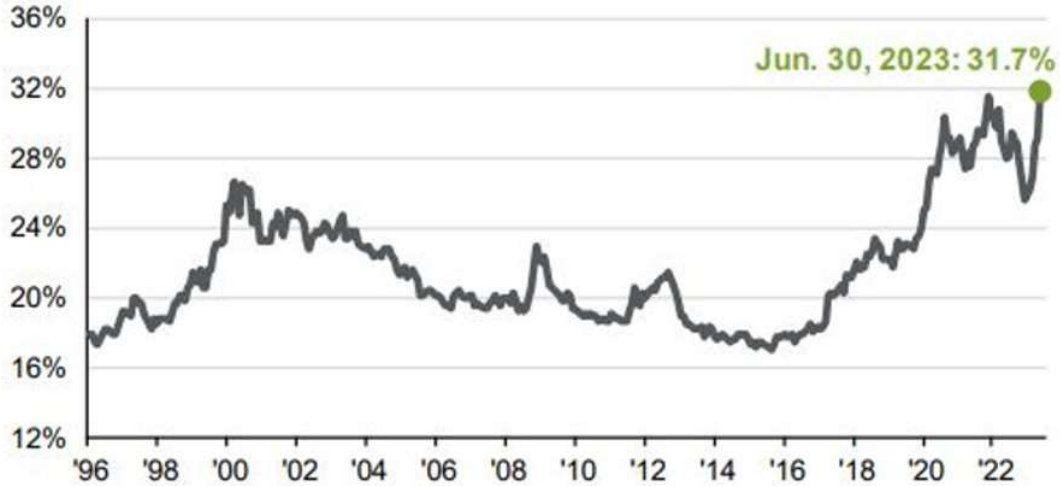
And here we are, back in the Big Dumb. For those who have never visited, I have pictures.



"This time is different." - Large Cap Growth and Index Fund Investors

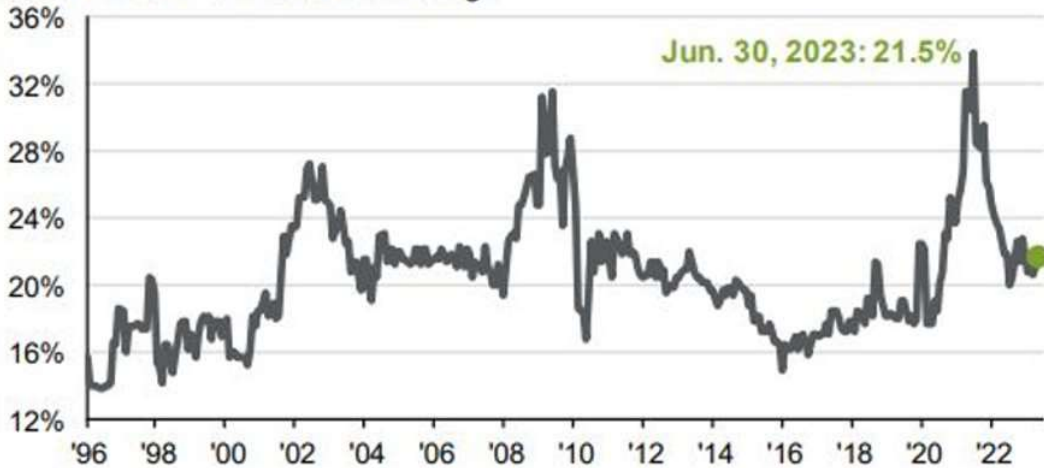
## Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500



## Earnings contribution of the top 10 in the S&P 500

Based on last 12 months' earnings



**J.P.Morgan**  
ASSET MANAGEMENT

"What do earnings have to do with anything?" - Large Cap Growth and Index Fund Investors



Comparing the Speed of

# U.S. Interest Rate Hikes

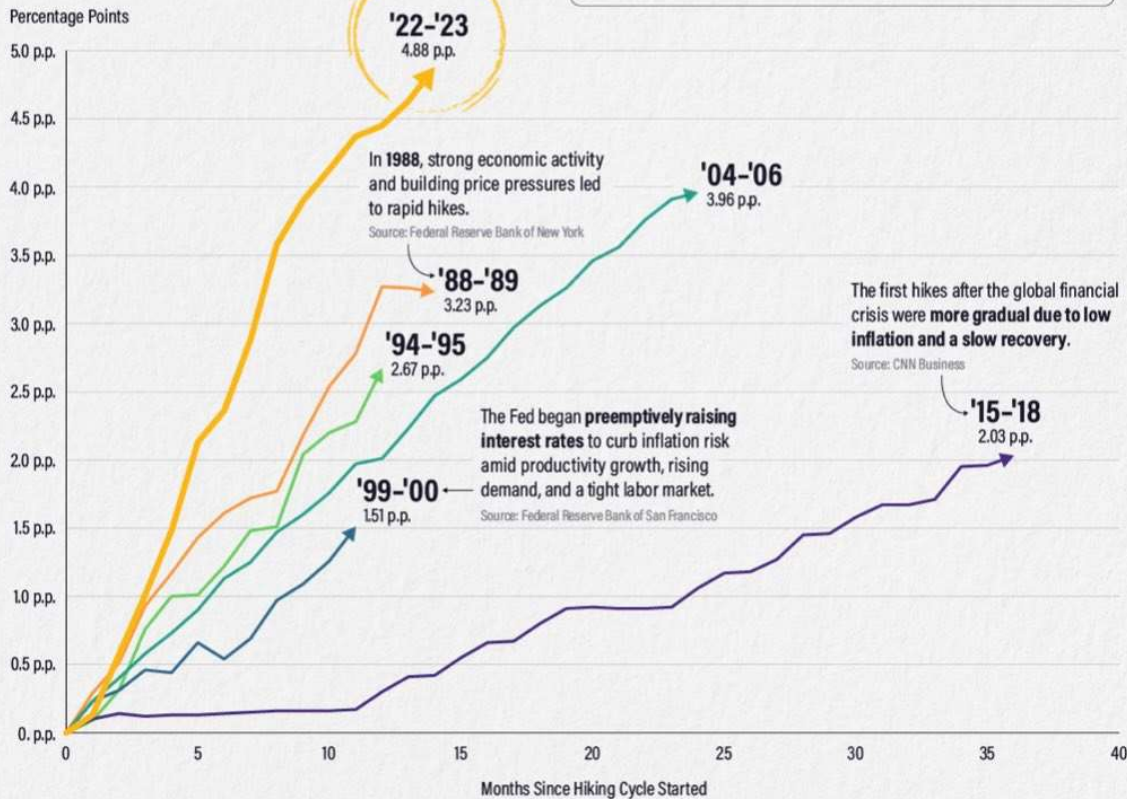
Rates have risen faster than any other time in recent history.

The Federal Reserve has aggressively raised rates to fight inflation. In just over a year, the effective federal funds rate has risen nearly 5 percentage points.

How does this compare to other periods of interest rate hikes over the past 35 years?

The effective federal funds rate is a weighted average of the rate banks use to lend money to each other overnight. It is determined by the market, but is influenced by the Federal Reserve's target.

## Change in Effective Federal Funds Rate



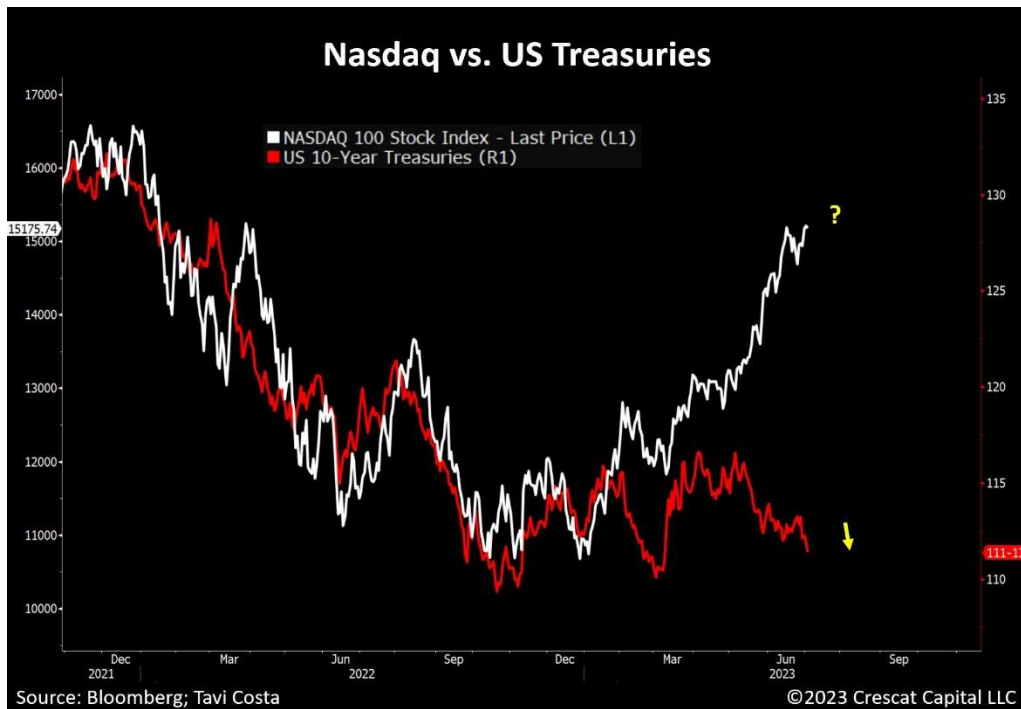
Source: Federal Reserve. Chart inspired by Chartr. Month 0 is the month when the first interest rate hike in the cycle occurred. The 2022-2023 cycle reflects the change in the effective federal funds rate up to May 2023. Data is monthly based on daily averages apart from May 2023 data, which uses data as of May 4, 2023. We considered an interest rate hike cycle to be any time period when the Federal Reserve raised rates at two or more consecutive meetings.



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"What do interest rates have to do with anything?" - Large Cap Growth and Index Fund Investors



"What does history have to do with anything?" - Large Cap Growth and Index Fund Investors

<b>Annual S&amp;P 500 Contribution of 10 Largest Weights During Positive Performance Years</b>		
<u>Year</u>	<u>Top 10 as % of Total</u>	<u>S&amp;P 500 % Perf.</u>
<b>2023 YTD</b>	<b>104.1%</b>	<b>9.5%</b>
2007	78.7%	3.5%
2020	58.9%	16.3%
1999	54.5%	19.5%
2021	45.0%	26.9%
1998	36.8%	26.7%
1996	33.9%	20.3%
2017	33.3%	19.4%
2019	32.8%	28.9%
1991	28.6%	26.3%
2006	27.6%	13.6%
2016	26.6%	9.5%
2003	23.6%	26.4%
1995	22.3%	34.1%
2014	22.2%	11.4%
2004	21.1%	9.0%
2005	20.5%	3.0%
2010	19.6%	12.8%
2012	19.2%	13.4%
1997	19.1%	31.0%
2013	17.6%	29.6%
2009	15.5%	23.5%
1992	14.9%	4.5%
1993	12.2%	7.1%

"Look kids! Big Ben!" - Large Cap Growth and Index Fund Purveyors

Note: **The S&P 500 was up almost 10% when 98% of the companies within the S&P 500 were negative, on average.** That is 2x the Tech Bubble.

### Thinking Critically

The stop just after the Big Dumb is the Big Uh-Oh. It only takes a second of critical thought to arrive at that conclusion. The Big Uh-Oh typically entails a 30+% decline in the S&P 500. Fortunately, while indexes and Large Cap Growth are likely the worst investments they have been since 1999, much of the market is actually attractive. Our Efficient Growth portfolio is trading at a forward P/E of **18.6** versus Apple at **30**, roughly 61% higher than Efficient Growth. Speaking of Apple, here's a little fun with numbers:

Apple in 7 Years	Net Cash / Market Cap	P/E
2016	28%	10
Now	-1.8%	33

In sum, Apple, which is now a record 7.7% of the S&P 500, is trading at **3.3x** the valuation it did 7 years ago, despite having **106.5% less net cash** and **ZERO growth**.

Here's another fun number: **46**. NVDA, at a Price/Sales of 46, *has to pay out every penny in revenue for the next 46 years* in order for a current investor to *break even*. That assumes that a chip company makes the best microchips for free (seems unlikely), has no employees (they do), spends no money on R&D (pretty tough to have the fanciest microchip for the next 46 years without research), and that investors pay no taxes (sign me up if that's a possibility). Granted, revenue growth reduces that number, but even 23 years of paying out every penny is historically as dumb as it gets.

Instead of playing Hot Potato with ticking bombs, invest your clients' hard-earned money in a strategy focused on risk and based upon discipline and principles. Efficient Growth's investment philosophy just plain makes sense; there are no weird rationalizations required.

1. Above Average Earnings Growth – Because owning a company that is making more and more money is obviously a good thing.
2. Attractive Valuations – Because paying a dumb price is, well, dumb.
3. Lower Downside Risk – Because losing money stinks. Lower drawdowns mean smaller bounces are required to get back to new highs.

If nothing else, Efficient Growth is an excellent complement to the Magnificent 7 big tech stocks. If those stocks continue to defy history and numbers, great. If they implode but part of the portfolio is invested with risk in mind, you and your clients live to see another day.

## Risk vs. Return, Gross (Sep. 2013 – Jun. 2023)\*

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If you appreciate critical thinking, math, common sense, and occasional sarcasm, we would love to speak with you. Please feel free to set up a time here: [Let's talk](#)

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*\*Past performance is no guarantee of future results. Performance expectations are no guarantee of future results; they reflect educated guesses that may or may not come to fruition.*

*Performance of the Efficient Growth strategy has been tracked since 1989. Performance prior to September of 2013, while unaudited, was documented and generated on a real-time (not back-tested) basis. Such results are from accounts managed at other entities prior to the formation of Running Oak Capital. All indices are unmanaged and may not be invested into directly. Comparison described here are made relative to mutual funds included in the Morningstar Mid Cap Blend universe, which were used for their availability and relative comprehensiveness of data. Other strategies managed in different vehicle structures may exist that are not represented here.*

*The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

*The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investments and strategies may be appropriate for you, consult with us at Running Oak Capital or another trusted investment adviser.*

*Stock prices and index returns provided by Standard & Poor's.*