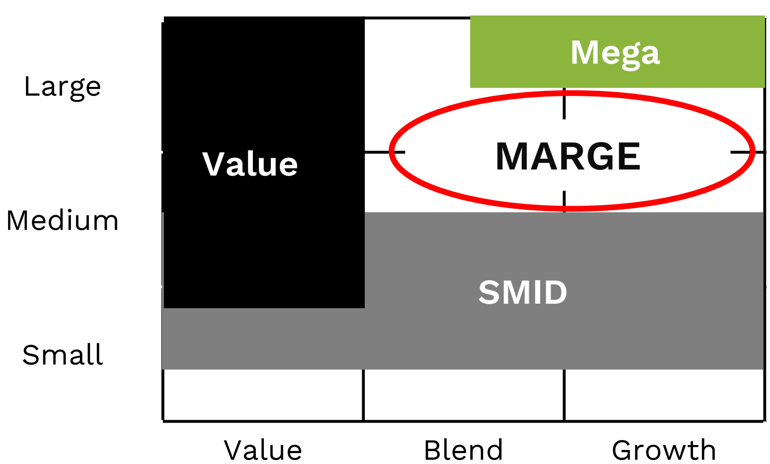
There is a gaping hole in the average investor's portfolio.

The standard domestic equity portfolio[1] consists of Large Cap – covering Core and Growth, SMID, and Small to Large Cap Value. Using SCHG[2], one of the most popular investments, as a representative Large Cap portfolio, it becomes clear that the average equity investor has negligible diversification within Large Cap. **60%** of SCHG is invested in **only 8** companies. Those 8 companies are all Big Tech, leaving only 40% spread out among the rest of the Large Cap Growth/Core universe. Investors don't necessarily have diversified Large Cap exposure; they have a historic percentage of 8 companies and little else.

Mid Cap has outperformed Large Cap by 0.60%, annualized, over the last roughly 33 years.

SMID strategies are typically concentrated around upper Small and lower Mid Cap, commonly leaving upper Mid underinvested. Value, including income/dividend, tends to be invested across the spectrum of Small to Large.

Here's a representative map of the standard equity allocation[1]:



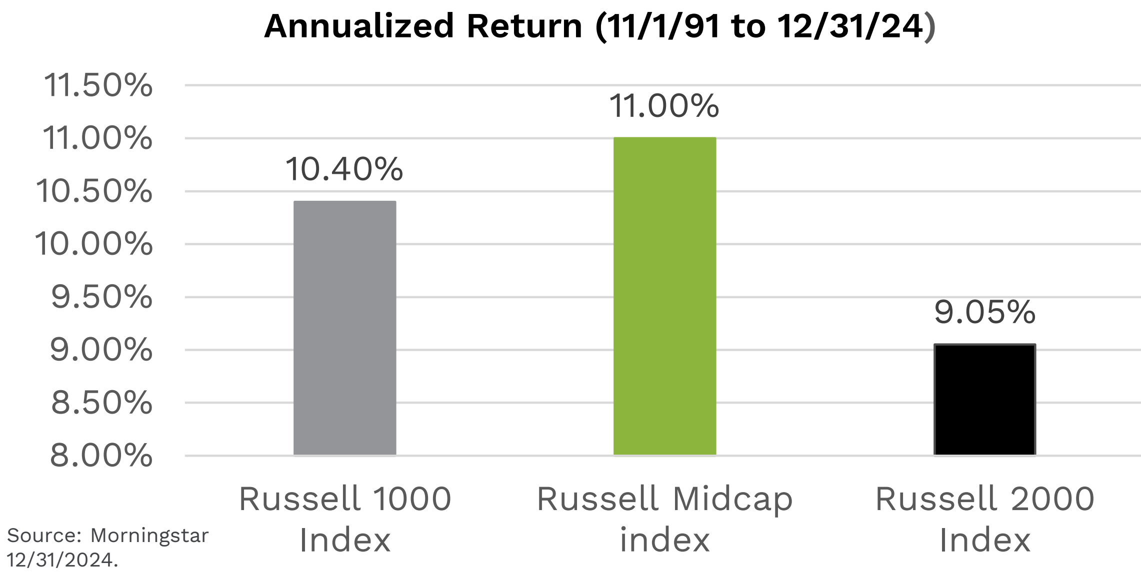
MARGE Defined

Upper Mid and lower Large are woefully under-invested.

[1] Statements about the standard domestic equity portfolio reflect the opinion of Running Oak based on informal feedback and experience from interactions with investors and other financial professionals.
[2] SCHG is the ticker symbol for the Schwab US Large-Cap Growth ETF . SCHG had nearly $40B of investor assets as of 12/31/2024 (source: Morningstar), an indication of its popularity among large cap investors.

A place and time to be overweight, not barely invested.

Mid Cap has outperformed Large Cap by 0.60%, annualized, over the last roughly 33 years. Note: That includes Large Cap's historic outperformance over the last decade and a half, and Mid has still outperformed.



Mid Cap has outperformed Small and Large for simple, persistent reasons:

Small – Small Cap companies, generally speaking, are less established and proven. They either lack a meaningful product, their products have yet to be widely adopted, or they have yet to monetize those products and achieve consistent profitability. As small companies gain legitimacy, increase revenues, and become more profitable, they often graduate to Mid. Many Mid Cap companies have successful products and therefore tend to be less risky than Small Caps, leading to outperformance over the long run.

Large – The larger a company grows the more difficult it often becomes to grow at the same or higher rate, particularly once a company is especially large and its market is saturated. Mid-sized companies, on the other hand, can more readily move the needle substantially.

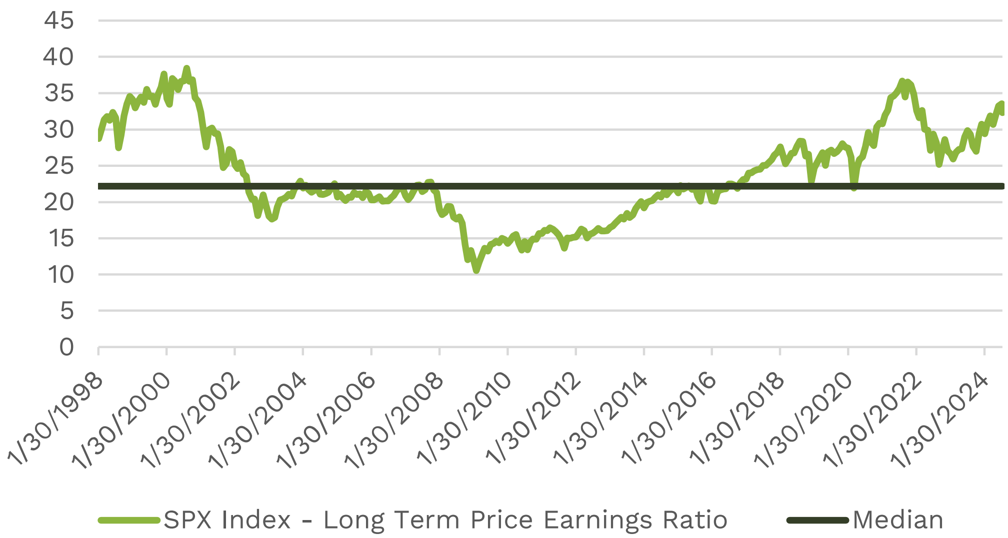
Note: Smaller Large cap companies also fit this description, which typically contributes to them being less risky.

Undervalued AND much, MUCH cheaper.

Mid Cap is undervalued relative to its long-term median CAPE ratio. Surprisingly, per Ned Davis Research, Small Cap is overvalued[3]. Meanwhile, Large Cap is more than 100% overvalued relative to its long-term median, according to Ned Davis[3], and over 50% per Bloomberg (below).

Mid Cap is not only undervalued; it appears to be a steal relative to Large Cap.

Large Cap



Mid Cap

[3]Ned Davis Research references a current Cyclically-Adjusted P/E Ratio of the S&P 500 of approximately 38, which is more than 100% higher than the long-term median of approximately 18. Similarly, the current Cyclically-Adjusted P/E of the S&P 600 is approximately 57 relative to a long-term median of approximately 45.

A December to remember.

6 days into December	The S&P 500 experienced negative breadth (more stocks declining than rising) the first 6 days of December, yet was up 0.34%. Per BTIG, "to show how bizarre it is, there have been 16 prior occurrences of six consecutive negative S&P 500 breadth days. The average SPX return of those stretches has been -6.62%, and the 'best' return was -1.3% in 2017." The S&P 500 was 7% higher than the average occurrence of 6 negative breadth days in a row and almost 2% higher than the best return ever.
9 days into December	The string of more decliners than advancers hit 9 straight days, only the second time since 1996 for that to occur. That one other occasion was immediately following 9/11 – you know, one of the darkest days in the history of the United States.
11 days into December	The string of more decliners than advancers hit 11 straight days, a new record. That was a singular moment in history.

A primary reason for the divergence between the S&P 500 and the majority of stocks was Tesla. From 11/4, the day before the Presidential election, to December 18, Tesla, one of the largest companies in the United States and world, rose 105%. One of the largest companies in the world *doubled* in just 31 trading days. It likely did so based on the assumption that Elon Musk will use his newfound power over the US government to favor himself and Tesla.

As the average stock declined every day for 11 straight days and finished December down over 7%...

Fartcoin, a cryptocurrency created as a joke, eclipsed $1.25B in market cap ($1.6B on January 3rd). People invested $1.25B of their money in a make-believe currency named for flatulence.

“History Doesn't Repeat Itself, but It Often Rhymes” – Mark Twain.

Early 2021
Meme Stock Mania

- GameStop rose from $4 to $120 in only a few days.
- AMC rose from $12 to $450 in the first half of 2021.
- Blackberry rose from $4 to $29 in a couple months.

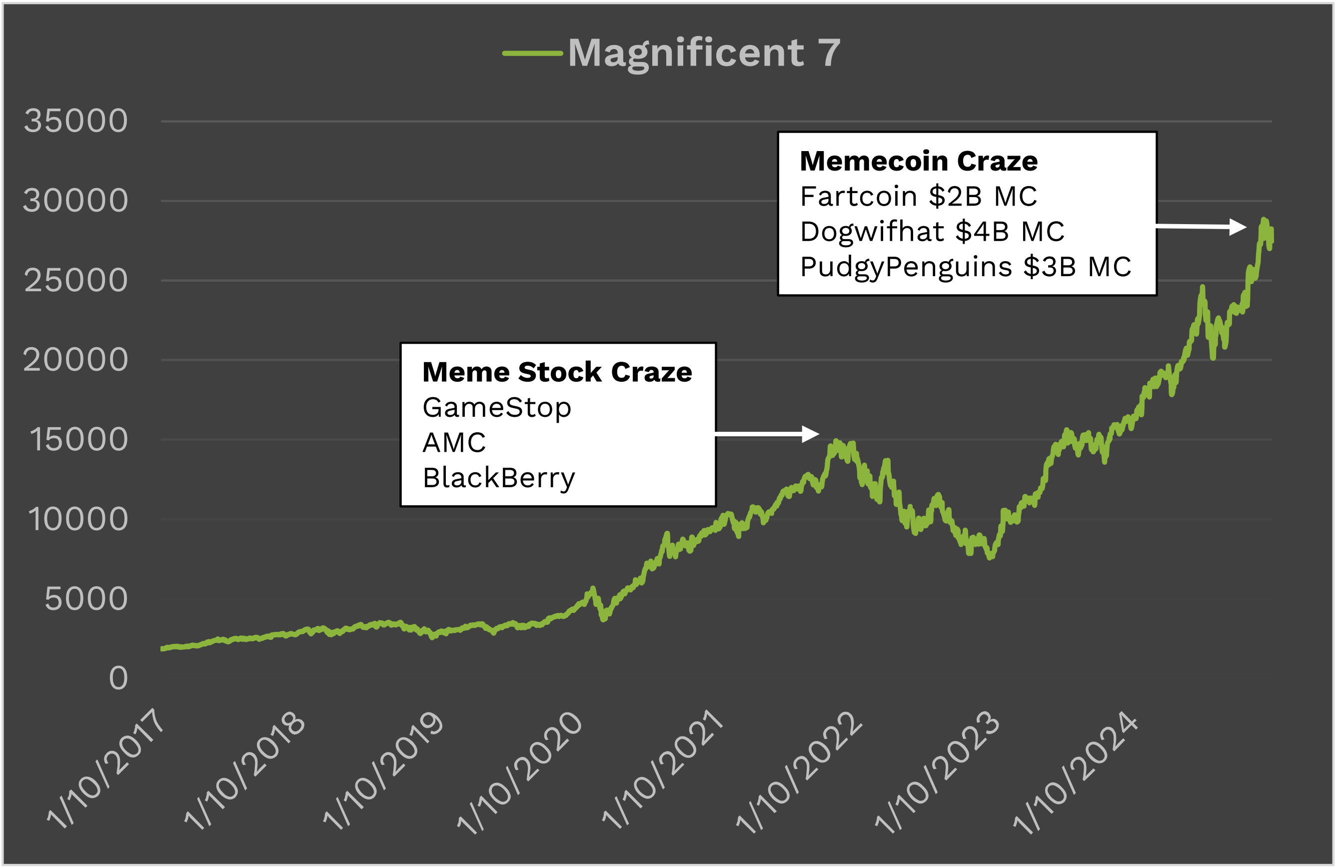
GameStop, AMC, and Blackberry are REAL companies with REAL revenues and REAL customers.

Late 2024
Meme Coin Mania

As of mid-November, there were 2000 different meme coins. In the past, one needed to provide liquidity in the range of 1 to 5k backing new coins. Now, coins can be created from nothing.

- Dogecoin, added $45 Billion in market cap from the Presidential election through early December.
- Dogwifhat (that’s pronounced with an f) grew $2.24B in the month following the election. It has since collapsed to 1.7B.
- Pudgy Penguins recently had a market capitalization of over $3 billion.
- Fartcoin grew almost $1.5B in the weeks following the election.

The point of the above isn’t to argue the legitimacy or illegitimacy of crypto currencies, in general. It is to point out the magnitude of the froth in the most speculative of all asset classes (a term I use facetiously – nothing about these are asset-like). Many meme coins are likely little more than ponzi schemes, and they have sucked in 10’s of billions of dollars in the last few months. It is perhaps a sign of speculative fervor, much like the meme stock craze, which often ushers in a period of painful reality, as was the case in 2022.



Don't Do the Rhyme, If You Can't Do the Time

2022 was a return to reality, following the craziness of 2021 that culminated in the meme stock craze. Will there be a similar return to reality following the current meme coin frenzy? If so, what is that likely to look like? Again, the meme stocks were REAL companies. Just the 4 joke coins listed above have added over $50B in several weeks, more than the market cap of Occidental Petroleum, Phillips 66, Lululemon, Nasdaq, Baker Hughes, Kroger, etc. And there are over 300 meme coins.

The "Magnificent 7" is a widely-used term referring to a group of seven stocks that comprise a significant percentage of the S&P 500. The group includes NVDA, AAPL, MSFT, GOOG, AMZN, META, & TSLA..

RUNNING OAK CAPITAL

A place and time to be overweight, not barely invested.

It seems like a good idea to[4]:

- Invest in companies that outperform over the long run.
- Invest in companies that stand to APPRECIATE to fair value - not depreciate to fair value, like Large.
- Buy companies that are barely owned. If others follow, they'll go up.
- If the meme coin craze results in a period like 2022, there's no one to sell them. Less selling pressure means less downside.
- Buy Mid Cap stocks. They outperform AND they're cheap AND they're under-invested.
- Invest in MARGE – upper Mid/lower Large.

Efficient Growth Strategy

And if you need a solution, Running Oak Capital's Efficient Growth portfolio provides disciplined MARGE exposure like few others and declined only 12.38%, net, in 2022 versus 18.11% for the S&P 500 Total Return Index.

Annualized net performance for Efficient Growth and the S&P 500 TR Index as of 12/31/2024 was as follows:
Efficient Growth, 1 yr: 17.64%, 5 yrs: 11.17%, 10 yrs: 11.72%. S&P 500, 1 yr: 25.02%, 5 yrs: 14.53%, 10 yrs: 13.10%.

[4]Statements reflect the opinion of Running Oak Capital and should not be construed as investment advice.