From the desk of

Jason Isaac, CFA, CAIA

Portfolio Manager
NCM Global Income Growth Class
NCM Investments

November 2024

Making money without the Mag 7

The Magnificent 7 tech stocks have dominated the market for years. In fact, Nvidia alone has grown to be worth more than the entire Toronto Stock Exchange.[1] While everyone loves a winner, the level of concentration these companies have reached in many portfolios concerns me. The good news is, you can achieve a very respectable rate of return even without owning these companies.

The concentration risk is real

Just seven S&P 500 stocks have been responsible for much of the market's gains in recent years. Apple (AAPL), Amazon (AMZN), Alphabet (GOOG, GOOGL), Meta Platforms (META), Microsoft (MSFT), NVIDIA (NVDA) and Tesla (TSLA) were up a collective 31% in the first six months of 2024, compared to 7.4% for the other 493 stocks in the index. During the same period, NVIDIA, Alphabet, and Microsoft were responsible for 49% of the index's total gains.[2]

Meanwhile, over at the blue-chip Dow Jones Industrial Average, NVIDIA has bumped Intel right off the index.[3] This represents a major changing of the chipmaking guard, and also exposes a harsh reality: cap-weighted indexes and the funds and ETFs that mirror them are effectively designed to buy high (Nvidia) and sell low (Intel).

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How does this affect Canadian investors? If they invest in indexes or in many of the largest mutual funds, the concentration risk can be downright scary. When financial advisors ask us to analyze their client's holdings, we routinely see portfolios with exposure of 30% or more to Magnificent 7 stocks. When we factor in the holdings overlap among their various equity mutual funds, it sometimes pushes their concentration to north of 50%. The irony is, it's not necessary to take these risks in order to keep up with the market.

You don’t actually need to be in tech stocks

The Magnificent 7 have been making money hand-over-fist, there’s no denying it. Generally speaking, these are very good businesses. But they are not the only very good businesses, and the NCM Global Income Growth Class portfolio is proof. Table 1 is a list of stocks from my portfolio that contributed a gain of 50% or more over the 12 months ended October 31, 2024. The impressive part is there are 17 stocks on the list, and not one of them is a tech stock.

Non-tech stock 50%+ performers

COMPANY	INDUSTRY	**12-MONTH GAIN** (to Oct 31, 2024)
Howmet	Aerospace	+130%
Recruit Holdings	Professional Services	+121%
Toll Brothers	Home Builders	+115%
Eaton Corporation	Electrical Power Equipment	+75%
Ares Management Corp	Investment Management	+72%
Motorola	Comm Equipment	+67%
Schneider Electric	Electrical Power Equipment	+70%
Blackrock	Investment Management	+66%
Southern Copper	Base Metals	+66%
Costco	Mass Retail	+63%
RBC	Banking	+62%
Carrier Global Corp	Building Equipment / HVAC	+59%
Nasdaq Inc	Financial Exchanges	+58%
Booz Allen	Consulting / Cyber Security	+57%
Philip Morris	Tobacco	+55%
Digital Realty Trust	REIT / Data Centres	+54%
Walmart	Mass Retail	+52%

My sense is that the market is in a broadening out phase. There are more big gainers coming from outside the tech space, and more opportunities to pursue long-term capital growth through established businesses with solid free cash flow and dividend growth. There is less need than ever for exposure to the hype, volatility, and YOLO valuations associated with the Mag 7.

Stock-pickers versus portfolio managers

I see myself as a portfolio manager rather than a stock-picker. I'm like the skipper of a ship, and my job is to get you to your desired destination as safely and smoothly as possible. If you ask me to navigate around Cape Horn, I'll set out between November and March when the weather is milder, the days are longer, and the water is calmer rather than in August when there's a 30% chance of gale force winds on any given day. I'll rely on maps, weather reports, and radar, but also the handed-down wisdom of seafarers.

When it comes to managing NCM Global Income Growth Class, I believe the merits of my approach can be seen in the results. I make asset allocation decisions about when to be more or less invested in equity markets, and then concentrate on selecting companies that have the best metrics relative to the market, including:

- Higher revenue growth
- Higher earnings growth
- Higher free cash flow
- Higher dividend growth

I will always favour these metrics over fads and storylines.

Thank you to the many financial advisors and their investors across Canada who invest in the fund. I will continue to skipper the ship on your behalf.

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Yours truly,

Jason Isaac, CAIA, CFA
Portfolio Manager
NCM Global Income Growth Class

NCM Asset Management Ltd.
Head Office 1850-333 7th Avenue S.W., Calgary, AB T2P 2Z1 | 310-99 Yorkville Avenue, Toronto, ON M5R 3K5
client services: (877) 531-9355 | toll-free: (877) 431-1407 | info@ncminvestments.com | ncminvestments.com

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