

MONONGAHELA CAPITAL MANAGEMENT

PERCEPTIONS

4 th Quarter, December 31, 2024	12/31/2024	% Change 4 th Quarter	% Change Year to Date
Dow Jones Industrial Average	42,544.22	0.93 %*	14.99 %*
S&P 500	5,881.63	2.41 %*	25.02 %*
Russell 2000	2,230.16	0.33 %*	11.54 %*
Bloomberg Aggregate Bond Index		-3.06 %	1.25 %
10 Year Treasury Yield	4.57 %		
30 Year Treasury Yield	4.78 %		

* Includes reinvested dividend

Houston, we have a problem!

“Change is the law of life. And those who look only
to the past or present are certain to miss the future.”

– John F. Kennedy

If there is one constant in the universe, it is change. By nature, we tend to look forward through the lens of the present. However, we must be mindful of our inherent cognitive biases in decision-making and take the necessary precautions to remain objective. One such bias highlighted in behavioral economics is the recency bias. This bias posits that when estimating the future, we tend to overemphasize more recent information or experiences.

In 1980, while attending a lecture on oil trends in the United States, an oil analyst noted the rapid influx of workers to Texas and specifically Houston. He observed if the current trends continued, there would be more people living in Houston than in the United States. Upon reflection, the analyst with humility later laughed and corrected the transcript.

It is often when trends are peaking that we make extrapolation errors, over-valuing present information when making assumptions about future events. Of course, understanding the past and present is an essential part of research, but has its limits in forecasting.

This bias is magnified with Wall Street research. Research analysts and portfolio managers know that no one loses their job if they are near consensus, hence we find little variance in financial forecast. This crowding effect leads to over concentration in sectors, which eventually correct, and the markets rebalance.

It is interesting to note the change in top ten global stocks by market capitalization over the last five decades. A video titled *Top 10 Largest Companies by Market Cap (1979-2021)* (RankingCharts, 2021)

on YouTube provides a fascinating summary of how these names have changed over time. While the video provides a roughly eight-minute timelapse, we have highlighted specific datapoints from 1980, 2000, and 2020. Additionally, we have included a more up to date list as of January 22nd, 2025, sourced from Bloomberg.

1980	2000	2020	2025
IBM	Microsoft	Saudi Aramco	Nvidia
Exxon	General Electric	Apple	Apple
AT&T	NTT Docomo	Microsoft	Microsoft
Shell Oil	Cisco	Alphabet	Amazon
General Electric	Walmart	Amazon	Alphabet
Chevron	Intel	Facebook	Saudi Aramco
Schlumberger	Nippon T&T	Alibaba	Meta
Standard Oil	Lucent Technologies	Berkshire Hathaway	Tesla
Mobil	Pfizer	Tencent Holdings	TSMC
Atlantic Richfield	Deutsche Telekom	JPMorgan Chase	Broadcom

While the table above represents the top ten global companies, each column's composition closely aligns with the sector distribution of the S&P 500.

- In November of 1980, the Energy sector, with six of the top ten companies in the world, was the largest sector, peaking at approximately 29% weighting of the S&P 500. With inherent present bias, everyone wanted into the Energy sector at its peak. The Energy sector now comprises approximately 3.2% of the S&P 500.
- In early 2000, the Technology sector, with seven of the top ten companies in the world, weighed in at 40% of the S&P 500. By 2007, the Technology sector weighting dropped to 10%.
- In mid-2007, the Financial sector was the largest weighting, peaking at 22.5% of the S&P 500. By 2011, the Financial sector declined to 10% of the S&P 500 weighting.
- As we pen our letter today, the Information Technology sector (which now includes Communication and Information Technology) carries a 40.7% weighting in the S&P 500 and represents eight of the ten largest companies in the world. The future weighting is yet to be determined.

Of the leading companies in the 1980 list, not one is in the top ten today. Only one company from the 2000 column remains in the top ten, Microsoft. When John F. Kennedy spoke to an assembly in Paulskirche, Frankfurt on June 25th, 1963, his observation was timeless, "Change is the law of life." There are always risks and opportunities in the market, and often, value appears in the unloved sectors and risk exists in the pricing of concentrated sectors. We are in the Information age, and it is extremely important we participate in the opportunities and growth of the sector, and we do. It is equally important we provide balance and diversification in your portfolio, constantly assess risk and humbly know that markets will evolve and change.