



Mister, I Don't Sell to Fish

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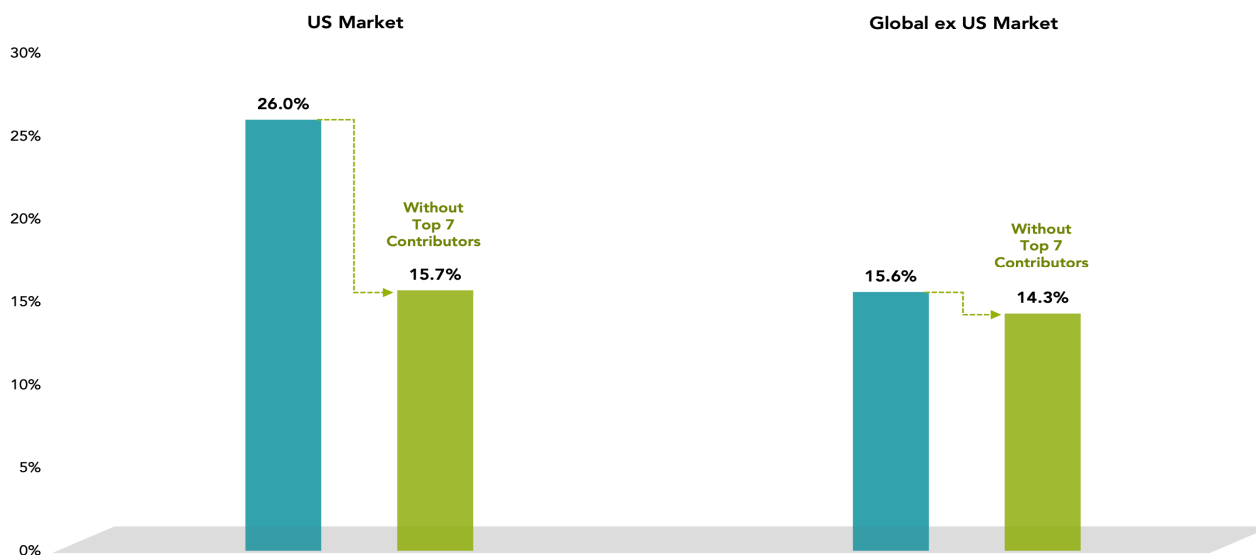
Confounding almost every stock market “expert” last year, the US stock market finished 2023 with an amazing return of 26.0%. What’s even more amazing is the fact that the market performance was driven primarily by just seven stocks—what the mainstream press is calling the Magnificent 7 (Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta).

This performance is amazing for two reasons.

First, the magnitude of the contribution is striking. Without the returns of those seven stocks, the US market performance would have been 15.7%, or a drop of 10.3 percentage points. In contrast, if we exclude the seven largest stocks in the MSCI All Country World ex USA index, that index performance would fall by only 1.3 percentage points.

Magnificent 7's Outsized Impact on US Performance

Cumulative returns, 1 year as of December 31, 2023



Past performance is no guarantee of future results.

In USD. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. US and global ex US markets represented by, respectively, the Russell 3000 Index and the MSCI All Country World ex USA Index (net div). Top seven contributors are the top return contributors specific to each index. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2024, all rights reserved. The Magnificent Seven is defined as Amazon, Tesla, Apple, Alphabet, Nvidia, Meta Platforms, and Microsoft. This information is intended for educational purposes and should not be considered a recommendation to buy or sell a particular security. Named securities may be held in accounts managed by Dimensional.

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Source: Dimensional Fund Advisors

Second, the performance of the Mag 7 the *previous* year (2022) was abysmal. This demonstrates the danger in relying on short-term trends to dictate portfolio investments and allocations (whether contrarian or otherwise).

We always expect extreme short-term trends like these to reverse at some point, we just don't know when. But what we do know is we always prefer to buy stocks at much lower relative prices and in much greater quantity (thousands of lower priced stocks rather than a small handful of very expensive ones). The table below shows returns for the core DFA value funds as proxies for large and small value stocks versus the Mag 7 and US and Internal indexes over the last two years.

Security	2022	2023	2-Year Total Return
NVIDIA	-50.3%	239.0%	68.6%
DFA US Small Cap Value (DFSVX)	-3.5%	18.9%	14.7%
Microsoft	-28.0%	58.2%	13.9%
DFA Intl. Value (DFIVX)	-3.5%	17.8%	13.7%
Apple	-26.4%	49.0%	9.7%
DFA Intl. Small Cap Value (DISVX)	-9.8%	17.6%	6.1%
Meta	-64.2%	194.1%	5.2%
DFA US Lap Cap Value (DFLVX)	-5.8%	11.5%	5.0%
S&P 500 Index	-18.1%	26.3%	3.4%
MSCI EAFE Index (gross div.)	-14.0%	18.9%	2.2%
Alphabet	-39.1%	58.3%	-3.6%
Amazon	-49.6%	80.9%	-8.9%
Tesla	-65.0%	101.7%	-29.5%

Source: Dimensional Fund Advisors

We understand the importance of the Mag 7 to the US economy and participate in their price appreciation in diversified index and asset class funds and ETFs. But we also know that investment speculators trade and promote them to investors and the mainstream press in the short-term. Long-term *investors* should remember the wise words of Warren Buffett's long-term partner, Charlie Munger (who passed away recently), before overweighing these stocks in their portfolios. Jason Zweig, a columnist for *The Wall Street Journal*, wrote¹ a tribute to Mr. Munger that included the following:

He mocked the marketing of short-term investment performance by telling a story about a man who walks into a fishing-tackle store and sees a bunch of gaudy, iridescent lures. My God, they re purple and green!" he says to the owner. Do fish really take these lures?" The store owner answers, Mister, I don t sell to fish."

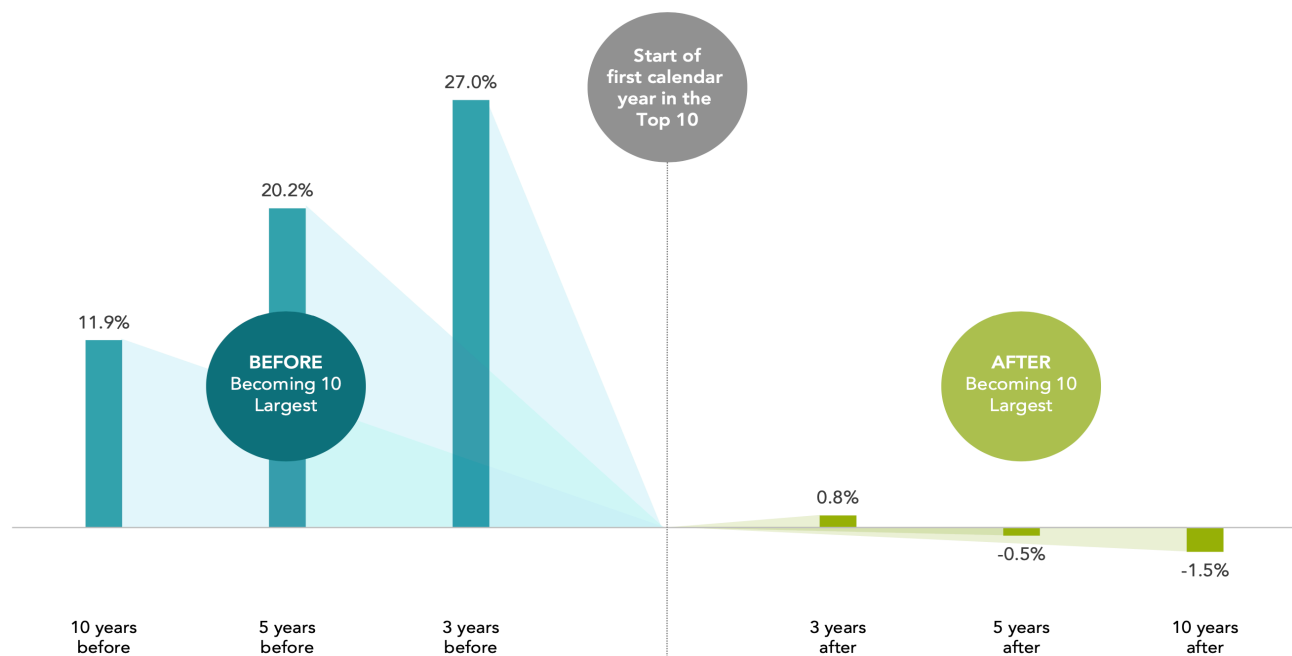
The purple and green lures today are what the financial press are calling the Magnificent 7. Using last year's surge in performance, professional financial fishermen looking to increase their personal haul cast these pretty (and pretty expensive) lures into schools of retail investors hoping enough will bite before the weather changes.

Expectations

In December, Dimensional Fund Advisors published an article titled "[Magnificent 7 Outperformance May Not Continue](#)" in which they stated:

Strong Performance Unlikely to Continue

Annualized return in excess of market for stocks after joining list of 10 largest US stocks, 1927–2022



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The Magnificent 7 stocks continue to capture the focus of investors as these large growth names have outpaced the bulk of global equities. Their outperformance is notable because eye-popping returns for top stocks tend to occur before they reach the top of the market. Once there, subsequent returns tend to lag the market.

This is a cautionary tale for investors expecting continued outperformance from the Magnificent 7. In fact, rather than seeking additional exposure to these mega cap stocks, investors should ensure their portfolios are broadly diversified to capture the returns of whatever companies ascend to the top in the future.

Only time will tell how long the Mag 7 will outperform the rest of the market, but as long-term investors we will continue to be confident that the thousands of global stocks selling at much lower relative prices will provide higher compounded rates of return over time.