



## 2nd Qtr. 2023 Investment Counsel Report

### Market Summary

The second quarter of 2023 started slow for the stock market, but finished strongly to continue the year to date gains.

The large stocks of the S&P 500 Index rose a whopping 8.7% in just the last 3 months, and stood at +16.9% YTD. While a popular benchmark, the S&P 500 is not necessarily indicative of stock prices generally - more on this below. The smaller stocks represented in the Russell 2000 Index also rose on average - a more modest 5.2% for the quarter and +8.0% for the YTD. Rounding out the equity market performance update, international stocks in the EAFE Index rose 3.2% in the quarter and stood at a respectable +12.1% mid-way through 2023.

We noted in the last update that wide gaps in performance between various sectors of the market had emerged. These gaps have expanded further in recent weeks, and appear to be an indication of a weak broad market.

### Aurora Perspective

Long term clients have read our observations about the various cycles and sub-sector differences across the broad stock market in past communications. We have noted when FAANG (Facebook, Amazon, Apple, Netflix and Google) shares have dominated a short term window with outsized impact on the S&P 500's results. As these stocks have grown, their impact on the overall average has increased, and these 5 stocks represent roughly 15% of the whole Index. Notwithstanding the fact that these companies are in fairly similar (software/technology) businesses, the notion that 5 stocks alone have such high weightings can obfuscate the dynamics for the broader market.

Such concentration and heavy weighting in just a few stocks belies a myth that familiar sounding companies and indexes connotes some element of safety. There are many examples in market history to point out where such concentrations ultimately led to heightened volatility and contributed to periods of market panic and noise. Popular opinion can find perceived comfort in "known" entities (think Nifty Fifty, Coca Cola, Apple, etc.). Safety can also be perceived in passive investment products in innocuous sounding benchmarks like the S&P 500 and Dow Jones Industrial Average.

As long time disciplined investors, Aurora has navigated through many periods where these weightings fed on themselves and created a seemingly virtuous circle. Internet stocks in the early 2000's rose to become greater than 25% of the S&P 500 Index. Financial stocks heading into 2007 appreciated to represent over 30% of the S&P 500 Index. The emotion

that supports such heady appreciation typically leads to a sudden reversal when prospects change- typically leading to harsh negative reversals that can take all stocks in all sectors suddenly lower. The hype and recent returns for Artificial Intelligence/Machine Learning stocks are current examples of transient froth.

We are of the opinion that such narrowing of attention and weightings in select industries is an indication of weakness and not supportive of continuing trends. For added context, consider the current performance backdrop of some market indices - and the concentration of technology weightings in particular.

	YTD Performance as of 6/30/2023	Technology Industry Weight	% Weight of Largest 10 Holdings	P/E Ratio	Median Size (Market Cap.)
S&P 500 Index	16.9%	28.7%	30.4%	18.8	\$30.5 Billion
Russell 1000 Index - IWB	16.1%	28.8%	27.7%	19.7	\$12.7 Billion
Russell 1000 Growth Index -IWF	29.0%	44.2%	51.6%	27.9	\$16.6 Billion
Russell 2000 Index - IWM	8.1%	16.4%	2.9%	13.2	\$1.0 Billion
Aurora Composite Holdings	10.4%	16.0%	11.3%	15.2	\$10.6 Billion

Prudent investment management dictates that diversification is a central tenet of a balanced and risk-efficient investment policy. The idea being that exposure to a wide range of opportunities and risks can lead to lower volatility in the short run. Aurora is focused on achieving long term (>5-10-20 year) growth objectives for clients, while avoiding short term volatility where possible. Our clients are not interested in “getting rich quick”, but in “building wealth consistently” over time.

### **Aurora Outlook**

Aurora's Growth At a Reasonable Price (GARP) discipline is our systematic way of assessing individual company financial attributes and handicapping the tension between risk and return. Being willing to make such judgment helps to discriminate away from dangerous overconcentration and trend following. Diversification is not a perfect tool, but it has the potential to lower volatility while maintaining more consistent market exposures over time. This focus on risk avoidance and on long term investment goals and success is what our clients have bargained for in their Investment Policy pursuits.

### **David J. Yucius, Jr., CFA**