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March / April 2024

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PERSPECTIVES

A Strong First Quarter for U.S. Stocks:

A Look at Future Long-Term Returns

The stock markets were generally strong over the course of the first quarter of 2024. Once again, “growth stocks” (stock that are “expensive” according to valuation measures such as price-to-book, price-to-earnings, and price-to sales) ratios outperformed “value stocks” – not only in the United States, but also in foreign developed markets and foreign emerging markets. The following chart sets forth various index returns over various periods of time:



INDEX	Jan.- March 2024 (Quarterly Total Return)	AVERAGE ANNUALIZED RETURNS						
		April 2023- March 2024 (1 Year)	April 2021- March 2024 (3 Years)	April 2019- March 2024 (5 Years)	April 2014- March 2024 (10 Years)	April 2004- March 2024 (20 Years)	April 1994- March 2024 (30 Years)	April 1984- March 2024 (40 Years)
S&P 500 Growth Index (U.S. large company growth stocks)	12.75%	33.73%	10.19%	15.78%	14.56%	11.15%	9.96%	N.A.
S&P 500 Index (U.S. large company stocks)	10.56%	29.88%	11.49%	15.05%	12.96%	10.15%	9.44%	11.53%
S&P 500 Value Index (U.S. large company value stocks)	8.05%	25.58%	12.17%	13.26%	10.62%	8.76%	8.45%	N.A.
Russell 2000 Growth Index (U.S. small company growth stocks)	7.58%	20.35%	-2.68%	7.38%	7.89%	8.38%	7.49%	7.55%
Russell 2000 Index (U.S. small company stocks)	5.18%	19.71%	-0.10%	8.10%	7.58%	8.05%	8.42%	9.22%
Russell 2000 Value Index (U.S. small company value stocks)	2.90%	18.75%	2.22%	8.17%	6.87%	7.47%	8.89%	10.28%
MSCI EAFE Growth Index (foreign developed markets large company growth stocks)	7.10%	13.62%	3.08%	8.17%	6.24%	6.59%	5.21%	7.84%
MSCI EAFE Index (foreign developed markets large company stocks)	5.93%	15.90%	5.31%	7.85%	5.30%	6.15%	5.60%	8.68%
MSCI EAFE Value Index (foreign developed markets large company growth stocks)	4.70%	18.17%	7.33%	7.08%	4.12%	5.55%	5.79%	9.44%
MSCI Emerging Markets Growth Index	3.40%	5.40%	-8.64%	2.48%	3.88%	6.70%	5.19%	N.A.
MSCI Emerging Markets Index	2.44%	8.59%	-4.68%	2.61%	3.33%	6.83%	5.41%	N.A.
MSCI Emerging Markets Value Index	1.41%	12.03%	-0.35%	2.64%	2.68%	6.89%	5.51%	N.A.

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS. See Disclosures, Next Page and in Appendix.

Additional Disclosures: The chart on the preceding page represents index returns and does not represent the returns of any actual investor. You cannot invest directly in an index. Index returns do not reflect deductions for mutual fund / ETF annual expense ratios, various transaction costs that may be incurred due to transactions within a mutual fund or ETF, nor custodial transaction or other fees. Index fund returns also do not reflect the fees that would be charged by Scholar Financial, LLC. For a more detailed description of each index and the sources of the data, please refer to the Appendix.

Typically, “Value Stocks” Beat “Growth Stocks” Over Most Long Periods of Time

A well-known and widely accepted “factor” is known as the “price factor” – also known as the “value risk premium” or “value factor.” I summarize this factor as follows:

Over any given 20-year period of time, a highly diversified basket of “value stocks” (as determined using some combination of low price-book, low price-earnings, low price-sales, or low price-cash flow ratios) possesses an 80% or greater probability of outperforming the total stock market in which such value stocks reside.

As indicated, there is no guarantee that value stock indexes will “beat” growth stock indexes over long periods of time. However, looking historically over the very long term, we see a significant outperformance of value stock indexes relative to a “total market” index, for U.S. stocks:

INDEX	Average Annualized Return 1927-2023	Growth of \$1 from 1/1927 through 12/2023
Fama/French Total US Market Research Index	10.14%	\$12,472
Fama/French US Large Value Research Index	11.94%	\$60,849
Fama/French U.S. Small Value Research Index	14.25%	\$447,073

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Historically, over rolling twenty-year time periods the Fama/French **US Large Value Research Index** outperformed the Fama/French **Total US Market Research Index** **90.2%** of the time. (Surveying a total of 927 twenty-year periods ending at the close of each month from December 1946 through February 2024.)

Historically, over rolling twenty-year time periods the Fama/French **US Small Value Research Index** outperformed the Fama/French **Total US Market Research Index** **94.3%** of the time. (Surveying a total of 927 twenty-year periods ending at the close of each month from December 1946 through February 2024.)

The foregoing data does not adequately reflect the year-to-year volatility of returns. In fact, using the research indexes above, we find that U.S. large company value stocks beat the U.S. total stock market index in only 57% of the past 97 calendar year periods. Meanwhile, U.S. small cap value stocks beat the U.S. total stock market index in only 59% of the past 97 calendar-year periods.

Additionally, once a factor is known, there is some academic evidence that supports the view that the strength (“robustness”) of the factor diminishes somewhat. Hence, when explaining the value factor, I set forth a probability of outperformance over 20-year time periods of only 80%, rather than the 90% or greater outperformance seen in historical 20-year rolling time periods since 1927.



In April 2024, I was honored to receive the 2024 Western Kentucky University “Excellence in Teaching” Award. It appears to be only the second time in the university’s history that a professor in the business college received this award. There are over 700 full-time faculty at Western Kentucky University, and only one full-time faculty member receives the award each year.

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However, U.S. Growth Stocks Have Outperformed U.S. Value Stocks Over the Past 30 Years

In a significant reversal of the historic trends, for the 20-year rolling time periods ending from April 2015 through February 2024, the **Fama/French Total US Research Index** has outperformed the **Fama/French US Large Value Research Index 64%** of the time. The significant underperformance of both large company value stocks, and small company value stocks, over the past 30 years (relative to U.S. large company stocks, as represented by the S&P 500 Index) has brought into question the academic research that previously concluded that the “value risk premium” (also called the “value factor” or “price factor”) is particularly robust and persistent.

Looking more closely at average annualized returns over the past 30 years, we see that U.S. large cap growth stocks outperformed both U.S. large cap value and U.S. small cap value stocks, according to indexes from Standard and Poors. In international markets, value stocks outperformed over the same 30-year time period, but not by a very wide margin.

Average Annualized Returns for April 1994-March 2024 (30 Years)	
S&P 500 Growth Index (U.S. large company growth stocks)	9.96%
S&P 500 Index (U.S. large company stocks)	9.44%
S&P 500 Value Index (U.S. large company value stocks)	8.45%
Russell 2000 Growth Index (U.S. small company growth stocks)	7.49%
Russell 2000 Index (U.S. small company stocks)	8.42%
Russell 2000 Value Index (U.S. small company value stocks)	8.89%
MSCI EAFE Growth Index (foreign developed markets large company growth stocks)	5.21%
MSCI EAFE Index (foreign developed markets large company stocks)	5.60%
MSCI EAFE Value Index (foreign developed markets large company value stocks)	5.79%
MSCI Emerging Markets Growth Index	5.19%
MSCI Emerging Markets Index	5.41%
MSCI Emerging Markets Value Index	5.51%

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Growth Stocks and “The Magnificent 7”

Over the past year or more, the outperformance of growth stocks has been driven by what are termed “The Magnificent 7” stocks – Amazon, Apple, Alphabet (Google), Meta (Facebook), Microsoft, Nvidia and Tesla.

The dominance of the "Magnificent 7" stocks is sparking debate among investors. Some believe it's a sign of a winner-takes-all market, where a few companies capture such a large share that competition struggles to gain a foothold. In these user-driven industries, a strong market share can act like a moat, protecting a company's profitability. However, this dominance isn't a guarantee of future success.

Over a decade ago a different moniker was given to the mega cap growth stocks that outperformed – “FANG” – representing Facebook, Amazon, Netflix, and Google. In 2017, “FANG” became “FAANG” with the addition of Apple stock to the list. Some pointed to the addition of Microsoft as creating the “FANGAM.” Meta (Facebook) was added, and Netflix fell out of favor, thereby leading to the “Magnificent 7” moniker bestowed today.

As seen with the dropping of Netflix from the somewhat arbitrary list of mega cap tech stocks, the tech graveyard is filled with cautionary tales. Once-dominant companies like Sears (a former Top 10 stock), AOL (synonymous with early internet access), and Qualcomm (some would say the hottest stock of the early 2000s) all fell victim to the relentless march of innovation.

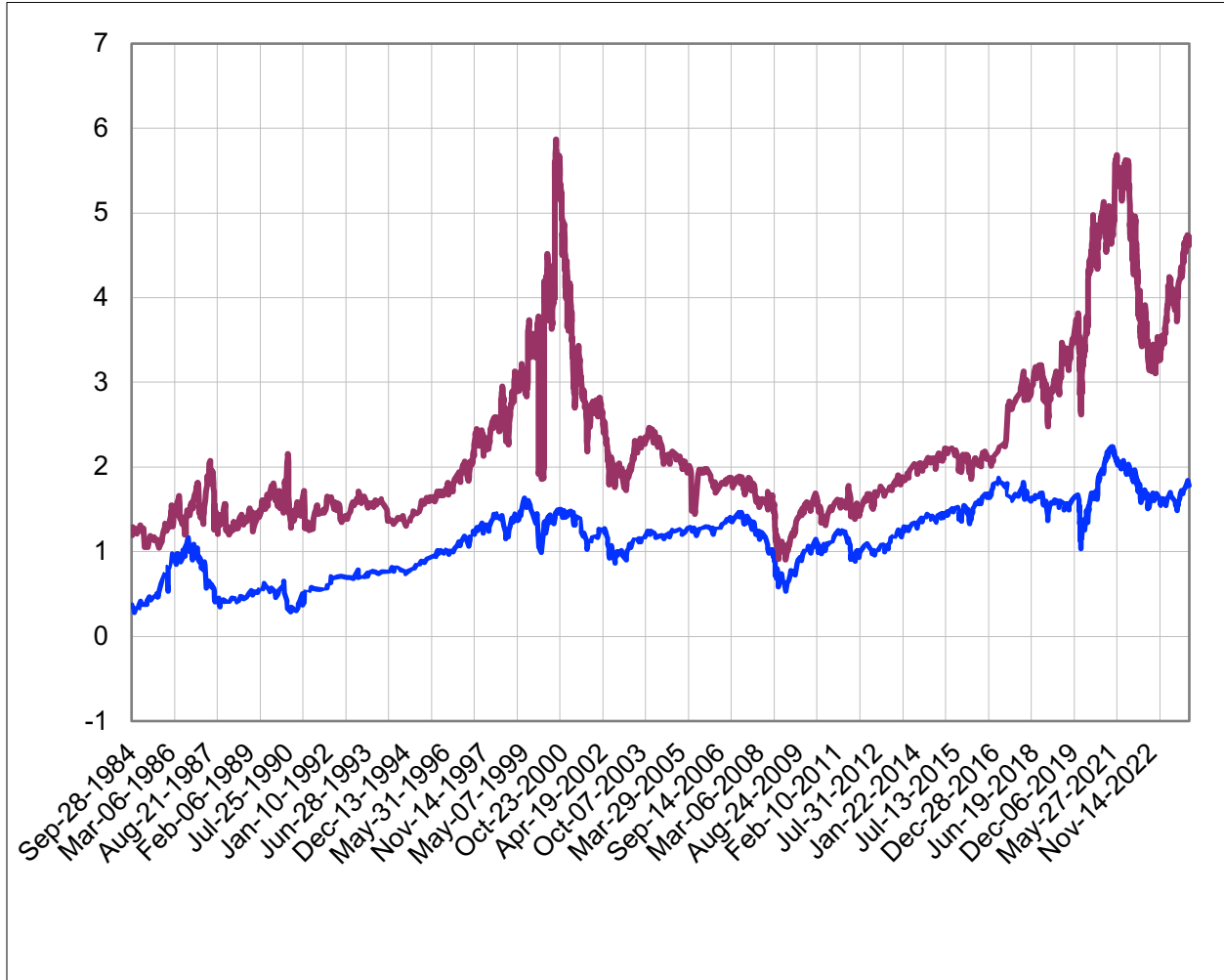
History offers a treasure trove of similar trends. The late 1990s saw the infamous "dot-com bubble," where internet stocks soared to unsustainable valuations before crashing from 2000 to 2002. This paved the way for more established tech giants like Cisco and Intel, who dominated the market in the early 2000s. Around the same time, investor focus shifted towards the "BRIC" economies (Brazil, Russia, India, and China) – emerging markets with high growth potential. However, recent years have seen dramatic falls in both the Russian and Chinese stock markets, highlighting the inherent risks in such rapid surges.

More recently, Tesla's stock has taken a nosedive in 2024. This dramatic decline has knocked it out of the prestigious "Top 10 Largest Companies in the World" club, with Eli Lilly & Co. and Broadcom Inc. stock both exceeding Tesla's current (as of April 12, 2024) market capitalization. This fall from grace raises questions from many about whether Tesla still meets the original criteria for inclusion in the elite "Magnificent 7" group.

Is this time different? Will the current “Magnificent 7” propel stock returns in future years? I’ll opine on that ... **but first**, let’s look at some data on current valuation levels of U.S. stocks, as well as data on expected future 10-year returns.

Current Valuation Levels Are VERY HIGH for U.S. Large Cap Growth and Value Stocks

The following chart shows the ratio for two stock indexes of the market cap of the index divided by the total revenues of the stocks in the index. The **blue line** represents the ratio for U.S. large cap value stocks, while the **red line** represents the ratio for U.S. large cap growth stocks. As seen, both U.S. large cap value stocks and U.S. large cap growth stocks are near their all-time high valuation levels (using market cap to total revenues). *U.S. large cap growth stocks are at particularly high levels.*



Source of data: S&P Capital IQ from SPGlobal. The U.S. large cap growth stock data represents daily data from September 28, 1994, through April 12, 2024, for the Russell 1000 Growth Index. The U.S. large cap value data represents daily data for the same period for the Russell 1000 Value Index. **PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.** Index returns do not reflect deductions for mutual fund / ETF annual expense ratios, various transaction costs that may be incurred due to transactions within a mutual fund or ETF, nor custodian transaction of other fees. Index fund returns also do not reflect the fees that would be charged by Scholar Financial, LLC. For a more detailed description of each index and the sources of the data, please refer to the Appendix.

Looking at the data more closely:

FOR THE PERIOD OF SEPTEMBER 28, 1994, THROUGH APRIL 12, 2024		
Daily Market Capitalization / Total Revenues	Russell 1000 Growth Index (U.S. Large Company Growth Stocks)	Russell 1000 Value Index (U.S. Large Company Value Stocks)
High Valuation (2/27/1981-4/12/2024)	5.87	2.25
APRIL 12, 2024 VALUATION	4.64	1.78
Arithmetic Mean for the Chart Period	2.23	1.15
Median for the Chart Period	1.89	1.19
Low Valuation (2/27/1981-4/12/2024)	0.65	0.27

Source: S&P Capital IQ / SPGlobal. The U.S. large cap growth stock data represents daily data from September 28, 1994, through April 12, 2024, for the Russell 1000 Growth Index. The U.S. large cap value data represents daily data for the same period for the Russell 1000 Value Index. **PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.** Index returns do not reflect deductions for mutual fund / ETF annual expense ratios, various transaction costs that may be incurred due to transactions within a mutual fund or ETF, nor custodian transaction of other fees. Index fund returns also do not reflect the fees that would be charged by Scholar Financial, LLC. For a more detailed description of each index and the sources of the data, please refer to the Appendix.

As seen, using the valuation metric of “Market Capitalization” to “Total Revenues,” U.S. large company growth stocks are 108% above their arithmetic mean valuation levels, while U.S. large company value stocks are 50% above their arithmetic mean valuation levels.

We can also see this in data for the Shiller Cyclically Adjusted PE Ratio (CAPE Ratio) for the S&P 500 Index, an index of large company U.S. stocks. The current level of the CAPE 10 index is 34.02, a level exceeded only in the late 1990s (“dot-com bubble”) and in late 2021/early 2022:



Source: <https://www.multpl.com/shiller-pe>, utilizing data courtesy of Robert Shiller from his book, Irrational Exuberance. **Past performance is not a guarantee of future returns.**

Current Valuation Levels for U.S. Small Cap Stocks are Somewhat High

I turn now to U.S. small company stocks. These are stocks of companies that are publicly traded on the major stock exchanges, and typically possess, individually, total outstanding common stock of between \$40 million and \$2 billion, but sometimes greater).

Daily Market Capitalization / Total Revenues	Russell 2000 Growth Index (U.S. Small Company Growth Stocks)	Russell 2000 Value Index (U.S. Small Company Value Stocks)
High Valuation (2/27/1981-4/12/2024)	6.98	1.23
APRIL 12, 2024 VALUATION	1.80	0.91
Arithmetic Mean (3/28/1990-4/21/2024)	1.36	0.71
Median ((3/28/1990-4/21/2024)	1.41	0.72
Low Valuation (2/27/1981-4/12/2024)	0.29	0.19

Source: S&P Capital IQ / SPGlobal. The U.S. large cap growth stock data represents daily data from September 28, 1994, through April 12, 2024, for the Russell 1000 Growth Index. The U.S. large cap value data represents daily data for the same period for the Russell 1000 Value Index. **PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.** Index returns do not reflect deductions for mutual fund / ETF annual expense ratios, various transaction costs that may be incurred due to transactions within a mutual fund or ETF, nor custodian transaction of other fees. Index fund returns also do not reflect the fees that would be charged by Scholar Financial, LLC. For a more detailed description of each index and the sources of the data, please refer to the Appendix.

As seen, using the valuation metric of “Market Capitalization” to “Total Revenues,” U.S. small company growth stocks are **32%** above their arithmetic mean valuation levels, while U.S. small company value stocks are **28%** above their arithmetic mean valuation levels.

Caution: Valuations – Even of Indices – Is Not All That Precise

I would caution that the foregoing data should not be viewed as “precise.” While valuations do matter, in terms of expected returns over very long periods of time (10, 15 or more years), our ability to accurately compute valuation levels is hindered by the continued evolution of business. Valuation metrics discerned from the types of businesses that dominated U.S. industries four decades ago can be quite different from the valuation metrics seen today.

In addition, there are many, many different types of valuation metrics. I’ve only shown one (market cap / total revenues, for indexes) in the data above. And different indexes, even in the same or similar asset classes, can yield significantly different results. Also, the “small cap value” and similar funds used for my clients usually possess significantly greater tilts toward both “small cap” and “value,” and they incorporate other “factors” as well (especially the “profitability factor”) which can skew the valuation data further.

A View of Future Expected Returns – from Research Affiliates

As I've written before, I find the data on expected (future) 10-year returns from the investment firm [Research Affiliates](#) to be compiled utilizing a process that avoids many of the behavioral biases that can creep into qualitative judgments on valuation levels and expected returns.

Below is a chart setting forth data from Research Affiliates, as of March 31, 2024, and show the change in the mean projection from data as of December 31, 2023.

ASSET CLASS	As of March 31, 2024 , Expected 10-Year Nominal Average Annualized Returns Per Research Affiliates' <i>Asset Allocation Interactive Calculations</i>		
	5% probability of returns less than:	Mean Projection of Expected Returns:	5% probability of returns greater than:
U.S. large company growth stocks	-3.9%	2.5% (-0.3%) <i>(-0.3% change from Research Affiliates' 12/31/23 data)</i>	8.9%
U.S. large company stocks	-2.3%	3.4% (-0.6%)	9.0%
U.S. large company value stocks	0.2%	5.9% (-0.4%)	11.6%
U.S. small company growth stocks	-3.3%	5.0% (+0.3%)	13.3%
U.S. small company stocks	-0.3%	7.2% (no change)	14.6%
U.S. small company value stocks	1.5%	8.6% (+0.2%)	15.7%
Developed markets (ex-U.S.) stocks	2.8%	8.9% (-0.1%)	15.0%
Developed markets (ex-U.S.) value stocks	4.7%	11.2% (+0.4%)	17.6%
Developed markets (ex-U.S.) small company stocks	3.9%	10.5% (+0.3%)	17.1%
Developed markets (ex-U.S.) small company value stocks	6.1%	12.5% (+0.7%)	18.9%
Emerging markets stocks	2.2%	9.7% (-0.2%)	17.2%

EXPECTED 10-YEAR ASSET CLASS RETURNS ARE NOT A GUARANTEE OF FUTURE RESULTS. Future returns for various asset classes will, no doubt, be different. Expected future returns do not include certain fees and costs, such as custodian's transaction and other fees, nor fees that would be charged by Scholar Financial, LLC. For a more detailed description of each index and the sources of the data, please refer to the Appendix.

As shown in the prior chart, Research Affiliates projects *relatively low returns* over the next 10 years for both U.S. large company growth stocks and U.S. small company growth stocks, and for U.S. large company and U.S. large cap value stocks as well.

Research Affiliates projects generally higher returns for foreign developed markets stocks and emerging markets stocks. Also, U.S. small company value stocks possess a high probability of performing well, over the next 10 years, *relative to* other U.S. stock asset classes.

Yet, while U.S. small company value stocks seem poised to outperform, will the “Magnificent 7” stocks continue to propel growth stocks to the forefront over the next decade (or longer)?

One View that the Magnificent 7 Are Valued, More or Less, Appropriately

In an early 2024 presentation entitled “The Seven Samurai: The Stocks That Saved The Market,” Professor Aswath Damodaran noted the impact of 2023 calendar-year returns by the “Magnificent 7” stocks. With their inclusion, the U.S. stock market returned 23.25% in 2023. Without their inclusion, the U.S. stock market would have returned only 12.60% in 2023. Professor Damodaran also noted the impact of these Magnificent 7 stocks from 2012-2023, demonstrating that \$100 invested in U.S. stocks would have only risen to \$282 over the period without the Magnificent 7 stocks included, but would have risen to \$343 with those stocks included.

Professor Damodaran also noted the 2023 gross margin of these seven companies, excluding Tesla, ranged from 45.03% (Apple) to 80.72% (Meta) in 2023, far exceeding the S&P 500 Index gross margin of 21.55%. (Tesla had a gross margin of 18.25%). He also observed that investments in research and development by these companies were significant, with Alphabet, Amazon, Microsoft, Meta, and Nvidia all spending more than 10% of their gross revenues on research and development. Also, collectively these seven companies had cash holdings that exceeded their total debt.

Professor Damodaran concluded that Microsoft and Nvidia appeared to be overvalued, which is likely due to the recent hype about artificial intelligence (AI) and the roles those companies are currently playing in this area. In contrast, Tesla and Meta (Facebook) – the two companies with the most uncertain future prospects (in my view) but also (perhaps) the greatest potential for growth – appeared “close to fairly valued” at the end of 2023 according to Professor Damodaran. He went on to state that Alphabet (Google), Apple, and Amazon appeared “within shouting distance” of fair valuation levels.

In summary, despite the high valuations of these companies, Professor Aswath Damodaran (often called the “Dean of Valuation” in academic and industry circles) stated: “The Mag Seven stocks have had a great run, but their pricing now reflects, in my view, the fact that they are special companies, with business models that deliver growth, at scale, with profitability.”

What About “This Time It’s Different”?

This time could be different. The “Magnificent 7” (or mega cap tech companies, in general) may well represent an evolution in the way business operates, and what companies are most profitable. Yet, every time I hear an investment industry participant state “This time it’s different,” I shudder.

In the first quarter of 2024, the Magnificent 7 stocks were responsible for 37% of the S&P 500 Index’s 10.2% first-quarter gain, according to data from Howard Silverblatt of S&P Global Indices. This is despite the fall in prices of the stock of Apple and Tesla during this period. During the first quarter of 2024, non-tech sectors such as industrials, financials and energy stocks contributed significantly to the rise of the index.

Keep in mind that the U.S. stock market, on a very long-term basis (i.e., over the last 100 years or so), has average annualized returns of about 10% a year. Hence, a rise of more than 10% in just three months is very significant.

While U.S. mid-cap stocks performed near the level of U.S. large cap stocks, U.S. small-cap stocks rose only 4.8% during the first quarter (per the Russell 2000 Index).

But it is likely not different this time. In a study of stocks that grew and joined the Top 10 U.S. largest stocks from 1927 to 2022, researchers from Dimensional Funds found that after the stocks joined the “Top 10 List” the stocks, on average, underperformed the overall market by 1.5% (average annualized returns) over the following 10-year period.

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS. Data from CRSP and Compustat. Companies were sorted every January by beginning-of-month market capitalization to identify first-time entrants into the top 10. The market is defined as the Fama/French Total US Market Research Index. The Fama/French indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Returns do not reflect additional fees and costs that may be incurred, including the fees charged by Scholar Financial, LLC.

The fact is that few companies who achieve tremendous success stay on top for very long periods of time. Even the biggest companies possess uncertain futures.

For example, today Tesla is facing huge competition from many other automakers – as well as from innovations in battery technology. Nvidia has a lead in making the chips for AI, but other chip manufacturers are rushing to catch up. Apple just killed off its self-driving car project, and its foray into virtual (or mixed) reality with its Apple Vision Pro is starting off quite slow. New ecommerce platforms are beginning to challenge Amazon. Several of the large companies now face anti-trust investigations and filings, both in the U.S. and in Europe.

If we go back and look at the ten largest publicly traded U.S. companies by decade, we see the ebb and flow of companies into and out of the list:

Largest U.S. Companies by Market Cap (at the Start of Each Decade, 1960 to 2020)							
RANK	1960	1970	1980	1990	2000	2010	2020
1	AT&T	IBM	IBM	Exxon	Microsoft	Exxon Mobil	Apple
2	General Motors	AT&T	AT&T	General Electric	General Electric	Microsoft	Microsoft
3	Dupont	General Motors	Exxon	IBM	Cisco	Walmart	Alphabet
4	Exxon	Eastman Kodak	General Motors	AT&T	Walmart	Apple	Amazon
5	General Electric	Exxon	Amoco	Philip Morris	Exxon Mobil	Johnson & Johnson	Tesla
6	IBM	Sears Roebuck	Mobil	Merck	Intel	Proctor & Gamble	Berkshire Hathaway
7	Texaco	Texaco	General Electric	Bristol-Myers	Lucent	IBM	UnitedHealth Group
8	Union Carbide	Xerox	Chevron	Dupont	IBM	JP Morgan Chase	Johnson & Johnson
9	Eastman Kodak	General Electric	Atlantic Richfield	Amoco	Citigroup	AT&T	NVIDIA
10	Sears Roebuck	Gulf Oil	Shell Oil	BellSouth	AOL	General Electric	Meta

Source of listing: @CharlieBeillello.

Looking at the list of companies from 1960 through 1990, *what happened to each of them?*

Atlantic Richfield	Merged with Atlantic Petroleum in 1966, then merged into BP Amoco (now BP)
Amoco	Merged into BP Amoco (now BP)
AT&T	Broken up into "Regional Bell Operating Companies"; one of them (SBC) purchased its parent in 2005
BellSouth	One of the "Baby Bells" from AT&T; acquired by SBC in 2006, which purchased AT&T
Bristol-Myers	Now Bristol Myers Squibb
Chevron	Now second largest oil company in U.S. (behind ExxonMobil)
Gulf Oil	Merged with Standard Oil of California in 1985 to become Chevron
Texaco	Merged into Chevron
Dupont	Merged with Dow Chemical Corporation
Union Carbide	Now a subsidiary of Dow
Eastman Kodak	Filed bankruptcy in 2012, continues to provide motion picture film and certain other products
Exxon	Largest U.S. oil company today
Mobil	Merged into ExxonMobil in 1990
General Electric	Has broken up into 3 companies – GE Aerospace, GE HealthCare, and GE Vernova
General Motors	Filed bankruptcy in 2009; shareholders received nothing; assets moved to new company called General Motors
IBM	Continues operations
Philip Morris	Sold to Altria Group, then spun off as Philip Morris International
Sears Roebuck	Filed bankruptcy in 2022; 11 Sears stores remain
Shell Oil	Second largest oil company in the world; now headquartered in United Kingdom
Xerox	Continues operations

As seen, many of the companies are still in operation, via mergers. None of the companies above are in this list of the largest U.S. corporations today:

Exxon and Mobil, combined by merger, currently ranks #14 with market cap of \$476 billion (in contrast, Microsoft has a current market cap of \$3.1 trillion, and Apple has current market cap of \$2.7 trillion)

Chevron, Gulf Oil, and Texaco, combined by merger, currently ranks #23, with a market cap of \$293 billion

Shell Oil has a current market cap of \$229 billion

(The foregoing oil companies have a combined market cap of approx. \$1 trillion)

Johnson & Johnson ranks #18 with a market cap of \$365 billion

General Electric currently ranks #44, with a market cap of \$169 billion

IBM currently ranks #46, with a market cap of \$167 billion

Philip Morris currently ranks #59, with a current market cap of \$138 billion

Bristol-Myers Squibb currently ranks #89, with a current market cap of \$98 billion

Dow, into which Dupont and Union Carbide merged, has a current market cap of \$40 billion

Xerox has a market cap of \$2 billion

Eastman Kodak has a market cap of only \$377 million

Sears Roebuck has a market cap of only \$10 million

General Motors' market cap went to zero. The current General Motors is a different company.

(Excluding the oil companies above, the remaining companies possess a combined market cap of close to \$1 trillion)

While it is difficult to track the sum one would have today, due to so many corporate mergers and spinoffs, it should be noted that the combined current market cap of ALL TWENTY of the companies listed above does not exceed the current market cap of either Microsoft, Apple, NVIDIA, or Alphabet (Google).

What Will the Future Bring?

The business world is a constant dance of adaptation. New technologies erupt, consumer demands shift on a dime, and regulations rewrite the game. Companies that cling to old ways risk being waltzed over by more nimble competitors. Entire industries can be upended - think of the once-mighty typewriter bowing to the digital age. Even the ubiquitous iPhone will likely be eclipsed by future innovations.

The dominance of traditional energy giants is also under threat. As renewable energy solutions blossom from a multitude of companies, the fossil fuel business model faces an existential challenge.

Technology companies with advantages through recently granted patents on their technology, though valuable shields, offer limited protection in the United States (where patents typically last either 15 or 20 years). They can't forever shield companies from the winds of change.

Profits attract unwanted attention. Today's high-flying corporations will face a swarm of competitors lured by their riches. This competition can squeeze profit margins and shrink market share.

Investors, too, play a role in shaping the future. Their overzealous optimism can paint an unrealistic picture of a company's growth. Growth narratives are seductive, but they shouldn't obscure the hard realities: financial limitations and the uphill battle to achieve ambitious goals. FOMO (Fear Of Missing Out) can further cloud judgment, leading to impulsive investments without proper due diligence.

In Conclusion

The last five months have seen growth stocks lead the way. While some might opine that investing has changed, with the rise of mega-corporations, and that "this time it's different," such words are dangerous, in my view. Regardless of the evolution of business strategies, fundamentals continue to matter. Valuations continue to matter, at least in the long run.

Due to the present relative valuations between growth stocks and value stocks, a **multi-factor approach**, employing the size factor (small-cap risk premium), price factor (value risk premium), profitability factor (or its cousin, the quality factor, which is defined in different ways), and aided possibly by other factors, possesses a very strong probability of outperforming broad market funds over the next 10 to 20 years. As discussed in prior editions of this newsletter, the employment of multiple factors (selected for their academic support) when designing overall investment strategies will tend to smooth out performance when any one factor disappoints.

There are very, very few investment strategies that are strongly supported by the academic evidence. While there are many hundreds of "factors" – less than a dozen have received

widespread academic support for being robust, relatively persistent, and investable. The price factor (also known as the value factor) may be out of favor temporarily, but this may well be to a “bubble” in growth stock valuations. Bubbles, however, are difficult to identify with certainty, and are almost always remarked upon with 20/20 hindsight.

In conclusion, a disciplined approach, employing strategic asset allocation, periodic rebalancing, an attention to valuation levels, and other attributes of evidence-based investing, should pay off handsomely in the long run, given the overvaluation of growth stocks currently.

All my best,

Ron

Dr. Ron A. Rhoades serves as Associate Professor of Finance and Director of the Personal Financial Planning Program within the Gordon Ford College of Business at Western Kentucky University. He teaches and has taught courses in *Retirement Planning, Applied Investments, Advanced Investments, Estate Planning, Financial Plan Development, Personal Finance, Money & Banking, Legal and Regulatory Aspects of Personal Financial Planning, Risk Management and Insurance, and Principles of Finance.*

Ron is the 2024 Award Recipient of “Teacher of the Year” among the 700 full-time professors at Western Kentucky University.

Dr. Rhoades is regarded as a national expert in the application of fiduciary duties to the delivery of investment and financial planning advice. He received the *Tamar Frankel Fiduciary Prize* in 2020 from *The Institute for the Fiduciary Standard*, and he received the *Fiduciary of the Year* award in 2011 from *The Committee for the Fiduciary Standard*. Ron has frequently visited policy makers in Washington, DC, and he has authored numerous comment letters and provided testimony on the fiduciary standard of conduct.

Dr. Rhoades has served on many industry committees and task forces. He currently serves on the *Ethics Standards Resource Commission* of the Certified Financial Planner Board of Standards, Inc., and he chairs its *Practice Standards Subcommittee*.

Ron has published several books and numerous articles, and he is frequently quoted in the media. Ron’s forthcoming book, *Mastering the Science and Art of Investing: Strategies for Maximizing Returns with Multi-Factor Portfolios*, is anticipated to be published in 2024.

ADDITIONAL DISCLOSURES ON ALL INDEX RETURNS DATA:

Past performance is not a guarantee of future performance. Data represents the returns of various indexes, Dimensional Funds Advisors mutual funds and ETFs, in each broad asset class. Within each asset class are varying degrees of exposures to the profitability, value, size, investment, and momentum factors. **You cannot invest directly in an index, and index returns do not reflect mutual fund / ETF fees (annual expense ratio), nor do they reflect internal transaction and opportunity costs within the fund relating to transactions of securities within the fund and/or the presence of cash holdings.**

Data provided through DFA Returns Web program and is believed to be accurate but cannot be guaranteed.

Fund, ETF, and index returns do not reflect any deduction for the fees that are charged or would have been charged by Scholar Financial, LLC, nor any transaction costs which may be incurred with a custodian (i.e., Charles Schwab, etc.). Fund, ETF and index fund returns are also presented pre-tax (i.e., no adjustment is made for the impact of federal, state or local income taxes that might be incurred by the owner (taxpayer), nor for tax credits that may be available when foreign securities are held by a mutual fund or ETF).

The indexes set forth in the tables above are not necessarily recommended by Scholar Financial, LLC, and their historical returns are presented solely for educational purposes. Be aware that other mutual funds (such as Dimensional Fund Advisors' "core equity" and "targeted value" funds and ETFs, which possess exposures to multiple "factors" with on average lower portfolio turnover levels and lower annual expense ratios) are often recommended by Scholar Financial, LLC to its clients; such funds and ETFs possess exposures to multiple asset classes.

ADDITIONAL DISCLOSURES ON EXPECTED RETURNS DATA

These are estimates, or projections, only, and are NOT a guarantee of any future returns. There is a distinct possibility that the returns of one or more of the asset classes may be significantly lower, or significantly higher, than the range of estimates provided for that asset class, as set forth above. **Past performance is not a guarantee of future returns.**

Stock returns can be affected by many factors, including but not limited to changes in valuation levels with ending results significantly above or below the historical average levels, changes in tax policies, changes in interest rates, changes in the rate of inflation, changing investor perceptions and appetites for risk, and many different macroeconomic factors. All the returns shown are gross nominal expected returns, prior to any deduction for mutual fund / ETF or other fees, expenses, transaction and opportunity costs within a fund, and the fees of any separate (from the fund) investment adviser, such as the fees that would be charged by Scholar Financial, LLC. Nominal returns do not reflect the impact of inflation rates. Nominal returns also do not reflect the impact of taxes which may occur, depending upon the type of account in which the investments are held, along with other factors. **You cannot invest directly into an asset class or index;** investments must be made by purchasing securities (individual securities, mutual funds, ETFs, etc.), which incur costs.

Source of Data: Research Affiliates, Asset Allocation Interactive (as of Dec. 31, 2023, and March 31, 2024). Please note that the outcomes stated are hypothetical in nature, and that neither Research Affiliates nor its Asset Allocation Interactive tool, in presenting this data, is recommending any specific securities (stocks, bonds, funds, etc.). For more disclosures, please refer to Research Affiliates' [methodology](#) and [legal](#) web pages. You acknowledge your access to and understanding of these disclosures and disclaimers with respect to the Research Affiliates activities, including with respect to the document, information or that linked to these disclosures and disclaimers.

APPENDIX: SOURCES OF DATA (INDEXES)

Fama/French US Small Value Research Index 7/1926 - 2/2024

Composition: The index portfolios for July of year t to June t+1 include all NYSE, AMEX, and NASDAQ stocks for which we have market equity for December t-1 and June of t, and (positive) book-to-market equity data for fiscal year ending in t-1. Exclusions: ADRs, Investment Companies, Tracking Stocks, non-US incorporated companies, Closed-end funds, Certificates, Shares of Beneficial Interests, and negative book values. Sources: CRSP databases for returns and market capitalization: 1926 - present. Compustat and hand-collected book values: 1926 - present. CRSP links to Compustat and hand-collected links: 1926 - present. Breakpoints: "The size breakpoint is the market capitalization of the median NYSE firm, so the big and small categories contain the same number of eligible NYSE firms. The BtM breakpoints split the eligible NYSE firms with positive book equity into three categories: 30% of the eligible NYSE firms with positive BE are in Low (Growth), 40% are in Medium (Neutral), and 30% are in High (Value)." Rebalancing: Annual (at the end of June) 1926-Present Fama/French and multifactor data provided by Fama/French.

Fama/French US Large Value Research Index 7/1926 - 2/2024

Composition: The index portfolios for July of year t to June t+1 include all NYSE, AMEX, and NASDAQ stocks for which we have market equity for December t-1 and June of t, and (positive) book-to-market equity data for fiscal year ending in t-1. Exclusions: ADRs, Investment Companies, Tracking Stocks, non-US incorporated companies, Closed-end funds, Certificates, Shares of Beneficial Interests, and negative book values. Sources: CRSP databases for returns and market capitalization: 1926 - present. Compustat and hand-collected book values: 1926 - present. CRSP links to Compustat and hand-collected links: 1926 - present. Breakpoints: "The size breakpoint is the market capitalization of the median NYSE firm, so the big and small categories contain the same number of eligible NYSE firms. The BtM breakpoints split the eligible NYSE firms with positive book equity into three categories: 30% of the eligible NYSE firms with positive BE are in Low (Growth), 40% are in Medium (Neutral), and 30% are in High (Value)." Rebalancing: Annual (at the end of June) 1926-Present Fama/French and multifactor data provided by Fama/French.

Fama/French Total US Market Research Index 7/1926 - 2/2024

July 1927 - Present: Fama/French Total US Market Research Factor + One-Month US Treasury Bills Source: Ken French Website Fama/French and multifactor data provided by Fama/French.

Russell 2000 Index 1/1979 - 3/2024

Source: Russell, total returns in USD\$. Jan 1979 - Present: Russell 2000 Index. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

Russell 2000 Value Index 1/1979 - 3/2024

Jan 1979 - Present: Russell 2000 Value Index. Total Returns in USD. Source: Russell. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

Russell 2000 Growth Index 1/1979 - 3/2024

Source: Russell, total returns in USD\$. Jan 1979 - Present: Russell 2000 Growth Index. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

S&P 500 Index 1/1926 - 3/2024

January 1990 - Present: S&P 500 Index. Total Returns in USD. Source: Standard & Poors Index Services Group.
January 1926 - December 1989: S&P 500 Index. Source: Ibbotson data courtesy of "Stocks, Bonds, Bills, and Inflation Yearbook" © Ibbotson Associates, Chicago (annually updated works by Roger C. Ibbotson and Rex A. Sinquefeld). Copyright 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

S&P 500 Value Index 2/1994 - 3/2024

February 1994 - Present: S&P 500 Value Index. Total Returns in USD. Source: S&P. Copyright 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

S&P 500 Growth Index 2/1994 - 3/2024

February 1994 - Present: S&P 500 Growth Index. Total Returns in USD. Source: S&P. Copyright 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

MSCI EAFE Index (gross div.) 1/1970 - 3/2024

January 1970 - Present: MSCI EAFE Index (gross div.). Total Returns Gross Dividends in USD. Source: MSCI. MSCI data –© MSCI 2024, all rights reserved. MSCI Emerging Markets Value Index (gross div.) 1/1997 - 3/2024 "January 1997 - Present: MSCI Emerging Markets Value Index (gross div.). Total Returns Gross Dividends in USD. Source: MSCI. MSCI data –© MSCI 2024, all rights reserved."

MSCI Emerging Markets Index (gross div.) 1/1988 - 3/2024

January 1988 - Present: MSCI Emerging Markets Index (gross div.). Total Returns Gross Dividends in USD. Source: MSCI. MSCI data –© MSCI 2024, all rights reserved. MSCI Emerging Markets Growth Index (gross div.) 1/1997 - 3/2024 "January 1997 - Present: MSCI Emerging Markets Growth Index (gross div.). Total Returns Gross Dividends in USD. Source: MSCI. MSCI data –© MSCI 2024, all rights reserved."

MSCI EAFE Value Index (gross div.) 1/1975 - 3/2024

January 1975 - Present: MSCI EAFE Value Index (Gross Div.). Total Returns Gross Dividends in USD. Source: MSCI. MSCI data –© MSCI 2024, all rights reserved.

MSCI EAFE Growth Index (gross div.) 1/1975 - 3/2024

January 1975 - Present: MSCI EAFE Growth Index (Gross Div.). Total Returns Gross Dividends in USD. Source: MSCI. MSCI data –© MSCI 2024, all rights reserved.