

# Unintended Consequences of Index Investing

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WAYCROSS PARTNERS

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# What is an Index Fund?

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- Index Replication -Portfolio designed to mirror a market index
- Market-Weighted Allocations -Larger companies get larger allocations
- Earnings-Based Holdings? -No
- Sell After Poor Earnings? - No
- Sell After Fraud or Weak Outlook? -No

# Index Fund Examples

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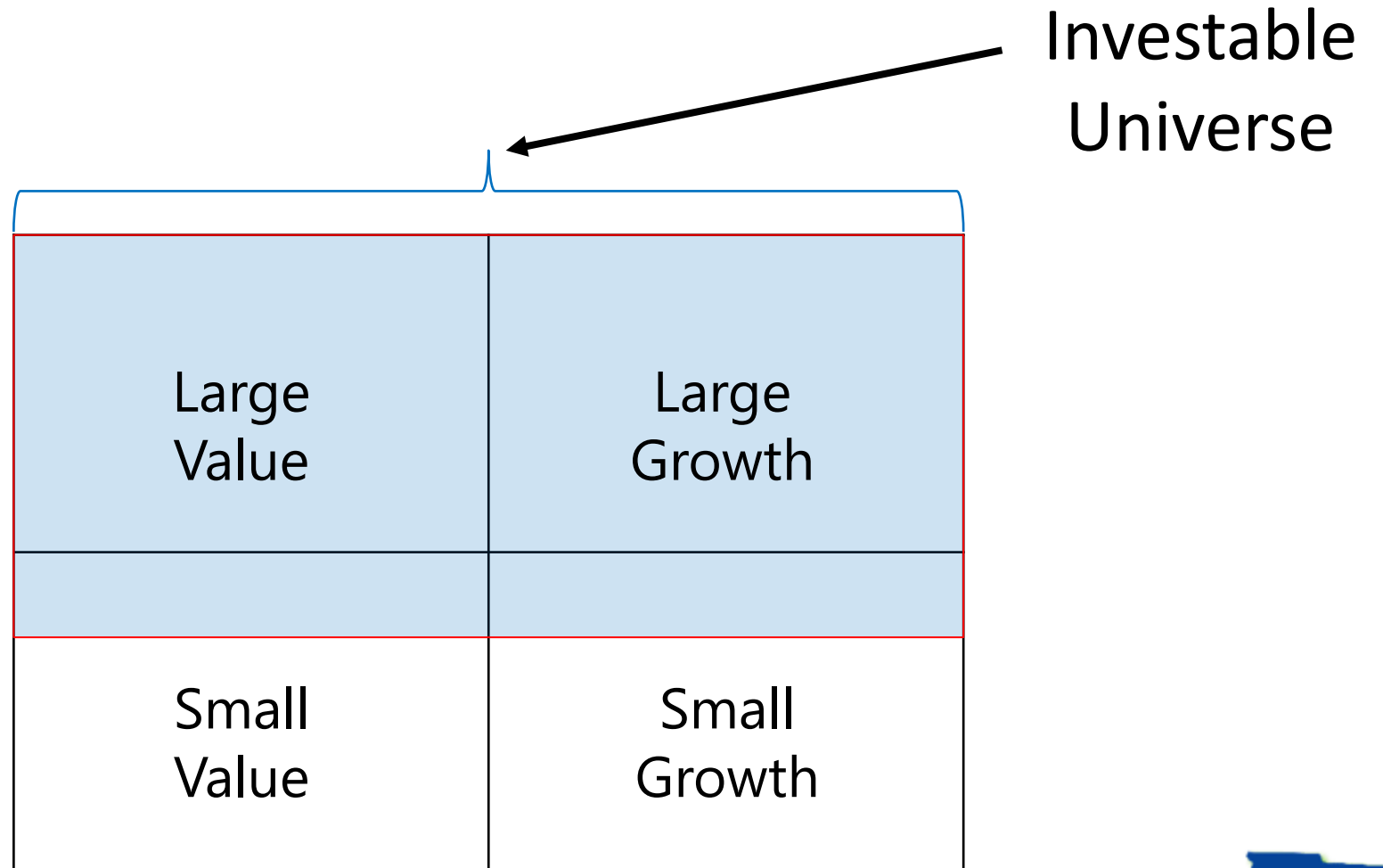
- S&P 500<sup>®</sup> Index
- Russell 1000<sup>®</sup> Growth Index
- Bloomberg<sup>®</sup> U.S. Aggregate Bond Index
- MSCI EAFE<sup>®</sup> Index

## Index Fund Distribution Examples

- Vanguard<sup>®</sup>
- Fidelity<sup>®</sup>
- State Street<sup>®</sup>
- Rhumblin<sup>®</sup>

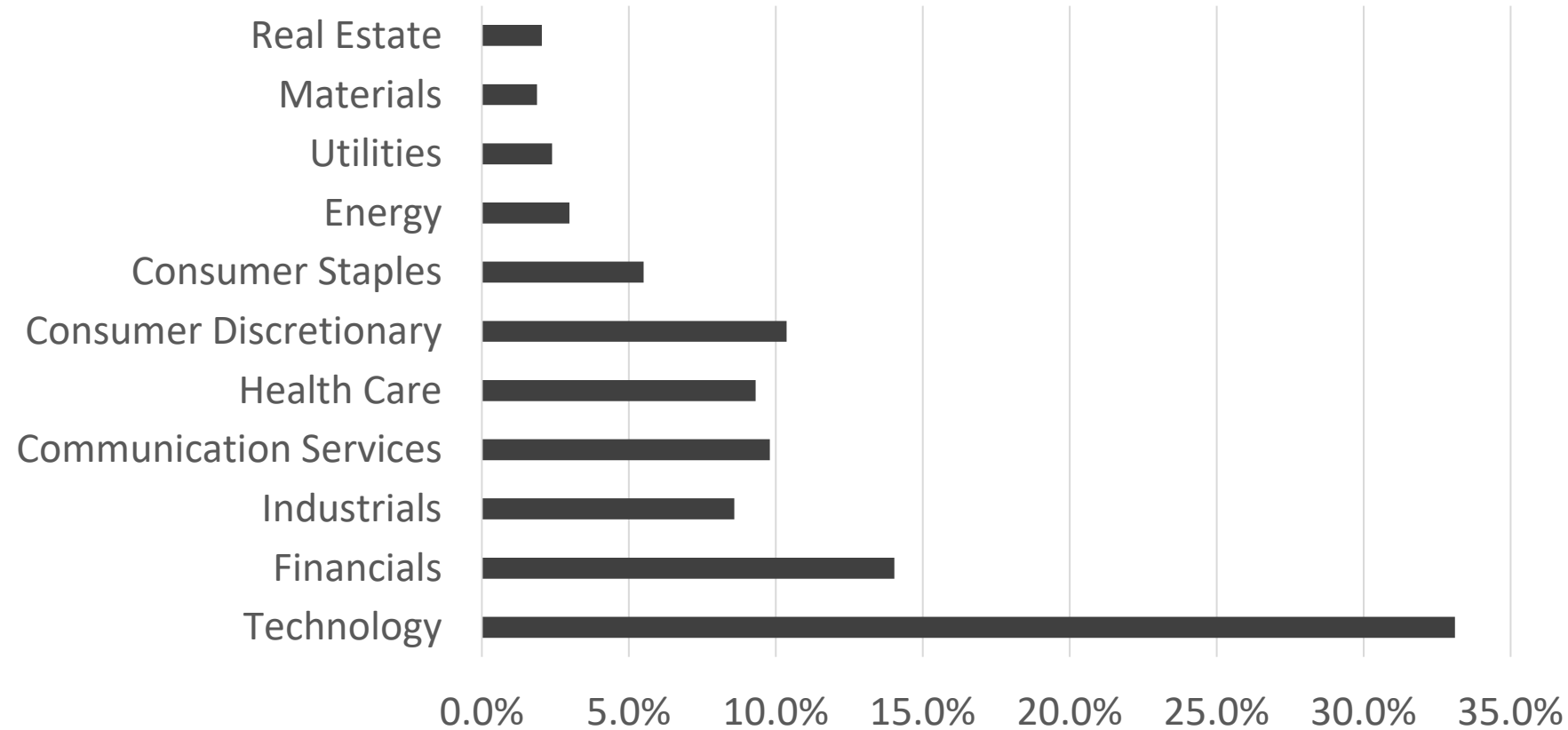
# What is the S&P 500<sup>®</sup> Index?

- Exposure to Growth & Value Stocks
- Intended to Represent the Broad Market



# Sector Diversification?

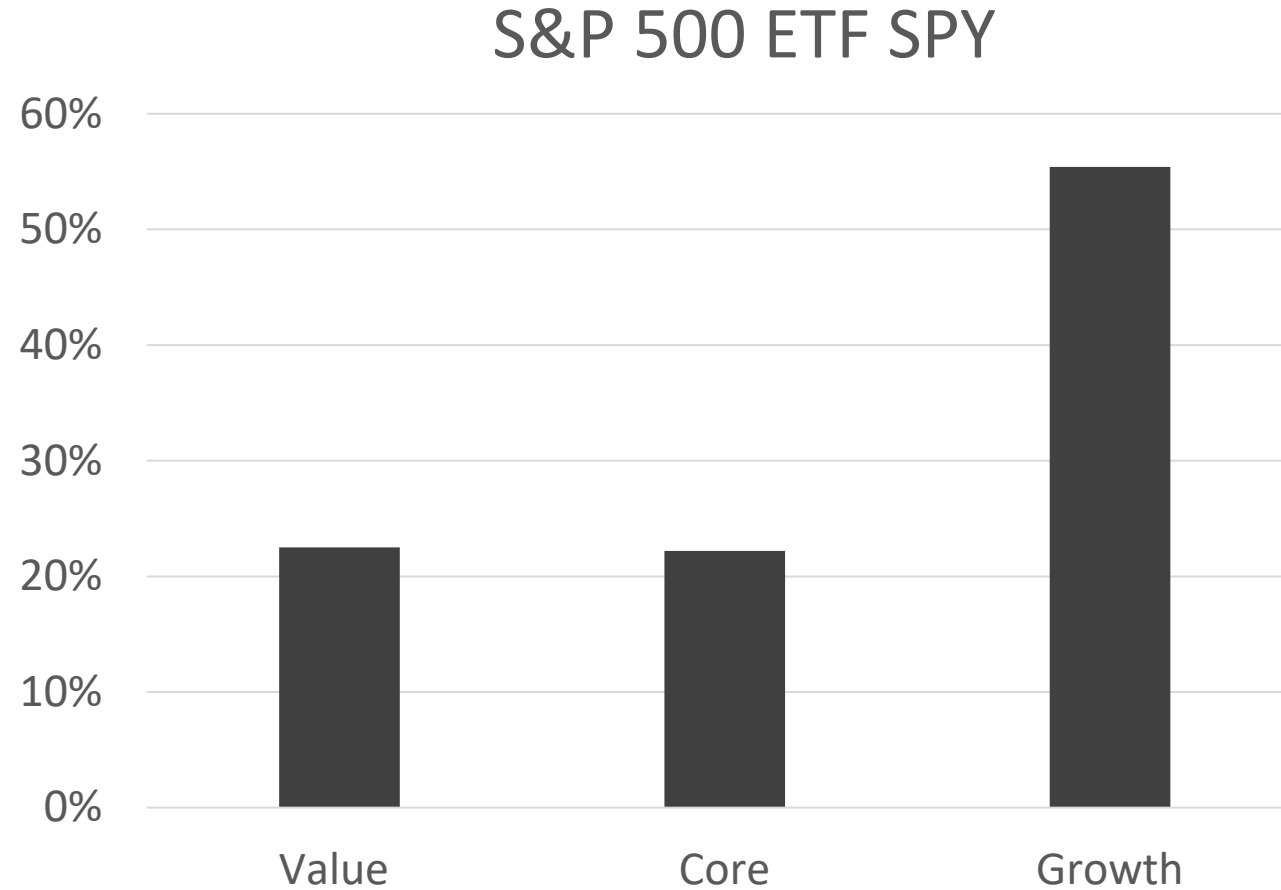
S&P 500 ETF SPY



Data Source: FactSet as of 6/30/25.

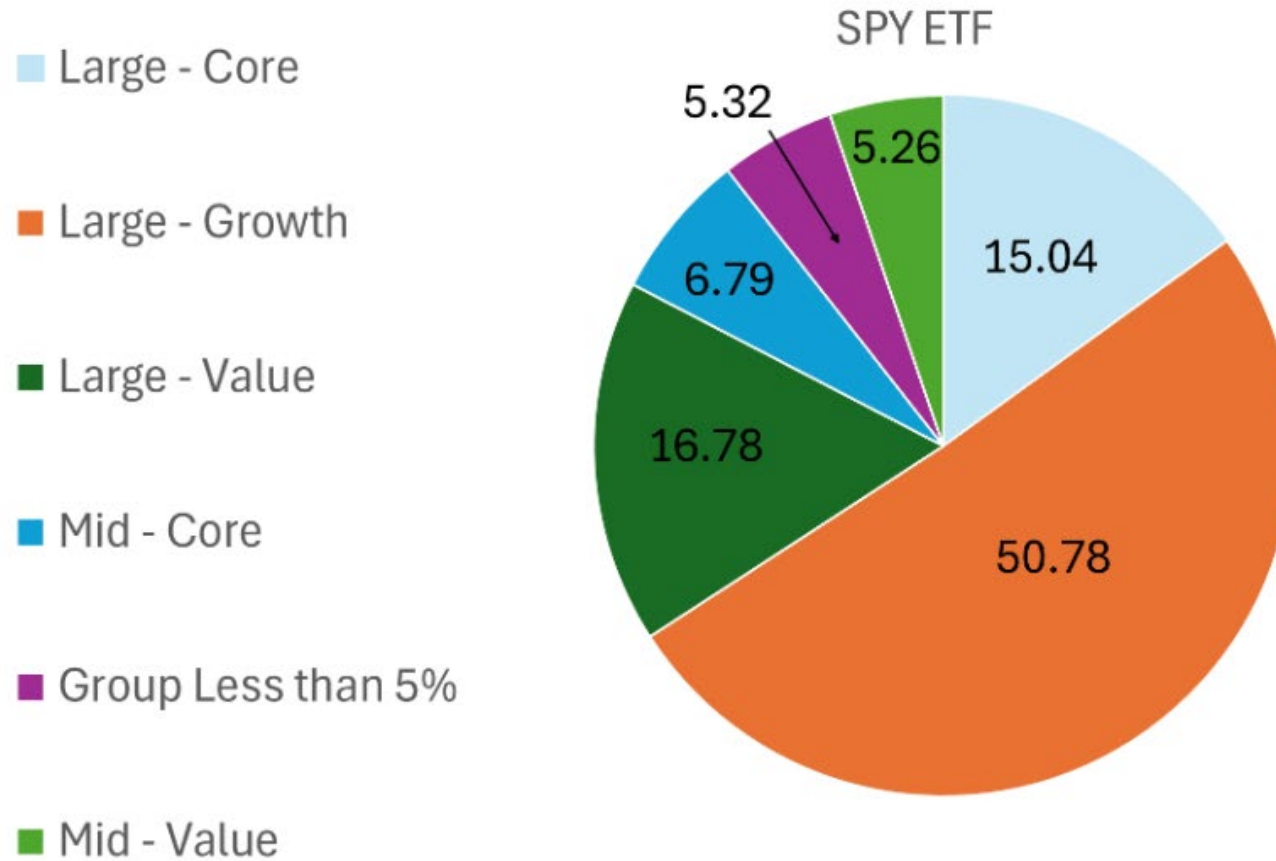
# What is the S&P 500<sup>®</sup> Index?

Know What You Own



Data Source: FactSet as of 6/30/25.

# What is the S&P 500<sup>®</sup> Index?



Data Source: FactSet as of 6/30/25.

# Top Heavy Index

Name	Sector	S&P 500 (SPY) Weight
NVIDIA	Information Technology	7.34
Microsoft	Information Technology	7.04
Apple	Information Technology	5.84
Amazon	Consumer Discretionary	3.95
Alphabet	Communication Services	3.54
Meta Platforms	Communication Services	3.05
Broadcom	Information Technology	2.47
Berkshire Hathaway	Financial Services	1.70
Tesla	Consumer Discretionary	1.70
JP Morgan Chase	Financial Services	1.53

Sell Discipline Process: **NO**

Data Source: FactSet as of 6/30/25.



# Top Heavy Index

Russell 1000 Growth ETF		
Name	Sector	Weight
NVIDIA	Information Technology	12.56
Microsoft	Information Technology	12.53
Apple	Information Technology	10.27
Amazon	Consumer Discretionary	5.18
Meta Platforms	Communication Services	4.50
Alphabet	Communication Services	4.08
Broadcom	Information Technology	4.32
Tesla	Consumer Discretionary	1.56
Eli Lilly	Health Care	2.12
Visa	Financials	2.05

Sell Discipline Process: **NO**

Data Source: FactSet as of 6/30/25.

# Passive is Aggressive

## Index Risk at an All-Time High



Source: FactSet as of 6/30/25, Compustat, Goldman Sachs Global Investment Research.

# Top 5 Stocks in the S&P 500

The index is more concentrated than ever.

1980	<b>4.3%</b> IBM	<b>3.9%</b> AT&T	<b>3.8%</b> Exxon	<b>2.5%</b> Standard Oil, Indiana	<b>2.4%</b> Schlumberger
1990	<b>3.0%</b> IBM	<b>3.0%</b> Exxon	<b>2.3%</b> General Electric	<b>2.2%</b> Phillip Morris	<b>1.9%</b> Royal Dutch Petrol
2000	<b>4.1%</b> General Electric	<b>2.6%</b> Exxon	<b>2.5%</b> Pfizer	<b>2.5%</b> Citigroup	<b>2.4%</b> Cisco
2010	<b>3.1%</b> Exxon Mobil	<b>2.5%</b> Apple	<b>2.0%</b> Microsoft	<b>1.7%</b> Berkshire Hathaway	<b>1.6%</b> General Electric
2025 * * of 6/30/25	<b>7.3%</b> NVIDIA	<b>7.0%</b> Microsoft	<b>5.82%</b> Apple	<b>3.9%</b> Amazon	<b>3.5%</b> Google

Data Source: FactSet as of 6/30/25.. S&P Global via A Wealth of Common Sense, 2017. Slickcharts, 2020.

# Future Opportunities

Within the S&P 500<sup>®</sup> Index

Name	Sector	S&P 500 (SPY) Weight
Eli Lilly	Health Care	1.17
Visa	Financials	1.16
Netflix	Communication Services	1.09
Exxon Mobile	Energy	0.89
Mastercard	Financials	0.87
Costco Wholesale	Consumer Staples	0.84
Walmart	Consumer Staples	0.80
Procter & Gamble	Consumer Staples	0.71
Johnson & Johnson	Health Care	0.70
Home Depot	Consumer Discretionary	0.69
Oracle Corporation	Information Technology	0.68

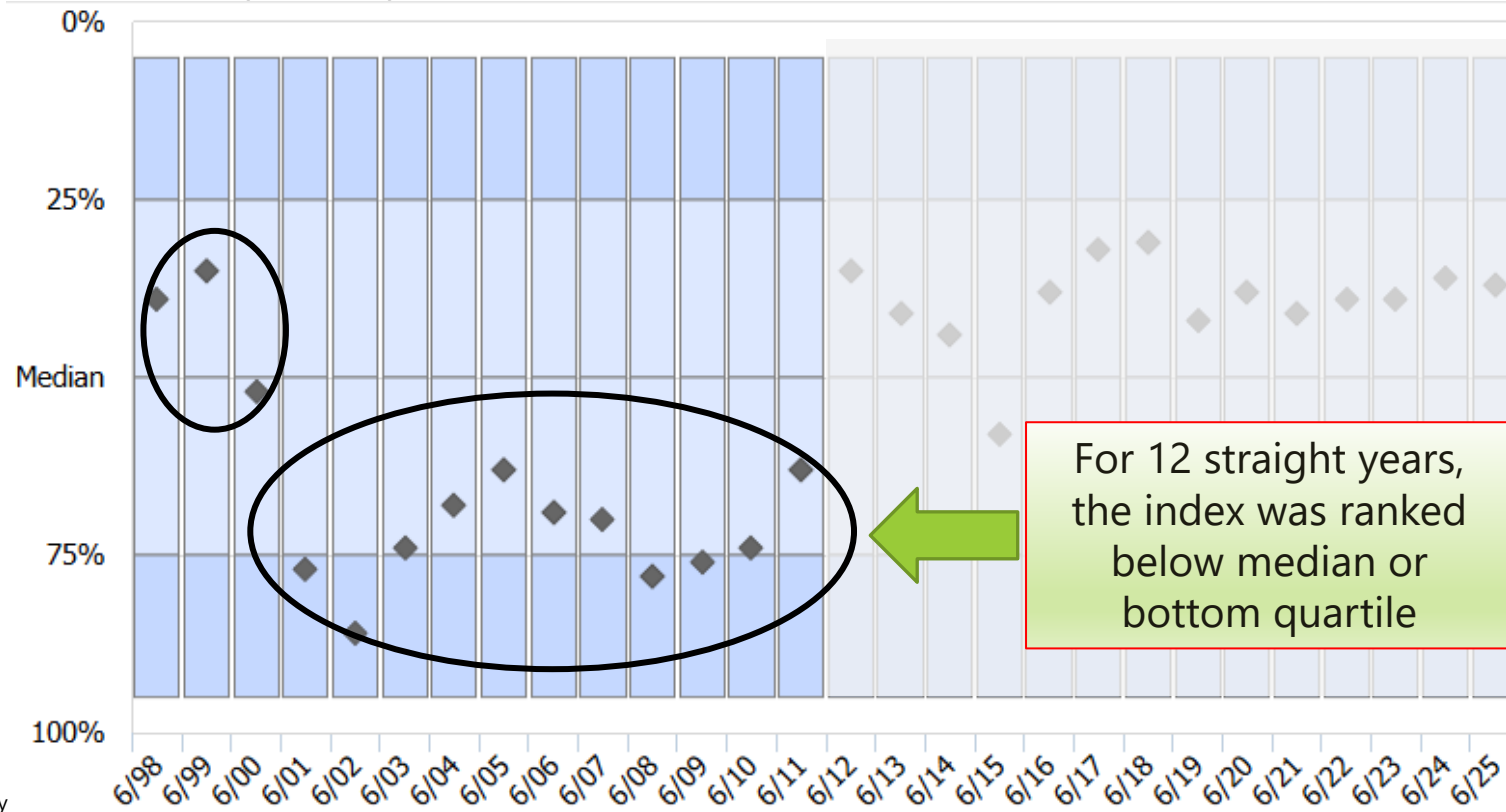
Name	Sector	S&P 500 (SPY) Weight
AbbVie	Health Care	0.62
Bank of America Corp	Financials	0.59
Palantir Technologies	Information Technology	0.55
Philip Morris International	Consumer Staples	0.54
UnitedHealth Group	Health Care	0.54
Cisco Systems	Information Technology	0.53
GE Aerospace	Industrials	0.52
Coca-Cola Company	Consumer Staples	0.52
International Business Machines Corp	Information Technology	0.52

Data Source: FactSet as of 6/30/25.

# Historical Cycles Repeat

## S&P 500 Index Rolling 3 Year Returns

- The index performs well in positive trending markets
- The index performs poorly in volatile markets

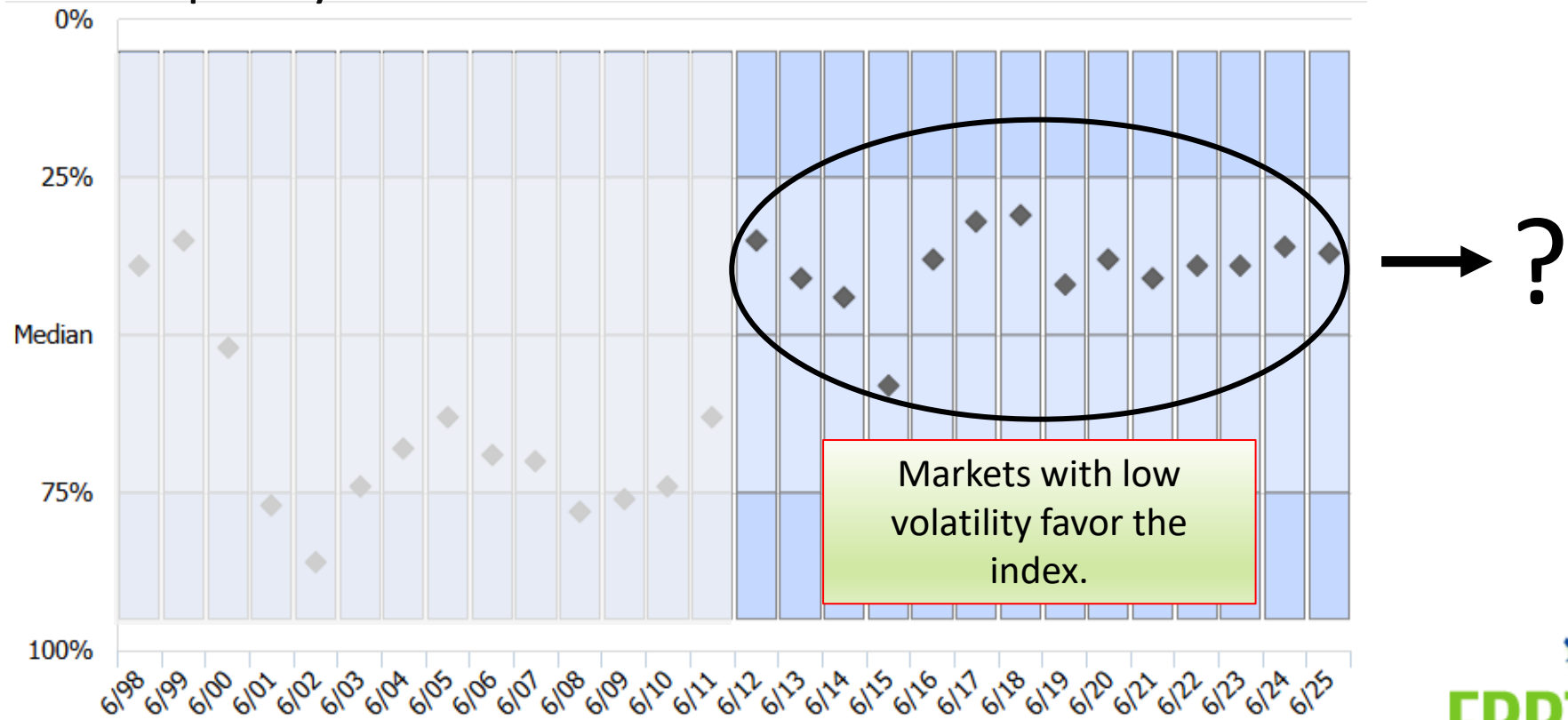


Universe: eVestment US Large Cap Core Equity  
Data Source: eVestment

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# Active Managers Have Outperformed

Average Excess Returns Over the Last 5 Years: 1.37

Advisory Research, Inc.

AllianceBernstein L.P.

Allspring Global Investments

AQR Capital Management LLC

Associated Trust Company

BlackRock

BNY Mellon Investment Adviser, Inc.

Bridgeway Capital Management, LLC

Capital Group

Chilton Capital Management LLC

ClariVest Asset Management LLC

Columbia Threadneedle Investments

CSM Advisors, LLC

Dimensional Fund Advisors LP

Dorsey Wright

DWS Group

Empirical Asset Management, LLC

F/m Investments, LLC (Formerly Ziegler Capital Management)

Fidelity Institutional Asset Management

Fidelity Investments

Fisher Investments

Fort Washington Investment Advisors, Inc.

Franklin Resources, Inc.

Fred Alger Management, LLC

Gifford Fong Associates

Globalt Investments LLC

Great Lakes Advisors, LLC.

Heron Bay Capital Management

Hodges Capital Management

Intech Investment Management LLC

Intergeneration Capital Management

Inverness Counsel, LLC

J.P. Morgan Investment Management Inc.

Jacobs Levy Equity Management

Universe: eVestment US Large Cap Core Equity  
Data Source: eVestment



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Average Excess Returns Over the Last 5 Years: 1.37

Janus Henderson Investors  
Knights of Columbus Asset Advisors  
Mackenzie Investments  
Macquarie Asset Management  
Man Group  
Manulife Investment Management  
Marshall Wace Asset Management Ltd  
Martingale Asset Management, L.P.  
MFS Investment Management  
Morgan Stanley Investment Management  
Neuberger Berman Group LLC  
Newton Investment Management Group  
Northern Trust Asset Management  
PanAgora Asset Management, Inc.  
Pear Tree Funds  
PineBridge Investments

Principal Asset Management  
Putnam Investments, a Franklin Templeton Company  
Ramirez Asset Management, Inc.  
Rockefeller Asset Management  
Schroder Investment Management Limited  
Stacey Braun Associates, Inc.  
Strategic Global Advisors, LLC  
Sustainable Insight Capital Management, LLC  
TD Global Investment Solutions  
Tocqueville Asset Management L.P.  
Vanguard  
Victory Capital Management Inc.  
Voya Investment Management Co. LLC  
Waycross Partners, LLC  
Wellington Management Company LLP  
WorldQuant Millennium Advisors



# Disclosures

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