

Gottesman Wealth Advisory BMO Nesbitt Burns

Let's connect

Gottesman Wealth Advisory
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I would like to take this opportunity to wish everyone and their families a Happy New Year.

My topic for this newsletter is one that is very near and dear to my heart – why I feel very strongly that the index is a very poor benchmark for the average investor. And I will use 2023 as a perfect example, starting with the S&P 500. As you can see from the table below, the stated return for the index for 2023 was 26.3% - which would lead to one believe that 2023 was a great year for equity investors – which it was – maybe.

Sector	Weight (12/30/2022)		% Return by Sector		% Total Return
Communication Services	7.28%	x	55.8%	=	4.1%
Consumer Discretionary	9.80%		42.4%		4.2%
Consumer Staples	7.20%		0.5%		0.0%
Energy	5.23%		(1.3%)		(0.1%)
Financials	11.66%		12.1%		1.4%
Healthcare	15.82%		2.1%		0.3%
Industrials	8.65%		18.1%		1.6%
Information Technology	25.74%		57.8%		14.9%
Materials	2.73%		12.5%		0.3%
Real Estate	2.71%		12.4%		0.3%
Utilities	3.18%		(7.1%)		(0.2%)
S&P 500					26.3%
Ex. Tech					11.4%
Ex. Tech, Consumer Disc., & Comm. Services					3.2%

However, if one digs a little deeper, a very different picture emerges. By excluding a very small part of the index, the technology and communication services sectors, then the S&P 500 return for 2023 drops all the way down to 3.2% - a difference of more than 20%. Put another way, just 5 stocks were responsible for half of the return of the entire index! So, I ask you again, was 2023 really a good year for the S&P 500?? Sort of...if you owned the few stocks that did exceedingly well.

A similar story played out with the TSX. Two sectors – technology and financials, were responsible for approximately 80% of the index return. In fact, while the return of the Information Technology sector was 69.6% the return for the Telecommunication Services was -3.9% - a delta of more than 70%!

Sector	Weight (12/30/2022)		% Return by Sector		% Total Return
Communication Services	4.89%	x	(3.9%)	=	(0.2%)
Consumer Discretionary	3.66%		11.0%		0.4%
Consumer Staples	4.23%		12.2%		0.5%
Energy	18.06%		6.3%		1.1%
Financials	30.83%		13.9%		4.3%
Healthcare	0.37%		18.3%		0.1%
Industrials	13.28%		11.9%		1.6%
Information Technology	5.67%		69.2%		3.9%
Materials	12.02%		(1.3%)		(0.2%)
Real Estate	2.59%		6.9%		0.2%
Utilities	4.41%		0.2%		0.0%
Canada S&P/TSX Composite					11.8%

So how should one measure his portfolio? I think one should focus on the absolute return of his portfolio to make sure it is right for his situation. Having a proper financial plan – and sticking to it – should be the cornerstone of one's investment portfolio – not some arbitrary index.