



# Adventures in Custom Indexing

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Welcome to the premiere edition of NDR’s *Integrated Analyst*, a quarterly publication showcasing the wide-ranging capabilities of NDR’s Custom Research Solutions (CRS) group. Looking to settle a debate from your internal team meetings, increase the productivity of your organization, launch a new product suite, or quickly respond to an in-depth customer question? CRS can serve as an extension of your research team to assist with projects large or small. We build tailored solutions through direct engagement. This issue of *Integrated Analyst* demonstrates techniques in custom indexing as an example of what we can enable your team to accomplish.

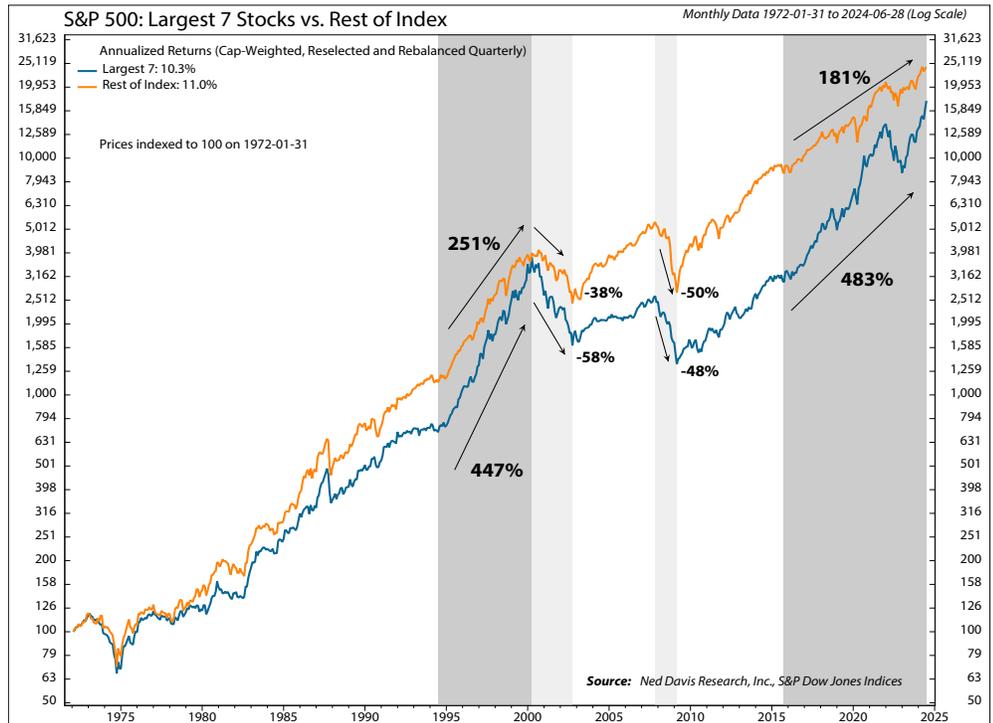
The mega-cap companies (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla), known as the Magnificent Seven (“Mag 7”) have significantly outperformed the market. This has led to recent headlines invoking the infamous “B” word, bubble. Is that true? To test this hypothesis, let’s examine the characteristics of the market’s largest stocks over time. Using NDR’s vast databases free from survivorship bias, we can efficiently create a custom index of U.S. mega-cap stocks dating back 50 years. For this study, rather than the “Mag 7,” we focus on what we will refer to as the “Largest 7.”

**Q: The Largest 7 stocks in the S&P 500 have performed very well over the last few years. Is this usually the case?**

A: No. Over the last 50+ years, the Largest 7 stocks in the S&P 500, cap-weighted and reselected quarterly, have underperformed the rest of the index by an annualized 0.7%.

However, there have been two periods where the Largest 7 stocks outperformed by a wide margin – the first being the six-year run-up ending at the top of the internet bubble, and the second being the current run-up that began in late 2015. The chart at right shows these periods shaded in darker grey.

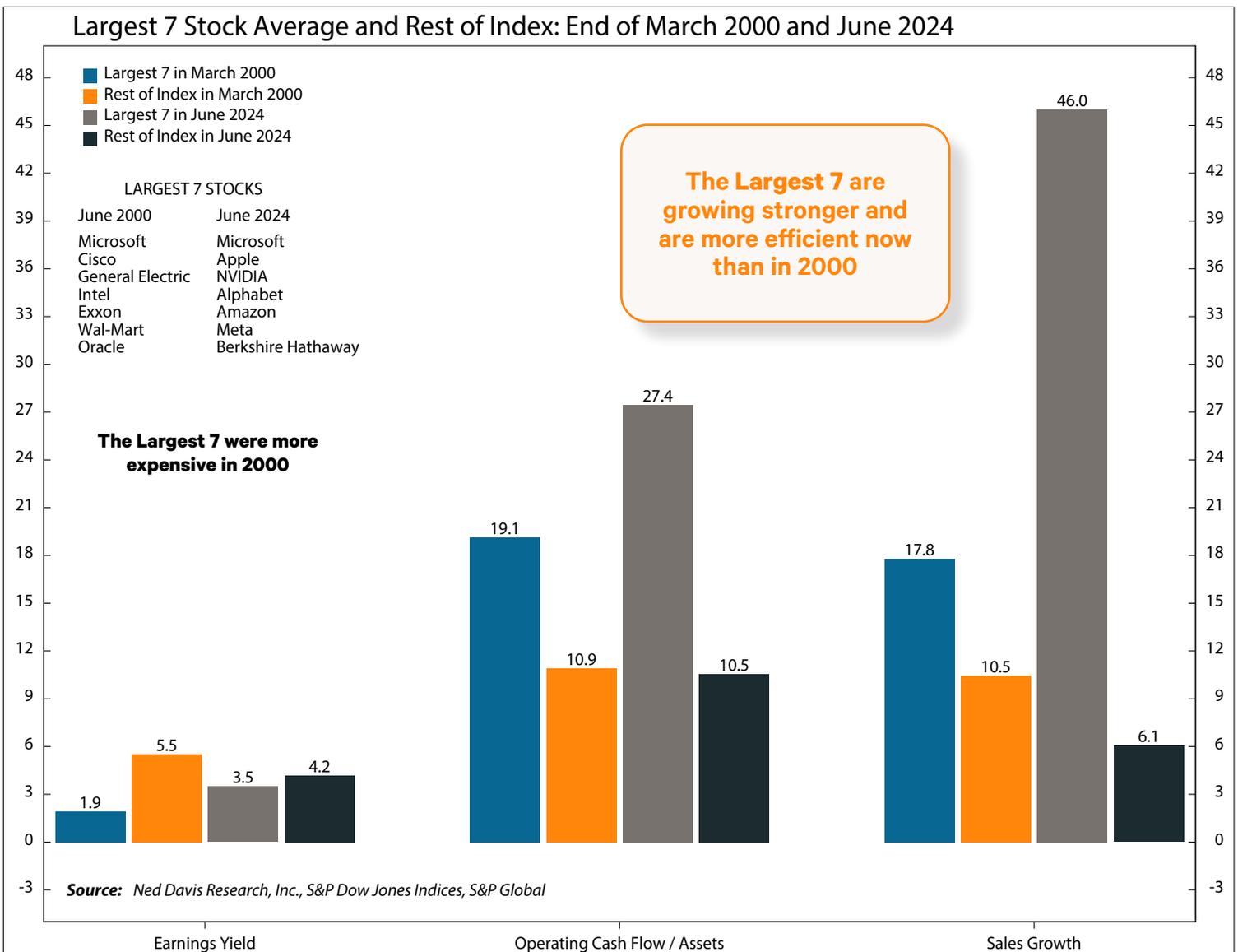
### The Largest 7 outperformed over two historical periods



**Q: How different are the Largest 7 stocks from the 2000 bubble compared to today?**

A: The characteristics of the largest stocks can change appreciably over time. In this case, the Largest 7 stocks today have cheaper valuations compared to the Largest 7 in 2000. Additionally, in both absolute terms and relative to the rest of the index, today's Largest 7 stocks generate more operating cash flows per dollar of assets and have been growing sales much faster than the Largest 7 stocks back in 2000. This is shown by the grey bars in each of the three sections of the chart below.

**Today's Largest 7 are cheaper and of higher quality vs. 2000**



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**Q: Has the sector leadership and level of concentration changed historically? If so, how?**

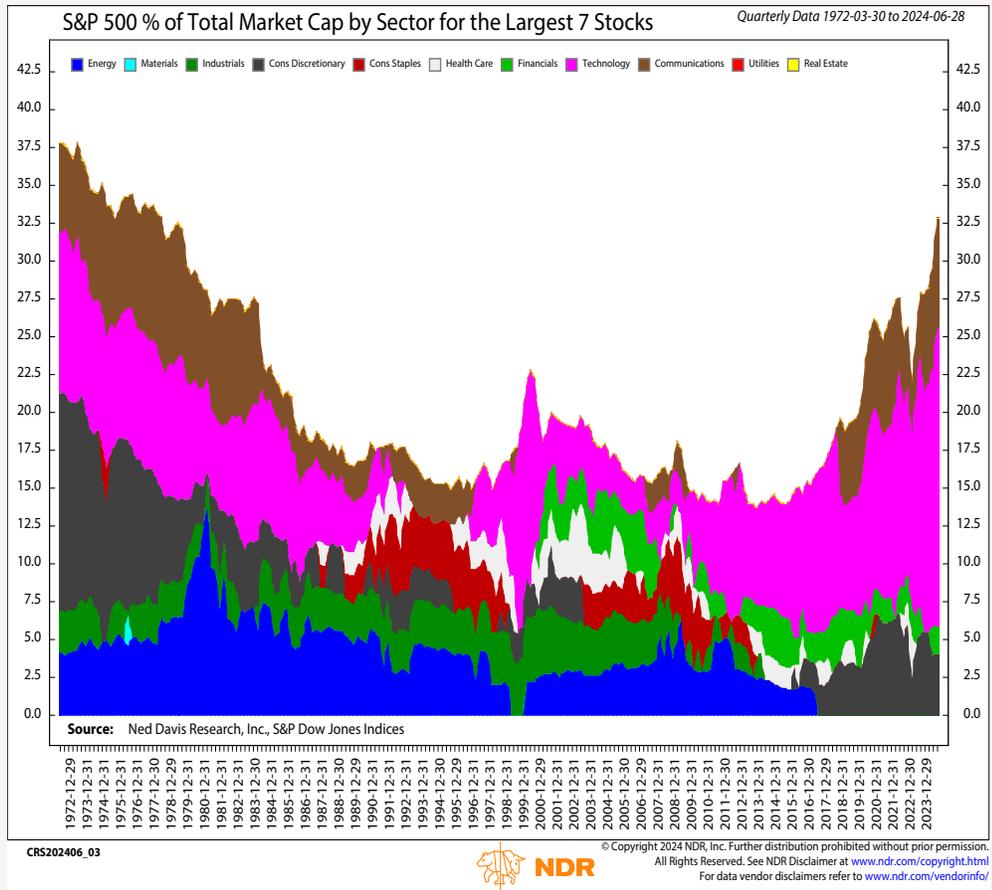
A: Yes, in significant ways. Using quarterly reselection (chart below), the Energy sector has been notably absent from the Largest 7 since early 2017. Energy held a steady presence in the Largest 7 historically, with its largest influence in the late 1970s-early 1980s.

Unsurprisingly, the Technology sector has dominated the Largest 7 portfolio since 2009, and its influence is only continuing to grow. As of June 28, 2024, Technology and Communications together represent 5 of the Largest 7 stocks by market cap, accounting for almost 27% of the total market cap of the S&P 500.

Today's Largest 7 stocks account for more than 30% of total S&P 500 market cap, but this is not an all-time high when compared to 1972's 37.5%. In between, the market cap share of the Largest 7 has ebbed and flowed over time, falling to as low as the mid-teens in the mid-1990s and mid-2010s.

March 1972	Sector	% Market Cap
IBM	Technology	10.58
AT&T	Communications	5.94
General Motors	Consumer Discretionary	5.63
Kodak	Consumer Discretionary	4.39
Sears Roebuck & Co.	Consumer Discretionary	4.26
Exxon Mobil	Energy	4.21
General Electric	Industrials	2.74
June 2024	Sector	% Market Cap
Microsoft	Technology	6.81
Apple	Technology	6.62
NVIDIA	Technology	6.23
Alphabet	Communications	4.64
Amazon	Consumer Discretionary	4.13
Meta	Communications	2.62
Berkshire Hathaway	Financials	1.80

### Sector dominance has shifted over time



Custom indexing has a multitude of applications, as boundless as your imagination and only limited by the availability of data. NDR develops custom indices using a variety of measurements, including price-based (e.g., market cap), fundamental (e.g., dividend policy), as well as historical (e.g., cycle composite). Expand your team and the tools available to you by incorporating CRS into your workflow. If the possibilities are almost limitless, what custom index are you inspired to create?

To learn more about how NDR's Custom Research Solutions team can serve as your *Integrated Analyst*, saving you time, money, as well as the opportunity cost of maintaining your own data and tools, contact your sales representative or email [CRSquestions@ndr.com](mailto:CRSquestions@ndr.com) to set up a complimentary consultation. CRS can be added on to an existing NDR subscription or purchased à la carte.

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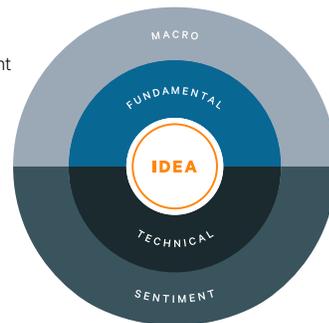
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