Managed Wealth, LLC
196 N. Broad Street ● Canfield, OH 44406
Phone: 330-533-1131 Fax: 330-533-2050 www.ssb-cpa.com

Third Quarter 2023

If we were to compile a list of the "Biggest Mistakes Investors Make," at the very top of that list would be "Chasing Returns." When we look at human behavioral finance, individuals tend to gravitate towards making decisions based on past performance or experiences.

While this is a good method for making informed decisions on buying normal goods and services, it can be detrimental when making investment decisions in this manner. By trying to "Chase Returns" an investor tends to buy the position at a higher premium, while avoiding positions that are discounted and have better opportunities for growth.

When one particular market sector rotates into favor, as large tech stocks have in recent years, it becomes the focus of the Wall Street hype machine—because, quite simply, it's an easy sell. Investors want to believe it makes sense to pile into whatever stock or sector is hottest at the moment, and fund companies, brokerage houses and the financial media are all too happy to sell them that dream.

The problem is, the party can't last forever as share price run-ups raise price-to-earnings (PE) ratios for the hottest stocks well beyond that of the broad market. When a company's PE ratio gets over inflated, the reality of the company's earnings will eventually have to make sense when compared to their share prices. That's exactly what we've seen recently with the best known tech stocks, all of which have price-to-earnings ratios well above the S&P 500 index, as seen in the table below (as of 10/06/23):

STOCK	P/E RATIO
Apple	30.08
Amazon	100.99
Alphabet (Google)	29.56
Meta (Facebook)	37.09
Netflix	41.10
S&P 500 Index	19.42

(source: Marketbeat.com and The Wall Street Journal)

Outsized valuations put tremendous pressure on companies (no matter the size) to continue to grow earnings exponentially to justify their lofty stock price. If they don't, the market will re-price them accordingly. This re-price can be brutal to investors who arrive to the party too late, like what we saw from 2021—2022 when stocks like Meta and Netflix plunged more than 70% from their post-Covid highs. Investors who got in late experienced devastating losses they may not recover for years.

This is why we continue to recommend a diversified, evidence-based investment strategy built on the principles of sound diversification.