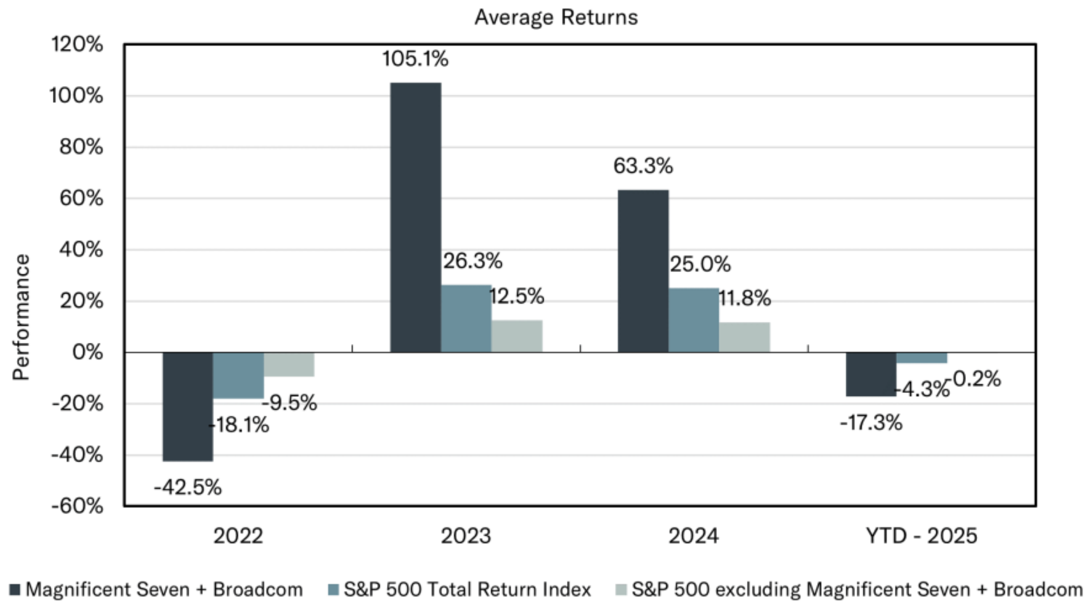
Market Commentary— The Not So Magnificent Seven

If you listen quite closely, you may be able to hear the sound of the Magnificent Seven deflating ever so slightly. The Magnificent Seven was anything but Magnificent last quarter. The average Magnificent Seven stock fell 16% in the first quarter. The underperformance of the recent market darlings led the S&P 500 to its worst quarter since 2022, down more than 4%. The tech-laden and growth-centric Nasdaq fell more than 10% for the quarter as the impact of the Magnificent Seven's retreat was even more acutely felt.

A lot of the blame has been attributed to policy coming out of the White House. The Financial Times wrote "Wall Street stocks posted their worst quarter in almost three years on fears that Donald Trump's tariffs will usher in a period of stagflation in the world's biggest economy." The Wall Street Journal penned "Worries about tariffs and the economy sent the S&P 500 and Nasdaq Composite to their worst quarters since 2022." Others have commented that it is not President Trump's fault entirely, but rather a result of slower earnings growth and a cooler labor market. There are always 101 reasons as to why a market is rallying or falling. While all of these reasons are valid and contributing to the market's downturn, to me, it is a much simpler story – momentum and the inevitability of the pendulum swinging back.

The past few quarters, we have highlighted how the gains in the index were not necessarily indicative of what most stocks were doing. This was in part because of the outsized influence that the Magnificent Seven + Broadcom was having on the index. The momentum in those 8 companies was astounding. In 2023, those 8 companies had an average return of 105%. They started to slow a bit last year, but still returned an average of 63%. Last year, those 8 names accounted for more than half of the market's gain. That is unusual! These 8 stocks, though, have created a market that has not necessarily been indicative of how the rest of the market was doing. This past quarter, for example, those 8 companies contributed to more than 100% of the loss in the S&P 500 as momentum began to unwind. The rest of the S&P 500's average return was much closer to flat. Flat's not bad – definitely better than down 5%!



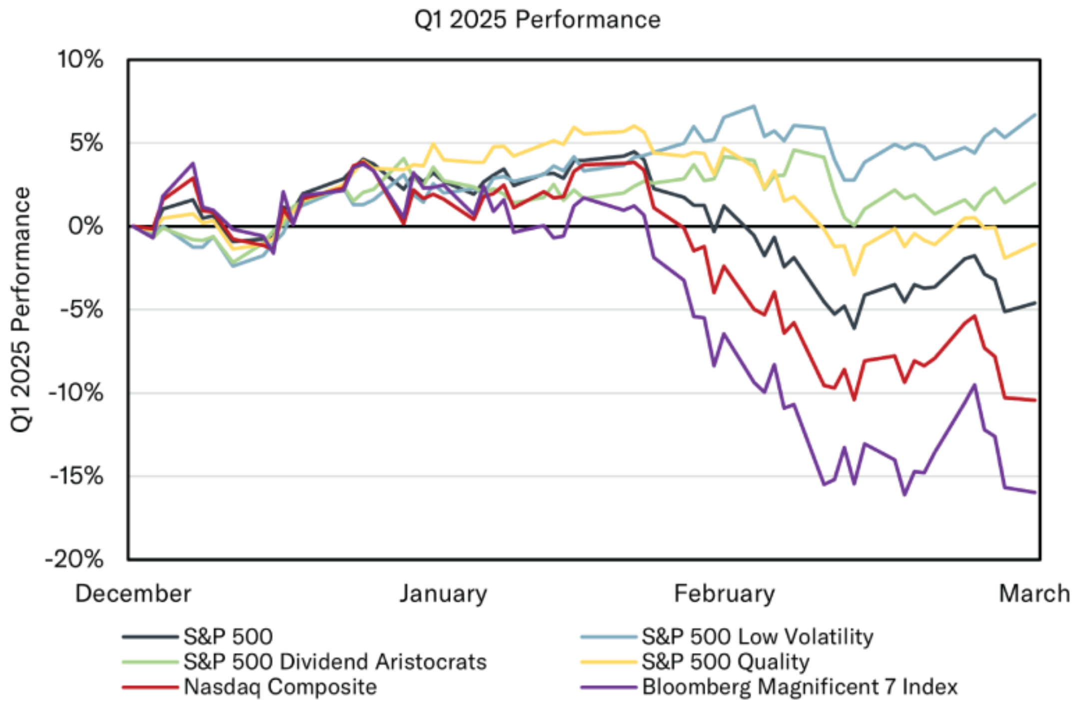
Source: FactSet

While discussing the Magnificent Seven last quarter, one of the themes we discussed was the concentrated nature of the index and the unusual influence that the Magnificent Seven was having on the market. To recap last quarter's piece, we discussed how narrow the S&P 500 had become. The ten largest names, at the time, accounted for ~37% of the total S&P 500. Over the past 45 years, the average has been closer to 20-25%. We discussed how expensive the S&P 500 had become and how valuations have historically been a decent indicator of future long-term returns – the higher the valuation the more limited returns have been historically. All of these points led to market participants like Goldman Sachs, Bank of America, and Vanguard to assert that future returns were likely to be much more limited over the ensuing decade.

At the time, we wrote "If the top stocks falter today, it will likely mean more pain for the index than it has previously because it is more heavily weighted towards those top names. That does not necessarily equate to more pain for **all** stocks." When we wrote that, we did not know how quickly that might turn out to be true. So, has that played out entirely? Are we back to equilibrium? In short, I would think not for the aforementioned reasons. The index still remains unusually concentrated today with the top ten names accounting for 33% of the total index. Sure, that is better than the 37% we saw at the end of last year. It has undoubtedly improved, but it is still unusually concentrated. Despite the S&P 500 briefly pulling back more than 10% from its all-time highs, it still remains quite expensive historically. Without a doubt, it is a little less expensive than it was at the end of 2024, but it remains expensive on some metrics relative to historical standards, nonetheless.

Finally, we compared the predictions for muted returns over the next decade to the last "Lost Decade" we had from 2000 – 2009. We went on to say "To make money during the Lost Decade, it helped to be invested differently. It helped to not be passive. If Bank of America, Goldman Sachs, and Vanguard are all right going forward, and if history serves as

a guide, it might make sense to again be invested with a willingness to be different from the index." That was certainly true during the Lost Decade and it rang true this past quarter too. So, has the pendulum swung back already or is it just beginning to swing?



Q1 2025 Returns

S&P 500 Low Volatility	6.67%
S&P 500 Dividend Aristocrats	2.54%
S&P 500 Quality	-1.07%
S&P 500	-4.59%
Nasdaq Composite	-10.42%
Bloomberg Magnificent 7 Index	-15.98%

Source: FactSet

Commentary— Volatility Comes Alive

In the previous two issues of The TANDEM Report, we discussed volatility at length. In October, we said that volatility measures the size of the price swings in an asset. We went on to illustrate our belief that limiting volatility was the key to a successful investment experience and how avoiding large declines could help lead to a more consistent investment experience. In January, we used a hypothetical example to help illustrate that a portfolio that could successfully avoid dramatic losses would not necessarily require nearly as much return during up markets to ultimately beat the market. In other words, by losing less, one did not need to have nearly as large a win. I still stand by the statement we made in each issue, "The strategy of losing less does not mean be conservative. It does not even have to mean you will make less. It simply means that managing risk as well as your return might lead to a better experience."

This quarter, I was planning on avoiding the topic of volatility and talking about something else altogether. I thought that perhaps too much ink had been spilled on the topic in recent TANDEM Reports. However, volatility came alive this past quarter! So, it now seems timely to discuss once more.

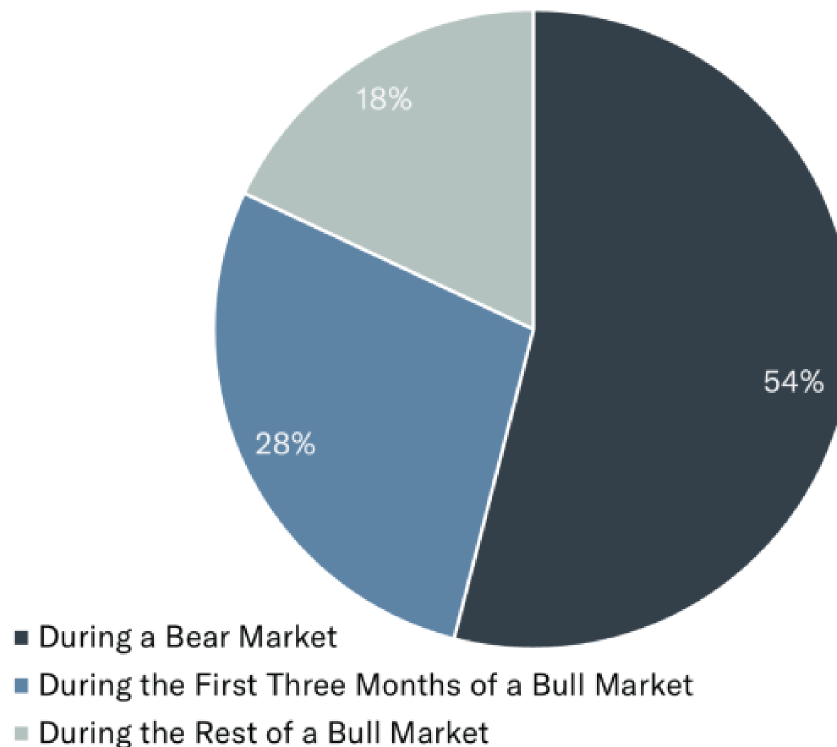
Market volatility often refers to how quickly prices are changing in the marketplace. For Tandem, when we discuss the marketplace, we often mean the S&P 500. In a highly volatile market, prices change rapidly. In a market with little to no volatility, prices are far more stable. In 2017, the S&P 500 only moved ±1% in just 8 days. That was a market with very little volatility. It was quite calm. It was actually the lowest number of 1% swings since the mid-1960s. For comparison, one of the quickest markets in my professional career was the COVID drawdown. In March of 2020 alone, there were 21 days in which the S&P 500 moved ±1% – it is worth noting there were only 22 days of total trading in March! This quarter, we also saw 21 ±1% moves in the S&P 500.

That sort of volatility can be nerve wracking and anxiety inducing. The daily swings and fluctuations have often caused investors to behave emotionally. The uncertainty can lead to a lot of undue stress. I think most investors understand that investing in the stock market is like a rollercoaster ride – there are ups and downs. However, volatility has time and time again caused investors to want off the ride. We will walk through why we believe that's a big mistake and why we believe volatility is public enemy #1 for most individual investors.

At Tandem, we hate to see the stock market fall and portfolios fall as well. It's tough to see volatility erode the value of a portfolio. But, it's helpful to remember that a volatile market can often offer some really great opportunities for ready investors. At Tandem, we believe in practicing the discipline of selling high and buying low. This means that we will attempt to sell at what we believe to be attractive points. If there are more stocks to sell than there are to buy, then cash will ultimately rise in a portfolio. This hopefully means that we will have cash on hand to be able to buy low. It is my belief that we are therefore "ready" investors. Stocks go on sale during market downturns, and this might be the only industry where people seemingly hate sales! Sales aren't fun though if you don't have cash to spend to take advantage of said sales. When investors hop off the rollercoaster during a volatile market, they are not only effectively limiting their ability to participate in said sales, but they also could be locking in their losses permanently.

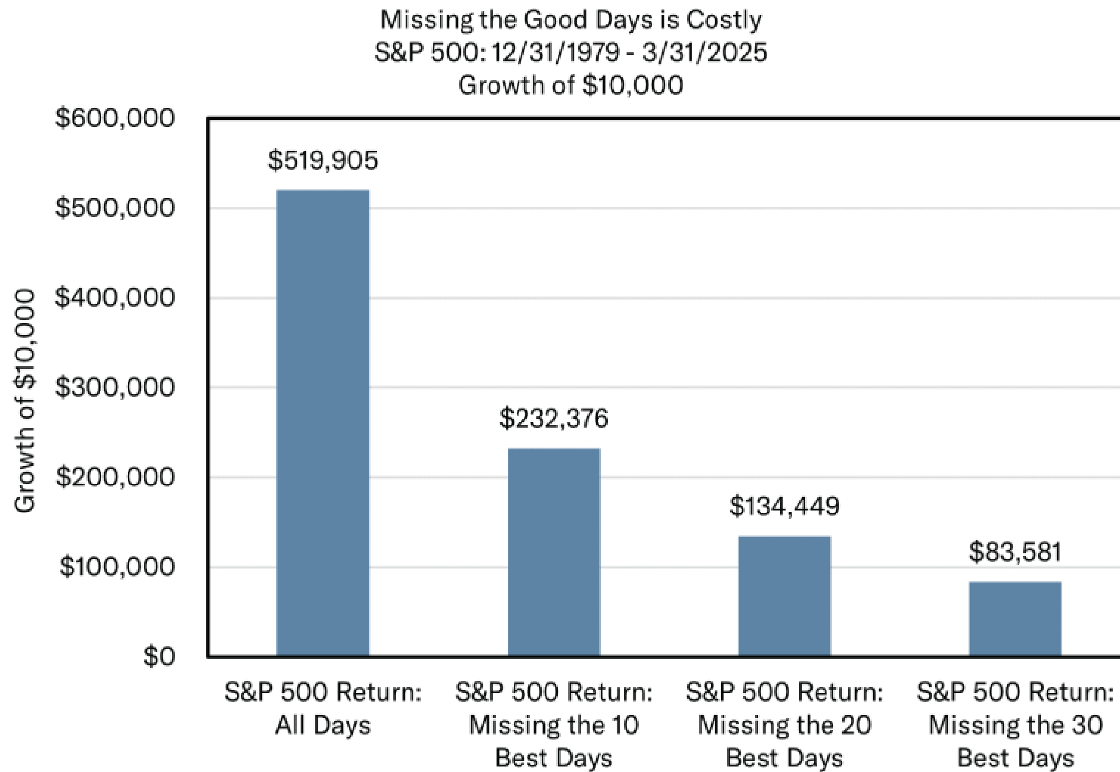
One of the reasons that these losses are locked in permanently is that some of the largest single day advances in the stock market actually occur during bear markets. As seen in the charts illustrated below, some of the best days actually happen during a bear market and during the early days of a new bull market. In fact, over the past 45 years, more than

half of the best days for the S&P 500 have occurred during bear markets. 28% of the time, the best days happened in the first three months of a new bull market. It is much less common to see the best advancing days during a normal bull market – which happened just 18% of the time. Though it is perhaps somewhat counterintuitive, this means that if one were to move to the sidelines, they would actually miss some of the best days in the market, which could be harmful to a portfolio.



Source: FactSet

Since the start of 1980, $10,000 invested in the S&P 500 Price Index would have grown to $519,905 – which excludes any sort of dividends. However, someone who had mis-timed the market and managed to miss the best 10 days would have seen their portfolio grow to just $232,376. The unlucky fellow that managed to miss the best 20 days would have seen his portfolio grow to just $134,449 while the poor schmuck that missed the best 30 days would have ended up with just $83,581 after nearly 45 years of investing. What's crazy is that there were 11,406 days between the start of 1980 and the end of the last quarter. And, missing just 10 days reduced one's return by roughly 55%.



There is an old adage that continues to ring true today. It is about time in the market, not timing the market. We believe timing the market to be a foolhardy and impossible task. Trying to guess where the market will go tomorrow, or next week, or next year is very, very difficult. Just my personal opinion, but I believe it to be impossible to consistently correctly predict where the market will go. There are too many unknowns when it comes to assessing short term moves in the market. Too often it would seem that investors ask the question "should I be in or out of the market?". We believe that to be the wrong question. In or out is a false choice. Study after study shows that it is beneficial to be invested in the long run. In the above scenario, $10,000 grew to be $519,905 excluding dividends (which would have been a significant contributor to the growth of the portfolio). That 45-year period captures Black Monday's 20% crash in 1987. It captures the Savings and Loans Crisis of the 80s and early 90s that saw the closure of more than 1,000 banks. It captures the bursting of the Dot Com Bubble of the late 90s and the felling of the Twin Towers in 2001. It captures the collapse of the housing market and the subsequent Financial Crisis of the late aughts. It captures the downgrade of U.S. Debt in 2011. It captures the world shutting down during the throes of COVID in 2020. That 45-year period captures a lot of scary stuff – yet time cured all of those things. To date, there has never been a bear market that was not followed by a new bull market that hit all-time highs.

It is also important to note that we do not view the Castle Tandem Fund as a proxy for "the market". Just because the Dow, or the S&P 500, or the Nasdaq is doing something, does not mean that same thing is also happening in the Fund. This is because we are not invested in "the market". We invest in businesses that meet our strict quantitative criteria.

For a company to qualify for inclusion in the Fund's portfolio it must display the ability to consistently grow its business over any economic time period – both the good times and the bad. It doesn't matter if it is a recession, financial crisis, global pandemic, inflationary environment, or a macro backdrop of a global trade war – our companies must continue to grow or we will cease to own them. We do not require perfect growth, just consistent growth. This might not seem like a tall hurdle, but it eliminates the vast majority of our investable universe. Consistency is a lot harder to find than one would think, but it's what we require.

McKinsey & Company published an article in 2022 called "The Ten Rules of Growth". In it, they analyzed 3,000 of the largest companies in 2019 from 2010 to 2020. Each company was broken down in four categories: Large Deals (companies that grew through M&A), Inconsistent Growers, Shrink to Grow (what I would think of as a more cyclical company), and Consistent Growers. They defined Consistent Growers as those that did not fall into the Large Deal or Shrink to Grow categories and grew in at least 7 of the years studied. These consistent growers, according to McKinsey, provided an excess total return of 7%, outpacing each of the other three categories. Consistency of growth matters.

Again, the companies in the Fund must consistently grow the fundamental metrics that we value throughout different economic environments. We believe this requirement of consistent growth gives us a better chance to deliver you a more consistent, more repeatable, and less volatile investment experience. By hopefully minimizing the swings in the Fund, we hope to better keep you invested – because it is not about timing one's investments, it's about time invested.

Benjamin "Ben" G. Carew, CFA
Co-Chief Investment Officer
11 Years of Investment Experience

Ben Carew joined Tandem in 2013. He manages Tandem's trading desk, overseeing day-to-day investment operations, including trading, quantitative and fundamental research, and portfolio management. Ben also oversees Tandem's internship program. He is a regular member of the CFA Institute and the CFA Society South Carolina. Ben currently serves as the Vice Chair for College of Charleston's School of Business Investment Program, a student program seeking to provide the opportunity for a select group of students to distinguish themselves academically, professionally, and personally. He is a graduate of the College of Charleston's School of Business, earning a Bachelor of Arts in Economics with a minor in Finance.

The opinions expressed are those of the Fund's Sub-Adviser and are not a recommendation for the purchase or sale of any security.

The Standard & Poors 500 Index (S&P 500) is an index of 500 stocks weighted by their market cap. The S&P 500® Dividend Aristocrats® measure the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years. The S&P 500® Low Volatility Index measures performance of the 100 least volatile stocks in the S&P 500. The S&P 500® Quality Index is designed to track high quality stocks in the S&P 500 by quality score, which is calculated based on return on equity, accruals ratio and financial leverage ratio. The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market. The Bloomberg Magnificent 7 Index is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by the Bloomberg Industry Classification System (BICS).

The Fund does not have a position in Broadcom.

The investment objectives, risks, charges and expenses of Castle mutual funds must be considered carefully before investing. The prospectus for each Fund contains this and other important information about the investment company, and it may be obtained by calling 1-877-743-7820, or visiting www.castleim.com. Read it carefully before investing.

Important Risk Information

The risks associated with the Fund are detailed in the Fund's Prospectus. Investments in the Fund are subject to common stock risk, sector risk, and investment management risk. The Fund's focus on large-capitalization companies subjects the Fund to the risks that larger companies may not be able to attain the high growth rates of smaller companies. Because the Fund may invest in companies of any size, its share price could be more volatile than a fund that invests only in large-capitalization companies. Fund holdings and asset allocations are subject to change and are not recommendations to buy or sell any security.

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