2023 Q2

KEEN CAPITAL

Are Indexes the Best Investment Vehicles?

A standard "Index" is a group of stocks or bonds that have similar characteristics. The most popular in the US is the S&P 500, which consists of roughly the largest 500 stocks. Focusing too closely on an index, rather than its underlying stocks, can lead to poor decision making and bad investment. As of June 30, the S&P 500 was up 16% YTD! However, a careful observation of what is driving that growth is cause for concern. The largest Mega-Cap Stocks (mostly tech) are driving the index. Nvidia (NVDA) has been the top performer posting nearly 190% return YTD.

By not relying on the indexes to create our portfolios, we can deploy a risk management tool that limits the size of any single stock in your portfolio. A stock like Nvidia that is up 190% without matching underlying fundamentals (including a Price/Earnings ratio of over 220) will most likely see an inevitable decline back near its true valuation measures. The top 10 stocks present the highest level of concentration in the S&P 500 since the tech bubble in early 2000. Our portfolio structure provides the ability to participate in these upsides without being stuck as the biggest fool when they reverse.

Name	% Weight S&P 500	% Weight Keen Capital 100% Stock Portfolio
Apple Inc	7.64%	1.78%
Microsoft Corp	6.79%	1.42%
Amazon.com Inc	3.11%	0.44%
NVIDIA Corp	2.75%	0.09%
Alphabet Inc	1.93%	0.30%
Tesla Inc	1.89%	0.07%
Meta Platforms Inc	1.70%	0.30%
Alphabet Inc	1.67%	0.30%
Berkshire Hathaway Inc	1.64%	0.33%
TOTAL WEIGHT (TOP 9)	29.12%	5.03%

The Future of Artificial Intelligence and Investing

Talk of AI is everywhere. Can we use it in investing? Can it beat the market? In short, the answers are yes and no. AI has a long history with investing. Tools that gauge market sentiment from social media or scrape text from company financials have been around for years. However, like many managers, AI simply cannot predict the future and changes within the complex system that drives market prices.

AI is a tool to make the process of investing more efficient. Robert Merton describes the tool as "assisted implementation" - scrutinizing data, servicing clients or making processes more efficient. As a firm that embraces technology, we look for all potential uses of AI. However, there is no evidence to support the theory that AI can pick winning stocks. The best path forward is likely a combination of humans and technology.

Key Market Performance 2023 Q2

US Stocks 16.2%

Developed Ex US 10.9%

Emerging Markets 5.8%

Global Real Estate 2.0%

US Bonds................................ 2.1%

Global Bonds Ex US 3.0%

Special points of interest

- Inflation Continues to Cool
- Fed Pauses Raising Interest Rates
- Debt Ceiling Crisis Averted
- Artificial Intelligence is on the Rise

Opportunities

- International Stocks
- Small Stocks
- Bonds—variable maturity and credit will take advantage of current higher yields
- Cash—in short term situations

Past Performance is no guarantee of future results: US Stocks: Russell 3000; Developed Ex US Stocks: MSCI World Ex US IMI; Emerging Markets: MSCI Emerging Markets IMI; Global Real Estate: S&P Global REIT; US Bonds: Bloomberg US Aggregate Bond; Global Bonds: Global Aggregate ex-US Bond (Hedged to USD)