

Portfolios vs. Markets - WID

[00:00:00] Hello everyone and welcome back to the Wealth Depends podcast. I'm your host, Derek Doyle. And this is Andrew Baron. Today's episode's being recorded on March 17th, 2026. The information in this episode is current as of the date recorded and is not intended as financial, tax or legal advice. You should consult your tax, financial, and or legal advisors before implementing any transactions and or strategies concerning your finances.

In today's episode, we're gonna be diving into markets versus portfolios. Understanding these two different ideas is very important for investors and retirees. We've seen the s and p 500 over the last three years have historic performance. Within the 2023 to 2025 years returning high double digits, [00:01:00] and last year we saw up 17%.

It's important to understand what the s and p 500 index is and how it can be used inside of a portfolio and some also cautionary tales of how it could possibly go wrong, and if we are truly diversified enough. First let's define what the s and p 500 index is and how it works, Andrew. The index is first of all, just a.

Collection of companies, and it actually isn't something you can invest directly in. You have to use a product like a mutual fund or an ETF or your own sampling of underlying stocks and you can recreate the index. But once again, the index is just a sampling of major publicly traded stocks. So for the s and p 500, it's specifically a collection of 500 companies.

Although it has over 500 components due to double listings and it's [00:02:00] market cap weighted, which means that the bigger a company is in terms of its value, the larger a component of the index, it will be compared to a less capitalized company. Yes. And to touch on a point that Andrew brought up, the market capitalization piece, we have seen.

Historic concentration, even larger than where we were@duringthe.com bubble. We are seeing the top 10 companies in the s and p 500 make up around 40% of the index, and that is historic. In terms of the values that we've seen in previous years of the s and p five hundred's creation, we've also seen certain sectors of the s and p 500 grow to disproportionate weights.

The s and p 500 is made up of 11 sectors. Information technology and communication services make up nearly 50% of the index. So when you peel

back the layers and look at it, Andrew, you [00:03:00] can arguably and definitely make the case that the S and P 500 is a US tech heavy investment vehicle and with recent news around AI.

And that whole narrative and theme of a trade, you could even go as far as to make the case that the S and P 500 index is also an AI trade. You are invested in the swings both up and down, that follow that narrative. Yeah. If you look at, let's pick on Delta Airlines, which is around two percent on the S and P as its component.

So it's right in the middle. It's only around a \$40 billion company compared to an Nvidia, which is worth more than 4 trillion. So because the Delta component is so small, right? It's an airline, you think, oh, I'm buying the S and P 500. Even if it were to double, it's basically a blip compared to what Nvidia can do in a day.

Yes. So now that we've [00:04:00] described how the S and P 500 works, what it's made up of, some things that could be cautionary in terms of an investor's sake and where your dollars are actually going. Let's talk a little bit further about what a portfolio is compared to a market or an index. So a portfolio is constructed to meet your specific needs and goals, whether that be retirement income, appreciation, liquidity, risk tolerance.

These are things that a portfolio, we are, as financial advisors. Customizing and tailor made to fit those needs for you. Dive in for us a little bit, Andrew. What makes a retirement portfolio a little bit different than maybe someone just investing in, maybe say an index? Sure. Lots of times we think about index investing, especially earlier in life.

You have limited capital, maybe you have a hundred dollars, a thousand dollars, [00:05:00] \$10,000 that you're starting out with, and you also have a really long time horizon before you expect to use that money. Maybe it's decades, 30, 40, 50 perhaps even so you can easily stomach any of the volatility that the index will give you, but it's really about long term growth.

Compared to that, to retirement. Where for most people, unless you're able to rely on. Pensions and social security, most people have to pull on their own assets to afford their cash flow. So you need to be able to handle month to month volatility without, worry about the stock market. So having some insulation from other things like fixed income product, or most notably cash so that you can spend the way you expect to over the next 12 months rather than worrying about day to day or month to month volatility.

Yes. And one of the key things that you said that I wanna touch upon here, and we've talked. About this immensely. It's not that an index investing is inherently bad. You mentioned that obviously when you're younger and you don't, maybe you only have five to \$10,000 at hand [00:06:00] to invest. That is a smart way to allocate those funds.

It's something that we like to call higher level term cheap beta. These vehicles are extremely efficient at tracking the market performance at a cheap manner, meaning we're talking about 0.03%, cost. Compared to maybe an active portfolio, which might be, one to 2% of the expense.

So it's not that we are inherently saying index investing is bad, but it is also something that we just need to be cautious of as investors to understand what it is that we're invested in. And that usually does change throughout our lifestyle, like Andrew was saying, where just because something worked when we were younger doesn't necessarily that our same goals are being met now that we're 50, 60, 70 years old.

That kind of ties into our next topic that we wanna talk about in terms of the whole index investing theme and how this can sometimes, cause a bump in the road in early retirement stages is a term that in the industry we like to [00:07:00] call sequence of returns risk. Describe her audience, what is sequence of returns risk and how it could possibly affect someone entering or nearing retirement.

So the way I like to think about sequence of return risk is. Most of the time when we think about investing in general is once again for that long term. And so the only thing that truly matters if you're investing, let's say between 22 to 55, 65 is average return. So the order of the returns doesn't really matter to you as long as the ultimate average is positive and, hoping high single digits, double low, double digits, right? Over the course of a long period of time. Sequence of return risk suddenly comes into play when you need to pull on your assets, typically in retirement. So if you have a bad couple years, let's say negative 20, negative 30, if we think of maybe the 2,002,000 one.com bubble burst.

[00:08:00] Those people, if they didn't protect themselves, had fundamentally different retirements than they could have had if they had either stayed on working a little bit longer or actually retired earlier. Because they wouldn't have had that huge detriment to their portfolio when they start first started pulling on it.

Yeah, and I think you people don't truly understand sequence of returns risk until you sometimes have to show them mathematically and use some numbers, whereas. A 20% down, your mar, your portfolio goes down 20%. You need not 20% to get back to where you started, you need 25% of gains to even get back to where you started after the loss.

So I think a lot of these terms, or floated around there, but then when you start putting them into numbers and dollar figures and start showing people what actually we're talking about and how it can impact. Your portfolio, people start to realize that maybe I shouldn't have so much risk on the table as I'm entering these retirement dates.

Having [00:09:00] 20% less cash to use it fundamentally changes some of the plans you might have had possibly planned out as you enter retirement and 20%. Down draws are not uncommon. We saw the that happen last year, April 15th, liberation day. There's a lot of things that happen throughout the market that cause that short term volatility.

And if you're retiring in May, you're down 20%. That's not a great feeling to be entering retirement. You might be a little bit more nervous. You might even delay your retirement date for some of these short-term events. We don't have a crystal ball. We don't know the market's going to bounce back like it did last year, but these are things that we as advisors wanna make sure we are retiring our client clients confidently, and they're not experiencing these, short term volatility, events.

That kind of leads into where we are now, as, an investor in today's market, understanding what is going on around us [00:10:00] on a day-to-day basis. Some things that are currently going on in the market right now, geopolitical tensions, the AI theme, and I wanna point out, we've seen that the overall index is down or flat, close to flat, year to date, and you have other indexes like the equal weight up three or 4%.

So the overall market's down. Mostly because the AI trade has started to slow down, but we see other sectors which are underrepresented, like industrials and materials up 20%. I think it's important for our audience to understand what's the difference between being an investor and a trader. Go ahead and, explain to them.

Kind of the key difference between those two segments of the market. First of all, most of us should be investors, especially if it's for retirement. This is retirement investing. You want to be focused on the long term and

sustainability, not. Quick, hot in the pan flash kinds of things. [00:11:00] 'cause that is trading.

Trading is basically gambling with a strategy. Yes, it can work out for a tiny minority of people, but for most it ends up being a major loss. So yes, you can make a lot of money on, you jump on a trend at the right time. Yes, it's possible. But sustainable is another question. And that's why investing for the long term, looking at.

Fundamentals and actually examining how long a company is going to last in the future and how well it's going to do in the future. It's much more important. And to tie that into passive index investing, we see that a majority of the market is 60% index investing. We see this through common vehicles like your 401k, your 403 B.

Every single week there are purchases happening where. Dollars through payroll deductions are going to these index funds disproportionately. People are not picking single [00:12:00] names and investing them as much. We see this trend of index investing and how it does have a pull on the market where there are buyers every single week.

Buying these indexes leads into the big, just keep on getting bigger in terms of an investor's sake. I don't think we are inherently trying to say index investing shouldn't be used. But like you said, I do think having an element where you are truly diversified, you're not just putting all your money in one basket does come in play when you are getting into retirement.

'cause that is the main point of diversification, to make sure you don't have these short term losses that could possibly wipe out a goal or a plan. Talk to us a little bit about how a well constructed portfolio can eliminate some of these things, like sequence of returns risk, and offer another level of diversification that an index fund might not be able to achieve for you.

I think it really just [00:13:00] plays into why we have balanced portfolios in general where yes, we need. Those equities to perform. 'cause that's where a lot of growth, especially long term is going to come from. But when times are good, we should lock in those gains and buy fixed income with it. Because fixed income wants, mainly gives us protection because they work differently than stocks do fundamentally 'cause they're debt, not equities. But they also do things like pay steady interest, which helps give cash flow to the portfolio. And they also mature at. Pretty steady dates, which give natural cash opportunities to the

portfolio as well, rather than having to sell in a less opportune time than you might need.

If we think about the volatility over the term of a year, if you need cash in May, but there's a market correction. It could be your stock might be worth 10, 20% less than it could have been if you had waited till, let's say October. Bonds mature at a schedule that we know going in, [00:14:00] and so that might be a perfect place for cash flow, especially in something like retirement.

Yeah, and I know we spent a lot of time talking about retirement specific needs, but to tie it into even a younger audience that might be listening, a well diversified portfolio also means having a cash buffer. We as advisors recommend a three to six month. Emergency savings funds.

So even when you are younger and you only have five or \$10,000 of savings available to do with however you might want, you do want to build in a cash buffer and not just be fully invested into the market. 'cause like you said, you do have cases where you need cash. The market might be down for that certain time that you need cash.

You don't have the amount that you needed because of short term market swing. So it is important no matter what age you are, to have a well constructed portfolio that is truly diversified for both cash needs and long-term appreciation. Markets versus portfolios are a kind of nuanced topic. And speaking with a financial [00:15:00] advisor can help you maybe answer some more specific questions.

Anything else to add? I guess the last thing to remember is when we talk about portfolios, especially as advisors, we are thinking about all of your assets regardless of the account titling or which institution holds it or how it's funded, whether it's you or your employer looking at. How everything works altogether, and I think the average consumer actually focuses on the account type too much.

And so it's really important to look at how all of your money is working together, and especially in the index investing aspect, if you think about how concentrated they are, you actually may have significantly more exposure. Across all accounts than you might have if you actually look at the individual account type.

So just remembering that diversification is important across your all full broad portfolio, not just specific accounts. Yeah, that, that's a good point. [00:16:00]

So once again, thank you for everyone for tuning in. This was The Wealth Depends podcast. I was your host, Derek Doyle. And I'm Andrew Marin, and we'll see you next time.

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