



MEDALLION
WEALTH MANAGEMENT

Mid - July 2024 Market Commentary

Fishing for Dinner



“Something within fishermen tries to make fishing into a world perfect and apart—I don’t know what it is or where, because sometimes it is in my arms and sometimes in my throat and sometimes nowhere in particular except somewhere deep. Many of us would probably be better fishermen if we did not spend so much time watching and waiting for the world to become perfect.” – Norman Maclean

I’ve always believed that flyfishing and investing have a lot in common; there is skill, technique, experience, patience, and luck. Some science, some art. One key maxim to successful fishing has always been, **fish where the fish are**.

Let me give you a personal example. The flyfishing here in western PA isn’t really that great, especially when the waters warm in mid-summer and the trout that were stocked

by the Game Commission in the spring have all been harvested. The options aren't great. About an hour southeast of Pittsburgh there are a few streams and the Youghiogheny River. These are beautiful waters, but there are very few fish. Another option is a two-mile-long private stream that is continuously stocked and maintained. You will always see big trout there, whether or not you can catch them is up to you. So, the choices basically boil down to 1) fishing the public waters where you probably won't catch anything, or 2) paying \$125 to fish the private water where you'll probably catch a fish.

For me, fishing isn't about catching dinner; it's about being outdoors, standing in a river concentrating on tricking a trout into taking my poor presentation of a fly. Sometimes I'm perfectly happy standing in a river casting to pockets of water where I hope there might be a fish hiding, even though I know there's probably not a fish there. Other times I really like to see the fish I'm casting to, I like to watch them rise towards my fly, and I like to feel them fighting on the end of my line.

Of course, if you are fishing for dinner you're going to want to fish where the fish are. But paying \$125 to catch a few fish isn't very economical, plus the private stream would prefer that you didn't take their inventory away.



Investing in the stock market is very similar, except we're all pretty much fishing for dinner. We all want the stocks that are going to give us the best returns for our time and money. Fortunately, there is an ocean of stocks out there, unfortunately there are a limited few that will reward us for our efforts.

Fish are looking for something to eat, while companies are looking for capital to consume. Fish will often approach a fly and reject it as a fake, or they will grab it and then spit it out or break it off. Rarely is the fisherman rewarded with a catch.

Corporations are also on the hunt for capital. It's up to the investor to determine whether a corporation is worth catching; will it provide the investor with a bountiful return, or will it break him off and destroy his capital?

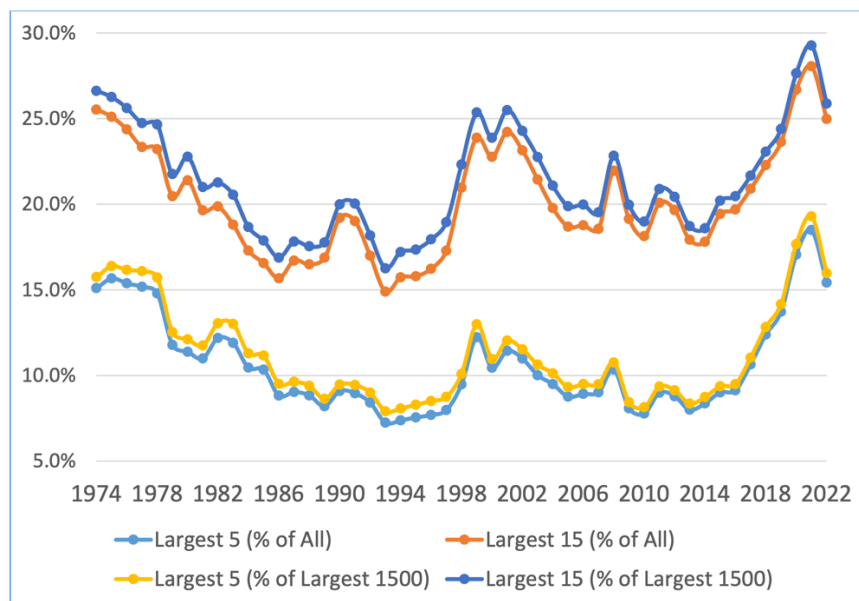
How hard is it to identify those companies worthy of casting your capital towards? Much harder than you would think. Professor Hendrik Bessembinder, of Arizona State University, has published a couple of research papers analyzing the entire stock market from 1926 through 2022 to identify which companies generated the most wealth and which destroyed the most wealth. His findings are eye-opening.

(https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4448099)

Professor Bessembinder analyzed 28,114 firms that issued stock between 1926 and 2022, to determine which ones created wealth in excess of what an investor could earn buying a one-month Treasury Bill.

The bottom line: Of the 28,114 firms, 41.38% created wealth in excess of Treasury Bills and 58.62% actually reduced wealth. The truly amazing statistic is the concentration of wealth creation by just a few firms. **Out of 28,114 firms, just the top-50 (0.18% of all firms) accounted for 43.13% of all wealth created.**

Figure 1: Concentration of U.S. Stock Market Capitalization, 1974 to 2022, Top 5 and Top 15 Firms



The other thing he discovered is that the level of concentration in a very few winners has been increasing consistently over the years. By 2022, just three firms accounted for 10% of the wealth created, and just 72 accounted for 50% of wealth created.

"I can't tell you which firms are going to be the big winners over the next 30 years, but I feel really confident saying a few firms will dominate the market," stated Bessembinder in an interview. *"It seems to be becoming an even stronger phenomenon that the wealth enhancement is concentrated in a relatively few stocks."*

Clearly the market has a propensity to reward innovations and things in high demand: manufacturing in the 1920s, energy in the 1970s, internet technology in the 1990s, and artificial intelligence today. More recently we have become a “winner-take-all” economy, with rising barriers to entry which narrow the list of champions. In today’s knowledge-based world, software- and internet-driven mega-caps command quasi-monopoly market power and possess head starts in terms of talent, capital, and development.

If we’re reading the market, as we would read the water, then we would want to fish where the wealth is being created. Companies that have been consistently creating wealth, have a higher propensity to continue that wealth creation, versus those companies that have struggled to create any wealth.

Wealth creation isn’t perpetual though, many companies can spend decades on the rise only to see their competitive advantages displaced. In Bessembinder’s research, only Exxon Mobil and Chevron have been on the list of top wealth creators since 1926. While some of the biggest wealth creators have been listed for a very short period of time (Apple, Microsoft, Alphabet, and Amazon). That’s the trick, when do you exit a wealth creator?

Shareholder Wealth Creation – Top 10 Firms

Rank	Company Name (most recent)	Lifetime Wealth Creation (\$ Millions)	% of Total	Cumulative % of Total	First Month	Last Month
1	APPLE INC	\$2,680,989.9	4.86%	4.86%	Jan-81	Dec-22
2	MICROSOFT CORP	\$2,094,146.4	3.80%	8.66%	Apr-86	Dec-22
3	EXXON MOBIL CORP	\$1,217,324.7	2.21%	10.87%	Jul-26	Dec-22
4	ALPHABET INC	\$1,004,387.7	1.82%	12.70%	Sep-04	Dec-22
5	AMAZON COM INC	\$763,966.4	1.39%	14.08%	Jun-97	Dec-22
6	BERKSHIRE HATHAWAY INC DEL	\$703,631.4	1.28%	15.36%	Nov-76	Dec-22
7	JOHNSON & JOHNSON	\$660,879.4	1.20%	16.56%	Oct-44	Dec-22
8	WALMART INC	\$628,770.0	1.14%	17.70%	Dec-72	Dec-22
9	CHEVRON CORP NEW	\$582,822.1	1.06%	18.76%	Jul-26	Dec-22
10	PROCTER & GAMBLE CO	\$580,968.0	1.05%	19.81%	Sep-29	Dec-22

“The fisherman even has a phrase to describe what he does when he studies the patterns of a river. He says he is ‘reading the water,’ and perhaps to tell his stories he has to do much the same thing.” – Norman Maclean

If our economy and the financial markets are going to be more and more dominated by fewer and fewer firms, than it is imperative for us lowly fishermen to identify those pockets of water and fish there. We are not being rewarded (or paid) for just the experience of fishing, we are being rewarded to catch the true wealth creators. Wishing you tight lines.

As always, be careful out there.

Chris Wiles, CFA



Where Trust is Earned

These are the opinions of Chris Wiles with Medallion Wealth Management and not necessarily those of Cambridge Investment Research, for informational purposes only and should not be construed or acted upon as individualized investment advice. Consult an advisor for your personal situation. Asset allocation and diversification strategies cannot assure profit or protect against loss in a generally declining market. Indices mentioned are unmanaged, do not incur fees, and cannot be invested into directly. Past performance does not guarantee future results. Investing involves risk. Depending on the types of investments, there may be varying degrees of risk. Investors should be prepared to bear loss, including total loss of principal. Securities offered through Registered Representatives of Cambridge Investment Research, Inc., a broker-dealer, member [FINRA/SIPC](#). Advisory services offered through Investment Adviser Representatives of Cambridge Investment Research Advisors, Inc., a Registered Investment Adviser. Cambridge and Medallion Wealth Management, Inc. are not affiliated. Any historic performance of individual securities discussed here are for educational purposes only and do not represent a recommendation.

6774137.1