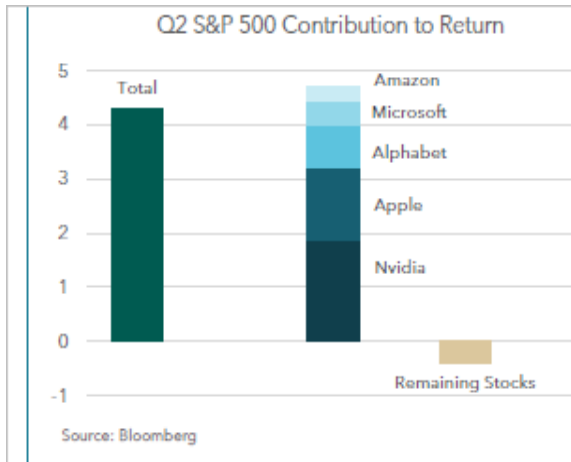


**Market Rotation – What does that mean?**

I was fortunate to spend the weekend with several dear friends and they asked me why the market went up on Friday. These women all have careers in vastly different fields although none in the financial industry. I shared my thoughts on the shift in the breadth of the rally and explained the difference between market weighted and equal weighted indexes. We are often so immersed in our own field of expertise, we assume the knowledge we have is universal.



For years, but especially in 2024, we have experienced an extremely bifurcated market where performance has largely been driven by a few technology companies. Diversification, a key element in portfolio strategy, has been a drag on returns. This is highlighted in the results of a market weighted index versus an equal weighted index. In a market weighted index, the weight of each holding is determined by the sized of the company (think S&P 500) and in an equal weighted index, each component has equal weight (think Dow Jones 30). The chart below illustrates the return contribution to the S&P 500 of 5 stocks (Amazon, Microsoft, Alphabet, Apple and Nvidia) compared to the contribution of the remaining 495 stocks. Without the performance of those 5 companies, the index return would have been negative versus up 4.3%. Over that same period, value stocks (Russell

1000 Value Index) underperformed growth stocks (Russell 1000 Growth Index) by more than 10%, a trend that has been prevalent for several years and is reaching historical extremes.

Last week, inflation data supported the sentiment that the Fed could cut rates in September and further confirmed the likelihood of a “soft landing” (a rapid rise in interest rates to lower inflation without driving the economy into a recession). Small cap companies rallied 6% in one week outperforming the tech heavy NASDAQ by 5.75% and the Russell 1000 Value Index outperformed the Russell 1000 Growth Index by a little over 3%. We are not so bold to say this shift is the beginning of a long-term trend, but a broader based strength in the markets is a positive sign. I searched “Why is strong base more stable?” and got the physics explanation that it has to do with angular force balance (torque) around the center of mass of a rigid body. (I love Google.) And that explanation does correlate to the market. More companies that provide positive performance to an index will most likely provide more stability moving forward. That said, markets are impossible to predict, and we have a contentious election ahead of us as well as higher expectations for earnings and relatively expensive current valuation levels. But that’s another newsletter.

As always, if you have any questions or concerns, do not hesitate to contact us.

*Lyn Cameron*

*“The best ability is availability. When you work with and for the best people in the business and you love what you do, showing up every day is a joy, but more than that, it is a privilege.” -Charlie Cameron*

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