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AUTUMN 2025

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## The Shape Shifting S&P 500

The “Ship of Theseus” is a thought experiment put forth by the Greek philosopher Plutarch in *Life of Theseus*. After slaying the Minotaur, Theseus sails back to Athens from Crete where his ship is preserved by the Athenians to recognize his heroic feat. Over time, as the vessel ages, every single piece is replaced until none of the original ship remains. With all new parts, the philosophical question is whether it is still the same ship. And if not, at what point did it cease to be the old ship? Centuries later, Hobbes wondered if you were able to build a second ship using all the discarded pieces, would it be a new ship or the original?<sup>1</sup> Which leads us to wonder if we need philosophers at all because one boat is already one too many.

In the investing world, the S&P 500 index could be analogous to the “Ship of Theseus”. This index originally started in 1923 and tracked the performance of 233 publicly traded companies. None of those companies are still in the index. In 1957 the index was expanded to include 500 companies and took on the name it still uses today. Only 53 of the original 500 members remain.<sup>2</sup> Some have been removed; others were part of mergers and acquisitions, and some simply went out of business because they failed to adapt to emerging technologies. Think Kodak. For anyone born in the 1990s or later, they made this product called “film” that you put into a camera that wasn’t a phone. Then you took a bunch of pictures and drove the “film” to a specialty store to get “developed”. Then you waited about three days, picked up your photographs and discovered that you had taken 24 pictures of your finger. Can’t imagine why they went out of business.

Clearly, today’s S&P 500 is not your grandfather’s index. But it’s not just the companies that make it different. It’s the construction of the index itself that can cause dramatic shifts. The index is not equally weighted amongst all 500 companies. If it were, then each company would represent 0.2% of the index. Instead, it is a market cap weighted index. The larger the market capitalization of the company, the more space they occupy in the index. To determine market cap, simply multiply the share price by the number of shares outstanding.

Looking at the S&P 500 as our “Ship of Theseus”, consider the top 10 companies in the index in 1985. They were DuPont, Kodak, Royal Dutch, Amoco, Shell Oil, AT&T, General Motors, GE, Exxon, and IBM. These 10 companies together accounted for 20% of the index. Twenty years later, in 2005, the top 10 companies were IBM, AIG, Johnson & Johnson, Bank of America, Pfizer, Walmart, Citigroup, Microsoft, Exxon, and GE. They again represented about 20% of the index and were distributed across different sectors. Today, in 2025, the top 10 companies are JP Morgan, Berkshire Hathaway, Broadcom, Tesla, Meta (Facebook), Alphabet (Google), Amazon, Microsoft, Nvidia, and Apple. Those 10 companies now account for close to 40% of the index and the technology companies alone are around 35%.<sup>3</sup> There has never been such narrow leadership in the S&P, and when so many financial pundits say, “just buy the index,” we think it’s important to understand what you are buying and complement that with other investments.

Doritos are delicious but you can't eat just them and nothing else without some risk.

The members of the S&P 500 and the weightings of top companies will continue to change. As illustrated above, the index has shifted from a focus on Energy in the mid-eighties to Technology today. Proper risk management through diversification requires a disciplined process to monitor holdings and sector weightings. Without that, your portfolio becomes a ship without a rudder.

1 <https://www.thecollector.com/the-ship-of-theseus/>

2 <https://www.madisontrust.com/information-center/visualizations/a-timeline-of-the-sp-500-companies-by-date-added/>

3 JP Morgan Guide to the Markets, September 30th, 2025

## Interest Rates in the Spotlight

*This is a reprint from a First Trust article dated October 29, 2025, by Brian Wesbury, Chief Economist and Robert Stein, CFA, Deputy Chief Economist.*

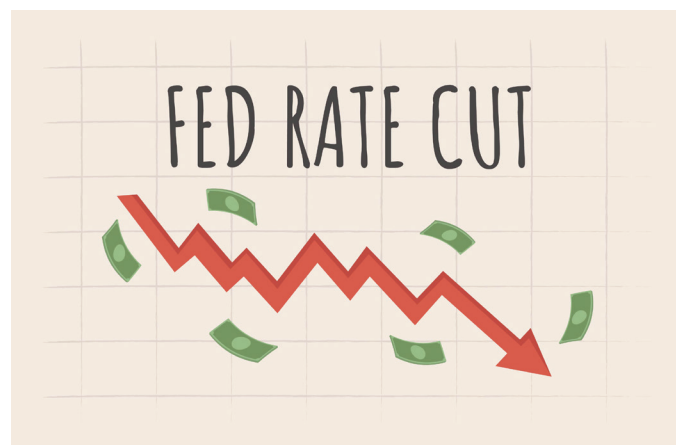
The Federal Reserve cut rates by a further 0.25% today, despite the ongoing government shutdown meaning limited data releases to judge the pace of progress on the dual mandate. At the same time, the Fed announced an end to reducing its balance sheet. Markets have been pricing in another rate cut to come in December, but all eyes were on Powell for any hint at how the Fed is leaning.

Other than the rare cut and end of Quantitative Tightening (QT) starting December 1, the Fed statement was little changed in substance from the meeting mid-September. Most text changes were simple wording shifts to note that job gains had slowed and the unemployment rate ticked higher as of the last time employment data were released in early September. Meanwhile, last week's CPI release showed inflation still running above the Fed's 2% target. Notably there were two dissents to today's actions, and they moved in opposite directions. Fed Governor Stephen Miran voted for a larger 0.5% cut, while Kansas City Fed President Jeffrey Schmidt voted to hold rates steady.

With little forward guidance on Fed thinking in the published statement, focus shifted to today's press conference for clues on what to expect at the Fed's final FOMC meeting of the year scheduled for December 9-10. And the press conference did not disappoint.

Even before getting into questions before the press, Chair Powell headed off the two questions that were sure to be asked. First, he began by emphasizing that today's meetings saw "strongly differing views on how to proceed in December" and that nothing is set in stone about how the FOMC will proceed at the next meeting. Differing views are in part due to varying levels of risk aversion from voting members, while also in part a question of how to proceed without the normally available data to judge progress. There are some non-governmental data releases – such as the ADP employment data out earlier this month reporting a decline in jobs for September, state level unemployment claims, regional Fed Bank surveys, and the ISM reports – that the Fed can use for guidance, but their preferred measures are out of reach for the foreseeable future. As a result, the Fed is treating the current environment like driving in the fog, you still can still drive forward, but you slow down.

The second item that Powell addressed was the reasoning behind the end to the QT process. Put simply, the Fed has been debating when to end QT for some time, and were watching repo rates – amongst other data – for signs of financial market tightening. Recent weeks have seen an uptick in those signals of tightening, and the Fed feels like current Fed balance sheets now look "ample". At \$6.6 trillion, the Fed's balance sheet is multiples larger than it was before the Fed's decision to begin quantitative easing back in 2008, shifting the financial system from a scarce reserve system to an abundant reserve system where the Fed paying banks – not the banks bidding based on demand – dictates rates. We could debate until our faces turn blue the many unintended consequences and policy mistakes associated with QE, but for now the Fed is moving toward a more "neutral" stance with regard to their holdings, and by keeping the balance sheet size constant, it will gradually shrink as a percent of total financial market assets.



We expect the Fed will cut again at the next meeting, and anticipate further cuts to come in 2026 as inflation moderates and employment remains weak.

Much is in motion as we near the end of 2025. Tax policy, tariffs, and the AI building boom have led businesses to pick up the pace of domestic investment. Regulatory changes and productivity gains could push growth to move even faster in the years ahead. But we are also still dealing with the uncomfortable process of moving away from government stimulus and massive deficit spending that have boosted growth numbers in the post-COVID era but were unsustainable. Progress is being made, but there is still much work to do. And with the Fed at the wheel, mistakes aren't out of the question.



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## Team Tidbits

### Brad

This summer was awesome. The weather was nicer than normal. Shariae and I do our best not to travel from Memorial Day through Labor Day. We celebrated our 44th wedding anniversary and my oldest son, Bradley, turned 40. Bradley and his girlfriend, Katie, can work remotely. Over the summer they escape the humidity in Austin and breathe cool mountain air. Most weekends Dani, Chase, and Bella spend time at the cabin, and we are one big happy family. From time to time, I subject everyone to a silly recipe I find on Instagram. After Labor Day I took a golf trip to Sand Valley in northern Wisconsin with three friends. Sand Valley has a similar feel to Bandon Dunes. We played three different courses with walking caddies. It's a special place for a great golf experience. It's hard not to talk about Bella, she and I are close. When she says do you want to play, I always say yes. The two of us are experts at building forts, and she and I carved a pumpkin together, which I had not done in years! "SMILE!"

### Darin

We had an amazing summer which included a grandparent sponsored Alaska cruise with my side of the family. Eleven of us boarded the ship in Seattle and all eleven returned. Teagan and her cousin almost didn't make it back on board in Victoria. They had just minutes to spare. When they announce a departure time at a port of call, they mean it! Our favorite stop was probably Sitka because we got to see lots of wildlife (and it was my birthday!) Teagan is now a junior at the University of Idaho and is still loving it. She continues to excel in her classes and we've made it down for three football games this season. Fall has been great with some nice days for some extra hikes and bike rides. We are now getting ready for winter and what we affectionately call, "The Deep Dark," with the continued loss of daylight. Teagan has her season pass to Lookout and I'll try to go up with her for a few runs. Strapping into those snowboard bindings gets harder every year.

# Team Tidbits Continued...

## Kate

Our family enjoyed a very fun-filled summer. Terry and I are very fortunate to have our daughters and their families near and even more blessed they choose to spend time with us. Terry is the brand-new owner of a titanium knee which was timed perfectly so he could enjoy nearly 100% of all post-season MLB games. We are sliding into a beautiful autumn here in Northern Idaho. Everyone is happy, healthy, and busy and I hope you are the same. We are looking forward to the upcoming holidays!

## Steph

Happy Fall Y'all! Or dare I say winter at this point? If I had to guess, I bet we will see a snowflake or two by the time you read this. We enjoyed a nice fall and Halloween. Daws settled on an Elsa costume after wavering for a few days between a Disney princess or a wicked witch! We are looking forward to the holidays and all the fun it brings. Matt and Daws are getting excited for the ski season and Daws keeps asking when it's going to snow. I plan to hang back most of the weekends to study for the Series 66 exam, which is my final exam to be licensed in our industry. I absolutely can't wait for this testing chapter of my life to be over! Anyway, I hope you all had a great autumn season and Happy Holidays!



Left to right: **Kate Absec**, FPQP®, Senior Registered Associate; **Brad Dugdale**, Senior Vice President, Financial Advisor, Portfolio Manager; **Stephanie Brunner**, Client Associate; **Darin Hayes**, CPFA, CWS®, Senior Vice President, Financial Advisor, Portfolio Manager.



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