Portfolio *Confidential*

Barbara Stewart

I am a relatively sophisticated investor but want to keep things simple, so I invest in a few broad index Exchange-Traded Funds (ETFs) with low costs. I am concerned about the high valuations of the "Magnificent Seven"—I worry that they have done so well they are bound to underperform over the next few months. Is there an easy way that I can hedge against high exposure to those companies in my S&P 500 ETF?

So, you basically want to invest in the S&P 493? Your question is a good one: the level of industry concentration in a few stocks and their valuations are concerning.

As of 28 September, 2023, the Magnificent Seven (M7) made up 27.36% of the S&P 500 (Apple (6.96%), Microsoft (6.47%), Amazon (3.17%), Alphabet (4.04%), Nvidia (2.95%), Tesla (1.89%), and Meta (1.88%). We haven't seen that much of the market concentrated in so few stocks in a century.

As of 1 September, 2023, they had contributed almost 65% of the S&P 500 Index YTD returns. They contain some elevated valuations: as an example, Nvidia is growing fast but is trading at about 20x current-year sales and 12x 2025 revenues.

At present, there is no special product fund or ETF that excludes these seven companies. You could hedge or immunize your portfolio perfectly against the M7: buy an S&P 500 ETF and then short the seven stocks in exact correspondence to their current weightings. (As a reminder, the weightings above are as of September 28 and will almost certainly have changed by the time you read this response.)

But running a seven-stock short is complicated.

You might think you could do this an easier way by using an inverse ETF or Exchange-Traded Note (ETN.) There is an ETN (created a couple of years ago when the top tech stocks were called FANG—Facebook, Amazon, Netflix, Google) called FNGS and a triple-levered inverse version called FNGD. The full name is the MicroSectors FANG+ Index -3X Inverse Leveraged ETN, and it is sold by BMO.

The investment is made up of the M7, plus Netflix, Snowflake and AMD (although the exact names change at times.) Those last three are about 1% of the S&P 500, so while the hedge is not exact, it is pretty close. If you buy (for example) $100,000 of an S&P 500 ETF and also buy $9,120 worth of the FNGD, you would—FOR THAT DAY—be almost perfectly hedged.

The only problem with this is that these triple-leverage ETNs track performance very well intraday. But over periods longer than a day, there can be significant tracking error, so this really is only a good short-term strategy, not something you can "set and forget." (To explain tracking error, assume you have an index that declines 1% in a day. The triple-levered version would go down 3%, while the triple-levered inverse would be up 3%. But assume an index that declined 10% in a month. The triple-levered inverse version would be up less than 30%, possibly much less.)

If you want to keep it simple, you may be shackled to the Magnificent Seven—for good or for ill, at least until someone introduces an S&P 493 ETF!

I am a recently divorced 43-year-old woman. Up until the divorce, I had been sensible with money — always living within my means. I'm ashamed to admit that I have been spending frivolously for the past few months, and I feel out of control. My breakup came as a shock, and I guess I've been in an emotionally charged state trying to cope by distracting myself with spending: a shopaholic divorcee (which sounds like a great Chick Lit book title!) I keep buying new clothes and going out to expensive restaurants, but this doesn't really stop the pain. How do I get a grip on myself? Any suggestions would be greatly appreciated.

First, I'd like to thank you for sharing your situation. I believe this is quite common behaviour, and I can relate because I experienced the same thing after my first husband and I split over 20 years ago. We sold our matrimonial home, and suddenly, a rather large amount of cash appeared in my bank account. Instead of putting together a financial plan for my future, I threw caution to the wind and spent thousands of dollars on a new wardrobe, in part to please my new romantic partner, now my husband. I knew I was out of control, but I felt compelled to keep spending.

Things finally changed when a friend and I splurged on a weekend in New York, and after I bought yet another new suit at Celine, I broke down in tears in front of my new partner as I was showing it to him. I realized I didn't even like the suit! That moment shifted my thinking. I came to my senses, and shortly thereafter, I put together a solid spending and investing strategy for my future.

But not everyone will have such a moment of realization, and even if they do, they may not be able to overcome their spending issues. In this case, your best bet will be to seek professional help. In her article for Canadian Family Offices, *Money-related disorders are proof that wealth can't fix everything*, Jen Lawrence points out "As awareness of money disorders and dysfunctions grows, help has become available. Some financial psychologists specialize in helping with disordered money behaviours. For common money disorders such as pathological gambling and compulsive spending, addiction programs can deal with the root cause as well as the symptoms."

Whether or not you decide to work with a professional psychologist, there are well-researched ways that you start working on changing your spending behaviour. In 2017, I interviewed Elin Helander, a behavioural scientist in Stockholm—she is the former Chief Science Officer at two Swedish-based fintech companies called Dreams and Dreams Technology, improving people's financial well-being and financial health. She is the author of the book "Luran hjärnan att spara" (Roos & Tegner 2018), which translates to "Trick your brain into saving money".

Helender shared her personal tips on how she controls her own spending:

1. Set up a structure to separate spending from savings.

"I know myself. I knew that I would have to set up some sort of structure to separate my spending from my savings. This mental accounting is critical because otherwise if I have the opportunity to do something, I will always choose to take it. My brain has a way of rationalizing reasons to spend money: "Don't I need a new bag? Yes, I do need a new bag. It's a good deal. My old one is too small…" I set up a structure in which I save the same amount every month. It doesn't matter if it is Christmas or any other time of year; I save the same amount, and I put it away immediately."

2. Set up different bank accounts at different banks!

"I need to make sure that my savings are completely separate from my spending money—I mean in a separate bank account and in a separate bank. It has to take a lot of time to transfer the money back from my savings if I ever think I need to do this. I don't want it to be an easy process. I always over-save. And if I must transfer some of my savings back at the end of the month, I am very aware, and I feel guilty about it. I know that this was my hard-earned savings, and now it has become my spending money. I really believe that if you want to change your economy, you have to change your behaviour. Most people procrastinate, so you must control what you can and do something about it!"