Castle Tandem Fund Update

It goes without saying that the market environment we find ourselves in has been tough to navigate. When investing for the long-term, one of the hardest things to do is stay invested and committed to your plan. At every turn, there is something that can lead you astray in hopes for a better outcome. And in our view, rarely does it work out in one's favor. Investment philosophies or asset allocation strategies that once worked are seemingly stuck in the mud. It's hard to wonder, but is this time really different?

I contend that it is not different. But in the moment, it can be difficult to convince oneself otherwise. It is very easy to get caught up in chasing the next hot fad and lose sight of the risks you are taking on. In the late 90s, unless you were a growth manager, you likely woefully underperformed. That was until technology stocks peaked in March 2000 and many quickly realized that the price you pay for something really does matter. A few years later, unless you owned a couple of houses, it was easy to think you were missing out on generational wealth creation through real estate. It just so happens that maybe it wasn't too healthy after all for home prices to rise at a 20% annual clip.

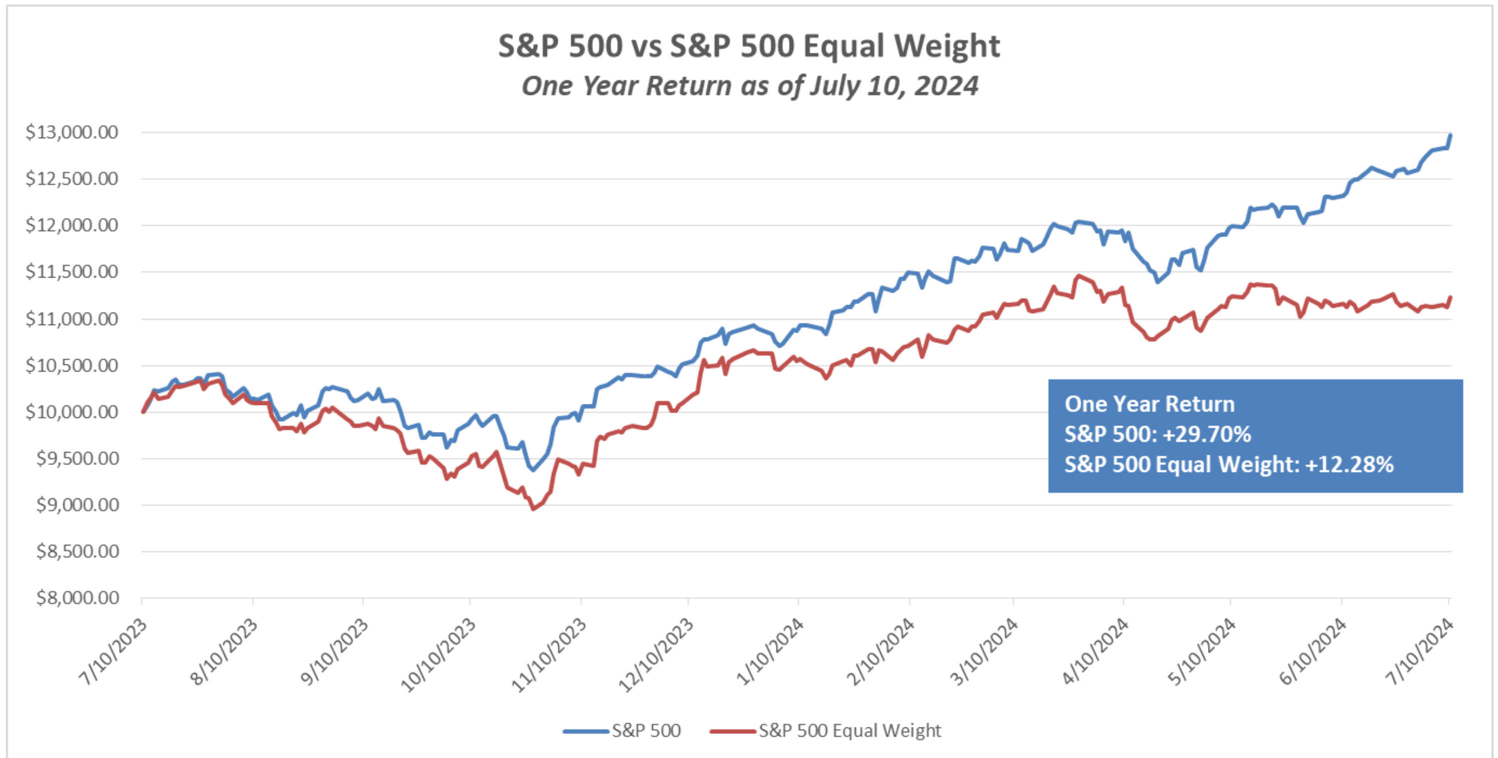
Fund shareholders have likely heard us say that our strategy is not the "market". The strategy is not designed to look like the "market". We are active managers who look for opportunities in individual businesses regardless of what is going on in the "market". Ultimately, we are looking for businesses that we believe can consistently grow revenues, earnings and cash flows through any economic cycle. We require that the business pay a dividend, and we demand that it also grows. There are times when the companies we own are in favor and other times when they are simply temporarily unloved. But at no time is it part of our process to chase what is doing well for the sake of trying to "beat the market". The second we do that we lose the ability to do what we have always said we would strive to do, which is to provide a more consistent, more repeatable and less volatile investment experience.

Financial Markets Review

Last month, strength in the market-cap weighted S&P 500 and the tech-centric Nasdaq persisted with both indices logging their second straight monthly gain and fifth monthly gain since the start of the year. The S&P 500 rose 3.5%, while the Nasdaq rocketed even higher, to the tune of 6%. Once again though, it was Groundhog Day in June. The narrative that has dominated markets for nearly two years now continues in force, as the big keep getting bigger while most everything else languishes. While big tech stocks drove the market-cap weighted S&P 500 and Nasdaq higher, declines were seen in both the small-cap Russell 2000 and equal-weighted S&P 500, as each index fell 1.1% and 0.9%, respectively.

As we've highlighted on many occasions over the past year, one way to measure the impact that the largest companies are having on broader financial markets is to examine the performance dispersion between the market-cap weighted S&P 500 and equal-weighted S&P 500. As the name implies, the market-cap weighted S&P 500 has the greatest allocation to the largest companies by market cap. Whereas, within the equal-weighted S&P 500, each company has

the same allocation regardless of size. Currently, within the market-cap weighted S&P 500, Microsoft, Apple and Nvidia make up approximately 21% of the entire index. Then when you add in the next three largest companies – Amazon, Meta and Alphabet – the six largest companies make up roughly one third of the entire S&P 500 index. Within the equal-weighted S&P 500 index, these same six companies make up 1.4% of the index. Therefore, the equal-weight S&P 500 eliminates the ability for any one or even a few companies to dominate the index's performance.



We have already noted the dispersion between the market-cap and equal-weighted indices in June, but looking back even further, June was just a continuation of the trend. For Q2, strength in the Magnificent 7 stocks propelled the market-cap weighted S&P 500 to new record highs, advancing 3.5%, while the equal-weighted S&P 500 fell 3% over the same timeframe. The stark difference between the two indices has led many to voice concerns regarding market breadth amid such narrow market leadership, which is stirring up comparisons to the Tech Bubble. Since the beginning of the year, Nvidia has accounted for roughly one-third of the market-cap weighted S&P 500's entire return. When you add Microsoft, Amazon and Meta, those four stocks have contributed nearly 50% of the entire index's return! The outperformance amongst a handful of the largest companies has caused the return differential between the equal-weighted S&P 500 and the market-cap weighted S&P 500 to be at its largest spread since 1999.

As the market-cap weighted S&P 500 continues to set a record nearly every day, the sheer number of stocks that are underperforming the index is truly stunning. According to Ned Davis Research, only 25% of S&P 500 stocks are outperforming the index over the first half of this year, which is on pace to be a record low. Over the past 60+ years,

the only other time so many stocks within the S&P 500 were underperforming the index return was in 1998. And most recently, according to Dean Christians of SentimenTrader, the percentage of stocks within the S&P 500 that are outperforming the index over any 21-day rolling period just dropped to the lowest in history, which spans nearly 100 years of data.

Weakness under the surface of the broader indices appear to also be coinciding with a recent streak of weaker economic data. The Citi Economic Surprise Index is at its most negative level since the summer of 2022, as the June ISM Services index unexpectedly moved back into contractionary territory. At the same time, the labor market has shown signs of cooling with the unemployment rate ticking higher for the third consecutive month to the highest level since November 2021. The recent spate of weak economic data coupled with somewhat downbeat commentary from several retailers and consumer companies has reignited calls for the Fed to begin cutting rates. An uptick in negative economic surprises would likely solidify expectations for the Fed to embark on a rate cutting cycle. However, as much as rate cuts might be spun as a positive for equities, it should also elicit a measure of caution, as rate cuts would signify real headwinds for economic and corporate growth.

William "Billy" L. Little, Jr., CFA
Co-Chief Investment Officer

Billy Little joined Tandem in 2006. He oversees Tandem's corporate financials, including business planning, budgeting, and vendor negotiations. He also directs Tandem's quantitative and fundamental research. Billy began his career in the investment industry in 2004, as a Financial Advisor with Ameriprise Financial in Baltimore, Maryland. He is a regular member of the CFA Institute and past President of the CFA Society South Carolina. Billy graduated from the College of Charleston with a Bachelor of Arts in Business Administration with a concentration in Finance.

The opinions expressed are those of the Fund's Sub-Adviser and are not a recommendation for the purchase or sale of any security.

The Standard & Poors 500 Index (S&P 500) is an index of 500 stocks weighted by their market cap. The S&P 500 Equal Weight Index is the equal-weight version of the S&P 500. The Russell 2000 Index measures the performance of the small-cap segment of the US equity universe. The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market.

As of June 30, 2024 the Castle Tandem Fund held the following positions mentioned in this report: Microsoft Corp. (MSFT, 3.01% of Fund total net assets). The Fund does not have a position in Apple, Alphabet, Amazon, NVIDIA, or Meta.

The investment objectives, risks, charges and expenses of Castle mutual funds must be considered carefully before investing. The prospectus for each Fund contains this and other important information about the investment company, and it may be obtained by calling 1-877-743-7820, or visiting www.castleim.com. Read it carefully before investing.

Important Risk Information

The risks associated with the Fund are detailed in the Fund's Prospectus. Investments in the Fund are subject to common stock risk, sector risk, and investment management risk. The Fund's focus on large-capitalization companies subjects the Fund to the risks that larger companies may not be able to attain the high growth rates of smaller companies. Because the Fund may invest in companies of any size, its share price could be more volatile than a fund that invests only in large-capitalization companies. Fund holdings and asset allocations are subject to change and are not recommendations to buy or sell any security.

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