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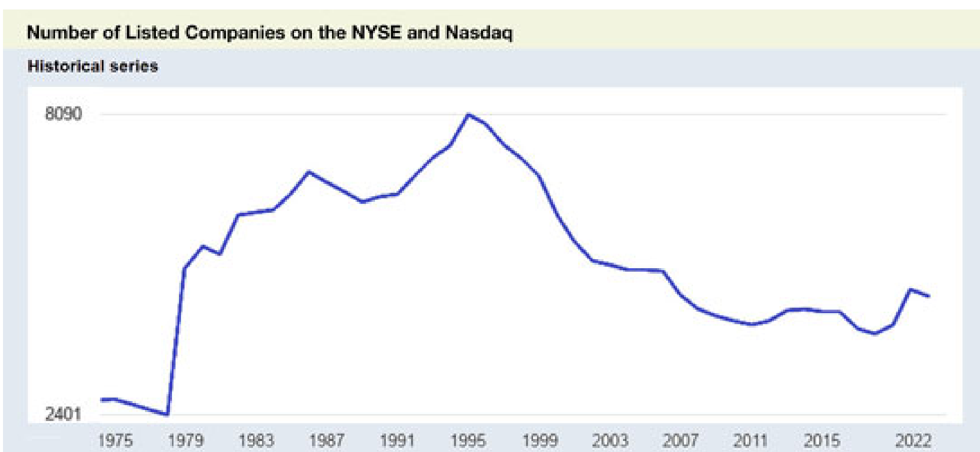
Stock Markets Evolve and Change

One of the more misleading ways to analyze the U.S. stock market is to look at the past 100 to 200 years and anticipate that market returns will in some fashion reflect the past. But today's stock market is very different than the stock market in 1990, 2000, or even 2020, to say nothing of 50 years ago.

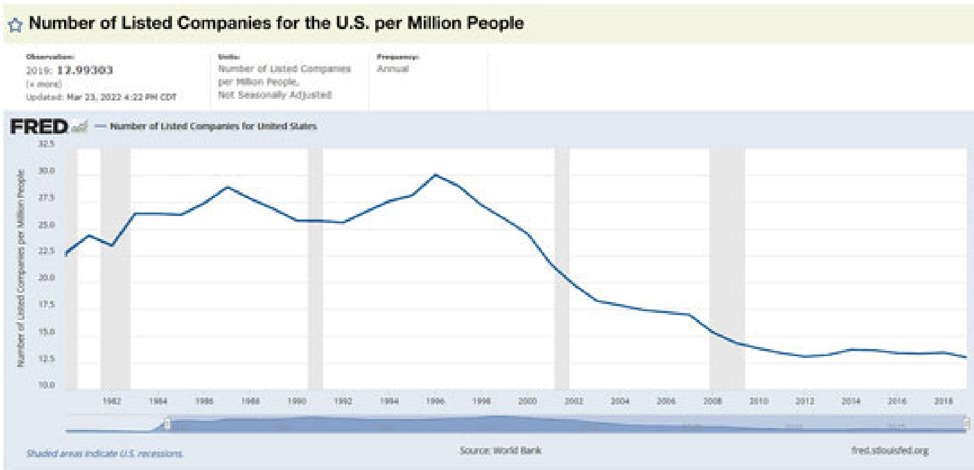
One of the most significant changes has been in the composition of the equities market. The number of public companies in the U.S. has declined since peaking in the mid-1990s. Domestic companies listed on Nasdaq and the New York Stock Exchange numbered 4,315 in 2023, compared to more than 7,300 listed domestic companies in 1996, according to research company Statista.

The Wilshire 5000 Total Market Index was designed as a market-capitalization-weighted index of the market value of all American stocks actively traded in the United States. As of December 31, 2023, the index held not 5,000, but 3,403 components.



SOURCE: Data from TheGlobalEconomy.com – Includes listed domestic companies and foreign companies which are exclusively listed, and have shares listed on an exchange at the end of the year. *https://www.theglobaleconomy.com/USA/Listed_companies/*

As the population of the U.S. increased, the number of publicly traded companies available to investors decreased dramatically in the last 28 years, illustrated by data from the St. Louis Federal Reserve Economic Data (FRED).



SOURCE: Source: Federal Reserve Economic Data, St. Louis Federal Reserve - https://fred.stlouisfed.org/series/DDOM01USA644NWDB

Why is that concerning? According to the *Wall Street Journal(3)*, by 2017, microcap, small-cap and midcap stocks all but disappeared from U.S. exchanges, while the average age and average size of listed stocks increased. More mature businesses have difficulty achieving the return potential of smaller, faster growing companies.

There's no shortage of small and growing businesses in the U.S. The U.S. Small Business Administration estimates show 33.2 million small businesses with revenue ranging from $1 million to over $40 million and an employee workforce of under 500. There are an estimated 350,000 middle-market companies in the United States accounting for more than 33% of U.S. GDP. The "middle market" includes businesses that are valued between $10 million and $1 billion. The good news for many of these companies with innovative products and ideas and the desire to grow their businesses is a proliferation of private financing.

Emerging companies have found financing easier to obtain through private capital from venture funds and private portfolios, without the exposure to activist shareholders, SEC disclosure requirements, shareholder lawsuits, and the costs created by a public listing. The number of initial public offerings fell from 845 in 1996 to 154 in 2023. Most individual investors are locked out of private equity investments by "accredited" investor rules which require certain criteria be met to show the investor is able to bear the risks of investments that lack the normal disclosure requirements that come with SEC registration.

While the number of public companies is shrinking, the Investment Company Institute(4) reports that as of December 2023, the total number of index-based and actively managed mutual funds exceeded 9,300, including equity, bond, money market and hybrid funds. More than 3,000 Exchange Traded Funds (ETFs), including commodity ETFs, are domiciled in the United States.

As a result, today's financial markets are dominated not by public companies, but by investment products. Is this good or bad? It is not necessarily either, but it does change the dynamics of the financial market and competition for gains in an increasingly limited equity market. Market values are more likely to fluctuate in response to fund flows rather than fundamentals. With the potential for greater AI computerized trading, market reactions and volatility may be very different than 50 or even 10 years ago.

Recognizing that time changes financial markets helps investors view markets based on contemporary factors, not expectations created by historical data. There are no guarantees when it comes to investing, particularly with respect to the age-old caution, *past performance is not indicative of future returns.*

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3. Where Have All the Public Companies Gone? by Jason M. Thomas, Wall Street Journal, Nov. 16, 2017.
4. https://icifactbook.org/

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