

The Habits of Great Investors: How can this market keep going up?

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The US continues to see a steady acceleration in labor productivity. This is generating economic outperformance and efficiency gains on a global scale, which is reflected in exceptional equity market performance.

- Troy Ludtka, SMBC Nikko

Hello, great investors. In my last video, we discussed the widespread fear about stock market overvaluation. Many people worry that the market has risen too quickly, yet it continues to climb, with the S&P 500 recently hitting an all-time high above 6,700. This persistent growth leaves many investors confused about why it's happening, especially as financial journalism often focuses on the market's lofty levels, warning of a speculative bubble.

The real drivers behind market growth

Despite this negative sentiment, I believe there are three critical, positive trends in the U.S. economy driving this growth, which the media rarely covers.

1. Household net worth is surging

A recent Federal Reserve report shows household assets grew by \$7.3 trillion in one quarter, while liabilities rose by only \$183 billion, leading to a 6.1% year-over-year increase in net worth to \$176 trillion. This includes a \$3.7 trillion surge in stock portfolios and a \$1.2 trillion increase in real estate values. Home equity now accounts for 73% of home values — the highest since 1958 — and the liability-to-asset ratio has dropped to 10%, the lowest since the 1960s. This strong consumer balance sheet is a major, under-reported driver of market growth.

2. Labor productivity is accelerating.

The Bureau of Labor Statistics reported a 2.4% increase in non-farm business sector productivity in Q2 2025, with output up 3.7% and hours worked up 1.3%. Analyst Troy Luka from SMBC Nico notes that the U.S. outperforms other major economies in productivity, generating efficiency gains that reduce inflationary pressures and

drive real wage growth. This exceptional performance supports the equity market's strength.

3. Corporate profit margins are expanding dramatically

In the 1990s, S&P 500 profit margins averaged 5.5%, but they've risen to 12.3% in Q2 2025, with projections of 12.7% and 12.8% for Q3 and Q4. This growth reflects a shift from capital-intensive industries to efficient, information-driven businesses like Nvidia, Amazon, and Apple, which require fewer tangible assets and employees. This secular change in the economy is the primary reason stocks keep rising, yet it's rarely highlighted by the media.

The misconception about private markets

I've also noticed a shift in investment product marketing over the years. In the 1990s, advisors were pitched public equity mutual funds, but now my inbox is flooded with private equity and alternative investment opportunities. Some marketers suggest public equities are dead and that private markets offer superior, risk-free returns. I disagree. While private investments can have a place in a diversified portfolio, they're not a magic solution.

The case for public equities

To illustrate, consider Warren Buffett's 2009 bet against Protege Partners. He wagered that the S&P 500 would outperform a basket of top hedge funds over a decade. Nine years later, the S&P 500 delivered a 7.1% annual return, while the hedge funds managed only 2.2%, prompting Protege to concede early. Similarly, the Los Angeles Lakers were bought in 1979 for \$67.5 million and sold in 2025 for \$10 billion, yielding an 11.5% annual return. However, investing the same amount in the S&P 500 would have grown to \$12.9 billion, a 12% annual return. This shows that passive public market investments can outperform even high-profile private deals.

Why public markets still deserve a place

Public equities, like the S&P 500, offer a 10% average annual return over centuries, with liquidity and tax advantages, all while owning stakes in the world's best companies — many of which we interact with daily. Any alternative investment must clear this high bar to justify the extra effort. I'm not dismissing private markets, but public equities remain a strong component of a diversified portfolio.

Final thoughts

I have two requests. First, please share your thoughts in the comments — I'd love to hear what you think of this perspective. Second, the past year has been volatile, and you likely know someone struggling to navigate the markets. Share this content with them and introduce them to our team at Concentus. We'd love to help. Enjoy the beautiful fall weather, and I'll see you soon.

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