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Crowded House

Never before have US equity markets been so accessible – or so crowded. Twenty years ago, around 4 billion shares were traded daily across US stock markets. Today, it's over 15 billion. Yet long-term investment managers like Orbis, Baillie Gifford, and Dodge & Cox account for only a fraction of that activity, and their share is shrinking.

The surge in trading activity and the influx of new participants have made markets more complex and unpredictable. Stock prices now react sharply, even to seemingly minor news. Pinpointing the drivers of short-term price movements has never been easy, and today it's harder than ever.

The total value of US stocks traded in 2024 reached $50 trillion, more than double the 2014 figure. But this explosion in trading volume isn't being driven by long-term investment managers. So who is behind it? And what does it mean for those who still invest with a long-term lens?

New Players in the Market

Over the past two decades, four new types of participants have come to dominate US equity trading, crowding out the long-term, valuation-driven investors who once held far more sway.

These new players typically have short time horizons and are less focused on company fundamentals - the financial health and business strength that determine a company's long-term value. That's a stark contrast to long-term managers who buy undervalued companies and hold them until their true worth is recognised.

Let's take a closer look:

Market Participant	Objective	Time Horizon	Valuation Sensitivity
Long-term investors	Maximise returns by buying undervalued companies	Years	High
Passive investors	Track an index	Days to decades	Low
High-frequency traders	Exploit short-term price movements	Milliseconds	Low
Pod shops	Generate short-term trading profits using diverse strategies	Days to months	Low
Retail traders	Mainly speculate or follow trends	Mostly days to months	Low

- **Passive investing** has ballooned in the US. Today, passive is bigger than active, accounting for over 50% of equity fund assets globally.
- Likewise, **high-frequency trading** has expanded with technological advancements that allow these participants to buy and sell stocks extremely quickly, often within milliseconds.
- **Pod shops** deserve special mention. These are hedge funds structured into multiple autonomous teams (or "pods") each with its own portfolio manager, analysts, and trading strategy. While they operate under a shared umbrella, each pod operates like a mini hedge fund, competing internally for capital. Their use of leverage and rapid-fire trading across sectors makes them a significant and sometimes destabilising force in today's markets.
- Over the past decade in particular, **retail trading** has risen in popularity. Easily accessible, low-cost platforms have become popular ways for novice investors to buy and sell stocks. In 2024, retail traders account for 17% of trading activity in the US. This is almost double what it was a decade ago.

These four participants account for the majority of trading on the US stock market and their presence is being felt.

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Three Key Effects on Markets

1. More Liquidity, but Not Always When It Counts

More participants mean more liquidity, in other words, it's easier and cheaper to buy and sell shares. Since the 1990s, the average cost of trading US stocks has dropped by about 80%. That's helped make markets more accessible: in 2014, there were 90 million individual investor accounts in the US; by 2024, there were over 200 million.

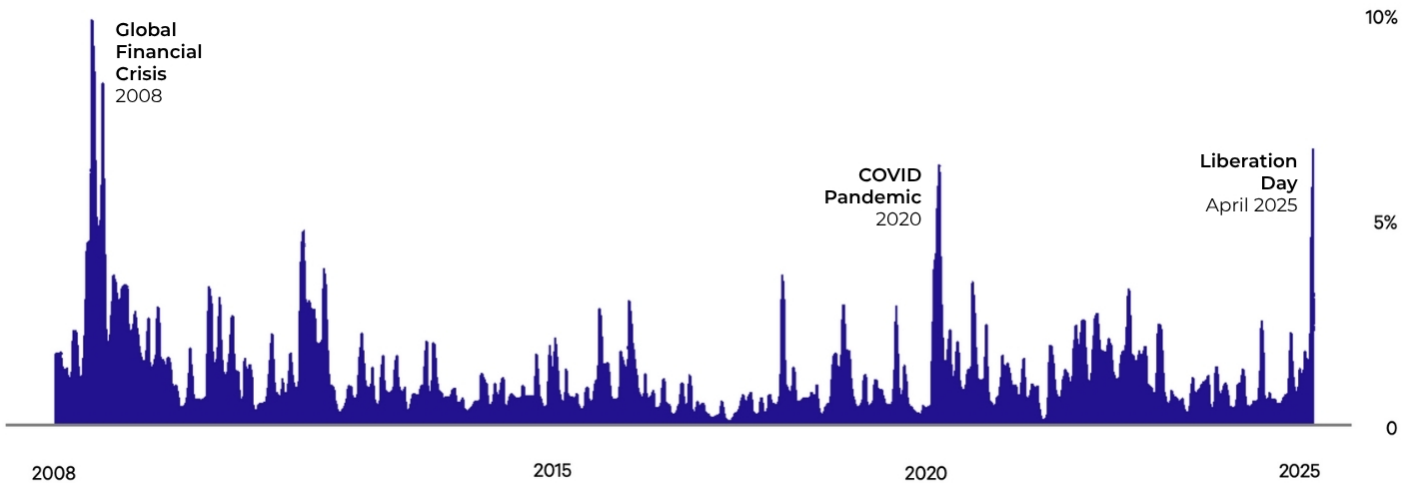
But liquidity becomes a problem during market stress. When many participants follow similar strategies, they often sell at the same time, draining liquidity just when it's needed most. This can make it harder for investors to exit positions without affecting prices.

2. Increased Volatility

Short-term traders react quickly to news, creating more price swings. Meanwhile, the decline of long-term investors has removed a stabilising force. Traditionally, these investors buy when prices fall and sell when they rise, helping to smooth volatility. Without them markets can fall (or rise) further and faster.

The COVID crash and "Liberation Day" (President Donald Trump's 2 April 2025 tariff announcement) are examples of how markets can move sharply when short-term players dominate. These events showed how quickly sentiment can shift, and how little it sometimes takes to trigger large moves. This is illustrated in the chart below, which shows how much the S&P 500 moved from its lowest to highest point within a single trading day, highlighting just how extreme market swings can be during periods of heightened uncertainty.

S&P 500 Low-to-High Swing



Source: Bloomberg, as of 14 April 2025; provided by Sands Capital and adapted by Fundhouse

3. Behavioural Biases

Many new participants exhibit herd behaviour, when investors follow the crowd rather than their own analysis. Pod shops and retail traders often buy stocks that have recently gone up, the opposite of long-term investors, who tend to buy what's out of favour.

This momentum, when rising prices attract more buyers, can inflate prices far beyond fair value. US listed company GameStop's 2021 rally driven by retail investors pushing the stock price higher and higher, is a pertinent example of this behaviour. For everyday investors, this can feel like a missed opportunity — or a temptation to jump in late. But when prices are driven more by popularity than fundamentals, the risk of buying high and selling low increases.

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Long-Term Investing: Out of Fashion, but Still Powerful

Excessive trading, short-term thinking and herding don't align with the principles of long-term investing. Long term investment managers take a different approach: they buy companies with strong fundamentals when they're undervalued, and hold them until the market catches up.

But today's market structure presents new challenges:

- **Sharp price moves:** Stocks can drop 10% in a day for missing earnings expectations (what analysts predict a company will earn).
- **Valuation drift:** When fewer investors focus on fundamentals, prices can drift away from a company's true worth — and stay there. While this is frustrating, it also creates opportunity: when sentiment eventually shifts, quality businesses can re-rate quickly.
- **Overreactions to news:** Markets can lose trillions and recover in days. After the "Liberation Day" tariff announcement, US markets lost nearly $6 trillion, only to bounce back shortly after.

Despite these challenges, long-term investing may be more attractive than ever. With fewer participants focused on fundamentals, there's more room for skilled managers to find stocks that are trading at prices that don't reflect their true value.

This is why many of the managers we rate highly continue to focus on long-term fundamentals. They're not ignoring the noise, they're choosing not to react to it. Often, they act as a counterbalance to market trends: buying when others are selling, and seeking value when others chase momentum. This contrarian approach can be uncomfortable in the short term, but rewarding over time.

The Long View

The US equity market may feel crowded, noisy and fast-moving but that doesn't mean you have to be. The rise of AI-powered strategies and short-term trading has changed the rhythm of the market. Thoughtful, long-term investing has become rarer and more valuable. Maintaining a level head, a long time horizon, and a focus on fundamentals is becoming an increasingly scarce and attractive way to generate compelling returns. Resisting the urge to react to every market movement is one of the most powerful advantages an investor can have. It's not always easy, but it's often worth it.

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MARKET REPORT

30 06 2025

		3m	YTD	1yr	3yr pa	5yr pa	10yr pa	5yr Vol1	10yr Vol1
LOCAL MARKET INDICES									
SA Equity	ZAR	9.9%	16.3%	24.3%	17.0%	15.6%	9.3%	13.6%	14.2%
SA Listed Property	ZAR	8.9%	5.1%	23.3%	19.2%	16.0%	2.5%	19.5%	21.3%
SA Bonds	ZAR	5.7%	6.3%	17.8%	12.8%	10.3%	8.6%	7.1%	8.0%
SA Cash	ZAR	1.9%	3.8%	8.1%	7.8%	6.3%	6.7%	0.6%	0.4%
Balanced Benchmark	ZAR	7.7%	10.5%	19.3%	15.7%	13.1%	9.5%	9.4%	9.7%
SA Inflation (1 month lag)	ZAR	0.9%	2.2%	2.8%	4.8%	5.1%	4.9%	1.7%	1.7%
GLOBAL MARKET INDICES BASED TO USD									
Global Equity	USD	11.5%	9.2%	16.3%	18.4%	14.7%	10.8%	15.8%	15.2%
Emerging Markets Equity	USD	11.7%	14.8%	15.2%	8.8%	6.4%	4.6%	16.5%	17.1%
Global Property	USD	4.4%	6.7%	11.2%	3.5%	5.1%	3.1%	18.2%	17.0%
Global Bonds	USD	4.5%	7.2%	8.8%	2.6%	-1.2%	1.1%	7.9%	6.5%
US Cash	USD	1.1%	2.2%	4.8%	4.7%	2.8%	2.1%	0.7%	0.6%
MAJOR INDICES BASED TO RANDS									
SA Equity	ZAR	9.9%	16.3%	24.3%	17.0%	15.6%	9.3%	13.6%	14.2%
Global Equity	ZAR	7.7%	3.4%	13.2%	21.7%	15.2%	15.1%	14.9%	15.9%
Emerging Markets Equity	ZAR	8.0%	8.1%	12.1%	12.2%	6.9%	8.6%	12.8%	13.7%
Global Property	ZAR	0.9%	1.0%	8.2%	6.3%	5.6%	7.1%	16.7%	17.3%
SA Bonds	ZAR	5.7%	6.3%	17.8%	12.8%	10.3%	8.6%	7.1%	8.0%
Global Bonds	ZAR	1.0%	1.0%	5.9%	5.4%	-0.8%	5.0%	10.7%	13.8%
COMMODITIES									
Gold (US Dollars)	USD	5.5%	25.8%	40.9%	21.7%	13.1%	10.7%	15.0%	13.9%
Gold (Rands)	ZAR	1.9%	18.5%	37.1%	25.1%	13.6%	15.0%	15.5%	17.0%
CURRENCIES									
Rand / Dollar	ZAR	3.5%	6.3%	2.7%	-2.9%	-0.4%	-3.8%	12.0%	14.7%
Rand / GBP Pound	ZAR	-2.6%	-2.7%	-5.5%	-7.0%	-2.5%	-2.4%	10.1%	14.1%
Rand / Euro	ZAR	-5.0%	-6.6%	-6.9%	-6.9%	-1.3%	-4.4%	9.8%	13.1%

KEY

Asset Class	Represented By:
SA Bonds	Satrix Bond Index Tracker
SA Cash	STeFi
SA Equity	Satrix ALSI Index Tracker
SA Listed Property	Satrix Property Index Tracker
Emerging Markets Equity	iShares Emerging Markets Equity Index Tracker
US Cash	Fidelity Institutional Liquidity The United States Dollar
Global Bonds	iShares Core Global Aggregate Bond ETF
Global Equity	iShares Developed World Index Tracker
Global Property	iShares Developed Real Estate Index Tracker

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REDFIN WEALTH

INVESTMENT - RETIREMENT - FINANCIAL PLANNERS

June 2025

Spot Rates		30-Jun-25	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
CURRENCIES							
Rand/US$	Rand	17.8	18.4	18.3	17.4	12.1	6.7
Rand/GBP	Rand	24.4	23.7	23.1	21.5	19.1	12.0
Rand/EUR	Rand	20.9	19.9	19.6	19.5	13.5	8.1
RATES							
SOFR 6m $	US$	4.5	4.5	5.4	0.2	0.3	2.9
Repo Rate	Rand	7.25	7.50	8.25	3.75	5.75	7.00
Prime	Rand	10.75	11.00	11.75	7.25	9.25	10.50
All Bond Index Yield	Rand	9.6	9.9	11.6	11.6	8.6	9.7
COMMODITIES							
Gold ($/oz)	US$	3,284.5	3,125.3	2,326.3	1,783.7	1,169.4	438.7
Platinum	US$	1,350.0	993.0	1,012.0	814.0	1,078.0	884.0
Oil (Brent Crude) $	US$	67.7	74.8	86.4	41.3	62.3	55.6
INFLATION							
SA Inflation	%	2.8	3.2	5.1	2.2	4.6	9.4

data provided by FE Analytics

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Fundhouse was founded in 2007 by professionals from the investment management industry. We currently operate from offices in the United Kingdom and South Africa, where we cover the local and global fund industry first hand. Our business is 100% independent and owner managed which means we can offer objective advice and services in the best interests of our clients.

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investment clarity

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