

The Flat Pause

The Lead | November 2025

Nasdaq-100 Index Flat Performance
(12.31.2001 – 12.31.2010)



Source: Bloomberg L.P.

It seems investments that claim to create wealth on an absolute basis may not do as well as many of us might expect. A good example this year is the Nasdaq-100 Index that has seemed to hit new all-time highs in terms of price. Few investors remember that from the turn of the century, and for a decade, the index was flat in terms of price appreciation. What caused the index's flat performance over that time frame, and what changed to improve its absolute performance? First, in our opinion, the starting valuation for the combined stocks in the index made a difference. Since they were expensive at the start they needed to "earn" their way back into favor. Second, macro-economic shocks such as higher interest rates had an influence raising the cost of capital. In the case of this particular index, we believe overcapacity from overinvestment required time for demand to eventually absorb the tech build out.

A similar dynamic may be at play for stocks themselves, or investment managers.

We find a good example that combines both of these properties is Berkshire Hathaway. Berkshire had a prolonged period of flat performance from late 1998 to early 2004. The pause in long-term performance could be ascribed to stylistic challenges such as its value orientation versus growth during the initial portion of that period. While investors may have been frustrated during that time, the disciplined value approach may have helped provide the following trade offs during this period. First, the focus on undervalued predictable businesses meant missing out of the speculative upside from the dot-com bubble, but also avoiding the subsequent bust. Second, during this period the company also maintained a hefty cash balance that was eventually put to work but helped to create depressed returns. The one insurance transaction it did close in 1998 resulted in reserve charges that generated volatility and muted gains through 2004.

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Berkshire Hathaway Class B Shares



Source: Bloomberg L.P.

What can provide an asymmetric edge to hopefully exit a period of flat index or manager performance? We believe in the case of index performance, stocks that yield dividends help augment total returns if price appreciation is limited. In addition, active management of sector exposures may augment returns. In Berkshire's case, performance improved as investments made during its stock trading flat period began to take hold, and its insurance operations were appreciated by the market.

We are finding value in the segment of the market where high-quality companies that pay growing

dividends have generally experienced limited price appreciation despite generating impressive returns on capital. Their dividends augment current returns, while investments that are now in their undervalued franchises have the potential to generate attractive rewards. With many companies at attractive historic valuations, we believe this playbook has the potential to transition flat absolute performance into a resumption of stock price appreciation.

As always thank you for your interest and trust managing your investments.

Charles J. Wittmann, CFA®, Executive Director, joined Sterling Capital Management in 2014 and has investment experience since 1995. Chip is Co-Portfolio Manager of the Equity Income strategy. Prior to joining Sterling, he worked for Thompson Siegel & Walmsley as a portfolio manager and (generalist) analyst. Prior to TS&W, he was a founding portfolio manager and analyst with Shockoe Capital, an equity long/short hedge fund. Chip received his B.A. in Economics from Davidson College and his M.B.A. from Duke University's Fuqua School of Business. He holds the Chartered Financial Analyst® designation and served as President of CFA Society Virginia from 2012-2013.



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The volatility of an index varies greatly. All indices are unmanaged and investments cannot be made directly in an index.

The Nasdaq-100 is a stock market index made up of equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange. It is a modified capitalization-weighted index.

Technical Terms: The **dot-com bubble** was a stock market bubble fueled by highly speculative investments in internet-based businesses during the bull market from 1995 to 2000. It saw the value of equity markets grow dramatically, with the technology-dominated Nasdaq index rising five-fold during that period. **Class B shares**, a type of common stock, often carry fewer voting rights and lower dividend priority than Class A shares. (Technical definitions are sourced from Corporate Finance Institute and Investopedia.)

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Since we began publishing The Lead in 2015, our primary purpose has been to communicate our investment philosophy and process as an investment advisor in the context of changing markets. In creating portfolios that differ from our benchmarks by focusing on characteristics that have a long term history of attractive relative returns according to Ned Davis Research, the portfolios are different from the benchmarks and as a result there can be periods where results differ including below benchmark performance. Since strategies are oriented toward the long term characteristics, if those characteristics are out of favor over a period of time, the given strategy's performance could be challenged in terms of relative performance. While Sterling believes active professional investment management that employs a consistent process with a long term orientation and aligned with client interests offers benefits, management fees to support the active approach can be higher than certain alternatives. When hiring an investment manager we believe it is important to monitor the investment risks taken including sector concentrations, portfolio turnover, and the impacts of dividend policy changes.