

How to Kick SpaceX Out of Your 401(k)

di Burton G. Malkiel

If you have a 401(k), there's a very good chance that at least some of your money is in an index fund, a type of mutual fund that mirrors the composition of major stock markets including the Nasdaq. And that means that at some point, your retirement savings will be invested in SpaceX — no matter how you feel about it or its founder, Elon Musk.

It could be soon. In May, after the company's [request](#) to be listed, the Nasdaq unveiled a rule change that allows SpaceX into its index soon after its Friday initial public offering. (The S&P 500 is requiring the company to wait at least a year.)

Given that so many millions of Americans are suddenly having SpaceX shares foisted upon them, I understand why some financial experts are criticizing the practice of index investing itself. Right now, just a handful of A.I.-related stocks represent almost half the value of the total stock market index. If A.I. stocks collapse, so will the worth of your index fund.

There are few individuals more responsible for the popularity of index funds than I am. I wrote a best-selling book about them and have argued for this investment strategy for over 50 years. In this fraught moment, I want to explain what you should do to protect your wealth. And, for the hard-core anti-Musk faction among us, I offer solutions to salve your conscience.

Let's return to the argument against index investing. Many investment professionals consider SpaceX the poster child of the A.I. bubble. Investor fervor pushed the valuation of the company to approximately \$2.1 trillion by the close of trading Friday — far more than even the most generous traditional valuation standards. The more generous the valuation, the bigger share of the stock market it captures, so SpaceX would immediately become one of the biggest holdings in the market.

Unlike prior initial public offerings, SpaceX shares are already so expensive there isn't a lot of upside potential left. When Facebook, now Meta, went public in 2012 with a valuation of \$100 billion, shareholders were able to benefit financially from its growth to a \$1.5 trillion giant. Amazon went public with a generous (for 1997) valuation of \$440 million, and shareholders profited as it grew into a \$2.5 trillion behemoth. Not so SpaceX. Because it was owned by private investors for so long, much of the gain will immediately be handed off to its venture and private equity backers rather than preserved for new investors.

Moreover, unlike other public companies, SpaceX is employing a dual class share structure that gives Elon Musk essentially complete control with no independent oversight. Public shareholders will, comparatively, have no voice in corporate decisions. Mr. Musk controls multiple related corporate enterprises, raising the possibility of conflicted transactions within the Musk ecosystem. Many investors will be uncomfortable giving him so much power and holding an index fund in which he has so large a share.

These are all legitimate reasons to worry. But in my view, it would be a mistake to abandon an indexing strategy. Timing the market is impossible. Yes, the stock market is unusually concentrated today, and it is likely to get even more so over the next period with Anthropic and OpenAI looking to go public soon.

But the market has always been concentrated. If you had invested broadly in the stock market of the late 19th century, a lot of your money would have been tied up in railroad stocks. In the late 1970s, a bunch of it would have been in oil stocks. In the late 1990s, a disproportionate share would have been in internet stocks. The overall market's generous 10 percent investment returns over the past 100 years have been generated by less than 4 percent of all stocks. The rest have not earned returns any greater than the yield on short-term Treasury bills.

Even when the market is down, index funds outperform. From mid-1999, near the top of the internet bubble, to mid-2000, when the market bottomed out, index funds did better than actively managed funds that try to pick and choose the best stocks to hold. S&P published recent results for its index in March. Last year about 80 percent of actively managed equity funds produced returns inferior to the S&P 500 index. And

the few funds that outperform in one year are not the same as those that win the next year. When the results are compounded over five-, 10- and 20-year periods, over 90 percent of active equity funds underperform the stock market index. Indexing has proved to be the best investment strategy for building wealth.

I recognize, however, that investing is an emotional decision as well as a financial one. And some investments, even the financially sound ones, may make people morally uncomfortable, especially if they dislike some of Mr. Musk's business and public policy activities.

So what can you do if you believe that owning SpaceX is morally indefensible? While there is no perfect replacement for an index fund, there are some alternatives to consider.

One obvious alternative is to confine your investments to so-called E.S.G. funds. These funds include companies based on their environmental, social and governance practices. Putting *all* your money in E.S.G. funds is neither prudent nor virtuous. The problem is that there is no universally accepted definition of what constitutes good E.S.G. or a virtuous company. Different E.S.G. rating services give vastly different scores to the same company. And even when the services agree that the electric carmaker Tesla, for example, is fundamentally "good," some investors will be uncomfortable owning any company associated with Mr. Musk. E.S.G. funds did well when oil prices were falling sharply because they avoided oil companies. But they have high fees and have tended to underperform in other periods.

You could alternatively try to construct a portfolio that is less reliant on tech and A.I. firms than the general market. For example, buy a "value" fund, which tends to hold less risky and more conservatively valued stocks. Or find a high dividend or dividend-growth fund, which may be particularly suitable for retired investors. You won't eliminate the overhyped highfliers, and you could well underperform the total market index. But you can reduce the risk in your portfolio and reduce the high concentration of the current market in new technologies.

If you move in that direction, I'd suggest you follow three rules. First, look at the securities held by the funds so that you are really achieving your objectives. Second, ensure that the holdings in your portfolio of funds are broadly diversified. A portfolio

that is too narrow (for example, invested in just one industry) will carry extra risk. Third, and most important, make sure that the funds you buy have a low expense ratio (0.05 percent or lower). The best prediction of future performance of any fund is the expense ratio. As Vanguard's Jack Bogle once noted, "In investing, you get what you don't pay for."

Finally, I must caution that divesting oneself of bad practices can be a tricky business. I have a friend who became so upset with Mr. Musk that she sold the Tesla she had loved, at a significant loss. Of course, not everyone, particularly those who remember World War II, would have applauded the purchase of the German-made vehicle she bought instead. In our complicated world it is not easy to find universal examples of virtue.