TOO MUCH OF A GOOD THING - or is it just normal?

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The cliché that a rising tide lifts all ships points out that in a bull market most stocks move up. Multiple times in the past 40 years, however, the market tide allowed some stocks to rise much more than others.

There is concern that the S&P 500 (S&P) is too concentrated in a relatively small number of stocks. This is underscored by the fact that as of February 14, 2020, the 10 largest individual stocks (1.9% of the all stocks in the S&P) were 23.9% of the entire S&P 500 capitalization, the fourth-highest percentage in the past 40 years. The three highest top-10 percentages were 25.54%, 25.47%, and 24.96% respectively in 1980, 1999, and 2001. The smallest percent of the top-10 S&P 500 components occurred in 2014 at 17.51%. It is noteworthy, however, that in exactly half of this 40-year span, the top-10 weighted stocks in the S&P 500 were more than 20% of the index. Through the past 40 years, the average representation of the top-ten largest weighted stocks was 20.63%. Backing out the six biggest percentages still leaves an average for the remaining years at 20.01%.

Examining the periods following the two-largest-top-10 percentage representations in S&P 500 shows mixed results. Following 1980, the S&P 500 slipped one year out, but three and five years later the S&P was substantially higher than the 1980 close. Following the 1999 concentration peak, a major recession weighed on the market and made for poor one, three, and five-year results.

After being slightly below 20% in 2016, representation of the top-10 S&P stocks moved steadily higher. Through the next one-, three-, and four-year periods, the S&P likewise moved higher.

The condition of the U.S economy was a common thread in all periods. Market results in the first year after 1980 were negative as the U.S. was in a recession that extended into 1982. Negative results for all measured periods after 1999 coincided with the lingering effects of the 2000 to 2001 recession. The 2016 to the current date market result has had a major economic expansion as a background.

At various times, industrial, financial, energy, and technology stocks have been disproportionately represented in the top 10 of the S&P 500. Over time, other issues could replace those in the current top 10, but history suggests that concentration like this is normal and not a cause for overall market concern. If concentration is an issue it might be that the overly concentrated individual stocks could change and face pressure as others take their place. In the long-term, the economy, not concentration, drives market results.
For reference, the chart below displays the aggregate percentage of the S&P represented by the 10 largest weights.

**Market Capitalization Percentage of the Ten Largest S&P stocks**

*Source: CFRA-Standard & Poor's, Janney Investment Strategy Group*

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