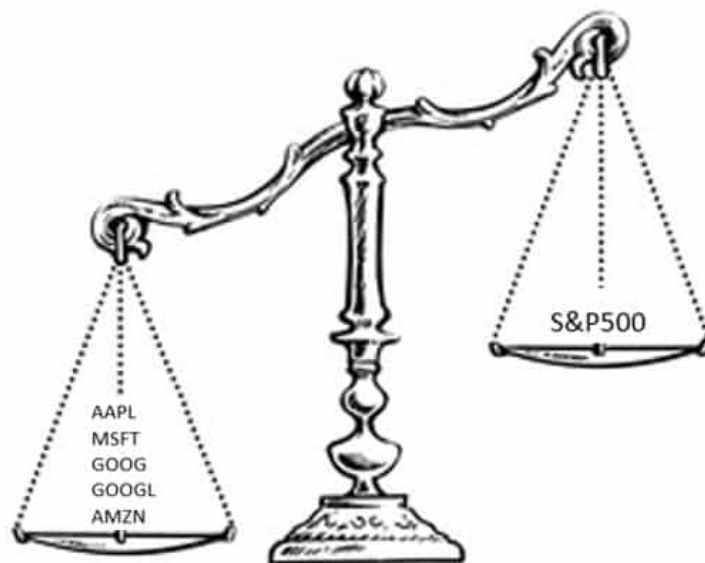


Is Market Concentration a Bad Thing? 2/8/24

Is Stock Market Concentration a Bad Thing?



There seem to be a lot of people wringing their hands about how concentrated today's stock market is. More specifically, the worry is over how a few stocks make up a large amount of the benchmark S&P500. It is true that the current market is the most concentrated it has been in the past 25 years. As of January 1 of this year, the top 10 stocks in the S&P500 make up 34% of the index. The top 5 stocks, AAPL, MSFT, GOOG, GOOGL, and AMZN, comprise 24% of the S&P500 (see Table 1 below).

Is this unhealthy? Is this risky? Does it portend a potential decline in stock prices?

? Spoiler ? the answer is ?no?.

Concentration today

1/1/2024	Market Cap	Pct of S&P500	Category	Concentration
AAPL UW Equity	2,994,371,342,560	6.74%	Top 10	34.03%
MSFT UW Equity	2,794,827,926,197	6.29%	Top 7	29.26%
GOOG UW Equity	1,756,000,300,000	3.95%	Top 5	24.46%
GOOGL UW Equity	1,756,000,300,000	3.95%		
AMZN UW Equity	1,570,152,607,237	3.53%		
NVDA UW Equity	1,223,193,400,000	2.75%		
META UW Equity	909,628,612,619	2.05%		
TSLA UW Equity	789,898,387,236	1.78%		
BRK/B UN Equity	776,891,791,159	1.75%		
LLY UN Equity	553,370,174,592	1.25%		
S&P500	44,440,318,074,888	100.00%		

There is a simple way to answer this question. TPA looked at the concentration of stocks in the S&P500 at the start of each year from 1999 to the present. We then calculated the average high, and low concentrations for the S&P500. The average from 1999 to 2024 is 22.94%. The high and low are 34% and 18%, respectively.

We then measured the performance of the S&P500 for 3, 6, 9, and 12 months following the concentration measurement. The average performance for 6 months and 12 months for all years is +2.33% and +7.18%.

Now, we calculated the performance for only those years in which the concentration of the Top 10 stocks in the S&P500 was above the 25-year average or 22.94%. There were 10 years in which the top 10 stocks in the S&P500 comprised more than 22.94% of the index. Those years were 2000, 2001, 2002, 2003, 2009, 2019, 2020, 2021, 2022, and 2023. The average 6-month and 12-month performance for the highly concentrated years was +1.36% and +8.01%. The 12-month average performance was actually better for concentrated years. (See table 2 below)

Although concentrated years did include the years associated with the TECH bubble bursting (2000-2002), it did not include the worst year of the Housing Crisis (2008).

We have also included all the historical performance data in the tables below.

TPA's conclusion is that the historical evidence does not indicate that market concentration is a bad thing or indicate lower prices are lurking ahead.

Performance

	Top 10	Top 7	Top 5	Market Performance - all				When TOP 10 is above average concentration.			
				3 months	6 months	9 months	12 months	3 months	6 months	9 months	12 months
Average	22.94%	18.27%	14.60%	0.48%	2.33%	2.19%	7.18%	-2.45%	1.36%	0.23%	8.01%
High	34.03%	29.26%	24.46%	13.07%	17.35%	18.74%	29.60%	13.07%	17.35%	18.74%	28.88%
Low	18.28%	13.42%	10.51%	-20.00%	-20.58%	-28.99%	-38.49%	-20.00%	-20.58%	-28.99%	-23.37%

Performance history

	Top 10	Top 7	Top 5		Market Performance - all				When TOP 10 is above average concentration.			
					3 months	6 months	9 months	12 months	3 months	6 months	9 months	12 months
Average	22.94%	18.27%	14.60%		0.48%	2.33%	2.19%	7.18%	-2.45%	1.36%	0.23%	8.01%
High	34.03%	29.26%	24.46%		13.07%	17.35%	18.74%	29.60%	13.07%	17.35%	18.74%	28.88%
Low	18.28%	13.42%	10.51%		-20.00%	-20.58%	-28.99%	-38.49%	-20.00%	-20.58%	-28.99%	-23.37%
Quarter	Top 10	Top 7	Top 5	S&P500 Close	Market Performance				Market Performance - TOP 10 is above average			
Date					3 months	6 months	9 months	12 months	3 months	6 months	9 months	12 months
1/1/1999	21.41%	16.31%	12.76%	1,229.23								
3/31/1999				1,286.37	4.65%							
6/30/1999				1,372.71		11.67%						
9/30/1999				1,282.71			4.35%					
1/1/2000	24.96%	20.27%	16.68%	1,469.25				19.53%				
3/31/2000				1,498.58	2.00%				2.00%			
6/30/2000				1,454.60		-1.00%				-1.00%		
9/29/2000				1,436.51			-2.23%				-2.23%	
1/1/2001	23.12%	17.61%	13.62%	1,320.28				-10.14%				-10.14%
3/30/2001				1,160.33	-12.11%				-12.11%			
6/29/2001				1,224.42		-7.26%				-7.26%		
9/28/2001				1,040.94			-21.16%				-21.16%	
1/1/2002	24.84%	19.14%	14.73%	1,148.08				-13.04%				-13.04%
3/29/2002				1,147.39	-0.06%				-0.06%			
6/28/2002				989.81		-13.79%				-13.79%		
9/30/2002				815.28			-28.99%				-28.99%	
1/1/2003	23.62%	18.57%	14.40%	879.82				-23.37%				-23.37%
3/31/2003				848.18	-3.60%				-3.60%			
6/30/2003				974.50		10.76%				10.76%		
9/30/2003				995.97			13.20%				13.20%	
1/1/2004	22.78%	17.91%	13.63%	1,111.92				26.38%				26.38%
3/31/2004				1,126.21	1.29%							
6/30/2004				1,140.84		2.60%						
9/30/2004				1,114.58			0.24%					
1/1/2005	21.21%	16.58%	13.11%	1,211.92				8.99%				
3/31/2005				1,180.59	-2.59%							
6/30/2005				1,191.33		-1.70%						
9/30/2005				1,228.81			1.39%					
1/1/2006	19.91%	15.56%	12.42%	1,248.29				3.00%				
3/31/2006				1,294.83	3.73%							
6/30/2006				1,270.20		1.76%						
9/29/2006				1,335.85			7.01%					
1/1/2007	19.72%	15.44%	12.43%	1,418.30				13.62%				
3/30/2007				1,420.86	0.18%							
6/29/2007				1,503.35		6.00%						
9/28/2007				1,526.75			7.65%					
1/1/2008	20.05%	13.42%	10.51%	1,468.36				3.53%				

3/31/2008				1,322.70	-9.92%							
6/30/2008				1,280.00		-12.83%						
9/30/2008				1,166.36			-20.57%					
1/1/2009	22.81%	18.10%	14.03%	903.25				-38.49%				
3/31/2009				797.87	-11.67%				-11.67%			
6/30/2009				919.32		1.78%				1.78%		
9/30/2009				1,057.08			17.03%				17.03%	
1/1/2010	19.56%	14.71%	11.32%	1,115.10				23.45%				23.45%
3/31/2010				1,169.43	4.87%							
6/30/2010				1,030.71		-7.57%						
9/30/2010				1,141.20			2.34%					
1/1/2011	18.54%	13.99%	10.81%	1,257.64				12.78%				
3/31/2011				1,325.83	5.42%							
6/30/2011				1,320.64		5.01%						
9/30/2011				1,131.42			-10.04%					
1/1/2012	20.10%	15.41%	11.95%	1,257.61				0.00%				
3/30/2012				1,408.47	12.00%							
6/29/2012				1,362.16		8.31%						
9/28/2012				1,440.67			14.56%					
1/1/2013	19.60%	14.99%	11.71%	1,426.19				13.40%				
3/29/2013				1,569.19	10.03%							
6/28/2013				1,606.28		12.63%						
9/30/2013				1,681.55			17.91%					
1/1/2014	18.28%	14.09%	11.00%	1,848.36				29.60%				
3/31/2014				1,872.34	1.30%							
6/30/2014				1,960.23		6.05%						
9/30/2014				1,972.29			6.70%					
1/1/2015	18.33%	14.20%	10.90%	2,058.90				11.39%				
3/31/2015				2,067.89	0.44%							
6/30/2015				2,063.11		0.20%						
9/30/2015				1,920.03			-6.74%					
1/1/2016	19.99%	15.54%	12.28%	2,043.94				-0.73%				
3/31/2016				2,059.74	0.77%							
6/30/2016				2,098.86		2.69%						
9/30/2016				2,168.27			6.08%					
1/1/2017	20.18%	15.66%	12.20%	2,238.83				9.54%				
3/31/2017				2,362.72	5.53%							
6/30/2017				2,423.41		8.24%						
9/29/2017				2,519.36			12.53%					
1/1/2018	22.44%	18.06%	14.08%	2,673.61				19.42%				
3/30/2018				2,640.87	-1.22%							
6/29/2018				2,718.37		1.67%						
9/28/2018				2,913.98			8.99%					
1/1/2019	24.02%	19.76%	15.98%	2,506.85				-6.24%				

3/29/2019				2,834.40	13.07%				13.07%			
6/28/2019				2,941.76		17.35%				17.35%		
9/30/2019				2,976.74			18.74%				18.74%	
1/1/2020	25.90%	21.70%	17.84%	3,230.78				28.88%				28.88%
3/31/2020				2,584.59	-20.00%				-20.00%			
6/30/2020				3,100.29		-4.04%				-4.04%		
9/30/2020				3,363.00			4.09%				4.09%	
1/1/2021	30.90%	26.68%	22.57%	3,756.07				16.26%				16.26%
3/31/2021				3,972.89	5.77%				5.77%			
6/30/2021				4,297.50		14.41%				14.41%		
9/30/2021				4,307.54			14.68%				14.68%	
1/1/2022	33.04%	28.86%	24.42%	4,766.18				26.89%				26.89%
3/31/2022				4,530.41	-4.95%				-4.95%			
6/30/2022				3,785.38		-20.58%				-20.58%		
9/30/2022				3,585.62			-24.77%				-24.77%	
1/1/2023	26.99%	23.15%	19.82%	3,839.50				-19.44%				-19.44%
3/31/2023				4,109.31	7.03%				7.03%			
6/30/2023				4,450.38		15.91%				15.91%		
9/29/2023				4,288.05			11.68%				11.68%	
1/1/2024	34.03%	29.26%	24.46%	4,769.83				24.23%				24.23%