



MEEDER PRIVATE WEALTH

Swinging for the Fences: Why Concentration Strikes Out

Concentration versus diversification in active U.S. equity



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Introduction

Nearly every financial advisor eventually sits across from a client whose wealth is concentrated—whether in a single stock or in an actively managed fund that owns only a handful of names—and few conversations are harder to get right than whether to hold on or diversify. We are seeing more and more of these concentrated portfolios, and the positions are often deeply personal: the stock may have a remarkable track record, the client may have built their career at the company, or the holding may trace back to a relative whose early investment created real success. We recognize how meaningful those positions are, and that is exactly why we step back, look at the data, and ask what the odds of success truly are over the long term.

This piece is built to help any advisor lead that conversation with evidence rather than emotion, whether the concentration sits in one stock or in a concentrated active manager. For clients focused on preserving wealth for future goals or leaving a legacy, our research points to a clear answer: diversifying away from a concentrated position is an important step toward protecting that wealth.

As the research that follows shows, market returns are driven by a small handful of winners while the typical stock underperforms cash—and even active managers who concentrate rarely come out ahead.



The Single Stock Problem

Stock market returns are far more lopsided than most people assume. The wealth is created by a tiny minority of names, and the average stock is a disappointment.

- » Fifty-nine percent of U.S. stocks from 1926 to 2025 underperformed one-month Treasury bills over their lifetimes—owning the typical stock did worse than holding cash.¹
- » Just four percent of stocks created all of the market's net wealth. Strip those names out and the rest produced nothing beyond T-bills.¹
- » Concentration is intensifying. It took 89 firms to create half of all net wealth through 2016, but only 46 firms through 2025.¹
- » The average stock fell roughly 80 percent peak to trough at some point, and most did not fully recover—even eventual winners put their owners through punishing drawdowns.²

THE TAKEAWAY

Returns are driven by a handful of sluggers, the typical stock strikes out, and identifying winners in advance is extraordinarily hard. Miss the few that matter and you trail cash while riding out significant declines to get there.

¹ Bessembinder, "One Hundred Years in the U.S. Stock Markets," Arizona State University working paper, March 21, 2026.

² Mauboussin and Callahan, "Drawdowns and Recoveries," Morgan Stanley Counterpoint Global Insights, May 21, 2025.

Why this Matters for Funds

Diversification is the textbook answer to that problem. Own enough names that no single pick can sink the portfolio, and you stop betting the outcome on picking the winners.

A concentrated fund deliberately steps back toward the original risk. A portfolio of 30 stocks or fewer is, by construction, a small set of large bets. It is closer to single stock risk wearing a fund wrapper than to a diversified basket.

THE QUESTION

Does concentrating in a manager's 30 best ideas beat simply owning a broadly diversified fund, or does it just reintroduce the same few bets risk that diversification was meant to solve?

What We Looked At

- » Roughly 1,100 active large cap U.S. equity funds: Blend, growth, and value.
- » Each scored against its own benchmark (S&P 500, Russell 1000 Growth, Russell 1000 Value) over the trailing 1, 3, 5, and 10 years ending June 30, 2026.
- » Also judged year by year: each fund's up to ten trailing one-year results, one ending each June 30 from 2017 through 2026, pooled together.
- » Sorted into concentrated (30 holdings or fewer) versus diversified (more than 50).
- » Graded like a hitter on two things: batting average (how often it beat the index) and slugging (how big the wins were versus the losses).

What We Found

Unless noted, the figures below are annualized over the trailing five years ending June 30, 2026.

Concentrated funds rarely get on base.

Only about 17 percent beat their benchmark; diversified funds did so roughly 1.7 times as often.

Their wins are singles; their losses are strikeouts.

When a concentrated fund won, it beat its benchmark by only about 1.2 percent a year; when it lost, it trailed by about 5.1 percent a year.

The payoff math rarely works.

Payoff divides the average win by the average loss, so above 1.0 the wins are bigger and below 1.0 the losses are. Concentrated funds came in at just 0.24—their average win was only about a quarter the size of their average loss.

The client ends up further behind.

Concentrated funds trailed their index by 4.0 percent a year on average; diversified, just 1.3 percent.

Concentration can win big, but rarely.

Year by year, concentrated funds hit double-digit “home run” years nearly twice as often as diversified funds—but they strike out, trailing by more than 10 percent, about three times for every home run, versus under two for diversified.

But luck is not a plan.

To come out ahead, a client would have to pick the winning fund in advance and keep picking it—and the odds run against them: across every fund and every year, concentrated funds trailed by 2.8 percent a year versus 0.8 percent for diversified.

The Scoreboard

Combined across all categories, each fund versus its own benchmark, annualized as of June 30, 2026:

	BEAT THE INDEX	WIN VS LOSS PAYOFF	TRAILED INDEX BY
CONCENTRATED (30 holdings or fewer)			
5-year	17%	0.24	4.0%/yr
10-year	15%	0.44	2.9%/yr
DIVERSIFIED (more than 50 holdings)			
5-year	28%	0.61	1.3%/yr
10-year	31%	0.70	0.9%/yr

The same funds, judged one year at a time:

	HOME-RUN YEARS	STRIKEOUT YEARS	STRIKEOUTS PER HOME RUN
Concentrated	5%	18%	3.3
Diversified	3%	5%	1.8

SOURCE: MEEDER ADVISORY SERVICES RESEARCH, YCHARTS.

ALL FIGURES ARE AS OF JUNE 30, 2026. MULTI-YEAR RETURNS ARE ANNUALIZED OVER THE TRAILING PERIOD ENDING THAT DATE; SINGLE-YEAR FIGURES POOL EACH FUND'S TRAILING ONE-YEAR RETURNS ENDING EACH JUNE 30 FROM 2017 TO 2026. EXCESS RETURN IS EACH FUND'S ANNUALIZED RETURN MINUS ITS CATEGORY BENCHMARK. WIN AND LOSS FIGURES ARE MEASURED ACROSS FUNDS, FRAMING THE RANGE OF OUTCOMES AN ADVISOR CHOOSES AMONG. RATES USE ONLY FUNDS WITH A FULL TRACK RECORD FOR EACH HORIZON. SURVIVING FUNDS ONLY. A HOME-RUN YEAR BEATS THE BENCHMARK BY MORE THAN 10%; A STRIKEOUT YEAR TRAILS BY MORE THAN 10%. THE PERFORMANCE DATA SHOWN REPRESENTS PAST PERFORMANCE, WHICH DOES NOT GUARANTEE FUTURE RESULTS.

How We Can Help

Managing concentrated positions is not simply about selling a stock or reducing exposure—it is about building a thoughtful strategy that aligns with a client's financial goals, tax situation, and long-term objectives. We begin by assessing the level of concentration and quantifying the additional risk it introduces to the overall portfolio. From there, we develop a personalized, tax-efficient diversification plan that considers the client's complete financial picture, including outside investment accounts, equity compensation, and legacy holdings where concentration risk may be less obvious.

Every strategy is tailored to the client. Whether the appropriate approach is to maintain the position, gradually reduce it, or diversify over time, we work at a pace that reflects the client's goals and comfort level. As market conditions and client circumstances evolve, we continue to monitor the portfolio and rebalance as needed to help keep the investment strategy aligned with long-term objectives.

The Bottom Line

The appeal of concentrated investments is understandable. Investors are naturally attracted to the possibility of outsized returns, and concentrated funds are often marketed around that promise. However, decades of research on individual stocks demonstrate that the reality is far less compelling. A very small number of companies generate the majority of long-term market wealth, making concentrated portfolios a bet that those exceptional winners have been identified in advance. More often than not, that bet increases downside risk without delivering proportionately greater returns.

The performance data tells a similar story. Concentrated funds tend to experience deeper losses when their largest holdings underperform, yet they do not consistently produce higher returns than more diversified approaches. Diversified portfolios, meanwhile, remain positioned to capture broad market returns while avoiding unnecessary concentration risk. Given that broad market indexes have historically proven difficult for active managers to consistently outperform, staying close to the market is often a strength rather than a limitation.

For investors, the conclusion is straightforward: diversification has consistently offered a more reliable path to long-term success. It reduces the likelihood of severe setbacks while maintaining meaningful participation in market growth. In investing, as in baseball, lasting success rarely comes from swinging for the fences. It comes from consistently getting on base.



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INDEX DEFINITIONS

Investors cannot invest directly in an index. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

The S&P 500 Index is an unmanaged index consisting of approximately 500 of the largest publicly traded U.S. companies and is widely regarded as a broad measure of the performance of the U.S. large-cap equity market. **The Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe, including companies with higher expected growth characteristics such as stronger earnings growth and higher price-to-book ratios. **The Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity market, consisting of companies with lower relative valuations and value-oriented characteristics. Investors cannot invest directly in an index.

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