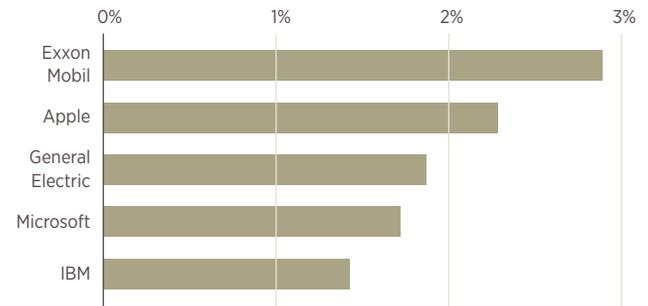


## Chart of the Month →

This month's graph comes from a recent academic paper, "Do Stocks Outperform Treasury Bills?". The paper reveals that, since 1926, there have been a total of 26,000 stocks listed (and frequently de-listed) which collectively have created \$32 trillion dollars of wealth. How concentrated was this wealth creation? Only 4% of all the firms ever listed account for 100% of the total wealth created and 5 firms (0.02%), as shown in the graph at right, account for 10% of the total wealth created. Said differently, the returns that investors have enjoyed over the past 89 years has been driven entirely by a few very large positive returns offset by the negative returns generated by the majority of stocks.

Five stocks accounted for 10% of the total dollar wealth creation\* in the stock market from 1926 through 2015.



\*Wealth creation is measured based on capital investment and rates of return in excess of the yield on one-month U.S. Treasury bills.

Source: Prof. Hendrik Bessembinder, Arizona State University

THE WALL STREET JOURNAL



## The Advisor Survey:

**Andrew Mies, CFA®, Chief Investment Officer**

*Stock market returns in 2017 seem to be concentrated in only a few high technology stocks. Is this unusual?*

Through the end of May 2017 the S&P 500 is up 8.7% and 16 stocks are responsible for over 50% of this gain. This may sound like a high degree of concentration but is actually quite typical. In any given year roughly 25% of the total stock market return is driven by only 6 or 7 stocks. If you had perfect foresight and invested in the top 5 stocks each year your returns would be astronomical (158% PER year on average from 1991 - 2016). Of course that isn't possible but investors might conclude that they need to focus on active stock picking since the majority of stocks contribute little to returns. In reality, the opposite is true. The ability to identify which stocks will outperform in any given year or decade is incredibly difficult. Therefore, the best way to build a successful equity portfolio is to own a diversified mix of stocks with the expectation that a small handful will drive the returns.

|               | Source: FactSet 2017  | May   | YTD    | 2016  | Benchmark                               |
|---------------|-----------------------|-------|--------|-------|-----------------------------------------|
| <b>Stocks</b> | United States         | 1.4%  | 8.7%   | 12.0% | S&P 500                                 |
|               | Intl Developed        | 3.8%  | 14.4%  | 1.5%  | MSCI EAFE                               |
|               | Emerging Markets      | 3.0%  | 17.3%  | 11.6% | MSCI Emerging Markets                   |
| <b>Bonds</b>  | US Investment Grade   | 0.8%  | 2.4%   | 2.6%  | Barclays US Aggregate                   |
|               | Intl Investment Grade | 2.2%  | 6.2%   | 1.5%  | Barclays Global Aggregate xUSD          |
|               | Global High Yield     | 1.3%  | 6.3%   | 14.3% | Barclays Global High Yield              |
|               | Emerging Markets \$   | 0.7%  | 5.3%   | 9.9%  | Barclays Emerging Markets USD Aggregate |
| <b>Other</b>  | Commodities           | -1.3% | -5.1%  | 11.8% | Bloomberg Commodity                     |
|               | Gold                  | 0.1%  | 10.2%  | 8.5%  | Gold New York Spot (\$/oz)              |
|               | Oil                   | -2.0% | -10.1% | 44.8% | Crude Oil WTI/Global Spot NYMEX         |

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