

## RESEARCH

# Large and In Charge? Giant Firms atop Market Is Nothing New.

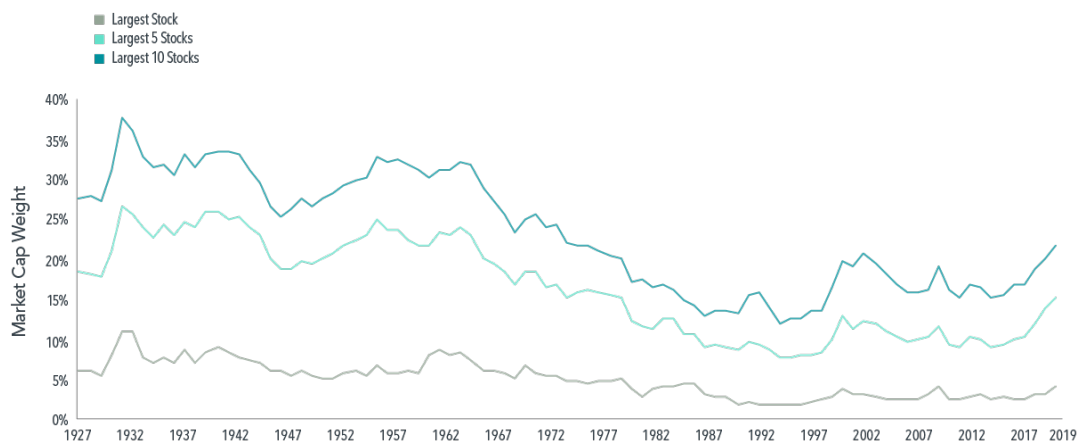
Jun 17, 2020

A top-heavy stock market with the largest 10 stocks accounting for over 20% of market capitalization and a marquee technology firm perched at No. 1? This sounds like a description of the current US stock market, dominated by Apple and the other FAANG stocks,<sup>1</sup> but it is actually a reference to 1967, when IBM represented a larger portion of the market than Apple at the end of 2019 (5.8% vs. 4.1%).

As we see in **Exhibit 1**, it is not particularly unusual for the market to be concentrated in a handful of stocks. The combined market capitalization weight of the 10 largest stocks, just over 20% at the end of last year, has been higher in the past.

## Exhibit 1 Same Old Story

Weight of largest stocks by market capitalization in US stock market, 1927–2019



Source: Dimensional, using data from CRSP and Compustat. Includes all US common stocks. Largest stocks identified at the end of each calendar year by sorting stocks on market capitalization. CRSP and Compustat data provided by the Center for Research in Security Prices, University of Chicago.

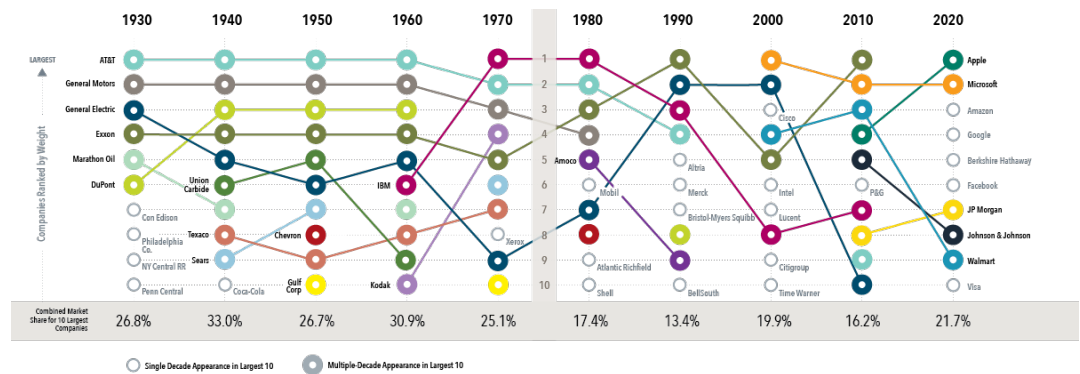
A breakdown of the largest US stocks by decade in **Exhibit 2** shows some companies have stayed on top for a long time. AT&T was among the largest two for six straight

decades beginning in 1930. General Motors and General Electric ranked in the top 10 at the start of multiple decades. IBM and Exxon were also mainstays in the second half of the 20th century. Hence, concentration of the stock market in a few large companies such as the FAANG stocks in recent years is not a new normal; it is old normal.

## Exhibit 2

### Big Board

Largest 10 US stocks at the start of each decade



Source: Dimensional, using data from CRSP and Compustat. Includes all US common stocks. Largest stocks identified at the end of the calendar year preceding the respective decade by sorting eligible US stocks on market capitalization using data provided by the Center for Research in Security Prices, University of Chicago.

Moreover, while the definition of “high-tech” is constantly evolving, firms dominating the market have often been on the cutting edge of technology. AT&T offered the first mobile telephone service in 1946. General Motors pioneered such innovations as the electric car starter, airbags, and the automatic transmission. General Electric built upon the original Edison light bulb invention, contributing to further breakthroughs in lighting technology, such as the fluorescent bulb, halogen bulb, and the LED. So technological innovation dominating the stock market is not a new normal; it is an old normal too.

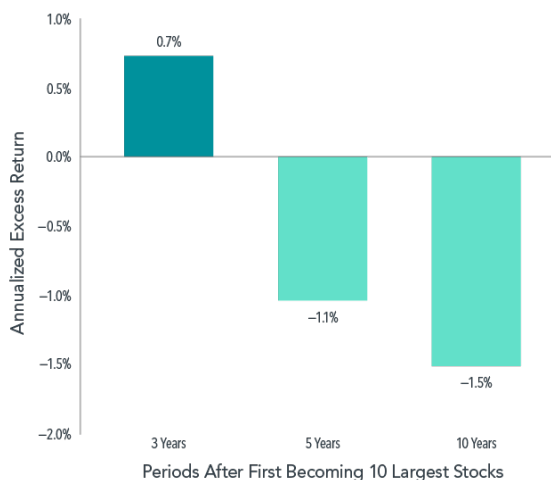
Another trend attributed to a new normal is the extraordinary performance of FAANG stocks over the past decade, leading some to wonder if we should expect these stocks to continue such strong performance going forward. Investors should remember that any expectations about the future operational performance of a firm are already reflected in its current price. While positive developments for the company that exceed current expectations may lead to further appreciation of its stock price, those unexpected changes are not predictable.

To this point, charting the performance of stocks following the year they joined the list of the 10 largest firms shows decidedly less stratospheric results. On average, these stocks outperformed the market by an annualized 0.7% in the subsequent three-year period. Over five- and 10-year periods, these stocks underperformed the market on average.

### Exhibit 3

#### Power Down

Annualized return in excess of market for stocks after joining list of 10 largest US stocks, 1927–2019



Past performance is not a guarantee of future results.

Source: Dimensional, using data from CRSP and Compustat. Includes all US common stocks. Largest stocks identified at the end of each calendar year by sorting eligible US stocks on market capitalization using data from CRSP. Market is represented by the Fama/French Total US Market Research Index. Excess return for each stock is the difference in annualized compound returns between the stock and the market, computed from the first month following initial classification in the top 10. Stocks in the sample are required to have at least 36 months of returns data following classification in the top 10.

The only constant is change, and the more things change the more they stay the same. This seems an apt description of the dominant stocks atop the market. While the types of businesses most prominent in the market vary through time, the fact that a small subset of companies' stocks account for an outsized portion of the stock market is not new. And it remains impossible to systematically predict which large companies will outperform the stock market and which will underperform it. This underscores the importance of having a broadly diversified equity portfolio that provides exposure to a vast array of companies and sectors.

1. Facebook, Amazon, Apple, Netflix, and Google (a subsidiary of Alphabet) are often referred to as the FAANG stocks.

### GLOSSARY

Fama/French Total US Market Research Index: The value-weighted US market index is constructed every month, using all issues listed on the NYSE, AMEX, or Nasdaq with available outstanding shares and valid prices for that month and the month before. Exclusions: American depositary receipts. Sources: CRSP for value-weighted US market return. Rebalancing: Monthly. Dividends: Reinvested in the paying company until the portfolio is rebalanced.

The information in this document is provided in good faith without any warranty and is intended for the recipient's background information only. It does not constitute investment advice, recommendation, or an offer of any services or products for sale and is not intended to provide a sufficient basis on which to make an investment decision. It is the responsibility of any persons wishing to make a purchase to inform themselves of and observe all applicable laws and regulations. Unauthorized copying, reproducing, duplicating, or transmitting of this document are strictly prohibited. Dimensional accepts no responsibility for loss arising from the use of the information contained herein.

"Dimensional" refers to the Dimensional separate but affiliated entities generally, rather than to one particular entity. These entities are Dimensional Fund Advisors LP, Dimensional Fund Advisors Ltd., Dimensional Ireland Limited, DFA Australia Limited, Dimensional Fund Advisors Canada ULC, Dimensional Fund Advisors Pte. Ltd., Dimensional Japan Ltd., and Dimensional Hong Kong Limited. Dimensional Hong Kong Limited is licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) regulated activities only and does not provide asset management services.

**UNITED STATES:** Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

**CANADA:** These materials have been prepared by Dimensional Fund Advisors Canada ULC. They are provided for educational purposes only, should not be construed as investment advice or an offer of any security for sale and do not represent a recommendation of any particular security, strategy or investment product. Commissions, trailing commissions, management fees, and expenses all may be associated with mutual fund investments. Unless otherwise noted, any indicated total rates of return reflect the historical annual compounded total returns, including changes in share or unit value and reinvestment of all dividends or other distributions, and do not take into account sales, redemption, distribution, or optional charges or income taxes payable by any security holder that would have reduced returns. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

**AUSTRALIA:** This material is issued by DFA Australia Limited (AFS License No. 238093, ABN 46 065 937 671). This material is provided for information only. No account has been taken of the objectives, financial situation or needs of any particular person. Accordingly, to the extent this material constitutes general financial product advice, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to the investor's objectives, financial situation and needs. Investors should also consider the Product Disclosure Statement (PDS) and the target market determination (TMD) that has been made for each financial product either issued or distributed by DFA Australia Limited prior to acquiring or continuing to hold any investment. Go to [dimensional.com/funds](https://dimensional.com/funds) to access a copy of the PDS or the relevant TMD. Any opinions expressed in this material reflect our judgement at the date of publication and are subject to change.

**NEW ZEALAND:** This material is issued by DFA Australia Limited (incorporated in Australia, AFS License No. 238093, ABN 46 065 937 671). This material is provided for information only. This material does not give any recommendation or opinion to acquire any financial product or any financial advice product, and is not financial advice to you or any other person. No account has been taken of the objectives, financial situation or needs of any particular person. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to the investor's objectives, financial situation and needs. Investors should also consider the Product Disclosure Statement (PDS) and for the Dimensional Wholesale Trusts the target market determination (TMD) that has been made for each financial product or financial advice product either issued or distributed by DFA Australia Limited prior to acquiring or continuing to hold any investment. Go to [dimensional.com/funds](https://dimensional.com/funds) to access a copy of the PDS or the relevant TMD. Any opinions expressed in this material reflect our judgement at the date of publication and are subject to change.

**WHERE ISSUED BY DIMENSIONAL IRELAND LIMITED OR DIMENSIONAL FUND ADVISORS LTD.**

Neither Dimensional Ireland Limited (Dimensional Ireland) nor Dimensional Fund Advisors Ltd. (Dimensional UK), as applicable (each an "Issuing Entity," as the context requires), give financial advice. You are responsible for deciding whether an investment is suitable for your personal circumstances, and we recommend that a financial adviser helps you with that decision.

NOTICE TO INVESTORS IN SWITZERLAND: This is an advertising document.

#### WHERE ISSUED BY DIMENSIONAL IRELAND LIMITED

Issued by Dimensional Ireland Limited (Dimensional Ireland), with registered office 25 North Wall Quay, Dublin 1, D01 H104, Ireland. Dimensional Ireland is regulated by the Central Bank of Ireland (Registration No. C185067). Information and opinions presented in this material have been obtained or derived from sources believed by Dimensional Ireland to be reliable, and Dimensional Ireland has reasonable grounds to believe that all factual information herein is true as at the date of this document.

Dimensional Ireland issues information and materials in English and may also issue information and materials in certain other languages. The recipient's continued acceptance of information and materials from Dimensional Ireland will constitute the recipient's consent to be provided with such information and materials, where relevant, in more than one language.

#### WHERE ISSUED BY DIMENSIONAL FUND ADVISORS LTD.

Issued by Dimensional Fund Advisors Ltd. (Dimensional UK), 20 Triton Street, Regent's Place, London, NW1 3BF. Dimensional UK is authorised and regulated by the Financial Conduct Authority (FCA). Information and opinions presented in this material have been obtained or derived from sources believed by Dimensional UK to be reliable, and Dimensional UK has reasonable grounds to believe that all factual information herein is true as at the date of this document.

Dimensional UK issues information and materials in English and may also issue information and materials in certain other languages. The recipient's continued acceptance of information and materials from Dimensional UK will constitute the recipient's consent to be provided with such information and materials, where relevant, in more than one language.

#### RISKS

**Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.**

#### SINGAPORE

This material is deemed to be issued by Dimensional Fund Advisors Pte. Ltd., which is regulated by the Monetary Authority of Singapore and holds a capital markets services license for fund management.

This advertisement has not been reviewed by the Monetary Authority of Singapore. This information should not be considered investment advice or an offer of any security for sale. All information is given in good faith without any warranty and is not intended to provide professional, investment, or any other type of advice or recommendation and does not take into account the particular investment objectives, financial situation, or needs of individual recipients. Before acting on any information in this material, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice. Dimensional Fund Advisors Pte. Ltd. does not accept any responsibility and cannot be held liable for any person's use of or reliance on the information and opinions contained herein. Neither Dimensional Fund Advisors Pte. Ltd. nor its affiliates shall be responsible or held responsible for any content prepared by financial advisors.

#### FOR PROFESSIONAL INVESTORS IN HONG KONG.

This material is deemed to be issued by Dimensional Hong Kong Limited (CE No. BJE760) ("Dimensional Hong Kong"), which is licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) regulated activities only and does not provide asset management services.

This material should only be provided to “professional investors” (as defined in the Securities and Futures Ordinance [Chapter 571 of the Laws of Hong Kong] and its subsidiary legislation) and is not for use with the public. This material is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence, or otherwise) the publication or availability of this material are prohibited or which would subject Dimensional Hong Kong (including its affiliates) or any of Dimensional Hong Kong's products or services to any registration, licensing, or other such legal requirements within such jurisdiction or country. When provided to prospective investors, this material forms part of, and must be provided together with, applicable fund offering materials. This material must not be provided to prospective investors on a standalone basis. Before acting on any information in this material, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice.

Unauthorized copying, reproducing, duplicating, or transmitting of this material are prohibited. This material and the distribution of this material are not intended to constitute and do not constitute an offer or an invitation to offer to the Hong Kong public to acquire, dispose of, subscribe for, or underwrite any securities, structured products, or related financial products or instruments nor investment advice thereto. Any opinions and views expressed herein are subject to change. Neither Dimensional Hong Kong nor its affiliates shall be responsible or held responsible for any content prepared by financial advisors. Financial advisors in Hong Kong shall not actively market the services of Dimensional Hong Kong or its affiliates to the Hong Kong public.

**JAPAN:** Provided for institutional investors only. This document is deemed to be issued by Dimensional Japan Ltd., which is regulated by the Financial Services Agency of Japan and is registered as a Financial Instruments Firm conducting Investment Management Business and Investment Advisory and Agency Business. This material is solely for informational purposes only and shall not constitute an offer to sell or the solicitation to buy securities or enter into investment advisory contracts. The material in this article and any content contained herein may not be reproduced, copied, modified, transferred, disclosed, or used in any way not expressly permitted by Dimensional Japan Ltd. in writing. All expressions of opinion are subject to change without notice.

Dimensional Japan Ltd.

Director of Kanto Local Finance Bureau (FIBO) No. 2683

Membership: Japan Investment Advisers Association

dimensional.com

