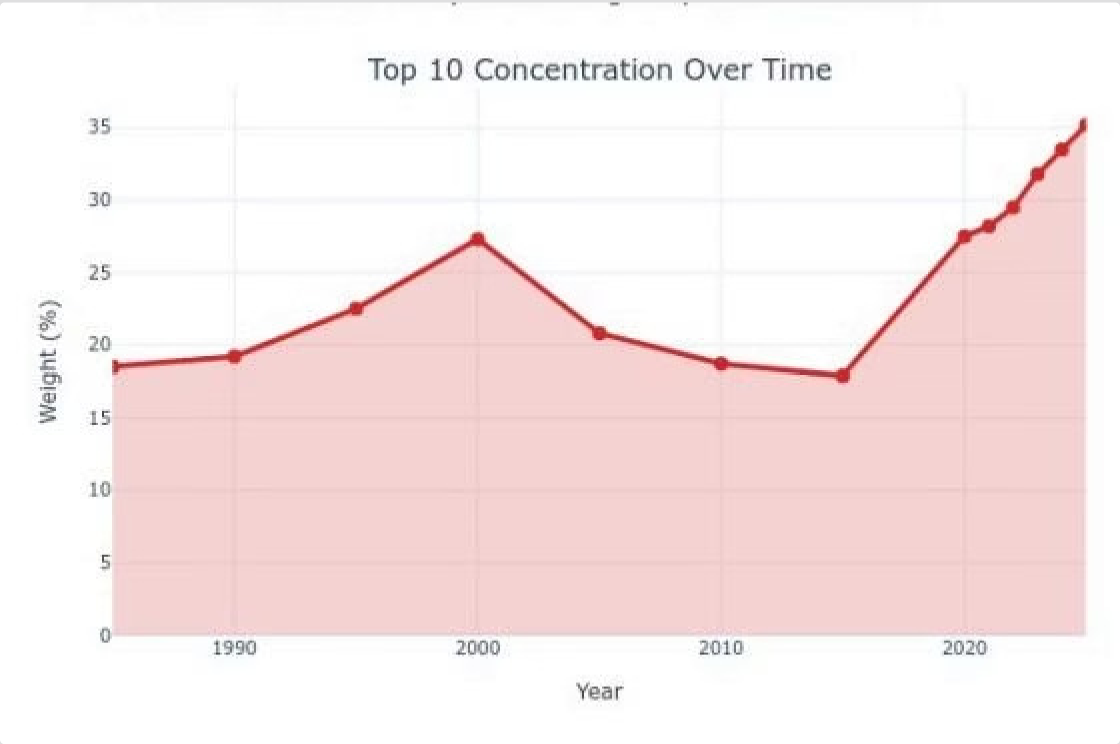
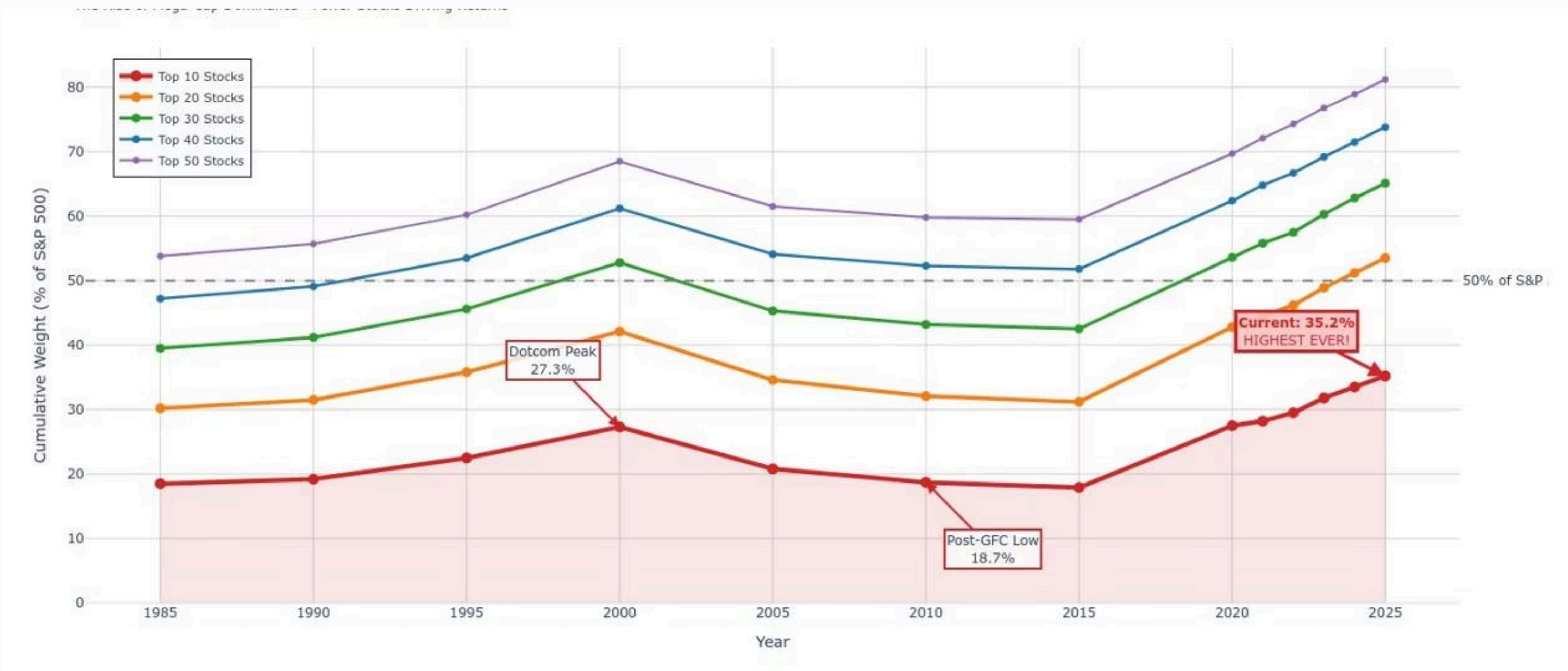
S&P 500 Concentration Analysis: The Mega-Cap Dominance Trend



The Rise of Mega-Cap Dominance - Fewer Stocks Driving Returns

WHAT'S DRIVING THIS CONCENTRATION?



Technology Dominance

MAG 7 represents ~37.55% of S&P 500

Network Effects

Winner-take-all dynamics in digital markets

Passive Investing

Index funds amplify concentration

Globalization & Scale

Largest companies scale globally

Monetary Policy

Low rates favored growth stocks (2010-2021)

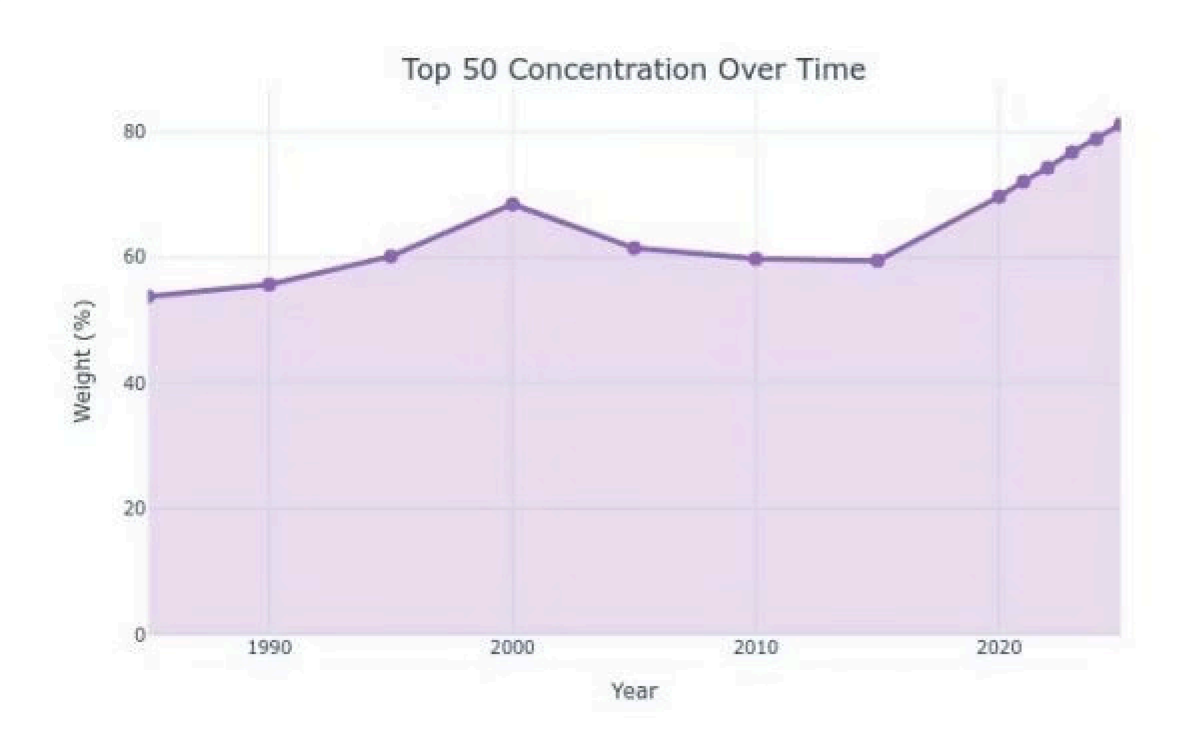
Regulatory Moats

Barriers to entry favor incumbents

AI Revolution

Further concentrating tech dominance

RISKS & IMPLICATIONS



SYSTEMIC RISK

- 10 stocks control 35.2% of the index
- Failure of any mega-cap would significantly impact markets
- Concentration creates fragility

VALUATION RISK

- High concentration often precedes corrections
- Dotcom bubble peaked at 27.3% before crash
- Current 35.2% exceeds dotcom levels by 28.9%

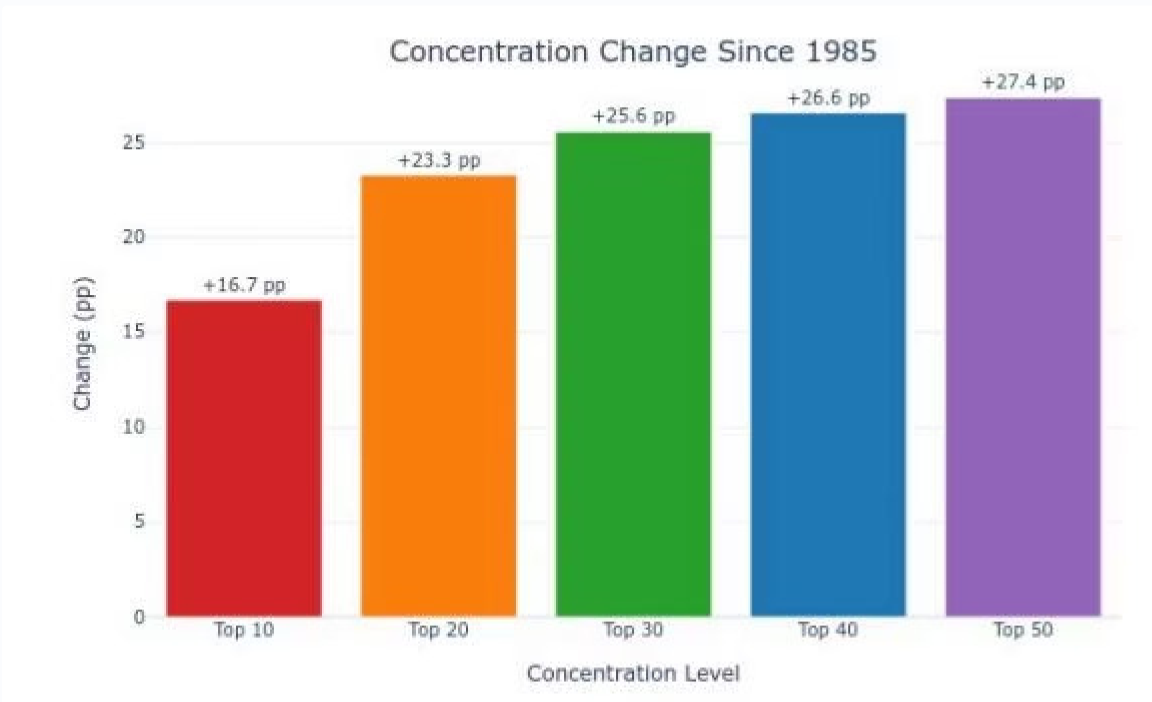
REGULATORY RISK & HISTORICAL PRECEDENT

REGULATORY RISK

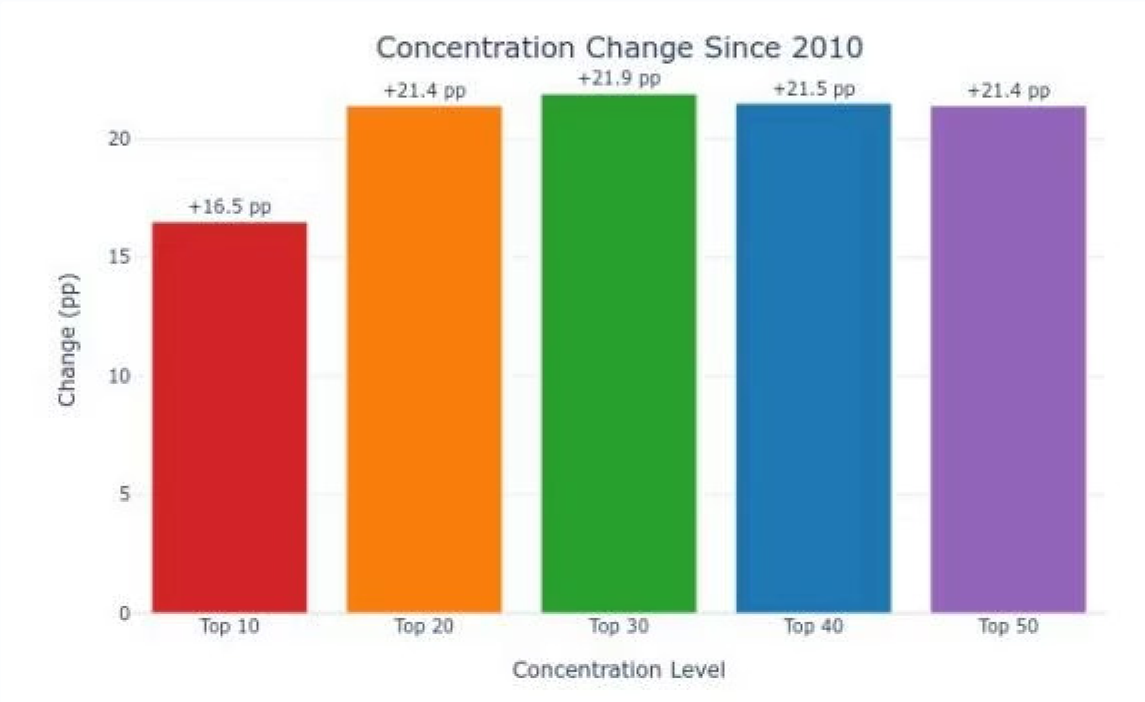
- Antitrust scrutiny increasing
- Potential breakups or restrictions
- Political risk concentrated in few companies

HISTORICAL PRECEDENT

- Dotcom Bubble (2000): 27.3% → 78% NASDAQ crash
- Nifty Fifty (1970s): Extreme concentration → 80-90% declines
- Current (2025): 35.2% → ???



INVESTMENT IMPLICATIONS



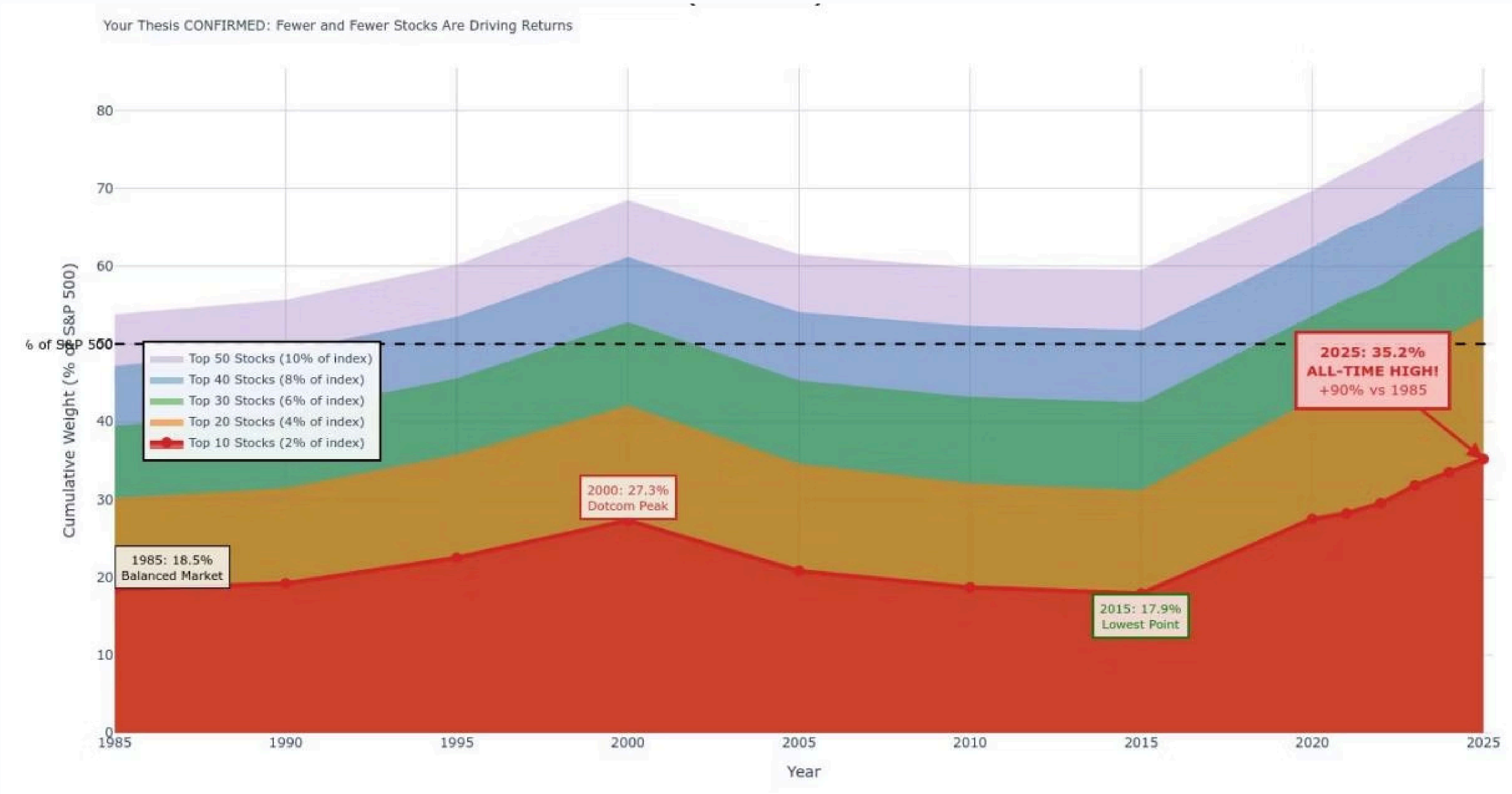
IF CONCENTRATION CONTINUES:

- Mega-caps will continue to dominate
- Passive investing will amplify trend
- Small-cap underperformance continues

IF CONCENTRATION REVERSES:

- Mean reversion to smaller stocks
- Small/mid-cap value outperformance
- Active management opportunities
- International diversification benefitsT

Weightings by Decile Top 10-50



Acknowledge concentration risk

Consider small-cap value exposure

International diversification

Active management to avoid concentration

Monitor for reversal signals

PERFORMANCE

Now let us look at quarterly performance in returns as measured by the top 50 weighted members of the SP 500 each quarter since 1985 against the bottom 450 components. I equal weighted each stock and created a basket for the TOP 50 AND BOTTOM 450.

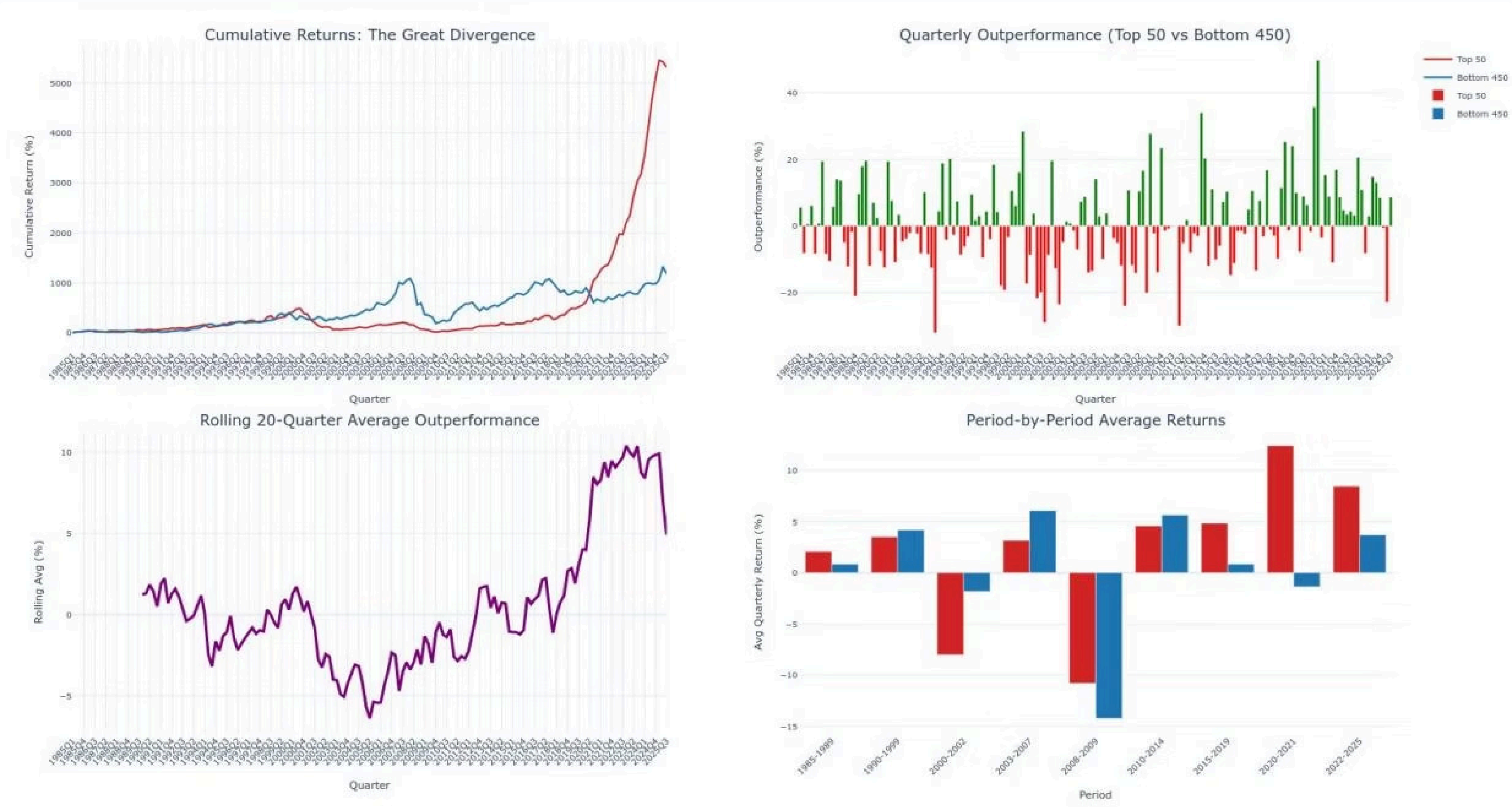
Returns are cumulative and measured each quarter from 1985 through September 2025.

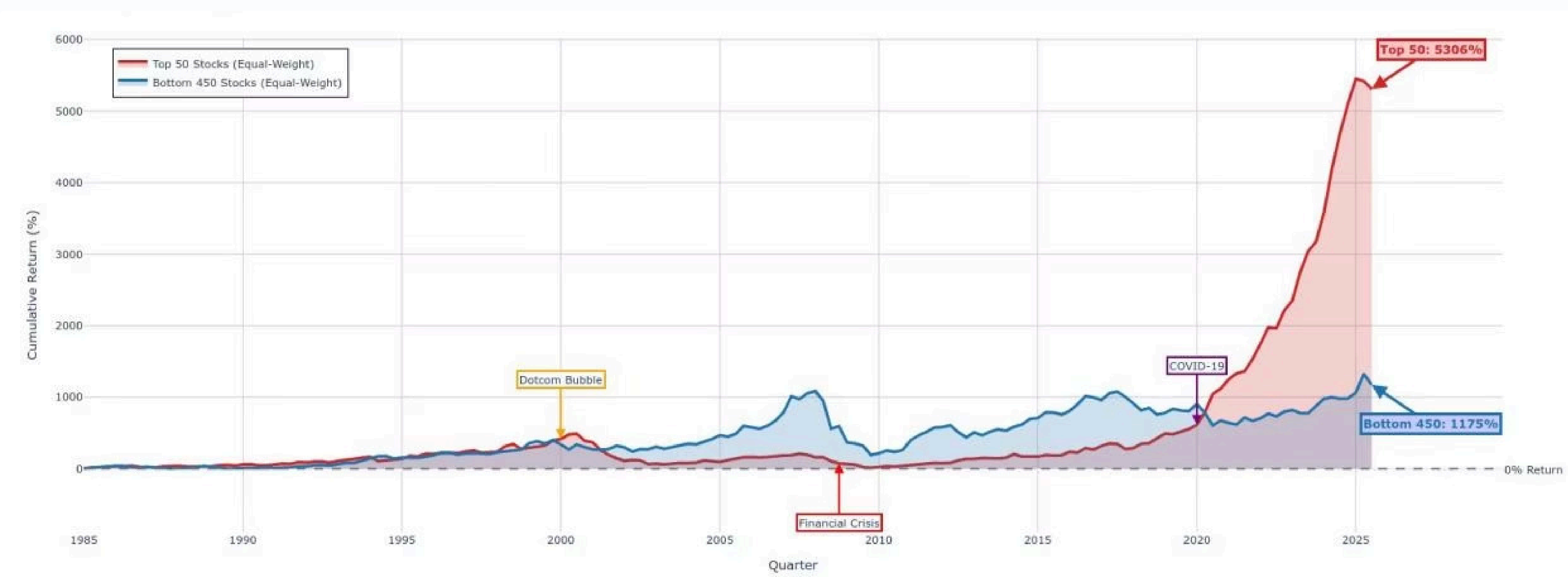
Wild Returns post GFC and particularly post 2015.

Top 50 vs Bottom 450: Comprehensive Quarterly Analysis (1985-2025)

Top 50 vs Bottom 450: Quarterly Cumulative Returns (1985-2025)

Equal-Weighted Baskets | The Great Divergence





THE GREAT DIVERGENCE: TOP 50 vs BOTTOM 450 (1985-2025)

40 Years of Quarterly Performance | Equal-Weighted Baskets

TOP 50 STOCKS (10% of S&P 500)

5,306%

53x your money

~11.7% annualized

BOTTOM 450 STOCKS (90% of S&P 500)

1,175%

12x your money

~8.5% annualized

THE DIVERGENCE

4,131 pp Performance Gap

Top 50 returned 4.5x MORE than Bottom 450

HISTORICAL PERIODS

- 1985-1989: Top 50 +1.24%/qtr
- 1990-1999: Bottom 450 +0.68%/qtr
- 2000-2002: Top 50 -6.19%/qtr (crash)
- 2003-2007: Bottom 450 +2.92%/qtr
- 2008-2009: Top 50 +3.42%/qtr
- 2010-2014: Bottom 450 +1.05%/qtr
- 2015-2019: Top 50 +3.99%/qtr
- 2020-2025: Top 50 +4.98%/qtr

KEY INSIGHTS

Turning point: 2015

COVID acceleration: 2020-2021

Sustained dominance: 2022-2025

- Win rate: 48.5% (but bigger wins)
- Compounding: 0.81%/qtr
- 4,131 pp gap
- No mean reversion yet
- AI revolution sustaining trend

THESIS CONFIRMED: MEGA-CAP DOMINANCE IS REAL AND ACCELERATING!

Top 50 stocks have delivered 4.5x the returns of Bottom 450 stocks over 40 years. The divergence accelerated dramatically after 2015 and shows no signs of reversal.