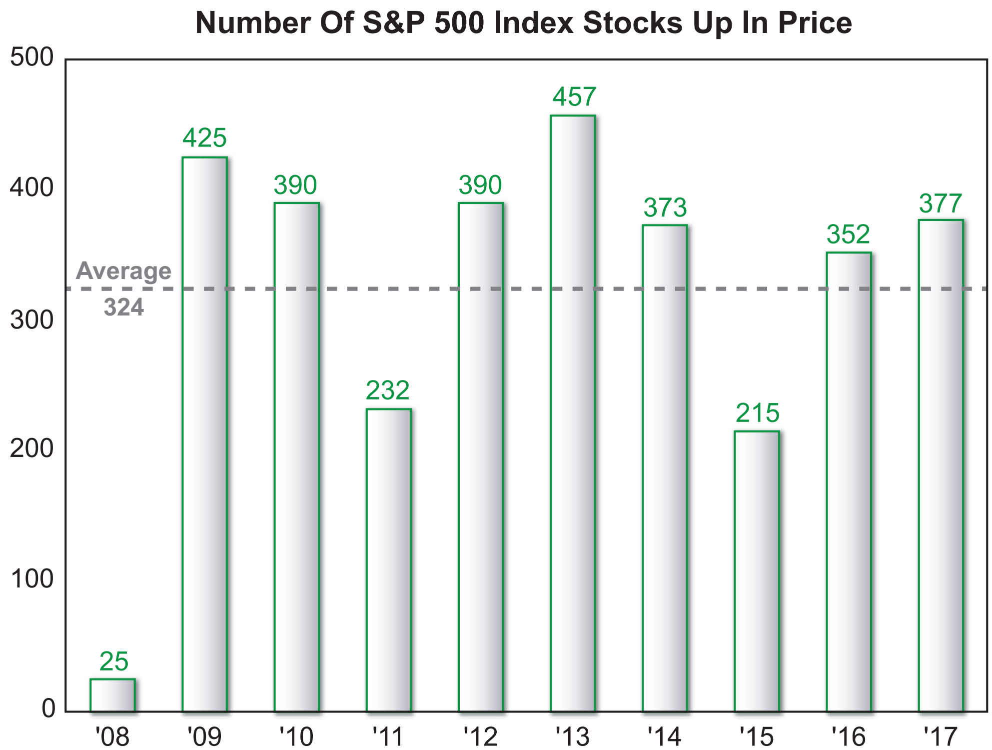
When Less Can Potentially Bring More



Source: S&P Dow Jones Indices. Past performance is no guarantee of future results.

View from the Observation Deck

1. If an investor seeks to outperform a benchmark index, such as the S&P 500 Index, one way to approach the challenge is to simply pare down the number of stocks one invests in.
2. As indicated in the chart, over the past 10 years, the average number of stocks in the S&P 500 Index with positive annual price-only returns (does not include dividends) was 324, or roughly 65%. That means that approximately 35% of the constituents in the index, on average, were providing a drag on returns in a given year.
3. With respect to performance, the two best years in the chart for S&P 500 Index price-only returns were 2009 (425 positive stocks), the index was up 23.45%, and 2013 (457 positive stocks), the index was up 29.60%, according to S&P Dow Jones Indices.
4. If we throw out 2008 (think financial crisis), the two worst years for S&P 500 Index price-only returns were 2015 (215 positive stocks), the index was down 0.73%, and 2011 (232 positive stocks), the index was flat (0.00%), according to S&P Dow Jones Indices.
5. Year-to-date through 5/31/18, there were 230 constituents in the S&P 500 Index in positive territory, with a price-only return of 1.18%, according to S&P Dow Jones Indices. These figures are essentially in line with those from 2011 and 2015.
6. One of the ways in which an investor might attempt to generate a return in excess of a benchmark index is to identify and eliminate those companies most likely to end up in the red at year-end. Easier said than done.
7. This is where professionals can add value for an investor. Financial consultants and packaged product vendors have a multitude of strategies designed to potentially outperform the broader market via less diversification.

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