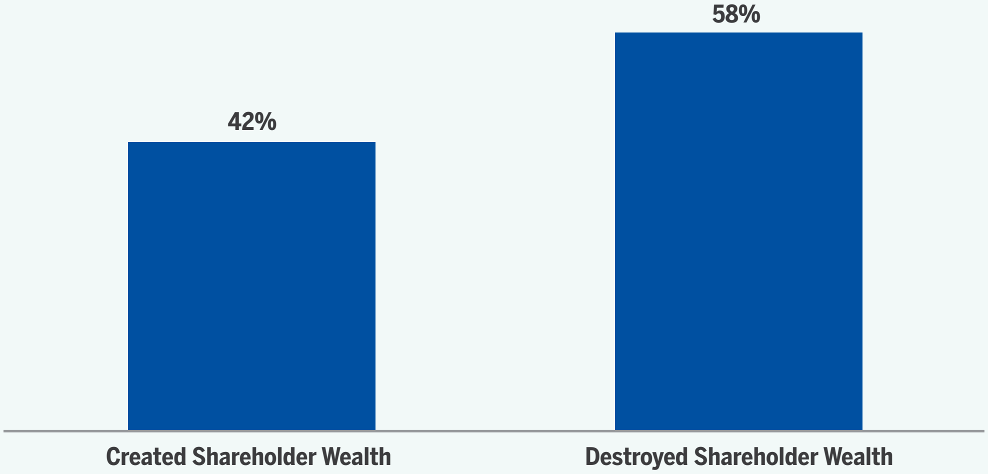
A Stock Picker's Market

Some investors favor passive equity investing where diversification and low turnover are prime features. But as the next technological revolution unfolds and causes wealth creation to become concentrated in fewer holdings, does active management make more sense?

Percent of U.S. Public Companies Creating or Destroying Shareholder Wealth*

1926-2019



Source: Hendrik Bessembinder, "Do Stocks Outperform Treasury Bills," Arizona State University W.P. Carey School of Business, 2020. This data and information are based on monthly returns from the Center for Research in Security Prices.

- Over their lifetimes, the majority of U.S. common stocks have destroyed shareholder wealth, according to academic research. However, we believe that the overall U.S. stock market in aggregate increased shareholder wealth, which illustrates that wealth creation is concentrated among select common stock.
- The concentration of wealth creation has intensified. From 1926 to 1995, 0.50% of public companies accounted for a quarter of wealth creation, but since 1995, just 0.29% of firms have done so.
- Clearly, not all equities are good investments, which in our view underscores the importance of skilled active managers who can seek companies with strong long-term fundamentals.

*Shareholder wealth is the increase/decrease in the wealth earned by a company's shareholders above/below that which would have been earned in the one-month Treasury bill.

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