

The Concentration Trap: Why the Smart Money Is Looking Beyond the Magnificent Seven





After 50 years of data and the widest gap in history, equal-weight investing may be set for a decade of quiet dominance.

For the past three years, the market has rewarded one simple idea: buy the same seven companies everyone else owns.

Through cap-weighted index funds, those names now make up more than 30% of the S&P 500, an unprecedented concentration for what's supposed to be a diversified benchmark.

It's been an easy trade to love: great brands, strong balance sheets, dominant technology stories. But when diversification starts to look like dependence, the risk isn't in what you're missing, it's in what you're holding too much of.

When Leadership Becomes Liability

This isn't new. Every bull market creates its own heroes, and every hero eventually becomes overowned. The dot-com bubble was driven by the same mindset: a belief that a few unstoppable companies would define the future forever.

Then, quietly, the market turned. From **2000** to **2007**, the equal-weighted **S&P 500** outperformed the traditional cap-weight index by a wide margin.

The reason? Leadership changed, valuations normalized, and opportunity shifted to the stocks everyone had forgotten.

Today, we're back in that same place. The valuation gap between equal-weight and cap-weight is the widest since 2000, with the RSP ETF (Invesco Equal Weight S&P 500) trading near its 2003 relative lows. The last time it looked this cheap, it went on a seven-year run of outperformance.



Look beneath the surface, and the signs of exhaustion are everywhere.

- ▶ **Momentum is fading.** The iShares Momentum ETF just hit a five-month relative low. For years, "momentum" meant buying the **Mag 7**. That tailwind is weakening.
- ▶ **Breadth is collapsing.** On one of the S&P's recent up days, just **104 stocks rose** while **398 fell**—a rally led by headlines, not fundamentals.
- ▶ **Earnings are broadening.** In Q3 2025, **84.5%** of S&P 500 companies beat estimates, led not by tech, but by financials, industrials, and consumer names. Leadership always starts in earnings before it shows up in price.
- ▶ **Speculation is extreme.** Put/call ratios sit near decade lows and leveraged ETF exposure is at record highs—a classic signal of crowding at the top.

The market doesn't ring a bell when the cycle shifts. It just starts rewarding different behavior.

Equal-weight isn't a bet against the S&P 500. It's a better way to own it.

You still hold the same 500 companies but you are not letting seven of them dominate your outcomes. If the mega-caps keep rising, your returns still participate. If leadership broadens, as it typically does after concentration peaks, you're positioned to capture the upside others miss. That's the beauty of equal weight: it wins by losing less and wins more when the crowd is wrong.



The Opportunity in Plain Sight

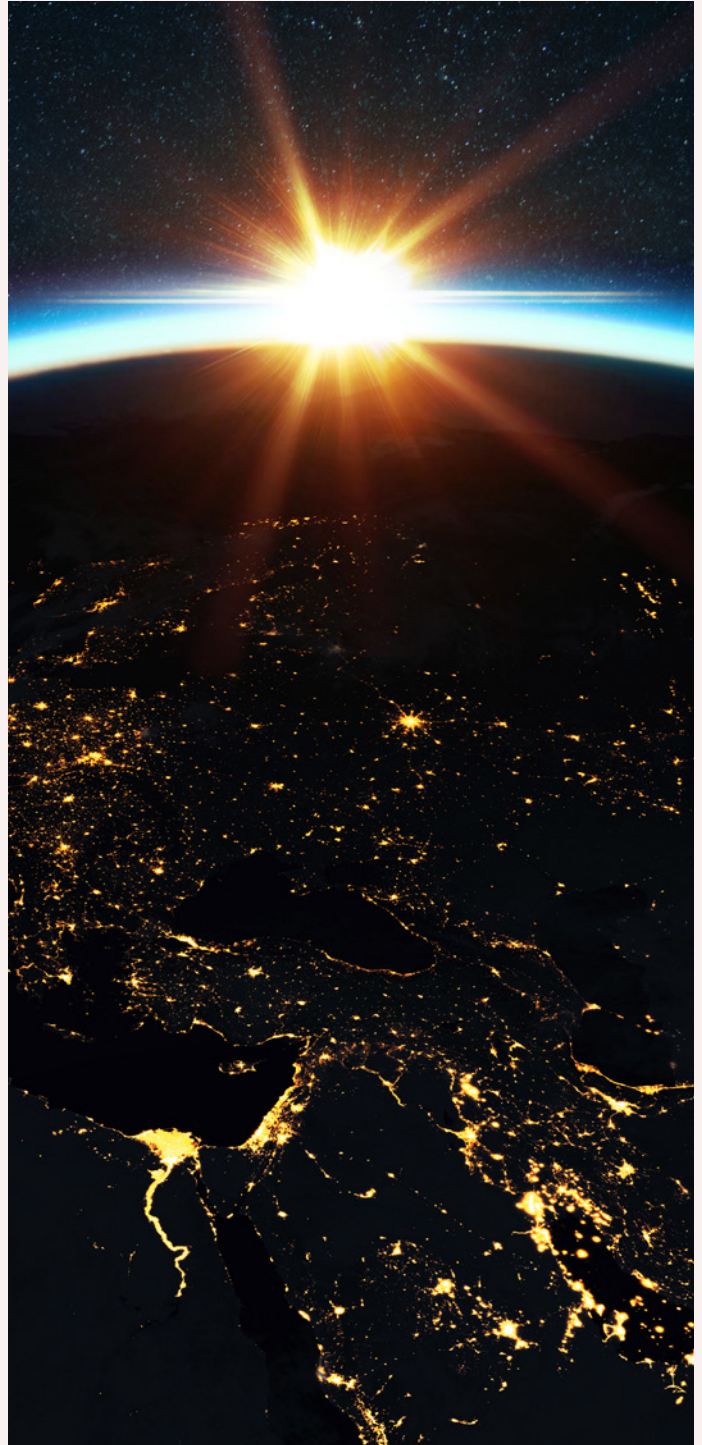
Investors tend to chase what just worked, not what's about to. That's recency bias, and it's why the same cycle repeats every decade.

Three years ago, nobody could imagine tech slowing down. In 2000, nobody could imagine Cisco or Intel underperforming for 20 years. But markets don't care about stories, they care about math.

Fifty years of data tells us the same thing: concentration never lasts. When leadership narrows to a handful of stocks, dispersion follows. Always. We're already seeing the first signs of that rotation. The question is whether investors will recognize it before it becomes obvious.

At Flexion, we view this as one of the most important repositioning moments in years. The equal-weight trade isn't about timing a top—it's about preparing for the next decade of returns.

The decision is simple:
Stay overexposed and hope the story holds. Or rebalance intelligently and own the full market the way it was meant to be owned. **In every cycle, that choice separates regret from opportunity.**



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It's about *time*.

About the Author

Paul Ehrlichman, Flextion's CEO and CIO, has over four decades of experience in portfolio management, leveraging fundamental and quantitative research to develop investment processes and strategies that enhance client returns and manage risks in volatile markets. He has led equity teams focused on global and international value strategies, serving a diverse client base that includes individuals, pension funds, and endowments at several leading global asset managers.

Flextion is a breakthrough platform for evaluating fund strategy returns, helping investors identify managers at a pivotal turning point—those poised to outperform after a period of underperformance. Designed by seasoned portfolio managers, Flextion bridges the gap between “clock time” and “market time,” empowering investors to unlock long-term value and uncover hidden performance potential.

For more information contact:

Paul Ehrlichman, CEO and CIO ▶ paul@flextion.ai  

Bevin Crodian, President and COO ▶ bevin@flextion.ai 