

The most misunderstood finding in finance

Everyone agrees that a tiny fraction of stocks generate all the gains. Nobody agrees on what to do about it.

Hendrik Bessembinder's research on stock market concentration has become one of the most cited findings in academic finance. It has also become one of the most selectively quoted. The same set of numbers is being used to justify two completely opposite investment strategies. Both camps are confident they have the data on their side. However, neither interpretation fully captures the implication for portfolio construction.

The numbers themselves are hard to argue with. Bessembinder, a finance professor at Arizona State University, has spent years documenting the extreme concentration of shareholder wealth creation in US equity markets. His [latest working paper](#), released in March 2026 and now covering a full century of data from 1926 to 2025, finds that just 46 firms account for half of the \$91 trillion in net wealth created above Treasury bill returns. Nearly 60 per cent of individual stocks actually destroyed wealth over their lifetimes. And a mere 3.72 per cent of firms generated all of the net gains. The remaining 96 per cent, collectively, matched cash.

Those 46 firms represent a sharp narrowing from the 89 that accounted for half of net wealth creation in Bessembinder's earlier study, which covered 1926 to 2016. The winners are fewer, and their dominance is growing.

In a [previous GSI Viewpoint](#), we examined the concentration risk embedded in the S&P 500 and the case for factor diversification as a structural response. This companion piece takes a different angle: what the academic research on concentration actually tells us, and what it doesn't.

Two camps have seized on these findings for opposite purposes.

The first, the passive indexing camp, draws a straightforward conclusion: if only a sliver of stocks drive all the returns, you must own everything to avoid missing them. Buy the whole market. As [Garrett Quigley](#), Co-Chief Investment Officer at Global Systematic Investors, puts it: 'There's a line of thought which says Bessembinder's research suggests you should just buy the whole market. You're getting every ticket in the raffle. A few of them will do well, lots of them will do poorly, but you're covered.'



Garrett Quigley
Co-Chief Investment Officer,
Global Systematic Investors



Robin Powell
Consultant,
Educational Content

Published: 22/05/2026

The second camp reaches the opposite conclusion. If the winners are so few and so valuable, the real skill lies in identifying them early and holding on. This is the interpretation favoured most prominently by Baillie Gifford, the Edinburgh-based fund management company whose concentrated, high-conviction growth strategy is built on precisely this logic (and which has provided financial support for Bessembinder's research).

But Quigley sees a third reading that neither camp addresses. 'That's all very well', he says, 'but that's not what the research in factor investing argues. It argues for something different'.

What that different argument looks like, and why the academic evidence on concentration actually supports it, is worth examining closely.

Concentration is the norm, not the exception

The instinct when confronted with Bessembinder's data is to assume something unusual is happening. It isn't. A growing body of research shows that today's market concentration is neither historically extreme nor uniquely American. It is a mathematically predictable feature of how equity markets behave.

Consider this: in May 1932, the seven largest US firms accounted for roughly one-third of total market value. They were AT&T, Standard Oil, Consolidated Gas, General Motors, DuPont, R.J. Reynolds and United Gas Improvement. A different era, different industries, different technologies. The same concentration. Today's Magnificent Seven hold a comparable share.

That parallel comes from a [January 2026 working paper](#) by Per Bye, Jens Soerlie Kvaerner and Bas Werker of Tilburg University and BI Norwegian Business School. Their study constructs the longest available history of US market concentration, and the picture it paints is one of remarkable stability. Between the 1960s and the present, roughly one per cent of listed firms have consistently accounted for a third of total market value. The denominator changed (the number of listed companies rose from around 2,100 in 1967 to nearly 6,700 in 1994), but the proportions held.

More striking still, the US has not been especially concentrated by international standards. For most of the period from 2000 to 2024, it was one of the least concentrated developed markets when measured by the share of firms needed to reach one-third of total value.

The most compelling finding is the simulation. Bye, Kvaerner and Werker ran 4,000 iterations of a standard financial model: 5,000 identical firms, each subject to random shocks, with no special companies and no built-in advantage. The result reproduced real-world concentration levels almost exactly. No extraordinary explanation required.

The instinct is to assume something unusual is happening - it isn't.

Market concentration is neither historically extreme nor uniquely American; it's a mathematically predictable feature of how markets behave.

'Any market where you have idiosyncratic volatility will gradually lead to this kind of concentration', Quigley observes, 'because that's just the way the maths works and it's just the way random numbers work.' He adds that these patterns move in long waves: 'There are cycles of this concentration. In the US, you had similar levels in the 30s and the 50s, and these are long cycles that can take many years to dissipate or increase.'

The pattern extends well beyond the US, and the UK evidence is particularly striking. [Jonathan Fletcher and Michael O'Connell](#) of the University of Strathclyde, in a peer-reviewed study published in the Journal of Asset Management in 2026, examined 50 years of UK equity data using the London Share Price Database. Their finding: just 3.1 per cent of UK-listed companies generated all aggregate net real wealth creation between 1975 and 2024. More than half destroyed wealth in real terms. The Alternative Investment Market, taken as a whole, destroyed approximately £2.6 billion. As Quigley notes: 'The concentration of wealth creation in the UK is even more extreme than in the US.'

[Bessembinder's own global study](#), published in the Financial Analysts Journal in 2023, covering more than 64,000 stocks across 42 countries over 31 years, found that just 2.4 per cent of firms accounted for all \$75.7 trillion in net wealth creation. Outside the US, concentration was more extreme – the top 1 per cent of non-US firms accounted for 90 per cent of non-US net wealth creation, compared with 70 per cent for the equivalent US cohort.

The cumulative weight of this evidence points in one direction. Concentration is not a crisis, not a bubble signal and not an anomaly. It is how equity markets work, everywhere, across decades. The question is what to do about it.

A different reading of the evidence

Concentration is a permanent structural feature of equity markets, rather than a temporary distortion waiting to correct. That changes the question. It is no longer about whether concentration is dangerous. It is about how to invest intelligently in a world where concentration may persist for an extended period of time.

Both conventional responses have blind spots. Passive cap-weighted indexing captures the winners, by definition. That's its great strength, and it remains vastly superior to trying to pick individual stocks. But it also leaves investors increasingly concentrated in whichever handful of names happen to dominate at any given moment. That concentration is a by-product of the methodology, not a deliberate choice.

Meanwhile, active stock-picking faces the odds that Bessembinder's own data lays bare: more than 96 per cent of firms collectively matched Treasury bill returns over the past century. Identifying the remaining fraction in advance, consistently and after fees, is a challenge that the vast majority of active managers have failed to meet.

The UK evidence is particularly striking - just 3.1 per cent of UK-listed companies generated all aggregate net real wealth creation between 1975 and 2024.

The weight of the evidence points in one direction. Concentration is not a crisis, not a bubble signal and not an anomaly. It is how equity markets work, everywhere, across decades. The question is what to do about it.

Factor investing offers a different logic entirely. The existence of a small number of extreme winners does not eliminate the well-documented premiums associated with size, value, profitability and momentum. These represent separate dimensions of expected returns, not competing explanations for the same phenomenon.

'Despite the concentration that Bessembinder documents', Quigley argues, 'you still have a size effect and a value effect and a profitability effect and a momentum effect nonetheless.' The old Capital Asset Pricing Model assumed a single dimension of risk and return. Decades of subsequent research have moved well beyond that.

'The factor research suggests there's no one dimension to the cost of capital or to investor returns', Quigley explains. 'We used to think there was in the CAPM world, but now we accept a more multidimensional world of risk and return.'

Here is where the concentration evidence becomes directly relevant to implementation. In a market where wealth creation is this skewed and this unpredictable, narrow factor bets are self-defeating. A value tilt concentrated in a single country or a handful of sectors carries exactly the kind of idiosyncratic risk that the Bessembinder data warns against. Breadth is not a nice-to-have. It is the strategy.

'It does make sense to try to capture higher returns through a factor-based strategy', Quigley says. 'But if you're going to do that, you should be doing it in as diversified a way as you really can.' The point is not that factor investing can reliably identify the next NVIDIA, Apple or Microsoft. It is that broad exposure to rewarded characteristics can improve expected returns without relying on a small number of stock-specific predictions.

If future wealth creation is likely to come from a small and unknowable subset of companies, then it makes sense to have as broad an investment universe as possible on which to build portfolios. Broader coverage increases the chance of owning future compounders while also allowing factor tilts to be implemented with less stock-specific risk. This is the principle behind GSI's decision to move to MSCI IMI indices. By including small-cap stocks as well as large and mid-caps, they provide broader coverage of developed equity markets. In a world shaped by extreme skewness, casting the widest possible net is not a cautious choice. It is the logical one.

"In a market where wealth creation is this skewed and unpredictable, narrow factor bets can become self-defeating. Broad, diversified exposure to rewarded factor characteristics improves expected returns without relying on a small number of stock specific predictions."

What the evidence demands

Bessembinder's data is not a reason to panic, not a call to abandon diversification, not a treasure map for finding the next handful of winners. Both camps have been reading the evidence selectively.

There is a more complete interpretation. Concentration is structural, global and mathematically inevitable. The rational response is to diversify more broadly, more systematically and across the dimensions of return that decades of evidence show matter.

It is to build resilient portfolios designed to capture multiple sources of expected return over time.

As Quigley puts it: 'The key thing that we need to emphasise is we want to be as diversified as one can when trying to exploit these factor effects.'

In a market defined by extreme skewness, that isn't a compromise. It's the strategy the evidence demands.

Resources:

Bessembinder, H. (2026). One Hundred Years in the U.S. Stock Markets. Working paper, W.P. Carey School of Business, Arizona State University.

Bessembinder, H., Chen, T. F., Choi, G. and Wei, K. C. J. (2023). Long term shareholder returns: Evidence from 64,000 global stocks. *Financial Analysts Journal*, 79(3), 33–63.

Bye, P., Kvaerner, J.S. & Werker, B.J.M. (2026). Magnificent, but Not Extraordinary: Market Concentration in the US and Beyond. Working paper, Tilburg University and BI Norwegian Business School.

Fletcher, J. & O'Connell, M. (2026). Exploring the real wealth creation in U.K. stocks. *Journal of Asset Management*, 27(3).

Robin Powell is a freelance journalist and author, and is editor of [The Evidence-Based Investor](#).

Rather than attempting to predict the next narrow group of outperformers, investors should focus on building resilient portfolios designed to capture multiple sources of expected return over time.

Important information:

This document is issued by Global Systematic Investors LLP (GSI) and is not intended for general distribution or for any person or entity in any jurisdiction or country where such distribution would be contrary to law or regulation. It does not constitute or form part of any offer or invitation to buy or sell shares.

GSI Funds are regulated investment vehicles incorporated in the Republic of Ireland and therefore, outside the scope of the UK's Sustainability Disclosure Requirements (SDR) and are not seeking an SDR label. The Fund does not claim compliance with the SDR requirements.

This document should be read in conjunction with the Fund's Prospectus, key investor information document (KIID), or offering memorandum and can be viewed at www.gsillp.com and at www.ascenderfundpartners.com

GSI does not provide investment advice. Potential investors should seek independent advice regarding the suitability of the Fund for their investment needs. Investors should be aware that past performance is not indicative of future performance. Returns can be volatile, reflecting rises and falls in the value of underlying investments. Investors may not get back the full amount initially invested.

The contents of this document are based on sources of information believed to be reliable. GSI has taken reasonable care to ensure the information stated is accurate as of the date of the material unless stated otherwise. However, GSI makes no representation, guarantee, or warranty that it is wholly accurate or complete. Any performance information shown in this document is for general information purposes only. Any reliance you place on this information is strictly at your own risk. In no event will Global Systematic Investors be liable for any loss or damage, including, without limitation, indirect or consequential loss or damage arising out of or in connection with the use of this information.

The GSI Global Aware Value Fund and the GSI Global Aware Focused Value Fund are Funds of GemCap Investment Funds (Ireland) plc, an umbrella-type open-ended investment company with variable capital, incorporated on 1 June 2010 under the laws of Ireland with limited liability and segregated liability between Funds.

GemCap Investment Funds (Ireland) plc is authorised by the Central Bank of Ireland pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 (S.I. No. 352 of 2011) (the "UCITS Regulations"), as amended. Ascender Fund Partners (Ireland) Limited, trading as Ascender Fund Partners, is a limited liability company incorporated under the registered number 579677 under Irish law, pursuant to the Companies Act 2014, which is regulated by the Central Bank of Ireland. Its registered office is at GemCap Investment Funds (Ireland) plc 7th Floor, Block A, One Park Place, Hatch Street, Dublin 2. Ascender Fund Partners acts as both a management company and global distributor to GemCap Investment Funds (Ireland) plc.

Global Systematic Investors LLP is registered as a limited liability partnership in England & Wales with the number OC370686. Its registered office is at 75 King William Street, London, EC4N 7BE. Authorised and regulated in the United Kingdom by the Financial Conduct Authority (FRN 572537).



Global Systematic Investors LLP

 75 King William Street, London EC4N 7BE

 Tel. 020 7717 5578

 www.gsillp.com

Systematic factor investing with ESG awareness