Index Concentration Is a Serious Risk

Add Active Management To Diversify

1

Market concentration

Indices are driven by Mega-Caps and do not provide diversification anymore

2

Rich valuations

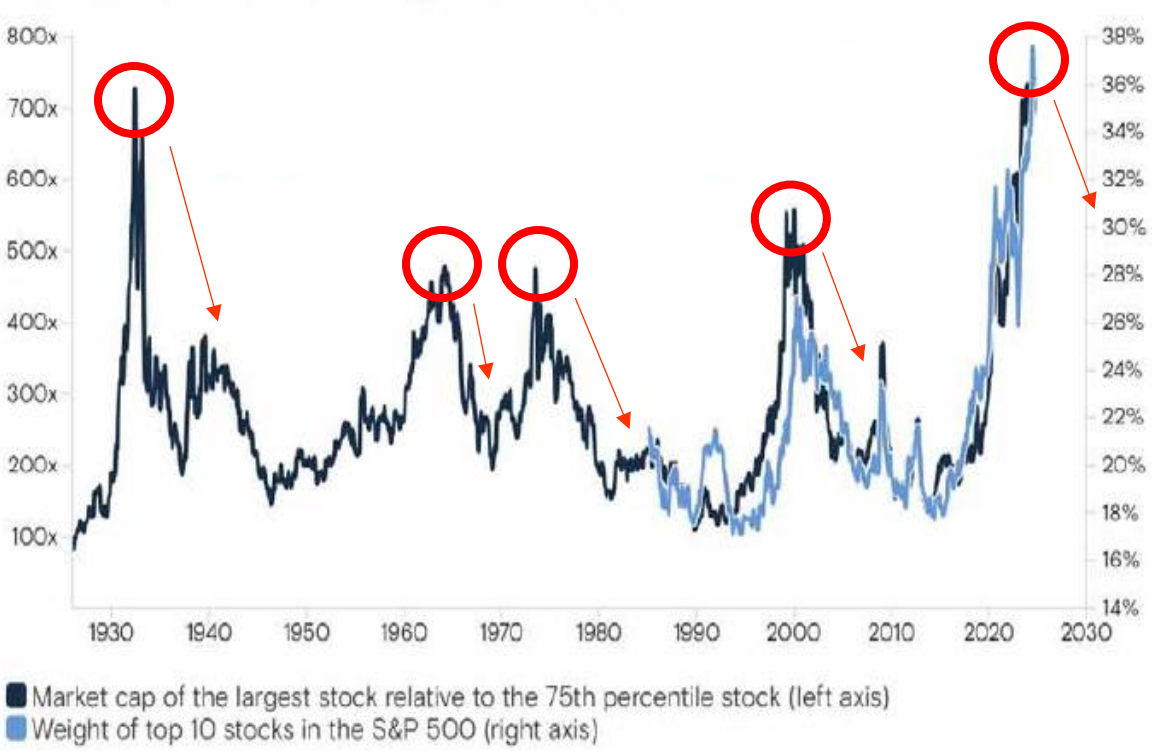
Valuations of popular indices are stretched. Room for errors is small.

Regime Change

Requires Active Management

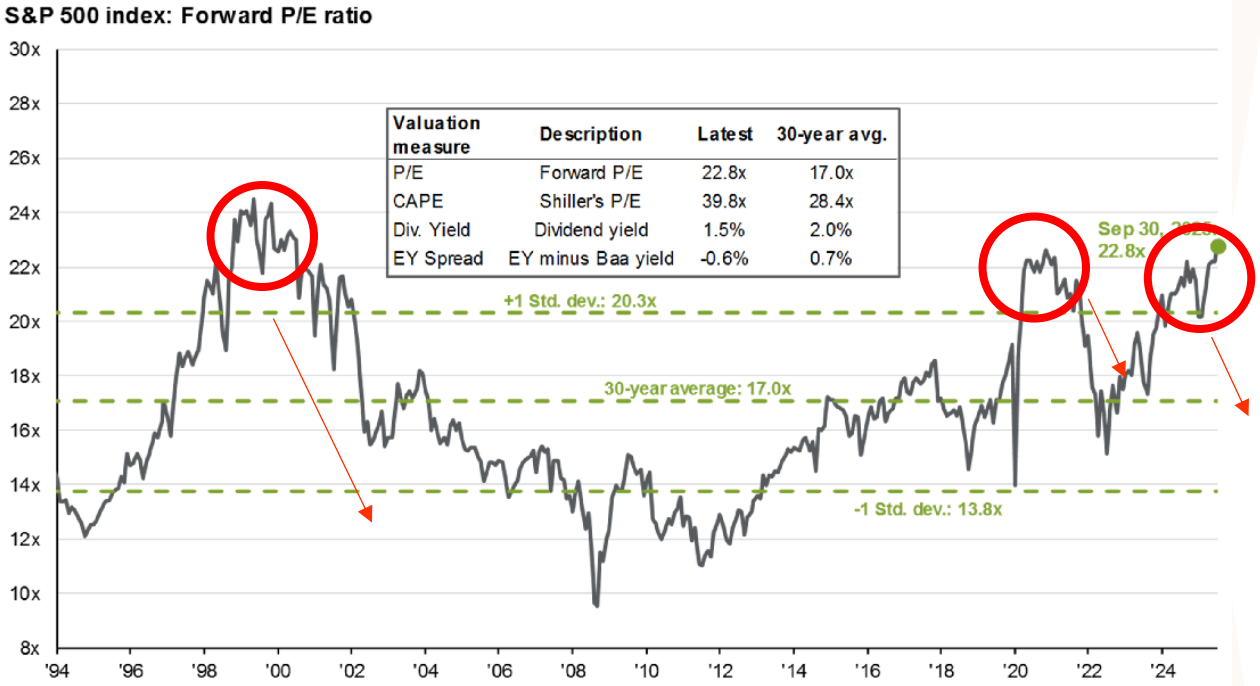
High Market Concentration Always Mean-Reverts

Market Concentration



Active Managers Outperforming !!!

Rich Valuations Require Selectivity

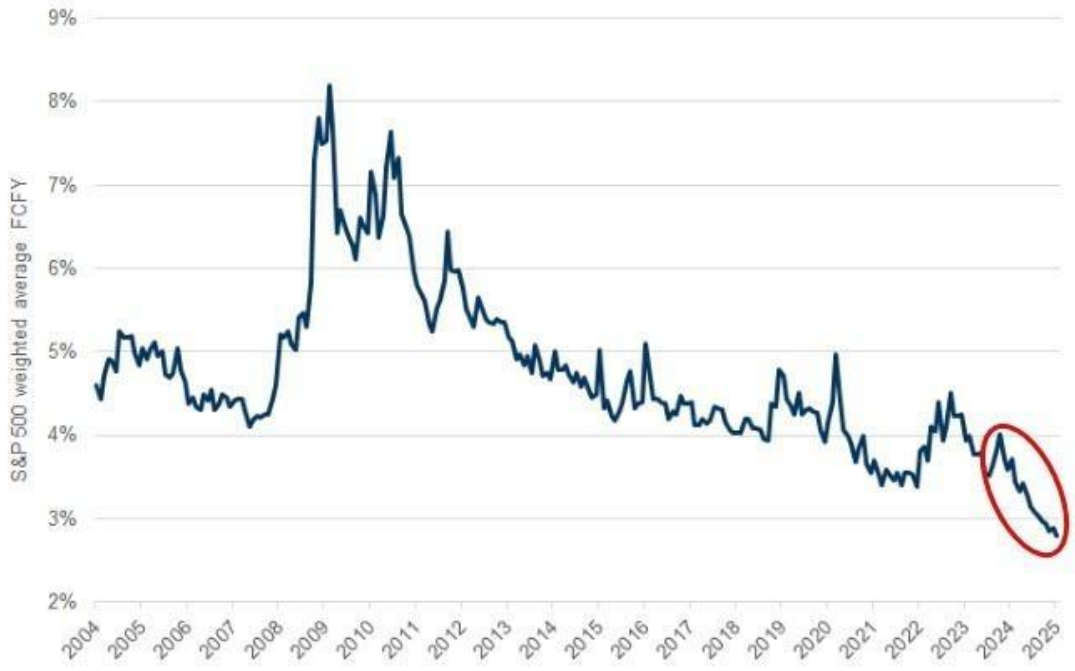


Valuation measure	Description	Latest	30-year avg.
P/E	Forward P/E	22.8x	17.0x
CAPE	Shiller's P/E	39.8x	28.4x
Div. Yield	Dividend yield	1.5%	2.0%
EY Spread	EY minus Baa yield	-0.6%	0.7%

Valuations Don’t Matter Until They Matter

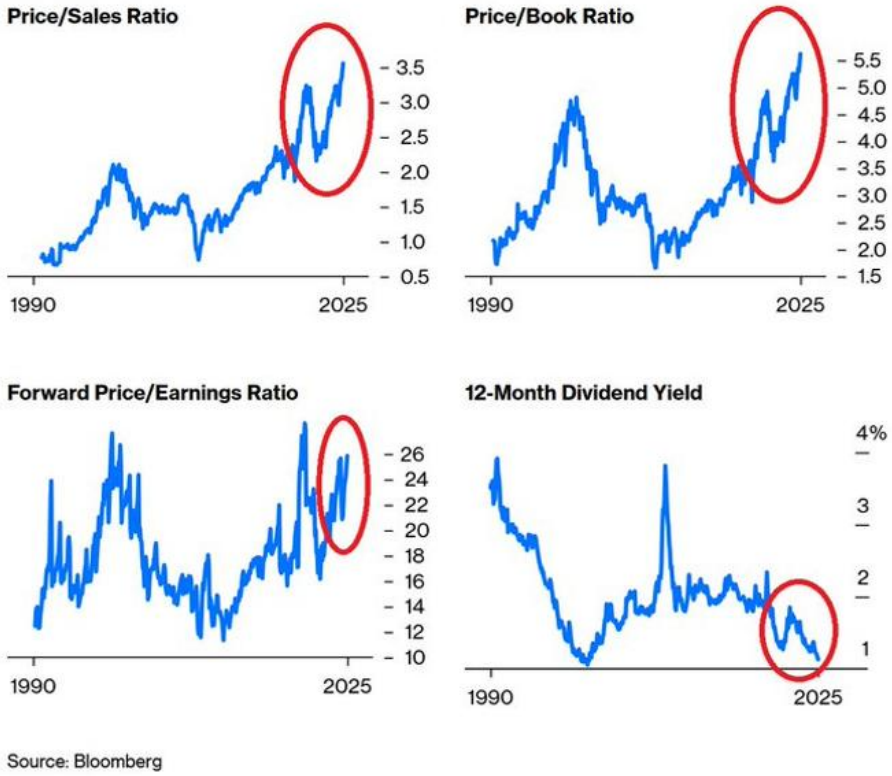
- The margin of safety is thin as companies must meet exceedingly high expectations, as the multiple expansion shows

Exhibit 1: Free cash flow yield is at its lowest level over the past 20 years
S&P 500 stocks weighted average free cash flow yield



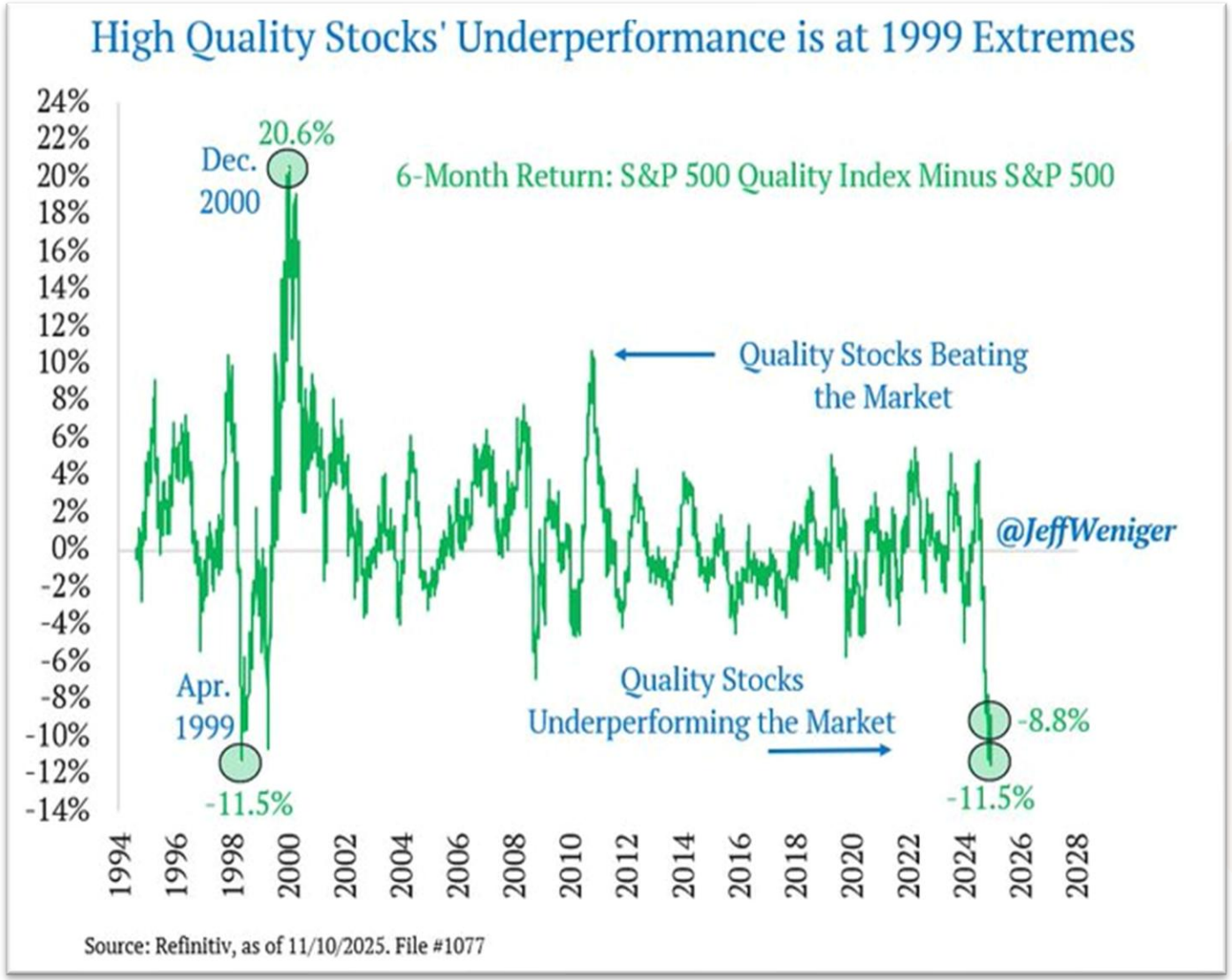
Source: Goldman Sachs Global Investment Research, Compustat, Bloomberg

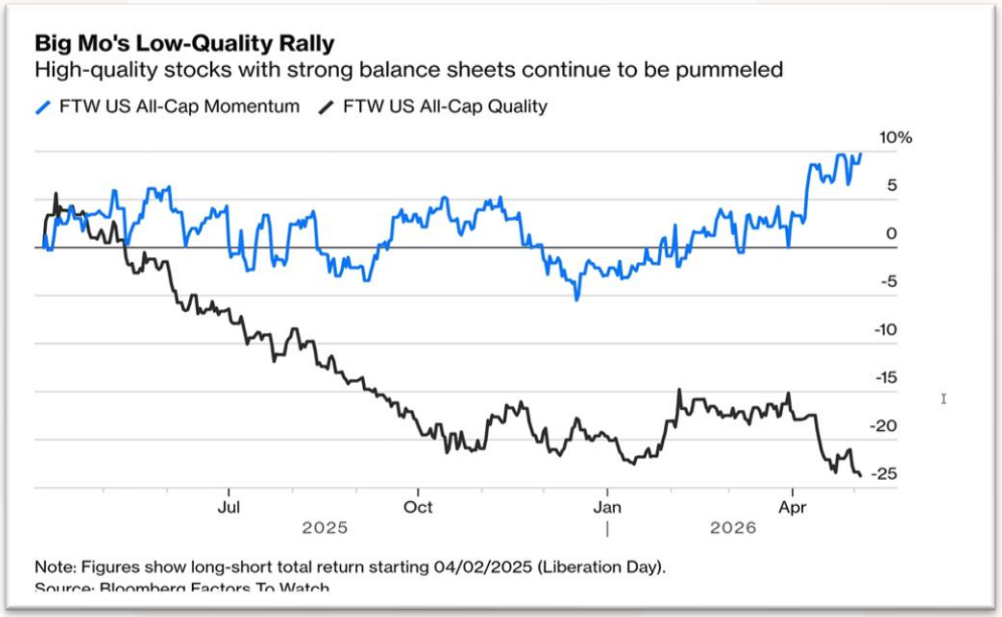
How Expensive Is the S&P 500? Let Me Count the Ways...
Multiples of sales and book value are at a record; dividend yield is close



Source: Bloomberg

The best time to buy quality stocks is now!!





Active Management Isn’t Optional — It’s Essential

1. Index Concentration Is a Serious Risk

- Historically, high market concentration always mean-reverts. Active managers outperform by diversifying away from concentrated risks during these periods.

2. Rich Valuations Reward Stock Pickers

- The S&P 500's forward P/E of 23x is far above historical averages. Active managers can identify strong companies and navigate these stretched valuations.

Incorporate active management into your equity allocation to reduce portfolio risk and enhance diversification. arvy Equity has delivered the same annual returns (net) over the past seven years, while achieving significantly lower downside capture and investing in higher-quality businesses at more attractive valuations.

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