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Quarterly Insights

The Risk You Don't See in a Single Stock

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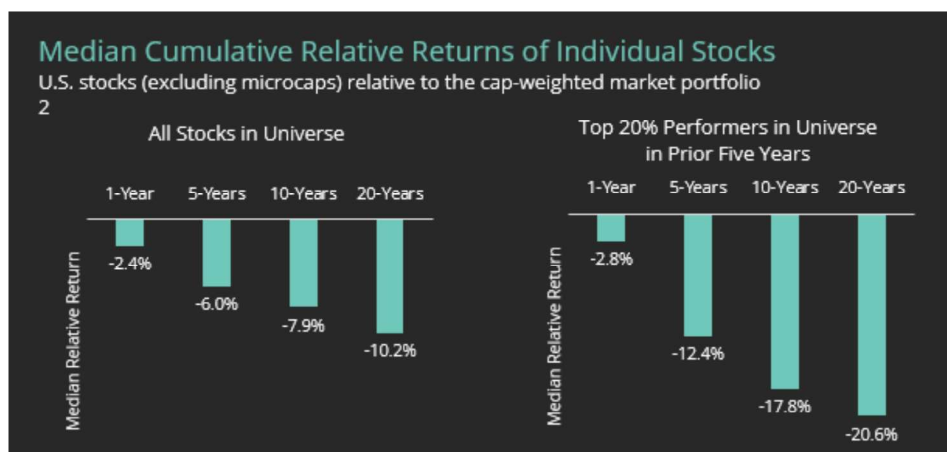
For many investors, a large position in a single stock is not a theory—it is a story. It may be the company you helped build. It may be equity accumulated through years of compensation. It may be a stock that performed exceptionally well and became a much larger part of your portfolio than you ever intended. Success can make concentration feel justified. The numbers tell a different story.

Most Stocks Don't Beat the Market

When we look at the full history of the U.S. stock market, the pattern is clear: a relatively small number of companies drive most of the wealth creation. Research by Hendrik Bessembinder, published in The Journal of Investing, shows that 57.8% of U.S. stocks reduced shareholder wealth relative to investing in Treasury bills over their lifetimes. In other words, most individual stocks did not compensate investors for the risk they took. A small minority generated the bulk of the market's long-term gains. That asymmetry matters. If you own a broad portfolio, you are almost guaranteed to hold the exceptional winners. If you own just one or two stocks, the odds are far less favorable.

Antti Petajisto's research reinforces this point. Since 1926, the median 10-year return for an individual U.S. stock has underperformed the market by 7.9% cumulatively, or about 0.8% per year. That means the typical stock lagged the market for over a decade.

The statistics are even more striking for stocks that have already done very well. For companies in the top 20% of five-year performance, the median 10-year return that followed underperformed the market by 17.8%, or roughly 1.9% per year. Past winners, on average, did not continue to win.



Source: Underperformance of Concentrated Stock Positions by Antti Petajisto June 30, 2023

Surviving Isn't the Same as Thriving

Dimensional's Wes Crill's 2022 research, Singled Out: Historical Performance of Individual Stocks, provides further perspective. Over rolling 20-year periods, just under half of U.S. stocks were still trading at the end of the period. The rest had delisted. Only a little more than one in five stocks both survived and outperformed the broad U.S. market over 20 years.

Even more telling: conditioning on past success does not meaningfully improve the odds. Among stocks that had outperformed the market over the previous 20 years, only about 30% went on to both survive and outperform over the following 10 years. That is essentially the same rate observed for prior underperformers.

Why This Happens

This pattern reflects what statisticians call a positively skewed distribution. A small number of companies produce extraordinary returns. Many more deliver modest gains, flat performance, or significant losses. Because losses are capped at -100% while gains can compound dramatically, a handful of outliers pull up the average.

Broad market indexes are built to capture those outliers. As companies succeed, their weight in the index grows. As companies struggle, their weight shrinks. Over time, the index automatically increases exposure to winners and reduces exposure to losers. A concentrated portfolio does not have that mechanism. If you hold one stock and it underperforms, there is no structural adjustment to offset that outcome.

The Human Side of Concentration

The decision to hold a concentrated position is rarely purely statistical. Research by Shlomo Benartzi in The Journal of Finance shows that employees tend to allocate more to company stock after strong past performance, a pattern consistent with extrapolating recent success in the future. Yet those allocations did not predict superior future returns.

There is also the question of overall exposure. As Johnson and Horan explain in The Journal of Wealth Management, human capital (the present value of your future earnings) often represents the largest component of your lifetime wealth, particularly earlier in your career. If your income is tied to a specific company or industry, holding a large position in the same company amplifies that risk. In a downturn, employment risk and investment risk can move together.

Volatility Is Only Part of the Risk

It is widely understood that a concentrated stock position increases portfolio volatility. Petajisto's work suggests that once a single stock exceeds roughly 10% of a portfolio, the volatility-reducing benefits of diversification begin to diminish meaningfully. But volatility is only half the story. The more subtle issue is return probability. The median stock underperforms the market, so concentration is not a 50/50 bet between beating and lagging the market. Historically, concentrated positions have been more likely to underperform the market than outperform. That is why diversification is not simply about smoothing the ride. It is about increasing the probability of capturing a relatively small group of companies that drive long-term market growth.

A Practical Perspective

There are legitimate reasons to hold a concentrated position. Taxes on appreciated shares can be significant. Founders and executives may value control or face restrictions on selling. These considerations should be carefully evaluated. Absent compelling tax or structural reasons, the long-term data consistently show:

- Most individual stocks underperform the market over long horizons.
- Only about one in five stocks both survive and outperform the market over 20 years.
- Recent long-term winners have historically underperformed the market over the following decade.

Diversification is often described as the only free lunch in investing because it reduces risk without sacrificing expected return. In the case of concentrated stock positions, the evidence suggests something even stronger: diversification may reduce risk and improve the odds of long-term outperformance relative to holding a single stock.

Your Social Security Planning Checklist

Tax season isn't just about filing paperwork—it's an opportunity to make sure your Social Security benefits, taxes, and retirement income are working together. Once you've filed your 2026 return, you can use this checklist to see where a conversation with your financial advisor could add value.

Review How Your Social Security Benefits Were Taxed

Social Security benefits may be partially taxable depending on your total income.

- [ ] Did your tax return show that up to 50% or 85% of your benefits were taxable?
- [ ] Has your income increased due to investments, required minimum distributions (RMDs), or other sources?
- [ ] Are you close to an income threshold that could increase how much of your benefits are taxed?

Why it matters: Even modest income increases can reduce your net Social Security income.

Check Your Medicare Premium Exposure

Higher-income retirees may pay more for Medicare due to income-related adjustments.

- [ ] Do you know if your income could trigger higher Medicare Part B or Part D premiums?
- [ ] Are one-time events (such as capital gains or business income) expected in the next year or two?
- [ ] Have you discussed strategies to manage income and avoid unnecessary premium increases?

Why it matters: Medicare premium increases are often overlooked and can offset Social Security cost-of-living increases.

Revisit When to Claim (or How You Claimed) Benefits

The timing of your Social Security claim affects your income for life.

- ☐ Are you confident your claiming age aligns with your longevity expectations and retirement goals?
- ☐ Have you reviewed how claiming decisions affect spousal or survivor benefits?
- ☐ Does your claiming strategy coordinate with your investment and withdrawal plan?

Why it matters: Claiming decisions are permanent and influence lifetime income and taxes.

Coordinate Social Security With Your Tax Strategy

Smart tax planning can help you keep more of your benefits.

- ☐ Have you considered how Roth conversions may affect Social Security taxes and Medicare premiums?
- ☐ Are you drawing income from the most tax-efficient accounts first?
- ☐ Is your income spread thoughtfully across years rather than concentrated in one?

Why it matters: The right tax strategy can increase your after-tax retirement income—without changing your benefits.

Look Beyond Gross Benefits to Net Income

What you get is less important than what you keep.

- ☐ What is your after-tax Social Security income?
- ☐ Have federal taxes, state taxes, and Medicare premiums been factored in?
- ☐ Have different claiming scenarios been compared on an after-tax basis?

Why it matters: Headline benefit numbers don't reflect real-world income.

Align Social Security With Your Estate Plan

Social Security decisions can affect surviving spouses and family goals.

- ☐ Have survivor benefits been reviewed as part of your broader plan?
- ☐ Is your Social Security strategy aligned with trust distributions or charitable giving?
- ☐ Are long-term legacy objectives supported?

Why it matters: Social Security is part of a larger financial picture, not a standalone decision.

Plan Ahead for the Rest of 2026

April is the starting point, not the finish line. Proactive planning creates more flexibility and fewer surprises. Your financial advisor can help coordinate these moving pieces and tailor strategies to your goals.

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