June 2026 Market Update

The Illusion of Diversification

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Most of the world's wealthiest people have built their fortunes by betting on themselves or by inheriting money from someone who once did. For instance, tech billionaires like Larry Page and Sergey Brin (Google), Jeff Bezos (Amazon) and Mark Zukerberg (Facebook) took risks by creating businesses that opened up new frontiers and have dominated society in a way that we've never quite seen before. Their hard work paid off spectacularly, allowing them to build the kind of historic generational wealth that most of us can only dream of.

Of course, being an entrepreneur is not for everyone. It typically means working very long hours, taking life altering risks, adding debt and reinvesting in the business rather than taking significant cash out. It takes discipline and some luck, as most new businesses are a concentrated bet on one industry. In other words, it's putting all your eggs in one basket while the odds are against you. According to the U.S. Bureau of Labor Statistics, typically 20% of new businesses don't make it past the first year while almost half don't survive year five (current data is harder to come by in Canada). As tantalizing as the success stories above are, they are also huge anomalies.

For most people, wealth generation means investing in securities like stocks and bonds, rather than entrepreneurship. As shareholders we don't have a meaningful say in how a company operates or truly know the day-to-day interworking of a firm like a founder would. This is why we're taught to diversify away our risk by investing in many baskets rather than just one. Coupled with investing early and often to build wealth, diversification is a tried-and-true strategy that has worked well over time. It won't make us billionaires like Jeff Bezos, but it also won't lead us to ruin. For many it's the path to their ultimate goal of financial independence.

Unfortunately, owning a portfolio of stocks doesn't always mean we are truly diversified. Indeed, there are times when markets become so concentrated that what appears as a well diversified portfolio can really be a concentrated bet.

History Repeating?

It's no exaggeration to say that we are living through one of the most spectacular capital spending cycles in modern history. The AI build out from computer chips to data centres to expanding the energy grid and everything in between is forecast to be greater as a percent of U.S. GDP than the railroad buildout of the 1850's.

It's increasingly hard not to draw parallels to the dot com bubble of the late '90s and very early 2000's. The environment was that of a gold rush; raise capital, stake your claim and figure the rest out later. Of course, the internet fulfilled all its promise and then some over time, both positively and negatively, but not without some significant hiccups along the way. The hype led to some significant overvaluation in technology stocks with $100 invested in the S&P 500 Information Technology sub index in May 2000, falling to about $23 in October 2002 and not regaining its full value until 2014!

Is it different this time? Only time will tell. There does seem to be less froth in the market as today's technology companies have real business models, as well as solid revenues and earnings; something that was lacking in 2000, placing today's firms in a much better position. One thing that is concerning however, is how concentrated the market has become.

On May 31, 2000, technology stocks made up 29.3% of the S&P 500, fast forward 26 years and that number is a stunning 38.6%! This doesn't include companies like Amazon, Meta (Facebook) and Alphabet (Google) that are not classified as being in the Information Technology sector but are surely driven by similar factors. Increasingly, a bet on the U.S. market is a bet on technology.

Staying Diversified

There are many ways for investors to be diversified. Although some investors have turned to alternative assets such as private equity and real estate, most are still focused on traditional portfolios of stocks and bonds due to their more liquid nature (easy to get in and out of), lower fees and competitive historical returns. Bonds offer diversification benefits in a portfolio as they tend to protect portfolios when equity markets go down. On the stock side, diversifying across geographies is a fairly easy way to smooth out the significant sector bets that plague most markets, after all the U.S. is not alone with its concentration risk. The Canadian market is dominated by Financials, Energy and Materials (banks, oil and gold), while international markets have a strong representation in Industrials.

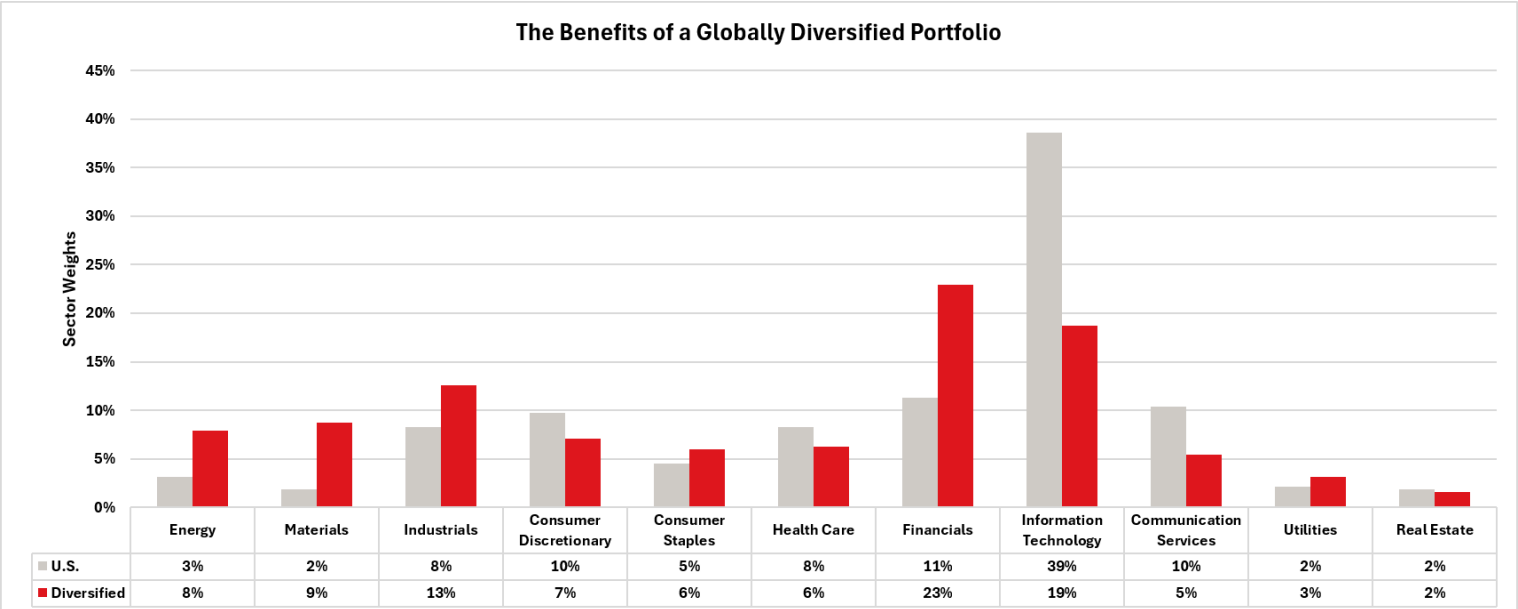
If an investor were to own a portfolio of stocks that consisted of 1/3 invested in Canada, 1/3 in the U.S. and 1/3 in international securities, the level of diversification would be greater, the investor should get a smoother ride over time than investing in just one market or sector. Market corrections should also be less dramatic.

Below we compare the sector weights of a U.S portfolio invested in the S&P 500 vs a globally diversified portfolio with 1/3 in the U.S., 1/3 in Canada (S&P/TSX Composite) and 1/3 in international markets (MSCI EAFE). The diversified portfolio still has a strong representation in technology, allowing it to participate in the AI buildout while maintaining strong exposure to other areas of the market in case a correction in these stocks is near.

FOMO is the enemy

In the late '90s and early '00s it was hard to convince investors to diversify. The technology trade had been so successful for so long that not being in it seemed to be the real risk. Many that had resisted the call of technology stocks piled in at the wrong time looking for returns that had already happened. They didn't experience the spectacular growth, but they did feel the pain of the correction.

It seems like we're entering a real period of fear of missing out (FOMO) once again. After the amazing run we've had in recent years, investors are feeling emboldened. The market has shrugged off everything from a pandemic to



	Energy	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Communication Services	Utilities	Real Estate
U.S.	3%	2%	8%	10%	5%	8%	11%	39%	10%	2%	2%
Diversified	8%	9%	13%	7%	6%	6%	23%	19%	5%	3%	2%

Source: FactSet, U.S. portfolio S&P 500, Diversified portfolio 1/3 S&P 500, 1/3 S&P/TSX Composite, 1/3 MSCI EAFE

inflation to multiple global conflicts with ease; it's enough to make anyone complacent and to forget about some of the fundamental rules of successful investing that have served us well over the years.

We don't know if we're in a dotcom like bubble today in technology stocks. They could continue to lead the market for years, or a significant correction could be just around the corner. The future is always uncertain. It is important to remember that being properly diversified is one strategy that has worked most consistently for investors over the long run. It makes it easier to stay invested by avoiding the wild swings that come from an overly concentrated portfolio.

However, it does take time and effort. That's where professional guidance from a Wealth Advisor comes in. They can build tailored plans and then execute on that plan by constructing monitoring and rebalancing portfolios to a client's risk tolerance. The guidance helps investors stay on track and increases the probability of reaching their financial goals, which in the end, is what matters most.

Source: FactSet, NBC Economics & Strategy

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