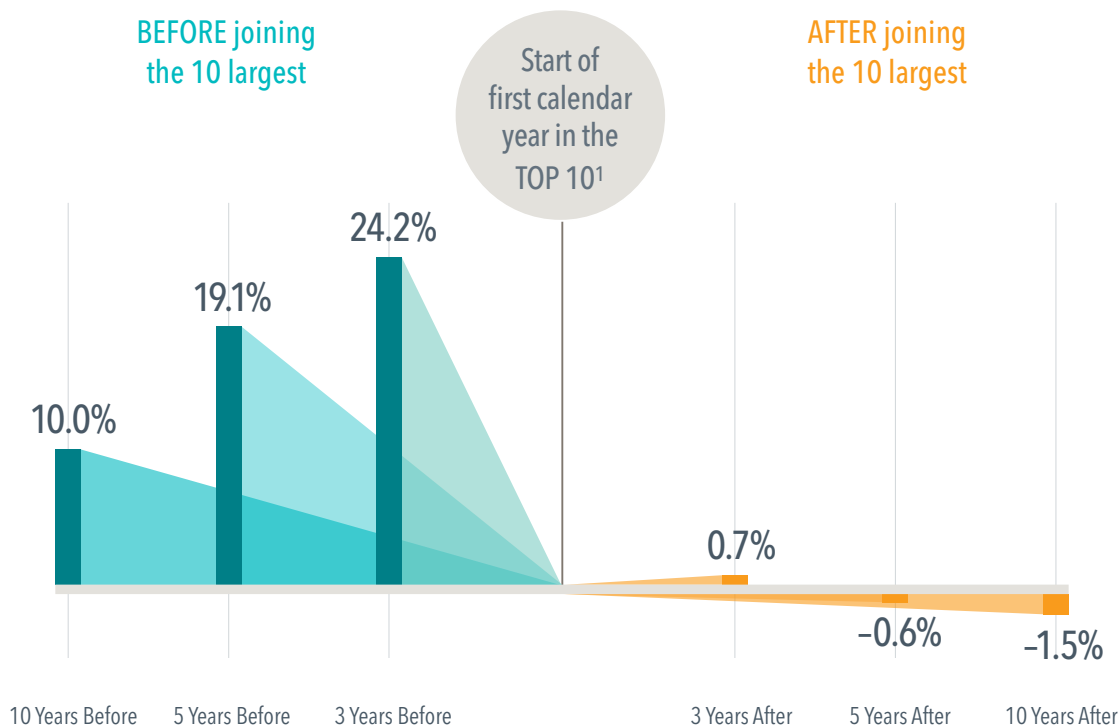


Why Investors Might Think Twice About Chasing the Biggest Stocks

AVERAGE ANNUALISED OUTPERFORMANCE OF COMPANIES BEFORE AND AFTER THE FIRST YEAR THEY BECAME ONE OF 10 LARGEST IN US
Compared to Fama/French Total US Market Research Index, 1927-2020



As companies grow to become some of the largest firms trading on the US stock market, the returns that push them there can be impressive. But not long after joining the Top 10 largest by market cap, these stocks, on average, lagged the market.

- From 1927 to 2020, the average annualised return for these stocks over the three years prior to joining the Top 10 was nearly 25% higher than the market. In the three years after, the edge was less than 1%.²
- Five years after joining the Top 10, these stocks were, on average, underperforming the market—a stark turnaround from their earlier advantage. The gap was even wider 10 years out.
- Intel is an illustrative example. The technology giant posted average annualised excess returns of 29% in the 10 years before the year it ascended to the Top 10 but, in the next decade, underperformed the broad market by nearly 6% per year. Similarly, the annualised excess return of Google five years before it hit the Top 10 dropped by about half in the five years after it joined the list.

Expectations about a firm's prospects are reflected in its current stock price. Positive news might lead to additional price appreciation, but those unexpected changes are not predictable.

1. Ten largest companies by market capitalisation.

2. Returns are measured as of start of first calendar year after a stock joins Top 10.

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In USD. Source: Dimensional, using data from CRSP. Includes all US common stocks excluding REITs. Largest stocks identified at the end of each calendar year by sorting eligible US stocks on market capitalisation. Market is represented by the Fama/French Total US Market Research Index. Annualised Excess Return is the difference in annualised compound returns between the stock and the market over the 3-, 5-, and 10-year periods, before and after each stocks' initial year-end classification in the top 10. 3-, 5-, and 10-annualised returns are computed for companies with return data available for the entire 3-, 5-, and 10-year periods respectively. The number of firm included in measuring excess returns prior (subsequent) to becoming a top 10 stock consists of 39 (54) for 3-year, 38 (53) for 5-year, and 30 (47) for 10-year.

Fama/French Total US Market Research Index: The value-weighted US market index is constructed every month, using all issues listed on the NYSE, AMEX, or Nasdaq with available outstanding shares and valid prices for that month and the month before. Exclusions: American Depositary Receipts. Sources: CRSP for value-weighted US market return. Rebalancing: Monthly. Dividends: Reinvested in the paying company until the portfolio is rebalanced.

Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

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