The value of advice in today's market

Investors today have more choice than ever before, and more complexity to navigate. Markets have been increasingly shaped by passive investing, rising concentration, and a widening gap between winners and losers. These shifts don't just affect markets; they affect how portfolios behave, and the outcomes investors experience over time.

That's why portfolio construction matters more than ever, and why the role of a trusted advisor has never been more important.

In this article, we explore how the market has evolved, what it means for diversification and risk, and how combining different approaches, guided by advice, can help investors stay on track.

Understanding the rise of passive investing

Passive investing has been one of the defining investment trends of the past thirty years. It's rooted in a simple idea: rather than trying to outperform the market, an investor could simply own it. What began as a niche idea has helped reshape how investors access markets.

Today, exchange-traded funds (ETFs) exceed $20 trillion globally, with passive strategies representing approximately 60% of the U.S. equity fund market.

Passive funds have also dominated new investment flows, attracting nearly $1 trillion in net new investment in 2021 alone[1].

In Canada, while mutual funds continue to represent most assets, ETFs have seen strong growth in recent years.

A distinct set of market conditions has helped drive that growth over the past decade:

1. **A prolonged bull market** rewarded staying fully invested.
2. **Declining interest rates** supported valuations broadly.
3. **Low dispersion** meant stocks often moved more closely together, reducing the impact of stock selection.
4. **Lower fees** provided a consistent structural advantage.

[1] Global ETF assets: ETFGI, January 2026 (etfgi.com).

In that environment, broad market exposure often delivered strong results.

Investors are now navigating a very different market environment. While passive strategies continue to provide broad market exposure, the conditions that once supported them have changed.

As markets become more differentiated, the question is no longer just about participation, but also about positioning.

That's why the current environment may be the most favourable for skilled active management in a decade.

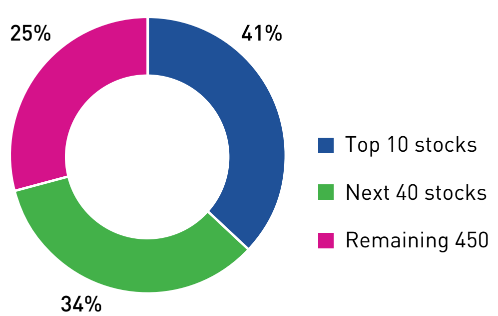
Understanding concentration in today's markets

When money flows into an index fund, investment decisions are embedded within how the index is constructed. Capital is allocated across all companies, in proportion to their size, regardless of their valuation.

Over time, this has contributed to a level of concentration that many investors may not fully appreciate.

By the end of 2025, the ten largest companies in the S&P 500, an index tracking the 500 leading companies on U.S. exchanges, accounted for approximately 41% of the index. That's more than double their weight a decade ago. For perspective, at the height of the dot-com bubble the top ten companies made up roughly 26% of the index.

Figure 1: S&P 500 weight distribution

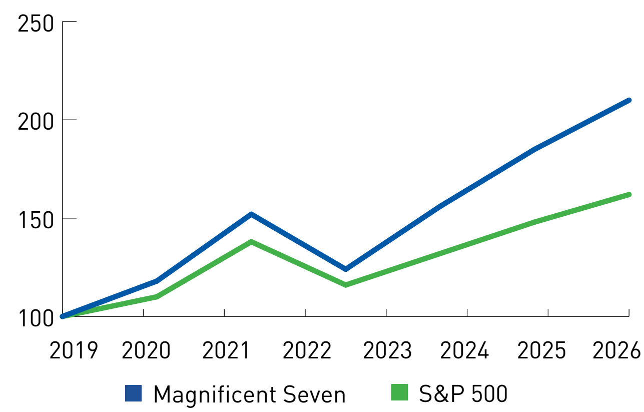


Source: S&P 500 index weight distribution as of December 31, 2025: RBC Wealth Management / FactSet. Top 10 weight reached ~41% at end-2025 (the peak shown here); as of April 2026, top 10 weight has pulled back to ~35.6% reflecting early-2026 market rotation. For illustrative purposes only. Not investment advice.

In practice, this means that an investor who buys an S&P 500 index fund for diversification may have a meaningful portion of their equity exposure concentrated in a relatively small number of stocks. The remaining 450 companies share only about 25% of the total weight.

The Magnificent Seven (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) have driven a significant share of market returns. If we set their starting value to 100 at the end of 2018, these seven companies collectively grew to approximately 791% by the end of 2025, compared to 305% for the broader S&P 500.

Figure 2: Indexed total return performance (Base 100 = Dec 2018)



Sources: S&P 500 annual total returns: YCharts / State Street (SVSPX), 2019–2025. Magnificent Seven annual returns: Motley Fool Research (2019–2022); Mellon Investments / Bloomberg (2023); Roundhill MAGS ETF (2024–2025). Indexed to 100 at December 31, 2018. Magnificent Seven = Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla. Past performance is not indicative of future results. For illustrative purposes only. Not investment advice.

This highlights an important consideration. On paper, portfolios may appear broadly diversified. In practice, a smaller group of companies is driving a significant share of outcomes.

The question is not just whether these are strong companies, but their valuation, and how much of them you own.

The risks of passive investing

During prolonged rising markets, the risks of passive investing can be less visible. When returns are strong, low-cost index strategies have provided an effective way to capture broad market performance.

Less often discussed is how these strategies behave across different market conditions. Passive investing is designed to remain fully invested, participating in both market gains and declines, without adjusting exposure as conditions change.

This becomes more relevant when considering the mathematics of loss. A 10% loss requires an 11% gain. A 20% loss requires a 25% gain. A 30% loss requires a 43% gain. And a 50% loss requires a full 100% recovery to *just* break even.

Consider Beyond Meat, which rose 839% in its first two months as a public company in 2019 before falling 99.8% from its peak[2]. While this was a small position in most portfolios, it illustrates how index exposure can include a wide range of outcomes without the influence of active management.

The severity of drawdowns, the drop from a peak to a low point, can meaningfully influence long-term outcomes, as larger losses require more time to recover. Different investment approaches experience this trade-off in different ways.

Passive strategies provide consistent exposure to the market through all conditions. In rising markets, this can be beneficial. In more challenging periods, outcomes will reflect the full movement of the market.

What today's market means for active management

Market conditions continue to evolve, and so do the opportunities and risks they present. New sectors, technologies, and sources of return are shaping how performance is generated, increasing the importance of how portfolios are constructed and managed over time.

One of the most important concepts in this environment is dispersion, or the degree to which individual stocks differ in performance.

- When dispersion is low, stocks tend to move together in relative unison. In that environment, differences between individual holdings matter less.
- When dispersion is higher, the gap between the top and bottom performers widens, making individual security selection more impactful.

In recent years, dispersion has risen following a prolonged period of historically low levels. The environment that once favoured broad market exposure is changing, with greater variation in company performance across sectors and industries.

In this environment, there may be more opportunity for active management to add value through thoughtful security selection and portfolio construction.

[2] MacroTrends; Nasdaq Historical Data; Yahoo Finance. IPO pricing: CNBC, "Beyond Meat prices IPO at $25 per share," May 1, 2019. Key events sourced from Beyond Meat SEC filings and news reporting.

As with any approach, outcomes will vary, making manager selection an important part of the process. The managers most often associated with consistent long-term results tend to share a few common characteristics:

1. **A disciplined, repeatable process.** A clear, evidence-based framework that is applied consistently across market conditions.
2. **A focus on valuation**. An emphasis on fundamentals, such as earnings, balance sheet strength, and growth, and how these translate into a company's intrinsic value.
3. **A long-term perspective.** The ability to remain patient through periods of short-term volatility.

Taking a balanced approach

None of this means investors should abandon passive investing. Passive strategies can play an important role in a well-constructed portfolio, providing cost-efficient, diversified exposure.

At the same time, it's important to understand how different approaches behave. Passive strategies typically remain fully invested, maintaining broad market exposure through all conditions, while active strategies may adjust exposures based on valuations, fundamentals, and changing market dynamics.

In today's environment, characterized by higher dispersion, rising rates, and greater differentiation across companies, there may be more opportunity for active management to complement passive exposure.

The most resilient portfolios are often built by combining these approaches thoughtfully, supported by disciplined investment decisions and a long-term perspective that helps investors stay focused through changing markets.

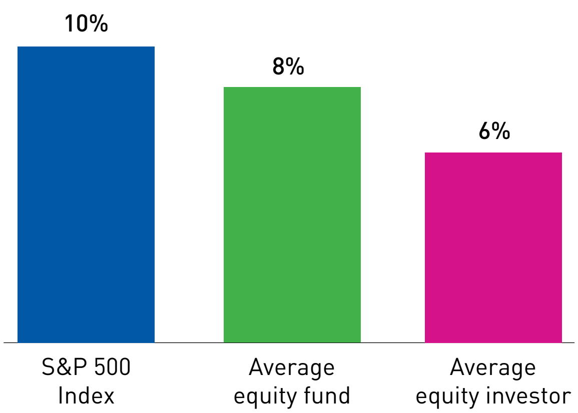
The value of advice

Markets continually change, and the strategies that work best change with them.

Today's environment is more complex. Concentration is higher, dispersion is elevated, and outcomes are increasingly driven by a smaller number of companies. In this kind of market, how a portfolio is constructed, and how investors behave, matters more than ever.

Research from Dalbar shows that on average, investors earn roughly 4% less per year than the funds they invest in, largely due to poorly timed buying and selling. Over time, that gap can outweigh the impact of fees or fund selection.

Figure 3: The behaviour gap — 20-year returns



Source: Dalbar Quantitative Analysis of Investor Behaviour (QAIB), annual study. The behaviour gap reflects the difference between average equity fund returns and average equity investor returns over 20-year periods. For illustrative purposes only. Not investment advice.

The question is not active or passive. It's how to use each approach effectively in a well-constructed portfolio.

That's where advice plays a critical role. An investment advisor brings discipline, perspective, and structure, helping portfolios stay aligned to long-term goals, even as markets evolve.

Because over time, success in investing is not just about what you own. It's about how you stay invested.

Speak with your advisor about how your portfolio is positioned for today's market, and how NEI's actively managed solutions may fit within your broader investment approach.

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