



Why diversify? Because "the dose makes the poison."

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It is possible to have too much of a good thing. While the S&P 500 Index has earned its role as a core part of an investment portfolio, it is becoming less attractive—and, indeed, increasingly dangerous—when viewed in isolation. Here is why it is important to diversify away from the S&P 500.

Key points

- Concentrating too heavily in the S&P 500 may increase vulnerability to market-specific risks, especially as the index becomes more dominated by a handful of large companies.
- Diversifying into smaller companies, private markets, and international stocks may help reduce risk and capture a broader range of growth opportunities.
- A balanced, well-diversified portfolio is more resilient and better positioned to achieve long-term investment objectives, even as market leadership and conditions change.
- If you would like to learn more, see our companion presentation, ["Why not just own the S&P 500?"](#) (published 11 February 2026).

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“The dose makes the poison” is a classic adage, rooted in toxicology, that reminds us that even beneficial things can become harmful if consumed in excess. In investing, the same principle applies: Too much exposure to a single market or asset class—even one as robust as the S&P 500—can introduce risks that undermine long-term success.

The S&P 500 is a market capitalization-weighted index of the 500 largest US publicly traded companies. According to S&P Global, the index provider, the index currently represents approximately 83% of total US market capitalization.¹

While its leaders and laggards have changed over time, the S&P 500 has historically tended to offer a well-diversified mix of stocks and sectors. Its familiarity, liquidity, and strong historical performance have made it a natural anchor for many portfolios.

Unfortunately, the index has become increasingly concentrated. Today, just 10 mega-cap stocks—primarily in the technology and consumer sectors—make up over 40% of the S&P 500 Index's market capitalization. While these firms have driven much of the market's gains, their outsized influence means that a downturn in just a few names can drag down the entire index.

History warns us that excessive concentration—even if it is in stocks with strong earnings growth and sound fundamentals—can leave investors vulnerable to the unique risks of that market.

For example, in the late 1960s, the “Nifty Fifty”—a group of high-growth blue-chip stocks—became incredibly popular. While many of these stocks were in companies with solid fundamentals, they traded at price-to-earnings ratios of 50 or higher before eventually falling back to more sustainable valuations. For investors who bought at peak prices, this valuation crash caused a “lost decade” even though many of the underlying companies remained competitive.²

With all of this in mind, what can investors do to diversify? Here are a few ideas to consider:

Size diversification

Investors seeking to complement the S&P 500's exposure to mega-cap stocks may consider small- and mid-cap stock strategies. Smaller companies—both in the US and abroad—offer potentially distinct growth drivers and risk profiles. To the extent that smaller stocks are influenced by the different trends and regulatory risks than those that affect the largest corporations, they may provide a valuable source of diversification.

Historically, small- and mid-cap stocks have delivered higher long-term returns, albeit with more volatility, than large-cap stocks. Looking at 10-year rolling periods since 1940, smaller stocks have outperformed larger stocks by an average 2.3% per year.³ Even since December 1998—a period that has seen exceptional performance from US large-cap stocks—US small- and mid-cap stocks have demonstrated their value. The Russell Mid-cap Index has returned 9.8% p.a. and the Russell 2000 Index of US small-cap stocks has returned 8.5% p.a., compared to 8.6% per year for the S&P 500 Index (see Fig. 1).

Style diversification

Investors looking to complement this exposure may consider value stock strategies, which favor companies that tend to trade at cheaper valuations. Looking at 10-year rolling periods since 1940, cheaper stocks have outperformed expensive stocks by an average of 4.7% per year.³

The S&P 500 is increasingly dominated by high-growth, high-valuation technology stocks. High valuations could be a headwind to future returns. Based on Bloomberg data, the S&P 500 index currently trades at about 26 times its trailing 12-month earnings. If we look at historical data since 1960, this starting valuation would suggest a ~1.3% average return over the next 10 years.

Go global

To diversify from US-specific risks and broaden their opportunity set, investors may also consider international developed and emerging market stocks. US stocks currently make up about 63% of the global stock market, despite the US economy making up only about 16% of the global economy, according to data from the World Bank and Bloomberg. Different economic cycles, currencies, and policy environments mean that international markets do not always move in lockstep with the US.

Diversifying across regions may help investors reduce the impact of domestic downturns and participate in growth stories unfolding around the world. Based on the UBS Capital Market Assumptions, UBS expects international developed stocks to deliver a 9.2% annualized return over the next market cycle versus 7.6% for emerging market stocks and 6.2% for US stocks. A globally diversified stock portfolio, which includes a 63% allocation to US stocks, is expected to return 7.2% p.a.⁴

Private markets

Even investors who already own a globally diversified portfolio that captures the full opportunity set of public markets are missing an increasingly important part of the opportunity set: private market investments.

Based on data from the World Bank, the number of US publicly traded companies has shrunk from 8,090 in the late 1990s to fewer than 5,000 today. This drastic decline owes to factors such as industry consolidation, lower IPO activity, and greater access to private capital. With many companies delivering substantial growth prior to going public, there is a potentially larger opportunity set for venture capital, growth equity, and buyout funds to invest in private companies at each stage of development.⁵

Private markets—including private equity, venture capital, private credit, private real estate, and infrastructure investments—potentially open the door to opportunities unavailable in public markets. Based on the UBS Capital Market Assumptions, these investments may offer competitive return potential, lower correlation with public stocks, and exposure to innovative businesses earlier in their growth cycle. While private markets come with their own risks and illiquidity—again, anything can be poisonous in too large a dose—a measured allocation can enhance overall portfolio resilience.

Conclusion

Concentrating too heavily in any one market, even a strong one, can introduce hidden vulnerabilities. By thoughtfully diversifying beyond the S&P 500, investors can build portfolios that are more robust, adaptable, and prepared for whatever the future holds.

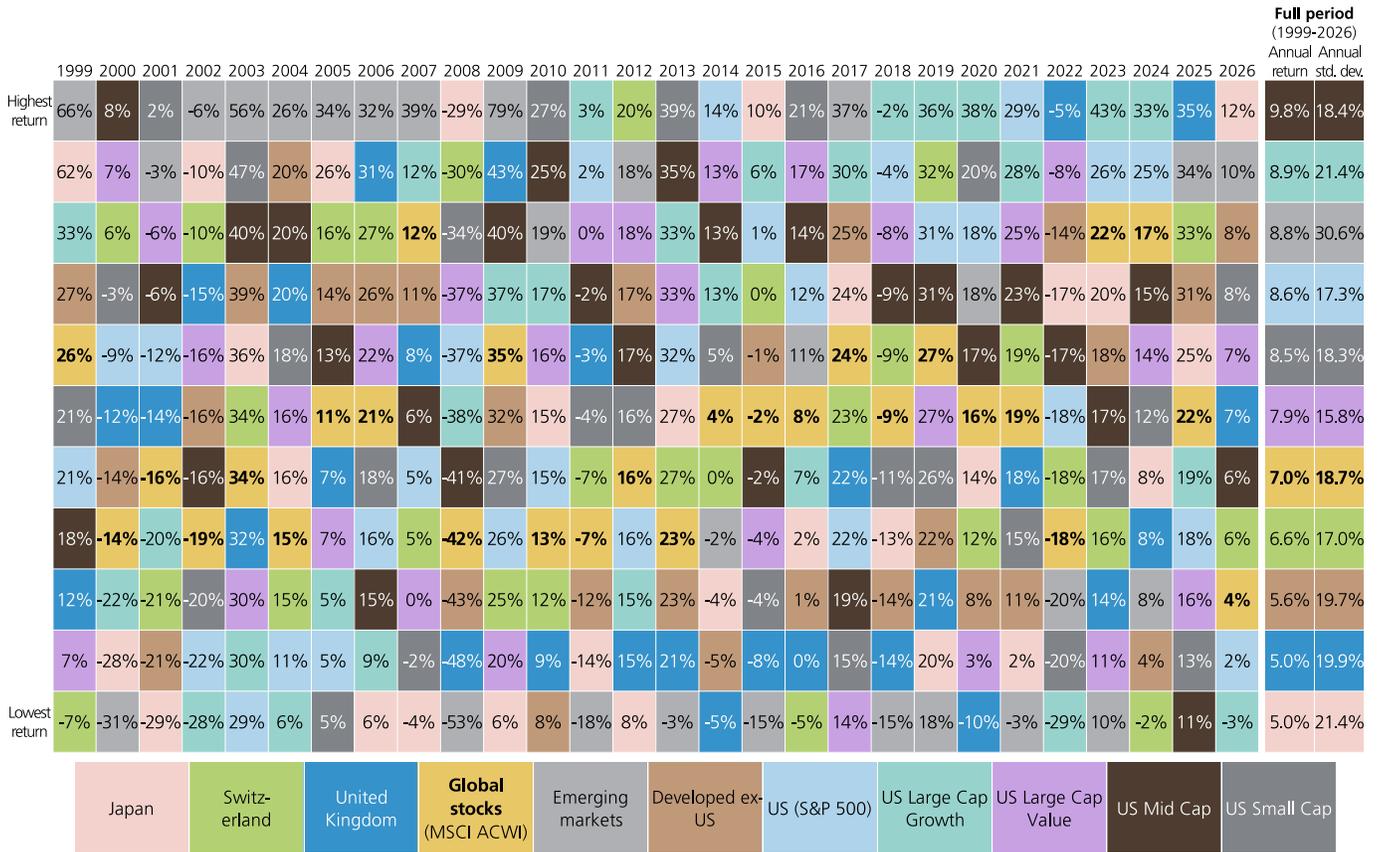
Investors need not abandon the S&P 500. US large-cap stocks remain an important component of a well-diversified portfolio. Instead, the goal is to recognize when the “dose” has become excessive. A diversified portfolio—one that includes smaller companies, value stocks, private markets, and international stocks—can help smooth returns, reduce the risk of large drawdowns, and improve the likelihood of achieving long-term objectives.

Ultimately, balance is the antidote to concentration risk. A well-diversified portfolio ensures that no single asset class or market can poison long-term outcomes, allowing investors to pursue growth with greater confidence and resilience.

If you would like to learn more, see our companion presentation, ["Why not just own the S&P 500?"](#) (published 11 February 2026). Make sure to discuss these considerations with your financial advisor, who can help you apply these factors to your own investment strategy.

Figure 1 - Diversification is critical to managing risk and opportunity cost

"Quilt chart" of calendar year returns for select stock market indexes



Source: Bloomberg, UBS, as of 31 January 2026.

¹ S&P Dow Jones Indices. (2025). *S&P 500: What's inside?*. <https://www.spglobal.com/spdji/en/landing/investment-themes/us-500/>.

² Chen, J. (2026, 10 February). *The Nifty Fifty Explained: Iconic Stocks That Defined an Era*. Investopedia. <https://www.investopedia.com/terms/n/niftyfifty.asp>.

³ French, K. R. (2026). *Data Library—Fama/French 3-Factor Model*. Dartmouth College. https://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html. Note: This analysis is based on the Fama/French "size factor" (SMB, "small minus big") and the "value factor" (HML, "high minus low"), which rank stocks and then compare the performance of the top 20% of stocks against the performance of the bottom 20% of stocks.

⁴ Based on Compound Strategic Capital Market Assumptions. Source: UBS Wealth Management USA Asset Allocation Committee, as of 9 February 2026.

⁵ Morningstar, & PitchBook. (n.d.). *Unicorns and the growth of private markets*. Morningstar Indexes. <https://indexes.morningstar.com/insights/analysis/blt81d5614b4c2ccd2b/unicornsand-the-growth-of-private-markets>.

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