INVESTMENT INSIGHTS

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Finkelberg INVESTMENTS of RAYMOND JAMES®

Concentration: Good for the Classroom, Questionable for the Portfolio

Haven't we all had the experience of teachers suggesting that we concentrate more? These patient educators were most likely trying to keep us focused on our schoolwork and not daydreaming about playing with our friends after school. Concentration can be a very valuable tool to accomplish tasks involving long periods of thoughtfulness.

However, *portfolio* concentration, while it also deals with focus, refers to the above average weighting of an investment in one's financial holdings. For example, if someone had a million-dollar portfolio and $400,000 was held in shares of Excessive Stock Holdings Inc. (Symbol ESH), in this portfolio, shares of ESH would be 40% of total assets. If the portfolio consists of half stock and half bonds, ESH would represent 80% of the stock portion. This is an obvious example of over-concentration of this stock – an excessive stock holding of Excessive Stock Holdings, Inc.

Does removing the concentration mean the investor doesn't like the stock?

Not necessarily. It's a question of risk control. A diversified portfolio of stocks will drop in value if the overall stock market takes a hit. An individual stock may rise or fall irrespective of the overall market. Let's take two extreme examples. Overweighting shares of most of the large technology-based stocks would have been an enriching experience for the past couple of years. Concentration would have been beneficial. Holding shares of WorldCom back in the 1990's would have also been extremely profitable until it wasn't in 2001-2002 as the telecom company was exposed for fraudulent accounting. In this case, concentration would have been a financial disaster.

Holding stocks in different industries, sectors, and geographic locations helps to smooth volatility as some names may outperform as others lag. But if something very bad happens to one of the stocks and the share price drops precipitously, it matters whether an investor has a portfolio consisting of 5% in the company or 50%.

Our Mission

"To guide our clients to and through retirement with a minimum of worry, with expertise and kindness."

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DJIA **41,911**	3-Month T-Bill **4.33%**
S&P 500 **5,614**	10-YR Treasury Bond **4.22%**

It's also not merely a question of whether shares will go up over time. The share price of most well-run companies will generally appreciate over time. The question is whether the share price of the concentrated holding will rise more than a diversified portfolio. If the diversified portfolio rises 30% in a year and the shares of ESH go up 10%, the investor paid a significant price in opportunity cost and did so while taking on significant risk of something bad happening to that stock.

In effect, the holder of a concentrated position assumes not only the risk inherent in the overall market, but the risk involved in that one company. So, a holder of a large position needs to be confident that the holding will outperform the diversified portfolio, not simply go up, or why take the increased risk? Another way to consider the issue of concentration is the following: If I had $400,000 in cash, would I put all of my money in ESH or would I diversify? If I would diversify for reasons of safety, then why should I continue to hold the undiversified, concentrated position?

How do folks end up with concentrated positions?

Concentration can occur due to a number of reasons:

1. The investor works or worked for the company or served on its board or founded the company and received shares in a number of ways, including stock purchase plans, bonuses, required purchases, and so on.

2. The stock was a wise long-term holding.

3. Shares were inherited from a family member.

These three ways of accumulating large positions in a security show two features – the holdings tend to have sentimental feelings of attachment and, if held in a taxable account, may have significant taxable gains if sold. Let's address these two factors:

Sentimentality – let's face it, if we worked for a firm for many years, we tend to feel attached to holding the shares. If we were bequeathed shares by a loved one, it may feel like betrayal to sell any of the shares. And if we had the good fortune to benefit from significant appreciation over the years so that a relatively small position became a very large holding, the idea of paring the holding seems nonsensical.

Not to dwell on WorldCom, but as a Mississippi-based firm, many of you can relate to the story and see why it might have been difficult to sell shares after being rewarded for holding so many years. There are many, many other examples. Think of many of the bank stocks that were stable, dividend-paying positions until 2008 when several eliminated their dividend and dropped 90% in value. In fact, it is interesting that many of the companies that experienced severe problems in the past were considered high quality, "blue chip" firms prior to their downturns. For example, GE, IBM, and more recently, Boeing each encountered problems and fell significantly for reasons aside from the volatility of the stock market.

So, how much is too much? What should be done if I hold a concentrated position? What can I do to minimize the tax burden? These are all great questions and thank you for asking. Those questions, my friends, will be the topic for the next Investment Insights. If you want to discuss this issue further, let me or any of the team know.

In the meantime, let's concentrate on the topic. Or not.

Speaking of concentration, and as the Easter holiday approaches...

2025 CFA Forecast Dinner

Despite the unusually cold temperatures that Jackson experienced last week, the annual CFA Society of Mississippi Forecast Dinner welcomed a large, enthusiastic crowd of investors and financial professionals. We enjoyed visiting with all of our guests and hearing insights from the panel of speakers. If you were unable to attend this year's event, we hope that you will be able to join us in 2026!

Welcome David

Please join me in welcoming David Olson to the Finkelberg Investments team. David comes to us from ACE Scholarships, where he was the President of the Mississippi branch, and has a professional background in mergers and acquisitions and business development. David served as a United States Marine, has an MBA from The DeVos Graduate School at Northwood University, and is an adjunct faculty member at Mississippi College in Clinton, MS.

Amy and I have had the pleasure to meet David's better-half, Brooke Olson, who brought him from Michigan to Mississippi. Brooke is a math and science teacher at Manchester Academy. Together they have four kids, two in high school, and two in college. David and Brooke love to travel, support animal charities, and are advocates for education initiatives. David's responsibilities include developing client relationships and business development activities to help our practice continue to grow. I asked David to reach out to our clients to introduce himself, and of course, do not hesitate to reach out to David to say hello. He can be reached at 601-856-1212 or at david.olson@raymondjames.com.

Happy Anniversary

72nd J. and J.E. of Terry, MS
67th L. and J.Y. of Gainesville, GA
65th J. and A.P. of Brandon, MS

Happy Birthdays

97 L.S. of Madison, MS
94 M.G. of Brandon, MS
94 J.P. of Philadelphia, MS
94 J.L. of Jackson, MS
90 V.E. of Madison, MS
85 M.B. of Kemp, TX
85 W.H. of Ridgeland, MS
90 B.D. of Hoover, AL

It was wonderful to see these out of town visitors

T.W. of Carthage, MS
C.W. of Carthage, MS
S.B. of Pickens, MS
J. and S.H. of Bay Springs, MS
T.F. of Colorado Springs, CO
K. and D.M. of Philadelphia, MS
M.W. of McCall Creek, MS
R. and G.G. of Leesburg, FL
E.H. of Atlanta, GA

Until Next Time,

Arty

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