

What if the Magnificent 7 Don't Stay Magnificent?

Let's imagine a hypothetical client walks into a financial advisor's office.

"Good morning, Ms. Advisor."

"Good morning, Mr. Client. I hope you're enjoying this sunny weather. What would you like to talk about today?"

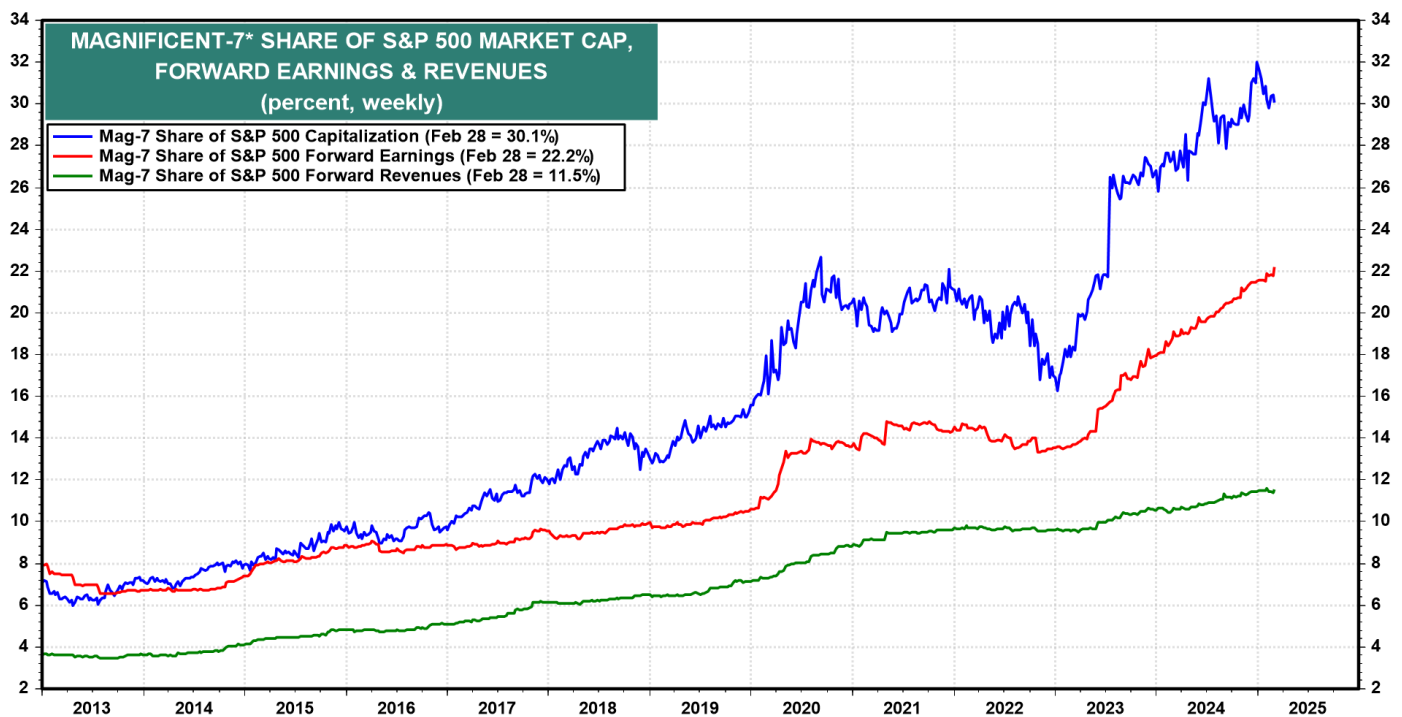
"I'm loving the weather, thanks for asking. I'd like to make some changes to my portfolio."

"Interesting. Can you elaborate?"

"I'd like to take about 1/5 of my portfolio and invest it in just seven technology stocks with expensive valuations."

Many advisors would probably consider this client request as an opportunity for education about the benefits of diversification.

And yet, many advisors are implementing something similar to this hypothetical client request every day: The Magnificent 7 technology stocks that have led the recent market rally account for 30% of the S&P 500's market capitalization. That means, that in many traditional 60%-40% stock-and-bond portfolios, nearly 20% of the assets (18% - 30% of the 60%) are invested in only seven stocks, all of which rely heavily on technology development and investors' expectations about AI innovation. In practice, many investors who allocate to funds tracking the S&P 500 and Nasdaq are implicitly endorsing this concentration.



Source: LSEG Datastream and © Yardeni Research. Standard & Poor's and LSEG I/B/E/S.

* Magnificent-7 stocks include Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Nvidia, and Tesla. Both classes of Alphabet are included.

Index definitions can be found on page 3.

It's understandable: Modern portfolio theory suggests that an optimal allocation strategy "owns the market," represented by capitalization-weighted stock indexes and broadly diversified bond portfolios. But when the market is driven by only a few dominant stocks, investors should consider how and when it might be prudent to manage the risk that this group of adored companies might show weakness going forward.

One straightforward way to manage this risk, while maintaining exposure to the broad stock market, is to invest in strategies that equally weight all their holdings, regardless to market cap. An equal-weight S&P 500 portfolio, for example, would allocate 0.2% of assets to each stock in the S&P, reducing the weight of the Magnificent 7 to 1.4%. (The **Counterpoint Quantitative Equity ETF** targets 50 equal-weighted US stock holdings of 2% each: The most concentration in the Magnificent 7 it could target would be 14%. So far, exposure has ranged between 0% and 6%.) By reducing the percentage of assets invested in the Magnificent 7, an investor can adjust how much his or her personal outcomes is decided by the fate of these several companies.

Another, more differentiated way to manage concentration risk in US stocks is to allocate to a long-short strategy whose aim is to profit when mispricings are corrected, such as the **Counterpoint Tactical Equity Fund**. This fund is designed to pursue uncorrelated market neutral returns. It also contains a tactical component that targets participation in extended bull markets and avoidance of extended bear markets in capitalization-weighted indexes.

Investors who are concerned about potential risks associated with stock market concentration and recent leadership by the Magnificent 7 do have some tools available to help diversify their sources of return. Equal-weighted stock portfolios have **historically been shown to help reduce some of the risks** associated with top-heavy cap-weighted indexes, and market neutral diversifier strategies create even more potential for **differentiated portfolio performance**.

Of course, the Magnificent 7 era has been great for cap-weighted investors in the S&P 500 and Nasdaq 100, and some investors may argue that the concentration by these dominant firms is justified. We don't disagree, but it's important to remember that past performance is not indicative of future returns, and that this concentration risk can be managed while still preserving some exposure to cap-weighted index strategies.

Important information about the funds are available in their prospectuses, which can be obtained at counterpointmutualfunds.com or by calling 844-273-8637. The prospectuses should be read carefully before investing. Investors should carefully consider the investment objectives, risks, charges, and expenses of the funds managed by Counterpoint Funds. The Counterpoint Funds fund family is distributed by Northern Lights Distributors, LLC member FINRA/SIPC. Counterpoint Funds, LLC is not affiliated with Northern Lights Distributors, LLC member [FINRA/SIPC](#).

Important Risk Information

Investing involves risk including the possible loss of principal. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The forecast and/or opinions may not come to pass and are subject to change. Investing in stocks and or bonds involves risk. It is not possible to invest in an index.

Overall equity and fixed income market risk, including volatility, may affect the value of individual instruments in which the Fund invests. The net asset value of the Fund will fluctuate based on changes in the value of the U.S. and/or foreign equity securities held by the Fund. Fixed income risk factors include credit risk and prepayment risk. When the Fund invests in other investment companies, it will bear additional expenses based on its pro rata share of the other investment company's operating expenses, including the potential duplication of management fees.

The Fund may invest in options which hold an underlying risk greater than securities. The Fund's losses are potentially large in a written put transaction and potentially unlimited in an unhedged written call transaction. The earnings and prospects of small and medium sized companies are more volatile than larger companies and may experience higher failure rates than larger companies. The Fund may use swaps to enhance returns and manage risk, which involves risks possibly greater than, the risks associated with investing directly in securities and other traditional investments.

The Adviser's reliance on its strategy and its judgments about the value and potential appreciation securities in which the Fund invests may prove to be incorrect, including the Adviser's tactical allocation of the Fund's portfolio among its investments. The adviser's investment model carries a risk that the mathematical model used might be based on one or more incorrect assumptions. Long positions entail purchasing securities with the intention of holding them in anticipation of a price increase. Short positions entail borrowing securities with the intention of holding them in anticipation of a price decrease.

Index Definitions

The **Standard & Poor's 500 Index** or S&P 500 Total Return Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S. The **Nasdaq-100** is a modified capitalization-weighted index made up of equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange.

Mag-7 Share of S&P 500 Capitalization measures how much (%) of the S&P 500 Index is composed of the Magnificent 7 stocks. **Mag-7 Share of S&P 500 Forward Earnings** measures how much (%) of the next period's earnings estimate of the S&P 500 Index is composed of Magnificent 7 stocks. **Mag-7 Share of S&P 500 Forward Revenues** measures how much (%) of the next period's revenues estimate of the S&P 500 Index is composed of Magnificent 7 stocks.

Definitions

Magnificent 7 stocks, or mag-7, refers to seven dominant tech companies—Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia, and Tesla that are known for their innovation and strong financial performance and represent a significant portion of major cap-weighted indexes like the S&P 500 and Nasdaq Composite.

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