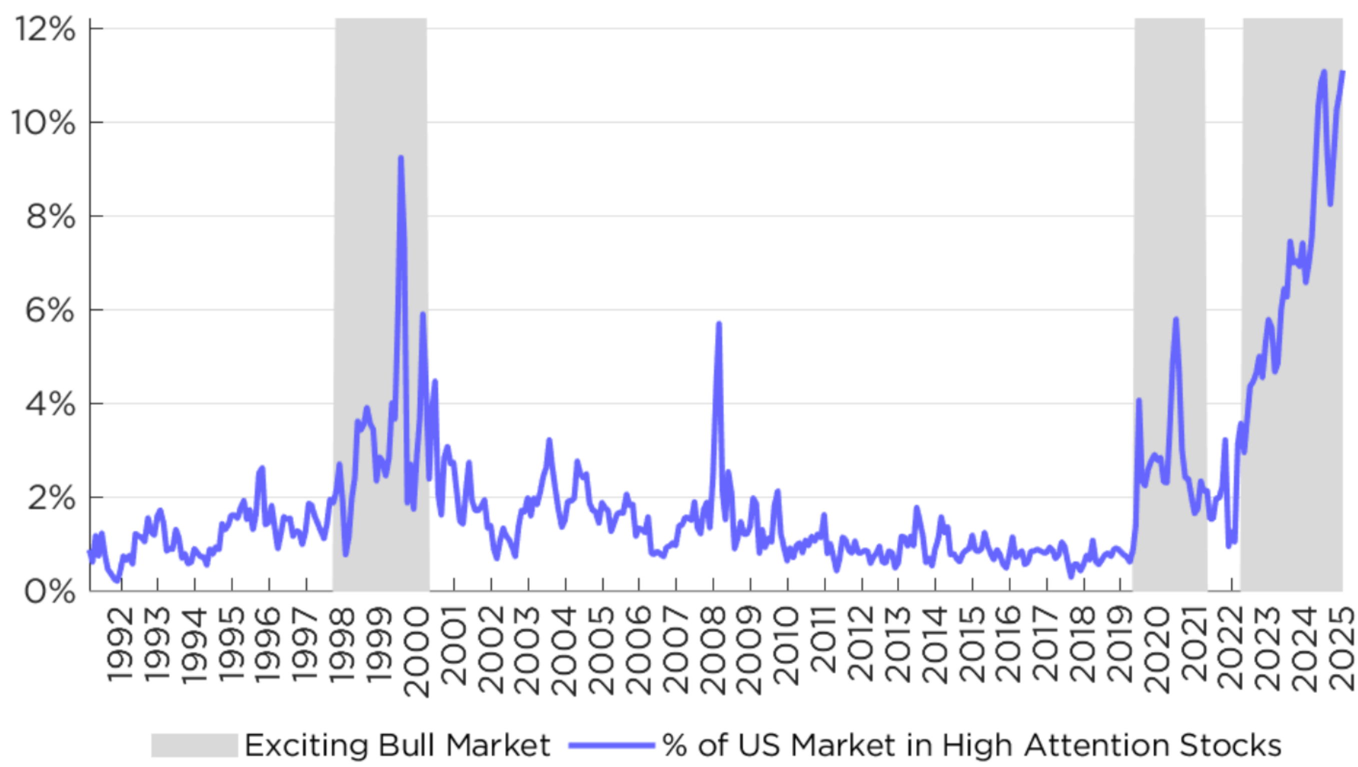
# How We Think About Junk Rallies

Since the market bottomed on April 8, 2025, investors have witnessed a highly speculative, "pro-junk" environment. Stocks with weak fundamentals—richly valued, unprofitable companies often fueled by hype—have surged sharply.[1] At one point in mid-June, nearly half of all trading volume came from penny stocks, the highest level ever recorded. This surge in speculative activity signals a fragile backdrop where sentiment, rather than fundamentals, is driving returns.[1]

At the same time, market concentration risk has climbed to historic highs. **Today, the 10 largest companies in the S&P 500 account for almost 40% of the index's total value**, meaning overall performance is heavily tied to a handful of mega-cap tech and growth names.[2] With valuations stretched well above historical averages[2], any earnings slip, regulatory challenge, or shift in sentiment could weigh disproportionately on the broader market. For investors, this environment highlights the need for smarter diversification strategies that go beyond index exposure and reduce reliance on the largest companies to drive returns.

Counterpoint has its own way of measuring bubble-like enthusiasm and attention-driven pricing. Our **Counterpoint Meme Stock Factor** tries to identify specific stocks where attention (as measured by trading volume) is out of proportion with their importance (as measured by market cap).

### Average Stock Attention Score of the US Market. 1991 – Present




*Source: S&P Global Market Intelligence. The Meme Stock Score or "Average Stock Attention Score" is calculated as a stock's average daily dollar trading volume over the last month divided by the stock's total market capitalization.*

According to our measurements, the number of stocks driven by investor attention, and thus potentially overvalued

[1] *Sonenshine, J. (2025, October 6). Sell Your 'Junk' Stocks. Their Rallies Are Over. Barron's. https://www.barrons.com/articles/sell-junk-stocks-rally-34f1b59b*

[2] *Van Doorn, P. (2025, October 6). Why your S&P 500 index fund might be more risky than the internet bubble. MarketWatch. https://www.marketwatch.com/story/why-your-s-p-500-index-fund-might-be-more-risky-than-the-internet-bubble-af1050e6*

relative to fundamentals, has been rising sharply for several years, and is currently near all-time highs. This year, stocks with poor factor characteristics (expensive valuations, poor profitability measurements, etc.) have risen far faster than higher quality stocks. This recent chart shows the MS Unprofitable Tech Index outperforming the S&P 500 by almost 25% since April 8th, 2025.

## Conclusion

Investors concerned about the risks posed by today's elevated market concentration and valuations have several tools to diversify their sources of return. One straightforward option is to use strategies that equal-weight holdings rather than concentrating by market capitalization—such as the **Counterpoint Quantitative Equity ETF (CPAI)**, which maintains 50 equally weighted U.S. stock positions (2% each) to reduce dominance by the largest names. For an even broader diversification approach, the **Counterpoint Tactical Equity Fund (CPIEX)** offers a market-neutral strategy that employs Artificial Intelligence (A.I.) and Machine Learning to construct an uncorrelated portfolio of long and short positions, seeking to capture opportunities from investor-driven stock mispricings.

## 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. Diversification does not ensure a profit or guarantee against loss.

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 **S&P 500 Total Return Index** or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.

### Definitions

**Long (stocks)** refers to owning a security, like a share of a company, with the expectation that its market price will rise, allowing an investor to profit when they eventually sell it.

**Short (stocks)** refers to borrowing shares from a broker and selling them on the open market with the goal of buying back the same number of shares at a lower price, allowing an investor to profit when the stock price falls.

**Important information about the funds is 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.**