ACADIAN

PERSPECTIVES
VIEWPOINTS FROM THE ACADIAN TEAM

The Siren Song of Concentrated Equity: A Behavioral Finance Critique

January 2026

- Concentrated equity investing is alluring yet dangerous: it may seem like a natural solution to asset owners' need for higher returns, but it also taps into some of investors' most powerful behavioral vulnerabilities.
- These biases help to explain concentration's rise in popularity, and they influence how it is implemented.
- Associated risks include bias in manager selection, long-term underperformance, and exposure to overvalued assets and crowded trades.

Concentrated equity investing—allocating to discretionary strategies that hold a very small number of stocks—gained prominence more than a decade ago in response to performance pressures facing asset owners after the global financial crisis. While concentration was an intuitive response to a real problem, it also appeals to some of investors' most self-destructive behavioral vulnerabilities.

In this discussion, we show how three of these vulnerabilities help to explain concentrated equity's rise in popularity, and we bring to light underappreciated risks. But first, we set the stage by contrasting concentration in its ideal form to the reality of how it is often put into practice.

Concentration: Ideal and Reality

Concentrated equity was a response to asset owners' search for higher returns in a post-financial-crisis environment of low interest rates and skepticism that equity beta would suffice to meet ambitious performance targets. A rationale for concentration arose from scrutiny of equity managers' stock picking prowess and what they were charging for it.

Academic literature from the late 2000s captured frustration with fees. It accused diversified discretionary managers of "closet indexing," charging active fees for quasi-passive product by bloating their portfolios with stocks about which they knew little simply to absorb AUM.[1] A skill-based motivation arose out of the "best ideas" literature, academic research that found discretionary mutual fund managers' largest active positions were also their strongest performers.[2] It didn't seem much of an extrapolation from

In Homer's Odyssey, the Sirens drove sailors to their deaths by enchanting them with their songs. Concentrated equity bears a resemblance, in that it is alluring yet dangerous.

John William Waterhouse, *Ulysses and the Sirens,* 1891. National Gallery of Victoria, Melbourne. Purchased, 1891. Image courtesy National Gallery of Victoria, Melbourne

[1] See Cremers and Petajisto (2009).

[2] E.g., see Cohen et al. (2021).

those results to suggest that focusing stock pickers on producing just a few "high conviction" ideas might improve net-of-fee results delivered to asset owners.[3]

Crucially, the foregoing motivations for investing in concentrated strategies does not imply that asset owners should hold an undiversified equity portfolio. They do not imply a rejection of diversification, just a shift in the *locus* of diversification from the investment manager(s) to the asset owner. The asset owner could select and construct a well-diversified *collection* of concentrated managers.

In assessing how well the concept of concentration translates into the real world, we would pose three questions:

Do concentrated managers actually deliver superior stock picking skill? Unfortunately, our empirical analysis does not suggest that they do, as a group. In a broad study of U.S. long-only institutional equity strategies from 2013-2023, we found no evidence that concentrated managers delivered higher alpha.[4] To be clear, the results do not imply that concentrated managers with exceptional stock picking ability don't exist. But they do suggest that asset owners should expect that they will have to work to find them, which begs a follow-on question ...

Does implementing a concentrated allocation pose special challenges? Yes. In fact, concentration increases the difficulty of manager selection. That's because all else equal, holding fewer stocks produces a return stream with higher active risk than a well-diversified portfolio. More noise means it will take more data (a longer track record), to confirm the signal, i.e., to conclude that the concentrated manager has alpha with any given degree of statistical confidence.

In addition, our empirical work showed how concentration presents challenges for risk control and performance analysis. Concentrated portfolios exhibit greater style drift, greater variation in risk exposures, and suboptimal tradeoffs between drivers of outperformance, like value and momentum. In addition to noisier returns, these characteristics likely reflect reliance on heuristic methods in portfolio construction.[5]

Will asset owners actually implement a concentrated allocation in its ideal form? Unfortunately, in our experience, the answer is no. Many investors who go down the path of concentration do not implement well-diversified allocations. Many hold narrow and biased collections of concentrated strategies, perhaps even a single manager or a few growthy ones. The allure of concentration and the tendency to underdiversify in its execution are hardly surprising, because both are tied to deeply rooted behavioral biases.

Preference for Right Skewness

One of these biases is a preference for right skewness. For thousands of years, people have been drawn to lotteries, games that offer the possibility of a large payoff, but where the chance of winning is small and paying to play is a losing proposition in the long term. This bias is pervasive in investing, too. Academic research has documented investors' willingness to pay up for assets whose return distributions have a "fat right tail."[6] The tendency helps to explain important patterns in asset pricing, including the low-volatility mispricing and the value premium.

There is a direct connection between the preference for right skewness and the allure of concentration. For a mean-variance investor, diversification is definitively a good thing in concept, because holding more stocks reduces risk (all else equal). But that is not the case for an investor who wants a shot at an outsized payoff: diversification quickly tamps down the right tail of the return distribution. As a result, investors who prefer skewness might opt to hold just a few stocks,[7] and perhaps stocks with a biased set of characteristics, e.g., load up on speculative growth.[8]

But concentration may materially increase the risk of significant portfolio *underperformance* over the long-term. Empirically, more stocks have performed poorly than well in the long run, and a small number of stocks have accounted for a large portion of market gains.[9] Holding fewer stocks may significantly increase the risk of missing out on the few exceptional winners, which increases the probability that any chosen concentrated portfolio will underperform.[10]

This concern is especially relevant in a world where many benchmarks have become highly concentrated, driven by stellar returns of stocks like the Magnificent 7 in the U.S. and TSMC in emerging markets.[11,12] Their conspicuous performance has helped to normalize the idea of holding just a few stocks, and growthy ones at that. Ironically, however, the appropriate lesson is to diversify,

---

3 This premise and the association of conviction with a small number of holdings apply only to discretionary investment processes, not systematic. The logic is rooted in the observation that discretionary stock-picking doesn't scale well across a large investment universe or broad portfolio, the challenge for which the machinery of systematic investing is expressly designed to address.

4 Concentrated Equity: Practice Versus Premise, Acadian, 2024.

5 Ibid.

6 Examples include Barberis and Huang (2008), Brunnermeier et al. (2007), and Mitton and Vorkink (2005)

7 See Conine and Tamarkin (1981).

8 As Mitton and Vorkink (2005) succinctly put it, "... investors may consciously choose to remain underdiversified in order to increase the likelihood of extreme positive returns, or in other words, to capture higher levels of skewness in their portfolios."

9 Bessembinder (2018), shows that from 1926-2016, more than half of U.S. stocks generated negative returns over their lifespans, and roughly 4% of firms accounted for the U.S. stock market's net wealth creation from 1926-2016.

10 See Heaton et al. (2017).

11 References to these and other companies should not be interpreted as recommendations to buy or sell specific securities. Acadian and/or the author of this paper may hold positions in one or more securities associated with these companies.

12 See, for example, World Equity Allocations: Global in Name Only?, Acadian, November 2025 and Quick Take: EM's Giant and the Opportunities It Overshadows, Acadian, December 2025.

because predicting in advance *which* few stocks will deliver stellar returns is an enormous challenge. You may get the theme right in many respects yet still miss out on upside.[13]

Disproportionate Focus on "Winners"

A second bias that helps to explain concentration's allure and that influences its implementation is a disproportionate focus on "winners." The financial media, for example, lavishes attention on managers that *have* generated exceptional outperformance—until they don't. Famous examples of lionized managers whose stars quickly fell include Bruce Berkowitz and Bill Miller. But fawning manager profiles and lists of rising stars, the 30 under 30, best performing funds, and so on, make for enduringly effective clickbait.

Concentrated strategies are tailor-made to exploit the attention showered on outperformers. To illustrate why, consider an allocator who filters their choice set by screening for strong active returns. Whether or not the concentrated managers deliver superior skill, the allocator is likely to find concentrated strategies overrepresented in the resulting sample, especially at the top end of the range. That's because poorer diversification and higher active risk induce greater dispersion in concentrated managers' performance. Consistent with that explanation, we find empirically that concentrated managers are overrepresented in *both* tails of the active return distribution—the worst, as well as the best.[14]

This problem is pernicious. Markets are noisy, and there are enough strategies in the marketplace that a decent number will throw off eye-catching track records simply due to luck. The hunger to find winners and the attendant willingness to believe *ex post* stories that attribute outlying outperformance to skill generates interest in those managers and their investing approaches for unsound reasons. As a group, concentrated strategies are built to appeal to this bias.

Performance Chasing

Performance chasing is another pervasive bias that plays into concentration and its underdiversified implementation. In addition to behavioral roots, the staff at many institutions feel powerful incentive to recommend investing styles and strategies that *have been* performing well; they see significant career risk in making idiosyncratic or contrarian calls that don't work out.[15] During the years in which concentration grew in popularity, there is little doubt that performance chasing helps to explain many an implementation through allocations to growthy, tech-oriented portfolios in recent years.

Moreover, managers cater to investors' misguided backward-looking thematic interests—closet indexing is hardly the only manifestation of asset gathering incentives gone awry. In the data-rich ETF space, academic research has documented that specialized (and relatively high-cost) ETFs, "tend to hold attention-grabbing and overvalued stocks and therefore underperform significantly ..."[16]

Concentrated thematic investments in smaller, illiquid stocks exacerbate risks of chasing returns. As strong performance draws investor attention, new inflows may inflate prices, further boosting performance and drawing additional assets. This feedback loop poses risk to later investors, who are left holding the bag when the flow-driven price momentum abates and expectations reset.[17]

Conclusion

A central lesson of behavioral finance is that investors should be ever watchful of behavioral biases and incentives that distort their decision making. Concentrated equity makes for an especially powerful example, because this investing approach happens to be so well-suited to exploit those vulnerabilities. Preference for right skewness, asymmetric focus on winners, and performance chasing help to explain concentration's rise to popularity over the past decade and have influenced how it has been implemented. But we see these dangerous influences at work in many investing contexts. Stay vigilant.

[13] There is another concern with concentration motivated by preference for skewness. Many of the theories proposed to explain that preference also imply that securities with right-skewed return distributions become overpriced, i.e., they provide low risk-adjusted returns.

[14] Acadian (2024), previously cited.

[15] For documentation of performance chasing by plan sponsors and discussion of its effects, see Goyal and Wahal (2008). For a recent example of performance chasing by allocators, see Choosing to Lose: Country Misallocation in Discretionary EM Investing, Acadian, 2025. For discussion of retail investors' tendency to chase performance in style investing, see Investor Sentiment for Value and Growth, Acadian, 2024.

[16] Ben David et al. (2022), p. 46.

[17] For further discussion, see Van der Beck et al. (2024).

References

Barberis, Nicholas and Ming Huang, “Stocks as Lotteries: The Implications for Probability Weighting for Security Prices,” American Economic Review 98, no. 5 (2008) 2066-2100.

Ben-David, Itzhak, Francesco Franzioni, Byungwook Kim, and Rabih Moussawi, Competition for Attention in the ETF Space, Working Paper, October 2022.

Brunnermeier, Markus K., Christian Gollier, and Jonathan A. Parker, “Optimal Beliefs, Asset Prices, and the Preference for Skewed Returns,” AEA Papers and Proceedings 97, no. 2 (May 2007) 159-165

Cohen, Randy, Christopher Polk, and Bernhard Silli, “Best Ideas,” Working Paper, March 2009. A later version is Anton, Miguel, Randy Cohen, and Christopher Polk, “Best Ideas,” Working Paper, April 2021.

Conine, Jr., Thomas E. and Maurry J Tamarkin, “On Diversification Given Asymmetry in Returns,” The Journal of Finance 36, no. 5 (December 1981) 1143-1155.

Cremers, Martijn and Antti Petajisto, “How Active is Your Fund Manager? A New Measure that Predicts Performance.” Review of Financial Studies 22, no. 9, (September 2009) 2239-3365.

Goyal, Amit and Sunil Wahal, “The Selection and Termination of Investment Management Firms by Plan Sponsors,” The Journal of Finance 63, no. 4 (August 2008) 1805-1847.

Heaton, J. B., N. G. Polson, and J. H. Witte, Why Indexing Works, Working Paper, May 2017.

Hendrik Bessembinder, “Do Stocks Outperform Treasury Bills?,” Journal of Financial Economics 129, no. 3 (September 2018) 440-457.

Homer, The Odyssey, 3rd century BCE

Malcolm Baker, Investor Sentiment for Value and Growth, Acadian, December 2024.

Mitton, Todd and Vorkink, Keith, Equilibrium Underdiversification and the Preference for Skewness, Working Paper, February 2005.

Ramachandran, Anshuman and Seth Weingram, Concentrated Equity: Practice Versus Premise, Acadian, October 2024.

Thirukkonda, Ram and Seth Weingram, Choosing to Lose: Country Misallocation in Discretionary EM Investing, Acadian, April 2025.

Van der Beck, Philippe, Jean-Philippe Bouchaud, and Dario Villamaina, Ponzi Funds, May 2024.

BIOGRAPHY

Seth Weingram, Ph.D.

SENIOR VICE PRESIDENT, DIRECTOR, CLIENT ADVISORY

Seth is Acadian's Director of Client Advisory, a team that produces original research on topical issues in systematic investing and regularly meets with key clients, consultants, and prospects. Seth also chairs Acadian's Editorial Board, driving the firm's thought leadership. Prior to joining Acadian in 2014, Seth held senior roles in equity derivatives trading, research, and strategy at UBS, Barclays Global Investors, and Deutsche Bank. Seth holds a Ph.D. in economics from Stanford University and a B.A. in economics from the University of Chicago.

General Legal Disclaimer

These materials provided herein may contain material, non-public information within the meaning of the United States Federal Securities Laws with respect to Acadian Asset Management LLC, Acadian Asset Management Inc. and/or their respective subsidiaries and affiliated entities. The recipient of these materials agrees that it will not use any confidential information that may be contained herein to execute or recommend transactions in securities. The recipient further acknowledges that it is aware that United States Federal and State securities laws prohibit any person or entity who has material, non-public information about a publicly-traded company from purchasing or selling securities of such company, or from communicating such information to any other person or entity under circumstances in which it is reasonably foreseeable that such person or entity is likely to sell or purchase such securities.

Acadian provides this material as a general overview of the firm, our processes and our investment capabilities. It has been provided for informational purposes only. It does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe or to purchase, shares, units or other interests in investments that may be referred to herein and must not be construed as investment or financial product advice. Acadian has not considered any reader's financial situation, objective or needs in providing the relevant information.

The value of investments may fall as well as rise and you may not get back your original investment. Past performance is not necessarily a guide to future performance or returns. Acadian has taken all reasonable care to ensure that the information contained in this material is accurate at the time of its distribution, no representation or warranty, express or implied, is made as to the accuracy, reliability or completeness of such information.

This material contains privileged and confidential information and is intended only for the recipient/s. Any distribution, reproduction or other use of this presentation by recipients is strictly prohibited. If you are not the intended recipient and this presentation has been sent or passed on to you in error, please contact us immediately. Confidentiality and privilege are not lost by this presentation having been sent or passed on to you in error.

Acadian's quantitative investment process is supported by extensive proprietary computer code. Acadian's researchers, software developers, and IT teams follow a structured design, development, testing, change control, and review processes during the development of its systems and the implementation within our investment process. These controls annual independent review by our SOC1 auditor. However, despite these extensive controls it is possible that errors may occur in coding and within the investment process, as is the case with any complex software or data-driven model, and no guarantee or warranty can be provided that any quantitative investment model is completely free of errors. Any such errors could have a negative impact on investment results. We have in place control systems and processes which are intended to identify in a timely manner any such errors which would have a material impact on the investment process.

Acadian Asset Management LLC has wholly owned affiliates located in London, Singapore, and Sydney. Pursuant to the terms of service level agreements with each affiliate, employees of Acadian Asset Management LLC may provide certain services on behalf of each affiliate and employees of each affiliate may provide certain administrative services, including marketing and client service, on behalf of Acadian Asset Management LLC.

Acadian Asset Management LLC is registered as an investment adviser with the U.S. Securities and Exchange Commission. Registration of an investment adviser does not imply any level of skill or training.

Acadian Asset Management (Singapore) Pte Ltd, (Registration Number: 199902125D) is licensed by the Monetary Authority of Singapore. It is also registered as an investment adviser with the U.S. Securities and Exchange Commission.

Acadian Asset Management (Australia) Limited (ABN 41 114 200 127) is the holder of Australian financial services license number 291872 ("AFSL"). It is also registered as an investment adviser with the U.S. Securities and Exchange Commission. Under the terms of its AFSL, Acadian Asset Management (Australia) Limited is limited to providing the financial services under its license to wholesale clients only. This marketing material is not to be provided to retail clients.

Acadian Asset Management (UK) Limited is authorized and regulated by the Financial Conduct Authority ('the FCA') and is a limited liability company incorporated in England and Wales with company number 05644066. Acadian Asset Management (UK) Limited will only make this material available to Professional Clients and Eligible Counterparties as defined by the FCA under the Markets in Financial Instruments Directive, or to Qualified Investors in Switzerland as defined in the Collective Investment Schemes Act, as applicable.

ACADIAN

GLOBAL AFFILIATES

Boston London Singapore Sydney

ACADIAN-ASSET.COM