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BREAKING THE MARKET CAP LINK:
The Case For A U.S. Equal Weight Approach

The first stock index was born a century and a half ago, when Charles Dow introduced a rudimentary price-weighted stock gauge comprising 11 railroad companies, designed to demonstrate how the broad market was performing. Five years later, that concept evolved into the Dow Jones Industrial Average, which became the benchmark of the U.S. stock market for the next century.

In 1923, Standard & Poor's joined the fray with the launch of the S&P 90 Index, but it wasn't until 1957, with the creation of the S&P 500, that market capitalization weighting became a standard practice. While useful as a representation of the overall market, indices themselves couldn't be bought or sold.

Everything changed in the 1970s when the late great John Bogle established the First Index Investment Trust, later renamed the Vanguard 500 Index Fund.

Passive investing was born, and the fund, deemed initially "Bogle's Folly" by fellow money managers, was derided as "un-American" because the mandate was to replicate the market rather than outperform it.

Bogle got the last laugh. Today, Vanguard is the second-largest asset management firm in the world as measured by total assets under management. Today, more than four-fifths of passive U.S. equity assets track cap-weighted benchmarks, and the majority of that money sits in vehicles tied to the S&P 500 Index.

There's good reason for the popularity. Investment strategies constructed with market-cap weighting methodologies are cheap, and scalable. However, a weighting methodology focusing purely on size carries structural biases toward the largest, and often the most expensive and popular stocks.

With a market cap-weighted index, if a company's stock price doubles in one day, even with no change to its underlying business fundamentals, such as sales, profits, or assets, its weight in the index will also approximately double. In effect, investors end up allocating more to an investment that is likely now more expensive, while reducing allocations to what may now be relatively undervalued.

Instead of allocating proportionately more capital to the largest stocks, an equal-weight portfolio assigns the same weight to every constituent regardless of size, sector, or style.

For those willing to heed Robert Frost's advice and take the road less traveled, historically, an equal-weight investor could gain a little bit of performance benefits without giving up the diversification or discipline often sought in market-cap weighted methodologies.

Since its 12/29/89 inception, the S&P 500 Equal Weight Index has outperformed the traditional S&P 500 Index on an annualized basis by 0.45% per year. That may not sound like much, but compounded over 35 years, this slim advantage amounts to 580 percentage points of outperformance.

This isn't just unique to the U.S. Similar patterns appear across developed and emerging markets, although the degree of outperformance varies with market cycles.

To take a deeper dive, we constructed two simple indices, comprised of U.S. equities, one equally weighted, The U.S. Top 500 Equal Weight Index and one market-cap-weighted, the U.S. Top 500 Market Cap Weight Index, with simulated performance dating back to 1970.

Both indices are rebalanced quarterly and comprise a starting universe of the 500 largest U.S. equities by market capitalization.

While conceptually similar and with significant overlap to the S&P 500 Index the U.S. Top 500 Market Cap Weight Index is purely rules-based, investing in the 500 largest U.S. companies by market cap.

By contrast, the S&P 500 layers qualitative eligibility screens (profitability, liquidity, domicile, free-float, public float) on top of market cap and applies Index Committee discretion on member selection and timing. As a result, certain fast-growing or newly public firms may appear in the U.S. Top 500 before they are admitted to the S&P 500.

As an example, we can look at the 9/22/2025 rebalance of the S&P 500 Index. The rebalance introduced 3 new names to the Index, AppLovin (APP), Robinhood Markets (HOOD), and Emcor Group (EME). These companies are currently the 51, 102, 327 largest companies in the U.S. by market cap and would have entered the U.S. top 500 on 9/30/2023, 3/31/2024, and 3/31/2024 respectively.

While the selection criteria differs, we note that when looking at the bigger picture the U.S. Top 500 Market Cap Weight and the S&P 500 are extremely similar representations of the U.S. large-cap equity market. Security overlap typically hovers in the 95–98% range and correlation between the two over a time horizon greater than a couple of months approaches 1.

For asset allocators, the practical implication is that both indices deliver substantially the same large-cap market exposure, with any tracking differences concentrated at the margin and largely immaterial on a capitalization-weighted basis.

When looking at the equal weighted variations of the S&P 500 and U.S. Top 500, security overlap doesn't change but the correlation shows slightly more variation than their market cap-weighed counterparts, generally falling in the .98-.99 range.

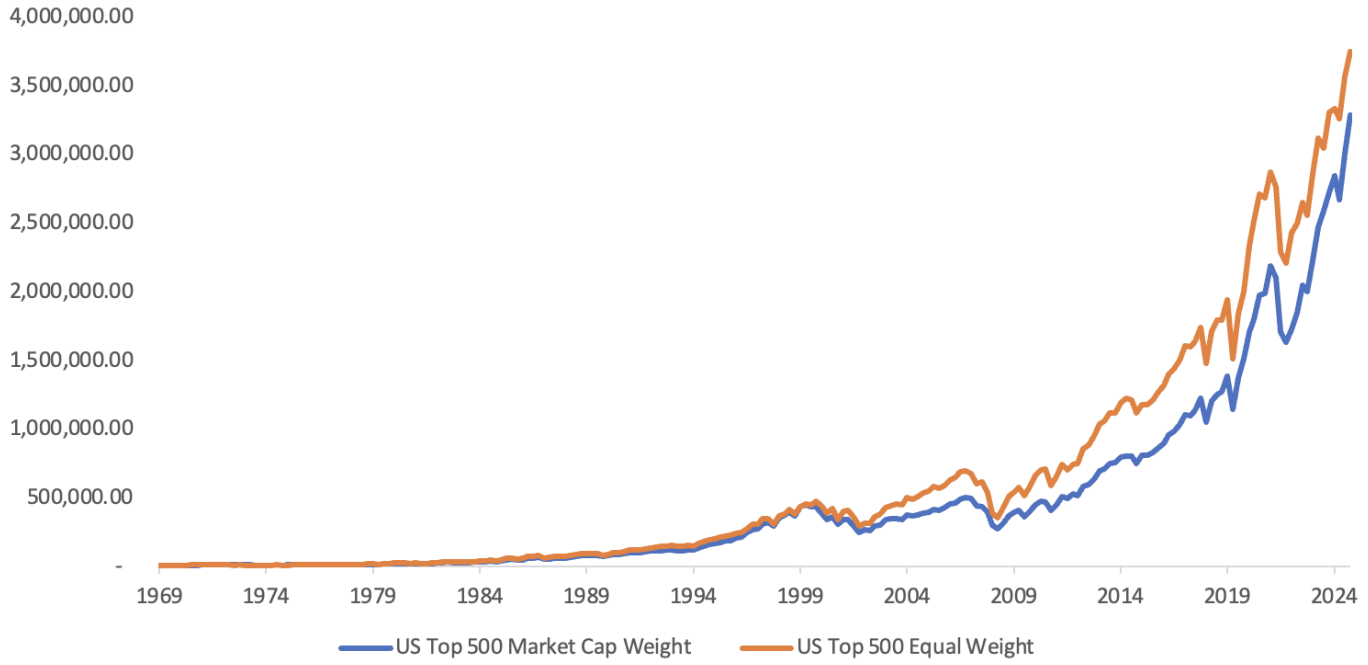
Return and risk statistics for the simulation are presented in Exhibit I.

Exhibit I: Equal Weight vs Market Cap Weight Performance

	U.S. Top 500 Market Cap Weight	U.S. Top 500 Equal Weight
Annual Return	10.96%	11.22%
Period Return	32,825.74%	37,429.50%
% Positive Quarters	69.96%	70.40%
Volatility	16.74%	18.12%
Sharpe	0.63	0.61
Max Drawdown	-45.67%	-48.62%

SOURCE: As of 9/30/2025. Gray, Vogel 1970-1992. Bloomberg, Cambria 1993-2025.

Exhibit II: Equity Curves January 1996 through September 2025

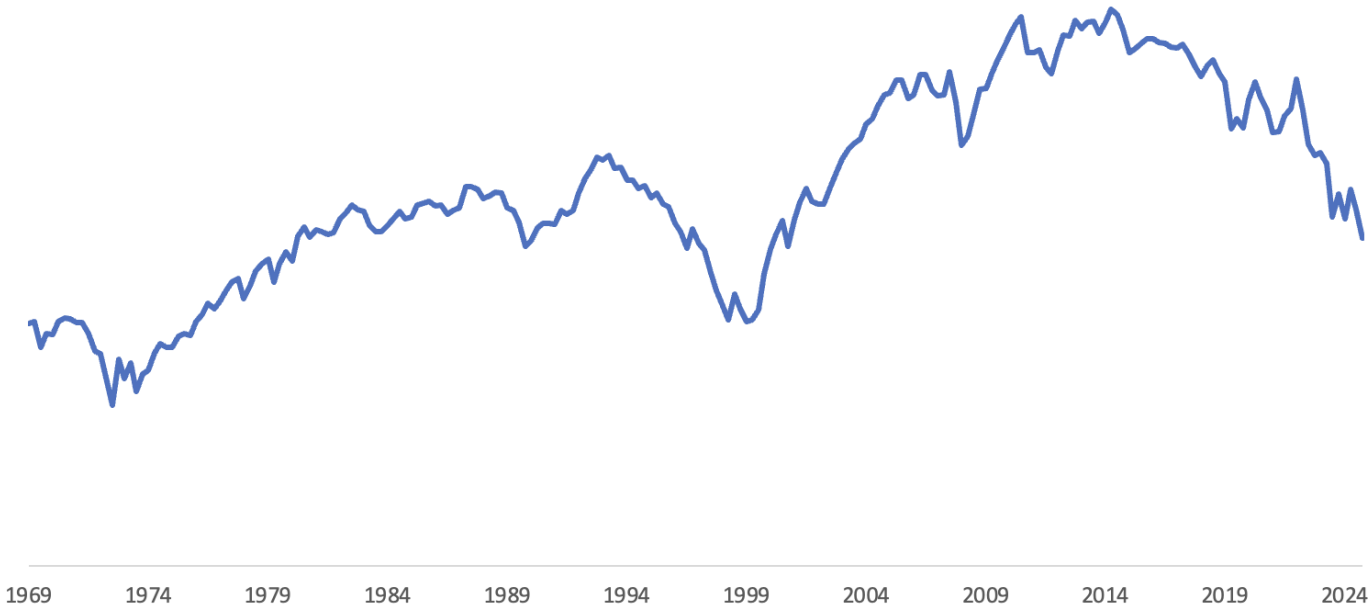


SOURCE: As of 9/30/2025. Gray, Vogel 1970-1992. Bloomberg, Cambria 1993-2025.

The U.S. Top 500 Equal Weight methodology outperformed the market-cap-weighted version by an annualized 34 basis points. Compounded over the period that amounts to 5,633% of outperformance.

Exhibit III below charts the relative performance of U.S. Top 500 Equal Weight vs. U.S. Top 500 Market Cap Weight. When the line has a positive slope, equal weight outperformed, and when it has a negative slope, market cap weight outperformed.

Exhibit III: U.S. Top 500 Equal Weight and U.S. Top 500 Market Cap Weight Relative Performance



SOURCE: As of 9/30/2025. Gray, Vogel 1970-1992. Bloomberg, Cambria 1993-2025.

In the period leading up to the dot-com bubble, U.S. Top 500 Market Cap Weight significantly outperformed U.S. Top 500 Equal Weight, but following the burst, equal-weighted methodology significantly outperformed for over a decade.

This dynamic broadly shifted in 2013 when winner-take-all network effects, sentiment, momentum, and index-fund flows placed a handful of mega caps (Apple, Microsoft, Alphabet, Amazon, etc.) front and center as the primary drivers of the S&P 500's gains. The performance has been so prolific these giant companies even received a name, The Magnificent 7.

This top-heavy feature of market cap indexes isn't new. Dating back to the S&P 500's creation in 1957, large cap companies have dominated every late-cycle bull market. Exhibit IV breaks out these periods for review. It's important to recognize that this leadership tends to be cyclical: periods of extreme large-cap dominance have historically been followed by phases of underperformance.

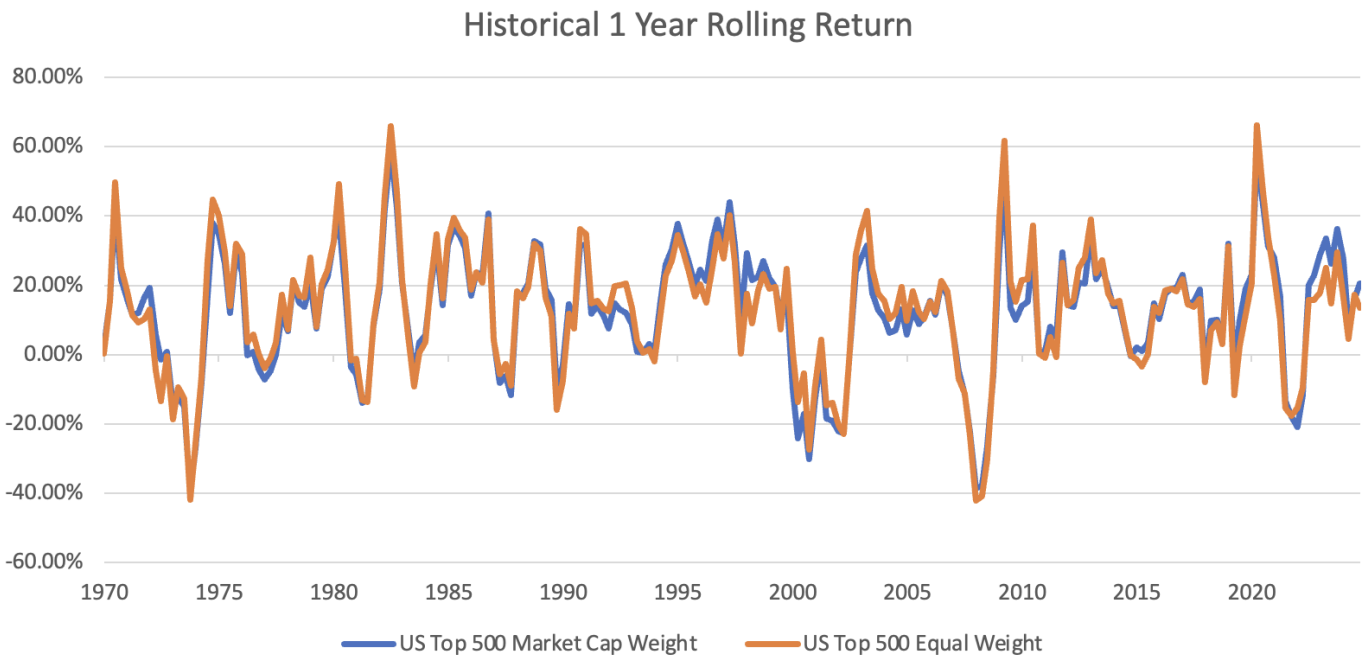
Exhibit IV: Large Cap Dominance Since the S&P 500's Creation

Period	What Happened	Evidence That Large Caps Were in the Driver's Seat
1957-1962 Post-launch "blue-chip" boom	Blue-chip industrials and utilities rallied as the S&P 500 quickly replaced the Dow as Wall Street's preferred barometer.	S&P 500 beat the Russell 2000 in 5 of the first 6 calendar years after launch; by 1962 it already captured ~75% of total U.S. market cap.
1965-1973 "Nifty Fifty" era	A narrow group of household-name growth stocks (IBM, Kodak, McDonald's, to name a few) dominated index returns until the 1973-74 bear market.	In 1973, the median stock on the NYSE was trading at a multiple of 11.5 times earnings, while the average price-earnings ratio for Kidder Peabody's "Nifty Fifty" list 50 stocks was 48.
1984-1987	After a small-cap renaissance in the early-80s, falling rates and globalization favored multinationals; large caps regained the lead ahead of the 1987 crash.	Large-cap companies, surged in the first half of 1987, with the Dow Jones Industrial Average (DJIA) gaining 44% in just seven months
1995-1999 Dot-com mania	Mega-cap tech, media and telecom shares drove a five-year 'melt-up'.	MSCI large cap/small cap ratio hit an all-time high in 1999.
2013-Present FAANG/"Magnificent 7"	Winner-take-all network effects, sentiment, momentum, and index-fund flows, drove outperformance of a handful of large-cap stocks.	The largest 5 names by market capitalization accounted for roughly 10% of the S&P 500's weight in 2013 vs roughly 30% at the end of 2024

SOURCE: As of 9/30/2025. Gray, Vogel 1970-1992. Bloomberg, Cambria 1993-2025.

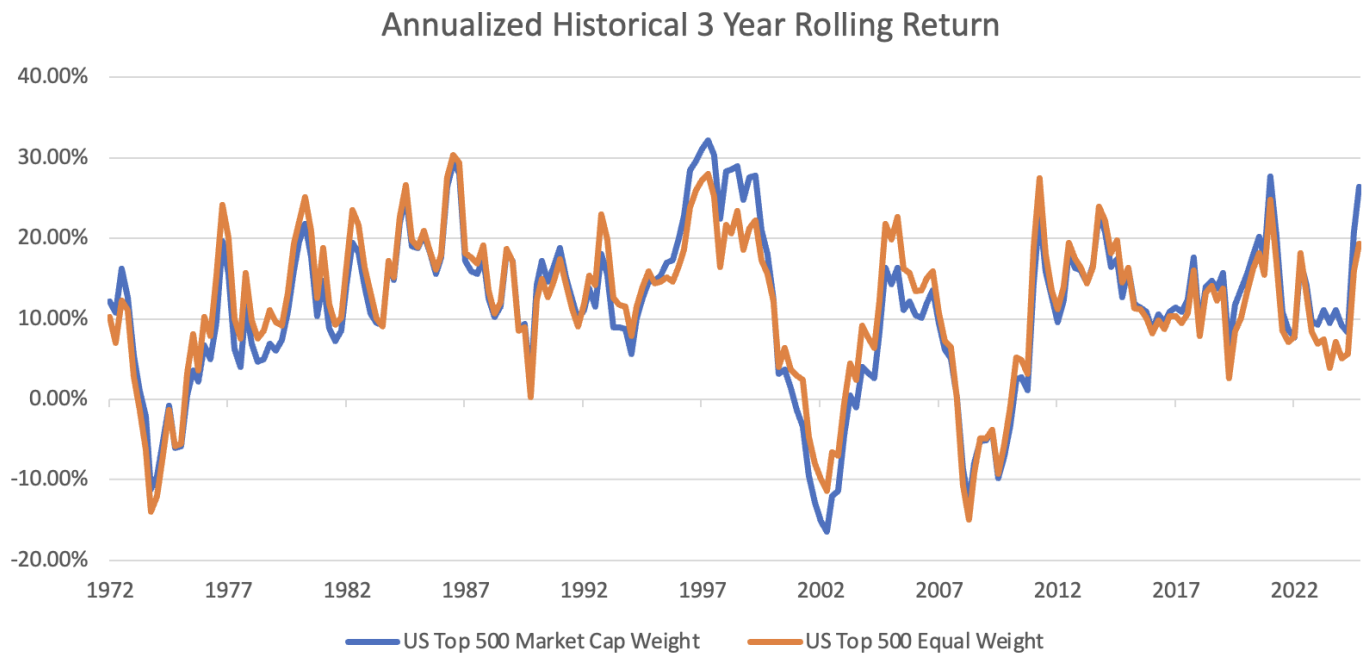
Exhibits V, VI, and VII illustrate 1-, 3- and 10-year rolling returns for U.S. Top 500 Equal Weight and U.S. Top 500 Market Cap Weight. Over shorter time periods, it's tough to differentiate between return series, but over the 10-year period, it is apparent that much of the market cap-weighted outperformance came over the more recent period.

Exhibit V: Historical Rolling 1-Year Returns



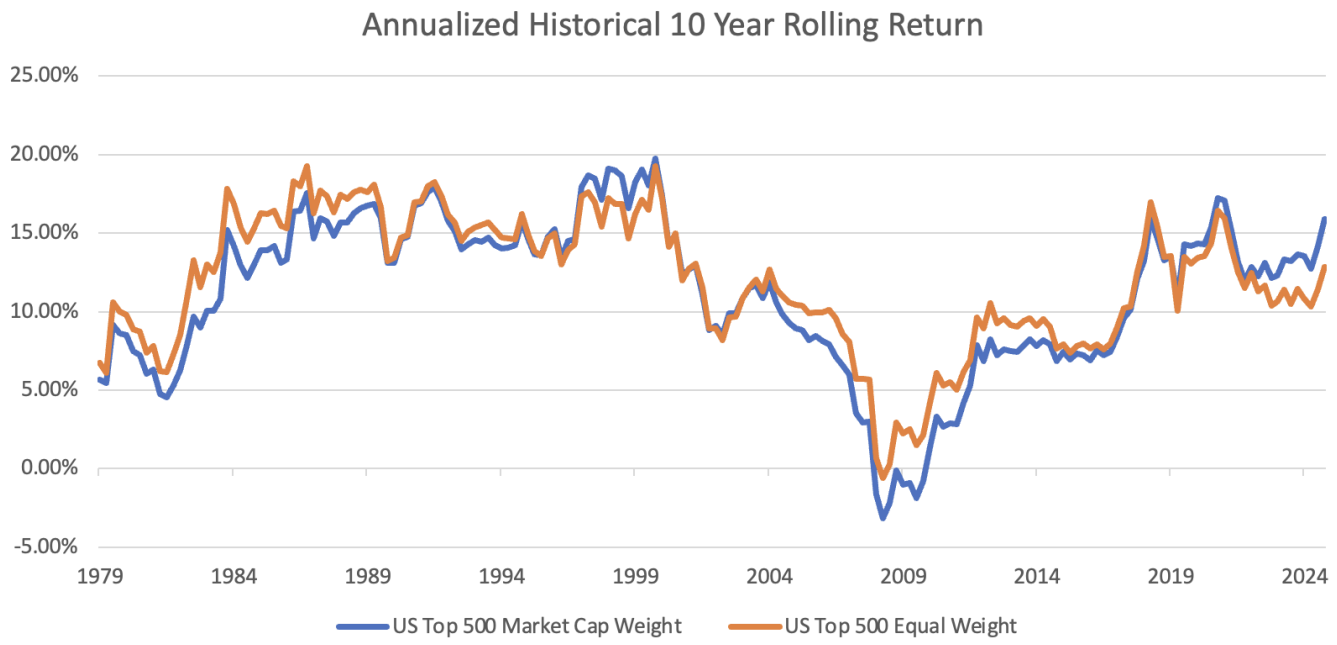
SOURCE: As of 9/30/2025. Gray, Vogel 1970-1992. Bloomberg, Cambria 1993-2025.

Exhibit VI: Annualized Historical 3-Year Rolling Returns



SOURCE: As of 9/30/2025. Gray, Vogel 1970-1992. Bloomberg, Cambria 1993-2025.

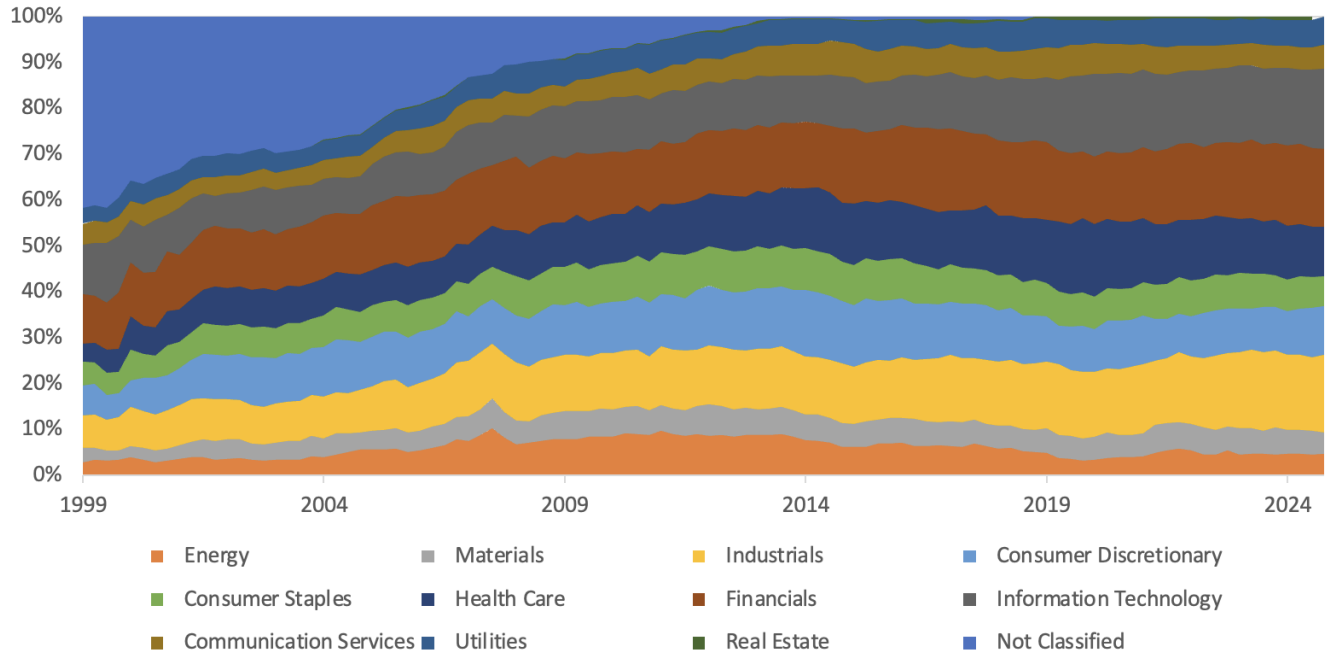
Exhibit VII: Annualized Historical 10 Year Rolling Returns



SOURCE: As of 9/30/2025. Gray, Vogel 1970-1992. Bloomberg, Cambria 1993-2025.

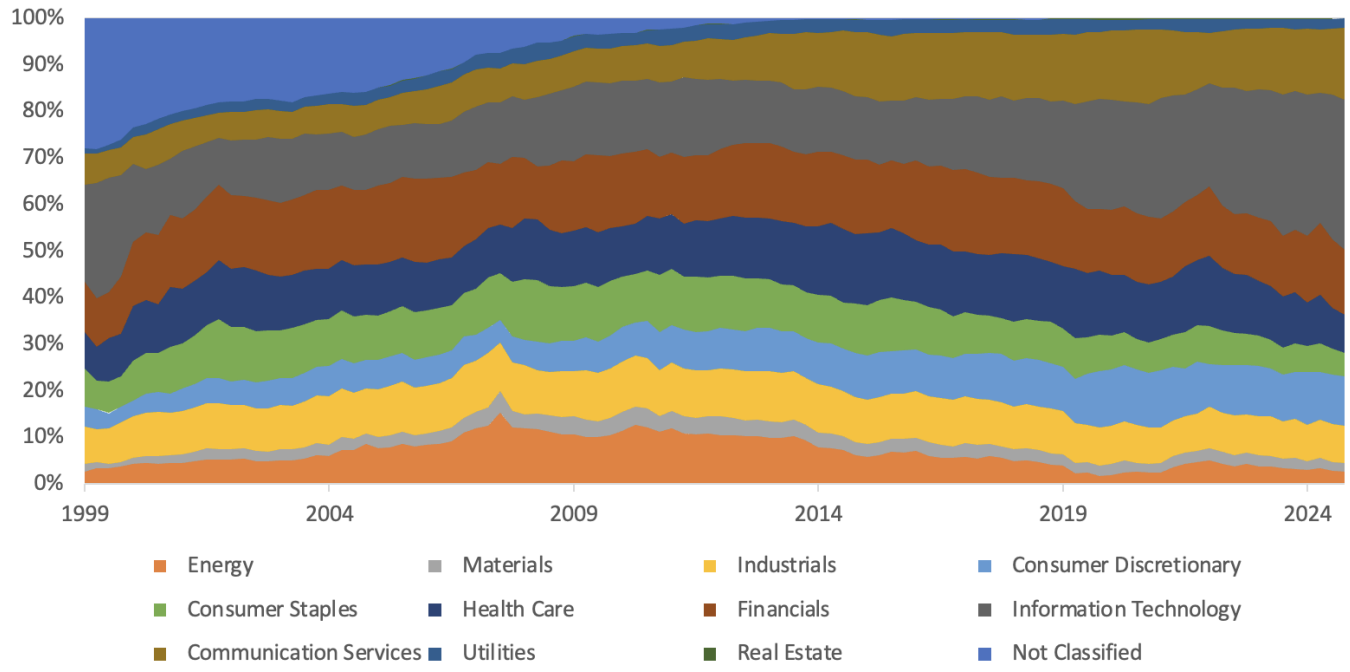
Exhibits VIII and IX show the sector breakdown across U.S. Top 500 Equal Weight and U.S. Top 500 Market Cap Weight to illustrate historical allocation trends.

Exhibit VIII: U.S. Top 500 Equal Weight Sector Breakdown



SOURCE: Bloomberg and Cambria as of 9/30/2025.

Exhibit IX: U.S. Top 500 Market Cap Weight Sector Breakdown



SOURCE: Bloomberg and Cambria as of 9/30/2025.

As of the quarter ended 9/30/2025 the U.S. Top 500 Equal Weight methodology reduced combined Information Technology/ Communication Services exposure by roughly 50% relative to the U.S. Top 500 Market Cap Weight, 22.60% vs 47.62% respectively, while increasing sector exposure broadly across all other sectors relative the market capitalization weighted methodology.

A breakdown of the 9/30/2025 sector allocation across the two indices can be seen in exhibit XIV.

It is clear that equal weighting significantly alters the portfolio composition when compared to market capitalization weighting, which dominates most index-tracking funds today. An equal-weight portfolio distributes capital evenly across constituents, thereby mitigating the concentration risk inherent in traditional capitalization-weighted indices. Allocating the same weight to every constituent regardless of size, sector, or style resulted in a very different mix (and potentially an improved mix) of risks, returns, and portfolio behavior.

This allocation method also introduces systematic size and value tilts, as smaller-capitalization and relatively undervalued firms receive proportionally greater representation. Moreover, the disciplined rebalancing process of periodically trimming outperformers and reallocating to underperformers creates the potential to capture a rebalancing premium over time.

Over the past decade these characteristics have been headwinds rather than tailwinds for U.S. equal weighted methodologies, but history has shown us the markets can be mean reverting over time. Whether it's next month, next year, or in 3 years the timing of a potential reversion is anyone's guess.

Below are historical statistics and current characteristics as of 9/30/2025 for U.S. Top 500 Equal Weight Index and the U.S. Top 500 Market Cap Weight Index.

Exhibit X: Total Return

	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
U.S. Top 500 Market Cap Weight	15.58%	26.97%	22.30%	18.06%	14.75%	10.96%
U.S. Top 500 Equal Weight	12.45%	23.18%	16.34%	14.53%	11.66%	11.22%

SOURCE: As of 9/30/2025. Gray, Vogel 1970-1992. Bloomberg, Cambria 1993-2025.

Exhibit XI: Index Statistics

	U.S. Top 500 Market Cap Weight	U.S. Top 500 Equal Weight
P/E	29.39	24.10
P/B	5.78	3.66
P/S	3.48	1.90
P/FCF	38.09	28.75
FCF Yield	2.82%	3.56%
Dividend Yield	1.35%	1.95%

SOURCE: Bloomberg and Cambria as of 9/30/2025.

Exhibit XII: Average Market Cap

	U.S. Top 500 Market Cap Weight	U.S. Top 500 Equal Weight
Average Market Cap	$1,309,952,446,887	$1,123,337,827,995

SOURCE: Bloomberg and Cambria as of 9/30/2025.

Exhibit XIII: Sector Breakdown

Sector	U.S. Top 500 Market Cap Weight	U.S. Top 500 Equal Weight
Communication Services	15.30%	5.20%
Consumer Discretionary	10.59%	10.60%
Consumer Staples	5.01%	6.40%
Energy	2.72%	4.60%
Financials	13.86%	16.80%
Health Care	8.20%	10.80%
Industrials	7.93%	16.80%
Information Technology	32.32%	17.40%
Materials	1.81%	4.60%
Real Estate	0.18%	0.80%
Utilities	2.07%	6.00%

SOURCE: Bloomberg and Cambria as of 9/30/2025.

What John Bogle brought to the industry was foundational for his firm and the industry. Today, investors have access to a wide array of high-quality, low-cost investment solutions and evolution and innovation in investment management continues at breakneck speeds.

In this article we examined a widely used portfolio construction methodology, market capitalization, and challenged it. While market cap weighting offers key benefits such as simplicity, broad market exposure, and typically low costs, it also carries structural drawbacks: specifically, a tendency to overweight the largest, most expensive, and often most popular and crowded stocks.

An equal weight methodology seeks to counter those shortcomings by allocating equally across securities in its universe and rebalancing periodically to maintain that balance. Despite its simplicity, this approach can provide meaningful benefits. In this analysis, equal weighting demonstrated advantages not just in performance, but in the form of more stable market classifications and sector weights, lower average valuations, and smaller market capitalizations.

By reexamining a widely used methodology like market cap weighting and embracing approaches like equal weighting, investors can break the link to market capitalization and its associated flaws in favor of what perhaps is a more sensible, balanced approach to portfolio construction.

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U.S. Top 500 Equal Weight Index and U.S. Top 500 Market Cap Weight Index are presented as total return, and gross of any fees/expenses. Please see disclosures for definitions and additional detail. Indexes are unmanaged, do not reflect fees/expenses, and cannot be invested in directly. This information is provided solely to generate investment education. None of the information provided should be regarded as a suggestion to engage in or refrain from any investment-related course of action. No investor received this performance. Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss.

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U.S. Top 500 Equal Weight Index – Top 500 U.S. stocks based on a a universe of the 500 largest U.S. equities by market capitalization, equal weighted, rebalanced quarterly. The model's performance reflects total returns which includes the reinvestment of dividends.

U.S. Top 500 Market Cap Weight Index – Top 500 U.S. stocks based on a universe of the 500 largest U.S. equities by market cap, rebalanced quarterly. The model's performance reflects total returns which includes the reinvestment of dividends.

Indices and other financial benchmarks shown are provided for illustrative purposes only, are unmanaged, reflect reinvestment of income and dividends and do not reflect the impact of advisory fees. Investors cannot invest directly in an index. All indices show are gross total return meaning dividends are reinvested and they are gross of fee, taxes and implementation cost.

% Positive Quarters: The percentage of quarters with positive performance.

Volatility: The degree of variation in the price of a financial asset over time. It is a statistical measure of the asset's return dispersion and is commonly used as a proxy for risk. Higher volatility indicates larger price changes (both upward and downward), while lower volatility suggests smaller price changes (both upward and downward).

Sharpe Ratio: A risk-adjusted measure that calculates the excess performance with respect to the risk-free rate per unit of volatility over the time frame.

Max Drawdown: Largest drop from a peak to a bottom in a subperiod over the time frame.

Dividend Yield: Sum of dividend per share amounts that have gone ex-dividend over the prior 12 months, divided by the current stock price.

P/B Ratio: Ratio of the stock price to the book value per share.

P/E Ratio: Ratio of the price of a stock and the company's earnings per share.

P/S Ratio: Ratio of the stock price to sales per share.

FCF Yield: FCF Yield with Market Capitalization – an indicator of free cash flow (FCF) return relative to the current market capitalization.

Dividend Yield: Dividends paid as a percentage of market capitalization.

Average Market Cap: The average market capitalization of the holdings at the strategy level.

Correlation: A statistical measure of the relationship between two variables that indicates the strength of the relationship.

Hypothetical Model Performance Disclosure: The performance results presented herein are hypothetical and are based on backtested data for the U.S. Top 500 Equal Weight Index and U.S. Top 500 Market Cap Weight Index. Hypothetical, backtested results do not represent actual trading and are provided for illustrative purposes only. Hypothetical performance is inherently limited and does not reflect the impact of actual market conditions, trading costs, liquidity constraints, or investment decision-making. Past performance, whether actual or simulated, is not indicative of future results. There is no guarantee that strategies based on similar methodologies would achieve similar results if implemented in actual trading today. This material is not an offer to buy or sell any security and should not be relied upon as investment advice.

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