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MARKETS

# With Stocks at Fresh Highs, Investors' Portfolios Look Alike

Mastercard, Microsoft, Amazon and PayPal are among market's most crowded trades

The overlap in the top 50 stocks holdings between mutual funds and hedge funds is now at near-record levels. **PHOTO:** PHOTO ILLUSTRATION BY EMIL LENDOF/THE WALL STREET JOURNAL; PHOTOS: ISTOCK

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A rally in stocks has triggered unusual circumstances for some of Wall Street's biggest investors—they are holding many of the same companies.

A list of the market's most crowded trades includes Mastercard Inc., MA **0.97%** ▲ Microsoft Corp. MSFT **0.82%** ▲ , Amazon.com Inc., AMZN **-1.56%** ▼ Abbott Laboratories ABT **-0.28%** ▼ and PayPal Holdings Inc., PYPL **0.32%** ▲ according to analysts at Bernstein, who tracked institutional ownership, price momentum, earnings forecasts and valuations.

The overlap in the top 50 stockholdings between mutual funds and hedge funds—two types of investors whose styles typically differ—now stands at near-record levels, a study by Bank of America Merrill Lynch found.

Investors are drawn to stocks that have performed well and risen fast. Shares that notched the fastest gains last year are valued nearly 25% higher, compared with their next 12 months of earnings, Bank of America 's study showed. Big movers include Chipotle Mexican Grill Inc., CMG 0.30% ▲ Starbucks Corp. and VeriSign Inc. VRSN 0.34% ▲

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Some consequences of the trend were on display last week, after earnings surprises from Amazon, Ford Motor Co. F 0.10% ▲ , Tesla Inc. and Google's parent Alphabet Inc. GOOG 10.45% ▲ sparked outsize moves in their share prices. Tesla and Ford, two stocks that have trended higher in recent months, declined sharply when those companies reported disappointing results.

Meanwhile, Alphabet's stock soared after the company reported that revenue rose 19% over the same period last year.

Big surges, like Alphabet's 9.6% gain on Friday, can make those companies even more appealing to trend-following investors, further concentrating them in a relatively small group of stocks, analysts said.

At the same time, few are willing to risk going against the crowd. Stocks that are comparatively cheap have attracted little interest, according to Bank of America's research.

Short interest on what is known as FAANG stocks— Facebook Inc., Apple Inc., AAPL 0.35% ▲ Amazon, Netflix Inc. and Alphabet—is at historic lows, the bank said.

"This huge world of investible assets has shrunk down to a small cohort," said Savita Subramanian, equity and quantitative strategist at Bank of America Merrill Lynch. "We're all in this echo chamber where everyone goes to the same dinners and drinks the same Kool-Aid."

This week investors are awaiting a spate of key economic reports, including data on consumer spending, manufacturing and Friday's nonfarm-payroll report, which investors will be using to glean information on how the U.S. economy fared in July.

While most believe the Federal Reserve will deliver a 0.25 percentage-point rate cut at its meeting on Wednesday, strong economic data could challenge projections for how much the central bank will ease monetary policy during the rest of the year, a potential obstacle for the market's rally.

As earnings season rolls on, investors will also get a look at results from a range of companies, including Apple and Mastercard. These two companies are among those that have provided money managers safety in numbers.

Years of tepid expansion have also made investors hesitant to broaden their holdings outside of the companies delivering eye-catching results. That caution has been exacerbated in recent months, as slowing growth around the world sparked fears of a looming recession, widening the valuation gap between growth and value stocks to record levels, data from DWS Group showed.

Yet some investors worry that the concentration of money in a short list of stocks could exacerbate market declines if bad news sparks a rush to the exits. Some of the same large tech stocks led a May selloff that pulled the Nasdaq Composite into correction territory with a more than 10% decline from its highs, a steeper drop than the ones that hit the Dow Jones Industrial Average and S&P 500.

Contrarian and value-oriented strategies have waned in popularity in recent years as investors struggle to outperform market-tracking funds. Disagreement among analysts about a company's earning prospects can also make shares comparatively unpopular.

Kent Engelke, managing director at Capitol Securities Management, has avoided those big tech stocks over the past three years, concentrating instead on finding stocks that are undervalued relative to the rest of the market. Lately, that has led him to invest in unglamorous areas like consumer nondurables and the oil sector.

"I'm miserable," he said. "The last three years have been among the most difficult ever out of 33 in the industry because we haven't owned FAANG."

He plans on sticking to his guns, however, convinced that the rally can fall apart if the Fed eases monetary policy less than expected or if companies' balance sheets worsen.

That could result in "a really big, ugly selloff," he said.

So far, few investors seem inclined to change their approach, although many are now increasing their positions in assets that would take the edge off a potential hit to their portfolios. Prices for gold, a popular destination for nervous investors, are near their highest level in six years, while the Swiss franc stands at a two-year high against the euro.

Analysts at UBS Global Wealth Management said that markets may be overestimating how far the Fed will cut rates and that trade tensions between the U.S. and China could weigh on growth.

They have balanced their U.S. stockholdings with positions in havens like long-maturity Treasurys and the Japanese yen.

“We don’t think the alarms should be ignored,” Mark Haefele, chief investment officer at UBS Global Wealth Management, said in a note to clients. “But we also think the long-term opportunity cost of aborting is likely to be too high.”

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