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If you've been investing for a few decades, you've probably noticed something odd. There are fewer choices. A lot fewer.

Back in the mid-1990s, the U.S. had more than 8,000 publicly traded companies. Today, we're down to less than 4,000 — and that number has been shrinking for years. The Wilshire 5000 Index no longer tracks anywhere near 5,000 stocks; it is closer to 3,400. This is not just a statistical quirk, but a profound change in the structure of the stock market.

Why has this happened? A few forces are at play:

➤ Mergers and acquisitions are gobbling up publicly traded companies as well as private companies that will never go public. Since 2000, there have been more than 355,000 M&A deals worth more than $41 trillion, according to the Institute for Mergers, Acquisitions, and Alliances.

➤ Private-equity firms are taking businesses private instead of bringing them to the market.

➤ Regulatory and reporting costs as a result of Sarbanes-Oxley have made the public-company life less appealing for small firms.

➤ Venture-capital money and a robust private-funding environment mean companies can stay private longer — or forever.

➤ Aggressive stock-buyback programs have dramatically reduced the number of shares in the market.

This contraction in both companies and share counts has ripple effects far beyond just a smaller fishing pond for finding opportunities. It is reshaping index construction, sector investment (especially small-cap stocks), and overall market liquidity.

◆ Index construction: a narrower base.

Index investing has been one of the biggest success stories of the last 30 years. But indexes are only as broad as the stocks they hold. With fewer public companies, the market is narrowing.

In indexes weighted by stock-market value, like the S&P 500 or Russell 2000, the shrinking pool means the biggest companies carry even more influence. In the S&P 500, the top 10 stocks now account for approximately 40% of the index's value — the highest concentration in decades. This is partly because large companies have been growing, but also because the index universe has fewer midsized and smaller companies.

The small-cap Russell 2000 Index has been affected. With fewer small-cap companies available, the

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index often includes unprofitable and lower-quality firms just to fill the roster.

For investors, this means index returns may become more top-heavy or less representative of the market segment they track.

◆ Impact on small-cap investing: the squeeze.

Small-caps have historically been a fertile hunting ground for outsized gains. But with fewer companies going public, the pipeline of small-caps has thinned. And when a promising small-cap does emerge, it often gets snapped up by a larger company.

Another wrinkle: Some so-called small caps in indexes today are actually “fallen angels” — once-bigger companies that have shrunk.

The upshot is that investors will need to be more selective in small-cap investing, leaning on active management or individual stock selection instead of relying solely on broad index exposure.

Bottom line: The shrinking stock market is not just a curiosity of market historians. This structural change comes with real-world consequences for how you invest.

- Indexes are getting more concentrated.
- Small-cap hunting grounds are narrower.
- Liquidity is robust in the big leagues but patchier in the minors.
- Strategies that worked in the past, such as index investing, may need a tune-up for today’s realities. Active investing, especially in the small-cap space, now looks relatively more appealing.

The good news? While the market may be shrinking, opportunities remain available.

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