Fortified Wealth Strategies Inc.

When the Winners Stop Winning

Signal, Noise, And What Matters, September 2026

What People Are Hearing

The S&P 500 has remained near record levels, and that can make the market look unusually calm. But beneath the headline index, something important has been happening. Some of the stocks and strategies that had been among the market's strongest performers have experienced a sharp reversal, while other parts of the market have taken the lead.

One of the clearest examples is momentum investing—the tendency to favor stocks that have already been performing well. The S&P 500 Momentum Index gained 44% in the second quarter of 2026, its best quarter on record, after years of strong performance. Since July 1, however, that index has fallen more than 9% even as the S&P 500 gained roughly 3%. July was the second-worst month for momentum in about four decades, according to Bank of America estimates reported by The Wall Street Journal.

The natural reaction is to ask whether this is a warning that the broader market is about to fall. It might be more useful to ask a different question: What if part of the correction has already been happening, just not in the index most people watch?

Signal

Markets do not always correct by having everything fall at the same time. Sometimes the correction happens through a change in leadership.

That appears to be part of what we have seen this summer. Crowded technology trades hurt hedge funds in July, while S&P Dow Jones Indices found that more than 60% of S&P 500 stocks actually outperformed the index in June and July. Health care, financials, industrials, real estate and other areas participated more meaningfully even as some previous leaders struggled.

This matters because a market dominated by a small group of winners can become healthier without the S&P 500 itself suffering a major decline. Capital can rotate. Valuations can adjust. Crowded positions can unwind. New companies and sectors can begin contributing to returns.

In other words, a change in leadership is not necessarily the same thing as the end of a bull market. It can also be one of the ways a market works through excess.

Noise

The difficult part is that market rotations generate compelling stories in both directions.

When technology and AI-related stocks weaken, it is easy to conclude that the investment theme has broken and a larger decline must follow. When the S&P 500 continues rising, it is equally easy to conclude that nothing important has changed.

Neither conclusion tells us very much by itself.

A headline index is an average, and averages can conceal large differences underneath. On some recent trading days, the S&P 500 rose even though a majority of its constituent stocks declined. At other points this summer, the opposite occurred: mega-cap technology struggled while a much broader group of stocks advanced.

Trying to turn each rotation into a forecast about what happens next is usually where useful information becomes noise.

What Matters

The more durable lesson is about diversification.

Diversification is sometimes described as owning investments that will protect a portfolio when the stock market falls. That is only part of its purpose.

Another purpose is much simpler: A diversified plan should not require the same investments to remain the market's winners indefinitely.

Leadership changes. The best-performing companies, sectors, styles and asset classes of one period are rarely the permanent winners. A portfolio concentrated in what has worked recently can quietly become dependent on one particular market regime continuing.

A diversified investor does not need to know whether technology, health care, financials, small companies, international stocks or some other part of the market will lead next. The portfolio is built around the recognition that we cannot reliably know that in advance.

That does not mean every investment must perform well at the same time. In fact, if everything in a portfolio is always moving together, it is worth asking how much diversification is actually there.

For investors, the recent momentum reversal is therefore less interesting as a prediction and more useful as a reminder: a market can change substantially beneath the surface, and a sound financial plan should be able to tolerate a change in who is winning.

Questions Worth Asking

- Has recent performance caused one part of my portfolio to become much larger than intended?
- Do several of my funds or strategies ultimately depend on the same companies or market theme?
- Am I judging diversification by the number of holdings I own, or by what actually drives their returns?
- If today's market leaders stopped leading for several years, would my financial plan still work?
- Am I considering a portfolio change because my circumstances changed, or because market leadership changed?

Closing Thought

One of the easiest mistakes in investing is to confuse what has been working with what must continue working.

The market does not need to crash for leadership to change. Sometimes yesterday's winners simply stop carrying the load and other parts of the market begin doing more of the work.

For a diversified investor, that is not necessarily a problem to solve. It is one of the reasons diversification exists in the first place.

Sources

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Disclosure