

The Quiet Majority Keeps Compounding

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Markets are often at their most persuasive when they are at their narrowest. The story becomes easy to see, easy to repeat, and increasingly difficult to ignore. Capital follows attention, attention reinforces performance, and performance appears to validate the story. However, this is also when the distinction between price movement and business progress matters most. For several years, a small group of companies tied to a single theme has carried the major indexes, while the steady businesses that compound earnings year after year have been quietly left behind. Thematic momentum of this kind is not new. It is one of the recurring conditions of markets. What endures, however, is not the theme of the moment, but the businesses that keep earning.

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The gap between fundamentals and valuation defines the current market environment. The past several years have been wildly lucrative for the growth equity indices, with the Russell 3000 Growth delivering extraordinary returns from 2023 to 2025. However, it has also been one of the narrowest bull markets on record. During this period of strength, nearly half of the Russell 3000 Growth Index's stocks have declined. Meanwhile, less than 15% of index constituents have outperformed over the past three years.

In other words, the "average stock" has not generated outsized returns over the past three years. Meanwhile, a select group of stocks aligned with an exciting narrative have seen their valuations explode. However, history has shown that the narrative is the part of a stock's return that can be highly volatile.

To date in 2026, momentum and return bifurcation have reached extreme levels. Semiconductor exposure has become one of the most crowded positions in the history of the market, with four out of every five professional investors concentrated in the same trade. The most extreme representation of this phenomenon has been the memory chip industry. Formerly sleepy players like Micron (MU) and SanDisk (SNDK) have exploded to market caps that would have been difficult to imagine even a year ago. That surge has been lifted by a supply shortage and a wave of momentum rather than a change to their competitive differentiation.

The demand in the areas of the market that have captured everyone's attention and capital has legitimately accelerated. Many investors have started to price the story of the future as though it has already happened. The market often rewards the promise first, then asks later which businesses can actually convert that promise into sustained earnings power. That distinction is easy to lose when prices are rising, but it is the distinction that determines long-term outcomes.

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With attention focused elsewhere, the quieter majority of the market has continued growing. The so-called S&P 493, those companies beyond the Magnificent 7, recently posted their strongest earnings growth in years, with little of the attention or premium afforded to the current favorites. This is where patient owners are often rewarded. A business that grows its earnings consistently and reinvests at high rates of return does something the headlines rarely capture. It compounds.

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Compounding rarely announces itself in dramatic fashion. It does not require a singular market narrative, a sudden change in investor attention, or an accelerating cycle of enthusiasm. Ordinary growth rates, sustained without interruption and reinvested wisely, produce results over a holding period that speculation only promises. That is why the businesses left behind in a narrow market can become so important. They may not be the center of the current conversation, but their earnings continue to advance.

At Riverbridge, we do not attempt to predict which theme will lead the market next quarter or what trade will get crowded next. What we do instead is study a business before we own it: the durability of its earning power, the quality of its reinvestment, and its ability to compound through conditions we cannot predict. Attention rotates and reverts. In the companies we seek to own, earnings compound along a steadier path.

This approach can feel unsatisfying in a market captivated by a single story. Endurance rarely looks exciting in the moment. It often requires owning businesses that are not being celebrated, avoiding

businesses whose expectations have moved beyond their economics, and accepting that the market can remain distracted longer than investors expect. Endurance is not passivity. It is discipline applied over time.

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This is the heart of what it means to invest with endurance. The goal is not to dismiss innovation or genuine progress underway in areas like artificial intelligence. It is to own the businesses that convert that progress into durable earnings rather than those that merely promise to. The promise is what attracts a crowd. The earnings are what remain after the crowd has moved on.

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