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How should investors approach the Magnificent Seven stocks? We asked one of the savviest U.S. stock pickers ever

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As of August, the so-called Magnificent Seven leading U.S. stocks – Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla – accounted for more than one-third of the market value of the benchmark S&P 500 Index. Are they in a bubble or what? We asked Noah Blackstein, vice-president and senior portfolio manager at Dynamic Funds, and one of the savviest U.S. stock pickers ever.

1. The S&P 500 is a "historically unprecedented top-heavy index right now," says Blackstein, who joined Dynamic in 1997 (Scotiabank bought it in 2011). Passively managed index funds have fuelled the rise of the seven – as stocks climb, those funds buy more. The funds were "low single percentages" of the market when Blackstein started. Now, they're "60% of assets managed."

2. The seven companies differ from one another and have real earnings, Blackstein says. Amazon went from US$3 a share in 2003 to more than US$200 lately. Its revenue climbed from US$5.2-billion to US$638-billion last year. But that forces investors to make tough choices. The worst thing you can do, he says, is buy "an expensive stock where that growth rate is slowing."

3. Last year, U.S. exchange-traded fund provider Defiance introduced a Large Cap ex-Mag 7 ETF. But simply avoiding the seven is not really a strategy, Blackstein says. "I think diversification matters based on process, not necessarily on a marketing scheme like, 'Hey, let's just buy ex the Mag 7.'"

4. Blackstein tries to keep the big picture in mind. One factor he considers is "platform change." Microsoft, for example, started as an operating system provider in 1975, hit a peak share price in 1999, went sideways and didn't surge again until it pivoted to the cloud in 2016. "Any time a platform changes, it is inherently going to introduce risks that people aren't thinking about."

5. Artificial intelligence really is the next frontier, Blackstein says. E-commerce was based on search. “You know, you’d look for something and that would drive a result to you,” he says. Now, “we’re moving from a search economy to an answers economy.” The challenge: Which companies will prevail?