# ETF Overlap: Why Similar Funds May Create Hidden Concentration

## When Too Many Similar ETFs Mean Too Much of the Same Thing

Exchange-traded funds are built for diversification. One fund can hold hundreds of stocks, spreading your money across sectors, regions, or investment styles. That logic works well until you buy two or three ETFs that look different on the surface but hold the same underlying companies. The result is overlap - and sometimes a concentrated bet you never intended to make.

Overlap happens when the holdings of one fund appear in another. A small amount is normal. But when overlap is high, your portfolio can quietly load up on a handful of stocks. You might think you are diversified across ten funds, yet half your equity exposure could sit in the same five tech names. This hidden concentration can increase volatility and reduce the very protection diversification is supposed to provide.



Understanding overlap starts with looking under the hood at fund holdings. Every ETF publishes its portfolio, usually daily or monthly. The question is how much those portfolios share. If you own an S&P 500 ETF and a large-cap growth ETF, expect significant overlap. Both track similar companies. The same applies to sector funds that invest heavily in the same leading firms. An ETF comparison platform can help you spot these patterns before they compound.

## How Overlap Builds Up Without You Noticing

Investors often add ETFs over time, picking funds for different reasons. One targets value stocks, another focuses on dividends, a third follows a broad index. Each purchase seems reasonable on its own. The problem is that the largest companies by market capitalisation tend to appear in many of these categories. Apple, Microsoft, and Amazon show up in value funds, growth funds, dividend funds, and broad market funds alike.

Consider a portfolio that holds an S&P 500 ETF, a technology sector ETF, and a Nasdaq-100 ETF. The first fund already has a heavy tech weighting. The second doubles down on the same sector. The third includes many of the same mega-cap stocks. The combined result can be a portfolio where 40% or more of equity is in a handful of tech giants. That is not diversification. It is a concentrated bet on a narrow slice of the market.

Overlap is not always bad. If you deliberately want to overweight a sector or a theme, overlap is part of the strategy. The risk is accidental overlap - buying funds that seem different but deliver the same exposure. This is where an ETF screener becomes useful. By comparing the top holdings and sector allocation of each fund, you can see exactly where your money is going. An ETF screener lets you filter by holdings overlap, so you avoid unintended concentration.



## Key Metrics to Check for Overlap

Several numbers can tell you how much two ETFs share. The most direct is the percentage of holdings in common. If two funds share 70% of their positions, they are essentially the same bet with a different wrapper. But you should also look at the weighting of those overlapping holdings. A fund might share only a few stocks with another, but if those stocks represent a large part of both portfolios, the overlap in value can be high.

Other useful data points include sector allocation and asset allocation. Two funds that appear to track different indexes may have very similar sector breakdowns. For example, a fund focused on "innovation" and one focused on "growth" may both tilt heavily toward technology and consumer cyclicals. Asset allocation tells you how much each fund puts into stocks, bonds, cash, or other instruments. If both are equity-heavy, the overlap risk is higher.

Portfolio turnover is another indicator. A fund that trades frequently may change its holdings often, reducing the persistence of overlap. But high turnover also means more trading costs and potential tax implications. Tracking error - how closely a fund follows its benchmark - can

also hint at whether the manager is making active bets that might align with or diverge from your other positions.

## Practical Steps to Reduce Hidden Concentration

The first step is to map your entire ETF portfolio onto a single list of underlying holdings. You do not need to do this by hand. An ETF comparison platform can aggregate your funds and show the combined exposure to each stock, sector, and region. Look for any single stock that represents more than 5% of your total portfolio. If you see the same name appearing across multiple funds, that is a red flag.

Next, check the sector allocation of your combined holdings. If more than 30% of your portfolio sits in one sector, consider rebalancing. That might mean replacing a sector-specific ETF with a broader fund, or trimming one that overlaps heavily with another. The goal is not to eliminate overlap entirely - some is inevitable and even useful - but to ensure it aligns with your intentions.

Also pay attention to the expense ratio. Overlap is not just about concentration; it can also mean paying for the same exposure twice. If two funds charge fees for holding nearly identical stocks, you are losing money to costs without gaining diversification. Compare the expense ratios of overlapping funds and consider holding only the cheaper one.

## When Overlap Makes Sense

Not all overlap is a mistake. Some investors use multiple ETFs to build a core-satellite strategy, where a broad index fund forms the base and smaller funds add targeted tilts. A small amount of overlap between the core and a satellite fund is expected. The key is to keep the satellite positions small enough that the overlap does not dominate.




Another scenario is tax-loss harvesting. Some investors hold two ETFs that track similar but not identical indexes, allowing them to sell one at a loss for tax purposes and buy the other to maintain market exposure. In this case, overlap is deliberate and controlled. The investor knows exactly how similar the funds are and uses that similarity strategically.

For most long-term portfolios, though, overlap should be minimal. If you are not consciously choosing to concentrate, you probably should not be concentrated. A quick check every quarter can save you from unpleasant surprises during market downturns, when concentrated positions tend to fall hardest.

## The Role of an ETF Comparison Platform

Manually comparing holdings across multiple ETFs is tedious. A good ETF comparison platform automates the process. It shows you the percentage of holdings in common, the weighted overlap in dollar terms, and the combined sector and asset allocation. Some platforms also let you simulate the impact of adding or removing a fund, so you can see how your exposure changes before you trade.

These tools are especially useful for building a portfolio from scratch. Instead of picking funds in isolation, you can design a set of ETFs that complement each other. You might start with a broad market fund, then add one or two small satellites for specific exposure, checking each time that the overlap stays within your comfort zone.

For professional investors, overlap analysis is a standard part of portfolio construction. For individual investors, it is easy to overlook. But the cost of ignoring it can be a portfolio that behaves very differently from what you expected. A few minutes with a comparison tool can reveal whether your diversification is real or just an illusion.

## What to Watch Out For

Bid ask spread and net asset value are not directly about overlap, but they affect the cost and liquidity of your ETF holdings. If you decide to replace an overlapping fund with a different one, check the bid ask spread to avoid paying a premium on the trade. The net asset value tells you whether the fund is trading at a discount or premium, which can matter when you enter or exit a position.

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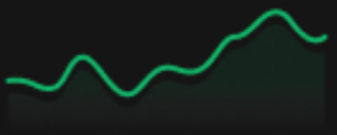

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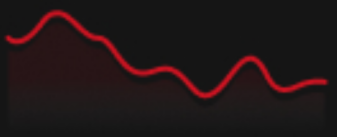

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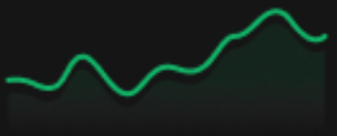

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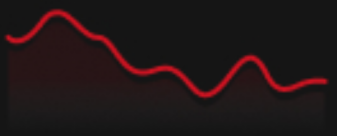

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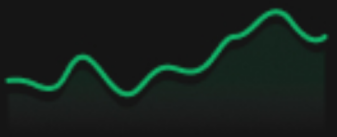

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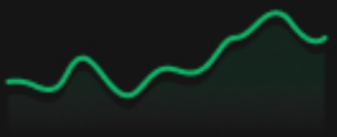

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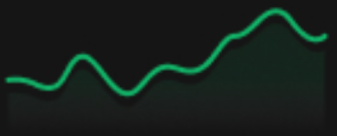

Another trap is relying only on the fund name or category. Two funds labeled "small-cap value" might have very different holdings depending on how the index provider defines small and value. Always check the actual holdings. An ETF comparison platform that drills down to the stock level is more reliable than one that only compares categories.

Finally, remember that overlap changes over time. Index providers rebalance, fund managers adjust holdings, and market movements shift weightings. A portfolio that looked clean six months ago may have drifted into heavy overlap. Regular checks keep you on track.

Hidden concentration is one of the easiest mistakes to make in an ETF portfolio, and one of the simplest to fix. With the right tools and a bit of attention, you can ensure that your funds work together the way you intended - spreading risk, not multiplying it.