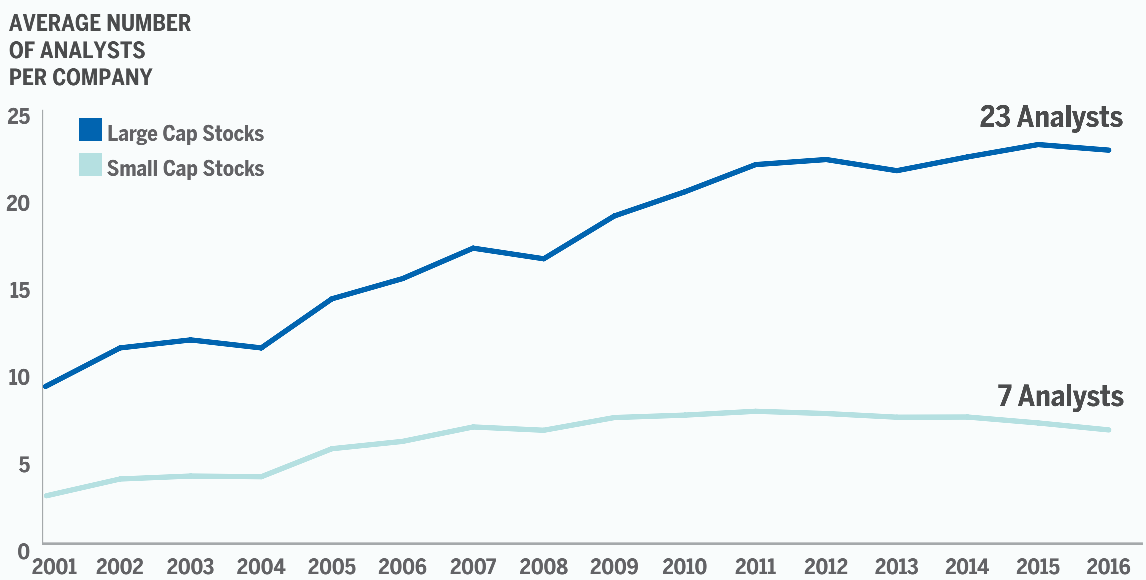
Big Potential, Small Caps

Small cap equities have historically been less followed by Wall Street research analysts than large cap equities. The scarcity of small cap coverage creates opportunities for investors and portfolio managers who are committed to doing in-depth research on these companies.

Less Coverage Means Greater Opportunity for Investors



Source: FactSet. Small cap stocks and large cap stocks are represented by the S&P500 and S&P600 indexes, respectively.

- In 2001 half as many analysts covered small cap stocks as large cap stocks on average. Since then the average number of analysts covering small cap stocks has barely increased while the average number of analysts covering large cap stocks has more than doubled.
- As a result of small cap companies receiving less coverage by Wall Street analysts, small cap portfolio managers may have a better chance of identifying undiscovered opportunities. This may be one reason why over the 20-year period ended December 31, 2016, managers in the small cap category produced an average annualized three-year excess return that was 220 basis points greater than that of the large cap category.[1]
- Given that Wall Street is allocating more resources to large caps compared to small caps, the opportunity for small cap investors and portfolio managers committed to doing their own research is likely to continue.

[1] Callan (2017) "Historical Active Management Premiums by Asset Class and Style." Fourth Quarter 2016.

S&P 500 Index is an unmanaged index generally representative of the U.S. stock market without regard to company size.

S&P 600 Index measures the small-cap segment of the U.S. equity market.

Investors cannot invest directly in any index. Index performance does not reflect deductions for fees, expenses or taxes.

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