

# ALGER

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## **Financial Advisors Bullish on U.S. Small-Cap Equities**

### *Advisors Confident in Small-Company Stock Performance Reversal*

**NEW YORK, November 2, 2016** - Financial advisors are confident U.S. small-cap equities will help fuel growth within client portfolios, according to a recent survey conducted on behalf of Fred Alger Management, Inc. ("Alger"). More than three-quarters (76 percent) of the survey's 200 respondents stated that they are currently bullish on U.S. small-cap equities, and nearly all (97.5 percent) believe that investors should have a portion of their portfolios in these stocks. In addition, U.S. small-caps were most frequently chosen by respondents among financial advisors with 20 or more years of experience (45 percent) as offering the greatest opportunity for absolute return in the next three to five years.

Advisors' optimism on U.S. small-cap equities comes at an interesting time, as these stocks underperformed U.S. large-cap equities by 15 percentage points over the past three years (as of 8/31/16), based on Russell indices. Additionally, small-cap equities saw \$14.7 billion of outflows over the past three years, compared with \$122.3 billion flowing into U.S. large-cap stocks at the end of August 2016, according to Morningstar mutual fund and ETF data.

"Bullish sentiment from advisors toward U.S. small-cap stocks shows that they are confident in a performance reversal, thanks to both the undervaluation of the asset class and an improving U.S. economy," said Dan Chung, CEO and CIO of Alger. "These findings indicate that the surveyed advisors recognize the long-term opportunity presented by incorporating U.S. small-cap stocks into their clients' portfolios. With the understanding that such financial advisors are overwhelmingly optimistic on these equities, it will be interesting to see if their sentiment will translate into positive flows and greater valuations."

When evaluating U.S. small-cap stock investments, 80 percent of surveyed advisors most value key characteristics of growth companies: nimbleness and innovation. Nearly half (46 percent) of the respondents most value innovation (innovation/new product introduction driving rapid growth), while 34 percent agree that nimbleness and the ability to quickly adapt to their marketplace is the most valuable characteristic of small U.S. companies.

In terms of sectors offering the most growth potential, advisors largely favor technology firms (six out of ten respondents) and nearly one-third (32 percent) of respondents are placing their bets on healthcare, indicating their optimism that these companies will lead in innovation and, thus, growth over the next three to five years. Advisors' favorability of these two sectors complements their bullish sentiment toward U.S. small-cap stocks given that the two sectors have the largest weightings in the Russell 2000 Growth Index, a commonly used benchmark for small-cap strategies (information technology is 25% and healthcare is 22% of the index).

"Spotting innovation is essential to identifying growth-oriented investment opportunities, so we were not surprised to learn that advisors believe technology and healthcare offer the most potential," said Brad Neuman, Vice President and Client Investment Strategist at Alger. "We anticipate growth within technology and healthcare to continue in coming years due to ongoing advances in the fields, such as the multi-trillion dollar retail market's internet-driven transformation as well as healthcare breakthroughs in understanding genetic drivers of disease enabling the development of more precise, novel therapies with far better outcomes."

The survey of 200 advisors throughout the country was conducted by a third party on behalf of Alger in late August 2016. Please note that a survey of different financial advisors might produce materially different results than those of the respondents. The views and opinions of such respondents should not be interpreted as investment advice or a recommendation to purchase or sell any security as it does not take into account the particular circumstances of any individual investor, and the expectations of the respondents might not be realized.

**About Fred Alger Management, Inc.**

Alger was founded in 1964 and as of September 30, 2016, managed more than \$20.7 billion. Alger's investment philosophy is focused on discovering companies undergoing Positive Dynamic Change, which we believe offer the best investment opportunities. Alger investment strategies are available to institutional investors through separate accounts and mutual funds and to retail investors through Alger mutual funds. Fred Alger & Company, Incorporated, a broker-dealer and the parent company of Fred Alger Management, Inc., offers mutual funds as well as institutional funds for defined benefit and defined contribution plans. For more information, please visit [www.alger.com](http://www.alger.com).