

# Looking for Higher Returns?

Market capitalization is one of the basic characteristics investors consider when constructing their portfolios. While each size category possesses unique merits, investors should consider an allocation to small cap equities as they have historically outperformed relative to large cap equities.

## Small Cap Stocks Have Outperformed Large Cap Stocks



Source: FactSet

- During the past 20 years, small cap stocks have returned approximately 10% annually, significantly outperforming large cap stock returns of 7% annually.
- The stronger returns are attributable to significantly faster earnings growth driven by faster sales growth (small companies generally have lower penetrations of their addressable markets and therefore have ample room to grow).
- While small companies are forecasted to produce much faster EPS growth than large companies next year, not all investors have positioned themselves to benefit from these favorable prospects. Year to date U.S. large cap funds and ETFs have seen over \$25B in inflows while small cap funds and ETFs have seen \$0.3B in outflows.
- The long-term outperformance of small cap stocks makes this year's underperformance even more remarkable. Through August, small caps have underperformed by more than 1,000 basis points, suffering their worst start to a year in over a decade. To catch up to their long-term historical outperformance, we believe they would need to outperform significantly in the future.

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