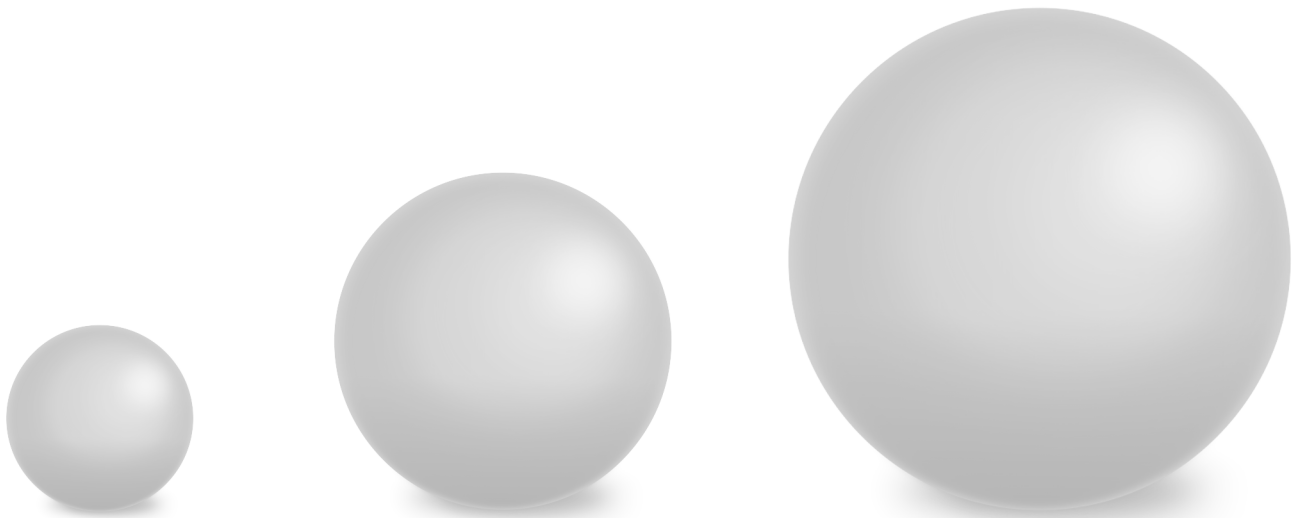




First Ascent Asset Management

# SMALL, MID, & LARGE

Understanding Market Capitalization





# UNDERSTANDING MARKET CAPITALIZATION

## Market Capitalization

The US and international stock markets can be broken down into groups of stocks based on the size of the issuing company. Understanding those groups and how to incorporate them into a portfolio can help investors better reach their long-term financial goals.

Size is determined by a company's "market capitalization." Market capitalization is derived by multiplying the number of shares the company has outstanding by its share price. So size is determined by the total value of a company's outstanding stock.

Stocks issued by larger companies are referred to as "large cap stocks." Stocks of mid-sized companies are "mid cap stocks." Stocks of smaller companies are "small cap stocks."

Definitions vary, but stocks are generally categorized as large, mid, or small cap as follows:

**Large cap:** Over \$10 billion in market capitalization

**Mid cap:** Between \$2 and \$10 billion in market capitalization

**Small cap:** Between \$300 million and \$2 billion in market capitalization

There are other categories of stocks based on market capitalization. For example:

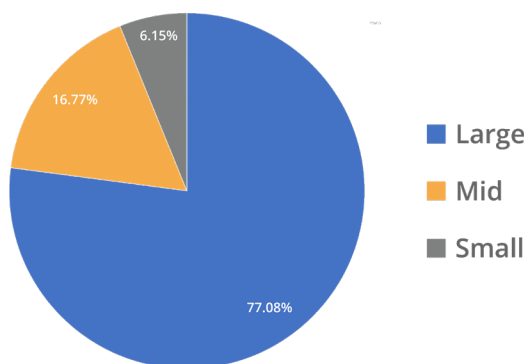
**Mega cap:** Over \$200 billion in market capitalization

**Micro cap:** Between \$50 million and \$300 million in market capitalization

**Nano cap:** Under \$50 million in market capitalization

These categories are used less frequently in building diversified portfolios. Micro and nano cap stocks represent a tiny part of the stock market, are less liquid, and more volatile than stocks of companies with larger market capitalizations. There are very few mega cap companies and they are already included in the large cap category.

### US Stock Market By Capitalization



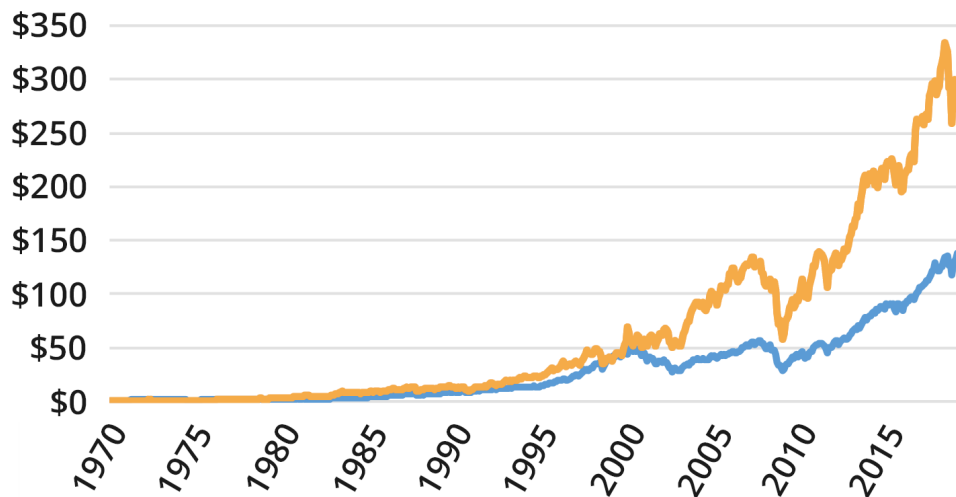
US Stock Market as represented by CRSP US Total Market index, October 31, 2019.  
Data Source: Morningstar.



# UNDERSTANDING MARKET CAPITALIZATION

Small, mid, and large cap stocks tend to have different performance characteristics. For example, small cap stocks have generated higher returns than large cap stocks over the long-term, but those returns come along with more risk in the form of volatility.

**Growth of a Dollar**  
1970-2018



	Annualized Return	Volatility	Best 5 Yr Return	Worst 5 Yr Return
Large Cap	10.55%	15.05%	29.63%	-6.63%
Small Cap	12.11%	21.11%	39.80%	-11.09%

Large Cap and Small Cap are represented by the Ibbotson SBBI US Large Stock index and Ibbotson SBBI US Small Stock index respectively. Volatility as measured by standard deviation. Data Source: Morningstar.

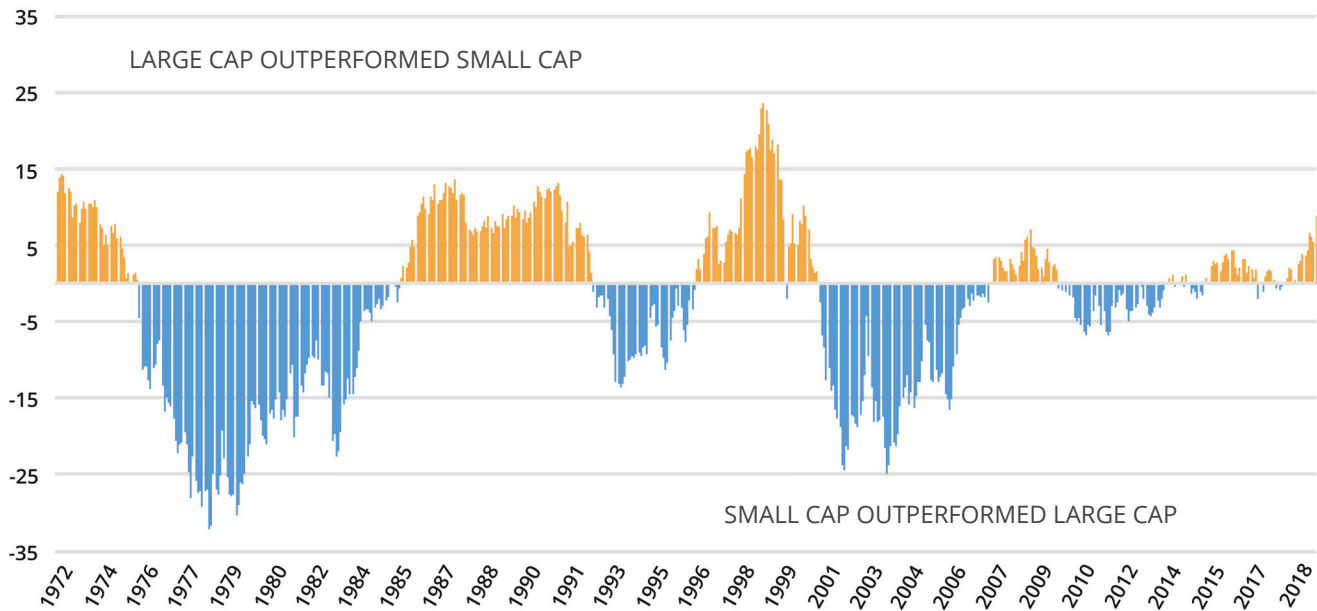
Although over the long-term small cap stocks have produced greater returns than large cap, they don't do so on a year-to-year basis. Instead, as shown below, large and small cap stocks have outperformed each other in hard to predict cycles.



# UNDERSTANDING MARKET CAPITALIZATION

Since 1970, small cap stocks have outperformed large stocks 54% of the time.

## Large Cap vs Small Cap Stock Returns 3 yr. Rolling



Ibbotson SBBI US Large Stock index vs Ibbotson SBBI US Small Stock index. Data Source: Morningstar

Here are a few key concepts to remember when deciding how to allocate a portfolio among stocks from the different market capitalization categories:

- If you deviate from the allocation of the overall stock market (77% large, 17% mid, 6% small), your returns are also likely to deviate from the returns of the stock market.
- If you overweight your portfolio with stocks from categories with higher historic returns (e.g. small cap), your portfolio is likely to be more volatile—risk and reward go together.
- No single market capitalization category outperforms the others every year.
- There's no guarantee that the historic performance characteristics of the various market capitalization categories will persist or repeat themselves in the future.