

# Understanding Market Capitalization

The US and international stock markets can be broken down based on the size of the issuing company. Size is determined by a company's "market capitalization." Market capitalization is calculated by multiplying the number of shares outstanding by the share price.

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

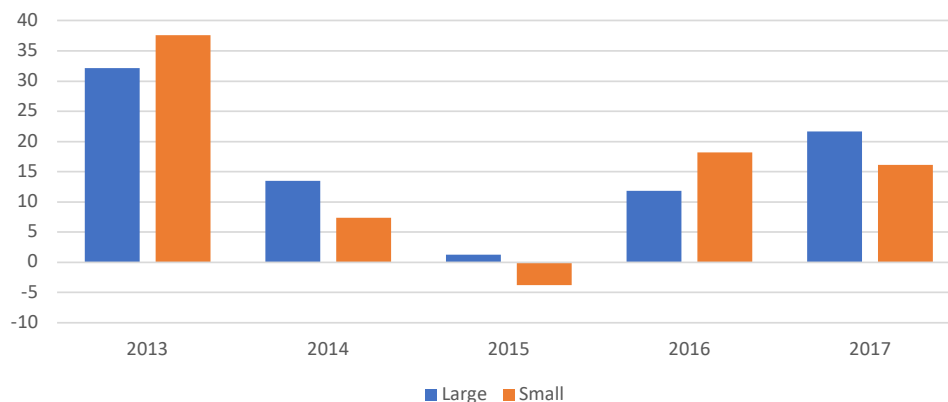
Large cap stocks represent approximately 77% of the US stock market, mid cap stocks represent approximately 17%, and small cap stocks represent approximately 6%.

Large, mid, and small cap stocks outperform each other in hard to predict cycles.

Over the past 50 years, from 1972 through 2021, small cap stocks have outperformed large stocks 58% of the time but were more volatile. Their annualized returns: small cap 11.97% vs. 10.88% for large cap.

On a year-to-year basis, the performance advantage can shift quickly and dramatically. The 5-year period, 2013 through 2017, illustrates this point. As you see, small cap and large cap stocks regularly exchanged the performance advantage. Usually, these shifts play out in cycles that take many years.

**Large Cap vs. Small Cap**  
2013-2017



Data Source: Morningstar.

Here are the key concepts when allocating a portfolio among 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.