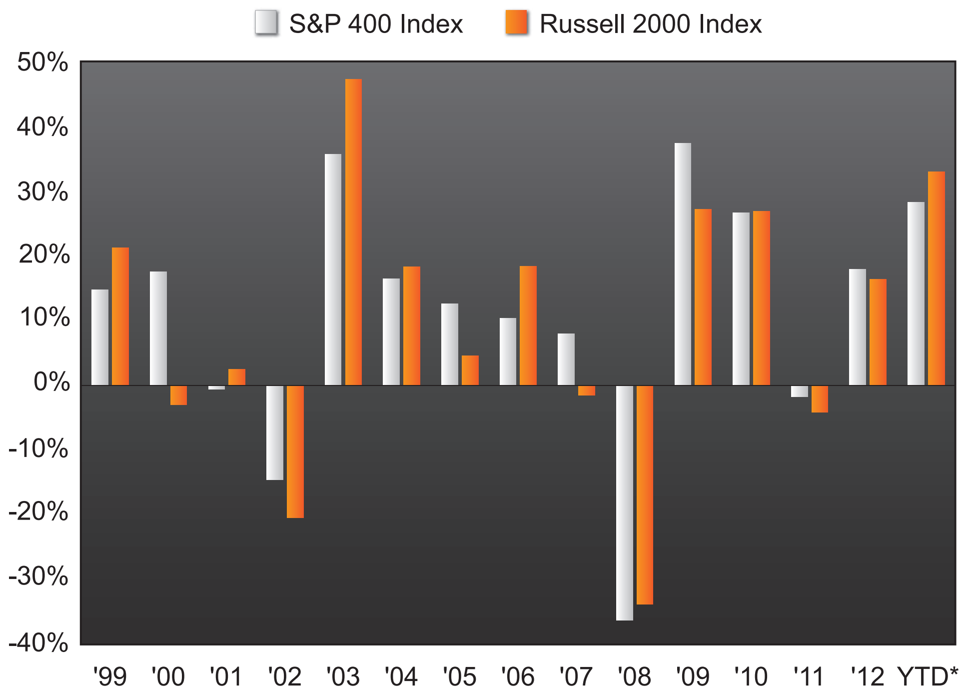
All It Takes Is A **SMid**ge

S&P 400 & Russell 2000 Total Returns



*Source: Bloomberg. *YTD through 10/28/13. Past performance is no guarantee of future results.*

View from the Observation Deck

1. While many investors remain conflicted about investing in the stock market these days, we encourage those that do to employ some type of asset allocation technique. Diversification via market capitalization is a common approach.
2. What can be somewhat confusing to investors is the fact that there is no single industry definition of what constitutes a small-, mid- and large-capitalization stock. It changes over time and it can vary by financial institution.
3. Back in 2005, Morningstar defined each as follows: <$1 Billion was a small-capitalization stock; between $1 Billion and $5 Billion was a mid-capitalization stock and >$5 Billion was a large-capitalization stock.
4. Since then, most major stock indices have rallied substantially, so the small-capitalization parameter, in particular, is a bit outdated.
5. The average market capitalizations of the S&P 500, S&P 400 and Russell 2000 are currently $31.6 B, $3.7 B and $1.4 B, respectively, according to data from S&P Dow Jones Indices and Russell Investments.
6. Today, one way that investors can more easily navigate this challenge is to consider investment products that combine small-and mid-capitalization stocks, known as SMid portfolios.
7. By combining these two market capitalizations it not only alleviates the problem of distinguishing which is which, it sets up a natural transition as smaller companies grow into midsized companies.
8. From 1998-2012, the average annual total return of the S&P 400 and Russell 2000 were 9.14% and 5.89%, respectively. Both outperformed the 4.47% average annual total return posted by the S&P 500.
9. While the performance of the S&P 400 stands out, investors should take into account that the Russell 2000 outperformed the S&P 400 in seven of the 15 years.

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