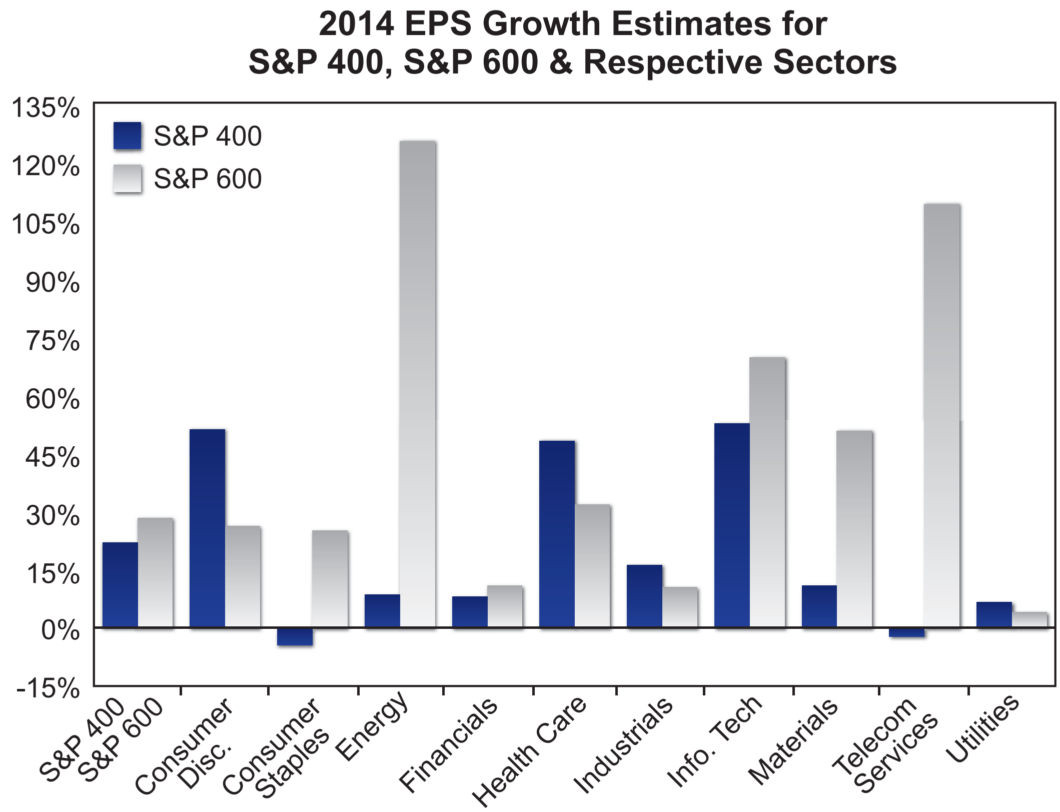
Making Another Case For SMid Portfolios



Source: Bloomberg. As of 2/11/14.

View from the Observation Deck

1. Today's blog post is a follow-up to one we did on 10/29/13 ("All It Takes Is A **SMid**ge"). That post featured a comparison of small- and mid-capitalization annual total returns.
2. We revealed that small-capitalization (small-cap) stocks had outperformed their mid-capitalization (mid-cap) counterparts about one out of every two years since 1999.
3. We also noted that there is no single standard of metrics for investors distinguishing a small-cap stock from a mid-cap stock.
4. As a result, we concluded that some investors may feel comfortable combining both market capitalizations into one portfolio, known as SMId.
5. The chart above provides another perspective in making the case for the SMId approach to investing in small and midsized companies.
6. In particular, notice how varied the 2014 estimated earnings growth rates are for the 10 major sectors in the S&P 400 (mid-cap) and S&P 600 (small-cap) indices.
7. Six of the 10 sectors in the S&P 600 Index have higher earnings growth rate estimates for 2014 than their S&P 400 counterparts. Perhaps one more reason to pair these two together.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 400 Index is a capitalization-weighted index that tracks the mid-range sector of the U.S. stock market, while the 10 major S&P 400 Sector Indices are capitalization-weighted and comprised of S&P 400 constituents representing a specific sector. The S&P 600 Index is a capitalization-weighted index that tracks U.S. stocks with a small market capitalization, while the 10 major S&P 600 Sector Indices are capitalization-weighted and comprised of S&P 600 constituents representing a specific sector.