

Small Cap Companies For Maximum Growth

Small Cap, or Small Capitalized Companies have historically been one of the best investments for growth. The famous Ibbotson & Sinquefeld study Stocks, Bonds, Bills and Inflation: Historical Returns (1926 - 1987), found the following geometric means for investment returns between 1926 and 1987.

Common Stocks (U.S.)	9.9%
Small Company Stocks (U.S.)	12.1%
Long-Term Corporate Bonds (U.S.)	4.9%
Long-Term Government Bonds (U.S.).....	4.3%
Intermediate-Term Government Bonds (U.S.)	4.8%
U.S. Treasury Bills	3.5%
U.S. Inflation	3.0%

As you can see, the small caps significantly outperformed all the other categories. In case you are wondering what this translates to in dollar terms, one dollar invested over this period would have been

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worth the following.

Common Stocks (U.S.)	\$ 348.0
Small Company Stocks (U.S.)	\$ 1,202.0
Long-Term Government Bonds (U.S.)	\$ 13.4
U.S. Treasury Bills	\$ 8.4
U.S. Inflation	\$ 6.4

A further review of the charts in the study shows a couple of other points. First, these were also the highest risk investment, with a standard deviation of almost double that of the other common stocks. Also, in general, the returns more or less paralleled those of the other common stocks, except for a few periods where their growth was significantly better, which is where the overall better returns came from.

Now that we have wetted your appetite for small caps, let us discuss what a small cap is. A small cap company is normally a public company, that is not as large as a major or blue chip one. Size, or capitalization, is normally measured by multiplying the number of outstanding shares by the share price. Using this measure, a small cap company is usually a company with capitalization of less than 150 million dollars, although the amount used will depend on whose definition is being used.

As you can see, a small cap company is not what you would call a small business, just much smaller than your typical blue chip company. When picking a small cap company or mutual fund, you should look for the same attributes that you would when choosing a regular equity mutual fund. You are still looking for well valued quality investments, just that these smaller companies normally have more growth opportunity.

So, if you want to add some growth potential to your investments, a good selection of small cap companies or a quality small cap mutual fund may be one of the best ways to go. Just remember that with the extra growth potential comes extra risk, so be sure to adjust your overall balance accordingly.

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