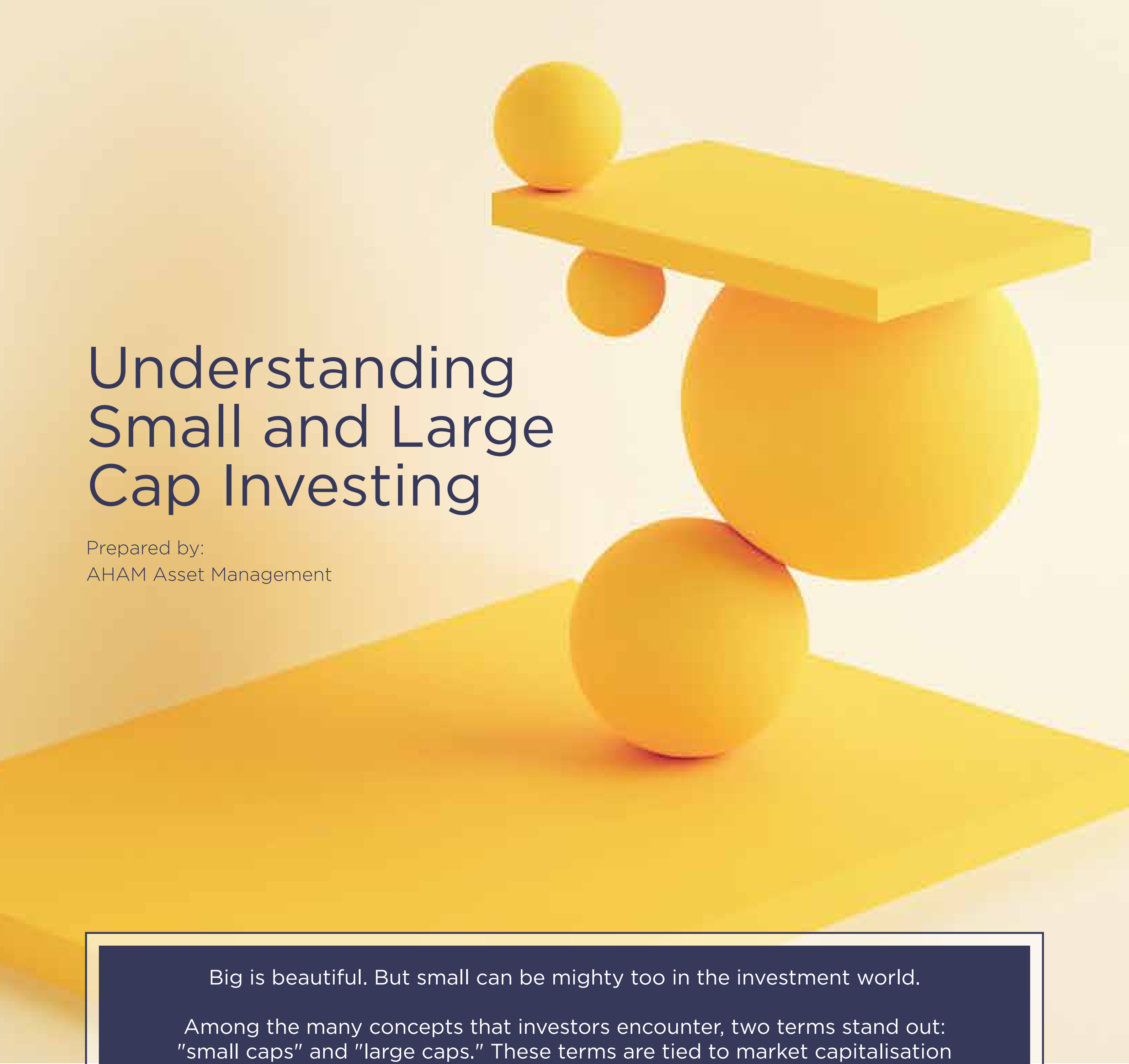

Understanding Small and Large Cap Investing

Prepared by:
AHAM Asset Management

Big is beautiful. But small can be mighty too in the investment world.

Among the many concepts that investors encounter, two terms stand out: "small caps" and "large caps." These terms are tied to market capitalisation and hold a significant role in shaping investment strategies.

In our latest Fundamental Flash, we delve deeper into the universe of small and large-cap stocks including its attributes.

< Deciphering Market Capitalisation >

Market capitalisation, often referred to as "market cap," is a fundamental metric that gauges the total value of a company's outstanding shares of stock. Calculated by multiplying the current stock price by the total number of shares available, market cap serves as a vital tool for classifying companies based on their size.

In turn, this classification provides investors with insights into the scale of the company and the associated risks and rewards.

Market capitalisation = Share Price x Total number of outstanding shares

< Small-Cap >

Small-cap companies are characterised by their relatively modest market capitalisation. In Malaysia market, these are typically businesses with a market cap of less than RM 2 billion.

Often youthful and less established than their larger counterparts, small-cap companies possess a unique allure for investors seeking exponential growth potential. However, this potential comes with increased volatility due to inherent risks tied to smaller, emerging companies.

< Large-Cap >

Conversely, large-cap companies boast high market capitalisation. These are the stalwarts of the corporate world, boasting a track record of stability and profitability. Often industry leaders, large caps are perceived as safer and more secure investments when compared to their smaller counterparts.

Yet, the price performance of large caps tends to exhibit steadier trajectories and may not experience the same explosive rebounds as their small-cap counterparts.

< Weighing the Choice: Big or Small? >

As an investor, choosing between small and large-cap investments required a deep assessment of your risk tolerance, investment objectives and time horizon.

Small-cap stocks are an attractive choice for those eager to embrace higher growth potential as these are companies that are in the early stages of their business lifecycle. These businesses are typically driven by innovative ideas, cutting-edge technologies, or disruptive products and services. As they are still in the process of establishing themselves, there is substantial room for growth and expansion.

On the flipside, large-cap stocks may appeal to more conservative investors seeking stability and a history of success. Often referred to as "blue-chip" stocks, investors are drawn to them because of their strong brand recognition and established market position. Many large-cap stocks are known for their regular dividend payments making them attractive for income-focused investors.

Yet, it's important to note that neither path is without its potential pitfalls. Small-cap investments can lead to roller-coaster rides of volatility, while large-cap investments might not deliver the same meteoric rises that their smaller counterparts can experience.

In reality, the choice often lies in the alignment of one's investment strategy with their personal financial goals and comfort level with risk.

	Small-Cap	Large-Cap
Growth Potential	Higher growth potential as they are in early stages of the business lifecycle.	Mature companies with less room for growth, but are more stable.
Risk/Return	Offers higher returns, but may experience more volatility.	More resilient especially in a downcycle, but may not rebound as strongly.
Dividend	Less likely to pay dividends as profits are reinvested back into the business.	More likely to pay dividends depending on the company's policy.
Valuations	Small-caps often fly under the radar of analysts and mainstream coverage. This creates room for mispricing opportunities that investors can exploit.	Large-cap are often well covered by analysts. This means that information are efficiently factored into stock prices which leaves less room for mispricing opportunities.

< The Best of Both Worlds >

By incorporating a mix of small and large-cap stocks into your portfolio, you can tailor your investments to align precisely with your objectives.

Whether you prioritise aggressive growth, stable income, or a balance of both, diversification allows you to construct a portfolio that mirrors your specific financial aspirations.

Start your investment journey with us
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