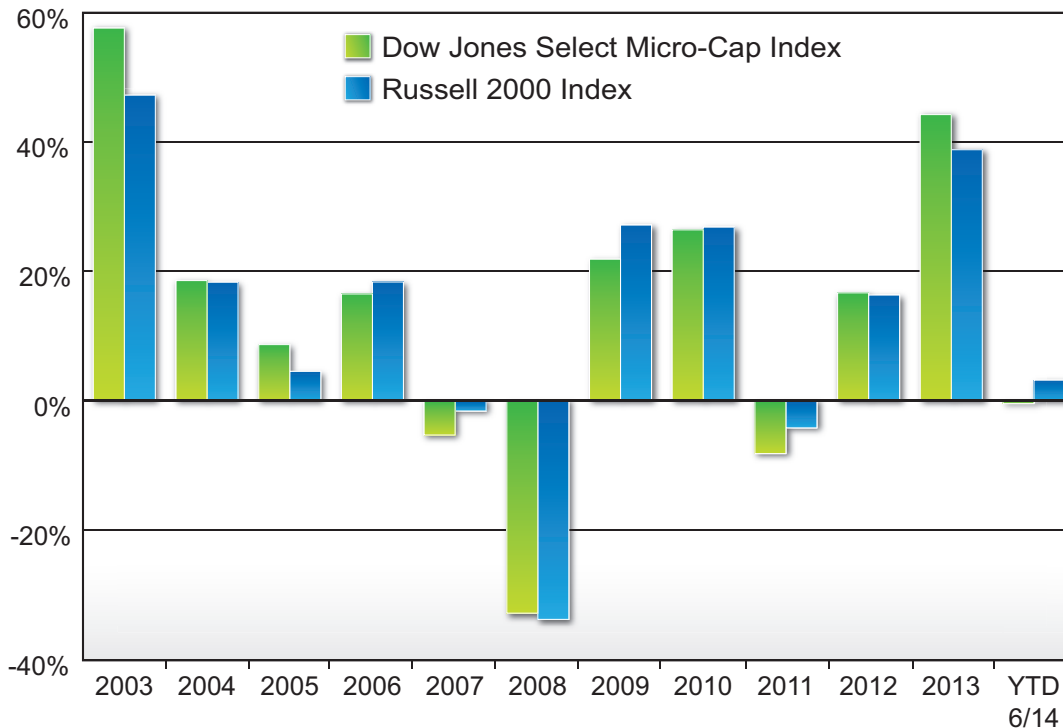


Micro-Cap Stocks Competitive Despite Modest Recovery

Micro-Cap Stocks vs. Small-Caps (Annual and Year-to-Date Returns)



Source: Bloomberg. Past performance is no guarantee of future results.

View from the Observation Deck

1. Today's blog post updates a post we did a little over two years ago ([Click here to view previous post from 5/10/12](#)).
2. In that post we encouraged investors to think beyond traditional small-capitalization stocks ("small-caps") and consider diversifying into micro-cap stocks.
3. While there is no official set of parameters that define a micro-cap stock, a conservative universe would include companies with a market value of \$50 million to \$500 million (some cap at \$300 million).
4. From our 5/10/12 post through 7/11/14, the Dow Jones Select Micro-Cap Index posted a cumulative total return of 54.40%, compared to 51.06% for the Russell 2000 Index.
5. One of the key reasons for favoring micro-cap stocks back in Q2'12 was an uptick in economic activity. Real U.S. GDP growth (annualized) came in at 4.9% in Q4'11 and 3.7% in Q1'12.
6. Unfortunately, since Q1'12, the average real U.S. GDP growth rate has been just 1.7%. Micro-cap companies tend not to be multinational in scope, so they are heavily influenced by the state of the U.S. economy.
7. We still believe that micro-cap stocks are worth consideration. The International Monetary Fund is forecasting real U.S. GDP growth rates of 2.0% for 2014 and 3.0% for 2015.

The chart and performance data referenced are for illustrative purposes only and not indicative of any actual investment. The index performance data excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. There can be no assurance that any of the projections cited will occur. The Dow Jones Select Micro-Cap Index represents the "investable" portion of U.S. micro-cap companies traded on the major U.S. exchanges. The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the total market capitalization of the Russell 3000.