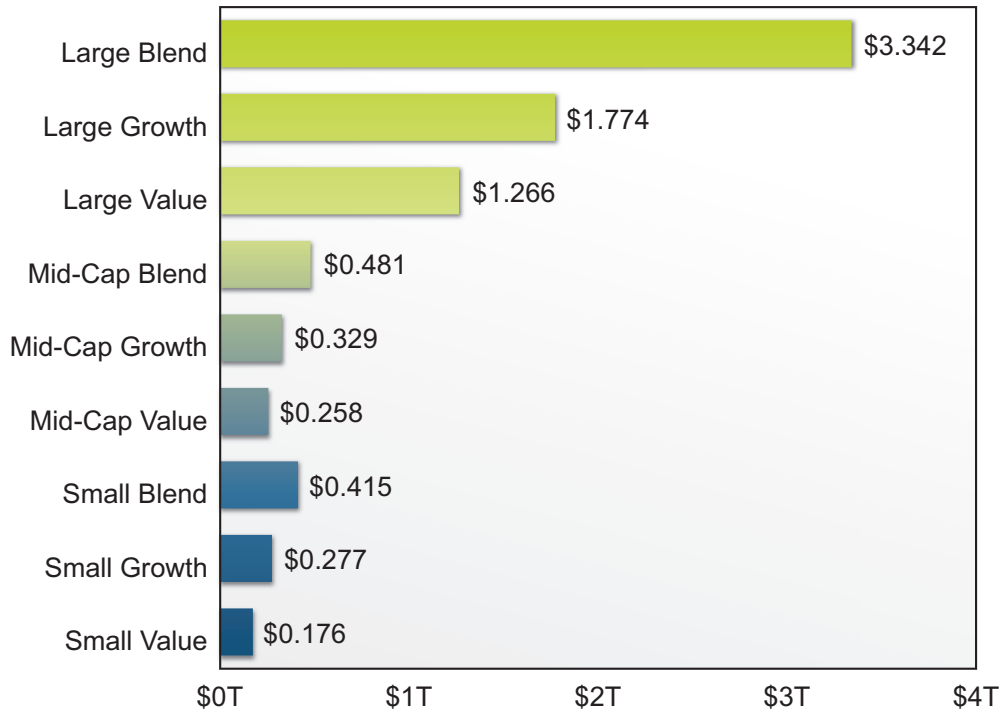


Many Investors Could Be Underweight Mid- & Small-Cap Stocks

Total Net Assets In Large-, Mid- & Small-Cap Mutual Funds/ETFs
Total Net Assets, In Trillions



Source: Morningstar (U.S. Fund Categories). As of 7/31/18.

View from the Observation Deck

1. Today's blog post focuses on equity asset allocation via market capitalization (cap). In other words, how much capital do investors commit to U.S. large-, mid- and small-cap stocks. We use mutual fund and exchange-traded fund (ETF) asset levels as a barometer.
2. As indicated in the chart, as of 7/31/18, investors had committed a combined \$6.382 trillion to the three large-cap categories, while committing just \$1.068 trillion and \$868 billion, respectively, to the mid- and small-cap categories.
3. Overall, of the \$8.318 trillion allocated to these nine categories, 76.7% is in large-cap stock portfolios.
4. In all three of the market caps featured in the chart, investors have favored the blended portfolios, which have exposure to growth and value stocks.
5. While risk tolerance is always an important factor in determining where to allocate investment capital, the fact that mutual fund and ETF investors have just 23.3% of their capital earmarked for U.S. stocks in mid- and small-caps is a bit surprising, in our opinion. Some investors may even fall short of that mark.
6. From 12/31/99 through 7/31/18, a period that included two severe bear markets, the S&P 500 Index posted an average annualized total return of 5.58%, compared to 9.87% and 10.60%, respectively, for the S&P MidCap 400 and S&P SmallCap 600 Indices, according to Bloomberg. In addition to outperforming their large-cap counterparts in the new millennium, small- and mid-caps have outperformed in the current decade.
7. From 12/31/09 through 7/31/18, the S&P 500 Index posted an average annual total return of 13.74%, compared to 14.12% and 15.77%, respectively, for the S&P MidCap 400 and S&P SmallCap 600 Indices, according to Bloomberg.
8. Bloomberg's 2018 consensus earnings growth rate estimates for the S&P 500, S&P MidCap 400 and S&P SmallCap 600 Indices were 19.89%, 25.62% and 40.20%, respectively, as of 7/31/18.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. There can be no assurance that any of the projections cited will occur. Past performance is no guarantee of future results. Investors cannot invest directly in an index. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks (currently 505) used to measure large-cap U.S. stock market performance. The S&P MidCap 400 Index is a capitalization-weighted index that tracks the mid-range sector of the U.S. stock market. The S&P Small Cap 600 Index is a capitalization-weighted index that tracks U.S. stocks with a small market capitalization. The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA and the Internal Revenue Code. First Trust has no knowledge of and has not been provided any information regarding any investor. Financial advisors must determine whether particular investments are appropriate for their clients. First Trust believes the financial advisor is a fiduciary, is capable of evaluating investment risks independently and is responsible for exercising independent judgment with respect to its retirement plan clients.