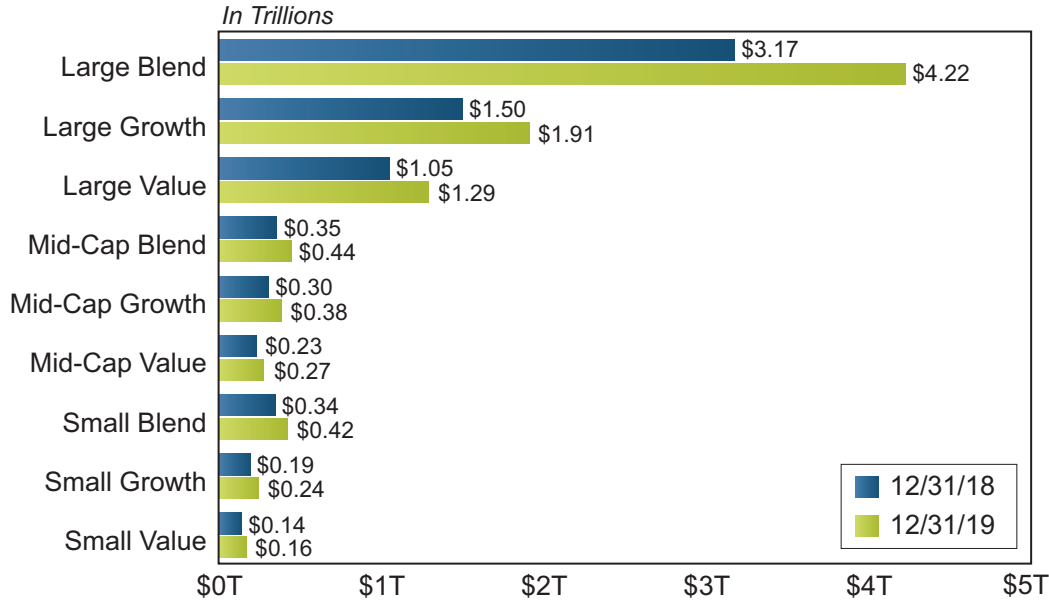


# Many Investors Could Be Underweight Mid- & Small-Cap Stocks

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



Source: Morningstar (U.S. Fund Categories)

### 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 12/31/19, investors had positioned a combined \$7.42 trillion in the three large-cap categories, while allocating just \$1.09 trillion and \$0.82 trillion, respectively, to the mid- and small-cap categories.
3. Overall, of the \$9.33 trillion allocated to these nine categories as of 12/31/19, 80% 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 both growth and value stocks.
5. The only style/market cap featured in the chart that had positive estimated net flows in 2019 was Large Blend at \$112.29 billion, according to Morningstar.
6. 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 20% 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.
7. From 12/31/99 through 12/31/19, a 20-year period that included two severe bear markets, the S&P 500 Index posted an average annualized total return of 6.05%, compared to 9.49% and 9.79%, respectively, for the S&P MidCap 400 and S&P SmallCap 600 Indices, according to Bloomberg.
8. While opinions can vary with respect to how investors should allocate their capital earmarked for U.S. equities, Zacks Investment Research advocates starting with a 50%/30%/20% split between large-, mid- and small-cap stocks and then make adjustments to accommodate for risk tolerance.

*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 an unmanaged index of 500 stocks 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.*

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