Now May Be the Time to Think Small

Small Caps May Offer Opportunity for Growth

Complementing your portfolio with investments that concentrate on different market capitalizations and investment strategies may help offset losses in one area and capture performance in another. Many investors tend to gravitate toward large-cap investments. But it may make sense to diversify into small-cap growth stocks. Here’s why:

**Domestic Focus**

Unlike so many large-cap companies, most small caps don’t invest overseas and may be less susceptible to global events. Small companies with only regional exposure may also be more capable of making quick turnarounds based on a small amount of local economic stimulus, offering growth potential to investors.

**Reboundability**

Periods of economic recovery have historically benefited smaller companies with bigger bounces than companies working from larger asset bases. Two consecutive down years in the market, 1973–1974, gave small-cap stocks an opportunity to surpass the returns of other market caps. Though past performance can’t guarantee comparable future results, it’s important to note that small caps outperformed the overall stock market for the 10-year period following that market low. In the wake of the 2000–2002 downturn, investors should consider small-cap opportunities.

**Small Caps Have a History of Strong Performance**

This chart illustrates the growth of $10,000 from Dec. 31, 1979–Dec. 31, 2004. For the 25 years ended Dec. 31, 2004, the growth of $10,000 invested in small-company stocks outpaced larger-company stocks, government bonds and bills.

**Finding Value and Profits on the Rebound**

This chart illustrates the growth of $1 from Dec. 31, 1974–Dec. 31, 1984. Small caps outperformed the overall stock market (represented by the Fama-French Indexes) for the 10-year period following a market low.

Investing in micro and small companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity.

U.S. Treasury bills, notes and bonds offer a high degree of safety and are guaranteed as to timely payment of principal and interest if held to maturity.

**Not FDIC insured | May lose value | No bank guarantee**

Small-Company Index, considered representative of small-cap stocks, and the Fama-French Growth and Value Indexes, considered representative of growth and value stocks. The Ibbotson Small-Company Index comprises the fifth-capitalization quintile of stocks on the New York Stock Exchange for 1974–1981 and the performance of Dimensional Fund Advisors Small Company Fund thereafter. Long-term government bonds used in this illustration have a maturity of approximately 20 years. U.S. Treasury bills are short-term securities with maturities of one year or less. Inflation is represented by the Consumer Price Index (CPI) and is a measure of change in consumer prices as determined by the U.S. Bureau of Labor Statistics. The Fama-French Indexes are based on market capitalization and a ratio of the per-share book value (total assets minus liabilities) of a stock to its price per share. This book-to-market ratio is high for value stocks and low for growth stocks. Performance reflects reinvestment of dividends. An investment cannot be made directly in an index. These charts are for illustrative purposes only and are not meant to reflect the performance of a specific investment or fund.
Attractive Relative Cost
Small-cap stocks can potentially remain inexpensive relative to mid- and large-cap stocks as measured by price/earnings (P/E) growth ratios. A P/E growth ratio is the price of a stock divided by its earnings per share, which gives you an idea of how much you are paying for a company’s earning power. The higher the ratio, the more investors are paying—and, therefore, the more earnings growth they may expect. In other words, you may pay less for potential earnings and growth by investing in a small-cap company, one that may become tomorrow’s market leader.

Talk to Your Financial Advisor
To learn more about AIM’s small-cap investing strategies, consult your financial advisor who can tell you more about what AIM has to offer. AIM Investments® has managed our clients’ money through all kinds of markets. Our goal is to bring our customers insightful investment solutions and a wide variety of quality products. At AIM Investments, we believe successful investors always start with their financial advisor. It’s about your goals and the solutions AIM can provide.

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