FIRST CAPITAL FINANCIAL

WORLDSOURCE FINANCIAL MANAGEMENT INC.
Sponsoring Mutual Fund Dealer

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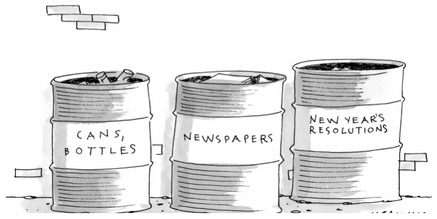
There's a saying "*trees don't grow to the sky*" and while the author of that turn of phrase likely didn't take the time to quantify it, our institutional partners at **Dimensional** have. For better part of the past century this point has been demonstrated time and again. Small capitalization stocks (the ones that succeed that is) become mid cap stocks, which in turn become large cap. What comes next is the inevitable: large companies slow in their growth rate, and while they may see their stock prices rise, investors can find better returns in smaller companies that have their best years ahead of them.



Bottom line is that, generally speaking, the larger anything gets the slower its growth rate. This is as true biologically as it is financially. Understanding this is why we have chosen to include **Dimensional** as a core component of our portfolio allocations. **Dimensional** funds mostly hold small and mid capitalization companies and are positioned for a better investment outcome

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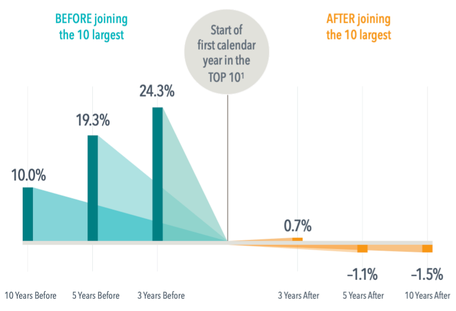
Dimensional

Why Investors Might Think Twice About Chasing the Biggest Stocks

AVERAGE ANNUALIZED OUTPERFORMANCE OF COMPANIES BEFORE AND AFTER THE FIRST YEAR THEY BECAME ONE OF 10 LARGEST IN US
Compared to Fama/French Total US Market Research Index ,1927–2019



1. Ten largest companies by market capitalization.
2. Returns are measured as of start of first calendar year after a stock joins Top 10.

As companies grow to become some of the largest firms trading on the US stock market, the returns that push them there can be impressive. But not long after joining the Top 10 largest by market cap, these stocks, on average, lagged the market.

- From 1927 to 2019, the average annualized return for these stocks over the three years prior to joining the Top 10 was nearly 25% higher than the market. In the three years after, the edge was less than 1%.[2]
- Five years after joining the Top 10, these stocks were, on average, underperforming the market—a stark turnaround from their earlier advantage. The gap was even wider 10 years out.
- Intel is an illustrative example. The technology giant posted average annualized excess returns of 29% in the 10 years before the year it ascended to the Top 10 but, in the next decade, underperformed the broad market by nearly 6% per year. Similarly, the annualized excess return of Google five years before it hit the Top 10 dropped by about half in the five years after it joined the list.

Expectations about a firm's prospects are reflected in its current stock price. Positive news might lead to additional price appreciation, but those unexpected changes are not predictable.

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