

## WHERE DO MICROCAPS FIT IN YOUR PORTFOLIO?

We get it. Trying something new seems scary. The Greeks even had a special word, “storgē,” to describe “the love of the familiar.” Familiarity is why John Madden famously preferred to travel by bus instead of flying to football games... despite all the evidence that driving is riskier (not to mention slower) than flying.

Sometimes even investors assume an investment is less risky simply because they are more familiar with it. Familiarity is why many people invest heavily in the companies they work for, even though this is generally accepted to be a risky investment strategy.

Anyone can fall prey to the comfort of familiarity unless they follow the data. We often hear the assumption that Microcaps are too risky, so we asked what would happen if you combined the Deupree James Microcap Composite with a 60/40 portfolio? In the table below we examined over eight years of historical returns by incrementally substituting the Deupree James Microcap Composite for the more familiar S&P 500.

STOCKS	BONDS	DJWM MICROCAP COMP.	ANNUAL RETURN	STANDARD DEVIATION	MAX DRAW DOWN
60%	40%	0%	10.49%	8.93%	21.15%
55%	40%	5%	11.17%	8.49%	19.63%
50%	40%	10%	11.84%	8.23%	18.10%
45%	40%	15%	12.50%	8.14%	16.56%
40%	40%	20%	13.15%	8.24%	15.07%
35%	40%	25%	13.79%	8.50%	13.86%
30%	40%	30%	14.42%	8.92%	14.09%
25%	40%	35%	15.04%	9.48%	14.87%
20%	40%	40%	15.65%	10.13%	15.68%
15%	40%	45%	16.25%	10.88%	17.32%
10%	40%	50%	16.84%	11.69%	18.94%
5%	40%	55%	17.42%	12.55%	20.57%
0%	40%	60%	17.99%	13.45%	22.32%

Less Risk & More Returns



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Sources: Y Charts, Adviser Compliance Associates

Deupree James Wealth Management

Methodology: IVV and BND represented stocks and bonds. The hypothetical portfolio was rebalanced annually and did not include fees.

## THE RESULT?

Diversifying some of your stocks into the Deupree James Microcap Composite would have increased your returns and lowered the risk of your overall portfolio!

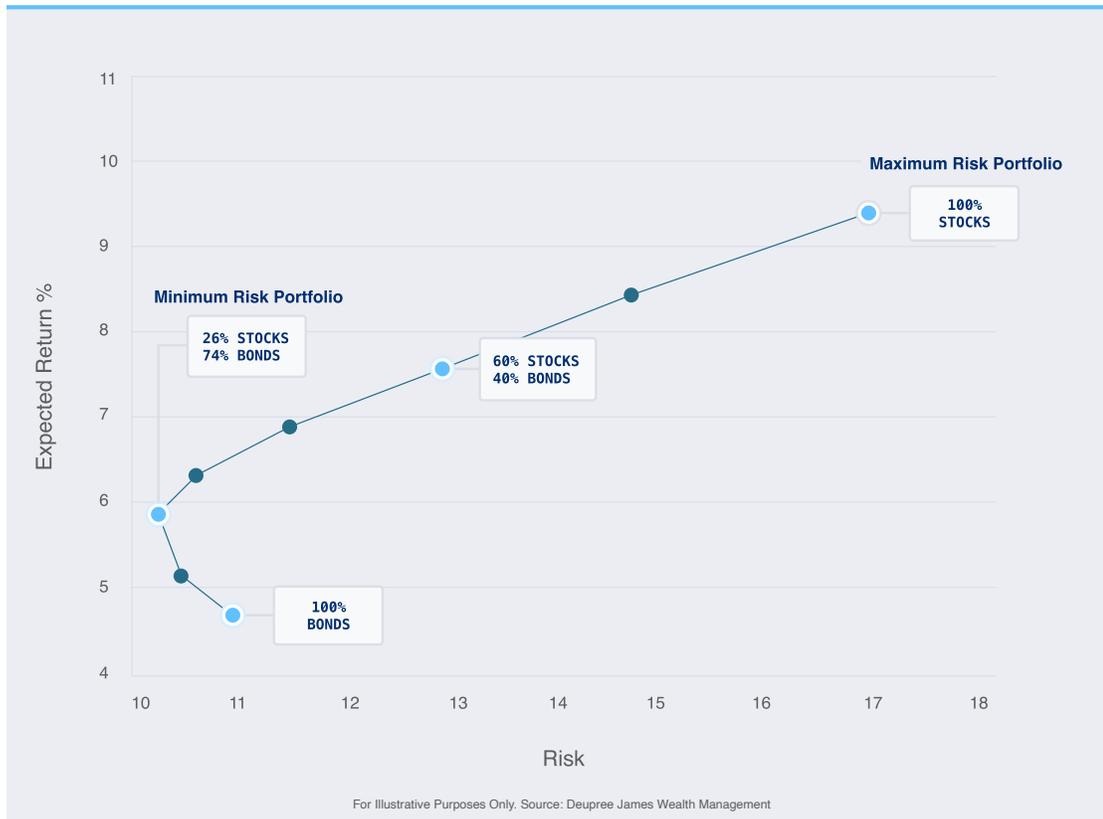
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# Where do Microcaps Fit in Your Portfolio?



This should come as no surprise to those familiar with the work of Nobel prize winning economist Harry Markowitz. Harry is the founding father of Modern Portfolio Theory which taught us that adding a risky asset such as stocks to a portfolio of safe assets such as bonds has a remarkable effect. Just as air travel is faster and safer than traveling by car, some diversified portfolios can offer investors less risk and more returns.

## PORTFOLIO COMBINATIONS



## SUMMARY

Investors should not dismiss Microcaps simply because they are unfamiliar and assumed to be risky. While Microcap strategies can seem volatile in isolation, the portfolio level data suggests that a 60/40 portfolio might be riskier without an allocation to Microcaps. Just as modern air travel with an experienced pilot is safer and faster than traveling by car, the inclusion of Microcaps with a skilled portfolio manager in a diversified portfolio may offer investors better returns with less risk.

Any information is for illustrative purposes only and is not intended to serve as investment advice since the availability and effectiveness of any strategy is dependent upon your individual facts and circumstances. Microcap investing involves greater risk not associated with investing in more established companies, such as greater price volatility, business risk, less liquidity, and increased competitive threat. A "nondiversified" strategy has the ability to take larger positions in a smaller number of issuers and will generally experience greater price volatility. The performance data shown represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. Investment returns will fluctuate so that investors' accounts may be worth more or less than their original investment. Performance data represents the rate that an investor would have earned (or lost) on an investment in the DJWM Microcap composite gross of fees. The performance data reflected in this material is a gross calculation that does not include a management fee charged by your financial advisor which may be more or less than 1%. It is important to remember the management fee will reduce the gross performance by the amount of the management fee. Average annual total return reflects annualized change. The average annual total returns and calendar year returns of the DJWM Microcap composite include the performance of some of the composite's predecessor accounts, which was calculated from January 1, 2013 to December 31, 2019. An investor cannot invest directly in an index.