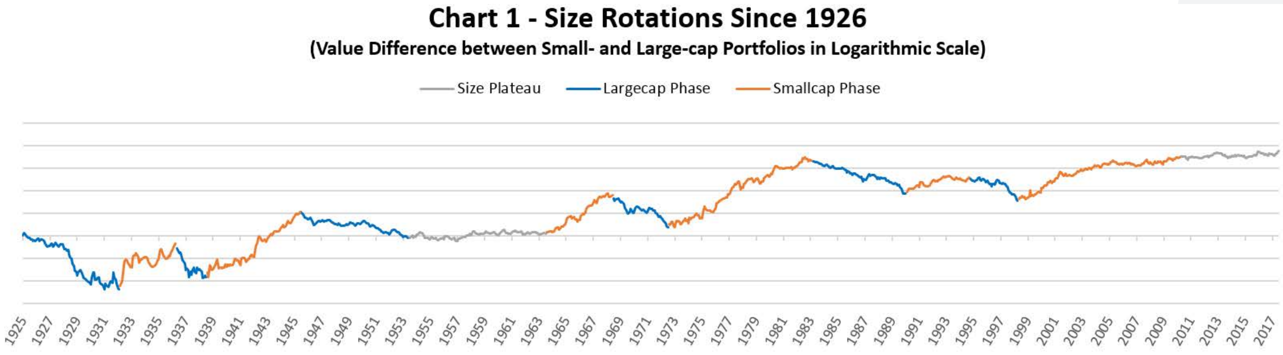
BURNEY COMPANY
INVESTMENT MANAGEMENT

RESEARCH

The Cycle of Size

The last decade has been a size plateau, but in a large- or small-cap phase, the cost of making the wrong bet is high

Small-cap stock returns surpassed the S&P 500 in the past century. But the path of outperformance was not a simple uptrend. Instead, it went through ebbs and flows (chart 1) . On average the rotation in size happened every six years. Small-cap phases stretched from four years to twelve years and were longer and stronger than large-cap phases.



The difference between two portfolios that both started on 12/31/1925 with an initial investment of $100,000, in logarithmic scale. Note that neither the value of the initial investment nor the start date affects the result.
Data: 1926-1988 - Ibbotson large- and small-cap series; 1989-2018Q2 - the S&P 500 Index and the S&P 600 Index.

There were also prolonged periods with no significant size action . In the ten years following June 1954, small- and large-caps moved together, and there's only an annualized 1.4% pro-small return difference. The last decade has been stuck in a size plateau as well. From 2011Q1 to 2018Q2, the edge small caps had over large caps was 1.8% on an annualized basis. These were superficial leads compared to the averaged mid-teen deltas in both pro-small and pro-large phases. When size starts to shift, the cost of getting off on the wrong foot is high.

Phase	From	To	Length (Yr)	Return Difference (annualized)
Large	Dec-1925	Feb-1933	7.2	13.7%
Small	Feb-1933	Apr-1937	4.2	30.4%
Large	Apr-1937	Jul-1939	2.2	19.4%
Small	Jul-1939	Jun-1946	6.9	23.9%
Large	Jun-1946	May-1954	7.9	7.8%
Plateau	May-1954	Jul-1964	10.2	1.4%
Small	Jul-1964	Jun-1969	4.9	18.0%
Large	Jun-1969	Jul-1973	4.1	14.0%
Small	Jul-1973	Feb-1984	10.6	15.3%
Large	Feb-1984	Jan-1991	6.9	10.7%
Small	Jan-1991	Sep-1995	4.7	7.7%
Large	Sep-1995	Apr-1999	3.6	15.6%
Small	Apr-1999	Mar-2011	11.9	8.4%
Plateau	Mar-2011	Jun-2018	7.2	1.8%
Average Large			5.3	14%
Average Small			7.2	17%

Data: 1926-1988 - Ibbotson large- and small-cap series;
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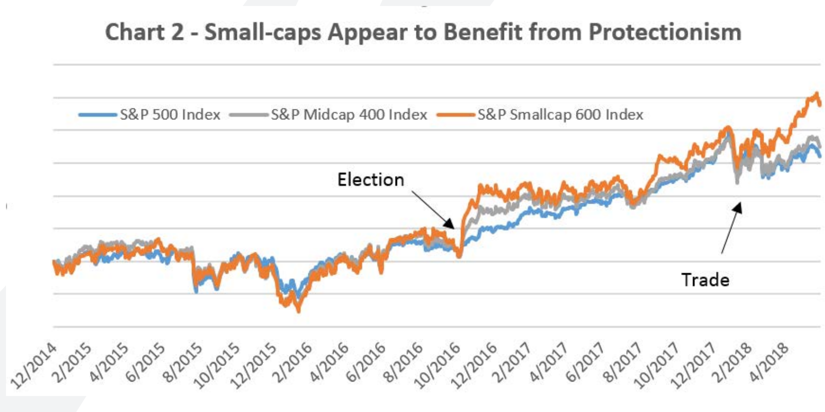


No single variable is responsible for triggering the size rotations, as economic factors are all intertwined. In the past, small phases were coincident with rising 10-year Treasury rates, but the relationship broke off as rates became ultra-low (see Appendix II). Most recently, the protectionist rhetoric appears to have boosted small-caps relative to their mid- and large-peers (chart 2).

Appendix.

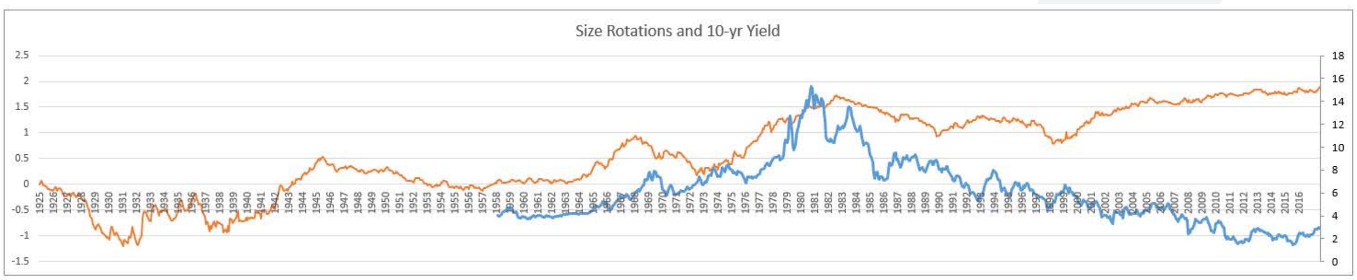
I. Technical Details.

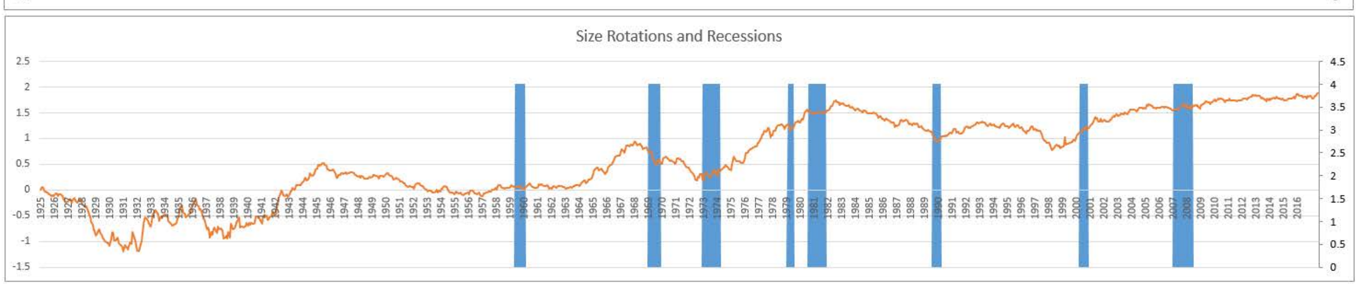
Data: 1926-1988 - Ibbotson large- and small-cap series;
1989-2018Q2 - the S&P 500 Index and the S&P 600 Index.

Chart: The difference between two portfolios that both started on 12/31/1925 with an initial investment of $100,000, in logarithmic scale (see below). Note that neither the value of the initial investment nor the start date affects the result.

Logarithmic scale allows for the direct comparison of a series' behavior at different points in time. On a logarithmic scale, the same vertical distance, no matter where it is measured on the graph, represents the same percentage change in the series.

II. Size Rotations vs. Rates and Recessions.





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