

Get Size-Wise: Understanding Market Capitalization

The next time you sit down to review your retirement account investments or read up on the world of Wall Street (never a bad idea), you may find yourself stumbling over the phrase “market capitalization.” Sure, it’s a mouthful, but it actually describes a simple concept. And understanding what it means could help boost your investment return potential over time.

What Is It?

Market capitalization—or “market cap” for short—describes the size of a company that issues stocks. It may also be used to describe a fund that invests in companies of one particular size.

A company’s market capitalization is determined by multiplying the market price of its stock by the total number of its shares on the market. If a company has issued 10 million shares of stock and each is worth \$50, then that company’s market capitalization would be \$500 million.

Small-cap companies generally have market caps under \$1.5 billion and tend to be relatively new. A small cap’s stock price could potentially rise significantly over time as the company becomes well-established and more successful. But smaller companies may not have proven track records or resources yet, so their stock prices are also more likely to experience bigger price swings over short periods of time. In addition to greater volatility, small-cap companies carry a higher risk of failure.

Large-cap companies, such as Coca-Cola and Microsoft, are usually worth \$7.5 billion or more and typically offer more stable earnings and growth potential than small caps. However, many large caps may have already experienced their most significant “growth spurts,” so their stocks may not rise in value rapidly.

Mid-cap companies fall somewhere in between, with the potential for faster growth than large caps and less risk than small caps.

The Right Mix Could Help Your Earnings

Why should you care about market capitalization? Because different types of investments don’t necessarily perform the same way at the same time. So adding some mix of small-, mid-, and large-cap investments to your portfolio could help limit losses if the stock market experiences ups and downs. Declines from one investment could be offset by potential gains or relative stability in others.

Understanding the meaning of market capitalization can help you make better-informed decisions and therefore can help you become a more efficient investor.



GE-: 27240 (9/03)(09/05)

A company’s market capitalization is determined by multiplying the market price of its stock by the total number of its shares on the market.



Martin Design Partnership, Ltd.
Golf Course Architecture
630.482.2532 - www.mdpltd.com

River Forest Country Club