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**ARTICLE No. 11**

**WHAT ARE THE SMALL CAP FUNDS?**

Small cap equity funds invest in shares of companies that are ranked 251st onwards in terms of full market capitalisation. In such a scheme, the fund manager must have a minimum exposure of 65% to such companies. The balance 35% can be in mid, large or small cap companies depending on the market view of the fund manager.

**HOW MUCH OF YOUR PORTFOLIO SHOULD BE INVESTED IN SMALL CAP FUNDS?**

Allocation is usually based on individual risk appetite but in general it is recommending 10-25% of portfolio exposure to small caps. Financial planners recommend Systematic Investment Plan (SIP) in these products which would help investors reduce risks in small cap investing.

**WHY INVESTORS CHOOSE THESE FUNDS?**

Small cap stocks present an opportunity of high risk & high return. In a bull run, many small cap stocks go up multi-fold. In fact, the manager of small-cap funds has a larger pool of stocks to choose from compared to large and mid-cap stocks as they can pick any stock beyond 251th rank by market capitalisation.

 **Small-cap investing by itself carries higher risks than investing in large-cap. But, the risks of small-cap investments through mutual funds tend to be lower because fund managers usually diversify portfolio to cut risks.**

Small cap index has generated below returns is past few years

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| --- | --- | --- | --- |
| Year | Small Cap Index | Year | Small Cap Index |
| 2012 | 35% | 2017 | 61% |
| 2013 | -10% | 2018 | -23% |
| 2014 | 71% | 2019 | -6% |
| 2015 | 8% | 2020 | 34% |
| 2016 | 3% | 2021 | 64% |