

During the month of July, positive investment returns of large and mega capitalization companies were concentrated in the fewest names we have seen, since we launched our Fund, Mach 100 LP, during April of this year. There were many trading days in July when we saw the NASDAQ 100 (the 100 largest companies by market capitalization) outperforming the NASDAQ Composite (*representing all securities traded on the NASDAQ*) by a factor of 2. Even more interesting: Most of the U.S. equity market returns, year to date, have been generated by 5 stocks, collectively referred to as FAANG (Facebook, Amazon, Apple, Netflix and Google); and 71% of the S&P 500's returns for the first half of 2018 were generated by just 3 technology stocks, Amazon, Netflix and Microsoft. The lack of breadth of performing equities in the U.S. markets is as narrow as we have ever seen in our investment careers. Without FAANG or a mix of large/mega cap technology stocks including at least a few components of FAANG, the broad U.S. equity markets are actually down for the year. Such is Not the case for the small capitalization and micro-capitalization tiers of U.S. equities; and the small capitalization and micro capitalization tiers in several equity markets around the world, for that matter. Small cap and micro cap equities are up across the board. Breadth is very wide in terms of the number of participating companies with positive investment performance. For example, the Russell Microcap Index (RMI) consists of approximately 1,550 small cap and microcap companies (exact number of constituents varies based upon RMI index methodology) is up 10.64% YTD. Yet the RMI is far broader than both the NASDAQ 100 and the S&P 500 and represents just 3% of the overall U.S. equity markets by capitalization. In dissecting the RMI, we find, to date, that the more small cap and micro cap securities within this index that are included in measuring their performance, the higher the returns. This performance phenomenon for the Russell Microcap Index (and therefore small cap and micro cap U.S. securities) is the opposite of the "FAANG effect." Accordingly, we believe there are still significant opportunities to generate compelling investment returns in the small and micro capitalization tiers, within the U.S. equity markets; and even more so globally, in terms of both breadth of small cap and microcap investment opportunities and their respective return risk profiles. Go small...or go home!

- [David N. Baker](#)