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INVESTMENTS

# The Case for Small Cap Stocks

Finding Tomorrow's Leaders  
Before Everyone Else Does.

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**For much of the past decade, investing seemed remarkably simple.**

Large-cap technology companies dominated headlines, drove index returns, and rewarded investors who concentrated their portfolios in a relatively small number of household names. It was an extraordinary period—but like every market cycle, it eventually began to change.

One of the biggest stories in today's market isn't simply that small-cap stocks are outperforming. It's that investors are rediscovering an important principle that has existed for generations: **Tomorrow's market leaders are often today's smaller companies.**

That's why small-cap investing has long been an important component of diversified portfolios.

## Looking Beyond The Headlines

Small-cap companies generally receive far less attention than their large-cap counterparts. They aren't discussed nightly on financial television. They typically have fewer Wall Street analysts following them. Many are still expanding into new markets, developing innovative products, or building competitive advantages that larger companies established years ago.

That creates both opportunity and responsibility. While large companies often provide stability, smaller companies frequently offer something different—the potential for above-average earnings growth and business expansion. Of course, greater opportunity often comes with greater volatility.

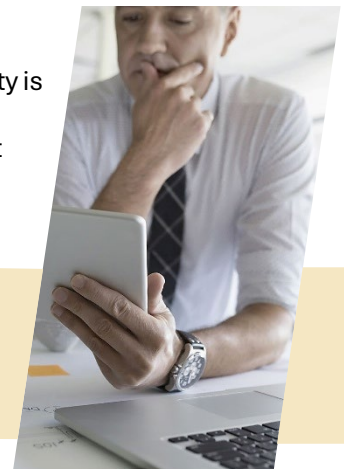
That's precisely why small-cap investing shouldn't be viewed as speculation. It should be viewed as a strategic allocation within a thoughtfully diversified portfolio.

## Different Companies. Different Market Cycles.

Every market environment rewards different characteristics. When economic uncertainty is elevated or investors seek safety, larger established companies often lead. But history shows that periods of economic recovery, improving business confidence, easing credit conditions, and expanding corporate investment frequently create favorable conditions for smaller companies.



***"Today's market leaders were once small-cap companies. Successful investing is about identifying tomorrow's leaders—not simply owning yesterday's."***



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Small businesses tend to be more closely tied to the domestic economy. As borrowing conditions improve and consumer demand strengthens; their revenues and earnings often accelerate faster than those of mature corporations.

No one knows exactly when leadership will rotate. That's why disciplined investors don't attempt to chase whichever asset class is performing best today. They build portfolios designed to participate across multiple market environments.

## **The Advantage of Active Management**

Investing in small-cap companies requires a different level of research. Financial reporting is often less extensive. Liquidity can be lower. Business models may be earlier in their life cycle.

For us, that makes fundamental research even more important. We look for companies with durable competitive advantages, healthy balance sheets, experienced leadership teams, consistent cash flow generation, and identifiable catalysts for future growth. Our goal isn't simply to find smaller companies. It's to identify exceptional businesses before they become much larger ones.

## **Why Diversification Still Matters**

One of the greatest mistakes investors can make is assuming yesterday's winners will always be tomorrow's winners. Market leadership changes. Economic conditions evolve. Interest rates shift. Innovation occurs in unexpected places.

A portfolio concentrated exclusively in one size of company—or one sector—can become increasingly vulnerable as leadership rotates. Small-cap exposure helps broaden opportunity while reducing dependence on a narrow group of market leaders.

That's not market timing. That's thoughtful diversification.

## **Our Managed Risk Perspective**

At Summit Global Investments, our Managed Risk Approach isn't about predicting which segment of the market will outperform every year. It's about building resilient portfolios capable of participating across changing market cycles while carefully managing downside risk.

Small-cap investing plays an important role within that philosophy. When carefully selected and appropriately allocated, smaller companies can provide meaningful long-term growth potential while complementing large-cap holdings, international investments, and fixed income strategies.

The objective isn't simply higher returns. It's building portfolios with multiple drivers of return that can adapt as markets evolve.

## **Looking Forward**

The recent resurgence of small-cap stocks serves as an important reminder that market leadership never remains static. Today's large-cap leaders were once entrepreneurial companies pursuing ambitious ideas. Some of tomorrow's most influential businesses are likely found among today's smaller companies.

For long-term investors, the question isn't whether small caps will outperform every year. They won't. The better question is whether portfolios should include businesses with the potential to become the next generation of market leaders. We believe the answer is yes.

Because successful investing isn't about chasing what has already happened. It's about positioning thoughtfully for what comes next.



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**Dave Harden** is the Founder, CEO, and Chief Investment Officer at Summit Global Investments (SGI), a firm he built with a steadfast commitment to disciplined investing, risk management, and a vision for long-term financial stewardship.

Under Dave's leadership, SGI has grown steadily over the past 15 years to become a fully integrated enterprise group, combining investment management, private wealth, family office, and insurance expertise. Now with over \$2.5 billion in assets under management (AUM), SGI continues to expand its national presence and capabilities. A respected voice on the markets and investment strategy, Dave is regularly sought out by national financial media for his perspective on market trends, economic developments, and the forces shaping investor portfolios.

