Stocks and "Market Cap"

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A public company's market capitalization or "market cap" is the total dollar value of the company's outstanding shares. Market cap is a measure of corporate size. Market cap is calculated by multiplying the current price of the stock by the total number of shares outstanding (held by investors, owners, institutions, money managers, etc).

Value line, an investment research service, defines large cap as any company with a valuation over $5 billion. They define small cap as any company with a valuation under $1 billion. Mid cap is any company greater than $1 billion and less than $5 billion. Others have somewhat different limits for what constitutes large, mid & small cap companies.

Don't confuse small cap stocks with "penny stocks." Penny stocks are generally stocks selling for under $1.00 per share. Their shares generally trade Over the Counter in the local markets of Denver, Vancouver, or Salt Lake City. Penny stocks are considered to be much riskier than stocks of companies trading on the New York, AMEX, and NASDAQ stock exchanges.

Small cap stocks can sometimes trade at high prices and large cap stocks can sometimes trade at low prices. Remember, the market cap is the stock price times the number of shares outstanding. Also, as a company grows and its stock price moves up or down, it can go from small to medium to large cap and vice versa.

Over time, large, medium, and small cap stocks tend to come in and out of favor with investors. The late 1990's bull market was increasingly dominated by large cap companies such as Microsoft, Intel, Cisco, GE, etc. Small cap companies that are less well known did not have the large run up in prices during this period. Since the "tech wreck" of 2000 & 2001, small and mid cap companies have done better than large cap.

A large cap company's stock is widely held. Trading is dominated by large institutions and money managers. Large caps tend to have a lot of analyst coverage, with large volumes of shares trading on a daily basis. The market for large cap companies is highly efficient, meaning that since everyone is following them, any news or future prospects tends to be fully reflected in the current stock price.

Small cap company stock is less widely held. There is less institution and money manager trading in these shares. A $10 million investment in Microsoft is a small percentage of the total company compared to a $10 million investment in a small cap whose total value may be $600 million. Smaller caps tend to have less analyst coverage. Shares tend to be thinly traded with greater price volatility and lower daily trading volumes. The market for small cap companies is less efficient as news can take longer to be reflected in their stock prices since there are fewer people watching them.

Large cap companies are generally thought to have lower risk than small cap companies due to a longer operating history and better access to the capital markets. Growing small cap companies tend to have higher growth rates that can be sustained for a longer time period than growing large cap companies. This is because smaller companies are growing from a smaller base. The larger a company becomes, the harder it is to continue the same growth rate.