Cyclical Opportunities in Small-Cap Value

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In recent years, we've experienced an extended period of small-cap value underperformance, but the tide may be turning. Our value equity team thinks the most compelling opportunities may be in the more cyclical industrial sectors (and to a lesser extent commodities) as opposed to sectors such as healthcare and technology, which have outperformed for a number of years.

Watch the video or read the recap below.

I think most value investors like to pay less for something than it's worth, instinctively. They're probably a little bit more risk averse.

When they approach a stock, their first question is not how much money I can make; it's usually how much money could I potentially lose. And therefore, value investors want to take the least amount of risk for an appropriate amount of return.

Academic research has shown that the two most important factors to long-term outperformance are one, the small-cap effect, and two, the value effect. In the small cap-value sector, you have both those effects working in your favor.

In recent years, we've had a very extended period of small-cap value underperformance, so that the valuation disparities are probably at very historically high levels. So, right now the market is just starting to see the value in the sector.

In the small-cap value sector I think the best opportunities are still in the more cyclical industrial sectors—to a lesser extent, commodities—as opposed to the sectors that have outperformed for a number of years now—healthcare and technology.

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