

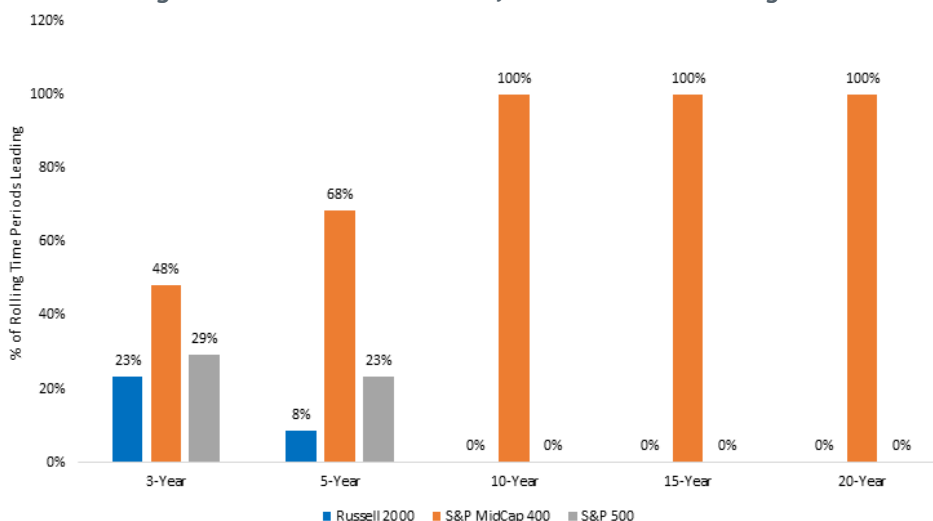
# MIDDLE MANAGEMENT: INCREASING MID CAP ALLOCATIONS

Christopher Gannatti – Global Head of Research  
06/07/2016

It is hard being stuck in the middle. Just look at mid-cap stocks. On a historical basis, mid-caps outperform their large- and small-cap counterparts. Yet many investors typically favor the perceived stability of large caps or the growth prospects offered by smaller companies. Mid-caps aren't as widely followed as the [S&P 500 Index](#), and any mid-cap or mid-cap value premium isn't widely discussed. Still, mid-caps provided superior long-term, risk-adjusted returns, a trait WisdomTree believes is durable. **No Performance Anxiety for Mid-Caps** Investors thinking about a potential under-allocation to any asset class usually "follow the performance." With mid-caps, it's instructive to analyze rolling periods.<sup>1</sup>

- **Rolling Three-Year Periods:** Based on available data since July 31, 1991, the [S&P MidCap 400 Index](#) beat both the S&P 500 and [Russell 2000 indexes](#) almost 50% of the time.
- **Rolling Five-Year Periods:** The S&P MidCap 400 Index beat both the S&P 500 and Russell 2000 indexes almost 70% of the time.
- **Rolling 10-, 15- and 20-Year Periods:** The S&P MidCap 400 Index beat the other two indexes in 100% of rolling periods of these three distinct lengths.

**Rolling Periods: The Longer the Horizon, the Stronger the Mid-Cap Stocks**



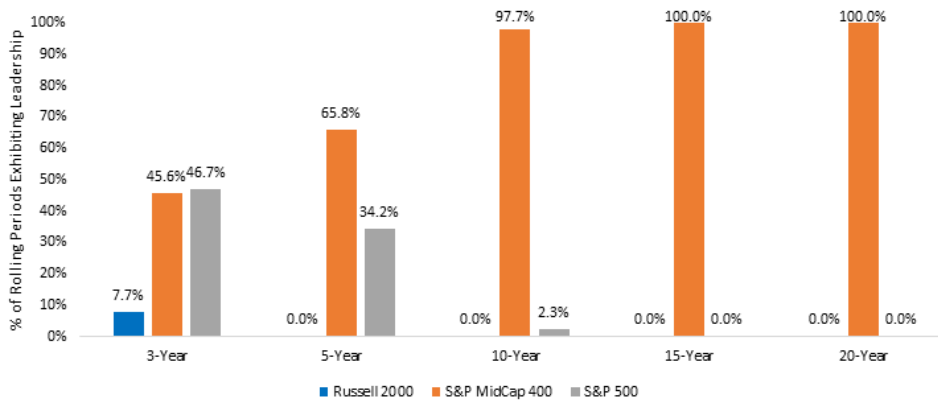
Sources: WisdomTree, Bloomberg, with data from 7/31/1991 to 3/31/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

## Mid-Cap Risk

**Isn't Excessive** Our analysis of rolling periods clearly shows the long-term strength of mid-caps but this doesn't account for risk. It is the perception of elevated risk that shifts investors' focus away from mid-caps. Rolling period [Sharpe ratios](#) of mid-caps had superior risk-adjusted returns.<sup>2</sup>

- **Rolling Three-Year Periods:** We saw that the S&P MidCap 400 beat both the S&P 500 and Russell 2000 indexes in almost 50% of these periods. Shifting from absolute returns to the Sharpe ratio, we see that the S&P 500 and S&P MidCap 400 led during almost the same amount of these periods. The S&P 500 typically had a lower risk, whereas the S&P MidCap 400 typically had higher returns.
- **Rolling**

**Five-Year Periods:** Interestingly, on an absolute return basis, the S&P MidCap 400 outperformed both the S&P 500 and Russell 2000 indexes about two-thirds of the time. Shifting to the Sharpe ratio yielded the same result, but the biggest change was that the higher risk of the Russell 2000 led to the S&P 500 leading in a greater number of rolling periods. • **Rolling 10-, 15- and 20-Year Periods:** Similar to the absolute returns analysis, on a Sharpe ratio basis the S&P MidCap 400 Index dominates both the S&P 500 and Russell 2000 indexes. **Rolling Periods: Mid-Caps Also Did well at Risk-Adjusted Returns**



Sources: WisdomTree, Bloomberg, Kenneth French Data Library (for risk-free rate), from 7/31/1991 to 3/31/2016. Past performance is not indicative of future results. You cannot invest directly in an index.

**Risk/Return Says**

**Mid-Caps Warrant Consideration** Empirical long-term data proves that mid-caps are strong performers, calling into question the disproportionate amount of attention afforded to large and small caps while mid-caps quietly outperformed on both a risk-adjusted and absolute basis.

<sup>1</sup>Sources: wisdomTree, Bloomberg, with data from 7/31/1991 to 3/31/2016. <sup>2</sup>Sources: wisdomTree, Bloomberg, Kenneth French Data Library (for risk-free rate) from 7/31/1991 to 3/31/2016.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

**IMPORTANT INFORMATION**

**U.S. investors only:** Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.  
You cannot invest directly in an index.

## DEFINITIONS

**S&P 500 Index**: Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

**S&P MidCap 400 Index**: provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis.

**Russell 2000 Index**: Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

**Sharpe ratio**: Measure of risk-adjusted return. Higher values indicate greater return per unit of risk, specifically standard deviation, which is viewed as being desirable.