



Today's Theme



Japan

## Japanese Mid & Small-cap Stocks (Series 1 / 3)



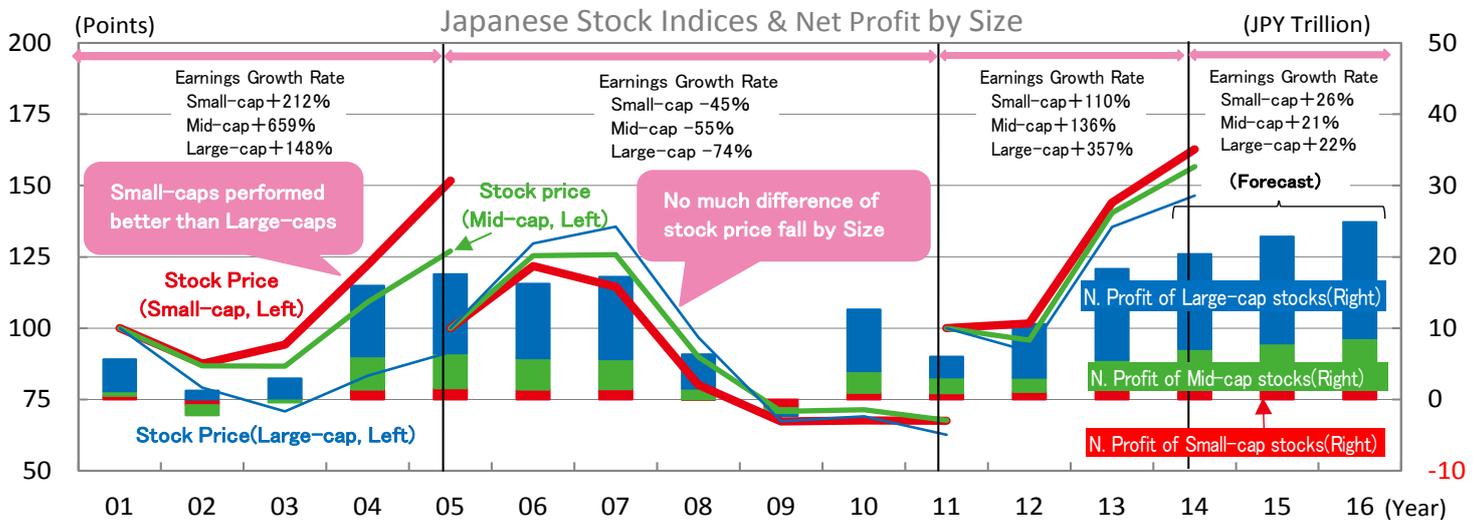
### What are the features of Mid & Small-cap stocks investment?



With unique business models and/or competitive products, Japanese Mid & Small-cap stocks companies tend to deliver higher earnings growth compared to Large-cap stocks and perform better particularly in earnings increase phases.

Looking at the trend of stock index performance classified by size, we can find Small-cap and Mid-cap stocks tend to outperform Large-cap stocks in the phase of corporate earnings increase. On the other hand, during the phase of earnings decrease, all indices fell almost to the same extents.

The net profit growth between 2014 and 2016 classified by the size is forecasted to be +26% for Small-caps, +21% for Middle-caps and +22% for Large-caps, respectively. As the corporate earnings are expected to keep an increasing trend, it would support the relative advantage of the Mid & Small-cap stocks.



(Note) The Net Profit covers 2001 to 2016 on calendar year basis. (Bloomberg forecast figures are used for 2014 to 2016.) The Stock index performances by size of 2001 to 2014 are average of daily return of each calendar year. (till Oct. 16 for 2014) Classification into Small-cap, Mid-cap and Large-cap segments is based on the TOPIX's definition. All stock performances are indexed so that the first year of each phase is set as initial point (100 points). Net profits are estimate figures, not actual as the figures are calculated by multiplying earnings per share of each size index by relative divisors.

(Source) SMAM, based on Bloomberg L.P. data.

### Outlook

#### Stock selection and diversification are the keys to invest in Mid & Small-cap stocks

- In Japan, there are large numbers of Mid & Small-cap stocks. In addition to 1,340 companies listed on the TSE 1st section, there are 541 companies on the 2nd section of TSE, 192 on Mothers and 853 on Jasdak board. Therefore, effective stock selection is important in order to enjoy a rewarding return.
- When investing in the Mid & Small-cap stocks, it is essential to conduct in-depth company research

because many companies in this category are highly exposed to the risk of external environmental change as their business scale is relatively small, often specialised in narrow business areas. As they have characteristics of relatively high risk with high return profile compared to the large-cap stock, diversification of investment is also important.



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