

JULEX CAPITAL

The case for small cap - why now?

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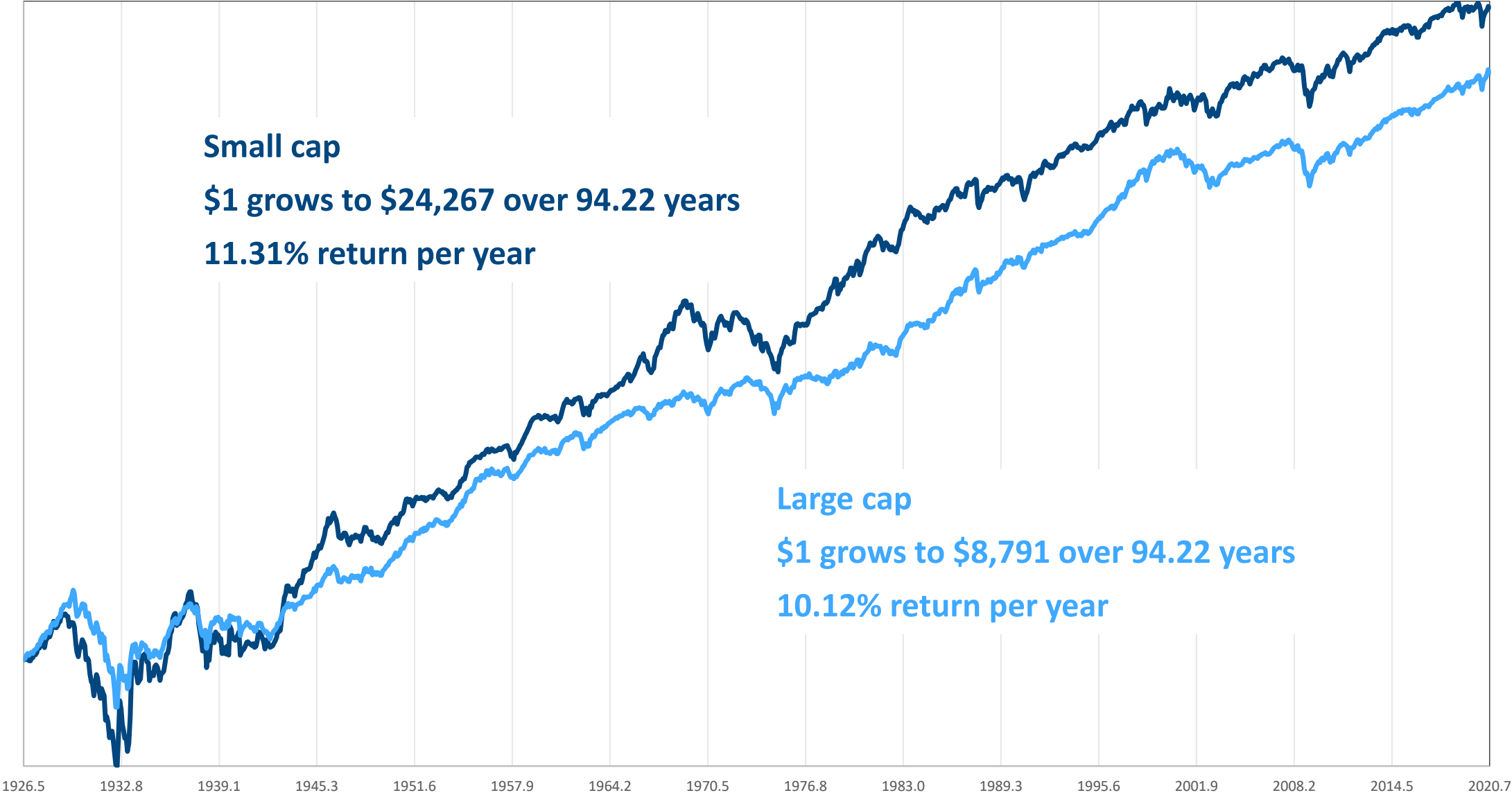
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- Conventional wisdom prescribes a permanent fixed allocation to small cap
- This conclusion is based on the following assumptions about the small cap risk premium
 - Sufficient size
 - Sufficient consistency
 - Some diversification benefit
- Conventional wisdom is wrong
- It lacks even the slightest degree of consistency, and instead is painfully episodic

Sufficient size

YES

Small cap premium of 1.19% per year over the last 94.22 years

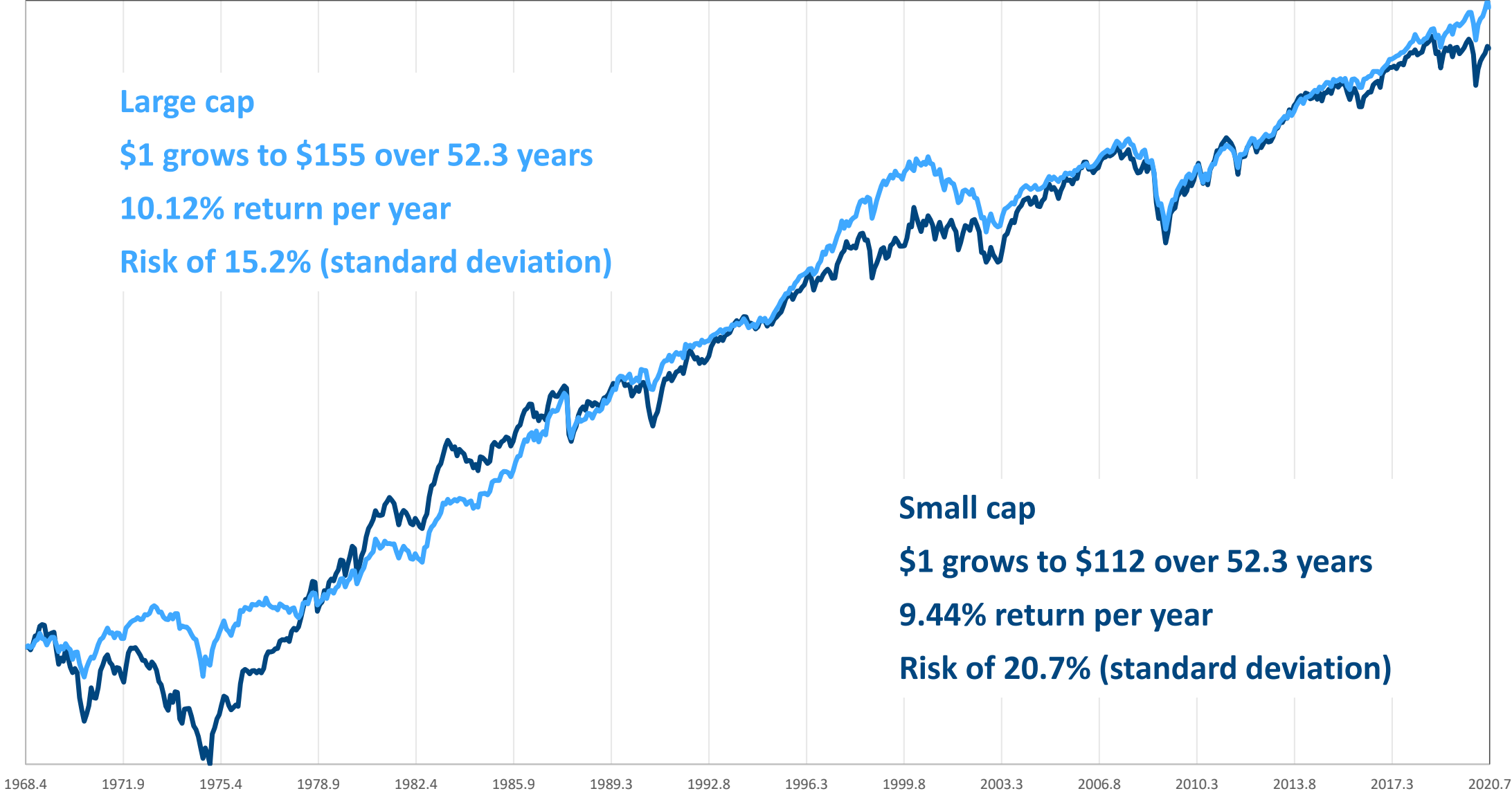


Sufficient consistency

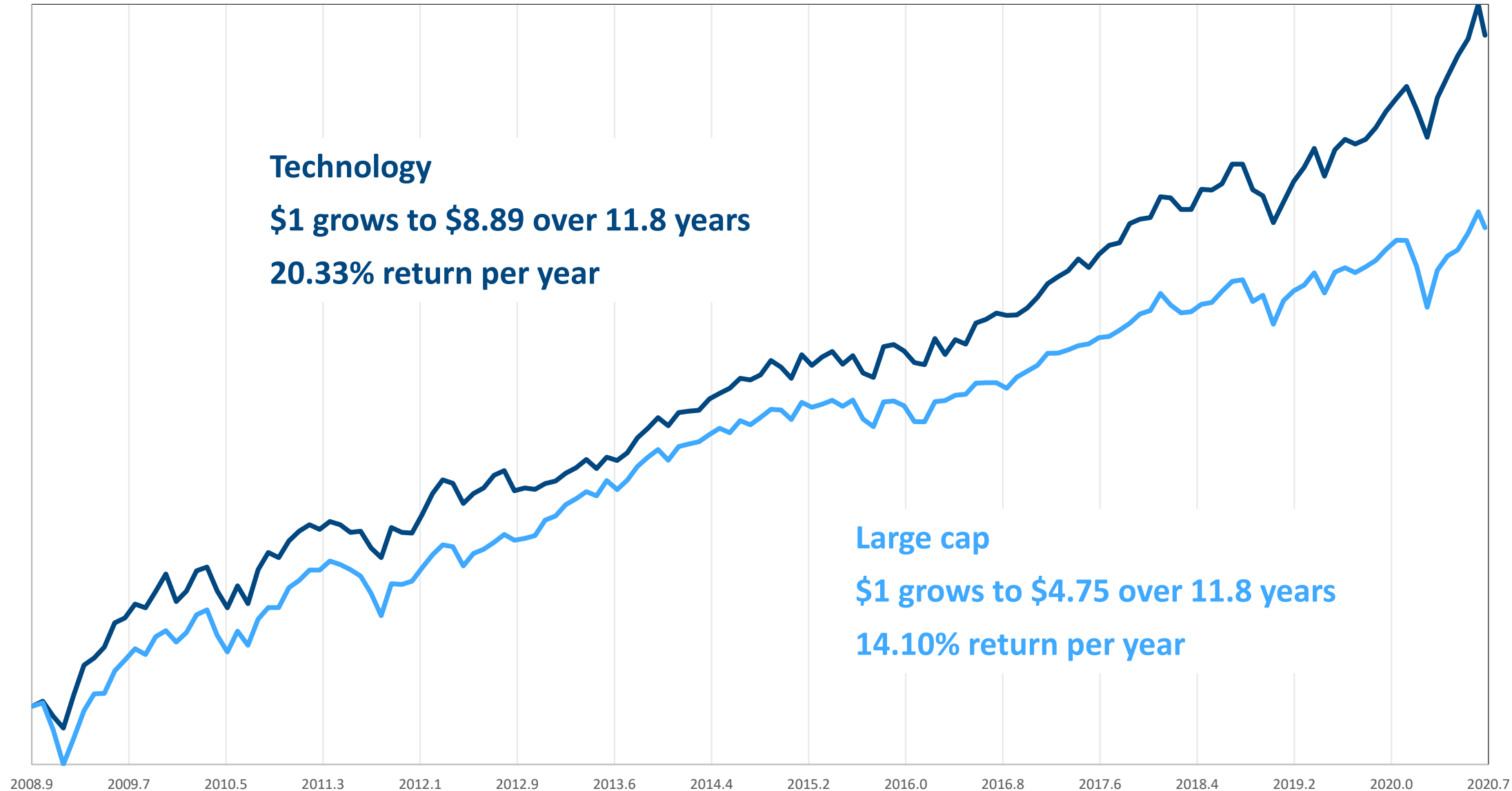
NO

Conventional wisdom closed its eyes to the last 50+ years

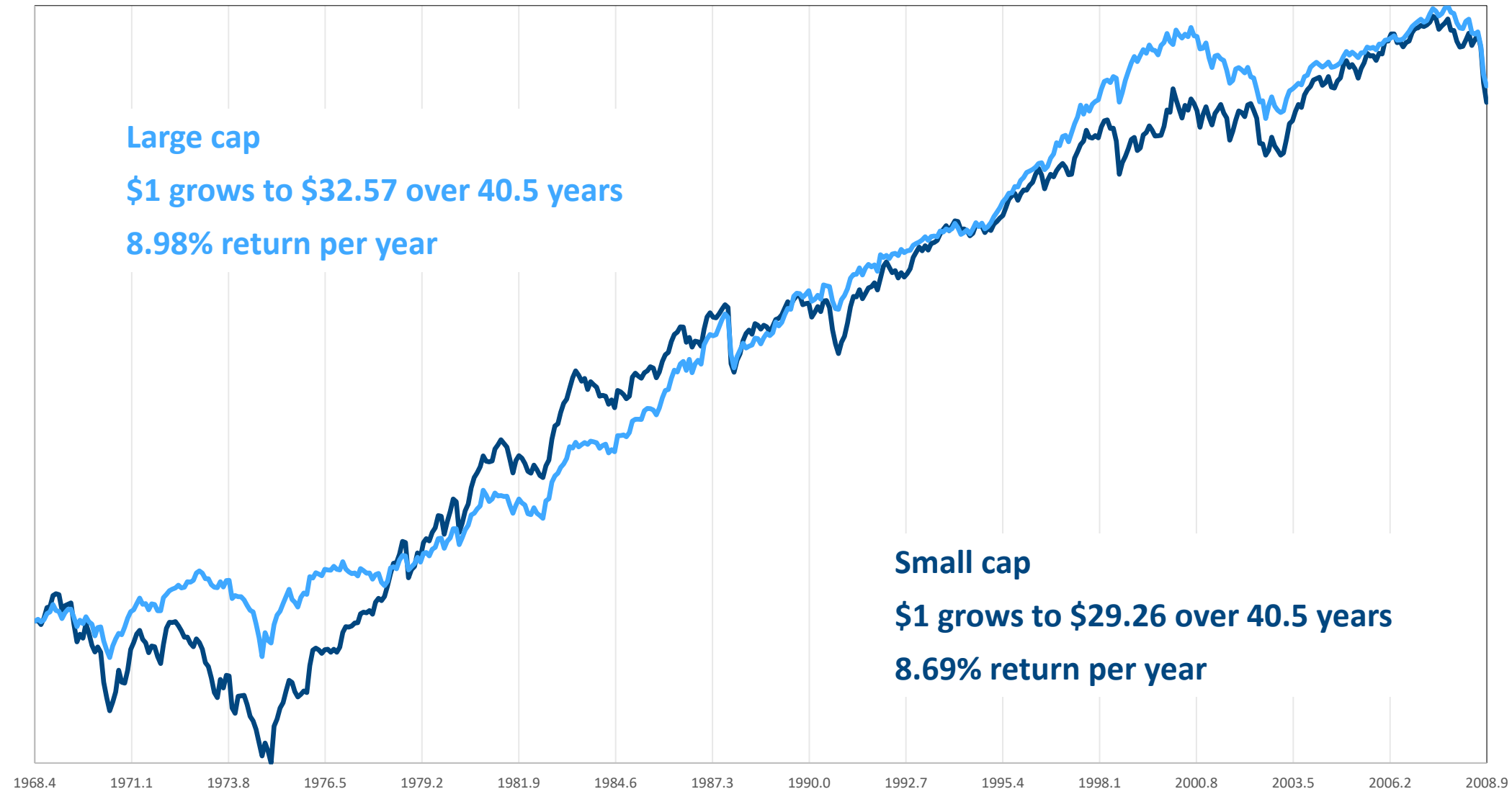
Small cap premium of -0.68% per year over the last 52.3 years



History making technology rally began Nov 30, 2008



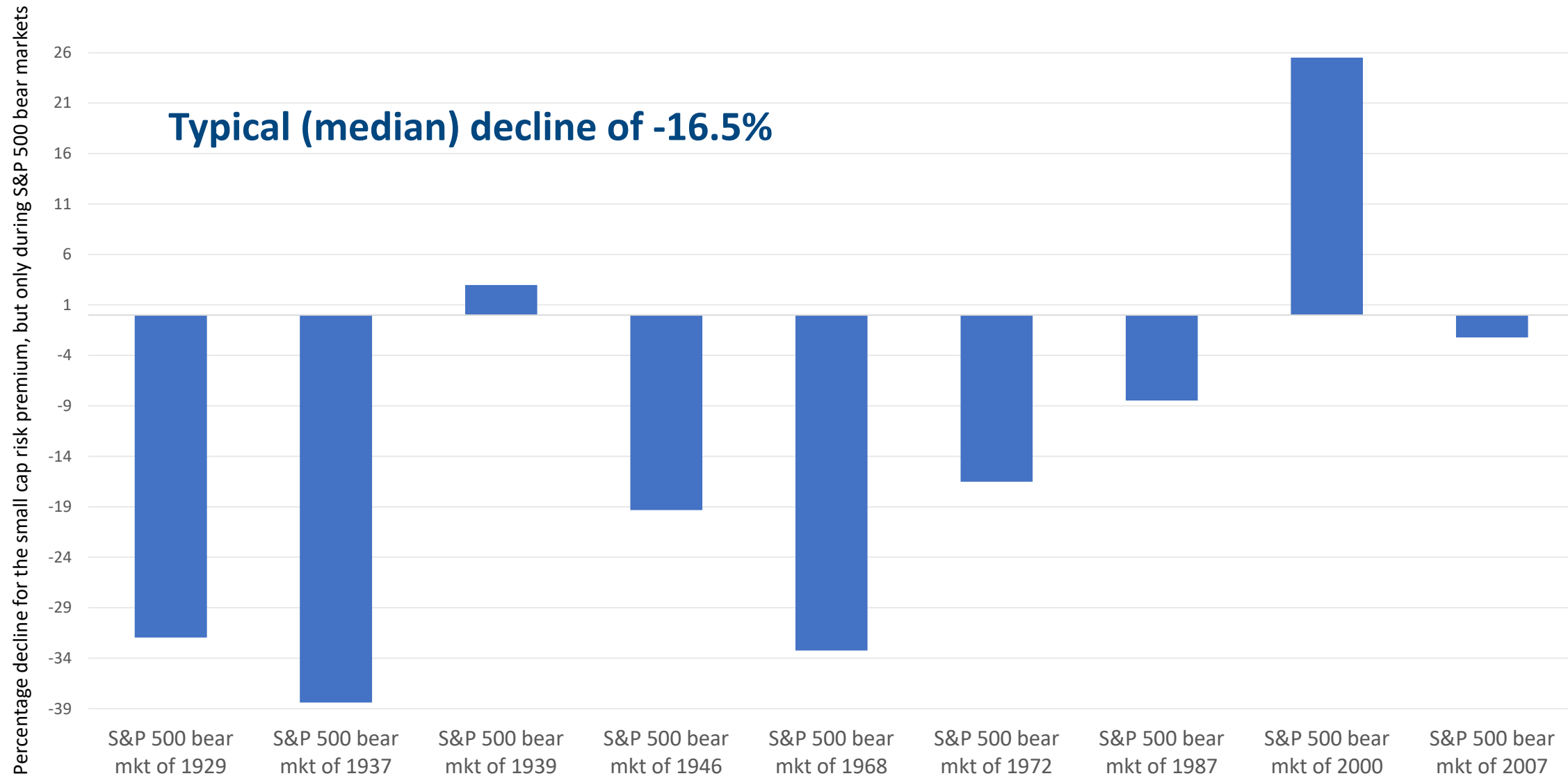
After removing the 11.8-year technology rally, small cap's premium was still -0.29%



Some diversification benefit

NO

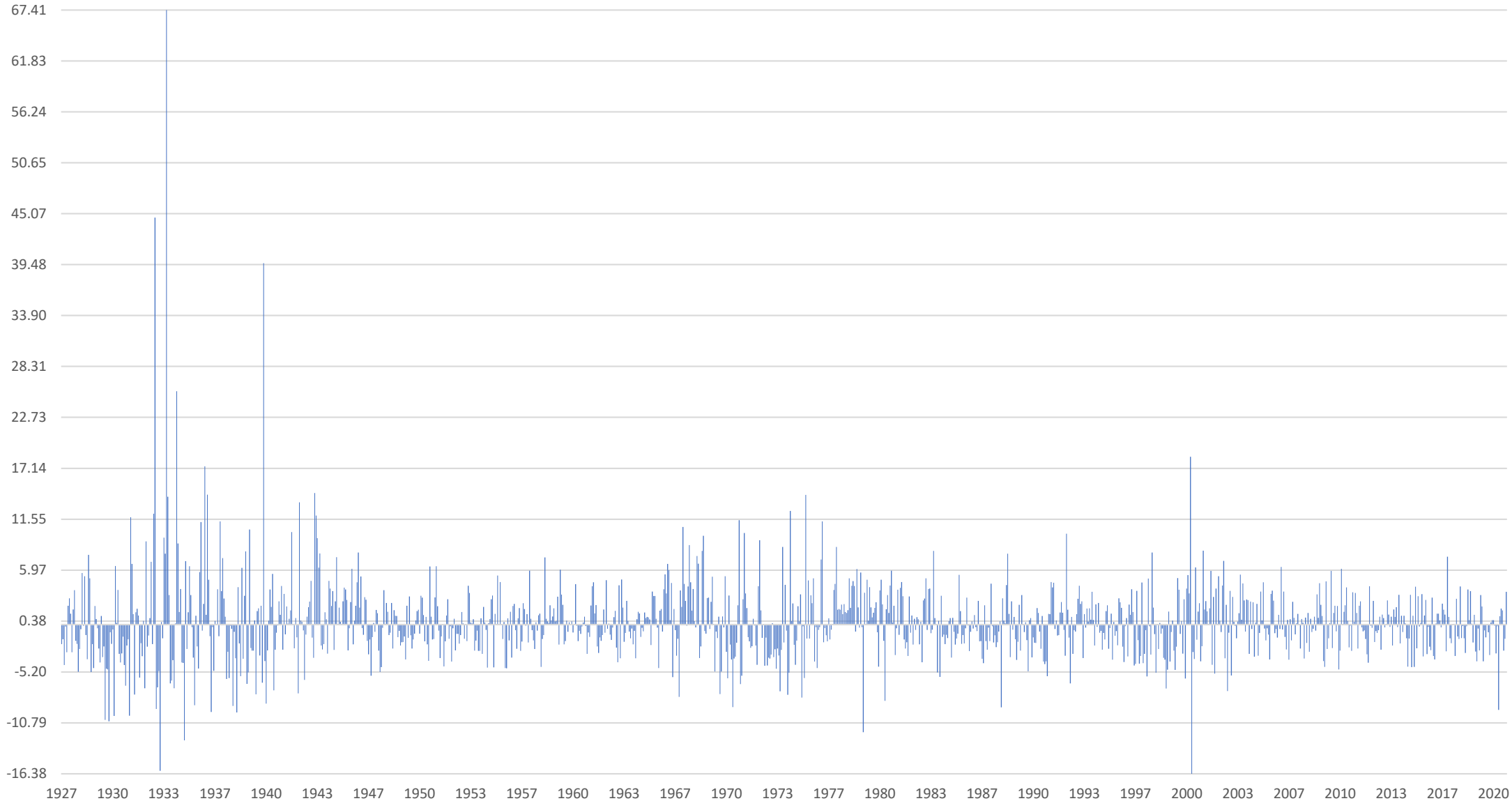
Small cap risk premium is negative during S&P 500 bear markets



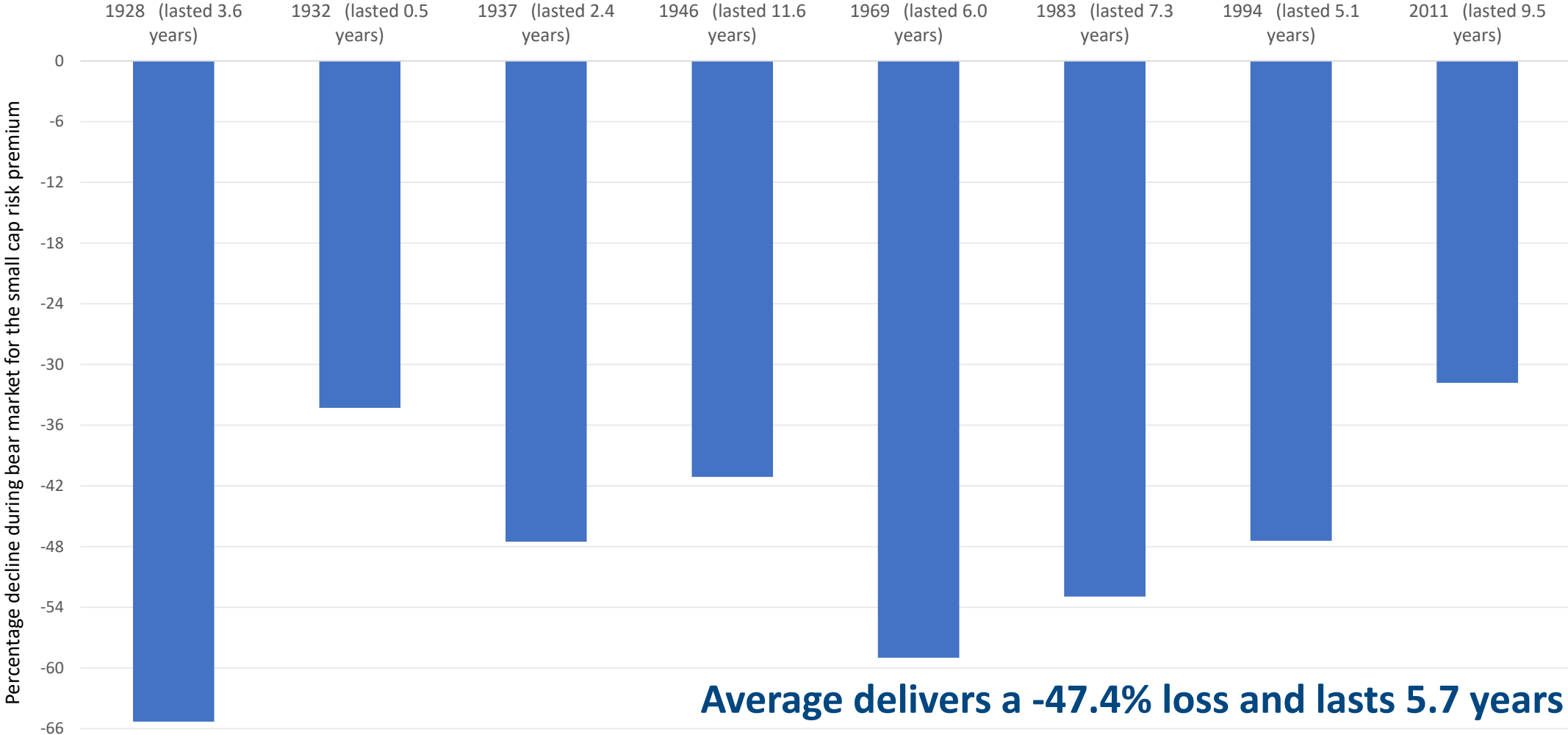
How consistent is the small cap risk premium?

Is it episodic?

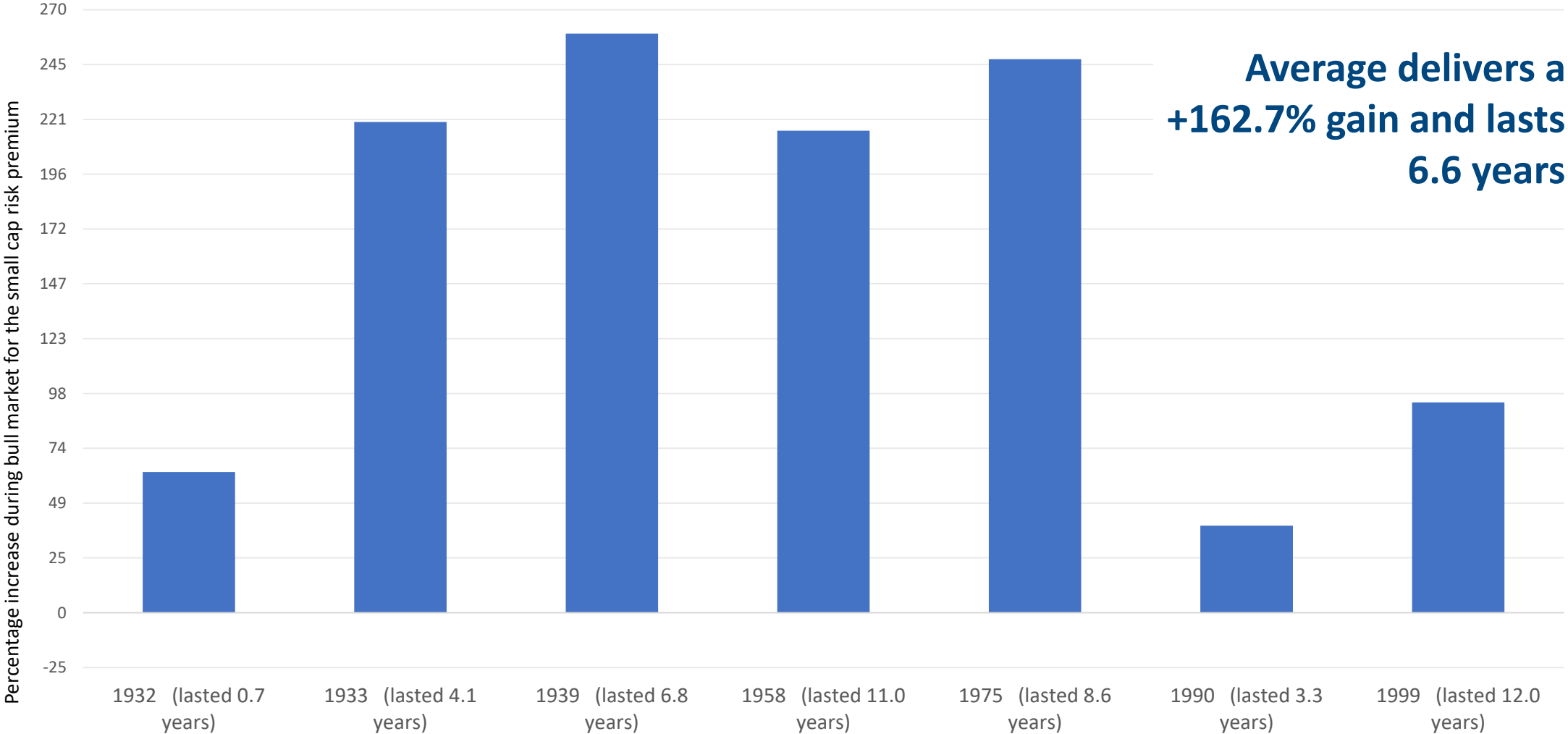
Monthly small cap premium has varied significantly over time



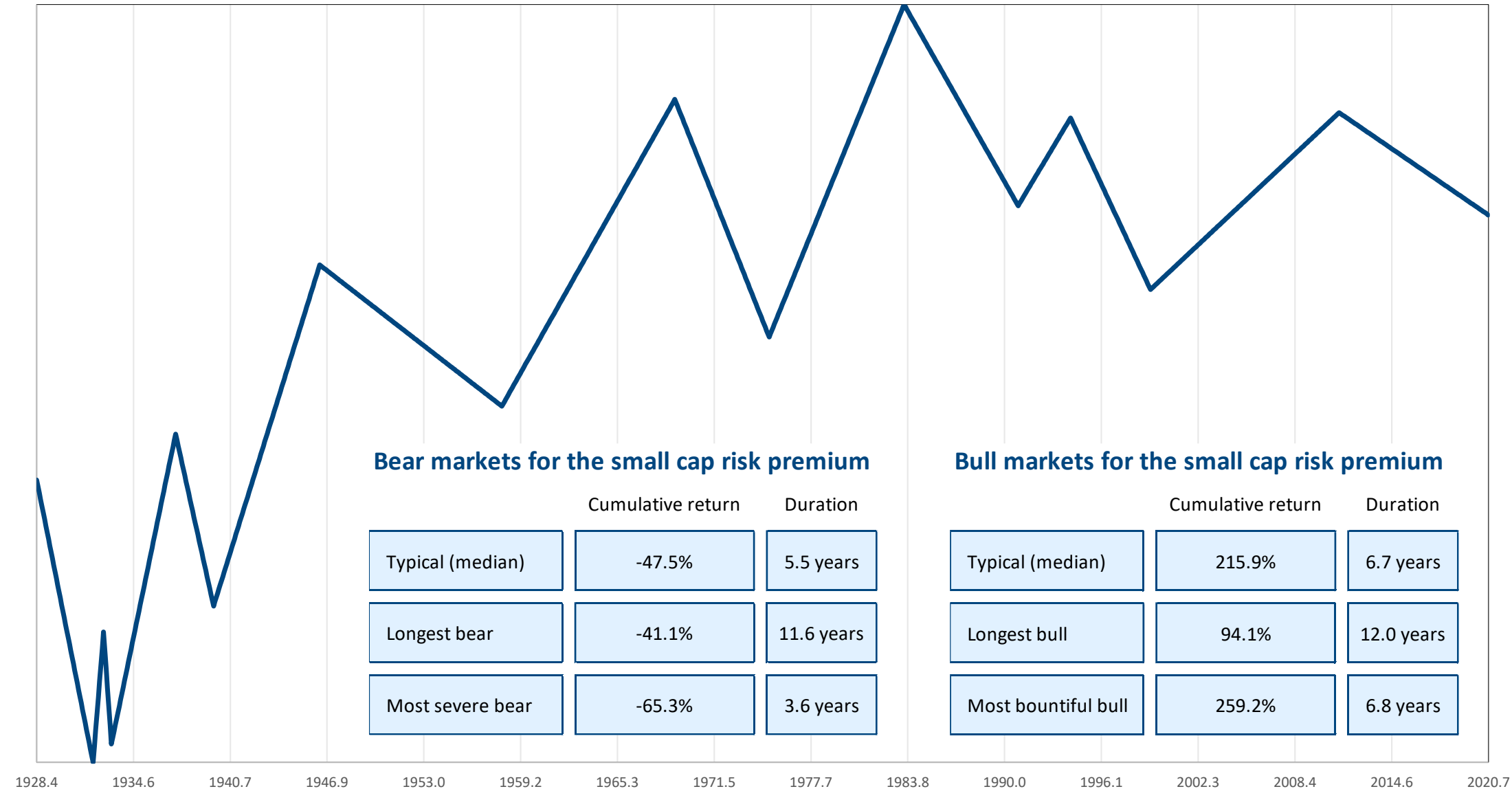
Bear markets for the small cap risk premium have been both severe and long-lasting



Bull markets for the small cap risk premium have been both bountiful and long-lasting



History of bear & bull markets for the small cap risk premium since 1926



Bear markets for the small cap risk premium

	Cumulative return	Duration
Typical (median)	-47.5%	5.5 years
Longest bear	-41.1%	11.6 years
Most severe bear	-65.3%	3.6 years

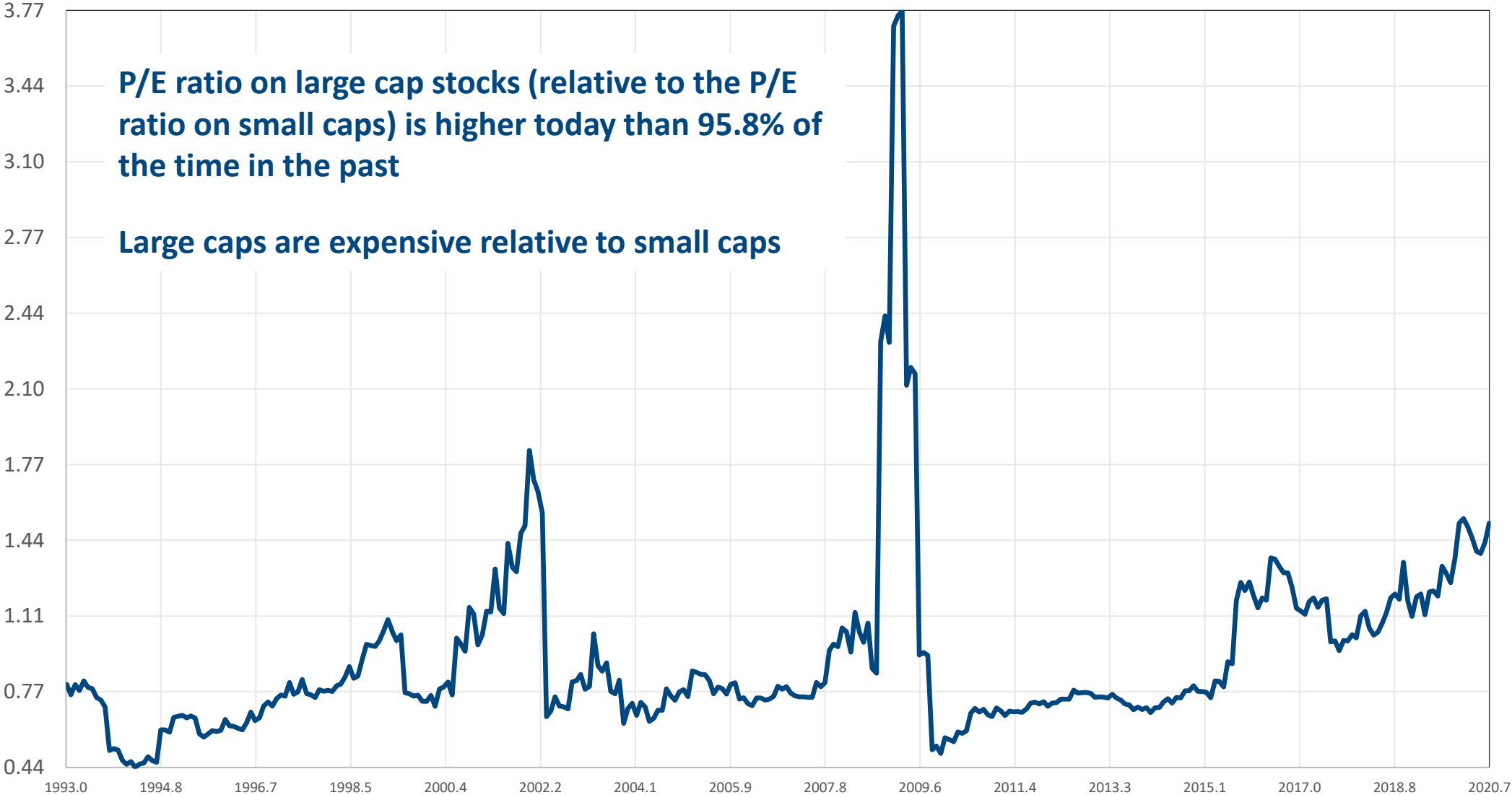
Bull markets for the small cap risk premium

	Cumulative return	Duration
Typical (median)	215.9%	6.7 years
Longest bull	94.1%	12.0 years
Most bountiful bull	259.2%	6.8 years

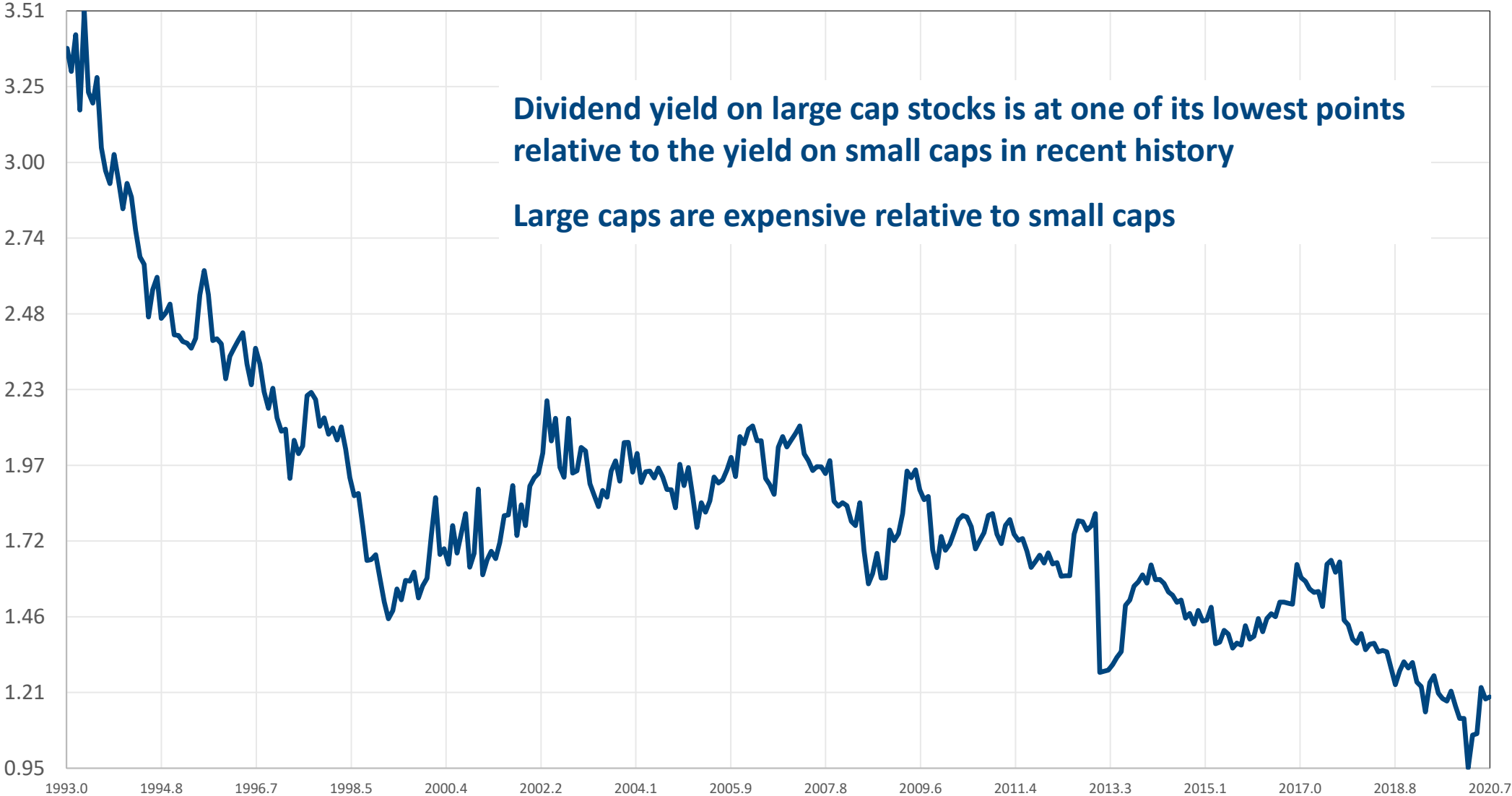
But, why now

Valuations

Ratio of P/E ratios - Large cap vs. small cap



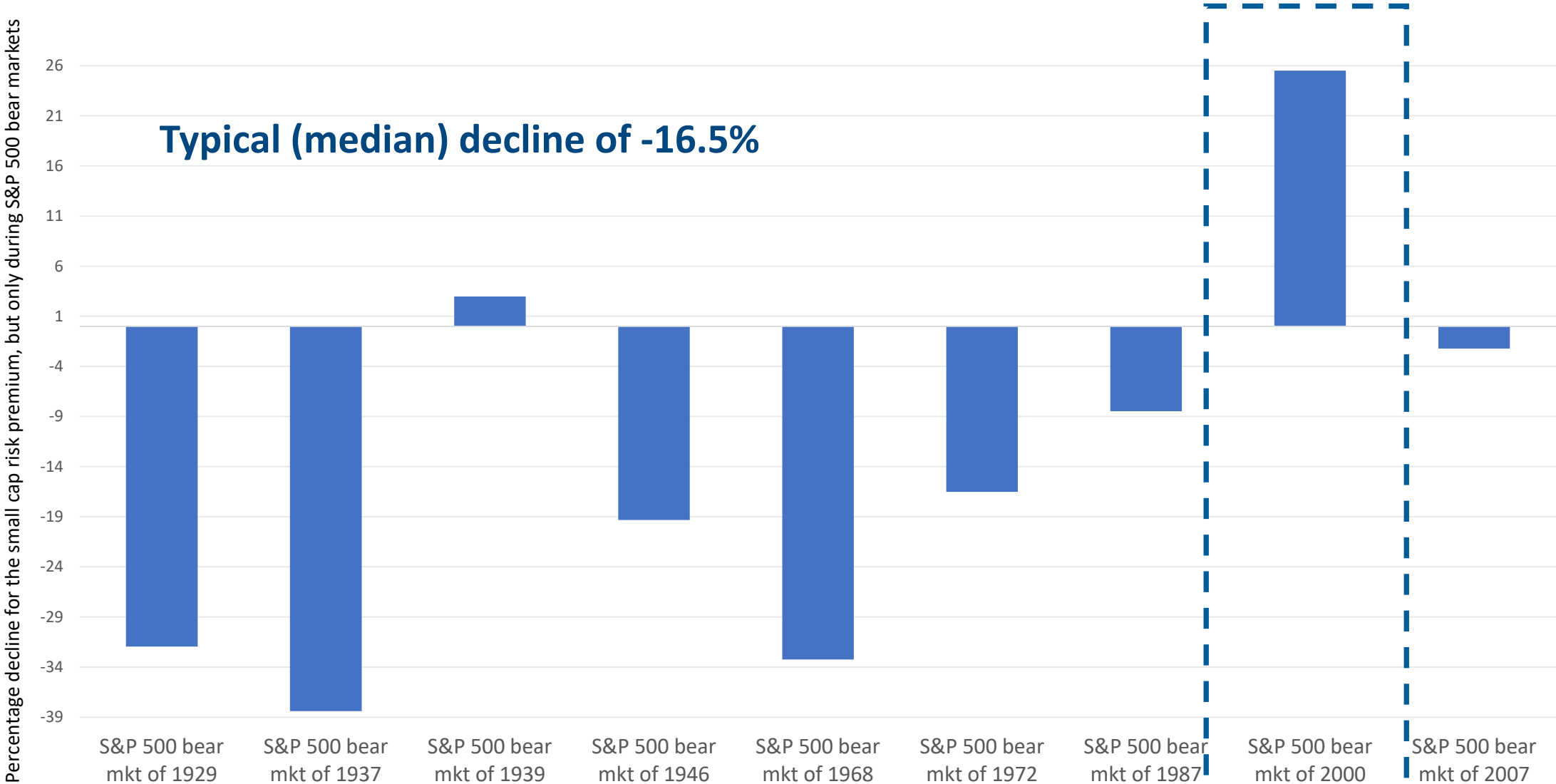
Ratio of dividend yields - Large cap vs. small cap



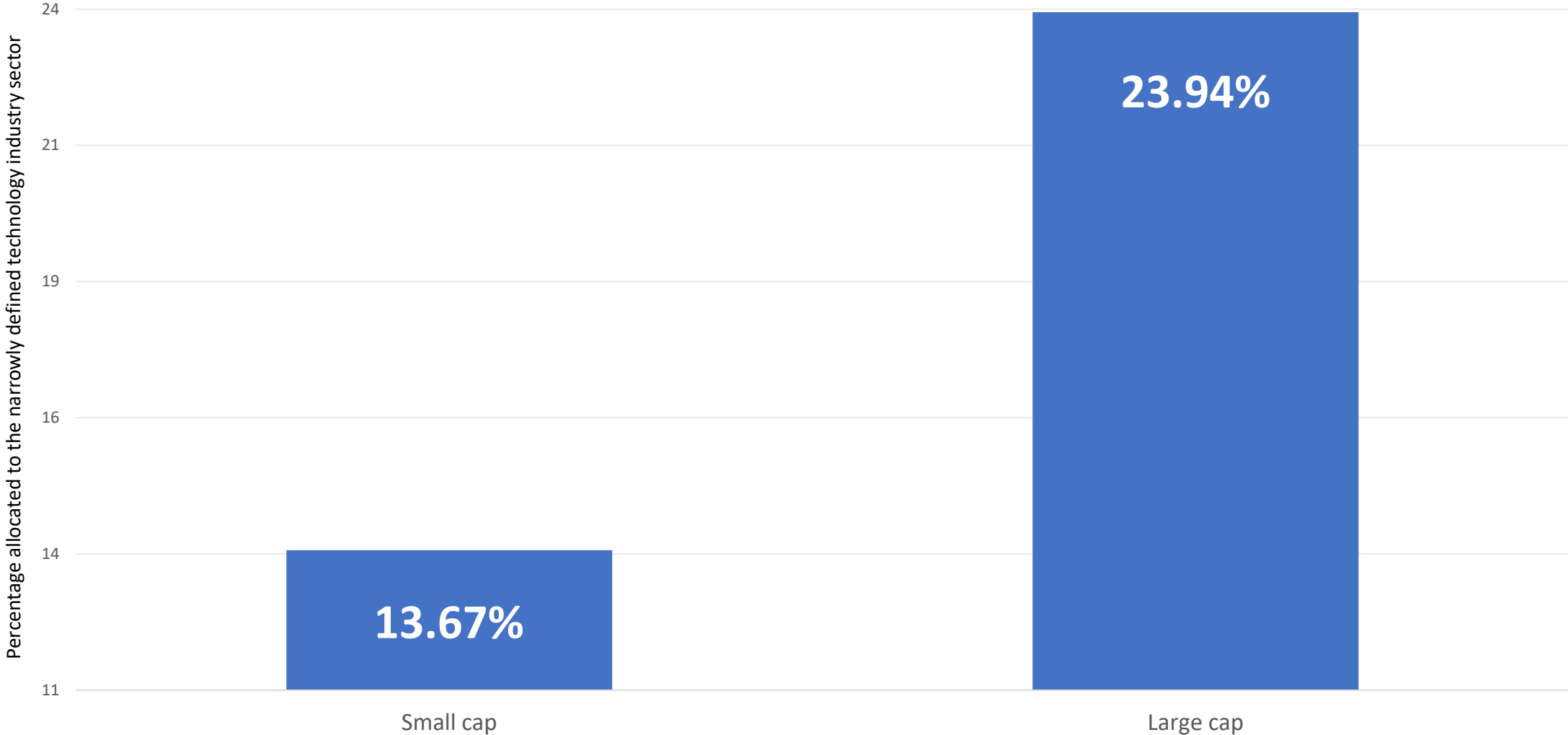
But, why now

Technology, very similar to the 2000 bear market

Small cap risk premium is negative during S&P 500 bear markets

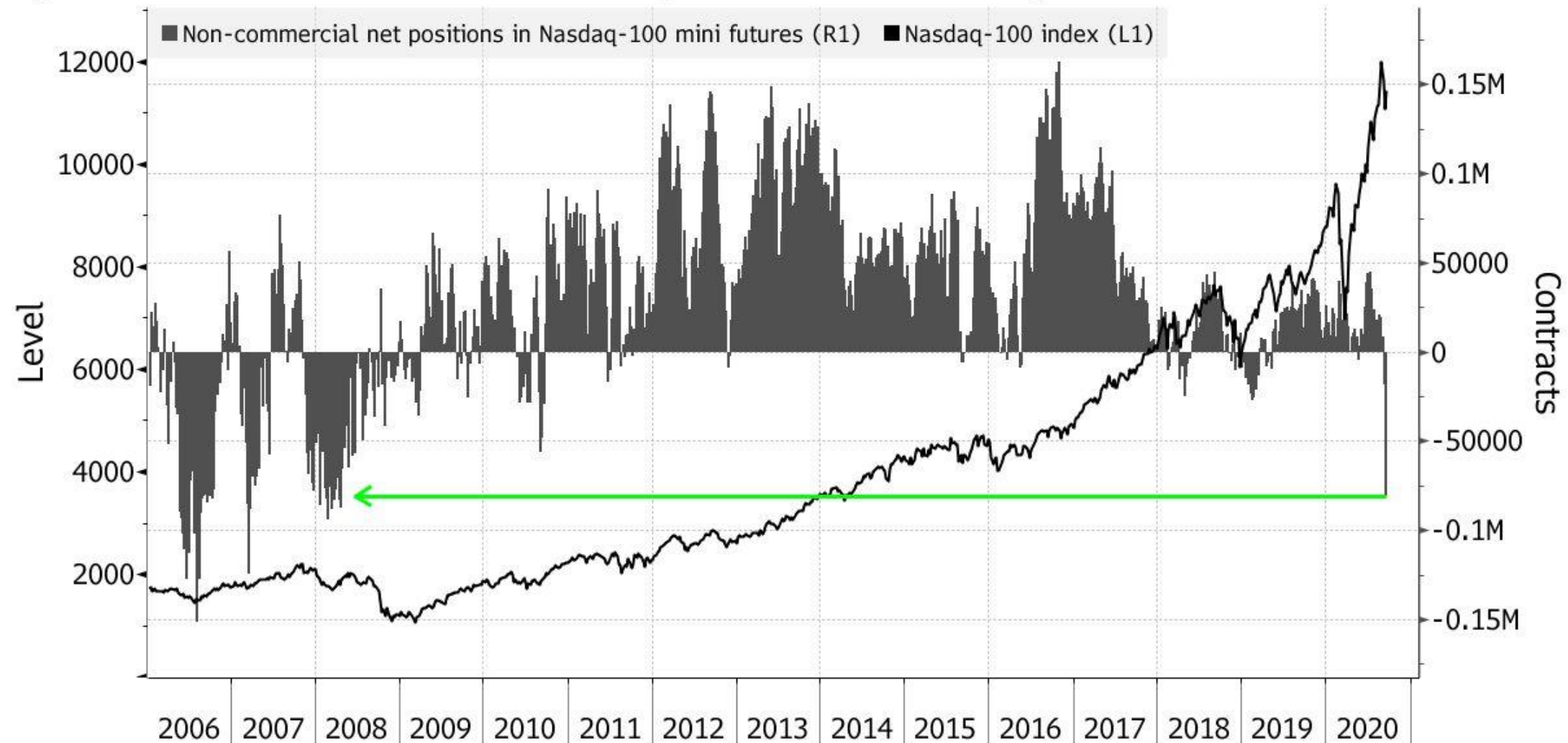


Small cap minimizes its exposure to the over-priced technology sector



Ejecting Tech

Speculators most bearish on Nasdaq-100 futures in 12 years

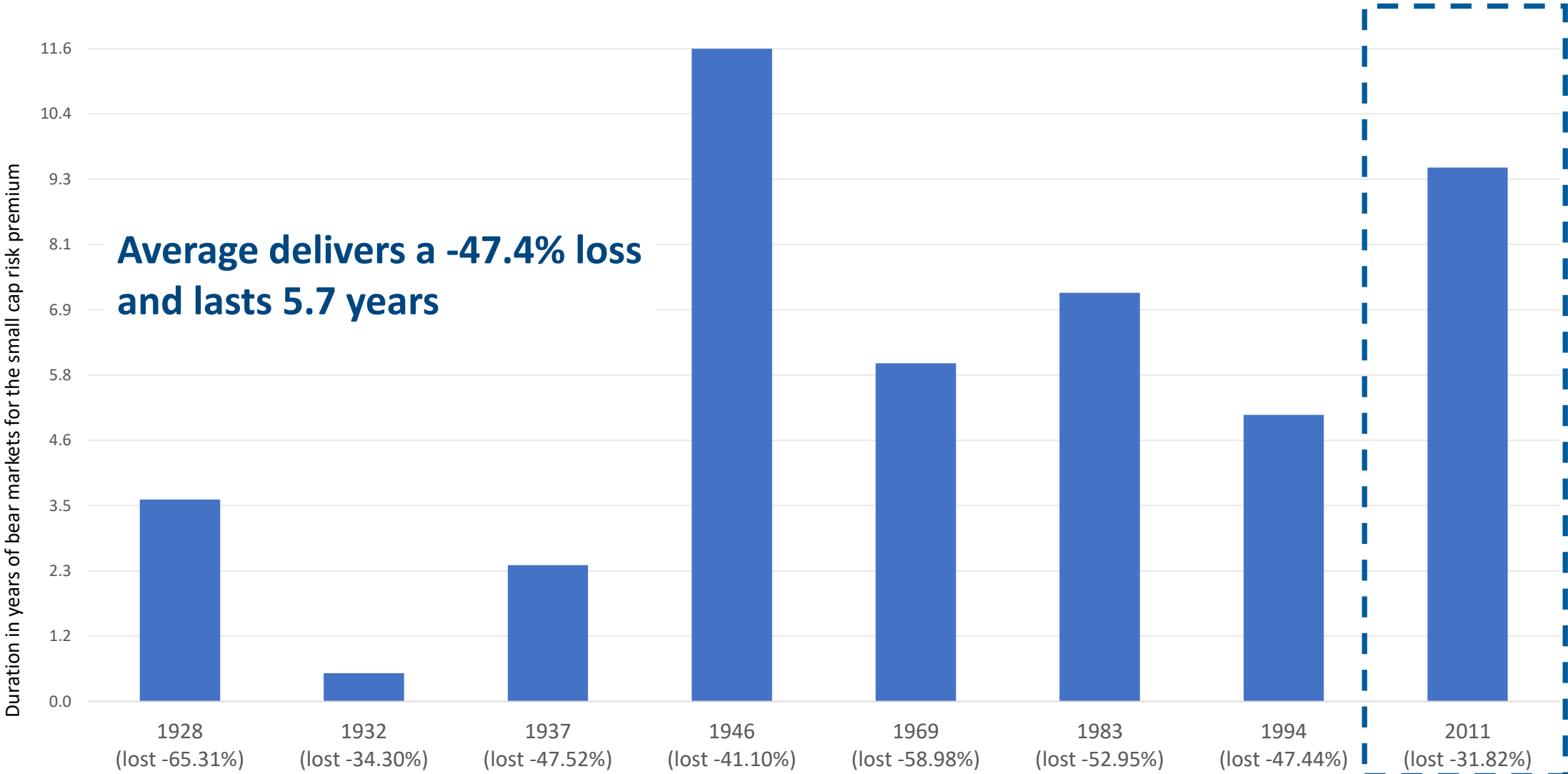


Source: CFTC, Bloomberg

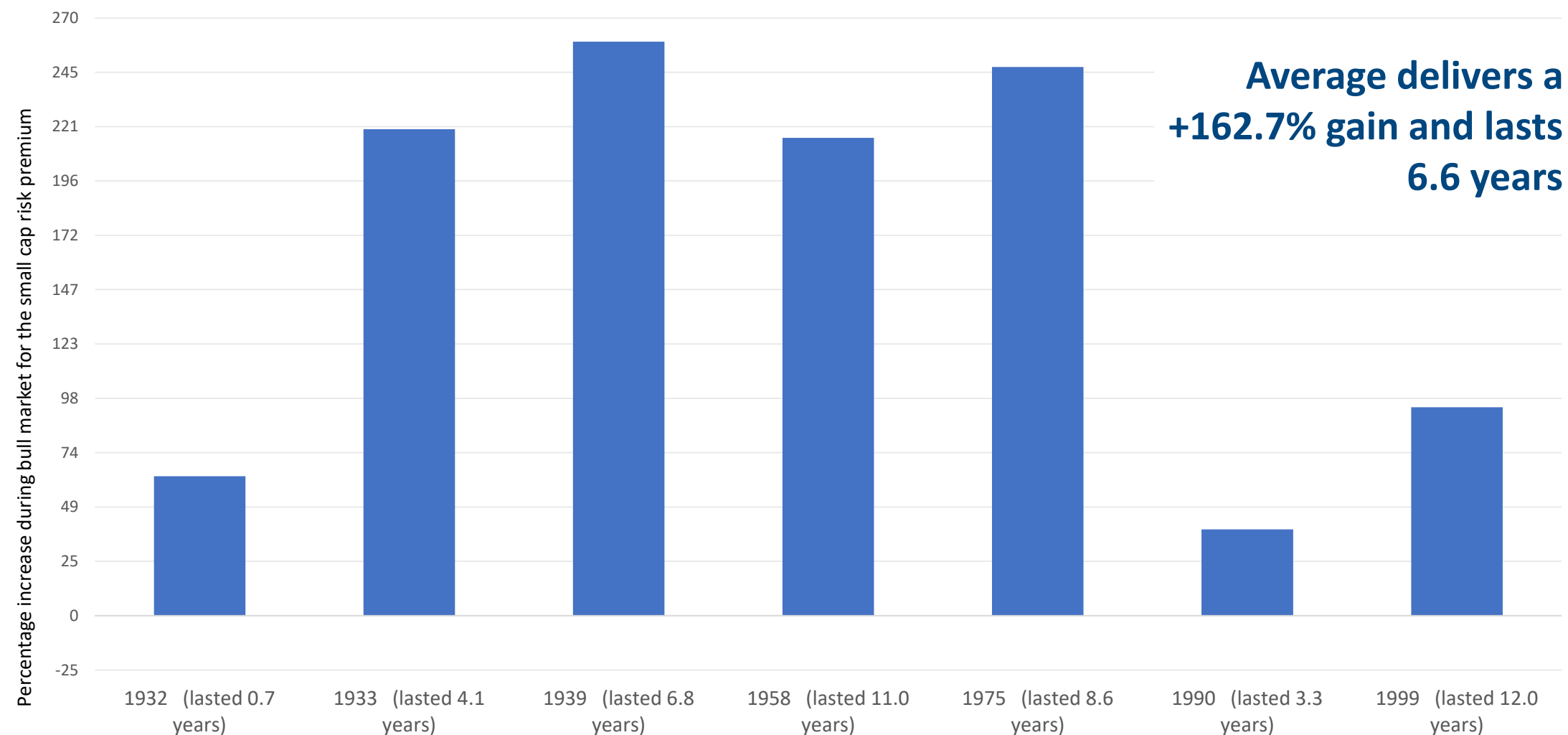
But, why now

The current bear market is long in the tooth

Bear markets for the small cap risk premium have been both severe and long-lasting



Average bull market delivers an extra +163% return over and above the return on stocks (large cap)

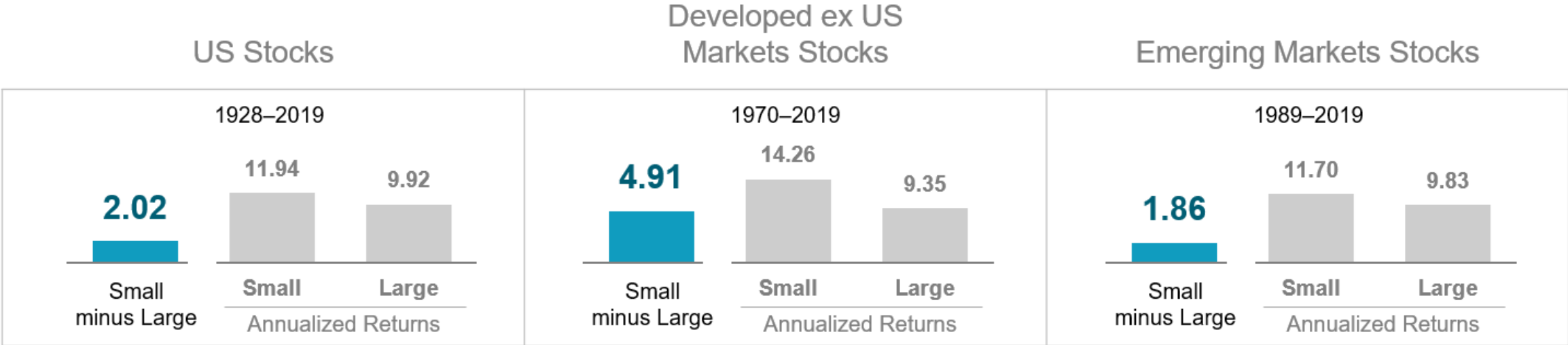


Small cap risk premium spans all geographies

But, the data must be carefully interpreted

Historical premiums and returns (annualized): US, Developed ex US, and Emerging Markets

Company Size
Relative performance of small cap stocks vs. large cap stocks (%)



Dimensional US Small Cap Index was created by Dimensional in March 2007 and is compiled by Dimensional. It represents a market-capitalization-weighted index of securities of the smallest US companies whose market capitalization falls in the lowest 8% of the total market capitalization of the Eligible Market. The Eligible Market is composed of securities of US companies traded on the NYSE, NYSE MKT (formerly AMEX), and Nasdaq Global Market. Exclusions: non-US companies, REITs, UITs, and investment companies. From January 1975 to the present, the index excludes companies with the lowest profitability and highest relative price within the small cap universe. The index also excludes those companies with the highest asset growth within the small cap universe. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book. Source: CRSP and Compustat. The index monthly returns are computed as the simple average of the monthly returns of 12 subindices, each one reconstituted once a year at the end of a different month of the year. The calculation

Friday, Oct 2nd at 11am Eastern

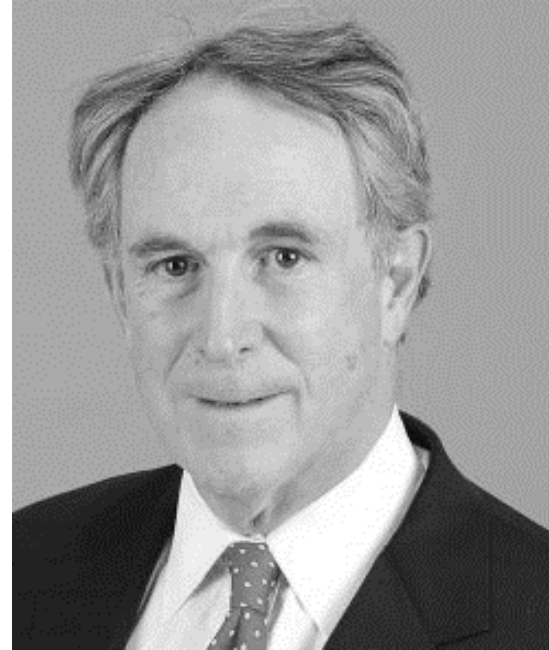
The general . . . dealing with zombies and the profitability factor

The specific . . . Julex, a superior approach to small cap exposure

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All data and statistics provided by Global Financial Data, Inc. at www.globalfinancialdata.com Large cap stocks are represented by the S&P 500. Small cap stocks are represented by the Russell 2000 index and before its inception by the Fama French small cap index (market cap weighted) for the smallest 30% of the market. Technology is defined by ticker symbol XLK. Dimensional Fund Advisors, LLC provided the comparative historical returns across different geographies.

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