

# Australian Listed Small Companies

Australian listed small companies are a subset of Australian shares. As at 31st January 2018, there are 198 listed small companies on the Australian share market and generally have a market capitalisation of between \$135,160,00 and \$5,230,000,000.



# What are the benefits of investing in Australian small companies?

## **1. Small Companies are less well covered and researched by investment specialists.**

This introduces greater market inefficiencies in the small companies pricing. Therefore, considerable and thorough research of this sector can offer the possibility of higher potential returns.

## **2. Smaller companies can move quickly**

Smaller companies are often run by a smaller executive team and they can move quickly and take advantage of changing market conditions compared to larger companies.

## **3. Lower trade liquidity**

Smaller cap stocks may have lower trading liquidity, and this can sometimes drive up the price further than in the case of a more liquid stocks.

## **4. Strong after-tax returns**

Over the long term Australian small companies have provided strong after-tax returns.

## **5. Smoother returns in different market cycles**

Investments in Australian small companies can diversify the portfolio through correlation benefits with other investments such as fixed interest and this may lead to smoother returns in different market cycles.

# What are the risks of investing in Australian small companies?

## 1. They underperform during market downturns

A sustained downturn in the Australian equity market could lead to negative performance. Furthermore, in market downturns, the small cap sector tends to underperform the large cap sector.

## 2. They have lower trading liquidity

Small-cap stocks have lower trading liquidity. For investors, this means enough shares at the right price may be unavailable when they wish to buy, or at times, it may be difficult to sell shares quickly at favourable prices.

## 3. They have less access to capital

Small-cap firms generally have less access to capital and, overall, not as many financial resources. This makes it difficult for smaller companies to obtain necessary financing to bridge gaps in cash flow, fund new market growth pursuits or undertake large capital expenditures. This problem can become more severe for small-cap companies during economic cycle lows.

## 4. There's not as much information available to the public

Not as much information about small companies is commonly available to the public, and this makes informed evaluation of small-cap stocks more difficult for potential investors.

## Quick Facts

### Fact #1

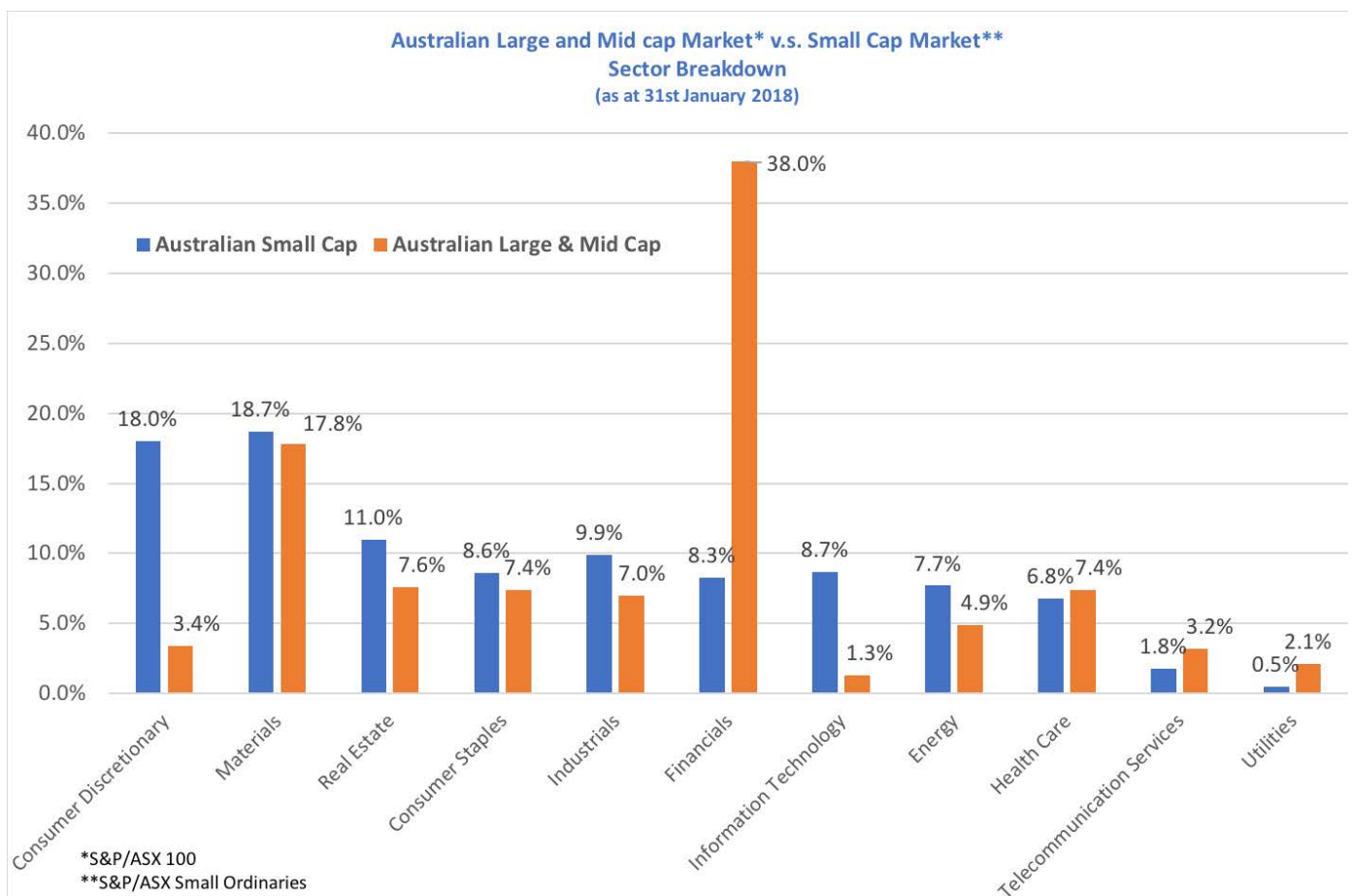
Small Companies represent approximately 12.5% of the Australian share market (as measured by the S&P/ASX Small Ordinaries) by market capitalisation. This proportion will change over time depending share price performance of small cap stocks and decision of private companies to list on the stock exchange. (as at 31st January 2018).

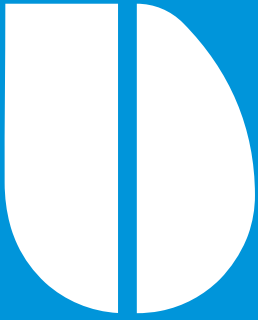
### Fact #2

The Small Ordinaries are less concentrated than the overall Australian share market (S&P/ASX 200). The Australian share market is heavily concentrated towards large capitalisation stocks with the top 10 listed companies by market cap representing 45.90% of the market. However, the top 10 listed small companies by market cap represent only 15.70% of the small cap market (S&P/ASX Small Ordinaries). (as at 31st January 2018).

### Fact #3

The overall Australian share market (S&P/ASX 200) is heavily concentrated towards two sectors, Financials (ex-Real Estate), 35.4% and Materials 18.20%. However, the small cap market is less concentrated with 18.00% exposure to Consumer Discretionary stocks, 18.70% Materials, 11.00% Real Estate and 9.90% Industrials, see chart below.





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