

ABOVE THE FRAY

Small Cap, Big Difference

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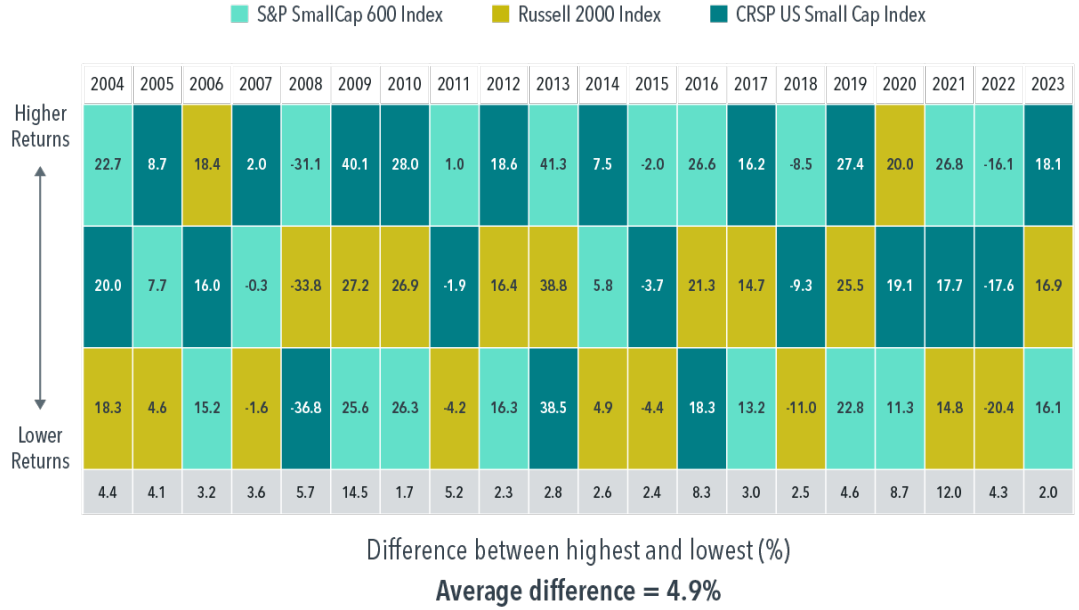
Indices are samplings of the market and may differ substantially among index providers based on differences in construction methodology. Nowhere is that more evident than in US small cap stocks. The spread in returns between the best and worst performer among three major indices—S&P SmallCap 600 Index, Russell 2000 Index, and CRSP US Small Cap Index—has averaged 4.9% per year over the past two decades. This gulf in returns has even crested double digits a couple of times.

The chart shows randomness in the winning index year to year. All three indices have taken their turn as the top and bottom performer. None stands out as a “better” way to capture small caps. Funds tracking any of these indices may leave returns on the table due to indexing constraints, such as arbitrary rebalancing frequency and lack of a daily process.

Exhibit 1

Three's Company

Annual index returns, 2004–2023



Past performance is not a guarantee of future results.

Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

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This article originally appeared in Above the Fray, a weekly newsletter for Dimensional clients.

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