



Research Note
September 9, 1998

In choppy markets, investors are often attracted to liquidity and stability. To illustrate, we divided the S&P 500 into five groups of 100 stocks based on market capitalization, then calculated the capitalization weighted performance of each group over three periods in 1998. The results are shown in tables one and two below.

Table one shows that the 100 largest stocks in the S&P 500, pentile one, had market capitalizations greater than \$18.3 billion and accounted for more than 66% of the total market capitalization of the index. The 100 smallest stocks, pentile five, had market capitalizations below \$2.75 billion and accounted for less than 2.5% of the index.

Table 1
S&P 500 Capitalization Pentiles as of 12/31/97

<u>Pentile Number</u>	<u>Minimum Market Cap</u>	<u>Weight within S&P 500</u>
1	\$18,315,000,000.	66.2%
2	\$9,288,000,000.	16.8%
3	\$5,500,000,000.	9.4%
4	\$2,748,000,000.	5.3%
5	\$339,000,000.	2.3%

Table two shows that during the economy's robust first quarter, investors found small cap stocks inviting. The small cap stocks within pentile five returned 14.42% from January to March, trailing the mega cap stocks of pentile one by less than one half percent. As evidence of an economic slowdown emerged during the second quarter, a preference for liquidity became evident. This is seen in the steady decline in returns as one moves from the 5.44% return of the highly liquid mega cap stocks of pentile one down to the -3.87% return of the small cap stocks of pentile five. As markets have grown more volatile in the third quarter, the preference for liquidity has continued, with pentile one outperforming the other four groups by more than 2% over the first two months of the quarter.

Table 2
1998 Returns by S&P 500 Pentiles

<u>Pentile Number</u>	<u>January-March</u>	<u>April-June</u>	<u>July-August</u>	<u>Year-to-Date</u>
1	14.86	5.44	-13.80	4.41
2	12.91	1.11	-17.85	-6.21
3	10.94	-0.81	-16.27	-7.86
4	11.45	-3.03	-19.40	-12.90
5	14.42	-3.87	-21.45	-13.60
Overall	13.95	3.30	-15.37	-0.38

Another factor driving returns during this period was the slowdown in the rate of corporate earnings growth. As earnings growth became more difficult to find, investors sought out stocks with stable earnings histories like those featured in OakBrook's Large Cap Growth Strategy. This has been evident during the third quarter, as the strategy has out performed over the first two months of the quarter despite being underweight the mega cap stocks of pentile one and overweight the stocks of pentile two.