



Chart of the Year

Last week, I received an email from a friend packed with valuable data.

One chart stuck out to me in a big way.

The ratio of small-cap stocks to large-cap stocks has hit a 22-year low.

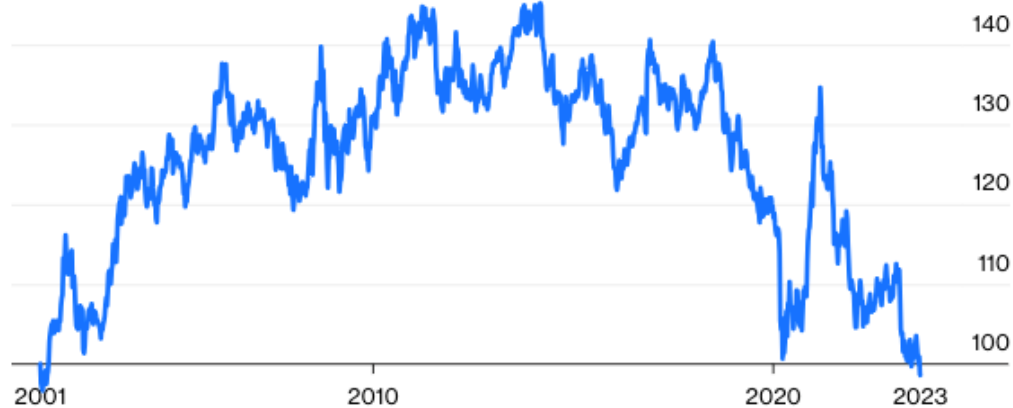
The multi-decade outperformance of larger stocks should come as no surprise. Apple has been consistently dominant. Microsoft has bounced back. Tesla has exploded, as has Nvidia and many other big companies already big to begin with in recent years.

The large-cap outperformance has been dramatic. Take a look at the chart.

Tough Times for the Little Guys

US small caps have hit a 22-year low relative to large caps

Ratio of Russell 2000 to Russell 1000



Source: Bloomberg
Re-based: 100 = 09/11/2001

However, nothing lasts forever.

I believe in the concept of reversion to the mean.

Have you ever watched a basketball game where, in the first half, one team is on fire?

They cannot miss.

The three-pointers drop from all over the court. Every free throw is a swish.

The team shot 78% from the field, even though their season average is 50%.

The team took a massive lead in the first half by 20 points.

Then the second half comes around, and they shit the bed. Every shot is a brick—airball city. Free throws circle the rim and painfully roll off to the side.

The 20-point lead evaporates.

By the end of the game, the team statistics are close to the season average.

In the second half, the team reverted to the mean.

Stocks work that way, too. Listen, 22 years is a *long* time!

But stocks move in cycles.

With Apple's multi-trillion-dollar market value, it becomes harder to move that much dirt.

Apple's revenue is greater than the GDP of over 95% of the countries on Earth.

In addition, today's small companies are tomorrow's big ones. It only takes a few big winners to close the gap.

Recently, I've prioritized small-cap investing in my taxable account compared with larger-cap indexes.

In addition, I have been more U.S.-focused.

Will the gap close? Who knows?!

If the gap does close, how long will it take? Who knows?!

But, if we are not just blindly licking our finger and feeling which way the wind blows and we put a little thought into allocating fresh funds into the markets, small-caps provide the potential for some serious outperformance in the coming years.

I will take that bet.

The Risk-O-Meter

The *Risk-O-Meter* is flashing a warning sign for market breadth but is still in the "green zone."

Market breadth has deteriorated. It would not be surprising if you look at your stock portfolio and notice that more stocks than not have underperformed recently. Those stocks are not keeping up with the indexes.

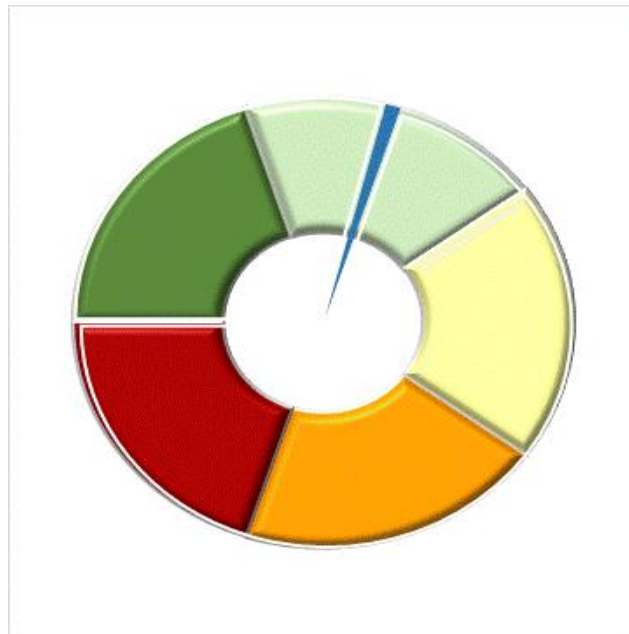
Poor breadth is certainly something to keep an eye on. Many individual stocks are leading the way down. If stocks continue to slide, the major indexes will be next.

However, the market is now oversold.

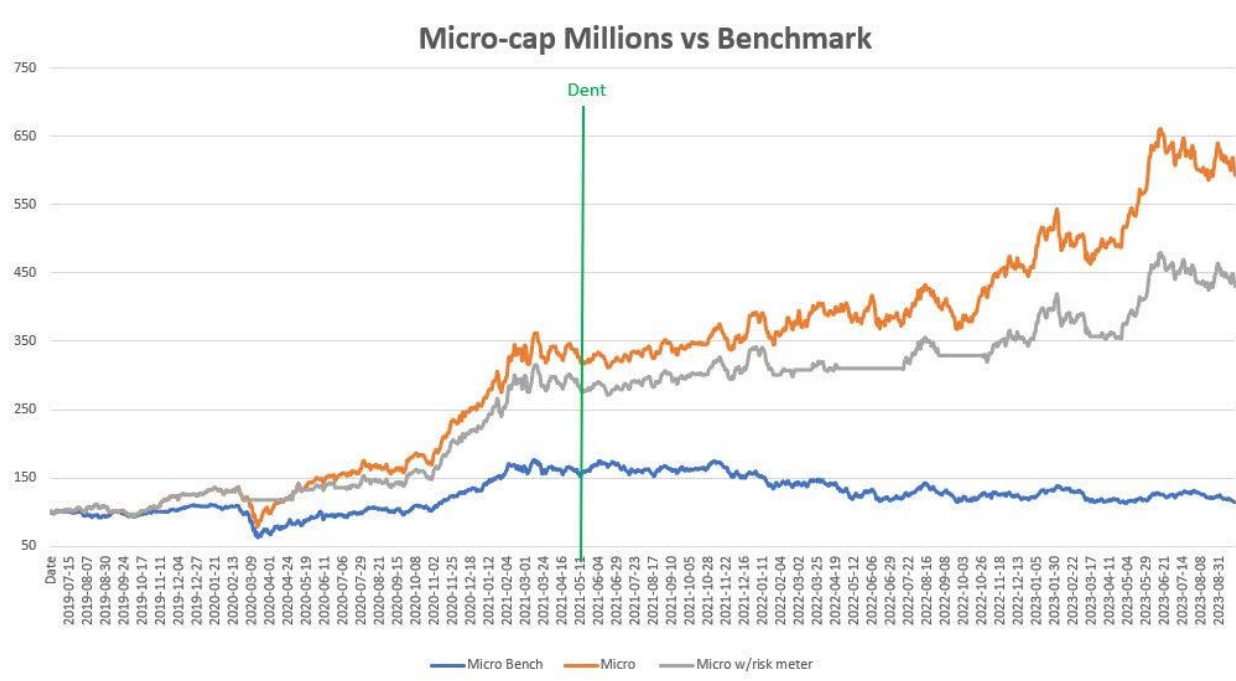
Therefore, I'm buying in my taxable account as a function of discipline.

Specifically, I am buying small-cap stocks. I use the Schwab US Small-Cap ETF (SCHA), but small-cap index-based ETFs will mostly be similar.

As the chart above shows, a considerable spread needs to be closed between small and large-cap stocks in the U.S. In my taxable account, I have the patience of Job (Job in the Bible) and will happily make that bet that the spread closes over time.



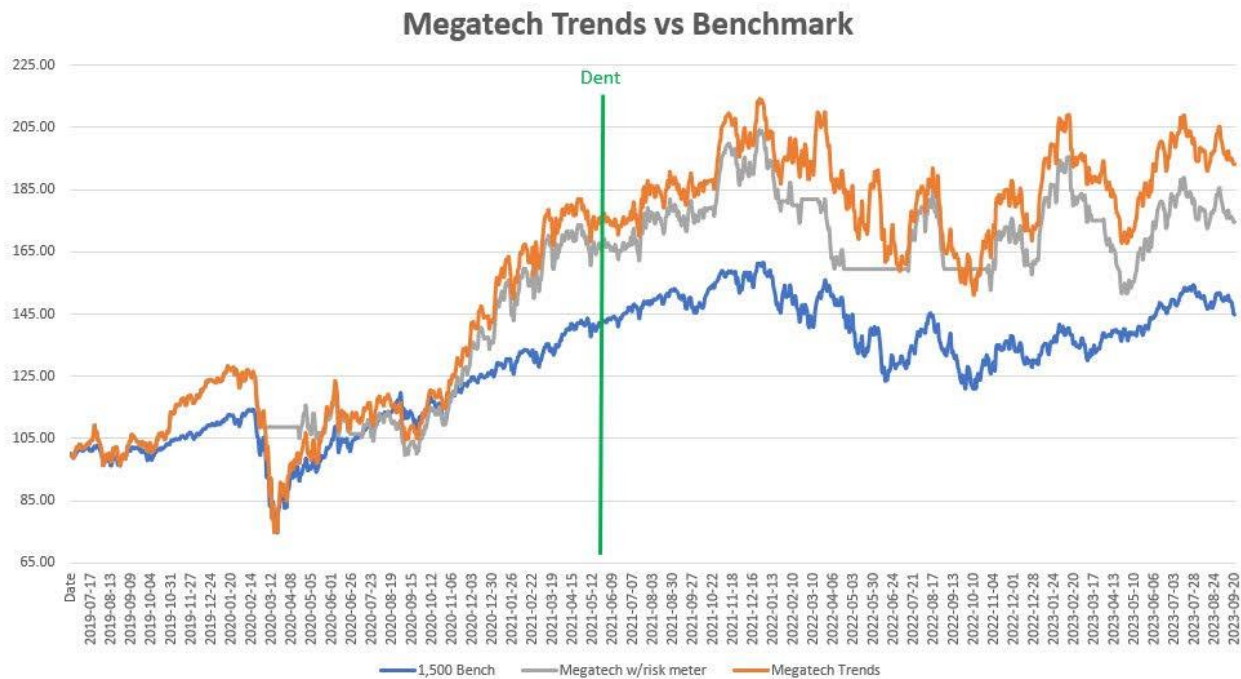
Micro-Cap Millions



There are no trades this week. Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
CXDO	Crexendo, Inc.	-6.79%	4	Technology
DPSI	DecisionPoint Systems, Inc.	1.58%	25	Technology
DTST	Data Storage Corp.	17.16%	32	Technology
ELTK	Eltek Ltd.	48.00%	123	Technology
GILT	Gilat Satellite Networks Ltd.	16.52%	130	Technology
ISDR	Issuer Direct Corp.	-14.11%	42	Technology
ITRN	Ituran Location & Control Ltd.	26.24%	109	Telecommunications
SMLR	Semler Scientific, Inc.	1.75%	32	Healthcare
SPOK	Spok Holdings, Inc.	54.03%	207	Telecommunications
UTMD	Utah Medical Products, Inc.	-3.28%	207	Healthcare

Mega-Tech Trends



There is one trade this week.

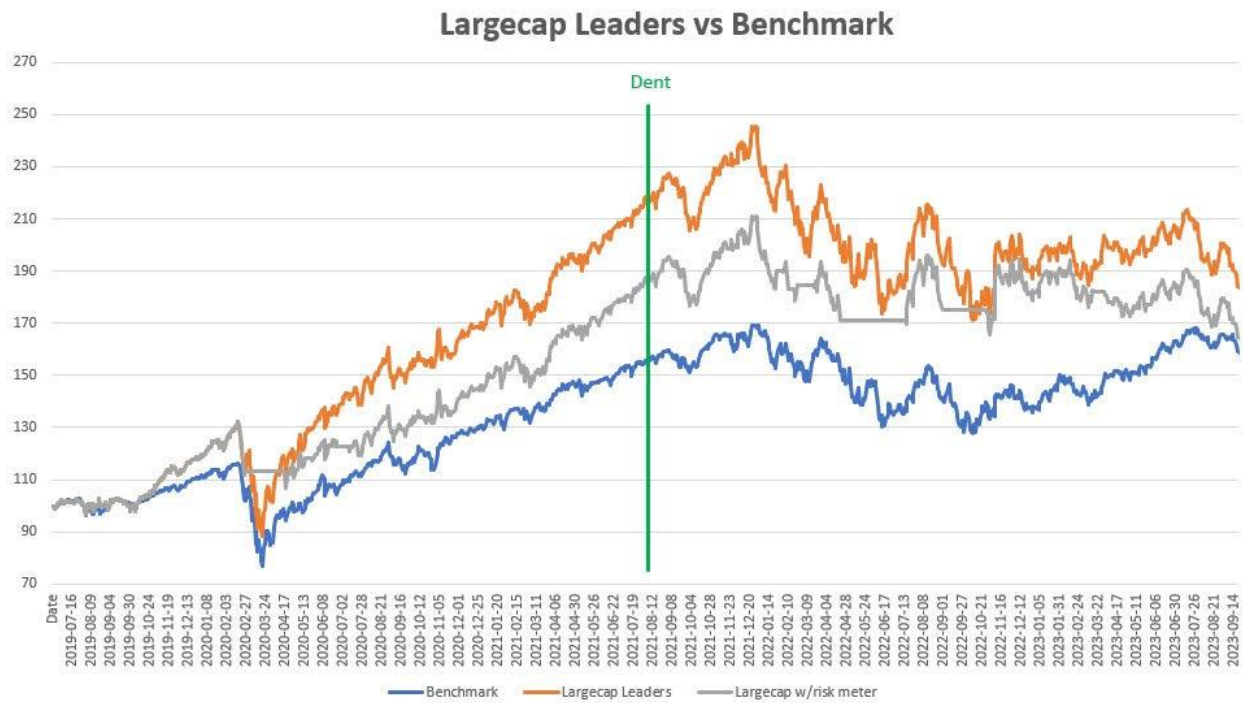
Buy Trimble, Inc. (Nasdaq: TRMB)

Sell NetApp, Inc. (Nasdaq: NTAP)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ALRM	Alarm.com Holdings, Inc.	3.35%	17	Technology
ANIP	ANI Pharmaceuticals, Inc.	13.54%	56	Healthcare
AVT	Avnet, Inc.	-0.69%	11	Technology
BDC	Belden, Inc.	0.12%	17	Technology
CNXN	PC Connection, Inc.	3.30%	25	Technology
CSGS	CSG Systems International, Inc.	-5.86%	17	Telecommunications
PLUS	ePlus, Inc.	26.28%	115	Technology
PLXS	Plexus Corp.	-1.60%	11	Technology
SCSC	ScanSource, Inc.	-9.61%	17	Technology
TRMB	Trimble, Inc.	0.00%	NEW	Technology

Large Cap Leaders



There are no trades this week.

Buy Amgen, Inc. (Nasdaq: AMGN), Microsoft Corp. (Nasdaq: MSFT), and Trimble, Inc. (Nasdaq: TRMB)

Sell Bio-Rad Labs (NYSE: BIO), Oracle Corp. (NYSE: ORCL), and Stryker Corp. (NYSE: SYK)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ADBE	Adobe, Inc.	5.69%	74	Technology
ALGN	Align Technology, Inc.	-20.36%	17	Healthcare
AMGN	Amgen, Inc.	0.00%	NEW	Healthcare
ANET	Arista Networks, Inc.	3.09%	42	Technology
BSX	Boston Scientific Corp.	6.79%	32	Healthcare
CRM	Salesforce, Inc.	-1.45%	25	Technology
MSFT	Microsoft Corp.	0.00%	NEW	Technology
MSI	Motorola Solutions, Inc.	0.02%	32	Technology
NFLX	Netflix, Inc.	-13.66%	17	Technology
TRMB	Trimble, Inc.	0.00%	NEW	Technology

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