

PIGGY

12/03 Bank

The Monthly Money-Chase Newsletter

MIDCAPS: LITTLE RESPECT, LOTS OF POTENTIAL

If you're scouting underappreciated investments, cast an eye on mid-cap stocks. Lately, they've been quietly outperforming their large-cap brethren. And while lots of investors continue to buy large-cap stocks for their stability and small-cap stocks for growth, these middle-of-the-road stocks (market capitalizations between \$1 billion and \$10 billion) are expected to continue to outperform.

The numbers are already telling. Since its 52-week low in March, the Standard & Poor's Mid-Cap 400 index has gained about 21%, easily outpacing the Large-Cap S&P 500's 14% gain. So far this year, the disparity is even greater, with mid-caps up 1.43%, vs. a 4.88% decline for the S&P 500.

Analysts expect mid-caps to outperform their larger counterparts on the earnings front as well. Thomson Financial/First Call forecasts an earnings gain for the S&P Mid-Cap 400 of 2.4% this year, compared with a projected decline of 4.5% for the S&P 500.

For the first quarter of the year, earnings declined only 1.2% for the Mid-Cap 400, compared to the 6.2% drop suffered by the S&P 500.

HEAD SCRATCHER

What sparked the mid-cap rally? "Everyone's scratching their heads and trying [to answer] that question," says Ron Sloan, who oversees the AIM Midcap Equity Fund (GAGTX). "I think it's largely that they got to such relatively depressed levels vs. large-caps that they were due for a bounce." Money also is starting to flow back into beaten-down stocks generally, including mid-caps. That's especially true for tech stocks.

The Fed has indeed helped a lot. Falling interest rates are improving

CONTENTS:

2. Know what you are getting before you buy
3. Getting transaction discounts for mutual funds
4. Tax benefits of funding your child's education



liquidity, and that helps smaller companies more than others because they generally need to raise capital more often than their larger counterparts. If a turnaround in the U.S. economy is a few quarters away, as many economists believe, mid-caps have even more allure.

STAYING THE COURSE

Jay Ritter, an analyst with Morningstar.com, points out that large-caps have historically held up better in the early stages of an economic downturn, but stocks with smaller capitalizations have led on the way back up. Also, they can be a safer bet in an uncertain climate. "If you don't know where you are, mid-caps aren't a bad bet...because they're