

LARGE CAP, MID CAP AND SMALL CAP FUND



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**Understanding the
difference between
Large Cap, Mid Cap and
Small Cap Funds.**



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The Indian Premier League (IPL) selection process whereby the team owners bid for players bears similarity to how fund managers select stocks. In this lesson we have attempted to use this similarity to explain the difference between large cap, mid cap and small cap stocks.



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We have made an attempt to relate the IPL to Mutual Funds to explain the difference between Large Cap, Mid Cap and Small Cap funds.

**To understand this
let us go back to the IPL.**



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Players like Pollard, Chris Gayle, Shane Watson, Dale Steyn comprise a bunch of high quality-higher priced players. They are priced higher at the auction but team owners are willing to pay a high price as these cricketers have proven themselves under different conditions and are expected to perform well. Not much research needs to be done about them because they are already champion cricketers.



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These higher priced champions are somewhat like Large Cap funds which invest in big and higher priced companies which are expected to do well. But being higher priced, their returns could get muted unless their performance turns out to be exceptional just like that of Chris Gayle.



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Then there are players like Murali Kartik, Parthiv Patel, Robin Uthappa, Ashish Nehra, Irfan Pathan, Yusuf Pathan, R P Singh etc who have played in the past and in that sense have established their credentials and may also play for the Indian cricket team in the future. Not much research is needed but these players are not in any position to charge a premium either. They are expected to do well due to their experience but not as well as the big players who are in prime form or who like Gayle can tear a bowling apart on their day and win matches single handedly.



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These players are like the Mid-Cap funds which buy the stock of companies that are established but not having the stature of large cap stocks. Hence they are not as highly priced as large cap stocks. Most are expected to do well while some of them could surprise with their performance and in future may enter the large cap fund portfolio.



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However, players like Sanju Samson, Aditya Tare, Mohit Sharma are relatively new. They were given an opportunity to play and prove themselves. Hence they are relatively less pricey. And they did exceedingly well, returning handsome returns in terms of the value to their owners.



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Similarly, in Mutual Fund parlance these are like small cap funds that invest in relatively unknown stock some of which have the capacity to deliver surprising results and good returns. Naturally since they are relatively cheaper, their returns may outperform large cap funds.



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However while less research may be required for large cap stocks, research needed to identify high quality mid cap and small cap stocks is relatively much more intense.



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Hope this lesson has thrown some light on the concepts of Large Cap, Mid Cap and Small Cap Funds.



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