

MARKET CAPITILISATION

HOW MUCH IS A LISTED COMPANY WORTH?



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What is Market Capitalisation?

Market capitalisation, or "market cap", is the **aggregate market value of a company** represented in a dollar amount.

The formula for market cap is:

$$\begin{array}{ccccc} \img alt="stack of coins" data-bbox="168 478 235 530" & \text{Price per share} & & & \img alt="money bag" data-bbox="665 470 735 570" \\ & & \times & = & \\ \img alt="document with gear" data-bbox="182 548 235 618" & \text{Shares Outstanding} & & & \text{Market Cap} \end{array}$$

Market cap is also used to **compare and categorize the size** of companies among investors and analysts.

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Types of Market Capitalisations

Capitalisation represents a dollar value that can vary widely, and different categorizes of **market cap ranges**.

Below are the commonly used names:

- **Nano cap** below \$50 million
- **Micro cap** \$50 and \$300 million
- **Small cap** \$300 million to \$2 billion
- **Mid cap** \$2 - \$10 billion
- **Large cap** \$10 billion plus



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Nano and Micro Caps Key Takeaways

- Nano/Micro-cap stocks tend to have **greater volatility**, thus are inherently riskier, than larger-cap stocks.
- **Lack of liquidity** and a small shareholder base also expose them to massive price shocks.

However, during periods of bullish strength, nano/micro caps tend to **outperform their larger counterparts.**

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Small Cap Key Takeaways

- Small-cap stock investors seek to beat institutional investors by focusing on **growth opportunities**.
- Small-cap stocks historically have **outperformed large-cap** stocks but are also more volatile and riskier.

As a rule, small-cap stock companies offer investors more room for growth but also bring greater risk and volatility than large-cap stock companies.

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Mid and Large Cap Key Takeaways

- Mid/Big-cap stocks don't always mean larger returns on investment.
- Most Mid/Big caps often **offer dividends** in Australia.
- High average share price and less volatile price movements.

Mid/Big-caps are the stocks most closely followed by analysts, these stocks are often traded by institutional traders, and this can make it harder to trade them.

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