

Session 17

Investing on hope: Growth and Small Cap Investing

Test

1. If you are a growth investor, which of the following do you believe about the market?
 - a. The market always under values growth assets
 - b. The market always over values growth assets
 - c. The market is more likely to make mistakes in valuing growth assets than assets-in-place.
 - d. The market is more likely to make mistakes in valuing assets-in-place than growth assets.
 - e. None of the above.
2. Which of the following empirical findings best characterizes the “small cap” premium?
 - a. Young companies, on average, have earned higher risk-adjusted returns than older companies.
 - b. Growth companies, on average, have earned higher risk-adjusted returns than mature companies.
 - c. Companies with small revenues have earned higher risk adjusted returns than companies with larger revenues.
 - d. Companies with low market capitalization have earned higher risk adjusted returns than companies with high market capitalization
3. If you have a ten-year time horizon, you would have always done better investing in small cap stocks than in larger cap companies in the US between 1925 and 2000.
 - a. True
 - b. False
4. If you invest in small cap stocks, you may see some or all of your excess returns dissipate as a result of transactions costs. Which of the following may cause these higher transactions costs?
 - a. Small cap stocks tend to be held less by institutional investors.
 - b. Small cap stocks generally have lower trading volume.
 - c. Small cap stocks are more likely to be traded over the counter.
 - d. Small cap companies are more likely to have low-priced shares.
 - e. All of the above
5. A concern when investing in small cap companies is that they are far less likely to be followed by equity research analysts and there is less public information on these companies. That makes them more risky as investments.
 - a. True
 - b. False

Explain.