

Despite a volatile and bearish end to the year, small-cap stocks managed to close out 2024 with their second consecutive positive quarter, gaining 0.3% in Q4. However, unlike in Q3, small caps lagged their large-cap counterparts, which posted a 2.7% gain for the quarter. Notably, U.S. equity returns followed a bowl-shaped pattern, with small caps reaching a new peak on November 25—more than three years after their previous high in November 2021. This marked the third-longest gap between record highs in the index’s 45-year history.

Even with December’s weak performance, 2024 was a strong year for small-cap stocks on an absolute basis, with the small-cap index advancing 11.5%. However, it also marked the eighth consecutive year of underperformance relative to large caps.

While the wait for sustained small-cap leadership has been long, we see encouraging signs on the horizon. In Q4, five of the 11 sectors in the small cap index posted gains, with Technology, Industrials, and Consumer Discretionary leading the way, while Health Care, Materials, and Energy were the largest detractors. Additionally, breadth among stocks has been improving with 60% of the companies in the S&P 1500 (a larger population of companies) trading above their 200-day moving average, which is often viewed as a good sign for markets.

Strategy Performance

For the quarter, the Shaker Small Cap Growth Strategy underperformed its benchmark. The strategy decreased 1.9% versus the benchmark’s positive 1.7%. The majority of this underperformance was due to technology holdings that failed to keep up with the relatively strong sector and due to negative news affecting a few key holdings.

Sectors that led performance for the strategy during the quarter were consumer staples, energy, financials and real estate while technology and health care were the sectors that detracted most from performance.

	4Q 2024	1 Year	3 Years	5 Years	10 Years
Shaker Small Cap Growth (gross)	-1.6%	8.4%	0.1%	13.6%	13.1%
Shaker Small Cap Growth (net)	-1.9%	7.3%	-0.9%	12.5%	12.0%
US Small Cap Growth Index	1.7%	15.2%	1.2%	7.4%	7.8%

DISCLAIMER: Information contained is as of 12/31/2024. Returns in the current year are preliminary. Gross returns are net of expenses. Net returns are net of expenses and a 0.25% quarterly (1% annual) management fee for the corresponding period. The benchmark is a US Small Cap Growth index. At times, the iShares Russell 2000 Growth ETF is used as a proxy. The strategy is more concentrated than the benchmark. The strategy’s overall return is a composite of clients’ separately managed account returns. Some clients’ investment returns were more or less than the overall strategy return. Not all our client’s returns surpassed the benchmark. It is not intended as investment advice or recommendation, nor is it an offer to sell or a solicitation of an offer to buy any interest in any fund or product. An investment in any of our strategies is speculative and involves a high degree of risk, including potential loss of principal. There is no guarantee that the investment objective will be achieved, or that the investment strategies will be profitable. Investments in smaller companies may be riskier, less liquid, more volatile and more vulnerable to economic, market and industry changes than investments in larger, more established companies. Past performance is not indicative of future results. The information herein has been obtained from public sources and we do not guarantee its accuracy. This document is confidential and for the sole use of the intended original recipient. The specific securities identified in this report do not represent all of the securities purchased, sold or recommended for clients. It should not be assumed that investments in the securities identified and discussed will be profitable in the future. Holdings / sector weightings in any strategy are subject to change and should not be considered investment advice or a recommendation to buy or sell a particular security. Actual holdings may vary by client. A list of the stocks selected for any of our strategies during the trailing twelve months is available upon request.

Top Contributors

Sprouts Farmers Market (SFM) – On the top contributor list for the fourth quarter in a row, SFM is one of the nation's fastest growing grocers with a unique open layout experience that inspires wellness. As the stock continued to appreciate, some profits were realized during the quarter.

Axos Financial (AX) – AX is a branchless financial institution involved in commercial and consumer banking as well as the securities business. Axos is a long-term holding that we know well, and we have great confidence in its management team.

Argan (AGX) – AGX designs and builds power generation plants. As energy demand picks up, AGX is well positioned for growth.

Sportradar Group (SRAD) – Initiated in September and added to in October, SRAD is a world leader in sports data services for sports betting and media industries.

Agilysys Inc (AGYS) – AGYS is a SaaS company offering innovative software for POS, payments, reservations, etc. in the hospitality industry.

Top Detractors

Monolithic Power Systems (MPWR) – MPWR is a semiconductor company specializing in high-performance power solutions for a variety of industries. A miss in AI datacenter estimates sent the stock lower this quarter.

Installed Building Products (IBP) – IBP is one of the nation's largest new residential insulation installers, offering a streamlined one-stop-shop value chain of product offerings.

ICON PLC (ICLR) – A Clinical Research Organization, ICLR has seen negative pressures in bookings from small biotechnology and large pharmaceutical companies. Changes in the political environment have also impacted this stock and we are watching it closely.

Lantheus Holdings (LNTH) – LNTH is a leader in the radiopharmaceutical space, continuing to be a pioneer in expanding their product lines in both therapeutic and diagnostic products.

M/I Homes Inc (MHO) – One of the nation's leading homebuilders, MHO is suffering from margin compression and slower unit order growth.

Changes to the Portfolio

This quarter, our portfolio management team initiated nine new positions while exiting nine positions. This repositioning continues to be driven by a shift in the improved outlook for growth-oriented companies and new opportunities within the small-cap space.

Among our new holdings, Warby Parker (WRBY) and Doximity (DOCS) stand out as high-conviction names that align well with our growth objectives. WRBY is a retailer of eyewear and contact lenses, operating over 250 stores in 47 states, which only accounts for 0.6% of optical shops in the US, leaving room for ample growth. Growing at 18% 5-year CAGR, WRBY's insiders own about 26% of the company's outstanding stock, a characteristic important to Shaker.

DOCS is the leading social network for medical professionals. One could think of it as LinkedIn for medical professionals, with over 80% of US physicians using the platform. It is a place for members to connect with colleagues in their field, access practice-specific news, stay up to date on the latest research, access telehealth, and to search for or post job openings. The platform is supported by advertising revenue from health systems and pharmaceutical companies. Over the last five years, revenue has grown at a rate of over 40% per year and Adj. EBITDA at a rate of over 80% per year.

We exited our long-term position in CoStar Group (CSGP), a mid-tier holding in our portfolio for over six years. While CSGP has been a strong performer, fundamental shifts in the company, along with its transition beyond the small-cap index, prompted our decision. Operating across a broad spectrum of real estate information and service industries, CSGP continues to invest heavily in its expansion. However, given its high valuation and slowing earnings growth, we have opted to step aside for now.

As long-term investors, we prioritize building a resilient portfolio designed to perform across all market conditions. We continuously adjust our holdings, strategically reallocating capital to high-quality companies with strong growth potential in the current economic environment.