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FRIDAY FUNDAMENTALS

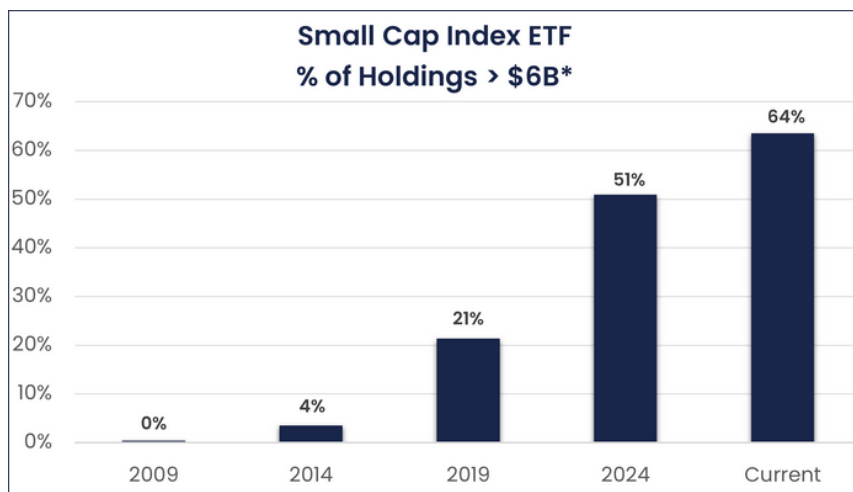
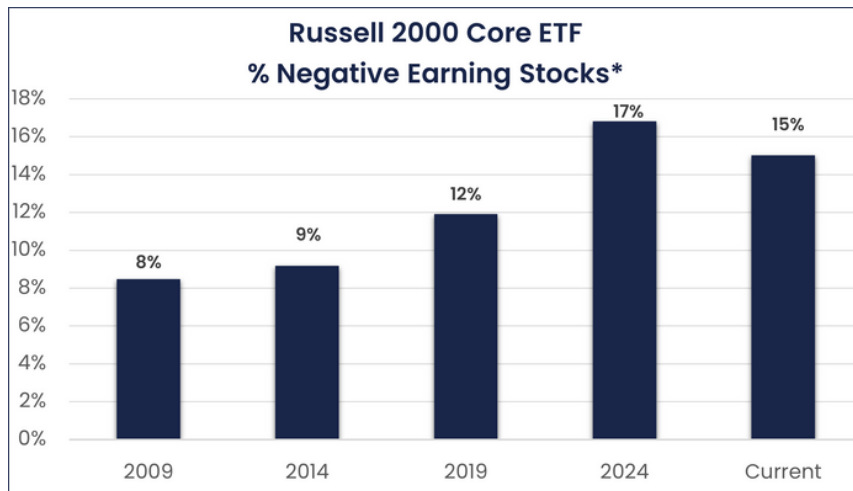
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FEATURED TOPIC

How Well Do You Know Your ETF?



Source: FactSet * 2004 to 2024 Five-Year Average (except for current)

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Exchange-traded funds (ETFs) are often marketed as simple, diversified ways to gain exposure to a specific index or market segment. But a closer look under the hood reveals that investors may not always be getting what they think they are.

Take small cap for example. Over the past several years, the number of negative-earning companies in the Russell 2000 has quietly surged. Today, the index is comprised of approximately 15% unprofitable companies. This reflects a fundamental shift in the index's composition and raises questions about the quality of earnings and potential long-term returns for investors seeking small-cap exposure. Put simply, investing in the Russell 2000 today potentially means taking on a higher level of risk than in years (or decades) past.

But that's only half the story. In some popular small-cap ETFs like our sample in the lower left, there's been a notable increase in holdings that exceed traditional definitions of "small-cap." The number of stocks with market capitalizations above \$6 billion, well into mid-cap territory, has exploded. This phenomenon reflects both strong performance from individual stocks and shifting inclusion criteria, but it also can create unknown risks like imbalances when creating an asset allocation strategy.