Large-Cap Growth Stocks Still Hold Luster

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by John Kimelman

Large-cap growth stocks, the darling of the bull market over the past 10 years, still hold promise for clients despite some elevated risks, according to advisors and market observers.

Large-cap growth funds have proven winners in industries such as online retail, computer software, smartphones, and social networking that can be compelling for long-term investors despite recent volatility, rising trade tensions between the U.S. and China and seemingly high valuations, according to Robby Greengold, a fund analyst with Chicago-based research firm Morningstar.

To be sure, some advisors are steering away from some names they see as being overbought. David Kotok, the chief investment officer and co-founder of Cumberland Advisors, a Sarasota, Florida-based financial advisory firm, is underweighting large-cap-growth in the ETF portfolios his firm designs for clients.

He is particularly troubled by market-weighted large-cap funds whose performance is skewed toward mega-cap stars that have had outsized runs in the past year. Investors interested in capturing large-cap growth without heavy exposure to the FANG stocks (Facebook, Amazon, Netflix and Google) should consider equal-weight funds, he said, pointing to the Invesco S&P 500 Equal-Weight Technology (RYT) fund as one example.

That concern is justified, but investors sometimes understand they have to take additional risk if they want exposure to the market upside, said David Karp, co-founder of PagnatoKarp, a Reston, Virginia-based registered investment advisory firm.

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