

## SOLUTION OVERVIEW

# The Russell 2000® Index

The premier small-cap US equities index



The Russell 2000® Index is preferred by discerning institutional investors, who value the index's rigorous methodology and comprehensive, unbiased measure of the small-cap segment of the US equity universe.

**Give your clients the same advantages enjoyed by institutional investors**

### **Diversify your holdings**

Are you overweighted in FAANGs? If so, that can crowd out other investments and skew portfolio performance. The small-cap stocks in the Russell 2000 can introduce a wealth of new opportunities and risk factors for more effective diversification.

### **Right-size your allocations**

Like the market itself, many portfolios are top-heavy with a few large stocks in one or two sectors. By using the Russell 2000 as your index, you may find your allocation model benefits from flatter stock distribution and a more balanced industry/sector profile.

### **Allocate easily and with confidence**

The ability to allocate assets accurately is critical for capturing an investment strategy. The Russell 2000 perfectly complements other Russell Indexes, enabling precise asset class coverage. In addition, the Russell 2000 is the center of a vast ecosystem of ETFs and investment funds, making it easy to find, buy and sell as your investment strategy dictates.

### **RUSSELL 2000 INDEX FAST FACTS**

Created

**1984**

Coverage

**~2,000 small-cap US equities**

Reconstituted

**Annually**

Initial public offerings (IPOs)

**Added quarterly**



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## Opportunity knocks often

### Driven by rules and the market

Membership in the Russell 2000 is driven by rules and the market, and Russell's rigorous methodology calls for new IPOs to be added quarterly, meaning investors tracking the index can benefit from exposure to stocks early in their growth cycle. Over the last 10 years, the Russell 2000 has added 858 IPOs, including Krispy Kreme, Sweetgreen, and Atlas Energy Solutions.

### A stock's value may change significantly after its initial public offering (IPO)

By comparison, S&P takes a more subjective approach to adding IPOs to the S&P SmallCap 600 Index, with a committee periodically voting on whether to admit new members. The result of this approach is that a stock's value may change significantly after its initial public offering (IPO), but before it can have an impact on index performance. This systemic lag creates a tracking error with regard to the true state of the market.

### AMZN and NFLX were added to the Russell 2000 within two months of their IPOs

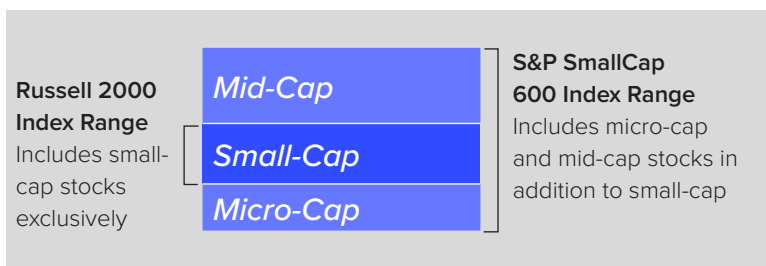
To cite two prominent examples, Amazon and Netflix each were added to the Russell 2000 within two months of their respective IPOs. For comparison, more than eight years passed before those same stocks were voted into the S&P 500. As shown in the table on the right, the value of each stock appreciated considerably during the long period before it was added to the S&P 500.

## An inexact index may deliver distorted results

*Index composition has a direct effect on index performance*

### Index Comparison

Russell 2000 vs S&P SmallCap 600



The **Russell 2000 Index** is comprised exclusively of small-cap stocks, and therefore provides a precise measure of the asset class.

By comparison, the S&P SmallCap 600 Index includes not only small-cap stocks but also stocks Russell Indexes would classify as micro-cap and mid-cap. The inclusion of stocks outside what Russell Indexes defines as the small-cap range may affect the index's ability to measure the intended market precisely and thus the investor's ability to allocate assets accurately.

### AMZN

Initial public offering (IPO)  
**5/15/97**

Added to Russell 2000  
**6/3/97**

Added to S&P 500  
**11/18/05**

Change in value  
**+3,043%**

### NFLX

Initial public offering (IPO)  
**5/23/02**

Added to Russell 2000  
**06/28/02**

Added to S&P 500  
**12/17/10**

Change in value  
**+2,412%**

## Diversification matters

As explained in the "Russell 2000 Index Quarterly Chart Book" (May 2024), "Academic and practitioner research confirms that large-cap stocks behave differently to small-cap stocks."

Indeed, a FTSE Russell analysis from March 2022, "US small caps outperform in global meltdown," noted that "Amid the widespread stock-market wreckage arising from the Russian-Ukraine conflict in February, there was one notable survivor: US small caps actually posted gains for the month, eclipsing the broad US market and most markets elsewhere."

Many ETFs and investment funds track the Russell 2000. To explore these, please visit [our website](#).

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## About FTSE Russell

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Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

## Contact Us

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