Market Talks
EDUCATION CENTER

STOCKS · BEGINNER · LESSON 11 OF 15

# Sectors and Market Caps

How stocks are grouped by industry and by size, why technology dominates the S&P 500, which sectors are cyclical or defensive, and how small and large companies behave differently

11 min read  8 quiz questions with answer key

STOCKS · BEGINNER · LESSON 11 OF 15

# Sectors and Market Caps

IN ONE SENTENCE

Stocks are grouped in two common ways: by sector, the kind of business a company does, and by market cap, the size of the company. The global standard, GICS, divides companies into 11 sectors. Size groups run from mega caps worth $200 billion or more down to micro caps. Both groupings help explain how stocks move together and how much risk a portfolio carries.

## The 11 sectors

In Lesson 9 you saw that stocks in the same industry tend to move together. To make this easier to follow, almost all stock markets and index providers use the same classification system, the **Global Industry Classification Standard (GICS)**, created by MSCI and S&P Dow Jones Indices in 1999. It places every listed company in one of **11 sectors**, based on where it earns most of its money.

Figure 1 shows the 11 sectors with well-known examples. A few classifications surprise beginners. Amazon and Tesla are in **Consumer Discretionary**, not technology, because they mainly sell goods and services to consumers. Alphabet and Meta are in **Communication Services**, together with telecom and media companies. Visa and Mastercard are in **Financials**, because they run payment networks.

Each sector is further split into industry groups, industries and sub-industries, 163 in total, but the 11 sectors are the level most investors use. Many index providers, such as S&P, publish a separate index for each sector, and there are funds that track each one, which Lesson 13 explains.




Figure 1. GICS places every listed company in one of 11 sectors. A few, like Amazon and Alphabet, are not where beginners expect.

## Not all sectors are equal

In a market-cap weighted index like the S&P 500, a sector's weight is the combined value of its companies. Today the sectors are far from equal in size.

**Information Technology** is by far the largest sector, accounting for roughly a third or more of the S&P 500 in late 2026, thanks to giants such as Nvidia, Apple, Microsoft and Broadcom. Add Communication Services and Consumer Discretionary, home to Alphabet, Meta, Amazon and Tesla, and well over half the index is linked to technology and the internet. At the other end, Utilities, Materials and Real Estate each make up only about 2%.

This matters because the S&P 500 is not as diversified as its 500 names suggest. According to S&P Dow Jones Indices, at the end of October 2026 the 10 largest stocks made up **37.3%** of the index. An investor who owns an S&P 500 fund has a large bet on a handful of technology companies, whether they realise it or not. Sector weights change over time: in the early 1980s energy was one of the largest sectors in the US market, and before 2008 financials were.

## Cyclical and defensive sectors

Sectors react differently to the ups and downs of the economy:

- **Cyclical sectors** do well when the economy is growing and suffer in recessions. People buy new cars, travel and renovate their homes when times are good, and stop when they are worried. Consumer Discretionary, Industrials, Materials, Energy and Financials are usually cyclical. Technology often behaves cyclically too.
- **Defensive sectors** sell things people need in good times and bad: food, medicine, electricity. Consumer Staples, Health Care and Utilities are usually defensive. Their profits are steadier, and they often pay dividends, as Lesson 10 explained.

Defensive stocks usually fall less in bear markets, which you will meet in Lesson 12, but they also tend to rise less in strong bull markets. Investors often move money between the two groups as their view of the economy changes, a pattern called **sector rotation** that the Intermediate level covers.

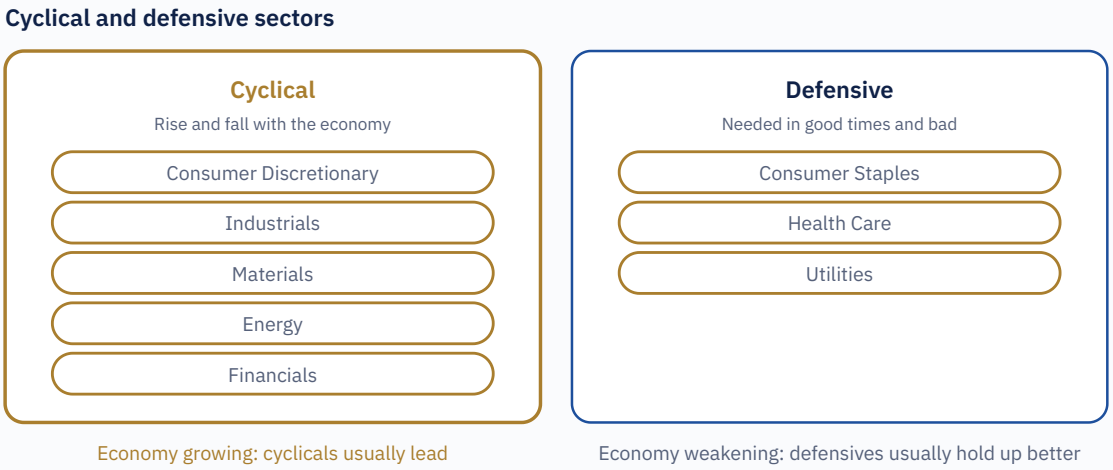



Figure 2. Cyclical sectors follow the economy up and down. Defensive sectors sell things people need in any economy.

## Sorting companies by size

The second common grouping is by **market capitalization**, the total value of a company's shares that you met in Lesson 1. There are no official cut-off points, but FINRA, the US brokerage regulator, gives these common ranges:

- **Mega cap:** $200 billion or more
- **Large cap:** $10 billion to $200 billion
- **Mid cap:** $2 billion to $10 billion
- **Small cap:** $250 million to $2 billion
- **Micro cap:** less than $250 million

A company can move between groups as its value changes. Our imaginary Bright Bean, worth $10.65 billion in Lesson 6, is just inside the large-cap group. If its share price fell by 10%, it would become a mid cap.

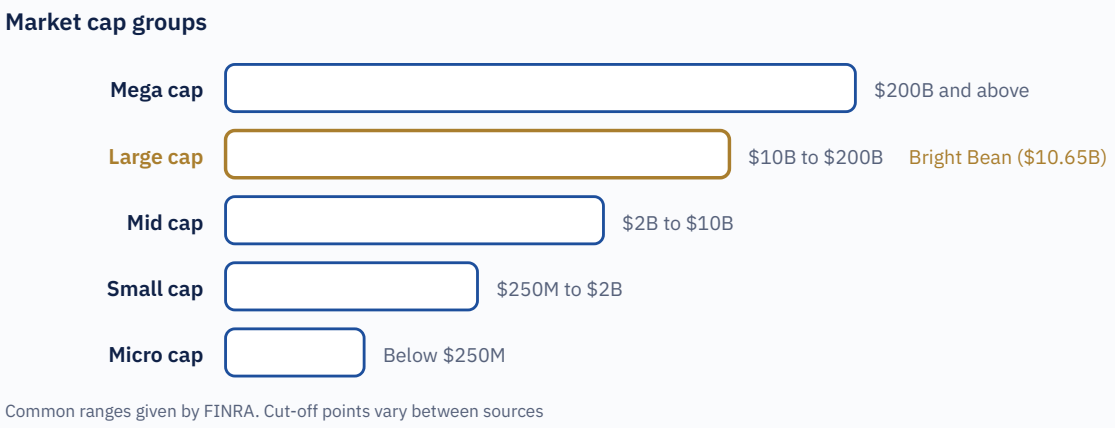



Figure 3. The usual size groups. Bright Bean sits just inside the large-cap group.

## The size range inside the S&P 500

Even within one index, company sizes vary enormously. According to S&P Dow Jones Indices, at the end of October 2026 the companies in the S&P 500 ranged from about **$5.7 billion** for the smallest to about **$5.0 trillion** for the largest, almost 900 times bigger. The **median** company, the one in the middle of the list, was worth about **$44 billion**, while the average was about $135 billion, pulled up by the giants.

Because the index is weighted by size, the largest company counts for more in the S&P 500 than the 100 smallest companies combined. To follow smaller companies, investors look at other indices: the **S&P MidCap 400** for mid caps, and the **Russell 2000** and S&P SmallCap 600 for small caps.

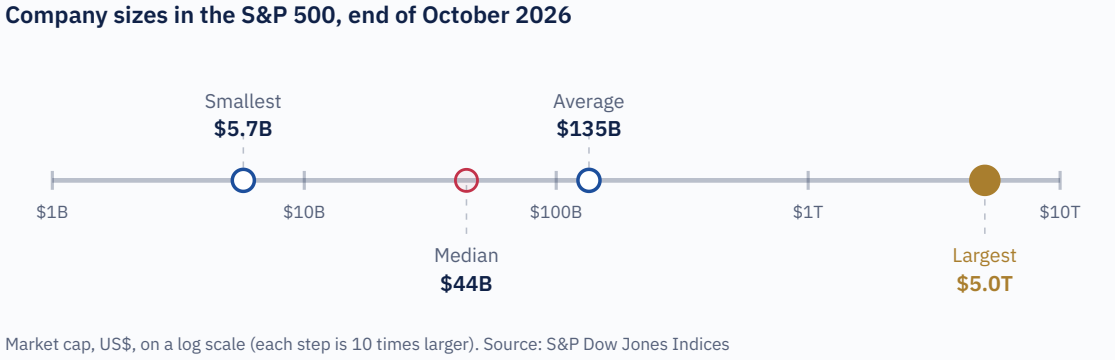



Figure 4. The largest S&P 500 company is almost 900 times bigger than the smallest. The average is far above the median.

## Large caps and small caps compared

Company size shapes how a stock behaves:

| | Large caps | Small caps |
|---|---|---|
| **Typical business** | Established, often global, many products | Younger or more focused, often one main product or market |
| **Growth potential** | Lower, because they are already large | Higher, since a small company can grow many times over |
| **Risk and price swings** | Lower | Higher, and a weak economy can hit them harder |
| **Trading** | Very liquid, tight spreads | Less liquid, wider spreads |
| **Information** | Followed by many analysts | Followed by few analysts |
| **Dividends** | Common | Less common |

Over very long periods, some studies have found that small caps earned slightly higher returns than large caps as a reward for their extra risk, but there have also been long stretches, including much of the past decade, when large caps did far better. For beginners, the key point is that smaller usually means more volatile, so position sizes in small and micro caps should be smaller too.

## Size and style together

Investors often combine size with a second idea, **investment style**:

- **Growth stocks** are companies expected to grow sales and profits faster than average. They often pay little or no dividend and trade at high P/E ratios, because investors pay up for future growth.
- **Value stocks** look cheap compared with their current profits, assets or dividends, often because the company is slower-growing, out of favour or going through problems.

Putting size and style together gives a simple grid of nine boxes, from large-cap value to small-cap growth, shown in Figure 5. Fund companies use this kind of grid to describe what a fund holds, and investors use it to check that they are not putting all their money in one corner of the market. The Intermediate level looks at growth and value investing in detail.

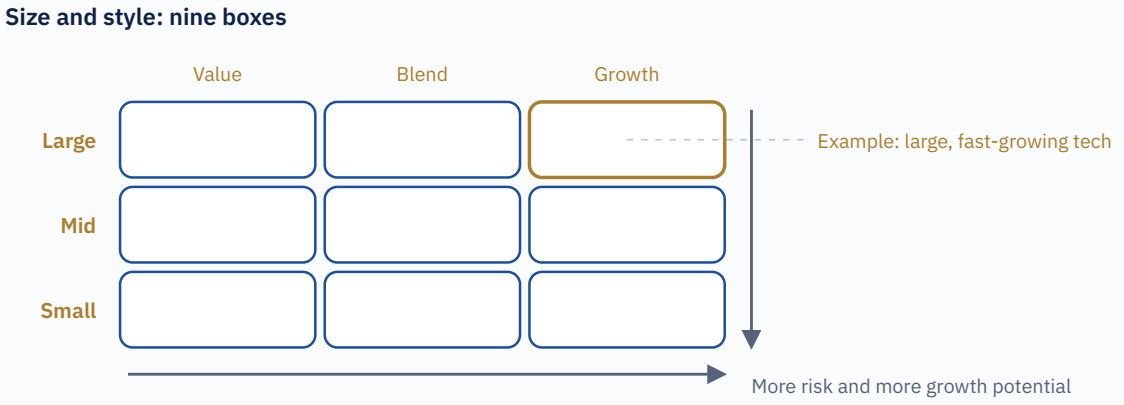



Figure 5. Combining size and style gives nine boxes. Smaller and more growth-focused usually means more risk.

## Using sectors and sizes

Knowing a stock's sector and size helps you in three practical ways:

- **Understanding moves.** If your bank stock falls 3% on a day when the whole financial sector falls 3%, the move probably has nothing to do with your company in particular.
- **Comparing fairly.** Ratios like P/E and dividend yield are only meaningful against companies in the same sector and of similar size. A utility and a software company should not be judged by the same numbers.
- **Spreading risk.** Owning five technology stocks is not diversification. Spreading money across sectors and sizes reduces the damage when one part of the market falls, as Lesson 14 explains.

Most trading platforms and stock screeners let you filter by sector and market cap, and most quote pages, like the one in Lesson 6, show both.

## Why this matters for traders

- **Check the sector first.** Many traders look at the sector's move before a single stock's. A stock rising while its sector falls is showing unusual strength.
- **Sector news spreads.** One company's earnings often move its whole sector, so traders watch the reports of sector leaders.
- **Small caps move more.** Expect bigger swings and wider spreads in small and micro caps, and adjust position size and stop distance.
- **Rotation tells a story.** When defensive sectors lead and cyclicals lag, investors may be worried about the economy, and the opposite can show growing confidence.

## Key terms

| | |
|---|---|
| **Sector** | A broad group of companies in related businesses, such as Energy or Health Care. |
| **GICS** | Global Industry Classification Standard: the system created by MSCI and S&P that places companies in 11 sectors. |
| **Cyclical sector** | A sector whose profits rise and fall strongly with the economy, such as Consumer Discretionary or Industrials. |
| **Defensive sector** | A sector that sells things people need in any economy, such as Consumer Staples, Health Care or Utilities. |
| **Sector rotation** | Investors moving money from one group of sectors to another as their view of the economy changes. |
| **Mega cap** | A company with a market capitalization of $200 billion or more. |
| **Large cap** | A company worth roughly $10 billion to $200 billion. |
| **Mid cap** | A company worth roughly $2 billion to $10 billion. |
| **Small cap** | A company worth roughly $250 million to $2 billion. |
| **Micro cap** | A company worth less than about $250 million. |
| **Growth and value** | Two investment styles: companies expected to grow fast, and companies that look cheap compared with their profits or assets. |

## Key takeaways

1. GICS divides listed companies into 11 sectors by the kind of business they do. Some placements, like Amazon in Consumer Discretionary, surprise beginners.
2. Sectors are very unequal in size. Information Technology is by far the largest part of the S&P 500, while Utilities, Materials and Real Estate are about 2% each.
3. Cyclical sectors follow the economy up and down, while defensive sectors such as Consumer Staples, Health Care and Utilities are steadier.
4. By market cap, companies are grouped as mega, large, mid, small and micro caps. Smaller companies usually have more growth potential but more risk.
5. Sector and size help you understand moves, compare companies fairly and spread risk.

# Test yourself

Circle one answer for each question. The answer key with explanations is on the next page. You can also take this quiz online at markettalks.info and see your score instantly.

**1. How many sectors does the GICS system use?**

A 5
B 8
C 11
D 24

**2. In which GICS sector is Amazon?**

A Consumer Discretionary
B Information Technology
C Communication Services
D Industrials

**3. Which sector is the largest in the S&P 500 in late 2026?**

A Utilities
B Energy
C Information Technology
D Real Estate

**4. Which group contains only defensive sectors?**

A Energy, Materials, Industrials
B Financials, Consumer Discretionary, Technology
C Industrials, Utilities, Energy
D Consumer Staples, Health Care, Utilities

**5. Using FINRA's common ranges, a company worth $5 billion is a...**

A Mega cap
B Large cap
C Mid cap
D Micro cap

**6. At the end of October 2026, what was the market cap of the median S&P 500 company?**

A About $5.7 billion
B About $44 billion
C About $135 billion
D About $5 trillion

**7. Compared with large caps, small caps usually have...**

A Lower risk and tighter spreads
B More growth potential but bigger price swings and wider spreads
C More analysts following them
D Higher dividends

**8. What is a growth stock?**

A Any stock that rose last year
B A stock that pays a high dividend
C A company in the Utilities sector
D A company expected to grow sales and profits faster than average, often at a high P/E

# Answer key

1 C

**11**

GICS, created by MSCI and S&P in 1999, places every company in one of 11 sectors.

2 A

**Consumer Discretionary**

Amazon mainly sells goods and services to consumers, so GICS places it in Consumer Discretionary, together with Tesla.

3 C

**Information Technology**

Information Technology is by far the largest sector, roughly a third or more of the index, while Utilities and Real Estate are about 2% each.

4 D

**Consumer Staples, Health Care, Utilities**

Food, medicine and electricity are needed in any economy, so these sectors' profits are steadier.

5 C

**Mid cap**

Mid caps are roughly $2 billion to $10 billion. Large caps start around $10 billion.

6 B

**About $44 billion**

The median was about $44 billion. The average, about $135 billion, is pulled up by a few giants worth trillions.

7 B

**More growth potential but bigger price swings and wider spreads**

Small companies can grow many times over, but they are riskier, less liquid and followed by fewer analysts.

8 D

**A company expected to grow sales and profits faster than average, often at a high P/E**

Growth stocks are priced for strong future growth. Value stocks look cheap compared with current profits, assets or dividends.

SOURCES


- S&P Dow Jones Indices, An Overview of S&P 500 Sector Indices and 25 Years of GICS: https://www.spglobal.com/spdji/en/education/article/talkingpoints-an-overview-of-sp-500-sector-indices-and-25-years-of-gics
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