Are Mega-Caps Stunting Your Portfolio's Growth Potential?

Description

Mega-cap stocks are a must-have for any prudent investor's portfolio. The behemoth businesses behind these big blue chips have had decades to establish themselves, grow their brand, capture a meaningful amount of market share, gain invaluable industry expertise and capitalize from the positive effects of economies of scale.

There's no question that mega-cap firms have had more time to build their moats. Ironically, the sheer size of behemoths may ultimately be the cause of a firm's moat erosion should up-and-coming technological disruptors challenge the incumbent leaders of an industry.

The bigger a business, the harder it is to adapt to rapid changes in an industry. Behemoths by nature just aren't as agile as their smaller counterparts, so responding to a sudden shift in consumer demands would be like turning around an aircraft carrier, whereas a smaller firm is agile enough to navigate the rough waters like a speedboat.

Moreover, the bigger a business grows, the less growth there is to be realized thanks to the law of diminishing marginal returns.

As behemoths continue to grow, the diseconomies of scale, if not adequately managed, will become more apparent and will destroy long-term shareholder value.

In such cases, spin-offs may be necessary, but much of the time, management teams are content with keeping their businesses intact, thereby opening the door for activist shareholders to voice their concerns on behalf of investors in the company.

Consider **BCE Inc.** (TSX:BCE)(NYSE:BCE) a telecom giant with a nearly $50 billion market cap. Despite delivering above-average results to investors since the financial crisis, it's apparent through the long-term chart that the company has hit the ceiling when it comes to meaningful growth.

The company has a dominant position in Canada's wireless and wireline market, but as competition picks up in conjunction with decreasing switching costs, I think BCE will stand to lose a ton of its market share. And that's no thanks to regulators who will likely place barriers in front of dominant providers like BCE in order to foster greater competition.

Moving forward, increased regulatory oversight will likely cause BCE to lose ground to up-and-coming competitors like **Shaw Communications Inc.** BCE may also be blocked from making meaningful acquisitions to spark growth.

The sheer size and dominance of BCE will serve as a massive disadvantage for many years to come, so investors keen on the 5.5% dividend ought to be content with modest results moving forward to avoid disappointment. The days of market-beating capital gains are long gone.

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