

# Tips and Tricks for Small Company Stock Investing

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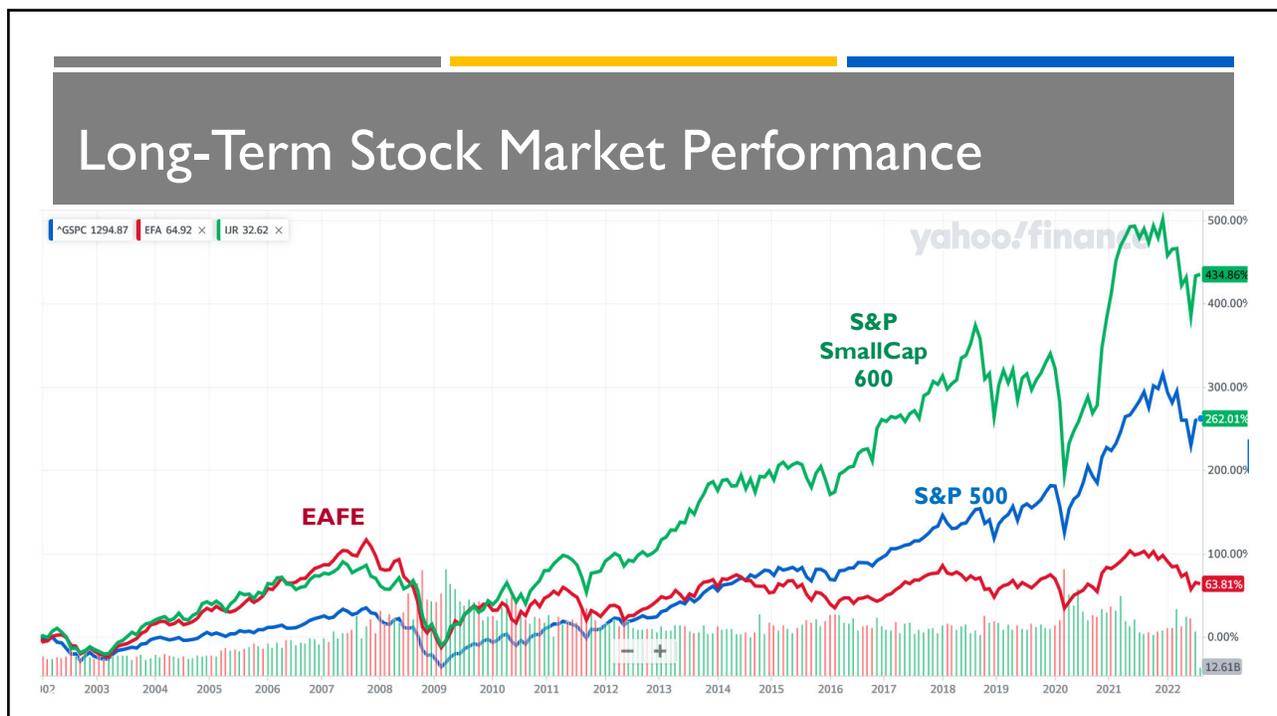
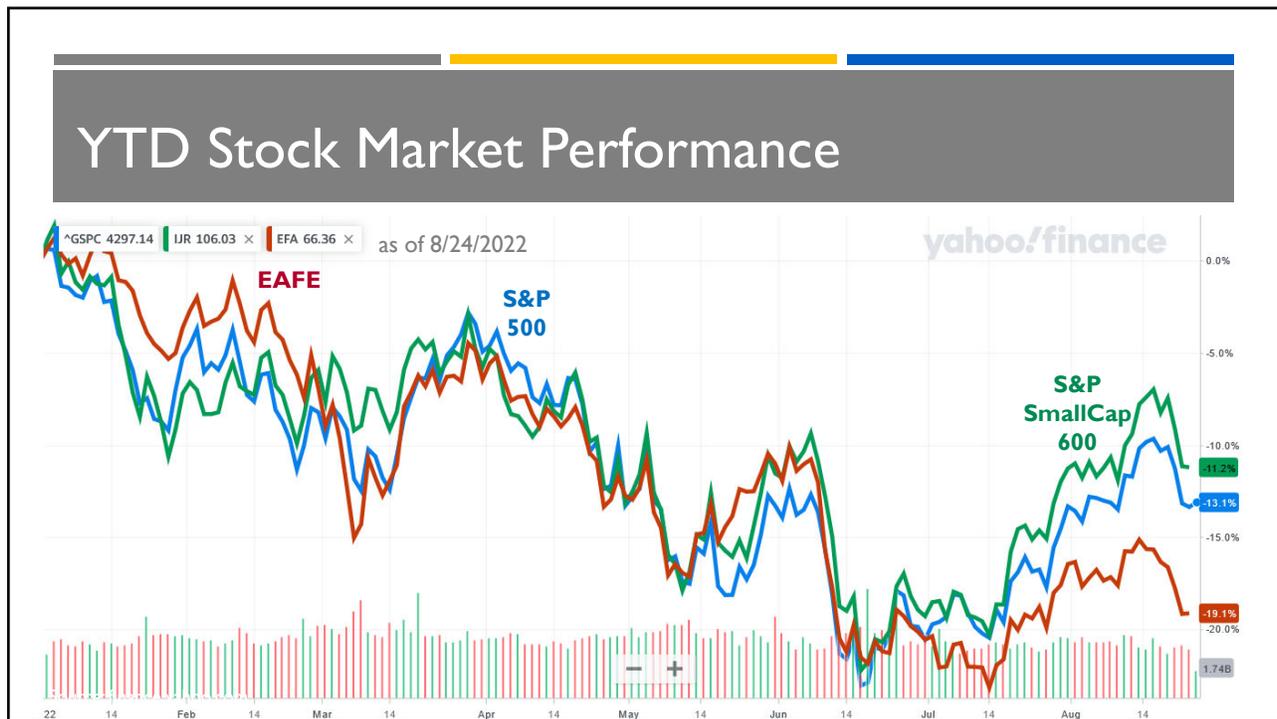


## Keys to Small Company Investing

### Why Invest in Small Company Stocks?



1. Increase return in portfolio.
  - Small company stocks tend to deliver larger returns over time than large companies.
2. Even out risk in portfolio.
  - Though small company stocks are generally more volatile than large company stocks, they perform at different periods of market cycles than large companies & thus can even out returns over time.



## Define Your Portfolio Allocation Goals



- BI recommends that portfolios include:
  - 25% large companies (TTM Sales > \$10M).
  - 50% midsize companies (TTM Sales between \$1M & \$10M).
  - 25% small companies (TTM Sales < \$1M).
- BI recommends remaining fully-invested **at all times**.
- Optional: Set aside 5%-10% of investable assets for more speculative investments.

## Measuring Company Size by Revenues



- BetterInvesting classifies companies by Trailing Twelve-Month (TTM) Revenues:
  - **Small** < \$1B.
  - **Mid** >\$1B and <\$10B.
  - **Large** > \$10B.
- This better measures company size than by market cap (which is measure of popularity, not fundamentals).

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## About Very Small & Very Large Companies



- Some ICLUBcentral tools include additional size groupings:
- **Micro:** Revenues < \$100M.
  - Stocks are much more volatile, don't have much float, not covered by analyst.
- **Mega:** Revenues > \$50B.
  - Stocks are often slow growers with much lower return potential, may provide more income but less appreciation.

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## Understand Small Stock Differences



- Smaller companies tend to see fundamentals & price movement at different points in economic & market cycle.
  - Small companies tend to see fundamentals fall off more quickly during economic hard times, but improve sooner at end of recession.
  - Small companies tend to see prices drop more quickly at start of major market corrections & bear markets, but lead the way when prices move up again.

## Understand Small Company Stock Valuation Trends



- Small companies have fewer shares outstanding & thus lower institutional interest, so demand is lower for their stocks.
  - Institutions (pension funds, mutual funds, etc.) often are restricted from investing in smaller companies by policy or by regulation.
- Lower demand means lower P/E ratios when compared to larger companies in similar industries & with similar growth.
- This can equate to expansion of P/E ratio as company matures, even if growth slows (opposite of what we expect for larger companies).

## Hone Your Target for Small Company Stocks



- Define your personal preferences for potential investments, such as:
  - Should price be greater than \$5 or \$10?
    - Often stocks with very low prices tend not to see prices grow in line with fundamentals.
  - Should TTM Sales must be \$100M or greater?
    - Very smallest companies may take too long to reach point where even good fundamentals will deliver acceptable price appreciation.
  - Can Current P/E Ratio be above 30?
    - Small companies may have higher P/E ratios than larger companies, which can increase risk.
  - It's okay to search for "smaller" companies when starting out—initial aim can be to reduce average size of holdings.

## Use the Right Tools for Your Search



- BetterInvesting & ICLUBcentral stock search tools include ability to screen for companies by annual revenues.
  - Rarely do other stock search tools include this ability—most search by market cap.
- Screening tools include:
  - BI Online Tools.
  - MyStockProspector.com
  - StockCentral.com

## Don't Be Afraid to Be Contrarian



- Small companies are loved less than large companies, mostly due to law of supply & demand.
- Remember that fundamentals always win out in the end.
  - Short-term results are not as assured.
- When gains come, they will reward your patience & conviction.

## Watch the Downside Carefully



- Due to additional volatility, can be advantageous to watch downside more closely than for large company stocks.
  - Small company stocks can drop quickly in price, but often recover more slowly.
- Consider using TSLOs or SLOs on small company stocks with large unrealized gains (trailing stop set 5%-8% seems to be good territory).
  - Realize that while this may protect on downside, it eliminates further upside.
- When stocks fall significantly due to fundamental problems, look carefully at selling since recovery may take longer than desirable.

## Get Help When You Need It



- ***SmallCap Informer*** was founded in 2012 to serve needs of BI-style investors who wanted support in finding & analyzing small company stocks.
- Uses Stock Selection Guide (SSG) to analyze individual companies.
- Long-term results have exceeded S&P SmallCap 600 Index.



## Key Resources for Company Research

### Check Investor Presentations



- Companies often create presentations that management presents at conferences or during earnings calls.
- These often have important considerations about company strengths & weaknesses, addressable market, industry trends, etc.
- Found on Investor Relations website of company.

## Check Analysts Estimates



- Analysts estimates of sales & EPS growth are often harder to find for smaller companies.
- Sources to check include:
  - BI Online Tools (2-year sales & 5-year EPS growth rates).
  - Nasdaq.com (EPS for 2-4 fiscal years).
  - Yahoo! Finance (EPS & Revenues for 2 fiscal years, 5-year EPS growth rate).

## Check Company Guidance



- Management may provide guidance for expected results in next quarter or current fiscal year.
- If provided, this is invaluable information in determining likely future growth.
- Guidance may be adjusted, so check company's quarterly & fiscal year reports for changes & updates.

## Check Recent Earnings Reports



- Review performance in most recent quarter/fiscal year as reported by company in press release found on:
  - Yahoo! Finance.
  - Company website.
- Includes important update on company's progress as well as risk factors for upcoming periods.

## Check Industry Averages



- Compare pre-tax profit margins & debt to other similar companies and industry averages.
- Complete sector/industry/company averages available on StockCentral.com (\$).
- Basic industry averages found in Investing tab of ICLUB.com.

## Check SeekingAlpha.com



- Independent contributors often provide analysis of smaller companies.
- May use different investing strategy than growth/GARP, but can provide insight into company's potential.
- Some analysis is behind subscriber paywall.



## Using the *SmallCap Informer*

# About the SmallCap Informer



- Available by subscription.
- Each issue is delivered online & includes:
  - 2 full company recommendations w/SSGs.
  - Follow-ups w/ revised buy prices on all ~50 currently covered companies.
  - Investment commentary & educational articles.
  - Sale recommendations (when necessary).
  - Access to online tools.
  - Calendar of upcoming dividends, earnings reports, events.

**Editor's Comments**  
**The Impossibility of Predicting the Market**  
 Each time you shuffle a deck of 52 playing cards, it is a near certainty that no deck of cards has ever been arranged in that order in any point in history. Mathematicians explain that the number of possible arrangements of a deck of cards can be calculated by using the factorial of 52, which is the product of multiplying 52 by all the integers smaller than 52.  
 The resulting number is very, very, very large, approximately 8 x 10<sup>67</sup> (That is, an 8 with 67 zeroes). That number is so large that not only in the history of the world has a deck ever likely been shuffled the same way twice, but there are more possible arrangements of cards in a shuffled deck than there are atoms on earth or stars in the known galaxy.  
 Understanding the complex outcomes that can result from a simple task like shuffling a deck of cards can help investors who are seeking direction in the current market—or at least can explain somewhat the difficulty in getting a clear answer to the question, "Where is the market and economy headed?"  
 StockCharts defines more than 20 market indicators that measure the health of stocks or groups of stocks (and these don't include any of more than 60 technical indicators).  
 If economic data is what you seek, Moody's lists on its website more than 90 economic indicators that it tracks for global economies. The Federal Reserve Bank of St. Louis publishes 817,499 data series related to global and domestic GDP, employment, population, industrial output, and more, for many regions, states, and countries, for many periods, adjusted and non-adjusted, estimated and actual.  
 With all of this data, economists can point with certainty to times in history where some element of the present economy behaved in much the same fashion.  
 Much less certain is the probability that at any point in history

**Stock Data Table**  
 As of 19 August 2022

SYMBOL	Company	Industry	Cap. Mkt.	Price	52-Week	Change	P/E	Div. Yield	Yield	52-Week	High	Low	Volume
ACU	Acme United	Industrial Products	20.31	13.9	9.0	21	45	13.9	1.3	13.9	13.9	13.9	322
ADSK	Autodesk	Software	80.23	245	11.8	81	142	11.8	1.5	11.8	11.8	11.8	322
ATOS	Atos	IT Services	12.26	24.9	15.0	14	26	24.9	1.8	24.9	24.9	322	
AL	Alcoa	Aluminum	30.72	8.9	12.8	40	85	8.9	1.4	8.9	8.9	14	917
AMN	AMN Healthcare	Medical Care	164.02	16.7	14.0	204	204	16.7	1.1	16.7	16.7	1071	
AMOT	Amphenol	Electronic Components	36.42	38.9	11.8	26	47	38.9	1.0	38.9	38.9	1021	
AMPI	Allegiance Power	Utilities - Renewable	14.27	27.4	8.8	14	21	27.4	1.3	27.4	27.4	1021	
ASPN	ASPN Inc.	Staffing & Outsourcing	194.80	29.3	10.8	122	270	29.3	1.3	29.3	29.3	1076	
ASPN	ASPN Inc.	Staffing & Outsourcing	75.20	11.0	10.8	110	270	11.0	1.3	11.0	11.0	1021	
CCO	ConocoPhillips	Oil & Gas Refining & Marketing	48.12	1.9	6.8	88	168	1.9	1.8	1.9	1.9	322	
CHST	Chatham	Construction	108.41	4.2	8.0	142	142	4.2	0.7	4.2	4.2	1021	

**News of Companies**  
**Acme United (ACU)** reported record revenue for the second quarter of 2022 of \$56.8 million. This is an increase of 27% from Q1 2021 revenue of \$44.8 million. At first glance, EPS fared far worse with EPS of \$0.71 for Q2 2022 versus \$1.82 for the year ago quarter, a plunge of 61%. Acme ended EPS for Q2 2021 was inflated by forgiveness of a PPP loan and a one-time tax benefit. After adjusting for the PPP loan forgiveness and tax benefit in 2021, EPS for the second quarter in both 2021 and 2022 were \$0.71.  
 During the quarter Acme acquired the assets of Safety Made for \$11 million. Safety Made manufactures fire and life tools for the professional products industry.

**Acme United (238.31)** is a buy up to \$31.  
 \*\*\*  
**Addus HomeCare (ADHS)** announced results for the second quarter ended June 30, 2022. Revenue grew 8.7% to \$216.5 million, but EPS fell 28% to \$0.70. Adjusted EPS edged up slightly to \$0.71 from \$0.70 in the year-ago quarter. Management reported improved labor trends in its personal care segment, but like most healthcare providers, continues to face a tight labor market for clinical staff in home health and hospice segments.  
 Personal Care revenues accounted for 73.0% of overall revenue and were up 5.2% on a same-store basis. Last year's acquisitions of

**Stock Study**

**MONARCH LASINO & RESORT, INC.**  
 MONARCH LASINO & RESORT, INC. is a strong advantage given their history and the attractiveness of the area. Metropolitan Reno's population has been growing twice as fast as national average, while per capita income is 11% higher than the national average.  
 The company's second property is the Monarch Casino Resort Spa Black Hawk in Black Hawk, Colo., about 40 miles west of Denver. It includes 60,000 square feet of casino space, 2500+ rooms, 4000+ sq ft of meeting and banquet space, dining and lounges, and an upscale spa and pool facility.  
 The Black Hawk market includes metropolitan Denver, one of the fastest growing and healthiest economies in the U.S., with a population of more than three million people within 50 miles. Like the Atlantic, the Black Hawk's market share has grown tremendously from 10% in 2012 to 26.7% in 2022. Interestingly, due to zoning restrictions no casino can be built any closer to Denver than the Monarch.  
 Growth Analysis  
 Since 2012, Monarch Casino & Resort has demonstrated a steady growth trajectory earned only by a decline in the pandemic of 2020. The company rebounded strongly in

# Web Tools for Subscribers



- Dynamic home page.
- Sortable report of key metrics & current/buy/sell prices for all stocks.
  - Also downloadable in Excel format.
- Discussion forums.
- Daily updated technical indicators for covered stocks.
- Screener for covered stocks.
- Daily price change report w/biggest losers & gainers.
- Closed positions report.

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- Issue - September 2022 - MEDP, MCR!
- Issue - August 2022 - FIVE, TREX
- Video - 7/13/2022 - Watch Our Mid-Year 2022 Subscribers Webinar
- Alert - 7/2/2022 - EDUS
- Issue - July 2022 - CLFD, JIPB
- Issue - June 2022 - FN, NVMI
- Issue - May 2022 - ACU, ADUS

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- What I Have Learned about Small Company Stock Investing
- Celebrating 10 Years of Small-Cap Investing
- SmallCap Informer Subscribers: Watch the Replay of Your Exclusive Webinar
- New Dynamic Home Page for SmallCap Informer Subscribers
- Opportunities Abound in a Market That Tests the Downside

[Go to blog posts](#)

### Recent Technical Changes

#### 50-Day Moving Average

Ticker	Company	Signal	Days Ago
AQN	Algonquin Power	SELL	2
ASGN	ASGN	SELL	2
CVCO	Cavco Indus	SELL	2

#### 200-Day Moving Average

Ticker	Company	Signal	Days Ago
LCI	LCI Indus	SELL	4
WGO	Winnabego Industries	SELL	4
AMN	AMN Healthcare Services	SELL	7

[Go to Technicals](#)

### Upcoming Events

Date	Event
8/1/2022	AMQZ dividend of \$0.025/share payable
8/1/2022	WZSL dividend of \$0.70/share payable
8/1/2022	LCI OTEK go ex-dividend
8/2/2022	ESG dividend of \$0.09/share payable

[Go to Calendar](#)

### Message Boards

Message	Date
IBD: LCI Industries Earns Top Rating As Americans Take To	8/18/2022
Reddit: 5445	
The Motley Fool: I'd Buy Const. Before It Skyrockets	7/25/2022
The Motley Fool: This Fierce Growth Stock Isn't Made To Be	7/25/2022
Monster Value Right Now	
Zeck: Reasons Why You Should Bet on Charles River Labs	7/13/2022

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### SCI Performance

Lifetime CAGR as of 7/31/2022

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### Small Cap Market Performance

52-Week Performance as of 8/31/2022

### Biggest Gainers & Decliners

\* % Change from Last Issue to Most Recent Closing Price

Gainers		Decliners	
Ticker	Company	Ticker	Company
AFYA	Afya	OTEX	Open Text
ACU	Acme United	CVCO	Cavco Indus
GRVY	GRAVITY Co	LCI	LCI Indus
		WGO	Winnabego Industries
		MMI	International Money

[Go to Recent Prices](#)

### Ucomina Events



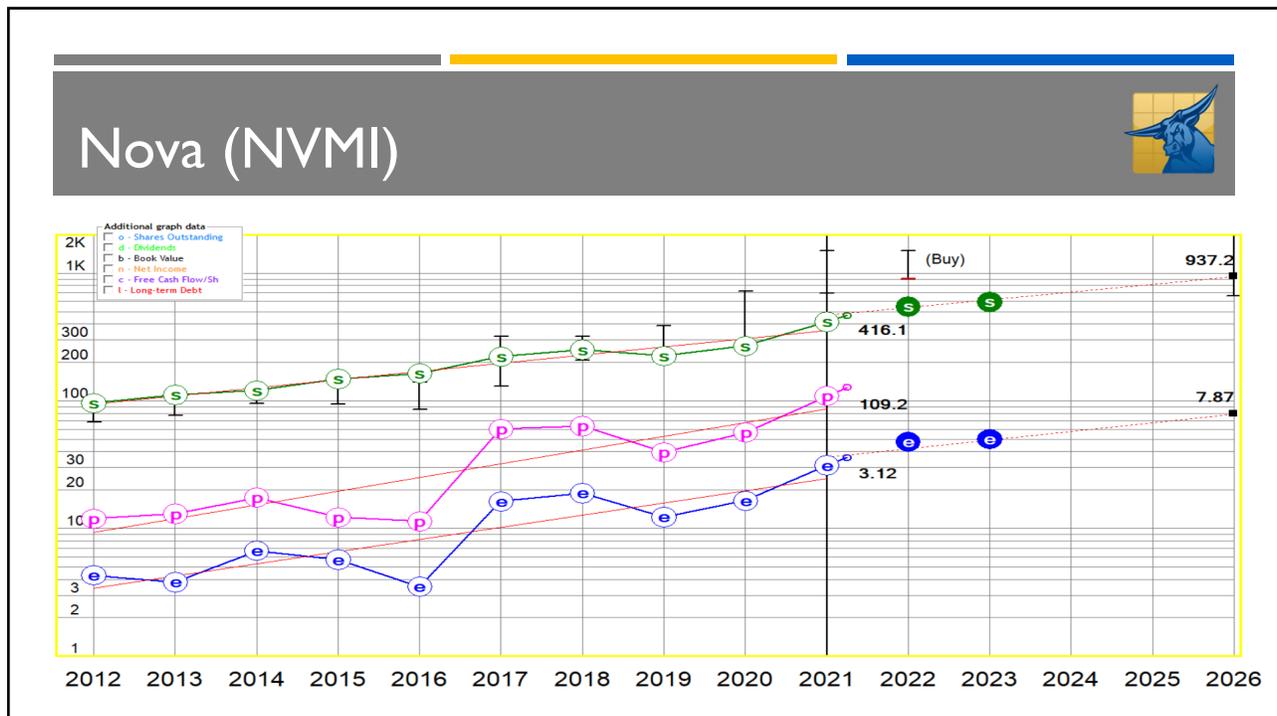
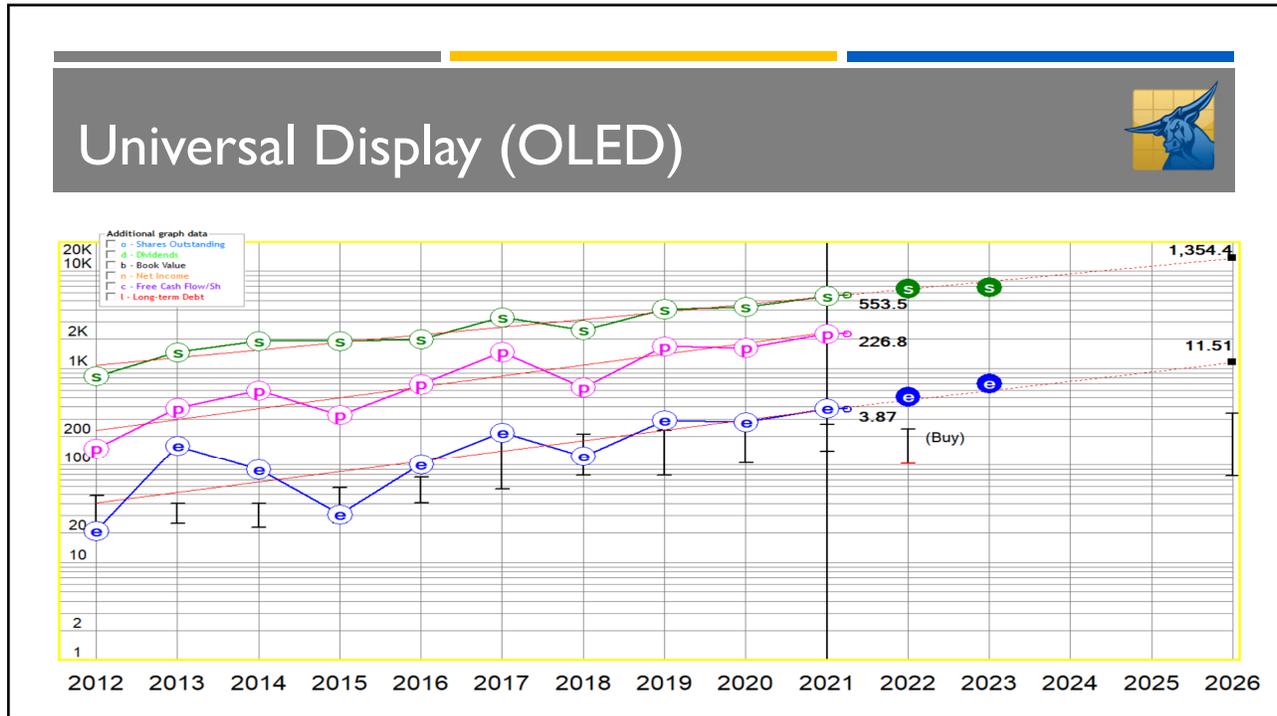

## Smaller Company Ideas

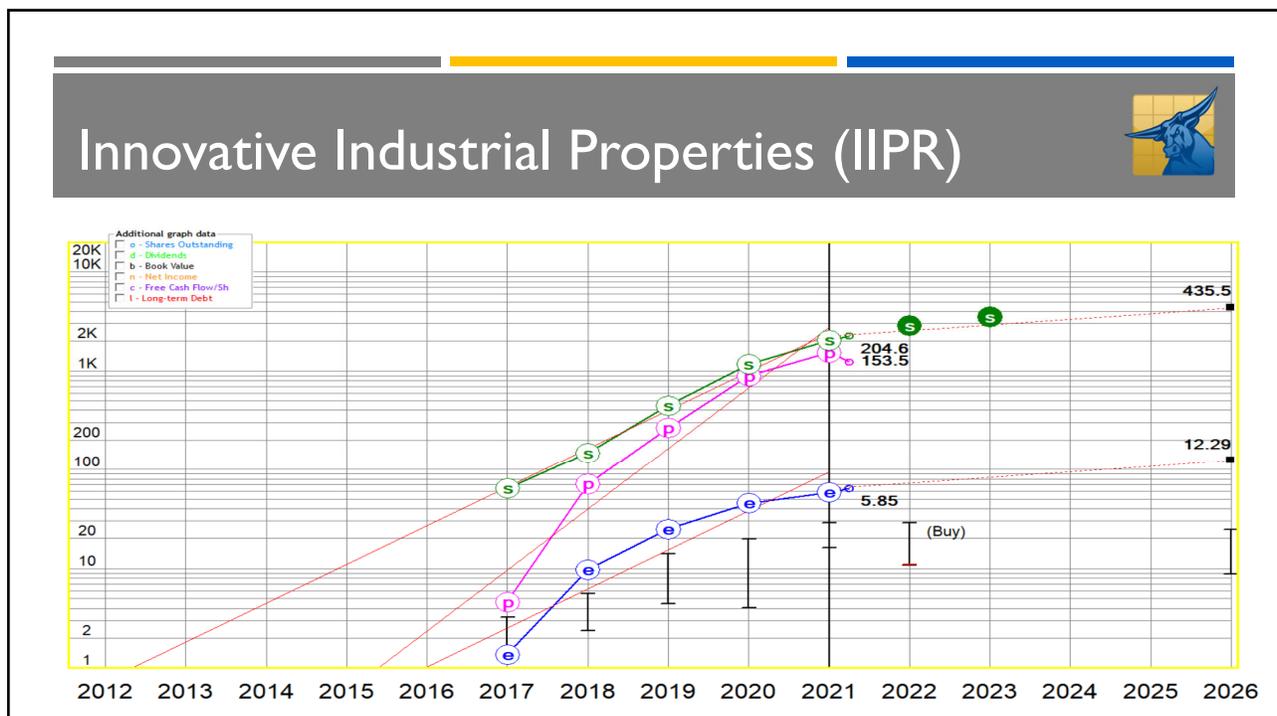
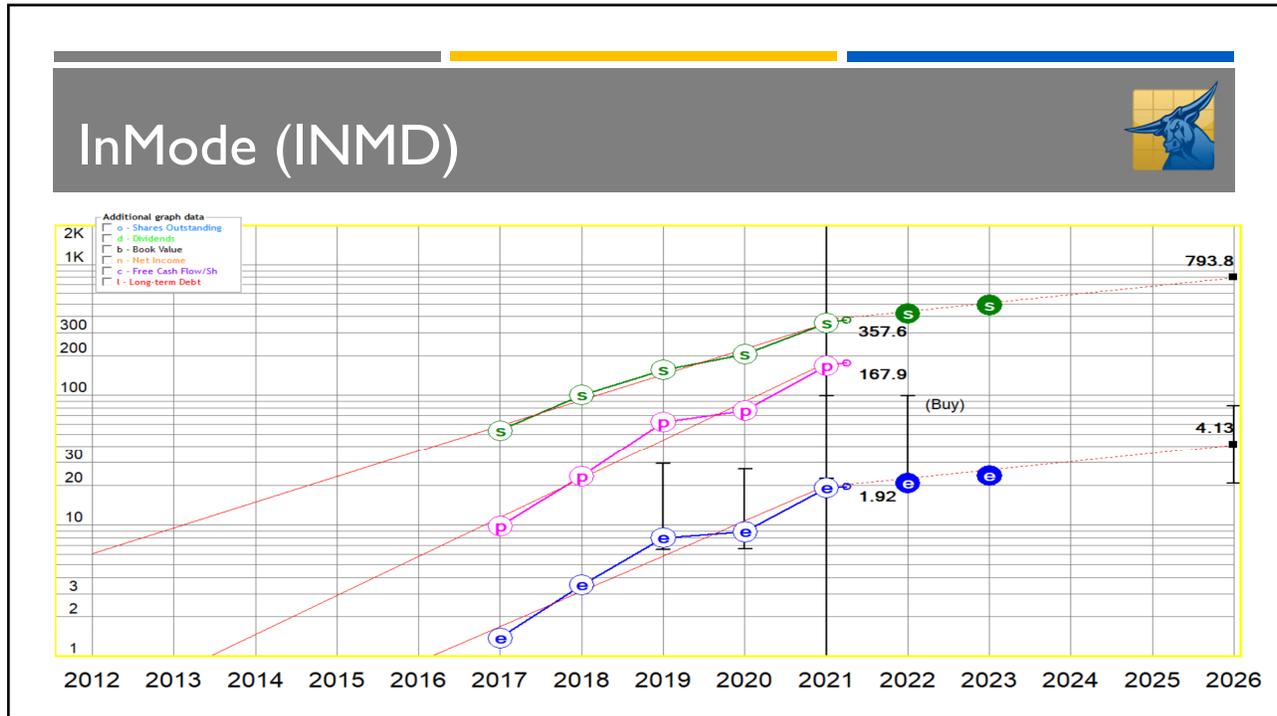


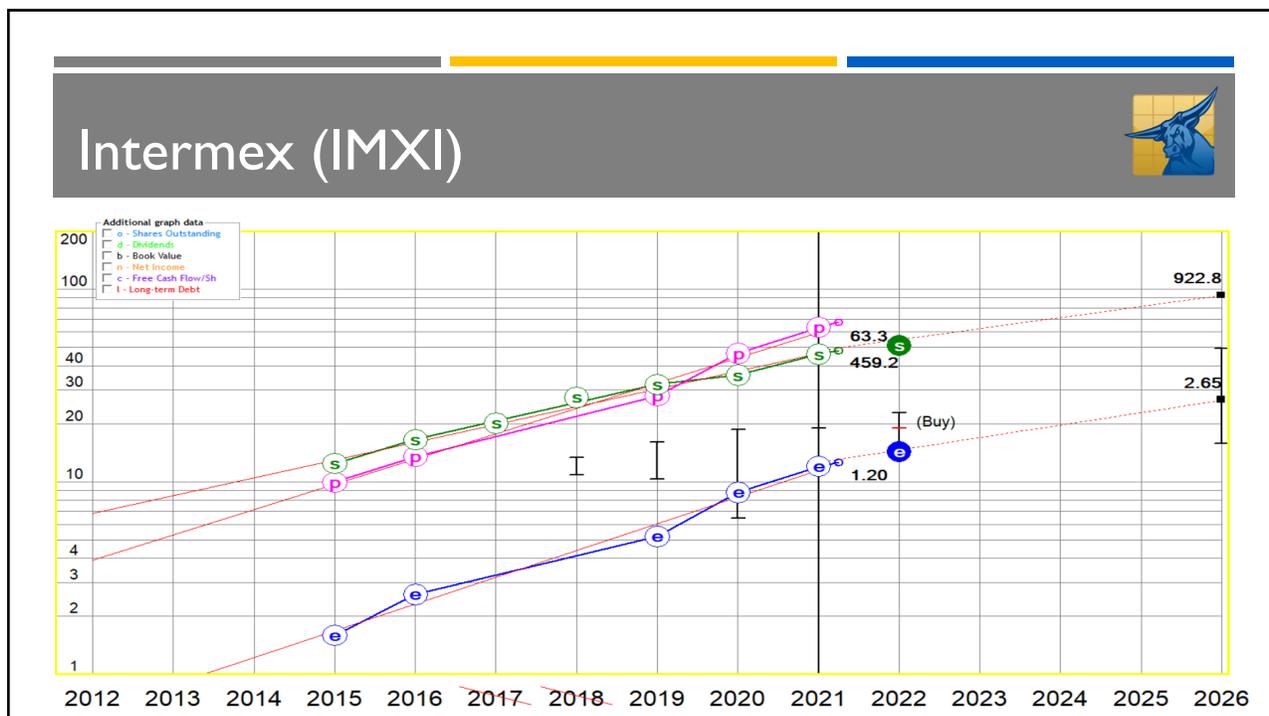
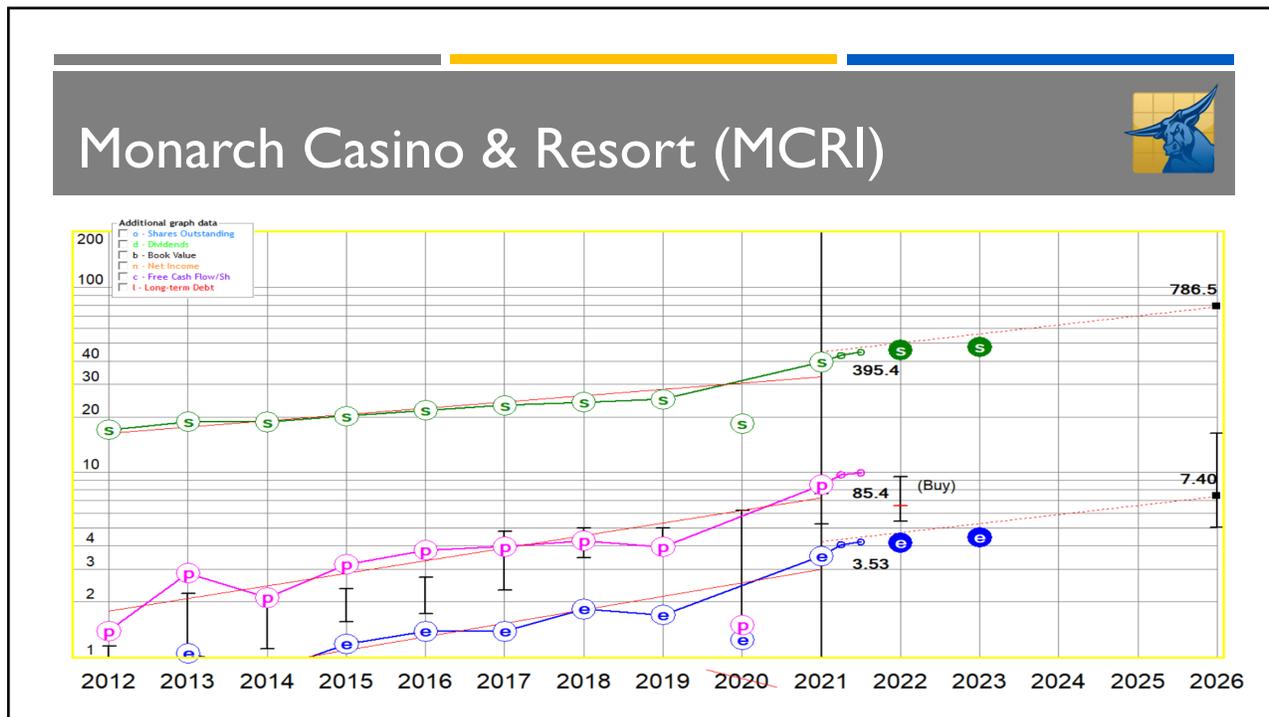

## Stocks to Study



Sym	Company	Industry	Sales (TTM)	Price	Curr P/E	Proj EPS Grth	Buy Up To	Proj Tot Ret	Curr Yld
OLED	Universal Display	Semiconductors	\$576.9	120.83	31.4	25.0	144	24.0	1.0%
NVMI	Nova	Semiconductor Equip.	\$509.8	107.63	27.5	17.0	129	22.7	
INMD	InMode	Medical Devices	\$404.2	32.50	16.2	16.0	36	21.0	
IIPR	Innovative Industrial	REIT-Industrial	\$247.8	102.13	14.9	11.0	113	20.3	5.6%
MCRI	Monarch Casino & Resort	Resorts & Casinos	\$395.4	65.61	15.6	12.0	79	19.9	
IMXI	Intermex	Financial Services	\$499.5	25.45	19.1	16.0	25	15.2	









## Final Thoughts

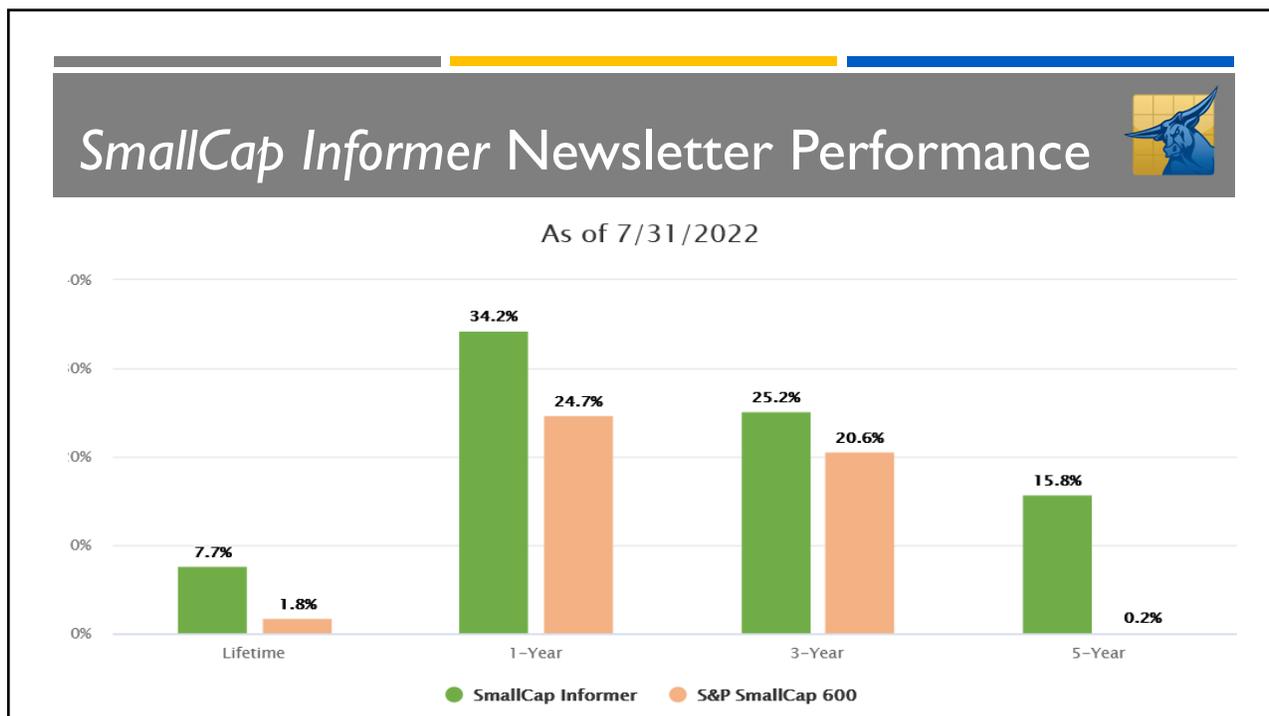
## About the *SmallCap Informer*

- Started in 2012.
- Recommends long-term-oriented smaller company stocks.
- Provides monthly follow-ups & sale recommendations.
- Array of online tools for more insights on covered companies
- Regularly outperforms S&P SmallCap 600.



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