

Finding Small Companies

NORCAL Webinars: Finding Small Company Ideas


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Agenda

- ▶ Why look for small companies?
- ▶ There are plenty of ways to find small cap stocks
- ▶ The steps I used to find a small company fund using Morningstar.com

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Before we start, let's do a poll....


- ▶ Do you own any small company stocks?
 - Yes
 - No

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Why Small Companies?

- ▶ Historical studies show small companies generate higher returns than larger companies
- ▶ BetterInvesting recommends having a portion of your portfolio invested in smaller companies for that reason
- ▶ Risks with smaller companies are higher volatility, sustainability of business models and finding information

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Small Company vs Small Cap companies


- *According to BI, small companies have sales of less than \$500 million in size and should grow more than 15%. Medium companies are between \$500 million in sales and \$5 billion and should grow between 10-15%.*
- *The definition of a small market cap or capitalization companies can range from \$1-5 billion on the small cap low end and as high as \$10-15 billion on the upper end. (Market cap is defined as the number of shares outstanding of the company multiplied by the current price. \$10/share X 200 million shares = \$2 billion market cap.)*

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Small Company Outperformance – Why and When?

- ▶ American Association of Individual Investors – AAI. Article on “Exploiting the Relative Outperformance of Small-Cap Stocks.” (January 2014) by John B. Davenport, Ph.D., and M. Fred Meissner.
 - From 1926 to 2012,
 - small caps outperformed large caps 51% of the time
 - and realized a cumulative excess return of 253%.
 - Small outperformed large caps coming out of recessions
 - When sectors did well, small did better than large

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Small Company Outperformance – Why and When?

- ▶ Certain economic time periods are better for small cap stocks:
 - Expanding economic activity (Rising GDP) after recession
- ▶ Due to its higher volatility (Standard Deviation), small cap stocks must generate a higher return to compensate for the risk versus large cap stocks.
- ▶ When a sector did well (Example: Energy), small outperforms large more than 50% of time and some as much as 70% of the time (6 sectors).

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Are there any questions?

Let's spend the next few minutes trying to answer any questions people might have out there.....

- Time for a Poll.....

– How many stocks do you hold in your portfolio or club portfolio?

- Less than 10 stocks
- Between 10 to 20 stocks
- Over 20 stocks

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How to Find Small Companies or Cap stocks?

- ▶ Ask fellow BI members.

- ▶ Pay for it:
 - Manifest Investing
 - Motley Fool Hidden Gem
 - Investor Advisory Services - Small Cap Informer

- ▶ Use a small cap fund to find ideas

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Ideas from Paying a Service

- ▶ Motley Fool – LF – Leap Frog
 - \$490 million – Market Cap
 - \$500 million - Sales

- ▶ Manifest Investing – TFM - The Fresh Market
 - Tin Cup Model Portfolio
 - \$1.7 billion - Market Cap
 - \$1.5 billion – Sales


- ▶ Small Cap Informer – LNN – Lindsay Corporation
 - \$1.1 billion – Market Cap
 - \$690 million - Sales

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Process used to Find a Successful Fund


- ▶ Do you know one?
 - Two ones from my past:
 - Nationwide Geneva Small Cap Fund – NWHZX
 - Royce Premier Fund – RYPRX
- ▶ Why did I look at these funds for stock ideas?
 - Generally low turnover or focus on consistent business model companies
 - Solid Morningstar rating 3-Stars or higher
 - Prefer below average expenses
 - Holdings less than 100
 - Long tenured management teams

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Royce Premier Fund


- Low turnover – RYPRX – 7%
- Solid Morningstar rating 4-Stars (Gold) - RYPRX
- Management with over 20+ years
- Expenses considered average
- 76 holdings
- Ideas bought recently
 - Copart - They bought 256K shares in recent quarter
 - Richie Brothers – Bought 175k shares in recent quarter
 - Global Specialty Metals– Bought 50k shares in recent quarter

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Nationwide Geneva Small Cap Fund

- Medium turnover – NWHZX – 79%
- Solid Morningstar rating 3-Stars – NWHZX
- Management with over 5-20 years
- Low risk/Average return
- Fees - High
- 55 holdings
 - Medidata Solutions – Largest holding
 - Tyler Technologies– 2nd Largest holding
 - Middleby Corporation– 3rd Largest holding


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How to find your own fund - Morningstar.com


▶ Use the same concepts–Enroll as a free member

- Log-in, go to Funds, screeners



Articles & Analyst Reports | Analyst Ratings | Star Ratings | Performance | Screeners | E-mail Alerts | Video Center

- They have a preset screen for “Solid Small Growth Funds” (They had 100) or create your own



| Check boxes for: | Test In a Portfolio | Add to my Portfolio | Score These Results | | |
|--|----------------------|---------------------|---------------------|--------------------|-----------------------|
| Fund Name | Morningstar Category | Morningstar Rating | YTD Return (3y) | Expense Ratio (3y) | Total Assets (\$ mil) |
| <input type="checkbox"/> PNC Multi Factor Small Ca | Small Growth | ★★★★ | -4.41 | 1.23 | 0.4 |
| <input type="checkbox"/> PNC Multi Factor Small Ca | Small Growth | ★★★★ | -4.39 | 0.95 | 0.4 |
| <input type="checkbox"/> PNC Multi Factor Small Ca | Small Growth | ★★★★ | -2.17 | 1.23 | 0.4 |

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Are there any questions?

▶ Let's spend the next few minutes trying to answer any questions people might have out there.....

- Time for a Poll.....

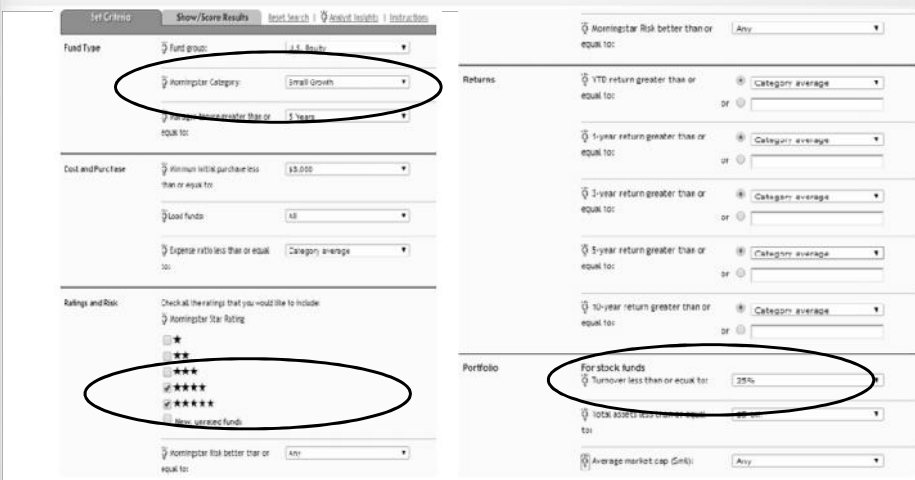
– Have you ever visited Morningstar.com prior to this meeting?

- Yes
- No

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Screen Morningstar.com – My choices



The screenshot shows the Morningstar.com search interface with several filters highlighted by hand-drawn circles:

- Fund Type:** The "Morningstar Category" dropdown is set to "Small Growth".
- Ratings and Risk:** The "Morningstar Star Rating" section has the 4, 5, and 6 star options selected.
- Portfolio:** The "Turnover" filter is set to "25%".


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Screen Morningstar.com

- ▶ My search criteria - **Low turnover – below 25%** - This is the key item – I want long term investors, I don't want the portfolio turning over every 90 days.
 - Solid Morningstar rating 3-Stars or higher
 - Prefer below average expenses
- ▶ Searched both small cap growth and core
- ▶ **Results – 4 funds**
 - *TPSIX, HSCSX, GTSYX, MSSMX*

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Fund Ideas

| Large Purchases | Large Holding |
|---|----------------------------------|
| ▶ <i>TPSIX – Kirby Corp., Genesee & Wyoming Cl.A</i> | |
| ▶ <i>HSCSX – Cardinal Financial</i> | * <i>Mantech Int'l. Corp - A</i> |
| ▶ <i>GTSYX – Affl.Managers Group</i> | * <i>Manhattan Assoc.</i> |
| ▶ <i>MSSMX - Aimia, BenefitFocus</i> | * <i>Corp. Executive Board</i> |
| ▶ <i>The problem is many of these funds are valued based funds and thus don't fit the SSG very well.</i> | |

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Thank you for joining us tonight.... Questions?

Upcoming Chapter Events

- *NORCAL Webinar: August 4 – Quick “Sniff Test” for stocks to research.*
- *Sacramento Area: August 16 – Summer Event.*
- *San Francisco Bay Area: October 18 – Education Day – Mills College, Oakland.*
- *BINC - BI National Convention – San Jose – May 14-17, 2015.*

Contact your local Chapter representative for more information.

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BetterInvesting National Convention

May 14 -17, 2015
DoubleTree San Jose, CA



♪ Do you know the way to San Jose ♪

Find your way to San Jose to fine tune your investment skills and ways.


Take advantage of the spousal rate. Plan a pre or post stay to explore San Francisco, wine country, Carmel and Monterey.

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Answers to potential advanced questions

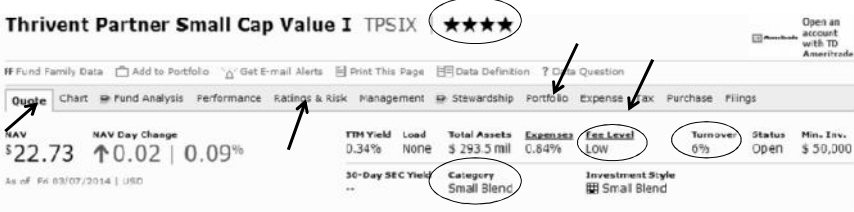
- *How to find how many companies a fund owns?*
- *How to find out their turnover rate?*
- *Other specific items on a fund – go to Morningstar.com and put fund symbol in and look for quote page.*

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Where to look for criteria items on Morningstar.com

- ▢ *In morningstar.com, put symbol in and hit return, you get the quote page, this is all free and you do not even need to register.*
- ▢ *Category name, star ranking, expense and turnover ratio:*




Thrivent Partner Small Cap Value I TPSIX ★★★★★

NAV \$22.73 NAV Day Change ↑0.02 | 0.09%

30-Day SEC Yield --

TRN Yield 0.34% Load None Total Assets \$ 293.5 mil Expense 0.84% Expense Ratio LOW Turnover 6%

Category Small Blend Investment Style Small Blend

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Where to look for criteria items on Morningstar.com

▶ *Where do you find the ratings and risk items? Quote page, right hand side.*

Morningstar Risk Measures TPSIX More...

Risk vs. Category[®] (607) Avg

Return vs. Category[®] (607) +Avg

* Overall Ranking Low Avg High

Style Map TPSIX More...

Weighted Average of holdings

75% of fund's stock holdings

DeepCoreCoreCoreHigh Val Val Grw Grw

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Where to look for criteria items on Morningstar.com

▶ *On the Quote page, click on Portfolio and holdings*

Summary Holdings Premium Details

Annual Turnover 1%

Category Avg Turnover 55%

Yield(TTM) 0.32%

Assets in Top 10 Holdings 35.15%

Stock Holdings(Long) 57

Stock Holdings(Short) -

Bond Holdings(Long) 0

Bond Holdings(Short) -

Other Holdings(Long) 3

Equity View [Equity Prices](#)

| Top 25 Holdings | % Portfolio Weight | Shares Owned | Shares Change | Sector | Style | First Bought | Latest Analyst Report | Country | YTD Return | D/E |
|---|--------------------|--------------|---------------|--------|-------|--------------|-----------------------|---------------|------------|-------|
| 5 Shares Russell 2000 Value | 4.79 | 407,037 | 22,437 | - | - | - | 11/01/2013 | United States | 2.24 | - |
| 5 Shares Core S&P Small-Cap | 4.71 | 365,000 | 14,600 | - | - | - | 03/04/2014 | United States | 2.53 | - |
| 5 Applied Industrial Technologies, Inc. | 3.63 | 524,618 | 232,000 | IT | IT | 09/30/2005 | - | United States | 5.74 | 19.23 |

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