

5 Rules for Small Company Stock Selection

from [Uncovering Small Cap Stock Gems](#) by Doug Gerlach at InvestEd 2014
Presented by Jane Nelson, Rocky Mountain Chapter

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BI Definitions

- Small Cap ---
Revenue to \$500 M
- Medium Cap ---
Revenue from \$500 M to \$5B

2

BetterInvesting Guidelines

- Small Cap = 25%
- Medium Cap = 50%
- Large Cap = 25%

3

Demand proof of excellent management

- Company must be profitable
- Not “just competent” mgmt.
 - Margins comparable to peers
- Must have identifiable “drivers of growth”

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Be always vigilant

- Keep a close eye
 - Sell when REAL problems appear
 - Don't jump at every wild market move
- Be patient
 - May be unknown, so takes awhile

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Pay attention to valuation

- Remember as the P/E ratio falls the price growth slows
- Expect future P/E ratio to be in line with projected growth

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Don't overload

- Aim for 25% of your portfolio
- Spread your exposure among more stocks

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Replenish the supply line

- Good small caps grow to medium and large companies
- Always be on the lookout for a new small cap opportunity
- Feed your portfolio from the bottom up

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Thank you

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