



BENEFITS OF SMALL CAP STRATEGIES

With A Micro Cap Tilt



Nancy Prial, CFA
Co-CEO
Senior Portfolio
Manager

In the diverse landscape of investment options, small cap growth strategies are often celebrated for offering investors the prospect of high reward, albeit with elevated risk, by focusing on companies with smaller market capitalization. Within this category, a strategy with a dedicated allocation to micro cap stocks can offer distinctive advantages over a strategy whose market cap closely aligns with, or exceeds, a small cap benchmark.

➤ Risk and Reward Potential

Micro cap stocks, typically defined as companies with market capitalizations below \$300 million, are often overshadowed by their more established small and large cap counterparts. However, the very qualities that make them risky—their nascency and lower liquidity—also render them a source of unprecedented growth potential. Small companies can adapt and pivot more quickly than large ones, responding more effectively to market changes and trends, enabling accelerated growth. Some are introducing innovative products or entering new market categories, putting them in early stages of revenue growth.

➤ Untapped Value

Small/micro cap stocks often remain under the radar of large institutional investors and analysts due to their smaller size, lower liquidity, and less available public information. This lack of attention means potentially more inefficiencies in pricing, providing fertile ground for seasoned active managers to unearth gems and generate alpha with thorough fundamental research. Strategies focusing on the smaller end of capitalization can exploit the information inefficiencies to discover undervalued companies poised for growth long before they become widely recognized by the market.

“...Small companies can adapt and pivot more quickly than large ones....”

➤ Alpha Generation and Active Management

Micro cap stocks, due to their unique characteristics and market inefficiencies, necessitate discerning stock-picking and robust active management by experienced portfolio managers. Herein lies another advantage; skilled active managers in this space can significantly outperform the benchmarks by exploiting pricing and informational anomalies, thereby creating additional value for investors. An actively managed small cap strategy with significant micro cap allocation can be a strong source of alpha, enabling the realization of above-average returns while managing risk effectively.



➤ Long-Term Investment Horizon

Investing in small and micro cap stocks requires a long-term perspective, given their inherent volatility and susceptibility to market sentiment. However, it is precisely this long-term view that allows investors to fully harness the growth potential of these companies. A strategy focused on micro cap stocks, by taking a disciplined and long-term approach, can capture the upward trajectory of these firms as they evolve, mature, and potentially become the large cap behemoths of tomorrow.

“...This long-term view that allows investors to fully harness the growth potential of these companies....”

Summary

A small cap strategy with a consistent allocation to micro cap stocks offers a distinct set of advantages for those willing to embrace higher risk for higher potential rewards. The enhanced diversification, untapped value, alpha generation capabilities, and the opportunity to invest in the potential market leaders of tomorrow make such a fund an enticing proposition.

Investors seeking to maximize the growth potential of their portfolios while benefiting from the risk mitigation offered by diversification should seriously consider the opportunities presented by small cap funds with significant micro cap allocations. By doing so, they can position themselves to capitalize on the undiscovered potential of the market’s hidden gems, paving the way for robust financial growth and long-term investment success.



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