

# Investing in Small-Sized Company Stocks

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# Summary of Topics

- Selecting a small stock to study
- Essential online tools (BI website and beyond)
- Resources focused on lesser-known companies
- Extra scrutiny techniques for newer or unstudied firms

# Definitions

- **Small-cap company:** market cap **\$300 million to \$2 billion**
- **Small-sized company:** BetterInvesting defines: **<\$1 billion** in revenue/last fiscal year
- **Russell2000:** Average market-cap of companies was **\$4.82 billion** in 2024; **the largest stock was \$58.43 billion**
  - *Many ETFs mirror the Russell2000 due to its comprehensive reflection of market opportunities in the small-cap segment*
  - *Represents only 7% of the Russell3000 → = Growth potential!*



# Why Invest in Small-sized Companies?

- **A Great Portfolio Asset**

- Greater potential/expectations for growth
- Limited analyst coverage can lead to undervaluation, presenting investment opportunities
- Often bargain buys (if found before the market catches up)

## ***Great, BUT...***

- *Where do you find worthy small-company stocks?*
- *Once you find one, how and where do you research?*

# SELECTING A STOCK

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*Stock screening process*

*SSG analysis: decision point*

*Deeper analysis*

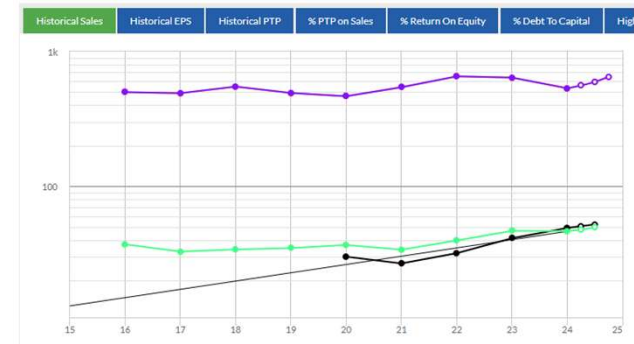
# Method for Selecting Small Stocks

*Analysis tools that work well for larger company stocks need some adjustment when focusing on smaller companies*

## 1. Focus on quality (management practices)

- Operating history of at least three years
- Company must be profitable
- **Strives for excellence:** meets or surpasses the performance measures of peers and competitors
- **Strength and consistency of historical growth**
- Pre-tax profit margins: trend and level

**Focus less on ROE**



# Method for Selecting Small Stocks (continued)

## 2. Invest for the Long Term (*but monitor in the short term*)

- Allows for riding out a company's temporary setbacks
- Smaller companies are less established: higher risk/volatility
- Smaller companies don't have the broad institutional interest
- Ideally, get in before the market "wakes up" to its potential





# Method for Selecting Small Stocks continued

## 3. Pay Particular Attention to Valuation

- As a company grows, its above-average growth will eventually slow: must determine if the stock is over- or under-valued
- Reassess valuation frequently

# Where to Find Quality Small-sized Stocks

## BetterInvesting – Screening tool

### Online Stock Tools Suite

How do I find small company stocks?

SSGPlus Stock Analysis Tool

Stock Data in the Online Tools

How do I find small company stocks?

1. Start With Screening

<https://ssg.betterinvesting.org/manage/Default.aspx#Tab=screener>



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WELCOME TO  
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GET STARTED

USING THE ONLINE TOOLS

STOCK SCREENING

STOCK IDEAS

FIRST CUT STOCK REPORTS

A resource of stock ideas based on the top 100 studies created by members in the last 90 days.

# Additional Stock Screening Tool Sources



**MyStockProspector**

(Paywall, ICLUBcentral) <https://www.mystockprospector.com/landing/>



**STOCK  
ANALYSIS**

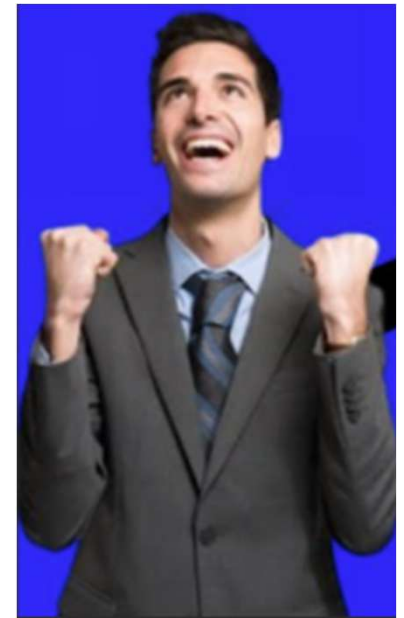
(Free) <https://stockanalysis.com/stocks/screener/>

Your online brokerage firm may have a stock screening feature

# Criteria for Selecting Small Stocks

## *Tips for building a stock screen*

- Sales less than \$1-2 billion in last 12 months
- EPS and revenue growth in past 3-5 years greater than 10%
- EPS R2 (“R-squared”—measure of consistency of growth) in past three to five years  $>0.75$
- Debt to equity ratio 33% or less\*
- Pre-tax profit margins are stable or increasing - set the PTI rating to  $>3$



\*Exceptions apply/effects of policy changes

# Additional Ways to Find Small Stocks

- BetterInvesting First Cut Stock Reports

- BI Main page
- Filter on size (pulldown menu)
- Shows # of studies done, date of latest study, sector, etc.

Additional BI Tools:

The screenshot shows the BetterInvesting website interface. On the left, under 'Online Tools', there is a 'GET STARTED' button and a section for 'ONLINE TOOLS' with a sub-header 'Learn about our online stock selection tools.' Below this are four categories: 'ONLINE TOOLS', 'LEARNING CENTER', 'MEMBER BENEFITS', and 'INVESTMENT CLUBS'. On the right, there is a search bar with the text 'Launch SSG - Enter Ticker Here' and a 'GO' button. Below the search bar are buttons for 'My Studies', 'SCG', 'CR', and a question mark. A green banner at the bottom of the right section says 'Don't have access? Free, limited trial version'. At the bottom of the page, there is a blue banner for 'First Cut Stock Reports' with the text 'Every week, BetterInvesting members from across the country share new stock studies.' and a green 'VIEW ALL' button circled in purple. A pink arrow points from the 'First Cut Stock Reports' text to the 'VIEW ALL' button.



<https://www.betterinvesting.org/members/learning-center/tickertalk>



<https://www.youtube.com/watch?v=ehDhD7yjc9Q>

# Additional Ways to Find Small Stocks



(Paywall) <https://www.smallcapinformer.com/>



(Free/paywall) <https://www.morningstar.com/stocks/10-best-small-cap-stocks-buy-today> )



(Free/paywall) <https://www.zacks.com/featured-articles/301/best-small-cap-stocks>



(Paywall) <https://seekingalpha.com/screeners/967930eb-Top-Small-Cap-Stocks>



(Free) <https://finance.yahoo.com/research-hub/screener/equity/>



(Free) <https://www.forbes.com/advisor/investing/best-small-cap-stocks/>



**10 Best Small-Cap Stocks of 2025**  
**ETC...**

# EVALUATING YOUR STOCK PICK

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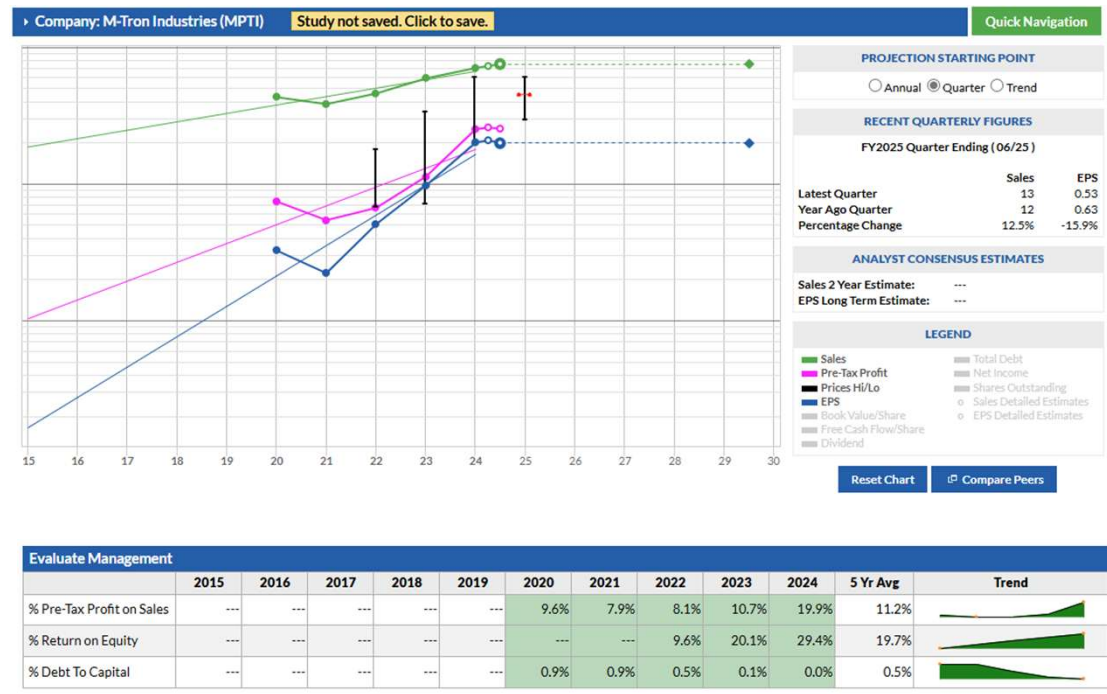


# Procedure for Analyzing a Small-sized Company

## 1. Preliminary evaluation:

### Run an SSG

- Visual aspect
- Management compliance
- Peer comparisons
- Industry comparison
- Valuation



# Procedure for Analyzing a Small-sized Company

## SSG Looks Good?

### 2. Conduct a deep dive analysis

- a) Start with familiar resources (ValueLine, Morningstar, CFRA etc.)
- b) If insufficient data/analysis, seek other sources
- c) If data/analysis is still insufficient...*proceed to Step 3*

*You may have to collect bits and pieces as you find them.*

*Here is where using a worksheet is beneficial!*

# Procedure for Analyzing Small-sized Company

*Stock still suitable for further study?*

## 3. Continue to analyze using additional tools/metrics

- a) Pull info/data from the company's website
- b) Pull info/data from the SEC
- c) Perform a SWOT Analysis
- d) Complete BI Stock Research and/or other Worksheets(s)

### • **Ongoing Considerations:**

- *Management*
- *Valuation*
- **Macroeconomic factors**
- **Competitors**
- **Is the company a takeover candidate?**

# Sources for Analyzing Small Stocks

- Company's website: Investor Relations department
  - *See also: company communications*
- U.S. Securities and Exchange Commission (SEC)  
(sec.gov)
- SmallCap Informer  
(<https://www.smallcapinformer.com/About/Methodology>)



# SEC.gov

https://www.sec.gov

An official website of the United States government [Here's how you know](#)

 **U.S. Securities and Exchange Commission**

Newsroom | Investors | Small Businesses | Whistleblowers

Search SEC.gov & EDGAR

Search Filings | Submit Filings | Data & Research | Rules, Enforcement, & Compliance | Securities Topics | About | [Submit a Tip or Complaint](#)

- Enter stock symbol or name
- Select latest 10K report (Note: the 10K will show 2-3 years of financial data. Download additional past 10K reports to get more past years data)
- Financial data can be copy/pasted to an Excel spreadsheet

# SEC.gov

- Areas to research/gather data:
  - Business
  - Risk Factors
  - Properties
  - Financial Statements and Supplementary Data
  - Other Information
  - Directors, Executive Officers, and Corporate Governance

[Risk Factor Summary](#)

[Note Regarding Forward-Looking Statements](#)

## [PART I](#)

Item 1.	→ <a href="#">Business</a>
Item 1A.	→ <a href="#">Risk Factors</a>
Item 1B.	<a href="#">Unresolved Staff Comments</a>
Item 1C.	<a href="#">Cybersecurity</a>
Item 2.	→ <a href="#">Properties</a>
Item 3.	<a href="#">Legal Proceedings</a>
Item 4.	<a href="#">Mine Safety Disclosures</a>

## [PART II](#)

Item 5.	<a href="#">Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>
Item 6.	<a href="#">[Reserved]</a>
Item 7.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>
Item 7A.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>
Item 8.	→ <a href="#">Financial Statements and Supplementary Data</a>
Item 9.	<a href="#">Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a>
Item 9A.	<a href="#">Controls and Procedures</a>
Item 9B.	→ <a href="#">Other Information</a>
Item 9C.	<a href="#">Disclosure Regarding Foreign Jurisdictions that Prevent Inspections</a>

## [PART III](#)

Item 10.	→ <a href="#">Directors, Executive Officers and Corporate Governance</a>
Item 11.	<a href="#">Executive Compensation</a>
Item 12.	<a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>
Item 13.	<a href="#">Certain Relationships and Related Transactions, and Director Independence</a>
Item 14.	<a href="#">Principal Accountant Fees and Services</a>

## [PART IV](#)

Item 15.	<a href="#">Exhibits and Financial Statement Schedules</a>
Item 16.	<a href="#">Form 10-K Summary</a>
	<a href="#">Signatures</a>

# Procedure for Analyzing Small-sized Company

## 3. Continue to analyze using additional tools/metrics

- a) Pull info/data from the company's website
- b) Pull info/data from the SEC
- c) **Perform a SWOT Analysis**
- d) Complete BI Stock Research and/or other Worksheets(s)

### SWOT ANALYSIS

**STRENGTHS**-*internal to company*

**WEAKNESSES**-*internal to company*

**OPPORTUNITIES**-*external to company*

**THREATS**-*external to company*

# Procedure for Analyzing Small-sized Company

## 3. Continue to analyze using additional tools/metrics

- Pull info/data from the company's website
- Pull info/data from the SEC
- Perform a SWOT Analysis
- Complete BI Stock Research Form and/or other Worksheets(s)**

**Quality Worksheet**

Company Name: \_\_\_\_\_

<b>Historical Sales (Revenue)</b>	What is the historical sales growth rate over the past 10 years?	<b>Valuation Worksheet</b>															
	What is the size of the company? (small, medium, large)																
	Is the company growing?																
	How does the recent growth? (faster, slower)																
<b>Historical Earnings per Share (EPS)</b>	How would you classify (decreasing, steady, increasing)?	<b>3 Price-Earnings History</b> Over the past 5 years the trend of the high P/Es has been _____. (increasing, decreasing, steady, inconsistent/no trend) Over the past 5 years the trend of the low P/Es has been _____. (increasing, decreasing, steady, inconsistent/no trend) The current P/E is _____ than the 5 year average P/E. (higher, lower, about the same) The company _____ What is the history _____															
	What is the historical EPS?																
	How does the recent growth? (faster, slower)																
	How would you classify (decreasing, steady, increasing)?																
<b>Pre-tax Profit on Sales (Pre-tax Profit Margin)</b>	What is the average Pre-tax Profit Margin?	<b>4 Evaluating Risk and Reward</b> What was the Average Return? _____ The estimated High Return (the EPS from the projected EPS 5 y) _____ What is the forecast? _____ What was the Average Return? _____ The estimated Low Return (the EPS from the projected EPS 5 y) _____ What is the forecast? _____ What is the current price? _____ What is the Upside? _____ Based on this SSC the next 5 years? _____ What is the forecast? _____ How much is the return? _____ What is the forecast? _____ Based on this SSC money in 5 years _____															
	The trend of Pre-tax profit (increasing, decreasing, steady)?																
<b>% Earned on Equity (Return on Equity; ROE)</b>	What is the average % E?		<b>5 5-Year Potential</b> What is the forecast? _____ How much is the return? _____ What is the forecast? _____ Based on this SSC money in 5 years _____														
	The trend of % Earned on Equity (increasing, decreasing, steady)?																
<b>Debt</b>	How would you characterize (subpar, good, excellent)?		<b>STOCK RESEARCH FORM</b> <b>0.0 CURRENT INFORMATION</b> DATE: _____ COMPANY: _____ TICKER: _____ PRICE: _____ P/E: _____ QUARTER/FY: _____ DIV YIELD: _____ <b>1.0 SALES GROWTH</b> <b>1.1 HISTORICAL SALES GROWTH (FROM SSG)</b> <table border="1"> <thead> <tr> <th>History</th> <th>Most Recent Quarter</th> <th>1-year</th> <th>3-year</th> <th>5-year</th> <th>9-year</th> <th>Other:</th> </tr> </thead> <tbody> <tr> <td>Historical sales</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <b>1.2 HISTORICAL TRENDS AND GROWTH STRATEGY</b> Historical Trends (Life cycle growth observations; Recessionary growth observations) Growth Strategy (references: Annual Report/MD&A comments; Analysts' evaluation of growth strategies (i.e. CFRA Business Summary, Morningstar Analyst Report)) Your evaluation of sales growth trend is ... Select one: (mixed, increasing, stable, or declining) Summary: _____	History	Most Recent Quarter	1-year	3-year	5-year	9-year	Other:	Historical sales						
	History			Most Recent Quarter	1-year	3-year	5-year	9-year	Other:								
Historical sales																	
What is the % debt to total capitalization?																	
<b>Would you continue to study this company? Why?</b>																	



# BI Worksheets & Reference Materials

- Quality Worksheet (PDF)
- Valuation Worksheet (PDF)
- Stock Research Form (DOCX)

<https://www.betterinvesting.org/members/earning-center/worksheets>

## Quality Worksheet

Company Name: \_\_\_\_\_

Historical Sales (Revenue)	What is the historical sales growth rate over the past 10 years?
	What is the size of the company?
	Is the company growing at an _____ rate?
	How does the recent quarterly growth? (faster, slower, about the same)
Historical Earnings per Share (EPS)	How does the recent quarterly growth? (faster, slower, about the same)
	How would you classify the historical growth? (decreasing, steady, increasing)
	How does the EPS growth compare to the industry? (faster, slower, about the same)
	How does the EPS growth compare to the market? (faster, slower, about the same)
Pre-tax Profit on Sales (Pre-tax Profit Margin)	What is the average Pre-tax profit margin?
	The trend of Pre-tax profit margin (increasing, decreasing, steady)
% Earned on Equity (Return on Equity; ROE)	What is the average % Earned on Equity?
	The trend of % Earned on Equity (increasing, decreasing, steady)
	How would you characterize the return? (subpar, good, excellent)
Debt	What is the % debt to total capitalization?
	Is this an acceptable level of debt?
Would you continue to study this company? Why?	

## Valuation Worksheet

Company Name: \_\_\_\_\_

3 Price-Earnings History	Over the past 5 years the trend of the high P/E's has been _____ (increasing, decreasing, steady, inconsistent/no trend)
	Over the past 5 years the trend of the low P/E's has been _____ (increasing, decreasing, steady, inconsistent/no trend)
	The current P/E is _____ than the 5 year average P/E. (higher, lower, about the same)
	The company _____ pay a dividend. (does, does not)

What is the historical P/E ratio?

What was the Average P/E ratio?

The estimated High P/E ratio (the EPS from the projected EPS 5 years)

The estimated Low P/E ratio (the EPS from the projected EPS 5 years)

What is the forecasted P/E ratio?

What was the Average P/E ratio?

The estimated Low P/E ratio (the EPS from the projected EPS 5 years)

The estimated Low P/E ratio (the EPS from the projected EPS 5 years)

What is the forecasted P/E ratio?

What is the current P/E ratio?

At the current price, is the company overvalued or undervalued?

What is the Upside Potential?

Based on this SSG, what is the potential return over the next 5 years?

What is the forecasted P/E ratio?

How much is the current return?

What is the forecasted P/E ratio?

Based on this SSG, what is the potential return over the next 5 years?

What is the forecasted P/E ratio?

How much is the current return?

What is the forecasted P/E ratio?

Based on this SSG, what is the potential return over the next 5 years?

What is the forecasted P/E ratio?

How much is the current return?

What is the forecasted P/E ratio?

Based on this SSG, what is the potential return over the next 5 years?

## STOCK RESEARCH FORM

### 0.0 CURRENT INFORMATION

DATE:	COMPANY:	TICKER:
PRICE:	P/E:	QUARTER/FY:
		DIV YIELD:

### 1.0 SALES GROWTH

#### 1.1 HISTORICAL SALES GROWTH (FROM SSG)

History	Most Recent Quarter	1-year	3-year	5-year	9-year	Other:
Historical sales						

#### 1.2 HISTORICAL TRENDS AND GROWTH STRATEGY

Historical Trends (Life cycle growth observations; Recessionary growth observations)

Growth Strategy (references: Annual Report/MD&A comments; Analysts' evaluation of growth strategies (i.e. CFRA Business Summary, Morningstar Analyst Report))

Your evaluation of sales growth trend is ...

Select one: (mixed, increasing, stable, or declining)

Summary:

## Notes for Success

- **Avoid sites that focus on short term investing, such as trading sites**
- **Use caution when comparing to larger sized companies**
- **Invest Less \$ in More Stocks**
  - Dilutes risk
  - ETFs are also an option—mitigate risk, balance returns
- **Replenish Small-sized Company Stocks Regularly**
  - Successful small companies become large companies
  - Small-company stocks will stumble more than large ones, okay to sell them to make way for other opportunities

# QUESTIONS?

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Included in this pdf is a table of where to find criteria for study/analysis

## Table of where to find criteria on small-sized companies

Category	Criteria	Key Source(s)
Company Background	Company info	Company's website, SEC.gov
Proof of Managerial Excellence	Operating history of at least 3 years	BetterInvesting (BI) SSG
	Profitability	BI, SEC.gov
	Growth Filters (apply screens for company size, EPS growth, and EPS R2)	Stock screeners (BI-stock screener, MyStockProspector, Stock Analysis-SA)
	Quality Metrics (e.g., strong pre-tax profit margins, debt-to-capital/equity, ROE)	BI SSG, stock screeners (BI-stock screener, MyStockProspector, Stock Analysis-SA)
	Peer/competitor and industry comparisons	BI SSG
Valuation Information	P/E ratios, trends	BI SSG, SEC.gov, Investopedia.com (how to)
SWOT Analysis	SWOT criteria	SEC, stock analysis websites, news media, company website
Macroeconomic factors		News media-global

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