

For Superior Small-Cap Stocks, Get the *SmallCap Informer* Stock Newsletter

Discover the Superior Small-Cap Stocks
Profiled In the *SmallCap Informer* Newsletter
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The image shows the cover of the SmallCap Informer newsletter. The top left features the logo with a blue bull head and the text 'SmallCap Informer'. The top right says 'Discovering Superior Small-Cap Stocks'. The bottom left has the website 'www.smallcapinformer.com' and the bottom right has the date 'June 2019' and 'Volume 8, Issue 6'.

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Editor's Comments

What's On Your Watch List?

The stock market is awash with well-managed, growing businesses. Equally abundant are stocks selling at inexpensive prices. But finding stocks that meet standards of excellence *and* that are reasonably priced can be extremely difficult.

To aid in this task, one of the best strategies that investors can employ is to maintain a watch list containing companies of interest. The companies on the list should have attractive growth and quality attributes, but are selling at prices that just aren't right at the time of the initial study.

Stocks that are added to the watch list will have had at least some preliminary research completed, so the investor is familiar with the basics of those companies. As stock prices change, either due to a market correction or because of circumstances

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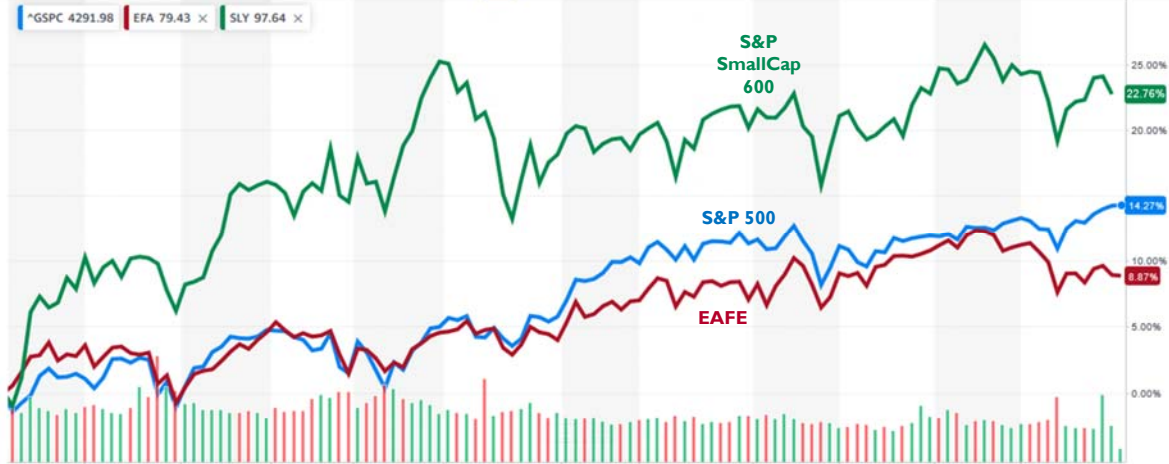
DOUG GERLACH • EDITOR-IN-CHIEF • 30 JUNE 2021



Small-Cap Market Performance in 2021



YTD Small vs. Large vs. International



Small vs. Large Performance Trends



- So far in 2021, small-caps are leading the pack, even as large-caps reach record highs.
- From October 2020 – March 2021, small-caps performed better than large-caps.
 - From April 2021 – present, small- & large-caps have been performing in line.
- From 2000-2020, Russell 2000 outperformed S&P 500 in 14 of 21 years.
 - Rarely since 2015 have large-caps beat small, so when small-caps lead, they tend to show considerable outperformance.

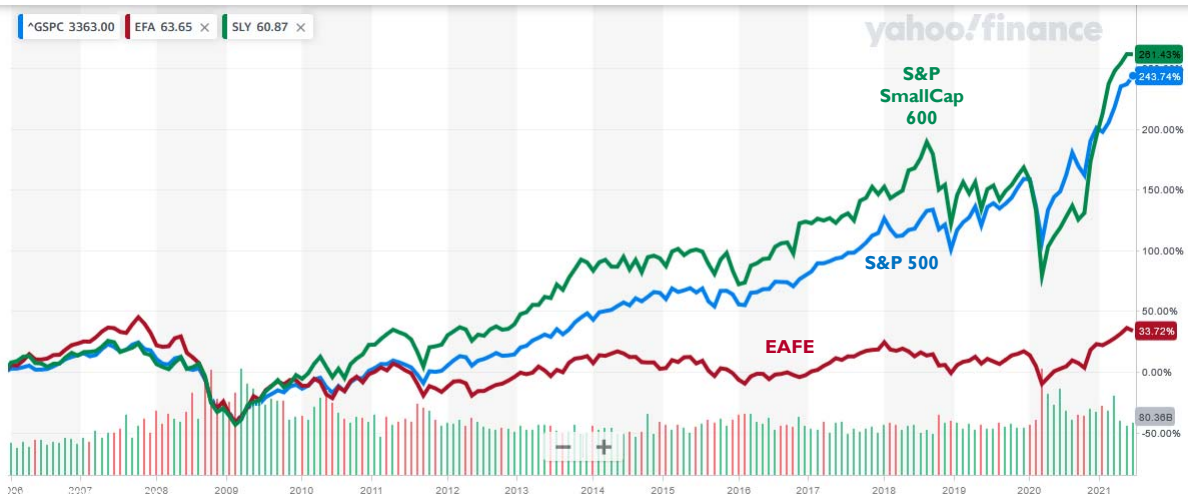
Key Factors Driving Markets



1. Long-term: Massive 2-decade shift towards indexing (& ETFs) provides support for equities.
2. Mid-term: TINA (“There Is No Alternative” to stocks) effect still in place.
3. Short-term: Optimism about economic recovery, & fewer large-cap opportunities pushed investors to seek prospects in smaller companies.

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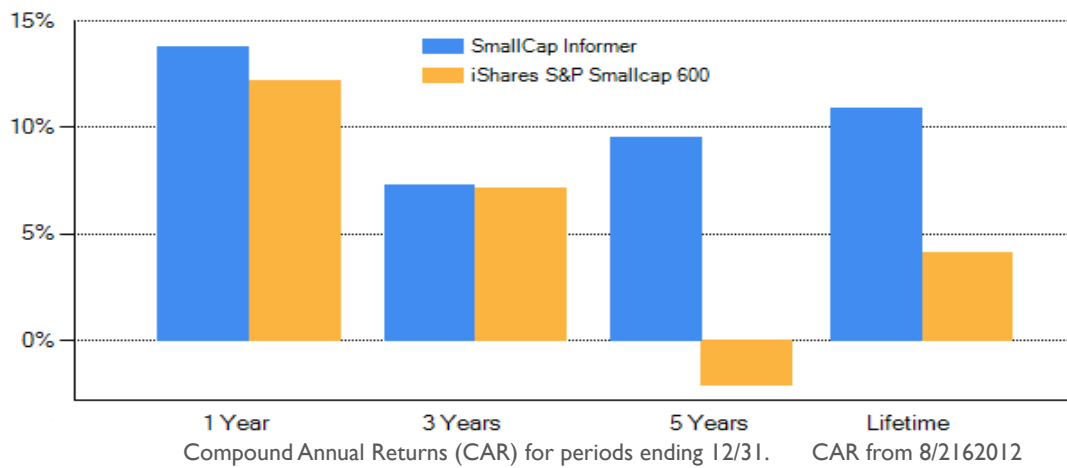
Small vs. Large vs. International (2006-2021)



SCI Newsletter Performance Update



SmallCap Informer Performance



I-Year & Year-to-Date Performance



- CAR* 1/1/2021 - 6/25/2021: 45.7%.
- CAR* 6/26/2020 – 6/25/2021: 60.59%.

* Compound Annual Return w/dividends.

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Notes on *SCI* Performance



- Objective is to outperform S&P SmallCap 600 Index.
 - S&P 600 better represents performance of small-caps in market than Russell 2000.
- We acknowledge that *SCI* return may not beat overall market.
 - Our belief is that well-diversified, long-term focused portfolios should include small as well as large companies.
 - Over time, portfolio diversified by company size provides best risk/reward characteristics.

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Questions?

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All-Time Best (& Worst) Picks



About the *SmallCap Informer*



- *SmallCap Informer* newsletter was founded in August 2012.
- Published 108 issues to date, each with 2 focus stocks.
- Follows BetterInvesting principles of stock selection (tweaked somewhat to address concerns of smaller companies).
- Doesn't provide "managed portfolio," but follows broad spectrum of smaller companies for subscribers to pick & choose for their own portfolio.

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What Are Best & Worst Performers?



- Currently following 88 active recommendations of 49 companies.
- Best current performers:
 - SWKS: Up 551.8% since 12/2/13.
 - LGIH: Up 385.6% since 12/1/16.
 - FIVE: Up 352.6% since 1/13/17.
- Worst current performers:
 - KL: Down 20.5% since 10/1/20.
 - EDUC: Down 22.1% since 3/26/21.

All figures include dividends.

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Closed Recommendations



- Have closed 128 recommendations of 102 companies:
 - 69 at loss, 60 at gain.
 - Includes companies bought out, some victims of pandemic & energy industry slump, exits from overvalued prices (perhaps prematurely for some).
 - Average proceeds of all closed positions w/dividends is gain of 9.3%.
 - Best performer: SYNT, +216.9% (w/divs).
 - Worst performer: ANFI, -77.9%.

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“Worst” & “Best” Sell Decisions?



- 65% of closed positions have trailed S&P 500 since sale recommendation.
- Many stocks that were sold in 2020 in defensive shift have recovered better than expected, skewing results.
- Majority of sell decisions prior to 2020 look like they were “right” decisions.
- Many of “worst” performers were very smallest companies (under \$10/share).

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Interpreting Quarterly Results



Interpreting Quarterly Reports



- In long-term, very strong correlation between price & revenue/EPS growth.
- In short-term, very weak correlation between price & revenue/EPS growth.
- In short-term, investors & analysts play guessing game, trying to match stock's price with expectations of company's progress.

When Company Reports Positive Results



- We might expect price to go up, but sometimes:
 - Price goes down because guidance is concerning.
 - Price goes down because analysts expected better.
 - Price goes down because investors are taking profits.
 - Price doesn't change because company pre-announced preliminary results.
 - Price doesn't change because price has run up in anticipation of results.
 - Price goes up because results are much better than expected.

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When Company Reports Negative Or Mixed Results



- We might expect price to go down, but sometimes:
 - Price goes up or is unchanged because guidance is positive.
 - Price goes up or is unchanged because analysts/investors expected worse.
 - Price is unchanged because price has already dropped in anticipation of poor results.
 - Price goes down because investors are exiting *en masse*.
 - Price goes down because results are much worse than expected.

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And in Some Cases....



- Technical or momentum investors are looking at factors other than fundamentals.
- Smaller companies fly under the radar for many investors.
- Reason a stock's price moves up or down (or doesn't change when an apparent catalyst occurs) may never be known with certainty.
- **REMEMBER:** Long-term appreciation is driven by results, & short-term results may not be relevant.

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What's New for *SCI* Subscribers



SmallCap Informer Subscriber Limit



- Earlier in year, announced that total number of subscribers to *SCI* will be limited to 1,500.
- Will help ensure that all subscribers will have opportunity to act on recommendations in each issue before market discovers them.
- Once limit is reached, waiting list will be created for those interested.
- Subscribers who don't renew will lose their place.

What's New on SCI Website?



- Recently added **Technical Indicators Report** to Subscribers area, providing another point of view if you're on the cusp of buy/sell decision.
- As fundamentalists, though, we are often attracted by low valuations offered by stocks with weakened technicals, so may be long wait for market to return to these stocks.

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SCI Technicals Report



Ticker	Company	RSI / Trend	MFI / Trend	50-Day Moving Average				200-Day Moving Average			
				Trend	Signal	Days Ago Triggered	Perf. Since Trigger	Trend	Signal	Days Ago Triggered	Perf. Since Trigger
EXR	Extra Space Storage	69 ●	86 ▼	▲	BUY	161	47.4%	▲	BUY	336	65.3%
BOOT	Boot Barn Holdings	60 ●	71 ●	▲	BUY	92	38.0%	▲	BUY	306	200.2%
AMN	AMN Healthcare Services	56 ●	66 ●	▲	BUY	70	26.6%	▲	BUY	278	69.5%
AFYA	Afya	56 ●	66 ●	▲	BUY	34	20.9%	▲	BUY	28	10.8%
NVMI	Nova Measuring	64 ●	53 ●	▲	BUY	42	16.5%	▲	BUY	450	225.6%
FN	Fabrinet	67 ●	58 ●	▲	BUY	35	13.0%	▲	BUY	239	58.0%
SWKS	Skyworks Solutions	74 ▼	80 ●	▲	BUY	6	10.2%	▲	BUY	432	105.8%
NVEE	NV5 Global	60 ●	74 ●	▲	BUY	9	9.1%	▲	BUY	278	89.0%

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Using RSI & MFI



- **RSI: Relative Strength Indicator**, momentum indicator that measures recent price changes to determine overbought or oversold conditions.
- **MFI: Money Flow Indicator**, oscillator that uses price & volume to determine overbought or oversold conditions.
- Both are broad, so overbought/oversold stocks are often primed to move.
 - Market conditions should be considered – stocks may remain above/below thresholds for some time when market is trending up/down.
 - Price trend of stock should be considered – indicators often better at confirming trend instead of predicting reversal.

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Simple Moving Averages



- Indicator that offers support and resistance prices for stock.
 - 50-day SMA is more short-term focused.
 - 200-day SMA is more long-term focused.
- Signal is triggered when stock's price passes MA line.
 - Buy when stock moves above line.
 - Sell when stock moves below line.
- "Trend" should be interpreted as "favorable" or "unfavorable," not "up" or "down."

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Using Technicals



- For fundamental investors, technicals often serve as “second opinion” when making buy or sell decisions.
- Consistency is important – always use indicators in same way.
- Our indicators should be confirmed using other technical tools.
 - Can often gain some insights about trend direction from viewing chart.
- If you hate waiting for stock to show results, then reviewing technicals can help with decisions.
- If you are patient, you can leave the technicals to others.

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Update on Top Stocks for 2021



Top Small-Cap Stocks for 2021



- Special report published January 2021 with 10 companies selected as best opportunities for coming year.
- Available for download by subscribers on *SCI* website.
- How have they performed?
- Here is update as of June 25, 2021.

Update: SCI Top Stocks for 2021



Sym	Company	Industry	1/1/21 Price	6/25/21 Price	Divs	% Change
SGC	Superior Group	Apparel/Business Services	\$23.24	\$23.47	\$ 0.22	1.9%
MEI	Methode Electronic	Electronic Components	\$38.28	\$48.49	\$ 0.22	27.2%
MED	Medifast	Personal Services	\$196.34	\$276.41	\$ 2.55	42.1%
KL	Kirkland Lake Gold	Gold Mining	\$41.27	\$39.79	\$ 0.19	-3.1%
FNV	Franco-Nevada	Royalty Gold	\$125.33	\$145.23	\$ 0.56	16.3%
ESNT	Essent Group	Specialty Finance	\$43.20	\$46.93	\$ 0.33	9.4%
OLLI	Ollie's Bargain Outlet	Discount Store	\$81.77	\$88.87	--	8.7%
MGRC	McGrath RentCorp	Rentals/Leasing	\$67.10	\$81.00	\$ 0.86	22.0%
DOC	Physicians Realty	REIT-Medical	\$17.84	\$18.98	\$ 0.46	9.0%
NVEE	NV5 Global	Construction	\$69.98	\$92.45	--	32.1%

Current Outlook for These Stocks

Defensive Stocks

- Kirkland Lake Gold
- Franco-Nevada
- Ollie's Bargain Outlet
- Physician's Realty
- *Lagging the pack, but could be good hedge if economy/ market reverses course.*

In Buy Zone

- Superior Group
- NV5 Global
- Medifast
- Essent Group
- *Good for careful buying.*

In Hold Zone

- Methode Electronics
- McGrath RentCorp
- *Pricy at present.*

Final Thoughts



Where Is the Economy Headed?



- Maintain my outlook from last year that full recovery won't happen until late 2021 at earliest.
- Expect strong economic growth for 2H 2021.
 - Recent real GDP growth of 7%, best in US economy since 1984.
- Inflation not a concern, interest rates will remain low into 2022.
- Headwinds could come from labor & materials costs.
- Though home sales softened in May, prices remained at record highs.
 - Market may be peaking, but even reduced demand could still provide opportunities.

Where Is the Market Headed?



- 10-Year Treasuries won't rise above 2.0%.
- Volatility will likely increase (2nd years of bull markets are often rocky).
- Valuations (especially for large-cap) remain high, but large segments of economy remain depressed earnings-wise, thus dragging down average multiples.
- Value stocks may (finally) pick up, & cyclicals may benefit from economic recovery & infrastructure spending.

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Stay the Course



- Continue to identify opportunities to purchase high quality companies at reasonable valuations.
- Focus on long-term prospects of companies under consideration.
- Take advantage of opportunities that Wall Street is ignoring.
- Maintain defensive exposure, boost if concerned about near-term market/economic weakness.

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Thank You

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