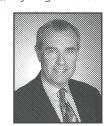
# MICROCAP **INVESTING IN 2023**



A PROMISING YEAR AHEAD FOR GREAT COMPANIES AND ASTUTE INVESTORS

## A Q&A with PondelWilkinson's Roger Pondel

hile the stocks of great companies in any size range usually perform well over time, regardless of general market conditions, great microcap companies – those under \$300 million in valuation – often perform even better. Many forecasters believe 2023 will be a good year for the market, so identifying the often maligned and under-the-radar great microcaps could pay off with some solid returns.

SNN's Shelly Kraft recently sat down with veteran investor relations and corporate communications advisor Roger Pondel, CEO of PondelWilkinson Inc., to ask a few questions about why 2023 is expected to be an outstanding year for microcap companies and what investors should look for to identify the best of the best.

### SK: TO SET THE STAGE, WHY SHOULD 2023 BE A GOOD YEAR FOR THE MARKET?

**RP:** While forecasting market performance is always fraught with uncertainty, and the prognosticators are about 50-50 in their forecasts about this year, 2023 is starting off on the right track—at least so far. Market performance is up, inflation has slowed, the rapid acceleration of interest rate hikes seems to be moderating. And since last year's average returns were so dismal, some market pundits believe this year is bound to be better.

#### SK: BUT WHY IN PARTICULAR SHOULD 2023 BE GOOD FOR MICROCAPS?

**RP:** If the premise of 2023 being a good year for

the market in general holds true, microcaps could perform better than "good." Many quality small company stocks got the short end of the stick in 2022. There was a flight to the perceived safety of bigger companies, and not necessarily just because of performance. So this year, the opposite can occur, because smaller companies have more room for growth, both for their businesses and for their share prices.

#### SK: IS IT EASIER FOR A \$1 STOCK TO HIT \$2 THAN IT IS FOR A \$50 STOCK TO REACH \$100?

RP: I would answer "yes," with some caveats. Just as it is easier to see huge percentage increases in sales and profits when growing a business from the start-up and early stages, likewise, it is often a quicker road to see large stock price gains when starting from a lower price. There is more room and more opportunities to grow a small business, just as there is more room for a microcap stock to grow its valuation. But unlike the chicken and egg, the astute investor should know that solid company fundamentals should be evident first.

## SK: WHAT FUNDAMENTALS SHOULD INVESTORS BE LOOKING FOR IN A MICROCAP COMPANY IN ORDER TO SEE GROWTH AND MITIGATE THEIR **RISK?**

RP: To be certain, the rewards of investing in microcap companies can be extraordinary. Having a degree of risk tolerance is imperative and paying close attention to certain business fundamentals can help mitigate that risk. Granted, these are basics to follow for investing in companies of any size, but they are particularly important for microcap investing:

- Strong management with operating experience in the sector.
- An independent board of directors and attention to good governance.
- A sector with strong growth prospects.
- Timely and up-to-date SEC filings.
- A business model that is real, believable and understandable in plain English.
- A balance sheet with cash in the bank, little debt and devoid of complex financing.
- Potential appeal to institutional investors.
- Regular, transparent communication of positive developments, as well as forthright articulation of challenges.

#### SK: ARE THERE ANY RED FLAGS TO WATCH OUT FOR?

**RP:** With microcap companies, or for that matter with any size public company, there are always certain red flags. Aside from those that are operational and financial in nature, I'd be particularly cognizant about the people first...the quality and backgrounds of management. Watch for paid promoters, email spam, cold-calling investors and questionable press releases. As the saying goes, "a few bad apples can spoil the entire barrel," so particularly with the smallest of microcap companies, it's well worth the time to look at the fundamentals and watch for any red flags. There are shining stars to be discovered, regardless of market cap...and potentially lots of money to be made.





## SK: HOW DOES ONE IDENTIFY MICROCAP **COMPANIES IN THE FIRST PLACE, SINCE** THEY TYPICALLY ARE UNDER-FOLLOWED BY TRADITIONAL WALL STREET ANALYSTS AND **UNDER-COVERED BY THE BUSINESS AND FINANCIAL NEWS MEDIA:**

RP: That's a bit of a challenge, but doable. There are approximately 7,000 microcap companies listed on exchanges and OTC-traded, so identifying the best ones with great growth potential is not easy. A few suggestions: Look at indices, such as the quarterly Planet Microcap Index; identify growth sectors or industries you like and understand; look for companies of the products and services you use, then screen for companies in the news; check out microcap companies that present at investor conferences; and identify companies that are included in microcap funds. Once a target is identified, the real work of looking into each one begins.

## SK: YOU PROVIDED SOME SOLID SUGGESTIONS FOR INVESTORS IN MICROCAP COMPANIES, BUT DO YOU HAVE ANY ADVICE FOR THE ISSUERS?

RP: Regardless of size, consistent, thoughtful and realistic communications are key. Communicating well and issuing news that is real, both on traditional wire services and via social media, is highly beneficial. Staying in front of analysts who follow the company's sector also is important. For many microcaps, analysts may not be able to issue a research report, but one day, as the company grows, they will. And often, analysts write sector round-up reports and mention up-and-comers that they do not formally cover.

## SK: LASTY, I HAVE ASKED THIS QUESTION BEFORE, BUT IT BEARS REPEATING. IS IT REALLY POSSIBLE FOR MICROCAP COMPANIES TO **ENHANCE VALUATION DURING UNCERTAIN MARKET ENVIRONMENTS?**

**RP:** My answer remains the same, absolutely! But it takes both patience and performance. As in virtually any market environment, it's up to the company to perform financially and operationally - and effectively tell its story - for enhanced valuation to occur. The "telling" part means proactively seeking to attract attention, getting in front of the right investors, communicating the company's financial performance, participating in non-deal roadshows, presenting at conferences, issuing a steady flow of real news, seeking and accepting speaking opportunities, and judicious use of social media.

Roger Pondel is CEO of PondelWilkinson Inc., a full-service investor relations and strategic public relations firm operating for more than 50 years that has earned a national reputation for innovative, aggressive, professional service, representing pre-public and publicly traded companies in multiple sectors, from microcap to big cap. He can be reached at rpondel@pondel.com, or 310-279-5965.

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