AMERICAN ASSOCIATION OF INDIVIDUAL INVESTORS & BETTERINVESTING

AAII + BETTERINVESTING:
BUILDING WEALTH WITH SMALL-CAP STOCKS

23 SEPTEMBER 2025
DOUG GERLACH
VICE-PRESIDENT, BETTERINVESTING

AMERICAN ASSOCIATION OF INDIVIDUAL INVESTORS & BETTERINVESTING

SMALL COMPANY INVESTING FOR LONG-TERM INVESTORS

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OUR 3 INVESTING NEWSLETTERS

Investor Advisory Service: Founded 1973, uses BetterInvesting/SSG style GARP methodology.
- Named to **Hulbert Investment Newsletter Honor Roll** for 15 years for consistent, long-term performance.

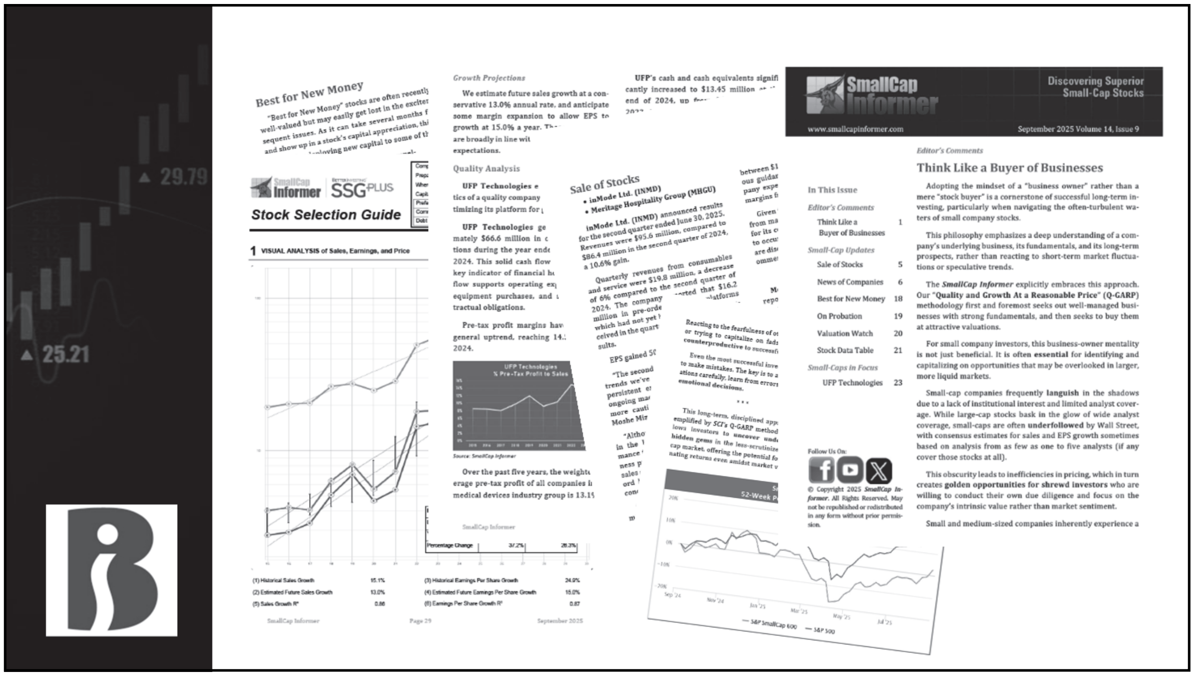
SmallCap Informer: Founded 2013, uses SSG approach to target smaller companies with long-term potential.
- Has outperformer S&P SmallCap 600 since founding.

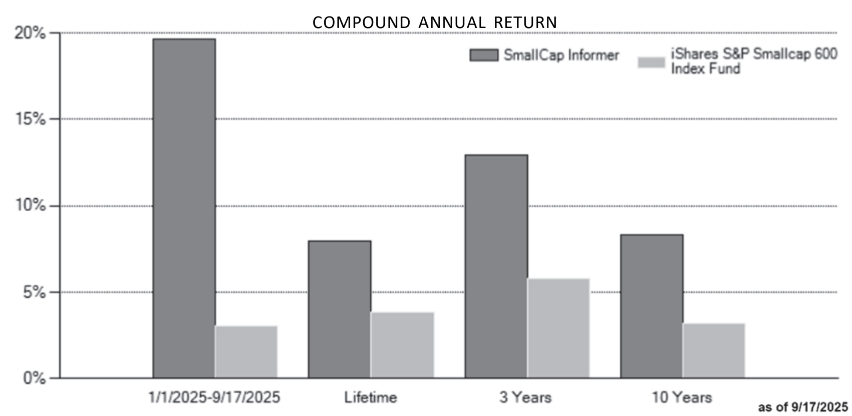
Dividend Informer: Founded 2023, uses new approach to long-term quality & dividend growth metrics with aim to reduce volatility & still deliver performance.

INTRODUCING THE SMALLCAP INFORMER

SMALL COMPANY STOCK NEWSLETTER

— Monthly **newsletter** generating small company stock ideas for individual investors.
— Utilizes disciplined methodology to select **quality stocks** selling at **reasonable prices** with **above-average total return** prospects compared to small-cap indexes
— Follows **long-term, buy-and-hold** strategy.
— Regularly **outperforms small-cap market index.**

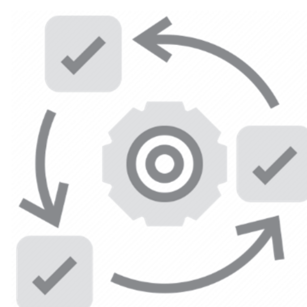




LONG-TERM TRACK RECORD OF SUCCESS SINCE FOUNDED IN 2012

BENEFITS OF SMALL-CAP STOCKS

- BetterInvesting suggests **25% of stock portfolio be devoted to small company stocks**.
- Small & large company stocks tend to **perform at different times in market cycle**.
- Small company stocks have **historically boosted performance over long-term**.



METHODOLOGY

REQUIREMENTS FOR COVERAGE

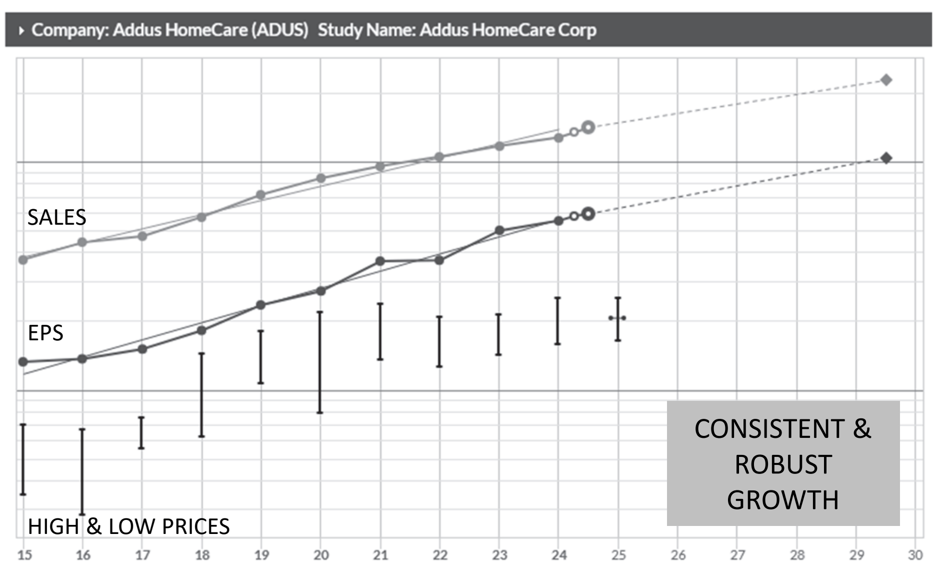
- Annual sales typically **between $100M and $2B** when initially covered.
  - Will continue coverage as companies perform well & exceed this range.
- Operating in **any sector & industry** (rarely cover utilities or energy companies).
- Must be **profitable**, typically with minimum 3 years of operating history

INTRODUCING Q-GARP

- Our unique approach to analysis called **Q-GARP.**
- Based on **Growth At a Reasonable Price (GARP)** with a persistent **Quality** underpinning**.**
- Uses **NAIC/BetterInvesting's Stock Selection Guide (SSG)** as starting framework.

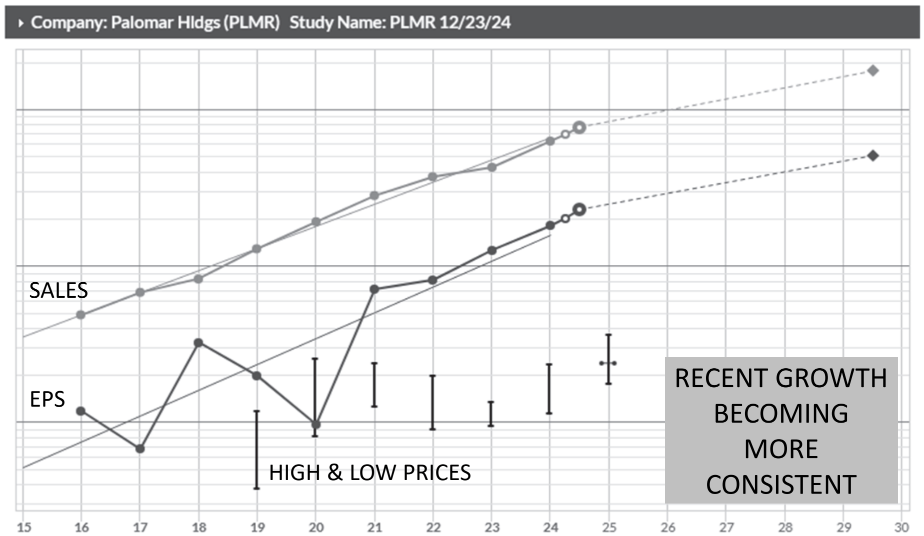
<u>GROWTH</u> CRITERIA

- Sales growth is **<u>required</u>** to drive long-term EPS growth.
- EPS growth is **<u>required</u>** to drive long-term capital appreciation.
- Typically seek out annual growth potential of at least 8%.
- Historical growth trends provide base.
  - Research into future headwinds & tailwinds provides **<u>confirmation</u>** or cause for **<u>elimination</u>**.



9-YEAR SALES GROWTH <u>15.4%</u>

9-YEAR EPS GROWTH <u>18.9%</u>



8-YEAR SALES GROWTH 18.0%

8-YEAR EPS GROWTH 17.2%

REASONABLE PRICE CRITERIA

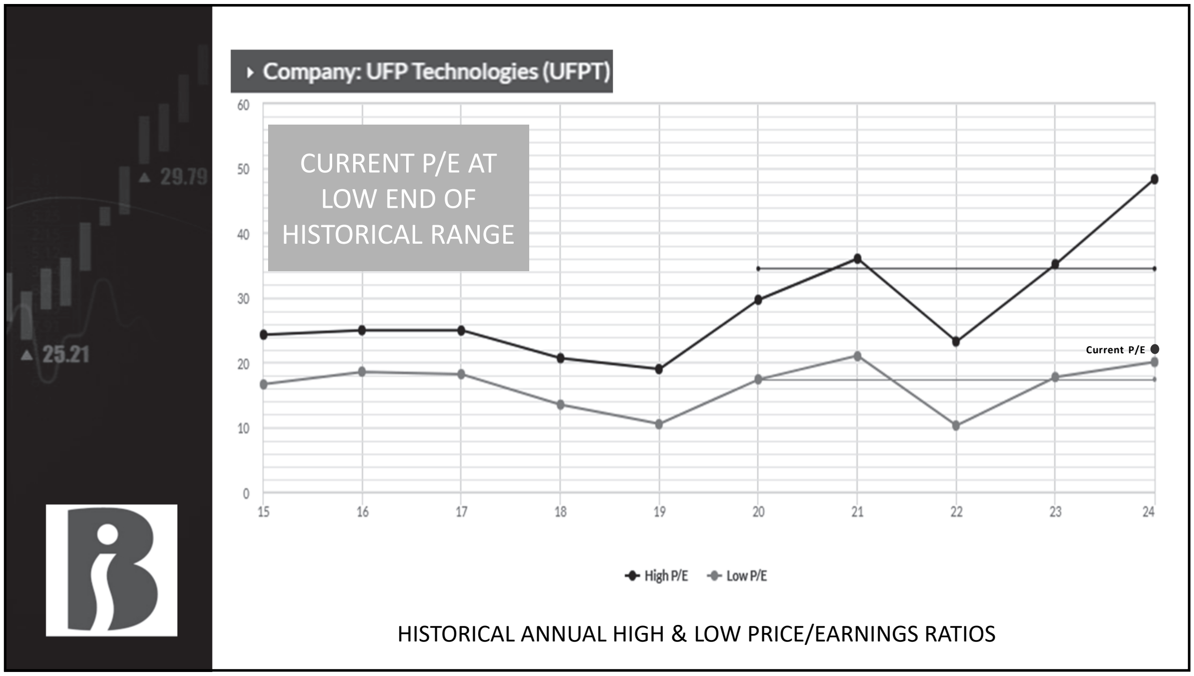
—Remain rigid & focused when buying.

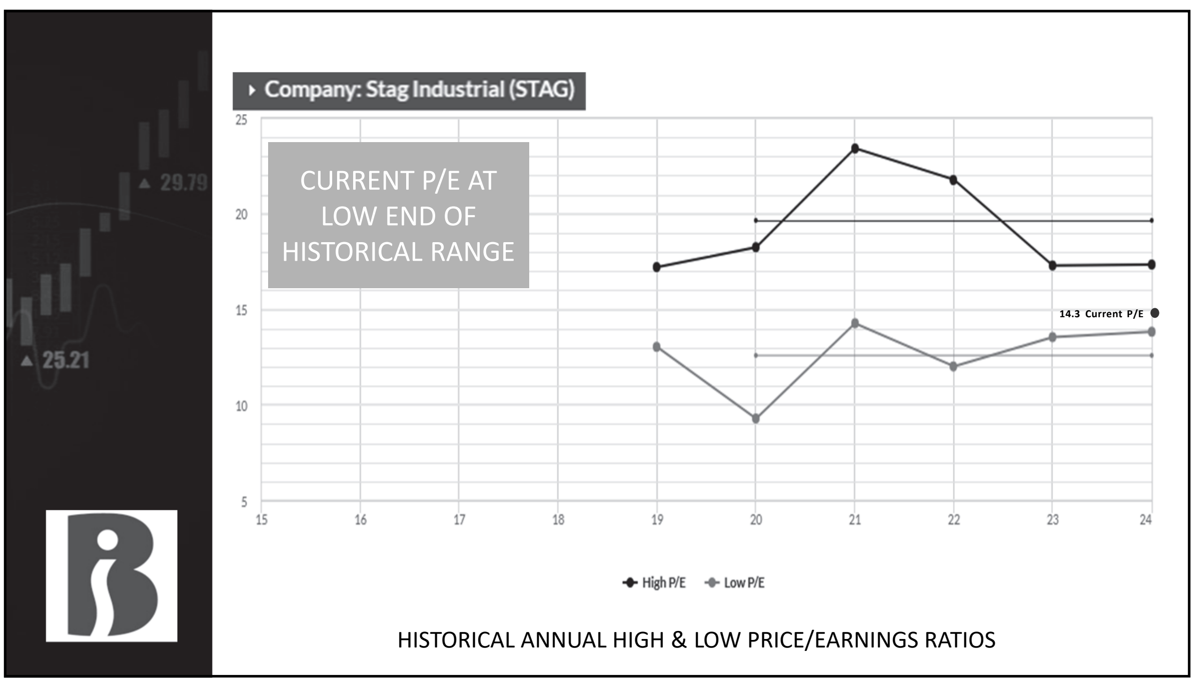
—P/E must be **reasonable** when compared to history & future growth expectations.

  —Avoid high-fliers with P/Es greater than 30 or 35.

—Can be **contrarian**—take advantage of mismatches between market's assigned value compared to estimate of long-term prospects.

—Often advantageous to focus more on **value** than **growth**.


Company: UFP Technologies (UFPT)
CURRENT P/E AT LOW END OF HISTORICAL RANGE
Current P/E
High P/E
Low P/E
HISTORICAL ANNUAL HIGH & LOW PRICE/EARNINGS RATIOS

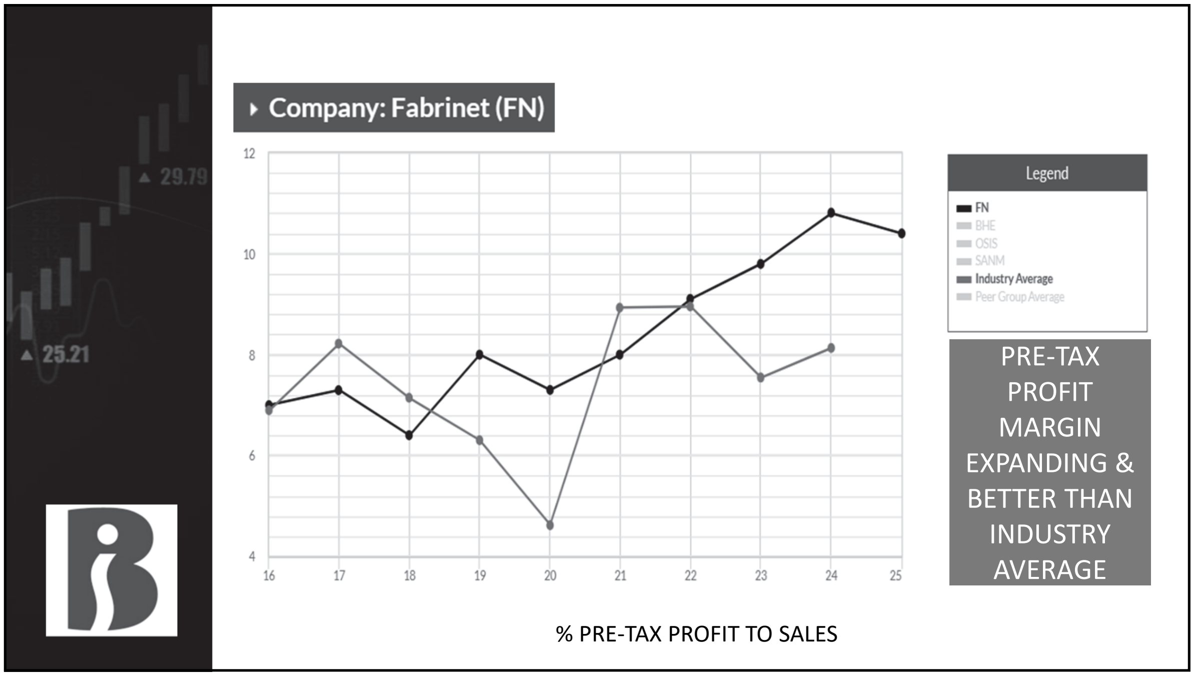

Company: Stag Industrial (STAG)
CURRENT P/E AT LOW END OF HISTORICAL RANGE
14.3 Current P/E
High P/E
Low P/E
HISTORICAL ANNUAL HIGH & LOW PRICE/EARNINGS RATIOS

<u>QUALITY</u> CRITERIA

- **<u>Effective</u>** management delivers **<u>consistent</u>** growth.
- Company is **<u>not over-leveraged</u>**.
- Dividends, if paid, are **<u>well-supported by cash</u>** & earnings.
- **<u>Strong cash flow generation</u>** is always good.

MARGINS TELL THE STORY

- Companies with **<u>pre-tax profit margins that are better than peers & industry averages</u>** are ideal candidates.
  - Pre-tax margin analysis removes impact of share buybacks on profitability.
- **<u>Expanding margins are ideal</u>** (though stable margins are enough to indicate that management is doing good job).
- Companies with **<u>superior margins</u>** usually excel in other areas like cost of capital; expense management; free cash flow;


Company: Fabrinet (FN)
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Legend
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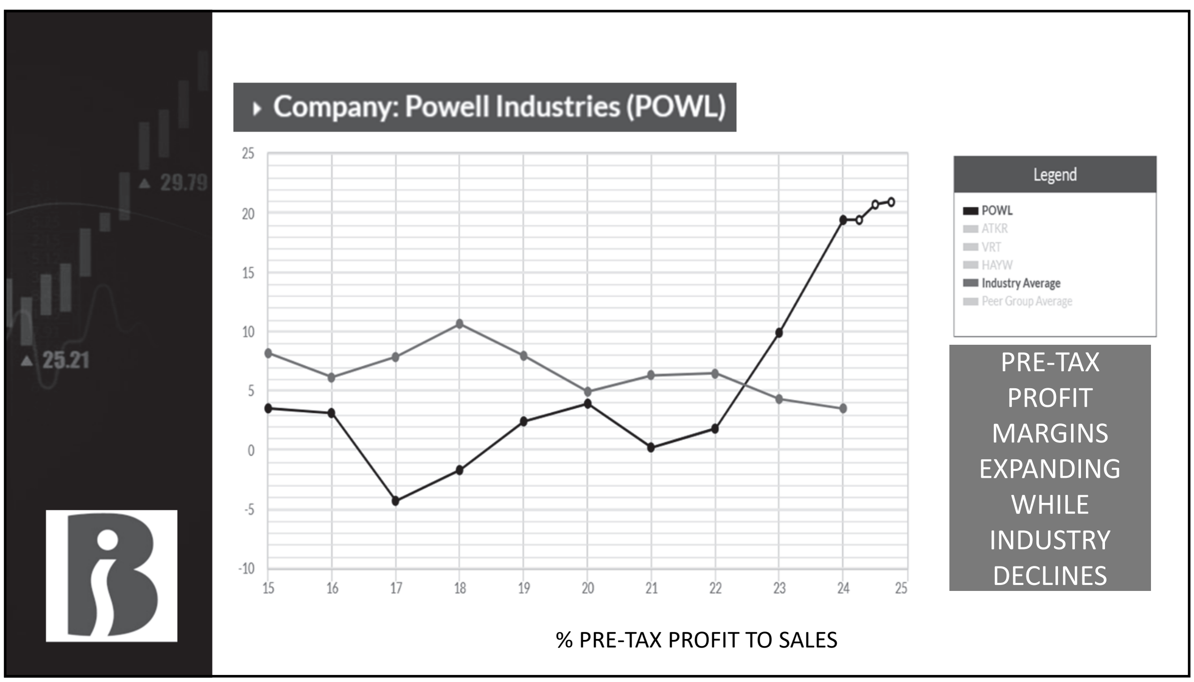
SANM
Industry Average
Peer Group Average
PRE-TAX PROFIT MARGIN EXPANDING & BETTER THAN INDUSTRY AVERAGE
% PRE-TAX PROFIT TO SALES


Company: Powell Industries (POWL)
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25
Legend
POWL
ATKR
VRT
HAYW
Industry Average
Peer Group Average
PRE-TAX PROFIT MARGINS EXPANDING WHILE INDUSTRY DECLINES
% PRE-TAX PROFIT TO SALES

TOTAL RETURN OBJECTIVES

—**Capital appreciation** is expected to drive bulk of returns.

—**Dividends**, for some businesses, may contribute.

—**P/E expansion** from practice of buying when stock is historically undervalued will add third component of return.

—Altogether these should drive returns higher than market average.

WHAT WE AVOID

- Unprofitable companies.
- Companies with long-term downtrends of sales/EPS.
- Turnaround companies.
- Hyper-valued stocks.
- Penny stocks/micro-caps.

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WHEN TO BUY

- Only buy “recommendations” are each month’s featured stock.
- No “automatic” buys are intended.
  - Each stock must be evaluated by subscriber for suitability in their own portfolio.
- Possible “**<u>Best for New Money</u>**” buys are highlighted monthly for subscribers to consider for portfolio needs.

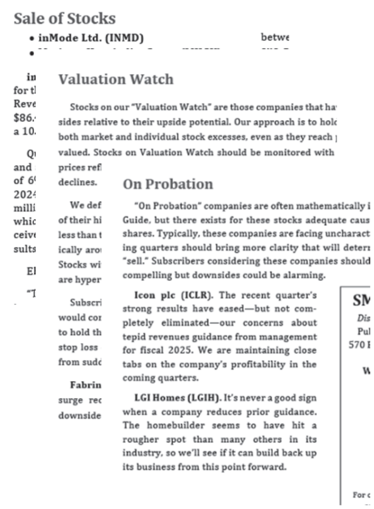
AVERAGE HOLDING PERIOD

- Aim to hold each stock for **<u>long-term</u>** (+5 year).
- **<u>Hold</u>** through market cycles & **<u>never try to time market</u>** ups or downs.
- Not all stocks will meet targeted holding period, but **<u>laggards are pruned</u>**.
- *Oldest stock under coverage was introduced in 2014.*
- *36 of 73 open positions of 40 currently-covered stocks were initiated more than five years ago.*

WHEN TO SELL

—Sell recommendations made as warranted due to deteriorating fundamentals, concerns about future prospects, or hyper-valuations.

—Each issue features “**On Probation**” list (of companies with fundamental concerns) & “**Valuation Watch**” (for companies at excessive valuations).



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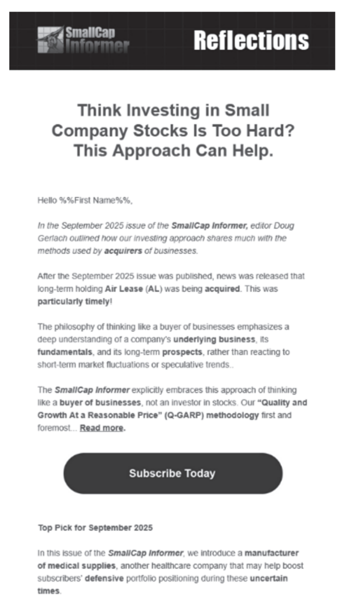

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www.smallcapinformer.com

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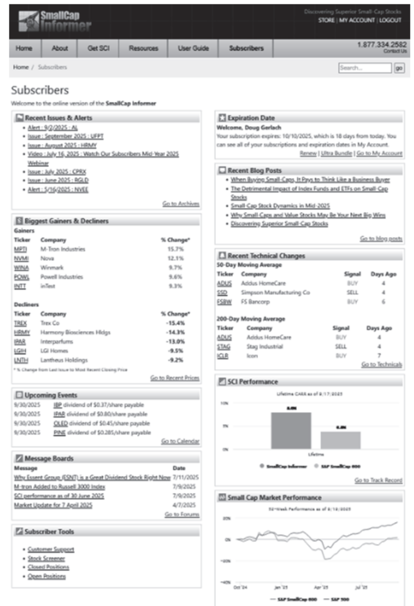

QUESTIONS?

WRITE ME: GERLACH@ICLUB.COM

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  - *SmallCap Informer.*
  - *Dividend Informer.*

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