

## September Update to the Best Small Companies

The 2014 [best small companies list](#) is set to come out in October so this will likely be the last look at the 2013 list.

When I look at the results from when the list came out, what's clear is that this year was difficult for stock picking.

Generally, the Forbes list does a great job of picking out strong winners.

However, the class of 2013 is a mixed bag.

Nothing exceptional.

But with any list or strategy, even with the [value strategy screeners](#) I follow, there are down periods.

It's just a matter of keeping with it.

Here's a recap of how the list is configured.

The methodology used to pick the stocks that make the list is quite simple.

- annual revenue between \$5 million and \$1 billion
- stock price no lower than \$5 a share
- excluded financial institutions, REITs, utilities and limited partnerships
- rankings are based on earnings growth, sales growth and return on equity in the past 12 months and over five years
- dropped thinly traded names and those with fuzzy accounting or major legal troubles
- factored in stock performance versus each company's peer group during the last year as of Oct. 1
- financial data is pulled from Reuters
- fundamentals via FactSet

The reason I always tell people that this is a good list to go through is because the people at Forbes has done a lot of the work already for you.

Ranking stocks based on sales, ROE etc is easy.

But look at points 5 and 6.

*dropped thinly traded names and those with fuzzy accounting or major legal troubles*

*factored in stock performance versus each company's peer group during the last year as of Oct. 1*

### Best Small Companies Stats

Forbes uses an Oct to Oct period instead of a normal calendar year which can make it confusing. So keep that in mind.

- S&P500 performance from October 1 to September 24: 21.3%
- Russell 2000 performance from October 1 to September 24: 6.38%
- 48 stocks have negative returns
- 52 have positive returns
- 20 stocks are beating the S&P500's total return
- 41 stocks are beating the Russell 2000's total return
- Only 3 stocks have been bought out
- Only 7 stocks boast returns above 50% for the year

From these numbers, you can see that small stocks have struggled throughout the period.

Let's see what comes up in the 2014 list.

## 4 Small Stocks Worth Looking At

Here are some stocks worth looking further into.

I'm listing these mostly based on the numbers I'm getting with the [old school value analyzer](#). It's a quick way to decide whether a company is a yay or a nay because you get in depth information for better and more objective decision making.

Once I find stocks I like initially, I'll then dive into the SEC filings to try and understand the industry and business.

If you are one of our 800 members, follow along and see if you can see what I'm seeing.

### j2 Global (JCOM)

What I like:

- Business that I know well
- Scalable business with fat margins
- Cash cow
- Low [capex](#) business (but increasing as they acquire more businesses)
- No short term debt and very strong balance sheet
- Negative [cash conversion cycle](#)

What I dislike:

Current Price: \$51.15

My fair value range estimate: **\$50-\$60**

### NIC Inc. (EGOV)

Previously [wrote about it here](#).

What I like:

What I dislike:

Current Price: \$17.84

My fair value range estimate: **\$13-\$18**

## **ExlService Holdings (EXLS)**

Previously [wrote about it here](#).

What I like:

What I dislike:

EXLS is fundamentally very sound so it's hard to find something specific to dislike.

Nitpicking, the Piotroski F score dropped from 8 to 6, and slow down in revenue.

Current Price: \$25.19

My fair value range estimate: **\$27-\$33**

## **Solarwinds (SWI)**

What I like:

What I dislike:

Current Price: \$42.76

My fair value range estimate: **\$37-\$54**

## **About Jae Jun**

Jae Jun is the founder of Old School Value. He is on a mission to provide practical and actionable value investing tools, tutorials and educational material to help empower the individual investor. Keep in touch with Jae via any of the methods linked below.

