Unveiling the World of Microcap Stocks with Expert Ian Cassel

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have a really fun show. We have a very special guest. We have Ian Cassel, who's joining us. He's a full time microcap investor, and he's the CIO of Intelligent Fanatics Capital Management. He's also the founder of Microcapclub.com and the co founder of theIntelligentfanatics.com. So, Ian, thank you very much for joining us today. We're super excited to talk to you.

Dave [00:00:26]:

Andrew, unfortunately, won't be able to join us today, but we're going to have a lot of fun, and I promise to not ask too many stupid questions. So with that, Ian, thanks for joining us today.

Ian Cassel [00:00:36]:

Thanks for having me on. It's an honor to be here and speak to your audience about microcap investing. Awesome.

Dave [00:00:41]:

Well, let's kind of start with maybe a 30,000 foot view of your background. How did you get into investing? What was your first stock you bought? Maybe some of that background.

Ian Cassel [00:00:53]:

Sure. So I'm from Lancaster, Pennsylvania. So this is kind of amish country in the United States, and it's kind of a unique place to be brought up. And that has nothing to do with about my background other than it's unique. And when I was a teenager, which was in the late 1990s, during the.com kind of bubble or technology bubble, I was a junior in high school, and my parents kind of sat me down and they said, we saved for you $20,000 for your college education, and this is all you're getting. So we wanted you to know

now, so you know where you want to apply and go to college. And that's just so that you can make the decision. If you want to go into debt, if you want to go to a more expensive university, or if you want to go to a local community college, that's up to you.

Ian Cassel [00:01:33]:

And so at the time, they introduced me to their financial advisor, and I opened up an account with that financial Pfizer and put that $20,000 into it. I kind of slung it into two or three small cap tech names during the 1990 619 97. And during that time period, as I'm sure many people can remember, you could have threw a dart at technology names and made money. And that was me as well. So I took that 20,000 and turned it into about 120,000 by the time I graduated. Of course, with any big win, early in your maturation as an investor, you kind of think that it's skill, when really it's luck. And that was me as well. And so kind of seeing that capital go straight up, I was like, you know, I don't want to spend all of this going to a private college.

Ian Cassel [00:02:16]:

I'll just go to the local community college, commute, and get a kind of part time, full time job so I don't have to even drain any of this money that's in this stock brokerage account. And that's what I ended up doing. And I actually worked at an Edward Jones office, financial advisor here locally, did that kind of 30 hours a week as I went to school full time. And it was really there that the.com bubble crashed. So that was like 2001. And that $120,000 that I thought I was smart with turned into eight on the way down. It was quite an experience. So the irony of this is a lot of those small cap tech companies that I were in turned into micro caps coming down the other side, and they turned into these small companies.

Ian Cassel [00:03:02]:

And the other kind of lesson I learned during that experience was I was more or less a glorified secretary at that Edward Jones office, answering phones. And during the bubble crash, just dealing with people, dealing with their emotions. I really thought, kind of going into that crash, that I was going to be a financial advisor, and that's what I wanted to do. And then just going through the experience of having to kind of hold people's hands through that experience of the crash, it kind of taught me I don't really want to do that. Investing is hard enough dealing with your own emotions, let alone those of other people. And it was really at that point in time, or around that same time, that I really got introduced to microcap investing, I actually ended up looking at my very first one with serious diligence, which wasn't very serious for me back then when I was a sophomore in university. So 2001, 2002, and that was XM satellite radio. And that would later emerge with Sirius Satellite radio, which we all know is in every car that you buy today.

Ian Cassel [00:03:58]:

But back then, it was a small measure cap company with a story and no revenues. And I just loved the idea of that company. If you're old enough to remember terrestrial radio, you drive 20 miles outside your area, you lose signal, and you're trying to find a new radio station. It's a pain. And I just love the idea. I love the story. And that was the first company that I looked into, and I saw that the CEO was presenting up in New York City, which is about a three hour bus ride from Lancaster, Pennsylvania. I called the conference organizer and said I was Ian Cassel with Cassel Capital.

Ian Cassel [00:04:32]:

Can I come to your event? They said yes. And when I was a sophomore in college, took a bus. The suit that I wore for my high school senior photos still fit. And I put that on with some fake business cards and headed to New York City. And long story short, I was able to meet one on one with Hugh Panera, the CEO of XM Satellite Radio. My eyes were as big as saucers. Just the ability to sit alongside a CEO of a public company was just amazing. And kind of came out of that meeting on the way home, took the 8000 I had left from the crash, bought XM satellite radio at a dollar 78 per share.

Ian Cassel [00:05:08]:

And what happened next was the company actually started executing. It was all luck, and it ended up going up 20 x over the next 14 months and kind of made all the money back that I lost in the crash and then some again thinking that that was skill and even though that was 150% luck. But I always point to that story. That meeting I had with that CEO is really where the love affair with microcap investing began, because it was just the ability for an idiot like me to actually sit alongside the table of an executive and actually feel like you get an edge, the qualitative aspect of investing. So that's kind of where my path and journey began. And then from there, because of the experience at that Edward Jones office, I made it a goal to be a private, full time investor as quickly as possible. And through some luck and some skill over the next six, seven years, was able to kind of cut the cord of some consulting. I was doing the depths of the GFC, which is 2008 2009 financial crisis, and become a private full time investor at that point in time.

Dave [00:06:12]:

Wow, that's awesome. I mean, that's a great story. You learned a lot through those ups and downs, didn't you, of not only the skill involved, but the luck involved and also the emotions that are involved.

Ian Cassel [00:06:23]:

I'm 42, but I feel like I've kind of lived in dog years when it comes to realizing the emotions of investing, the volatility with investing, because, and we'll get into this, I'm sure, but micro cap investing, it's a volatile area. And so the highs are high, the lows are low. And so you kind of go through those extremes over and over again, kind of learn those lessons really quickly. And I think that's kind of the way I learned it, by doing, by kind of losing my money over and over again and making it back and losing it and making it back. And that's how I kind of learned the craft of microcap investing. And then when I became a private full time investor in 2009, I had my own blog for a while. But I realized that it would be really cool to kind of create a website which is now microcapclub.com, which I just wanted to kind of bring together all the people that were intelligent and sophisticated and smart in my niche of investing and have them post their ideas on a private forum because I wanted to see the idea flow, what other people were looking at and why. And so that's kind of where Microcap club originated.

Ian Cassel [00:07:25]:

And today it's probably with the best brand in microcap investing, where we have 200 of the best microcap investors from across the planet just on there talking about what they like and why. That's all it is today. And that was kind of a pet project that's still a passion project of mine, and it's still a great tool for my personal investing.

Dave [00:07:43]:

Awesome. All right, so maybe we could back up for just a second. So when we talk about micro cap investing, what does that mean to you, and what would that mean to people that are listening?

Ian Cassel [00:07:55]:

Sure. So if you look at all global stocks, like every publicly traded stock that exists on the Planet, there's about 70,000 of them, and about 65% of them would be defined as micro cap stocks. And that would be a market capitalization. Some people say it's less than 500 million market cap, other people say it's less than 300 million market cap. But the main point here is that most of the public companies that exist are small companies you've never heard of because they're so small, they're so illiquid. They have no institutional following. There's no analysts that cover them. And for that reason, it's a very inefficient marketplace to look at.

Ian Cassel [00:08:35]:

I mean, some of these companies that are micro caps, I mean, no joke, they probably would even be the largest company in your small town. These are five employees, 25 employees. They're 2 million in revenue. They might be 20 million in revenue. It's basically a small BusineSS that just happens to have a Ticker symbol that you can buy in your SCHwab Account.

Dave [00:08:55]:

I guess what would be the biggest you would go in the market cap and what would be the smallest you would go.

Ian Cassel [00:09:01]:

So even though I've been doing this for a long time, I would say the biggest one in my portfolio today is about a 320,000,000 market cap. And to kind of SizE that Up, that's a healthcare company that's a $60 million revenue company growing 30% a year that's just turned profitable. They have 100 employees to kind of give you a little size and scope of what that business looks like. But I also have a company in my Portfolio that is an EigHt, that's 8 million market cap. That is a $5 million revenue company that makes $500,000 a year, that I think can continue to just to grow 20, 30% and make more money every year. And ironically enough, maybe to put a BowL in this MicROCap TOpIC, when you actually look at the best performing stocks globally. There was actually some research done by Jenga Investment Partners, which is an institution out of the UK, and they looked at all global equity outperformers over the last ten years, and what they found was that of all global equities that went up 1000% or more over the last ten years, 87% of those originated out of the micro cap arena. 87%.

Ian Cassel [00:10:17]:

And what was also interesting was that 82% of those are profitable companies. It's not the story stocks. It's not the next AI thing that's making a splash. It's simply what multibaggers really are in general, are simply small businesses that continue to grow, earn more money, and not dilute, meaning they don't have to raise capital. And so it's simply a business that can go from 10 million in revenue, again, a small business, to 30 million in revenue, and go from, call it a couple of million dollars in earnings to five or 6 million in earnings. That's a ten bagger, that's a 15 bagger. That's where a majority of those multi baggers come from. They aren't meta, they aren't Apple, they aren't those types of companies.

Ian Cassel [00:11:03]:

They're like fairy tales. When you look at the size, the scope, the scale of those businesses, the amount of employees they have, the reach, and the nice thing for all of us is a majority of multi baggers that occur are actually just these small companies that no one's ever heard of.

Dave [00:11:17]:

Yeah, so a couple of things. One, it's kind of wild to me that I used to run a restaurant that we would do around 5 million a year in sales, and it's like I would never have in a million years considered myself a public company CEO, but I could have been. So that makes me chuckle for sure.

Ian Cassel [00:11:36]:

Well, and I think that's why microcap investing as an investment class connects with people. Because for a lot of people, they can connect with it. You already connected with it because you're like, wait, a minute. I ran a $5 million business. And so when I talk to people about it, whether it's people in your audience, I mean, it's something that you can understand. You're not trying to find the next trillion dollar company. Your next great multibagger stock could be the business you run today, which is kind of the irony of it.

Dave [00:12:02]:

Right? Yeah, exactly. And I think a lot of people don't realize this, but maybe not all, but most companies. A lot of companies start off in the microcap world. Berkshire Hathaway, for example, was a very small company. Now look at it. It's a global beast. But, yeah, it's amazing. And I think kind of to your point, Amazon, if that was to tenpeg from where it is now, it would be what, the global GDP, just because of the size.

Dave [00:12:31]:

So, yeah, the idea of that. So, I guess what makes investing in microcaps different than investing in larger companies, whether they're a Danaher or whether it's a Google?

Ian Cassel [00:12:45]:

Well, I think it would be the same as analyzing a small private company versus a large private company. These are small, impressionable businesses. And when it comes to public companies, unlike the larger companies that you look at like an apple or a target, that has 39 analysts covering it and it's 83% institutionally owned, these companies, there's no one following it. There's no analysts covering it. There's very little, if any, institutions that own the stock, which is just a fancy way of saying you have to do the work. You have to do the independent research. You have to form your own independent conviction. If you do buy something and there's no one else to blame but you, and certain people are afraid by that, or they're energized by the fact that they're willing to do that.

Ian Cassel [00:13:37]:

And just like a lot of things in investing, you make the most money a lot of times by just driving through the fears of what other people aren't willing to do. And that's pretty much what microcap investing is and where a lot of people go wrong with microcap investing. And unfortunately, it's also why it has such a negative. The financial media here in the US especially, they like to paint the whole space as this uninvestable kind of wasteland of small, slimy, sleazy companies that shouldn't be public, that type of thing. And the reason that is, most of the companies that do make the headlines are negative headlines. Maybe it's a fraud or a failure or whatever. But ironically enough, I would say that there's probably less failure in microcap investing than there is in venture capital. There's probably just as much failure, if not more, in just private small businesses in general.

Ian Cassel [00:14:23]:

It's just that these companies are public, so they're just out front, so to speak. And so what I like to tell people is, when it comes to micro caps, the subset of companies, you get rid of a lot of the risk if you just focus on the ones that are profitable, that actually have real businesses. I think around 85% of companies lose money that are microcaps. So there's 15% of these companies that actually make money. And usually my first advice is just to focus on those because that'll cut out a lot. 95% of the issues you're going to have. If you just focus on the profitable real businesses that exist here. It doesn't mean that you're guaranteed to make money or anything.

Ian Cassel [00:15:00]:

But just like everything in life, it's harder to lose money if you're already profitable. And it's even harder to lose money if you don't have any debt. So it's kind of look for financially robust small businesses. You'll do probably decently as a starting point.

Dave [00:15:15]:

Right? So I guess, does the value versus growth debate happen in the microcap world as well? Or is that something that's more bigger companies that people focus on?

Ian Cassel [00:15:29]:

Well, it's a great question because I get asked quite a bit like what's the next microcap stock? Or tell me about some ideas. You have the same flavors of investing in microcap as you do in large cap. You have value, you have growth, you have story stocks, you have oil and gas companies, you have life science companies. You have all those same flavors that you have up in large cap land, down here in micro cap land. And so each one of us microcap investors, I have my own flavor of how I invest. It's going to be different from another microcap Investor you talk to. There are several kind of fund managers I know that focus on this space. They're all incredibly different.

Ian Cassel [00:16:11]:

And I think that's the beautiful thing about investing in general. You don't have to invest the same way. You can find somebody almost on opposing sides of the spectrum of any type of investing and find a successful investor. And that's what makes it kind of unique, investing in general. And it's the same thing that we said down here in microcap. So to actually answer your question, yeah, you still see that kind of value to growth kind of debate going on, if you will, because you can find a lot of just cheap stocks that are trading below book value or below cash. And then you always also find things that can grow 50% a year that are profitable and it's more towards the growthy end of the spectrum. And you find all those things.

Dave [00:16:48]:

Okay, that's interesting. If somebody wanted to start learning about these different companies, how would you suggest people, I guess a, start to source ideas and then B, how do you start to kind know, like you said, do the work, do the research and try to find out as much as you can about these potential investments.

Ian Cassel [00:17:13]:

We actually have a public YouTube video up. We sort of did a 1 hour course on kind of a beginner's guide to researching microcap stocks. So if any of your listeners just go to YouTube, put in Microcap Club, and with a beginner's guide to researching, it'll probably be the first thing that pops up and you'll find that video there. But I think the way you find them, it's really a combination of things. Obviously, I could tout microcap club because it is an amazing idea generator. That's why it was created so on that site. When you think about it, you have 200 experienced microcap investors profiling new ideas. And each month we kind of highlight in a monthly update these are the new ideas.

Ian Cassel [00:17:50]:

And it's usually 15 to 20 a month of just new microcap ideas. And it's across all those flavors of investing we just talked about. That's a great idea generator just in itself. Some of the best people, including what we do at our fund, is literally go a through z. You know, kind of the old Warren Buffett approach, going like literally looking at every single one, because that's the only way, you know, you're not missing anything. Other people, they use screens depending on their investment strategy. So if they're more of a deep value investor, they might do a quantitative screen based on financials. I think over time, as you get into this space and the longer you go, you create relationships and you have your own network of investors that you speak to and you talk to about ideas, just like I do over the years.

Ian Cassel [00:18:34]:

And that becomes a greater, greater source of idea generation over time as that network, just like it becomes your greatest asset as an individual or a business person. Like those relationships that you build over years of reciprocation and trust, they become your ultimate asset. And that's the same thing with microcap investing as well.

Dave [00:18:53]:

That's awesome. So I guess those are all fantastic resources, obviously. And if I was to look at the financials of the company you mentioned, earlier. Generally there's no analyst coverage. Does that mean that they don't do quarterly calls then? That sounds like a really dumb question out loud.

Ian Cassel [00:19:12]:

No, it's a great question. I would say it really depends. So if you look at micro cap companies, let's just say sub 300 million market cap. So the whole space, there's a huge difference between a 300 market cap, 300 million market cap and a 20 million market cap. I mean, just like there's a huge difference between a $5 million revenue company and 100 million dollar revenue company. And I call like that one on the 5 million or less like a hustle. It's sort of a two or three person operation. And you can build something from zero to five, 6 million in revenue, and it can still just be a hustle.

Ian Cassel [00:19:47]:

But to get to 50 million in sales, 100 million in sales, and especially going from like 1 million in earnings to ten, that's a real business. You're going to have to have a real management structure, real management depth, a real board, a real culture, hopefully inside that company to get to that scale. And so I just wanted to start out by saying there's a huge difference between looking at the larger end of microcap and the smaller end of microcap, which also kind of makes it so unique too, because even inside the microcap, there's different varieties of sizes and scales. But also what makes it fun is you already pointed out earlier in the conversation, most of the best performing stocks ever originated out of this arena. Berkshire Hathaway was a small micro cap stock when Warren Buffett took it over in the. And you know, Walmart was a microcap when it ipoed, intuitive surgical was a microcap. Netflix was a know Celgene before it got acquired was a microcap. You can kind of go down the list of all these companies.

Ian Cassel [00:20:47]:

And the other cool part about cap investing is most of the best public markets investors ever started at Microcap as well because of these qualitative trait of just inefficiency. Buffett started here, lynch started here, Joel Greenblood started here. And it's because this is where the inefficiency mean it might be the only investment class, publicly and privately, where the smaller investor has the advantage, even amongst small business investment. So if you look at microcap investing, small private equity, if you're buying a small private business, that ecosystem and venture capital, those three things, Microcap is the only one where if you just have a little bit of money, you have the whole ecosystem. You can see every stock that exists. You can decide that which one you want to invest in. If you're in venture capital, you'd have to go to the right school. You have to know the right people.

Ian Cassel [00:21:39]:

You have to work at the right firm to get those best deals. You're not seeing Facebook early on, you're going to be the last person on that list. Here in Microcap, those two, like VC and private equity, they're still institutionally grounded. Where Microcap is retail grounded, the retail small retail investor has the advantage. That's what has always drawn me to it.

Dave [00:22:01]:

It sounds really intriguing to me. I guess another question, maybe a dumb one, is if you were a new investor, this is like, okay, I want to start tomorrow. Is microcap a place that you think that they could play, or is that something that maybe you need a little more experience before you can start, and not necessarily from the knowledge part of it, but maybe more the emotional part of it?

Ian Cassel [00:22:26]:

Yeah, it's a good question. And I realized as you were asking your question, I didn't answer your other question, which was about earnings calls. What I meant to say was, on the smaller end, I would say smaller end of microcap, there's very many that don't have earnings calls. There's very many that don't even put out press releases. They just put out, like, their quarterly filings. And that's it. Yeah. And as you get bigger, then they start putting out press releases, they start having earnings calls.

Ian Cassel [00:22:51]:

So there's a big difference between that smaller end of my ear cap and the larger end. So I didn't mean not to answer that question you asked previously. Yeah. And what was your new question?

Dave [00:23:02]:

My new question was, if they're listening today and they're like, okay, I really like what Ian is talking about, and this sounds really appealing to me, but I've never invested before. I haven't even opened my brokerage account yet. Would this be an area that you feel like new investors could get into from the get go, or do you think it'd be something, maybe they would be better served to start with maybe larger companies and then move into this arena. And I'm thinking more about the idea of the volatility that you were mentioning earlier, and that can be really hard for investors to deal with, experienced investors. And I just wonder if new investors would struggle with that even more.

Ian Cassel [00:23:40]:

I think so. I think it makes sense to start larger. I also think it's really important to understand the language of business, which is accounting. You really should take a course or two or read a few books so you understand how to read an income statement, a balance sheet, cash flow statement. And I know you had Brian Feraldi on your program. He has a pretty good course. Mean, I think it's important to understand the language of business. So I would definitely learn accounting before you even enter this world.

Ian Cassel [00:24:08]:

And it probably is a good idea to start larger because the volatility will be less. It's kind of crazy when you think about volatility because I know you probably heard this metric already, but probably the largest, most robust business in the world, which is Berkshire Hathaway, still has 50% peak to trough movements, 50%. And so just think about what small microcap companies are. It's going to be a lot more than that. And so you have to be willing to kind of go through that volatile ride. And when you start out in microcap, know, prepare to lose money. Unfortunately, the best teacher oftentimes is know, no getting around.

Dave [00:24:47]:

No, no, there really isn't. And that's one of the things about the market is nothing's for free and there is a price and Mr. Market will come collect from time to time.

Ian Cassel [00:24:57]:

Yeah, I think a lot of risk can be taken out if you just focus on that subset of profitable businesses. A lot of the pain and frustration and agony comes from investing in the story stock. Or you get some glossy brochure in the mail that says company XYZ is the next Amazon. Well, we all know it's not. It's probably going to go down. In fact, I used to collect the hard mailers I would get that were pushing penny stocks out of my house. And I had this Excel spreadsheet, I think I had like 45 of them. And I tracked the performance from the day I received it and I think literally 90.

Ian Cassel [00:25:29]:

Well, I think all of them went down 99% like within twelve months. And unfortunately, that's why people get like a bad taste in their mouth with microcap investing, because their first entree into the space was some glossy hard mailer they got in the mail or something, that email that got forward to them promoting something. And that's the bad side of microcap. Those are the ones you don't want.

Dave [00:25:52]:

To invest in, right? So why is there more volatility in micro cap land than larger cap land?

Ian Cassel [00:26:01]:

There's more volatility because these equities are illiquid. So it's really the illiquidity in the stocks. To give you an example, I own stocks that literally trade $5,000 worth of stock a day. So just think if I wanted to go buy $10,000 worth of stock, it's probably going to take it up 100%.

Dave [00:26:22]:

Right.

Ian Cassel [00:26:23]:

Or if I want to sell $10,000 worth of that stock, it's going to take it down XYZ.

Dave [00:26:28]:

Right.

Ian Cassel [00:26:28]:

So that's why these things are volatile. It's the illiquidity, and it's also that illiquidity that keeps institutions out of this ecosystem. So it's also the benefit because it keeps the larger pools of capital out, because it's a waste of their time to be bothering with companies that trade this thinly.

Dave [00:26:47]:

Right.

Ian Cassel [00:26:48]:

They have too much money to put to work.

Dave [00:26:49]:

That makes a lot of sense. So I guess the idea that your stomach needs to be stronger maybe than your iq to invest in the microcap space, would that be correct?

Ian Cassel [00:27:00]:

Yeah, you need a very strong stomach. And I think it's even more important to disconnect the stock price in some regards from the business and really kind of create a valuation what you think that business is worth. So you can disconnect from the volatility and take advantage of the volatility. Every year I wake up to a situation where one of the holdings in my companies are down 40% pre market, and it's mainly because somebody woke up on the wrong side of their bed and decided, I want to get out of this illiquid stock all at once. And that's where you take advantage of it. If the business hasn't changed and the business is performing similarly on the other side, too, like you'll randomly, all of a sudden this stock is up 100% a year, and it pulls forward where you thought the company would be in three years to today. And obviously you want to take some off, and there's circumstances, too, so you use the volatile nature of the equity to your advantage.

Dave [00:27:53]:

That's awesome. That kind of brings me to you recently wrote this great article about that kind of very idea of averaging down. Could you kind of explain maybe your kind of idea behind that and maybe some of the keys that can help you average down better?

Ian Cassel [00:28:10]:

Yeah, I think averaging down is a skill, and I think that some of the biggest mistakes I've made were averaging down just to average down. And especially in micro cap stocks, is more important that when you average down, you're not throwing good money after bad. I have some rules that I kind of set up for myself, which I still break. And every time I break them, I realize these are rules and I shouldn't break them. But it's okay. We're all human. We still make mistakes, but mainly disconnect the business from the stock. And the only time I want to average down is when the equity is going down, but the business is accelerating, the business is doing well.

Ian Cassel [00:28:52]:

And that business is a robust business. It's profitable. It doesn't have any debt. It has firm fundamental underpinnings. And those are really the only times that you want to be averaging down into a microcap stock. So often I can probably point on both hands how many times I've lost a lot of money just because I was emotionally connected to the story of the company, or whatever the case may be. And I just kept averaging down because it was down another 20%. And then all of a sudden, you're down 60% and 80%, and you're like, what am I doing? And then you finally sell it to the person that's probably going to make money on it.

Ian Cassel [00:29:34]:

I think it's important to have rules set up. And so I wrote an article, I guess, last week or the week prior on when to average down. And it's just kind of a really simple, kind of easy kind of method that I think would help a lot of people, because I do think if you can average down effectively, it can be your biggest asset, as well as an investor to take advantage of that volatility.

Dave [00:29:54]:

Oh, yeah, absolutely. I haven't played in the microcap space yet, but during the pandemic, that was one of the things that I tried to take advantage of when the market dropped, because there are a lot of fantastic businesses like Visa, which is one of my favorite holdings, that it fell 30 50% in a month. And how could I not take advantage of that? Because I know the popular phrase on Twitter is to buy the dip. But I wasn't trying to buy the dip. I was like, the tide has gone out on a great company, and everything else around it is still awesome. So why wouldn't I buy more of this?

Ian Cassel [00:30:30]:

Yeah, it's funny how the emotions and psychology of stock price movements play into your mind, too, especially when the business is robust, like something like visa or master. All those types of businesses that you just mentioned when you're looking at those high quality businesses, it's funny how you love the stock when it was double the current price, but you hate it and are making excuses on why not to buy it here when it goes down 50%. Right, when the business is the same. And it's just like the psychology of stock price movements. When a stock doubles, ten times more people want to buy it than if it gets cut in half.

Dave [00:31:03]:

Right?

Ian Cassel [00:31:04]:

So it's just fascinating. Yeah. To use the Morgan household book title, same as ever.

Dave [00:31:13]:

Right. The more our technology improves, you think that we would get air quote better, but we're still all wired the same as we were 150 years ago, so we still do the same dumb things.

Ian Cassel [00:31:26]:

One especially, what's ironic about it too, is you think that larger pools of capital are smarter. They're the ones taking advantage of it. But companies like that, they're moving down because the smarter money and the larger money is doing the same things you're doing. They're pushing those things, those equities lower.

Dave [00:31:43]:

Right? Yeah, exactly. It always kind of amazes me how much the narrative can drive the price. Meta and Netflix, I think, are two great examples. Know they're going to, everybody hates it now they're know bigger than ever, and everybody loves them, and now everybody wants to buy them and nobody wanted to touch it. When would have been the best time to touch it? Yes.

Ian Cassel [00:32:08]:

No, exactly.

Dave [00:32:09]:

It's kind of fascinating. So what are your ideas about valuation? Like, when you think about valuing companies, what does that mean to you?

Ian Cassel [00:32:19]:

When I think about valuation, I look at a business and try to understand the size of that business and what it could become within three to five years. It's usually three or five years depending on the type of business it is. And that's kind of how I kind of create a valuation framework, because I don't want to go out too far, because these are small businesses and they change. And it's a difficult thing to do. And so a lot of it is just to find a ten bagger stock in microcap first, find a company that can double based on fundamental underpinnings. And that's how I think about with my flavor of investing, what I'm trying to find. I'm mainly trying to find unique businesses that are one of one businesses that are small and public. I'm not interested in finding businesses where there's a whole bunch of copycats.

Ian Cassel [00:33:04]:

Know another Ucast company that is basically marketing something a little bit different, trying to gain a few more customers that way, when really they're all selling the same thing just with different lipstick on it. I want to find truly unique businesses that are scarce. I love the idea of scarcity because I think it's kind of like I want to find a Picasso painting where there's only one of them and it's a desirable asset. And I know the institutions are going to come for this company at some point because it's a scarce asset that's growing rapidly. That's profitable and they will overpay for this eventually. I want to find something that's undervalued today, that can get overvalued tomorrow, maybe not tomorrow, but in three or four years. And then also you kind of layer on. I'm going to find companies that have a balance sheet that can endure and weather a storm and they can get through a recession.

Ian Cassel [00:33:55]:

I want to find ones that obviously have ownership from the management team, insider ownership founder. A lot of times they're founder led, but not always want them to have skin in the game and have to live with the consequences of their decisions. And that last kind of the four things is valuation centered, which is can this business double or can the stock double based on kind of fundamental underpinnings? So kind of like trying to find 25% CAGR doesn't mean that we're always going to hit that, but that's the goal. And when you put thousands of micro caps down that qualitative filter and quantitative filter from very unique business, profitable, great balance sheet, founder led is trained in a valuation that I think can at least double in three years. What comes out the bottom is tens of companies, not hundreds. And then that starts the diligence process more deeply into what comes out the bottom of that funnel.

Dave [00:34:49]:

When you think about due diligence for you, how long a process will be for you, is it something that, hey, I love this. In a week, you're pulling the trigger. Or is it a longer process that you kind of put it through the wringer to see if this is going to be something you want to own six months from now?

Ian Cassel [00:35:10]:

I know for me, the actual time it takes to get to a buy decision has gotten quicker. And it's because the older I get, the more I know what I'm looking for. You're kind of more of like an art collector, where you're looking through art catalogs or you're going to auctions and you know what you're looking for and you're just waiting to see it. And when you see it, you can act quickly. And that's kind of where I think. I often think like, the actual diligence process takes a lot longer when you're trying to figure out who you are. And now that I kind of know what I'm looking for, I can make a decision pretty quick. It's still going to involve doing the normal types of work and talking to management, but I can pull the trigger pretty quick.

Ian Cassel [00:35:52]:

When I kind of see those main things that I'm looking for, at least put an initial position on. Because the one thing that makes microcap also unique is discovery is important. Getting to an idea quicker is important because these are illiquid stocks. Me getting to an idea two or three investors later might mean paying 100% more. So discovery is still important. And so you kind of weigh the risks of taking another two months longer to do something versus, well, let's just buy a little bit now. This passes all the broad brush strokes. We can do research as we go.

Ian Cassel [00:36:26]:

And so that's more so probably how I've evolved over the last ten years, because I know what I'm looking for and I can pull the trigger quicker.

Dave [00:36:33]:

Yeah, that makes a lot of sense. I think that's probably a really smart way to do it. I guess the next question then would be, when you think about portfolio and entering positions, do you have an ideal amount of companies you think a micro cap investor should own? And when you start, how do you generally like to start? Do you start smaller and let them build into them, or do you. Okay, I love this 15%. Here we go.

Ian Cassel [00:36:59]:

Yeah, it's a good question. And I think the part about position sizing and the amount of positions is a personal one. I've always been concentrated in ten or less stocks. And quite honestly, when I was building my capital as a private investor, it was five or less stocks. And I've just always been comfortable with that volatility. But that's not to say that should be right for anybody else. The one thing that history has taught us is you can be in six stocks like Buffett, or you can be in 1200 stocks like Peter lynch was. There's many ways you can do this.

Ian Cassel [00:37:36]:

There's no right way for you, except the right way for you. And so for me, when it comes to micro caps, though, it does depend on the illiquidity profile of the company. I now manage millions of dollars. So you can understand like shoveling, and it's genuinely capacity constrained if you're concentrated in microcap, because there's only so much money, you can shovel down a basket of illiquid things. And so some of these things might trade hundreds of thousands of dollars a day, and some of them might trade $5,000 a day, like the one I just told you about. And so the one that trades $5,000 worth a day, it takes you a month or two to acquire a position, and it might be a smaller position because it's taking you forever to buy it. But if the risk reward is right, even taking that on as a smaller position, is worth the time and effort because the upside is there. And so with things that you start out with that are more liquid, you can start bigger because you can buy more.

Ian Cassel [00:38:33]:

And so it really depends on the type of situation. If it's one of those hustles kind of on the smaller end of the bucket, those are kind of the smaller positions. They're kind of like the farm team in baseball. You're trying to see how they perform. You give them some playing time. When you call them up to AAA or whatever and see if they play well. And if they play well, you move them up, you bump up the position size, and if they don't, you move them back down. And so that's one thing that's probably important to hit on, and we're going to get to this anyway.

Ian Cassel [00:39:02]:

But with microcap investing, you can't. Coffee can these things, you can't just put them under your mattress and hope for the best, because that's the quickest way you'll go broke. And so these are small, impressionable, emerging, evolving companies. And a lot of times these companies won't evolve in good ways, they'll evolve in bad ways. And you just need to have your pulse on the financials and the fundamentals of that business to understand when you should be holding, when you should be buying, when you should be selling.

Dave [00:39:31]:

Yeah, that makes a lot of sense. So how does it work for portfolio turnover then? Is that something that 25% of your portfolio turns over regularly, or is it more or less?

Ian Cassel [00:39:44]:

It's probably more like 50% or more. And a lot of times it's not. And again, it depends how you invest. I have a lot of friends that have 50 positions. Again, I have ten. But the way my portfolio is structured, it might be easy to visualize, is like the top two or three positions are big, bulky positions. The farm team, the six or seven that are underneath them are smaller. And so a lot of the turnover happens in those smaller ones.

Ian Cassel [00:40:13]:

I'm trying to see who the next talented group is to bring up to the major leagues. And so a lot of the turnover happens in those smaller ones. So that's the way I would envision that, at least for me.

Dave [00:40:23]:

Okay, that makes a lot of sense. And I kind of like that idea. I mean, I'm a big baseball geek, so, I mean, you're hitting my sweet spot with that. I love that idea. So I guess when you're thinking about building a portfolio, do you think the micro cap investing can exist along investing in large caps? Or is this something that maybe you need to really focus on and do this and not do the large cap or vice versa. Can they kind of coexist? I guess.

Ian Cassel [00:40:51]:

Yeah, they can definitely coexist. I think most of the people I talk to have a micro cap portion of their portfolio, and they also have Google and meta and whatever else Berkshire in that list, too. Most people have, even for people that invest with me directly, it's like I tell them, this should be no more than 10% of your portfolio. Like, it's 100% of mine. But I'm just used to this space. I live and breathe this, but for a normal person, it should probably be 10% or less.

Dave [00:41:20]:

Okay. All right. That makes a lot of sense. I think one of the things that I've always been kind of curious about with microcaps is, what is the difference between microcaps and, like, the penny stocks? Is it the same thing, or are they different, or how does that work?

Ian Cassel [00:41:36]:

Well, I think it's primarily the same thing. I think the definition of penny stock is simply a stock that's under $5 per share. And so it's a little bit slightly different because that's just a price component.

Dave [00:41:46]:

Right.

Ian Cassel [00:41:46]:

You can have $50 micro caps. They just have less shares outstanding. So I think the penny stock kind of label is just strictly to mean anything that trades under $5 per share.

Dave [00:42:00]:

Okay, that makes sense. I know that the penny stocks can get a bad rap, for sure. And I know you mentioned earlier that that's sometimes what people will associate it with. I think the way that you're investing is definitely not that way at all. I guess one of the things that I'm curious about is we get a lot of questions about micro caps, but I think people are coming at it from the idea because the company sells a share for $6 a share, they think that that makes it cheap, and they don't understand the difference between value and price. And they're really only looking at it because they think they can buy $100 worth of this company because it's trading at $6 a share. I guess. How do we help educate people and move them kind of away from that idea that the price is not equal, cheap.

Ian Cassel [00:42:50]:

Yeah, you don't want to look at the price means nothing. You want to look at the enterprise value of the business or the market cap. Because I can show you a stock that trades at has a 200 million market cap, and then I can show you a stock that trades at $60, that has a 200 million market cap, and the difference is the amount of shares outstanding. Right. And so you want to look at the market cap. And again, it's based on valuation. Then you can look into if there are earnings, figure out if this stock is actually cheap or not.

Dave [00:43:24]:

Right.

Ian Cassel [00:43:25]:

Even I think Sirius Sally Radio was always, like, a four or $5 stock, but it was like a $10 billion market cap. So that would be, like, under that $5 level, but it was still a multibillion dollar market cap. And a lot of people would. Back when XM was there and Sirius was there, Sirius was always at, like three or $4, and XM was at 40, and they were like the same market cap, but that one was at three or four. And everybody perceive it as a cheaper one. Yeah, exactly. And it's just not how it works. So always look at the market cap.

Dave [00:43:56]:

That's great advice. Thank you. So I got two questions left for you. So the first one is, what are the pros of investing in microcap type stocks, and what are the risks of investing in those?

Ian Cassel [00:44:08]:

Yeah, I think the pros are that you can find good value down here, and you're not playing in the major leagues against institutions. And I don't mean that to mean that there's not smart people, there's a lot of people like me that are looking at all these companies as well, trying to find the next big one. But I do think that there's a huge competitive advantage to be able to find something small that's growing, that's profitable, that's not diluting, that can just simply do those things. And you're not taking on that much risk, because, again, it's a small, profitable, growing business that institutions just have to wait on the sidelines and buy when that company gets a little bit bigger. And that institutional discovery, when institutions start buying something, that's usually when it starts going from moderately priced to expensive, because you have these institutions all piling at the same time, deciding that this is something they can buy, that has the liquidity profile. They can buy it. And so what's often interesting is, in microcap, you're the tip of the spear of the discovery process. It's almost like the astute retail investors duty is to find these things before the institutions do.

Ian Cassel [00:45:24]:

And that's the way I view it. And then when they come in, it brings in greater and greater waves of capital that just propel the stock upward when you find one of those situations. But it's not easy. If it was easy, I'd be on an island somewhere not having that discussion with you. And so I don't want to make it sound like this is easy to do. It's really hard, and it's continuing to be harder for me. I'm not right all the time. To use another baseball analogy, it really is still about slugging percentage, not necessarily batting average.

Ian Cassel [00:45:52]:

Batting average is important. And just because you swing and miss in something, it's important that you're not losing all your money when you swing or miss. I can be wrong and still make money. And that's really the ones you're trying to find, where you were wrong about the upside, not wrong about the downside. And that's what mainly all astute investors have in common, is they assess the downside more than their upside, and they position size accordingly that way.

Dave [00:46:17]:

Yeah, those are great insights. So what would be some, I guess, risks of investing in microcaps?

Ian Cassel [00:46:24]:

I would say the number one risk as a microcap investor is dilution, which is a fancy way of saying investing in companies that need to raise capital to survive. Because especially here in the US, it's just not easy for small public companies to raise capital. And when they do, it's usually very dilutive. And it's hard for those equities to ever recover if they raise capital the wrong way, which most of them do. And so I would, again, steer clear of the story stocks steer clear that don't have of companies that don't have sound business fundamentals. It's one of the first things I ask a management team when I talk to them on the phone. Do you have to raise capital to execute your business strategy? And just some of this is common sense, but it's hard to put into practice. But just stay away from companies that are burning money.

Ian Cassel [00:47:10]:

A lot of these story stocks, they don't have happy endings, unlike the ones you read to your kids.

Dave [00:47:14]:

Right? Those are great. Both sides are great advices or great ways to invest, regardless of whether you're focusing on micro caps or whether you're focusing on other types of companies, just avoid those risks and you'll do well over time. Yes, for sure. Okay, so my last question is, if you were not doing what you do today, what would you be doing?

Ian Cassel [00:47:43]:

That's a tough question. I don't even ever think about that, to be honest. That's a good question, but I have no idea. This is a funny statistic. So if you took all the microcap companies in North America, so US and Canada rolled them up into a ball, the market capitalization of the entire microcap ecosystem in North America is about the size of, well, it's an 800 billion dollar market cap. So I don't know that's a single company somewhere. I was going to say Google, but I think Google is even bigger than that.

Dave [00:48:13]:

Maybe Nvidia or Tesla or something like that. Exactly.

Ian Cassel [00:48:16]:

And so it shows you how small this space is. And then if you take out of that 800 billion, probably 20, 30% of that 800 billion is owned by the founders or insiders of that company. So we're down to 500 billion. And then maybe some, maybe 100 billion is owned by institutions towards the higher end of my ear cap. So now we're down to like 400 billion. You're like, wait a minute, Apple has enough cash in their balance sheet to buy every micro cap? Yeah, buy all of them. So my biggest worry is that I wake up and Apple just buys out the entire microcap ecosystem and I'm out of a job. So that's my sideways way of answering your question.

Dave [00:48:54]:

Okay, I like that. That's a good statistic. I mean, especially kind of on the heels of Shohei Atani getting 700 million to play baseball. I was doing some math, and if he comes to bat 540 times in a season, he makes $127,000 an edge bat. He would make almost half a million dollars in a game if he bats four times. Yeah.

Ian Cassel [00:49:22]:

That's amazing.

Dave [00:49:22]:

Kind of nut when you think about it. I'm not arguing whether he's worth it or not. It's just when you start throwing numbers around like that, it just becomes kind of nuts to think about.

Ian Cassel [00:49:32]:

Well, it's going to be more nuts in another ten or 20 years because I remember when Arod had the first, like, $250,000,000.10 year deal. I know. Yeah, exactly. Now look what we're talking about. And just think about what we're going to be talking about another ten years.

Dave [00:49:45]:

Right, exactly. Who's going to be the first billion dollar man? Yeah.

Ian Cassel [00:49:49]:

Remember when Dave or Hearn was complaining about this guy making that much money?

Dave [00:49:55]:

Yeah. Ten x that. What a fool. Well, Ian, thank you very much for joining us today. I know people are going to get a lot out of this episode. I know I got a lot out of this episode. And I'm looking forward to kind of diving into some of the things you were talking about. So if people want to find out more about what you're doing, the things that you are advocating for, and how they can learn more about microcaps, where should they go?

Ian Cassel [00:50:22]:

Well, you can follow me on X or Twitter if you still call it that. It's my name. Ian Cassel is my handle. You can go to microcapclub.com, I'm on there every day posting. You can also see 200 of the best microcap investors on the planet posting on that forum if you want to join it. If you don't want to join, you just want to learn. We have a lot of free resources on that site as well. Like I said, go to YouTube, put in beginner's guide to researching microcap stocks into search there and you'll find that free kind of 1 hour tutorial on how to research microcap companies.

Ian Cassel [00:50:52]:

And I think there's a lot of resources on the site on YouTube that you can find. And again, it's not going to be an easy path to becoming at a student microcap investor. You invest a small portion of your investable money into it and you learn as you go. And you're not afraid of losing a little bit of money as you learn. That's the price of tuition.

Dave [00:51:11]:

That is the price of tuition. And those are fantastic resources. And I will put all of those in the show notes with the links so everybody can easily find those. And I know I'm going to go check out the video as soon as we're done recording. Ian, thank you very much for joining us today. We really do appreciate it and I appreciate you giving us your time and your knowledge. So thank you very much.

Ian Cassel [00:51:33]:

Thanks for having me on. You're welcome.