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SmallCap Investing for Long Term ■

(SmallCap ➡■ MidCap ➡■ LargeCap)

Criteria to check for investing in SmallCap business for Long Term ■

1. Management (CG & Capability)
2. Market Leader
3. Capital Allocation
4. Size of Opportunity

Investing in SmallCaps can lead to huge wealth creation but not all SmallCap businesses are worth holding for 5-10 years.

Following were SmallCap few years ago but now are LargeCap because they fulfilled above criteria :
1. HDFC
2. Infosys
3. PI Industries
4. Pidilite
5. Titan

1. Management

:Management plays the most important role while investing in SmallCap. They should be willing to create wealth for themselves as well as the shareholders.

World full of disruptions, management should be able to disrupt the industry instead of getting disrupted.

2. Market Leader

:It is very important to stick with Market Leader, during an economic downturn Market Leader would emerge victorious and take share from laggards.

There are many SmallCaps which are market leader in their industry, Catch them young!

Market Leader (Contd..)

Example
I. Infosys was market leader in 1990s when it was a SmallCap
II. Pidilite was market leader even when it was a SmallCap
III. HDFC Bank was one of the leading private banks even when it was a SmallCap

3. Capital Allocation

:This according to me is most crucial, when company starts generating incremental cashflows it's very important that management stays focused and invests in opportunities with better return on capital which is inline with companies long term vision.

4. Size of Opportunity

"Go for Whale in ocean instead of Crocodile in Pond"
Company should have a huge size of opportunity ahead of it.
Invest in SmallCaps which has room to grow at double digit rate for next 4-5 years at least.

Even though we might be owing a SmallCap business checking all this filters, there will be deep corrections in 5-10 year holding period and thats when our conviction comes to play ■

We need to ride the whole journey and Buy when there are substantial Dips