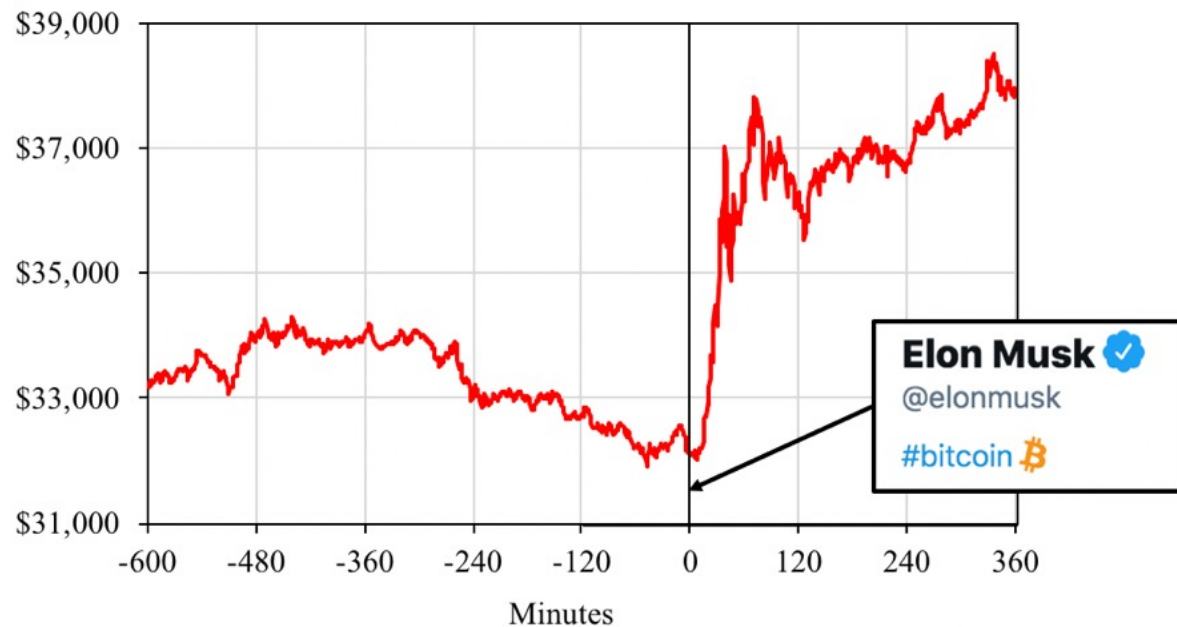# Finding Micro-Cap Inefficiency

ANALYSIS BY BRIAN BENTSON

Capitalizing on Market Inefficiencies

by finding undervalued micro-cap stocks with growth potential

How Elon Musk changing his twitter bio to #bitcoin affected the Bitcoin price
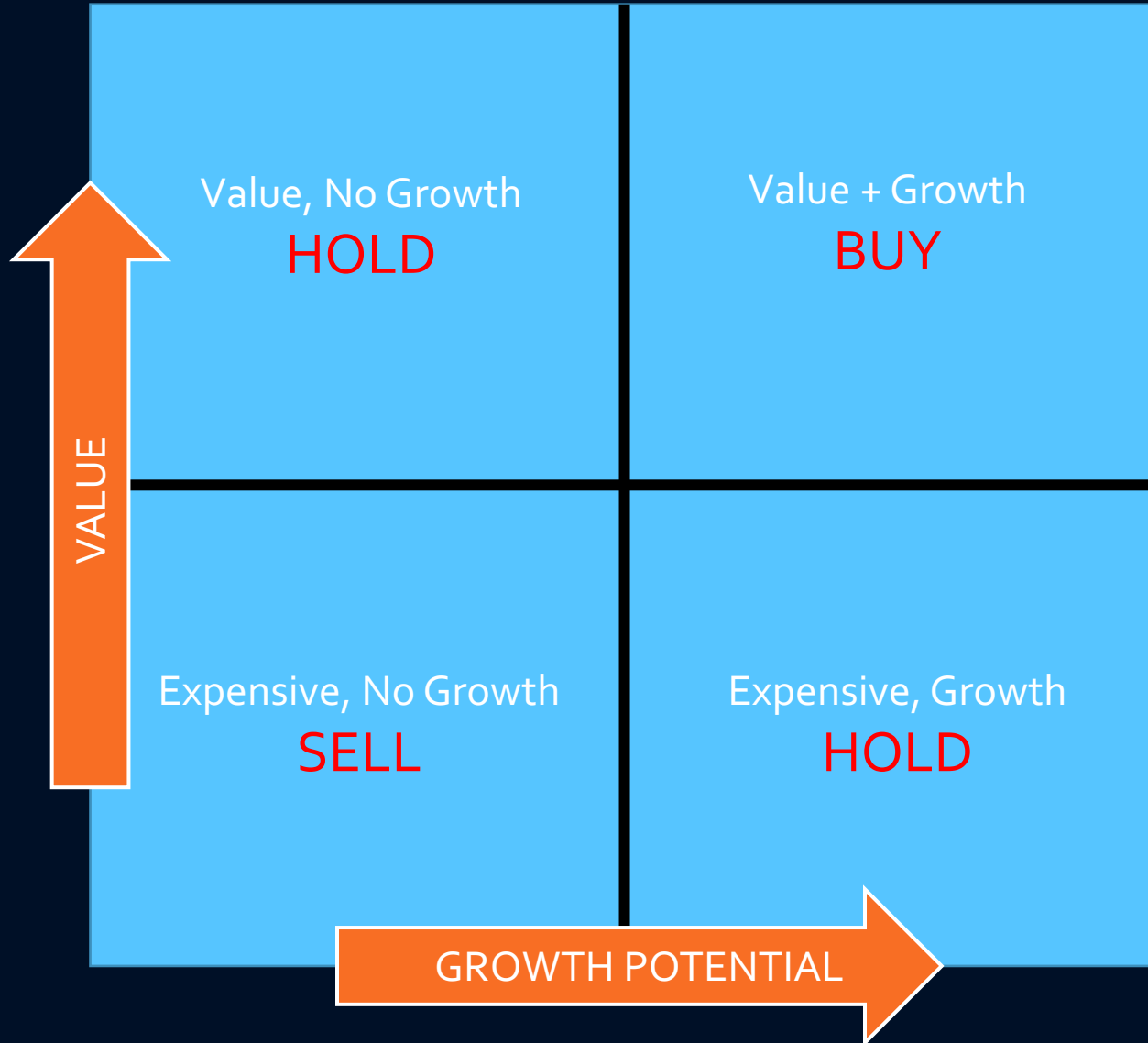
Source: https://www.blockchainresearchlab.org/2021/02/08/the-musk-effect-how-elon-musks-tweets-affect-the-cryptocurrency-market/

- Market inefficiencies exist when a stocks price does not accurately reflect the stocks true value

- Finding stocks which are currently undervalued where their true value is much higher than their price suggests

- Micro-cap companies have high inefficiencies due to low visibility especially in large investment institutions (Small Firm Effect)

Selection Criteria
for selecting stocks to buy

Value, No Growth HOLD	**Value + Growth** BUY
Expensive, No Growth SELL	**Expensive, Growth** HOLD

VALUE ↑

GROWTH POTENTIAL →

- Value Metric: based on 5 key metrics which quantify a stocks cost in relation to their performance

- Growth Potential Metric: based on a 1-year forecast of a company's revenue per share

- BUY stocks which are cheaply priced and show growth potential into the future

- HOLD stocks which are cheaply priced without growth or expensive with growth

- SELL stocks which are expensive without growth potential
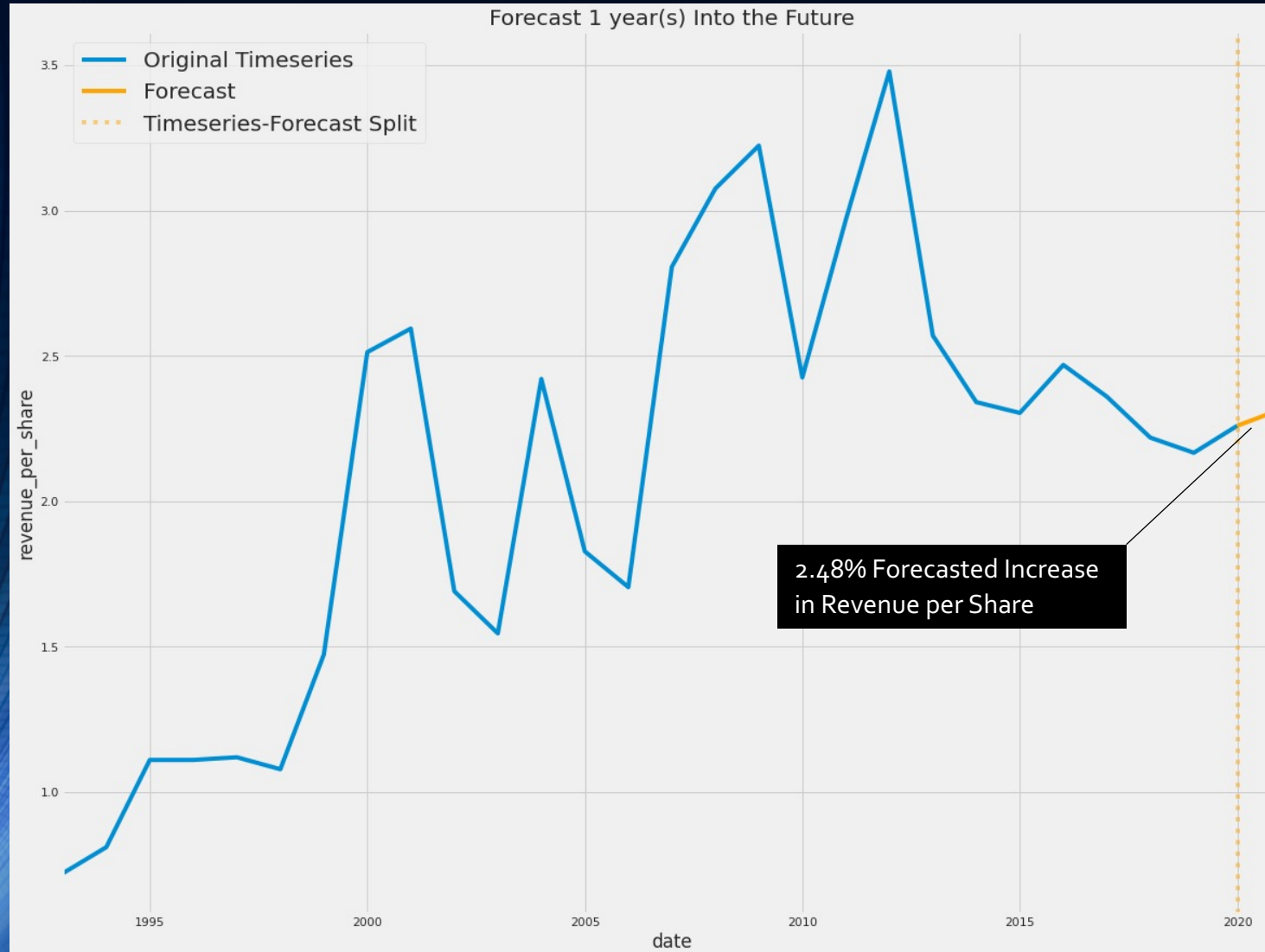
Data Overview

FMP

_____

Financial Modeling Prep

- Sourced data from FMP's API

- 114 Micro-cap stocks with no null or negative values

- Pulled general stock info (stock ticker, company name, industry, country etc.)

- Pulled 5 key value performance metrics for 2020

- Pulled all historical data for revenue per share

- Removed highly volatile sectors (Financial, BioTech, Project Management/Construction)

Analysis: Finding Market Inefficiencies

using key performance metrics

Forecast 1 year(s) Into the Future

Legend:
- Original Timeseries
- Forecast
- Timeseries-Forecast Split

2.48% Forecasted Increase in Revenue per Share

- Ranked stocks based on 5 "Value" performance metrics in 2020:

Value Performance Metrics
Price to Expense Ratio
Enterprise Value to Operating Cashflow
Enterprise Value Over EBITDA
Enterprise Value to Free Cashflow
Price to Sales Ratio

- Forecasted Top 10 "Value" stocks on revenue per share, 1 year into the future

- Evaluated growth potential based on predicted 1 year percent growth of revenue per share

Analysis Results

Symbol ID	2020 Value Ranking	1 Year Growth Rate	Revenue per Share	Final Action
19264	1	4.34%	$15.7	BUY
10161	2	8.37%	$81.58	BUY
14746	8	10.25%	$58.22	BUY
13554	9	4.39%	$72.17	BUY
18302	10	3.45%	$7.26	BUY
6760	3	-5.35%	$3.58	HOLD
17272	4	-10.71%	$10.92	HOLD
7134	5	-52.25%	$6.01	HOLD
343	6	-1.31%	$0.37	HOLD
9074	7	-5.32%	$0.24	HOLD

- Final action accounts for combination of value and potential future growth

- Utilized a mixture of auto-fit models and manual fit models due to high volatility in revenue per share, specifically in 2020

- Half of the high value stocks offered positive growth and should be bought

Conclusion and Next Steps

- The combination of high performing value metrics and growth potential is key to finding undervalued stocks

- Model more stocks to get a full view of smart buys of undervalued stocks

- Explore additional metrics that track company growth such as stock price

Thank you

Questions?

Appendix

Forecast 1 year(s) Into the Future

2.48% Forecasted Increase in Revenue per Share