The Four Traits Of All Great Growth Companies

***e*Research Corporation** is pleased to provide an article courtesy of **Investing Daily**.

The article is reproduced below, beginning on the next page, or you can go directly to it at the following link: ***https://www.investingdaily.com/41581/the-four-traits-of-all-great-growth-companies***

You can also visit the **Investing Daily** website at the link below:
https://www.investingdaily.com/

***e*Research** was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, our Subscribers (*subscription is free!!!*) benefit by having written research on a variety of small- and mid-cap, under-covered companies. We also provide unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis. We complement our corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals. We provide our professional investment research and analysis directly to our extensive subscriber network of discerning investors, and electronically through our website: www.eresearch.ca.

Bob Weir, CFA: Director of Research

The Four Traits Of All Great Growth Companies

By Jim Pearce (bio at end)
March 23, 2018

As the NCAA basketball tournament reminds us every year, there is no such thing as a sure thing. Just as the top-ranked team in the country can get knocked out in the first round by an unknown team, so too can a small company come along that nobody has ever heard of that ends up dethroning an industry heavyweight.

I am old enough to remember when Apple first emerged as a promising growth stock. Back then, having a personal computer in every home was a radical concept. The idea of one day carrying a phone around in your pocket that could instantly connect you to the rest of the world was difficult to comprehend.

In addition to Apple, there were a lot of other upstart tech companies vying for market share. All of them offered the allure of untold fortunes once their product became the industry standard.

How can someone without the foresight of Steve Jobs or the genius of Bill Gates determine which products will stand the test of time and which will end up disappearing into the night?

We have given that a lot of thought at Investing Daily since we are in the business of helping our readers build wealth. Unlike large-cap stocks, which to a certain degree can be accurately compared to each other with objective metrics, that is not the case with smaller companies.

That is because success for them often comes down to a handful of subjective factors that are not easily measured. After careful consideration, we have determined that these four traits are necessary for a small company to grow into a big one (and increase your wealth as a shareholder along the way):

1. Market Disruptor;
2. Financial Agility;
3. Low Profile; and
4. Mispriced Opportunity.

Market Disruptor

Until Apple came along, the Sony Walkman was considered the gold standard in portable music. Just pop your favorite cassette tape in the player, plug in a pair of headphones, and away you go! Of course, you had to carry extra cassette tapes in your pocket if you wanted to listen to different music, and the batteries ran down at an alarming rate.

Apple's iPod was making inroads as a portable music device, but once Steve Jobs realized that he could add music as an app to a smartphone, the days of the Sony Walkman were numbered. Not only was Sony unaware of the extent to which Apple's decision to emphasize apps for its iPhone, but the makers of the Blackberry cell phone felt equally untouchable until it was too late.

What both of those sector giants failed to realize was that they were vulnerable to an attack from below, in this case by Apple's decision to convert the cell phone into a pocket computer. Had they recognized it sooner, they may have been able to fend off Apple. But they waited too long to respond and, by the time they did, Apple had already leap-frogged ahead of them.

<continued>

Financial Agility

Of course, recognizing that a window of opportunity has opened up is only valuable if a company is able to act on it quickly. That requires having sufficient financial and operational flexibility to implement a comprehensive strategy to capitalize on the opportunity without blowing up the balance sheet by taking on too much debt or issuing too much stock.

In the case of Apple, its PC and iPod business was generating enough cash flow for it to be able to build out a smartphone division at the same time. What it could not do internally, it outsourced via licensing agreements with outside vendors. In effect, Apple was using its traditional PC business as a bank to finance the creation of its smartphone operation.

From a financial perspective, the single biggest challenge for a small company is acquiring capital at a sustainable cost. If it borrows too much money, the cost of servicing that debt can eventually force the company into bankruptcy. But if it issues too much equity, it risks diluting its earnings to the point that its shareholders dump the stock in favor of more attractive opportunities.

Low Profile

Perhaps the most surprising aspect of Apple's assault on Sony and Blackberry is that it was able to develop its smartphone to relatively little fanfare. True, a few industry publications ran articles rhapsodizing over the iPhone's potential immediately after its release, but those were mostly written off as the work of highly-biased industry insiders attempting to create hype for an as yet unproven product.

With the benefit of hindsight, it is absurd to think that the smartphone was once regarded as little more than a novelty tech toy that would never amount to much. Today, it is the one item that almost no one is without at any time. But, ten years ago, that was not the case; owning a smartphone was once considered a status symbol, a necessity item only for corporate execs and Wall Street dealmakers.

If something as ubiquitous as the smartphone could go unnoticed during its creation ten years ago, then tomorrow's breakthrough product or service could be sitting right under our noses today. However, even when confronted with a vision of the future, most people will not believe it until they see actual results over a long period of time. Therein lies the opportunity for shrewd investors to get in while the stock is still cheap.

Mispriced Opportunity

The final condition that must be present for a small company to explode in value is that its current share price must be grossly mispriced compared to the size of the market opportunity it is disrupting. Prior to the introduction of the iPhone, stock market analysts valued Apple mostly as a PC manufacturer. But once it redefined its role as an innovative producer of personal computing devices its share price took off.

On January 9, 2007 - the day before the iPhone was officially revealed to the public - Apple was priced at $13 (split-adjusted). Eleven months later, as more analysts began to factor future iPhone sales into their financial projections, Apple shot up to $28. Even if you missed out on buying it on the cheap then, you were given a second chance. The stock market crash of 2008 brought Apple all the way back down below $13 for several months before it began a steady rise to $180 by March of 2018.

Of course, Apple is now the most valuable publicly-traded company in the world, so it can no longer claim to be underfollowed. However, somewhere out there are a handful of companies that are grossly mispriced, and the sooner you get in on them the bigger the future gains should be.

#####

Website: https://www.investingdaily.com/

About the Analyst

Jim Pearce
Bio | **Archive**

Jim Pearce is the Chief Investment Strategist of *Personal Finance*, our flagship publication. He is also the Director of Research at Investing Daily, overseeing the work of our entire analyst team. He began his career as a stockbroker in 1983 and over the years has managed client investment portfolios for major banks, brokerage firms and investment advisors. Jim has a BA in Business Management from The College of William & Mary, and a CFP from the College for Financial Planning.