

Small-cap stocks best in recovery — investor

Australian companies favoured as many
NZ ones privately held and not accessible

by Adam Bennett

Auckland-based "boutique investment manager" Pie Funds Management forecasts that small-cap stocks will offer the best returns as the Australasian economies recover.

But forget about the NZX; the best opportunities will be in Australia.

Pie Funds founder Mike Taylor believes that should the economic recovery remain on track in Australasia, "then smaller companies are going to give you more leverage to that growth than a larger company".

"Simply because smaller companies are more nimble, they can react better to the changing marketplace.

"Small companies can grow their top line and bottom line at a much faster pace than a large mature business."

Also, as equity markets recovered, many investors would primarily focus on the large caps first "and it takes time to filter down to the small ones", leaving a window of opportunity for investors like Pie Funds who were solely focused on small caps.

But Pie Funds had about 90 per cent of its \$7 million under management in Australian small-cap stocks and saw limited choices in this sector of the local market.

"The problem with New Zealand is there's not really an incentive for people to list. A lot of the small companies that are privately held, the average investor simply doesn't get access to. In Australia the focus is on getting yourself listed to access capital cheaper than bank debt."

He cites the positive influence of Australian superannuation cash and the more developed investment culture in that country. "Maybe in 10 years it might be a different conversation here", he says, referring to the growing pool of KiwiSaver cash.

Pie Funds recent investments include internet travel agency business Webjet and Northern Territory-based IT company CFG, which recently bought the Konica Minolta business in New Zealand.

Taylor says that like the wider market, he has been somewhat unimpressed by a number of recent small-cap listings that ended up being withdrawn or stalled.

"If it's a quality listing, I think there will be demand. The problem is a couple of the recent listings haven't been that greater quality."

That said, he does see prospects for small-cap local listings in the construction sector. "What we don't want is property developers and others of that speculative nature. You want basically a family business that's been running for 10 years and with, say, \$20 million bank debt that they want to pay off and maybe expand."

Even more than with the large-cap stocks, Taylor says the key to successful small-cap investments is extensive research.

"Do your homework and if you don't have time, leave it to someone who does. There's the potential to lose a lot more because small companies are obviously a lot more volatile.

"Whilst you can make 50 per cent, you can lose it pretty quickly as well."