The smaller the company, the lower the quality of the business franchise and the management team, says Neal Bradsher, MD of Campbell Advisors. When you have a market cap that small, there is probably something wrong with the company, says David Warnock

Big performance from market caps below $50 million.

Poker pros sit only at tables where others are less sober, more emotional. Or less expert than they are. Who is on the other side of the trade?

You need an edge.

Develop expertise in one area.

Figure out why other people are betting against you.

To learn the ways of the market is to learn about human nature.

Study Lebon, Gustave: The Theory of Crowds.

We may have more information, but the percentage of people with good judgment is no higher than n in Lebon’s time.

Become an independent agent, and go your own way. Learn to exercise control over your sources of information. Do your own homework, and act on it and it alone. Stick to areas in which you already have some expertise.

Do the work to be part owner of the company

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*When looking over the information, among many things I noticed include the fact that* ***7 stock screens*** *have posted gains for every year over the past 10 years. Screens with this amazing consistency include* ***Graham’s Defensive Investor****,* ***Price-To-Sales****,* ***Zweig****,* ***PEG with Estimated Growth****,* ***PEG With Historical Growth****, and two of O’Shaughnessy’s screens -* ***Small Cap Growth & Value*** *and* ***Growth****. Few screening strategies can produce gains year after year as these have and there’s something to be learned from them.*

*Looking through and comparing the criteria between all of these screens, in essence they were seeking* ***four simple things: 1) growing earnings per share over various time frames, 2) strong sales growth, 3) an attractive valuation (often using price-to-sales), and 4) relative strength.***

Though I may quibble with O’Shaughnessy’s methodology, this is consistent with what he found in his book What Works on Wall Street. That said, though I am more agnostic about market capitalization, as I looked across the shadow stock portfolio, which is a small cap deep value portfolio, it confirmed to me that there are a lot of cheap stocks to buy in this environment. There are good gains to be had in the future, even if past performance has suffered.

Now to approach it from a different angle. I mentioned how much I like the CXO Advisory blog. One page to visit is the [Big Ideas page](http://www.cxoadvisory.com/blog/internal/blog-big-ideas/Default.asp), if you like academic finance papers. I want to give you my short synopsis of what seems to work:

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* Price momentum
* Low accrual accounting entries as a fraction of earnings or assets
* [Piotroski’s accounting criteria](http://www.cxoadvisory.com/blog/external/blog10-13-04/default.asp)
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* Positive earnings surprises
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There are other prizes on that page, including mean-reversion, an improved Fed Model, Dollar-weighted vs. Time-weighted returns, limitations on academic financial research, demography, etc.

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That’s my quick summary for what seems to work in stock selection. I invite commentary on this. I downloaded a lot of the papers cited, and will be reading them over the next few months.

About the author: [David Merkel](http://seekingalpha.com/author/david-merkel)



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