



Reasons That Make Micro Cap Stocks Unique In The Stock Market

Are you new to stock market investing? If you are, you might be confused which stocks to choose for making an investment. As a beginner, you might not know whether you should invest in mega cap, big cap, mid cap, small cap, micro cap, or nano cap stocks. We will advise you to start off with micro cap stocks. Micro stocks are stocks with a market cap under 300 million dollars. Nano caps have a market capitalization under 50 millions dollars. Why should go for [micro cap](#) stocks out of all the other stocks? Let's find out.

Greater Opportunities Because of Less Coverage

Micro cap stocks do not have much information, which market generally needs to get an idea about a company's business value. Although it is necessary for all public companies to register annual and quarterly SEC reports, one thing that separates micro caps from other stocks is, its small and lean management team is known for producing information that is not easily digestible by investors or producing very little information. Also, these are stocks that are comparatively less followed, less covered, and less researched than other stocks. What this means is, little coverage translates into lack of consensus regarding the value of change. You can use this opportunity to find undervalued stocks before they get recognized and valued by the rest of the market.

You Can Enjoy Greater Risk Adjusted Long Term Returns

In comparison to large cap stocks, micro caps, even small caps, tend to have better risk adjusted long term returns. Experts believe it is down to the 'small firm effect'. It is known in the stock market world that in an efficient market, stock prices show their inherent risk; you get to receive greater potential returns if systematic risk of a portfolio is higher. However, a deviation has been observed. For the same level of risk, smallest companies' portfolio give investors better returns.

Several Micro Cap Companies Have A History of Success

Micro caps of many companies have had initial public offering in the high end of mid cap range or small cap range. But after some time, those companies wavered. There could be any reason behind the faltering, such as original owners failed to properly manage cash flows, the companies missed a product cycle, the market shifted, or whatever. When a company falters like that, investors lose faith in the company and sell off their stocks, which needless to say,

brings down stock prices and market cap. However, there are cases where these stocks revive. Some companies work on their issues and resolve them effectively. And when they bounce back, everything changes.

You Get To Enjoy A Better, Liquid Alternative To Private Equity

You will be surprised to know that there are many institutions that are finding it difficult to meet liabilities and therefore opting for micro caps in place of private equity. People and institutions go for private equity and venture capital because of its J-shaped growth. However, when they get to know that top micro caps stocks can also show the same growth curve and that too at lower fees and without lock up requirements, they start investing in micro caps.

As you can see, micro caps can offer you advantages that even the higher caps cannot. If you want to know more about micro caps and other stock related information, you can visit websites online that publish insightful articles on stock market and everything related to it.