Three Reasons to Embrace Micro-Cap Materials and Mining Stocks in 2012 by

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If ever there was a misunderstood investment concept, it would be micro-cap stocks. Generally defined as companies with market capitalizations between $50 million and $300 million, micro-caps, more so than any other type of stock, get a bum rap. Maybe itâ€™s because of those smaller market caps (investors seem to feel the bigger a company is, the safer it is) or maybe itâ€™s because some micro-cap markets are subject to rampant pump-and-dump scamsâ€¦most of those are confined to the â€œPink Sheetsâ€• where there is little to no public disclosures.

Or it could be because small-caps are already viewed as risky and when an investor starts evaluating a company thatâ€™s smaller than a small-cap, the potential risk just becomes too much to bear.

Whatever the reason may be, many investors are still reluctant to embrace the world of micro-caps. However, that reluctance doesnâ€™t equate to a lack of opportunity. In fact, simple math dictates it is with micro-caps that investors can find some of the most rewarding opportunities on the market. Savvy investors are breaking this old mentality and looking to micro-caps more than ever and with good reasons.

Here are three reasons to consider making micro-caps part of your portfolio in 2012:

Small Prices, Big Returns

Under no circumstances should a stockâ€™s price be the sole determinant in whether or not it wins your investment dollars. It is entirely possible for a $5 stock to be considered "expensive" relative to its peers and some would argue that at almost $460, Apple (Nasdaq: AAPL) is still cheap using many traditional valuation metrics.

That said, by price tag, almost every micro-cap stock out there is "cheap," but the big returns are a product of market environment and sentiment. On a historical basis, itâ€™s good to be involved with small-caps and micro-caps when the broader market is coming off a down year and when the economy is starting to rebound. About a month into 2012, itâ€™s fair to say both scenarios are at play, meaning itâ€™s a good time to evaluate micro-cap opportunities.

Sector Benefits

Part of the bum rap endured by micro-caps has to do with the sectors that these stocks are often found in. Predominantly, the energy and mining sectors are where an investor will find a plethora of micro-caps. Well, these days, being involved with the energy and mining sectors isnâ€™t such a bad thing.

Actually, itâ€™s a good thing and investors that donâ€™t have at least some exposure to these sectors ar missing out on potentially large returns. A large number of these companies trade on the TSX and TSX Venture Exchanges and have dual listings in the US on the Pink Sheets. Unlike those non-reporting Pink Sheet companies noted above, these are fully reporting companies whose financials are readily available on SEDAR.

The System for Electronic Document Analysis and Retrieval(SEDAR), is the system that public companies and investment funds use to file public securities documents and information with the Canadian Securities Administrators (CSA). The website, www.sedar.com is the official site that

provides public access to public company and investment fund profiles and SEDAR public securities filings, together with the latest news about SEDAR.

As the U.S. dollar continues to decline, commodities prices will jump and the benefit at the stock level is far more pronounced with micro-caps than it is with large-caps. The stories are already known with big oil stocks like Exxon Mobil (NYSE: XOM) and big miners like Barrick Gold (NYSE: ABX).

The better opportunities for rapid percentage gains are found among the unheralded micro-cap oil and mining firms. Not to mention, micro-cap energy and mining companies are often viewed as compelling takeover targets.

No Stock-Picking Required If You Donâ€™t Want To

Maybe the biggest knock on small-caps and micro-caps is that individual stock-picking can tricky. That is true for any size company and itâ€™s especially true with micro-caps. That doesnâ€™t mean the asset class should be avoidedâ€¦quite the contrary.

As we have noted here on Micro Cap Marketplace, there are currently four ETFs solely devoted to micro-caps and these funds usually outperform small-cap ETFs in bullish market settings. In other words, investors can also benefit from surging micro-caps without ever directly owning a single micro-cap stock.

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