Looking for big returns? **Think small**

Microsoft wasn't always big. And it had a lot of fun as a little guy, forever changing the role of the computer in our daily lives. Not to mention making many early investors very rich. There are lots of other Microsoft stories – i.e., once-small trailblazers that reaped the rewards from introducing a new product or service that opened a massive avenue of growth and, in turn, a soaring stock price.

However, for every Microsoft, there are far more failed businesses that leave investors with nothing more than a promising concept. But small-cap investing isn't just about looking for the next early-stage Microsoft. Far from it. It's also about looking for well-established undervalued businesses that have been passed over because they're not large enough to garner the attention of equity analysts, the media or institutional investors (e.g., pension plans). These are the "hidden gems" of the investment world.

There's no better place than the small-cap market to generate outsized returns over the long run, for those who can handle the volatility, that is. One of the reasons that small-cap stocks tend to produce more volatile returns than large-caps is that they have much lower liquidity. In other words, they have fewer shares outstanding and lighter trading volumes. It is therefore much easier for a small company's stock to be impacted by the actions of a few investors. This leads to greater price inefficiencies over the short-term, but it also creates opportunities for investors who have done their homework and have a good idea of the true value of a company.

Because it can take time for the market to realize a small company's value, investors must be patient. An investment time horizon of at least five years is essential. Small-cap funds also tend to move in a cycle of their own and may be noticeably out of synch with the overall market. In this sense, they can provide valuable diversification in a portfolio.

Back to the potential compensation. The market rewards businesses that are able to grow their revenues and earnings. It's far easier for small companies to achieve significant growth to their top and bottom line because they're starting at a much lower base and may be operating in largely untapped markets. While a big company like Royal Bank may double its revenues every 8-10 years, it may take a small company only 8-10 months to achieve the same feat. This is one of the key attractions of the small-cap market.

The Steadyhand Small-Cap Equity Fund invests in a concentrated portfolio of small and mid-cap equities. Canadian stocks comprise the bulk of the portfolio, with U.S. companies added for additional diversification. The manager looks for businesses that have good track records of growing their revenues, strong balance sheets, and experienced management teams with a lot of skin in the game (significant ownership in their business). The fund goes where it finds the best value, whether it's a high-growth company that's been flying under the radar, or a lower P/E cash cow that's mistakenly been put out to pasture.

If you're looking to give your portfolio some juice and are in it for the long haul, think small.

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