

## MZ Perspectives

### Where Do Microcap Stocks Go From Here?

Following a well-attended Roth Conference, The MZ team sensed a high level of optimism among the 1,000+ investors who attended the 3-day event. We also observed a stroke of caution relating to current valuations – which created a forum for investors to seek companies trading at attractive valuations relative to current or projected growth. There's no question that strong capital flows into microcap stocks and companies successfully securing growth capital have contributed to the outperformance so far this year. Through March 18, 2014, the Russell Microcap Index was up 6.6% year-to-date compared to a 2.2% gain in the S&P 500 and a 4.6% gain in the NASDAQ.

Index	YTD Return	1-Year Return
S&P 500	+2.2%	+20.9%
NASDAQ	+4.6%	+34.2%
Russell Microcap Index	+6.6%	+38.9%

The most important questions on investors' minds are where do microcap stocks go from here and what sectors provide the best opportunities for absolute and relative outperformance. We decided to contact one of the most seasoned experts in microcap space – Ian Cassel. Ian has followed the microcap industry for over a decade. He's written extensively about the sector in general and specific stocks in blogs and newsletters, including the popular website [MicroCapClub.com](http://MicroCapClub.com).



We posed the following question to Ian in our phone interview:

**MZ:** *Ian, how would you describe the current state of the microcap market?*

**IC:** The microcap space seems to be gaining more and more momentum. These companies are essentially small businesses, which drive the US and many International economies. Small businesses seem to be doing much better and so are microcaps. There are currently 18,500 public companies on US Exchanges including those on the OTC markets, and microcaps represent a little less than half of these companies. When you add all the market caps of all the microcaps together it equates to only \$440 billion, which means the entire microcap space is a little bit larger than Google. As such, it doesn't take much capital inflows to move the entire microcap space. When Google has \$10-20 billion of capital inflows in a few days it can move the stock up 10%, similar is the effect when funds want to allocate to microcaps. We have started to see this in 2013 and into 2014. Big fish are entering this small pond.

It has also become easier for retail and institutional investors to allocate more money to microcap stocks. There are more microcap indices than ever; and investor interest continues to rise. The Russell Microcap Index has grown from \$600 million to over \$1 billion in assets over the past year.

**MZ:** *What have been the biggest surprises so far?*

**IC:** Like many others, I've been surprised at how strong the market has been in general. Going into the end of last year, everyone was negative on the market, waiting for a 10%-15% pullback. It never happened and we saw stocks move higher in January. The fact that a lot of investors remain cautious is probably why the market continues to do well.

### March 2014

This month our newsletter takes a look at the current state of microcaps, highlights a new MZ client and other client news, as well as upcoming conferences. As always, please visit us on the web at [www.mzgroup.us](http://www.mzgroup.us) to learn more about our complete set of investor relations products and services.

-The MZ Team

### MZ Client News

[TMM, Inc. To Conduct Private Demonstrations of TRUEDEF™ Video Compression Software During 2014 NAB Conference in Las Vegas 3/18](#)

[PolyMet EIS Receives Significantly Improved EPA Rating 3/13](#)

[Miller Energy Resources Reports Third Quarter Results 3/12](#)

[Cardinal Energy Group, Inc. Completes Stroybel-Broyles Acquisition 3/7](#)

[Arabella Exploration Announces Operational Updates 3/7](#)

[Cardinal Energy Group, Inc. Completes Powers-Sanders Acquisition 3/6](#)

[Ideal Power Inc. Announces 2013 Results 3/6](#)

[One Horizon's VoIP Solutions to Help Carriers Monetize Voice and Data Traffic While Optimizing Their Network 3/6](#)

[Ellomay Capital Announces Appointment of Market Maker in the Tel Aviv Stock Exchange 3/4](#)

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*Continued from page 1 - "State of the Union for Microcap Stocks"*

**MZ:** *Through your interactions with investors, what trends are you seeing?*

**IC:** Investors are looking for growth – regardless of sector. They want to invest in companies that can grow regardless of the macro environment. Microcap companies that generate positive cash flows and don't need capital to grow are the ones that are seeing the best performance. Because there isn't that many of these companies trading at discounted valuation, investors continue to buy these names, which drives up their valuations even higher.

Another dynamic I have seen is that private equity valuations have gotten so high that large PE Funds are now looking at public markets for better relative value. Many are now turning to microcaps. There's simply a lot of money looking for good growth investments.

**MZ:** *Given the nice run we've seen, are microcap stocks fairly valued, overvalued or undervalued?*

**IC:** The microcap space is the ultimate stock pickers' paradise – it's hard to generalize across sectors or the entire microcap space. I still see opportunities to find good companies trading at steep discounts on an individual company basis. I don't believe it is a good idea to buy a passive index of microcap stocks.

I separate microcaps into two categories: ones with market caps below \$100 million and those with market caps of \$100 million to \$300 million. I tend to focus on less liquid names that don't have a large institutional following or ownership. I also look for companies that don't need capital. The companies that can grow double digits without diluting existing shareholders tend to do better, even in a slow macro environment. Because they are not exposed to large funds selling the name during a market correction, I get more downside protection as well.

**MZ:** *There has been a lot of media attention on the passage of the JOBS Act and implementation of crowdfunding rules; what positive or negative impact have you seen so far?*

**IC:** It has been a struggle for smaller companies to raise capital through traditional means. This isn't a new trend – mainstream investment banks have continued to move up market and not have much interest in doing sub-\$50 million deals. New financing alternatives like crowd funding potentially provides a more effective channel for smaller companies who need to raise capital. The drawback is you get less sophisticated investors who don't necessarily understand what they're invested in or understand the speculative nature of these investments.

## MZ Announcements

### MZ Adds New Client TMM, Inc.

MZ is pleased to announce the addition of new client TMM, Inc. who has chosen MZ to serve as their investor relations service provider. The MZ team works closely with all our clients' management teams to establish an effective and targeted shareholder outreach campaign, which includes properly packaging their story, establishing the appropriate expectations, and providing consistent transparency into the business.

**TMM, Inc. (OTC: TMMI)** is a technology company headquartered in the U.S., specializing in digital video compression and image management. Founded in 1990, the company is dedicated to improving bandwidth utilization and video image quality. TMMI develops digital video compression technology that provides end-to-end workflow and distribution solutions for digital cinema; streaming media; cable TV; sports; mobile; intelligence, surveillance and reconnaissance; defense; security; medical imaging; space exploration; gaming and education. For more information, visit [www.tmmi.us](http://www.tmmi.us).



### MZ Group Sponsors Growth Capital Expo in Las Vegas

MZ will be a Silver Sponsor of the inaugural Growth Capital Expo in Las Vegas, April 29th-May 1st, 2014.

The Growth Capital Expo is a three-day conference organized by SNN, a global multimedia financial news and publishing company that provides self-directed investors information on select small and microcap public companies that do not have significant coverage from traditional capital markets channels; and MarketNexus Media, which publishes news and research, and produces events for companies and capital providers in high-growth markets.

More than one hundred emerging growth companies listed in the U.S., Canada and other foreign exchanges are expected to present.

For more information please email [info@growthcapitalexpo.com](mailto:info@growthcapitalexpo.com) or call 888.895.6807

Date:

**April 29th-May 1st, 2014**

Location

**Caesars Palace**  
Las Vegas, NV

[Visit the Conference Website](#)

## MZ Client News

### PolyMet Mining Receives EPA Rating

On March 13, 2014, PolyMet Mining Corporation (POM.TO) (NYSE MKT: PLM) announced that the Environmental Protection Agency (EPA) issued a EC-2 rating for the Company's 100% controlled NorthMet copper-nickel-precious metals Project supplemental draft Environmental Impact Statement (EIS). This announcement, along with the 90-day public comment period ending for the supplement draft EIS on March 14th, is significant for the Company for a number of reasons:



1. The EC rating is, so far as the Company aware, the best rating the EPA has given to a new mining project and is the same as ones received by other notable Minnesota projects such as the Central Corridor Light Project in the Twin Cities.
2. The co-lead agencies will now review and analyze all comments received. The exact timing is not certain, but it typically takes about six months to incorporate relevant comments and issue a final EIS.
3. PolyMet expects to complete and issue an updated 43-101 Technical report by the end of Q2 2014.

### MZ Client Research Initiations

Date	Client	Company
09/11/13	HIMX	Northland Securities
12/06/13	BOFI	Oppenheimer & Co.
01/14/14	BOFI	Maxim Group
01/16/14	CUBI	Sterne Agee
02/19/14	PLM	Paradigm Capital
03/12/14	HIMX	Credit Suisse
03/17/14	CUBI	Merion Capital Group
03/19/14	BOFI	Sterne Agee

### MZ Client Calendar

Date	Client	Event	Location
3/20	MILL	Canadian Oil and Gas Finance Forum	Calgary
3/20-4/2	MILL	Non Deal Roadshow - Connecticut, Boston, Seattle, Portland, Midwest, Southern U.S.	Various
3/28	TRCH	Energy Prospectus Group Luncheon Presentation	Houston
3/31	AUXO	Q4 and Year End Earnings Announcement	Online
4/1-3	CUBI	Non Deal Roadshow - Chicago, Toronto, New York	Various
4/7-9	TRCH, MILL, AXPLF	IPAA OGIS New York	New York
4/7-10	PLM	European Non Deal Road Show	Various
4/10	TRCH	Non Deal Roadshow	Boston
4/10	CUBI	Q1 2014 earnings release & Conference Call	Online
4/14-15	MILL	Non Deal Roadshow—Mid Atlantic and West Coast	Various
4/23-25	CUBI	Non Deal Roadshow - Dallas, Houston, Austin	Various
4/29-5/1	TRCH, MILL, AXPLF	Growth Capital Expo	Las Vegas
4/31-5/4	BOFI	Oppenheimer Non Deal Roadshow - London, Stockholm, Copenhagen, New York, Boston	Various

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MZ serves as a premier informational resource for institutional investors, brokers, analysts, private investors, and the media which creates a dynamic audience and assists in diversifying our clients' shareholder base.



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