Happy Birthday!

This week is special!

June 24, 2023, was the fourth birthday of the *Micro-cap Millions* investment strategy.

The strategy remains the best quantitative strategy I have ever developed or been involved with.

All backtests that see the light of day look great on paper. The question is, can the strategy hold up in real-time?

The answer to that question is unknown in the beginning.

Micro-cap Millions has not only withstood real-time action but it's also done better than testing would suggest.

Here is the real-time performance below.

The compounded annual return for *Micro-cap Millions* is 58.40% compared with 5.28% for the benchmark.

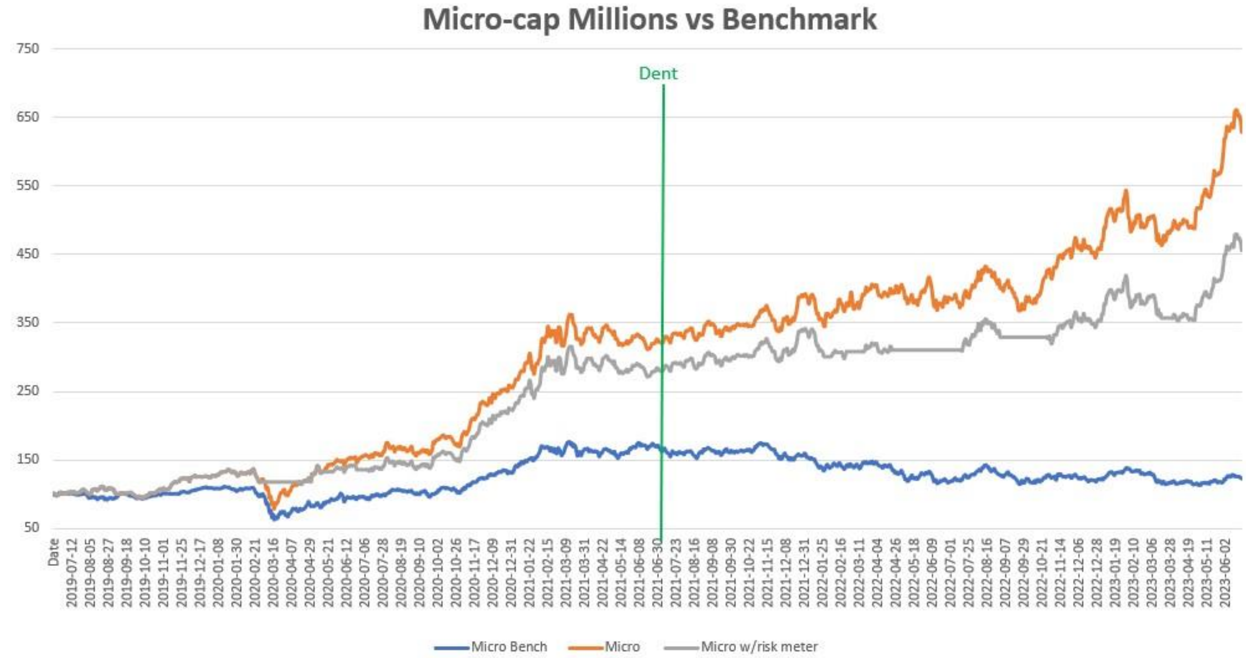
In 2023, the strategy is up 37.04% compared with 0.28% for the benchmark.

Annual Returns	2019*	2020	2021	2022	2023	Sharpe	Max DD	CAGR from inception
Microcap Millions	24.45%	106.20%	52.20%	18.23%	37.04%	1.70	-43.57%	58.40%
Microcap Benchmark	9.39%	20.90%	18.67%	-21.93%	0.28%	0.30	-42.68%	5.28%
Excess	15.06%	85.30%	33.53%	40.16%	36.76%	1.40	-0.89%	53.12%

Annual Returns	2019*	2020	2021	2022	2023	Sharpe	Max DD	CAGR from inception
Microcap Millions w/Risk Meter	24.45%	79.50%	52.20%	4.68%	28.92%	1.70	-16.55%	46.15%
Microcap Benchmark	9.39%	20.90%	18.67%	-21.93%	0.28%	0.30	-42.68%	5.87%
Excess	15.06%	58.60%	33.53%	26.61%	28.64%	1.40	26.13%	40.28%

While drawdowns are very similar, the *Risk-O-Meter* helped cushion the blow during pullbacks (although annual returns were also about 12% lower per year using the *Risk-O-Meter*).

For those of you that prefer pictures, here is the equity curve below.



Furthermore, the last four years have been packed with historical extremes.

We have lived through the worst pandemic in 100 years.

We have lived through the lowest interest rates in history.

We have lived through the steepest increase in interest rates in history.

We have lived through the highest inflation rates in four decades.

We have lived through the greatest social unrest in decades.

We have lived through the biggest war in Europe in decades.

Micro-cap Millions has not only survived, but it has also thrived.

The reason for the strategy's success is that it is based on solid principles.

Some people believe that to be successful with microcap investing you must pick higher-risk 'story stocks' and have the ability to know which small companies are going to grow and be massive in the future. The above approach doesn't work. Instead, I have taken a much different approach with Microcap Millions. Let me explain.

There are many different types of investors. Some want blue chip dividend streams, others want high-growth glamor stocks, and others look for distressed value.

Some are better than others at pricing stocks appropriately today based on future risks. If the markets were perfectly rational, an extensive portfolio of riskier stocks would earn you a slightly higher return over long periods as a reward for taking on that risk. But it only sometimes works out that way.

And that is because some investors have a gambling mentality, looking for lottery-like returns. Because of this, microcap 'story stocks' are not rationally priced. Because the potential return is so high if the company can execute its plan as they hope, investors bid the price upwards until the risk-to-reward ratio is all out of whack.

Take the following example. Imagine there were two slot machines. In the first machine, you put in $1 and get back $1 every time. Nobody would use this machine because you get your money back. The second machine also costs $1. This machine works a bit differently. 99 times out of 100, it keeps your money, but one time out of 100, it gives you back $100.

Both machines have the same payout when you play them over long periods. However, nobody wants to play the first machine, and everyone wants to play the second machine hoping for that lottery-like return. There would be a long line to play the second machine.

In the stock market, a long lineup translates into a higher share price. Investors wanting that 100:1 payout would drive the price from $1 to $2.

They hope they picked the right stock where $2 will turn into $100.

If this were the slot machine that only paid out $100 for every 100 pulls, $200 is going into the machine for every 100 pulls of the one-armed bandit, and only $100 would be paid out. The risk-to-reward profile is entirely off, and this machine is no longer efficiently priced compared to the first machine.

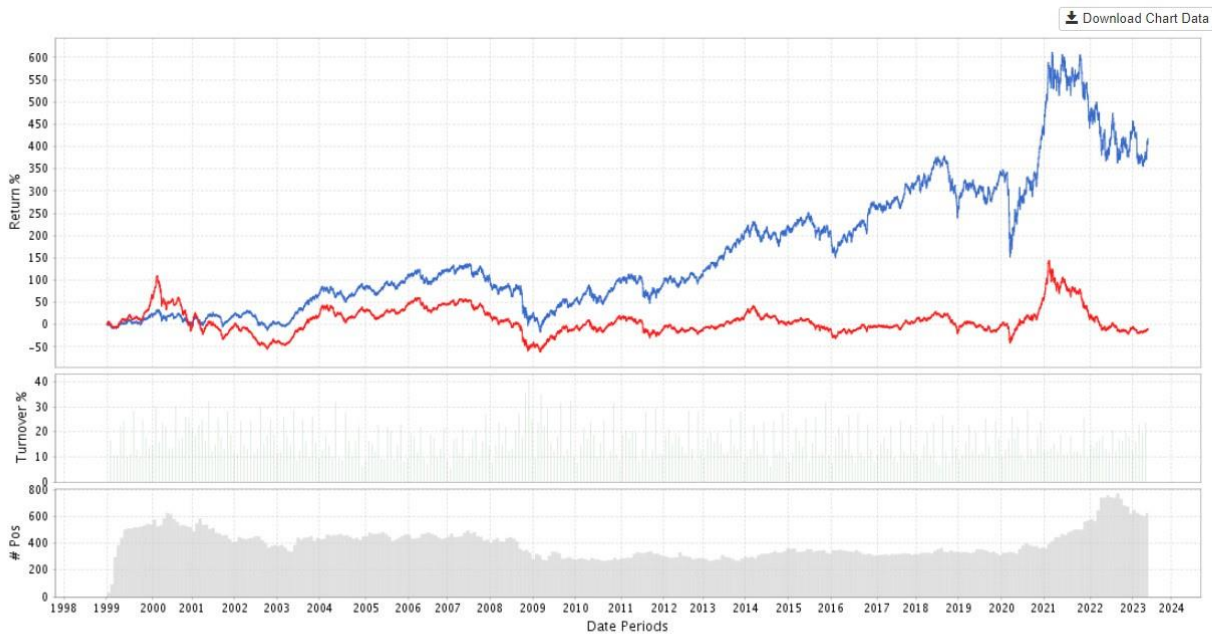
Yet investors are *still* lining up, hoping for that $100 payout.

How can you determine which 'story stocks' are inefficiently priced and should thus be avoided? My experience is that small stocks with negative free cash flow could be more efficiently priced.

The story sounds great, but they still need to prove their model to profitability. All too often, they continue to burn through cash and dilute shares or take on massive amounts of debt to buy more time. This chart compares microcap stocks with negative free cash flow to a microcap benchmark since 1999.

Almost two and a half decades of investing with negative returns!

	Total Return	Annualized Return	Max Drawdown	Risk Statistics (MONTHLY Period) Sharpe	Sortino	StdDev	CorrelBench	R-Squared	Beta	Alpha
Screen	-9.78%	-0.42%	-81.48%	0.07	0.09	29.99%	0.90	0.81	1.27	-6.61%
Microcap Benchmark	417.47%	6.96%	-64.61%	0.33	0.44	21.27%	-	-	-	-



Avoiding "story" stocks combined with solid earnings quality and momentum is a recipe for success.

What's better is that Wall Street cannot play this game. Micro-cap stocks are too small for the most prominent institutions to own. So, they don't even try.

I believe *Micro-cap Millions* remains one of the few areas of the financial market where we have the edge over Wall Street sharks.

So while DotCom stocks, cannabis stocks, and now A.I. stocks pick the pockets of the average investor who will suffer massive losses betting on "fads," the systematic approach of *Micro-cap Millions* keeps chugging along!

I'm looking forward to the next four years and more!

Implementing the Strategy

Recently, I received a few questions about implementing the strategy in this newsletter. Other subscribers may have a similar question. Here is my answer below. I answer all questions through customer service. Don't be shy.

Question: how are you?

I need a little regarding my microcap subscription.
How can I contact John for a query?

I need to understand when he sends recommendations each week. Can he please comment on the existing recommendations too? Like if we can buy more positions or hold current positions?
I would also like to understand if he can add a column to help with posting size as a % of the total recommendation table.

Answer: Thank you for your email. I'm not 100% sure what you're asking for, but my replies below are based on your question. However, feel free to reply to clarify if I am off base.

The strategy is based on a proprietary formula that buys ten stocks. The complex formula measures many factors against all other eligible stocks. As it's a bit like three-dimensional chess, many thousands of calculations ultimately rank each stock against every other stock for consideration in the portfolio.

As a result, there's no point in discussing individual positions. There's no statistical difference between the stock ranked #1 or #10. There would be a difference between #1 and #100, but only the top ten stocks are in the portfolio. I also need to find out why ABC stock is #1, and XYZ stock is #10, and it doesn't matter anyway because it's irrelevant.

Most people want to cherry-pick and select stocks they think are "better" and not invest in stocks that are "not as good," but this is a futile game.

The strategy is designed always to hold all ten stocks in the portfolio. It's not about individual stocks but rather a system.

If the stock is in the portfolio each week, then it is OK to buy it. I won't single out individual stocks because that distracts from the strategy of buying all ten stocks. Opera Ltd. has been in the portfolio for 81 days and returned 121%. Utah Medical has been in the portfolio for 102 days and has returned 11%. There needs to be a way to differentiate that ahead of time. No one can predict that, and they're lying if they say they can.

If you have new capital and want to invest it, the best thing to do is spread it equally among the 10 positions. Of course, it's your money, and you can invest it how you best see fit, so if you want to invest it in a single stock on the list, that is your choice. However, again, I cannot suggest one over the other because that gets away from the idea of implementing the strategy consistently, which is to own all ten stocks.

We don't put in the current position size because different people have different start dates. So, it's different for everyone. The model assumes that you start with a 10% position in each of the ten stocks. As one stock grows (e.g., two stocks are up over 100% right now) and others fall (the lowest return is 3.5% in 25 days), some will become bigger than others. It's OK to rebalance the portfolio periodically. Say, once every 3 or 6 months.

However, stop losses and other built-in risk management exist to exit stocks when they no longer fit the profile of the best in the universe.

Again, there's no one stock favored against the other. So, equal weighting them in the beginning is the assumption.

It's a statistical model. The stocks are simply a way to exploit the edge in the statistical model. While the stocks have certain factors that make them favorable to own (quality, earnings quality, momentum, etc.), the actual stocks are not as relevant as the model itself.

I used to write 3,000-word recommendations on individual stocks for a previous newsletter. While the performance was strong and most of the stocks out-performed, I know many stocks on my list that I did not write about did better. I could only choose one stock each month to recommend.

I wanted to get away from that to create a consistent approach. This goes back to my roots as a quantitative strategist. The strategy's performance is much stronger this way than in any other way. Since its inception just a couple of weeks before its 4th birthday, the system is up about 550%. The index is up about 50%, and funds that manage microcaps are well behind.

In a couple of weeks, on the 4th birthday of the strategy, I was going to highlight some aspects of the system, and I will use your questions and post my reply. I'm sure your questions are what others are thinking as well. So, thank you!

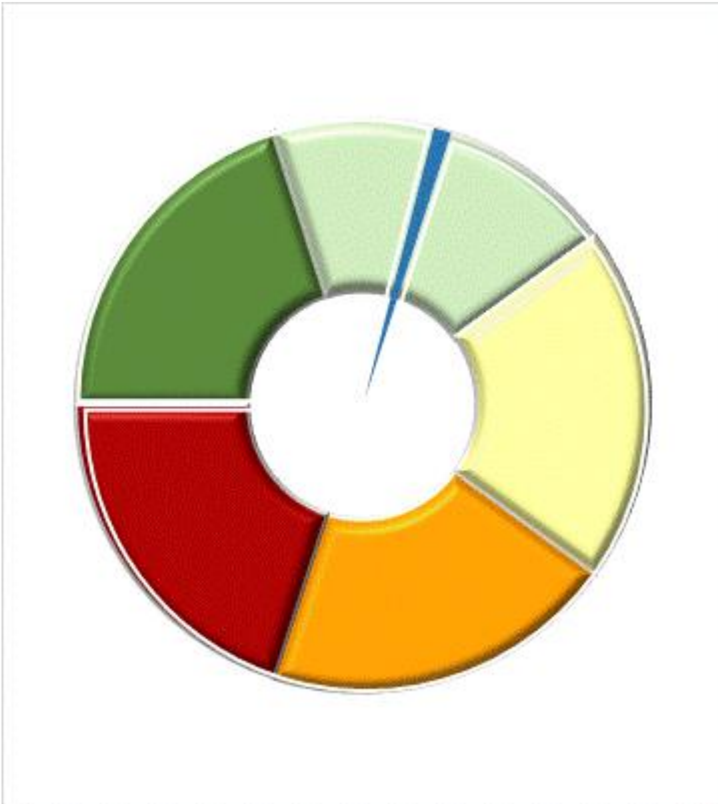
I hope this helps!

The *Risk-O-Meter* is in the “green” zone. Market sentiment is still too bullish.

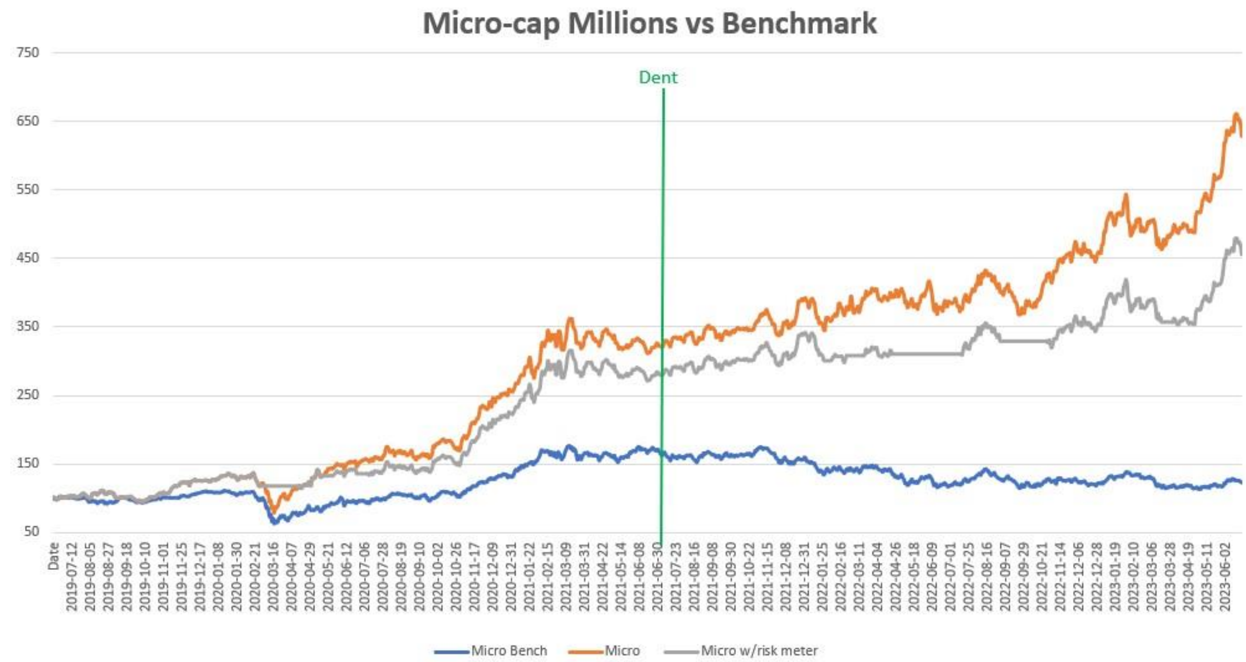
However, stocks have pulled back, but they are not nearly as overbought as last week.

Stocks are not oversold, either.

Therefore, I continue to sit tight concerning allocating new savings to my taxable account.



Micro-Cap Millions



There is one trade this week.

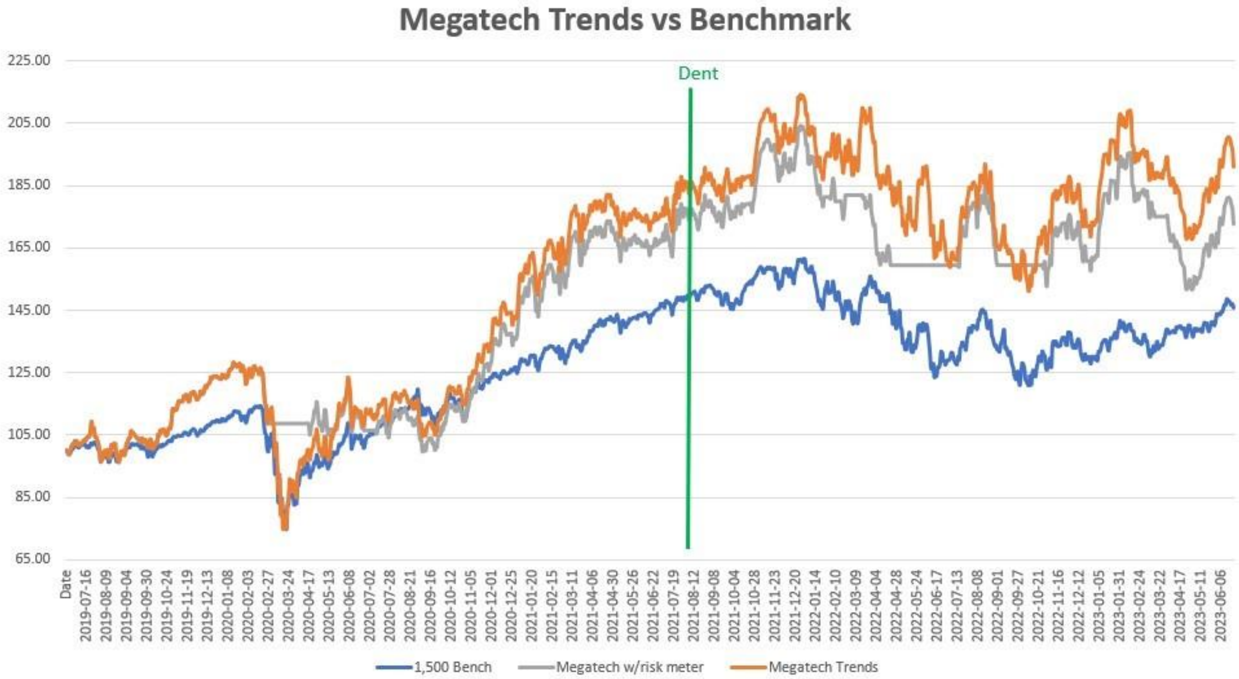
Buy CI&T, Inc. – Brazil – (NYSE: CINT)

Sell Opera Ltd. (Nasdaq: OPRA)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ALOT	AstroNova, Inc.	-2.93%	11	Technology
BELFB	Bel Fuse, Inc.	98.75%	305	Technology
CINT	CI&T, Inc. (Brazil)	0.00%	NEW	Technology
ELTK	Eltek Ltd.	71.64%	32	Technology
GILT	Gilat Satellite Networks Ltd.	3.63%	39	Technology
ITRN	Ituran Location & Control Ltd.	2.52%	18	Telecommunications
OOMA	Ooma, Inc.	12.60%	24	Technology
SPOK	Spok Holdings, Inc.	41.40%	116	Telecommunications
TCMD	Tactile Systems Technology, Inc.	18.90%	24	Healthcare
UTMD	Utah Medical Products, Inc.	0.71%	116	Healthcare

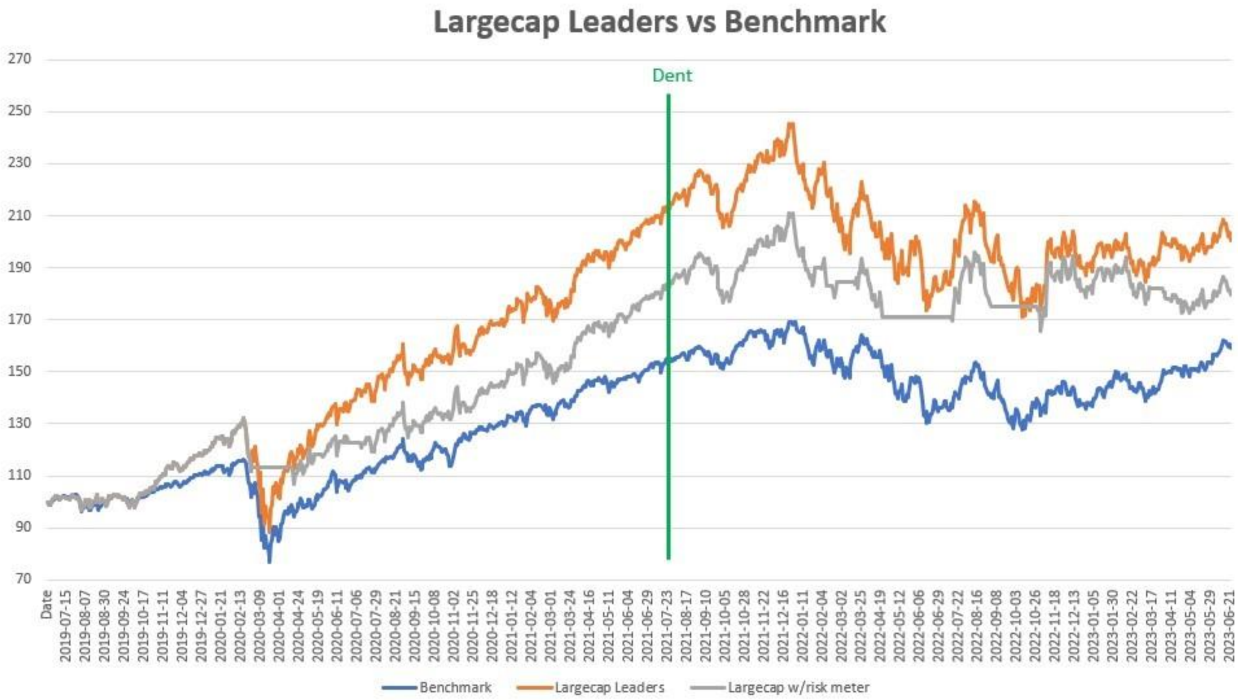
Mega-Tech Trends



There are no trades this week! Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ALRM	Alarm.com Holdings, Inc.	-3.67%	32	Technology
BDC	Belden, Inc.	12.27%	46	Technology
COHU	Cohu, Inc.	2.95%	11	Technology
DIOD	Diodes, Inc.	-2.96%	102	Technology
HPE	Hewlett Packard Enterprise Co.	8.40%	18	Technology
JNPR	Juniper Networks, Inc.	-0.93%	11	Technology
LFUS	Littelfuse, Inc.	2.67%	46	Technology
PLUS	ePlus, Inc.	7.53%	24	Technology
PLXS	Plexus Corp.	-0.14%	24	Technology
SGH	SMART Global Holdings, Inc.	12.47%	18	Technology

Large Cap Leaders



There are two trades this week.

Buy Akamai Technologies, Inc. (Nasdaq: AKAM) and ANSYS, Inc. (Nasdaq: ANSS)

Sell Arista Networks, Inc. (NYSE: ANET) and SolarEdge Technologies, Inc. (Nasdaq: SEDG)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
AKAM	Akamai Technologies, Inc.	0.00%	NEW	Technology
ALGN	Align Technology, Inc.	1.09%	53	Healthcare
AMAT	Applied Materials, Inc.	1.07%	18	Technology
ANSS	ANSYS, Inc.	0.00%	NEW	Technology
BSX	Boston Scientific Corp.	3.55%	53	Healthcare
CRM	Salesforce, Inc.	21.31%	102	Technology
FTNT	Fortinet, Inc.	10.84%	46	Technology
HPE	Hewlett Packard Enterprise Co.	-5.98%	3	Technology
KEYS	Keysight Technologies, Inc.	-2.26%	24	Technology
SYK	Stryker Corp.	1.20%	3	Healthcare

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