Small-Cap Investing in Canada: Play the Only Game in Town

Description

Does the name Bob Tattersall ring any bells?

If you've been investing for a decent amount of time and mutual funds are a part of your portfolio, Tattersall's name likely rings a bell. He's the former chief investment officer for Mackenzie Investments, and although he's retired, he still writes occasionally for the *Globe and Mail*.

His most recent article appeared July 19; it discussed investment possibilities at the TSX Venture Exchange — a place most investors associate with pump and dump scams and oil and gas companies with nothing but land and little else to show for their penny-stock share prices.

Canada is a lousy place for small-cap investments

With changes to securities legislation in Canada in recent years, entrepreneurs in Canada looking for growth capital have turned to exempt-market offerings, equity, and debt crowdfunding, leaving the venture exchange on the outside, looking in.

That's not to say, as Tattersall points out, that there aren't opportunities out there for those willing to take a closer look under the hood.

Here at the Fool, we tend to look at companies with market caps of $500 million or greater. However, I will say this: Out of the six names, Tattersall mentions in his article; I'd look at two. **Sportscene Group Inc.** (TSXV:SPS.A), an operator and franchisor of sports-themed restaurants in Quebec, and **Imaflex Inc.** (TSXV:IFX), a maker of garbage bags and other polyethylene-based products, also based in Quebec.

But do your research!

The best way to explore small caps

Unless you've got a lot of spare time on your hands, the easiest way to capture the small-cap market in this country is to buy the **iShares S&P/TSX Small Cap Index ETF** (TSX:XCS). It's a passive ETF that tracks the performance of the S&P/TSX Small Cap Index, a collection of 189 small-cap stocks that range in market cap from $100 million to $1.5 billion.

At the end of December 2016, I recommended three small-cap stocks from the index. Here's how they've done year to date.

Three small caps yielding 5% to own in 2017

Stock	**Market Cap**	**YTD% Return**
Diversified Royalty Corp. (TSX:DIV)	$262.6M	1.9%
Aimia Inc. (TSX:AIM)	$268.2M	-75.9%
Callidus Capital Corp. (TSX:CBL)	$748.6M	-17.2%
Average		-30.4%
iShares S&P/TSX Small Cap Index ETF		-4.4%

Source: Morningstar.com

Some diversification is important

If you back out the performance of Aimia, which completely got blindsided in May by the decision of **Air Canada** to introduce its own loyalty program, ending its relationship with the company, the performance of the other two stocks (I still like both of them) isn't much different from the XCS.

So, while an experienced investor might be okay with the volatility of this three-stock mini-portfolio, the average person isn't going to be comfortable with returns that are so randomly spread out.

For you, you've got to own the XCS, because there's very little else in Canada that fits the bill.

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