



## This Small-Cap Growth Stock Could Be the Smartest Long-Term Investment You Could Make

### Description

Shying away from small-cap stocks is fine if you're a retiree or an older investor who plans to retire within a couple years, but for everybody else, there are few reasons why you shouldn't have at least a few smaller-cap names in your portfolio to enhance your long-term results.

I'm sure you've heard that small-cap names are riskier — substantially riskier depending on the small-cap stock. In the case of most TSXV-traded stocks, it's true; there are tonnes of extremely risky and uninvestable companies that you shouldn't touch with a barge pole. Small-cap venture mining stocks are one specific example. They're everywhere on the TSXV! And the paid advertisements promoting them are akin to a siren song that leads sailors to their doom.

When it comes to spotting great small-cap businesses, the same homework is required as if you're on the hunt for a mega-cap stock. You need to find a business with a sound management team and a means to grow its earnings at an above-average rate over the next five years and beyond. And, of course, you'll need to consider the price that you'll be paying relative to the amount of growth you'll receive and the amount of risk that you'll end up taking on.

My favourite small-cap stock by far is **Spin Master Corp.** ([TSX:TOY](#)); it's been my top performer over the past few years. With a market cap of ~\$1.6 billion, it's tipping the scales at the high end of the small-cap range, but that doesn't mean you should expect any less growth versus a smaller-cap name. The company is an innovative up and comer that's been subtly [disrupting the toy industry](#), and one day, I believe it will become one of the behemoths alongside the likes of **Hasbro Inc.** or **Mattel Inc.**

What makes Spin Master such a wonderful uncovered gem?

It's one of those businesses that underpromises and [overdelivers](#) in a huge way. The company's smart management has the unique ability to spot the next big thing in the children's entertainment space, whether it's through R&D or via the acquisition of smaller firms or startups. Spin Master's innovative toy pipeline is always full of great ideas, and, as you'd expect, a majority of the products have evolved into must-haves among children around the world.

What makes Spin Master stand out is the fact that it's able to spot or develop a solid lineup of fun new products that are consistently "blockbusters." That's a huge reason why the company has a sky-high ROE and ROIC of 36.1% and 29.1%, respectively. Whether it's through the effective leveraging of technology or the creation of new brands like Hatchimals or PAW Patrol, Spin Master's consistent performance in a typically volatile and seasonal industry is incredibly remarkable.

At 30.81 times trailing earnings, Spin Master is an absolute bargain, given the company is expected to grow in the high double digits, and due to the fact that the company has a history of absolutely crushing analyst expectations.

When it comes to small caps, you really don't need to take on too much risk or complexity to beef up your long-term returns. I'm sure you'll find that unlike many other businesses, Spin Master is relatively simple to understand.

The ultimate goal of the toy industry is to make children happy with fun, creative, new toys and games. If you're able to create a fun and unique experience, the profits will be an after-effect. Unlike adults, I'm sure you'll find it's much easier to make a kid happy. They find joy out of the small things in life, and even a small toy is enough to make a kid's day.

Also, it's not just kids in select geographic markets that Spin Master caters to. The global opportunity is gigantic, and Spin Master is well equipped to capitalize on a worldwide opportunity with its global distribution platform in place.

Add Spin Master to your portfolio and simply forget about it, and in 10 years you'll be glad you did when Spin Master is playing alongside its larger-cap peers in the space.

Stay hungry. Stay Foolish.

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### Date

2025/08/29

### Date Created

2018/03/01

### Author

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