5 Top Small-Cap Stocks to Buy Right Now

Description

Investing in small-cap companies — defined as any business with an arbitrary market capitalization of under $2 billion — can be a high-risk but high-reward endeavor. Many investors dream of getting in on the next **Amazon.com** way ahead of the curve and reaping huge rewards.

But the fact is that just buying one or two small businesses likely won't cut it. For every story like Amazon, there are dozens of small caps that never grow at all; some close up shop altogether. To increase the odds of picking a big winner, a basket of small-cap stocks is the better route to go.

With that in mind, here are five small caps (or close to it, per the traditional definition) that I think are worth a look right now: **Redfin** (NASDAQ: RDFN), **NV5 Global** (NASDAQ: NVEE), **Teladoc** (NYSE: TDOC), **iRobot** (NASDAQ: IRBT), and **Baozun** (NASDAQ: BZUN).

The other real estate disruptor

When it comes to online real estate services, most investors think of **Zillow Group** or the still-privately-held Trulia. A smaller name in the game is Redfin, which boasts having the most visited real estate brokerage website in the U.S. The company provides its agents with technology to keep brokerage fees to a minimum — usually a 1% to 1.5% listing fee for home sellers. Undercutting other real estate brokerage outfits has been a winning strategy. During the second quarter of 2019, Redfin commanded a 0.94% share of the existing home sales market, up from 0.83% a year ago.

It's a nice rate of growth at the expense of competitors that obviously leaves plenty of room for more expansion, but it's the other services in addition to brokerage that are really garnering attention here. Redfin has recently added mortgage and title services, direct cash offers (where Redfin makes an offer to buy a home), renovation, and other services, rounding out its capabilities as a type of one-stop shop.

Sales from these new lines of business grew to $61.3 million during the first half of the year, up from only $12 million in 2018. As they continue to grow, they should help Redfin reverse its operating loss and put the company into the black. In fact, total third-quarter revenue is expected to surge at least 59% year over year, pushing Redfin back into profitable territory. Longer-term, though, this small real estate disruptor has plenty more room to grow from its current valuation of just $1.6 billion.

Image source: Getty Images.

The better bet on the developing world

Emerging market stocks — companies that operate in countries like China, India, Brazil, etc. — lure in many investors (myself included) with the promise of spectacular growth tied to their participation in fast-growing economies and hopes of big investment returns. The thesis sounds good, but it hasn't exactly panned out in the last decade; emerging market stocks are flat, on average, over the last 10 years, as measured by the **iShares MSCI Emerging Markets ETF** (NYSEMKT: EEM).

But there are other ways to play the development of emerging economies and other economic success. NV5 Global is one of them. This engineering and consulting company is valued at just $803 million, but has been steadily growing for years via both organic growth and acquisition. The company has made six purchases of smaller outfits this year alone, and revenue and net income are up 23% and 20%, respectively, during the first half of 2019. Total backlog of work increased 43% year over year to $451 million, indicating there's plenty of growth left in the immediate future.

Boasting services that span energy to city infrastructure to industrial design, NV5 has ample exposure to the North American market, with offices in Asia as well. Engineers aren't going anywhere anytime soon, and NV5's breadth of experience across multiple design disciplines means it could be in the running to help develop the emerging world for years to come.

China's other e-commerce puzzle piece

Speaking of emerging market stocks, here's one that bucks the trend: Chinese e-commerce and related logistics tech provider Baozun. The stock is flat over the last year, getting knocked around as everything else related to China has been of late, but over the last five years, shares have quadrupled. That makes Baozun a standout in the emerging market space.

And it's still tiny, clocking in at just $2.8 billion in current market cap. While most Americans have heard of Chinese heavyweight **Alibaba** (NYSE: BABA), Baozun goes mostly unrecognized because of its focus on helping merchants get up and running online, rather than being a retailer itself. The various services Baozun offers integrate into Alibaba's huge platform, tying the small company's fate to China's leader — which is still growing fast — in digital selling.

The volatility in the last year could mean there's a good buying opportunity. China's economy is slowing, and the U.S.-China trade war is creating some extra storm clouds, but e-commerce is still going at a torrid pace. To wit, Baozun's sales grew 47% in the second quarter, and the full-year outlook is for gross merchandise value (GMV, the total value of items sold through its platform) to increase 40% to 50%. At that rate — or anything close to it — Baozun will be much larger than it is today in a decade's time.

The remote healthcare provider bringing needed change in medicine

I've been following Teladoc for a number of years now, and in short order it has grown and acquired its way into becoming the dominant force in the remote-healthcare industry. The company offers all sorts of patient and healthcare-provider services, like primary doctor, mental health, and specialist consultations via phone or internet-based video conference.

Teladoc provided 1.97 million patient visits worldwide through the first half of 2019, up 73% from the same period in 2018. Resulting revenue came in at $259 million, good for a 41% increase. However, the company is in high-growth mode and thus ran at a net loss of $59.5 million in the first six months of the year. That has kept investor enthusiasm in check. Shares are down 20% over the last 12-month stretch.

Yet this is a massive and highly fragmented sandbox on a global scale that Teladoc can play in, and its still-small capitalization of just $4.1 billion pales in comparison to traditional healthcare providers. As communication technology continues to advance and more patients learn about remote health services, there's a good chance Teladoc will benefit in the long haul.

Image source: Getty Images.

Your home on autopilot

Here's another small cap that hasn't done so hot in the last year: iRobot. Shares are down some 40% since the autumn of 2018. Though it's valued at a lowly $1.74 billion, this is perhaps the company with the most brand recognition on this list, as it makes the popular Roomba robotic vacuums.

Smart-home devices are a hot-selling consumer electronics segment these days, and though Roombas are doing well (sales were up 15% in Q2 2019), management blamed the trade war between the U.S. and China and resulting tariffs for its more sluggish outlook for just 10% to 14% full-year growth and falling operating income of $75 million to $100 million (compared with $105.8 million in 2018).

Current sentiment surrounding iRobot's near term could be myopic, though, as there's plenty of room for this small yet profitable smart-home-device maker to run. New vacuums and smart mops are on the way, and a lawn mowing robot will come out in 2020 — competing for kids' allowances everywhere. (The 15-year-old version of me would be sweating right now.) There could be plenty of other uses for iRobot's automation and home- and yard-mapping technology as well, making this an interesting company to keep an eye on as the smart home keeps getting smarter

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TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. NASDAQ:BZUN (Baozun)
3. NASDAQ:IRBT (iRobot)
4. NASDAQ:NVEE (NV5 Global)
5. NASDAQ:RDFN (Redfin Corporation)
6. NYSE:BABA (Alibaba Group Holding Limited)
7. NYSE:TDOC (Teladoc Health Inc.)
8. NYSEMKT:EEM (iShares, Inc. - iShares MSCI Emerging Markets ETF)

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Date
2025/08/25
Date Created
2019/09/17
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