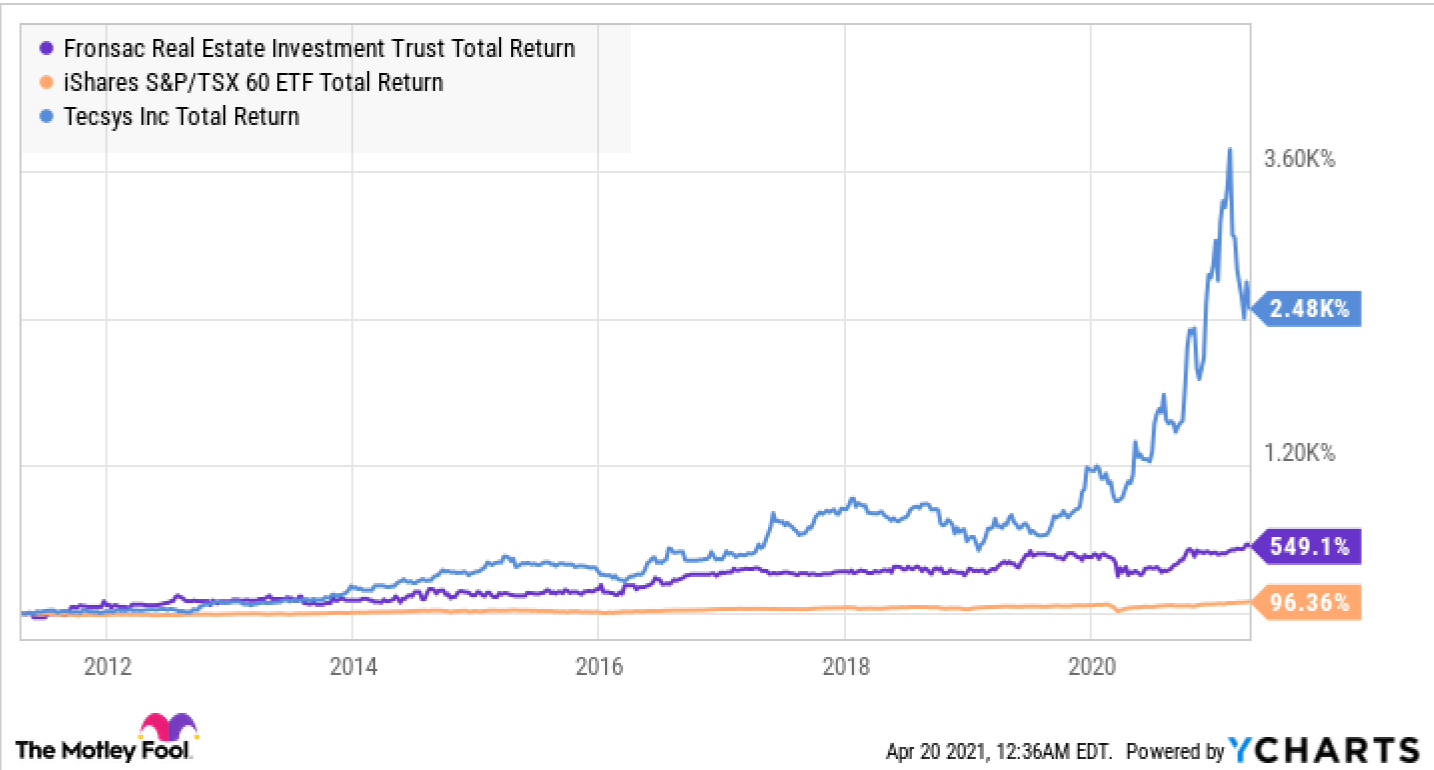
Got $500? Buy These Small-Cap Stocks Now

Description

Small-cap stocks are often viewed as risky. Any news that could affect the companies will probably send the stocks flying to the moon or falling off a cliff. Moreover, few analysts cover them — if at all. However, hidden gems are also more easily found among small caps.

Importantly, investing a percentage of your money in small caps could greatly improve the overall performance of your diversified portfolio.

Here's an introduction to a couple of small-cap stocks that have beaten the market benchmarks.



Total return level data by YCharts.

Tecsys

Among the more than 100 Canadian Dividend Aristocrats, **Tecsys** (TSX:TCS) earns a top ranking in terms of total returns. Its 10-year total returns are close to 38% per year. Essentially, it grew investors' money at a rate of about 24 times in the period, turning a $10,000 investment into approximately $248,997!

Tecsys has increased its dividend for 13 consecutive years with a 10-year dividend-growth rate of 17%. While its three-year dividend-growth rate has dropped, it was still decent at about 10%. Its most recent dividend hike was about 9%, calculated by comparing the trailing 12-month (TTM) dividend to the previous TTM.

Tecsys is a global company that provides solutions to help companies improve their supply chain. In the last 12 months, it increased revenues by 20% to $118 million. Particularly, in the last reported quarter, its recurring revenue climbed 26% and contributed 42% of total revenue versus 40% a year ago. As its recurring revenue grows and makes up a bigger portion of total revenue, it'll improve the company's earnings quality.

The dip of +30% from its recent high could be an excellent entry point for long-term investment.

Fronsac REIT

Tecsys doesn't provide much of a yield. Specifically, its current yield is about 0.6%. To complement Tecsys growth, you might invest in another small-cap name like **Fronsac REIT** (TSXV:FRO.UN). Fronsac is an income stock with above-average growth potential in the REIT space. It offers a nice yield of about 4% at writing.

Fronsac experienced resilient performance during 2020 when the COVID-19 pandemic spread. It had an occupancy rate of 99% with no lack of growth. In fact, last year, it managed to grow its net operating income by 38%. Furthermore, its funds from operations (FFO) per unit growth of 18% exceeded its cash distribution per unit growth of 15%. And it ended the year with a FFO payout ratio of about 53%, which protects its dividend.

One reason for Fronsac's exceptional performance was its triple-net and management-free lease business model, which allows it to save tonnes of costs. Additionally, its tenants include grocery stores, gas stations/convenience stores, and quick-service restaurants, which were relatively defensive against economic lockdowns.

The Foolish takeaway

Investing in a single small-cap stock is risky, but there are merits in holding small-cap stocks, which, as a group, have outperformed large caps.

It's essential to spread the risk around by diversifying across a number of small-cap stocks across different sectors and industries. Your small-cap portfolio can help your diversified portfolio outperform against the market.

Although past returns aren't indicative of future returns, I have good feelings about these small-cap stocks. After doing your own due diligence, if you still like these stocks, consider allocating an appropriate amount of capital in each.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:TCS (Tecsys Inc.)
2. TSXV:NET.UN (Canadian Net Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
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