

MICRO-CAP INSIGHT

RESEARCH FOR REGISTERED INVESTMENT ADVISORS

“Everyone talks about the weather, but nobody ever does anything about it.”

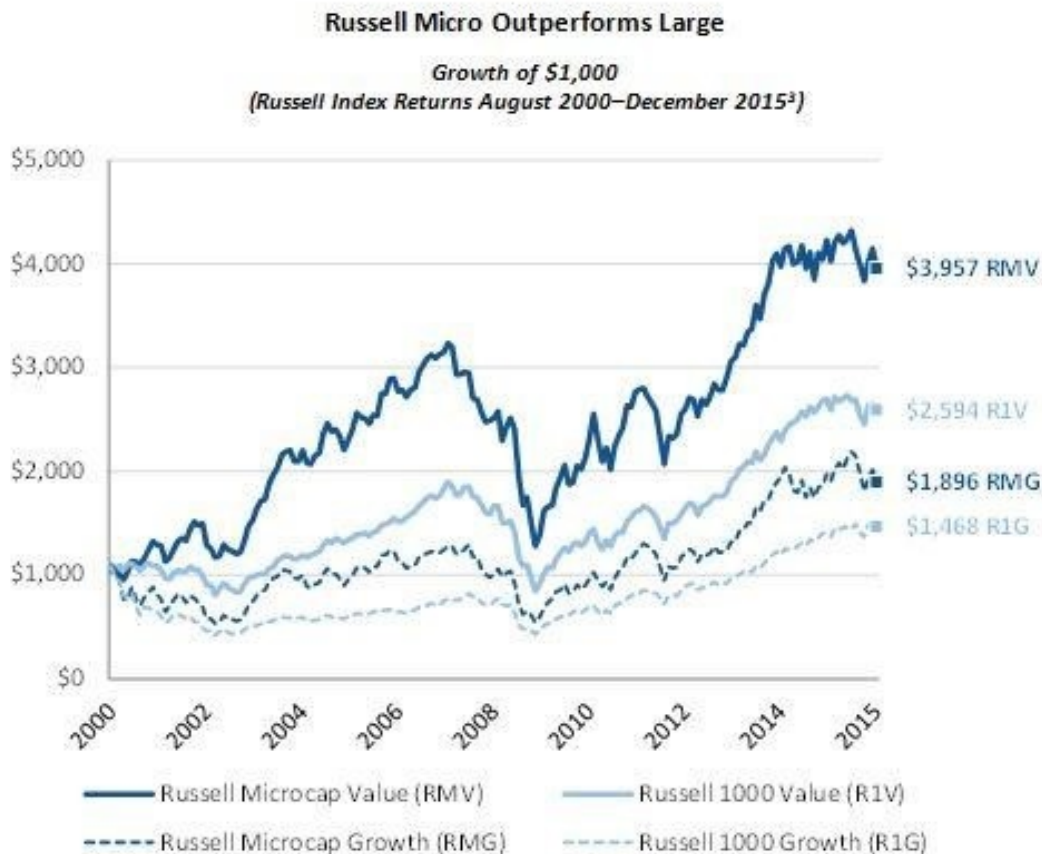
--Mark Twain or Charles Dudley Warner

“Everyone wants to find an Amazon, Apple or Microsoft before it becomes a household name. We’ll help you find outstanding investment opportunities.”

-Raymond Mullaney

MICRO-CAP INSIGHT (MCI) is produced for Registered Investment Advisors and financial professionals. MCI does not recommend stocks or funds. To remain objective, we will bring your attention to individual companies and funds which we believe are either very interesting or provide a basis for a case study. We hope you will let us know of stocks and funds you find interesting.

The chart below illustrates the tremendous gains from investing in small-cap value stocks from August 2000 through December 2015.



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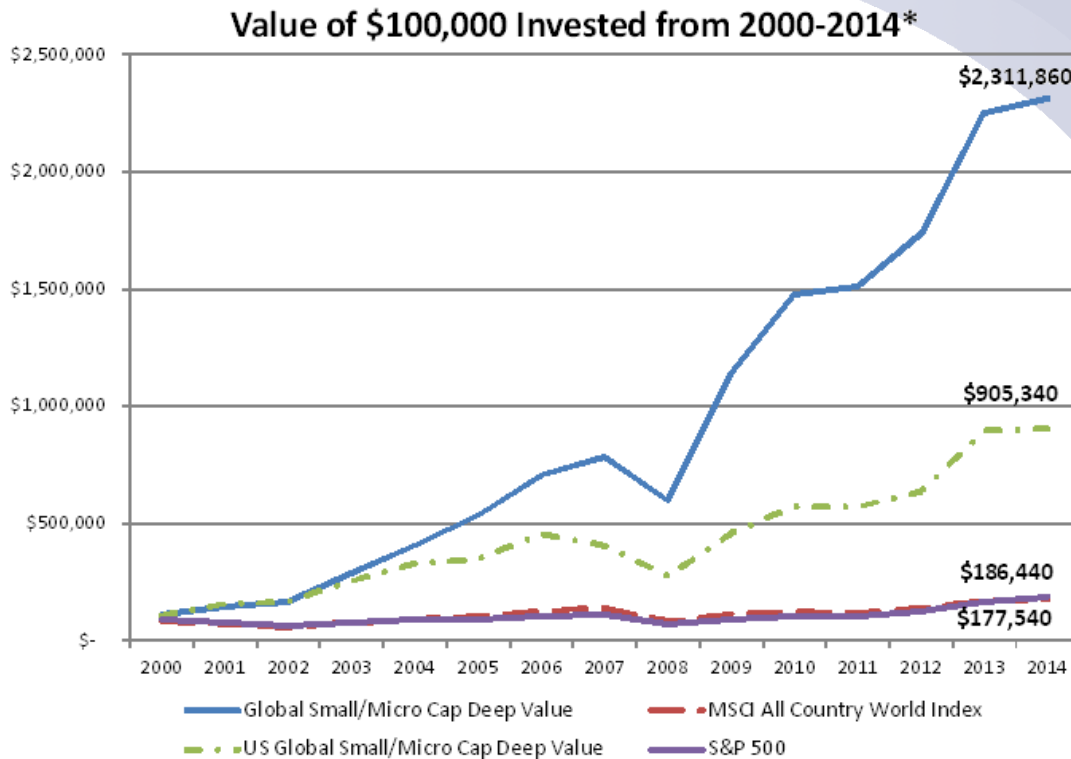
Companies In This Issue:

- DGHM MicroCap Value Fund
- AutoWeb (AUTO)
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- United States Antimony (UAMY)
- Strategic Environ & Energy (SENR)

- Reed’s (REED)
- Generation Next Franchise (VEND)
- CEL-SCI (CVM)
- BioCorRx (BICX)
- SANUWAVE Health (SNWV)
- SPYR (SPYR)
- Petrolia Energy (BBLs)

Every day, small- and micro-cap companies are making breakthroughs and discoveries— and in the process making shareholders millions.



A Message to Financial Advisors

Capitalism is not dead!

It is alive and well in America. There are great entrepreneurs and disrupters working in every industry.

The Micro-Cap and Small-Cap space has hundreds of excellent companies with tremendous growth potential, but it also has thousands of companies that are probably destitute.

Our definition of a growth stock is a stock that has the *potential* to rise ten-fold or more. There are hundreds, maybe thousands of companies that have that potential, but companies like Apple, Amazon and Microsoft are *definitely* not growth companies. It is impossible for their price to increase tenfold or more. They are has-been stocks that lazy investors and advisors buy. The combined revenues for Amazon, Apple and Microsoft are \$540 billion. If you bought them when they had just \$540,000 in sales, or even \$540 million in sales, you would be wealthy today. But if you buy them now, you'll regret it later; you can take that to the bank.

Real wealth builder stocks are found in the small- and micro-cap sector. If you buy what

average investors buy, you'll get what average investors get. Do average investors get wealthy buying average companies—or the largest companies in the world?

Capitalism rewards innovation. New innovators will eat the lunches of these three giants. Apple, Amazon and Microsoft will one day end up in the dust bin of history, just as GE, AT&T and IBM have been. In a competitive economy (and I hope we always have one of those), every company can be knocked off its high pedestal and replaced by competitors with more innovative products and services—and probably better pricing, too.

The prices of small companies are very volatile and far less liquid than larger companies. But it's the smallest companies that have provided investors with the most fantastic and exceptional profits! I wouldn't be surprised if studies have shown that small stocks fall more or are more likely to fail than large-cap stocks. But even if that is so, the greater gains earned from small-caps have far outweighed losses. That is a darn good reason to invest some of your time and money every week in this sector—because capitalism is not dead!

You have only two ways to be successful in the small-cap space: either be prepared and very careful or get lucky. And "luck comes to those best prepared". MCI will help you develop the skills necessary to find and invest in small companies with real wealth building potential. That's our job, and we do it well.

If you spend an hour or two every two weeks reading and studying the information we provide, in two or three years you'll develop considerable expertise in finding and evaluating investment risks. Whether you have two or 20 years in the business, you will find great value in Micro-Cap Insight.

Every two weeks we will introduce you to new and interesting companies that *may* achieve outstanding success. But before you invest in any of them, do your own due diligence. We do not claim to know *which* of the companies we cover will grow or decline.

Welcome to the first issue of Micro-Cap Insight. I'm Ray Mullaney, the publisher of MCI. I have 42 years of experience as an investment professional. You can read about me [here](#).

20 Examples of “Safer” and “Questionable” Stocks

The micro-cap sector is fraught with risk, but not all companies in it are equally risky. A study of their financial statements can give you a grasp of the company’s financial condition and the riskiness of investing in it.

Consider AutoWeb (highlighted in green below), the first stock among the “safer” 10 . It has a market cap of \$40 and revenues of \$137, more than three times as much. Meanwhile, its debts are a mere \$16 million. Its debts have fallen, while its revenues have increased. From this data alone, we could reasonable conclude that AutoWeb’s financials are in good shape. And each dollar invested yields you 75 cents of net tangible equity (NTE). This increases the safety of your investment in the company.

Now let’s compare AutoWeb to International Isotopes (highlighted in yellow below), the first company on the “questionable” list . It has a market cap of \$35 million, but revenues of only \$7 million. Its debts are also high at \$12 million, and have doubled over the past three years. If current trends continue, financial troubles are certain to follow. With no tangible equity to call their own, all you’d end up owning if you bought their stock is their rising debts.

Examining a company’s financial statements helps you understand the risks of investing, but it’s only the first step. Moreover and more importantly, it tells you nothing about the opportunity for appreciation of the company’s stock. For that, please see page 4.

	Market Cap	Revenue	Debt	NTE	Market Cap 3Y Ago	Revenue 3Y Ago	Debt 3Y Ago	NTE 3Y Ago	Revenue 3Y Growth	Debt 3Y Growth
10 Safer Micro-Caps	\$395	\$872	\$278	\$348	\$437	\$660	\$351	\$283	32%	-21%
10 Questionable Micro-Caps	\$436	\$69	\$136	-\$32	\$429	\$92	\$64	\$24	-26%	112%

10 Safer Micro-Caps

Symbol	Company	Market Cap	Revenue	Debt	NTE	Market Cap 3Y Ago	Revenue 3Y Ago	Debt 3Y Ago	NTE 3Y Ago	Revenue 3Y Growth	Debt 3Y Growth
AUTO	AutoWeb	\$40	\$137	\$16	\$31	\$140	\$106	\$32	\$46	30%	-49%
CRSXF	Corsa Coal	\$97	\$264	\$163	\$97	\$119	\$152	\$165	\$127	74%	-1%
LGL	LGL Group	\$26	\$23	\$3	\$25	\$13	\$22	\$3	\$14	2%	-1%
IVFH	Innovative Food Holdings	\$31	\$41	\$3	\$7	\$29	\$27	\$16	-\$7.1	53%	-79%
NVFY	Nova Lifestyle	\$49	\$106	\$11	\$64	\$58	\$103	\$27	\$47	4%	-57%
OPCO	Ourpet's	\$16	\$28	\$4	\$12	\$12	\$23	\$5	\$5	20%	-25%
PDEX	Pro-Dex	\$30	\$23	\$2	\$17	\$9	\$13	\$4	\$7	83%	-51%
SVT	Servotronics	\$23	\$41	\$10	\$28	\$16	\$33	\$10	\$24	26%	-2%
TPCS	Techprecision	\$17	\$19	\$7	\$8	\$2	\$18	\$11	\$0	4%	-39%
VIRC	Virco Manufacturing	\$65	\$189	\$58	\$59	\$39	\$164	\$78	\$20	16%	-25%

10 Questionable Micro-Caps

Symbol	Company	Market Cap	Revenue	Debt	NTE	Market Cap 3Y Ago	Revenue 3Y Ago	Debt 3Y Ago	NTE 3Y Ago	Revenue 3Y Growth	Debt 3Y Growth
INIS	International Isotopes	\$35	\$7	\$12	-\$7	\$23	\$8	\$6	\$1	-1%	99%
UAMY	United States Antimony	\$20	\$10	\$7	\$10	\$82	\$11	\$5	\$14	-5%	46%
SENR	Strategic Environ & Energy	\$22	\$10	\$7	-\$1	\$51	\$18	\$6	\$4	-44%	28%
REED	Reed's	\$40	\$37	\$23	-\$5	\$79	\$45	\$16	\$3	-18%	39%
VEND	Generation Next Franchise	\$96	\$2	\$42	-\$20	\$14	\$6	\$9	-\$5	-73%	377%
CVM	CEL-SCI	\$51	\$0	\$27	-\$5	\$77	\$0	\$12	\$0	-60%	118%
BICX	BioCorRx	\$27	\$1	\$4	-\$4	\$11	\$1	\$4	-\$4	-50%	9%
SNWV	SANUWAVE Health	\$59	\$1	\$11	-\$10	\$4	\$1	\$6	-\$3	-19%	80%
SPYR	SPYR	\$65	\$0	\$2	-\$1	\$87	\$1	\$0	\$11	-69%	1075%
BBLs	Petrolia Energy	\$21	\$0	\$2	\$11	\$1	\$1	\$1	\$3	-76%	245%

The Challenges of Funding

Small, early-stage companies working on technological or medical breakthroughs almost always lack significant financial resources. When such companies start out, raising money is nearly impossible. Develop a convincing proof-of-concept or working model of their technology is a vital ingredient to raising funding for a small company.

Funding for pure research and development is almost impossible to raise, but that's what breakthroughs require. The highest-risk money often has the potential to produce the highest returns, though it has the highest likelihood of failure as well.

When it comes to investing, everyone is a follower. Small brokerage firms as well as institutional investors want no part of a deal if the company doesn't attract many other institutional investors. All funding sources want many "partners" in their deals; they want to make sure, before they invest, that when the company they're investing in needs additional funding in the future (and they always do) that there are many "partners" to provide that additional funding. Many deals have failed for lack of funding. We don't know how many, but surely many great ideas die on the vine for lack of funding.

Therefore, don't judge a company's chances for achieving major success based solely on a company's current inability to raise the required financial resources. Many companies flounder for years before they raise the money needed to develop their technology.

However, that does not mean you *should* invest in companies with inadequate financial resources. It means you should carefully evaluate the prospects for your target company succeeding at raising the funds they require. If a com-

pany's insiders are themselves wealthy, they have large stock positions in the company and they have personally invested in more than one round of financings, that is a good sign that the company may have access when more funding is necessary. Notice there were a lot of "ands" in that sentence. How else can you evaluate the company's chances of raising additional funds when needed? You will need to get "close", so to speak, to the members of the board of directors to evaluate their interest and capacity to contribute additional funding when necessary. Getting close to these people is necessary. Do you have the time to invest in this company? Do you have the experience necessary to make these people want to speak with you? And will your compliance department prohibit you from getting so close to a company insider? Know that getting close to insiders will provide meaningful clues and important indications of their confidence in their company, all while staying well within the letter and intent of the laws and regulations. I have been on the boards of directors of several public and private companies.

About fifteen years ago, I learned of a company called Intuitive Surgical. (I learned of this company on a website called www.AISH.com.) At the time, they had almost no money and they had been fighting in court for a few years to obtain access to software a robotics company claimed was theirs. I could see it ***could be*** a very big deal. I called the company in California and asked to speak with the president. He wasn't in. So I asked for the CFO, also not in. I asked where the CFO was, and they told me she was in NYC at a meeting. I then asked for her cell phone number, so they gave it to me. I then called her and told her I wanted to meet her for dinner

to learn more about the company. She graciously accepted my invitation, we made a reservation at a very nice restaurant. One day later, I drove from my home in Maryland to NYC where I had dinner with Ms. Susan Barnes, then the CFO of Intuitive Surgical. Leaving dinner, I had no doubt they would succeed at some level. Ms. Barnes had the intelligence, knowledge, poise, sophistication and confidence to put a "woman on the moon", if that was the challenge she accepted. At that time, Intuitive Surgical was trading around \$4.00 to \$5.00. I bought a small amount of that stock. I bought with confidence, and a great deal of fear. Hey, they were nearly broke and were using almost all their money on a lawsuit!

I wish, I wish, I wish...I wish I'd held onto that stock! It now trades at \$450 per share. Wishes are what keeps investors going, despite our losses and despite our setbacks. We want that pot of gold, we'll refine our knowledge and we'll prepare ourselves for greater and greater challenges. And we'll succeed!

At **MICRO-CAP INSIGHT**, we have the same wishes as you do: to find the next **Intuitive Surgical**, the next **Microsoft** or the next **International Uranium** (it rose 60-fold! I bought so little... but that's another story for another day).

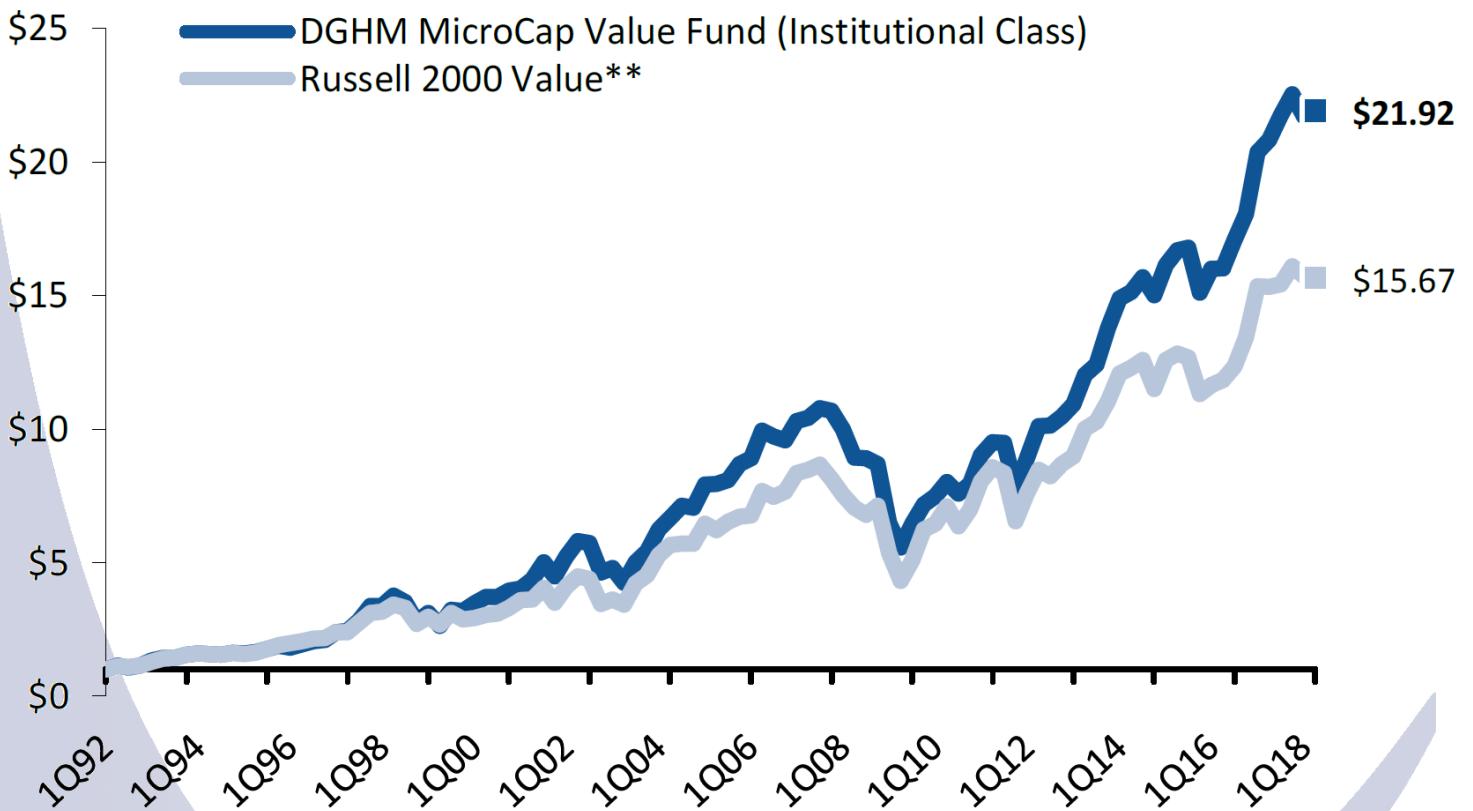
Always invest wisely; but always invest!

In the next issue, we'll follow up on the 20 companies mentioned on page 3. We'll be sending emails to the company presidents at each of the 20 companies. Clearly, some of the companies in this group appear to be in very poor financial condition. If we believed they would fail, that would be a reason not to own them. However, just because a company is in very poor condition presently doesn't mean it will remain so. That is not a good reason not to own them, but it may very well be. We will ask each of these company presidents what they intend to do to strengthen their balance sheets. Then we will ask them the following questions:

- 1) What is their company's mission?
- 2) What milestones can you point to that you expect to achieve in the coming 12, 24 and 36 months?
- 3) Who are the major contributors to the company achieving those milestones?
- 4) Are these individuals major shareholders?
- 5) What companies are most similar to your company?
- 6) What do you expect your company to look like in 3-5 years?
- 7) What is a realistic potential market cap for your company in the future?

Most of our focus will be on individual stocks. The chart below, however, illustrates the tremendous gains which have been earned by this diversified small- and micro-cap mutual fund. I've spoken with senior management at this fund, Donald Porter. He is a consummate professional, and I encourage you to learn more about his funds.

DGHM MICROCAP VALUE FUND VALUE OF A DOLLAR



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