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5 Small Caps to Juice Your Portfolio

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This article is part of our [Rising Star Portfolios series](#).

When last we chatted, before the holidays slowed things down, [we were screening for great small caps](#). Today, we'll take a closer look at our candidates and narrow the field.

But first ...

It's been a month since I bought a half-position in **Coca-Cola** (NYSE: [KO](#)), and today I'm going to finish the bottle and down the other half. That will give us about \$1,000 worth of the sugar-water king, or roughly 5% of my \$17,000 portfolio. Splitting up the buy will have little effect on the port, but I wanted to introduce the practice early on. I'll be using the technique more, especially with smaller and more volatile companies.

As a refresher, here's what I'm aiming for, allocation-wise:

Large Caps 45%
Mid Caps 15%
Small Caps 15%
International 25%

We have a lot more large-cap buying to do, so we'll eventually return to the "[Corporate El Dorado](#)" [screen](#) that led me to Coke.

Small-cap roundup

After rerunning the Foolish 8 and Modified Foolish 8 screens and eliminating some companies without significant competitive advantages, I'm left with five solid candidates for our small-cap buy.

Company	Market Cap (millions)	Insider Ownership	Forward P/E	ROE	Net Margin
lululemon athletica (Nasdaq: LULU)	\$4,891	33%	48.1	37%	15%
Ebix (Nasdaq: EBIX)	\$861	14%	17.2	33%	43%
MercadoLibre (Nasdaq: MELI)	\$3,041	13%	54.7	37%	25%
Puda Coal (NYSE: PUDA)	\$351	33%	10.4	20%	7%
ZAGG (Nasdaq: ZAGG)	\$176	32%	21.5	39%	12%

Source: Capital IQ, a division of Standard & Poor's.

Let's take a quick look at the strengths of each.

lululemon

This retailer designs "technical athletic apparel," mostly geared toward yoga-loving women -- although there's increasing focus on menswear. Management employs a vertical strategy, meaning it

controls most everything from design to sale. It's growing like gangbusters, and the big payoff for investors would come about if lululemon becomes the next great athletic brand.

Ebix

Ebix is the hidden engine that helps much of the insurance industry function efficiently. It provides software and e-commerce products that streamline processes for brokers, carriers, underwriters, and reinsurers. This is a very acquisitive company, and management is assembling a powerful network that's hard for competitors to match.

MercadoLibre

Let's all say it together: "MercadoLibre is the eBay of Latin America." Like **eBay** (Nasdaq: [EBAY](#)) (and Ebix above) the online auction star gets big benefits from the network effect. That effect is so powerful that not even eBay could knock it off its perch in that area of the world, and instead bought up about 18% of MercadoLibre.

Puda Coal

Puda provides premium grade cleaned coking coal that's used by steel producers. The difference is this all happens in China, which, as everyone knows, is experiencing the greatest growth spurt since Yao Ming hit fifth grade. This gives it a great location advantage because it's able to supply the region at a lower cost than outside competitors. Puda has attractive multiples, good returns on equity, a solid balance sheet, and lots of room to grown.

ZAGG

As interesting as its name, ZAGG makes stuff for consumer electronic devices. Think headphones, speakers, and protective screens for iPods and cell phones. But the real story is its small size combined with red-hot growth: Revenue and income are up 70% and 60%, respectively, over the past 12 months.

Foolish bottom line

None of these would be considered undervalued by traditional measures, but that's by choice. The Foolish 8 screens produce stocks that have already been validated by the market, which is a fancy way of saying they've run up quite a bit in recent months. But the screens' performances speak for themselves, and I'm confident there are winners in this bunch.

I still have some research to do in order to come up with the right choice for our multivitamin portfolio, and I'll reveal the results next week. Stay in touch by [following me on Twitter](#) and by checking in with the multivitamin [discussion board](#).

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