



3 micro-cap financial stocks I'd buy with \$10,000

By *Tim McArthur* - October 27, 2014 |

If you're a conservative investor, where the name of the game is more about the return **of** your capital than return **on** your capital then understandably blue-chip stocks could be your choice for exposure to the financial services sector.

If however you have a long investment horizon and a high tolerance for volatility and risk, then the advantages of investing in smaller companies with higher growth rates than their larger peers should hold appeal.

Apart from the potential for higher growth rates there is another key aspect of investing in smaller stocks, which is the fact that small and micro-cap companies are generally under-researched in comparison to their large cap peers. This means you have a higher chance of finding a mispriced stock as there is less efficiency at the small end of the market.

With over 1,600 companies listed on the ASX with a market capitalisation less than \$300 million, there is a large opportunity set to choose from.

Here are three that have caught my eye recently...

Blue Sky Alternative Investments Ltd (ASX: BLA) won't be a name familiar to many investors but with a share price that has soared 93.7% in the past 12 months and a market capitalisation of \$155 million, that situation is bound to change! With the ever increasing flow of funds into superannuation products, investors are running out of space to invest in domestic equities. This is leading to a belated increase in portfolio allocations to global shares as well as an increase in allocations to 'alternative' investments.

Blue Sky is a leader in the 'alternatives' field and offers a range of funds including hedge funds, private equity, private real estate and real assets. The group has grown its assets under management (AUM) to over \$700 million and achieved an underlying profit of \$6.2 million for the year ending June 2014.

Despite **Emerchants Ltd** (ASX: EML) not yet earning a profit, the group commands a market capitalisation of \$64 million. Emerchants has developed a software system which allows it to operate pre-paid financial cards on behalf of its clients. The firm recently announced strong first quarter growth across a range of important metrics such as 'total dollars loaded' onto its platform.

Emerchants has also recently announced a major UK-based acquisition. A purchase of this size, given the group's core business is not yet even profitable could rightly concern some investors, however those who have faith in management will be excited by the international expansion move.

Money3 Corporation Limited (ASX: MNY) has a market capitalisation of \$135 million and a share price which has gained 23.4% over the past year. Money3 offers shareholders exposure to the fast growing financial services segment of small cash loans, secured and unsecured personal loans, cheque cashing and international money transfers.

While this field is becoming increasingly crowded with competition, Money3 should continue to enjoy profitable growth

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