

The #1 Lesson About Investing in Small Caps

Transcript of a video recorded on August 23, 2019

Behan: As you've gone through your career, what are the key lessons you've learned on how to invest that you'd love for our shareholders to know?

Nelson: The first one that comes to mind is don't fall in love with your companies. These are small cap stocks; they're not family members that you're stuck with for life. There's an appropriate time to own a stock. Not all great companies are great stocks—and that's an important lesson, I think, within that lesson—but have an open mind. Be objective.

We have a very strict set of criteria we're looking for when we make investments, and when the stocks stop checking the boxes, then it's time to take action and reduce exposure. It sounds simple, but it's a lot more difficult to execute it day-to-day because there are tendencies—just as human beings, there's a tendency to form an emotional attachment to a stock—and we don't always look at it objectively.

Let's say you've invested a lot of time in studying a stock and really studied the financials, and we're doing all that same investing of time and research. There's a tendency, though, if you've made that investment and you know the names of the CFO's children and you are really close to management, you might not see things as objectively. And it might cause you to hang on to that stock too long.

We make a point of doing all that research, but we make sure that we're not forming an emotional attachment. We've got a set of rules that we follow closely that are very much tied to answering the question, "Does this stock still have fundamental momentum?" If it's not checking those boxes, we take action. And it's this sort of no-nonsense approach to selling that we have that has shown to be very value-added to our process.



ROBERT F. BEHAN, CFA
President and Head of
Global Distribution



BRANDON M. NELSON, CFA
Senior Portfolio Manager
Calamos Timpani Small Cap
Growth Fund (CTSIX)

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INVESTMENTS

Calamos Financial Services LLC, Distributor
2020 Calamos Court | Naperville, IL 60563-2787
800.582.6959 | www.calamos.com | caminfo@calamos.com
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