



COINVESTOR CLUB

TOP

50 MICROCAP INVESTORS



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Brian Bares

Bares Capital Management

The next feature of our Top 50 Microcap Managers list is Brian Bares, founder and portfolio manager of Bares Capital Management. “Brian founded Bares Capital Management in 2000. He developed BCM’s investment philosophy and research process, and he is responsible for portfolio management, investment due diligence, client relationships, and firm strategy. Brian is the author of [The Small-Cap Advantage](#), published in 2011 by John Wiley & Sons. He is also an external advisor for the M.B.A. Investment Fund at the University of Texas at Austin. He graduated from the University of Nebraska with a B.S. in Mathematics and has earned the CFA designation.”

At the [2021 MicroCap Leadership Summit](#), Ian Cassel and Brian took a deep dive into Bares Capital Management’s journey from micro-cap to large-cap. The firm operates under the belief that “a company’s market value will reflect the fundamental value of the underlying business” over the long-term. Or as Benjamin Graham once put it, “in the short run, the market is a voting machine but in the long run it is a weighing machine.”

The firm focuses their research on “qualitative factors related to value creation at the business level, including competitive positioning; management talent and character; and growth opportunity.” This qualitative approach leads them away from running stock screens looking for certain ratios like a low price-to-earnings ratio or a low price-to-book ratio, and leads them to dig deep to truly understand the drivers of a given business. As Bares wrote in his book:

“Factor screening on any of the aforementioned ratios suffers from a major flaw: Company value is determined by all future free cash flows discounted to the present. Rudimentary ratios fail to capture what could, should, or would happen to a company beyond the next year or two. Historical cash flows, book value, earnings, or momentum in the growth of any of these factors may not be comparable with what happens in the future for dynamic companies undergoing change. This renders these ratios useless as indicators of value. The key determinants for predicting the future earnings power of a company are actually qualitative. Factors like competitive positioning, industry growth, and the capital allocation ability of management are not adequately captured by simple ratios.”

The ultimate goal is to construct a concentrated portfolio consisting of about ten extraordinary businesses that “have the highest total return potential.” After all, according to Joel Greenblatt, statistics suggest that owning just eight stocks eliminates eighty-one percent “of the non-market risk of owning just one stock.” As a result, Bares Capital Management has been able to achieve strong returns over the years without having to take on much additional risk.

This article only reflects publicly available information since no conversation took place with Brian prior to publication. But Brian’s appearance at the Leadership Summit, his [presentation at Texas Lutheran University](#) a few years ago, and his [2013 interview with MOI Global](#) give invaluable insight into someone that was able to transition a repeatable, effective research process from microcaps up to larger companies over time.