Guide to Early-Stage Investing
How to Get in Before the Crowd

By Tyler Laundon, Chief Analyst,
Cabot Early Opportunities & Cabot Small-Cap Confidential
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Dear Early-Stage Growth Investor,

As Chief Analyst of the limited-subscription advisory, *Cabot Small-Cap Confidential*, and now, *Cabot Early Opportunities*, I’m delighted that you’ve chosen this advisory as your source for growth-oriented investing advice and ideas.

I’ve spent my entire career managing, consulting and analyzing start-up and small-cap companies. I love the work. Early-stage growth stocks are my favorite area of the market. And it’s made much more enjoyable through the sharing of ideas and insights with fellow enthusiasts like you.

On that note, at any time, please reach out to me with your questions, comments and stock ideas. My email address is tyler@cabotwealth.com.

Experience has led me to believe that the development of a superior business model is the biggest factor in determining an early-stage company’s long-term success. Accordingly, my research focuses on assessing the viability of management’s growth strategies, trends in addressable markets and achievement of major developmental milestones.

But before we get to that deep dive type of analysis, we have to uncover opportunities!

That’s what this advisory is all about. It is meant to be fun, xploratory, exciting – easy to read!

It’s not meant to offer a comprehensive view into the inner workings of any stocks covered. It is all about the search to uncover, and first-pass research into, huge potential early-stage opportunities. The ones you want to know about before the crowd.

I do enough research to qualify stocks as potential opportunities, and not just hype. But to truly have the confidence to make a big investment you should do more research on your own.

If you want more research done for you, that’s where *Cabot Small-Cap Confidential* comes in. In that limited circulation advisory I do the deep dive, institutional quality research that gives subscribers high confidence in each purchase.

But that’s a different story. Today, we’re all about finding those proverbial diamonds in the rough.

Over the years, I have developed my own process for finding these stocks. What follows is an attempt to summarize these rules so you know what is going on “behind the scenes.”

After that, I have a few tips and tricks to help you use this service.

I urge you to use all this information to become a smarter, savvier and wealthier investor.

Tyler Laundon

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10 Steps to Help You Get Into Early-Stage Opportunities Before the Crowd

Everybody has their own system for finding great stocks to build wealth. Some are more successful than others. Many systems could work better, if only the people pushing the buttons could stick with them!

Over the years I’ve developed a system that helps me identify early-stage growth stocks that can help investors achieve their long-term investing goals.

This Special Report includes a brief overview of the system I use for both Cabot Early Opportunities and Cabot Small-Cap Confidential.

It isn’t a trading system, but it’s also not for conservative, dividend investors that want to buy and hold stocks forever. It’s for relatively aggressive and engaged growth investors that like finding that young diamond in the rough before the crowd, and are willing to do at least a little digging now, and in the future, to make sure it’s legit.

Here are 10 of the most important parts of the system I’ve come up with.

Phase 1: Idea Generating Process

The first phase of the system is the Idea Generating process. This is where I go out and look for ideas that fit my investment criteria. This is fun, exploratory work that involves a lot of software screening tools, quick chart analysis and random-walk research (tracking down creative ideas, following up on thoughts from subscribers like you, etc.).

The end goal of Phase 1 is to narrow down the investable universe of early-stage companies into bite-size chunks that I can do more research on. This phase is also the primary focus of Cabot Early Opportunities. I go out and find high potential early-stage growth stocks, and share them with you.

1. Find Big Ideas That are Part of Big Trends
There are a zillion trends out there that seem good. But it’s the really big and durable trends that you need exposure to for building long-term wealth. Current examples include cloud computing and personalized health care. Really big trends are so big there’s many ways to play them. That translates into lots of stocks, M&A potential and flexibility for investors to be right on the trend, but wrong on the occasional stock, and still make money.

2. Look for Revenue Growth Above 20%
Growth is a must-have for a young company and the more the better. Beyond the obvious that revenue growth shows demand for products and solutions, these types of companies are sure to raise capital through equity raises and convertible debt offerings to fuel their growth. The pace of that growth needs to be great enough to overcome the dilutive impact of such capital raises and keep investor confidence high. If a company is pre-revenue, there should be other metrics available that show concrete progress to a value-creating goal (i.e. favorable trial data for biotech companies, rising recoverable oil estimates for oil exploration companies, etc.).
3. Look for Earnings Growth Above 20%
It should also go without saying that EPS growth is necessary. Attractive early-stage growth stocks don’t need to be profitable. But they do need to be trending in the right direction, even if there is the occasional quarter or year where EPS ticks down due to investments, acquisitions or other short-term reasons. Earnings growth that’s faster than revenue growth is a plus as it shows the business has leverage to increase profitability as it gets bigger.

4. A Strong Chart
It seems like an obvious statement to buy and own stocks that have good charts that are going up. But I still get tons of emails from subscribers wondering if an ailing stock is a “deal.” No! Sure, there are always examples of a banged-up stock that pops on an earnings report or takeover. But what are the chances you can identify these opportunities with any regularity? Life doesn’t need to be that difficult. Buying on a pullback or a dip when the longer-term trendlines are still up is fine, and often a very good idea. But don’t try to be a hero and buy the proverbial falling knife. You’re just too likely to get hurt.

Phase 2: Deep Dive Analysis
Phase 2 involves much deeper and time-consuming analysis than Phase 1. This part of the system involves analysis of SEC filings, financial statements, investor presentations, conference call transcripts and things like that. The idea here is to gain a deeper understanding of each company’s market potential, business model, growth initiatives, risks, management style, etc.

In Cabot Early Opportunities, I do a first pass of Phase 2-type research to qualify the ideas. But this is an idea-generating investment advisory, not a finely-tuned portfolio of exhaustively-researched companies. The stocks that I’ve done a full deep-dive analysis on and written 10-page institutional-quality research reports for are included in Cabot Small-Cap Confidential.

5. Look For Companies with Good Business Models
Big Trends and Big Ideas are great. But a company is only going to start gushing cash if management has developed and implemented a rational business model to seize the opportunity. The hard part for investors is that understanding a company’s business model takes time, and not all are willing to roll up their sleeves and get a little dirty. I’ll do a lot of that work for you, but you should still tune in to what I say to make sure you “get it.”

6. Invest in Durable Business Models
This is part two of the above. A rational business model is essential. But it also has to provide the flexibility to allow for innovation as time and markets change. Otherwise, investors will be in for, at best, a few tough years as management retools the business, or, at worst, left holding a beat-up stock with no hopes of recovering. Thus, we want to own companies with rational business models that can evolve. These are the ones that will truly stand the test of time.

7. Look for Repeatable Positive Events and Catalysts
Pick any stock and you can figure out at least one potential reason for it to go up. But early-stage growth stocks that deliver long-term gains tackle value-creating initiatives over and over. Examples include new products that resonate with the market and help drive deeper, more profitable relationships with customers. Also important are acquisitions that make sense, are aligned with the business model, are integrated relatively smoothly and are a more efficient way to acquire technology and talent than building from within.
8. Look for the Scarcity Premium
Value investors are scared of expensive stocks. True growth investors love them. P/E of 3,000? Bring it on! When a company is young typical valuation metrics are not the right ways to evaluate it. It’s more important to look at trends in revenue and earnings growth, valuation relative to peers, valuation relative to the stock’s history and valuation measures that look far enough into the future, when the Big Idea will be more understood by the crowd (who you can sell to if and when you wish).

**Phase 3: Accept Accountability, Now And In The Future**

The final phase of research is easy. Just realize that it’s your money, your future, and you who is punching the buy and sell buttons. The final phase closes the loop so that every investor feels accountable for the winners and losers they generate over time.

9. Have Your Own Opinion AND Seek Help
Investors are responsible for their own actions. You can read research reports from the best numbers guy or strategic thinker out there. But it’s your cash and your future. Be a skeptic, understand that even the best companies in the world are less than perfect. Your opinion of the stock’s potential is what brings the entire stock selection process full circle.

At the same time, most of us need help identifying early-stage growth opportunities, vetting them, and following along as a company matures. That’s why you’re subscribing to *Cabot Early Opportunities*. If and when you’re ready to go the extra step and get my deep-dive analysis, *Cabot Small-Cap Confidential* will be ready for you.

10. Try Not to Sell Too Early
It’s incredibly hard to hold on to stocks for a long-term. That’s especially true when talking about early-stage growth stocks because a lot of them go through meaningful corrections, then take off again. That’s why it’s so important to focus on everything I’ve just said, from big trends to business model, to durability and scarcity premium.

No single thing defines a great early-stage growth stock; it’s the sum total of many smaller things that matters, and that will give you the confidence to stick with it.

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**How To Use *Cabot Early Opportunities***

This is a very easy-to-use service.

Each issue begins with brief commentary about what I see going on in the areas of the market that are most relevant to what we do, plus a short overview of any changes in stocks that I’ve covered recently.

There is a little “Bearish to Bullish” gauge that gives you some sense of the overall investing climate for early-stage stocks.
And there is a table of the five stocks being covered in the Issue, including my “Top Pick,” which is the one I have the highest conviction in at that particular moment in time. I include a note on “Investment Type” to give you some sense of where the stock fits on the spectrum from conservative to extremely speculative. It’s all relative, of course. These are early-stage stocks, not blue chips!

The meat and potatoes of the issue includes summaries of five companies. I tell you about the company, their products, the financial trends, and the most pertinent and interesting aspects of the business from my perspective. I also cover the stock’s recent performance, and provide a chart. All of this is to give you a good overview of the opportunity.

At the end of each issue is a table of previously recommended stocks. This isn’t meant to be a comprehensive table of portfolio returns. It’s simply meant to give some sense of my latest perspective on each stock that was previously recommended.

We don’t have a model portfolio as my focus is to generate new ideas, not run a tightly-managed portfolio. That’s what Cabot Small-Cap Confidential is for. That’s a different approach requiring different strategies.

We launched Cabot Early Opportunities in September 2019. I expect the advisory will evolve some over time, as will this Guide. If at any point something doesn’t line up, make sense, or if you have any questions at all, don’t spend time wondering about it.

Just email me. My address is: tyler@cabotwealth.com

Your guide to early-stage investing,

Tyler Laundon

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