SMALLCAP INSIDER

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IN THIS ISSUE:

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The Start of Something Big

Why we created a one-of-a-kind offering

by Andrew Snyder, Editorial Director

One of the many perks of my job is I get to work with some of the industry's brightest talent. When I first talked with Derek Simon several months ago, my first reaction was clear — we need him on our team.

But I had a problem… we didn't have a niche for a guy like him.

Derek is a numbers guy. But he doesn't care what the giants of Wall Street are doing. Blue chips are nowhere on his radar. He likes small caps.

And Derek doesn't believe small caps automatically lead to the buy-and-wait strategy typical with so many growth stories. Again, thanks to his love of numbers, he has proven the small-cap realm is equally ripe for classic value strategies.

But we didn't have a newsletter for an investor like that — who puts the market's smallest firms under the same finely focused microscope as the big boys. In fact… nobody does. So we created one.

Over the past couple of months, Zach Scheidt has done a fine job of introducing Derek. Our newest team member has done a spectacular job of covering LinkedIn's recent action. But as you know, we've given Zach the tall task of managing two of our popular trading services.

The move opened the door for Derek and his brainchild… *Small Cap Insider*.

Instead of hashing out a typical biography, I sat down with Derek and asked him a few questions. I've included them here to help introduce you to your new newsletter and the brains behind it.

Andrew: *My first question is the most obvious… why small caps? What is it about these companies that gets you excited?*

Derek: Simply put, the small-cap sector is where the value's at. According to William J. O'Neil, founder of *Investor's Business Daily*, 95% of the companies that showed the greatest growth from 1953–1992 had fewer than 25 million shares outstanding when they began their ascent.

Andrew: *An important question to ask now is how do you define a small cap? There are various definitions. What's your definition and what are your parameters for* Small Cap Insider?

Derek: Generally, I will confine my evaluations to stocks with a market cap between $300 million and $2 billion. But I add the "generally" because I don't want to pass on a stock with great potential just because its market cap doesn't *exactly* fit my parameters. In other words, if I think a stock is ready to soar and it has a market cap of $2,000,000,001, I'm definitely going to let readers know about it.

Andrew: *There are all sorts of threats to today's investor. They're tossed at us until we're sick in the stomach. Let's forget the bad news, Derek, and discuss the opportunities you see. What good news is out there these days?*

Derek: I'm really glad you asked this question. Look, there is always some good news out there. Too often, I think, we get wrapped up and consumed by all the negative stuff taking place on Wall Street and in the world at large that we forget about the positive things in life.

Somebody's dusk is someone else's dawn… I feel like Anthony Robbins now, but, seriously, I think a positive

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approach beats a negative one every time. In terms of investing, I can't tell you the number of times I had a stock go down as the market went up and vice versa. So, the good news — right now and forevermore — is that there will always be winning investment opportunities regardless of the overall market direction.

Andrew: *That is interesting and I think it helps show subscribers why we used so much effort to recruit you. When I look back over the past four months and what made you stand out, I think of your statistical background and your ability to use numbers to reveal the truth. But that's me… what about you? Why do you think you're such a good fit to our team?*

Derek: I think I offer one thing that very few people on Wall Street do: a reality-based outlook on investing. I consider investing and gambling to be the same thing (provided the "game" being wagered on is one of skill — poker, horseracing and other sports — and not chance — slots, roulette, etc.).

And the way one profits as a gambler was best summed up by Kenny Rogers.

Back when his lips could move, before plastic surgery made him look like an exhibit at Madame Tussauds, Rogers sang, "You've got to know when to hold 'em, know when to fold 'em; know when to walk away, know when to run."

As corny as that sounds, it is absolutely true. Above all, good investors recognize opportunities *and* potential pitfalls. They cut their losses and let their winnings ride. They have a plan based on past success.

What they *don't* do is invest in Acme Gold Corp. simply because the price of gold has gone up, or stray into other areas where they lack competence.

My entire approach is based on finding value and/or trading inefficiencies, and I know that to be successful, my opinions must be rooted in facts — things that I can track and test. That's why you'll never hear me talk about "profit taking" or fears in Europe leading to a market decline. All of that is speculation.

My strength and the talent I bring to ISG is my ability to gather and interpret data. I won't kid myself or my readers into thinking it is anything other than that.

Andrew: *Now, I don't want to make this sound like a new-car commercial — all shine and no grease. Let's face it; we all make mistakes. For you and your career in the investing realm, what's the first that comes to mind?*

Derek: Thanks for the painful memories. Ironically, I talked about one of those mistakes in a special report we just published: "Everything You Ever Wanted to Know About Tipping Point Trades and Small Caps." I liked Books-A-Million as a trade back in the dot-com heyday, but I had no money to invest and had to watch with my hands in my empty pockets as it went from around $3 a share to $30+ a share.

However, the biggest mistake I made with money on the line was also during the "new paradigm" (remember that term?). I forget the companies' names — the mind has a way of blocking out extreme pain — but I bought a couple of stocks I really liked and arbitrarily set my stops at 10% below the purchase price of each.

Naturally, I got stopped out of both issues and they subsequently took off. One doubled in value and one tripled in value in a matter of months.

I learned a lot during the dot-com era.

Andrew: *Of course, I can't ask about a mistake without opening the door for some bragging. When you think of your investing success, what comes to mind?*

Derek: I've been very pleased with most of my recent trades, but think my handling of **Washington Mutual (WAMUQ:OTC)** was near brilliant. Having learned from a friend that WaMu's bankruptcy counsel was going to sue the FDIC, I bought WAMUQ at 17 cents in December '09.

My research indicated that a successful lawsuit was about as likely as a cast member of the *Jersey Shore* getting a Ph.D. in nuclear physics, but my technical valuation model indicated that I should, at the very least, be able to parlay the supposed "good news" into profits… which is exactly what I did.

I sold WAMUQ for a shade over 46 cents on March 8, 2010 (at press time, Washington Mutual is trading for 6 pennies a share).

Frankly, I *love* those kinds of trades because they demonstrate the power of money management, which is the cornerstone of my approach: the right stock, at the right time, at the right price.

I made a nice profit on WAMUQ, but if I were still holding it today — if I hadn't sold it when I did — not only would I have lost time (something far too many investors don't account for), I would have lost a great deal of money as well.

Andrew: *And finally, now that you're at the helm of* Small Cap Insider*, what do you see in the months ahead? Any special theme or ideas?*

Derek: Yes, I really want to offer readers two things: 1) great stocks to invest in or evaluate; and 2) information that they can use today and in the future.

Of the two, I actually think the latter is far more important, because I believe knowledge brings peace of mind. In today's market climate especially (and going back to your third question), this is important.

Regarding my sports gambling work, people often remark it is "refreshing" to hear somebody who is honest about their successes and failures. I want to bring that same frankness to *Small Cap Insider*. ■

How to Profit From a "New Millennium Lender"

I'm very excited about what I'm about to show you. Not only has this company's stock produced an average annual gain of 15.7% since its IPO in 1998, its consistency has been nothing short of remarkable.

But before I reveal the name of this Wall Street wonder, let me explain what the company does.

In short, it is what I call a "New Millennium Lender."

It is no secret that, in the wake of the subprime mortgage crisis, lenders have been about as generous with their funds as Mr. Potter from *It's a Wonderful Life* (still one of my all-time favorite holiday movies). In October 2009, MarketWatch reported that "total loans at commercial banks have fallen at a 19% annual rate over the past three months, while loans to businesses have dropped at a 28% annualized pace."

"In the first and second quarters, the U.S. private sector consumed more capital than it raised for the first time in more than 60 years," MarketWatch noted.

More recently, in a survey conducted by the National Association of Realtors, 87% of respondents (association members with an interest in commercial real estate) claimed that lack of financing affected their clients' decisions in 2011.

Fifty-nine percent said they failed to complete a transaction due to financing this year… which is where this month's featured company comes in.

The Sale-Leaseback Solution

W. P. Carey & Company (WPC:NYSE) specializes in long-term sale-leasebacks as a way to help companies gain access to capital tied up in their real estate assets. In non-accountant speak, this means WPC buys commercial real estate from a company and then leases it back to them.

This type of arrangement provides the seller with instant income that can be used to finance other operations, while the lease payments can be deducted as a business expense.

The advantages for W. P. Carey include regular rent payments from a reliable (at least that is the aim) tenant and income tax deductions for depreciation of the property, which helps to recoup some of the initial investment costs. Furthermore, since the company typically deals in net-lease arrangements, WPC is not responsible for certain taxes, building insurance, maintenance and other bottom-line busters.

W. P. Carey is the leading net-lease provider in the world, with assets of approximately $11.5 billion and contracts with more than 280 companies in 28 different industries.

Of course, this is hardly surprising.

The fact is, WPC is a pioneer in the field of sale-leasebacks — the first of what I'm sure will be many more New

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Millennium Lenders to sprout up in the years and decades to come.

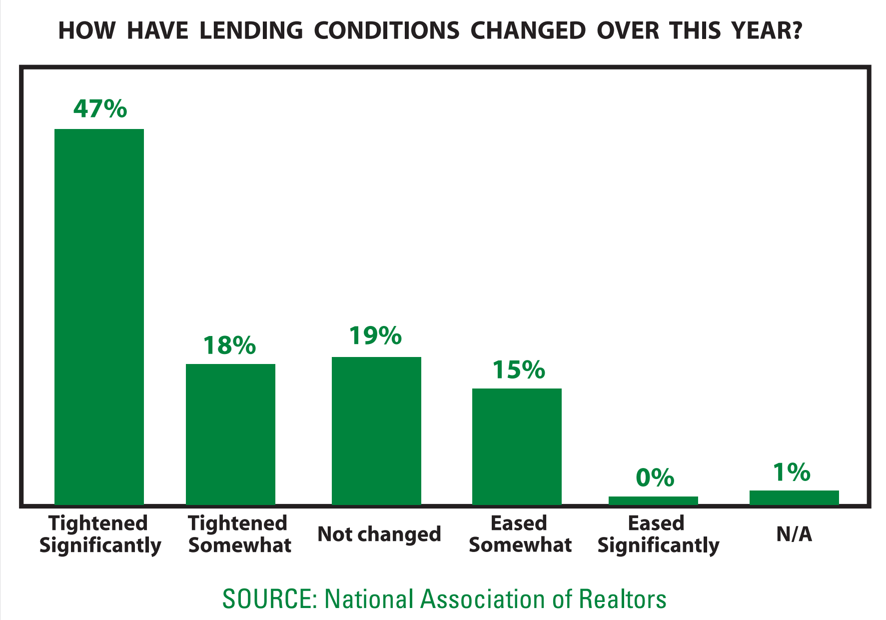
"Financial analysts have told me that in evaluations of our company, their biggest challenge is finding comparable organizations," said WPC founder and Chairman of the Board Wm. Polk Carey. "In fact, we are unique. No other company has the same business mix or approach."

The other part of the "business mix" that Mr. Carey refers to is WPC's Corporate Property Associates, or CPA® programs. These are real estate investment trusts (REITs) that the company first launched in 1979.

Presently, W. P. Carey operates three non-traded REITs:

- CPA:15
- CPA:16 – Global
- CPA:17 – Global

Combined, these REITs have assets valued at around $9.2 billion. More importantly, they provide WPC with another means of financing the companies that banks won't lend to.



Circle of Despair

Look, I am by no means a pessimist, but even I can't help but see the banking situation as a glass-half-empty scenario:

1. Following the subprime mortgage crisis, banks are reluctant to lend money.
2. Banks are reluctant to lend money, hence, businesses can't start or expand.
3. Businesses can't start or expand, thus, people can't find jobs.
4. People can't find jobs, so the economy remains stagnant.

It's doubtful that even Dante faced such a vicious circle; little wonder that we've had 33 consecutive months featuring a jobless rate north of 8.2% — the longest such stretch since the U.S. Bureau of Labor Statistics began consistently tracking unemployment data.

And this circle of despair hasn't been confined to the land of the free and the home of the brave either.

A recent Bloomberg report noted that the world job market may not reach "precrisis" levels for at least five years. A record 200 million people are out of work across the globe, while two-thirds of advanced economies and one-half of developing countries are experiencing reduced job growth, according to the International Labour Organization.

Counting on the banks to help fix this problem by lending more money to businesses is like counting on the government to… well, fix any problem (although I'm sure most would be more than happy to lend money).

According to the Small Business Administration (SBA), small-business loans totaled $607 billion in the second quarter of this year, down from $609 billion during the previous three months.

"There's still not an incentive for banks to lend," banking analyst Nancy Bush told the *Los Angeles Times*. "You can have very good financials, and they are still very reticent."

This jibes with the aforementioned NAR survey, in which 65% of the respondents said that lending conditions had tightened "somewhat" or "significantly" this year, compared to 15% who said they had "eased somewhat."

Worse yet, it's the larger banks that have been most reluctant to open their purse strings. The *Times* reported that 9.3% of small-business loans were approved by big banks this past October, considerably below the 12.8% approval rate in January.

Overseas, where there is even more dependency on banks to fuel the economic engine, the situation looks even worse. A cut in bank funding for businesses is "inevitable" in some areas, *Bloomberg Businessweek* reports.

In Spain, for example, outstanding corporate loans accounted for 915 billion euros (87% of the country's GDP), which is twice the amount outstanding in 2004, according to Bloomberg Industry data.

"Spain hasn't yet paid for the growth it enjoyed these past few years," Bloomberg noted.

New Millennium Lenders to the Rescue

Now, I said earlier I'm not a pessimist. I've been assured by self-help gurus like Anthony Robbins and Young MC that there is light at the end of the tunnel and I firmly believe that is the case here as well.

While banks are hoarding money like Ebenezer Scrooge prior to his encounter with visitors from the netherworld, New Millennium Lenders like W. P. Carey are scrambling to fill the void.

In recent years, net-lease sales have gone through the roof, with over $100 billion in transactions closed since 2009. Heck, even when the real estate market was awful — believe it or not, it is getting better — net-lease sales volume didn't drop nearly as much as sales volume in other areas.

From mid-2007 to mid-2009, net-lease property sales decreased by about 40% — half of what was experienced by the real estate industry as a whole, according to Bernard J. Haddigan, senior vice president and managing director of the national retail group with Marcus & Millichap Real Estate Investment Services.

In fact, mere days before this article went to press, WPC announced that it had acquired nine self-storage facilities through one of its REITs for about $31 million. Five of the properties, located in California, will be managed by Extra Space Storage, while the remaining four, located in Illinois, will be managed by SecurCare Self Storage.

Thirteen days prior to that, W. P. Carey obtained $24 million in mortgage financing from American General Life Insurance Company (a subsidiary of AIG) on the office building leased to Google.

Over Hill, Over Dale

And WPC hasn't only been active in the U.S.

On Sept. 29, a subsidiary acquired nearly all of the economic and voting interests in a fund owning 20 stores leased to Metro Cash & Carry Italia S.p.A. ("Metro Italy"). The deal, WPC's first — of many? — in Italy, was valued at roughly $400 million.

"The transaction marks our first investment in Italy, and continues to represent our interest in European acquisitions," said H. Cabot Lodge III, president and head of European investments at W. P. Carey.

"During the past twelve months, we have provided almost EUR 600 million in alternative financing to major companies across Europe. We are delighted to be entering a new market and to be adding Metro AG to our list of long term obligors," Cabot said.

MOODY'S/REAL COMMERCIAL PROPERTY INDEX (CPPI)

Year	*Change (%)*
2001	**0.0**
2002	**8.5**
2003	**7.1**
2004	**16.3**
2005	**14.7**
2006	**8.4**
2007	**8.3**
2008	**-14.9**
2009	**-29.2**
2010	**-2.1**
2011	**1.6**

SOURCE: Moody's/REAL; www.realindices.com/cppi_reports.htm

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Ironically, WPC's biggest deal ever also took place overseas.

In April 2007, the company attained $446 million in financing for 37 retail properties leased to Hellweg Die Profi-Baumärkte GmbH & Co. KG (your guess is as good as mine as to how that's pronounced).

In addition, the company has also provided financing to businesses in Spain (like Italy, another country with bank issues), Croatia and China. By the end of 2010, WPC had more than 950 property leases in 42 states and 17 countries.

With commercial real estate prices on the rise again according to Moody's/REAL Commercial Property Index, the number of companies seeking financial assistance from New Millennium Lenders should, at least in theory, go up.

And that's music to the ears of MPC shareholders.

Learning From History

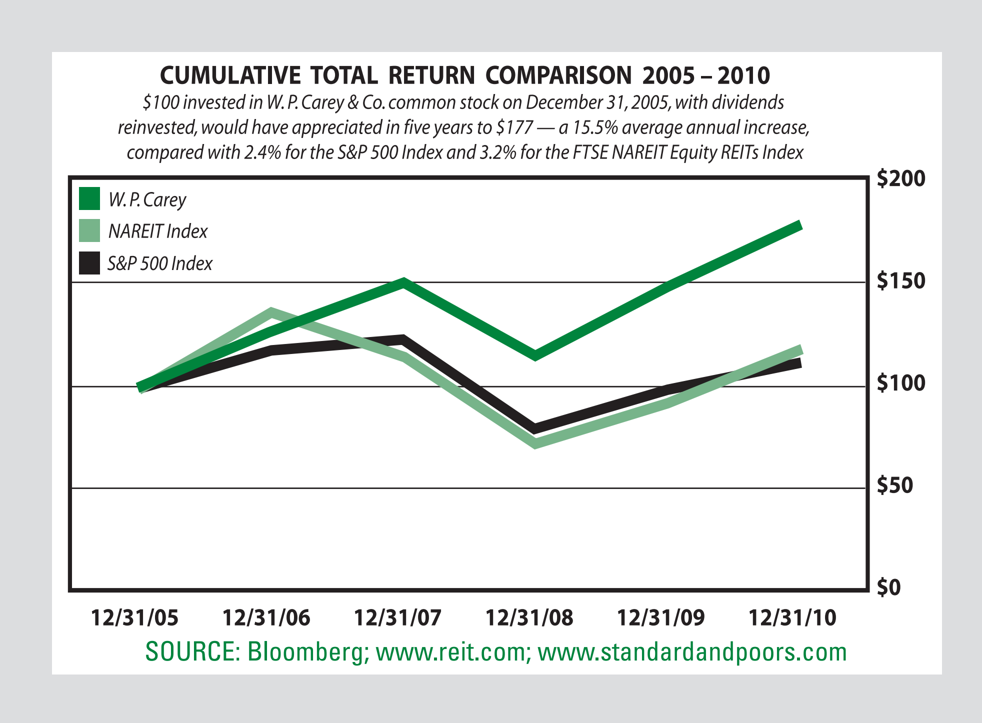
But there's more to the W. P. Carey story… much more.

While I appreciate the opportunities that stingy banks are affording New Millennium Lenders like WPC, it is a mistake to assume that opportunities alone make a company prosperous.

After all, I have the *opportunity* to play professional football — many teams hold public tryouts — but that doesn't mean I have the talent… for the record, I don't.

One of the things I love about WPC is its stability.

Despite all the turbulence in the markets recently, WPC has had exactly one down year since its public debut in 1998.



That was in 2000 when the company lost a little over $9 million. However, that red ink blot was due entirely — and then some — to the merger between Carey Diversified, LLC and W. P. Carey & Company, Inc.

For many years, W. P. Carey & Company was an advisory business controlling WPC's REITs, while Carey Diversified, LLC was a separate entity responsible for all of WPC's net-leased properties. When they merged in 2000, WPC absorbed $44 million in various charges, including $38 million for the termination of the management contract that had previously bound the two operations together.

There's something else to consider: WPC's strong dividend growth. Starting at $1.65 per share in 1998, W. P. Carey has increased its dividend offering every year. In 2010, qualified investors received distributions totaling $2.03 a share.

That growth has continued in 2011.

Announcing the company's first-quarter earnings this year, Chairman Carey said, "I hope you are as pleased as I am that W. P. Carey has again increased its quarterly cash distribution, this time to $0.512 per share for the quarter ended March 31, 2011, marking the company's 40th consecutive quarterly distribution increase.

"That is a decade of consistently rising income," Carey went on. "40 quarters, 40 increases. I am particularly proud that we were able to produce these increases during one of the most volatile economic periods in American history. I believe that the best and most accurate metric for evaluating an investment in W. P. Carey is cumulative total shareholder returns."

Beginning in 2007, WPC has consistently outpaced both the NAREIT US Real Estate Index and the S&P 500.

There's more.

The Gold Standard

Most everybody knows how well gold has performed over the past decade, but guess what — W. P. Carey has performed even better.

As stated earlier, WPC averaged a 15.7% yearly return from Jan. 22, 1998, to Nov. 14, 2011 — 1.1% higher than gold averaged over approximately the same time period (Dec. 31, 1997, to Nov. 14, 2011).

This is even more impressive when we use the Dow Jones industrial average as a benchmark. Over the past 14 years, the Dow has averaged a meager 4.4% annual return.

Even *excluding* dividends and stock splits, a $10,000 investment in W. P. Carey when it began trading back in '98 would be worth $62,821 today. A similar investment in gold would be worth $61,627.

But here's the really exciting news: There is every possibility that things will only get better for New Millennium Lenders like WPC given what we're seeing in the banking sector.

Here's What to Do…

From a purely fundamental investment standpoint, there's a lot to like about W. P. Carey. The company's margins are great, the year-over-year quarterly revenue growth is encouraging and, of course, the ever-increasing dividend is a nice bonus.

I also like the relatively modest float (26.9 million shares), which hasn't changed much over the years, and the low — but still present — level of institutional support (about 12.7% of the float).

Better still, short interest, while up just a bit from the previous quarter, is miniscule.

So, now that we've established what a great company W. P. Carey is, how do we go about making money on it? Well, according to my technical valuation model, the stock, currently trading for about $40, is priced about right at the moment.

Ideally, I would love to see the stock pull back to the $35 level, but I don't think investors would face an undue amount of downside risk should they elect to dive right in at current levels. Hence, I'll split the difference and look to buy WPC at $37.50.

Unlike most of my recommendations for *Small Cap Insider*, this one is more of a buy-and-hold type of deal, so I don't have a predetermined stop. If I see anything in the future that gives me pause, I will let readers know.

In the meantime, I plan on hitching my wagon to an emerging stock market superstar and enjoying the ride. ■

To your success!

Derek Simon
Editor, *Small Cap Insider*

ACTION TO TAKE:

Buy W. P. Carey & Company (WPC:NYSE) under $37.50 per share.

IMPORTANT INFORMATION

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Small Cap Insider Portfolio

STOCK NAME	STOCK SYMBOL	ISSUE RECOMMENDED	ENTRY PRICE	DIVIDEND YIELD	COMMENTS
W. P. Carey & Company	WPC	December 2011	NEW	5.60%	New Millennium Lender — Buy under $37.50

New Growth Investor Portfolio

STOCK NAME	STOCK SYMBOL	ISSUE RECOMMENDED	ENTRY PRICE	DIVIDEND YIELD	COMMENTS
ProShares Ultra MSCI Emerging Markets (holding 50%)	EEV	June 17, 2011 Alert	$32.07	–	New strategies for new market dynamics — Buy up to $33.50
Green Dot Corporation	GDOT	August 2011	$36.20	–	Court-ordered profits — Hold
Dunkin' Brands Group	DNKN	September 2011	$28.60	–	Move over, Starbucks — Use a Buy-Stop Order above $28.60
Gannett Co., Inc.	GCI	October 2011	$9.16	2.70%	"Rich Media" — Buy at $9.25 or better
Direxion Daily Retail 2X Bear	RETS	October 7, 2011 Alert	N/A	–	Executing our trade carefully — **Buy above $24.10**
LinkedIn Corporation	LNKD	November 2011	$78.50	–	Network connection — Set initial stop order at $61.20