Small-Cap Party Might Be Over: Under the Radar

Jake Lynch
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BOSTON (TheStreet) -- My love for food stocks is not unrequited. Lance (LNCE Quote), Cott (COT Quote), J&J Snack Foods (JJSF Quote), J.M. Smucker (SJM Quote) and TreeHouse Foods (THS Quote) -- companies I've highlighted in our "Under the Radar" series -- have jumped more than 19% since mid-June, outperforming the 17% gain of the S&P 500 Index.

Our quantitative model deemed these stocks undervalued at the time, but investors have since bid them up to excessive prices. TreeHouse, Lance and J&J Snack are trading at sizable premiums to the market.

Many investors are bracing for a market correction after stocks hit their highest levels in almost a year on Wednesday. Food stocks are usually considered steady bets because of their low volatility and resistance to economic swings. But when safe plays jump this much in a short period, it makes you question how safe they truly are.

I decided to review companies I've profiled in "Under the Radar." Since the series began in May, my picks have risen 9% on average. Sixty four of the 91 stocks I've recommended, or 70%, have gained value. Of the decliners, the average drop is 4%.

Top performers include Ebix, NVE (NVEC Quote), Broadpoint Gleacher Securities Group (BPSG Quote), Marvel Entertainment (MVL Quote) and Knight Capital Group (NITE Quote). Each climbed more than 30% since they appeared in "Under the Radar."

In total, 37% of my picks have posted a double-digit gain, with 19% rising 20% or more.

Individual investors watched their portfolios lose more than a third of their value last year as the recession took hold. It's great that so many have been able to recover some of their losses, but a sense of entitlement to further appreciation is dangerous.

The excesses of the past decade have not been cured in six months, despite what the market might indicate. A 50% rally over such a short period is unprecedented. Small-cap stocks, in particular, have had a tremendous run. We hope the party can last, but there's no harm in reducing risk and protecting some of your gains.

-- Reported by Jake Lynch in Boston.

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