THE MICROCAP Update

January 2026

January Overview

Microcaps started 2026 with a strong rebound. The Deupree James Microcap SMA gained nearly 9% in January while the Russell Microcap Index returned around 6%. The move fit several themes we have emphasized over the last year.

First, valuation and positioning still matter. Microcaps remain depressed relative to their own long-term history, and they continue to sit well below their post WW2 trendline. When capital concentrates in large caps for extended periods, it often leaves microcaps under-owned and under-followed. January showed what can happen when that imbalance starts to unwind, even modestly.

Second, rates and liquidity drove the narrative. Markets spent January repricing the path of central bank policy as inflation cooled and employment lagged. That setup matters more for microcaps than most parts of the market.

Third, increased M&A activity continues to help our space. The premiums paid to acquire a microcap company are often much larger than the premiums paid to acquire a large company. This environment favors small caps over large and active management over passive.

Finally, January reinforced a microcap reality we never ignore: market structure amplifies outcomes. Thin liquidity and limited coverage can compress returns for long stretches and then expand them quickly when flows return. That dynamic showed up clearly this month in the magnitude of both the winners and the laggards.

Top Performers in January

LSTA (+97.17%)

Lisata Therapeutics (LSTA) led the way for us in January. LSTA develops new treatments for solid tumors, like its main drug Certepetide. On January 21st they announced a deal to be acquired for $4.00 in cash, plus possible extra payments worth up to $1–$2 more per share. This offer gave about an 85% premium over the recent price.

SKYT (+74.34%)

SkyWater Technology (SKYT) makes custom semiconductor chips as the largest U.S.-based pure-play foundry. It focuses on trusted manufacturing for defense, aerospace, and other secure uses. On January 26, 2026, IONQ announced it would acquire SkyWater for ~$35 per share in a cash-and-stock deal worth roughly $1.8 billion.

RFIL (+68.86%)

RF Industries (RFIL) designs and makes interconnect products like cables, connectors, and assemblies for industries such as aerospace, telecom, and defense. RFIL beat earnings expectations with 20 cents per share (far above the estimated 8 cents) and boosted revenue 23% year-over-year to $22.7 million. Their Q4 earning call was a masterpiece. The company showed less customer concentration, stronger margins, reduced debt, and progress in shifting toward higher-value tech solutions in growing sectors like data centers. These are often hallmarks of our best investments. We remain long.

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Bottom Performers in January

CMRC (-24.35%)

Commerce.com (CMRC) runs a software-as-a-service platform that helps brands and retailers build and grow online stores. As a group the software stocks have been under heavy selling pressure as investors fear their disruption by AI. This is not a large position for us, but we like that insiders own over 30% of the company and, with about $1.70 in cash and equivalents per share, the stock looks to be cheap with some margin of safety.

INV (-22.70%)

Innventure (INV) builds and operates companies focused on sustainable technology solutions. We bought them because they own about 40% of a two-phase liquid cooling company called Accelsius, which recently added JCI and LeGrande as strategic investors at a $665M valuation. Accelsius is a private company, so the only way to buy them is to buy INV which has a market cap under $200M. Why the discount? All the data center cooling stocks sold off after NVDA announced their Rubin-class GPU racks do not require chillers. Perhaps missed by the market is the Rubin platform requires liquid cooling. There are no air-cooled configurations.

SGHT(-20.81%)

Sight Sciences (SGHT) develops eyecare technology devices, like tools for treating glaucoma and dry eye conditions through minimally invasive procedures. I actually was treated with their TearCare therapy last year. My physician gave me the option of a shot in the eyelid or a new, less invasive treatment. I swiped my HSA card and immediately started researching this stock. I liked what I saw (pun intended): excellent margins, revenue growth, strong balance sheet, a large and growing TAM and over 50% insider ownership.

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