



The Goldman Guide

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Only 3 Things Are Important This Week

You gotta be happy about the start of 2012, stock market-wise. The S&P 500 up 1.6%, NASDAQ up 2.7% and the Russell 2000 up a tad as well. And the week was even capped with surprisingly strong unemployment numbers. The economy added 200,000 jobs in December, far ahead of the 150,000 expectation, dropping the unemployment rate to 8.5%.

Every once in a while we deem it important to take data very seriously, as boring as it might be. For those who really don't care, please feel free to skip to the next two sections. They are FAR MORE interesting. For those of you interested in the 3 things that will drive the market at week's end and the early part of next week, enjoy...

Pundits, prognosticators, economists, reporters, etc. are going to have an absolute field day all week long, talking about all of the economic data coming out, plus the early start of earnings season.

In fact, there are no fewer than 15 pieces of economic data and dozens of companies releasing earnings. While I do not want to minimize the importance of a glimpse into both the outlook for major industrials like Alcoa (NYSE – AA – NR) and banks like JP Morgan (NYSE – JPM – NR.), do yourself a favor.

Tune it out. All of it. Except for 3 reports. The rest might as well be just noise, compared to these reports.

A glimpse into earnings is one thing. We have a ton of data and arguably the most important comes out on Thursday and Friday. This data will assuredly guide the slightly optimistic but fickle market.

1. Unemployment

On Thursday, initial weekly jobless claims for the most recent week are due, with the consensus figure hovering around 375,000, and continuing claims of around 3.58 million. These figures are important as last Friday's unemployment figure is not entirely believed by economists.

Expect that number to be revised lower, and as a result, the next few weeks' worth of data could tell the tale of sentiment regarding the employment picture.

At the end of the day, if we can see continued improvement that will certainly be a boost to stock market sentiment and the economy. While we are optimistic that much of the workforce reduction the country has experienced is behind us, hiring rates remain a problem. So, don't be fooled by favorable initial jobless claims data, as the continuing claims data may provide investors with a clearer picture.

By the way, while the employment picture is grim here, the European continent has reached 10% unemployment. Ouch.

2. Retail Sales

In conjunction with employment numbers, Thursday will also be the day that the Commerce Department will release retail sales figures for December 2011. Consensus is for a .4% rise.

It is simple. Good numbers = good. Bad numbers = bad.

3. Consumer Sentiment

Friday brings the University of Michigan Consumer Sentiment Survey results which are expected to pull a 71.0 on their scale, up from 69.9. While retail sales and consumer sentiment go hand-in-hand, this figure attempts to gauge how we feel about the economy. The interpretation here is to see whether consumers not just spent money during the holiday season but feel good about the economy's prospects.

And, remember, it really is about interpretation, not just the raw data itself. In any event, these figures will be a driving force for not just the end of this week, but likely early next week as well.

In Case You Missed It...

Last week we released updates on SunSi Energies (OTC:QB – SSIE – \$3.80 – Speculative Buy) and ecoTECH Energy Group (OTC:BB – ECTH - \$0.30 – Speculative Buy.)

In the case of SSIE, the stars are aligned for the stock to move higher as we get closer to a NASDAQ listing.

Out of nowhere, ECTH was awarded a five-year, \$60M+ contract from a division of a \$7 billion in revenue Canadian conglomerate to provide fresh food via its groundbreaking aquaculture and aquaponics. Our estimates are under review and we believe that ECTH could use this as a lever for similar-type contracts wins, in addition to its core, biomass-fueled power stations.

Check out these important updates: www.goldmanresearch.com.

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We happened to catch this story late last week and thought we should share the idea...

When a company substantially raises its revenue and earnings guidance it doesn't take a rocket scientist to realize that investors should take notice. On January 5th, management of Network Engines, Inc. (NASDAQ – NEI - \$1.22 – Not Rated) did just that.

NEI is a leading provider of server-based application platforms and lifecycle support services for software developers and OEMs worldwide. Originally, management projected 1Q12 (Dec 2011 quarter) revenue of \$58 – 63 million and GAAP net income of \$500K - \$1 million. New guidance calls for revenue of \$68 – 70 million and GAAP net income of \$1.3 – 1.6 million.

The higher guidance is attributed to larger orders from existing customers and the ability to source hardware components that management previously forecast would not occur, thus potentially delaying a few million dollars worth of shipments.

While the stock traded up 17% on the news, investors may expect that the current low valuation supports a even stronger move from current levels. Based on Street estimates NEI is trading around 11x the FY12 EPS forecast of \$0.11. Historically, stocks in this industry trade between 10-11x forward 12-month EPS in down years and 15x in *modestly* up years, such as this one.

At a 15x multiple on FY12 EPS, NEI would trade around \$1.75, or 35% higher than its current price. And that still could be viewed as cheap.

NEI is not just attractive on a P/E basis, but small cap value investors and technicians alike may gravitate toward this story. NEI has \$0.47 per share in cash, with no long term debt. Therefore, with the stock trading at \$1.22, the market is valuing a business that generates around \$250M in annual sales, at an absurd \$32M, or 2.5x cash.

Furthermore, the stock is now trading above its 200-day moving average of \$1.16, and given the recent news, could trend above it for some time, providing a bullish signal for chartists.

With an exceptionally strong balance sheet relative to the share price, low valuation, and favorable trends, NEI appears to offer a great deal of upside, especially if valuations rise, with little downside risk.

Until next week...



Analyst: Robert Goldman

Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

Analyst Certification

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