



# The Goldman Guide

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## Our Take

**Europe:** The guys at Standard and Poor's are at it again, downgrading no fewer than 9 European nations' credit ranking along with associated negative outlooks. France got smacked along with Spain, Portugal, Italy and others. Germany retains its AAA rating and received an affirmation regarding its outlook. The French haven't been this pissed since we (ridiculously) called French Fries "Freedom Fries" 10 years ago.

**Our take:** S&P telegraphed this move a month ago and debt yields responded in kind. On the one hand, it is a ho-hum event. On the other it is a keen reminder that the policymakers cannot fix the Greece situation. Maybe try the Grecian Formula? In the meantime, with mixed economic data, earnings reports and prospects continue to serve as the market's compass rather than this European mess.

**Earnings:** The "real" start of earnings season, with a large number of companies reporting, starts on Wednesday and will be dominated by financials and to a lesser degree technology companies.

**Our take:** Tuesday could see a little volatility because of Europe, but Wed-Thurs will be all about earnings. Four of the top six banks report, including Citigroup, Wells Fargo, BofA, and U.S. Bancorp. Plus, with Microsoft, Google, and AMD releasing results, we expect that barring surprises, investors will feel pretty good by week's end.

**Recent Stock Pick:** Charming Shoppes, Inc. (NASDAQ – CHRS - \$4.65 - NR) was recommended for purchase in late November. The stock just hit a new 52-week high last week.

**Our take:** The stock abruptly dropped once it breached the \$5.00 again, likely by short-sellers and profit-takers who know that certain funds are prohibited from buying a stock under \$5.00. With a 40% rise from our recommendation price, we suggest taking profits and selling as there is little near-term upside remaining, as evidenced by the inability of the stock to sustain a post-\$5.00 price rally.

**Cash Register is Ringing:** A few months back we highlighted the casual dining space as one we felt would make nice run. The stocks have delivered, as Panera Bread (NASDAQ – PNRA - \$146.56 – NR) and Red Robin (NASDAQ – RRGB - \$30.64 – NR) are up 31% and 25%, respectively, while Darden (NYSE- DRI - \$44.56 –NR) is down 6%.

**Our Take:** Taking some money off the table is not a bad idea although RRGB and DRI still look quite attractive. PNRA is as well, and has a forward 12-month P/E 35% lower than Chipotle (NYSE – CMG - \$354.62 – NR) despite growing at roughly the same rate.

Speaking of DRI...

## MLK's Birthday Prompts Research

I thought it timely to see how far Martin Luther King's vision has taken the African American community from a business perspective, in the roughly 44 years since his assassination in April 1969. Would he be surprised that African-Americans are running some of the country's most important companies?

I am happy to report that after Franklin Raines, the first black man to serve as CEO of a Fortune 500 company, stepped down from Fannie Mae, things have gone pretty well. (Perhaps with the exception of Merrill Lynch under Stanley O'Neal, but he was only one of the problems.)

African-Americans serve as Chairman or CEO of the following powerhouse companies:

Aetna  
American Express  
Darden Restaurants  
Merck  
Xerox

On the face of it, pretty cool, although I am probably missing other noteworthy CEOs as well, which would make the list even more interesting.

Speaking of FACE...

## Good Company/Bad Stock?

Are all good companies also good stocks? Not necessarily.

Representing "beauty" is Physicians Formula Holdings Inc. (NASDAQ – FACE - \$3.00.) Physicians Formula is an innovative cosmetics and skin care company, operating in what management refers to as the mass market prestige, or "masstige", market.

FACE is an interesting company as it traces its roots as a cosmetics company to 1937, and to this day maintains its existing brand and loyal clientele. FACE is best known for its innovation and consistent flow of new products that place the firm as one of the largest independent firms of its kind in the country. In fact, a large portion of revenue is generated from existing customers buying dozens of new products annually, with other larger, competitors, typically following suit with "copycat" offerings.

Interestingly, although the Company has been around for decades, it appears that beyond existing brand loyalty, FACE's sales could be afforded a boost with an increase in brand awareness and broader market penetration. (Maybe a name change is in order? Just an idea.)

Management has responded with broader distribution deals with Wal-Mart and initiatives with existing and new retail outlets.

On the face of it (bad pun), with a valuation of around .5x FY11 revenue, the stock seems attractive. In our view, however, it appears that management puts too much makeup on the positioning and the story for our tastes. If you review filings and other documents, the Company goes out of its way to illustrate large market share in a niche inside of a niche, which is unnecessary and overdone.

Plus, the Company just yesterday provided 2012 revenue and EPS guidance that were ho-hum. Revenue growth of 7-10% is not earth-shattering and the \$0.07 – 0.15 EPS range is too broad for our liking. Clearly, this beauty company is a solid, well-regarded firm with customers that love the product. But, the stock has too many wrinkles to be attractive.

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*.

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