Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 4 | ISSUE 16 | AUGUST 25, 2013

INSIDE THIS ISSUE:

KEY TAKEAWAYS

- *MSFT performance shows cold side of Wall Street*
- *NASDAQ embarrassment helps NYSE*
- *Europe back and exposure to the Continent could be lucrative*
- *Two 30-30 stocks on fire and leveraging the action abroad*
- *This low-price big name Europe-based stock has more gains ahead*
- *SIEB founder dies. Is it a takeover target?*

KEY STATISTICS

Index	Close	2013
DJIA	15011	15.0%
S&P 500	1664	16.5%
NASDAQ	3658	21.1%
Russell 2K	1038	22.2%

(figures are rounded)

Wall Street Can Be Brutal

Clearly, all bets are off.

Seriously, whatever happened to the old adage: "Never kick a man when he is down?"

The current CEO of software giant Microsoft (NASDAQ—MSFT) announced he will retire in 12 months and the stock rallies. No, the stock soars—-8% higher on more than 5x average daily volume. The sheer dollar amount of what was traded was equivalent to $7.8 billion worth of stock. It doesn't take a rocket scientist to see that Wall Street cheered the news. It a real condemnation of the man and what he has done at the helm. Good thing he doesn't have an inferiority complex because MSFT has lost more than half of its market value since 2000.

Then we have the NASDAQ stock market trading fiasco. Trading halted for 2 hours? Are you kidding me? Once again, market pundits are all over NASDAQ like a cheap suit given its vagaries of late. Make no mistake this will hurt it and could lead to some listing defections. While it is still the pre-eminent exchange for growth stocks, look for the NYSE to take advantage of the situation.

Frankly, if the financial industry leadership spent more time on trying to help small businesses, emerging companies, and retail investors, rather than the development, monitoring and infrastructure expansion of algorithmic arbitrage-based trading, we might have more efficiently traded markets.

We have been sounding the warning bell regarding unsustainable valuations and feeble forward earnings guidance. Clearly, we are not alone in this sentiment, as an article over the weekend on Bloomberg.com concurs with our theory. The author even pointed out that the recent trends are indicative of the final stage of bull markets. Moreover, the article notes that the current P/E multiple on the S&P 500 Index and stocks in general are the highest since the dot-com bubble. While that may be true, that sentiment reeks of a doomsday scenario versus a correction, which we deem more likely this fall. It is worth a read as we expect you will see more of these in the coming weeks.

http://www.bloomberg.com/news/2013-08-25/multiples-expanding-fastest-since-dot-com-bubble-as-rally-ages.html

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Keep Your Eyes Eastward

We have not taken much stock in the rally in European stocks these past couple of months. With the fundamental problems in the Continent just as bad if not worse than here (see unemployment), we felt that this rally may be nothing more than an extended dead cat bounce.

It looks like we were a bit hasty. Judging by upward revisions to some GDP forecasts and money flows into Europe-based stocks, the worst may in fact be behind it. At least , that appears to be the case for companies based in Great Britain, Germany, and some of the Eastern European nations. This phenomenon bodes well for some U.S. multinationals or other U.S.-based firms that derive meaningful revenue abroad. While we would not wholly shift U.S. investment to fully participate in the European rise, some exposure is not a bad idea, especially given the historically weak and volatile September and October months.

Frankly, one of the primary reasons why one of our recent 30-30 newsletter picks had a great week last week (rose 14% but peaked at 21% in just 2 days) is the exposure to growth in Europe. We had a great couple of days with 2 of the 3 new stock pick in the premium 30-30 report, as another stock, like one mentioned earlier, hit a series of new 52-week highs last week. (Shameless plug: Subscribe now to ride the wave of these stocks for just $59/year)

While the first stock we have referenced is in the consumer industry, stock number two is in the defense space and could receive a boost based on recent news from the Middle East.

Apparently, the Obama Administration is considering military strikes in Syria following the use of chemical weapons by the Assad regime against rebels, killing over 1300 and injuring thousands more. While defense stocks could benefit from these actions, we are not so sure that it will be met with much broad support in the U.S. and could look like an opportune event to deflect the current NSA scandals. Regardless, it is something to watch and could serve as a trading opportunity for small cap defense shares.

One stock that certainly has a great deal of European exposure is **Alcatel-Lucent S.A. (NYSE—ALU—$2.76)**, which graced these pages earlier this year.

The $19B in sales ALU is a leader in the communications equipment sector and trades .3x revenue. It has had a great run the past couple of months, rising 50% and is just a hair below its 52-week high and while it remains one of the most troubled of the communications equipment giants due to its cost structure (low gross margins) it may be a great way to play Europe. The Company's 2Q13 results were slightly ahead of top-line and key margin estimates and additional expansion could be in the cards, if we are right about Europe. New contracts and initiatives appear to be having a favorable impact on operating results and perhaps this new CEO can truly right the ship.

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Will This Stock Have Suitors?

With each passing year, I get nostalgic for the way things were during some very interesting times on Wall Street. We have eulogized some pretty amazing people in the investment business, and we would be remiss not to pay homage to a true trailblazer, Muriel Siebert, who passed away yesterday, less than a month from what would have been her 81st birthday.

For the uninitiated, Muriel Siebert was the first woman to own a seat on the New York Stock Exchange in 1975 and her Firm, Muriel Siebert & Co. was one of the first to change its business model from full-service to discount brokerage when the U.S. government abolished the fixed stock and trading commissions law in 1977. I missed on an opportunity to spend 1-1 time with her a number of years ago, but always respected what she accomplished in a business that was notorious for chewing you up and spitting you out. She was smart, tough, dedicated, and a visionary. Here is a link to a brief story on her life: http://www.bloomberg.com/news/2013-08-25/muriel-siebert-who-broke-wall-street-gender-barrier-dies-at-80.html

Two tidbits of info: Siebert's firm was in the same building as Bernie Madoff….when the dot-com boom was in swing, her company had a peak stock market value of $700M.

Siebert Financial Corp. (NASDAQ—SIEB $1.55) trades in the middle of its 52-week range and may actually get play for the first time in ages, now that its founder and namesake has passed away. Since the stock trades about 1000 shares daily (I know, ridiculous) stepping into it carries risk. In addition to the total lack of liquidity , the stock is tightly held, with 90% owned by Muriel Siebert. It will be interesting to see what happens as the stock was likely placed in a trust. The Company is required to have a succession plan and it would not surprise us to see the Company be sold, taken private, or ownership be divided among key Company executives, and continue in the same model, as Siebert had no spouse or children. The stock trades around book value and might be attractive in an acquisition to a firm seeking to add some critical mass to its current business.

It is hard to predict what will happen here, but it is worth watching.

Until next week...

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