Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 4 | ISSUE 28 | NOVEMBER 17, 2013

INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *Even strident supporters know that Obamacare is a disaster, but...*
- ⇒ *...the next stages could drive stocks higher...*
- ⇒ *...even though we signed up almost as many new people as the gov't websites in October*
- ⇒ *There are some stocks that benefit from the ACA as well*
- ⇒ *Big retail stocks look good right now*
- ⇒ *Not all IPOs are created equal. See why you should avoid them*

KEY STATISTICS

Index	Close	2013
DJIA	15962	21.8%
S&P 500	1798	26.1%
NASDAQ	3986	32.0%
Russell 2K	1116	31.4%

(figures are rounded)

How You Win From Obamacare

As the year winds down and the holiday season approaches it is important not to get caught up in the hype, be it too glowing or too dim when it comes to the markets.

A strong case can be made that the past few weeks have been the worst of the Obama Presidency from a political perspective, yet the stock market has achieved new highs. Even the most ardent supporters are now admitting that the Affordable Care Act (ACA) was poorly conceived and has serious and questionable implementation flaws beyond the website's horrible front-end. Plus, this front-end debacle has had a larger impact than the law's proponents care to admit. In order for the law to work and not be a mountain of red ink, the young and healthy must enroll. Unfortunately, nothing turns the 18-34 demographic off more than poor technology or requirements to pay for something they do not want.

How bad are the signups?

We are proud to announce that during the month of October, Goldman Small Cap Research signed up *7,000* new subscribers while the national Obamacare roll-out amounted to only *27,000* enrollees. This is mind blowing since we are a niche up and comer and this law is supposed to provide insurance for all Americans. It remains to be seen whether or not passage of measures like the Upton Bill and an improved website get the President and the Democrats up for election in 2014 out of the woods. The hype and excitement surrounding passage of the law three years ago has definitely been met with the harsh reality of pragmatism.

Despite its foibles, if President Obama, Congress, and the insurance companies can agree to keep the existing insurance in place for millions of Americans in 2014, we could see an extended stock market rally. After all, millions are currently scared to death that they will have to spend substantially more for health care coverage, if they can even get it, and would pull back those consumer spending purse strings in response. But, if they know that they can keep existing plans and can hold out hope that the next iteration will not be financially or medically devastating, our consumer-driven economy will be ok.

(cont'd)

How You Win…(cont'd)

Our point about the trials and tribulations of the ACA is not to upset any of our readers but to segue into another important item related to it, concerning the markets. Periodically, and especially now that Obamacare is the media whipping boy, articles like the one in the link below appear.

http://finance.yahoo.com/blogs/the-exchange/who-s-getting-rich-off-obamacare-132645613.html

The idea behind this link is to present you with some investing ideas related to the new law. Be careful not to get caught up in the hype and herd into these stocks without doing some homework. We took a look at the small cap stocks listed in the article "20 Stocks that Form an Obamacare Motif" and identified only one that we viewed as attractive with our 3-tiered recipe in the current market. The name of the company is **Quality Systems, Inc. (NASDAQ – QSII - $23.11)**. The stock is on a solid 10% 3-month accumulation run with an average of half a million shares traded per day, and looks modestly attractive from a revenue and EPS valuation perspective. The stock carries a trailing 12-month P/E of 39 and a forward 12-month P/E of 22. One 'glitch' is in the technical analysis related to the DMA which in the short-term is bearish. However, the intermediate and long term Daily Moving Average signal is definitely very bullish.

Retail Stocks Revisited

In last week's "3 Black Friday Stock" *Goldman Guide* we delved into the seasonal retail play with **Wal-Mart Stores, Inc. (NYSE – WMT)**, **Macy's (NYSE – M)**, and **ValueVision Media, Inc. (NASDAQ – VVTV)** as our picks for a nice holiday pop over the next few months. VVTV had and up and down week closing Friday right about where it opened Monday, while M continues to rock with an 8% jump this week. WMT ended up with close to a modest 1% jump after the proverbial sky fell on Thursday after WMT cut its forecast but met revenue and EPS estimates and a brief sell-off ensued. The message here is do not believe the hype when it comes to some of the negative takes on the stock.

Some of the headlines like "Why Wal-Mart Really Needs Food Stamps" over-simplify the typical clientele and demographics of the chain, as if there is not a mass of people who shop at Macy's or **Target (NYSE – TGT)** who also frequent Wal-Mart. The stock is still on a bullish accumulation trend, has a very bullish Daily Moving Average signal from short to long term, and has a very low forward P/E of 13, even with the reduced forecast. The bottom line is that WMT is a strong buy as a holiday seasonal play. The table below illustrates the point further in comparison to two other players in the mega discount retail store sector.

Company	Wal-Mart Stores, Inc	Target Corporation	Costco Wholesale Corporation
Ticker	WMT	TGT	COST
Trailing P/E	15	16	27
Forward P/E	14	13	23
Gross Margin	25%	30%	13%
Operating Margin	6%	7%	3%

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Not All IPOs Are Created Equal

Now that the Twitter (NYSE – TWTR) is over it is time to come back down to reality. While most IPO watchers would view the Twitter IPO as an enormous success, this does not mean that other initial public offerings will be met with the same rabid interest and strong post-IPO trading. One example, is the dreadful recent IPO performance of Chegg, Inc. (NYSE – CHGG - $9.13), which dropped over 20% from its IPO price in its debut earlier this week. The online textbook vendor offered 15 million shares and is a cool story but despite having five-star underwriters like Merrill Lynch and J.P. Morgan, we guess that there may have been management or business model issues that were the culprits in the drop. While Extended Stay America (NASDAQ – STAY) had a good debut, Eros International (NASDAQ – EROS) and Dynagas LNG Partners (NASDAQ – DING) also did not fare well, illustrating the performance has been mixed at best.

Given this backdrop, we caution any investors to strongly reconsider an opportunity to participate in most IPOs for the balance of the year. Here is why.

For all intents and purposes, we have about one month of business left in the capital markets calendar year. As one would expect, anyone and everyone is trying to get business closed by the middle of December since after the second week, business largely dies down. Part of that is due to the fact that Europe basically shuts down after the first week or so of December. Another reason for the manic desire to close all IPO, secondary, private placement and debt business is that institutions are relied upon to take on and invest the majority of these deals. The larger the institutional participation, the better the performance as the retail investor will be used to help in the post-deal trading and a lot of the stock or debt offered will be in strong hands.

However, since it is the end of the year, institutional investors are re-balancing portfolios, trying to get a leg up on themes, sectors, and stocks that will have a quick start to the following year, etc. As a result, we will already soon see fewer and fewer of these players commit new funds to these deals. With a lower participation rate from institutions, retail will be called upon to shore up the demand. That is not a good sign as the retail-led deals tend to lack price sustainability in most IPOs. By the way, when the merits of these deals are "pitched", savvy investors will also hear the mantra of how strong the IPO market is through the balance of the year.

As evidenced above, more often than not is it a pure exaggeration leaked to the press intended to prop up demand for these IPOs so that the deals can get closed. If they are not closed by year-end, they are at risk of not going off in 2014, or may be priced at the low end of the stated IPO price range, which is a negative sign.

The moral of the story is to steer clear of IPOs at year-end and instead focus on stocks with a solid following and strong trends that offer great returns with an attractive valuation.

Until next week….

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1498 Reisterstown Road, Suite 286
Baltimore Maryland 21208
Phone: 410.609.7100
info@goldmanresearch.com
www.goldmanresearch.com

Analyst: Robert Goldman

Rob Goldman founded Goldman Small Cap Research in 2009. Rob 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*. As an investment manager, Rob's model portfolio was once ranked the 4th best small cap growth performer in the U.S. by *Money Manager Review*. In addition to his work at GSCR, Rob is the editor of The Stock Junction (www.TheStockJunction.com.)

Analyst Certification

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