

**INSIDE THIS ISSUE:**

- Trends and Seasonality
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- The Investor Academy

**KEY TAKEAWAYS**

- ⇒ *How history is prepared to repeat itself*
- ⇒ *Pros and amateurs getting bearish—fast*
- ⇒ *Three of our eleven small cap stock picks hit new highs last week. Which one has the most upside from here?*
- ⇒ *This stock is primed to give customers a good time and provide meaningful upside from current levels*

**THE MAJOR INDICES**

<u>Index</u>	<u>Close</u>	<u>2015</u>
DJIA	17899	0.2%
S&P 500	2094	1.7%
NASDAQ	5051	6.7%
Russell 2000	1265	5.0%

(figures are rounded)

**THREE CHEERS FOR ADULTERY?**



A concept we believe is undervalued in the capital markets, and in business in general, is the power of policy, legislation, and regulation. When major

changes occur on this front, the effect on a particular line of business can be tremendous both in the short term and in the long term, with intermediate phases often exhibiting slower but comprehensive growth.

There are numerous examples but perhaps the craziest example is what has recently happened in South Korea.

“Cheaters” website Ashley Madison opened in this market in April 2014 and reportedly signed up 50,000 subscribers in its first two weeks. The government swiftly shut it down, banning the website, citing a law against adultery.

However, a court reversed the law in February and published reports suggest that 100,000 people signed up in the two weeks following the ban and the company thinks it will be its third largest market in the world! Waive legal consequences on outdated laws and new businesses are born.

In a way, the U.S. government’s shift in relations with Cuba is akin to the reversal of the 60 year-old adultery law. Ever since travel prohibitions and trade restrictions were lifted, opportunists have been on the ground in Havana trying to make a buck or three. Finding companies that are taking advantage of recent or pending policy changes can be some of the most lucrative ways to invest in companies. (More on this in a future publication.)

## ***Why Trends and Seasonality Ring True***

I was reminded of something fairly profound over the weekend. “Regardless of the centuries, ideas and events rarely change. The names of the people around them may be different but the type of person is the same and only the idea’s form may deviate.”

This thesis is brought home anytime the dreaded “I” word comes up. All the concerns in the bond market, increases in prices of all kinds of goods (eggs now for goodness sake) lead prognosticators to believe the Fed has to raise interest rates lest we be bitten by the evil inflation bug. It’s the same mantra every time. The underlying reasons and goods may change but the sentiment is the same, which is always bad for stocks. This is why we should not fight back against typical cause/effect, trends, and seasonality. With few exceptions, it can be a futile effort.

A silent effect of these concerns is the quiet uptick in small caps. When inflation is a real concern, dollars flow to high growth smaller firms whose financial performance doesn’t correlate to inflation pains inflicted upon larger firms, particularly those with high debt levels. This is good news for our stock picks and profiles. Now, we still believe weakness lies ahead. But, much like last year, we predict the latter part of 2015 could be very profitable.

The concept of “no ideas or events are new” certainly is not limited to financial markets. Want proof? Have some fun and check out this website: <http://takemeback.to/>. It will allow you to see the events of a given year, along with what was “in” with respect to pop culture.

Twenty-plus years ago the U.S. was messing with Iran—with respect to economic sanctions and of course today they are in negotiations regarding the Iranian nuclear program. Benjamin Netanyahu was on the cover of Time magazine 19 years ago today with questions of peace in the Middle East. Sound familiar?

By the way, I discovered songs about riots, killings, and black men. They range from the 1960’s through the 1990’s. I am sure that some have been written in the past couple of years as well. Further proof positive that the ideas remain the same even when the players and chairs change.

## Say What?



### The Daily Mail

<http://www.dailymail.co.uk/news/article-3122829/Milwaukee-artist-Mark-Gubin-s-Welcome-Cleveland-sign-painted-roof-confused-airline-passengers-decades.html>

I have seen this many times and it is hilarious! A great light read.

### BizJournals

<http://www.bizjournals.com/newyork/news/2015/06/11/futurist-says-embeddable-tech-beats-screen-slavery.html>

What future tech will bring us...

### Marketwatch

<http://www.marketwatch.com/story/the-number-that-makes-us-bullish-on-america-99-trillion-2015-06-12>

This is a big reason to be positive long term but not bullish, short term.

### The Wall Street Journal

<http://blogs.wsj.com/moneybeat/2015/06/12/less-is-more-what-small-investors-can-learn-from-a-pension-giant/>

I have been preaching this for years. Less is definitely more.

### Bloomberg

<http://www.bloomberg.com/news/videos/2015-06-11/facebook-is-most-likely-to-buy-twitter-zachary>

Was this an inevitability? Would it be a good move? What do you think?

## Just the Stats!

<b>Overall</b>	<b>NYSE</b>	<b>AMEX</b>	<b>Nasdaq</b>	<b>ETFs</b>	<b>Price &gt;\$10</b>	<b>Vol &lt;100K</b>	<b>Vol &gt;100K</b>
1-Month Highs	<a href="#">436</a>	<a href="#">146</a>	<a href="#">22</a>	<a href="#">268</a>	<a href="#">111</a>	<a href="#">325</a>	<a href="#">144</a>
1-Month Lows	<a href="#">426</a>	<a href="#">233</a>	<a href="#">28</a>	<a href="#">165</a>	<a href="#">170</a>	<a href="#">256</a>	<a href="#">108</a>
3-Month Highs	<a href="#">232</a>	<a href="#">85</a>	<a href="#">6</a>	<a href="#">141</a>	<a href="#">49</a>	<a href="#">183</a>	<a href="#">59</a>
3-Month Lows	<a href="#">206</a>	<a href="#">126</a>	<a href="#">12</a>	<a href="#">68</a>	<a href="#">78</a>	<a href="#">128</a>	<a href="#">50</a>
Source: www.BarChart.com							



Last week, we saw the highs outweigh the lows on a 6-month and 1-year

basis. This week we see that there is little difference (especially NYSE) between the number of new highs and new lows on a 1-month and 3-month basis. This affirms the fact that we are indeed in a narrow trading market. indicates in dangerous territory.

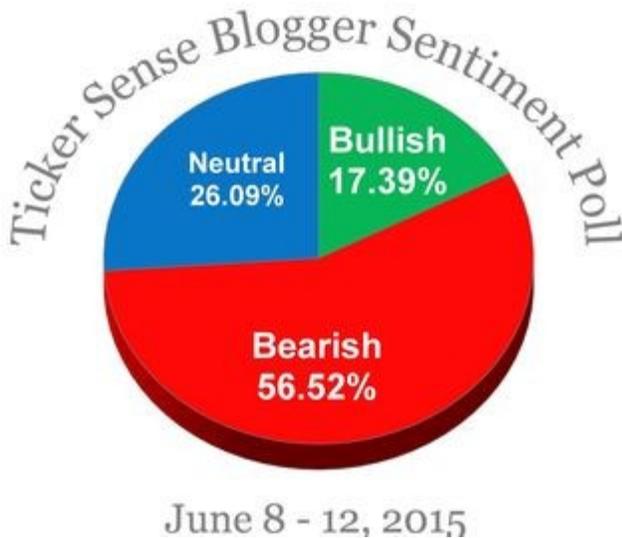
### **AAll Sentiment Survey (courtesy of AAll.com, figures rounded)**

<u>Last Week</u>	<u>Long Term Avg</u>
Bullish 20%	39%
Neutral 47%	31%
Bearish 33%	30%

Big shift this week with 7 points moving from Bullish to Bearish. Is capitulation around the corner? The number of Bulls and the total Bull/Bear spread are at their lowest points since mid-April 2013 and August 2013, respectively.

**Ticker Sense Blogger Poll** show even greater divergence with Bulls at 17%, Bears at 57% and Neutral at 26%.

## More Stats...



If you thought the AAll survey was revealing, check out the **Ticker Sense Blogger Sentiment Poll**. It shows even greater divergence with Bulls at 17%, Bears at 57% and Neutral at 26%. However, I confess I am a little surprised. Last week, the poll indicated that the Bulls were at 14%, Bears 41%, and Neutral 45%. Clearly, many on the fence jumped to the bearish side following the mid-week stock market performance and associated Fed concerns.

## Z'BigNews

Three of our current 11 small cap stock picks reached new highs last week. This is an incredible feat considering the present market malaise.

**Orbotech (NASDAQ—ORBK—\$22.19)** is now up 39.8% since our February profile and we think there is another 25% to go.

**Skechers USA (NYSE—\$110.71)** has peaked at roughly 66% in exactly three months. But, it is getting frothy in my view at 26x FY15E EPS. Plus, the recent moves have been on somewhat light volume. Perhaps another 5% or so is in the cards but that is about it.

**ZIX Corp (NASDAQ—ZIXI—\$5.02)** also hit a new high last week and is now up 35% in five months. Like SKX, upside may now be limited here but we are not ready to pull the plug.

## The Investor Academy

### Good Times Ahead Here

We profiled **Good Times Restaurant (NASDAQ—GTIM—\$9.31)** in late September as part of our *Market Monitor* blog coverage and all it has done since is rise more than 50%. The good news is that we think that higher prices are still on the menu. For the uninitiated, here's the 411.

GTIM operates Good Times Burgers & Frozen Custard, a regional chain of quick service restaurants located primarily in Colorado, through its wholly owned subsidiary, Good Times Drive Thru Inc. Good Times provides a menu of high quality all natural hamburgers, 100% all natural chicken tenderloins, fresh frozen custard, fresh cut fries, fresh lemonades and other unique offerings. Good Times currently operates and franchises 38 restaurants.

GTIM also operates and licenses Bad Daddy's Burger Bar restaurants, a full service, upscale, "small box" restaurant concept featuring a chef driven menu of gourmet signature burgers, chopped salads, appetizers and sandwiches with a full bar and a focus on a selection of craft microbrew beers in a high energy atmosphere that appeals to a broad consumer base. There are currently 13 company, franchised and licensed Bad Daddy's Burger Bar restaurants open.

With a model that operates in distinctive yet complimentary target markets, the Company appears to be on pace to generate a \$65M+ in revenue run-rate beginning in 1Q16 versus around \$28M last year, as it has additional locations open and on the hit list. Importantly, GTIM has enjoyed same store sales growth for 20 quarters which indicates a loyal customer base. The core chain has a strong and favorable brand in Colorado (and maybe directly benefits from the recreational marijuana business there) while the new upscale concept has some of the highest average sales per foot in the entire industry.

The stock trades 10% below its year high, has a negligible short float, growing institutional ownership, and is above all 3 major daily moving averages (DMAs.) Our 12 month target is \$12, which represents 2.25x the FY16 revenue run rate.

Speaking of Good Times, enjoy this blast from the past: <https://www.youtube.com/watch?v=s6gNo4-1r6k>

Have a great week!





# The Goldman Guide

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