Goldman
Small Cap Research

The Goldman Guide

October 30, 2011 Volume 2, Number 23

In This Issue

Halloween: Good or Bad for Stocks

U Pick Two

Groupon: Good for a Trade?

Halloween: Good or Bad for Stocks

I don't know what's scarier. The huge market move last week (and frankly this month) or the thought of seeing the too old to be trick-or-treating trick-or-treaters that will knock on my door Monday evening. What I do know is that the stock market is one, long marathon, and the month of October is just one leg of that marathon. And after this leg, it needs to take a breather.

That thought runs contrary to one of the popular seasonal trading strategies, known as the *Halloween Indicator*, which is the second half of the "sell in May and go away" tactic.

The *Halloween Indicator* suggests that stocks perform best from November through April, and poorly from May through October. There is a good deal of data that supports much of this theory, at least in segments, and in most years.

The major indices rose from January – April by 8-10% and tanked thereafter. Even with the double-digit increases in October, the performance of these indices on a YTD basis is below that of the first third of the year. So, the Indicator has shown once again that it works.

However, there is one caveat. With the ridiculous returns in October, returns for investors that sold in May and bought again in October rather than waiting for November would have had an amazing return.

Interestingly, the major indices are up 3-6% YTD, while the Russell 2000 is still down almost 3%. I think we will see the Russell 2000 exceed the Dow and S&P 500 when the year-=end tallies are calculated.

I remain of the belief that this October rally has been driven more by investor capitulation and external forces, rather than conviction and valuation. If this year has shown us anything, it is that ups and downs can come on a dime and move wildly, in the absence of confidence and leadership.

I foresee a more traditional stair-step type of growth in November, after a breather, through the early part of 2012, based more on an incremental rise in the belief of a recovery and normalized valuation.

So, stay tuned, and stay invested.

U Pick Two

Last week, we highlighted some casual dining stocks, along with an ETF and an out of the box stock largely dependent on a rise in the economy. Let's see how they did, shall we?

The 4 casual dining stocks were Chipotle, Panera, Darden, and Red Robin. We were bearish on Chipotle due to valuation and the already fierce run-up, and it rose about 2%, but less than the nearly 4% market rise for the week.

We are pleased that our featured casual dining choice, Panera Bread, jumped by 20%. The Company announced a fabulous quarter, beating and even raising estimates. We would still be buyers.

In honor of the performance I will treat myself to a soup and salad at Panera this week (hence u pick two in the title.)

The other two recommendations, in which we felt there was a bit more risk, were mixed. Red Robin increased by almost 7% Darden was up 3%. Red Robin releases this week and we would not be surprised to see a slightly better than expected quarter.

Mueller Industries also released results and while sales were better than expected, the huge intra-quarter drop in copper prices had a negative effect on EPS, which caused a miss. The stock declined by 9% for the week, as a result. We noted last week to buy on dips, and we still hold to it. This is an economically sensitive stock and should be viewed as an economy play, not an opportunity for a quick buck.

Groupon: Good for a trade?

In addition to stocks that have a positive effect on our stomachs, the pending Groupon IPO should remind investors of how technology and social media are impacting our daily lives.

Regular readers of The Goldman Guide know that we slammed Groupon this summer. I suspect that the IPO will perform well this week, now that modifications in the offering and the financials have occurred. Frankly, the market wants it to succeed, in my opinion.

What management and the underwriters have done is reduce the size of the offering to around 5% of the outstanding shares. This is a far cry from the typical 20-30% of ownership companies sell in an IPO, and about half of what LinkedIn sold in the spring.

This is a clear attempt to raise the valuation of the company. The valuation rise and possible subsequent increase in offering size, would be generated by investor appetite and demand, rather than the previous tactic, which was to utilize unusual accounting practices to illustrate very high growth and absolute numbers.

Look, there is no doubt it is a cool company and cool concept which has enjoyed spectacular growth and presence, by any measure. However, in the pre-IPO world, sizzle and demand are key. So, investors will overlook the absence of rational measurement or valuation tools right now. And also overlook the increasing competition from LivingSocial, Google, and others which will impair margins, along with a very fickle customer base that have loyalty, as they are simply just deal shoppers.

So, with are a ton of major and retain investors intent on getting their “group on” the post-IPO trading should be brisk and share price bid higher.

In a nutshell, while I would not view it as an investment, I think that Groupon might be a very good prospect for a trade.

Or at least a massage for 60% off somewhere.

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

I, Robert Goldman, hereby certify that the view expressed in this newsletter report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

Disclaimer

This newsletter was prepared for informational purposes only. *Goldman Small Cap Research*, (a division of Two Triangle Consulting Group, LLC) produces research via two formats: *Goldman Select Research* and *Goldman Opportunity Research.* The *Select* product reflects the Firm's internally generated stock ideas while the *Opportunity* product reflects sponsored research reports.

It is important to note that while we may track performance separately, we utilize the same coverage criteria in determining coverage of all stocks in both research formats. Please view the company's individual disclosures for each engagement, which can be found in each company-specific report. All information contained in this newsletter and in our reports were provided by the Companies or generated from our own due diligence. Our analysts are responsible only to the public, and are paid in advance to eliminate pecuniary interests, retain editorial control, and ensure independence. Analysts are compensated on a per report basis and not on the basis of his/her recommendations.

The information used and statements of fact made have been obtained from sources considered reliable but we neither guarantee nor represent the completeness or accuracy. *Goldman Small Cap Research* did not make an independent investigation or inquiry as to the accuracy of any information provided by the Company, or other firms*. Goldman Small Cap Research* relied solely upon information provided by the Company through its filings, press releases, presentations, and through its own internal due diligence for accuracy and completeness. Such information and the opinions expressed are subject to change without notice. A *Goldman Small Cap Research* report, note, or newsletter is not intended as an offering, recommendation, or a solicitation of an offer to buy or sell the securities mentioned or discussed.

This report or newsletter does not take into account the investment objectives, financial situation, or particular needs of any particular person. This report or newsletter does not provide all information material to an investor's decision about whether or not to make any investment. Any discussion of risks in this presentation is not a disclosure of all risks or a complete discussion of the risks mentioned. Neither *Goldman Small Cap Research*, nor its parent, is registered as a securities broker-dealer or an investment adviser with the U.S. Securities and Exchange Commission or with any state securities regulatory authority.

ALL INFORMATION IN THIS REPORT OR NEWSLETTER IS PROVIDED "AS IS" WITHOUT WARRANTIES, EXPRESSED OR IMPLIED, OR REPRESENTATIONS OF ANY KIND. TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW, *TWO TRIANGLE CONSULTING GROUP, LLC* WILL NOT BE LIABLE FOR THE QUALITY, ACCURACY, COMPLETENESS, RELIABILITY OR TIMELINESS OF THIS INFORMATION, OR FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, INCIDENTAL, SPECIAL OR PUNITIVE DAMAGES THAT MAY ARISE OUT OF THE USE OF THIS INFORMATION BY YOU OR ANYONE ELSE (INCLUDING, BUT NOT LIMITED TO, LOST PROFITS, LOSS OF OPPORTUNITIES, TRADING LOSSES, AND DAMAGES THAT MAY RESULT FROM ANY INACCURACY OR INCOMPLETENESS OF THIS INFORMATION). TO THE FULLEST EXTENT PERMITTED BY LAW, *TWO TRIANGLE CONSULTING GROUP*, *LLC* WILL NOT BE LIABLE TO YOU OR ANYONE ELSE UNDER ANY TORT, CONTRACT, NEGLIGENCE, STRICT LIABILITY, PRODUCTS LIABILITY, OR OTHER THEORY WITH RESPECT TO THIS PRESENTATION OF INFORMATION.

For more information, visit our Disclaimer: www.goldmanresearch.com