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The Goldman Guide

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When Up is Really Down

I am a glass half full guy. I really am. That is why I have always gravitated to the small stock arena. And I must admit that I have always disliked the eternal pessimists of the market, such as Jim Grant. It reminded me of the Chicken Little syndrome. In my world, there are times to be bullish and time to be cautious and perhaps modestly bearish.

Readers of this space know that we have been cautious for about a month. Since I got bored watching some of the college basketball games, I went back and did a little homework on market trading and activity. I discovered we may have become a banana republic. But more on that below. First, a review of why last week's market action is no big deal.

The market had a pretty good performance last week, with the Dow Jones Industrial Average (DJIA) rising over 2.5% for the week and the S&P 500 Index (SPX) breaking through the 1,400 level for the first time in four years.

The bulls were generally out in force, but truth be told, the bulk of the increase occurred on one day. That day happened to be the same day that jobless claims figures were down, prompting bulls to sing sweet songs about the economic recovery in the U.S.

Let's not start getting excited yet, folks. Last week's financial news was devoid of well, news. For the first time in what seemed like years, there was nary a peep about the continent across the pond.

(cont'd on page 2)

Key Takeaways

- ⇒ No conviction in the market
- ⇒ Investors are wise to be cautious
- ⇒ Possible window dressing?
- ⇒ Where Apple and oil go…
- ⇒ Two NASDAQ stocks defying odds
- ⇒ Proof that anything is possible

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When Up is Really Down (cont'd)

What gas prices will be soon..

Gas prices are still climbing and there is no real end in sight. I nearly choked at the pump myself last week and we have gas prices around $4.00 here, not $5.00 or even $6.00 as in some locales. Jobless claims, the primary driver of the market, likely declined because of the death of companies engaged in layoffs, rather than a real improvement. There tends to be seasonality to employee attrition which prognosticators conveniently forget, and the early part of the year is not one that has big numbers.

Although we are on a bit of an upward path, this market really has no direction. There is a push-pull between the modest bulls and the modest bears. There are few ardent supporters of either camp. Last week's trading is a perfect example of this.

On Monday, trading in the S&P 500 was by far the lowest trading day of the year and was down 16% from the average daily volume the week before. The next day, when the news came out and sent the market rocking, we reached one of the single largest volume days of the year. Interestingly, the next day, volume was even higher, yet the market barely moved.

This sends us a message that there is little conviction in buying. Moreover, we have yet to have a real mass-selling day, so we are overdue. I think we need it if we are to get higher later in the year.

There is no real valuation driver to prime this pump and eventually high gas prices will impact it, in our view. In the meantime, buy the stocks that are rising and avoid the stocks that are dropping or standing still. After we have some sort of shakeout, both bulls and bears will likely feel better regarding prospects for favorable returns.

Key Statistics

Index	Close	YTD
DJIA	13,233	9.0%
S&P 500	1404	12.2%
NASDAQ	3055	17.3%
Russell 2K	830	12.3%

(figures are rounded)

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Are We a Banana Republic?

Judging by the date on the calendar it looks like it is time for a little quarterly window dressing by fund managers. That usually means buying more of the winners and selling more of the losers.

Speaking of winners, Apple (NASDAQ – AAPL) appears unstoppable. The damn thing is up nearly 50% in the first quarter alone. It now has a market cap of nearly $550 billion dollars. Over the past 3 months it has averaged over 17 million shares a day. Yet, with news of the new *iPad* release and very bullish sentiment on the stock, average volume last week was nearly double that figure. Let's put this in perspective.

Based in Friday's trading, over $17 billion worth of AAPL stock were traded. It gets even crazier when you look at Thursday's performance, where nearly $24 billion worth of AAPL shares traded. **That means that one-third of all money traded on NASDAQ was AAPL. Furthermore, it nearly equaled the total dollar volume traded on NYSE stocks for the day.**

Ladies and gentlemen, this is not normal. At least it is not normal for a large, extremely mature and diversified financial market. This is more akin to trading in emerging markets where the top ten issues may account for half of the market's trading each day.

According to statistics gleaned from Standard and Poor's and CNBC, Apple has the largest weighting in the S&P 500 index standing at over 4 percent. Apple has a 19% weighting within S&P's S&P technology sector, which is up 19% year-to-date. When Apple is excluded, the gain drops to 14 percent. Amazingly, Apple accounts for fully 34% percent of the NASDAQ 100's gains year-to-date.

It also explains why the market, which has seemingly had little broad-based conviction, has poured in such awesome returns. This is a rally led by Apple. Look at the chart below and see how the stock's performance correlates with NASDAQ for the past three months. As long as investors believe AAPL is cheap and continue to buy the stock, the rally could continue. But, if volume begins to subside (and isn't everyone that wants to be in all in already?) or the stock declines, brace yourself.

They say oil and water don't mix. Neither do oil and fruit. And if oil rises and Apple's stock declines, ouch.

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Keep Buyin' 'Em

Sometimes stock defy the odds against them. We don't usually like to take that bet but occasionally it is the right move to be a total contrarian on a certain stocks.

Two perfect examples of this are our 2 most recent NASDAQ introductions, Autobytel (NASDAQ—$0.99) and Delia's (NASDAQ—DLIA—$1.43.)

ABTL is down about 4% since reporting its FY11 financials and providing very favorable sentiment regarding its outlook for 2012. Nonetheless, an overhang was on the stock with respect to the stock not meeting the NASDAQ minimum bid price rule. Management addressed it and noted they were confident that NASDAQ would give them a six month window to correct it. Late Friday afternoon, ABTL announced it had in did received the notice. Since it was just before the market close, it did not materially affect the stock but we believe it will early this week. Technically, once it breaks through the $1.00 level comfortably for a few sessions, it should be on its way to a 25-50% rise, on the strength of company fundamentals.

Speaking of fundamentals, DLIA has been struggling for several quarters and after changing strategies, which have not materially changed financials, the Street wrote off any comments as verbiage akin to the boy who cried wolf.

Late last week however, DLIA reported results and management provided its outlook that indicates that the new initiatives are taking hold and DLIA is in great shape for 2012. The stock is up 27% since we introduced the Company a few weeks ago and it has the legs and momentum to move higher over the next few months.

Anything is Possible

We love March Madness. It's like the American Dream. As adults, it returns us to an age of innocence where we can believe and actually witness that anything is possible. David can beat Goliath. It gives us hope. It warms our hearts. And if we are lucky, our wallets. No cynicism is present or perhaps even allowed to rear its ugly head. There is genuine joy and camaraderie that is built around the event, regardless of whether or not one is a sports fan or a sports neophyte.

It is a beautiful thing and should serve as a reminder ships can be righted even when it appears that they are doomed to fail.

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Rob Goldman founded Goldman Small Cap Research (GSCR) in 2009. Rob has over 20 years of investment and research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, he was a senior member of Piper Jaffray's Technology team. Prior to joining Piper, Rob led Josephthal & Co.'s Emerging Growth Research Group. Rob has also served as Chief Investment Officer of two boutique investment management firms, where he managed Small Cap Growth and Balanced 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 Penny Stock Junction (www.pennystockjunction.com.)

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