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The Goldman Guide

Inside this issue:

Key Takeaways

- ⇒ Mario Draghi. My hero.
- ⇒ Looks like we may get back to investing basics which will help the market.
- ⇒ Big stocks did better than small stocks. But for how long?
- ⇒ Don't commit this cardinal sin.
- ⇒ We forgot a great stock play last week, so here it is...

Breathe Easy and Buy Smart

What a difference a week makes. A week ago, traders and investors sharply sold off equities due to concerns over the possibility of a severe depression in Europe and the potential need for more bailouts. Yields collapsed in the U.S. as the European worry translated into fears of a recession in the U.S. as well. When we had more of the same early last week, along with some poor U.S. bellwether earnings reports, even I was getting depressed.

Then along came "Draghi". As in Mario Draghi, the head of the European Central Bank who basically drew a line in the sand, took control and said unequivocally that everything will be done to save the euro, which would stave off a possible depression across the pond. It is reminiscent of the early Alan Greenspan years when the former Chairman of the Federal Reserve found ways to give investors the confidence that the world was not coming to an end, despite gloomy outlooks. If he is able to pull it off, Draghi will become a legend for keeping the global economy from collapsing and stock markets from dropping.

This is actually very important because the stock market has been particularly maddening the past several months. Stocks are valued based upon the valuation of financial metrics related to an individual security or industry. Global geo-political or economic factors play a role, as do monetary policies. (cont'd)

Breathe Easy and Buy Smart…cont'd

Key Statistics

Index	Close	YTD
DJIA	13076	7.0%
S&P 500	1386	10.2%
NASDAQ	2958	13.6%
Russell 2K	796	7.4%

(figures are rounded)

But stocks were not intended to trade based upon these factors as a primary indicator. Unfortunately, even heading back into last year, performance has been dominated by Europe, global economics and monetary policy, rather than valuation and earnings growth.

For the time being, if U.S. investors reduce the importance of the European threat, and focus on domestic issues, we will have a more normalized market, such as what we have experienced the past 2 trading days.

For example, annualized GDP growth slowed to 1.5% during the second quarter of 2012, down from 2.0% in the first quarter of the year. Frankly, consumer spending was unusually high in Q1 and it dropped in Q2, which is why GDP growth slowed. The 1.5% isn't very good at all, but it is a hell of a lot better than most developed nations right now. Thus, growth should be cheered, as should valuation.

Let's face it. Consumer stocks are taking it in the chin right now, as many of the results of companies in the sector have been sub-par. The same goes for some segments of technology, notably the semiconductor space. Even some health care stocks are questionable due to the Supreme Court decision on Obamacare. Still, despite these potholes, the valuation of stocks as a whole is favorable.

Investors in the penny stock world can attest to the fact that it has not exactly been the greatest place to be in lately. Volume has been weak, conviction worse, and patience by investors has been slim to none. This is emblematic of the risk concerns at the top of the food chain, i.e. blue chip stocks. If we can feel warm and fuzzy about Europe and get back to brass tacks, risk will not be as great an issue any longer and more money will pour back into equities, including small stocks.

Breathe Easy and Buy Smart (cont'd)

Speaking of small stocks, they really lagged behind their bigger brethren last week. For the week, the DJIA rose 2.0% while the Russell 2000 Index increased by only .5%. Not cool. We are going to work extra hard to find some movers and shakers next week in our daily blogs. In the interim, after the money chases the big stocks, they will come back to us little guys. It may not be until November until they come out in full force, but when they do, we are gonna party like it's 2012, because the valuations will be so much more favorable than larger cap stocks.

Patience and prudence will be rewarded so breathe and enjoy the current run, but don't hold onto stocks for too long and buy stocks on an upswing. And please, please...if a "listed" stock did not go up the past 2 days, it is probably a sign that it won't in the near future, so stay away. Buying it would be a cardinal sin, don't you think?

We Forgot One

Last week, when we were putting together our list of small cap dividend plays, we forgot to mention one of our favorites. Don't worry. It is not too late to buy the stock.

PDL BioPharma, Inc. (NASDAQ—PDLI—$6.81) is yielding 8.8%—and ladies and gentlemen, it is not in danger of suspending it or reducing it for a few quarters at least. PDL BioPharma pioneered the humanization of monoclonal antibodies and, by so doing, enabled the discovery of a new generation of targeted treatments for cancer and immunologic diseases. PDLI owns a ton of patents in this space and licenses the tech to some of the leading pharma and biopharma firms in the world. As a result, PDLI will generate roughly $375M in revenue this year with EPS of $1.43. The margins are sick since there are basically no expenses—-hence the reason for the dividend. Revenue and EPS should be 20% higher next year, so investors could record strong capital gains and dividends. If it just trades 5x its $1.73 FY13EPS, that is a $10+ stock. What a great model.

Until next week...

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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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