Goldman SMALL CAP RESEARCH

The Goldman Guide

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *Q1 is a good barometer for a stock's financial performance for the year*
- ⇒ *Pre-announcements are common in March leading to volatility*
- ⇒ *Investment pros engage in their annual window dressing*
- ⇒ *Beware fast money at the end of the month*
- ⇒ *What will become of Apple?*
- ⇒ *Boring stocks can make you $*

KEY STATISTICS

Index	Close	2013
DJIA	14090	7.5%
S&P 500	1518	6.5%
NASDAQ	3170	5.0%
Russell 2K	915	7.8%

(figures are rounded)

March Madness

Most of us associate the term "March Madness" with the exciting annual NCAA college basketball tournament. During this tournament fans watch with glee as the 'Davids' of the basketball world play the "Goliaths", and against all odds, win a number of games in this one-and-done, winner-take-all funfest.

Much like its namesake, March tends to be madness for stocks as well. Invariably, by this point in the fiscal or calendar quarter, management teams of most companies have a sense of what the financials for the quarter and even the first half of the year could look like. As a result, in the next few weeks, we will see some of the largest and steadiest firms along with smaller companies issue press releases citing revenue and earnings shortfalls. Conversely, some large companies may issue press releases and statements at conferences that the period could result in greater than expected results.

The bottom line is that March is a critical period for most stocks as it sets the stage for the rest of the year. Companies that pre-announce poorer than expected results typically experience downward revisions and sell-offs in their respective stocks. The sell-offs in stocks that have meaningful institutional ownership could see accelerated and heavier drops due to seasonal window dressing. Mutual fund managers and investment pros don't like to be sitting with "known losers" when their portfolio holdings are listed following the end of the quarter.

So, it is not uncommon that they sell their entire positions outright, or at least a meaningful percentage. For that matter, if these pros have not yet sold their out of favor stock positions, losers could likely be gone by the 3rd week of the month. Of course, the money generated from the sales must be put to use and they are typically used to purchase stocks of newly in favor stocks. Madness, right? And, these are the pros. The stock mavens! (cont'd on page 2)

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March Madness (cont'd)

But it is not just a short-term hit that poorly performing companies must endure. In this hyper-competitive and impatient market, shares of companies that fail to meet expectations early in the year and are subject to big sell-offs often find themselves out of favor for months. Sometimes, it takes 1-2 quarters of in-line or outperformance to find favor again with Wall Street.

In the case of stocks that outperform, valuation and reasonable trading knows no bounds. This is especially prevalent with stocks that previously had little institutional ownership. The fast money hedge funds dip their toes and feet in these stocks and attempt to eke out quick gains. They bid the stocks up and acquire positions that grab the attention of Joe Retail. Then, when Joe Retail establishes positions in the stocks that have already run, the start to sell into the strength, locking in quick gains which may offset losses in the stocks that pre-announced poor results, as outlined above.

Random Thoughts

Despite reaching a new 52-week low, which is the result of a dearth of good news surrounding it and word of potentially disappointing iPhone 5 sales, we would not be surprised to see some investment pros bang the table on **Apple (NASDAQ—APPL)** later this month. The stock is down 19% year-to-date…

As usual, and as we predicted in late 2012, two of the market's best performers year-to-date were among last year's poorest performing stocks. They include **Sears (NYSE—S)** which could benefit from **JCPenney's (NYSE—JCP)** stumbles and **Netflix (NASDAQ—NFLX)** which has benefitted from new content and distribution deals, along with concerns over streaming competitor Hulu's future...

The American Association of Individual Investor Survey hit another milestone this past week. The percentage of those surveyed who are bullish dropped to 28.39%, the lowest level since the 28.12% mark in late July 2012. This is below the historically bullish average of 29% and is likely to make another bottom this month...

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Boring But Profitable Opportunity

If you don't mind a boring story, I have got the stock for you. As you read the profile, keep in mind that a company known as Retalix Ltd. stock in a similar segment was bought by NCR for a big premium earlier this year.

Insignia Systems, Inc. (NASDAQ – ISIG - $1.91) develops and sells in-store media solutions, programs, and services to retailers and consumer goods manufacturers. The Company offers a national account-specific-in-store shelf-edge advertising program called *POPSign*, its Point-of-Purchase Services (POPS) product that delivers vital product information to consumers. Additionally, the Company offers Stylus software which allows retailers to create signs, labels, and posters by manually entering the information or by importing information from a database; and laser printable cardstock and vinyl labels, to retailers for their in-store signage and shelf-edge product information needs. Insignia's customer base includes 13,000 chain retail supermarkets, 1,700 mass merchants, 7,000 dollar stores, and 200 major consumer goods manufacturers including **General Mills (NYSE – GIS), Kellogg Company (NYSE - K), Kraft (NASDAQ - KRFT)**, **Nestlé, Armour-Eckrich and Ocean Spray.**

Last week, ISIG announced its 4Q12 and FY12 financial results and results were solid. For the year, revenue grew to $20.2M, up from $17.2M in 2011. The major financial highlight from the results is that the Company has now been profitable for two straight quarters after a rough start last year and still has over $20 million in cash to put to use in 2013. Gross profit margin increased sequentially from 42.1% to 44% from 3Q12 to 4Q12, which is a major positive and bodes well for 2013 Looking ahead, with 600 new stores in the mix and strong sales visibility for 1Q13 according to ISIG's CEO, prospects appear bright.

What does this have to with Retalix? Both companies play in the same sandbox, although the smaller ISIG is more focused on the front-end and Retalix is lies more in the back-end. Like the early Retalix, ISIG does not trade a great deal (under 15,000 daily) and is not the most exciting stock on the market. However, like Retalix, which was just bought by NCR for $650M, we think that as ISIG gains critical mass, it too will get on larger firms' radar screen. At current levels, ISIG trades less than 1x 2012 sales. In contrast, ISIG was acquired at a valuation of 2.4x revenue. If ISIG was afforded a valuation of only 1.8x sales, the stock would be trading over $2.60 per share, or a 36% premium to the current share price. We believe that ISIG will achieve a much higher valuation as the year progresses, and that it will punch through its 52-week high of $2.32 on the way toward the $3.00 mark.

Until next week...

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