

INSIDE THIS ISSUE:

Quick Returns... p. 2

KEY TAKEAWAYS

- ⇒ Gov't shutdown and pending debt showdown will soon be over
- ⇒ Until then, one has to approach stocks with an eye for a trade
- ⇒ Trade stocks you know very well
- ⇒ Chase big movers early, stay away late
- ⇒ Know when and what will drive a stock based on event timing
- ⇒ Sometimes 2 stocks can be winners for the price of 1 when events are related to each other
- ⇒ Perfect example is RCMF and SWRL this week

KEY STATISTICS

Index	Close	2013
DJIA	15237	16.3%
S&P 500	1703	19.4%
NASDAQ	3792	25.6%
Russell 2K	1084	27.7%

(figures are rounded)

How To Make a Quick Return

Another week, another few days of the government shutdown and the closer we will come to a debt ceiling agreement. It looks like stocks had a case of PME (Pre-Mature Excitement) last week as no deal was concluded and the weekend was not any better.

Still, I will venture to say that while the next couple of days could be a little scary, the market could be looking a bit better at the end of the week, as compared with the beginning. This assumption is based upon the fact that some of the uncertainty that is a bit of an overhang is lifted. Of course we still have earnings reports, but we will touch upon that later.

Last week, we introduced *Top Ten Ways to Invest Now*. Given where we are right now, we recommend doing something which is a bit of a departure from our typical ideas. This week is all about quick returns and here is how to generate them—but be aware that these ideas are fraught with risk.

1. *Play Your Favorite Names.* We are in an environment that is a bit schizophrenic and it is reflected in the way stocks are trading. So, what should you do? Everyone has their favorite stocks that they watch religiously, right? More than likely, you know how the stocks trade as well because you have been following them closely for a very long time. So, trade them! Make a little here, and make a little there, in preparation for pretty steady and strong moves later this quarter.
2. *Be a Chaser, not a Follower.* I can't even believe I am suggesting this. But, if you chase stocks that are moving big time early in the day's trading and trade out of them later in the morning, you could make more than a few bucks. Moreover, be wary of even consider touching big movers once the afternoon hits, unless the stock has already given back gains and begun to pick up, incrementally. If you are aggressive on the buy and sell side, the tactics can work. If you are passive, it is less likely to succeed. I realize I am advocating day-trading, but every once in a while it is not a bad idea to step out of one's comfort zone.

(cont'd)



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Quick Return...² (cont'd)

3. *Know When a Trigger is Coming.* Yes, the cliché knowledge is power is apropos here. The worst thing that can happen to an investor or trader is to be blindsided. One has to know when events are coming and what will drive a stock in either direction. A great example of this is the pending 2Q14 news for 2 related stocks on Tuesday, after the close. Rocky Mountain Chocolate Factory (NASDAQ—RMCF—\$12.60) is a major producer of premium chocolate candies and other confectionery products. The Company also owns 60% of U-Swirl (OTCQB—SWRL—\$0.86), operator and franchisor of self-serve frozen yogurt cafés. If the quarter is a good one for these stocks, and guidance is solid, these underfollowed but potentially high-performing stocks present an opportunity for the prepared investor. If not, we would stay away. Still, we are pretty confident that some real gains are to be had here, despite the market risk and risk of higher chocolate ingredient costs.

Here is a little background on a situation that offers 2 related stocks.

Halloween is around the corner and it might be an opportune time to profile a stock that is well-positioned to benefit from both the Halloween and year-end holiday season. Or, in other words, maybe now is the time to highlight a stock primed for a short term trade. RMCF typically produces approximately 300 chocolate candies and other confectionery products, using proprietary recipes developed primarily by its master candy maker, along with up to 100 specialty products during key holiday seasons. Approximately 40% of the products sold at Rocky Mountain Chocolate Factory stores are prepared on the premises. All told, RMCF has 6 company-owned, 59 licensee-owned, and 294 franchised Rocky Mountain Chocolate Factory stores operating in 41 states and abroad.

SWRL and/or its franchisees operate 90 self-serve frozen yogurt cafés in 25 states, including some co-branded locations with RMCF. Earlier this year, SWRL acquired frozen yogurt café assets, franchise rights and certain other assets from Rocky Mountain Chocolate Factory, Inc. in exchange for a 60% controlling ownership interest in the company.

In our view, both stocks are a sweet deal at current levels. Looking at the big picture, ever since the U-Swirl spin-off, both companies have recorded improved operating performances. On a company level, RMCF has enjoyed increasing sales due to its expansion/franchise strategy and with a more direct focus on confectionary products, is reporting greater profitability as well. SWRL just recently announced the acquisition of a smaller rival, which increases its number of locations by over 30% and adds 2 new states to the company's reach. Given the highly fragmented nature of the industry we expect more deals in the future.

RMCF trades around 2x revenue and we expect it to break through its \$14 high soon and it could happen this week. Likewise, SWRL is growing like a weed both organically and through acquisition and appears set to break through the \$1.00 mark, which would surpass its year high of \$0.98.

Until next week...



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1498 Reisterstown Road, Suite 286
Baltimore Maryland 21208
Phone: 410.609.7100
info@goldmanresearch.com
www.goldmanresearch.com

Analyst: Robert Goldman

Rob Goldman founded Goldman Small Cap Research in 2009. Rob 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*. 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 The Stock Junction (www.TheStockJunction.com.)

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