



# The Goldman Guide

VOLUME 5 | ISSUE 26 | JUNE 29, 2014

## INSIDE THIS ISSUE:

Top 3 Predictions for Q3  
USA! USA! USA!

### KEY TAKEAWAYS

- ⇒ *The short holiday week will mean a little volatility for a change*
- ⇒ *Big caps soundly beating small caps with NASDAQ the strongest performer*
- ⇒ *Sector weightings among indices portend changes ahead*
- ⇒ *Here are 3 predictions for Q3 including what to buy and what to sell*
- ⇒ *In honor of the 4th of July holiday this small cap tech stock is the most patriotic stock we could find—and it is a takeover target that just received a new Buy rec*

### KEY STATISTICS

Index	Close	2014
DJIA	16852	1.7%
S&P 500	1961	6.1%
NASDAQ	4398	5.3%
Russell 2000	1190	2.2%

(figures are rounded)

## REVIEW AND PREVIEW

Well folks, this week not only concludes the second quarter of 2014 but it will be a short, volatile week, given the Independence Day holiday on Friday. We expect volume to get weaker after Wednesday with volume very light on Thursday afternoon. With fewer market players around volatility even if it is mild, will be a part of this week's trading.

Although the quarter isn't yet officially in the bag, here are some interesting tidbits about the period:

*The S&P 500 Index will close the quarter up 4-5% even though it dropped 3% early on and peaked north of 5%, and that was just a few days ago. So, we started on a poor note and ended near the highs.*

*Conversely, the Russell 2000 Index will likely end the period near its high of the quarter yet will be essentially flat despite dropping by 7% on a few occasions.*

*The Russell Microcap Index is the only one of the major indices to decline during the period.*

*Seven of the top ten performing Dow Jones indices were in transportation and energy. These seven rose an average of 15%.*

*The best performer of the key broad indices is the NASDAQ Composite which is up 30% in the past 12 months. The Dow Jones and Russell 2000 are both up 22%.*

*It is hard to believe that we still talk about the high valuations afforded small stocks yet the Russell 2000 Index is up around 2% YTD versus 6% for the S&P 500.*

## Top 3 Predictions for Q3: The Weighting Game

Last year the July performance of the Russell 2000 Index caught almost everyone by surprise. We don't want to be caught with our pants down again so after a deep market and stock analysis we have arrived at 3 predictions for Q3. During the due diligence process, we discovered some interesting dichotomies between the S&P 500 Index and the Russell 2000 Index sector weightings. The S&P 500's largest sector weighting is the IT sector (around 19%) but it ranks only 3rd in the Russell 2000. Plus, Financials comprise 25% of the Russell (number one slot) but only 16% of the S&P 500.

Does this mean that the S&P 500 did so well because it was weighted in tech and the Russell underperformed because it is financials-heavy? What does it all mean for the future? It is hard to say but we suspect there will be some changes going forward and shifts in the weightings could portend the direction of the sectors and indices.

### **Prediction #1: Buy Healthcare, especially Biotechs:**

As we alluded to last week, biotechs are a good place to be this summer. Key indices are off about 7% or so from the highs earlier this year although they had a strong June (up 5%). Fundamentally, the M&A activity, series of positive R&D results, and valuation are all positives as are the charts, which look great and the momentum is likely to continue. Healthcare as a sector did not do as well recently but the current weighting in the S&P 500 Index is primed to rise from its number three spot, likely led by biotechs. With more biotechs taking their places in the small indices beginning this month, small companies should do well and their weightings will rise from the current number four slot in their respective indices.

### **Prediction #2: Big Tech Will Trail Little Tech**

Big technology stocks have been on a major upswing, helping lead stocks higher. In fact, the information technology segment of the S&P 500 Index now comprises nearly 20% of the index—higher than the other ten industries. At its peak, technology comprised 25% and that was at the top of the Internet bubble phase. It looks to me as if we are getting “toppy” as we are reaching nosebleed levels. Historically, tech has a hard time in Q3 anyway (last year notwithstanding.) Interestingly, in some segments, the valuations for smaller tech are more favorable the smaller you go, while the bigger stocks trade at higher multiples. With financials comprising over 27% of the Microcap Index and tech in 3rd at under 13% something has to give and we think tech rises.

### **Prediction #3: You guessed it. Financials will fall.**

With weightings out of whack, the economy still sputtering, monetary policy unclear, and the

## ***USA! USA! USA!***

Not only is America celebrating Independence Day this week, but soccer fans are also cheering the U.S. soccer team's success in the World Cup. With all of this patriotism, we could not help but profile the most patriotic small cap stock we could find—and it is a takeover candidate

**USA Technologies, Inc. (NASDAQ—\$2.02)** is a proven leader in the fast-growing market for secure Cashless Transactions Unattended for Point-of-Sale, Networked Services, and Energy Conservation Solutions. The company's products enable owners and operators of coffee brewers, vending machines, kiosks, laundry equipment, and other self-serve appliances to wirelessly network these assets online. USAT's ePort solutions then allow the machines to accept credit and debit card payments, and pre-paid cards. Owners and operators can also remotely monitor machine performance online. USA Technologies has been granted 87 patents and has agreements with Verizon (NYSE – VZ), Visa (NYSE – V), and others.

With an installed base of 244,000 connections to machines, the company's financials and market penetration have been solid and very consistent in recent quarters. For the third quarter of fiscal 2014, revenue of \$10.4 million grew by 16% from the same period a year ago. Revenue from license and transaction fees, driven by recurring monthly service fees, rental program fees and transaction processing fees, represented 86% of revenues in the third quarter and grew by 19% compared to the same quarter in the prior year. Plus, additional license and transaction fee revenue associated with a number of new connections not fully booked in this quarter bodes well for future revenue growth and cash generation. As a result, USA Technologies is on track to record more than \$40 million in revenue for the current fiscal year.

Trading roughly 2x this fiscal year's sales, the niche leader is certainly an attractive candidate for an acquirer seeking to buy instant market share in the fast-growing secure cashless transactions market. However, what makes USAT an incredibly valuable M&A candidate is its \$21.7 million deferred tax asset, generated from its cumulative net loss carry forward. This huge asset is sure to catch the eye of any acquirer in the same or similar field that can use the asset to offset future taxes. Considering that the asset currently represents over one-fourth of the total market value of the company, it is easy to see that a 50% takeover premium for these shares is a real possibility for the right buyer.

Absent an executed M&A deal, I believe that USAT is an easy 25% gainer from current levels based on its current growth trajectory. It doesn't hurt that on Friday USAT was rated a new Buy by H.C. Wainwright with a \$2.65 target.



# The Goldman Guide

1498 Reisterstown Road, Suite 286 Baltimore Maryland 21208 Phone: 410.609.7100

[info@goldmanresearch.com](mailto:info@goldmanresearch.com) [www.goldmanresearch.com](http://www.goldmanresearch.com)

Launched in May 2010, *The Goldman Guide* is a free weekly publication of Goldman Small Cap Research and is written by Founder Rob Goldman with contributions from the GSCR contributor team. This non-sponsored investment newsletter seeks to provide investors with market, economic, political and equity-specific insights via an action-oriented, straight to the point approach. No companies mentioned in this newsletter are current sponsored research clients of the Company or its parent, unless noted. With rare exceptions, all companies or investment ideas mentioned in this publication are publicly traded stocks listed either on the NYSE or the NASDAQ. Goldman Small Cap Research members and contributors' bios, certifications, and experience can be found on our website: [www.goldmanresearch.com](http://www.goldmanresearch.com).

## **Disclaimer**

This newsletter was prepared for informational purposes only. *Goldman Small Cap Research*, (a division of Two Triangle Consulting Group, LLC) produces non-sponsored and sponsored (paid) investment research. Goldman Small Cap Research is not affiliated in any way with Goldman Sachs & Co.

The Firm's non-sponsored research publications category, **Select Research**, reflects the Firm's internally generated stock ideas, along with economic, industry and market outlooks. In virtually all cases, stocks mentioned in **Select Research** offerings are listed on the NYSE or the NASDAQ. Publications in this category include the weekly newsletter *The Goldman Guide*, daily Market Monitor blogs, Special Reports, and premium products such as *The 30-30 Report*. Goldman Small Cap Research analysts are neither long nor short stocks mentioned in this newsletter.

**Opportunity Research** reports, updates and Microcap Hot Topics articles reflect sponsored (paid) research but can also include non-sponsored micro cap research ideas that typically carry greater risks than those stocks covered in Select Research category. It is important to note that while we may track performance separately, we utilize many of 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 company-specific **Opportunity Research** reports, updates and articles.

Goldman Small Cap Research has not been compensated for any content in this issue.

All information contained in this newsletter and in our reports were provided by the companies mentioned via news releases, filings, and their websites or generated from our own due diligence. Economic, market data and charts are provided by a variety of sources and are cited upon publication. Stock performance data is derived from Yahoo! Finance. Our analysts are responsible only to the public, and are paid in advance to eliminate pecuniary interests, retain editorial control, and ensure independence.

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, other firms, or other financial news outlets. *Goldman Small Cap Research* relied solely upon information provided by companies through 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, update, article, blog, 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 newsletter does not take into account the investment objectives, financial situation, or particular needs of any particular person. This 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 FINRA 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 PRES-