Goldman SMALL CAP RESEARCH

The Goldman Guide

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *Fear has gripped the market in a variety of sectors*
- ⇒ *DIS could be a big winner due to Star Wars release*
- ⇒ *Apparel stocks, especially MW are to be avoided*
- ⇒ *Take profits in SWHC*
- ⇒ *CMG will continue to drop and take a long time to come back.*
- ⇒ *PNRA and LOCO could be beneficiaries of the CMG disaster*

THE MAJOR INDICES

Index	Close	2015
DJIA	17265	-3.1%
S&P 500	2012	-2.3%
NASDAQ	4933	4.2%
Russell 2000	1124	-6.7%

(figures are rounded)

The Fear Awakens

There is a lot to talk about this week, both good and bad but we will attempt to do so in as succinctly as possible.

How We Got Here

We just can't win. Fear has awakened and is now gripping us. The 16% month-to-date drop in oil (including 10% last week) crushed stocks as fear over an economic slowdown, depression/potential bankruptcy for oil companies, etc. We recently posted a link to a story that the junk bond market was about to reach a breaking point, thus impacting stocks. Add in the looming Fed decision this week and investors are scared. (Of course the whole ISIS/domestic terrorism thing doesn't help.)

The Week Ahead

It is hard to believe that a market that was looking so good is now looking like crap, with all major indices trading below their DMAs and even M&A can't stem the tide. Whereas the consensus of a 0.25% interest rate hike later this week was a good thing, some are now thinking twice. We still believe it is a good thing, although volatility to the downside will rue the day with mixed volume until a consensus can be formed regarding future moves as well as some oil price stabilization.

So with all of this fear and uncertainty, what should you do? The only "certainty" we see is that the new Star Wars: The Force Awakens flick, put out by **Disney (NYSE—DIS—$108.04))** is going to break all kinds of records and could take the stock back toward its 52-week high, a 12% rise. Looks like a Buy at current levels.

The Stock Market Today

U.S. Stock Market Index Performance as 12/11/15								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	17,265	18,351	15,370	5/19/15	8/24/15	5.9%	12.3%	-1.7%
S&P 500	2,012	2,135	1,867	5/20/15	10/17/14	5.8%	7.8%	-2.5%
NASDAQ	4,933	5,232	4,242	7/20/15	10/17/14	5.7%	16.3%	-0.9%
Russell 2000	1,124	1,296	1,079	6/23/15	10/20/14	13.3%	4.2%	-7.2%
Average						7.7%	10.1%	-2.1%
Source: www.BarChart.com, Goldman Small Cap Research								

Our **Smith and Wesson (NASDAQ—SWHC—$23.45)** and **Sturm, Ruger (NYSE—RGR—$59.29)** picks from last week's issue were on target, rising 23% and 11%, respectively, despite the huge drop in the NASDAQ Composite. Take some short term profits in SWHC if you have them, but don't sell the entire position as this segment still has real legs.

Our **Avon Products (NYSE—AVP—$4.00)** profile may not have yet made a move but there are some interesting things going on in the consumer space that could weigh on stocks.

With temperatures in the 70's on the East Coast this weekend, apparel sales of winter clothing haven't even started yet, stifling the shares of companies in the space, including major department stores. These stocks are taking a bath now and will continue to do so. One company in particular has given us a blueprint on how to screw up a good acquisition. **The Men's Warehouse (NYSE—MW—$14.81)** bought Jos. A Bank Clothiers about a year ago and the Street assumed it would be accretive. Since some genius in management decided to do away with the ubiquitous and hilarious buy one get 7 free ads that traffic and sales at the unit are down big time, and so is the stock, dropping by nearly 30% in the past 3 weeks. Stay away from this dog of a stock.

PNRA Benefits From CMG's Problems

As noted above, the fear is palpable and has struck the darling of the fast casual dining industry, **Chipotle Mexican Grill (NYSE—CMG—$565.00)**. Of course it is of their own doing. The E.coli and norovirus outbreaks all over the country has already resulted in customers fleeing. The lines are now virtually non-existent and it could take 6 months to a year or more before things stabilize, judging by similar issues at other national chains. Therefore, even though the stock is down 26% from its year-high, it is now trading 10% above its year-low and looks like it will drop well below the $515 level. Here's the rub. The Street is forecasting 10-11% top-line growth for 2015 and 2016 and we think that is too optimistic. Moreover, even though EPS forecasts for net year have been reduced by 17%, it is just the tip of the iceberg, since it still trades 33x FY16 EPS.

Since consumers still love the concept, who will be the beneficiaries of the **CMG** hell?

Panera Bread Company (NASDAQ – PNRA - $190.35) is a national chain that offers fresh baked goods, made-to-order sandwiches, soups, salads, pasta dishes, custom roasted coffees, and other complementary products through on-premise sales, as well as provides catering services. Panera is definitely an upscale fast food dining experience offering high quality food for reasonable prices, something Chipotle customers demand. **PNRA** looks great from a technical perspective with short, intermediate, and long term EMA indicating a very bullish signal and low short float of 9%. Additionally, in an industry where margins are thin, the Company is performing above the industry averages in gross margin and operating margin coming in at 33% and 10% versus 30% and 8% respectively. Look for a price target of $210 in 2016 for **PNRA**.

If you are looking for a small cap Mexican restaurant play, **El Pollo Loco Holdings, Inc. (NASDAQ – LOCO - $12.43)** may whet your appetite. The regional chain operates 420 Company-owned and franchised restaurants in Arizona, California, Nevada, Texas, and Utah offering individual and family-sized chicken meals, Mexican-inspired entrees, sides, and, alternative proteins. **LOCO** has a five year PEG ratio of 1.2 with revenue forecast to grow at a steadily at 4% over the next two years putting the forward P/E at 17 versus the trailing P/E of 21. Additionally, the Company has hit on EPS four quarters in a row. At current levels, the stock trades at a 2016 P/E that is half that of **CMG**. We think **LOCO** can climb to $15 early in 2016.

Say What?

Great info, insights, and hard-hitting stories make up this week's *Say What?* feature...

International Business Times

http://www.ibtimes.com/isis-declining-despite-paris-attacks-islamic-state-group-losing-ground-struggling-2223456

Seems a bit optimistic to me. You be the judge.

Bloomberg

http://www.bloomberg.com/graphics/2015-star-wars-the-force-accounted/

If you are a Star Wars fan, this detailed graphic is for you.

The New York Post

http://nypost.com/2015/12/12/voice-of-allstate-ads-being-wooed-for-new-tv-commercial/

It's just weird that this is newsworthy. Shows you the reach tv still has on us.

USA Today

http://www.usatoday.com/story/money/markets/2015/12/13/tips-investing-stocks-2016/76726380/

Simple and accurate.

ZeroHedge

http://www.zerohedge.com/news/2015-12-13/stick-bull-indeed-10-out-10-barrons-experts-again-predict-sp-will-rise-10-2016

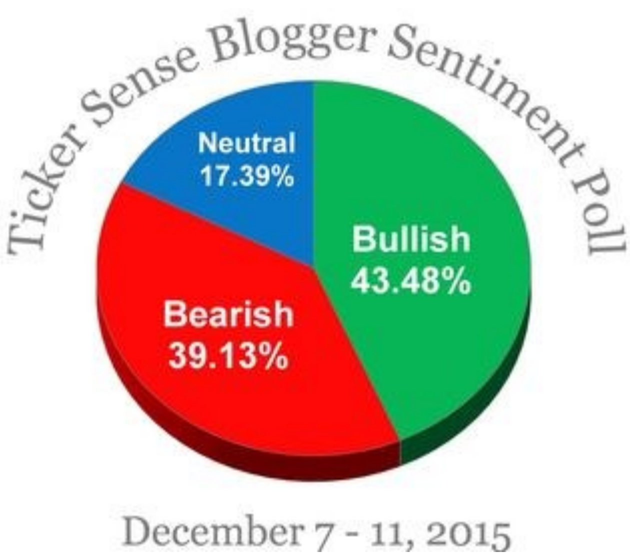
Saved me the trouble of cutting and pasting...

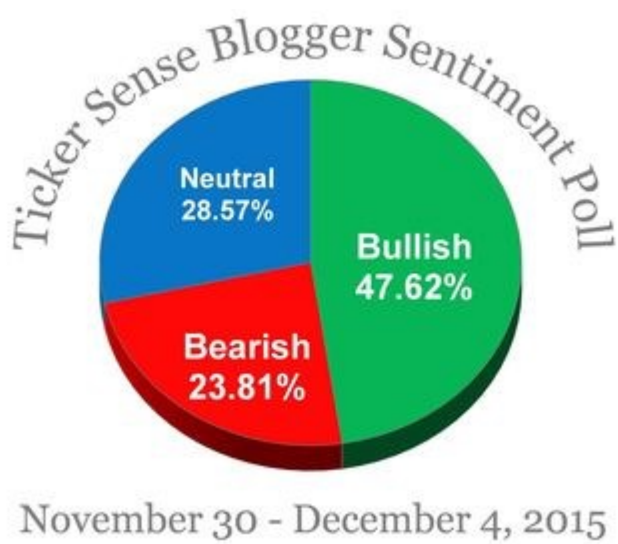
Just the Stats

AAII Sentiment Survey (figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	29%	30%	*39%*
Neutral	42%	49%	*31%*
Bearish	30%	21%	*30%*

And we thought bulls would be leading the pack. We certainly understand the bearish ad neutral bias at this stage. However, once the interest rate issue is behind us, I believe that the last two trading weeks of the year should be pretty good and this current situation will be a memory. Moreover, there is more value in key sectors and investment categories than most people realize, which will bear themselves out soon enough.





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