The Goldman Guide

Goldman SMALL CAP RESEARCH

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *Apparently the market strategists know nothing. Better to be glass half full then doomsday investor*
- ⇒ *Stock buybacks to take a breather. Equities to be driven by earnings now*
- ⇒ *Window dressing done which makes sold-off stocks with big earnings growth expectations very attractive*
- ⇒ *We profile a small cap health care stock down 11% YTD even though EPS is growing like a weed and estimates are on the rise*

THE MAJOR INDICES

Index	Close	2016
DJIA	17602	1.0%
S&P 500	2050	0.2%
NASDAQ	4796	-4.2%
Russell 2000	1102	-3.0%

(figures are rounded)

The Improbable...

When are we going to learn? About six weeks ago, the stocks hit a new low and the doomsday network was in full swing. Some prognosticators were calling for $20/ barrel oil. Investors may not have been panicked, but we were all shaken—big time.

This past week, the Dow Jones Industrial Average closed positive for the year and oil reached around $42/barrel, in intraday trading. So much for doomsday.

Have any of you watched the wall-to-wall college basketball games these past four days? How many times have we seen the improbable become probable? I am not trying to equate stock market performance with basketball games. The lesson to be learned here is to not panic and use rational thought rather than emotions in approaching investments.

Look, stocks may have now peaked, according to some forecasters. We, however believe that the oil push has run its course for the most part and earnings, beginning in Q1, will begin to play a big role in stock selection, accumulation and direction (up). However, due to how the calendar plays itself out, there are two things at play which could impact stocks in your portfolio or on your radar screen.

The Stock Market Today

U.S. Stock Market Index Performance
3/18/2016

Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Below 200-DMA
DJIA	17,602	18,351	15,370	5/19/15	8/24/15	4.1%	14.5%	**2.7%**
S&P 500	2,050	2,135	1,810	5/20/15	2/11/16	4.0%	13.3%	**1.6%**
NASDAQ	4,796	5,232	4,210	7/20/15	2/11/16	8.3%	13.9%	-1.6%
Russell 2000	1,102	1,296	943	6/23/15	2/11/16	15.0%	16.9%	-4.0%
Average						7.8%	14.6%	-0.3%

Source: www.BarChart.com, Goldman Small Cap Research

As we near the end of the quarter, we are entering the typical quiet period for many companies and company management. This means that those fun corporate stock buy-backs that (in theory) help liquidity, raise stock prices, and lowers shares outstanding will cease for a spell, only to return after financials are released, which will help drive prices higher. We are also entering a period where we run the risk of Q1 negative earnings pre-announcements and a period where some analysts tweak and play with their estimates, causing short term shifts in stock prices.

That's the bad news.

The good news is that essentially all of the window dressing executed by institutions is likely complete, although it is possible that it is one (small) reason why stocks have enjoyed a good run. What is window dressing? It is when firms do not wish to have big losers on their books at quarter end, which makes them look foolish and would prefer to have winners for the period to make them look oh so smart.

What this means for you are two things. One, now is a good time to buy stocks that have not had big runs and are expected to meet or exceed Q1 expectations, i.e. GARP or value. Two, it means big-time sold off sectors and stocks could be real bottom fishing candidates, now if not very soon. As you will see later in the Guide, health care has sucked wind but there are some oversold situations that we have uncovered.

Small Cap Health Care Sleeper

Please don't think I am lazy for doing this, but I am not just a fan of MiMedx Group (NASDAQ—MDXG—$8.31) as a stock and company. But, they do such a great job describing what they do I am literally cutting and pasting a section of the following description from their most recent press release:

"MiMedx® is an integrated developer, processor and marketer of patent protected and proprietary regenerative biomaterial products and bioimplants processed from human amniotic membrane and other birth tissues and human skin and bone. ***"Innovations in Regenerative Biomaterials"*** *is the framework behind our mission to give physicians products and tissues to help the body heal itself. Our biomaterial platform technologies are AmnioFix®, EpiFix®, OrthoFlo, Physio™, AlloBurn™, and CollaFix™. AmnioFix and EpiFix are our tissue technologies processed from human amniotic membrane derived from donated placentas. Elected in advance of delivery through our donor program, a mother delivering a healthy baby via scheduled full-term Caesarean section birth may donate the placenta in lieu of having it discarded as medical waste. We process the human amniotic membrane utilizing our proprietary PURION® Process, to produce a safe and effective implant. MiMedx is the leading supplier of amniotic tissue, having supplied over 500,000 allografts to date for application in the Wound Care, Burn, Surgical, Orthopedic, Spine, Sports Medicine, Ophthalmic and Dental sectors of healthcare."*

From the fundamental perspective, the stock looks great. Sales of $187M for 2015 were a record and EPS were $0.26. For 2016 and 2017, Wall Street analysts project a 41% and 26% sales increase, respectively with EPS reaching $0.33 this year (up 27%) and EPS of $0.44 next year. At current levels, the stock trades at a reasonable 25x P/E considering the strong expected growth. Plus, the company has a history of beating estimates, which happen to be on the rise.

Technically, MDXG is down 11% for the year, 37% below its 52 week high and now trades below its key moving averages. We think the technicals should be ignored and that the stock will rock come May when it reports Q1 results. Our target is $11, which is still well below its year high and is just a slight premium to its projected EPS growth rate.

Say What?

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

Bloomberg

www.bloomberg.com/news/articles/2016-03-20/china-has-a-590-billion-receivables-problem-as-bills-go-unpaid

Maybe a precursor of a shoe to drop a few quarters ahead?

The New York Times

http://www.nytimes.com/2016/03/20/fashion/millennials-mic-workplace.html?ref=technology&_r=0

Millennials running the show? Sooner than you think.

Bizjournals.com

http://www.bizjournals.com/bizjournals/washingtonbureau/2016/03/the-future-of-self-driving-cars-5-takeaways-from-a.html

To self-drive or not to self-drive…

Marketwatch

http://www.marketwatch.com/story/heres-why-bank-stocks-are-bouncing-back-2016-03-18

Dovetails with our missives of late.

ZeroHedge

http://www.zerohedge.com/news/2016-03-19/another-false-oil-price-rally-crossing-boundary

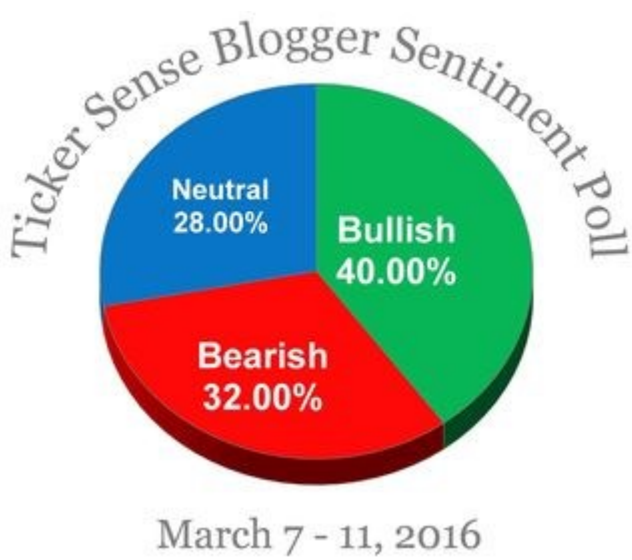
I don't 100% buy it, but prices may have gotten ahead of themselves.

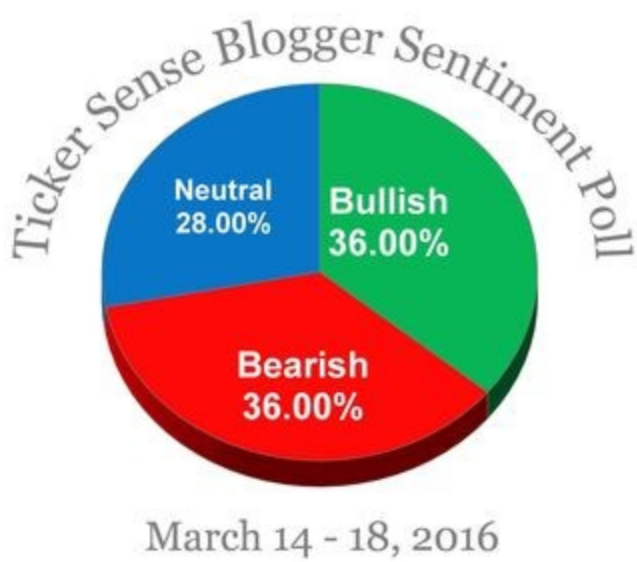
Notable Numbers

AAII Sentiment Survey (figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	30%	37%	*39%*
Neutral	43%	38%	*31%*
Bearish	27%	24%	*30%*

Want proof that there is no conviction in this market? The Dow Jones Industrial Average and S&P 500 Index hit new highs for the year and the percentage of bulls declined in both the AAII and TickerSense surveys. Or maybe the figures are low because health care continues to take it on the chin and the market has been led by materials, financials, and industrials the past month, rather than the sexy technology, consumer, and health care sectors. Frankly, until that sector turns, and it is down 9% YTD, I see some headwinds in lengthening the current upward cycle. It will happen, but it won't be easy. Over 38% or 287 of the 754 health care stocks tracked by Finviz.com are down at least 25% YTD. Wow.





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