Goldman Small Cap Research

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How Do We Fight Today's Economic Voldemort?

I rarely go the movies but I did take my 3 kids to see the final chapter in the Harry Potter saga. Real good flick, even if my youngest thought it was "a bad movie."

It got me thinking. Is there a Voldemort in the economy?

I do not mean a person, but something worse---insidious, power-hungry, self-absorbed, without conscience, frightening, and pure evil. There were times when one would say the "I" word. Back in the 70's and then the early 80's, the "I" word is what people referred to as inflation. Almost afraid to say it, lest it rear its ugly head, inflation (along with Russia) was evil.

Today, it is the "U" word, or as the wizards might say, "U Know Who". It was not that long ago that "U" would have referred to uncertainty. And, that is probably still the case today. But, I reckon that we are always facing uncertainty, with some situations more severe than others. Right now, I think "U" stand for unemployment.

I do not want to beat an old horse (or anything for that matter) to death. But, I saw an amazingly alarming statistic in an op-ed piece in *The Wall Street Journal* last week. It was penned by Robert Reich, former labor Secretary in the Clinton Administration.

"*So many jobs have been lost since Mr. Obama was elected that, even if job growth were to match the extraordinary pace of the late 1990s—averaging 300,000 to 350,000 per month—the unemployment rate wouldn't fall below 6% until 2016.*"

As you recall, June employment increased by 18,000, or only 6% of the required monthly average. By that measure, a rate below 8% would be a marked improvement. Ouch. We have our worked cut out for us.

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Most Americans are learning to do more with less. They are paying down debt and saving for rainy days.

What are the unemployed doing? Let's find out in our second part of the unemployment picture. The following information was gleaned from conversations with 20 unemployed Americans, on the East Coast, with varying skills along the job food chain.

This recession has not just hurt families' income statements but their balance sheets as well. Since the U.S. is really as service-based and application generation economy and doesn't "really" produce product, it takes longer to get out of this morass. That however means that a job with a firm that produces something is usually more portable than one in a service industry where work is more specialized.

Thus, education, marketing, networking, and project-based contract work seem to be a way to get in the door with firms that are hiring. Still, those with fewer broad skill sets, poor credit history, or are taking a step down, are really having problems.

Americans are watching their consumption carefully. Even if they can move down a step by moving into a smaller home, there are other ways of reducing expenses and debt and people are getting creative. Still, we all hear about the tough time the food service industry is having, though volumes at pizza joints and McDonald's are up.

Sadly, the low-margin supermarket business is selling more and more items with short expiration dates and some even past expiration, as they unload inventory and try to entice buyers with sales. This has been offset by a rise in wholesale and retail prices in other areas of that business.

Many are taking part-time jobs, or starting their own businesses (in service.) They were scared at first. Now they are simply beaten down and gloomy. They just do not know what it will take to return to the ranks of the employed, or fully employed. Some that have shifted their lifestyles, resolved and to a degree, happy with their lot.

Renewed leadership, focus, and favorable surroundings or events, may emerge as the Harry Potter to give us the legs and energy to go higher and defeat “U Know Who”.

I am not smart enough or arrogant enough to pretend I have all the answers. As I mentioned last week, I believe that making employers feel warm and fuzzy inside, and confident that things are turning, could be a trigger with employers. Less regulation and focus on hiring-based incentives along with broad shifts in consumption and education training are systemic solutions that will not fix things overnight. There are no quick fixes. But that does not mean it is perpetual hell, either.

Do You Own This Stock Yet?

What you don’t know about me is that I love a good story. Whether telling it, hearing it, watching it, a good story is, well, good. Investing is hard but it is made easier when something that is really complex can be reduced to something easily understood and a theme in which everyone can relate.

Peter Lynch of Fidelity fame invested only companies in large markets where the model was easily understood and could be described in a snippet.

I have a stock that fits this bill to a tee. A great story, easily understood, with a big market and tremendous advantage.

Wet-AMD is a condition treated by a drug called Lucentis which requires an injection directly into the eye. It generates $1.5 billion in annual sales. The size of the market is likely greater than this but there is pretty decent number of patients that say to hell with it. No needles in my eye.

With that in mind, wouldn’t a transformative delivery system like, say, an eye drop change everything? If approved, who would elect to go get the needle-in-the-eye treatment when they could self-administer an eye drop instead?

Enter OHR Pharmaceutical, Inc. (OTC: BB OHRP.) Shh. No one really knows about this stock just yet. Let’s keep it that way for a while. It is just a matter of time until the market at large does learn of it, and then the stock is likely to skyrocket. Big pharma is likely going to be all over this company.

They just announced reformulation of their Wet-AMD treatment to an eye drop last month and announced very favorable animal studies that demonstrate that via topical delivery, their treatment, Squalamine, is delivered to the back of the eye. It is efficacious, with lower toxicity. Squalamine has already completed very favorable Phase II clinical trials with the drug delivery via IV. We believe that the next stage, Phase IIb, could begin in several months.

OHR is no one-trick pony, as the Company has another drug in Phase II trials that serves an unmet need with a $1B market opportunity.

But, but let's face it. Squalamine is a real game-changer. We initiated coverage of the stock a year ago, and renewed coverage last month. It has risen over 60% since then to close at $0.65, but the valuation is still ridiculously low, at around $45M. We are reviewing our $2.00 price target right now for an upgrade.

In our view, the shares only go up from here. If you don't own the stock yet, you should. Buy, it, and sock it away, because as the Street starts to realize what this Company has, it will bust through $1.00 very quickly. The stock is closely held and for the most part, shareholders are more than happy to hold onto the stock. Therefore, we do not envision much selling into strength---even to take some short term profits.

Until next week….

Analyst: Robert Goldman

Rob Goldman 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*.

Analyst Certification

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