Goldman Small Cap Research

# The Goldman Guide

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## In This Issue



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## Deceptive Numbers

Statistics are like beauty. How they are perceived are in the eyes of the beholder. Statistics drive a lot of our policies and our actions. Their mere derivation and use are but a tool for manipulation, in many cases. Their intent is often to make things that are gray, appear to be clear or at least in black and white. And along with emotions, statistics move markets.

I saw some statistics in *The Wall Street Journal* that if taken at face value, are inflammatory. However, if one lifts up the hood of this car, and just use our minds, we see that they make sense and it should illicit a ho-hum reaction.

The article noted that the flawed (not fraud) Economic Policy Institute released data from NYU Economist Ed Wolff, illustrating that more than 80% of the nation's wealth gains between 1983 and 2009 went to the wealthiest top 5%. According to this data, the bottom 60% had their wealth drop by 7.5%.

On the surface, it looks like the old story: *the rich get richer and the poor get poorer.*

Hello?! It is designed to piss us off. It's also bogus. Think about it. If they are already at the top 5% in 1983, that means they had more to invest and more assets in which to build wealth. So, that number grows accordingly. It does not mean that the wealthy grow their wealth on the back of the poor. I also do not believe the other stat. It is incongruent, even if adjusted for inflation.

I mention this because we are going to be flooded with statistics over the next two months. Budget, growth, unemployment, corporate financials, trade, etc.  Be wary and be cognizant of the intent of the presentation. In the absence of any conviction regarding our future prospects, volatility will continue to rule the day, swayed in large part by statistics, and emotion.

## Put on Watch List

What a week for the market. If my math is right, the NASDAQ was up over 6%. Given the poor retail sales figures, I would probably continue to avoid consumer discretionary stocks along with financials. Technology and health care, in our view, are the best places to be, aside from maybe natural resources.

Here's something new. This stock has been a favorite of mine for almost 20 years when I was the first analyst to ever follow it. **Mueller Industries, Inc. (NYSE: MLI - $45.13)** is the stock, and it is by no means a small cap stock. The market cap is about $1.7 billion.

Mueller is one of the leading providers of copper, brass, aluminum and plastic for the plumbing and refrigeration, along with OEM (Original Equipment Manufacturer) markets. It is has been my experience, that MLI is very much a leading indicator for the housing and new construction markets.

The stock is up 40% this year and is trading about 16x FY11 EPS estimates and 13x 2012 Street EPS forecasts. Although we are not out of the housing rut yet, if you can buy it on dips, do it. When we do emerge, the company will do very well, in our view.

Not too many people are aware of this stock because the company is not active in the investor outreach area. They just go about doing their business, and they do it well. But, there is a core of institutions that have also followed the company and as a result, its ownership is overwhelmingly institutional and we believe are long term holders.

I think the stock could go approach $60 in a year's time, with not a great deal of risk, given even a modest pickup in housing and the historically strong stewardship of its management.

## Bottom Fishing

We may be a little late with this bottom fishing candidate, given a bit of a run along with the market, but our sentiment and thesis still holds true.

One of our big winners of the first half of 2010 was **Rexahn Pharmaceuticals, Inc. (AMEX – RNN - $1.17.)** This year, the stock has been essentially flat although it dropped to $0.89 a few weeks ago before roaring back from that oversold level.

Rexahn is everything one looks for in an emerging biotech stock. It has multiple shots on goal, in the form of 3 drugs in Phase II trials, a major 3rd party shareholder to validate the technology (Teva Pharmaceutical), well-regarded management, and a very low share price.

*Archexin* is a novel Akt inhibitor therapy for treating various cancers including pancreatic cancer. *Zoraxel* is a CNS-based therapy used to treat sexual dysfunction. *Serdaxin*, which completed its Phase IIb enrollment a few months ago, is used to treat depression, and has indications for Parkinson's and Alzheimer's diseases.

The Company has been pretty quiet recently but we expect updates in the coming months and deem it likely that a partnership with a big pharmaceutical firm remains in the cards. With 3 high potential drugs in Phase II, the stock's low valuation of just over $110M makes RNN compelling. We would not be surprised to see a double or more from here in the next 12 months.

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*.

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