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Contact Us

www.goldmanresearch.com

rob@goldmanresearch.com

Here is the Real Test

The market is rockin'. People are feeling a little better. Of course, after a 10.4% NASDAQ gain in 2 weeks we should feel better. But, now comes the real test. The first real barometer to tell us where we are headed. This test is the true beginning of earnings season. The results, guidance and comments will help shape the market's direction and sentiment for the balance of the year. Let's look at the key players:

Monday

Citigroup and *Wells Fargo*, two of the largest banks in the U.S. An early measure for the financials space.

IBM, major technology and multinational barometer.

Tuesday

Apple and *Yahoo!*, two companies that have lost their figureheads. Headed in opposite directions?

Coca-Cola, *Goldman Sachs*, and *J&J*, two major multinationals and leaders in their spaces and an industry bellwether/target of derision.

Wednesday

An interesting mix. Leaders in finance, natural resources, health care, consumer discretionary, technology, etc. Given the large number of major entities reporting, it really is "hump day."

Thursday

A ton of mid-tier firms, along with biggies *AT&T*, *Microsoft*, and *Nokia*.

GE on Friday. You get the idea.

We maintain that we will have a year-end rally. We do not have a crystal ball (though we have been trying to buy one on eBay) so we can't say how sustained this rally will become. Nonetheless, optimism is building. One thing that can kill it is politics, as in the super committee or some other knuckleheads.

Speaking of knuckleheads, an award should be set aside for a Congressman from the State of Illinois, Rep. Jesse Jackson, Jr. Yes, the son of that Jesse Jackson. Some might consider noted politicians California governor Jerry Brown and Rep. Dennis Kucinich as eccentric, but Rep. Jackson proffered a solution to our jobs and economic woes that is downright ludicrous. So much so, that after appearing on the "front burner" of the Web early on, it is on the "back burner", as you have to dig to find it now.

Congressman Jackson has proposed that the U.S. government "hire" the 15 million unemployed by spending nearly \$600 billion and provide each of them with a \$40,000 salary. By the way, he stated that Obama should bypass Congress altogether and unilaterally engage in this maneuver.

Where to begin. Let's just say it is a bad idea whose only guaranteed result is the buying of 15 million votes for \$40,000 apiece in the upcoming Presidential election. And for a Congressman to suggest bypassing Congress, well, I just hope he keeps on talking. I could use the amusement.

M&A: Act III

I noted last week that in the latest issue of Forbes and a recent Forbes blog, 3 of the four companies we cited as possible buyout targets in Q4 were highlighted. Well, since that time, 3 of the four have been in the news, and will also report results this week.

AOL's CEO actively lobbied for Yahoo! to acquire it. RIMM imploded, with major service outages across the globe for days, which will assuredly have a deleterious effect on the Company's prospects. I suspect that Blackberry users, already utilizing an out-of-fashion operating system and form factor, will leave in the coming months. This subscriber churn will hurt the stock price and a potential sale price, if in fact a sale is still in the cards. I am not so sure now.

Yahoo! and Nokia report this week. It will be interesting to hear/see what happens with that AOL chatter.

This Stock Should Move Higher...Twice

If you knew that there was a cheap stock that few people were aware of, and literally the next day, a small group of investors would be strongly considering or outright forced to buy some of its shares, thus moving the stock higher, wouldn't you want to have some shares beforehand?

That time will not be tomorrow, but it is around the corner. And that stock is *SunSi Energies, Inc.* (OTCQB:SSIE.)

I know, I know, you have heard me talk about it before. Forget the company for a moment and let's look at market dynamics.

The stock trades on the OTC market. As a result, many investors are unable to or unwilling to buy the stock, due to perceived risk and (in the cases of other companies), lack of transparency.

The Company has applied for listing on NASDAQ. Considering they meet all of the fundamental (numerical) qualifications, we believe that they will be approved for listing in November. We do not know a situation, any situation, where a company that met the requirements, was not granted listing approval.

What will happen to SSIE when it starts to trade on NASDAQ? It will be like reading a book by candlelight one minute and a floodlight the next. An eye-opening experience.

Stocks routinely get a meaningful and sustained rise right away, but that is usually just the first stage.

Microcap index funds, cleantech and solar indices and funds, Chinese/foreign indices and funds, basic industry funds, etc. will immediately turn their attention to SunSi.

Why is this important? The NASDAQ listing opens doors currently closed to SunSi. For example, there are several hundred million dollars invested in micro cap index funds, and many hundreds of millions in micro cap equity, cleantech, and other funds. Given its relative size and market cap, compared to many stocks already in the standard-bearer Russell Microcap Index (as an example) we believe that microcap index funds will include SunSi as part of their indices, following the NASDAQ listing.

How would inclusion affect SunSi?

We reviewed the performance of a number of stocks that announced their Russell Microcap Index inclusion in June 2011. They are all smaller than SSIE and received a bounce of 13-18% right away, and some enjoyed an even larger effect from the news over a few days.

The bottom line is that fundamentally, and from the industry positioning standpoint, SunSi is very attractive. But by buying now, investors likely have the added benefit of taking advantage of this upstream bonus.

We strongly recommend accumulating a position now, before the effect of what we are terming the "upstream two-step", occurs. Step one is the NASDAQ listing, followed by index inclusion.

I know this is putting the cart before the horse, but one final thought to put this in perspective. Let's say only 0.1% of the assets in the iShares Russell Microcap Index Fund was represented by SunSi. That ownership percentage would amount to more than 7 times SunSi's average daily volume.

Get the picture?

SSIE closed at \$4.00. Our near term target is \$6.00.

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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