Goldman SMALL CAP RESEARCH

The Goldman Guide

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When To Go Long

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KEY TAKEAWAYS

- *Don't forget the holiday; traders don't want to be long*
- *Consider buying stock late this week*
- *Some shorted stocks could have huge turnarounds*
- *Previous picks: 1 Buy, 1 Sale*
- *Is Apple in trouble?*
- *Stay away from these 2 stocks*

KEY STATISTICS

Index	Close	2012
DJIA	13,488	2.9%
S&P 500	1472	3.2%
NASDAQ	3126	3.5%
Russell 2K	881	3.8%

(figures are rounded)

I had planned to talk about the Ravens and their wide receivers going long this past weekend, but I thought the better of it. Still, this topic is relevant.

I have mentioned on several occasions that I tend to be a little early on stocks or themes from time to time. In some cases, it is a good thing to be a little early. With that in mind, here is why you should keep the calendar in mind before going "long-heavy."

The market will be closed a week from today for the Martin Luther King Jr. holiday and that means that come Friday, market-makers will likely do everything in their power to *not* be long in stocks in which they make markets, or at worst end the week in a market-neutral status in their positions.

That could either present a buying opportunity or be a harbinger for a profit-taking period.

I suspect that it could be a little of both but we will know more as the week progresses. Small stocks continue to rule the day and the Russell 2000 Index remains the best performing index thus far this year. This is not to say that investors aren't bullish. In fact, they are by many metrics.

As we predicted, equity fund money inflows have been a big driver of the stock rise. For the week ended January 9th, stock funds and ETFs saw $18 billion in inflows, according to Lipper. That compares with $12 billion in the best week during 2012.

When these things happen, money has to be put to use. This is why on Friday, for example, the NYSE and NASDAQ had 400 stocks reach new highs and 16 lows. Wow. Moreover, although the advance/decline line is still roughly the same, advancing volume on NASDAQ is roughly 2x declining volume.

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Go Long on Moves Higher

We remain in the early stages of the 4Q12 earnings season but if in the aggregate the performance is solid, the market will rally this week. We believe that is likely to be the case. If the numbers are not so great, investors should expect a modest, short-term sell-off. In either event, at the risk of buying a little late, if you have a stock on your radar that has been moving incrementally higher and is not selling off by week-end, it is probably a good sign of future performance.

What will be interesting to see is how heavily shorted stocks fare this week. With the exception of the high-profile and controversial Herbalife (NYSE—HLF), short interest has dropped by about 5%, most likely in response to the equity fund inflows. I'll bet that as those inflows subside (this week) and the market sees a little profit-taking or sideways action, short interest will pick up again. Which goes back to my earlier thesis that the earnings season will play a role this week and that traders will step aside later, so as not to get caught holding the bag. They would rather have us hold it for them.

Two Shorts That Could Turn

Common sense tells me to avoid heavily shorted stocks, let alone consider buying one. Still, there are 2 intriguing plays out there. **Hhgregg (NYSE—HGG—$7.89)**, an electronics retailer, has over 8 million of its over 35 million shares outstanding, short. The P/E on March 2013 estimates is a paltry 8.5x. As Best Buy (NYSE—BBY) goes, especially with the pending potential buyout, so does HGG. The huge short position, which represents 44% of the public float has really capped the potential, but it appears as if the risk/reward ratio is in investors' favor. I see a maximum of a 20% downside but 40% minimum upside, pending revenue and EPS performance.

Education Management (NASDAQ—EDMC—$4.31) is up 10% since our profile last month in our daily blogs and these pages. While receivables are on the rise and revenue is on the decline, we think that the bad news is bottoming and the valuation, at 10x June FY13 EPS, is cheap,. Thus, we believe that these shares could go to $6.00-7.00, buoyed by good results at the end of the month. A major short covering of the 3 million shares short (13% of the public float) would help. Feeling lucky? Buy some now and sell after the financials are released.

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Speaking of Shorts…

Last week, we highlighted a stock we felt is a good buy at current levels, given the expected huge EPS growth in 2013. **Amkor Technology Inc. (NASDAQ – AMKR - $4.69)**, provides semiconductor packaging and test services. EPS is expected to jump by more than 50% from 2012 to 2013, with estimates calling for $0.39 in 2012 and $0.61 on 2013, representing a P/E below 8x for next year. Even the chart is trending higher. Still, as the stock has climbed steadily from a floor of $3.65 in November, we neglected to mention that the stock has 16 million shares short, representing 20% of the public float. Obviously these naysayers think that the EPS forecasts will not be met. We think that they are too focused in the industry and not on the company and that EPS coupled with these shorts will help propel longs to big gains this year.

Since we are looking backwards as well as looking forward this week, our sell call on **JC Penney (NYSE—JCP—$18.26)** was right on target as it dropped 15% at one point last week, ending down 11%. What a troubled company. Stay away.

Speaking of trouble, **Apple (NASDAQ—AAPL - $520.30)** is down nearly 12% since the end of November while NASDAQ is up almost 4%. The luster appears lost, competition abounds, Apple fanatics are growing weary, and analysts are reducing forecasts and sentiment. While one would be foolish to short the stock, perhaps buying short term out of the money puts is not a bad play. The stock just feels like it is going to trade sideways for a while.

Finally, we suggest avoiding **Nokia (NYSE—NOK—$4.70)** and **Research in Motion (NASDAQ—RIMM—$13.56)**. These are still disasters that could frankly go either way. Staying away from controversial names is always a wise maneuver.

And, never, ever trust a short-seller.

Until next week...

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