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KEY TAKEAWAYS

- ⇒ *Don't let the media fool you*
- ⇒ *Big stocks can be as risky as small ones*
- ⇒ *The experts really don't practice what they preach*
- ⇒ *This industry is under major accumulation*
- ⇒ *stock could jump 30%*

KEY STATISTICS

Index	Close	2013
DJIA	13,896	6.0%
S&P 500	1503	5.4%
NASDAQ	3150	4.3%
Russell 2K	905	6.6%

(figures are rounded)

The Truth About Today's Stocks

Financial experts, professors, the media, and financial professionals have preached forever about the substantial risk of volatility and investment losses in small equities versus their larger and more mature brethren. Certainly it makes theoretical sense, and to some degree in practice. But, that is not always the case. Frankly, the fact that this theme is pounded into investors is an affront to anyone capable of independent thought.

To prove that this concept may go by the way of the dinosaurs or at least the milk man, the biggest gainer of the day late last week was **Netflix (NASDAQ- NFLX)**, a midcap stock that began the day with a \$4 billion+ market cap and was out of favor with the experts. Following spectacular financial results and a very rosy outlook the stock ended the week with a market cap over \$9 billion following its 42% one-day gain on heavy volume.

Truth be told, that "ain't nothin', folks." The third biggest loser of the day was none other than **Apple (NASDAQ – AAPL)**, which now sports a market cap of \$423 billion. It was followed close behind by another technology blue chip, **Nokia (NYSE – NOK)** which retreated nearly 10%. Understand that the Dow Jones Industrial Average and S&P 500 Index both rose, so these sharp drops were due exclusively to declining company fundamentals.

If this volatility is an example of how the Street treats poorly performing blue chips, does that mean that it will treat poorly performing small caps stocks like buffalo chips? Not necessarily, due in part to their lack of exposure or interest level.

(cont'd on next page)

The Not-So Experts

Still, let's be real. The individual investor, the quintessential little guy, is just trying to make a buck and better his net worth by taking on some extra risk with equities of all sizes. After all, he will have to work until he is 80 with the type of returns he can get by investing on bonds. When he sees institutions and the faces of their organizations spouting *BS* about valuation, technical analysis, etc. and then play "you're in now you're out" with their money and stocks in the massive portfolios with poor results, he has to be scratching his head.

Can't he do the same thing, and maybe even better? All the experts didn't realize that NFLX was undervalued by over 40% twenty-four hours earlier? Moreover, did the never-ending love-fest and seduction of and by AAPL cause a brain meltdown halting any ability to see the stock has been in trouble for weeks on end?

The answer is yes. The primary differences between trading in small stocks and the big names has to do with volume, liquidity, and the bid/ask spreads. But it does not mean that all of these stocks are saddled with these characteristics. In fact, one great way to play small stocks the way that institutions should but do not, is sector rotation, for fear of too much exposure in a specific sector.

For example, the semiconductor space is under serious accumulation following positive financial results during the early reporting period this month. Small cap and lower priced stocks such as **Amkor (NASDAQ – AMKR - \$4.78)**, **Lattice Semiconductor (NASDAQ – LSCC - \$4.36)**, **Advanced Micro (NYSE – AMD - \$2.85)** and others seem poised for outsized gains.

Granted, given the industry segment, these stocks are subject to cyclical volatility. Still, a rotation into this space is clearly taking place, which should enhance performance for buyers of these stocks.

Why mess with these large and mega-caps touted by experts and the media as if they are gospels? It makes much more sense to put your money in a place when you can see in front of your eyes that an industry is going through a rejuvenation driven by fundamentals, and whose stocks are beneficiaries of the trend.

Bigger is not always better. After all, isn't the old saying: "The bigger they are the harder they fall?"

An Old Standby³

A few months ago we highlighted a stock we felt is a good buy at current levels, despite the bad news surrounding it. It is up 10% since the start of the year and given that it lags but follows behind the semi space, which has been on fire, we think that it guide higher and will outperform other stocks following 4Q12 results, to be announced next month. given the expected huge EPS growth in 2013.

Long a favorite of mine, and a major institutional small cap value holding, Orbotech Ltd. (NASDAQ—ORBK—\$9.36) has been at the cutting edge of the electronics industry supply chain, as an innovator of enabling



technologies used in the manufacture of the world's most sophisticated consumer and industrial products, for over 30 years. The Company is a leading provider of yield-enhancing and production solutions, primarily for manufacturers of printed circuit boards, flat panel displays and other electronic components; and today, virtually every electronic device is produced using Orbotech technology. The Company also applies its core expertise and resources in other advanced technology areas, including character recognition for check and forms processing and solar photovoltaic

manufacturing.

The stock is a major beneficiary of a resurgence in the flat panel LCD space, as evidenced by a recent winning bid for \$40 million worth of business earlier this month.

ORBK appears to have passed the bottoming phase technically and seems poised to reach the \$12 mark, aided in part by a \$30 million stock buyback. The Company is currently projected by the Street to earn \$0.57 in 2013, after a big loss in 2012 and we would not be surprised to see margin expansion as the year goes on.

Until next week...



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