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KEY TAKEAWAYS

- ⇒ *Government ineptitude could halt stock rise*
- ⇒ *Rising gas prices (up 51 cents in 2 months) has not helped*
- ⇒ *Our AMR Goldman Guide pick was up 73% in a week on merger news*
- ⇒ *Don't expect big moves from a possible merger in office supply space*
- ⇒ *Our mid-Q1 daily blog picks have been consistently big winners*

KEY STATISTICS

<u>Index</u>	<u>Close</u>	<u>2013</u>
DJIA	13982	6.6%
S&P 500	1520	6.5%
NASDAQ	3192	5.7%
Russell 2K	923	8.7%

(figures are rounded)

Your Tax Dollars At Work

Nothing seems to be able to curtail this market upswing, or so it seems. What may end up stopping it dead in its tracks may be the U.S. government. By now, I am sure many of you are aware of the "sequestration." It is a hot button issue here in Maryland, which is heavily reliant on government spending.

Here's the basic story. Remember the failed 2011 budget situation? In August 2011, with the nation's debt-limit deadline approaching, and with the threat of credit downgrades and government shutdowns looming over partisan negotiations in Washington, the Obama Administration and House Republicans agreed on a Budget Control Act. This Act created a congressional budget "supercommittee" that was charged with proposing a deadline-based package of spending cuts and/or tax hikes to lower the deficit.

If the committee couldn't recommend a package by late 2011, and if Congress couldn't pass it in January 2012, \$1.2 trillion in automatic cuts would be triggered. Deadline extensions were enacted and passed without any agreement. As a result, unless an agreement is reached soon, these cuts will become effective on March 1.

The spending cuts, which will to a degree be overseen by the Office of Management and Budget, include mandatory and discretionary spending cuts, including up to 10% reductions in some areas which could lead to furloughs.

The timing is awful as it could negatively impact economic growth, which is already anemic and hurting from rising gas prices. The parties can get their act together and avoid the tenuous situation. It may result in additional deadlines, which could give us some breathing room. Regardless, this uncertainty could prompt the market begin to decline.



The Goldman Guide

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Merger Monday

In last week's edition of *The Goldman Guide*, we profiled the pending deal between **AMR Corp (NASDAQ—AAMRQ—\$2.54)** and **US Airways (NYSE—LCC)** and strongly suggested playing AMR for a quick pop, ahead of definitive news of the deal.

While we had a strong sense that the stock would do well, it well, flew much higher, jumping 73% by week's end. If you did buy the stock, we would certainly recommend taking profits.

We have frequently mentioned that there are usually swift capital gain opportunities when these deals are rumored or even announced. With that in mind, many investors may have caught a story on Monday that the long-rumored combination of **Office Depot (NYSE—ODP—\$4.59)** and **OfficeMax (NYSE—OMX—\$10.75)** may actually come to fruition this week.

There may in fact be a quick gain lurking in one of these stocks, but we caution that it will not be anything like the airline combination announced last week. This deal is a merger whose details are still being ironed out and who both have activist investor groups that could throw a wrench into a deal, in the worst case scenario, or maybe even make sure it happens, depending upon terms, in the best case.

The better play of the two is probably **ODP**, but since we do not know who will be the successor firm or any real information it is impossible to quantify and classify this transaction.

We think **OMX** could be the successor firm due to its greater profitability metrics, despite the fact that **ODP** is larger in terms of revenue and store count. What is clear is that it will be a stock swap which is par for the course, given the situation. **ODP** could provide investors with 10-20% returns, if terms are favorable. If a deal does not occur, which right now seems unlikely, we would definitely avoid both stocks as a deal seems necessary for survival.

Mid-1Q13 Scorecard³

I bet you are asking yourself, now that we are midway through the first quarter of 2013, how are those daily blog picks working out? Well, maybe you haven't, but we have. Without further ado here is a snapshot of our mid-1Q13 blog stock pick performance. As you likely recall, the daily blog objective is provide you daily insight into stocks that we believe could make a big move in the short term, as in a matter of weeks. Sometimes we get it right and other times we do not. The most important thing is for the performance of right calls to be far greater than the wrong calls. By that measure, it looks like "mission accomplished."



As of the close of the market on February 14th, we have highlighted a grand total of 21 stocks, year-to-date, under our Market Monitor blog posts. As you can see by the table below, our top 5 picks are up an average of 28% in 30 days or less, while our bottom 5 performers are down an average of 8.2% for the same period.

The Big Winner

JFBI is just on fire! It has surpassed our \$5 level and then some. As we mentioned in the original blog post, there really is no news or backing fundamentals, but the stock continues to climb. The charts remain bullish in the short term but selling a portion of the position is a prudent move.

Until next week...

Top 5	Stock	Ticker	Blog Date	Cost	Price 2/14/2012	Change %
	Jefferson Bancshares	JFBI	2/8/2013	\$ 3.72	\$ 5.44	46.2%
	Concurrent Computer	CCUR	1/31/2013	\$ 6.12	\$ 7.93	29.6%
	Lannett Company	LCI	1/14/2013	\$ 5.61	\$ 7.06	25.9%
	Zynga	ZNGA	2/5/2013	\$ 2.69	\$ 3.26	21.2%
	Exar	EXAR	1/24/2013	\$ 9.68	\$ 11.32	16.9%
Average						28.0%
Bottom 5	Stock	Ticker	Blog Date	Cost	Price 2/14/2012	Change %
	Wisdom Tree Investments	WETF	2/12/2013	\$ 9.34	\$ 8.93	-4.4%
	Array Biopharma	ARRY	1/11/2013	\$ 4.15	\$ 3.89	-6.3%
	Cadence Pharmaceuticals	CADX	1/28/2013	\$ 5.34	\$ 4.88	-8.6%
	USA Technologies	USAT	2/6/2013	\$ 2.39	\$ 2.18	-8.8%
	Noranda Aluminum	NOR	1/9/2013	\$ 6.66	\$ 5.79	-13.1%
Average						-8.2%



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Analyst Certification

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