Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 4 | ISSUE 8 | JUNE 24, 2013

INSIDE THIS ISSUE:

KEY TAKEAWAYS

⇒ *The market has been like a woman's fake orgasms*

⇒ *Why stock swill get worse before they get better*

⇒ *When they will get better and why it will be a huge move higher*

⇒ *How to play the market prior to the big move*

⇒ *Two biotech stocks that defied the odds, had a great week and are primed for a trade*

KEY STATISTICS

Index	Close	2013
DJIA	14799	12.9%
S&P 500	1592	11.6%
NASDAQ	3357	11.1%
Russell 2K	964	13.5%

(figures are rounded)

Our Stock Market Crystal Ball

Late last week I was pissed. I made bad stock calls and I could not remember symbols of stocks I wished to follow after losing them on my screen due to a miscalculated touch of a button. It happened on Thursday, when the stock market endured a bloodbath not seen in 18 months. Of course, that made my foul mood even worse. Once I settled down on Friday, I realized that while a whole slew of economists, analysts, and although Federal Reserve members castigated Fed Chairman Ben Bernanke for his market-killing comments, it may turn out to be the best thing for us all.

No, we probably are not done with this downward trend as we approach a corrective phase. Still, the market was very tired and the last strands that held it together were the monetary policies and outlook toward interest rates, GDP, and inflation. Let's face it. We all knew this was going to happen. We just did not know when. So, we just have to take our medicine and move on. After all, we have been in denial too long regarding what is really happening in the underlying economy.

Ladies, my apologies for what you are about to read. This next section is for the guys.

At the risk of being really crude, the last few months have been like having sex with a woman who consistently fakes her orgasms. You know it. She knows you know it. But, neither of you care because the end result is still pleasurable. That is what a market rising based on quantitative easing really is all about. Then, when the truth hits everyone in the face, the piper has to be paid and as painful and uncomfortable as the situation might be, things have to be done differently. Once that occurs, it is smooth sailing.

Back to econ-speak….

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Our Stock Market Crystal Ball (cont'd)

Unemployment still is a major thorny issue, although it has had discernible pockets of modest improvement. Frankly, a brief auto and housing recovery has clandestinely boosted the economy. Yet, our debt levels, and our unwillingness to address higher cost of goods and the impending doom of higher health care costs could have been our undoing. Isn't it better to face some of these issues now, instead?

What we have to do now is look out 3 months or more, rather than 3 days or 3 weeks. Since the market highs of May 22nd, the major indices have declined somewhere in the neighborhood of 5-6%. In the absence of really strong earnings for Q2 and fabulous guidance for 2H13, let alone tempered inflationary and slow growth fears, we should expect that stocks will continue to decline. They may even recover well before then. But, to be prudent, we are assuming a more unfavorable posture.

In either event, one positive trend in trading of late is that when stocks have made big moves in either direction they have been on pretty meaningful trading volume. This suggests that the rallies and drops are for real, and executed with conviction.

This may just be a hunch, but I have to believe that investors have gone from a slight majority feeling a little bullish but cautious, to entering a depressive phase which will lead to the joyous capitulation stage.

A market correction is defined as a decline of 10% or greater from a high or particular settling point. We are already at least halfway there and I would say that we will have more big down days that could take the S&P 500 Index to the 1535 area. I am no chartist, but if we settle and bounce there, it would be a very bullish trend. Still, since that would only be a 9% decline from the high, I therefore have only modest confidence in this scenario. What is more likely is that it could take a real correction, to around the 1475 range before the worst is over. That is a 7% drop from current levels and would be a 12% correction from the May 22nd high.

Coinciding with that would be a roar back to 1600 based on solid earnings growth in 2H13 and expectations for 2014, as P/E multiples will surely be very compelling. Even after Thursday's drop, the forward 12-month P/E on the S&P 500 Index is just under 15x, which is around its historical average but typically a level usually enjoyed in more bullish times. After a decline to the 1475 region, the P/E would fall into the upper 13x multiple area, which is likely to be viewed as a favorable re-entry point. Moreover, once we complete another ninety days, more of the 12-month forward projected earnings would occur in 2014 which is expected to be greater than 2013. Therefore, the decline in the multiple may actually be down to 13x or below. Such a low multiple given the expected future growth performance could be a catalytic event for savvy investors.

So do we just go to cash or fiddle while Rome burns? No. However, we would suggest entering into a trading mode on stocks in popular themes or those that are event-driven. Buying on valuation will likely just mean that stocks get cheaper, which is the opposite of what you want to do in a declining market.

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Two Stocks to Trade

It is only proper that we at least provide a couple of names of stocks to trade, so without further ado….

We profiled **Immunomedics, Inc. (NASDAQ – IMMU - $5.01)** in early June and it hit a 52-week high last week and is up 20% since our profile. IMMU is a development state biopharmaceutical company that is engaged in anti-body based products for treatment of cancer, autoimmune, and other diseases. The stock has climbed 49% over the last 30 days on news related to its products and improved future earnings forecasts. Even with this huge pop, the charts remain very bullish in the short term, with the new highs achieved on huge volume. Moreover, revenue is estimated to climb to $4.04 million in 2013 and $5.76 million in 2014.

In May, the Company announced significant progress on the development of its novel T-cell redirecting agents that help target tumor antibodies. The Company's Clivatuzumab tetraxetan is in Phase 1b trial of enrolling patients with pancreatic cancer, with results to be reported in July. Phase I of Labetuzumab-SN-38 in patients with advanced colorectal cancer is also underway. Finally, Epratuzumab tetraxetan is targeted at patients with aggressive lymphoma and is currently in Phase I. The best way to play IMMU is to buy shares ahead of the Phase I results and sell on the news. http://www.barchart.com/charts/stocks/IMMU&style=technical.

Dyax Corp. (NASDAQ—DYAX—$3.42) is a biopharmaceutical company that is most unusual for the following reasons. First, for a sub-$500M market cap, it has an 80% institutional holding percentage including some of the smartest micro-cap investors in the biz, that were former clients of mine. Second, although DYAX is losing money, revenue should reach $56M this year and $78M next year, substantially reducing R&D expense risk. Third, the stock had a great week last week—like IMMU it was one of the few. DYAX rose 7.2%.

Dyax developed KALBITOR on its own and, since February 2010, has been selling it in the U.S. for the treatment of acute attacks of hereditary angioedema (HAE) in patients 16 years of age and older. KALBITOR and product candidate DX-2930 were identified using Dyax's patented phage display technology, which rapidly selects compounds that bind with high affinity and specificity to therapeutic targets. Dyax leverages this technology broadly through an innovative Licensing and Funding Research program. The LFRP has provided the Company a portfolio of product candidates being developed by its licensees, which currently includes 13 revenue generating product candidates in various stages of clinical development, including three in Phase 3 trials.

Buy it and ride it. The chart has improved markedly and DYAX could soon reach or break through the $4.50 year-high. http://www.barchart.com/charts/stocks/DYAX&style=technical.

Until next week...

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Rob Goldman founded Goldman Small Cap Research in 2009. Rob 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 Jaffrey'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*. As an investment manager, Rob's model portfolio was once ranked the 4th best small cap growth performer in the U.S. by *Money Manager Review*. In addition to his work at GSCR, Rob is the editor of The Stock Junction (www.TheStockJunction.com.)

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