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**KEY TAKEAWAYS**

- ⇒ *The market is up for the wrong reasons*
- ⇒ *Watch recent and historical equity mutual fund outflows*
- ⇒ *Smallest stocks have been hardest hit*
- ⇒ *Use this time to re-balance portfolio*
- ⇒ *Buy stocks in these top performing industries*
- ⇒ *These 2 May 30-30 recs are great picks for this summer*



**KEY STATISTICS**

<u>Index</u>	<u>Close</u>	<u>2013</u>
DJIA	14910	13.8%
S&P 500	1606	12.6%
NASDAQ	3403	12.7%
Russell 2K	977	15.1%

(figures are rounded)

## Key Data for Your Portfolio

It is hard to believe that we are already halfway through 2013. Before you know it, we will have back-to-school sales, Halloween, Thanksgiving, etc. Still, I think most of us are grateful that at least the second quarter is over, given the volatility of late. Goodbye June, hello July, right?

Well before we celebrate, let's take a brief look at where we are so we can forecast where we are going. The market enjoyed a 1%+ gain, depending upon the index last week. But, the move was largely driven by a downward revision in GDP for 1Q13 to 1.8% from 2.4%. This 25% reduction in growth was actually hailed by the Street in anticipation of a deferment of the pause in monetary easing. Does that sound like a real reason to cheer? I say no. Since the market went up for the wrong reasons we are still holding to the belief that we have more drops to follow.

If the year ended on June 28th, these closing index prices would be kicking some serious tail. What makes it even more remarkable is that it feels like we have been through the ringer during June. To prove that point, I noted to 3 investment pros that the Russell 2000 Index closed at around 977. I then asked them where the index closed on May 31st, and gave them 4 options. They all chose 984 or above. It shows you how it felt like we took a beating when in fact the index rose 2.3%.

Interestingly, we have seen some stats that indicate a rise in margin interest in recent months, despite the fact that following \$18 billion in equity mutual fund inflows in January, outflows were \$11 billion since then, through late June. Therefore, the net inflows ended up pretty nominal overall. Looking ahead, 5 of the last 6 Julys have seen substantial outflows with 1 small positive month. And, we could see it again this year.

So how do we use these information during this short week? I am glad you asked. (cont'd)



# *The Goldman Guide*

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## ***Take Time Off<sup>2</sup> and Take Stock***

If you ever felt you needed to walk away from the stock market for a while to clear your head and relieve some of that investment-driven anxiety and tension, now is the perfect time. Starting on Tuesday afternoon, volume, activity, and general interest in the market will begin to wane. After all, Thursday is Independence Day and the market is only open for half the day Wednesday and many people will take long weekend by taking off Friday as well.

Truth be told, from time to time, some bargains can be found on days like next Friday. Still, prior to that day, we suspect market watchers will begin to concern themselves with quarterly earnings to a large degree, heading into early next week, although volume should be lighter than normal. Of course, this is a major departure from the monetary easing news-dominated market we have experienced over the past couple of weeks.

Regardless, I for one am glad to see the indiscriminate selling cease, at least for a while. It was getting depressing. Yet, investors should be extraordinarily cautious before stepping back in to the market, especially in the small cap and microcap stock worlds. Despite the nice moves in the broader market, only about 2% of the NASDAQ stocks that have recently reached new highs for the past 52 weeks trade under \$5.00. That is not even the most disturbing metric. Roughly three-fourths of the new year lows on NASDAQ have also been made by stocks trading below \$5.00 per share. Ouch.

This is not a non-correlated market phenomenon. Given that stocks appear to hold greater risk now than they did just two weeks ago, the stocks that are perceived to carry the greatest risk have been sold off at the highest rate. Plus, judging by these anemic new highs and alarming new lows results, this trend could continue. For example, the 2 stocks that reached new 52-week highs on Thursday were a bank holding company that has emerged as an acquisition target and another stock that typically trades 20,000 shares per day and traded 4x that level, on no news. Lord knows what the story is there. The stock is up 50% in the past week and either some front-running is occurring ahead of news or this will fall back to earth as quickly as it inexplicably rose.

We should note that the mid-year mark is also a great time to do some research on your own holdings and determine which stocks are keepers and which are sellers. Most investors never take enough time to engage in this kind of study but it is critical as part of the total investment process. We would define keepers as those you would consider buying more of and sellers, well, that is self-explanatory. Interestingly, we believe that part of the reason for the sharp selling was window dressing by institutional investors not wishing to hold stocks that either are losers in the quarter or perhaps economically sensitive.

With that in mind, while you are determining which stocks are naughty and which stocks are nice, this week is a perfect time to unearth stocks that were unduly sold off for these reasons and could be added for at least a short term trade. While a few may have already made a modest move higher, you are likely to find a number of stocks unjustly sold off that are buy candidates offering solid gains for the summer months.



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## Winning Trades and a Bonus for the Week

At The Goldman Guide, we try to keep it real. This is why we just have to plainly say that the second half of 2013 is unlikely to match the returns of the first half. That makes it all the more important you lock in the right gains, sell the right losers, and stick with what is working from the sector perspective. There is time to do that while firing up the grill, taking in some fireworks, and watching 1776 ( a personal favorite.) For starters, if you happen to review the best performing sectors, you should probably write off the best performer, as its return was an aberration led by the acquisition of a leader at an incredibly high premium. That is unlikely to happen again in this narrow space. Instead, we would focus attention on stocks in the specialty retail/clothing arena, which did better than most in Q2, and the automotive space, which had an awesome quarter. Both should perform well in Q3.

One example of a stock in specialty retail that not only weathered the storm but has thrived is **Pacific Sunwear of California Inc. (NASDAQ – PSUN - \$3.62.)** *Note: PSUN is a May 30-30 rec that just hit the 30% mark in 40 days.* PSUN is a leading specialty retailer rooted in the action sports, fashion and music influences of the California lifestyle that sells a combination of branded and proprietary casual apparel, accessories and footwear designed to appeal to teens and young adults. As of May, the Company operates 639 stores in all 50 states and Puerto Rico.

The key driver is that management has won credibility with consecutive quarters of better performance, after grossly underperforming for most of last year. In fact, PSUN surprised the Street in its recent quarterly release by generating revenue ahead of expectations, a lower loss, and management increased guidance. Plus, favorable existing store revenue growth occurred for the first time in several quarters. The stock continues to hit new highs and appears primed to reach \$5.00 this summer.

We provided an updated profile on **AutobyTel, Inc. (NASDAQ – ABTL - \$4.77),** *another recent 30-30 rec,* in response to the big moves in auto sales. The auto manufacturers sector was the second best performer in Q2, up over 22%. ABTL is an online leader in offering Internet-based consumer leads and marketing resources to car dealers and manufacturers and providing consumers with the information they need to purchase new and used cars. Although the stock has lagged behind the auto sector by drifting on low volume, further due diligence suggests that ABTL's business lags behind that of the auto makers and other firms. This should mean that the Company may be generating robust revenue but given the timing of the booking of the revenue, this growth may not be realized until this summer. Therefore, ABTL could prove to be a late-stage beneficiary of the auto sales rebirth and thus investors can invest in the stock now, ahead of what could prove to be strong 2Q13 results.

Bonus: Onyx Pharma (NASDAQ—ONXX—\$86.82), a cancer treatment developer, turned down \$120/ cash/per share from Amgen (NASDAQ—AMGN) and is still up for sale. Try to buy some calls as a bidding war could ensue with the ultimate buyout price of \$150-\$170. **Until next week....**



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