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## KEY TAKEAWAYS

- ⇒ *Oil price rises are not necessarily a bad thing*
- ⇒ *Small stocks best performers for almost all time periods in last 10 years*
- ⇒ *Small stock valuations could get better by comparison*
- ⇒ *Watch recent and historical equity mutual fund outflows*
- ⇒ *Smallest stocks have been hardest hit*
- ⇒ *Use this time to re-balance* port-

## KEY STATISTICS

<u>Index</u>	<u>Close</u>	<u>2013</u>
DJIA	15136	15.5%
S&P 500	1632	14.4%
NASDAQ	3479	15.2%
Russell 2K	1005	18.4%

(figures are rounded)

## An Investment Secret

Well, back to the old grind following the shortened trading week due to the Fourth of July holiday. We need to have more of them as the major indices rose from 2-3%, aided by (somewhat) favorable employment figures. Interestingly, oil prices had something to do with the rise as well.

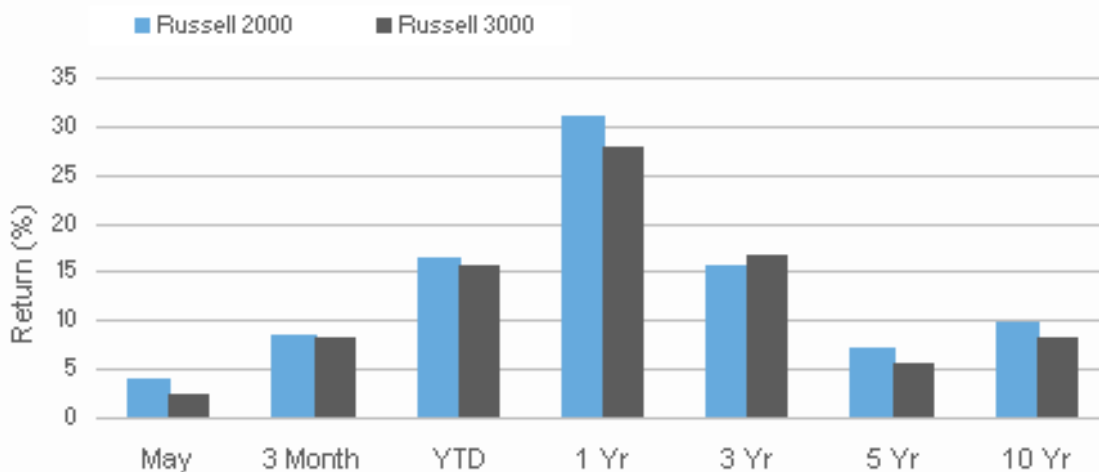
In recent days, we have witnessed a mini-spike in oil prices. While these spikes are not uncommon, especially in the summertime, the recent mini-spike is unrelated to demand. Instead, the latest geopolitical fire-storm in the Middle East has prompted the latest rise in the price of oil. About a year and a half ago the “Arab Spring” resulted in revolution and a changeover in the government of Arab Republic of Egypt. That takeover, which was supported by the military, was widely lauded at the time. Fast forward to present day and a successful coup has led to concerns regarding a suspension or reduction in oil production in the region. After all, 2.5M barrels of oil goes through the Suez Canal daily.

While these are real risk factors to oil pricing and oil supply, the U.S. has taken great measures in recent quarters to reduce our dependence on foreign oil. Major production from the Bakken region and other domestic sources has emerged as the primary replacement for some of our foreign oil, along with a modest increase in the use of alternative energy. Going forward, it is clear that this is a trend that will continue for the foreseeable future. This is especially the case given our high inventories and refining capabilities, which should mute any jump in prices at the pump in response to the increase in oil.

By the way, don’t let any talking heads scare you about higher oil prices and stocks. History has shown us that for the most part, higher *oil prices*, which typically signal higher demand, *means higher stock prices*, which we saw a bit last week. Remember, some of the bigger losses in stocks this year occurred when the bottom fell out of gold and oil.

## Good Things Come<sup>2</sup> In Small Packages

With so much attention on the Dow Jones Industrial Average and the S&P 500 Index performances, sometimes the Russell 2000 Index is the forgotten son or stepchild. This is true spite the fact that this index has handily beaten the major big cap indices such as the Russell 3000 Index (a measure for the total market) by every measure except for 3 year performance? Would it also surprise you to know that the end of the year is when the small stocks really gain an advantage? Plus, the risk factor associated with small stocks is not materially different than large caps, even though more money will be poured into large caps from bonds driving large cap valuations higher. Still, small stocks' EPS should rock in 2H13 making small caps that more attractive. Graphs and tables courtesy of the Russell.com website:



<u>Russell 1000</u>		<u>Russell 2000</u>	
PriceBook	2.43	PriceBook	2.08
Price/Earnings	17.04	Price/Earnings	0.44
IBES LT Growth Forecast	11.23	IBES LT Growth Forecast	12.87
Prev 5-Yr EPS Growth	10.94	Prev 5-Year EPS Growth	8.74



# *The Goldman Guide*

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## ***No More Insulin Shots***

Last week, we profiled 3 stocks which we thought would have a good week. One was ridiculous, one was very good, the other a minor disappointment.

**Pacific Sunwear of California (NASDAQ—PSUN—\$3.92)** was up 11.4% as it reached a new high of \$3.99 while **AutoByTel (NASDAQ—ABTL—\$4.70)** was down \$0.07 cents and continues to baffle us. The volume was especially disappointing, as it totaled 33,000 shares which was less than the volume for just the day prior. **Onyx Pharmaceuticals (NASDAQ—ONXX—\$136.03)** was an easy call and was up a tremendous 60% for the week. While all 3 look like they have at least some room to move higher, we don't mind re-visiting a stock that is an awesome story and an easy 25% gainer, in our view. Just wait for the inevitable drop, then pounce. Let me explain.

Roughly 18 months ago, we profiled a company called **Oramed Pharmaceuticals, Inc. (NASDAQ – ORMP—\$9.35)**, a developer of drugs to be taken orally rather than by injection. In fact, Oramed's flagship product for the treatment of diabetes is an orally ingestible insulin capsule that at the time completed mid-stage clinical trials. We were very high on the stock as we believed that management directed the Firm to be further along in the development of the drug than any of its peers.

Almost a year and a half later the stock, which traded for \$3.50 (adjusted for a reverse split) on the OTC Bulletin Board is now \$9.35 and trading on NASDAQ. The Israel-based company received FDA clearance to commence oral insulin trials in the U.S. which has driven the stock higher. After all, if they can be successful with an oral version of insulin, this stock is a crazy home run.

In the meantime, the Company planned to raise \$13M in a secondary offering in late June. However, due to market conditions, the stock sold off sharply ahead of potential dilution. Still the sell-off was so excessive that management pulled the deal, even though they need the money for future trials. We think it is a given that ORMP will raise money and the stock will slide in response. It is after the closing of such a deal that we think is a great entry point for those looking for a potential home run biotech stock that have the requisite patience.

Until next week...



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