Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 4 | ISSUE 12 | JULY 21, 2013

INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *Baseball has many similarities with investing*
- ⇒ *How we approach investing will play the biggest role in investing success*
- ⇒ *Equity inflows and market direction*
- ⇒ *Sectors to buy and avoid and last week's stock pick performance*
- ⇒ *Two sub-$5 winners re-visited offer great opportunities*

KEY STATISTICS

Index	Close	2013
DJIA	15544	18.6%
S&P 500	1692	18.7%
NASDAQ	3588	18.8%
Russell 2K	1050	23.7%

(figures are rounded)

Investing Is Like Baseball

We can all learn from each other, due to varying experiences and perspectives and this learning process can help shape who we are today and what we aspire to become down the road. Sometimes, we learn about certain topics from the most unlikely of sources. For example, investing and the sport of baseball are eerily similar. No, really. Check it out:

Both baseball and investing are all about statistics whether used by managers to make decisions (baseball and investment) and everyone involved feels free to spout off numbers as if they were gospel (ditto.)

You are an all-time great according to the public at large if you bat .400 or hit lots of home runs. However, if you are just shy of 3,000 hits and you are a steady but unspectacular player you may be overlooked. In the investment world, if you can pick winners half of the time you have fans. That is especially the case if you have huge winners, even if there are big losers as well. The "steady-Eddie" guy in investing is the value investor who gets no respect.

If a baseball player hits a ton of home runs, there are some that believe he is getting illegal help in the form steroids or other PEDs. If you are on a great winning streak with stock picks, you must be trading on inside information.

Past performance is not indicative of future results. (Self explanatory in both cases.)

When your team is hot, everyone is behind them, When a pundit or fund manager is hot, money is thrown at him. Mediocrity or short term hiccups? Get the hook out, and make it quick.

I could go on and on...What does all of this have to do with anything? I am glad you asked.

The Goldman Guide

VOLUME 4 | ISSUE 12 | JULY 21, 2013

Approach and Trends Are Keys to Success

So much of investing and certainly trading are about psychology. The problem is that investors sometimes get confused. For example, most experts (me included) do the public a disservice in how they present investment strategies. On the one hand, some would say that whatever the public was buying you should sell and whatever the public is selling you should buy. Yet, we also suggest that one should follow momentum. So, which one is it?

Of course the correct answer is that there is a time and a place for momentum stocks and a time when one comes to the realization that the retail investor is a negative barometer driven by emotion, much like the sports fan. His ups and downs are tied to his team just like the manic trader or investor. The investor makes impulsive mistakes while the sports fan becomes even more emotionally and financially attached. Things are great when they are working but rotten when they are not.

Approaching investing and sports in a dispassionate manner seems to be counterintuitive and makes no sense. But, it can keep you grounded so you can discern when a stock or industry is in play, or that it is time to sell to the retail guys late to the party. In sports, supporting your team without going overboard, well, good luck with that, but you get the idea.

We mention all of this now because expectations are so high in the stock market that our engagement is bordering on manic. Investors are afraid to sell for fear of losing out on gains while committing a ton of new money because of the recent gains in the market. It's like the fan who heard about their team's winning streak and hops on board for fear of missing out on the trend. It usually ends badly for the fan and can end badly for the investor. For example, according to Lipper, in the most recent week tracked (ending last Thursday) inflows into equity funds were the highest since January. While the overwhelming majority went into ETFs (indicating it was likely a lot of institutional money, mutual funds also saw huge gains, not seen since February. It is like déjà vu from earlier this year. Investors witnessed big market gains and plowed in—-and have been rewarded. Will they be again?

Yes they will if they don't bottom fish, and if they stay away from stocks and sectors not working but find (as we talked about last week) stocks that haven't really moved too much or are on fire for a short spell. Financials are a strong space, but a lot of tech is bad. Most consumer stocks are attractively priced, and maybe even gold and energy are worth the risk/reward. Health care stocks under accumulation are a solid choice but be wary of their individual stories, lest you lose sight of fundamentals.

Our two sub-$5 ugly ducklings had a mixed week. **RadioShack (NYSE - RSH)** was up as much as 13% for the week while Nokia (NYSE—NOK) was down slightly in sympathy with partner **Microsoft (NASDAQ—MSFT)** which is really out of favor. Keeping with the financials and consumer themes, it is time to revisit two sub-$5 stocks from earlier this year.

Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 4 | ISSUE 12 | JULY 21, 2013

Momentum Is In Your Favor

Earlier this year, we profiled a venerable pharmacy in the midst of a turnaround and a regional bank under fire that is a strong takeover candidate. Both stocks are up since our original profile but frankly, these stocks look better than ever.

With a market cap of $2.6 billion, **Synovus Financial Corporation (NYSE – SNV - $3.24)** is up 20% since our January profile. Still smarting from the financial crisis and with a lot of TARP money still on its books, this bank is a southeast regional financial services company with $26 billion in assets based in Columbus, Georgia. Synovus' divisions provide commercial and retail banking, investment, and mortgage services to customers through 30 locally branded divisions, 293 offices, and more than 300 ATMs in Georgia, Alabama, South Carolina, Florida, and Tennessee.

On Friday, SNV reached several inflection points that should take it fundamentally to the $4.00 and even higher on a takeover basis. Frankly, due to its size, standing, approach and business model, SNV is a real target for mid-large size banks. The Company announced that 2Q13 profits nearly doubled, and it raised $180M+ through a secondary offering of 60M shares at $3.09 and closed up! Plus, SNV will pay back nearly $1B in TARP money. All of these things illustrate a "de-risking" of the stock and we expect it to break through the $3.30 year high achieved on Friday. The valuation is just too compelling.

Rite Aid (NYSE—RAD—$3.01) is up 30% since our April profile and while recent quarterly results were not stellar, they were solid. Rite Aid, the nation's third-largest drugstore chain recorded its first annual profit since 2007, and reported its third straight quarter of profitability, which leads us to believe that this is not a one-time event.

Plus, the stock is in play, rising 10% in the past 2 weeks. IN fact, RAD is only 7% below its 52-week high. Moreover, the valuation is very attractive. The stock trades 20x February FY14E Street EPS estimates of $0.15 and 12x FY15E EPS forecasts of $0.25. We see a 30% increase in the next 6 months as they stock should solidly trade at a multiple of forward 12 months EPS.

Until next week...

The Goldman Guide

VOLUME 4 | ISSUE 12 | JULY 21, 2013

1498 Reisterstown Road, Suite 286
Baltimore Maryland 21208
Phone: 410.609.7100
info@goldmanresearch.com
www.goldmanresearch.com

Analyst: Robert Goldman

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.)

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this newsletter report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research publication.

Disclaimer

This newsletter was prepared for informational purposes only. *Goldman Small Cap Research*, (a division of Two Triangle Consulting Group, LLC) produces research via two formats: *Goldman Select Research,* which typically highlights small cap and mid cap companies, and *Goldman Opportunity Research,* which includes micro cap companies. The *Select* product reflects the Firm's internally generated stock ideas while the *Opportunity* product reflects sponsored research reports.

It is important to note that while we may track performance separately, we utilize the same coverage criteria in determining coverage of all stocks in both research formats. Please view the company's individual disclosures for each engagement, which can be found in each company-specific report. All information contained in this newsletter and in our reports were provided by the Companies or generated from our own due diligence. Our analysts are responsible only to the public, and are paid in advance to eliminate pecuniary interests, retain editorial control, and ensure independence. Analysts are compensated on a per report basis and not on the basis of his/her recommendations. The Firm has not been compensated nor does it expect to be compensated for the any research services for any of the other companies mentioned in this newsletter. Please read the disclaimers found on the initiation reports and updates for compensation disclosure and research subscription terms.

The information used and statements of fact made have been obtained from sources considered reliable but we neither guarantee nor represent the completeness or accuracy. *Goldman Small Cap Research* did not make an independent investigation or inquiry as to the accuracy of any information provided by the Company, or other firms. *Goldman Small Cap Research* relied solely upon information provided by the Company through its filings, press releases, presentations, and through its own internal due diligence for accuracy and completeness. Such information and the opinions expressed are subject to change without notice. A *Goldman Small Cap Research* report, note, or newsletter is not intended as an offering, recommendation, or a solicitation of an offer to buy or sell the securities mentioned or discussed. This report or newsletter does not take into account the investment objectives, financial situation, or particular needs of any particular person. This report or newsletter does not provide all information material to an investor's decision about whether or not to make any investment. Any discussion of risks in this presentation is not a disclosure of all risks or a complete discussion of the risks mentioned. Neither *Goldman Small Cap Research*, nor its parent, is registered as a securities broker-dealer or an investment adviser with the FINRA or with any state securities regulatory authority.

ALL INFORMATION IN THIS REPORT OR NEWSLETTER IS PROVIDED "AS IS" WITHOUT WARRANTIES, EXPRESSED OR IMPLIED, OR REPRESENTATIONS OF ANY KIND. TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW, *TWO TRIANGLE CONSULTING GROUP, LLC* WILL NOT BE LIABLE FOR THE QUALITY, ACCURACY, COMPLETENESS, RELIABILITY OR TIMELINESS OF THIS INFORMATION, OR FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, INCIDENTAL, SPECIAL OR PUNITIVE DAMAGES THAT MAY ARISE OUT OF THE USE OF THIS INFORMATION BY YOU OR ANYONE ELSE (INCLUDING, BUT NOT LIMITED TO, LOST PROFITS, LOSS OF OPPORTUNITIES, TRADING LOSSES, AND DAMAGES THAT MAY RESULT FROM ANY INACCURACY OR INCOMPLETENESS OF THIS INFORMATION). TO THE FULLEST EXTENT PERMITTED BY LAW, *TWO TRIANGLE CONSULTING GROUP*, *LLC* WILL NOT BE LIABLE TO YOU OR ANYONE ELSE UNDER ANY TORT, CONTRACT, NEGLIGENCE, STRICT LIABILITY, PRODUCTS LIABILITY, OR OTHER THEORY WITH RESPECT TO THIS PRESENTATION OF INFORMATION.

For more information, visit our Disclaimer: www.goldmanresearch.com