Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 4 | ISSUE 18 | SEPTEBMBER 9, 2013

INSIDE THIS ISSUE:

KEY TAKEAWAYS

⇒ *Microcaps may have had a great fall but they will come back roaring this week.*

⇒ *Lagging indicators are driving momentum right now.*

⇒ *With worries over politics, earnings, and the economy, we are in a knee-jerk trading market*

⇒ *Insider sales have dwarfed buys but there have been some great stock buy clusters*

⇒ *Buy on down days and don't chase the year's big movers*

KEY STATISTICS

Index	Close	2013
DJIA	14923	13.9%
S&P 500	1655	16.1%
NASDAQ	3660	21.2%
Russell 2K	1030	21.3%

(figures are rounded)

Seven Tips for September

Whether it is concern over Syria, the economy, monetary policy, the stock market is clearly sending us a message that the road ahead is full of potholes, bumps, peaks, and valleys. In today's edition, we highlight lagging and leading indicators and attempt to make heads or tails of them for this week.

Last week, microcaps began the trading session with very low volumes and little relative strength. By week's end, stocks were sold off indiscriminately.

As fear that the U.S. may enter yet another conflict in the Middle East, the most vulnerable stocks, i.e., the ones that carried the most risk and had great year-to-date returns, were sold off or shorted. In times of uncertainty, unusual volatility can wreck small cap and microcap stocks for short spells. Now that the geopolitical threat of another war is not imminent (though we appear to be impotent), look for gains this week.

Sometimes lagging indicators tend to be more constructive and destructive than leading indicators.

We, along with other firms are sometimes guilty of highlighting key information that can be viewed as a lagging indicator, such as money outflows. Interestingly, we hit upon this notion pretty early in the downward cycle and are a direct result of the uncertainty principles and perceived market and earnings risk we referred to above. In the absence of substantive leading indicators, lagging indicators should not be given the short shrift. Instead, investors should use them as a guide of what is happening now and how they affect stocks going forward.

We occasionally forget that stocks are bi-directional, not uni-directional.

When a stock performs well by continuing to rise or staying "up" in a narrow range we are lulled into a comfort zone that makes us believe a stock must continue to rise in value. Since stocks, like indices and markets, trade within ranges of valuations, investors must not panic when things go wrong. If fundamentals are the same or better, the courageous buy while the Nervous Nellies sell. Guess who wins in the long run?

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Sven Tips for September

The stock market indices are roaring but I do not see that in my stocks.

Stocks indices, like the pros that designed them and the investors that trade them, are fickle. Depending upon weighting of stocks in the best-performing industries and their money flows, some stocks will do extremely well and others will not. For example, if a narrow segment of tech is weighted heavily in the NASDAQ Composite, and that group is on fire, it does not necessarily translate to all or even related tech stocks. Thus, what appear to be broad market moves can be deceiving. We see this more and more. How to stay on the right side of this coin?

Follow the volume leaders and segment's movers and ride the train.

The market moves less on fundamentals and more on knee jerk reactions.

With a teetering economy, potential conflicts abroad, questionable earnings, and the dreaded bond purchase tapering, the stocks market should not be as strong as It is today. It is trading at a slight premium to historical valuations. With nowhere else to put one's money, if you can't beat 'em join 'em, if only for trades—-not for long term holdings. In fact, holdings beyond 6-9 months may not be wise, in most cases.

Two years ago stocks were buoyed by corporate buybacks. That seems to have dissipated. What should we use as a measure of future prospects for companies now that earnings uncertainty seems to be widespread?

Not only are stock buyback programs for the most part ending or are over for many companies, we have witnessed increases in insider selling in the past few weeks. That also added to some of the earlier down days of the stock market. In addition to the money flows and volume that we alluded to earlier, clusters of insider buys should be viewed as a major factor in buying one stock over another. In a perfect world, a stock that has multiple insiders executing meaningful purchases bodes well. For example, Regado Biosciences (NASDAQ—RGDO—$4.66) had several insiders buy a ton of stock 2 weeks ago and the stock is up 15%. And at the end of last week, Green Earth Technologies Inc. (NASDAQ—GETG—$0.14) executed transactions as well.

Embrace the buying opportunities on down days as well as up days.

Those investors that have taken profits or have sold stock will be back which bodes well for the market in general in the coming weeks. In the meantime, as we near year-end, avoid the big movers as they will not likely carry that over into next year. Seek out recent movers and shakers since they will not have the cap on them from potential sellers as is the case with the big movers.

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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 Jaffray'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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