Goldman SMALL CAP RESEARCH

The Goldman Guide

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INSIDE THIS ISSUE:

Size Matters

We are one week away from the end of the third quarter of 2013 and with nearly three-fourths of the year in the books, one thing has been certain all year. Size matters, and small listed companies are still the place to be. The Russell 2000 Index and the NASDAQ Composite are both up over 25% year-to-date as compared with the Dow Jones Industrial Average and the S&P 500 Index, which are up between 18-20%, respectively.

Still, it is not just size it is growth and the importance of certain sectors and stocks that are driving stocks in one way or another. With the exception of top brand name stock, the market trades to some degree based upon sector rotation, perceived leadership status and growth prospects. I bring this up because I believe that we need to lift up the hood on what may be a sleight of hand maneuver by the powers that be recently.

Aaron Schweitzer touched upon the fact that the DJIA will be swapping out 3 stocks (10% of the index) in exchange for 3 new ones. Gone will be Bank of America (NYSE—BAC), Hewlett Packard (NYSE—HPQ) and Alcoa (NYSE—AA). In their stead will be Goldman Sachs (NYSE—GS), Visa (NYSE—V) and Nike (NYSE—NKE). Why these stocks and why now?

There really has not been a "real" response to this query aside from a general answer that these new 3 are more reflective of the top companies on the NYSE. To be sure, they do carry higher market caps, by and large. I know I am jaded, but after spending time on the buy-side and hearing the games people play in benchmark indices was shocking. Allow me to be candid. I believe that this DJIA switch was likely made to ensure continued higher index gains. Plus, by 2 of these three stocks are not rally controversial while one always has a bulls-eye on it, and the new status will likely help it to some degree. Essentially, BAC and HPQ are too questionable while GS, V, and NKE are on more solid footing with limited baggage.

Clearly this will help the DJIA returns and it will be interesting to see how they do in 2014. In response, look for other, much smaller niche indices to also make modifications to ensure growth of their own indices, and the ETFs associated with them. We will monitor the situation and identify any ETFs we that could be the beneficiary of change. As with stocks, small ETFS will shine.

KEY TAKEAWAYS

- ⇒ *Small stocks are still outperforming*
- ⇒ *The Dow Jones Industrial Average stock swaps may aid more gains*
- ⇒ *Smaller indices may make big moves too*
- ⇒ *ETFs that use small indices as benchmarks may gain from changes*
- ⇒ *Hot performing new IPOs in these sectors make these 2 sectors very popular*
- ⇒ *This temp agency stock looks great*
- ⇒ *Out of the box retail stock analysis*

KEY STATISTICS

Index	Close	2013
DJIA	15451	17.9%
S&P 500	1710	20.0%
NASDAQ	3775	25.0%
Russell 2K	1073	26.4%

(figures are rounded)

Random² Thoughts

There were two new IPOs that began trading last week and they had huge gains. **Rocket Fuel (NASDAQ—FUEL)** provides artificial-intelligence digital advertising solutions. The company offers artificial intelligence-driven solution that is built on its real-time optimization engine, which leverages Big Data and its computational infrastructure to deliver highly-automated, measurable digital advertising campaigns. **FireEye (NASDAQ—FEYE)** provides various real-time protection products to enterprises and governments. It provides malware protection system (MPS) products, including software-based appliances.

Just as we noted that certain sectors are either really hot, or really not, the software security and software-based digital advertising are some places to have some exposure. **Millennial Media (NYSE—MM)**, a mobile advertising solutions provider is a consideration in space, as is security leader **Check Point Software (NASDAQ—CHKP).**

Over the weekend, I read what may be the best piece on jobs in America It was an interview with the CEO of one of the largest temp agencies in the U.S. that appeared in the Wall Street Journal. Not only did it make me want to buy shares in several temp stocks, but it was spot on. A must-read. http://online.wsj.com/article/SB10001424127887324492604579087044033601178.html

After you read the article, check out **Robert Half (NYSE—RHI—$38.58)**, which may be the best of the bunch.
Sorry to do this, but we must toot our horn. In the August—September issue of The 30-30 Report, **Century Casinos (NASDAQ—CNTY)** hit the 30% mark in under 30 days. The latest three picks are primed to perform just as well if not better. In fact, we will be producing research report on one of these stocks because we believe that it can double or more due to the positioning and upcoming events. To stay ahead, subscribe now!

In January, we noted that one out of the box yet very accurate measure for retail stocks is the level of discount, supply, and demand, of a company's gift card in the secondary market. This methodology enabled us to warn investors about JCPenney (NYSE—JCP) early on in its problems this past year. As we get closer to Halloween and the holiday buying season begins we will highlight retail stocks that we think will rise or fall, based in part on this measure.

We have elected not to profile a single stock this week and instead note some interesting plays based on industry sector rotation and key drivers, such as the stocks cited above. Moreover, we have an exciting new sponsored initiation today on a 40-year-old profitable company primed to grow through M&A and upgrade to a senior exchange.

Have a great week!

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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 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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