Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 5 | ISSUE 6 | FEBRUARY 9, 2014

INSIDE THIS ISSUE:

KEY TAKEAWAYS

⇒ *Investors are feeling better after last week's rally but the small caps did not participate*

⇒ *Think first before buying any small cap rally this week*

⇒ *Shocking news by Sony and comments by an Apple founder could portend a tech stocks doomsday*

⇒ *The Olympics may have nightmare stories about the hotel situation but a major hotel chain looks pricey but attractive*

KEY STATISTICS

Index	Close	2014
DJIA	15794	-4.7%
S&P 500	1797	-2.8%
NASDAQ	4126	-1.2%
Russell 2000	1117	-4.0%

(figures are rounded)

Subtle Doomsday Signs?

Well, it am not to hard to make anxious investors feel better. All it takes is a week-long rally in stocks, right? Interestingly, the S&P 500 rose 3.4% from the week low and was down as much as 6.1% from the previous high. Almost correction territory...

Speaking of corrections, there were some news stories made public late last week that knocked me off my seat and after contemplation, I have come to the conclusion that they could be an early glimpse into a not-too-distant tech meltdown, particularly consumer tech stocks.

Seriously. I am not kidding.

The current fragile state could cripple stock performance and valuations. At best, we could see volatility increase dramatically, which means investors would be wise to sell calls on long positions on big "up" days in the market to fight back against potentially large future stock market declines later this year. While pitched as positives, in our view, the stories reek of desperation---and that is not a good thing.

For starters, Sony Corp (NYSE – SNE) announced that it was ceasing computer (PCs and laptop) production and exiting the business altogether via a sale to a Japanese investment fund. In addition, the company is spinning off its television production and sales division which has lagged recently. All told, 5,000 people will be laid off as Sony will focus its attention on tablets and smartphones. These are moves are surprising and troubling. The Sony Vaio computer line has fared pretty well and not seen major market share erosion. Plus, the tablet and smartphone businesses have synergies with the PC side. Thus, it seems an odd decision at this juncture. It reeks of fear that Sony leadership does not have a handle on consumer buying trends in the space.

Subtle Doomsday Signs? (cont'd)

In our view, these moves are an indictment on the consumer electronic hardware production and sale business by one of the biggest firms in the entire sector. If Sony cannot make a go of it in two of the arenas which have historically driven its sales then will other firms come to the same conclusion? In other words, will we look back on this and note that this was the precursor to a slowdown in sales of all hardware devices in the next year or so due to a fickle audience or will it be due to a struggling global economy? If so, we could be in for a rude awakening.

Separately, at the Apps World Conference in San Francisco last week, Apple (NASDAQ – AAPL) co-founder Steve Wozniak suggested that Apple start producing Android phones lest the iPhone go the way of the Blackberry.

Say what?

While the iPhone is almost universally the phone to have in the U.S. it has a tiny market share of the smartphone world outside this country. Instead, Samsung's Android platform dominates the smartphone market. For Wozniak to suggest such a notion is heresy to an iPhone user. However, this statement is as telling as the Sony moves. In both cases, it seems as if tech leaders are prophesizing swift and major philosophical business changes must be made to maintain relevance, which is a frightening thought for these mega-firms and its investors. Failure to do so could cause investors to reconsider their approach to tech stocks and their valuations. If these stories continue along this path, we could be in for a rude awakening.

Separately, we think you will agree it is not a good sign that all of the major indices rose while the Russell 2000 Index declined last week. It bounced off its low (1082) which was 8.4% from the high. Many people (including us) are concerned about valuation and since this is the last major week for small cap quarterly reporting, this may tell the tale of the tape for the next few weeks. Nonetheless, we would not buy into a rally unless it is accompanied by big volume. We think more shake-outs are in the offing.

Hotel Nightmares, Hotel Opportunity

The Winter Olympics began this weekend with the opening ceremonies from Sochi, Russia. Already, you may have heard some of the horror stories. Signs that read, “Do Not Use, Please discard items in bin”, over the toilet with a trash bin situated next to it for the guests to put their ‘items’. Truly the hotel situation is **number two** in Sochi which should be no surprise to anyone after 75 years of communist rule followed by the corrupt plutocracy under Yeltsin and Fabio want-to-be Putin.

One can only be glad that he or she did not take that once in a lifetime trip to the Olympics this year and we all should appreciate how good we have it in the United States. With the market in somewhat of a roller coaster mode, we thought we would take a look at what might be a golden long term investing opportunity, ironically in the hotel sector.

In early December the **Blackstone Group L.P. (NYSE – BX)** sold shares in **Hilton Worldwide Holdings (NYSE – HLT - $21.20)** in an IPO that raised nearly $2.3 billion, a record for a hotel related deal. The stock has oscillated from around the $21.50 to a little over the $22.50 mark since with a consensus one year price target of $24.50.

We normally shy away from recent IPO issues, but this really a special case that deserves an exception. There is probably no stronger or diverse brand in the lodging sector with lineup of brand names that include Waldorf Astoria Hotels & Resorts, Conrad Hotels & Resorts, Hilton Hotels & Resorts, DoubleTree by Hilton, Embassy Suites Hotels, Hilton Garden Inn, Hampton Inn, Homewood Suites by Hilton, along with timeshare properties under the Hilton Grand Vacations brand. Economic cycles may affect the Company’s bottom line on a year over year basis, but there will always be a market for these chains.

If the $20 level is too pricey for your tastes, then there is always the long call options route or buying on a dip. **HLT** has the potential to be the gold medal winner over the long haul.

Have a great weekend! USA! USA! USA!

The Goldman Guide

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

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