



# The Goldman Guide

VOLUME 5 | ISSUE 12 | MARCH 23, 2014

## INSIDE THIS ISSUE:

- Ukraine
- Tax Season

### KEY TAKEAWAYS

- ⇒ *Small caps are about to get an extended look and accumulation*
- ⇒ *This Ukraine situation is serious and too many pundits are ignoring it*
- ⇒ *There are ways to play the Ukraine situation*
- ⇒ *Tax season could lead to more money inflows into the space*
- ⇒ *Apparel stocks are under pressure but could be at the low pint in the cycle*
- ⇒ *IPOs will only help a small cap rally*

### KEY STATISTICS

Index	Close	2014
DJIA	16303	-1.6%
S&P 500	1867	1.0%
NASDAQ	4277	2.4%
Russell 2000	1194	2.6%

(figures are rounded)

## THREE SIGNS SMALL CAPS WILL RISE

**T**here are three signs that small caps will become the most important segment of the equity market in the coming weeks and one of them has a correlation with college basketball.

### Sign #1: Geopolitical Changes Mean New Strategy

If you are a political junkie you are certainly aware of what is presently transpiring in the Ukraine. Russia has effectively annexed Crimea without a shot but with a show of serious military force. Laughing in the face of impotent talk of economic sanctions to be levied by the U.S. and EU, is Russian President Vladimir Putin (on the Ritz and a poker face), a former head of a key arm of the KGB. Today, the possibility exists that he could seek to take over Ukraine as well.

On the surface, most Americans are saying, who cares? How does this affect us? Even Warren Buffet has publicly stated he would not sell any of his businesses due to this type of potential strife. This has enabled the equity market to rally and ignore the problem. After all it is not like when Iraq invaded Kuwait and everyone worried that it could lead to an oil crisis.

These pages are not the right forum to expand on or espouse potential scenarios. Suffice it to say that this muscle-flexing is just the beginning of a shift in foreign policy which will impact energy markets, Europe, and China's relationships as well. We are already seeing U.S. stocks with exposure to Eastern Europe come under fire and commodities trading look like an EKG. Buffet is right about his line regarding businesses and the Ukraine situation since it hard to quantify the impact, but any ups and downs in overseas markets due to this potential conflict will only mean more money will shift to small caps and micro caps and away from big caps. So, if you are a trader, you need to pay heed.

## Three Signs... (cont'd)

### Sign #1 cont'd

The reason why small caps and micro caps will rally in the face of a crisis in the Ukraine is that we remain in a low interest rate environment that drives money into equities. Since larger stocks have exposure to these trouble spots and small caps likely do not, money could shift into small caps. The key is that the small stocks are not correlated with the big caps or the key indices. So, even if things go south, small is the place to be, even if volatility is heightened.

### Way to Play It:

Oil is king in Russia and has produced some ultra wealthy billionaires. We wonder if the Ewingoffs are sitting around South Forkgrad Ranch counting their money. The volatile situation should drive oil stocks higher here. **Evolution Petroleum (NYSE – EPM - \$12.78)** is a small cap oil and natural gas play that could take off as oil prices rise due to the crisis. A forward 12-month P/E make EPM an attractive valuation play in our space.

**Technical Analysis for EPM**  
(Source: <http://www.stockta.com/>)



## **Three Signs... (cont'd)**

### **Sign #2: Tax Season**

The closer we get to April 15th the more likely retail investors will put money into self-directed IRAs. Oftentimes, funds are directed into small cap funds and stocks which will increase the equity inflows and drive the space higher. Separately, those entitled to tax refunds may use the refunds for consumer use and that could have a solid impact on the small cap consumer discretionary segment.

*Way to Play It: Apparel Stocks*

With Spring finally here and (hopefully no more snow after this week) apparel stocks can actually get attention again. In the meantime, this may be a low point in the cycle which means these stocks are a buy for the courageous and clever.

### **Sign #3: Geopolitical Changes Mean New Strategy**

As we highlighted in a blog last week with a different theme, the current NCAA Basketball tournament has shown that there is parity and a level playing field for underdogs, further giving small cap investors, who by their nature root for and seek out the underdogs, a boost.

*Way to Play It: Small Caps not Correlated to Europe*

**Bonus:** IPO Performance and the lengthy IPO Calendar means more institutional money directed at the space

Have a great week!



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