The Goldman Guide

VOLUME 5 | ISSUE 16 | APRIL 20, 2014

INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *Biotechs dropped 25% from their highs but there are telltale signs that they will outperform over the next 30 days or so*
- ⇒ *Earnings season is in full swing and reports from Tuesday on-ward could shape direction and valuation*
- ⇒ *NASDAQ and the Russell 2000 almost hit the 10% correction from highs mark and need to so that valuations get back on track*
- ⇒ *Is web traffic to investment sites a precursor to greater trading activity?*

KEY STATISTICS

Index	Close	2014
DJIA	16409	-1.0%
S&P 500	1865	0.9%
NASDAQ	4095	-2.0%
Russell 2000	1138	-2.2%

(figures are rounded)

Why Biotechs Will Outperform

Since achieving their 52-week highs in late February/early March, biotech stocks have arguably been battered more than any other sector during the recent downturn. While the sector had clearly gotten ahead of itself and the valuations of the underlying stocks were unsustainable, we believe that traders and investors who dismiss these shares over the next month or so could be soundly kicking themselves.

From recent peak to recent trough, the bellwether biotech ETF, iShares NASDAQ Biotechnology Index (NYSE—IBB) dropped by about 25% in just a few short weeks. It rebounded last week to close 7% above its low, which occurred on April 15. It closed at $222.16 which is technically important and bullish because it closed above its $220 200-day average.

Still, it is not the close that has us bullish per se. Trading could be erratic and it could easily trade below this (declining) DMA, although I think it is more likely it bounces back toward the $250 range, which would be the 50-day moving average.

Instead, there are reasons why we believe the sector will do surprisingly well.

First, judging by recent trading activity, we have reached the all-important capitulation phase, where weak holders and profit-takers have exited, limiting selling pressure. We see this just in the volume. For the fist 13 trading days of April ending on Thursday April 17th, a total of roughly 56 million shares, or 4.3 million shares per day of IBB have been traded. That is a 72% jump as compared with the 2.5 million average daily volume, or a total of 52 million shares through 21 trading days in March. Of course we could see still see sharp declines, but by our account, the worst is over.

Why Biotechs Will Outperform (cont'd)

Truth be told, the IBB ETF represents the top tier biotechs so it is natural to assume that this group would sell off (or be shorted) first. As if on cue, while the IBB was recovering, a number of low-mid tier biotechs endured a wave of selling. We view this event as a confirmation of our capitulation stage thesis.

Figure I. IBB Moving Averages, Change, and Volume
Source: www.BarChart.com

Period	Moving Average	Price Change	Percent Change	Average Volume
5-Day	218.66	+0.27	+0.12%	5,007,380
20-Day	230.39	-36.09	-13.97%	4,254,505
50-Day	248.58	-14.79	-6.24%	2,711,036
100-Day	239.52	+7.95	+3.71%	1,834,303
200-Day	220.19	+43.30	+24.21%	1,345,406
Year to Date	245.87	-4.90	-2.16%	2,231,301

We are nearing the month of May which will mean that the "Sell in May and Go Away" crowd will soon be out in force. That factor alone could make it hard for any stocks, let alone biotech to get some consistent traction. Nonetheless, a major event in the oncology world begin in late May and it is typically a driver of oncology-related biotech stocks just prior to the conference. Barring a broad-based decline, we envision a modest pick-up in this segment of biotechs, with the aid of the American Society of Oncology Conference.

Ahead of this backdrop, word that Pfizer (NYSE—PFE) is considering buying AstraZeneca (NYSE—AZN) for $100 billion has got to give the space a near term shot in the arm as well.

Therefore, we recommend buying small oncology names or perhaps longer term calls on big pharma if in fact the buyout rumors are true as it could prompt a re-valuation of the sector.

To Ponder and to Monitor

This week is an important one for those that closely monitor earnings season. There are not too many interesting names reporting on Monday aside from Netflix (NASDAQ—NASDAQ) and random health care firms. Amgen (NASDAQ—AMGN), AT&T (NYSE—T), McDonald's (NYSE—MCD) will have a very real impact on stocks midweek following their results on Tuesday (mainly after the close.)

We still maintain that with a FY14E P/E of around 19x for the Russell 2000, most small caps are still expensive, while the S&P 500 is getting more reasonable, on a valuation basis. Still, aside for the short term biotech play, select consumer stocks, which are already expected to report a poor Q1 could end up being decent performers.

A very interesting and out of the box stat to monitor is web traffic to investment related websites. When stocks are doing well, traffic rises, when it is not, traffic declines. This can be monitored in real-time and makes sense. Most websites are visited by individual investors and when they are keenly engaged in trading and investing (which occurs in bull markets not corrections or bear markets), traffic is up. In down markets, stock trading and web activity are both reduced. Interestingly, with the exception of when we initiate coverage of a new stock or write about a widely held small stock, I can gauge investor trading activity to some degree by our own website traffic. We will consider engaging this metric going forward.

Speaking of corrections, while biotechs corrected to the tune of 25%, both the NASDAQ Composite and the Russell 200 Index nearly hit a correction of 10% midday last week. Both reached the 9.7% decline point before bouncing back with a vengeance, and were up over 3% from their lows. This is very bullish near term and also affirms our capitulation phase but we are not out of the woods and could still reach the 10% or more correction number which we view as healthy and required to return to a favorable valuation for growth stocks.

Have a great week!

1498 Reisterstown Road, Suite 286 Baltimore Maryland 21208 Phone: 410.609.7100

info@goldmanresearch.com www.goldmanresearch.com

Launched in May 2010, *The Goldman Guide* is a free weekly publication of Goldman Small Cap Research and is written by Founder Rob Goldman with contributions from the GSCR contributor team. This non-sponsored investment newsletter seeks to provide investors with market, economic, political and equity-specific insights via an action-oriented, straight to the point approach. No companies mentioned in this newsletter are current sponsored research clients of the Company or its parent, unless noted, With rare exceptions, all companies or investment ideas mentioned in this publication are publicly traded stocks listed either on the NYSE or the NASDAQ. Goldman Small Cap Research members and contributors' bios, certifications, and experience can be found on our website: www.goldmanresearch.com .

Disclaimer

This newsletter was prepared for informational purposes only. *Goldman Small Cap Research*, (a division of Two Triangle Consulting Group, LLC) produces non-sponsored and sponsored (paid) investment research. Goldman Small Cap Research is not affiliated in any way with Goldman Sachs & Co.

The Firm's non-sponsored research publications category, ***Select Research,*** reflects the Firm's internally generated stock ideas, along with economic, industry and market outlooks. In virtually all cases, stocks mentioned in **Select Research** offerings are listed on the NYSE or the NASDAQ. Publications in this category include the weekly newsletter *The Goldman Guide*, daily Market Monitor blogs, Special Reports, and premium products such as *The 30-30 Report*. Goldman Small Cap Research analysts are neither long nor short stocks mentioned in this newsletter.

Opportunity Research reports, updates and Microcap Hot Topics articles reflect sponsored (paid) research but can also include non-sponsored micro cap research ideas that typically carry greater risks than those stocks covered in Select Research category. It is important to note that while we may track performance separately, we utilize many of 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 company-specific ***Opportunity Research*** reports, updates and articles.

Goldman Small Cap Research has not been compensated for any content in this issue.

All information contained in this newsletter and in our reports were provided by the companies mentioned via news releases, filings, and their websites or generated from our own due diligence. Economic, market data and charts are provided by a variety of sources and are cited upon publication. Stock performance data is derived from Yahoo! Finance. Our analysts are responsible only to the public, and are paid in advance to eliminate pecuniary interests, retain editorial control, and ensure independence.

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, other firms, or other financial news outlets. *Goldman Small Cap Research* relied solely upon information provided by companies through 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, update, article, blog, 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 newsletter does not take into account the investment objectives, financial situation, or particular needs of any particular person. This 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