Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 5 | ISSUE 23 | JUNE 8, 2014

INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *When stocks rise steadily with little volatility we get complacent and that can lead to big losses*
- ⇒ *A heavy concentration in one or few positions can crush your portfolio*
- ⇒ *The wrong diversification is just as bad as being greedy*
- ⇒ *Low volumes, weird fund flows, and low volatility outs a cap in stock performance*
- ⇒ *When volatility resumes stock pickers can really make a fortune*

KEY STATISTICS

Index	Close	2014
DJIA	16924	2.1%
S&P 500	1949	5.5%
NASDAQ	4321	3.4%
Russell 2000	1165	0.1%

(figures are rounded)

TOP 5 INVESTOR MISTAKES

As we approach the midyear timeframe and we focus on fun in the sun, both novice and professional investors tend to be prone to mistakes. With this concept in mind, we give you top 5 investor mistakes.

Putting Eggs in One Basket: I have always held to the belief that having a smaller concentration of holdings can be the most rewarding approach to equity investing. That does not mean putting all of your eggs in one basket, however. Too often individual investor portfolios are decimated by an unbalanced portfolio, whereby one position, which greatly outweighs the others, collapses. Having an unequal weighting is expected, but having one stock comprise 40-50% or more of a portfolio is incredibly risky.

Playing Rip Van Winkle: Having been involved in the investment industry as a profession for over 25 years it is hard for me to untether myself from stock quotes and news. Still, there is a large group of investors who only occasionally monitor their holdings in the hope that in a few years the value will have increased. This strategy may have been sound years ago but given the potentially large swings in stocks of all sizes, one could get burned if one does not play an active role in investment monitoring.

Forgetting that Greed is Bad: There is a saying on Wall Street: Pigs get fat but hogs get slaughtered. When a stock is on the move, our instinct is to be greedy and let it continue its ascent, rather than lock in gains. Unfortunately, more often than not, gravity sinks in and what goes up must come down. By setting a stop-loss for a portion of your holding during a stock's rise as well as a separate one at a lower threshold in case of a stock collapse, you can save yourself a headache and capital gains.

Top 5 Investor Mistakes (cont'd)

Engaging in the Wrong Diversification: Years ago, when mutual funds were in vogue, many investment professionals were loading up their client portfolios with a series of funds that duplicated exposure, holdings and strategy to the detriment of the investor. Today, these same pros are repeating the same mistake with ETFs. For example, they may buy a European ETF and then supplement it with Germany or Spain ETFs. This over-diversification creates too much exposure to an asset class which reduces performance and can be as bad as greed.

Not Taking Responsibility: Whether you are investing the money yourself or paying someone to do it on your behalf, the buck should stop with you. It is too easy to blame advisers, companies, the market, etc. when strategies and execution fail. If you are engaged in the process beyond stock monitoring and take some responsibility for the performance, portfolio strategy errors can be limited and wealth building can improve.

Low is Bad

Yes the bull market in big stocks continues. Still, it has not been driven by large volumes as too many investors remain uncommitted. This is evidenced by the continuing high Neutral status in the weekly American Association of Individual Investors Survey (AAII). Even fund flows as measured by Lipper have not been particularly useful. Big weekly shifts in fund inflows and outflows have resulted in a paltry net inflow of $800M over the past 5 weeks. This figure is representative of the herky-jerky nature of investor sentiment as inflows have been as high as $9.7B and outflows have nearly reached the $8B mark as well.

As we noted in the Market Monitor last week, the low volatility in small stocks, as measured by the VIX is also cause for concern as it will not take stocks to the Promised Land, in our view. That volatility is needed for stock pickers to really shine. On the flip side a lack of volatility in an upward trend can make us complacent and cause losses.

Low is Bad (cont'd)

Chart 1: CBOE Volatility Index YTD (VIX)
(Source: Yahoo! Finance)

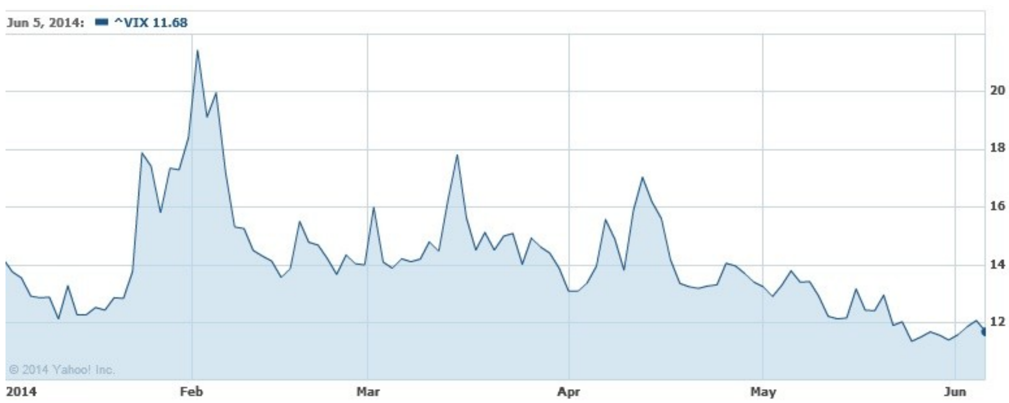

Chart 2: Russell 2000 Index YTD (RUT)
(Source: Yahoo! Finance)

In this scenario, we focus on the troughs and peaks. For instance, buying the Russell 2000 at the height of volatility this year in early February got you a quick 20% return in a little over a month. Volatility is the catalyst to short term profits making the quick buck trade is definitely more difficult with the volatility so consistently low. Look for levels of the **VIX** consistently over 15 to signal a time to start looking into the short term trades. 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 PRES-