

**INSIDE THIS ISSUE:**

Zix Stock Should Outperform...

This Stock Should Not

**KEY TAKEAWAYS**

- ⇒ *Stocks are back in play with the U.S., India, and the Far East the best plays*
- ⇒ *Big caps may have their day in the near term and the energy prices situation should create a stock market pendulum*
- ⇒ *In this stock picker's market, small caps buying back stock and exhibiting big EPS growth will be top performers*
- ⇒ *ZIXI could be a strong trade ahead of its financials results release*
- ⇒ *MSO looks like hell and a strong sell*

**KEY STATISTICS**

<u>Index</u>	<u>Close</u>	<u>2015</u>
DJIA	17512	-1.7%
S&P 500	2019	-1.9%
NASDAQ	4634	-2.2%
Russell 2000	1177	-2.3%

(figures are rounded)

**INVESTING CHEAT SHEET**

- ⇒ Stocks have been off to a sluggish start over weak oil prices and contradictory domestic and economic data and events but this week should begin the bounce investors have been waiting for since the start of the year
- ⇒ Concerns over global economic growth are allayed to a degree due to higher than expected GDP growth in China (tepid as they may be going forward on a historical basis) despite a cut in the IMF global forecast
- ⇒ Last week we noted and selected top performers that could emerge from India, China and Taiwan due to lower energy prices and the aforementioned just released data strongly affirms our sentiment
- ⇒ Europe is in another economic crisis mode but could begin the start of a healthier and renewed foundation with the introduction of new stimulus initiatives
- ⇒ Recent domestic consumer consumption and growth data were weak which sent stocks into a tizzy; this data likely did not yet account for the big decline in energy prices and should exhibit good growth next month
- ⇒ U.S. stocks are fairly valued making the market a stock picker's arena, unlike last year
- ⇒ Volumes are not particularly strong but the U.S. should attract foreign investment due to the equity strength and lower risk profile of our market, i.e., big caps may outperform small caps in the near term
- ⇒ Index-linked small caps, suffering from "toppy" valuations and low volumes will be led by cash-rich companies buying back stock and exhibiting higher than average growth
- ⇒ Until oil prices stabilize north of \$50/barrel, stock performance will be like a pendulum with big swings led by the benefits of low energy prices for certain industries one side, and consumers and lower capital spending and higher unemployment on the other

## ***Zix Stock Should Outperform, This Stock Should Not***

A former 30-30 Report performer, **Zix Corporation (NASDAQ—ZIXI—\$3.71)** appears primed to reach approach its 52-week high before the release of 4Q14 and FY14 financials on February 17, 2014. Currently trading right in the middle of its 52-week range and over 20% below its year high achieved in February 2014, ZixCorp is a leader in email data protection. ZixCorp offers industry-leading email encryption, a unique email DLP solution and an innovative email BYOD solution to meet a company's data protection and compliance needs. ZixCorp is trusted by the nation's most influential institutions in healthcare, finance and government for easy to use secure email solutions.

The Company boasts 11,000 corporate customers and a backlog of over \$68M, which compares very favorably to the 2014 \$50M and \$56M Wall Street sales forecasts. These customers encrypt over 1M messages every day. We should also note that the ZIXI's 3-year contract model represents a strong renewal rate of nearly 90%, which illustrates very high customer retention. One of the reasons for this is the Company's ZixDirectory which, at 43 million members, is the largest, shared email community. Plus, its membership is now growing at 100,000 per week.

The Company just announced a new stock buyback which could reach \$10M before expiration in July of this year. In addition, management released preliminary 4Q14 results and foreshadowed lower, future expense guidance due to the successful launch of a new product during 4Q14. We usually believe that such moves portend lower top-line and bottom line forecasts but given the way the stock is trading, and the buyback, ZIXI could be a trading opportunity with the objective of selling into strength just before the 4Q14 financials release date, and thus eliminating risk of lower guidance.

We rarely feature sell recommendations but this one seems obvious. **Martha Stewart Living Omnimedia, Inc. (NYSE—MSO—\$4.77)** has had financial issues in recent quarters and it is likely that this stock has seen its best days well behind it. Frankly, with the Wall Street expectation of a 28% revenue decline in 2015 to \$100M, it seems a slam dunk that the current \$0.25 consensus EPS estimate will be slashed, especially since it compares with a likely loss for 2014. Look for the overpriced, \$270M market cap MSO to test its \$3.40 lows when results are released.



# The Goldman Guide

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