



The Goldman Guide

VOLUME 6 | ISSUE 6 | FEBRUARY 8, 2015

INSIDE THIS ISSUE:

America Needs Cash

KEY TAKEAWAYS

- ⇒ February off to a great start and now indices basically unchanged from last year
- ⇒ Market appears to be range bound but leaders will still trend higher as valuation for stocks is roughly fair value
- ⇒ Buy on down days, sell into strength
- ⇒ Buy small cap stocks trading at discounts to their growth rates
- ⇒ These two stocks have their ads plastered all over TV, radio, and the internet and offer great opportunity

KEY STATISTICS

Index	Close	2015
DJIA	17824	0.0%
S&P 500	2055	0.0%
NASDAQ	4744	0.0%
Russell 2000	1205	0.0%

(figures are rounded)

PLAY THE TREND

Am I the only one that thinks it is remarkable that the four major indices closed on Friday at nearly the exact same figure in which they closed out 2013? The NYSE and Russell 2000 indices are one point higher than where they ended the year while the S&P 500 Index and NASDAQ Composite are merely a handful of points higher than where they were six weeks ago. Given the volatility and fear of the first four weeks of the year, the roughly 3% gain across the board last week puts us right back to where we started. Or does it???

Let's be real. January's performance was marred by oil price declines, currency and macro economic issues, and U.S. earnings report trepidation. Last week's gains directly correlated with higher oil prices, a market coming to grips with a decent but not great U.S. economy—only to be curtailed by more global economic issues, namely out of Greece.

So, here we are, not much smarter than when we began, yet at a point some might call full circle. We, however, call it opportunity—with a caveat.

We wrote extensively last week that we believed in a strong February and modestly higher year for stocks overall. Brushing all the econ stuff aside for the moment, we see that all of the major indices are above their 50 week DMA for the first time in a while. Although that is likely to make chartists feel bullish, given that we are still in a rage-bound market, breaching below these averages will result in modest selloffs as there is little cushion at present. Moreover, while valuations for these indices are not high though they are not cheap either, with the four indices ranging from 16.6 to 18.2 times 2015 expected earnings.

America Needs Cash

Therefore, it is best to approach the market based on the opposite of short term trends—buy on down days and sell on up days unless you are engaging in day trading. In that case, until proven otherwise, stocks that are under accumulation, especially leaders in tech and health care or seasonal plays, will remain so for the interim. For those concerned about valuation or who have a longer term horizon/approach to stocks, there are plenty of companies trading at reasonable valuations. Below are two examples of seasonal plays that everyone can latch onto and appreciate.

I recognize that it was just a week ago when Americans were waiting with baited breath to see the new, cool commercials during the Super Bowl. While they were largely a dud, it reminded me of how the popularity of television commercials or jingles have had an effect on branding success and the U.S. consumer. I am sure that if I repeated certain phrases to friends or colleagues it would harken back to specific commercials which helped build brand awareness and success. Even the campy Sylvester Stallone movie *Demolition Man* referred to old TV commercial jingles as the most popular radio station in town as they bring a smile to everyone's face and prompt you to sing along. The same is true today.

Until its ad campaign last year, Americans knew **H&R Block Inc. (NYSE—HRB—\$35.38)** as an old, stodgy company whose relevance was only in the first few months of the year when many citizens would go to their offices and have their income tax forms prepared and submitted on their behalf. Today, we all know the ubiquitous ads exhorting the tagline: "*Get Your Billions Back America.*" I love it! Wall Street must love it too because the stock is at its 52-week high.

Make no mistake. HRB is no small outfit. In fact, HRB is the world's largest consumer tax services provider. More than 650 million tax returns have been prepared worldwide by and through H&R Block since 1955. In fiscal 2014, H&R Block had annual revenues over \$3.0 billion with 24.2 million tax returns prepared worldwide. Tax return preparation services are provided in approximately 12,000 company-owned and franchise retail tax offices worldwide by professional tax preparers, and through H&R Block Tax Software products. H&R Block Bank also provides affordable financial services products.

America Needs Cash

At current levels, the stock trades around 19x the projected April 2015 fiscal year EPS of \$1.83 and around 16.5x next year's EPS expectation of \$2.11, a 15% return. The stock also offers a 2.2% dividend yield, which is pretty good given the current environment. And it will pay its next distribution in March. HRB's shares are up around 9% in the past month which is no surprise given its seasonal business and we believe that a 15%+ return is in the offing in the next 2-3 months. Despite its size, we view HRB as a short



term trade only at current prices, leveraging its very bullish DMA. Speaking of ubiquitous commercials, can you find a television channel or radio station **not** playing the J.G. Wentworth commercials? That tagline "At J.G. Wentworth, 877-CASH NOW!" tagline will live in infamy, or cause a chuckle. Regardless, these guys are in a clever business that just prints money.

America Needs Cash, Part II

The J.G. Wentworth Company (NASDAQ—JGW—\$10.24) went public last year. (Maybe that is where they got all this ad money and need to find new customers.) Its performance is a lot less cheerful than its commercials, as it is down nearly 50% from its March 2014 high, but in our view represents a great value relative to its projected growth rate. For the uninitiated, this \$130M in market cap microcap company purchases future structured settlement payment streams, annuity payments, lottery payments, and pre-settlement funding from its customers.

At current levels, the stock trades 7.2x Wall Street EPS forecasts of \$1.42 for 2014 and 6.2x next year's projection of \$1.64, a 15% increase. With just a modicum of success, we believe that these shares could reach the \$12-13 level fairly quickly and reach the mid-teens later in the year. It should be noted that while these shares trade above their 50-DMA, the 200 day DMA of \$11.15 is within reach and could serve as a bullish catalyst for investors, if 4Q14 results meet expectations when reported later this month. Additional insider buys such as the ones that occurred last month would be bullish triggers as well.





The Goldman Guide

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-