



The Goldman Guide

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The #1 Small Cap to Own

KEY TAKEAWAYS

- ⇒ *Small cap direction may hinge on earnings reports this week*
- ⇒ *Dogs of the Dow, as profiled in early January, appear to be attractive while India may offer even more upside*
- ⇒ *We would not chase AAPL and sell FLWS after its 30% rise in since our profile 2 weeks ago since it has screwed the pooch this Valentines Day season*
- ⇒ *Our early 2015 picks have been well above market performers and we outline them here*
- ⇒ *The #1 small cap to own trades 9x EPS and has 50% upside*

KEY STATISTICS

Index	Close	2015
DJIA	18019	1.1%
S&P 500	2097	1.8%
NASDAQ	4894	3.3%
Russell 2000	1223	1.5%

(figures are rounded)

MID-QUARTER TRENDS AND PICKS

Well, we are at the midpoint of 1Q15 and near the end of the December quarter reporting season and it is clear that investors feel a hell of a lot better now than they did just 2 weeks ago. Stocks are under accumulation, a little confidence is brewing and we are probably reaching a near term ceiling. Still, there are quite a number of buys out there, especially in the small cap world.

How far can the segment go? A lot will depend upon this week since this is the last week of reporting season and nearly all of the stocks announcing results are in the small cap category. But what about the stocks we have highlighted in *The Goldman Guide* these past few weeks? How have they performed and what should investors do with these positions? I am glad you asked....

In the first week of January, we profiled big names including the top three dogs of the Dow at the time (AT&T, Verizon, and Chevron.) We noted that of the three we felt **Verizon (NYSE—VZ—\$49.31)** had the best to offer. Indeed, it has been the best performer, up 5%, excluding the hefty dividend. The other dogs of the Dow idea was an ETF, **Dow ETF ELEMENTS Dogs of the Dow DJ HY Sel 10 TR ETN (NYSE—DOD—\$15.60)**, which is up only incrementally. The ship has not sailed with these two and we believe they still offer nice upside.

We also noted that **Apple (NYSE—AAPL—\$127.08)** was a great buy on weakness close to the \$103 level, which it nearly touched the next day. The stock is up roughly 16% since this missive but we would not recommend chasing it at this time. Perhaps on weakness and ahead of the new “watch” product release in April would be a better entry point.

Mid-Quarter Picks and Pans Review

In week two, the U.S. market had us spooked and we felt it was better to go abroad where low oil prices could have a real effect on an emerging market economy. Sure enough, a couple of our India picks have done very well. **PowerShares India ETF (NYSE—PIN—\$23.01)** is up about 7%, **Tata Motors (NYSE—TTM—\$43.83)** is up 10%, while **ICICI Bank (NYSE—IBN—\$11.70)** is just above our profile price. If you like the idea of investing abroad, stick with PIN and TTM, although you should establish sell triggers 10-15% from the current prices.

Week three was weak in that our **Zix Corporation (NASDAQ—ZIXI—\$3.74)** pick and **Martha Stewart Living Omnimedia (NYSE—MSO—\$4.51)** pan have been generally flat. It may be best to step away from both plays, for now.

For week four of January, we profiled **Calloway Golf (NYSE—ELY—\$8.61)**. Although the stock is up nearly 9%, we note that investors may wish to not get on the course at current levels lest you hit a bogey—without Tiger Woods golf is a tough media and product sell.

We highlighted **1-800-Flowers (NASDAQ—FLWS—\$10.33)** in the first week of February since it tends to very well leading up to Valentine's Day and into April. Since this profile 2 weeks ago, the stock has been as high as \$10.52 and is up a whopping 30%. However, the Internet and Twitter are screaming with angry customers this week as a number of the flowers and other gift items shipped by the company were damaged or not fresh, not what was ordered, etc. I suspect that fallout from this fiasco will not leave the stock unscathed. Get out while you can...

Last week's picks, **H&R Block (NYSE—HRB)** and **JG Wentworth (NYSE—JGW)** are still too early to call, but given the strong volume in JGW on Friday, which is a typically light trading day ahead of the holiday weekend, the stock could be primed for a breakout.



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The Mid-1Q15

GSCR 1Q15 Picks and Pans					
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Stock	Pick/Pan	Profile Date	Orig Price	2/13/15 Price	Return
DOD	Pick	1/2/2015	\$15.35	\$15.60	1.6%
T	Pick	1/2/2015	\$33.87	\$34.36	1.4%
VZ	Pick	1/2/2015	\$46.96	\$49.31	5.0%
CVX	Pick	1/2/2015	\$112.58	\$112.78	0.2%
AAPL	Pick	1/2/2015	\$109.33	\$127.08	16.2%
PIN	Pick	1/9/2015	\$21.53	\$23.01	6.9%
IBN	Pick	1/9/2015	\$11.55	\$11.70	1.3%
TTM	Pick	1/9/2015	\$43.83	\$48.34	10.3%
ZIXI	Pick	1/16/2015	\$3.71	\$3.74	0.8%
MSO	Pan	1/16/2015	\$4.77	\$4.51	-5.5%
ELY	Pick	1/23/2015	\$7.92	\$8.61	8.7%
FLWS	Pick	1/30/2015	\$7.89	\$10.33	30.9%
HRB	Pick	2/6/2015	\$35.38	\$35.06	-0.9%
JGW	Pick	2/6/2015	\$10.24	\$10.70	4.5%

Source: GSCR, Yahoo!Finance

The #1 Small Cap to Own

Concerned about valuations with small cap growth stocks? If I had to choose one stock to own for the next 12 months, **Orbotech, Ltd. (NASDAQ—ORBK—\$15.87)** would be it. Long time Goldman Small Cap Research subscribers may recognize this name, as it has been profiled before in these pages and *The 30-30 Report*.

ORBK is a global innovator of enabling technologies used in the manufacture of the world's most sophisticated consumer and industrial products throughout the electronics and adjacent industries. The Company is a leading provider of yield enhancement and production solutions for electronics reading, writing and connecting, used by manufacturers of printed circuit boards, flat panel displays, advanced packaging, micro-electro-mechanical systems and other electronic components. Today, virtually every electronic device is produced using Orbotech technology.

Last week, the Company reported 4Q14 and FY14 results and it achieved record results. For the year, revenue was a record \$583M, with GAAP EPS of \$0.83. Still, Wall Street is clearly asleep at the switch. At current prices, the stock trades 9x GAAP EPS of \$1.75, a double from 2014 levels, with EPS slated to rise 15% next year to \$2.00. Moreover, EPS estimates have largely been on the rise consistently for the past 3 months. I have followed the stock for 20 years and it usually trades around 13-15x current year EPS estimates. Therefore, a \$22-24 price target may not be out of line.





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