Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 6 | ISSUE 12 | MARCH 22, 2015

INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *Stocks are rallying on very strong volume which tells us institutions buy this rally*
- ⇒ *We had this move pegged but individual investors' sentiment away from bullish attitudes are a big positive*
- ⇒ *Caution: Q1 numbers may be weak due to bad weather in much of the country and could curtail the rally in late April*
- ⇒ *This small cap stock has the "it" factor which could take it back to its year high*

KEY STATISTICS

Index	Close	2015
DJIA	18128	-0.0%
S&P 500	2108	-0.0%
NASDAQ	5026	2.9%
Russell 2000	1266	2.2%

(figures are rounded)

In The Middle Of A Major Bull Run

When my youngest son looked at my bracket this weekend, he stared at me in a deadpan gaze and said. "There is no way Kentucky wins it." I asked him why. He responded by matter-of-factly saying that it was because I picked them to win it all and my selections might be the worst in the history of March Madness.

He is right. I confess that I did a lousy job and really wasn't thinking of who I thought would win, but who I wanted to win. It is a stark reminder that we, as individuals that make up "the crowd" is usually wrong under most circumstances. Of course this contrarian sentiment is no more evident than with stock and tock market prognostications.

Look, I may suck when it comes to putting together a college basketball tournament bracket, but I nailed the market's action and the Fed's stance and sentiment this past week. If you look at the Fed statements about the economy and inflation it is as if the text was taken directly from last week' edition of the guide. And, of course, stocks rocked. More importantly, small stocks really rocked, with a nearly 3% gain for the week, capped off by a new high for the Russell 2000 Index on Friday with volume for the day not seen since December.

Make no mistake, this volume number is significant! The index's volume rose by 66% in one day (from Thursday to Friday.) Individual investors played a role here but institutions drove the bus. Considering that we are near the end of the quarter and most mutual funds and other institutions are setting their portfolios up for Q2, the message is that small stocks will be big winners heading into the second quarter of the year. We agree wholeheartedly, but like the brackets, the real indication of this trend is based more on your sentiment.

“Buy-Buy”, Followed by Sell Quickly

Let me explain. We highlighted the American Association of Individual Investors (AAII) weekly investor sentiment survey last week (as we often do) and found it odd that the “Neutral” stance was so high, indicating that individual investors are unsure of where stocks are headed. As a result, they were sitting on the fence when they should hav been buying. This is a common theme—when the crowd (of individuals) buy, you should sell, and vice-versa. Therefore, many market watchers, (myself included) strongly view this AAII survey as a contrarian indicator.

Think about it. Stocks had one of the best weeks in a long time and the Fed laid its plans out for us on a silver platter—and they are calming. Despite all the negatives, there really is nowhere to go with your money (domestically) other than equities. Add in the ferocious buying last week and one would think individuals would be very bullish.

Against this backdrop, the AAII survey last week showed that the percentage of investors in the “Bullish” category dropped and is at the lowest point since April 18, 2013! What happened after that? Stocks rose 10% in about a month and 20% within 90 days.

While the number of bulls dropped last week, the number of bears in the survey rose to above 31% for the first time since mid-October. What happened after that? Small stocks rose by over 10% in the next 60 days. You get the idea. Buy signals abound.

There are many indicators and just because the stars aligned (in a contrarian) fashion does not mean that these metrics are the “end all be all” or that they are always accurate. However, it has been our experience that they are more right than wrong. Importantly, what makes us feel very confident is the fact that the figures were posted around the same time that major volume and price increases occurred, and followed the Fed’s very dovish, equity-friendly stance.

CAUTION: With that in mind, adjust your time horizons to around 30 days as we think that the early release of Q1 results in late April might do more harm than good to stocks due to the horrible weather experienced across the country for much of this year. It is never too early to look ahead to earnings reports and we could see a number of companies pre-announce or guide results modestly lower. That’s when you take your profits.

The "It" Factor

I am not much of a pop culture aficionado and I still don't understand why millions of people are obsessed with the lives of celebrities—especially those who have done nothing and really are not productive members of society. I guess they succeed because they exist and they have "it." Oftentimes, that "it" factor can be enough to propel one to wealth and stardom. When that happens, if you can indirectly ride those coattails, you might as well do it, right? You can, by buying this stock.

Glu Mobile (NASDAQ—GLUU—$4.95) has a leadership team that is either very astute or very stupid. I tend to believe it is the latter. We have profiled the stock a couple of times over the past five years and it has made us look good more often than not. Based on recent events, I am confident that **GLUU** is on the verge of a breakout toward its 52-week high.

Founded in 2001, Glu is a leading global developer and publisher of free-to-play games for smartphone and tablet devices. Glu is focused on creating compelling original IP games such as CONTRACT KILLER, DEER HUNTER, DINER DASH, DINO HUNTER: DEADLY SHORES, and branded IP games including KIM KARDASHIAN: HOLLYWOOD. Having a game with Kim Kardashian West is genius. Having a contest where players could meet her is even smarter. Announcing an interactive game that will feature her younger half siblings, the Jenner girls, is very shrewd. And all of these steps, plus their existing games and marketing initiatives are likely to drive growth and the stock price.

At current levels, **GLUU** trades around 19x this year's EPS forecast of $0.26 (down from last year) and only 14x next year's EPS estimate of $0.36. However, these new games and other future titles are likely to get the Company lots of "play". The stock is basing nicely after a drop and then sharp rise but is still well below its $7.60 year high. **GLUU** currently trades a hair below its 20 day DMA and above the 50 and 200 DMAs. As accumulation continues, and the Company moves further along the branded "celebrity" path, we believe the $7 mark is in reach in the coming months. At $7, the stock would still trade at a reasonable 20x next year's EPS.

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-