Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 6 | ISSUE 42 | OCTOBER 18, 2015

INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *Now is the time to emulate Wall Street analysts' approach to earnings season*
- ⇒ *The CPSS conference call is a great one to hear/read and the stock could be a big winner over time given its valuation*
- ⇒ *Revenue growth is the biggest risk to stocks but investment pro sentiment is favorable*
- ⇒ *This famous brand name consumer stock trades 10x FY16 EPS despite earnings growth of 25%. It could be a great hous-*

THE MAJOR INDICES

Index	Close	2015
DJIA	17216	-3.4%
S&P 500	2033	-1.3%
NASDAQ	4887	3.2%
Russell 2000	1162	-3.7%

(figures are rounded)

WHAT THE PROS ARE DOING THIS WEEK

Ah, the earnings days. They take me back. Four times a year, for a period of about 3 weeks, analysts look just like the guy in this picture.

Admittedly, I think that the Q3 earnings season is the most difficult. While traders are dissecting trading opportunities and trends, (fundamental) industry analysts are listening to quarterly earnings conference call after conference call. Sometimes al team members will be on different calls to take advantage of personnel bandwidth.

They pore over reported data and compare them both with their own estimates and Wall Street consensus forecasts. The analysts have to compare revenue growth, margin performance, product/geography breakdown with the year-ago-period, the most recent quarter, and competitors. It is agonizing and that is just the quantitative headache for what has been reported. Then comes the deciphering of management comments in the press releases, conference call, and responses to questions. getting a sense of industry trends, etc.

The real pain in the neck is the readjustment of the earnings model not just for the current year, but companies often give a glimpse of updated guidance for the upcoming calendar year. Once all is done, then comes valuation, etc. And getting out an update ASAP.

Obviously you are not an analyst and don't have to go through all this crap. Still, there is something to be learned and used from this exercise.

The Stock Market Today

With the stock market today, it is important to prepare for each earnings report for a given stock in your portfolio as if you were an analyst. Know ahead of time what the Street is expecting vis-à-vis top and bottom line. Read the press release. Follow tweets on Twitter (even though most are useless). Listen in on the call, and be wary of companies that meet or beat expectations but guide lower, whether in an upfront or subtle fashion. Follow bids on Level 2, especially during the conference call. It can save you a fortune and make you money as well, if you are quick and nimble.

Last week, we noted two stocks, **Consumer Portfolio Services (NASDAQ—CPSS)** and **VOXX International (NASDAQ—VOXX)**, we thought could have a good Q and move higher. We were wrong on both counts in terms of stock movement. However, CPSS met expectations and the stock is ridiculously cheap. With that said, this conference call was one for the books. On the one hand, the CEO sound like a buffoon, or a guy you would have a drink with. On the other hand, it is clear that the stock will probably just hang around this current price rage for a while and then, for what will seem to be no reason, will jump 50-70% over a few days. The stock trades 5x earnings, and we are talking over $30M in net income—real money! We call this a Rip van Winkle stock. You buy it, watch it casually, and then hopefully are rewarded for patience not so far down the road.

I strongly suggest you read this transcript, which is from the recent call. A link to it is below. It is unusual from the standpoint that management speaks very plainly, not CEO-like. And clearly, there are real fans of the model and the stock. It is more unlike most quarterly calls but is a great window into the quarterly earnings season.

http://finance.yahoo.com/news/edited-transcript-cpss-earnings-conference-185613979.html

Speaking of earnings season...this week's earnings season is bound to give the market some volatility but we expect that the current weekly uptrend will hold serve again this week. Clearly, the stock market today is all about earnings, rather than Fed policy or other external factors. But, as we cautioned last week, with revenue growth anemic of late and expected to remain that way, it could spook investors. In our view, that is the biggest risk to stocks this earnings season.

Say What?

Great info, insights, and hard-hitting stories make up this week's *Say What?* feature...

The New York Post

http://nypost.com/2015/10/17/new-book-dives-into-wall-streets-shady-dealings/

A new book that will become a must-read, whether true or not.

Zero Hedge

http://www.zerohedge.com/news/2015-10-18/undersize-me-mcdonalds-franchise-owners-admit-fast-food-giant-facing-its-final-days

This probably comes as no surprise but is a meaningful story, regardless.

CNBC

http://www.cnbc.com/2015/10/16/tic-the-most-important-report-youve-never-heard-of.html

Real good info and insight here.

Bizjournals

http://www.bizjournals.com/bizjournals/topic/how-far-your-money-goes

Very useful tool...

The New York Times

http://www.nytimes.com/2015/10/17/business/dealbook/online-dating-business-files-to-go-public.html?ref=dealbook&_r=0

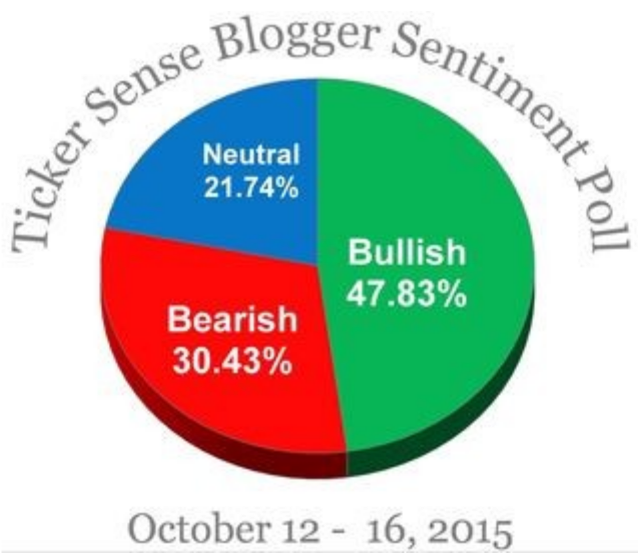
There is only one publicly traded comp but it will be interesting to see the appetite of investors...

Just the Stats

AAII Sentiment Survey (figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	34%	38%	*39%*
Neutral	39%	34%	*31%*
Bearish	27%	28%	*30%*

Diverging opinion once again. Ticker Sense poll has had a big bullish jump for the 3rd straight week. In fact since the bullish percentage bottomed at 8% on September 21st, the S&P 500 Index is up 3.3%. (It has gone from 8%, to 16%, to 30%, to now 48%, which is higher than the bearish percentage for the first time in weeks). Big earnings reporting week may dampen enthusiasm a bit but the underlying trends remain.



Stock Market Performance

U.S. Stock Market Index Performance as 10/16/15									
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	Bounce*	% Below 200-DMA
DJIA	17,216	18,351	15,370	5/19/15	8/24/15	6.2%	12.0%	16.2%	-2.1%
S&P 500	2,033	2,135	1,865	5/20/15	10/17/14	4.8%	9.0%	12.6%	-1.3%
NASDAQ	4,887	5,232	4,242	7/20/15	10/17/14	6.6%	15.2%	18.0%	-0.7%
Russell 2000	1,162	1,296	1,079	6/23/15	10/20/14	10.3%	7.7%	14.8%	-4.5%
Average						7.0%	11.0%	15.4%	-1.7%

* denotes the percentage index is up from recent low

Source: www.StockCharts.com, Goldman Small Cap Research

A Great Housing & Construction Play

According to a story on CNBC.com, the construction materials sector is expected to report a 50% gain in earnings in Q3. Since the two leaders have already run, how about a brand name consumer stock that benefits from the current housing and new construction boom that trades 10x next year's earnings despite growth estimates of 25%?

Whirlpool (NYSE—WHR—$156.77) is synonymous with appliances. The #1 major appliance manufacturer in the world, Whirlpool generates over $21 billion in annual sales, and many of its products are typically purchased in conjunction with home sales.

Despite its healthy 2.3% annual dividend, the stock hasn't exactly been in favor of late. In fact, WHR trades just 15% above its 52-week low of $140. But as we enter 2016, I am confident that is all about to change. EPS, which has been underwhelming since its recent peak achieved in 2013 is projected to enjoy huge growth in 2016, on the heels of the strong U.S. housing economy. This metric is forecast to jump by 25% to $15.08, up from $12.11 this year and just $11.39 in 2014. Historically, the stock trades 13-15x forward 12-month EPS. Given the Wall Street earnings forecast, I predict that 2016 EPS growth will get the spin cycle going to the tune of a 32% rise to $208, which would still be below its year high of $217, and reflect a run-of-the-mill 13.8x P/E multiple. WHR Q3 financials are due to be released on 10/23/15.

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