

The Goldman Guide

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Tis the Season to Make Money...

...buy, buy, buy, buy, buy, buy, buy, buy stocks.

We talk a lot about seasonality because most investors' gains occur during big, but short runs in the market, and from Nov/Dec – Jan. What is great about the last 2 ½ weeks of December is that all of the institutional window dressing/selling is done. Plus, all selling for tax purposes or the selling of small cap losers by individuals has passed. As a result, many small cap stocks are temporarily low. Thus, portfolio managers and individual investors alike are buying stocks for 2-6 month holding periods.

As a result, this is prime time for followers of the January Effect.

There are multiple definitions of the January Effect, and with each passing year, it starts earlier. In a nutshell, the *January Effect* is a Wall Street moniker for the belief that small cap stocks outperform large caps from January through June, with the trigger based upon the above catalysts. In fact, this has occurred for 26 of the past 32 years, which is an 81% accuracy rate !

I have known some very big fund managers that bought stocks in mid-late December during what is called the Santa Claus rally, rode gains in the first half of the year, sat on cash for 6 months, and then did it again!

The well-regarded Ned Davis Research annually produces a list of its January Effect Stocks, which is generated by screening for the smallest 150 stocks in the Standard & Poor's 1500-stock index that also are among the 10% of stocks furthest from their calendar-year closing high. From 1996 through 2009, the portfolio returned an average of 8.6% from mid-December through the end of January, well above the 1.2% gain of the S&P 500.

There are other interesting and seasonal strategies which we refer to as The January Investing Phenomena and we will introduce these as we get closer to year-end.

In the meantime, how can you take advantage of the January Effect?

We introduced 3 small cap stock buy ideas on November 23rd in our Special Thanksgiving Report. We are proud to say that 2 of the 3 are up big, with one down incrementally. Charming Shoppes (NASDAQ – CHRS - \$4.78) is up 37% and Gluu Mobile (NASDAQ – GLUU - \$3.41) is up 17% since our introduction. QC Holdings (NASDAQ – QCCO - \$3.76) is down 2%. CHRS still has some room to move higher and GLUU and QCCO remain very attractive at current levels. These are not the only solid buying opportunities. There is one more, whether you are a trader or an investor. But, first ask yourself...

Is Online Trading Like Online Dating?

When it comes to investing there are a number of old adages and sayings. One of the most famous adages uttered by traders to their buy-and-hold brethren is “don’t get married to a stock.” The connotation here of course is that buy-and-hold investors get so used to owning a stock and falling in love with its story that they have become wedded to it and thus incapable of rational thought. Or worse, they have lost the will to sell the stock, regardless of the hole it is putting in their portfolios.

Conversely, I guess this means that most traders simply “date stocks.”

I have often wondered if buy-and-hold investors are married longer and if traders are perpetual bachelors or serial spouses. But, I digress....

Regardless of whether one is a trader (bachelor) seeking the next great stock to own for a while or a buy-and-hold investor (spouse seeker) looking for a long term investing relationship, I think I have found the stock for you.

I had to dig deep into the Goldman Small Cap Research database for this one. And, I don’t mind admitting I feel a little uncomfortable even mentioning it. But, as we have been stressing for a couple of weeks, seasonality is your friend.

Spark Networks, Inc. (NYSE: AMEX - \$3.30) is one of the leading providers of online personals services in the U.S. and abroad. The key to the Company's success, versus general online dating websites is its targeted approach. The Company dominates in the affinity category through its: JDate.com (largest Jewish dating website), ChristianMingle.com (largest Christian dating website) and BlackSingles.com among others, including those of the LDS faith.

This approach has led to loyal, paying subscribers---and it is a huge business. There are 100 million singles in the U.S. alone and the Company's strong demographics make it much more likely that "browsers" are converted into subscribers.

The proof is in the pudding. With a 27% year-over-year increase in revenue in and paying subscribers in 3Q11 Spark is growing very nicely. Revenue reached \$12.7M for the period and total subscribers broke the 206,000 mark, despite Q3 being Spark's softest quarter. Plus, Spark has \$13M in cash and no long term debt. Clearly, its marketing efforts and targeted approach have provided solid results.

You might be asking yourself: Why is LOV being recommended today? Simple.

For you stock daters, you know it is the holiday season and that singles do not like to be alone during this time of year, especially as New Year's Eve approaches. Subscriber growth and traffic tends to get a boost during this time of year, and continues on into the first quarter.

For you buy-and-holders, the stock's 52-week range is \$3.80 – \$2.85 and it is probably good for a run toward its 52-week high in the near term. Plus, considering the subscriber growth rate, it looks like it is poised approach \$5.00. At current levels the stock is trading at around 1.2x FY11 revenue, and if this pace and valuation hold, \$5.00 in a year's time seems like a slam dunk.

So, if you like to date stocks or are looking to get wedded to one, try this dating stock that seeks to help turn daters into long term holders.

Until next week...



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Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

Analyst Certification

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