The Goldman Guide

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The Next Collapse

If you have ever played chess you realize that the key to winning is to be a few steps ahead of your opponent. We have been preaching of late to be ready to pull the trigger if we start to see a decline in the market, despite its great run. The decline could be as simple as profit-taking, valuation concerns, or economic data. But what if it is caused by a major event or as series of events? Moreover, what could that event be? We think we know and it's time you are prepared.

The political/economic albatross of late has been Greece, Greece, and more Greece, due to the political and economic ramifications that could result from an inability to enact the necessary monetary and fiscal changes. When this is all sorted the market will cheer and move on to the next crisis which has been brewing for weeks.

As the market has been rocking in response to optimism that the economy in the U.S. has seen the worst behind it, the price of oil continues to rise and oil futures have established new highs.

What does the price of oil have to do with the stock market?
Everything….

Here is a very brief overview:

If there is one thing that can stop the bull market in its tracks it is the unfettered rise of oil prices. Study after study has illustrated that aside from unemployment levels, the key trigger in U.S. economic slowdowns are high oil prices. In fact, the biggest three recessions since the Great Depression coincided with very high oil prices.

For example, in 2008, after the very long recession began to take hold, oil prices peaked at $145 a barrel before dropping sharply after demand fell of a cliff. But it is not just supply and demand that drives oil prices, and that is what we want to focus on today.

Although a few years ago the pent-up demand by China and India may have started us on this track, but these days speculation is a major driver of oil prices and therefore market sentiment. In fact, over the last decade the number of futures contracts on NYMEX increased at over ten times the rate of increase of world petroleum consumption.

We saw some of the impact of speculation and to a lesser degree supply/demand a year ago. In late February 2011, prices jumped when supply declined as a result of the loss of oil production and exports due to the Libyan civil war. Concern about additional interruptions from unrest in other Middle East and North African producers drove oil to a calendar year high of nearly $119 per barrel. It is no surprise that the market dropped during this period.

Without getting on a political soapbox or providing doomsday scenarios, all of this emphasis on Europe and Greece is going to go right to the Middle East, and specifically Iran, Syria, Egypt, and Israel. And that could bring our bull market to a screeching halt, albeit temporary.

Iran's nuclear capabilities and saber-rattling are real and not imagined. Syria's internal combustion is an amazing push-pull between two different groups, once being allied (or controlled) by Iran. Leadership and direction there are in a total state of flux. Egypt could become a puppet state of the terrorist group the Muslim Brotherhood.

Based on comments and actions by the U.S. and Israeli government, an attack on Iran's nuclear facilities appear to be a fait accompli. U.S. government officials have publicly projected that such an attack could come this spring, or perhaps as late as the fall.

With that said, now is the time to ensure you have exposure to oil in your portfolio.

When the market starts to decline, and it will, higher oil prices and Middle East concerns are the likely trigger. Heck, with current political and economic embargoes on Iranian oil exports scheduled to be implemented this summer, oil futures could rise just based on that. And if an attack on Iran's nuclear facilities occurs, oil will skyrocket and the market will drop.

The way we see it, much of this year's gains are already in the books, with a few percentage points to be gained in the near term. That will be followed by this uncertainty where the market will drift, culminating in a big drop due to oil/geopolitical scenarios and a sharp rise in Q4.

So in addition to exposure to oil, it will become a real stockpicker's market, with the best gains possible in the small sector. In the interim, a great way to play oil is to invest in ETFs.

We recommend SPDR Sector Select Energy (NYSEAMEX – XLE - $74.87) and SPDR S&P Oil and Gas Expl and Prod (NYSEAMEX – XOP - $60.52).

Hopefully we are wrong regarding a market decline. Time will tell.

Before Spring Buying Season

Before we have market drops, investors can still take advantage of microcap opportunities. We have a few on our list but these names are probably familiar to some of you, in addition to trading around the $1.00 level on NASDAQ.

Ask a car dealer what the slowest month of the year is sales-wise, and the dealer will almost certainly respond by saying February. Ask the same dealer when buyers start to get the itch and do their homework before buying and the answer is probably spring.

Ask a penny stock investor when the best time to buy a stock is and the answer you will probably hear is "before it makes a big run." Add it all together and what do you get? You get a leading player in online automobile information and referral sales.

Autobytel (NASDAQ – ABTL - $1.05) is one of the automotive industry's leading 3rd party information and customer referral entities. In fact, the Company pioneered the Internet automotive information and referral sale segment in 1995.

Today, ABTL essentially operates within two separate but interconnected categories. Through its websites Autobytel.com, Autoweb.com. Cars.com, Carsmart.com, and others, ABTL is one of the leading online sources of information, reviews, pricing, etc. on virtually all topics related to the purchase of automobiles. According to J.D. Power and Associates, 79% of automotive shoppers rely on 3rd party sites such as those operated by ABTL prior to purchase.

ABTL offers online consumer purchase requests and marketing resources to help car dealers and manufacturers sell cars. Over the years, ABTL has helped tens of millions of consumers research vehicles and with agreements in place with 4,000 dealers nationwide, ABTL has successfully connected most car dealers with motivated car buyers.

We believe that ABTL is uniquely positioned to benefit from the resurgence in the U.S. auto sales market, along with dealers' continuing efforts to source business from key sites such as those operated by ABTL. Revenue and EBITDA have already been on the upswing in recent quarters highlighting the financial strength of the company.

For the first nine months of 2011, ABTL recorded $46.6M in revenue and $2.1M in EBITDA and signs point to a very good fourth quarter. Management recently issued a press release noting that 2011 will mark annual net income profitability for the first time since 2004.

The current year should bring ABTL even greater profitability as Street estimates call for EPS of $0.07 on a 15% rise in revenue. If the auto industry's spring 2012 is a strong one, we would not be surprised to see at least a 50% increase on ABTL's share price in the next few months. Plus, management is spending some of its estimated $0.25 in cash per share on a stock-buyback program. We see little downside at current levels and believe that the stock will trade over $1.00 once 2011 financial results are released on March 1, 2012.

If you have a teenage daughter, you are probably familiar with the next stock, which has some risk to it. Teenage girl and young women clothier dELiA's, Inc. (NASDAQ – DLIA - $1.12) is a situation where management seems perpetually unable to turn a profit, even though the brand has proven popular. So, it is no surprise that the stock isn't exactly a world-beater.

Management is in the midst of undertaking a series of initiatives that it believes could result in positive EBITDA in 2012. The key question for investors is: Is management like the boy who cried wolf?

Seriously, with five straight years of declining gross margin and operating profit, will management be able to pull it off this time? And, if so, how does the stock react?

My gut tells me…maybe. And, if they can, the stock runs big time. Since no one seems to have any confidence here, frankly, it is worth a look.

DLIA is a retail and direct marketing company that generates revenue through retail stores, catalogs, and the Web by selling apparel, accessories and other products to girls and young women ages 12-19. Since 2006, the Company has generated total revenue in the $200M range with increasing losses each year.

Management has engaged initiatives that comprise a major overhaul in merchandising, selling and marketing strategies, and overhead, at the corporate and store levels. It appears that some of the merchandising changes, such as more frequent fashion buys, faster and newer product turns, less reliance on certain items, and a new approach to pricing and promotions, are beginning to bear fruit.

The jury is still out, but the brand remains very popular, and heading into the spring clothing season, investors may start to see incremental benefits.

Other steps, including retail and web sales initiatives and promotions, along with overhead and other costs may begin to creep into the Company's financials later this year.

At current prices, DLIA could be viewed as one of three things: a) a future bet on management if progress is achieved; b) an M&A target if the initiatives fall short; c) a stock to avoid unless visible changes prove sustainable for a couple of quarters. The optimist in me leans toward A & B. Time will tell.

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*.

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