July 16, 2012

Volume 3, Number 9

The Goldman Guide

Inside this issue:

Key Takeaways

- ⇒ Despite a slew of financial scandals, the market has held up well.
- ⇒ The most important and diverse earnings week of the season.
- ⇒ Changes in dividend tax on the horizon?
- ⇒ AAII Survey still bearish but oil is priced just right.
- ⇒ Buying call options and a stock to feed the hunger for growth.

Bad Reputation

It is said that a good reputation is more valuable than money. If that is the case I can think of a few organizations and companies that have lost quite a bit of money recently.

Penn State University, its leadership, and its most revered figure, the late Joe Paterno, have had their reputations slammed following the release of an independent report that demonstrated a culture that enabled a pedophile to get his jollies unchecked for over a decade.

The venerable British-based bank Barclays (NYSE—BCS), which traces its roots to 1690, is caught in a major scandal as it appears that the bank attempted to manipulate global interest rates, notably LIBOR, (London Interbank Offered Rate.)

On the other side of the pond, U.S. behemoth J.P. Morgan (NYSE—JPM), has lost more than $4.4 billion (which could approach $9 billion), due to lack of trading oversight in credit swaps where London-based traders made huge bets.

On a smaller scale, failed futures brokerage PFGBest misappropriated customer accounts for over 20 years and has lost $200M in funds.

While the Penn State scandal will not impact the market, the fact that these 3 scandals have not materially impacted the markets individually or collectively, is a positive. A few years ago, they would have. Perhaps investors are desensitized to them, given the low respect they seem to have for all “firms financial.” This is further evidence that the external noise in the market will not frame performance in the future. That will be led by earnings and economic figures. As it should be.

Welcome to E-Week and Rhetoric

As we touched upon last week, the early part of earnings season began in earnest and despite early losses the market roared back on Friday. The rally was due in part to decent results, in-line China GDP growth, and lower initial jobless claims. Interestingly, tech stocks, which have been under selling pressure due to EPS reductions have likely seen the end of their recent sell-off. We expect the space to continue to be attractive even though chip producers are seeing declines in computer orders.

Speaking of chip manufacturers, Intel (NASDAQ—INTC) is due to release its results on Tuesday, June 17. This week should be dubbed E-Week because leaders in tech (INTC) Yahoo (NASDAQ – YHOO), finance like Bank of America (NYSE—BAC) and Citigroup (NYSE –C), consumer products giants Coca-Cola (NYSE—KO) and (Johnson and Johnson (NYSE—JNJ) among many others, report this week.

With these powerhouses releasing results, we will likely know what the rest of earnings season holds for the market, come Friday.

A lot is being made of the rhetoric between President Obama and Republican challenger Mitt Romney. It is unlikely to affect the market, no matter how caustic the discussions appear to be. What is more important is what is happening in the Senate. According to Bloomberg:

Senate Democrats are seeking to set the top tax rate on dividends at 23.8 percent, almost 20 percentage points lower than the proposal offered by President Barack Obama in his budget. That detail, along with a top estate tax rate of 45 percent and a one-year patch to prevent the alternative minimum tax from affecting millions more families, are part of the written version of Senate Democrats' attempt to extend expiring income tax cuts for one year. The core of the proposal would extend the George W. Bush-era cuts through 2013 for 98 percent of households while letting them expire on income above $200,000 for individuals and above $250,000 for married couples.

This is likely to pass easily as it is an election year, after all. Still, it will be interesting to see how dividend stocks trade in the coming months. If the budget goes through in its current form, dividend stocks will not be the place to be while growth stocks will attract investors. This may still be the case in the new version, considering the still-high proposed dividend tax rate.

Key Statistics

Index	Close	YTD
DJIA	12,777	4.6%
S&P 500	1357	7.9%
NASDAQ	2908	11.6%
Russell 2K	801	8.1%

(figures are rounded)

Market Outlook and Stock Pick

We mentioned last week that we have officially turned bullish. While we tend to be early and ahead of the crowd, we are optimistic that the balance of the summer will not be a repeat of 2011, where the whole budget nonsense and U.S. credit downgrade spawned huge drops.

Instead we think that the market will move higher on a staged basis and kick ass at the end of the year, post-election. One thing that makes us even more comfortable happens to be the continued bearishness ion the AAI Investor Sentiment Survey. As of last week it posted results that revealed investors are 70% bearish or neutral and 30% bullish. Long term trends are typically 61% bearish or neutral and 39% bullish. Given the traditional negative barometer or occasional lagging indicator of this survey, this week could be a pretty good one. Another sign is that the price of oil has hit our "good target" of $85. Oil in this price range is like the story of Goldilocks. It is not too high or low, as it relates to economic growth prospects. It is just right.

Continue to buy stocks exceeding expectations and showing good trends. Don't bottom fish. It might not be a bad idea to engage in some intermediate term option strategies as well. Buying November calls on certain indices or on Apple (NASDAQ—AAPL) seem like a good play.

As we mentioned this past week, we would not chase AMR (OTC—AAMRQ) in an M&A transaction as the debt holders may screw the equity holders. Supervalu (NYSE—SVU) still looks bad but everyone is so down on it that if they can sell some chains, it can be a big winner. Here again, by taking a flier on January calls, you commit few dollars but can make a huge return if the business development plan is successful.

If we had to choose one stock to buy that we have introduced recently via our Select Research, it would be Denny's (NASDAQ—DENN—$4.52). The chart is solid and it recently hit a new 52-week high, though it came off a bit. Results are due out on July 31 after the close and we expect them to be good. Moreover, with the growth phase in which it is engaged abroad, we could see $6.00 by year-end.

Key Statistics

Index	Close	YTD
DJIA	12,777	4.6%
S&P 500	1357	7.9%
NASDAQ	2908	11.6%
Russell 2K	801	8.1%

(figures are rounded)

GOLDMAN
SMALL CAP RESEARCH

1498 Reisterstown Road
Suite 286
Baltimore MD 21208

Contact Us:
410.609.7100
info@goldmanresearch.com
www.goldmanresearch.com

Analyst: Robert Goldman

Rob Goldman founded Goldman Small Cap Research (GSCR) in 2009. Rob has over 20 years of investment and research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, he was a senior member of Piper Jaffray's Technology team. Prior to joining Piper, Rob led Josephthal & Co.'s Emerging Growth Research Group. Rob has also served as Chief Investment Officer of two boutique investment management firms, where he managed Small Cap Growth and Balanced portfolios and *The Blue and White Fund.* As an investment manager, Rob's model portfolio was once ranked the 4th best small cap growth performer in the U.S. by *Money Manager Review*. In addition to his work at GSCR, Rob is the editor of Penny Stock Junction (www.pennystockjunction.com.)

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this newsletter accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research publication.

Disclaimer:

This newsletter was prepared for informational purposes only. *Goldman Small Cap Research*, (a division of Two Triangle Consulting Group, LLC) produces research via two formats: *Goldman Select Research,* which typically highlights small cap and mid cap companies, and *Goldman Opportunity Research,* which features micro cap companies in a sponsored research format. Thus, the *Select* product reflects the Firm's internally generated stock ideas while the *Opportunity* product reflects sponsored research reports.

It is important to note that while we may track performance separately, we utilize 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 each company-specific report. All information contained in this newsletter and in our reports were provided by the Companies or generated from our own due diligence. Our analysts are responsible only to the public, and are paid in advance to eliminate pecuniary interests, retain editorial control, and ensure independence. Analysts are compensated on a per report basis and not on the basis of his/her recommendations.

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, or other firms. *Goldman Small Cap Research* relied solely upon information provided by the Company through its 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, 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 report or newsletter does not take into account the investment objectives, financial situation, or particular needs of any particular person. This report or 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 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 PRESENTATION OF INFORMATION.

For more information, visit our Disclaimer: www.goldmanresearch.com