

## INSIDE THIS ISSUE:

Front and Center p. 2

Loser Turned Winner? p. 3

## KEY TAKEAWAYS

- ⇒ *Market needs conflict to get trading higher*
- ⇒ *Trading is still down, especially among small investors*
- ⇒ *Good vs. Evil breeds emotion which breeds interest*
- ⇒ *This year's losers could be next year's winners*
- ⇒ *A small cap loser turned winner*

## KEY STATISTICS

| Index      | Close | YTD   |
|------------|-------|-------|
| DJIA       | 13155 | 6.8%  |
| S&P 500    | 1418  | 12.6% |
| NASDAQ     | 2978  | 14.3% |
| Russell 2K | 822   | 10.9% |

(figures are rounded)

## GOOD VS. EVIL

Maybe it is just me but it seems as if we need to have real conflict in the stock market to get the juices flowing, along with trading. For years, we would have bullish forecasters battling bearish forecasters. Coke (NYSE—KO) versus Pepsi (NYSE—PEP). Microsoft (NASDAQ—MSFT) versus Apple (NASDAQ—AAPL). Intel (NASDAQ—INTC) versus Advanced Micro Devices (NYSE—AMD). The New York Stock Exchange versus NASDAQ. Merrill Lynch versus Charles Schwab (NYSE—SCHW).

Whatever the industry, whatever the circumstance, it was good versus evil and it drove the market. We don't have that anymore. No one is really bullish. Investors are either cautious or bearish. With the exception of Apple versus Google (NASDAQ—GOOG) or Apple versus Samsung, there is no conflict.

We need this conflict to generate demand. Look what it did during the Presidential election. Voters were engaged.

We see it in sports. Carolina and Duke in college basketball. Yankees and Red Sox in baseball. Over the past 10 years, Steelers and Ravens in pro football. Ohio State and Michigan in college football. Heck, Army and Navy is still a very relevant conflict.

In the absence of these things, we have apathy. TD Ameritrade announced today that trading was down 10% year-over-year for the month of November. This is somewhat surprising given the selloff we had, especially surrounding the fiscal cliff uncertainty. It does illustrate, however, how the average retail investor for the online firms really trades small stocks, whose volumes are just abysmal.

So, how do we get conflict?



# *The Goldman Guide*

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## ***GOOD VS. EVIL***

Success. As companies return to enjoy success, investors can feel comfortable and get behind them. This is why leaders in the market tend to do better than also-rans. We tend to have emotional connections to stocks just like we do to sports teams. Sometimes that becomes excessive and investors get wedded or married to stocks, and are unwilling to sell or even diversify positions.

Be cognizant about conflict. Oftentimes the start of such conflict can be a leading indicator not just for a sector or the market but individual stock performance as well. We will likely return to the phenomenon in the next year or so, although it will be a long, slow road. Still, given the swift changes in technology, we expect that this is one space where we can find conflict, or at least underdog movers fighting for share against behemoths. A David versus Goliath is also a great example of a potentially positive flow in select stocks.

## ***FRONT AND CENTER***

Over the past few weeks Apple has just been pounded and people are panicking. It is still up big for the year and still really cheap. If there is one stock that investors are locking in gains, this is it. Concerns about growth and competition are a little overblown.

Look, we understand why. I am an Android guy, not an Apple guy. (Conflict, baby.) With so many producers making products using the Android platform, and given the broad based tentacles of Google in search and now hardware, mobile software, and even communication technology, Google could be the real tech winner, not Apple.

In the meantime, they appear to be playing nice. At least for now.

Separately, it appears that too many investors are acting like Chicken Little again with respect to dropping stocks. It may be a little early but investors would be wise to take an inventory of some of the biggest losers of the year. Historically, the biggest losers of one year tend to be some of the biggest winners the next. Look no further than the Dogs of the Dow, which represents the 10 highest paying dividend stocks of the Dow Jones Industrial Average. This may not be the best play this year, depending upon the pending revised new dividend tax. Nonetheless, the concept is sound and happens like clockwork each year. The bottom line is if you identify today's losers you may be unearthing next year's winners.

## ***LOSER TURNED WINNER?***

Since we are on the topic of losers that could turn into winners, we profiled one such stock in our Market Monitor and it is up 20%. In our view, it has more legs to go.

As we near year end, and the bulk of investor tax loss selling is completed, the big losers of the year tend to be oversold. Moreover, they often become some of the biggest gainers during the last week of the year and the first week of January. Investors always think about how well small cap and penny stocks tend to perform in the month of January, which is largely true, due to the second phase of the January Effect.



Education Management Corporation (NASDAQ – EDMC - \$4.80) is down roughly 83% from its 52-week high and actually looks like it is gearing up for a move higher. Frankly, the stock is really cheap too, from the valuation perspective.

With approximately 132,000 students, EDMC is among the largest providers of post-secondary education in North America, based on student enrollment and revenue, with a total of 110 locations in 32 U.S. states and Canada. The Company offers academic programs through campus-based and online instruction, or

through a combination of both. EDMC's educational institutions include The Art Institutes, Argosy University, Brown Mackie Colleges, and South University. Students can earn undergraduate and graduate degrees and certain specialized non-degree diplomas in a broad range of disciplines, including media arts, health sciences, design, psychology and behavioral sciences, culinary, business, fashion, legal, education and information technology.

The stock is down substantially due to missing forecasts and restructuring due to changes in the industry. Nonetheless, EDMC released its 1Q13 results in October and provided annual guidance for the 2013 fiscal year. The Street is now forecasting EPS (excluding charges) of \$0.41 versus \$1.15 in fiscal 2012, with revenue exceeding \$2.4 billion.

If these expectations hold true, EDMC is trading 11.7x FY13 EPS and 10x FY14 EPS estimates of \$0.49, which is very low, even for a company in the midst of a turnaround. Moreover, the stock is now trading .8x revenue. The stock easily could trade to \$7.00 by early next year, which is still only 14x FY13 EPS.



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## Analyst Certification

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