Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 3 | ISSUE 29 | JANUARY 22, 2013

INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *Is this the best stock market indicator?*
- ⇒ *Super Bowl indicator is almost never wrong*
- ⇒ *Given this year's participants we could be in great shape*
- ⇒ *Still, if history is any indication, which team should we root for over the other?*
- ⇒ *Nice generic drug play*

KEY STATISTICS

Index	Close	2013
DJIA	13,650	4.2%
S&P 500	1486	4.2%
NASDAQ	3135	3.8%
Russell 2K	893	5.2%

(figures are rounded)

Best Stock Market Indicator

Some of you may recall that we completed a very detailed study on a crazy, but incredibly accurate stock market indicator. Based upon recent events, we have some key insights as to direction and magnitude.

What are we talking about?

I know it sounds crazy but football is the key to success of the stock market in 2013. And the odds are promising for some good gains this year…maybe. Regardless, at Goldman Small Cap Research, we have pored over 46 years of data and have come to the conclusion that the *Super Bowl Indicator* may be the most accurate investing predictor we have come across.

To put it in perspective, this indicator has been right 87% of the time since 1967!

The *Super Bowl Indicator* is a prediction tool that purports to accurately forecast whether or not the market will rise or fall, based upon the winner of the current year's Super Bowl. If the winner of the Super Bowl traces its roots to the old National Football League (pre-NFL-AFL merger), it is a sign that the market will rise. If the winner traces its roots to the AFL, it is a sign that the market will likely decline.

There have been 46 Super Bowls since 1967 and teams that trace their roots to the old NFL have won 33 times. The market has risen in 28 of those 33 years.

On the other hand, teams that trace their roots to the old AFL have won 12 times, with the market rising only 6 out of those 12 times. (We exclude the Tampa Bay Super Bowl win as it joined the league post the merger.)

But, it is so much more than just being right 28 out of 33 times. It is the magnitude of the wins and losses, and I hate to admit, which NFL-related club wins.

(cont'd on next page)

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Super Bowl Indicator

Super Bowl Indicator Results

Category	S&P 500 Change
AFL Team Win: Avg Mkt Return	-3.6%
NFL Team Win: Avg Mkt Return	11.4%
Avg Mkt Increase in NFL Wins	**13.2%**
Avg Mkt Decrease in AFL Wins	*-15.3%*

As illustrated above, when NFL-based teams have won, and the market has risen (which has happened 28 out of 33 times), the S&P 500 Index has jumped an average of 13.2%. Conversely, in the six declines measured by the AFL-led winning teams, the Index dropped an average of over 15%.

Armed with these historical performance statistics, it is clear we should always root for traditional NFL teams to win the Super Bowl. With that said, how are things looking for his year?

For starters, both the San Francisco 49ers and (my) Baltimore Ravens trace their roots to the old NFL, so right off the bat we should be in good shape. Of course, the S&P 500 is already up over 4% and we are barely 3 weeks into the new year, so that might appear obvious to some investors.

If we drill down further, we see some very interesting data. While the S&P 500 has risen 13.2% on average for these NFL-related teams, not all teams are created equal.

The San Francisco 49ers have won the Super Bowl 5 times from 1982 – 1995. Four out of those years the S&P 500 returned a monster average gain of 25.6%. In the year the market declined, the index dropped by 6.6%. Thus, the average return for all 49er Super Bowl victories is 19.2%.

Conversely, the Baltimore Ravens, which traces its roots through the old Cleveland Browns, won the Super Bowl in its only appearance in 2001. The index dropped by 13%, but of course there were extenuating circumstances due to the 9/11 tragedy.

The bottom line? In the aggregate, we should be in good shape, especially if you throw out the “fluke” 2001 year. If you prefer not to do that, than perhaps you should root against my Ravens and cheer for a 49er victory. After all 4 out of 5 big gains isn’t a bad thing. February 3rd, here we come…

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Small Drug Firm Making $

Last week, we highlighted a stock we felt is a good buy at current levels, given the expected huge EPS growth in 2013.

Lannett Company, Inc. (NYSE – LCI - $5.79) is a small pharmaceutical company that traces its roots to 1942. The Company's current oral and topical drug portfolio includes generics related to a wide variety of ailments such as glaucoma, Parkinson's disease, migraines, antibiotic, anesthetic, endometriosis, obesity, congestive heart failure, pain management, etc.

Investors should expect that progress in the introduction of new offerings in the fast-growing pain management segment and enhancing its R&D and production capabilities in this treatment category should be a boost to the Company's already strong growth over the next year or so.

The stock has been on fire over the past 2 months, climbing from the $4.00 range to the present levels. Current EPS estimates for the June 2013 year are $0.18 per share and EPS is expected to jump to $0.31 in its next fiscal year. It is possible that these estimates could be light given that LCI already reported 1Q13 fiscal EPS of $0.10 on a 25% rise in revenue from 1Q12.

The chart looks great and the stock is a hair under its year high. The only overhang we see is the recently revised shelf registration filed a month ago which would enable the Company and shareholders to sell as much as $64M in stock and debt securities. While management stated it has no plans to utilize this shelf right now, it clearly will down the road, in our view, which could increase the float and/or cause modest dilution.

Still, with an annual revenue-run rate in excess of $130M, nice profitability, a huge product portfolio, and an aged company and leadership, we would not be surprised to see LCI be snatched up this year.

If management continues to hit on all cylinders, LCI could be a $7.00 in a year's time.

Until next week...

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Analyst Certification

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