

INSIDE THIS ISSUE:

3 Stocks for 3 Weeks

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KEY TAKEAWAYS

- ⇒ *Sell-off is here, underlying fundamentals shaky, namely un-employment, growth, and earnings*
- ⇒ *Could new health pandemic in Asia mute growth in APAC region as it did 10 years ago?*
- ⇒ *Sell in May and go away, but it isn't May just yet*
- ⇒ *We have selected 3 stocks under three themes that should move much higher in next few weeks*

KEY STATISTICS

Index	Close	2013
DJIA	14565	11.2%
S&P 500	1553	8.9%
NASDAQ	3204	6.1%
Russell 2K	923	8.8%

(figures are rounded)

Did You Know...

The inevitable finally happened. The NASDAQ Composite and the Russell 2000 Index got really smacked last week.

The year-to-date returns on these indices decreased by over 25%.

While the leading cause for the decline was anemic job growth of 88,000 for March compared with 268,000 in February, and versus the 190,000 estimate, the real story is the number of people that left the workforce.

Nearly 500,000 gave up looking for work during March which masked the cuts in retail employment and other sectors. Not a good sign when the labor participation rate is at a 35 year low.

We have been cautioning about this for weeks. However, there is another issue that could affect global markets.

Ten years ago, the SARS health outbreak hit East Asia causing a short term health pandemic. It negatively affected most emerging markets as businesses related to tourism, airlines, etc. were affected.

We may have the beginnings of a new pandemic in China with the emergence of a new strain of avian bird flu.

We suggest avoiding Asian stocks due to the saber-rattling of North Korea and this potential health outbreak. But, this region, along with Japan, which has initiated a massive stimulus plan, could be a source of equity growth again in the coming months.

Earnings season is upon us and investors are rattled.

We talked about the sell in May and go away strategy last week. This week, we highlight 3 stocks that could see big moves before the seasonal downturn commences.

The party isn't over but the fun people have left the building. Still consider buying May 2013 puts on the market.

Three Stocks for Three Weeks

Okay, enough of the concerns about this, negative news about that, sell in May, high valuations, buying puts, etc. You can still make money in the market. Moreover, although this has once again be a fairly narrow rally that has killed stock pickers and rewarded index huggers, we have identified 3 themes that are primed to rock the house and 3 associated small cap stocks that will not just benefit from these themes but lead their market segments.

You can probably make money even heading into the middle of May which is when all of the stocks will have released their 1Q13 financials. Still, to be on the safe side, we are recommending that you lean towards viewing these picks as April holdings only.

#1: A Play on UAVs, Missile Defense, and Cyberterrorism: Kratos Defense & Security Solutions, Inc. (NASDAQ—KTOS—\$5.09)

Kratos' core capabilities are sophisticated engineering, manufacturing and system integration offerings for National Security platforms and programs. Kratos' areas of expertise include Command, Control, Communications, Computing, Combat Systems, Intelligence, Surveillance and Reconnaissance (C5ISR), satellite communication systems, unmanned systems, cyber warfare, and cybersecurity. The Company is engaged in 3 of the most important and fastest growing segments of the military at this time: unmanned aerial vehicles (UAV), Missile System Support, and Cybersecurity. In fact, just last week, KTOS was awarded 2 contracts totaling \$16.5M for missile support and UAV systems.

Given the saber-rattling in North Korea, proliferation and use of UAVs abroad and now in the U.S., and a great deal of press regarding cyberterrorism, KTOS is in a great spot to be a major player in all 3 categories. If heaven forbid anything happens on the Asian front, the stock will likely be a beneficiary. In the meantime, looks poised to set a new 52-week high, breaking through the \$6.09 mark. It appears that once the stock breaks through the \$5.12 mark, it could be off to the races, as technical characteristics are very favorable.

We liken the expected moves of KTOS to Innovations Solutions and Support Inc. (NASDAQ—ISSC) a stock we featured in our Market Monitor blog last week and still like a great deal. ISSC jumped 27% in a matter of days, aided in part by a new commercial contract and KTOS could do the same, possibly aided by a short squeeze. KTOS has over 4M shares short and is a bit debt-heavy. ISSC is much smaller but profitable, and trades at a much higher valuation than KTOS. Still, KTOS trades only .3x revenue and is a great deal at \$5.09.

Three Stocks for Three Weeks (cont'd)

#2: A Play on Mobile Advertising (Millennial Media Inc. (NYSE—MM—\$6.43)

Millennial Media is the leading independent mobile advertising and data platform. The Company's technology, tools and services help app developers and mobile website publishers maximize their advertising revenue, acquire users and gain audience insights. Its unique platform also enables us to offer advertisers powerful Mobile Audience Solutions (MAS) that utilize its significant scale, sophisticated targeting and uniquely engaging creative capabilities to deliver meaningful results.



MM is the proxy for advertising on mobile devices. Hundreds of millions of monthly uniques are reached on behalf of brands using its platform. The Company is growing revenue like mad, has nearly \$2.00 per share in net cash, and just closed a key acquisition. The stock's chart looks terrible and 17% of the float is short. Still, as themes go, this is a category killer in a high profile space that should do well following 1Q13 results due out on May 8th.

#3: A Play on Online Gambling (Zynga Corp. - ZNGA— \$3.55)

We have featured ZNGA on a few occasions . While “historically” ZNGA’s fortunes have been intricately linked to that of Facebook (NASDAQ—FB), since the bulk of revenue is tied to FB, the Company’s foray last week into mobile gambling via the introduction of a real-money poker game in the U.K. has brought rejuvenated interest in the whole Zynga story. There are other players in the online gambling space, such as Glu Mobile (NASDAQ—GLUU), and most are migrating from their origins in mobile gaming. Still, we believe the sheer size of ZNGA (\$1B revenue run-rate) and reach (hundreds of millions of users) make it a great proxy for online gambling which could prove to be one of the fastest growing segments of the economy in the next few years. Last week’s news that VC king John Doerr has joined the board is also a plus, in our view.

The bottom line is that with \$1B in cash (over \$1 per share), a lessening dependence on FB and greater focus on the real growth concepts in its space make this stock, which carries a beautiful chart, and increasing volumes, a major candidate to move beyond the \$5 level in the coming weeks.

Until next week...



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