Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 3 | ISSUE 42 | APRIL 21, 2013

INSIDE THIS ISSUE:

KEY TAKEAWAYS

- *You must use a strategy not just tactics to succeed*
- *Stay away from tech now, and avoid or sell key sectors in May*
- *The next 6 weeks presents short-term opportunities culminating in the first week of June*
- *By using sector rotation, seasonality, and tactical purchases, a lot of money is to be made through the summer.*

KEY STATISTICS

Index	Close	2013
DJIA	14548	11.0%
S&P 500	1555	9.0%
NASDAQ	3206	6.2%
Russell 2K	913	7.5%

(figures are rounded)

A 6-Week Trading System

We live in the now. As a result, we spend too much time worrying about how we are going to trade based on news of the day. We view this approach as tactical rather than strategic thinking. While both methods are worthwhile and one cannot do without the other, the strategic approach seems to have been forgotten altogether. Big mistake.

With that in mind, today we will provide you with a primer on what you need to do to play the market today, next month, and early June. View it as a 6-week system, if you will that combines seasonality with sector rotation and tactical use of stock movements.

Week of April 22nd:

This week's stock market action is likely to be the epitome of a tactical approach to the stock market. On one side, the cover of Barron's touts Dow 16,000 and a bunch of bullish money managers. On the other side, only 27% interviewed for the weekly AAII Consumer Survey (retail investors) are bullish. Earnings have not been so great, growth is slowing, and gold is collapsing. Yet, this week we have a bunch of key earnings reports, including Apple (NASDAQ—AAPL) after he close on Tuesday, which could be a real barometer for the stock market.

What to do: The market will be on pins and needles so you be better be prepared to be nimble on sales and buys. It may take too much to get the Street optimistic about AAPL again anytime soon, so tech remains an area to avoid, for the most part. Stick with stocks under real accumulation and that are working.

For example, last week in these pages we gave you 2 great ones that did very well hitting new highs by week's end despite the lousy market. **Linktone (NASDAQ—LTON—$3.35)** hit $3.47, and our profile price was $3.04. It has room to go much higher. **Rite Aid (NYSE—RAD—$2.46)** hit $2.48, up from our $2.31 profile price and looks like it could go to 3.00.

VOLUME 3 | ISSUE 42 | APRIL 21, 2013

A 6-Week Trading System (cont'd)

First 2 weeks of May

Mayday

May 1st is a holiday in many European countries and is referred to as *Lei Day* in Hawaii where the island's culture is celebrated. For our purposes, May Day is really *Mayday*, as in a distress signal. After all, the old adage is "Sell in May and Go Away." This is the second half of what some refer to as The Halloween Indicator which proffers that stocks perform best from November through April. A number of "back testing" has been implemented looking at 10, 20, 40, 50, and 60 year periods and in most cases, the majority of gains are in fact borne from November through April and losses in May through October.

We should note, however, that since 1950, May has actually experienced an average return of 0.05% and was up 35 times. Nonetheless, the past 3 years have been brutal, declining by an average of 5.4%. We expect that recent trends will likely continue. Take profits where you can but be ready to buy some beaten down stocks in certain sectors. (See below.)

May is also chock full of key economic reports, including auto sales on May 1st, along with PPI and CPI updates mid-month. It is not uncommon that these last two index reports prompt sharp moves in either direction. Finally, GDP for the most recent quarter is announced at the end of the month. This announcement gives us a glimpse into what June may bring, stock market-wise.

So, Buy These Sectors in the first half of the month…

Certain retail stocks, such as stocks related to the automotive sector, leisure stocks and casual dining equities tend to be good performers in May, while technology usually begins its seasonal, protracted decline. So, if you are taking profits or selling losers, focus on these spaces.

Last Half of May

The second half of May could be an opportunity to sell some stocks you just bought for a quick profit, as the May doldrums may start to hit, after rising in anticipation of the start of the summer season, where they tend to get a little pick-up. We are not talking major returns here, but on a cumulative and combined basis, you could do a hell of a lot worse. Moreover, you are probably going to want to prepare to be liquid for another series of trades heading into the first week of June.

VOLUME 3 | ISSUE 42 | APRIL 21, 2013

A 6-Week Trading System (cont'd)

<u>**Beginning in the latter part of May, anti-cancer biotech stocks will be the place to be.**</u>

The annual American Society of Clinical Oncology (ASCO) meets in early June each year. This is a major conference for oncology companies and in particular oncology-related stocks. Beginning in mid-May, word will begin to spread as to which companies will be attending and more importantly which ones will be presenting at this event. Anti-cancer stocks tend to move sharply higher in the 2-3 weeks prior to the conference, and sell-off in the weeks following the event. This presents a great trading opportunity for those looking to potentially turn a quick profit.

Plan of Action: Buy biotechs in late May, Sell them in early June

<u>Bonus Plan for the Summer:</u>

At this point you are probably asking yourself, "after I sell, what do I do?"

The answer is simple: With few exceptions, trade out of short term positions and get liquid wherever you can. Summer will likely not provide much until we reach the 2nd or 3rd week of July. Then, the real homework begins. You must follow tech companies to see what kind of 2H13 is in store, along with the likely downgraded forecasts. Although tech could very likely have a tough May-August, be prepared for intermittent upward surprises to throw you off your game.

In the meantime, retail stocks should be avoided, as should materials and industrials. Stick again with the winners and those with rising volumes through early-mid-August.

As you get to the beginning of August, dabble in retail stocks, which should benefit from back-to-school purchases, as would consumer tech as well. Some of the tech companies will seasonally about to turn the corner and valuations will begin to creep up.

Look, we cannot be certain that this crystal ball and seasonality works exactly like this. However, if you use this system, which combines seasonality of sectors and their rotation, seasonality in the market, and key events, along with stocks under accumulation, you should do well. After all, strategy needs tactics, and vice-versa in order to reach full potential.

Until next week...

The Goldman Guide

VOLUME 3 | ISSUE 42 | APRIL 21, 2013

1498 Reisterstown Road, Suite 286
Baltimore Maryland 21208
Phone: 410.609.7100
info@goldmanresearch.com
www.goldmanresearch.com

Analyst: Robert Goldman

Rob Goldman founded Goldman Small Cap Research in 2009. Rob 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 Jaffrey'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*. 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 The Stock Junction (www.TheStockJunction.com.)

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this newsletter report 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 includes micro cap companies. 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 Firm has not been compensated nor does it expect to be compensated for the any research services for any of the other companies mentioned in this newsletter. Please read the disclaimers found on the initiation reports and updates for compensation disclosure and research subscription terms.

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 the 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