Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 4 | ISSUE 2 | MAY 12, 2013

INSIDE THIS ISSUE:

KEY TAKEAWAYS

- *1Q13 numbers have been pretty good thus far*
- *Multiples not out of control*
- *No irrational exuberance present*
- *Few options to put money*
- *Market rise has been steady not volatile*
- *Margin interest growth and poor economic data are likely stumbling blocks*
- *The 3 P's of investing success*

KEY STATISTICS

Index	Close	2013
DJIA	15118	14.3%
S&P 500	1634	13.2%
NASDAQ	3437	11.9%
Russell 2K	975	12.4%

(figures are rounded)

Why Stocks Will Continue To Go Up

Happy Mother's Day to all of the wonderful mothers out there.

Years ago, more long distance calls were logged on Mother's Day than any other day in the year. Of course back then the notion of conducting a long-distance call was a big deal. Today, I doubt many people keep those kinds of statistics anymore.

In any event, we are in an environment where the most important statistics involve the stock market, with perhaps the unemployment rate and the start of the NFL regular season, following behind. With that in mind, we have watched the rise in the market with glee and trepidation, wondering when it will quit, if it will quit, and why it will cease.

Frankly, at the risk of being a negative barometer (and if that happens we would not be shocked), we do not see an end to the fun. Yet. Why?

For starters, the triggers and catalysts that prompt declines in stocks do not seem to be present. Quarterly earnings season is two-thirds or more complete and the numbers have been pretty good overall, with few companies guiding lower. That is a bullish sign as it keeps the projected earnings for stocks for 2013 relatively unchanged. That is key because what we were afraid of is that financials could be disappointing which would prompt downward revisions. Such moves would mean that the price/earnings ratio on the S&P 500 Index would be above its historical average and during a period when we are not exactly experiencing accelerated growth.

As we have mentioned in recent months, we remain in a low interest environment. Moreover, we have a Fed pumping money out like a marijuana grower. Plus, now that gold has collapsed along with other hard assets and certain commodities, there are few places to put one's money, aside from equities.

(cont'd)

Why Stocks Will Continue To Go Up (cont'd)

Real estate is certainly on the rebound but money is not flowing there in great quantities. If interest rates do rise, and that could occur in the coming quarters, bond investors, especially those with longer maturity-based securities will see their value decline. No one appears to wish to be in that position.

Another factor that is a potential proof of a continued and perhaps sustained rise is the fact that the gains upward have not been associated with huge up days. Rather, the increases have been steady, sustained, and somewhat incremental. For the most part this has been the case for much of 2013 and it is an unusual thing to behold, given the schizophrenic nature of the stock market over the past 10 years.

Yet another component that is related to this phenomenon is the absence of irrational exuberance. We do not appear to have major, incredibly vocal bulls, or for that matter, vocal bears, either. Many of the pundits appear to be resolute but even-keeled in their prognostications. It is almost as if the market has lost some of the emotional underpinnings that are part and parcel of trading and investing in stocks. On the one hand, this could be a direct result of enhanced program trading, the migration of more assets to index-correlated funds, and the simplistic nature of the stock trading itself. Chartists are awash with giddiness due to the beautiful patterns of the market's major indices and many stocks in general. We are also finding that investors and traders alike appear to becoming less and less married to stocks. It is as if they are less interested in detailed company information and more likely to make decisions based upon positioning, sector rotation, technical analysis, advance decline ratios, and themes.

*** Shameless plug***

By the way, this fits in very nicely with our strengths, and or approach. This is why our 30-30 Report and Daily Blogs have had such great performance.

***

All in all, the need for a rest, some poor financial numbers, and the ever-increasing margin interest seem to be the key factor sin halting this rise. Beyond that, however, the future is bright.

Important Note: Alan Abelson, the former long-time editor of the weekly investment bible, Barron's passed away late last week. I urge you to read some of the comments by his peers, colleagues, etc. I did not have the pleasure to meet him but was a tremendous fan. He made us all smarter and deep thinkers. He will be missed.

Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 4 | ISSUE 2 | MAY 12, 2013

Traits of Today's Successful Investor

From time to time, we will be exploring the traits of successful investors and traders. Today, we are focused on what we call The 3 P's. Remember, for the most part, we invest in stocks, not the market. As a result, we have to have a mindset that is associated with such actions. Note: This guidance is geared for investors rather than for traders.

Patience: If you are investing in a stock based upon a theme or industry sector, it is not uncommon that favorable sector rotation or technical may buoy many of the stocks in the space. After all, a rising tide lifts all boats. However, if you are investing in a given stock due to your belief in management, its products, positioning, etc., one must have patience. Too often, investors sell too soon, or sell at the slightest hint of a problem. By having a longer term outlook, and staying on top of news, if your thesis remains the same, you will eventually be rewarded. This is especially the case with stocks such as biotechs or those types of companies whose profits are dependent upon a series of transactions.

Prudence: Do not put all of your eggs in one basket. Make sure there is some semblance of diversity in your entire portfolio. Moreover, don't go into a stock based in a whim or just because it is trading like gang-busters. That is great if you have a trading posture with that security. However, if you treat each stock this way, it becomes a slippery slope. Above all do your homework, and even go back a few years to see what is different today from 3 years ago. If it appears that management has no clue or can't buy a vowel, don't buy the hype.

Productivity: It is important that as many stocks in your portfolio do well so that you don't need big hits to make up for losses. Try to find stocks that are less volatile and are routinely demonstrating progress. Take the extra time to seek out information about related stocks, or their customers. Reach out to the IR team. Whatever you do, do not live in a box. Make moves if you are beginning to feel uncomfortable in any sustained or repeated changes in the business model.

Until next week...

Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 4 | ISSUE 2 | MAY 12, 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