Goldman SMALL CAP RESEARCH

The Goldman Guide

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

⇒ *Small caps are obliterating other stocks*

⇒ *Even passive investors are buying small caps*

⇒ *Revenue growth will be a big factor in stocks' direction*

⇒ *Is Google a buy at $1,000+?*

⇒ *Tech and energy are likely best sectors to be in for the near term*

⇒ *Sluggish consumer spending could temper market's rise*

⇒ *New investment vehicle may get some play*

KEY STATISTICS

Index	Close	2013
DJIA	15400	17.5%
S&P 500	1745	22.4%
NASDAQ	3914	29.6%
Russell 2K	1115	31.3%

(figures are rounded)

Small Cap Kings

Years ago, a sign that the market had reached a top was when a major mainstream magazine such as *Time* proclaimed that the market was on fire and clearly poised to move higher. While we are not there just yet, it doesn't take rocket scientist to see that the Russell 2000 Index is blowing away the other major indices, with a 31% year-to-date return as compared to say, the Dow Jones Industrial Average, which is up 17.5%.

Interestingly, the valuations are high but not frothy and the best is likely yet to come. In fact, we believe that small caps will continue their run through the early part of 2014. What makes the performance so unique is the fact that ETF and index investing remains such a huge part of the retail and even institutional investing world. Despite this backdrop, a very interesting article in the weekend edition of The Wall Street Journal that quoted some of the leading index investors, along with retail guys who admitted that they still get a rise our of small caps and allocate a small percentage to individual stocks, and oftentimes, they tend to be small caps.

While this isn't necessarily "new" news, as it was always assumed that even the some passive investors did play in the mall cap world, the outsized gains many have earned likely means that the dollars will remain in this category and could even see additional investment dollars flow in this arena.

Now that we have entered the tail end of October, earnings season is in full swing. Investors should not just focus on companies outperforming EPS estimates this quarter, but should closely monitor EPS estimates *and* revenue forecasts for the balance of the year and next year. These are the firms that will truly outperform. Much of the EPS growth has been a result of productivity and margin gains of late, but are not usually sustainable without that top-line growth.

Finally, Google (NASDAQ—GOOG) breached $1,000 price per share last week. For those investors that believe the stock can go much higher, it needs to jump $200 for a 20% gain. At current levels, it trades around 19x FY14 EPS versus say Apple (NASDAQ—AAPL) which trades at $500, or 11.8x FY14 EPS.

(cont'd)

More Small Caps... (cont'd)

Look, we think Google kicks butt and Apple is in a bit more of a questionable position, but aren't there other plays that could provide better returns than something trading for $1,000 per share? Growth is slowing to 10% year-over-year for Google so that 19x multiple seems like it will reach that price/valuation ceiling very soon, despite the fact that it has $170 per share in cash. The bottom line is that even with a 31% return on the Russell, there are a boatload of better plays than Google, from the potential valuation/reward perspective. Thus, small caps still are a compelling place to be.

Looking ahead, we believe that tech and energy may be the top two performing sectors. If the fallout of the government shutdown appears to not have a materially negative effect longer term, than the usual year-end consumer stock run-up could occur in earnest for the balance of the year. We will not have sense of this for a couple of weeks yet, however. As a result, we would be cautious in this sector for the near-term. Sluggish consumer spending may not derail the market's increase but it could temper the magnitude of the rise.

Sports fans may have caught news of a sports exchange last week. In our view, it is a really cool idea but it remains to be seen how it is perceived by the investing public. Fantax Holdings, Inc. (https://fantex.com/) has developed a new marketplace where individuals can buy 'shares' of elite athletes. The stock issued by the Company is a tracking stock that is linked to the economic performance and overall worth of an individual professional athlete brand where money is earned from contracts, endorsements and appearance fees. The stock is fully registered and filed with the SEC and the first deal has been struck.

Last week the firm issued its first IPO with Houston Texans running back Arian Foster. The deal is typical of how the structure will work for shareholders and athletes in the future. Mr. Foster will received $10 million in exchange for 20% of all future income related to his athletic 'brand'. This is an important distinction as the Foster stock could generate income long after he retires from endorsements or personal appearances. Shareholders will own a tracking stock and have no direct investment in the business or assets attributed to the brand contract, associated brand or athlete. Rather an investment in a tracking stock will represent an ownership interest in Fantex, Inc. as a whole. Fantex will operate an exchange and the value of the Foster shares will increase or decrease based on the value of his overall athletic brand and earning potential.

This concept is certainly in our wheelhouse. We are huge sports fans as well as market watchers and analysts. Be on the lookout for additional insight in future editions of The Goldman Guide as this concept could get some real play.

Until next week...

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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 Jaffray'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.)

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