Goldman SMALL CAP RESEARCH

The Goldman Guide

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *Poor start to the year is no cause for alarm*
- ⇒ *Our themes remain unchanged*
- ⇒ *Health care that had a rough 2013 look attractive*
- ⇒ *Tech stocks with big insider buys could be solid value plays*
- ⇒ *Marijuana stocks may provide your portfolio with short term buzz*
- ⇒ *Industrials set to rock and this major metals recycler is already off to a great 2014, with room to move much higher*

KEY STATISTICS

Index	Close	2014
DJIA	16470	-0.6%
S&P 500	1831	-0.9%
NASDAQ	4132	-1.1%
Russell 2000	1156	-0.7%

(figures are rounded)

THESE STOCKS TO REACH NEW HIGHS

There is a school of thought that suggests the notion that so goes the first trading day in January, so goes the market performance for the year. If that were to hold true, then this year will be a difficult one. Already there are stock market doomsayer articles and stories of the December stock sales made by Warren Buffet and famous billionaire investors.

With the market down 1% already, surely investors are on edge. Couple that with the odd statistic that refers to the first Monday following New Year's Day is the most depressing day of the year and even the most optimistic of us can feel a bit uneasy.

Rest assured, that there is no cause for alarm. The odd combination of the mid-year holidays, the "Hercules" winter storm, lower volume and jobless claim statistics tell us that last week's downward sentiment is no reason to panic. In fact, we believe that the investment themes we have been highlighting are rallying strongly and appear ready to continue their upward trajectory.

For example, health care segments and stocks out of favor at the tail end of 2013 rallied strongly last week. Our daily blog pick of last week Merge Healthcare (NASDAQ—MRGE—$2.58—NR) rose 10% last week and remains attractive as it is still well below its 52-week high of $4.71.

The key is not to chase the big winners of 2013 but seek out last year's losers while simultaneously identifying potential winners for 2014. Some of these poor performing stocks have seen insider buys in recent days. To do so now, at the turn of the new year following the end of the all-important fourth quarter can be very telling.

(cont'd)

Buy at Cheaper Price Than CEO

For example, Sigma Designs (NASDAQ—SIGM—$4.60—NR), a provider of "system on a chip" integrated chipsets for IPTV set top boxes, and other gateways could be one of these stocks. A poor 2013 performer that is expecting a decline in revenue despite its profitability, saw its CEO buy $2.5M worth of stock at a price of $5.50 in late December. Today, the stock is down 16% from that price, and it is not exactly in favor, with a year high of $6.70.

Nonetheless, the CEO must clearly see value beyond the $1.80 per share in cash, or the .8x price/revenue multiple. We typically do not recommend plays of this type as we typically seek out pure growth stories, but in this instance, it may prove to be worthwhile.

"New High" is the Operative Term

I confess that I try to avoid profiling or recommending sectors or stocks when they are featured in mainstream publications. This time, however, I am going to make an exception. Following the commencement of the legal sale of marijuana for recreational use in Colorado, nearly all stocks with some exposure to the marijuana industry rose on monstrous volume, only to fall, for the most part, the following day. In the early part of 2013, this pace was red-hot, and flamed out after giving investors a nice buzz for a while. Interestingly, it is possible that the upswing could continue again.

First, given that Colorado has now made this move, expect others to do so as well. The state of Colorado expects to earn nearly $70M in annual tax revenue and now the state of Maryland has a legislator that believes he can get a similar bill passed. Plus, New York has now passed a medical marijuana law of its own, joining 20 other states. These events are not unrelated and their correlation illustrates a potential rise in interest and value in the space in the capital markets and in growth of the acceptance of the drug as well. Watch the stocks closely. They may good for a flier but be wary of getting too high too fast.

In Growing Economy, Industrials Rock

Another theme of ours has been the potential moves in the industrial space, given the expectation of a rejuvenated U.S. economy. One stock under major accumulation thus far this year is Metalico, Inc. (NYSE – MEA - $2.56.) Metalico, Inc. is a holding company with operations in two principal business segments: Ferrous and Non-Ferrous Scrap Metal Recycling, including PGM and Minor Metals Recycling, and Fabrication of Lead-Based Products which are sold to domestic manufacturers. The company operates recycling facilities in New York, Pennsylvania, Ohio, West Virginia, New Jersey, Texas, and Mississippi and lead fabricating plants in Alabama, Illinois, and California.

The company just bolstered its product sourcing by buying the assets of Furlow's North East Auto, Inc., an automotive salvage and parts provider in North East, Pennsylvania. Metalico plans to grow the facility's salvage car buying capabilities and continue its "pick-and-pull" auto parts business while taking advantage of additional access to scrap metal to feed its shredder in Buffalo, New York. Metalico is also aggressively looking at other properties in the auto salvage industry in Western New York and northwestern Pennsylvania to support its shredding operations. This deal helps make the company one of the few, and one of the largest vertically integrated metals recycler.

Plus, through its Mayco Industries division, Metalico is the country's largest fabricator of lead based products other than batteries, which are sold nationwide to a diverse industrial customer base.

With an annual revenue-run rate of over $500 million, Metalico is no small player in the recycling space. In fact, Metalico ships over 210 million pounds worth of product each year. The stock has also been trading like a superhero of late, reaching new year-highs over the past 2 trading days on very strong volume. A relatively poor performer in 2013, Metalico is exactly the type of January Effect stock to which we have referred recently since the stock combines its poor 2013 trading performance with its pure play status on economy via the recycling industry. This segment of the industrials space can be very important to investors as it serves as a key component and leading indicator in the industrials segment and the overall economy.

As a result, Metalico is an attractive stock for those seeking a proxy for the expected economic growth in 2014. Moreover, despite its big rise in value and volume, the current market cap is still less than .2x revenue, indicating that the stock has room to move higher especially as strong economic performance figures emerge.

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