



The Goldman Guide

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INSIDE THIS ISSUE:

- Buy This Apparel Stock
- Video Gaming Stocks Not Dead
- Don't Be an April Fool

KEY TAKEAWAYS

- ⇒ *Based on what the stock market did last week, up is down and down is up*
- ⇒ *This apparel stock will do well in the spring since the time between Easter and Mother's Day is its best season*
- ⇒ *Just because the King IPO flopped does not mean the sector is dead. This stock could bounce back*
- ⇒ *Don't be an April Fool. Changes in government policies are destined to hurt us, not help us*

KEY STATISTICS

| Index | Close | 2014 |
|--------------|-------|-------|
| DJIA | 16323 | -1.5% |
| S&P 500 | 1858 | 0.5% |
| NASDAQ | 4156 | -0.5% |
| Russell 2000 | 1152 | -0.1% |

(figures are rounded)

UP IS DOWN AND DOWN IS UP

The stock market trading last week was atrocious and NASDAQ has its worst week since 2012. Frankly, conventional wisdom was proven wrong on so many levels that investors would be wise to do the opposite of what one would normally do this time of year.

Major momentum sectors such as the biotech space and stock like Netflix (NASDAQ—NFLX) and Chipotle (NYSE—CMG) that had previously enjoyed broad accumulation sold off sharply. The King Entertainment IPO was a terrible performer despite the fact that other IPOs roared higher.

Granted, some of the key movers did narrow their losses somewhat and could have positive returns in the near term. However, in the absence of momentum stocks outperforming other segments and stock plays, investors would be wise to buy stocks primed to do well in May and June, no matter how much out of favor they might be. These include the apparel and video gaming segments, despite the fact that are way out of favor.

In last week's *Guide*, we noted that with spring and baseball's Opening Day finally here, apparel stocks can actually get attention again. In the meantime, this may be a low point in the cycle which means some of these stocks are a buy for the courageous and clever.

With this backdrop and the fact that the period between Easter and Mother's Day is a key buying season for women's clothing, now is the time to bottom fish in the apparel sector. This sector has recently underperformed due to bad weather across the U.S. but represents a great entry point from the valuation and future event perspectives. Following the completion of due diligence on several small cap apparel companies I believe that **New York & Company Inc. (NYSE - NWY - \$4.40)** offers the greatest upside potential.

Buy This Apparel Stock

New York & Company, Inc. is a specialty retailer of women's fashion apparel and accessories, and the modern wear-to-work destination for women, providing a good value and a "NY Style" that is feminine, polished, on-trend and versatile. The company's proprietary branded New York & Company merchandise is sold exclusively through its national network of retail stores 507 stores in 43 states and online via the company's website.

A few years ago, New York & Company was a troubled stock and the company's stores had difficulty attracting customers since their styles were out of favor. Fast forward to today, and things have changed markedly. Revenue run-rates are solid and operating income has improved by around \$70 million over the past three years. Moreover, the company's results seem to be improving with each quarter.

For the fourth fiscal quarter of 2013, financial results were ahead of management's high end guidance range and were driven by positive comparable store sales and expanding profit margins. In fact, the results marked the eighth consecutive quarter of improved operating performance versus prior year periods. For the full fiscal year, revenue was \$939 million versus \$966 million last year despite the closure of 23 stores nationwide during the year. More important, operating income increased by 33% from \$2.25 million to \$3.1 million despite the drop in sales, and EPS improved to \$0.04 from \$0.03.

Looking ahead, Wall Street estimates a modest rise in revenue to \$950 million but a four-fold increase in EPS to \$0.16 this year and a near doubling to \$0.30 next year. Investors should note that the company's balance sheet is a major strength relative to its peers. New York & Co. has no debt and over \$1 per share in net cash. This means that 25% of the total market value of the stock is in cash and that the stock trades at less than .2x revenue, which is extremely low for a profitable apparel company with a strong balance sheet and expanding profitability.

Given all of these factors, along with management's recent knack for beating expectations, I envision the stock approaching its 52 week high of \$6.87 in the next six months would represent a 43% gain from current levels.

The “Glu” Leading The Gaming Arena

Several market publications featured blogs or articles on last Friday’s big IPO ‘flop’, **King Digital Entertainment, plc (NYSE – KING)** as the stock was expected to price at \$22.50 but opened at \$18.85 and closed at \$18.08. This is the worst IPO debut of the year. Several commentaries site the Company being a ‘one-trick pony’ with the popular game *Candy Crush* or doubting the long term growth potential.

Not to oversimplify, but this story seems familiar in the land of virtual reality, online gaming, and social media. **Facebook (NASDAQ – FB)** was almost cut in half over the first three months of trading to the \$17.75 level. **FB** currently sits at the \$60 level. **Twitter (NYSE – TWTR)** seems to be going thru the same start-up cycle as the stock has dropped to \$47.30 after reaching \$69 just weeks after its debut. The same questions linger for the hip social media firm. In our world, **Zynga, Inc. (NASDAQ – ZNGA)** has come back down to a 65% increase in price since our initial article on the Market Monitor about a year ago and is down 19% since an updated profile in these pages 2 weeks ago, in response to the King IPO.

So is the game up? We do not think so with the right stock. SAC Capital has come in to rescue **ZNGA** this week doubling its stake in the Company to nearly 5%. Another thing to ponder is that **Facebook** is definitely shopping and has proven it will pay for the next game or app to grow its revenue base. We say keep **ZNGA** for now and target of \$6.00. Another small cap gamer to consider is **Glu Mobile, Inc. (NASDAQ – GLUU - \$4.50)**. The Company targets smartphones and tablets specifically and is forecast to grow 30% at the top line in 2014. We have been right on it a couple times in the past and with no debt and this stock has likely already taken most of the punches to the chin due to the poor performing sector. A \$6.00 target for **GLU** is possible later this year.

Opening Day: Don't Be An April Fool

"Once they can't do it, they'll get used to it."

Watching a weekly baseball talk show on television, these words were uttered about a potential rule change that baseball players are presently vehemently against, in this case a mandatory uniform change for baseball pitchers. What this commentator did not know was that in those few words, former big league pitcher Mike Wallace had accurately described how freedoms are permanently lost by a once free people to a tyrannical government. The phrase has never been more relevant in describing America than as it is today.

All levels of government take their healthy cuts at our freedoms, and we Americans just get used to the 'changes,' and that is that. Over. Just this month, a California court ruled that a person could be removed from a public place for wearing a shirt with an American flag on it, if Mexicans there found it objectionable. Farmers have been fined hundreds of dollars a day for capturing rainwater...on their own lands. Famously former New York Nanny-mayor Michael Bloomberg decided that no one in 'his' city should be allowed to drink from large cups—his very strange replacement is trying to get that overturned law re-instituted.

Yes, from east to west, all over America, we are losing our rights as politicians have determined that they will not suffer the consequences of attacking our freedom. The strategy is simple: take away your rights, sometimes using our own safety as the excuse, and eventually, we will not fight for the lost freedom, we will just get used to being without it. Couple this with the seeming ubiquitous loss of our privacy to our government's desire to read everything we write and listen to everything we say, and the slippery slope we find ourselves on looks much steeper than the hill of a pitcher's mound.

Benjamin Franklin was born a bit too early to have the wisdom of a journeyman baseball pitcher but his words warned us what would lie ahead in our future if we ever allowed our government to act as it does today. " Those who desire to give up freedom in order to gain security will not have, nor do they deserve, either one."

Have a great week!



The Goldman Guide

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