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KEY TAKEAWAYS

- ⇒ *Layoffs are in gear for the energy and small cap space signaling that there is more pain ahead*
- ⇒ *Oversold situations abound during this downturn with some stocks trading at a 50% discount to EPS growth rate*
- ⇒ *Stocks have bounced off the recent lows but there is a lot of room to move higher*
- ⇒ *We have identified a stock that has beaten quarterly EPS estimates by an average of 46% for the past 4 quarters and could enjoy a pop when it reports financials this week*

THE MAJOR INDICES

Index	Close	2016
DJIA	16392	-7.0%
S&P 500	1918	-7.0%
NASDAQ	4504	-10.0%
Russell 2000	1010	-11.1%

(figures are rounded)

OBEDY THE SIGNS

History has a nasty habit of repeating itself. In the stock market and corporate finance world, investment firms tend to over-hire and then when the going gets tough, they fire at will.



We have seen reports of research analyst and support staff firings for those covering the energy and a number of small cap sectors. Traders are also being let go. Investment bankers are next, if they aren't in the line of fire already.

All of this means that firms are having difficulty dealing with the lower trading volumes, reduced interest, fewer deals, etc. and more pain is ahead. It is no secret that small caps are out of favor and the market has little conviction, with the road ahead in general a tough one to hoe. Still, there are real ways to make generate positive returns as values abound—if you know where to look.

For example, **Orbotech (NASDAQ—ORBK—\$20.74)**, our pick of the year in 2015 and one that has been featured a number of times here over the years, is cheap as hell at current levels. **ORBK** grew EPS by 41% in 2015 versus 2014, and forecasts suggest an average EPS growth rate of 15% for the next two years. Yet, the stock trades 10x FY15 EPS and only 8.5x FY16E EPS, a 50% discount to its projected growth rate. Clearly, the stock is primed for a 20% gain which would take it to the still cheap 10x EPS level.

An EPS Estimate Crusher

U.S. Stock Market Index Performance 2/19/2016								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Below 200-DMA
DJIA	16,392	18,351	15,370	5/19/15	8/24/15	10.7%	6.6%	-5.0%
S&P 500	1,918	2,135	1,810	5/20/15	2/11/16	10.2%	6.0%	-5.6%
NASDAQ	4,504	5,232	4,210	7/20/15	2/11/16	13.9%	7.0%	-8.3%
Russell 2000	1,010	1,296	943	6/23/15	2/11/16	22.1%	7.1%	-13.4%
Average						14.2%	6.7%	-8.0%

Source: www.BarChart.com, Goldman Small Cap Research

As the chart above illustrates, the bounce of the recent lows has been a nice one, but we have a lot of ground to make up. Still, in addition to growth/value plays, short term trading opportunities exist as well. While greater risk is associated with short term trading activity, the risk is reduced when one elects to trade or invest in shares of companies that have a recent history of crushing Wall Street forecasts.

With this in mind, we have identified **LeMaitre Vascular, Inc. (NASDAQ – LMAT - \$12.80)**, a provider of devices and implants for the treatment of peripheral vascular disease, a condition that affects more than 20 million people worldwide. LMAT has done a great job of beating quarterly estimates of late. For the past four quarters, LMAT has exceeded Wall Street consensus EPS projections by an average of 46%!

The Company is slated to release 4Q15 financials and considering that heart and vascular disease is the number one health issue for men and women in the U.S, the Company is solidly in position from the demand side. The EPS forecast of \$0.09 compares with \$0.11 in the prior year and we believe that the stock could enjoy a real pop if they exceed estimates.

Say What?



Great info, insights, and hard-hitting stories make up this week's *Say What?* feature...

Bloomberg

<http://www.bloomberg.com/news/articles/2016-02-19/millennials-are-using-one-of-the-riskiest-etfs-to-speculate-on-oil>

Fascinating. Maybe they will start buying small caps now?

The New York Post

<http://nypost.com/2016/02/21/bank-ceo-reveals-how-obama-administration-shook-him-down/>

Rest assured, this is not the first time regulators “extorted” deals out of businesses.

Barron's

http://www.barrons.com/articles/what-recession-gdp-set-to-grow-3-1455943664?tesla=y&mod=BOL_twm_ls

Best story/headline all week.

Marketwatch

<http://www.marketwatch.com/story/heres-why-you-have-to-start-taking-bitcoin-seriously-2016-02-19>

Poor market conditions haven't hurt.

ZeroHedge

<http://www.zerohedge.com/news/2016-02-21/drivers-inflation-rent-obamacare-and-minimum-wage-hikes>

Simplistic but largely accurate, I believe.

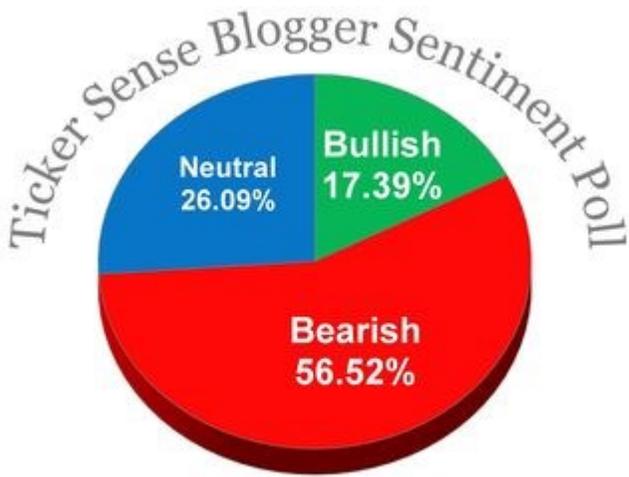
The Stock Market Today

AAll Sentiment Survey (figures rounded)

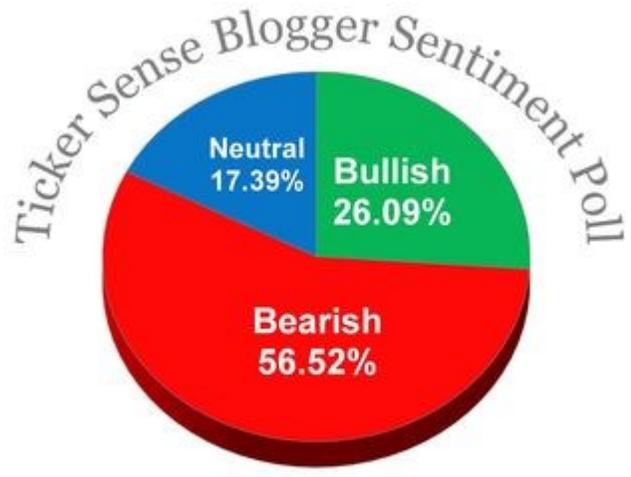
	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	28%	19%	39%
Neutral	35%	32%	31%
Bearish	38%	49%	30%



Well, with gains of 3-4% from a week ago, it is easy to see why Bulls rose and the Bears fell. Hopefully, we have gains ahead, albeit it is likely the returns will be muted. Ticker Sense did not yet update its poll but I suspect that changes will be similar. I, for one, will be interested to see if a turn was made last week (or this week for matter) in equity fund outflows, breaking a trend that seems to go back prior to December. Keep an eye out on Lipper on Wednesday for more information on this front.



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The Goldman Guide

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