

INSIDE THIS ISSUE:

Stock Market Today
Say What?
Notable Numbers
A Russell Addition for Fathers

KEY TAKEAWAYS

- ⇒ *All eyes on Brexit this week. Investors should expect lots of volatility ahead...again*
- ⇒ *S&P 500 Index looking weak*
- ⇒ *Changes to Russell indices creates opportunities*
- ⇒ *Earnings season will be in focus sooner than you think and certain segment should kick butt*
- ⇒ *We profile a new Russell Micro-cap addition that is cheap, growing like crazy, and is a company any father would love*

THE MAJOR INDICES

Index	Close	2016
DJIA	17,675	1.4%
S&P 500	2071	1.3%
NASDAQ	4800	-2.2%
Russell 2000	1145	0.8%

(figures are rounded)

PREDICTING THE MARKET IN 50 WORDS

To all the dads out here, Happy Father's Day. Being a father can be rewarding, scary, and thankless all at the same time. And I am sure we wouldn't trade it for the world.



I hate saying I told you so...actually that's a lie. I enjoy it. Anyway, much of what we espoused last week came to fruition and the bottom line is there is a lot of fear out there. Investors are as skittish as the scared kitten above and I can understand why. This week could prove to be the most volatile, crazy week we have had in a long time and its dénouement will likely set the stage for the rest of summer. With that in mind here are the 7 things you need to know regarding stock market direction for the foreseeable future:

1. **Brexit does not mean a mass stock exit.**
2. **The U.S. economy is only ok, and that is okay.**
3. **Russell Index changes create opportunity.**
4. **The S&P 500 Index technicals are at risk.**
5. **Earnings suck, except for these...**
6. **Lots of cash on the sidelines is good.**
7. **Even risk oriented investors are afraid.**

Bonus: Summer solstice and full moon mean crazy investors may act a little crazy early this week.

The Seven Things...

#1: Brexit does not mean stock exit. June 23rd is Decision Day. Will the U.K. exit the EU? If it does how bad is it for the EU and the U.K., and the rest of the world? Are there other shoes to drop with other EU members? If it stays, what happens next ?

Stocks are going to be volatile until D-Day because the decision is a toss-up. Still, we hold that some of the downside in a Brexit vote is already reflected in stocks and downturns would only be short term in nature if voters elect to leave. I would be more concerned about fallout with other countries and talks de-stabilization of the EU. That is the biggest, and unlikely risk at this stage. Of course, staying in the EU would be a positive.

#2: The U.S. economic situation is only ok, and that is okay. A number of investors are really worried about the historically slow economic growth, slowing employment, concern that the consumer can no longer drive the economy, etc. I think most investors are resigned to the notion that we are mired in a multi-year, low growth environment, regardless of who is in office next year. As long as the bottom does not fall out, stocks will eke out modest gains this year.

#3: Russell Index changes create opportunity. Adjusting your portfolio to the additions could prove to be profitable as they could represent future winners, while the deletions could represent current losers, and if they return to form, future winners. So, even they are to be monitored.

#4: The S&P 500 Index technicals are at risk. The index is about to drop below its 200 DMA after dropping below the 20, and 50 DMAs and that is not a good sign. Don't look for anything beyond earnings fundamentals to help out for a while.

#5: Earnings suck, except for these...According to Factset: The Consumer Discretionary sector is expected to report the second highest earnings growth at 6.8%. At the industry level, Internet & Catalog Retail is forecast to jump 41%.

#6: Lots of cash on the sidelines is good. Institutions have the highest cash percentage (5.7%) in 15 years. That bodes well for future rallies.

#7: Even risk oriented investors are afraid. Big discount on small cap secondary offerings illustrate fear/concern about valuation and direction in the near term.

The Stock Market Today

U.S. Stock Market Index Performance 6/17/2016								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	17,675	18,189	15,370	6/23/15	8/24/15	2.8%	15.0%	2.8%
S&P 500	2,071	2,133	1,810	7/20/15	2/11/16	2.9%	14.4%	2.7%
NASDAQ	4,800	5,232	4,210	7/20/15	2/11/16	8.3%	14.0%	-0.4%
Russell 2000	1,145	1,296	943	6/23/15	2/11/16	11.7%	21.4%	2.7%
Average						6.4%	16.2%	1.9%
Sources: www.BarChart.com, Goldman Small Cap Research								

All eyes are on the U.K., and rightfully so. The good thing is that small companies do not have much exposure here, so regardless, they are unlikely to be affected. Factset estimates that the aggregate revenue exposure of the entire S&P 500 Index membership is around 3%. However, that number is a bit deceptive, as energy, IT, and materials could be impacted the most since they derive 4.0—6.5% of revenue from Britain.

All this Brexit talk has prompted investors to take their eyes off of earnings and that could provide a real opportunity for aggressive investors. The current 12-month forward P/E on the S&P 500 Index is just a tad over 16x, which is essentially fair value, relative to historical multiples and when taking into account the low interest rate environment.

So where does that leave us? While Brexit will dominate stock direction in the near term, earnings will quickly play a role, although it will be dicey because of the calendar. The Brexit vote is Thursday, which means the most volatile days could be that day and Friday. The week after is really a 4 day week because so many will be taking Friday off for the July 4th holiday on Monday.

This all means we could be digesting the Brexit outcome until just before the holiday weekend. July has had some huge returns of late. Since 2000, there have been 7 up years and 4 down years but the up year returns have average nearly double that of the down years. Wanna focus on earnings ahead of it? Think internet, autos, and non-apparel retailer consumer discretionary stocks.

Say What?



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

The New York Times

http://www.nytimes.com/2016/06/19/business/dealbook/after-147-years-goldman-sachs-hangs-a-shingle-on-main-street.html?ref=business&_r=0

Never thought I would see this.

Marketwatch

<http://www.marketwatch.com/story/investors-fearing-summer-shocks-are-hoarding-the-most-cash-since-2001-2016-06-14>

Could this be a bullish sign?

Bloomberg

<http://www.bloomberg.com/gadfly/articles/2016-06-17/trade-of-the-week-whatever-the-bookies-say-next>

Short and very informative.

USA Today

<http://www.usatoday.com/story/tech/news/2016/06/17/microsoft-makes-bold-move-into-marijuana-biz/86034484/>

Does this legitimize the industry?

ZeroHedge

<http://www.zerohedge.com/news/2016-06-18/tensions-between-usnato-russia-are-flaring-dangerously>

Fear a different kind of bear?

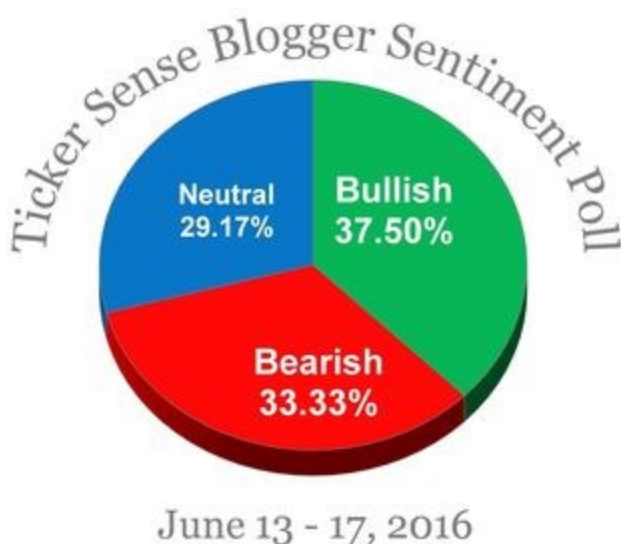
Notable Numbers

AAll Sentiment Survey (figures rounded)

	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	25%	28%	39%
Neutral	37%	44%	31%
Bearish	38%	28%	30%



Little change was recorded by Ticker Sense but the AAll survey demonstrated that the Neutrals are turning Bearish. It's about time, if you ask me. At least for this group. The Investor Intelligence survey has shown an incremental upward change in the percentage of advisors expecting a correction, which we view as ok, but not material. Equity funds sales have leveled off ad volume has not really changed much. The big change has been in the VIX, which was up 14% for the week. It is hard to believe it would not generate similar returns this week, given the Brexit concerns.



A Russell Addition A Father Can Love

Of the 20 pending consumer discretionary category additions to the Russell Microcap Index, 6 of them are restaurant stocks. With such a large percentage devoted to one segment of this large category, we thought it would be a good idea to profile one of them. Naturally, we selected a stock with which we have had familiarity and what is sure to be one a father would love—if he loves a good steak, that is.

The ONE Group Hospitality, Inc. (NASDAQ—STKS—\$2.44—NR) operates upscale, high-energy restaurants and lounges and provides hospitality management services for hotels, casinos and other high-end venues both nationally and internationally. The ONE Group's primary restaurant brand is STK, a modern twist on the American steakhouse concept with locations in major metropolitan cities throughout the U.S. and Europe.

The varied restaurant concepts are great, financials are solid and growing like crazy, and the metrics/valuation are very attractive. On top of a good 1Q16, management recently licensed concepts to outside parties which should provide additional revenue streams.

For 2Q16, the lone analyst estimate calls for EPS of \$0.05 versus a loss of (\$0.03) on a 22% rise in revenue to the \$18M mark. For the full year 2016, sales are forecast to jump from \$60M to \$76M, with \$0.21 in EPS while next year's projection calls for \$91M in sales and EPS of \$0.34. At current levels, the stock trades 12x this year's EPS estimate and less than 1x sales—and this is before the news about the Microcap Index addition.

Furthermore, the stock has a RSI of 50 and 16% institutional share ownership, which should now rise. The stock is 10% above its low and doesn't have the greatest looking chart or average daily volume. Nonetheless, we target \$4 by year end for these shares, which would reflect 12x next year's EPS.



The Goldman Guide

1498 Reisterstown Road, Suite 286 Baltimore Maryland 21208 Phone: 410.609.7100

info@goldmanresearch.com www.goldmanresearch.com

Launched in May 2010, *The Goldman Guide* is a free weekly publication of Goldman Small Cap Research and is written by Founder Rob Goldman with contributions from the GSCR contributor team. This non-sponsored investment newsletter seeks to provide investors with market, economic, political and equity-specific insights via an action-oriented, straight to the point approach. No companies mentioned in this newsletter are current sponsored research clients of the Company or its parent, unless noted. With some exceptions, all companies or investment ideas mentioned in this publication are publicly traded stocks listed either on the NYSE or the NASDAQ. Goldman Small Cap Research members and contributors' bios, certifications, and experience can be found on our website: www.goldmanresearch.com.

Disclaimer

This newsletter was prepared for informational purposes only. *Goldman Small Cap Research*, (a division of Two Triangle Consulting Group, LLC) produces non-sponsored and sponsored (paid) investment research. Goldman Small Cap Research is not affiliated in any way with Goldman Sachs & Co.

The Firm's non-sponsored research publications category, **Select Research**, reflects the Firm's internally generated stock ideas, along with economic, industry and market outlooks. In virtually all cases, stocks mentioned in **Select Research** offerings are listed on the NYSE or the NASDAQ. Publications in this category include the weekly newsletter *The Goldman Guide*, Market Monitor blogs, Special Reports, and premium products such as *The 30-30 Report*. Goldman Small Cap Research analysts are neither long nor short stocks mentioned in this newsletter.

Opportunity Research reports, updates and Microcap Hot Topics articles reflect sponsored (paid) research but can also include non-sponsored microcap research ideas that typically carry greater risks than those stocks covered in Select Research category. It is important to note that while we may track performance separately, we utilize many of 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 company-specific **Opportunity Research** reports, updates and articles.

Goldman Small Cap Research has not been compensated for any content in this issue.

All information contained in this newsletter and in our reports were provided by the companies mentioned via news releases, filings, and their websites or generated from our own due diligence. Economic, market data and charts are provided by a variety of sources and are cited upon publication. Stock performance data and information are derived from Yahoo! Finance and other websites or sources, as noted. Our analysts are responsible only to the public, and are paid in advance to eliminate pecuniary interests, retain editorial control, and ensure independence.

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, other firms, or other financial news outlets. *Goldman Small Cap Research* relied solely upon information provided by companies through 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, update, article, blog, 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 newsletter does not take into account the investment objectives, financial situation, or particular needs of any particular person. This 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. Statements herein may contain forward-looking statements and are subject to significant risks and uncertainties affecting results.



The Goldman Guide

1498 Reisterstown Road, Suite 286 Baltimore Maryland 21208 Phone: 410.609.7100

info@goldmanresearch.com www.goldmanresearch.com

Separate from the factual content of our articles about the company featured in this newsletter, we may from time to time include our own opinions about the companies profiled herein, their businesses, markets and opportunities. Any opinions we may offer about the companies are solely our own, and are made in reliance upon our rights under the First Amendment to the U.S. Constitution, and are provided solely for the general opinionated discussion of our readers. Our opinions should not be considered to be complete, precise, accurate, or current investment advice. Such information and the opinions expressed are subject to change without notice.

ALL INFORMATION IN THIS REPORT 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