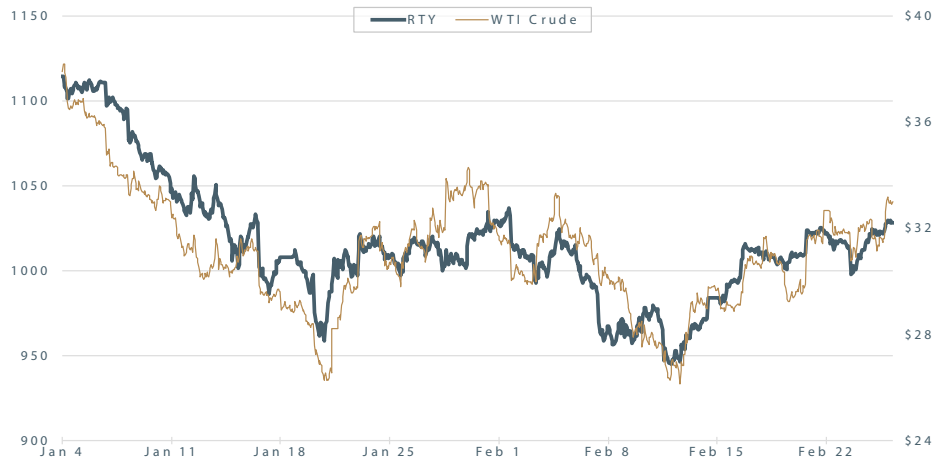


## Trading Recap

Despite a strong **Durable Goods** report before the open, major US stock indexes were stuck in neutral until 1 PM, when a rally in Crude prices kicked stocks into gear, pushing them to the very top of their recent ranges. For the S&P 500, 1950 has been its Waterloo—it's traded within a fraction of 1950 on four different occasions since first falling below in early January—and on Thursday it managed to ease itself over the threshold, and close there. Small caps lagged large caps, with the Russell 2000 gaining just 90 bps to the SPX's 1.1% gain, and unlike the SPX, the RTY remains within its 30D trading range. The RTY's 1031 close yesterday carries none of the psychological heft of the SPX's 1950, because whereas large caps can claim "higher highs", small caps can not.

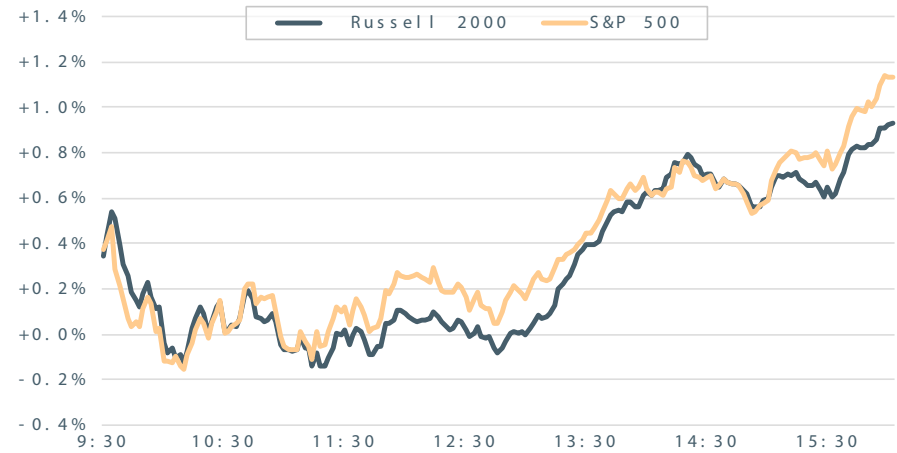
Talking about stocks independent of Crude prices seems ridiculous though. See the chart below. Stocks are following Crude. At some point they won't, but we're not there yet.

Ex 3: **Russell 2000 and WTI Crude**  
RTY price (L axis) and WTI Crude (R axis), YTD, intraday



All data Bloomberg, unless otherwise noted; All Charts SCP

Ex 1: **Russell 2000 and S&P 500**  
Index 1D Intraday Performance



Ex 2: **Sector Performance Data**

	LAST PRICE	CHG PCT 1D	CHG NET 1D	CHG PCT 5D	CHG PCT YTD
<b>Russell 2000</b>	1031.6	0.9%	9.5	3%	-9%
SECTOR	LAST PRICE	CHG PCT 1D	INDX IMPACT	CHG PCT 5D	CHG PCT YTD
Financial Services	1336.3	+1.6%	+4.5	+2%	-7%
Consumer Discretionary	1874.5	+1.1%	+1.6	+4%	-4%
Technology	2049.5	+0.6%	+0.9	+4%	-10%
Producer Durables	1220.6	+0.5%	+0.6	+2%	-8%
Consumer Staples	2299.0	+1.3%	+0.5	+4%	-0%
Materials & Processing	1281.0	+0.8%	+0.5	+3%	-8%
Health Care	2215.7	+0.3%	+0.4	+2%	-22%
Utilities	1501.6	+0.5%	+0.3	+2%	+3%
Energy	176.7	+0.8%	+0.1	+1%	-27%

\*Sum of Index Impact = Russell 2000 1D Net Change; Sectors listed by 1D Index Impact

**At first glance, yesterday's rally** did not appear to have been powered by short covering. Biotechs declined on the day; Energy stocks gained just 80 bps, lagging the broader Russell 2000. But according to my SCP High and Low Short Interest baskets, short sellers were covering positions in haste yesterday. SCP High Short Interest outperformed Low by 1% yesterday, its best 1D relative performance since last Wednesday.

hands on over 20 years of small cap short interest data; hopefully you'll find it as interesting as I did.

**It turns out that while** small cap short interest is at the very top of the post-crisis range, we remain well below the all-time peak from 2008. And in fact, current short interest is less than it was throughout the last half of 2006 and the entirety of 2007 and 2008.

## Short Interest Update

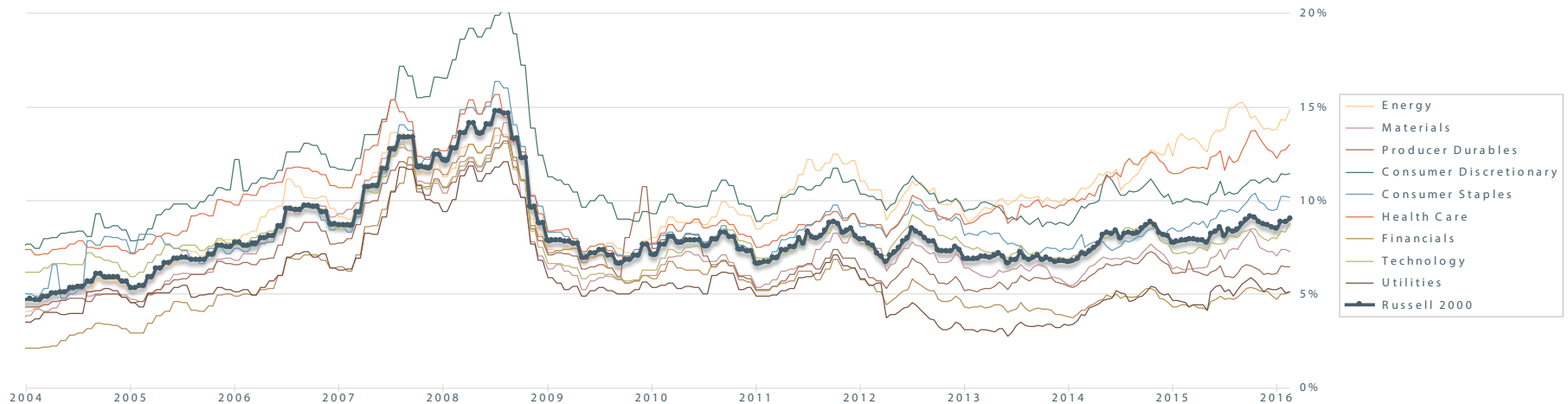
**Speaking of short interest,** on Wednesday FINRA released short interest data as of February 12, showing that Russell 2000 short interest rose to 9.1% of float, matching the post-crisis high set in September. Given the evidence of a massive short squeeze last week, it stands to reason that this number will decline for the current period.

**Between July 2006 and January 2009,** the average Russell 2000 stock had a short interest of 11.5% of float. In the 18 months between March 2007 and September 2008, average short interest never fell below 10% of float, peaking just shy of 15% of float in July 2008. At the peak in July 2008, the least shorted sector, Utilities, had an average short interest of over 12% of float. By comparison, small cap Energy stocks currently have an average short interest of 14.8% of float; less than the average of ALL small cap stocks in July 2008. The only sector whose current short interest exceeds the 2008 is Energy, whose short interest of 14.8% float is greater than the July 2008 peak of 13.4%.

**Until now, my aggregate short** interest data only went back to 2011, so it was difficult to put the data in historical context. But this week I got my

### Ex 4: Russell 2000 Aggregate Short Interest as Percent of Float, by Sector

Russell 2000 aggregate short interest as % of equity float by sector, bi-monthly since 2012



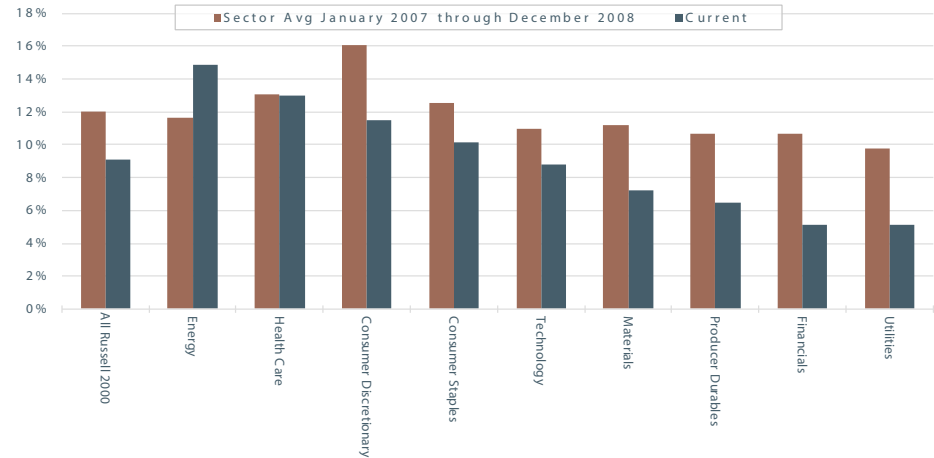
**But what's most interesting to me** at least, is to see how the mechanism for shorting small cap stocks has changed since the crisis. As the chart above suggests, one feature of the crisis in 2007 and 2008 is that all sectors were heavily shorted. Consumer Discretionary had short interest greater than 20% of float (!) but all other sectors were in a fairly narrow band between 13% and 16%. By comparison, the current short interest picture shows a wide and evenly distributed range of short selling across sectors.

**Unlike the crisis, when short sellers** were shorting everything, the current setup is far more sector-specific. Energy and Health Care are heavily shorted; Consumer Discretionary next. Technology stocks have only a modest short interest relative to their own history, while short interest in Financial Services stocks is near the bottom of its decade-plus range.

**Another way to see how** the mechanism for shorting small cap stocks has changed is to look at IWM short interest. The chart below right shows IWM short interest as a percentage of IWM shares outstanding and the average Russell 2000 short interest as a % of float. Of note is how IWM short interest skyrocketed during the crisis, rising as high as 250% of shares outstanding (gotta love ETFs!), and how even as average RTY short interest has risen over the past two years, IWM short interest has actually declined.

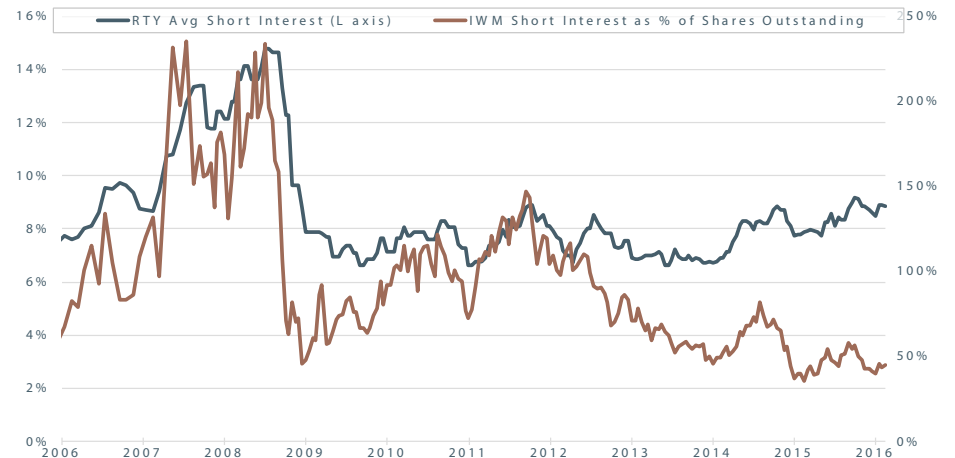
**This suggests that in 2007-2008** as well as 2011, traders shorted IWMs to express broadly bearish views on the marketplace. But the current rise in short interest does not reflect the same type of broad pessimism, but rather that traders are targeting what they view as the most vulnerable groups and stocks.

**Ex 5: Short Interest Current vs Crisis**  
 Russell 2000 average short interest as % of float, by sector, current and average between January 2007 and December 2008



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**Ex 6: RTY Avg Short Int vs IWM Short Int**  
 Russell 2000 average short interest as % of float (L axis) and IWM short interest as a % of IWM shares outstanding (R axis)



Robert Selzer, Editor

**Ex 7: Most Shorted**

Russell 2000 stocks with the largest net gain in short interest as a percent of float over the prior period

NAME	SECTOR	SHORT INT % FLOAT	2W NET CHG IN % FLOAT
<b>Nevro Corp</b> NVRO	<b>Health Care</b> Medical Equipment & Devices	24%	+9%
<b>Intrawest Resorts Holding</b> SNOW	<b>Consumer Discretionary</b> Recreation Facilities & Svcs	20%	+8%
<b>Arctic Cat Inc</b> ACAT	<b>Consumer Discretionary</b> Leisure Products	18%	+8%
<b>Government Properties Inc</b> GOV	<b>Financial Services</b> Real Estate	15%	+7%
<b>Eagle Pharmaceuticals Inc</b> EGRX	<b>Health Care</b> Biotech & Pharma	33%	+6%
<b>M/A-COM Technology Solu</b> MTSI	<b>Technology</b> Semiconductors	29%	+6%
<b>Rex Energy Corp</b> REXX	<b>Energy</b> Oil, Gas & Coal	45%	+6%
<b>EnerNOC Inc</b> ENOC	<b>Energy</b> Engineering & Construction Svcs	23%	+6%
<b>Weight Watchers Internati</b> WTW	<b>Consumer Discretionary</b> Consumer Services	65%	+5%
<b>New Relic Inc</b> NEWR	<b>Technology</b> Software	14%	+5%

**Ex 9: Most Shorted Industries**

Russell 2000 industries with the largest net gain in average short interest as a percent of float over the prior period

INDUSTRY	AVG SI % FLOAT	AVG 2W NET % CHG
<b>Leisure Products</b>	6%	+0.6%
<b>Recreation Facilities &amp; Svcs</b>	6%	+0.6%
<b>Medical Equipment &amp; Devices</b>	10%	+0.5%
<b>Biotech &amp; Pharma</b>	14%	+0.4%
<b>Oil, Gas &amp; Coal</b>	14%	+0.4%
<b>Iron &amp; Steel</b>	9%	+0.3%
<b>Transportation Equipment</b>	6%	+0.3%
<b>Asset Management</b>	7%	+0.3%
<b>Software</b>	9%	+0.3%
<b>Renewable Energy</b>	13%	+0.3%

**Ex 8: Most Covered**

Russell 2000 stocks with the largest net drop in short interest as a percent of float over the prior period

NAME	SECTOR	SHORT INT % FLOAT	2W NET CHG IN % FLOAT
<b>Synchronoss Technologies</b> SNCR	<b>Technology</b> Software	8%	-7%
<b>Relypsa Inc</b> RLYP	<b>Health Care</b> Biotech & Pharma	44%	-6%
<b>Lannett Co Inc</b> LCI	<b>Health Care</b> Biotech & Pharma	35%	-6%
<b>VASCO Data Security Inter</b> VDSI	<b>Technology</b> Software	26%	-5%
<b>Zafgen Inc</b> ZFGN	<b>Health Care</b> Biotech & Pharma	20%	-5%
<b>Cliffs Natural Resources</b> CLF	<b>Materials &amp; Processing</b> Iron & Steel	31%	-5%
<b>Outerwall Inc</b> OUTR	<b>Consumer Discretionary</b> Retail - Discretionary	53%	-5%
<b>Multi-Fineline Electronix</b> MFLX	<b>Technology</b> Hardware	3%	-4%
<b>zulily Inc</b> ZU	<b>Consumer Discretionary</b> Retail - Discretionary	5%	-4%
<b>Swift Transportation Co</b> SWFT	<b>Producer Durables</b> Transportation & Logistics	26%	-4%

**Ex 10: Most Covered Industries**

Russell 2000 industries with the largest net drop in average short interest as a percent of float over the prior period

INDUSTRY	AVG SI % FLOAT	AVG 2W NET % CHG
<b>Passenger Transportation</b>	11%	-0.7%
<b>Apparel &amp; Textile Products</b>	8%	-0.5%
<b>Metals &amp; Mining</b>	7%	-0.4%
<b>Retail - Discretionary</b>	14%	-0.3%
<b>Distributors - Consumer Staples</b>	7%	-0.3%
<b>Forest &amp; Paper Products</b>	2%	-0.1%
<b>Hardware</b>	8%	-0.1%
<b>Engineering &amp; Construction Svcs</b>	5%	-0.1%
<b>Utilities</b>	4%	-0.0%
<b>Institutional Financial Svcs</b>	4%	-0.0%

Ex 13: Index and Sector Valuation

Current Valuation and Premium/Discount to 10Y Median

	ADJ POS PE +/-	EV/SALES +/-	P/BOOK +/-
Russell 2000	14.1 x -5%	1.6 x +8%	1.9 x -7%
SECTOR	ADJ POS PE +/-	EV/SALES +/-	P/BOOK +/-
Utilities	18.8 x +20%		1.9 x +14%
Energy	16.2 x +19%	1.2 x -14%	0.7 x -53%
Consumer Staples	17.2 x +18%	0.6 x +30%	2.6 x +15%
Health Care	17.2 x +1%	1.8 x +21%	3.2 x +0%
Financial Services	13.2 x -1%		1.3 x +4%
Technology	15.6 x -2%	1.2 x -6%	2.5 x +6%
Consumer Discretionary	13.4 x -5%	1.0 x +19%	2.5 x +1%
Producer Durables	12.5 x -9%	1.0 x -2%	1.8 x -4%
Materials & Processing	12.4 x -10%	0.9 x -4%	2.1 x +5%

Ex 14: Russell 2000 12M Price

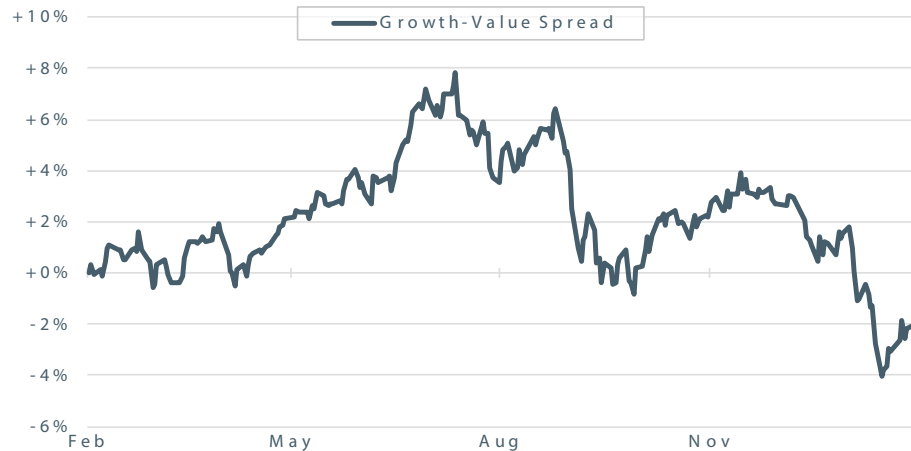
Russell 2000 Price and 50D and 200D Moving Averages, 12M



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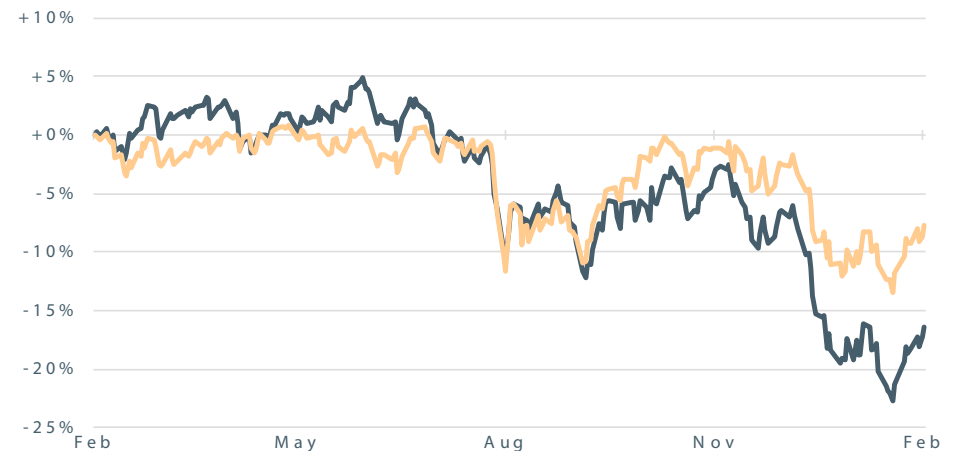
Ex 11: Russell 2000 Growth-Value Spread

RUO Index - RUJ Index Spread, 12M, Normalized



Ex 12: Russell 2000 & S&P 500

Russell 2000 and S&P 500, 12M, Normalized



Robert Selzer, Editor

Ex 15: Top Stocks by 1D Impact

COMPANY	SECTOR	1D IMPACT	1D % CHG	YTD % CHG
<b>TMH</b> Team Health Holdings Inc	<b>Health Care</b> Health Care Facilities & Svcs	+31.6	+17%	+1%
<b>CHS</b> Chico's FAS Inc	<b>Consumer Discretionary</b> Retail - Discretionary	+15.8	+15%	+18%
<b>DOOR</b> Masonite International Corp	<b>Materials &amp; Processing</b> Home & Office Products	+14.8	+14%	-5%
<b>CW</b> Curtiss-Wright Corp	<b>Producer Durables</b> Machinery	+14.1	+7%	+3%
<b>POWR</b> PowerSecure International Inc	<b>Energy</b> Engineering & Construction Svcs	+13.1	+88%	+23%
<b>VAC</b> Marriott Vacations Worldwide C	<b>Consumer Discretionary</b> Gaming, Lodging & Restaurants	+12.6	+13%	+8%
<b>NPO</b> EnPro Industries Inc	<b>Producer Durables</b> Manufactured Goods	+11.9	+18%	+16%
<b>DRII</b> Diamond Resorts International	<b>Consumer Discretionary</b> Gaming, Lodging & Restaurants	+11.5	+21%	-9%
<b>STE</b> STERIS PLC	<b>Health Care</b> Medical Equipment & Devices	+10.7	+3%	-13%
<b>RSPP</b> RSP Permian Inc	<b>Energy</b> Oil, Gas & Coal	+10.4	+12%	-7%

Ex 18: Bottom Stocks by 1D Impact

COMPANY	SECTOR	1D IMPACT	1D % CHG	YTD % CHG
<b>RH</b> Restoration Hardware Holdings	<b>Consumer Discretionary</b> Retail - Discretionary	-30.2	-26%	-52%
<b>RATE</b> Bankrate Inc	<b>Technology</b> Media	-24.3	-43%	-45%
<b>IMAX</b> IMAX Corp	<b>Consumer Discretionary</b> Hardware	-14.8	-11%	-20%
<b>PHH</b> PHH Corp	<b>Producer Durables</b> Specialty Finance	-10.2	-26%	-45%
<b>TILE</b> Interface Inc	<b>Materials &amp; Processing</b> Home & Office Products	-9.3	-12%	-20%
<b>SEAS</b> SeaWorld Entertainment Inc	<b>Consumer Discretionary</b> Recreation Facilities & Svcs	-8.4	-9%	-9%
<b>XPO</b> XPO Logistics Inc	<b>Producer Durables</b> Transportation & Logistics	-8.3	-6%	-5%
<b>ANAC</b> Anacor Pharmaceuticals Inc	<b>Health Care</b> Biotech & Pharma	-8.2	-4%	-42%
<b>LQ</b> La Quinta Holdings Inc	<b>Consumer Discretionary</b> Gaming, Lodging & Restaurants	-7.4	-10%	-25%
<b>FLT</b> Fleetmatics Group PLC	<b>Technology</b> Software	-6.3	-6%	-22%

Ex 16: Top Stocks by 1D % Gain

COMPANY	SECTOR	1D IMPACT	1D % CHG	YTD % CHG
<b>POWR</b> PowerSecure International Inc	<b>Energy</b> Engineering & Construction Svcs	+13.1	+88%	+23%
<b>KEYW</b> KEYW Holding Corp/The	<b>Technology</b> Software	+3.8	+37%	+5%
<b>ENOC</b> EnerNOC Inc	<b>Energy</b> Engineering & Construction Svcs	+2.5	+27%	+66%
<b>TREE</b> LendingTree Inc	<b>Financial Services</b> Specialty Finance	+6.6	+22%	-4%
<b>DRII</b> Diamond Resorts International	<b>Consumer Discretionary</b> Gaming, Lodging & Restaurants	+11.5	+21%	-9%
<b>WLH</b> William Lyon Homes	<b>Consumer Discretionary</b> Home & Office Products	+2.5	+21%	-34%
<b>MPG</b> Metaldyne Performance Group In	<b>Consumer Discretionary</b> Automotive	+1.8	+19%	-22%
<b>NPO</b> EnPro Industries Inc	<b>Producer Durables</b> Manufactured Goods	+11.9	+18%	+16%
<b>TMH</b> Team Health Holdings Inc	<b>Health Care</b> Health Care Facilities & Svcs	+31.6	+17%	+1%
<b>CNXR</b> Connecture Inc	<b>Technology</b> Software	+0.2	+17%	-14%

Ex 17: Bottom Stocks by 1D % Loss

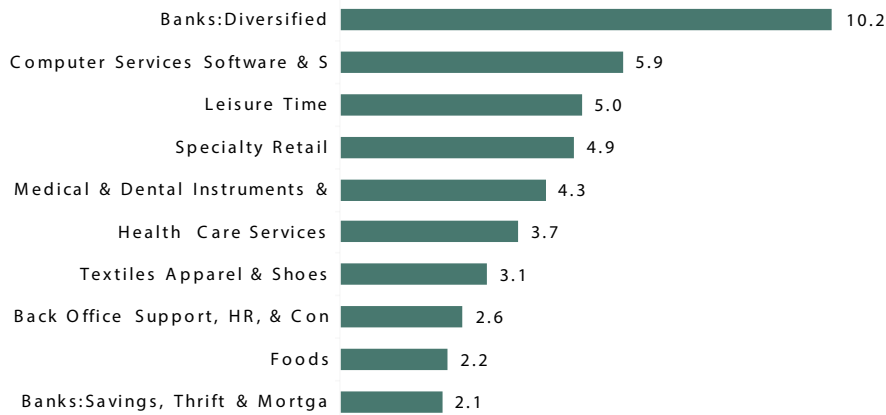
COMPANY	SECTOR	1D IMPACT	1D % CHG	YTD % CHG
<b>RATE</b> Bankrate Inc	<b>Technology</b> Media	-24.3	-43%	-45%
<b>RH</b> Restoration Hardware Holdings	<b>Consumer Discretionary</b> Retail - Discretionary	-30.2	-26%	-52%
<b>PHH</b> PHH Corp	<b>Producer Durables</b> Specialty Finance	-10.2	-26%	-45%
<b>PN</b> Patriot National Inc	<b>Producer Durables</b> Commercial Services	-0.9	-26%	-32%
<b>CJES</b> C&J Energy Services Ltd	<b>Energy</b> Oil, Gas & Coal	-0.8	-19%	-81%
<b>UNT</b> Unit Corp	<b>Energy</b> Oil, Gas & Coal	-3.3	-18%	-64%
<b>RLYP</b> Relypsa Inc	<b>Health Care</b> Biotech & Pharma	-5.6	-15%	-50%
<b>KEG</b> Key Energy Services Inc	<b>Energy</b> Oil, Gas & Coal	-0.3	-13%	-60%
<b>ZAIS</b> ZAIS Group Holdings Inc	<b>Financial Services</b> Asset Management	-0.2	-13%	-51%
<b>PGTI</b> PGT Inc	<b>Materials &amp; Processing</b> Home & Office Products	-4.4	-13%	-17%

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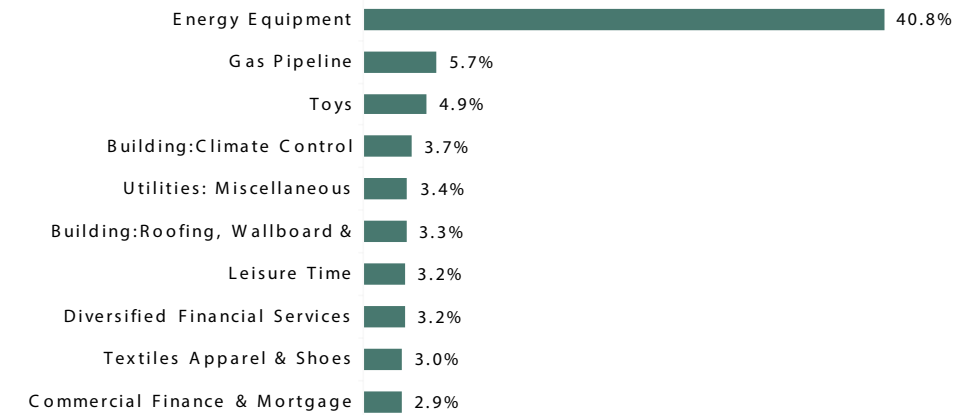
Robert Selzer, Editor

**Ex 19: Top Industries by 1D Impact**

Impact in terms of net points added to Russell 2000

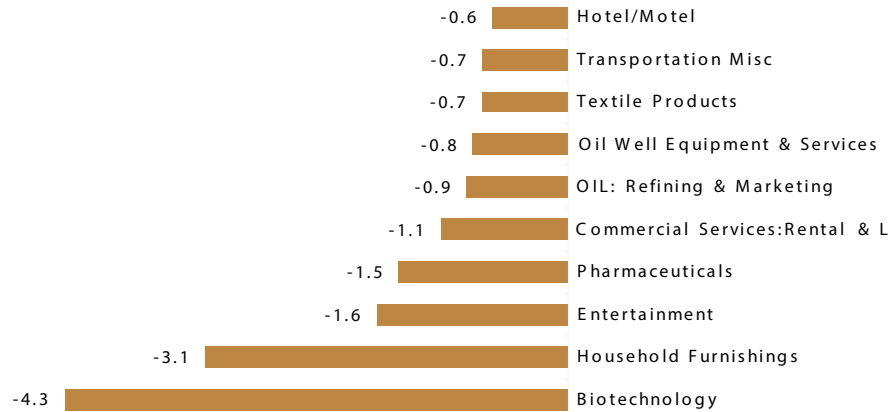


**Ex 20: Top Industries by 1D % Gain**

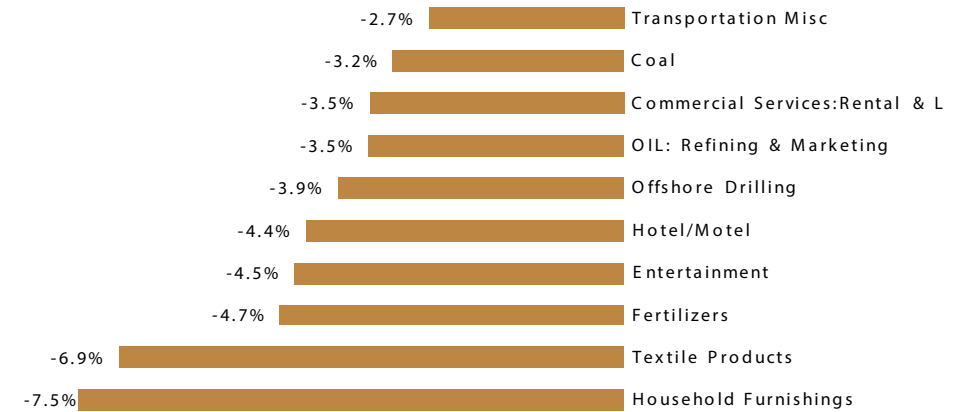


**Ex 22: Bottom Industries by 1D Impact**

Impact in terms of net points subtracted from Russell 2000



**Ex 21: Bottom Industries by 1D % Loss**



## What is SCP?

**Small Cap Picayune (SCP)** is a daily newsletter devoted to small cap stocks. It considers index-/sector-/ and subsector-level trends, pressures and phenomena affecting small cap stocks.

**In short, SCP provides investors** with information and analysis that traditional providers ignore or avoid, due either to scale or internal conflicts. This newsletter will make small cap investors more informed about the world they inhabit and will illuminate pitfalls and opportunities before they arise.

## What is it comprised of?

**SCP includes the Daily Picayune**, that includes brief market commentary, and small cap-relevant data and charts. This includes tracking of custom factor baskets as well as the Russell Reconstitution baskets. The Weekly Picayune is comprised of in-depth analysis of themes and ideas affecting small cap investors, in addition to interviews with small cap luminaries. We aim for a combination of succinctness and depth, to reward the 30-second perusal as well as much deeper investigations and conversations. Email robert.selzer@smallcappicayune.com or call us at 212-271-2909 for subscription details or with any other questions.

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**When I trade I will** disclose the position. When I am discussing a theme that affects stocks I will always disclose a position. I trade options during earnings season and I will always disclose those positions as I take them. I will also trade around index- and sector-instruments from time to time when I believe it is prudent and I will disclose those transactions as I make them. The vast majority of trades that I make will stem directly from the work that I do, and the analysis that I present to you. Please let me know if you have any questions or concerns on this matter.

## Who are you anyway?

**I'm Robert Selzer.** I analyze, study and write about small cap stocks. I started working in the markets in 1998 as a sales trader on the institutional trading desk at Sanford Bernstein. I moved to Goldman Sachs in mid-2000 and eventually began writing about small cap stocks for PM's, Analysts, and Traders from the small cap desk. I am 38. I have an amazing wife, three great kids, and a dog.

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