Goldman
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Top 4 Predictions for Q4

So, we have three months before the New Year. Hopefully, it brings a new, better market environment. There is a virtual desert of optimism right now.

We have to get through the usually rotten month of October, followed by endless predictions about the upcoming holiday season and what is likely to be a series of downward revisions of revenue and earnings for 2H11 and 2012.
With that in mind, I thought I would introduce 10 predictions for the fourth quarter of 2011.

At the beginning of last quarter, I wrote that with the craziness we had in Q2, investors would be relieved to start off fresh. I also wrote that the start of Q3 would be a good one, with some serious negative possibilities for the market beginning in September.

In my mind, it was all about global politics, particularly the hangover effects from the Arab Spring and a potentially weak back-to-school season.

So much for that prediction. Instead, we got crushed for domestic and foreign economic reasons, thanks in large part to the fact that we are devoid of leadership. The numbers are dreadful with the major indices down 12-14% amid 5 straight monthly declines. And it could have been worse.

But, enough of the review and comment on the financial news. Onward and upward, I say.

Prediction #1: One or more of these tech giants will be acquired in the quarter: NOK, YHOO, RIMM, AOL. I could write about this forever but I will keep it short. With NOK and RIM, managements have misread the market and as a result killed the stocks. They are laggards where they were once leaders.

The stocks trade at a fraction of their highs and at very favorable valuations, especially on a P/S basis and book value (to a degree) when one takes into account the value of the underlying IP, know-how, and broad consumer and corporate customer bases. A company in co-opetition with these firms (possibly U.S.-based) would be likely suitors especially if they do not have a presence in the mobile market.

Yahoo also missed the boat and has lost market share in search and advertising. Rumors abound regarding potential suitors which could be foreign or domestic. This is the most likely candidate, in our view. AOL has become a laughingstock in recent months and internal squabbles and mismanagement stories have become public fodder. AOL has not known what it wants to be when it grows up since the death of dial-up. It has a hodge-podge of businesses and it is a little difficult to quantify assets such as subscribers, content and revenue/monthly uniques.

In all cases, these firms once had powerful brands that to some degree have become also-rans.

Prediction #2: The more things change, the more they stay the same. Volatility will be with us for a while. Europe is a mess, the U.S. is mired in a high unemployment environment, and we still need to sort out the leftover mess stemming from the financial agreement in August. That means that October will be like September. The difference is we will start to have the typical downward revisions for the balance of the year and in 2012. Which means that….

Prediction #3: … we will end the quarter up 3-5% on the major indices. No, I haven 't lost my mind. I stand by this prediction, barring any major, global political or economic collapse. Even if Greece falls apart, I still believe we will end up strong and here is why. The revisions will put more pressure on stocks. It is no surprise but part of the cycle. We are not entering a recession. I believe we have been engaged in an extended one already, albeit with some atypical characteristics.

Trillions have been lost in the market in the past 5 months and nearly $100 billion have been pulled from stock funds since May. Large cap stock funds have endured an amazing 27th consecutive month of outflows. Those chasing yield are now putting money in less liquid, and thus perhaps more risky debt and convertible investments.

With the yield on the 10-year Treasury at 2%, which is lower than many blue chip stock dividend yields, adaptability and flexibility are keys for investment pros. Why risk gaining more yield through equities if stocks could drop another 10-20%?

We believe that the continued bad news will shake itself out and stock prices along with it. Then, beginning around Thanksgiving, the annual window-dressing will begin and the renewed investment in small stocks will occur, given the lower sensitivity to earnings revisions, global economic issues, and yield sensitivity. Plus, the money sitting on the sidelines will be put to use in this asset class.

Thus, any declines in October and November, will change to a modicum of optimism in a small cap rally which will drive stocks and the indices higher.

Prediction #4: The holiday season will end on what I term a logical note. Electronics sales, led by what can fit in one's hand, will have a strong holiday season, as will online sales, again. Dollar and discount stores will have a robust holiday season.

And, all of the unemployed Phd.'s will work for Joseph A. Bank Clothiers on a seasonal basis as they are the only ones that can follow and track the differing, and maddening, daily tv and radio advertisements. This will culminate in a one day special where customers can buy one suit at full price and get two shirts and 3 ties for free on alternating Wednesdays not on an odd-numbered day. Or, get 2 suits free if you buy one suit at full price, a blazer at one-third off, an executive shirt at half-price, and 2 ties for at least $65 each after the winter solstice, but only between sunset and sunrise.

Bonus: Phillies over Yankees in 6 games to win the 2011 World Series. Pitching over hitting.

Until next week….

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Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

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