



The Goldman Guide

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Can the S&P 500 Jump 25%?

I have a confession to make. I feel really weird about being on the other side of the fence from one of the people I respect the most in the investment industry. Mind you, I am not second-guessing myself, but it just does not seem right.

A little background:

Just under twenty years ago I launched a small cap growth research group at a boutique investment firm run by my mentor, himself a small cap value genius. Our group had garnered an incredible amount of notoriety in the institutional investment community on the heels of some great stock picks and unique research reports.

It was during this time that I entered into a relationship with Laszlo Birinyi, of Birinyi Associates, a well-known money management and research firm. The unusual name may resonate with some of you as he is a fixture in the financial press and on television.

Laszlo and I spoke once a month for a couple of years and he not only encouraged me and praised our work which helped his team in its formative years, but, like my mentor, Tom Taylor, had this innate ability to drill down complicated concepts and ideas into few words. To this day, I try and follow in their footsteps.

I lost touch with Laszlo years ago but follow his comments in the press. Coincidentally, we are usually on the same page regarding our outlook on the market, although I tend to be early. Anyway, in the past 2 weeks Laszlo has made wildly bullish comments about the market, going as far to say that if the stars align in the economy that the S&P 500 Index could rise nearly

25% from current levels.

Dude! Seriously? Maybe it can happen, but I just cannot see it.

I think we are down to flat (at best) until Q4, making this a real stockpicker's market. Clearly, we are on opposite sides. We are both glass half full kind of guys so we tend to bullish more often than not but I wonder what is in that glass...

Even though we are cautious does not mean that you can't make money in this market. You can, regardless of whether the S&P 500 rises 25% or goes down 10%. You just have to look for the right signs.

Behind and Ahead

Well we finally had the volatility we have been waiting for. It happened mid-week and we expect it will occasionally rear its ugly head again for the next 4-6 weeks. Last week's stock market action was very interesting and could provide some very real buying opportunities.

The market was schizophrenic again due to Greece. It went from fear to euphoria to relief. As we have mentioned in these pages before, once this is put to bed more geopolitical crises will move to the forefront, helping put a cap on the market.

While the 13,000 and 3,000 levels were broken the strength was not sustained, although it could happen early this week for a short time.

Interestingly, what drove the market was a combination of euphoria/relief over Greece and another solid, consecutive monthly jobs report in the U.S. This is surprising as there was really bad news from China which was whitewashed to a degree. Look for a review of the economic data again. It ain't good, and frankly that is much more important than this Greece b.s.

Look, China is a primary engine of global economic growth, so when the government releases data that demonstrate a slowdown it is not a good thing. China announced a \$31B trade deficit for the month of February due to fewer exports (for this export machine) and it was the largest monthly trade deficit in 12 years. The Europe mess and still subdued recovery in the U.S. has resulted in lower factory output, among other things. At least imports rose.

Keep a close eye on the Asian giant.

The most important part of the jobs data report was never mentioned by anyone in the press. We all know that over 227,000 nonfarm jobs were created and the unemployment rate remains at 8.3%. But, where is the recovery being felt?

Health care. Over the past 12 months, health care employment has increased by 360,000, the largest segment rise during this time.

These hires will likely lead to productivity gains, along with revenue and earnings in the coming quarters. Thus, health care, which has been ho-hum in the early part of the year, may soon see a boost in stock prices.

Food for thought.

Could it be?

Here in Maryland we had news of a political scandal that almost seems like our fiction. A county executive (similar to a mayor) was indicted for using his State Trooper and other staff for assistance with sexual favors. Apparently, he was engaging in sexual trysts in parking lots of public parks, and was “covered” by the police so they could have privacy while having sex in a parked vehicle.

I couldn’t make this up. The woman in question works for the Department of Parks & Recreation. I guess the county exec took it literally.

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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