

INSIDE THIS ISSUE:

S&P Summer Doldrums

What Lies Ahead

KEY TAKEAWAYS

- ⇒ *Forget the Dow Jones record close, the S&P 500 direction will have the biggest market impact*
- ⇒ *Check out how poorly stocks have historically traded from July-August*
- ⇒ *How to play the market this summer, especially with low volume issues*
- ⇒ *Three recent yet different picks offer nice upside for everyone*
- ⇒ *Consider this 8% dividend yield microcap, a microcap tech stock, and a core ETF that just hit a new high*

KEY STATISTICS

<u>Index</u>	<u>Close</u>	<u>2014</u>
DJIA	17068	3.0%
S&P 500	1985	7.4%
NASDAQ	4486	7.4%
Russell 2000	1208	3.9%

(figures are rounded)

THE PRESS IS DEAD WRONG

Every news outlet in the country is touting the Dow Jones Industrial Average record of 17,000 as important. They could not be more wrong.

Look, I know that it hit a record and the 17,000 figure is supposed to be an important psychological number. This is especially the case for retail investors and the belief in many circles is that it could be a trigger for John Q. Public to increase their equity exposure, thus driving an already frothy market valuation higher.

Here's the rub. The real measure is the S&P 500 Index, not the Dow. Yes, the Dow hit 17,000, a new record. But, in the grand scheme of things it is no great achievement. After all, it means that the DJIA is up 3% for the year. Whoop-dee-doo.

On the other hand, the S&P 500 Index, which is already up 7.4% year-to-date, is just 15 points from the 2000 mark. Once it achieves that level, a new record will be reached there as well. In my view this index is a more important measure.

First of all, if ever there was a magic, psychological number, it is 2000. Investors are more likely to be fixated on that. Moreover, that excitement could be fueled further in the near term by the start of Q2 earnings season this week. Wells Fargo (NYSE -WFC), now the largest mortgage and auto loan lender, reports on Thursday and this stock is now an important barometer of major consumer spending, especially housing.

Still, we believe that the rise in the S&P 500 will be short-lived following a brief rise in response to investor sentiment.

The S&P 500 Summer Doldrums

This is due to the fact that the 2000 mark has such an impact on our psyche that upside will exist for big stocks, but remain muted before declining to pending, frothy valuations

Based on last week's closing prices, the Dow now trades 15.3x this year's EPS forecasts. At "2000", the S&P 500 Index will trade at 16.9x this year's EPS. That is bordering on flat-out expensive and could prompt profit-taking. Plus, history has shown a couple of things that do not bode well. For example, when indices meet record round numbers (like 2000), they tend to drift incrementally lower in the following weeks and sometimes months.

Separately, recent history shows that when upside performance occurs this time of year it can be fleeting. We note that since 2010, the S&P 500 Index has averaged a 2.7% rise in July. But, the rise is a bit deceiving as it has usually followed a weak June, only to decline sharply in August. The average August decline in 2010, 2011, and 2013 was just under 5%.

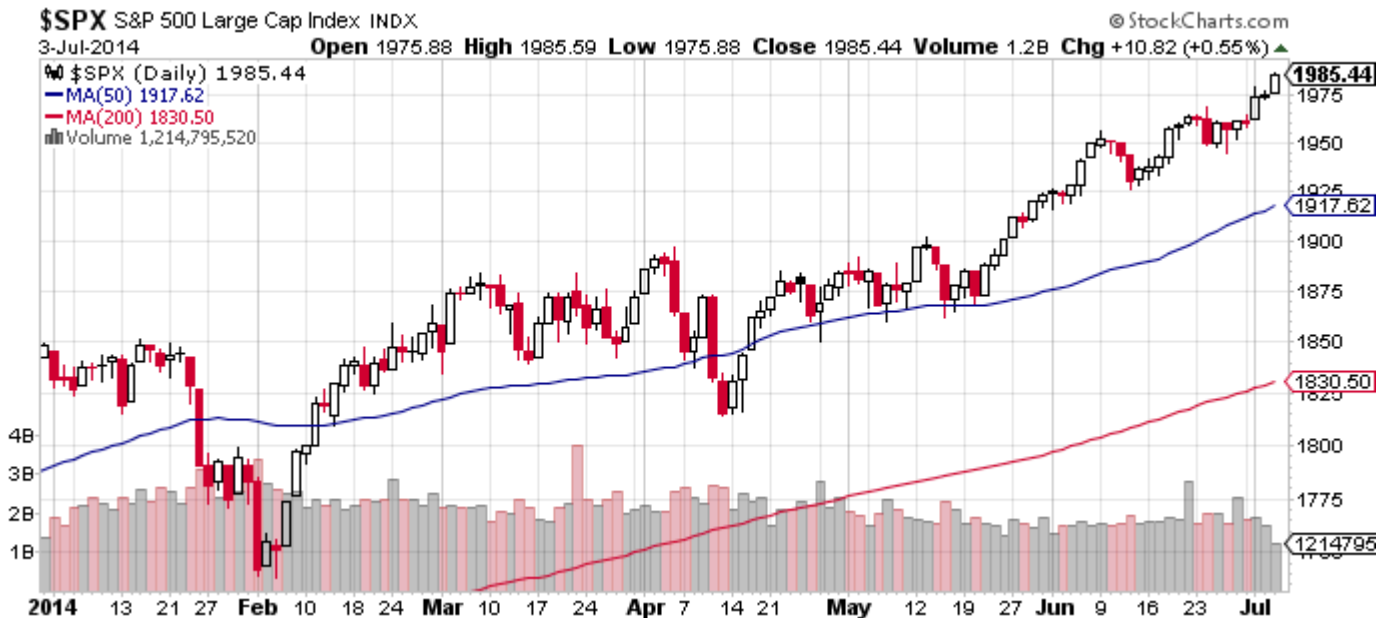
S&P 500 Index Monthly Performance (2010 - 2014 YTD)												
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	-3.70%	2.85%	5.88%	1.48%	-8.20%	-5.39%	6.88%	-4.74%	8.76%	3.69%	-0.23%	6.53%
2011	2.26%	3.20%	-0.10%	2.85%	-1.35%	-1.83%	-2.15%	-5.68%	-7.18%	10.77%	-0.51%	0.85%
2012	4.36%	4.06%	3.13%	-0.75%	-6.27%	3.96%	1.26%	1.98%	2.42%	-1.98%	0.28%	0.71%
2013	5.04%	1.11%	3.60%	1.81%	2.08%	-1.50%	4.95%	-3.13%	2.97%	4.46%	2.80%	2.36%
2014	-3.56%	4.31%	0.69%	0.62%	2.10%	1.94%						
Average						-1.19%	2.74%	-2.89%				

Data Source: www.StockTradersAlmanac.com

What Lies Ahead

So what does all this mumbo jumbo mean for the rest of the summer?

If we had to guess, we believe that the (seasonal) near term upside for the S&P 500 is around the 2020 level with downside nearing the 1900 mark or lower. After all, as evidenced by the chart below, the jump in this broad market is on low volume—not exactly a bullish sign. Selling August calls or buying August puts on the S&P 500 Index seems like a good idea, especially if euphoria sets in.



As for small caps, we maintain that they will outperform larger cap issues, but the chickens will come home to roost for this group as well. Their performance also tends to be very weak in August in recent years before beginning their annual trek markedly higher later in the year. The chart below demonstrates that microcaps are mired in even lower volume than the broader market. In our view, this trend will not reverse itself until year-end.

What Lies Ahead, Part II



In last week's *Guide* we highlighted a patriotic small cap **USA Technologies (NASDAQ—USAT—\$2.11)**. <http://www.goldmanresearch.com/20140629796/The-Goldman-Guide/top3-predictions-for-q3.html>. The stock reached a peak return of 6% for the week while the new core *Market Monitor* ETF pick **PowerShares Buyback Achievers (NYSE—PKW—\$45.53)** hit a new high for the week. Both equities look primed for more gains. Here is a link to the ETF blog: <http://www.goldmanresearch.com/20140701798/Daily-Blogs/why-i-bought-this-stock-buybacks-etf.html>

Speaking of gains, you would be wise to consider buying shares of **Manhattan Bridge Capital (NASDAQ—LOAN \$3.48)**. We profiled the company a month ago, and cited it again here after news that the company increased its dividend. The stock reached a peak return of 47%, and now that it sold off slightly, the stock is extremely attractive again. LOAN is due to pay a \$0.07 cash dividend to shareholders of record as of July 10th, with the dividend due to be paid on the 15th. At its current price, the annual dividend yield is 8% and I believe that the stock could jump another 20-25% in the coming months based on fundamentals, thereby providing investors with a solid total gain. Check it out here: <http://www.goldmanresearch.com/20140610784/Daily-Blogs/big->



The Goldman Guide

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