

December 21, 2018

TOP 19 PREDICTIONS FOR 2019

Today, A Sea of Red

Now that 2018 is coming to a close, it is time for our (nearly) annual predictions for the upcoming year. (We did not release one last year but have published one of these reports each year from 2012-2016.) This missive is usually the most popular piece we release.

The future looks murky with an unusually terrible December and of course a down year for the market's key indices. Talk of economic slowdowns, recession, another housing crash in 2019, an unclear political environment, squabbles with China and other dreadful prognostications appear daily in leading business news outlets. It would be imprudent to be anything more than cautious right now but we do see some bright spots among the darkness.

First, let's assess where we are. The Russell 2000 Index officially landed in bear market territory a few days ago and where it stops, nobody knows. Month-to-date, the index is down (10.8%) and it is down an astonishingly (21.6%) for the quarter, according to Russell.com. And that includes the "up" November. Our hope and belief are that for traders with short term horizons, The *January Effect* may return in the small cap and microcap world. At the least, traders may find an absence of selling in this segment, which can help to foster profits in trading certain rangebound stocks to eke out gains beginning next week, and leading into the early part of January.

Near-Term Hope in the January Effect?

There are multiple definitions associated with the January Effect and its related *Santa Claus rally* moniker. In a nutshell, the January Effect is an historical Wall Street term for the belief that stocks perform better in January following all of the year-end tax loss selling and portfolio realignment. Moreover, since small cap and microcap stocks are affected by this phenomenon more than large caps, they tend to outperform their larger brethren during this period. Conversely, if stocks perform poorly in the last few trading sessions of the year, there is the sense that the next year portends a rocky start.

I have known some money managers and big-time traders that bought stocks in beginning in late December during what is called the Santa Claus Rally, rode gains into the first half of the first quarter, sold, and sat on cash for a few months, and then started all over again.

Now that we are in the last stretch of December, much of the year-end selling (en masse) of stock losers has passed. As a result, many low-priced stocks may be temporarily low prompting investors to begin buying stocks with an objective of a 2-6 month holding period, based upon the risk/reward associated with current prospects and valuation of these stocks. Therefore, investors and traders should start making their list and checking it twice.

Crazy Performance

Since 1950, the S&P 500 has generated an average return of 0.8% in the month of January. In fact, there have been 40 up years and 28 down years. Unfortunately, some of the down years that have been the most severe have been recently. For example, since 2000, during the down years, the index dropped an average of **4.2%**. In the up years since 2000, the index averaged about 2.7% returns. Investors are accustomed to seeing gains in December; it has been the best monthly performer since 1950, with only 17 down years. Of course, this year it is already down nearly **11%**, month-to-date. Hopefully the ship will be righted in the these next few days.

Conclusion

Looking ahead, I wonder if this is finally the year for small caps. They have underperformed on 1-year, 3-year, 5-year, and 10-year periods---although have outperformed on many occasions, in spurts. Still, there is a lot of trepidation out there and rightfully so. Perhaps the best way to play small stocks and even larger ones is to monitor their individual 50 SMAs and buy them in small increments as they cross those milestones. I would think incorporating a short term horizon until things settle would be most prudent as well.

2019 Predictions

Prediction #1: With these major moves in recent weeks, investors should expect more muted returns. The DJIA and S&P 500 Index will peak at 7% and 8%, respectively, with an up and down year ahead. Our year-end targets are 25,680 and 2710, respectively.

Prediction #2: The NASDAQ Composite and Russell 2000 Index peak returns will be 12% and 10%, respectively. Our targets here are 7425 and 1485.

Prediction #3: I am going to go out on a limb and say that the Cannabis sector starts to mature and M&A, investments in the US will help drive adoption and trading of the stocks in the space. We expect strong double-digit performances in the smaller end of the market---but there will be a lot of volatility along the way.

Prediction #4: The appetite for life sciences is strong in the private sector and we believe that will carry over to the public markets. It is, our favorite sector.

Prediction #5: Speaking of health care, look for medical devices to rally right from the start of the year.

Prediction #6: Oil could hit \$62 but will end the year in the \$55-60 range.

Prediction #7: Our trade war with China has us unnerved a bit but believe that India could somehow benefit—and their market appears on the verge of decent performance.

Prediction #8: Aside from unicorns and life sciences companies, we think it could be a tough year for tech and consumer companies. And forget about commercial real estate.

Prediction #9: Los Angeles Chargers/Pittsburgh Steelers rematch in the AFC championship will be a thriller and the NFL will look dumb with the Chargers making it to the Super Bowl. In the NFC, the Bears will play a tough game at the New Orleans Saints. Drew Brees rides off into the sunset or so we think until the Chargers come back at the end for their first Super Bowl victory.

Prediction #10: Europe is the new terrorist playground with more alarming attacks while the Middle East builds for a strong terror infrastructure in late 2019. The US military leaving Syria? An epic fail.

Prediction #11: The Real Housewives franchise is no more and no one notices.

Prediction #12: President Trump's Twitter account is "hacked", and it is hilarious.

Prediction #13: Clemson wins over Alabama in yet another rematch for the ages. The Saban domination era is over.

Prediction #14: The word "hectic", to mean crazy, off the chain, etc. take hold. And it pisses off dinosaurs like me.

Prediction #15: The only movies to make money are based on comic books. And horror movies of course.

Prediction #16: Driverless cars and drones become as commonplace as Amazon delivering take-out food and other items to you.

Prediction #17: Duke men's basketball lose in ugly fashion in the Final Four while Gonzaga wins its first NCAA Championship.

Prediction #18: Robots make an appearance in the strangest of places here in the U.S.

Prediction #19: My Orioles will not lose 115 games again. Just 110 losses this time.

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Rob Goldman founded Goldman Small Cap Research in 2009 and has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. In addition to running GSCR, Rob is the Director of Research for Marble Arch Research, Inc. 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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