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KEY TAKEAWAYS

- ⇒ *Biggest earnings calendar of the quarter will occur this week*
- ⇒ *Economic calendar is consumer survey-heavy and will provide a compass for the market*
- ⇒ *A lot of economic negativity abounds including budget impasse and valuations are not cheap*
- ⇒ *One seasonal retail stock looks great while 2 are the recipients of hard knocks*
- ⇒ *Medical marijuana still the place to be*

KEY STATISTICS

<u>Index</u>	<u>Close</u>	<u>2014</u>
DJIA	15879	-4.3%
S&P 500	1790	-3.1%
NASDAQ	4128	-1.2%
Russell 2000	1144	-1.7%

(figures are rounded)

SCARY MARKET OFFERS MISERY AND HOPE

I feel like an ass. I wrote two weeks ago that the market was fragile and on the verge of cracking. However, I thought that it might not occur until this week, and to make matters worse I wrote a negative piece on the market on Thursday for TheStockJunction.com, highlighting some of the very things that occurred in the bloodbath on Friday. I had planned on featuring it this week in anticipation of the slaughter, but oh well. Lesson learned—I will include it in the Market Monitor next time.

Meanwhile, what lies ahead is a lot of pain, with some opportunity if you play your cards right.

The market cracked big time on Friday due to concerns in Asia which has continued this past weekend and is looking a lot like the Asian Contagion of 1997, minus the currency problem. This likely means it will not be as painful or as sustained. Still, stay away from Asia and stocks reliant on the region, for the near term.

Stocks have been largely directionless for weeks and that had us concerned. To make matters worse, the S&P 500 closed at the low of the day and on extremely heavy volume. Clearly, there was conviction on the sell side while there had been anything but on the buy side.

Truth be told, we may have a lot more to worry about than just economic and market troubles in Asia. Here in the U.S., we may be on the verge of another budget impasse and the Fed will likely near the concluding stage of its debt buying. At leaser we can have confidence in the current medical marijuana attention, as savvy investors know that profits abound in the sector. Separately, “good news” for the short term is in the form of what we learn about stocks and the economy by the end of the week, and here’s why.

Scary Market Offers Misery And Hope

This week is what I refer to as the “Compass of the Stock Market.” This compass will tell us the direction of the market going forward this quarter. This last week of January will feature no fewer than 130 members of the S&P 500 Index reporting their quarterly financials, beginning with Caterpillar (NYSE – CAT) before the market open and Apple (NASDAQ – AAPL) after the market close. Other notable companies reporting this week include Visa (NYSE -V) and ExxonMobil (NYSE – XOM).

Make no mistake. The results themselves, the future guidance proclaimed by these companies’ management teams, and how all of the information is digested by Wall Street will serve as a major aspect of the market’s direction for this quarter. Interestingly, the S&P 500 Index and Russell 2000, are just about even for the year. This is odd due to the fact that the consensus sentiment is that large cap stocks are undervalued relative to small caps. Perhaps institutional investors are waiting to see confirmation of strong financial results before going all in. Or, conversely, are prepared to sell if the numbers disappoint.

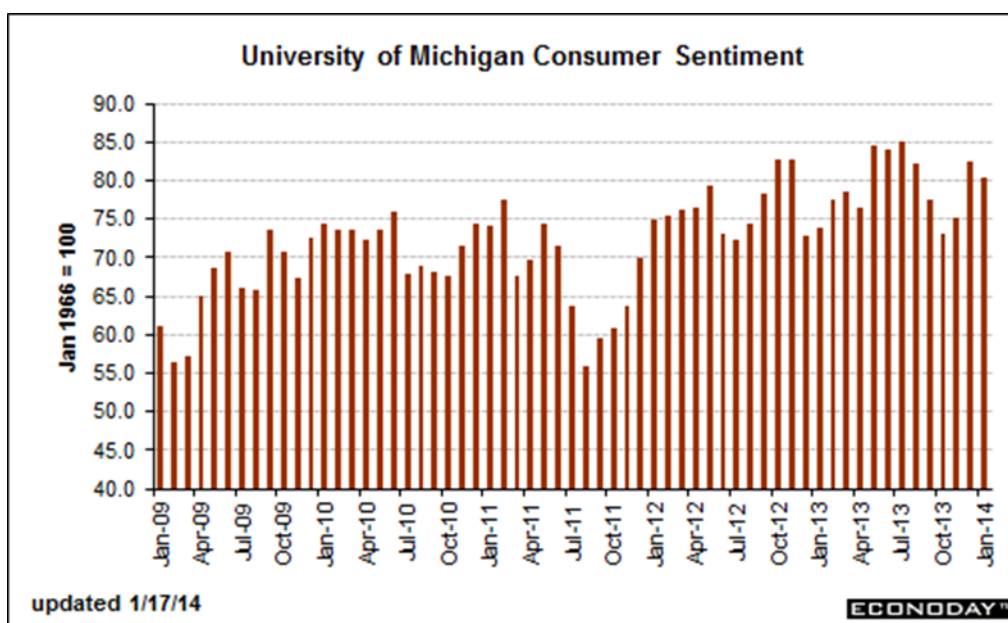
With many of the small caps not slated to report quarterly results until February, any strong move in either direction could affect large caps only, at first. If that is the case, savvy traders would be wise to follow the trend of the big caps even though it may appear small caps should be unaffected. Crises notwithstanding, stocks are clearly at fair value. We know this by comparing historical valuations to growth rates and current ratios are placed side-by-side with today’s metrics. And that is not a good thing, but a sell-off could right-size stocks for us all, which may be what investors want.

In addition to the extremely heavy earnings calendar, the economic calendar is also heavy with key economic reports, especially on the consumer side. On Tuesday, the *Consumer Confidence Index* is released and it is a crucial measure that attempts to forecast trends in retail and consumer related stocks. The index rose 6.1 points in December to 78.1, which was a moderate increase, and a general indication that the economy is improving slowly. On Friday, the *University of Michigan’s Consumer Sentiment Index* is released as well an uptick could benefit consumer discretionary stocks and other retail related stocks, or at least stop the bleeding in stocks. The figure below shows cyclical consumer attitudes over the last two years or so, with a disappointing

One to Buy and Two to Sell

University of Michigan Consumer Sentiment Index – January 2009 – Present

Source: WSJ Online



We are not exactly bullish on the retail sector and recommend selling 2 stocks in particular. Target (NYSE—TGT) continues to receive fallout from the credit card thievery and it is likely the stock suffers, even if only incrementally. Zumiez (NASDAQ—ZUMZ—\$22.19) is a specialty retailer focused on skateboarding, snowboarding, surfing, etc. and has been trending down recently. The stock may be the unfortunate recipient of tragedy over the weekend. Two employees were killed in one of the stores in a Baltimore suburb (along with the gunman) and it is possible that sentiment in the near term will rock it as well. Perhaps it becomes a buy fundamentally down the road, but certainly not today.

On the plus side, we recommended 1-800 Flowers.com (NASDAQ—FLWS—\$4.92) in The 30-30 Report around the time last year and it was a huge winner for us. In the past 3 years, the stock has risen sharply ahead of its important day of the year, Valentine's Day, and it could indeed be a good buy at current levels, as it trades around 14x June FY15 EPS.

The Uncensored Sensibility

Congratulations, FBI....you just solved the GOODFELLAS crime...

Last week, the FBI arrested five men in the New York area for their involvement in the Lufthansa Heist of 1978, which led to the famous book by Nicholas Pileggi and Henry Hill and the iconic movie GOODFELLAS. Jimmy Burke, Jimmy Conway in the movie, was the ring-leader of this world famous caper, and he died in prison almost twenty years ago. A tip to go digging in the backyard of a home once owned by Burke led to the arrests. What makes these five indictments special is that this is the first time anyone has actually been charged specifically for this actual monumental crime...five million in cash and one million in jewelry. Remember its been 35+ years, so that six million total is considerably more in today's money. The New York Yankees just agreed to pay a 25 year old Japanese pitcher who has never thrown a pitch in the Major Leagues 155 million dollars.....and they call THIS a robbery?

Organized crime as it was known as years ago has not vanished, but though still alive, its piece of the crime pie is a sliver compared to generations past. Organized crime today has a more English-sounding name than Mafia or Cosa Nostra. It is called government. Meyer Lansky in his wildest dreams could never fathom the outright theft perpetrated on the American people on a daily basis by governments on Federal, State, and Local levels today. The lavish lifestyles of so many politicians would make the usually discrete crime bosses blush, but even the Dapper Don would look with amazement at the jet setting lifestyle of so many of America's 'leaders.'

So, congratulations to the New York FBI office, which by the way has always been considered the cream of the crop on these matters, but perhaps future digging should be focused on the crime bosses of today They are easily spotted, they are the ones asking for your vote.

Have a great week!



The Goldman Guide

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