

INSIDE THIS ISSUE:

What Lies Ahead

KEY TAKEAWAYS

- ⇒ *We called the big market drop a day ahead of time and believe more declines lie ahead*
- ⇒ *The performance of the major indices is odd. The Russell 2000, however, is nearing the corrective phase*
- ⇒ *On Friday, we published A Stock market Correction Survival Guide that includes our outlook for August which is grim*
- ⇒ *There are a number of ways to profit during a correction*
- ⇒ *Two ways include buying stocks that were not hit hard last week and mining stocks or others with an inverse relationship to*

KEY STATISTICS

Index	Close	2014
DJIA	16493	-0.5%
S&P 500	1925	4.2%
NASDAQ	4353	4.2%
Russell 2000	1115	-4.2%

(figures are rounded)

PROFITING FROM A CORRECTION

Last week was a disaster for stocks and it will only get worse from here. The good news is that there are still ways to profit from a continuing stock market correction. First, a little back-ground is in order.



Last week was a sort of good/news bad news situation. The bad news was that major stock market indices had their worst week in 2 years. The good news is that we called a market top on Wednesday, just prior to the start of the carnage. <http://www.goldmanresearch.com/20140730819/Daily-Blogs/the-stock-market-party-is-over.html>

As is the case with most corrections, a series of catalysts are to blame. In the current case, the combination of valuation, inflation, and the Argentinian debt default conflagration, was more than enough to fuel the fire.

There are a number of oddities with respect to this market contraction. For starters, the S&P 500 and NASDAQ Composite are both up 4.2% year-to-date while the Russell 2000 has declined by 4.2%. Plus, the DJIA, which is supposed to be the best performer of the major indices is down 0.5% YTD while the aforementioned major indices are up.

In our view, the near term future is clear, as detailed in our just released report, A Stock Market Correction Survival Guide. <http://www.goldmanresearch.com/20140801821/The-Goldman-Guide/stock-market-survival-guide.html>

What Lies Ahead

A correction is defined by Investopedia.com as:

“A reverse movement, usually negative, of at least 10% in a stock, bond, commodity or index to adjust for an overvaluation. Corrections are generally temporary price declines interrupting an uptrend in the market or an asset. A correction has a shorter duration than a bear market or a recession, but it can be a precursor to either.”

The Russell 2000 Index is on the verge of hitting the correction territory as it is down over 8% from its 2014 high. As the stock market goes lower, so too will small caps. In fact, the downturn will likely be led by small caps, as will the upward swing, which we believe will occur in late 2014. For now, the other key indices are down less than 4% so there is a great deal of more pain to be felt there, in our view.

One of the biggest problems facing investors is the calendar. As we outline in our Survival Guide, August is a rotten month for stocks. (Don't look at number before 1950. They are irrelevant based on our economy.) This is especially the case in the 21st century. Since 2001, when stocks have declined, the S&P 500 Index has dropped by an average of 4.3% for the month. That is wicked.

Check out this little trading nugget from the Stock Trader's Almanac:

The first nine trading days of the month have exhibited weakness while mid-month is strongest. The end of August tends to get whacked as traders evacuate Wall Street for the summer finale. The last five days have suffered in 12 of the last 18 years with the S&P 500 up only four times on the next to last day in the past 18 years.

We may see some bounces this week but we do not believe that they will stick. To see our timeline of expected events for stocks and to review all recommended 13 steps to surviving and profiting from the correction, click the report link above. Here are two for now:

- ⇒ Consider small investments in securities that have an inverse relationship with stocks such as gold, which could mount a comeback this year. (Just this morning IBD rated the Mining Sector as its #1 sector, affirming our opinion from last week.)
- ⇒ By using a free online screening tool, find out which stocks were unscathed during the bloodbath and put them on your watch list as potential investments.

Have a good week!



The Goldman Guide

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