

## INSIDE THIS ISSUE:

Get Wise...

### KEY TAKEAWAYS

- ⇒ *The long-awaited rotation from big caps to small caps may be starting now*
- ⇒ *Small cap value has historically been a great performer and looks like the place to be*
- ⇒ *The “Ebola stocks” may start to run out of gas soon*
- ⇒ *Conversely, small cap oil and gas stocks may be nearing a bottom soon and could be attractive*
- ⇒ *Another downturn could be in the cards so be prepared for stocks to take a rest soon*

### KEY STATISTICS

Index	Close	2014
DJIA	16400	-1.1%
S&P 500	1904	3.0%
NASDAQ	4316	3.3%
Russell 2000	1095	-5.9%

(figures are rounded)

## STRATEGY SHIFT IN THE WORKS

How interesting that for much of last week, when big stocks plunged, small stocks rose? Only in recent days have we witnessed a trading direction convergence.

The way the market has reacted to the correction, it seems as if a burden has been lifted and those sitting on the sidelines have elected to breathe a collective sigh of relief and re-join the party.

Interestingly, as we begin the start of the Q3 earnings season, big cap stocks are not exactly hitting the ball out of the park. With global concerns potentially weighing on these management teams, our forecast of a migration from big stocks to small stocks may have already begun.

Of course bellwether Apple (NASDAQ—AAPL) will fuel the market’s rise today, but I suspect that much like we needed a respite from the big down days, we would not be surprised to see a pause by week’s end to allow the market and its players to catch their breath.

As our colleague Steve Hercenberg, CFA writes in our Market Monitor blog today, small cap value in particular could be the place to be for savvy investors, given the historical performance and current valuation.

<http://www.goldmanresearch.com/20141021866/Daily-Blogs/is-a-turnaround-in-the-stock-market-unfolding.html>

We tend to agree with that notion and can sense a growing shift not necessarily toward stocks out of favor that are trading at reasonable valuations and offer a favorable risk/reward opportunity. There are plenty of them and we believe that sector and industry themes will become evident as more dollars are directed back into the small cap arena.

## ***Get Wise...***

For the past couple of weeks we have touted the short term approach of trading in stocks that may have exposure to the Ebola scare that has gripped the world and the U.S. in particular. While the notion still has legs, we caution that it probably is largely played out and that the risk/reward may no longer be in investors' favor. In fact, we expect to see migration from these stocks to more stable companies in the microcap arena, going forward.

Although on the surface it appears to be a foolish notion, small oil exploration and production companies that have been hit very hard in the past month or so may be attractive. It may be a bit early in the cycle, but it would be wise to consider dipping one's toes in the black gold segment, as the worst is likely behind it here as well.



Separately, while Apple is a beast in the mobile space its upside may be muted. A more profitable way to play the Apple iPhone and mobile device craze is by buying companies that provide games and other apps for mobile phones. Glu Mobile (NASDAQ—GLUU) is an oldie but a goodie, as you can see here:

<http://www.goldmanresearch.com/20141021865/Daily-Blogs/this-gamer-is-still-gluu-for-portfolio.html>

Finally, if you are still concerned about the health of the market, we recently updated our Stock Market Correction Guide. I highly recommend you peruse it before making any moves in the next few days.

<http://www.goldmanresearch.com/20141016863/The-Goldman-Guide/the-truth-behind-stock-movements.html>



Have a great week!



# The Goldman Guide

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