

INSIDE THIS ISSUE:

Four Winning Sectors

KEY TAKEAWAYS

- ⇒ *Stocks are driven by events and seasonality during this time of year*
- ⇒ *Four sectors appear to be the best positioned for gains over the coming weeks and months*
- ⇒ *Company roadshows and active manager year-end re-allocations are the norm, beginning next week*
- ⇒ *ETFs and other passive investments follow the active vehicles.*
- ⇒ *Key sectors include defense, energy, technology, and consumer discretionary*

KEY STATISTICS

<u>Index</u>	<u>Close</u>	<u>2014</u>
DJIA	17614	6.3%
S&P 500	2038	10.3%
NASDAQ	4652	11.4%
Russell 2000	1180	1.3%

(figures are rounded)

FOUR WINNING SECTORS

Today, we salute all war veterans. It is a shame that in 2014 we are viewed as weak and ineffective at best, while our leadership puts the fear in no one and the group gets treated like punks in public by the likes of Vladimir Putin and others.

On the other hand, as we alluded to last week, a change in the composition and leadership in Congress will likely give a budget boost to defense and security, which in turn could boost defense stocks. The fact that another Cold War could be brewing, combined with our current activities abroad will likely put attention on the space.

It is not uncommon for investors to make decisions based on events and seasonality during this time of year. For example, as we alluded to last week, energy stocks, and oil in particular, is poised to get a rise out of the "November Polar Vortex" that is hitting across North America. Sure, oil could see another 10% decline, but for the most part, all of the bad news and pricing is likely reflected in oil prices.

As Q3 earnings come to a close, tech stocks have shown resiliency and typically generate their best performance at the end of the year. Starting next week, with financial reporting and quiet periods behind them, management teams of tech companies (and for that matter all stocks) will be engaged in year-end roadshows with institutional investors. These roadshows lead to proper due diligence and buying into these companies as active managers set their portfolios for the year, while analysts issue final estimates for the coming year.

We should note that this is one of the few tangible periods when active manager moves are leading indicators and passive managers follow behind.

Four Winning Sectors

Of course the most notable seasonal sector is the consumer discretionary segment. The commercials for the holiday season are nearly in full swing (and I am already sick of the Korbel commercials) and there are a few periods in which investors can see big rises in select stocks. These include the official online buying day, the Black Friday period, and the week after the Christmas holiday. We are not expecting a banner year in this sector but it is rare that it does not give investors a boost.

So, how does one take advantage of these opportunities? ETFs remain the best approach. Below are some examples and options, along with year-to-date performances. Going forward, we will be highlighting individual stocks in the four horseman sectors: defense, energy, technology, consumer discretionary.

Overall U.S. Sector Performance 2014 YTD
(As a proxy with *iShares* from Blackrock – www.ishares.com)

Sector/Theme	Consumer Staples/Discretionary*	Energy	Financials	Healthcare	Industrials	Materials
Ticker(s)	IYC, IYK	IYE	IYF	IYH	IYJ	IYM
Price Change YTD (%)	7.9%	-0.18%	11.2%	22.0%	5.9%	4.3%
Sector/Theme	Technology	Telecommunications	Utilities	Real Estate	U.S. Mid Cap	U.S. Small Cap
Ticker(s)	IYW	IYZ	IDU	IYR	IWR	IWM
Price Change YTD (%)	16.5%	2.6%	24%	22.7%	10.8%	1.9%

*Used average YTD Price Change for both IYC and IYK

Have a great week!



The Goldman Guide

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