The Goldman Guide

Goldman Small Cap Research

VOLUME 6 | ISSUE 25 | JUNE 21, 2015

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### *KEY TAKEAWAYS*

⇒ *Be wary of the Grexit term and how it can affect global financial markets and is a glimpse into our own system*

⇒ *Japan is coming back with a vengeance. See when/why the fall might be a good time to step in*

⇒ *Last week's market upturn was a blip with pain in the forecast*

⇒ *The real risk of poor portfolio diversification*

### *THE MAJOR INDICES*

| Index | Close | 2015 |
|---|---|---|
| DJIA | 18016 | 1.1% |
| S&P 500 | 2110 | 2.5% |
| NASDAQ | 5117 | 8.0% |
| Russell 2000 | 1285 | 6.6% |

(figures are rounded)

## Portmanteau For A Crisis

This week we have an addition to your vocabulary, a piece on global warming, and the left for dead Japanese market to discuss.

We start off today with a term we ourselves had to look up. Portmanteau is a "fancy" French word for taking parts of two or more words and joining them together (of course Sir Arthur Conan Doyle liked to use it as well.). These and other odd words are being used more and more frequently in all walks of life, so we better get used to it.

The most commonly used portmanteau is Hollywood's favorite couple "Brangelina." In the 1970's, we were introduced to the term "blaxploitation" for films like *Shaft and Car Wash*.

In the financial world we have the term, "stagflation," a combination of a stagnant economy and inflation—coincidentally also first used in the 1970's.

Now we have the what be the most ridiculous or lazy term, **Grexit**, which is a combination of Greece and exit used to describe the debt crisis facing that nation and the potential for its exit from the European currency. If you 'Google' Grexit you will find a plethora of opinions on the topic and how it could impact the markets. In our opinion, it is hard to believe that a country with the 44th largest GDP of $238 billion in the world in 2014 could impact markets for more than a few days if the exit occurs. The bigger lesson here is to examine Greece alongside the long term negative impact of large entitlement programs in our own country.

# *The Land of the Rising Sun—Again?*

Don’t look now but the Japanese economy and stock market have been doing relatively well recently after a two lost decades. The Nikkei 225 is up nearly 16% YTD and 34% over the last year. **iShares MSCI Japan ETF (NYSE – EWJ)** is up over 14% on the year as also.

After wasting away for twenty years, the Japanese economy has actually demonstrated some positive albeit gradual, progression. The 2Q15 GDP growth rate was 1% and the metric has been in the black six of the last nine quarters. This may seem anemic by American standards, but again, in relative terms, this is an economy on fire compared to the last two decades. It is hard to believe that there is a lot of near term upside since many stocks and ADRs have already made a nice run. Still, the health of the global economy can only be aided by a Japan on solid footing. It takes the pressure off of the US, for starters. Perhaps some consumer or financial plays will present themselves in the latter half of 2H15.

On a side note, it is comical or almost anti-prophetic if you watch some films from the late 1980’s or early 1990’s like *Black Rain* or *Rising Sun*. For some of you who are old enough to remember, there was very popular sentiment that Japan was going to take over the United States as the leading superpower. This is especially the case in the 1980’s when we could not buy enough Japanese consumer electronics products and automobiles while the Japanese feasted on California real estate.

Clearly a comparison can be made to China today. Although it is somewhat apples and oranges due to China’s vast amount of resources over Japan, some of the doom and gloom about being overtaken by the Chinese may be overdone. Regardless, there has been and always will be a symbiotic (although strained) relationship between the two countries. As China sells off it certainly impacts Japan which is another reason to sit tight. (More on China in a future issue.)

Care to hear more on The Land of the Rising Sun? Check out this video on Youtube.

https://www.youtube.com/watch?v=OKdN5aSC4HE

## *Say What?*

The Daily Mail

http://www.dailymail.co.uk/news/article-3132292/Thousands-gather-Charleston-area-vigil-remember-nine-slain-churchgoers-mercilessly-killed-bible-study.html

This was nice to see after the Charleston tragedy. Hate will never win.

BizJournals

http://www.bizjournals.com/cincinnati/news/2015/06/18/how-kroger-earnings-surprised-analysts.html

Good article on regional supermarket chain **Kroger (NYSE – KR)**.

Marketwatch

http://www.marketwatch.com/story/its-a-bizarro-world-for-stocks-and-you-may-not-be-ready-2015-06-17 Theme seems familiar… (http://www.goldmanresearch.com/20150519985/Daily-Blogs/summer-menu-is-hot.html)

Yahoo! Finance

http://finance.yahoo.com/news/smith-wesson-nails-obama-did-115655106.html

Obama should be a paid advertiser **for** Smith & Wesson Holding Corporation (NASDAQ – SWHC).

Bloomberg

http://www.bloomberg.com/news/articles/2015-04-30/how-student-loans-could-cripple-the-u-s-economy

Is this the next bubble?

## *Just the Stats!*

| | Overall | NYSE | AMEX | Nasdaq | ETFs | Price <$10 | Price >$10 | Vol <100K | Vol >100K |
|---|---|---|---|---|---|---|---|---|---|
| 1-Month Highs | 765 | 279 | 19 | 467 | 91 | 137 | 628 | 155 | 610 |
| 1-Month Lows | 448 | 198 | 44 | 206 | 89 | 207 | 241 | 140 | 308 |
| 3-Month Highs | 393 | 154 | 3 | 236 | 53 | 53 | 340 | 75 | 318 |
| 3-Month Lows | 220 | 101 | 27 | 92 | 40 | 110 | 110 | 62 | 158 |
| | Source: www.BarChart.com | | | | | | | | |

The AMEX is place where more losers are showing up this week while NASDAQ recorded a huge number of 1 month highs after reaching a new high.  Again more and more losers are showing up indicating a possible entry into a correction or bear market although we had a fair amount of winners last week also compared to the week before.

**AAII Sentiment Survey (courtesy of AAII.com, figures rounded)**

| Last Week | Long Term Avg |
|---|---|
| Bullish 26% | 39% |
| Neutral 40% | 31% |
| Bearish 34% | 30% |

Improved weekly bullish sentiment of 6 percentage points may indicate unjustified glee over the bounce due to the Fed comments last week could be an indication that the market is trying to price in the ‘inevitable’ rate hike and the Grexit.

While improved over a week ago, once again the **Ticker Sense Blogger Poll** show great divergence from the AAII survey with Bulls at 18%, Bears at 50% and  Neutral at 32%.

## *Z'BigNews*

This week Pope Francis more than likely upset about half the population calling for a "Revolution" to fight global warming.  This puts a new twist on the 'flat earther' term in our minds, as it was the Church and all the leading scientists that decreed the planet was flat roughly 500 years ago.  It took dissention from brilliant minds like Galileo to challenge this theory.  Having said that, solar power and other alternative energy sources offer the potential for us to have sustainable long term solutions.

It's official. That "Sell" call on **Martha Stewart (NYSE—MSO—$6.98)** at $4.77 in January is really looking terrible now that it is essentially at $7 after word hit that the company is for sale. Ouch.

Once again **ZIX Corp (NASDAQ—ZIXI—$5.44)** is on fire as it hit a new high of $5.47 on tremendous volume. You might want to start letting loose a bit on this 46% gainer in the past five months.

Lousy play by Tiger Woods and a lousy site for the US Open can't be good for **Calloway Golf (NYSE—ELY—$9.44)**.

# *The Investor Academy*

## The Over/Under

All of you gamblers out there know that when you see the "over/under" line it refers to a total combined score of a particular sporting event. This line is set to determine if a bet under the figure is a winner or over the figure takes home cash.

For our purposes, the "over/under" refers to over-diversification or under-diversification in a portfolio. Not finding that right mix can be devastating. Let's see how this works.

When I served as the CIO of a boutique investment advisory firm we had a client transfer assets over to our charge from another investment adviser. It was a mess with poor returns and the poor client did not understand why. After a 2 minute review it was obvious why this portfolio was doomed to fail. It had 45 different positions, many of them somewhat duplicative in terms of asset class and sector. Having too many positions and in a narrow range of classes put a cap on upside and frankly the type of diversification put it in a risk profile that was unnecessarily poor.

Admittedly, over-diversification is bad; under-diversification is worse. This strategy is easy to diagnose. Too few stocks in a portfolio means that your risk is great. If one of these positions tanks, it can take years to get back to equilibrium. Frankly, this is why FINRA and the SEC have cautioned and to some degree revised the parameters of corporate retirement plans. Back in the day (of even Enron), loyal employees would put their whole retirement in company stock. When Enron blew up, so did tens of thousands of employees, who were investors. Now, investing in your company's stock is merely an option among many.

So where does that leave you? Well, depending upon the size of your investable assets, think about targeting 15-20 positions representing different asset classes (bonds, funds, ETFs, stocks) and in the case of equities, across sectors. I found that the 15-20 number is ideal while 10-12 is acceptable for smaller dollars.

For your sake and your loved ones, invest smartly not just per transaction but via your plan as well.

Have a great week!

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