

## INSIDE THIS ISSUE:

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## KEY TAKEAWAYS

- ⇒ *The Greek Tragedy could be just the catalyst we need to get to the screaming buy signal for stocks*
- ⇒ *The situation is fluid but here are some ways to play it*
- ⇒ *We may have bottomed based on recent stats and polls—and that is a good thing.*
- ⇒ *Our small cap and big cap picks are still doing very well as compared with the indices and we expect that to continue*
- ⇒ *Speculative ways to trade the*

## THE MAJOR INDICES

<u>Index</u>	<u>Close</u>	<u>2015</u>
DJIA	17730	-0.5%
S&P 500	2077	0.9%
NASDAQ	5009	5.8%
Russell 2000	1248	3.5%

(figures are rounded)

## WHEN BAD NEWS IS GOOD NEWS

For those of you still on holiday or not really paying attention to the global or financial news, here is a news flash. The Greek public voted against the austerity measures



(which supports leadership's stance but is 180 degrees from the rest of the EU.) As we see from futures a few hours before the U.S. market open, stocks are trending sharply lower in response to this news.

This is terrible news for Greece and its people and we feel for them. It is also bad for the EU. That means it is bad for stocks across the pond. Of course, that is bad news for stocks here. But—only for a little while.

In fact, it is good news. It may be the break we have been waiting for. Here's why:

- Stocks have been tired for months.
- GDP growth and earnings growth have not been up to par.
- Valuations are nearing a tipping point.
- Interest rates could rise in 2H15, limiting equity performance.

The market has been saddled with a cold for too long with no cure in sight. Chaos in Greece is heart-wrenching but has proven to have little long term impact on U.S. stocks. But, it will be a catalyst for share declines which is the medicine we have needed in order to move higher later this year.

## ***What Lies Ahead***



Last week, we highlighted the Greek economy and its recent performance history. By putting it all in context, it is easy to see why any downturn due exclusively to the Gyro that is the Greek economic crisis will be short lived.

First of all, this mess that is the Greek economic crisis did not happen overnight. The latest incarnation actually is six years in the making beginning with the country's first sovereign debt downgrade in late 2009. New downgrades, missed payments, high unemployment, GDP declines, stock market collapses and poor economic performance hammered the country in 2011 and 2012, which is

when the U.S. stocks were last affected. Since 2009's peak, the country's GDP is down 30%, so this has been a long time coming!

We note that the 2012 crisis was sparked by the largest sovereign debt fault in history. But, after a new plan was agreed upon by creditors, stocks recovered and then rallied pretty quickly.

Fast forward to today...as of last week Greece is now the first developed nation to default on a payment (\$1.6B) to the IMF. Depending upon the figures one believes, the current total debt is around \$400 billion and there is no consensus to fix the problem. In addition to worries over the value of the euro, write-offs by banks and other creditors, there is major concern about financial (and migratory) carryover into other nations and the potential that Portugal, Spain, and Italy are now at risk. While these concerns are valid, the Greek economy is really just a pimple on the butt of the world's economy, even though shipping might be at risk.

According to the IMF, Greece's GDP last year was \$230 billion which ranked #43 in the world and was a few slots above such "stalwarts" as Algeria and Kazakhstan. If Greece were a state, it would be smack dab in the middle of U.S. GDP generated by state. In fact, its size is essentially equivalent to Oregon. Meh.

## What Lies Ahead (cont'd)

The key with understanding the impact on the U.S. is to look ahead a few weeks/months, rather than today as the situation is just too fluid.

**Economy:** The direct impact a prolonged Greek crisis has on the U.S. is limited due to its relative size and the total trade between the nations. Where we do get hurt is on an indirect basis; specifically the impact on the EU and the resultant effect on America. It is impossible to gauge but

clearly the biggest Greek creditors (like Germany) and other EU nations can't swallow the Greek pill alone. At the end of the day, a consensus will be won and this will all be behind us. Until then, take comfort that unless the problem spreads or hurts our exports across the pond, or our own loans to Greece bow up, we are in decent standing. (I am more concerned about Puerto Rico but that is a story for another day.)

**Interest Rates:** Barring major changes on the domestic front, it now appears that interest rates may not be raised until 2016. Thank you Greece! Considering 2016 is an election year, we expect any increase(s) to be tempered as the Democratic Party will want to focus on growth, not interest rates.

**Stocks:** In our view, any sell-off is what the doctor ordered. We could use a good 5-8% to make valuations more attractive and with the interest rate overhang pushed out, investors will soon be cheering. Moreover, with favorable EPS comparisons expected to start in Q4, equities look to be the place to be as investable assets migrate away from bonds and European and emerging markets due to instability abroad. That means the investment outflow cycle to funds of companies abroad will reverse itself, driving up all domestic equities. This trend should begin to show itself around the Q3/Q4 timeframe. How to play Greece if you don't mind risk? **Velocity VIX 2x ETN (NYSE—TVIX—\$9.30)** could be a good short term play on the crisis while the Greek shippers or banks (think **NYSE—NBG**) *may be worth a QUICK trade when the dust settles*. Or, buy A+ rated Ireland bonds now that should drop in sympathy near term, but rally later—we think...



## ***Say What?***



With all of this heavy stuff on Greece we thought we should highlight lighter stories.

### The Smoking Gun

<http://www.thesmokinggun.com/documents/crime/fox-news-devotee-895431>

Hilarious and different.

### The Daily Mail

<http://www.dailymail.co.uk/news/article-3150578/Traders-recall-rush-roar-famed-pits-close-good.html>

Sad story for you historians.

### Bizjournals.com

<http://www.bizjournals.com/bizwomen/news/latest-news/2015/07/with-hugh-hefners-daughter-at-the-helm-playboy-was.html>

After the ridiculous story about Twitter's minority hiring, this was unexpected.

### The New York Times

<http://www.nytimes.com/2015/07/06/technology/new-simple-buy-buttons-aim-to-entice-mobile-shoppers.html?ref=business>

This could affect all of us, eventually.

## Just the Stats!

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

<u>Last Week</u>	<u>Long Term Avg</u>
Bullish 23%	39%
Neutral 42%	31%
Bearish 35%	30%



How is this for different? For the week of June 25th, the bullish percentage was 35% and the bearish percentage was 23%. This past week they flipped positions! I look for more bears to join the party which should help our thesis that the time to buy stocks in earnest is coming soon!



June 29 - July 3, 2015

As we have noted recently, we believe that this survey is likely a bit ahead of the mass investor group. The bulls have increased slightly in the past two weeks while the bears have dropped. We may look back and say that the poll two weeks ago may have shown the turning point of the market. Unlike the AAll survey, I expect the bulls to make a modest move higher.

FYI, with the shortened holiday week, we elected not to highlight fund flows. However, with the advent of a new quarter, big stock market drops and financial crises in

China and Greece, the stats due to be released mid-week by Lipper will be very telling.

## How We Doin'?

<b>GSCR 2015 Picks and Pans</b>					
<i>The Goldman Guide: Small Cap Picks</i>					
Stock	Pick/Pan	Prof Date	Orig Price	7/5/15	Return
MSO	Pan	1/16/15	\$4.77	\$6.31	32.3%
ZIXI	Pick	1/16/15	\$3.71	\$5.12	38.0%
ELY	Pick	1/23/15	\$7.92	\$8.93	12.8%
FLWS <sup>^</sup>	Pick	1/30/15	\$7.89	\$9.51	20.5%
HRB#	Pick	2/6/15	\$35.38	\$31.55	-10.8%
JGW	Pick	2/6/15	\$10.24	\$9.24	-9.8%
ORBK	Pick	2/13/15	\$15.87	\$20.68	30.3%
INTT	Pick	2/20/15	\$4.16	\$4.27	2.6%
CVU#	Pick	2/20/15	\$11.87	\$11.14	-6.1%
LCI	Pick	2/20/15	\$63.23	\$57.98	-8.3%
LPSN#	Pick	2/27/15	\$11.54	\$9.42	-18.4%
SKX	Pick	3/6/15	\$66.79	\$115.00	72.2%
VA#	Pick	3/13/15	\$34.77	\$28.53	-17.9%
GLUU	Pick	3/20/15	\$4.95	\$6.13	23.8%
SKUL <sup>^</sup>	Pick	3/27/15	\$10.85	\$7.50	-30.9%
VLTC	Pick	4/2/15	\$2.63	\$5.14	95.4%
LBMH	Pick	5/3/15	\$2.94	\$2.38	-19.0%
GCA	Pick	5/24/15	\$7.84	\$7.77	-0.9%
GTIM	Pick	6/14/15	\$9.31	\$8.81	-5.4%
SC Buy Avg*					9.3%
RUT 2000		1/16/15	1177	1248	6.0%
Source: GSCR, Yahoo!Finance					
*excludes pans and FNRG which has been suspended					
**Our NT target on FLWS was \$10					
***Our NT target on VLTC was \$5					
# denotes no longer pick as of 5/1/15					
<sup>^</sup> denotes no longer pick as of 5/31/15					



## How We Doin'? (cont'd)

While our returns have tailed off a bit of late, our small cap picks are still comfortably ahead of the Russell 2000 Index at the one-half pole. Expect some more addition/deletions in the next few weeks as we adjust to new market conditions and put more distance between us and the Russell.

Even our big cap names have not done too badly despite the oil disaster that is Chevron (NYSE—CVX). Still, our returns have been solid especially when you take into account dividends (which we did not.) You may recall that these picks were largely drawn from NYSE stocks with the biggest dividend payouts.

### The Indices

The major indices (SPX, RUT) are in trouble—especially the S&P 500 as it is primed to break below its 200 DMA. The RUT could also be vulnerable but the support is a little better here. IGNORE these facts and look ahead, instead. Buy signals are forthcoming.

Be on the lookout for individual picks and new Opportunity Research ideas in the next week or so.

Be safe!

<b>GSCR 2015 Picks and Pans</b>					
<i>The Goldman Guide: Big Cap Picks</i>					
Stock	Pick/Pan	Prof Date	Orig Price	7/3/15	Return
DOD	Pick	1/2/15	\$15.35	\$15.22	-0.8%
T	Pick	1/2/15	\$33.87	\$35.73	5.5%
VZ	Pick	1/2/15	\$46.96	\$47.20	0.5%
CVX	Pick	1/2/15	\$112.58	\$95.87	-14.8%
AAPL	Pick	1/2/15	\$109.33	\$126.44	15.6%
<i>Big Cap Avg*</i>					1.2%
S&P 500			2058	2077	0.9%
* Return excl dividends					
Source: GSCR, Yahoo!Finance					



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