

INSIDE THIS ISSUE:

Today Small Sucks, but...
Tomorrow they will Rock
Say What?
Just the Stats!

KEY TAKEAWAYS

- ⇒ *Technically, all stocks look terrible with few stocks above their DMAs*
- ⇒ *Stocks are still in a narrow range with mini-spurts and swings likely to reappear*
- ⇒ *Small stock EPS growth for 2016 should be tremendous*
- ⇒ *Plays of the week include a sell signal, buy on weakness and a back to school stock*

THE MAJOR INDICES

Index	Close	2015
DJIA	17569	1.5%
S&P 500	2080	3.3%
NASDAQ	5089	10.0%
Russell 2000	1226	5.1%

(figures are rounded)

IGNORE THE PRESENT

I hate “*last year’s*” financial results. And you should too. One of my pet peeves is when analysts or the talking heads refer to valuation by exclusively citing last year’s EPS results. It is borderline meaningless in the grand scheme of things. With the exception of value or specialty investors, shareholders buy stocks based on projected, future results—not how companies executed months (or ages) ago.

We talk a lot about the keys to successful investing. For all the tips and strategies, success can be boiled down to a prescient quote by famed economist John Maynard Keynes:

“Successful investing is anticipating the anticipations of others.”

Anticipating others anticipation is the hallmark of looking ahead. Frankly, if you focus only on the past, you will be disappointed. If you focus only on the present, you will be left behind. If you focus on the future, you can move ahead of the crowd.

That is why our approach is to look ahead before most investors, even at the risk of being early. One needs to prepare the next move based on potential contingencies or eventualities, while simultaneously evaluating the present.

With that in mind, it should be clear to even the most causal investor that we are currently in a directionless market.

A week ago, we noted that the big moves in stocks were narrow but we thought that health care and biotech might give us one last hurrah. Instead, the group sold off pretty strongly (aided by a poor Biogen outlook). Plus, future Apple (NASDAQ—AAPL) growth concerns, along with some Asia slowing has spooked investors in the big caps. So what does this all mean now? Let’s review and forecast...

“Today”, Small Stocks Stink...

Last week's trading direction and activity ended on a real downer. For the week, the major indices dropped by over 2% while the Russell 2000 Index was slammed by more than 3%. And we haven't even really started earnings season yet. Yuck.

As ugly as the overall market looks, despite their declining valuations (19x forward twelve month EPS versus 19.7x for the NASDAQ 100), small caps look like total crap—today. But, that is no cause for alarm.

According to Factset Research, Q2 earnings for the most part have tracked a bit better than expected. While some comparisons to the corresponding quarter are negative we are getting closer and closer to very favorable quarterly comparisons. As noted by the chart below, there could be more pain ahead in the short term as we are getting dangerously close to breaking below the 200 DMA of 1213. The Index is essentially at a 4 week low, and it seems inevitable it will hit a 13 week low of 1221, or 6.6% from the year

**REMAIN CALM!
ALL IS WELL!!!**



...and so do large ones, but...

If it feels like things turned so far so fast, you are right. The Russell 2000 Index has dropped by 5.4% since reaching a new high about a month ago. And that is just part of the story. It actually looks like the megacaps are just as hurt. Goes to show again that any rallies are narrowly based. The first table illus-

trates how few stocks are above their short term DMAs while the second lists new highs and lows.

Percentage of Stocks Above Moving Average				
7/24/15				
	20 DMA	50 DMA	200 DMA	
DJIA	33.3%	26.7%	46.7%	
S&P 500	38.4%	38.2%	48.4%	
NASDAQ 100	48.0%	45.0%	63.0%	
Russell 2000	26.5%	35.0%	50.9%	
Source: www.BarChart.com				

New High/Lows				
	NYSE	Nasdaq	Price	Price
			<\$10	>\$10
1-Month Highs	68	121	58	140
1-Month Lows	785	648	525	990
3-Month Highs	46	69	19	99
3-Month Lows	602	376	404	641
6-Month Highs	35	50	11	77
6-Month Lows	445	271	320	445
12-Month Highs	30	41	9	65
12-Month Lows	313	196	259	282
YTD Highs	35	48	11	75
YTD Lows	408	257	311	401
Source: www.Barchart.com				

...tomorrow they will do well



There is no reason to fear or be surprised if we come close to or reach the dreaded 10% correction figure. Hell, we are more than halfway there anyway. Semis are soft (down 50% in a month), energy earnings are terrible until early 2015, and biotech, which has roared this year, is starting to crack.

To be fair, right now we are in the midst of mini-market swings with only a modicum of volatility in stocks as they have traded in a narrow range nearly the entire year. As a result, investors concerned over growth or valuation are rooting for declines. Investors seeking to turn a fast buck via sizable shifts in price are rooting for volatility. A majority, however, are likely worried about

Fed interest rate increases and global growth.

If a correction occurs for any reason, we believe that the eventual comeback could be with a vengeance based on valuation and earnings growth, and arrive with volatility.

Take comfort in what we believe lies ahead:

- A decent earnings season. There may not be major increases year-over-year in Q2 results but there will be by the time we hit year-end.
- Seasonally, stocks tend to well as we enter the tail end of August before a fall swoon and big move late in the year.
- For those worried about the impact of interest rates on small stocks, it is likely to be negligible.
- EPS growth in 2016 is expected to be above-average for small stocks. When we performed due diligence on hundreds of stocks for *The 30-30 Report* we were astounded at the type of year-over-year growth forecasted from FY15—FY16. FYI, stocks start to be valued based on next year's EPS late in the year.

In a nutshell, if we have short term swings and volatility until November, don't sweat it. There will be plenty of opportunities to make money.

Say What?



This week, we have a combo of news on two key sectors, along with very topical news items.

NY Times

http://bits.blogs.nytimes.com/2015/07/26/using-algorithms-to-determine-character/?ref=business&_r=0

This is either brilliant or total bullshit. Read it and decide for yourself.

The Washington Post

http://www.washingtonpost.com/news/on-small-business/wp/2015/07/24/a-big-legal-burden-awaits-small-businesses-and-most-arent-aware-of-it/?tid=hpModule_a2e19bf4-86a3-11e2-9d71-f0feafdd1394&hpid=z12

Kudos to the Post for being ahead of the game business-wise, for a change.

Marketwatch

<http://www.marketwatch.com/story/woeful-energy-stock-earnings-are-punishing-the-sp-500-2015-07-26>

This is not news but is vital. The real takeaway is that 2016 could be a big earnings growth year as comparisons will be easy in energy and some stocks that faltered in other sectors are expected to do well.

Investor's Business Daily

<http://news.investors.com/technology/072415-763093-companies-position-themselves-to-tap-opportunities-as-drone-market-takes-flight.htm>

A little late but many believe this could be the next new tech segment to boom ahead.

USA Today

<http://www.usatoday.com/story/money/personalfinance/2015/07/24/credit-dotcom-interest-only-mortgages/30168323/>

This really is an "uh-oh" kind of news story.

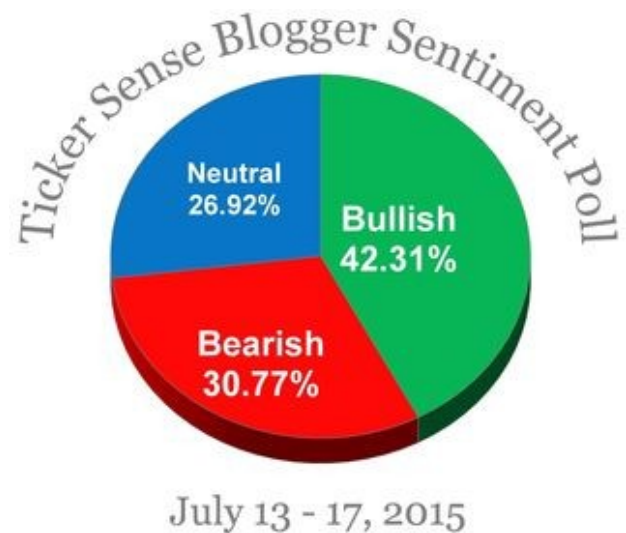
Just the Stats!

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

<u>Last Week</u>	<u>Long Term Avg</u>
Bullish 31%	33%
Neutral 46%	42%
Bearish 23%	26%



Modest and mixed changes in the AAll survey shows us one again how confused the market and investors are at present. Notice similar changes and uncertainty in the blogger poll as well. And that is ok! These are lagging indicators but can give us a glimpse of what's ahead.



Plays of the Week



Just a reminder that **Skechers USA (NYSE—SKX—\$123.01 –NR)**, one of our big winners, reports on Wednesday. As we noted last week, we would be sellers on the news due merely to valuation. The Street is looking for \$1.01 versus \$0.68 and they could surprise on the upside. We are still fans but there comes a time when upside becomes limited.

Orbotech (NASDAQ—ORBK—\$18.02—NR), was a big winner earlier this year but has sold off with the semi sector of late. If you are willing to hold on to the stock for 4-6 months, one could see 50% gains. The Company reports 2Q15 results on Thursday and the Street expects \$0.51 in EPS versus \$0.20. Even if they meet just forecasts and reiterate guidance, ORBK will move. The stock trades less than 10x 2015 EPS of \$1.99, despite it is more than double the EPS from last year. It is surely worth \$25.

Got the back-to-school bug? It is becoming harder and harder each year to find the best BTS plays, but there is one compelling play out there in the apparel sector. **American Eagle Outfitters (NYSE—AEO—\$17.53—NR)**. The stock actually trades above its major DMAs and EPS for the most recently completed quarter is \$0.14 versus \$0.03, and \$0.97 for the year as compared with \$0.63. EPS forecasts are on the rise and there have been some upside surprises of late.

AEO is a leading global specialty retailer offering high-quality, on-trend clothing, accessories and personal care products at affordable prices. The company operates more than 1,000 stores in the United States, Canada, Mexico, China, Hong Kong and the United Kingdom, and ships to 81 countries worldwide through its websites. American Eagle Outfitters and Aerie merchandise also is available at 115 international stores operated by licensees in 19 countries.

A good BTS season and solid August financials reporting could mean a 20%+ gain.

Have a good week!



The Goldman Guide

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