

INSIDE THIS ISSUE:

- Quit With the Negative Waves
- Ups and Downs
- Say What?
- Just the Stats!

KEY TAKEAWAYS

- ⇒ *Amazing August historical performance data*
- ⇒ *Lots of reasons to be bullish about August*
- ⇒ *Don't chase these sectors despite their strong YTD performance*
- ⇒ *Our picks are up 13.5% YTD since 1/16/15 vs. 5.3% for the Russell 2000 Index*
- ⇒ *Check out the changes to our list and which stocks we think are best positioned*

THE MAJOR INDICES

<u>Index</u>	<u>Close</u>	<u>2015</u>
DJIA	17690	-0.7%
S&P 500	2104	2.2%
NASDAQ	5128	8.3%
Russell 2000	1239	2.8%

(figures are rounded)

THE DOG DAYS OF AUGUST

So we are seven months through the year and are now entering The Dog Days of August.



I refer to this period as dog days of August rather than summer because I find that investors

are more engaged in the market for the entire month of July whereas the end of August is really more quiet.

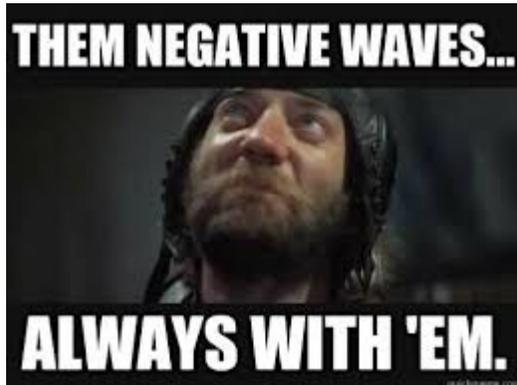
So what should investors expect and what should you do in advance of these moves?

According to our research, August has always been a so-so month, performance-wise for the S&P 500 Index. Since 1950, the average monthly return has been -0.18%. However, since 2000, the average return is actually -0.07%. By the way, don't be fooled by anyone using 20 year performance figures. In 1998, the Asian contagion caused a horrific -14.58% return which skews the overall average return, to the downside.

Interestingly, over the last 20 years, there have been more up months than down for August. But, when it is down, it tends to be really down...excluding the August 1998 month, the other 8 down Augusts retreated an average of 3.5%, while the up months rarely exceeded even the 2% mark!

So, here are today, with fears of China slowing, weak commodity demand and pricing, European problems, and our own issues such as mixed earnings to confound us all.

Quit With The Negative Waves



In an effort to produce a diverse set of headlines/stories for our “Say What?” weekly segment, I had a great deal of difficulty finding anything really positive about stocks. Much of what has been written has been beware this, please understand that, prepare for such and such...

We even saw something unusual in the results generated in the AAll Investor Sentiment and TickerSense Blogger polls. Both surveys not only had big changes week over week, but the

magnitude and direction were virtually in lockstep—to the downside.

Alas, all is not lost, as evidenced by the strong, across the board earnings reporting last week, especially for small cap stocks. We are not alone in our assessment. [Factset issued what could end up being a very prescient earnings estimate review and resulting stock performance analysis.](#) Check this out.

According to Factset, during July, analysts reduced their 3Q15 estimates for the S&P 500 Index by 1.5% which is substantially lower than the reductions in the first month of a quarter on a 1 year, 5 year, and 10 year basis. Over the past year, the average drop was 3.2%, 5 years 1.6%, and 10 years, 2.0%. Most important 9 of the past 15 quarters which have seen an EPS estimate decline, the average return for the next month is nearly 4%! Typically, if the S&P 500 jumps by 4% in one month, you could see a 6% jump in small caps, unless the move is just in the big stock arena.

So, if you take into account that the AAll and TickerSense surveys suggest only 20% of respondents (individuals and pros) are bullish, most of the press is negative on the outlook, and these stats above, we would be willing to lay odds that August ends up being a solid month for stocks—economic catastrophe notwithstanding.

Perhaps now you should prepare to play the contrarian as stocks start to find their true bottom...

Ups and Downs

U.S. Stock Market Index Performance								
as of 7/31/15								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% from Hi	% from Low	% Below 100-DMA
DJIA	17,690	18,351	15,855	5/19/15	10/15/14	-3.6%	11.6%	-1.4%
S&P 500	2,104	2,135	1,822	5/20/15	10/15/14	-1.5%	15.5%	0.3%
NASDAQ	5,128	5,232	4,118	7/20/15	10/15/14	-2.0%	24.5%	2.0%
Russell 2000	1,239	1,296	1,040	6/23/15	10/15/14	-4.4%	19.1%	-1.1%
Average						-2.9%	17.7%	-0.6%
Source: www.BarChart.com, Goldman Small Cap Research								

I like to use tables like the one above to put things in perspective. How bizarre is it that the DJIA and the Russell are the “worst hit”? Although the technical indicators on small caps remain terrible, we maintain that the bottoming is still occurring while the DJIA is just screwed by the hits taken by energy stocks, among others.

Meanwhile, the table to the right illustrates how the top 5 sectors (as compiled by BarChart.com) is in the health care space. Some of them have even come back with a vengeance after a very short sell-off.

As tempting as they are, I don't recommend chasing these groups unless they get cheaper.

Top Sector Performance			
	7/31/2015		
	YTD	1-Month	3-Month
<u>Name</u>	<u>Change</u>	<u>Percent</u>	<u>Percent</u>
Medical - Drugs	31.61%	73.68%	84.22%
Medical - Hospitals	31.30%	-9.98%	27.50%
Gaming	28.11%	7.78%	99.29%
Furniture	26.79%	-4.75%	-16.34%
Movie & TV Production & Dist	25.30%	11.53%	89.01%
Medical - Biomedical	23.96%	33.62%	34.86%
Medical Services	22.84%	-6.74%	34.67%
Building - Residential & Comm	20.27%	26.96%	N/A
Internet Software Services	19.78%	15.63%	-10.12%
Source: www.Barchart.com			

Say What?



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

NY Times

[http://www.nytimes.com/2015/08/01/business/dealbook/struggling-to-disconnect-from-our-digital-lives.html?](http://www.nytimes.com/2015/08/01/business/dealbook/struggling-to-disconnect-from-our-digital-lives.html?ref=dealbook&_r=0)

[ref=dealbook&_r=0](http://www.nytimes.com/2015/08/01/business/dealbook/struggling-to-disconnect-from-our-digital-lives.html?ref=dealbook&_r=0)

Food for thought—for all of us.

Barron's

http://blogs.barrons.com/focusonfunds/2015/07/31/any-bubble-in-biotech-would-hit-small-caps-hardest/?mod=BOL_hp_blog_fof

I agree 100%. See why and its potential magnitude...

Marketwatch

<http://www.marketwatch.com/story/what-the-bull-market-needs-to-keep-going-2015-07-31>

Doh! This is a pretty bearish outlook so do not get depressed. There are valid points but it is more of an attention-grabber than an accurate prediction, in our view.

Investor's Business Daily/Seeking Alpha

<http://seekingalpha.com/article/3387675-skechers-may-stagnate-for-a-while>

What we have been hinting for weeks and why we removed it today.

USA Today

<http://www.usatoday.com/story/money/business/2015/08/01/puerto-rico-missed-debt-payment-default-looms/30983671/>

Another hiccup in the bull market road.

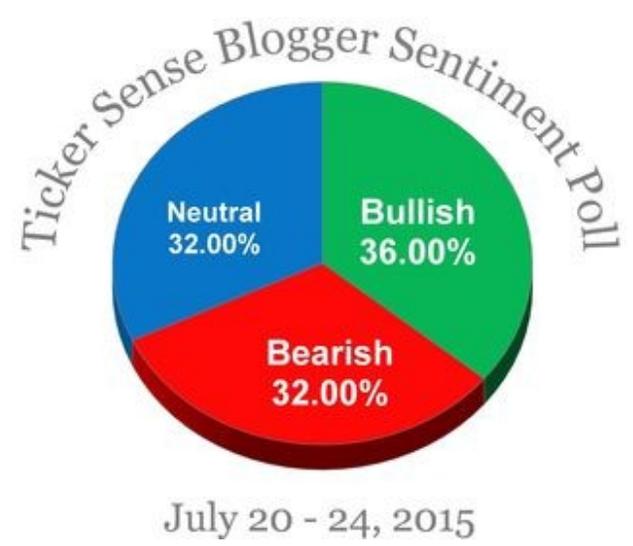
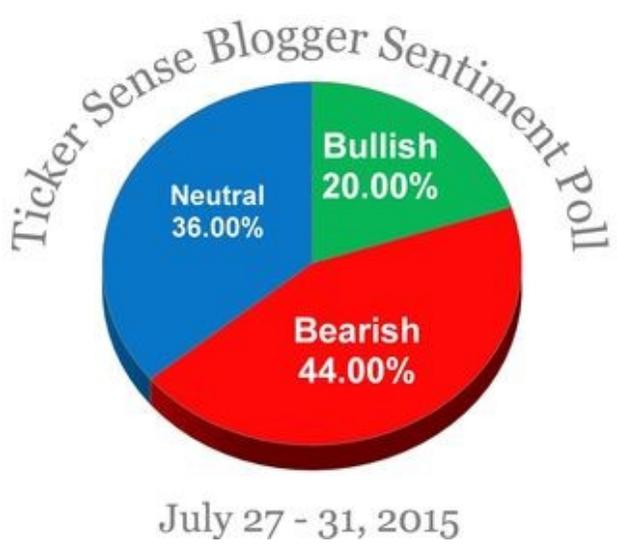
Just the Stats!

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



<u>Last Week</u>	<u>Long Term Avg</u>
Bullish 21%	33%
Neutral 38%	42%
Bearish 41%	26%

Huge swing in weekly sentiment (10 points lower for Bulls and 15 points higher for Bears.) Lowest bullish figure in six weeks but the big takeaway here is that the volatility and macro issues have individual investors spooked. After all, 41% Bearish level is the highest AAll has recorded in almost exactly two years! I wonder how that impacts vol-



ume...

First time in weeks we have similar moves and magnitude of moves for both polls. Could that mean upside actually lurks ahead?

The Verdict...

As we enter a new month, it is time to make some more change to our Picks and Pans list. We are proud to say that even though we had some real stinkers, our average return (see how calculated on the associated spreadsheet) has been over 13% year-to-date versus 5.3% for the Russell 2000 Index. Not bad, huh? Now, on to some specifics.

Yes, it could move another 30 points but we think that the bulk of the run has already been made and are removing **Skechers USA (NYSE—SKX—\$150.45—NR)**, from our Picks list. I know, I know, they beat EPS for the quarter by \$0.50 or 33% and it is the new darling. I think 120%+ in 5 months is pretty darn good so we are done, for now.

When does a Buy become a Hold? When it has dropped below fair value. In this case, the disappointing **JG Wentworth (NYSE—JGW—NR)**, **Global Cash Access (NYSE—GCA—NR)** have dropped to the point where we may not get back to break-even, but could remove it from the list at perceived fair value.

Orbotech (NASDAQ—ORBK—\$19.04—NR), reported last week and was up nicely as they beat expectations. The stock has come off big time in the wake of the China selloff and now trades less than 10x 2015 EPS of \$1.99, despite it is more than double the EPS from last year. If you have patience, you could see \$25 in six months or less.

Glu Mobile (NASDAQ—GLUU—\$5.87—NR) is due to report on Tuesday. The company has some real momentum business-wise and that may be reflected in an upside surprise since they have surprised for the past four quarters.

Speaking of momentum, **Calloway Golf (NYSE—ELY—\$9.16—NR)** has got some strength behind it and now trades above most of its DMAs. The new young guard in the PGA have helped and Tiger potentially righting himself is also a plus. If the stock can get through its 52 week high of \$10.20, it could go right to \$11.

Have a good week!

The List

GSCR 2015 Picks and Pans					
<i>The Goldman Guide: Small Cap Picks</i>					
Stock	Pick/Pan	Prof Date	Orig Price	7/31/15	Return
MSO	Pan	1/16/15	\$4.77	\$6.07	27.3%
ZIXI	Pick	1/16/15	\$3.71	\$4.88	31.5%
ELY	Pick	1/23/15	\$7.92	\$9.16	15.7%
FLWS [^]	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	\$8.24	-19.5%
ORBK	Pick	2/13/15	\$15.87	\$19.04	20.0%
INTT	Pick	2/20/15	\$4.16	\$4.30	3.4%
CVU#	Pick	2/20/15	\$11.87	\$11.14	-6.1%
LCI	Pick	2/20/15	\$63.23	\$59.60	-5.7%
LPSN#	Pick	2/27/15	\$11.54	\$9.42	-18.4%
SKX&	Pick	3/6/15	\$66.79	\$150.45	125.3%
VA#	Pick	3/13/15	\$34.77	\$28.53	-17.9%
GLUU	Pick	3/20/15	\$4.95	\$5.87	18.6%
SKUL [^]	Pick	3/27/15	\$10.85	\$7.50	-30.9%
VLTC	Pick	4/2/15	\$2.63	\$8.02	204.9%
LBMH	Pick	5/3/15	\$2.94	\$2.15	-26.9%
GCA	Pick	5/24/15	\$7.84	\$5.05	-35.6%
GTIM	Pick	6/14/15	\$9.31	\$8.14	-12.6%
AEO	Pick	7/26/15	\$17.53	\$17.75	1.3%
SC Buy Avg*					13.5%
RUT 2000		1/16/15	1177	1239	5.3%
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					
^ denotes no longer pick as of 5/31/15					
& denotes no longer pick as of 7/31/15					



The Goldman Guide

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