The Goldman Guide

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**INSIDE THIS ISSUE:**



### *KEY TAKEAWAYS*

- *We have data indicating that after some more near term volatility while we find some sense of a firm range, stocks will move higher*
- *The market as a secret weapon to drive stocks higher later in the year*
- *Small caps are the best value, valuation-wise and high growth/ low valuation may be the place to be*
- *Speaking of which, our best idea is a monster of a stock*

### *THE MAJOR INDICES*

| Index | Close | 2015 |
|---|---|---|
| DJIA | 16643 | -6.6% |
| S&P 500 | 1989 | -3.4% |
| NASDAQ | 4828 | 1.9% |
| Russell 2000 | 1163 | -3.5% |

(figures are rounded)

## I Need Oxygen!

See the image? I am sure that is how most of us feel about the stock market after last week. Frankly, since it started on the 20th, it was actually 7 straight trading days of madness.

I am going to go out on a limb here and assume you know why stocks collapsed (China, growth and earnings concerns) and why stocks leapt higher (overblown China concerns, values found in oversold stocks, higher revised GDP). Whether you are young or you are old, you many not appreciate the insanity we just experienced. I made my first investment (in IBM) as a kid in 1982 and started in the business in 1989, and this was all new to me.

You need to see just some numbers to truly understand what happened and what it means for your stocks and the stock market today and for the next few weeks.

**On 8/17, a week before Monday Madness, the DJIA traded 73M shares. On 8/24, it traded 294M, 3x higher!**

**When all of this began on 8/20 through 8/28, NASDAQ was down 13.6% at one point and ended the run down only 1%.**

**Intraday on 8/24, you could have made 16% on Apple (NASDAQ—AAPL) and 22% on Netflix (NASDAQ—NFLX).**

# The Stock Market Today

U.S. Stock Market Index Performance
as of 8/28/15

| Index | Close | 52-Wk Hi | 52-Wk Low | Hi Date | Low Date | % from Hi | % from Low | Bounce* | % Below 200-DMA |
|---|---|---|---|---|---|---|---|---|---|
| DJIA | 16,643 | 18,351 | 15,370 | 5/19/15 | 8/24/15 | 9.3% | 8.3% | 16.2% | -6.4% |
| S&P 500 | 1,989 | 2,135 | 1,821 | 5/20/15 | 10/15/14 | 6.8% | 9.2% | 12.6% | -4.1% |
| NASDAQ | 4,828 | 5,232 | 4,118 | 7/20/15 | 10/15/14 | 7.7% | 17.2% | 18.0% | -1.7% |
| Russell 2000 | 1,163 | 1,296 | 1,040 | 6/23/15 | 10/15/14 | 10.3% | 11.8% | 14.8% | -4.9% |
| Average | | | | | | 8.5% | 11.6% | 15.4% | -5.3% |

* denotes percentage index is up from recent low

Source: www.StockCharts.com, Goldman Small Cap Research

Most financial commentators have focused on the record drop and bounce achieved on Monday of last week, and for good reason. However, in the practical sense, we need to look at the start of the collapse, which began in earnest on 8/20/15, not 8/24/15, and the stock market today. The table above illustrates that from the trough on 8/24/15, stocks, especially NASDAQ stocks, roared back on a major bounce. Yet, they remain below their 52-week highs and DMAs. So a slow move upward is likely in the cards this year.

| Index | 8/19/2015 | 8/24/2015* | 8/28/2015 | Low | Bounce |
|---|---|---|---|---|---|
| DJIA | 17349 | 15370 | 16643 | -12.9% | 8.3% |
| S&P | 2080 | 1867 | 1989 | -11.4% | 6.5% |
| NASDAQ | 4877 | 4292 | 4828 | -13.6% | 12.5% |
| RUT | 1203 | 1103 | 1163 | -9.1% | 5.4% |

*denotes low of the day

Source: GSCR. Yahoo!Finance

The adjacent chart shows how far the indices dropped from 8/19/15, the day before it all started, and the bounce from that point. Again, NASDAQ's move is most noteworthy although interestingly, small cap stocks were not as whipsawed as their high priced, high valuation NASDAQ brethren.

**Note: Small caps are now trading at a valuation 13% lower than the NASDAQ 100! Can you say better value? Just hope Fed doesn't do something stupid with rates.**

## *Back To Reality*

Dodged a few bullets last week, huh? I gotta take some time to give our team some props for our calls last week. We stated in these pages that you should be buyers on a bounce—in fact the title of the last week's Guide was "You Felt the Pain Prepare for the Gain." Granted, we didn't think the stock market bounce would occur midday on Monday and with such force on the downside and upside. Our thoughts that this decline would be longer lasting and orderly, which is why we thought that being a buyer on Tuesday or Wednesday would be best, and that was on target.

Now that the stock market rollercoaster is behind us it does not mean we are out of the woods. It will be interesting to see the performance of the stock market today. On the plus side, the fact that we had such a monumental drop and then recovered is very bullish and has swayed some fence-sitters. We talked last week about the need to be courageous—there were clearly firms that sat together at 7:30AM Monday and said "we will buy Stock X if it gets down to X price"—and then made a fortune.

Here is the reality. Recent excellent research notes that sales *to* China is really small, so their mess is their mess and would have a limited effect on our exports. GDP growth and job "growth" are strong and we may have hit bottom on commodities which is great. Still, volatility will rue the day, in our view, so be cautious. By the way, our favorable longer term (2016 election year) outlook is still the same, especially with last week's comeback. We expect weeks of some pain but good deals and valuations will be even better than now come November. So for the interim, have a trader's mentality with most stocks, especially the mo' stocks, and buy/hold select low valuation/high growth names. Obviously all bets are off if the Fed raises rates next month.

## *Say What?*

Ok, so you survived the rollercoaster. Now what's next? Here are some ideas of what's to come and a very important article on the next disruptive technology. Enjoy!

*Barron's*

http://bit.ly/1NZDdvK

Hard to go wrong with a Barron's cover story that is bullish on stocks.

*Marketwatch*

http://on.mktw.net/1UcKcbN

Not sure how much I agree with this column on the end of momentum investing, but worth a read nonetheless.

*Investor's Business Daily*

http://bit.ly/1NFsQAe

The headline about stock market performance says it all and puts things in perspective much like we did in the beginning of this edition.

*Wall Street Journal*

http://on.wsj.com/1KsYZc7

Proof that the Average Joe investor has the worst timing.

*New York Times*

http://nyti.ms/1PEDx3m

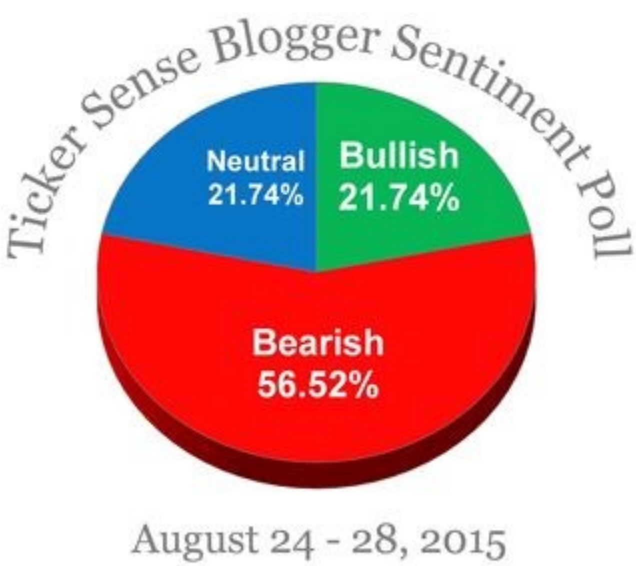
**A MUST READ. NEW DISRUPTIVE TECH.**

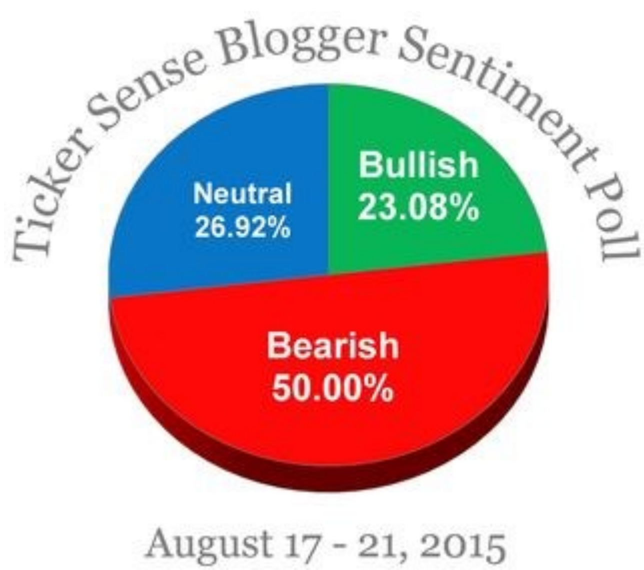
## *Just the Stats!*

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

| | Current | Last Week | *Long Term Avg* |
|---|---|---|---|
| Bullish | 33% | 27% | *39%* |
| Neutral | 29% | 40% | *31%* |
| Bearish | 38% | 33% | *30%* |

The Neutral figure is the lowest we have seen in months reflecting the big moves. People tend to move in one direction or another after big market swings. Look for the Bearish percentage to drop in the coming weeks. For the TickerSense poll, I suspect that we will see a big drop off in bears and big move in bulls, which makes sense. I feel bad for the poor saps that sold AAPL and NFLX and the like early Monday at year lows. They got creamed as did the record $19B in stock fund redeemers on Tuesday—the biggest since 2007. <u>And the total since 8/20 was $29B, the biggest weekly redemption in 13 years. They will be back and that will help us build a stock market rally later in the year!</u>



# *We Gave Good Ideas Last Week*

First, a global comment. Yes, we sound like a broke record, but facts are facts. Small caps will outperform the bigger stocks in Q4 as some of the mo' stocks lose their mojo in place of lower valuation/high growth stocks, of which there are plenty in the small cap stocks world, especially heading into 2016. As we noted earlier in the Guide, the Russell 2000 Index 12-month forward P/E is 13% lower than the momentum happy NASDAQ 100 and did not have the same "EKG" as the NASDAQ Composite during this recent roller-coaster. We also expect that small caps get a shot in the arm when retail investors come back from the sidelines where their cash is sitting after last week. A side item to note is that the weak and highly margined have been cleaned out and that is a good thing for the stock market today.

As for our ideas last week, we had no idea when we wrote this that big stocks could collapse by like 8% in one day so our idea to stay away from TVIX later in the week because it would drop by week-end was mixed. It opened at $10 on Monday, hit $15, dropped below $10 on Tuesday and closed near $14 Friday. How is that for volatile?

We were frankly unwilling to discuss big name momentum stocks in this type of publication because we knew things could be fluid. We therefore took a longer term, more risk-averse approach and recommended a dead money stock and two microcaps that would be unaffected. Here is how they did:

**Calloway Golf (NYSE—ELY):** We predicted a 10% rise. It was up incrementally week-to-week and up 9% from its Monday low.

**Good Times Restaurant (NASDAQ—GTIM):** We also forecasted a 10% gain and it performed very well, up 9% from a week ago, but was up as much as 15% mid-week.

**Voltari (NASDAQ—VLTC):** We goofed here. It was down 7% from a week earlier and was frankly all over the place between $6.46—$7.85.

**Recent 30-30 Stocks:** Priced as of the day before the collapse, our most recent 3 picks are down an average of 2%, with one up, which is not bad all things considered. All in all, one-third of our last 9 picks were up for the week.

## *Set The Record Straight*


Folks, I am going to go somewhere I usually don't. With some obvious exceptions, we generally provide kick-ass ideas and opinions in the *Guide*, the *Market Monitor* blogs and *The 30-30 Report*. And not just when compared with the stock market today but with other talking heads that have huge teams of pros behind them.

I was actually ashamed listening to some people last week on Bloomberg, CNBC, and Fox Business on my car radio when I drove back and forth from Baltimore to NY on Wednesday of last week. The dumb SOBs were calling for a collapse in oil prices to $20 over the next couple of weeks. The damn thing jumped like 20% in a couple of days to over $45 a barrel on the strong, revised GDP report! Others said to stay away from small caps due to big downside risk. Hello? The Russell was up 5% in the last 3 days of last week as we approach the performance of the stock market today.

And, that may not be the worst of it. Last week, a story ran on Bloomberg followed by a replica by ZeroHedge.com that cited a BofA report with charts and tables that carried a thesis of "Rough Summer Ahead for Small Caps." The problem is that the table/chart purports to use small cap data back to 1926. That is weird because the Russell 2000, as far as I can see, is the oldest index (tracker) of small caps and it is less than 40 years old. The strategist at BofA got data from the Center for Research in Security Prices but that organization generates its own proprietary data and indexes. The upshot is that the report states that this summer and year will be bad for small caps because it is at odds with history since Sept/Oct are the only periods averaging down months since 1926.

We have to look at things in perspective. First, I did my own research and the RUT has only had 10 down years in the past 35 and half of those down years have been since 2000. Moreover, in the past ten years, there have been plenty of down months (6 to be exact.) So, that data and its timeframe are misleading since times have changes. Plus, small stocks have been down more than other indices and did not enjoy an equivalent bounce because stock gains in 2015 have been narrow rather than broad, resulting in the index down so much. On the flipside, we expect a bounce on valuation in the fall.

# *Here is a Monster Stock*

If we had to choose one stock to buy today, it would be former 30-30 achiever **Monster Worldwide (NYSE—MWW—$7.04)**. MWW is in the midst of a major growth spurt and given current economic trends, such as the GDP growth and improving labor market, we believe that the Company is about to catch lightning in a bottle, which is why we initially profiled the stock way back in June.

For the uninitiated, Monster Worldwide is a global leader in connecting people to jobs, wherever they are. For more than 20 years, Monster has helped people improve their lives with better jobs, and employers find the best talent. Today, the Company offers services in more than 40 countries, providing some of the broadest, most sophisticated job seeking, career management, recruitment and talent management capabilities.

The underlying catalyst here is the trend toward outsourcing staffing services which has just begun to make its mark on the Company's financials. For 2Q15, the Company beat Wall Street EPS estimates and Street margin expectations, which boosted the stock's share price considerably, resulting in a new 52-week high and higher estimates going forward. Still, these levels are a fraction of previous historical highs and we believe that there is much more to come.

Unlike other small caps, the stock has not fully rebounded due in part we believe is short selling, which is both an overhang and a potential future catalyst. Meanwhile, EPS is projected to grow by 50% this year and next with 2015 EPS forecasted at $0.43 and 2016 EPS estimated to jump to $0.66. At current levels, the stock trades at a ridiculously cheap 16.x this year's EPS and 10.7x next year's earnings. By the way. the Company has surprised on the upside four straight quarters so investors could expect more of these events, going forward. We would not be surprised to see MWW end up being a 50% winner in relative short order if the earnings growth continues on this torrid pace especially given the high short ratio, which could prompt a short squeeze.

# The Goldman Guide

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