Goldman SMALL CAP RESEARCH

The Goldman Guide

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

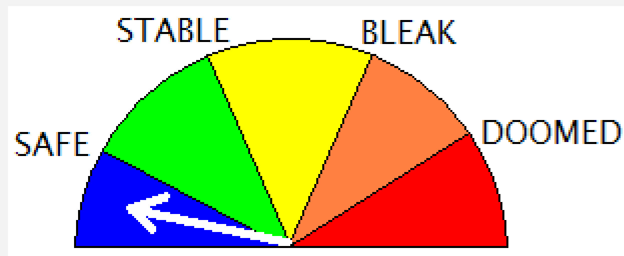
- *Q3 earnings season is here but the results are expected to decline in comparison with last year. Could Q4 follow the same path?*
- *Financials dominate earnings this week*
- *Stocks are on a roll and major indices could reach a key technical target this week*
- *These two auto related stocks could see a bump in their stock prices with their earnings reports this week*

THE MAJOR INDICES

Index	Close	2015
DJIA	17084	-4.1%
S&P 500	2015	-2.1%
NASDAQ	4830	2.0%
Russell 2000	1165	-3.3%

(figures are rounded)

Breathe, Nervous Smile. Repeat.



Last week just plain old kicked ass. Across the board, all major indices had big gains, including a 4.4% jump in the small stock bellwether, the Russell 2000 Index.

A few weeks ago things looked like doomsday revisited and now it seems as if things are hunky dory or "safe" again. While I would never say safe, the worst appears to be a bit behind us.

With that said, we are now at the start of earnings season and how the multinationals performed in 3Q15 and the insights gleaned from future guidance will tell us whether the wind is at our back or about to smack us in the face. However, while we wait for these reports, a just released Factset report could put a damper on things in the near term, if you are a glass half empty type of investor.

Factset has found that not only will Q3 record an earning decline for S&P 500 companies, which marks the 2nd straight year-over-year quarterly decline since 2009, but that it could drop in Q4 too. That, I must admit, is a bit of a surprise.

Another surprise is the timing. Apparently the lowered forecasts have been happening in drips and drabs in recent weeks, rather than post-earnings releases. What is not a surprise, is that the declines will be led by energy and materials companies. On the plus side, earnings growth is expected for all 4 quarters next year. Considering that the market's performance is supposed to reflect the market six months out, that is a good thing and will hopefully offset the (early) Q4 concerns.

The Stock Market Today

U.S. Stock Market Index Performance
as 10/9/15

Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	Bounce*	% Below 200-DMA
DJIA	17,084	18,351	15,370	5/19/15	8/24/15	6.9%	11.2%	16.2%	-3.0%
S&P 500	2,015	2,135	1,821	5/20/15	10/15/14	5.6%	10.7%	12.6%	-2.3%
NASDAQ	4,830	5,232	4,118	7/20/15	10/15/14	7.7%	17.3%	18.0%	-1.8%
Russell 2000	1,165	1,296	1,040	6/23/15	10/15/14	10.1%	12.0%	14.8%	-4.4%
Average						7.6%	12.8%	15.4%	-2.6%

* denotes the percentage index is up from recent low

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

I know we called it prematurely a couple of weeks ago, but now it is almost undeniable. The NASDAQ Composite and S&P 500 Index are really, really close to breaking above their 200 DMA. Unless I am missing something, all of the indices, including the Russell 2000 Index, are above their 50 DMA—except for NASDAQ, and that is just 5 points away. What a comeback from less than two months ago…

As we noted earlier, this week is the start of the Q3 earnings season and Tuesday is when the rubber meets the road. **JP Morgan (NYSE—JPM), Intel (NASDAQ—INTC), Johnson & Johnson (NYSE-JNJ)** and even the **Rocky Mountain Chocolate Factory (NASDAQ—RMCF)**, which we profiled last week and is essentially unchanged, all announce results.

On Wednesday, all eyes will be on **Netflix (NASDAQ—NFLX)** and the impact of its recent price raise, as we as **Wells Fargo (NYSE—WFC)** to glean insights regarding the housing market boom/bubble.

Speaking of financials, no fewer than 16 financial stocks report on Thursday, including **Citigroup (NYSE—C)** and **Goldman Sachs (NYSE—GS)**. If we can get through this week, investors will be further emboldened.   We will be commenting via Twitter before and after all of these results.

Say What?

How about a mix of history, hilarity, insanity and economy? That's what we have for you this week.

The New York Times

http://www.nytimes.com/2015/10/11/business/mutfund/in-3rd-quarter-investors-rode-the-rapids-after-stocks-plunged.html?ref=mutfund

Nice look back and setting up trends ahead.

Zero Hedge

http://www.zerohedge.com/news/2015-10-11/menace-egalitarianism

You will either love this or hate it.

CNBC

http://www.cnbc.com/2015/10/11/does-the-fed-want-stocks-to-rise-or-fall.html

Now that is a question!

TMZ

http://www.tmz.com/2015/10/11/hero-grocery-dogs-golden-retriever/?adid=hero1?adid=hero1

Who doesn't love a cute dog video?

Bloomberg

http://www.bloomberg.com/news/articles/2015-10-11/china-stock-rally-to-rout-about-to-repeat-for-chartist-schroeder

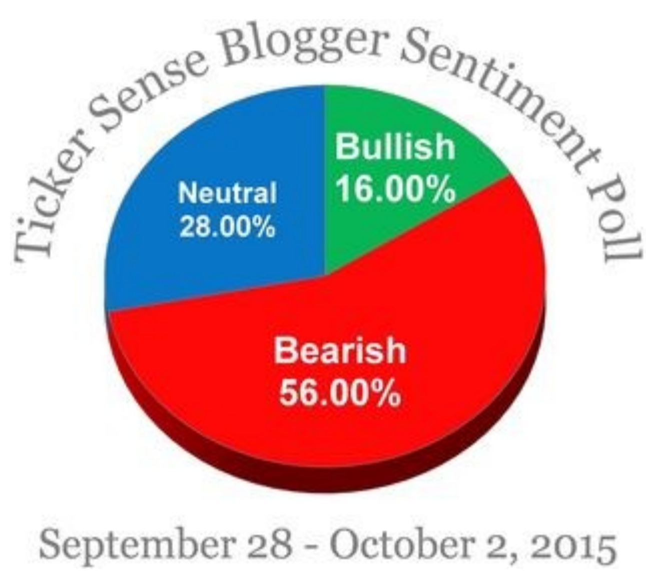
Hope they are wrong. Could be painful.

Just the Stats

AAII Sentiment Survey (figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	38%	28%	*39%*
Neutral	34%	32%	*31%*
Bearish	28%	40%	*30%*

We noted last week that all signs were turning bullish, including the lagging indicator of the AAII. How many times have we seen their bearishness be timed poorly? Or the Ticker Sense Poll ahead of the AAII? This week both trends are the same for a change but that may end up meaning the week is Neutral. Well, at least that's what the cynic in me says...



Are You an EarningsKing?

Ok, I admit it. I have played FanDuel. And if payouts were paid for performance in the first half of games I would be doing very well. Alas..

Are you courageous, gutsy, like to take risks, and are foolish enough to follow our ideas? If you resemble those descriptions, read on. If not, thank you for your time.

Anyway, here are two stocks reporting earnings next week that we think could move after their respective reports. Note: This type of day-trading or short-term trading can be lucrative but is extremely risky as our predictions could be wrong, or the impact of the correct assumptions do not results in stock price gains.

On to the 2 stocks we like for a trade....

A stock we have featured in *The 30-30 Report* and in other publications such as this one is: **Consumer Portfolio Services, Inc. (NASDAQ—CPSS- $5.28)**. CPSS is slated to report on Thursday and Wall Street is looking for $0.26 versus $0.24 a year ago. Given the big rise in auto sales in Q3, this specialty finance company that caters to low credit buyers could make a nice move. It trades at a ridiculous 5x this year's EPS and if the Q is met or exceeded, we think a 10-15% rise is not out of the question.

Sticking with the auto theme, **VOXX International (NASDAQ—VOXX—$$7.88)** reports on Tuesday. The Street is looking for this provider of auto parts and audio accessories to record $0.08 in EPS versus a loss of ($0.11). For the full year, EPS is expected to be $0.53, which translates into a 14.9x EPS. Any upside surprise is likely worth a 10% rise.

Have a great week!

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