The Goldman Guide

Goldman SMALL CAP RESEARCH

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *With a few weeks left to go we predict the market's moves and focus*
- ⇒ *Year-end rally is in the cards but will be led by poor 2015 performers or those stocks in transition to big 2016*
- ⇒ *Sentiment may be Neutral today but is primed to be bullish after the December rate hike*
- ⇒ *Small caps are about to have their days in the sun as year end selling commences*

THE MAJOR INDICES

Index	Close	2015
DJIA	17730	-0.7%
S&P 500	2079	0.9%
NASDAQ	5095	7.6%
Russell 2000	1184	-1.7%

(figures are rounded)

PREDICTING STOCKS' FUTURE MOVES

Just like coaches in collegiate and professional sports outsmart themselves by getting too cute or straying off course, investors are prone to the same disastrous mistakes. As long as one recognizes that stocks you thought for sure would do well can collapse and the poor ones can do well, then a key part of the mental process of investing is in place. You know you can't always be right. And the more you complicate or try to time your efforts without a plan the more difficult it is to achieve success.

Frankly, it's just part of the KISS method (keep it simple, stupid.) And one simple but very important cog in successful investing is to let the calendar be your friend—especially this time of year.

About 80 days ago, the world was coming to an end with the way stock prices collapsed. Yet, recently stocks hit a new high, helped in part by a better than average or at least better than expected Q3 earnings season. Now that we just have a few days left and an interest rate rise is in the offing next month, we can predict, with a fair degree of certainty, what will transpire over the next few weeks and what segments will be in focus by institutions, the financial media, investment banks, and retail investors.

We have seen some selling and profit-taking this week and, with the exception of (mainly) small stock reporting days whereby stocks move in tandem with financial results performance, look for equities to be more in the red than the green as we enter a dead period. Beyond this week, this is what we see and what you can do to stay ahead of the game.

<u>November Calendar</u>

Once we get past this mid-point of November, the fun begins because it becomes a 6 week mad dash to year end for equities and equity players. Three things will be jam-packed over a period of ten days. First, some management teams will be attending conferences or conducting roadshow meetings with institutions. This is all about solidifying forecasts and sentiment about the stocks in question for next year.

The Calendar

Second, all kinds of retailer and holiday season sales will come into focus and opportunistic investors establish short term positions (90 days or less) in key stocks. Third, a streamlining and review of all positions, along with asset class and sector weighting by institutions begin. The move of the market engine begins to accelerate and it becomes palpable for investors that the train will soon leave the station. Therefore, everyone has to be ready for its departure lest it leave them behind. What started as modest selling mid-month turns into modest buying, if the Black Friday sales period is solid, which we believe it will be, which will create a load of short term opportunities. For some, year-end selling of losing positions may commence.

<u>The December Calendar</u>

The mad rush ensues. Company execs make their last conference and roadshow trips of the year. Investment banks scramble to complete IPOs and secondary offerings before year-end. Institutions sell this year's losers, and begin the traditional year-end window dressing of position ownership of stocks that are in favor now, and represent turnaround or good valuation/growth plays next year. Essentially, what worked in 2015 may not next year and what failed in 2015 may work in 2016, particularly early on.

Interest rate talk will loom large as we enter December. While a rise in rates usually portends stock declines, we believe such a move is both necessary and will have a rather tepid and short term downside effect. Recaps and reviews of the holiday season along with future forecasts of trends trickle out into the market and in the media. By the time we reach mid-month, small caps and microcaps that had a bad year but are in transition are under accumulation and jump on weak volume as the sellers have abated. Thus, the beginning of the January Effect occurs with a year-end rally in small caps which have underperformed for 2 years. So, in December, prepare yourself to buy stocks in transition or those reaching an inflection point next year.

As for us, our publishing schedule is very busy in the weeks ahead. In November alone, we will be introducing 2 new editions of *Cannabis Stock Report*, a new issue of *The 30-30 Report*, 2-3 new emerging growth stock ideas, and our *5th Annual Thanksgiving Treats and Turkeys Report*. Plus, we plan to publish an update or two. For December, in addition to new issues of our premium products, company updates, and of course the Guide, we will publish our annual predictions for next year. Stay tuned...

The Stock Market Today

U.S. Stock Market Index Performance
as 11/9/15

Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	Bounce*	% Above 200-DMA
DJIA	17,730	18,351	15,370	5/19/15	8/24/15	3.4%	15.4%	16.2%	0.9%
S&P 500	2,079	2,135	1,867	5/20/15	10/17/14	2.6%	11.4%	12.6%	0.8%
NASDAQ	5,095	5,232	4,242	7/20/15	10/17/14	2.6%	20.1%	18.0%	3.2%
Russell 2000	1,184	1,296	1,079	6/23/15	10/20/14	8.6%	9.7%	14.8%	-2.6%
Average						4.3%	14.1%	15.4%	0.8%

* denotes the percentage index is up from recent low

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

Don’t Forget About China

Two events have come out of China in the last couple of weeks that could have an impact on markets in both the short and long term. The big story was last week the Communist Party announced that it would change the country’s one child law that has been in effect since 1979. In March, two children will be permitted. Not only is this a human rights victory that will change the country’s demographics, it should have a long term on the nation’s growth and GDP. The question for us is how to play this in the markets. Look for stocks or ETF with exposure to Chinese discretionary and consumer staple spending. The Chinese ‘baby boom’ could reap some nice green over the next several years.

In minor news, the Chinese government arrested four people including the high profile fund manager Xu Xiang on the suspicion of market manipulation per the *MarketWatch* story below.

http://www.marketwatch.com/story/china-arrests-high-profile-fund-manager-in-crackdown-on-stock-market-rigging-2015-11-02

This could signal a general effort by the Chinese government to combat fraud which could give investors more overall confidence in the Chinese markets. We think it is ironic that Chinese government has the gall to accuse someone of fraud and manipulation since it perfected these practices. This is truly a disadvantage of a one party system. We think this is mere window dressing but should at least offer some short term stability.

Say What?

Great info, insights, and hard-hitting stories make up this week's *Say What?* feature...

USA Today

http://www.usatoday.com/story/money/personalfinance/2015/11/09/60-40-stock-bond-portfolio-mix-dead-2016/75042316/

Not really used much but interesting insight.

The New York Times

http://www.nytimes.com/2015/11/09/your-money/let-go-of-irrational-fears.html?ref=business&_r=0

Great stuff.

CNBC

http://www.cnbc.com/2015/11/10/30-years-of-history-points-to-year-end-rally.html

"Nuff said.

Zero Hedge

http://www.zerohedge.com/news/2015-11-10/goldman-sees-60-chance-current-expansion-continues-another-4-years-becomes-longest-e

A bit optimistic, but I'll take it.

Investor's Business Daily

http://news.investors.com/business/110915-779876-equity-crowdfunding-is-coming-to-america.htm?ref=HPLNews

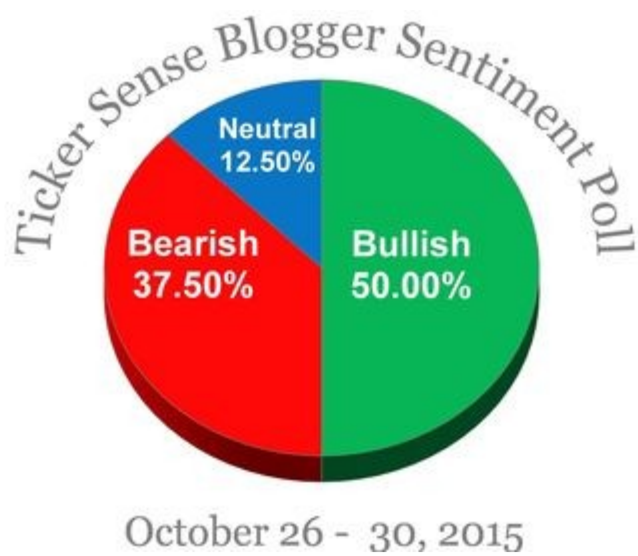
On the heels of last week's thoughts...

Just the Stats

AAII Sentiment Survey (figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	39%	40%	*39%*
Neutral	42%	39%	*31%*
Bearish	19%	21%	*30%*

Interesting diversion of sentiment this week. Blogger pros became more tepid on stocks, no doubt after solid earnings and as we enter the dead period we alluded to earlier while retail investors were largely unchanged. Frankly, we are leaning toward Neutral as well, even if it is just for a spell.



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