

INSIDE THIS ISSUE:

The Stock Market Today

Say What?

Just the Stats

A Stock to Bank On?

KEY TAKEAWAYS

- ⇒ *Energy, especially oil will continue to be a driver of stock market direction*
- ⇒ *It seems that many pundits have forgotten about the problems in Asia which could weigh on stocks next*
- ⇒ *Still, investors should be optimistic given historical stock market performance during election years*
- ⇒ *With the recent interest rate increase and the expectation of more on the horizon, here is a stock to "bank" on*

THE MAJOR INDICES

Index	Close	2015
DJIA	17127	-3.9%
S&P 500	2005	-2.6%
NASDAQ	4923	4.0%
Russell 2000	1121	-7.0%

(figures are rounded)

TOP 4 THINGS THAT WILL AFFECT STOCKS

Basketball is a game of streaks and when evenly matched teams play each other, whichever team tends to handle the streaks the best often come out on top. Given the volatility of late and the expectation of both headwinds and tailwinds ahead, what will be the major drivers of the markets and stocks in particular? I'm glad you asked.

#1: Energy and other Commodities

As we have all witnessed in recent weeks, when oil gets smacked, so do we. While we all want low prices at the pump, we'd be wise to hope for stabilization followed by higher prices. However, it may not happen until mid-year.

#2: The Beast of the East

Somehow we have forgotten that China's growth is slowing and it is not likely to return to high levels for some time. It is already impacting Japan and Korea and it is just a matter of time before it reaches us.

#3: Interest Rates/Dollar vs. Currencies

The Fed said it will stage four more increases next year. Don't count on it, partly due to reason #2 which will prompt a rise in the dollar anyway. Still, the back-and-forth is likely to cause periodic consternation.

#4: The 2016 Election

Most pundits know Clinton has had the necessary delegates for the nomination in her purse for many months so all the debates, stumps, etc. are a mere formality. The question is will Trump face her? It is looking likely and while both would probably suck something awful as leaders of this great nation the only thing I can say is that our study published in the 8/23/15 edition of *The Goldman Guide* indicated that since 1979, stock market performance in election years has been great and even in the year after results have been pretty solid, on average.

Election Year Stock Market Performance

As illustrated below, since 1979, the Presidential election years have endured no down years (although recent returns have been weak) and the average annual return is substantially higher than in other years. Moreover, the returns during the first year in office for Presidents haven't been too shabby when you eliminate the unusual circumstances in 2000 and 2008.

S&P 500 Returns				
Year	Election Year	Year	Next Year	Other Years
1979	18.44%	1980	32.50%	
1983	22.56%	1984	6.27%	
1987	5.25%	1988	16.61%	
1991	30.47%	1992	7.62%	
1995	37.58%	1996	22.96%	
1999	21.04%	2000	-9.10%	
2003	28.68%	2004	10.88%	
2007	5.49%	2008	-37.00%	
2011	2.11%	2012	16.00%	
Average	19.07%		7.42%	13.40%
Source: GSCR, Standard and Poor's				

Does this mean that either the Hillary or the Donald potentially enjoys such bliss? Check back with me in about 11 months.

The Stock Market Today

U.S. Stock Market Index Performance as 12/18/15								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	17,127	18,351	15,370	5/19/15	8/24/15	6.7%	11.4%	-2.5%
S&P 500	2,005	2,135	1,867	5/20/15	10/17/14	6.1%	7.4%	-2.8%
NASDAQ	4,923	5,232	4,242	7/20/15	10/17/14	5.9%	16.1%	-1.1%
Russell 2000	1,121	1,296	1,079	6/23/15	10/20/14	13.5%	3.9%	-7.4%
Average						8.0%	9.7%	-2.6%
Source: www.BarChart.com, Goldman Small Cap Research								

Now that the first salvo in the interest rate game has resulted in a 1/4 rise in rates, it is time for the long forgotten sector to make its move. Financials would occasionally comprise more than 20% of the S&P 500 Index. Today, that figure is 16.6%, but had been lower in recent months. Look for this to rise at the expense of materials and industrials, along with energy.

With attention now on the Financials sector again, we have identified a stock we believe that you can “bank” on as the rise in interest rates will facilitate top line revenue growth with the increased borrowing/lending spread that will follow.

Perhaps foreshadowing these events has been **Preferred Bank (NASDAQ – PFBC - \$33.53)**, a regional bank headquartered in Los Angeles which has enjoyed a 26% price return over the past year. The first metric that struck us concerning **PFBC** was the operating margin of 60% versus the industry average of 35%. This efficiency will be critical in translating increased revenue to EPS performance. The growth story is also impressive with a forward P/E of 14x versus a trailing of metric of 16x with a five year PEG of 1.5x. This growth prompted a 25% increase in the quarterly dividend last week which is a nice bonus as the new annual yield on this growth-oriented bank is 1.8%. Our mid-year target is \$38 and could be higher if the long-awaited M&A cycle hits the regional bank segment in 2016.

Say What?



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

BizJournals.com

<http://www.bizjournals.com/bizjournals/washingtonbureau/2015/12/changing-demographics-of-business-minority-firms.html>

And its effect on policy and the upcoming election will be??? You be the judge.

Bloomberg

<http://www.bloomberg.com/news/articles/2015-12-20/asian-stocks-set-to-follow-u-s-rout-as-haven-yen-holds-advance>

Asia looks like it will be enduring growth issues in 2016.

The New York Times

http://www.nytimes.com/2015/12/20/upshot/how-santa-claus-ended-up-on-us-militarys-radar.html?ref=business&_r=0

A great, feel-good story.

Marketwatch

<http://www.marketwatch.com/story/last-minute-bargain-hunting-may-boost-stocks-in-quiet-holiday-week-2015-12-20-1710307>

That is the hope.

ZeroHedge

<http://www.zerohedge.com/news/2015-12-19/huge-fukushima-cover-exposed-government-scientists-meltdown>

Conspiracy? Maybe. Worth the time to read? Definitely.

Just the Stats

AAll Sentiment Survey (figures rounded)

	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	24%	29%	39%
Neutral	37%	42%	31%
Bearish	39%	30%	30%



For the first time in many weeks, both polls/surveys moved in the same direction: Bearish—with declines in both Bullish and Neutral sentiments. Due to the Christmas and New Year's holidays, do not look for much in the way of new data, at least any that is material on this front. We maintain that the slower holiday period should prove to be fruitful for the small cap space, although commodity-related stocks may not perform too well.



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The Goldman Guide

1498 Reisterstown Road, Suite 286 Baltimore Maryland 21208 Phone: 410.609.7100

info@goldmanresearch.com www.goldmanresearch.com

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1498 Reisterstown Road, Suite 286 Baltimore Maryland 21208 Phone: 410.609.7100

info@goldmanresearch.com www.goldmanresearch.com

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