

INSIDE THIS ISSUE:

The Stock Market Today

Say What?

Picks of the Year

KEY TAKEAWAYS

- ⇒ We introduce 5 near term themes and stocks to by to leverage the themes
- ⇒ Themes include gun control, CES show, virtual reality and the Dogs of the Dow
- ⇒ Our pick of the year in 2015 rose 39% and we have a new pick of the year that trades at a very low valuation relative to its growth rate
- ⇒ Plus we provide a bonus micro-cap bottom fishing candidate that could rise by 60%

THE MAJOR INDICES

Index	Close	2015
DJIA	17425	-2.2%
S&P 500	2044	-0.7%
NASDAQ	5007	5.7%
Russell 2000	1136	-5.7%

(figures are rounded)

BEST STOCKS AND THEMES FOR 2016

Welcome to 2016! You will no doubt continue to be bombarded with theories and ideas about the market, sectors, and stocks in the coming days. Some of the ideas are short term while other themes may take a while to play out. Since we recognize that we all have to get back into the work swing of things, we are going to highlight these items in a concise and direct manner. Enjoy!

5 Near Term Themes:

#1: The beginning of the year usually brings more buyers than sellers to the forefront, driving stocks early on. However, the market will likely remain driven by oil prices to some degree—where oil goes, so goes stocks. The latest Saudi Arabia/Iran conflict could be a short-term double edge sword (prices higher for oil but prices lower for other stocks due to geopolitical concerns) so I would not play oil purely on this theme.

#2: Talk about stricter gun control laws via Obama Executive Order is just another point for our **Smith & Wesson (NASDAQ—SWHC—\$21.98—NR)** pick. It may up big in the past year or so but these types of themes could existing prolong upward trends.

#3: Slowdown in key Asian manufacturing segments (in China and Korea) could weigh on stocks in conjunction with oil price declines on demand reductions.

#4: The start of the CES show Wednesday means that virtual reality, wearables and OTT (Over The Top Television) segments will be in focus.

Best Stocks and Themes of 2016 (cont'd)

Two stocks that will benefit from CES and these themes beyond include **FitBit (NYSE—FIT—\$29.59—NR)** and **Immersion (NASDAQ—IMMR—\$11.66—NR)**. While you are no doubt familiar with FIT, IMMR is likely an unknown name, unless you are a 30-30 subscriber.

With 2000 patents to its name, Immersion is the leading innovator of a touch technology known as haptics. The company provides touch feedback solutions to create realistic experiences that enable and enhance digital interactions. Immersion's technology has been adopted via license in more than 3 billion digital devices that include mobile, automotive, gaming, medical, and consumer electronics developed by world-class companies. One of the fastest growing applications is the use of the technology in devices used in virtual reality gaming such as wearables, gaming controllers, and even smart phones and tablets. With adoption of the technology accelerating, a 25-30% rise in the stock in the coming months is in the cards.

Separately, **MobileEye (NASDAQ—MBLY—\$42.28-NR)** is the global leader in the development of vision and data analysis for Advanced Driver Assistance Systems and autonomous driving. The technology reduces the risks of traffic accidents, saves lives and has the potential to revolutionize the driving experience by enabling autonomous driving. It too could see some play. (Note: Stock is down about 18% since we profiled it a few months ago but we like it now more than ever.)

#5: Last year the Dogs of the Dow strategy performed better than most investment strategies and at least on the big cap side, we expect it history to repeat itself. *The Dogs of the Dow* approach, which traces its roots to 1991, purports that the best performing Dow Jones Industrial Average stocks for a given year tend to be the 10 highest dividend yielding stocks as of the last trading day of the year prior.

There are trading vehicles like closed end funds and a Dogs of the Dow ETF **ELEMENTS Dogs of the Dow DJ HY Sel 10 TR ETN (NYSE—DOD—\$15.51—NR)**, for those interested in playing this strategy. The top dividend-paying stocks this year include **Verizon (NYSE—VZ—\$46.22—NR)**, **Chevron (NYSE—CVX—\$89.96—NR)**, and **Caterpillar (NYSE—CAT—\$67.96 - NR)**, which all yield 4.53% annual dividends or higher. (Caution: CVX was a poor performer in 2015 due to low oil prices).

Industry and Small Cap Picks of the Year

In 2015, our small cap picks, by and large had a great year. For example, our pick of the year, **Orbotech (NASDAQ—ORBK—\$22.13—NR)** ended the year up 39.4%. Others, such as **Skechers (NYSE—SKX—NR)** rose by over 125%. We had our share of stinkers, to be sure, such as **JG Wentworth (NYSE—JGW—NR)**, that we did not pull off the recommended list fast enough.

Speaking of timing, in a year that should see modestly positive returns, we believe that oil-related stocks will bottom in the spring and could be the biggest winner (as an industry) for the entire year. Still, it is too early to dip your toes in the space at this time.

Upon further review, we have selected last week's featured stock, **Rovi Corp (NASDAQ—ROVI—\$16.66—NR)** as our small cap pick of the year. As we noted last week, with over 5,000 patents issued or pending worldwide, Rovi licenses its technology to providers that enable consumers to navigate content across multiple devices and screens via guides, metadata and recommendations. Wall Street forecasts a 40% increase in EPS next year from \$1.43 to \$2.01 for this software leader, on a 12% rise in revenue from \$509 million to \$570 million. Despite the huge expected increase in EPS next year, the stock trades at a ridiculous 8x earnings! Our target price is \$28, which is just above Rovi's 52-week high and reflects a 14x multiple on projected 2016 EPS.

Bonus Bottom-Fishing Microcap Pick:

We have mentioned that big losers in 2015 could be big winners in 2016. Down 56% for the year, **Hovnanian Enterprises (NYSE—HOV—\$1.81—NR)** charts looks terrible which is one reason to consider it!

Nonetheless, current EPS expectations call for EPS to grow from \$0.22 for fiscal 2016 ended in October 2015 to \$0.46 next year. At recent prices, even if forecasts are cut by a third, the stock is still attractive, as the well-known \$2.8 billion in annual sales national homebuilder trades at a P/E valuation that is much lower than the 10x afforded its peers. Our target is \$2.75, which reflects a 6x P/E multiple. If the EPS ends up at \$0.30, or 1/3 lower than current estimates, our target of \$2.75 is still a discount to the industry average.

The Stock Market Today

AAll Sentiment Survey (figures rounded)

	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	25%	24%	39%
Neutral	51%	37%	31%
Bearish	24%	39%	30%



Ok, let me get this straight. Half of the respondents are Neutral and the other half are evenly divided between Bullish and Bearish? Talk about the epitome of uncertain. I guess the downticks last week spooked investors. Regardless stocks have room to move higher. This is especially the case given low oil prices, lack of sellers early in the year, and the expectation of decent earnings this year. As illustrated below, small stocks offer the best upside relative to their year highs and closed the year at a level lower than in both 2014 and 2013, so we are due for an uptick. Moreover, with the 12-month forward P/E multiple on the Russell 2000 and S&P 500 indices almost identical, small stocks also offer greater value.

U.S. Stock Market Index Performance 12/31/2015								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	17,425	18,351	15,370	5/19/15	8/24/15	5.0%	13.4%	-0.7%
S&P 500	2,044	2,135	1,867	5/20/15	10/17/14	4.3%	9.5%	-0.8%
NASDAQ	5,007	5,232	4,242	7/20/15	10/17/14	4.3%	18.0%	0.5%
Russell 2000	1,136	1,296	1,079	6/23/15	10/20/14	12.3%	5.3%	-5.7%
Average						6.5%	11.5%	-0.7%
Source: www.BarChart.com, Goldman Small Cap Research								

Say What?



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

Investor's Business Daily

<http://news.investors.com/technology/010216-787608-ces-2016-preview-virtual-reality-drones-hoverboards.htm?ref=HPLNews>

A quick preview of the CES in Las Vegas this week.

The Wall Street Journal

<http://www.wsj.com/articles/trump-and-his-debts-a-narrow-escape-1451868915>

A very different Trump expose.

The New York Times

http://www.nytimes.com/2016/01/04/business/auto-sales-the-feds-december-meeting-and-employment-numbers.html?ref=business&_r=0

Numbers that matter this week.

Marketwatch

<http://www.marketwatch.com/story/worried-about-the-2016-stock-market-follow-these-twitter-accounts-2015-12-18>

How could we be left off the list!?!

ZeroHedge

<http://www.zerohedge.com/news/2016-01-03/nassim-black-swan-taleb-real-financial-risks-2016>

Alarmist, but noteworthy.



The Goldman Guide

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