

## INSIDE THIS ISSUE:

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## KEY TAKEAWAYS

- ⇒ *We see 4-5% declines ahead but small cap GARP could generate decent returns, even with rollercoaster market*
- ⇒ *Market pundits have mistaken rally for window dressing, and oversold opportunism, which will be over shortly*
- ⇒ *Trump better for investors than Clinton, contrary to popular opinion*
- ⇒ *This health care stock is primed to rise regardless of the election outcome but could see bigger upside in a Trump win*

## THE MAJOR INDICES

Index	Close	2016
DJIA	17007	-2.4%
S&P 500	2000	-2.2%
NASDAQ	4717	-5.8%
Russell 2000	1082	-4.8%

(figures are rounded)

## THE MARKET AND ELECTION DECIPHERED

At the start of the year, stocks reacted as if the world was coming to an end. Domestic and international economic news was terrible, the dollar soared, oil tanked, and fear of more interest rate hikes, combined with rotten earnings plagued us for six weeks.

Magically, about a month ago, oil began to rise, the dollar fell, commodities surged, earnings forecasts were not so bad, cries that a recession is around the corner were muffled, and rate hikes fears disappeared.

Lost in all of this, is the fact that institutions have been window-dressing their portfolios, setting the stage for ups and downs, given their lack of conviction. Oil speculators have done this by covering short positions. GARP investors have accumulated cheap stock now that redemptions have slowed. Growth investors have added again to the big names and those led by the consumer sector. Value investors have gotten back on the economically sensitive stocks.

This does not mean that fear has been replaced by optimism. On the contrary, it has merely been temporarily replaced by pragmatism, which is the best approach for investors of all sizes, at this juncture, with limited stock exposure.

Many profitable health care and tech stocks, particularly small caps, are still cheap, even with the recent-run-up. Throw in oversold consumer stocks and you could have a trifecta of stocks with winning formulas and decent, if not rollercoaster stock returns through mid-May. If institutions don't yet own GARP stocks they will, since GARP offers the best upside/risk profile at this stage.

## ***Clinton vs. Trump***

To be clear, it would be foolhardy to jump in the water with both feet, even if the general risk/reward profile appears to be in our favor, as a 4-5% decline is clearly in the cards. Some will say (as we did last week) that stocks have simply rebounded too much too quickly. After all, the Russell 2000, which was oversold, is up nearly 15% from the low of less than a month ago. What has really changed aside from the fact that investors have come to their senses? Not much. Thus, much of the near term upside has abated, but gains can still be had even if the rest of March turns ugly as upon a further reflection, things remain the same economically, as a few months ago.

With that in mind, if stock direction takes a cue (albeit less panicky) from the global economic slowdown, and equities drop 4-5%, as we predict, how will the current Presidential election cycle affect stocks, and has it already?

I can't tell you how many times we have elected to write on a topic only to be upstaged by a major publication. It happened again this weekend. We huddled on Friday and decided we would essentially take one segment of the market and compare/contrast prospects depending upon whether Clinton or Trump wins the whole she-bang. As if on cue, Barron's cover story this week is: Clinton vs. Trump. Who Is Better for Investors?

So, we decided to answer the question and also focus on one segment. As a result, we arrived at an answer pretty quickly and begrudgingly: Trump. (Barron's selected Clinton. For the record, Kasich is likely better than these two on that front, but hold that thought.)

A lot of investment pros may not admit it, but the more Trump opened his mouth and the higher his poll numbers ran, the more scared they became because of his buffoonery. Love him or hate him, he is a classless, obnoxious, bankrupt-record holding rich guy whose bombast rivals his supposed schmeckel size. Still, he has struck a nerve across party and economic lines and if numbers hold, could take the nomination. His policies are unclear at best, ever-changing, and many are impossible to accomplish due to, well, politics. He may not have a compromising bone in his body, or political cooperation experience, but he will likely select people like John Kasich to help along that line to develop and attempt to execute policies that actually make sense and can pass muster, rather than the catering to the crowd with a lot of simple words mixed with bluster.

## ***Clinton vs. Trump (cont'd)***

I am banking on the fact that at his core, lowering taxes and being pro-business are great starting points for investors and frankly pissing off foreign nationals won't bite us in the ass either. Isolationist policies and a penchant for growth through debt—well, that is a non-starter and would hopefully be squashed before they got out of the starting gate.

On the other side of the aisle, Hilary Clinton has endeared herself to some Wall Street leadership and has demonstrated that despite proposed tax increases (especially capital gains taxes) she has some political center ideas. I could write a ton on this topic but it really all comes down to one word: trust. No one trusts her. So, with her proclivity for pandering and then changing 180 degrees, especially to suit her policies which are far less moderate and not based on compromise unlike those of her husband, history does not help her stance, or that of investors.

Yes, Trump is bat-crap crazy. And the fact that he is an unknown may hurt stocks. I am banking that once politics and feasible policies come into play, rational thought and favorable stances toward the market come into play, whether by design or by accident.

Ironically, the Clintons and Trumps have a history of social interaction which begs the question, what would be the difference if either one was president by some pundits? Are they of the same mold? We believe there are two industries that could be impacted in a significant way related to job creation and particularly for investors.

President Obama has wielded executive power in an all out assault of the fossil fuel energy business. Perhaps no industry signifies the difference between the parties than energy, particularly when it comes to oil, gas, and coal. Below are a few articles that highlight these views, first from Mr. Trump then Ms. Clinton.

<http://www.breitbart.com/big-government/2016/03/01/3195271/>

[http://www.nytimes.com/2015/07/28/us/politics/hillary-clinton-lays-out-climate-change-plan.html?\\_r=0](http://www.nytimes.com/2015/07/28/us/politics/hillary-clinton-lays-out-climate-change-plan.html?_r=0)

## ***Easy Health Care Play***

There is no denying that the Affordable Care Act, aka Obamacare, remains a hot button issue on both sides of the aisle. There is no reason to believe that any changes will be made if Hillary Clinton wins the election. However, the story will be different if Mr. Trump wins the White House. At this point it would be political suicide to just repeal the ACA without some sort of replacement strategy, which in some regards is a victory for the Democrats regardless of the outcome. Mr. Trump has outlined a plan for his replacement and we have copied the article below for you reference.

<http://www.healthcareitnews.com/news/trump-releases-broad-outline-health-reforms-replace-obamacare>

Although Trump's plan does not mention it specifically, part of the repeal would be to eliminate the Medical Device Excise Tax that is part of the law. Anyone who understands economics at a first grade level gets that fact that this tax just gets passed on to the consumer, but with that said, medical device manufacturers should get a boost if Mr. Trump wins.

**Boston Scientific Corporation (NYSE – BSX - \$17.44)** may not be small or truly GARP, but it is not expensive either and is smack dab in the middle of its 52-week range. The bottom line? BSX is a great candidate from a value proposition standpoint if you want to play the political game when it come to healthcare stocks. With operating and gross margins of 15% and 72% versus industry averages of -0.8% and 59% respectively, EPS is projected to grow from \$0.93 in 2015 to \$1.05 this year and \$1.19 in 2017, a 13% average. A tax break would only improve matters. Look for **BSX** to climb this year to \$20 regardless of the political results, which is essentially the multiple on 2015 actual EPS.

## **Say What?**



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

### *Bloomberg*

<http://www.bloomberg.com/news/articles/2016-03-07/specter-of-20-oil-recedes-as-speculators-flee-bearish-bets>

We predicted \$40 by Memorial Day...isn't this just a short squeeze?

### *Forbes*

<http://www.forbes.com/sites/johnberlau/2016/03/04/how-fiduciary-rule-may-censor-financial-broadcasters-like-dave-ramsey/#1be3b969e696>

This can change a lot of things...including our work

### *Investor's Business Daily*

<http://www.investors.com/news/technology/is-facebook-ready-to-unleash-a-multi-billion-dollar-opportunity/>

Could this take FB to an entirely new level?

### *Marketwatch*

<http://www.marketwatch.com/story/chinas-economy-aims-for-up-to-7-growth-this-year-2016-03-06>

Good news, if they can pull it off.

### *ZeroHedge*

<http://www.zerohedge.com/news/2016-03-06/key-equity-index-climbs-back-elevator-shaft>

We mentioned this the past two weeks. Bow, more relevant than ever.

## The Stock Market Today

### AAll Sentiment Survey (figures rounded)

	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	32%	31%	39%
Neutral	39%	37%	31%
Bearish	29%	31%	30%



With each passing week, responders to this survey seem to just go with the flow. If stocks are up, the Bullish segment rises. If stocks are down, they are Bearish, or at best, Neutral. On the sensible side, it makes sense that with the 14% gains of the past few weeks, a little caution is in order, which is why the Neutral segment is the biggest of the three. With so many economic, market, and political variables out there, I suspect that there will be more Neutrals, week in and week out for the foreseeable future. Still, I would use big moves on the Bearish side as a buy signal and big moves on the Bullish side as a Sell Signal.

### Insider Trading Notes:

Speaking of signals, there is an incorrect school of thought that insiders can correctly time their buys and sells. Interestingly, insiders tend to time their sales only a bit better than their buys. Therefore, if anyone is seeking to use these events as a measure to buy or sell a given stock, he/she would be better served by the level of activity by either multiple insiders or the magnitude of sales relative to total ownership.

With that in mind, here are some stocks that experienced noteworthy insider transactions last week:

#### BUYS

SMTX

ESV

BBY

#### SELLS

RS

VG

WDAY





# The Goldman Guide

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