Goldman
SMALL CAP RESEARCH

The Goldman Guide

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *May is a key month. See why stocks could stall in May and might fall apart in June*
- ⇒ *We are enjoying the 6th year anniversary of The Goldman Guide*
- ⇒ *Big NASDAQ stocks are in trouble and small caps have a small window*
- ⇒ *Our pick of the week has beaten forecasts three of four quarters with huge projected EPS growth this year*

THE MAJOR INDICES

Index	Close	2016
DJIA	17,774	2.0%
S&P 500	2065	1.0%
NASDAQ	4775	-4.9%
Russell 2000	1131	0.4%

(figures are rounded)

May: Stocks' Most Important Month

Mark this down: May is the most important month of the year for stocks. We talk frequently about the calendar when it comes to investing because it always plays a role, even if it is not the most important one. Still, there is a great deal of historical significance to this month.

First, we all know the old adage, "Sell in May and Go Away", sometimes called the (reverse) Halloween Indicator. Why is this idiom so popular? Many studies going back to 1950 illustrate that the performance of stocks from May through October results in very little gain, while major gains are derived from November through April. From the Stock Trader's Almanac:

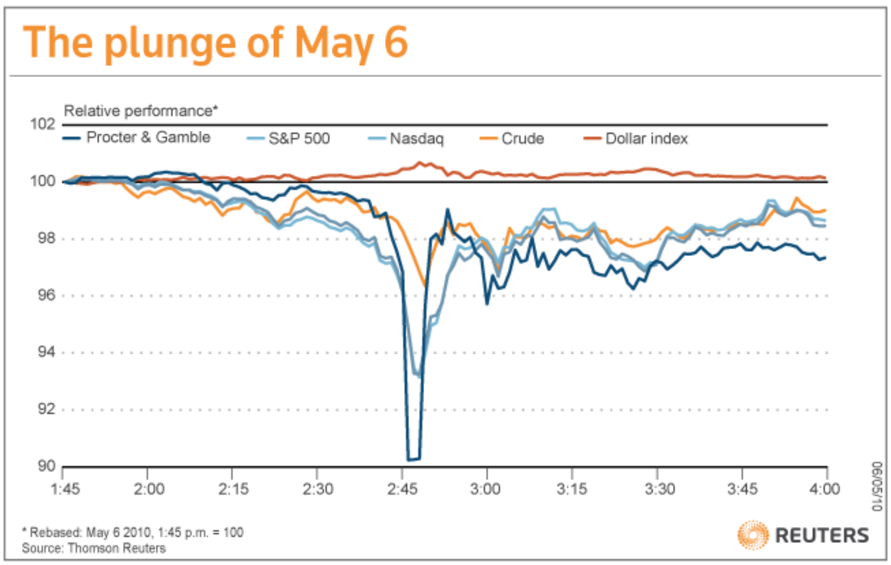
"Since 1950, the Dow Jones Industrial Average has had an average return of only 0.3% during the May-October period, compared with an average gain of 7.5% during the November-April period."

This year may be no different. A story in this week's edition of *Barron's* suggests that option traders geared up in April for a sell-off (of some sort) this month. Other factors may come into play on that front as well, but more on that later.

We don't have to go back to 1950 to find evidence of key events that have occurred during this month. In May 1975, the abolition of fixed stock trading commissions was enacted, paving the way for more subjective commission structures, and the launch of the discount broker.

May: Stocks' Most Important Month (cont'd)

Charles Schwab, the famed discount brokerage firm was formed, changing the way individual investors invest and trade, even to this day. It led to lower retail and institutional commissions and its repercussions (like day trading) are evident everywhere—even beyond the discount brokerage business it spawned.



Reuters graphic/Stephen Culp

Of course, we don't have to go back to the previous century to illustrate the significant events that have transpired during the month of May. On May 6, 2010, the infamous flash crash occurred. The Dow Jones Industrial Average dropped 600 points in 36 minutes, (after being down 300) temporarily wiping one trillion dollars worth of investments, before recouping much of the losses later in the day. This event led to major changes in computerized and algorithmic trading, and also led to charges against several individuals that contributed to, but were not the cause of the mass drop, which hasn't *really* been identified.

Almost a year later, on May 3, 2011, stocks were largely mixed. This caught people off guard because the night before it was reported that Osama bin Laden had been killed. Apparently, fundamentals still rule the roost…

For all of the history and sell adages, since 1950, the S&P 500 Index has risen an average of just 0.15% in May, yet is up 1.7% on average since 2000. In fact, since 2006, it has dropped only once—by 0.75%! Now, June, on the other hand...yuck…. The index has dropped by an average of 1.47% each June since 2005, with only 3 up periods, and a lot of big down periods—it is the worst month of the year, aside from September.

Happy Anniversary

We would be remiss if we did not mention that the month of May is the most important month of the year for us as well, and for that we thank you.

The very first issue of *The Goldman Guide* was published on the day of the Flash Crash, so this issue of *The Goldman Guide* is actually a 6 year anniversary for this weekly publication. Although it has ruined many a weekend for me these past 6 years, I enjoy writing it more than just about anything else.

A year later, we performed a 50 year analysis/study of the S&P 500 that was highlighted in these pages, illustrating our ability to monitor and forecast the big caps as well.

We have written soooo much here, including great, good, average, poor, and lousy stock picks, examined short selling, the Penn State controversy and the real money behind it, analyzed and slammed **Groupon (NASDAQ—GRPN)** and **Twitter (NASDAQ—TWTR)** pre-IPO, reviewed presidential elections, monetary and economic policy, sporting event forecasts, and have provided a boatload of never-ending chatter about small caps.

This month is also the 4 year anniversary of *The 30-30 Report*, our premium small cap trading newsletter. We have profiled just over 100 stocks and most of them have performed way beyond expectations. So many more than doubled, tripled, rose 400% or more, etc. A bunch totally cratered, to be sure. But, even with the small cap bear market, we have hit more winners that rose at least 25%, if not 30% in short order—so much so, that the number is almost not believable. And 2016 is no different. Of the 12 stocks profiled, including 3 just 10 days ago, half have hit the 30% mark, including one within 10 days!

We are considering raising the price on this hot newsletter later this month, so we strongly recommend you renew or subscribe today!

http://www.goldmanresearch.com/the-30-30-report.html

The Stock Market Today

U.S. Stock Market Index Performance 4/29/2016								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	17,774	18,351	15,370	5/19/15	8/24/15	3.1%	15.6%	3.8%
S&P 500	2,065	2,135	1,810	5/20/15	2/11/16	3.3%	14.1%	2.5%
NASDAQ	4,775	5,232	4,210	7/20/15	2/11/16	8.7%	13.4%	-1.5%
Russell 2000	1,131	1,296	943	6/23/15	2/11/16	12.7%	19.9%	0.4%
Average						7.0%	15.8%	1.3%
Sources: www.BarChart.com, Goldman Small Cap Research								

As we expected last week, the NASDAQ Composite, and its key components took it on the chin. Of course, an unsettling quarterly report from **Apple (NASDAQ—AAPL)**, and the usual nonsense from Twitter were major contributors. It would have been even worse had **Facebook (NASDAQ—FB)** and **Amazon (NASDAQ—AMZN)** not risen to the occasion. For me, it is obvious that these two are the undisputed tech/internet leaders, with models that throw off a lot of money and somehow still have high ceilings, unlike Apple. Even **Alphabet (NASDAQ—GOOG)** seems like it somehow may have fallen behind by a step.

Truth be told, all of the major indices were smacked last week and after the carnage, the Russell 2000 Index appears to have ended April with the best performance of the key indices, up 1.5%, while NASDAQ was down.

Enough of April. What about May and beyond?

Most of the big and half of the mid cap companies have reported quarterly results with many to essentially finish up this week. Small caps, on the other hand, tend to not complete the process until the middle of the month. Therefore, stocks will still be driven by earnings, for a spell. However, with more concerns over growth (note the weak GDP growth), little revenue increases, and yet a seemingly more favorable job market, economic concerns may be the biggest drag on large equity performance, in the near term.

The Stock Market Tomorrow

It is interesting when you have situations like this. Anemic growth in the U.S., slightly better growth in Europe, and some inflation fears prompting a rise in gold. Still, what we see in May is in large part a repeat of April.

For some time now, the market has tried to reach or surpass the all-time high of 18,312 on the DJIA, achieved (not coincidentally) on May 19, 2015. Unfortunately, we see headwinds ahead this month, although not heavy selling pressure. Instead, like the horses in the upcoming Kentucky Derby and Preakness Stakes, we see stocks stalled, with no near term, real catalyst to drive them materially higher, if at all.

The recent attitude and approach toward big cap NASDAQ stocks has also put this group in a precarious state, which also plays a role in the big cap indices' direction. The current RSI (Relative Strength Index) for the DJIA and the S&P 500 Index are 51 and 50, respectively. The NASDAQ Composite, on the other hand, has a RSI of 39.4, and is the only one of the major indices to trade below its 200 DMA. A RSI over 70 is considered overbought and under 30 is thought to be oversold, and are used to measure momentum of its trading. The first two indices are kind of in no man's land, but the NASDAQ RSI has been trending downward and might need to dip below 30 before rising again. If that happens, the RSI on the other indices will likely drop too. None of this means you should avoid big stocks. This exercise merely suggests that you should reduce expectations and anticipate a rise in the VIX.

And small caps?

They are outperforming the big caps and are now 13% below their all-time high. But, the jump from its February 2016 low has been huge and we expect that it too could start to stall later this month. The RSI on the Russell 2000 Index is 55, which is pretty solid, even though it is also trending down. We are still fans of health care, tech, and financials, but are more fans of our "process." Our big winners in these segments have been stocks trading at reasonable valuations that consistently beat forecasts and also have solid RSI's.

Looking ahead, our concern is for big drops occurring in June than in May, in the absence of good economic and earnings news. Good financial numbers, such as May auto sales (released June 1st) could make consumer stocks attractive again and catalyze stocks. Seek out consumer stocks which are basing right now. They are sleepers.

Say What?

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

The Reformed Broker

http://thereformedbroker.com/2016/04/28/the-new-religion/

A very cool and interesting take on Facebook (NASDAQ—FB), the new religion.

The Daily Telegraph

http://www.telegraph.co.uk/technology/2016/04/30/the-iphone-was-the-product-of-the-century-but-what-now-for-apple/

One hell of a question. Is the best of Apple in the rear view mirror?

The New York Post

http://nypost.com/2016/04/30/craigslist-is-now-the-place-to-sell-an-entire-business/

A story a bit late to the party, but still a sign of things to come.

Marketwatch

http://www.marketwatch.com/story/if-the-economy-springs-back-jobs-and-auto-sales-will-lead-the-way-2016-05-01

Key info to keep in the back of your mind.

Bloomberg/ZeroHedge

http://www.bloomberg.com/news/articles/2016-04-29/unmasking-the-men-behind-zero-hedge-wall-street-s-renegade-blog

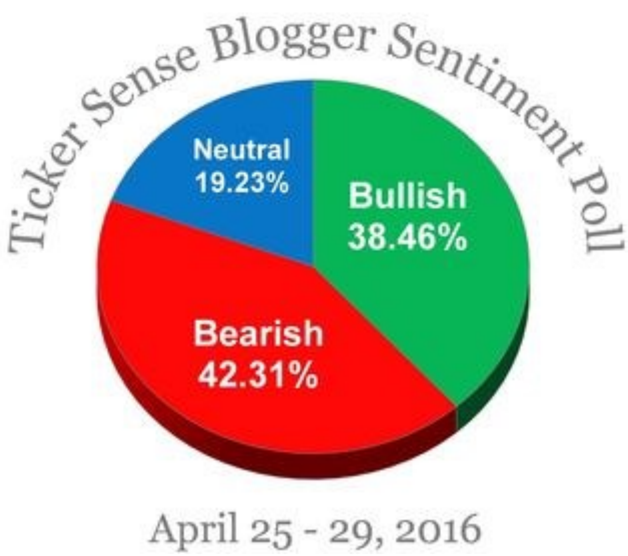
An expose on Zero Hedge, but found on Bloomberg. FYI, Zero Hedge is am important site, just for its controversy alone.

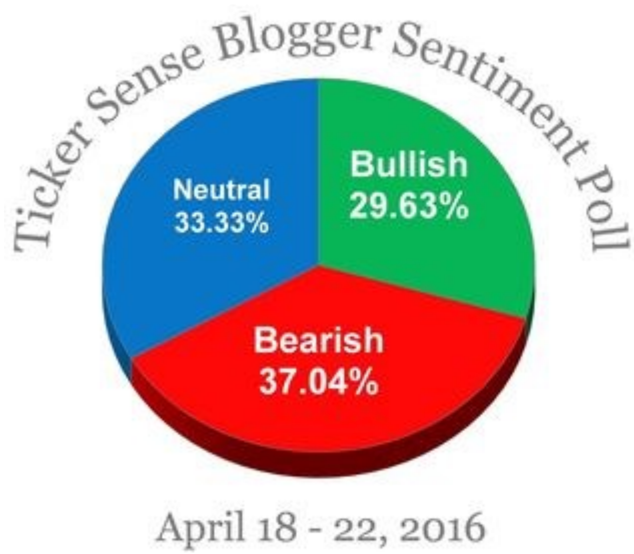
Notable Numbers

AAII Sentiment Survey (figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	27%	33%	*39%*
Neutral	44%	43%	*31%*
Bearish	29%	24%	*30%*

Can you say conflicts? If you can, then you know that these types of conflicts are some of the components of the "stalled" market we referred to earlier. The Intelligence Bull/Bear ratio, as noted by Yardeni Research is essentially unchanged since last week. Yet, the ratio in the AAII survey is basically 1:1 with nearly half Neutral. I suspect net week Neutrals will decline while Bears rise. Conversely, the Ticker Sense poll saw a collapse in Neutral and increases in the other two with Bears just eking out Bulls. Two weeks ago, the Lipper Fund Flows report noted that excluding ETFs, equity funds had inflows of $5.6B. This week, outflows of $4.5B but positive inflows when including ETFs for the first time in several weeks. Weird.





Pick of the Week

I am not going to sugarcoat it, folks. It took me a while to find this week's pick of the week. The good thing is that is checks all the boxes in our process.

Lionbridge Technologies (NASDAQ—LIOX—$4.99—NR) is slated to release its 1Q16 financial results on Thursday, May 5th, and given that they have beaten EPS forecasts 3 of the past 4 quarters, we are confident that we could have an earnings beater here.

The Company provides translation, online marketing, global content management and application testing solutions, and local relevancy to more than 800 world-leading brands enabling them to increase international market share, speed adoption of products and effectively engage their customers in local markets worldwide.

For 1Q16, Wall Street consensus calls for EPS of $0.12 versus $0.05 in 1Q15, on a modest increase in revenue. For the full-year, the consensus assumes huge EPS growth to the $0.63 level, up from $0.23 last year, with a decent rise to $0.72 in 2017. From a technical perspective, the shares have been basing in its current range for some time now, and it trades a hair above its 20 and 50DMA, respectively, and just a tad below its 200DMA. The stock also carries a 53 RSI and is exactly at the midpoint of its 52 week range.

LIOX appears to have a little resistance up to the next 10% move higher but if the Q1 report is strong, we believe the stock could trade to the $6 level quickly, which is just below its 52-week of high of $6.46. Our target price is $7, which represents a very reasonable 11x P/E multiple on the 2016 EPS projection.

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