

INSIDE THIS ISSUE:

Stock Market Today

Say What?

Notable Numbers

KEY TAKEAWAYS

- ⇒ The stock market feels sick but no one is taking its temperature
- ⇒ Lots of volatility ahead
- ⇒ Management teams willing to take big discounts to stock prices in order to raise money—a bad sign
- ⇒ Equity outflows on the rise, some sentiment indicators on the rise
- ⇒ Apple woes could keep major indices in check
- ⇒ Best strategy is to invest in non-market correlated small stocks

THE MAJOR INDICES

Index	Close	2016
DJIA	17,865	2.3%
S&P 500	2096	2.6%
NASDAQ	4895	-2.2%
Russell 2000	1164	2.5%

(figures are rounded)

4 SIGNS OF INVESTING TROUBLE

For the most part, we haven't had much volatility in stocks recently. Of course, some major tech stocks have taken it on the chin. Still, Friday's activity and this week's



outlook means there could be a lot of unhappier investors. Here's why and how to avoid mistakes in volatile markets.

What's Happening Right Now

Fact: Reconstitution can give you an upset stomach.

Explanation: This is the week we learn which stocks will be deleted and added from the Russell indices. Expect 10-15% of all stocks to shift all over the place. The final tally takes effect on June 24th.

Fact: Just because the S&P 500 is near a record...

Explanation: ...does not mean it will reach it, at least today.

Fact: TGInF.

Explanation: Unlike the month of May, Fridays in June have been down days, for varying reasons. I fear this speaks more to a lack of conviction and knee-jerk reactions than anything else. So, don't buy on Thursdays, but. For that matter, use Mondays as a day to establish a position.

Fact: Not all public offerings are equal.

Explanation: Companies are so anxious to close deals this month that there are giving up big discounts. Does not bode well for stocks.

The Stock Market Today

U.S. Stock Market Index Performance 6/10/2016								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	17,865	18,189	15,370	6/23/15	8/24/15	1.8%	16.2%	4.1%
S&P 500	2,096	2,133	1,810	7/20/15	2/11/16	1.7%	15.8%	4.0%
NASDAQ	4,895	5,232	4,210	7/20/15	2/11/16	6.4%	16.3%	1.7%
Russell 2000	1,164	1,296	943	6/23/15	2/11/16	10.2%	23.4%	4.4%
Average						5.0%	17.9%	3.5%
Sources: www.BarChart.com, Goldman Small Cap Research								

So what does one do in a market like this? Do the big secondary offering pricing discounts mean that management teams are afraid that if they don't strike now the valuations and discounts will be much lower later? Could the reconstitutions actually trigger a major shift in sector investing? Is the irrational selling pressure and weak fundamental environment a precursor of poor trading ahead?

All of the above may not be true. Yet, these are disturbing thoughts nonetheless. The S&P 500 Index is just below an all-time high yet **Apple (NASDAQ—AAPL)** is really weak. In fact, considering how much it accounts for the index performance, it is hard to imagine a sustained move without its support.

According to Factset, for 2Q16, the IT segment is projected to endure a (7.3%) decline in earnings. However, when you take Apple, which is having a lot of difficulty selling iPhones these days out of the equation, the drop is only (2.1%). Against this backdrop, it is easy to see why some investors are betting against the NASDAQ 100 and the NASDAQ Composite. But we see it also affecting the S&P 500.

So back to our question...what do you do? You buy stocks completely uncorrelated with these indices. That means small caps and microcaps, including "microscopic-caps" that don't even register on an index. While these have greater liquidity risk, drops in the market or major indices should leave these equities largely unaffected.

Say What?



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

The Wall Street Journal

<http://www.wsj.com/video/negative-interest-rates-how-do-they-work/786217AB-61E9-454A-AC38-C3B6A18987A7.html>

Nice overview/primer.

Marketwatch

<http://www.marketwatch.com/story/starbucks-has-more-customer-money-on-cards-than-many-banks-have-in-deposits-2016-06-09>

Wow. That is just crazy.

Bloomberg

<http://www.bloomberg.com/features/2016-global-tech-inventors/#/>

It's like a bird's eye view of The Jetsons

247 Wall Street

<http://247wallst.com/economy/2016/06/11/8-reasons-the-brazil-olympics-should-be-cancelled/>

Could not agree more...

ZeroHedge

<http://www.zerohedge.com/news/2016-06-11/its-time-blame-obamacare-losing-so-many-full-time-jobs>

We aren't surprised and there is a lot to learn here.

Notable Numbers

AII Sentiment Survey (figures rounded)

	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	28%	30%	39%
Neutral	44%	41%	31%
Bearish	28%	29%	30%



Not much change in sentiment, here but the Investors Intelligence Bulls/Bears ratio has got me really nervous. The ratio has risen from 1.48 on May 24th to 1.99 on June 9th. While the bears have stayed the same (around 24%), the Neutral segment has jumped from 35% to 47% in just 2 weeks. The combination of these shifts and the big equity fund outflows (excluding ETFs) in recent weeks tells me that the part may be over, for a spell. The Lipper Fund Survey notes that these outflows have totaled more than \$15B the past couple of weeks. That compares with \$11B plus that took 3 weeks. Crap.



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The Goldman Guide

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