Goldman SMALL CAP RESEARCH

The Goldman Guide

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

⇒ *Is the market tired? What will it take for the stock market to overcome this malaise? And how can we avoid another shoe dropping?*

⇒ *Earnings season is in earnest with many financials reporting. See which 2 stocks reporting on Monday could be the harbinger for stock market direction.*

⇒ *Use this trick as a measure of potentially positive earnings performance for stocks.*

⇒ *The tide is wavering and turning negative for stock sentiment but equity outflows have slowed*

THE MAJOR INDICES

Index	Close	2016
DJIA	18,139	4.1%
S&P 500	2133	4.4%
NASDAQ	5214	4.1%
Russell 2000	1212	6.7%

(figures are rounded)

The Definition of Tired

Are we in danger of being tired? Are there consequences for being tired?

As a collective, we are so tired of this election cycle, scandals, WikiLeaks, accusations, etc. The Kardashian Klan picked a good time to run silent the past week or so, lest their big *brains* get lost in the shuffle.

There are those who profess that the bull market is tired and is doomed to endure a big drop. We believe that the market players are tired. They are tired of poor earnings comparisons, an obtuse monetary policy, mixed economy, among others. The end of the election cycle and return to positive earnings comparisons will have a strong impact on stocks, in our view.

Where we run the risk of a downturn is not just valuation or slowing growth but complacency and, well, being tired. Without catalysts to capture attention, investors become ho-hum and then seek other opportunities. Look at the NFL ratings. Once the cat's meow, they are on the way to cat litter as the quality of the game has suffered while trying to be attractive. CEOs fall into the same trap. Be wary of these changes ahead. Remember: You can put lipstick on a pig but it is still a pig.

The Stock Market Today

U.S. Stock Market Index Performance
10/14/2016

Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	18,139	18,668	15,451	8/15/16	1/20/16	2.8%	17.4%	2.8%
S&P 500	2,133	2,192	1,810	8/15/16	2/11/16	2.7%	17.8%	3.1%
NASDAQ	5,214	5,343	4,210	9/22/16	2/11/16	2.4%	23.8%	6.4%
Russell 2000	1,212	1,263	943	9/22/16	2/11/16	4.0%	28.5%	6.4%
Average						3.0%	21.9%	4.7%

Sources: www.BarChart.com, Goldman Small Cap Research

Random Thoughts

This is the "real" start of 3Q16 earnings season. As usual, financials will lead the charge in terms of timing and in sheer number. On Monday, **Bank of America (NYSE—BAC)** reports, along with **Netflix (NASDAQ—NFLX)**. BAC is proxy for the whole banking sector, especially in light of the **Wells Fargo (NYSE –WFC)** debacle. NFLX, however, could either drive or harm NASDAQ stocks on Tuesday, depending upon reported performance. Anything over $0.06 should be a good sign.

Looking for a hint of earnings performance before the earnings release? It is not common, but if an analyst issues new Buy coverage on a stock a week or so before the upcoming earnings report, chances are he/she may have some insight, or at the least feel comfortable with forecasts. This is not to say that company management is providing any information. On the contrary, it is more likely that channel checks and other methods have played a role.

Say What?

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

The New York Post

http://nypost.com/2016/10/16/the-fed-needs-to-encourage-savers-to-spend-their-money/

This would boost the economy but at what long term price?

Marketwatch

http://www.marketwatch.com/story/the-stock-market-is-setting-itself-up-for-a-possibly-monster-year-end-rally-2016-10-14

What we have been saying, but better.

USA Today

http://www.usatoday.com/story/life/tv/2016/10/16/rocky-horror-time-warps-new-generation/91843312/

Can't be more bizarre than the current election season.

Bloomberg

http://www.bloomberg.com/news/articles/2016-10-16/humiliated-stock-picker-who-sold-his-firm-for-31-is-back-on-top

What a story!

ZeroHedge:

http://www.zerohedge.com/news/2016-10-16/wars-and-rumors-wars-abound

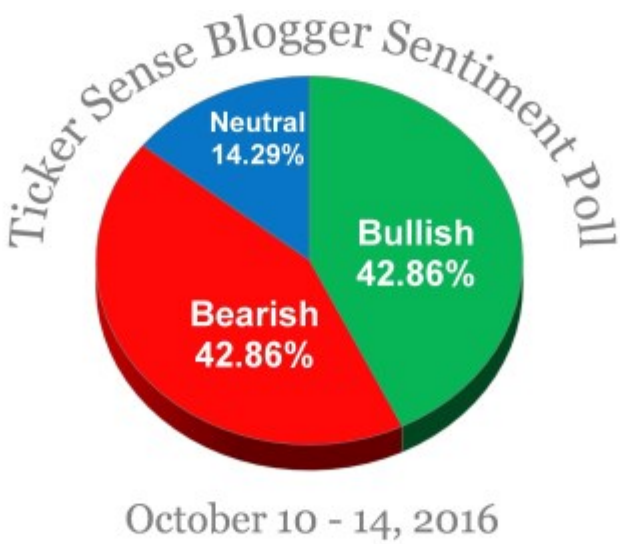
Much ado about nothing or is it everything?

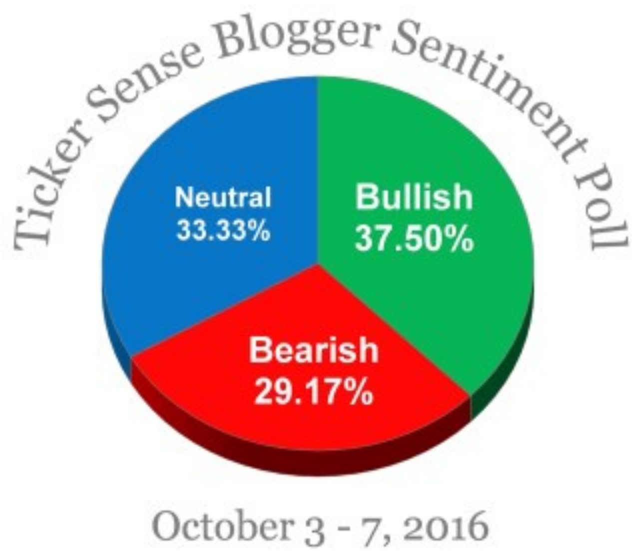
Notable Numbers

AAII Sentiment Survey (figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	26%	29%	*39%*
Neutral	41%	44%	*31%*
Bearish	38%	28%	*30%*

The AAII survey results are still way off their long term averages, but moving to the right directions in order to assure a mid-late Q4 rally, in our view. The Ticker Sense Poll is hilarious. Both the Bullish and Bearish camp make up exactly 42.86%! That makes the Neutral (or undecided) portion rather small. Investors are getting nervous again, as evidenced by a poor week for stocks. Interestingly, we believe that the money is sitting on the sidelines rather than being put to use elsewhere. For example, according to Lipper Fund Flows, the total equity fund outflows of the past 4 weeks are just a tad above the big outflow experienced in 1 week, five weeks ago. Thus, outflows may be slowing somewhat.





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