Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 4 | ISSUE 26 | NOVEMBER 3, 2013

INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *Sell big winners before big investors take profits*
- ⇒ *Sell big losers and consider buying back in*
- ⇒ *Trades must be executed in next few weeks to stay ahead of the pack*
- ⇒ *Low gas prices will help consumer spending*
- ⇒ *Investors largely bullish, even if a little cautious*
- ⇒ *China stocks are on the move again*

KEY STATISTICS

Index	Close	2013
DJIA	15616	19.5%
S&P 500	1762	23.5%
NASDAQ	3922	29.9%
Russell 2K	1096	29.1%

(figures are rounded)

Quick, Before It's Too Late!

I was reminded recently of a conversation with a well known mutual fund manager with a bad attitude. He was bitching to me that I too often tend to be too early in my stock calls and he has sat on dead money before it made a big move higher. This malcontent ended the conversation by thanking me for being early in recommending stock sales which saved him a fortune and more than made up for the longer hold times for a stock that ended up nearly doubling inside of a year.

With that story in mind, I am going to try and save you a ton of money right now. Have big winners or big losers? Get your calendar out right now and circle Thanksgiving week. That is the week you are going to sell big winners or losers in your portfolio. This move is especially important for those stocks that have large institutional positions. Here's why.

First, the big movers of one year rarely carry over into the next year. If they do, the rise is not as great and there is a great deal of volatility associated with its trading activity. That is why institutions and sharp retail investors sell these stocks beginning, that last week of November through the second week of December. Isn't it better to prepare now and sell ahead of them?

The losers are in a similar situation. The institutions do not want the stocks listed in their holdings as of year-end as it my elicit a negative reaction in savvy investors. This does not mean you can't buy the stock next year or even at the end of this year (after 31 days.)

Selling ahead of others to lock in profits is a difficult thing to do but by preparing now, you can lock in gains or minimize further losses. As you may have surmised, with these sales behind them, what are these institutional and retail investors doing with the cash?

In some cases, these groups buy heavily sold off stocks that may have events or milestones up ahead in early 2014, or offer a favorable valuation due to potential changes of fortune. The stocks range from small cap plays to the Dogs of the Dow. With the early advent of the January Effect, small caps are likely the best play, but don't worry about that now. Circle the dates and stocks for the pending sales so you can be first for a change.

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Denial is Okay for Now

I hate to beat a dead horse but I will be point blank. The Affordable Care Act will be affordable only for people getting big subsidies. For 15 million Americans that purchase individual insurance such as myself, sometime in the next year, our health care costs could skyrocket, lowering GDP growth and consumer spending. Moreover, the 90 million Americans on employer sponsored plans may also see big increases in either premiums or deductibles as all kinds of unnecessary or unwanted services are allocated to all plans to comply with the health care law. Here is a link to a great piece penned by former Bear Stearns economist and CNBC contributor Larry Kudlow.

http://www.cnbc.com/id/15838446

Meanwhile, those chickens are unlikely to come home to roost for a while. With that in mind, we have come up with 3 reasons why stocks will move higher. We refer to these notions as The Three Pumps.

The Pump Continues

There appears to be no end in sight to the monetary and fiscal policy by the United States Federal Reserve. Close market watchers have not forgotten how stocks were whipsawed multiple times from June – August on tapering fears that could harm the liquidity the Fed has maintained in the market place, along with its debt buying. While this strategy is not sustainable in perpetuity, it can mask the other economic problems and perhaps even keep some of them at bay while we wait for an upturn in corporate profitability to pick up a little slack.

The Other Pump is in Decline

Have you noticed that prices at the gas pump have dropped in recent weeks? Just in time for the holiday season, we may see another 5-10% drop, which could have a real, tangible impact on consumer spending. A recent Bloomberg article noted that "…according to data from AAA, the country's largest auto group. Since the end of August, fuel prices have tumbled 31 cents per gallon."

One reason why gas prices have declined is related to high crude-oil supplies whose number we confess may be a bit misleading. After all, with high unemployment and so many working from home in some sort of part-time capacity, along with a migration back to the cities from the suburbs, we just aren't consuming as much gasoline as in years past. Nonetheless, a sustained decrease in gas prices is a good thing for consumers and therefore good for stocks. (cont'd)

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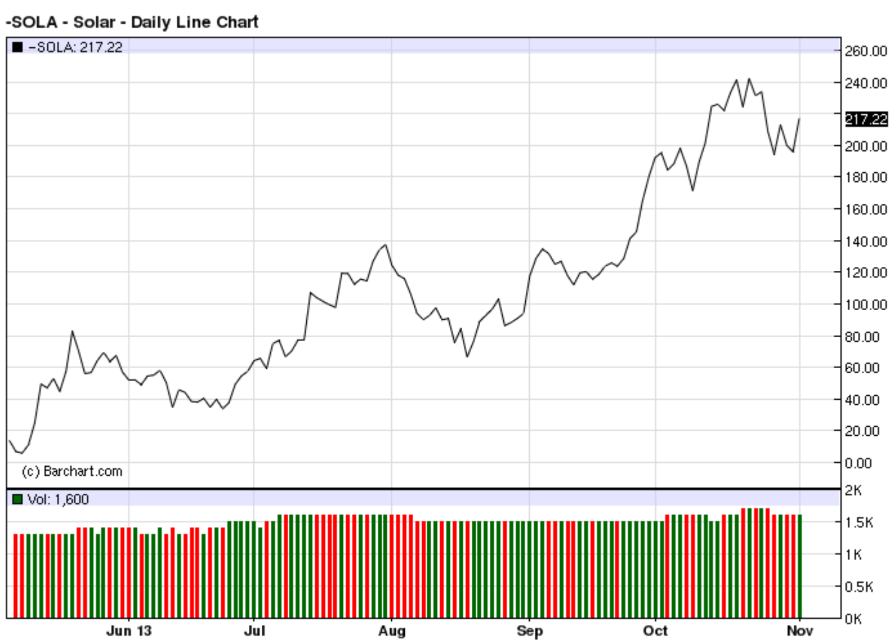
The Three Pumps (cont'd)

Investors Are Pumped and Confident

The latest American Association of Individual Investors Weekly Sentiment Survey shows that while the percentage of those polled that are bullish on stocks declined from a week earlier, the current level is still more than twice that of the bearish group. As of October 31, 45% AAII members polled were bullish while 21.5% were bearish. A week earlier, the bullish figure was actually 49.2%, but we view that as an aberration as it clearly reflected a relief over the end of the government shutdown. We should note that the long term averages of this survey include 39% bullish and 30.5% bearish on the market for the next 6 months, so the current trend is certainly on the bullish side. This lagging indicator tends to be a valuable measure as it generates what we view as the current pulse of the retail investor and the consumer. Moreover, history has demonstrated its value as a contrarian indicator in extreme situations such as very high or very low sentiment figures, so market watchers should monitor this figure closely and react accordingly.

By the way...solar stocks are on fire, along with other stocks with exposure to China, such as ForceField Energy (NASDAQ - FNRG)..

Until next week….



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