



The Goldman Guide

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INSIDE THIS ISSUE:

Top Predictions for Next Year

KEY TAKEAWAYS

- ⇒ *The current Santa Claus rally and January Effect should drive small caps higher in the near term*
- ⇒ *This is a short term annual phenomenon*
- ⇒ *Technology, industrials, story stocks, and big 2013 losers are good candidates*
- ⇒ *Bitcoins are more than just a short term craze and should be considered for investment*
- ⇒ *A pure play NASDAQ listed stock on Bitcoins is getting tremendous attention and offers huge upside*

KEY STATISTICS

Index	Close	2013
DJIA	16478	25.7%
S&P 500	1841	29.1%
NASDAQ	4157	37.6%
Russell 2000	1161	36.7%

(figures are rounded)

WELCOME TO THE JANUARY EFFECT

We talk a lot about seasonality because most investors' gains occur during big but short runs in the market, and oftentimes, these big runs occur from the last week of December through January of the upcoming year. This year it is a little different than most because of the big moves already recorded in the Russell 200 Index (over 36% year to date) and its surprisingly strong upward momentum in recent days. Some market watchers view this recent performance as a sign that a seasonal trend/rally called *the January Effect* may have already begun. However, we believe it is representative of a narrow rally rather than the commencement of the *January Effect* since it has not been a scenario where a rising tide lifts all boats. Instead, we believe that we have experienced a small Santa Claus rally that will morph into a sustained and broad movement.

There are multiple definitions associated with the *January Effect* and its related Santa Claus rally moniker. In a nutshell, the *January Effect* is an historical Wall Street moniker for the belief that small cap stocks outperform large caps from January through June, with the trigger based upon catalysts mentioned above. In fact, this event has occurred for 28 of the past 34 years, which is an 82% accuracy rate!

I have known some money managers and big-time traders that bought stocks in beginning in mid-late December during what is called the Santa Claus Rally, rode gains into the first half of the first quarter, sat on cash for a few months, and then started on the bike all over again with real success.

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Welcome to The January Effect (cont'd)

The drivers of this phenomenon are easily understood. Now that we are in the last week or so of December, virtually all of the institutional window dressing and selling have long since passed. Plus, all selling for tax purposes or the selling of small cap losers by individuals is ancient history. As a result, many small cap stocks are temporarily low prompting portfolio managers and individual investors alike to begin buying stocks with an objective of a 2-6 month holding period, based upon the risk/reward associated with current prospects and valuation of these stocks.

This year, the selling is behind us as usual, but the buying and associated higher volume gains have not really occurred yet as investors remain concerned about the Obamacare impact on household budgets. Still, with a few trading days left in the year, great news on the GDP growth front, a modest tapering of the Treasury's bond buying program, investors and traders should start making their list and checking it twice.

In the meantime, as you begin to build your list of potential buys, be sure to fill it with the big losers of 2013 that appear to be primed for a turnaround sometime next year and recent momentum plays of stocks that have just hit new 52-week highs. Pay particularly close attention to technology stocks and industrials.

How to Play The Bitcoin Craze

As of this writing, the latest Bitcoin quote was \$815.00. Key milestones are occurring all the time with this nascent online digital currency that has to be taken seriously by investors. After all, the rise in Bitcoin acceptance and use despite its volatility and use by unsavory types is in a major growth mode. Even small Mom and Pop organizations are now accepting the currency. And, we have seen the negative effect it has had on gold and traditional currency values and trading. Folks, this thing has legs and it is not a bad idea to have at least some exposure to it. Beyond buying Bitcoins themselves, we highlighted a way to play it on Friday and feel so strongly about it that we are mentioning it again in these pages.

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How to Play The Bitcoin Craze *(cont'd)*

An upstart company known as WPCS International Inc. (NASDAQ - \$2.53 – Not Rated) released a key announcement regarding its Bitcoin venture after the close Thursday and it traded like a monster on Friday. The stock opened at \$2.90, reached a high of \$3.40 and volume was a remarkable 33 million shares. It should be noted that the shares outstanding is around 5.7 million. The stock traded as low as \$2.11 in the aftermarket and despite the certain volatility in the stock, we think it is worth a small flyer, or at least a follow.

Here is a copy of the release that prompted the madness: <http://finance.yahoo.com/news/wpcs-announces-public-beta-release-210500070.html>

In a nutshell, individuals can buy Bitcoins from one of several exchanges. However, this WPCS public beta platform is the first trading platform to enable Bitcoin traders and industry researchers to access market data and execute orders on the five most popular Bitcoin exchanges in a single application. That is huge as the disparate information and trading details made execution and trading less than smooth.

This platform, known as BTX Trader, will enable limit orders on 5 key Bitcoin exchanges along with order management and market data monitoring.

We cannot profess to provide any real financial details or what could be generated revenue wise to WPCS via this platform. However, as the best publicly traded proxy for the space, and a unique and desirable tool, WPCS has proven that being opportunistic can be incredibly rewarding. Therefore, for investors able to stomach throwing caution to the wind, WPCS offers huge upside as a story stock and Bitcoin play that could see big gains in the coming days.

These stocks tend to have a run of no longer than 5 days or so. As a result, be prudent, and enjoy!

Have a Happy and healthy New Year!



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