

**INSIDE THIS ISSUE:**

Summertime Stocks  
Real Investment Themes

**KEY TAKEAWAYS**

- ⇒ GDP growth is weak.
- ⇒ No one is fooled by declining unemployment rates anymore. The real number is workforce participation rate.
- ⇒ A tale of 2 markets means big NASDAQ names are to be avoided but micro caps should be accumulated.
- ⇒ Blue chips may be the best performers for the interim.
- ⇒ The market can't seem to rise without help from housing.
- ⇒ We may not see a sustained rally until after midterm elec-

**KEY STATISTICS**

Index	Close	2014
DJIA	16583	0.1%
S&P 500	1878	1.6%
NASDAQ	4072	-2.5%
Russell 2000	1107	-0.5%

(figures are rounded)

**SUMMERTIME STOCKS**

**W**ith the Russell 2000 Index in correction territory and earnings season for the first quarter coming to a close, we elected to review recent summer stock performances along with associated investment themes. Clearly we are early to this game but it will enable you to stay one step ahead of the crowd.

Sentiment is Largely Neutral

The intraday volatility of major indices such as the NASDAQ Composite and the Russell 2000 has left a lot of people shell-shocked at worst and gun-shy at best. There is little conviction in buying and anyone selling is doing so just to de-risk their portfolios. As a result, many investors that were somewhat neutral are now bearish and modestly bullish investors are now neutral. The most recent American Association of Individual Investors weekly investor sentiment survey illustrates this notion. Nearly 45% of all respondents refer to themselves as neutral. The average percentage is typically 30%.

Technicians Are Frightened

For all of the fancy parabolics and stochastics, the 200-day moving average indicator is still the one barometer that all technicians believe carries the most weight. With the Russell 2000 Index trading below its 200-day moving average for the first time in many quarters, small cap growth investors are spooked. Many small investors have become so programmed to follow the charts they are dropping out of stocks all together until the market turns positive again. That is a big mistake as they are missing out on real opportunities in small cap value where companies are making money.

## With Earnings Season Over, Now What?

Earnings season for 1Q14 is coming to a close this coming week, and the chance to take advantage of some 'good news pops' maybe closing in what is becoming a sideways to bearish market. The question is what will the summer, and the rest of the year bring for investors and traders?

It is becoming apparent that many believe that it may take a couple of months before sentiment about the second quarter provides enough interest in stocks to drive the market higher. Therefore, for those still actively engaged, a lot of homework regarding valuation and growth drivers will have to be performed in order to find the right stocks to buy. After all, there will not be any real news to help change the momentum.

The figure below illustrates the annual, 'summer', and end of the year gains/losses for respective market indicators since the start of this bull run in 2009. As with any of these types of charts, past history does not indicate future results.

**Annual and Seasonal Market Gains/Losses 2009-2013**

Market Benchmark	2009	2010	2011	2012	2013
<b>Dow Jones</b>					
Annual Gain/Loss(%)	18.8%	11.0%	5.5%	7.3%	26.5%
Summer* Gain/Loss (%)	9.5%	-0.1%	-7.6%	5.6%	-2.0%
End of the Year** Gain/Loss(%)	12.0%	15.6%	5.2%	0.1%	11.9%
<b>S&amp;P 500</b>					
Annual Gain/Loss(%)	23.5%	12.8%	0.0%	13.4%	29.6%
Summer* Gain/Loss (%)	11.0%	-3.7%	-9.4%	7.4%	0.1%
End of the Year** Gain/Loss(%)	9.3%	19.9%	3.2%	1.4%	13.2%
<b>Russell 2000</b>					
Annual Gain/Loss(%)	27.3%	25.3%	-5.8%	14.4%	36.9%
Summer* Gain/Loss (%)	14.4%	-9.2%	-14.5%	6.7%	2.7%
End of the Year** Gain/Loss(%)	9.1%	29.9%	1.5%	3.8%	14.9%

\* June 1 - August 31

\*\* September 1 - December 31

## ***Think About Buying***

### Don't Go Bunker, Start Buying

The reality is that with so many investors neutral to bearish there may not be more than a 10-15% downside in many individual stocks. Therefore, the real money may be made by dipping your toes back in the water. Even though housing stocks and others in related sectors have not performed well, an interesting market phenomenon could portend a positive turn in stocks. As of Friday morning, the top 5 big gainers were all industrial, economically-sensitive plays. Since these stocks often lead us out of corrective phases, it is a good idea to explore riding this wave to new levels as a precursor to a more favorable market environment.

Plus, as valuations in the small cap space continue to decline, larger, cash-rich competitors may seek to acquire some of these stocks, creating a new base from which stocks in attractive segments could rise. Since we have not yet seen the real capitulation selling on big volume, sitting on the sidelines is not such a bad idea. However, when volumes jump in conjunction with market declines, the accumulation phase will begin.

Have a great week!



# The Goldman Guide

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