

INSIDE THIS ISSUE:

June is a Critical Month

KEY TAKEAWAYS

- ⇒ *There are easy ways to make money investing as long as you don't think too hard*
- ⇒ *The KISS method works*
- ⇒ *BofA predicts a big correction in the Fall after a rise this Summer. We have stats that show the exact opposite.*
- ⇒ *June is a critical month for stocks. Tech stocks leap higher, but only for a spell.*
- ⇒ *Institutions change their portfolio composition and make their biggest changes in June when Russell announces its indices reconstitutions during the course of the month.*

KEY STATISTICS

<u>Index</u>	<u>Close</u>	<u>2014</u>
DJIA	16717	0.8%
S&P 500	1924	4.1%
NASDAQ	4243	1.6%
Russell 2000	1135	-2.5%

(figures are rounded)

SECRETS OF STOCK MARKET SUCCESS

I am probably going to get in a lot of trouble for this week's topics from fans and haters alike. But, there are times when certain events get my blood pressure rising which prompt me to throw in the proverbial towel and speak my mind. This is one of those times.

I am here to tell you that everything you have been taught, read, or heard about successful investing is B.S. Not only is it easier to make money than you have been told but you might as well trash all of the information regarding ratios, metrics, Bollinger bands, and stochastics, too

The world of investing is dominated by extremely smart individuals. And most of them are a-holes, by the way. Many have serious self-esteem issues yet feign egos that can't fit into an open-air stadium. They spend all of this time showing how smart they are by stressing all of these outrageous financial metrics and drown you in data in order to demonstrate that they have the keys to the kingdom. Baloney.

If you have real discipline, you can succeed, without fancy and complex strategies that only make you outthink yourself and cause you to lose your investment dollars. For these pages, I am exclusively referring to listed equities. And, here is all you need to know.

Buy stocks and sectors at the right time from the seasonality perspective and avoid them or sell when seasonality is in question. The Halloween Indicator is a great example of this. And, buy when others sell. We had great examples of this with the Dead Cat Bounce last week in the *Guide* and the *Market Monitor*. Finally, buy when a big theme is driving speculation and volume in the broader market such as the cannabis space or Internet stocks. Otherwise, stay on the sidelines. It is as simple as that. And don't listen to BofA.

Secrets... (cont'd)

Last month's equities performance may make you think twice about these seasonality sayings since the Sell in May and Go Away adage did not come to fruition. (Of course, it is early.)

Market Benchmark	April 30th Close	May 30th Close	Gain/Loss (%)
<i>Dow Jones</i>	16558.87	16717.17	0.96%
<i>S&P 500</i>	1883.68	1923.57	2.12%
<i>Russell 2000</i>	1125.97	1134.50	0.76%

What got me hot about all of this is the latest prognostication from Bank of America's people (formerly Merrill Lynch.) They predict a big rise in the market this summer followed by a catastrophic decline in the fall. I guess they see the opposite of the Halloween Indicator. I am of the opinion that the summer is the vulnerable period and that the Fall will prove to be a solid one for investors.

For starters, 2014 is a midterm election year. During all midterm election years since 1963, the market rose by an average of around 7.5% in the fourth quarter alone. Conversely, in the summer quarter, stocks dropped by an average of 3%. I do not know if the same returns in this order of magnitude will occur, but I think it is a strong bet and here is why.

It has been a difficult forecasting year for most companies due to the sluggish first quarter which led to a strong April. The economy contracted in Q1 and while sentiment is very strong for Q2 due in part to the poor Q1, any economic or company EPS disappointments could crush stocks. Given the murky tea leaves, estimates by management teams and analysts alike may not be right-sized until the end of June. It is likely that the stock market has priced in few changes in estimates at this time. Therefore, any material negative changes to financial projections are likely to have a negative effect on sentiment, valuation and direction which would not turn upward until Q4. Take that BofA.

A Lot Happens in June

Believe it or not, June is one of the stock market's most important months. Since 1950, the S&P 500 Index has generated a -.1% return each June. Interestingly, tech stocks tend to do well during June before taking a swoon in July and August, in conjunction with second quarter financial results. The current small cap rebound and fairly reasonable valuations could mean a better than average (June) monthly return for investors investing in tech stocks that exhibit GARP (Growth at a Reasonable Price) characteristics.

So, you short term traders out there could have a field day, at least for a few weeks. One note of caution, however. There are some GARP stocks out there that have high short positions and even some that have seen some of those positions pared in recent weeks. Even in a scenario of an upward trend in tech stocks, high short position stocks are to be avoided even if they appear to be reasonably priced and momentum stocks should be bought. In any event, be careful about holding any stocks for too long heading into July.

As noted above, June is a critical month for small caps and tech stocks for a few reasons. Institutional investors will start to shift their holdings around week 2 or 3 and could load up on names that are in favor, so that the window dressing stocks are promoted in their portfolios in July. If they have concerns about some stocks or industries in Q3, these investors could sell some those they believe are at risk. Moreover, they do not want to be saddled with names out of favor, which could create late-month opportunities for savvy investors where sellers temporarily outnumber buyers.

Since July 4th is on a Friday, it is likely that we won't see any negative impact until the week of the 7th so traders should be mindful of trends starting in late June.

Speaking of trends, June is the month that Russell reconstitutes its indices, meaning some stocks are swapped out when others are brought in. It can create big buying (and selling) in some small stocks, such as those in the Microcap Index on June 13, when preliminary changes go into effect because institutions benchmark against these indices and must make adjustments to their portfolios accordingly.

<http://www.russell.com/documents/indexes/reconstitution-schedule.pdf>

Stay on top of news to take advantage and have a great week!



The Goldman Guide

1498 Reisterstown Road, Suite 286 Baltimore Maryland 21208 Phone: 410.609.7100

info@goldmanresearch.com www.goldmanresearch.com

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