



# The Goldman Guide

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### KEY TAKEAWAYS

- ⇒ *This is a make or break week for stocks*
- ⇒ *Volume has been light and will continue which could be bullish for stocks*
- ⇒ *Very quietly the S&P 500 Index and the Russell 2000 Index are close to key daily moving averages*
- ⇒ *If reached, they could go on a short term run*
- ⇒ *Small cap stocks are becoming more attractive*
- ⇒ *TASR is getting a lot of play and could be attractive as a quick trade—but be careful*

### KEY STATISTICS

Index	Close	2014
DJIA	16663	-0.0%
S&P 500	1955	5.8%
NASDAQ	4465	6.9%
Russell 2000	1142	-1.9%

(figures are rounded)

## SIGNS ALIGN FOR MARKET BOUNCE?

As we approach the waning days of summer it is probably a good idea to address the status of the market with proper context and associated perspective. After all, we may get a nice bounce this week, building on last week's performance.

On the surface, last week's stock market performance, especially Friday's late day bounce was way cool and unabashedly impressive. We had a feeling it would be a good one given history during this time of year but to go from up big to down big to basically flat following the Ukraine incident clearly relaxed a lot of investors. As good as it was, with the S&P 500 Index rising 1.2% for the period, it could have been better.

Volume for the week was one of the lowest we have seen in some time and was down about 18% from the week before. In fact, a number of stocks (including our 3 picks from last week's *Guide*) peaked on Monday, despite the solid gains for the entire period. So despite index gains, too many stocks ended on a slightly sour note.

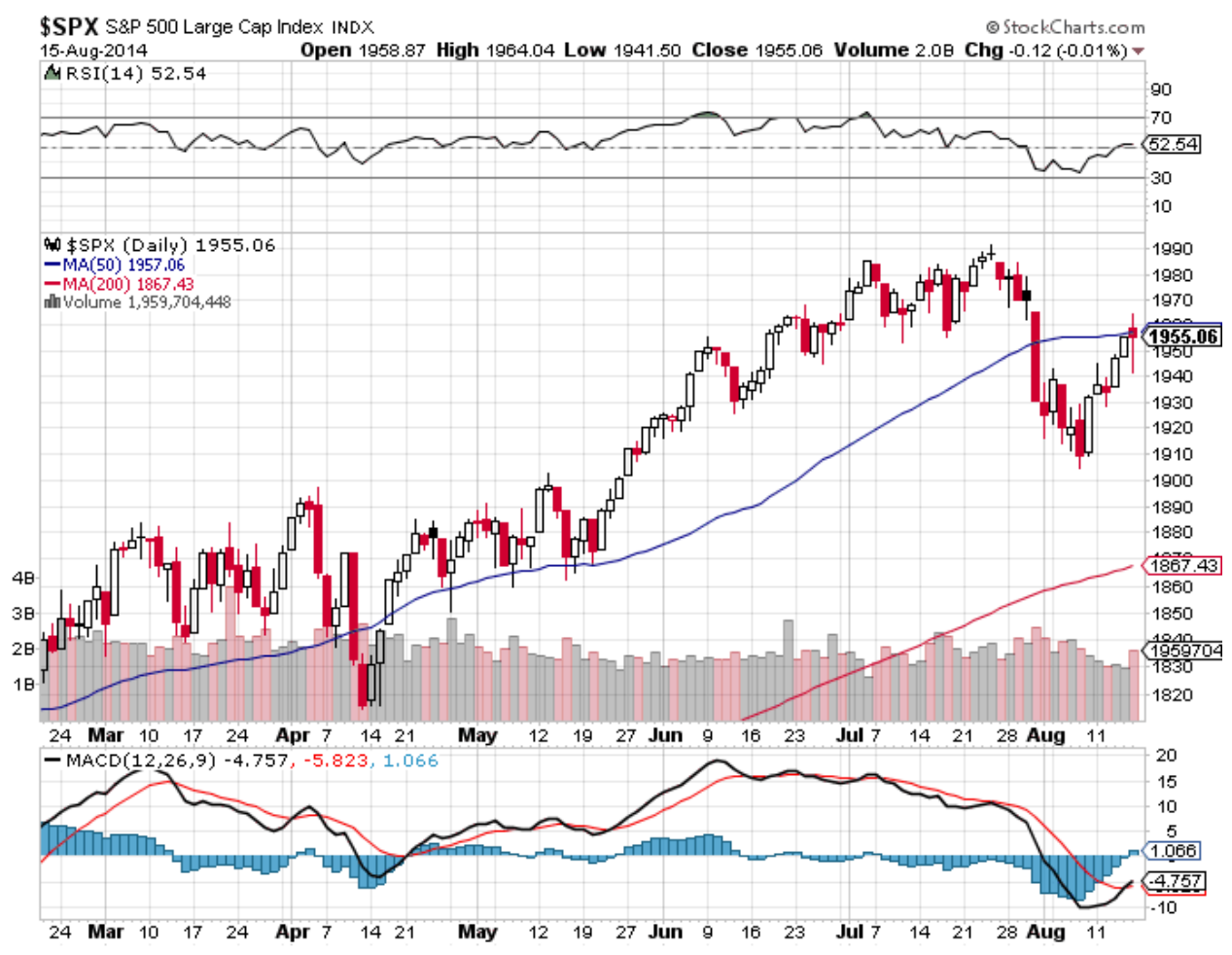
We have a real tug of war going on right now and the detractors have a couple of things going for them. Earnings season is essentially over, a lot of retail figures have been announced and it is prime vacation time, along with many parents engaged in preparations for the back to school season. That means low volume is likely ahead this week. Add in the skittishness regarding the political situations abroad (Ukraine and even civil unrest in nuclear-armed Pakistan now) along with the economic picture here and things aren't looking so good.

Still, if I had to place a wager, I would say that stocks will end the week on a winning streak. Here is why.

## It's All in the Numbers

As odd as it may seem, the lower the stock volume, the better the chance that stocks could creep higher this week, since big sellers are likely absent. Given the factors above, I expect weaker volume this week as compared to previous periods, which meshes nicely with our theory.

Lost in all of the big stock market swings are two important figures that could trigger short term buying: the S&P 500 Index and Russell 2000 Index DMAs (daily moving averages.) As illustrated below, the S&P is just two points away from breaking through its 50-day moving average. It broke through on Friday and was poised to move higher until the Ukraine outbreak. Just a little buying could drive it higher for the short term.



## It's All in the Numbers II

The same goes for the Russell 2000 Index with the 200-day moving average. It broke through only to fall on the geopolitical concerns. Here is the thing. Small caps have sucked wind for some time, seeking a catalyst. Right now the index trades at 18.7x next year's EPS. Its recent trough multiple (on August 4th) was 18.2x. If the index rises 4 points higher it breaks through the 200-day average, a bullish sign. Moreover, it will take just 14 points to break through the 50 DMA as well. This recent sell-off has been refreshing and good for small stocks as I have found more stocks to recommend after a review of 300 of the stocks in our universe than I have in months. I do not suspect that this rise will occur quickly and it may not be sustained, as we are negative on the market in general. But, it is very encouraging and could be used as a short term trading marker.



## ***This Stock May Shock You***

We wrote about **Taser International (NASDAQ—TASR—\$13.91)** in the Market Monitor and in The 30-30 Report last year. The stock had a big move on Friday on massive volume after management commented that law enforcement agencies may procure its body camera products in greater numbers due to the unrest following the Ferguson, Missouri shooting and subsequent rioting and civil unrest.

For the uninitiated, TASER first transformed law enforcement with its electrical weapons, the TASER. TASER continues to define smarter policing with its growing suite of technology solutions, including AXON body-worn video cameras and EVIDENCE.com, a secure digital evidence management platform. More than 128,750 lives and countless dollars have been saved with TASER's products and services. Sales are expected to be \$154M this year and \$176M next year with EPS jumping from \$0.33 to \$0.44 in 2015. If you are saying to yourself that the stock is not cheap, you are right.

It is a controversial company and stock and truth be told, this camera segment represents only 10-15% of sales currently. Still, it may get more play early this week and the stock does appear to be modestly attractive as a trade. It is above its \$12.53 200-day moving average and about two points below the 50 DMA. Much like with our thesis on the Russell, TASR, whose 52-week high is \$20.83, could move 15-20% higher where it would likely be fully valued in the near term, with just a little bit of continued buying.

I caution that if it breaks down below its 200 DMA, it could drop to \$10, so be careful.

Separately, for those of you keeping score from last week, **Cherokee Corp. (NASDAQ—CHKE)**, a great back to school play still looks like a beast. Check out the chart here: <http://stockcharts.com/h-sc/ui>.

Have a great week!



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