



The Goldman Guide

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Bad Technicals for Small Caps

The Ray Rice Effect

KEY TAKEAWAYS

- ⇒ *This week's big picture events could make or break the month's stock market performance*
- ⇒ *Watch for sector rotation as institutions re-structure portfolios*
- ⇒ *The Ray Rice Effect has changed the importance of video and how we approach problems*
- ⇒ *Recent events and the current sentiment on key issues could exacerbate any meaningful market drop*

KEY STATISTICS

Index	Close	2014
DJIA	16988	2.5%
S&P 500	1986	7.5%
NASDAQ	4568	9.4%
Russell 2000	1161	-0.2%

(figures are rounded)

SMALL CAPS SCREWED IN SEPTEMBER

Batten down the hatches.

Just this week alone, investors are at risk from a number of events. On Wednesday, the Fed policy meeting and the associated future QE comments, will either give investors comfort or completely freak them out, if indications are that the “easing party” is nearing its end. Separately, this is the start of portfolio reconfiguration week for institutional investors. That means the big dogs will begin to re-structure portfolios for Q4 and the early part of next year, creating seasonal volatility and exacerbating sector rotations.

The potential outcome of the Scottish independence vote, scheduled for Thursday, has already begun to prompt a run on banks in the U.K. British newspaper reports suggest that investors pulled \$27 billion (on a net outflow basis) from British banks in August, the highest level of withdrawals since the financial crisis a few years ago. Clearly, if the independence vote is ratified, problems could be magnified going forward which would serve to weigh on stocks on this side of the pond.

As strong as August was for small caps, the cold weather spell thus far in September must also be affecting these stocks. After all, the Russell 2000 Index is down over 1% as we reach the mid-point of the month. And, if history is any measure, the near term future does not bode well either, despite the more muted declines in the major indices which have benefitted from the “Apple Effect” (NASDAQ—AAPL).

If you are a chartist then you know that if the Russell 2000 starts off poorly, we are in store for some pain. As of Friday's close, the small cap index is a mere 6 points above its 50-DMA and 9 points above the 200-DMA. If we break below these, we can see declines similar to the early part of last

Small Stocks...(cont'd)



On the plus side, thus far this month, we have been fortunate that companies have not issued negative preannouncements regarding Q3 results. We are optimistic that this situation will hold serve which is a modest positive for stocks in Q4, once we get through the quagmires that lie directly ahead.

The Ray Rice Effect

Recent events culminating in the Ray Rice news last week have left indelible marks that that will change how we process and react to information, address major issues/problems and could also impact how we approach stock market investing.

For years, all I have heard from the tech world is that video will change how we communicate and use the Internet. With the exception of streaming video of TV shows, music, or movies, the most popular videos have tended to be short, funny clips, grainy inappropriate videos, and sports-related “OMG” videos. While entertaining, one would be hard pressed to prove that video has had an impact on all demographic segments of Internet users. (I know Snapchat is worth \$10B but that is targeting a narrow demographic segment rather than a broad one.)

Earlier this year, everyone was aware or at least heard about Ray Rice hitting his then-fiancé in an elevator and knocking her unconscious. We even saw part of a grainy video of the aftermath and could imagine in our own minds what it looked like when they argued. We were upset and disappointed. However, when video of the actual event was leaked, it sent shock waves throughout our society. It turned everything upside down. It was that impactful. We became angry and fierce with righteous indignation. Even former domestic violence offenders chimed in. If a picture is worth a thousand words, what is video worth?

For years, we heard about atrocities by terrorist organizations like al-Qaeda which famously beheaded Wall Street Journal reporter Daniel Pearl in 2002. In recent weeks, we have been treated to news of ISIS genocide in the Middle East and were sickened but not moved. When beheadings of Westerners, notably Americans, became released recently on video, our blood boiled—culminating in directed anger at the perpetrators and our own leadership.

Why did these videos have such a profound effect on our sense of being, humanity, and psyche? We live today in a country devoid of leadership that we trust—on all levels. Our confidence in leadership has been shaken and we are now angry and divided. These destructive characteristics represent a series of issues that could potentially play

Ray Rice... (cont'd)

With the exception of urban areas of the Northeast and West Coast, confidence in our Commander-in-Chief is weak, at best. Videos that emerged of him on the golf course after the airing of the first beheading clip disgusted even his greatest supporters. On this day, the 200th anniversary of The Battle of Baltimore, when the Star Spangled Banner was written, we are divided on nearly every issue facing this great country. On the home front, we are divided among racial lines more than ever. We are deeply divided on immigration and vilify leaders on both sides of the debate. We disagree on our approach to foreign policy and defense and wish to attack dangerous enemies, but only just a little. The economy is chugging along but too many are out of work, instead living on the dole for years with no hope in sight. I guess someone forgot to tell the Prez that if you try to please everyone you please no one and accomplish nothing.

After the Ferguson incident many Americans, especially minorities, no longer trust the police. Considering the way the justice system reacted to the Ray Rice situation it is no wonder. The endless cover-ups are taking their toll. They range from the lost/destroyed IRS emails targeting conservative groups, to Benghazi, to the Obamacare failures, to the open door immigration policy that makes us vulnerable, to the NFL cover up of the Ray Rice saga, to the continuously bungled ISIS drama.

The net result is a divided, very angry, bitter, society devoid of faith and confidence in our leaders, values, and our basic systems. Will the lack of faith in these areas eventually affect our economy or be directed at the capital markets again, even without another big market drop or a scandal? Will our current angry, distrusting state make matters worse if one of these occurs? It is not uncommon for these chips to fall during this type of environment. We need renewed confidence lest the bottom fall out.

Truth be told, many of these problems were already here. But, it may have taken the emergence of videos to take our current sentiment and collectively amplify them. Today, that may not be a good thing, especially if it carries over to stocks, but eventually it will be a positive. In the long run, ubiquitous video is a good thing. For now, the latest videos may serve as a catalyst for change—on many levels, some good and some bad. In



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