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**KEY TAKEAWAYS**

- ⇒ *Investors are neutral more than bullish or bearish which portends volatility*
- ⇒ *Don't chase the stock of the day, research and trade leveraged ETFs.*
- ⇒ *Domestic equity outflows are not abating but the move abroad seems already complete in the near term*
- ⇒ *SKX is a huge winner and breaking news means buy ORBK on weakness*

**THE MAJOR INDICES**

<u>Index</u>	<u>Close</u>	<u>2015</u>
DJIA	18192	2.1%
S&P 500	2116	2.8%
NASDAQ	5004	5.7%
Russell 2000	1235	2.5%

(figures are rounded)

**THE SMART MONEY PLAYS**

Good morning! Some investors may be feeling pretty good about prospects for stocks following the strong jobs report on Friday, but these bulls are in the minority. Interestingly, there are usually two schools of thought regarding stocks: bullish and bearish. Judging by ill-timed comments by Fed Chair Yellen and market strategists, along with interesting stats, investors may actually be more neutral than anything else, which means we could be in for a rough ride for a while. This is heightened by the end of Q1 earnings season, which is also receiving mixed grades since Q2 EPS forecasts are dropping like flies.

Our take? Do not fret over valuations and “toppy” markets. Historical valuations, when compared with today, are not apples to apples and must be taken in context. In years past, with higher dividend payouts, higher interest rates, etc., multiples were lower. The current trend (past 15 years) of stock buybacks and low interest rates mean volatility with low growth and higher valuations are ahead.

So what do you do? Some investors have decided to chase the latest “stock of the day.” After the big run in **Voltari (NASDAQ—VLTC—\$9.55—NR)** following the Carl Icahn stake, some investors think that **PlasmaTech BioPharma (NASDAQ—PTBI)** could be next, now that George Soros has taken a stake. The smart \$ says don't chase it. His track record at this level is not the greatest. Currency calls? Fabulous. Small stocks, not so much. Instead, take advantage of volatility buy researching and trading leveraged ETFs.

Learn more here:

<http://etf.stock-encyclopedia.com/category/triple-leveraged-etfs.html>

## Say What?



Each week we identify 4-5 must-read stories, including some great ones which may fall a bit under the radar.

Wall Street Journal

<http://www.wsj.com/articles/stocks-could-take-investors-for-another-bumpy-ride-1431285257>

Volatility is back and here to stay.

Wall Street Sector Selector Blog

<http://www.wallstreetsectorselector.com/investment-articles/editors-desk/2015/05/is-stock-market-dangerously-overvalued/>

A good synopsis on the “bear case” but while cautious, we are not in the doom and gloom corner. Valuations must be taken in context.

Ed Yardeni’s Blog

<http://blog.yardeni.com/2015/05/analysts-continue-to-lower-s-500.html>

More ammo for the naysayers.

The Washington Post

[http://www.washingtonpost.com/business/economy/virtual-reality-the-latest-weapon-in-the-battle-for-your-shopping-dollars/2015/05/10/07639f8c-e976-11e4-9767-6276fc9b0ada\\_story.html](http://www.washingtonpost.com/business/economy/virtual-reality-the-latest-weapon-in-the-battle-for-your-shopping-dollars/2015/05/10/07639f8c-e976-11e4-9767-6276fc9b0ada_story.html)

Although it is rare that this leading newspaper has a must-read article on the business side, this gem is worth the read.

## Just the Stats!

This section is dedicated exclusively to data, either generated and credited by other organizations or by Goldman Small Cap Research that we deem useful for the purposes of economic, market, sector, or individual stock direction and trends.



### By the Numbers

Stocks were saved last week by the big Friday performance parked by a strong jobs report. Otherwise, from week-to-week, there was little variance. Will it continue? Wednesdays retail sales numbers due out at 8:30 AM EST may tell the story. The market is expecting 0.2% growth for April. A weak April will probably give bears another reason to sell stocks.

### AII Sentiment Survey (courtesy of AII.com)

There was little change in these figures despite the wild volatility experienced last week.

<u>Last Week</u>	<u>LT Avg</u>
Bullish 27%	39%
Neutral 46%	31%
Bearish 27%	30%

It should be noted that this survey was taken before the huge market moves on Friday and may have reflected Fed Chair Yellen's comments. I suspect that with a combined 73% either Neutral or Bearish that we may be approaching a low point here. Last week, the combined figure was 69% and the Bullish percentage dropped from 31% to 27%. Interesting that the bullish and bearish categories are tied, huh?

### Lipper Fund Flows Survey (courtesy of Lipper.com) (as of 5/6/15)

## Just the Stats! (cont'd)



For the month of April, total domestic equity outflows were \$21 billion, according to ICI. The selling accelerated as the month wore on. In fact, the week of 4/29/15 accounted for one-third of the outflows for the month. Combined with the Lipper data for the first week of May and we now have had 5 straight weeks of outflows.

Interestingly, non-domestic equity fund *inflows* were \$18.6, indicating that as dollars retreat from U.S. domestic equities, they are, for the most part, going to equities abroad.

Want more proof? Everyone knows that ETFs (and index funds) are attracting a ton of money. However, what many investors have not realized is what has been a hidden driver of the transition from domestic to foreign investment. From March 2014 – March 2015, the number of domestic equity ETFs grew very modestly, from 616 to 633. In contrast, the number of global/international ETFs had a huge increase, as 68 new ETFs were introduced during this period, taking the total from 445 to 513. I would not be surprised if a meaningful amount of the dollars migrated to these non-domestic ETFs just because a bunch of new ones were launched.

Granted, it is a lagging indicator, but a quick review of April ETF numbers is telling. According to ETF.com, there were \$15.8B in U.S. ETF outflows but \$25.3B in international ETF inflows, with nearly one-fourth driven to just one ETF. We learn from this data that the ICI data is spot on, thus explaining the April volatility and drop here, and the gains abroad.

By the way, the big international ETF gainer was the **Deutsche X-trackers MSCI EAFE Hedged Equity ETF (NYSE—DBEF)**, which is used as a currency hedge when investing in large cap foreign (mainly European) stocks.

With the early money already invested abroad I expect somewhat muted returns in non-domestic ETFs, just as in the U.S. The key is to find ways to take advantage of volatility until we have greater GDP and earnings growth clarity in 2H15.

## Z'BigNews

### GSCR Select Research: The Goldman Guide

As you may have noticed, the only “pan” we have this year is **Martha Stewart Living Omnimedia (NASDAQ—MSO—\$5.40—NR)** and had been a pretty bad call on our part. Nonetheless, we may end up being right after all. Last week, MSO released 1Q15 results and they were below expectations, sparking a selloff in the stock.



### **Orbotech (NASDAQ—ORBK—\$18.04—NR)**

Monday could prove to be either a major opportunity to buy on weakness or could be the start of a small downtrend based on late-breaking news. Sharp, a major producer of flat panel displays was down 30% Sunday on word that the company may cut its capital spending to pay tax liabilities, and that means Orbotech could come under pressure. I am certain Sharp was a customer in the past for the ORBK FPD inspection products but do not know if it is now or what kind of exposure to Sharp that ORBK may have, if at all. My off-the-cuff view is to buy on weakness as this Sharp situation seems limited to the company and is not reflective of industry demand.

**SkullCandy (NASDAQ—SKUL—\$8.27—NR)** also reported 1Q15 results below expectations last week. It is now down nearly 20% from our profile in late March. We currently have it under review.

**Skechers (NYSE —SKX—\$99.29—NR)** Who would have guessed this 48% gainer is our 2nd best performer year-to-date? It hit a new high of \$100+ on big volume Friday. We see a maximum 10-15% near-to-intermediate return at current levels.

### GSCR Select Research: The 30-30 Report

Not all earnings reports were poor. In fact, one of the 3 stocks profiled just a couple of weeks ago beat Street forecasts last week and its stock is up 19%—and we think it can go much higher considering its great value. Want to find out more? Subscribe here:

<http://www.goldmanresearch.com/plan/subscribe.html>



# The Goldman Guide

## Stocks Featured in the Guide

GSCR 2015 Picks and Pans					
<i>The Goldman Guide</i>					
Stock	Pick/Pan	Profile Date	Orig Price	5/8/2015	Return
DOD	Pick	1/2/2015	\$15.35	\$15.70	2.3%
T	Pick	1/2/2015	\$33.87	\$33.69	-0.5%
VZ	Pick	1/2/2015	\$46.96	\$50.14	6.8%
CVX	Pick	1/2/2015	\$112.58	\$108.65	-3.5%
AAPL	Pick	1/2/2015	\$109.33	\$127.62	16.7%
PIN	Pick	1/9/2015	\$21.53	\$21.52	0.0%
IBN	Pick	1/9/2015	\$11.55	\$10.72	-7.2%
TTM	Pick	1/9/2015	\$43.83	\$42.63	-2.7%
MSO	Pan	1/16/2015	\$4.77	\$5.40	13.2%
ZIXI	Pick	1/16/2015	\$3.71	\$4.43	19.4%
ELY	Pick	1/23/2015	\$7.92	\$9.48	19.7%
FLWS	Pick	1/30/2015	\$7.89	\$10.01	26.9%
HRB#	Pick	2/6/2015	\$35.38	\$31.55	-10.8%
JGW	Pick	2/6/2015	\$10.24	\$10.05	-1.9%
ORBK	Pick	2/13/2015	\$15.87	\$18.04	13.7%
INTT	Pick	2/20/2015	\$4.16	\$4.75	14.2%
CVU#	Pick	2/20/2015	\$11.87	\$11.14	-6.1%
LCI	Pick	2/20/2015	\$63.23	\$54.55	-13.7%
LPSN#	Pick	2/27/2015	\$11.54	\$9.42	-18.4%
SKX	Pick	3/6/2015	\$66.79	\$99.29	48.7%
VA#	Pick	3/13/2015	\$34.77	\$28.53	-17.9%
GLUU	Pick	3/20/2015	\$4.95	\$6.65	34.3%
SKUL	Pick	3/27/2015	\$10.85	\$8.27	-23.8%
VLTC	Pick	4/2/2015	\$2.63	\$9.55	263.1%
Big Cap Avg					4.4%
S&P 500					2.80%
India Avg					-3.3%
SC Buy Avg*					23.15%
RUT 2000					2.5%
Source: GSCR, Yahoo!Finance					
*excludes pans and FNRG which has been suspended					
**Our NT target on FLWS was \$10					
***Our NT target on VLTC was \$5					
#denotes no longer pick as of 5/1/15					



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