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KEY TAKEAWAYS

- ⇒ *Things are completely upside down for veteran investors*
- ⇒ *ETFs, hybrid funds overseas investments and big gains in a narrow group of stocks dominate*
- ⇒ *Instead of real ideas or analysis, the herd is following the big name investors every step of the way*
- ⇒ *Play the market and its volatility for \$1 with this very risky and potentially profitable ETN*

THE MAJOR INDICES

Index	Close	2015
DJIA	18272	2.3%
S&P 500	2123	3.0%
NASDAQ	5048	6.6%
Russell 2000	1235	3.2%

(figures are rounded)

IS EVERY DAY OPPOSITE DAY FOR INVESTORS?

I have been involved in the investment industry in some capacity (broker, analyst, mutual fund manager, investment banker) for over 25 years and I am pretty sure I have seen it all. For years I have felt that since history always repeats itself in some fashion, investors can compensate and adjust for changes in the market and come out on top—if the situation is accurately recognized, of course.

However, the more I dive into the numbers, the metrics, and the psychology, I am inclined to believe that this time may indeed be different, which means we have to approach stocks differently in order to achieve success. Let me count the ways...

#1: In years past, low economic growth and declining EPS meant a shift from growth to value investing. Instead, funds are now rotating abroad and to hybrid funds as well as ETFs. This is especially puzzling since the dollar has been on the rise. It's like it has become "Opposite Day."

#2: The domination of funds used to include actively managed equity funds. Today, these funds are the sources of the biggest outflows while index-linked funds and ETFs are the inflow winners. Shouldn't stock-picking be considered more important now than at other times?

#3: The herd is as narrow-minded as ever. Aside from investment dollars flowing outside the U.S. it seems all the "juice" from gains come from a small number of biotechs and health care stocks. In the absence of the stock picker focus and success, investors are blindly following Icahn, Soros, and others in the small cap and micro cap space with their latest plays. Is this the sign of a top or an acknowledgment that individual stock alpha is nowhere to be found unless driven by these larger than life investors? Performance drops off big time after the first few days so why isn't the media screaming buyer beware instead of hyping these plays?

The New Investment Landscape

Fact: Funds and ETFs Dominate Now More than Ever

Since 1997, all funds (mutual funds, ETFs, etc.) have risen in total assets from \$4.7 trillion to \$18.2 trillion in 2014. Obviously the growth in ETF investing has played a big role. How much? How is this for direct correlation? According to the ICI, from 2005-2014 investment companies enjoyed a roughly \$4 trillion inflow of investments. During this same time, \$4 trillion in outflows of direct investments in equities occurred. Moreover, one in five dollars invested in funds is invested in an index fund. Since 2007, while index domestic ETFs have enjoyed \$600B of the \$1 trillion in index funds, actively managed domestic equity funds have seen a \$659B outflow. It is no surprise that 24% of all household assets are in funds and half of all retirement investments are in funds.

Reaction: Achieving Stock-picking Success is Difficult

The actively managed asset declines/transfers, coupled with the decline in new hedge fund openings and the rise in fund closures are evidence that investors prefer to take a bigger or macro approach rather than a micro approach to investing. That means fewer dollars are allocated to individual stocks. Instead, an approach we have advocated for some time that is in full gear is the core and satellite method of investing which calls for investing a substantial sum in a "core" of ETFs, including index-linked vehicles, in order to match market performance. That leaves a smaller percentage for direct equities or other investments for the "alpha", in order to get some extra juice in the returns. Proof of this strategy is in the numbers: 28% of all ETF assets are in large cap ETFs while less than 5% of all ETF assets are in small cap ETFs.

Fact: Despite the High Dollar, Money Flows Abroad

It is crazy to think, but 25% of equity mutual fund assets are now in world funds, and that figure may now be greater on a percentage basis than the large cap ETFs.

Reaction: Fewer Dollars Means it May Take Time Before the \$ Returns Here

What to Do:

Diversifying abroad may be a good idea for a portion of one's investment but I suspect that the returns could be muted. Still, with fewer dollars allocated to stocks or funds here in the interim, the ETFs that invest abroad could outperform. We think that sitting on a little cash and waiting for the next rotation makes more sense.

Say What?



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

The New York Times

http://www.nytimes.com/2015/05/18/business/dealbook/facing-low-returns-and-balky-investors-more-hedge-funds-close-doors.html?ref=business&_r=0

Hedge funds are taking it on the chin in this wacky market

Investor's Business Daily

<http://news.investors.com/economy/051515-752915-industrial-production-slide-is-recession-warning.htm?ref=HPLNews>

It's the economy, stupid!

Benzinga

<http://www.benzinga.com/trading-ideas/long-ideas/15/05/5517106/steven-cohen-is-putting-his-own-money-down-in-eqt-advance-aut>

Another example of hyping up a big investor's moves.

USA Today

<http://www.usatoday.com/story/money/2015/05/17/silicon-valley-wall-street-fintech/27321361/>

A very timely and thought-provoking piece, especially ahead of the eBay-Paypal spinoff.

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

Last week, we proffered that following the Soros-herd in buying **PlasmaTech BioPharma (NASDAQ—PTBI—\$7.98)** might not be the best play. The jury might be out as to whether we were right or wrong. All I know is this: A week ago it closed at \$7.34. In a matter of five days, it hit a high of \$10.29 but was as low as \$7.80 last week also. A little too crazy for my taste, especially considering PTBI concluded a money raise last week. I will still keep an eye on it. Meanwhile, big stocks hit new highs despite so-so volume and the continued frustration by investors and traders alike as no one seems to feel warm and fuzzy.

AAll Sentiment Survey (courtesy of AAll.com)

There was little change in these figures but we hit interesting benchmarks.

<u>Last Week</u>	<u>LT Avg</u>
Bullish 27%	39%
Neutral 47%	31%
Bearish 26%	30%

The bullish figure (rounded) is a two year low and this marks the 10th time in 12 weeks we have had declines. It should be noted that the percentage of neutral investors has been above 45% for six straight weeks. It has only been above 40% nine times in the past year. What will be the trigger to get this figure down and the bullish figure up and when will it occur? That is the \$64,000 question. I think it could be a few months, maybe as late as the fall, which means we are range=bound for a while.

Stats and Thoughts



Lipper Fund Flows Survey (courtesy of Lipper.com) (as of 5/13/15)

It seems like a broken record...All Equity funds report net outflows totaling \$1.5 billion, with Domestic Equity funds reporting net outflows of \$2.2 billion and Non-Domestic Equity funds reporting net inflows of \$665 million. Money leaves the U.S. for overseas.

It is much of the same based on the ICI figures. For the past five weeks ending on 5/6/15, the total domestic equity outflows were \$19.9 billion, down only marginally from the previous five weeks.

We seem to be in an interesting pattern index-wise. Stocks do poorly in the early or middle of the week only to rise toward the end of the week. Clearly this is a knee-jerk reaction to economic data or earnings and indicates the frenzied nature of the market at present.

The big ASCO (American Society of Clinical Oncology) conference begins on May 29th. Typically, biotech stocks, particularly those slated to release information or speak tend to move higher ahead of the industry's biggest and most important event. Of course we will glean a good deal industry-wise before and after the conference, but I wonder if this could be the last hurrah for biotech stocks which are up big this year. In fact, the whole health care space is up over 12% in the past 6 months alone.

Is this market performance narrow, or what? Granted the new high/new low ratio on the NYSE and NASDAQ were impressive on Friday, but the advancing versus declining volume was anemic, providing more fuel for bears in the near term.

NYSE—95 highs, 6 lows; 1.74B shares adv vs \$1.3B decl

NASDAQ—15 highs, 34 lows; 883M shares adv vs \$708M decl

Play the Market for \$1

I may live to regret this but here goes: Step right up folks and play the stock market for just one dollar!

We have profiled this ETN (think highly leveraged ETF) before. **Disclosure: I day-traded it over the summer and made big returns. I thought I was a genius. Then I lost my ass. The same can happen to you. This is a very risky play. Hence, the slot machine icon as a reminder.**



The skinny: **VelocityShares Daily VIX Short Term Exchange Traded Note [ETN] (TVIX - NYSE - \$1.04)** is actually an ETF that is traded on the NYSE and can be bought and sold like a stock. The vehicle seeks to replicate the returns of twice (2x) the daily performance of the S&P 500 VIX Short-Term Futures index. The index itself was designed to provide investors with exposure to one or more maturities of futures contracts on the VIX, which reflects implied volatility of the S&P 500 Index at various points along the volatility forward curve. The ETNs are linked to a multiple (2x) of the daily return of the index and do not represent an investment in the VIX. Investors planning to utilize this vehicle should have very short term time horizons of days, not weeks or months. In fact, the prospectus of the vehicle itself cautions that TVIX is only suitable for a brief investment horizon. After all, this product aims to deliver 200% of the daily return of the CBOE Volatility Index, making its losses or gains even more dramatic.

Therefore, for investors seeking to eke out 5-10% gains over a one day or few day period by shorting the market, or taking advantage of increased volatility, this may be the vehicle for you. Just be wary of big swings and be prepared to pull the trigger should the price turn against you.

TVIX is at a year low but if we just get a small amount of volatility with stocks on the downside can move it higher quickly, and you should use that as a trigger too!

Remember: Do your own due diligence!

Have a great week!



The Goldman Guide

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