Goldman SMALL CAP RESEARCH

The Goldman Guide

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KEY TAKEAWAYS

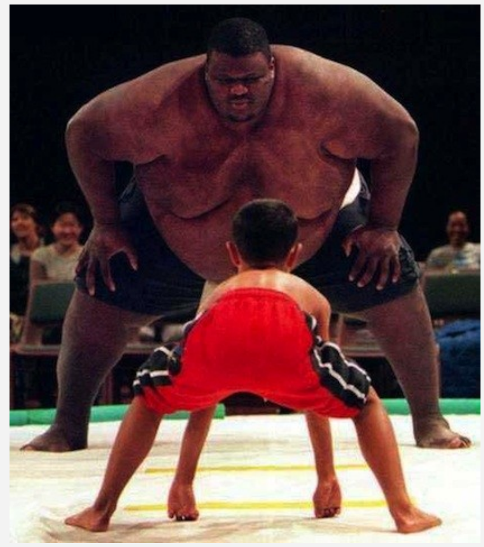
- ⇒ *The mega caps are driving the market but their window is closing and will be replaced by small caps very soon*
- ⇒ *The strong dollar is already taking its toll on some multinationals*
- ⇒ *The auto sector is hot and this stock may be the best of the bunch*
- ⇒ *This proven, top-performing strategy generates big returns every 60 days, year-round. Learn more here.*

THE MAJOR INDICES

Index	Close	2015
DJIA	17647	-1.0%
S&P 500	2075	0.8%
NASDAQ	5032	6.3%
Russell 2000	1166	-3.2%

(figures are rounded)

SIZE MATTERS



For the past few weeks we have been preaching that the NASDAQ Composite was on the verge of a major move on the upside, back to above their 200 DMAs. We also discussed the importance of earnings season on stocks right now. We were right but we didn't think the magnitude of the buying conviction and volume would be so great.

If there was ever any doubt that big NASDAQ stocks were prone to move higher on solid earnings it was dispelled last week. NASDAQ kicked ass, as major big tech companies (like Google (NASDAQ—GOOG) and others had huge gains leaving the small stocks in the dust

Unfortunately, we have seen this movie before. In fact, with the exception of a some short periods here and there, big has ruled small for nearly two years. No wonder we and others in the small cap space (such as issuers themselves) feel like it has been an uphill battle.

But, as the saying goes, every dog has its day and small stocks will return to their winning ways soon, in our view. For starters, we have seasonality on our side and the Q4/1Q periods tend to be the nest for small stocks, although the trend is not likely to begin for a couple more weeks. What we envision may help turn the tide are the negative impact of currency on the big companies in Q3 that bleeds into Q4 which hurts already vulnerable top-lines. Small stocks, however, are unlikely to bear that brunt, and as investors look to trade into the next group that moves, size will matter again, but the other way...

The Stock Market Today

U.S. Stock Market Index Performance as 10/23/15									
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	Bounce*	% Above 200-DMA
DJIA	17,647	18,351	15,370	5/19/15	8/24/15	3.8%	14.8%	16.2%	0.4%
S&P 500	2,075	2,135	1,865	5/20/15	10/17/14	2.8%	11.3%	12.6%	0.7%
NASDAQ	5,032	5,232	4,242	7/20/15	10/17/14	3.8%	18.6%	18.0%	2.2%
Russell 2000	1,166	1,296	1,079	6/23/15	10/20/14	10.0%	8.1%	14.8%	-4.1%
Average						5.1%	13.2%	15.4%	0.6%

* denotes the percentage index is up from recent low

Source: www.StockCharts.com, Goldman Small Cap Research

Last week was not just noteworthy for the movement in mega cap NASDAQ stocks due to better than expected earnings. For example, we featured **Whirlpool (NYSE—WHR—$145.90)** in our last edition of *The Goldman Guide* as we thought it was a solid play on the housing and construction businesses in the U.S. Lo, and behold, when the Company released its results on Friday, the stock ran early on as WHR soundly beat EPS estimates. In fact, at its peak, it was up 5% as investors and reporters seemed to forget how to read and ignored what really drives stocks.

You see, in its release, WHR management noted that it missed sales estimates due to the negative impact of the dollar rise during the period and it reduced its full year 2015 EPS results by around 4% and sharply reduced its revenue estimate. As a result, while the stock ended down 9% but since it rose so sharply early on, it actually declined by 17% from peak to trough of the day on 5x average daily volume. Clearly, we were wrong, but the market overreacted and has used the currency issue with WHR as an example of the prospective negative impact the higher dollar can have on company financials. You should learn the following lessons here. First, even if a stock beats current estimates for a period, if it guides lower, it will usually drop. If it rises, the turn will be sharp and could present an opportunity later. (WHR hit a new low so that time may not be now even though it trades less than 12x EPS.)

Big Auto

But, wait-there's more! Last week was also notable for the automotive space as well which has put it into focus and under accumulation.

For example, on Thursday a very high profile IPO hit the market. **Ferrari N.V. (NYSE – RACE)** debuted at $60 before dropping to $56.38 at the close of business Friday. If nothing else, the ticker for the Italian luxury sports manufacturer is bad to the bone. Perhaps buoyed by Ferrari's IPO, the venerable U.S. carmaker **General Motors (NYSE—GM)** reached a new 52-week high ahead of its financial report on Tuesday, while next-gen carmaker Tesla **(NASDAQ—TSLA),** dropped by 8% for the week as Consumer Reports had negative comments regarding vehicle reliability.

So, which one of these do you buy, if any? Do you buy the old-line stock, the next-gen story stock, or the newly traded way cool car company?

It is usually prudent advice to sit out the secondary market after a hot IPO for a good six months, and Ferrari is probably no exception. Therefore, we say avoid the **RACE** hype for now.

Tesla's chart is as ugly as sin and we would not plunk down for this pricey stock until it at least starts to make a steady move higher, thereby removing some risk inherent in these high-flying shares. That leaves GM. Once again, we must say "pass." Why? Let's call it the Whirlpool effect. We have concerns that GM may suffer a similar fate with respect to "the currency effect."

So where does that leave us? Perhaps **Fiat Chrysler Motors, N.V. (NYSE – FCAU—$15.37—NR)** with a market cap of $19.8 billion. Fiat has Italian roots and has some niche products also. Strong margins of 14% on gross and 4% on operating are attractive metrics for Fiat when it comes to meeting revenue and EPS expectations. Additionally, a five year PEG ratio under one indicates some long term price to earnings value for **FCAU**. Wall Street estimates suggest that EPS will rise 17% this year but jump by 59% to $1.37 in 2016. Granted it has been a big winner already this year, but with the wind at its back, we believe it has another 20% in it over the next few months.

Say What?

Great info, insights, and hard-hitting stories make up this week's *Say What?* feature...

The New York Times

http://www.nytimes.com/2015/10/25/your-money/quarterly-earnings-reports-can-still-move-markets.html?ref=business&_r=0

Uh, yeah!

Zero Hedge

http://www.zerohedge.com/news/2015-10-25/americas-biggest-fears

Pretty cool piece.

CNBC

http://www.cnbc.com/2015/10/25/october-doldrums-history-says-a-terrible-trading-week-is-ahead.html

Bar journalism. Story is bad week ahead, huge couple of months ahead.

Investor's Business Daily

http://news.investors.com/technology/102415-777322-twitter-q3-earnings-preview.htm?ref=HPLNews

Will Twitter join the stock move party or will bad news hurt it and the Square IPO?

Bloomberg

http://www.bloomberg.com/news/articles/2015-10-25/oil-at-50-is-gift-to-world-as-abu-dhabi-sees-higher-prices

Interesting perspective...

Just the Stats

AAII Sentiment Survey (figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	35%	34%	*39%*
Neutral	41%	39%	*31%*
Bearish	24%	27%	*30%*

These AAII survey respondents never learn...missed a real big week for stocks. Meanwhile I am surprised at the changes below but I suspect in the next 2 weeks both surveys could have bulls representing over 50%.

October 19 - 23, 2015

October 12 - 16, 2015

A Proven, Top-Performing Strategy

I have to give a shout-out to GSCR subscriber Jack R. Our email exchange prompted me to pen this section. Following our lengthy email exchange I realized that I have done the world's worst job of explaining how to utilize *The 30-30 Report* to generate huge returns each month, without having to invest huge sums of money. By following our simple guidance you can generate an estimated 9% return every 60 days in an average year (over 40% annually) and 20% in a down year. And we have over 3 years of data to illustrate it. To be conservative, we will be using 2015's returns which have been below average.

Background:

Each month we select 3 small cap stocks with which to profile. These stocks represent stocks we believe could rise 30% in 30 days. Given the tough current market, the 30% mark tends to be reached closer to 60 days but we expect the 30 day period to return next year.

How to Play The Stocks:

Buy shares in all 3 featured companies when a new issue of the report is released. If you decide to buy and hold for roughly 60 days until two more issues are released (i.e. buy in January, sell in March) the average return of all 3 stocks from January tends to be 4%. However, we recommend you trade the stocks during the period for the best returns. If you trade them perfectly, and sell at their peaks, the average return over 60 days is 14%. An average trader should be able to generate 9% each month on these stocks, which compares with 1% at best for the Russell 2000, on average. If you do this every 60 days (i.e., Jan-Mar, Mar—May, May—Jul, Jul—Sep, Sep—Nov), you will trade 15 stocks over the course of 10 months, generating between 4 -14% every 60 days, or an average of 9% five times a year. This is substantially greater than the market returns. It is not even close.

Want to generate even greater returns? You can do the same thing 10 times a year, with 30 stocks and potentially double overall returns. In addition to the months above, you can trade Feb—Apr, Apr—Jun, Jun—Aug, Aug—Oct, Oct—Dec. These months are just samples. You can start/end any grouping as long as the holding period is until through the next two issues.

A Proven, Top-Performing Strategy

You are probably thinking, how does this happen like clockwork? It's simple. Generally speaking, during this 60 day period, one stock is up big, one flattish to up, one down. Sometimes, we have a poor period but that gets balanced by even stronger months where 2 stocks hit the 30% mark in a given month.

Remember: This is a trading newsletter but if you wish to just hold for two months and then sell, you can still expect a roughly 4% average for every 60 day period.

I hope that this brief primer has helped you understand how to generate strong returns year-round by using *The 30-30 Report*.

Despite the ridiculous returns, this premium newsletter sells for just $99—that's for a 12 month subscription! It has to be the lowest cost/highest return small cap newsletter available anywhere.

Subscribe today by visiting www.GoldmanResearch.com.

Have a great week!

The Goldman Guide

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