Goldman SMALL CAP RESEARCH

The Goldman Guide

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INSIDE THIS ISSUE:

INDICES & CATALYSTS

	Close	2023 Perf
DJIA	34,303	3.49%
S&P 500	3,999	4.17%
NASDAQ	11,079	5.86%
RUSS 2K	1,887	7.16%
VIX	$18.35	-15.30%
BITCOIN	$19,910	20.30%
OIL	$79.86	-0.05%

KEY TAKEAWAYS

⇒ *What does the recent performance portend?*

⇒ *Earnings season is upon us. So, now what?*

⇒ *See what investment thesis and concept may be early but could represent one of the biggest gainers in 2023.*

KEY FIGURES

	Fwd P/E	RSI
DJIA	18.8	62.6
S&P 500	17.4	66.2
NASDAQ	27.8	59.8
RUSS 2K	21.9	75.5

It's Back and It's Even Better

Good morning! Our older subscribers will remember that from 2010-2016 we published this weekly newsletter when we highlighted the stock market, the economy, political policy, etc. It was a great run but it became difficult to publish each Sunday as it required us to work 7 days a week for seven years.

With the economy and stock market in disarray, and the advent of greater technology, we decided that it is time to bring this free offering back to our subscribers, albeit in an upgraded and different format.

A new and improved form of *The Goldman Guide* features an audio podcast which refers to key investment and economic theses of the day, along with our market opinions and idea-generated stock picks. Plus, it includes data and other information found in this companion print version.

From the statistics perspective, we endeavor to give you what you need at a glance in the text piece and in more detail in the audio version. These figures include YTD performances for key indices and other catalytic concerns such as oil price changes, the VIX (CBOE Volatility Index), Bitcoin, and the latest AAII Investor Sentiment Survey.

Given how prevalent crypto is in the news, for good and for bad, we felt it was imperative to have some commentary and exposure. As you can see in the disclosure section, we are long Bitcoin, Ethereum, and Shiba Inu. As the AAII Survey has been such a good contrarian indicator, much like the VIX, we will continue to highlight it, as we did previously.

Thanks for your continued interest and support. Have a great week!

The Stock Market Today

U.S. Market Performance 1/13/2023							
Index	Close	52-Wk Hi	52-Wk Low	% off Hi	% from Low	200 DMA	% Abv/Bel 200 DMA
DJIA	34,303	35,996	28,663	-4.7%	19.7%	32,398	5.6%
S&P 500	3,999	4,665	3,492	-14.3%	14.5%	3,981	0.5%
NASDAQ	11,079	14,897	10,093	-25.6%	9.8%	11,634	-5.0%
Russell 2000	1,887	2,160	1,641	-12.6%	15.0%	1,830	3.0%
Bitcoin	$19,910	$48,187	$15,517	-58.7%	28.3%	$23,028	-15.7%
Average				*-23.2%*	*17.5%*		*-2.3%*
Avg w/o BTC				***-14.3%***	***14.8%***		*1.0%*

Source: Barchart.com, Yahoo!Finance, Goldman Small Cap Research

Notable Numbers

AAII Sentiment Survey (figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	24%	21%	*38%*
Neutral	36%	38%	*32%*
Bearish	40%	42%	*31%*

ICI: Weekly U.S. Equity Fund Flows

1/4/23: ($6.1B)
12/28/22: ($5.4B)
12/21/22: ($9.8B)
12/14/22: ($19.5B)

Review and Comment

In our Top 23 Predictions for 2023, we predicted peak gains for the key indices. Who knew they would be reached already when we thought it might be later in the year? Anyway, the smaller you went, the greater the performance so far this year. A 3.5% rise in the DOW, 4% for the S&P, a nearly 6% gain for NASDAQ and a 7%+ for the Russell made for good feeling all around. It's like the January Effect came to life again---after so many believed it was dead. Frankly, if I knew about the equity fund outflows recent performance, I would have been bullish early too. More on that later.

After this past week's moves, one could infer that the indices are fairly valued. The Forward S&P P/E is 17.4, NASDAQ's is over 27x,and the Russell's P/E is 21.9. While these figures are not at nosebleed levels at all, they are what I would consider fairly valued.

Investors are probably unsure of what to make of the recent gains and what to do, if anything. Something a bit unusual has happened which could lead to this upward momentum sticking around for a little while longer. As you can see in this table, we are actually off our 52-week highs by only a small amount at least for equities. The four indices are down an average of 14.3% from the highs and up an average of 14.8% from their low! How crazy is that?

The figure that really struck me is the 200 day moving average performance. The four equity indices are up an average of 1% above their 200 DMAs. It not only shows how long things have been in the toilet. But, if the underlying index is above its 200 DMA, a bullish sign, then many of its components have to be above the index and at a rate higher than the index itself. So clearly the simple and exponential moving averages are all flashing buy signals while the RSI, (Relative Strength Index) is in the neutral range, for now, on an average basis for the key indices. That is still positive.

The AAII Investor Sentiment Survey, which is a totally contrarian indicator because pros believe that retail investors are usually too late or plain wrong, is showing some favorable data. The percentage of those bullish are 24% and bearish 40%. These figures are a tad higher from a week ago for bulls and down for bears but still pretty significantly different from historical averages. Especially bulls which are usually at the 38% level, or more than 50% higher than current levels. This is a good sign in the near term. Expect to see more bulls and fewer bears this week as well. Even if only modestly so.

Speaking of modestly bullish data, the equity mutual fund flows figures released by ICI are very interesting. US funds as of 1/4/23 enjoyed outflows of $6B which is actually less than 1/3 the recent peak weekly outflow of $19.5B, reported on 12/14/22, when tax loss selling and capitulation now appears to have peaked. It will be very interesting to see Thursday's data. But this is another nice check mark for us.

Based on all of this info and data, we are in a modestly short term bullish sentiment. With an emphasis on short term.

A Critical Season

Sorry but we have to at least rain a little on your parade. We can't look at this stuff in a bubble. We are at the start of earnings season. And I am not exactly in a favorable sentiment about it for the long haul. Sales will probably be strong but that is deceptive. Prices have gone up due to inflation so the comparisons are easy. And the top-line performances will narrow as the year continues and the comparisons become difficult, reflecting the 2022 inflation and 2023 inflation environments. So, for those that sell goods, we need to look at the units sold to determine efficacy and achievement.

Given higher COGS, opex, and other costs, earnings may not be so great either. Still, what I want to know is what the future looks like. What will the 2023 guidance look like? If the forecasts are reduced materially for 2023 it's a negative for stocks. If they are still too high future disappointments will hurt stocks. So, damned if you do and damned if you don't. I suspect mgmt. teams are really unsure about this coming year since a recession could be in the cards. I suspect consumer-focused companies have little faith in their own forecasts these days. With consumer debt at nosebleed levels and more layoffs ahead, things should be choppy for a while. Let's enjoy the next few weeks before we get anxious that spring turns into investing winter as we teeter on the edge of a recession.

Once earnings season is over, we can do a deep dive and see what industries and then what stocks offer the best opportunities. For now, we consider the small biotech and med device space to be the best. It has endured a two-year winter from the valuation perspective and a groundswell of belief that M&A could occur this year is just the catalyst the sector needs. It is under the radar but could be a big performer.

We mentioned this in our 23 predictions for 2023. There is still some time so we will be performing due diligence and try to come up with 3-5 names on a staged basis over the coming weeks.

We hope you have a great week and look forward to providing you with some out-of-the-box ideas next week!

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