Goldman SMALL CAP RESEARCH

The Goldman Guide

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The Stock Market Today

What Investors Are Thinking

Investing Considerations

INDICES & CATALYSTS

	Close	2023 Perf
DJIA	33,485	1.0%
S&P 500	4,105	6.9%
NASDAQ	12,088	15.5%
RUSS 2K	1,754	-0.4%
VIX	$18.40	-15.1%
BITCOIN	$27,937	68.8%
OIL	$80.46	0.2%

KEY TAKEAWAYS

⇒ *There is no pattern to discern, fundamentally or technically in the market*

⇒ *Narrow ranges, cause and effect investing are in play*

⇒ *How retail and other investors are addressing macro situations differ greatly. Who should we follow?*

KEY FIGURES

	Fwd P/E	RSI
DJIA	17.8	60.2
S&P 500	18.5	60.8
NASDAQ 100	25.7	62.8
RUSS 2K	21.7	42.6

Cause and Effect Investing

With some extra time, due to the holiday weekend, we thought it would be a good time to take a fairly deep dive into the indices. We plan to do the same exercise with certain sectors later this month.

A few items were striking. First, the best way to describe the daily trading performance or activity of the stock market can be found in one word: *inconsistent*. It is rare that big up or big down days occur consecutively. Moreover, major moves are almost always macro-driven. Economic, political, crisis news, etc. This is a shift from equity financial reporting performance by sector or from key, big players. And when the financial performance of a mega cap is strong, the upward movement does not have legs.

This aspect is also indicative of a lack of conviction among investors. Long gone are the buy and hold investors. They certainly trend into short term durations in bonds due to the current inversion scenarios. With recession, inflation, and other fears, investors have turned into traders. Even with ETF redemptions/outflows, which we believe reflect 401(k)s and the like, retirement accounts are more trading vehicles than investing vehicles.

This means investors consider more short term horizons for some equity positions. Plus, since consistency and conviction are MIA, investing or trading in a cause and effect approach could emerge as a lucrative strategy, when applicable. For example, RSIs for the 3 largest indices in our Key Figures box have Buy signals while the Russell 2000 has a strong Sell. We believe you should be prepared for overbought situations in big caps migrating to oversold small caps in the near term. Just one of many thoughts, these days….

The Market Today

U.S. Market Performance 4/7/2023									
Index	Close	Y/E 2022	YTD Perf	52-Wk Hi	52-Wk Low	% off Hi	% from Low	200 DMA	% Abv/Bel 200 DMA
DJIA	33,485	33,147	1.0%	35,492	28,661	-5.7%	16.8%	32,454	3.2%
S&P 500	4,105	3,839	6.9%	4,513	3,492	-9.0%	17.6%	3,943	4.1%
NASDAQ	12,088	10,466	15.5%	13,711	10,089	-11.8%	19.8%	11,334	6.7%
Russell 2000	1,754	1,761	-0.4%	2,060	1,641	-14.9%	6.9%	1,824	-3.8%
Bitcoin	$27,937	$16,548	68.8%	$43,376	$15,599	-35.6%	79.1%	$20,938	33.4%
Average						-15.4%	28.0%		8.7%
Avg w/o BTC						-10.3%	15.3%		2.5%

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

This week, for the first time this year, we have begun to change the 52-week lows---reflecting the poor performance that began in 2Q22. It also modestly affects DMAs and other data points.

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Notable Numbers

AAII Sentiment Survey (figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	33%	23%	*38%*
Neutral	32%	32%	*32%*
Bearish	36%	46%	*31%*

A 58% jump, or nearly 11 points in bulls, and similar drop total drop in bears. Not good. New timely question in the survey and results:

From the AAII website:

This week's special question asked AAII members how the headlines about banks have affected their six-month outlook for stocks.

The question's figures are telling. Although over 40% say they are now more cautious, we infer that nearly 7 of 10 respondents are showing that they are nervous AND don't understand the situation. Roughly 1 of 4 probably don't understand but don't see an impact directly in the market—just the banks/stocks, specifically. This could prove to be either an accurate perspective or prove to be naïve and costly.

Equity Fund Flows	
Lipper	ETF.com
4/5/2023	4/6/2023
Outflows (-$8.5B)	YTD SPDR biggest out ($10.5B)
Outflows Ex ETFs (-$5.9B)	Mix specialty, debt big inflows
A drop of about 60%	Notable outflows are S&P 500
	RUT 1000 Val, Gro, & 2000

We have monitored the ETF flows closely all year and what they have demonstrated YTD is a bit unsettling. The biggest outflows are the Big Guys: S&P 500 Index related ETFs, and Russell 1000 related ETFs. These are followed by the Russell 2000 ETF. The redemptions indicate less than sanguine outlooks. Total redemptions, or outflows are $25.8B with 40% coming from SPDR.

Investing Considerations…

…Aside from the goal of beating inflation, are stocks really that attractive right now?
…If Q1 results, which will begin to be published in a few weeks are not too strong, or are accompanied by downward guidance or revisions, is that the trigger that big stocks are overbought?
…The market according to GARP (Growth at a Reasonable Price). We used to be GARP investors when we managed $ (it is a term coined by local Baltimorean Eddie Brown---a great guy and incredible investor). Isn't it time we embraced this approach again?
….Now is the time to have money aside for trading in a tactical manner---when one thing happens, put $ to work in a sector or stock that is a GARP which benefits from the event.
…Can we ignore the bank issues as a death knell for the market?
...When more banks get into trouble do we go to an alternative like crypto?
…What high profile segment could go bananas?

Investing Consideration---Answers

Frankly, stocks are not that attractive given the bond market, inflation, odd jobs data, recession fears, personal debt figures, and valuation—especially when matched up against growth rates for revenue and operating earnings. But we are getting there, and there are pockets. To consider buying what is not in favor isn't always a bad idea, if you don't mind being early.

I do believe that Q1 results, combined with economic data, and maybe even another bank collapse could cause big selling again. But the money has to go somewhere, and we don't see it going to real estate. It could go to short term debt, or finally rotate into stocks or back into crypto to a degree.

GARP may help one engage in a form of risk management and also help uncover a sector or stock that has true upside without fear of a big sell-off.

Cause/effect. When oil jumped because of OPEC oil stocks ran---and smaller ones really played off of the unexpected jump. Crypto had a run when the bank failures occurred. Be prepared for more events and have a plan on how to take advantage in the short term. One example is using ETFs or ETNs ahead of equity or sector moves, in one direction or another.

I may be in the minority but I don't believe that the bank issue is a short term event—but I don't think it is an underlying industry issue that can crush stocks, either.

I have noted I am long Bitcoin (BTC), Ethereum (ETH) and Shiba Inu (SHIB). If we have a bank run again, BTC and ETH might be good short term plays. Foreign investors seem to be embracing these securities again more than Americans, so that is a positive as well.

If I had to choose a sector that has gone bananas and is just starting it is AI---but find a firm with real technology and a real model. Not just the initials AI in a company description.

Thoughts on our ideas? Shoot me an email: rob@goldmanresearch.com.

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rob@goldmanresearch.com www.goldmanresearch.com Phone: 410.609.7100

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