Goldman SMALL CAP RESEARCH

The Goldman Guide

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

- *Government policies have proven to jump start and crush stock markets*
- *Three policy decisions could have a major bearing on market direction in 2014*
- *These area include monetary easing, health care, and foreign policy vis-à-vis Iran*
- *Easing will probably occur next year as GDP growth reaches annualized 2.5%*
- *Health care expenses must be lowered*
- *Iran poses a major threat to stocks*

KEY STATISTICS

Index	Close	2013
DJIA	16065	22.0%
S&P 500	1805	26.4%
NASDAQ	3992	32.4%
Russell 2K	1125	32.4%

(figures are rounded)

Will the Gov't Stop the Rise in Stocks?

Given the short trading week, this week's issue of ***The Goldman Guide*** is short but critical to investors' success and will be followed up on Wednesday with our *3rd Annual Thanksgiving Treats and Turkeys Report.*

Recent events have prompted real concerns about the stock market's direction and what potential events could torpedo the current rise. We remain bullish on stocks' prospects but are admittedly worried that the government will ruin the party for everyone.

Too often, investors gloss over the effect of policy on stocks. Economic policy, changes in oversight, along with domestic and foreign policy shifts can have a real impact on stocks on both the upside and the downside for a meaningful period of time. As we near the end of 2013, current and pending future policies initiated by or under the Obama Administration bear scrutiny as we believe that they could hold the key to either aiding the current market rise or crushing it.

Economic Policy

The most obvious example of how stocks are affected by economic policy has already reared its ugly head this year. Even a modest mumbling of word that the Federal Reserve would lift its current monetary easing and debt procurement practices which have helped stimulate the economic recovery and lifted financial markets causes stocks to tumble sharply. While the easing of this policy has not yet occurred, it is believed that it could commence sometime in 2014.

Some economists believe that new Federal Reserve Chairperson Janet Yellen is a" taper fan" but would limit its practice once indications of GDP growth comfortably above the 2.5% mark occurs next year. Once that occurs, it would likely trigger a sell-off and could spark a long-awaited rise in interest rates which is never a good thing for stocks, given that bonds would then become an attractive investment haven, unlike today where yields are depressingly low. Hopefully, the easing will be only modest, thus not slamming the breaks on stocks' rise.

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The Gov't...(cont'd)

Domestic Policy

It has not been a good few weeks for the Obama Administration as the rollout of the Affordable Care Act websites and exchanges has been an abject disaster. More important, millions were formerly at risk of losing current coverage and have received a reprieve for a year but are unsure of what lies ahead. Others have witnessed huge increases in premiums with lower quality health care offerings, and word is that millions of workers could lose their existing health care employer plans as well.

While this is a serious issue, given Americans' penchant for procrastination, we may dodge a bullet in the near term as we do not see the issue coming to a head until next year. But it could get ugly in 2014. If the government can initiate modifications to appease the masses, rather than cripple them financially, than the negative effect on consumer spending, and the stock market will be muted. However, if the Administration continues to drop the ball as many bi-partisan leaders have claimed in recent weeks, it could get ugly and no amount of monetary easing would curb concerns.

Foreign Policy

Much like the health care powder keg, the recently announced interim nuclear agreement with Iran has politicians on both sides of the aisle lambasting the deal with the belief that it is a huge mistake and risk that could quite literally blow up. Frankly, between Obamacare and this situation, it reeks of weakness and amateur hours, neither of which portend good things.

Geopolitical risks are always hard to quantify unless you are investing directly in a foreign, emerging market. Still, in the case of the Middle East, there is a serious potential for major spikes in oil and the use of our armed forces in combat situations, which always has a negative effect on stocks. If the current deal results in a nuclear weapons-capable Iran, it could cause a sustained price in oil and volatility in global equities. Already reports are that Israel is preparing for strikes on Iran's facilities using Saudi Arabia (historically one of its primary enemies in the region) as launching point since the Kingdom has the greatest to lose if Iran goes nuclear. News of a strike in the coming weeks could make the markets jittery at best, even though Israel would be doing the rest of the world's dirty work and making itself vulnerable. Still, if the Administration is proved correct, the largesse of our current domestic oil resources (due to the Administration's opposition) could result in a decline in oil import dependence, and be a positive for stocks.

Clearly, government policies can greatly affect the stock market and have a trickle-down effect on stocks and investor sentiment. By being aware of the potential big picture landmines ahead, it is possible that investors can prepare for these issues and not be caught unaware, thus limiting the downside impact on their investments.

All the best...

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Rob Goldman founded Goldman Small Cap Research in 2009. Rob has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*. As an investment manager, Rob's model portfolio was once ranked the 4th best small cap growth performer in the U.S. by *Money Manager Review*. In addition to his work at GSCR, Rob is the editor of The Stock Junction (www.TheStockJunction.com.)

Analyst Certification

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