

INSIDE THIS ISSUE:

Oil and Stocks Correlation
Trading Thoughts

KEY TAKEAWAYS

- ⇒ *When oil drops so do stocks. When oil rises, the economy is better and stocks rise.*
- ⇒ *Use this signal as a trigger to buy stocks.*
- ⇒ *The S&P 500 may be nearing a double bottom but it is likely false and will drop another 5%.*
- ⇒ *At 1800, the S&P 500 Index valuation is very attractive on a historical basis*
- ⇒ *“Ebola stocks” and TVIX are the best plays for traders in the near term*

KEY STATISTICS

Index	Close	2014
DJIA	16544	-0.01%
S&P 500	1906	3.1%
NASDAQ	4276	2.4%
Russell 2000	1053	-9.5%

(figures are rounded)

THE SIGNAL THAT STOCKS WILL JUMP...

Swift market collapse. Gloom and doom. When we will see a return to a boom? Or a bounce?

We have seen this movie before since history tends to repeat itself. That is why we can tell you when the market bounce signal will occur and all will be right in the world again. While not an exact science, history has shown that there is a correlation between sharp oil price drops and subsequent declines in stocks, and gains in oil prices to be followed by gains in stocks, due to a perceived in the economy.

One does not have to go back too far to find some of this data. In late July when we called the market top, one of the reasons for the call was the sharp 5% in the price of oil.

Crude prices have dropped by around 18% in the past 2 months and have played a major role in the recent sharp decline in stocks as oversupply, slowing economic demand and valuations have weighed on us.

We wrote about the oil/stock performance correlation back in an issue of the *Guide* in late June 2012. After oil prices collapsed and reached a low, prices swiftly rose by 22% in the next 60 days. The S&P 500 Index and Russell 2000 indices both enjoyed a roughly 10% gain as well. Here is an excerpt:

We are all watching the drops in oil prices and of course our wallets are thankful for this event. After all it has dropped 25% in about 2 months. The problem is that big drops in oil and other commodities usually portend a decline in growth. If one looks at charts going back 30 years there is a clear correlation between a drop in oil prices and a subsequent decline in growth and stocks. Conversely, there is a correlation between a rise in oil prices and a jump in growth and therefore the stock market. One of the few times this did not happen was associated with very large increases in a short period that occurred during poor economic times. (See 2008-2011.)

Oil and Stock Performance Correlation

Crude Oil Price
89.53 USD/bbl
10 Oct '14



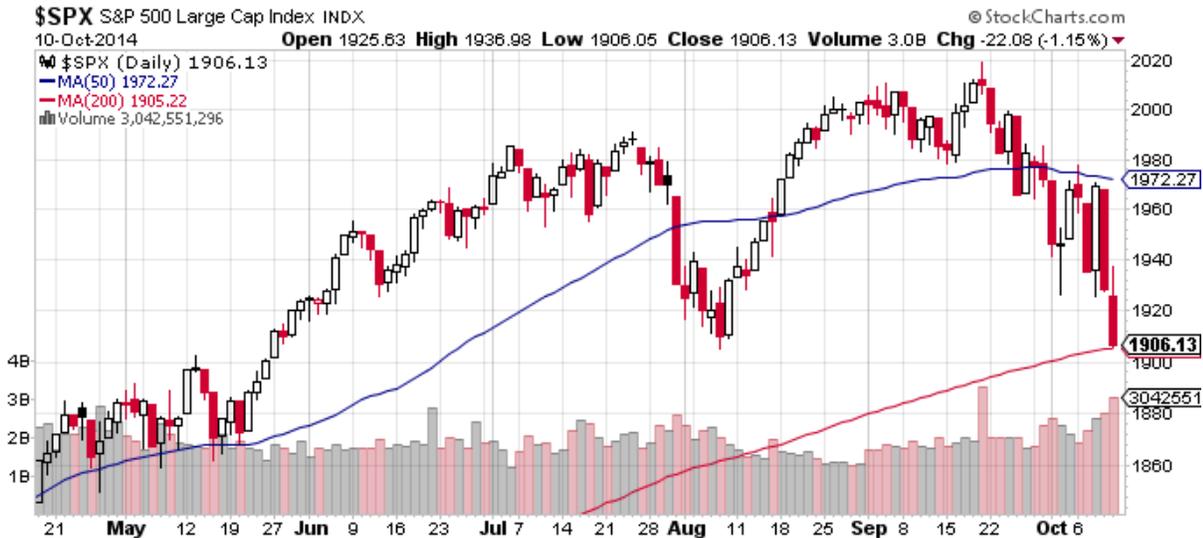
So what does this portend? We do not have a crystal ball and therefore cannot predict when the current oil price cycle will cease or begin to generate a base. If we had to guess there is probably another 10%+ that needs to be flushed out in order to generate the base.

In our mid-June 2012 example, oil prices dropped from about \$105 per barrel to under \$80 over a 14 month period before beginning its rise. I suspect that the bottom could occur in the next couple of weeks as the collapse in oil and stock prices have been swift.

Crude Oil Price
89.53 USD/bbl
10 Oct '14



Trading Thoughts



Technically, the S&P 500 Index appears to have the potential of making a double bottom to match the drop this summer. However, with the index perilously above the 200 DMA, and so many things weighing on stocks such as the dollar, Europe's declining economy, etc. it is more likely that this double bottom does not occur and we have more drops in our future. From a valuation perspective, if the S&P 500 reaches the 1800 mark (a drop of 5% from here), its forward 12-month P/E would be 15x which could be viewed as a favorable risk/reward and catalytic entry point.

In the meantime, as we have pointed out in various publications such as the *Guide* in recent weeks, short term trading or sideline sitting are the best moves right now. For the daring trader, the "Ebola stocks" such as Tekmira (NASDAQ—TKMR), Lakeland (NASDAQ—LAKE) and Chimerix (NASDAQ—CMRX) will still be in play. The first and last of this group are in the biopharma arena while LAKE sells hazmat suits which are selling better than hotcakes. Separately, with volatility back in the game, our old pal TVIX remains the risky but potentially profitable day trade play. (See our summer issues of the *Guide* and *Market Monitor* for more information on this security.)

We may get a market bounce or two in the near term but until the capitulation phase hits, be wary that they are likely fleeting and false, until oil prices stabilize and we approach the end of Q3 reporting season.

Have a great week!



The Goldman Guide

1498 Reisterstown Road, Suite 286 Baltimore Maryland 21208 Phone: 410.609.7100

info@goldmanresearch.com www.goldmanresearch.com

Launched in May 2010, *The Goldman Guide* is a free weekly publication of Goldman Small Cap Research and is written by Founder Rob Goldman with contributions from the GSCR contributor team. This non-sponsored investment newsletter seeks to provide investors with market, economic, political and equity-specific insights via an action-oriented, straight to the point approach. No companies mentioned in this newsletter are current sponsored research clients of the Company or its parent, unless noted. With rare exceptions, all companies or investment ideas mentioned in this publication are publicly traded stocks listed either on the NYSE or the NASDAQ. Goldman Small Cap Research members and contributors' bios, certifications, and experience can be found on our website: www.goldmanresearch.com.

Disclaimer

This newsletter was prepared for informational purposes only. *Goldman Small Cap Research*, (a division of Two Triangle Consulting Group, LLC) produces non-sponsored and sponsored (paid) investment research. Goldman Small Cap Research is not affiliated in any way with Goldman Sachs & Co.

The Firm's non-sponsored research publications category, **Select Research**, reflects the Firm's internally generated stock ideas, along with economic, industry and market outlooks. In virtually all cases, stocks mentioned in **Select Research** offerings are listed on the NYSE or the NASDAQ. Publications in this category include the weekly newsletter *The Goldman Guide*, daily Market Monitor blogs, Special Reports, and premium products such as *The 30-30 Report*. Goldman Small Cap Research analysts are neither long nor short stocks mentioned in this newsletter.

Opportunity Research reports, updates and Microcap Hot Topics articles reflect sponsored (paid) research but can also include non-sponsored micro cap research ideas that typically carry greater risks than those stocks covered in Select Research category. It is important to note that while we may track performance separately, we utilize many of the same coverage criteria in determining coverage of all stocks in both research formats. Please view the company's individual disclosures for each engagement, which can be found in company-specific **Opportunity Research** reports, updates and articles.

Goldman Small Cap Research has not been compensated for any content in this issue.

All information contained in this newsletter and in our reports were provided by the companies mentioned via news releases, filings, and their websites or generated from our own due diligence. Economic, market data and charts are provided by a variety of sources and are cited upon publication. Stock performance data is derived from Yahoo! Finance. Our analysts are responsible only to the public, and are paid in advance to eliminate pecuniary interests, retain editorial control, and ensure independence.

The information used and statements of fact made have been obtained from sources considered reliable but we neither guarantee nor represent the completeness or accuracy. *Goldman Small Cap Research* did not make an independent investigation or inquiry as to the accuracy of any information provided by the Company, other firms, or other financial news outlets. *Goldman Small Cap Research* relied solely upon information provided by companies through filings, press releases, presentations, and through its own internal due diligence for accuracy and completeness. Such information and the opinions expressed are subject to change without notice. A *Goldman Small Cap Research* report, update, article, blog, note, or newsletter is not intended as an offering, recommendation, or a solicitation of an offer to buy or sell the securities mentioned or discussed. This newsletter does not take into account the investment objectives, financial situation, or particular needs of any particular person. This newsletter does not provide all information material to an investor's decision about whether or not to make any investment. Any discussion of risks in this presentation is not a disclosure of all risks or a complete discussion of the risks mentioned. Neither *Goldman Small Cap Research*, nor its parent, is registered as a securities broker-dealer or an investment adviser with the FINRA or with any state securities regulatory authority.

ALL INFORMATION IN THIS REPORT OR NEWSLETTER IS PROVIDED "AS IS" WITHOUT WARRANTIES, EXPRESSED OR IMPLIED, OR REPRESENTATIONS OF ANY KIND. TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW, *TWO TRIANGLE CONSULTING GROUP, LLC* WILL NOT BE LIABLE FOR THE QUALITY, ACCURACY, COMPLETENESS, RELIABILITY OR TIMELINESS OF THIS INFORMATION, OR FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, INCIDENTAL, SPECIAL OR PUNITIVE DAMAGES THAT MAY ARISE OUT OF THE USE OF THIS INFORMATION BY YOU OR ANYONE ELSE (INCLUDING, BUT NOT LIMITED TO, LOST PROFITS, LOSS OF OPPORTUNITIES, TRADING LOSSES, AND DAMAGES THAT MAY RESULT FROM ANY INACCURACY OR INCOMPLETENESS OF THIS INFORMATION). TO THE FULLEST EXTENT PERMITTED BY LAW, *TWO TRIANGLE CONSULTING GROUP, LLC* WILL NOT BE LIABLE TO YOU OR ANYONE ELSE UNDER ANY TORT, CONTRACT, NEGLIGENCE, STRICT LIABILITY, PRODUCTS LIABILITY, OR OTHER THEORY WITH RESPECT TO THIS PRES-