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## KEY TAKEAWAYS

- ⇒ *When weird things happen in the outside world, it is sometimes a precursor to new trends in the investment world*
- ⇒ *DMAs are just dropping steadily now*
- ⇒ *New blogger poll suggests bulls are hard to find*
- ⇒ *A correction looks to be close now, with new lows outnumbering new highs consistently each week*
- ⇒ *What to do in a correction*

## THE MAJOR INDICES

<u>Index</u>	<u>Close</u>	<u>2015</u>
DJIA	17849	0.1%
S&P 500	2093	1.7%
NASDAQ	5068	7.0%
Russell 2000	1261	4.6%

(figures are rounded)

## WE ARE IN THE TWILIGHT ZONE

In recent issues of *The Goldman Guide* it has become readily apparent that we are just waiting for the other shoe to drop in the form of a modest sell-off/correction.

Frankly, investors' behavior and perspective has been odd and maddening, casting further doubt on near term performance.



I have long been a believer that when bizarre things happen in the real world, oddities eventually catch up in the investment world. My experience Saturday night may be reflective of a real-life *Twilight Zone* episode.

I went out to dinner at a little hole in the wall in Maryland. The front of the place was (unbeknownst to me) a Lebanese restaurant and the rear of the joint was a tiny bar with a bunch of tables facing a small stage. Within minutes of our arrival the place filled up with (what were almost exclusively) right wing couples in their 70's based on my conversations. The band, whose members were just a tad younger, began playing decades-old country music. Moments later, and for the next 30 minutes, an openly lesbian couple represented the only dancers on the postage stamp of a dance floor.

The audience whooped and hollered during the show but with the exception of our young group and perhaps one other table, no one else ordered any food. It was clear the customers had no interest in the Mediterranean food but were willing to buy a token drink.

## *No Diversity, Just Declines in the Market*

Let me recap. Dozens of country music loving, Republicans in their seventies went to a half club half restaurant that served Lebanese food had little interest in the food side and ordered nothing. Yet, the only dancers were lesbians and they were way cool with that. It was bizarre and weirdly amusing and uncomfortable at the same time. There was no diversity in the joint, yet there was a sense of progressiveness and that is exactly what we have in the market today.

The same narrow band of stocks in the broader market tend to be in play and/or moving higher while the rest of the market languishes. The only bright side is that if you are small cap focused player and an adept stock picker, you can make the right moves. This factor is evidenced by our own performance as well as last week's movement of the

Russell 2000 Index versus the larger indices.

Yet, we have been bereft of volatility in equities, particularly the S&P 500. Plus, a lot of investors tend to follow momentum and DMAs and have been largely disappointed,

\$MMFI - Percent of Stocks Above 50-Day Moving Average - Daily OHLC Chart



as illustrated by the Barchart.com chart above.

## **Say What?**



### The New York Times

[http://www.nytimes.com/2015/06/07/business/stock-buybacks-that-hurt-shareholders.html?ref=business&\\_r=0](http://www.nytimes.com/2015/06/07/business/stock-buybacks-that-hurt-shareholders.html?ref=business&_r=0)

We touched upon this last week. The NYT is late to the party but on point in this article.

### ZeroHedge

<http://www.zerohedge.com/news/2015-06-07/go-east-young-firm-chinese-companies-drop-new-york-listings-return-home>

I haven't figured out if this is a good or a bad thing.

### Bloomberg

<http://www.bloomberg.com/news/articles/2015-06-07/billionaire-cooperman-strong-stock-market-returns-ahead>

A sensible and reasonable outlook on stocks—for a change.

### The New York Post

<http://nypost.com/2015/06/06/how-a-massive-silent-cultural-revolution-has-changed-america/>

Speaking of cultural and societal changes. Will the pendulum swing the other way?

### Barron's

[http://blogs.barrons.com/stockstowatchtoday/2015/06/05/check-please-wedbush-sees-chipotles-same-store-sales-missing-estimates/?mod=BOL\\_hp\\_blog\\_stw](http://blogs.barrons.com/stockstowatchtoday/2015/06/05/check-please-wedbush-sees-chipotles-same-store-sales-missing-estimates/?mod=BOL_hp_blog_stw)

## Just the Stats!

### By the Numbers

When new high/new lows begin to turn ugly it is often a precursor to a downtrend. See this data for yourself below, courtesy of Barchart.com. Notice that the 6-month lows greatly outnumber the highs on the NYSE, especially for ETFs. We have been monitoring this trend for weeks but this week it appears to be a



	<u>Overall</u>	<u>NYSE</u>	<u>AMEX</u>	<u>Nasdaq</u>	<u>ETFs</u>	<u>Price</u> <u>&lt;\$10</u>	<u>Price</u> <u>&gt;\$10</u>	<u>Vol</u> <u>&lt;100K</u>	<u>Vol</u> <u>&gt;100K</u>
6-Month Highs	<a href="#">262</a>	<a href="#">84</a>	<a href="#">6</a>	<a href="#">152</a>	<a href="#">20</a>	<a href="#">40</a>	<a href="#">202</a>	<a href="#">39</a>	<a href="#">203</a>
6-Month Lows	<a href="#">370</a>	<a href="#">189</a>	<a href="#">5</a>	<a href="#">67</a>	<a href="#">109</a>	<a href="#">67</a>	<a href="#">194</a>	<a href="#">46</a>	<a href="#">215</a>
1-Year Highs	<a href="#">198</a>	<a href="#">62</a>	<a href="#">5</a>	<a href="#">114</a>	<a href="#">17</a>	<a href="#">21</a>	<a href="#">160</a>	<a href="#">27</a>	<a href="#">154</a>
1-Year Lows	<a href="#">133</a>	<a href="#">83</a>	<a href="#">4</a>	<a href="#">46</a>	<a href="#">52</a>	<a href="#">53</a>	<a href="#">80</a>	<a href="#">31</a>	<a href="#">102</a>

Source: www.Barchart.com

bit more pronounced that in recent periods.

### AAll Sentiment Survey (courtesy of AAll.com, figures rounded)

How interesting it is that the figures are basically unchanged for this week...

<u>Last Week</u>	<u>Long Term Avg</u>
Bullish 27%	39%
Neutral 48%	31%
Bearish 25%	30%

### Tickersense Blogger Sentiment Poll (as of 6/5/15)

These figures are much worse than a couple of weeks ago and this poll is likely to be more reflective of the future than the AAll survey.

**Bullish: 14%, Bearish:41%, Neutral 45%**

## ***The Investor Academy***

### **What to Do in a Correction**

**The Early Days:** One of the reasons why so many investment pros recommend that investors typically stay fully invested is that those sitting on the sidelines miss the big runs which come fast and without notice. Unfortunately, the same is true for corrective phases. It is not uncommon for those first three days to endure the biggest selling. Investors hip to the scene take a lot of money off the table during Day 2 just when it appears that the correction has arrived, if they have not done so already. The next step is to sell out-of-the-money calls on all remaining positions. These moves will essentially de-risk your long positions.



**The Intermediate Days:** What goes up must come down and vice versa. Just because a correction occurs does not mean that up days, even of significance, will not occur. Find and slowly establish positions in low valuation stocks that offer upside and have not been smacked hard. These could include big caps, or value and dividend stocks even in the small cap world. It is likely that volatility will have returned and you can actually take advantage of it, if you have the stomach for it.

**The Latter Days:** Market corrections are usually defined as a 10%-20% decline from a high. Bear markets occur once that 20% mark is breached. However, it has been my experience, that once the decline reaches the 12-14% range, capitulation tends to set in and gloom is pervasive. This is where one has to stand up and be a contrarian. Begin to purchase stocks in stages and consider staying fully invested. Buying small cap equities which have likely been smacked hard and establishing positions in economically sensitive stocks can end up being some of the big winners when the tide turns.

This guidance comes with a word of caution. One of the keys to weathering the storm and even emerging better than before is to act as a contrarian, but only to a degree. However, if the actions, particularly in the latter stages are too early, it could prove costly. A contrarian attitude is good in the face of wholesale selling after the correction has occurred and been in place for months, rather than weeks, where the risk of further decline is too great.



# The Goldman Guide

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