Goldman SMALL CAP RESEARCH

The Goldman Guide

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *The market's resilience is remarkable and bodes well despite very bearish technical analysis*
- ⇒ *The lack of breadth is alarming but means that stocks that have the best near term potential are the ones working right now, which is a slight minority*
- ⇒ *We have inched closer toward correction territory for the Russell 2000 and there is volatility ahead plus real winners*
- ⇒ *Consider buying these Apple*

THE MAJOR INDICES

Index	Close	2015
DJIA	17477	-1.9%
S&P 500	2092	1.6%
NASDAQ	5048	6.6%
Russell 2000	1213	0.07%

(figures are rounded)

WHAT A REBOUND!

You might get the wrong idea that we have a fetish for arrows moving in the "up" direction since this image and our logo both feature one. I can assure you that is not the case. But when the image and events mesh, we won't hesitate to use the image.

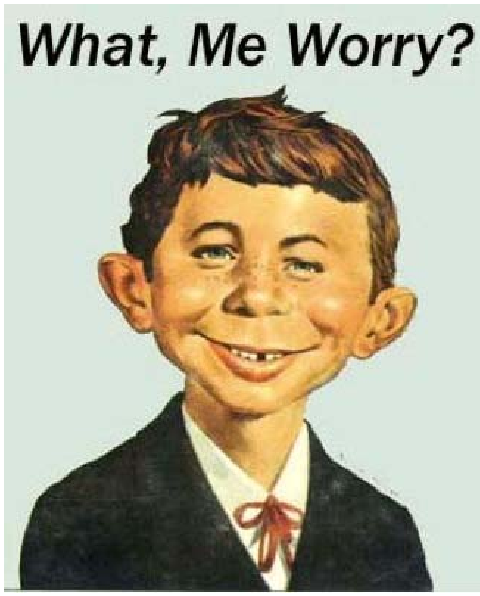
In case you missed it (ICYMI), last week was the second "wow" moment of the summer. And, it should make you feel pretty good. Let me explain.

Literally hours after we published our last edition of The Guide, China devalued its currency causing panic in capital markets with stocks dropping worldwide. This move, which was repeated in subsequent days, was intended to boost China's economy by increasing exports and making imports expensive enough to limit their "sales intrusion" so as to prop up China's domestic sales. It damaged the hell out of the dollar which saw its value sky rocket hurting both future sales abroad on a unit basis and then further punish them on currency translation. Plus it ensures labor is crazy cheap there, hurting employment here.

The U.S. stock market performance collapsed with the DJIA's 50 DMA (daily moving average) falling below its 200 DMA (daily moving average)-the dreaded death cross. China's slowing growth rate, its sharply devalued currency, weak earnings for some big names in the U.S. and rotten technicals made for a potential Chicken Little moment.

By all rights this could have been the correction catalyst following poor stock market performance many doomsayers have been praying for.

What A Rebound (cont'd)



Instead, stocks shook off the shock and awed investors with a sparkling rebound, resulting in all of the major indices posting incremental gains for the week, and sharp moves higher from the intra-week lows.

This major reversal in the face of what could have been real capitulation is a good sign that signals to us a corrective phase (when it comes) could be relatively short in duration.

What makes this resilience more significant is that this was the second time in about a month that we have seen such strength in stock performance. Did we already forget about the day the NYSE was shut down intra-day for a few hours, shaking us up? And, that it was in conjunction with other bizarre cyberattacks? Stocks came back strong in the following trading sessions then as well.

Yes, the market is skating on thin ice more than running on all cylinders. However, it could be a lot worse. Granted, the DJIA did reach a trough decline of 6.7% (last week) from the May 15th high. But, it is relatively unchanged from the end of 2Q15, despite the series of negative events. You would think that that a 3-5% drop would be logical since Greece is f***ed up, China thinks only of itself after its markets are roiled over slower growth, the indices break down technically, and all of this occurred in a matter of weeks.

Instead, the stock market performance demonstrated signs of strength which could carry over for a bit. That is why I am dubbing this period: "*The Alfred E. Neuman Market*."

<u>What To Do</u>

Now is the time to kick the index funds' asses. Market breadth sucks, with most stocks below their 200 DMAs (daily moving averages). So, index returns will remain muted for a while. On the big cap side, buy the winners, fundamentally and technically as they will carry the indices anyway. Do the same on the small cap side which will be in greater favor due to the fact that they are largely unaffected by China's shenanigans.

Say What?

Everyone needs a little diversity in their lives. This group of must view articles, pics, and tables cover the gamut from investing, marijuana, and humor in politics. Enjoy!

NY Post

http://bit.ly/1Pfvo5e

Finally, why the Dodd-Frank Act screwed us all—according to the SEC commissioner!

Investor's Business Daily/Seeking Alpha

http://bit.ly/1EuHIZV

Proof that when stocks aren't working, they really aren't working.

The Onion

http://onion.com/1Ett3xO

Hilarious pic. It is inappropriate, politically incorrect, and features the smartest breed of dog on the planet.

Washington Post

http://wapo.st/1DTrCOK

Just about the most accurate depiction of investment forecasting you will ever read.

PriceofWeed.com

http://www.priceofweed.com/

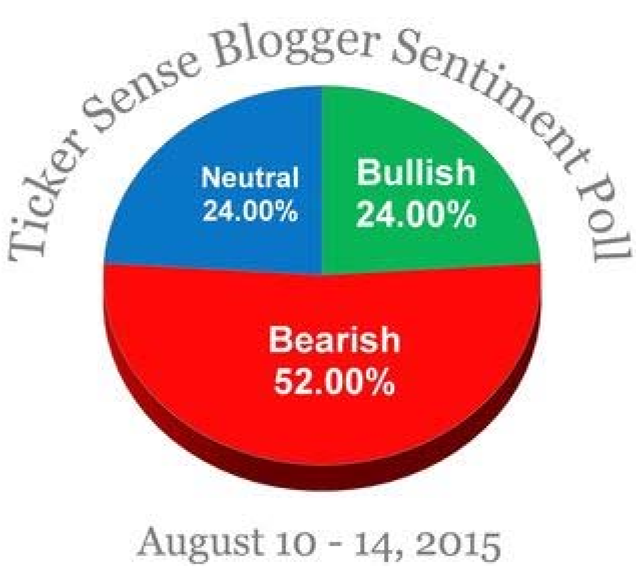
I don't why I included this, but it is crazy that the site exists. Comparison pricing is in-structive, for some...

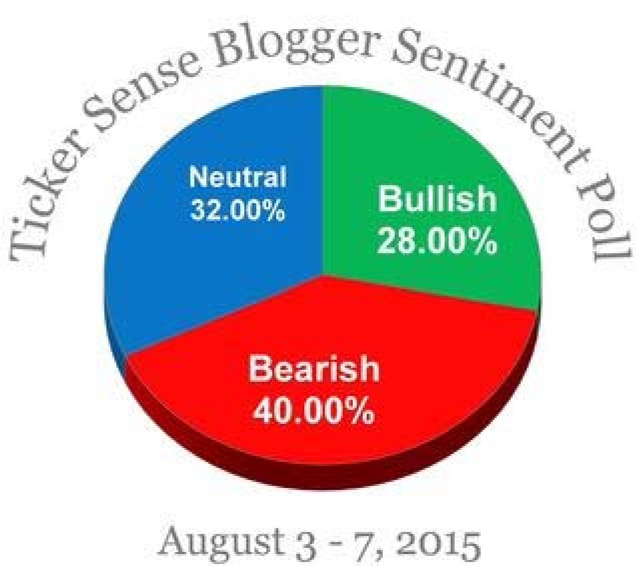
Just the Stats!

AAII Sentiment Survey (courtesy of AAII.com, figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	31%	24%	*39%*
Neutral	33%	44%	*31%*
Bearish	36%	32%	*30%*

The divergence between AAII and TS is clearly related to timing. The pro bloggers weighed in at the darkest hour, when China devalued. The AAII participants proffered opinions after the big rebound. Check out http://tickersense.typepad.com/ on Monday to





see what the pros think now...

File This Away

We are officially starting our own “correction watch.” Let’s face it, we probably can’t make a sustained move on the upside without it. The second column from the right below shows how far the indices have dropped from their 52 week highs. As you can see, the RUT and the DJIA are in a race to see who will meet it first. Meanwhile, the S&P is the only one of these to not touch a new low last week. I find it very interesting because nearly half

U.S. Stock Market Index Performance
as of 8/14/15

Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% from Hi	% from Low	% Hi/Rec Low*	% Below 200-DMA
DJIA	17,477	18,351	15,855	5/19/15	10/15/14	4.8%	10.2%	6.7%	-1.9%
S&P 500	2,092	2,135	1,822	5/20/15	10/15/14	2.0%	14.8%	4.2%	0.7%
NASDAQ	5,048	5,232	4,118	7/20/15	10/15/14	3.5%	22.6%	5.5%	2.9%
Russell 2000	1,213	1,296	1,040	6/23/15	10/15/14	6.4%	16.6%	8.3%	-0.8%
Average						4.2%	16.1%	6.2%	-0.6%

* denotes percentage index is down from recent high

Source: www.StockCharts.com, Goldman Small Cap Research

of the index’s components is “in the death zone.” According to our research, 34% of the RUT’s stocks are above their 50 DMA (daily moving average), and 48% for the 200 DMA (daily moving average) while the S&P 500 Index is over 50% for both. I wonder how a sideways market will affect these DMAs (daily moving averages) going forward.

The key to success in the near term is to buy stocks above their 50 DMA (daily moving average) or have the capacity to bust through since they are close to it. Since small stocks carry more inherent risk they are likely to remain volatile, and that is really another hidden characteristic of the entire stock market performance. NASDAQ dropped by 5% in about a month, while the RUT collapsed by 8% in less than two months. I think that a great play for those not risk-averse is in the money calls 90-120 days out on Apple (NASDAQ—AAPL), given likely future stock performance.

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