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## KEY TAKEAWAYS

- ⇒ *Investors have officially freaked out and overreacted to retail stock results last week*
- ⇒ *This should not be a surprise or indicative of a poor Q4 for the economy or the entire space*
- ⇒ *As in any year there will be winners and losers. We highlight some of them*
- ⇒ *No one owns gold or commodities anymore but they should now always own some security or defense stocks given the new reality. We mention one*

## THE MAJOR INDICES

<u>Index</u>	<u>Close</u>	<u>2015</u>
DJIA	17245	-3.2%
S&P 500	2023	-1.8%
NASDAQ	4928	4.1%
Russell 2000	1147	-4.8%

(figures are rounded)

## COOLER HEADS WILL PREVAIL

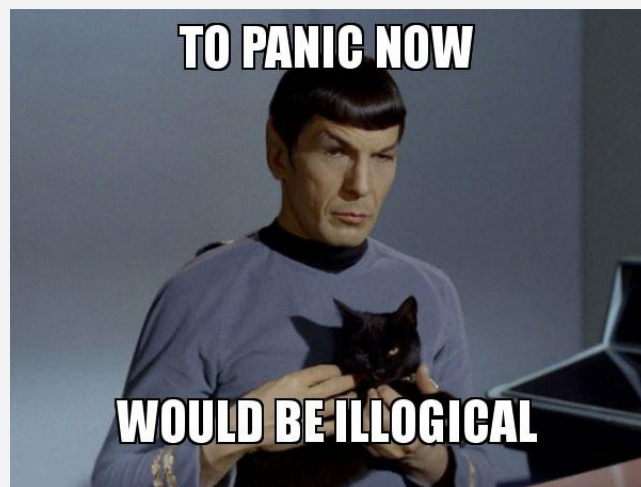
First, we wish to express our heartache, sadness, and solidarity with the people of France who have had to unnecessarily endure tragedy at the hand of terrorists once again. More

on that in a moment. We need to tackle the U.S. stock market because we are at a critical juncture.

Last week, we noted that the next few weeks would be tough sledding before we could enjoy a year-end bounce. Although stocks had their worst week since the August debacle we remain non-plussed while much of the market is running around yelling that the sky is falling. Here's why.

While we believe that Americans and the economy are suffering and we all walk around in denial, that does not change certain truths that we can hang our hats on. For example, we are in a market that is full of pros that are reactive rather than proactive and that has caused ridiculous swings in the broader indices and unsustainable moves in any direction for long.

How else can one explain why so many investment pros were hanging their hats on a strong October retail season? It's as if they have blinders on. Just because retailers try to start the holiday season in October does not mean consumers are ready. How many times do we see the effect of weather on retail sales? This autumn has been unseasonably warm. That is why apparel sales (i.e., winter clothing) haven't even gotten off the ground while restaurants are doing well while consumers enjoy the warm weather while they can. And that is just part of the story.



## ***Potential Retail Movers***

With the destruction of the Black Friday concept in recent years, the slow death of malls, and the success of Online Monday, everyone I know is just waiting. Waiting to buy online and maybe take a trek to a mall or two for specific sale items. While it is true that the amount of money Americans will spend is dropping, and that is a cause for some concern, it is only a continuation of a trend, not the start of one. Therefore, let's chill out before we start selling indiscriminately. Hell, even a stock like **JC Penney (NYSE—JCP)** was sold off big time Friday and it had good numbers!

I guess what I am saying is that for companies like **Macy's (NYSE—M)** that are going to have big inventory write-downs this quarter, that is bad management. The fact remains that consumers will be buying this holiday season and while they will not really be buying goods sold in the physical world as much as before, their habits are easily traceable.

They will be buying the hell out of products sold on **Amazon (NASDAQ—AMZN)**. They will be buying *brands*. Companies like **Under Armour (NYSE—UA)** and of course **Apple (NASDAQ—AAPL)**. Perhaps even **Fitbit (NYSE—FIT)**. They will find big ticket electronics at **Best Buy (NYSE—BBY)**. Many will gravitate toward discount or big box stores like **WalMart (NYSE—WMT)** and **Target (NYSE—TGT)**.

What won't they be buying? Until we get some cold weather for a while they will not be buying much in the way of apparel and even then it will not be broadly based. Whatever company has the best deals (i.e, biggest inventory) will win that fight. One company that stands to lose big time is **GameStop (NYSE—GME)**. Now we are not the first people on the block to mention this but some context is key here. Two weeks ago on a local sports talk show an argument about the latest Madden ensued. Consensus was that no one buys it anymore as there isn't much difference in each annual version and it was very expensive. Moreover, despite major improvements in console gaming (i.e. PlayStationPS4), the action is online and that does not help **GME** at all.

Let me be clear. We are not advocating loading up on retail or consumer stocks right now because the current panic will put some extended pressure on these issues. However, in the not too distant future, some will be very attractive and we will profile them at that time. Just be ready to move when the time comes. These and many other stocks will emerge as oversold and overlooked and offer great value.

## The Stock Market Today

U.S. Stock Market Index Performance as 11/13/15								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	17,245	18,351	15,370	5/19/15	8/24/15	6.0%	12.2%	-2.0%
S&P 500	2,023	2,135	1,867	5/20/15	10/17/14	5.2%	8.4%	-2.0%
NASDAQ	4,928	5,232	4,242	7/20/15	10/17/14	5.8%	16.2%	-0.6%
Russell 2000	1,147	1,296	1,079	6/23/15	10/20/14	11.5%	6.3%	-5.7%
Average						7.1%	10.8%	-2.0%
Source: www.BarChart.com, Goldman Small Cap Research								

In another time and place I would rail against the growth of ISIS and other bastard groups around the globe. Alas, that does us no good and certainly doesn't help those murdered in cold blood in Paris. Still, it is a stark reminder, that things have really changed. It used to be that investment advisors would recommend a 5-10% position in gold or precious metals as an inflation hedge and part of the diversification process. With the collapse of commodity prices in the current deflationary environment, they are being sold off big time and few would recommend owning any right now.

Instead, now is the time to have some exposure to security and defense stocks. Regardless of what party is in the White House, this is our new reality-whether fighting the fight at home by taking up arms or cops buying cameras and other equipment or our military fighting abroad, you gotta own some stocks here. We will be doing more work on this front but one stock we have profiled in the past and was a huge winner for us is **Taser International (NASDAQ—TASR— \$17.40)**. While fighting terrorists may not directly include a taser, I would proffer that a rising tide in this sector would lift all boats.

Everyone is familiar with the *TASER* shock weapons used on suspected criminals, but the Company also makes the *AXON* camera systems used on the body of police enforcement officers for crime investigations. Revenue is currently predicted to be around \$195 million this year and grow over 15% to \$225 million next year. Additionally, *TASER* has very impressive margins, 63% gross and 19% versus industry averages of 27% and 12% respectively. Look for a zap in **TASR** to the \$20 level.

## ***Say What?***



Great info, insights, and hard-hitting stories make up this week's *Say What?* feature...

### *TheStreet.com*

<http://www.thestreet.com/story/13365566/1/could-december-rate-hike-be-good-for-stocks.html?kval=dontmiss>

The \$64,000 question. I say: Yes.

### *The New York Times*

[http://mobile.nytimes.com/2015/11/05/business/dealbook/activist-investors-get-a-welcome-seat-at-the-table.html?\\_r=0](http://mobile.nytimes.com/2015/11/05/business/dealbook/activist-investors-get-a-welcome-seat-at-the-table.html?_r=0)

A little late on this but activist investor success may foster new investment approach.

### *CNBC*

<http://www.cnbc.com/2015/11/15/small-cap-stocks-serve-up-big-warning.html>

Good read but I totally disagree.

### *Zero Hedge*

<http://www.zerohedge.com/news/2015-11-13/first-amendment-dying>

A great treatise on what is happening across the nation.

### *Investor's Business Daily*

<http://news.investors.com/business/111315-780887-more-ipos-but-prices-low-square-match-set-to-debut.htm?ref=HPLNews>

Weak IPO market is not a good sign.

## Just the Stats

### AAll Sentiment Survey (figures rounded)

	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	34%	39%	39%
Neutral	43%	42%	31%
Bearish	23%	19%	30%



Worst week in months is enough to spook anyone. That the tail end was driven by retail stock debacles just ahead of the holiday season has a lot of investors wringing their hands. Look for more bears before the bulls return. Moreover, look for stocks to move just before the bulls return, even in the face of a rate hike.



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October 26 - 30, 2015





# The Goldman Guide

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