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KEY TAKEAWAYS

- ⇒ *Since the end of 2013 small caps have hardly moved while NASDAQ has roared ahead.*
- ⇒ *The rise has not been broad based and can be traced to a handful of names. Secular ad category trends bode well for small caps in 2016.*
- ⇒ *All eyes will be on health this week. Health care stocks, health of the economy, and health of the holiday season*
- ⇒ *Year-end selling is about to begin.*

THE MAJOR INDICES

Index	Close	2015
DJIA	17824	0.0%
S&P 500	2089	1.5%
NASDAQ	5105	7.8%
Russell 2000	1175	2.5%

(figures are rounded)

WHAT'S REALLY GOING ON

If you have been an investor in small cap stocks in the past couple of years you probably feel like you have been mired in quicksand.

You are justified in feeling this way. After all, if the year ended on Friday, the Russell 2000 Index would have generated a return of just under 1% from its close on December 31, 2013!



So, yes, if it feels like the world (or the market) has passed you by over the past two years, now you have some evidence as to why. Not to rub salt into the wound, but while the Russell 2000 has been basically flat for two years, the NASDAQ Composite is up almost 1000 points, or 22% during the same period. Still, the rise during this period, much like the returns of late, are not broad-based. For example, a story on CNBC noted that year-to-date, the NASDAQ 100 is up 10%, which is greater than the Composite's return. But, the entire gain can be attributed to **Alphabet (NASDAQ—GOOG)** formerly Google, and **Amazon (NASDAQ—AMZN)**. And, the damn thing would be down 5% if we also excluded **Netflix (NASDAQ—NFLX)** and **Facebook (NYSE—FB)**.

The good news is that these things go in cycles and these mega growth stock names may have already had their day in the sun. Since 12/31/11 through 11/20/15, the NASDAQ Composite has almost risen 100%, nearly double the Russell 2000's return. With secular trends on its side, and cycle shifts in stock category performance/valuation usually occurring every 3 years, small caps appear ready to have a great 2016.

The Stock Market Today

U.S. Stock Market Index Performance as 11/20/15								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	17,823	18,351	15,370	5/19/15	8/24/15	2.9%	16.0%	1.3%
S&P 500	2,089	2,135	1,867	5/20/15	10/17/14	2.2%	11.9%	1.2%
NASDAQ	5,105	5,232	4,242	7/20/15	10/17/14	2.4%	20.3%	2.8%
Russell 2000	1,164	1,296	1,079	6/23/15	10/20/14	10.2%	7.9%	-4.2%
Average						4.4%	14.0%	1.2%
Source: www.BarChart.com, Goldman Small Cap Research								

I have always felt that this is one of the coolest weeks of the year for the stock market. For all intents and purposes, there are really only two full days of stock market trading: Monday and Tuesday. Once 12 or 1 PM hits on Wednesday, volume slows to a trickle ahead of the close on Thursday for the Thanksgiving holiday but actually impacts near term direction. After the monstrous moves last week, look for all kinds of action in pharma and biotech now that Merger Monday becomes Mega Merger Monday after **Allergan (NYSE—AGN)** and **Pfizer (NYSE - PFE)** have agreed to merge. To put this in perspective, the combined market caps of these titans is over \$320 BILLION with total revenue of \$67 BILLION. Could this spur another combination? Look for a litany of conjecture, speculation, for other, potential deals, and for the space to move higher.

Not to be outdone, rumors abound that **Under Armour (NYSE—UA)** may acquire **Lululemon (NYSE—LULU)**. Speaking of major retail brands, all you will be hearing about will be Black Friday and holiday sales. In fact, come Friday, a day in which the market closes at 1PM, you will see a lot of activity in retail names as industry pundits tell us how well or poorly sales are/will be and who are the winners and losers. My money is on Cyber Monday (November 30th) and Amazon, as the big winner in the near term, with some bricks and mortar serving as winners going forward. A little known secret is that the Saturday before Christmas is now a bigger sales day than even Black Friday. Another secret? A lot of investors spend the long weekend deciding what losers to sell the following week which in turn determines the big winners over the next two months.

Say What?



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

The Desert News

<http://www.desertsun.com/story/opinion/columnists/2015/11/21/sowell-stop-delaying-borders-security/76128890/>

A great piece penned by one of the sages of our time, Thomas Sowell.

The New York Times

<http://www.nytimes.com/2015/11/22/arts/a-virtual-reality-revolution-coming-to-a-headset-near-you.html?ref=technology>

Very cool, indeed.

CNBC

<http://www.cnbc.com/2015/11/20/housing-prices-are-on-a-roll-will-a-rate-hike-change-that.html>

The big question right now and we say no.

Zero Hedge

<http://www.zerohedge.com/news/2015-11-22/winter-coming-wall-street-economists-work>

Amusing and informative.

Investor's Business Daily

<http://news.investors.com/business-industry-snapshot/112015-781819-semiconductor-companies-gobble-each-other-up.htm?ref=HPLNews>

Bodes well for the near future and not widely discussed.

Just the Stats

AAll Sentiment Survey (figures rounded)

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



Folks, this week's stats are a big goofy. First, the AAll survey results could hardly get more Neutral—even after one of the best weeks of the year. This is more evidence that here is little conviction in the market, even bulls. Second, the Ticker Sense poll has got to be completely different considering the market performance in the days after it was published. Regardless, there appears to be a subtle favorable turn right now and we will see more if it in the weeks to come.



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The Goldman Guide

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

info@goldmanresearch.com www.goldmanresearch.com

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

info@goldmanresearch.com www.goldmanresearch.com

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