The Goldman Guide

Goldman SMALL CAP RESEARCH

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *As we near year-end, we highlight which sectors could produce the best returns, moderate returns, and which ones to avoid*
- ⇒ *Small stocks are about to break out and re set to bust through the closing price set in 2014*
- ⇒ *These two media stocks are in the news but should probably be avoided at this time*
- ⇒ *These data points and pending insights are the keys to consumer stock success*

THE MAJOR INDICES

Index	Close	2015
DJIA	17798	-0.1%
S&P 500	2090	1.5%
NASDAQ	5128	8.3%
Russell 2000	1202	-0.2%

(figures are rounded)

IN THE GREEN, IN THE RED

This week's headline refers to what sectors you should be buying and what you should avoid. Bear in mind that this list is based upon the Fed finally putting to be the whole interest rate rise business by pulling the trigger after the November employment numbers are in later this week.

Stay Away: Energy, Utilities, Materials

It was tempting for me to highlight energy stocks earlier this year but I fear that even with a jump in energy prices, particularly oil, it will take a while for these stocks to come back. As they bend under the weight of debt and they stay out of favor in the interest rate environment, it is too early to jump in. Never buy utilities in a rising interest rate environment and again, we are just a little early in the materials space.

Don't Expect Much: Consumer Durables, Financials

Consumer durables need higher inflation, a slowing economy, and some top-line growth to generate meaningful returns. Financials always benefit from a rising rate cycle, but we are not ready to pull the trigger, although small bank buyouts could finally be a real deal next year.

Stock Up: Tech, Health Care, Consumer Disc

These are the three areas that should generate revenue and earnings growth and should lead stocks higher. However, the consumer discretionary space will be under pressure for a spell so be patient.

The Stock Market Today

U.S. Stock Market Index Performance
as 11/27/15

Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	17,798	18,351	15,370	5/19/15	8/24/15	3.0%	15.8%	1.2%
S&P 500	2,090	2,135	1,867	5/20/15	10/17/14	2.1%	11.9%	1.2%
NASDAQ	5,128	5,232	4,242	7/20/15	10/17/14	2.0%	20.9%	3.3%
Russell 2000	1,202	1,296	1,079	6/23/15	10/20/14	7.3%	11.4%	-1.1%
Average						3.6%	15.0%	1.2%

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

Although it tried to break through the 1200 mark earlier this month, until Friday, the Russell 2000 Index had not broken above the 1200 level since August 19th, the day before all hell broke loose. All of the preaching that small stocks are coming back has come to fruition and the time is right to feel comfortable enough to have meaningful exposure in this category. After all, not only is the index a hair from its 2014 close, but just shy of its 200 DMA, an important technical measure. Our Thanksgiving report of last week is a good source of ideas.

Investors will be hearing a lot about how poor physical store Black Friday sales were (on a relative basis) and online was pretty good. Of course, that could be largely determined by Cyber Monday where a lot of the big box and retail stores are ready to sell us their wares at huge discounts. I would recommend paying close attention to the fact that consumers were buying fewer items or were targeted in their purchases in the real world and more broad in their buying habits online. Data on this front could tell the true tale of the start of holiday shopping.

We believe that crowds were generally smaller and apparel inventory high causing the **Macys (NYSE—M)** of the world to offer big-ass discounts. Therefore, be wary of the stocks you buy in this space until more clarity occurs mid-week.

Media Stocks in the Media

For those who are old enough, it may seem like you went to bed and woke up in a time warp back to the mid 1970's with some of the big Holiday movie commercials. *Star Wars: The Force Awakens* and *Creed* are no doubt attempts by Hollywood to recapture a winning formula with a return to the successful *Star Wars* and *Rocky* franchises respectively. We had to wipe our eyes when we saw Harrison Ford and Sylvester Stallone in these commercials. Ford is already a septuagenarian and Stallone will be one next year!

A few years back **The Walt Disney Company (NYSE – DIS - $115.13)** bought the rights to *Star Wars* from George Lucas for a measly $4 billion. On a sidebar, what a great country we live in, where a guy can make up story about a guy in a menacing metallic black costume with a bloodcurdling breathing apparatus and become a billionaire! But we digress. Clearly **DIS** is banking on JJ Abrams to bring back the magic with *Star Wars* and could provide a boost to the sagging brand. An interesting article appeared in *MarketWatch* on Friday pointing out the subscriber losses the Company has sustained with ESPN, another major portion of the Company's bread and butter.

One has to wonder if Disney maybe an 'over diversified' play in the media market, , similar to GE in the industrial sector. We would not buy these shares above $100 as the stock could be under pressure.

MGM Holdings, Inc. (OTC – MGMB - $79) and **Time Warner, Inc. (NYSE – TWX - $69.78)** are co-releasing Creed. The film brought in nearly $43 billion for its premier over this past weekend. TWX is an impressive Company from a margin perspective. The gross profit of 44% versus the 40% industry average is solid. However, the operating margin of 26% versus the industry average of 7% is eye opening. The Company has hit on EPS and revenue numbers four straight quarters. We think TWX is well diversified media play and could get up to $80 early next year. But, the primary risk to these shares is similar to DIS in that cable subscriber numbers are in decline as consumers are using **Netflix (NASDAQ—NFLX)** and other services instead, and if this trend persists, it could be trouble.

Say What?

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

The Wall Street Journal

http://www.wsj.com/articles/how-demographics-rule-the-global-economy-1448203724?tesla=y&alg=y

Global economic forecasts presented in a way anyone can understand. Fascinating!

USA Today

http://www.usatoday.com/story/money/markets/2015/11/27/9-promising-stocks-sale/76452918/

I added this link because I think too many of these stocks are at risk for more pain.

TheStreet.com

http://www.thestreet.com/story/13380093/1/here-are-black-friday-s-biggest-winners-and-losers.html

Insightful breakdown.

Zero Hedge

http://www.zerohedge.com/news/2015-11-28/can-oil-industry-really-handle-much-debt

Very interesting piece on the burden on oil stocks.

247WallStreet

http://247wallst.com/healthcare-business/2015/11/28/4-key-fda-decisions-expected-by-year-end/

Could be interesting plays.

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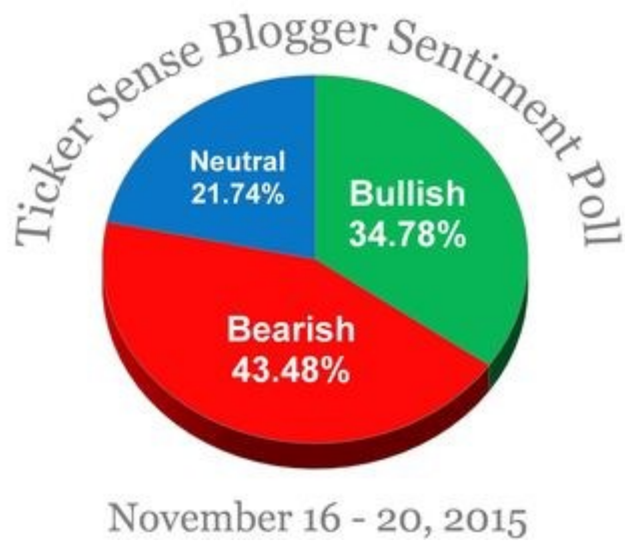
Just the Stats

AAII Sentiment Survey (figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	32%	31%	*39%*
Neutral	42%	39%	*31%*
Bearish	26%	31%	*30%*

Bears are retreating in one poll and I expect that both polls will reflect nearly 40% bulls by the end of the week. With the exception of interest rate movement investors can expect that the general sentiment will be on the bullish side for the balance of the year. However, I get the sense that for 2016, while bulls rule the day, their enthusiasm for big caps is muted somewhat, much like ours.



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