

INSIDE THIS ISSUE:

The Stock Market Today

Say What?

This Stock Is Up This Year

KEY TAKEAWAYS

- ⇒ *Where oil goes, so goes stocks*
- ⇒ *Recent bounce a good sign but we have more hits to come*
- ⇒ *Need capitulation stage, more fund outflows before turn is with conviction and legs*
- ⇒ *Small cap stocks in bear market*
- ⇒ *Earnings growth and oil price bounces could occur in the spring*
- ⇒ *Not all stocks have been creamed; this 2016 winner has 25% gain written all over it*

THE MAJOR INDICES

<u>Index</u>	<u>Close</u>	<u>2015</u>
DJIA	16094	-7.7%
S&P 500	1907	-6.7%
NASDAQ	4591	-8.3%
Russell 2000	1021	-10.1%

(figures are rounded)

WHERE STOCKS WILL GO AND WHY

In case you missed it, we did not have an issue of The Goldman Guide last week. In fact, our publishing schedule has ben out of whack on/off for several weeks now due to your truly battling a series of illnesses that have packed as much of a wallop as the 30 inches of snow we just received this past weekend. While the market drops did not impact my health it surely hurt my mood.

With that aside, we can try get caught up and go on with our regular schedules beginning with this publication.

An Unemotional Perspective

Without going into grand detail on information and insight that you may have already heard, it is important to take stock of the current situation. Equities in the U.S. have been hammered due almost exclusively to economic factors rather than fundamental issues. Fears of oil company collapses amid the oil drubbing, currency swings, and the unending sale of emerging markets stocks will not abate anytime soon. Migrants in Europe appear ready to ransack the Continent's political, societal and monetary coffers which does not help, either. At home, a lack of favorable data has not helped with stock weakness exacerbated by slowdowns in key names that drove stocks to begin with.

For the near term, it appears that where oil goes, stocks will follow. The good news is that as of intra-day Wednesday, we reached the corrective phase for all major indices and then bounced sharply from those lows. That is a very good sign.

What to Expect From Stocks

The bad news is that it did so without reaching the capitulation/concession stage, which indicates we could test these lows and then some. For the record, the Dow and S&P 500 both reached a 2016 drop of over 11% since the end of 2015, while NASDAQ and the Russell 2000 dropped intraday by 14% and over 15%, respectively. As indicated in our table on page 1, only the Russell 2000 remains down more than 10%.

Look, we have been champions of small caps stocks for forever and a day but the fact remains that we are in a bear market for this group. In fact, when the low hit on Wednesday, the index had declined by 26% since June of 2015. Ouch. I am confident that at a P/E of 15x the group is cheap and offers the greatest upside. However, aside from short term trading action, it may be a few quarters before this group comes back—and it will—with a vengeance.

For now, we still need outflows from mutual funds (which are \$24 billion month-tot-date) to continue and breach the \$50 billion mark for capitulation to set in and “suckers” to sell at the low only to see a snap-back return, much like what we saw last week. (Although we do not put a lot of stock in the legs it has just yet.) We noted two weeks ago that twice in the past 6+ years, the 12-month forward P/E on the S&P 500 dropped below 11x for a blip and then roared back. That would mean a drop to the 1300+ level, a 35% decline. This is possible but highly, highly unlikely. A 10-15% drop from here though is definitely possible, as the first couple of weeks this year have shown us.

If you have some profits, take them. If you can buy puts on a long position, do it. But don't do any wholesale selling. That is foolish. Earnings will drive stocks when things turn. Now, it may not be until we see the reports for 1Q16 earnings before we have positive comparisons and we may not see sustained oil price increases until then as well (I am thinking May-ish). Still, opportunities will present themselves both in sectors, groups, and individual stocks. Just stay away from emerging markets stocks and ETFs, along with oil-related plays, for a while.

If it is any consolation, January is almost over. Plus, if the Panthers win the Super Bowl, it could portend a good year for stocks—and the market has never dropped when the Broncos have won, either. Last, stocks rarely decline in an election year. So, there's that....

The Stock Market Today

AAll Sentiment Survey (figures rounded)

	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	22%	18%	39%
Neutral	30%	37%	31%
Bearish	49%	46%	30%



It is no surprise that a jump at week-end made investors feel a little better. The Ticker Sense poll is also indicating a light rise in the Bullish category, but the majority of respondents are still Bearish, which is understandable.

We have routinely cited inflows/outflows, as released by Lipper Analytics. In their most recent installment, equity outflows for the first three weeks of 2016 total \$24 billion. While a huge number, it still pales in comparison to the \$36 billion in August/September 2015. Look for this number to continue to rise, putting the cap on any sustained market rises.

U.S. Stock Market Index Performance 1/22/2016								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Below 200-DMA
DJIA	16,094	18,351	15,370	5/19/15	8/24/15	12.3%	4.7%	-7.7%
S&P 500	1,907	2,135	1,812	5/20/15	1/20/16	10.7%	5.2%	-7.0%
NASDAQ	4,591	5,232	4,292	7/20/15	8/24/15	12.3%	7.0%	-7.5%
Russell 2000	1,021	1,296	958	6/23/15	1/20/16	21.2%	6.6%	-14.3%
Average						14.1%	5.9%	-9.1%
Source: www.BarChart.com, Goldman Small Cap Research								

Say What?



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

Investor's Business Daily

<http://www.investors.com/politics/editorials/al-gore-runs-global-warming-racket/>

A fun piece after getting nearly 30 inches of snow this weekend.

The Wall Street Journal

<http://blogs.wsj.com/briefly/2016/01/22/5-things-to-watch-on-the-economic-calendar-103/>

What lies ahead...

The New York Times

http://www.nytimes.com/2016/01/24/technology/larry-page-google-founder-is-still-innovator-in-chief.html?ref=business&_r=0

A welcome diversion about Alphabet and a neat feature story to boot.

Marketwatch

<http://www.marketwatch.com/story/investors-are-still-too-bullish-despite-the-stock-market-correction-2016-01-22>

I agree—but only with big caps, not small caps.

ZeroHedge

<http://www.zerohedge.com/news/2016-01-24/what-charts-say-similar-topping-process-2000-2007>

If you like tons of charts, this is for you. A bit too apocalyptic for me.

VCRA Is Up This Year

Just because the Russell 2000 Index is down 10% year-to-date does not mean that all small cap and microcap stocks are down sharply. Some stocks are actually up. In fact, we have identified one stock that while not profitable, is up for the year, is just a tad under its 52-week high and appears primed to rise 25% or higher in the coming months.

Vocera Communications (NASDAQ—VCRA—\$13.76) is a leading healthcare communications company that provides enterprise-class communication solutions that help care teams collaborate more efficiently by efficiently delivering key information on the right devices, to improve outcomes. Vocera solutions are installed in more than 1,300 organizations worldwide.

The company recently raised its revenue guidance for 2015 and Wall Street consensus forecasts call for \$102 million and \$111 million in sales for 2015 and 2016, respectively. Plus, Vocera also announced its largest booking and backlog to date. Add in the fact that the company has beaten the Wall Street consensus loss per share estimates for the past four quarters, and confidence in future growth is high. Our target price for these shares is \$18 which represents 5x 2016 forecasted sales of \$111 million and is the high end of the traditional price/revenue range for companies of this size and standing.





The Goldman Guide

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