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KEY TAKEAWAYS

- ⇒ *Small caps and the market are about to bust out*
- ⇒ *Short interest at all-time high and some stocks have short interest over 90% of their public float*
- ⇒ *Early tallies on Q1 earnings shows 71% of S&P 500 index companies exceeded forecasts*
- ⇒ *Bull/Bear ratio dropping is a positive sign as is the big equity fund outflow last week*
- ⇒ *BANC reports Thursday and could beat estimates for 5th straight quarter*

THE MAJOR INDICES

Index	Close	2016
DJIA	17,897	2.7%
S&P 500	2081	1.8%
NASDAQ	4938	-1.4%
Russell 2000	1131	-0.4%

(figures are rounded)

THREE SIGNS SMALL CAPS WILL SOAR

I am feeling pretty good about the stock market right about now, and you so should you. I know that I have been a broken record preaching that small caps offered the

greatest upside. Well, small caps have been up sharply as they have risen 20% from the mid-February lows, so we have been vindicated, during the recent rally. Still, this run is far from over. In fact, there are 3 signs that appear to be just the catalysts to take small caps to the next level, enabling the Russell 2000 to approach its 52 week high.



Sign #1: Trigger Point

For a moment, the Russell 2000 crossed its 200 DMA for the first time in ages. It was the last of the major indices to reach this bullish event and it is just the beginning.

Sign #2: History

If it happens this week, it will have taken nearly four months for the Russell 2000 to be up, year-to-date.

Sign #3: A Good Earnings Season

Good numbers ahead bode well for small cap reporting. Already 71% of S&P 500 companies have reported EPS above the mean forecast (only 11% below) and 60% of them have reported above the mean sales estimate.

The Stock Market Today

U.S. Stock Market Index Performance 4/15/2016								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Below 200-DMA
DJIA	17,897	18,351	15,370	5/19/15	8/24/15	2.5%	16.4%	4.6%
S&P 500	2,081	2,135	1,810	5/20/15	2/11/16	2.5%	15.0%	3.3%
NASDAQ	4,938	5,232	4,210	7/20/15	2/11/16	5.6%	17.3%	1.8%
Russell 2000	1,131	1,296	943	6/23/15	2/11/16	12.7%	19.9%	-0.1%
Average						5.8%	17.2%	2.4%
Sources: www.BarChart.com, Goldman Small Cap Research								

In addition to these 3 signs, other bullish traits abound. For example, the performance of the Financials. We have been (in contradictory fashion) rather bullish on Financials and they have not disappointed. Both **JP Morgan (NYSE—JPM)** and **Bank of America (NYSE—BAC)** were up nicely on good results last week. That bodes well not just for the industry, as the Financials Group led industry performance notching a 4.3% rise for the week, but for the economy and other stocks as well. Financial stock performance can be a contributor to other leading indicators, after all. With a 12-month forward P/E of 12.7x, and a very small percentage short, the group looks mighty attractive.

Speaking of shorts, we noticed in various financial publications, that the current short ratio on stocks is at a record. One can look at it two ways. First, the shorts aren't often wrong. Second, if even a small jump in stocks occurs, short covering could take it artificially higher. We tend to take the latter rather than the former, as an indicator. To give you an idea of how much the short situation is an issue, there are 50 stocks with short positions so large that they range from 27% to 95% of the public floats of the underlying companies!

The one thing that does concern me, however, is that while the number of advancers and new highs tend to outweigh decliners and new lows, the declining volume still outpaces the advancing. Hopefully, that will right itself as stocks move ahead. If not, well...

Say What?



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

Bloomberg

<http://www.bloomberg.com/news/articles/2016-04-15/rough-week-for-shorts-as-banks-send-s-p-500-to-four-month-high>

Record short interest is better than low short interest, among other things.

The New York Times

<http://www.nytimes.com/2016/04/16/world/middleeast/saudi-arabia-warns-of-economic-fallout-if-congress-passes-9-11-bill.html>

Nothing like a little blackmail between friends...

USA Today

<http://www.usatoday.com/story/money/markets/2016/04/16/why-low-oil-hasnt-helped-economy/83035110/>

Great and important topic.

Marketwatch

<http://www.marketwatch.com/story/why-tepid-earnings-reports-arent-hurting-stocks-2016-04-16>

The poor quarter is already factored into stocks, folks.

ZeroHedge

<http://www.zerohedge.com/news/2016-04-16/big-move-coming>

Worth the quick read with great charts.

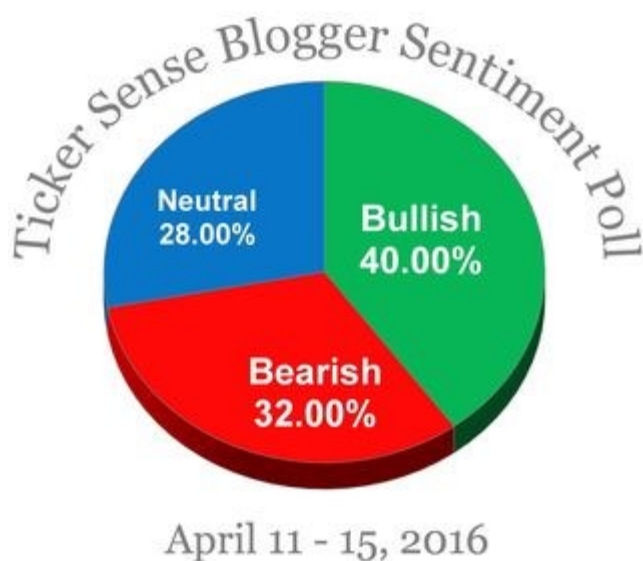
Notable Numbers

AAll Sentiment Survey (figures rounded)

	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	28%	32%	39%
Neutral	47%	46%	31%
Bearish	25%	22%	30%



Bulls nearly tying the Bears and Neutrals just under 50% for the AAll survey is a pretty good sign, in my view. Also a good sign is that the percentage of Bears in the Ticker Sense poll is also positive. Last week we cited the Bull/Bear ratio and correction percentage. This week, those figures have grown even more positive. The Bull/Bear ratio, as measured by Yardeni Research, dropped from 1.63 to 1.48, a 10% decline, even in the face of a solid week for stocks. Plus, mutual fund holders seem to be anything but bullish. According to Lipper, last week's report noted \$4.2B in equity fund outflow—the largest outflow in weeks (the figure barely reached \$4B three weeks ago and 5 weeks ago).



Earnings Week

The direction of the market's Q1 earnings season will rest largely on the performance of the 109 companies reporting this week, including roughly half of the Dow Jones Industrial average components. Generally speaking, a ton of major financial, consumer, and technology companies will make their appearance on the earnings circuit. As noted earlier, both revenue and earnings are coming in well above the mean estimates, although the Financials sector isn't exactly kicking but in the growth outperformance, which is to be expected. Interestingly, the consumer discretionary segment's reporting season, according to Factset is having great performance in the aggregate, led by internet retail, and could include autos too. Of course apparel (or retail stores) are sucking wind, as we expected.

A sampling of what's ahead:

April 18	Netflix (NASDAQ – NFLX)
April 18	IBM (NYSE – IBM)
April 19	Goldman Sachs (NYSE – GS)
April 19	Johnson & Johnson (NYSE – JNJ)
April 19	Yahoo (NASDAQ – YHOO)
April 20	American Express Co. (NYSE – AXP)
April 20	Coca-Cola (NYSE – KO)
April 21	Alphabet (NASDAQ – GOOGL)
April 21	Starbucks (NASDAQ – SBUX)
April 22	General Electric (NYSE – GE)

Also, our financials pick of a month ago, **Banc of California (NASDAQ—BANC—\$18.35)**, reports on 4/21/16. Forecasts are \$0.31 vs. \$0.29, but BANC has beaten the consensus four straight quarters and we would not be surprised to see it happen again. The stock is up 14% in a month, but given its high industry growth rate, a \$23 target assumes 14.5x P/E, a modest premium to the current industry average.



The Goldman Guide

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