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KEY TAKEAWAYS

- ⇒ *Market sentiment is skewed with expectations too high.*
- ⇒ *Small stocks crushing the big boys; could small cap dividends be a good play?*
- ⇒ *This industry's stocks are on a roll and it is just the beginning.*
- ⇒ *With rising interest rates pushed back to 3Q/4Q16, bank stocks' movement could stall.*
- ⇒ *This semi trades less than 8x EPS and when business is strong like today it commands a P/E of 10x-12x*

THE MAJOR INDICES

Index	Close	2016
DJIA	17,807	2.2%
S&P 500	2099	2.7%
NASDAQ	4943	-1.3%
Russell 2000	1164	2.5%

(figures are rounded)

DON'T FALL FOR THIS TRAP

Things aren't what they seem.



Friday's jobs report was downright terrible, but the sky is not falling. The economy may be improving in certain circles but overall, growth isn't exactly stellar. The poor jobs report might mean we get a reprieve on a rate hike until after the election. However, it could result in more frequent and sharper increases.

When I lift up the hood on the jobs report, key characteristics point to stagnant job growth period, which keeps stocks in check; either down or in a narrow range. Here's why.

Economists were forecasting 150,000 new jobs. Schmucks. I guess they forgot about the 35,000 striking **Verizon (NYSE—VZ)** workers. It made the number look worse than it actually is. We have also reached a trough in the unemployment rate. It needs time to settle. The rotten retail market is not helping this cause. Moreover, with summer season upon us we may find summer workers (i.e., students) may find difficulty obtaining work.

Let's not forget what I call the accelerator/capability gap. A lot of openings in tech and high-end (but not management) jobs have not been filled for months as our ever-increasing tech progression has outpaced the capabilities of prospective workers in high tech and related industries. So, no workers to fill those jobs, while the rest of the unemployed are stuck between adding proficiency for new work, or waiting for something in their sweet spot.

For summer, expect low job growth and little stock action.

The Stock Market Today

U.S. Stock Market Index Performance 6/3/2016								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	17,807	18,189	15,370	6/23/15	8/24/15	2.1%	15.9%	3.9%
S&P 500	2,099	2,133	1,810	7/20/15	2/11/16	1.6%	16.0%	4.4%
NASDAQ	4,943	5,232	4,210	7/20/15	2/11/16	5.5%	17.4%	2.8%
Russell 2000	1,164	1,296	943	6/23/15	2/11/16	10.2%	23.4%	4.5%
Average						4.9%	18.2%	3.9%
Sources: www.BarChart.com, Goldman Small Cap Research								

As Yogi Berra would say, “it’s déjà vu all over again.” The Russell 2000 Index was again the star index last week and there is no indication that aside from some potholes, the road is pretty clear ahead in the near term. I chuckle when I hear market strategists predicting what it will take to get the DJIA to the 20,000 mark, which would be a more than 10% gain. The hell with that. That is an all-time high and then some and would be hard to reach. A 10% gain in the small cap stock index still doesn’t even take it to its 52 week high!



Stock with small, you will have a ball. To be even more specific, semis are in the early part of what feels and smells like one of their patented runs. We kinda felt this way when we published the most recent edition of The 30-30 Report.

Two of the three profiled stocks 3 weeks ago are in the semi space and they are up an average of 18% very quickly. Many are long on cash, enjoying increasing margins and still trade at attractive P/E multiples.



It looks like our call on small bank stocks in March may have been premature. Although the lone profile, **Bank of California (NASDAQ—BANC—\$19.98)** is up 25%, if interest rates don’t rise anytime soon, this segment could languish for a few months.

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/video/phone-scam-onslaught-has-authorities-scrambling/D8BFDC57-CCC9-4949-AA17-C894757EB6E9.html?mod=trending_now_video_1

I thought this has escalated quickly.

Marketwatch

<http://www.marketwatch.com/story/this-is-the-surprise-amid-the-stock-market-confusion-2016-06-04>

I will let you be the judge of that.

Bloomberg

<http://www.bloomberg.com/news/articles/2016-06-01/going-broke-slowly-a-guide-to-sprint-s-33-billion-debt-dilemma>

No irony that a company named *Sprint* is going broke "slowly"? Stock has sucked for years.

The New York Post

<http://nypost.com/2016/06/03/ugly-jobs-report-is-even-worse-than-it-looks/>

Ugly...but maybe we should take an alternative posture.

ZeroHedge

<http://www.zerohedge.com/news/2016-06-04/anonymous-declares-war-mainstream-media-attacks-fox-cnn-nbc-and-more>

I have been getting more and more info from abroad than I care to divulge.

Notable Numbers

AAll Sentiment Survey (figures rounded)

	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	30%	18%	39%
Neutral	41%	53%	31%
Bearish	29%	29%	30%



I wish I could speak with the respondents to these polls/surveys today. My guess is that the news found in Friday's jobs report would modify these original responses. For both groups to go markedly bullish is a little too much if you ask me. But, then again, I am cautiously optimistic with a touch of Debbie Downer for the near term. It will be interesting to see what happens with big dividend payers over the coming weeks/months. In a rising interest rate environment, big dividend paying stocks tend to experience selling as investors seek a guaranteed return with less principal risk inherent in bonds than equities. If the rate hikes are delayed, perhaps the fact that annual dividend yields for Russell 2000 stocks are up an average of 14% from a year ago, make them attractive today.



May 31 - June 3, 2016



May 23 - 27, 2016

Big Gains Ahead For This Semi Stock

Our last three stock profiles are up, one more than 20%. Can we strike gold a 4th time? We think so.

Tower Semiconductor Ltd. (NASDAQ—TSEM—\$13.05—NR) is a global specialty foundry leader. TowerJazz manufactures integrated circuits, offering a broad range of customizable process technologies including: SiGe, BiCMOS, mixed-signal/CMOS, RF CMOS, CMOS image sensor, integrated power management (BCD and 700V), and MEMS. Semi stocks are on the rise and TSEM has joined the party in recent weeks after crushing 1Q16 EPS estimates on a non-GAAP basis.

Wall Street consensus currently forecasts a 28% jump in revenue to the \$1.2 billion mark, with EPS of \$1.98, which is a big drop in EPS from last year. However, at current levels, the stock trades under 8x this year's EPS. This is not so unusual during trough periods and during industry spikes, the stock can trade as much as 12x EPS.



We target \$17, which is a 23% rise and matches the 52-week high. With the recent April book-to-bill posting a 22% rise over March, the wind is at TSEM's back. Plus, when the stock busts through the 200 DMA of \$13.09, it could give the stock a short term boost.



The Goldman Guide

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