The Goldman Guide

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

⇒ *New age of investing means you must have exposure to security/defense*

⇒ *Even in low growth, low yield environment, trading is the way to go versus buy/hold*

⇒ *Investor sentiment data means strong 2017 ahead, even though we believe stocks may have hit a wall near term*

⇒ *Earnings season prospects remain high*

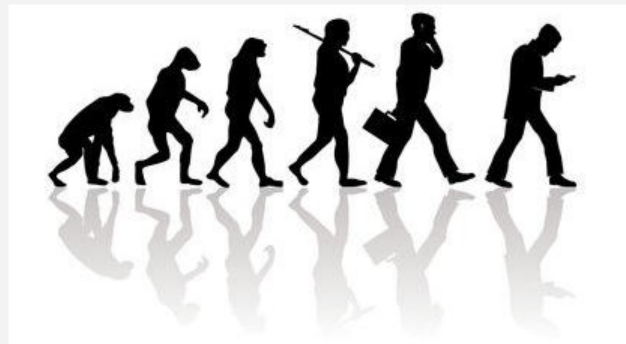
⇒ *3 security/defense stocks plus a bonus are featured*

THE MAJOR INDICES

Index	Close	2016
DJIA	18,147	4.1%
S&P 500	2130	4.2%
NASDAQ	4957	-1.0%
Russell 2000	1177	3.6%

(figures are rounded)

THE NEW INVESTING AGE



George Bernard Shaw once said:

" Progress is impossible without change, and those who cannot change their minds cannot change anything."

We are in a new era of investing, even though many pros are in denial. Markets, stocks, trading, valuation, favored companies...they may not be what you think. And, if you are slow to recognize and change you risk getting left behind.

Twenty some odd years ago the notion of socially responsible investing was a big deal. Environmentally friendly funds and companies cropped up all over the place. It became passé to invest in sin stocks and you were lauded with praise (but not performance) in the socially responsible vehicles. They were good ideas but were not good investments.

This led to a divestiture effort which in some circles is going on today. In this vein a group or groups are seeking to affect policy by pressuring group to divest themselves of investments in certain nations or types of investing. In some cases, the thesis is perfectly reasonable. In others, purely spiteful and driven by other factors than morality.

We have now reached the recent pinnacle of the nation's divide along racial and other lines. American is pitted against American, brother is pitted against brother. It may not be politically correct, but the train has left the station. In the past you "had" to have exposure to certain investment categories. For the first time in decades, you "have" to own security/defense stocks.

The New Investing Age (cont'd)

There is no reason for gun sales to slow. More and more municipalities will be equipping police with cameras. Citizens will be taking picture and filming events with even greater regularity. Hell, crime is happening everywhere. There was a hostage situation for almost 9 hours less than a half mile from my house last week. The situation has hit home because it is close to home.

Make no mistake. Whoever is in office in the next Administration will not likely be able to get away with the types of military cuts we have experienced. Look for funding to rise. At home and abroad, security and defense growth is a fact of life whether we like it or not.

Upstarts are establishing market share quickly or at the least changing our lifestyles. Fads become a mania not in years or months, but days and hours. Look at the new mania—Pokemon GO. It has been out for less than a week and is the must-have app. Everywhere I went this weekend people were playing it everywhere and his obsession has already caused a lot of problems.

Just as hedge funds are winding down because of poor performance and a lower risk profile sought by big investors, investors with entrepreneurial spirit are voiding risky public investments and replacing them with even riskier private ones. Yet, VCs are taking less risk than ever! Moreover, whereas the thing to do was buy and hold til you were old, investors need to dramatically reduce their time horizons. Otherwise, your investments are at risk due to fast-shifting landscapes in industry and the effect of the global and gig economies.

Folks, we are in a low growth, low yield environment. And, that is not going to change anytime soon. Once we come to that realization, we can all make money by taking advantages of short term inefficiencies in certain markets, investment categories, sectors, and stocks.

Gone are the days where financials, energy, and gold were anchors for equity accounts. Investing in early stage markets that have big potential, or thematic investing can be very profitable. Pepper in the new anchors such as security/defense and do not be afraid to trade in and out of positions. Passive investing and high fliers may soon lag behind. And we will be there to guide you to the right path.

The Stock Market Today

U.S. Stock Market Index Performance 7/8/2016								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	18,147	18,168	15,370	4/20/16	8/24/15	0.1%	18.1%	4.9%
S&P 500	2,130	2,133	1,810	7/20/15	2/11/16	0.1%	17.7%	5.1%
NASDAQ	4,957	5,232	4,210	7/20/15	2/11/16	5.3%	17.7%	2.9%
Russell 2000	1,177	1,276	943	7/16/15	2/11/16	7.8%	24.8%	5.7%
Average						3.3%	19.6%	4.6%
Sources: www.BarChart.com, Goldman Small Cap Research								

I don't mind telling you that I think we may hit a near term wall in the market. After all, the big cap indices are a hair away from 52-week high and this is just after the big post-Brexit run. It just feels like we need to catch our breath. Recent Investor Intelligence figures tell us an interesting story. By looking at the Bull/Bear ratio and correction percentage of the past 3 weeks, the last time we were this low on the and correction percentage was the 21st of June and stocks swooned shortly thereafter. Of course the ratio dropped sharply and the correction percentage jumped. In turn, stocks enjoyed this recent run.

Regular readers know we place value on investor sentiment. Apparently, so does the Chief Strategist of **Charles Schwab, Inc. (NYSE—SCH)**, Liz Ann Sonders. Note what she says in this weekend's edition of *Barron's*:

"The dearth of investor confidence is one of the more positive indicators for the market looking into the second half of the year. The American Association of Individual Investors (AAII) survey recently showed the lowest level of bullish sentiment in more than 10 years, and the highest level of neutral sentiment in more than 13 years. Following occurrences like this in the past, the stock market generally had exceptionally strong returns a year later, with a consistent track record. In the post-1987 history of the AAII data, there were only five similar occurrences historically—all of which were within the 18 months following the crash of 1987. Here, too, the market was up more than 20% within the following year."

Say What?

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

The New York Post

http://nypost.com/2016/07/09/labor-deptartments-job-numbers-might-as-well-come-from-a-lottery/

Amusing and valid.

Marketwatch

http://www.marketwatch.com/story/wall-streets-most-boring-stocks-are-in-bubble-territory-2016-07-07

The world is upside-down.

24/7 Wall Street

http://247wallst.com/economy/2016/07/09/imf-cuts-euro-area-growth-to-1-4-for-2017/

Sounds about right. All about the expectations.

The New York Times

http://www.nytimes.com/2016/07/10/upshot/america-can-fix-its-student-loan-crisis-just-ask-australia.html?ref=economy

The U.S. doesn't always have the answers.

ZeroHedge

http://www.zerohedge.com/news/2016-07-08/how-george-soros-singlehandedly-created-european-refugee-crisis-and-why

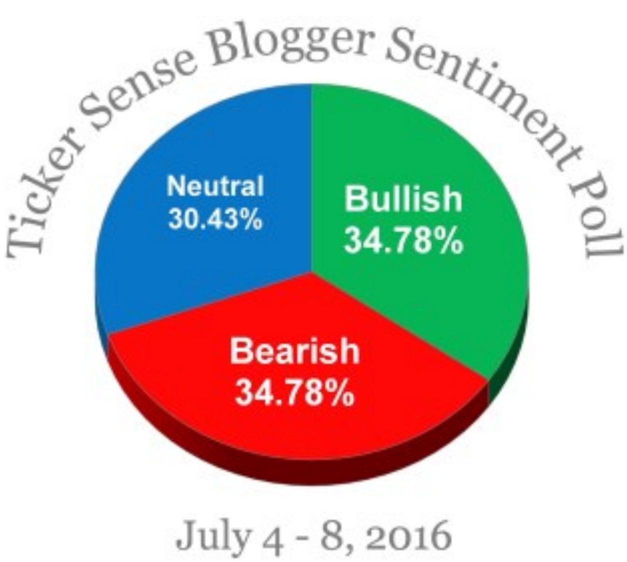
A very interesting assertion.

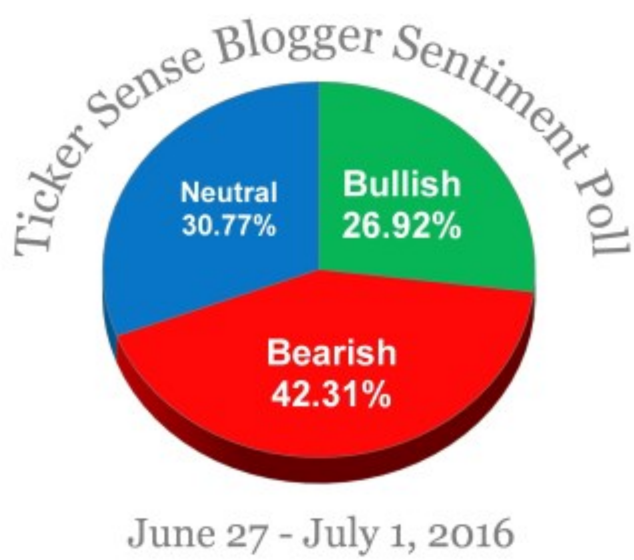
Notable Numbers

AAII Sentiment Survey (figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	31%	29%	*39%*
Neutral	42%	38%	*31%*
Bearish	27%	34%	*30%*

Big drop in Bearish sentiment in both groups this week and while the percentages are very different, the Neutrals did not experience major change. As we noted earlier, the Investor Intelligence figures are really telling. The last time we were this low on the Bull/Bear ratio and correction percentage was the 21st of June and stocks swooned shortly thereafter. It is possible that we have moved to far to quickly in the past week or so. Moreover, with the major big cap indices flirting with new highs, and the lowest equity outflows in a month we may have some headwinds here this week before earnings season trickles in next week, finally driving stocks higher with conviction.





3 Picks and Market Forecasts

It occurred to me a couple of weeks ago that at the end of earnings season in recent quarters, it seems that we always look back and say, hey, that quarter was better than expected. Factset put out a recent report that actually addresses this notion.

"Over the past four years, on average actual earnings reported by S&P 500 companies have exceeded estimated earnings by 4.0%. During this same time frame, 68% of companies in the S&P 500 have reported actual EPS above the mean EPS estimates on average. As a result, from the end of the quarter through the end of the earnings season, the earnings growth rate has typically increased by 2.7 percentage points on average (over the past four years) due to the number and magnitude of upside earnings surprises. "

With this in mind, we are even more confident that this earnings season will be a solid one. Our only concern is what happens next week at the Republican National Convention, and the subsequent effect on stocks. Time will tell.

In the beginning of this issue, we strongly urged you to have exposure to security/defense in your portfolio—and we did not even address the terror issue. In any event, here are 3 stocks to strongly consider:

Smith and Wesson (NASDAQ—SWHC—$29.07—NR), a longtime favorite, is the bellwether for the handgun makers.

Taser Int'l (NASDAQ—TASR—$27.30—NR), another favorite is a bellwether supplier of its tasers, stun guns and now mounted video cameras to law enforcement. Its growth prospects are huge.

Digital Ally (NASDAQ—DGLY—$6.69—NR) is a small player in the video market to law enforcement. It ran over 60% on Friday and is still well off its year high. Could be good for a trade as it is the cheapest way to play the space and is not near a high like the others.

Bonus: It may have already run too much over the weekend, by **Nintendo (OTC—NTDOY—$20.73—NR)** is on fire with the app we mentioned earlier. The key? It has not yet been launched in Japan, ironically.

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