

INSIDE THIS ISSUE:

Stock Market Today

Say What?

Notable Numbers

KEY TAKEAWAYS

- ⇒ *We are in a manic world and your trading should reflect this phenomenon.*
- ⇒ *P/E valuations are getting scary high based on recent historical averages.*
- ⇒ *The Russell 2000 has quietly gone upstream with an average market cap that is more than 3x the Russell Microcap Index.*
- ⇒ *Energy may be the next best way to go with good value, stocks not near year highs, and big EPS growth ahead*

THE MAJOR INDICES

<u>Index</u>	<u>Close</u>	<u>2016</u>
DJIA	18,517	6.3%
S&P 500	2162	5.8%
NASDAQ	5030	0.5%
Russell 2000	1205	6.1%

(figures are rounded)

INVESTING IN MANIA TIME

The world is upside down. Indiscriminate killing here and abroad. The real world is scary. It is no wonder that millions of young adults are running around trying to find and gather imaginary things in the real world with the wildly successful Pokemon Go app.



We mentioned in last week's Guide that you must own security/defense stocks and gave you 3 examples, including **Taser International (NASDAQ—TASR—\$27.20—NR.)** As if on cue, Bloomberg put out an article the same day we issued the Guide, touting Taser's prospects in the cop (mounted) camera market. In fact, it is the cover story! Perhaps we need to find some companies selling body armor, after the latest tragedy in Baton Rouge, let alone Nice, France.

Meanwhile our **Nintendo (OTC—NTDOY—\$33.08—NR)** pick was up over 50% last week and probably has more legs left, despite its multi-billion dollar move. If people aren't glued to their phones to find out what is happening on the terrorist front they are finding some crazy stuff related to Pokemon Go.

As bad (and addictive) as these things are for us, they remain good trades, at least for the interim.

The Stock Market Today

U.S. Stock Market Index Performance 7/15/2016								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	18,517	18,557	15,370	7/15/16	8/24/15	0.2%	20.5%	6.7%
S&P 500	2,162	2,169	1,810	7/15/16	2/11/16	0.3%	19.4%	6.4%
NASDAQ	5,030	5,232	4,210	7/20/15	2/11/16	3.9%	19.5%	4.2%
Russell 2000	1,205	1,276	943	7/16/15	2/11/16	5.6%	27.8%	8.0%
Average						2.5%	21.8%	6.3%
Sources: www.BarChart.com, Goldman Small Cap Research								

Are we at nosebleed levels yet? Kinda feels that way a little to me. The trailing P/E on the S&P 500 Index is at its highest point in 6 years and the 12-month forward P/E of 17.1x is higher than the 5 year and 10 year averages as are the individual sector P/Es, according to Factset.

While some of the larger indices are nearing their peak, I still think that there is some room for the Russell 2000, even though that index is skewing ever higher. Would you believe that the average market cap is now over \$1.7 billion? To put it in perspective, the Russell microcap average market cap is over \$1 billion less, and less than a third of the 2000 Index average at \$500 million! We have been skewing our picks ever smaller and it may be that we have to skew back higher to more accurately mirror the index. I wonder if this move by the Russell could be problematic...

We have been pretty on target on the topic of energy stocks and oil price direction this year but my gut is telling me that now may be the time to buy an energy stock or two. To some degree, we may be a little late to the party, judging by some big stock performers. In any event, with a return to profitability now just 6 months away for most, there is real value in independent oil producers along with refiners. Look for our energy pick in this week's Market Monitor. Hint: There are small cap stocks with good value that are not near year highs (unlike most stocks), and with big EPS growth ahead.

Say What?



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

The New York Post

<http://nypost.com/2016/07/13/the-military-will-soon-control-swarms-of-drones-with-their-minds/>

It's like The Jetsons, just potentially evil.

Marketwatch

<http://www.marketwatch.com/story/bill-ackmans-annus-horribilis-is-only-getting-worse-2016-07-15>

Kinda funny.

USA Today

<http://www.usatoday.com/story/money/2016/07/16/citibank-bullmarket-oil/87026718/>

I still think it is a tad early but wholly agree with the sentiment.

The New York Times

<http://www.nytimes.com/2016/07/17/business/mutfund/stretch-of-market-volatility-makes-it-stormy-at-the-top.html>

Yeah, man!

ZeroHedge

<http://www.zerohedge.com/news/2016-07-15/beware-good-news-puts-lipstick-hillary>

Even long-standing Demo supporters are having a tough time swallowing this.

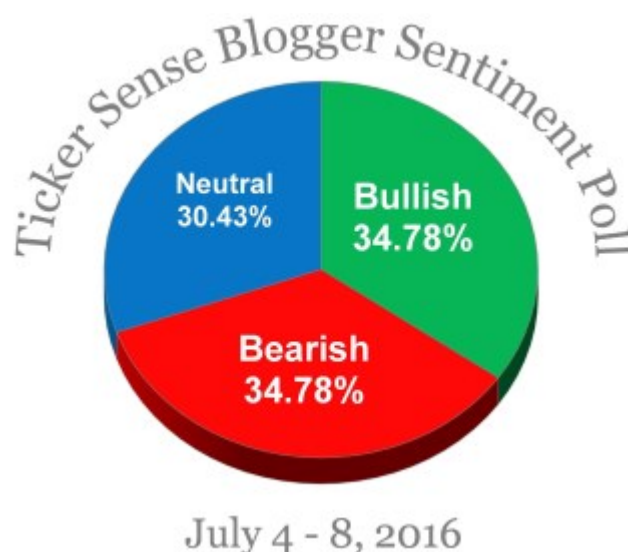
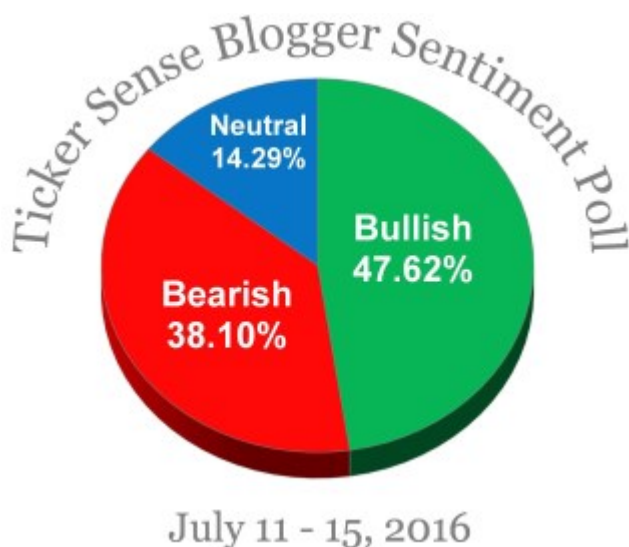
Notable Numbers

AAll Sentiment Survey (figures rounded)

	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	37%	31%	39%
Neutral	39%	42%	31%
Bearish	24%	27%	30%



As John Madden would say, boom! That's what happened to the number of bullish investors. I thought we might see a little selling this past week but I was clearly wrong. Of course I did not know that equity funds had positive net inflows for the first time in nearly 3 months—to the tune of \$7.8 billion. That is not insignificant. Investors just couldn't wait to deploy capital which seems to have made the migration from abroad to the good 'ole USA. For whatever it's worth, the Bull/Bear Ratio according to Investors Intelligence is strongly over 2.1 and the correction camp is down to almost 20%, a 50% drop in 2 weeks. Bulls may still be holding the cards for a while but we will stay focused on small stocks during this period where upside is greater.





The Goldman Guide

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