Goldman SMALL CAP RESEARCH

The Goldman Guide

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

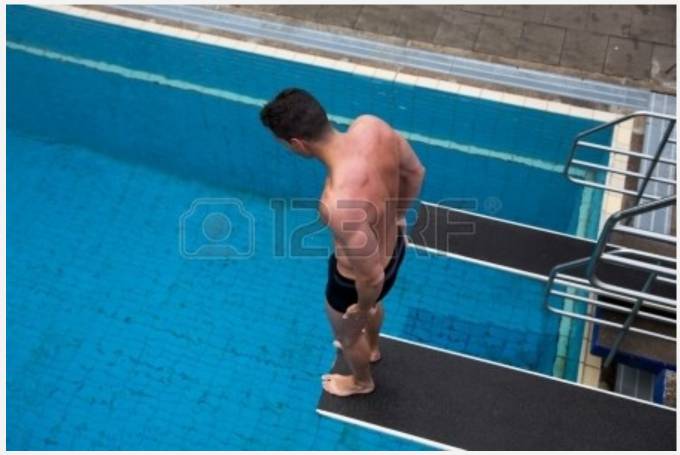
- ⇒ *Wall Street analysts are screwing up all over the place, leading you astray*
- ⇒ *Q2 earnings was better than expected, Q3 is a question mark, 2017 will be kick-ass*
- ⇒ *Avoid the most unethical company in America*
- ⇒ *We have got investor sentiment red flags again*
- ⇒ *This oversold stock is due for a bounce soon. If you buy the products, buy the stock*

THE MAJOR INDICES

Index	Close	2016
DJIA	18,553	6.4%
S&P 500	2184	6.8%
NASDAQ	5238	4.6%
Russell 2000	1237	8.9%

(figures are rounded)

No Guts, Undeserved Glory



If you think that stock gains are getting smaller, you are probably right.

I have noticed an alarming fear trend among sell-side analysts recently. Since I was one for 10 years I feel that I can address this issue head on.

As the market has reached new highs, some analysts are engaging in some dumb behavior. Or, maybe they are having difficulty finding ideas. In many cases, maybe they don't want to stock their necks out. In any event, I am seeing a growing preponderance of ratings upgrades well after big runs, downgrades after big drops, and initiations of companies with Buy ratings that offer limited upside.

Are they now impotent? What good does it do to upgrade a stock from Hold to Buy that has gone up 300% in 3 months? Where were you for the previous 12 weeks? And, why bother downgrading a stock days after a busted quarter. For that matter, if a stock has 10% upside by your measure, how is that a new Buy recommendation?

Our ideas are supposed to help you either by introducing new ideas with reasonable upside or steering you clear of trouble. Sometimes it works, sometimes it doesn't. We are not infallible. But, you have to at least try. For investors, be wary and get a read on these new ratings before following the herd. It will save you money and heartache later.

The Stock Market Today

U.S. Stock Market Index Performance 8/19/2016								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	18,553	18,668	15,370	8/15/16	8/24/15	0.6%	20.7%	5.9%
S&P 500	2,184	2,194	1,810	8/15/16	2/11/16	0.5%	20.7%	6.5%
NASDAQ	5,238	5,271	4,210	8/15/16	2/11/16	0.6%	24.4%	7.7%
Russell 2000	1,237	1,244	943	8/15/16	2/11/16	0.6%	31.2%	10.1%
Average						0.6%	24.2%	7.6%
Sources: www.BarChart.com, Goldman Small Cap Research								

Random Thoughts

Where is the driver?

All of the major indices reached new highs on the same day last week. Still, with the slight exception of the NASDAQ Composite, there was virtually no change in the weekly figure for the second consecutive week. And we are entering an historical danger zone, performance-wise. Something's gotta give. With no more Q2 financial results due to report, all eyes will be on Yellen this week. Vice Chair Fischer ha already signaled a rate hike this year. Oy. The best she can do is keep the status quo although her comments can drive stocks higher. I am not so sure she carries that kind of moxie right now.

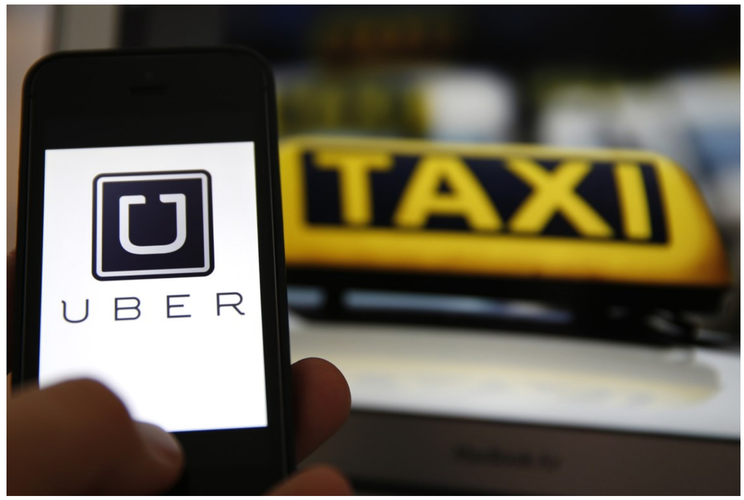
It is all about earnings.

On average, the Q2 earnings for the S&P 500 Index were generally ahead of the pre-announcements forecast. During the earnings release period, one-fifth of companies gave guidance for Q3. Over 70 stocks reported lower guidance, twice the number reporting higher guidance. Not too keen on that but it could definitely be worse.

Next year is going to be kick-ass.

With 6 of 10 sectors slated to grow earnings by 10% or more next year (versus zero in 2016), earnings finally catch up to valuations and beyond.

The Most Unethical Company in America



WARNING: GRAPHIC USE OF LANGUAGE AHEAD

VIEWPOINT: I don't hate a lot of things. Ok, maybe the Steelers, the Red Sox...and some others.

What I really hate is that there is one company out there that is so unethical, has blatantly said fuck you to its people that grew the company, treats others like garbage, yet IT gets **lauded** by the dumb, uncaring, unassuming public.

Yes, I am talking about Uber, the shared economy wunderkind. I have no skin in this game. I am not an Uber driver, nor have I been, nor have I been a customer. I also have absolutely zero to do with their competitors. Here's how they gave the middle finger to the people that needed them the most, which is why they need an ethics lesson.

For months and months, they promoted how much you could make as an Uber driver. After a while, drivers realized it is just bullshit as technology issues, payment changes, and internal competition made it a not so hot a way of making $. So, how does Uber reward the drivers that truly made them what they are today by drinking the Kool-Aid?

In partnership with **Google (NASDAQ—GOOG)** they formed the largest driverless car funding project there is. And, those cars are about to hit the streets in Pittsburgh this month. For all the schmucks that are Uber drivers, all you did was make a few bucks by building the market and customer acquisition for them only to be replaced in short order. Nice hose job, assholes.

Oh, and speaking of ethics...Uber came out and aid they wouldn't pay $2B for rival Lyft. Never mind they did not bid, do not plan to bid, and that the $2B comment is just another way to stick it up the ass of their rival, which was valued $5.5B not long ago after an investment by **GM (NYSE—GM)**. Real nice. I will not use Uber, and you should think twice too. Uber is defined as "supreme or outstanding". We now know what that is.

Say What?

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

The New York Post

http://www.nytimes.com/2016/08/20/upshot/think-your-obamacare-plan-will-be-like-employer-coverage-think-again.html?ref=business

Amen.

Marketwatch

http://www.marketwatch.com/story/both-bulls-and-bears-leave-evidence-to-make-their-case-2016-08-19

A decent, and short read.

USA Today

http://www.usatoday.com/story/money/markets/2016/08/19/corporate-default-rate-expected-jump-30-soon/88967964/

An important stat to sock away.

Bloomberg

http://www.bloomberg.com/news/articles/2016-08-18/could-less-gassy-livestock-be-a-cash-cow

It's all in the headline...

ZeroHedge:

http://www.zerohedge.com/news/2016-08-19/president-obama-violated-law-his-ransom-payment-iran

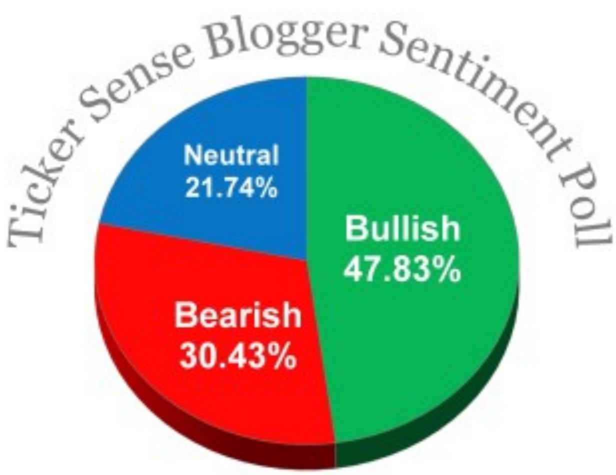
And no one cares!?!?

Notable Numbers

AAII Sentiment Survey (figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	36%	31%	*39%*
Neutral	38%	42%	*31%*
Bearish	27%	27%	*30%*

Divergence illustrates the push-pull in sentiment. In the investment pros poll, after a big jump to the bullish camp, a major change has occurred —Bulls dropping, Bears and Neutrals rising. In the AAII survey, we see a sharp rise in the bulls camp. With a very modest rise in Equity Fund flows for the past week, I suspect that while big $ and institutions are not putting more money in the market, the little guy is. That is a red flag. Another red flag is the big jump in the Investors Intelligence Bull/Bear ratio and reduction in correction camp figures. It is about to go below 20 which I believe is another red flag.



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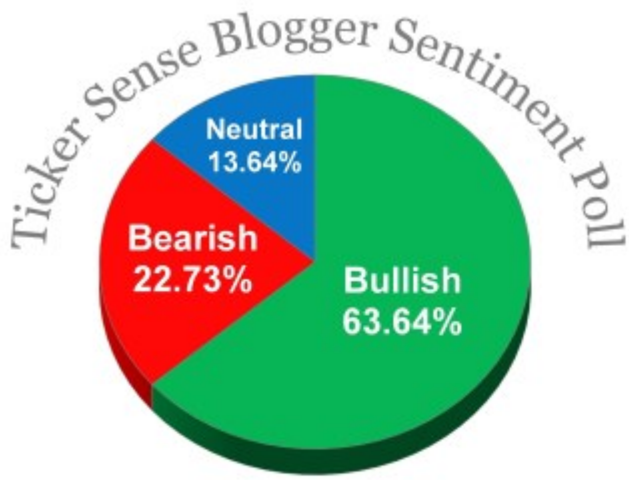

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Buy its Products? Then Buy the Stock

I have never bought a damn thing from QVC (QVC—NYSE—$21.37) and years ago I always thought the people that did were sad stories. With a ton of business in mobile, there is much more that meets the eye with QVC.

For the uninitiated, QVC Group markets and sells a range of consumer products primarily through live merchandise-focused televised shopping programs, Internet, and mobile applications. The Company's Websites offers home, beauty, jewelry, accessories, and electronic products. It also operates as an online retailer of women's, children's, and men's apparel, and children's merchandise; and kitchen accessories and home décor products, as well as retails products through catalogs, and brick-and-mortar stores. In addition, the company distributes home and apparel lifestyle products under various brands.

I should note that the stock is not a momentum play. On the contrary, it is meant to be bought and held for a few months with a targeted 20-25% gain. Earlier this month management guided that les have experienced a sudden drop and that Q3 will be affected as well. The stock plummeted and estimates were slashed. I believe we are in an oversold situation. At present, EPS forecasts for 2016 and 2017are $1.02, and $1.30, respectively, representing 21x and 16.4 EPS estimates. Even if EPS is trimmed somewhat, the stock can easily support a 20x 12-month forward multiple, even under bad conditions. With a low RSI of 33.6, it should bounce sharply, especially if it drops 5-10%.

Our year-end target is $25.

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