Goldman SMALL CAP RESEARCH

The Goldman Guide

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INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *September is here and so are the bears. Why it could be ugly and how ugly...*
- ⇒ *Bureau of Labor Statistics gave us scary numbers last week. Is everyone asleep at the switch?*
- ⇒ *Is this foreign shipping company is crippling our retail business?*
- ⇒ *When college football meets stocks*
- ⇒ *Learn how to play the VIX in case things go south*

THE MAJOR INDICES

Index	Close	2016
DJIA	18,492	6.1%
S&P 500	2180	6.7%
NASDAQ	5250	4.9%
Russell 2000	1251	10.1%

(figures are rounded)

A Market in Labor

I don’t know why it took me 27 years to figure this out. The stock market is about to go into labor. You moms and dads out there know that in the weeks just before a mother goes into labor you kind of reach that peak growth before that hellish experience kicks in—only to be followed by the miracle of birth.

Well, it appears that August was that last period before labor strikes—maybe that is why it is around Labor Day…

Anyway, it is no secret that stocks suck in September. Since 1950, we have had 37 down years and 29 up years with an average monthly decline of (0.88%) It has been oh so worse lately. Since 2000, we have lost an average of (1.48%) in September and those down months have been brutal, averaging a drop of (5.82%)!

It’s not that I am thinking the sky is falling. I just don’t see a catalyst—yet. And, even just from the seasonal perspective, investors are likely more Neutral to Bearish than usual, or at least more evenly split. Plus, with portfolio re-balancing, new forecasts, and other events occurring at the end of Q3 it is just a dangerous time to buy and hold.

As an aside, I am concerned that we have a couple of shoes ready to drop very soon in the consumer discretionary space, particularly one segment of retail, which, according to the Bureau of Labor Statistics accounted for over 20% of the employment gain last month. Moreover, since the actual payroll adds of 151,000 was well below the 12 month average of 204,000 it may be a red flag.

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The Stock Market Today

U.S. Stock Market Index Performance
9/2/2016

Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	18,492	18,668	15,451	8/15/16	1/20/16	0.9%	19.7%	5.3%
S&P 500	2,180	2,194	1,810	8/15/16	2/11/16	0.6%	20.4%	6.0%
NASDAQ	5,250	5,276	4,210	8/23/16	2/11/16	0.5%	24.7%	7.8%
Russell 2000	1,252	1,252	943	9/2/16	2/11/16	0.0%	32.8%	11.0%
Average						0.5%	24.4%	7.5%

Sources: www.BarChart.com, Goldman Small Cap Research

I am a little concerned that economists and market watchers are not lifting up the hood on this car that is the economy, because the engine needs work. Fully 20% of the weak payroll adds were in food service? That is not a good sign as a number of chain are having some real sales trouble. Plus, a number of states and municipalities have passed a $15 minimum wage bill. Also, with a big rise in some health care premiums next year, we conclude that the economy is sick while the market appears to be healthy. This divergence will have to change. Going forward, don't count on food businesses to carry payroll growth. On the contrary, expect reductions due to higher costs, as cited above.

Thinking about buying regular retail right now? Don't. Hanjin Shipping which controls almost 10% of all trade between the Pacific and the U.S. is in bankruptcy and has really screwed the pooch. Container ships are moored offshore away from ports until a resolution occurs and they are allowed to dock and unload. Until then, retailer merchandise is just sitting in coastal water. It will be interesting to see how/if it affects retail stocks.

Now, back to our labor theory. Once we exit September and part of October, the extended labor period will conclude, pain behind us (i.e. market drops) and then it is blue skies ahead. The options market certainly seems to be telling us this.

Looking to play short term swings in the VIX? Read this great primer, courtesy of Factset: http://www.factset.com/insight/2016/09/understanding-vix-etfs#.V848wfkrLIU

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College Football Meets the Stock Market

Let us turn to college football. We have the benefit of making our picks after what has been the most fabulous weekend for opening games in recent memory. Our college football final four has some old names. We see Alabama making it for the third straight year. Clemson came really close to knocking off the Tide last year and has most of their team back. We see them in. Stanford makes it from the Pac-12. Finally, we see the Ohio State Buckeyes making out of the Big Ten. Clemson wins it all.

This may sound somewhat facetious, but if we think of it in terms of expectations, then the analogy makes sense. Fans from Alabama have become spoiled and are upset by anything less than national championships at this point. Investors in **Apple, Inc. (NASDAQ – AAPL - $107.73)** have become accustomed to huge product debuts and big time stock performance. They are almost impossible to please, like Alabama fans and Ohio State fans to a certain extent. Clemson has a decent football tradition but nothing like the blue bloods mentioned above. They are a lot more volatile but have serious potential but require some patience by investors. We like to think of them as our **Tesla Motors, Inc. (NASDAQ – TSLA - $197.78)**. Clemson's coach Dabo Swinney is an innovator much like Elon Musk of Tesla. Finally, Stanford is a fine academic school that has had some decent teams in past but there have been historically little expectations from fans. Stanford is one of our small or mid cap stocks that has huge upside potential. With such proximity to Silicon Valley it is impossible not to compare them to one of our prior *Market Monitor* picks like **Rambus, Inc. (NASDAQ – RMBS - $14.36)**. The market, much like college football, can be a functions of expectations when it comes to satisfied investors.

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Say What?

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

The New York Post

http://nypost.com/2016/09/02/icahn-twists-knife-in-ackman-grabs-307k-shares-of-herbalife/

It's like a soap opera between investment titans.

Marketwatch

http://www.marketwatch.com/story/17-dividend-stocks-that-may-rise-up-to-26-in-the-next-year-2016-09-02

Good thesis, decent list.

The New York Times

http://www.nytimes.com/2016/09/04/upshot/the-formula-for-a-richer-world-equality-liberty-justice.html?ref=economy&_r=0

Seems like a bit of hokum but worth the read.

Bloomberg

http://www.bloomberg.com/news/articles/2016-09-02/is-hillary-clinton-selling-guns-for-smith-wesson

We say yes and it ain't stopping and time soon...

ZeroHedge:

http://www.zerohedge.com/news/2016-09-03/half-forms-life-earth-will-be-gone-2050-biologist-warns-climate-instability

Seems unlikely, but if right...

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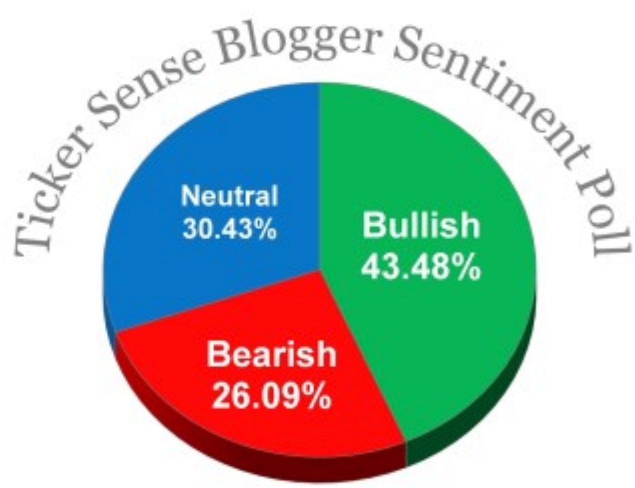
Notable Numbers

AAII Sentiment Survey (figures rounded)

	Current	Last Week	*Long Term Avg*
Bullish	29%	29%	*39%*
Neutral	40%	41%	*31%*
Bearish	32%	30%	*30%*

No surprise that there is little change here given the short week and the fact that the dreaded September month is upon us. Although a lagging indicator, I strongly recommend following Wednesday's Lipper Fund Flows release for the next couple of weeks. It could prove to be very insightful. Little change again in the Investors Intelligence surveys—I suspect that will change this week as well.

August 29 - September 2, 2016



August 22 - 26, 2016

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1498 Reisterstown Road, Suite 286 Baltimore Maryland 21208 Phone: 410.609.7100
info@goldmanresearch.com www.goldmanresearch.com

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1498 Reisterstown Road, Suite 286 Baltimore Maryland 21208 Phone: 410.609.7100

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