

INSIDE THIS ISSUE:

Stock Market Today
Say What?
Notable Numbers
Oversold Stock Good for You

KEY TAKEAWAYS

- ⇒ *Stocks seem like they are standing still*
- ⇒ *In reality, they are drifting lower and may not turn until we are well into November*
- ⇒ *Small caps are getting smacked but are coming to a level where the RSI should give off a buy signal*
- ⇒ *This stock may be incredibly oversold and we will find out after it reports on Monday after the close. It may be good for the body and the portfolio*

THE MAJOR INDICES

Index	Close	2016
DJIA	18,161	4.2%
S&P 500	2126	4.0%
NASDAQ	5190	3.7%
Russell 2000	1188	4.6%

(figures are rounded)

WHEN WILL THE STOCK SNOOZE-FEST END?

Ever since we had that nice run in July, stocks for the most part have been an absolute bust. To be accurate, it has been a snooze-fest with little change and volatility from week to week, with the exception of microcaps. (More on that later.)



For example, the range of the S&P 500 Index since the beginning of September is 2171 to a low of 2115 and a high of 2182, which is nothing for a 60 day period. Clearly, earnings have not wowed, the election has been a giant pain in the ass that has fractured the country like a butt crack, and economic numbers are not making anyone feel warm and fuzzy inside.

Of course, the latest email scandal, or extension of the previous email scandal surrounding Teflon Hillary will only serve to provide investors with consternation until her inevitable victory. Does that mean that the narrow trading ranges will continue, despite the hot and heavy earnings season?

I am afraid so.

Frankly, investors should be not pleased with this apparent treading water. In reality, the pool is getting deeper, not staying shallow. I believe all of the major indices are below their 20 and 50DMAs, with declining RSI's. Not good for now, but perhaps November won't be a turkey once the dust settles.

The Stock Market Today

U.S. Stock Market Index Performance 10/30/2016								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	18,161	18,668	15,451	8/15/16	1/20/16	2.7%	17.5%	2.5%
S&P 500	2,126	2,192	1,810	8/15/16	2/11/16	3.0%	17.5%	2.3%
NASDAQ	5,190	5,343	4,210	9/22/16	2/11/16	2.9%	23.3%	5.4%
Russell 2000	1,188	1,263	943	9/22/16	2/11/16	5.9%	26.0%	3.7%
Average						3.6%	21.1%	3.5%
Sources: www.BarChart.com, Goldman Small Cap Research								

It is hard to believe because it seems to have happened both quietly and almost clandestinely, but small caps and microcaps have been clobbered in October. Heading into the last day of the month, Halloween, the Russell 2000 Index is down a scary 5.1%. Even when a company reports solid results, there is little to sustain a higher price. Granted, it doesn't help that when the NASDAQ bellwethers slip the small caps fall. However, this seems to be a systemic or segment issue and may be best confirmed by the tepid performance of so many recent IPOs. Just like with government officials, there is no conviction out there.

Alas, all is not lost. The RSI on the Russell 2000 is in the 34 range. Anything below 30 is a real buy signal. It is also meaningfully below its 52-week high, has a favorable 12-month forward P/E, and nice earnings growth ahead. In fact, the 17.5x P/E compares with the 19.4x multiple for the NASDAQ 100, and an 18x for the S&P 500.

By the way, since 2001, November endured only 2 down months that were just slaughters. The other 3 down periods were less than 0.5% each. On the plus side, the 10 month gainers averaged 3.4% with 7 of 10 over 2.5%. So, take comfort that the worst may soon be over. Now, if the consumer closes his/her wallet this holiday season, Trump wins, or Russia's saber-rattling becomes more pronounced, well, that is a horse of another color.

NLS: Good for Your Body and Your Portfolio



Since 2013, we have written from time to time about **Nautilus, Inc. (NYSE—NLS—\$17.85—NR)**, and it appears to be as attractive as ever, today. For the uninitiated, or those who do not watch late night televisions, NLS is a global fitness solutions company that believes everyone deserves a fit and healthy life. With a brand portfolio including Bowflex®, Nautilus®, Octane Fitness®, Schwinn® and Universal®, Nautilus, Inc. develops innovative products to support healthy living through direct and retail channels as well as in commercial channels with Octane Fitness® products .

At current levels, the stock trades 15.8x this year's Wall Street consensus EPS estimate of \$1.13, which is a 21% rise over last year. Plus, NLS trades 13.3x 2017 EPS. These low multiples are a meaningful discount to the Company's EPS projected growth rate. In our view, given its 19x multiple on 2015 EPS, these shares could approach \$22 in the next 3-4 months, which represents a 22% gain.

The Company is slated to report results after the close on Monday, October 31st. We do not recommend buying beforehand, given the inherent risk. Still, if the results are in line or better, and guidance stands firm, these shares could enjoy a short spike and still have considerable upside potential. NLS has a history of some outperformance so it is reasonable to assume it could happen for a 5th straight quarter.

We note that the stock tanked sharply from \$25 to current levels due to a downgrade in September, and it looks terrible, on a technical basis. Given that no changes to estimates have occurred, we believe it offers real value and the sell-off was an overreaction. What makes it peculiar is that the downgrade occurred 60 days after the initiation of coverage, which likely exacerbated this sell-off. In any event, with an RSI of only 22.4, it is possible that our oversold opinion may be confirmed by a sub-30 RSI Buy signal.

Say What?



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

The New York Times

<http://www.nytimes.com/2016/10/26/business/economy/if-immigration-cant-be-stopped-maybe-it-can-be-managed.html?ref=economy>

It seems to me that most Americans would be on board with much of this.

The New York Post

<http://nypost.com/2016/10/28/man-legally-changes-his-name-to-iphone-7-to-score-gadget/>

And I thought "He Hate Me" was ridiculous.

USA Today

<http://www.usatoday.com/story/tech/news/2016/10/29/facebook-ireland-test-camera-news-feed-snapchat-video-photos/92959110/>

Can Facebook be stopped?

Bloomberg

<https://www.bloomberg.com/view/articles/2016-10-28/shift-from-active-to-passive-investing-isn-t-what-it-seems>

Brilliant Bill Miller on it again.

ZeroHedge:

<http://www.zerohedge.com/news/2016-10-29/anxious-ceos-confirm-gdp-data-weak-us-consumer>

Can't blame them.

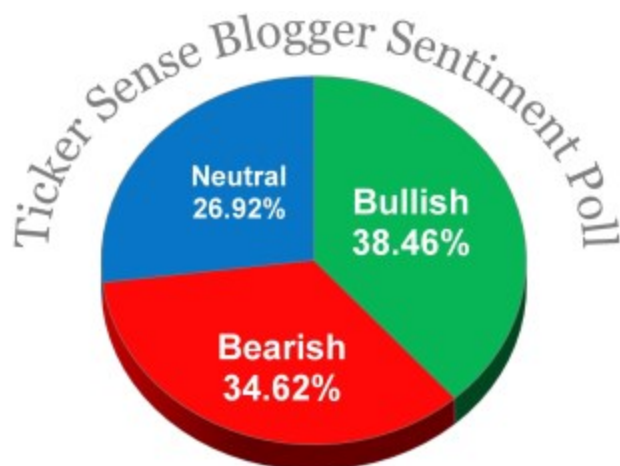
Notable Numbers

AAll Sentiment Survey (figures rounded)

	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	25%	24%	39%
Neutral	41%	38%	31%
Bearish	34%	38%	30%



Last week we noted that the Lipper Fund Flows data seemed a bit, well, odd. The latest figures are not exactly bullish. In the most recently reported period, equity fund outflows, excluding ETFs, was a whopping \$20.2 billion! To put this in perspective, the same category of outflows totaled \$22 billion in the previous 4 weeks combined. It may explain the market drops of late and could continue again. On the plus side, considering that in the recent week there such fewer bond inflows, we hope that money is on the sidelines that returns in the coming weeks.



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The Goldman Guide

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