

FLS Playbook 01.18.16

Note: The Format For This Week's Report Is Different Due To The Historic Shellacking in Capital Markets.

Portfolio Update & No New Working Orders Today

Thankfully, FLS Portfolio Is In Cash, Made Money This Year & Is Very Well Positioned For A Very Strong 2016 And Beyond! There are no new working orders today but we will look to short strength in the near future. Stay with us and we will guide you through this bear market just like we did for you most recently in the 2007-2009 financials crisis (2008 was one of our best years).

The Only Thing That Matters - Easy Money

In last week's report we showed you (play by play) how the primary driver for Wall Street's relentless rally since the March 2009 low has been easy money from the Fed and other Central Banks. A few weeks ago, at their Dec meeting, the Fed raised rates and stocks have imploded since then. In fact as you can see below, stocks haven't gone anywhere since QE 3 ended in Oct 2014 and other markets have imploded (namely, crude oil which is down a whopping 73% since QE 3 ended)!

Short Term Remains DEEPLY oversold

Markets are deeply oversold and WAY overdue to bounce from here. The fact that they couldn't bounce last week speaks volumes and illustrates how weak markets are right now. We did a GREAT job holding off and not getting sucked in on Thursday. We have to suspect they bounce next week. If not, we could be facing a 1987 style collapse.

1987 All Over Again?

The action over the past few weeks on Wall Street reminds me of what has happening before Black Monday in 1987. In 1987, stocks topped out in August and crashed in October. This time around stocks topped out in the middle of 2015 (teased to the downside in Aug 2015) and once again falling hard in early 2016. In 1987, the bull market in stocks and the bull market in credit had ended. The same is happening in 2016. In 1987, stocks were already down considerably on the Friday before Oct 19, 1987 (a.k.a Black Monday). In 2016, stocks are down considerably as we enter a long weekend in the U.S. I hope I'm wrong and I know anything is possible but all I want to do is share with you what I see happening and let you decide. I want you to be prepared BEFORE the major indices implode. To be clear, I believe we are in the early innings of a new bear market and what we saw so far in the first few weeks of 2016 might lead to a lot more selling (unless, of course, the Fed steps in and interferes with markets again).

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Now, Let's Look At The Facts & Let The Market Do The Talking

S&P 500 in 1987



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Year To Date Stats:

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	16346.45	15988.08	-358.37	-2.2	-8.2
Nasdaq	4643.63	4488.42	-155.21	-3.3	-10.4
S&P 500	1922.03	1880.29	-41.74	-2.2	-8.0
Russell 2000	1046.39	1007.74	-38.65	-3.7	-11.3

S&P 500 in 2016



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Russell 2000 Already in a Bear Market. -24%



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Nasdaq in A Steep Correction



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DJIA In Correction Territory:



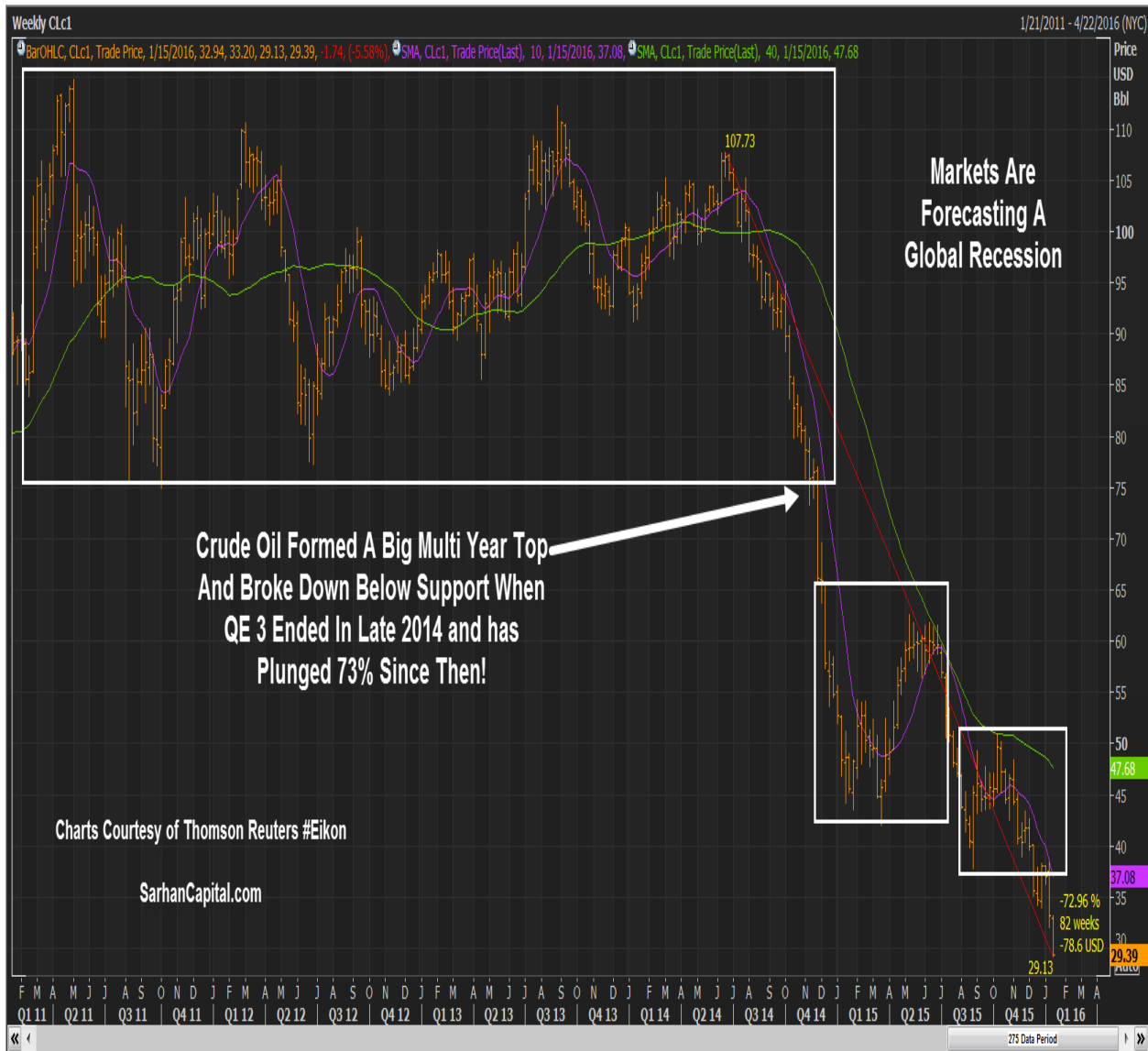
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Crude Oil Since QE 3 ended has plunged 73%!



Transports Are In A Bear Market Even As Energy Implodes (Because of tepid demand) Plunged ~-30% From 2014 High (They topped out in Nov 2014 right after QE 3 ended)

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Retail Stocks Already in A Bear Market -25%



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Housing Stocks Already in A Bear Market -26%



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Material Stocks (XLB) Already in A Bear Market -28%



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The "Evidence" Speaks for itself. Again, in the short term, markets over oversold and this is as logical a place as any for the market to bounce. We have a long weekend ahead of us and two trading days in Europe and Asia before we reopen for trade on Tuesday.
 If the market can't bounce next week, look out below!



“Never argue with the tape and always keep your losses small.”

***Trade wisely,
 Adam Sarhan***

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FLS Approach:

Rules-Based Discretionary Approach

The actionable items for the week are at the very top of this report. The rest of the report is available for those of you who want more information, new ideas, trade setups, and a deeper analysis on the market.

Please know that FLS employs a rules-based discretionary approach to trading/investing in capital markets. FLS employs a tactical long/short intermediate term trading strategy. FLS views trading/investing as an art, not an exact science.

Capture The Bulk Of The Move, Not The Top or Bottom

FLS strives to capture the bulk of the move in bull and bear markets, not pick an exact top or bottom. That is why FLS does not use the same rules and/or definitions (for patterns, entry/exits, pyramiding etc) as other people and instead looks for the essence of the concept/pattern. FLS has conducted its own private study of every major prior market and economic cycle (economic cycles go back to the 3rd century & are available on the Market History tab on FindLeadingStocks.com). This process has led FLS to develop its own proprietary trading/investing strategy (D.A.M.P- available on the Strategy page) to navigate capital markets for you each week in real-time.

Advanced Entry/Exit Points & Type of Orders

Two critical points of difference: FLS uses advanced entry/exit points to enter/exit ahead of the crowd and always looks to define/reduce its risk in the market. Before a trade is entered, the service will tell you the exact entry and exit price before the market opens each week. All the FLS orders (buy and sell) are entered as GTC stop orders that remain open and are resting at all times. Once the first order is entered the protective GTC exit begins working and is also resting at all times. This is the best way that allows for full transparency and accountability with our members. In addition, throughout the report there are several more trade ideas & setups that readers can use (if they want more ideas). The dotted line (advanced entry point) is designed to provide an earlier entry point (ahead of the crowd). Typically, the crowd is only buying on a traditional breakout (classic) pivot/buy point. Each person is free to use the ideas anyway they like. One buy, two/three buys (pyramid), or wait for the classic entry point.

Position Sizing & Risk Management

Typically, the maximum risk is 1% of a portfolio on any one idea from entry to exit. Alternatively, you can use the 10% rule. Meaning, you divide your portfolio into 10 tranches and every time you buy a stock you buy with 10% of your capital and place a stop 10% below your entry price. This way, if wrong, you will still lose 1% of your overall portfolio per idea. Protective stops are always advertised in advance and only tightened, never widened. In uptrends, FLS prefers buying in a base (near support, downward trendline, or classic breakout) not only above resistance. This approach helps you get in ahead of the crowd, buy leaders on weakness, not just on strength, and allows for fewer stop outs. If at any time you have any additional questions, please send us an email.

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Our Job & General Info

Our job is to provide our members with a steady flow of good ideas in all market environments. We know that we work for you and that is why we do our best to go above and beyond - all time. You are free to use the ideas anyway you like and discard the ones that do not appeal to you. Keep in mind that investing and trading involves risk. The value of your investment will fluctuate over time and you may gain or lose money. Since each person has different objectives, time-frames, goals, etc, please note that everything we provide is for informational, educational and/or illustrative purposes only and we DO NOT provide specific advice of any sort (investing, trading, tax, etc). *Please read our disclaimer below and on our website for more.* Charts are courtesy of FreeStockCharts.com, ThinkorSwim, and StockCharts.com. If you haven't already done so, please watch our free educational webinars by visiting FindLeadingStocks.com- then click on the Webinars page.

A Closer Look At Reversals:

Positive/Negative Reversals

A negative reversal occurs when an underlying investment (market, stock, currency, bond, commodity, ETF, etc) opens higher and turns/closes lower in the same bar- on any time frame (daily, weekly, monthly, etc basis). This action typically suggests downward price action will follow. The basic concept is that the current bar you are looking at opened higher and closed lower. A positive reversal is the exact opposite (occurs when the underlying investment opens lower and turns/closes higher- and has bullish ramifications).

Upward/Downward Outside Reversals

An outside reversal occurs when the highs and lows of the current bar (any time frame you choose) are higher and lower than the previous bar (same time frame). Typically, the outside reversal is more meaningful than a normal reversal and the same applies (upward outside reversals tend to be bullish while a downward outside reversals are bearish).

Refer A Friend:

If you like our service, please help spread the word by telling your friends and colleagues. Word of mouth (from happy members like you) is one of the best compliments we can receive.

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