

FLS Playbook 01.25.16

Market Outlook: Stocks Bounce After The Dalio Low

It was another wild week on Wall Street as A near term low was put in on Wednesday. The operative word is A, not THE, near term low. I'm calling last week's low "The Dalio low" because legendary investor Ray Dalio went on TV last Wednesday (the exact low of the week) and said we might be headed for a depression. On Wednesday, the Dow turned higher after plunging 565 points intra-day and has been edging higher since. Interestingly, on September 29, 2015, Carl Icahn, released his doom and gloom video (I agree with his points) and that marked A near term low for stocks. Over the next five weeks, immediately after the video was released, the S&P 500 soared over 13%! That's a huge move for the S&P 500. At this point, stocks are deeply oversold and way over due to bounce. Until Wednesday's lows are breached we have to expect the market to bounce (or at the very least move sideways from here). Oil prices also placed A (not THE) new near term low last week which also helped sentiment. Central banks interfered again this week. China injected \$50B to stimulate their market and the European Central Banks (ECB) hinted at more easy money in March. Central banks love interfering with markets and have distorted the playing field for years. Stepping back, any near term rallies (or more easy money aside), the market remains in lousy shape and we feel it is just a matter of time until the major indices fall 20% from their 2015 highs which officially defines a bear market. From our point of view, stocks topped out in 2015 and we are in the early innings of a new bear market (and a global recession). Several important areas of the market are already in a bear market (defined by a decline of 20% or more from a recent high) which means it is just a matter of time until the major indices play catch up to the downside. These are some of the important areas that are already in bear market territory: Commodities, The Small Cap Russell 2000 (\$IWM), Transports (\$IYT), Biotechs (\$IBB), Retail (\$XRT), Junk Bonds (\$JNK), Materials (\$XLB), just to name a few. Finally, if markets can't bounce from here... Good Night Irene.

Portfolio Update

Positions:

- A. The service owns: **SPY +1.56%**
- B. The service will exit: SPY @ 187.6 (breakeven)

Working Orders:

There are no new working orders today. So far, this bounce lacks power and we are in the heart of earnings season. We want to see more oomph behind this bounce and make our way through next week's earnings, fed meeting & GDP. Then we'll put more money to work for this short-term trade-able bounce.

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Analyzing The S&P 500's Latest Moves (Up & Down)

Pullback				Rally			
	High	Low	% Change		Low	High	% Change
SPX	2081.6	1812.29	-12.94%	SPX	1812.3	1902	4.95%
SPX	2104.3	1993.26	-5.28%	SPX	1993.3	2081.56	4.43%
SPX	2020	1871	-7.38%	SPX	2019.4	2104	4.19%
SPX	2132.8	1867	-12.46%	SPX	1871	2116.48	13.12%
SPX	2134.7	2044.02	-4.25%	SPX	1867	2020	8.19%
SPX	2129.9	2056.32	-3.45%	SPX	2044	2126.64	4.04%
SPX	2134.7	2085.67	-2.30%	SPX	2039.7	2134.72	4.66%
SPX	2119.6	2039.69	-3.77%	SPX	1980.9	2119.59	7.00%
SPX	2093.6	1980	-5.42%	SPX	1972.6	2093.55	6.13%
SPX	2079.5	1972.56	-5.14%	SPX	1820	2079.47	14.26%
SPX	2019	1820	-9.86%	SPX	1904	2019.26	6.05%
SPX	1991	1904	-4.37%	SPX	1814	1991	9.76%
SPX	1897	1814	-4.38%	SPX	1737	1897	9.21%
SPX	1850	1737	-6.11%	SPX	1646	1850	12.39%
SPX	1729	1646	-4.80%			Avg Gain	7.74%
		Avg Pullback	-6.13%				

Chart Of The Week: Logical Area To Bounce



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Year-To-Date Scorecard

Nasdaq Composite -8.3%, S&P 500 -6.7%, DJIA -7.6% Russell 2k -10.2%

Key Points

- Uptrend: Short-Term Trying To Bounce & Intermediate & Long-Term Toppy
- SPX Resistance: 1993, 2023, 2050
- SPX Support, 1812
- Sarhan's Crowd Behavior Index: **Bullish**
(Proprietary market indicator that measures the inverse of crowd sentiment:
Bullish Bearish or Neutral)

Global Macro Update

- **Stocks:** Sideways
- **Bonds:** Uptrend
- **Currencies (Euro/USD):** Sideways
- **Softs:** Downtrend
- * **Energy:** Downtrend
- * **Metals:** Downtrend
- * **Grains:** Downtrend

Week In Review: Another Big Positive Reversal Week on Wall Street



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Monday-Wednesday's Action: Stocks Bounce After Dailo Low

U.S., stocks were closed on Monday in observance of the MLK holiday. Stocks traded between positive and negative territory on Tuesday as the S&P 500 retested Aug's low. Oil negatively reversed and closed down on the day which is not ideal. Overnight, China said its GDP grew by 6.9% for 2015 which was the slowest pace since 1990! Additionally, China said Q4 2015 GDP grew by 6.8% year-over-year which matched estimates. In the U.S., December retail sales grew by 11.1%. Meanwhile, industrial production rose by 5.9%. Both came in below estimates. In other news, The International Monetary Fund (IMF) cut its global economic growth forecast for 2016 on Tuesday. The IMF now believes the global economy will grow by 3.4% in 2016, lower than the last forecast of 3.6%. The fact that the market can't bounce from these deeply oversold levels continues to show you how weak the market is right now. At one point, the Dow fell 565 points on Wednesday before reversing around noon and rallying sharply into the close. Oil prices fell to \$27/barrel, plunged over 6% and hit a fresh multi-decade low but also bounced and closed off their lows. Japan's stock market officially entered bear market territory (decline >20% from a recent high) and MSCI all-country world stock market index is also flirting with a bear market as well. In the U.S., the economic data was relatively light. The consumer price index (CPI) fell -0.1%, missing estimates for a reading of 0% which clearly shows that deflation remains more of a threat than inflation right now. A separate report showed that Housing Starts came in at an annualized 1.149 million rate in December for a 2.5% monthly dip while permits came in at 1.232 million for a 3.9% decline. That compares with estimates for 1.200M and 1.217M respectively. Overall, the stock market remains very extended to the downside and is way overdue to bounce in the near term.

Thursday-Friday's Action: Stocks Bounce

Stocks tried to rally but closed mixed on Thursday after China injected nearly \$17B into the system to boost markets and The European Central Bank hinted at more money printing.. Oil prices are trying to stabilize and (so far) are trading above the \$30 level. Stocks rallied on Friday as more buyers emerged and oil soared over 7%! Short term rallies aside, the bigger picture still looks very weak for stocks.

Market Outlook: A Big Top

From where we sit, this aging bull market is over or on its last breath. The last two major bull markets ended shortly after their 5th anniversary; 1994-2000 & 2002-Oct 2007. The market is deeply oversold so keep in mind the strongest rallies in history occur during bear markets (a.k.a bull traps). ***As always, keep your losses small and never argue with the tape.***

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Only 17.8% Of Stocks in the S&P 500 Are Above Their Respective 50 DMA (Market Tends To Turn When This Reading Gets Above 70% or Below 40%)

Observation: Readings above 70% usually (not always) correspond with a short term pullback Conversely, reads below 40% usually (not always) correspond with a short term bounce



FLS Leaders List

Here are the strongest big cap names in the market right now...

1	ED	8	MCD	14	LB
2	CPB	9	CLX	15	WM
3	WEC	10	MO	16	PPL
4	NEE	11	KIM	17	ROST
5	STZ	12	KMB	18	K
6	XEL	13	PM		
7	VZ				

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11 New TRADE-ABLE Setups

These hand-picked stocks are carefully selected to help with your idea generation and offer you additional setups each week. The setups are based on our proprietary criteria and offer advanced (diagonal line) & classic long and short entry points (horizontal line). Short patterns are typically mirror images of long patterns.

Note: Please Verify All Earnings Dates/Data From Multiple Sources For Every Stock In All Our Reports.

Charts Courtesy of FreeStockCharts.com and/or Stockcharts.com

NFLX Short: Big Double Top Forming... Shortable Below Support (Either Dotted Line Below With Close Protective Stop). The fact that NFLX couldn't bounce last week speaks volumes. Reported



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EA Setup: Nice Early Entry Forming - Earnings Jan 28 Whisper \$1.90 Consensus: \$1.81 Revenue: \$1.81 Bil



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LB: New Early Entry Forming -Earnings Feb 24th Consensus: \$1.99 Revenue: \$4.30 Bil



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WM: New Early Entry Forming - Earnings Feb 18

Consensus: \$0.68 Revenue: \$3.29 Bil



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CUBE Setup: New Early Entry Off 50 DMA - Earnings Feb 18 Consensus: \$0.32 Rev: \$112.45 Mil



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EQY: About To Breakout- Earnings Feb 24

Consensus: \$0.32 Revenue: \$90.49 Mil



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DPZ: Coming Back to Life...Earnings Feb 25

Consensus: \$1.13 Revenue: \$707.75 Mil



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SBUX: New Early Entry Forming- Reported



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FB: New Early Entry Forming In Sloppy Double Bottom Pattern -Earnings Jan 27 Whisper \$0.69 Consensus: \$0.67 Revenue: \$5.36 Bil



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ROST: New Early Entry Forming -Earnings Mar 1 Consensus: \$0.63 Revenue: \$3.22 Bil



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CLX: Strong Action- Earnings Feb 4

Consensus: \$1.04 Revenue: \$1.35 Bil



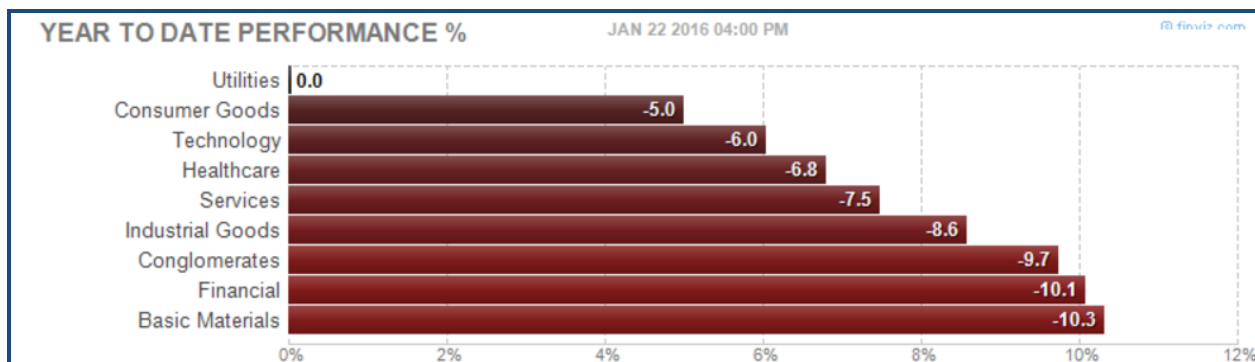
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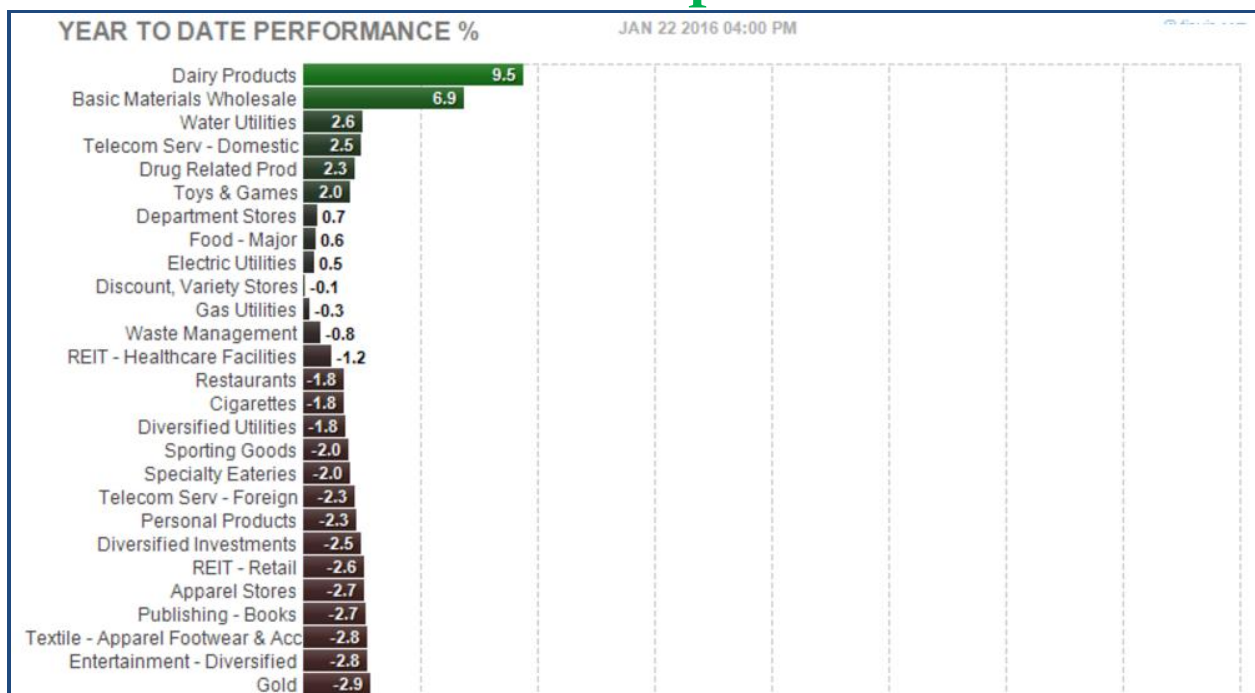
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Year-To-Date Sector Performance



Year-To-Date Group Performance



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Strongest Stocks Of The Year

These are the strongest performing tickers on a year-to-date basis that are trading over \$5, average daily volume over 1M and have a market cap >300M (Small cap-Mega Cap)

No.	Ticker	Perf Week	Perf Month	Perf Quart	Perf Half	Perf Year	▼ Perf YTD
1	AFFX	0.00%	43.23%	56.14%	23.55%	25.23%	37.26%
2	BURL	10.73%	25.97%	8.46%	-4.81%	3.55%	22.24%
3	HAS	3.86%	11.64%	-0.88%	-6.96%	38.97%	8.24%
4	FIVE	0.27%	5.96%	-4.31%	-9.25%	1.37%	5.79%
5	ED	0.52%	7.19%	2.57%	13.43%	1.08%	5.76%
6	O	3.43%	6.18%	11.81%	18.27%	6.44%	4.67%
7	CPB	2.17%	4.41%	10.60%	14.77%	18.20%	4.63%
8	STZ	3.85%	5.21%	9.39%	27.15%	34.54%	4.44%
9	NI	1.40%	7.36%	5.38%	24.73%	19.92%	3.95%
10	T	2.45%	4.53%	6.06%	6.53%	9.95%	3.56%
11	VZ	4.84%	3.74%	6.15%	4.07%	3.26%	3.03%
12	NEE	0.86%	4.20%	3.09%	6.06%	0.30%	2.61%
13	DYAX	1.37%	2.70%	46.66%	43.16%	156.92%	2.10%
14	XEL	-0.22%	4.39%	1.05%	13.41%	1.41%	2.01%
15	XLNX	12.52%	0.89%	2.87%	17.22%	26.03%	1.60%
16	TE	0.45%	2.46%	0.96%	29.22%	30.82%	1.46%
17	ANTM	2.39%	1.34%	-0.52%	-8.07%	0.69%	1.41%
18	SERV	3.17%	4.66%	19.47%	5.74%	44.01%	1.33%
19	CMS	-0.44%	2.70%	0.48%	13.65%	1.96%	1.30%
20	AGCO	1.84%	3.70%	2.69%	-13.23%	4.52%	1.23%

“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.

Find Leading Stocks: Weekly Market Outlook

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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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