

FLS Playbook 02.01.16

Market Outlook: Stocks Continue To Bounce (For Now) After The Dalio Low

In the short term stocks are still bouncing from deeply oversold levels. Intermediate and long term we are in the early stages of a new bear market for stocks (barring a huge rally from here). Stocks rallied for the second straight week but ended sharply lower for the month. January 2016 was one of the largest monthly declines in Wall Street's history. Stocks across the world plunged in the first half of the month on fear of a global recession. Then, on cue, a few powerful central banks jumped in and did their best to quell the violent selling. China jumped in twice in January with emergency measures and injected close to \$80B to stimulate their market and their slowing economy. The European Central Bank (ECB) hinted at more easy money in March. Not to be out done, the Bank of Japan (BOJ) fired a bazooka on the last trading day of the month and took rates into negative territory while continuing to print money! All that helped stocks bounce from deeply oversold levels. The near term low occurred on Jan 20, 2016 (a.k.a The Dalio Low) and as long as that low holds- we expect the market to drift higher from here and rally into the declining moving averages (see charts below). Moreover, central banks love interfering with markets and have distorted the playing field for years. In the intermediate and long term, 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 but remain open to any scenario that presents itself.

Portfolio Update:

It was a very choppy week - the service sold SPY at break even mid-week. Then the service bought the IWM as a short term trade to play this little oversold bounce. Once the market rallies into its declining moving averages we will probe the short side (unless more easy money and/or leadership shows up). If GOOGL gaps up after earnings on Monday the service will buy it. If it gaps up on Tuesday above our entry price of 793.15, we will buy it at the market. We should have bought the FB gap last week but we didn't like how the market was acting last week and the virtual dearth of post-earnings leadership. We will look to buy FB when a favorable risk/reward trade emerges.

Positions:

- A. The service owns: **IWM +1.23%**
- B. The service will exit: IWM @ 98.75

Working Orders:

Status	Order	Ticker	Buy Stop	Protective Sell Stop	Risk From Entry
Open	Buy	GOOGL	793.15	756	-4.68%

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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	1940	7.05%
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	7.89%
		Avg Pullback	-6.13%				

Chart Of The Week:

Still Room To Bounce: The Dow Is Still 643 Points Below Its 50 DMA



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Year-To-Date Scorecard

Nasdaq Composite -7.9%, S&P 500 -5.1%, DJIA -5.5% Russell 2k -8.6%

Key Points

- Uptrend: Short-Term Trying To Bounce & Intermediate & Long-Term Toppy
- SPX Resistance: 1950, 2007
- 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: Volatile Week Dow Moves Triple Digits Everyday This Week

Stocks fell on Monday as the market paused to digest last week's big oversold bounce. Oil prices fell again which dragged a slew of energy stocks lower. Oil plunged more than 5.5% which is not an insignificant sum. Economic data was thin on Monday. The Dallas Fed January manufacturing index fell to negative -10.2 vs 12.7 in December. The business activity index was minus 34.6 which missed estimates for -14 and last month's reading of -21.6 the previous month. Stocks rallied sharply on Tuesday as the Fed started their two day meeting and the market continued to bounce from deeply oversold levels. Economic data was mixed. The FHFA house price index came in at 0.5% which matched the Street's estimate. The S&P Case-Shiller Index rose 0.9%, beating estimates for 0.7%. The PMI Services Flash index came in at 53.7, also matching estimates. The Consumer Confidence index rose to 98.1, beating estimates for 96.0. The Richmond Fed Manufacturing index came in at 2, which was lower than last month's reading of 6. Stocks fell hard after the Fed concluded its 2-day meeting on Wednesday. The Fed held rates steady but left the door open for a possible rate hike in the future. The market was looking for a more dovish stance whereby the Fed would signal that they are not going to raise rates anytime soon. Steeping back it is important to note that we are in the early stages of a bear market and the defensive stance Gary has told you about for months is front and center.

Thursday-Friday's Action: Stocks Bounce on More Free Money

Stocks rallied on Thursday after investors made their way past Wednesday's Fed meeting and digested the latest round of earnings and economic data. Facebook (FB), PayPal (PYPL) and Under Armour (UA) were some stocks that rallied after reporting numbers on Thursday. Meanwhile, eBay (EBAY), Harmon (HAR), and Service Now (NOW) gapped down after reporting numbers. Economic data was mixed: Durable Goods fell -5.1%, missing estimates for a 0.2% gain. Jobless claims came in at 278k, beating estimates for 285k. Pending home sales rose to 106.8, just beating estimates for 106.7. The Kansas City Fed Manufacturing Index fell to -9 which shows is not healthy. Stocks rallied on Friday after the Bank of Japan surprised the Street and took rates into negative territory and continued their QE (money printing) program. This is an aggressive move to help stimulate their lackluster economy. In the U.S., GDP slowed considerably in Q4 2016, growing by only +0.7%, missing estimates for 0.9%. The weaker than expected GDP reading may help the Fed keep rates near zero for longer than initially expected. Remember, Wall Street loves easy money so we are back in the environment where bad news is good news.

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 30% 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 | 7. DLR | 13. SO |
| 2. WEC | 8. ES | 14. PG |
| 3. KHC | 9. DLTR | 15. RTN |
| 4. STZ | 10. MO | 16. FISV |
| 5. XLNX | 11. AEP | 17. NLSN |
| 6. DTE | 12. ROST | |

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12 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

GOOGL Working Order Setup: Healthy Setup Ahead of Earnings Feb 1st @4pm Whisper: \$8.19 Consensus: \$8.10 Revenue: \$20.72 Million



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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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KHC Setup: Approaching Mid-Level Resistance

Earnings Feb 25

Consensus: \$0.58 Revenue: N/A



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DTE: Near Mid-Level Resistance- Earnings Feb 10th Consensus: \$0.96 Revenue: \$2.81 Billion



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PNW: Strong Action - Earnings Feb 19

Consensus: \$0.27 Revenue: \$762.01 Million



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UA Setup: Big Gap Up After Reporting Numbers Last Week - Let's See If It Continues



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V: Rallied Nicely After Reporting Numbers Last Week. New Early Entry Forming



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MSFT: Bullish Base-on-Base Pattern Continues To Form - Reported



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SBUX: Healthy Action Continues - Reported



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RTN: Very Strong Action - Reported



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ROST: New Early Entry Forming -Earnings Mar 1 Consensus: \$0.64 Revenue: \$3.22 Bil



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KIM: About To Breakout Of A Long Base Earnings Feb 3 Consensus: \$0.35 Revenue: \$291.72 Million



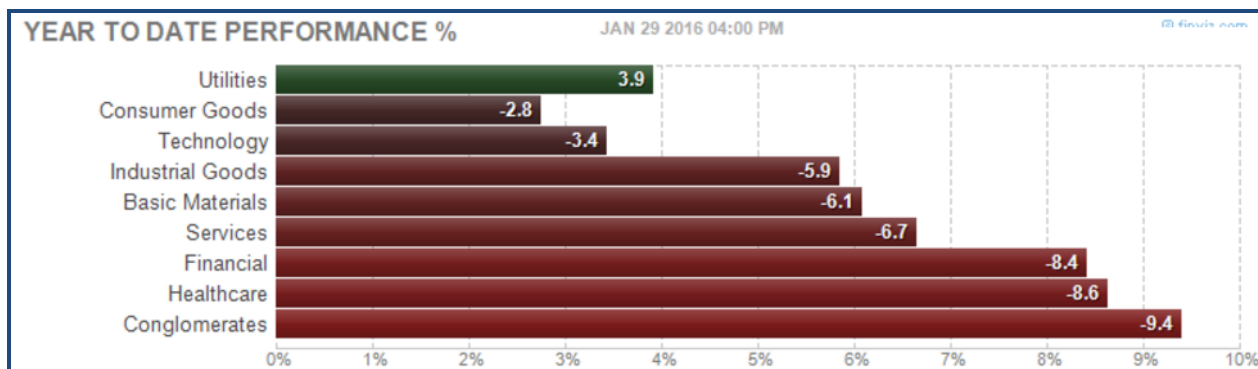
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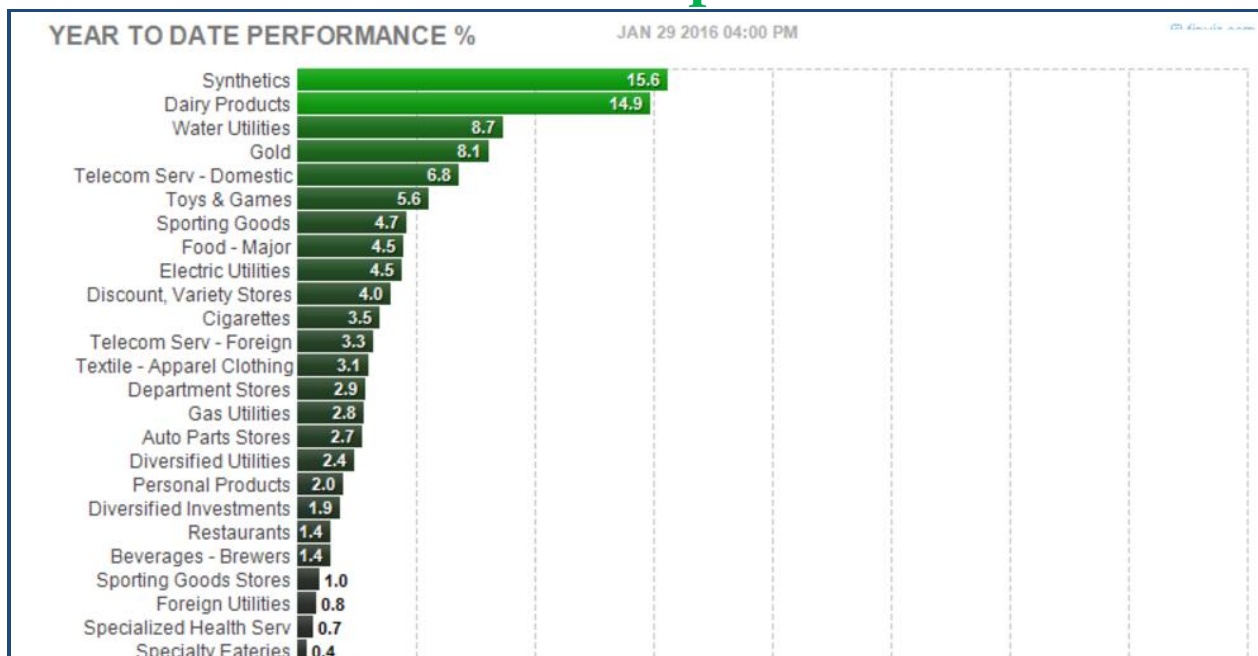
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Year-To-Date Sector Performance



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	1.30%	40.44%	44.49%	30.15%	24.60%	39.05%
2	BURL	2.46%	22.34%	13.04%	-2.54%	6.00%	25.24%
3	SWN	1.37%	31.51%	-17.38%	-53.36%	-63.39%	25.04%
4	AR	13.68%	17.06%	28.28%	-3.14%	-20.14%	24.63%
5	TEX	44.61%	16.24%	17.11%	0.47%	-1.78%	21.21%
6	GPOR	15.20%	19.39%	-3.96%	-10.07%	-22.22%	20.27%
7	RRC	11.55%	20.36%	2.69%	-25.62%	-34.74%	20.11%
8	EQT	6.37%	16.53%	-3.53%	-20.19%	-16.12%	18.43%
9	SWFT	17.51%	19.31%	7.51%	-31.04%	-36.31%	18.02%
10	CRUS	19.77%	11.35%	9.80%	3.92%	32.82%	17.58%
11	COG	6.30%	17.35%	-4.72%	-20.04%	-21.68%	17.42%
12	ROVI	6.40%	17.23%	72.52%	52.27%	-13.09%	16.81%
13	DF	5.71%	12.12%	11.80%	13.45%	8.87%	16.50%
14	AXLL	86.77%	16.13%	-9.07%	-37.91%	-58.34%	16.43%
15	M	-2.27%	13.19%	-18.19%	-40.79%	-36.55%	15.52%
16	TLN	3.47%	7.04%	-19.21%	-54.66%	-	14.77%
17	SE	0.22%	15.48%	-1.48%	-7.19%	-13.91%	14.66%
18	COH	14.25%	12.27%	20.81%	21.02%	-1.01%	13.20%
19	FANG	14.18%	13.71%	0.07%	11.63%	10.07%	12.93%
20	KMI	8.19%	9.91%	-39.05%	-51.74%	-57.43%	11.23%

“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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