

FLS Playbook 02.08.16

Market Outlook:

Earnings and Economic Data Continues To Slow

In the short term, the action remains very poor on Wall Street. It was another ugly week as the major indices ended lower and several key stocks broke down badly after reporting earnings (\$GOOG, \$ICE, \$LNKD, \$DATA, \$RL, just to name a few casualties from last week). Stocks snapped a two-week win streak and fell after the latest round of tepid earnings and economic data was released. Remember, we are operating with the notion that stocks topped out in 2015 and are now in the early phases of a new bear market (and global recession). In bear markets, surprises happen to the downside.

If last month's lows are breached (Jan 20, 2016) we have to expect another "ugly" leg down to follow. So far, the major indices are forming a bearish flag/wedge pattern and that suggests lower prices may follow. We have to keep in mind that global central banks love interfering with markets and have distorted the playing field for years. Any strong intervention may change the playing field and lead to a stronger bounce. Until that occurs, the sellers remain in clear control. The intermediate and long term action remains lousy 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. 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.

Portfolio Update:

Thankfully, the FLS portfolio is beating the market this year by a very nice margin as it locked in a nice double digit winner in AMZN in early January and has largely sidestepped this steep decline. The service will short the Nasdaq 100 (QQQ) if it breaks down below support of its bearish flag (see charts below). The service will buy PSQ which is an inverse ETF and goes up when the QQQ goes down.

Positions

There are no open positions.

Working Orders:

Status	Order	Ticker	Buy Stop	Protective Sell Stop	Risk From Entry
Open	Buy	PSQ	59.8	57.54	-3.78%

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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: Bear Flags Abound



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Year-To-Date Scorecard

Russell 2000 -13.1%, Nasdaq Composite -12.9%, S&P 500 -8.0%, DJIA -7.0%

Key Points

- Uptrend: Short-Term Intermediate & Long-Term Bearish
- SPX Resistance: 1950, 2007
- SPX Support, 1812
- Sarhan's Crowd Behavior Index: **Bearish**
(Proprietary market indicator that measures the inverse of crowd sentiment: Bullish Bearish or Neutral)

Global Macro Update

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

Week In Review: Bear Flag



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Monday-Wednesday's Action: Economic And Earnings Data Continues To Slow

Stocks ended mixed on Monday as oil prices tanked over 6% after a series of weaker-than-expected economic reports were released across the globe. China said its official factory gauge fell to a three-year low of 49.4 in January. This was the sixth consecutive monthly decline and missed estimates for 49.6. China's main stock market, the Shanghai Composite, fell nearly 2%, extending its loss this year to -24%. European data was also weak with the headline Purchasing Managers' Index falling to 52.3 from 53.2. In the U.S., the data was mixed to less than stellar. Personal income and outlays rose 0.3%, matching estimates. The PMI Manufacturing index came in at 52.4, missing estimates for 52.6. The ISM Manufacturing index sank to 48.2, missing estimates for 48.3. Construction spending came in at 0.1%, also missing estimates for +0.6%. Clearly, economic activity is not healthy. Stocks fell on Tuesday, led lower by energy, industrial, and material stocks. Financial stocks also fell hard on Tuesday as sellers showed up and continued to relentlessly sell nearly every sector in the market. Oil prices fell hard on Tuesday and tanked over 11% in the past two trading days alone! That's a very big decline for a major commodity like oil and tells you everything you need to know about the slowing economy. Stocks opened lower but closed near their highs as the US dollar fell and oil continued trading like a penny stock, jumping 8% on Wednesday. The weaker dollar helped many commodity areas of the market (gold, silver, oil, etc). Economic news was mixed. ADP, the country's largest private payroll company, said private employers added 205k new jobs in January, beating estimates for 190k. Elsewhere, more weakness emerged from the service sector of the US economy. The PMI Service index rose to 53.2, missing the Street's estimate for 53.7. The ISM service index also missed estimates for 55.5, and came in at 53.5.

Thursday-Friday's Action: Jobs Report A Non-Event: Stocks opened lower on but closed higher on Thursday as the US dollar continued to fall gold continued to bounce. Oil prices fell and closed lower on Thursday after encountering resistance near January's high. More stocks gapped down after reporting lousy numbers. Shares of Ralph Lauren plunged over 20% after reporting a disappointing quarter. Shares of GoPro (GPRO) tanked over 7% after the company lowered their 2016 outlook. In Europe, Shares of Credit Suisse (\$CS) plunged to the lowest level since 1991 after the bank posted its first full-year loss since 2008. Shares of Deutsche Bank (\$DB) also plunged to the lowest level in over a decade and both stocks are trading below their 2008 lows! That's with the European Central Bank printing billions of dollars every week to stimulate markets and their lackluster economy. Stocks fell on Friday after the government said U.S. employers added 151k new jobs in January, missing estimates for 188k. Meanwhile, the unemployment rates (a level the Fed watches) fell to 4.9% which is the lowest level since the financial crisis.

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 25% 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. DTE | 15. PCG |
| 2. VZ | 9. AEE | 16. KIM |
| 3. WEC | 10. ES | 17. EW |
| 4. PEG | 11. CPB | 18. EL |
| 5. NEE | 12. FAST | 19. MO |
| 6. DLR | 13. PPL | 20. RTN |
| 7. AEP | 14. SYU | |

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No New Setups- Just A Ton Of Damage Last Week

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

Nasdaq 100 (\$QQQ): Big Bearish Flag. Market Remains VERY WEAK!



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NFLX Short: Big Double Top Forming... Previously mentioned, Shortable Below Support. The fact that NFLX couldn't bounce last week speaks volumes. Reported



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GOOGL: Very Poor Action Post Earnings Reported



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FB Setup: Failed Breakout and Big Negative Reversal



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AMZN: Very Poor Action



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ICE: Another Former Leader Getting Mauled



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SBUX: Breaks Below 50 and 200 DMA Lines- Reported



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LNKD: This Doesn't Happen In Bull Markets



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DATA: Lost 50% In One Day!



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RL: UGLY



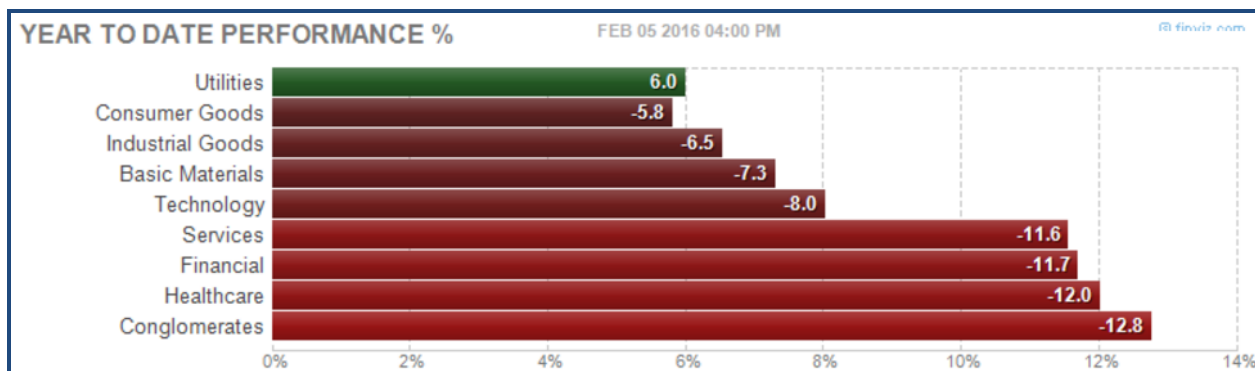
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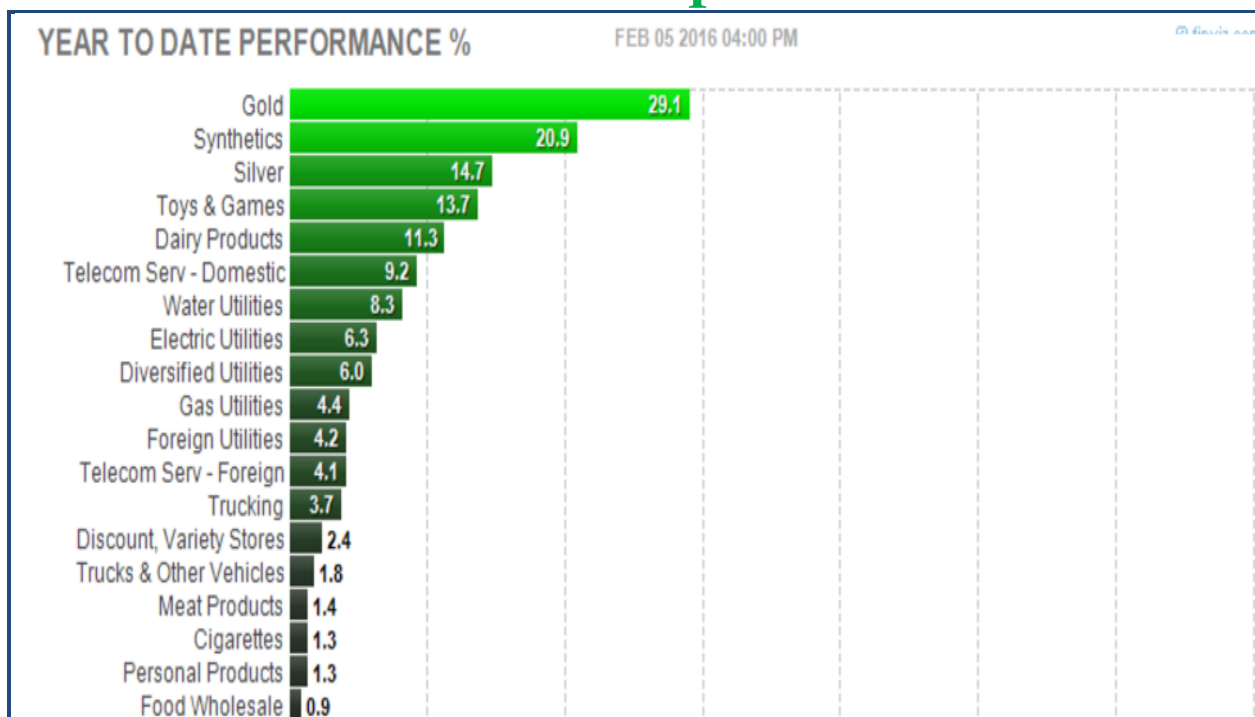
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Year-To-Date Sector Performance



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	VHC	75.63%	220.64%	83.46%	53.63%	29.44%	171.98%
2	AFFX	0.14%	46.51%	50.91%	35.10%	22.39%	39.25%
3	ALR	43.01%	37.01%	13.68%	6.42%	30.23%	36.10%
4	NEM	22.29%	31.52%	28.57%	49.64%	-1.16%	35.69%
5	SWN	5.06%	39.61%	-19.90%	-46.48%	-64.31%	31.36%
6	STR	22.27%	28.77%	21.36%	22.43%	0.53%	27.98%
7	AR	0.00%	37.43%	6.05%	2.53%	-32.76%	24.63%
8	RRC	3.38%	27.17%	-10.19%	-19.26%	-40.65%	24.18%
9	SWFT	4.84%	24.64%	2.09%	-27.70%	-33.70%	23.73%
10	SE	7.54%	18.13%	4.03%	3.32%	-14.60%	23.31%
11	AXLL	4.57%	42.80%	-12.50%	-36.76%	-57.37%	21.75%
12	XON	23.44%	37.34%	-10.88%	-45.13%	20.38%	19.30%
13	EXC	11.26%	16.71%	14.29%	4.98%	-6.56%	18.47%
14	BURL	-5.64%	18.62%	3.45%	-4.86%	-1.95%	18.18%
15	MAT	15.30%	18.16%	29.92%	45.22%	20.81%	17.08%
16	COG	-0.43%	29.10%	-7.76%	-18.53%	-22.25%	16.91%
17	CNX	14.61%	20.05%	12.21%	-36.24%	-71.21%	15.19%
18	M	-0.37%	11.37%	-19.42%	-39.36%	-35.14%	15.09%
19	TEX	-5.36%	14.66%	-5.85%	0.04%	-11.46%	14.72%
20	EQT	-3.17%	20.69%	-10.33%	-21.08%	-22.64%	14.67%

“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.

Our Job & General Info

Find Leading Stocks: Weekly Market Outlook

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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).

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