

FLS Playbook 02.15.16

Market Outlook:

Time To Bounce?

The major indices ended lower last week but near their weekly highs which suggests the market may finally bounce from deeply oversold levels. This appears to be another short term low for stocks (Not "the" low, just "a" low). The conditions are ripe for stocks to rally a bit as they work off their deeply oversold levels. Once again, the bulls showed up and defended important support for the S&P 500 (1810-1820 area). What we saw last week was another "buy tail" which is a technical term for a market opening lower and closing higher (or near the highs). We have seen this pattern a few times before and the pattern tends to set the stage for a near term rally. That's the short term outlook.

Meanwhile, the intermediate and long term outlook still remain bleak. First, we are still operating with the notion that we are in the early stages of a new bear market for stocks so we have to be very selective moving forward. Second, it is important to note that, in bear markets, surprises happen to the downside. Third, 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. 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:

The FLS portfolio probed the short side last week and quickly tightened the exit just in case markets reversed. Thankfully, we did that because markets did reverse and are trying to bounce now. So far this year, bounces have been anemic at best. We'll see if this time is different.

Positions

There are no open positions or open orders today.

Working Orders

| Status | Order | Ticker | Buy Stop | Protective Sell Stop | Risk From Entry |
|--------|-------|--------|----------|----------------------|-----------------|
| Open | Buy | QQQ | 98.79 | 94.74 | -4.10% |

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"Quantitative Failure"

Last week, Michael Hartnett, chief investment strategist at Bank of America Merrill Lynch Sent A Note To The Bank's Institutional Clients titled Quantitative Failure. Here are some highlights (I Wish I thought of this title but I didn't get that lucky... Maybe next time).

Since 2009, central banks have pumped an unprecedented amount of money into the global system to stimulate the global economy and "reflate" asset prices. The results of this massive experiment has been less than stellar.

Facts:

- 637: Rate cuts since Bear Stearns imploded in March 2008.
- \$12.3 trillion: Asset purchases through global QE programs.
- \$8.3 trillion: Global debt yielding zero percent or less.
- 489 million: Population of countries with official policy rates of less than zero.
- -0.93 percent: Yield on the two-year Swiss bond, the lowest-yielding government debt in the world.

Results So Far:

- Expected gross domestic product growth of 1.75 percent in 2016 for the U.S., according to BofAML economist Ethan Harris.
- Inflation expectations for the U.S. and Europe now falling below financial crisis 2008 levels.
- "One of the most deflationary recoveries of all time," according to Hartnett, with nominal GDP of advanced economies growing just 11 percent over the past 26 quarters.
 - A bear market in stocks.
 - A bear market in commodities.
- Loss of \$686 billion in market cap for global banks since Dec. 15, the day before the Fed raised rates, leading to tightening liquidity conditions and lending standards.
- "Most conspicuously" a bear market in bank stocks and tumbling bond yields, "suggesting that six years of QE has failed to arrest deflation," Hartnett said.

Bottom Line: We have said for many years that this huge "experiment" will not end well. We hope we are wrong.

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

| Pullback | | | | Rally | | | |
|----------|--------|--------------|----------|-------|--------|----------|----------|
| | High | Low | % Change | | Low | High | % Change |
| SPX | 1947.2 | 1810.1 | -7.04% | SPX | 1812.3 | 1947.2 | 7.44% |
| SPX | 2081.6 | 1812.29 | -12.94% | SPX | 1993.3 | 2081.56 | 4.43% |
| SPX | 2104.3 | 1993.26 | -5.28% | SPX | 2019.4 | 2104 | 4.19% |
| SPX | 2020 | 1871 | -7.38% | SPX | 1871 | 2116.48 | 13.12% |
| SPX | 2132.8 | 1867 | -12.46% | SPX | 1867 | 2020 | 8.19% |
| SPX | 2134.7 | 2044.02 | -4.25% | SPX | 2044 | 2126.64 | 4.04% |
| SPX | 2129.9 | 2056.32 | -3.45% | SPX | 2039.7 | 2134.72 | 4.66% |
| SPX | 2134.7 | 2085.67 | -2.30% | SPX | 1980.9 | 2119.59 | 7.00% |
| SPX | 2119.6 | 2039.69 | -3.77% | SPX | 1972.6 | 2093.55 | 6.13% |
| SPX | 2093.6 | 1980 | -5.42% | SPX | 1820 | 2079.47 | 14.26% |
| SPX | 2079.5 | 1972.56 | -5.14% | SPX | 1904 | 2019.26 | 6.05% |
| SPX | 2019 | 1820 | -9.86% | SPX | 1814 | 1991 | 9.76% |
| SPX | 1991 | 1904 | -4.37% | SPX | 1737 | 1897 | 9.21% |
| SPX | 1897 | 1814 | -4.38% | SPX | 1646 | 1850 | 12.39% |
| SPX | 1850 | 1737 | -6.11% | | | Avg Gain | 7.92% |
| SPX | 1729 | 1646 | -4.80% | | | | |
| | | Avg Pullback | -6.18% | | | | |

Chart Of The Week: Room to Bounce: The Dow Is Still 807 Points Below Its 50 DMA Line!



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Year-To-Date Scorecard

Russell 2000 -14.4%, Nasdaq Composite -13.4%, S&P 500 -8.8%, DJIA -8.3%

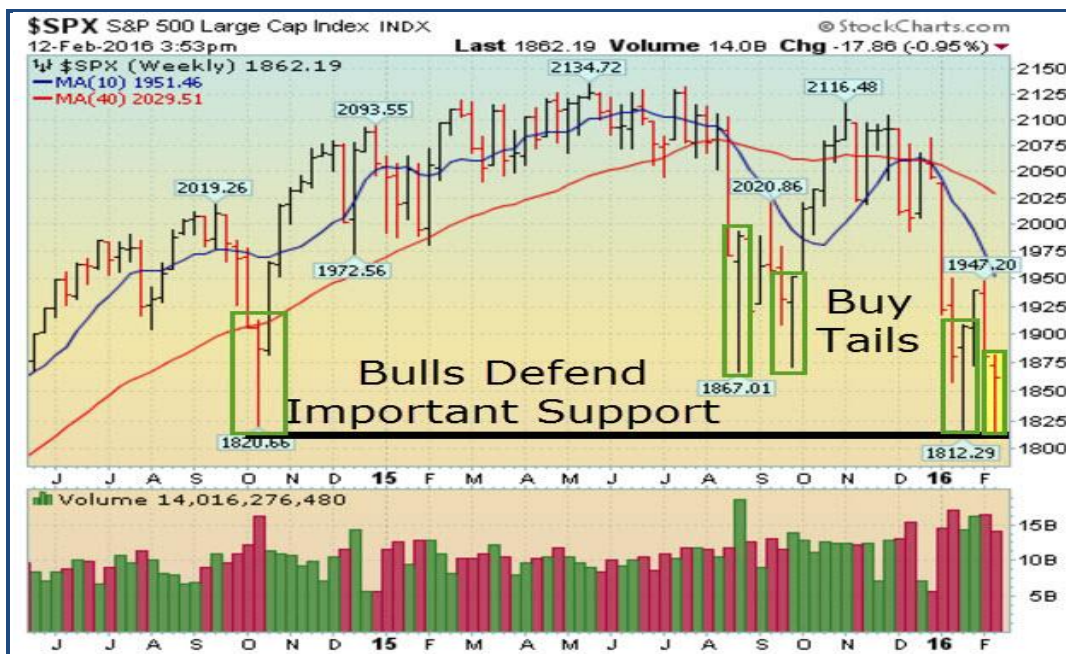
Key Points

- Uptrend: Short-Term Intermediate & Long-Term Bearish
- SPX Resistance: 1950, 2007
- SPX Support, 1810
- Sarhan's Crowd Behavior Index: **Neutral**
(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: Stocks Trying To Bounce Off Support



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Monday-Wednesday's Action: Stocks Try To Bounce

It was a sea of red on Wall Street. Stocks fell hard on Monday as sellers remain in clear control of the market. The damage was widespread and continued from last week. The Nasdaq Composite and Nasdaq 100 broke down below support of their bearish flag patterns (highlighted last week). The Small-Cap Russell 200 also broke below January's low which is not ideal for the bulls. Oil prices fell over 3% on Monday and that continues to hurt sentiment. There was virtually no meaningful economic data on Monday from the U.S. The only thing noteworthy on the economic front was that India, the world's third largest economy, said its economy grew by +7.3% in Q4 2015, making it one of the world's fastest growing economies. China's GDP slowed to +6.8% in the same period. Meanwhile, U.S. GDP grew by 0.7%, missing estimates for 0.90%. The major indices ended near their intra-day highs for the second straight day which may be a sign that the market is due to bounce a little. Clearly, the market is deeply oversold and way overdue to bounce at this point. Shortly after the open, the market tried to rally but sellers showed up and quickly sent stocks lower. Then in the afternoon, stocks tried to turn higher and overall it was just a lot of jello moving on a shaky plate. For all of 2016, rallies on Wall Street are lasting a few hours which is not a healthy sign. The inability for the market to bounce clearly illustrates how weak the market is right now and tells you everything you need to know. In other news, oil prices fell 5% and is once again trading in the high \$20. The market was relatively quiet on Wednesday as investors digested the latest round of lackluster earnings data and Janet Yellen spent most of the day testifying on Capitol Hill. Disney (\$DIS) and Solar City (\$SCTY) both fell hard after reporting disappointing results. Janet Yellen spent the day on Capitol Hill and basically said nothing. She said she understands there are threats to the global economy but she did not take more rate hikes off the table. The market remains deeply oversold and the inability to bounce speaks volumes to how weak the intermediate and longer term trend is right now.

Thursday-Friday's Action: Stocks Bounce After OPEC News

Before Thursday's open, futures and most global markets, were down big as another wave of selling hit stocks. Overnight, Sweden's Central Bank surprised markets and cut its main repo rate further into negative territory. Sweden lowered its rate to negative -0.5%, from -0.35%. Crude oil fell to \$26/barrel and gold soared to a fresh 1 year high. At one point, the Dow Fell over 400 Points and the S&P 500 briefly undercut Jan 20, 2016's low of 1812 before buyers showed up and defended stocks. In the afternoon, news spread from OPEC that they may be near a deal to cut production which helped oil prices spike higher. Needless to say, stocks are deeply oversold and way overdue to bounce at this point. Stocks rallied nicely on Friday as oil vaulted 12% and bounced from deeply oversold levels.

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 27% 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. TSN | 8. PEG | 15. AGR |
| 2. CPB | 9. XEL | 16. NDAQ |
| 3. ED | 10. DUK | 17. HRL |
| 4. VZ | 11. NEE | 18. AEP |
| 5. AWK | 12. T | 19. DLR |
| 6. CMS | 13. FAST | 20. CHD |
| 7. WEC | 14. SYU | |

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10 New Tactical Trade Setups - Stocks with VERY Strong Relative Strength

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): Oversold Bounce



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EW Setup: Perched Near Resistance of Long Flat Base



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CLX Setup: New Early Entry Forming As It Hugs Its 50 DMA



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RSG Setup: Very Tight Action



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KO Setup: Trading Just Below 52-Week High



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GIS Setup: Strong Action In A Weak Tape



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JNJ: Cup with Handle Pattern Forming



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CB Setup: New Early Entry Forming



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PNRA Setup: About To Breakout Above Mid-Level Resistance



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UGI Setup: About To Breakout?



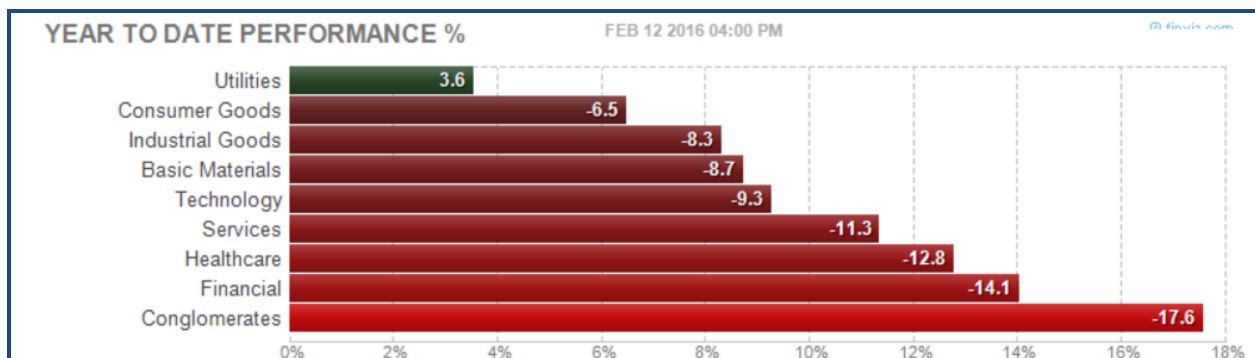
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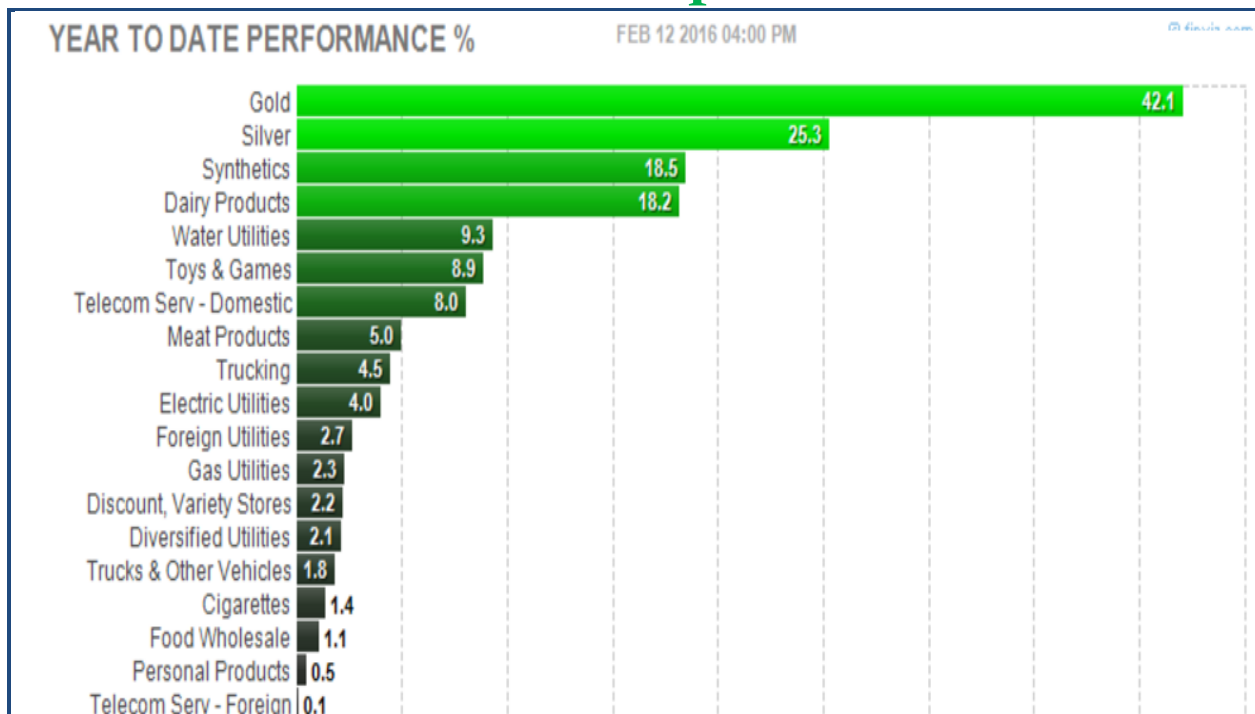
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Year-To-Date Sector Performance



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 | 0.86% | 184.27% | 106.14% | 71.12% | 29.60% | 174.32% |
| 2 | NEM | 5.61% | 47.48% | 45.10% | 47.82% | 5.71% | 43.30% |
| 3 | AFFX | 0.28% | 2.25% | 50.05% | 44.07% | 23.27% | 39.64% |
| 4 | ALR | -0.86% | 43.24% | 28.92% | -4.78% | 20.41% | 34.92% |
| 5 | STR | 0.00% | 33.03% | 32.94% | 18.83% | 7.31% | 27.98% |
| 6 | SWN | -4.39% | 38.24% | -16.07% | -49.55% | -66.74% | 25.60% |
| 7 | ROVI | 13.63% | 25.17% | 113.31% | 79.81% | -11.92% | 25.09% |
| 8 | SWFT | 0.88% | 38.22% | 3.42% | -24.61% | -34.73% | 24.82% |
| 9 | SE | -2.13% | 19.44% | 7.68% | -2.82% | -17.25% | 20.68% |
| 10 | DF | 7.10% | 16.12% | 8.80% | 24.82% | 28.86% | 20.52% |
| 11 | BURL | 1.79% | 9.76% | 19.19% | -3.30% | -1.64% | 20.30% |
| 12 | AXLL | -1.92% | 73.00% | -7.35% | -31.72% | -59.69% | 19.42% |
| 13 | AR | -4.23% | 30.75% | 13.43% | -2.51% | -34.38% | 19.36% |
| 14 | O | 8.21% | 17.09% | 28.92% | 30.20% | 22.61% | 17.57% |
| 15 | GPOR | 1.85% | 27.14% | -6.23% | -19.38% | -34.24% | 16.48% |
| 16 | RGLD | 6.43% | 35.70% | 11.12% | -20.37% | -40.10% | 15.18% |
| 17 | CTL | 7.52% | 24.28% | 2.58% | 6.39% | -21.92% | 13.71% |
| 18 | EQT | -1.12% | 15.54% | -7.10% | -24.53% | -26.71% | 13.39% |
| 19 | MAT | -3.30% | 17.14% | 29.97% | 37.69% | 19.17% | 13.21% |
| 20 | CHRW | 3.06% | 11.92% | 2.78% | 3.44% | 0.07% | 13.12% |

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

***Trade wisely,
Adam Sarhan***

Find Leading Stocks: Weekly Market Outlook

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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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