

FLS Playbook 02.22.16

Market Outlook: Stocks Forming Right Side Of Double Bottom Pattern

The market is trying to form the right side of a bullish double bottom pattern. The pattern will be confirmed when the major indices breakout above Feb's high. For the week, the major indices ended the week higher but closed in the middle of their weekly range which may be a sign of short term fatigue. Last week we wrote, "stocks ended lower 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." Typically, these short term oversold rallies last a few weeks, not days. We'll see if this one has any legs or rolls over and fails like so many other short rallies we have seen in recent months. 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 long side and is happy with its current exposure at the moment.

Positions

- A. The service owns: QQQ +2.07%
- B. The service will exit: QQQ @ 98.74

Working Orders

There are no open orders today.

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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: Gold's Back In Play - Will It Last This Time?



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Year-To-Date Scorecard

Russell 2000 -11.1%, Nasdaq Composite -10%, S&P 500 -6.2%, DJIA -5.9%

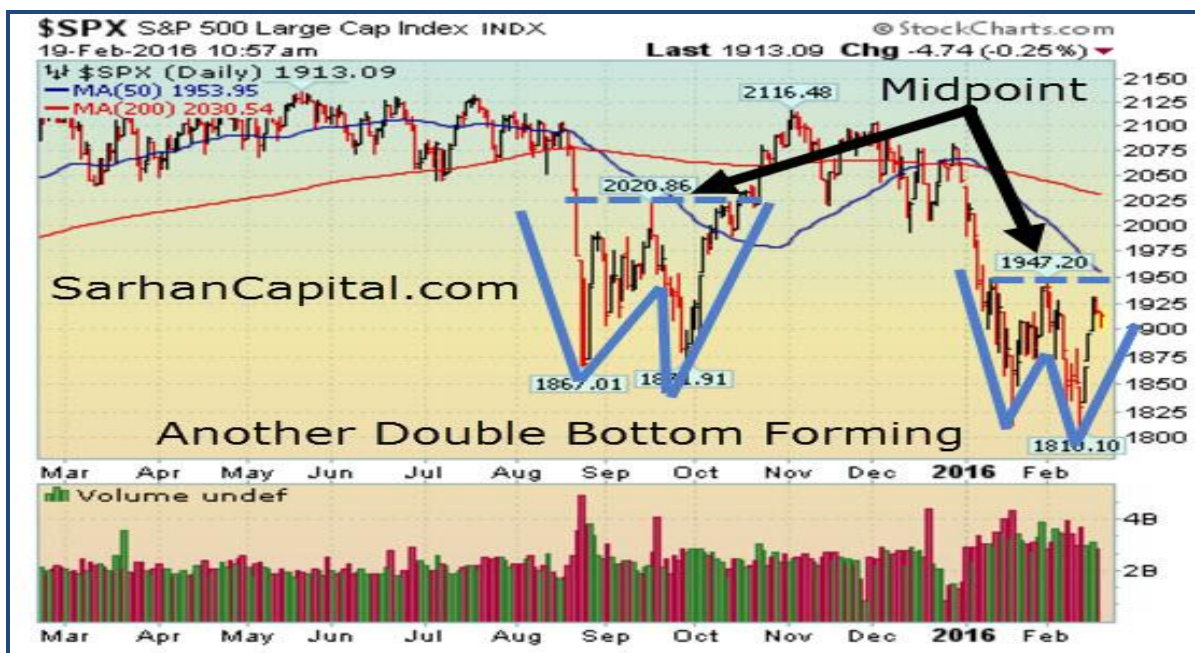
Key Points

- Uptrend: Short-Term Intermediate & Long-Term Bearish
- SPX Resistance: 1947, 1953, 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:** Trying to bottom
- * **Grains:** Downtrend

Week In Review: Double Bottom Forming on Wall Street



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Monday-Wednesday's Action: Oversold Rally Anyone? U.S. stocks rallied on Tuesday as traders returned from a long weekend. Wall Street was closed on Monday for President's Day but stock futures were higher alongside other international equity markets. Stocks continued to bounce on Tuesday from deeply oversold levels. International stocks were higher after the latest round of bullish central bank rhetoric was announced. Mario Draghi, head of the European Central Bank (ECB), said he is "ready to do its part" to make "the euro area more resilient." That is his way of saying the ECB is ready to pump more money into the system (increase QE) next month if conditions worsen. Separately, China's Central Bank wants to spend more money to stimulate their economy and they central bank is considering changing the rules (once again) to help "encourage" bank lending. Bad loans in China surged to the highest level in a decade but the central bank wants more lending to stimulate markets. The Yuan surged on Monday and enjoyed its largest single day gain in over 10 years. In the U.S. a few regional Fed presidents spoke and said largely reiterated the recent stance that the Fed remains data dependent. Oil prices were higher on Monday but fell on Tuesday after OPEC decided to hold production steady. The Street was looking for OPEC to cut production and the fact that oil didn't cut sent oil prices plunging over 8% from its intra-day on Tuesday. Oil has only had 2 "up" days all month and remains in a steep bear market. In economic news, the U.S. Empire Manufacturing Index contracted for a seventh straight month and missed estimates. The Empire Manufacturing index fell to 16.64, missing estimates for -10. In other news, home builder sentiment fell to 58 in February, missing estimates for 61. U.S. stocks continued their 3-day rally as the market continues to bounce from deeply oversold levels. It is important to note that new leadership still remains virtually non-existent and the market continues to be led higher by beaten down areas such as Materials (\$XLB) and the Transports (\$IYT). Investors digested a lot of economic data on Wednesday. Overall the data was mixed to less than stellar. MBA mortgage applications jumped to 8.2%, which was lower than the prior reading of 9.3%. The big jump came from refinancing (thanks to lower mortgage rates), not new purchases. Elsewhere, Housing starts slid by -3.8% last month while building permits slid by -0.2%. Housing starts came in at 1.099M, missing estimates for 1.175M. Building permits came in at 1.202M, compared to estimates of 1.224M. Separately, U.S. producer prices rose +0.1% last month, beating estimates for a decline of -0.2%. Core prices, which exclude food and energy, rose +0.4%, also beating estimates for +0.1%. Finally, industrial production for January grew by +0.9% beating estimates for +0.4%. Meanwhile, capacity utilization was 77.1%, beating estimates for 76.7%. Finally, E-Commerce Retail Sales rose 2.1% which was lower than the last revised reading of 3.8%. The Fed released the minutes of their last meeting at 2pm EST and, as expected, the minutes reiterated the Fed's recent "data dependent" stance.

Thursday-Friday's Action: Stocks Pullback To Digest Recent Rally: Stocks are relatively quiet on Thursday as the market pauses to digest the recent and very strong 3-4 day rally. Since last week's low, the benchmark S&P 500 vaulted ~120 points or +6.6%! That is a huge move by any normal measure. In "normal" (non/Central Bank printing money days), a 10% gain for the entire year was considered "normal." Clearly, a +6.6% rally in a 4 trading days is considered very strong and way over due to pullback to digest that move. The Organization for Economic Cooperation and Development (OECD) cut its forecast for the global economy to +3.0% in 2016, down from +3.3%. The OECD is concerned that some emerging economies be adversely affected from the sharp exchange-rate movements we are seeing in global currencies. The report came one day after Mexico's government surprised the street to defend their currency (peso). The European Central Bank (ECB) released the minutes of their last meeting. ECB President Mario Draghi has made it clear that the central bank is ready to "do more" in March, if needed. In other news, China's Central Bank (PBOC) increased liquidity

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operations to further boost markets. The PBOC said they are conducting open-market operations every day. This was originally stated before their Lunar New Year holiday. The bank is relaxing their peg on their currency (the yuan) which allows the yuan to trade in a wider range. Stocks fell on Friday after core inflation jumped to 2.2%, over the Fed's 2% target. **As always, keep your losses small and never argue with the tape.**

Only 44% 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. NDAQ |
| 2. O | 9. AWK | 16. RAI |
| 3. CPB | 10. XEL | 17. AEE |
| 4. ED | 11. NEE | 18. PPL |
| 5. VZ | 12. FAST | 19. ES |
| 6. WEC | 13. T | 20. CHD |
| 7. CMS | 14. AEP | |

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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

SPY: Double Bottom Forming



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O Setup: Bullish Two-Weeks Tight Pattern Forming



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VZ Setup: Bullish Flag Forming



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T Setup: New Base Forming



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KO Setup: Trading Just Below 52-Week High



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CME Setup: Forming Right Side of Big Flat Base



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JNJ: Cup with Handle Pattern Forming



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WRI Setup: New Early Entry Forming



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STOR Setup: About To Breakout Above Mid-Level Resistance



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HA Setup: About To Breakout... Again



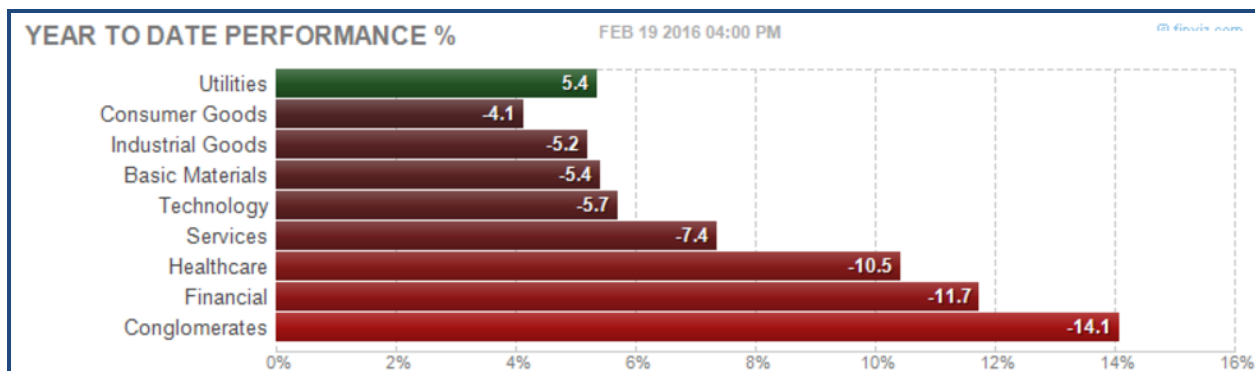
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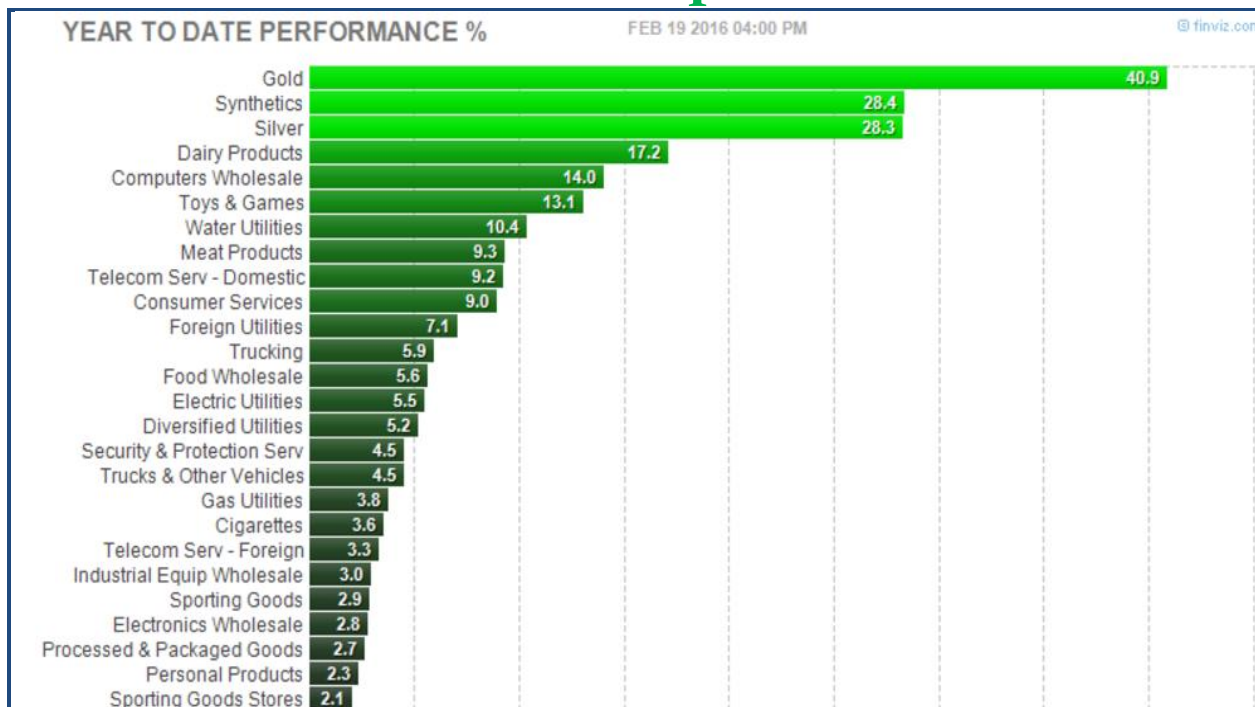
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Year-To-Date Sector Performance



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	-9.84%	53.50%	113.94%	59.90%	-4.51%	138.91%
2	AFFX	-0.07%	1.01%	54.13%	43.98%	17.68%	38.55%
3	NEM	-0.80%	50.00%	47.35%	38.94%	2.06%	38.08%
4	ALR	1.17%	46.83%	33.61%	-1.26%	21.71%	36.68%
5	ROVI	26.62%	24.94%	127.31%	107.90%	-6.21%	35.89%
6	CENX	42.93%	83.38%	71.26%	17.79%	-73.10%	34.84%
7	AXLL	6.46%	97.23%	6.28%	-25.32%	-57.03%	29.48%
8	STR	0.28%	33.48%	37.37%	19.27%	8.11%	28.13%
9	BURL	9.22%	8.83%	29.71%	-1.27%	2.01%	26.71%
10	TEX	14.54%	55.77%	15.98%	-4.99%	-8.72%	24.08%
11	SWFT	3.53%	36.93%	9.59%	-22.92%	-38.44%	23.15%
12	ADT	51.69%	40.33%	18.08%	23.91%	4.87%	22.20%
13	SE	3.77%	20.82%	6.47%	1.61%	-16.38%	21.28%
14	FOSL	36.23%	45.58%	28.23%	-28.51%	-47.79%	21.25%
15	RGLD	7.17%	71.14%	24.46%	-21.01%	-37.48%	19.62%
16	IM	33.59%	32.23%	17.36%	39.46%	36.04%	19.52%
17	DF	2.25%	11.67%	11.86%	17.69%	26.07%	19.36%
18	MAT	7.47%	28.90%	32.35%	47.78%	30.79%	18.51%
19	CTL	8.94%	33.68%	7.73%	9.00%	-15.19%	18.16%
20	TSN	4.86%	26.04%	43.74%	46.62%	53.87%	18.08%

“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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