



Asbury Research

Asbury Research's US Investment Analysis: A Review of Q1 2016

Prepared for Interactive Brokers

April 14th. 2016

About Asbury Research

Research, Methodology & Clientele

- **Our Research:** Asbury Research, established in 2005, produces unique and proprietary **technical, quantitative and behavioral financial market research** for professional investors. We help our clients to navigate the investment seas on a daily, weekly and monthly basis -- charting a course, and changing direction when necessary, to maximize returns and minimize portfolio risk Our research focuses on the **US stock market and market sectors, US interest rates, the US Dollar, and economically influential commodities like copper ,crude oil and gold**, but our scope is global as it integrates a broad spectrum of non-US asset prices that are statistically correlated to our domestic markets. This intermarket component of our research **more comprehensively and correctly reflects global market conditions**, which results in more forward looking and accurate investment strategies.
- **Our Methodology:** Our analysis is derived from a comprehensive list of **strategic inputs** including investor asset flows, intermarket relationships, market volatility, investor sentiment, seasonality, price patterns and trend analysis, market breadth, and relative performance, all which are geared toward **determining upcoming market direction 1-2 quarters in advance**. We then implement a conservative, consistent and repeatable **tactical methodology to generate entry and exit points** within that larger *strategic* bias.
- **Our Clients:** The typical Asbury Research client is a portfolio manager, hedge fund, or Registered Investment Advisor. However, our macro scope and breadth of financial assets covered has attracted a diverse clientele that includes corporate investment committees, money center banks, Commodity Trading Advisors and – **new this year** – individual investors.

About Asbury Research

John Kosar, Director of Research



John, a 30-plus year veteran of the US financial markets, spent the first half of his career on the trading floor of the Chicago futures exchanges ,where he had the opportunity to learn how the financial markets work from the inside out while being directly involved with many different types of financial assets. This experience, early in his career, became the foundation for the unique analysis, insight, and global intermarket perspective that defines Asbury Research.

John is frequently quoted in the media and regularly appears on financial television. He was awarded the Chartered Market Technician (CMT) designation in 1999, is a former Vice President of the Market Technicians Association (MTA), and served on the MTA's Board of Directors between 2002 and 2006.

Asbury Research's Analytical Toolbox

How We Analyze The US Stock Market

Our philosophy is that market metrics are like colors in a painting – the more you have, the more detail you can see. Ultimately, this mosaic helps inform our actively managed investment process, which can cross several different time frames. There are as many ways to devise an investment approach as there are ways to paint a picture—these are some of the metrics that we find work well for our firm and our clients. In the following pages we will go through them individually.

- **Price & Trend**
- **Intermarket Relationships**
- **Momentum**
- **Investor Asset Flows**
- **Credit Spreads**
- **Volatility**
- **Investor Sentiment**
- **Market Breadth**
- **Overbought/Oversold**
- **Seasonality**

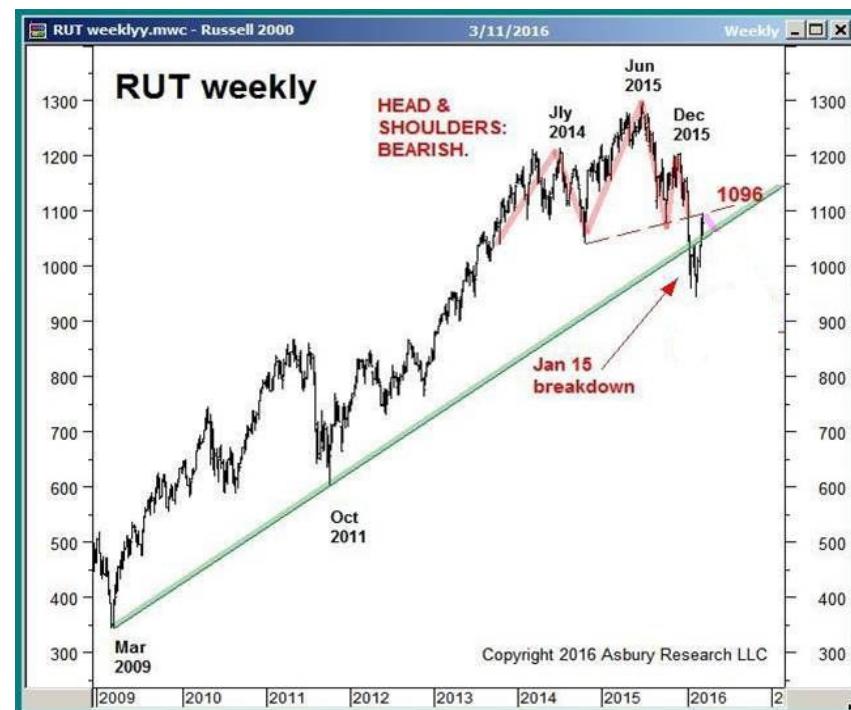


US Stock Market

Price & Trend (1): Major Levels Often Influence Major Trend Direction



Our analysis begins with knowing the major trend and knowing where the key levels are. The NASDAQ Composite failed to break its 2000 high during Q1-Q2 2015.



That weakness from the June 2015 highs evolved into a bearish chart pattern in another market leader, the Russell 2000, which triggered a break of the 2009 uptrend.



US Stock Market

Price & Trend (2): Watch Major Trend Proxies For Inflection Points



In mid-March the S&P 500 was negotiating its 200-day MA from below. This is a widely-watched major trend proxy, and the adjacent key levels are 3% above it at 2082 and 4% below it at 1947.



US Stock Market

Price & Trend (3): Know What The Major Areas Of The Economy Are Doing



The retail sector broke its November 2008 major uptrend in January, which suggests the 7-year trend of rising prices may no longer be valid. Retail supports 1 of 4 American jobs.

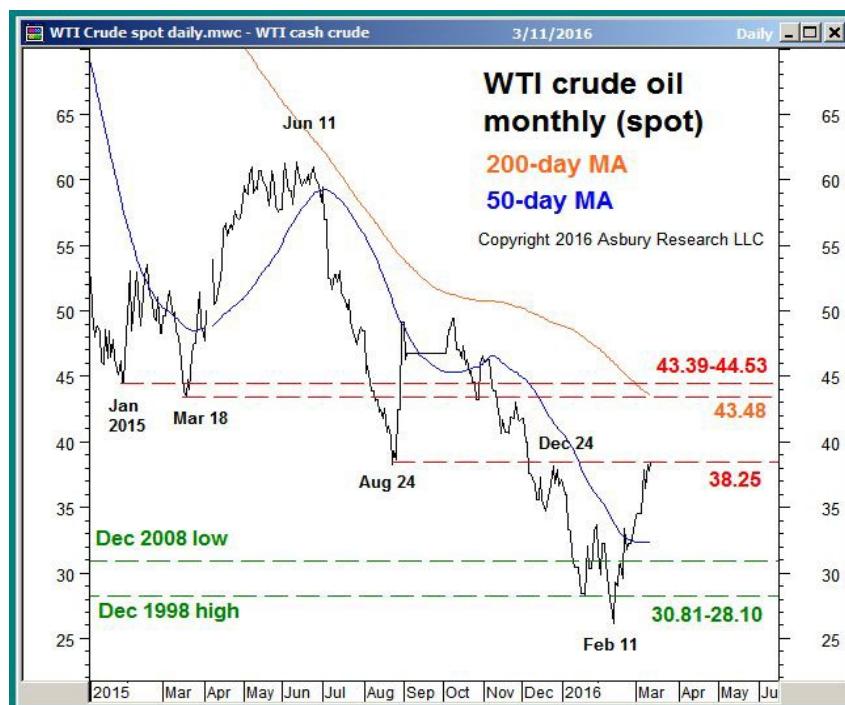


Meanwhile, the housing sector coincidentally broke its 2011 uptrend in January. The housing sector contributes approximately 18% of GDP.

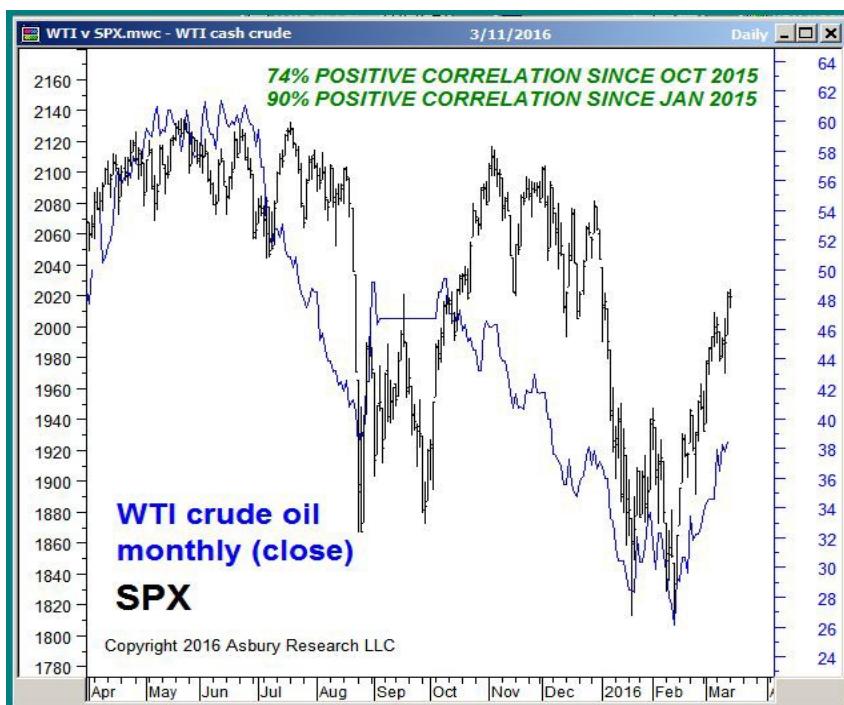


US Stock Market

Intermarket Relationships (1): Know What's Correlated To The Asset You're Trading



In mid-March, West Texas Intermediate (WTI) crude oil was testing minor resistance at \$38.25 per barrel. It has since risen further, to test and fail at major resistance at \$43.48.



The positive correlation between WTI crude and the S&P 500 since Q4 2015 suggests that oil prices' reaction to \$43.48 could influence US broad market direction.



US Stock Market

Intermarket Relationships (2): Know Which Countries Are Tracking The US Market



The DAX broke its 2011 uptrend in mid January, which warns that a bearish trend change is emerging.

The DAX and S&P 500 have maintained a tight and stable positive correlation since 2000. As goes DAX so is likely to go SPX.



US Stock Market

Intermarket Relationships (3): Know Which Countries Are Tracking The US Market



The Nikkei's failure to exceed its 2000 highs in Jun 2015 triggered its recent decline below its 12-month MA and July 2007 high. This is a bearish trend change.



The tight and stable positive correlation between the Japanese and US markets warn that *more weakness in the Nikkei could negatively influence the S&P 500*.

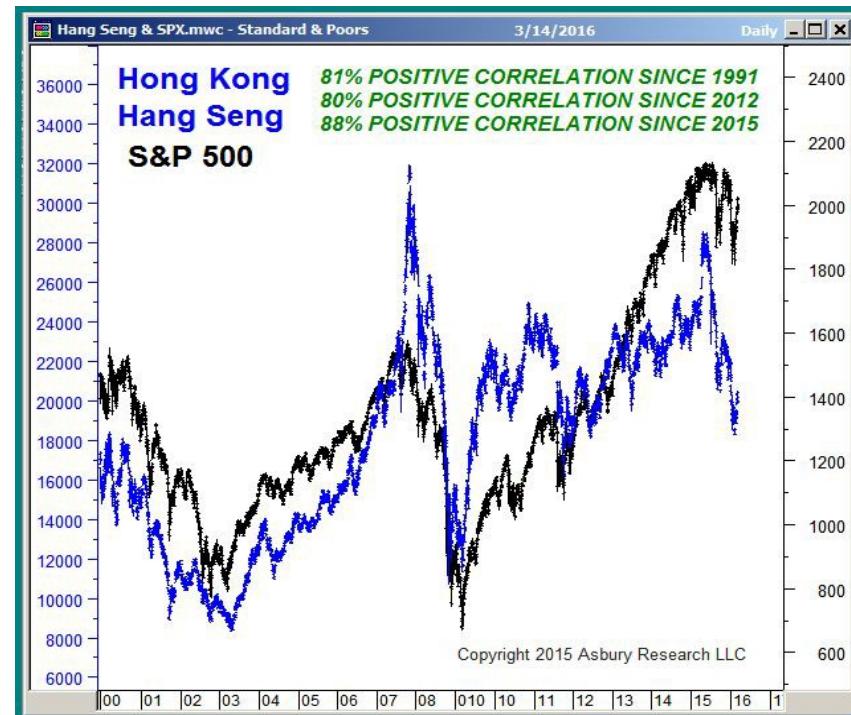


US Stock Market

Intermarket Relationships (4): Know Which Countries Are Tracking The US Market



China's July-Sep 2015 collapse below its 2008 uptrend was the trigger that sent global stock markets reeling and turned the Hang Seng's major trend negative.



The long term positive correlation between the Hang Seng and SPX warns that *more weakness in China could adversely influence US markets.*



US Stock Market

Momentum: What's The Market Doing Right Now?



An asset price's 1-month rate of change indicates near term momentum. The S&P 500's near term momentum has been positive since February 16th.

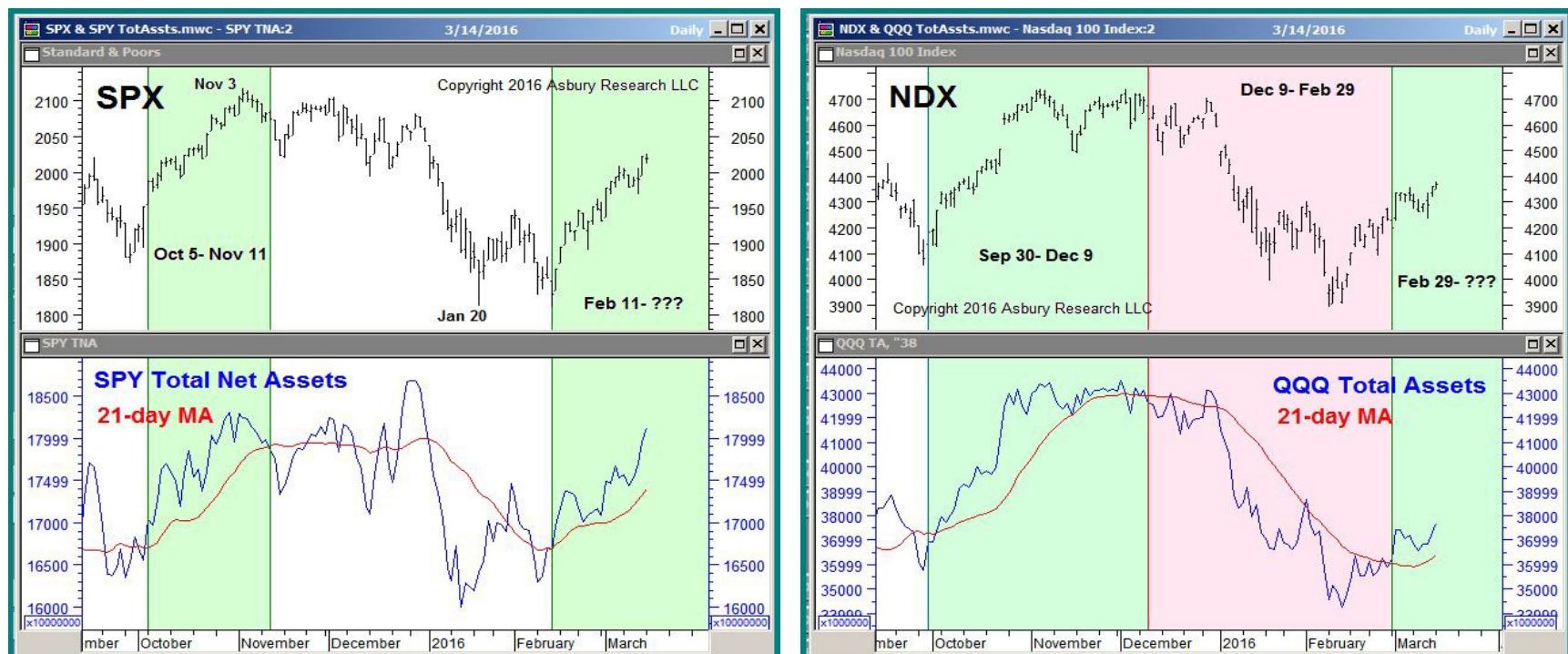


The MACD indicates an asset's *intermediate term* momentum relative to recent extremes, both positive and negative. The S&P 500 is at a positive extreme. Topping?



US Stock Market

ETF Asset Flows: Following The Money



The total net assets invested in the SPDR S&P 500 ETF (SPY) began a monthly trend of expansion on Feb 11th, characteristic of healthy near-term uptrends.

Near term bullish conviction is corroborated by the PowerShares QQQs which have been in a trend of monthly expansion since Feb 29th. Asset flows often lead price.



US Stock Market

Corporate Bond Spreads: What's The Bond Market "Thinking"?



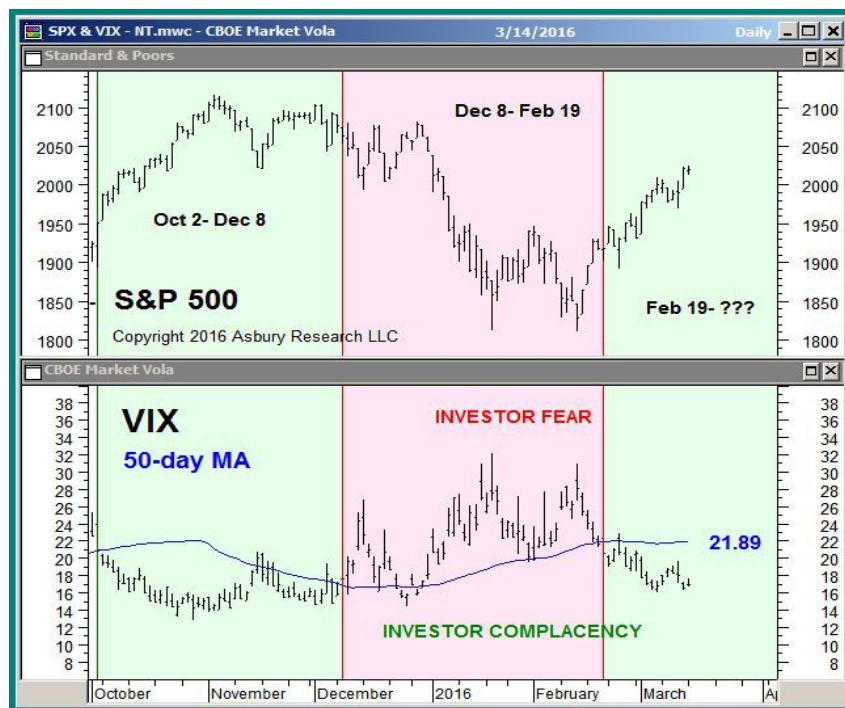
The February 22nd trend of monthly narrowing in high yield corporate bond spreads has historically coincided with US broad market strength.

Lessening credit/repayment risk according to the bond market is corroborated by monthly narrowing in BAA corporate bond spreads.



US Stock Market

Volatility: Are Investors Confident Or Fearful?



The VIX's location below its 50-day MA indicates a level of investor complacency/confidence that has historically coincided with stock market rallies.



Too much confidence can be a bad thing, though as a decline to 12.00 in the VIX has historically coincided with or closely led stock market peaks.



US Stock Market

Investor Sentiment: Are Investors Collectively Bullish or Bearish?



The ISE, which only measures opening long transactions by private investors, is at a *least bullish* extreme historically characteristic of *minor* market bottoms.



Meanwhile, a survey of stock market newsletter writers is also at a *least* bullish extreme that has also historically coincided with *intermediate term* market bottoms.



US Stock Market

Market Breadth: Is Investor Participation Narrow Or Broad-Based?



The percentage of NYSE Composite stocks trading above their 40-day MA has reached a high extreme of 77% that has historically coincided with *near term market peaks*.



Meanwhile, the percentage of constituents trading above their 200-day MA is hovering near a low extreme of 20% that has historically led *intermediate term market bottoms*.



US Stock Market

Overbought/Oversold: Know When Markets Are Over-Extended, Up & Down



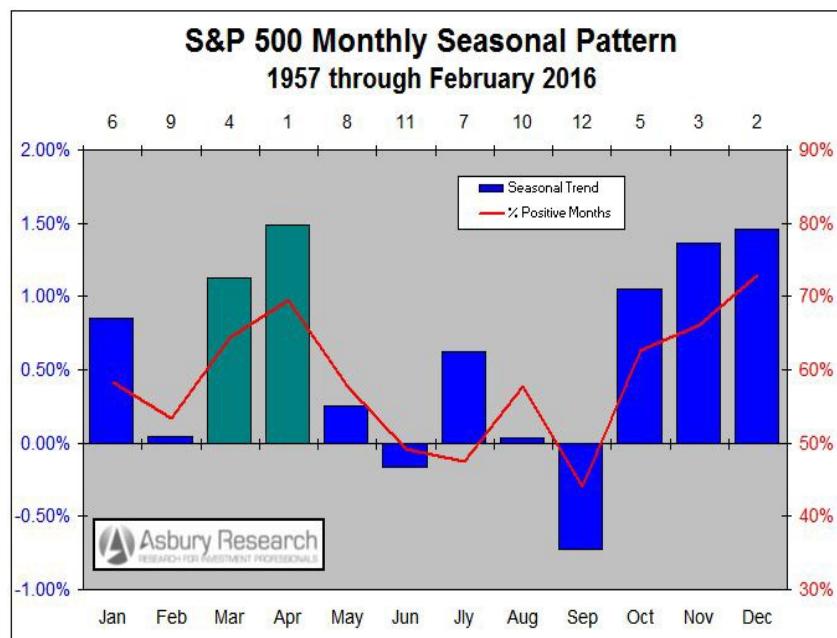
Monthly overbought extremes warn of bearish near term reversals in the price of an asset, especially during sideways or declining markets.

Quarterly oversold extremes often identify an under-invested, under-loved market where value and opportunity can be found.

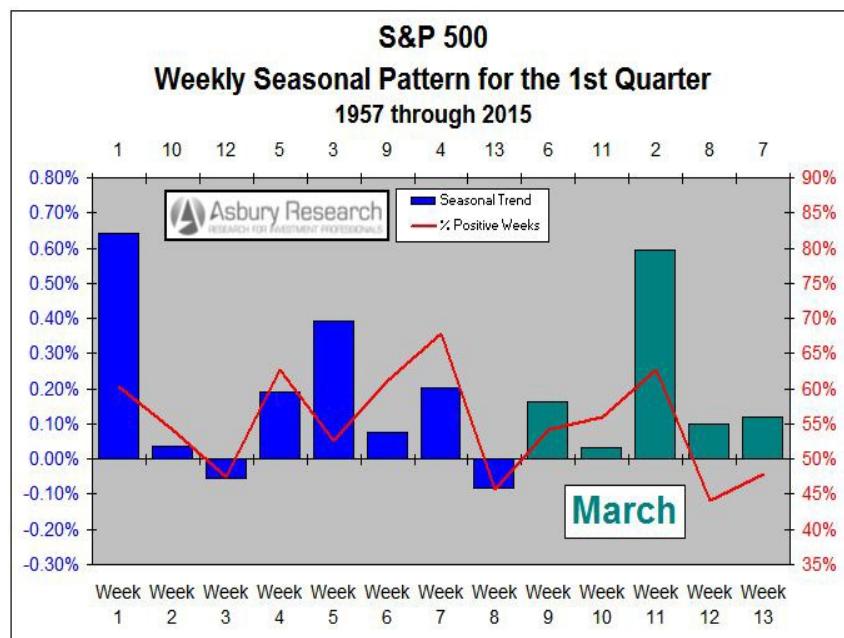


US Stock Market

Seasonality: Know Your History Because It Often Repeats



March and April are the 4th and 1st seasonally strongest months of the year in the S&P 500, on average since 1957, but statistically lead into a sustained decline into September.



Quarterly seasonality reveals more detail in statistical patterns, in this case indicating that first week of January and middle week of March are the two strongest of the 1st Quarter.



US Stock Market Sectors

Investor Assets Flows Indicate Those Moving In & Out Of Favor

ASBURY RESEARCH: ASSET FLOWS in MARKET SECTOR ETFs					March 14th, 2016
Sector (Symbol)	As of 03-11-2016	1 Week Ago	1 Month Ago	3 Months Ago	
FINANCIALS (XLF)	18.1%	18.5%	17.9%	21.0%	
ENERGY (XLE)	14.2%	14.0%	13.3%	12.6%	
TECHNOLOGY (XLK)	13.6%	13.5%	13.8%	15.4%	
UTILITIES (XLU)	8.8%	8.6%	9.1%	6.2%	
INDUSTRIAL (XLI)	7.2%	7.1%	6.8%	6.9%	
CONSUMER STAPLES (XLP)	10.9%	10.7%	11.1%	8.4%	
CONSUMER DISCRETIONARY (XLY)	11.3%	11.5%	11.4%	12.5%	
HEALTH CARE (XLV)	13.4%	13.7%	14.4%	14.5%	
MATERIALS (XLB)	2.4%	2.3%	2.2%	2.4%	

Biggest inflows during period shown **Biggest outflows during period shown** Copyright 2016 Asbury Research LLC

Asbury Research also tracks sector-related ETF asset flows in 3 different time frames – weekly, monthly and quarterly -- to determine which sectors of the S&P 500 are attracting investor assets and which are shedding them.

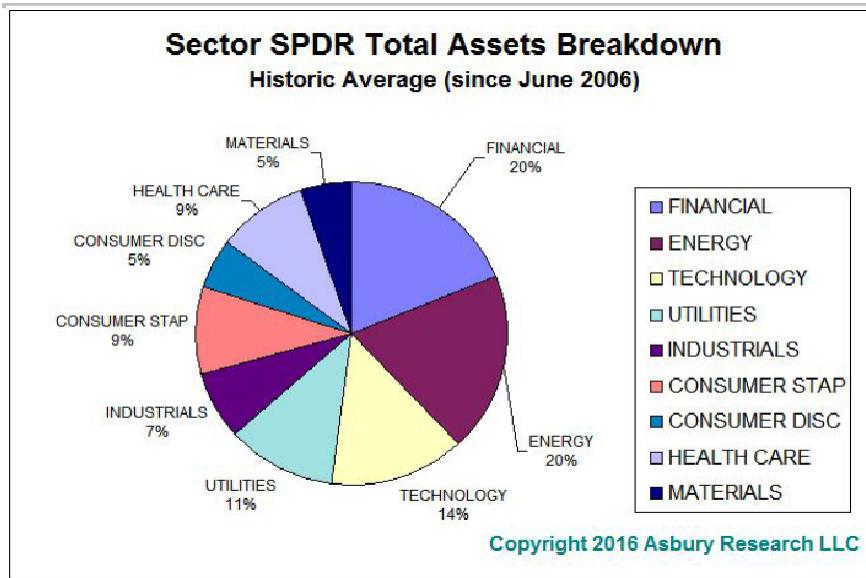
In mid-March, the biggest ETF-related sector **inflows** over the previous week went to Consumer Staples, over the past **month** went to **Energy**, and over the **past 3 months** went to **Utilities**.

The biggest **outflows** over the past **1 week** and **3 month** periods came from **Financials**.

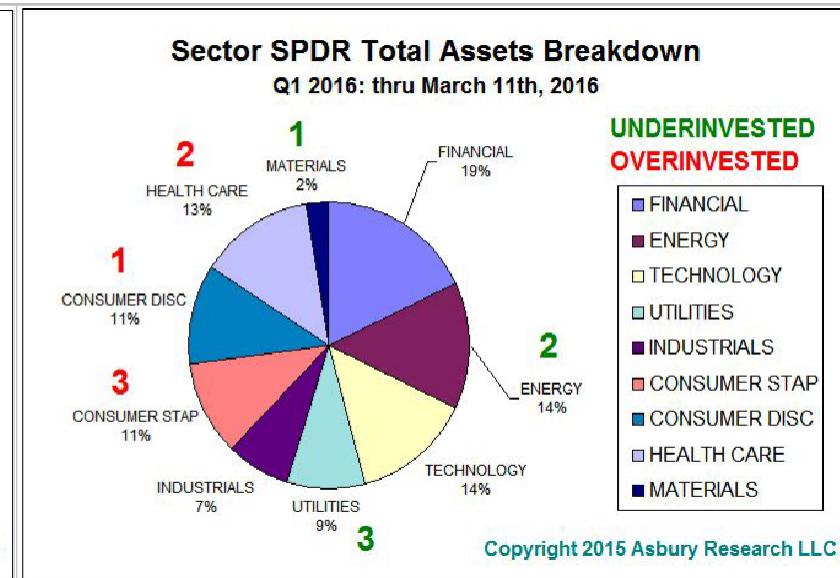


US Stock Market Sectors

Materials, Energy Under-Invested. Consumer Discretionary, Health Care Over-Invested.



This chart shows the **historic** daily average distribution of assets invested in the original 9 Sector SPDR ETFs since the series began in May 2006.



This chart shows the **current** distribution of these assets through March 11th. The most *under-invested* sectors are 1) Materials , 2) Energy and 3) Utilities.

The most *over-invested* sectors are 1) Consumer Discretionary, 2) Health Care and 3) Consumer Staples.



Asbury Research

***We are expanding our business in 2016 to include services for individual investors.
Contact Us to request further Information.***

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