



Asbury Research

Finding The Best 2016 Opportunities From The 2015 Doldrums

Conference Call Prepared For Convergex

December 10th, 2015

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 and crude oil**, 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, and Commodity Trading Advisors.

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.

Executive Summary

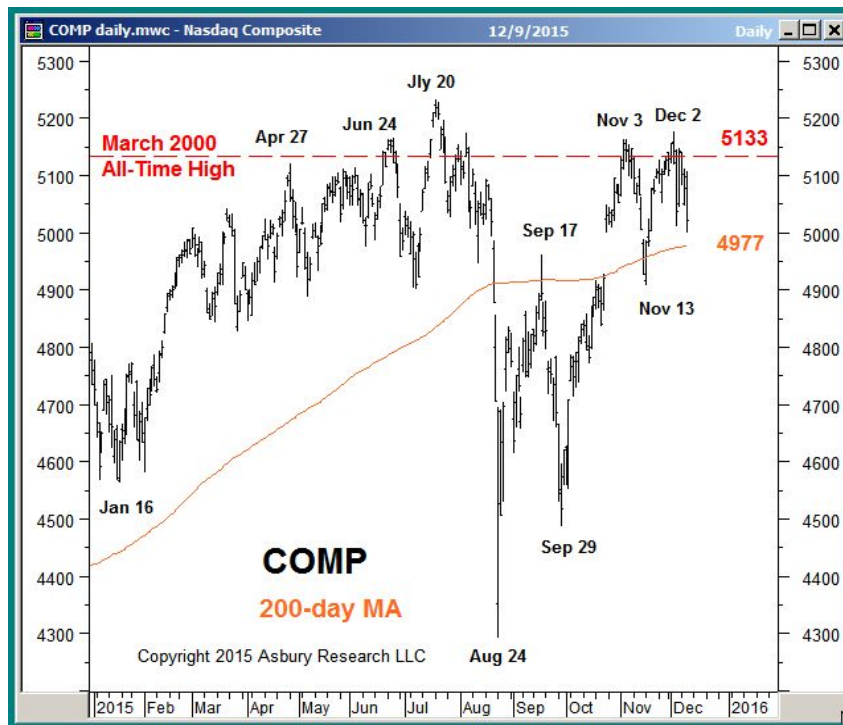
Finding The Best 2016 Opportunities From The 2015 Doldrums

- **U.S. Stock Market:** What appears to be an emerging 4% pullback in the US broad market is more likely to be corrective rather than directional, and should eventually provide a better intermediate term buying opportunity by early 2016.
- **Size:** Mid Cap and Small Cap stocks are poised for upcoming relative outperformance during Q1 2016 that could extend into midyear.
- **Style:** The 2015 trend of relative outperformance by growth stocks appears likely to extend into early 2016.
- **Sectors:** Our own metric indicates the most under-invested sectors of the S&P 500 are Materials, Utilities and Energy, which suggest potential value and upcoming opportunity.
- **Long/Short Ideas:** **BRKA** targets a 4% decline to \$190,000. **MKC** targets an 8% advance to \$93.00.



US Stock Market: Emerging 4% Pullback?

Resistance In Tech Bellwethers Hold Once Again, Broad Market Breaks Down



On Dec 2nd the NASDAQ Composite failed in its sixth attempt this year to rise and remain above its 5133 top-of-the-tech bubble high. Bearish.

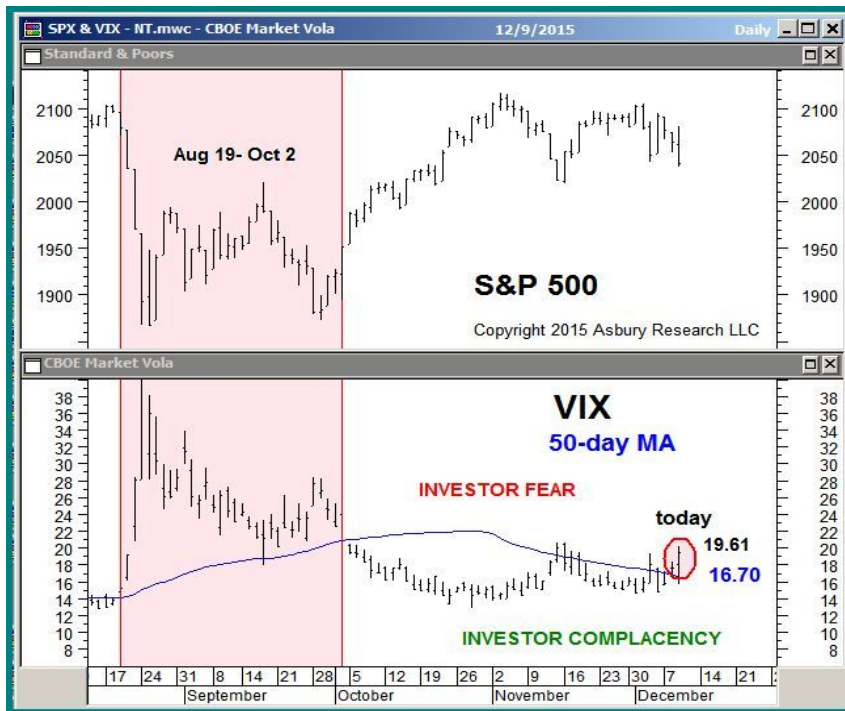
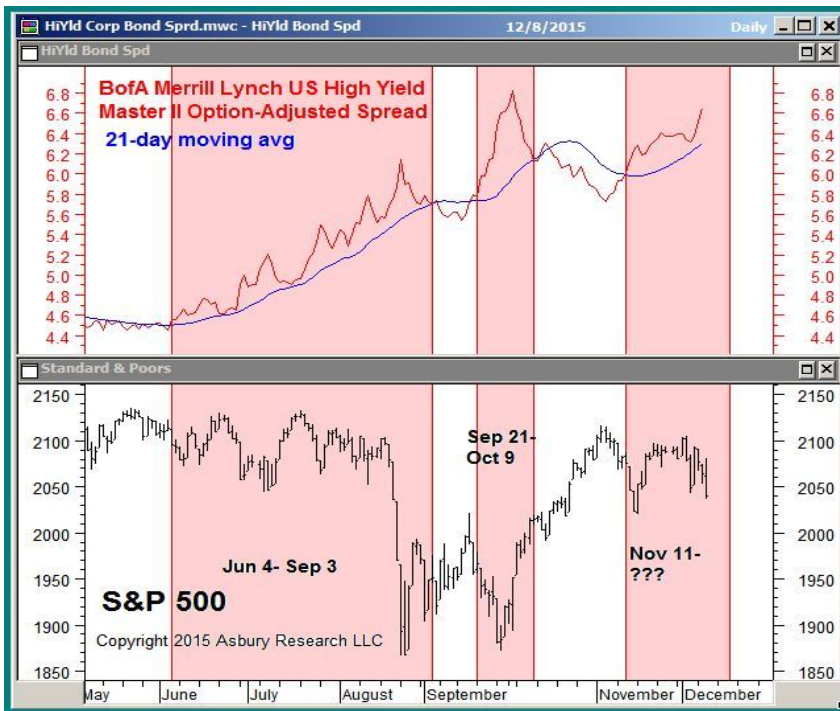


More recently, yesterday's breakdown in SPX -- below the lower boundary of a month of investor indecision -- targets an additional 4% decline to 1965.



US Stock Market: Investor Fear Supports Near Term Weakness

Both Stock And Bond Market Investors Are Nervous



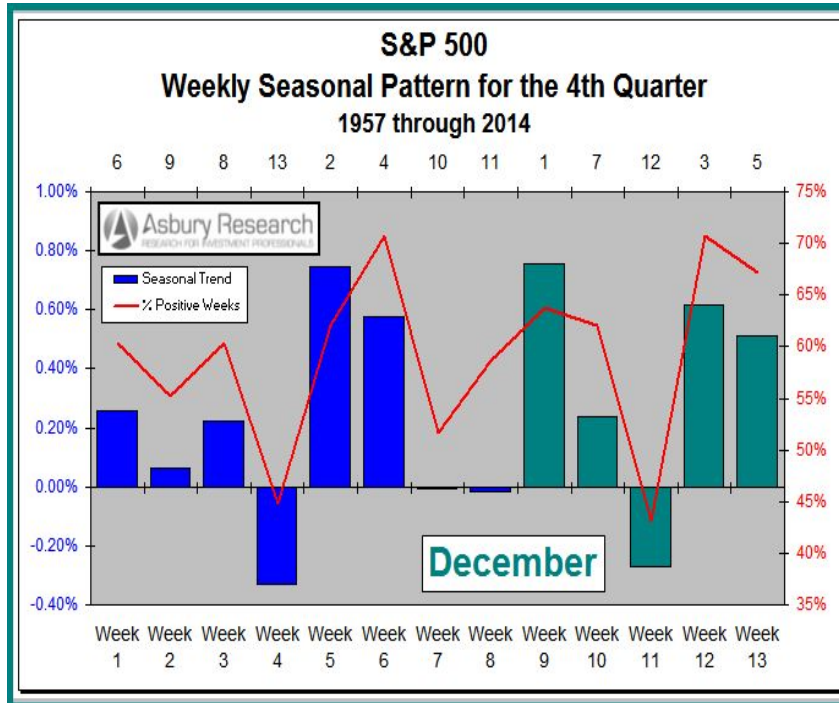
Corporate bond spreads have been widening for the past month. History shows that US equity prices cannot rise amid these conditions.

If today's breakdown is to result in a 4% decline to SPX 1965, the VIX must remain above 16.70 to indicate enough investor fear to facilitate that decline.



US Stock Market: If Correcting, How Long & How Deep?

Seasonality Suggests A Potential Near Term Bottom Around Mid-Month



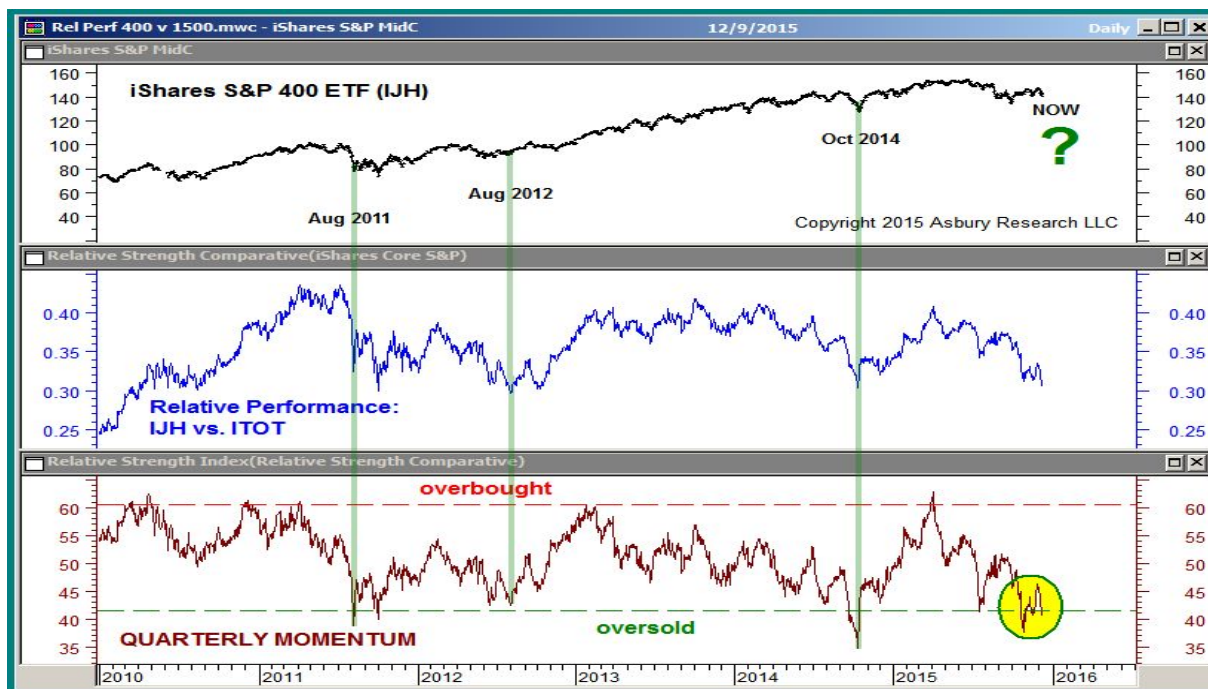
The third week of December (the week of Dec 14th) is the 2nd seasonally weakest of the entire 4th Quarter based on data since 1957. Look for a near term bottom here.



This chart shows where, and how deep from the May highs, the first 5 key underlying support levels are in the benchmark S&P 500.

US Stock Market Size: Where To Be In Early 2016

Under-Loved Mid Cap Poised For 1st Quarter Relative Outperformance



This chart plots the S&P 400 ETF (IJH) in the upper panel, the daily relative performance of IJH vs. the S&P 1500 ETF (ITOT) in the middle panel, and *quarterly momentum in the relative performance line* in the lower panel. **This metric shows that mid cap is quarterly oversold versus the benchmark and amid favorable conditions for upcoming relative outperformance.**

US Stock Market Size: Where To Be In Early 2016

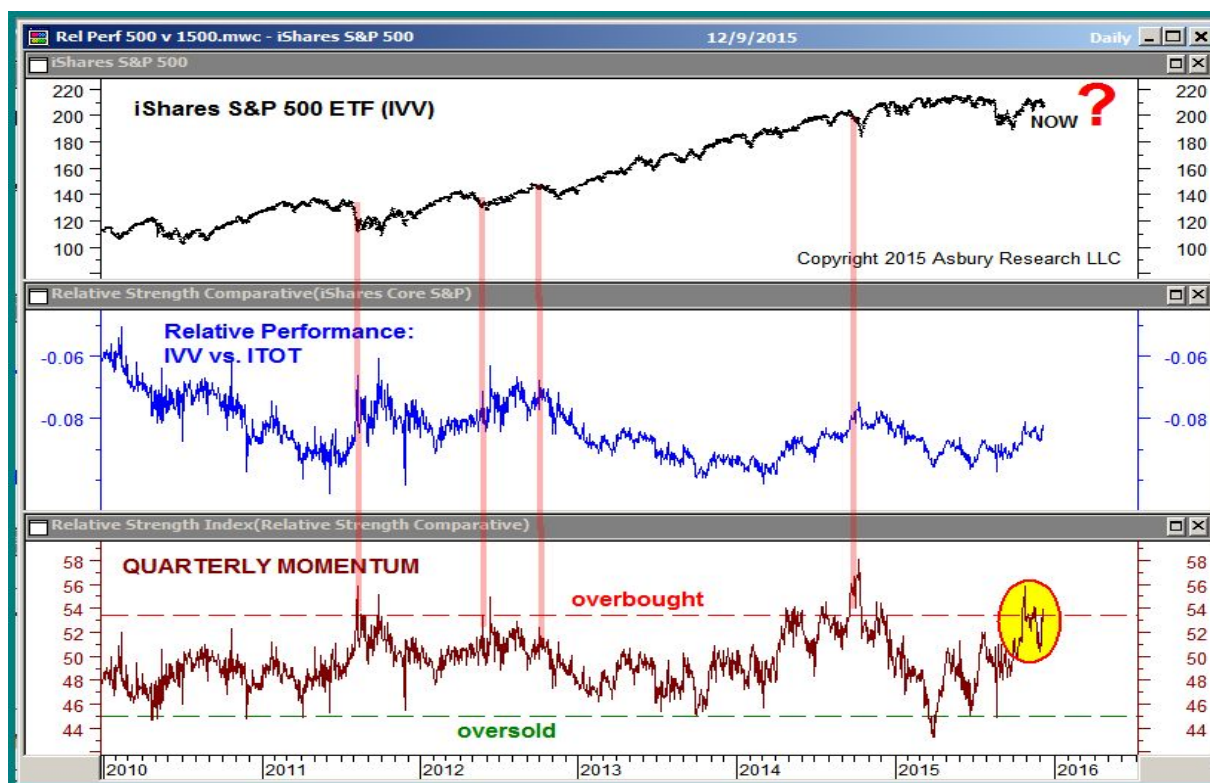
Small Cap Also Poised For 1st Quarter Relative Outperformance



This chart plots the S&P 600 ETF (IJR) in the upper panel, the daily relative performance of IJR vs. the S&P 1500 ETF (ITOT) in the middle panel, and *quarterly momentum in the relative performance line* in the lower panel. **This metric shows that small cap is *becoming* quarterly oversold versus the benchmark, and thus also amid favorable conditions for upcoming relative outperformance in Q1 2016.**

US Stock Market Size: Where To Be In Early 2016

Over-loved Large Cap Vulnerable to 1st Quarter Relative Underperformance

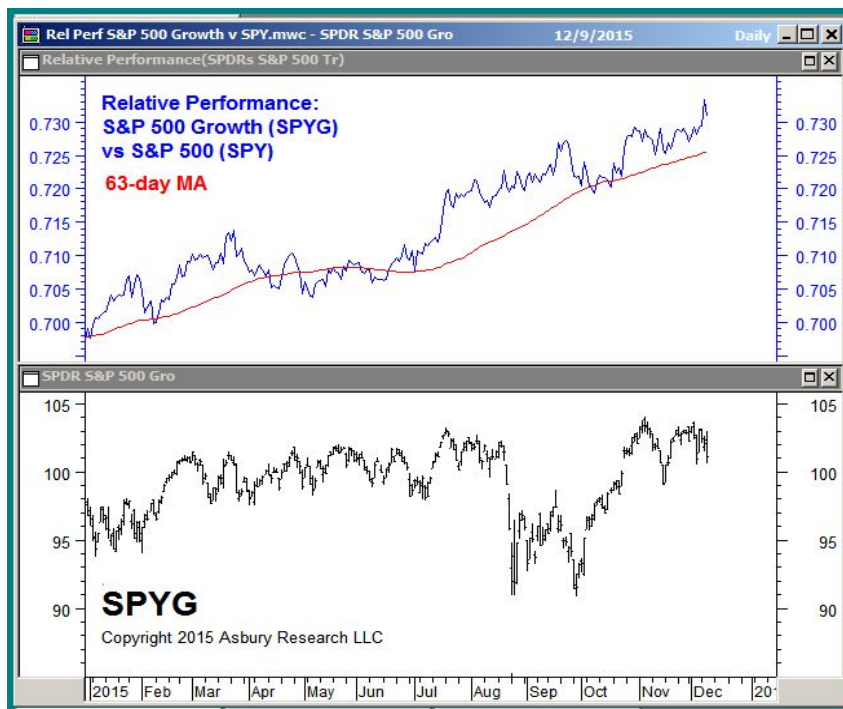


This chart shows that, unlike small and mid cap stocks, the large cap S&P 500 ETF (IVV) is hovering at quarterly *overbought* extremes versus the S&P 1500 ETF (ITOT) and thus is **vulnerable to 1st Quarter relative underperformance**.

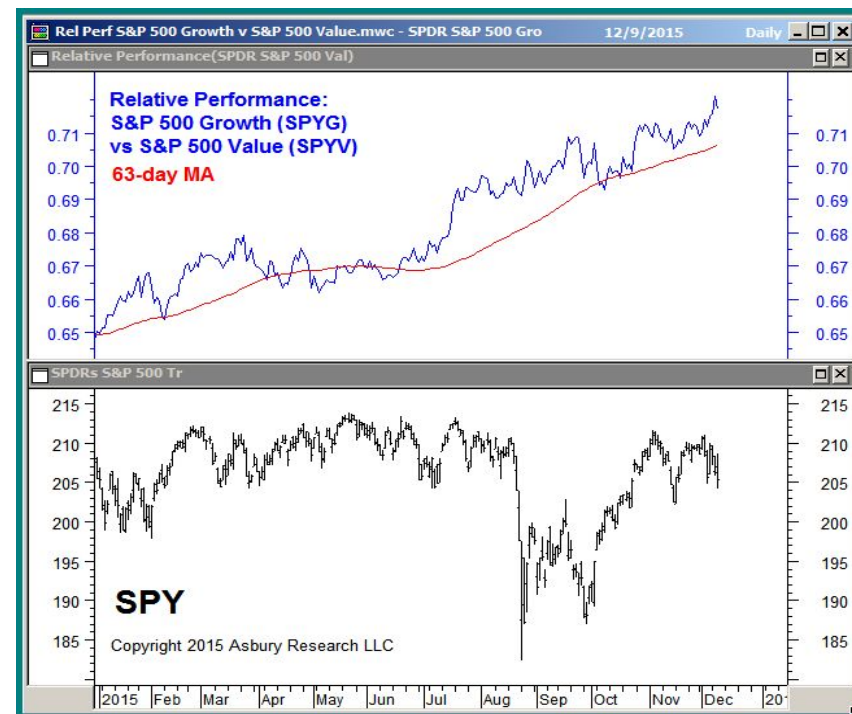


US Stock Market Style: Where To Be In Early 2016

Growth Should Continue To Outperform Into Early To Mid 2016



This chart shows that S&P 500 growth has maintained a quarterly trend of relative outperformance versus the broader market since January.

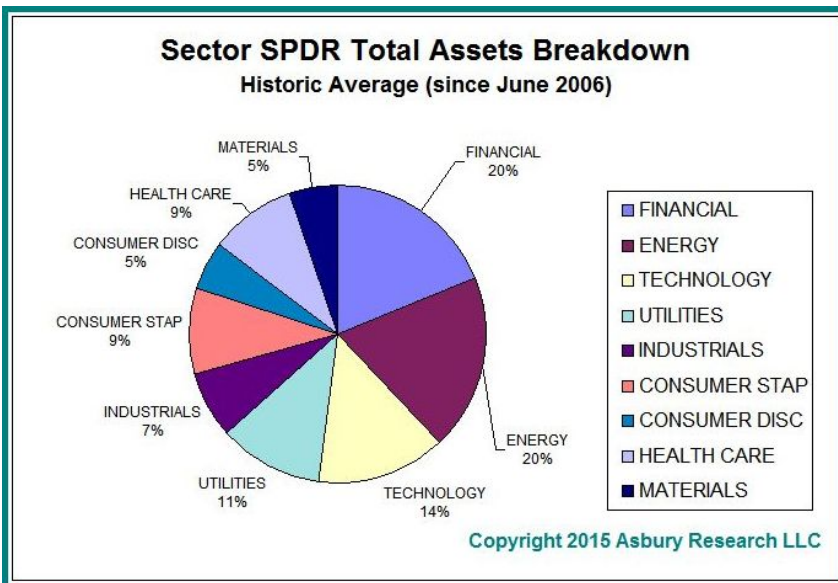


This chart plots S&P 500 growth versus S&P value since January. This trend of relative outperformance should continue until interest rates rise in earnest.

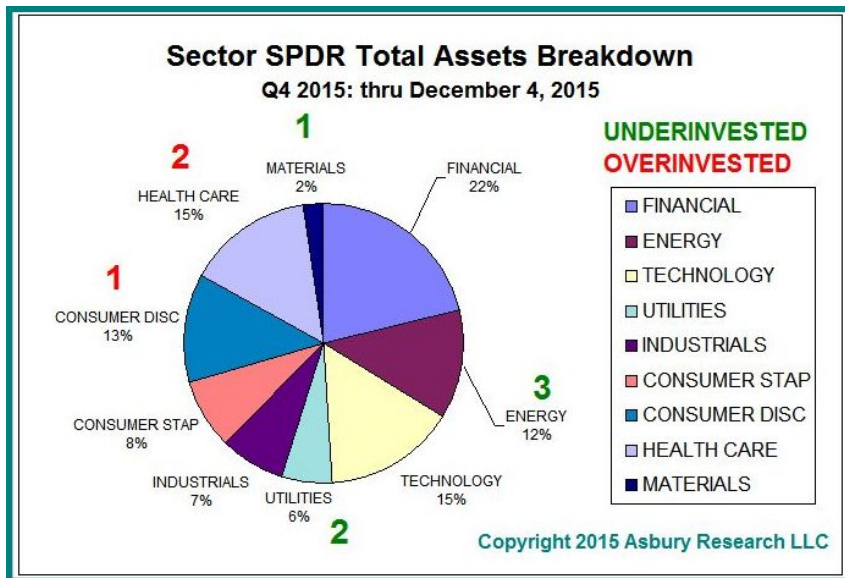


US Stock Market Sectors: Our Own Metric

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



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



This chart shows the *current* distribution of these assets through December 4th. The most *under-invested* sectors are, in order, 1) **Materials**, 2) **Utilities** and 3) **Energy**.

This is where potential value is.

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



US Stock Market Sectors: Follow The Money

Investor Assets Moving Into Financials, Out Of Energy & Utilities

ASBURY RESEARCH: ASSET FLOWS in MARKET SECTOR ETFs				December 7th, 2015
Sector (Symbol)	As of 12-04-2015	1 Week Ago	1 Month Ago	3 Months Ago
FINANCIALS (XLF)	21.3%	20.4%	19.7%	20.4%
ENERGY (XLE)	12.4%	13.1%	13.4%	13.0%
TECHNOLOGY (XLK)	15.0%	14.5%	13.8%	13.1%
UTILITIES (XLU)	6.0%	6.2%	7.1%	7.4%
INDUSTRIAL (XLI)	7.4%	7.6%	7.5%	7.1%
CONSUMER STAPLES (XLP)	8.2%	8.4%	8.7%	8.7%
CONSUMER DISCRETIONARY (XLY)	12.7%	12.6%	12.2%	11.5%
HEALTH CARE (XLV)	14.6%	14.8%	15.2%	16.3%
MATERIALS (XLB)	2.3%	2.4%	2.3%	2.5%

Biggest inflows during period shown Biggest outflows during period shown Copyright 2015 Asbury Research LLC

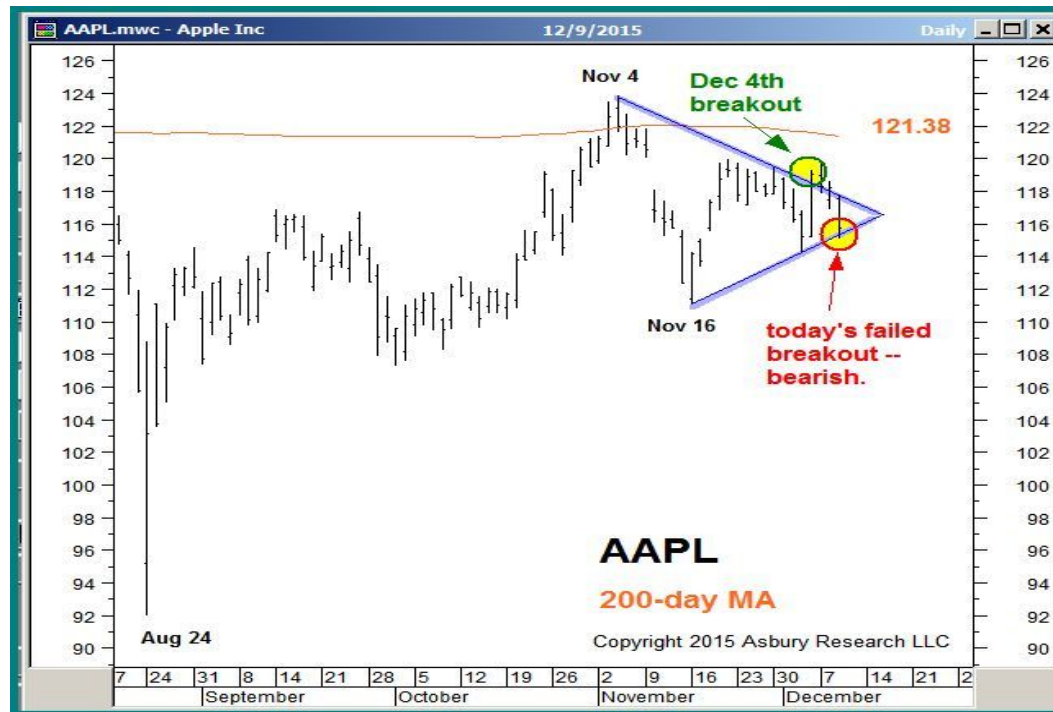
The green highlights show that the biggest **inflow** of ETF-related investor assets over the past 1 week and 1 month periods went into **Financials**. The biggest inflow over the past 3 months went to **Technology**.

The red highlights show that the biggest **outflow** of assets over the past week came from **Energy**, the biggest outflow over the past month came from **Utilities**, and the biggest outflow over the past 3 months came from **Health Care**.



Emerging Bearish Reversal: AAPL

No Follow Through On Last Week's Breakout Is Near Term Negative For This Bellwether



Apple Inc. tentatively broke out from a month of investor indecision on Friday, but failed to follow through higher this week and collapsed into the bottom of the pattern yesterday. This is a failed breakout attempt that warns of more near term weakness. *AAPL is positively correlated to the S&P 500 and the NASDAQ 100.*



Short Idea: BRKA

December 9th Breakdown Targets An Additional 4% Decline In This Market Bellwether



Buffet's Berkshire Hathaway broke down from a month of investor indecision on Thursday, and in a much more convincing manner than the S&P 500 did from a similar pattern per Slide 4. This pattern targets an additional 4% decline to 190,000.
BRK is positively correlated to the S&P 500.



Long Idea: MKC

This Defensive Stock May Be A Means To Weather A Market Pullback



Spice company and Consumer Staples constituent McCormick & Company broke out from 2 months of investor indecision on October 28th which targets an additional 8% rise to \$93.00 per share.



Asbury Research

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