



Asbury Research

Asbury Research's US Investment Analysis:

A Review of Q3 2016

Prepared for Interactive Brokers

November 10, 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 is designed to **more comprehensively and correctly reflect global market conditions**, which results in forward looking 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 helping to **determine 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

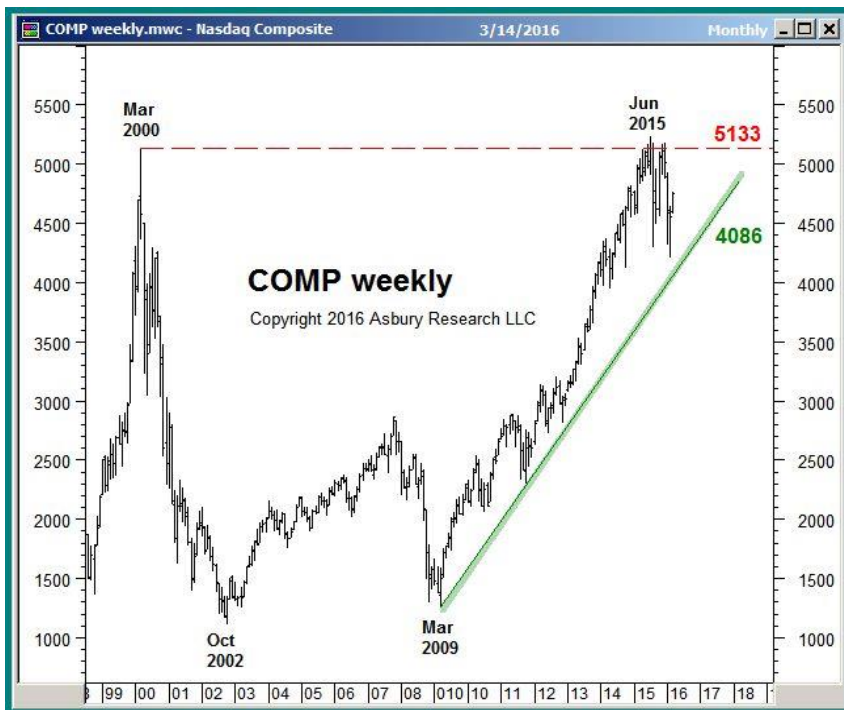
Our philosophy is that market metrics are like colors in a painting – the more you have, the more detail you can see. Ultimately, this mosaic helps inform our actively managed investment process, which can cross several different time frames. There are as many ways to devise an investment approach as 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**
- **Hedger Activity**
- **Investor Sentiment**
- **Market Breadth**
- **Overbought/Oversold**
- **Seasonality**
- **Options Volume**
- **Volatility**



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.

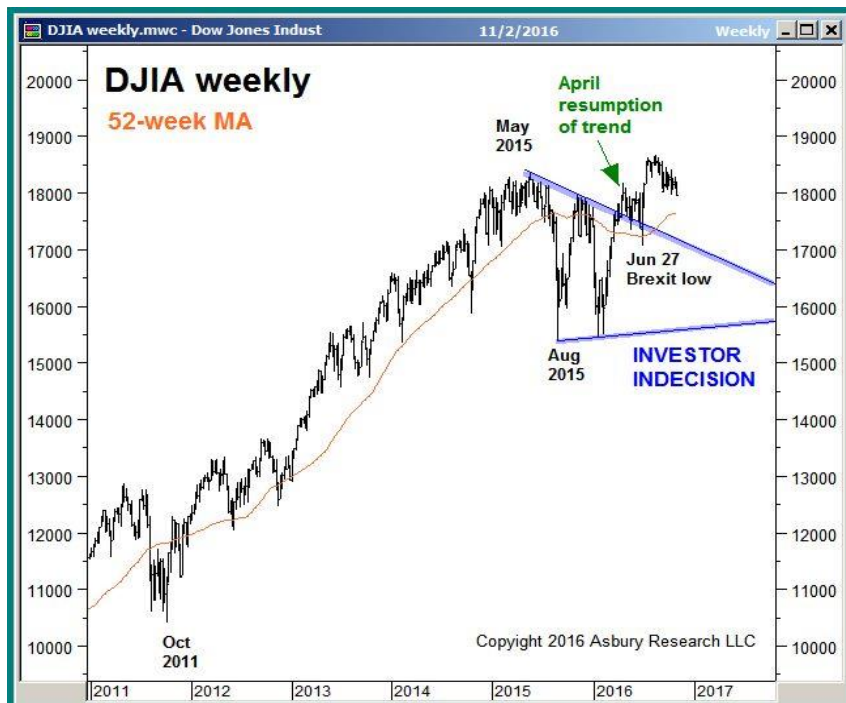


That weakness from the June 2015 highs evolved into a bearish chart pattern in another market leader, the Russell 2000, which triggered a break of the 2009 uptrend.



US Stock Market

Price & Trend (2): Price Patterns Can Indicate Upcoming Direction



Financial asset prices alternate between trending and non-trending periods. A new trending period appears to be underway.



Confirmation is an important part of market analysis. Note the similarity of the price patterns in defensive blue chips and market-leading semiconductors.



US Stock Market

Price & Trend (3): Know The Key Levels For Initiating/Exiting Positions

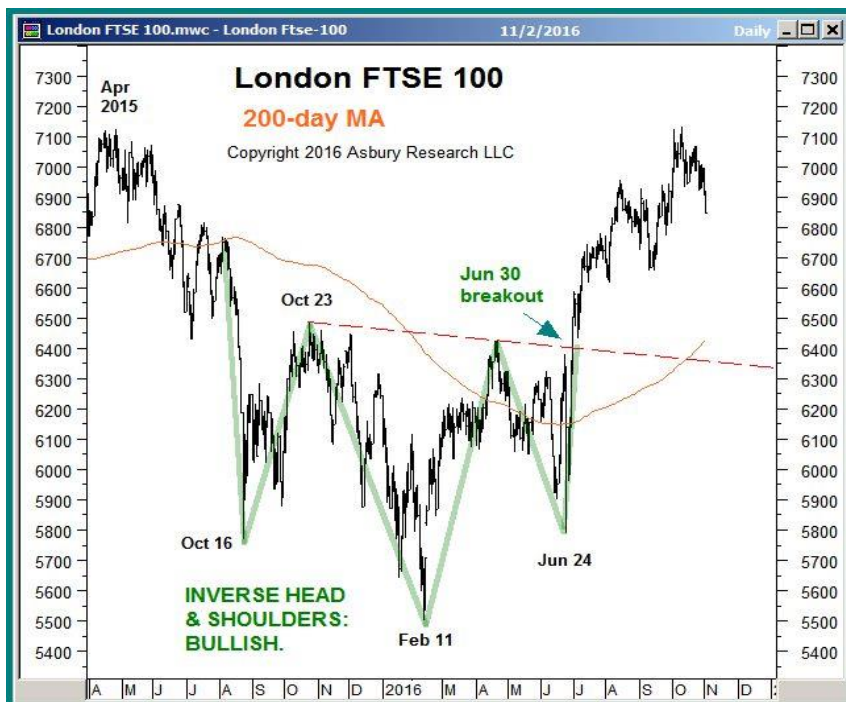


Successful investing is a two-part process. The first part is getting market direction right. The second part is executing your idea at a price level where risk/reward ratios are the most advantageous.

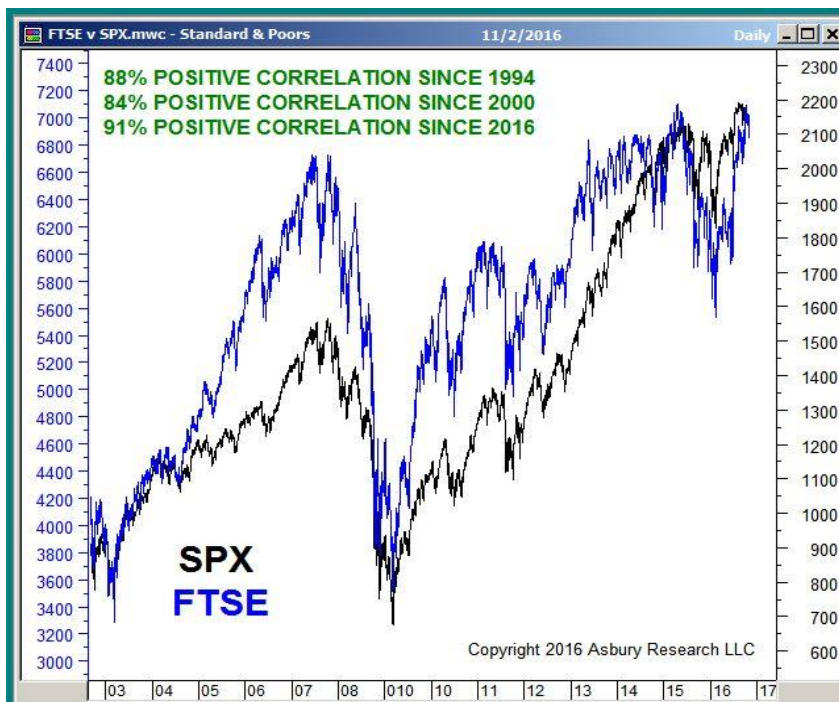


US Stock Market

Intermarket Relationships (1): Know Which Countries Are Tracking The US Market



The London FTSE 100 confirmed a bullish trend change in late June. The bullish chart pattern implies an unmet upside target.



The long term positive correlation between the FTSE 100 and S&P 500 since Q4 2015 suggests that as goes the London stock market, so should go the US market.



US Stock Market

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



The Chinese Hang Seng confirmed a similar bullish trend change in mid July. This chart pattern also implies further upside.



The Hang Seng and S&P 500 have maintained a tight and stable positive correlation since 1991. Statistically, *as goes the Hang Seng, so is likely to go SPX.*

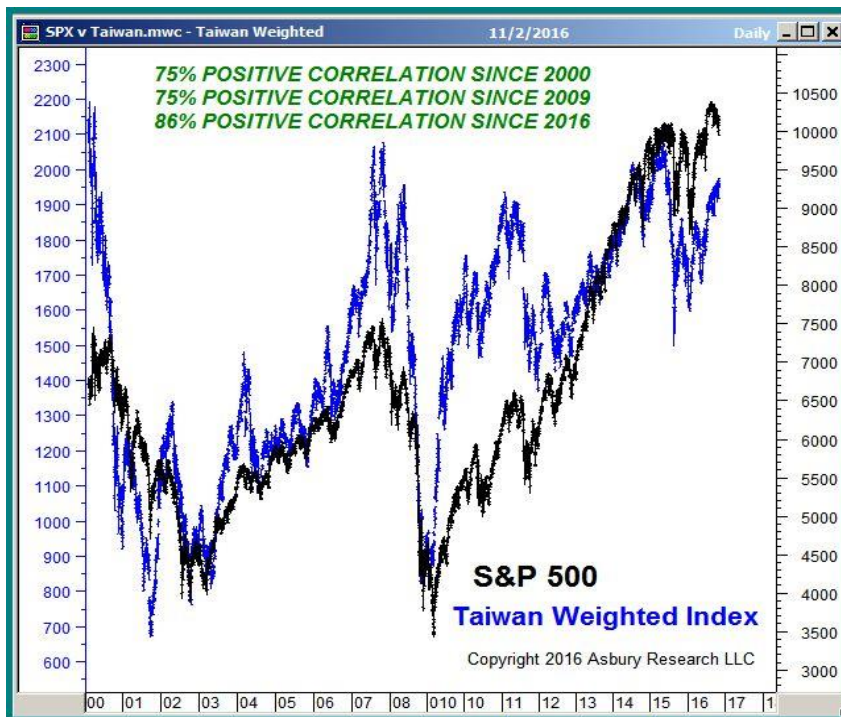


US Stock Market

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



The Taiwan rose above a year of sideways indecision in July, and back up above its 52-week moving average, which suggests the 2011 advance has resumed.

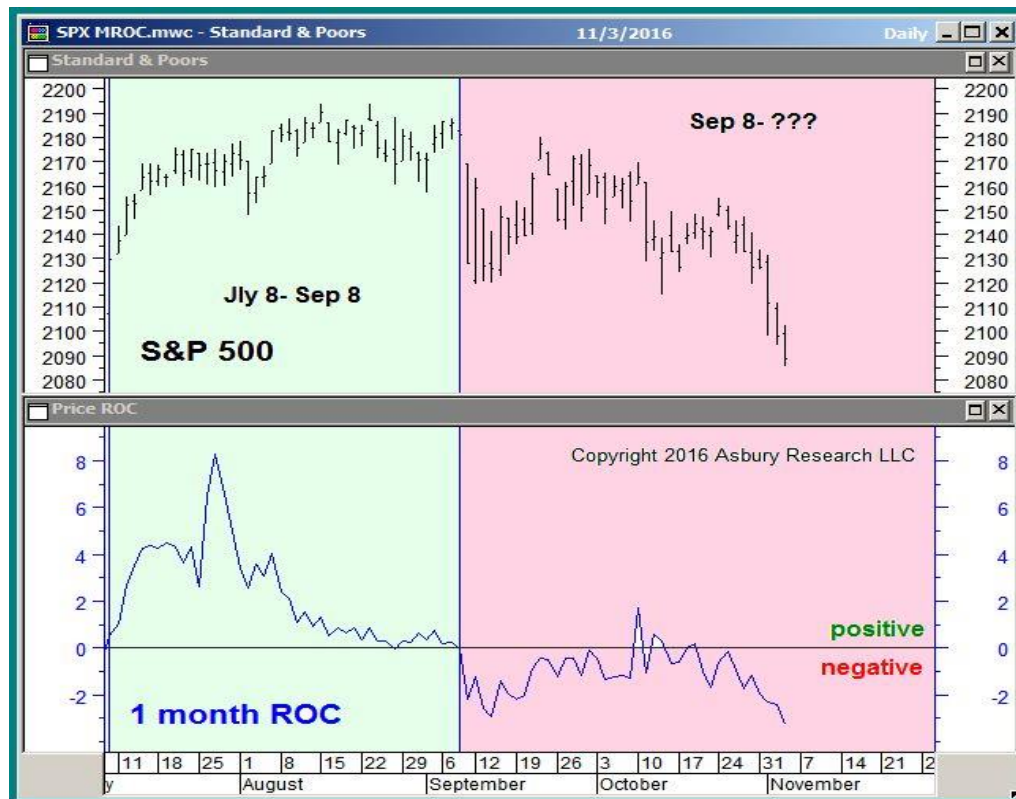


The tight and stable 16-year positive correlation between the Taiwanese and US markets suggest that as goes Taiwan, so is likely to go the US market.



US Stock Market

Momentum: What's The Market Doing Right Now?



An asset's 1-month rate of change indicates near term price momentum. The S&P 500's near term momentum has been negative since September 8th.

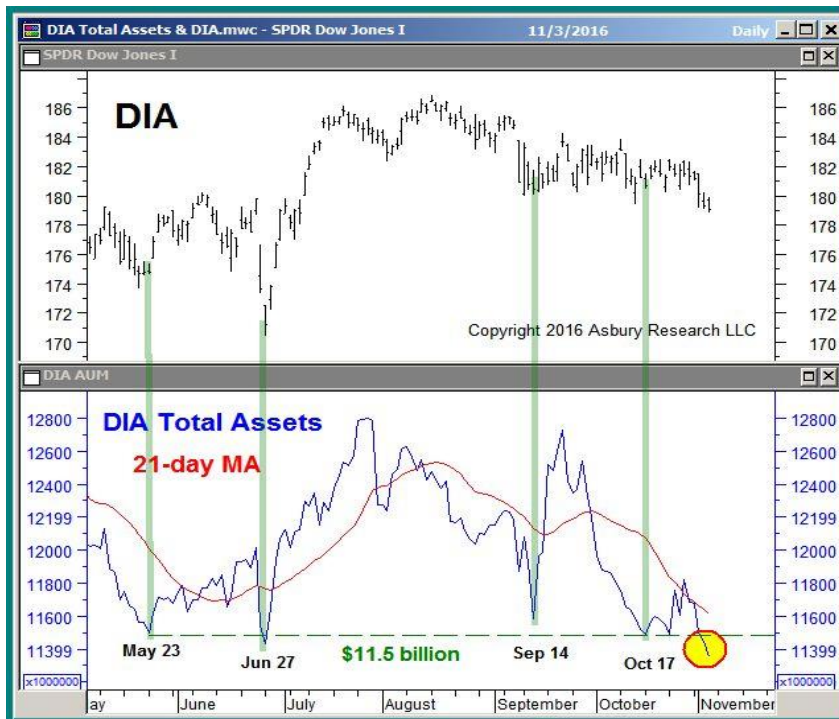


US Stock Market

ETF Asset Flows: Following The Money



The total net assets invested in the SPDR S&P 500 ETF (SPY) were in monthly expansion from June 27 to September 7, and in monthly contraction since.

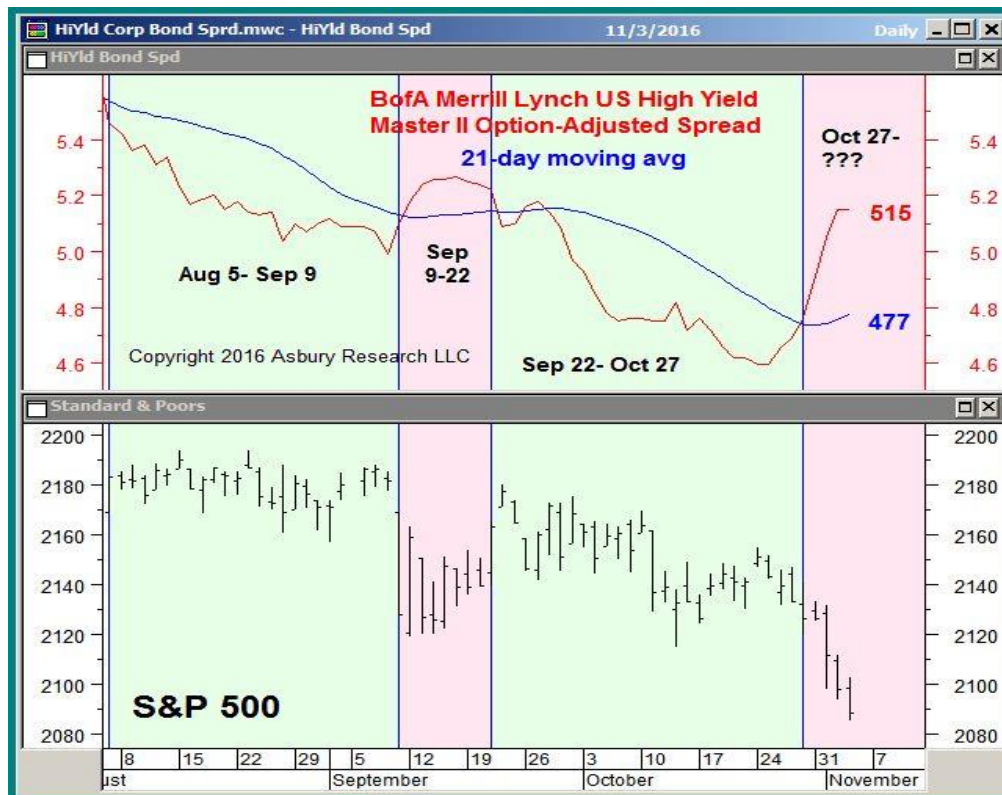


Investor asset flows can define underlying support levels in the price of security, even though there may be no evidence of support on the price chart.



US Stock Market

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



Widening corporate bond spreads, indicating increasing credit/repayment risk for these bonds, has historically coincided with US stock market weakness.



US Stock Market

Options Volume: Are Investors Making Long Bets Or Buying Insurance?

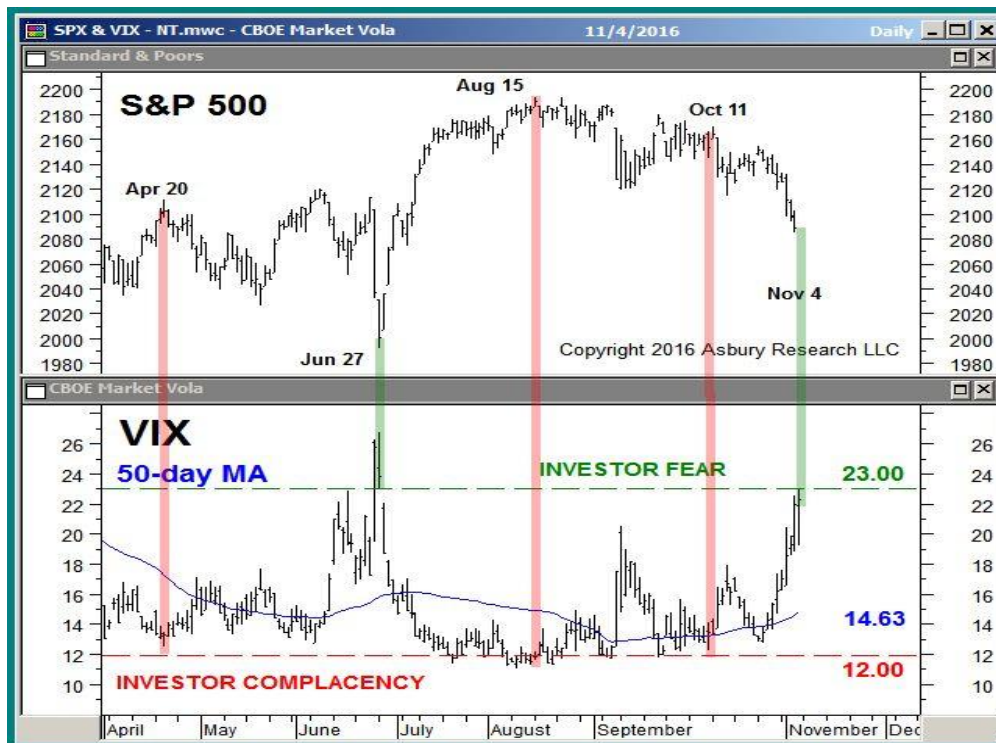


The CBOE Put/Call Ratio is another way to measure investor sentiment and positioning. As a contrary indicator, investors are often buying the most insurance (puts) at or near market bottoms.



US Stock Market

Volatility: Are Investors Confident Or Fearful?



High and low extremes in market volatility, which may indicate investors' day to day level of fear or greed, can help identify the trend as well as near term turning points in the stock market.



US Stock Market

Hedger Activity: Always Know What The Smart Money Is Doing



We track the Commitments of Traders data, published weekly by the Commodity Futures Trading Commission (CFTC), to determine if the smart money is betting that its physical inventory (gold, corn, Treasury bonds) is over- or under-valued.



US Stock Market

Investor Sentiment: Are Investors Collectively Bullish or Bearish?



Asbury Research tracks both asset flow- and survey-based measures of investor sentiment. The survey-based measure above, as a contrary indicator, has historically coincided with significant stock market bottoms.



US Stock Market

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



The percentage of NYSE Composite stocks trading above their 200-day MA measures intermediate term market breadth 1-2 quarters out.

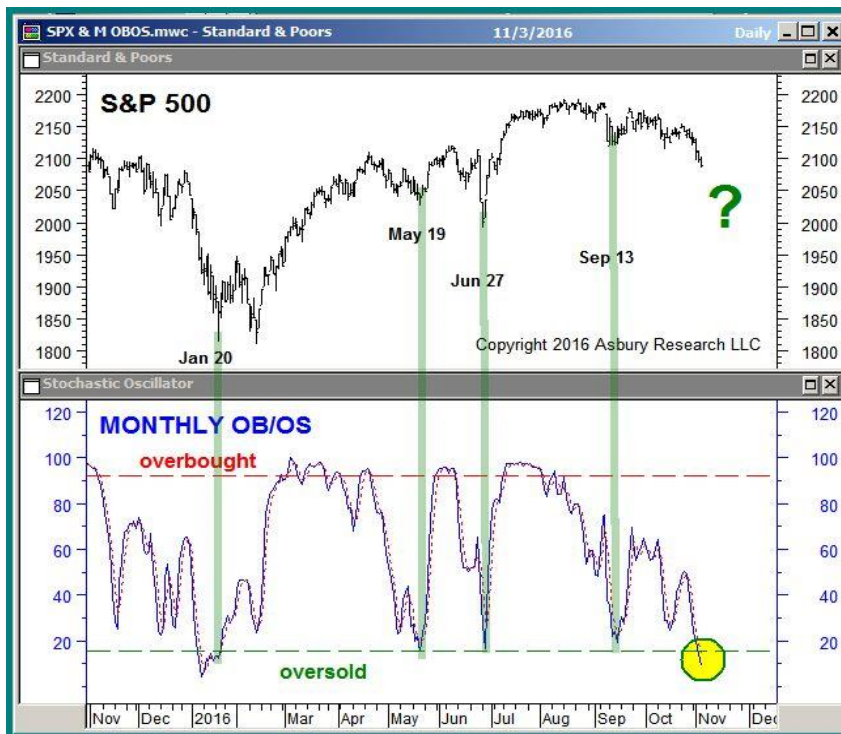


Meanwhile, the percentage of NYSE Composite stocks trading above their 40-day MA, which measure near term breadth 1-2 months out, appears to have reached a washed out extreme.



US Stock Market

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



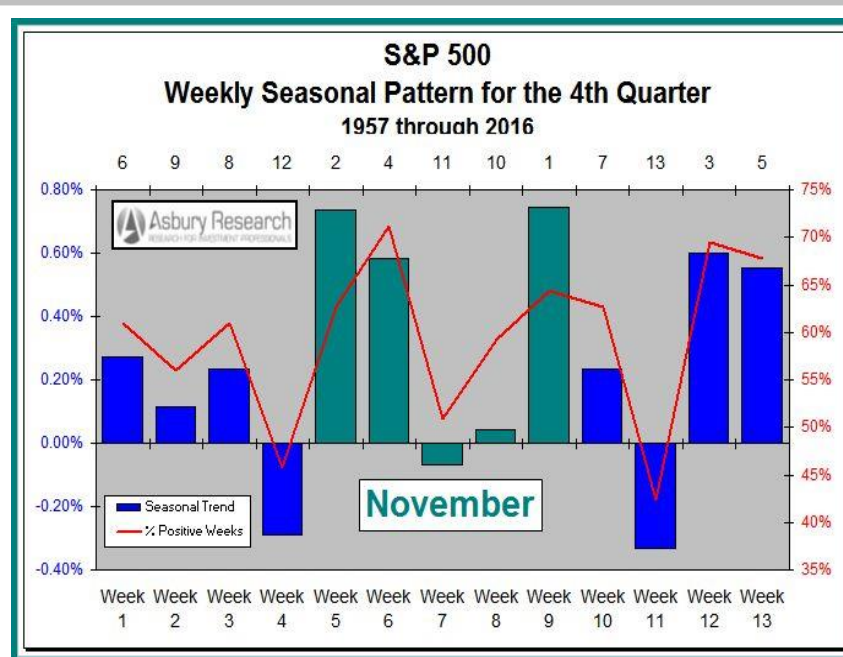
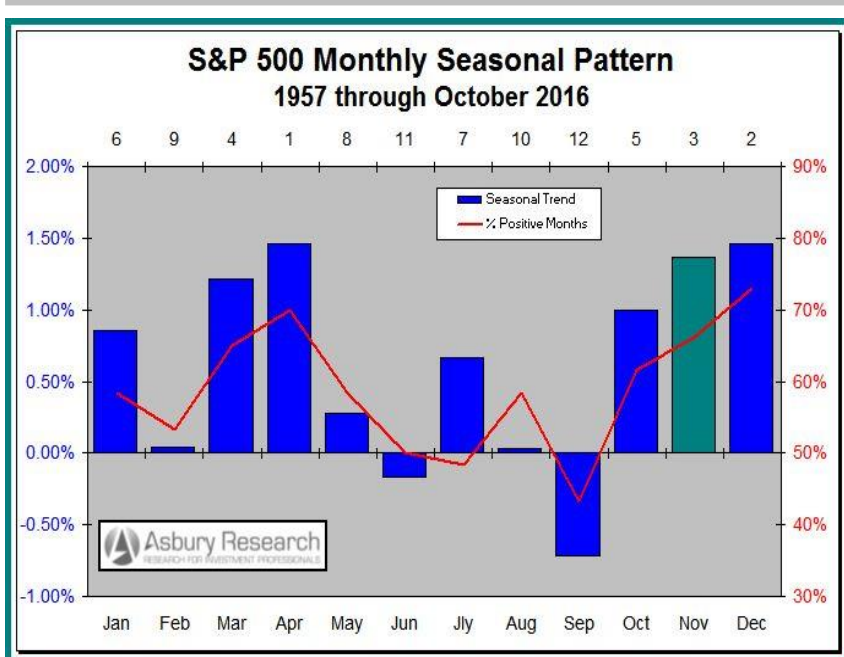
Quarterly overbought extremes may warn of a potential for bearish quarterly reversals in the price of an asset, especially during sideways or declining markets.

Monthly oversold extremes, especially during a healthy bull market, can often identify price levels where value and opportunity can be found.



US Stock Market

Seasonality: Know Your History (Because It Often Repeats)



November is the 3rd seasonally strongest month of the year in the S&P 500, on average since 1957 rising by 1.36% and posting a positive monthly close 66% of the time.

Quarterly seasonality reveals more detail in statistical patterns, in this case indicating that the first, second and final weeks of November include three of the four strongest of the entire 4th Quarter.

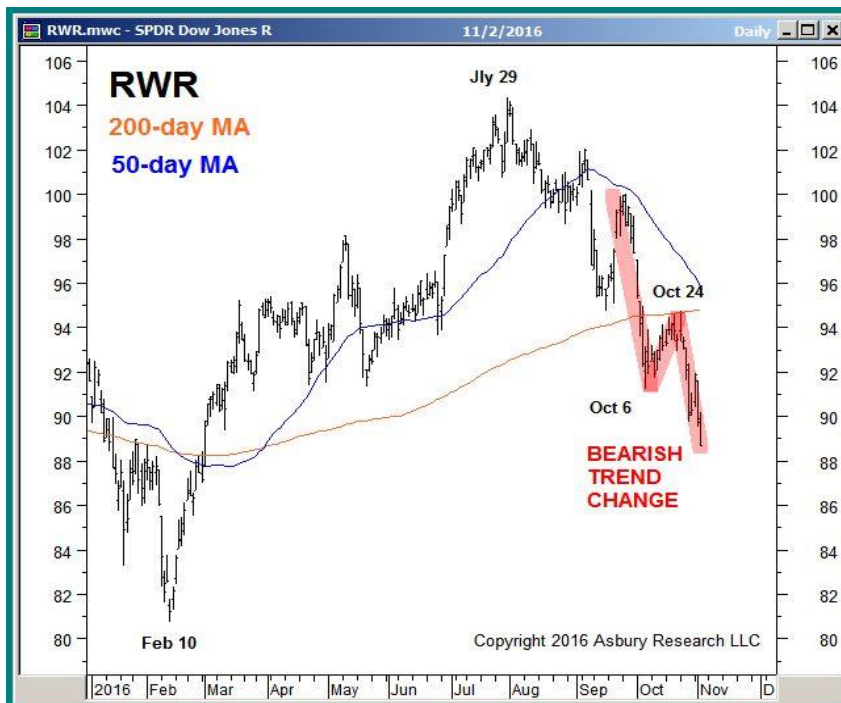


US Market Sectors

Market Sectors: Know What The Major Areas Of The Economy Are Doing



The 2011 advance in the interest rate-sensitive SPDR Financial Sector SPDR ETF resumed in August. Rising interest rates are positive for financial stocks.



Meanwhile, the SPDR Dow Jones REIT ETF has recently confirmed a bearish trend change which is also characteristic of rising interest rates.



US Market Sectors

Investor Assets Flows Indicate Those Moving In & Out Of Favor

ASBURY RESEARCH: ASSET FLOWS in MARKET SECTOR ETFs				October 31, 2016
Sector (Symbol)	As of 10-27-2016	1 Week Ago	1 Month Ago	3 Months Ago
FINANCIALS (XLF)	14.8%	14.5%	13.6%	16.5%
ENERGY (XLE)	17.2%	17.4%	16.3%	14.8%
TECHNOLOGY (XLK)	14.9%	14.6%	14.4%	13.5%
UTILITIES (XLU)	8.5%	8.1%	9.1%	9.1%
INDUSTRIAL (XLI)	8.5%	8.3%	8.0%	7.5%
CONSUMER STAPLES (XLP)	9.2%	9.7%	10.0%	10.2%
CONSUMER DISCRETIONARY (XLY)	10.5%	10.5%	10.7%	11.1%
HEALTH CARE (XLV)	13.3%	13.7%	14.7%	14.4%
MATERIALS (XLB)	3.2%	3.2%	3.2%	2.9%

Biggest inflows during period shown
 Biggest outflows during period shown
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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.

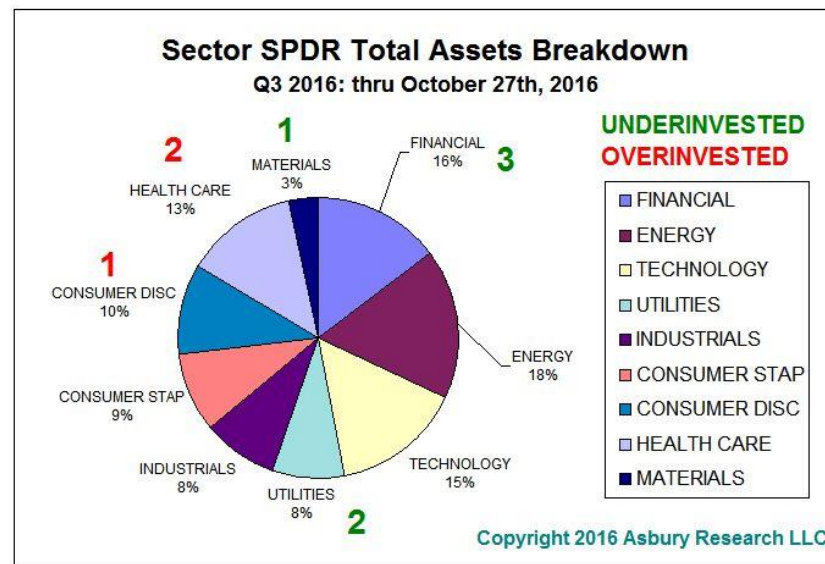
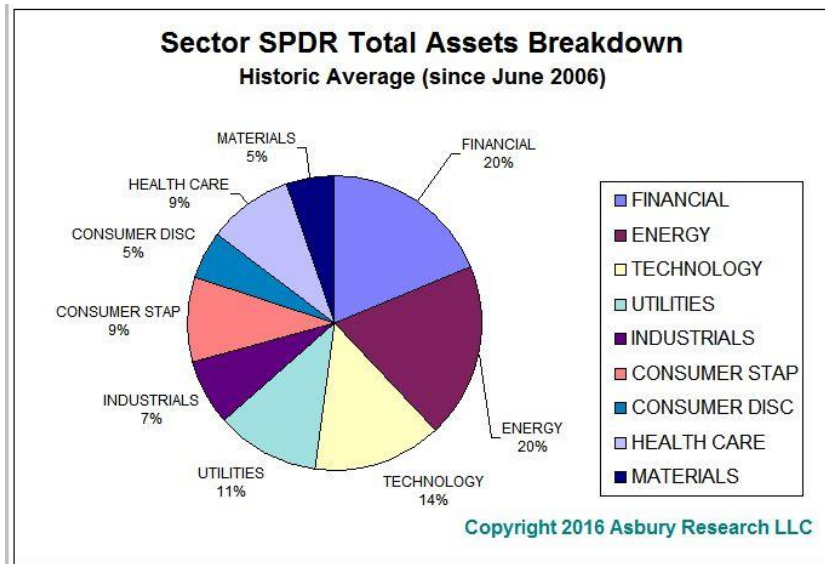
Through October, the biggest ETF-related sector **inflows** over the previous one week and one month periods went to **Financials**.

The biggest **outflows** over the past week came from **Consumer Staples**, and over the past month came from **Health Care**.



US Market Sectors

Materials, Utilities 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 October 27th. The most **under-invested** sectors are 1) **Materials**, 2) **Utilities** and 3) **Financials**.

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



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