

TREND REPORT : MARKETS IN DISTRESS!

Few instances in the markets bring as much clarity as did the recent price action in the domestic blue-chip equities. As millions of sports fans both across the nation and throughout many parts of the world celebrated Super Bowl 50, relatively few people noticed a subtle red flag. The perennial event of the National Football League just happened to be sandwiched in between two triple-digit losses in the **Dow Jones Industrial Average**. In and of itself, this circumstance could rightfully be labeled a coincidence. However, in the current context, it points to a worrying trend of outside factors being unable to drive enthusiasm into the financial markets.

Of course, there's no legitimate relationship between a football game and the stock market -- and any implications toward such would be silly. However, it is interesting to note that one of the surprise stars of Super Bowl 50 was **Anheuser-Busch InBev** (NYSE:BUD). During his post-game champions interview, Denver Broncos quarterback Peyton Manning inexplicably gave a national shout-out for Budweiser, a beer brand owned by Anheuser.

With Super Bowl commercials costing corporations millions of dollars for precious air time, Anheuser benefitted tremendously from the free publicity. Marketing analytics peg the actual monetary benefit at \$3.2 million. But the residual benefit can last much longer, seeing as how the interview was replayed multiple times across sports channels and web broadcasts. In all likelihood, the interview would be the last one of Manning's playing career, making the moment all the more special -- and lucrative.

One would think that's an extraordinarily bullish sign, perhaps even enough to justify taking a small chance on BUD shares. If anything, the stock price should remain stable. Yet less than 24 hours after the unscripted shout-out, Anheuser shares fell nearly -3% to start the week of February 8. Even worse, it continues a five-day losing streak. Since the beginning of the month, BUD is down -9.1%. The year-to-date loss isn't much better at -8%.

Alcohol is often considered a discretionary item -- we don't need it but we certainly like to drink it. And consumption would certainly be expected to increase during high-profile events like the Super Bowl. In last year's event, BUD stock saw a nice lift running towards the end of February. This time around, we're not seeing the boost. Because BUD stock also dropped below its 50 and 200 day moving averages -- which are common barometers used to gauge market sentiment -- there's little technical evidence to suggest a bullish reversal.

JANUARY 2016 JOBS REPORT

But looking beyond the fortunes of a single company, we find the status of the job market. The U.S. Department of Labor just prior to the big game released its January 2016 jobs report. On surface level, the data was excellent. President Obama was dead-pleased to highlight the fact that the total unemployment rate reached 4.9% -- the lowest such statistic in eight years.

Woop-de-doo! The real issue with the job market is not total unemployment, which can be muddled with different variables going in and out. Ultimately, the aggregate matters far less than the definition. In other words, who exactly is considered unemployed?

If we go by government statistics, the unemployed are those that have been out of work for less than 27 weeks, or roughly six months. That essentially means college graduates and those workers that have just received their pink slips. But with the economy struggling to provide real wage growth and substantive career opportunities, the near-term unemployed makes up an increasingly lesser share of the total labor market.

Unemployed 27 weeks or longer as a percent of total unemployed, seasonally adjusted

Click and drag within the chart to zoom in on time periods



When we look at jobless data for the long-term unemployed (ie. those out of work for longer than 27 weeks), the stats are startling. The rate stands at just under 27% -- far higher than peak long-term unemployment at any time during the George W. Bush administration. This is not to say that Bush was a better president; rather, the trend of the long-term unemployed is almost opposite that of the general unemployment trend.

While both are moving in the negative direction since their respective peaks during the height of the Great Recession, one trend is setting multi-year lows and the other is setting multi-year highs (not inclusive of the Great Recession). If we were to view the chart for the long-term unemployed from the angle of technical analysis, we would come to the conclusion that the rate is charting a series of higher highs and higher lows. That means that unemployment is "bullish," which of course is bearish for the health of the underlying economy.

For the vast majority of mainstream investors, though, they appear not to get the message. For example, the professional social media network LinkedIn Corp. (NYSE:LNKD) took a nasty spill in the markets last Friday, setting up a year-to-date loss in excess of -50%. The blame was immediately placed on management's forward guidance, which fell below Wall Street's expectations.

Such an explanation fails to address the cataclysmic fall in LNKD. Companies miss forecast all the time and are constantly forced to juggle guidance -- in this volatile market cycle, these types of adjustments should be considered normal by now. What LNKD's collapse really indicates is that the economy is much worse than people think. If there's less substantive opportunities -- and those long-term unemployed holding out for a good job confirm that this is the case -- there's less need for professional networking.

You don't even need a resume to get a job at Wal-Mart; just a heartbeat and hopefully a modicum of competence. Tragically, we are slowly turning into a Wal-Mart economy, which completely neutralizes the demand for high-end services. And that bearishness will eventually neutralize other sectors of the economy, which leads us to a continuation of prior themes -- protect, protect, protect!

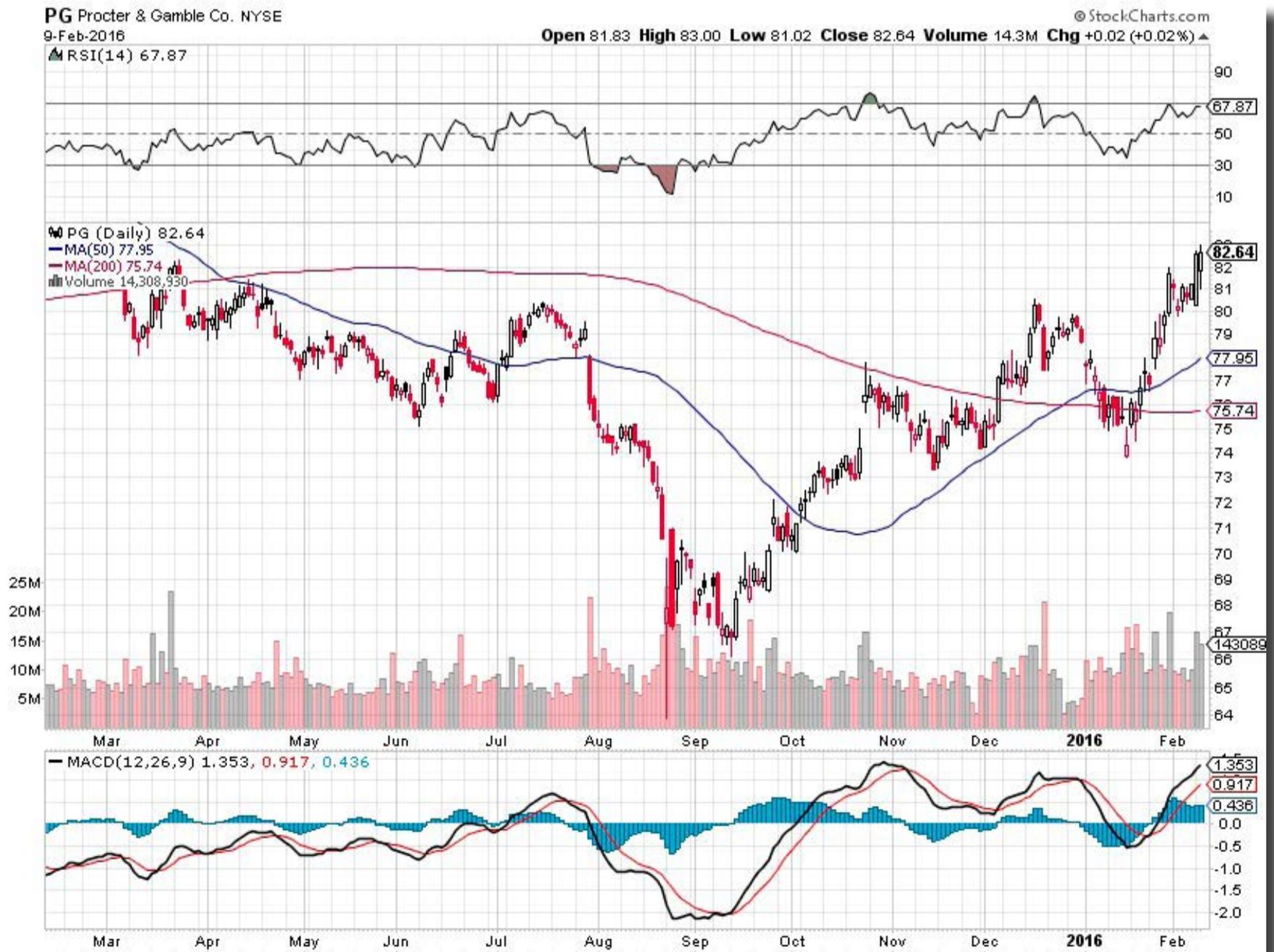
DIREXION DAILY FINANCIAL BEAR 3X SHARES

- What it is:** The Direxion Daily Financial Bear 3x Shares (NYSEARCA:FAZ) is a three-times leveraged inverse exchange-traded fund tracking the performance of the Russell 1000 Financial Services Index. As an inverse fund, each unit or share of the FAZ moves higher as the tracked asset moves lower. As a strong cautionary note, the inverse nature of this ETF, as well as the 3x leverage, makes the FAZ particularly volatile due to time decay and the “de-tracking effect” against the underlying asset. In other words, the FAZ is speculative -- be careful!
- Why we like it:** Aside from the risks of a speculative trade, there is perhaps no better time to take such a gamble than now. The domestic markets are in turmoil, with the S&P 500 settling lower this week than it ever did back in the August 2015 correction. Internationally, the carnage is playing out with greater velocity. It’s hard to see the markets recovering, and FAZ is an opportunity to bet against the bulls.
- How to trade it:** When the markets do a dead-cat bounce, there’s going to be pronounced pain in the FAZ -- that’s just how it is with leveraged ETFs. Use this knowledge to your advantage. Wait for a panic rally to bring the FAZ down to around the mid- to low- \$50 range, then buy it. The way the broad markets are selling off, we could see \$90 in the FAZ in short order.



THE PROCTER & GAMBLE COMPANY

- What it is: The Procter & Gamble Company (NYSE:PG)** manufactures and sells branded consumer staples worldwide. Some of the more popular products include Head & Shoulders, Olay, and Oral-B.
- Why we like it:** It's not the most sexiest of companies to own; in fact, it's downright boring. But for those that want long exposure in real businesses, there's no better time to own consumer staples. While the rest of the stock market is being flushed down the toilet -- the S&P 500 is down -9.4% year-to-date in comparison -- PG stock is actually up for 2016 by a 4% margin. In addition, staples stocks typically provide solid dividend yields, and PG is no different with a current rate of 3.27%. But fundamentally, PG is a beauty -- no matter how bad the economy gets, even if it really hits the fan, we'll still need to do mundane things like wash ourselves, brush our teeth, and wipe our butts. We are assured that in all likelihood, there will always be a demand for consumer staples.
- How to trade it:** PG is currently in the upper range of a broadening wedge pattern. Because of potential reactionary pressure, shares should drop to around the \$74 level. Consider initiating a position at this price point. As for an exit strategy, PG isn't a get rich quick scheme. It should provide annual returns of 6 to 10%, but the key here is safety and passive income (dividends).





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