Candlestick Forum

Long Term Stock Picks Newsletter

February, 2016

Current Market Outlook:

Remain cautiously bullish for now, but be extremely alert for continued market weakness.

The market is back in a confirmed uptrend after the worst start in stock market history last month.

At the risk of repeating myself, to say we are in a tough environment for growth stock investors could be the understatement of the year. Whether the bulls or bears are in charge seems to depend on what day it is.

However, the massive January selloff has created what could turn out to be the best buying opportunity of the year. Even the market's strongest stocks based on fundamentals have been decimated.

In this kind of environment, it pays to search for the rare stocks that have not been, metaphorically speaking, taken out and shot. Those stocks could end up being the most profitable plays of the year and the new leaders of the market.

I'll show some examples below.

Current Market Commentary:

Well… that was interesting.

I mean, the market was deteriorating a bit, but I don't think anyone expected the worst market performance ***in history*** during the month of January.

As you will see in the index charts below, the markets' swan dive tested the lows seen back in August 2015 during the "Chinese Disease" – the weakening of the Chinese economy to – horrors – a mere 6% growth rate a year!

The culprit causing the market collapse this time? You guessed it: **China.** At least that's what the general consensus seems to be.

Their stock markets imploded even more than ours, at times cratering 7% ***a day!*** At least ours took about a month to fall that far.

But it's our feeling that it's way too early to call our market a bear market. In fact, just last Friday, the Dow soared almost 400 points or 2.47%, and the Nas was up over 107 points or 2.38%. The S & P 500 scored about the same percentage.

The reason for this massive reversal back to the upside seems to be at least partly due to Japan's government lowering interest rates into ***negative*** territory. While most other countries in the world are in or near recession and are seeing lower rates, our "intelligent" Fed decided to ***raise*** ours 25 basis points!

That action is now being seen by lots of financial experts as a potential ***colossal*** mistake. And the markets seemed to "second that motion" with the January cliff dive.

So will the Fed see reason, admit its mistake, and lower rates back to near zero (spurring the bull again)? Well, that remains to be seen… but I would not expect any more rate increases for quite some time.

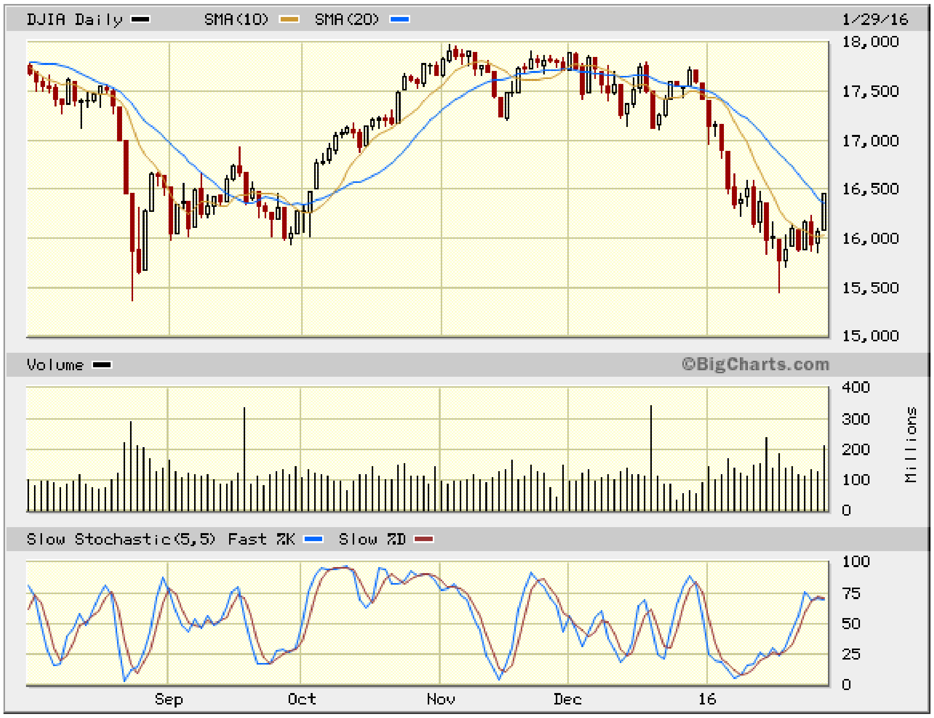
However, even amongst market chaos… there are a few stalwart standouts that… like I stated above… could turn out to be the leaders of the next bull market.

We will examine a few of those "Steady Eddie" stocks below.

But first, let's see what the general market charts are telling us right now…

Major Index Chart Analysis:

Dow Jones Industrial Average



You can see in living color that massive January swan dive for the indexes. The Dow saw a monthly swing of an amazing 2,000 points – from the start around 17,500 to an intraday low in the 15,500 area! (Notice the market "Hammering out the Bottom" with that Hammer reversal candle touching the monthly intraday low around 15,500. The price action that day gave us a sense that perhaps the bottom of the downturn was in place).

You can also see that Friday's big volume action took the price back above both the 10-day and 20-day moving averages… a positive sign.

Lots of market "experts" who missed calling the worst downturn in history are now calling Friday's action "a dead cat bounce" and to expect more downside to come.

Whether or not that’s true remains to be seen. And there is a lot of technical damage to the charts that must work itself out.

But we will stick to our “tried and true” methodology that has worked for centuries… we will let the ***market*** tell us what the market is going to do… and plan accordingly.

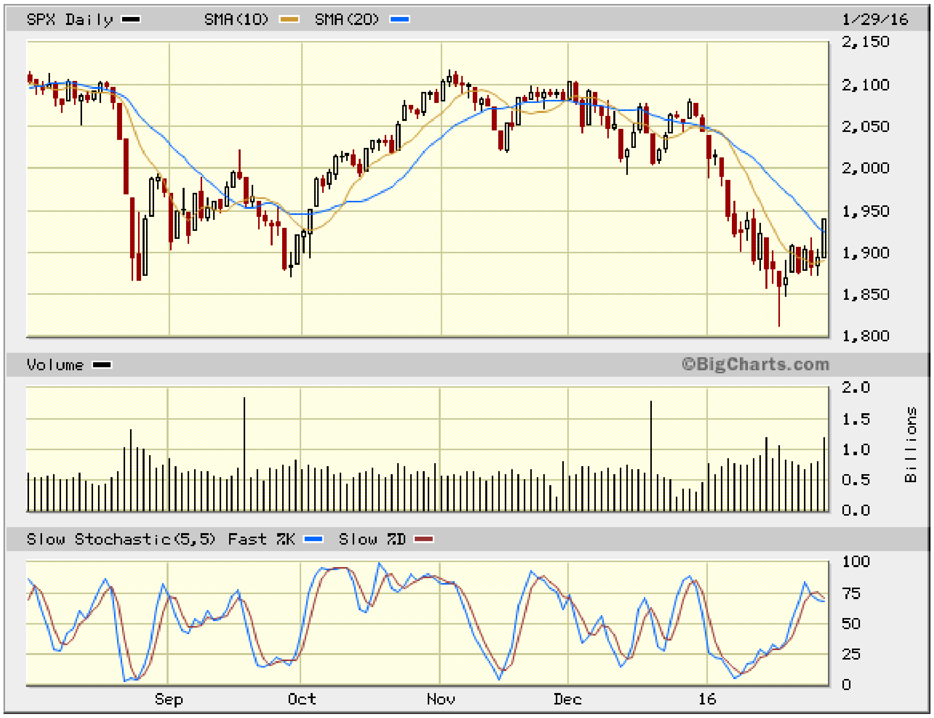
And… since that Hammer Day… we’ve now seen strong buying coming back into the market on five out of seven days. That’s all we need to know for now.

Stochastics indicate more upside as well, as they have soared to the 75 area and are still heading north.

And we have a looooooong way to go before hitting that ultimate overhead resistance in the 18,000 area. So… even if this is a dead cat bounce… there are lots of potential profits to be made during that unfortunate feline’s journey.

A plunge below 15,700 or so would negate that assumption.

S&P 500



The S&P 500 chart shows almost the exact same characteristics as the Dow’s, except January’s low point even took out the August lows. With a breach below 1,850, the bears will be back in charge.

NASDAQ

The NASDAQ's chart shows "more of the same" as its big brothers, although the stochastics may indicate some pullback here. The bear move here would be a close below that last major support area of 4,400.

Let's now see if we can find some stocks that have survived the latest downturn, and could be the new leaders in the next bull market…

Favorite Long-Term Stock Pick of the Month:

Facebook Inc. (NASDAQ: FB)

About the Company:

Facebook Inc Cl A (FB) - Provides a social networking platform enabling members to stay connected with friends and family via Facebook.com.

According to Yahoo Finance:

Facebook, Inc. operates as a mobile application and website that enables people to connect, share, discover, and communicate each other on mobile devices and personal computers worldwide.

Its solutions also include Instagram, a mobile application that enables people to take photos or videos, customize them with filter effects, and share them with friends and followers in a photo feed or send them directly to friends; Messenger, a messaging application for mobile and Web on various platforms and devices, which enable people to reach others instantly, as well as enable businesses to engage with customers; and WhatsApp Messenger, a mobile messaging application.

The company also develops Oculus virtual reality technology and content platform, which allow people to enter an immersive and interactive environment to play games, consume content, and connect with others. As of December 31, 2015, it had 1.04 billion daily active users (DAUs) and 934 million DAUs who accessed Facebook from a mobile device.

Facebook, Inc. was founded in 2004 and is headquartered in Menlo Park, California.

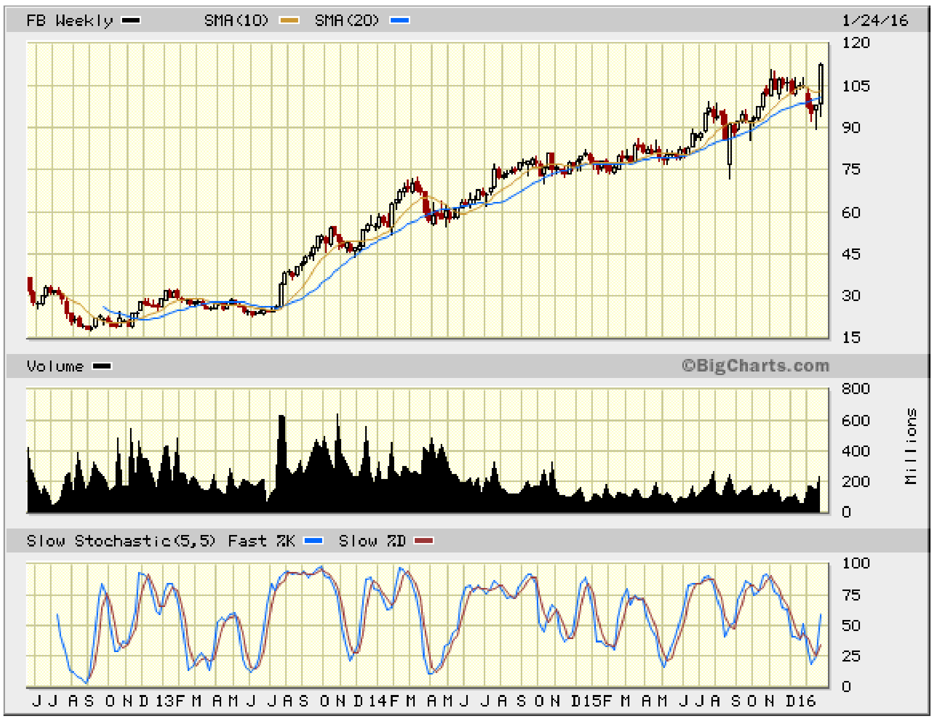
Why We Like It:

We mentioned Facebook as a Stock to Watch way back in September 2014. Due to its consistent strength, we feel it’s time to feature FB as our Stock of the Month.

The stock is a highly-rated member of the powerful Internet-Content industry group, ranked number two behind Autobytel (a Stock to Watch last month) according to Investor's Business Daily.

The company just ***crushed*** earnings estimates, causing the stock to pop 12% last Thursday, and then Friday's action took the stock to a new all-time high!

In fact, FB's lifetime chart is a work of art. Take a look…



Think long-term investing is dead? Just ask holders of FB who got in on that gorgeous flat base breakout way back in the 30 area!

With zero debt, a 3-year earnings growth rate of 71%, last quarter earnings up 46%, 3-year sales growth rate of 54%, last quarter sales up 52%, and a respectable ROE of 16.23%, FB appears to be a solid hold for the long-term, as the chart above indicates.

Chart Analysis:

FB – Six Months Daily

This is another stock I've liked for quite some time… and… with the stock blasting out to new all-time highs, it now seems an appropriate time to recommend it. That massive price surge on huge volume last Thursday could be the foreshadowing of many more good things to come for FB.

Stochastics are screaming higher with more room to run. I think you can buy immediately with a sell stop around $105 for swing traders or $100 for longer term holders.

Stocks on the Watch List:

FB bounced back strongly from the recent market weakness. Let's see if we can find a few others who did the same… or which didn't pull back much at all…

Constellation Brands Inc. (NYSE: STZ)

Constellation Brands A (STZ) - Produces and distributes branded wines and spirits in the U.S., Canada, New Zealand and Italy.

No matter what the economy is doing, alcohol still sells. Perhaps even more so when the economy and the stock market are heading south!

As you can see, STZ survived January's market weakness with flying colors. In fact, just like FB, Friday's price action took STZ to an all-time high! Weak market, what weak market?

STZ's fundamentals are solid as well. With a 3-year earnings growth rate of 38%, last quarter earnings up 15%, 3-year sales growth rate of 38%, last quarter sales up 6%, and a nice ROE of 16.61%, STZ appears to be a solid hold for the long-term.

Stochastics still have room to run. I think it's OK to buy some STZ right here, with the sell stop around $145 for the swing traders and $140 for the longer-term players.

TAL Education Group ADR (NYSE: XRS)

T A L Education Gp A Ads (XRS) - Chinese provider of K-12 after-school tutoring services to 1.49 million students via 289 learning centers in 19 cities.

This stock seems to be blowing away the concept of a "weak Chinese economy."

Although last quarter earnings were flat, current year estimates are coming in at a solid 32% gain. And with zero debt, a 3-year EPS growth rate of a strong 73%, a 3-year sales growth rate of 39%, last quarter sales coming in at +43%, and a monster ROE of 29.86%, TAL has a LOT to like, and looks good as a long-term holding.

Stochastics are high but supporting a buy as they scream skyward. TAL looks like a good buy right here on the nice base breakout in the making. The sell stop seems to be around $42.

Smith & Wesson Holding Corp. (NASDAQ: SWHC)

Smith & Wesson Holding Corp (SWHC) - Manufactures firearms including revolvers, pistols, rifles and firearm related products and accessories.

Gun sales ***soar*** every time President Obama even hints at any sort of gun control legislation. SWHC has been a huge beneficiary of that action.

The company's fundamentals are solid overall. While the 3-year EPS growth rate "shot blanks" at -14%, current year earnings estimates barreled up +39%, last quarter earnings shot up +178%, last quarter sales exploded 32%, and the ROE is a steel-barreled 30.89%. This small-cap stock has a lot of "bang for the buck", and can recoil your portfolio skyward.

Stochastics are neutral here, but seem to be curling back up in the midrange area. This stock looks like a good buy right here, stop around $19.