

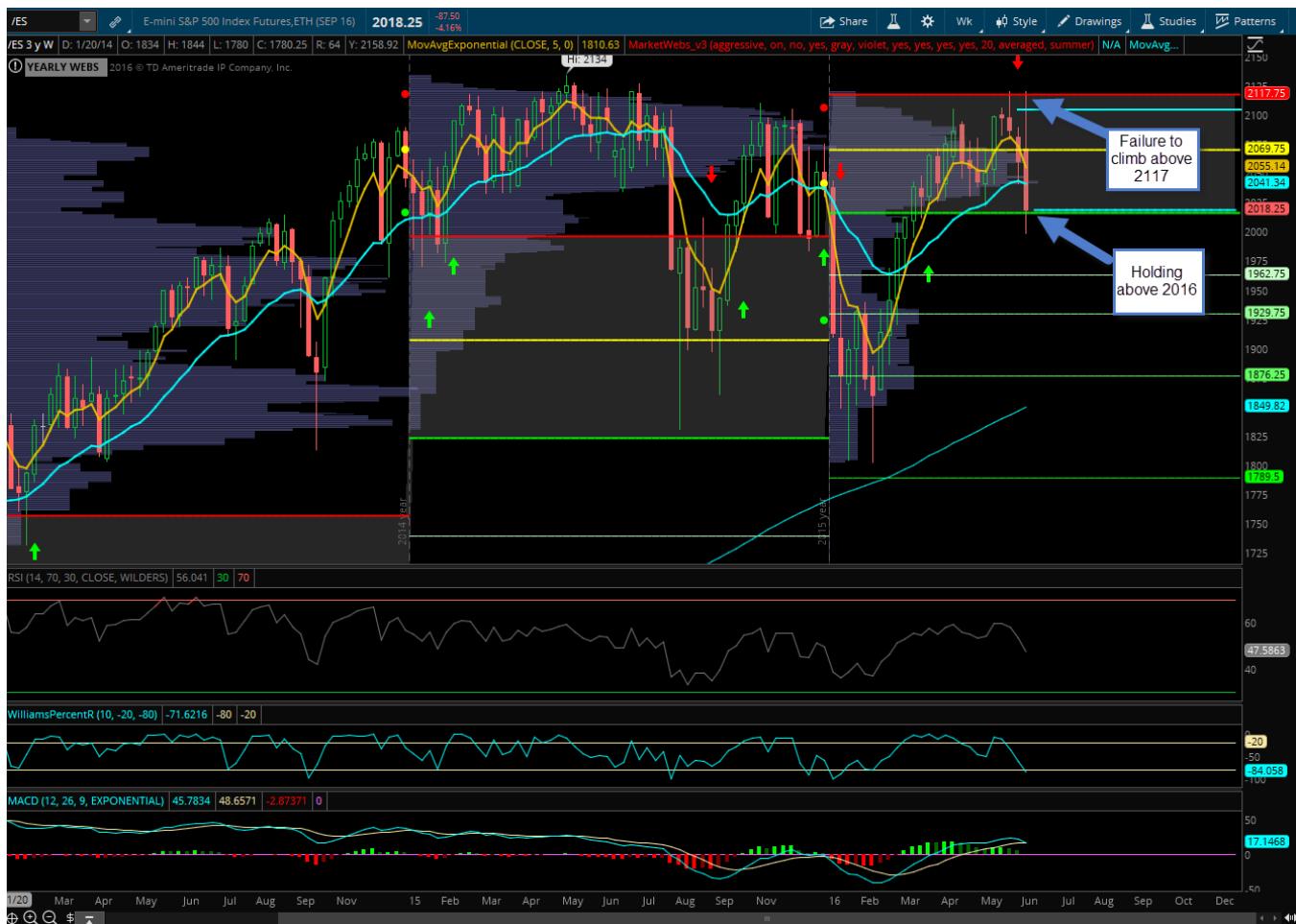


**US ETF Index performance (5d): SPY -1.6%, DIA -1.2%, IWM -1.5%, QQQ -2.1%, TLT +0.1%.**

A casual observation of the above numbers may indicate a “little volatility” for the overall week, but in reality **markets rallied into Thursday’s night Brexit vote and then globally sold off dramatically**. Note Friday was the first -1% close in the SPX since April 7<sup>th</sup> or 56 trading days. So, regardless of political events, the market was well overdue for a pullback.

A few more observations from Friday and last week. First, going into last week we saw sizable call buying in many Internationals ETFs (EFA, VGK, EWU, EEM) as I mentioned in last week’s newsletter. All of the option trades I mentioned were very short dated in maturity (July and weekly options), **and it appears most of those bullish international trades were either partially or fully unwound prior to the Brexit vote. Second, the Brexit vote caught markets off guard**. This was evidenced by the colossal move in currencies (British pound -8%) and indices (EuroStoxx -8.6%) on Friday. Considering, that no one has actually left the EU before, there is huge **uncertainty surrounding the event and the possibility that other nations may follow the UK which in my opinion, is the greater risk**. Note the VIX closed on the highs on Friday at 25.76 which is the highest level since February. **Third, the S&P futures failed to break above the yearly value area 2117 for the second time (see chart below). On the positive side, we did not break below support of 2016.**

**S&P Futures (ESU6) weekly chart**



Source: ThinkorSwim

## TTG Market View:

The Brexit vote does not mean the UK is officially out of the EU. **The U.K. needs to trigger Article 50 of the Lisbon Treaty, putting in place a two-year timeline for formal talks. So, the good news is this will take some time.** However, there is a lot of uncertainty regarding who may be next to leave and the ramifications of the exit. As usual I am letting option flow, ETF fund flows, and technicals be a guide for positioning within the markets. What did Friday's action show? While there were large volumes in ETFs and in single names stocks due to the Russell rebalance there was not much speculation in the option markets. We saw very little speculative option trades in single names or in ETFs. So it may take a few days for markets to settle in, and until then I remain 69% in cash. I will redeploy that cash when I see speculators return to the market as well as strong technical signals. Currently, S&P futures are just above the yearly value area. If we break below 2016 in the ESU6, I will look for more bearish opportunities. On Friday, the Financials got walloped. I will talk more about European Financials in the chart section, but **EUFN fell 16.6% on Friday, and took out the October lows. This is a "much watch area" and currently a big trouble area.** Next week, I will also be day trading more and holding fewer positions overnight until the VIX drops back below 20. **Watch the move in currencies next week, this will provide clues regarding Global unrest. Lastly, for traders greed is not good, but volatility is.** There are going to be opportunities, possibly be on the long & short side, be patient, and wait for good signals. Do not overtrade this market while higher volatility is present.

## Here are last week's sector performers:

**Best 5d:**

| Symbol | Description         | 5d % chng |
|--------|---------------------|-----------|
| GDX    | Gold Miners         | 3.72%     |
| IYZ    | Telecom             | 0.09%     |
| XLU    | Utilities           | -0.28%    |
| XLE    | Energy              | -0.52%    |
| XLP    | Staples             | -0.69%    |
| XRT    | Retail              | -0.82%    |
| IYR    | REITs               | -0.90%    |
| XLV    | Health Care         | -1.07%    |
| XOP    | Oil & Gas Expl Prod | -1.14%    |
| SMH    | Semis               | -1.52%    |
| ITB    | Home Builders       | -1.76%    |

**Worst 5d:**

| Symbol | Description     | 5d % chng |
|--------|-----------------|-----------|
| SLX    | Steel           | -4.32%    |
| KBE    | Banks           | -3.43%    |
| XME    | Metals & Mining | -3.04%    |
| KRE    | Regional Banks  | -2.99%    |
| IBB    | Biotech         | -2.86%    |
| XLB    | Materials       | -2.50%    |
| XLI    | Industrials     | -2.42%    |
| XLF    | Financials      | -2.34%    |
| XLY    | Cons Discretion | -2.26%    |
| OIH    | Oil Services    | -1.94%    |
| FDN    | Internet- FANG  | -1.90%    |

## Here are last week's largest International performers:

| Symbol | Description | 5d % chng |
|--------|-------------|-----------|
| EWZ    | Brazil      | 1.31%     |
| EWJ    | Japan       | -0.79%    |
| EWM    | Malaysia    | -0.88%    |
| FXI    | China       | -0.98%    |
| EWA    | Australia   | -0.99%    |
| EPU    | Peru        | -1.14%    |
| EWY    | South Korea | -1.15%    |
| IDX    | Indonesia   | -1.19%    |
| VNM    | Vietnam     | -1.53%    |
| EWT    | Taiwan      | -1.54%    |
| EWC    | Canada      | -1.79%    |

| Symbol | Description   | 5d % chng |
|--------|---------------|-----------|
| EWP    | Spain         | -12.35%   |
| EWI    | Italy         | -11.23%   |
| EUFN   | EURO FINS     | -11.03%   |
| GREK   | Greece        | -8.45%    |
| EZU    | EMU           | -7.85%    |
| EWQ    | France        | -7.36%    |
| EWU    | UK            | -6.60%    |
| EWG    | Germany       | -5.78%    |
| EWL    | Swiss         | -5.60%    |
| HEDJ   | Europe (FX'd) | -5.27%    |
| VGK    | Europe        | -5.10%    |

## ETF Flows for the Week (6/26/16)

**Overall: Equity ETFs see +\$3.9B in inflows (+\$4.7B prior week), the fifth week in a row of equity inflows. Biotech ETFs (IBB, XBI) posted the largest inflows of any sector last week, +\$816M.** Note the majority of the Biotech inflows occurred after the Medicare IPAB ruling. Interestingly, Financials saw some dip buying on Friday, with +\$530M being added to the sector on Friday.

**In International ETFs, Emerging Markets and Developed Market ETF posted large inflows ahead of the Brexit vote.** On the EM side, VWO and EEM saw the largest inflows. Note EEM was -6.1% as the effect of the stronger dollar compounded the losses in EM (see more on EEM in the chart section). In Developed International ETFS, EFA and IEFA saw the largest inflows.

**In commodity ETFs, GLD added +\$781M in assets on Friday and +\$1.1B for the week.** Note GLD was +4.9% on Friday. Fixed Income ETFs added +\$3.2B for the week with HYG posting the largest inflow of +\$1.5B.

### US / Sectors (5d):

- **Sector Highlights** (largest movers included)
- **Largest Inflows:**
  - **Health Care +\$816M:** IBB +\$822M, XBI +\$72M, XLV -\$114M
  - **Financials +\$782M:** XLF +\$545M, IYF +\$96M, KRE +\$73M
  - **Energy +\$711M:** XLE +\$436M, XOP +\$171M, GASL +\$48M
  - **Utilities +\$370M:** XLU +\$376M
  - **Materials +\$325M:** GDX +\$193M, GDXJ +\$172M, XME -\$42M
- **Largest Outflows:**
  - **Tech -\$164M:** VGT -\$71M, FDN -\$32M, SMH -\$17M

### International (5d):

- **International ETFs +\$2.5B**
- **Country/ Region specific ETFs:**
  - Largest Inflows:**
    - **Emerging Mkts +\$1.6B:** VWO +\$737M, EEM +\$382M, IEMG +\$95M, EEMV +\$35M
    - **Developed Mkts +\$1.1B:** EFA +\$580M, IEFA +\$190M, EFAV +\$95M, VEA +\$85M, SCHF +\$56M, SCHF +\$56M
    - **Germany +\$142M:** EWG +\$148M
  - Largest Outflows:**
    - **Japan -\$495M:** EWJ -\$184M, HEWJ -\$145M, DXJ -\$106M, DBJP -\$51M

### Largest Flows by Fund

| Inflows |                     |                   |                        | Outflows |                  |                   |                        |
|---------|---------------------|-------------------|------------------------|----------|------------------|-------------------|------------------------|
| Ticker  | Description         | 5d Mkt Value Chng | Fund Size<br>5d % Chng | Ticker   | Description      | 5d Mkt Value Chng | Fund Size<br>5d % Chng |
| SPY     | SPX                 | \$ 2,398,267,597  | 1.3                    | VO       | MID CAPS         | \$ (917,353,023)  | -6.3                   |
| HYG     | HIGH YLD BONDS      | \$ 1,523,475,000  | 11.7                   | VTV      | VALUE            | \$ (668,681,790)  | -3.1                   |
| GLD     | GOLD                | \$ 1,121,400,000  | 2.9                    | VUG      | GROWTH           | \$ (653,578,870)  | -3.2                   |
| IBB     | BIOTECH             | \$ 821,832,000    | 14.0                   | IVV      | SPX              | \$ (643,261,500)  | -0.9                   |
| VWO     | EMERGING MKTS       | \$ 736,781,972    | 2.1                    | MDY      | MID CAPS         | \$ (609,341,649)  | -3.8                   |
| EFA     | INTL DEVELOPED MKTS | \$ 579,528,000    | 1.1                    | BSV      | SHORT TERM BONDS | \$ (582,403,956)  | -3.1                   |

Source: Bloomberg

## ETFs of the Week:

SPY (SPX) vs EFA (iShares MSCI EAFE ETF):

I am including an updated 1 year chart of SPY vs EFA to show the relationship of US Large Caps vs International Developed Markets post the Brexit vote. Notice that SPY is currently at a one year high vs EFA. The takeaway is that this spread is at an extreme level and one would think that either International needs to catch up to the US or vice versa. **The question that comes to mind is how much longer can the US outperform at these levels vs the rest of the world?**



Source: Bloomberg

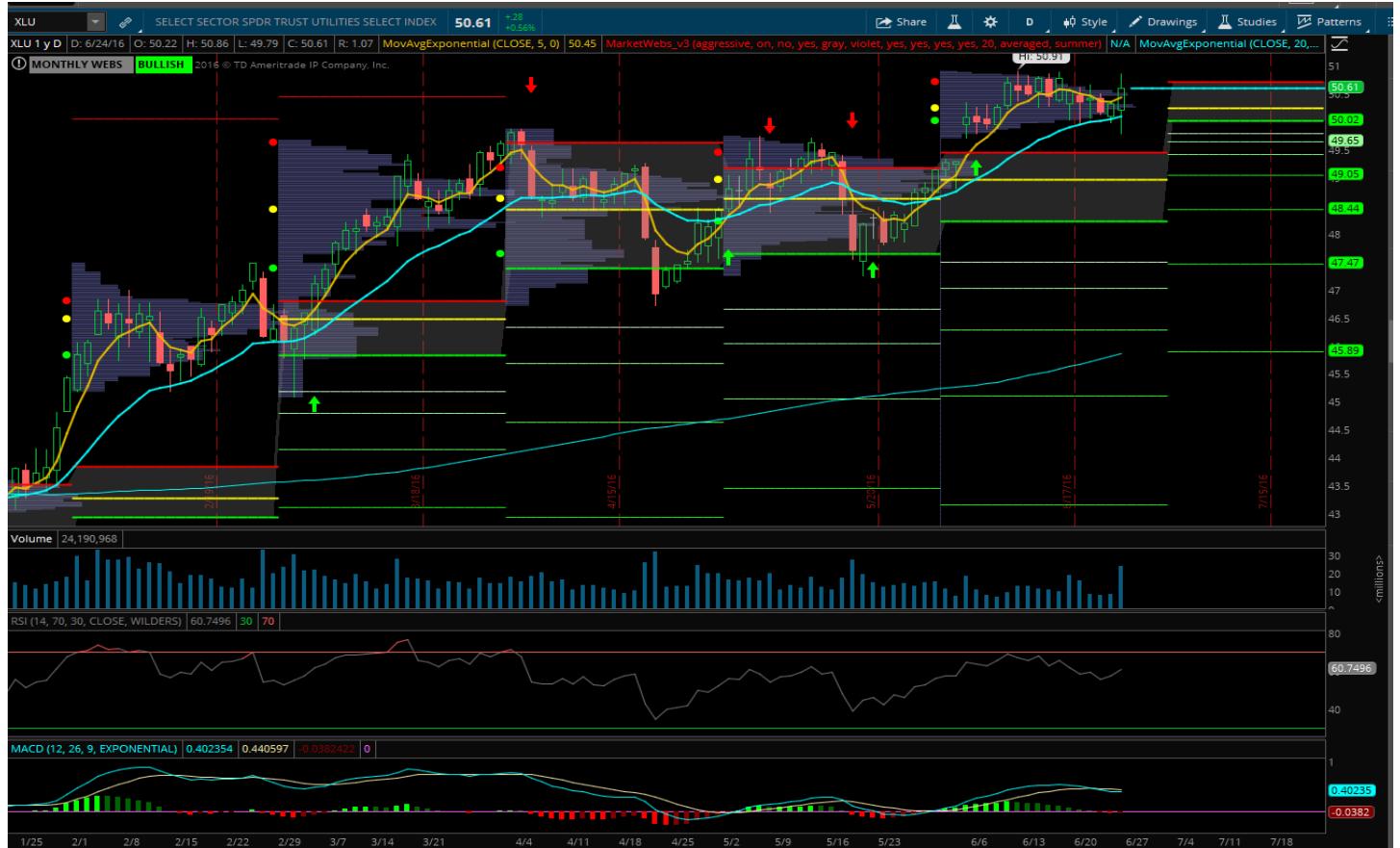
## EUFN (iShares MSCI Europe Financials ETF):

As mentioned in the summary section, **European Financials continue to be a “must watch area”. The stock prices of this group were under major stress on Friday.** Some examples of Bank ADR performance Friday: HSBC -9%, BCS -20%, DB -17%, CS -16%, and SAN -20%. From a technical standpoint, on Friday EUFN took out the February lows with heavy volume. The next support area ~\$14 last reached in 2012.



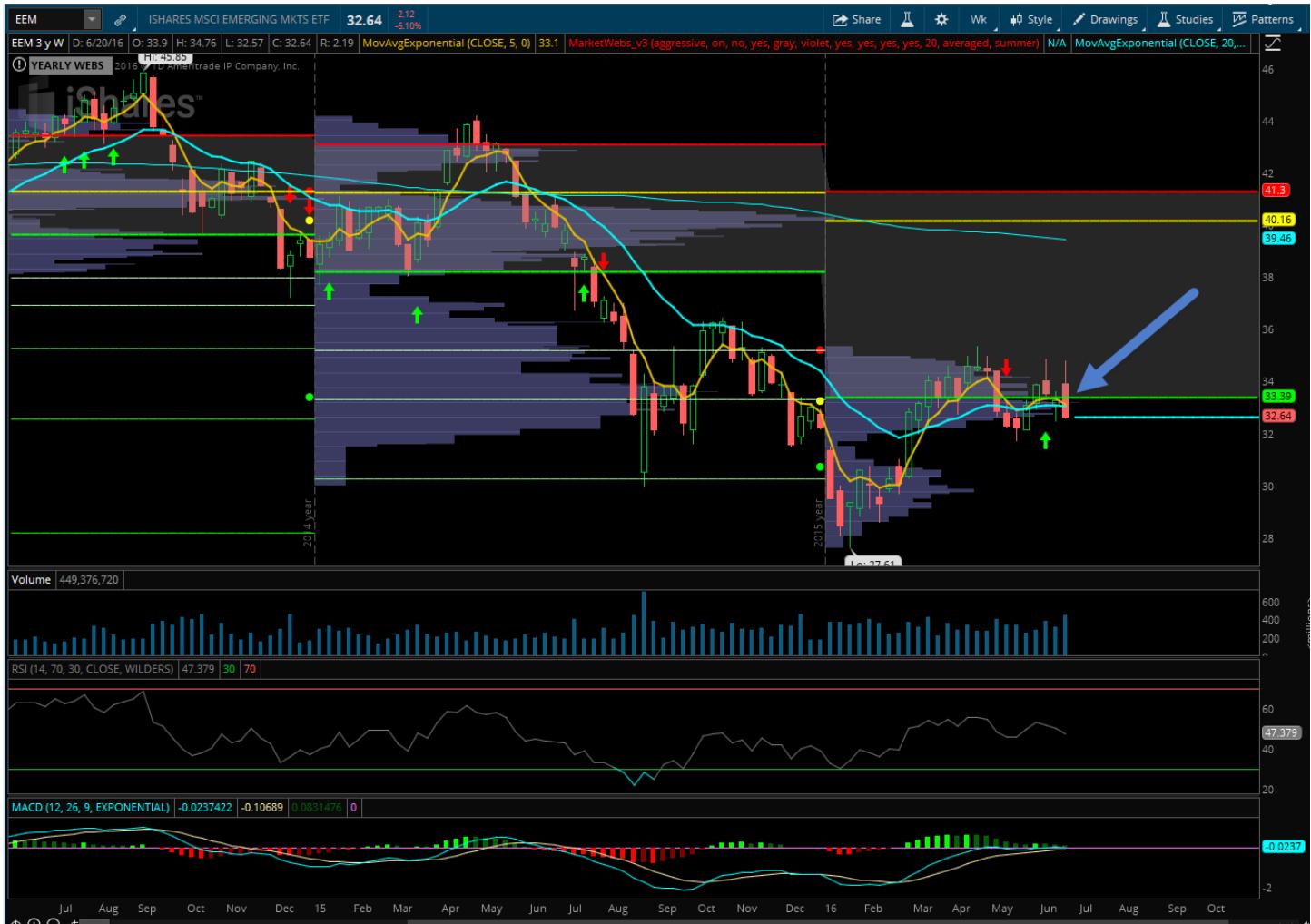
## XLU (Utilities Select Sector SPDR Fund):

Defensive areas of the market outperformed on Friday. Utilities were +0.6 vs the SPX -3.6%. This is a chart that I really like, and I am watching the recent high of \$50.91 for a breakout. However, the negative regarding this sector is valuation. According to State Street, the P/E FY1 is 18.22 vs SPY 17.36, so XLU is richly valued. Rather than go long XLU, I will wait for option activity signals in some of the components of the ETF, ie: NEE, DUK, SO, D, AEP, EXC, PCG, SRL, PPL, etc.



## EEM (iShares MSCI Emerging Markets ETF):

Emerging Market ETFs added +\$1.6B last week and have seen long positioning in the option market the last couple weeks. I am watching the bottom of the yearly value area \$33.39 to initiate a long (if the price gets back above this level). For now, I am on the sidelines in this group.



## Stocks to Watch (from Pat Harris @pharris667)

LLY

Eli Lilly and Company discovers, develops, manufactures, and markets pharmaceutical products worldwide. It operates through two segments, Human Pharmaceutical Products and Animal Health Products. **Big Sweep Calls Bought on Thursday put this into Focus and Stock showed strength in a very poor Market FRIDAY.**



## HSY

The Hershey Company manufactures, imports, markets, distributes, and sells confectionery products. The company operates through two segments, North America, and International and other. **This Company stays in Focus as it pulled on Thursday and recovered very nicely on Friday. Continuing Sweep calls by the institution being bought.**



## WMT

Wal-Mart Stores, Inc. operates retail stores in various formats worldwide. It operates through three segments: Walmart U.S., Walmart International, and Sam's Club. **Big changes in China as in makes deals with some of China's online retailers- JD.com and also working on a deal with BABA.**



## AWK

American Water Works Company, Inc., through its subsidiaries, provides water and wastewater services in the United States and Canada. **Long set-up Member of IBD Big Cap 20.**



## ATO

Atmos Energy Corporation, together with its subsidiaries, engages in the distribution, transmission, and storage of natural gas in the United States. It operates in three segments: Regulated Distribution, Regulated Pipeline, and Nonregulated. A relative safety play as stock has been consistent in an uptrend for the first 6 months of the year.



## ORLY

O'Reilly Automotive, Inc., together with its subsidiaries, engages in the retail of automotive aftermarket parts, tools, supplies, equipment, and accessories in the United States.



## TSN

Tyson Foods, Inc., together with its subsidiaries, operates as a food company worldwide. It operates through four segments: Chicken, Beef, Pork, and Prepared Foods. **A relative safe play long set-up.**



## POST

Post Holdings, Inc. manufactures, markets, and sells branded and private label ready-to-eat cereal products primarily in the United States, Puerto Rico, Canada, Mexico, and the Caribbean. **This has sweeps calls bought all the way through September plus Form 4 filings. Take out rumors.**



## STOR

STORE Capital is a privately owned real estate investment trust. The firm invests in the real estate markets. It primarily invests in single-tenant properties including chain restaurants, supermarkets, drugstores and other retail, service and distribution facilities.

**Form 4 filings consistently making 52 week highs featured in IBD this week.**



### TSLA IBB IWM TRAN short set-ups

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