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Investment Strategy
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Investment Strategy

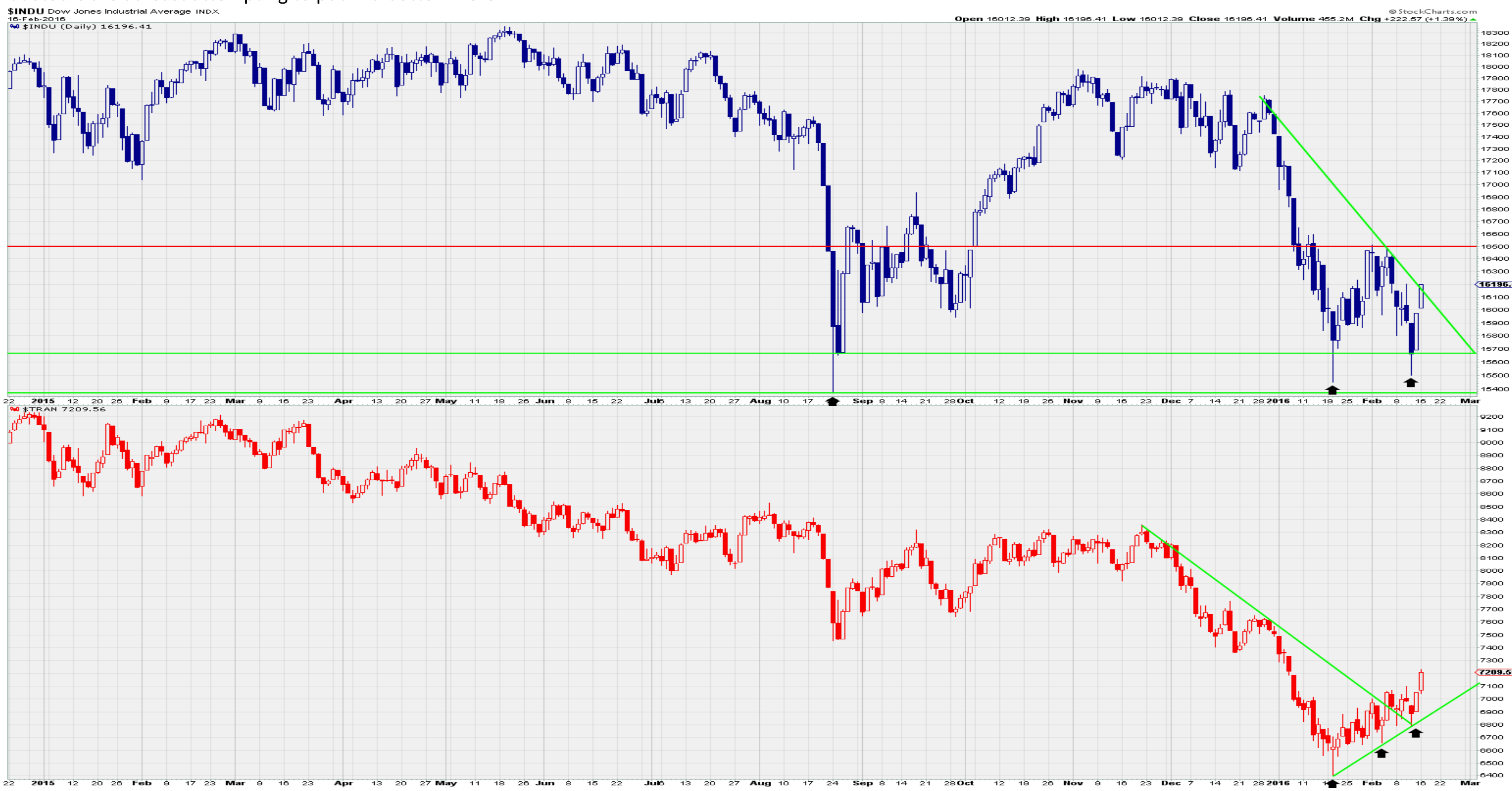
Investment Strategy: "Charts of the Week"

In case you were wondering, there was no “Charts of the Week” publication last Wednesday due to the inconvenience of a long-ago-planned vacation on my part, and, to paraphrase the recurring joke from the movie *Airplane*, it looks like I picked the wrong week to go on vacation. For while I was doing my best not to ski off a mountain in Colorado, the financial markets continued their frustrating run of ambivalence, with oil crashing back down to a new low, the Dow Jones Industrial Average briefly closing below its August low before immediately rallying, and the S&P 500 finishing the week less than 1% from where it started despite being down four out of the five days (thank you Friday!). This whipsaw-like action is making it very difficult to determine the near-term direction of the stock market, as the Bulls are taking their sweet time deciding if we have already fallen enough to create substantial buying opportunities, while the Bears point to a whole host of negative items from both a fundamental and technical basis that continue to pressure the broad market. But considering we are at the long-end of the historical range of the typical “selling stampede” and still largely oversold based on the breadth indicators, I do hold out hope that buying demand is going to pick up here soon as stocks attempt to create yet another “double bottom” or “W” pattern like we saw last Fall.

So with that, here are some updates of the major charts I have been monitoring, as well as some new items that may represent a buying opportunity.

Please read domestic and foreign disclosure/risk information beginning on page 14 and Analyst Certification on page 14.

First, I want to give my thoughts on the action in both the Dow Jones Industrial Average and the Dow Jones Transportation Average since we have mentioned repeatedly over the last few months that we did not want to see a daily close below 15,666 in the DJIA. Well, that, of course, occurred last Thursday, but then a funny thing happened and the major averages enjoyed one of their best days in weeks on Friday to prop the DJIA back over that key level, possibly giving us a false breakdown. In my experience, whenever a stock or index violates an important technical level and then immediately reverses back over it, it's usually a sign that the initial move was just a feint and can often signal a major turning point. I hope this is what has happened with the DJIA, especially since the Transports have quietly put in four straight positive weeks to return to a pattern of higher highs and higher lows (see bottom of chart). And while getting a new closing low last week in the DJIA wasn't a great sign, it is worth pointing out that the index has not violated the intraday low from August 24 and has now made two important higher intraday lows so far in 2016. The combination of the two averages, therefore, signals to me that stocks are at least attempting to put in a bottom here.



Source: Stockcharts.com

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And since I took a shorter-term look at the Dow averages using the daily chart, I think it's a good idea to back out and take a very long-term look at the S&P 500 to see what the recent damage has done to its multi-year trend. Using monthly candlesticks, it's pretty clear we have fallen to a very important point where two major trendlines have converged, the first being a line drawn from the monthly closing lows of February 2009 and September 2011 (line 1) and the second being a horizontal line just above 1800 that has held as support on four occasions so far in the last two years (line 2). When key trendlines meet at points like this, it can often bring in substantial buying demand to support this area and lead to important turning points. Conversely, a monthly close below these lines would do some serious technical damage and indicate we still have further to fall.

Source: Stockcharts.com

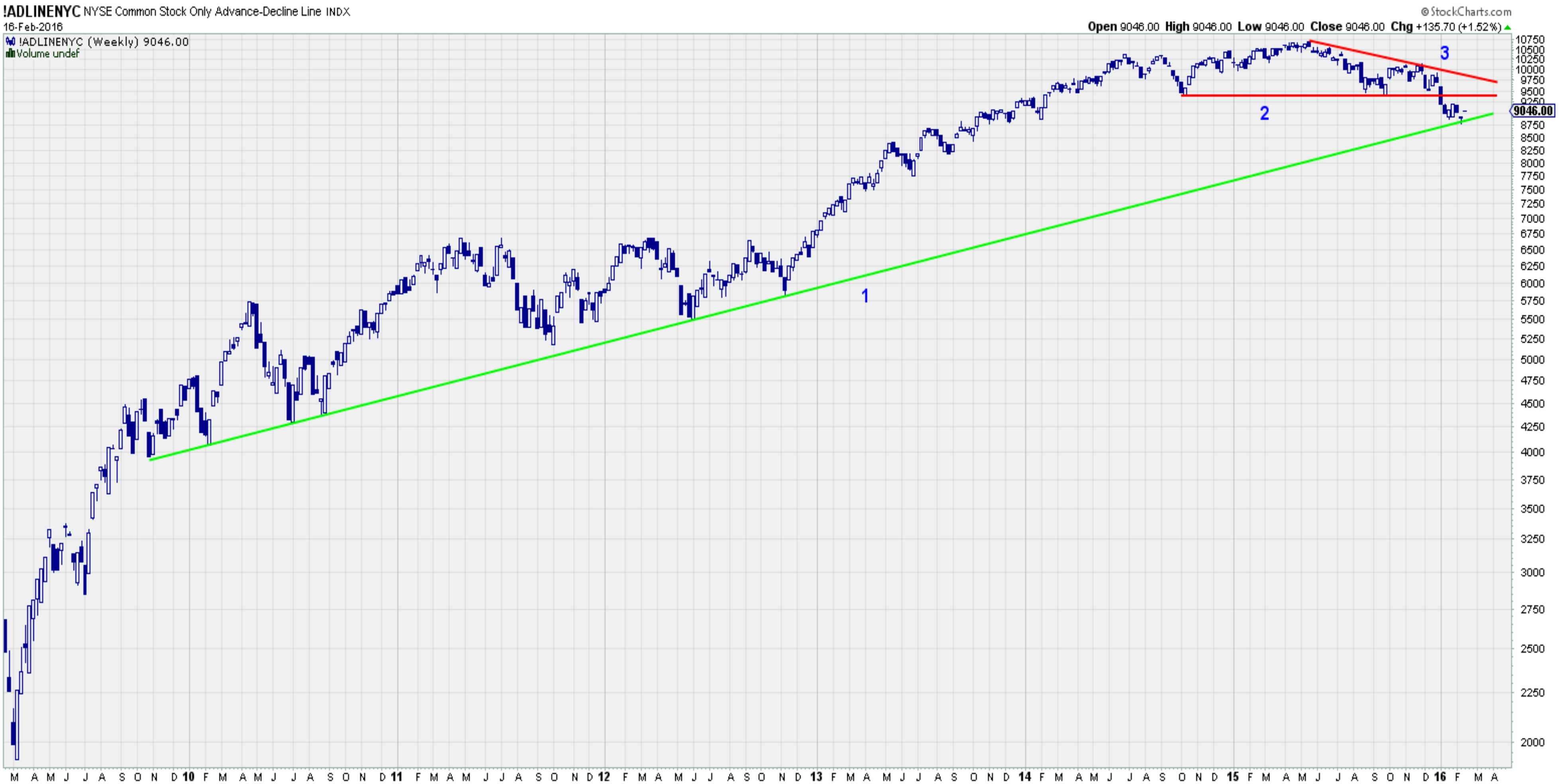
It pains me to talk about yet another possible oil bottom, which is perhaps a sign that we are finally close to actually seeing it, but so far the key area around $25 is holding and may continue to bring in the buyers if history is any guide. Back in the late 1990s and early 2000s, $25 proved important on several different occasions (see black circles) and appears to be a psychological point that many traders are watching. There is still much standing in the way of higher prices (just look at those red resistance lines), but we are likely due for a bounce and perhaps the production freeze agreed upon by Russia and a few Middle East nations will be the fundamental factor behind a rally.

Source: Stockcharts.com

A few weeks ago, I pointed out that gold had hit an interesting point on its chart that could bring in the buyers who saw the same attractive risk-to-reward setup against 1050 that I was seeing. Well, since then, whether it be for technical or fundamental factors, the metal has rallied all the way back up over 1200, prompting quite a few questions about whether or not it's time to take profits. My response is that, in the short-term, I do think gold is overbought, and, given its almost parabolic move up on the daily chart, it probably makes sense to take some off the table IF you purchased gold stocks or a fund that tracks the metal with the intent of it being a short-term trade. However, on a longer-term basis, I still think you can hold gold-related investments as long as that 1050 level provides support, especially since the spot price has finally rallied over the 24-month moving average for the first time in about three years.

Source: Stockcharts.com

We are also still at a very critical point on my "most important chart" for the broad stock market – the NYSE Common Stock Only Advance/Decline Line. Last week's sluggishness brought the A/D line all the way down to the crucial support line (line 1) that has held since late 2009, and we really need to sustain this rally to put some distance between the indicator and the support line. Remember, the A/D line only goes up if more stocks in the market are advancing than declining, so we want to see this rise to show that it's more than just a handful of stocks keeping the market afloat.

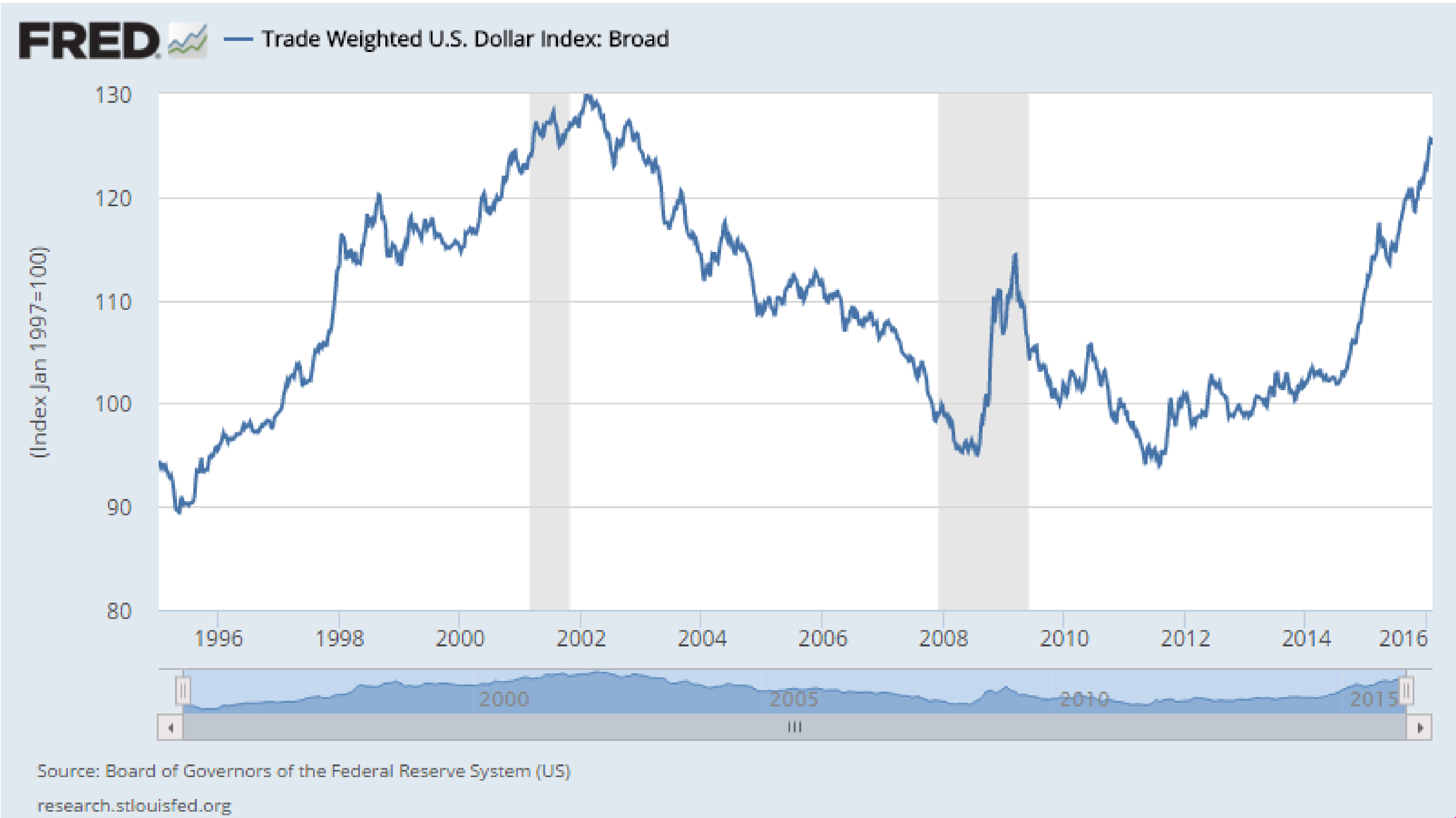


Source: Stockcharts.com

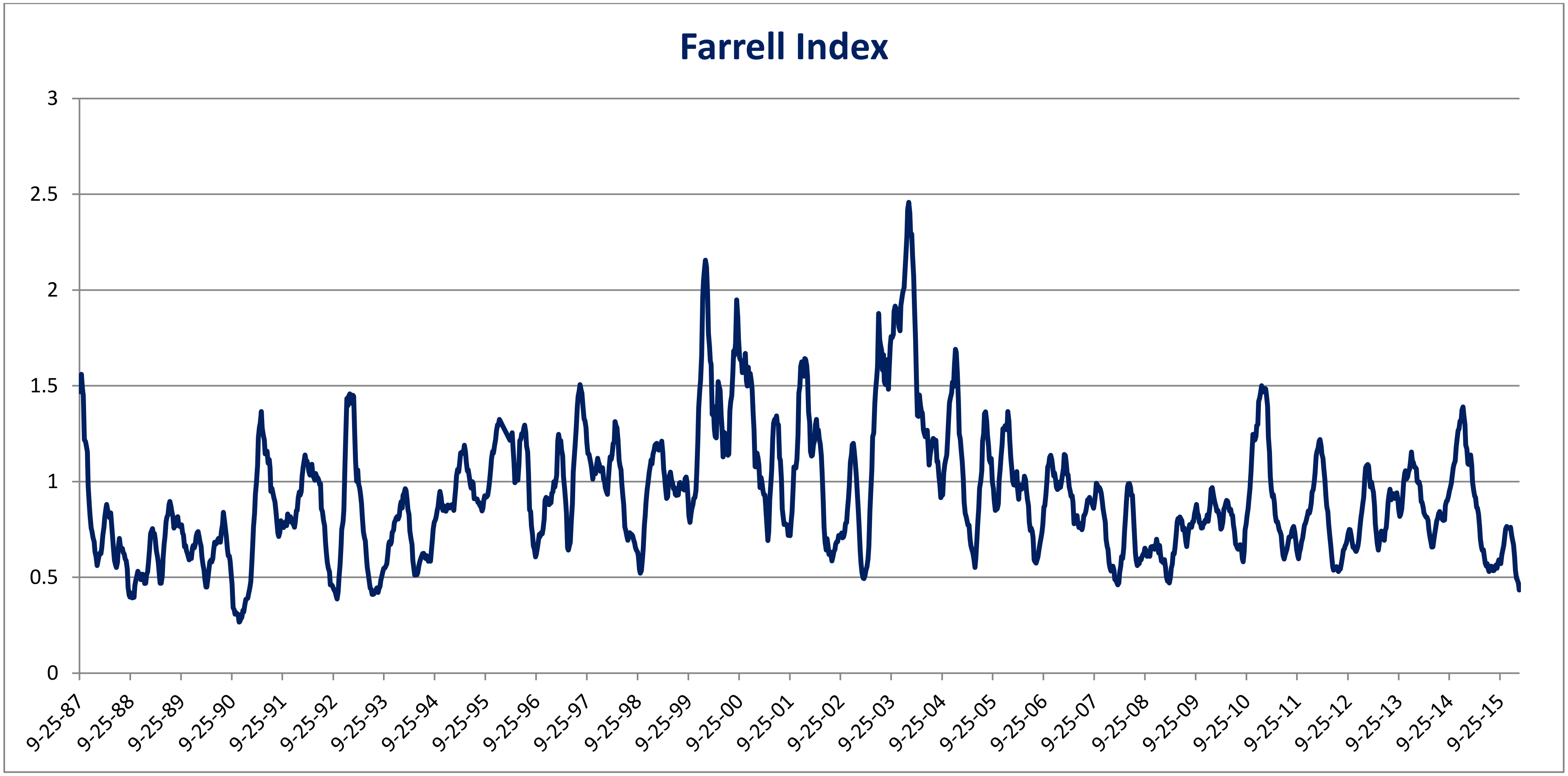
While it may be tough to buy the more speculative smaller stocks right now, the relative strength chart comparing the Russell 2000 (small caps) to the S&P 500 (large caps) may be indicating that investors should be doing just that. When this line rises, the Russell 2000 is outperforming and when it falls, the S&P 500 is outperforming. Not surprisingly, the large caps have been the better investment since last summer, but the relative strength line has now fallen to the lower end of its long-term channel and is about as oversold as it ever gets, possibly signaling that the small caps are due to outperform in the near term. This could be a sign that more aggressive traders and investors are about to take on a bit more risk.

Source: Stockcharts.com

While we usually monitor the standard U.S. Dollar Index, which currently appears to be possibly topping out after struggling once again to get above the 100 level, many people like to use the Trade Weighted U.S. Dollar Index since it contains a wider basket of currencies and doesn't weight the euro as strongly as the standard index does. And based on the Trade Weighted version below, the U.S. dollar strength has continued into this year and is not showing the same kind of topping pattern, as of yet, that the standard index is reflecting.



One reason I have been so hesitant to get too bearish is because market sentiment just plain stinks right now, and historically that has often been a sign that a bottom is near. Legendary Merrill Lynch technician Bob Farrell was such a believer in sentiment that he created his own indicator to measure extremes, and I have been watching this index closely over the last few weeks because it has hit levels that are rarely ever seen. To create the indicator, one takes the bullish percentage in the AAII weekly survey, divides the figure by the bearish percentage plus half the neutrals, and then takes a 10-week moving average of that number to arrive at a number that can be charted. This number has fallen to its lowest level since August 1993, which means that investors are currently more negative than at the worst of both the dot-com bubble fallout an the 2008 financial crisis.



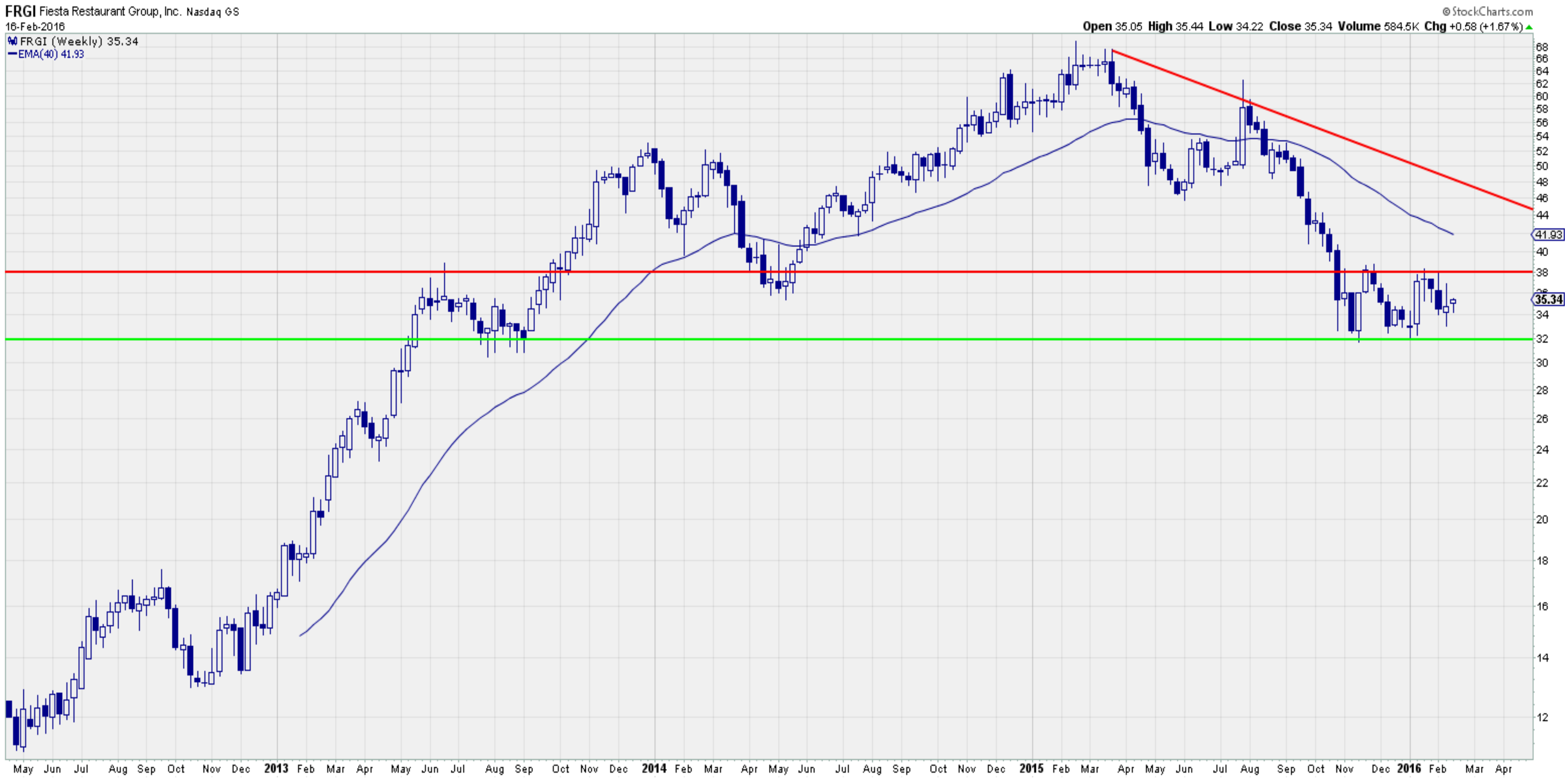
Source: AAII; Raymond James Equity Research

So, since there are some signs that the selling stampede is coming to an end and we are due for a rally, and since the small caps look overdue for a period of outperformance, I thought I'd highlight some of the smaller, Strong Buy-rated companies from our coverage universe that also offer a favorable risk-to-reward setup based on their charts.

First, is Applied Micro Circuits Corp. (AMCC/$5.36/Strong Buy), which is actually still about 17% above its 2015 low despite the roller coaster run it's been on over the last year. The area above $5 looks to be fairly strong support and if we do get a sustained rally here, AMCC could make its way back up near the upper end of the large pattern it's been trapped in since its 2013 high. I'd be careful if it falls below $5 though.

Source: Stockcharts.com

Next is Fiesta Restaurant Group, Inc. (FRGI/$35.34/Strong Buy), which is an Analyst Current Favorite that has been trapped within a clearly-defined range between $32 and $38 over the last several months. It currently sits right in the middle of that range, but the fact that it has not fallen beneath $32 despite all the market volatility makes me think it's going to take a lot more to violate this key level. It could be "look out below" if $32 does fall, but until then I think the potential upside makes for an attractive risk-to-reward setup.

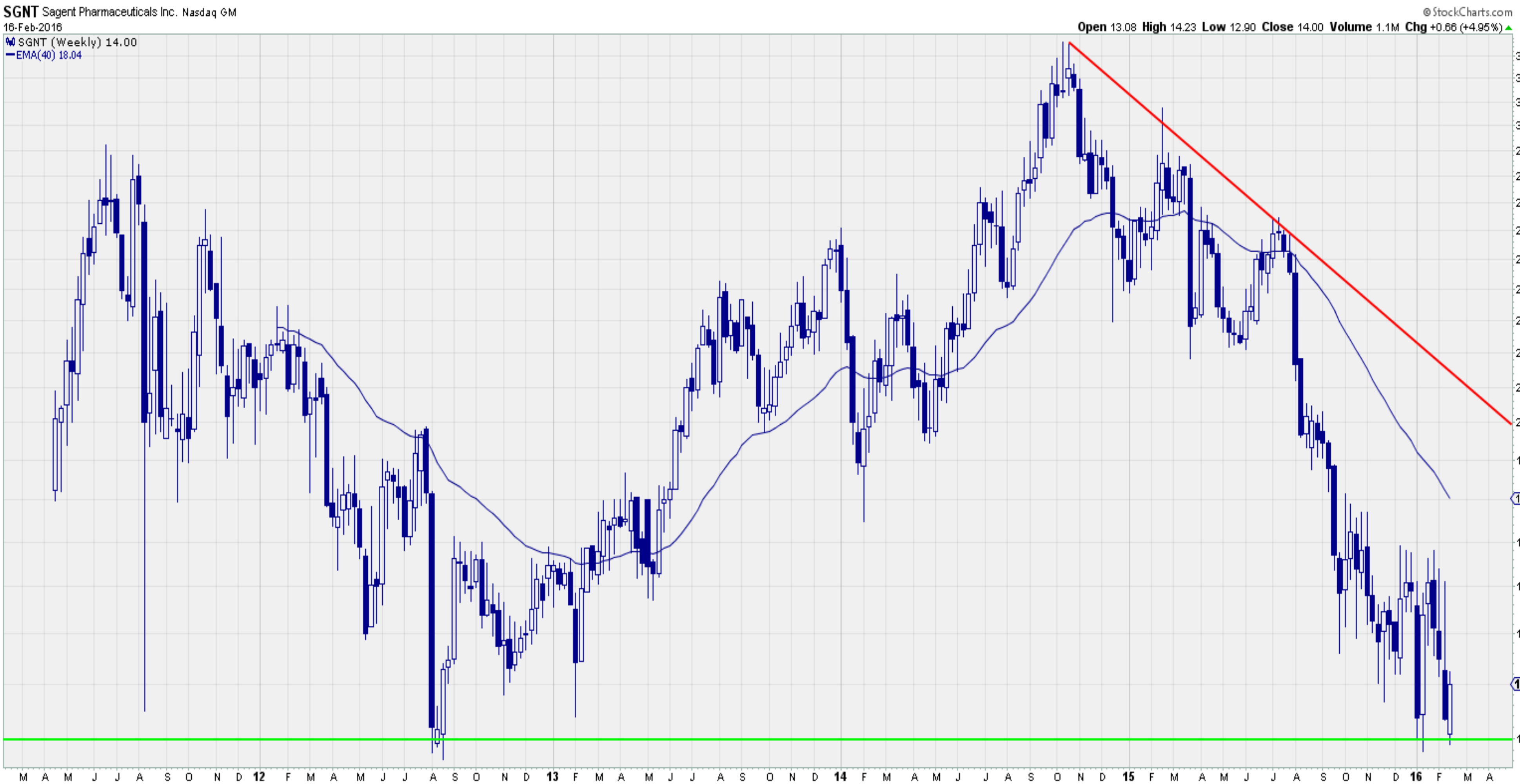


Source: Stockcharts.com

Next is ICU Medical, Inc. (ICUI/$88.98/Strong Buy), another Analyst Current Favorite that appears to be bouncing off of dual support near $85. The combination of the horizontal line at $85 and the falling diagonal line that makes up the bottom of its channel should prompt some buyers to step in, and if this happens I would look for ICUI to at least challenge the top part of that channel (red line).

Source: Stockcharts.com

Finally, Sagent Pharmaceuticals, Inc. (SGNT/$14.00/Strong Buy) is yet another Analyst Current Favorite that has possibly been beaten down too much. The stock's price has been cut in half over the last couple of years and it has now fallen near its all-time low around $13, a level which it has never closed a week beneath. Again, I'd be careful if it closes below $13, but until then I think it offers a fantastic risk-to-reward even if it only returns to its 40-week moving average (currently around $18).



Source: Stockcharts.com

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Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.
Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.
Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months.
Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.
Suspended (S) The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

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Outperform (MO2) The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.
Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.
Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

Raymond James Argentina S.A. rating definitions

Strong Buy (SB1) Expected to appreciate and produce a total return of at least 25.0% over the next twelve months.
Outperform (MO2) Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.
Market Perform (MP3) Expected to perform in line with the underlying country index.
Underperform (MU4) Expected to underperform the underlying country index.
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Strong Buy (1) Expected to appreciate, produce a total return of at least 15%, and outperform the Stoxx 600 over the next 6 to 12 months.
Outperform (2) Expected to appreciate and outperform the Stoxx 600 over the next 12 months.
Market Perform (3) Expected to perform generally in line with the Stoxx 600 over the next 12 months.
Underperform (4) Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.
Suspended (S) The rating and target price have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and target price are no longer in effect for this security and should not be relied upon.

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	Coverage Universe Rating Distribution*				Investment Banking Distribution			
	RJA	RJL	RJ Arg	RJEE/RJFI	RJA	RJL	RJ Arg	RJEE/RJFI
Strong Buy and Outperform (Buy)	56%	67%	59%	48%	21%	39%	0%	0%
Market Perform (Hold)	38%	33%	41%	37%	6%	15%	0%	0%
Underperform (Sell)	6%	1%	0%	15%	9%	0%	0%	0%

* Columns may not add to 100% due to rounding.

Suitability Ratings (SR)

Medium Risk/Income (M/INC) Lower to average risk equities of companies with sound financials, consistent earnings, and dividend yields above that of the S&P 500. Many securities in this category are structured with a focus on providing a consistent dividend or return of capital.

Medium Risk/Growth (M/GRW) Lower to average risk equities of companies with sound financials, consistent earnings growth, the potential for long-term price appreciation, a potential dividend yield, and/or share repurchase program.

High Risk/Income (H/INC) Medium to higher risk equities of companies that are structured with a focus on providing a meaningful dividend but may face less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and potential risk of principal. Securities of companies in this category may have a less predictable income stream from dividends or distributions of capital.

High Risk/Growth (H/GRW) Medium to higher risk equities of companies in fast growing and competitive industries, with less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial or legal issues, higher price volatility (beta), and potential risk of principal.

High Risk/Speculation (H/SPEC) High risk equities of companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, significant financial or legal issues, or a substantial risk/loss of principal.

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Company Name	Disclosure
Applied Micro Circuits Corporation	Raymond James & Associates makes a market in shares of AMCC.
Fiesta Restaurant Group, Inc.	Raymond James & Associates makes a market in shares of FRGI. Raymond James & Associates received non-securities-related compensation from FRGI within the past 12 months.
ICU Medical, Inc.	Raymond James & Associates makes a market in shares of ICUI. Raymond James & Associates or one of its affiliates owns more than 1% of the outstanding shares of ICUI. Raymond James & Associates received non-investment banking securities-related compensation from ICUI within the past 12 months.
Sagent Pharmaceuticals, Inc.	Raymond James & Associates or one of its affiliates owns more than 1% of the outstanding shares of SGNT.

Stock Charts, Target Prices, and Valuation Methodologies

Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences. Only stocks rated Strong Buy (SB1) or Outperform (MO2) have target prices and thus valuation methodologies.

Target Prices: The information below indicates target price and rating changes for the subject companies included in this research.

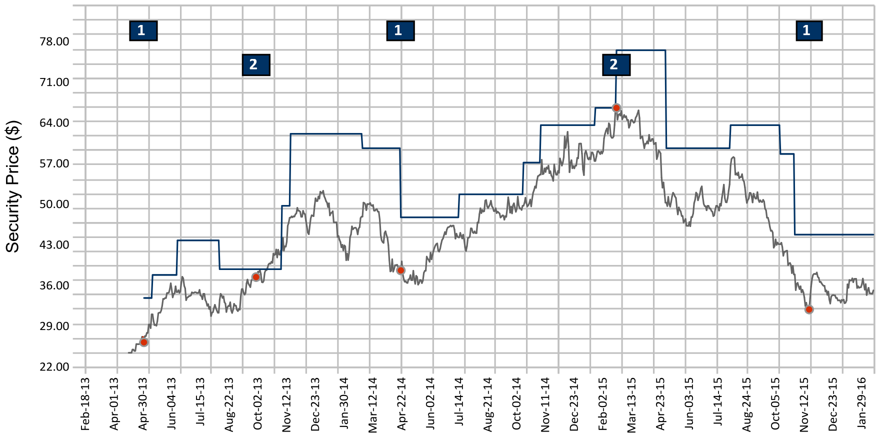
Applied Micro Circuits Corporation (AMCC:NASDAQ) Date: February 16 2016

Rating & Target changes

Date	Curr.	Price	Target	Rating
Jan-28-15	$	6.06	11.00	1
Oct-23-14	$	6.90	16.00	1
Oct-24-13	$	13.02	17.00	1
Oct-03-13	$	12.63	15.00	1
Jul-15-13	$	9.46	13.00	1
Jun-27-13	$	9.01	10.50	2
Apr-26-13	$	7.27	9.00	2
Feb-18-13	$	8.55	10.50	2

Valuation Methodology: We value Applied Micro using a peer group price to forward earnings multiple on the existing Connectivity and Computing businesses; alternatively we also provide a valuation based on peer EV/sales multiples for existing businesses and an estimated valuation for X-Gene.

Fiesta Restaurant Group, Inc. (FRGI:NASDAQ) Date: February 16 2016



1-Strong Buy 2-Outperform 3-Market Perform 4-Underperform S-Suspended UR-Under Review NR-Not Rated

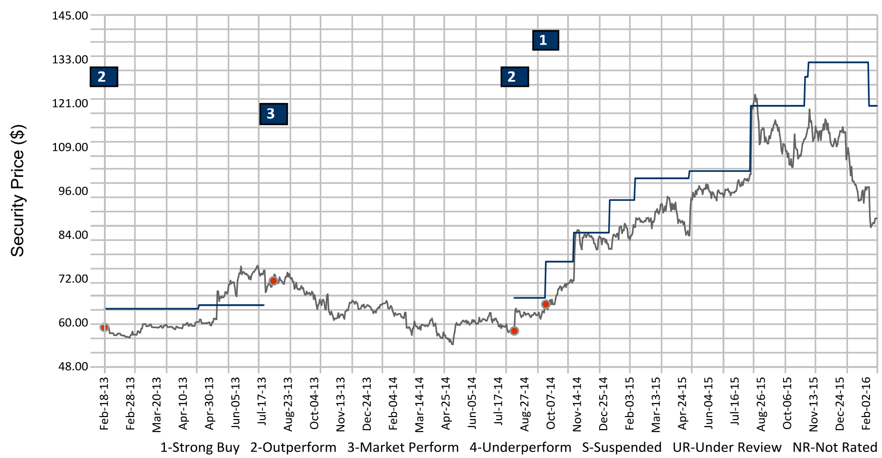
Rating & Target changes

Date	Curr.	Price	Target	Rating
Nov-19-15	$	32.01	45.00	1
Oct-30-15	$	38.09	45.00	2
Oct-12-15	$	43.34	59.00	2
Jul-31-15	$	57.00	64.00	2
May-01-15	$	50.55	60.00	2
Feb-20-15	$	66.99	77.00	2
Jan-22-15	$	57.78	67.00	1
Nov-04-14	$	55.42	64.00	1
Oct-13-14	$	50.00	57.50	1
Jul-14-14	$	44.52	52.00	1
Apr-22-14	$	38.79	48.00	1
Feb-26-14	$	48.12	60.00	2
Nov-18-13	$	47.94	62.50	2
Nov-06-13	$	42.28	50.00	2
Oct-01-13	$	37.63	39.00	2
Aug-09-13	$	33.67	39.00	1
Jun-12-13	$	35.03	44.00	1
May-08-13	$	31.17	38.00	1
May-01-13	$	26.31	34.00	1

Price Target Price Rating Change Coverage Suspended Split Adjustment

Valuation Methodology: For Fiesta Restaurant Group, Inc. our valuation methodology is based on P/E and/or EV/EBITDA multiples relative to the stock's individual trading history, its peer group, and the S&P 500.

ICU Medical, Inc. (ICUI:NASDAQ) Date: February 16 2016



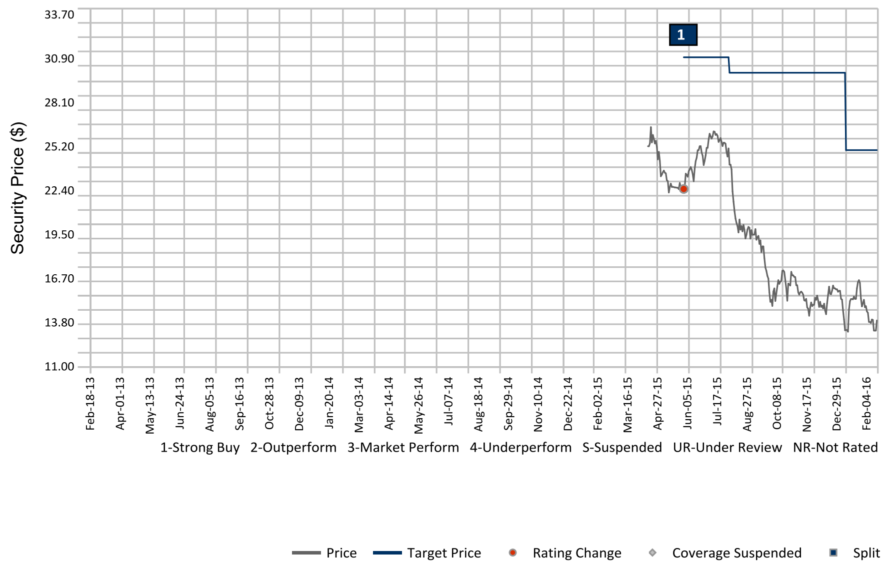
Rating & Target changes

Date	Curr.	Price	Target	Rating
Feb-03-16	$	97.57	120.00	1
Nov-06-15	$	113.87	132.00	1
Nov-02-15	$	110.82	128.00	1
Aug-10-15	$	101.07	120.00	1
May-05-15	$	84.21	102.00	1
Feb-09-15	$	86.52	100.00	1
Jan-05-15	$	80.57	94.00	1
Nov-10-14	$	71.81	85.00	1
Sep-30-14	$	65.23	77.00	1
Aug-12-14	$	57.89	67.00	2
Aug-01-13	$	71.69	NM	3
Jul-19-13	$	74.59	UR	2
Apr-23-13	$	60.35	65.00	2
Feb-18-13	$	58.89	64.00	2

Price Target Price Rating Change Coverage Suspended Split Adjustment

Valuation Methodology: While we acknowledge that a P/E multiple is likely the most commonly used metric to value ICU Medical, we choose to look at valuation on an EV/revenue and EV/EBITDA basis as well to give more credit to the company’s strong balance sheet.

Sagent Pharmaceuticals, Inc. (SGNT:NASDAQ) Date: February 16 2016



Rating & Target changes

Date	Curr.	Price	Target	Rating
Jan-11-16	$	13.38	25.00	1
Aug-04-15	$	24.06	30.00	1
Jun-02-15	$	22.49	31.00	1

Valuation Methodology: Our valuation methodology for Sagent utilizes a target multiple approach of forward adjusted EPS metrics excluding non-cash items not deemed relevant to true earnings power. SGNT shares historically demonstrated the strongest correlation with P/E based valuation parameters, and our target multiple assumption is based upon a combination of historic and relative P/E levels vs. peer comparisons and broader market levels adjusted for short and long-term growth potential and risk profile.

Risk Factors

General Risk Factors: Following are some general risk factors that pertain to the businesses of the subject companies and the projected target prices and recommendations included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

Specific Investment Risks Related to the Industry or Issuer

Company-Specific Risks for Applied Micro Circuits Corporation

Risks to Applied Micro Circuits' include a general slowdown in the growth of the communications, embedded computing and consumer end markets, cyclical factors including inventory accumulation and digestion, limited financial resources vs. peers, and potential competition from competitors across multiple end markets. Timely production ramp of the company's X-Gene product is critical to the company's future growth profile; any change or misstep in delivering on the current timeline could have a meaningful adverse impact on the shares.

Company-Specific Risks for Fiesta Restaurant Group, Inc.

Fiesta Restaurant Group's primary company-specific risk relates to accelerated expansion of the Pollo Tropical concept into new markets with low brand awareness. Other risks to consider include (but are not limited to): 1) average weekly sales growth could lag same-store sales growth if management targets are met, which could confuse some investors; 2) with nearly 100% of the company's current footprint in Florida and Texas, local economic softness, state minimum wage increases, and/or other regulations passed by state lawmakers could negatively impact the company's results; 3) risks associated with operating two brands; and 4) the premium valuation ascribed to the Pollo Tropical segment could be at risk if same-store sales or unit growth expectations are not achieved.

Macroeconomic Risks
Broader macro and industry risk factors affecting Fiesta Restaurant Group would include (but are not limited to): 1) a deterioration in consumer spending and/or dining trends (absence of real wage growth, broader inflationary pressures [gasoline prices, housing, healthcare, etc.], higher interest rates); 2) food cost inflation due to poor harvests and/or increased global demand; and 3) higher labor costs due to provisions in the Patient Protection and Affordable Care Act and rising minimum wage laws in many jurisdictions.

Company-Specific Risks for ICU Medical, Inc.

Volatility of Mexican Peso
We believe that 20-25% of the company's product is manufactured in Mexico. This will continue to increase as ICU transitions its Slovakia operations to Mexico. Significant appreciation in the Mexican peso may have a material impact on the company's profitability.

Dependency on CLAVE Products
We estimate sales of CLAVE and CLAVE-included custom products represent ~65% of total revenue. While ICU has several patents protecting the invention up until 2016, its reliance on CLAVE is still a risk.

Reliance on Distribution Relationship with Hospira
Sales to Hospira represented about 36% of total revenue in 2014. While the company's acquired critical care portfolio, the growth of the Oncology business, and the introduction of new products will help reduce its dependence on Hospira, ICU will continue to be highly dependent on this distribution relationship. ICU's agreement with Hospira runs through the end of 2018, however there is risk that this agreement is not extended. There is also risk that Hospira's acquisition by Pfizer impacts the historical relationship between ICU and Hospira.

Company Specific Risk Factors for Sagent Pharmaceuticals, Inc.
The company relies on third-party partners, most of which are located outside the U.S., to supply all of its active pharmaceutical ingredients (APIs) and the majority of its finished products. If these partners fail to supply either the required APIs or finished dosage form products as contractually required, the company may not immediately be able to locate alternative sources. Essentially all of the company's products are sterile injectables and produced in facilities highly regulated by the FDA and other regulatory authorities globally. The sterile injectable manufacturing process is exacting and complicated, and should Sagent or any of its partners encounter difficulties complying with the rigors imposed by these various regulatory bodies, product supply could be adversely impacted. The company's revenue mix is concentrated in a few select products, with its top 10 drugs accounting for 70% of sales. Funds managed by Vivo Ventures currently own 20% of SGNT outstanding shares, and a Vivo Partner, Frank Kung, currently serves as Sagent's Chairman, enabling Vivo to exercise significant influence over matters requiring shareholder approval.

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Simple Moving Average (SMA) - A simple, or arithmetic, moving average is calculated by adding the closing price of the security for a number of time periods and then dividing this total by the number of time periods.
Exponential Moving Average (EMA) - A type of moving average that is similar to a simple moving average, except that more weight is given to the latest data.
Relative Strength Index (RSI) - The Relative Strength Index is a technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset.

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