The Only Option:
Design Our Own Industry Ranking System

Among smart traders there's a universal goal:
To Trade the Right Stocks/ETFs/etc.
In the Right Markets
In the Right Industries
At the Right Time

We understood the importance of an industry ranking system. But, with years of experience trading and independent research, it became clear that success was accelerated by properly ranking industries. We were unable to find any report, however, that enabled us to accomplish our goals with confidence. Most industry ranking systems revolve around sophisticated averaging that produces results that are too watered down, too detailed, and too complicated to meet our goals.

We chose the only option open to us. We designed and developed our own Industry Ranking System to identify both high and low relative strength stocks and ETFs that would be candidates for near-term long and short trade entries. Our objective was to identify HiFlyers that will continue their upward trend and also to identify LoFlyers that will continue their downward trend.

HiFlyers are market-leading stocks that have the capacity to lead the general markets up. They can become LoFlyers when they fail and lead the markets to the downside. See the article, *HiFlyers Have Two Tradeable Trends: Ascent and Descent.* Most LoFlyers will be former HiFlyers, but not always. Some LoFlyers will be from creative destruction industries*.

Our Industry Ranking System has the following requirements for a stock/ETF to be considered for HiFlyer or LoFlyer status:

1. Price > $15 and 10 Day Average Volume > 750,000 for HiFlyer long trades
2. Price > $10 and 10 Day Average Volume > 750,000 for LoFlyers short trades

Please see the article titled, *Rationale and Methodology of HiFlyers' Industry Ranking.*

Our system is designed to identify and report which industries contain the HiFlyers and the LoFlyers. When fundamentals change in an industry, it affects all companies in the industry. Sometimes those changes, usually caused by new technology, create new industries that can damage, and sometimes ruin other established industries.

This brings us to the concept of *creative destruction of industries* (or simply *creative destruction*). Creative destruction has been with us since the Industrial Revolution. Understanding this concept can be very, very profitable.

In grade school I can remember our teacher telling us that the automobile destroyed the buggy whip industry. My teacher's insight is a reference to creative destruction. Many of us can remember how digital photography destroyed

Eastman Kodak, formerly one of the most profitable companies in the world. However, time and innovation brought with it the effects of creative destruction and the company that at one time was the most profitable company in the DOW, was forced to file for bankruptcy.

From personal experience I can tell you that digital photography ruined a lot of other companies. Early in 1985 I was President and CEO of a Rochester, NY, based company with numerous retail photography stores and a number of photofinishing plants for negative photography. We were a public company listed on the Nasdaq and I was invited to a special Kodak meeting. Near the end of a special briefing, a speaker from the digital research division, presented some photos produced from a recent breakthrough in digital photography. I was astounded. I saw for the first time a digital print of quality that was nearly as good as negative prints.

For months I spent my time trying to find a profitable pathway for companies like ours to enter into the new digital photography world. There were none. And I saw, looming on the horizon, a time when our business of selling profitable film and prints on photographic paper would be gone. It would be the same for Kodak which had big, big gross margins in producing negative film and paper and very little gross margin in manufacturing cameras. Digital photography would leave Kodak with only low margin digital cameras to manufacture.

We sold our company in 1986, oddly enough, to a subsidiary of Eastman Kodak. I was able to retire before I was 50 and redirected my energies toward giving back to the Rochester community as a volunteer. But I didn't learn the important lesson early enough . . . I didn't short Kodak stock at $70 when I knew it was going to drop and drop and drop.

Creative destruction of industries is happening much faster today, creating new winning industries and hurting older industries. Capturing these long-term macro trends can be very profitable. We are committed to do the reading and research that is necessary to identify these macro industry trends.

In August of 2013 Eric Topol, a highly respected Research M.D., authored a book with the title, <u>The Creative Destruction of Medicine: How the Digital Revolution Will Create Better Health Care</u>. This is a fascinating book. It makes the case that there will be many new winners and many losers in healthcare. The healthcare sector has many challenges, starting with demographics. Practically all of the western countries' and China's birth rates are dropping and longevity is lengthening. In other words there will be fewer people working to pay for the healthcare of many more non-working older people. Economically, healthcare must be delivered much more cost effectively than it is today. This economic imperative will cause many changes.

There are numerous examples of those kinds of changes already underway. Recently, there was an article in the Wall Street Journal with the subheading, "Many of the 136 million ER visits in 2011 could have been replaced with a $50 telemedicine consultation." There are numerous doctor entrepreneurs that are now providing such services to hospitals, and potentially creating a new industry! This was just one of many ideas that Dr. Topol provided in his book that will produce new industries in the healthcare sector with opportunities for many new HiFlyers.

The cost for the life science pharmaceutic companies to bring a new drug to market is in the range of $5 to $8 billion and FDA approval comes with tremendous difficulty. For a number of years pharmaceutical companies have been moving into the biotech arena, mostly through acquisition. In a recent conversation with one of my pharmacy school classmates, we couldn't name one pharmaceutical company that had the same name today as in the 1960s when I was filling prescriptions. There are many, many changes still coming!

Already in 2015 biotechnology has moved to the forefront with HiFlyers! Our Industry Reports have identified this fact. On August 1, 2015 there were 22 Biotech stocks that had year-to-date percentage price increases of 40% or more--far more than any other industry. Seven of the 22 biotech stocks had year-to-date increases over 100%.

Today, biotech researchers are spending more time in front of a computer than in a lab, analyzing data located on Microsoft and Google servers capable of storing massive amounts of "Big Data". Great strides have been made in anti-aging and the targeting of disease-curing biotechnologies.

We see Biotechs continuing to grow in HiFlyers in the future and we will be on top of it. In addition, not every biotech idea will be successful or get through the FDA. There will be some Biotech LoFlyers that we will also track for potential shorting profits.

There are other areas in which these very profitable macro trends can also be found…Energy, for example. In the US, fracking technology has changed the industry. In 2014 there began a crude oil excess supply in the global market. By the end of summer 2014, the Saudis announced that they would *not* be reducing their production of crude…as they had done in the past whenever there was a supply problem. Some news media suggested the Saudis were going to bring down the oil price below the break-even point of the US fracking industry. In October of 2014 crude oil dropped below its 200 day moving average of about $100. It dropped all the way to $50 in January, 2015. This was a very, very profitable period for shorting oil service companies.

In June of 2015, there was another such period. By the first of July, it appeared the Iran Nuclear Agreement would be signed. To smart traders this meant that Iran would be putting more supply on the global market with the lifting of sanctions. Crude oil developed an upward wedge pattern on its charts to about $60 and then began dropping again providing many shorting opportunities in the energy sector. The down trend is continuing as of Aug. 1 2015. During that period our LoFlyers Industry Report presented many shorting opportunities in the Oil & Gas Operation, Oil Well Services & Equipment, and Oil & Gas - Integrated industries.

At some time in the future the market will push the supply of crude oil down far enough that there will again be demand for more crude oil. Tankers full of oil in the Gulf of Mexico will begin to unload to refineries, and the oil wells will begin pumping again. This will be the beginning of another profitable macro long term trade in the oil service stocks and other energy stocks. Our HiFlyer Industry Report will catch the timing of this opportunity and identify stocks with high probability of success. Also, at some point in the future the US may begin exporting Crude Oil and that will cause many industry changes in the global market.

Government actions also impact the fundamentals of certain industries. When the

EPA publically indicated that they would issue extra requirements for coal power plants, the coal mining stocks immediately took a tumble. As of Aug. 1, 2015, there is only one stock in the Reuters Coal Industry; the others are either penny stocks…or bankrupt. At about the same time, the government began providing subsidies for the Solar Industry which, in turn, created many HiFlyers.

There will be major pullbacks in the general market in the future and probably some bear markets. Our Industry Reports will provide much information on the direction of the health of the general markets. Some industries will be affected more than others. Our LoFlyer Industry Report will help find the right industries and the right stocks in those industries to short with high probability of success.