

An Anatomy of a Collapse: Linn Energy (LINE)

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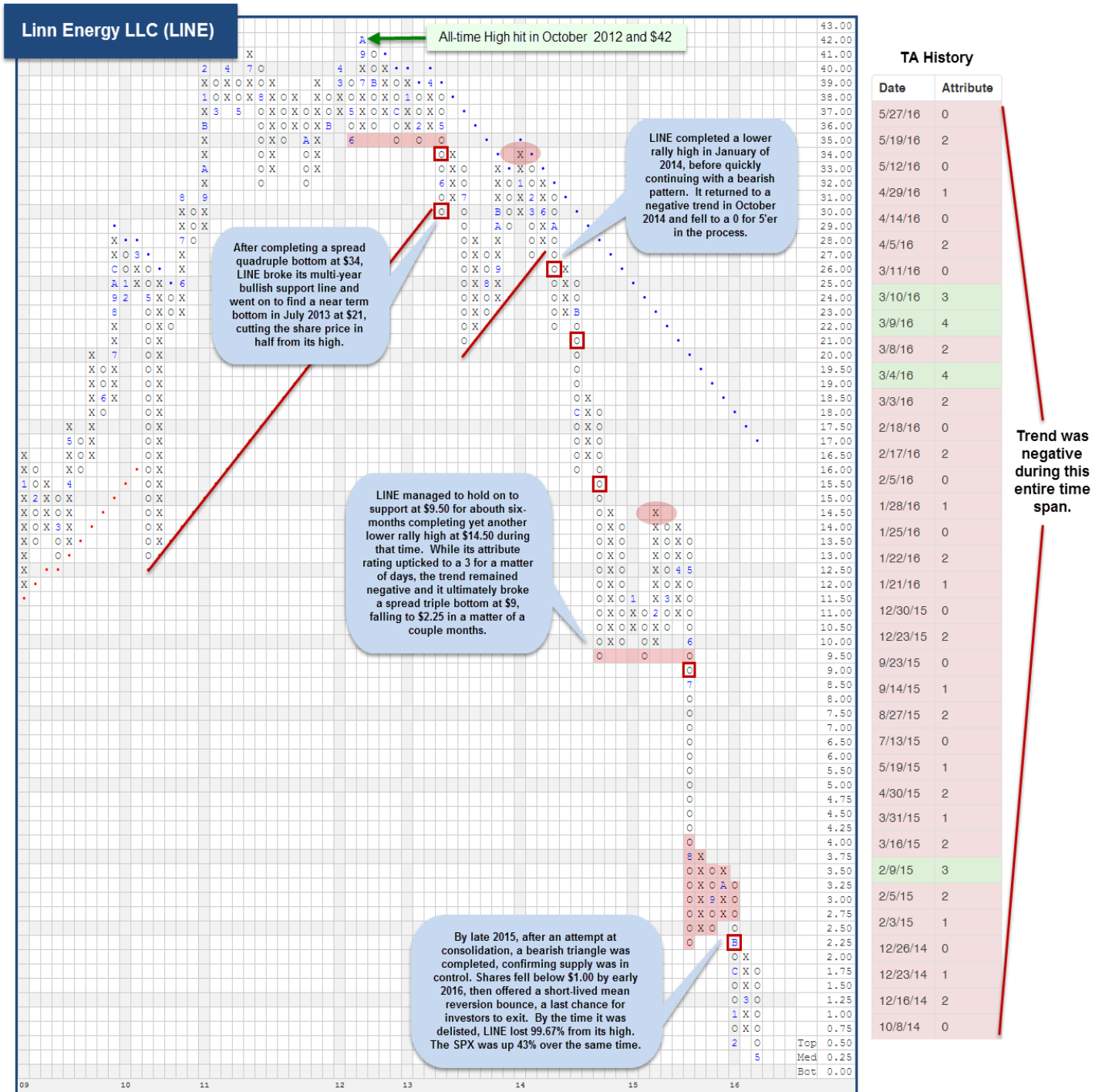
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Although the Commodity bear market appears to have finally found a bottom earlier this year, its consequences are still rippling throughout the market. The effects of a Commodity bear market are not limited to just the underlying Commodities but instead can have lasting effects down the line especially in related industries. In the case of Energy, the negative impact can be seen on charts across the sector, like Exxon XOM, Schlumberger SLB, and even in MLPs. While names like XOM and SLB, among others, have been able to recover alongside the recent recovery in Energy, some have not been quite so fortunate. Look no further than Linn Energy LLC LINE. After reaching a high watermark of \$42.00 in October of 2012 and a more recent rally high in the mid \$30.00s in early 2014, LINE has spent the past two years tumbling to mere cents per share. On May 11th, Linn Energy ultimately filed for Chapter 11 bankruptcy, and by the end of the month the Company had been delisted from the Nasdaq Exchange. To add insult to injury, LINE generates a K-1, and due to debt restructuring investors took an extra tax hit to "recapture" benefits like depreciation and to claim their units' share of liability. (You can find more details of these tax implications in a recent Wall Street Journal article.)

All of this presents an opportunity for us to revisit our "Anatomy of a Collapse" series, which can be an effective presentation tool to convey the importance of technical analysis to clients. LINE will now join the likes of Citigroup (C), General Motors (GM), Marsh & McLennan (MMC), Krispy Kreme (KKD), Martha Stewart Living (MSO), E*trade Financial (ETFC), Bear Stearns (BSC), Fannie Mae (FNM), and Eastman Kodak (EK). Each of these past "collapse" examples experienced very public un-doings with the "cause" of the decline revealed only after the damage was done. (As a sidebar, you can access these features under the "Education Tab," under "Brochures and Articles.") The reality of these collapses contradict the way most investors like to envision the market, which is as an efficient machine with all information equally shared and immediately incorporated into the stock price. However, we find that the technicals can, in some circumstances, foreshadow the coming demise as in such extreme cases as those mentioned previously

We have harped for years upon the importance of technical analysis as a tool to use alongside fundamental analysis within an investment game plan. While fundamental analysis tells us "what to buy," technical analysis tells us "when to buy" (or in some cases, "when to sell"). We all want to own fundamentally sound companies, but we also want to make sure it is a good time to own them. Today, let's take a trip down memory lane with LINE to see how the technical picture evolved over the last few years.

Looking at the trend chart of LINE, we can identify an all-time high set in 2012 at \$42.00. After completing a spread quadruple bottom at \$34.00, the stock broke its multi-year bullish support line and went on to find a near-term bottom in July 2013 at \$21.00, cutting the share price in half from its high. LINE completed a lower rally high to briefly return to a positive trend in January of 2014 before quickly continuing with a bearish pattern. It returned to a negative trend in October 2014 and fell to a 0 for 5'er in the process. The stock managed to hold on to support at \$9.50 for about six months beginning in December of 2014 while completing yet another lower rally high at \$14.50. While its attribute rating upticked to a 3 and then a 4 for 5'er for a matter of days, the trend remained negative, and LINE ultimately broke a spread triple bottom at \$9.00 failing to \$2.25 by June 2015. The chart consolidated through October around the \$3.00 range before completing a bearish triangle at \$2.25 confirming that supply was in control. Shares fell below \$1.00 by early-2016, then offered a short-lived mean reversion bounce, a last chance for investors to exit. By the time the stock was delisted, LINE had lost 99.67% of its value since the October 2012 all-time high, while the S&P 500 Index SPX was up 43%.



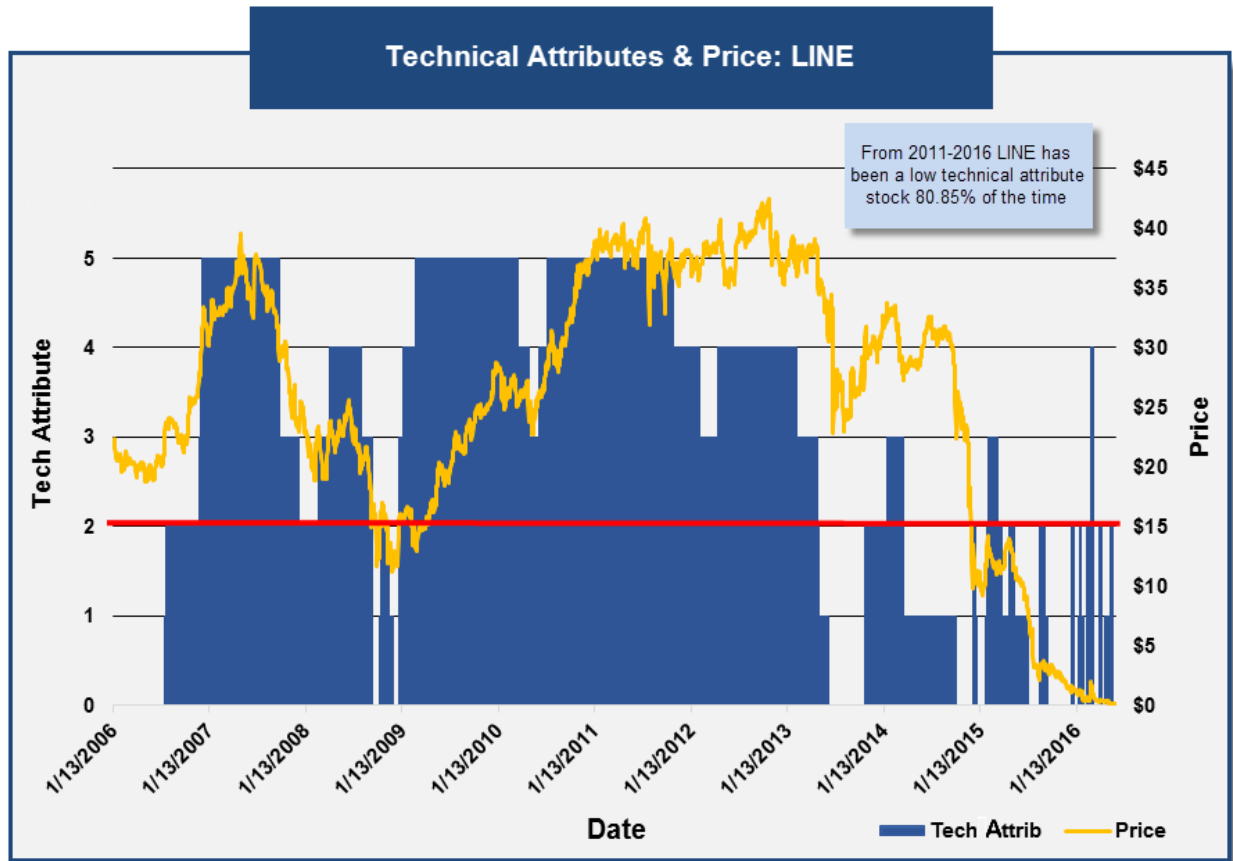
This example is presented for illustrative purposes only and does not represent a past recommendation. Returns do not include dividends or transaction costs. Investors cannot invest directly in an index like the SPX. Past performance is not indicative of future results. Potential for profits is accompanied by possibility of loss.

The low technical reading for the vast majority of LINE's current negative trend attests to its deteriorating technical picture. With the exception of 35 days in February and March of 2015 and six days in March of 2016, LINE has scored below a 3 rating, confirming the fact that has been a technically weak stock. Said another way, LINE was a lowly 0, 1, or 2 for 5'er 93.28% of the time after it moved into a negative trend (October 2014). If we go back even further to 2011, LINE has been a low technical attribute stock 80.85% of the time, which included a period in which the Energy sector experienced a period of strength. The graph below plots the technical attribute rating with a share price overlay. Note in particular the volatility in the technical attribute rating once the price fell below \$10.00. Paradoxically, fundamental analysts were still making "Hold" recommendations on the stock as late as October 2015. In fact, the first "Sell" was only given in May 2015. Below we've provided fundamental

recommendation history since October, 2008 based on data from Yahoo! Finance, and paired it with corresponding technical observations from the same time period. The comparative comments below illustrate that the technical picture began to deteriorate well before the fundamentals followed suit.

Fundamental & Technical Comments on Linn Energy LLC. (LINE):

October 22, 2008 (\$16.30): Broke a double top at \$15.
May 26, 2009 (\$17.58): Broke a spread triple top buy signal at \$18.
September 29, 2010 (\$31.50): Buy signal with a breakout at \$32 and now a 5 for 5'er.
July 25, 2011 (\$40.97): Gave a triple top buy signal at \$41, which is a new high.
February 15, 2013 (\$26.50): Downgrade to "Sector Perform" by Howard Weil
April 8, 2013 (\$27.99): Downgrade to "Neutral" by Global Hunter Securities
April 26, 2013 (\$28.27): Downgrade to "Reduce" by Global Hunter Securities
June 19, 2013 (24.79): Upgrade to "Sector Outperform" by Howard Weil
July 3, 2013 (\$17.13): Downgrade to "Neutral" by Robert W. Baird
August 9, 2013 (\$19.15): Downgrade to "Underperform" by Oppenheimer
August 29, 2013 (\$24.00): Technical attribute reading is now 0 for 5.
October 22, 2013 (\$29.22): Broke a double top at \$29.
January 22, 2014 (\$26.96): Upgrade to "Focus Stock" by Howard Weil
February 27, 2014 (\$25.29): Downgrade to "Sector Outperform" by Howard Weil
December 16, 2014 (\$11.07): Downgrade to "Neutral" by Robert W. Baird
January 7, 2015 (\$9.92): Downgrade to "Equal Weight" by Barclays
January 14, 2015 (\$9.89): Completed a bearish triangle pattern with a double bottom at \$9.5.
February 2, 2015 (\$9.59): Downgrade to "Sector Perform" by Scotia Howard Weil
May 18, 2015 (\$11.43): Downgrade to "Sell" by Goldman Sachs
July 30, 2015 (\$4.48): Downgraded to "Market Perform" by Raymond James
July 31, 2015 (\$3.81): Downgraded to "Underweight" and "Underperform" by JP Morgan and Credit Suisse
August 3, 2015 (\$3.09): Downgraded to "Sector Perform" by RBC Capital Markets
October 6, 2015 (\$3.19): Downgraded to "Hold" by Stifel
October 12, 2015 (\$2.87): Downgraded to "Underperform" by FBR Capital
February 5, 2016 (\$0.5): Downgraded to "Sell" by Stifel
February 12, 2016 (\$0.38): Downgraded to "Sell" by Citigroup
February 18, 2016 (\$0.45): Downgraded to "Underperform" by Wells Fargo



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