



SG Capital Research

Global Market Insights

Research Note – Sector – ETF Analysis (D)- STRATEGY & PROP Analysis (SP)

MAEG – WKLY CZ_SECTOR ETF ANALYSIS SG 2011 # NOV_26

For Immediate Release – Bi – Wkly. Saturday AM (EST)

By: Suneil R Pavse

Contact: apavse@aol.com

Sector Analysis (D) -

- Attached, the Chart list & specific Charts (below). *We have selected charts that has some distinct characteristics:*
- Selected Currency have up to (3) Analytic Charts as Titled below
 1. MA / PATTERN/ OSCILLATOR Analysis
 2. Poly Trend Analysis (**If Applicable**)
 3. PEC Analysis. (**If Applicable**)
 4. Confluence (CZ) & Price / Volume Analysis
 5. Sentiments Mathematical & Behavior (**if Extreme character**)
- Appendix - **OBJECTIVE , HISTORY** of past Signals & **POM Key Criteria**

SECTORS - (40) – Highlighted below are SD # +/- 2 & CZ –PQV Qualified –

- Detail Coverage for sectors with extremes SD # +/- 2.0 or **Special situation (SP)** , highlighted in yellow
- For Commodity based ETF's the Extremes SD # +/- 2.0 should be qualified v/s both CRB and SPX

<p>GR1 (16) Coverage in A #1, A# 2 (B, G) MS</p>	<p>GR2 (14) Coverage in D # SECTOR</p>	<p>GR3 (10) Coverage in C # COMMODITY</p>
<p><u>BROADER IDX</u></p> <ul style="list-style-type: none"> • SPY (SPX 500) • DIA (DOW 30) • QQQQ (NASD100) • IWM (Small Cap) • IYT (Transports) • NYA (NYSE) <p><u>BOND IDX</u></p> <ul style="list-style-type: none"> • TLT (Bonds) • MUB (Muni). • JNK (Junk) <p><u>COUNTRY IDX</u></p> <ul style="list-style-type: none"> • EEM (Emerg.) • EZU (Europe) • EWH (HK) • EWA (Aust) • EWJ (Japan) • FXI (China) • RSX (Russia) • IFN (India) 	<p><u>SECTORS IDX</u></p> <ul style="list-style-type: none"> • RTH (Retail) - – SD + 2 • XLF (Financials) – SD -2 • XLV (Health) – SP • XLB (Materials) • XLE (Energy) - SP • XLK (Tech) • XLI (Industrial) - SP • XLU (Utility) • XLP (Staples)- SP • XLY (Discretionary) - SP • XHB (Home Builders) • SMH (Sem.) • BBH (Biotech) • IYR (Real Estate) <p>Highlighted above are covered in Today's Report</p> <p>SP- Special Situation</p>	<p><u>COMMODITY IDX</u></p> <ul style="list-style-type: none"> • DBC (Commodity) • GLD (Gold) • SLV (Silver) • GDX (Miners) • USO (Oil) • JJC (Copper) • DBA (Agro) • DBB (Base metal) • UNG (Natural Gas) • SLX (Steel)

- **Objective**

Focus is on the Short & Intermediate term turning point of the “Sectors” via SPX’s POM’s & Price projections and / or CZ (Bullish & Bearish between the POM’s) . POM is Unidirectional Judgmental Model, It utilizes multiple input signal via the Global Inter market Analysis (GIC), Price & Quality Volume (PQV), Pattern Recognition (PEC) , Cycles, Internal & External price equilibrium points to assists in output signals . POM is supplementary Analytics to add value to RA/ RI Framework for Risk Management.

- *SPX acts as Risk Benchmark for all the other Markets (Sectors) , these Markets gets priced off SPX- Risk (in different Proportion) . Therefore within A # 1 – MS Report, our critical component being SPX and its internal ingredients for timely POM & Bullish CZ calls . Our D # – Sector Report focuses on Sectors of the Market.*
- *All the Sectors tends to follows the Price path of POM 11, 12, 13 of SPX (except during POM14, 15), various Sectors will Top out at different time to Trigger CZ – Validation for NET SHORT.*
- *SPX is still following the Bear Market / Trading Market POM Regimes unlike GOLD market*
- *All CZ / POM’s – Marked on charts (in color) below has been Announced on Real time in our Previous Reports prior to Price shifts.*
- *Stops always on other side of CZ @ value based on Portfolio’s Objectives and Risk tolerance*
- *Conclusions to be cross verified by other methods prior to final decision*
- *For Maximum utilization of POM Process for Risk Management. Refer to guidelines within the Appendix below*

SPX – “ POM Signals with SECTORS @ SD +/- 2

• Trading & Investment Conclusions

ACTIONABLE ZONE :

The Weekly Validated Sector selection - Global (Undervaluation) / (Overvaluation)

- Utilizing SD, POMs within RA / RI framework with composition of ETF's with SD # 2 (+/-) Overvalued and Undervalued characteristics.*
- At POM 14 or Bearish CZ on SPX - Focus is on Sectors with + 2.0 SD for CZ – PQV Validation for SHORTS*
- At POM 13 (Bounce) or Bearish CZ on SPX - Focus is on Sectors with +2.0 for CZ – PQV Validation for SHORTS*
- At POM 13 (Pull back) or Bullish CZ on SPX - Focus is on Sectors with -2.0 for CZ – PQV Validation for LONGS*
- At POM 12, 11 on SPX – Focus is on All the Sectors & Broader Indices for Entry*

This Observation above can be utilized within any specific Portfolio's Objective for Risk Management

Coverage

- Group 1 – (16) ETF's are covered in A # 2 B, G – Market Strategy Report*
- Group 2 – (10) ETF's are covered in C # Commodity Report.*
- Group 3 - (14) ETF's are covered in this Report D # Sector Report*

• Trading and Investment conclusions – This week

SD TO MEAN REVERSION – via SD Levels

- NONE this week
- XLV, XLP, XLE, XLI, (**Special situation**)

SD - UNDERVALUED v/s SPX ETF (SD - 2)

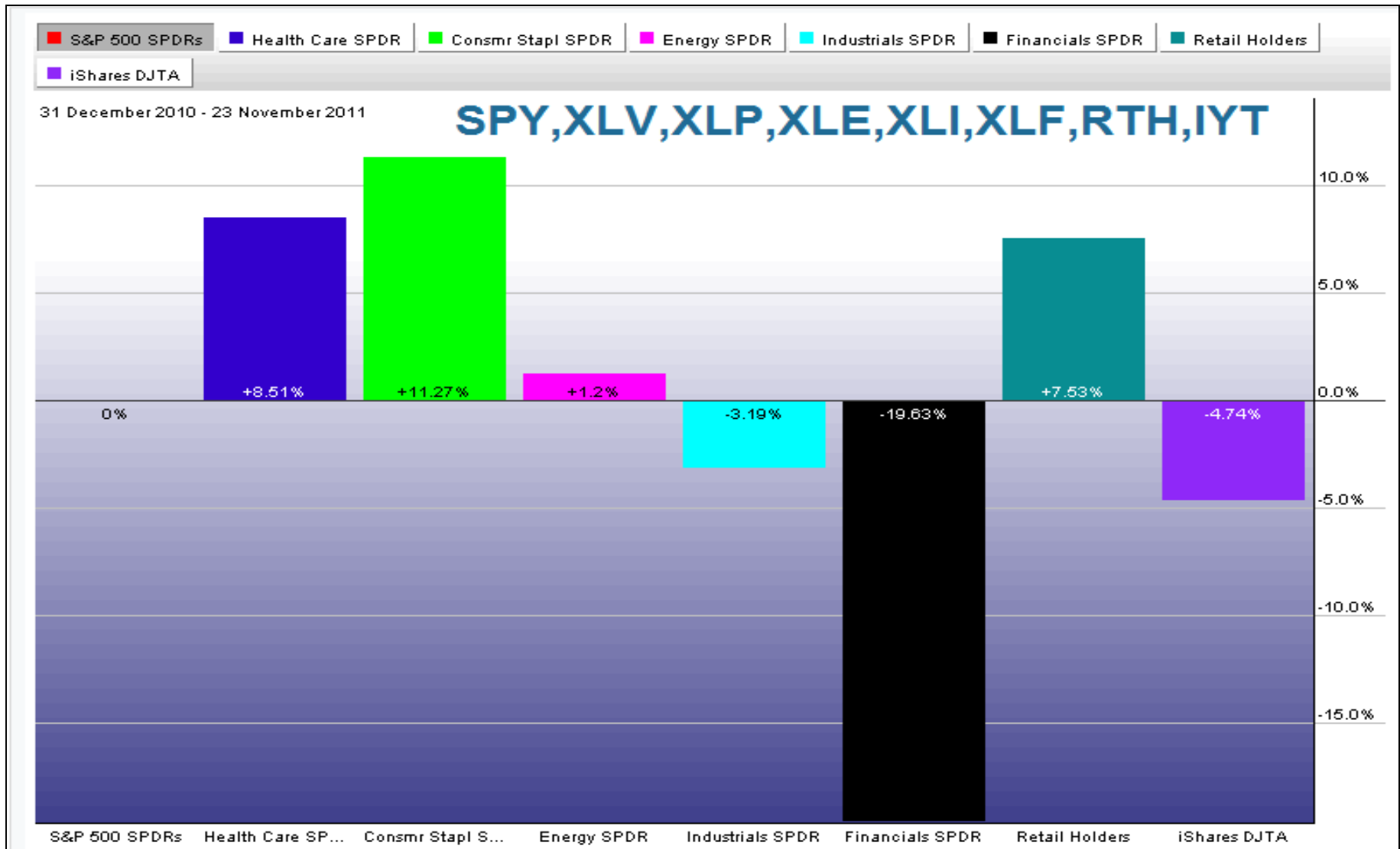
- **XLF** (*Remains from previous update*)

SD - OVERVALUED v/s SPX ETF (SD +2)

- **RTH** (*Remains from previous update*)

- YTD - SECTOR (SD extremes / Defensive IDX) performance v/s SPX

Chart below shows Ratio Relative performance of leaders and lagers with respect to SPX



• **STRATEGY – Insights**

- *The Majority of the Sectors (within D # Sectors Report) closely followed “The Price Path” of SPX during Market turns in current decline with various Instruments that went into its own individual CZ for Topping*
- *SPX - Triggered POM 14 –CZ (1226-1252)(Fully Hedge) for Price target towards 1125 .*
- *Risk Management Signal -SPX - POM 13 – Triggered (11/22) at 1189 @ close . The following AM 11/23, the Market opened with Gap Down to 1178. For positions taken at POM 14 manage partial rebalance Beta & Net Exposures based on Portfolio Objective*
- *All the Sectors in our coverage today are currently are in the Middle of the Trend move since larger part of our decline from POM 14 is behind us , The Bullish Sectors are XLV, XLP,RTH are more closer to CZ then the Sectors XLI, XLE, XLY which are more Neutral. XLF undervalued but near CZ*

XLV - CZ / Ratio Analysis - (Special Situation - Defensive Sector)

Since POM 14 in SPX, decline began But XLV reached **with Bullish Top**. XLV / SPY Ratio is in strong Trend. RSI will soon diverge Bullishly . This is Strong market & could not even go to August lows. It is in its own Bull Market.

The Current Area (in blue) should hold **CZ 31.25-30.75**. Also our next POM 12 , we should get better Risk reward.

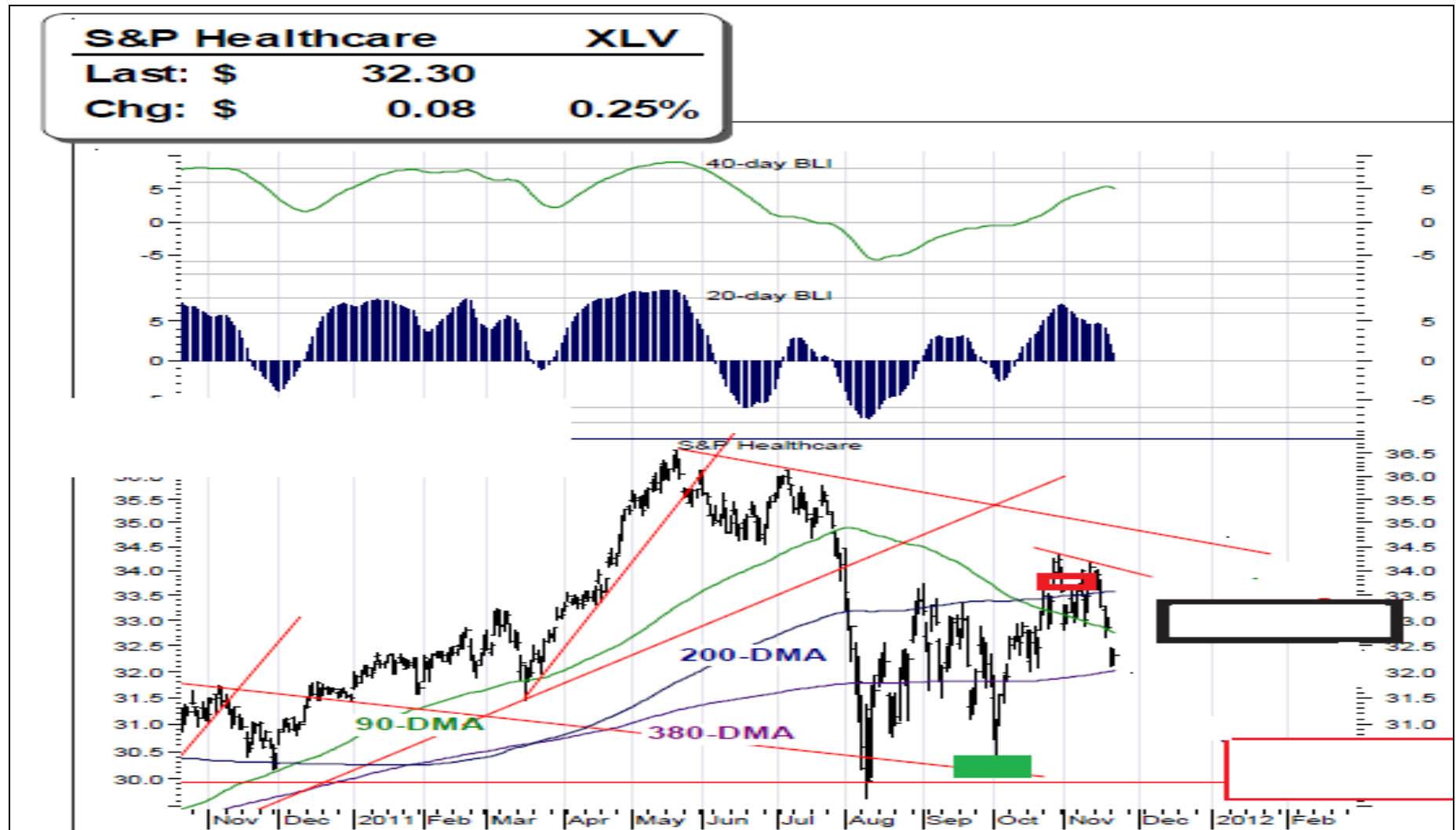


XLV - - MA / Pattern and Oscillator Analysis - (Special Situation - Defensive Sector)

DMA's and Trend Oscillator Analysis suggested **Bullish at Top** of last rally (Refer notes & CZ 's indicated below coincided with POM 14 & 12 within the chart).

Oscillator & Pattern Analysis diverging Bullishly

Rally ended at 34 near SPX - POM 14 Earlier XLV - @ 30.20 Triggered at the stroke of POM 12 on SPX, 10/4



XLP - CZ / Ratio Analysis - (Special Situation - Defensive Sector)

Since POM 14 in SPX, decline began But XLP reached **with Bullish Top**. XLP / SPY Ratio is in strong Trend. RSI will soon diverge Bullishly . This is Strong market & could not even go to August lows. It is in its own Bull Market.

The Current Area (in blue) should hold **CZ 30.15- 29.35**. Also our next POM 12 , we should get better Risk reward.



XLP - - MA / Pattern and Oscillator Analysis - (Special Situation - Defensive Sector)

DMA's and Trend Oscillator Analysis suggested **Bullish at Top** of last rally (Refer notes & CZ 's indicated below coincided with POM 14 & 12 within the chart).

Oscillator & Pattern Analysis diverging

Bullishly Rally ended at around 32 near SPX - POM 14 Earlier XLP - @ 29.04 Triggered at the stroke of POM 12 on SPX, 10/4.



XLI - CZ / Ratio Analysis - (Special Situation)

Since POM 14 in SPX, decline began But XLI reached with **NEURAL Top**. XLI / SPY Ratio is in strong Trend. RSI IS NEUTRAL. XLI will follow SPX very closely especially when XLI / SPY Trend line is broken

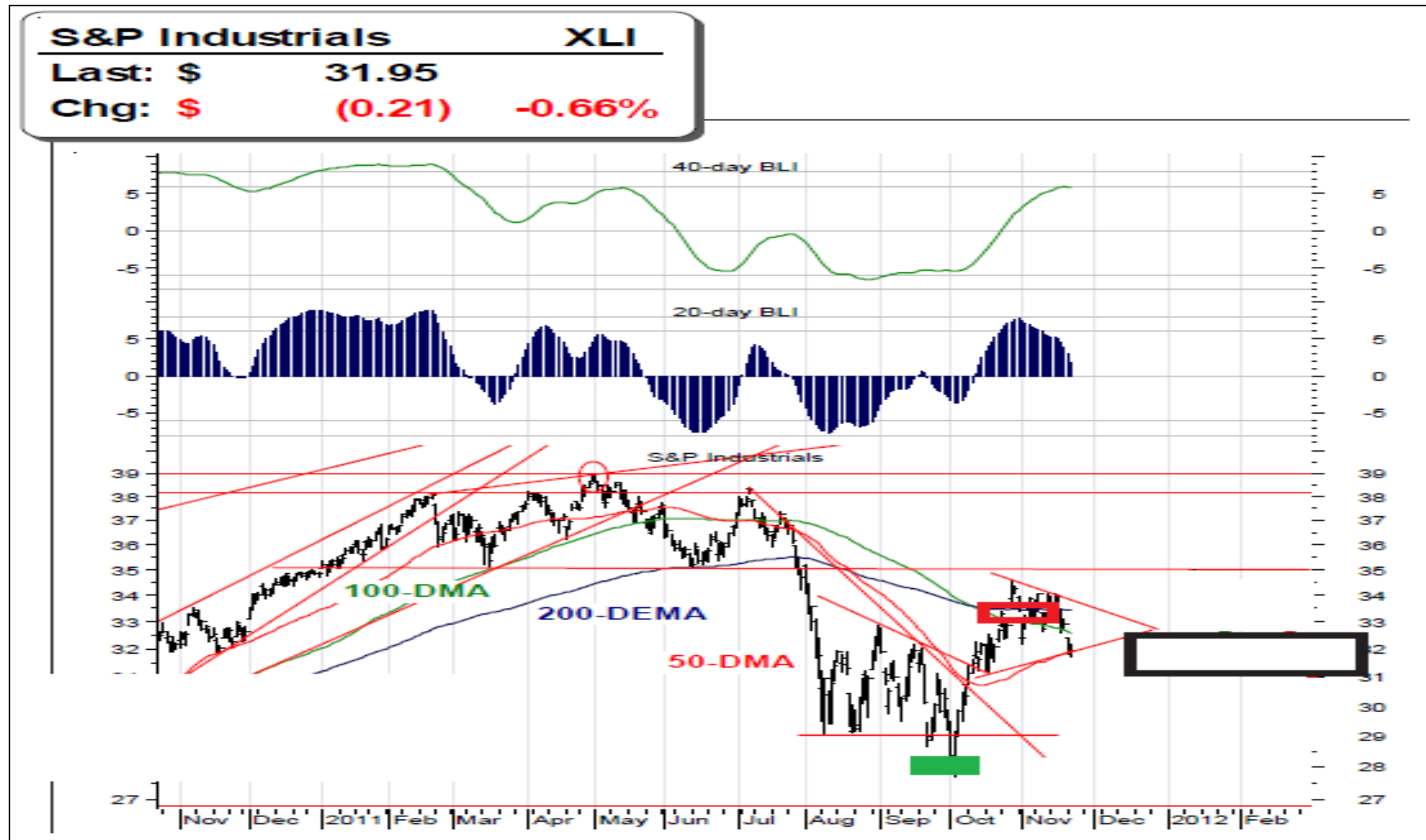
No CZ yet but Bounce will come in soon, better then the market as Ratio is still in up trend but our next POM 12 , we should get better Risk reward OR upon Re run of POM 14 on SPX whichever come first could be the next decision point for CZ .



XLI - - MA / Pattern and Oscillator Analysis - (Special Situation)

DMA's and Trend Oscillator Analysis suggested **NEUTRAL at Top** of last rally (Refer notes & CZ 's indicated below coincided with POM 14 & 12 within the chart).

Rally ended at around 34 near SPX - POM 14. Earlier XLI - @ 27.90 Triggered at the stroke of POM 12 on SPX, 10/4



XLY - CZ / Ratio Analysis - (Special Situation)

Since POM 14 in SPX, decline began But XLY reached with **NEURAL Top**. XLY / SPY Ratio is in strong Trend. RSI IS NEUTRAL. XLY will follow SPX very closely especially when XLY / SPY Trend line is broken

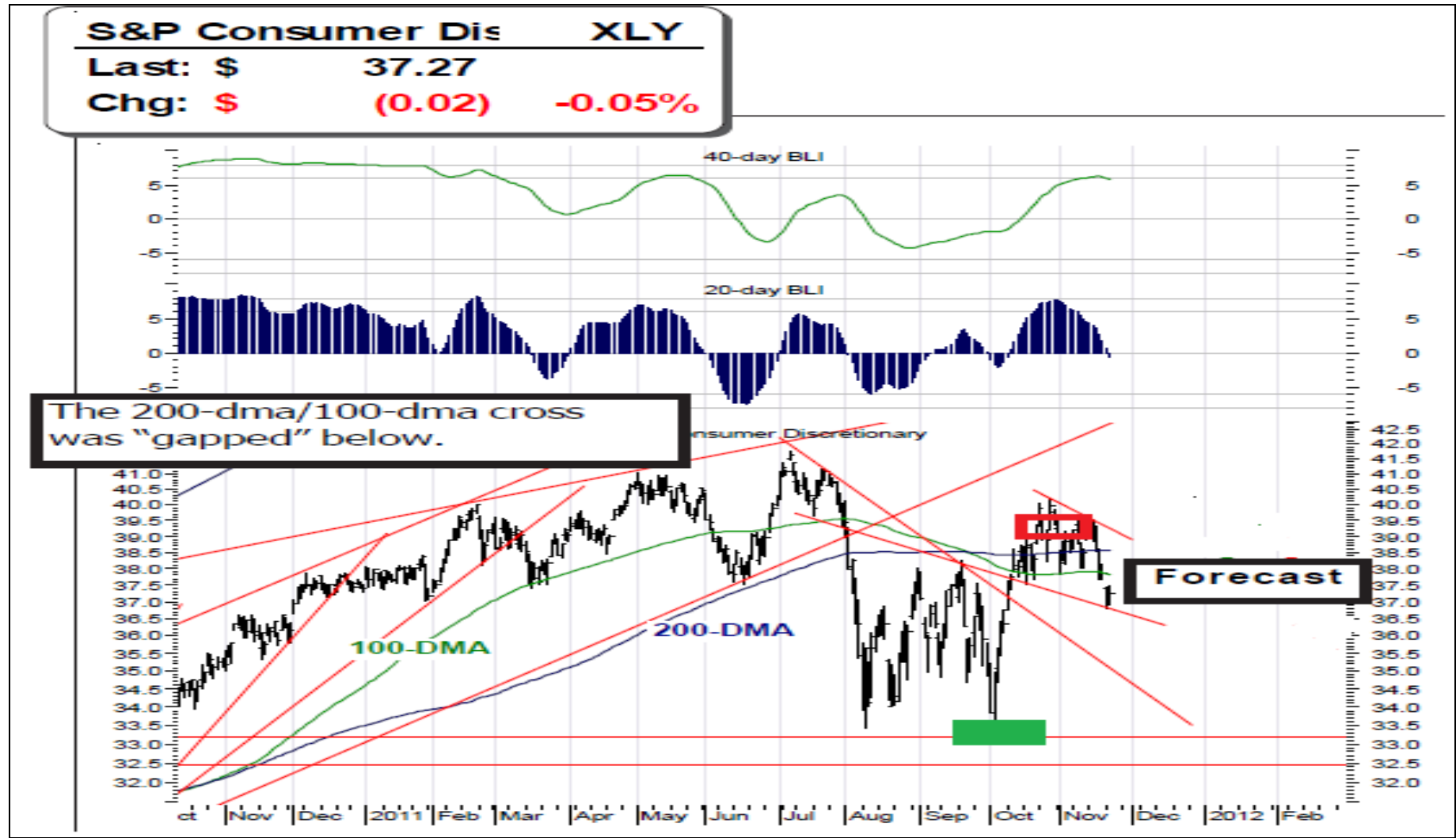
No CZ yet but Bounce will come in soon, better then the market as Ratio is still uptrend but our next POM 12 , we should get better Risk reward OR upon Re run of POM 14 on SPX whichever come first could be the next decision point for CZ .



XLY - - MA / Pattern and Oscillator Analysis - (Special Situation)

DMA's and Trend Oscillator Analysis suggested NEUTRAL at Top of last rally (Refer notes & CZ 's indicated below coincided with POM 14 & 12 within the chart). **Although the bounce should come in soon, the Pattern and Oscillator is still bearish . This should change by the time POM 12 in SPX is triggered**

Rally ended at around 39 near SPX - POM 14. Earlier XLY - @ 33.40 Triggered at the stroke of POM 12 on SPX, 10/4



XLE - CZ / Ratio Analysis - (Special Situation)

Since POM 14 in SPX, decline began But XLE reached with NEURAL Top. **XLE / SPY Ratio uptrend is broken . which is Bearish**

ABC down is almost complete No CZ yet . Bounce will come in soon in line with the market since the Ratio uptrend is broken but our next POM 12 , we should get better Risk reward OR upon Re run of POM 14 on SPX whichever come first could be the next decision point CZ .



XLE - - MA / Pattern and Oscillator Analysis - (Special Situation)

DMA's and Trend Oscillator Analysis suggested **NEUTRAL** at Top of last rally (Refer notes & CZ 's indicated below coincided with POM 14 & 12 within the chart). **The bounce should come in soon, the Pattern and Oscillator is **Bullish** which is-ve divergence from our Ratio Analysis . So in such situations better to wait till POM 14 or POM 12 whichever is first**

Rally ended at around 70 near SPX - POM 14. Earlier XLE - @ 54.70 Triggered at the stroke of POM 12 on SPX, 10/4



XLF - CZ / Ratio Analysis - (Undervalued SD - 2.0)

Since POM 14 in SPX, decline began But XLF reached with BEARISH TOP . therefore the decline came in back to lower CZ . XLF / SPY Ratio is Bearish but showing some + ve divergence . It should change on successful test of CZ - 11.60-11.00 & Reject . CZ is imported from past , STOPS always on other side of CZ . just in case BAC runs through it Hyperbolic Flag post down to 2.50 from current price 5.00 very quickly

But here ABC down is almost complete & almost into CZ (slightly short) . Bounce will come in soon

The Current CZ does not hold for BAC or other reasons then our next POM 12 , we should get better Risk reward.



XLF - MA / Pattern and Oscillator Analysis – (Undervalued SD – 2.0)

DMA's and Trend Oscillator Analysis suggested **BEARISH TOP** at Top of last rally (Refer notes & CZ 's indicated below coincided with POM 14 & 12 within the chart). **The bounce should come in soon, the Pattern and Oscillator is **Bullish** which is + VE divergence from our Ratio Analysis .**

If CZ (indicated in above chart) is not broken , then this could be a H & S Bottom as per the way volume is lining up & CZ needs to be rejected

Rally ended at around 14 near SPX - POM 14. Earlier XLF - @ 11.05 Triggered at the stroke of POM 12 on SPX, 10/4

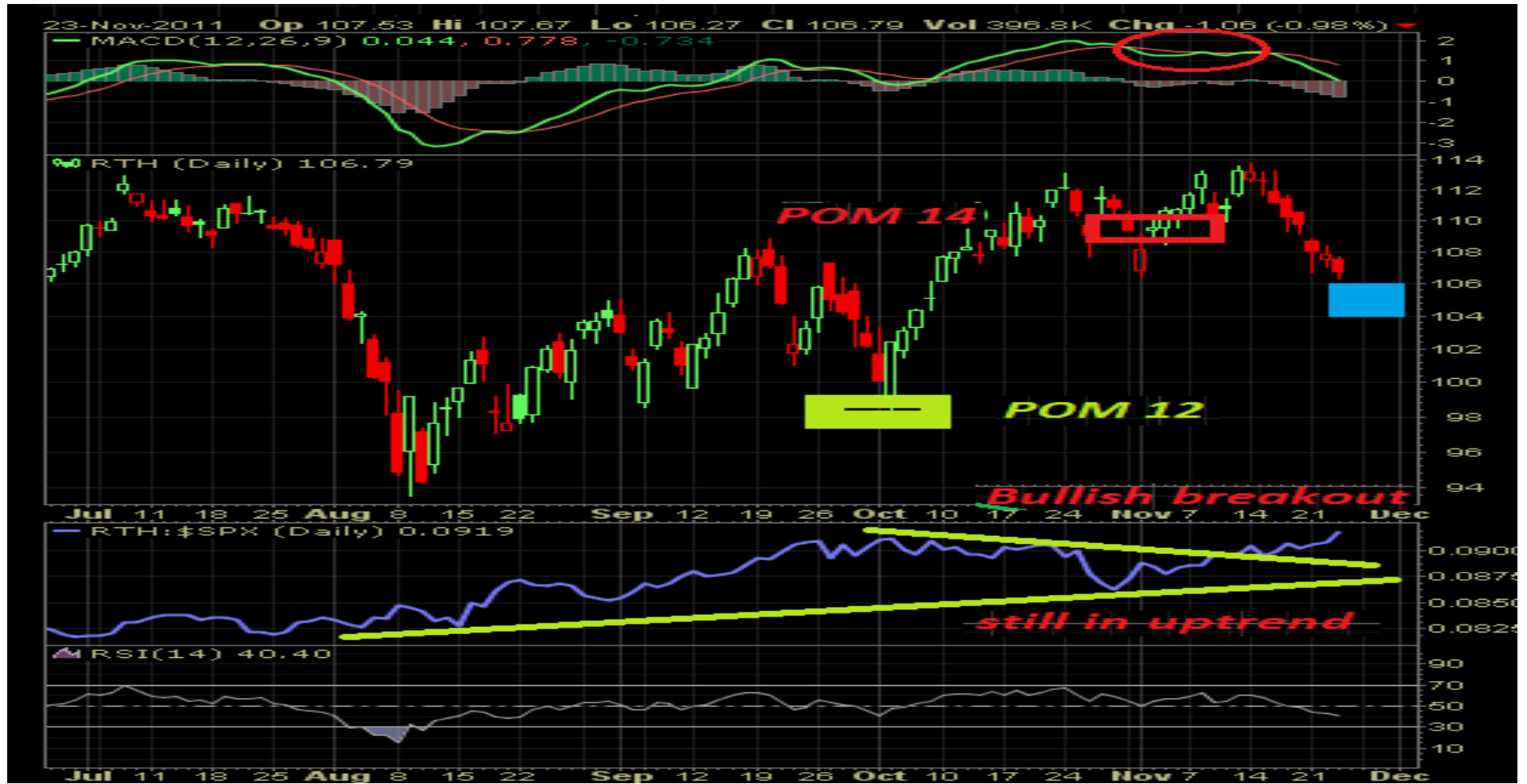


RTH - CZ / Ratio Analysis - (Overvalued SD + 2.0)

Just wonder why RTH is still Bullish – Don't ask why ? Its observation only !! If nervous tight protective stop is way to go.

Since POM 14 in SPX, decline began But RTH reached with Bullish Top. RTH / SPY Ratio is in strong Trend. RSI will soon diverge Bullishly . This is Strong market & could not even go to August lows. It is in its own Bull Market (Don't know why? Although overvalued to SD +2.0).

The Current Area (in blue) should hold CZ 106-104. If not our next POM 12 , we should get better Risk reward.

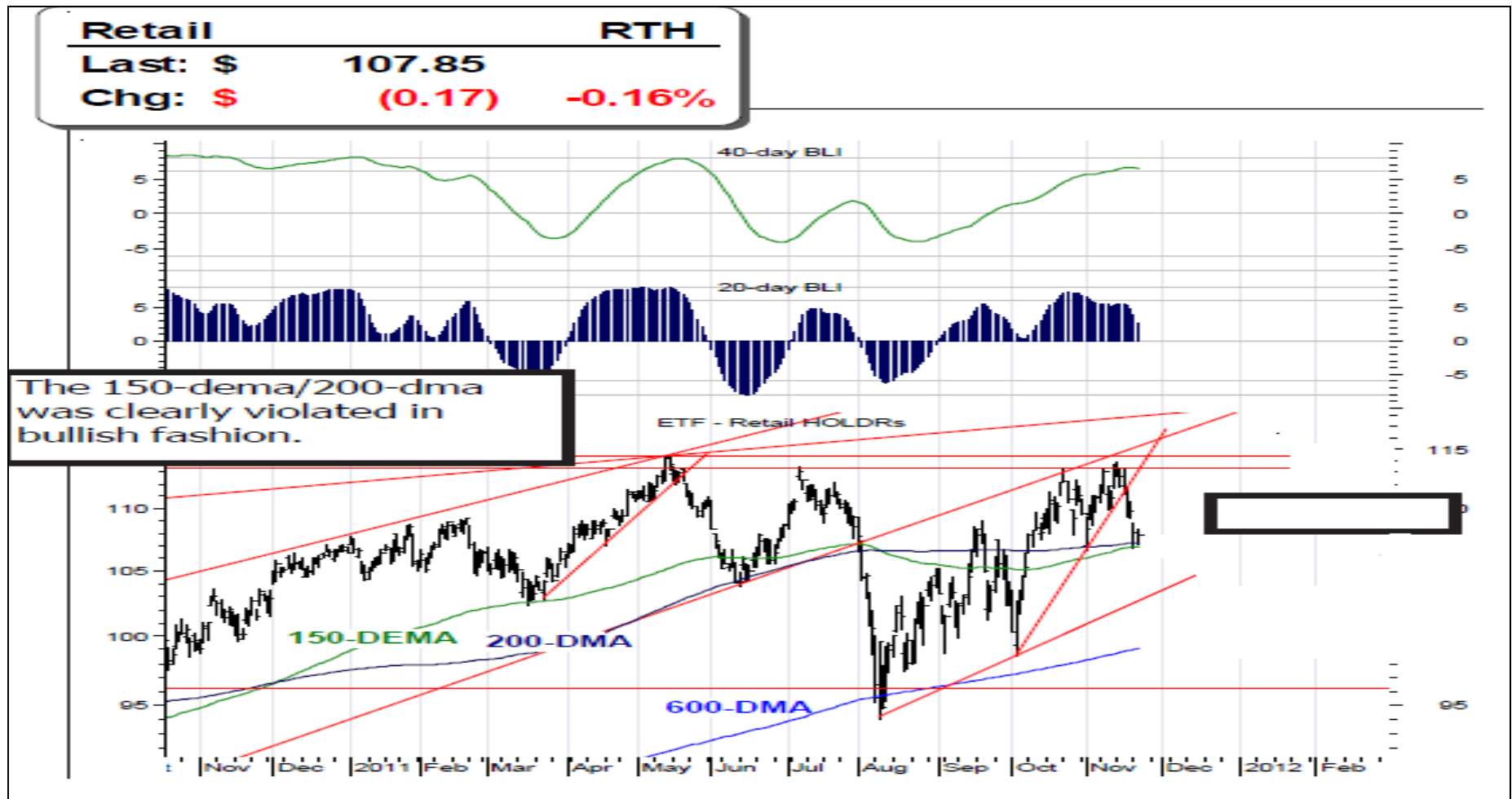


RTH - MA / Pattern and Oscillator Analysis - (Overvalued SD + 2.0)

DMA's and Trend Oscillator Analysis suggested **Bullish at Top** of last rally (Refer notes & CZ 's indicated below coincided with POM 14 & 12 within the chart).

Oscillator & Pattern Analysis diverging Bullishly. Due to overvaluation matrix STOP is critical under CZ (if something falls of the bed)

Rally ended at 110 near SPX - POM 14 Earlier RTH - @ 99.20 Triggered at the stroke of POM 12 on SPX, 10/4



APPENDIX -

➤ Key Points for Full utilization of SP- Reports

- Maximum Utilization of various POM's , CZ's & ABC's – for Risk Management & full enhancements on CZ pricing & CZ-PQV Timeliness
- At Top down Level– Triggers around POM's -Mid term & CZ's - Short term– (CZ's happens in between the POM's) . Critical component for Clean execution is to maintain ongoing updated data base spreadsheet of CZ's Pre announced in SP releases prior to price shifts. These inputs when Computerized Daily Monitoring, Triggers, Timely PQV validations, Price projections Alerts on real time should warn in timely manner to take action. .
- Rebalancing Pre Planned procedure at Triggers– “ Rebalancing % of Overall Position Sizing” , Beta & , Net Exposures sizing depending on each Portfolio's Objective & Risks Tolerances for either Recycling of Capital or Fresh capital.
- Key points for Risk Management
- Hard Stops around CZ's
- STOP SELL- “ early warning Alerts” in fast moving markets, Over night Day / Night (IST) time delay Risks.
- Cross verification by Other Methods
Computerized Daily Monitoring, CZ Triggers, Timely PQV validations
- 2. CZ – Tracking
- Programing - “Time/ Price Displacement, Supply / demand Activity Bar Analysis” –
 - At “Institutional Grade - Price , Volume with Time Integration
 - Supply / Demand Activity bar Analysis – Real time.
 - Candlestick – Price displacement Algo Programing experience at CZ Validation for Triggers

PREVIOUS LONGS – YTD – “ Price path “ update- From D- Sector Report

XLV, XLU, BBH, IFN, XLF, IYT, DIA, TLT



Cont.....GDX, GLD, OIL . – “ Price path” update - From C – Commodity Report

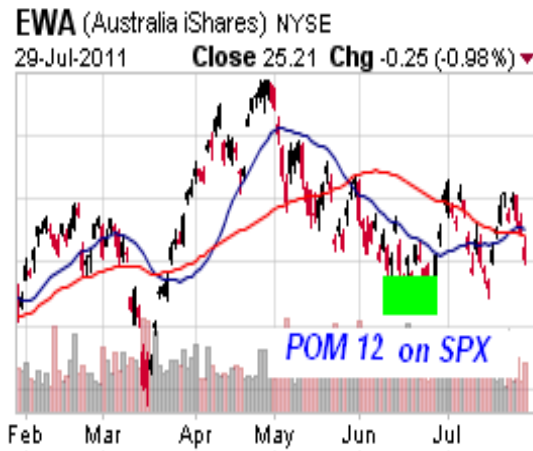


Note – GDX sold off since our Alert @ Bearish CZ 60-61 but GLD has been hanging in tight at 1598 -1615 , our Levels indicated

Cont.....QQQ, IWM, EEM, EWA, EZU, EWH “ Price path” update - From A # 2 MS Global

Short term Risk management zone announced for POM 13 on 7/08 & on A # 2 - MS - 7/06

Bullish CZ on Pull back but in Case of IWM volated at 81



POTENTIAL SHORT - EWH " Price path " update- From A # 2 MS Report (special situation

PENDING VALIDATION TEST

CZ - 19.0 – 20.50 is indicated in red (partially imported from 2010 / 08) Test volume 5.0 M.

- $\frac{1}{2}$ position – into LCZ -MCZ
- $\frac{1}{2}$ position – touch of 20.5 and close under 20.0



Previous Trend – POM to Reversion to mean

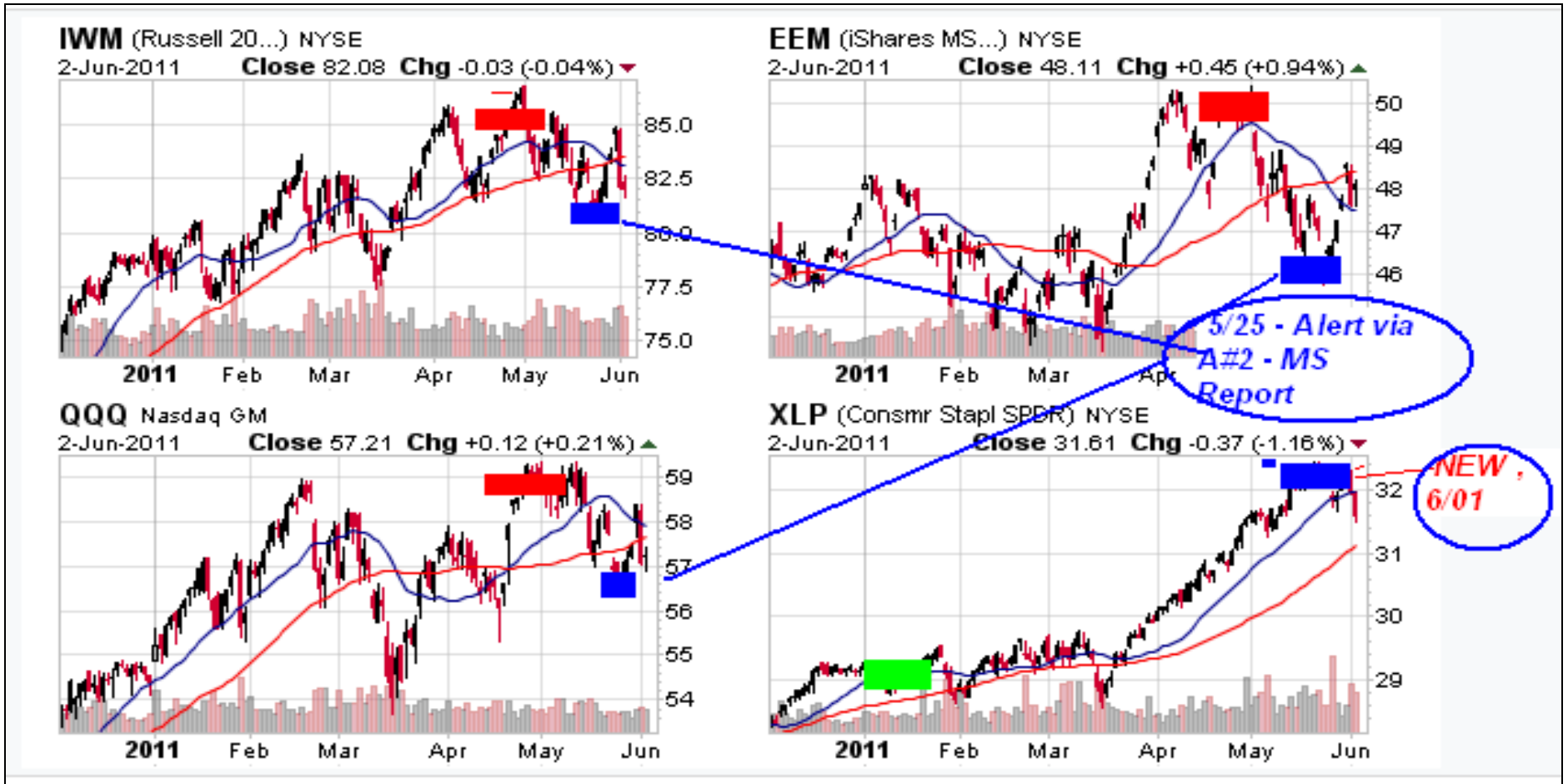
REVERSION TO MEAN - 6/10 - SPX - POM 13 @ 1270 via SD Levels or POM 13 or CZ -

- **SMH, DBC, JJC, XLB** - (CZ validation indicated Red on charts below)



MEAN TO REVERSION - via SD Levels or POM 13 or CZ - First Price target achieved

- **QQQ, IWM, EEM** – Refer A # 2 – MS Report , 5/25 - (Reversion to mean indicated Blue on charts, We will now monitor the Quality of the rally for next move)
- **XLP** – (Reversion to mean by SD, indicated Blue on charts)



CONT.....**Previous Trend**

- **GLD ,SLV – Refer C – Commodity Report , Alert 5/6 -** (*Reversion to mean indicated Blue, POM 13 on charts*)
- *Now looking for the counter Trend bounce – No confirmation yet*



- **Objective**

The Focus is to derive and compare the Relative performance of various Sector ETFs via using Standard Deviation (SD) Criteria, POM – SPX Methodology as a PIVOT point for start then use with SECTOR / SPX Ratio chart for their “Pattern Recognition and Technical Analysis” for OVERVALUATION AND UNDERVALUATION of Sectors.

Step 1 – Qualify the Sector based on Correlation Ratio Analysis with SPX to determine Standard Deviation (SD# 2) @ extremes level to define “Overvaluation and Undervaluation” of the SECTOR

Step 2 - Overlay this Correlation input data on Sector’s Relative strengths based on the SPX –POM latest STATUS as Pivot point to measure Maximum and Minimum strength of the Sector. Validate those ideas via technical Patterns of absolute Charts & SPX Ratio charts of these Sectors for Bullish and Bearish SETUPS via Pattern Recognition, Technical Analysis via second derivative DMA’s & Derive CZ for PQV Validation test.

Overlay Criteria

- ***SD #/2 ANALYSIS EXTREMES by 365 D Correlation.***
- ***SPX - POM FRAMEWORK as PIVOT by Trend Correlation***
- ***TECHNICAL PATTERNS, 2nd Derivative DMA’s & VOLUMES” & Derive CZ for PQV Validation.***

Disclaimer : The information in this report has been taken from sources believed to be reliable but SG Capital Research does not warrant its accuracy or completeness. Any opinions expressed herein reflect our judgment at this date and are subject to change. This document is for private circulation and for general information only. It is not intended as an offer or solicitation with respect to the purchase or sale of any security or as personalized investment advice. SG Capital Research or its Author does not assume any liability for any loss which may result from the reliance by any person or persons upon any such information or opinions. These views are given without responsibility on the part of SG Capital Research or its officials. No part of this report may be reproduced in any manner as Author reserves the distribution rights. Under Copyright 2002 Act: It is a violation of federal copyright and imposes liability for such infringement