



SG Capital Research

Global Market Insights

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

MAEG – WKLY CZ_SECTOR ETF ANALYSIS SG 2011 # OCT_08

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

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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. Sentiments (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 style="text-align: center;">GR1 (16) Coverage in A #1, A# 2 (B, G) MS</p>	<p style="text-align: center;">GR2 (14) Coverage in D # SECTOR</p>	<p style="text-align: center;">GR3 (10) Coverage in C # COMMODITY</p>
<p style="text-align: center;"><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 style="text-align: center;"><u>BOND IDX</u></p> <ul style="list-style-type: none"> • TLT (Bonds) • MUB (Muni). • JNK (Junk) <p style="text-align: center;"><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 style="text-align: center;"><u>SECTORS IDX</u></p> <ul style="list-style-type: none"> • RTH (Retail) • XLF (Financials) • XLV (Health) Special Situation • XLB (Materials) • XLE (Energy) • XLK (Tech) • XLI (Industrial) • XLU (Utility) • XLP (Staples) • XLY (Discretionary) • XHB (Home Builders) • SMH (Sem.) • BBH (Biotech) • IYR (Real Estate) <p style="text-align: center;">Highlighted above are covered in Today's Report</p>	<p style="text-align: center;"><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)

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

• Trading & Investment Conclusions

ACTIONABLE ZONE :

The Weekly Validated Sector selection - Global Long (Undervaluation) / Short (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

UNDERVALUED v/s SPX ETF (SD - 2)

(Previous update)

- XLF
- XLI
- XHB

OVERVALUED v/s SPX ETF (SD +2)

(Previous update)

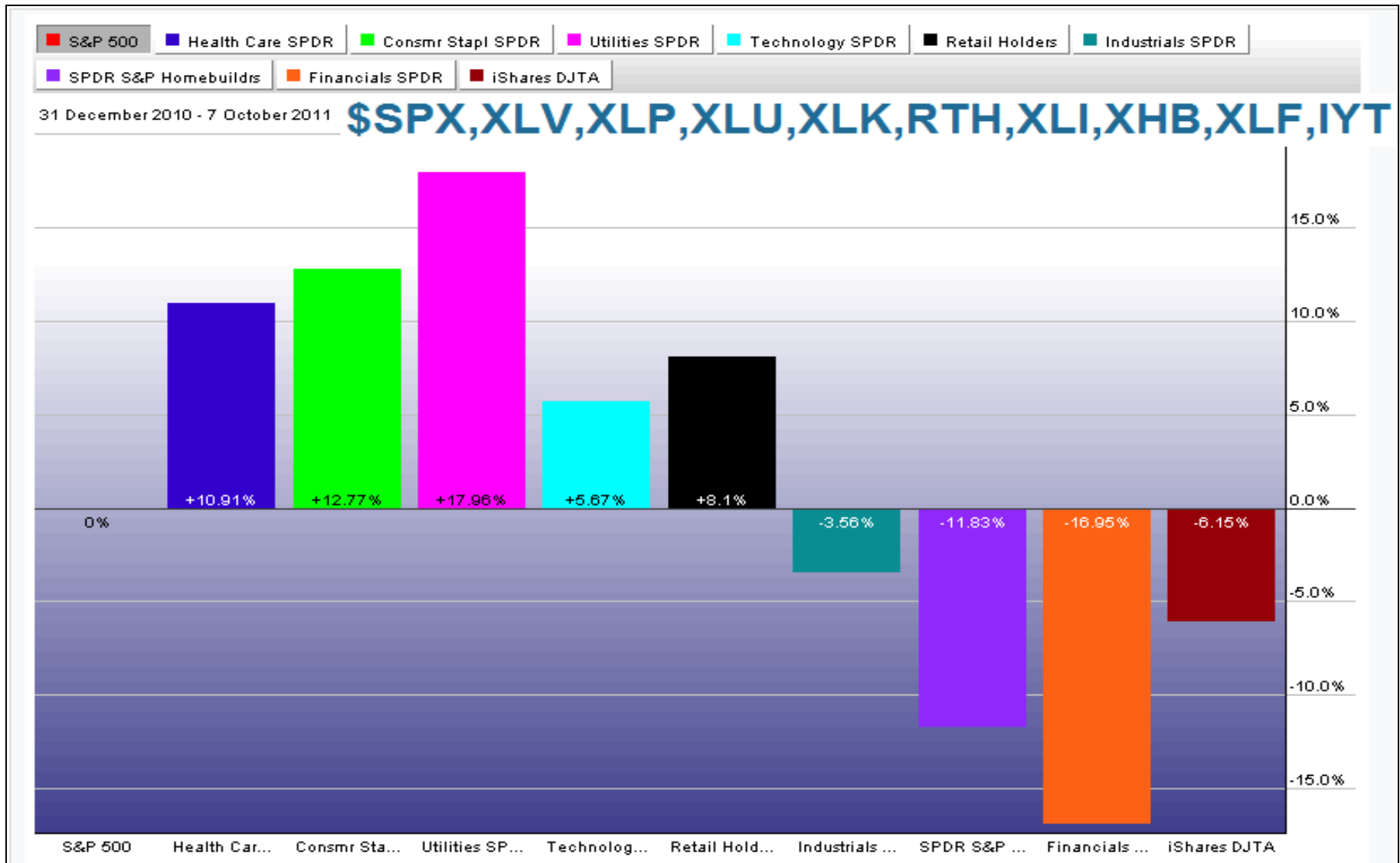
- XLK (Refer to QQQ – Thursdays A # 2B – MS Report)
- RTH

MEAN SD TO REVERSION – via SD Levels

- NONE
- XLV, XLP, XLU (Special situation)

SECTOR - YTD – SPX 's performance v/s SD extremes / Defensive IDX

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



• **STRATEGY – Insights**

- ***The Majority of the Broader Sectors (within D # Sectors Report) will closely be following “The Price Path” of SPX during Market turns***
- ***SPX - Triggered POM 12 @ 1080 (Net Long) via Alert 10/04. As per our Objective , the Sectors simultaneously Triggered Long at the same time & followed the rally closely with SPX during the turn.***
- ***Currently SPX has rallied 8% since our signal at 1080. 8% move is more respectful for Investors if they have Risk Managed the position avoiding nasty decline of 140 point otherwise this rally is another recovery process to Sell into it for Wall Street.***
- ***Within each Sector we review at least 20 technical indicators to derive to our conclusion. Especially at POM 12 we step back and look at slightly BIGGER PICTURE on weekly charts with Multiple Time frame FIB Analysis to verify the strength and weakness. Also evaluate the Ratio strength with ROC***
- ***The First week of reversal from POM 12 tends to have overriding effects on patterns . We monitor these closely as to how much energy is left with the market for further rally .***
- ***Post POM 12, Weekly charts also identifies the leadership role as well in various Sectors.***
- ***Certainly 8% from 1080 has finished its move in BEARISH CZ 1155-1165 in shorter time frame within POM process. (details in our A # 1 MS Report on Monday).***
- ***On charts All CZ / PEC D / SPX POM's – Marked (in color) on charts below has been Announced Real time in our Previous Reports prior to Price shifts. Stops always on other side of CZ @ Stop value based on Portfolio's Risk tolerance***

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

XLV - @ 30.20 Triggered at the stroke of POM 12 on SPX, 10/4 . DMA's and Trend Analysis suggested last week that the POM 12 on SPX should be in close vicinity for Trigger (Refer notes & CZ 's indicated below coincided with POM 13 & 12 within the chart)



XLV / SPY Ratio – MA / Pattern and Oscillator Analysis

This Ratio chart is setup very Bullishly XLV is own Bull market.



XLV - Multiple time frame Fib - Analysis (weekly) - (Special Situation - Defensive Sector)

On weekly basis nice rejection at POM 12 @ Multiple FIB's . Everything about this is BULL market. XLV / SPY Ratio is in strong Trend. When RSI will soon cross 50 on weekly. Currently it is Diverging in such manner (indicated below), the target is 70 not 50 . This is Strong market & could not even go to August lows.



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

XLP - @ 29.04 Triggered at the stroke of POM 12 on SPX, 10/4 . DMA's and Trend Analysis suggested last week that the POM 12 on SPX should be in close vicinity for Trigger (Refer notes & CZ 's indicated below coincided with POM 13 & 12 within the chart)



XLP / SPY Ratio – MA / Pattern and Oscillator Analysis

This Ratio chart is setup very Bullishly XLP is own Bull market similar to XLV



XLP - Multiple time frame Fib - Analysis (weekly)- (Special Situation - Defensive Sector)

On weekly basis nice rejection at POM 12 @ Multiple FIB's . Everything about this is BULL market. XLV / SPY Ratio is in strong Trend. When RSI will soon cross 50 on weekly. Currently it is Diverging in such manner (indicated below), the target is 70 not 50. This is a Strong market & could not even go to August lows



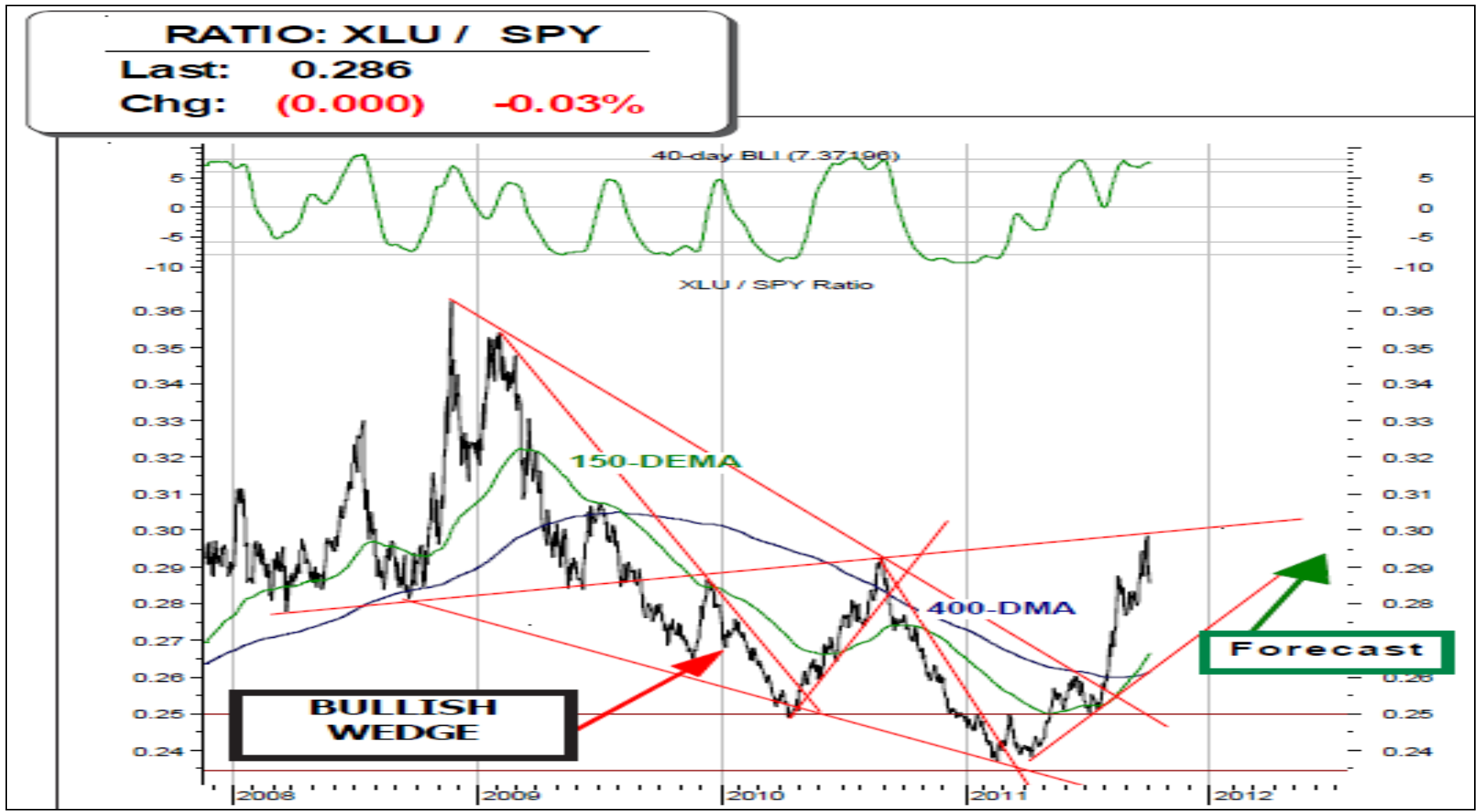
XLU - - MA / Pattern and Oscillator Analysis – (Special Situation - Defensive Sector)

XLU - @ 32.07 Triggered at the stroke of POM 12 on SPX, 10/4 . XLU is the best performing market this year. Low rates are certainly great catalyst on interest sensitive stocks. DMA's and Trend Analysis (Refer notes & CZ 's indicated below coincided with POM 13 & 12 within the chart). This is a Strong market & could not even go to August lows



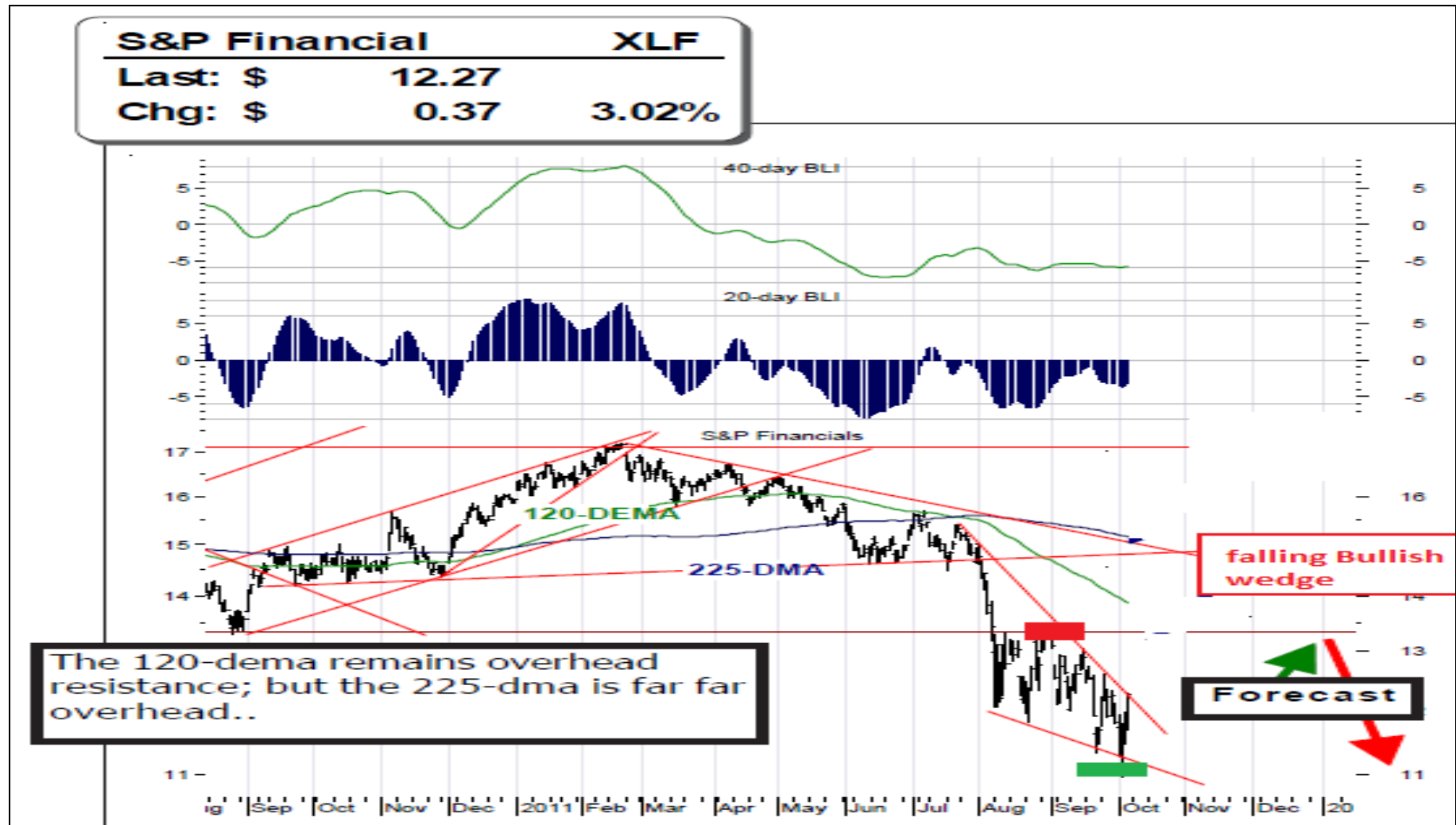
XLU / SPY Ratio - MA / Pattern and Oscillator Analysis

This Ratio chart is setup very Bullishly . It too is in its own Bull market similar to XLV, XLP



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

XLF - @ 11.05 Triggered at the stroke of POM 12 on SPX, 10/4 . DMA's and Trend Analysis suggested last week that the POM 12 on SPX should be in close vicinity for Trigger (Refer notes & CZ 's indicated below coincided with POM 13 & 12 within the chart)



XLF - Multiple time frame Fib – Analysis (weekly) (Undervalued)

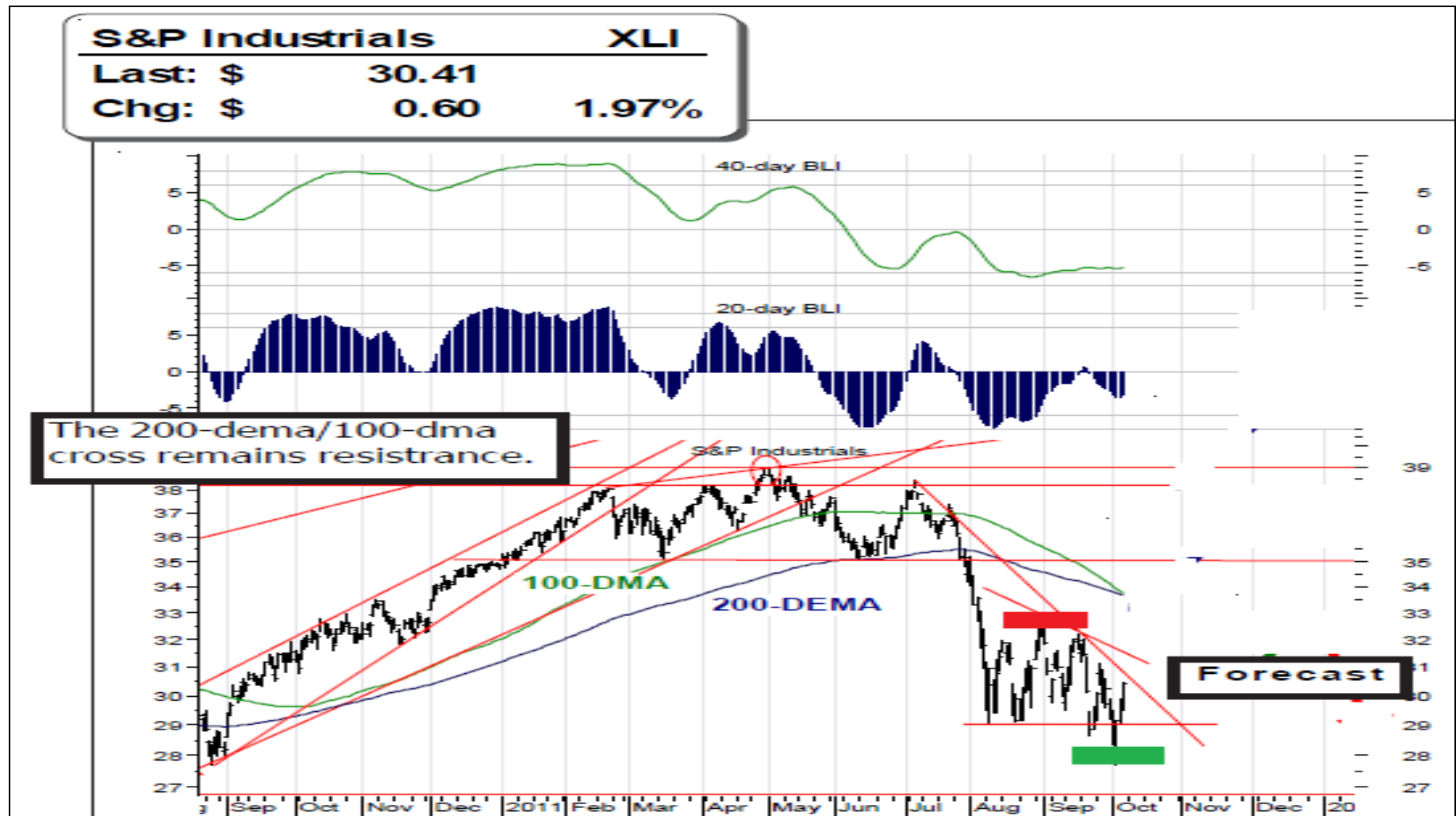
On weekly basis nice rejection at POM 12 @ Multiple FIB's held . XLF / SPY Ratio is in downtrend but When RSI is so oversold as in past occasion (green circle), such weak Index tends to revert to 50 and move sideways . This will be a bounce only

By SD count it is oversold. At Oct 4th lower lows RSI was diverging Bullishly with respect to August lows (chart below) .



XLI - MA / Pattern and Oscillator Analysis – (Undervalued)

XLI - @ 27.90 Triggered at the stroke of POM 12 on SPX, 10/4 . DMA's and Trend Analysis suggested last week that the POM 12 on SPX should be in close vicinity for Trigger (Refer notes & CZ 's indicated below coincided with POM 13 & 12 within the chart)



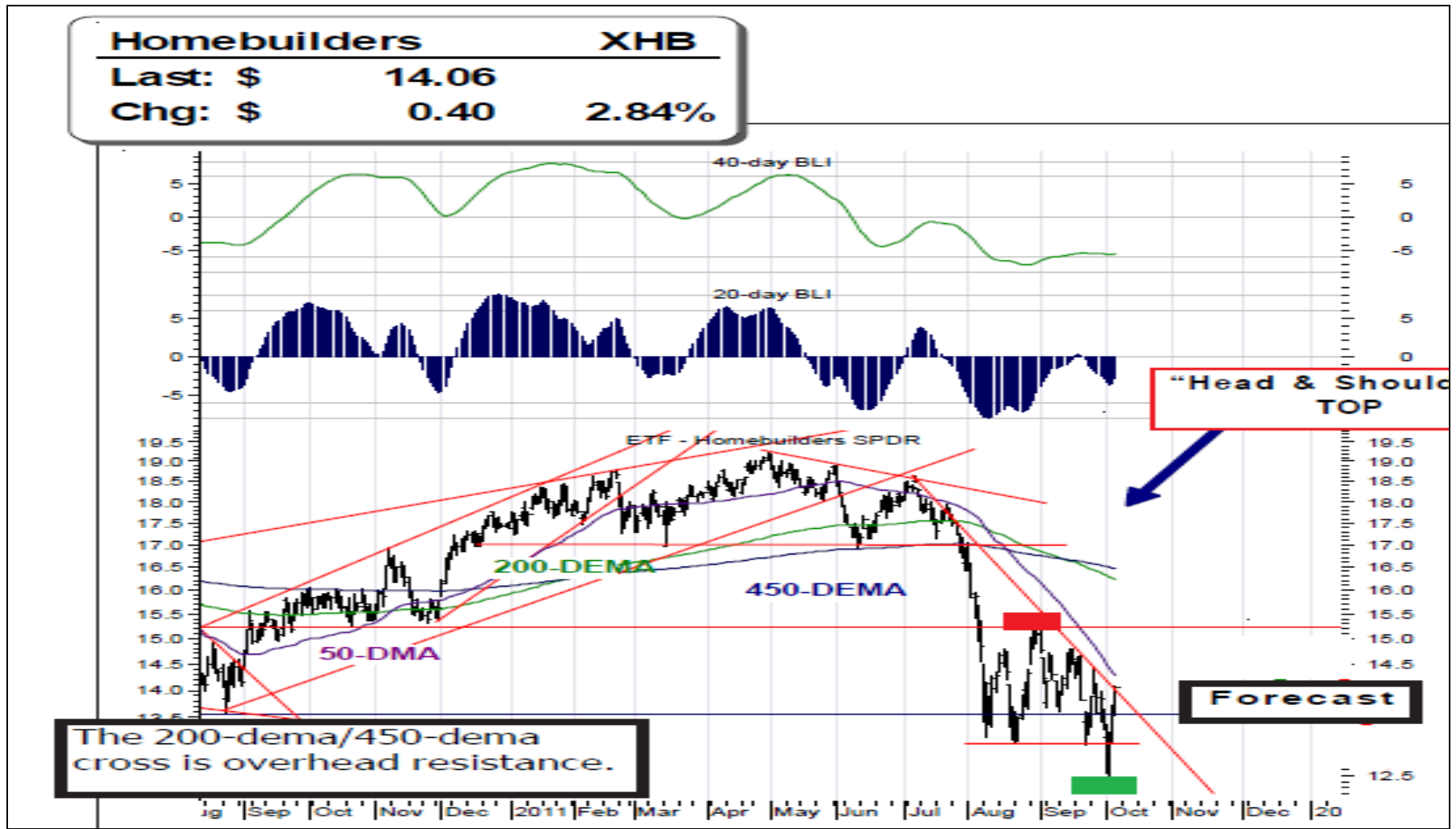
XLI - Multiple time frame Fib – Analysis (weekly) - (Undervalued)

On weekly basis nice rejection at POM 12 @ Multiple FIB's held . Ratio was in strong up trend till broke down in Aug . But another week of rally it will break the down Trend. This is stronger than XLF , XHB (chart below) . By SD count it is **oversold**



XHB - MA / Pattern and Oscillator Analysis – (Undervalued)

XHB - @ 12.36 Triggered at the stroke of POM 12 on SPX, 10/4 . DMA's and Trend Analysis suggested last week that the POM 12 on SPX should be in close vicinity for Trigger (Refer notes & CZ 's indicated below coincided with POM 13 & 12 within the charts)



XHB - Multiple time frame Fib - Analysis (weekly) - (Undervalued)

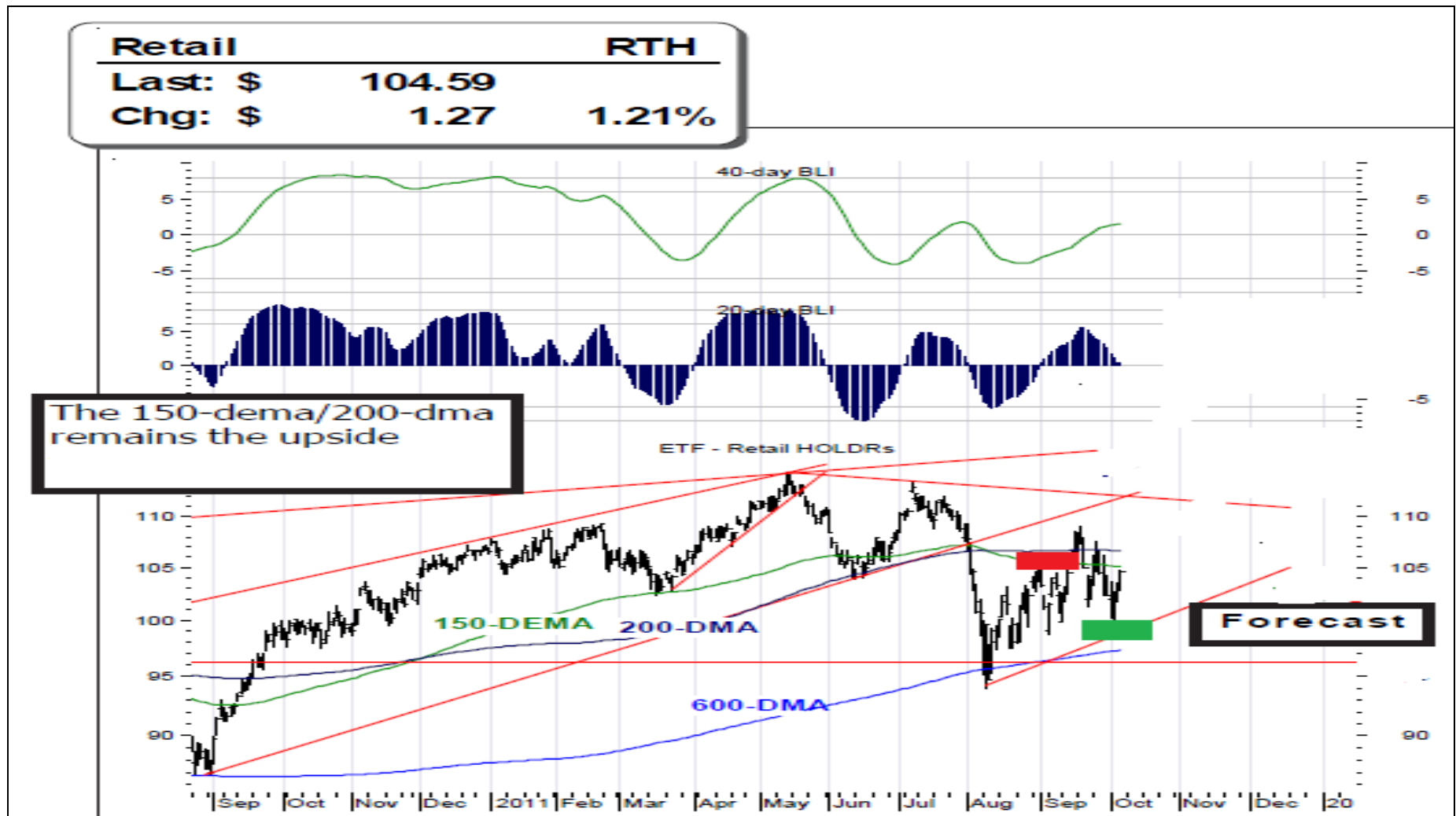
On weekly basis nice rejection at POM 12 @ Multiple FIB's held . Ratio is in downtrend but When RSI is so oversold as in past (green circle), such weak Index tends to revert to 50 and move sideways. This will be a bounce only

By SD count it is oversold. At Oct 4th lower lows RSI was diverging Bullishly with respect to August lows (chart below)



RTH - MA / Pattern and Oscillator Analysis - (Overvalued)

RTH - @ 28.7 Triggered at the stroke of POM 12 on SPX, 10/4 . DMA's and Trend Analysis suggested last week that the POM 12 on SPX should be in close vicinity for Trigger (Refer notes & CZ 's indicated below coincided with POM 13 & 12 within the chart)



RTH - Multiple time frame Fib – Analysis (weekly) - (Overvalued)

This Index is very puzzling to us . Weak Economy but this is in uptrend. Although we do not recommend any position. There is hardly any Retracement from march lows . Even in this recent October bottom made higher high compared to August lows .

However on weekly basis nice rejection at POM 12 @ Multiple FIB's held. Ratio is still in uptrend. RSI diverging positively

By SD count it is Overvalued .



APPENDIX -

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

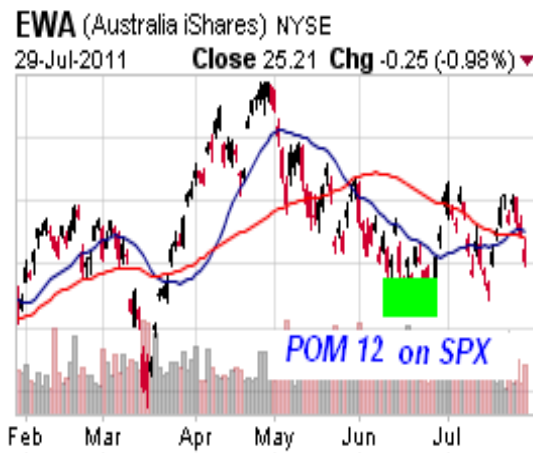


Note – GDX sold off since our Alert @ Bearish CZ 60-61 but GLD has been hanging in tight at 1598 -1615 , our Levels indicated

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

Short term Risk mangement 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

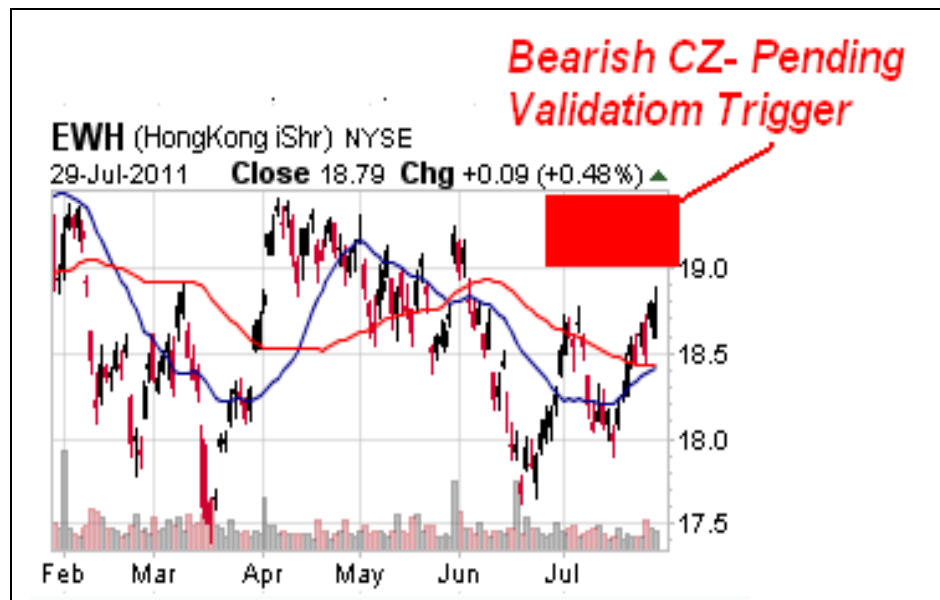


POTENTIAL SHORT - EWH “ Price path “ update- From A # 2 MS Report *(special situation*

PENDING VALIDATION TEST

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

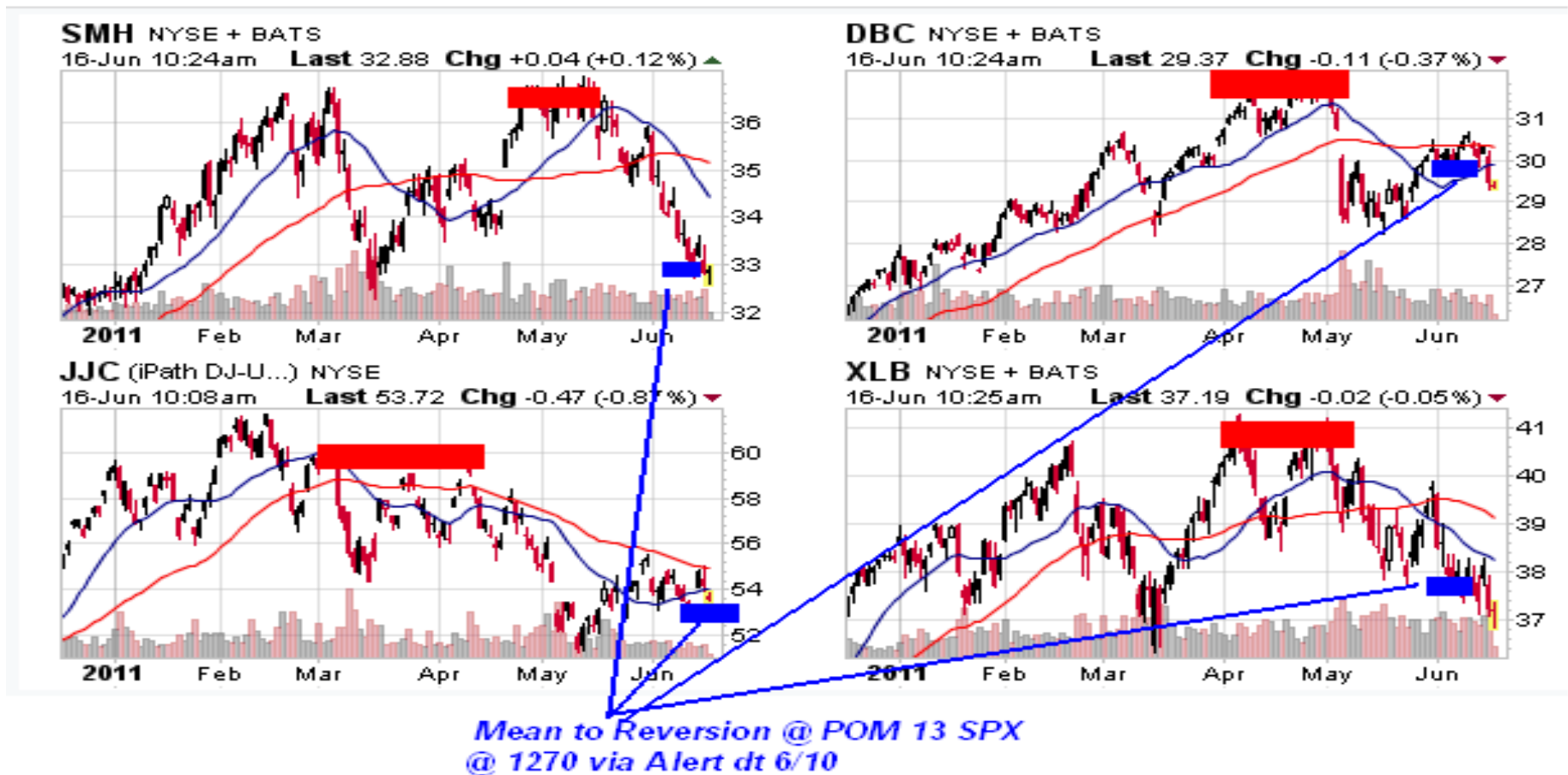
- $\frac{1}{2}$ position – into LCZ -MCZ
- $\frac{1}{2}$ position – touch of 20.5 and close under 20.0



Previous Trend – POM to Reversion to mean

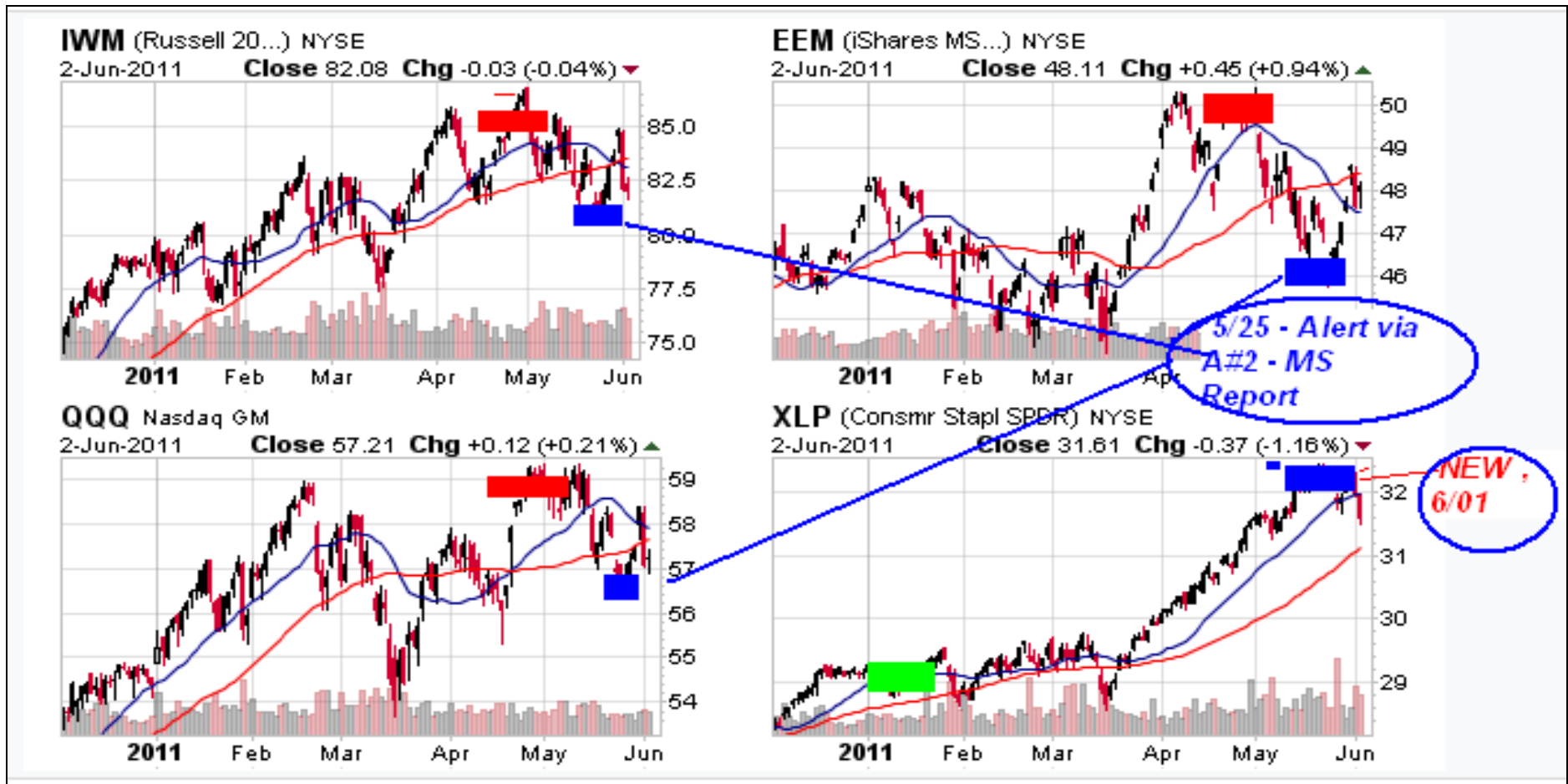
REVERSION TO MEAN - 6/10 - SPX – POM 13 @ 1270 via SD Levels or POM 13 or CZ –

- 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.***

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