



SG Capital Research

Global Market Insights

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

MAEG – WKLY SECTOR ETF ANALYSIS SG 2011 # SEPT_23

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

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>GR1 (16) Coverage in A #1, A# 2 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 • DOW • QQQQ • IWM (Small Cap) • IYT (Transports) <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) • XLF (Financials) • XLV (Health) • 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><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)

Highlighted above are covered in Today's Report

- **SPX – “ POM Signals & SD – 2 - OVERLAPS**
- **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*

STRATEGY INSIGHTS

- *The Majority of the Broader Sectors (within D # Sectors Report) will closely be following “The Price Path” of SPX during Market turns*
- *Our Last Signal - POM 13 @ 1220 dated 09/01 – **ALERT** - signaled the turn on SPX & Broader IDX proving its merit*
- *Based on Our Risk / Reward Analysis, We have been looking for POM 12 Re –Run, only upon successful test of lows (No Indication yet). We will let the market prove itself first. The Re test towards the Bottom heavy unfinished business around 1100 - 1120 is Critical . This should be good floor footing created at Previous liquidation Area of POM 11*
- *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*

• Trading and Investment conclusions – Summary

UNDERVALUED v/s SPX ETF (SD - 2)

(New)

- RSX - Russia
- FXI (Refer Thursdays A # 2- MS Report for China Market)
- EEM (Refer Thursdays A # 2- MS Report)

(Previous update)

- XLF
- XLI
- XHB

OVERVALUED v/s SPX ETF (SD +2)

(Previous update)

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

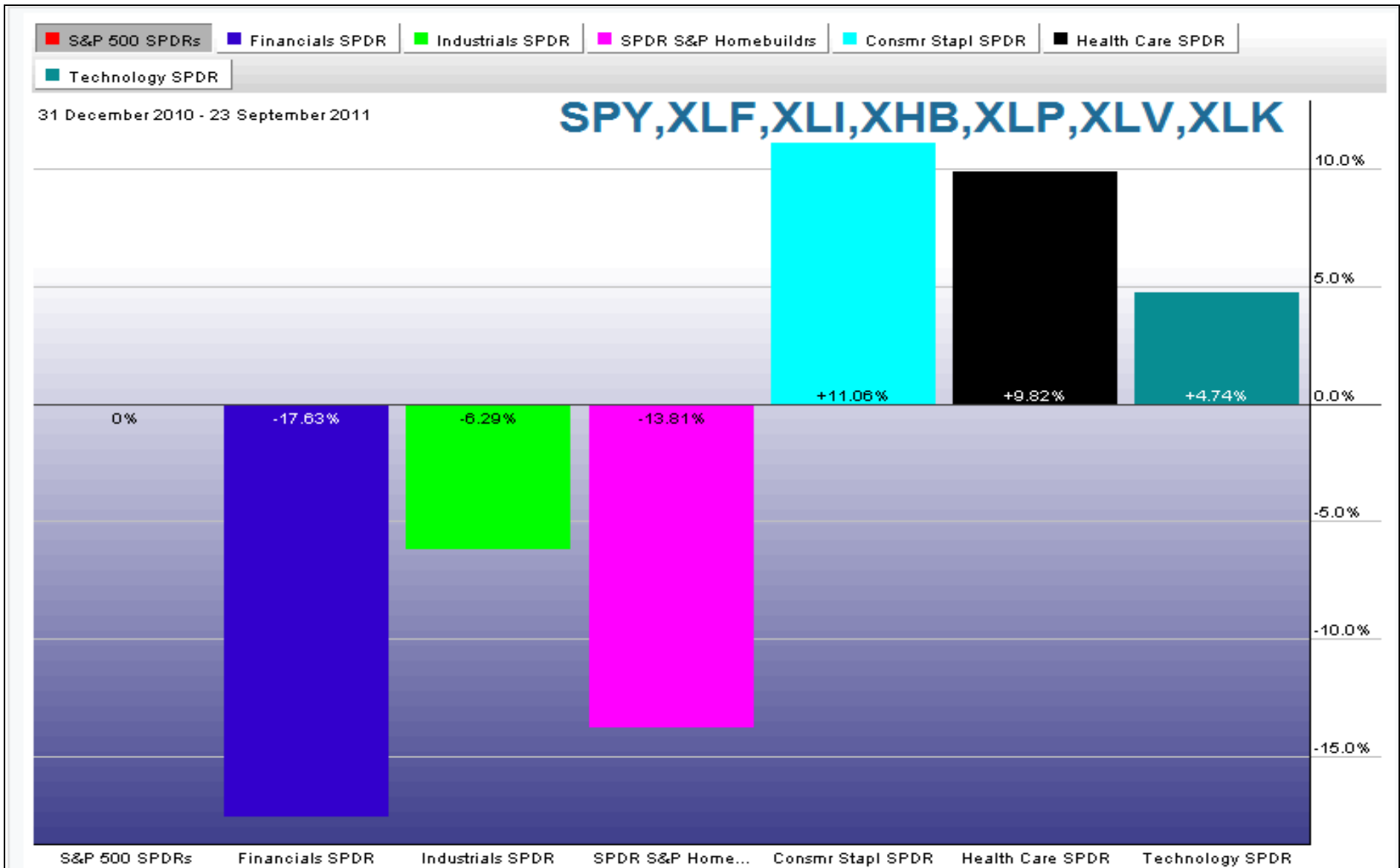
MEAN SD TO REVERSION – via SD Levels

NONE

SPECIAL SITUATION

- TLT, XLP, XLV

SPX v/s SECTORS (SD extremes & Defensive) - Ratio Analysis – Relative Perf - YTD



TLT (US Bonds) – **Special Situation** - **BIGGER PICTURE**

US Bonds have been in Bull market since 1980. On correlation basis BONDS had major corrections during Rate hike cycles (indicated in Blue line) .

Since Market 2007, (Indicated in Yellow) Bonds has been acting “Flight to safety” which is evident in crises period , QE 2, Twist & low rates environments .(Indicated in yellow)



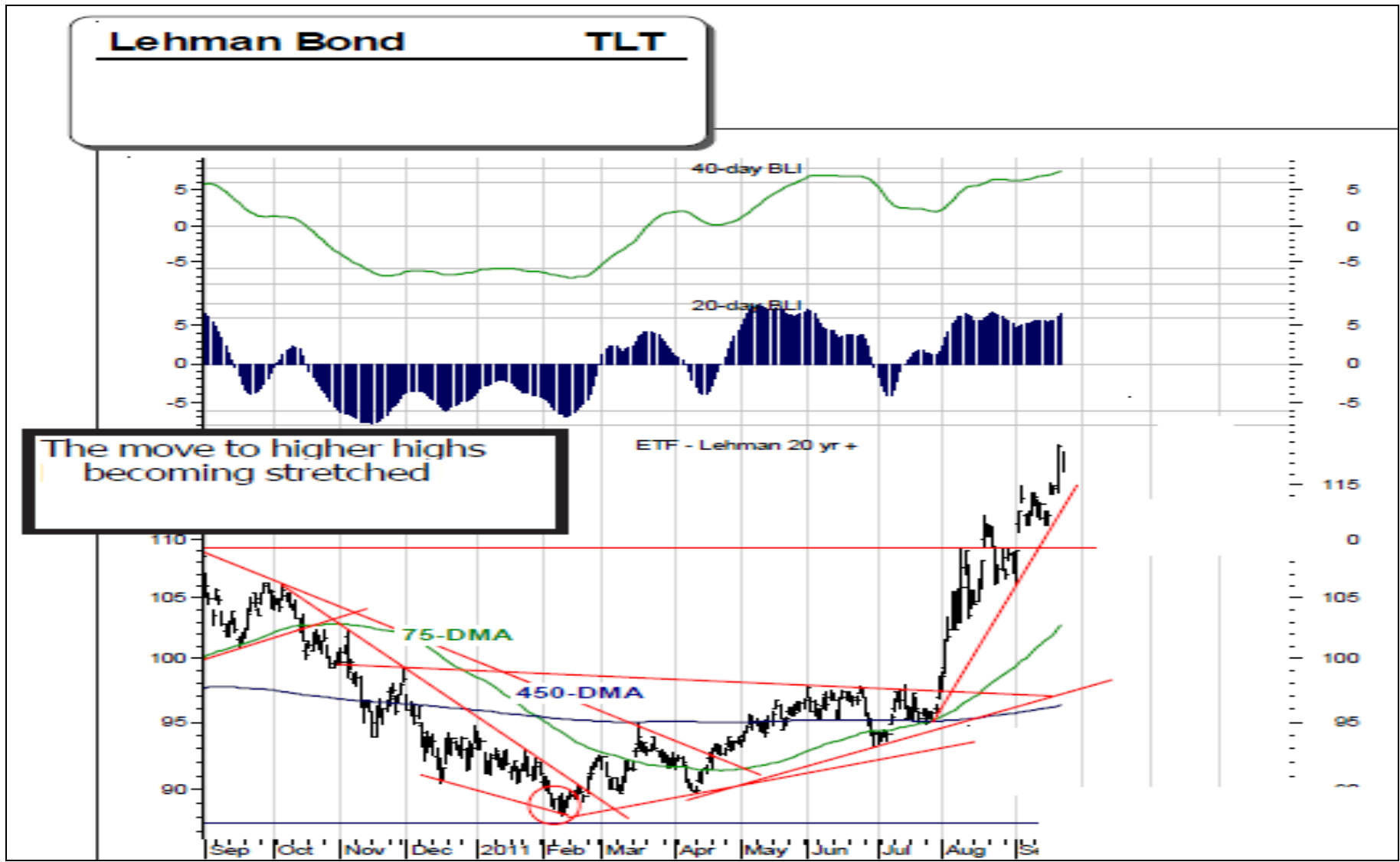
TLT - Special Situation - Parabolic

In DEC 09, TLT had a parabolic move which ended in nasty decline. Currently TLT is showing similar behavior as shown in DEC 09. With Rate of change declining. The parabolic SLOPE might have another move higher (not clear yet) . But there should be A Top soon .



TLT - **Special Situation** - - MA / Pattern and Oscillator Analysis

DMA's and Trend Analysis with Oscillator move suggests the upside is limited (Refer notes within the chart)



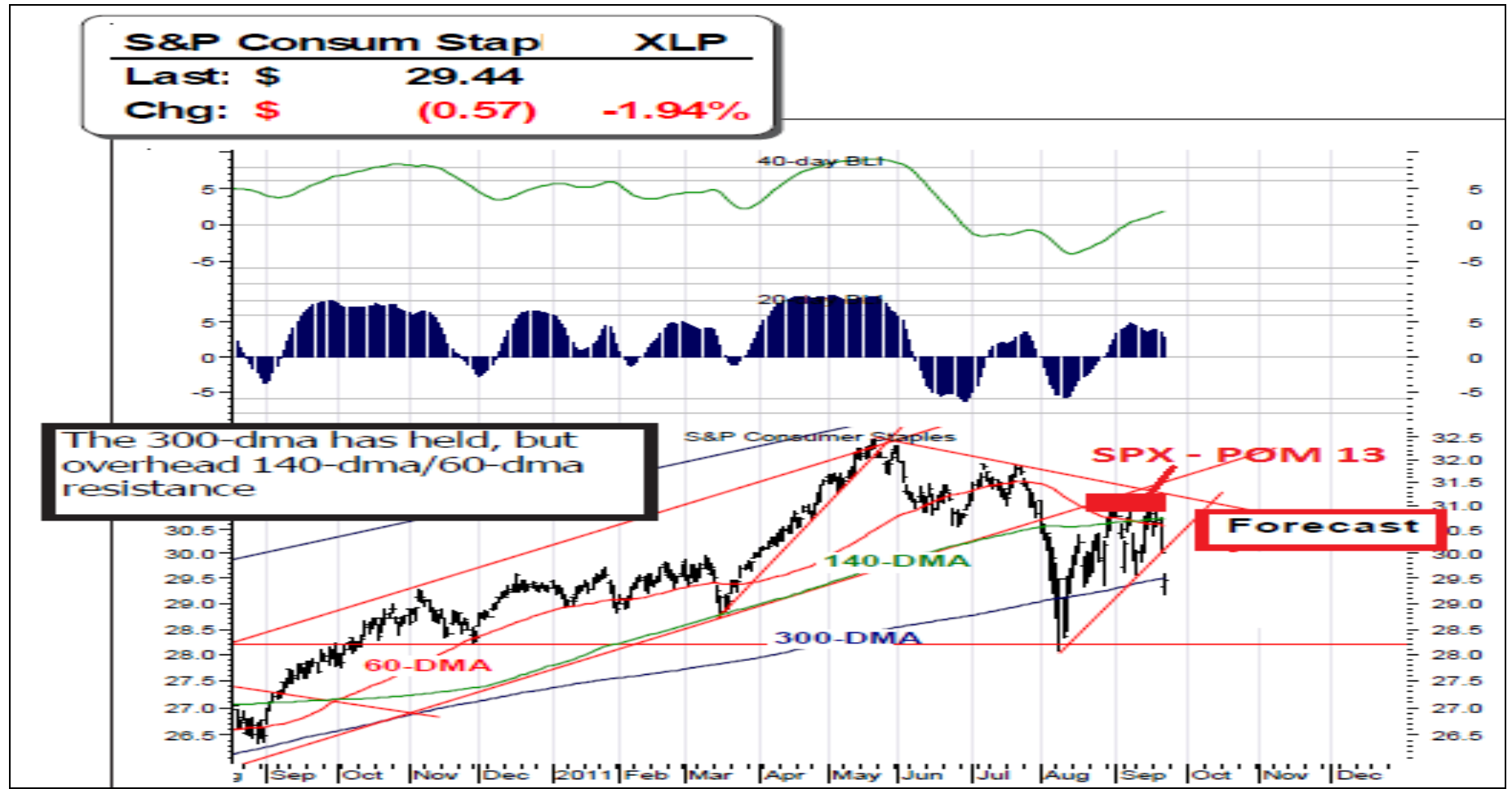
TLT - **Special Situation** - Ratio - CZ - Analysis-

(Notes within the charts below) indicates our POM Signal & Price path Analysis". After 2 stopped outs (\$1.75+\$1.85 hits) on POM 15 (SHORT) . Recently being (TWIST" announcement day by FMOc. Based on PQV Volume pick up @ 11.00 am on CZ Tracker. Currently there is quite a bit of divergence . We should be Gunning it again for POM 15 on completion of Price & Volume pattern. Awaiting for Trigger - Alert . Earlier the best Trade was from POM 12 (89) to POM 14 (102) on LONG SIDE



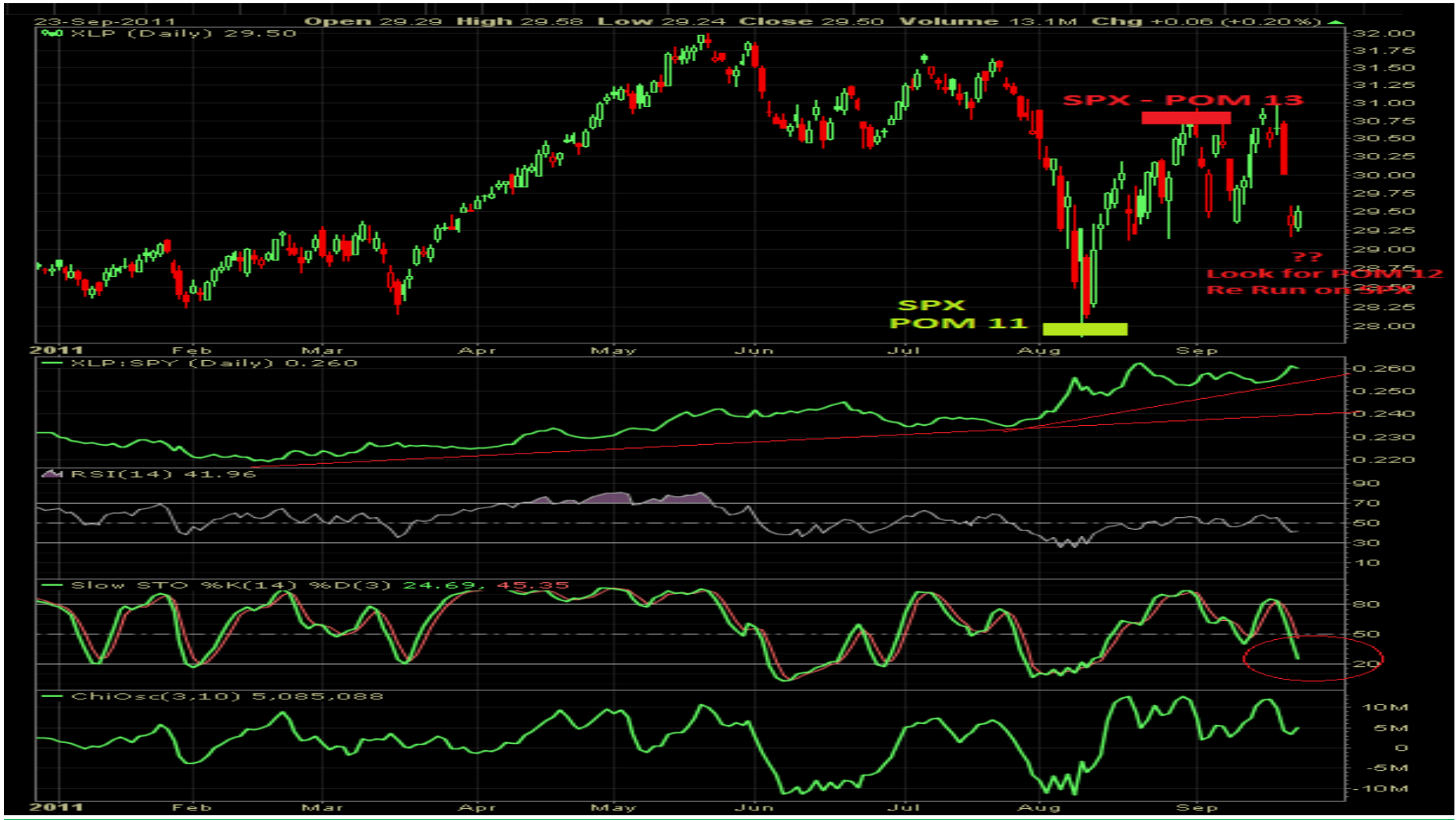
XLP - Special Situation - Defensive Sector - MA / Pattern and Oscillator Analysis

Oscillator still strong in spite of recent decline . 380 DMA may prove critical if we get POM 12 – Trigger on SPX (Refer notes within the chart)



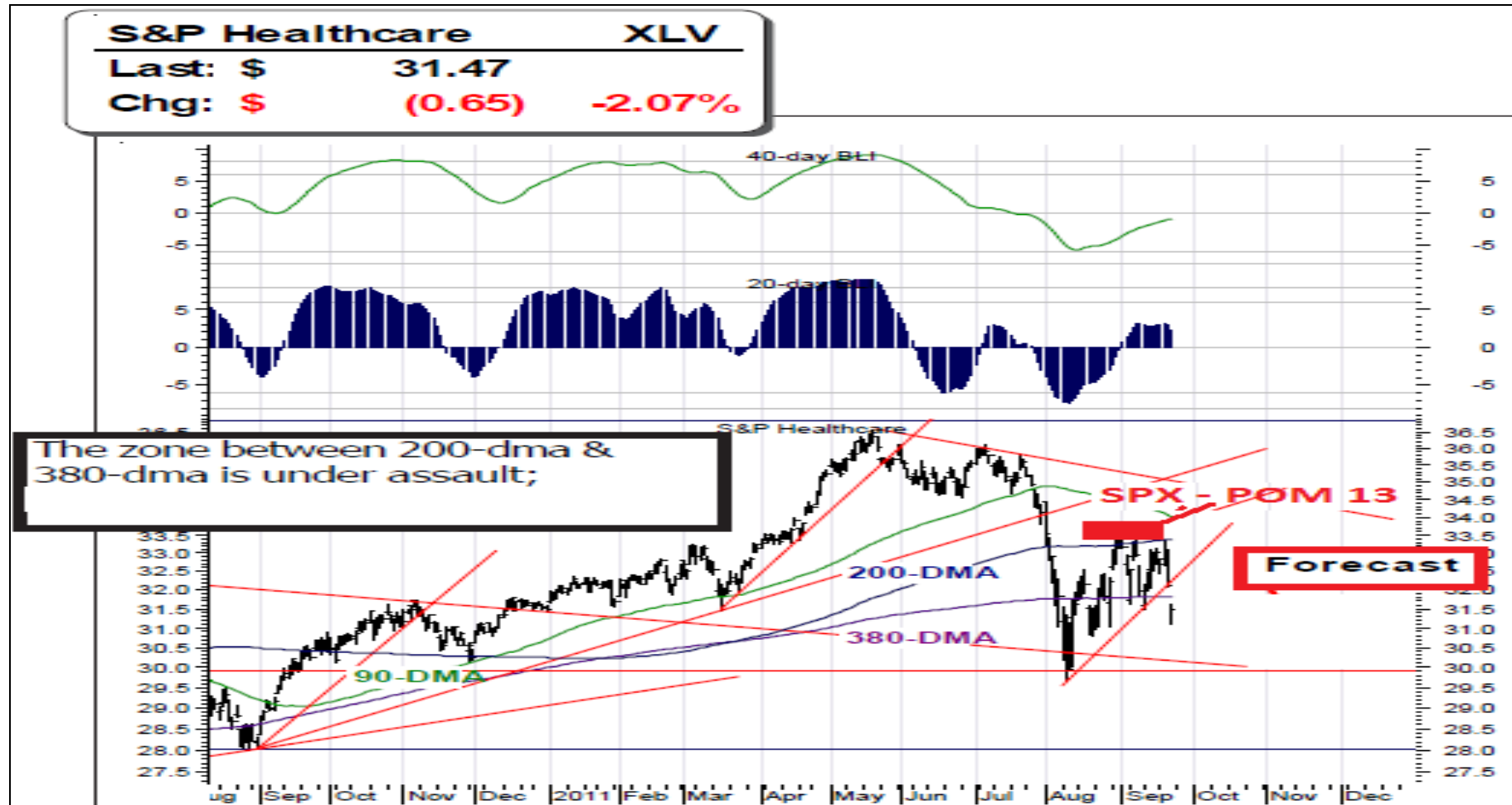
XLP - Special Situation - Defensive Sector Ratio - CZ - Analysis-

XLP / SPY Ratio is in strong Trend. Once the decline is SPX is complete XLP is strong in next rally .



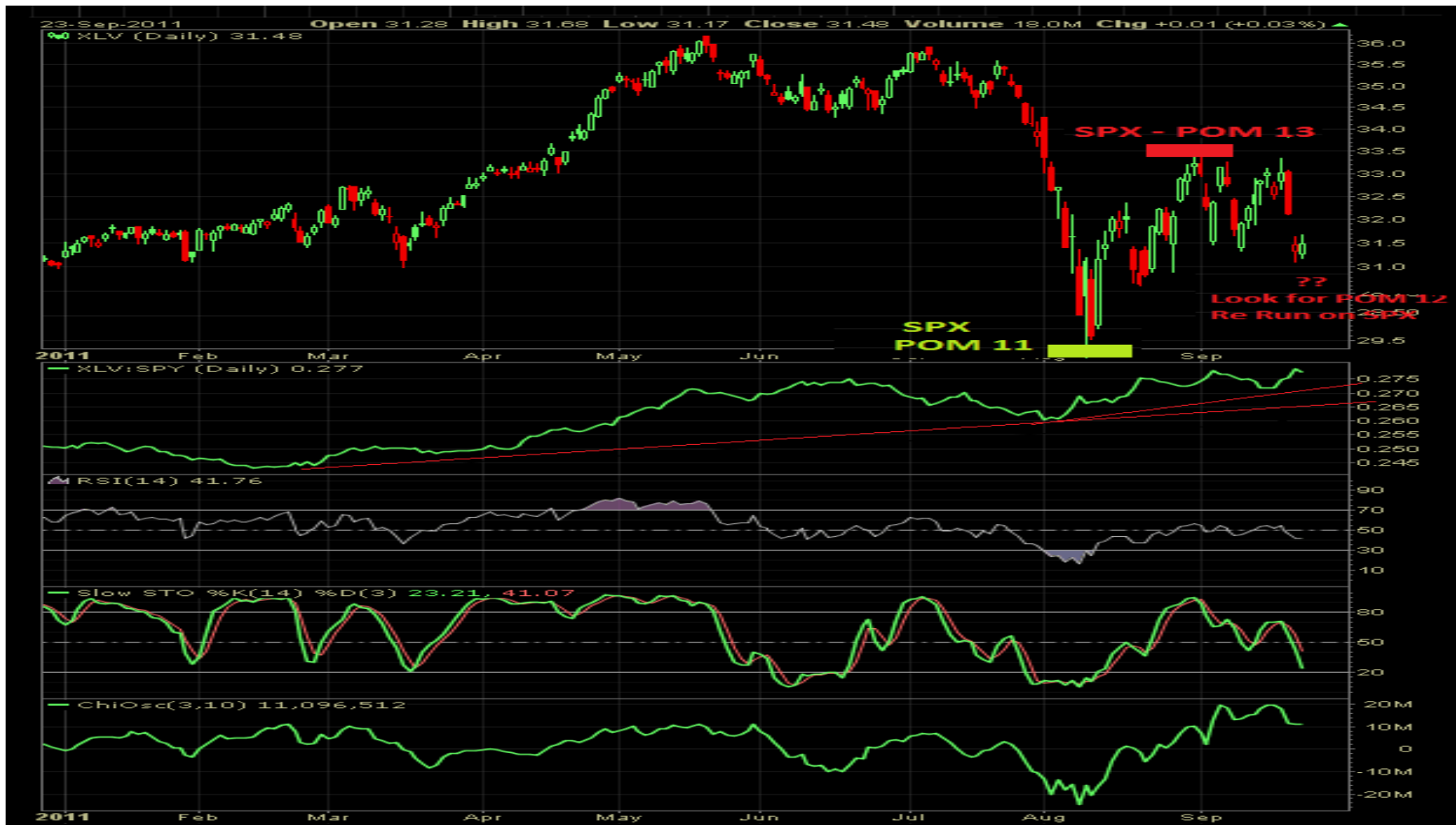
XLV - Special Situation - Defensive Sector – MA / Pattern and Oscillator Analysis

Oscillator (Neutral) during recent decline . 380 DMA & Trend line is broken if we get POM 12 – Trigger on SPX, it will change the XLV texture (Refer notes within the chart)



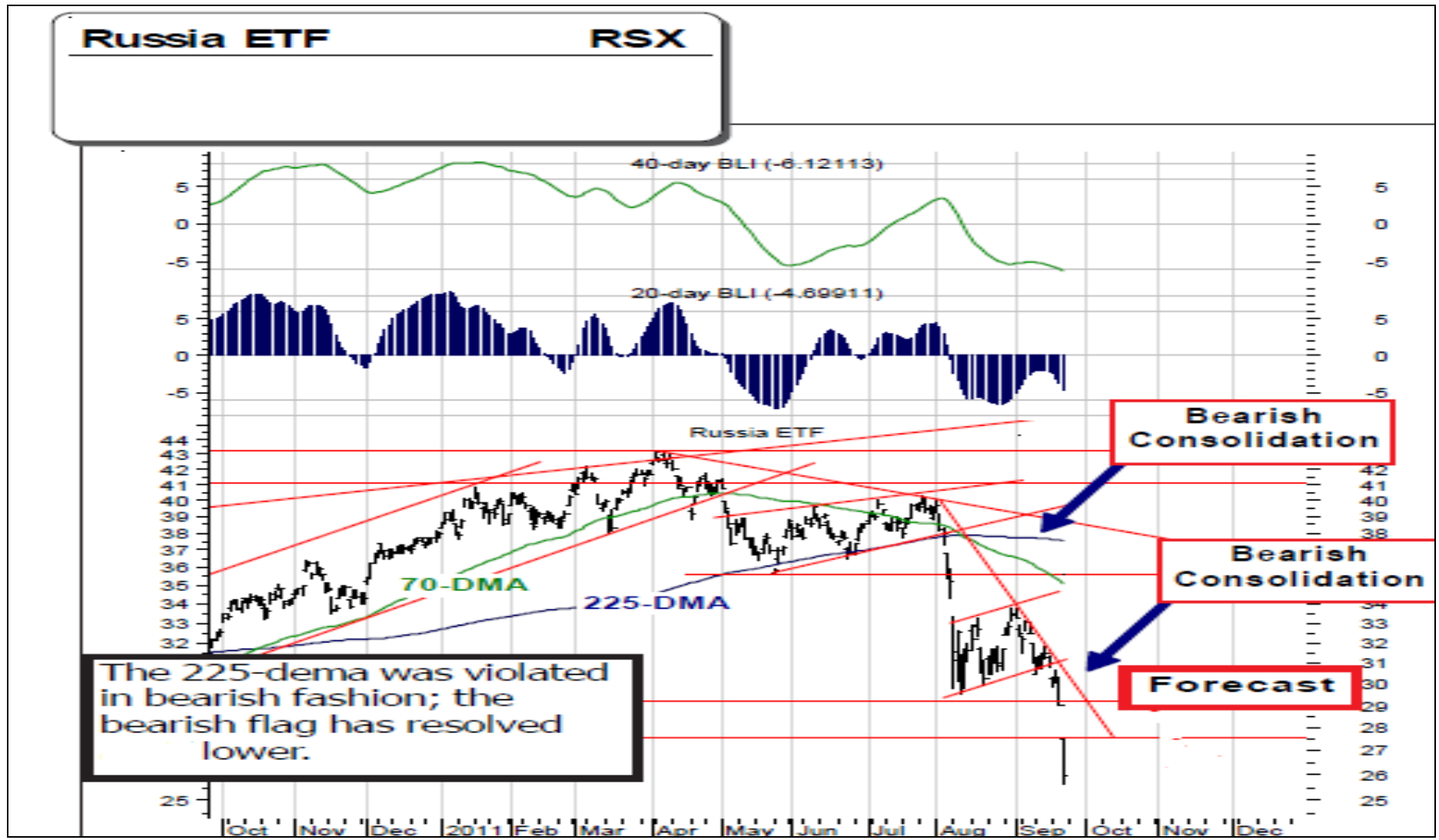
XLV - Special Situation - Defensive Sector Ratio - CZ - Analysis

XLV / SPY Ratio is in strong Trend. Once the decline is SPX is complete XLP is strong in next rally .



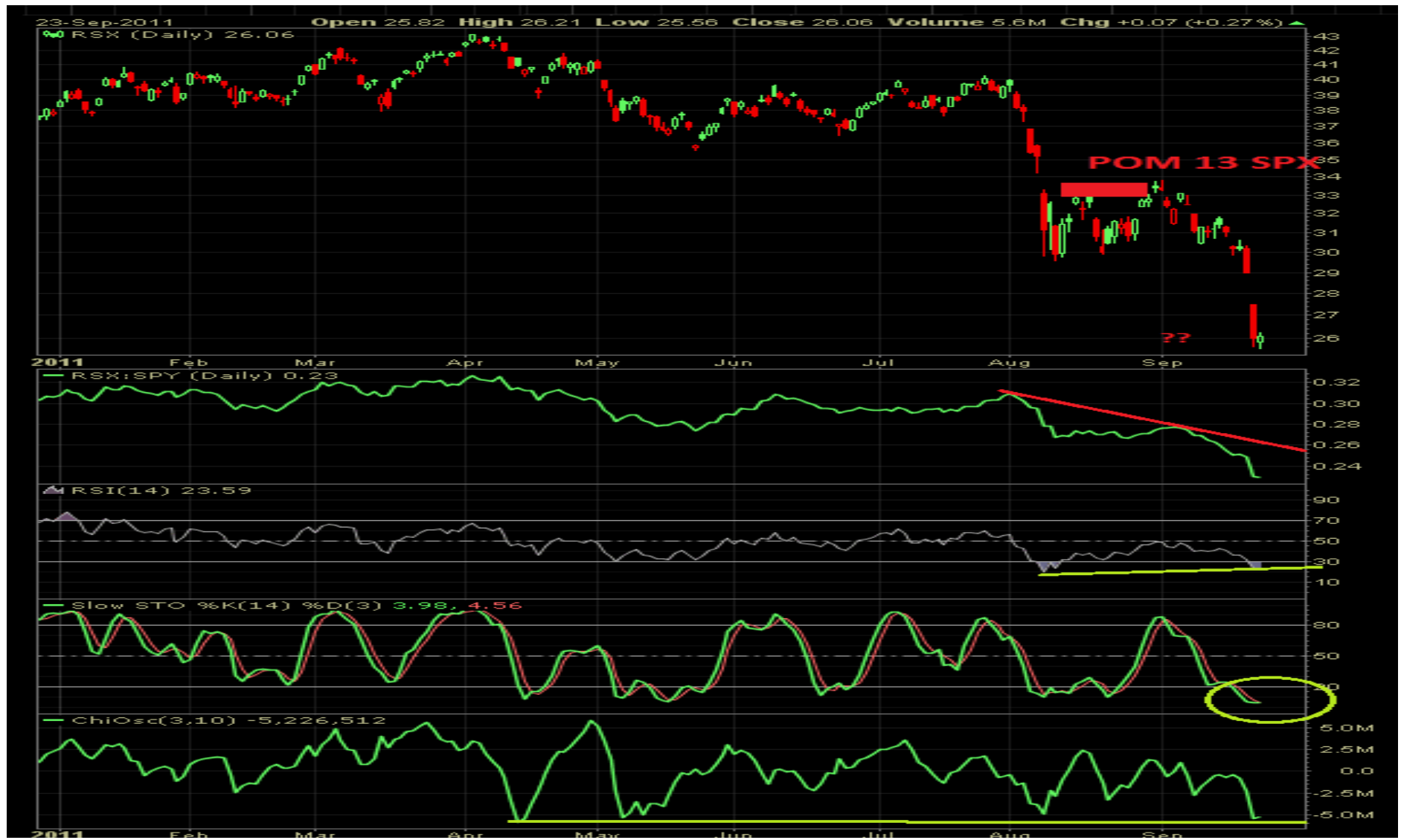
RSX – Russia - UNDERVALUED by SD -New - – MA / Pattern and Osc Analysis

Reflects Commodity Selloff (Oil PRICE DROP) & effect of POM 13- SPX (Refer notes within the chart)



RSX - UNDERVALUED - Ratio - CZ - Analysis

RSX / SPY Ratio is weak BUT - **RSX is oversold with RSI & CHI OSC are positively diverging**. Suggest the snap back rally could be strong, once the POM 12 - SPX is triggered. It appears longer term problems remains till we establish base & with sideways price move.



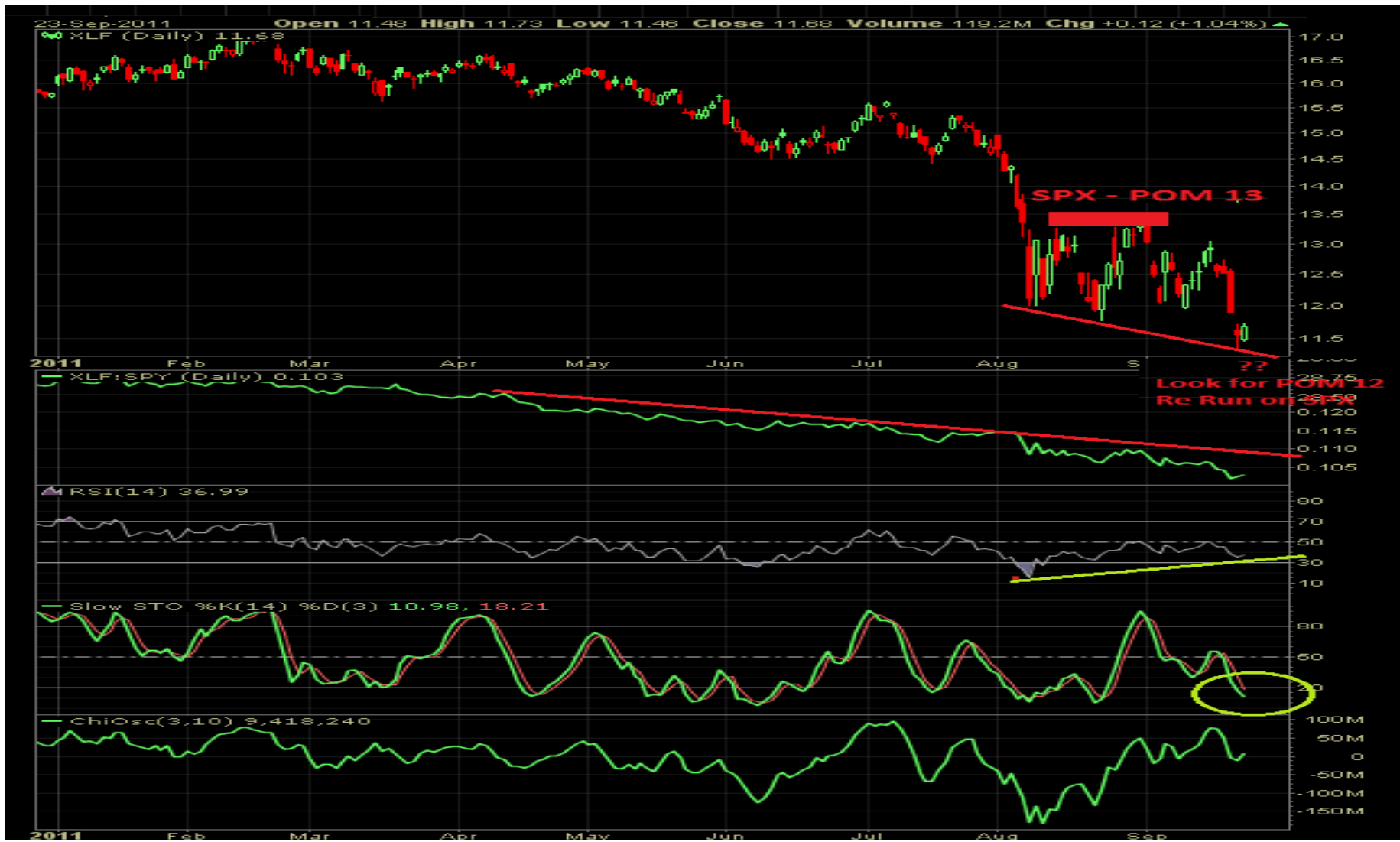
XLF - UNDERVALUED by SD - Update - - MA / Pattern and Oscillator Analysis

XLF, XLB, XLE BREAK TRIANGLE PATTERN – Within XLF, Moody's downgraded a number of big banks last week certainly looks they are late for the Party . Relative weakness in XLF is nothing new . XLF broke the lower trend line of a triangle consolidation.



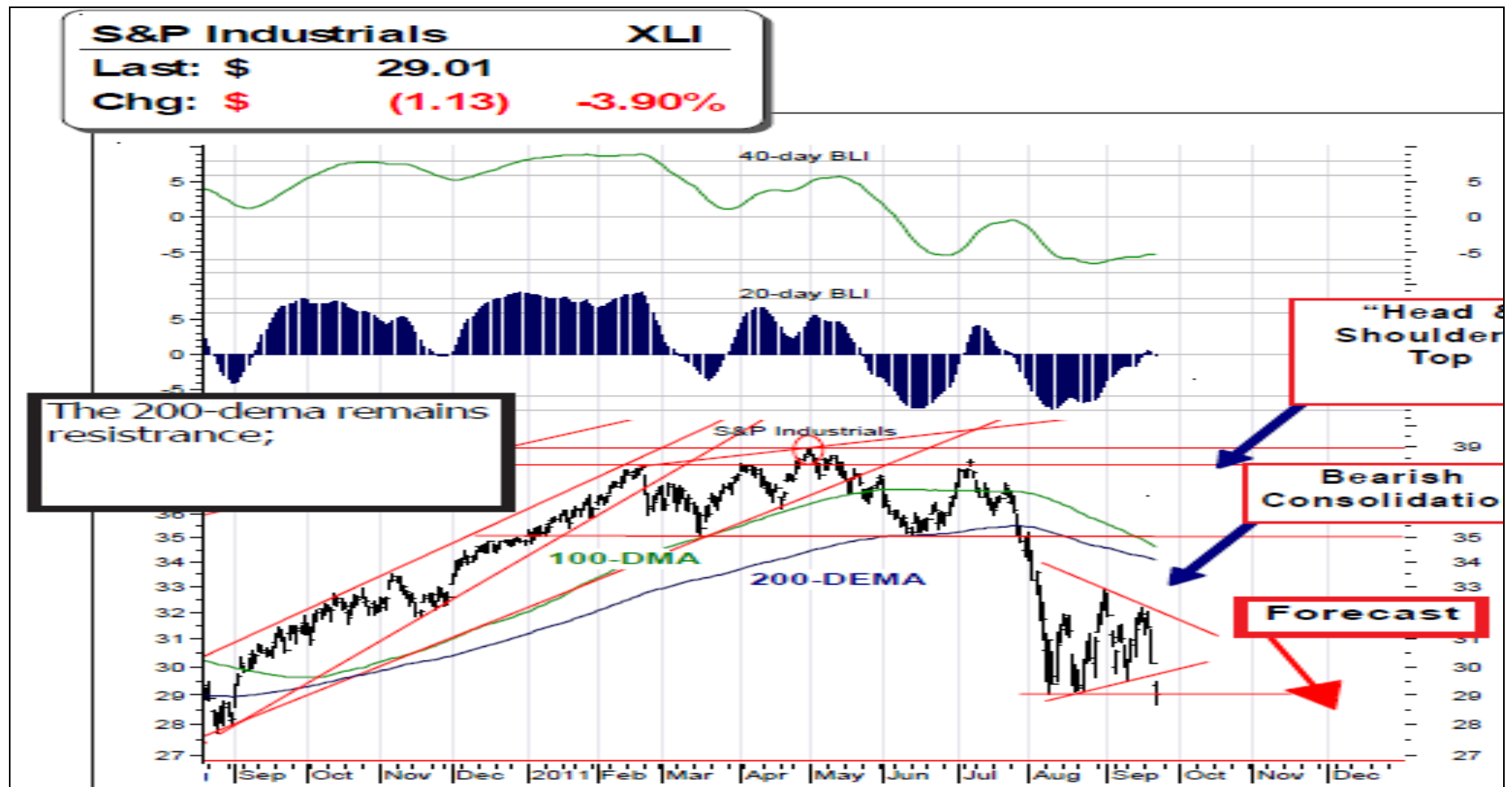
XLF - UNDERVALUED - Update - Ratio - CZ - Analysis

XLF / SPY Ratio is weak BUT - XLF is **oversold with RSI positively diverging**. Suggest the snap back rally could be strong, once the POM 12- SPX is triggered . It appears longer term problems remains till we establish base & sideways price move.



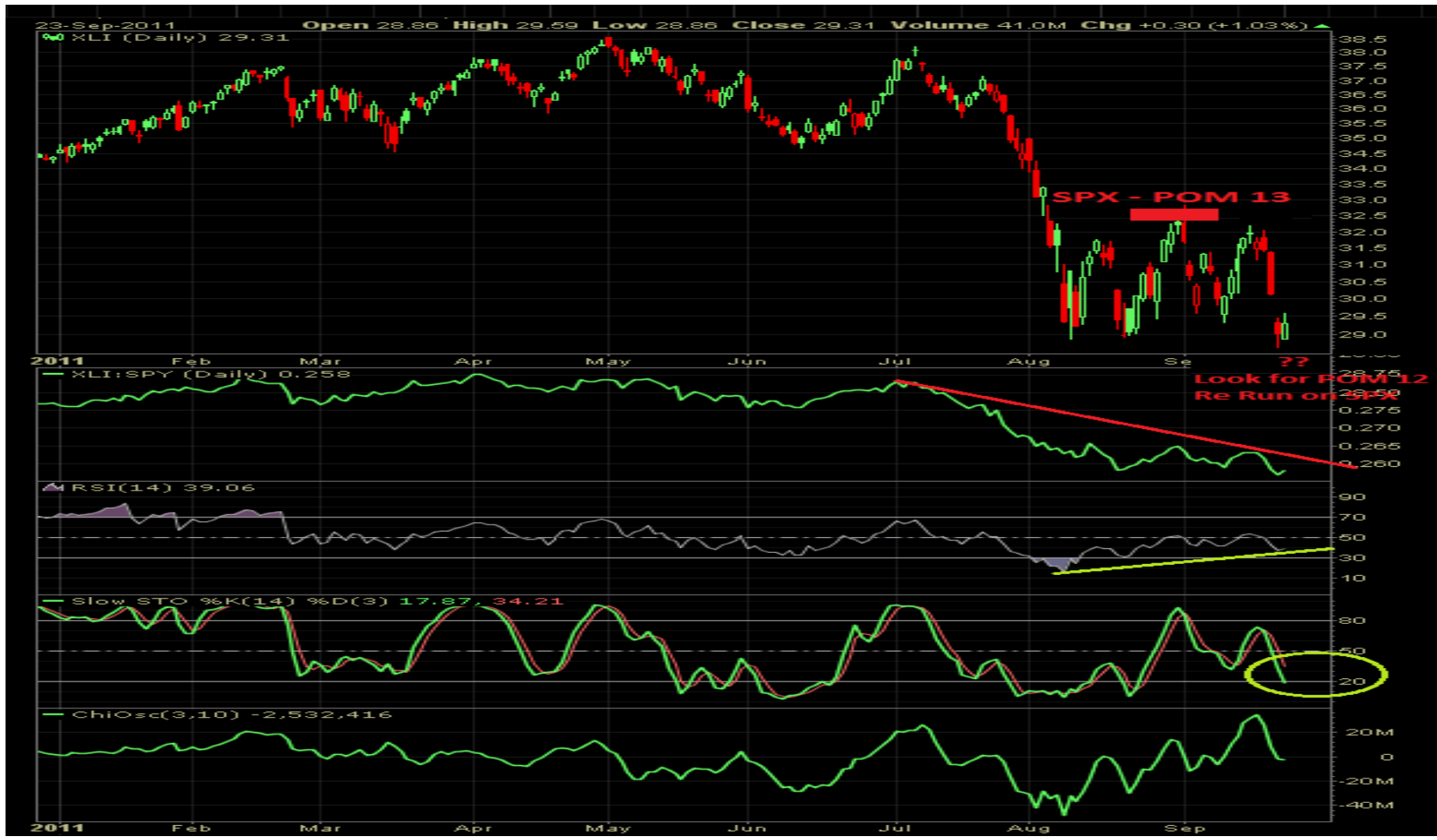
XLI - UNDERVALUED by -Update - - MA / Pattern and Oscillator Analysis

XLI broke the lower trend line of a triangle consolidation. if we get POM 12 - Trigger on SPX this will all change in texture (Refer notes within the chart)



XLI - UNDERVALUED - Update - Ratio - CZ - Analysis

XLI / SPY Ratio is weak BUT - XLI is **oversold with RSI positively diverging**. Suggest the snap back rally could be strong, once the POM 12 - SPX is triggered .



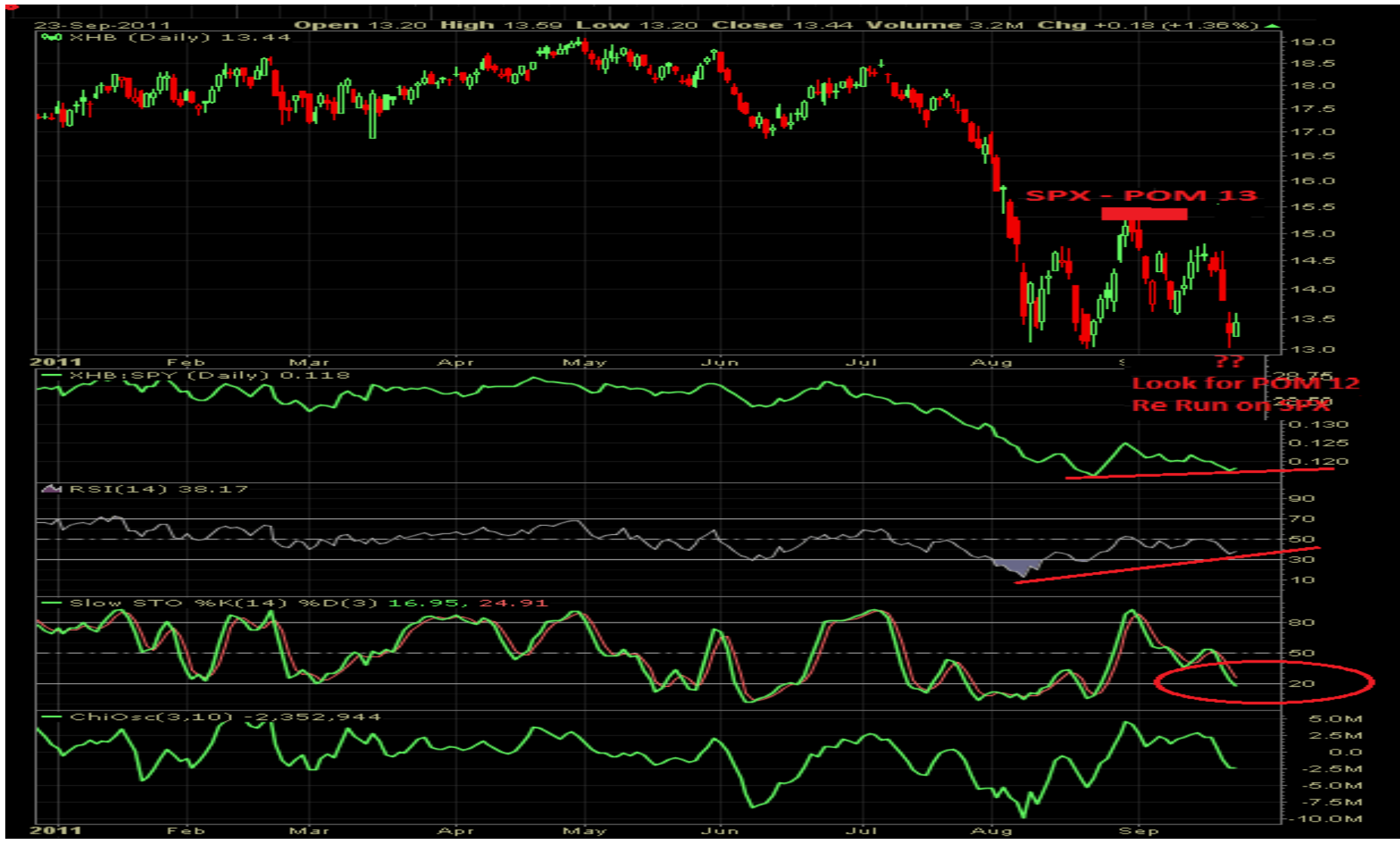
XHB - UNDERVALUED by - Update - - MA / Pattern and Oscillator Analysis

XHB broke the lower trend line of a triangle consolidation. if we get POM 12 - Trigger on SPX this will all change in texture (Refer notes within the chart)



XHB - UNDERVALUED - Update - Ratio - CZ - Analysis

XHB / SPY Ratio is weak BUT - XHB is oversold with RSI positively diverging. Suggest the snap back rally could be strong, once the POM 12 in SPX is triggered



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

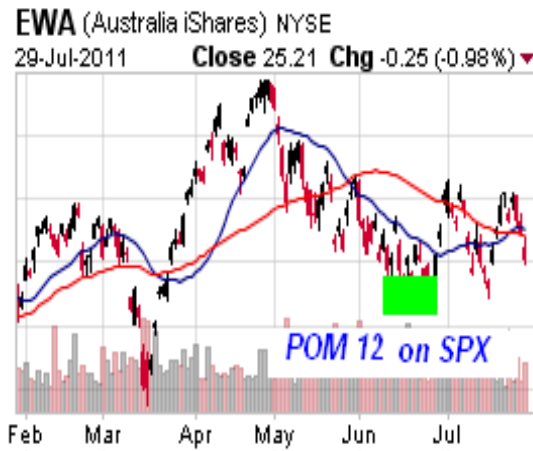


Note – GDX sold off since our Alert @ Bearish CZ 60-61 but GLD has been hanging in tight at 1598 -1615 , our Levels indicated

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

Short term Risk 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

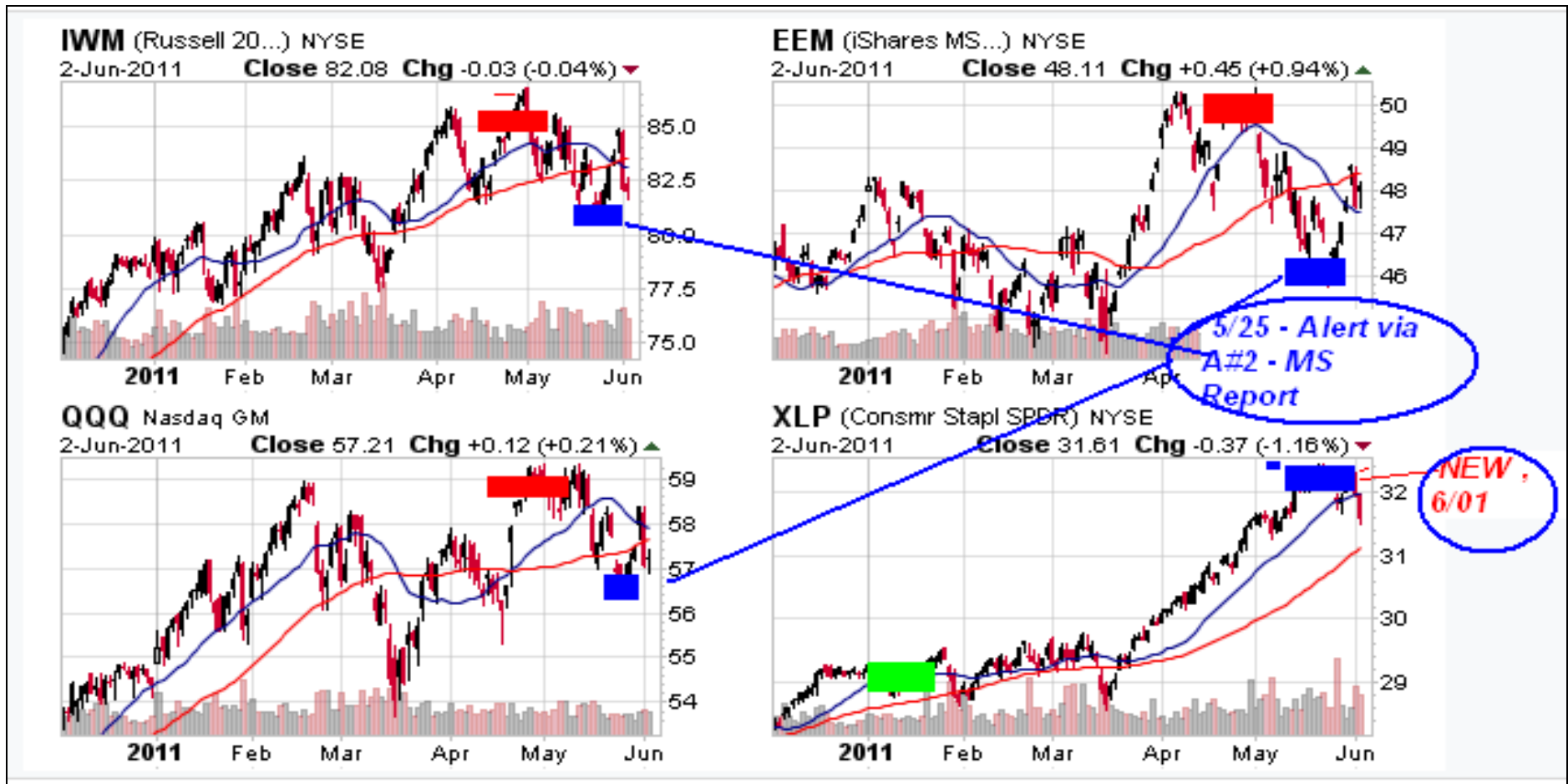
REVERSION TO MEAN - 6/10 - SPX – POM 13 @ 1270 via SD Levels or POM 13 or CZ –

- 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.***

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