Research Note – Growth – Equity Analysis (E # 2)

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- **Daily SPX - " Trend Adjusted Signal" TAS - MO –**
- **3x3 /9EMA – Momentum Break Indicator MO –** Trend Adjusted Signal (TAS)

In 2011 - (6) – TAS – Signals for Risk Management were Triggered as Hedge with SPX

- **Alert - Today This AM - Trigger – TAS Buy at 1135 Dt 8/11 at market Open – SPX Hedge protection removed from 7/27 @ 1307**

   Refer our last Report – 30th July stated -

   TAS Sell at 1307, dt 7/27 . **(Note- This signal is Risk protection, Independent of POM 12)**

o **<u>Key points of observation – Real time</u>**

o **In this massive correction, 3X3 / 9EMA SPX Hedge proved its merit as a Hedge in Growth Portfolio .**

o **Refer our last E # 3 Report. As stated within the Report Portfolio was hedged by SPX from 1307 dt 7/27**

o **In Past 2 weeks (since last Report) - Risk Managed Growth Portfolio was down <u>(– 3.2%) v/s SPX (– 13.6%)</u>**

o **Since 30th July correction (our last Report) , Without the SPX Hedges GROWTH Port would have been down <u>(- 14.3 %) v/s SPX (-13.6%)</u> . The Group has held up well considering the High beta levels of these stocks . Now We'll monitor how the Portfolio bounces back relative to SPX .**

o **YTD – Top 50 Growth Portfolio (with Risk Managed) <mark>up + 11.6% v/s (- 10.8%)</mark> SPX – YTD**

o **Currently Hedge is removed 08/11 @ 1135 this AM (preferably at 10.00 AM).**

Top 50 Growth Portfolio (Risk Managed) – (1st Jan 2011 – Current) – Real Time

- *1st of Jan 2011 – YTD – MAEG Risk Adjusted Portfolio is up + 11.6 % v/s (-10.8) % SPX on Real time basis*

Srno	Symbol	Company Name	EPS % Chg (Last Qtr)	EPS % Chg (Prior Qtr)	EPS Est % Chg (Current Qtr)	EPS Est % Chg (Current Yr)	Sales % Chg (Last Qtr)	Annual ROE (Latest Yr)	Annual Profit Margin (Latest Yr)	Current Price	Validation Price	% gains / losses	Entry Date	Comments
1	LULU	Lululemon Athletica	80	131	25	74	56	30	19.1	51.33	68.42	-25%	12/31/2010	Mark to Market 1st Jan 2011
2	BIDU	Baidu Inc Ads	109	112	137	124	80	40.1	39.8	140.79	96.53	46%	12/31/2010	Mark to Market 1st Jan 2011
3	NFLX	Netflix Inc	42	52	20	32	31	45.2	12.3	232.42	175.7	32%	12/31/2010	Mark to Market 1st Jan 2011
4	CMG	Chipotle Mexican Grill	41	33	30	38	23	19.1	13.4	299.76	212.66	41%	12/31/2010	Mark to Market 1st Jan 2011
5	INFA	Informatica Corp	27	32	19	21	31	21.4	25.1	45.70	44.03	4%	12/31/2010	Mark to Market 1st Jan 2011
6	TSCO	Tractor Supply Co	43	37	19	39	11	17.2	5.7	56.36	48.49	16%	12/31/2010	Mark to Market 1st Jan 2011
7	FOSL	Fossil Inc	82.79	42	92	25	23	33	23.9	85.29	81.77	4%	3/17/2011	
8	TIBX	Tibco Software Inc	33	35	20	20	20	16.2	24.7	22.47	26.96	-17%	4/8/2011	
9	PRGO	Perrigo Co	44	23	26	33	23	26.9	16.2	83.64	81.04	3%	4/8/2011	
10	ULTA	Ulta Salon Cosm & Frag	41	79	35	26	20	21.2	8.4	53.08	49.59	7%	4/15/2011	
11	BIIB	Biogen Idec Inc	32	18	11	14	9	22.6	38.3	85.03	97.65	-13%	4/30/2011	
12	AH	Accretive Health Inc	29	0	150	88	24	27.5	6.4	26.81	28.24	-5%	4/30/2011	
13	HLF	Herbalife Ltd	46	34	11	17	29	70.2	14.8	53.98	106.75	-49%	5/14/2011	
14	EZPW	Ezcorp Inc Cl A	31	33	35	30	21	20.8	20.7	28.27	30.13	-6%	5/14/2011	
15	DLTR	Dollar Tree Inc	34	28	23	20	14	28.6	11.2	63.29	62.67	1%	6/2/2011	
16	PCLN	Priceline.Com Inc	56	71	58	51	38	44.2	28.4	498.80	524.80	-5%	7/2/2011	
17	HANS	Hansen Natural Corp	69	-7	17	27	50	30	26.8	76.46	83.63	-9%	7/2/2011	
18	CHKP	Check Point Sftware Tech	16	20	14	12	15	21	59.5	49.56	56.75	-13%	7/2/2011	
19	VMW	Vmware Inc Cl A	50	48	38	30	33	19.5	28	85.31	99.90	-15%	7/2/2011	
20	MA	Mastercard Inc Cl A	24	30	21	21	15	42.4	49.8	303.71	314.47	-3%	7/2/2011	
21	NUS	Nu Skin Enterprise Cl A	17	26	18	13	9	32.1	13.5	36.91	37.85	-2%	7/2/2011	
22	CVLT	Commvault Systems Inc	19	16	64	16	22	20.4	17	38.45	44.67	-14%	7/2/2011	
23	JAZZ	Jazz Pharmaceuticals Inc	228	91	164	95	45	N/A	35.1	37.61	34.80	8%	7/2/2011	
24	NTES	Netease.Com Inc Adr	69	30	42	34	34	26	46.8	45.03	49.42	-9%	7/16/2011	
25	ALXN	Alexion Pharmaceuticals	45	58	12	31	48	21.6	33.7	48.74	56.80	-14%	7/30/2011	
26	SLW	Silver Wheaton Corp	162	133	220	136	84	14.9	65.3	36.81	36.08	2%	7/30/2011	

Cont… - New Buys indicated in green

27	AAPL	Apple Inc	122	92	50	80	82	35.3	28.4	363.69	390.48	-7%	7/30/2011	
28	DV	Devry Inc	18	25	4	20	12	26.6	21.5	51.72	62.14	-17%	7/30/2011	
29	ISRG	Intuitive Surgical Inc	33	22	30	21	21	21.4	40.5	328.00	400.55	-18%	7/30/2011	
30	GOOG	Google Inc	36	20	14	20	32	23.3	41.5	549.01	603.69	-9%	7/30/2011	
31	CERN	Cerner Corp	26	25	24	24	15	14.5	20.9	54.93	54.93	0%	11/8/2011	New
32	IPGP	I P G Photonics Corp	186	571	125	112	81	18.8	26.5	57.33	57.33	0%	11/8/2011	New
33	SWI	Solarwinds Inc	29	31	10	17	29	42.9	50.9	21.64	21.64	0%	11/8/2011	New
34	BWLD	Buffalo Wild Wings Inc	16	40	26	27	26	16.5	9.3	57.78	57.78	0%	11/8/2011	New
35	RGLD	Royal Gold Inc	75	22	90	51	59	3.5	45.9	68.78	68.78	0%	11/8/2011	New
36	V	Visa Inc Cl A	30	28	31	27	14	12	56.5	79.28	79.28	0%	11/8/2011	New
37	WPI	Watson Pharmaceuticals	22	10	22	30	24	13.5	18.8	60.43	60.43	0%	11/8/2011	New
38	SHPGY	Shire Plc Ads	25	22	10	22	25	36.6	29.8	88.63	88.63	0%	11/8/2011	New
39	ROST	Ross Stores Inc	28	18	20	17	7	44.6	11.4	68.49	68.49	0%	11/8/2011	New
40	EDU	New Orientl Edu&Tech Ads	113	42	32	17	59	23.6	22.6	116.77	116.77	0%	11/8/2011	New
41	HUM	Humana Inc	18	30	1	9	8	18.6	5.6	69.71	69.71	0%	11/8/2011	New
42	LO	Lorillard Inc	18	13	12	14	11	N/A	27.5	99.76	99.76	0%	11/8/2011	New
43	SHOO	Steven Madden Limited	17	14	28	22	32	24.2	19.8	34.03	34.03	0%	11/8/2011	New
44	DSW	D S W Inc	30	37	19	16	12	18.5	9.7	45.70	45.70	0%	11/8/2011	New
45	INT	World Fuel Services Corp	23	10	-3	0	98	17.3	1	32.14	32.14	0%	11/8/2011	New
46	BBBY	Bed Bath & Beyond Inc	38	30	20	20	10	20.9	14.8	50.06	50.06	0%	11/8/2011	New
47	BKE	Buckle Inc	11	17	16	7	12	38.5	22.6	37.23	37.23	0%	11/8/2011	New
48	CXO	Concho Resources Inc	73	34	40	47	124	13.8	40.1	80.98	80.98	0%	11/8/2011	New
49	IAG	Iamgold Corp	157	160	190	73	80	11.1	36.3	20.12	20.12	0%	11/8/2011	New
50	ICON	Iconix Brand Group Inc	30	27	8	26	17	10.2	49	17.96	17.96	0%	11/8/2011	New

	Gains on Closed Position	-172%	
		Total P\L	-257%	
1st JAN 2010 to Current (ABSOLUTE GA	Eq wt gain	-5.1%	Buy & Hold th' Corrections
SPX HEDGES	Trend Adjusted Hedge on SPX SELL(1307 to 1283)	1.8%	RISK MANAGEMENT P/L
	Trend Adjusted Hedge on SPX SELL(1324 to 1309)	-1.1%	
	Trend Adjusted Hedge on SPX (1324 to 1335) Buy	-0.1%	
	Trend Adjusted Hedge on SPX (1337 to 1285)	3.8%	
	Trend Adjusted Hedge on SPX (1307 to 1145)	12.3%	SPX Hedge removed at 1145 at open (Portfolio hedge since 7/27 @ 1307)
	YTD Net Gains after Hedges	11.6%	
	YTD SPX 1257 TO 1120	SPX Gain	-10.8%	

Trend Adjusted Hedge due to whip saw takes bite out of it whiles managing MO risks

Sold positions   This week Qualifies for SETUP # 4 with RA/ RI Scan

							Mark to Market 1st Jan
DECK	Deckers Outdoor Corp	12/31/2010	79.74	11-Aug-11	82.72	4%	Mark to Market 1st Jan 2011
ILMN	Illumina Inc	12/31/2010	63.34	11-Aug-11	51.69	-18%	Mark to Market 1st Jan 2011
TPX	Tempur Pedic Intl Inc	12/31/2010	40.06	11-Aug-11	56.66	41%	Mark to Market 1st Jan 2011
ARMH	A R M Holdings Plc Ads	3/1/2011	29.22	11-Aug-11	23.83	-18%	New
AGP	Amerigroup Corp	3/17/2011	57.76	11-Aug-11	41.43	-28%	New
HS	Healthspring Inc	3/17/2011	37.04	11-Aug-11	30.14	-19%	New
SRCL	Stericycle Inc	4/15/2011	90.66	11-Aug-11	74.45	-18%	New
CHSI	Catalyst Health Sltns	4/30/2011	59.53	11-Aug-11	48.83	-18%	New
CRR	Carbo Ceramics Inc	5/14/2011	153.53	11-Aug-11	129.64	-16%	New
ACOM	Ancestry.Com Inc	5/14/2011	39.80	11-Aug-11	29.08	-27%	New
AVGO	Avago Technologies Ltd	6/2/2011	33.77	11-Aug-11	29.25	-13%	New
BPI	Bridgepoint Education	6/2/2011	23.68	11-Aug-11	21.28	-10%	New
SOLR	G T Solar International	7/2/2011	16.18	11-Aug-11	11.78	-27%	New
TNAV	Telenav Inc	7/16/2011	20.83	11-Aug-11	8.41	-60%	New
COH	Coach Inc	7/16/2011	65.48	11-Aug-11	52.63	-20%	New
WLT	Walter Energy Inc	7/30/2011	122.57	11-Aug-11	74.33	-39%	New
RADS	Radiant Systems Inc	7/30/2011	28.19	11-Aug-11	27.76	-2%	New
CLF	Cliffs Natural Resources	7/30/2011	89.82	11-Aug-11	71.20	-21%	New
SOHU	Sohu.Com Inc	7/30/2011	90.10	11-Aug-11	74.66	-17%	New
SSRI	Silver Standard Res	7/30/2011	27.40	11-Aug-11	26.17	-4%	New

Key point – These EQUITIES are Sold and are good candidate to review for RA / RI over valuation for SHORT SELL

- **APPENDIX - Key points (Notes from past)**

- *Our own Growth Strategy completely fits in to the Criteria of **- Dr Chris Kacher Analysis** Fundamentally and Technically .*

- *With reference to **GMO paper**, this Growth stock Model also very much fits in majority of those criteria , once we overlay F- Score, P/PB strategy and other RA / RI Matrix (HQ) ,It should give us Buy list to project Equally weighted MAEG growth Index for Monitoring purposes with Bi -Monthly rebalancing*

- *For Risk Management via " Trend Adjusted Signal on SPX" Triggers Sell Signal , the portfolio will be Hedge 100% via Short SPX. Currently SPX is on Buy side, We experience Tow such Sells in past 4 months*

- *Out of the 50 Top Growth stock list, the Sold stocks are complies with Overvaluation, SD # 2 (Sectors), post POM 14 and Technically break on Momentum stock process. This list would fit well with our SETUP # 4 (after it is sort the out for RA / RI Framework in LQ) (We have began this process)*

- *Conversely , All high Quality Stocks from this Growth list to be viewed within RA/RI Framework for POM*

- *12, 11 for PQV Analysis at that time (We will initiate this process Prior to POM 12, 11)*

• <u>Objective</u>

The Focus is to add another dimension to our "Stock selection process" via Bi- Weekly scan of Bottoms up "Growth Stock universe " and validate Top down to " Separate potential Long / Short" List Utilizing, POM's, Sector SD's, PQV & SETUP INDEX within RA / RI framework as described in process steps below

> ➤ ***Our Objective on BUY SIDE of this Portfolio*** *– to be Refined / Filtered further within RA / RA framework for POM 13 entry (Process still pending) . Also note worthy is, currently some of these growth stocks has premature texture of SETUP # 4 that continues to drive P/L on this Portfolio as LONG POSITIONS*

> ➤ ***Our Objective on SELL SIDE of this Portfolio*** *- Among the SOLD / EXITED stocks (**also classified as Declining MO)** , are now qualified for our MAEG Setup # 4 evaluation (We have some in our PQV Validation process, awaiting Trigger). (Process initated)*

<u>Step 1</u> *– SELECTION OF GROWTH STOCKS – <u>Buy Side Discipline,</u>*
Attached, *" Growth Stock list of 50 Stocks"* selected with that has distinct characteristics.

- ❑ *EPS YoY / QoQ*
- ❑ *Sales Growth YoY /QoQ*
- ❑ *Positive Earnings Surprises*
- ❑ *High Relative Performance vs. Market*
- ❑ *ROE increase YoY*
- ❑ *Margin Expansion YoY*
- ❑ *Increase in Ownership YoY*
- ❑ *Increase in Sponsorship YoY*
- ❑ *Attractive Free Cash Flow*
- ❑ *Breakout from Consolidation with Momentum (E.G. Momentum SMA, Pivot point break outs)*

Step 2 *– SEPARATION OF GROWTH STOCKS VIA SPX - POM STATUS*

- ### *At POM 14 and above Scan for SHORT list via (OVEREXTEDED & OVERVALUED)*

- ❑ *Over Valuation of Stock within MAEG -RA/RI framework*
- ❑ *Over Valuation of Sector via Standard deviation (SD's)*
- ❑ *Setup Index Analysis (# 2, #4)*
- ❑ *PQV Validation Analysis*
- ❑ *3X3 / 9EMA breakpoint – Trend adjusted Signal Analysis (If applicable)*

- ### *At POM 12 and 11 Scan for LONG list via (HIGH QUALITY BUSINESS & UNDERVALUE)*

- ❑ *Under Valuation of Stock within MAEG -RA/RI framework*
- ❑ *Under Valuation of Sector via Standard deviation (SD's)*
- ❑ *Setup Index Analysis (# 1, # 3)*
- ❑ *PQV Validation Analysis*
- ❑ *3X3 / 9EMA breakpoint - Trend adjusted Signal Analysis (If applicable)*
- ❑ *Additional key ingredients of Dr Chris Kacher Analysis (if applicable)*

Key points

1. Integration of - Dr Chris Kacher Analysis. Since it is Bull market focused, therefore more values can be at POM 12 however part of its Analysis is also utilized within our own PQV process under its own different terminologies inferring the same conclusions

2. At POM 15 Dr Chris Kacher Analysis can add value to our process by taking contra view on the process.

3. 3X3 / 9EMA Breakpoint – Trend Adjusted Signal is more improvised then 10-DMA, which doesn't take into account the break of lows Program trades and Single dimensional 10 DMA tends to whip saw at higher degree.

Step 3 *– OUTCOME OF THIS ANALYSIS WILL BE ACTIONABLE IDEAS OF INTEGRATED PROCESS*

- ## **Growth Insights**

  - *We are working on Rational filtering process on "Buy Side" Objective on these MO stocks.*
  - *Simultaneously has been filtering SETUP # 4 's on "Sell Side" for Short Sell. (see list below)*
  - *This Work in Progress for Research Team*

Daily SPX - " Trend Adjusted Signal"

- ## **3x3 /9EMA – Break Indicator –**

The process utilizes the cumulative Algorithm of price trails 3x3 / 9EMA input signals for Trend formation. This signal tends to work well in Market extensions (i.e. Post POM 14).

This Methodology is implemented by Program Traders especially in Momentum extensions and diagonal triangle formation Trend-following system which bases its reversal signals on breaking a significant closing Break Indicator I to confirm the new trend. (it's important to use a stop if you act on a signal). The reversal price is generated on the close of a bar. (The drawback of strategy is that it can whip saw).

INTERNALS OF 3X3- 9EMA – Break Indicator.

The line break indicator has captured the post POM 14 Moves on a mechanical basis. Although can't guarantee it will continue. But, even if it misses on occasion , it's still is the best indicator we've ever seen in Market for extensions.

Tight trading ranges tend to cause whipsaws and those are environments where trading multiple markets can help for diversification, in SPX & DOW. The reason is that we have a purely mechanical indicator, our line break indicator, that is much better to use. That indicator has proven extremely good over the past several months in many markets in many extensions.

As a reminder of how simple this indicator is, when the market closes above the "break" price level, the indicator is ""bullish"; when the market closes below the break price, the indicator is then "bearish". at the close