



SG Capital Research

Global Market Insights

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

MAEG – BI - WKLY GROWTH_EQUITY ANALYSIS SG 2011 # DEC_03

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Growth Equity Analysis (Risk Managed with SPX Hedge) (E # 2)

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EXECUTIVE SUMMARY.

○ Key points of observation – Real time

○ Prop Growth Strategy (Long only without hedges) has been Outperforming SPX and holding well in each correction v/s SPX & comparative to GS or MER – Growth Index.

○ YTD MAEG Growth + 3.0%

○ YTD SPX (- 1.0 %)

○ Conclusion – Overall YTD P/L – Top 50 Growth Portfolio (with Risk Managed SPX Hedges with TAS & POM's Real time)..... up + 32.5 % v/s (- 1.0 %) SPX dn. .

○ Gains from Hedges via POM / TAS resulted at 29.3%. This is similar to 2008 where the Gains in Portfolio were derived from SPX / POM's in the Portfolio & not the stocks in the down market.

○ In 2012 , we plan to initiate Growth Equity Short Portfolio (with exited Growth stocks from E # 2) to be Risks managed with SPX long Hedges activated by POM's.

○ Upon checking (226) EXITED STOCKS this year, we found that 88% were available for Shorting = 200 stock. Note – We need to work on exit Criteria for Buy to Cover for rebalancing

- SPX - “ Trend Adjusted Signal” TAS - MO
- Momentum Break Indicator MO – Trend Adjusted Signal (TAS)

In 2011 - (8) – TAS / POM – Signals for Risk Management were Triggered as Hedge with SPX

Refer B # Currency Report dated 23rd Nov – LAST ALERT - For E # 2 – Growth Equity,
We stated this “ This Portfolio is currently HEDGED Under Risk Management – We announce this
AM @ open to I close (½ Position on that SPX Hedge) □ The 2nd Half position will closed either when our
Target 1125 SPX is reached OR Close above 1200 (whichever comes first)” These event took place
on 23rd Nov @ 1175 & 11/29 @ 1200

(NEW) – TAS – SPX “ SELL “ To be Triggered close below 1240 .
Portfolio will be Hedged

(Note- TAS This signal is Risk protection, it can be overridden by POM). Caution - Trend Adjusted Hedge due to whip
saw takes bite out of it whiles managing MO risks

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

- 1st of Jan 2011 – YTD – MAEG Risk Adjusted Portfolio **is up + 32.5 % v/s (- 1.0) % 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	Market Cap
1	LULU	Lululemon Athletica	80	131	25	74	56	30	19.1	49.69	34.21	45%	12/31/2010	Mark to Market 1st Jan 2011	7149.594
2	CMG	Chipotle Mexican Grill	41	33	30	38	23	19.1	13.4	330.49	212.66	55%	12/31/2010	Mark to Market 1st Jan 2011	10343.16
3	TSCO	Tractor Supply Co	43	37	19	39	11	17.2	5.7	72.20	48.49	49%	12/31/2010	Mark to Market 1st Jan 2011	5127.995
4	PRGO	Perrigo Co	44	23	26	33	23	26.9	16.2	98.96	81.04	22%	4/8/2011		9257.404
5	ULTA	Ulta Salon Cosm & Frag	41	79	35	26	20	21.2	8.4	74.19	49.59	50%	4/15/2011		4591.665
6	HLF	Herbalife Ltd	46	34	11	17	29	70.2	14.8	55.87	53.38	5%	5/14/2011		6498.949
7	DLTR	Dollar Tree Inc	34	28	23	20	14	28.6	11.2	81.75	62.67	30%	6/2/2011		9730.302
8	HANS	Hansen Natural Corp	69	-7	17	27	50	30	26.8	93.83	83.63	12%	7/2/2011		8170.042
9	MA	Mastercard Inc Cl A	24	30	21	21	15	42.4	49.8	378.38	314.47	20%	7/2/2011		48536.15
10	NUS	Nu Skin Enterprise Cl A	17	26	18	13	9	32.1	13.5	47.07	37.85	24%	7/2/2011		2926.171
11	ALXN	Alexion Pharmaceuticals	45	58	12	31	48	21.6	33.7	66.98	56.80	18%	7/30/2011		12401.15
12	ISRG	Intuitive Surgical Inc	33	22	30	21	21	21.4	40.5	433.85	400.55	8%	7/30/2011		16917.65
13	BWLD	Buffalo Wild Wings Inc	16	40	26	27	26	16.5	9.3	64.19	57.78	11%	11/8/2011		1178.232
14	RGLD	Royal Gold Inc	75	22	90	51	59	3.5	45.9	79.61	68.78	16%	11/8/2011		4348.445
15	V	Visa Inc Cl A	30	28	31	27	14	12	56.5	97.20	79.28	23%	11/8/2011		67206.52
16	GOLD	Randgold Resources Adr	221	114	427	332	213	6	30	104.26	108.84	-4%	9/17/2011		9563.131
17	TDG	Transdigm Group Inc	38	24	22	29	52	25.1	32.9	96.54	92.37	5%	9/17/2011		4860.252
18	DG	Dollar General Corp	24	14	21	23	11	17.3	7.8	39.94	38.07	5%	9/17/2011		13642.91
19	SPRD	Spreadtrum Comm Inc Ads	91	224	49	45	124	52.4	26	26.41	20.67	28%	9/17/2011		1274.895
20	ROST	Ross Stores Inc	20	28	5	17	9	44.6	11.4	92.42	78.69	17%	10/1/2011		10683.64
21	HUM	Humana Inc	18	30	0	10	8	18.6	5.6	89.11	72.73	23%	10/1/2011		14569.82
22	CVLT	Commvault Systems Inc	91	19	11	20	38	20.4	17	49.70	37.06	34%	10/1/2011		2163.008
23	BIIB	Biogen Idec Inc	4	32	13	14	0	22.6	38.3	113.24	93.15	22%	10/1/2011		27507.96
24	NUAN	Nuance Communications	17	14	21	13	20	16.5	35.3	24.06	23.90	1%	10/14/2011		7236.328
25	SWI	Solarwinds Inc	29	31	10	17	29	42.9	50.9	32.13	24.43	32%	10/14/2011		2348.541
26	TIBX	Tibco Software Inc	35	40	13	24	24	16.2	24.7	27.60	26.52	4%	10/14/2011		4553.327
27	QCOR	Questcor Pharmaceutical	95	53	200	93	91	39.1	49.8	43.20	42.50	2%	11/19/2011		2709.783

Cont...Top 50 Stocks ... New Buys indicated in green

25	SWI	Solarwinds Inc	29	31	10	17	29	42.9	50.9	32.13	24.43	32%	10/14/2011	
26	TIBX	Tibco Software Inc	35	40	13	24	24	16.2	24.7	27.60	26.52	4%	10/14/2011	
27	QCOR	Questcor Pharmaceutical	95	53	200	93	91	39.1	49.8	43.20	42.50	2%	11/19/2011	
28	AUY	Yamana Gold Inc	63	150	13	68	22	6.3	27.6	16.14	15.42	5%	11/19/2011	
29	PNRA	Panera Bread Co Cl A	29	39	17	28	22	18.8	11.7	142.10	133.98	6%	11/19/2011	
30	PII	Polaris Industries Inc	38	82	13	49	26	51.1	11	61.53	60.78	1%	11/19/2011	
31	CRR	Carbo Ceramics Inc	83	59	82	72	41	16.1	25.2	140.08	144.78	-3%	11/19/2011	
32	MELI	Mercadolibre Inc	36	26	36	29	46	39.8	33.7	85.34	83.15	3%	11/19/2011	
33	CXO	Concho Resources Inc	48	73	53	47	101	13.8	39.4	102.38	95.27	7%	11/19/2011	
34	RHT	Red Hat Inc	47	33	30	27	28	13.6	25.7	50.22	49.04	2%	11/19/2011	
35	GWW	Grainger W W Inc	26	35	17	32	11	23	11.6	186.20	176.34	6%	11/19/2011	
36	DECK	Deckers Outdoor Corp	49	N/A	37	24	49	27.7	25	106.88	100.14	7%	11/19/2011	
37	HIBB	Hibbett Sports Inc	50	29	16	25	10	24.7	11	45.40	43.30	5%	11/19/2011	
38	INT	World Fuel Services Corp	26	23	11	6	91	17.3	1	42.41	40.62	4%	11/19/2011	
39	NOG	Northern Oil & Gas Inc	111	71	85	80	599	6.4	58.1	24.26	24.26	0%	12/3/2011	New
40	FFIV	F5 Networks Inc	34	47	15	17	24	29.2	39.1	112.42	112.42	0%	12/3/2011	New
41	HMSY	H M S Holdings Corp	31	27	21	26	15	14.7	22	29.92	29.92	0%	12/3/2011	New
42	GOOG	Google Inc	27	36	19	24	33	23.3	41.5	620.36	620.36	0%	12/3/2011	New
43	VRSK	Verisk Analytics Cl A	25	24	13	21	18	N/A	38.3	39.30	39.30	0%	12/3/2011	New
44	TJX	T J X Cos Inc	15	23	17	14	5	47.4	10.2	62.24	62.24	0%	12/3/2011	New
45	SBNY	Signature Bank	26	56	17	35	20	11.7	34.6	58.64	58.64	0%	12/3/2011	New
46	ANSS	Ansys Inc	29	24	8	20	24	13.9	49	60.33	60.33	0%	12/3/2011	New
47	RL	Ralph Lauren Corp Cl A	18	57	-2	22	24	17.7	14.6	144.71	144.71	0%	12/3/2011	New
48	FAST	Fastenal Co	32	39	32	33	20	21.5	19	41.60	41.60	0%	12/3/2011	New
49	EBIX	Ebix Inc	24	17	-7	21	28	27.4	42.2	20.34	20.34	0%	12/3/2011	New
50	NTES	Netease.Com Inc Adr	48	65	22	49	47	26	46.8	46.51	46.51	0%	12/3/2011	New

Gains on Closed Position -438%

Total P\L 160%

1st JAN 2010 to Current (Eq wt gain) 3.2% LONG ONLY - BUY & HOLD

Cont...P /L with SPX Hedges for Top 50 Stocks

		Total P\L	160%
1st JAN 2010 to Current (Eq wt gain	3.2%
LONG ONLY - BUY & HOLD			
SPX HEDGES RISK MANAGEMENT P/L			
<u>TAS -1</u>	Trend Adjusted Hedge on SPX SELL (1307 to 1283)		1.8%
<u>TAS -2</u>	Trend Adjusted Hedge on SPX SELL (1324 to 1309)		-1.1%
<u>TAS -3</u>	Trend Adjusted Hedge on SPX (1324 to 1335) Buy		-0.1%
<u>TAS -4</u>	Trend Adjusted Hedge on SPX (1337 to 1285)		3.8%
<u>TAS -5 /POM</u>	Trend Adjusted Hedge on SPX (1307 to 1145)		12.3%
<u>TAS -6 /POM</u>	Trend Adjusted Hedge on SPX (1204 to 1080)		10.3%
<u>TAS -7 (1/2)/ POM</u>	Trend Adjusted Hedge on SPX (1203 to 1175)		2.3%
<u>TAS -7 (1/2)/ TAS</u>	Trend Adjusted Hedge on SPX (1203 to 1200)		0.0%
		<u>HEDGE P/L = 29.3%</u>	
YTD Net Gains after Hedges		32.5%	(Portfolio Currently UN -hedged since 11/29 @ SPX -1200)
YTD SPX 1257 TO 1244.28 SPX Gain		-1.0%	

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

EZPW	Ezcorp Inc Cl A	5/14/2011	30.13	19-Nov-11	27.44	-9%	New
PCLN	Priceline.Com Inc	7/2/2011	524.80	19-Nov-11	496.92	-5%	New
AAPL	Apple Inc	7/30/2011	390.48	19-Nov-11	374.94	-4%	New
IPGP	I P G Photonics Corp	11/8/2011	57.33	19-Nov-11	43.06	-25%	New
WPI	Watson Pharmaceuticals	11/8/2011	60.43	19-Nov-11	65.79	9%	New
SHPGY	Shire Plc Ads	11/8/2011	88.63	19-Nov-11	95.01	7%	New
EDU	New Orientl Edu&Tech Ads	11/8/2011	29.19	19-Nov-11	22.78	-22%	New
ARCO	Arcos Dorados Hldgs Cl A	17/9/2011	27.36	19-Nov-11	21.22	-22%	New
EGO	Eldorado Gold Corp	17/9/2011	20.09	19-Nov-11	17.19	-14%	New
GFI	Gold Fields Ltd Adr	17/9/2011	17.09	19-Nov-11	15.97	-7%	New
HMSY	H M S Holdings Corp	17/9/2011	25.91	19-Nov-11	28.75	11%	New
AVGO	Avago Technologies Ltd	17/9/2011	36.49	19-Nov-11	29.86	-18%	New
NEM	Newmont Mining Corp	17/9/2011	65.72	19-Nov-11	65.46	0%	New
ARMH	A R M Holdings Plc Ads	17/9/2011	28.21	19-Nov-11	27.66	-2%	New
CHSI	Catalyst Health Sltns	10/1/2011	57.69	19-Nov-11	49.36	-14%	New
BBBY	Bed Bath & Beyond Inc	10/1/2011	57.31	19-Nov-11	59.99	5%	New
FAST	Fastenal Co	10/1/2011	33.28	19-Nov-11	40.04	20%	New
THOR	Thoratec Corp	10/1/2011	32.64	19-Nov-11	28.27	-13%	New
FDO	Family Dollar Stores	10/1/2011	50.86	19-Nov-11	56.72	12%	New
CHKP	Check Point Software Tech	10/1/2011	52.76	19-Nov-11	53.92	2%	New
TJX	T J X Cos Inc	10/1/2011	55.47	19-Nov-11	59.54	7%	New
DSW	D S W Inc	10/1/2011	46.18	19-Nov-11	44.8	-3%	New
WCN	Waste Connections Inc	14/10/2011	34.25	19-Nov-11	31.85	-7%	New
LO	Lorillard Inc	14/10/2011	117.53	19-Nov-11	109.49	-7%	New
JAZZ	Jazz Pharmaceuticals Inc	14/10/2011	44.14	19-Nov-11	37.3	-15%	New
VRSK	Verisk Analytics Cl A	14/10/2011	34.90	19-Nov-11	36.19	4%	New
BKE	Buckle Inc	14/10/2011	41.45	19-Nov-11	38.95	-6%	New
SBNY	Signature Bank	14/10/2011	51.13	19-Nov-11	55.55	9%	New
KLAC	K L A Tencor Corp	14/10/2011	43.85	19-Nov-11	44.39	1%	New
					Total Closed P/L	-420%	
					Eq wt gain YTD Closed	-2%	

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

Appendix Content

- **Key Points for Growth Model**
- **Objectives & Guidelines**
- **Growth Selection Criteria**
- **SPX – TAS 3x3x3 / 9EMA - “ Trend Adjusted Signal “ Criteria**

- 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**)

• Objective

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 initiated**)

Step 1 – SELECTION OF GROWTH STOCKS – Buy Side Discipline,

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 (OVEREXTENDED & 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

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