



SG Capital Research

Global Market Insights

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

MAEG – BI - WKLY GROWTH_EQUITY ANALYSIS SG 2011 # JULY _03

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• **Daily SPX - “ Trend Adjusted Signal” TAS -MO –**

Triggered – POM 13 / TAS (Average) at 1285 - No Hedge currently

3x3 /9EMA – Momentum Break Indicator MO – Trend Adjusted Signal (TAS)

In 2011 - (4) – TAS – Signals for Risk Management were Triggered as Hedge with SPX

- **Key points of observation**
- **In recent correction of – 7.5% on SPX from 1370 – the un hedge Portfolio- long Only dipped - 11% and on current recovery from bottom to 1340 (+ 6.3 %) , it recovered 12% back to same levels whiles SPX is still trading 30 points from its peak suggesting the strength in MO**
- **By this Risk management process - The hedge was put on in this correction – from MO – 3X3 / 9 EMA break 1337 to POM 13 & CZ Bullish zone mean 1285 (certainly not at POM 14 – Re run trigger @ 1370 / POM 12 @ 1278)**

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

- 1st of Jan 2011 – YTD – MAEG Risk Adjusted Portfolio **is up + 24.1 % v/s 6.6 % 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	115.62	68.42	69%	12/31/2010	Mark to Market 1st Jan 2011
2	BIDU	Baidu Inc Ads	109	112	137	124	80	40.1	39.8	143.35	96.53	48%	12/31/2010	Mark to Market 1st Jan 2011
3	NFLX	Netflix Inc	42	52	20	32	31	45.2	12.3	267.99	175.7	53%	12/31/2010	Mark to Market 1st Jan 2011
4	DECK	Deckers Outdoor Corp	24	156	13	25	22	26.8	22.7	90.03	79.74	13%	12/31/2010	Mark to Market 1st Jan 2011
5	CMG	Chipotle Mexican Grill	41	33	30	38	23	19.1	13.4	315.72	212.66	48%	12/31/2010	Mark to Market 1st Jan 2011
6	ARUN	Aruba Networks Inc	200	233	117	86	44	20.8	11.5	29.80	20.88	43%	12/31/2010	Mark to Market 1st Jan 2011
7	ILMN	Illumina Inc	76	18	7	26	50	13.8	26	76.01	63.34	20%	12/31/2010	Mark to Market 1st Jan 2011
8	INFA	Informatica Corp	27	32	19	21	31	21.4	25.1	59.40	44.03	35%	12/31/2010	Mark to Market 1st Jan 2011
9	TSCO	Tractor Supply Co	43	37	19	39	11	17.2	5.7	67.83	48.49	40%	12/31/2010	Mark to Market 1st Jan 2011
10	TPX	Tempur Pedic Intl Inc	82	109	50	85	32	70.5	15.4	67.97	40.06	70%	12/31/2010	Mark to Market 1st Jan 2011
11	ALTR	Altera Corp	112	263	30	-1	52	45.9	44.4	47.53	41.23	15%	3/1/2011	
12	ARMH	A R M Holdings Plc Ads	56	67	11	5	29	9.8	30.9	28.60	29.22	-2%	3/1/2011	
13	OTEX	Open Text Corp	39	48	39	36	8	22.7	26.7	64.65	56.54	14%	3/1/2011	
14	APKT	Acme Packet Inc	70.88	136	122	50	35	70	20.9	72.02	69.97	3%	3/17/2011	
15	AGP	Amerigroup Corp	59.14	101	291	2	-26	10	25.4	72.30	57.76	25%	3/17/2011	
16	FOSL	Fossil Inc	82.79	42	92	25	23	33	23.9	121.96	81.77	49%	3/17/2011	
17	HS	Healthspring Inc	36.87	49	23	0	8	30	19.6	47.13	37.04	27%	3/17/2011	
18	TIBX	Tibco Software Inc	33	35	20	20	20	16.2	24.7	29.42	26.96	9%	4/8/2011	
19	ENDP	Endo Pharmaceuticals Hdq	31	37	35	24	31	25.3	36.3	40.66	40.95	-1%	4/8/2011	
20	PRGO	Perrigo Co	44	23	26	33	23	26.9	16.2	89.29	81.04	10%	4/8/2011	
21	ULTA	Ulta Salon Cosm & Frag	41	79	35	26	20	21.2	8.4	65.18	49.59	31%	4/15/2011	
22	SMTC	Semtech Corporation	57	74	23	11	37	23.6	29.4	27.60	25.71	7%	4/15/2011	
23	SRCL	Stericycle Inc	25	18	16	11	25	23.2	24.2	91.22	90.66	1%	4/15/2011	
24	RVBD	Riverbed Technology Inc	100	73	62	51	45	20.8	25.7	40.08	35.17	14%	4/30/2011	
25	BIIB	Biogen Idec Inc	32	18	11	14	9	22.6	38.3	108.50	97.65	11%	4/30/2011	

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

OPEN	Opentable Inc	3/1/2011	85.21	2-Jul-11	82.56	-3%	New
TZOO	Travelzoo Inc	3/1/2011	39.40	2-Jul-11	67.33	71%	New
ORCL	Oracle Corp	4/1/2011	33.43	2-Jul-11	33.05	-1%	New
MELI	Mercadolibre Inc	4/8/2011	84.57	2-Jul-11	81.55	-4%	New
SSW	Seaspan Corporation	4/15/2011	18.08	2-Jul-11	15.07	-17%	New
WLT	Walter Energy Inc	4/30/2011	138.10	2-Jul-11	120.92	-12%	New
EW	Edwards Lifesciences Cp	5/14/2011	88.25	2-Jul-11	88.07	0%	New
SPRD	Spreadtrum Comm Inc Ads	5/14/2011	20.64	2-Jul-11	17.44	-16%	New
TTMI	TT M Technologies Inc	6/2/2011	15.50	2-Jul-11	16.3	5%	New
COH	Coach Inc	6/2/2011	62.38	2-Jul-11	65.99	6%	New
VECO	Veeco Instruments Inc	6/2/2011	55.03	2-Jul-11	48.59	-12%	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*)*

• 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

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- *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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