



SG Capital Research

Global Market Insights

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

MAEG – BI - WKLY GROWTH_EQUITY ANALYSIS SG 2011 # OCT_16

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

• **Momentum Break Indicator MO** – Trend Adjusted Signal (TAS)

In 2011 - (7) – TAS – Signals for Risk Management were Triggered as Hedge with SPX

Refer our last Report – TAS – ALERT – in 12th Oct B # Report , we stated parameter for Hedges, - It Did not Trigger

**(NEW) TAS – SPX “ Sell “ To be Triggered close under 1210 (Revised).
Since then the Portfolio is Un – Hedged & long.**

PREVIOUS - TAS – “ BUY SIGNAL Triggered via Alert -10/11 – @ 1080 to cover the Hedge from 1204 – 20th Sept decline. (Note- This signal is Risk protection, Independent of POM but only if announced with override POM). Caution - *Trend Adjusted Hedge due to whip saw takes bite out of it whiles managing MO risks*

○ **Key points of observation – Real time**

- **Important Observation - Since last Report, 1st Oct) - Growth (only) Portfolio is up + 9% v/s SPX up + 2.4%.in past 2 weeks, a roaring come back on rise and it did not fall as much in decline**
- **Our Prop Growth Strategy (without hedges) has been Holding very well this year on each market decline v/s SPX & comparative to GS or MER – Growth Index.**
- **TREND ADJUSTED SIGNAL (TAS) on SPX Hedge proved its merit in Market declines from 1204 (09/ 24) to 1080 (10/11), saving decline and Stay Un hedged from 1080 to current 1224 participating in rise.**
- **Conclusion – Overall YTD P/L – Top 50 Growth Portfolio (with Risk Managed SPX Hedges)..... up + 28 % v/s (-7.6%) SPX dn. Real time. Portfolio was benefited on both side of the market**

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

- 1st of Jan 2011 – YTD – MAEG Risk Adjusted Portfolio **is up + 28 % v/s (- 7.6) % SPX on Real time basis**

2	Company Name	EPS % Chg (Last Qtr)	EPS % Chg (Prior Qtr)	EPS Est % Chg (Current)	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
3	Lululemon Athletica	80	131	25	74	56	30	19.1	54.24	68.42	-21%	12/31/2010	Mark to Market 1st Jan 2011	7774.145
4	Chipotle Mexican Grill	41	33	30	38	23	19.1	13.4	320.80	212.66	51%	12/31/2010	Mark to Market 1st Jan 2011	10055.71
5	Tractor Supply Co	43	37	19	39	11	17.2	5.7	67.42	48.49	39%	12/31/2010	Mark to Market 1st Jan 2011	4814.27
6	Perrigo Co	44	23	26	33	23	26.9	16.2	97.89	81.04	21%	4/8/2011		9157.31
7	Ulta Salon Cosm & Frag	41	79	35	26	20	21.2	8.4	68.90	49.59	39%	4/15/2011		4226.876
8	Herbalife Ltd	46	34	11	17	29	70.2	14.8	57.58	53.38	8%	5/14/2011		6814.575
9	Ezcorp Inc Cl A	31	33	35	30	21	20.8	20.7	28.85	30.13	-4%	5/14/2011		1440.328
10	Dollar Tree Inc	34	28	23	20	14	28.6	11.2	80.26	62.67	28%	6/2/2011		9792.593
11	Priceline.Com Inc	56	71	58	51	38	44.2	28.4	499.13	524.80	-5%	7/2/2011		24841.64
12	Hansen Natural Corp	69	-7	17	27	50	30	26.8	94.37	83.63	13%	7/2/2011		8361.093
13	Mastercard Inc Cl A	24	30	21	21	15	42.4	49.8	341.58	314.47	9%	7/2/2011		43595.36
14	Nu Skin Enterprise Cl A	17	26	18	13	9	32.1	13.5	44.93	37.85	19%	7/2/2011		2803.838
15	Alexion Pharmaceuticals	45	58	12	31	48	21.6	33.7	66.80	56.80	18%	7/30/2011		12326.61
16	Apple Inc	122	92	50	80	82	35.3	28.4	422.00	390.48	8%	7/30/2011		391232.3
17	Intuitive Surgical Inc	33	22	30	21	21	21.4	40.5	393.38	400.55	-2%	7/30/2011		15374.52
18	Cerner Corp	26	25	24	24	15	14.5	20.9	69.97	54.93	27%	11/8/2011		11828.61
19	I P G Photonics Corp	186	571	125	112	81	18.8	26.5	56.19	57.33	-2%	11/8/2011		2667.562
20	Buffalo Wild Wings Inc	16	40	26	27	26	16.5	9.3	58.72	57.78	2%	11/8/2011		1077.64
21	Royal Gold Inc	75	22	90	51	59	3.5	45.9	66.09	68.78	-4%	11/8/2011		3607.975
22	Visa Inc Cl A	30	28	31	27	14	12	56.5	93.92	79.28	18%	11/8/2011		64938.64
23	Watson Pharmaceuticals	22	10	22	30	24	13.5	18.8	68.24	60.43	13%	11/8/2011		9152.969
24	Shire Plc Ads	25	22	10	22	25	36.6	29.8	97.98	88.63	11%	11/8/2011		18370.17
25	New Orientl Edu&Tech Ads	113	42	32	17	59	23.6	22.6	30.20	29.19	3%	11/8/2011		4692.458
26	Iamgold Corp	157	160	190	73	80	11.1	36.3	20.70	20.12	3%	11/8/2011		7771.768

Cont...Top 50 Stocks ...

27	Randgold Resources Adr	221	114	427	332	213	6	30	103.28	108.84	-5%	17/9/2011	
28	Arcos Dorados Hldgs Cl A	17	70	36	42	29	21.2	3.6	25.74	27.36	-6%	17/9/2011	
29	Comp De Bebidas Adr	41	32	21	20	18	32.8	37.6	33.03	32.64	1%	17/9/2011	
30	Transdigm Group Inc	38	24	22	29	52	25.1	32.9	87.21	92.37	-6%	17/9/2011	
31	Eldorado Gold Corp	40	11	89	81	22	7.1	38.5	17.24	20.09	-14%	17/9/2011	
32	Dollar General Corp	24	14	21	23	11	17.3	7.8	39.33	38.07	3%	17/9/2011	
33	Gold Fields Ltd Adr	59	300	48	151	23	9.4	20.8	15.59	17.09	-9%	17/9/2011	
34	HMS Holdings Corp	27	22	23	26	26	14.7	22	25.71	25.91	-1%	17/9/2011	
35	Avago Technologies Ltd	11	36	6	23	10	40.7	25.7	35.70	36.49	-2%	17/9/2011	
36	Newmont Mining Corp	17	25	18	31	11	15.8	41.5	66.86	65.72	2%	17/9/2011	
37	ARM Holdings Plc Ads	27	44	30	16	27	9.8	30.9	28.44	28.21	1%	17/9/2011	
38	Celgene Corp	29	32	25	29	39	25.3	44.8	66.30	61.04	9%	17/9/2011	
39	Spreadtrum Comm Inc Ads	91	224	49	45	124	52.4	26	21.61	20.67	5%	17/9/2011	
40	First Cash Financial Svs	45	52	22	31	27	20.7	19.6	43.72	41.95	4%	10/1/2011	
41	Catalyst Health Sltns	15	27	27	26	39	16.9	3.5	55.37	57.69	-4%	10/1/2011	
42	Ross Stores Inc	20	28	5	17	9	44.6	11.4	85.00	78.69	8%	10/1/2011	
43	Humana Inc	18	30	0	10	8	18.6	5.6	75.17	72.73	3%	10/1/2011	
44	Commvault Systems Inc	91	19	11	20	38	20.4	17	41.80	37.06	13%	10/1/2011	
45	Bed Bath & Beyond Inc	33	38	19	24	8	20.9	14.8	61.17	57.31	7%	10/1/2011	
46	Fastenal Co	39	42	27	33	23	21.5	19	33.40	33.28	0%	10/1/2011	
47	Biogen Idec Inc	4	32	13	14	0	22.6	38.3	103.08	93.15	11%	10/1/2011	
48	Thoratec Corp	29	17	6	22	17	13.9	32.2	37.13	32.64	14%	10/1/2011	
49	Family Dollar Stores	18	21	13	18	8	25	7.2	54.40	50.86	7%	10/1/2011	
50	Check Point Software Tech	17	16	11	14	15	21	59.5	58.89	52.76	12%	10/1/2011	
51	TJX Cos Inc	23	-3	16	14	8	47.4	10.2	57.71	55.47	4%	10/1/2011	
52	DSW Inc	42	30	1	20	15	18.5	9.7	51.39	46.18	11%	10/1/2011	

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

HLF	Herbalife Ltd	5/14/2011	53.38	14-Oct-11	57.58	8%	New
PCLN	Priceline.Com Inc	7/2/2011	524.80	14-Oct-11	499.13	-5%	New
RGLD	Royal Gold Inc	11/8/2011	68.78	14-Oct-11	66.09	-4%	New
IAG	Iamgold Corp	11/8/2011	20.12	14-Oct-11	20.70	3%	New
TDG	Transdigm Group Inc	17/9/2011	92.37	14-Oct-11	87.21	-6%	New
EGO	Eldorado Gold Corp	17/9/2011	20.09	14-Oct-11	17.24	-14%	New
GFI	Gold Fields Ltd Adr	17/9/2011	17.09	14-Oct-11	15.59	-9%	New
HMSY	H M S Holdings Corp	17/9/2011	25.91	14-Oct-11	25.71	-1%	New
ARMH	A R M Holdings Plc Ads	17/9/2011	28.21	14-Oct-11	28.44	1%	New
FAST	Fastenal Co	10/1/2011	33.28	14-Oct-11	33.4	0%	New
					Total P/L	-311%	
					Eq wt gain	-2%	

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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