



SG Capital Research

Global Market Insights

Research Note – Sector – ETF Analysis (D)

MAEG – WKLY SECTOR ETF ANALYSIS SG 2011 # JAN 15

For Immediate Release – *Friday AM (EST) or Saturday*

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

3x3 /9EMA – Momentum Break Indicator – Long @ 1228 SPX

- For Bull case - Previous long exit was on 11/17 at 1193 from 1105 entry 09/05 for 8%
- For Bear case - SS from last Sell Signal at 1193 to 1225 = - 2.6%
- For Bull case – Current long position from 1228 is up 3.7%

Currently “ Trend Adjusted Signal “ has **Reversal stop @ 1269 SPX**.

**We would consider all 3 major Indices to Trigger below Trend Adjusted Signal,
Upon rejection of volume in CZ – PQV**

SPX - 1260

DJ - 11650

NDX – 2275

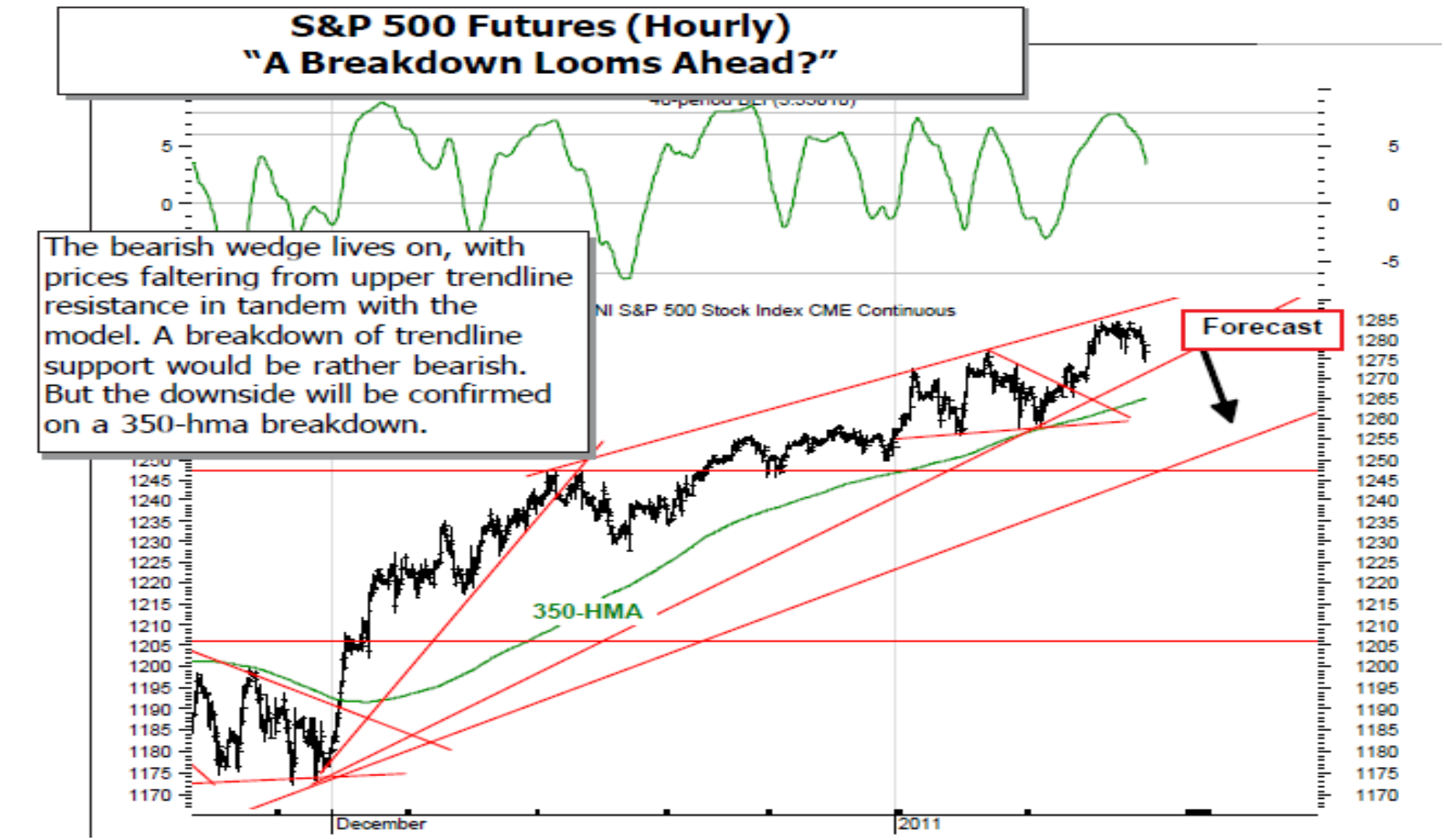
RUT - 785

● Market Insights

- *As we begin 2011 with SPX start @ 1257 with POM 14 on Fully Hedge basis. The baggage from 2010 is Drawdown on Hedge Index of -4.26%*
- *Our “ Trend Adjusted Momentum Break Indicator is still on Buy Signal since SPX 1228 with Stop at 1269*
- *We still do not have Trigger for POM 15 for Net Short Sell Signal at current levels of SPX 1285 . We monitor our Indicator to keep us at bay from Shorting high flier stocks.*
- *The process views at “ how much we can loose” as a priority v/s “ how much we can gain” is secondary , hence we have shown considerable patience with no urgency of Net short especially avoiding Short Sell of Momentum stocks till date. It has tested our patience for 12 weeks without a Signal.*
- *But now at least (10) Sectors out off (20) Majors are testing CZ in PQV Validation for Short Sell Signal in Sector Analysis.*
- *On bigger picture , Evaluating our Market Ratio Analysis , we think Emerging Market will outperform on downside considerably on next decline whiles it will be very volatile*
- *In our current Report - Sectors Previously Qualified XLV, XLE, XLU, XLP for SD # 2 and CZ – PQV are tabulated in Validation sheet awaiting for tests.*
- *NOTE : We have re calibrated the Triggers for the Long / Short Index effective this Report , Previously triggers were SD # 1.5 , 2.0 and CZ- Validation tests / POM 15 /12. We modified it without SD # 1.5 this has better performance tracking.*

SPX – HRLY – Trend lines & HMA

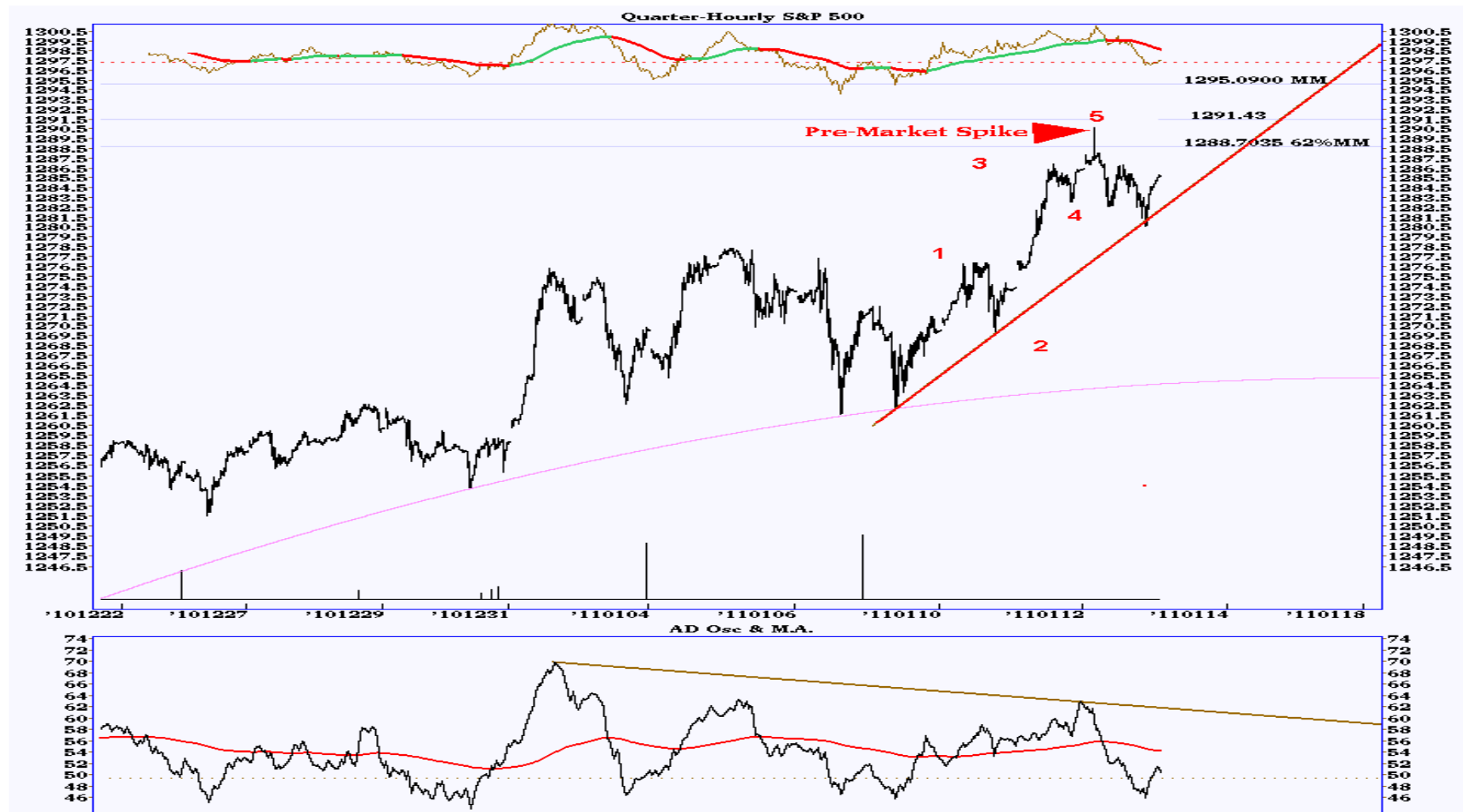
The Third bearish diagonal triangle we noted along with wave 5 on hrly at 1285 is completed (see chart below) . Usually as seen in past 3 wedges, there tends to be double top but then the risk of a quick snap back of (20- 30 point) is round the corner, can start any minute (Monday is holiday) Tuesday could very well be turn around Tuesday.



SPX – HRLY – Trend lines & HMA

Yesterday , the SPX actually had an early morning pre-normal-hours spike to and above the next resistance price of 1288,(wave 5) we were expecting before this rally is over.

The Red Trend line in the SPX chart rolls over its peak late on the 18th, which is Tuesday.



Sector Analysis (D) -

- 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

SECTORS - (39) – Highlighted below are this weeks SD # 2

- ✓ **PQV – CZ Validated Sectors**
- **In Watch list pending validation**

GR1 (15)	GR2 (11)	GR3 (13)
<ul style="list-style-type: none"> • SPY • QQQQ ➤ TLT (Bonds) ✓ MUB (Mun) (SP) ✓ IWM (SP) ✓ EEM (Emerg) • EEA (Europe) • EWJ (Japan) • FXI (China) • RSX (Russia) • IFN (India) ✓ EWP (SP) ✓ EWH(SP) ✓ JOF (SP) ➤ EWA(SP) <p><u>SP – Special Situation</u></p>	<ul style="list-style-type: none"> • XLF (Financials) • XRT (RTH) (Retail) ➤ XLV (Health) ➤ XLB (Materials) ➤ XLE (Energy) • XLK / QQQQ (Tech) • XLI (Industrial) ➤ XLU (Utility) ➤ XLP (Staples) • XLY (Discretionary) • XHB (Home Builders) 	<ul style="list-style-type: none"> ➤ SMH (Sem) • BBH (Biotech) • IYT (Transports) • IYR (Real Estate) • DBA (Agro) • DBB (Base metal) • DBC (Commodity) ✓ GLD (Gold) ✓ SLV (Sil) ✓ GDX (Miners) • USO (Oil) ➤ JJC (Cu) • SLX (Steel)

MUB, EWP, EWH , JOF ,EWA - Special Situation

• Objective

The Weekly Validated Sector selection is to Setup “ Global Long / Short – Market Neutral ETF Index” –(Equally Weighted) Utilizing SD, POMs & SETUP INDEX within RA / RI framework with composition of ETF’s with SD # 1.5 to 2 Overvalued and Undervalued characteristics. Additional direction bias is given via doubling on ETF’s with extremes SD # 2 & POM conditions.

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 # 1.5 to 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

Overlay Criteria

- SD # 1.5 /2 ANALYSIS EXTREMES by 365 D Correlation.
- SPX - POM FRAMEWORK as PIVOT by Trend Correlation
- TECHNICAL PATTERNS, 2nd Derivative DMA’s & VOLUMES”

- Attached, the Chart list & specific Charts (below). We have selected the charts that has some distinct characteristics and values as the pattern gets completed based on our assessment:
- Selected Sector may have (1) up to (6) Analytic Charts as Titled below
 1. SETUP charts Weekly – 3 Year with RSI, CCI, MACD (11 W / 40 W) SMA
 2. SETUP charts Daily – 3 Year with RSI, CCI, MACD (11D / 55D) SMA
 3. Correlation Ratio Analysis with SPX by 365 days Basis
 4. POM Analysis -Technical & Pattern & Price / SMA Analysis
 5. Trend Reversion Analysis – Long Trend Chart (if applicable if R2 is above 75%)
- Charts 4,5, (above) articulates special situation coverage for that specific SECTORS highlighted in the list below

- **SPX – “ POM Signal**

- *At POM 14 & 15, Focus is on +2.0 SD , Currently SPX is at POM 14*
- *At POM 13, Focus to be o -2.0 SD.*

- **Trading & Investment Conclusions**

ACTIONABLE ZONE :

“ Global Long / Short – Market Neutral ETF Index”(Equally Weighted)

- *With composition of ETF's with entry at SD # 2 - Overvalued and Undervalued characteristics &*
- *For Direction bias to capitalize on extremes via doubling on ETF's at SD # 2 & CZ- PQV validation at appropriate POM conditions.*

WEEKLY SD & TECH PATTERN VALIDATED CONCLUSIONS by – Processes 1,2 - for BEST IDEAS:

- **Overvalued confirmed (SHORT) – SLV, XLE, XLB, IWM JJC**
- **Undervalued confirmed (LONG) – MUB, TLT, XLP, XLU, XLV**
- **Non Conformance – None**
- ***This conclusion to be Utilized with PQV Validation Test for MAEG – E Section***

SD # 1.5 / 2.0 - Tracker for Sectors

3X3/9EMA – Momentum break Prices indicated for each SD # 1.5 /2.0 Sector listed below

Sector	Indicator	Distance in SD	Target Exit & Reversion to mean	Last Price	3X3 / 9EMA	Net Exposure	Comments
Gr 1							
SPY		-1.15	0.09	128.37	\$ 126.99		
QQQQ	Above +1.5SD	1.77	0.04	56.58	\$ 55.78		
EEM		0.27	0.04	47.79	\$ 47.30		
IWM	Above +1.5SD	1.78	0.06	79.94	\$ 78.69		
TLT	Below -2SD	-2.03	0.09	92.43	\$ 92.10		
EWJ		-0.66	0.01	11.15	\$ 10.99		
FXI		-1.37	0.04	44.56	\$ 43.68		
Gr 2							
XLV	Below -2SD	-2.05	0.03	32.14	\$ 31.98	80%	
RTH		0.90	0.03	105.96	\$ 105.30		
XLF		-0.81	0.01	16.46	\$ 16.21	45%	
XLK		1.04	0.02	25.94	\$ 25.66	100%	
XLU	Below -2SD	-2.14	0.03	31.53	\$ 31.41		
XLE	Above +2SD	2.09	0.05	69.90	\$ 68.37	-100%	
XLB		1.42	0.03	38.71	\$ 38.34	-100%	
XLP	Below -2SD	-2.66	0.02	29.33	\$ 29.09	11%	
Gr 3							
JJC	Above +1.5SD	1.91	0.04	57.88	\$ 57.58		
SLV	Above +1.5SD	1.83	0.02	28.00	\$ 28.55		
GLD		0.24	0.10	134.05	\$ 134.42		
SMH	Above +1.5SD	1.79	0.02	33.53	\$ 32.82		
MUB	Below -2SD	-2.99	0.09	97.31	\$ 98.88		special situation
USD		-1.21	0.03	38.65	\$ 38.17		
BBH		-1.39	0.09	102.79	\$ 101.70		
Primary Index Net Exposure							
POM 14 Re Run 3							40%

- From (34) Sector list , The green highlights are Newly added and the ETF's with SD # 2 is qualified for further review for extremes of over (Sell) / under (Buy) valuation v/s SPX & CRB (if applicable)– within our Expectancy Model

Ticker (Exited from Previous weeks)	Comments
GDX	Ratio Reverted to Mean

Long / Short -- ETF Index - Market Neutral (with positions taken at SD # 2.0 & CZ)

SD - TECH VALIDATED MARKET NEUTRAL ETF INDEX (Directional Bias only at Externe POM's)								
Ticker	Entry date	Last Price	Validated Test price	P/L Since the Test	3X3 / 9EMA	Trigger either by SD2 or CZ1,CZ2,POM 15	Comments	
SHORTS								
EEM	12-Nov-10	47.79	47.20	-1.25%	\$ 47.30	@SD2		
EEM	12-Nov-10	47.79	47.20	-1.25%	\$ 47.30	@CZ1		
EEM		47.79	47.50	-0.61%	\$ 47.30	@CZ2		
IWM	25-Nov-10	79.94	73.73	-8.42%	\$ 78.69	@SD2		
EWP		38.44	42.75	10.08%	\$ 35.12	@CZ		
RTH	25-Nov-10	105.96	103.47	-2.41%	\$ 105.30	@SD2		
XLK	25-Nov-10	25.94	24.49	-5.92%	\$ 25.66	@SD2		
SMH	25-Nov-10	33.53	31.68	-5.84%	\$ 32.92	@SD2		
JJC	10-Dec-10	57.88	54.08	-7.03%	\$ 57.58	@SD2		
SLV	10-Nov-10	28.00	27.00	-3.70%	\$ 28.43	@SD2		
SLV		28.00	28.50	1.75%	\$ 28.43	@CZ		
GDX	15-Oct-10	56.05	58.19	3.68%	\$ 57.20	@SD2		Closed
GDX	25-Nov-10	56.05	59.67	6.07%	\$ 57.20	@CZ		Closed
GLD	15-Oct-10	134.05	133.68	-0.28%	\$ 133.99	@SD2		
GLD		134.05	137.00	2.15%	\$ 133.99	@CZ		
EWH		19.85	19.50	-1.79%	\$ 19.69	@CZ		
XLE	31-Dec-10	69.90	68.15	-2.56%	\$ 68.37	@SD2		
QQQQ	23-Dec-10	56.58	54.74	-3.35%	\$ 55.78	@SD2		
XLB	31-Dec-10	38.71	38.44	-0.71%	\$ 38.34	@SD2		
CLOSED SHORT POSITIONS					30.20%			
				EQ WT SHORT P/L	0.63%			
LONGS								
XLV	10-Dec-10	32.14	30.99	3.71%	\$ 31.98	@SD2		
JOF		9.56	8.47	12.87%	\$ 9.16	@CZ		
XLU	23-Dec-10	31.59	31.36	0.74%	\$ 31.41	@SD2		
XLF	25-Nov-10	16.46	14.63	12.48%	\$ 16.21	@SD2		
TLT	12-Nov-10	92.43	96.38	-4.10%	\$ 92.10	@SD2		
TLT	7-Jan-11	92.43	91.86	0.62%	\$ 92.10	@SD2		
MUB	19-Nov-10	97.31	100.98	-3.63%	\$ 98.92	@SD2		
BBH	15-Oct-10	102.79	96.76	6.23%	\$ 101.70	@SD2		
EwJ	15-Oct-10	11.15	10.22	9.10%	\$ 10.99	@SD2		
USO	15-Oct-10	38.65	35.47	8.97%	\$ 38.17	@SD2		
FXI	23-Dec-10	44.56	42.60	4.60%	\$ 43.68	@SD2		
XLP	7-Jan-11	29.33	29.18	0.51%	\$ 29.09	@SD2		
CLOSED LONG POSITIONS					10.61%			
				EQWT LONG P/L	5.70%			
15th OCT 2010 INCEPTION								
SD - TECH SETUP EQUAL WEIGHTED LONG SHORT INDEX				EQWT AGG P/L Short Bi	3.17%			
INCEPTION @ SPX 1180 to Current 1283.76				SPX CHANGE	-8.79%			

• **SECTOR SETUP INDEX +77%, +77%, +77% , +85% (past 4 weeks)**

(Currently for monitoring purposes only, we will establish . correlation as we go forward with POM 13)

• **EQUITY SETUP INDEX : +20%, 31%, +30%, +40% (past 4 weeks)**

• **POM – 14 re run**

(ETF's highlighted below are CZ – PQV Qualified Sector watch list with SD # 2 or just turned down)

<u>SETUP # 1</u> <u>(33 of 39)</u>	<u>% away from</u> <u>Gold .Cross</u>	<u>SETUP # 2</u> <u>(2 of 39)</u>	<u>% away from</u> <u>Dead. Cross</u>	<u>SETUP # 3</u> <u>(0 of 39)</u>	<u>% away from</u> <u>40wk</u>	<u>SETUP # 4</u> <u>(1 of 39)</u>	<u>% away from</u> <u>40wk</u>
SPY	15.97%	TLT	-5.56%			SLV	36.79%
QQQQ	22.41%	MUB	-5.78%				
IWM	21.78%						
EEM	19.45%						
EWJ	12.84%						
FXI	10.43%						
RSX	26.12%						
IFN	7.94%						
EWH	31.21%						
EWA	14.13%						
XLF	12.41%						
XRT	21.37%						
XLV	6.67%						
XLB	21.54%						
XLE	25.86%						
XLK	16.88%						
XLI	20.42%						
XLU	5.29%						
XLP	8.41%						
XLY	19.65%						
XHB	13.75%						
SMH	24.42%						
BBH	6.93%						
IYT	22.19%						
IYR	71.09%						
DBA	30.54%						
DBB	19.50%						
DBC	21.37%						
GLD	61.55%						
GDX	27.81%						
USO	8.82%						
JJC	34.01%						
SLX	23.17%						

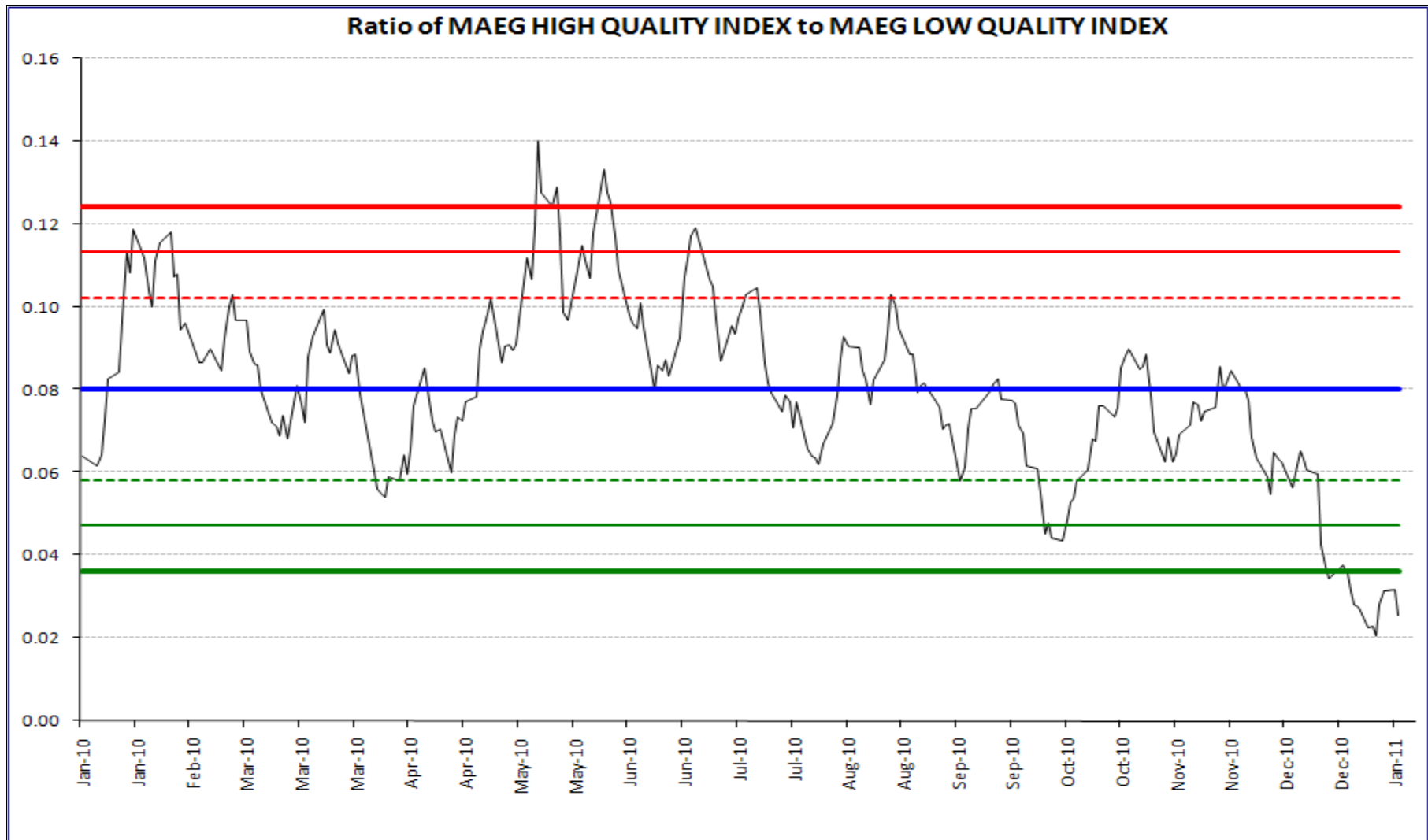
CZ – PQV – Validation Tracker

SETUP 2 - 4 - PQV VALIDATION TEST PROCESS SUMMARY

Ticker	Trade Type	Last Price	Mean Confluence	LL confluence	UL confluence	Required Volume MM on Test	Actual Volume MM on Test	Volume Pickup	% Away from Test price UL	40wk MA	% Away from 40 MA	Stoploss @	3X3 / 9EMA	SETUP Quality Price	Drawdown minimisation	SD # 1.5	SI
TRIGGERED																	
EWP	Short	38.44	42.75	41.5	44	0.4	0.4	0.4	-13%	38.23	0.55%	46.20	35.11	40.1	-6.6%	(1.40)	48.2%
GLD (under 136.5)	Short	134.05	137	136	138	20	17.0	17.0	-3%	124.51	7.66%	144.90	133.99	134.7	-1.7%	0.24	4.5%
EEM (under \$47)	Short	47.79	47.5	47	48	50	45.0	45.0	0%	42.87	11.49%	50.40	47.33	46.2	-2.8%	0.27	5.7%
EWH (under \$19.25)	Short	19.85	19.5	19.25	19.75	4.5	4.0	4.0	1%	17.11	16.03%	20.74	19.74	19.1	-2.1%	1.02	11.9%
GDX (under \$61.5) (New)	Short	56.05	63.5	62.25	64.75	11	10.2	10.2	-13%	53.85	4.08%	67.99	57.20	61.0	-4.1%	(0.16)	15.4%
SLV	Short	28	27	27	27	50	32.0	32.0	4%	21.29	31.52%	28.35	28.43	24.8	-8.9%	1.83	3.9%
JOF (above \$8.55)	Long	9.56	8.475	8.4	8.55	0.06	0.06	0.1	12%	8.44	13.22%	7.98	9.17	8.5	-0.3%	0.48	0.3%
EEM (under \$48)	Short	47.79	49	48	50	40	40	40.0	-4%	42.87	11.49%	52.50	47.33	46.2	-6.1%	0.27	5.7%
WATCHLIST																	
TLT	Long	92.43	89.5	89	90	40	weekly		3%	98.20	-5.88%	84.55	92.11	95.0	-5.8%	(2.03)	56.8%
MUB (above \$98.5)	Long	97.31	98.625	97	98	0.30	0.47	0.4	-1%	103.95	-6.39%	93.58	98.92	100.0	-1.4%	(2.99)	1.7%
EWH (under \$21.5)	Short	19.85	21.5	21	22	5			-10%	17.11	16.03%	23.10	19.74	19.1	-12.6%	1.02	11.9%
IWM (under \$77) (half)	Short	79.94	78.25	76.5	80	175	weekly		0%	68.73	16.31%	84.00	78.54	73.0	-7.2%	1.78	74.1%
IWM (under \$79.5) (half)	Short	79.94	79.75	79.5	80	35			0%	68.73	16.31%	84.00	78.54	73.0	-9.2%	1.78	74.1%
SMH (under \$34)	Short	33.53	35	34	36	8			-7%	28.69	16.85%	37.80	32.83	32.0	-9.4%	1.79	97.5%
SLV (under \$28)	Short	28	28.5	27	30	50	32.0		-7%	21.29	31.52%	31.50	28.43	25.0	-14.0%	1.83	3.9%
QQQQ (under \$54)	Short	56.575	54.5	54	55	53	59.0		3%	48.91	15.67%	57.75	55.77	53.0	-2.8%	1.77	18.3%
QQQQ (under \$55)	Short	56.575	55	54.5	55.5	100	59.0		2%	48.91	15.67%	58.28	55.77	53.0	-3.8%	1.77	18.3%
EWA (under \$25.75)	Short	24.88	26.5	26	27	16	weekly		-8%	22.83	9.00%	28.35	24.46	25.0	-6.0%	0.45	2.2%
EWA (under \$25.5)	Short	24.88	26.25	26	26.5	3.5			-6%	22.83	9.00%	27.83	24.46	25.0	-5.0%	0.45	2.2%
XLV	Long	32.14	30.75	30.5	31	3			4%	30.19	6.47%	28.68	31.99	31.5	-2.4%	(2.05)	24.4%
XLB	Short	38.7125	39.5	38	41	3			-6%	33.36	16.03%	43.05	38.31	38.4	-2.9%	1.42	25.1%
XLE (under \$68.5)	Short	69.895	69.5	68.5	70.5	4			-1%	57.88	20.77%	74.03	68.30	68.5	-1.5%	2.09	23.4%
JJC (under \$59)	Short	57.88	59.5	59	60	0.1			-4%	47.06	23.00%	63.00	57.49	54.0	-10.2%	1.91	4.3%
XLU	Long	31.5925	30.5	30.25	30.75	4.5			3%	30.63	3.13%	28.74	31.43	31.5	-3.2%	(2.14)	16.5%
XLP	Long	29.33	28.05	27.8	28.3	3.8			4%	27.71	5.84%	26.33	29.08	29.3	-4.1%	(2.66)	12.6%
															PQV Drawdown Minimisation factor		-5.4%
PQV Test validated within 5 to 7% of asking																	
Criteria has temporarily exceeded																	
volume still higher than the test volume no result																	
Revised Confluence Values & Stoploss																	
Close under situations in gray																	
Numbers hard coated																	
To Achieve Best Risk Reward , The position should be taken on the day of the Test via scale in process within CZ																	

Ratio of HQ v/s LOW QLTY - 1 yr

- Overvalued confirmed by PQV & SD # 2 – *SLV, XLE, XLB, JJC, QQQQ, IWM, EEM, EWH, EWA*
- Undervalued confirmed by PQV & SD # 2 – *XLV, XLP, XLU* (Refer PQV – CZ Validation sheet)



ETF's Qualified for SD # 2 - Over / Under valuation by POM Methodology

TLT – Correlation Ratio Analysis with SPX – 365 days Time basis

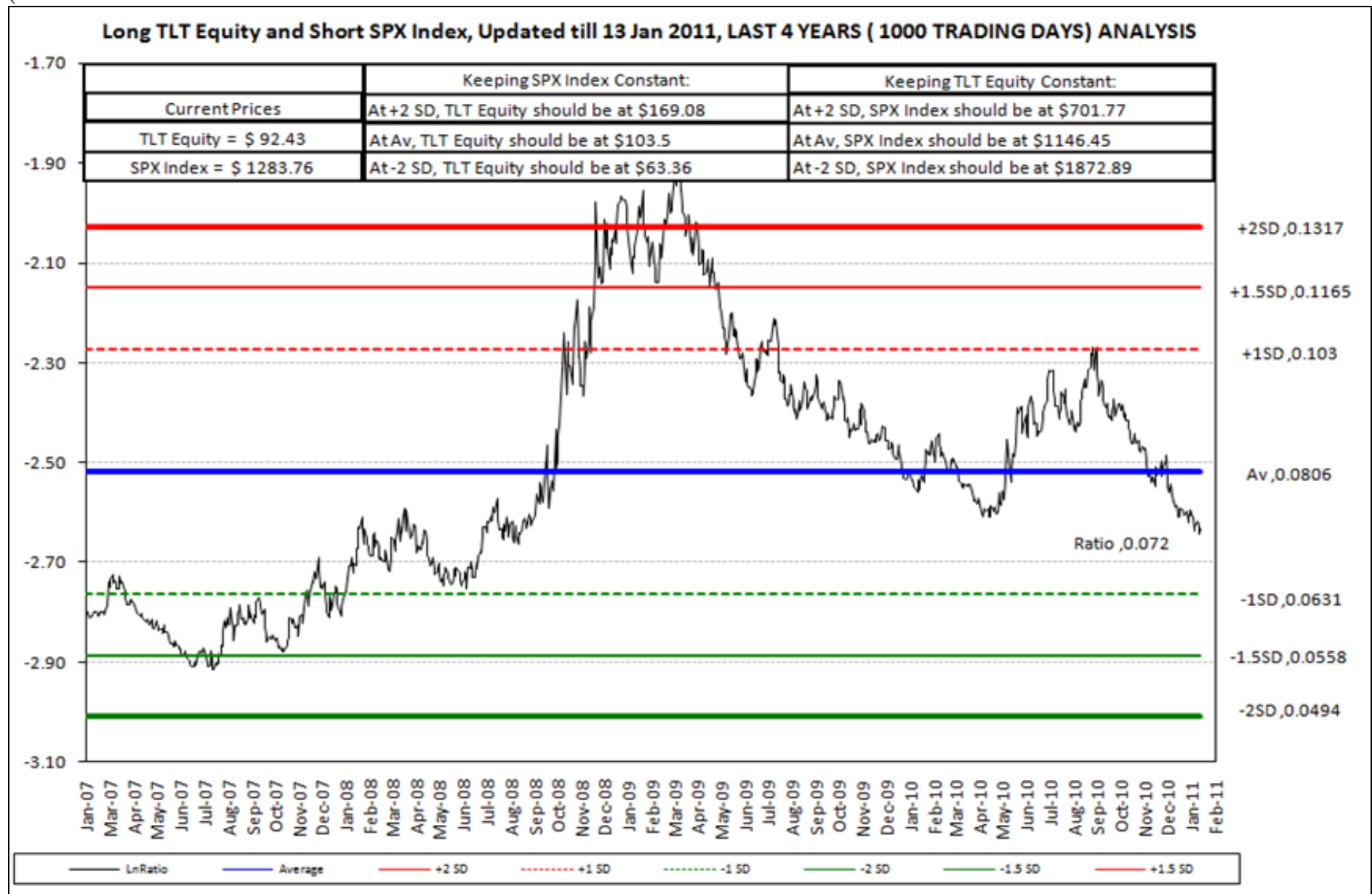
(SD # 2 Qualified - MONITORING CZ –PQV in Sector Report -)

Long TLT Equity and Short SPX Index, Updated till 13 Jan 2011



TLT – Correlation Ratio Analysis with SPX – Full Time basis

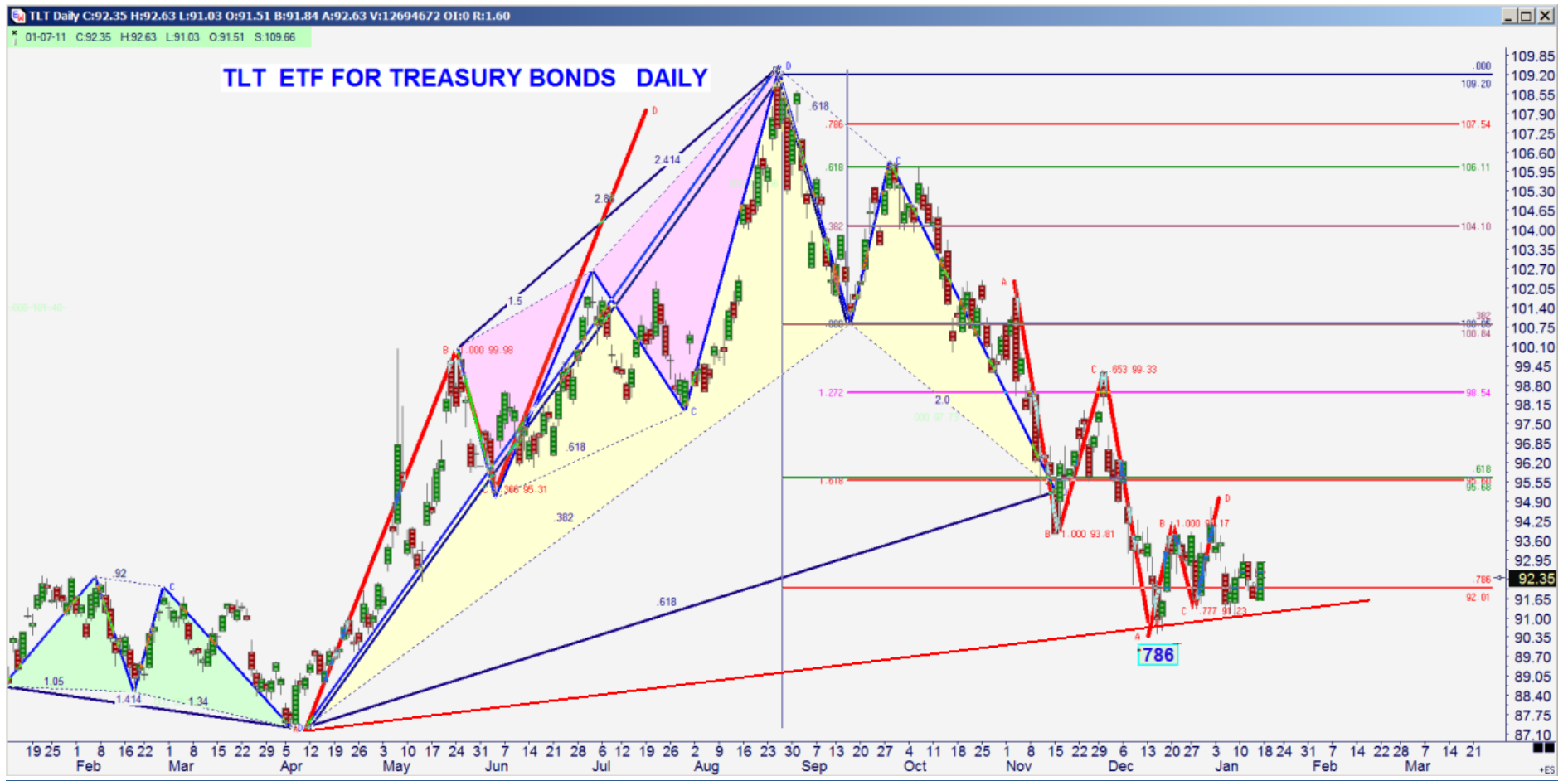
(In this Time frame – still not Under valued yet)



2 – US BONDS- PEC Analysis

PEC D – Target on TLT has reached 91 (completing a 0.786 retracement) . Overall, bonds appear to be oversold and are due for a rally. SD # 2 & POM D has lined up , If CZ – PQV – Validation lines up , We may re visit this market on buy side with TLT.

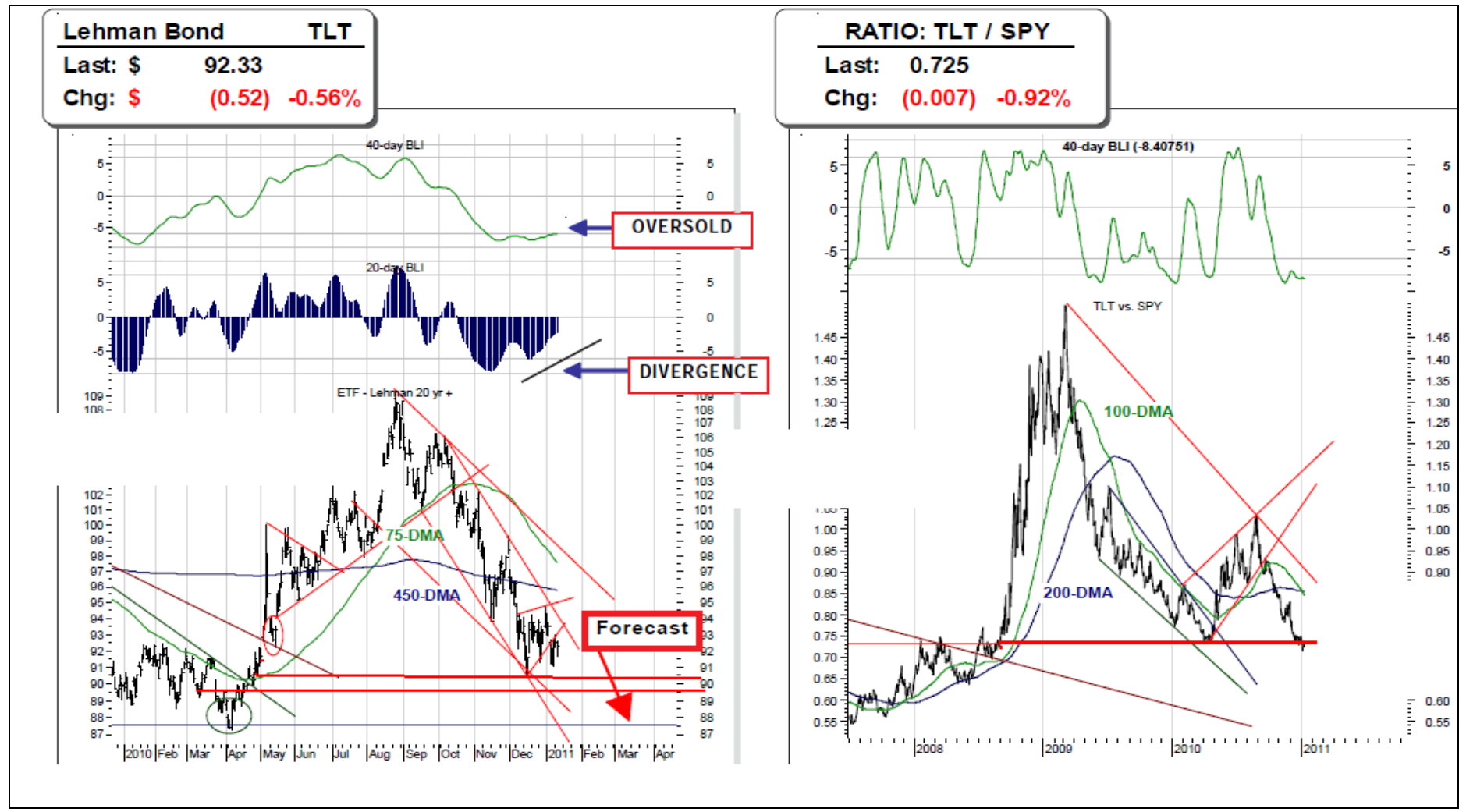
Our first PEC D point came in at 107 with Extreme “ Bullish Sentiment “ and that marked the Top with Triangular formation,



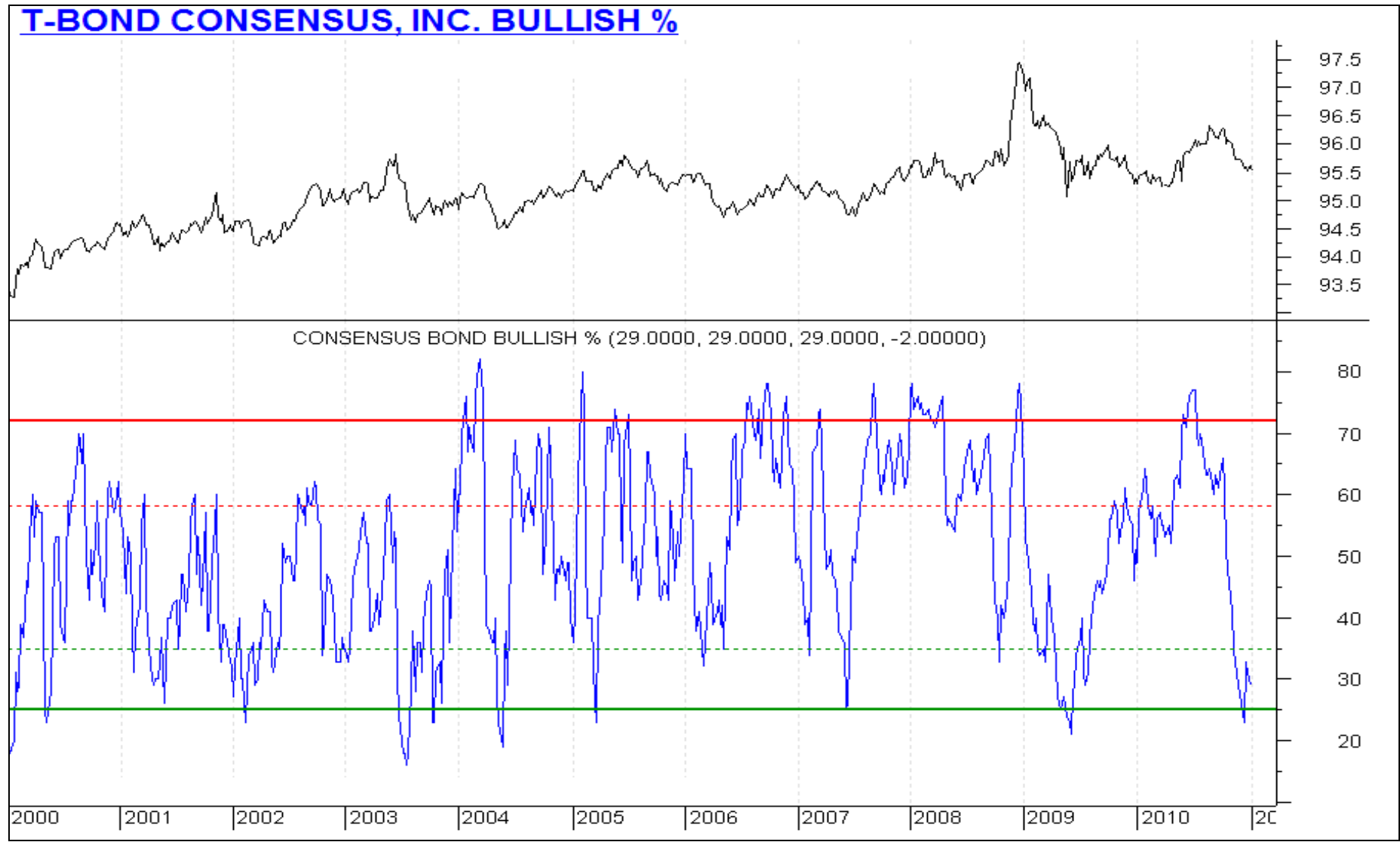
TLT Technical & Pattern Analysis

TLT - (CZ -PQV testing in process in Sector Watchlist Report)

Ratio chart is testing the breakout area , TLT tested its CZ – 89 -90 area by PQV and volume came in heavy and currently it should be re testing the CZ again and test to be with 40 M shares weekly.

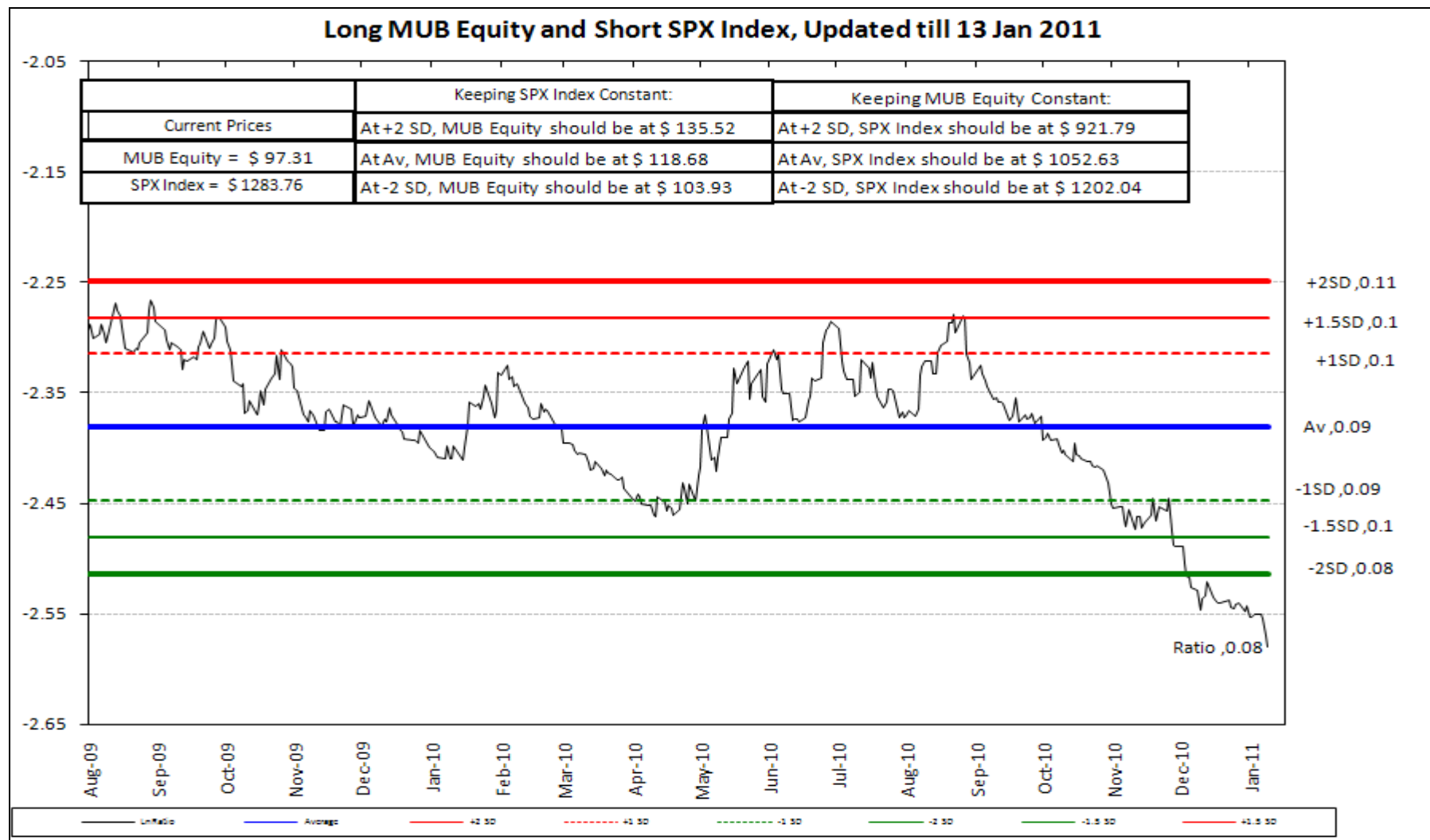


TLT – Sentiments turning Bearish from CFTC data Chart from Sentiment Traders



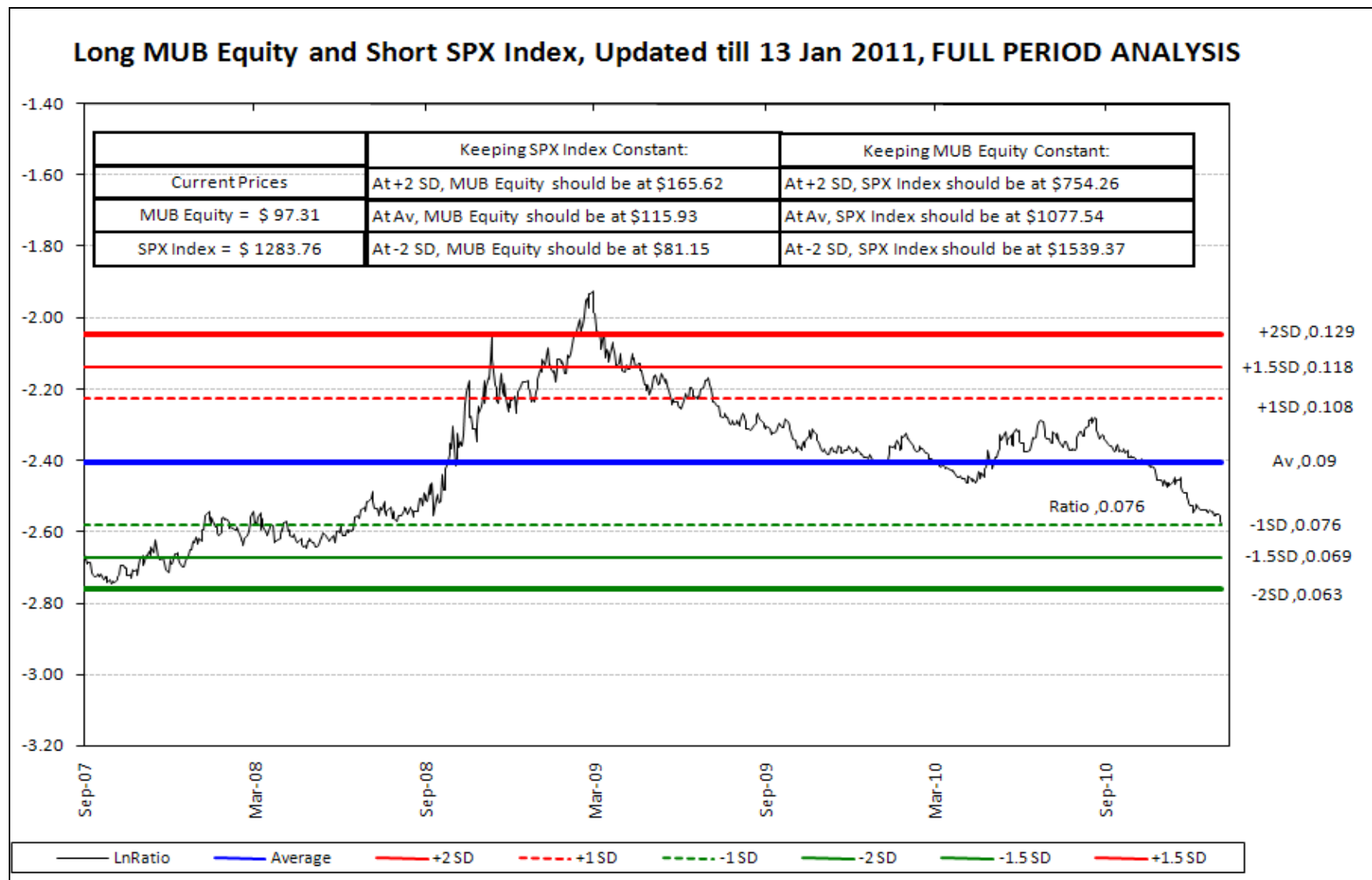
MUB – Correlation Ratio Analysis with SPX – 365 days Time basis

SD # 2 Qualified for CZ –PQV & CZ –PQV Validated in Sector Watchlist Report)



MUB – Correlation Ratio Analysis with SPX – Full Time basis

(In this Time frame – still not Under valued yet)



MUB – Technical & Pattern Analysis –

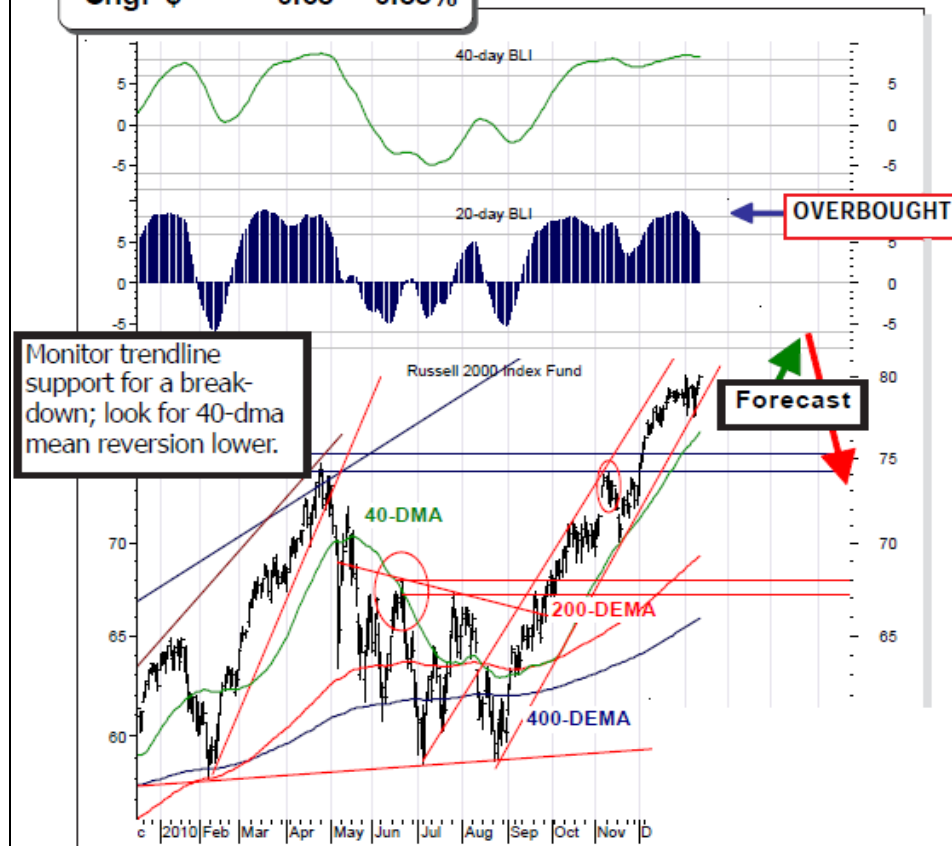
On Daily , Rejected the lows in CZ on the nose SD is at - 2.0 undervalued. This is classic example of CZ test and rally began with SIGN of STRENGTH , Since the volume was heavy and did not qualify our PQV process , now it is testing 97-98 on lighter volume , if volume comes in 300k shares , this should be rejection to 98.5 on close , then we would get a bullish signal . RSI & MACD has diverged bullishly on the 2nd re test , this is bullish. (Stop outside CZ in case decline spiral down in case of event risk but sometimes those risk get prices in at the tests)



IWM Technical & Pattern Analysis

(CZ -PQV testing in process in Sector Watchlist Report)

Russell 2000	IWM
Last: \$ 79.97	
Chg: \$ 0.68	0.85%

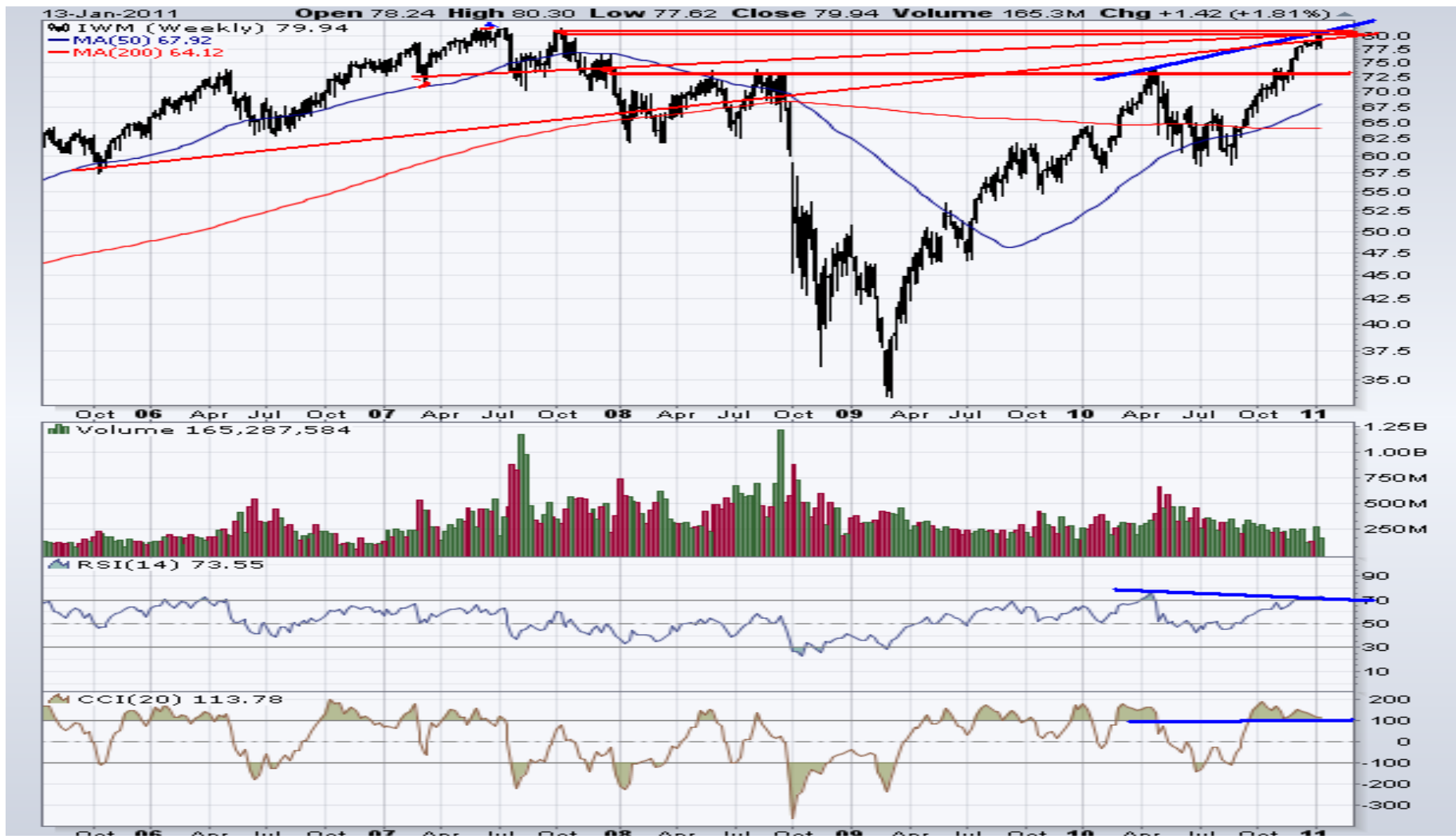


RATIO: IWM / SPY
Last: 0.622
Chg: (0.000) -0.04%



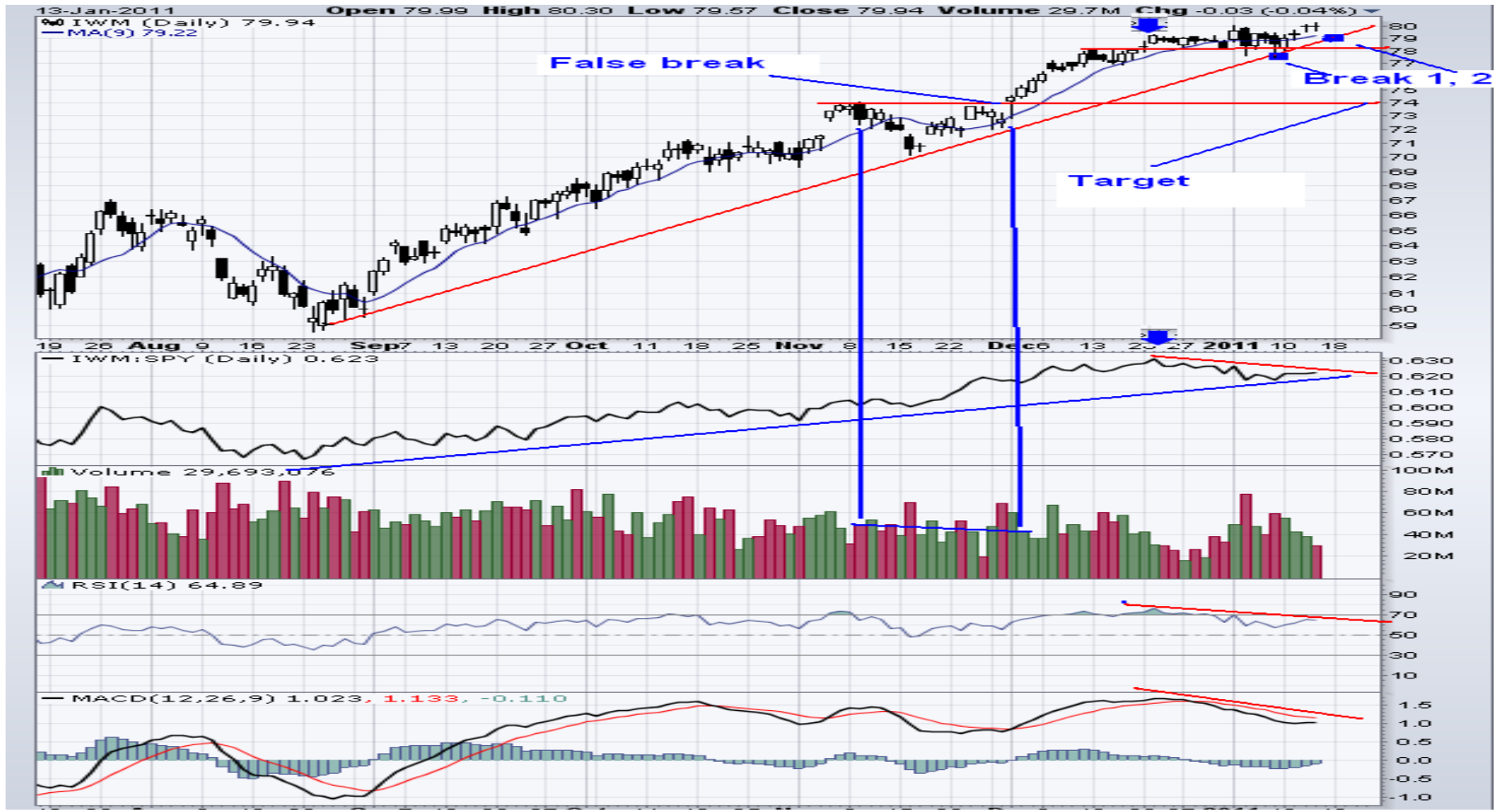
IWM- POM – LT - Price , Volume & Pattern Analysis - (MONITORING CZ –PQV)

Finally after so much patience , the day arrives for CZ – As required , currently it is testing 2008 Jan breakdown area & 2008 highs of Sept an its derived CZ - 1 of 77 – 80.00 (currently it is in the zone) and test with 175 M and weekly close under 77 should be a good test If SPX declines this will follow.



IWM- POM – LT - Price , Volume & Pattern Analysis - (MONITORING CZ –PQV)

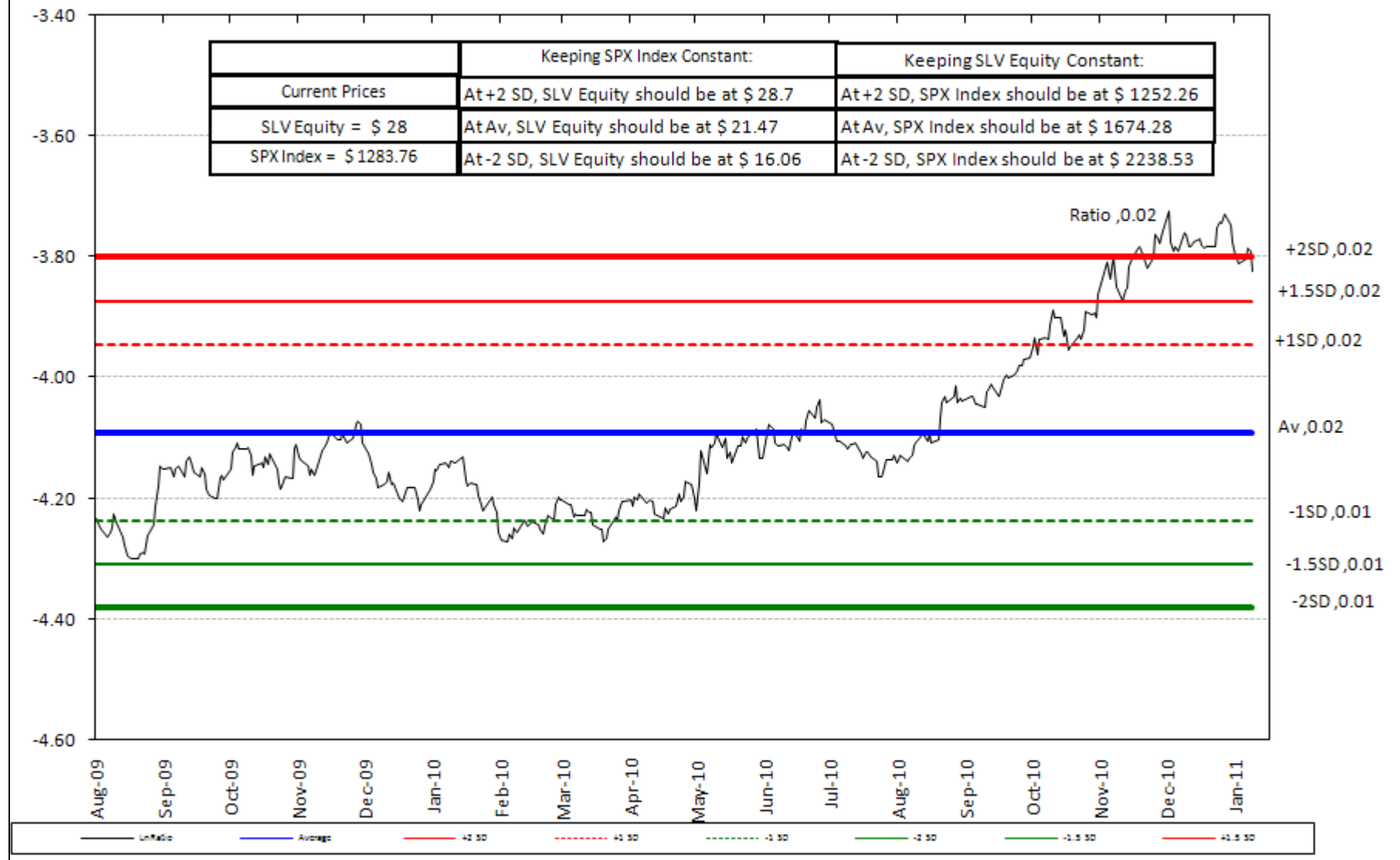
Ratio of the IWM / SPY has weakened along with MACD and RSI diverging on last rise , Momentum Indicator below -50 should show weakness, The volume on break of 74 was false and market to achive those levels , sooner rather then later The Break points are at 79 and 77 (see the chart blow) . To Fine tuning on daily basis the CZ For ½ position is 79.50- 80 with price go above 80 and then close below 79 with 35 M shares for failure. We are watching closely in CZ – PQV in Sector Report. Stops on other side of CZ for Risk movement.



SLV – Correlation Ratio Analysis with SPX – 365 days Time basis

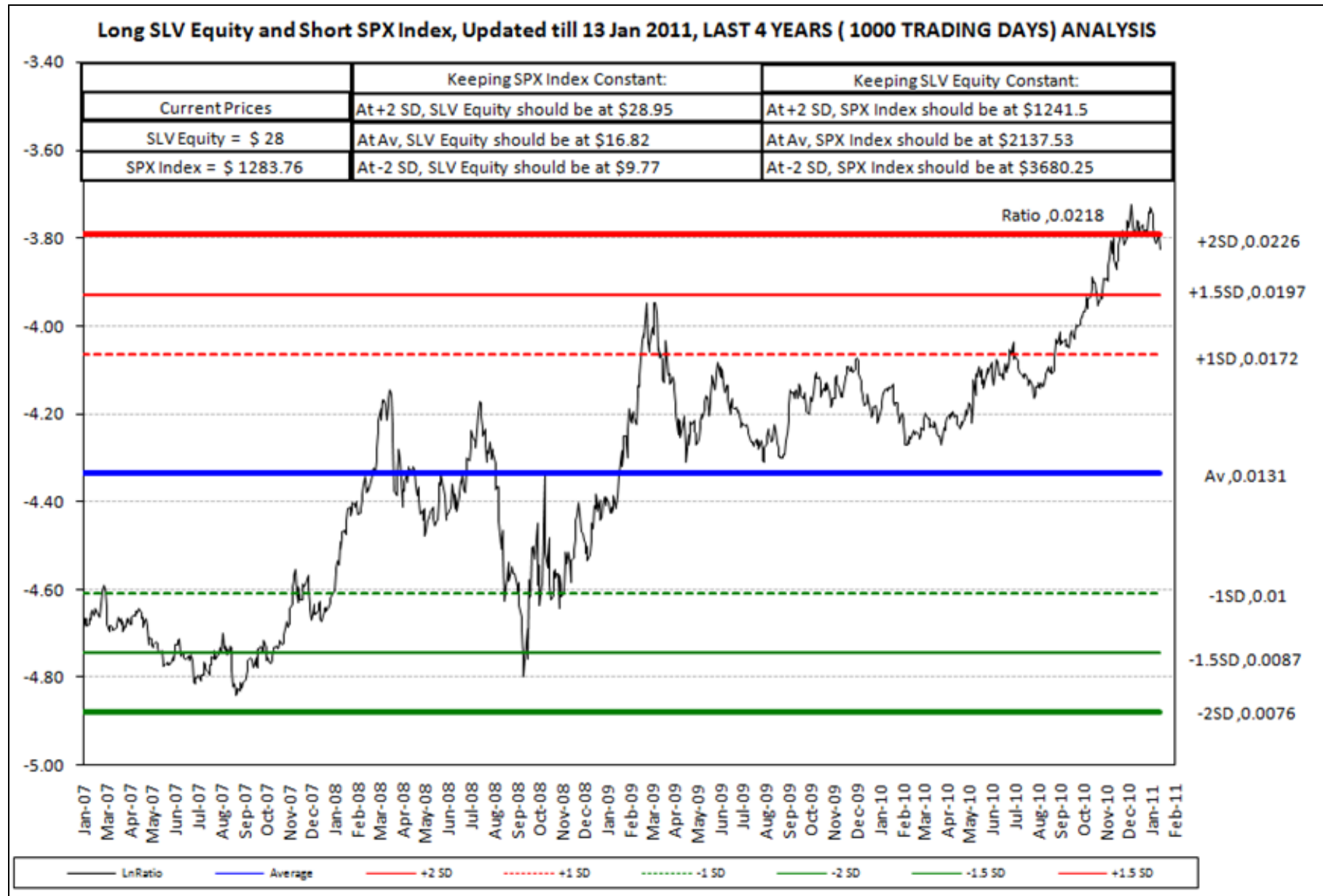
SD # 2 Qualified for CZ –PQV & CZ –PQV Validated in Sector Watchlist Report,

Long SLV Equity and Short SPX Index, Updated till 13 Jan 2011



SLV – Correlation Ratio Analysis with SPX – Full Time basis

(In this Time frame – It validates as well SD # 2)

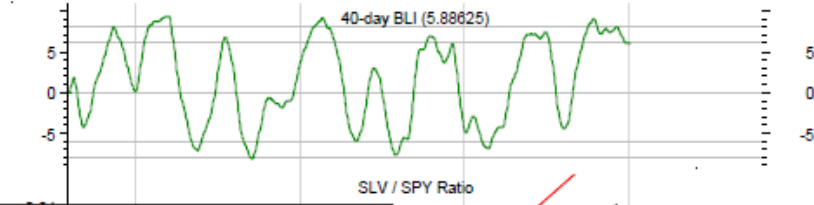
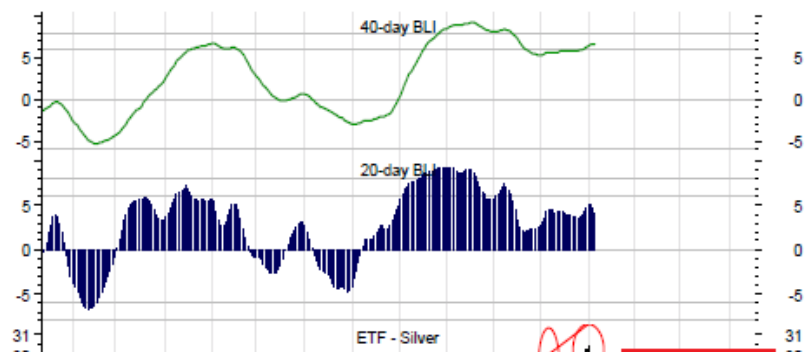


SLV – Technical & Pattern Analysis

SLV - (CZ –PQV tested in Sector Watchlist Report & Commodity Report - C)

Silver ETF **SLV**
 Last: \$ 28.42
 Chg: \$ (0.19) -0.67%

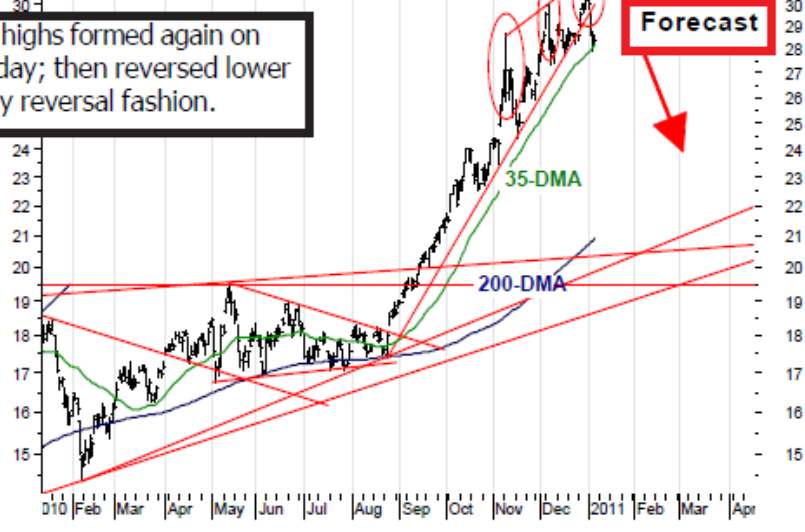
RATIO: SLV / SPY
 Last: 0.223
 Chg: (0.001) -0.47%



New highs formed again on Monday; then reversed lower in key reversal fashion.

The parabolic move is showing signs of "stalling"; a 60-dma breakdown would be quite bearish.

Forecast



SLV – PQV

GDJ has been great bench mark for P. Metals market , it is on way to our target of 54 from 61 with volumes navigating this down. Meanwhile SLV testing area around swing lows and 50DMA of 27.50 with volume picking up on down . MACD turned down, RSI is weakening , That shows loss of upside momentum, suggests the bounce could be anemic on counter Trend towards the 29.00 area as indicated .

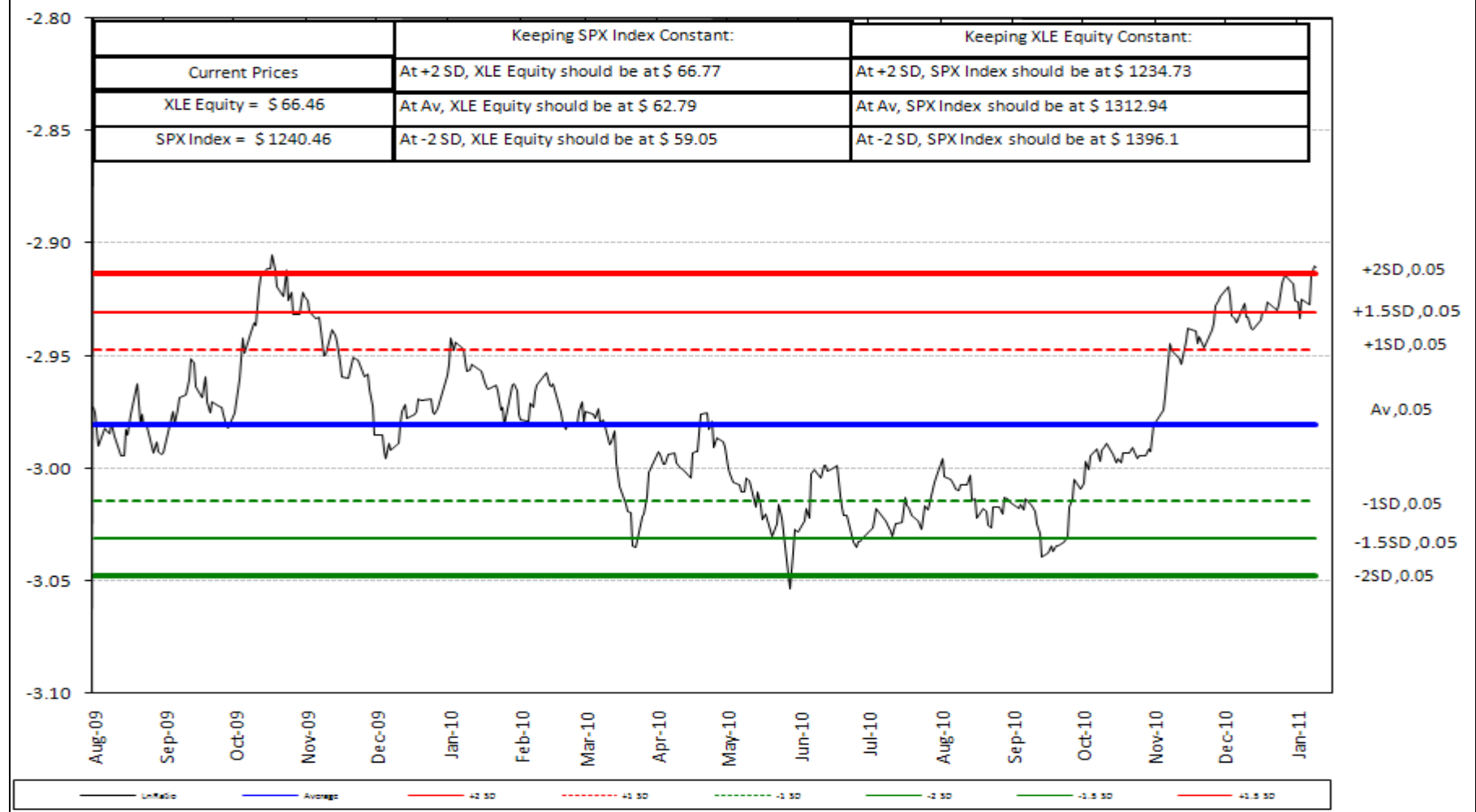
On bigger scale, the price pattern is 3 drives to the top & Key reversal with heavy volume on downside suggested of the current down move that's in progress toward our target of 25 and eventually 22 after several Zig - Zags .



XLE- Correlation Ratio Analysis with SPX – 365 days Time basis

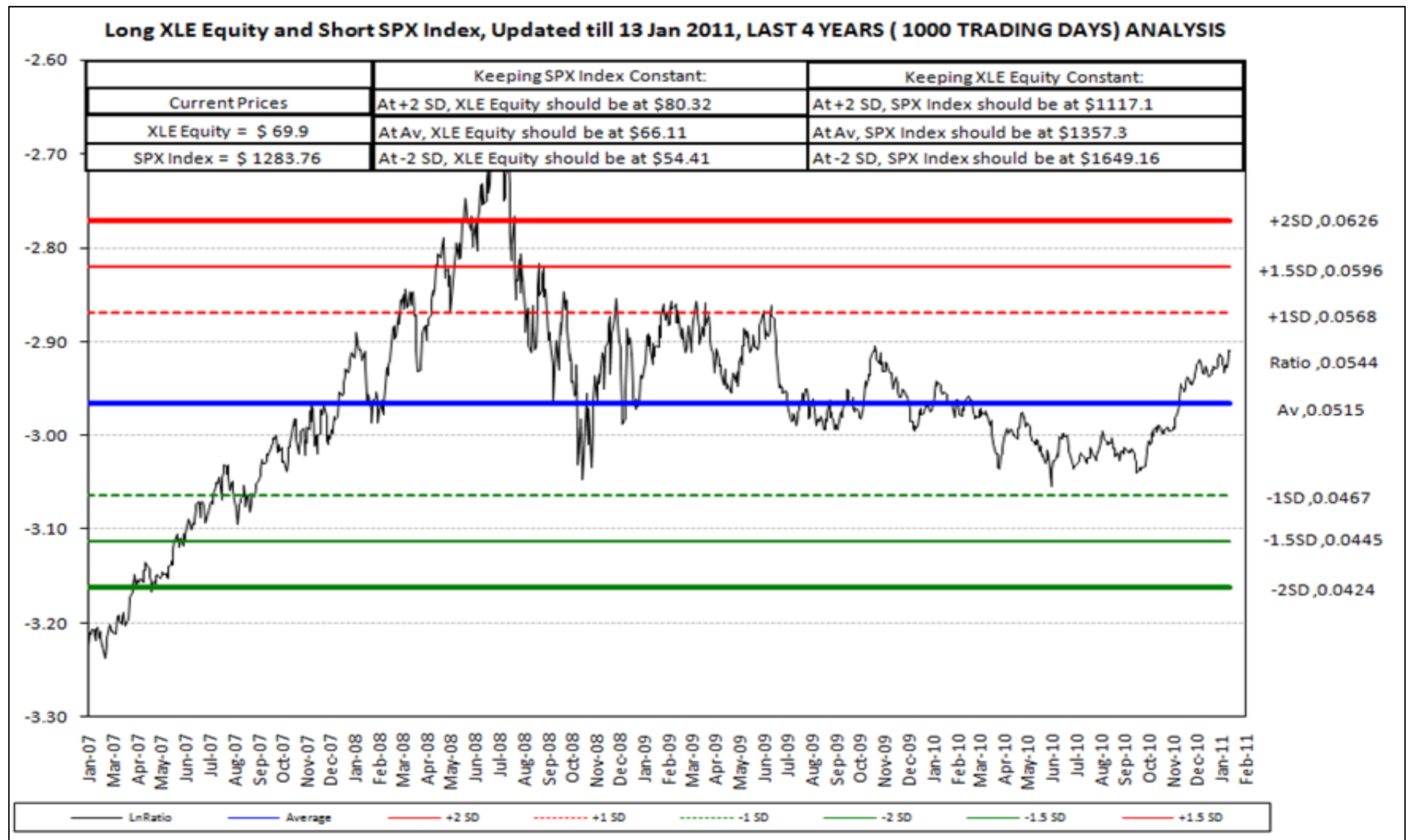
(SD # 2 Qualified - MONITORING CZ -PQV in Sector Report -)

Long XLE Equity and Short SPX Index, Updated till 13 Jan 2011



XLE – Correlation Ratio Analysis with SPX – Full Time basis

(In this Time frame – still not Over valued valued yet)



XLV– Correlation Ratio Analysis with SPX – 365 days Time basis

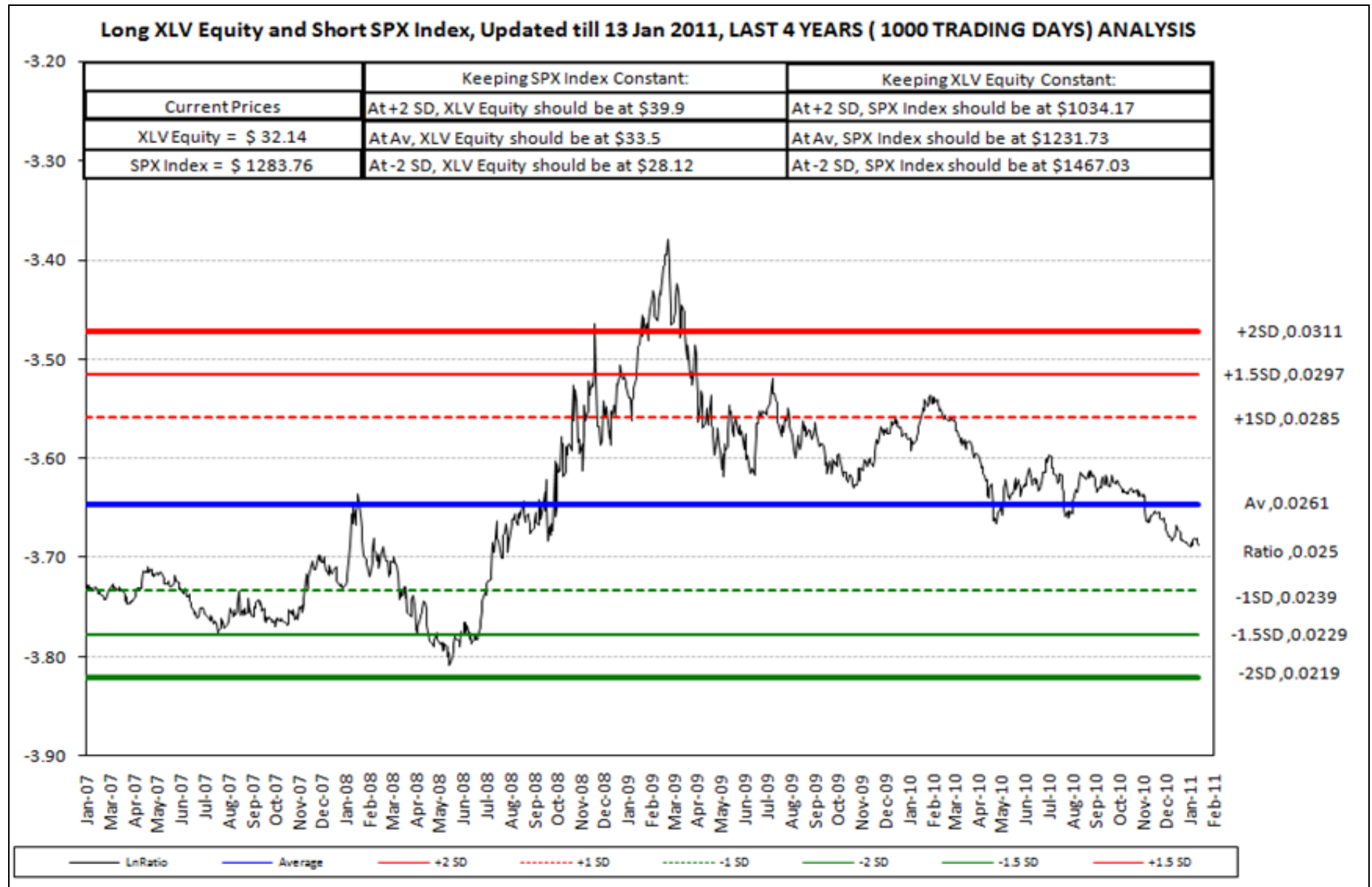
(SD # 2 Qualified - MONITORING CZ –PQV in Sector Report -)

Long XLV Equity and Short SPX Index, Updated till 13 Jan 2011



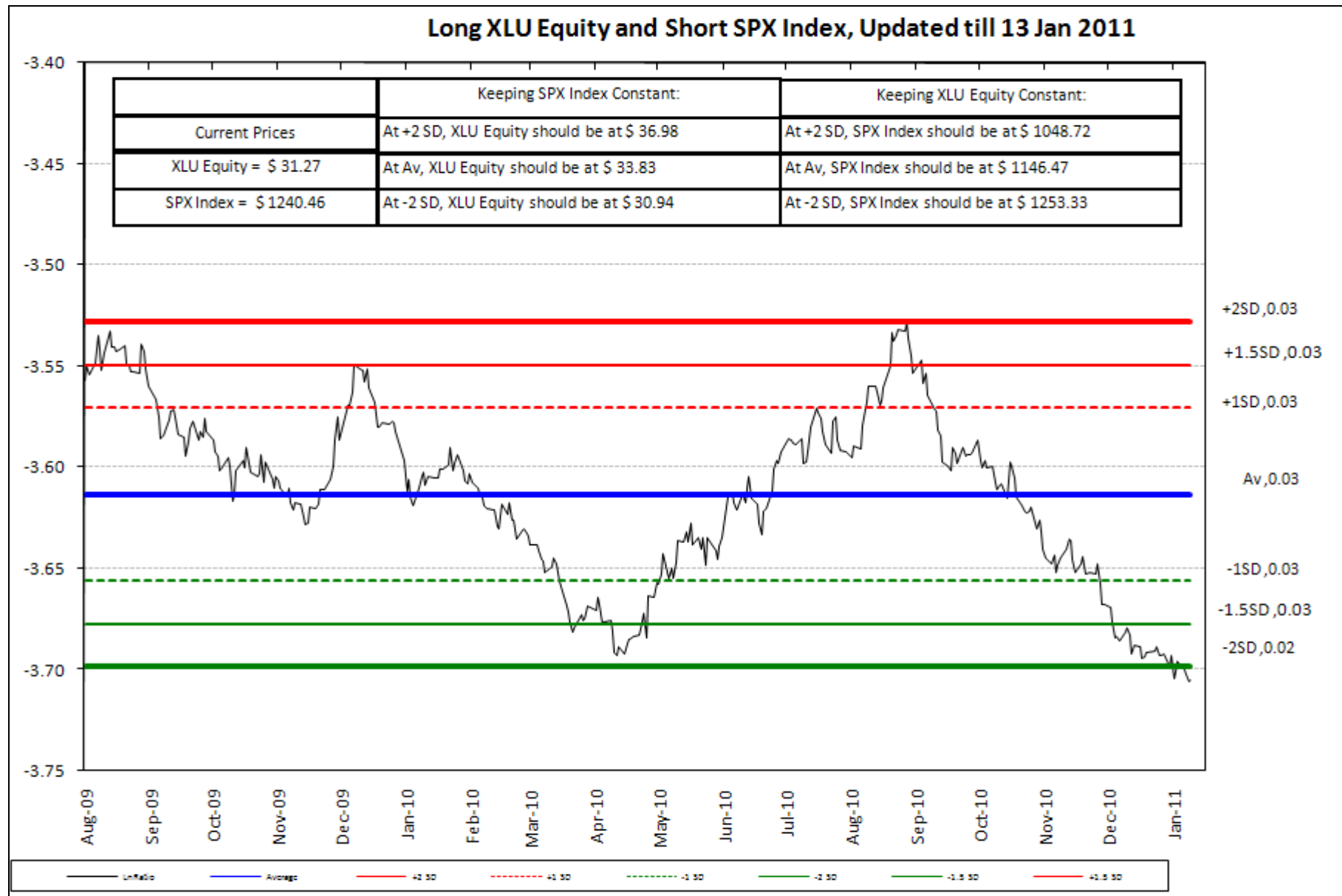
XLV- Correlation Ratio Analysis with SPX – Full Time basis

(In this Time frame – still not Under valued yet)



XLU – Correlation Ratio Analysis with SPX – 365 days Time basis

(SD # 2 Qualified - MONITORING CZ –PQV in Sector Report -)



XLU – Correlation Ratio Analysis with SPX – Full Time basis

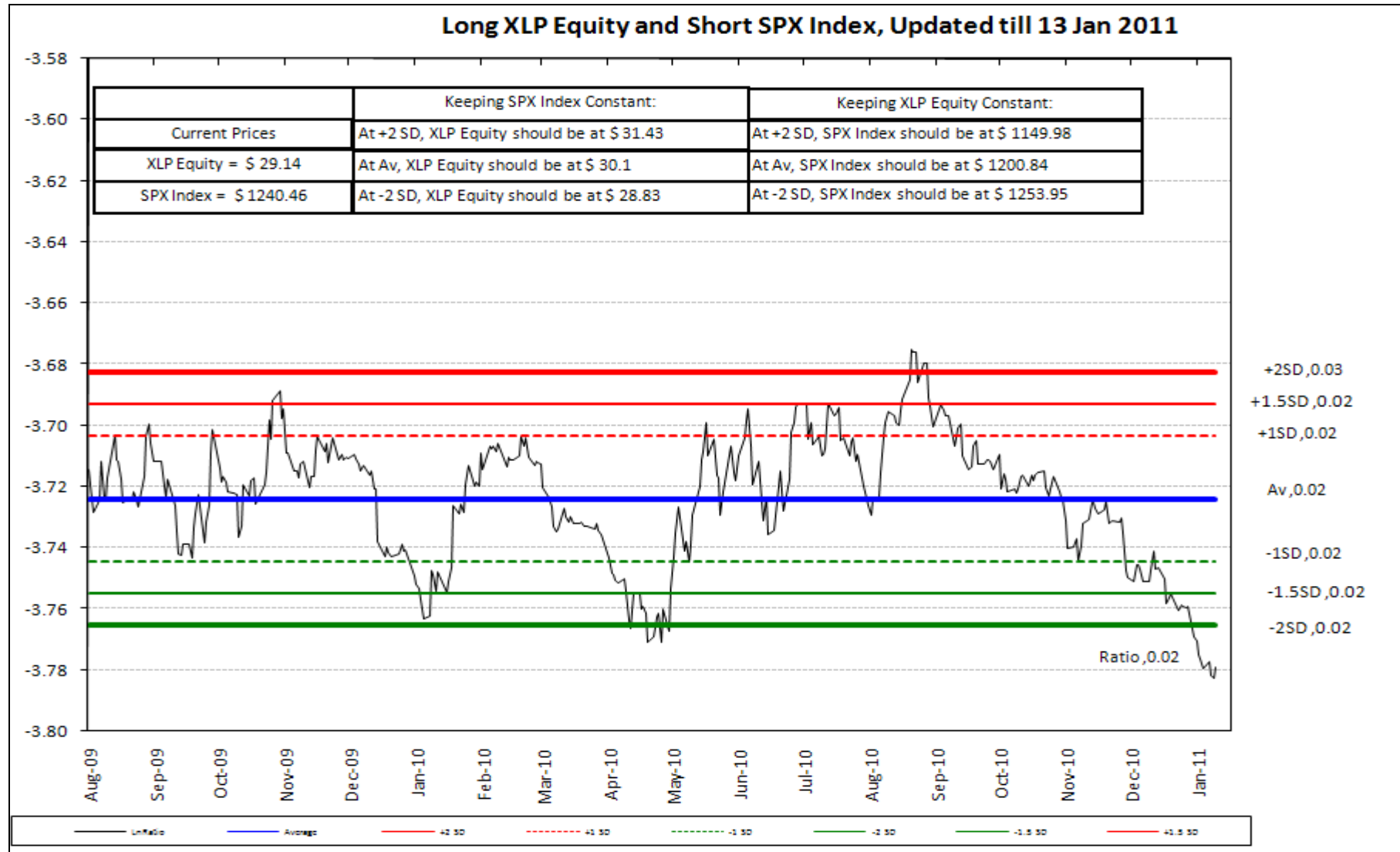
(In this Time frame – Under valued in this time frame as well SD # 2)

Long XLU Equity and Short SPX Index, Updated till 13 Jan 2011, FULL PERIOD ANALYSIS



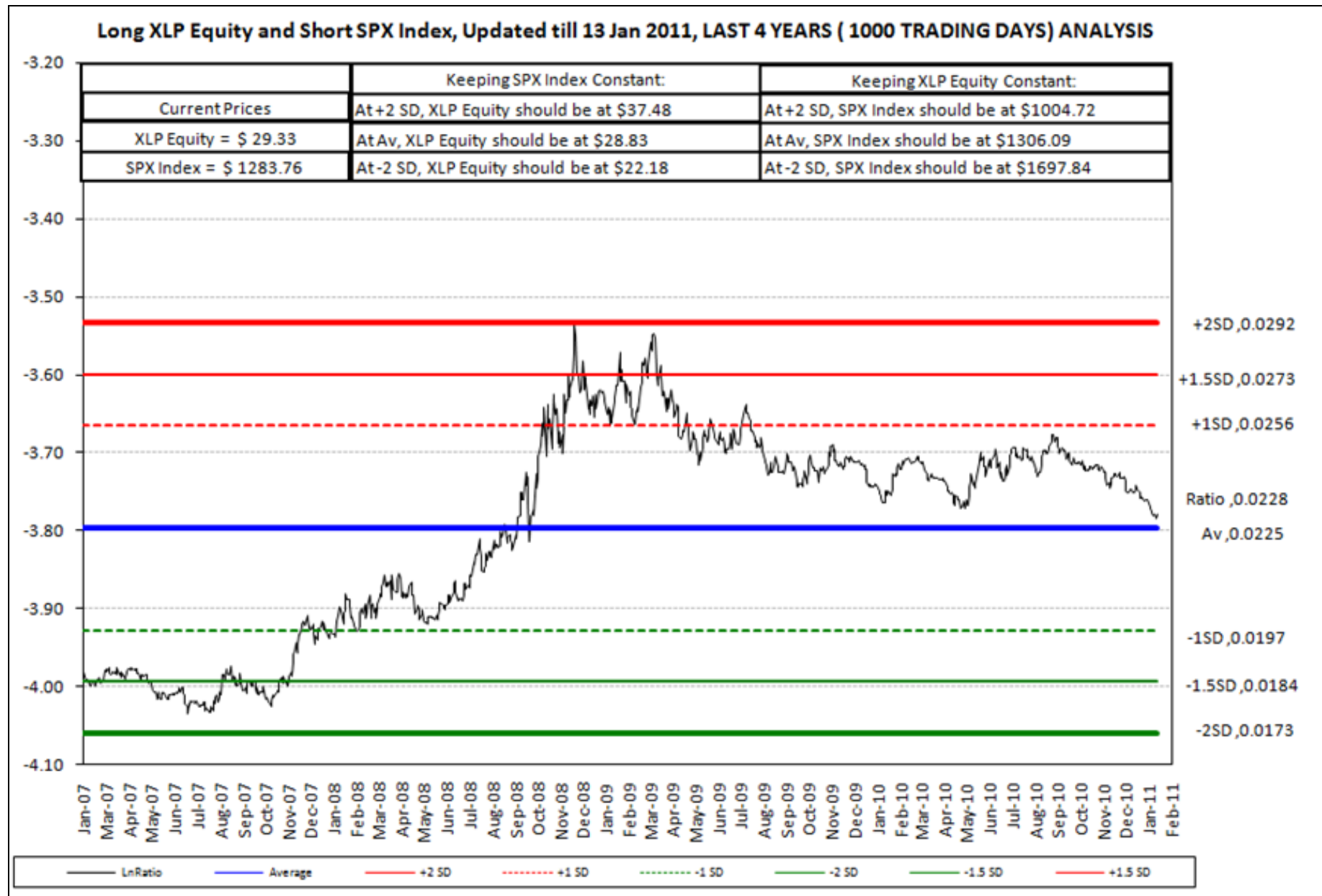
XLP- Correlation Ratio Analysis with SPX – 365 days Time basis

(SD # 2 Qualified - MONITORING CZ -PQV in Sector Report -)



XLP– Correlation Ratio Analysis with SPX – Full Time basis

(In this Time frame – still not Under valued yet)



REFERENCE MATERIAL – Part II (Separate Attachment)

CZ- PQV Validation list – ETF –Sectors (Previously Triggered SD #2)

✓ *PQV –CZ validated Sectors*

Short

- *QQQQ*
- ✓ *IWM*
- ✓ *EEM*
- ✓ *EWP*
- ✓ *EWH*
- *SMH*
- *EWA*
- *XLB*
- *XLE*
- ✓ *SLV*
- *JJC*
- ✓ *GLD*
- ✓ *GDX*

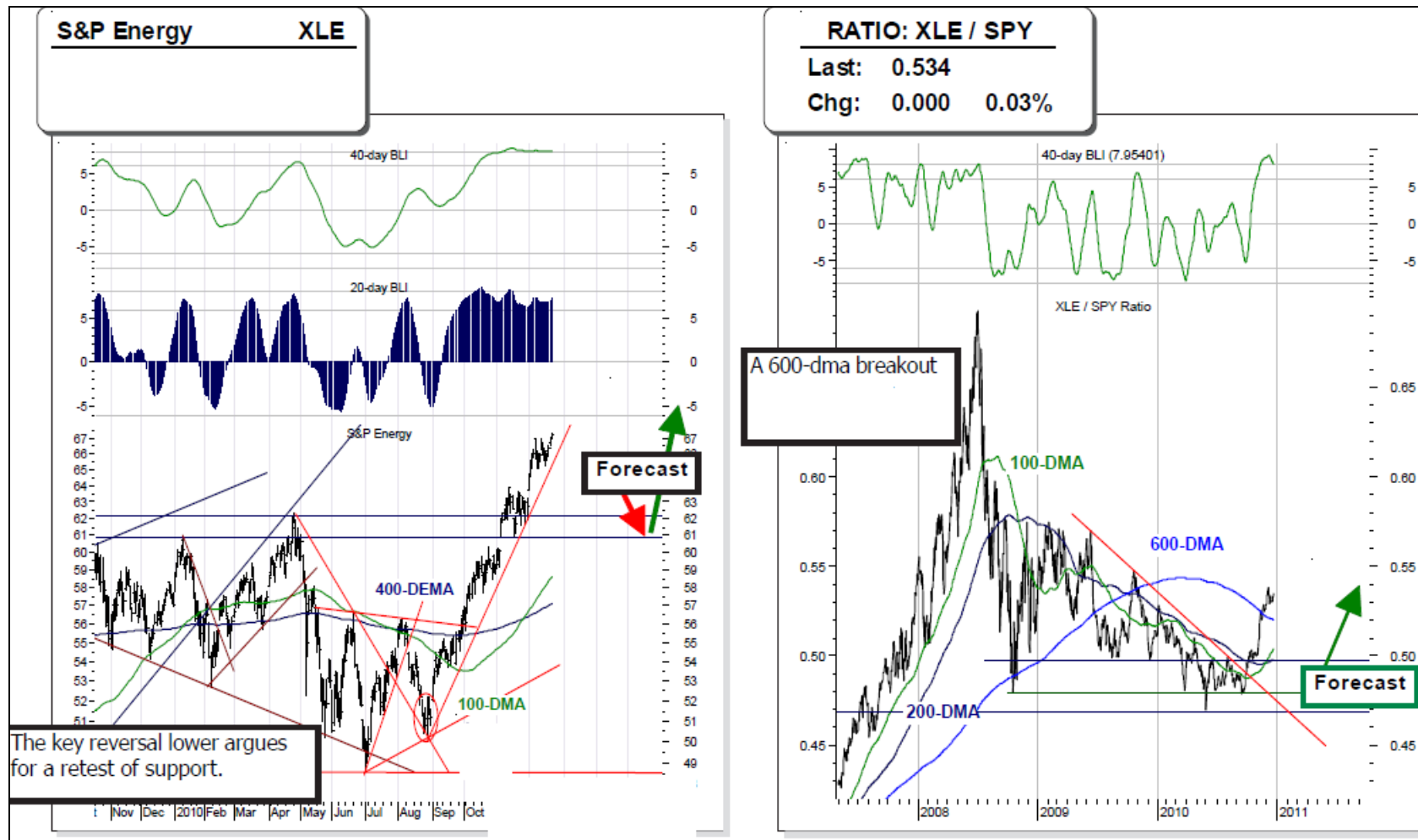
Long

- ✓ *JOF*
- *XLV*
- *TLT*
- *MUB*
- *XLU*
- *XLP*

Short

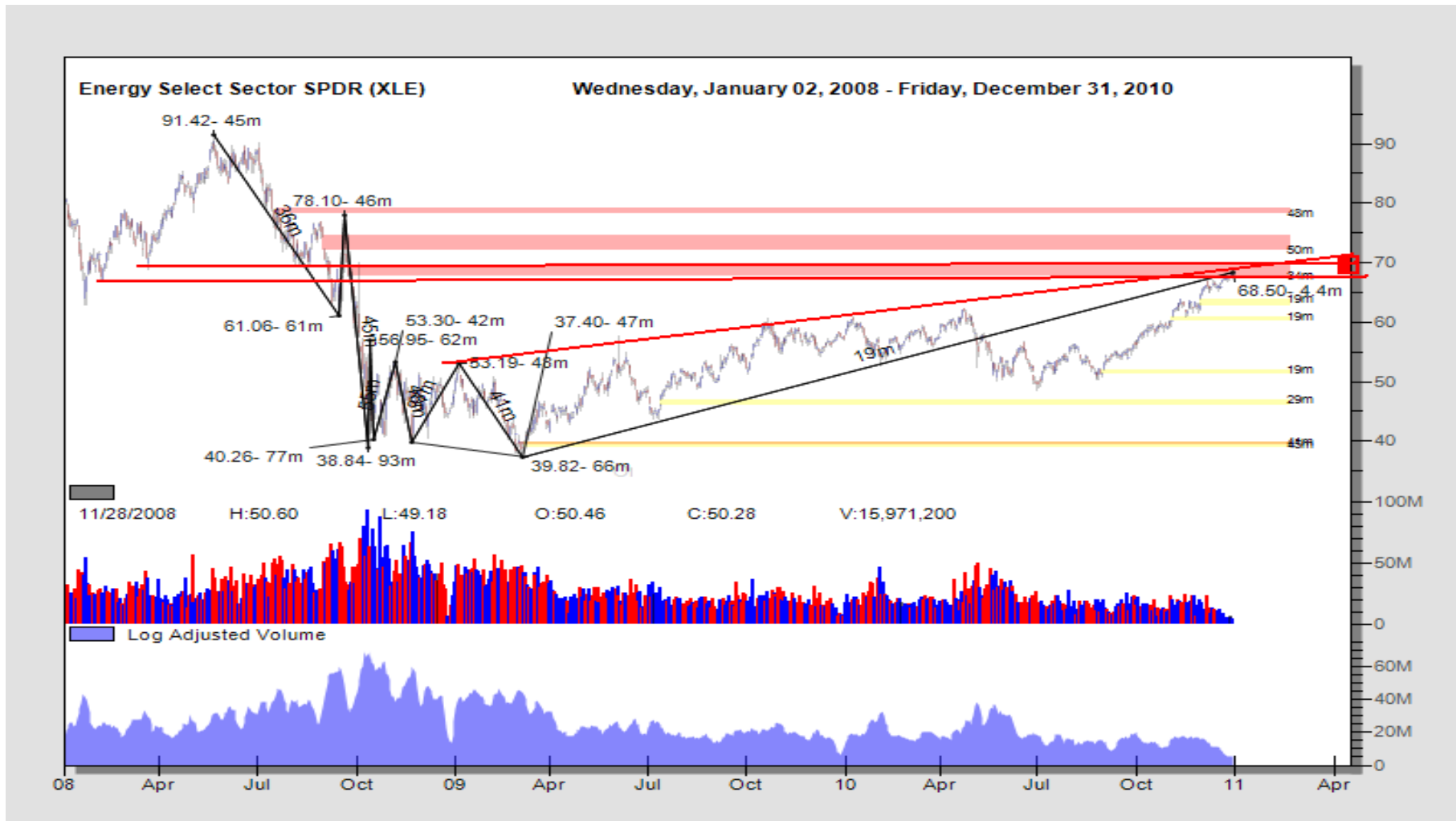
XLE – Technical & Pattern Analysis & Price / Volume

On absolute basis looks extended but the Pattern of XLE / SPY Ratio looks bullish , with breakout of 600 DMA , pull back on this ratio is possible to breakout area and XLE should decline to 62 on break of trend line



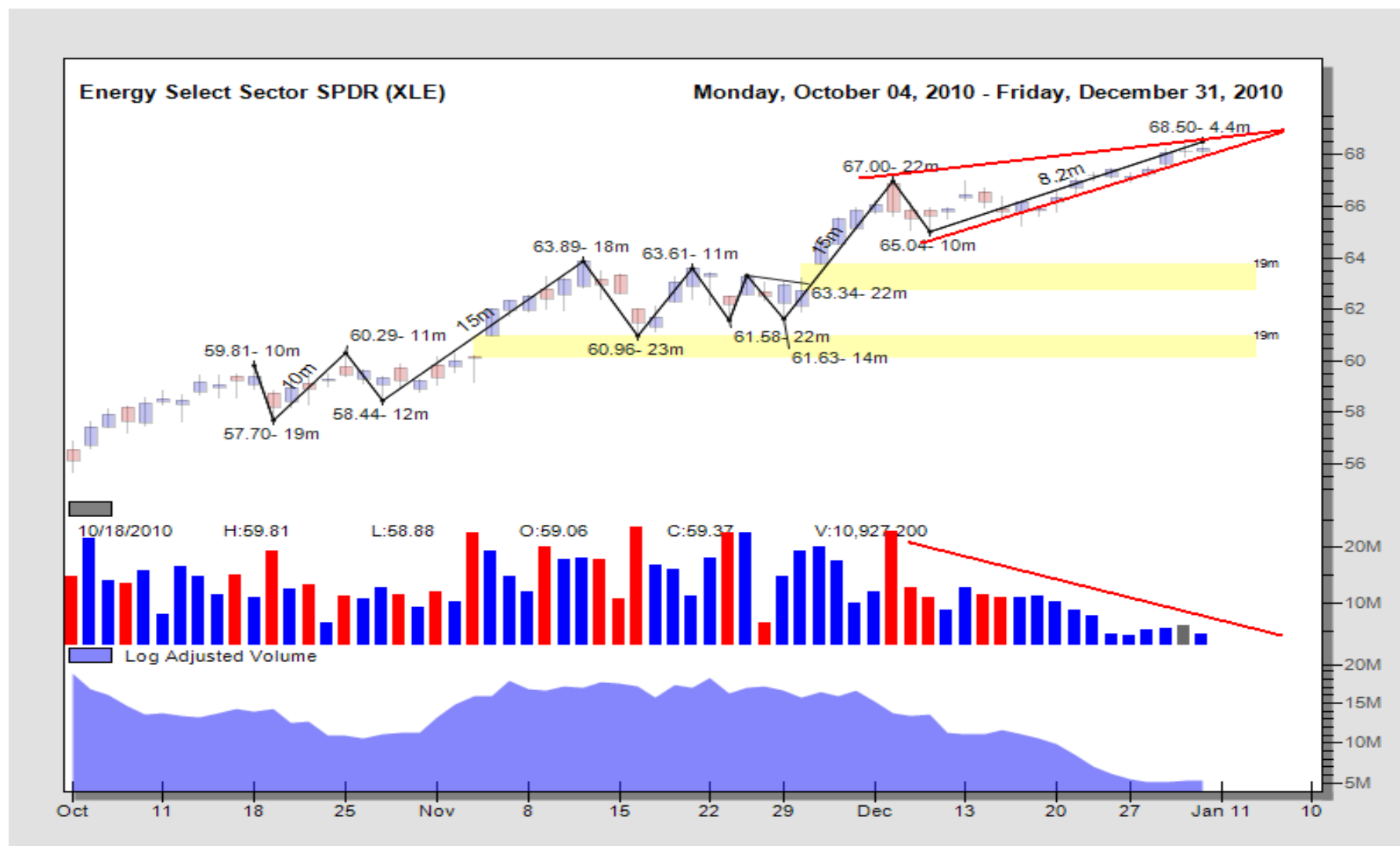
- XLE - PQV Analysis

This has entered the CZ on 3x3 on light volume , For better Risk reward , first a sign of pull back on heavy volume and at least 10-12 m and then test of 68.50 – 70.5 with 4 shares and close under 68.5 for failure. But no signal yet



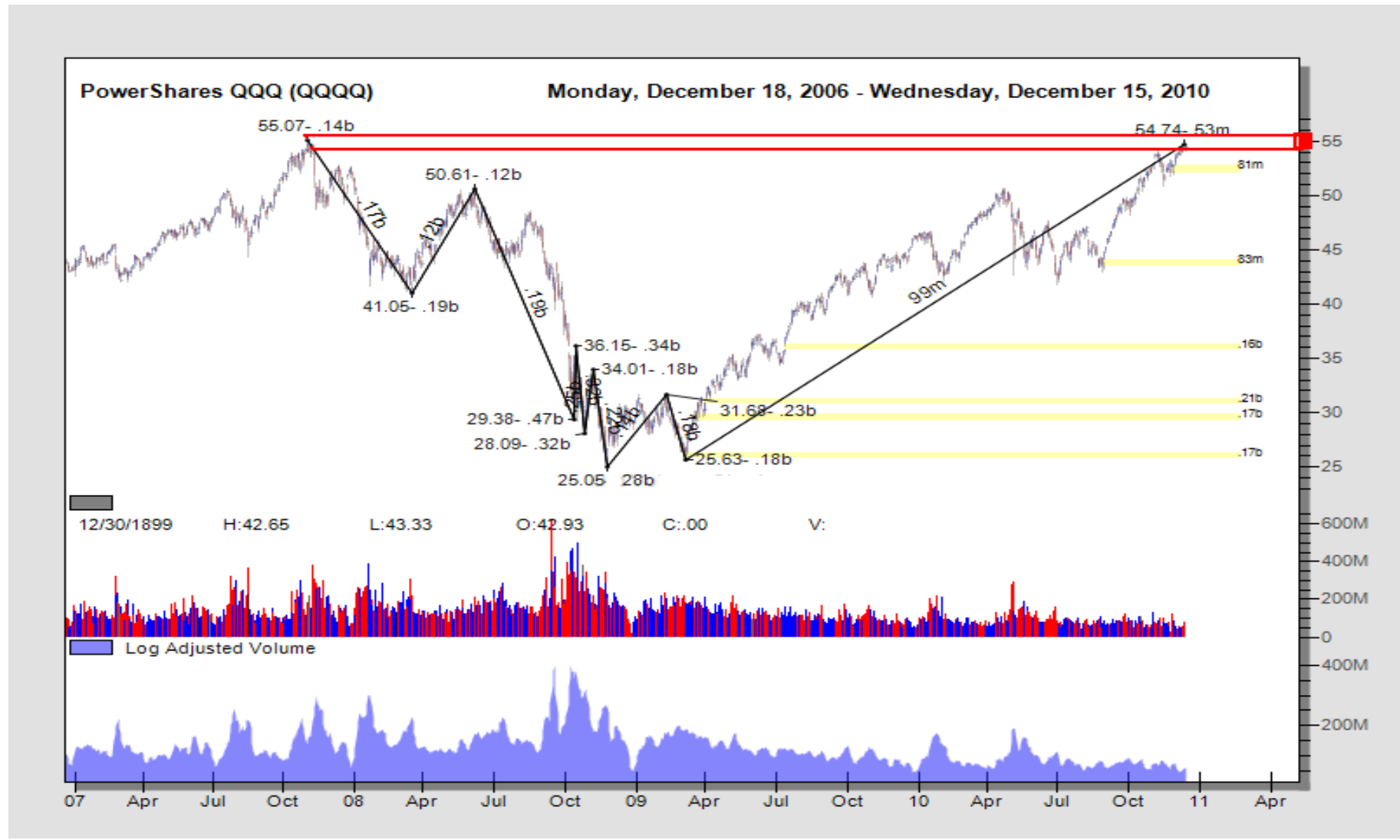
XLE – PQV Analysis – SHORT TERM

This Bearish Wedge should be diffused first to 65 price if volume picks up 10-12 M on the decline , then monitor the bounce into CZ as stated above



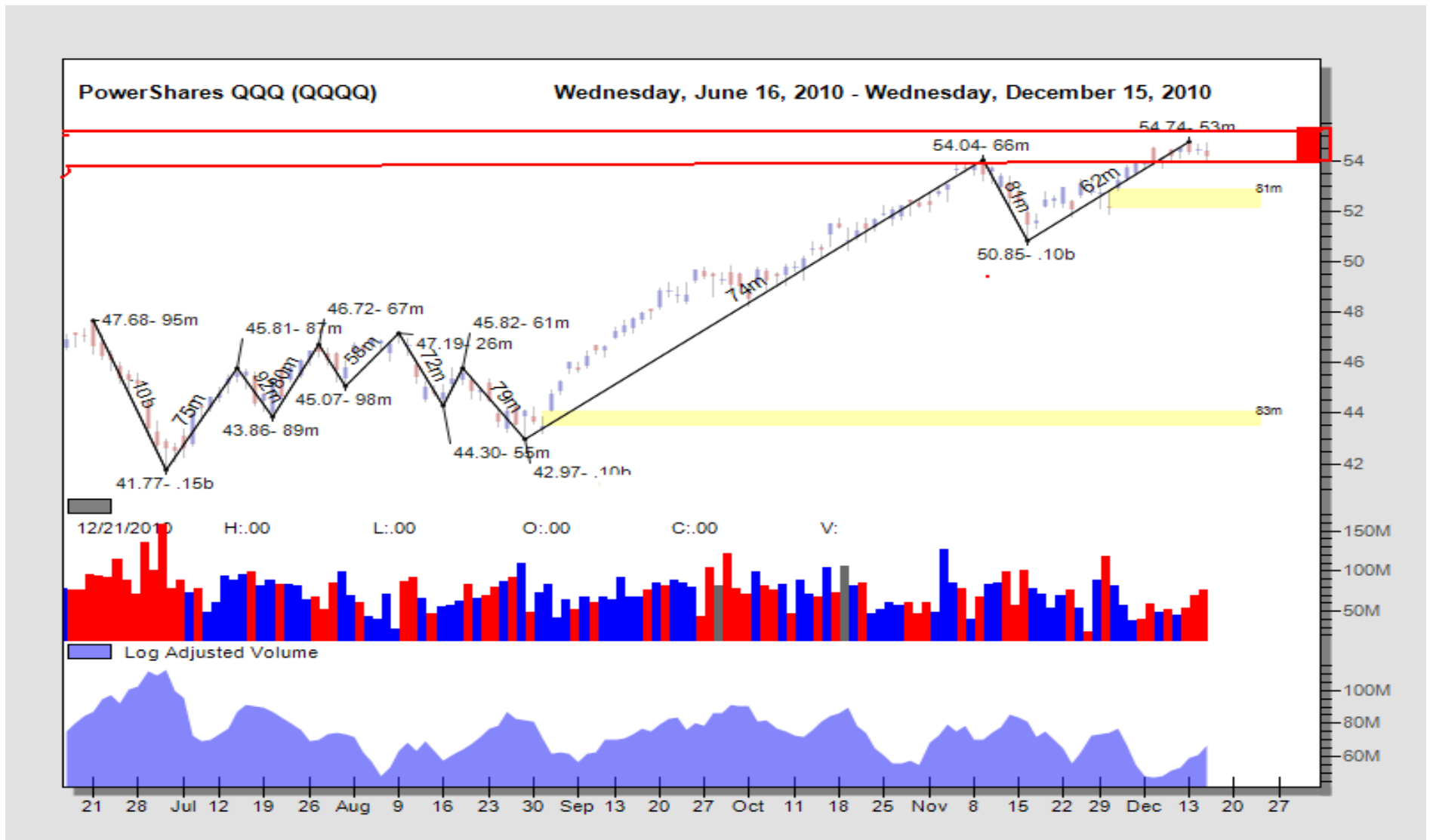
QQQQ - POM – LT - Price , Volume & Pattern Analysis

QQQQ is testing Oct 08 highs of 55 , Previously it tested the breakdown area of Oct 08 of 54 with 65% lighter volume
If the test of 55 with 100 M shares and close below 54 would be failure (This is a better failure) , On risk reward as always
the stop on other side of CZ.



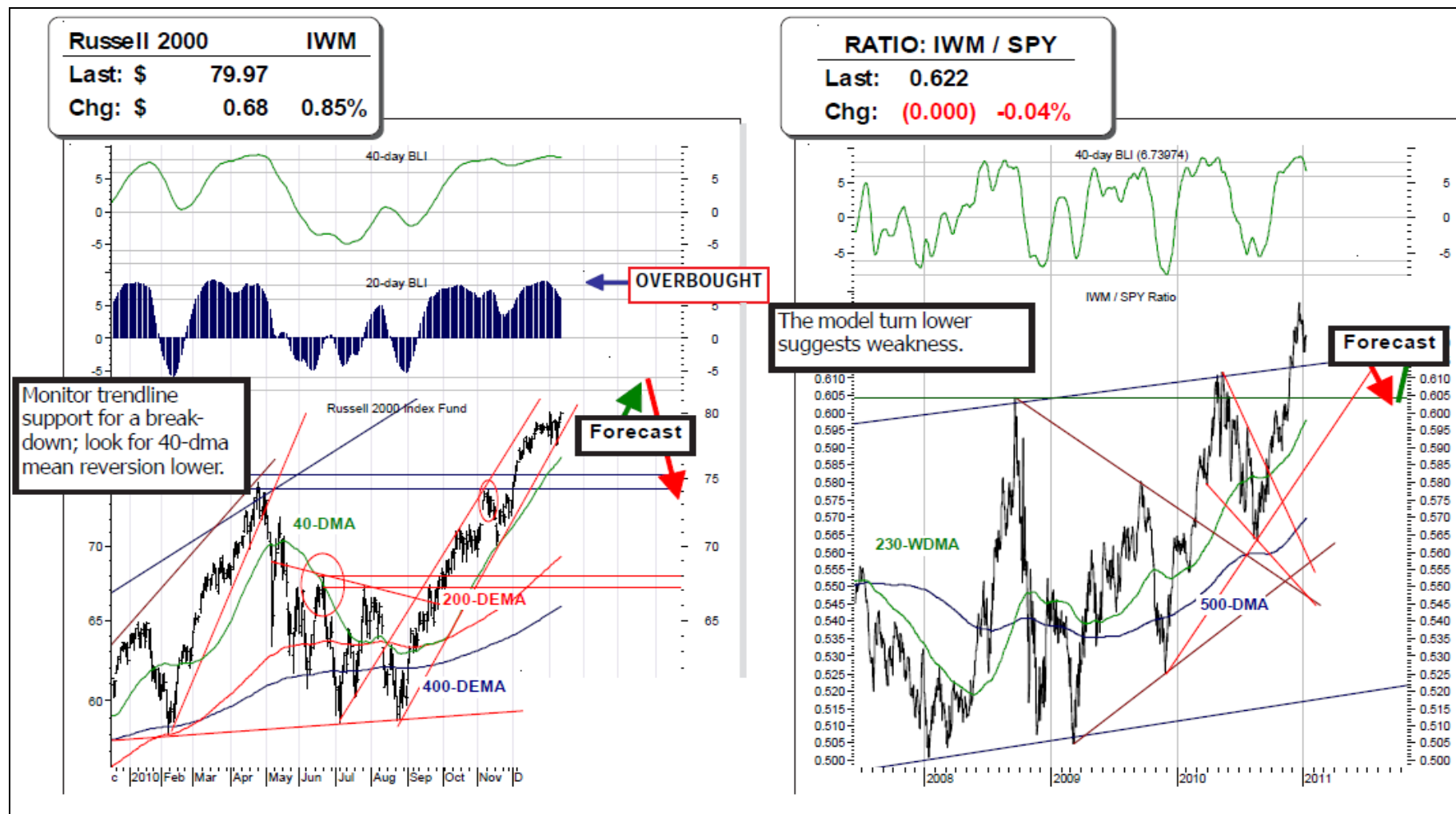
QQQQ - POM - ST - Price , Volume & Pattern Analysis

On Shorter term, QQQQ tested 54 with 53 M v/s 53 required within CZ & 5-7% and now close below 54 would be failure , if SPX fails before NASD , then QQQQ may fail prematurely (without going higher then 55)



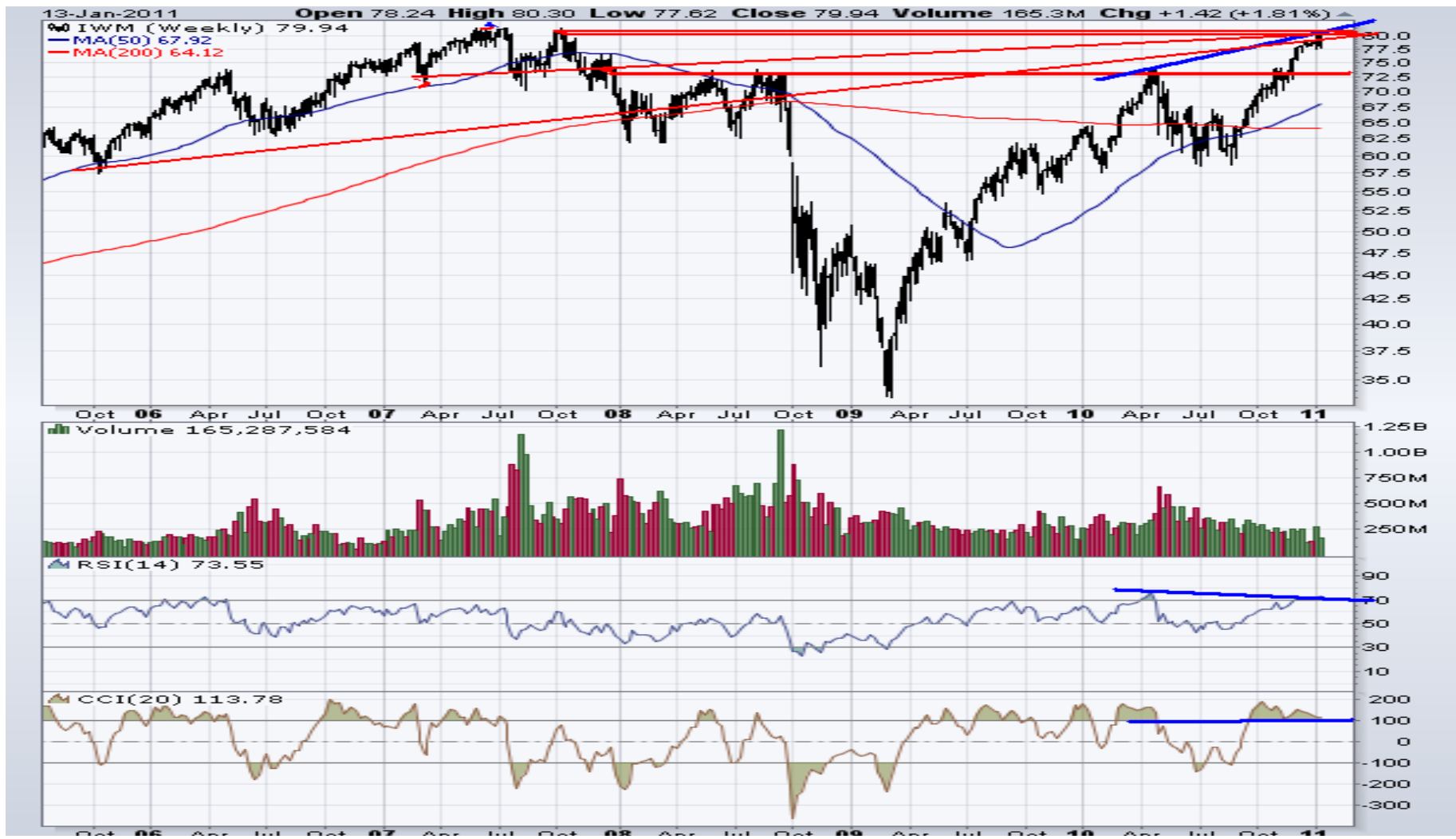
IWM Technical & Pattern Analysis

(CZ -PQV testing in process in Sector Watchlist Report)



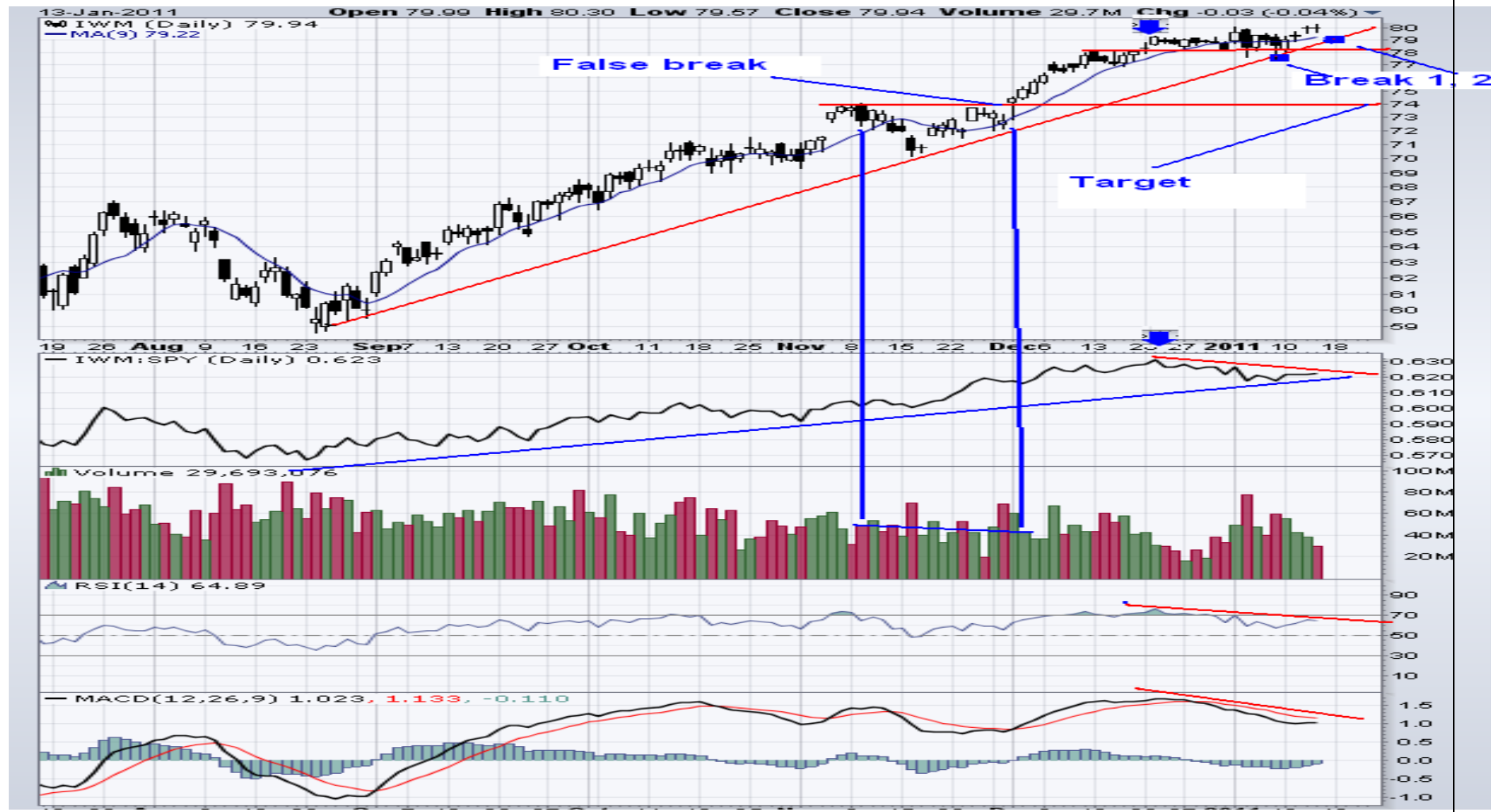
IWM- POM – LT - Price , Volume & Pattern Analysis - (MONITORING CZ –PQV)

Finally after so much patience , the day arrives for CZ – As required , currently it is testing 2008 Jan breakdown area & 2008 highs of Sept an its derived CZ - 1 of 77 – 80.00 (currently it is in the zone) and test with 175 M and weekly close under 77 should be a good test If SPX declines this will follow.



IWM- POM – LT - Price , Volume & Pattern Analysis - (MONITORING CZ –PQV)

Ratio of the IWM / SPY has weakened along with MACD and RSI diverging on last rise , Momentum Indicator below -50 should show weakness, The volume on break of 74 was false and market to achive those levels , sooner rather then later The Break points are at 79 and 77 (see the chart blow) . To Fine tuning on daily basis the CZ For ½ position is 79.50- 80 with price go above 80 and then close below 79 with 35 M shares for failure. We are watching closely in CZ – PQV in Sector Report. Stops on other side of CZ for Risk movement.



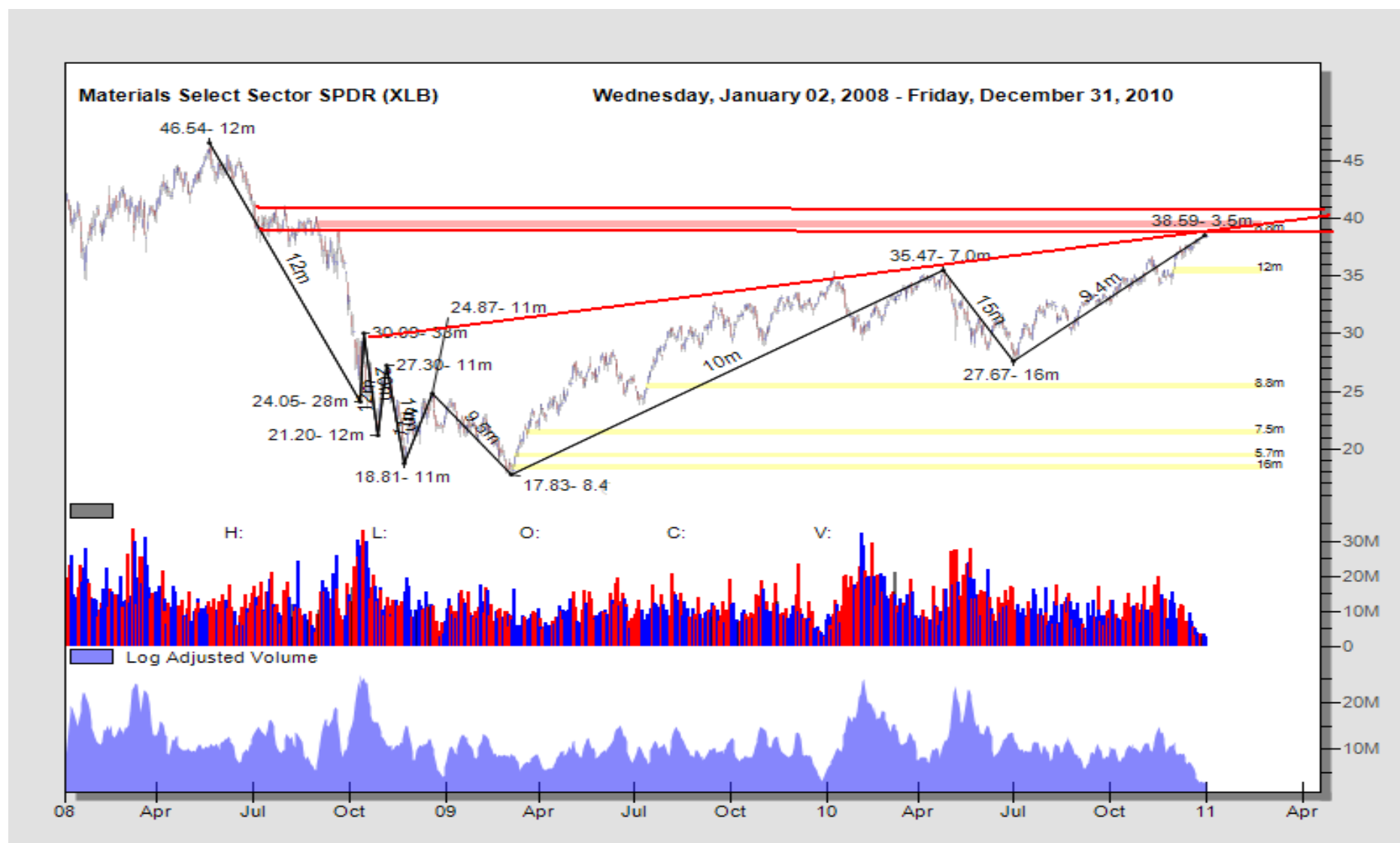
XLB – Technical & Pattern Analysis & Price / Volume

Both on relative basis and absolute basis confirms over valuation, decline should begin toward 80 DMA & breakout area 35, by this Method



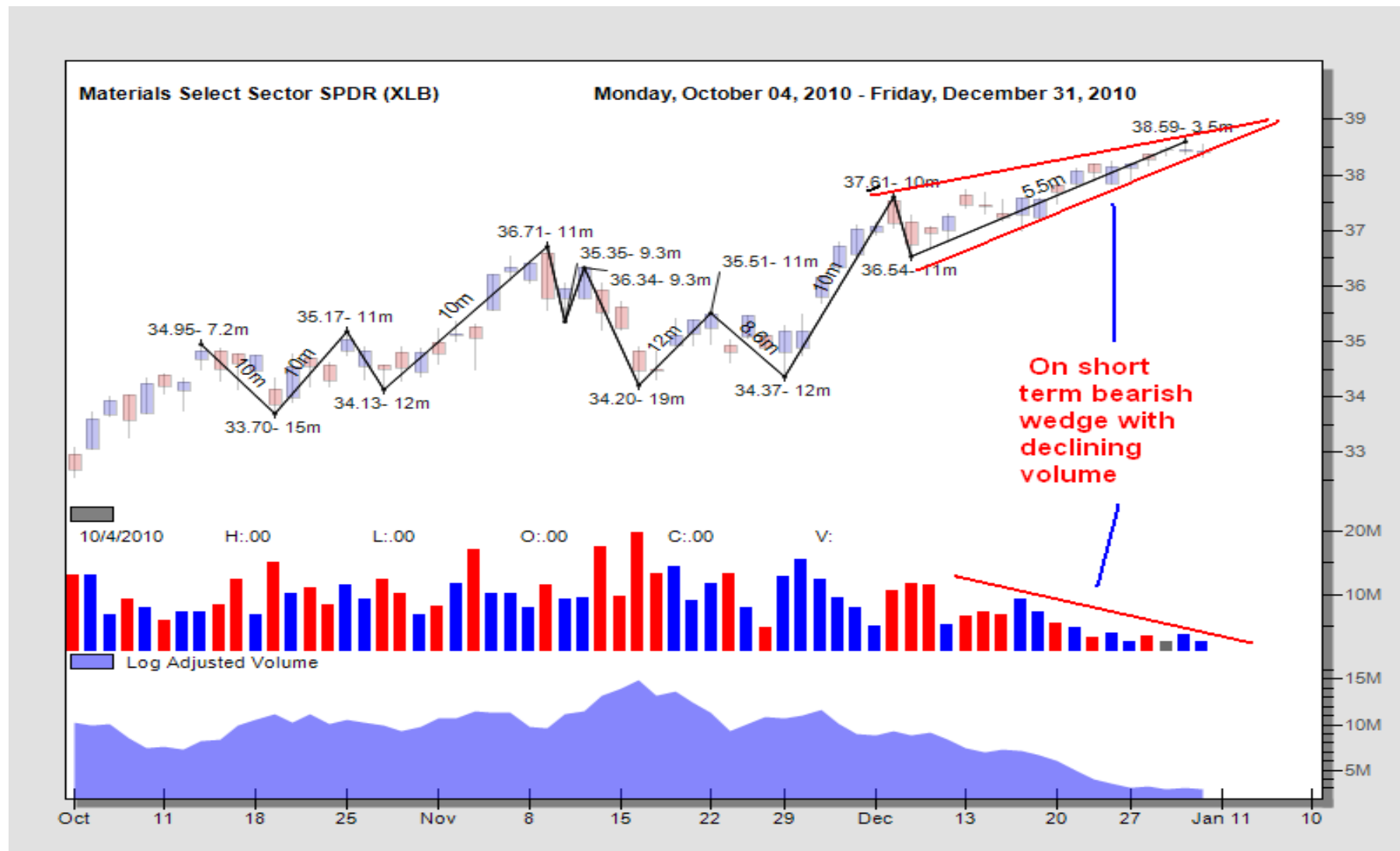
XLB – PQV Analysis

This has entered the CZ on 3x3 on light volume but after the pull back this area needs to be tested once again on lighter volume For better Risk reward , first a sign of pull back on heavy volume and at least 6 - 8 m and then test of 38 – 41 with 3 M Shares for failure. But no signal yet, This will follow SPX closely on decline



XLB – PQV Analysis – SHORT TERM

This Bearish Wedge should be diffused first to 36 price if volume picks up 6-8 on the decline, then monitor the bounce into CZ as stated above



EEM- POM – LT / ST – Key points

- **EEM is closely related with SPX on downside when SPX signal is at POM 15 , EEM acts with the texture of POM 14 . Conversely Our in-depth Analysis suggest that SPX 's POM – Buys POM 11,12 are closely related with the buys of EEM 's.**
- **SD # Levels are at + 1.0 SD and Neural Zone , but any bounce should take to Target Zone into +2.0 SD, we should monitor this**
- **Charts below gives different possibility in different time frame with volume study**

EEM – Trend line & SMA Analysis

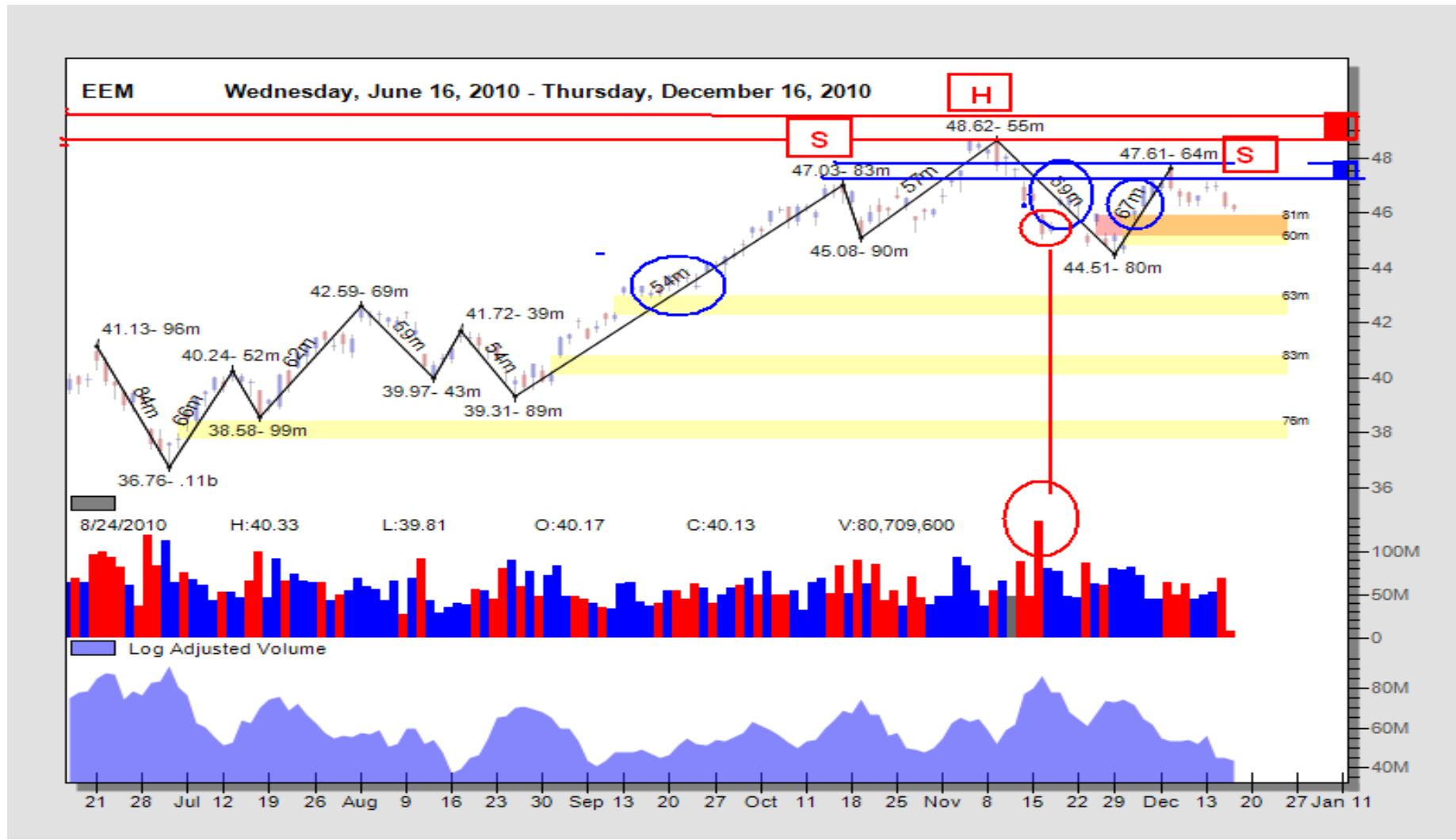
By this method , this is a Bearish Setup, these reversal are good probability patterns.

Emerging Market	EEM
Last: \$	46.96
Chg: \$	0.07 0.15%



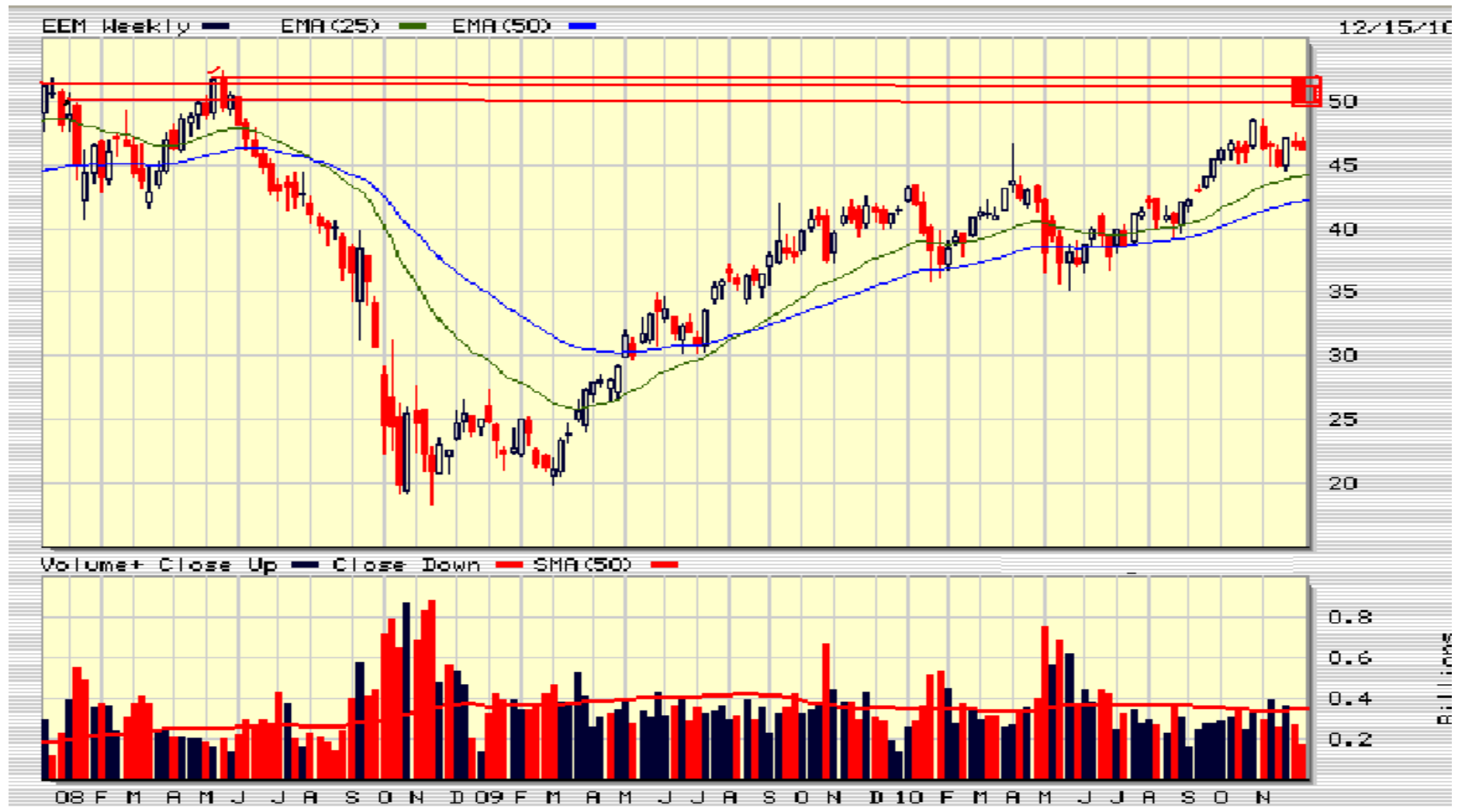
EEM- POM – ST - Price , Volume & Pattern Analysis

Since our last update , Our CZ of Head and Shoulder passed successfully with close of 47 and volume tests as Indicated
 If SPX fails, then we may not get to the CZ of 48 -50 ,. The needs to be 40 M & price close below 48 . That would Top , On
 risk reward as always the stop on other side of CZ. (If volume pick up more than 40M and we could certainly not pass the
 test., that is what if ??)



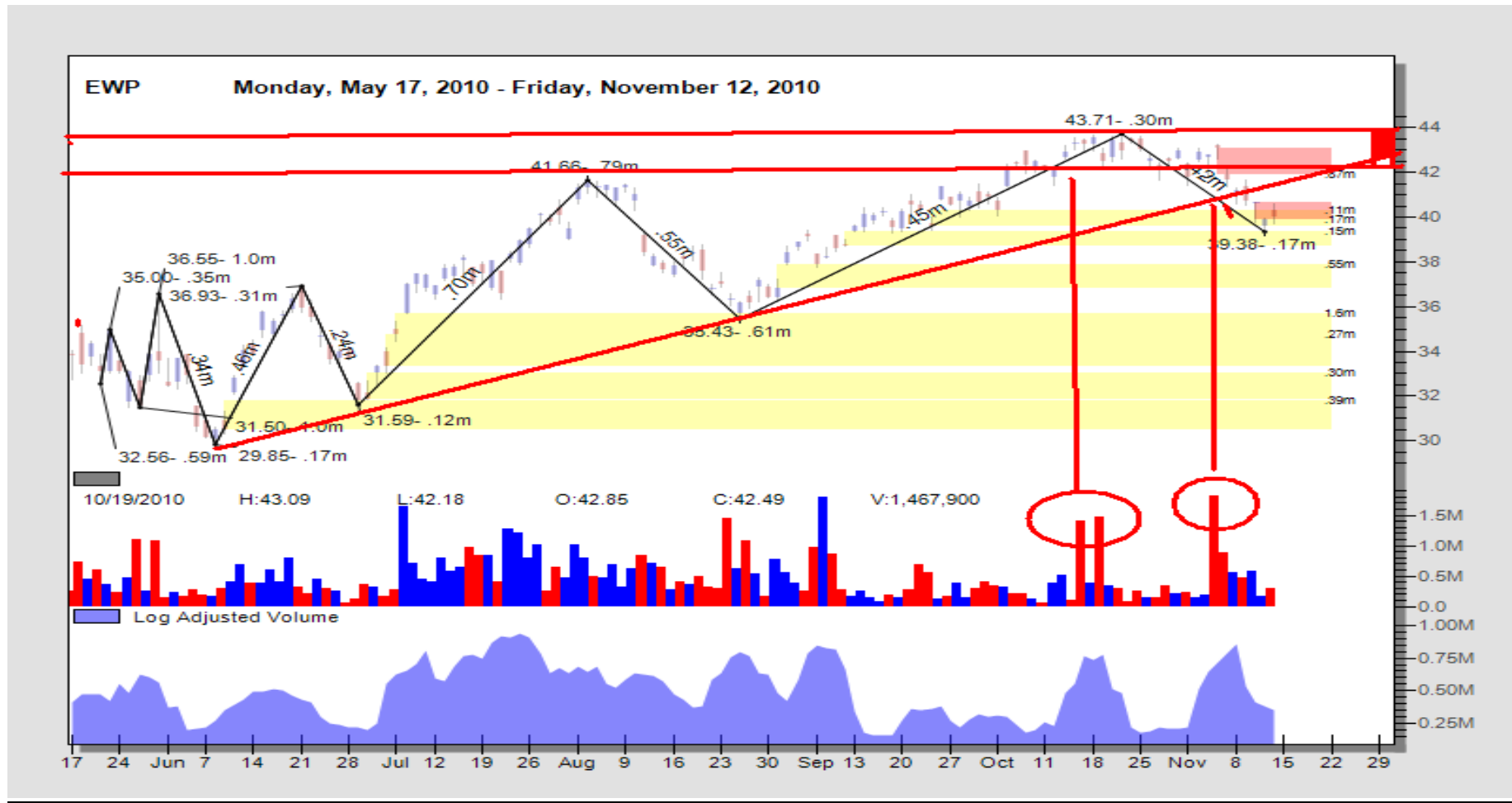
EEM- POM – LT - Price , Volume & Pattern Analysis

Heads up - As a worst case scenario if volume exceeds 40 M then test the Previous swing highs of May 08 at 52 and breakdown area of Jan 08 of 49. is wide open similar to what happened to IWM. (but we wait till it proves itself via volume study) We don't know yet it will get there or not in prices. We will do the volume study if it gets there along with SD # 2, levels for 2nd visit



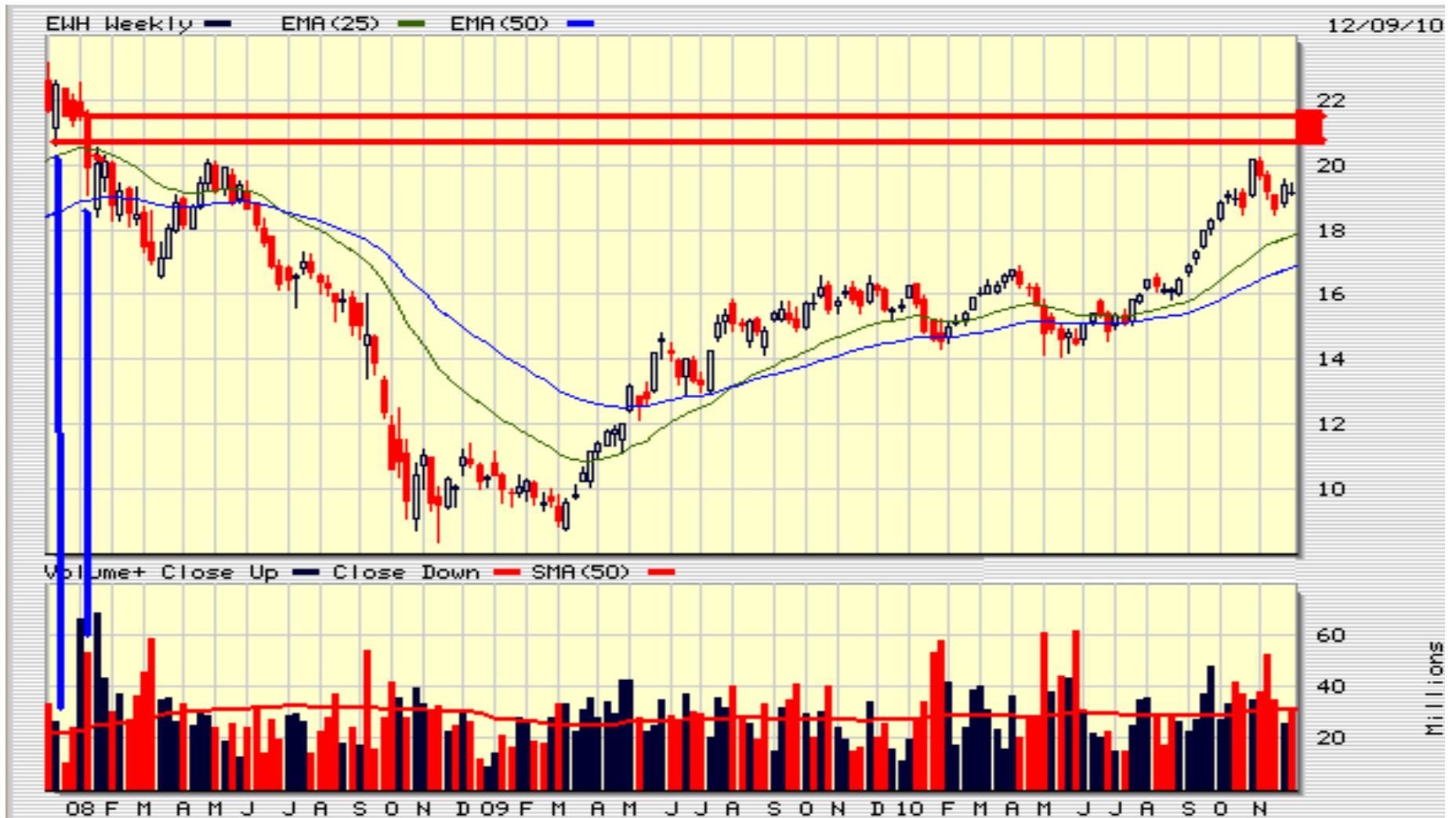
EWP – PRICE & VOLUME ACTION

- **CONFLUENCE ZONE 41.5 - 44 , with 0.4 m volume test.** In the bigger picture , this market bounced back 50% from the bottom into the breakdown area with 35% lighter volume ,
- In the current decline volume in the down move has picked up as indicated (Fundamental stated in our A # 1 report)
- In PQV INDEX – ½ position at 40.40 yesterday and other half at Confluence Zone



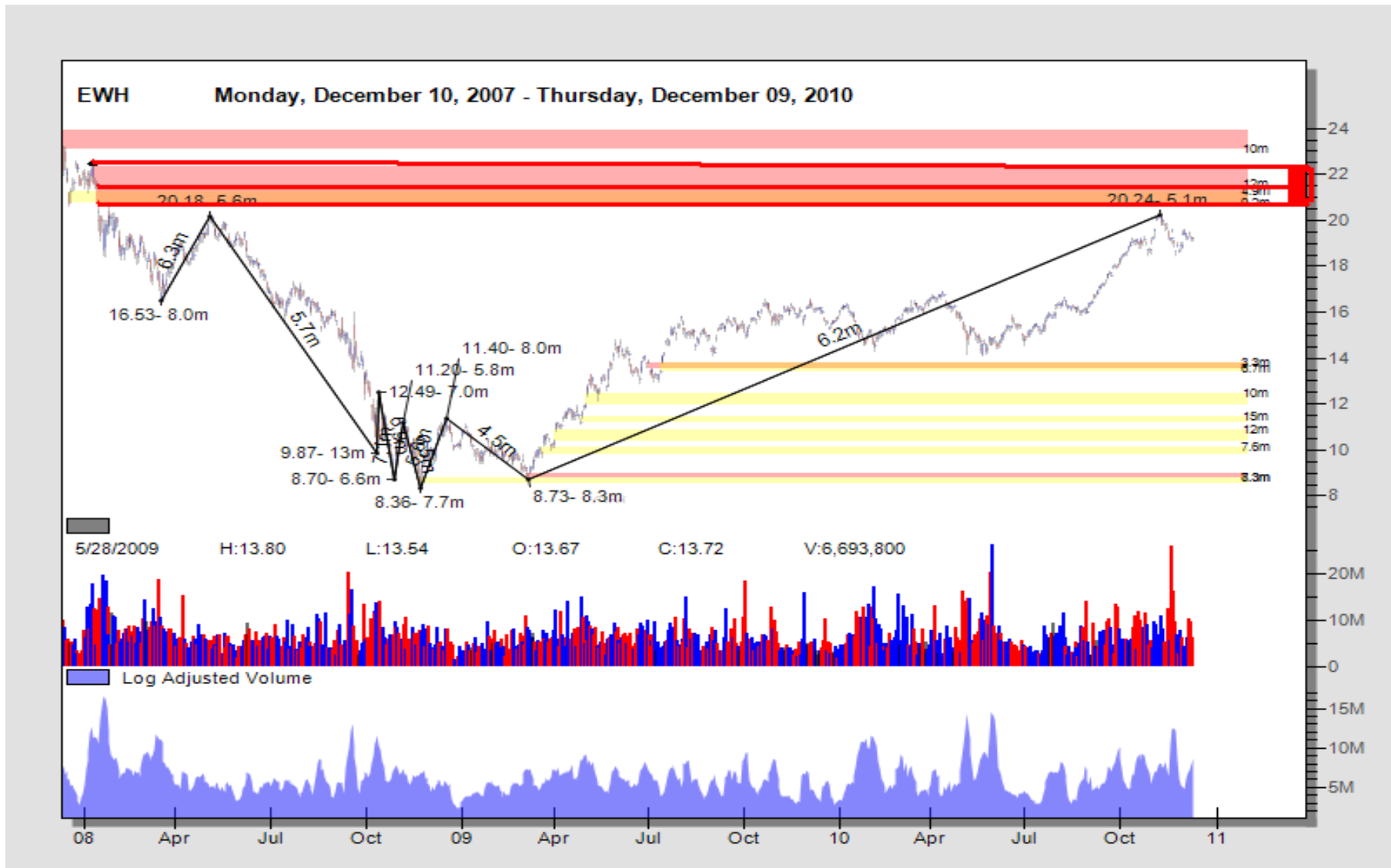
EWH - POM - LT - Price , Volume & Pattern Analysis

Backdrop - as a worst case scenario EWH may test the Previous breakdown area of Dec 07 of 22 & Jan 08 at 21. We don't know yet it will get there or not in prices but (This will be a better failure), as this would depend on SPX failure. If EWH gets to these price point , we may as well get SD # 2 and above, currently SD is at # 1.25



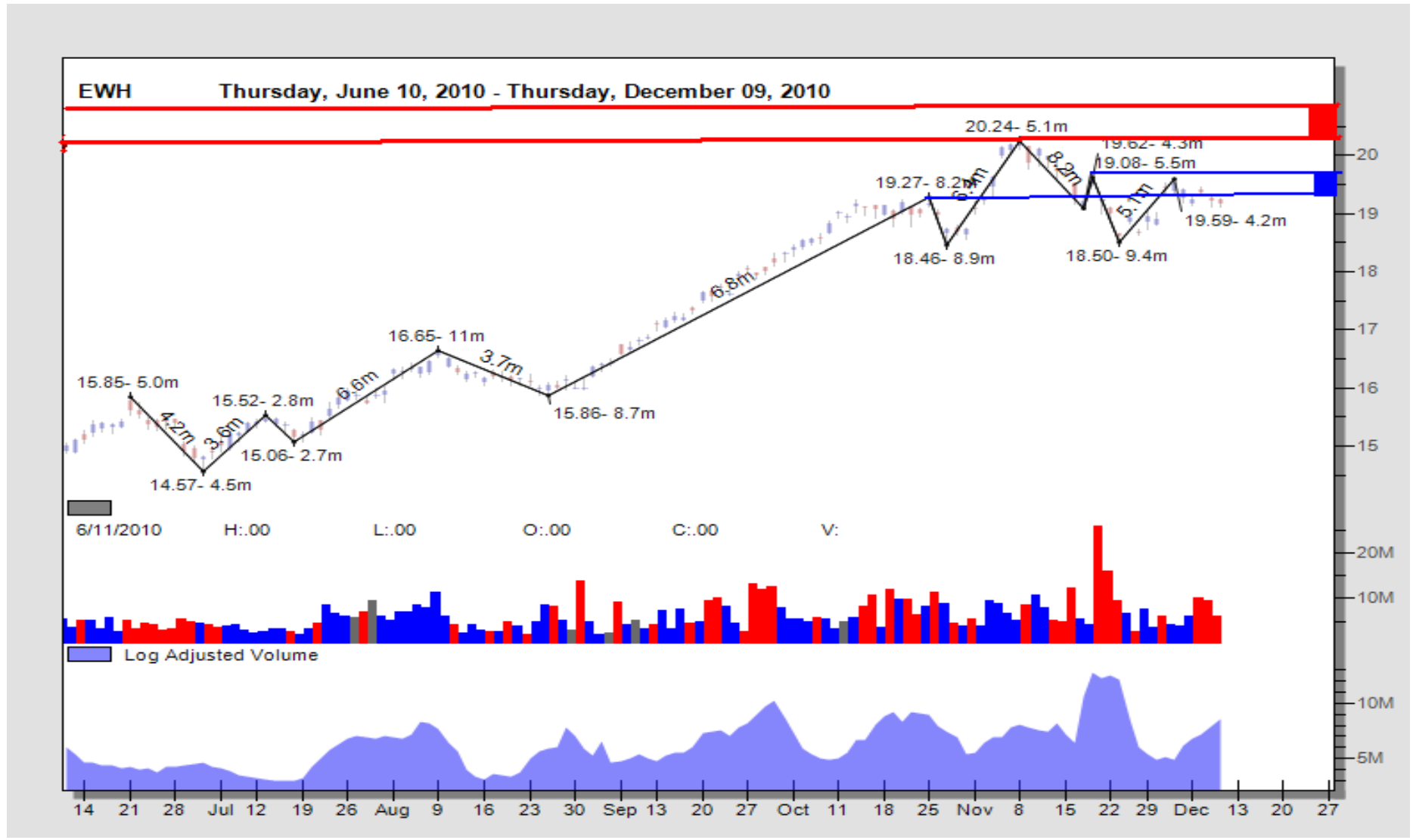
EWH- POM – MT - Price , Volume & Pattern Analysis

The CZ is 21- 22 and needs 5 M for test and price close below 21.5 . That would Top , On risk reward as always the stop on other side of CZ. If there is one final seasonality rally



EWH - POM - ST - Price , Volume & Pattern Analysis

There is a possibility, if SPX fails, then we look for EWH to enter in this area of H & S 's CZ of 19.25 to 19.75 to fail, the volume should come in at 4.5 M and close under 19.25 . On Shorter term, there is a H & S Top is in place .



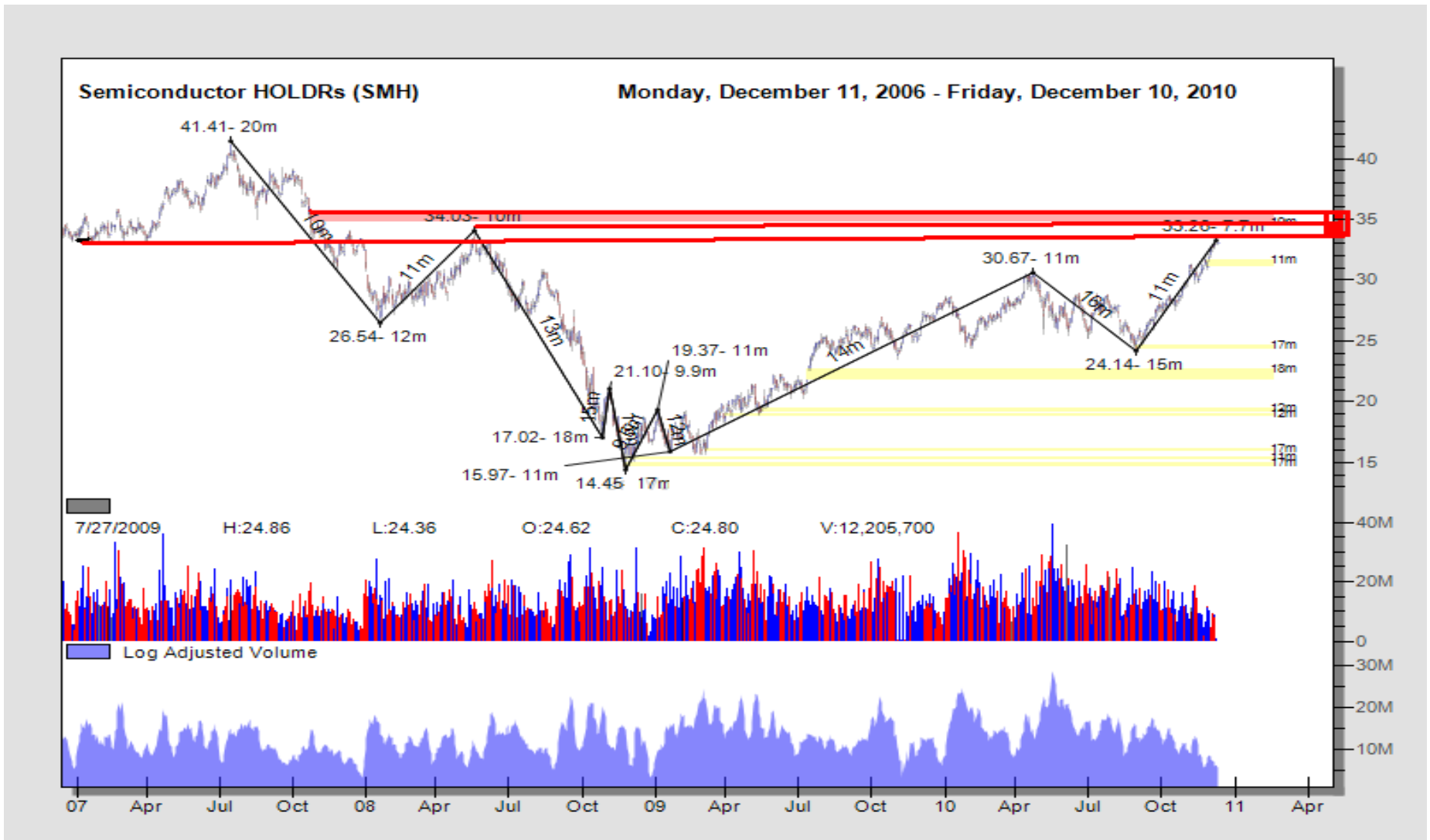
EWH – Technical & Pattern Analysis & Price / Volume

On Daily charts , It is a Bearish Head and Shoulder pattern with volume confirming it as well on the secondary test . **RSI Diverging with at Head Level and has diverged at Shoulder level. Volume came out of this ETF on Sell side as circled in Red** . This a bearish Set up. If SPX put in a Top here, it might coincide with it this as well at Head & Shoulder CZ might prove its merit .



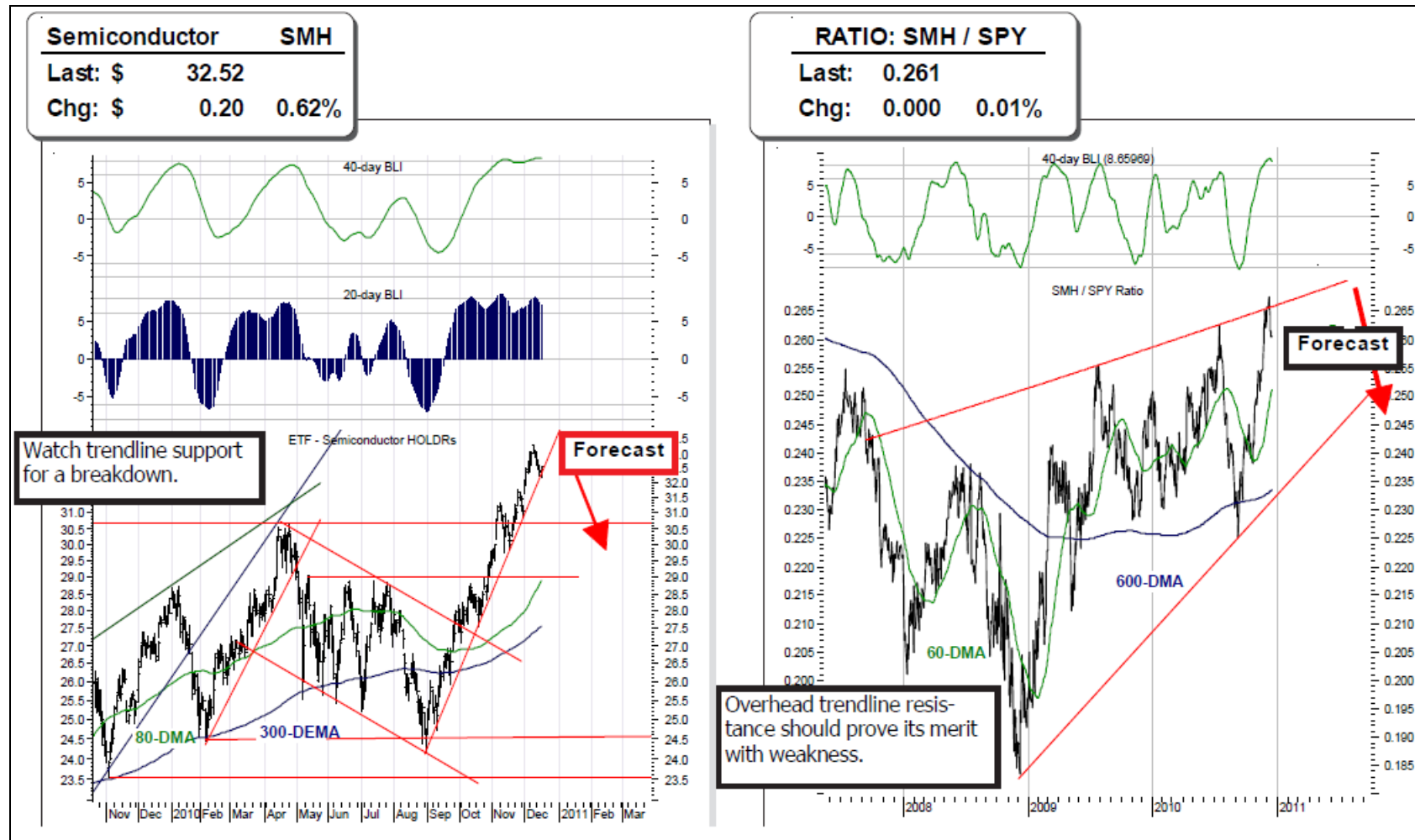
1- SMH – Technical & Pattern Analysis & Price / Volume (**No Change – No test**)

SMH came very close to our test zone defined by May 08 at 34 and breakdown area of Jan 08 of 33 as this would depend on SPX failure. There is a possibility, if SPX fails, then we look for SHM to fail as well and CZ might not get tested. CZ for SMH is 34 -36 and volume on test to be 8M and close below 34. That would Top, On risk reward as always the stop on other side of CZ.



SMH- Technical & Pattern Analysis –

The SMH / SPX ratio chart looks bearish and should trend down in RH side chart below, confirms the relative fall in SMH / SPX (hence overvalued) by this matrix in Sync with SD Analysis.

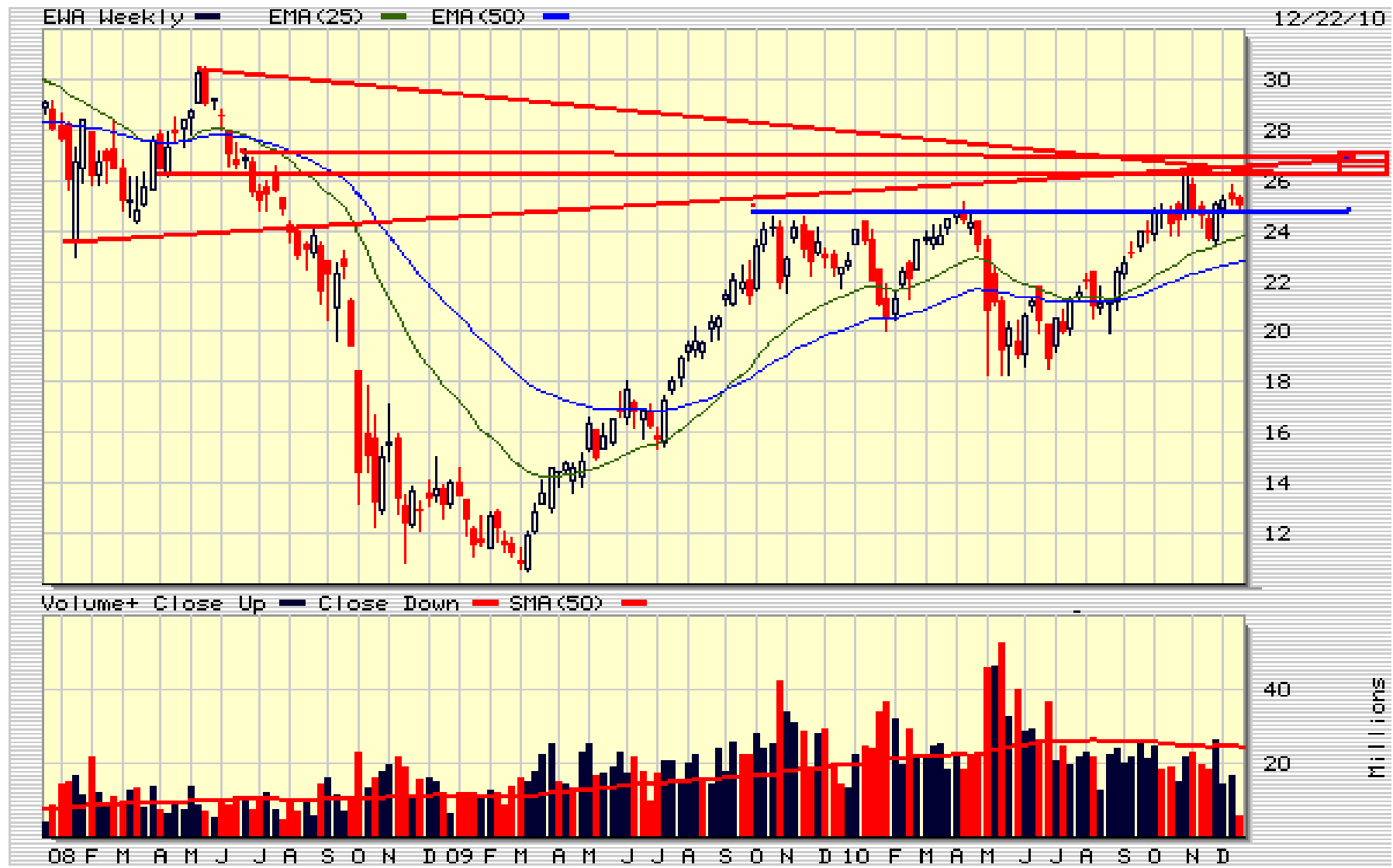


EWA- POM – LT / ST – Key Points

- **SD # Levels are below +1.0 SD and Neural Zone ,**
- **EWA is closely related with Commodity Market which in turns tied up with USD , if DXY rally's ,SPX should decline and so as EWA follow on downside**
- **Currently SPX is at POM 14 and EWA belongs to AOM**

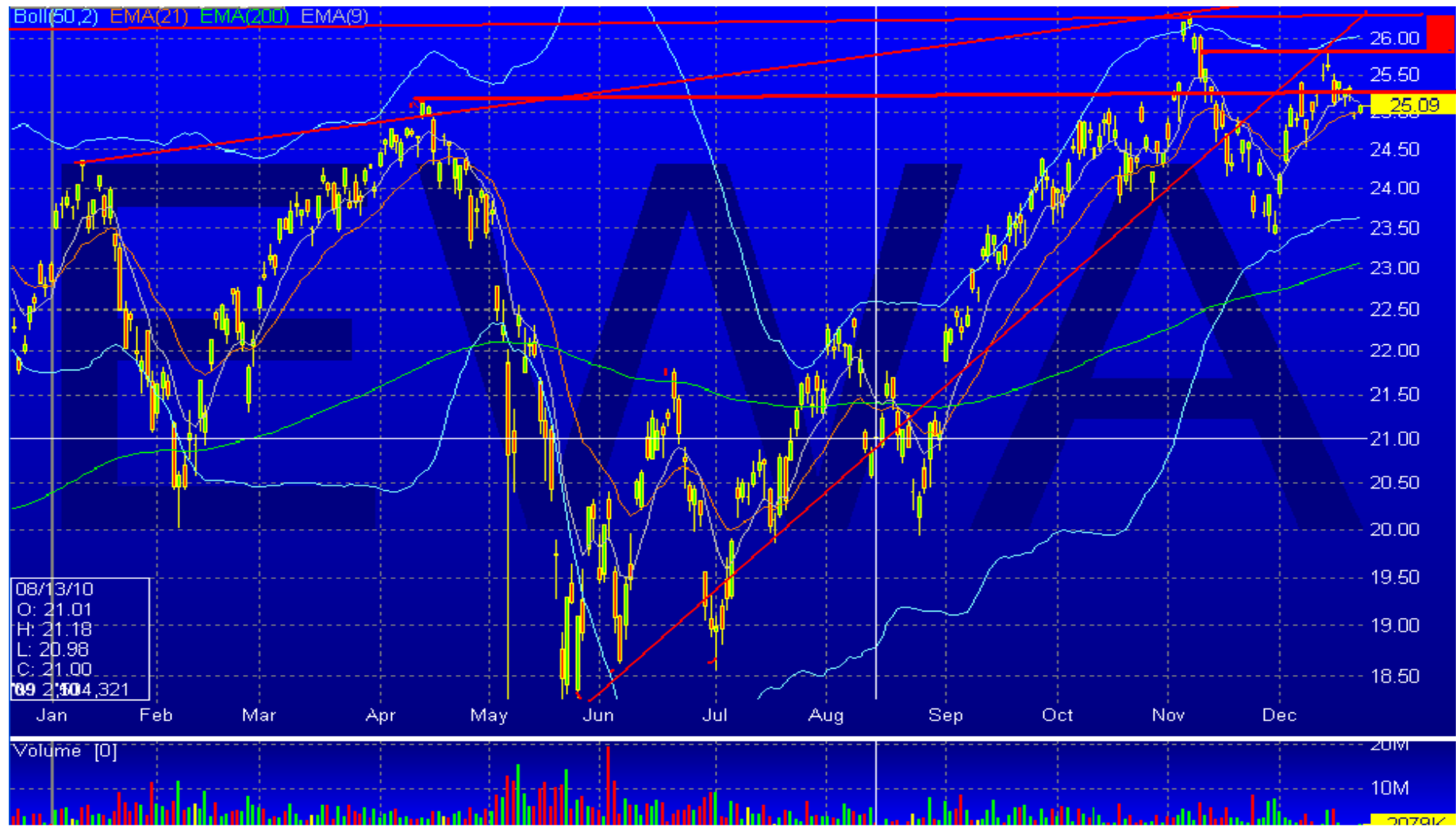
EWA – Wkly - Technical & Pattern Analysis & Price / Volume

The best Risk / reward would come in the CZ test of 26 -27 and test with 16 M weekly & close under 25.75 (weekly) should be a good test. But if SPX declines this will follow.



EWA – Short term - Technical & Pattern Analysis & Price / Volume

On premature basis , this area could very well be the top the CZ test of 26 – 26.5 and test with 3.5 M daily & close under 25.50 Daily should be a good test to initiate the position.

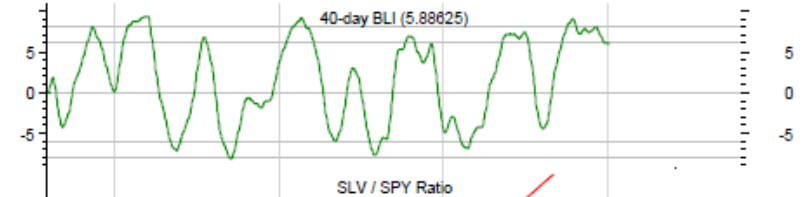
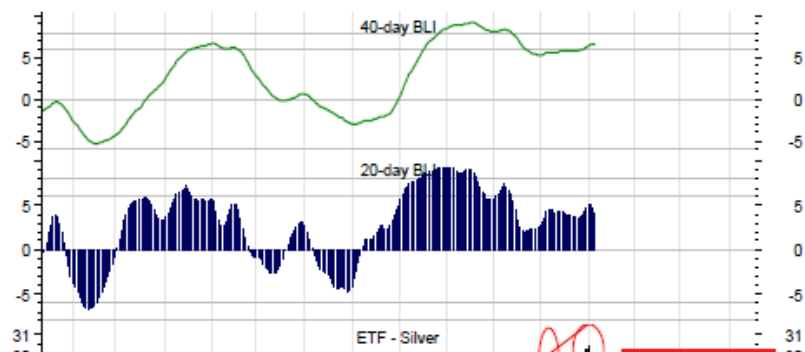


SLV – Technical & Pattern Analysis

SLV - (CZ –PQV tested in Sector Watchlist Report & Commodity Report - C)

Silver ETF **SLV**
 Last: \$ 28.42
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RATIO: SLV / SPY
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New highs formed again on Monday; then reversed lower in key reversal fashion.

The parabolic move is showing signs of "stalling"; a 60-dma breakdown would be quite bearish.

Forecast



SLV – PQV

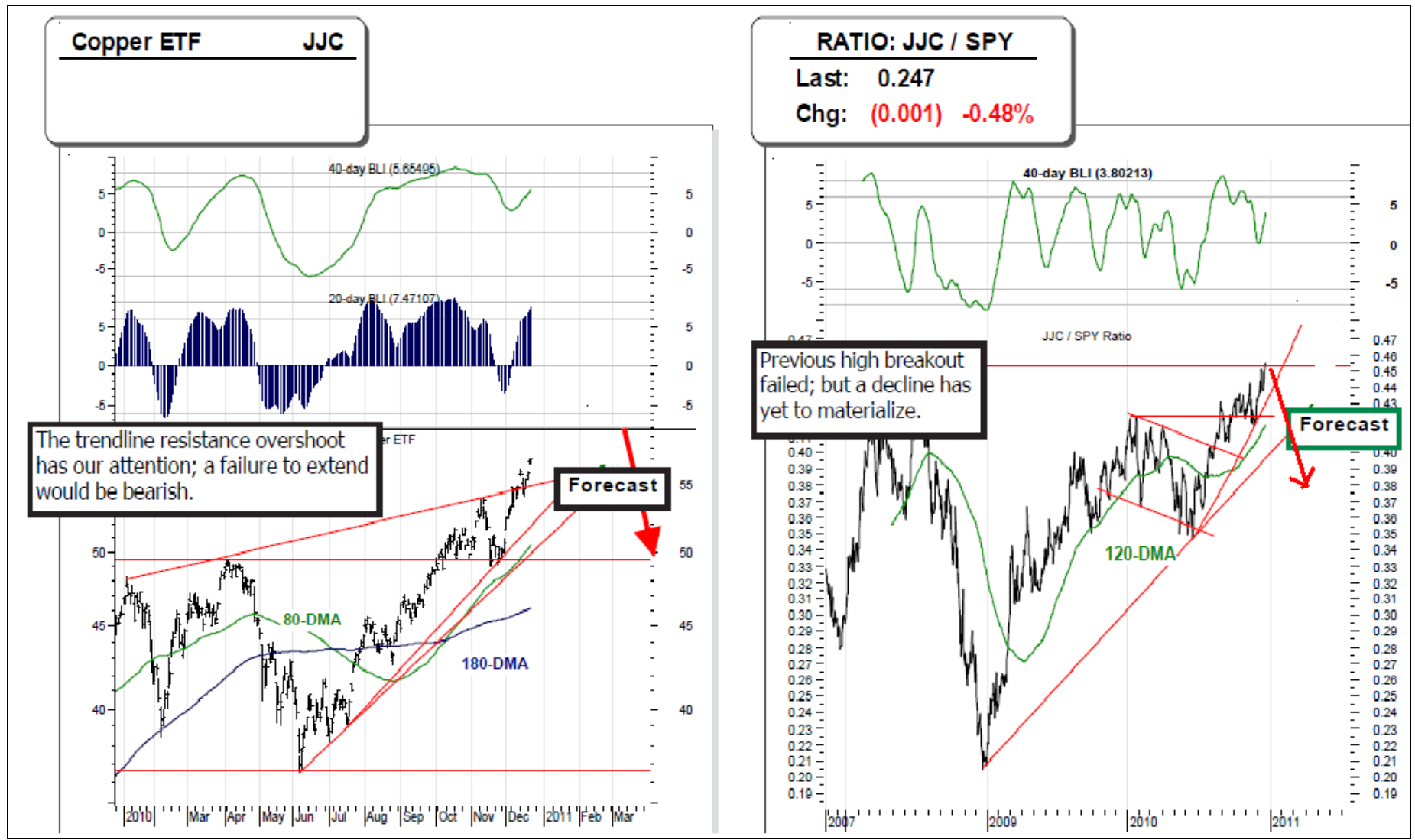
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On bigger scale, the price pattern is 3 drives to the top & Key reversal with heavy volume on downside suggested of the current down move that's in progress toward our target of 25 and eventually 22 after several Zig - Zags .



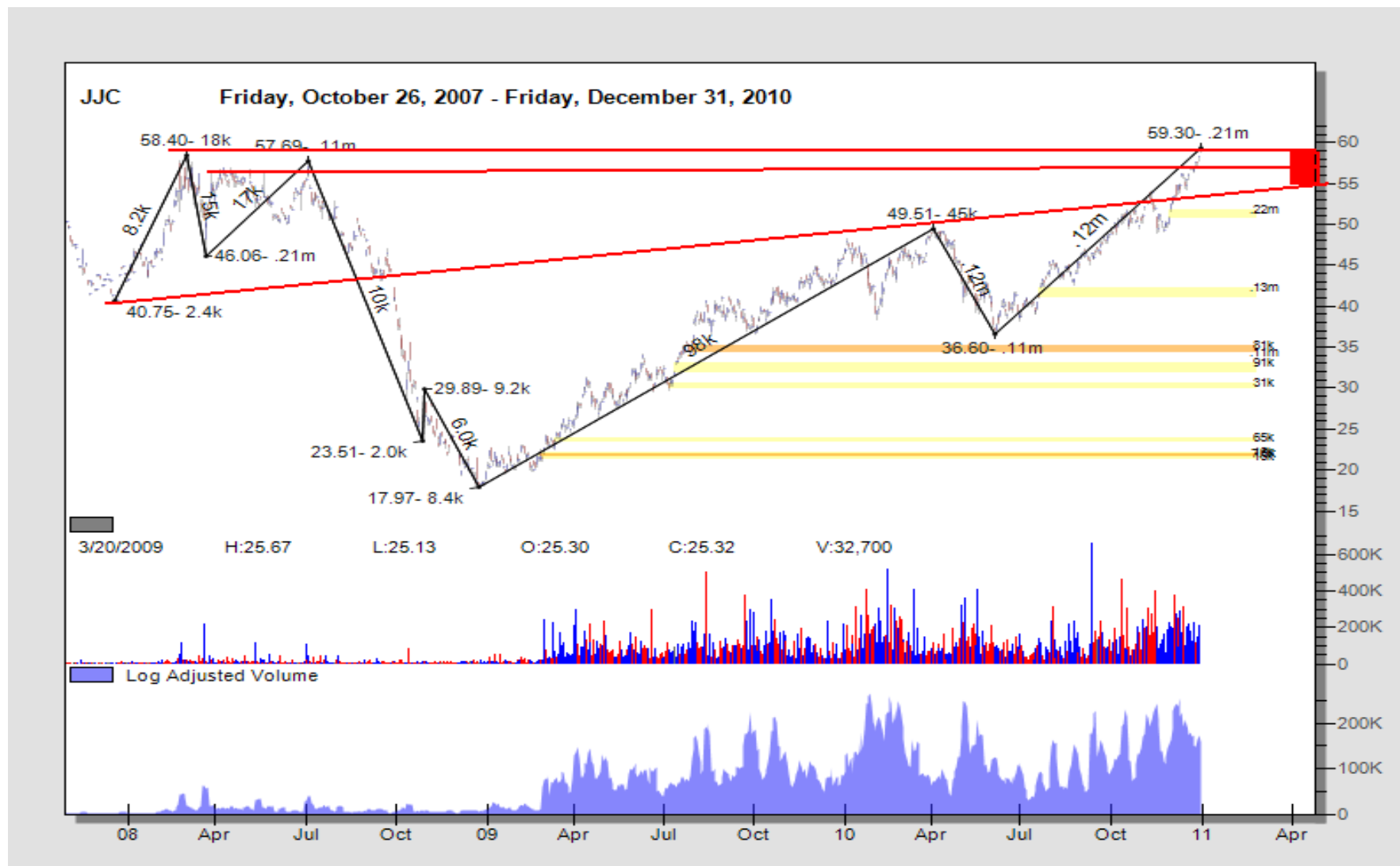
JJC – Technical & Pattern Analysis & Price / Volume

Both on relative basis and absolute basis confirms over valuation, on break of trend lines , decline should begin toward 80DMA and breakout area 50. By this method without Volume Analysis



JJC – PQV Analysis

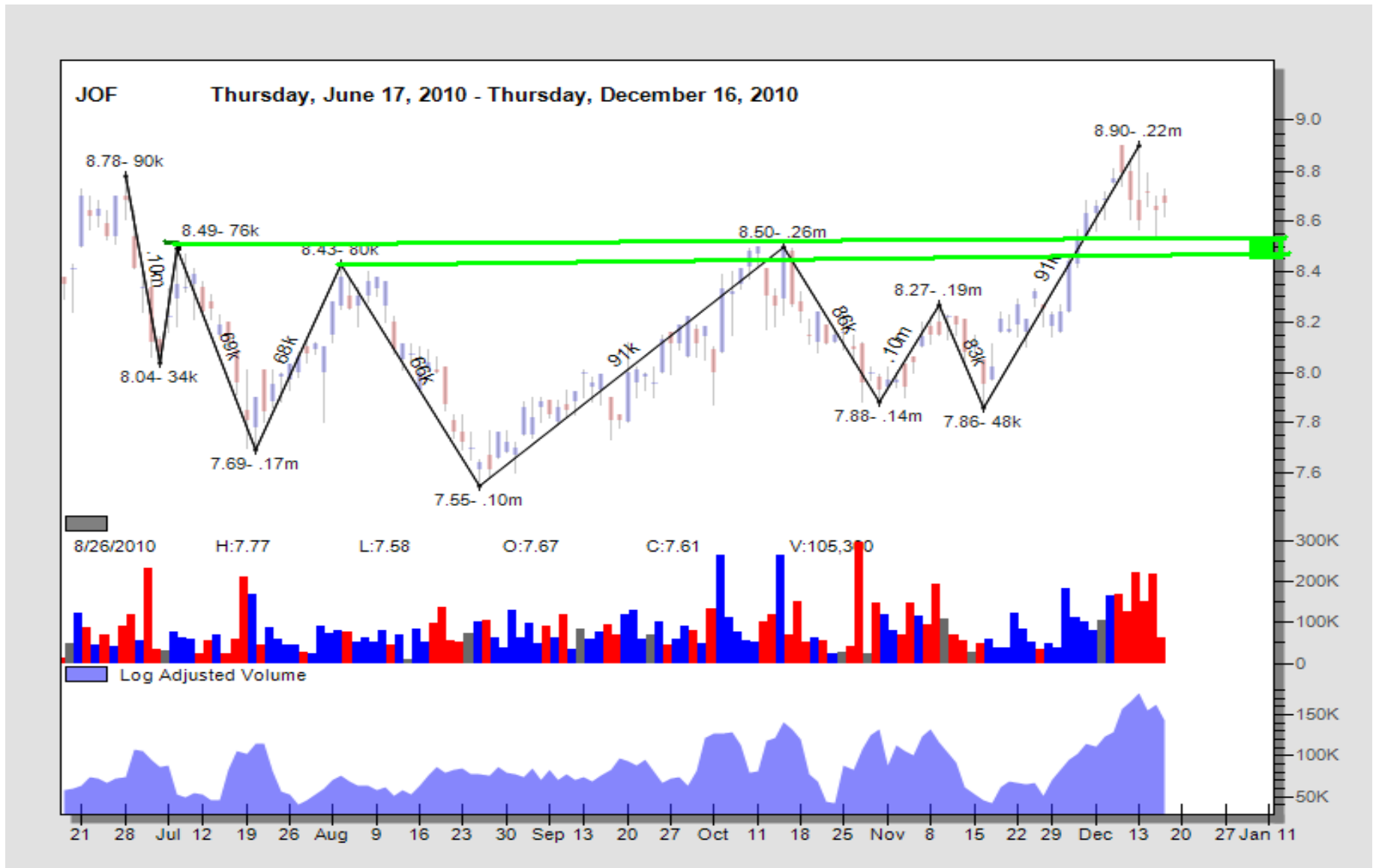
This has entered the CZ on 3x3 on volume expanded at the swing high, For better Risk reward , first a sign of pull back on heavy volume and at least 18 -20 m and then test of 60 with 10 M shares and close under 59 for failure. But no signal yet



Long

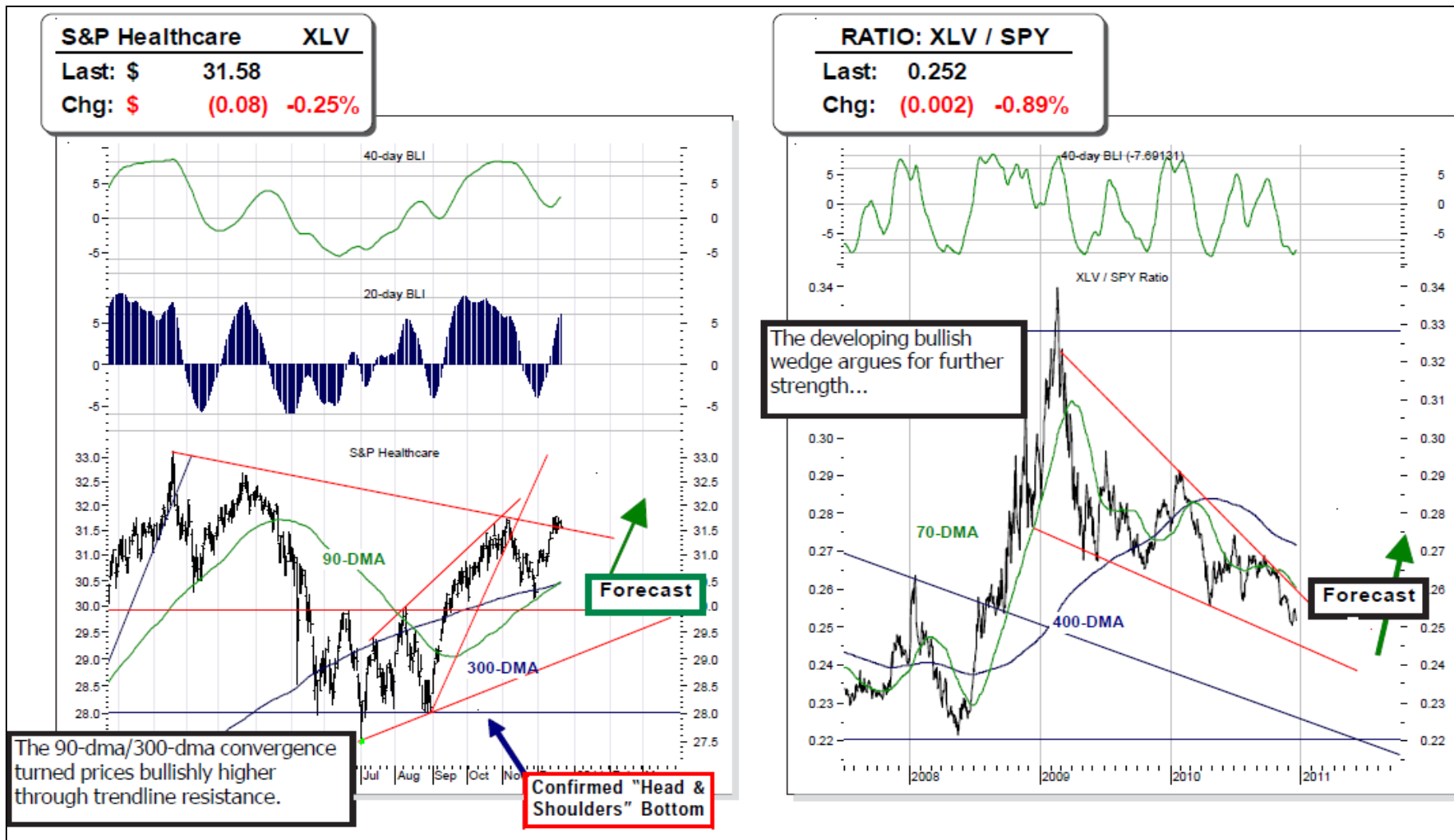
JOF – Technical & Pattern Analysis –

Pull back into CZ 8.40 – 8.55 with 60K shares and close above 8.55 would be good signal to Buy . Stop as always on other side of CZ as SPX is on POM 14 .



XLV – Technical & Pattern Analysis & Price / Volume

The XLV / SPX ratio chart looks bullish and should trend up in RH side chart below, confirms the relative rise in **XLV / SPX (hence undervalued)** by this matrix **in Sync with SD Analysis**.



XLV – Technical & Pattern Analysis & Price / Volume

The larger H & S Bottom should hold on pull back along with Trend line , RSI should pull back to 50



XLV – Technical & Pattern Analysis & Price / Volume

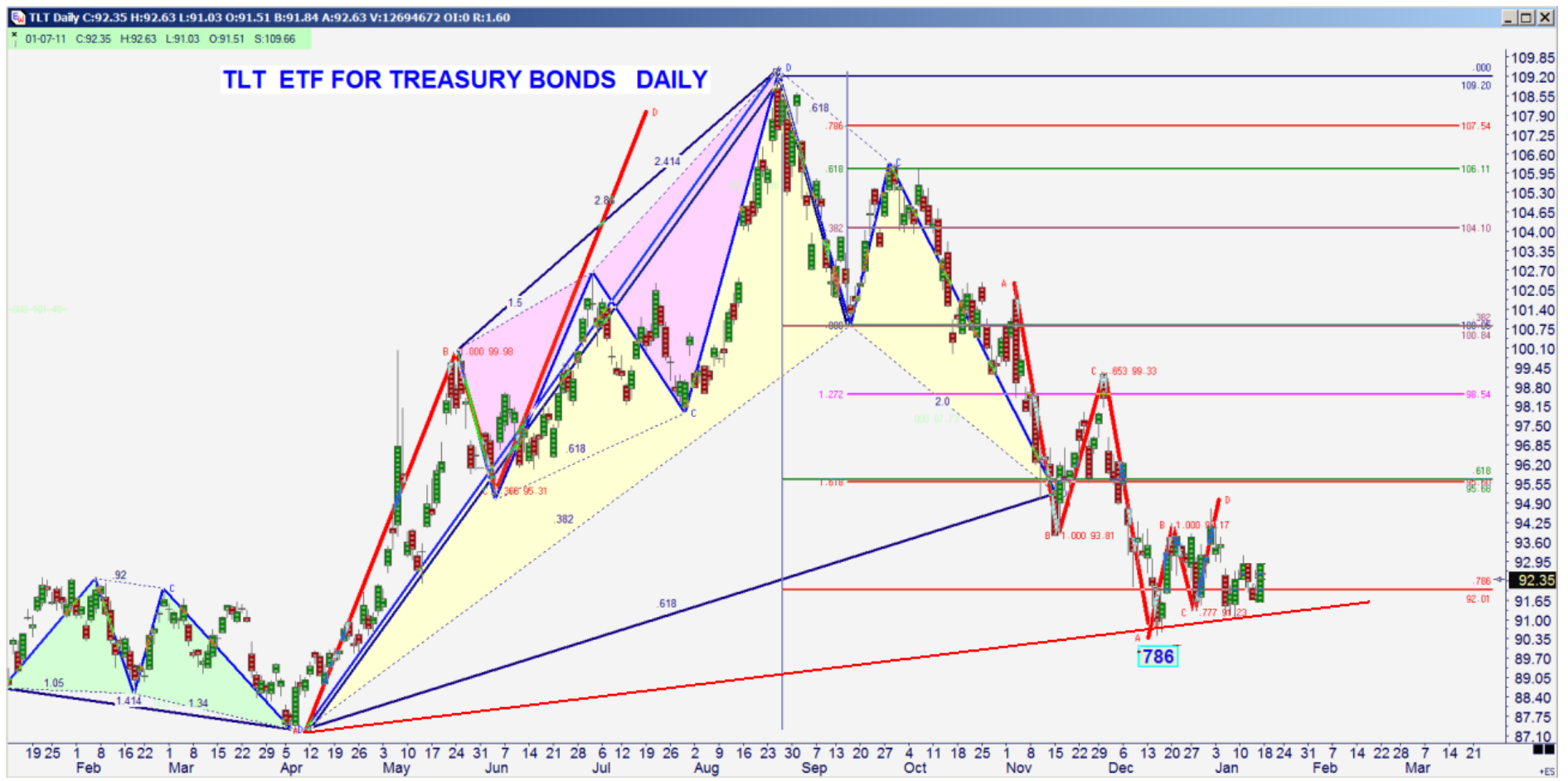
The CZ on bullish side 30.5 to 31 , the smaller head and shoulder within larger head and shoulder could stop the pull back, Volume on test should be 3.0 M to reject the test. Stops always on other side of CZ,



2 – US BONDS- PEC Analysis

PEC D – Target on TLT has reached 91 (completing a 0.786 retracement) . Overall, bonds appear to be oversold and are due for a rally. SD # 2 & POM D has lined up , If CZ – PQV – Validation lines up , We may re visit this market on buy side with TLT.

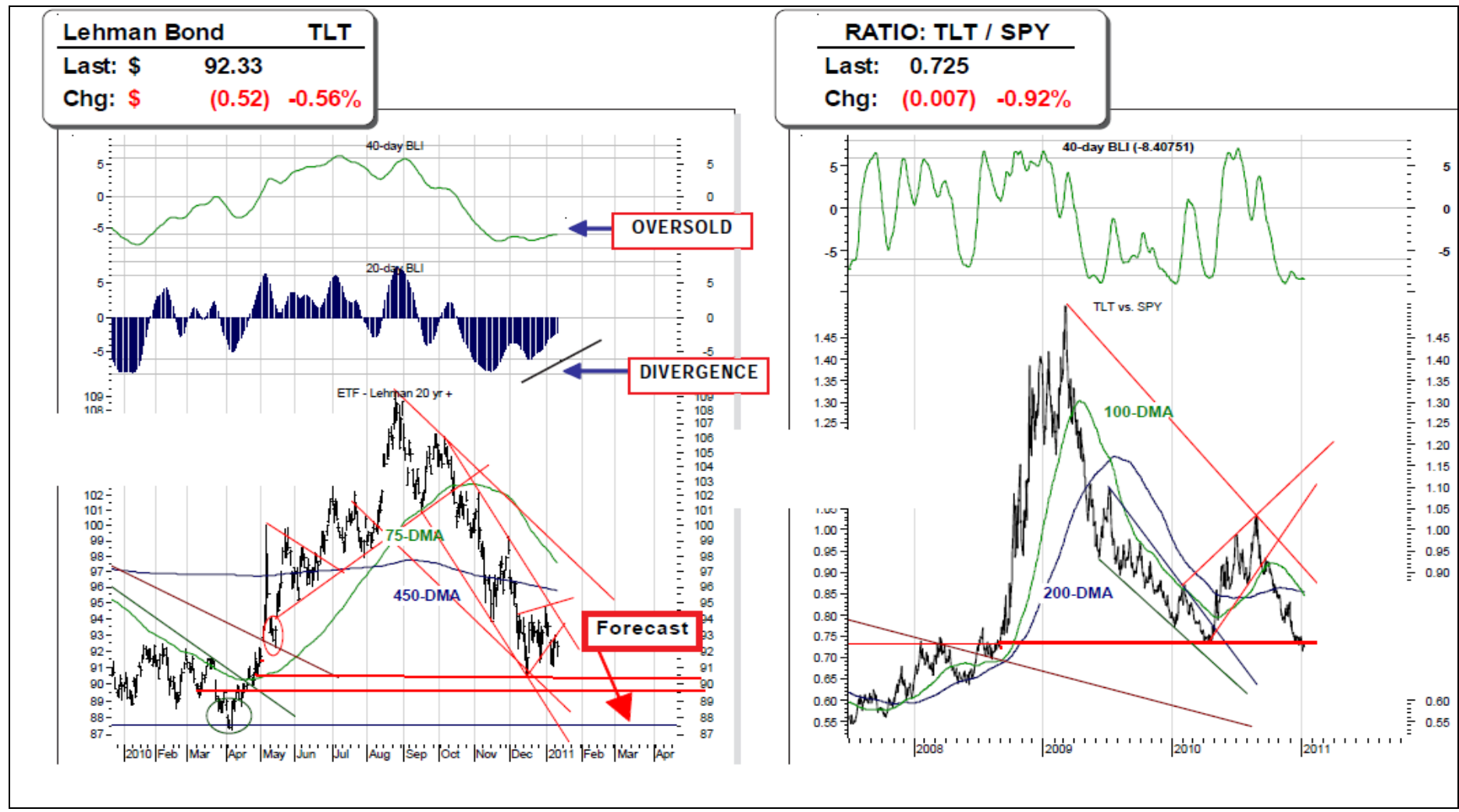
Our first PEC D point came in at 107 with Extreme “ Bullish Sentiment “ and that marked the Top with Triangular formation,



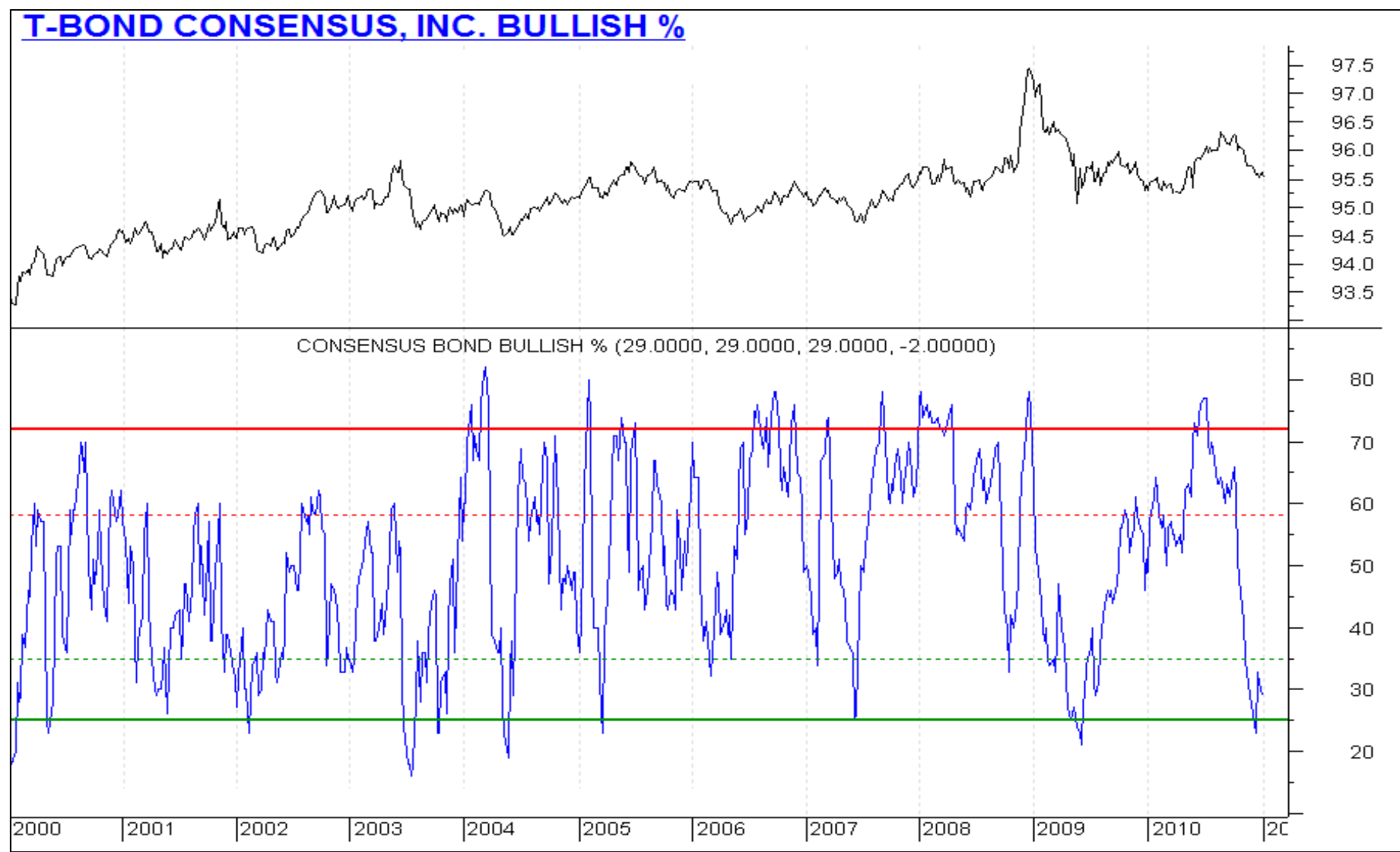
TLT Technical & Pattern Analysis

TLT - (CZ -PQV testing in process in Sector Watchlist Report)

Ratio chart is testing the breakout area , TLT tested its CZ – 89 -90 area by PQV and volume came in heavy and currently it should be re testing the CZ again and test to be with 40 M shares weekly.



TLT – Sentiments turning Bearish from CFTC data Chart from Sentiment Traders



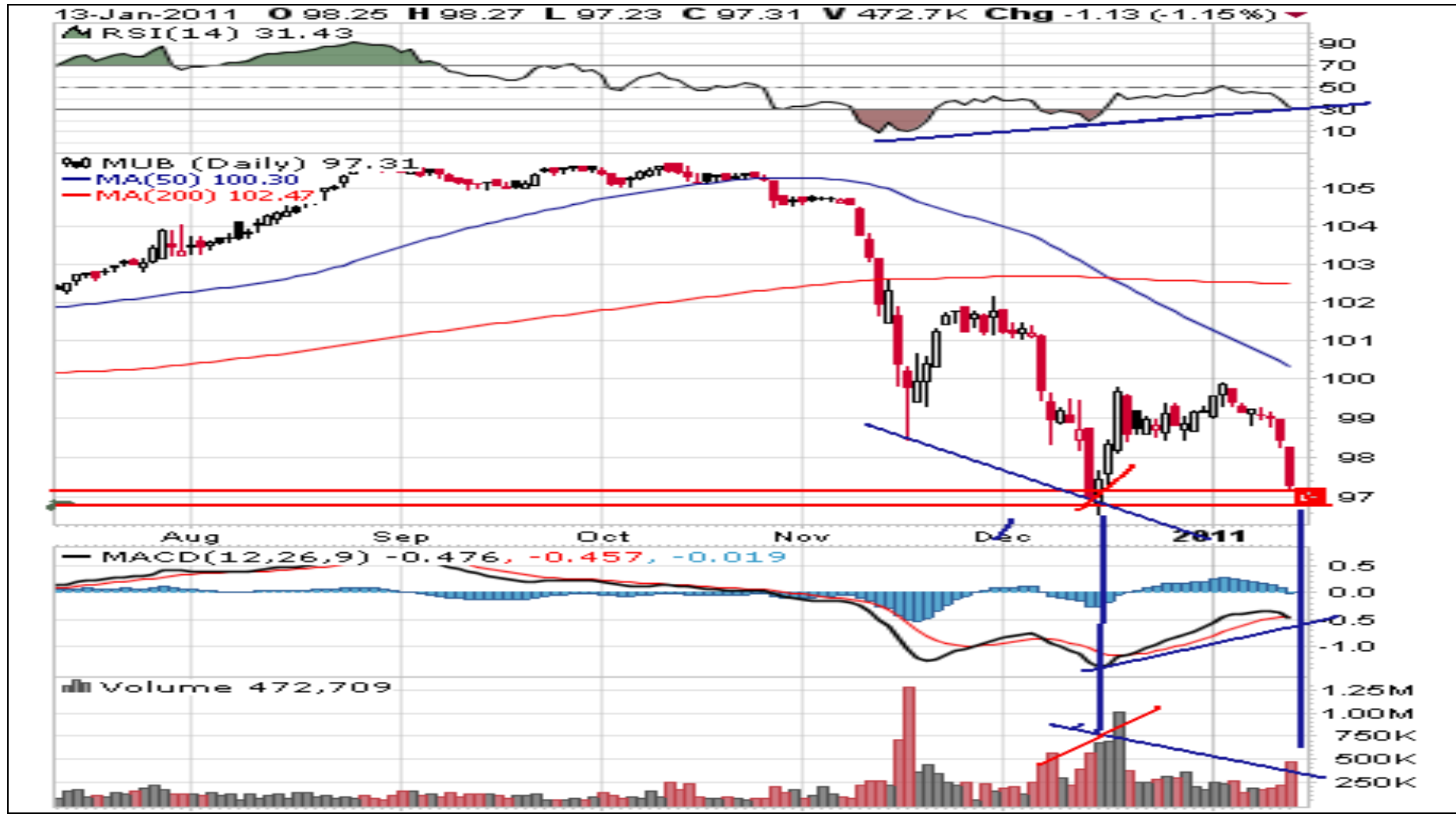
2 – TLT- POM – ST - Price , Volume & Pattern Analysis (MONITORING CZ –PQV)

TLT –Our price target of 89 - 90 should be CZ by POM / PQV . If SD # 2 / PQV qualifies , might give a next good signal on POM. PEC D at 91 has been reached. Our price target of 89 - 90 should be CZ and test to be with 40 M shares weekly, but volume is expanding 96 m) this suggest after the bounce the lows of 90.50 will be tested and market may go into consolidation)



MUB – Technical & Pattern Analysis –

On Daily , Rejected the lows in CZ on the nose SD is at - 2.0 undervalued. This is classic example of CZ test and rally began with SIGN of STRENGTH , Since the volume was heavy and did not qualify our PQV process , now it is testing 97-98 on lighter volume , if volume comes in 300k shares , this should be rejection to 98.5 on close , then we would get a bullish signal . RSI & MACD has diverged bullishly on the 2nd re test , this is bullish. (Stop outside CZ in case decline spiral down in case of event risk but sometimes those risk get prices in at the tests)



MUB – 3 Yrs - Technical & Pattern Analysis – (MONITORING CZ –PQV)

It came into the CZ right on the nose 97- 98 but the volume is heavy, we should get the test of the lows again which might be the secondary test . (Possibility we may not get to tick lows) however we had a climax volume at the first lows



MUB – Technical & Pattern Analysis –

On Daily , Rejected the lows in CZ on the nose SD is at - 2.0 undervalued. This is classic example of CZ test and Healthy rally began with SIGN of STRENGTH . this is Bullish. Possibility we get to 98.5 – 98.75 on pull back and if it comes in 300k shares , this should be rejection and give a bullish signal . RSI has diverged bullishly on the 2nd re test , this is bullish as well we will move this in our PQV report with CZ in the PQV Validated watch list , this is slow moving but may get some Yield with it (Stop outside CZ)



XLU– Technical & Pattern Analysis

S&P Utilities	XLU	
Last: \$	31.47	
Chg: \$	0.03	0.10%



The breakout to higher highs failed; but the 120-dma/280-dma convergence is proving support.

RATIO: XLU / SPY	
Last:	0.247
Chg:	0.001 0.29%

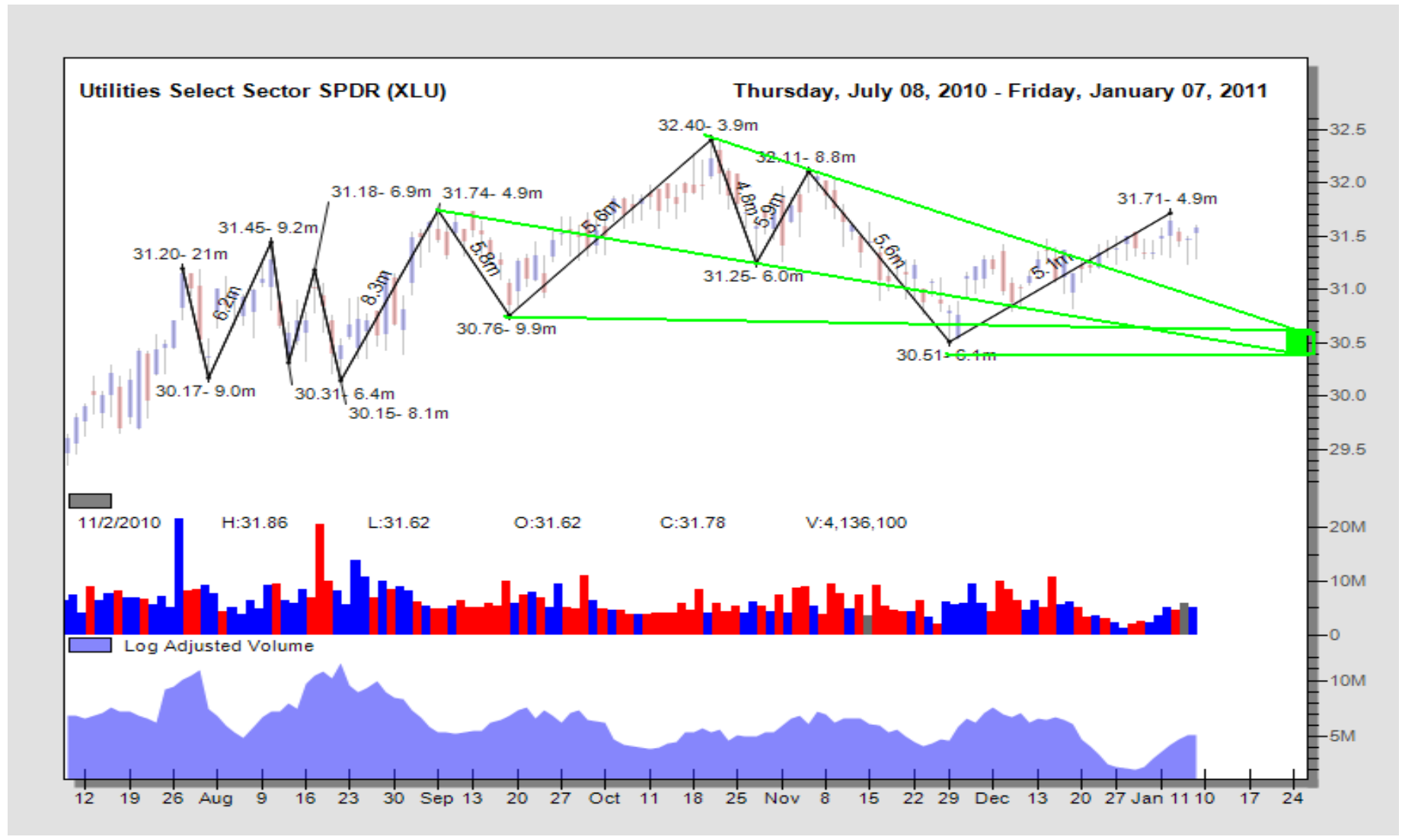


The 400-dma proved its merit; but note the oversold condition.

Forecast

XLU- Price / Volume

- **CONFLUENCE ZONE** as potential area for a pull back
- **Price between 30.25 – 30.75** and volume should come in below 4.5 M



XLP- Technical & Pattern Analysis

S&P Consum Stap | **XLP**

Last: \$ 29.18
 Chg: \$ (0.10) -0.34%



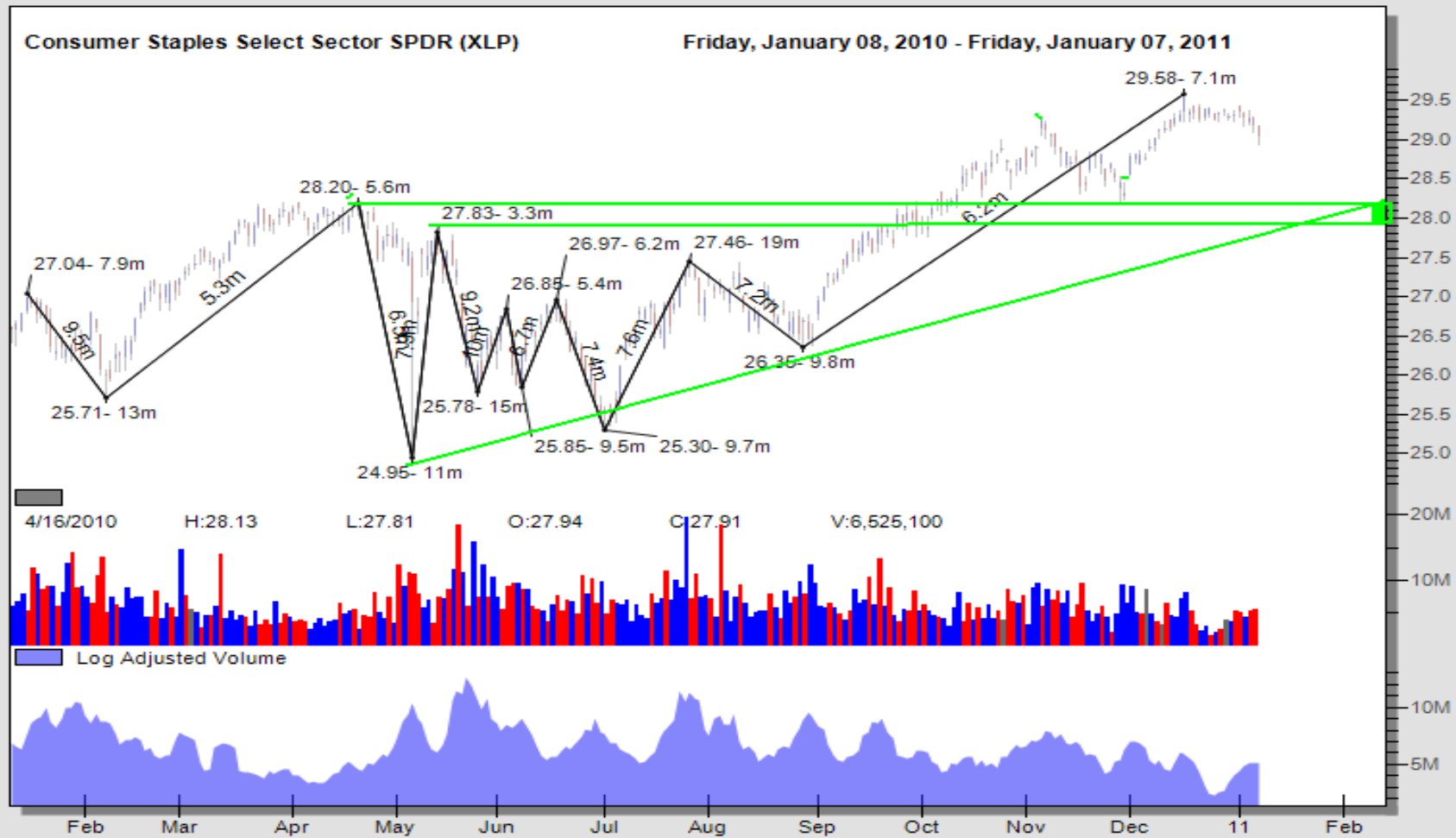
RATIO: XLP / SPY

Last: 0.229
 Chg: (0.000) -0.15%



XLP- Price / Volume

- **CONFLUENCE ZONE** as potential area for a pull back
- **Price between 27.80 – 28.30 and volume should come in below 3.8 M**



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