



SG Capital Research

Global Market Insights

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

MAEG – BI - WKLY GROWTH_EQUITY ANALYSIS SG 2012 # APRIL_14

For Immediate Release – Saturday AM (EST)

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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**

2012 - Open

- Prop Growth Strategy (Long only without hedges)
- YTD MAEG Growth + 16.5%
- YTD SPX +8.9%

Growth continues outperforming SPX. Growth Equity Basket tends to perform “ Best “ in Momentum Market but we plan to play it in Risk Managed process via SPX Hedges Post POM 15 and the spread gains between it is almost in line with SPX gains with much lesser Risk. AAPL continues defying low of gravity up 45% since entry this year

- **Conclusion – Overall YTD P/L – Top 50 Growth Portfolio (with Risk Managed SPX Hedges with TAS & POM’s Real time)..... up + 11.9 % v/s 8.9% SPX . – Currently Portfolio is fully Hedged. In spite of Hedges Growth continues outperforming.**
- **Equities within the Growth Portfolio continues to have has Momentum behind it . These Equities should be watched carefully if it needs to be Shorted. Wait for First Break.**
- **Equities within New Sold camp may now start loosing momentum.**

- SPX - “ Trend Adjusted “ TAS - MO / POM - Signals

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

In 2012 - (1) – POM / TAS – Signals for Risk Management were Triggered as Hedge with SPX

M2M price is 1257 – 1ST JAN .

Based on our POM / TAS Rules , this Portfolio is currently HEDGED Under Risk Management

- **POM 14 – (½ Triggered @ 1325) and now fully hedged – Delta Neutral**
- **POM 15 – (Net Short Triggered @ 1375 on 2/29) – Net Short only to balance Beta. (Alert)**

TAS / POM – SPX “ BUY BACK – **To be advised.**

(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 2012 – Current) – **Real Time**

- 1st of Jan 2012 – YTD MAEG Risk Adjusted Portfolio **is up + 11.9 % v/s 8.9 % SPX on Real time basis**

Srno	Symbol	Company Name	EPS % Chg (Last Qtr)	EPS % Chg (Prior Qtr)	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	73.51	46.66	58%	12/30/2011	Mark to Market 1st Jan 2012	10701.54
2	CMG	Chipotle Mexican Grill	41	33	30	38	23	19.1	13.4	440.40	337.74	30%	12/30/2011	Mark to Market 1st Jan 2012	13952.63
3	TSCO	Tractor Supply Co	43	37	19	39	11	17.2	5.7	98.38	70.15	40%	12/30/2011	Mark to Market 1st Jan 2012	7015.84
4	ULTA	Ulta Salon Cosm & Frag	41	79	35	26	20	21.2	8.4	94.93	64.92	46%	12/30/2011	Mark to Market 1st Jan 2012	5930.70
5	HLF	Herbalife Ltd	46	34	11	17	29	70.2	14.8	68.92	51.67	33%	12/30/2011	Mark to Market 1st Jan 2012	8071.99
6	DLTR	Dollar Tree Inc	34	28	23	20	14	28.6	11.2	96.02	83.11	16%	12/30/2011	Mark to Market 1st Jan 2012	11104.98
7	MA	Mastercard Inc Cl A	24	30	21	21	15	42.4	49.8	440.46	372.82	18%	12/30/2011	Mark to Market 1st Jan 2012	55723.16
8	ALXN	Alexion Pharmaceuticals	45	58	12	31	48	21.6	33.7	89.02	71.5	25%	12/30/2011	Mark to Market 1st Jan 2012	16628.38
9	V	Visa Inc Cl A	30	28	31	27	14	12	56.5	123.16	101.53	21%	12/30/2011	Mark to Market 1st Jan 2012	82737.18
10	TDG	Transdigm Group Inc	38	24	22	29	52	25.1	32.9	116.04	95.68	21%	12/30/2011	Mark to Market 1st Jan 2012	5878.20
11	ROST	Ross Stores Inc	20	28	5	17	9	44.6	11.4	59.06	47.53	24%	12/30/2011	Mark to Market 1st Jan 2012	13378.28
12	SWI	Solarwinds Inc	29	31	10	17	29	42.9	50.9	38.11	27.95	36%	12/30/2011	Mark to Market 1st Jan 2012	2760.14
13	QCOR	Questcor Pharmaceutical	95	53	200	93	91	39.1	49.8	41.33	41.58	-1%	12/30/2011	Mark to Market 1st Jan 2012	2615.24
14	MELI	Mercadolibre Inc	36	26	36	29	46	39.8	33.7	96.60	79.54	21%	12/30/2011	Mark to Market 1st Jan 2012	4264.12
15	LQDT	Liquidity Services Inc	79	116	-34	-12	13	31.2	21.2	51.30	36.68	40%	1/14/2012		1572.18
16	AAPL	Apple Inc	52	122	55	26	39	41.7	31.6	605.23	419.81	44%	1/14/2012		564298.25
17	MMST	Monster Beverage Corp	22	30	36	36	24	30	26.8	64.26	48.50	33%	1/14/2012		11201.12
18	CELG	Celgene Corp	36	29	47	35	37	25.3	44.8	78.32	72.63	8%	1/14/2012		34367.62
19	INVN	Invensense Inc	117	275	133	300	52	19.9	18.1	15.58	17.21	-9%	2/4/2012		1257.99
20	FFIV	F5 Networks Inc	17	34	20	19	20	29.2	39.1	122.12	124.77	-2%	2/4/2012		9670.88
21	PCLN	Priceline.Com Inc	87	78	49	72	45	44.2	28.4	735.18	546.98	34%	2/4/2012		36611.13
22	GNC	G N C Holdings Inc	106	65	38	17	17	16.6	8.1	33.92	32.05	6%	2/18/2012		3690.78
23	VAL	Valspar Corp	59	50	22	16	5	18.1	8.6	49.51	46.11	7%	2/18/2012		4609.63
24	FOSL	Fossil Inc	28	9	7	19	18	23.9	18.9	130.45	118.19	10%	2/18/2012		8060.34
25	TDC	Teradata Corp	25	28	17	13	23	30.1	22.7	69.02	62.63	10%	2/18/2012		11613.31
26	CF	C F Industries Holdings	169	369	19	N/A	39	19.5	23.8	186.25	178.84	4%	2/18/2012		12194.92
27	KORS	Michael Kors Hldgs Ltd	87	113	44	87	68	83.3	16.6	43.62	47.95	-9%	3/3/2012		8404.11
28	EC	Ecopetrol Sa Adr	64	128	9	4	61	2.3	27.4	62.73	58.73	7%	3/3/2012		128962.53
29	UBNT	Ubiquiti Networks Inc	145	167	80	91	95	68.5	31.5	34.35	25.99	32%	3/3/2012		3155.07
30	FRAN	Francesca's Hldgs Corp	90	17	67	46	55	N/A	22.2	29.05	32.47	-11%	3/24/2012		1264.80
31	BWLD	Buffalo Wild Wings Inc	33	30	17	20	34	17.5	9.3	85.62	88.04	-3%	3/24/2012		1574.46
32	SAVE	Spirit Airlines Inc	57	117	217	50	27	48.2	13	21.53	19.65	10%	3/24/2012		1457.40
33	SXCI	S X C Health Solutions	71	57	58	48	162	16.8	3.1	78.53	72.21	9%	3/24/2012		4907.30
34	CSTR	Coinstar Inc	47	79	91	14	33	23.6	10	65.78	60.88	8%	3/24/2012		2035.63
35	SHFL	Shuffle Master Inc	56	29	43	33	28	15.1	19	17.00	17.36	-2%	3/24/2012		934.19

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

30	FRAN	Francesca's Hldgs Corp	90	17	67	46	55	N/A	22.2	29.05	32.47	-11%	3/24/2012		1264.80
31	BWLD	Buffalo Wild Wings Inc	33	30	17	20	34	17.5	9.3	85.62	88.04	-3%	3/24/2012		1574.46
32	SAVE	Spirit Airlines Inc	57	117	217	50	27	48.2	13	21.53	19.65	10%	3/24/2012		1457.40
33	SXCI	S X C Health Solutions	71	57	58	48	162	16.8	3.1	78.53	72.21	9%	3/24/2012		4907.30
34	CSTR	Coinstar Inc	47	79	91	14	33	23.6	10	65.78	60.88	8%	3/24/2012		2035.63
35	SHFL	Shuffle Master Inc	56	29	43	33	28	15.1	19	17.00	17.36	-2%	3/24/2012		934.19
36	TIBX	Tibco Software Inc	35	35	19	14	20	21.2	26.5	33.31	31.06	7%	3/24/2012		5494.51
37	VMW	Vmware Inc Cl A	35	36	23	20	27	21.8	31.1	112.48	108.84	3%	3/24/2012		47486.72
38	ORLY	O Reilly Automotive Inc	35	28	24	18	6	17.2	14.5	94.35	90.04	5%	3/24/2012		12012.20
39	SIMO	Silicon Motion Tech Ads	147	138	83	27	61	24.4	23.1	19.29	21.34	-10%	3/24/2012		607.64
40	NTES	Netease.Com Inc ADR	31	48	19	16	35	28.4	49.6	56.98	59.71	-5%	3/24/2012		7446.15
41	SLXP	Salix Pharmaceuticals	87	450	71	-10	31	37.7	32.9	48.51	52.83	-8%	3/24/2012		2882.46
42	RGR	Sturm Ruger & Co Inc	80	81	45	22	45	31.8	19.3	49.75	49.75	0%	4/14/2012	New	951.12
43	DISCA	Discovery Com Cl A	91	59	22	9	11	16.2	33.8	51.70	51.70	0%	4/14/2012	New	16724.21
44	TRIP	TripAdvisor Inc	14	25	10	17	30	42.7	42.7	34.50	34.50	0%	4/14/2012	New	4604.43
45	DG	Dollar General Corp	38	28	23	16	20	18.8	8.8	46.30	46.30	0%	4/14/2012	New	15353.10
46	WXS	Wright Express Corp	32	38	20	17	22	22.4	40	63.14	63.14	0%	4/14/2012	New	2442.97
47	TJX	T J X Cos Inc	17	15	33	19	6	48.7	10.3	39.82	39.82	0%	4/14/2012	New	30035.44
48	PII	Polaris Industries Inc	15	38	15	21	26	52.3	13	72.15	72.15	0%	4/14/2012	New	4941.13
49	VRSK	Verisk Analytics Cl A	28	25	15	13	20	N/A	37.2	47.23	47.23	0%	4/14/2012	New	8480.73
50	ALGN	Align Technology Inc	100	8	0	6	39	18	21.7	26.73	26.73	0%	4/14/2012	New	2121.53

Gains/Losses on Closed Position 217%

Total P/L 826%

GROWTH PORTFOLIO 1st JAN to 14th APRIL/ ABSOLUTE Eq wt gain **16.5%** LONG ONLY - BUY & HOLD

2012

SPX HEDGES RISK MANAGEMENT P/L

TAS-1 / POM Trend Adjusted Hedge on SPX SELL(1270 to 1397) -8.9% SPX M2M 1257 - 1/01 (Portfolio Currently hedged)

TAS-2 / POM Trend Adjusted Hedge on SPX SELL(1325 to 1397) -5.1% SPX 1325 - 1/26

TAS-3 / POM Trend Adjusted Hedge on SPX SELL(1375 to 1397) 0.0% SPX 1375 - 2/29

TAS-4

TAS-5 / POM

TAS-6 / POM

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TOTAL AVG HEDGE P/L = -4.6%

YTD Net Gains after Hedges **11.9%**

YTD SPX 1257 TO 1370 SPX Gain **8.9%**

Sold positions This week Qualifies for SHORT SELL

- we plan to initiate Growth Equity Short Portfolio (with these exited Growth stocks) to be Risks managed with SPX long Hedges activated by POM's.

NUS	Nu Skin Enterprise Cl A	12/30/2011	48.57	14-Apr-12	56.79	17%	Mark to Market 1st Jan 2012	56.79	0%
SHOO	Steven Madden Limited	2/4/2012	40.90	14-Apr-12	42.55	4%	New	42.55	0%
CMI	Cummins Inc	2/18/2012	122.07	14-Apr-12	114.02	-7%	New	114.02	0%
CERN	Cerner Corp	2/18/2012	70.99	14-Apr-12	72.93	3%	New	72.93	0%
CLR	Continental Res Inc	3/3/2012	89.25	14-Apr-12	82	-8%	New	82	0%
SWKS	Skyworks Solutions Inc	3/3/2012	27.46	14-Apr-12	26.29	-4%	New	26.29	0%
SSW	Seaspan Corporation	3/24/2012	17.30	14-Apr-12	16.44	-5%	New	16.44	0%
PNRA	Panera Bread Co Cl A	3/24/2012	160.73	14-Apr-12	162.33	1%	New	162.33	0%
UA	Under Armour Inc Cl A	3/24/2012	97.10	14-Apr-12	96.26	-1%	New	96.26	0%
					Total Closed P/L	217%		Total Closed P/L	130%
					Eq wt gain YTD C	3%		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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