



SG Capital Research

Global Market Insights

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

**MAEG – BI - WKLY GROWTH\_EQUITY ANALYSIS SG 2012 # APRIL\_28**

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

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

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***1. Executive Summary***

***2. SPX – “ POM / TAS” Trend Adjusted Signal” .***

***3. Top 50 – Growth Equity Portfolio ( Long) with P /L & SPX Hedges.***

***4. Currently Exited Position***

***5. . APPENDIX – Objectives, Growth Model Criteria, Guidelines & SPX – TAS Criteria.***

## EXECUTIVE SUMMARY.

- Key points of observation – Real time

### 2012 - Open

- Prop Growth Strategy ( Long only without hedges)
- YTD MAEG Growth + 21.5%
- YTD SPX +11.6%

Growth continues outperforming SPX by very wide margin . Growth Equity Basket tends to perform “ Best “ in Momentum Market but Our Portfolio is Risk Managed process via SPX Hedges Post POM 15 . The Gain post hedges are outperforming SPX gains as well. APPL continues to be in Growth Model up 51% in this years entry.

- Conclusion – Overall YTD P/L – Top 50 Growth Portfolio (with Risk Managed SPX Hedges with TAS & POM’s Real time )..... up + 16.5 % v/s 11.6% 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 – 1<sup>ST</sup> 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 to 1415 scale in ) – 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*





## 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.

MELI	Mercadolibre Inc	12/30/2011	79.54	28-Apr-12	94.85	19%	New
INVN	Invensense Inc	2/4/2012	17.21	28-Apr-12	16.11	-6%	New
SLXP	Salix Pharmaceuticals	3/24/2012	52.83	28-Apr-12	50.55	-4%	New
WXS	Wright Express Corp	4/14/2012	63.14	28-Apr-12	65.15	3%	New
ALGN	Align Technology Inc	4/14/2012	26.73	28-Apr-12	31.96	20%	New
					Total Closed P/I	248%	
					Eq wt gain YTD C	3%	

**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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