



SG Capital Research

Global Market Insights

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

MAEG – BI - WKLY GROWTH_EQUITY ANALYSIS SG 2012 # FEB_18

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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 + 9.9%
- YTD SPX +8.0%

- Conclusion – Overall YTD P/L – Top 50 Growth Portfolio (with Risk Managed SPX Hedges with TAS & POM's Real time)..... **up + 5.2 % v/s 8.1 % SPX .** – Currently Portfolio is fully Hedged

- In 2012 , we plan to initiate Growth Equity Short Portfolio (with exited Growth stocks (Basket) from E # 2) to be Risks managed with SPX long Hedges activated by POM's.

- We are compiling these Equities from the list below under section “ Sold” – Work in Progress

- SPX - “ Trend Adjusted Signal” TAS - MO

- 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

(NEW) – TAS / POM – SPX “ BUY – 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 + 5.2 % v/s 8.0 % 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	Market Cap
1	LULU	Lululemon Athletica	80	131	25	74	56	30	19.1	65.01	46.66	39%	12/30/2011	Mark to Market 1st Jan 2012	9353.90
2	CMG	Chipotle Mexican Grill	41	33	30	38	23	19.1	13.4	384.70	337.74	14%	12/30/2011	Mark to Market 1st Jan 2012	12026.67
3	TSCO	Tractor Supply Co	43	37	19	39	11	17.2	5.7	82.76	70.15	18%	12/30/2011	Mark to Market 1st Jan 2012	5878.02
4	ULTA	Ultra Salon Cosm & Frag	41	79	35	26	20	21.2	8.4	82.56	64.92	27%	12/30/2011	Mark to Market 1st Jan 2012	5109.69
5	HLF	Herbalife Ltd	46	34	11	17	29	70.2	14.8	60.61	51.67	17%	12/30/2011	Mark to Market 1st Jan 2012	7050.32
6	DLTR	Dollar Tree Inc	34	28	23	20	14	28.6	11.2	89.35	83.11	8%	12/30/2011	Mark to Market 1st Jan 2012	10634.89
7	MA	Mastercard Inc Cl A	24	30	21	21	15	42.4	49.8	396.00	372.82	6%	12/30/2011	Mark to Market 1st Jan 2012	50807.74
8	NUS	Nu Skin Enterprise Cl A	17	26	18	13	9	32.1	13.5	54.40	48.57	12%	12/30/2011	Mark to Market 1st Jan 2012	3381.85
9	ALXN	Alexion Pharmaceuticals	45	58	12	31	48	21.6	33.7	81.00	71.5	13%	12/30/2011	Mark to Market 1st Jan 2012	14996.92
10	V	Visa Inc Cl A	30	28	31	27	14	12	56.5	115.01	101.53	13%	12/30/2011	Mark to Market 1st Jan 2012	77262.12
11	TDG	Transdigm Group Inc	38	24	22	29	52	25.1	32.9	115.94	95.68	21%	12/30/2011	Mark to Market 1st Jan 2012	5873.13
12	ROST	Ross Stores Inc	20	28	5	17	9	44.6	11.4	51.83	47.53	9%	12/30/2011	Mark to Market 1st Jan 2012	11850.46
13	CVLT	Commvault Systems Inc	91	19	11	20	38	20.4	17	54.71	42.72	28%	12/30/2011	Mark to Market 1st Jan 2012	2418.28
14	NUAN	Nuance Communications	17	14	21	13	20	16.5	35.3	26.51	25.16	5%	12/30/2011	Mark to Market 1st Jan 2012	8170.51
15	SWI	Solarwinds Inc	29	31	10	17	29	42.9	50.9	37.23	27.95	33%	12/30/2011	Mark to Market 1st Jan 2012	2721.32
16	QCOR	Questcor Pharmaceutical	95	53	200	93	91	39.1	49.8	33.53	41.58	-19%	12/30/2011	Mark to Market 1st Jan 2012	2103.22
17	PII	Polaris Industries Inc	38	82	13	49	26	51.1	11	67.19	55.98	20%	12/30/2011	Mark to Market 1st Jan 2012	4638.31
18	MELI	Mercadolibre Inc	36	26	36	29	46	39.8	33.7	96.16	79.54	21%	12/30/2011	Mark to Market 1st Jan 2012	4244.70
19	CXO	Concho Resources Inc	48	73	53	47	101	13.8	39.4	114.75	93.75	22%	12/30/2011	Mark to Market 1st Jan 2012	11897.65
20	GWW	Grainger W W Inc	26	35	17	32	11	23	11.6	208.88	187.19	12%	12/30/2011	Mark to Market 1st Jan 2012	14568.88
21	INT	World Fuel Services Corp	26	23	11	6	91	17.3	1	47.16	41.98	12%	12/30/2011	Mark to Market 1st Jan 2012	3355.10
22	HMSY	H M S Holdings Corp	31	27	21	26	15	14.7	22	33.06	31.98	3%	12/30/2011	Mark to Market 1st Jan 2012	2811.89
23	FAST	Fastenal Co	32	39	32	33	20	21.5	19	50.73	43.61	16%	12/30/2011	Mark to Market 1st Jan 2012	14979.50
24	EBIX	Ebix Inc	24	17	-7	21	28	27.4	42.2	24.29	22.1	10%	12/30/2011	Mark to Market 1st Jan 2012	882.61
25	LQDT	Liquidity Services Inc	79	116	-34	-12	13	31.2	21.2	42.31	36.68	15%	1/14/2012		1296.67
26	AAPL	Apple Inc	52	122	55	26	39	41.7	31.6	502.12	419.81	20%	1/14/2012		468161.63
27	MNST	Monster Beverage Corp	22	30	36	36	24	30	26.8	53.20	48.50	10%	1/14/2012		9264.55
28	TCBI	Texas Capital Bancshares	124	100	91	91	13	7.4	18.2	32.95	31.73	4%	1/14/2012		1234.43
29	CELG	Celgene Corp	36	29	47	35	37	25.3	44.8	74.66	72.63	3%	1/14/2012		33143.86
30	INVN	Invensense Inc	117	275	133	300	52	19.9	18.1	16.50	17.21	-4%	2/4/2012		1322.20
31	BWLD	Buffalo Wild Wings Inc	30	16	22	27	31	16.5	9.3	87.89	70.30	25%	2/4/2012		1613.25
32	FFIV	F5 Networks Inc	17	34	20	19	20	29.2	39.1	124.92	124.77	0%	2/4/2012		9892.61

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

32	FFIV	F 5 Networks Inc	17	34	20	19	20	29.2	39.1	124.92	124.77	0%	2/4/2012		9892.61
33	SHOO	Steven Madden Limited	37	17	32	25	70	24.2	19.8	43.22	40.90	6%	2/4/2012		1852.69
34	TAL	Tal International Group	68	111	30	78	44	15.8	28.2	37.22	34.80	7%	2/4/2012		1243.14
35	COH	Coach Inc	18	16	21	19	15	56.5	31.3	75.03	72.59	3%	2/4/2012		21591.22
36	PCLN	Priceline.Com Inc	87	78	49	72	45	44.2	28.4	582.52	546.98	6%	2/4/2012		28999.88
37	GNC	G N C Holdings Inc	106	65	38	17	17	16.6	8.1	32.05	32.05	0%	2/18/2012	New	3290.75
38	VAL	Valspar Corp	59	50	22	16	5	18.1	8.6	46.11	46.11	0%	2/18/2012	New	4303.67
39	ALGN	Align Technology Inc	100	8	0	5	39	19.1	21.8	27.22	27.22	0%	2/18/2012	New	2137.99
40	FOSL	Fossil Inc	28	9	7	19	18	23.9	18.9	118.19	118.19	0%	2/18/2012	New	7398.30
41	CMI	Cummins Inc	39	65	26	16	19	24.1	12	122.07	122.07	0%	2/18/2012	New	23541.39
42	CFX	Colfax Corp	3	68	9	24	7	18.6	10.9	35.68	35.68	0%	2/18/2012	New	3068.48
43	AGO	Assured Guaranty Ltd	275	5	3	-7	287	16.7	57.1	17.52	17.52	0%	2/18/2012	New	3192.65
44	CERN	Cerner Corp	25	26	25	21	23	15.4	17.6	70.99	70.99	0%	2/18/2012	New	12045.80
45	TDC	Teradata Corp	25	28	17	13	23	30.1	22.7	62.63	62.63	0%	2/18/2012	New	10484.26
46	PNRA	Panera Bread Co Cl A	17	29	23	20	16	18.8	11.7	151.67	151.67	0%	2/18/2012	New	4497.45
47	TIX	T J X Cos Inc	15	22	17	14	5	47.4	10.2	34.87	34.87	0%	2/18/2012	New	26301.75
48	SHFL	Shuffle Master Inc	29	55	22	26	12	15.1	19	15.01	15.01	0%	2/18/2012	New	819.86
49	CF	C F Industries Holdings	169	369	19	N/A	39	19.5	23.8	178.84	178.84	0%	2/18/2012	New	11694.01
50	QSII	Quality Systems Inc	20	52	22	34	23	29.8	26.7	43.74	43.74	0%	2/18/2012	New	2580.05

Gains/Losses on Closed Position 38%

Total P\L 495%

GROWTH PORTFOLIO 1st JAN 2012 to 18 th FEB 2012 Eq wt gain 9.9% LONG ONLY - BUY & HOLD

SPX HEDGES RISK MANAGEMENT P/L

TAS-1 (1/2p) Trend Adjusted Hedge on SPX SELL(1257to 1360) -6.9% SPX M2M 1257 - 1/01 (Portfolio Currently hedged)

TAS-2 (1/2) Trend Adjusted Hedge on SPX SELL(1325 to 1360) -2.5% SPX 1325 - 1/26

TAS-3

TAS-4

TAS-5 /POM

TAS-6 /POM

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TOTAL HEDGE P/L = -2.5%

YTD Net Gains after Hedges 5.2%

YTD SPX 1257 TO 1360 SPX Gain 8.1%

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.

GOLD	Randgold Resources ADR	12/30/2011	102.10	18-Feb-12	111.05	9%	Mark to Market 1st Jan 2012	111.05	0%
DG	Dollar General Corp	12/30/2011	41.14	18-Feb-12	42.38	3%	Mark to Market 1st Jan 2012	42.38	0%
HUM	Humana Inc	12/30/2011	87.61	18-Feb-12	88.61	1%	Mark to Market 1st Jan 2012	88.61	0%
BIIB	Biogen Idec Inc	12/30/2011	110.05	18-Feb-12	116.45	6%	Mark to Market 1st Jan 2012	116.45	0%
AUY	Yamana Gold Inc	12/30/2011	14.69	18-Feb-12	16.49	12%	Mark to Market 1st Jan 2012	16.49	0%
NTESS	Netease.Com Inc ADR	12/30/2011	44.85	18-Feb-12	47.81	7%	Mark to Market 1st Jan 2012	47.81	0%
AAP	Advance Auto Parts Inc	1/14/2012	71.46	18-Feb-12	85.57	20%	New	85.57	0%
INTC	Intel Corp	1/14/2012	25.14	18-Feb-12	27.37	9%	New	27.37	0%
ISRG	Intuitive Surgical Inc	2/4/2012	492.01	18-Feb-12	505.99	3%	New	505.99	0%
EC	Ecopetrol Sa ADR	2/4/2012	52.59	18-Feb-12	57.20	9%	New	57.2	0%
BKI	Buckeye Technologies Inc	2/4/2012	34.00	18-Feb-12	33.17	-2%	New	33.17	0%
NSR	Neustar Inc	2/4/2012	36.44	18-Feb-12	35.65	-2%	New	35.65	0%
GILD	Gilead Sciences Inc	2/4/2012	54.70	18-Feb-12	47.00	-14%	New	47	0%
EXPE	Expedia Inc	2/4/2012	34.22	18-Feb-12	33.07	-3%	New	33.07	0%
					Total Closed P/L	38%		Total Closed P/L	99%
					Eq wt gain YTD C	1%		Eq wt gain YTD Closed	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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