



SG Capital Research

Global Market Insights

Research Note – Top 50 Growth (long) with SPX Hedges – Equity Report

MAEG – GROWTH_EQUITY REPORT_E#2_ SG 2012 # SEPT_15

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Growth Equity Report (Risk Managed with SPX Hedge)

1. Executive Summary

- *Real Time Performance of Growth Model – Long Only*
- *SPX – “ POM / TAS” Trend Adjusted Signal- for Hedging*

2. Top 50 – Growth Equity Holdings - includes.

- *New Buys , P/L & SPX Hedges*

3. New Exited Positions

● 1- Executive Summary

○ 2012 – Open Portfolio - Key points of observation

● M2M price is SPX - 1257 – 1ST JAN 2012. – SPX 1465 Current.

- YTD Growth “ long only **without** Hedges” + 20.5%
- YTD Growth “ Long **with** Hedges +18.7%
- YTD SPX +16.5%

Net Gain Change since last Report AUG 25th - SPX up 4.35 % v/s Growth + 4.4%)

○ Portfolio Risk Managed via SPX Signal with POM's

- Even with Fully Hedged Position, The Growth Portfolio has been outperforming SPX
- Currently - The Portfolio is Fully Hedged at POM 14 with SPX @ 1377 within CZ 1375-1410.
- Next Action - Net Short On Portfolio to be Triggered at POM 15 and Terminal Pattern on diffusion of Momentum Indicators.
- Equities **EXITED** within this Portfolio are great Potential Candidate for SHORT position during next “NET Short Signal” to participate in next decline in SPX .

Top 50 Growth Portfolio (Risk Managed) – (1st Jan 2012 – Current)

- 1st of Jan 2012 – YTD MAEG Risk Adjusted Growth Portfolio **is up + 18.7% v/s 16.5 % SPX** .

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	ULTA	Ulta Salon Cosm & Frag	41	79	35	26	20	21.2	8.4	100.87	64.92	55%	12/30/2011	Mark to Market 1st Jan 2012	6379.81
2	ALXN	Alexion Pharmaceuticals	45	58	12	31	48	21.6	33.7	110.47	71.5	55%	12/30/2011	Mark to Market 1st Jan 2012	21327.28
3	V	Visa Inc Cl A	30	28	31	27	14	12	56.5	134.25	101.53	32%	12/30/2011	Mark to Market 1st Jan 2012	89900.81
4	TDG	Transdigm Group Inc	38	24	22	29	52	25.1	32.9	145.61	95.68	52%	12/30/2011	Mark to Market 1st Jan 2012	7492.87
5	ROST	Ross Stores Inc	20	28	5	17	9	44.6	11.4	68.04	47.53	43%	12/30/2011	Mark to Market 1st Jan 2012	15236.06
6	SWI	Solarwinds Inc	29	31	10	17	29	42.9	50.9	59.70	27.95	114%	12/30/2011	Mark to Market 1st Jan 2012	4429.93
7	QCOR	Questcor Pharmaceutical	95	53	200	93	91	39.1	49.8	50.05	41.58	20%	12/30/2011	Mark to Market 1st Jan 2012	2986.57
8	AAPL	Apple Inc	52	122	55	26	39	41.7	31.6	691.28	419.81	65%	1/14/2012		648010.06
9	GNC	G N C Holdings Inc	106	65	38	17	17	16.6	8.1	40.23	32.05	26%	2/18/2012		4229.60
10	VAL	Valspar Corp	59	50	22	16	5	18.1	8.6	57.52	46.11	25%	2/18/2012		5221.64
11	CTRX	S X C Health Solutions	71	57	58	48	162	16.8	3.1	94.97	72.21	32%	3/24/2012		9725.63
12	TJX	T J X Cos Inc	17	15	33	19	6	48.7	10.3	46.46	39.82	17%	4/14/2012		34199.23
13	CBST	Cubist Pharmaceuticals	52	5	-25	-38	30	28.5	33.3	48.44	42.79	13%	4/28/2012		3092.31
14	CRUS	Cirrus Logic Inc	64	26	-13	24	21	27.2	24.7	44.18	24.95	77%	5/19/2012		2853.50
15	MLNX	Mellanox Technologies	113	48	170	110	61	12.6	18.9	101.42	54.12	87%	5/19/2012		4029.93
16	ALGN	Align Technology Inc	29	100	40	19	29	18	21.7	38.22	29.72	29%	5/19/2012		3109.30
17	TCBI	Texas Capital Bancshares	126	109	57	37	32	13.3	33.5	48.59	36.35	34%	5/19/2012		1949.14
18	WPI	Watson Pharmaceuticals	84	90	38	22	74	17.6	20.3	81.86	69.91	17%	5/19/2012		10449.06
19	SNI	Scripps Ntwrks Intr Cl A	18	31	13	11	11	27.7	44.2	62.33	50.80	23%	5/19/2012		9286.71
20	WWWV	Web.Com Group Inc	67	17	38	46	132	18.7	17.7	18.20	16.90	8%	6/9/2012		891.62
21	GNRC	Generac Hldgs Inc	284	55	37	10	138	24.3	18.6	23.06	22.60	2%	7/21/2012		1569.55
22	KORS	Michael Kors Hldgs Ltd	133	87	11	32	58	56.2	21	53.59	39.98	34%	7/21/2012		10360.24
23	LOPE	Grand Canyon Education	52	36	-7	14	15	34.8	19.1	23.57	19.28	22%	7/21/2012		1061.21
24	CF	C F Industries Holdings	59	169	29	14	30	37.3	45.1	223.69	202.77	10%	7/21/2012		14682.54
25	FLT	Fleetcor Technologies	28	4	16	19	32	25.3	50	44.63	36.01	24%	7/21/2012		3732.44
26	FRAN	Francesca's Hldgs Corp	100	90	60	60	49	N/A	20.2	31.66	34.69	-9%	8/25/2012		1387.39
27	ACOM	Ancestry.Com Inc	33	67	20	33	18	18.7	23.6	30.95	30.63	1%	8/25/2012		1330.90
28	RMD	Resmed Inc	38	29	21	6	9	17.2	27.5	39.62	37.23	6%	8/25/2012		5627.43
29	SSYS	Stratasys Inc	39	33	37	34	31	13.1	21.1	64.36	62.58	3%	8/25/2012		1373.21
30	ESRX	Express Scripts Hldg Co	24	11	25	25	144	49.2	5.2	62.84	61.76	2%	8/25/2012		50947.53

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

30	ESRX	Express Scripts Hldg Co	24	11	25	25	144	49.2	5.2	62.84	61.76	2%	8/25/2012		50947.53
31	JAH	Jarden Corp	28	18	12	20	0	16.3	7.1	53.68	48.63	10%	8/25/2012		4286.88
32	SHW	Sherwin-Williams Co	31	51	29	31	9	33.5	8.6	146.22	142.63	3%	8/25/2012		15006.89
33	NSR	Neustar Inc	47	28	39	50	40	27.5	40.1	39.72	37.46	6%	8/25/2012		2637.83
34	BIIB	Biogen Idec Inc	34	-2	-2	8	18	24.5	39.3	154.24	147.03	5%	8/25/2012		36454.16
35	EW	Edwards Lifesciences Cp	37	0	61	31	12	18.2	18.2	105.10	99.18	6%	8/25/2012		12161.52
36	IPGP	I P G Photonics Corp	14	30	20	22	13	31	36.8	65.38	61.90	6%	8/25/2012		3339.28
37	ELLI	Ellie Mae Inc	1250	N/A	122	204	106	20.8	8.5	28.08	25.64	10%	8/25/2012		707.35
38	EBAY	Ebay Inc	17	17	15	16	23	16	28.5	49.97	47.10	6%	8/25/2012		64394.84
39	QIHU	Qihoo 360 Technology Ads	55	320	6	41	107	N/A	22.6	24.89	23.08	8%	8/25/2012		2970.62
40	FTNT	Fortinet Inc	33	22	8	16	25	24.7	25.2	27.68	25.61	8%	8/25/2012		4379.61
41	RGR	Sturm Ruger & Co Inc	63	88	43	52	50	31.8	19.3	48.72	48.72	0%	9/15/2012	New	933.48
42	LULU	Lululemon Athletica	31	52	33	42	33	36.5	28.9	77.99	77.99	0%	9/15/2012	New	11398.84
43	PII	Polaris Industries Inc	44	27	25	30	24	52.3	13	85.55	85.55	0%	9/15/2012	New	5859.28
44	WDC	Western Digital Corp	314	282	136	7	98	32.1	18.2	41.06	41.06	0%	9/15/2012	New	10152.58
45	CVLT	Commvault Systems Inc	43	16	17	21	22	22.8	18.3	58.25	58.25	0%	9/15/2012	New	2618.31
46	WXS	Wright Express Corp	10	21	14	13	8	22.4	40	72.49	72.49	0%	9/15/2012	New	2803.07
47	PNRA	Panera Bread Co Cl A	27	28	23	25	18	22.2	12.3	170.49	170.49	0%	9/15/2012	New	5055.10
48	DISCA	Discovery Com Cl A	23	16	8	9	7	16.2	33.8	58.75	58.75	0%	9/15/2012	New	21414.41
49	AGU	Agrium Inc	20	28	12	8	10	26.2	13.4	103.74	103.74	0%	9/15/2012	New	16394.61
50	POL	Polyone Corp	19	12	19	17	3	17.4	5.1	17.05	17.05	0%	9/15/2012	New	1510.87

										Gains/Losses on Closed Position		40%			
										Total P/L		1025%			
										Eq wt gain		20.5%		LONG ONLY - BUY & HOLD	
										2012 SPX HEDGES		RISK MANAGEMENT P/L		COMMENTS	
										TAS - /POM		Trend adjusted Sell Signal (1270 to 1325)		-4.5% HEDGED 1/3 @ 1270	
										TAS -2 /POM		Trend adjusted Sell Signal (1325 to 1305)		1.5%/3 @ 1325 (CLOSED @ POM	
										TAS -3 /POM		Trend adjusted Sell Signal (1375+1415 to 1350)		3.6% SHORT CLOSED (1400 to 1350)	
										TAS -4 /POM		Hedged closed POM 13 @ 1300 from 1350)		3.7%osed Hedges @ POM 13 - 1300	
										TAS -5 /POM		Hedged signal 1375 to 1465)		-6.1%ged Signal dated 7/20 @ 1377	
										(Portfolio Currently hedged since 1377)					
										YTD Net Gains after Hedges		18.7%		TOTAL HEDGE P/L = -1.8%	
										YTD SPX 1257 TO 1465		SPX Gain		16.5%	

Sold positions This week Qualifies for SHORT SELL

NEW EXITED good candidate to review for RA / RI “over valuation” .

○

DG	Dollar General Corp	4/14/2012	46.30	15-Sep-12	50.16	8%	New
DVA	Davita Inc	7/21/2012	97.20	15-Sep-12	98.45	1%	New
TFM	The Fresh Market Inc	7/21/2012	51.90	15-Sep-12	57.97	12%	New
HMSY	H M S Holdings Corp	7/21/2012	31.61	15-Sep-12	32.52	3%	New
PETM	Petsmart Inc	8/25/2012	70.99	15-Sep-12	68.69	-3%	New
TDC	Teradata Corp	8/25/2012	75.47	15-Sep-12	75.24	0%	New
TSCO	Tractor Supply Co	8/25/2012	96.15	15-Sep-12	97	1%	New
IT	Gartner Inc	8/25/2012	48.75	15-Sep-12	49.92	2%	New
UNP	Union Pacific Corp	8/25/2012	123.99	15-Sep-12	128.43	4%	New
STX	Seagate Technology	8/25/2012	34.06	15-Sep-12	30.48	-11%	New

Appendix Content

- **Key Points for Growth Model**
- **Objectives & Guidelines**
- **Growth Selection Criteria**
- **SPX – POM / 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 initated**)

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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