SG Capital Research

Global Market Insights

Research Note – Sector – ETF Analysis (D)

MAEG – WKLY SECTOR_ETF ANALYSIS SG 2010 # DEC 03

For Immediate Release – Friday AM (EST) or Saturday

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- **Daily SPX - " Trend Adjusted Signal"**

  3x3 /9EMA – Break Indicator – Stopped out – Sell at 1193

Currently " Trend Adjusted Signal " has been on Sell side since (11/17) with Reversal stop @ 1225 SPX & DOW 11430.

Sector Analysis (D) -

(Detail Coverage for sectors with extremes SD # + 2.0 or Special situation (sp) , highlighted in yellow)

SECTORS - (34)

GR1 (8)	GR2 (11)	GR3 (12)
• TLT (Bonds) • IWM (Small Cap) – In A # 2 • MUB (Municipal Bond) (SP) • EEM (Emerging) • EEA (Europe) • EWJ (Japan) • FXI (China) • RSX (Russia) • IFN (India) SP – Special Situation	• XLF (Financials) • XRT (RTH) (Retail) • XLV (Health Care) • XLB (Materials) • XLE (Energy) • XLK / QQQQ (Tech) – In A #2 • XLI (Industrial) • XLU (Utility) • XLP (Staples) • XLY (Discretionary) • XHB (Home Builders)	• SMH (Semis) • BBH (Biotech) • IYT (Transports) • DBA (Agro) • DBB (Base metal) • DBC (Commodity) • GLD (Gold) (SP) • SLV (Silver) • GDX (Gold Miners) (SP) • USO (Oil) • JJC (Copper) • SLX (Steel)

Key points -

Previewed GDX & GLD as special situation backup for SLV

SLW one chart special situation as a Part of SLV

XLK, IWM - above SD +2.0 Levels , the detail Study is covered in our Yesterdays A # 2 MS – Report

- # 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**
- **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 +1.5 / +2.0 SD , Currently SPX is at POM 14***
- ***At POM 12 & 11 Focus is on -1.5 / -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 # 1.5 - Overvalued and Undervalued characteristics &***
- ***For Direction bias to capitalize on extremes via doubling on ETF's at SD # 2 at appropriate POM conditions.***

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

- **Overvalued confirmed– *SLV, IWM, XLK, SMH***
- **Undervalued confirmed – *XLV,XLF, MUB,***
- **Non Conformance – *RTH* - (See the Ratio charts below for justification)**
- ***This conclusion to be Utilized with PQV Validation Test for MAEG – E Section***

Review process (1)- Sectors for Best & Worst on Extreme SD's @ 365D

Sector	Indicator	Distance in SD	Target Exit & Reversion to mean	Net Exposure	Total No. of stocks	Comments
Gr 1						
EEM		1.07	0.04			
IWM	Above +2SD	2.00	0.06			
TLT		-1.14	0.09			
EWJ		-0.75	0.01			
Gr 2						
XLY	Above +1.5SD	1.81	0.03	0%	4	
XLV	Below -1.5SD	-1.88	0.03	11%	9	
XRT (RTH)	Above +2SD	2.30	0.03			
XLF	Below -2SD	-2.09	0.01	7%	15	
XLK		1.43	0.02	50%	4	
XLU		-1.29	0.03			
XLI		1.41	0.03	43%	7	
Gr 3						
IYT	Above +1.5SD	1.92	0.07			
JJC	Above +1.5SD	1.72	0.04			New
SLV	Above +2SD	3.10	0.02			
GLD		1.35	0.1			
SMH	Above +2SD	2.57	0.02			
IFN		0.95	0.03			
GDX	Above +1.5SD	1.57	0.04			
MUB sp	Below -1.5SD	-1.94	0.1			special situation
XM1 sp		-1.43	0.09			special situation
USO		-1.02	0.03			
BBH		-1.21	0.09			
		Primary Index Net Exposure		21%		
		POM 14 Re Run 3				

- 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 – within our Expectancy Model

Ticker (Exited from Previous weeks)	Comments

Global Long / Short – Market Neutral - ETF Index with SD # 1.5 and above

SD -TECH VALIDATED MARKET NEUTRAL ETF INDEX (Directional Bias only at Exterme POM's)

Ticker	Entry date	Last Price	Validated Test price	P/L Since the Test	Comments	3X3 / 9EMA
SHORTS						
EEM	12-Nov-10	46.97	47.20	0.49%		$ 45.2
EEM	12-Nov-10	46.97	47.20	0.49%		$ 45.2
IWM	15-Oct-10	75.13	70.53	-6.52%		$ 72.7
IWM	25-Nov-10	75.13	73.73	-1.90%		$ 72.7
XLY	15-Oct-10	37.40	34.71	-7.75%		$ 36.2
RTH	15-Oct-10	105.56	99.54	-6.05%		$ 102.4
RTH	25-Nov-10	105.56	103.47	-2.02%		$ 102.4
XLK	20-Oct-10	24.75	24.00	-3.13%		$ 24.2
XLK	25-Nov-10	24.75	24.49	-1.06%		$ 24.2
IFN	12-Nov-10	37.73	39.11	3.53%		$ 35.7
IFN	7-Nov-10	37.73	36.02	-4.75%		$ 35.7
SMH	12-Nov-10	32.44	30.87	-5.09%		$ 31.2
SMH	25-Nov-10	32.44	31.68	-2.40%		$ 31.2
IYT	15-Oct-10	91.17	84.90	-7.39%		$ 88.0
JJC	15-Oct-10	52.82	51.11	-3.35%		$ 50.2
JJC	2-Dec-10	52.82	52.39	-0.82%	New	$ 50.2
SLV	15-Oct-10	27.93	23.75	-17.60%		$ 26.6
SLV	15-Oct-10	27.93	23.75	-17.60%		$ 26.6
GDX	15-Oct-10	61.18	58.19	-5.14%		$ 58.8
GDX	25-Nov-10	61.18	59.67	-2.53%		$ 58.8
XLI	15-Oct-10	33.97	32.43	-4.75%		$ 32.6
GLD	15-Oct-10	135.20	133.68	-1.14%		$ 133.4
CLOSED SHORT POSITIONS				15.26%		
			EQ WT SHORT P/L	**-3.87%**		
LONGS						
XLV	15-Oct-10	31.09	31.2	-0.19%		$ 30.5
XLU	12-Nov-10	31.21	31.5	-0.92%		$ 30.8
XLF	12-Nov-10	15.13	15.2	-0.13%		$ 14.5
XLF	25-Nov-10	15.13	14.6	3.42%		$ 14.5
TLT	12-Nov-10	95.64	96.4	-0.77%		$ 97.1
MUB	19-Nov-10	101.50	101.0	0.51%		$ 101.9
BBH	15-Oct-10	99.34	96.8	2.67%		$ 98.0
EWJ	15-Oct-10	10.58	10.2	3.52%		$ 10.3
USO	15-Oct-10	37.77	35.5	6.48%		$ 35.9
XM1	19-Nov-10	94.51	94.5	0.05%		$ 94.5
CLOSED LONG POSITIONS				10.61%		
			EQWT LONG P/L	**2.53%**		
15th OCT 2010 INCEPTION						
SD - TECH SETUP EQUAL WEIGHTED LONG SHORT INDEX			**EQWT AGG P/L**	**-0.67%**		
INCEPTION @ SPX 1180 to Current 1221.53			**SPX CHANGE**	**-3.52%**		

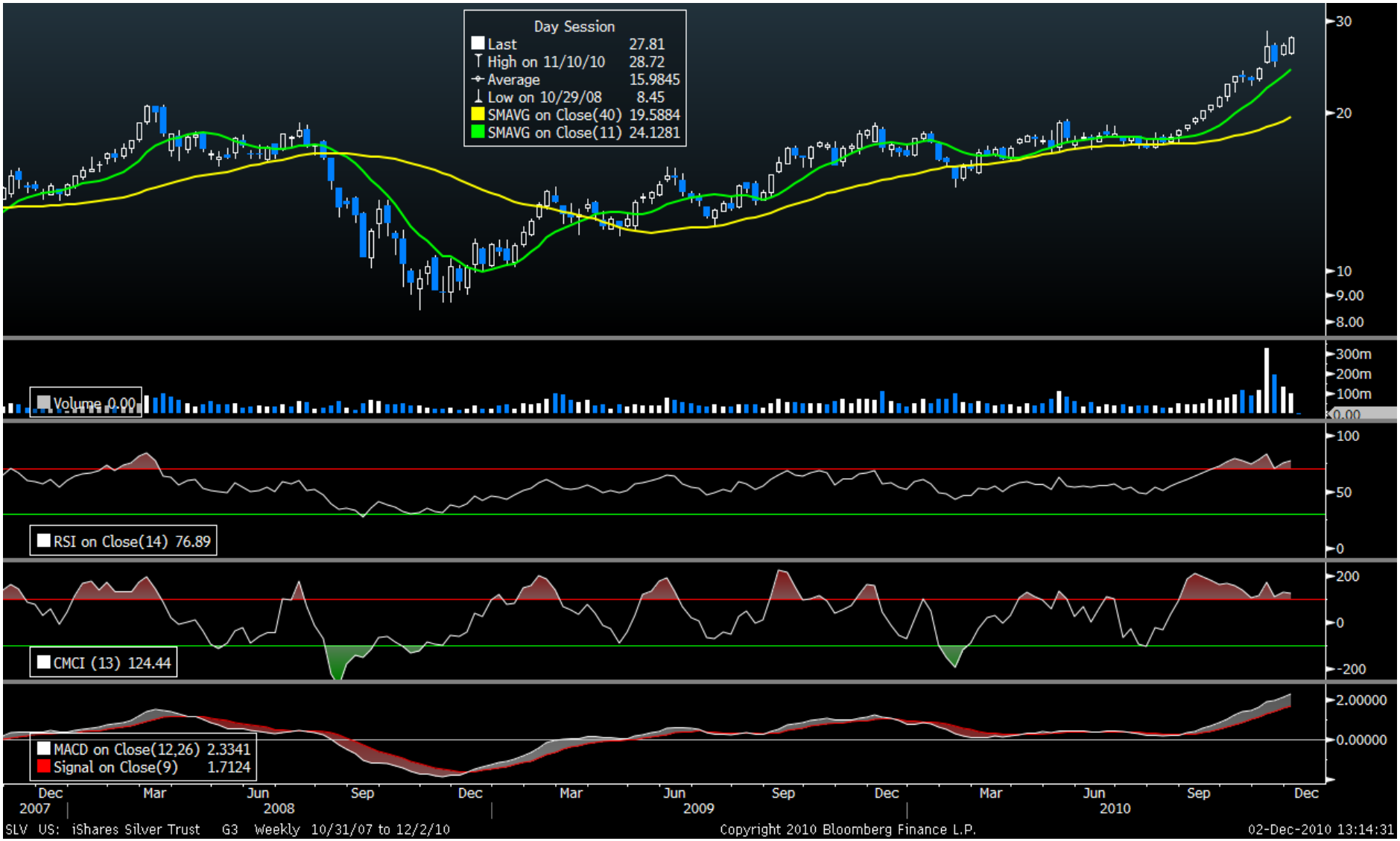
- **SECTOR SETUP INDEX** **+78, +100%, + 83%, +78% (past 4 weeks)**
  (Currently for monitoring purposes only, we will establish . correlation as we go forward with POM 13)

- **EQUITY SETUP INDEX : +21%, 18%, +16%, (-9%) (past 4 weeks)**
- **POM – 14 re run**

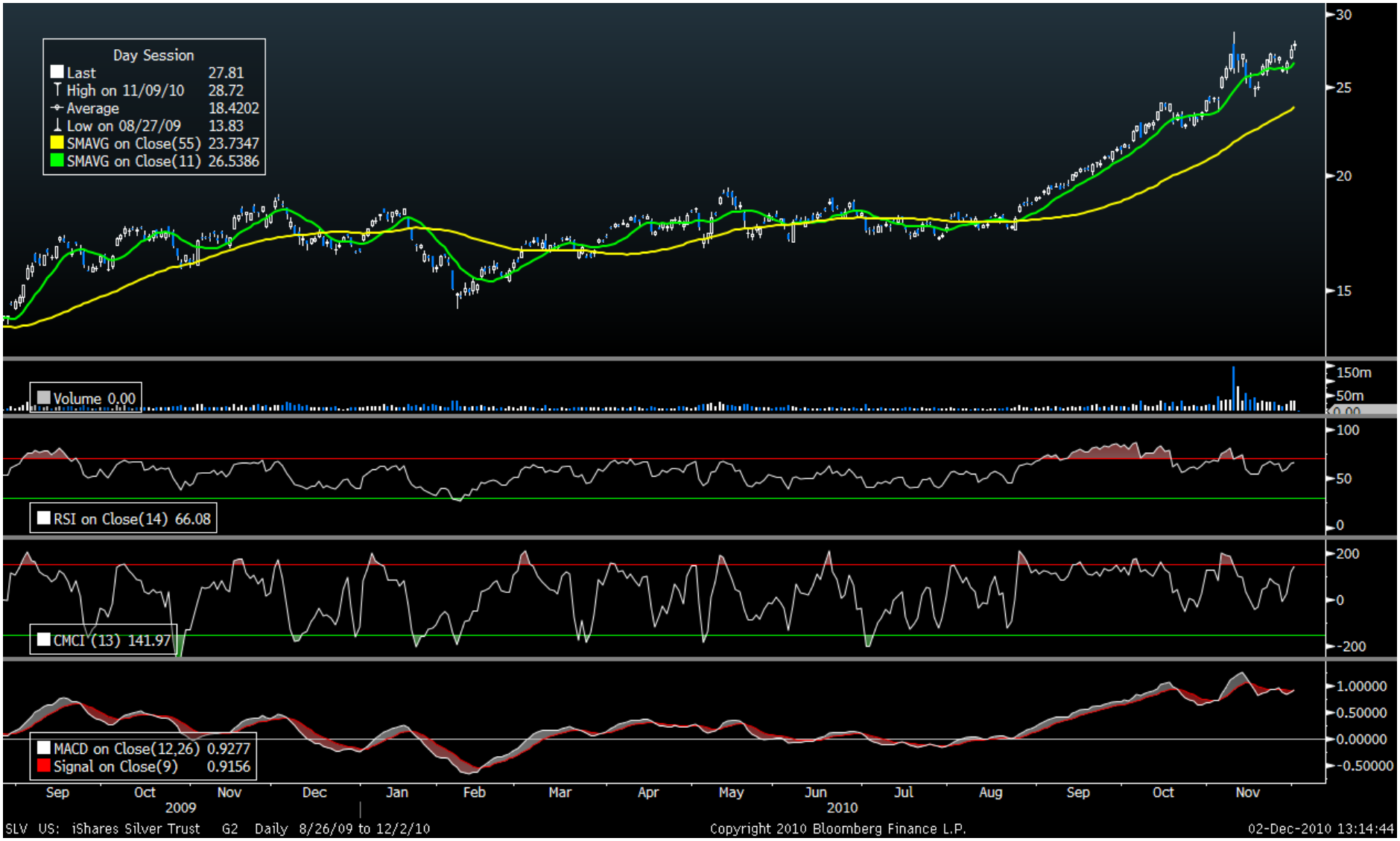
SETUP # 1 (8 of 31)	SETUP # 2 (0 of 31)	SETUP # 3 (0 of 31)	SETUP # 4 (1 of 31)
EWJ XLV XLU XLP BBH XLF USO EWP			SLV

ETF's Qualified for SD # 2 - *Overvaluation by POM Methodology.*

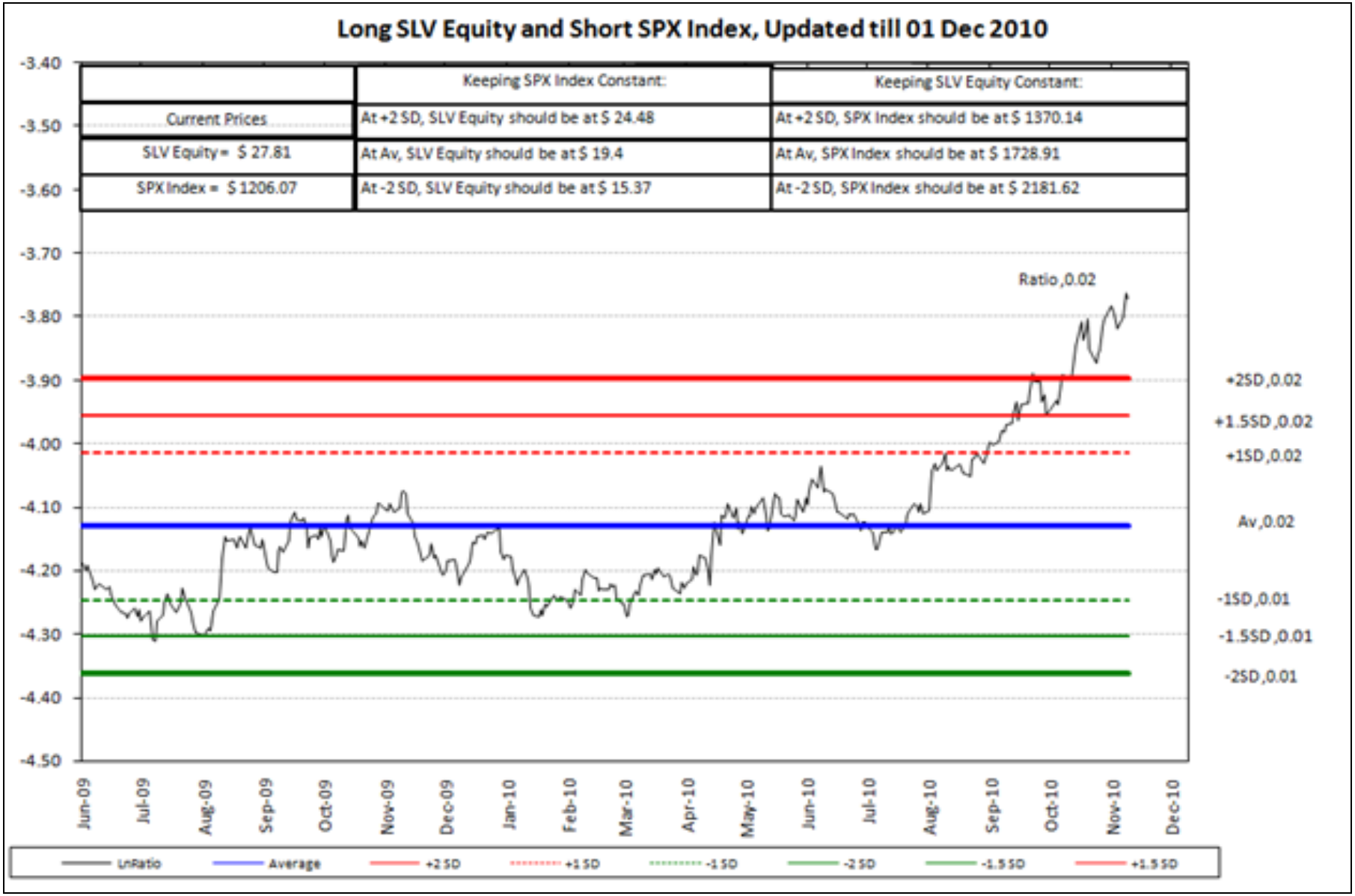
- **SLV - Weekly– 3 Year with RSI, CCI, MACD**
  (11 W / 40 W SMA)



SLV - Daily – 3 Year with RSI, CCI, MACD
(11D / 55D)



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



1 – SLV- Pattern & Trend line Analysis

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

1- SLV – Technical & Pattern Analysis & Price / Volume

On 9th Nov , Commodity report we had POM 15 at 27. ***Bearish pattern with last engulfing and climax volume marked the top (Climax volume doesn't not have to get tested but if does then it's a great failure) , Such Patterns is a time out of the next leg up or at best flips the market in consolidation at worst case. But the double tops with lighter volumes is a high probability events in majority of the tops***

If we step back , The first selloff began from POM 15 (@ 27) to our 1st level to 24 target (Trend line, 21 D MA) on higher volume, Now on lighter volume retracement bounce moved above breakdown / hanging man price 27.15 but did not close below 26.50 on 22 m shares that we been waiting for to mark a failure but instead each time closed tick higher then previous day …there fore there was No signal.

Now the Current price is in the bearish engulfing pattern. (Although this area is close to failure) , the best signal would come if it tests the highs of 28.75 (blue line) with 100m shares and close below 27.75. would be upside Failure trigger (

Conversely , for downside acceleration trigger (if the upside highs of 28.75 is not able to accomplish) , then stock to close under 27.15 (pink line) with 40 M shares

Note –

- ***All the stocks in Silver will follow this Index on downside including SLW (one chart included as special situation***
- ***To take another perspective on it we looked at GDX which is over component of Miners (See chart below)***

1- SLV – ST - Technical & Pattern Analysis & Price / Volume

2- SLV – Technical & Pattern Analysis & Price / Volume

Bearish consolidation is in progress, the bounce under the lower side of trend line. The base of the consolidation is at 23 -22. The rise in SLV from 23 to 28 has been on Diverging RSI as seen in chart below.

On bigger scale , As indicated last week SLV broke 20 on higher volume along with previous 2 occasion hit the swing on high volume suggests that 20 (level 3) could stop the fall below , that should be a equilibrium (Mid term) target . The bigger trend is down , MACD has crossed and the highs of 28 has exhaustion volume , that may prevent any serious ABC up on heavy volume, at best this market can go in consolidation after such move.

1- –GDX – For clues - Technical & Pattern Analysis & Price / Volume

Behavior of Miners, GDX went into the gap of hanging man with 30% lighter volume which is bearish but if we had closed below the gap then would give more confirmation, Now this suggest we may have another run to highs of 62 and close below 8 M would mark a good signal along with SLV to gets a heads on SLW. (Off course, the GDX Engulfing is much higher at 64)

1- –GDX – For clues - Technical & Pattern Analysis & Price / Volume

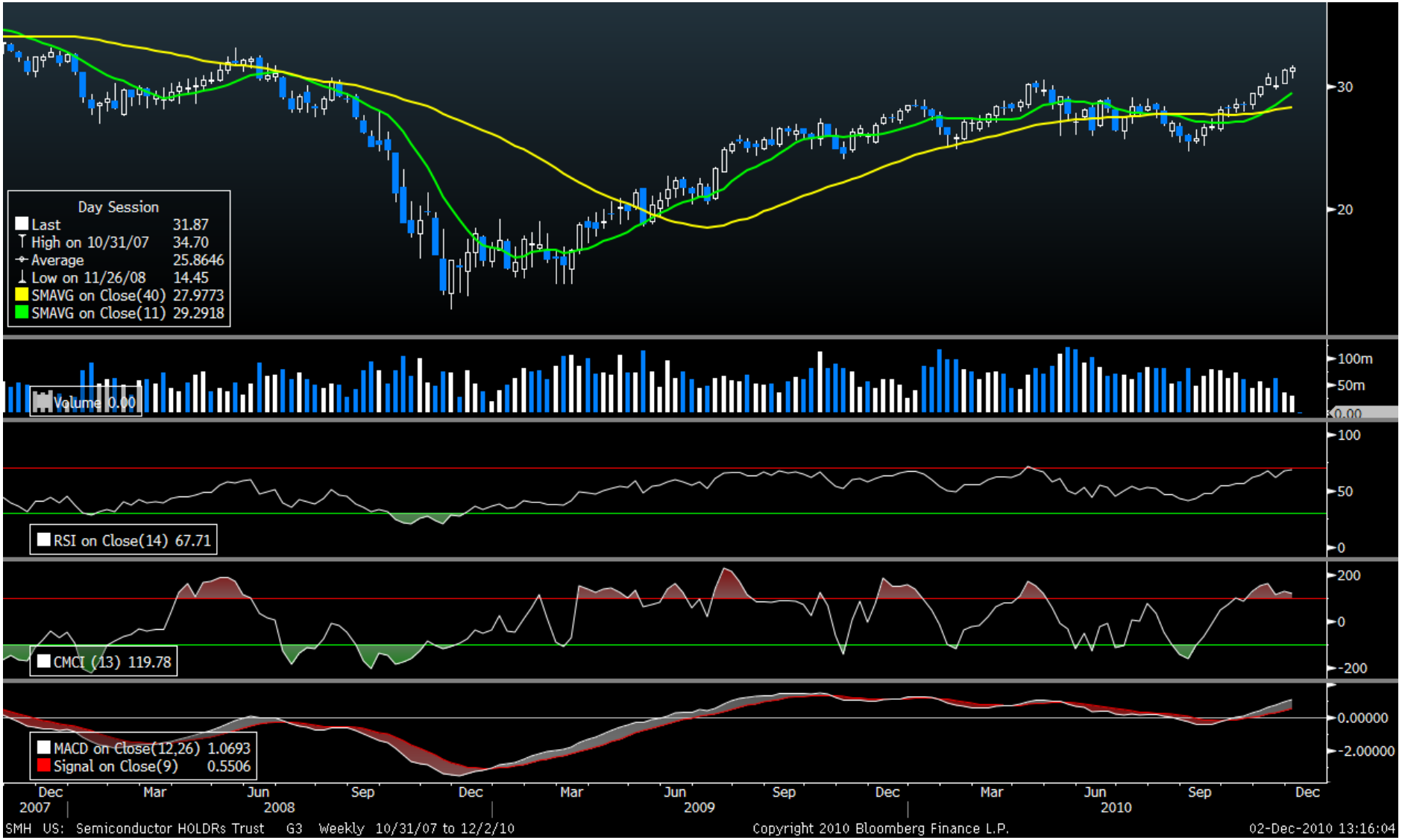
1- –GLD – For clues - Technical & Pattern Analysis & Price / Volume

Behavior of GLD could also have the impact for Trigger , GLD tested the partial GAP and the highs with 50% lighter volume and closed lows (the chart indicated below . That is a failure but there still the possibility that they may run it in the GAP fully and then give in , if volume is light , that will be another failure.

1- SLW – ST - Technical & Pattern Analysis (Special Situation)

This is a distribution pattern and very close to Top if not the Top due to SLV reasons. We may even get the 3rd one today usually goes in 3's

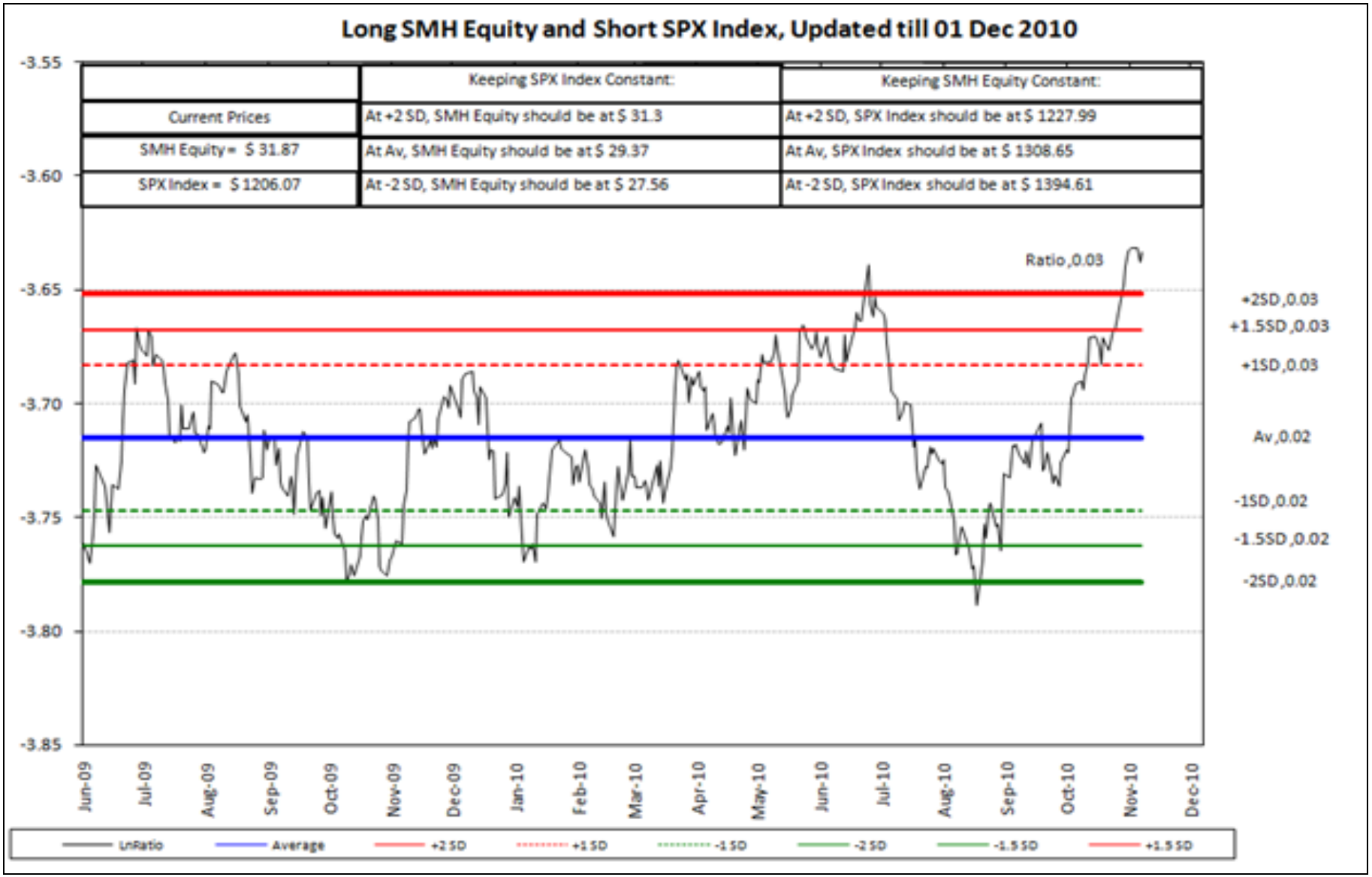
SMH - Weekly– 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD



SMH - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

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

Although the sector is in SD # 2.0 , Its sub part of XLK /QQQQ – SD # 2

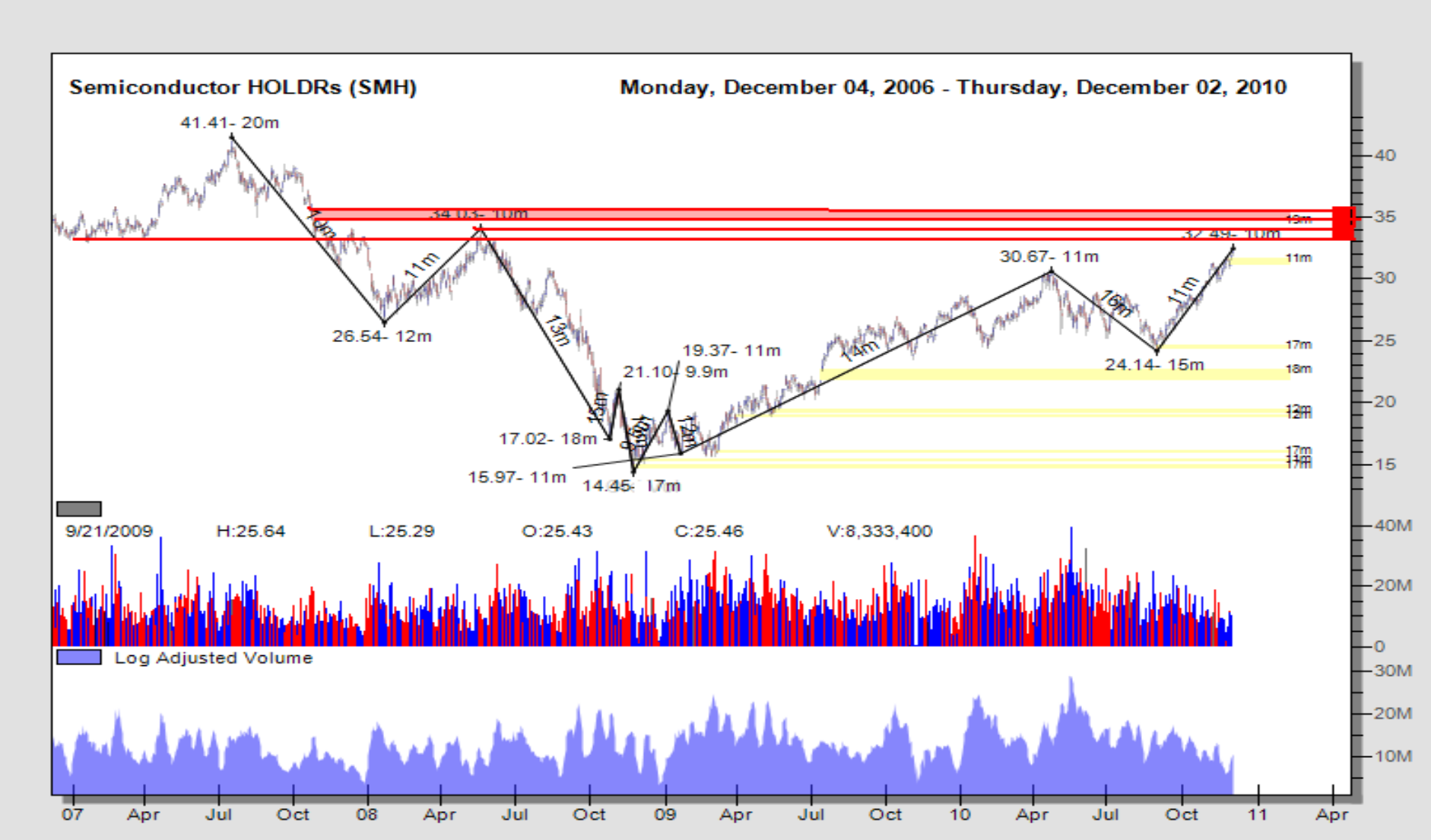


1- SMH – Technical & Pattern Analysis & Price / Volume

Backdrop - **as a worst case scenario SMH may test the Previous swing highs of May 08 at 34 and breakdown area of Jan 08 of 33 . 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. This Chart looks vey similar to EEM chart we covered yesterday.**
The green line above 31 is the false break to the upside, on equal volume that suggest we may enter the CZ in Red

SMH- ST - Price , Volume & Pattern Analysis

There is a possibility, if SPX fails, then we look for SHM to fail as well .
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.



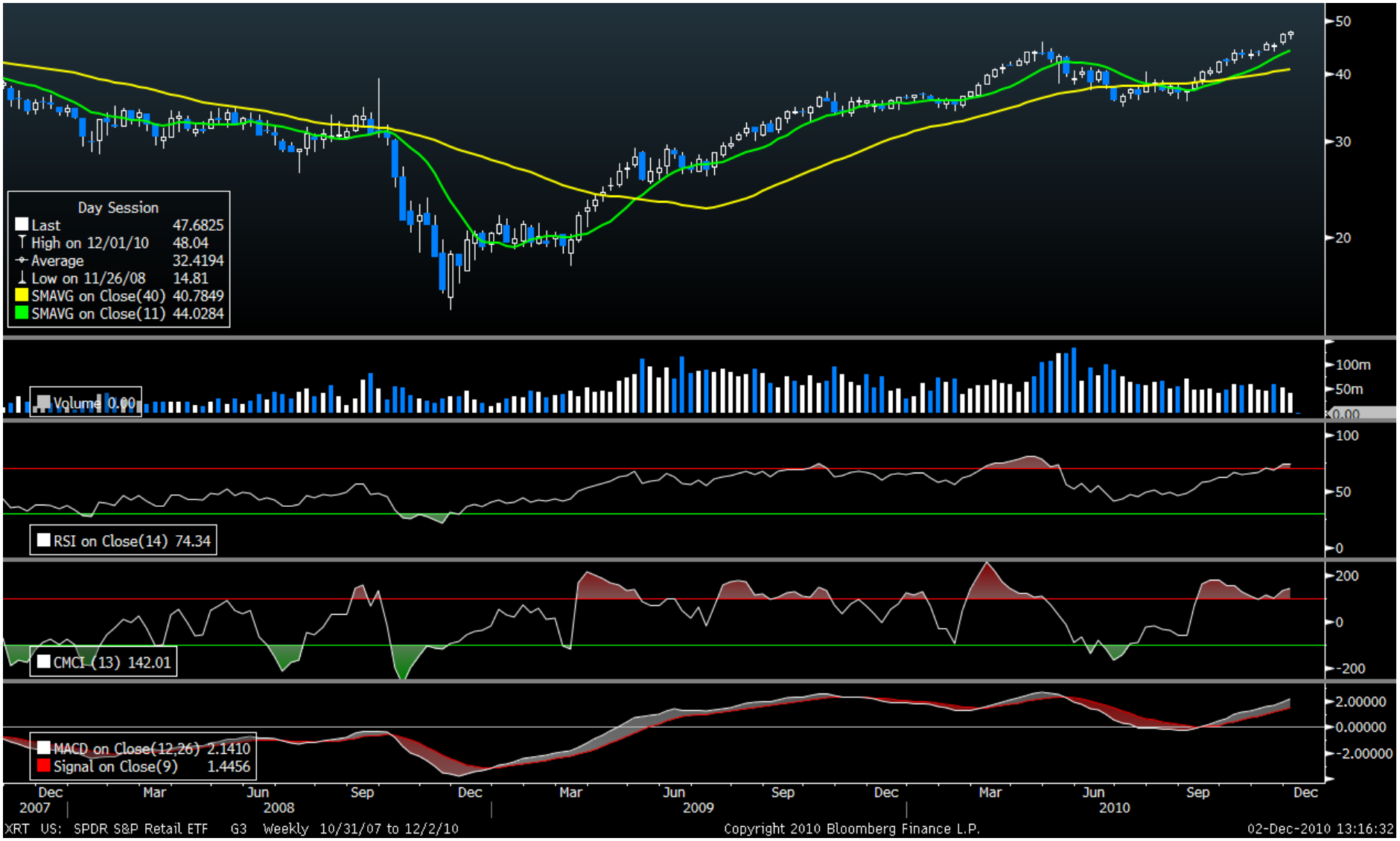
SMH– Technical & Pattern Analysis – Trim Tab Reports highest Insiders selling in the group but prices going up

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. (We consider this as Sub part of QQQQ / XLK – Technology)

SMH– Technical & Pattern Analysis

On Daily charts , the secondary test . RSI Diverging with at SD # 2 levels

XRT - Weekly– 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD


Day Session
Last 47.6825
High on 12/01/10 48.04
Average 32.4194
Low on 11/26/08 14.81
SMAVG on Close(40) 40.7849
SMAVG on Close(11) 44.0284
50
40
30
20
Volume 0.00
100m
50m
0.00
RSI on Close(14) 74.34
100
50
0
CMCI (13) 142.01
200
0
-200
MACD on Close(12,26) 2.1410
Signal on Close(9) 1.4456
2.00000
0.00000
-2.00000
Dec Mar Jun Sep Dec Mar Jun Sep Dec Mar Jun Sep Dec
2007 2008 2009 2010
XRT US: SPDR S&P Retail ETF G3 Weekly 10/31/07 to 12/2/10
Copyright 2010 Bloomberg Finance L.P.
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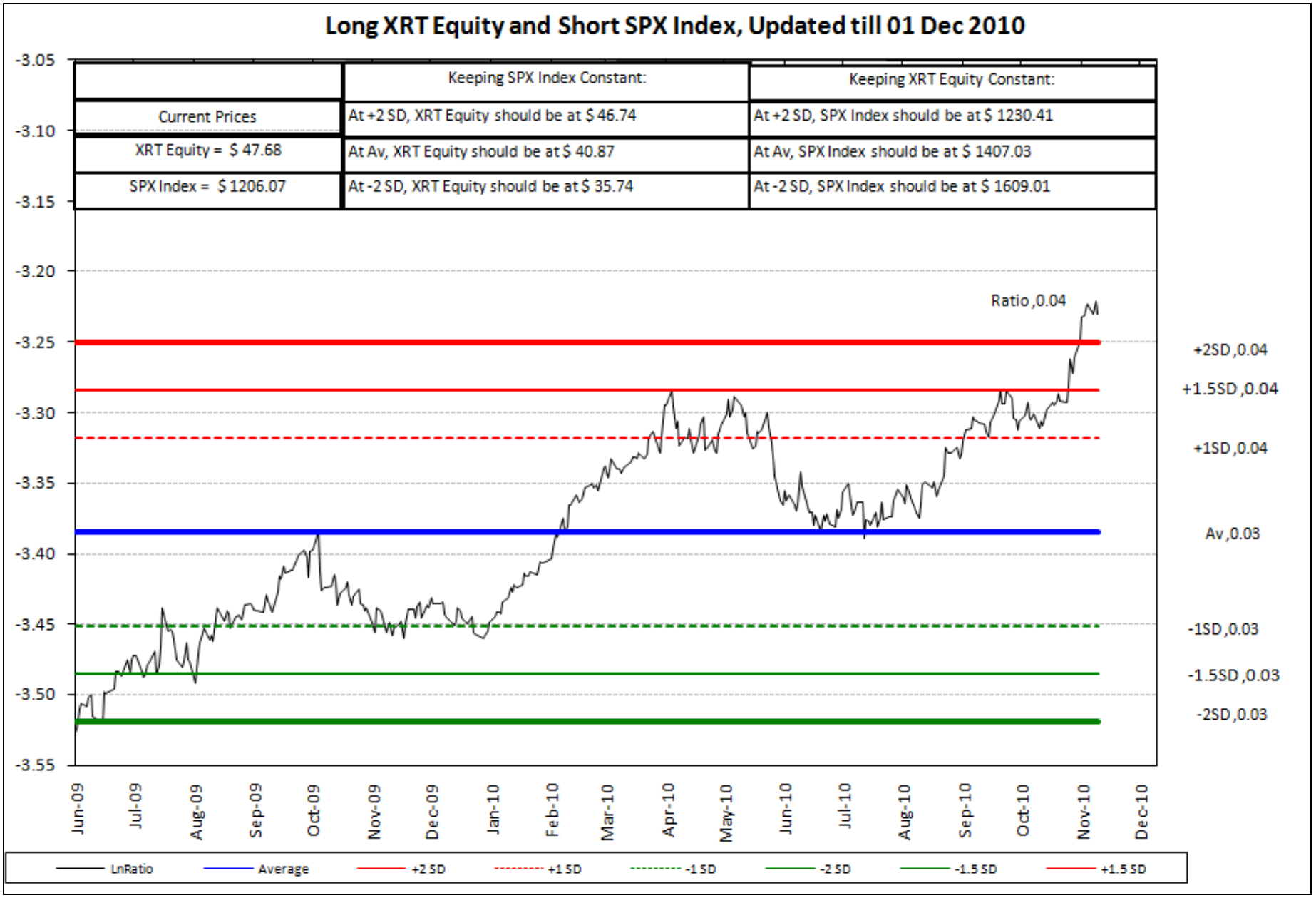
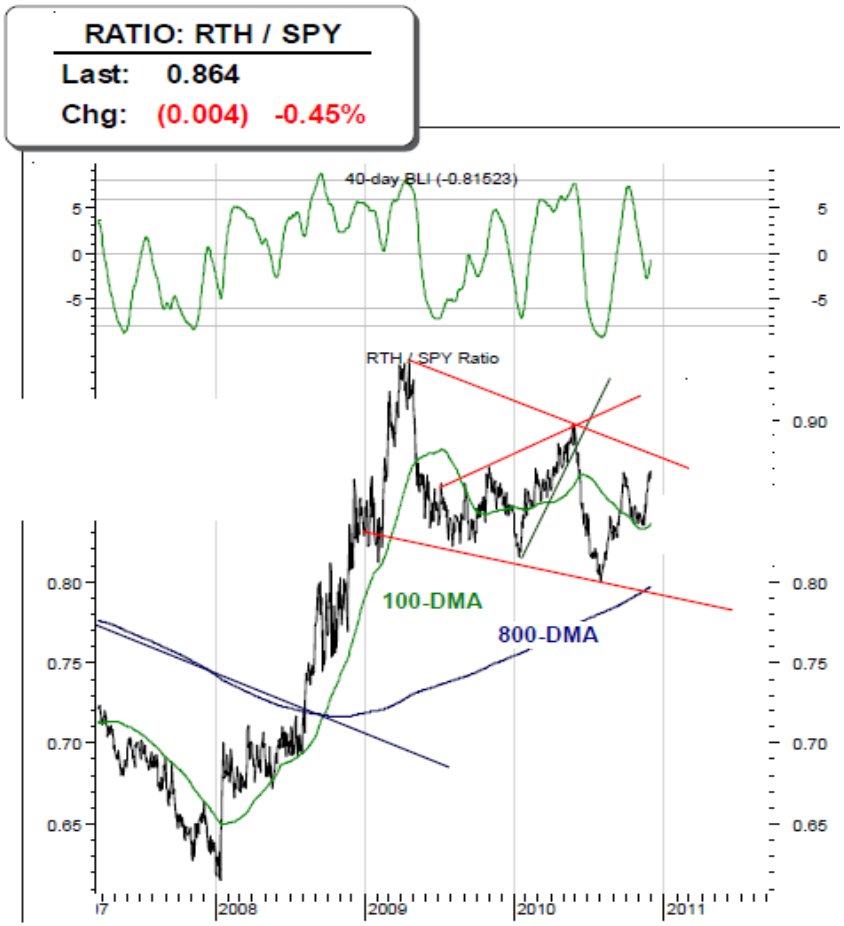
XRT - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

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

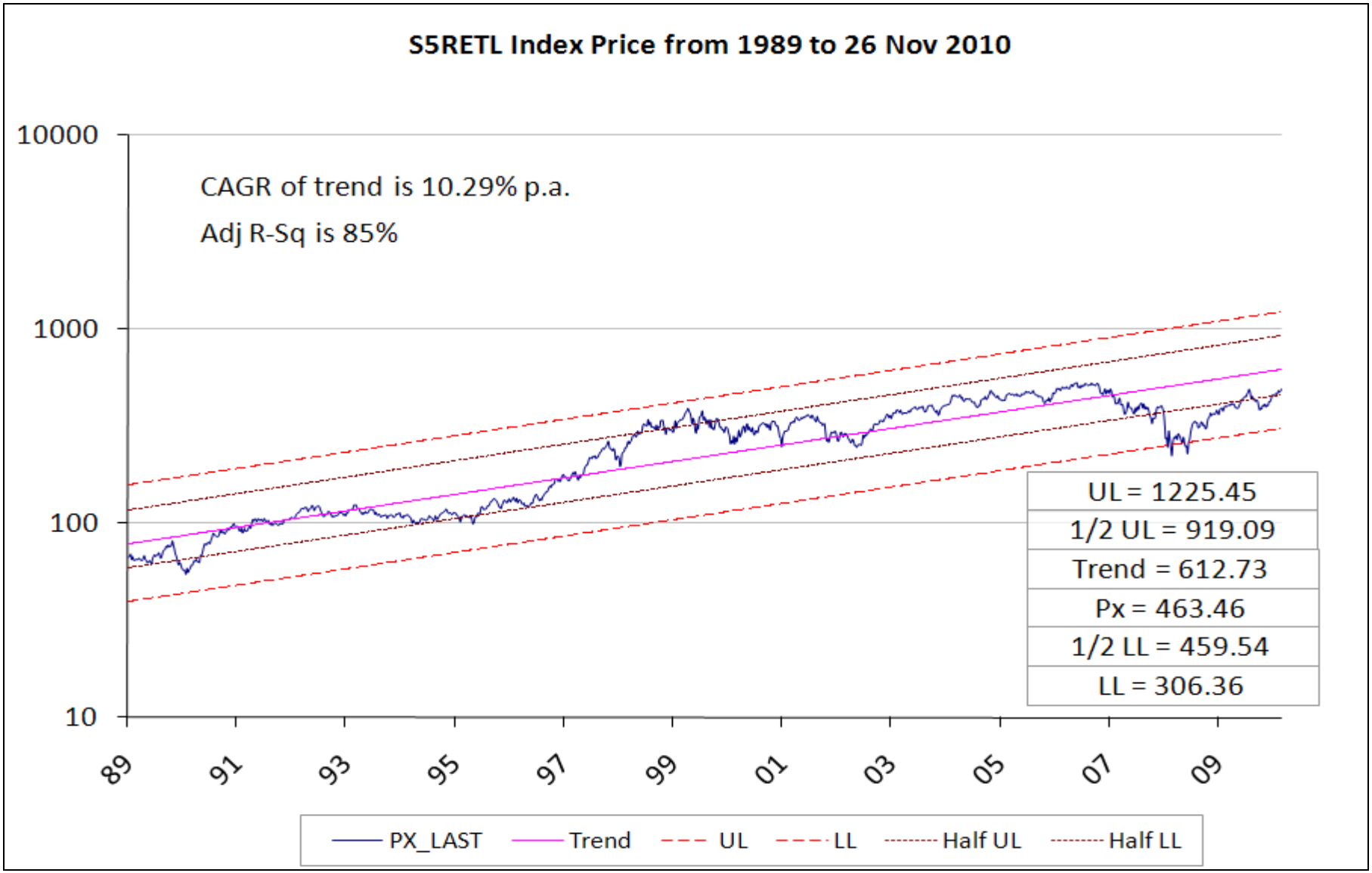


2 - XRT (RTH) – Technical & Pattern Analysis

The RTH / SPX ratio chart hit a resistance, bearish and should trend down in RH side chart below, this confirms the relative drop in RTH / SPX (hence overvalued) by this matrix in sync with SD Analysis
But Ratio is not as overbought – NEURAL

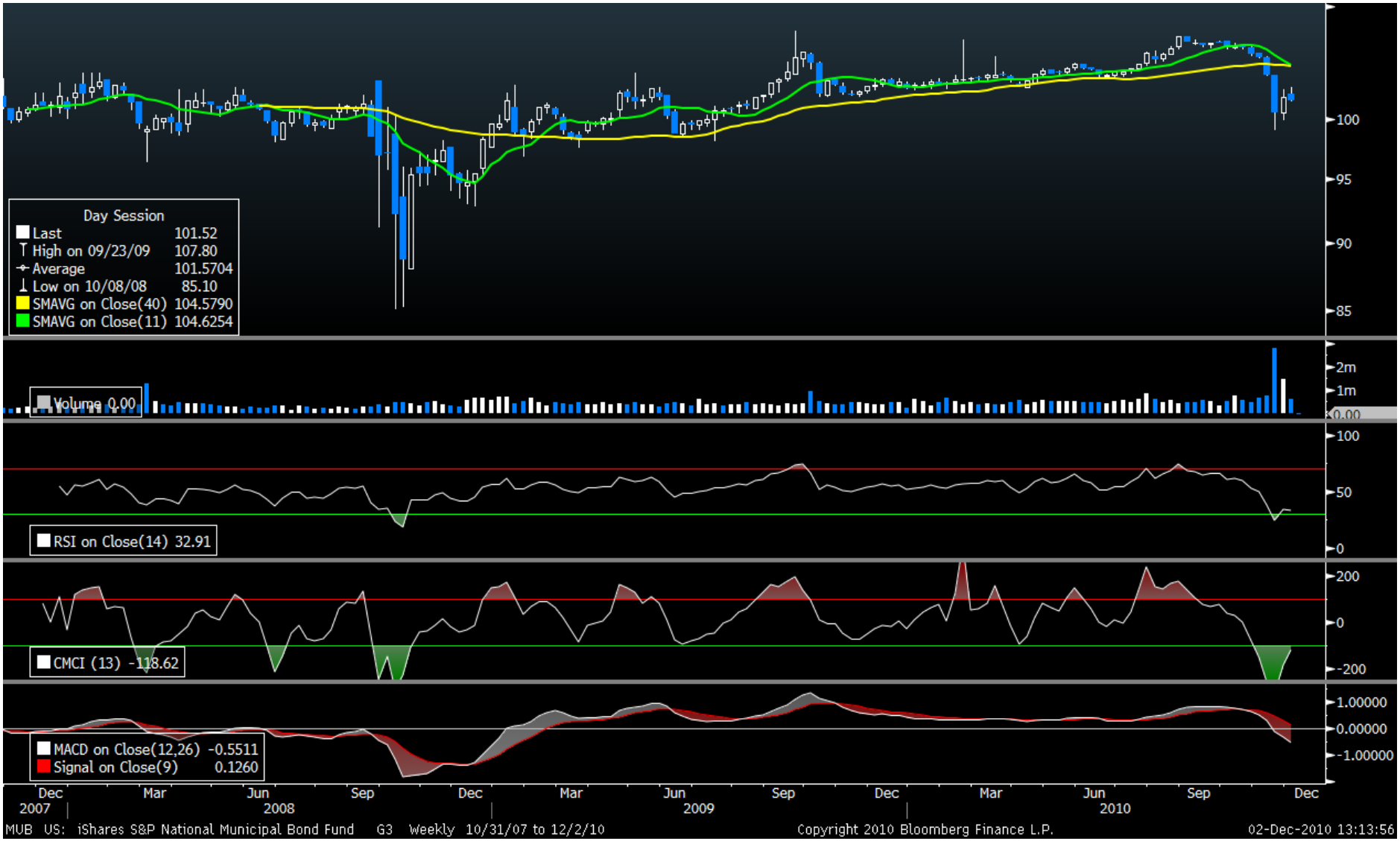


XRT – Trend Reversion Analysis – Long Term

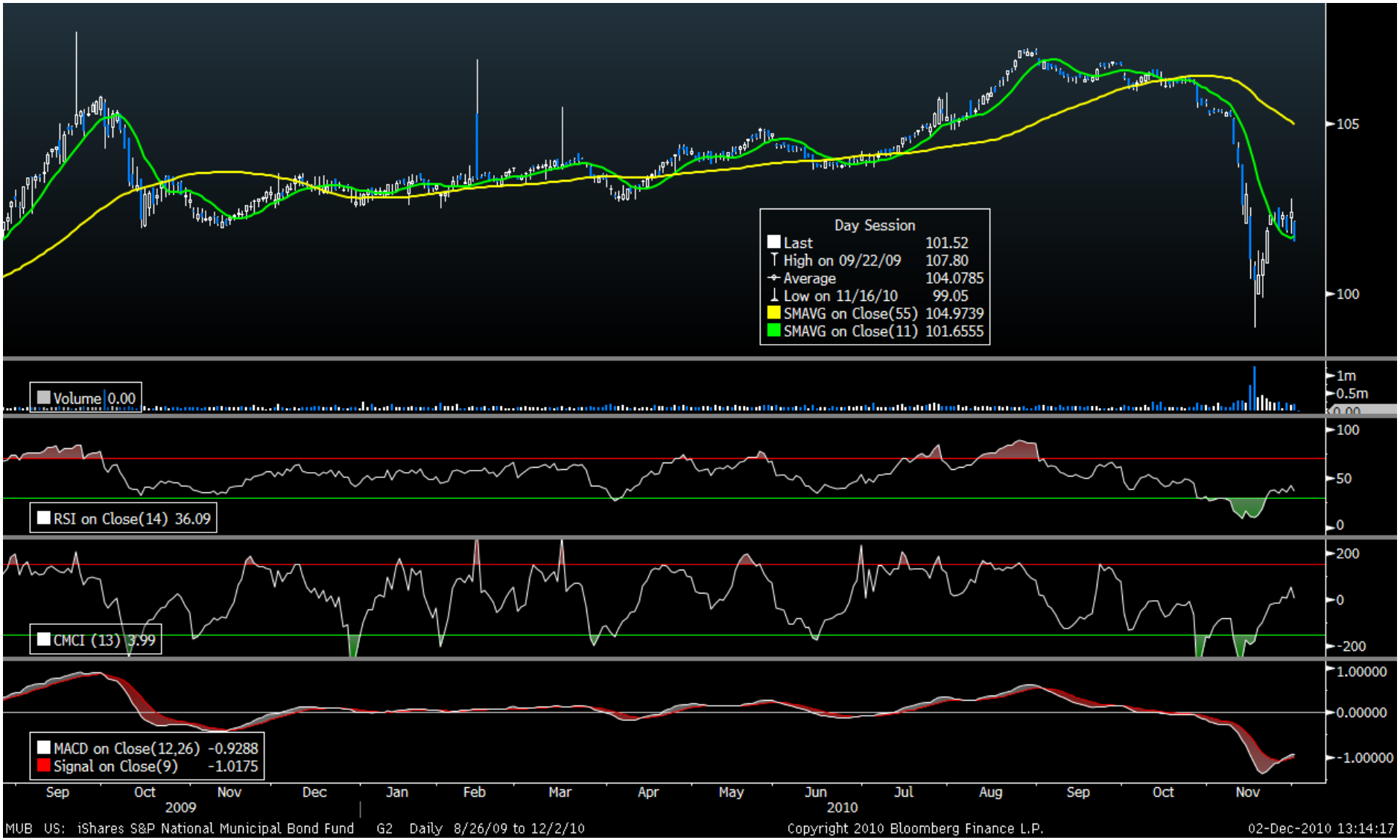


ETF's Qualified – Special situation (Watch list) – No change

1- MUB - Weekly– 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

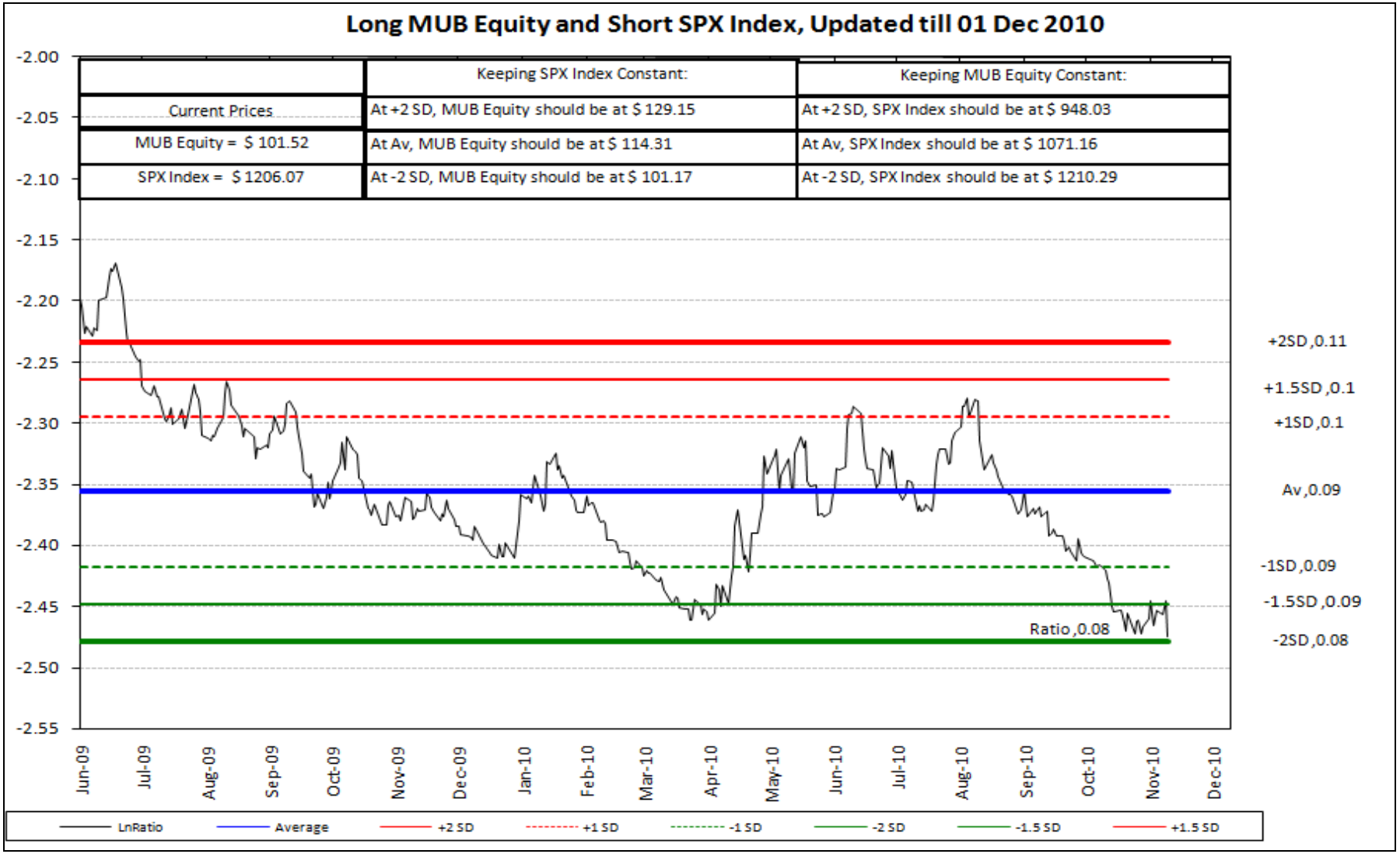


1- MUB - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD



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

SD # 2.0 has just reached once and reached extremes



MUB – Technical & Pattern Analysis -

This market broke down at 104 with panic waterfall drop ,Currently very oversold. SD is at - 2.0 undervalued . We 'll wait for the re test of 99 at 800k volume and reject , would setup a double bottom & RSI should diverge to complete the test , then the target would be back to 104 (break down area). 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

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