SG Capital Research

Global Market Insights

Research Note – Sector – ETF Analysis (D)

MAEG – WKLY SECTOR_ETF ANALYSIS SG 2010 # DEC 17

For Immediate Release – Friday AM (EST) or Saturday

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

3x3 /9EMA – Momentum Break Indicator – Long @ 1228 SPX

- **For Bull case - Previous long exit was on 11/17 at 1193 from 1105 entry 09/05 for 8%**
- **For Bear case - SS from last Sell Signal at 1193 to 1225 = - 2.6%**

Currently " Trend Adjusted Signal " has Reversal stop @ 1178 SPX & DOW 11006.

Sym	Posn	Close	Reversal
DJ	Long	11471.4	11006
SPX	Long	1241.59	1228.69

Sector Analysis (D) -

- Detail Coverage for sectors with extremes SD # + 2.0 or Special situation (SP) , highlighted in yellow
- For Commodity based ETF's the Extremes SD # 2.0 should be qualified v/s both CRB and SPX

SECTORS - (35)

GR1 (11)	GR2 (11)	GR3 (13)
• TLT (Bonds) • MUB (Municipal Bond) (SP) • IWM (Small Cap) (in MS A# 2) • EEM (Emerging) • EEA (Europe) • EWJ (Japan) • FXI (China) • RSX (Russia) • IFN (India) • EWP (SP) (in PQV E #1) • EWH(SP) (In PQV E # 1) • JOF (SP) SP – Special Situation	• XLF (Financials) • XRT (RTH) (Retail) • XLV (Health Care) • XLB (Materials) • XLE (Energy) • XLK / QQQQ (Tech) • XLI (Industrial) • XLU (Utility) • XLP (Staples) • XLY (Discretionary) • XHB (Home Builders)	• SMH (Semis) • BBH (Biotech) • IYT (Transports) • IYR (Real Estate) (New) • DBA (Agro) • DBB (Base metal) • DBC (Commodity) • GLD (Gold) • SLV (Silver) • GDX (Gold Miners) • USO (Oil) • JJC (Copper) • SLX (Steel)

MUB, JOF are Special Situation

- # 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 (if applicable if R2 is above 75%)**
- **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, SMH,***
- **Undervalued confirmed – *MUB,***
- **Non Conformance – *None***
- ***This conclusion to be Utilized with PQV Validation Test for MAEG – E Section***

SD # 1.5 / 2.0 - Tracker for Sectors

3X3/ 9EMA* – *Momentum break Prices indicated for each SD # 1.5 /2.0 Sector listed below

Sector	Indicator	Distance in SD	Target Exit & Reversion to mean	Last Price	3X3 / 9EMA	Net Exposure	Comments
Gr 1							
EEM		0.45	0.04	46.20	$ 46.68		
IWM	Above +2SD	2.14	0.06	77.07	$ 76.96		
TLT	Below -1.5SD	-1.99	0.09	90.94	$ 93.08		
EWJ		-0.80	0.01	10.69	$ 10.66		
Gr 2							
XLY		1.47	0.03	37.25	$ 37.37	-25%	
XLV	Below -1.5SD	-1.77	0.03	31.56	$ 31.23	75%	
XRT (RTH)	Above +1.5SD	1.72	0.03	104.92	$ 105.05		
XLF		-1.42	0.01	15.48	$ 15.52	50%	
XLK		1.43	0.02	25.08	$ 25.05	33%	
XLU	Below -1.5SD	-1.80	0.03	31.08	$ 31.15		
XLI		1.47	0.03	34.44	$ 34.28	33%	
XLE	Above +1.5SD	1.64	0.05	65.79	$ 65.92	-100%	New
Gr 3							
IYT	Above +1.5SD	1.53	0.07	90.87	$ 91.33		
JJC	Above +1.5SD	1.89	0.04	54.56	$ 54.87		
SLV	Above +2SD	2.58	0.02	28.08	$ 28.42		
GLD		0.90	0.10	134.70	$ 135.93		
SMH	Above +2SD	2.01	0.02	32.33	$ 32.63		
IFN		0.53	0.03	36.64	$ 37.34		
GDX		1.33	0.04	60.99	$ 61.92		
MUB sp	Below -2SD	-2.81	0.09	97.74	$ 98.89		special situation
USO		-1.03	0.03	37.99	$ 37.79		
BBH		-1.22	0.09	100.23	$ 98.98		
		Primary Index Net Exposure				39%	
		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 & CRB (if applicable)– within our Expectancy Model**

Ticker (Exited from Previous weeks)	Comments

Long / Short –- ETF Index - Market Neutral (with positions taken at SD # 1.5 & 2.0)

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
SHORTS					
EEM	12-Nov-10	46.20	47.20	2.12%	
EEM	12-Nov-10	46.20	47.20	2.12%	
IWM	25-Nov-10	77.07	73.73	-4.53%	
IWM	10-Dec-10	77.07	76.79	-0.36%	
XLY	15-Oct-10	37.25	34.71	-7.32%	
RTH	15-Oct-10	104.92	99.54	-5.40%	
RTH	25-Nov-10	104.92	103.47	-1.40%	
XLK	20-Oct-10	25.08	24.00	-4.50%	
XLK	25-Nov-10	25.08	24.49	-2.41%	
IFN	12-Nov-10	36.64	39.11	6.32%	
IFN	7-Nov-10	36.64	36.02	-1.72%	
SMH	12-Nov-10	32.33	30.87	-4.73%	
SMH	25-Nov-10	32.33	31.68	-2.05%	
IYT	15-Oct-10	90.87	84.90	-7.03%	
JJC	2-Dec-10	54.56	52.39	-4.14%	
JJC	10-Dec-10	54.56	54.08	-0.89%	
SLV	10-Nov-10	28.08	27.00	-4.00%	
SLV	15-Oct-10	28.08	23.75	-18.23%	
GDX	15-Oct-10	60.99	58.19	-4.81%	
GDX	25-Nov-10	60.99	59.67	-2.21%	
XLI	15-Oct-10	34.44	32.43	-6.20%	
GLD	15-Oct-10	134.70	133.68	-0.76%	
XLE	16-Dec-10	65.79	65.79	0.00%	New
CLOSED SHORT POSITIONS				15.26%	
			EQ WT SHORT P/L	**-2.47%**	
LONGS					
XLV	15-Oct-10	31.56	31.15	1.32%	
XLV	10-Dec-10	31.56	30.99	1.84%	
XLU	12-Nov-10	31.08	31.50	-1.33%	
XLF	12-Nov-10	15.48	15.15	2.18%	
XLF	25-Nov-10	15.48	14.63	5.81%	
TLT	12-Nov-10	90.94	96.38	-5.64%	
MUB	19-Nov-10	97.74	100.98	-3.21%	
MUB	10-Dec-10	97.74	99.48	-1.75%	
BBH	15-Oct-10	100.23	96.76	3.59%	
EWJ	15-Oct-10	10.69	10.22	4.60%	
USO	15-Oct-10	37.99	35.47	7.10%	
CLOSED LONG POSITIONS				10.61%	
			EQWT LONG P/L	**2.28%**	
15th OCT 2010 INCEPTION					
SD - TECH SETUP EQUAL WEIGHTED LONG SHORT INDEX			**EQWT AGG P/L Short Bias**	**-0.10%**	
INCEPTION @ SPX 1180 to Current 1235.23			**SPX CHANGE**	**-4.68%**	

- **SECTOR SETUP INDEX** **+87, +63, +78, +100% (past 4 weeks)**
  (Currently for monitoring purposes only, we will establish . correlation as we go forward with POM 13)

- **EQUITY SETUP INDEX : +39, +19%, 21%, 18% (past 4 weeks)**
- **POM – 14 re run**

SETUP # 1 (28 of 34)	% away from Gold .Cross	SETUP # 2 (1 of 34)	% away from Dead. Cross	SETUP # 3 (0 of 34)	% away from 40wk	SETUP # 4 (1 of 34)	% away from 40wk
IWM	17.36%	TLT	-2.29%			SLV	39.89%
EEM	14.47%						
EWJ	8.09%						
RSX	15.94%						
IFN	19.27%						
XLF	5.38%						
XRT	21.68%						
XLV	4.19%						
XLB	15.84%						
XLE	18.14%						
XLK	12.92%						
XLI	16.08%						
XLU	3.50%						
XLP	8.56%						
XLY	18.07%						
XHB	6.78%						
SMH	20.01%						
BBH	4.05%						
IYT	18.01%						
IYR	64.75%						
DBA	22.16%						
DBB	9.69%						
DBC	14.56%						
GLD	60.64%						
GDX	34.64%						
USO	6.03%						
JJC	24.11%						
SLX	15.69%						

CZ – PQV – Validation Tracker

PQV VALIDATION TEST PROCESS SUMMARY

Ticker	Trade Type	Last Price	Mean CZ	LL confluence	UL confluence	Required Volume MM on Test	Actutal Volume MM on Test	40wk MA	% Away fom 40 MA	Stoploss @ CLOSE	3X3 / 9EMA	SETUP Qualify Price	Drawdown minimisation	SD # 1.5	SI
TRIGGERED															
EWP	Short	37.78	42.75	41.5	44	0.4	0.4	38.89	-2.87%	46.20	38.08	37.35	-14.46%	(1.51)	65.4%
GLD (under 136.5)	Short	134.7	137	136	138	20	17.0	121.83	10.56%	144.90	135.44	134.70	-1.71%	0.90	4.7%
EEM (under $47)	Short	46.2	47.5	47	48	50	45.0	42.36	9.07%	50.40	46.51	46.20	-2.81%	0.45	4.1%
EWH (under $19.25)	Short	18.92	19.5	19.25	19.75	4.5	4.0	16.80	12.59%	20.74	19.16	19.10	-2.09%	0.84	21.0%
GDX (under $61.5)	Short	60.99	63.5	62.25	64.75	11	10.2	52.43	16.33%	67.99	61.92	60.99	-4.12%	1.33	14.8%
SLV	Short	28.08	27	27	27	50						25.00	-8.00%		
WATCHLIST															
TLT	Long	90.94	89.5	89	90	40		97.88	-7.09%	102.78	93.08	95.00	-5.79%	(1.99)	53.9%
MUB (above $99)	Long	97.74	97.5	97	98	0.45		104.40	-6.38%	109.62	98.89	100.00	-2.50%	(2.81)	0.9%
EWH (under $21.5)	Short	18.92	21.5	21	22	5		16.80	12.59%	23.10	19.21	19.10	-12.57%	0.84	21.0%
EEM (under $48)	Short	46.2	49	48	50	40		42.36	9.07%	52.50	46.68	46.20	-6.06%	0.45	4.1%
IWM (under $74)	Short	77.07	78	76.5	79.5	175	60.0	67.66	13.90%	83.48	76.96	73.00	-6.85%	2.14	80.2%
SMH (under $34)	Short	32.33	35	34	36	8		28.20	14.66%	37.80	32.63	32.00	-9.38%	2.01	119.7%
SLV (under $28)	Short	28.08	28.5	27	30	50	32.0	20.07	39.89%	31.50	28.42	25.00	-14.00%	2.58	3.4%
QQQQ (under $54)	Short	54.16	54.5	54	55	100	59.0	48.17	12.43%	57.75	54.01	53.00	-2.83%	1.85	19.1%
								PQV Drawdown Minimisation factor					-6.65%		

PQV Test validated within 5 to 7% of asking

Criteria has temporaily exceeded

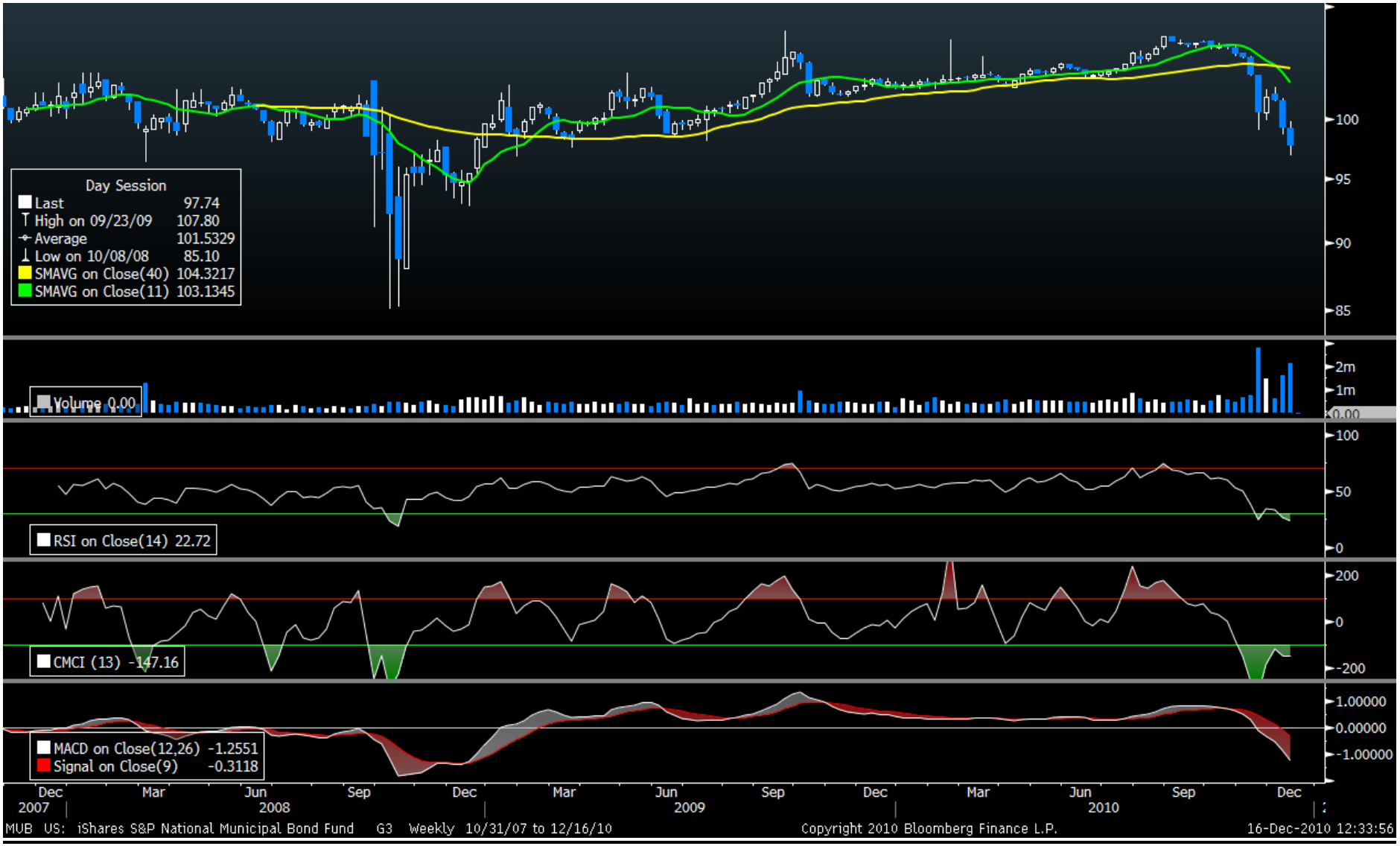
volume still highet then the test volume no result

Revised Confluence Values & Stoploss

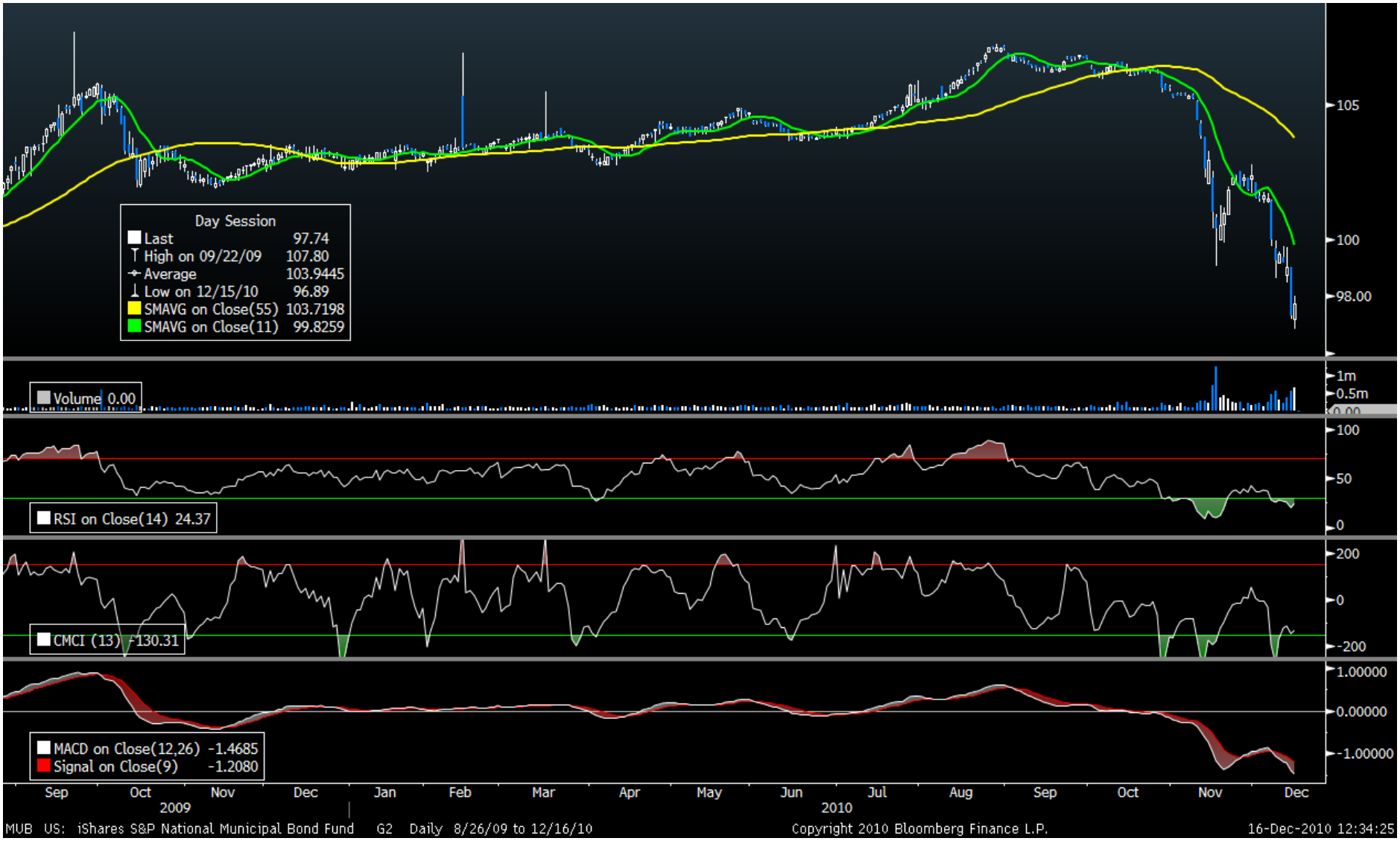
To Achieve Best Risk Reward , The position should be taken on the day of the Test via scle in process within CZ

ETF's Qualified – Special situation

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

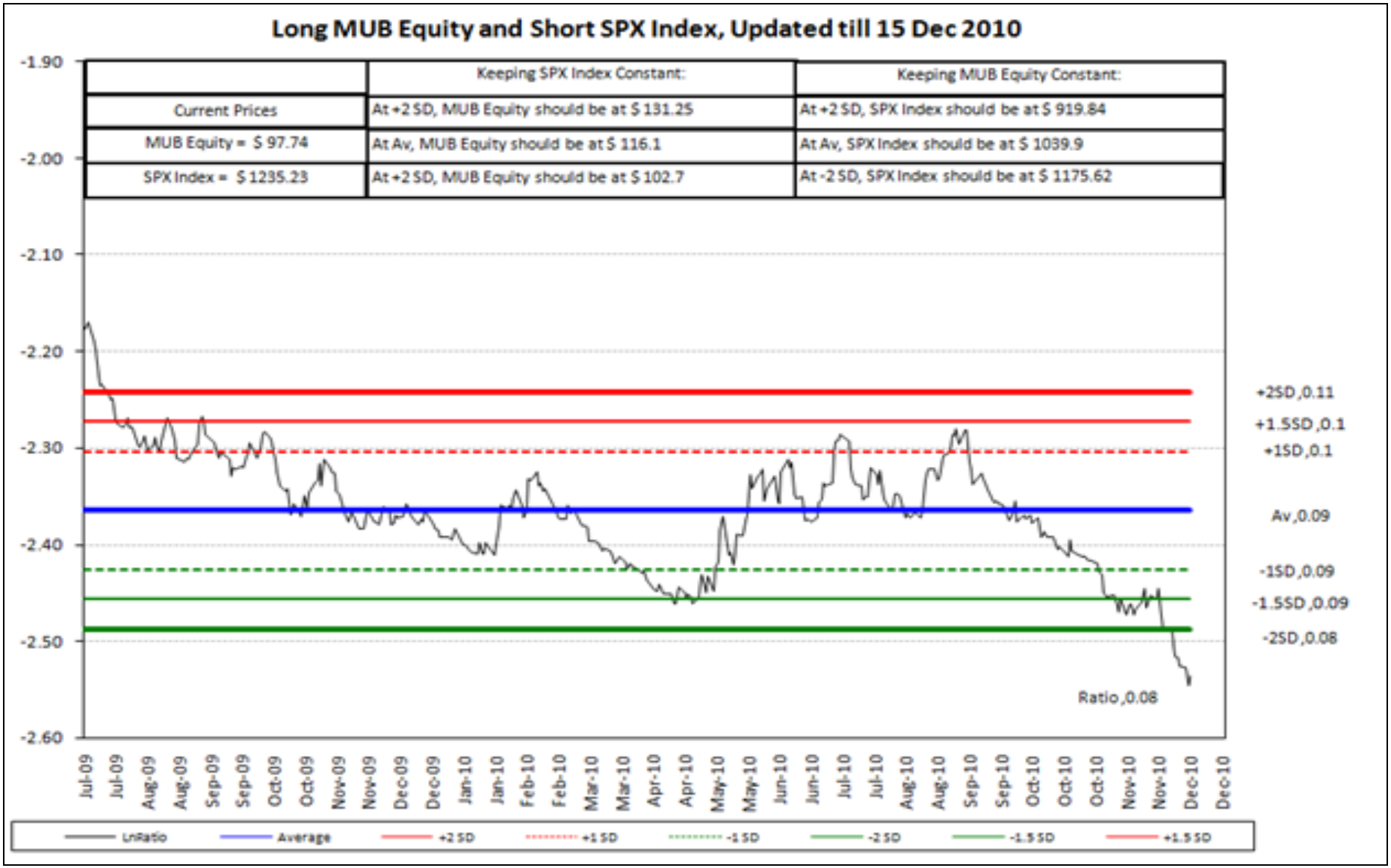


1- MUB - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD



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

SD # 2.0 has just reached extremes



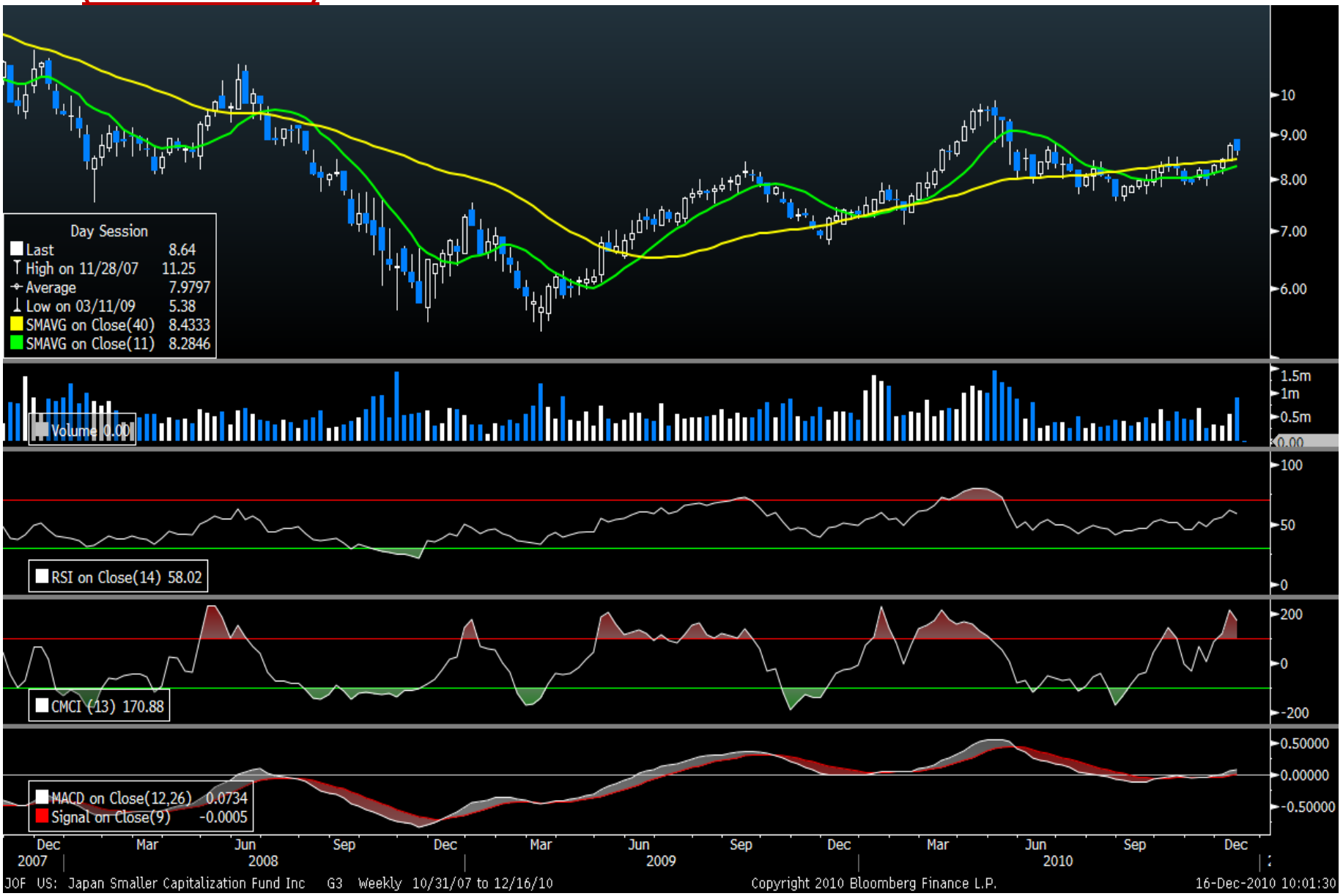
MUB – 3 Yrs - Technical & Pattern Analysis –

It came into the CZ right on the nose 97- 98 but the volume is heavy, we should get the test of the lows again which might be the secondary test . however we had a climax volume at the first lows

MUB – Technical & Pattern Analysis –

Currently very oversold. SD is at - 2.0 undervalued. In fact this is classic example of how the high volume reversal gets tested after the bounced . We went in the CZ 97-98 at 600K v/s 350k volume , suggest the bottom of CZ should be tested again if rejected with volume at 450k and close above 99 should give a bullish signal . RSI has diverged bullishly on the 2nd re test , this is bullish as well 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 (Stop outside CZ)

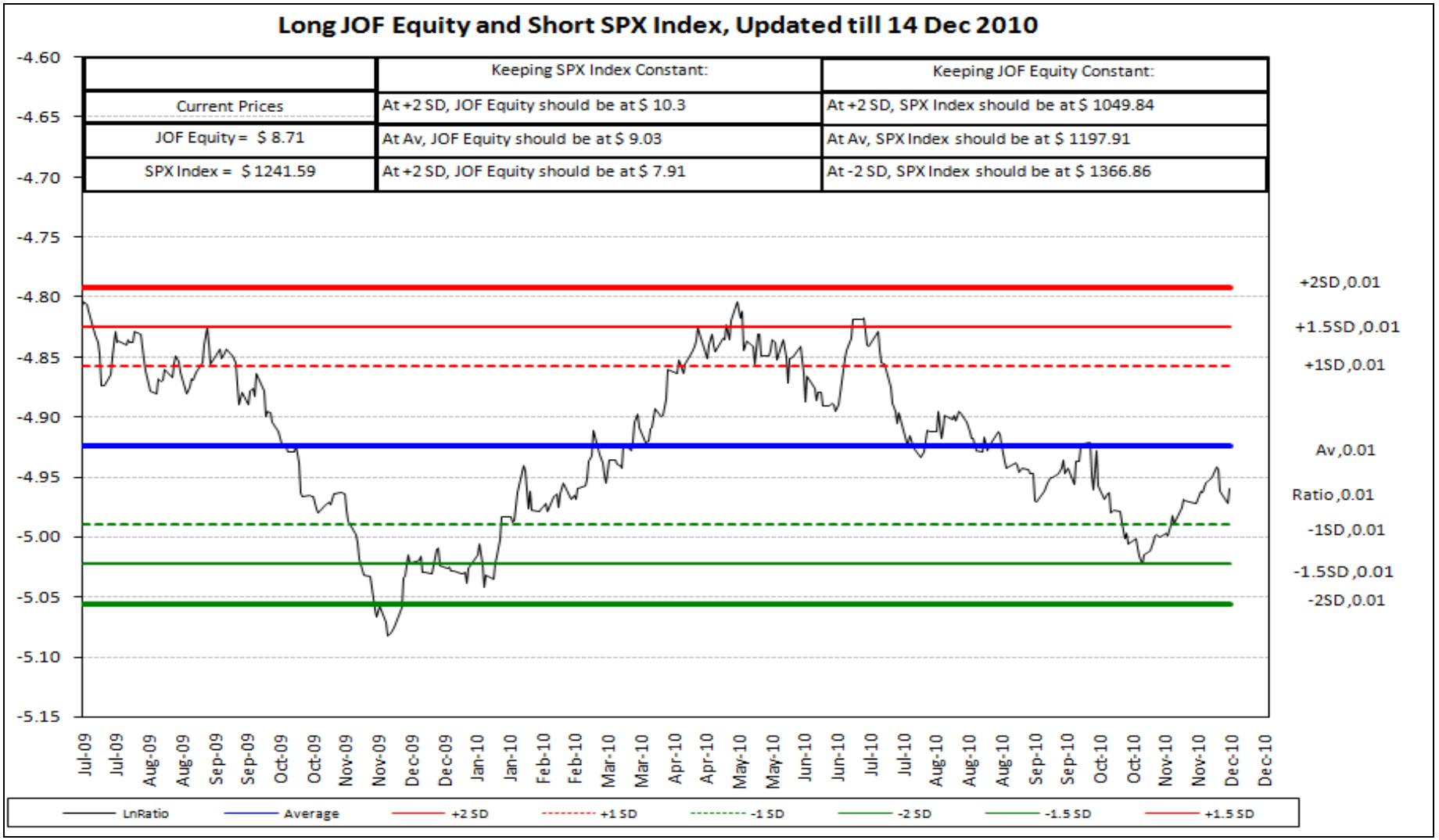
- **JOF - Weekly– 3 Year with RSI, CCI, MACD**
  (11 W / 40 W SMA)



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

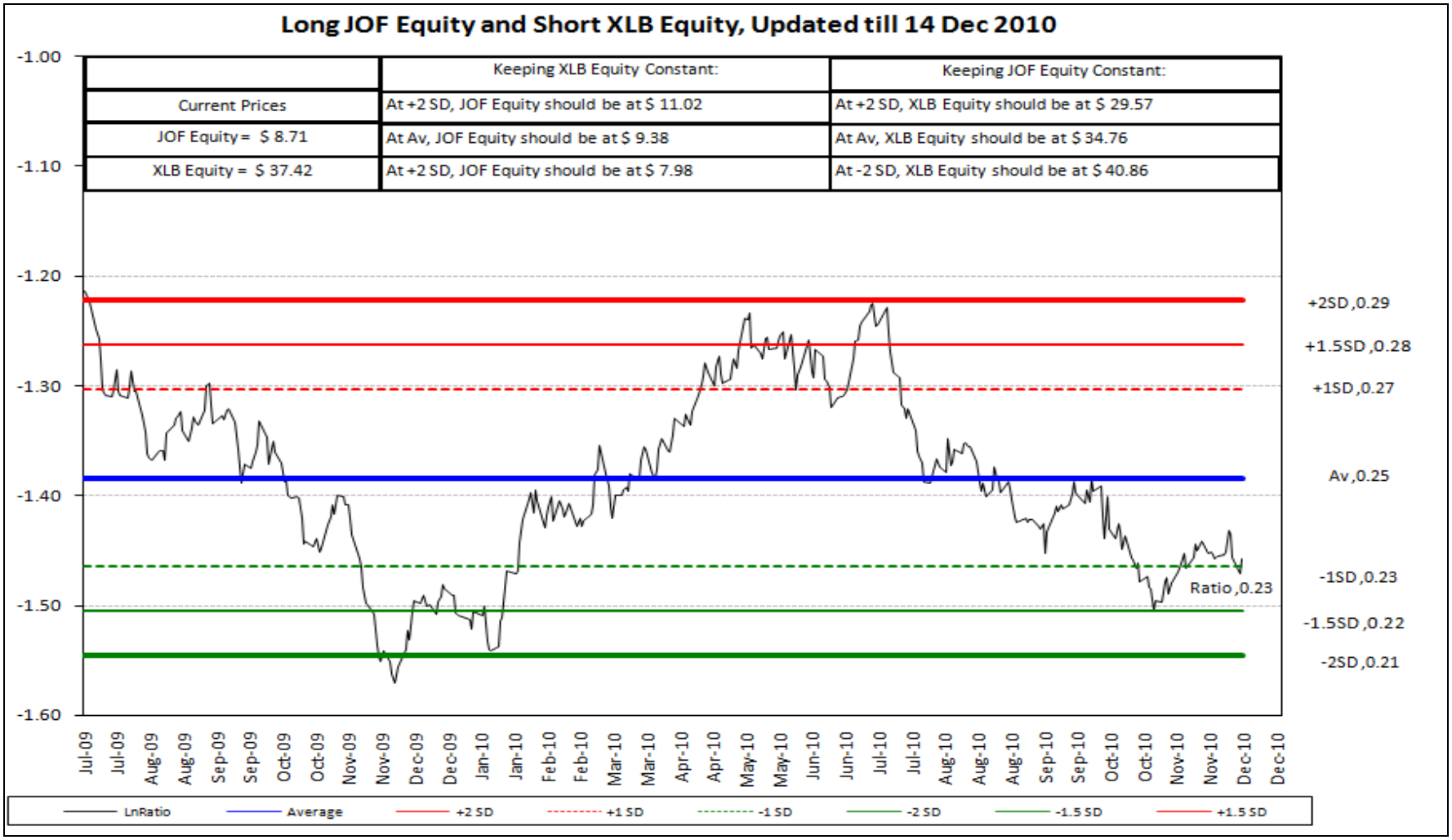
JOF – Correlation Ratio Analysis with SPX – 365 days Time basis

SD # Neural but undervalued bias



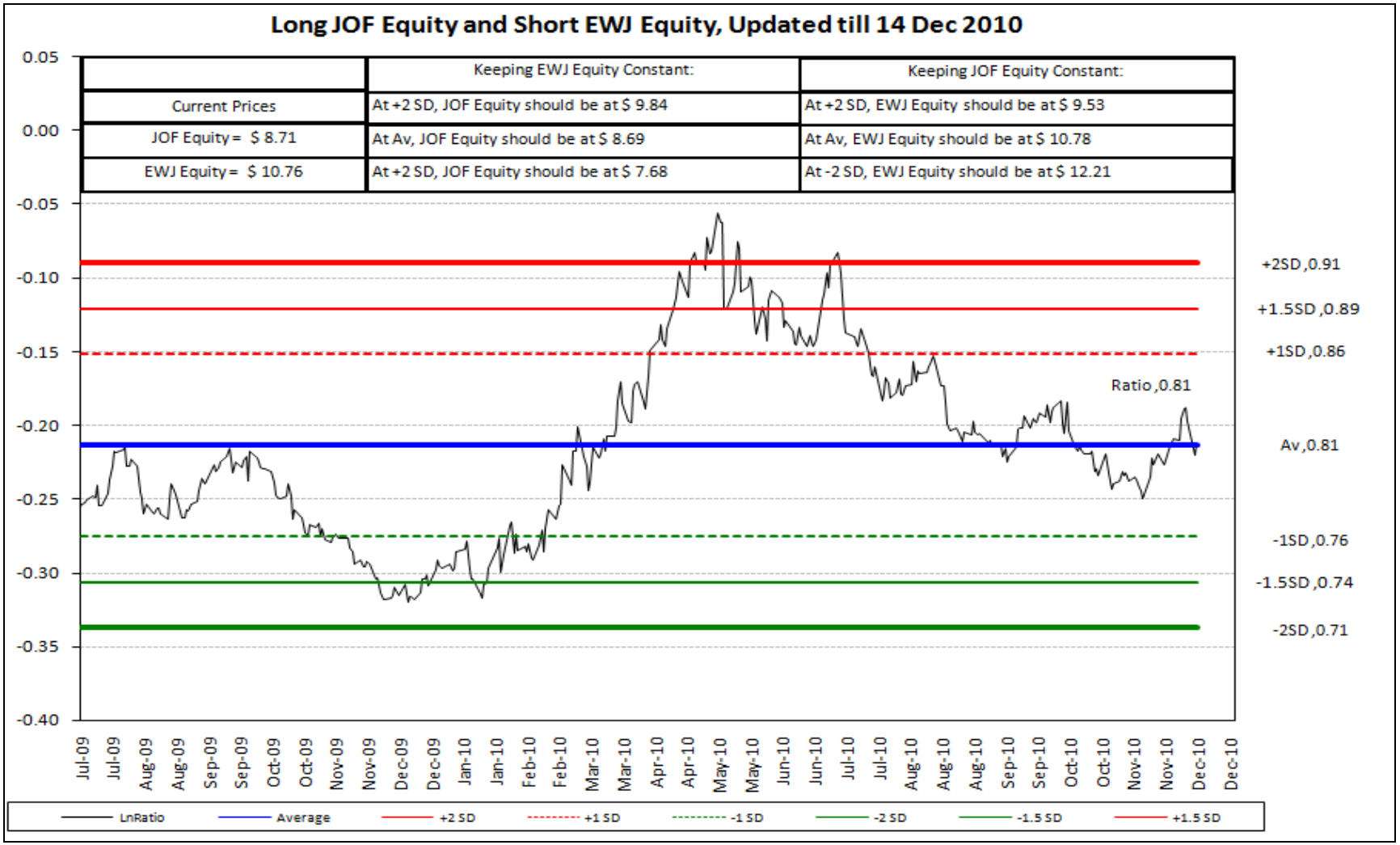
JOF – Correlation Ratio Analysis with XLB – 365 days Time basis

SD # Neural but undervalued bias



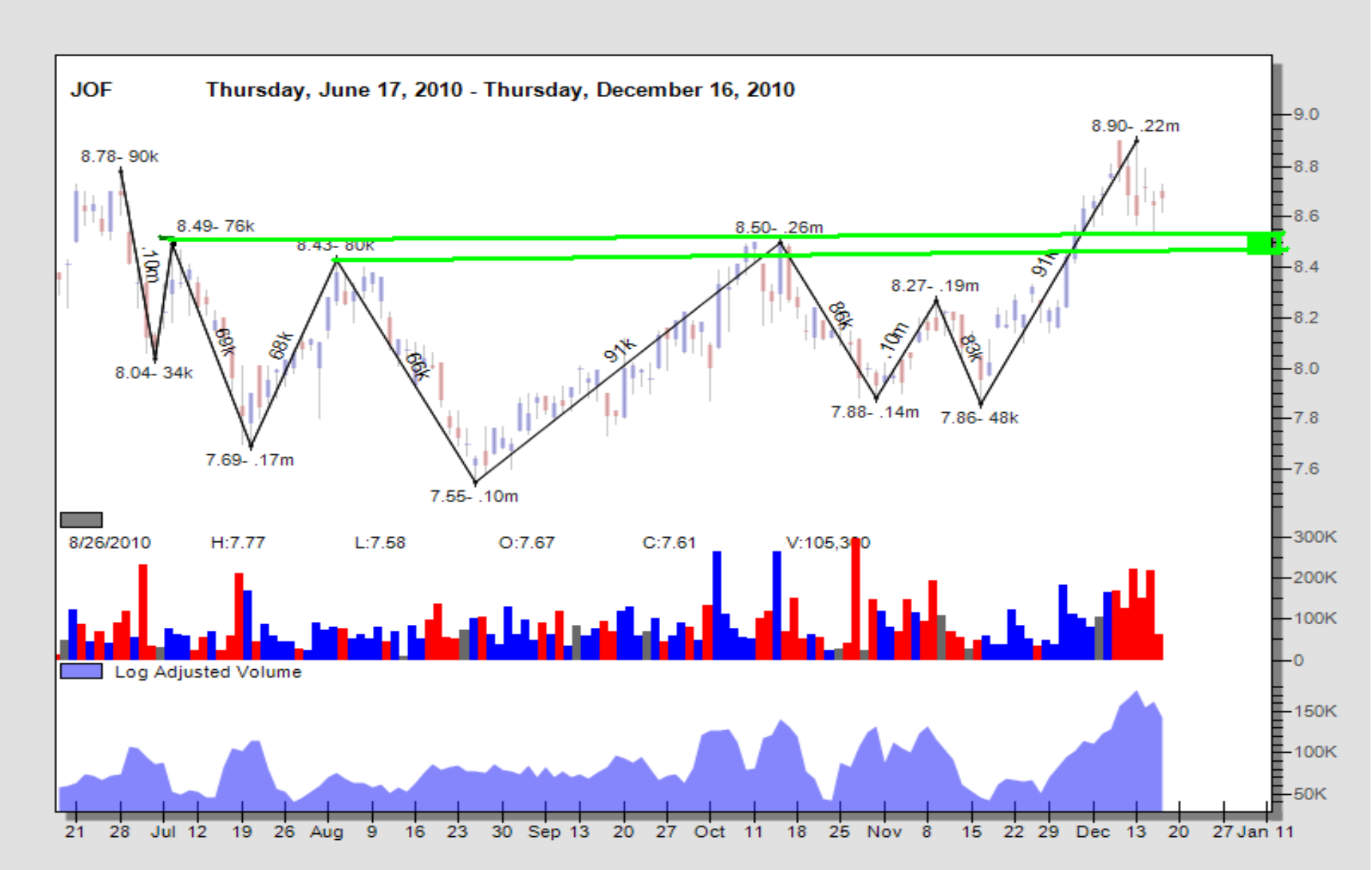
JOF – Correlation Ratio Analysis with EWJ – 365 days Time basis

SD # Neural



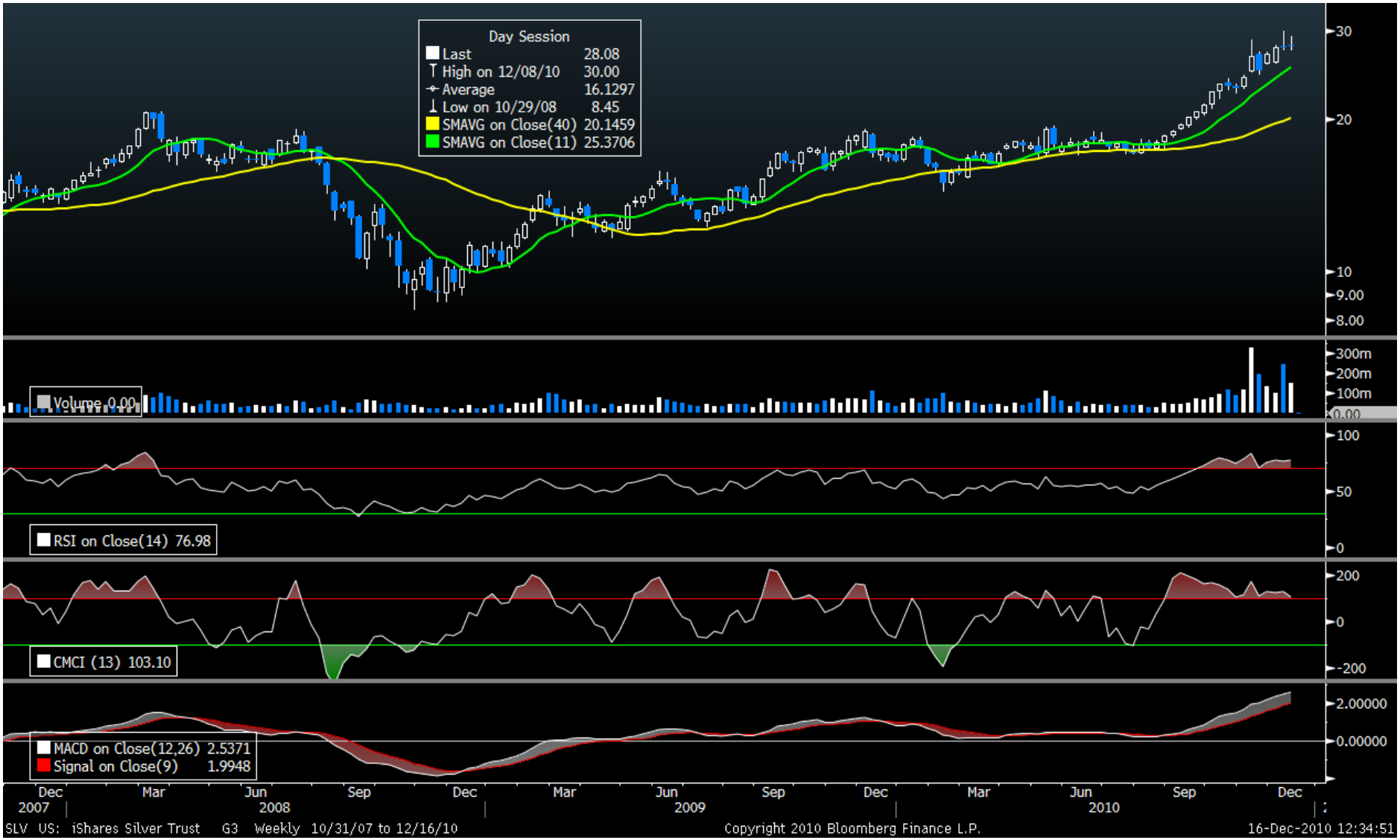
JOF – Technical & Pattern Analysis –

Pull back into CZ 8.40 – 8.55 with 60K shares and close above 8.55 would be good signal to Buy . Stop as always on other side of CZ as SPX is on POM 14 .

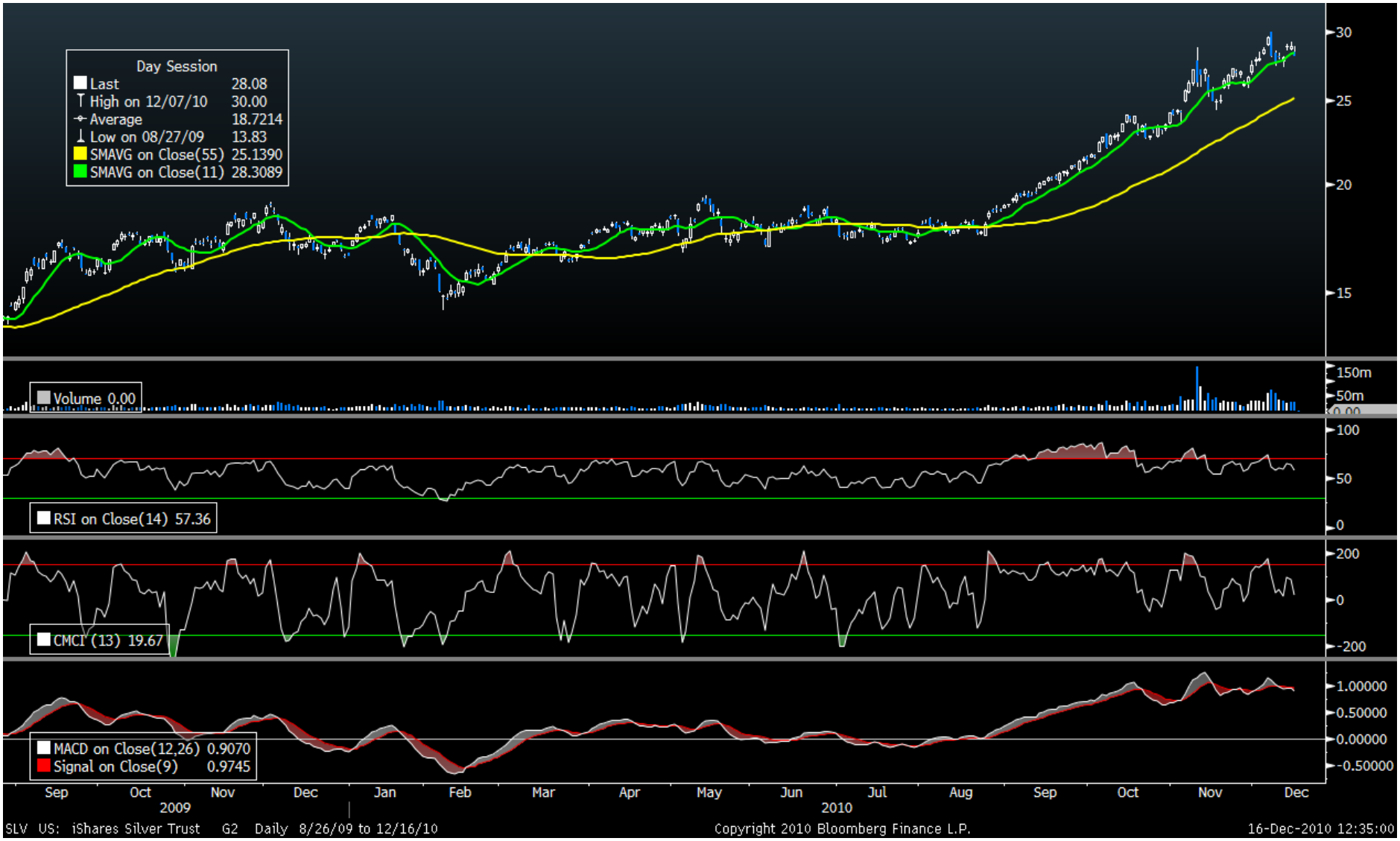


ETF's Qualified for SD # 2 - *Overvaluation by POM Methodology.*

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



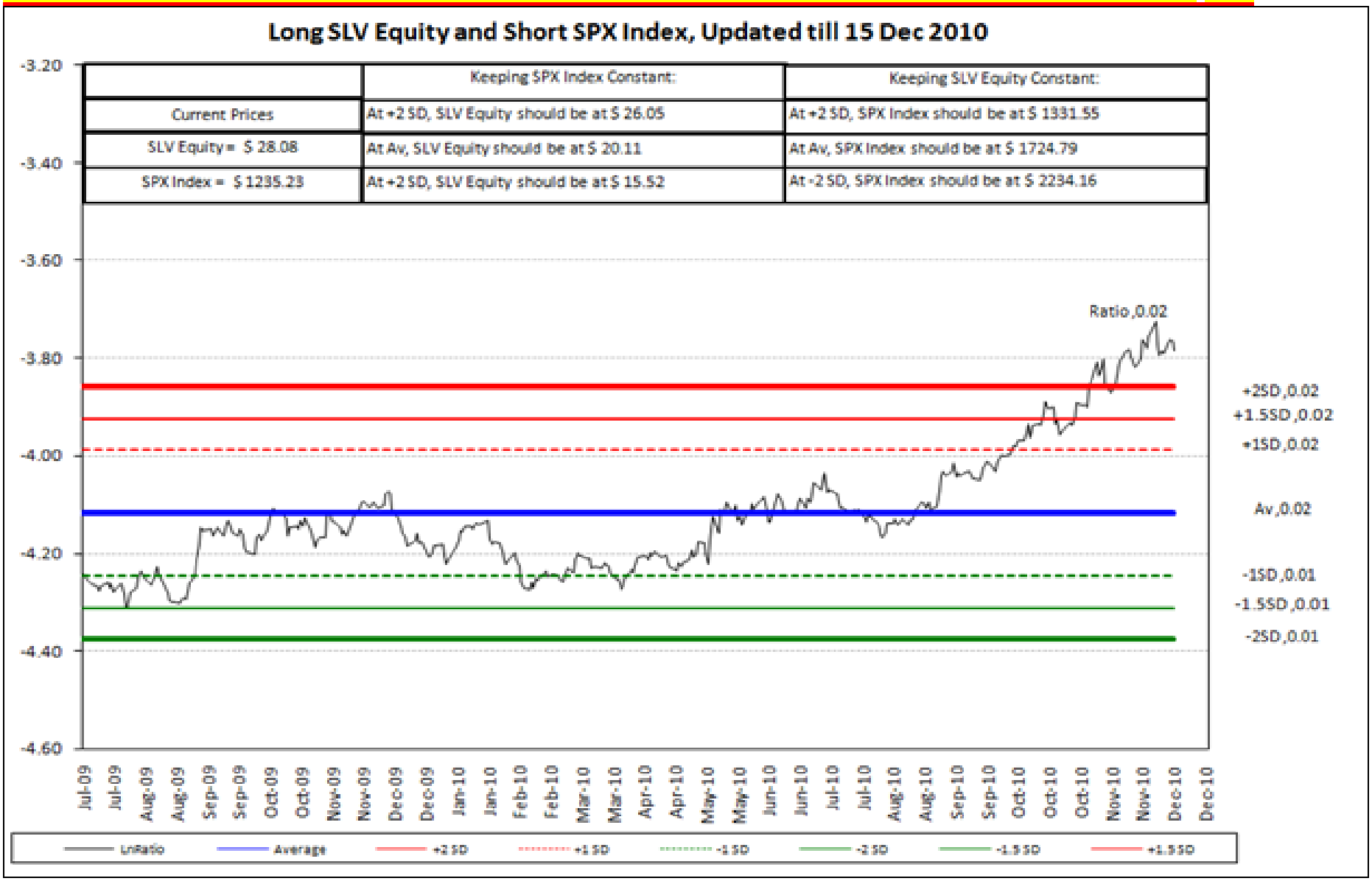
SLV - Daily – 3 Year with RSI, CCI, MACD
(11D / 55D)



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

SD # 2.0 has just reached extremes

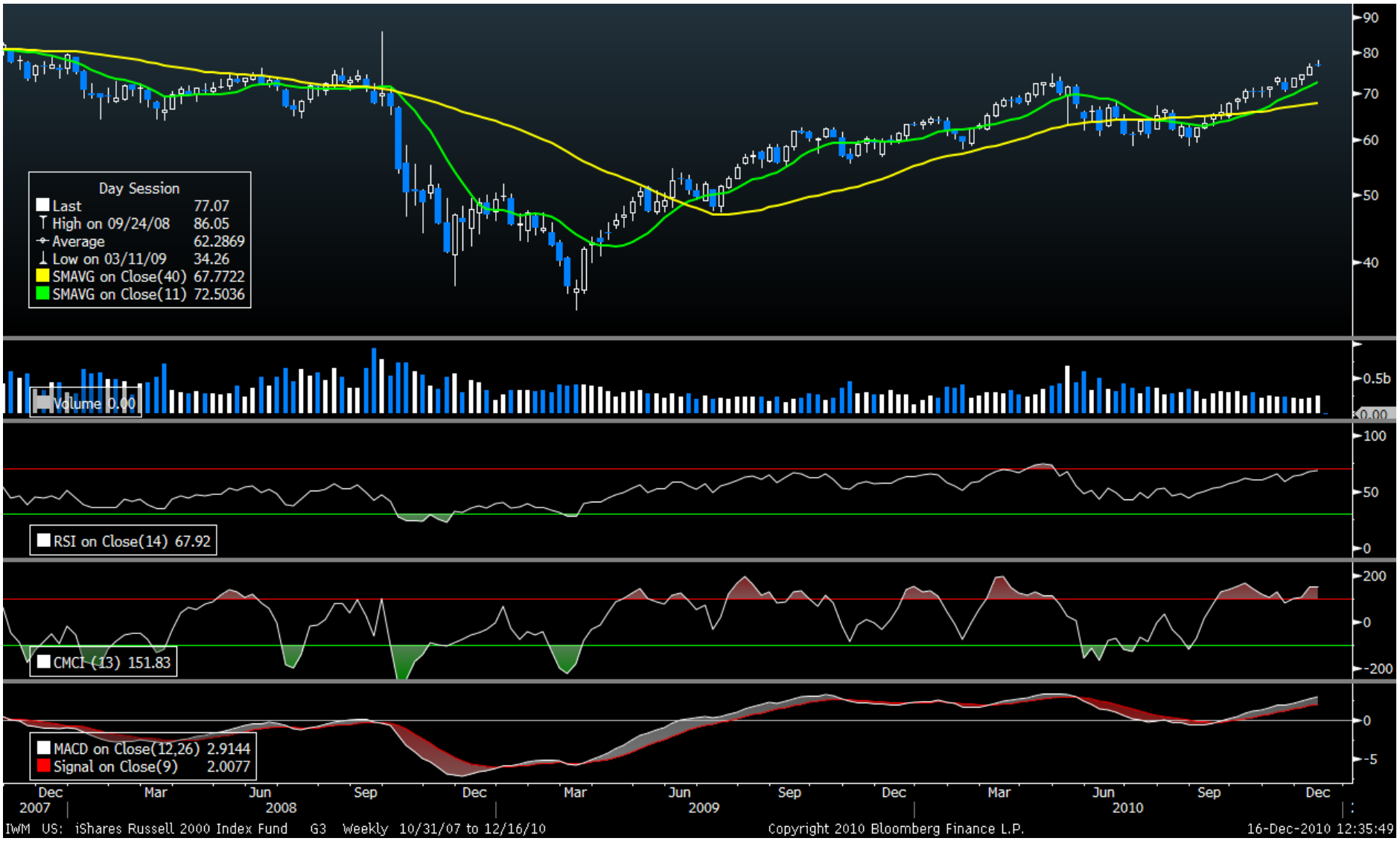
WE HAVE COVERED THIS IN DETAIL IN SPECIAL SITUATION & IN COMMODITY # C



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.

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

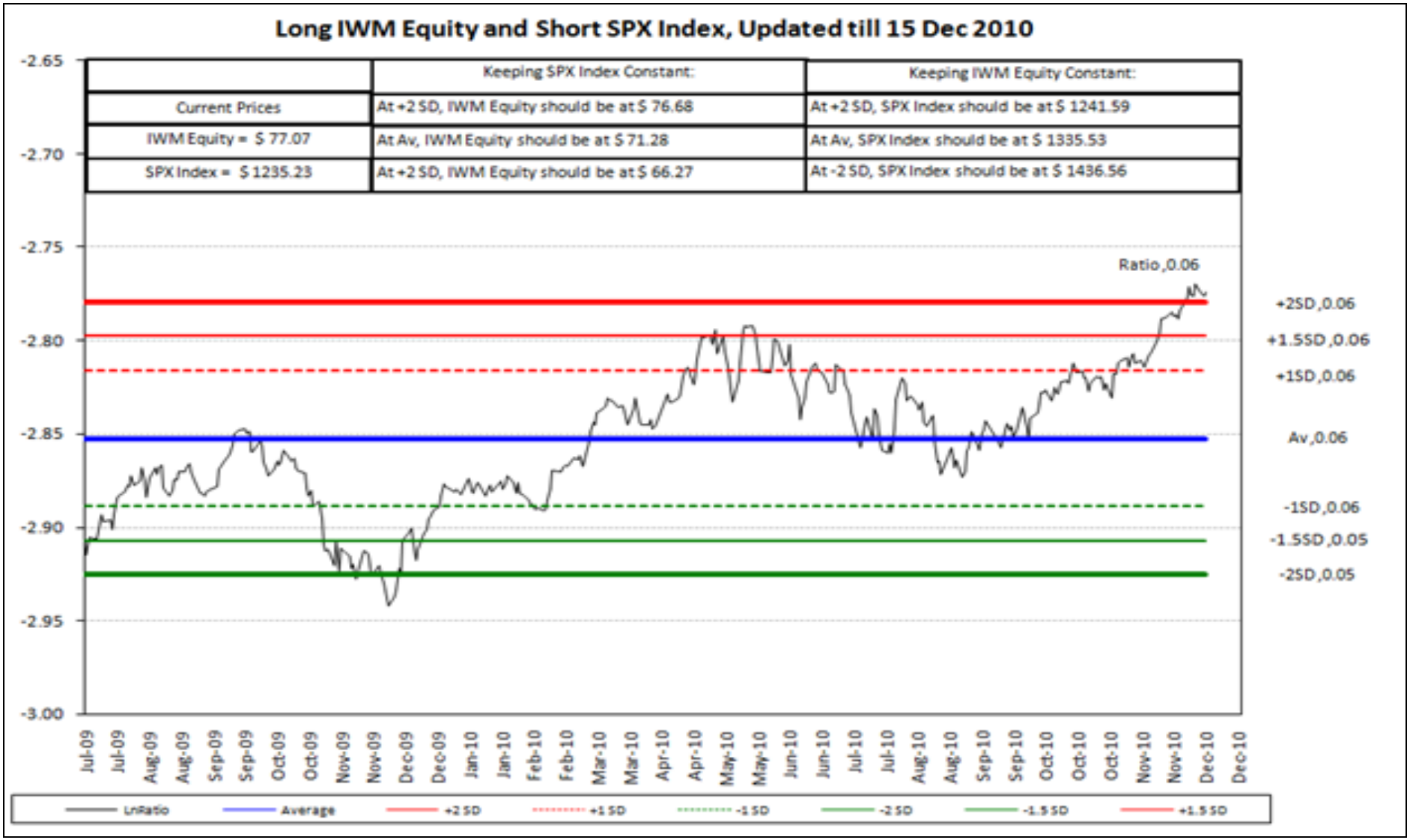


IWM - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

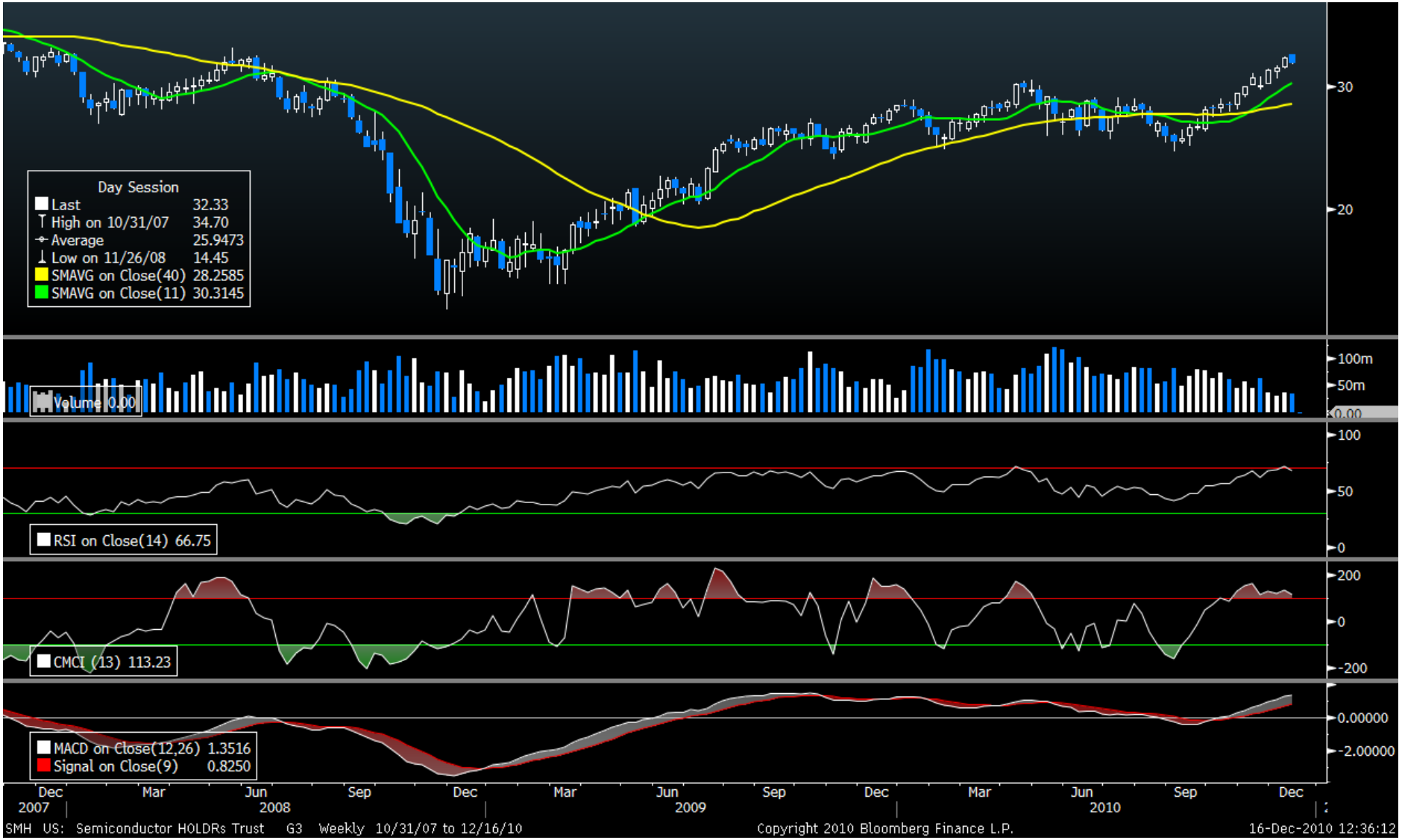
IWM – Correlation Ratio Analysis with SPX – 365 days Time basis

SD # 2.0 has just reached extremes

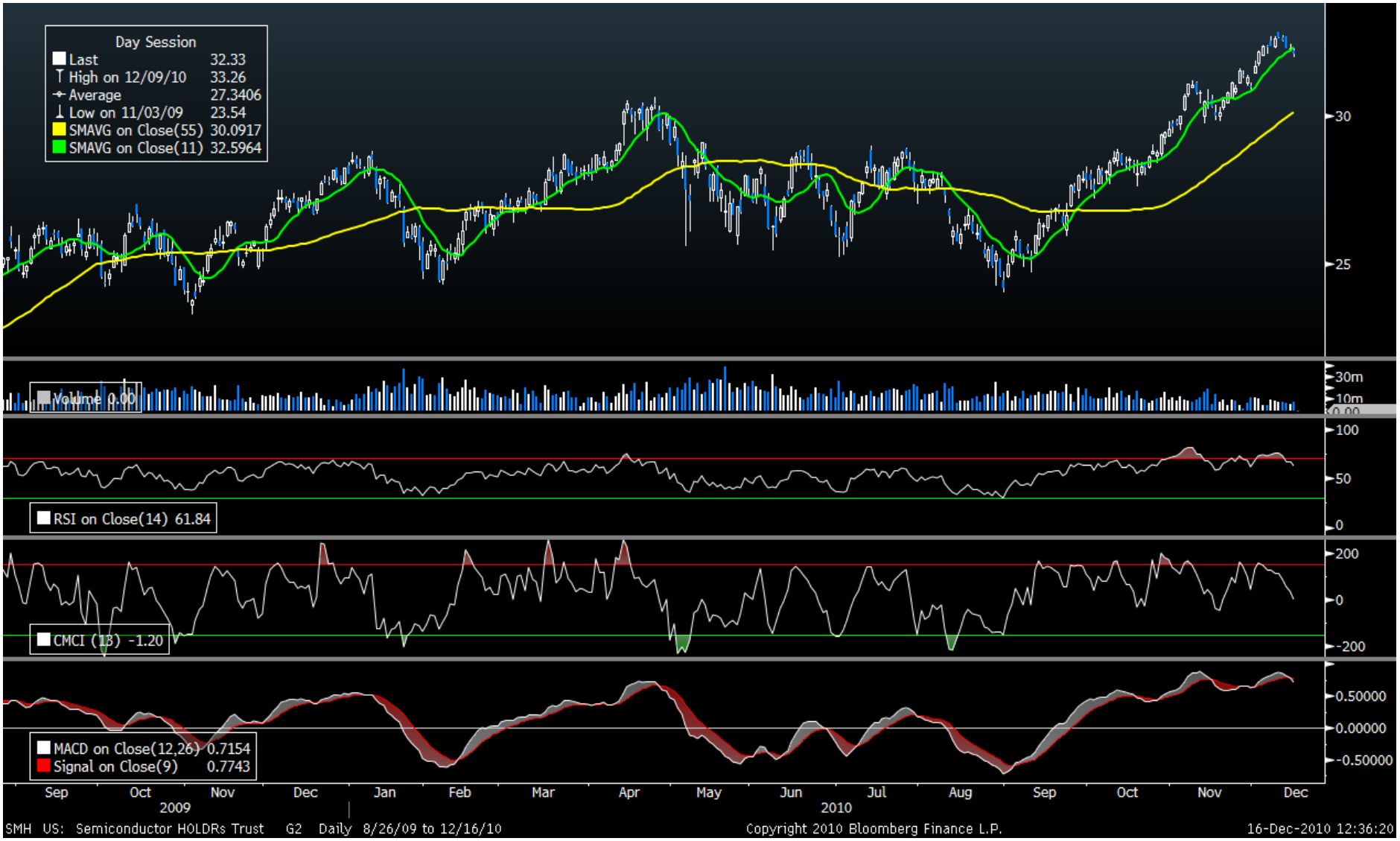
WE HAVE COVERED THIS IN DETAIL IN MS A # 2



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

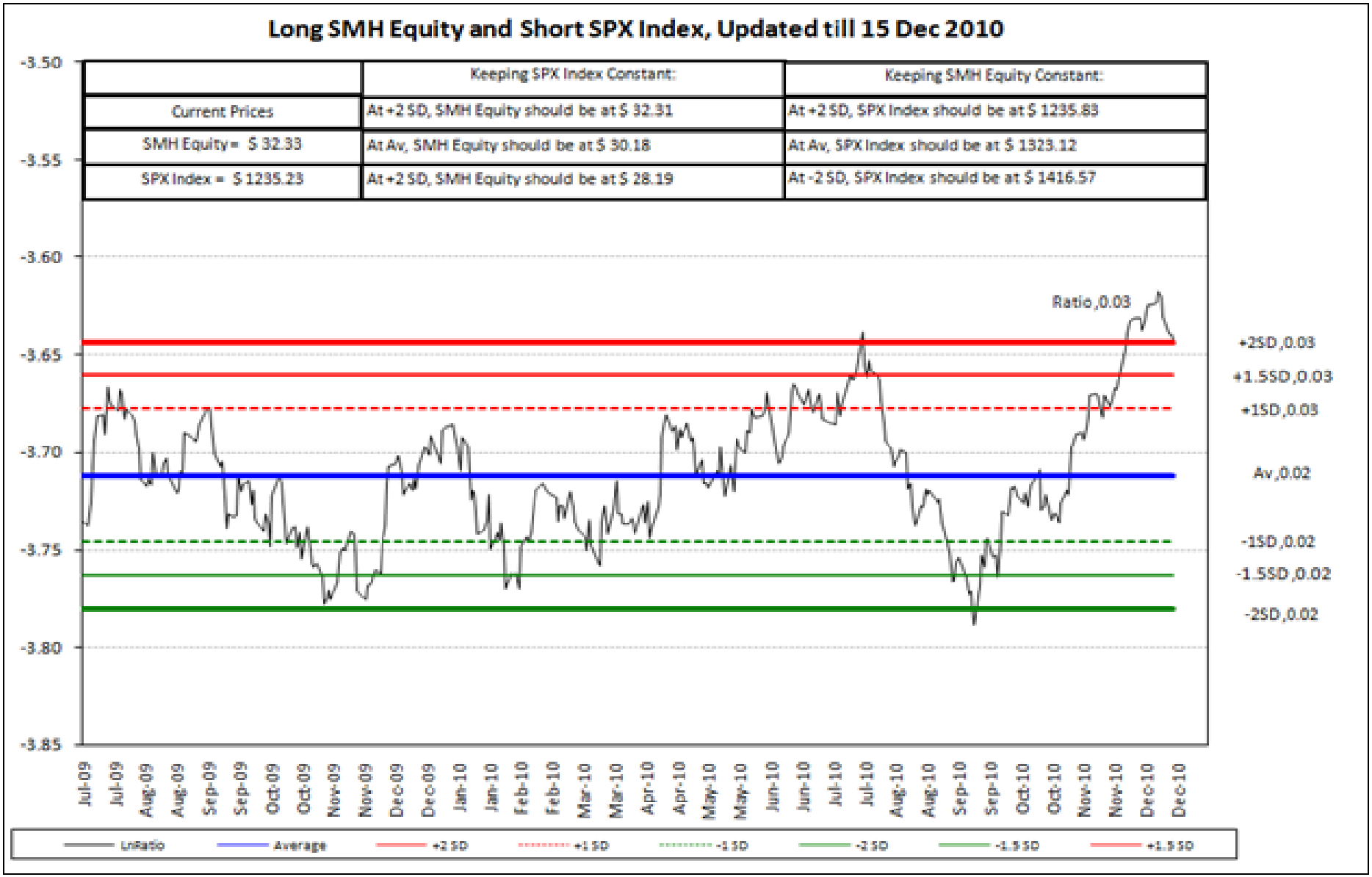


SMH - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD



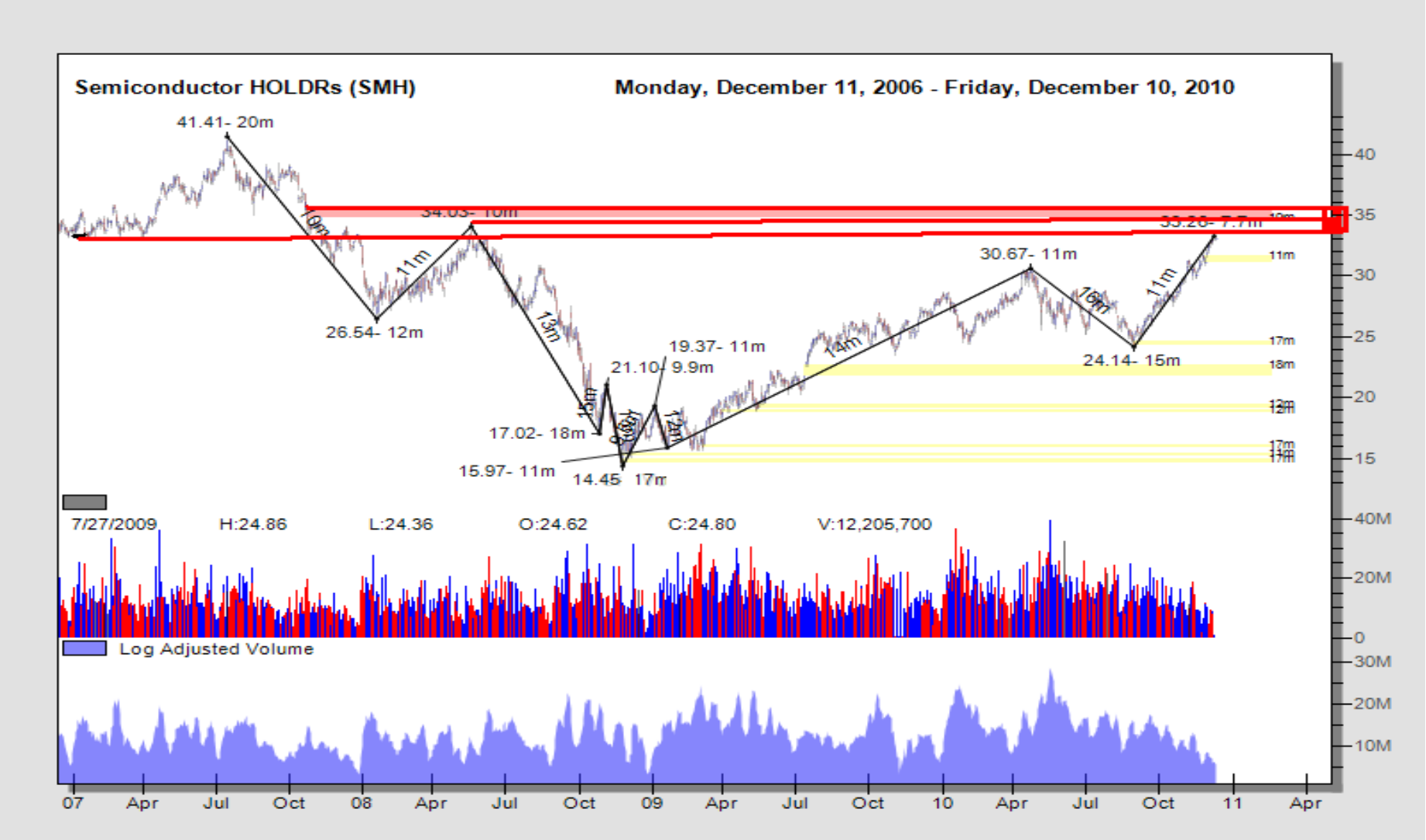
SMH – Correlation Ratio Analysis with SPX – 365 days Time basis

SD # 2.0 has just reached extremes



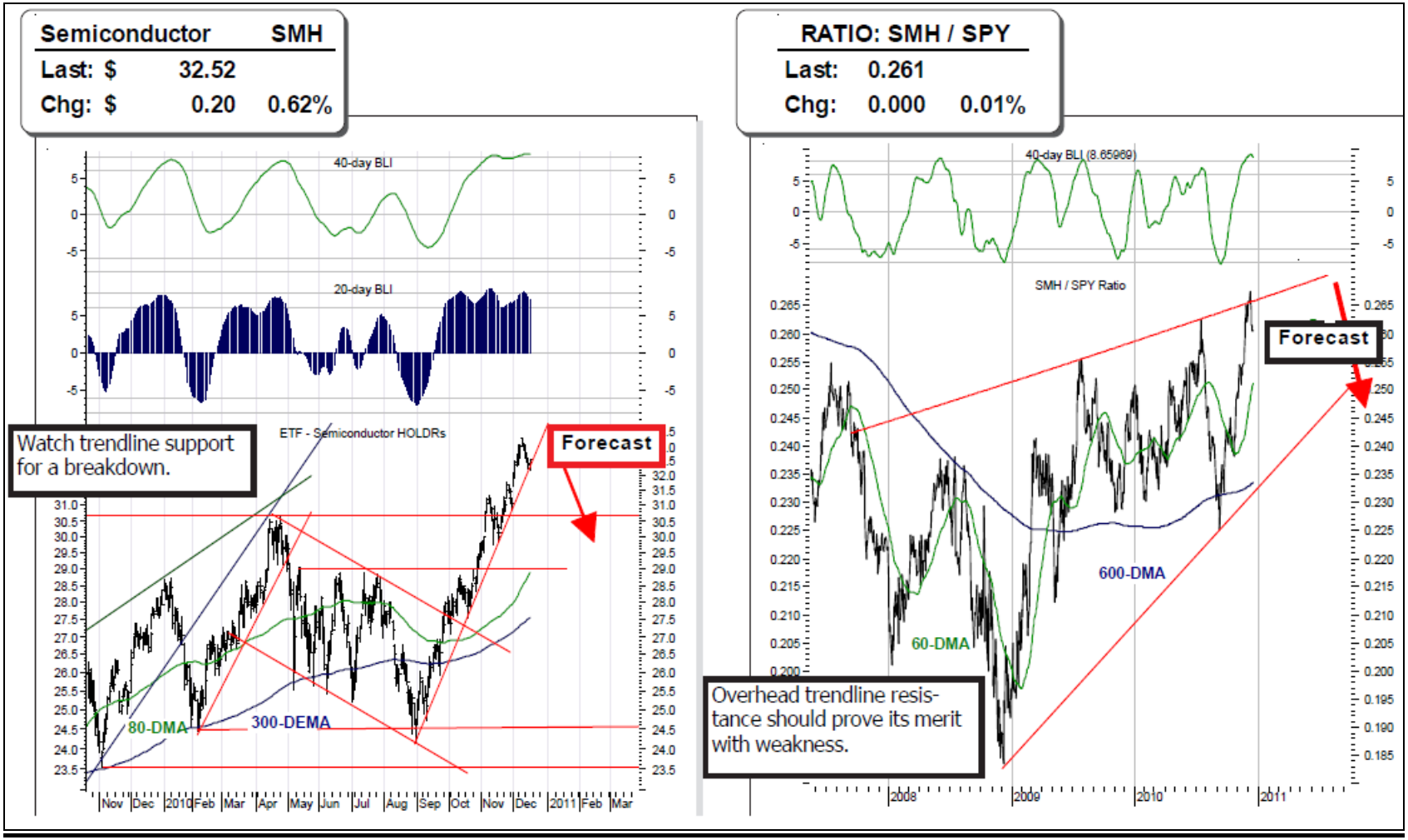
1- SMH – Technical & Pattern Analysis & Price / Volume (No Change – No test)

SMH came very close to our test zone defined by May 08 at 34 and breakdown area of Jan 08 of 33 as this would depend on SPX failure. There is a possibility, if SPX fails, then we look for SHM to fail as well and CZ might not get tested . 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 –

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.



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