Research Note – Sector – ETF Analysis (D)

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- ## Daily SPX - " Trend Adjusted Signal"

   3x3 /9EMA – Break Indicator – Buy Signal since SPX – 1115, Friday we approached Break indicator 1193.57 and was rejected (Same with DOW as well)

   Currently " Trend Adjusted Signal " has been on Long side since SPX @ 1115 (Mid – September) . This Indicator tends to catch the extension momentum move (Post POM 14) and often keep you on the right side of the trend till diagonal triangle is complete . The reversal points are stops and could get whip sawed at times

Sym	Posn	Close	Reversal
DJ	Long	11285.4	11174.8
SPX	Long	1213.15	1193.57

Sector Analysis (D) - (Detail Coverage for sectors with extremes SD # 2, highlighted in yellow)

SECTORS - (31)

GR1 (8)	GR2 (11)	GR3 (12)
• TLT (Bonds) • IWM (Small Cap) • EEM (Emerging) • EEA (Europe) • EWJ (Japan) • FXI (China) • RSX (Russia) NEW • IFN (India)	• XLF (Financials) • XRT(RTH) (Retail) • XLV (Health Care) • XLB (Materials) • XLE (Energy) • XLK (Tech) • 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) • SLV (Silver) • GDX (Gold Miners) • USO (Oil) • JJC (Copper) • SLX (Steel)

- <mark>**SECTOR SETUP INDEX**   **+ 67%**   **(Currently for monitoring purposes only, we will establish . correlation as we go forward) - Work in Progress**</mark>

- **EQUITY SETUP INDEX -   (-9%)**

- **POM – 14 re run**

SETUP # 1 (7 of 31)	SETUP # 2 (0 of 31)	SETUP # 3 (0 of 31)	SETUP # 4 (1 of 31)
XLV BBH EWJ XLU XLP XLF USO			SLV

- ## <u>Objective</u>

The Weekly Validated Sector selection is to Setup "<u>Global Long / Short – Market Neutral ETF Index"</u> –(Equally Weighted) Utilizing SD, POMs & SETUP INDEX within RA / RI framework with composition of ETF's with SD # 1 & SD # 2 Overvalued and Undervalued characteristics. Additional direction bias is given via doubling on ETF's with extreme /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" <u>for OVERVALUATION AND UNDERVALUATION</u> of Sectors.

<u>Step 1</u> – *Qualify the Sector based on Correlation Ratio Analysis with SPX to determine Standard Deviation (SD # 2) @ extremes level to define "Overvaluation and Undervaluation" of the SECTOR*

<u>Step 2</u> - *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 with respect to SPX reference point via best of (3) Trends out of (5) Trend Selection.*

<u>Step 3</u> - . *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*

- **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 <u>Weekly</u> – 3 Year with RSI, CCI, MACD (11 W / 40 W) SMA**
    2. **SETUP charts <u>Daily</u> – 3 Year with RSI, CCI, MACD (11D / 55D) SMA**
    3. **POM Analysis -Technical & Pattern & Price / SMA Analysis**
    4. **PEC Analysis (if applicable)**
    5. **Correlation Ratio Analysis with SPX <u>by 365 days Basis</u>**
    6. **Trend Reversion Analysis – Long Trend Chart**

- **Charts 3,4,5, (above) articulates <u>special situation coverage</u> for that specific SECTORS highlighted in the list below**

- ## SPX – " POM Signal as PIVOT point"

- *Our Indicators confirmed POM 14 – Re Run @ SPX 1104, (3rd Sept) the market has extended from our signal.*

- # Trading & Investment Conclusions

Overlay Criteria

- **SD # 2 ANALYSIS EXTREMES by 365 D Correlation.**
- **SPX - POM FRAMEWORK as PIVOT by Trend Correlation**
- **TECHNICAL PATTERNS, 2nd Derivative DMA's & VOLUMES"**

ACTIONABLE ZONE :

" Global Long / Short – Market Neutral ETF Index" –(Equally Weighted) with composition of ETF's with SD # 1 & SD # 2 Overvalued and Undervalued characteristics & direction bias via doubling on ETF's with extreme /SD # 2 & POM conditions.

WEEKLY SD – TECH PATTERN VALIDATED CONCLUSIONS by – Processes 1,2,3 - for BEST IDEAS:

- **Overvalued confirmed– *EEM, SLV, XLK,***
- **Undervalued confirmed – *XLF,***
- **Non Conformance – XLF (See the Ratio charts below for justification)**
- **This conclusion is also to be overlapped with PQV Validation Test for MAEG – E Section**

Global Long / Short – Market Neutral - ETF Index

To capitalize on ==*Extremes SD's #2*== *for directional bias (The, ETF's with this characteristics will be factored in with* ==*double position*== *in Equally weighted Index denoted as(x 2) below. (When at POM 14 /15 +2sd x 2 & at POM 12/11 - 2SD x 2)*

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 x 2	12-Nov-10	47.6	47.2	-0.76%	
IWM	15-Oct-10	73.3	70.5	-3.86%	
XLY	15-Oct-10	36.4	34.7	-4.84%	
RTH	15-Oct-10	102.0	99.5	-2.49%	
XLK x 2	20-Oct-10	24.7	24.0	-2.85%	
IFN	12-Nov-10	39.1	39.1	0.00%	
SMH	12-Nov-10	30.9	30.9	0.00%	
IYT	15-Oct-10	87.9	84.9	-3.50%	
JJC	15-Oct-10	53.9	51.1	-5.38%	
SLV x 2	15-Oct-10	27.1	23.8	-14.15%	
GLD	15-Oct-10	137.7	133.7	-2.98%	
DBB	20-Oct-10	24.1	22.8	-5.57%	
CLOSED (Deleted) POSITIONS	GDX,XLI	+6.7%, -1.13%		5.57%	
			EQ WT SHORT P/L	**-2.72%**	
LONGS					
XLV	15-Oct-10	31.3	31.2	0.55%	
EWJ	28-Oct-10	10.3	10.1	2.68%	
BBH	12-Nov-10	99.4	99.4	0.00%	
XLU	12-Nov-10	31.5	31.5	0.00%	
XLF	12-Nov-10	15.2	15.2	0.00%	
TLT (New)	12-Nov-10	96.4	96.4	0.00%	
CLOSED (Deleted) POSITIONS	BBH, EWJ,USO	+0%, -0.5%, 6.68%		6.18%	
			EQWT LONG P/L	**1.57%**	
15th OCT 2010 INCEPTION					
SD - TECH SETUP EQUAL WEIGHTED LONG SHORT INDEX			**EQWT AGG P/L**	**-0.58%**	
INCEPTION @ SPX 1180 to Current 1205			**SPX CHANGE**	**2.10%**	

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

- **NET EXPOSURE THIS WEEK – (-9%),(-18%), (-12%), (-11) % of past 4 weeks (SETUP # 2 & 4)**
- **POM 15 (initial) / POM 14 Re Run- 3**

Sector	Indicator	Distance in SD	Net Exposure	Total No. of stocks
Gr 1				
EEM	above +2SD	3.25		
IWM	above +1SD	1.60		
EWJ	below -1SD	-1.16		
TLT	below -1SD	-1.21		
Gr 2				
XLY	above +1SD	1.71	-67%	6
XLV	below -1SD	-1.74	-11%	9
XRT (RTH)	above +1SD	1.77		
XLF	below -2SD	-4.40	11%	9
XLK	above +2SD	3.82	33%	3
XLU	below -1SD	-1.15		
XLP	below -1SD	-1.04	33%	6
Gr 3				
IYT	above +1SD	1.49		
JJC	above +1SD	2.33		
SLV	above +2SD	3.80		
GLD	above +1SD	1.75		
DBB	above +1SD	1.56		
SMH	above +1SD	1.24		
BBH	below -1SD	-1.10		
IFN	above +1SD	3.45		
		Primary Index Net Exposure	**-9%**	
		POM 14 Re Run 3		

- **From (31) Sector list , the above list is qualified for further review. The green highlights are Newly added. The Analysis is for SD's extremes for over / under valuation v/s SPX – within our Expectancy Model**
- **(+1/+2) SD's are overvalued (on Sell side v/s SPX) SD 's Indicator in RED.**
  & (-1/-2) SD's are undervalued (on Buy side v/s SPX) SD's Indicator in GREEN

Ticker (Deleted from Previous week)	Comments
XLI **XHB** **USO**	

Review Process(2)-Select Sector " Best & Worst " on TREND Analysis

This weeks - Crirical point for 1st Jan PIVOT. – YTD

- **SPX Comparisons – From 1st Jan @ 1115 to current 1205**

For Trend Analysis, our reference point for pivot still remains as 1st of January due to two reasons. First. Money managers tends to chase the sectors that has performed well YTD in the closing stages. Second, the seasonality being positive in last two months. By 31st Dec the 365 Day Correlation t and the Trend correlation will converge.

Overvalued / Undervalued

PerfChart: $SPX,SLV,XLK,EEM,XLF

| S&P 500 | iShares Silver | Technology SPDR | iShares MSCI Em Mkts | Financials SPDR |

31 December 2009 - 11 November 2010

0%   +55.09%   -0.06%   +6.53%   -2.64%

S&P 500   iShares Silver   Technology SPDR   iShares MSCI Em ...   Financials SPDR
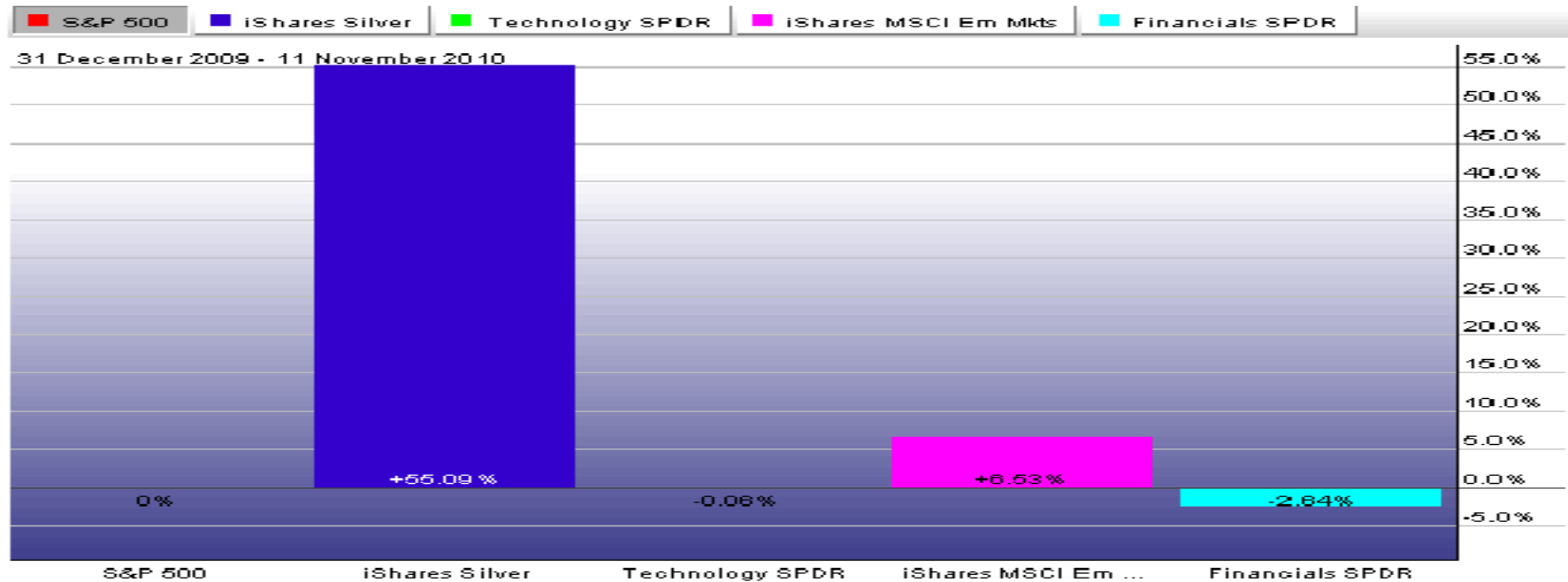
- ## **ETF's Qualified for SD # 2 - *Overvaluation by POM Methodology.***

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

Day Session
■ Last	27.11
T High on 11/11/10	28.72
+ Average	15.7519
⊥ Low on 10/30/08	8.45
■ SMAVG on Close(40)	18.8209
■ SMAVG on Close(11)	22.3389

Volume 0.00

RSI on Close(14) 78.89

CMCI (13) 166.38

MACD on Close(12,26) 2.0051
Signal on Close(9) 1.3026

SLV US: iShares Silver Trust   G3   Weekly 10/25/07 to 11/12/10   Copyright 2010 Bloomberg Finance L.P.   12-Nov-2010 09:21:29

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

Day Session
■ Last	27.11
T High on 11/09/10	28.72
◆ Average	18.003
⊥ Low on 08/19/09	13.33
■ SMAVG on Close(55)	22.0498
■ SMAVG on Close(11)	25.3835

■Volume 0.00

■RSI on Close(14) 73.27

■CMCI (13) 93.79

■MACD on Close(12,26) 1.2702
■Signal on Close(9) 1.0372

Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov
2009   2010

SLV US: iShares Silver Trust   G2   Daily 8/18/09 to 11/12/10   Copyright 2010 Bloomberg Finance L.P.   12-Nov-2010 09:21:39

1 – SLV- Technical & Pattern 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.

Silver ETF	SLV	
Last: $	27.11	
Chg: $	0.39	1.44%

RATIO: SLV / SPY		
Last:	0.223	
Chg:	0.004	1.81%

The parabolic move higher gapped higher again. Watch trendline support given the confirmed negative divergence.

Key Reversal Lower

Forecast

The move is starting to move parabolic

Forecast

40-day BLI

20-day BLI

ETF - Silver

35-DMA

200-DMA

40-day BLI (7,81679)

SLV / SPY Ratio

60-DMA

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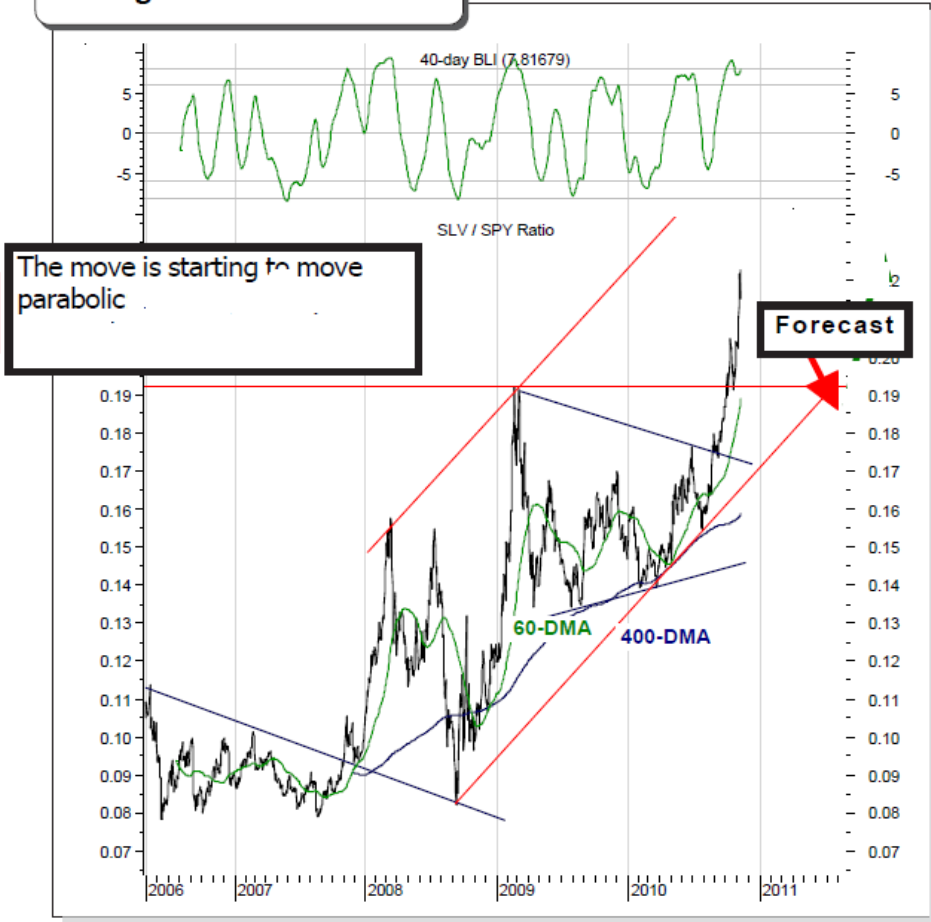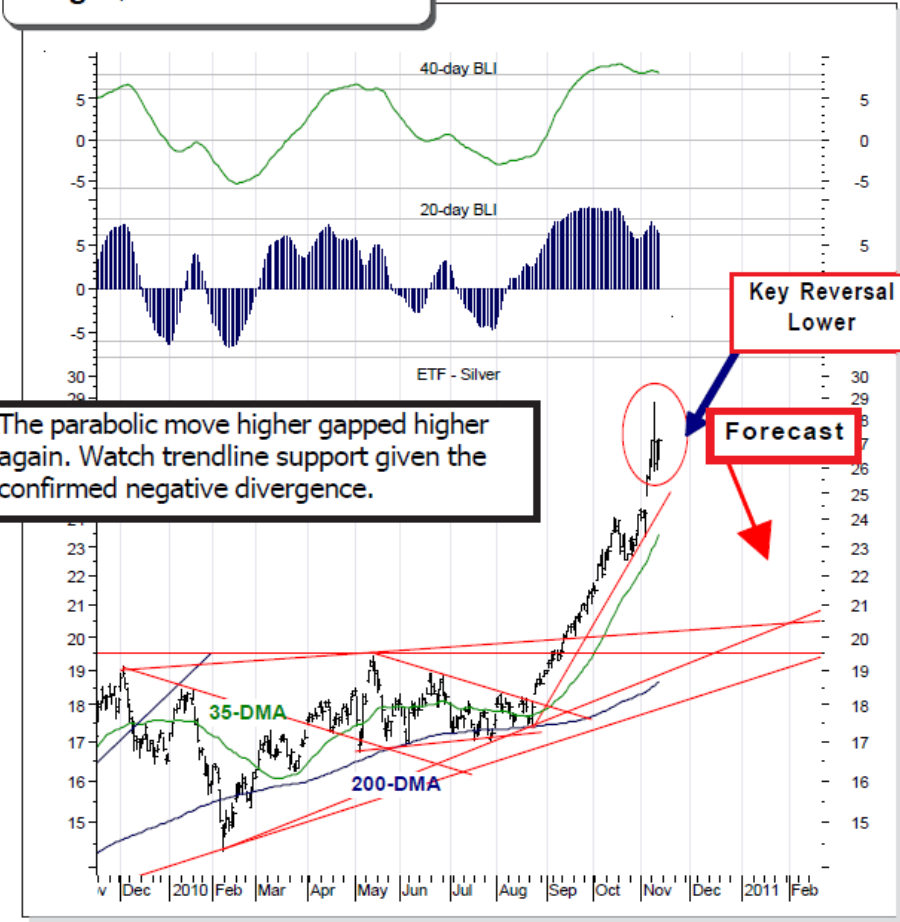
1- SLV – Technical & Pattern Analysis & Price / Volume

On 9th Nov , commodity report we had POM 15 at 27. Bearish pattern as indicated in chart notes below with last engulfing, and climax volume (Climax volume doesn't not have to get tested) , now broken 9-DMA, with higher volume, any bounce could test the gap of breakdown / hanging man under 27 , if on lighter volume should be another failure. First level downside volume 23 – 24 should be tested at some point sooner rather then later.

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

SLV broke the Trend line of Parabolic with blow off volume move, Such volume results at best consolidation and end of the Trend. This has been classic 3 Gap play with Exhaustion Gap & capitulation volume . Prices are trading above the upper Bollinger band such patterns results in swing on the other side of the Bollinger band in 3-6 months. There is formation of bearish wedge , the base of the consolidation is LEVL 2 at 23. This should get tested (25 is also 50DMA) , 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

SLV - On Hourly chart , if oversold the bounce could take us under 27 but doesn't have to (See the charts below)

SLV Hourly ▬   Bollinger Bands (20) ▬   SMA(9) ▬   8:00 PM

if we get a slight oversold bounce on hrly , the gap under 27 could get fillied before heading down (but doesnt have to

Volume+ Close Up ▬ Close Down ▬ SMA (50) ▬

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

Long SLV Equity and Short SPX Index, Updated till 11 Nov 2010

Current Prices	Keeping SPX Index Constant:	Keeping SLV Equity Constant:
	At +2 SD, SLV Equity should be at $ 23.5	At +2 SD, SPX Index should be at $ 1399.89
SLV Equity = $ 27.11	At Av, SLV Equity should be at $ 19.28	At Av, SPX Index should be at $ 1706.35
SPX Index = $ 1213.54	At -2 SD, SLV Equity should be at $ 15.82	At -2 SD, SPX Index should be at $ 2079.89

+1SD ,0.02

Av ,0.02

-1SD ,0.01

-2SD ,0.01

Legend: —— LnRatio —— Average —— +2 SD —— +1 SD —— -1 SD —— -2 SD

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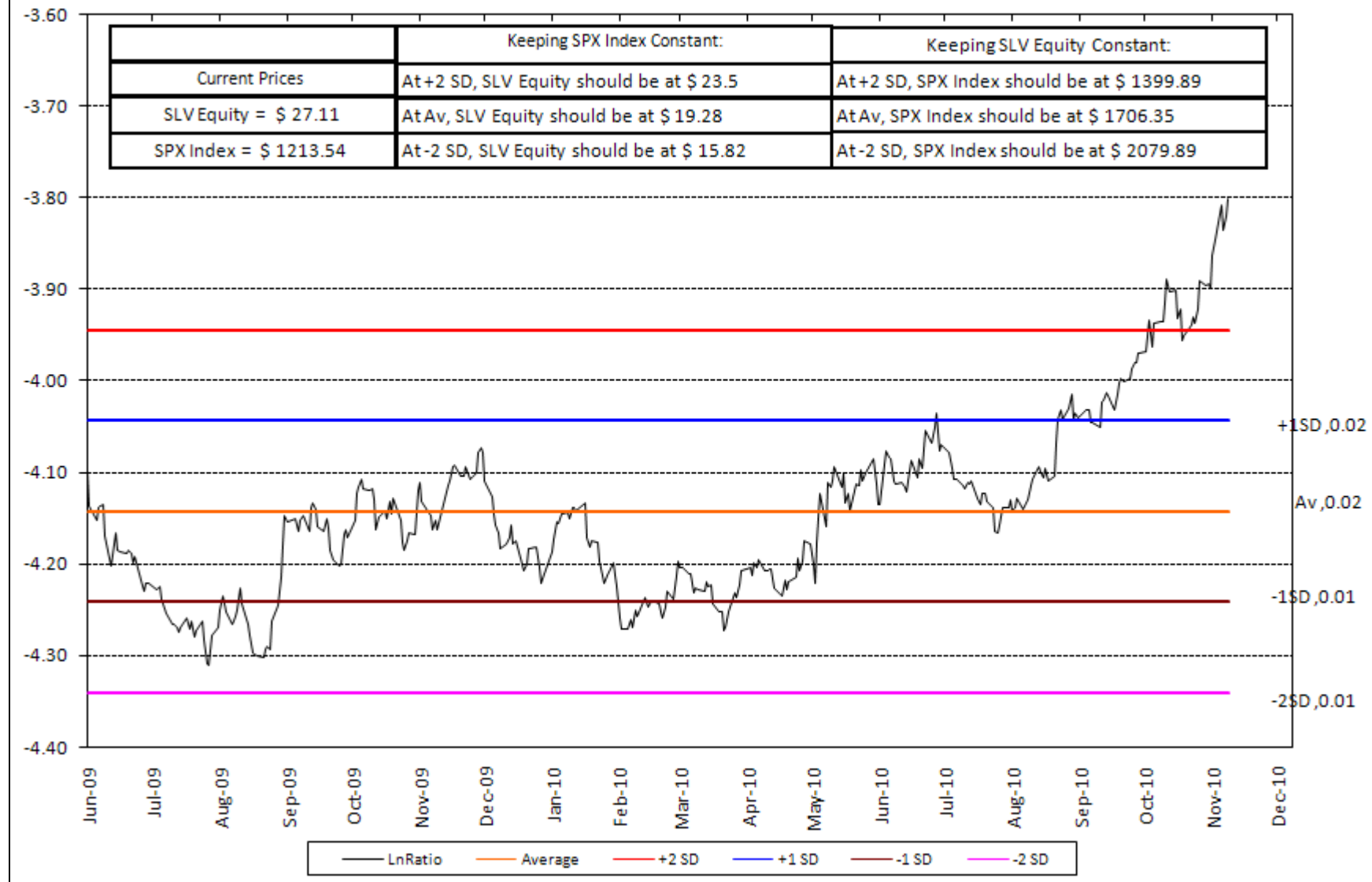
1-XLK- Weekly– 3 Year with RSI, CCI, MACD
a. / 40 W SMA)

Day Session
■ Last		24.685
⊤ High on 11/01/07		28.60
⊹ Average		21.041
⊥ Low on 11/27/08		12.94
■ SMAVG on Close(40)		22.4954
■ SMAVG on Close(11)		23.3050

■ Volume 0.00

■ RSI on Close(14) 65.13

■ CMCI (13) 114.15

■ MACD on Close(12,26) 0.6780
■ Signal on Close(9) 0.3540

Dec 2007   Mar   Jun 2008   Sep   Dec   Mar   Jun 2009   Sep   Dec   Mar   Jun 2010   Sep

XLK US: Technology Select Sector SPDR Fund   G3   Weekly   10/25/07 to 11/12/10   Copyright 2010 Bloomberg Finance L.P.   12-Nov-2010 09:21:59

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

Day Session
- Last   24.685
- High on 11/09/10   25.28
- Average   22.091
- Low on 08/19/09   19.24
- SMAVG on Close(55) 23.1874
- SMAVG on Close(11) 24.7759

Volume 0.00

RSI on Close(14) 62.95

CMCI (13) -11.55

MACD on Close(12,26) 0.4624
Signal on Close(9)   0.4783

Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov
2009   2010

XLK US: Technology Select Sector SPDR Fund   G2   Daily   8/18/09 to 11/12/10   Copyright 2010 Bloomberg Finance L.P.   12-Nov-2010 09:22:08

XLK – Technical & Pattern Analysis (Process 3) (No change)

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

S&P Technology   XLK

Last: $ 24.69

Chg: $ (0.39) -1.56%

RATIO: XLK / SPY

Last: 0.203

Chg: (0.002) -1.17%

40-day BLI

OVERBOUGHT

20-day BLI

Key Reversal Lower

key reversal lower and ensuing gap lower.

S&P Technology

Forecast

80-DMA

240-DMA

40-day BLI (7.92269)

XLK / SPY Ratio

The move to higher highs failed; look for a 550-dma test.

Forecast

550-DMA

80-DMA

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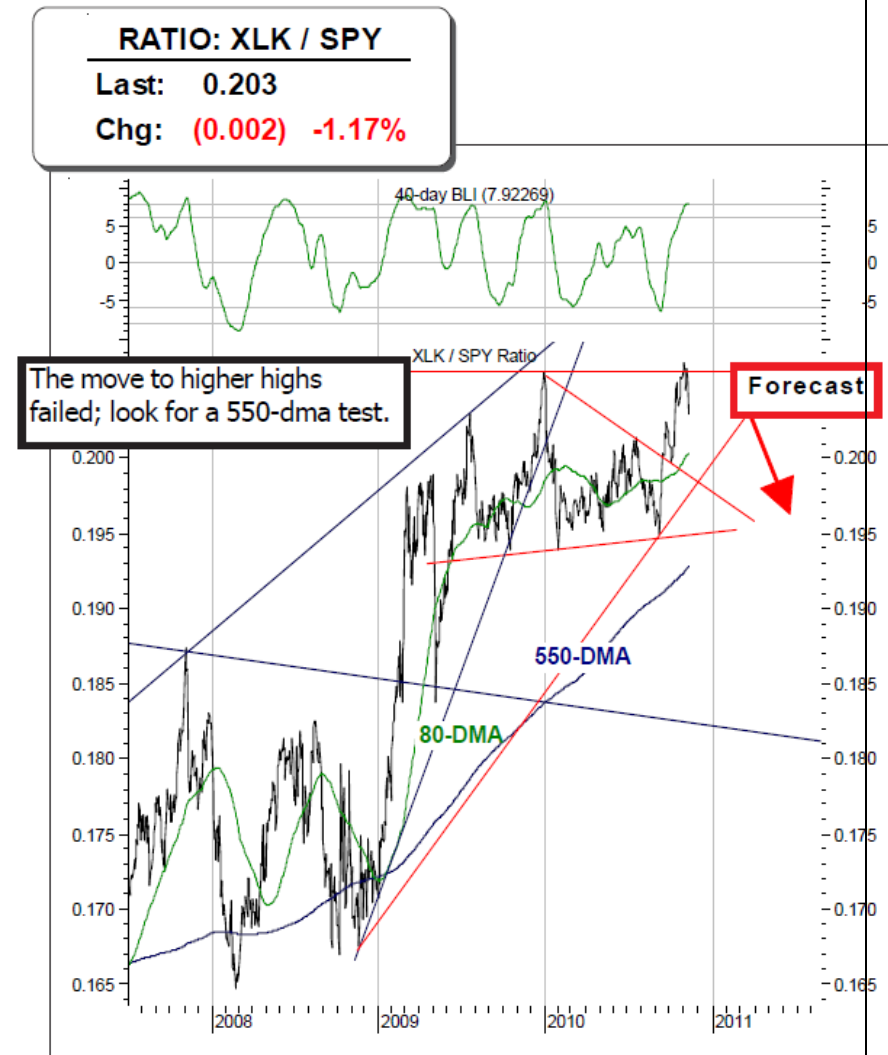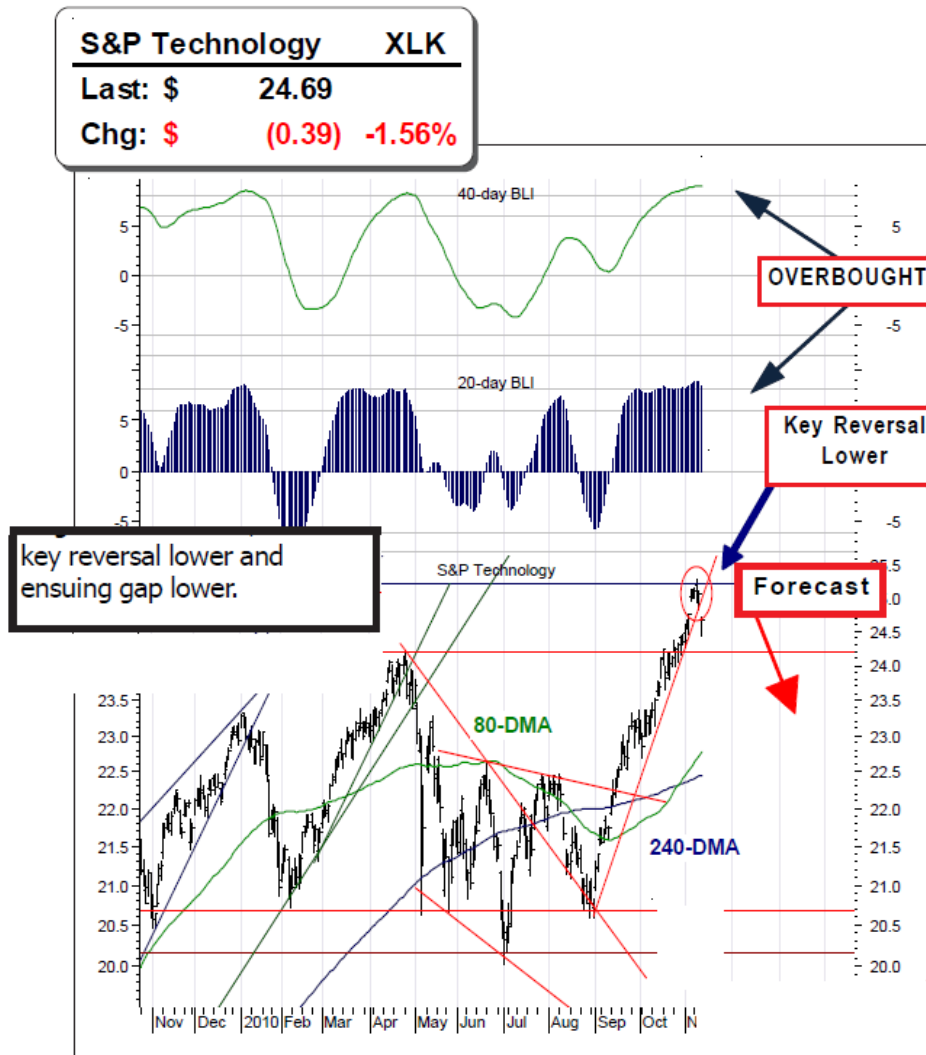
SLV – Technical & Pattern Analysis & Price / Volume

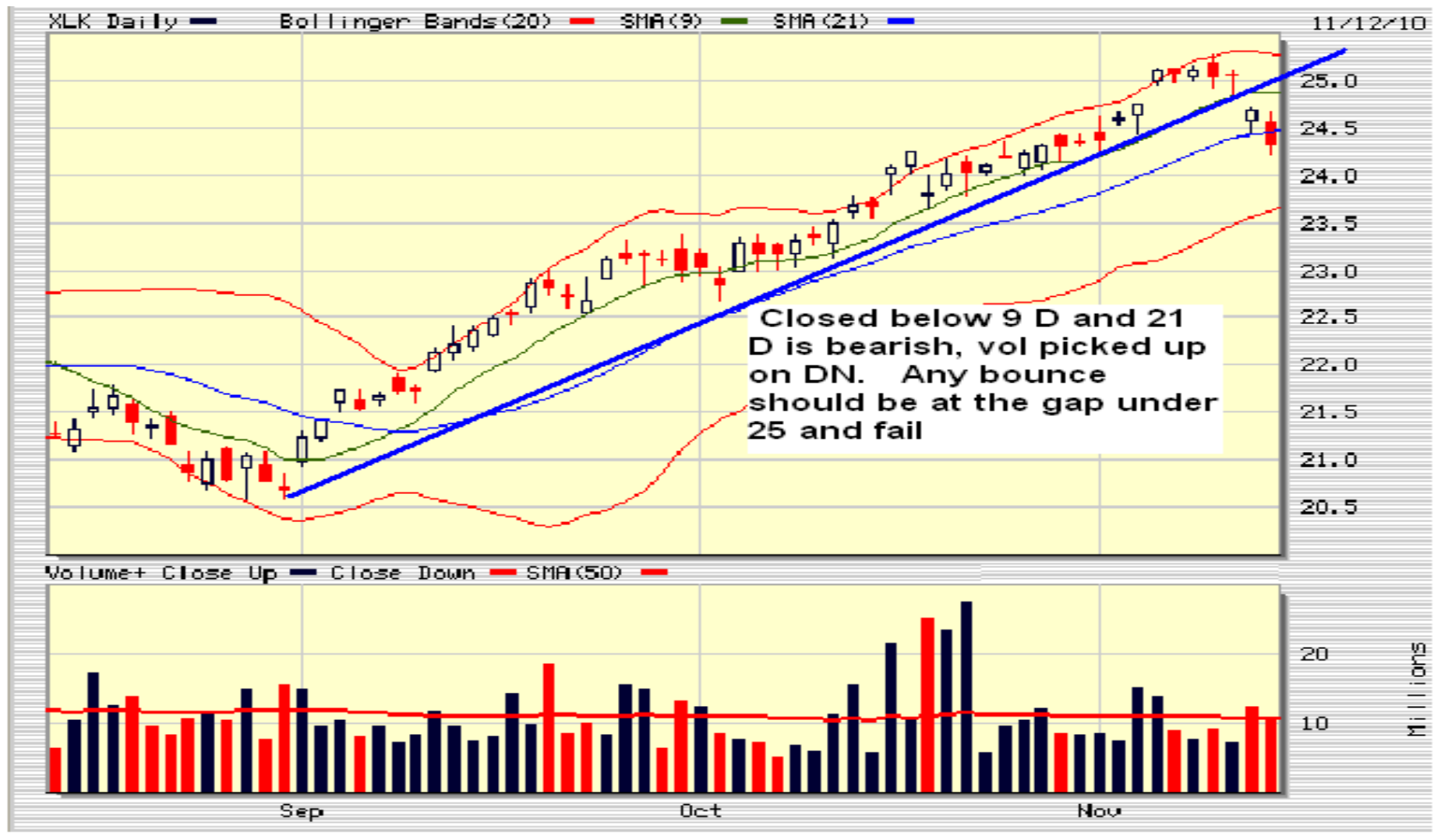*3 higher highs have been broken with lighter volume and 3 lows have been put in with heavy volume. RSI has diverged on all 3 highs. 22 should be the first target . BEARISH OCCURANCE*
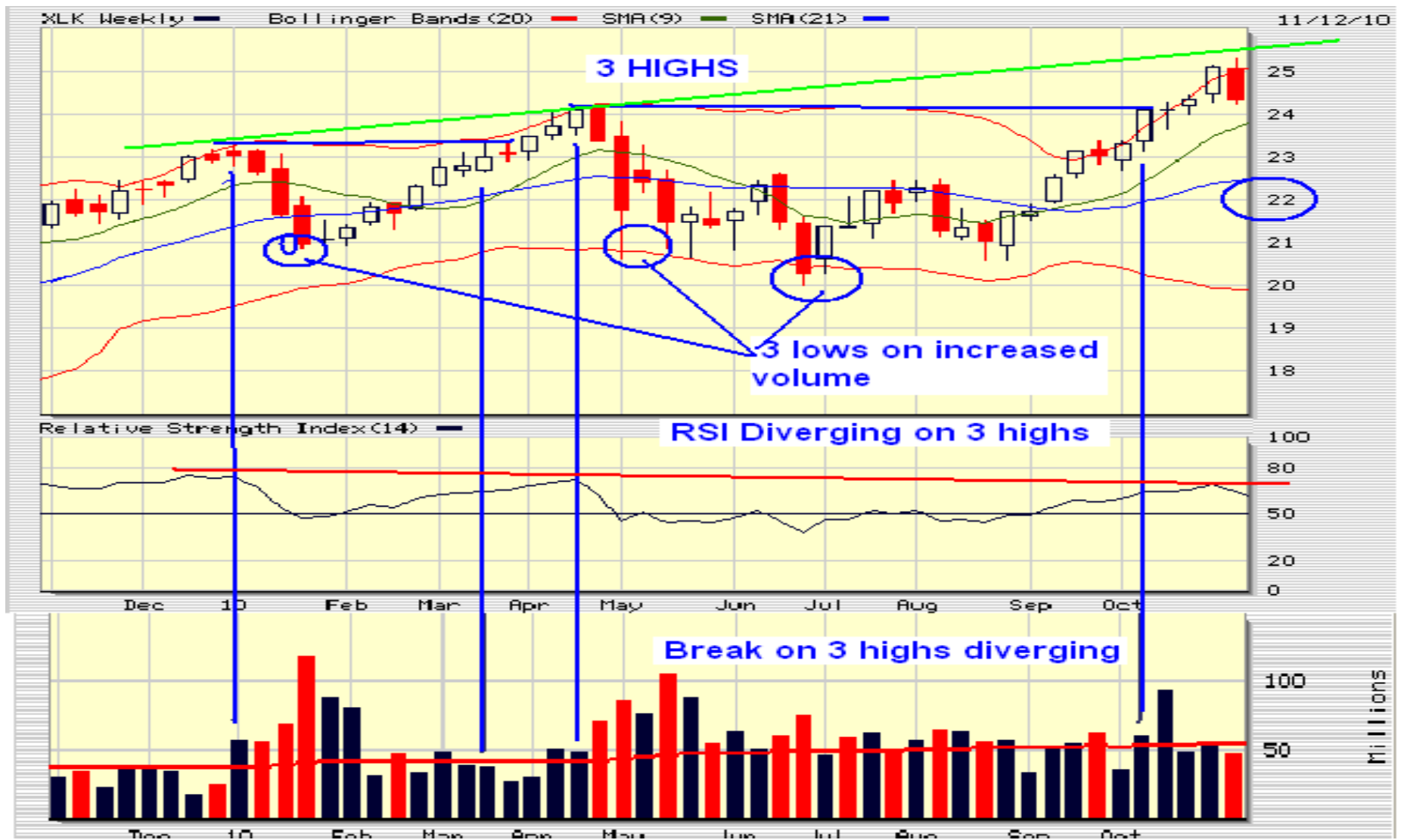
1- SLV – Technical & Pattern Analysis & Price / Volume

Sept trend line was broken at 25 and 9 D MA & 21 D MA was broken (See the notes within the chart), bounce below 25 at lighter volume should give another bearish signal

XLK Daily ━   Bollinger Bands(20) ━   SMA(9) ━   SMA(21) ━   11/12/10

Closed below 9 D and 21 D is bearish, vol picked up on DN. Any bounce should be at the gap under 25 and fail

Volume+ Close Up ━ Close Down ━ SMA(50) ━

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

Long XLK US Equity and Short SPX Index, Updated till 11 Nov 2010

Current Prices	Keeping SPX Index Constant:	Keeping XLK US Equity Constant:
	At +2 SD, XLK US Equity should be at $ 23.83	At +2 SD, SPX Index should be at $ 1152.93
XLK US Equity = $ 23.49	At Av, XLK US Equity should be at $ 23.15	At Av, SPX Index should be at $ 1186.73
SPX Index = $ 1169.77	At -2 SD, XLK US Equity should be at $ 22.49	At -2 SD, SPX Index should be at $ 1221.51

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

Day Session
- Last 47.56
- High on 11/01/07 55.8267
- Average 38.5715
- Low on 11/20/08 18.22
- SMAVG on Close(40) 41.5984
- SMAVG on Close(11) 45.0361

Volume 0.00

RSI on Close(14) 65.30

CMCI (13) 106.25

MACD on Close(12,26) 1.9388
Signal on Close(9) 1.3571

EEM US: iShares MSCI Emerging Markets Index Fund/United S   G3   Weekly 10/25/07 to 11/12/10   Copyright 2010 Bloomberg Finance L.P.   12-Nov-2010 09:22:48
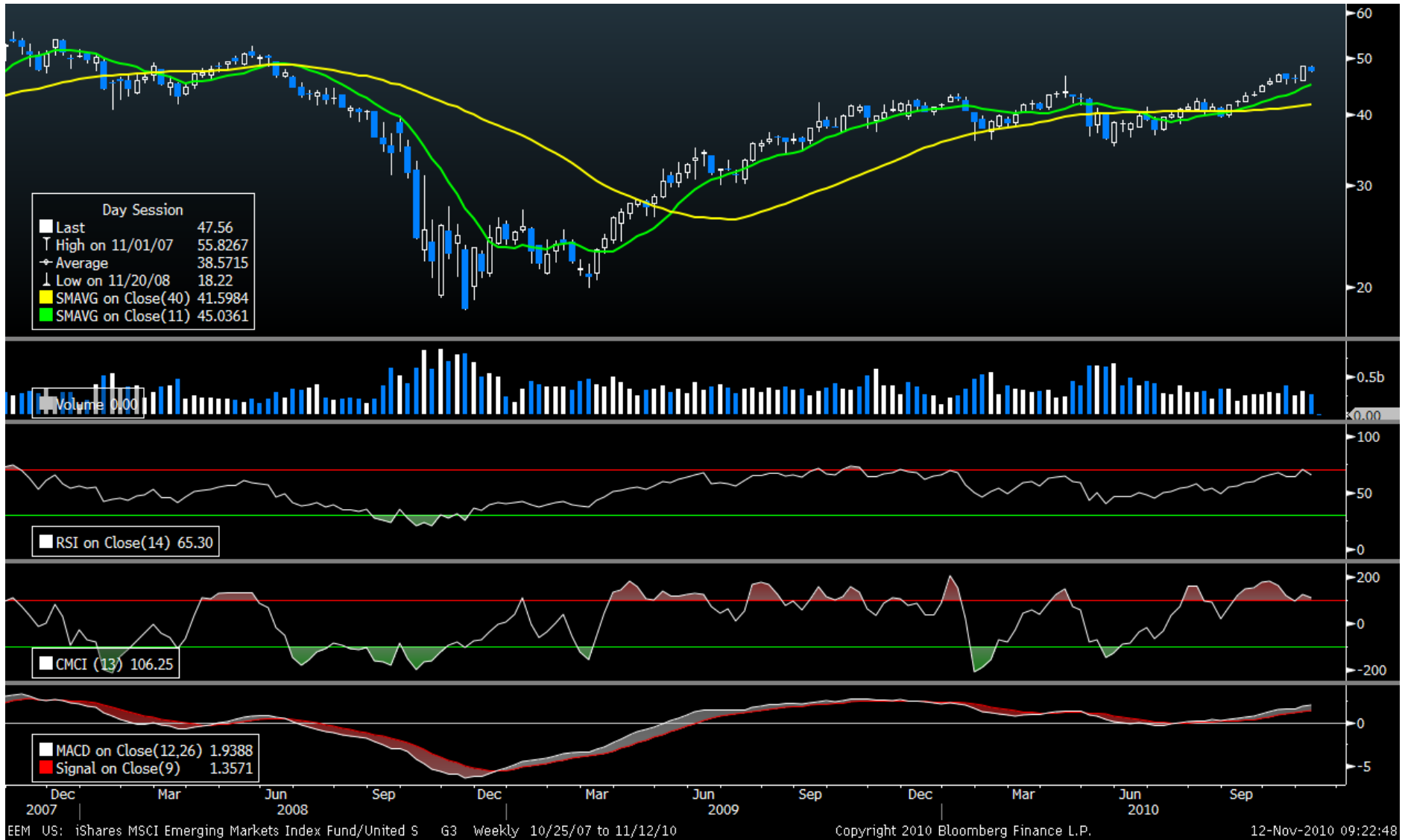
1- EEM - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

Day Session
☐ Last	47.56
⊤ High on 11/09/10	48.62
◆ Average	40.8659
⊥ Low on 08/19/09	34.28
☐ SMAVG on Close(55)	44.7781
☐ SMAVG on Close(11)	47.4618

Volume 0.00

RSI on Close(14) 59.14

CMCI (13) 24.67

MACD on Close(12,26) 0.7949
Signal on Close(9) 0.7930

Sep   Oct   Nov   Dec   Jan   Feb   Mar   Apr   May   Jun   Jul   Aug   Sep   Oct   Nov
2009   2010

EEM US: iShares MSCI Emerging Markets Index Fund/United S   G2   Daily 8/18/09 to 11/12/10   Copyright 2010 Bloomberg Finance L.P.   12-Nov-2010 09:22:57
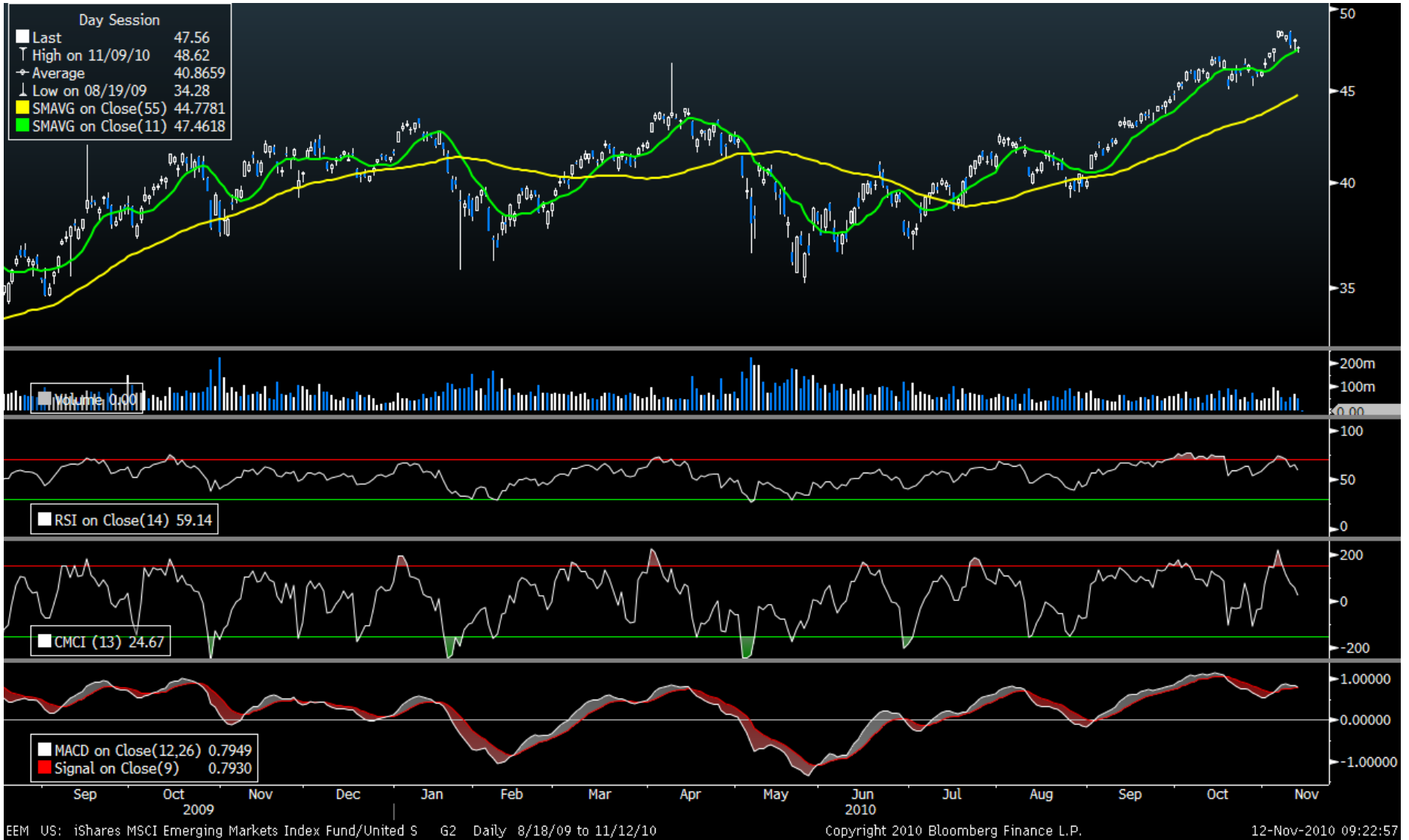
– EEM – Technical & Pattern Analysis (Process 3) (No change)

The EEM / SPX ratio chart looks bearish and should trend down in RH side chart below, confirms the relative fall in EEM / SPX (hence overvalued) by this matrix in Sync with SD Analysis.
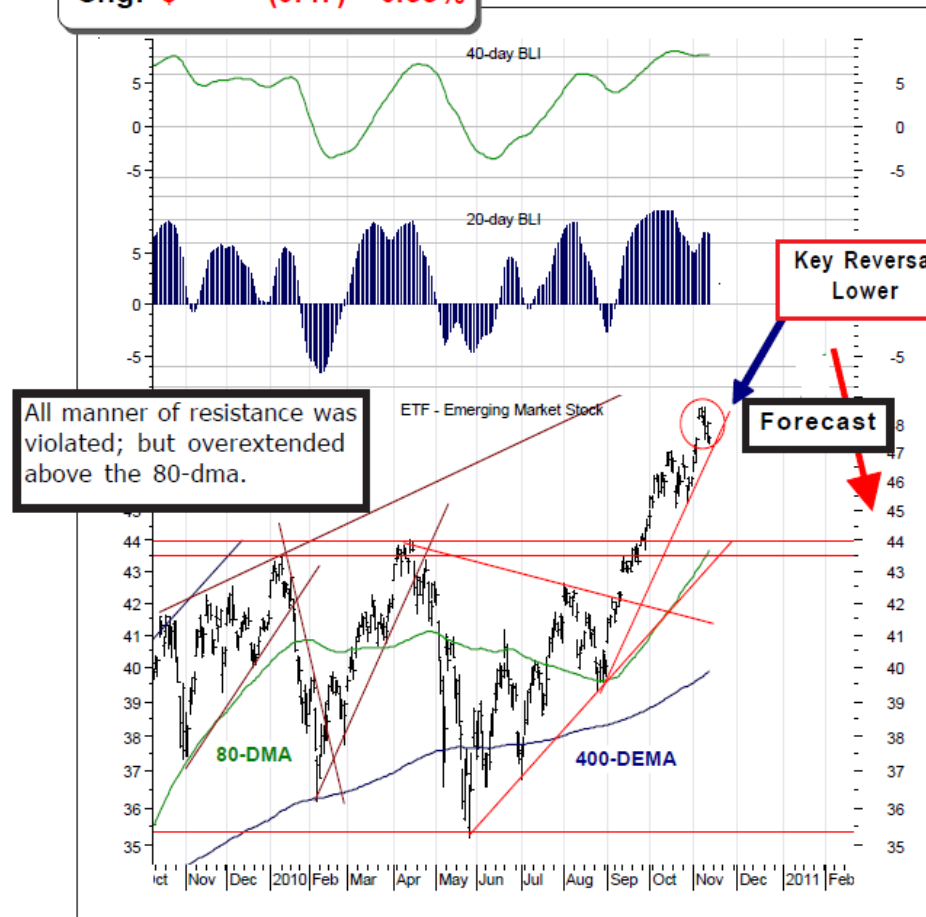
1- EEM – Technical & Pattern Analysis & Price / Volume

3 higher highs have been broken with equal or slight higher volume & 2 lows have been put in with heavy volume. RSI has flat all 3 highs. Hard to get a conclusion on this . Certainly the pull back should come in but as in past it will follow SPX – POM closely. Price volume is not conclusive
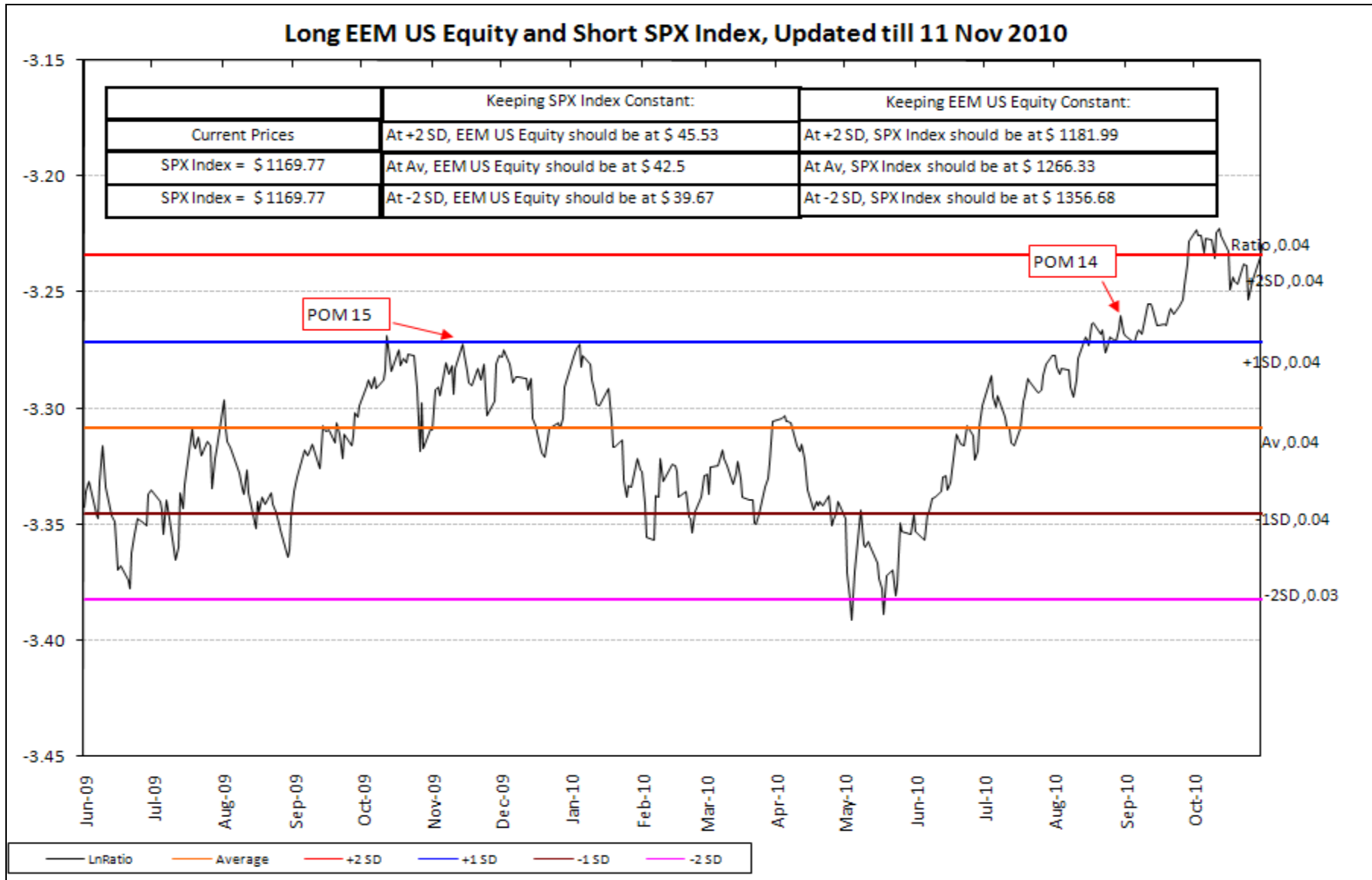
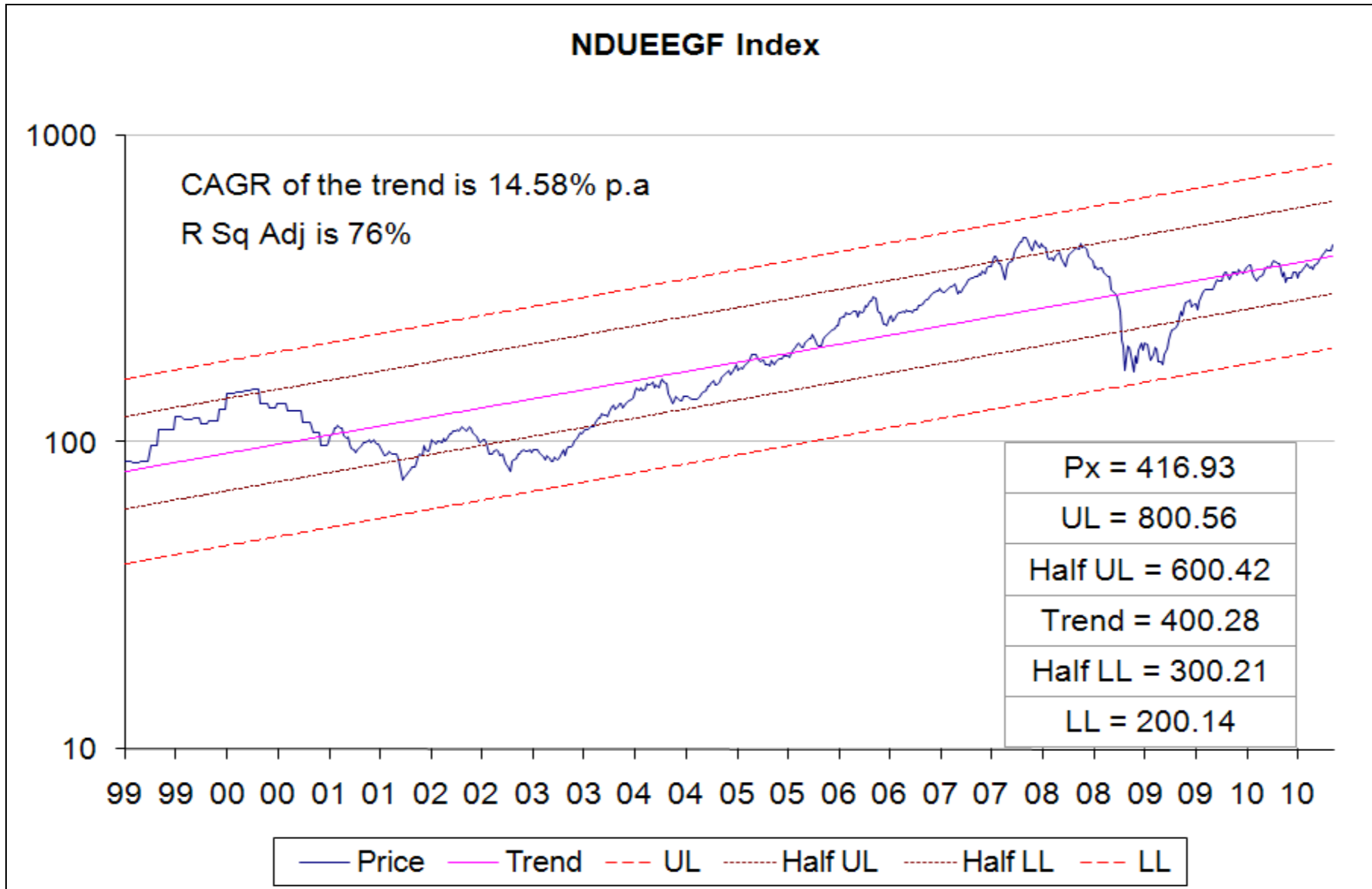# 1- EEM – Technical & Pattern Analysis & Price / Volume

Sept trend line was broken at 25 and 9 D MA & 21 D MA was broken with hugh volume (See the notes within the chart), bounce below 48 at lighter volume should give another bearish signal

2- EEM – Correlation Ratio Analysis with SPX – 365 days Time basis

Long EEM US Equity and Short SPX Index, Updated till 11 Nov 2010

Current Prices	Keeping SPX Index Constant:	Keeping EEM US Equity Constant:
	At +2 SD, EEM US Equity should be at $ 45.53	At +2 SD, SPX Index should be at $ 1181.99
SPX Index = $ 1169.77	At Av, EEM US Equity should be at $ 42.5	At Av, SPX Index should be at $ 1266.33
SPX Index = $ 1169.77	At -2 SD, EEM US Equity should be at $ 39.67	At -2 SD, SPX Index should be at $ 1356.68

POM 14

POM 15

Ratio ,0.04
+2SD ,0.04
+1SD ,0.04
Av ,0.04
-1SD ,0.04
-2SD ,0.03

LnRatio — Average — +2 SD — +1 SD — -1 SD — -2 SD

3- EEM – Trend Reversion Analysis – Long Term

NDUEEGF Index

CAGR of the trend is 14.58% p.a

R Sq Adj is 76%

Px = 416.93	
UL = 800.56	
Half UL = 600.42	
Trend = 400.28	
Half LL = 300.21	
LL = 200.14	

Legend: Price — Trend — UL — Half UL — Half LL — LL

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

Day Session
- Last: 15.19
- High on 11/01/07: 33.89
- Average: 17.1218
- Low on 03/12/09: 5.88
- SMAVG on Close(40): 14.8927
- SMAVG on Close(11): 14.6251

Volume 0.00

RSI on Close(14) 56.08

CMCI (13) 174.00

MACD on Close(12,26) 0.0368
Signal on Close(9) -0.0754

XLF US: Financial Select Sector SPDR Fund   G3   Weekly   10/25/07 to 11/12/10   Copyright 2010 Bloomberg Finance L.P.   12-Nov-2010 09:24:48

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

Day Session

☐ Last		15.19
⊤ High on 04/15/10		17.12
◆ Average		14.7932
⊥ Low on 08/25/10		13.29
☐ SMAVG on Close(55)		14.5724
☐ SMAVG on Close(11)		15.0000

☐ Volume 0.00

■ RSI on Close(14) 58.89

☐ CMCI (13) 52.34

☐ MACD on Close(12,26) 0.1992
■ Signal on Close(9) 0.1378

Sep   Oct   Nov   Dec   Jan   Feb   Mar   Apr   May   Jun   Jul   Aug   Sep   Oct   Nov
2009   2010

XLF US: Financial Select Sector SPDR Fund   G2   Daily 8/18/09 to 11/12/10   Copyright 2010 Bloomberg Finance L.P.   12-Nov-2010 09:24:58

2 – XLF- Technical & Pattern Analysis - (Process 3) (appearance changed after move higher), Since we are at POM 14 , the Net buy on XLF would come in at POM 13, or POM 12

The XLF / SPX ratio chart looks Bullish and should trend higher in RH side chart below to confirm the rise in XLF / SPX (hence undervalued) by this matrix in Sync with SD Analysis.

S&P Financial   XLF
Last: $ 15.19
Chg: $ (0.15) -0.99%

RATIO: XLF / SPY
Last: 0.125
Chg: (0.001)   -0.60%

The 120-dema/220dma convergence was regained, with the "head & shoulder" bottom confirmed.

Forecast

Confirmed "Head & Shoulders" Bottom

The bullish flag coupled with the oversold model suggests higher prices.

Forecast
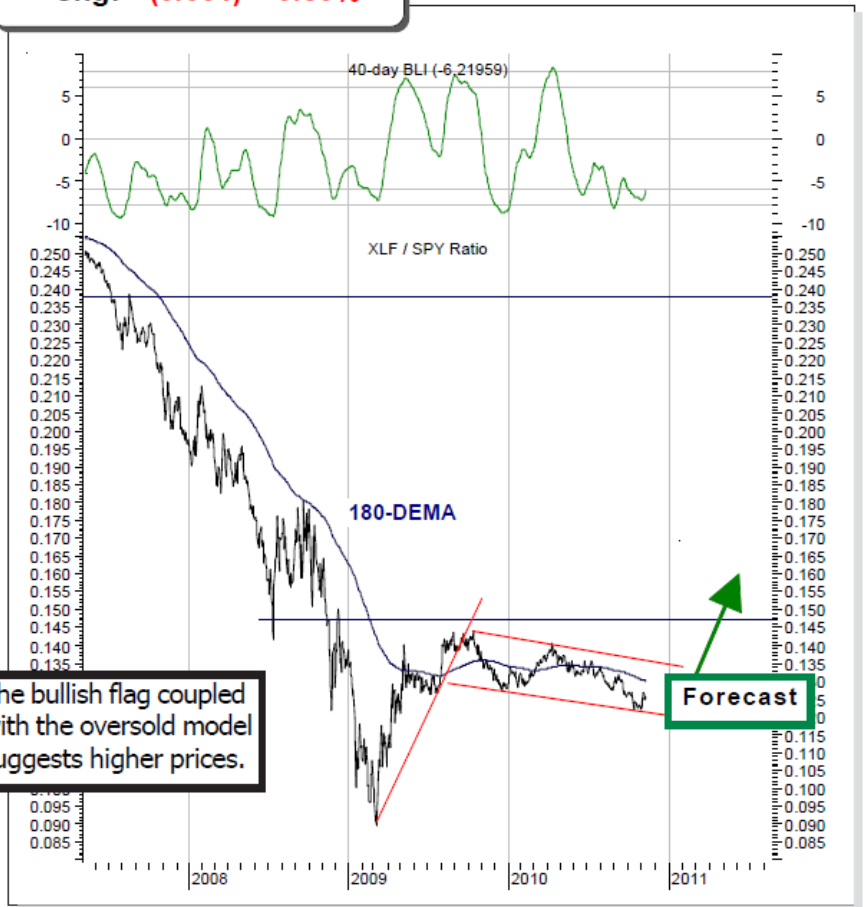
XLF – Correlation Ratio Analysis with SPX – 365 days Time basis

Long XLF US Equity and Short SPX Index, Updated till 11 Nov 2010

Currnt Prices	Keeping SPX Index Constant:	Keeping XLF US Equity Constant:
	At +2 SD, XLF US Equity should be at $ 16.66	At +2 SD, SPX Index should be at $ 1042.45
XLF US Equity = $ 14.85	At Av, XLF US Equity should be at $ 15.62	At Av, SPX Index should be at $ 1112.03
SPX Index = $ 1169.77	At -2 SD, XLF US Equity should be at $ 14.64	At -2 SD, SPX Index should be at $ 1186.26

POM 14

POM 12

+2SD,0.01
+1SD,0.01
Av,0.01
-1SD,0.01
-2SD,0.01
Ratio,0.01

Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10

— LnRatio   — Average   — +2 SD   — +1 SD   — -1 SD   — -2 SD

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