SG Capital Research

Global Market Insights

Research Note – Sector – ETF Analysis (D)

MAEG – WKLY SECTOR_ETF ANALYSIS SG 2010 # NOV 19

For Immediate Release – Friday AM (EST)

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

3x3 /9EMA – Break Indicator – Buy Signal since SPX – 1115, Stopped out at 1193

Currently " Trend Adjusted Signal " has been on Sell side since SPX @ 1193 STOP (11/17) with Reversal @ 1225

Sym	Posn	Close	Reversal
DJ	Short	11186.9	11430.5
SPX	Short	1197.54	1225.85

Sector Analysis (D) - (Detail Coverage for sectors with extremes SD # 1.5, highlighted in yellow)

SECTORS - (34)

GR1 (8)	GR2 (11)	GR3 (12)
• TLT (Bonds) • IWM (Small Cap) • MUB (Municipal Bond) (SP) NEW • XM1 (10year Aust Bond) (SP) NEW • EEM (Emerging) • EEA (Europe) • EWJ (Japan) • FXI (China) • RSX (Russia) • IFN (India) • EWP(Spain) (SP) NEW	• 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)

SP – Special Situation

- **SECTOR SETUP INDEX + 83%**
  (Currently for monitoring purposes only, we will establish . correlation as we go forward)

- **EQUITY SETUP INDEX : 16%**

- **POM – 14 re run**

SETUP # 1 (11 of 31)	SETUP # 2 (0 of 31)	SETUP # 3 (0 of 31)	SETUP # 4 (1 of 31)
XLV XLU XLP BBH EWJ FXI DBC EWP XLF USO XHB			SLV

- ## 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 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" 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

- **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. **POM Analysis -Technical & Pattern & Price / SMA Analysis**
  4. **PEC Analysis (if applicable)**
  5. **Correlation Ratio Analysis with SPX by 365 days Basis**
  6. **Trend Reversion Analysis – Long Trend Chart**

- **Charts 3,4,5, (above) articulates special situation coverage 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 # 1.5 & 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 1,3 - for BEST IDEAS:

- **Overvalued confirmed–** ***SLV, EEM, XLY, RTH, IYT, SMH***
- **Undervalued confirmed –** ***XLV,XLF, MUB, XMI***
- **Non Conformance –** ***None (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 <u>Extremes SD's # 2</u> 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. (<u>When at POM 14 /15 +2sd x 2 & at POM 12/11 - 2SD x 2)</u>

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	46.48	47.2	1.53%		$ 46.3
EEM	12-Nov-10	46.48	47.2	1.53%		$ 46.3
IWM	15-Oct-10	72.21	70.5	-2.38%		$ 71.7
XLY	15-Oct-10	36.07	34.7	-3.92%		$ 35.8
RTH	15-Oct-10	101.08	99.5	-1.55%		$ 100.6
XLK	20-Oct-10	24.24	24.0	-1.00%		$ 24.3
XLK	20-Oct-10	24.24	24.0	-1.00%		$ 24.3
IFN	12-Nov-10	37.56	39.1	3.96%		$ 38.1
SMH	12-Nov-10	30.55	30.9	1.04%		$ 30.3
IYT	15-Oct-10	87.58	84.9	-3.16%		$ 86.7
JJC	15-Oct-10	51.15	51.1	-0.08%		$ 51.3
SLV	15-Oct-10	26.35	23.8	-10.95%		$ 25.3
SLV	15-Oct-10	26.35	23.8	-10.95%		$ 25.3
GDX	15-Oct-10	59.03	58.2	-1.44%		$ 59.0
XLI	15-Oct-10	32.66	32.4	-0.71%		$ 32.4
DBB	20-Oct-10	22.07	22.8	3.16%		$ 22.5
GLD	15-Oct-10	132.09	133.7	1.19%		$ 132.7
CLOSED (Deleted) POSITIONS						
			EQ WT SHORT P/L	-1.45%		
LONGS						
XLV	15-Oct-10	30.97	31.2	-0.58%		$ 30.9
XLU	12-Nov-10	31.25	31.5	-0.79%		$ 31.3
XLF	12-Nov-10	14.86	15.2	-1.91%		$ 14.9
TLT	12-Nov-10	96.00	96.4	-0.39%		$ 95.2
EWP	19-Nov-10	40.21	40.2	0.00%		$ 39.8
MUB	19-Nov-10	100.98	101.0	0.00%		$ 101.4
BBH	15-Oct-10	99.61	96.8	2.95%		$ 98.7
EWJ	15-Oct-10	10.48	10.2	2.54%		$ 10.2
USO	15-Oct-10	35.50	35.5	0.08%		$ 36.2
XM1	19-Nov-10	94.46	94.5	0.00%		$ 94.6
CLOSED (Deleted) POSITIONS	BBH, EWJ,USO,BBH,EWJ	+0%, -0.5%, 6.68%, 0.26%, 4.17%		1.52%		
			EQWT LONG P/L	1.71%		
15th OCT 2010 INCEPTION						
SD - TECH SETUP EQUAL WEIGHTED LONG SHORT INDEX			EQWT AGG P/L	0.13%		
INCEPTION @ SPX 1180 to Current 1196			SPX CHANGE	1.50%		

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

- **NET EXPOSURE THIS WEEK: 16%, (-9%),(-18%), (-12%) of past 4 weeks (SETUP # 2 & 4)**
- **POM 15 (initial) / POM 14 Re Run- 3**

Sector	Indicator	Distance in SD	Target Exit & Reversion to mean	Net Exposure	Total No. of stocks	Comments
Gr 1						
EEM	Above +1.5SD	1.56				
IWM		1.48				
TLT		-1.07				
EWJ		-0.64				
Gr 2						
XLY	Above +1.5SD	1.62		-100%	3	
XLV	Below -1.5SD	-1.62		25%	8	
XRT (RTH)	Above +1.5SD	1.79				
XLF	Below -1.5SD	-1.82		0%	12	
XLK		1.43		33%	3	
XLU		-1.07				
XLI		1.10				
Gr 3						
IYT	Above +1.5SD	1.60				
JJC		1.49				
SLV	Above +2SD	3.08				
GLD		1.17				
SMH	Above +1.5SD	1.64				
IFN		1.20				
GDX		1.50				
EWP		-1.03				SP,NEW
MUB	Below -1.5SD	-1.95				SP,NEW
XM1		-1.36				SP,NEW
USO	Below -1.5SD	-1.50				
BBH		-0.96				
DBB		0.18				
		Primary Index Net Exposure		16%		
		POM 14 Re Run 3				

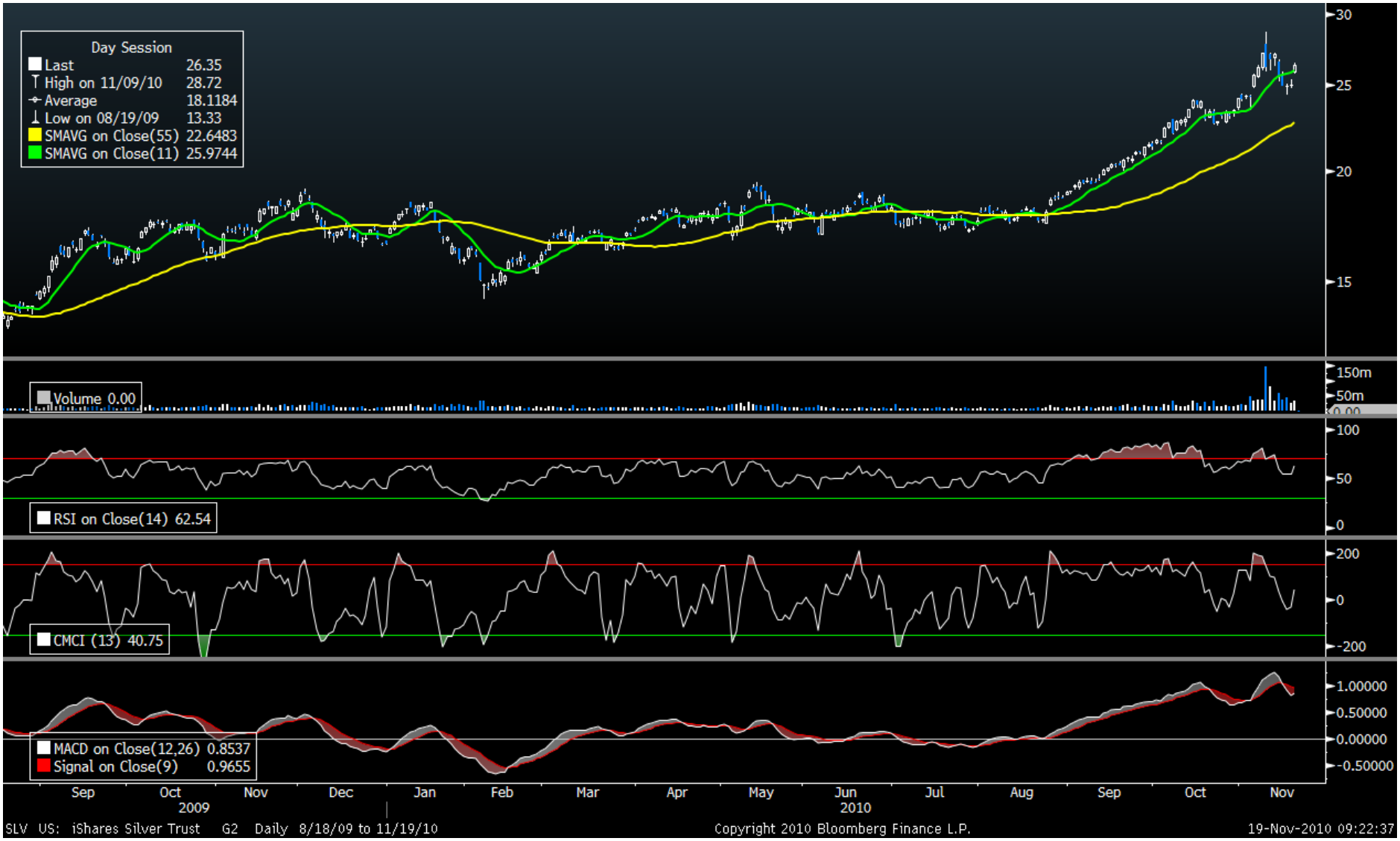
- **From (31) Sector list , the above list is qualified for further review. The Blue highlights are Newly added. The Analysis is for SD's extremes for over / under valuation v/s SPX – within our Expectancy Model**
- **(+) SD's are overvalued (on Sell side v/s SPX) Indicator in RED. & (-) SD's are undervalued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

Ticker (Deleted from Previous week)	Comments
None	

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

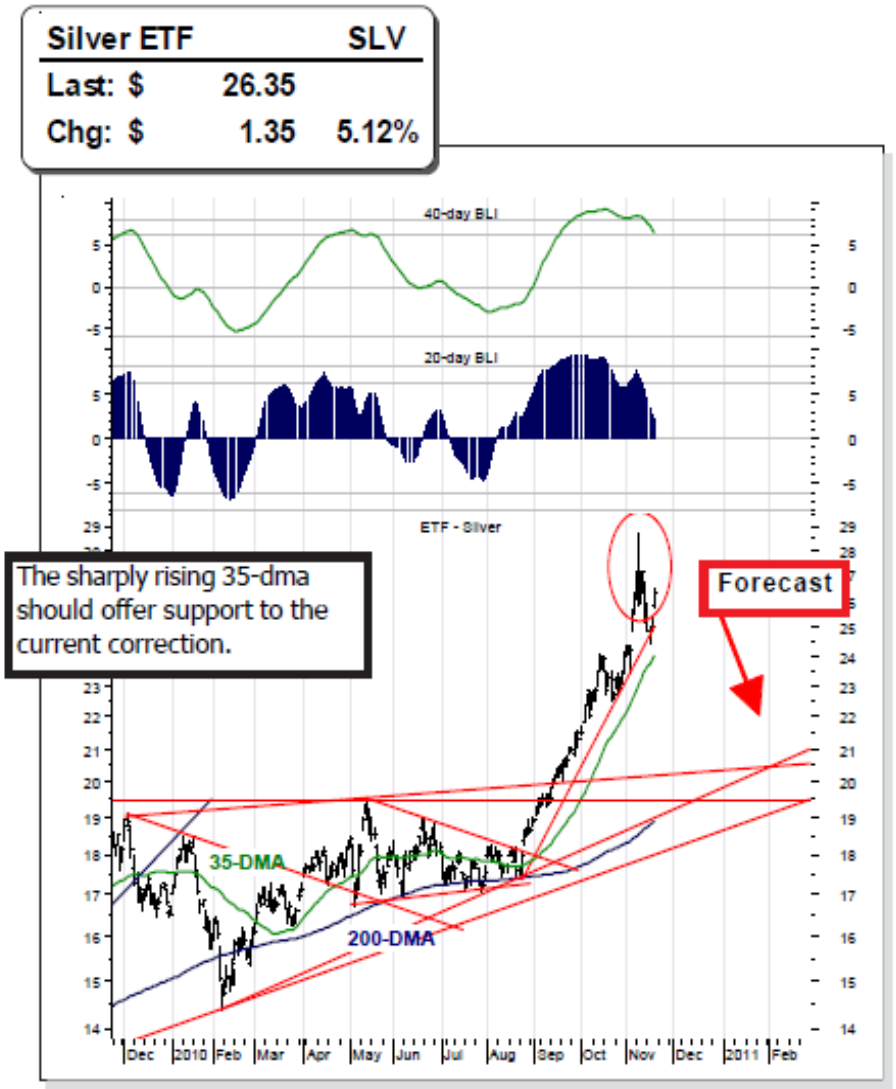
- **SLV - Weekly– 3 Year with RSI, CCI, MACD**
  (11 W / 40 W SMA)

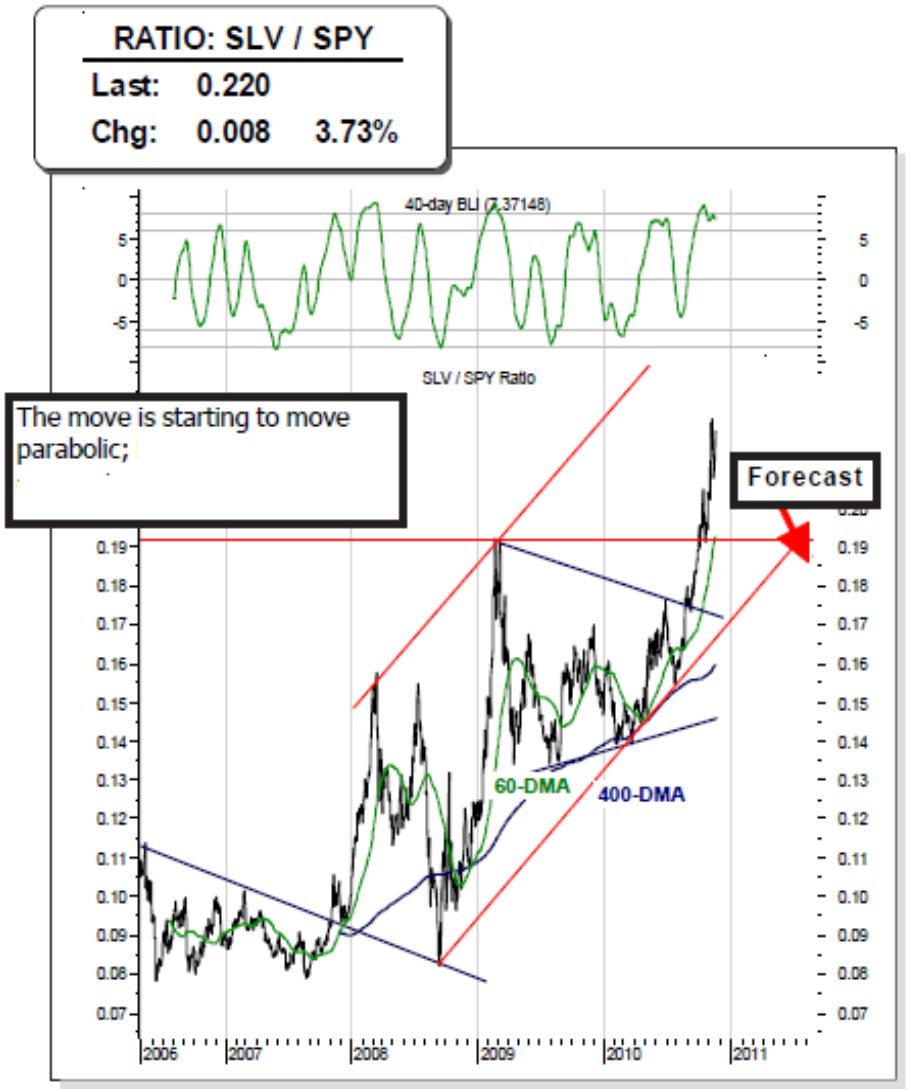
SLV - Daily – 3 Year with RSI, CCI, MACD
(11D / 55D)



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.





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 (Climax volume doesn't not have to get tested) , Then selloff began to our 1st level to 24 (Trend line, 21 D MA) on higher volume, Now bounce is in progress and could test the gap of breakdown / hanging man under 27 , if on lighter volume should be another failure. (Volume on bounce appear much lighter)

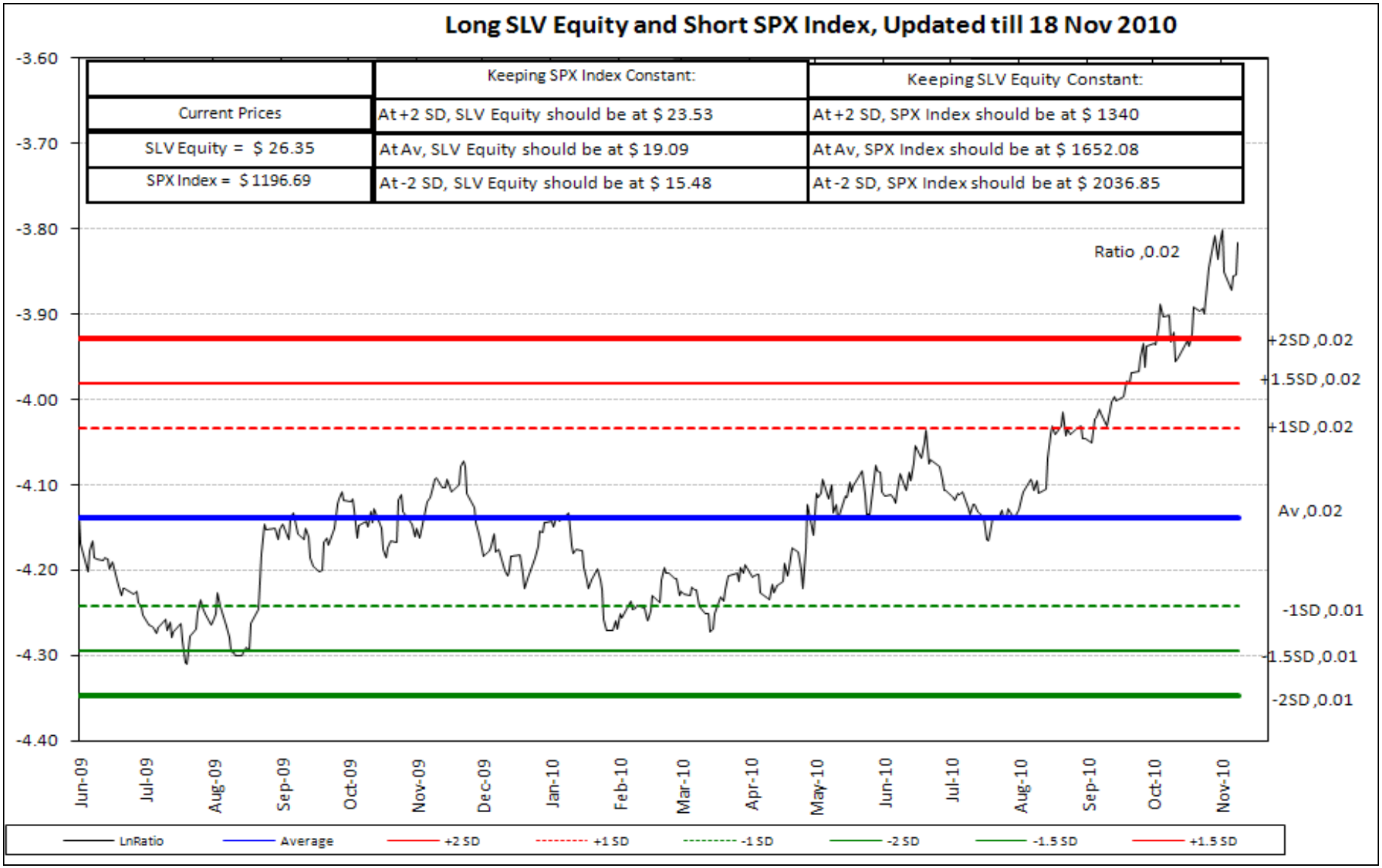
2- SLV – Technical & Pattern Analysis & Price / Volume

Bearish consolidation is in progress, the bounce could be under the lower side of trend line. The base of the consolidation is LEVL 2 at 23. 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

<u>SLV - On Hourly chart</u> , the short term bounce could take us under 27 in the gap as indicated. On hrly volume appears lighter

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



1-EWP- Weekly– 3 Year with RSI, CCI, MACD

a. / 40 W SMA)

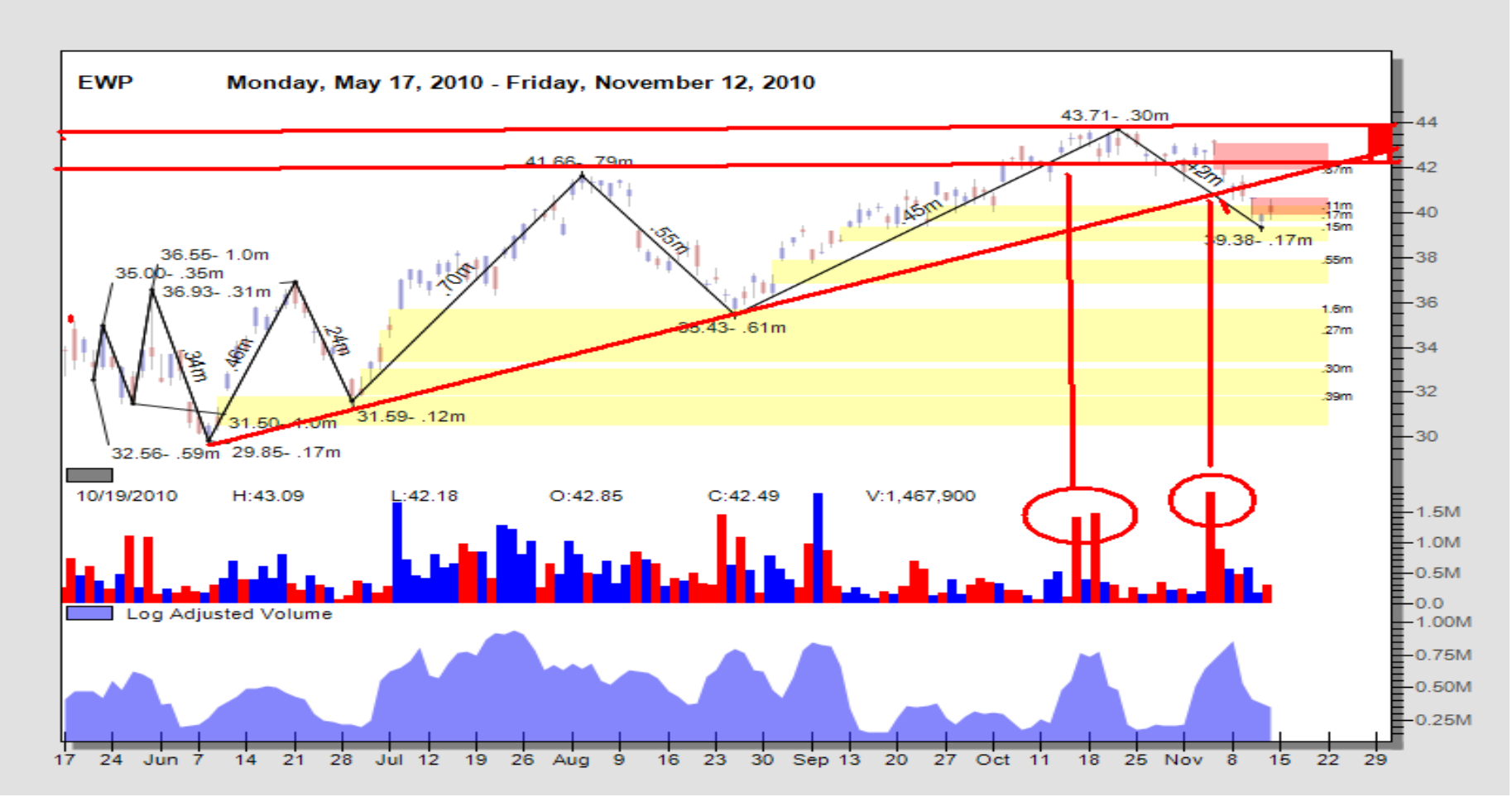
- EWP - Daily – 3 Year with RSI, CCI, MACD

(11D / 55D)

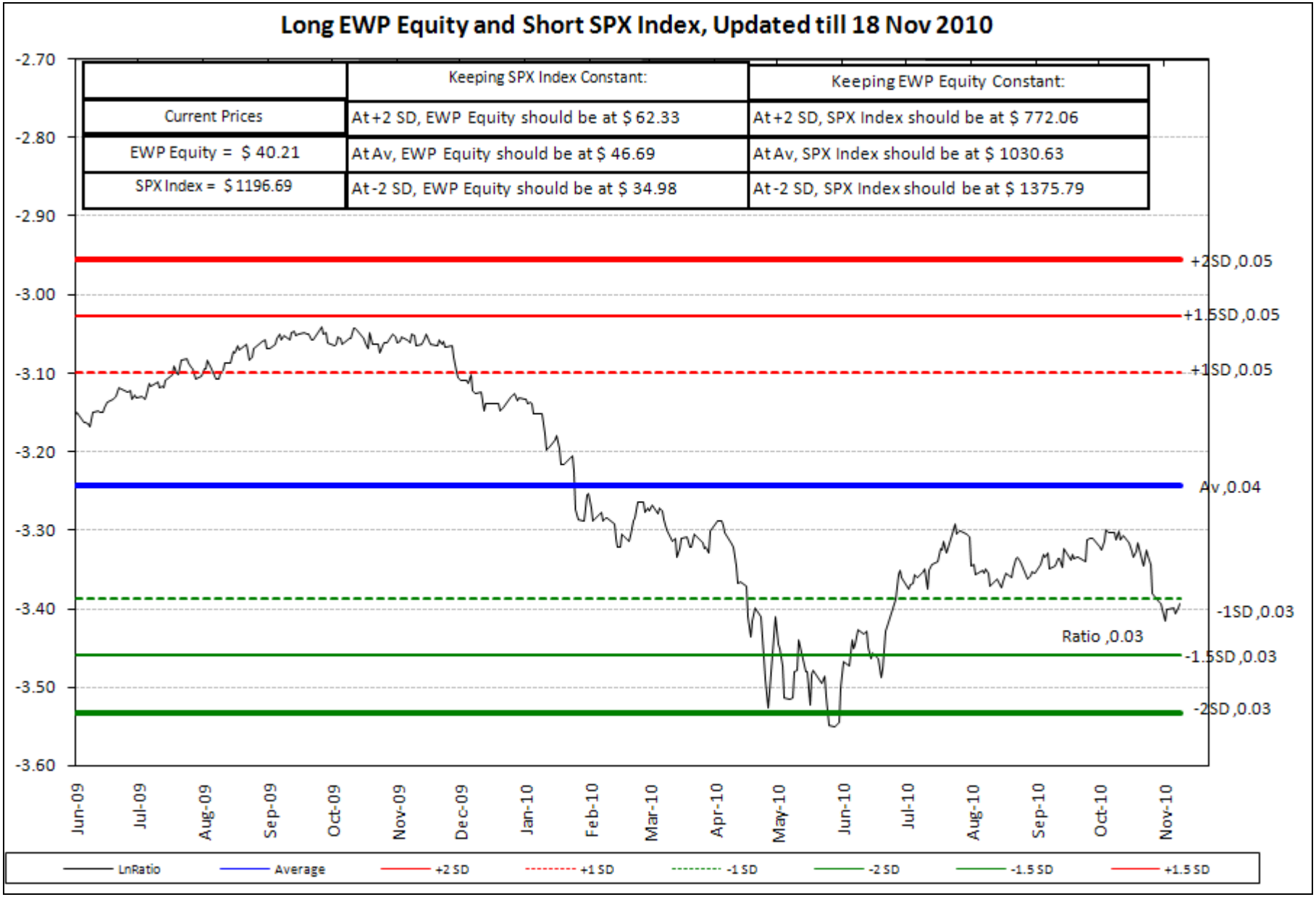
EWP – Technical & Pattern Analysis - (This is MEAG 's In PQV Holding)

EWP – PRICE & VOLUME ACTION

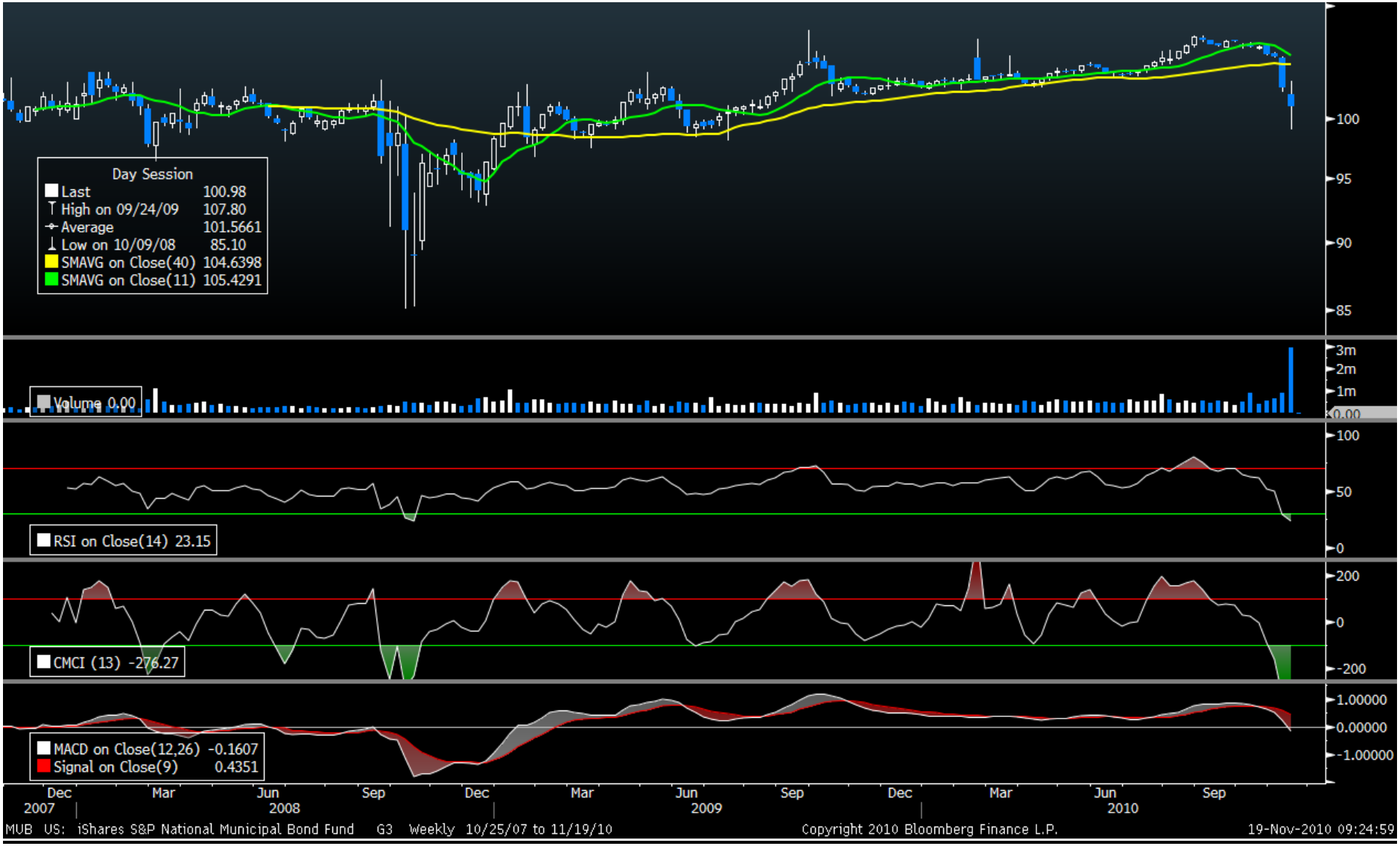
- **CONFLUENCE ZONE 41.5 - 44 , with 0.4 m volume test. In the bigger picture , this market bounced back 50% from the bottom into the breakdown area with 35% lighter volume ,**
- **In the current decline volume in the down move has picked up as indicated (Fundamental stated in our A # 1 report)**
- **In PQV INDEX – ½ position at 40.40 yesterday and other half at Confluence Zone**



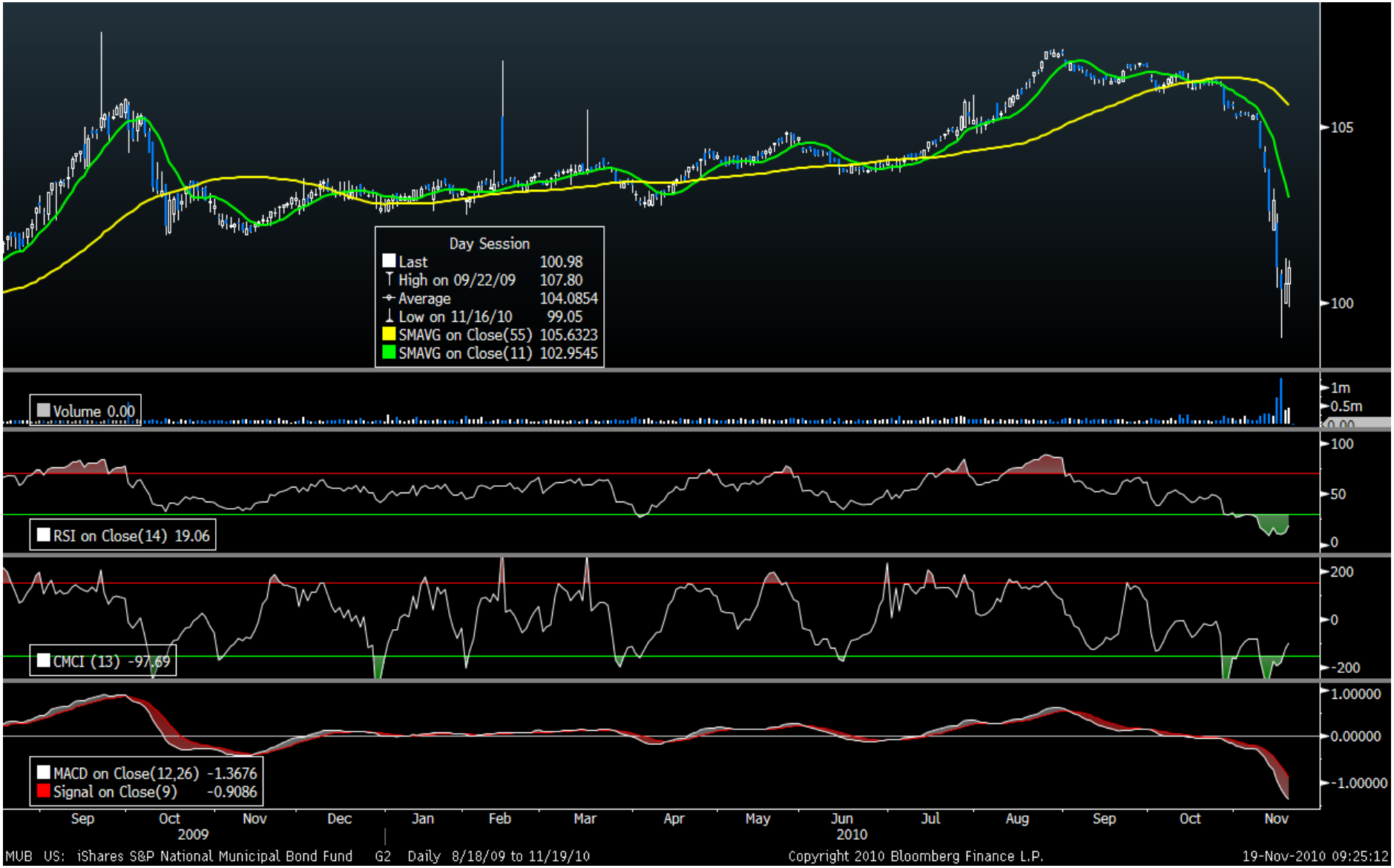
EWP – Correlation Ratio Analysis with SPX – 365 days Time basis



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 – Technical & Pattern Analysis

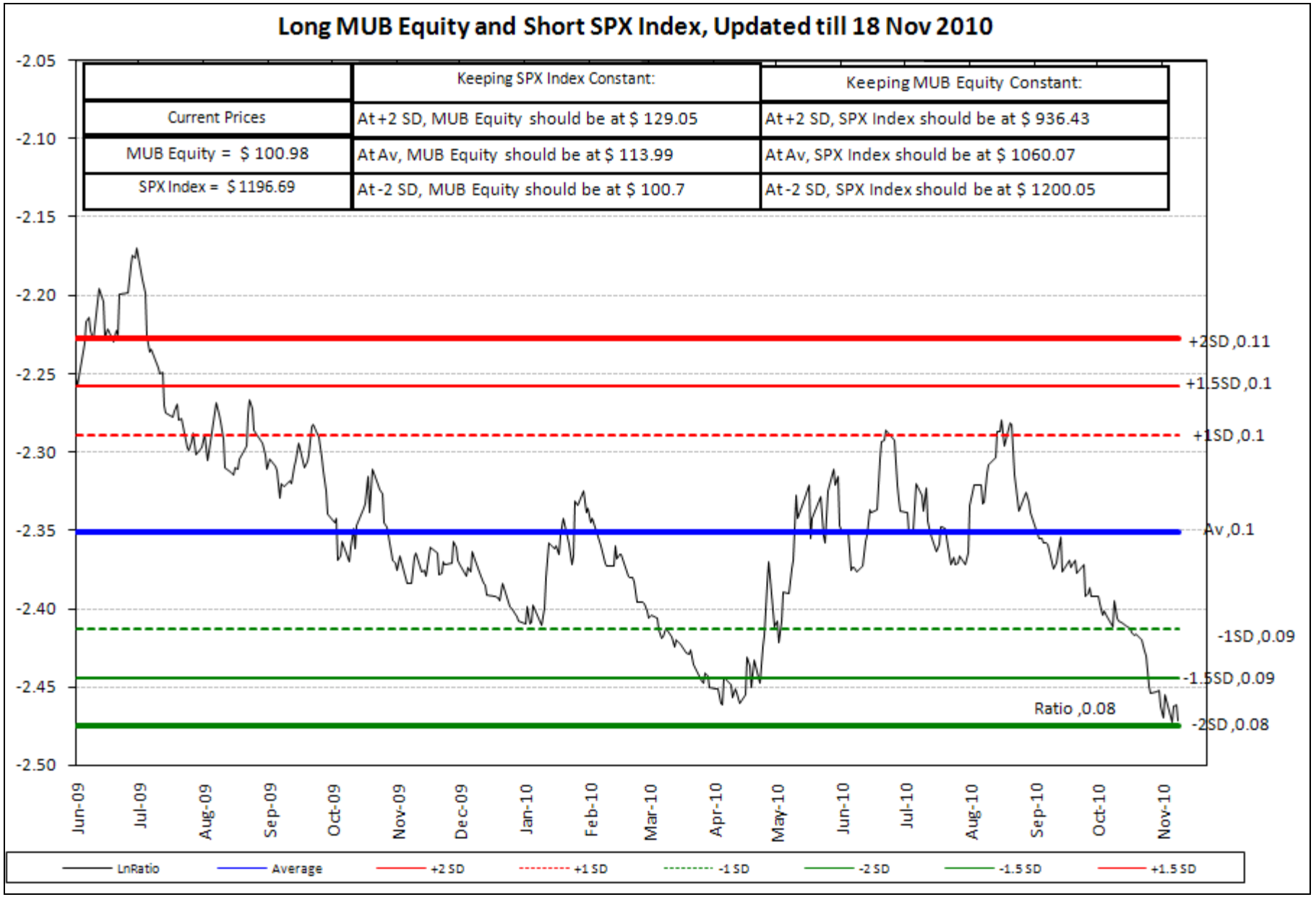
This market broke down at 104 with panic waterfall drop ,Currently very oversold. We have two options here , Wait for it to setup for bounce on lighter volume to 105 will set up a bearish case back to the lows or See below

MUB – Technical & Pattern Analysis

The more high probable will be the lows of 99 test at 800k volume to complete , then the target would be back to 104 (break down area). We will have this in our PQV report with CZ in the PQV Validated watch list

IMP – SD level is at almost at +2.00 undervalued

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



XM1 - Weekly– 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

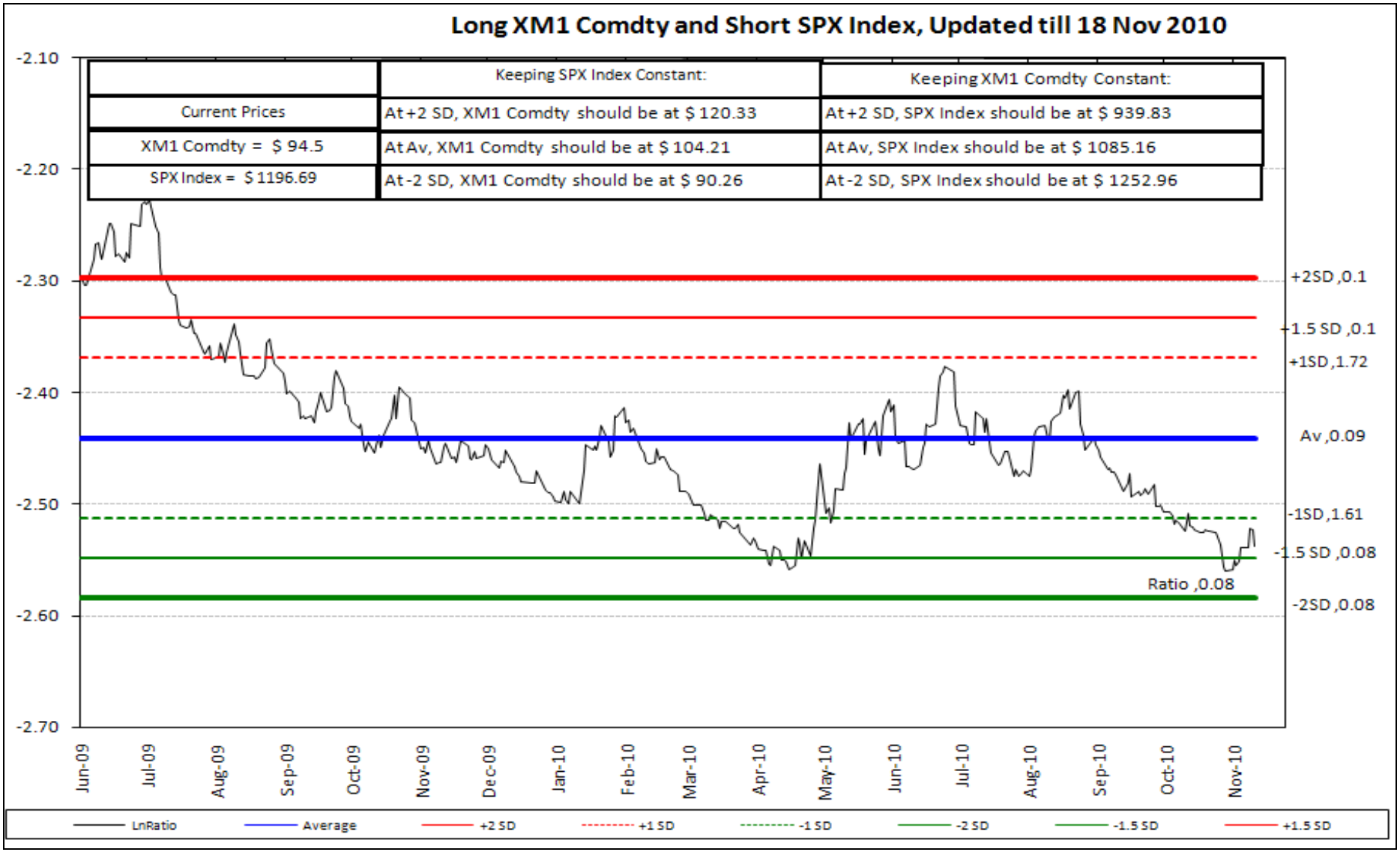
In wkly chart below , this market made a high circled in Green at higher volume suggest that will be tested at some point. Currently its holding the Trend line from 2008 & Multiple lows and highs of past moves on lighter volume as indicated . There is a confluence in this area and Price should hold , CCI is in Area where past lows have taken place

XM1 - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

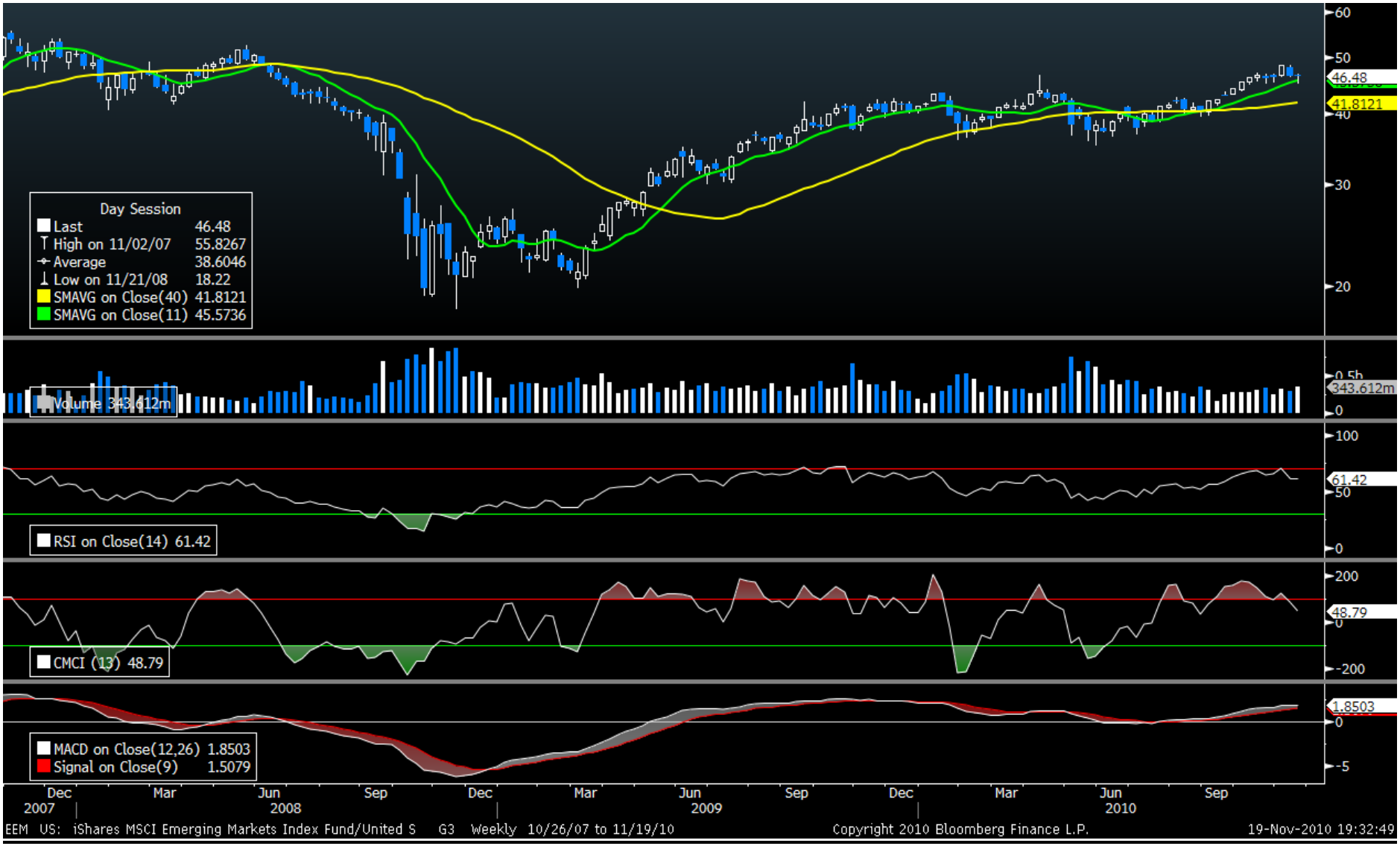
XM1 - Technical & Pattern Analysis

In chart below , Currently its entered in the confluence zone as indicated below and volume has shrunk compared to previous April 2009 high volume area , RSI is very oversold at 20. On SD Scale we are undervalued at almost # 1.5

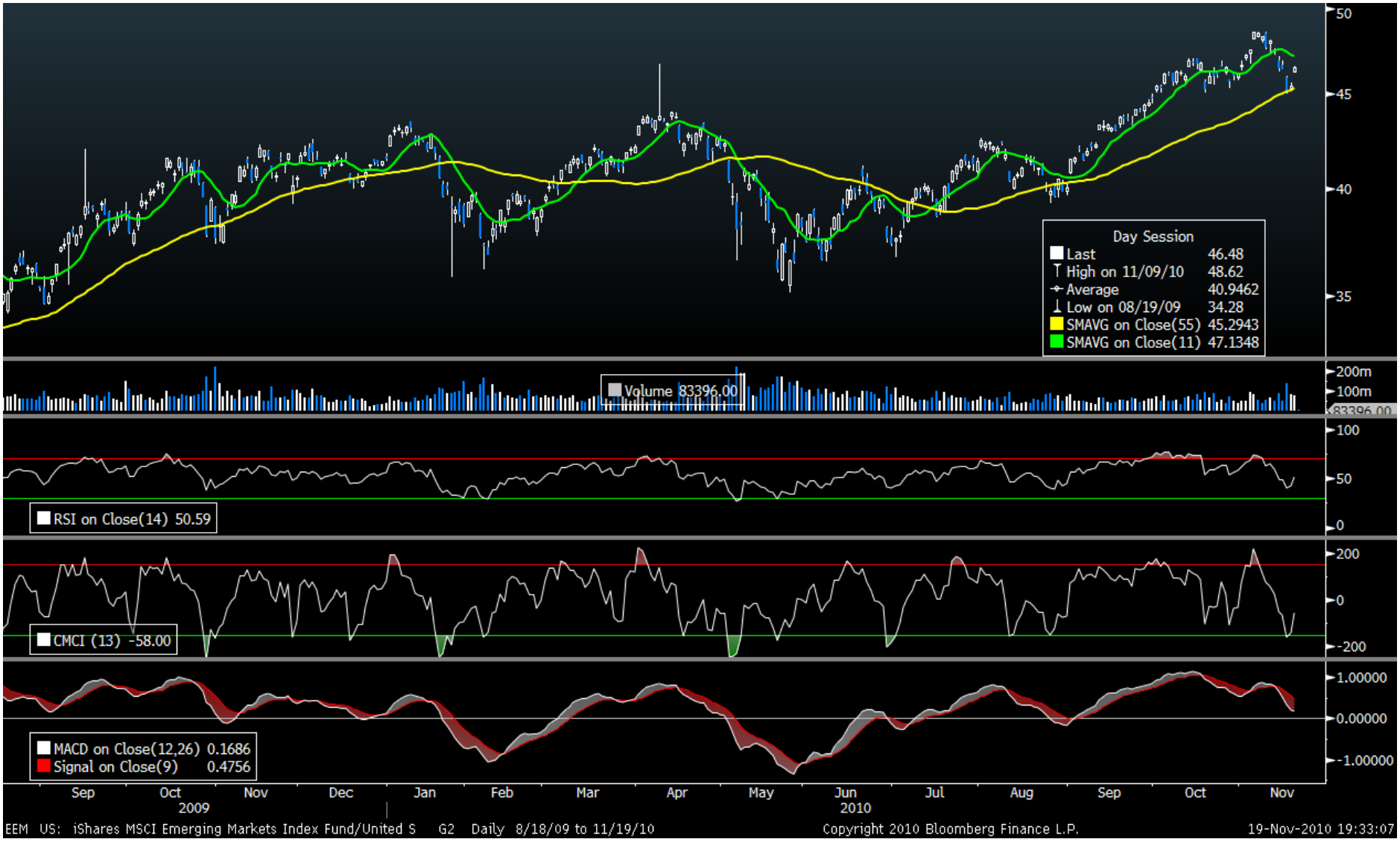
XM1 – Correlation Ratio Analysis with SPX – 365 days Time basis



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

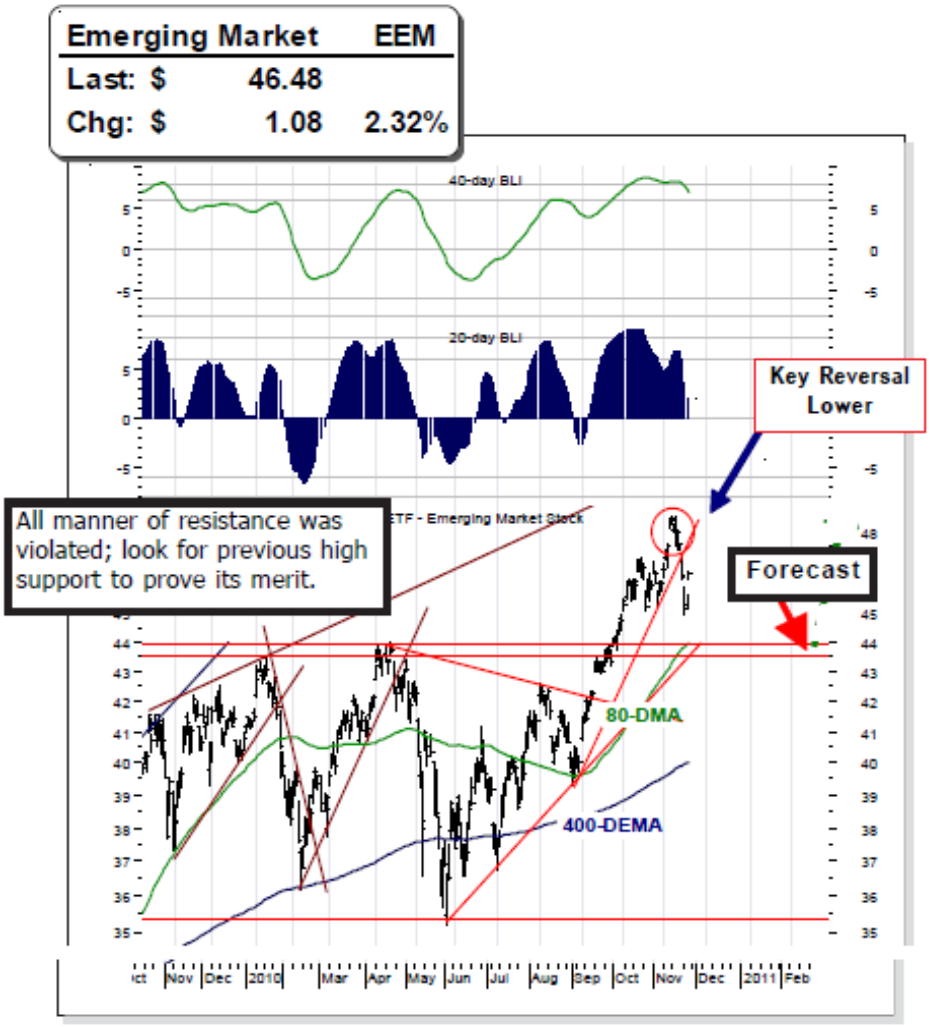


2- EEM - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

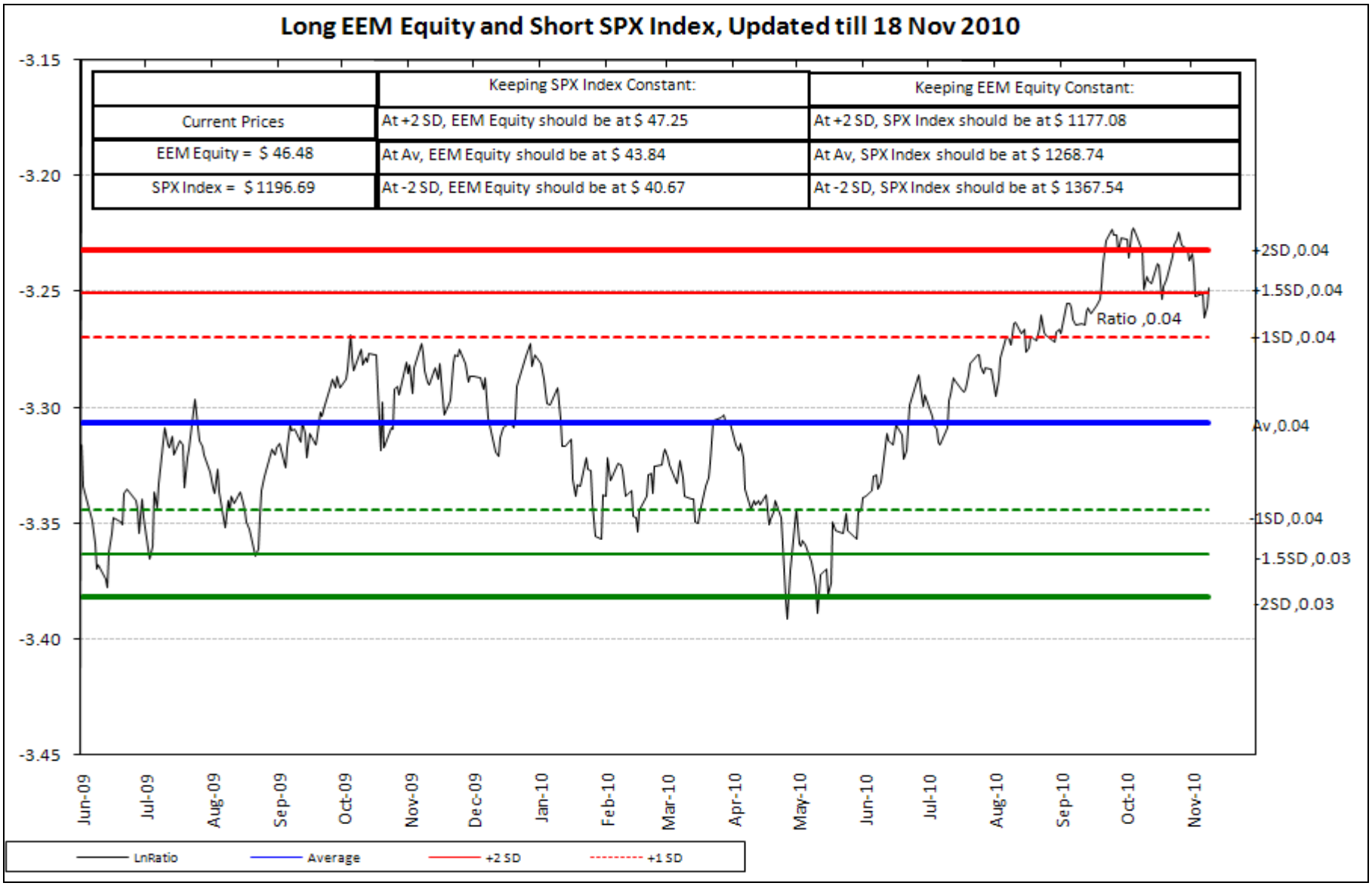


– EEM – Technical & Pattern Analysis (No change)

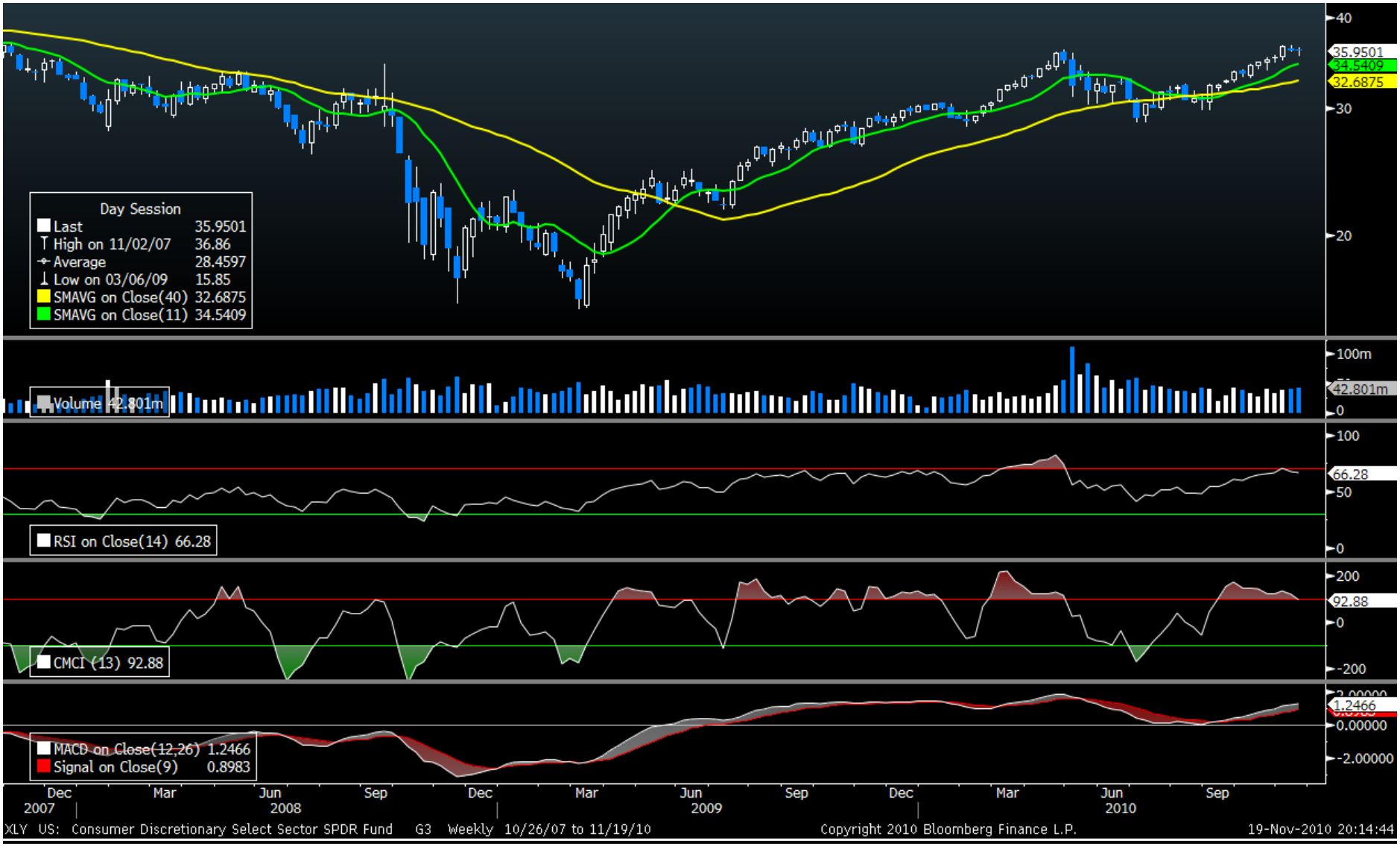
The EEM / SPX ratio chart looks bearish and should trend down in RH side chart below, confirms the relative fall in EEM / SPX (hence overvalued) by this matrix in Sync with SD Analysis.



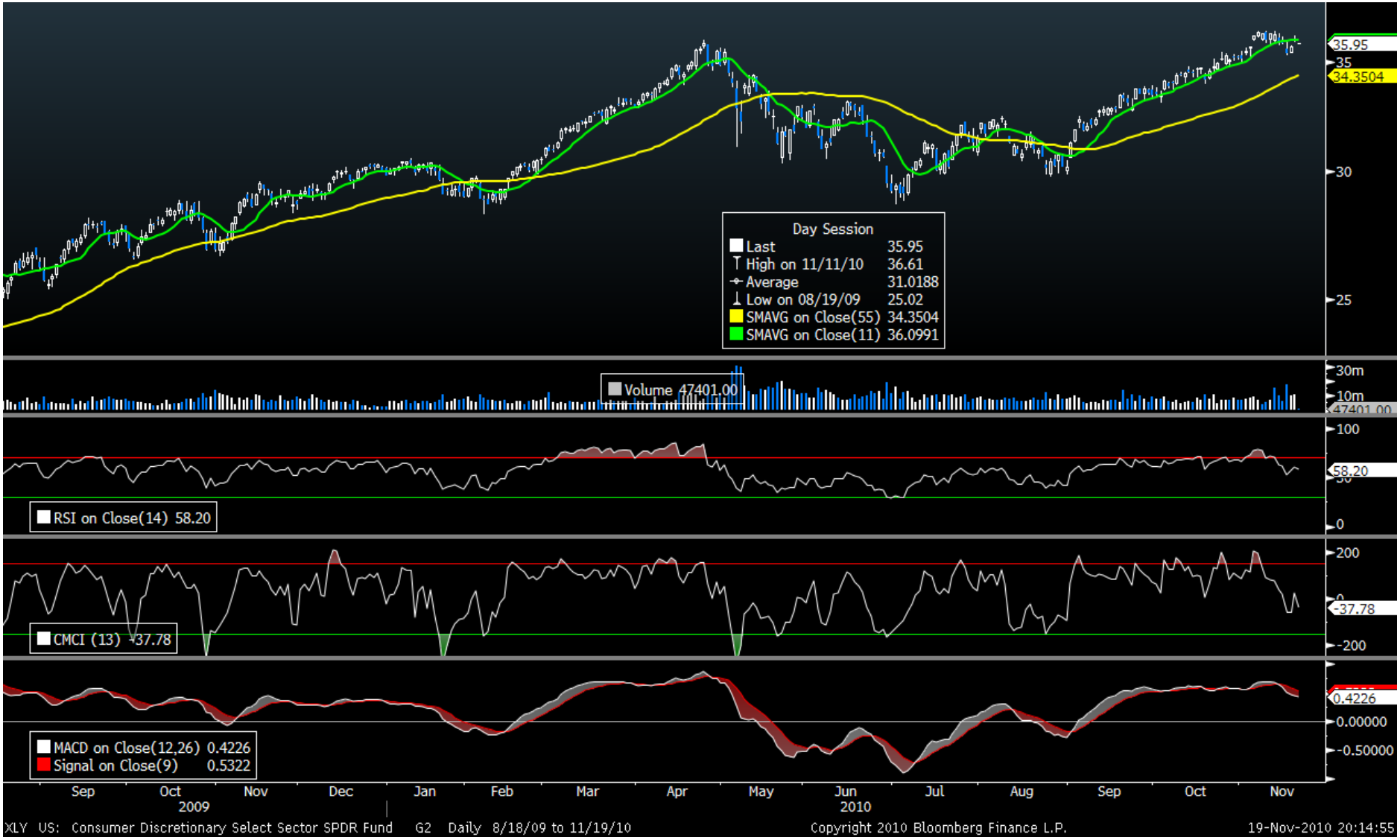
EEM – Correlation Ratio Analysis with SPX – 365 days Time basis



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

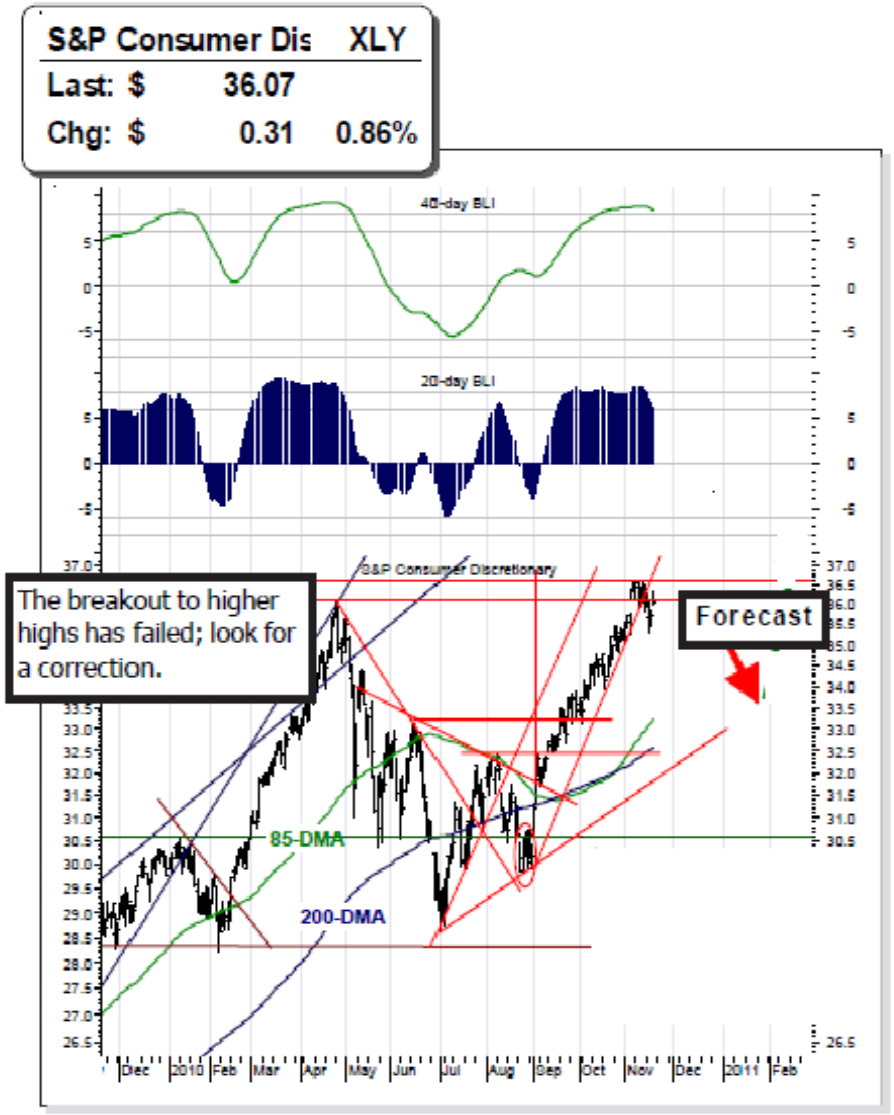


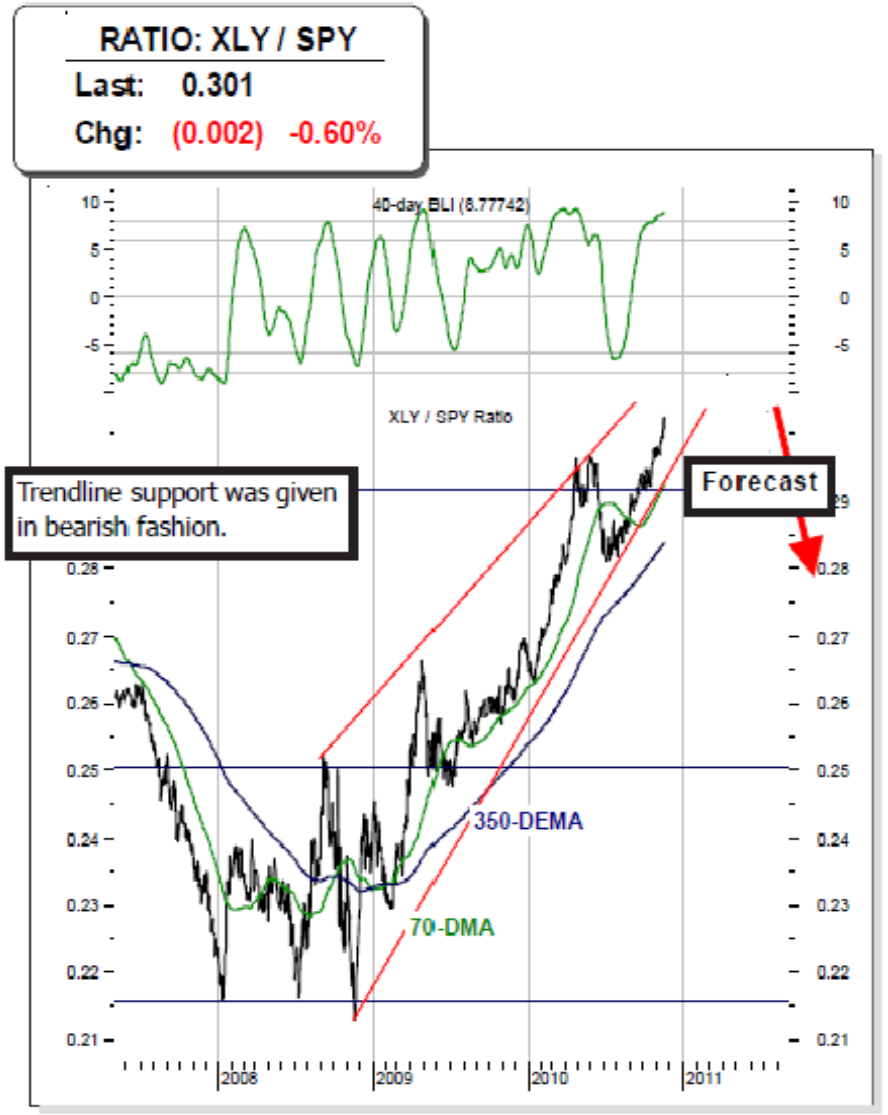
XLY - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD



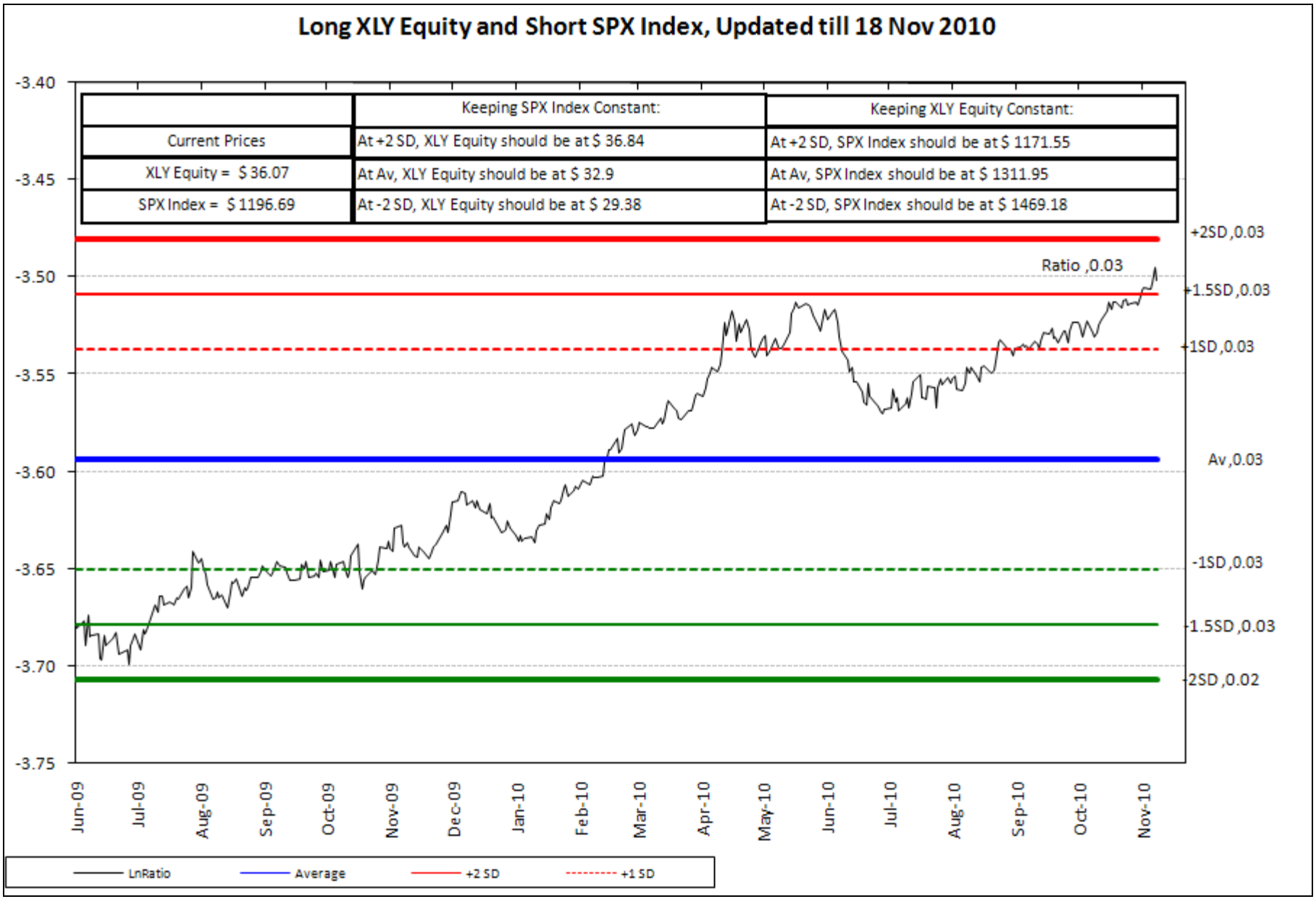
XLY – Technical & Pattern Analysis (No change)

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

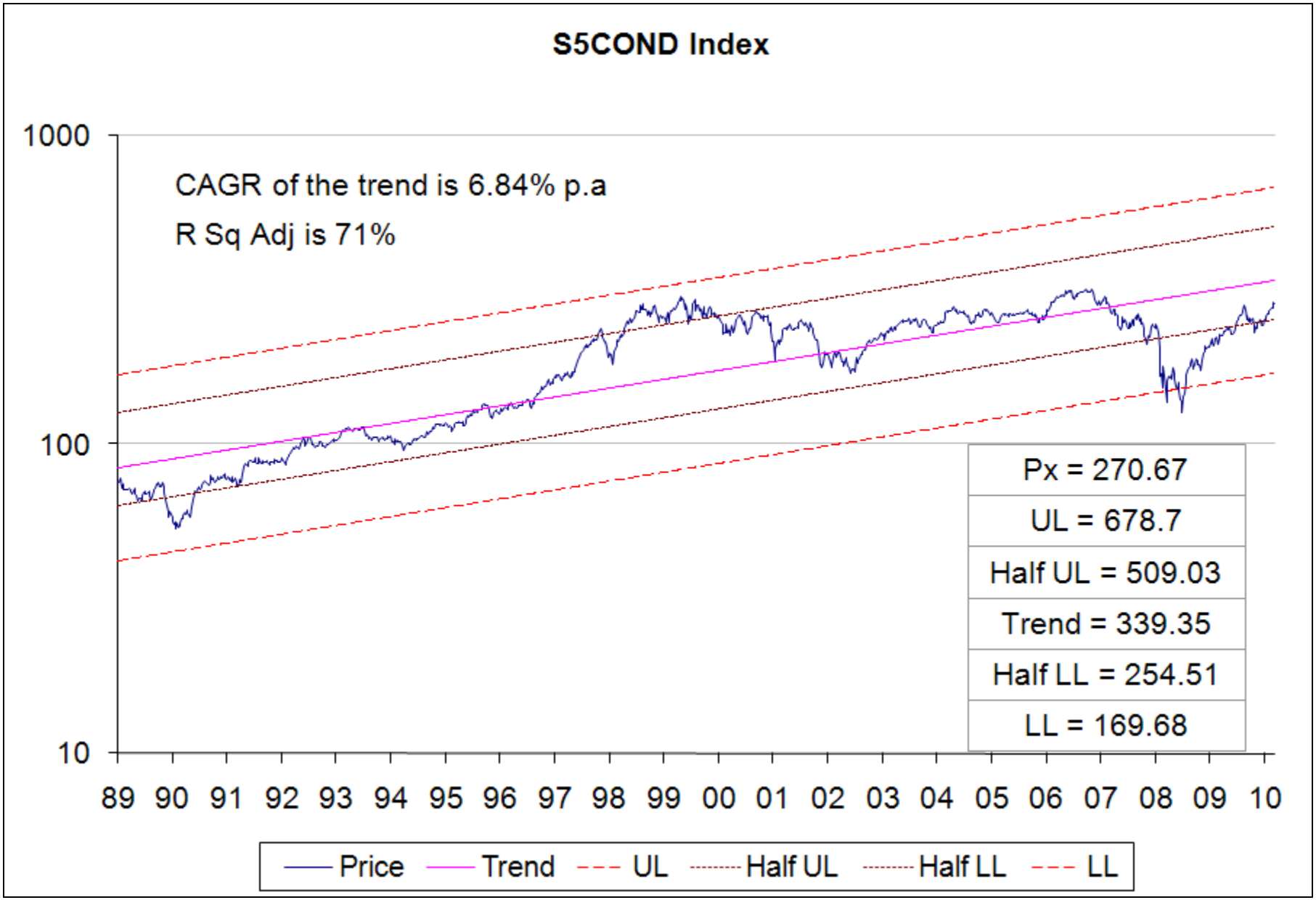




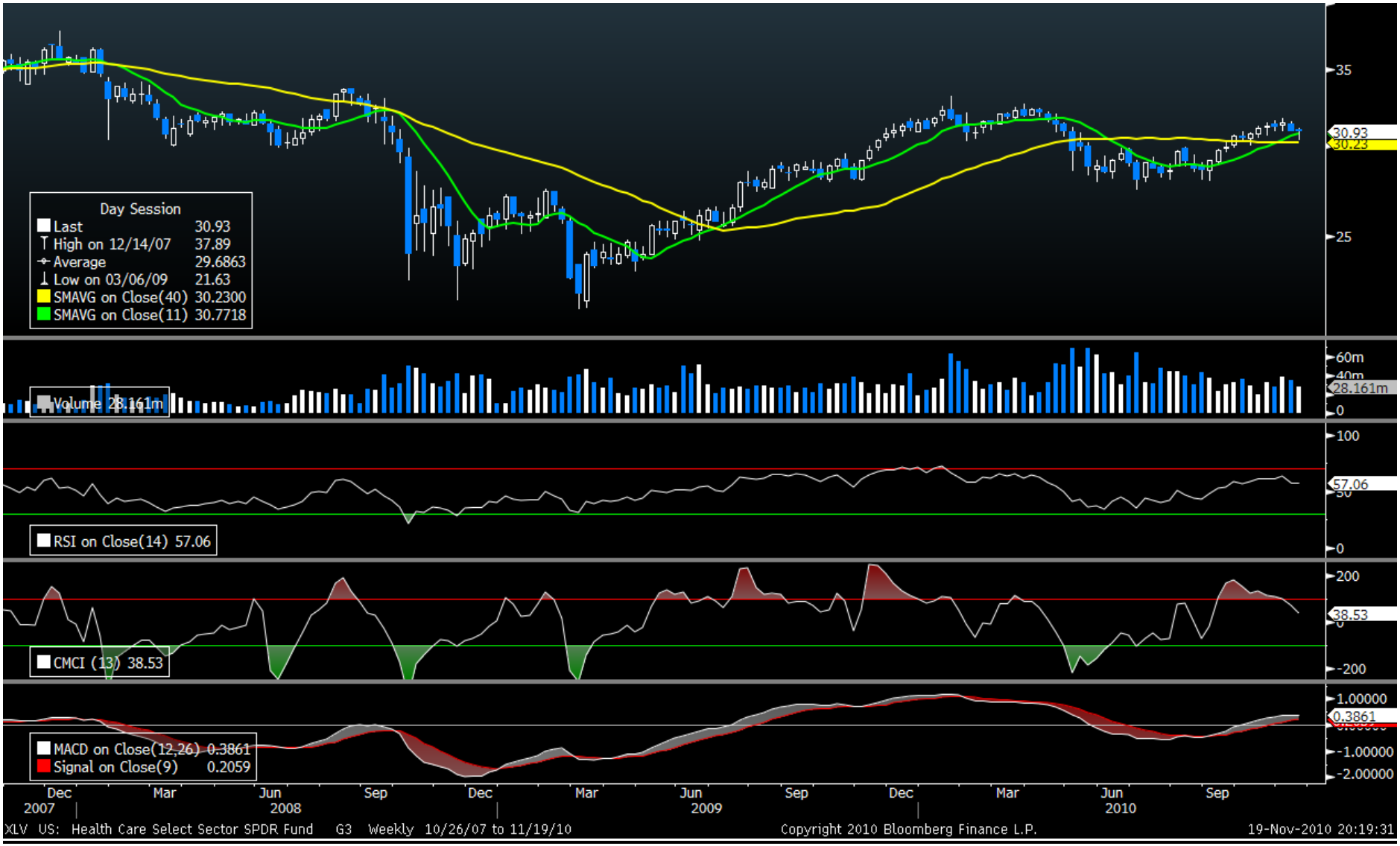
XLY – Correlation Ratio Analysis with SPX – 365 days Time basis



XLY – Trend Reversion Analysis – Long Term



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



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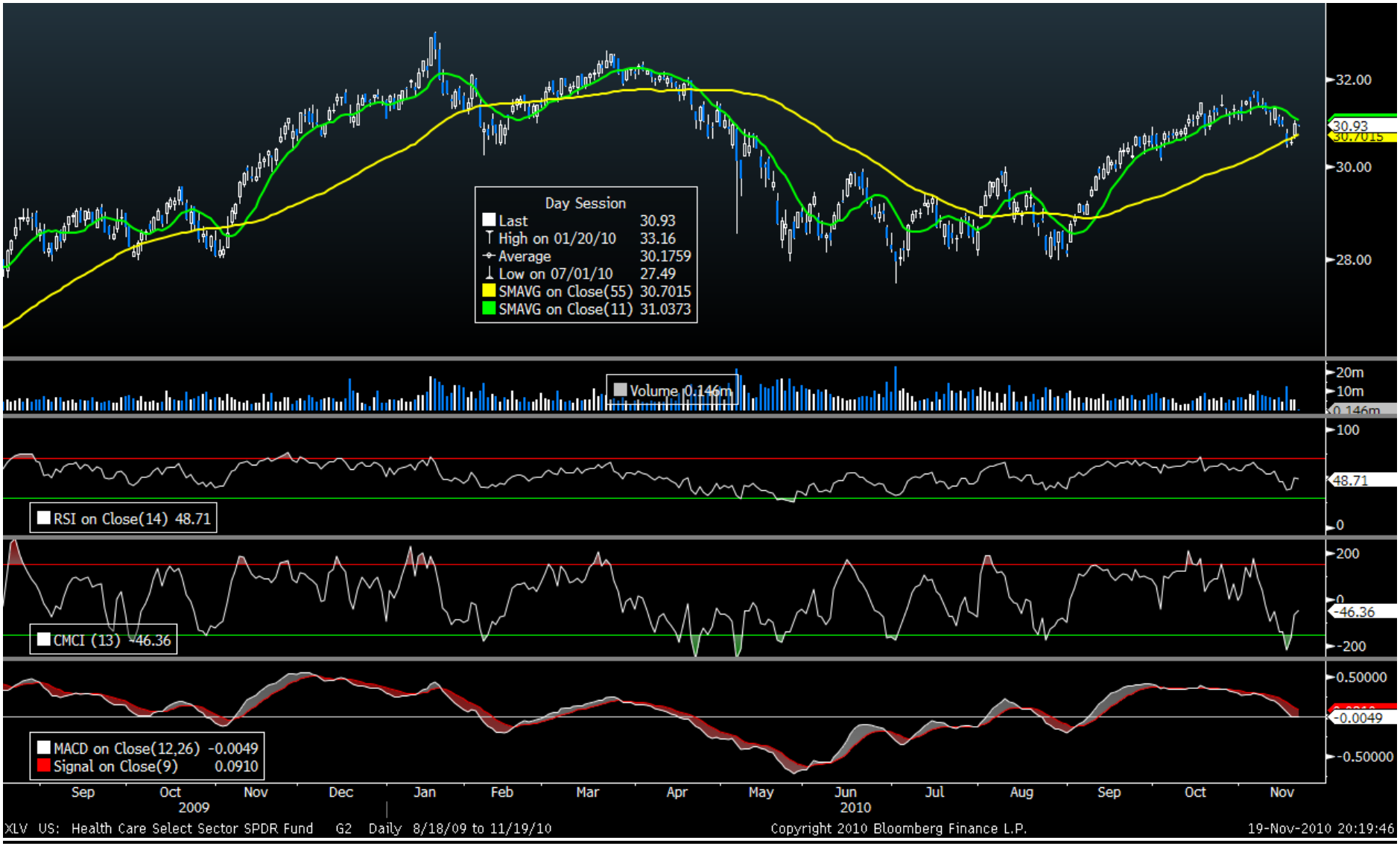
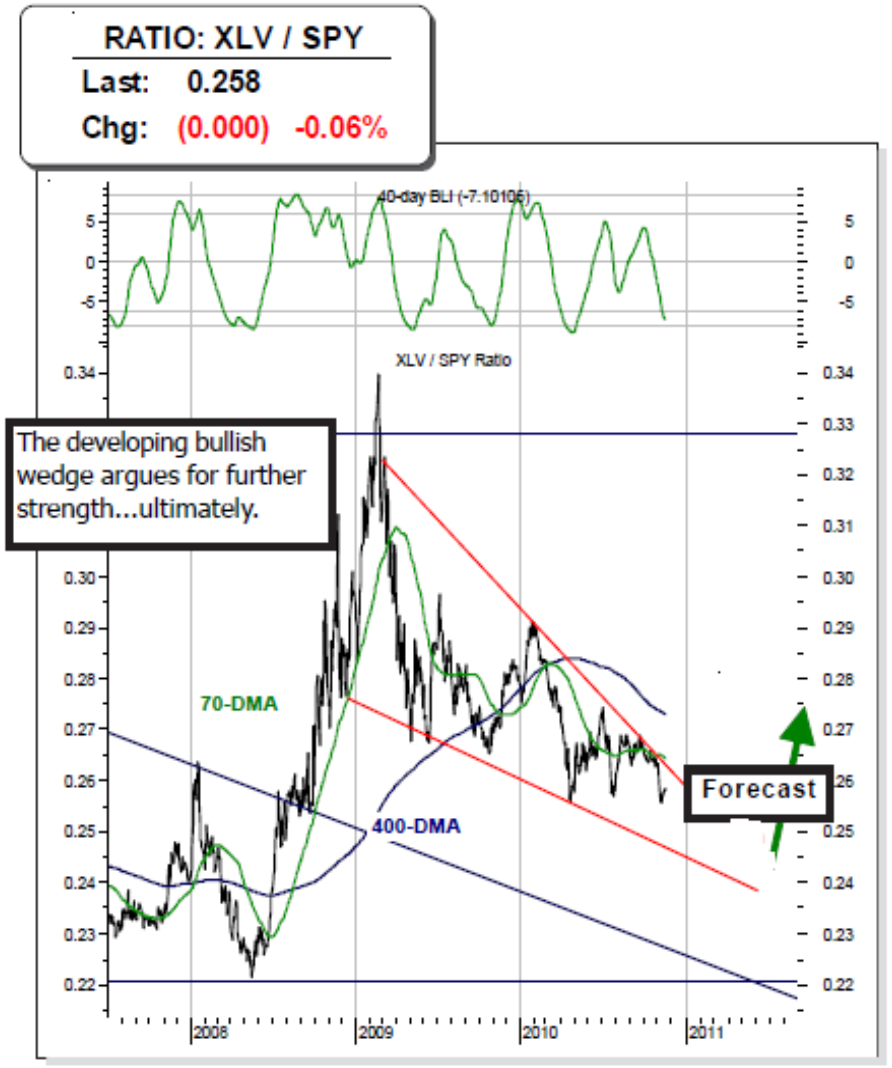
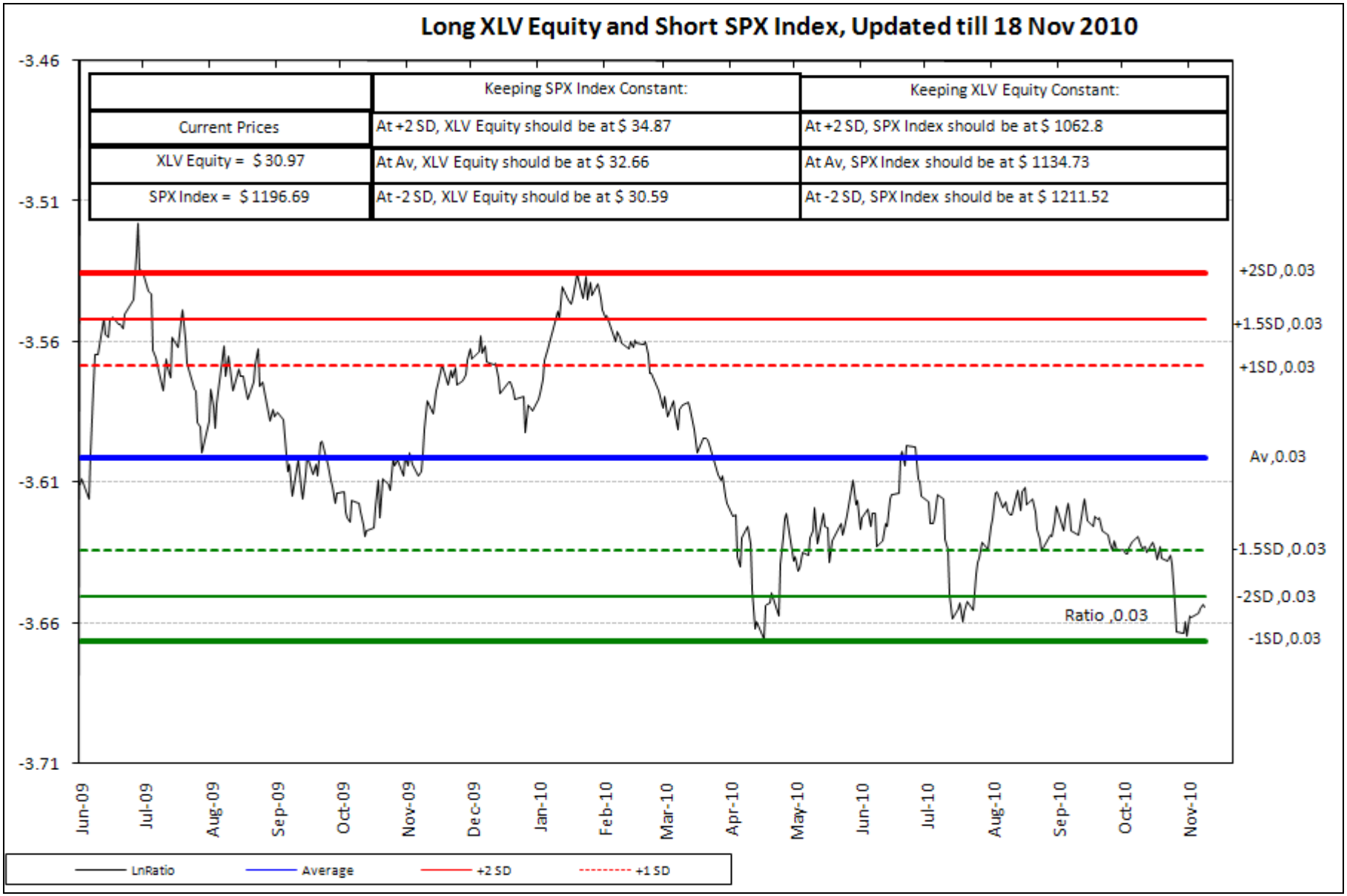


XLV – Technical & Pattern Analysis (No change)

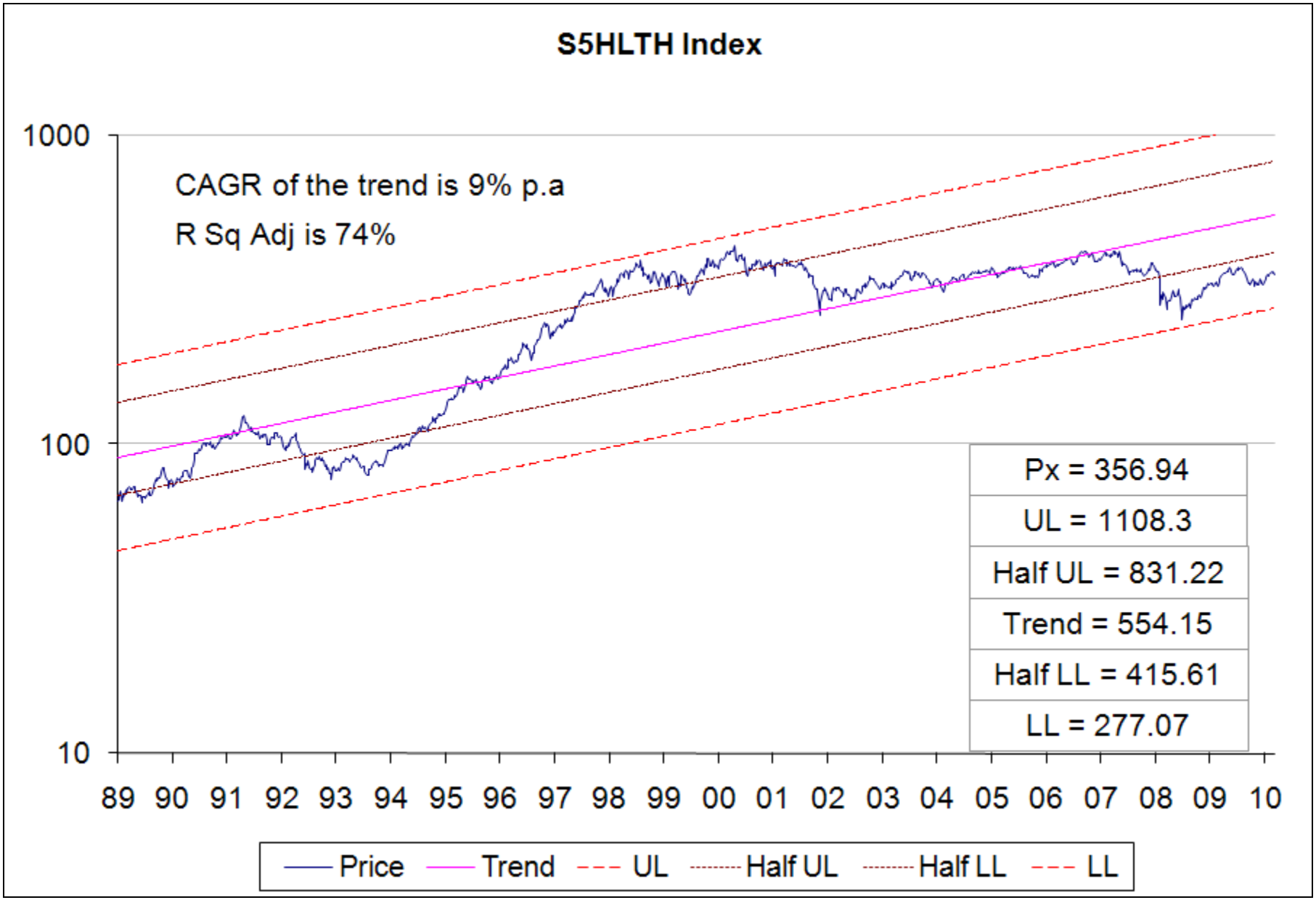
The XLV / SPX ratio chart looks bullish and should trend up in RH side chart below to confirm the rise in XLV / SPX (hence undervalued) by this matrix in Sync with SD Analysis.



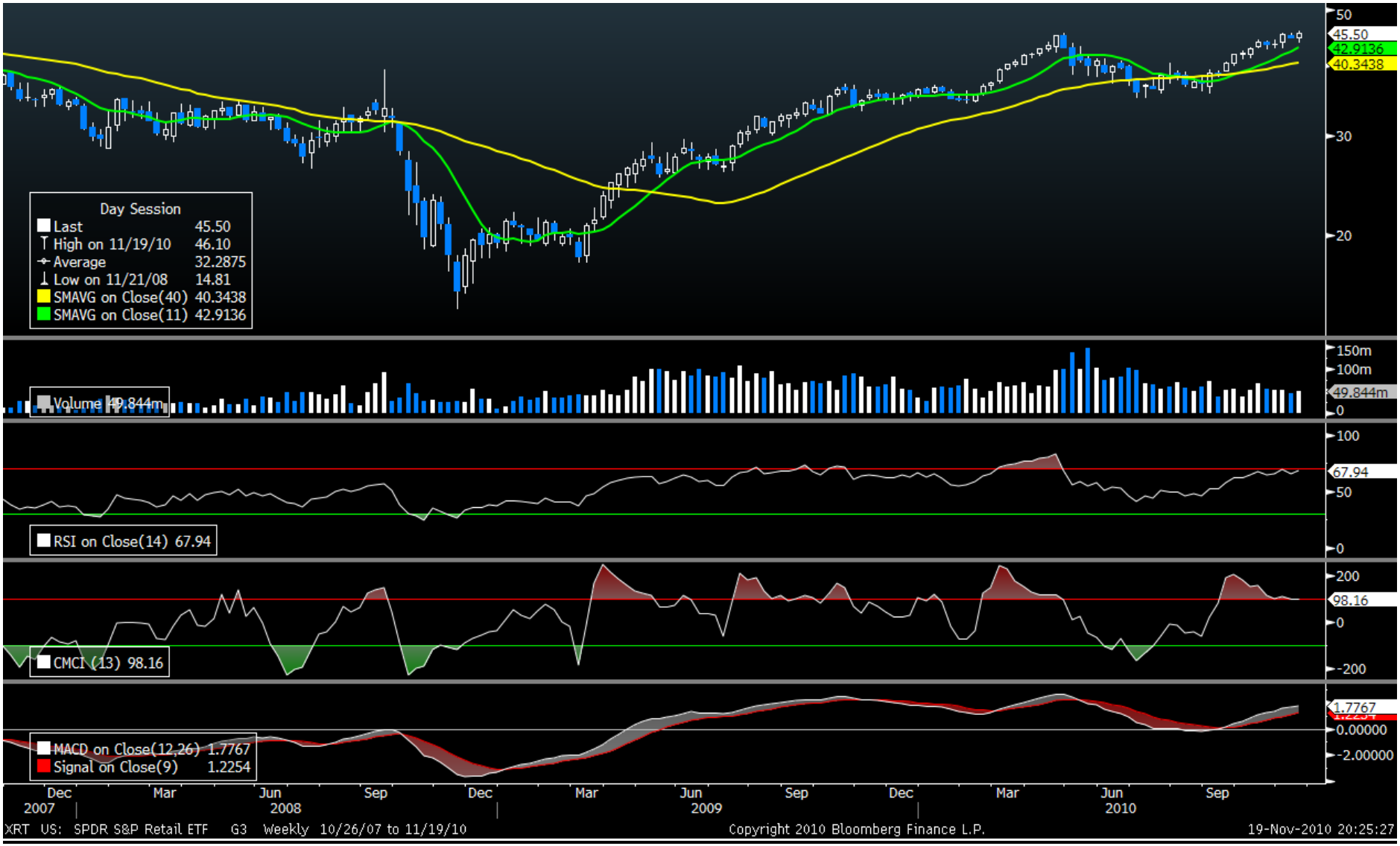
XLV – Correlation Ratio Analysis with SPX – 365 days Time basis



XLV – Trend Reversion Analysis – Long Term



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

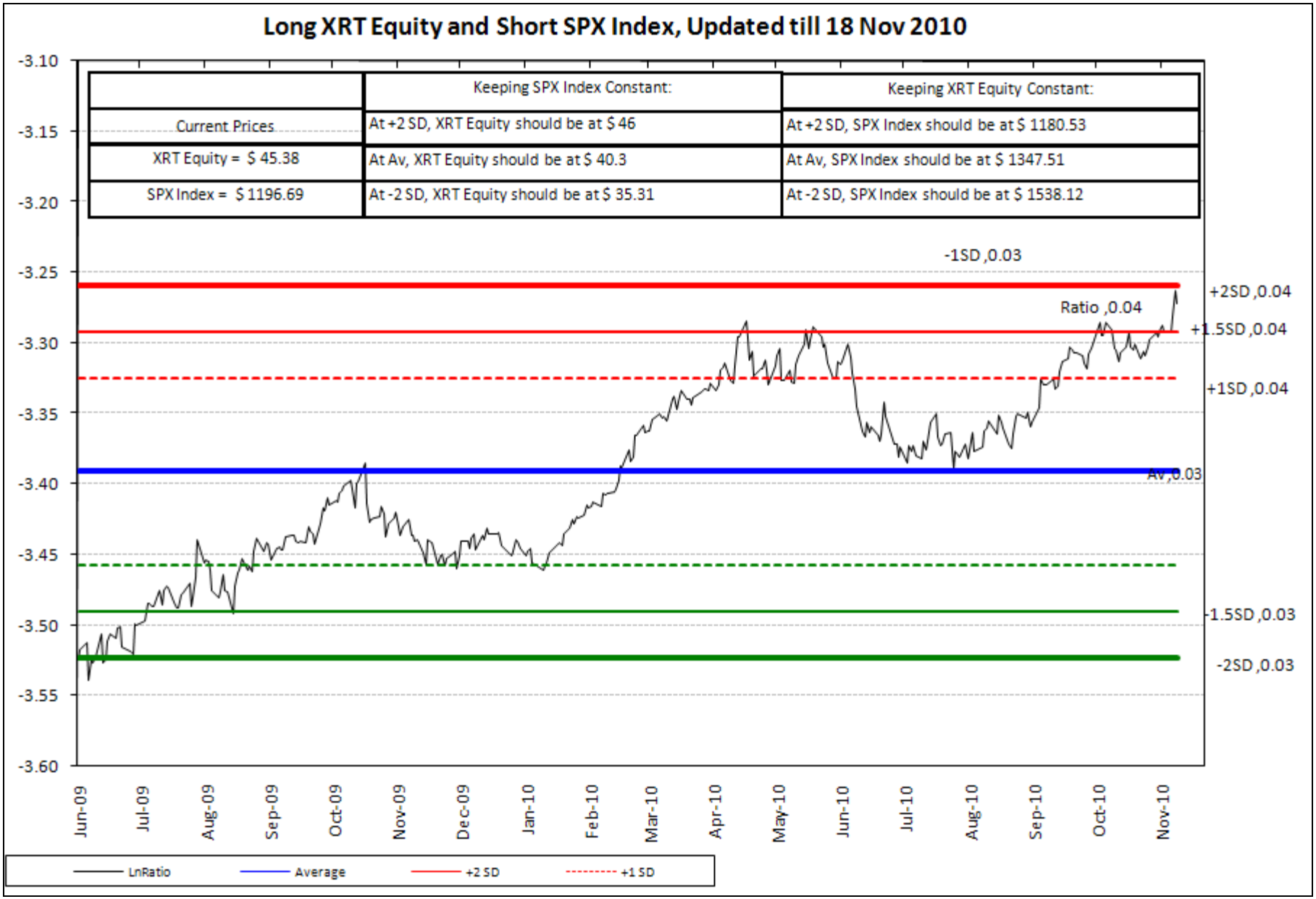


XRT - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

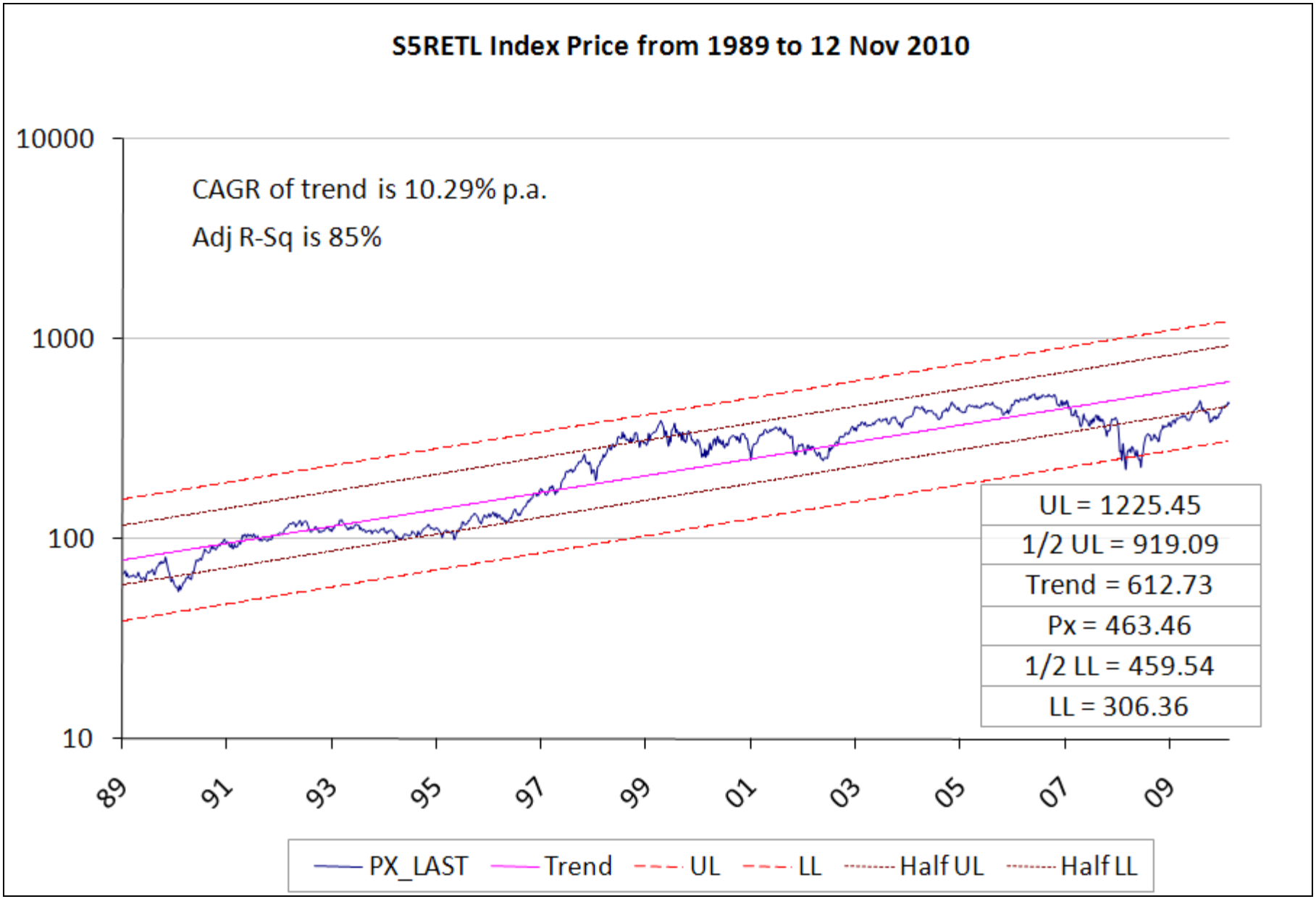
2 - XRT (RTH) – Technical & Pattern Analysis (No change)

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

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



XRT – Trend Reversion Analysis – Long Term

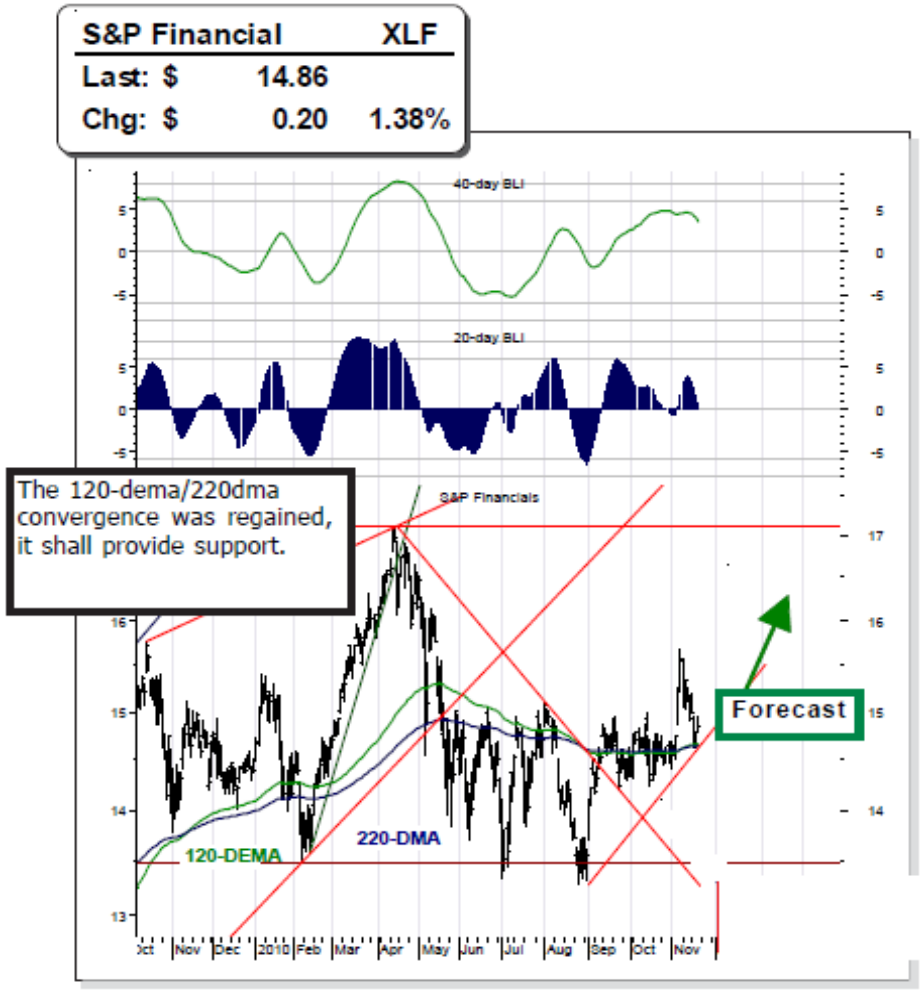


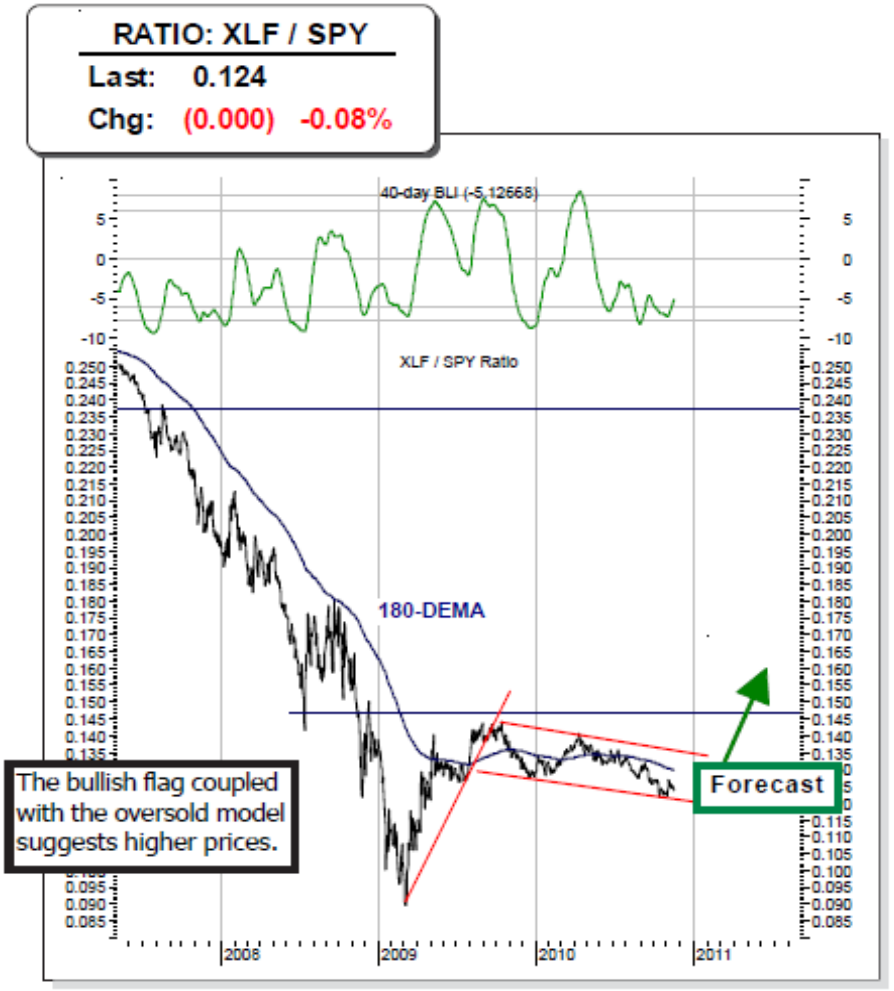
XLF - Weekly– 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

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

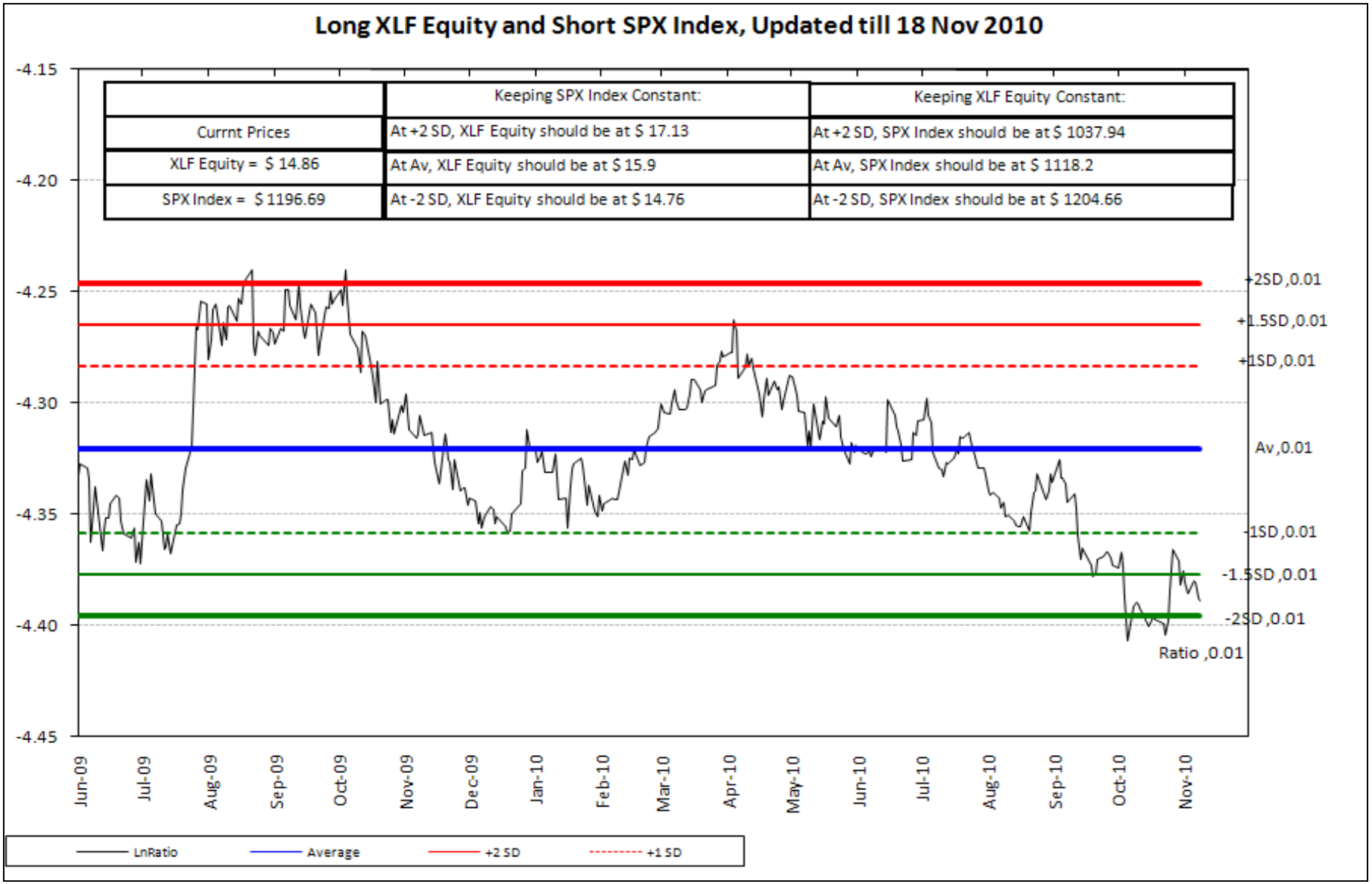
2 – XLF- Technical & Pattern Analysis - (appearance changed after move higher), Since we are at POM 14 , the Net buy on XLF would come in at POM 13, or POM 12

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.

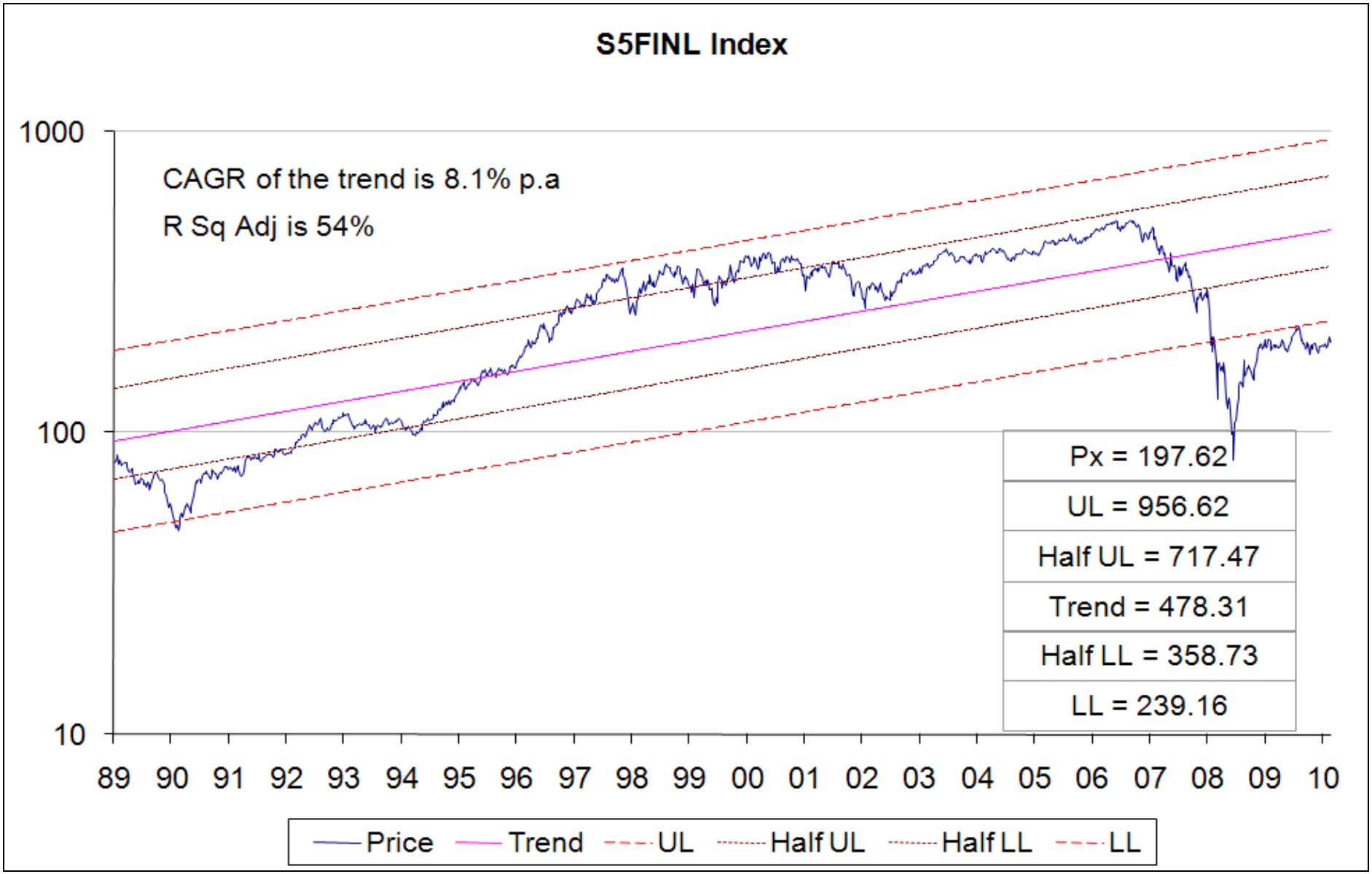




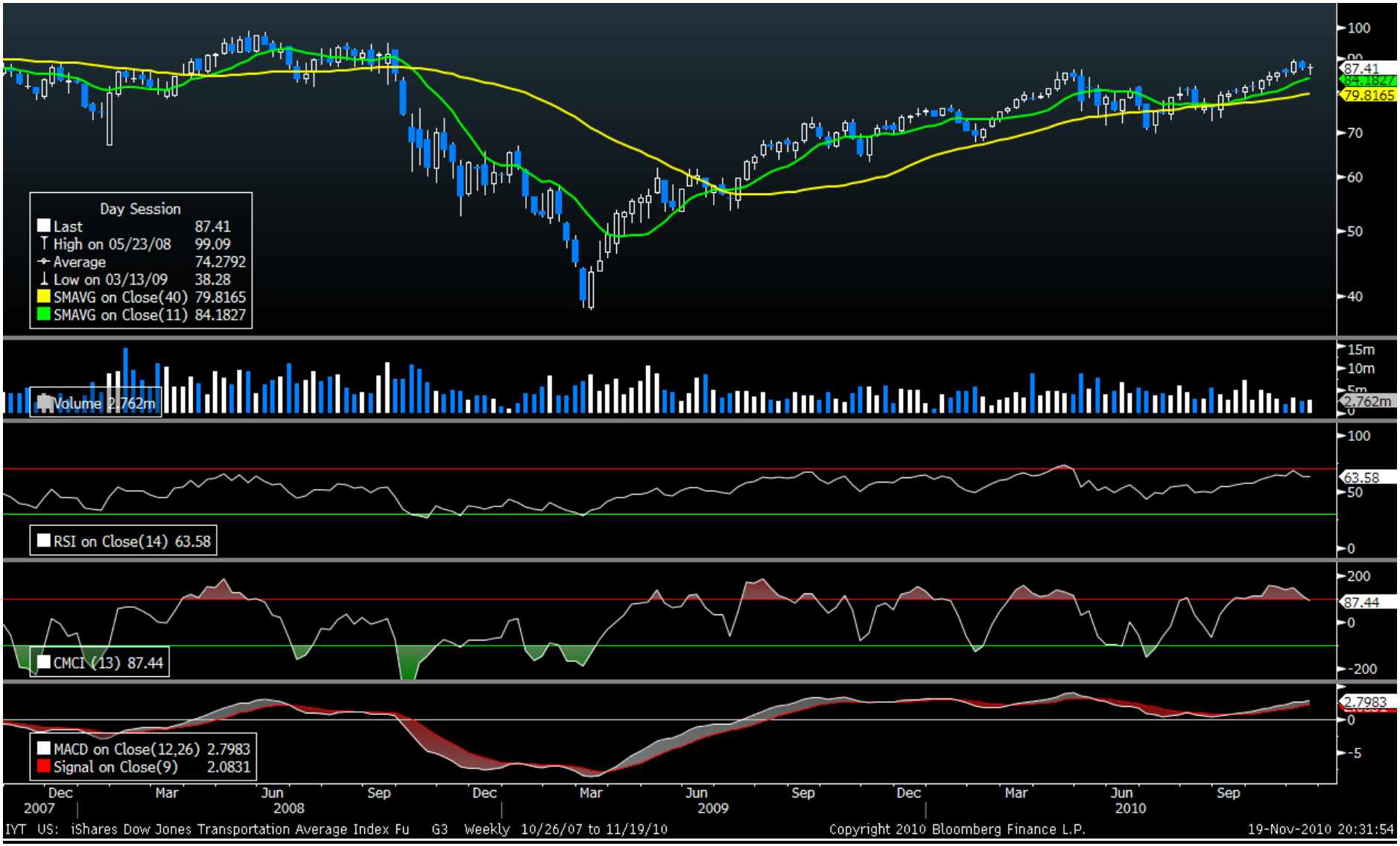
XLF – Correlation Ratio Analysis with SPX – 365 days Time basis



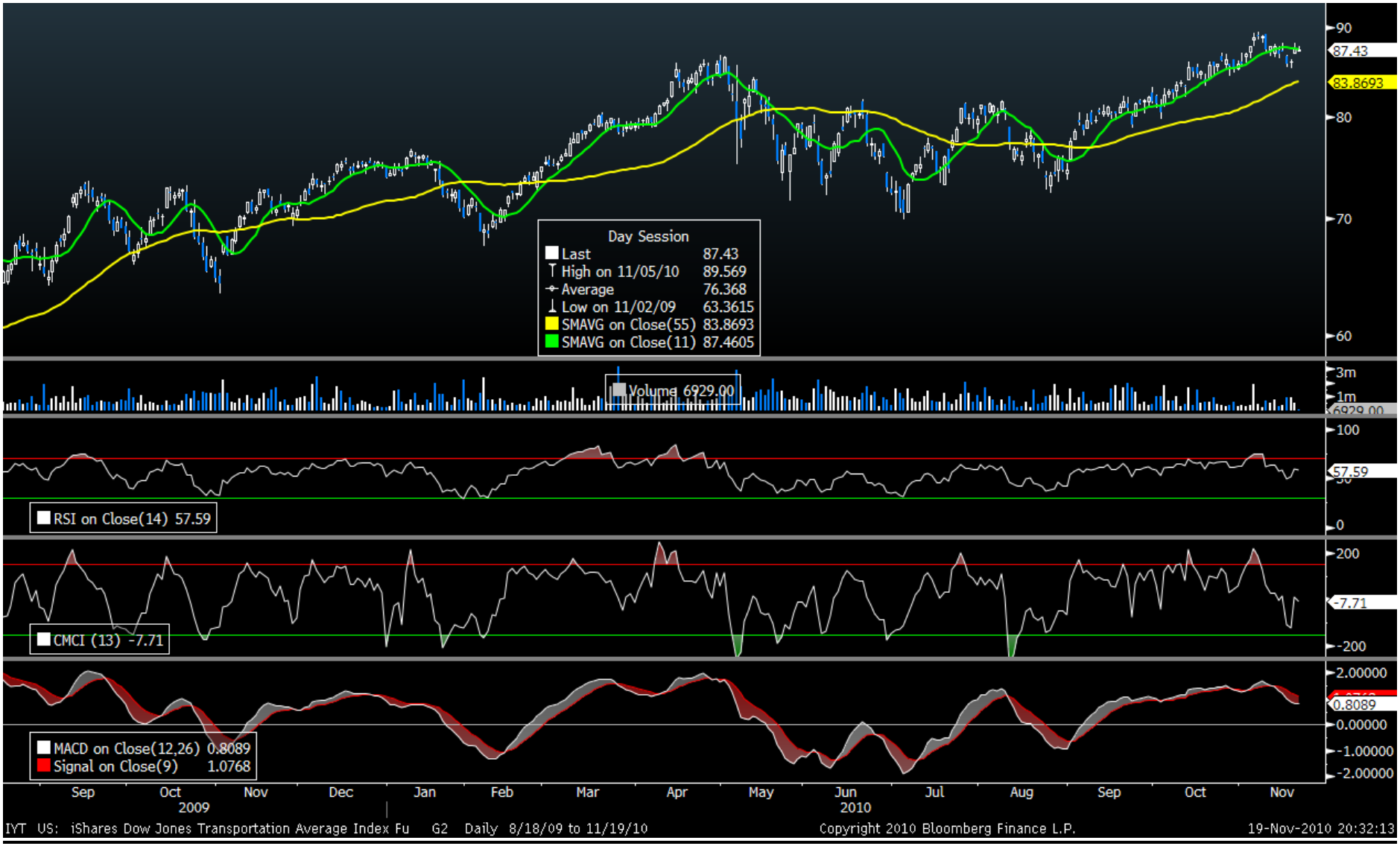
XLF – Trend Reversion Analysis – Long Term



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

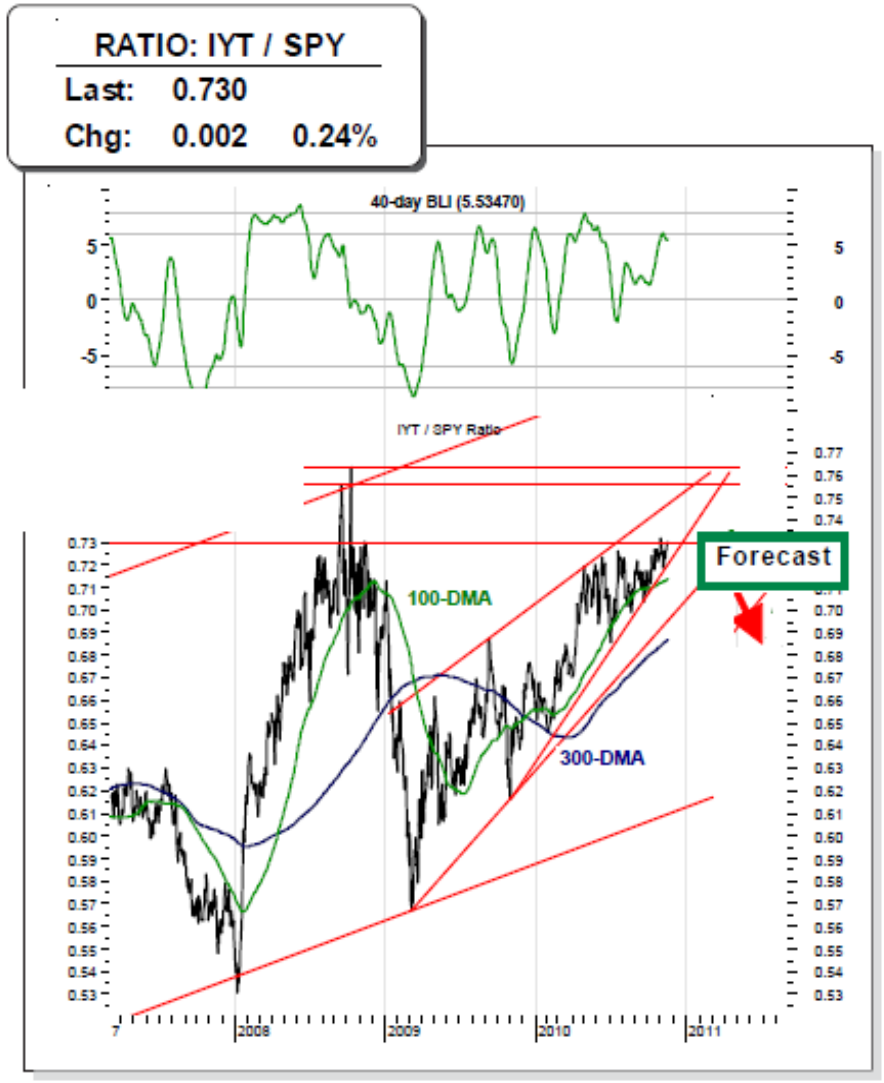


IYT - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

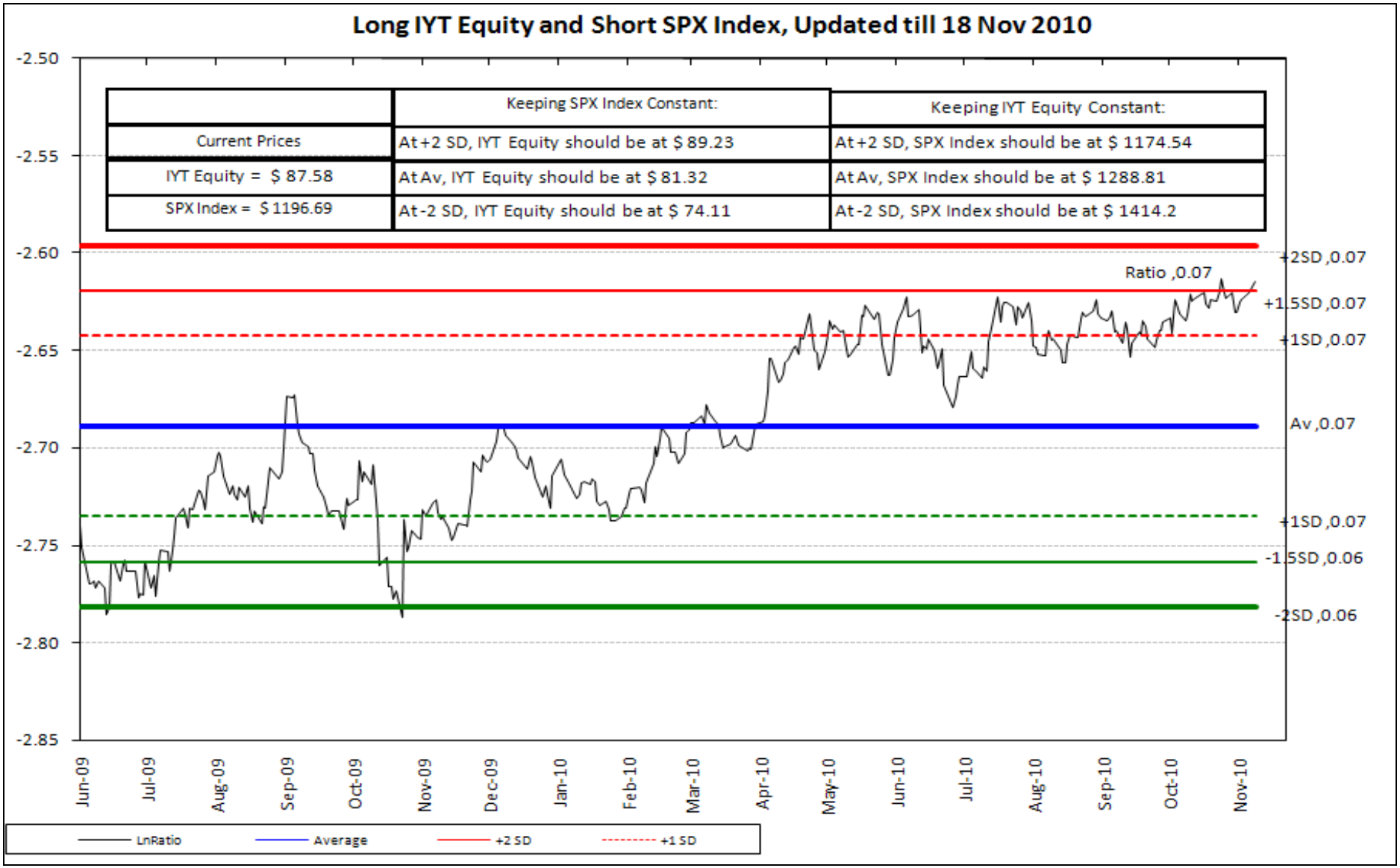


IYT– Technical & Pattern Analysis (No change)

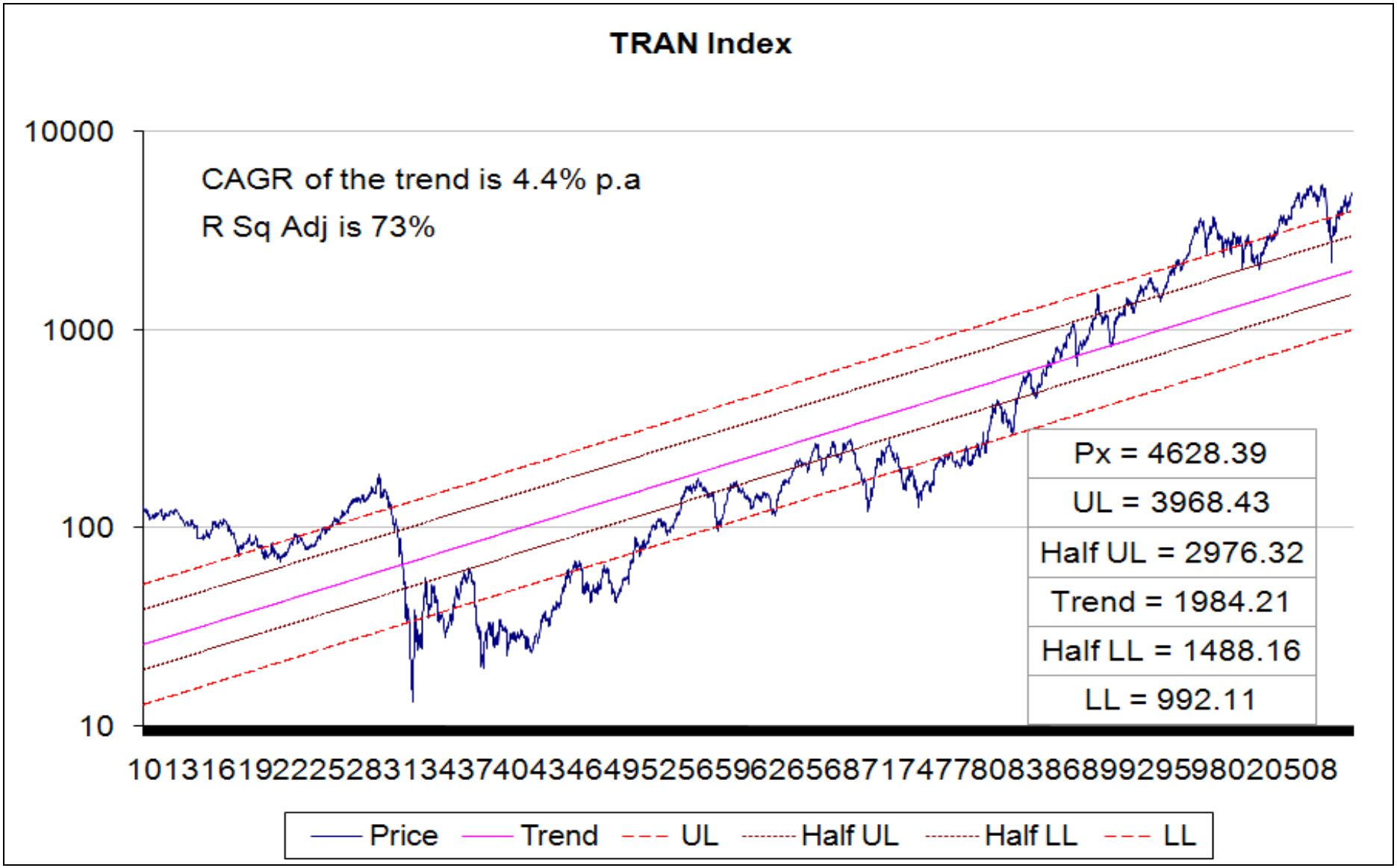
The IYT / SPX ratio chart looks bearish and should trend down in RH side chart below, confirms the relative fall in IYT / SPX (hence overvalued) by this matrix in Sync with SD Analysis.



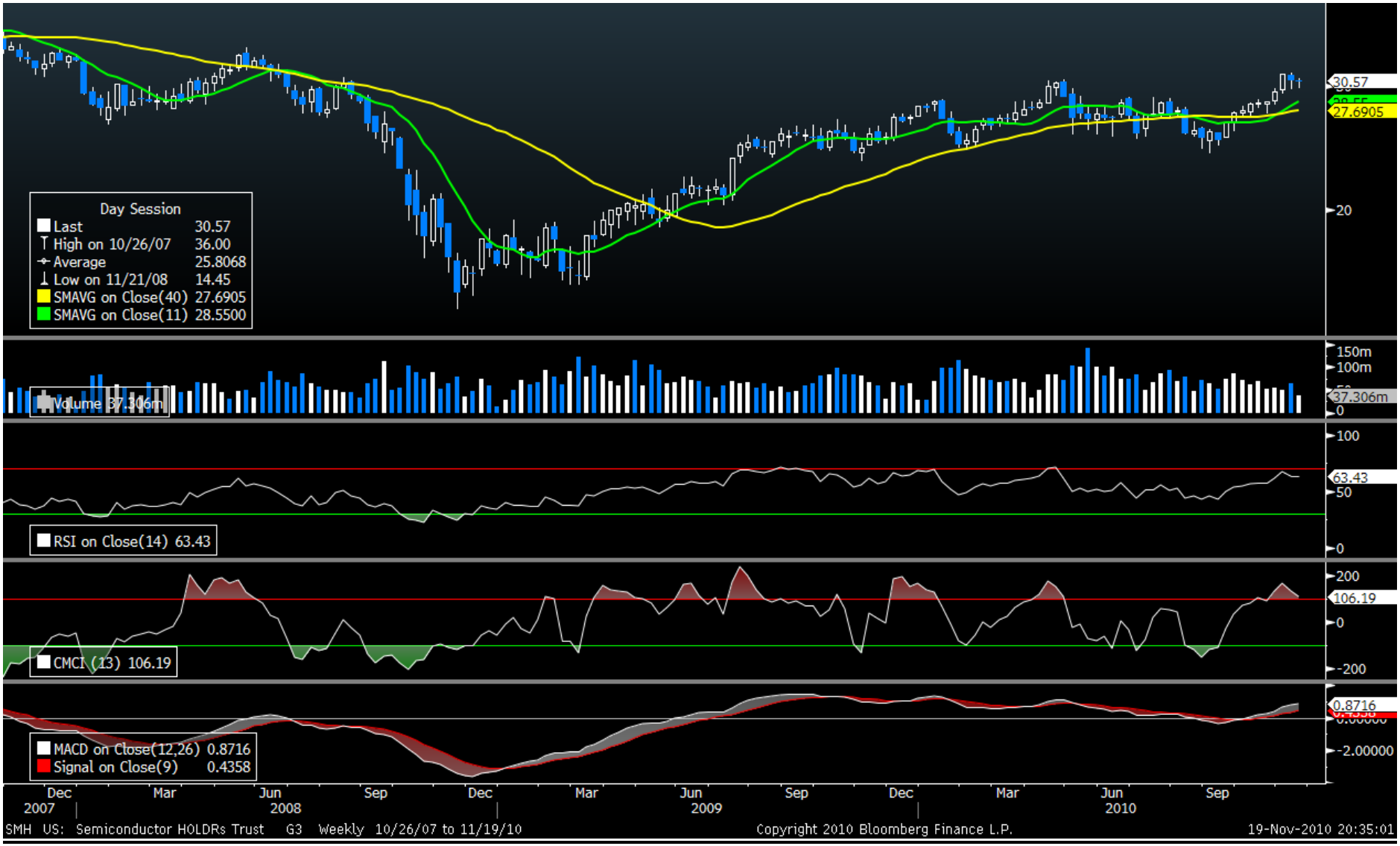
IYT – Correlation Ratio Analysis with SPX – 365 days Time basis



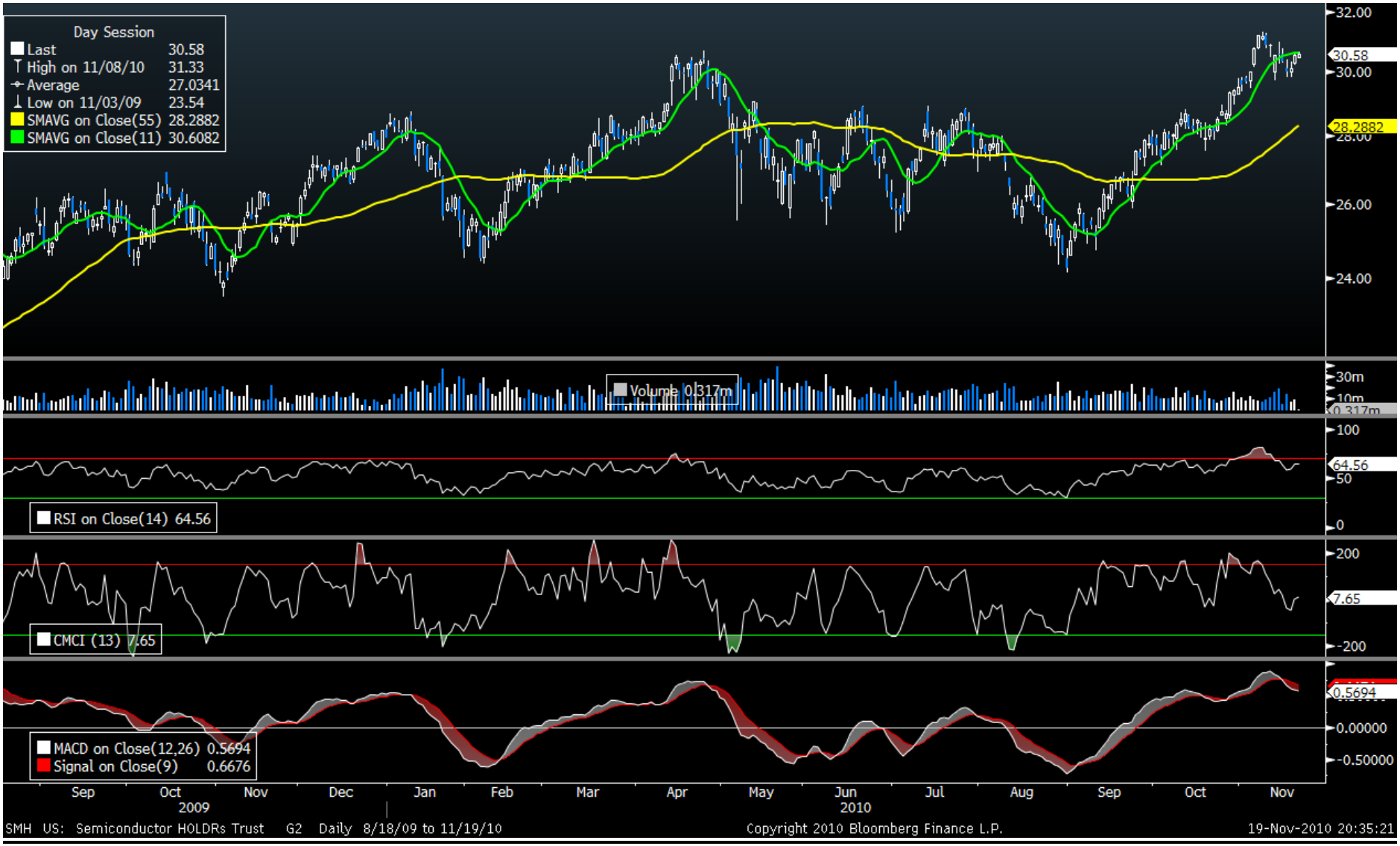
IYT – Trend Reversion Analysis – Long Term



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

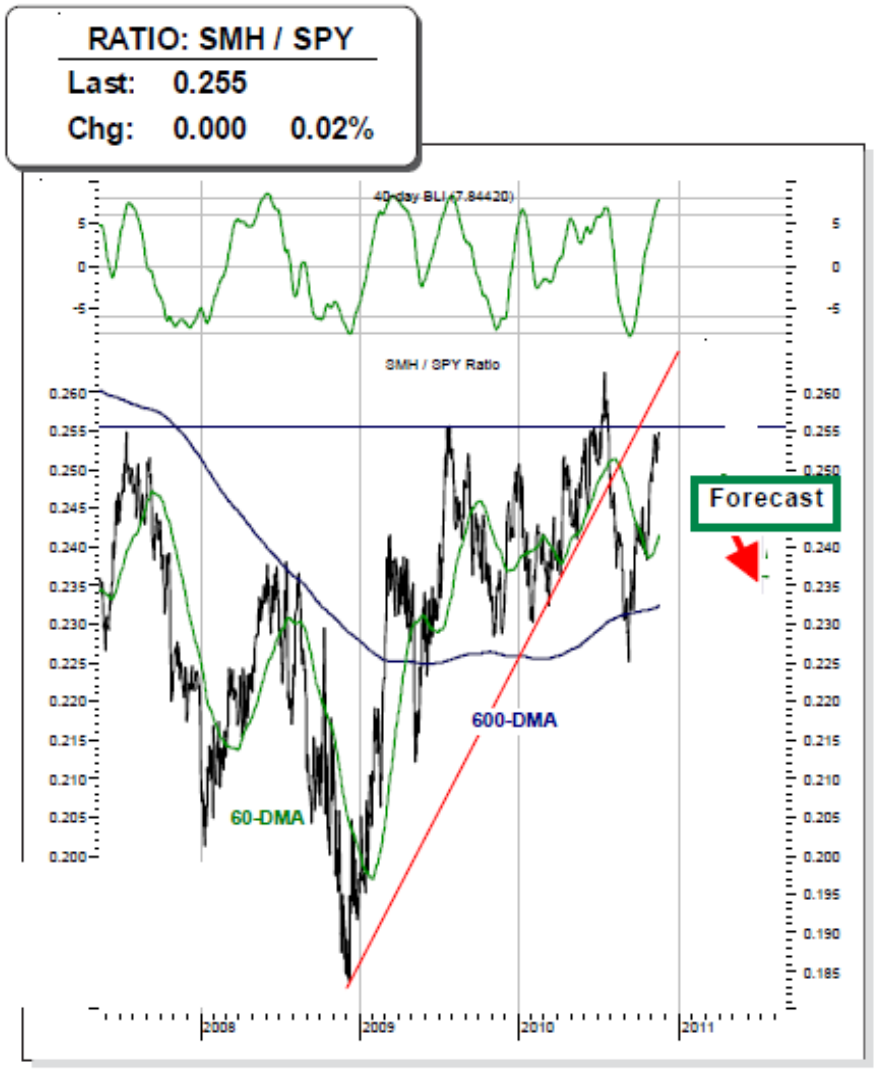


SMH - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

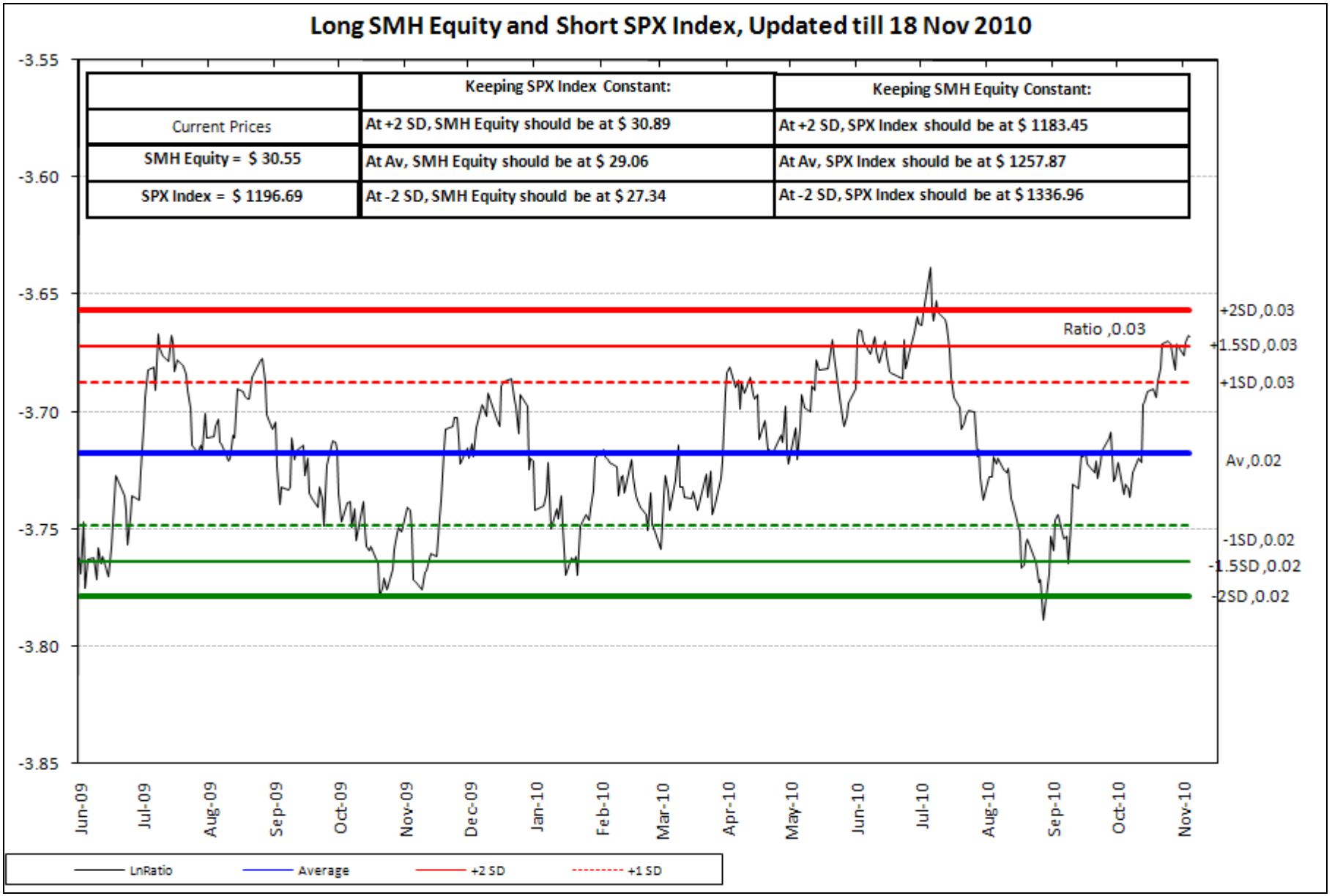


SMH– Technical & Pattern Analysis (No change)

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



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



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