



SG Capital Research

Global Market Insights

Research Note – Sector – ETF Analysis (D)

MAEG – WKLY SECTOR ETF ANALYSIS SG 2010 # NOV 26

For Immediate Release – *Friday AM (EST) or Saturday*

By: Suneil R Pavse

Contact: apavse@aol.com

- **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 @ 1225

Sym	Posn	Close	Reversal
DJ	Short	11184.3	11430.5
SPX	Short	1198.35	1225.85

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)
<ul style="list-style-type: none"> • TLT (Bonds) • IWM (Small Cap) • MUB (Municipal Bond) (SP) • XM1 (10year A\$\$ Bond) (SP) • EEM (Emerging) • EEA (Europe) • EWJ (Japan) • FXI (China) • RSX (Russia) • IFN (India) 	<ul style="list-style-type: none"> • 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) 	<ul style="list-style-type: none"> • SMH (Semis) • BBH (Biotech) • IYT (Transports) • DBA (Agro) • DBB (Base metal) • DBC (Commodity) • GLD (Gold) • SLV (Silver) • GDV (Gold Miners) • USO (Oil) • JJC (Copper) • SLX (Steel)

SP – 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
- 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		1.18	0.04			
IWM	Above +2SD	2.00	0.06			New
TLT		-1.09	0.09			
EWJ		-0.72	0.01			
Gr 2						
XLY	Above +1.5SD	1.82	0.03	33%	3	
XLV	Below -1.5SD	-1.75	0.03	40%	10	
XRT (RTH)	Above +2SD	2.35	0.03			
XLF	Below -2SD	-2.20	0.01	11%	9	
XLK	Above +2SD	2.07	0.02	0%	2	New
XLU		-1.21	0.03			
XLI		1.26	0.03			
Gr 3						
IYT	Above +1.5SD	1.84	0.07			
JJC		1.14	0.04			
SLV	Above +2SD	3.06	0.02			
GLD		1.35	0.1			
SMH	Above +2SD	2.69	0.02			
IFN		0.77	0.03			
GDX	Above +1.5SD	1.57	0.04			New
EWP sp	Below -1.5SD	-1.50	0.04			special situation
MUB sp	Below -1.5SD	-1.80	0.1			special situation
XM1 sp		-1.36	0.087			special situation
USO		-1.32	0.03			
BBH		-1.02	0.09			
DBB						EXITED
		Primary Index Net Exposure		18%		
		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
DBB	

Global Long / Short – Market Neutral - ETF Index

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	45.94	47.20	2.68%		\$ 46.0
EEM	12-Nov-10	45.94	47.20	2.68%		\$ 46.0
IWM	15-Oct-10	73.73	70.53	-4.54%		\$ 72.0
IWM	25-Nov-10	73.73	73.73	0.00%	New	\$ 72.0
XLY	15-Oct-10	36.61	34.71	-5.47%		\$ 36.0
RTH	15-Oct-10	103.47	99.54	-3.95%		\$ 101.3
RTH	25-Nov-10	103.47	103.47	0.00%	New	\$ 101.3
XLK	20-Oct-10	24.49	24.00	-2.04%		\$ 24.2
XLK	20-Oct-10	24.49	24.00	-2.04%		\$ 24.2
XLK	25-Nov-10	24.49	24.49	0.00%	New	\$ 24.2
IFN	12-Nov-10	36.32	39.11	7.13%		\$ 36.9
SMH	12-Nov-10	31.68	30.87	-2.62%		\$ 30.6
SMH	25-Nov-10	31.68	31.68	0.00%	New	\$ 30.6
IYT	15-Oct-10	88.87	84.90	-4.68%		\$ 87.2
JJC	15-Oct-10	50.20	51.11	1.78%		\$ 50.4
SLV	15-Oct-10	26.94	23.75	-13.43%		\$ 26.1
SLV	15-Oct-10	26.94	23.75	-13.43%		\$ 26.1
GDX	15-Oct-10	59.67	58.19	-2.54%		\$ 59.1
GDX	25-Nov-10	59.67	59.67	0.00%	New	\$ 59.1
XLI	15-Oct-10	32.97	32.43	-1.67%		\$ 32.4
GLD	15-Oct-10	134.18	133.68	-0.37%		\$ 132.3
CLOSED SHORT POSITIONS			3.16%	3.16%		
				EQ WT SHORT P/L	-1.87%	
LONGS						
XLV	15-Oct-10	30.85	31.2	-0.98%		\$ 30.8
XLU	12-Nov-10	31.07	31.5	-1.38%		\$ 31.1
XLF	12-Nov-10	14.63	15.2	-3.43%		\$ 14.7
XLF	25-Nov-10	14.63	14.6	0.00%	New	\$ 14.7
TLT	12-Nov-10	95.74	96.4	-0.66%		\$ 95.9
MUB	19-Nov-10	101.84	101.0	0.85%		\$ 101.5
BBH	15-Oct-10	99.14	96.8	2.46%		\$ 98.9
EWJ	15-Oct-10	10.44	10.2	2.10%		\$ 10.4
USO	15-Oct-10	36.08	35.5	1.72%		\$ 35.3
XMI	19-Nov-10	94.48	94.5	0.02%		\$ 94.5
					10.61%	
				EQWT LONG P/L	1.13%	
15th OCT 2010 INCEPTION						
SD - TECH SETUP EQUAL WEIGHTED LONG SHORT INDEX				_EQWT AGG P/L	-0.37%	
INCEPTION @ SPX 1180 to Current 1198.35				SPX CHANGE	-1.56%	

- **SECTOR SETUP INDEX** + 100%, + 83%, +78%, + 75 % (past 4 weeks)
 (Currently for monitoring purposes only, we will establish . correlation as we go forward with POM 13)
- **EQUITY SETUP INDEX :** +18%, +16%, (-9%), (-18%) (past 4 weeks)
- POM – 14 re run

<u>SETUP # 1 (10 of 31)</u>	<u>SETUP # 2 (0 of 31)</u>	<u>SETUP # 3 (0 of 31)</u>	<u>SETUP # 4 (0 of 31)</u>
XLV XLU XLP BBH DBB EWJ DBC XLF USO XHB			

ETF's Qualified – Special situation

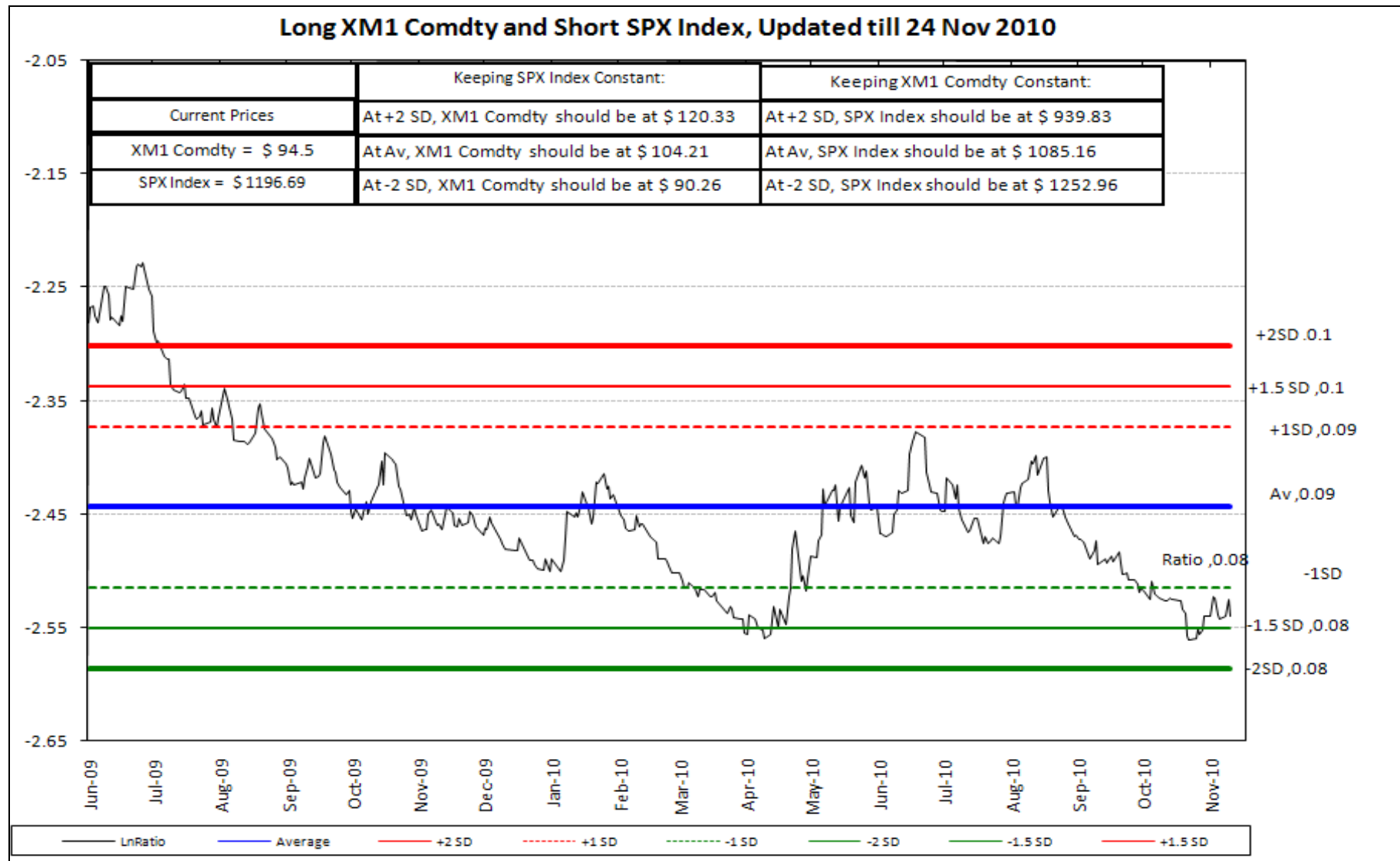
XM1 - Weekly– 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

In wkly chart below , this market 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, however RSI needs to be more oversold like in previous occasions, (perhaps when price enters the CZ) RSI could reach below 30



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

SD # 1.5 has just reached once , but extreme level, SD # - 2.0 undervalued , yet to reach

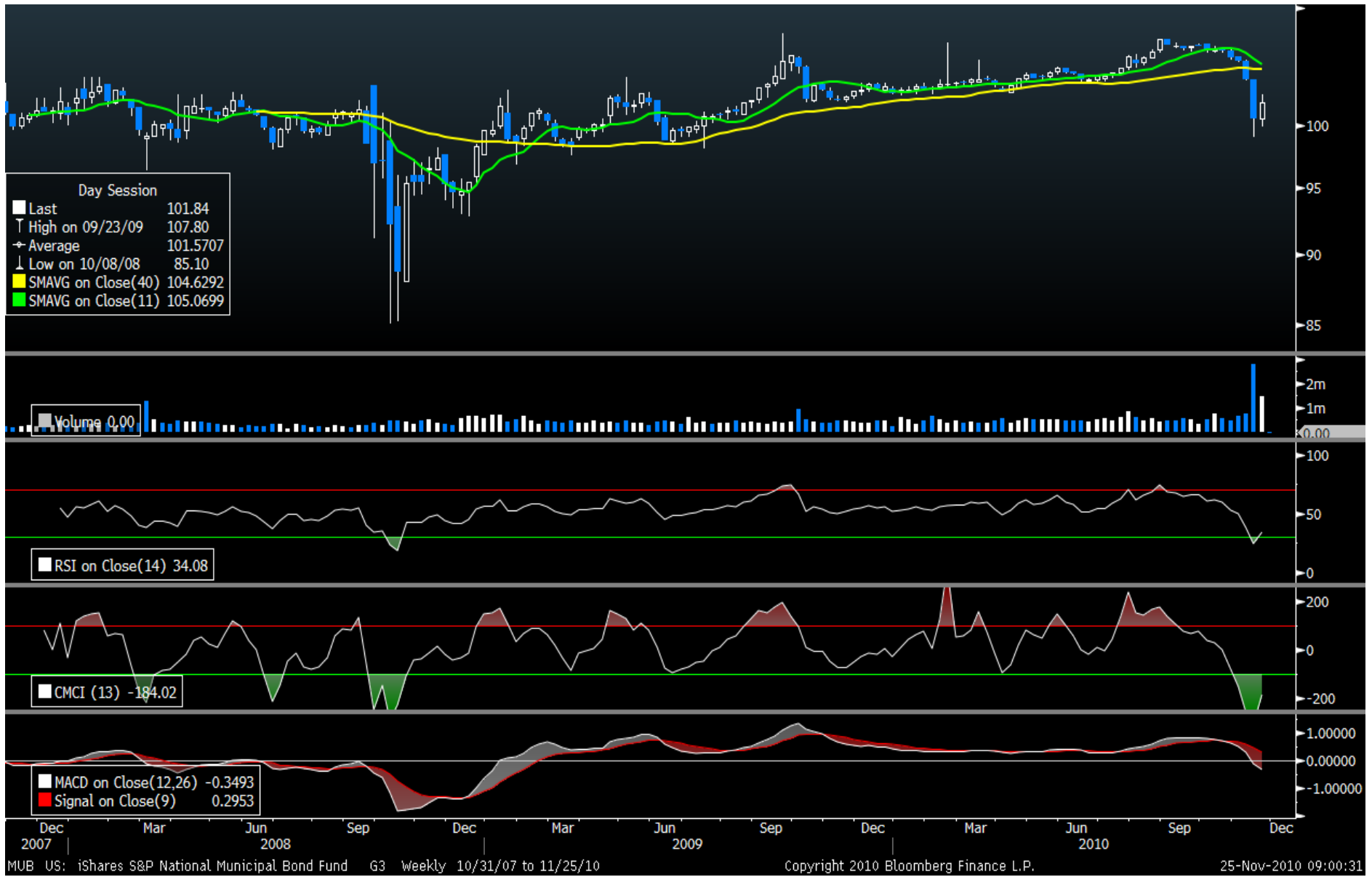


XM1 – Daily - Technical & Pattern Analysis

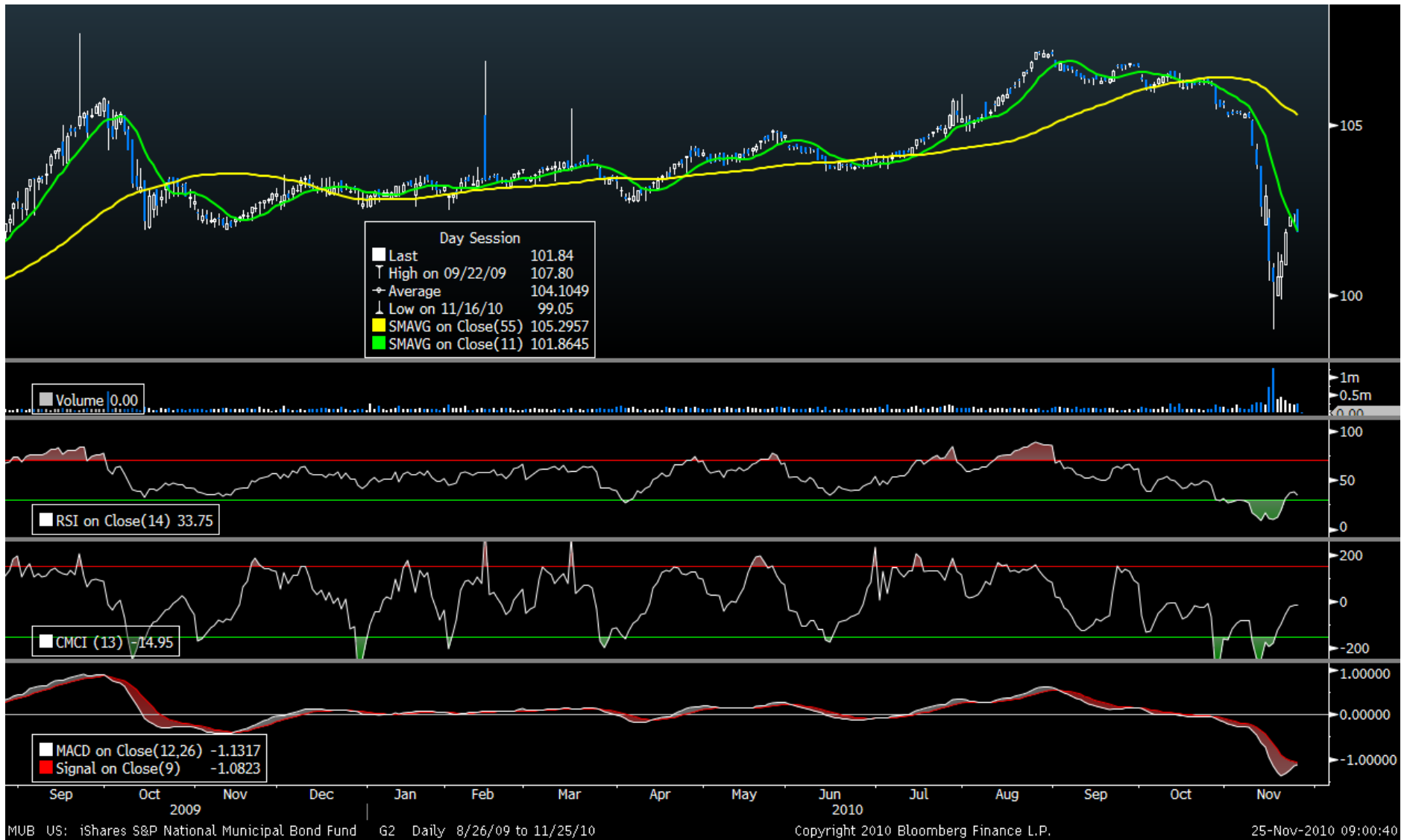
On the Daily chart below , Currently prices entered in the confluence zone as indicated below and volume has shrunk 35% compared to previous April 2009 high volume area , RSI is very oversold at 20 on first fall and now diverging positively , Good Risk / Reward in this CZ except if SD # 2 has achieved would give more conviction .



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

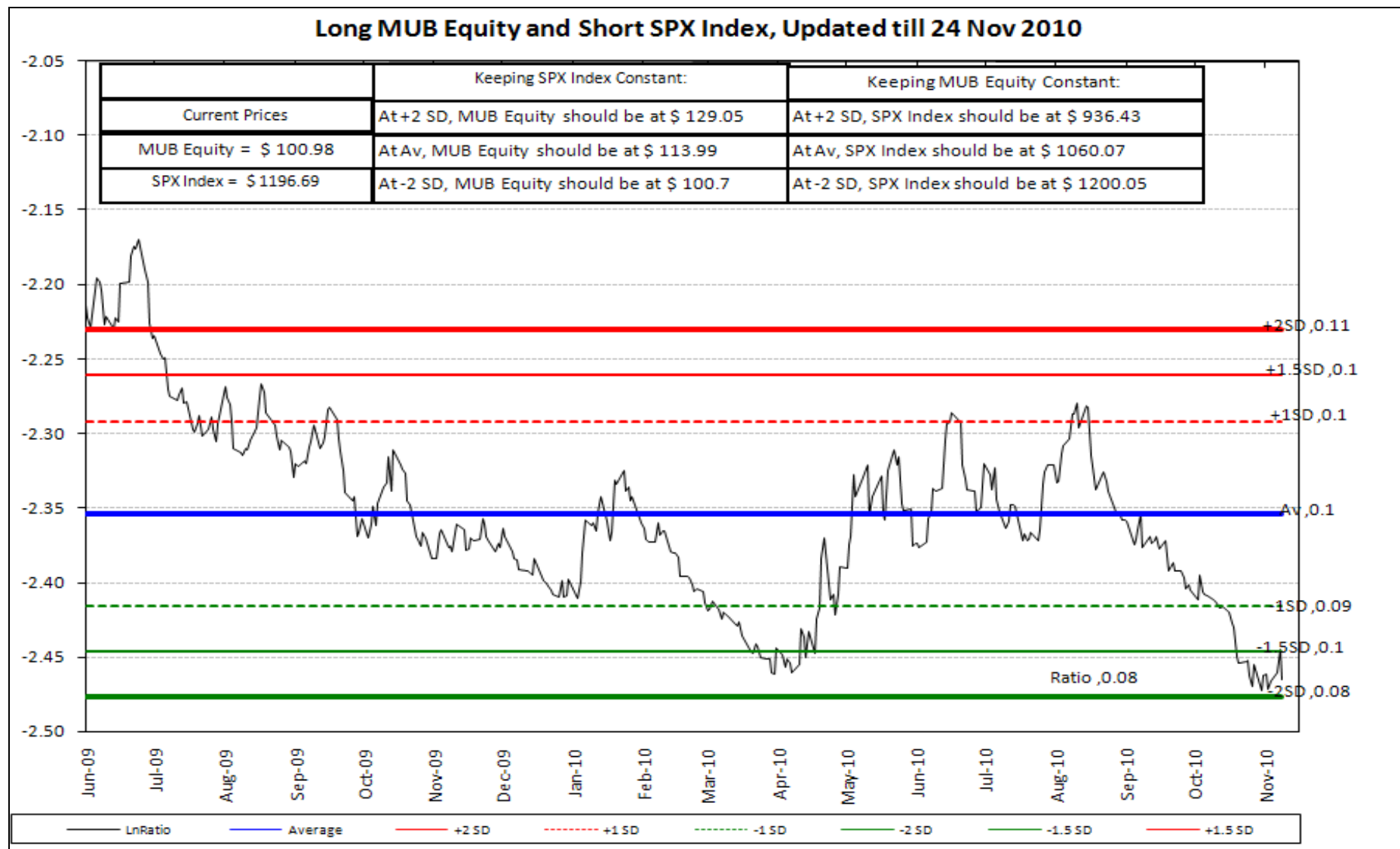


1- MUB - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD



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

SD # 2.0 has just reached once and reached extremes



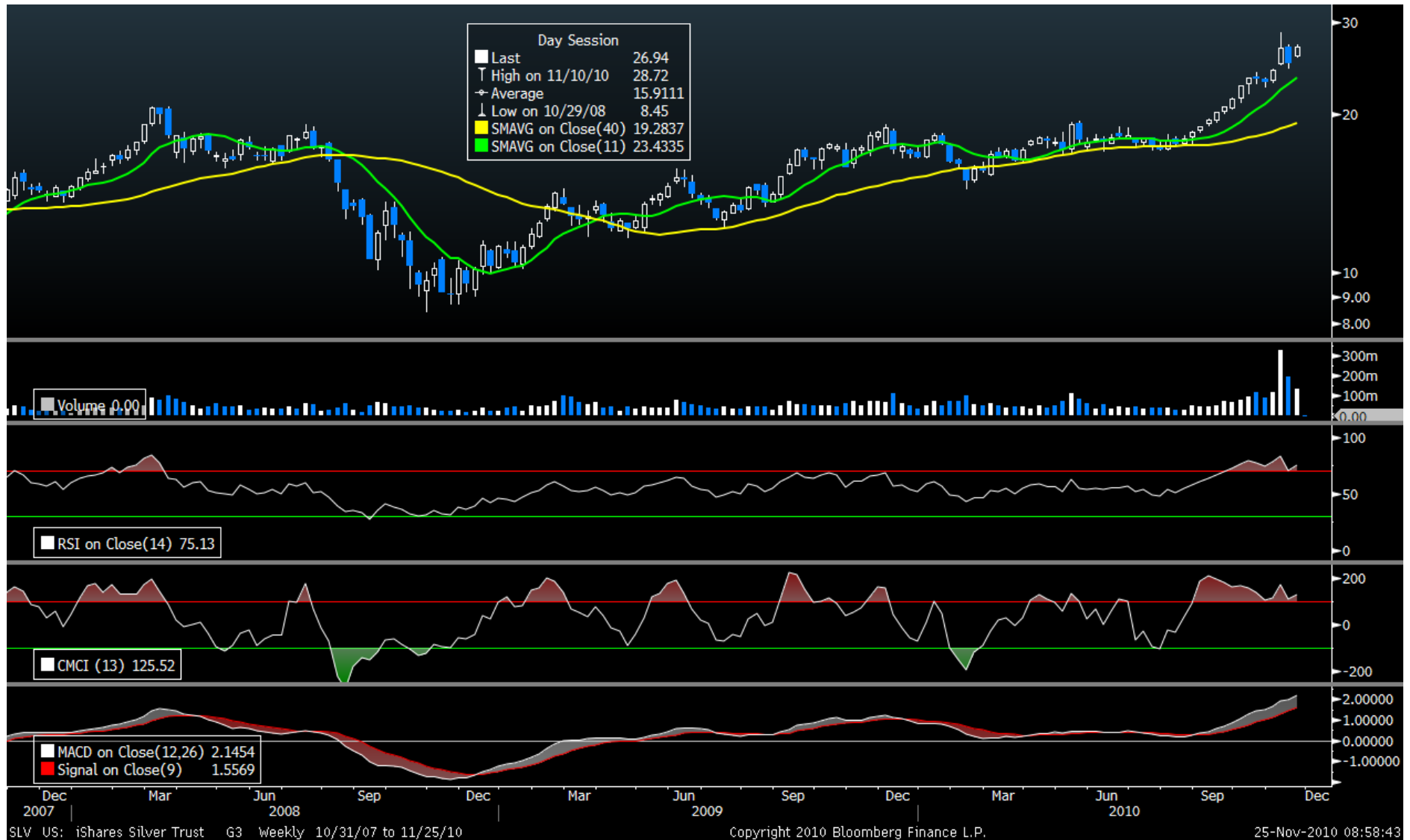
MUB – Technical & Pattern Analysis -

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



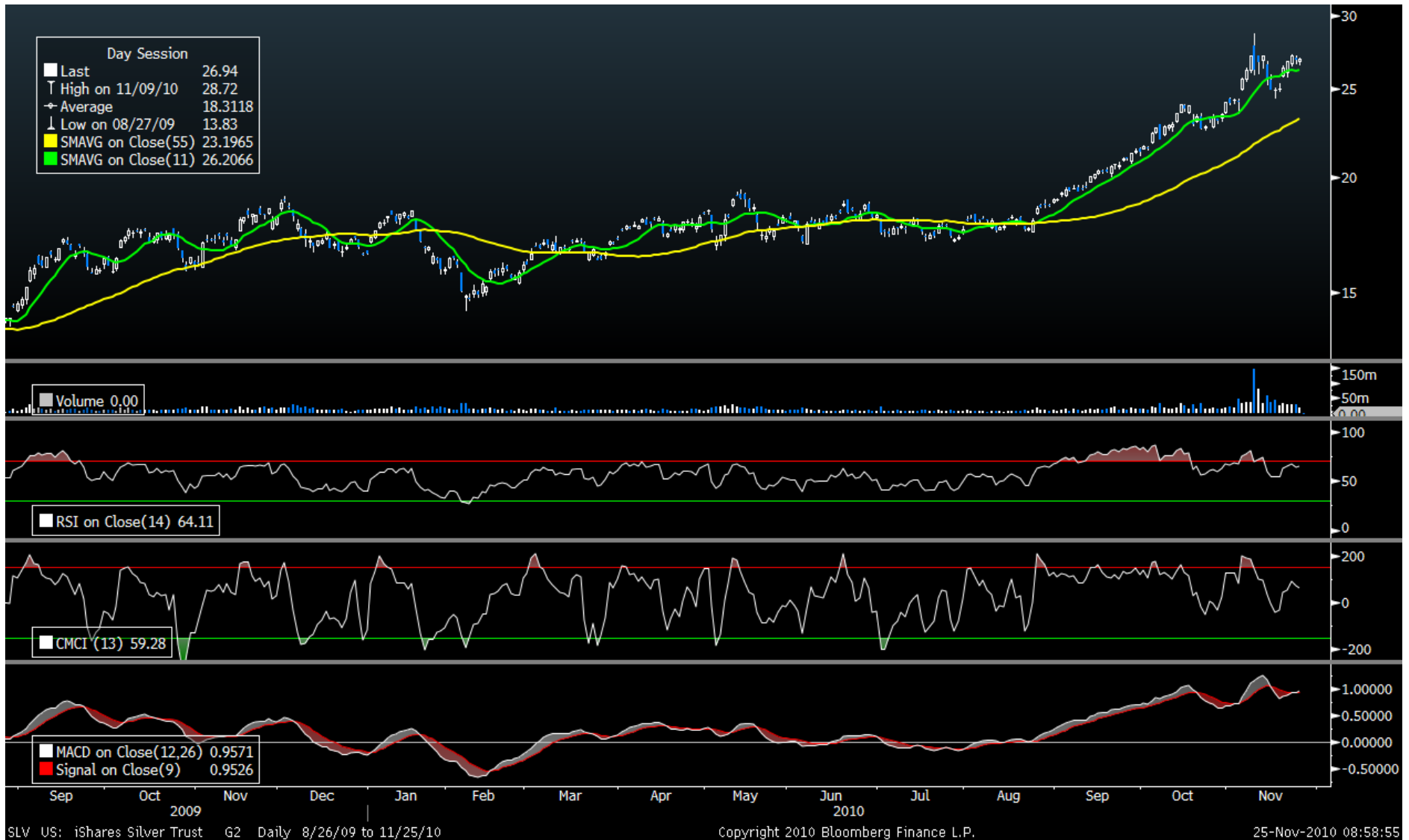
ETF's Qualified for SD # 2 - Overvaluation by POM Methodology.

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



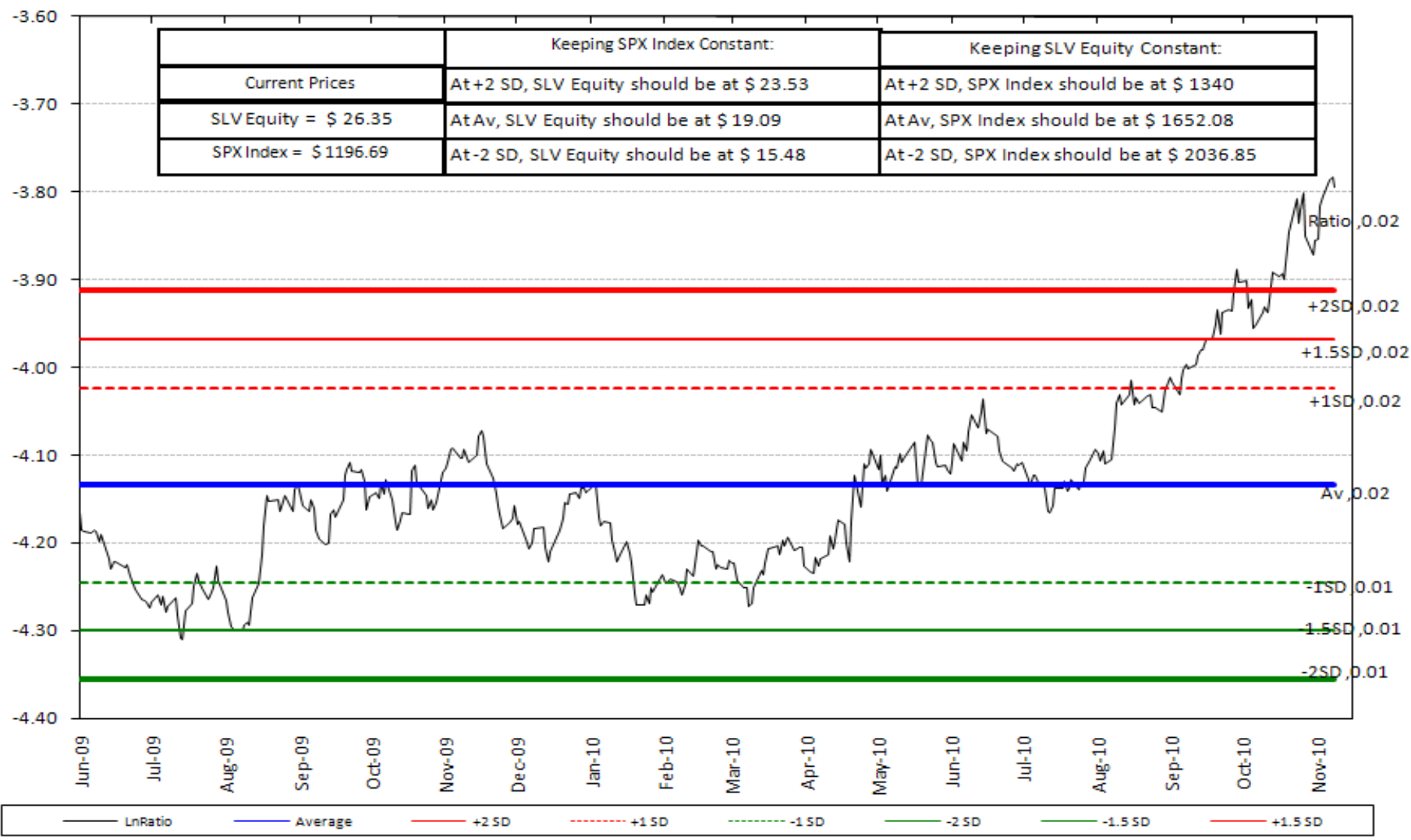
SLV - Daily - 3 Year with RSI, CCI, MACD

(11D / 55D)



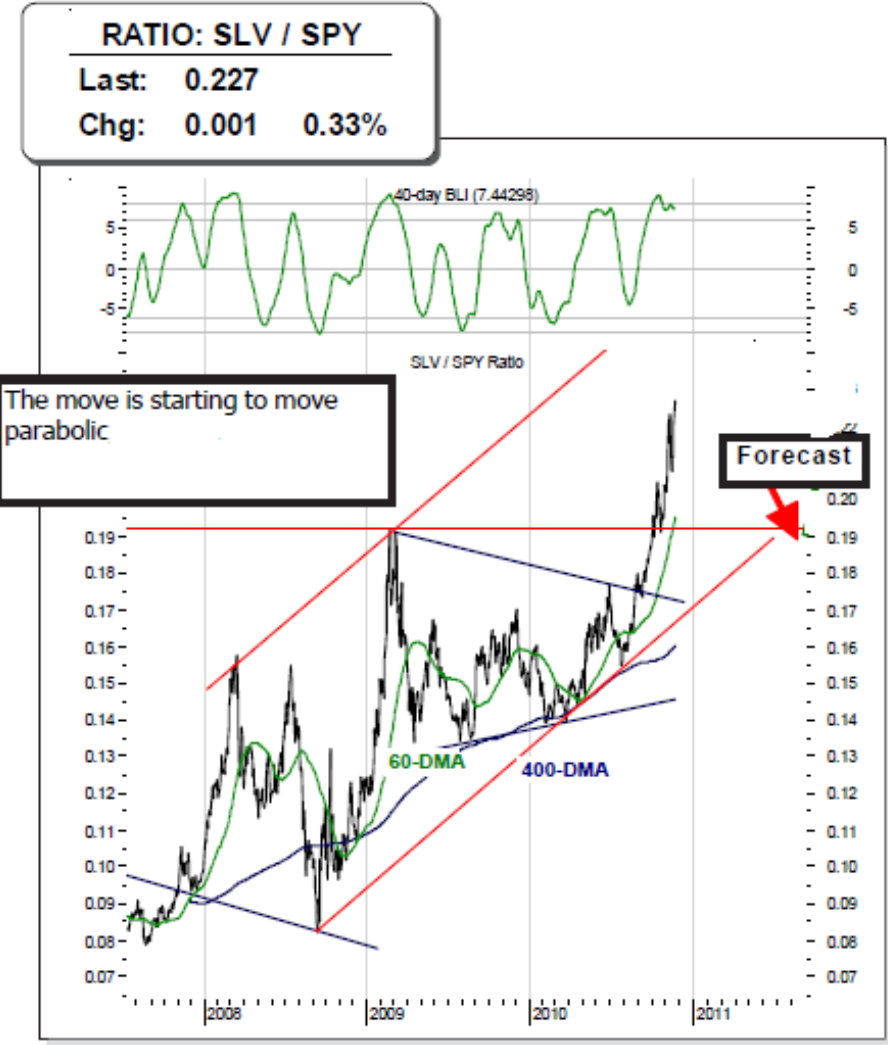
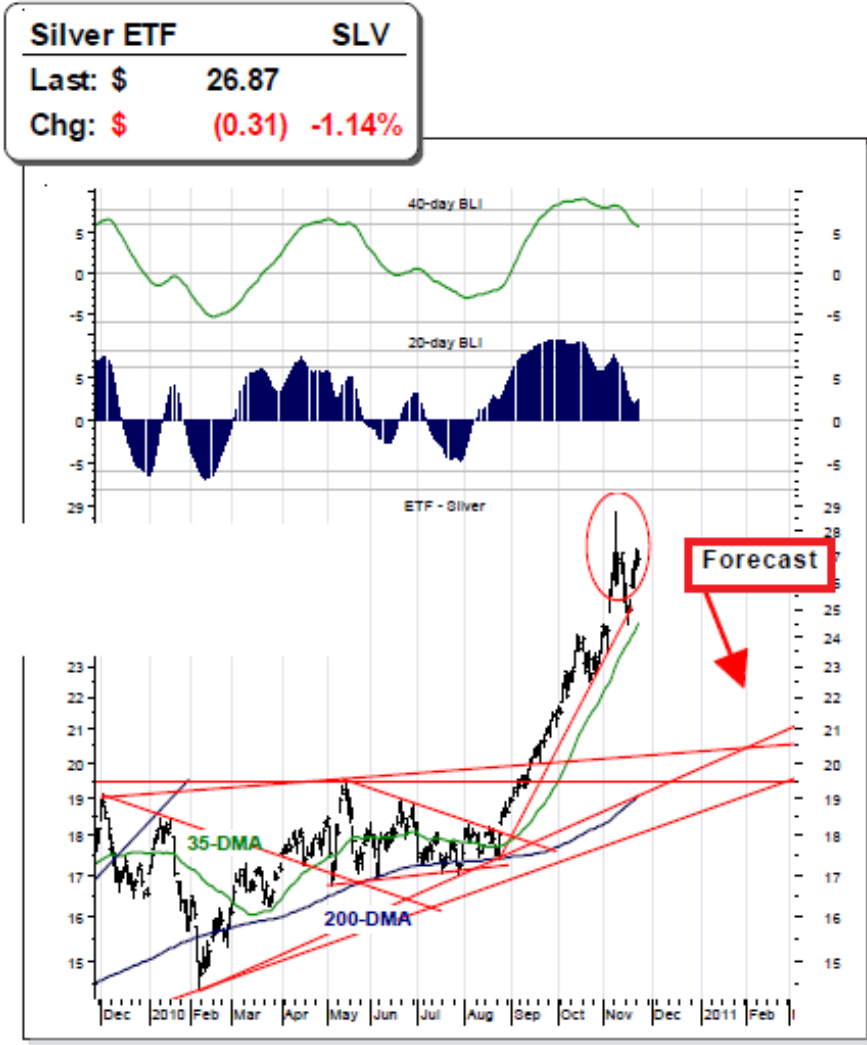
SLV – Correlation Ratio Analysis with SPX – 365 days Time basis

Long SLV Equity and Short SPX Index, Updated till 24 Nov 2010



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.

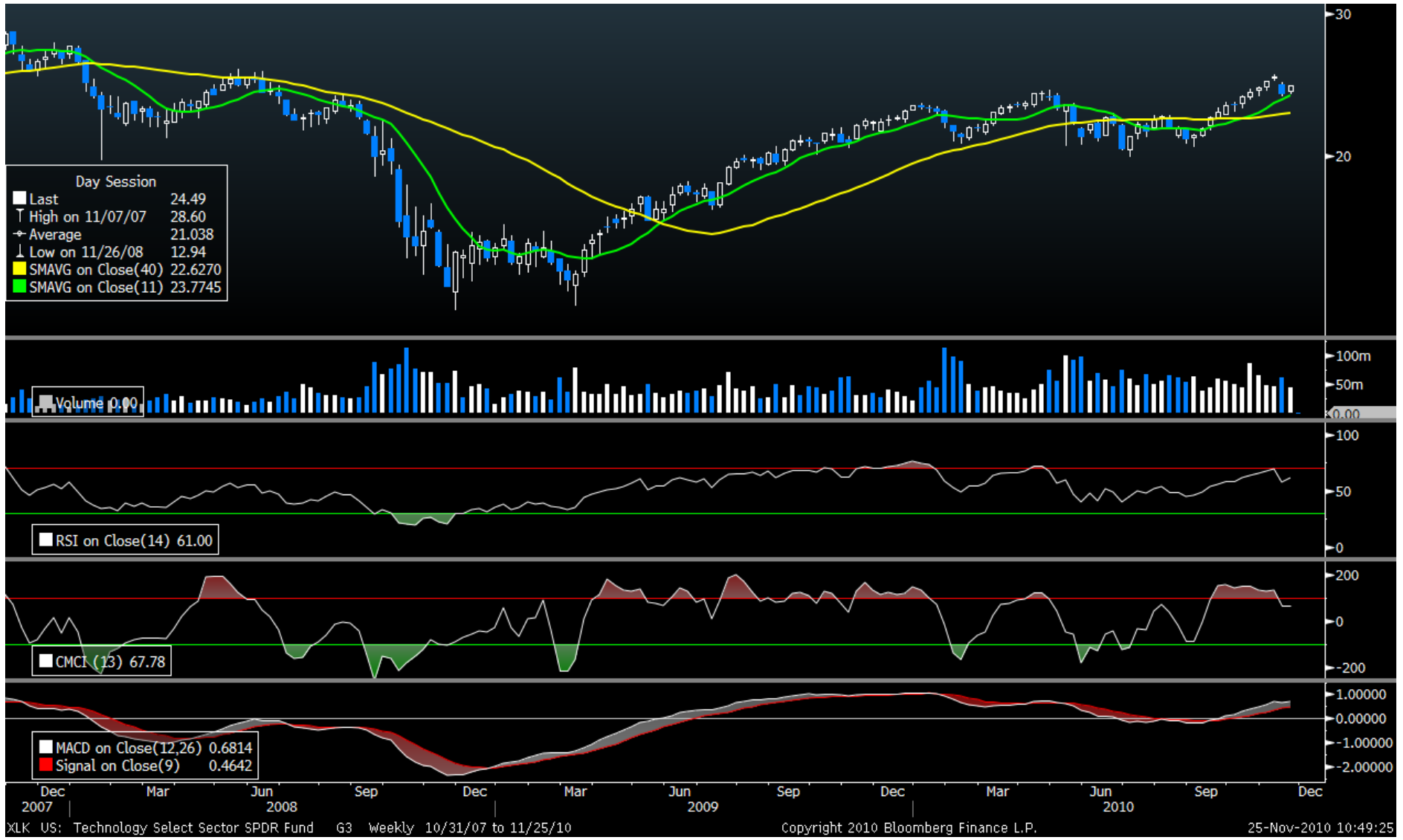


1- SLV – Technical & Pattern Analysis & Price / Volume

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, On bounce it tested the gap of breakdown / hanging man under 27 (Volume on bounce appear much lighter). if the volume is lighter and price gets rejected this could setup next ABC down.



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

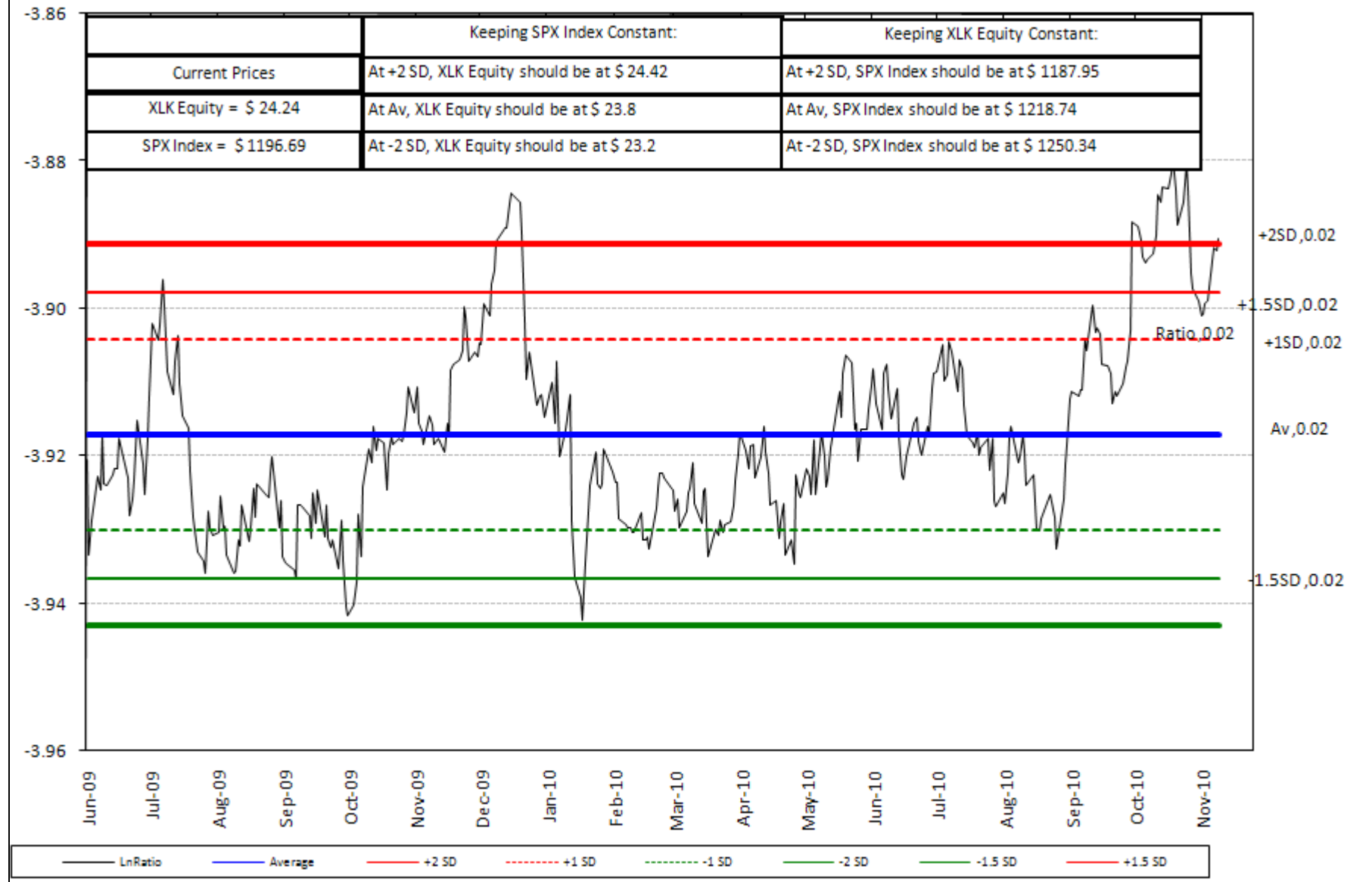


XLK - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD



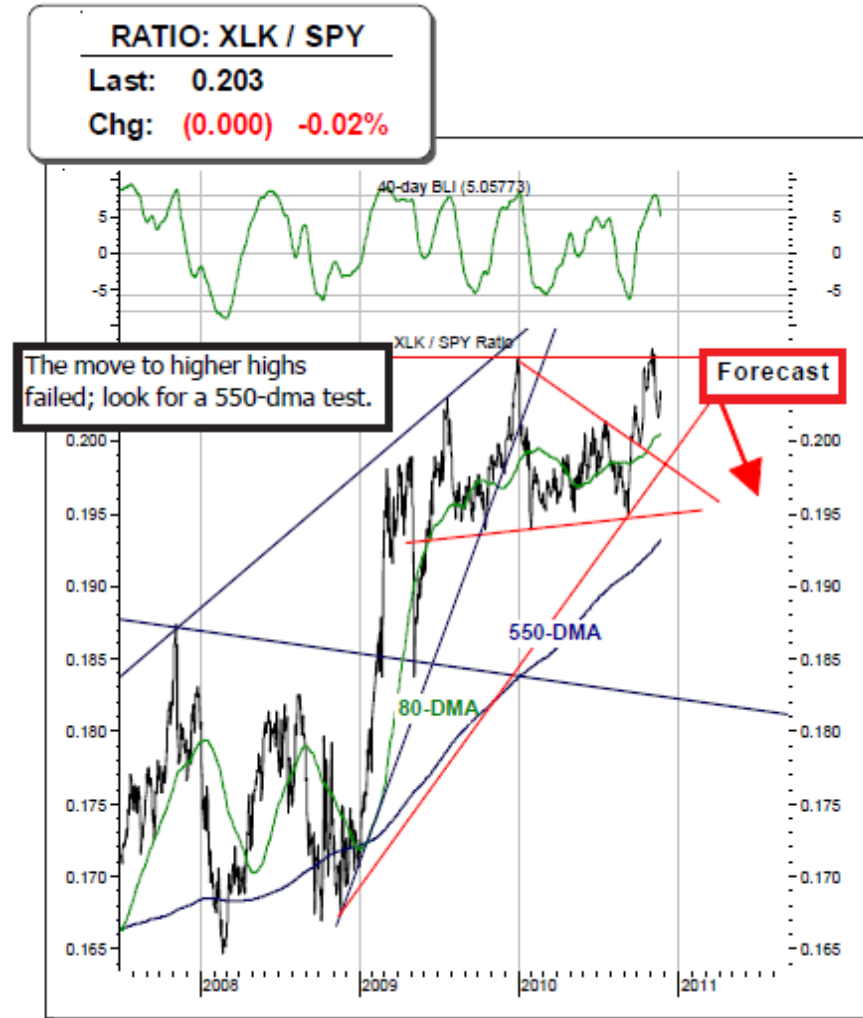
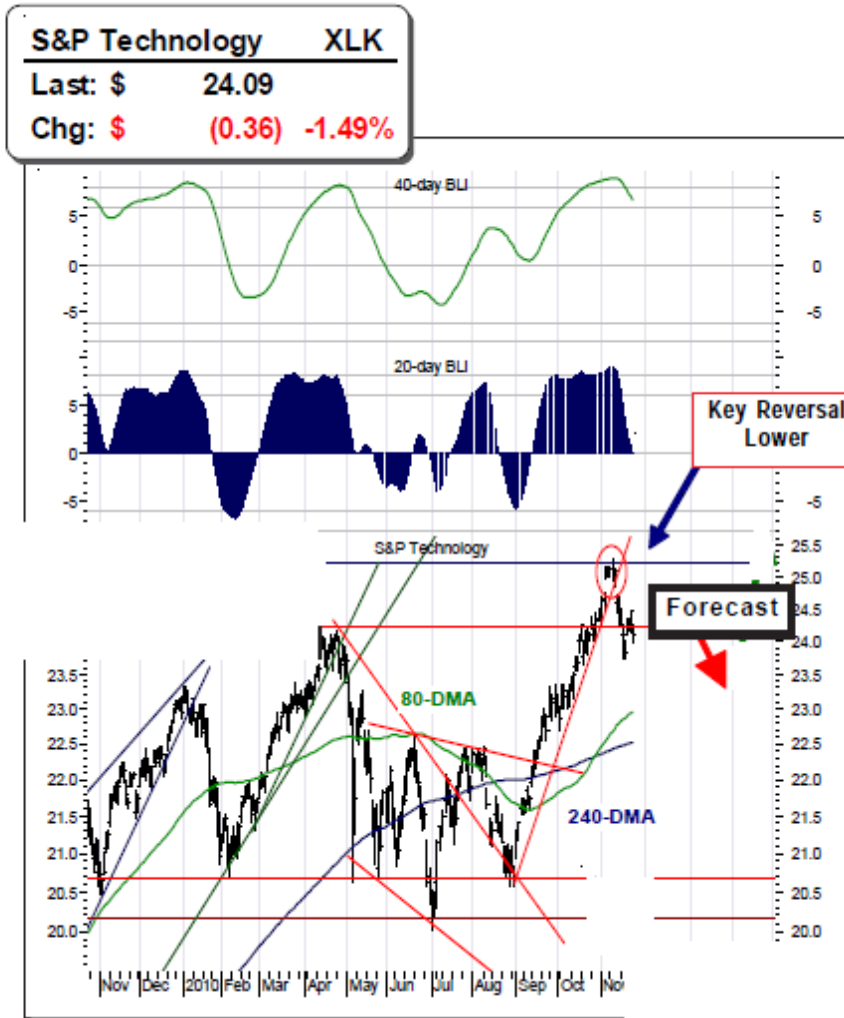
XLK – Correlation Ratio Analysis with SPX – 365 days Time basis

Long XLK Equity and Short SPX Index, Updated till 24 Nov 2010



XLK– Technical & Pattern Analysis

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.

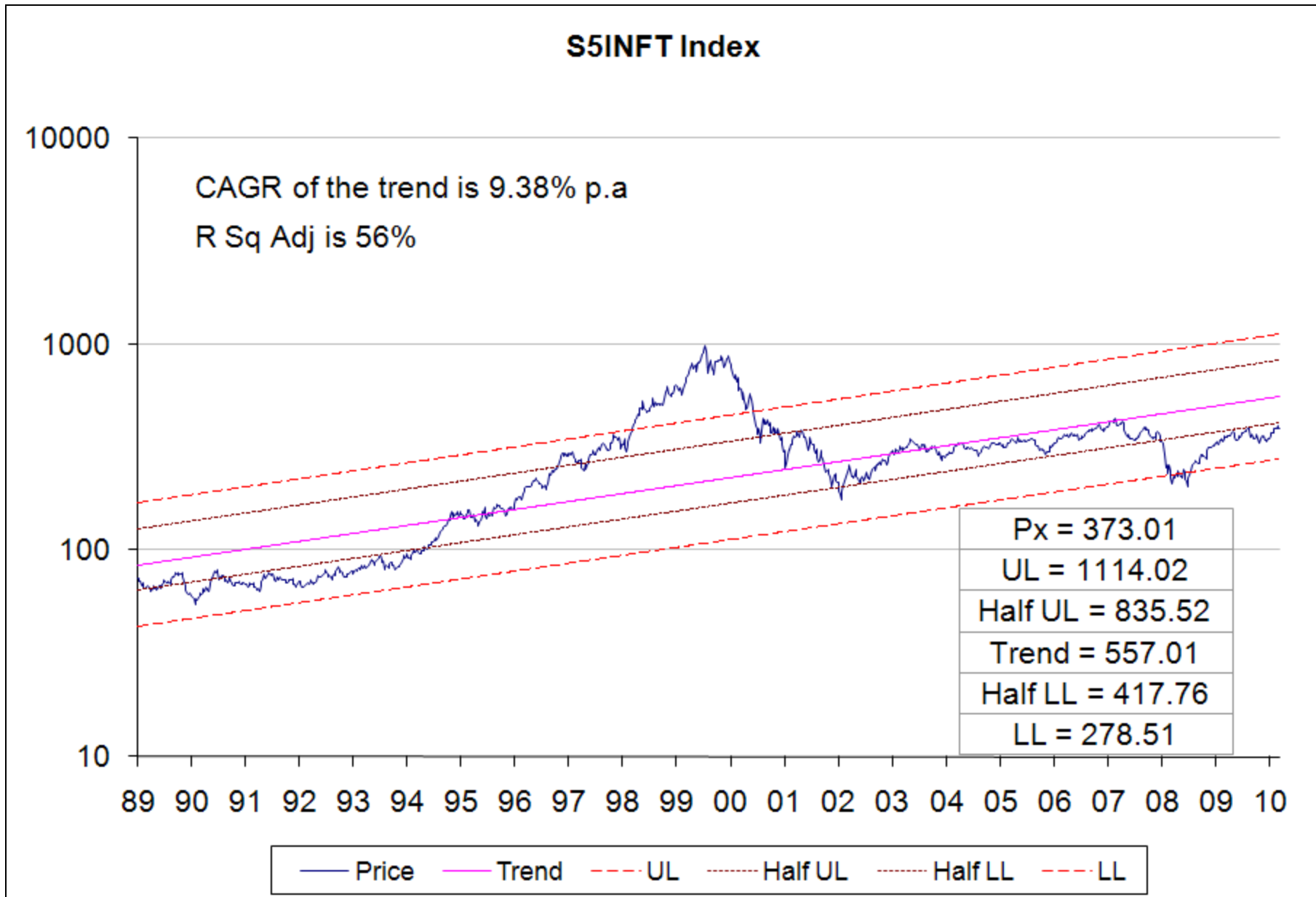


1- XLK – Technical & Pattern Analysis & Price / Volume

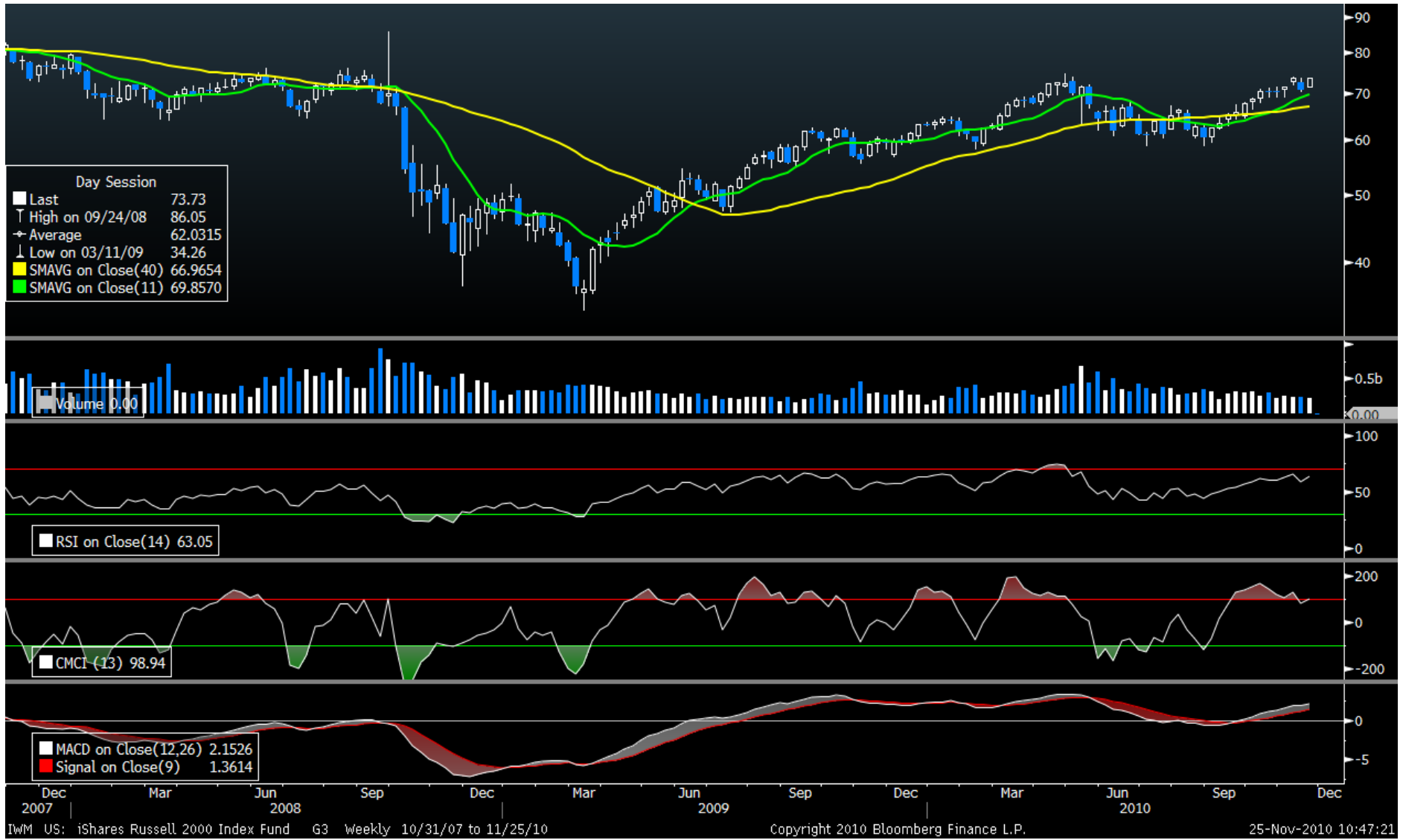
Check the notes within the chart for Volume, ROC, & 21DMA- Close under 24 with 14 M shares should set up a decline, with stop above highs



XLK – Trend Reversion Analysis – Long Term



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

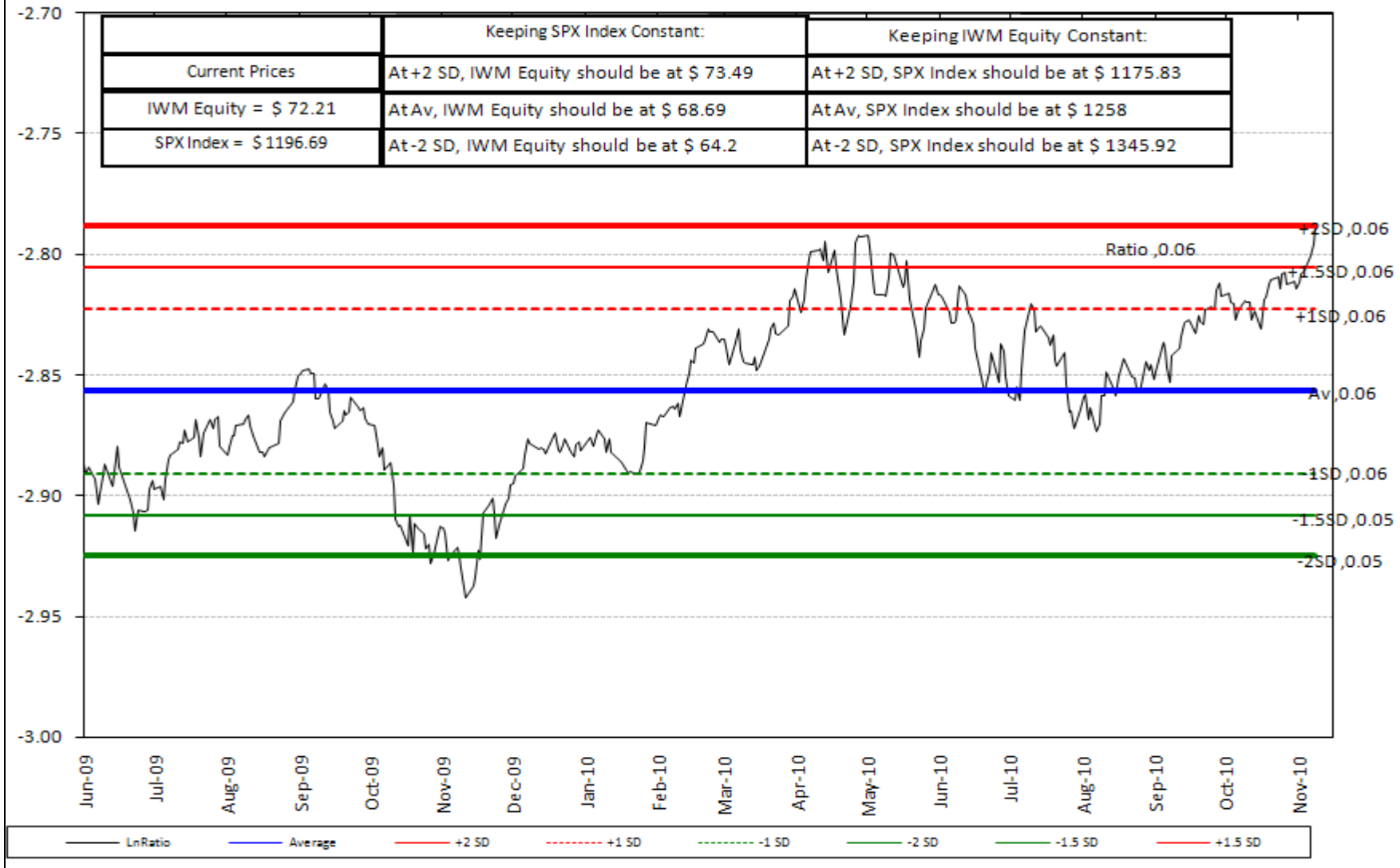


IWM - Daily - 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD



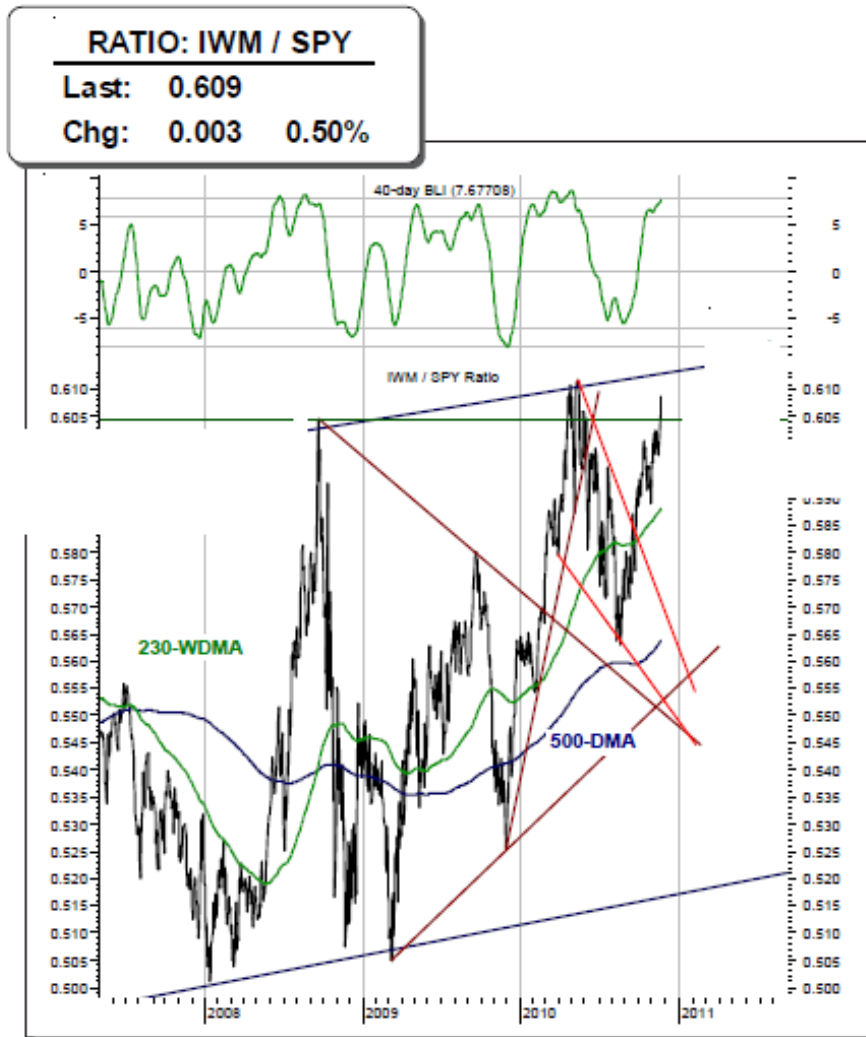
IWM – Correlation Ratio Analysis with SPX – 365 days Time basis

Long IWM Equity and Short SPX Index, Updated till 24 Nov 2010



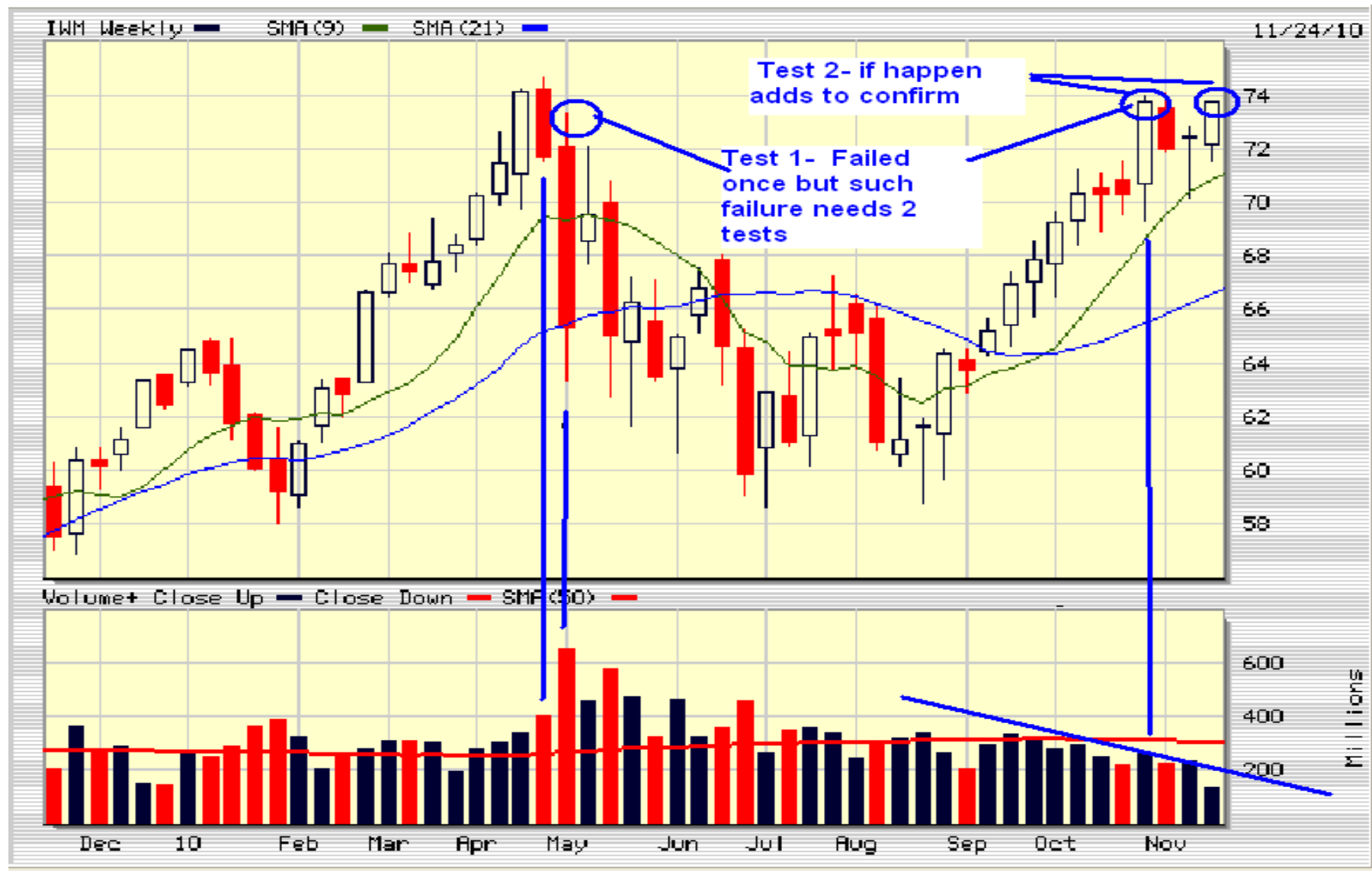
IWM– Technical & Pattern Analysis

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



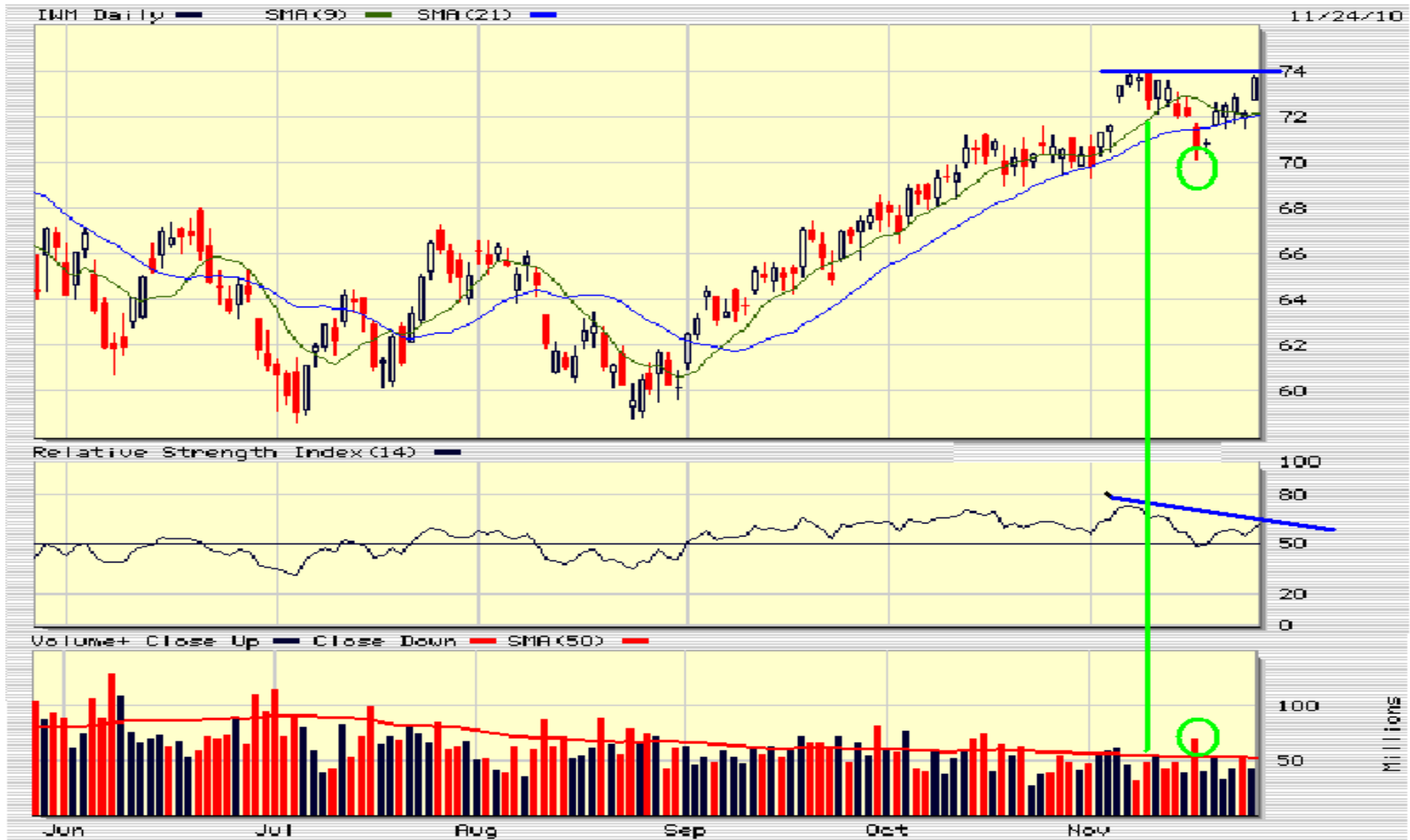
IWM – Technical & Pattern Analysis & Price / Volume

On weekly charts , the primary test was completed with breakdown area, secondary test would be safer to prove a confirm bearish case, but pretty close

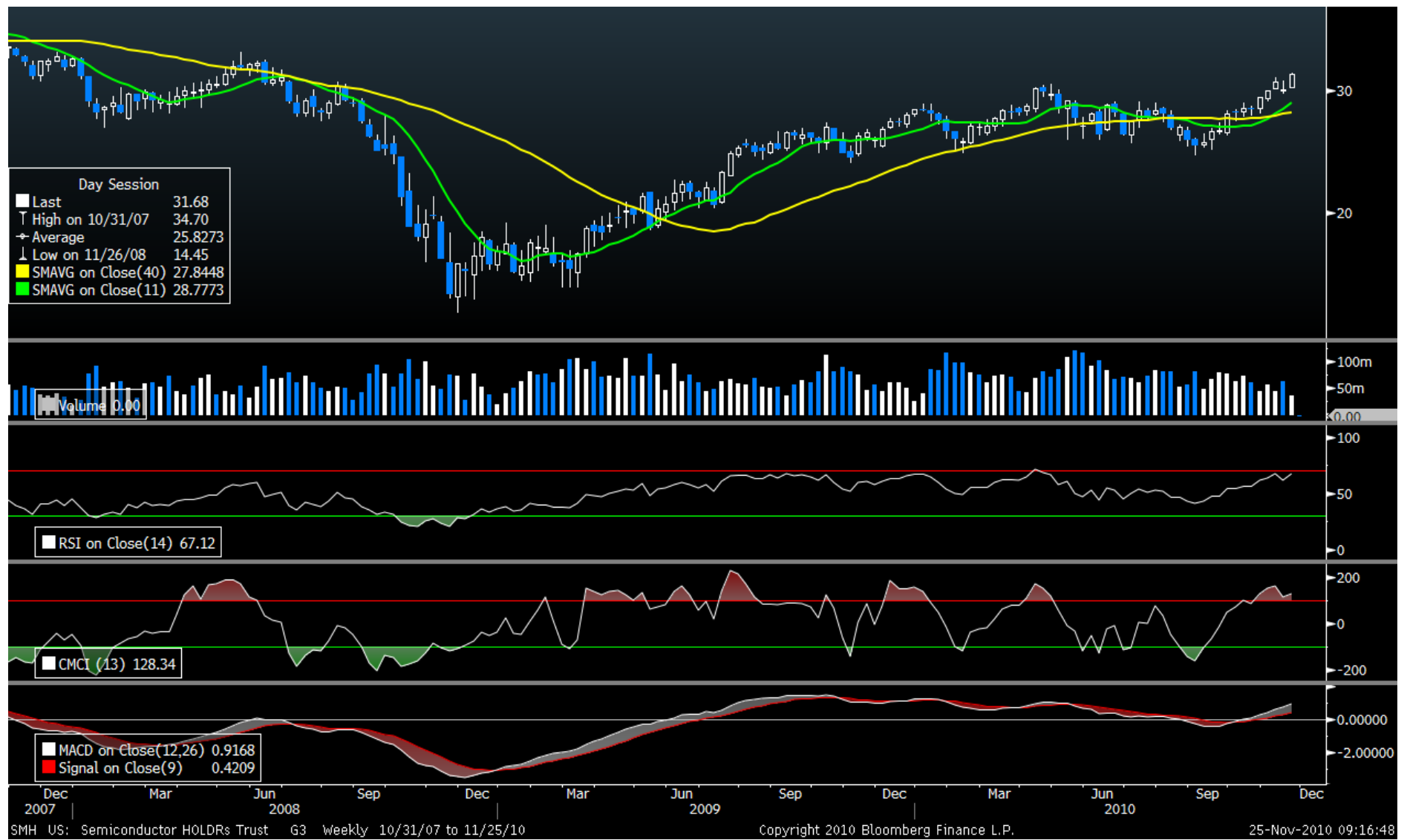


IWM – Technical & Pattern Analysis & Price / Volume

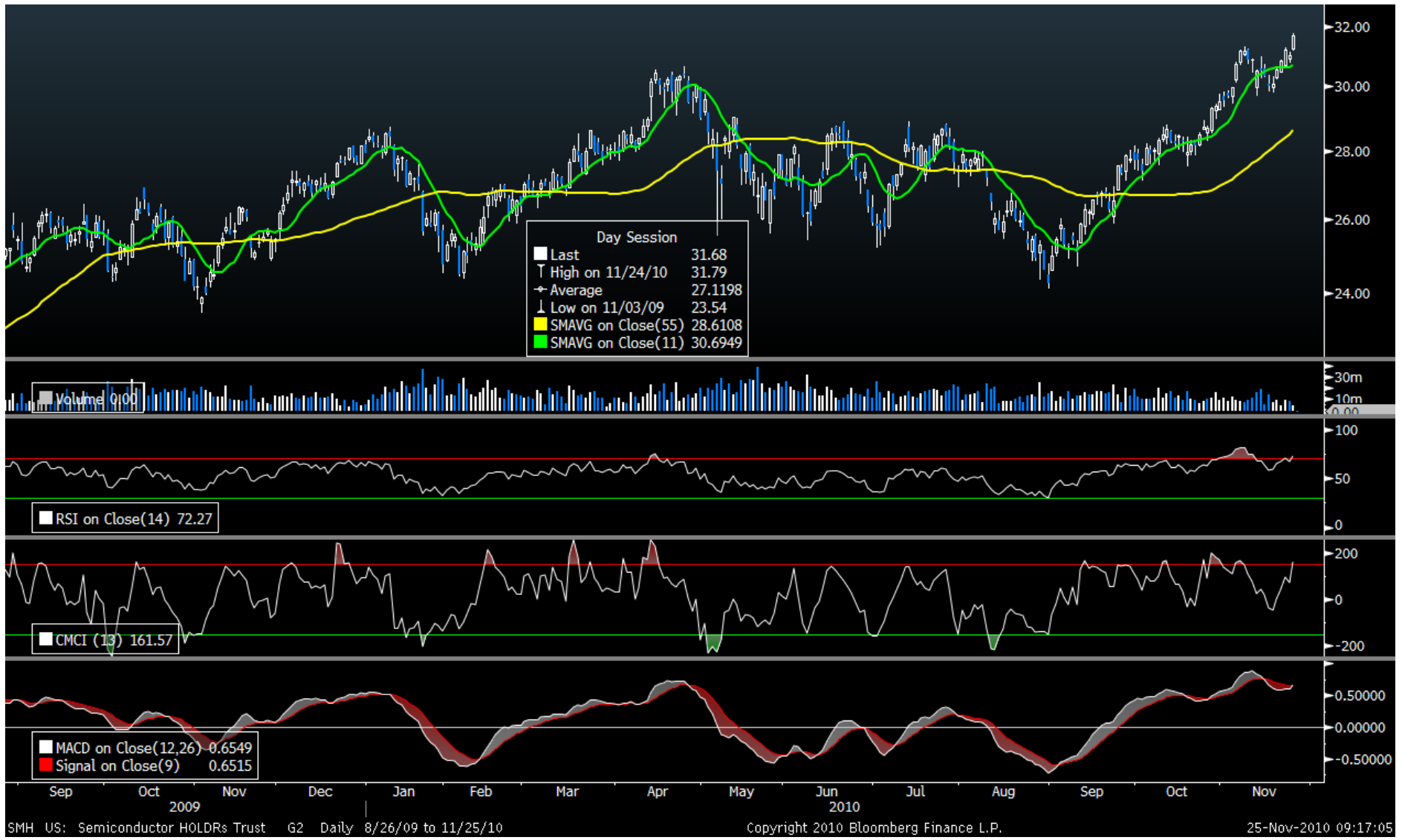
On Daily charts , the secondary test is failing if up move - go to 74.5 with 250 m & close below 73.5 is failure, or conversely if decline begins - close below 71 with 300 M volume should set up the bearish case of top. **RSI Diverging with SD # 2 , high volume lows have been put in (circle in green)**



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

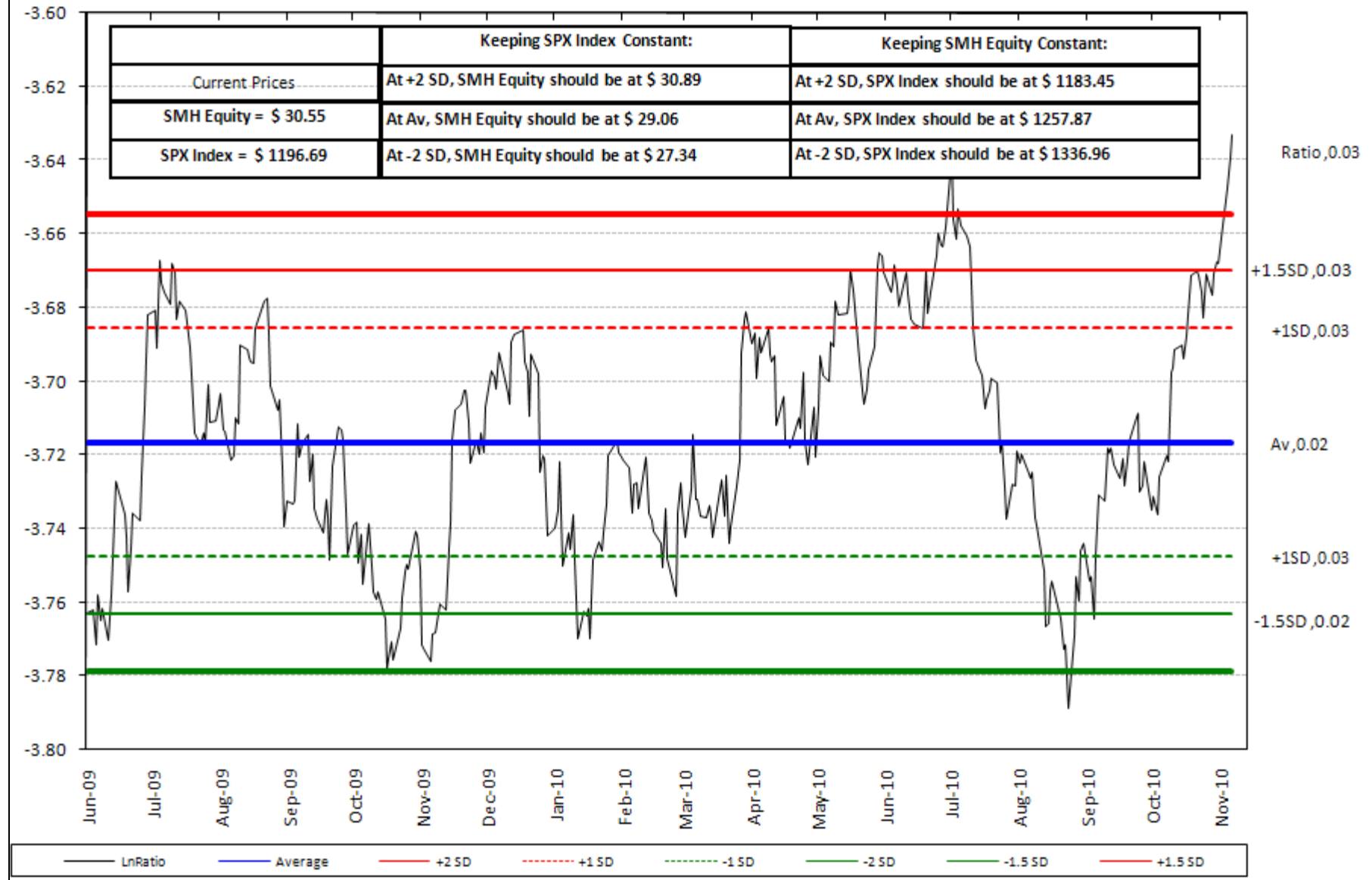


SMH - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD



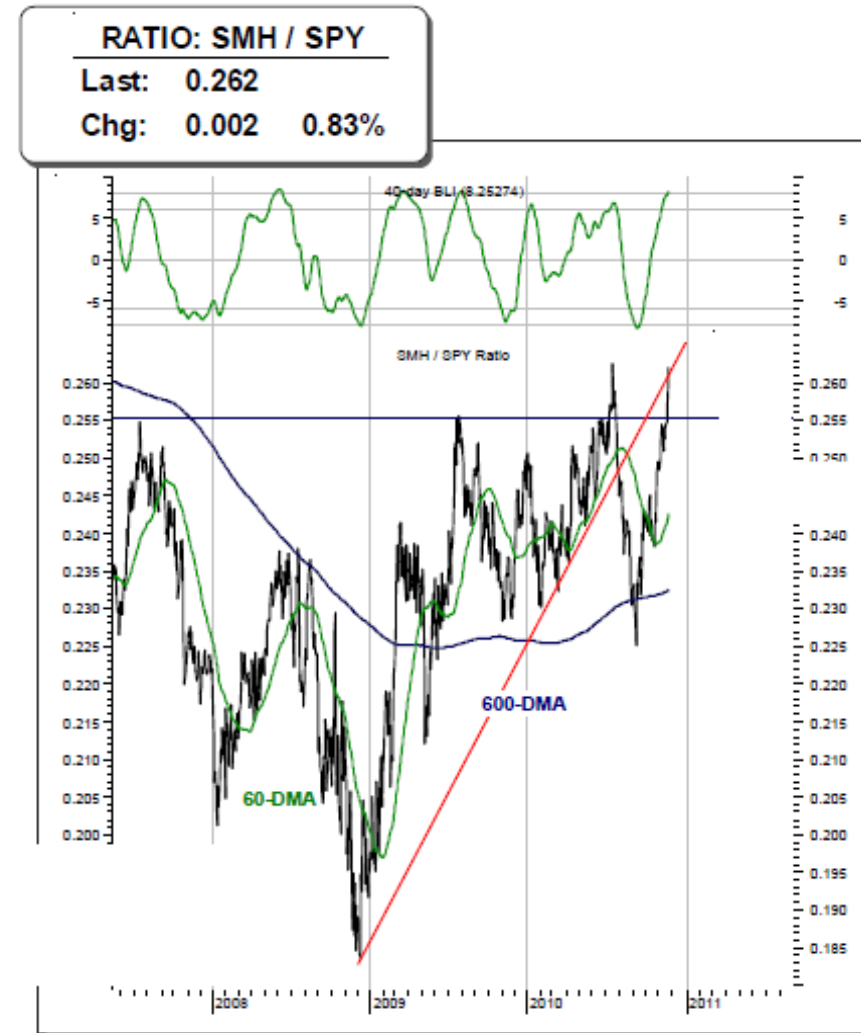
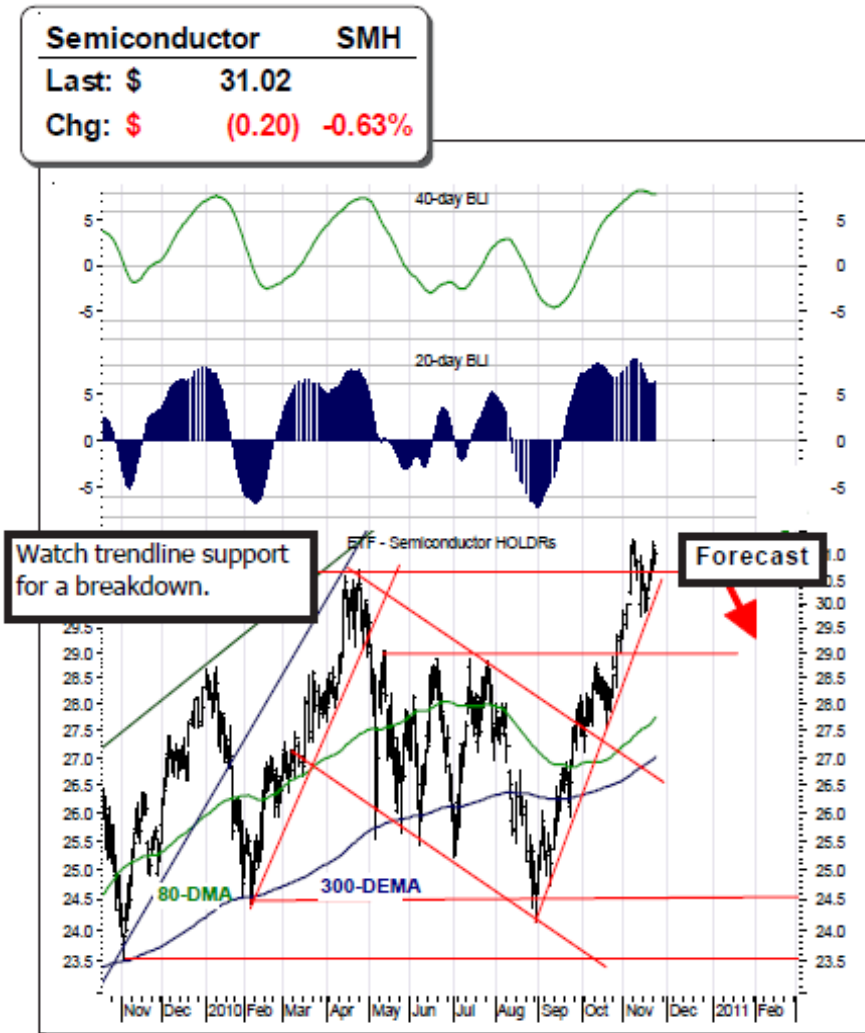
SMH – Correlation Ratio Analysis with SPX – 365 days Time basis

Long SMH Equity and Short SPX Index, Updated till 24 Nov 2010

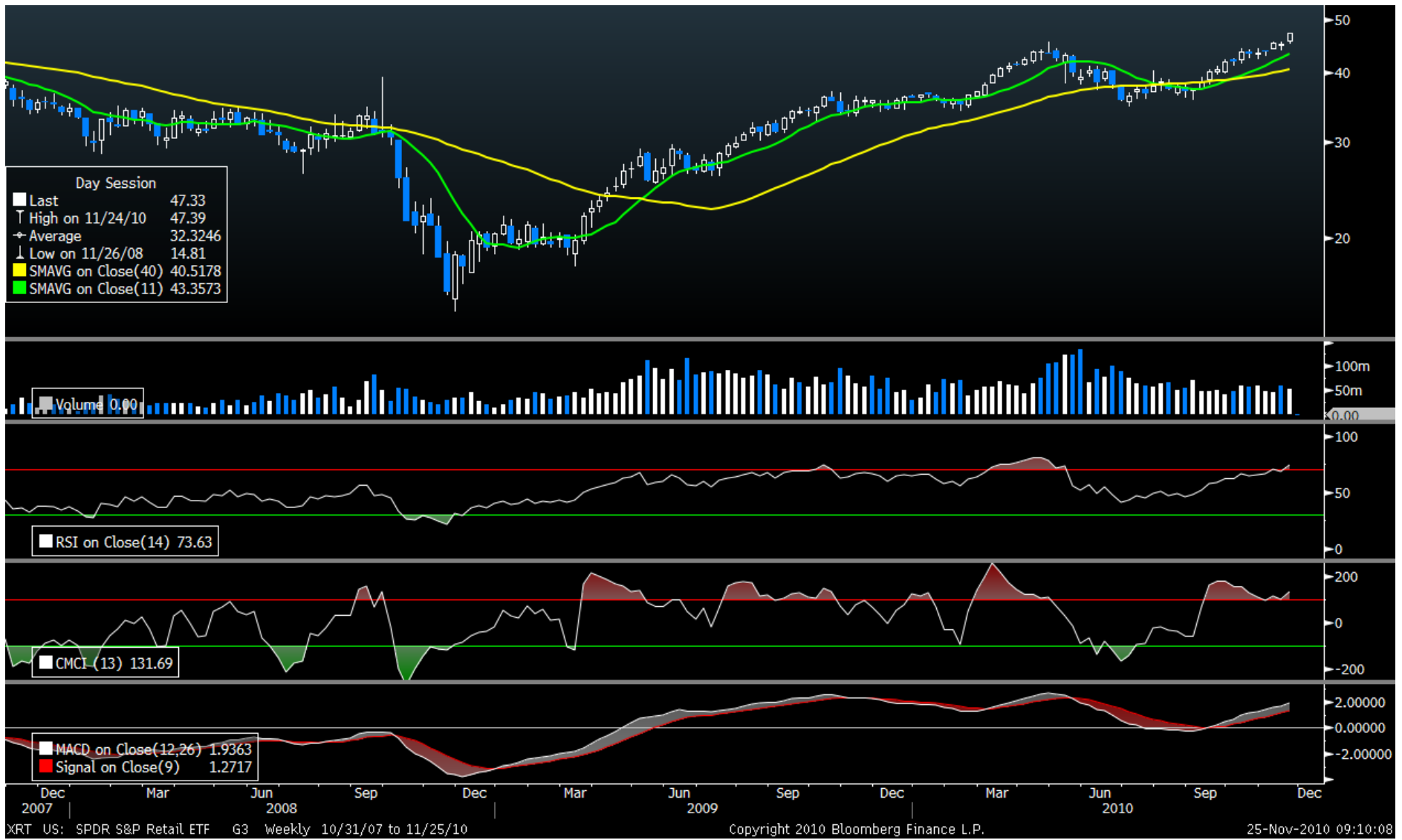


SMH– Technical & Pattern Analysis

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



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

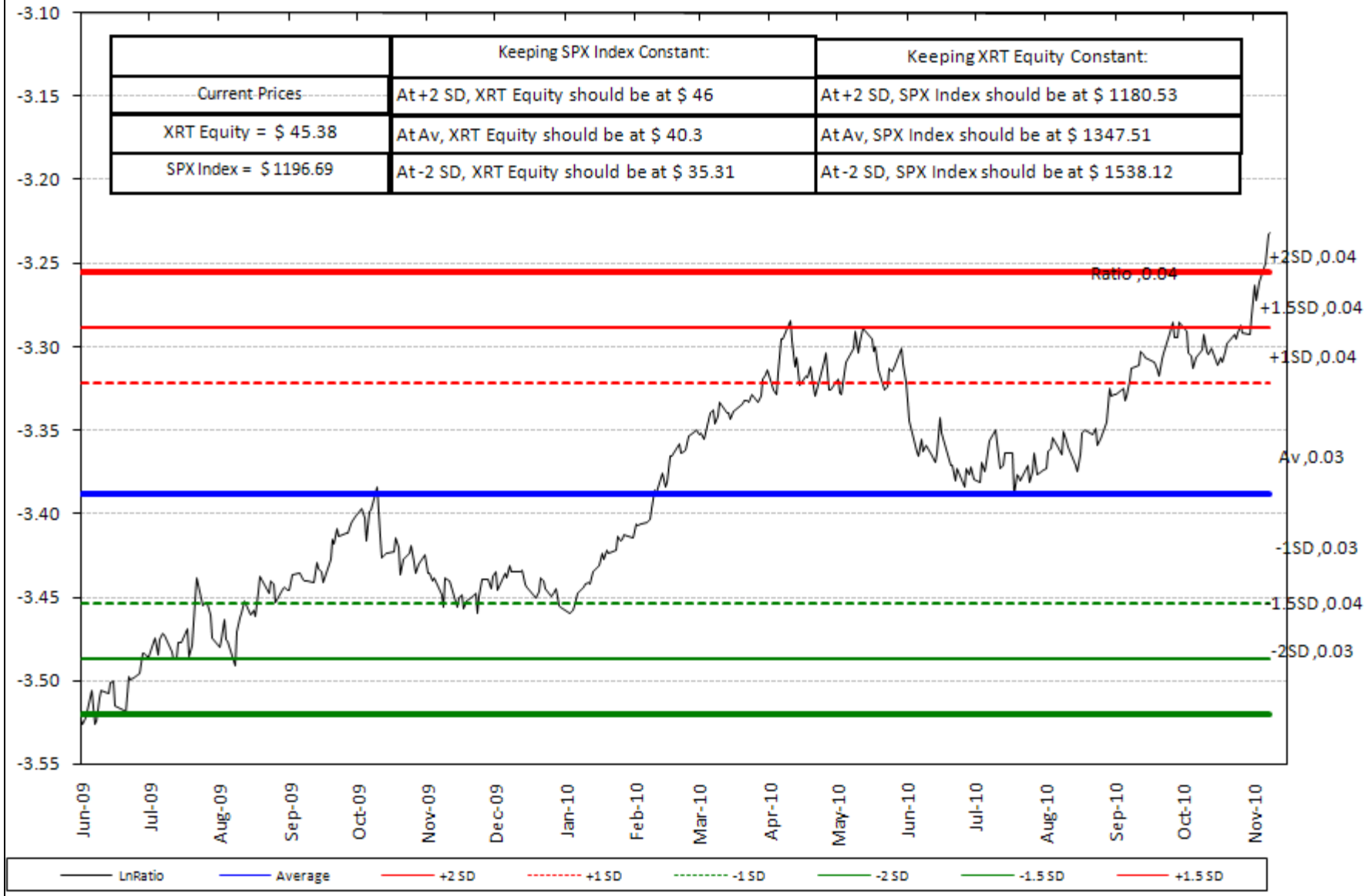


XRT - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD



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

Long XRT Equity and Short SPX Index, Updated till 24 Nov 2010



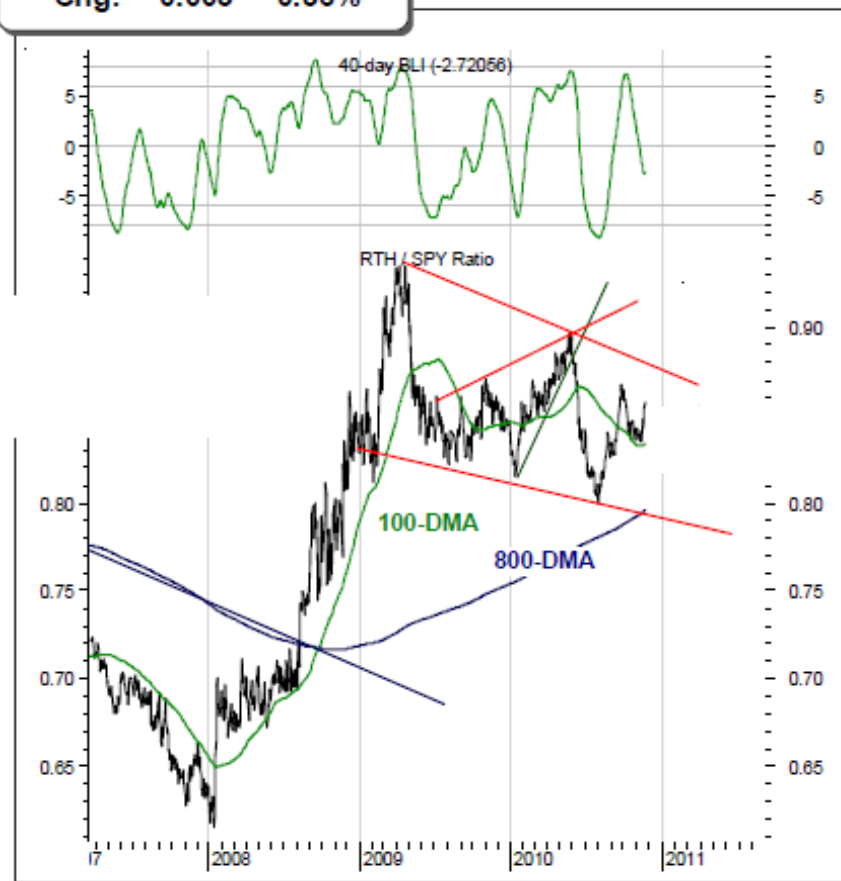
2 - XRT (RTH) — Technical & Pattern Analysis

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

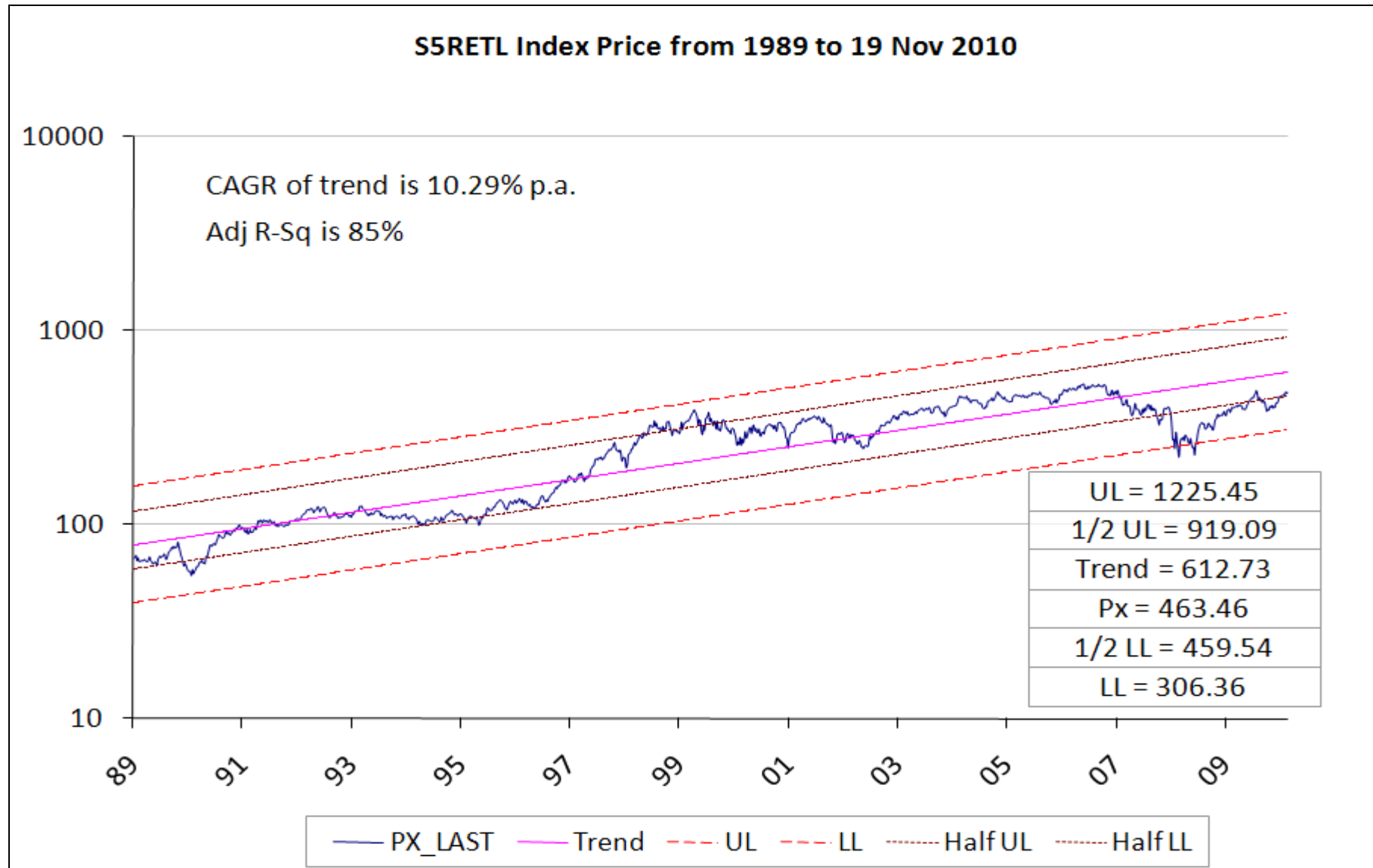
Retail	RTH
Last: \$ 101.53	
Chg: \$ (1.10) -1.08%	



RATIO: RTH / SPY
Last: 0.857
Chg: 0.003 0.36%



XRT – Trend Reversion Analysis – Long Term



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