SG Capital Research

Global Market Insights

Research Note – Sector – ETF Analysis (D)

MAEG – WKLY SECTOR_ETF ANALYSIS SG 2010 # OCT 29

For Immediate Release – Friday AM (EST)

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Daily SPX - " Trend Adjusted Signal"

- ## 3x3 /9EMA – Break Indicator – On Buy Signal since SPX - 1115

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). Currently this signal has been on Long side since SPX @ 1115 (Mid – September)

Sym	Posn	Close	Reversal
DJ	Long	11115.8	10982.2
NYA	Short	7504.85	7571.1
SPX	Long	1183.71	1178.1

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 l 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). (We will have a daily coverage on this Trend adjusted strategy).

We will cover NYA for some time, since its been giving us good signal on Bond Market which has been quite critical past several months (as covered in our Report yesterday). Currently this Index has reversed, may be due to selloff in Bond market

Sector Analysis (D) - (Detail Coverage for sectors highlighted in yellow)

SECTORS - (29)

GR1 (6)	GR2 (11)	GR3 (12)
• TLT (Bonds) • IWM (Small Cap) • EEM (Emerging) • EEA (Europe) • EWJ (Japan) • FXI (China)	• 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)

- ## Objective

The Weekly Validated Sector selection is to Setup " Global Long / Short – Market Neutral ETF Index" –(Equally Weighted) Utilizing SD, POM & SETUP INDEX within RA / RI framework

The Focus is to derive and compare the Relative performance of various Sectors 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) @ 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 with respect to SPX reference point via best of (3) Trends out of (5) Trend Selection.

Step 3 - . 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 1 / 2 ANALYSIS EXTREMES by 365 D Correlation.***
- ***SPX - POM FRAMEWORK as PIVOT by Trend Correlation***
- ***TECHNICAL PATTERNS, 2nd Derivative DMA's & VOLUMES"***

ACTIONABLE ZONE :

- ***The Weekly Validated Sector to Setup " Global Long / Short – Market Neutral ETF Index" –(Equally Weighted) Utilizing SD, POM & SETUP INDEX within RA / RI framework***

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

- **Overvalued confirmed–** ***IWM, EEM, JJC, ,XLY, XRT(RTH), XLI, GLD, SLV, IYT, XLK,***
- **Undervalued confirmed** ***– XLV, USO,***
- **Non Conformance** ***– XHB, DBB, 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 (+ OR -. The, ETF's with this characteristics will be factored in with double bias in Equally weighted Index denoted as(x 2) below

SD -TECH VALIDATED MARKET NEUTRAL ETF INDEX

Ticker	Entry date	Last Price	Validated Test price	P/L Since the Test	Comments
SHORTS					
EEM	15-Oct-10	46.0	46.8	1.68%	
IWM	15-Oct-10	70.1	70.5	0.64%	
XLY	15-Oct-10	35.3	34.7	-1.61%	
XLI	15-Oct-10	32.1	32.4	0.93%	
RTH	15-Oct-10	99.6	99.5	-0.10%	
XLK x 2	20-Oct-10	24.3	24.0	-1.29%	
IYT	15-Oct-10	85.4	84.9	-0.64%	
JJC	15-Oct-10	50.5	51.1	1.21%	
SLV x 2	15-Oct-10	23.4	23.8	1.35%	
GLD	15-Oct-10	131.2	133.7	1.83%	
DBB	20-Oct-10	22.9	22.8	-0.57%	
CLOSED (Deleted) POSITIONS	GDX	+6.7%,		6.70%	
			EQ WT SHORT P/L	**1.01%**	
LONGS					
XLV	15-Oct-10	31.3	31.2	0.48%	
EWJ (New)	28-Oct-10	10.1	10.1	0.00%	
USO	15-Oct-10	35.4	35.5	-0.23%	
CLOSED (Deleted) POSITIONS	BBH, EWJ	+0%, -0.5%		-0.50%	
			EQWT LONG P/L	**-0.06%**	
15th OCT 2010 INCEPTION					
SD - TECH SETUP EQUAL WEIGHTED LONG SHORT INDEX			**EQWT AGG P/L**	**0.48%**	
INCEPTION @ SPX 1180 to Current 1184			**SPX CHANGE**	**0.03%**	

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

- **NET EXPOSURE THIS WEEK – (-18%), (-12%), (-11), (-19), % 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 +1SD	1.72		
IWM	above +1SD	1.29		
EWJ	below -1SD	-1.28		
Gr 2				
XLY	above +1SD	1.62	-20%	5
XLI	above +1SD	1.20	0%	6
XLV	below -1SD	-1.25	0%	6
XRT (RTH)	above +1SD	1.77		
XLF	below -2SD	-2.18	-40%	10
XHB	below -1SD	-1.00		
XLK	above +2SD	2.81	-100%	1
Gr 3				
IYT	above +1SD	1.55		
JJC	above +1SD	1.65		
SLV	above +2SD	2.89		
USO	below -1SD	-1.45		
GLD	above +1SD	1.25		
DBB	above +1SD	1.13		
		Primary Index Net Exposure	-18%	
		POM 14 Re Run 3		

- **From (29) 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
None	

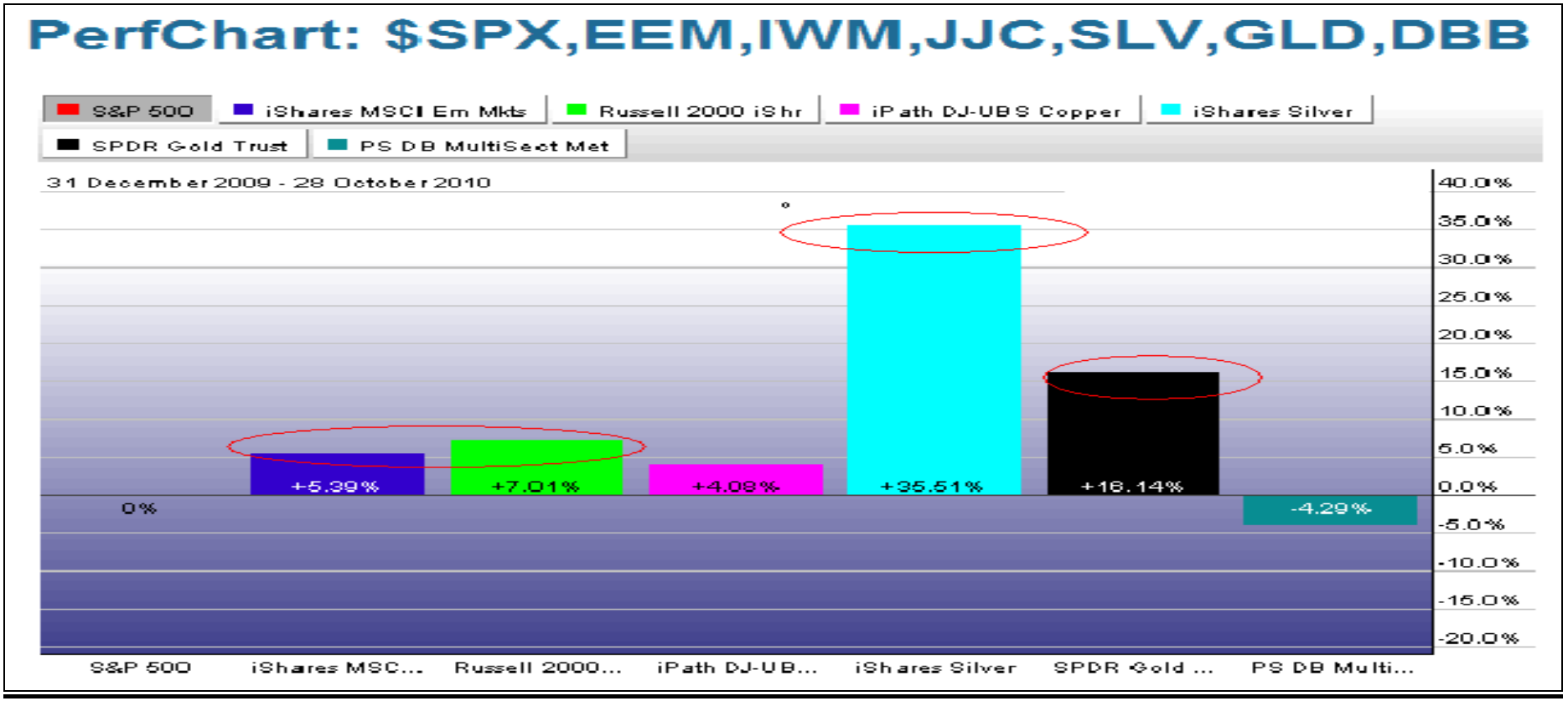
Review Process(2)-Select Sector " Best & Worst " on TREND Analysis

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

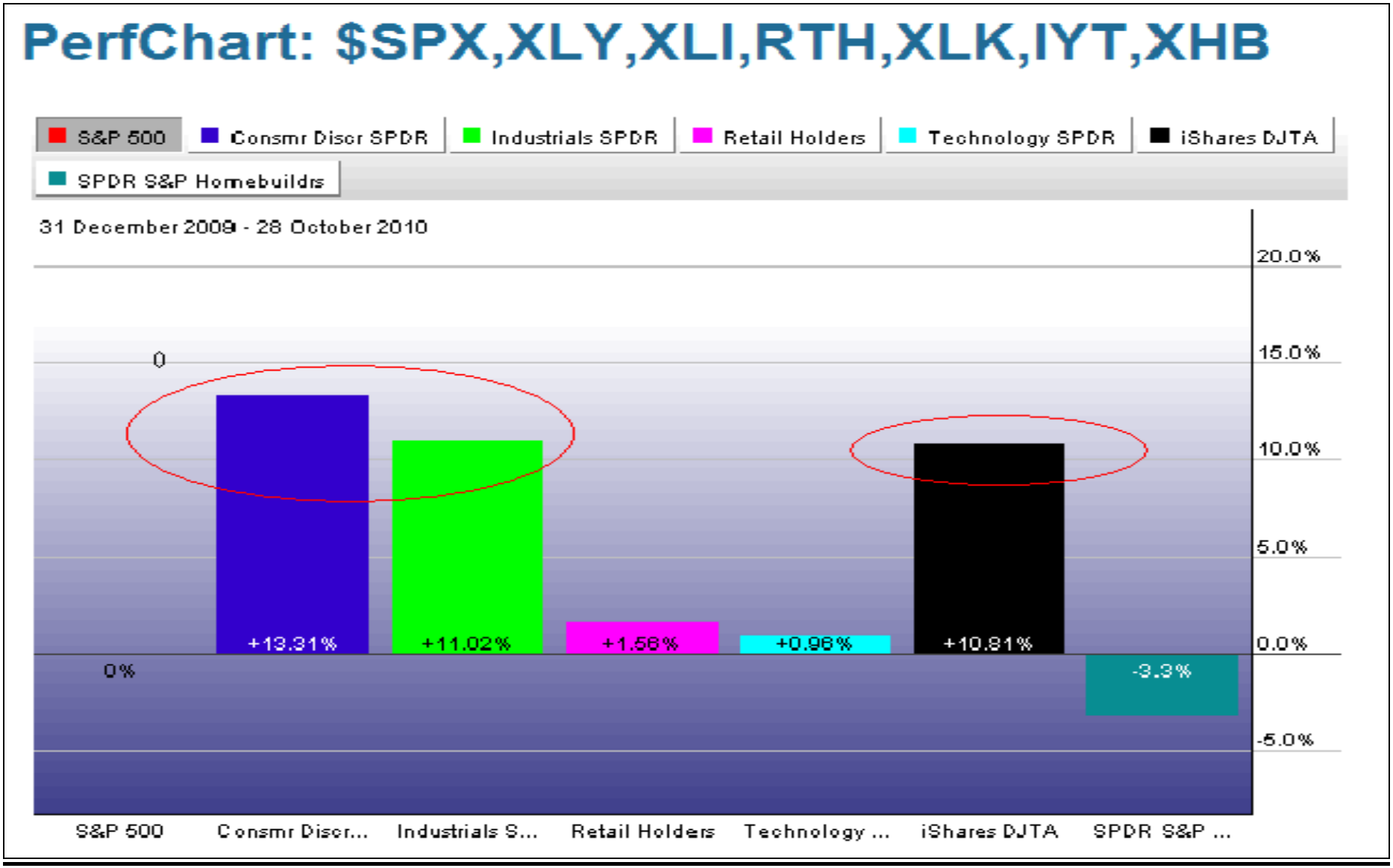
- **SPX Comparisons – From 1st Jan @ 1115 to current 1178**

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.

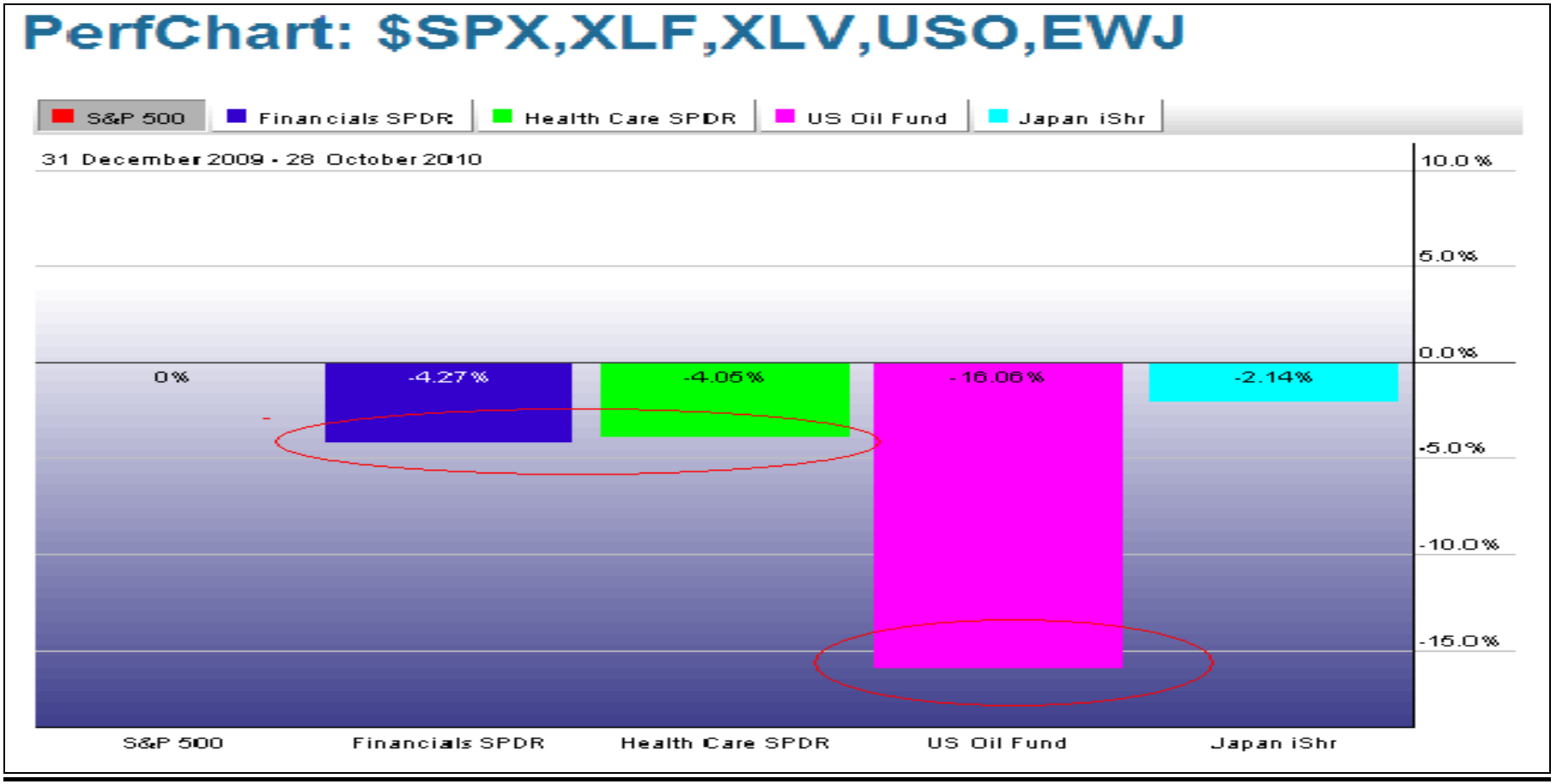
Overvalued – list 1



Overvalued – list 2



Undervalued –list 1

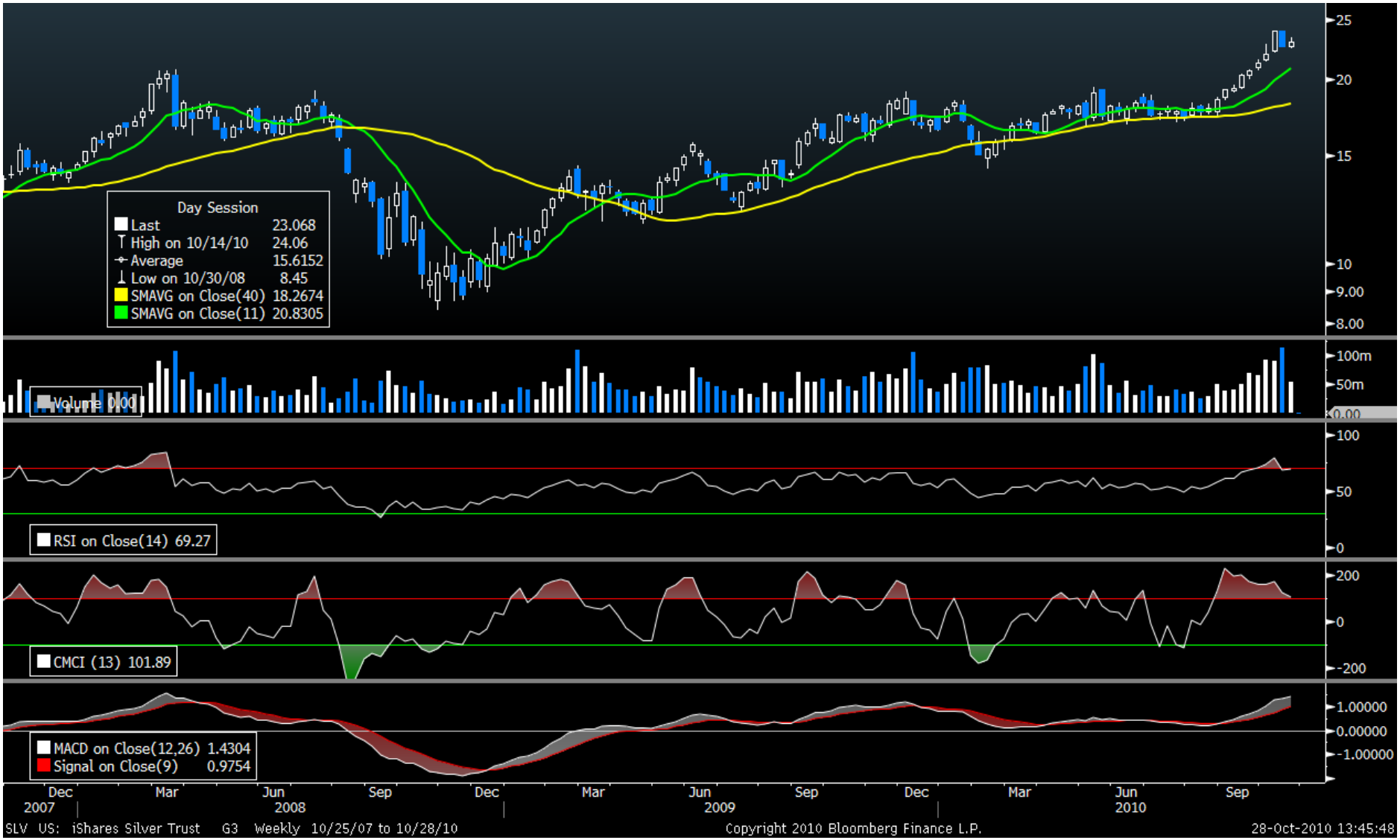


Conclusion by this process

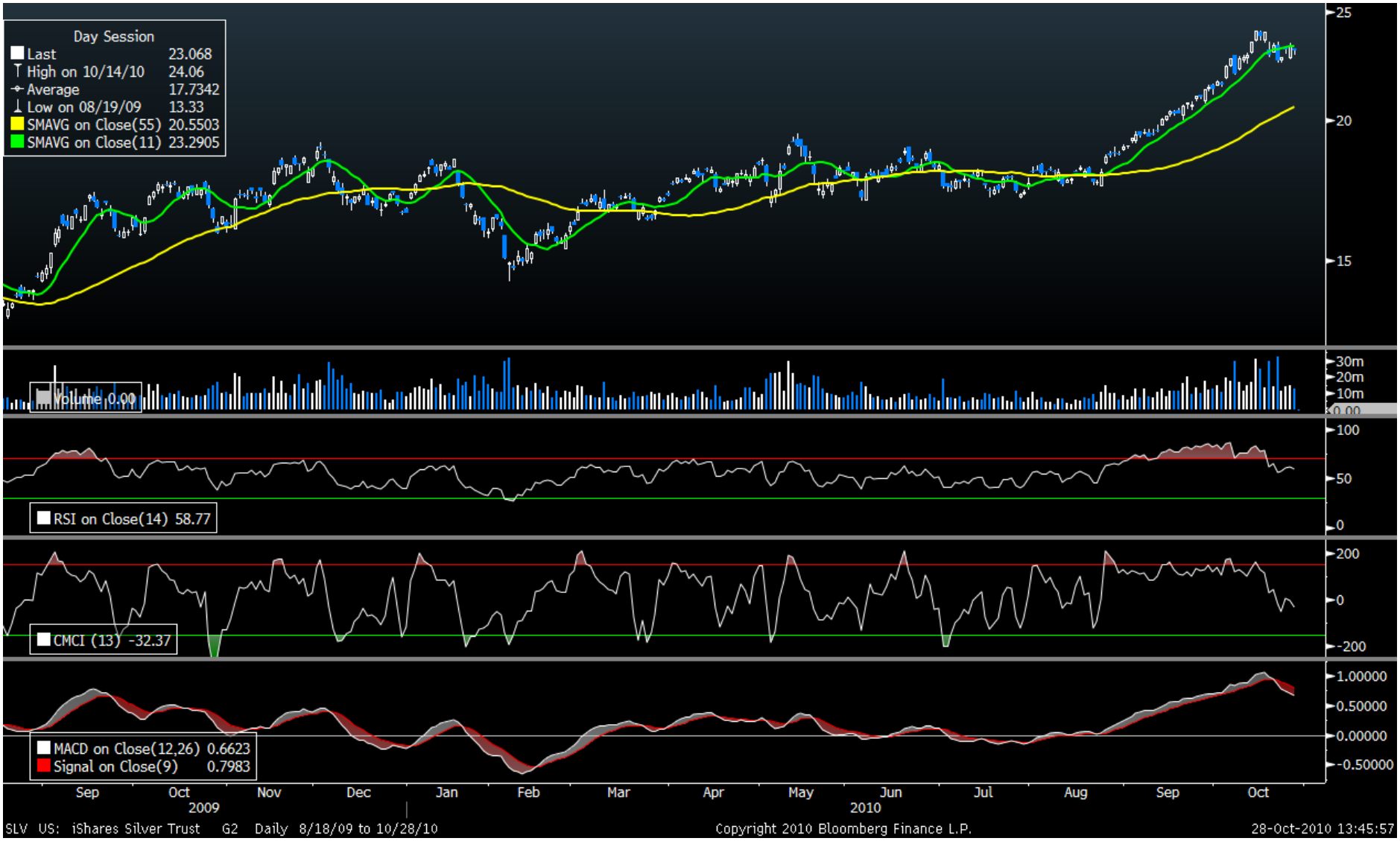
- **Most Overvalued indicated in RED – SLV, GLD, XLY, XLI, IYI, IWM, EEM**
- **Most Undervalued indicated in GREEN - XLF, XLV, USO, EWJ.**
- **Neutral - DBB, XHB**

SPECIAL SITUATION - SD 2 @ 2.89 - ***SLV (Silver ETF) – Has been qualified for SD 2 – Overvaluation by POM Methodology, this sector also met majority criteria of POM 15.***

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

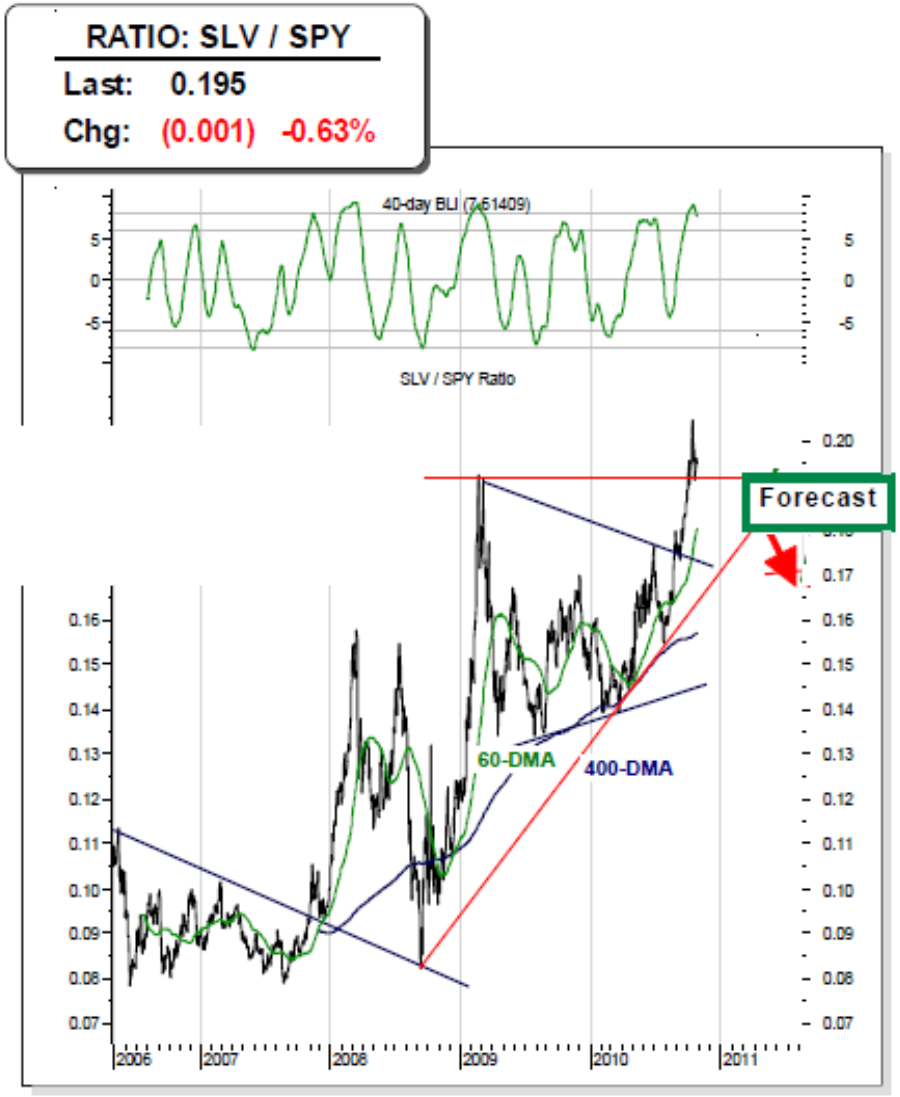


SLV - Daily – 3 Year with RSI, CCI, MACD
(11D / 55D)



1 – SLV- Technical & Pattern Analysis(No change)

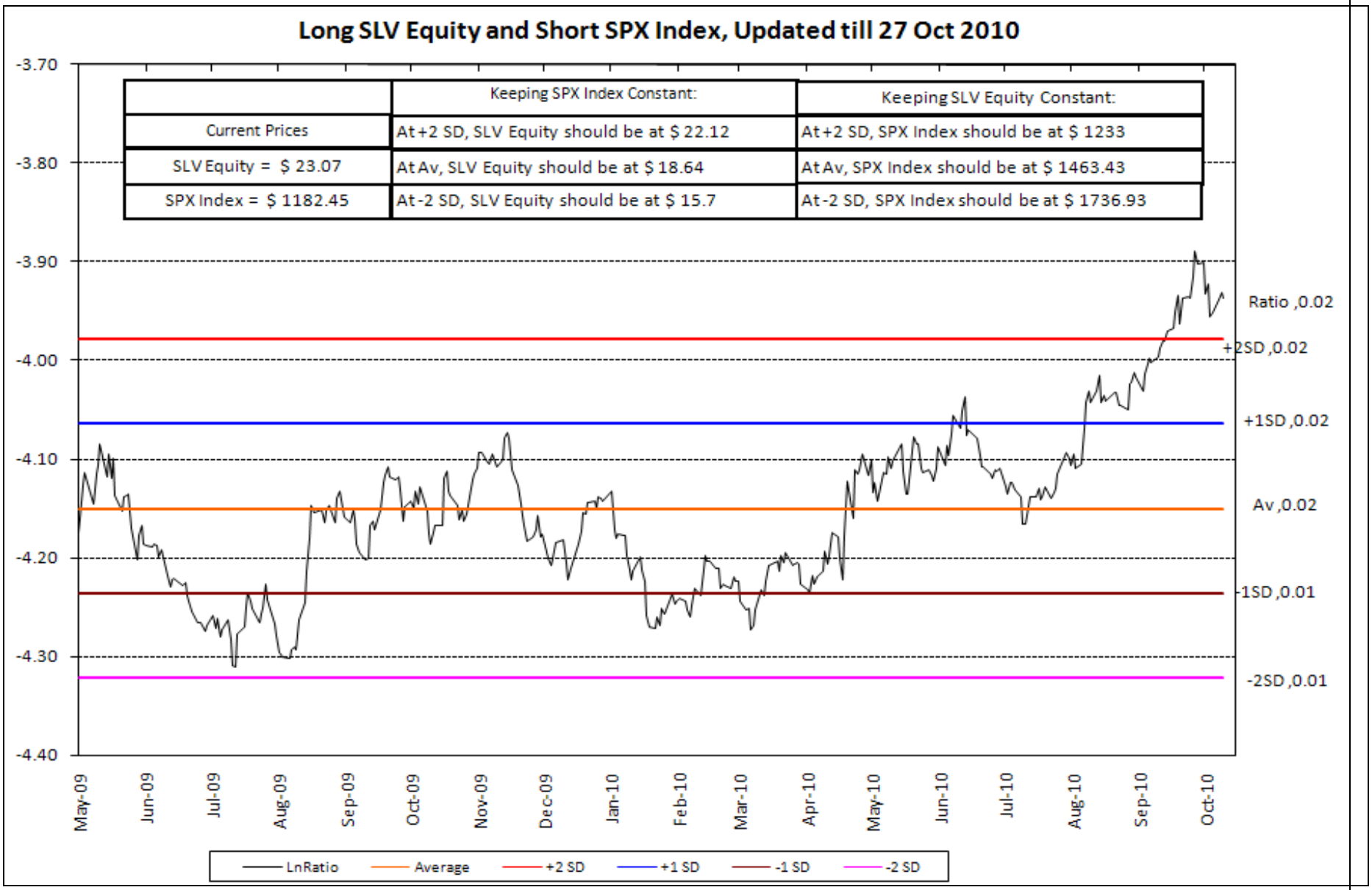
The SLV / SPX ratio chart looks bearish and should trend down in RH side chart below, confirms the relative fall in SLV / SPX (hence overvalued) by this matrix in Sync with SD Analysis.



SLV- SD2 – ROC & RSI Analysis at the top

Natural highs on SLV was at 22.75 with RSI @ 85 , the 2 gap play took the prices to 24 but RSI made lower high at 80 now RSI is at 70d with possibility of testing the Gap with lighter volume or at best double top . ROC gave a late signal on 2nd top but confirming divergence in the 3rd top. During this time frame SD (chart below0 had quick swing

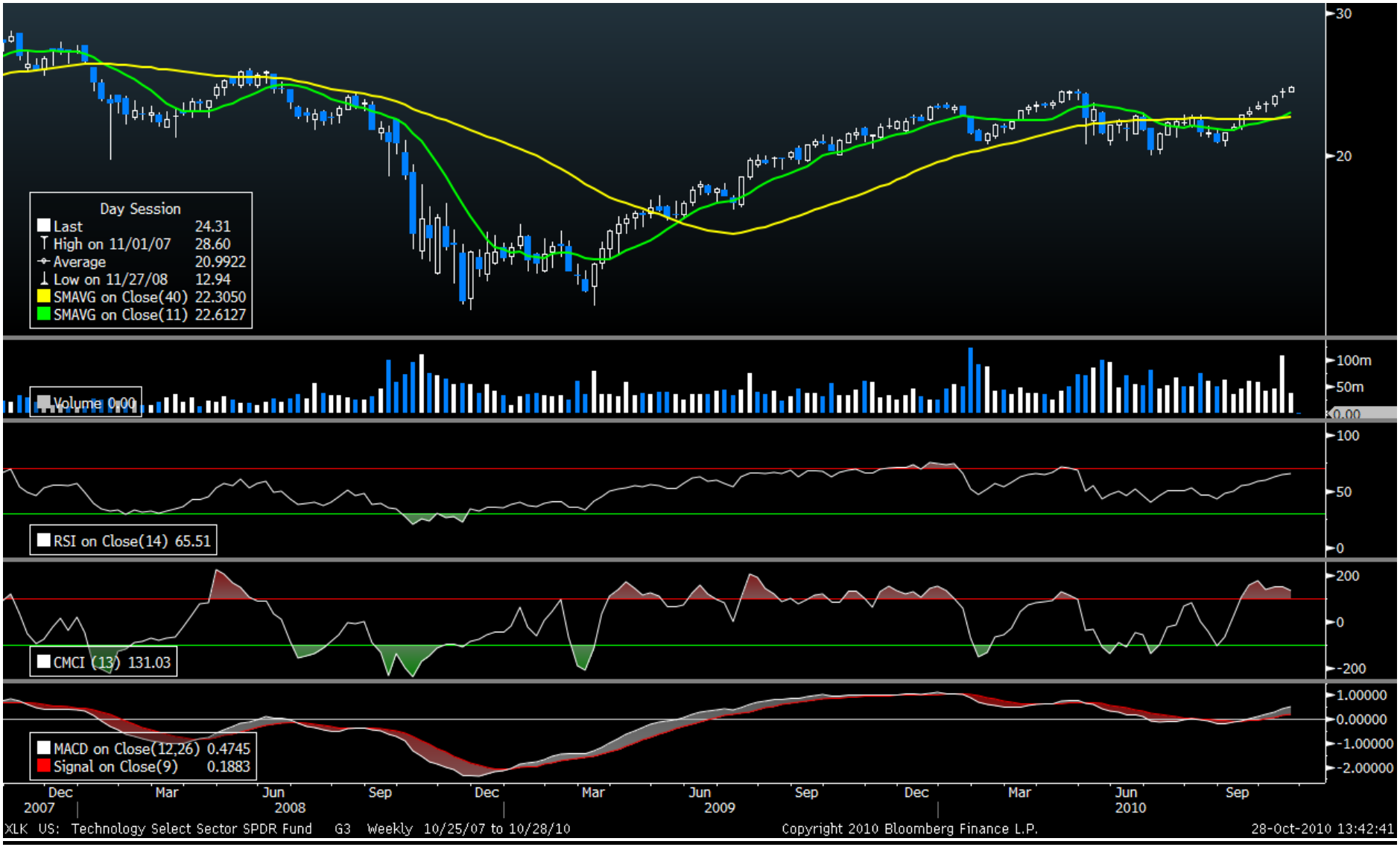
SLV – Correlation Ratio Analysis with SPX – 365 days Time basis



SPECIAL SITUATION - SD 2 @ 2.81 - ***XLK (Tech ETF) – Has been qualified for SD 2 – Overvaluation by POM Methodology, this sector (NASD) Proxy came in very close to majority criteria of POM 15.***

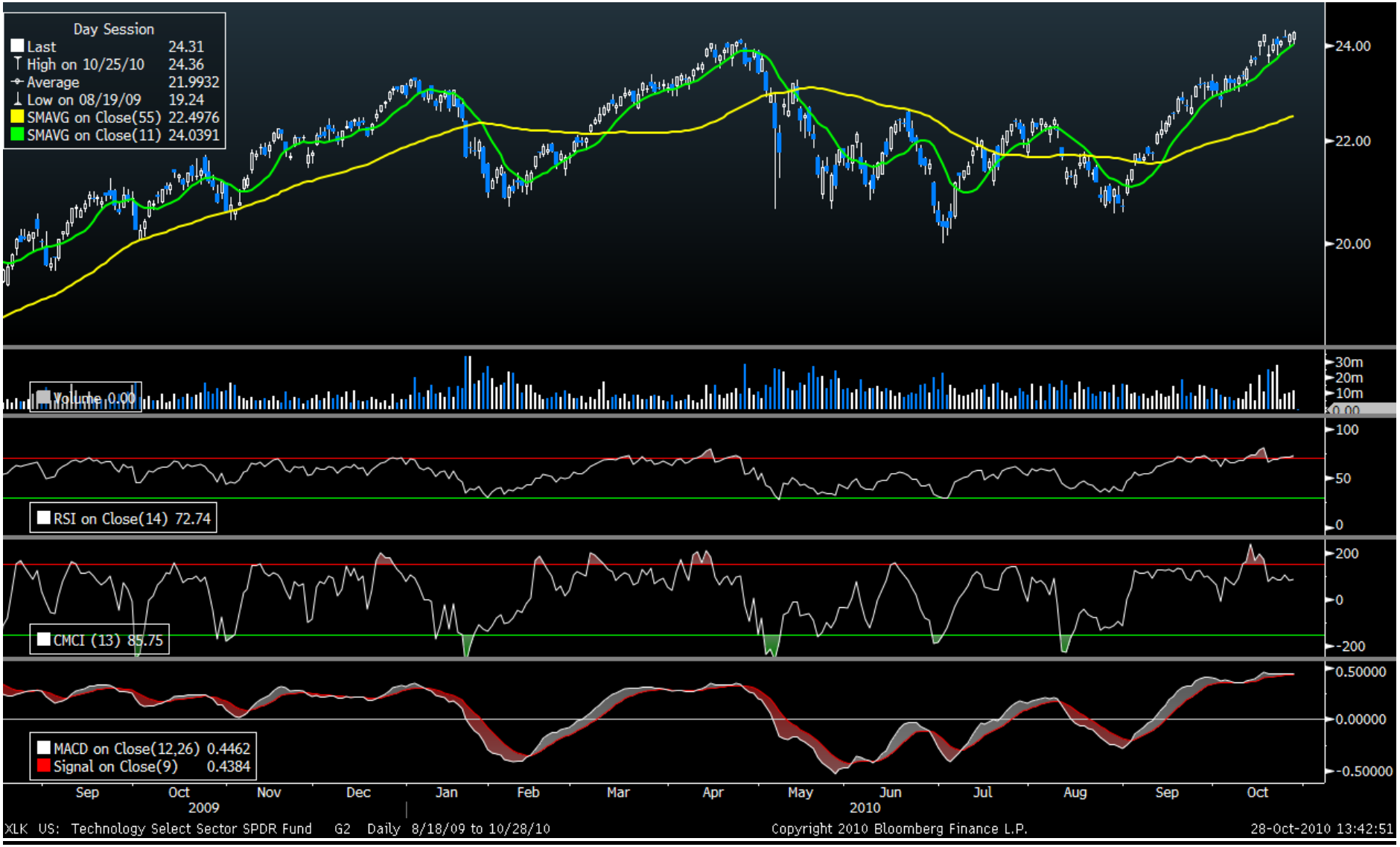
1-XLK- Weekly– 3 Year with RSI, CCI, MACD

a. / 40 W SMA)



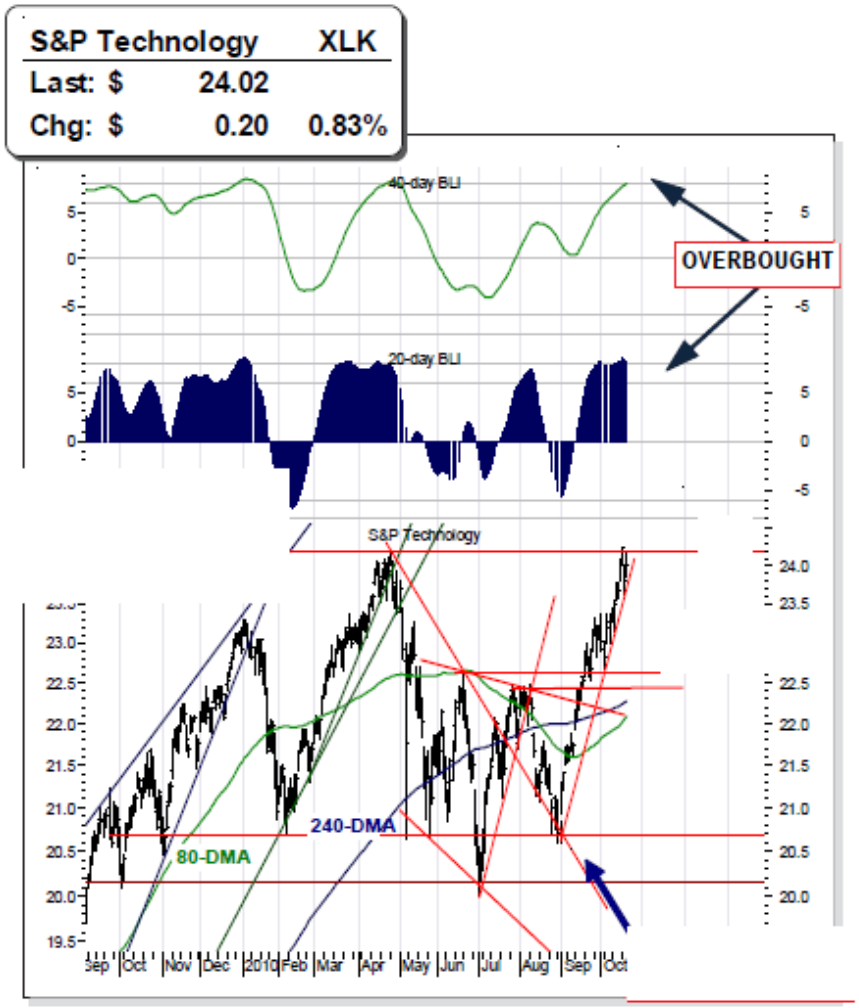
- XLK - Daily – 3 Year with RSI, CCI, MACD

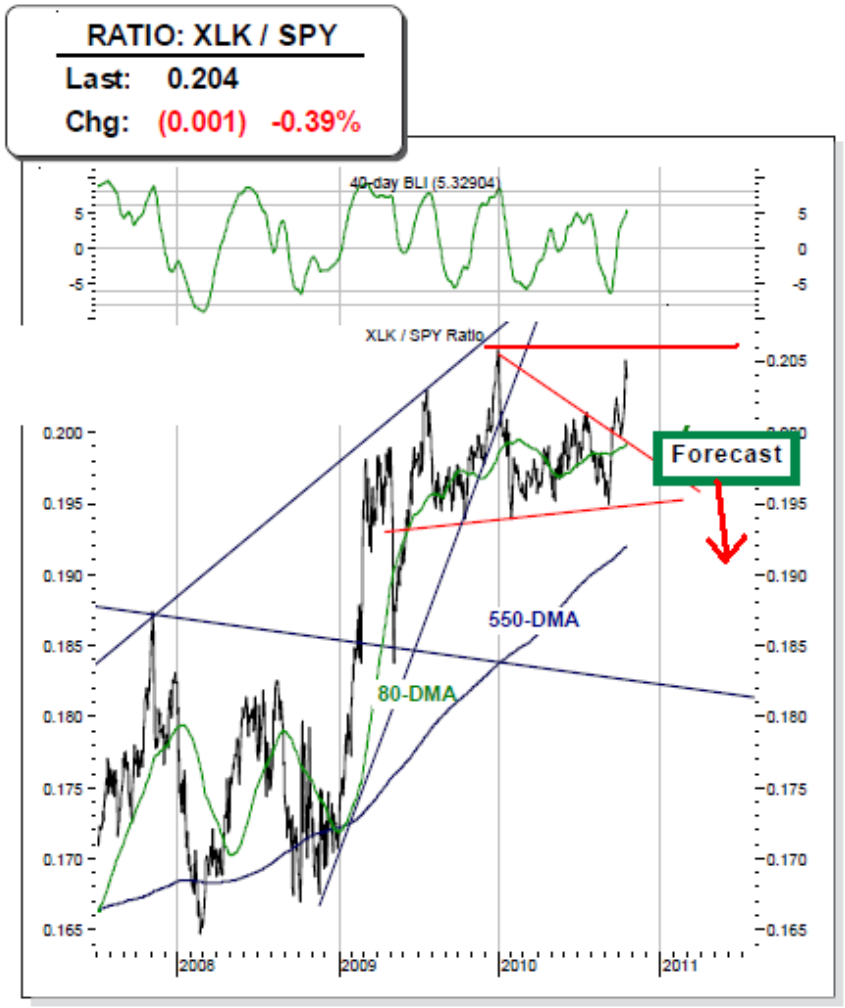
(11D / 55D)



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.

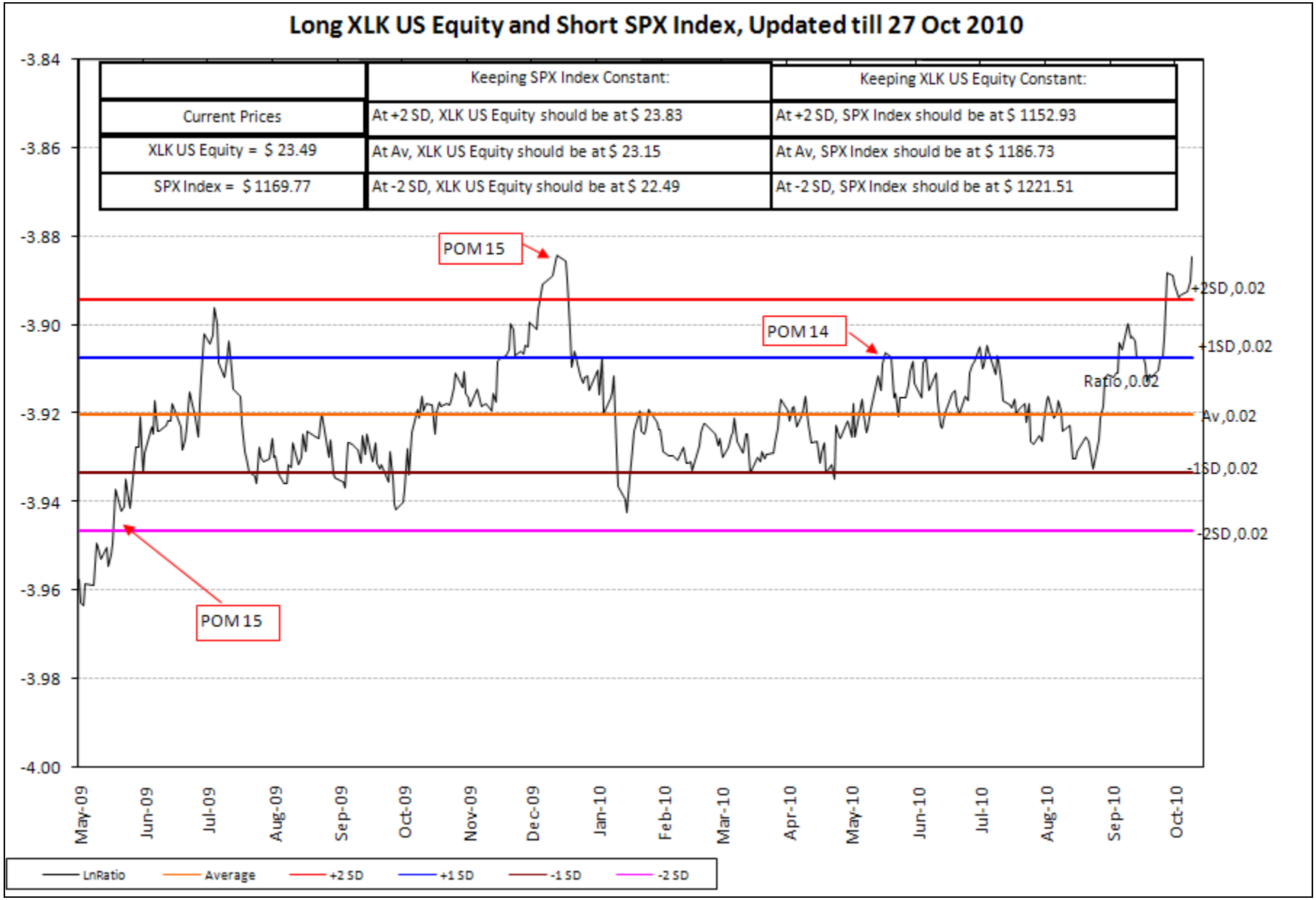




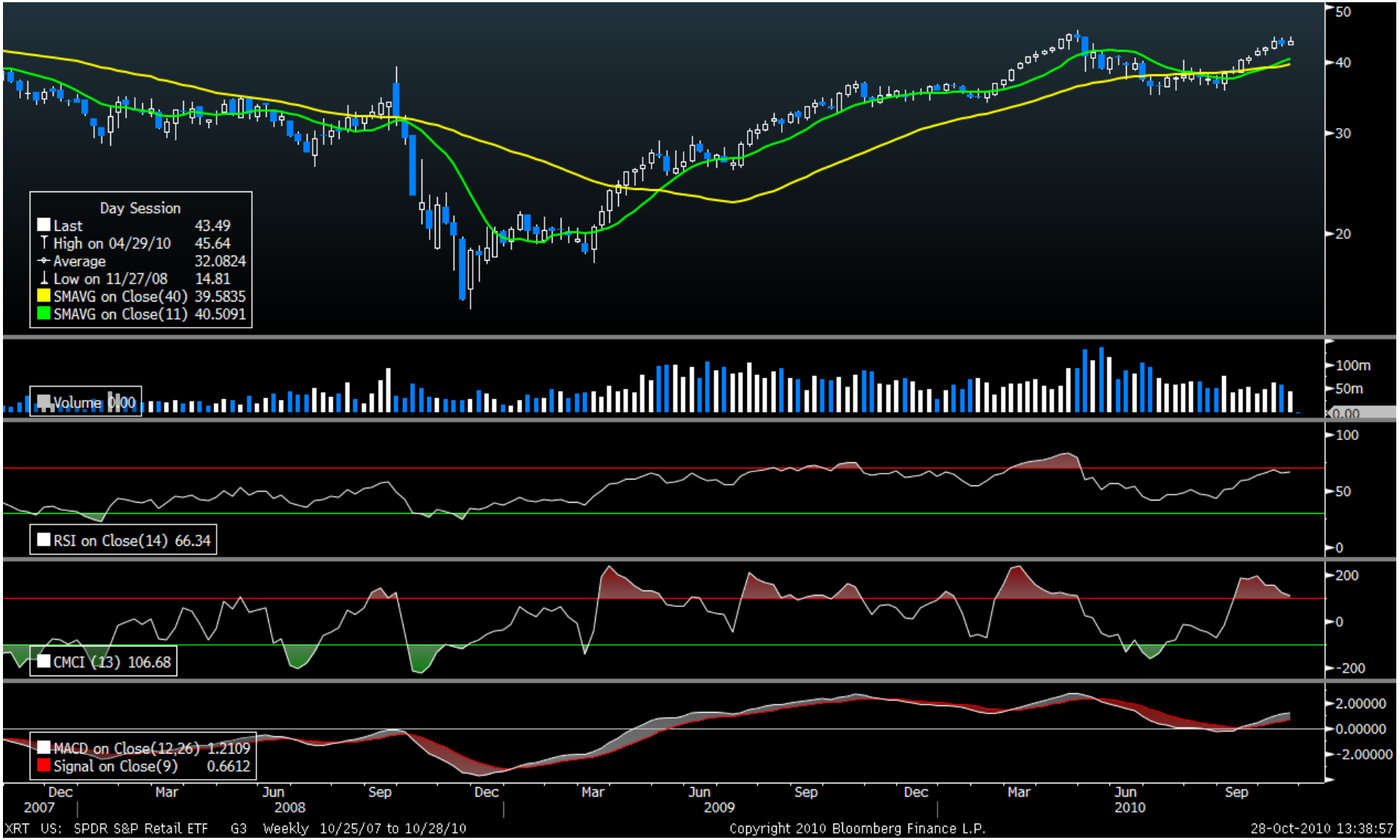
SLV- SD2 – ROC & RSI Analysis at the top

Natural highs on XLK was at 24.25 with RSI @ 80 , the gap play took the prices to 24. 50 but RSI made lower high at 70 The higher high is with lighter volume . ROC is rolling over but confirming divergence. During this time frame SD (chart below) had quick swing (All the effect of NASD 's large cap stocks)

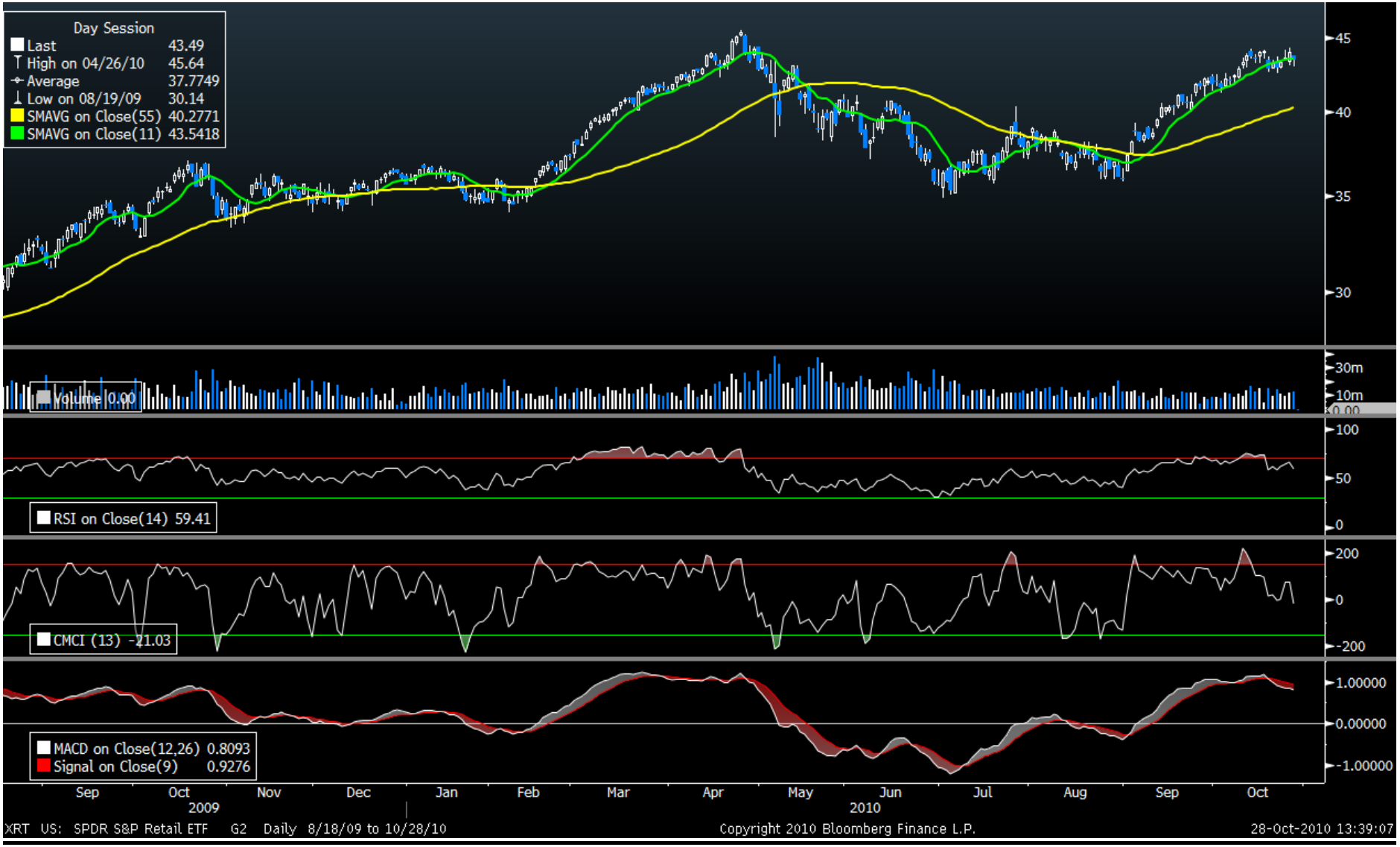
XLK – Correlation Ratio Analysis with SPX – 365 days Time basis



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

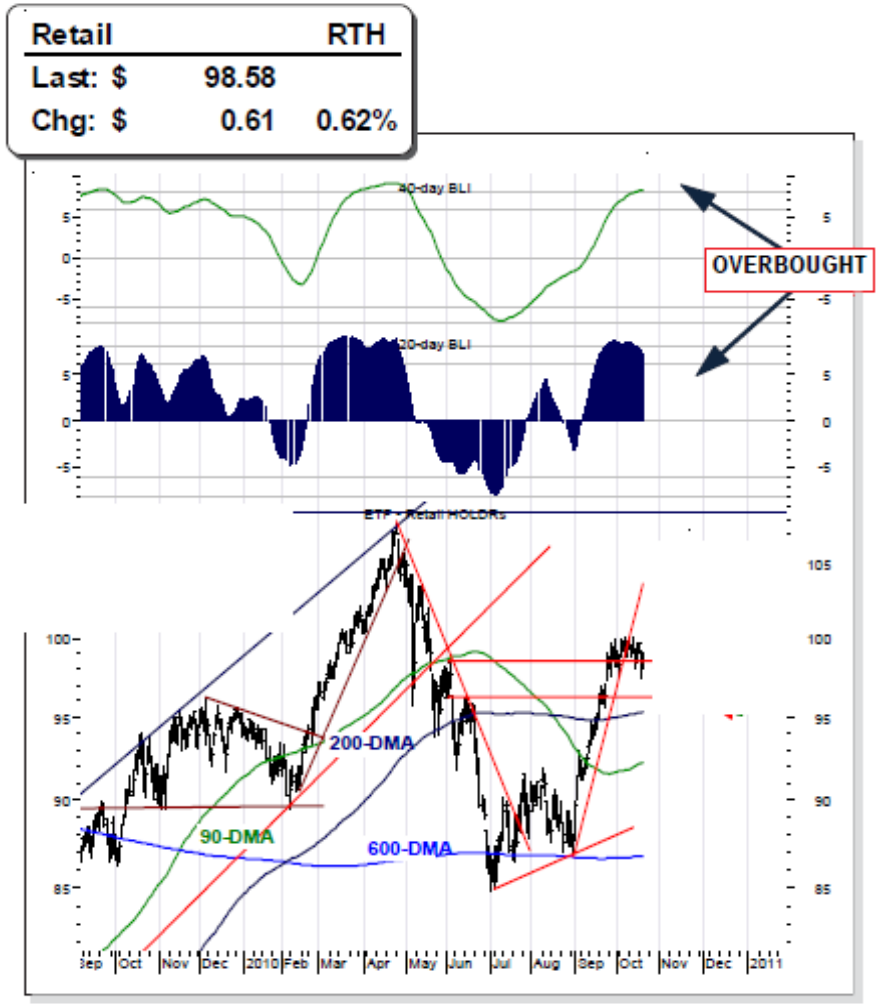


1 **- XRT - Daily – 3 Year with RSI, CCI, MACD**
(11D / 55D)

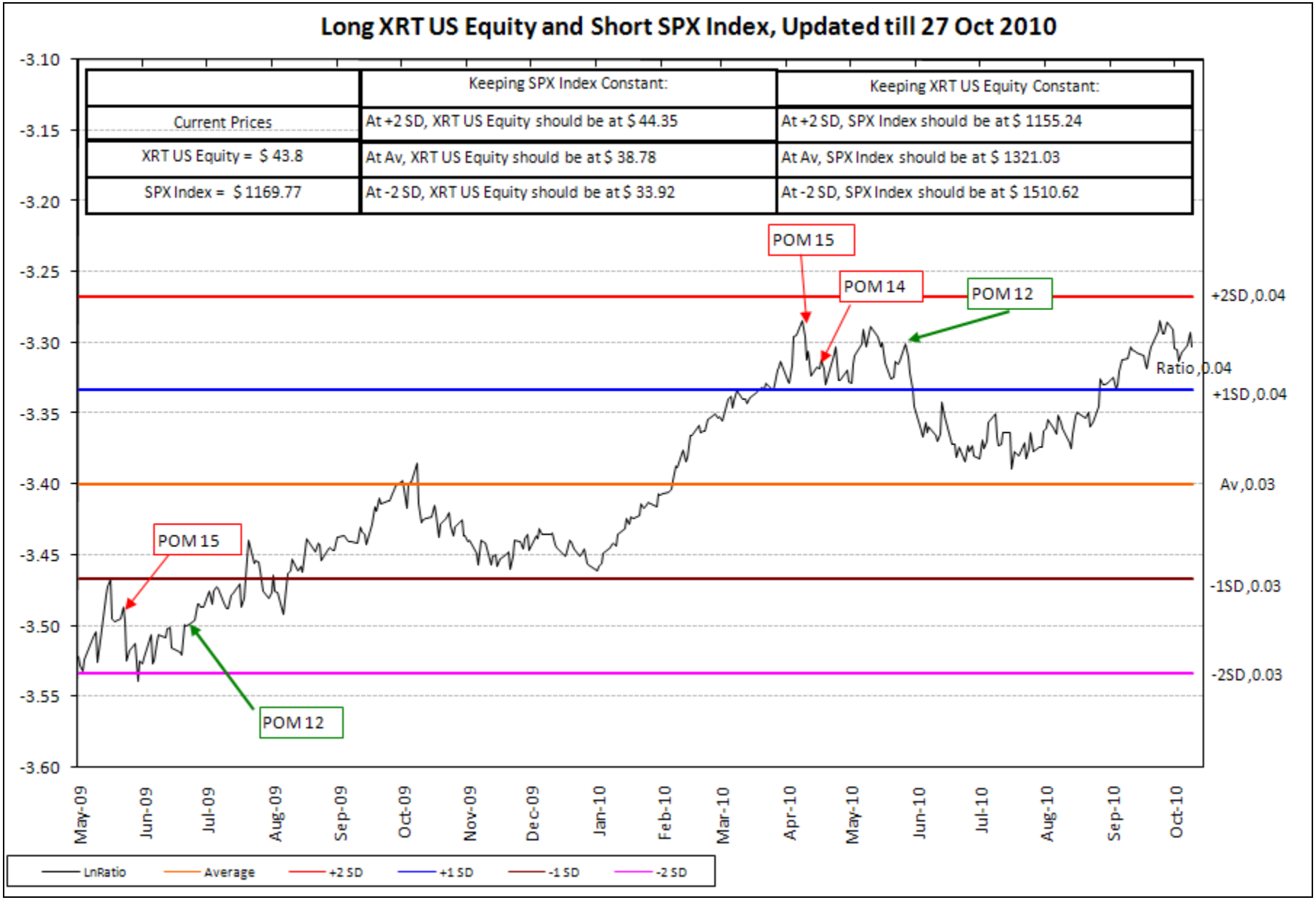


2 - XRT (RTH) – Technical & Pattern Analysis (Process 3) (No change)

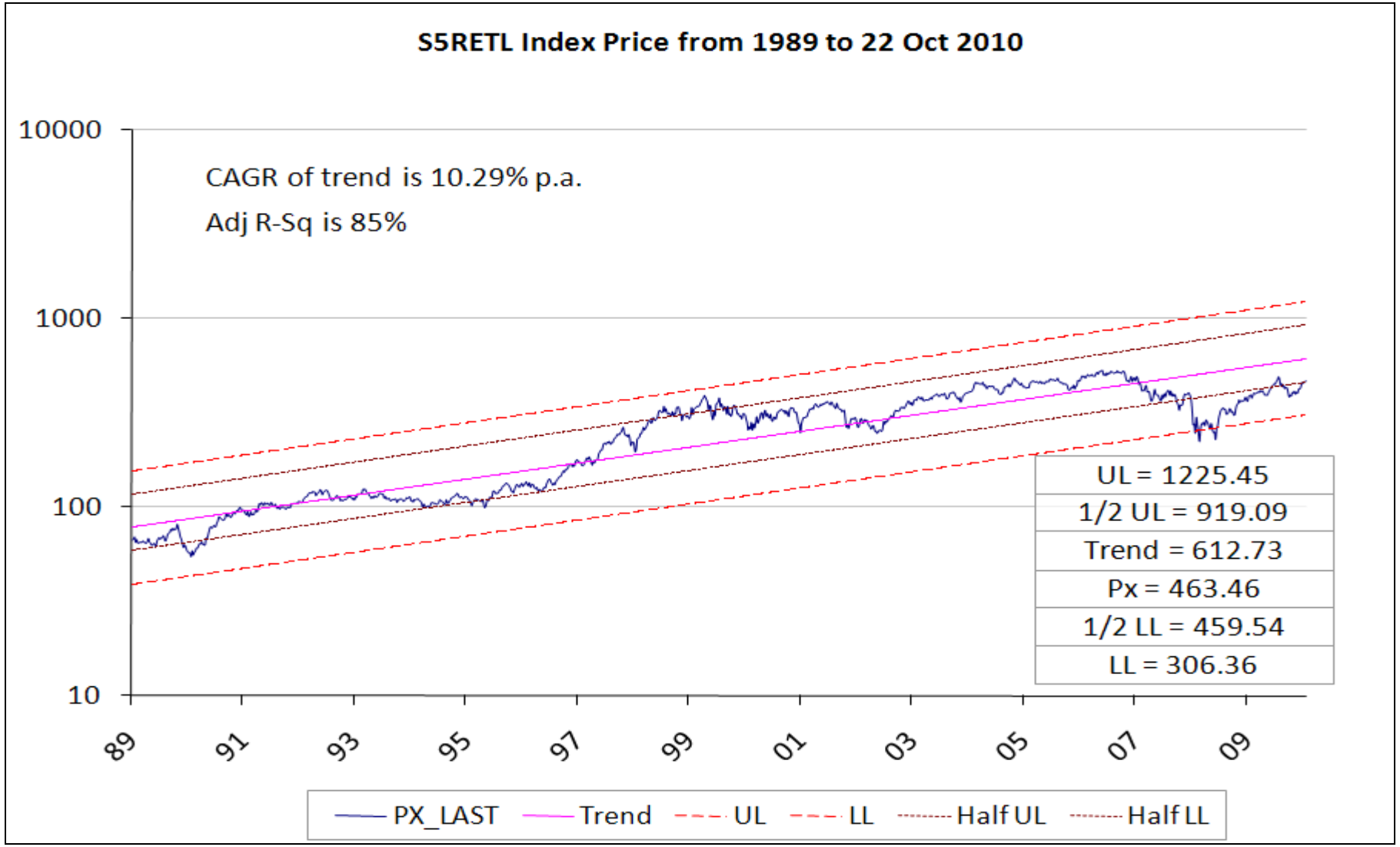
The RTH / SPX ratio chart hit a resistance, bearish and should trend down in RH side chart below, this confirms the relative drop in RTH / SPX (hence overvalued) by this matrix in sync with SD Analysis



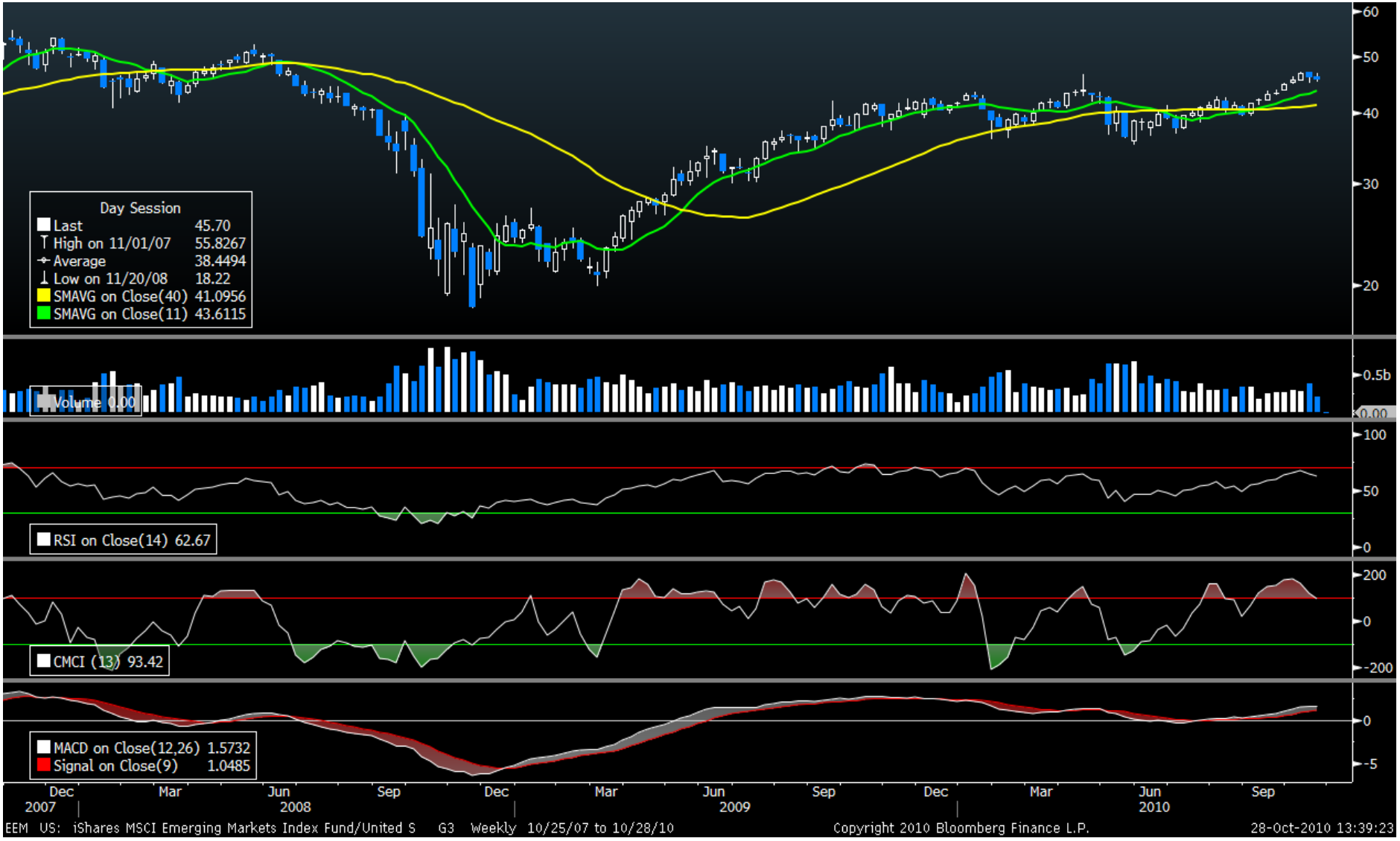
4- XRT – Correlation Ratio Analysis with SPX – 365 days Time basis


Long XRT US Equity and Short SPX Index, Updated till 27 Oct 2010
Keeping SPX Index Constant:
Keeping XRT US Equity Constant:
Current Prices
XRT US Equity = $ 43.8
SPX Index = $ 1169.77
At +2 SD, XRT US Equity should be at $ 44.35
At Av, XRT US Equity should be at $ 38.78
At -2 SD, XRT US Equity should be at $ 33.92
At +2 SD, SPX Index should be at $ 1155.24
At Av, SPX Index should be at $ 1321.03
At -2 SD, SPX Index should be at $ 1510.62
POM 15
POM 14
POM 12
POM 15
POM 12
+2SD,0.04
Ratio,0.04
+1SD,0.04
Av,0.03
-1SD,0.03
-2SD,0.03
-3.10
-3.15
-3.20
-3.25
-3.30
-3.35
-3.40
-3.45
-3.50
-3.55
-3.60
May-09
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

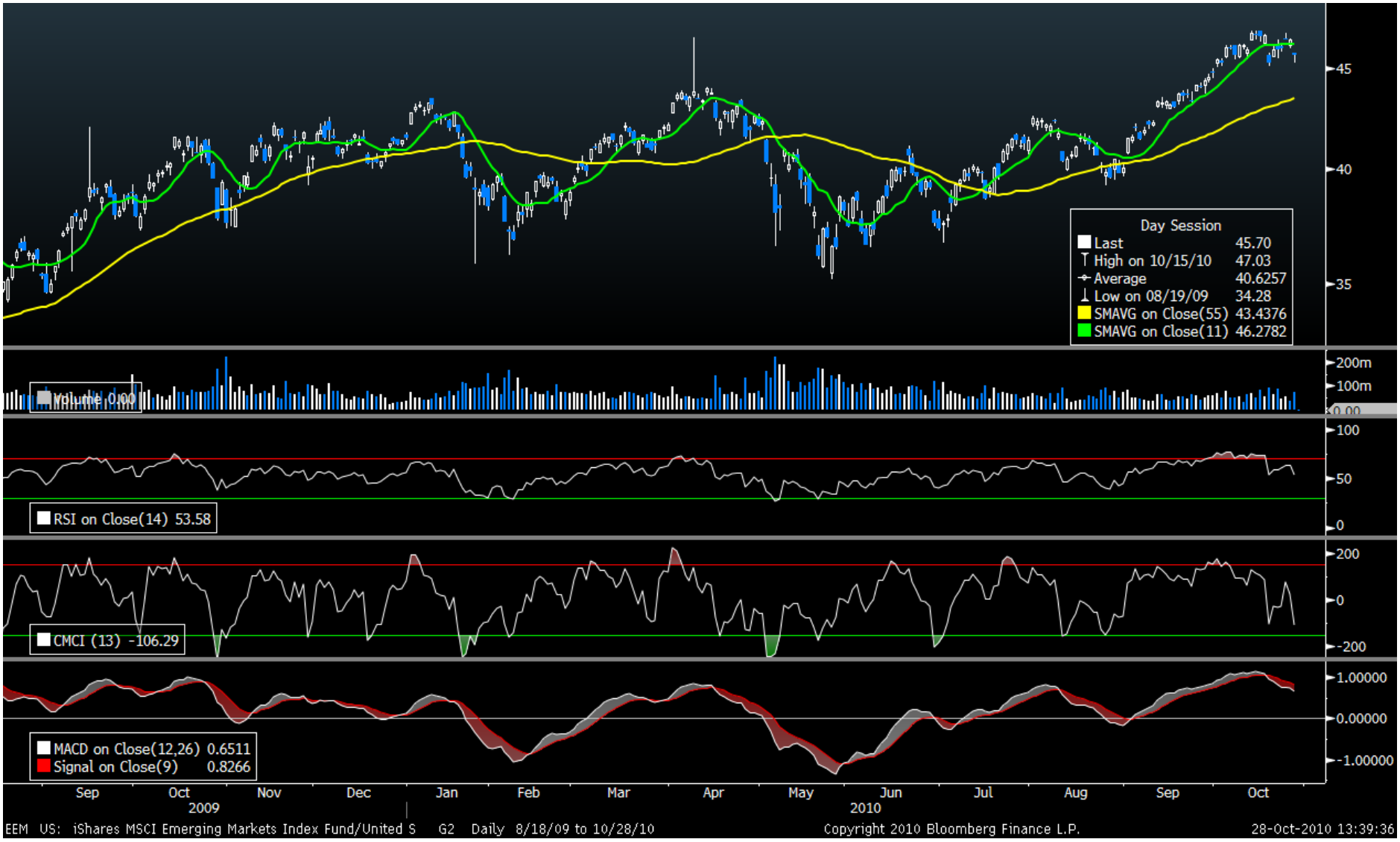
5- XRT – Trend Reversion Analysis – Long Term



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



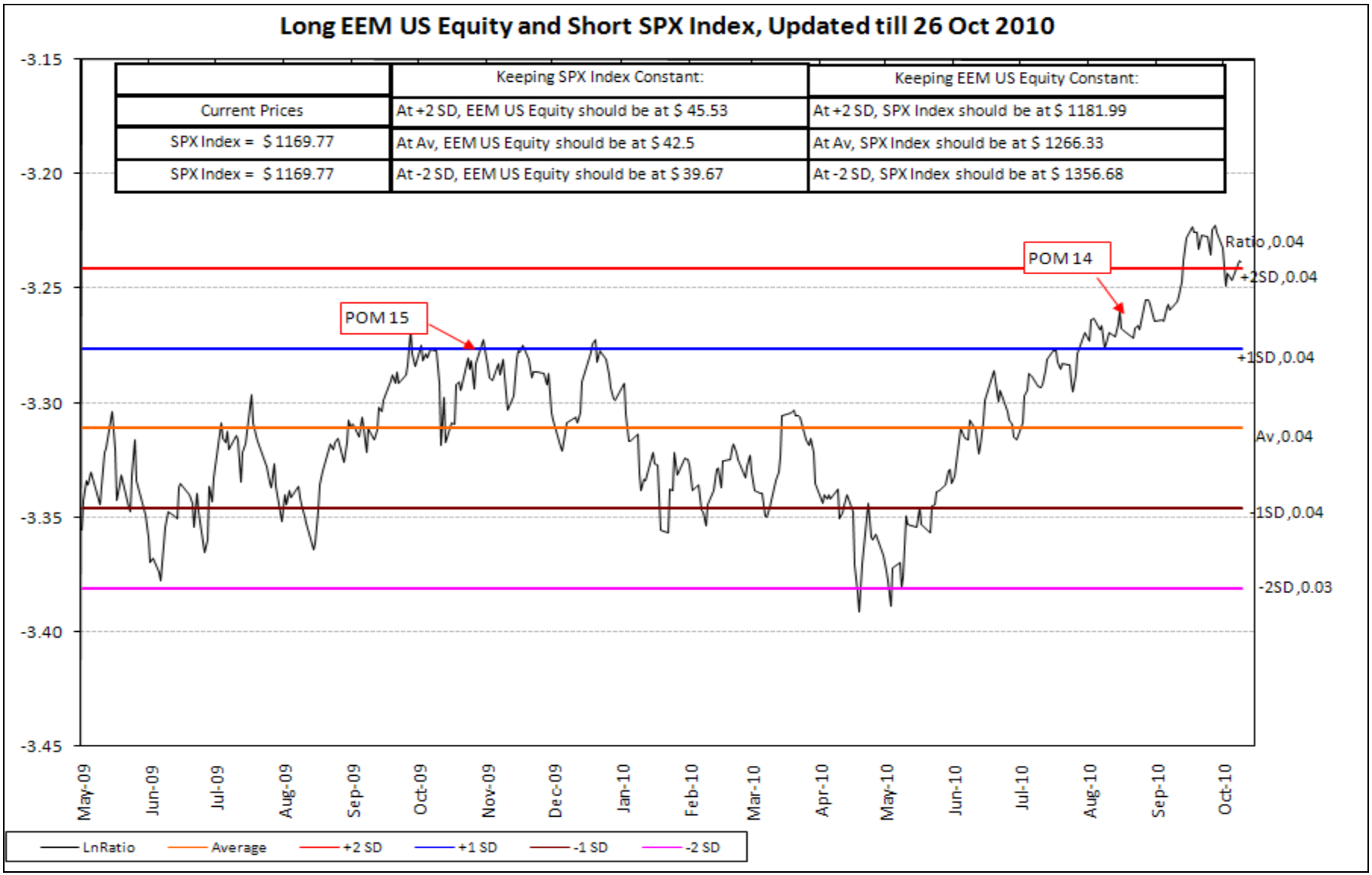
1- EEM - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD



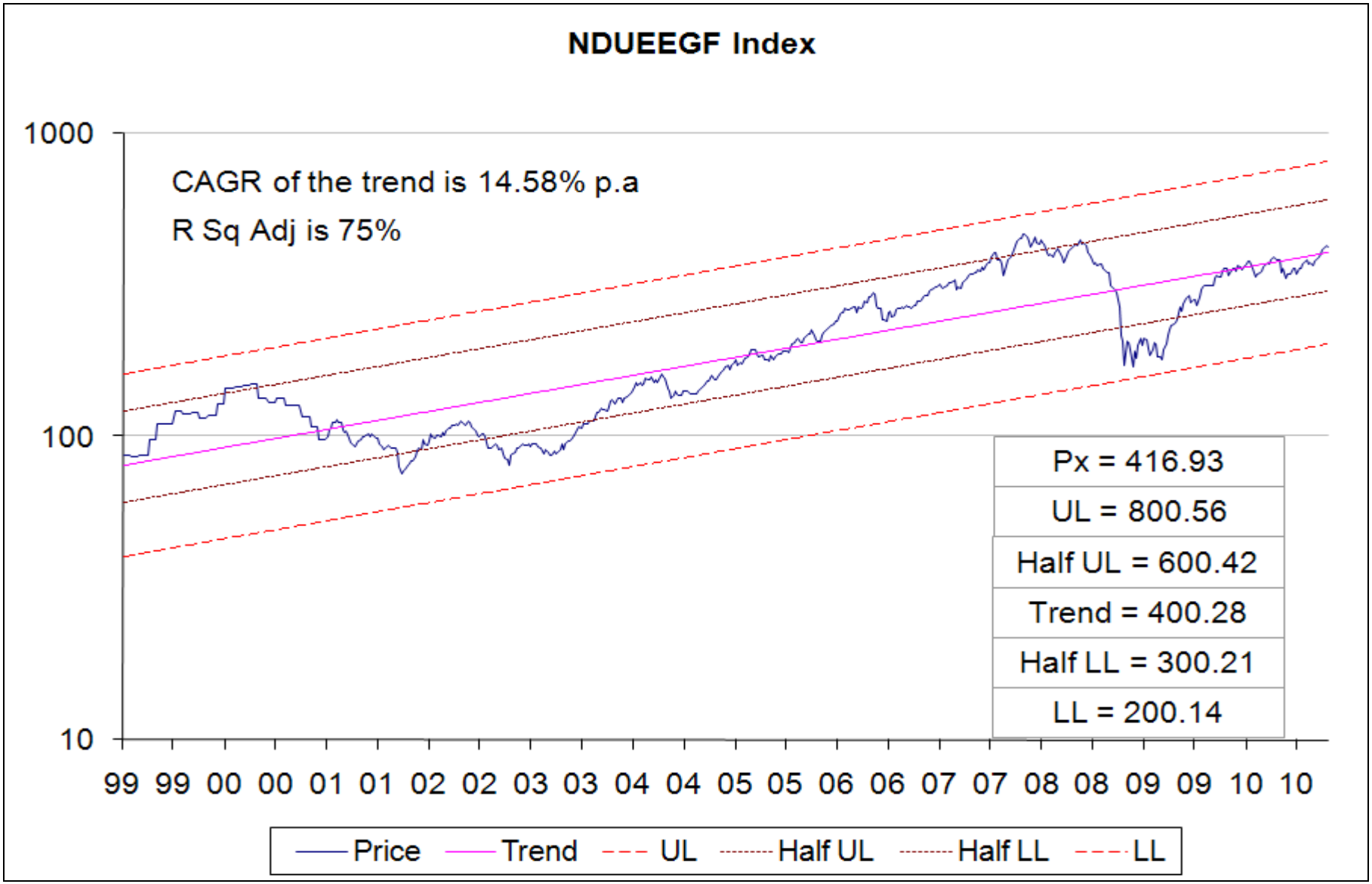
– EEM – Technical & Pattern Analysis (Process 3) (No change)

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.

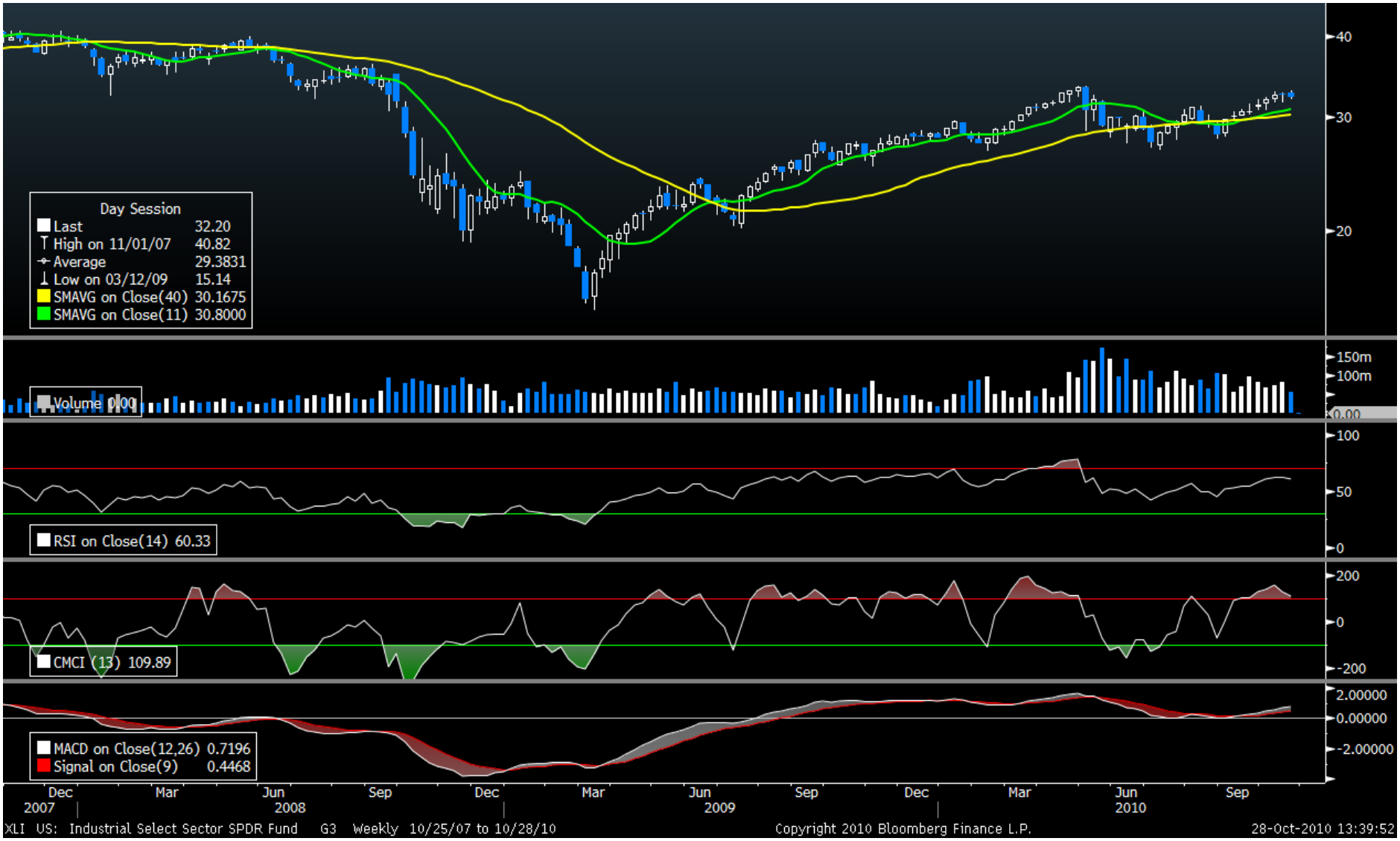
2- EEM – Correlation Ratio Analysis with SPX – 365 days Time basis



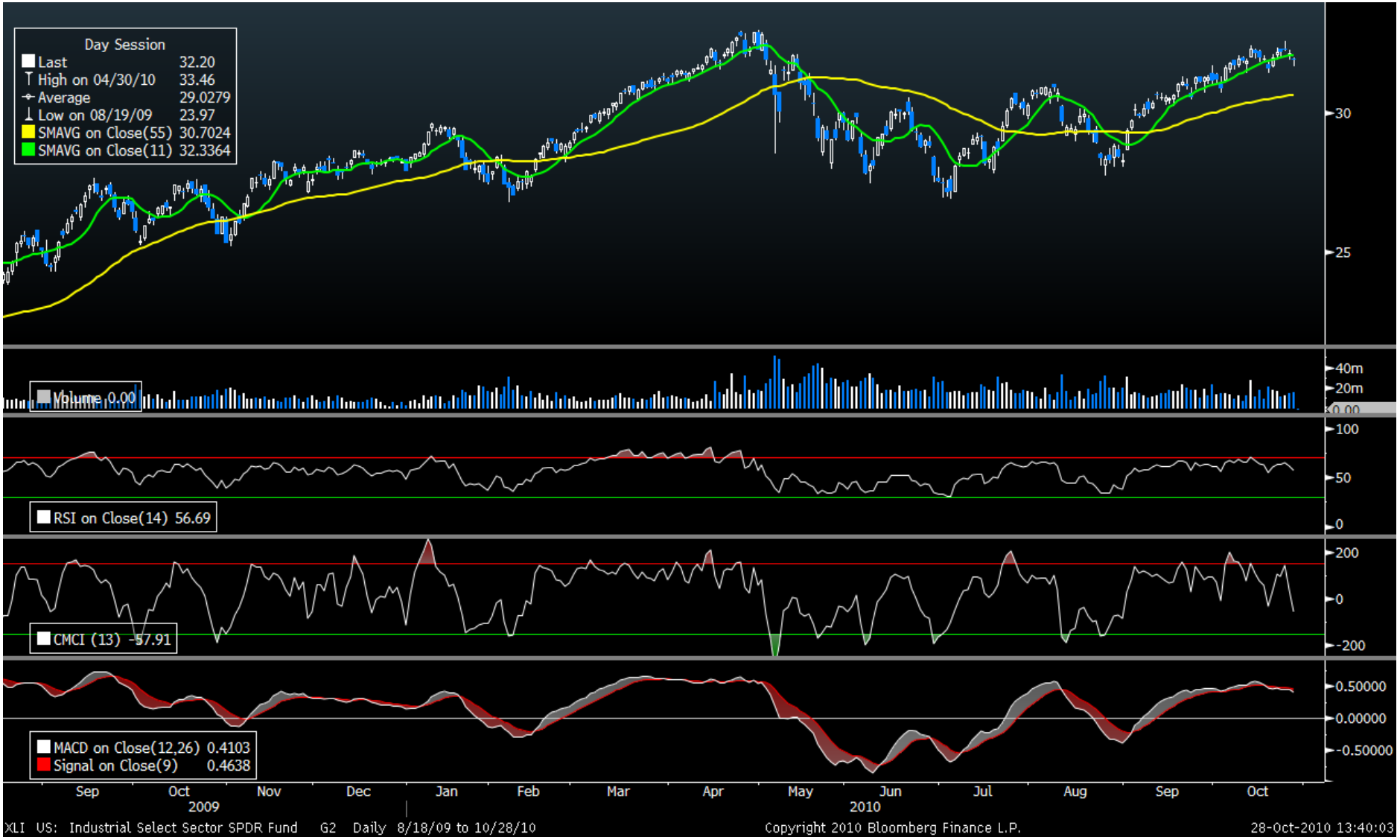
3- EEM – Trend Reversion Analysis – Long Term



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

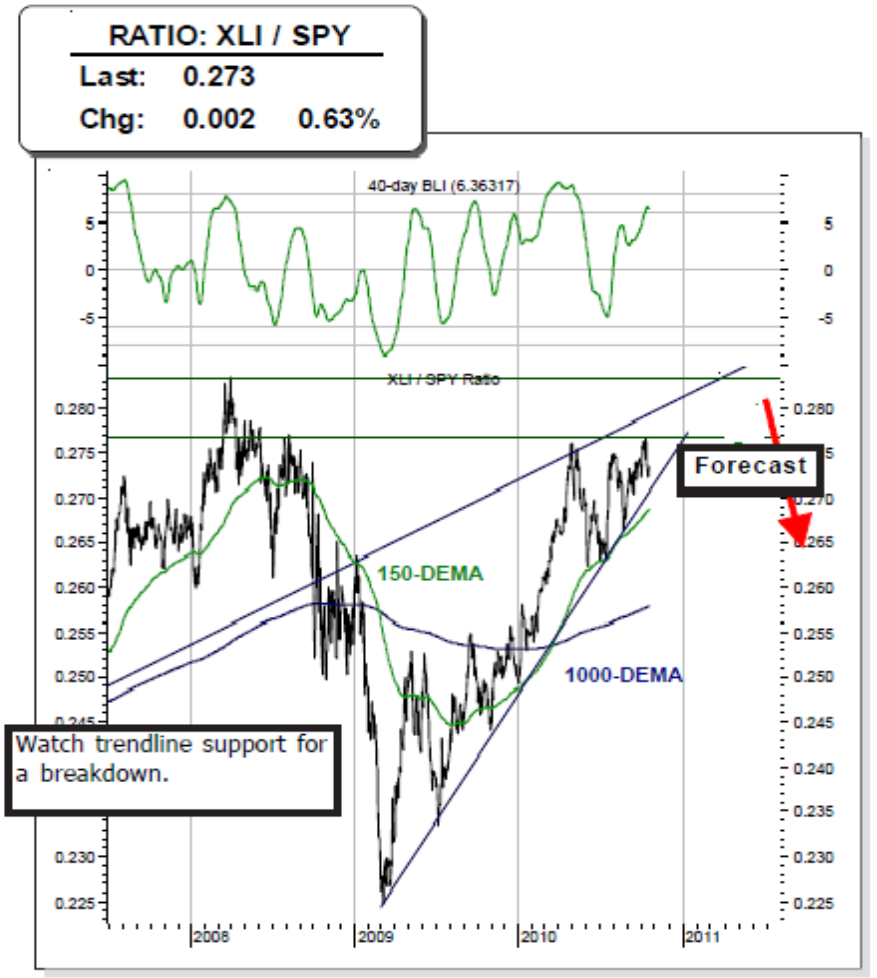


XLI - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

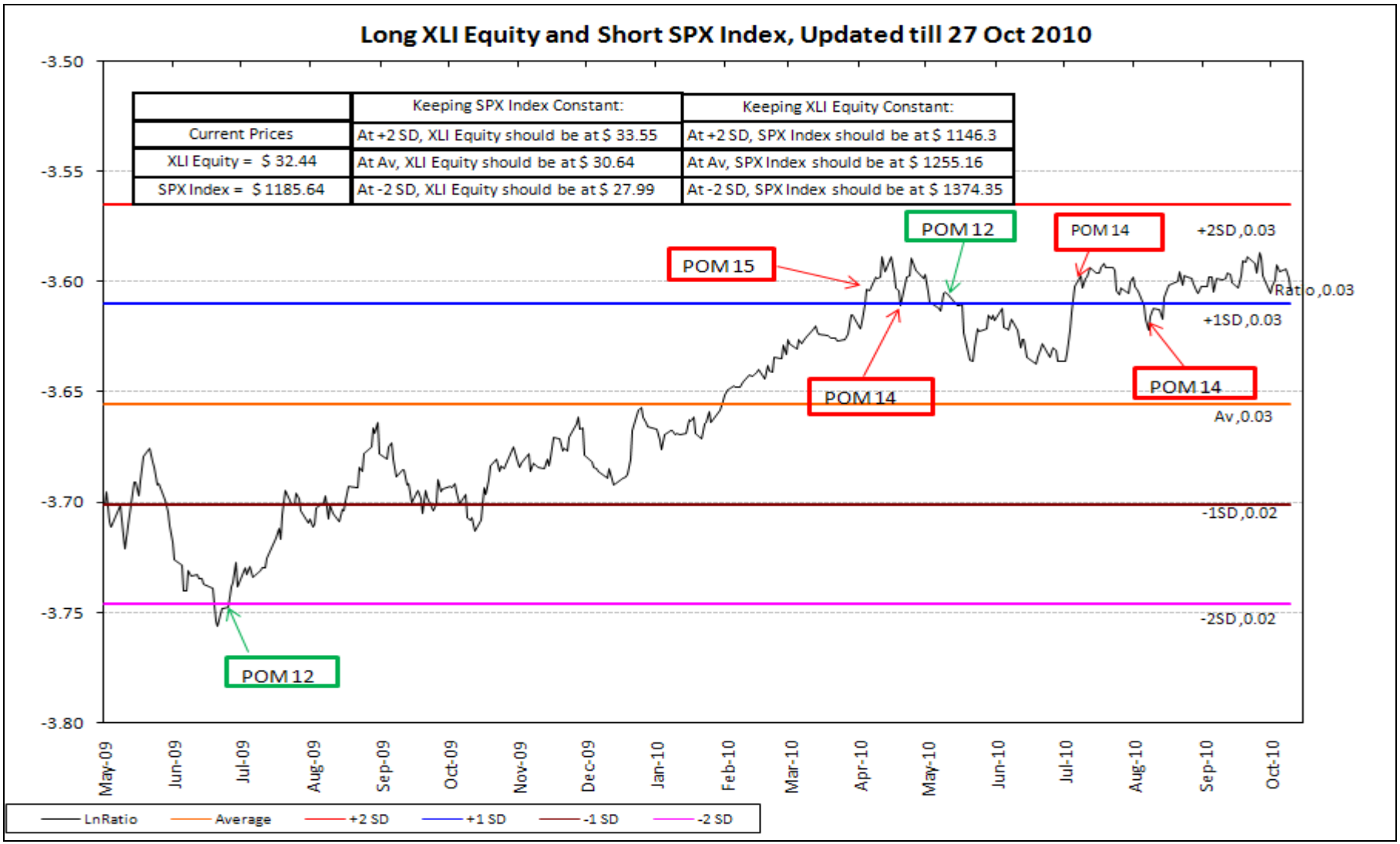


– XLI – Technical & Pattern Analysis - (Process 3) (No change)

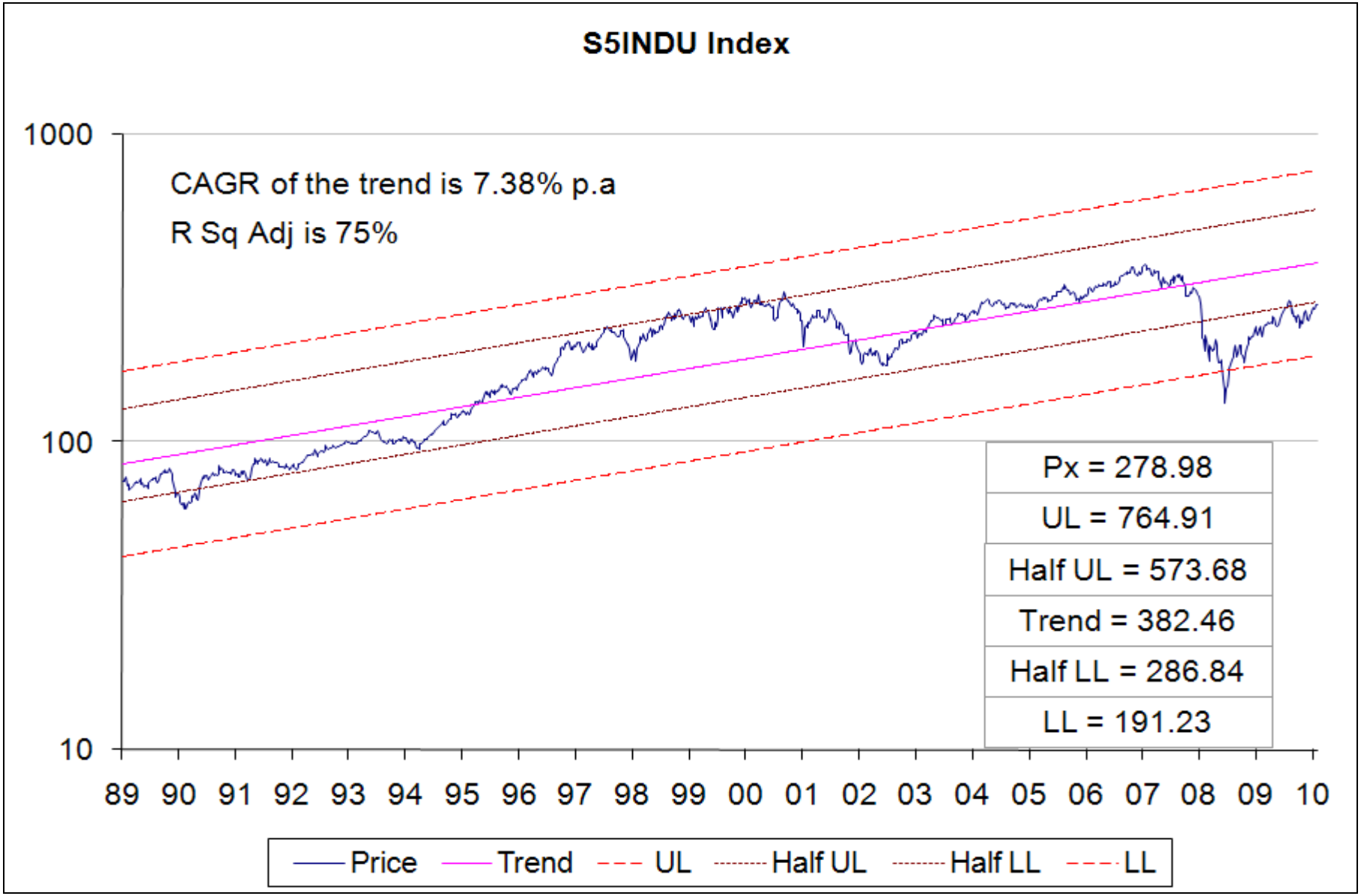
The XLI / SPX ratio chart looks BEARISH and trend lower in RH side chart below, confirms the relative still fall in XLI / SPX (hence overvalued) by this matrix Sync with SD Analysis.



3- XLI – Correlation Ratio Analysis with SPX – 365 days Time basis



4- XLI – Trend Reversion Analysis – Long Term

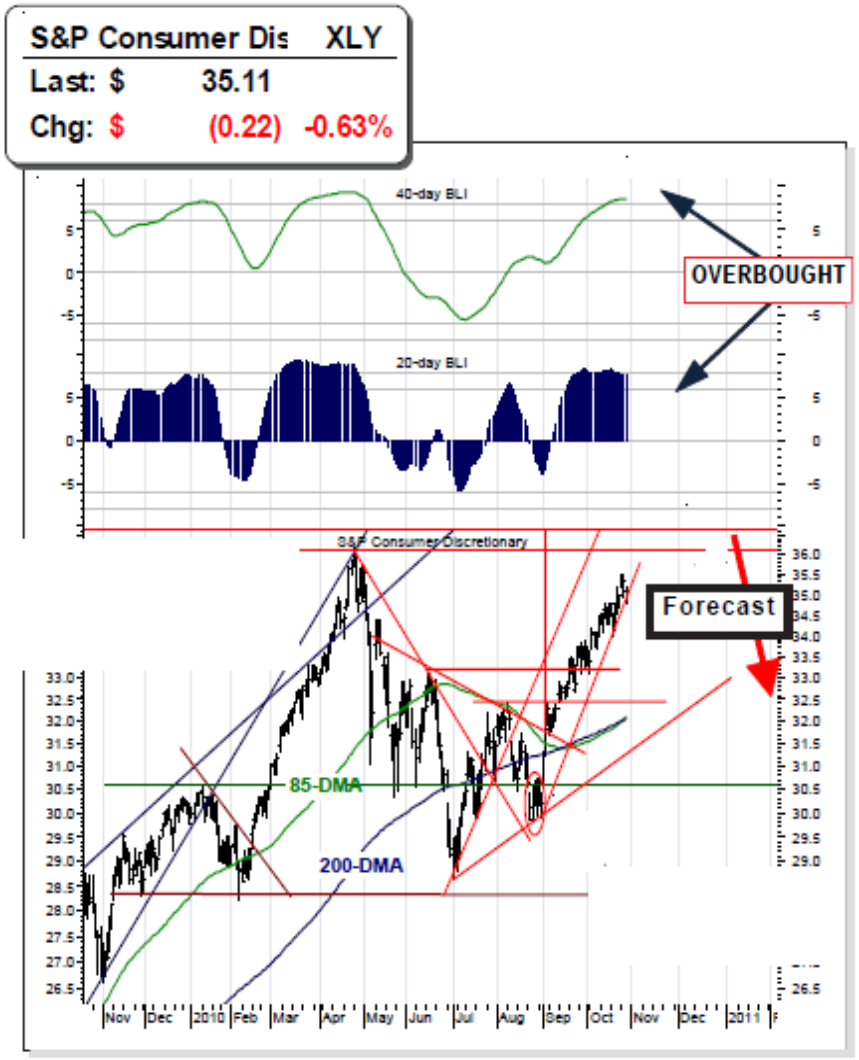


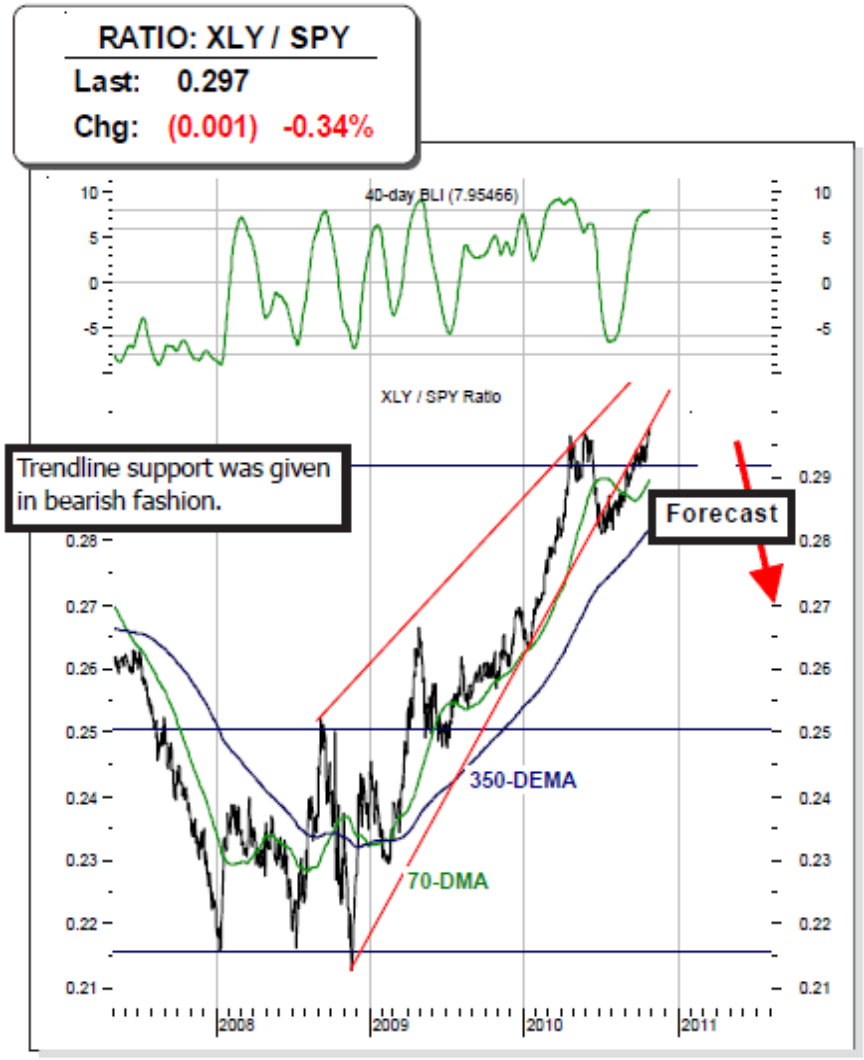
2 - XLY Weekly – 3 Year with RSI, CCI, MACD
(11 W / 40 W SMA)

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

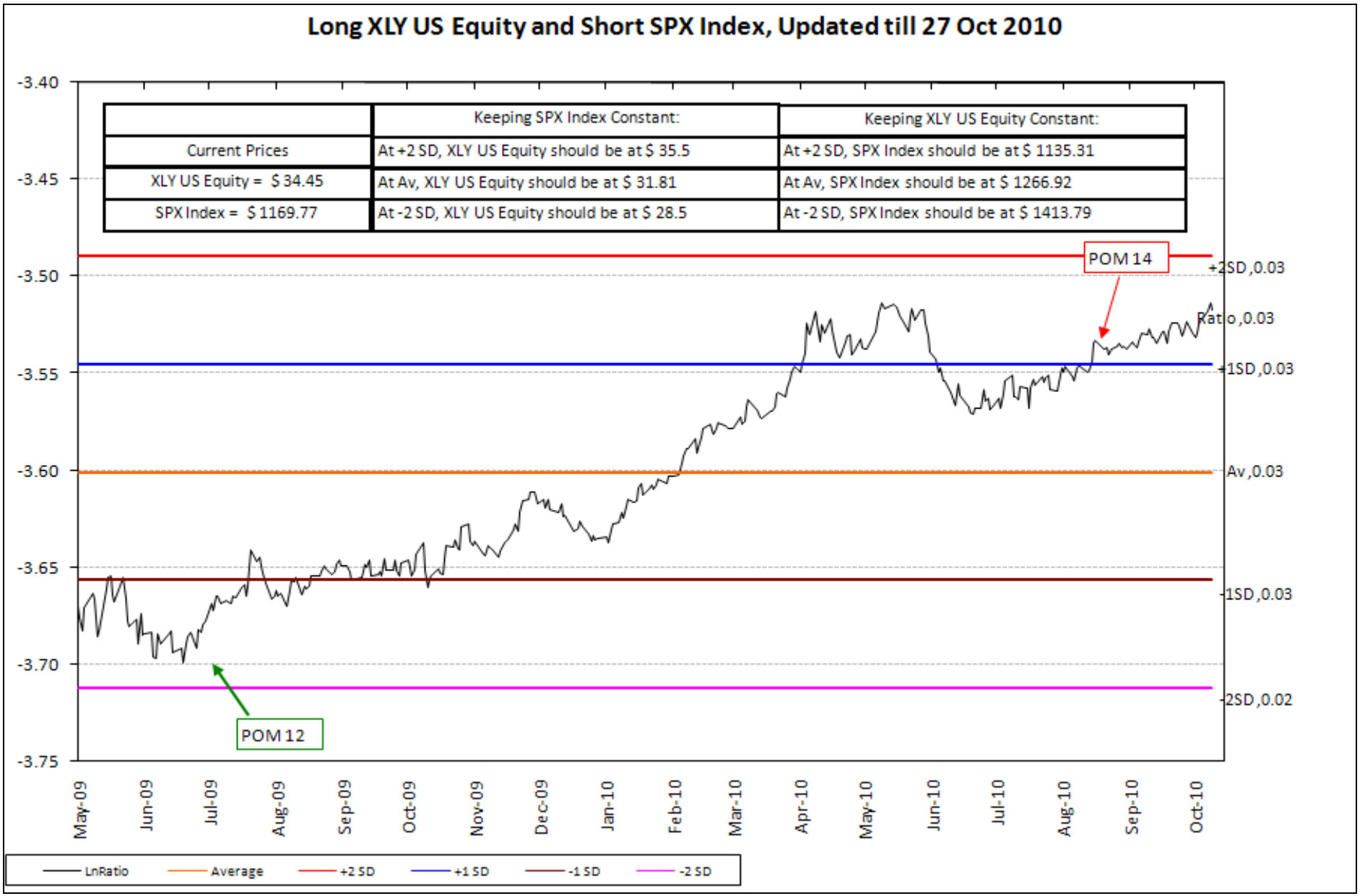
– XLY – Technical & Pattern Analysis - (Process 3) (No change)

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.

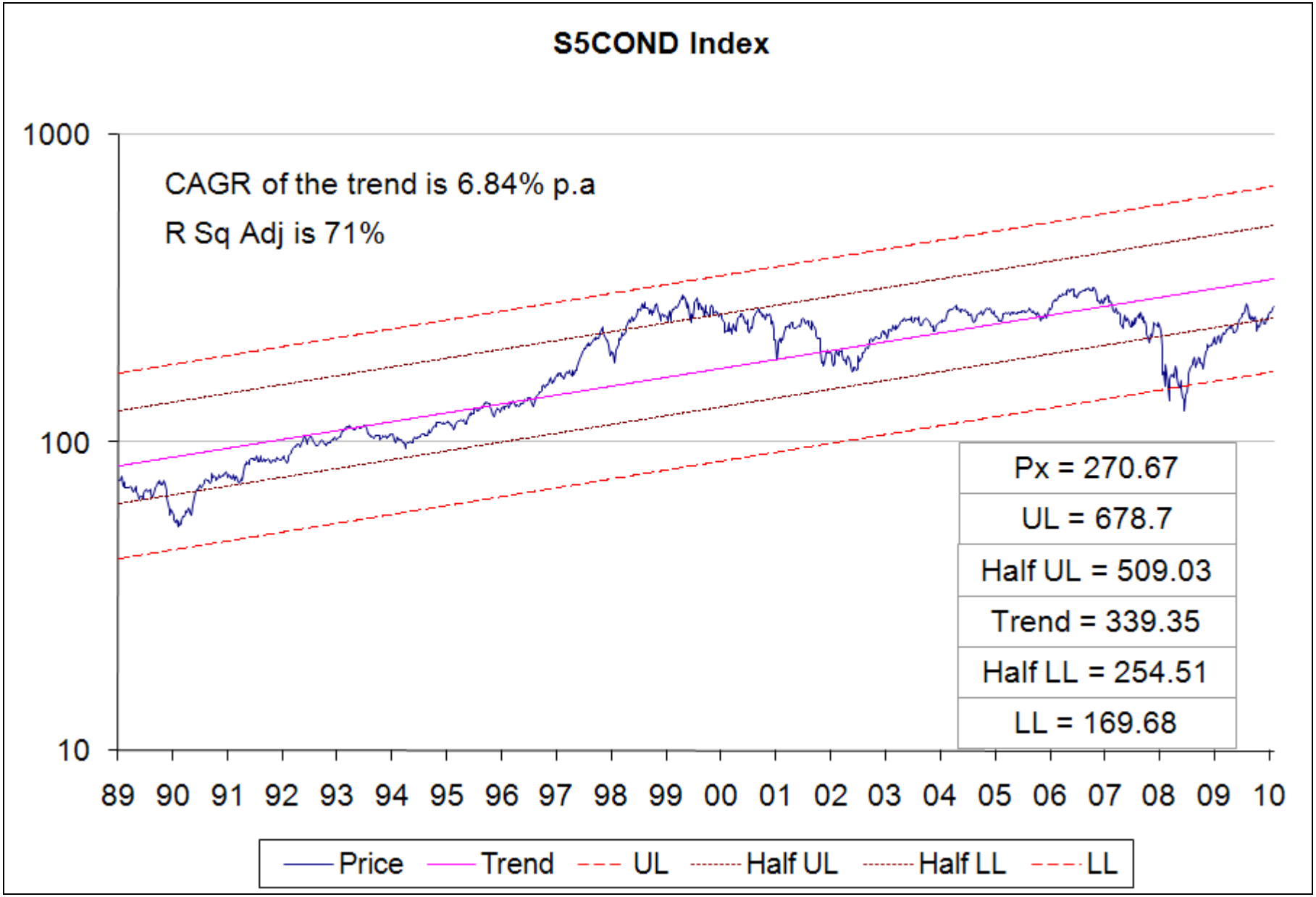




2- XLY – Correlation Ratio Analysis with SPX – 365 days Time basis



XLY – Trend Reversion Analysis – Long Term -

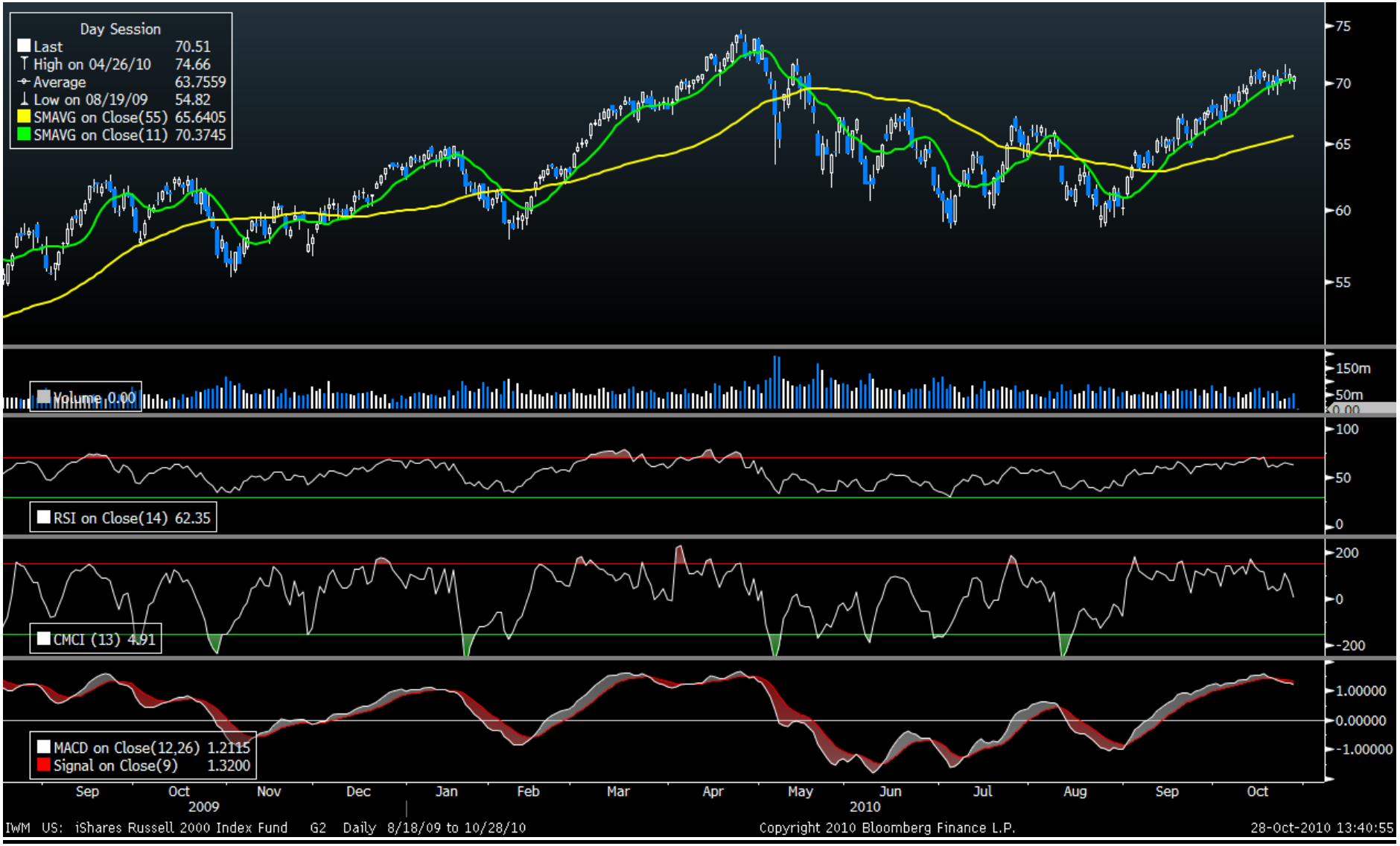


IWM Weekly– 3 Year with RSI, CCI, MACD

(11 W / 40 W SMA)

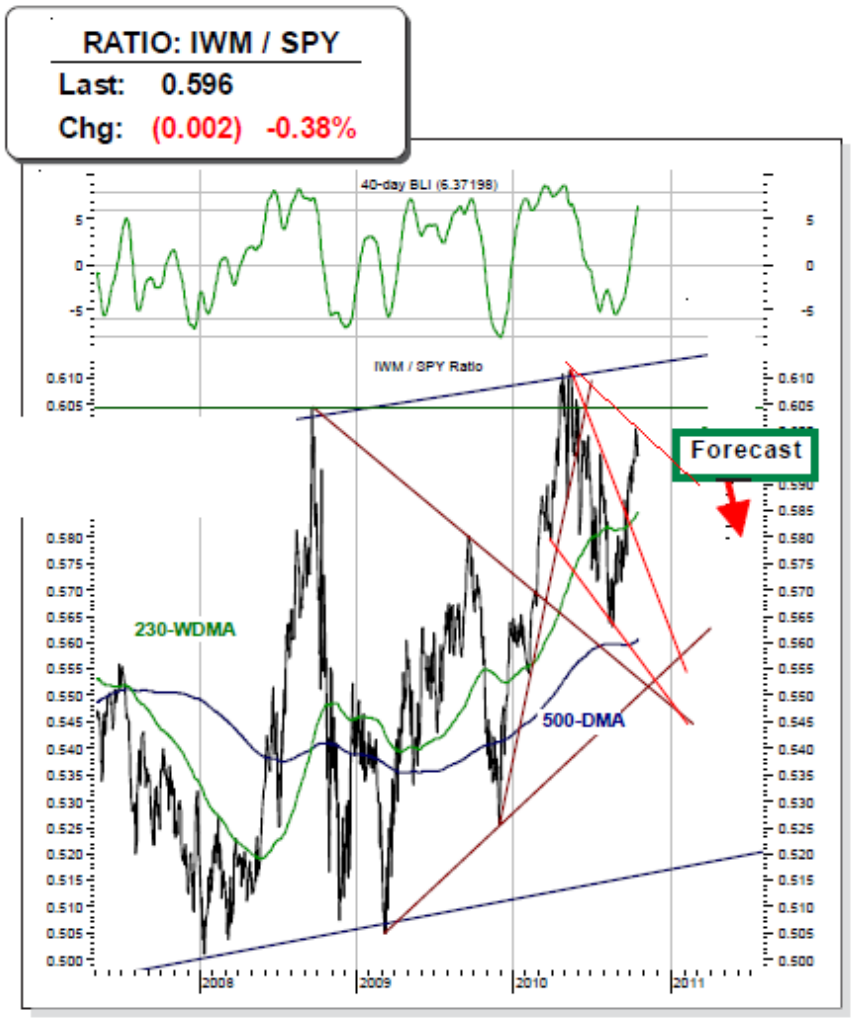
Day Session
Last 70.51
High on 09/25/08 86.05
Average 61.8256
Low on 03/12/09 34.26
SMAVG on Close(40) 65.7612
SMAVG on Close(11) 65.8664
Volume 0.00
RSI on Close(14) 61.71
CMCI (13) 119.70
MACD on Close(12,26) 1.2768
Signal on Close(9) 0.4665
Dec 2007
Mar
Jun 2008
Sep
Dec
Mar
Jun 2009
Sep
Dec
Mar
Jun 2010
Sep
IWM US: iShares Russell 2000 Index Fund G3 Weekly 10/25/07 to 10/28/10
Copyright 2010 Bloomberg Finance L.P.
28-Oct-2010 13:40:44

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

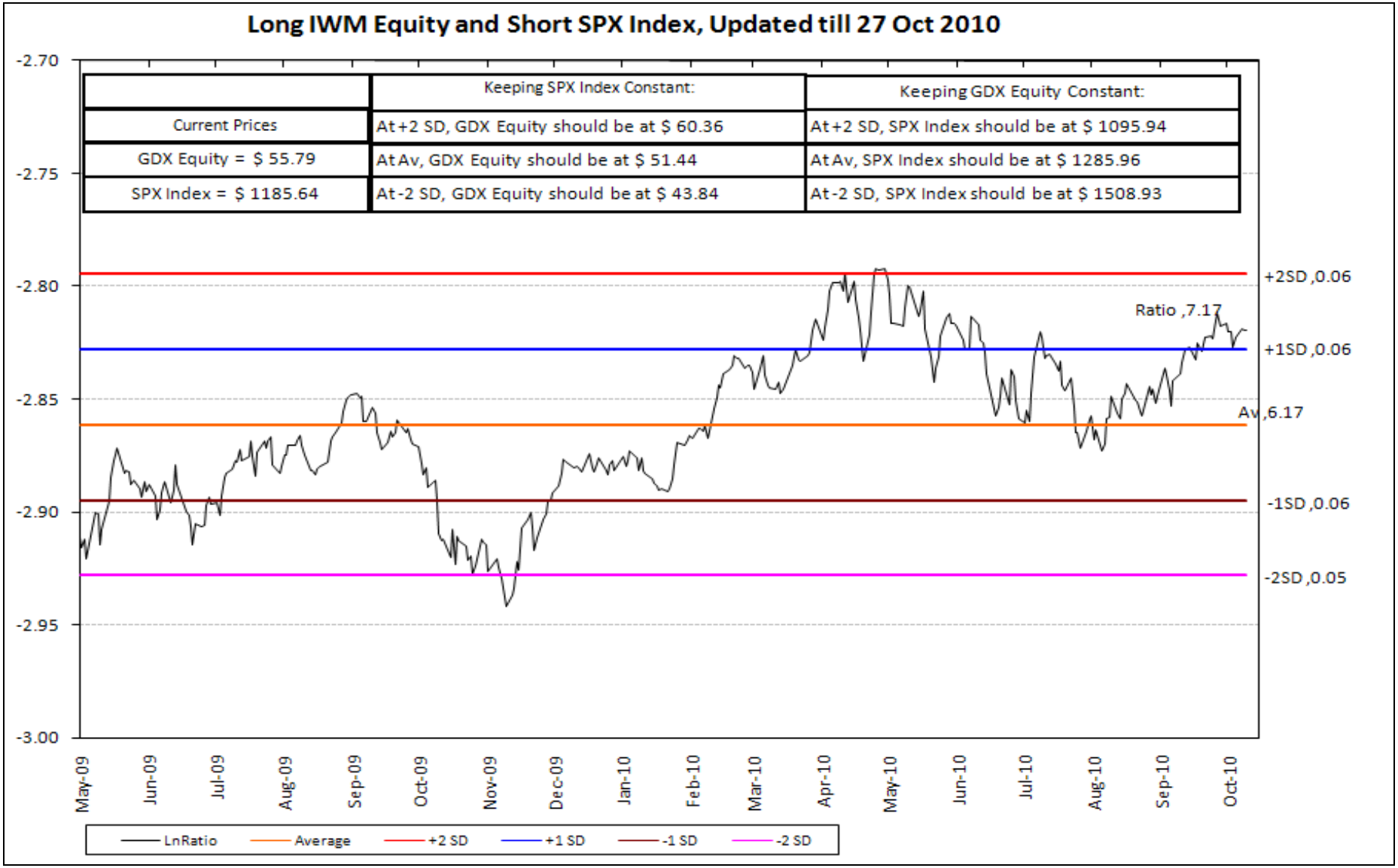


2 – IWM- Technical & Pattern Analysis - (Process 3) , (No change)

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.

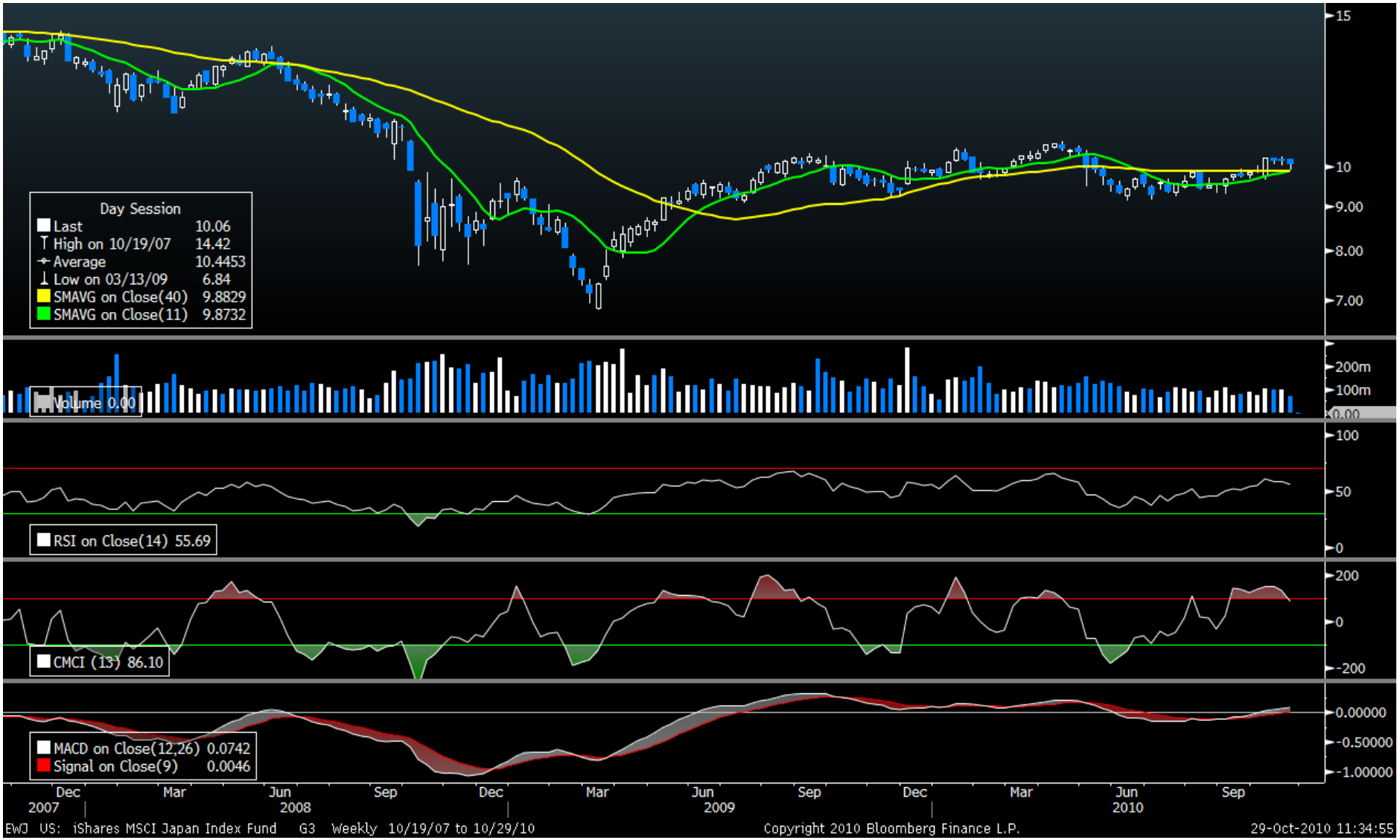


IWM – Correlation Ratio Analysis with SPX – 365 days Time basis

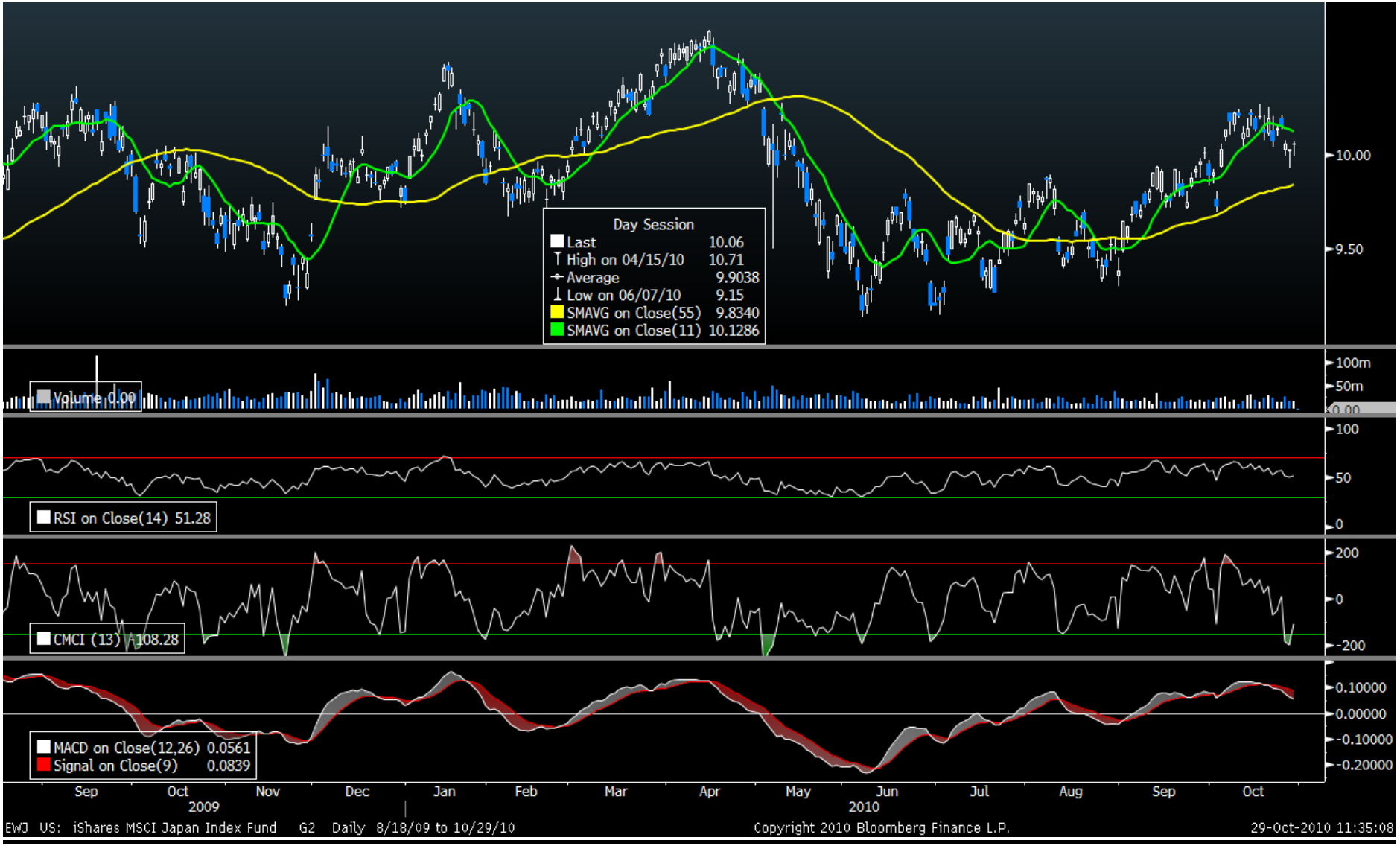


EWJ Weekly– 3 Year with RSI, CCI, MACD

(11 W / 40 W SMA)



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



2 – EWJ- Technical & Pattern Analysis - (Process 3)

The EWJ / SPX ratio chart looks BULLISH and should trend higher in RH side chart below, confirms the relative rise in EWJ / SPX (is undervalued) by this matrix in Sync with SD Analysis

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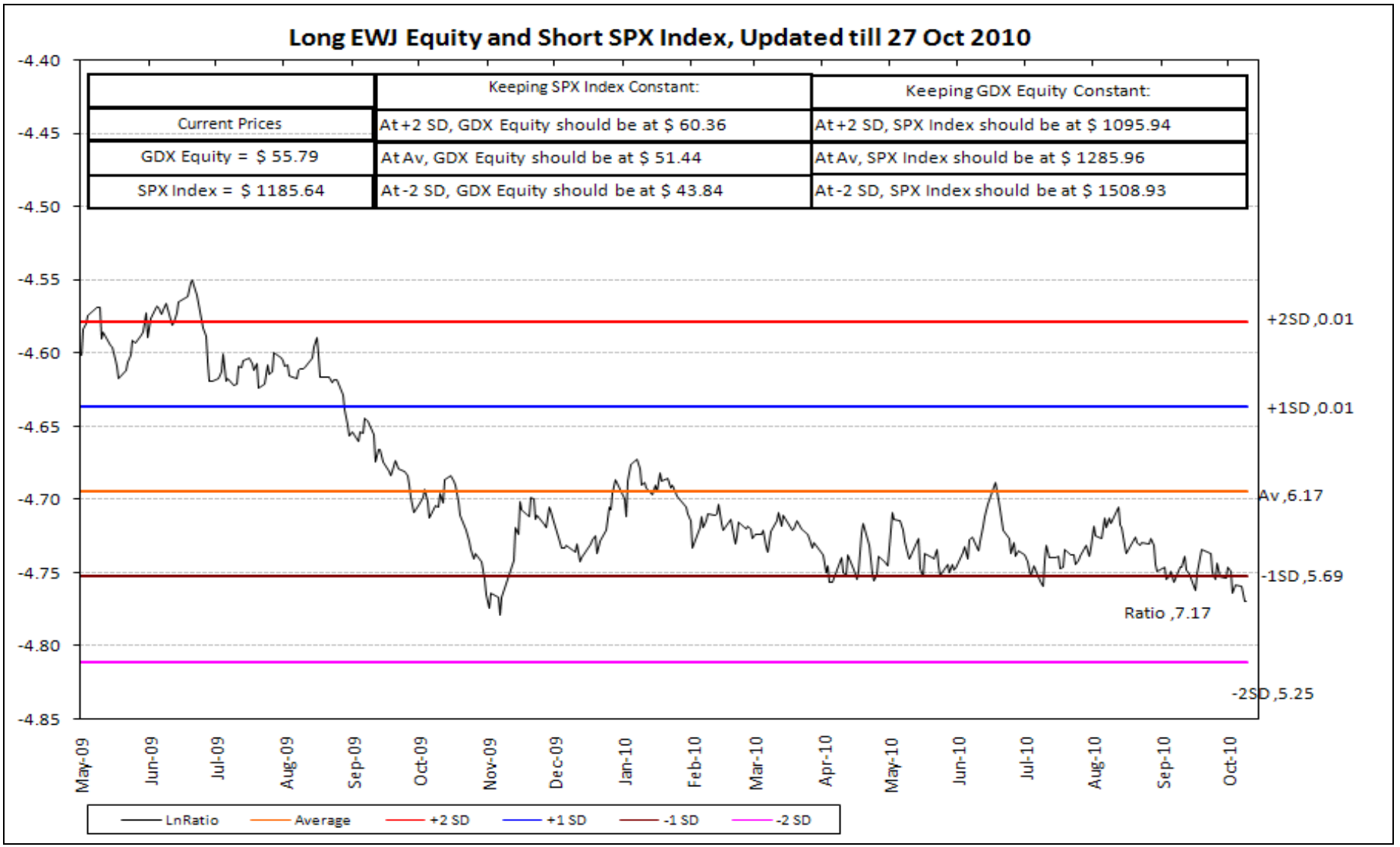
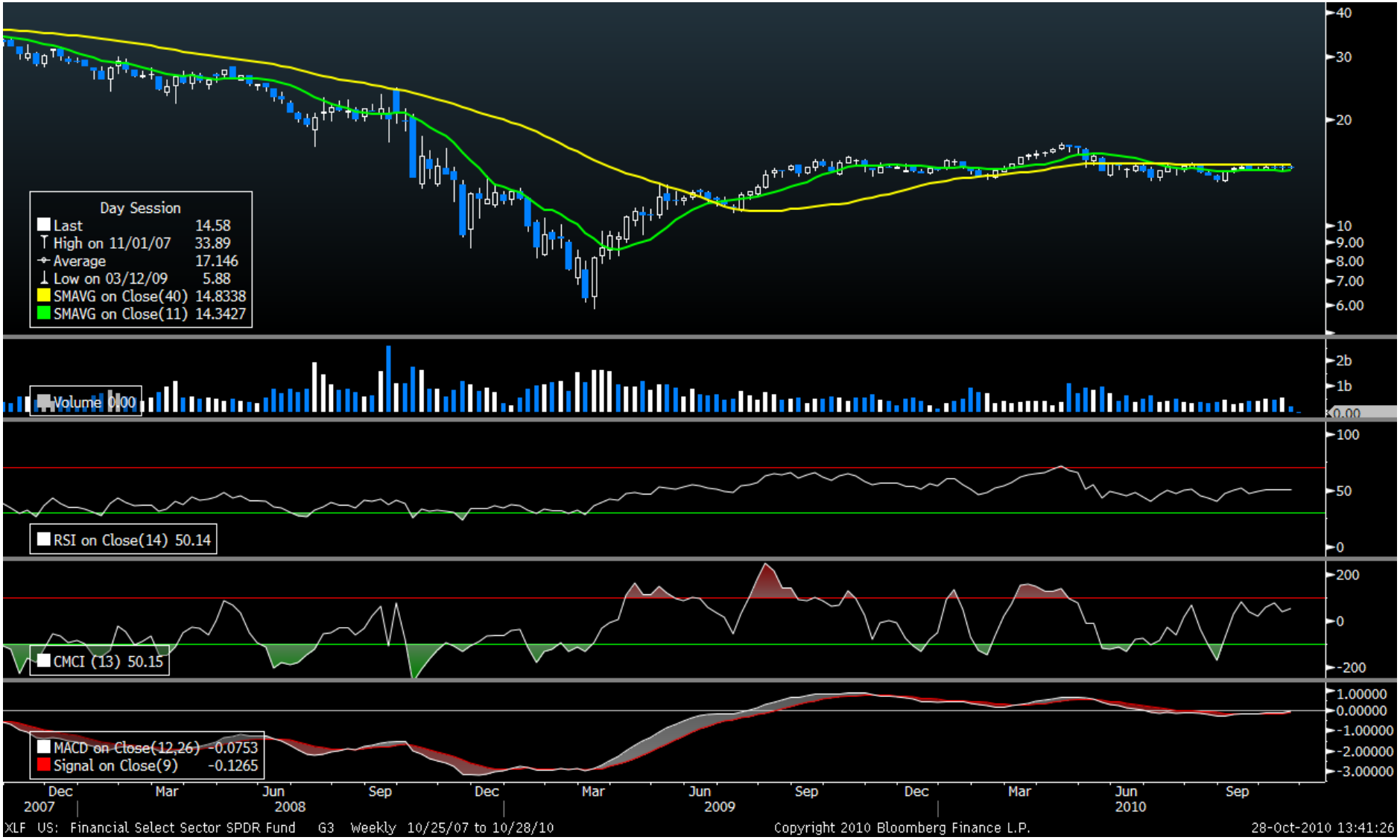
EWJ – Correlation Ratio Analysis with SPX – 365 days Time basis



XLF Weekly– 3 Year with RSI, CCI, MACD

(11 W / 40 W SMA)

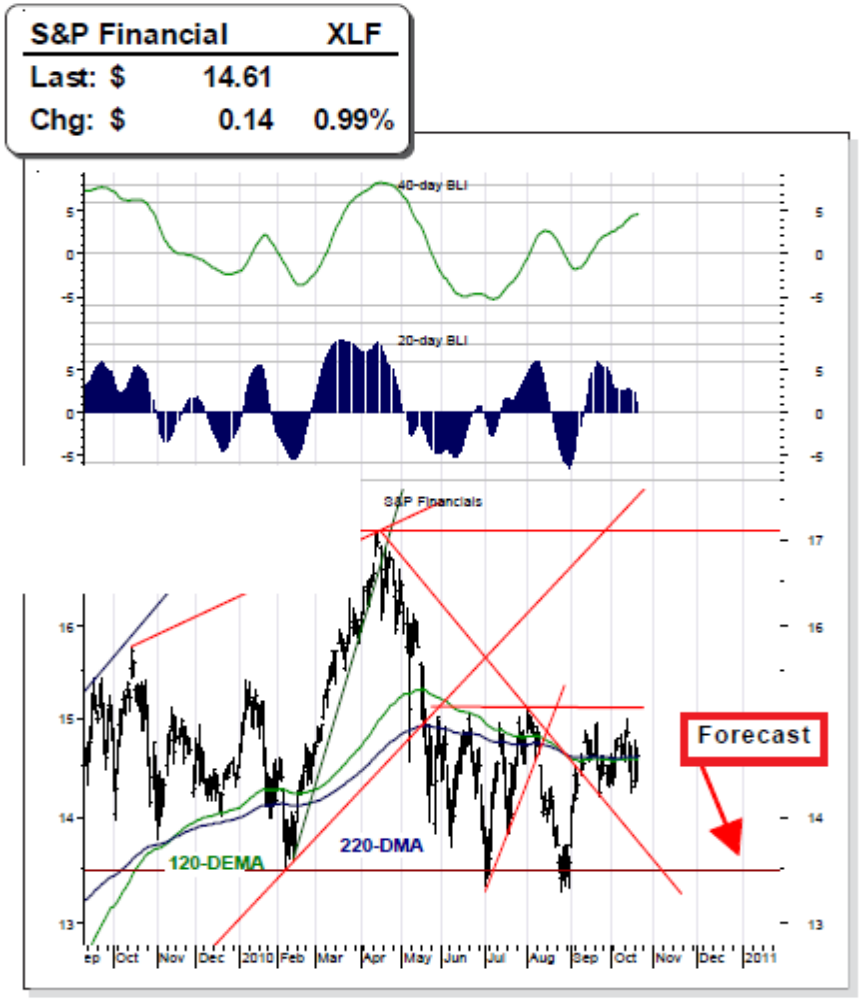


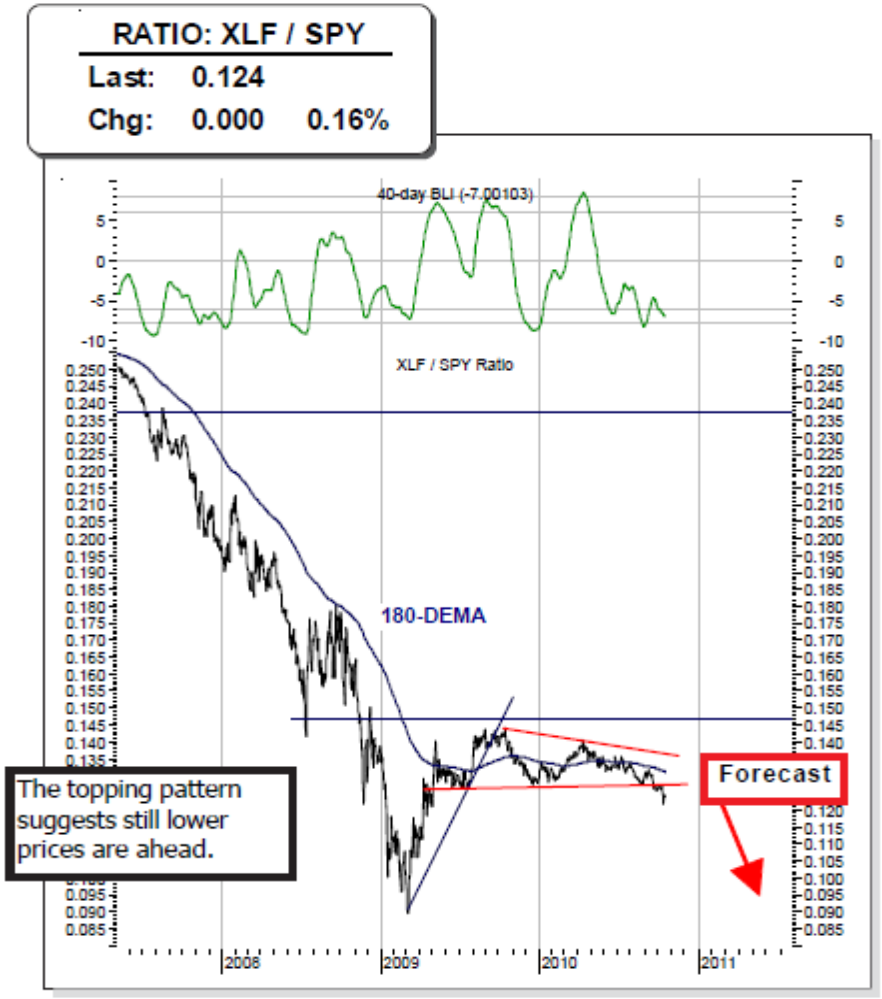
XLF Daily – 3 Year with RSI, CCI, MACD

(11D / 55D)

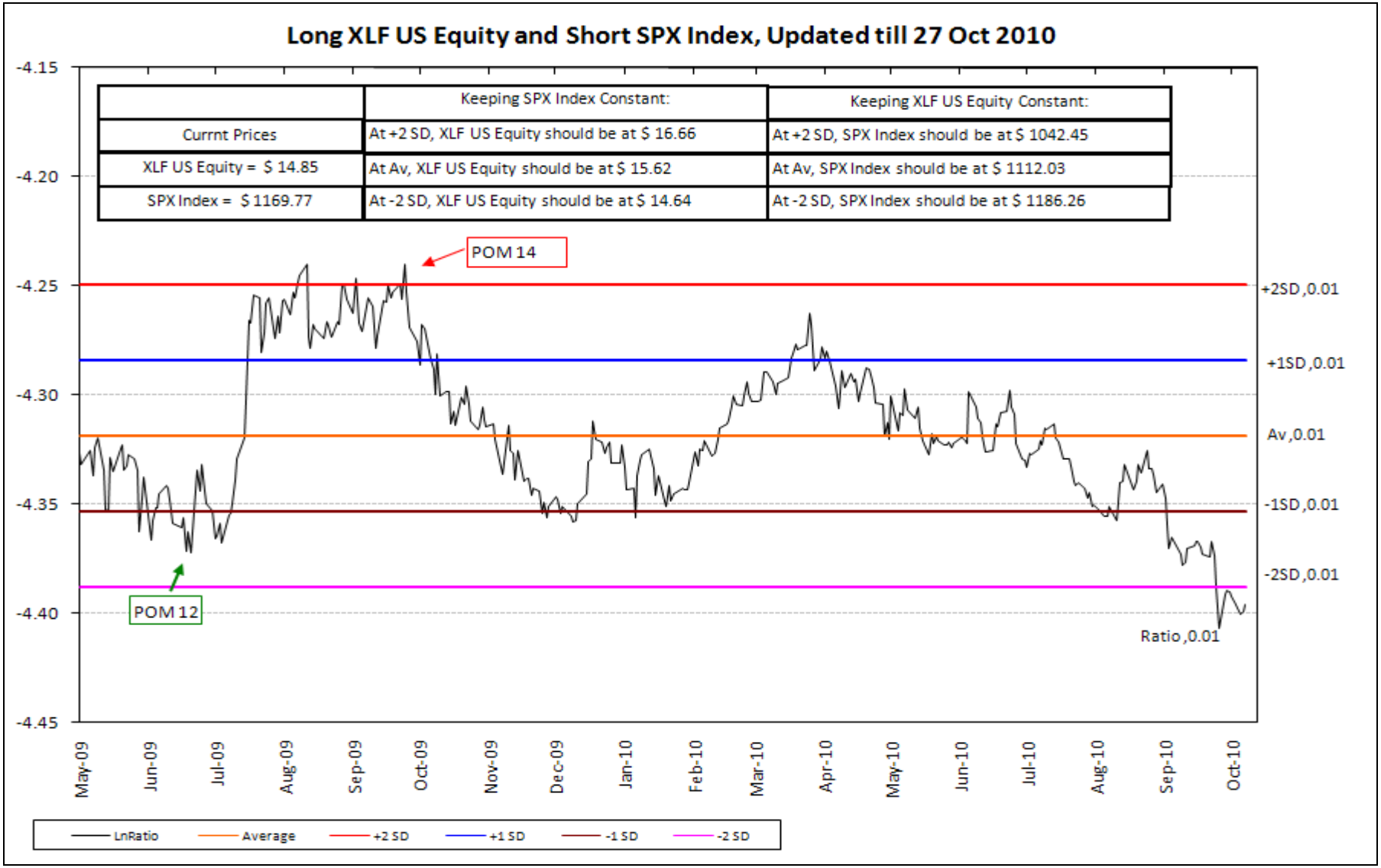
2 – XLF- Technical & Pattern Analysis - (Process 3) (No change)

The XLF / SPX ratio chart looks BEARISH and should trend down in RH side chart below to confirm the rise in XLF / SPX (hence overvalued) by this matrix in NOT Sync with SD Analysis.



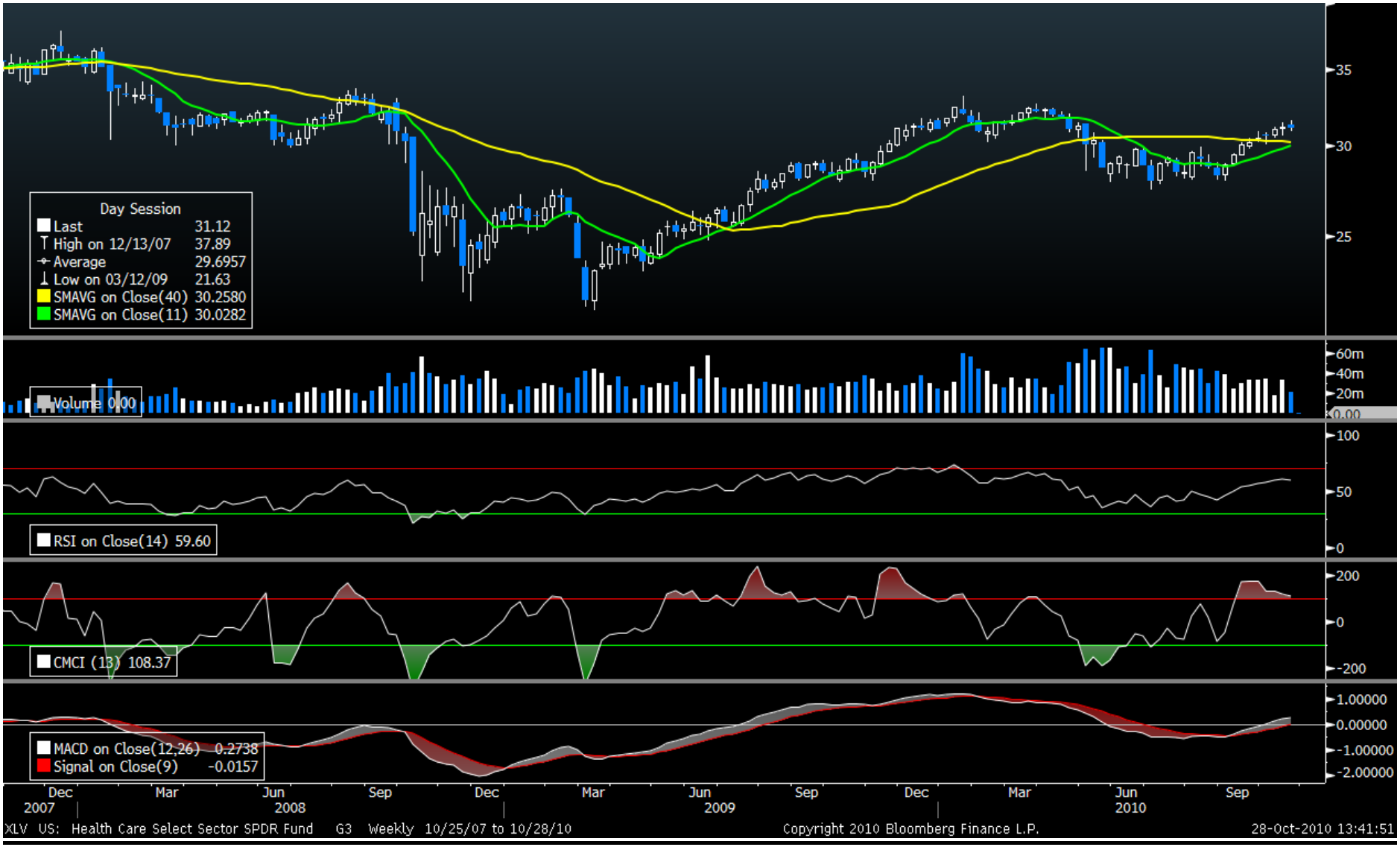


XLF – Correlation Ratio Analysis with SPX – 365 days Time basis



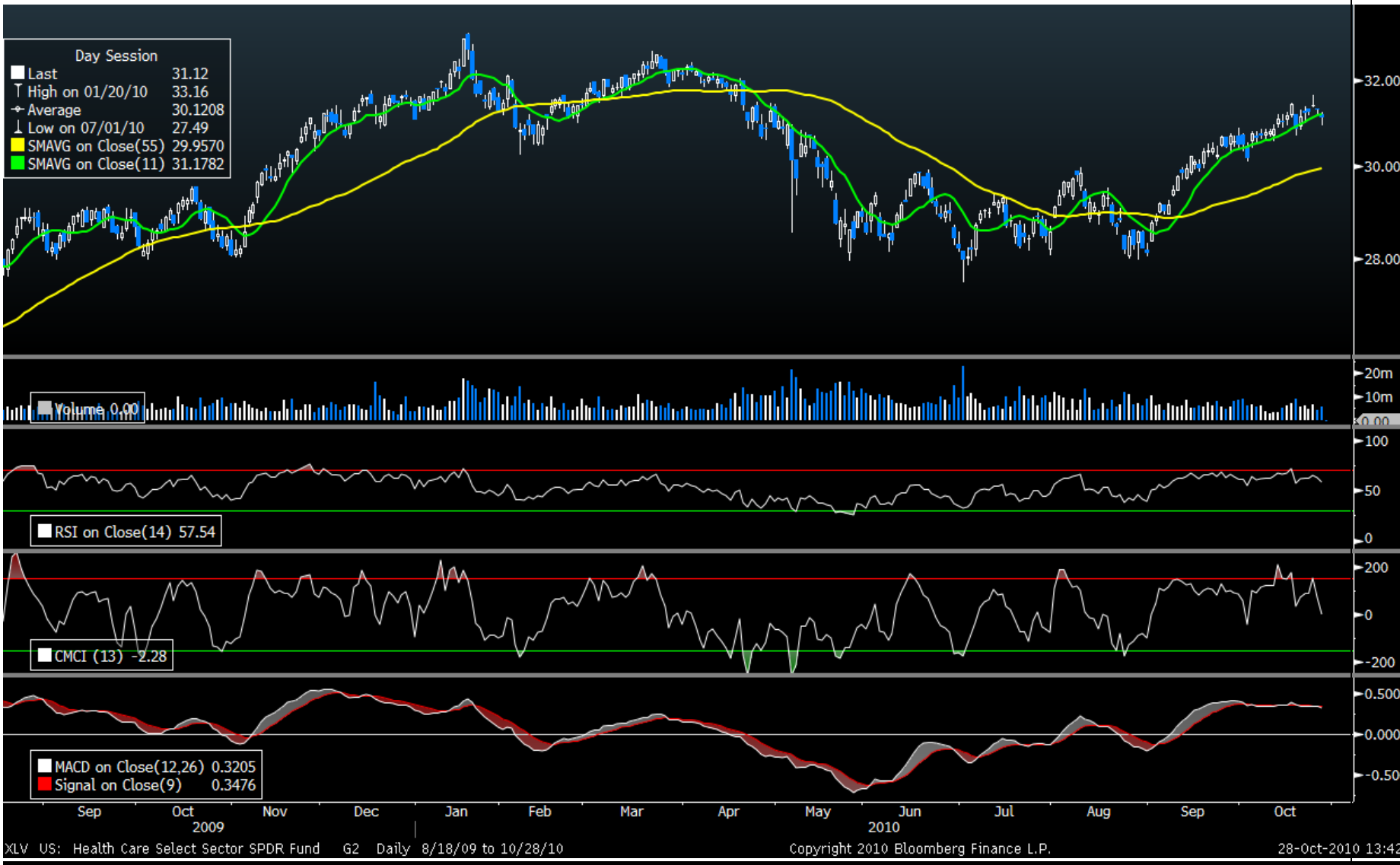
1-XLV- Weekly– 3 Year with RSI, CCI, MACD

a. / 40 W SMA)



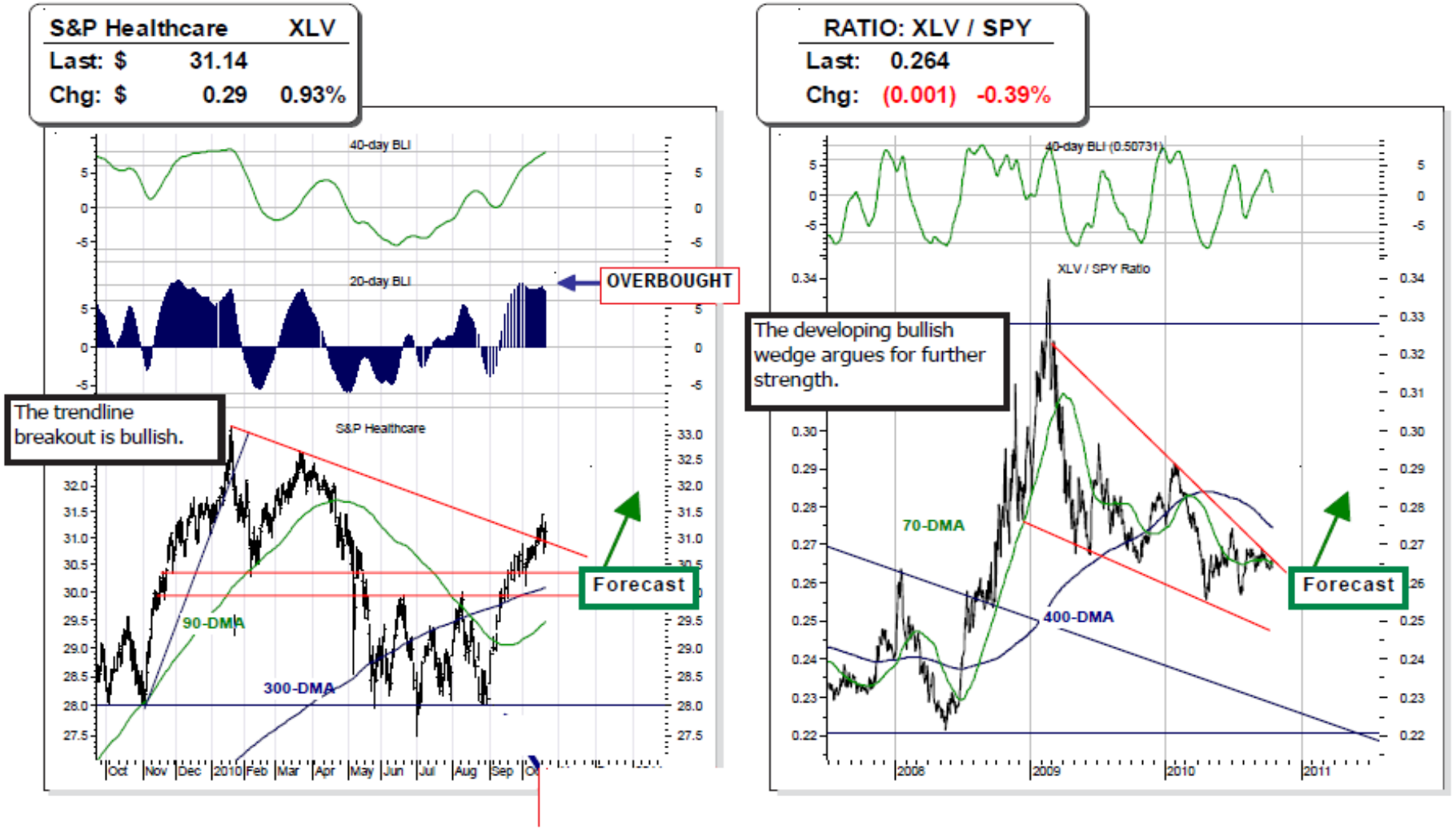
- XLV - Daily – 3 Year with RSI, CCI, MACD

(11D / 55D)

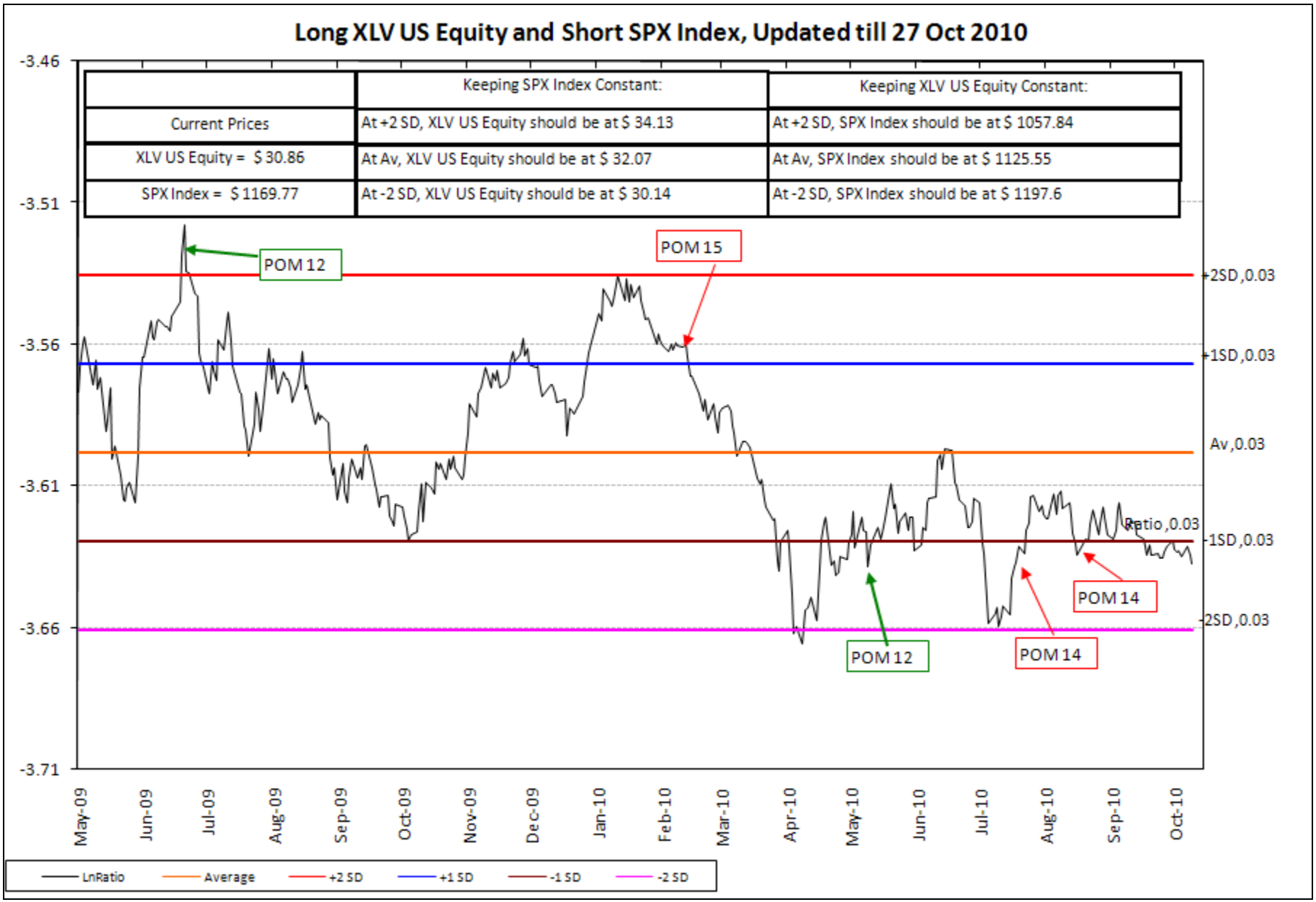


XLV – Technical & Pattern Analysis (Process 3) (No change)

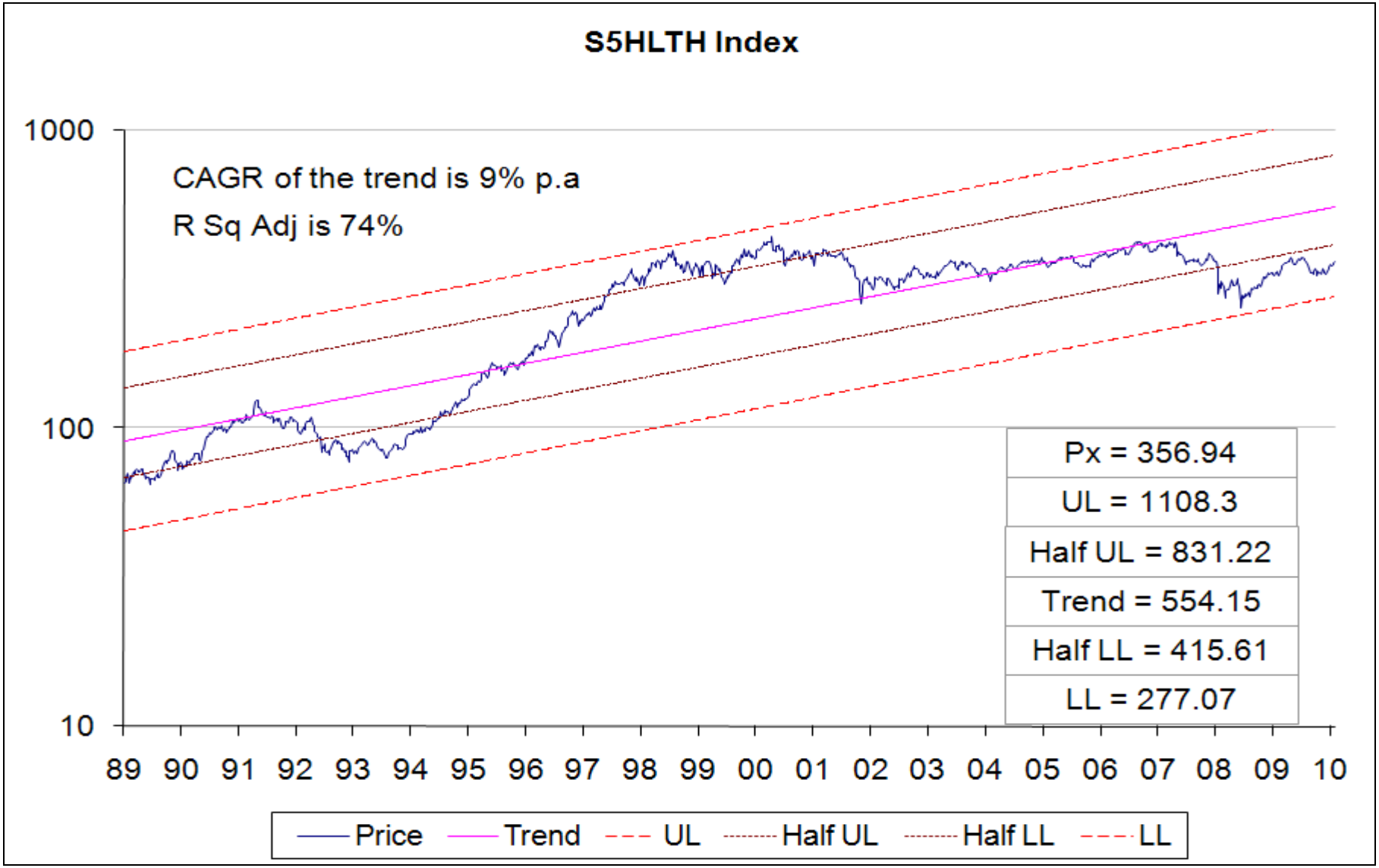
The XLV / SPX ratio chart looks bullish and should trend up in RH side chart below to confirm the rise in XLV / SPX (hence undervalued) by this matrix in Sync with SD Analysis.



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

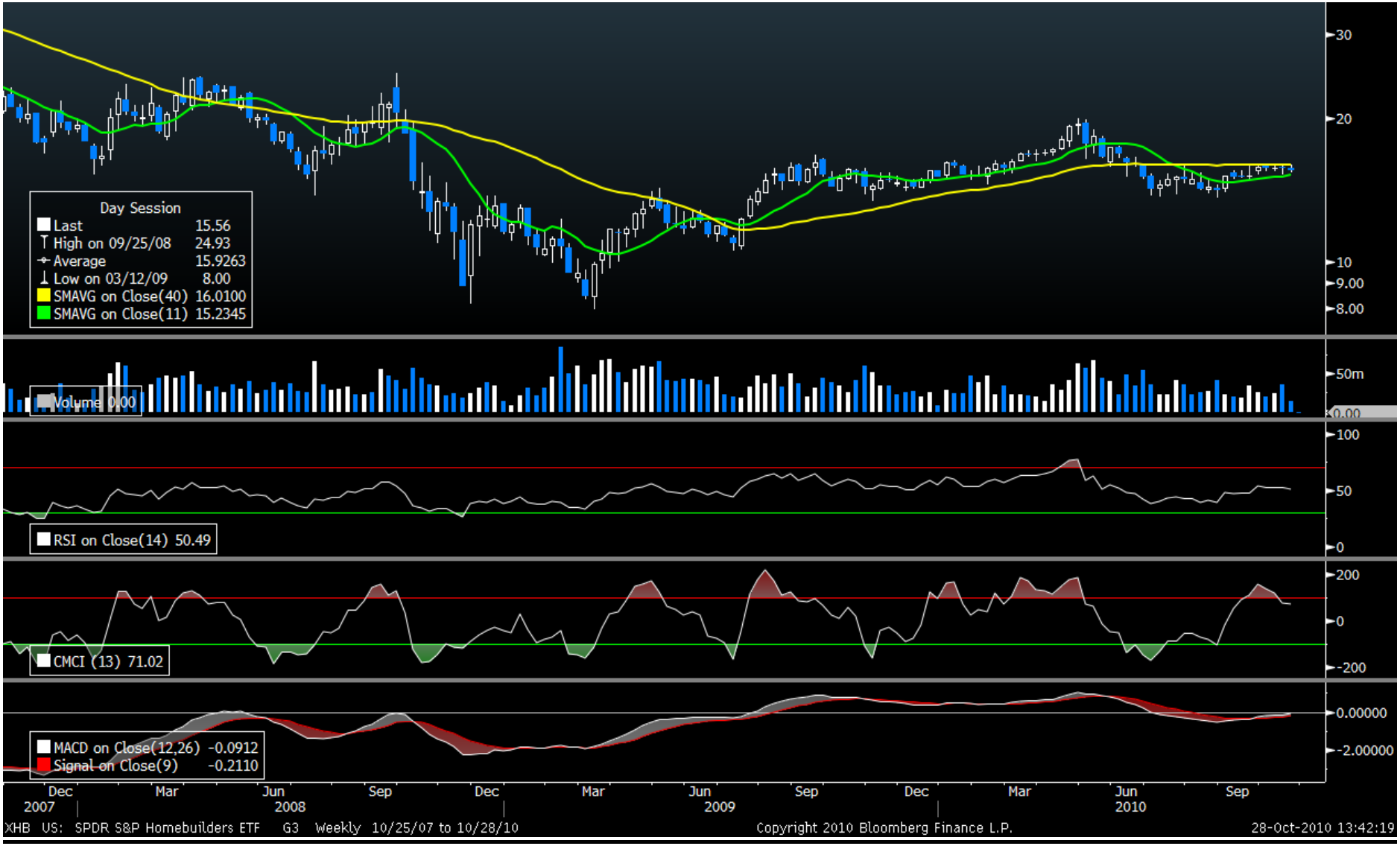


XLV – Trend Reversion Analysis – Long Term



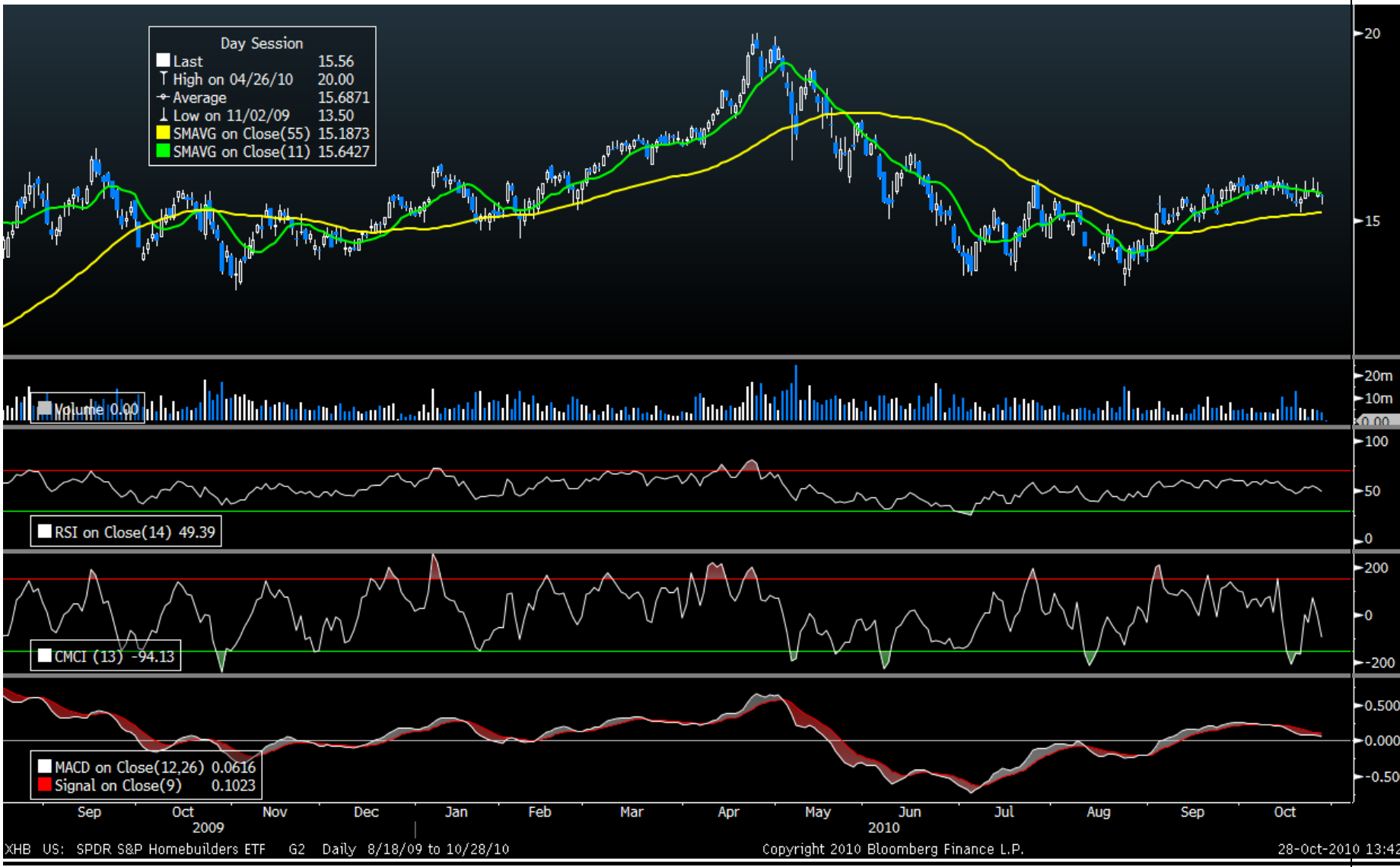
1-XHB- Weekly– 3 Year with RSI, CCI, MACD

b. / 40 W SMA)



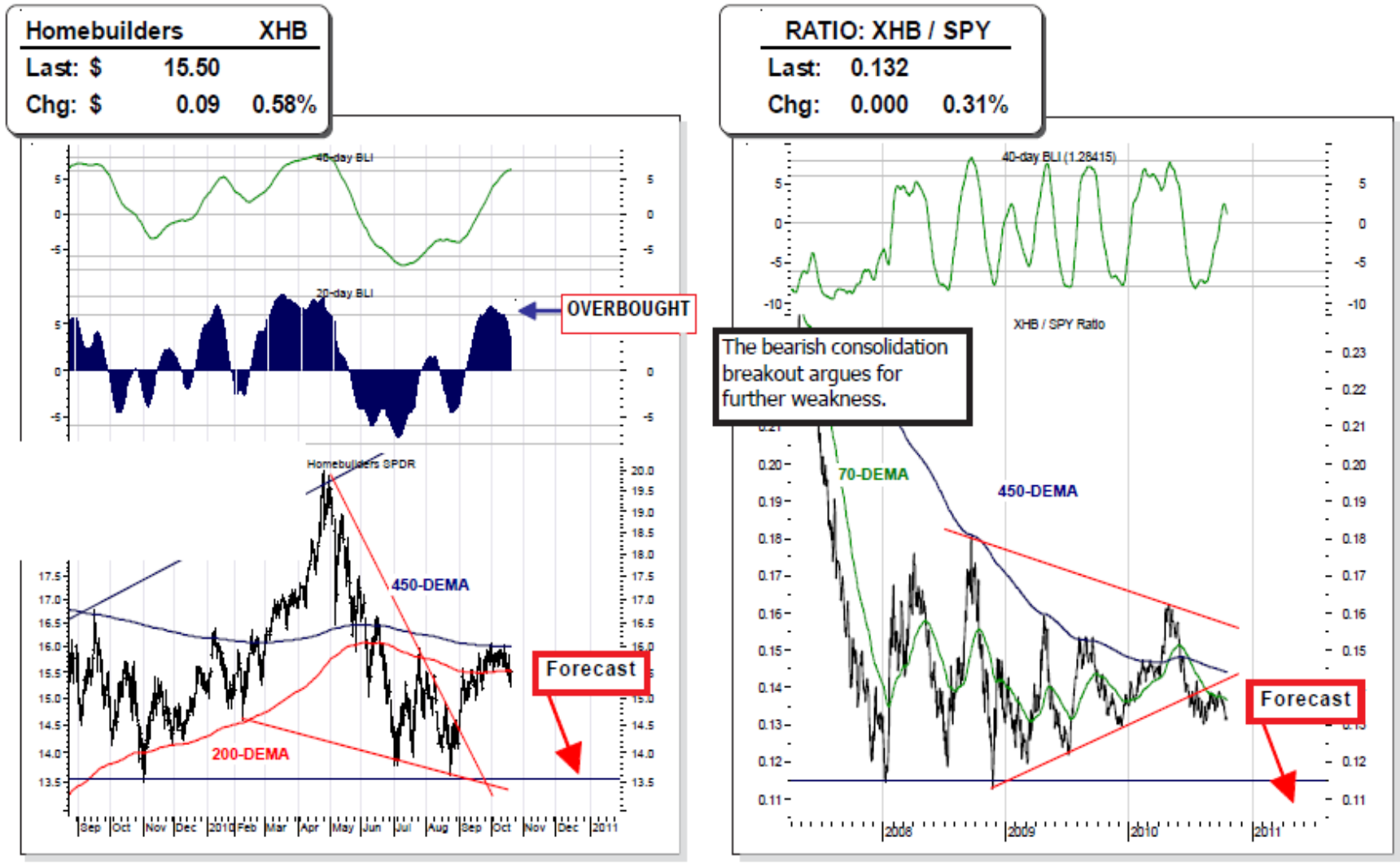
- XHB - Daily – 3 Year with RSI, CCI, MACD

(11D / 55D)

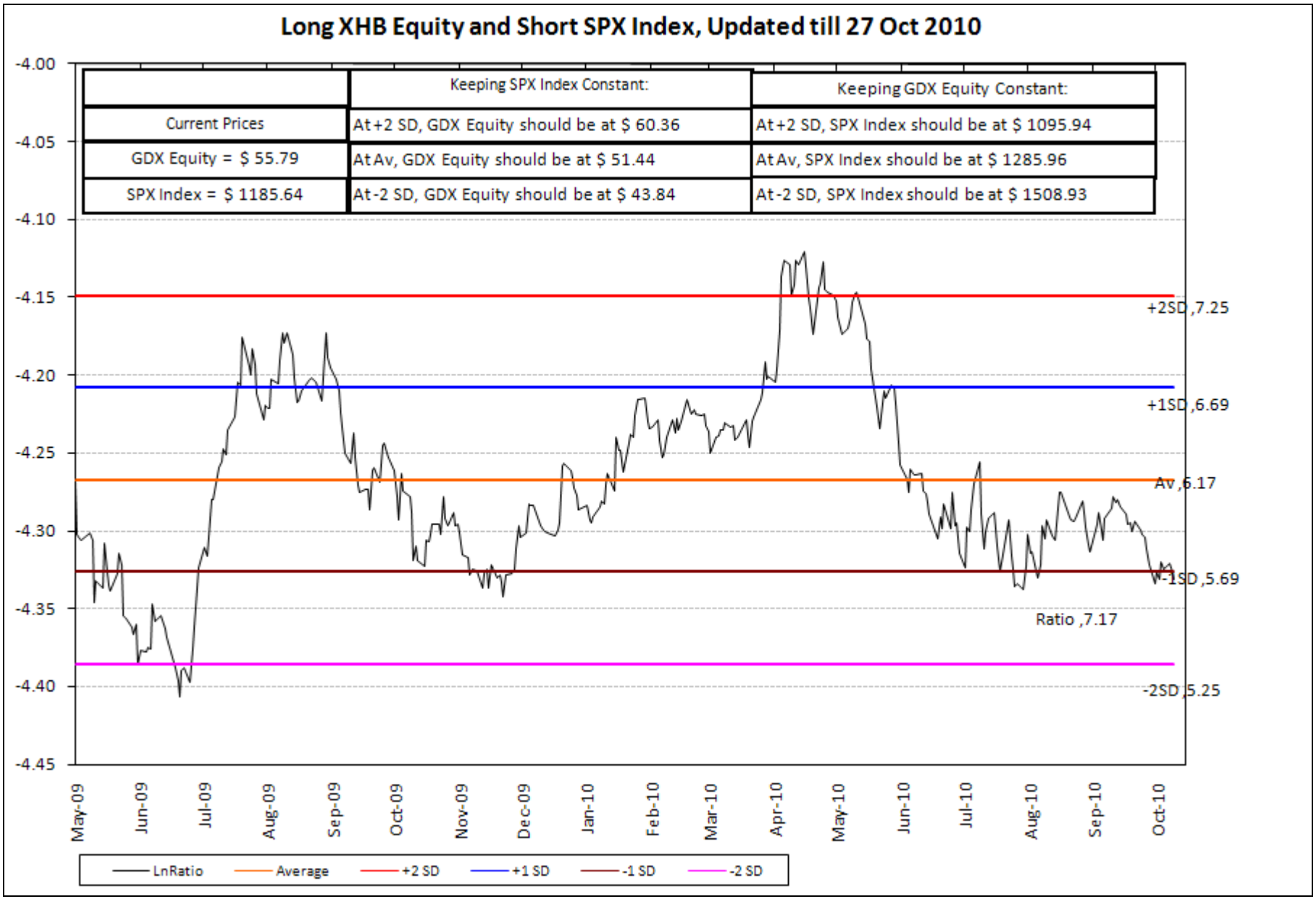


XHB – Technical & Pattern Analysis (Process 3) (No change)

The XHB / SPX ratio chart looks BEARISH and should trend down in RH side chart below to confirm the rise in XHB / SPX (hence overvalued) by this matrix in NOT Sync with SD Analysis.

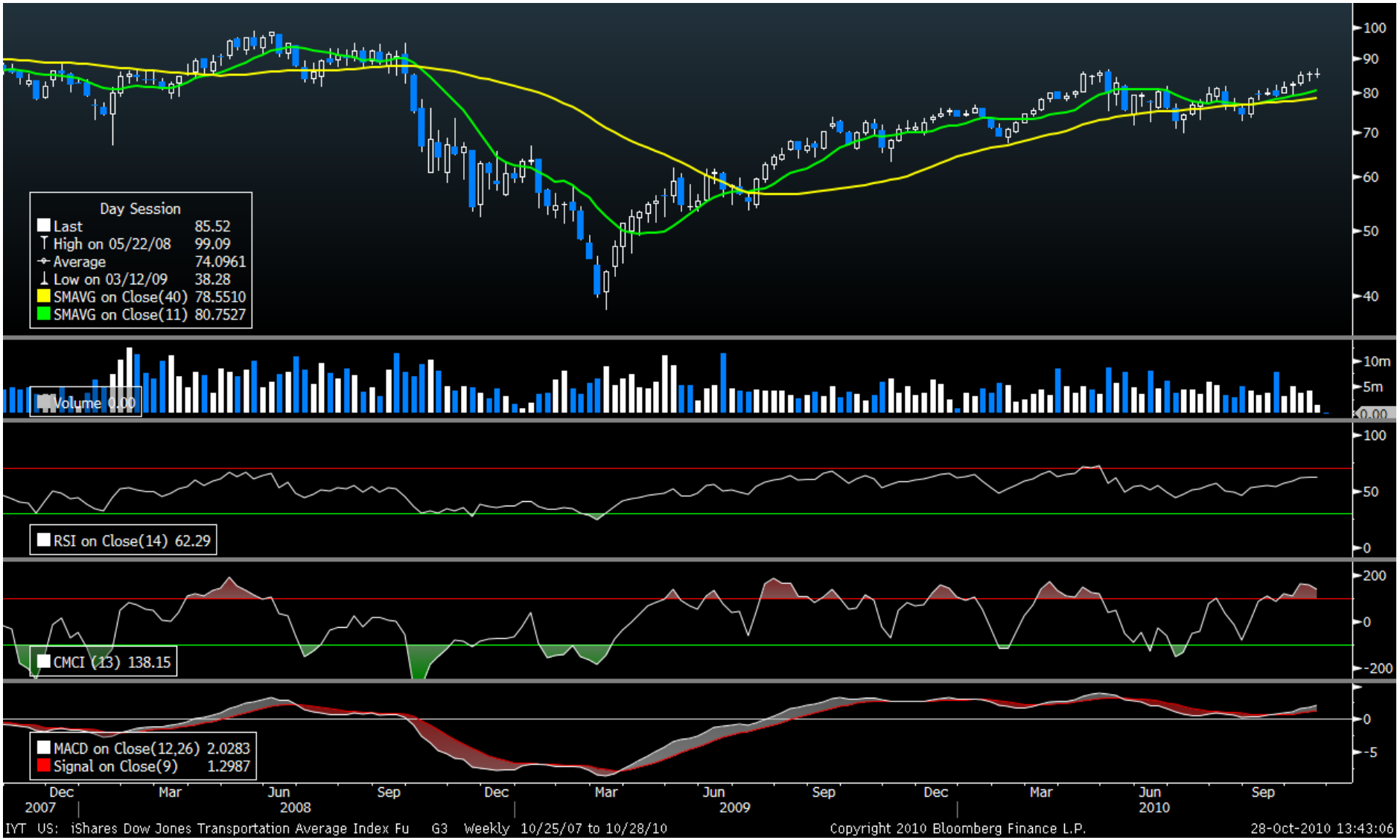


XHB – Correlation Ratio Analysis with SPX – 365 days Time basis

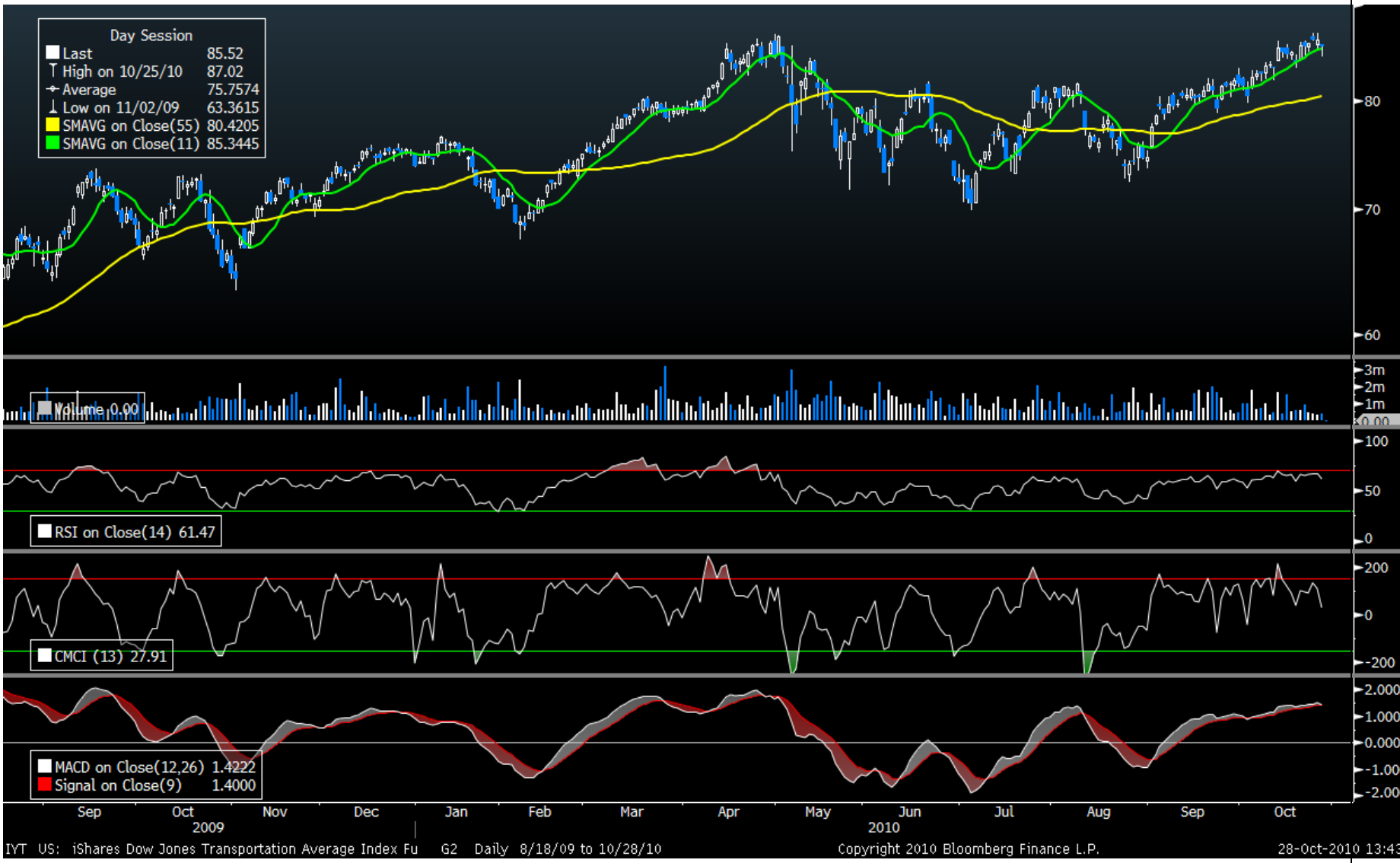


IYT Weekly– 3 Year with RSI, CCI, MACD

(11 W / 40 W SMA)



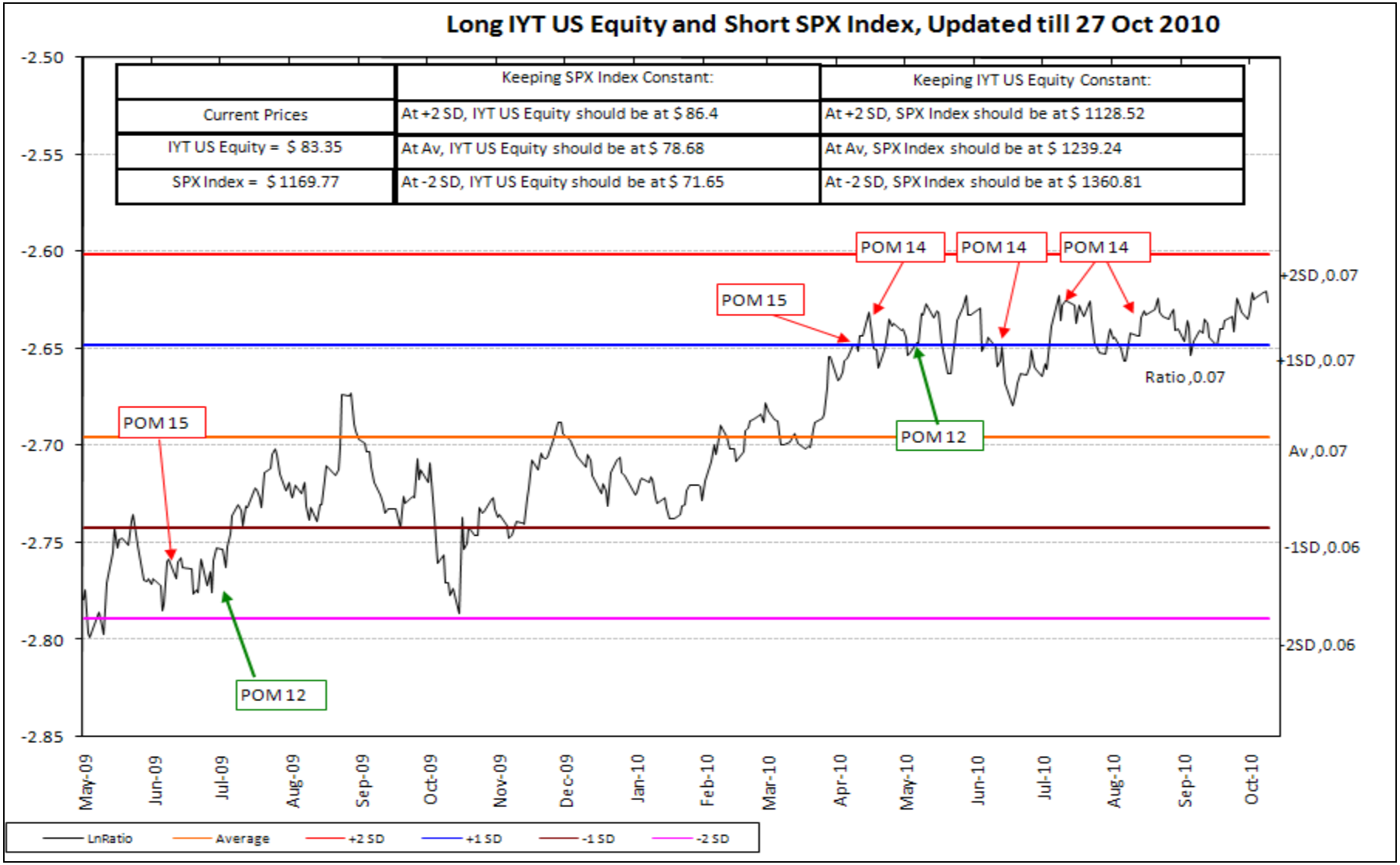
IYT Daily – 3 Year with RSI, CCI, MACD
(11D / 55D)



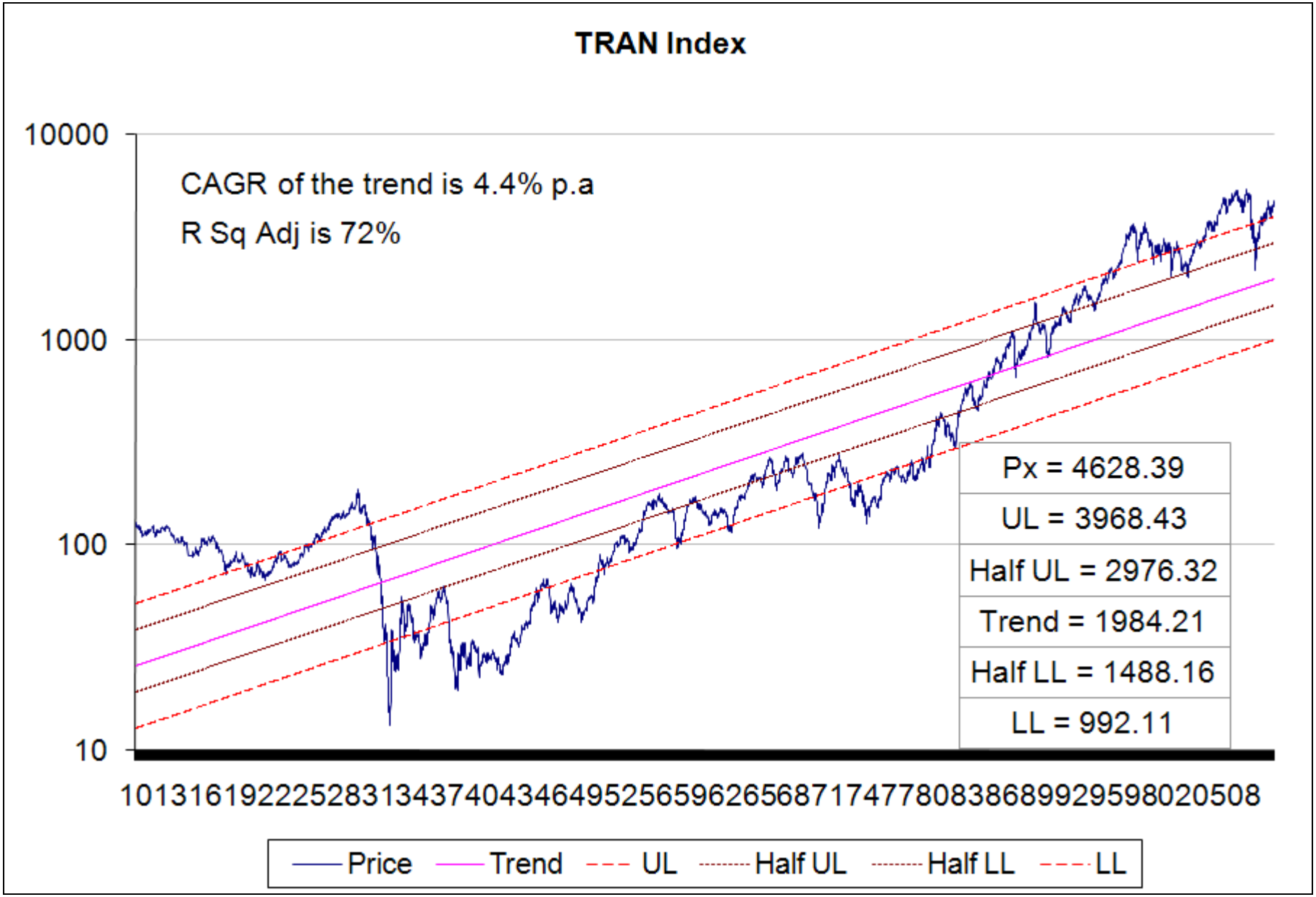
2 – IYT- Technical & Pattern Analysis - (Process 3) (No change)

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

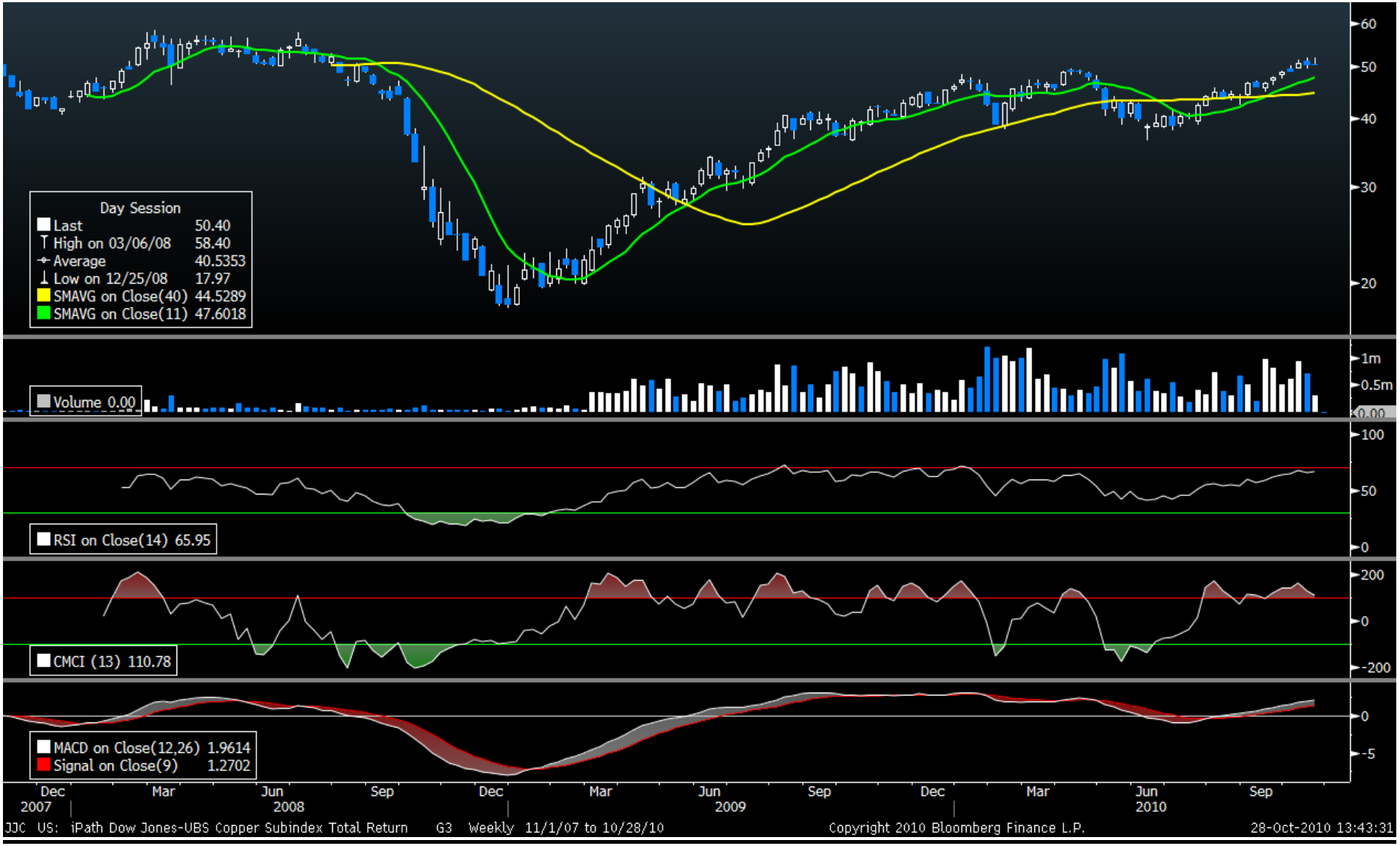


IYT – Trend Reversion Analysis – Long Term

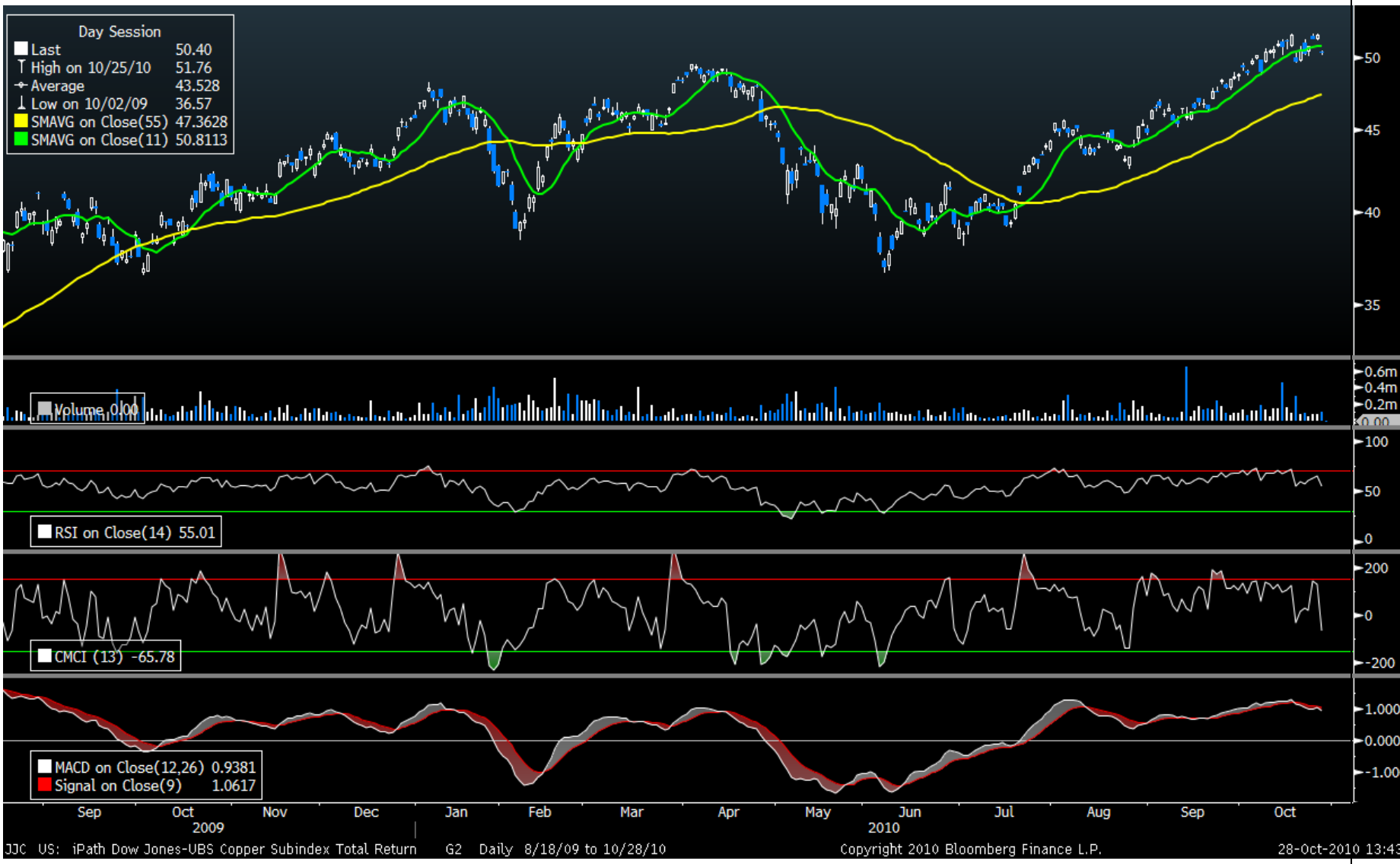


1- JJC - Weekly– 3 Year with RSI, CCI, MACD

(11 W / 40 W SMA)

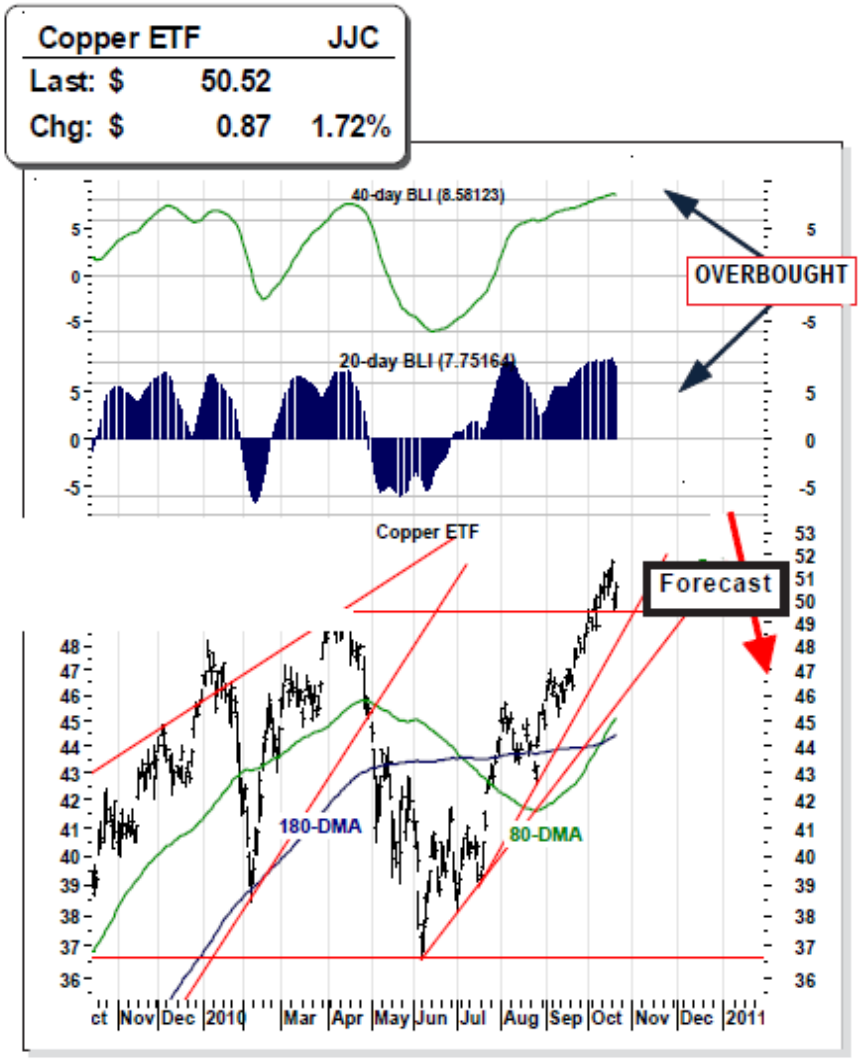


JJC - Daily – 3 Year with RSI, CCI, MACD
(11D / 55D)

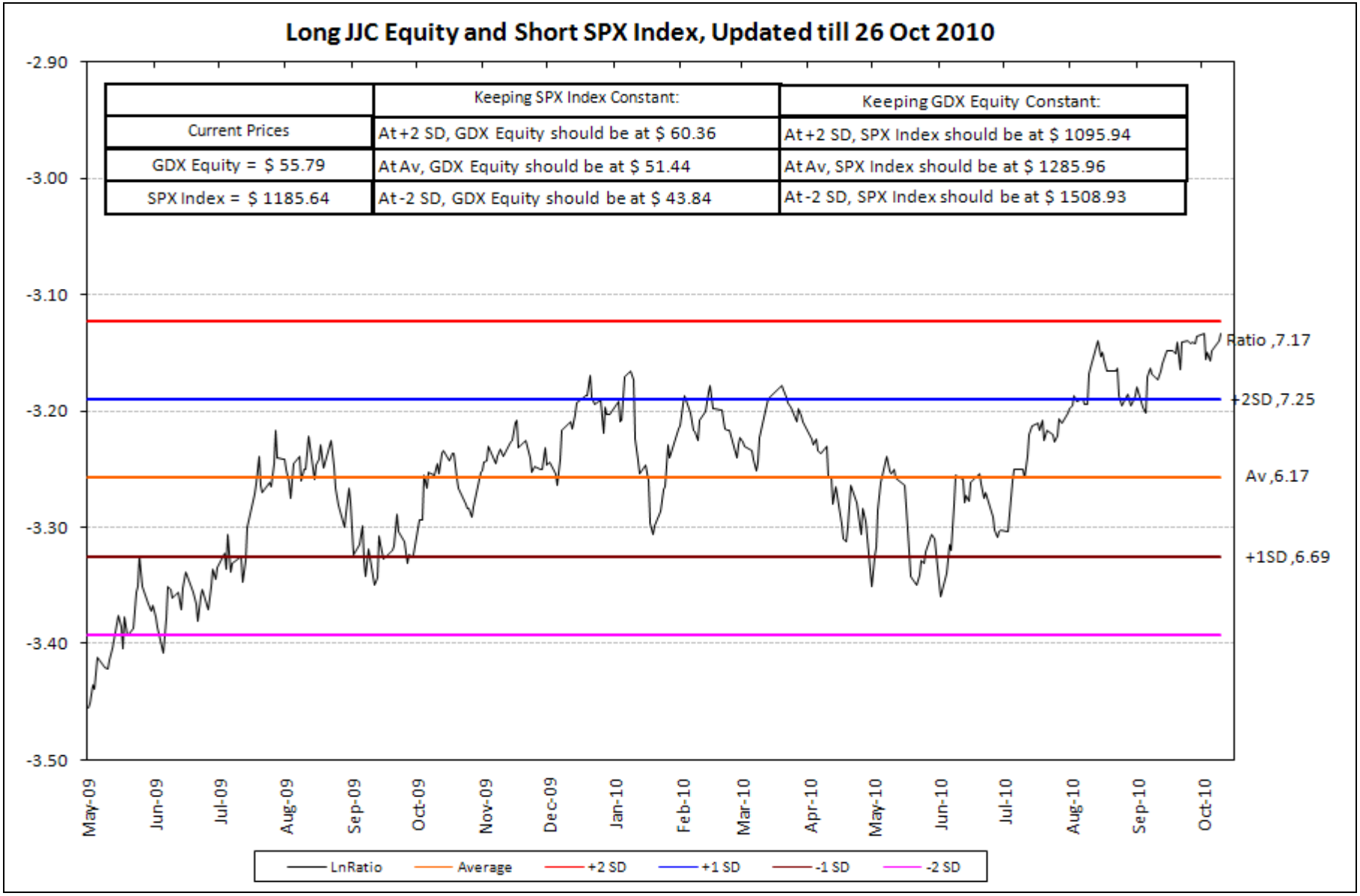


JJC– Technical & Pattern Analysis (Process 3) (No change)

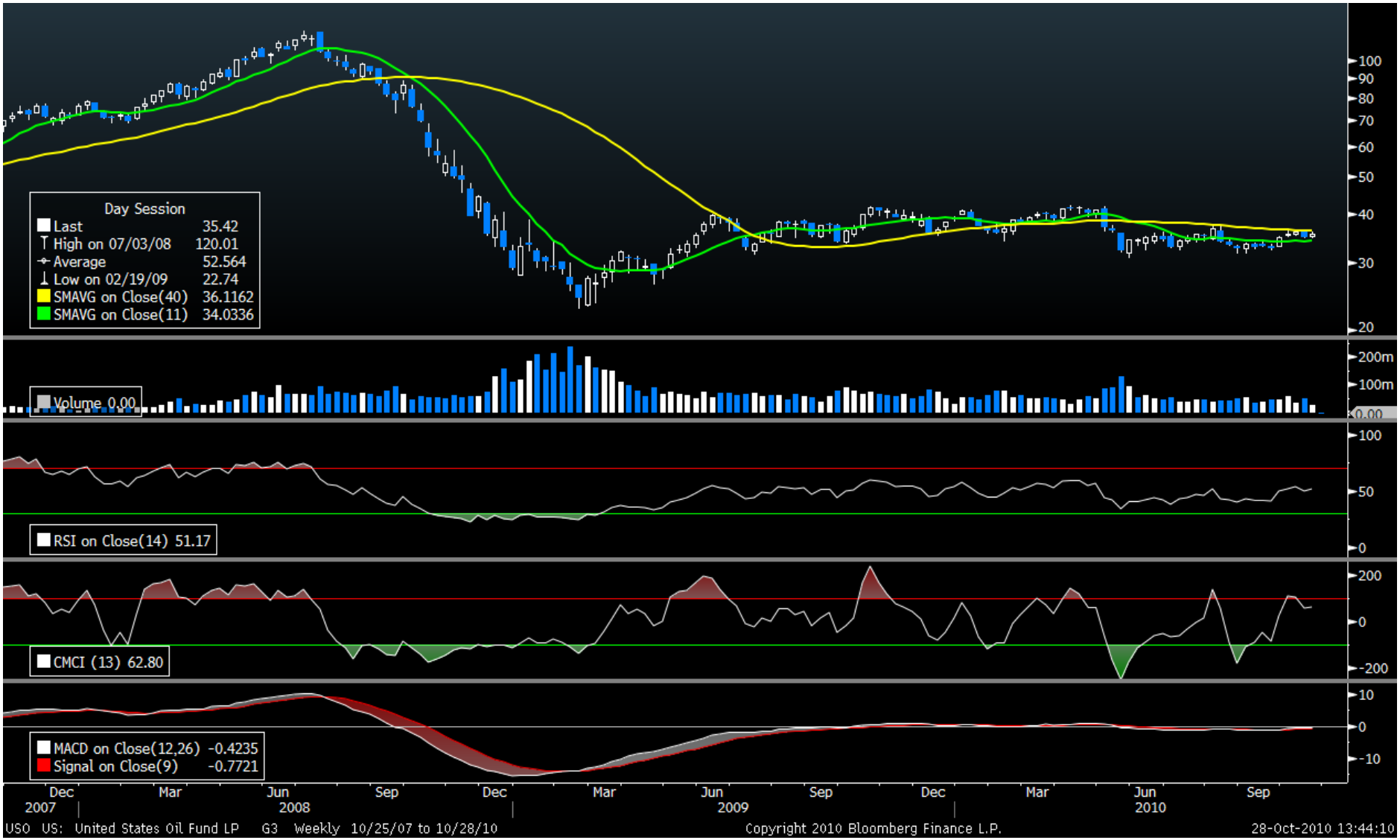
The JJC / SPX ratio chart looks bearish and should trend down in RH side chart below, confirms the relative fall in JJC / SPX (hence overvalued) by this matrix in Sync with SD Analysis.



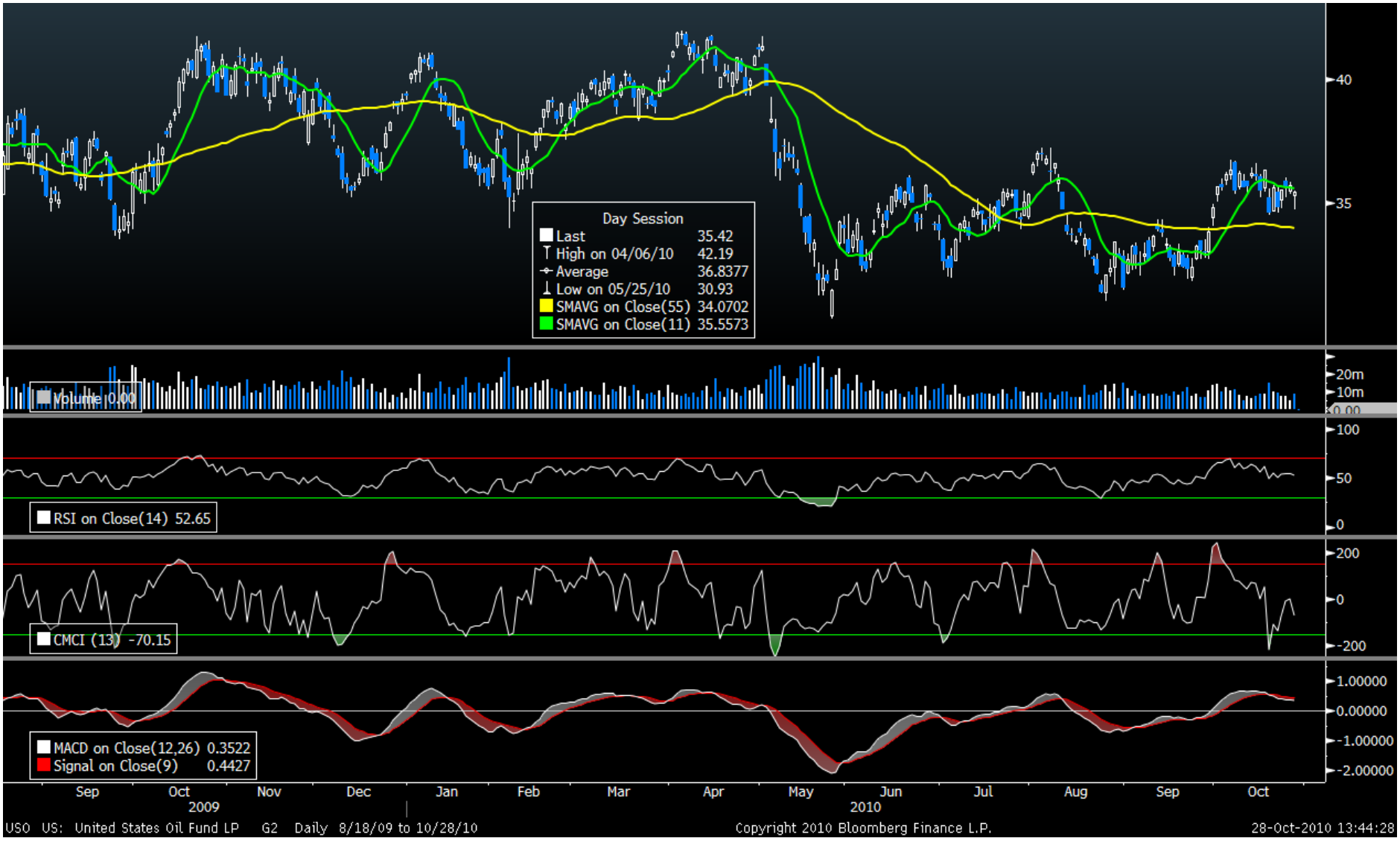
2- JJC – Correlation Ratio Analysis with SPX – 365 days Time basis



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

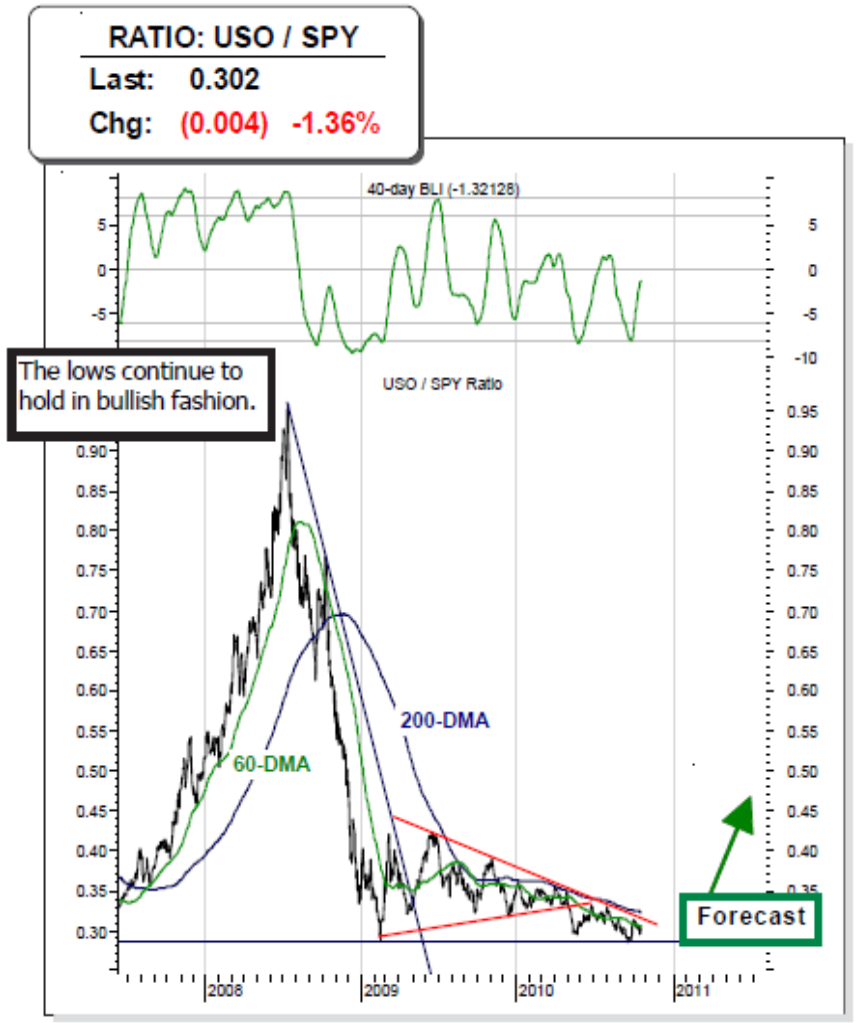


USO - Daily – 3 Year with 11 W / 40 W SMA with RSI, CCI, MACD

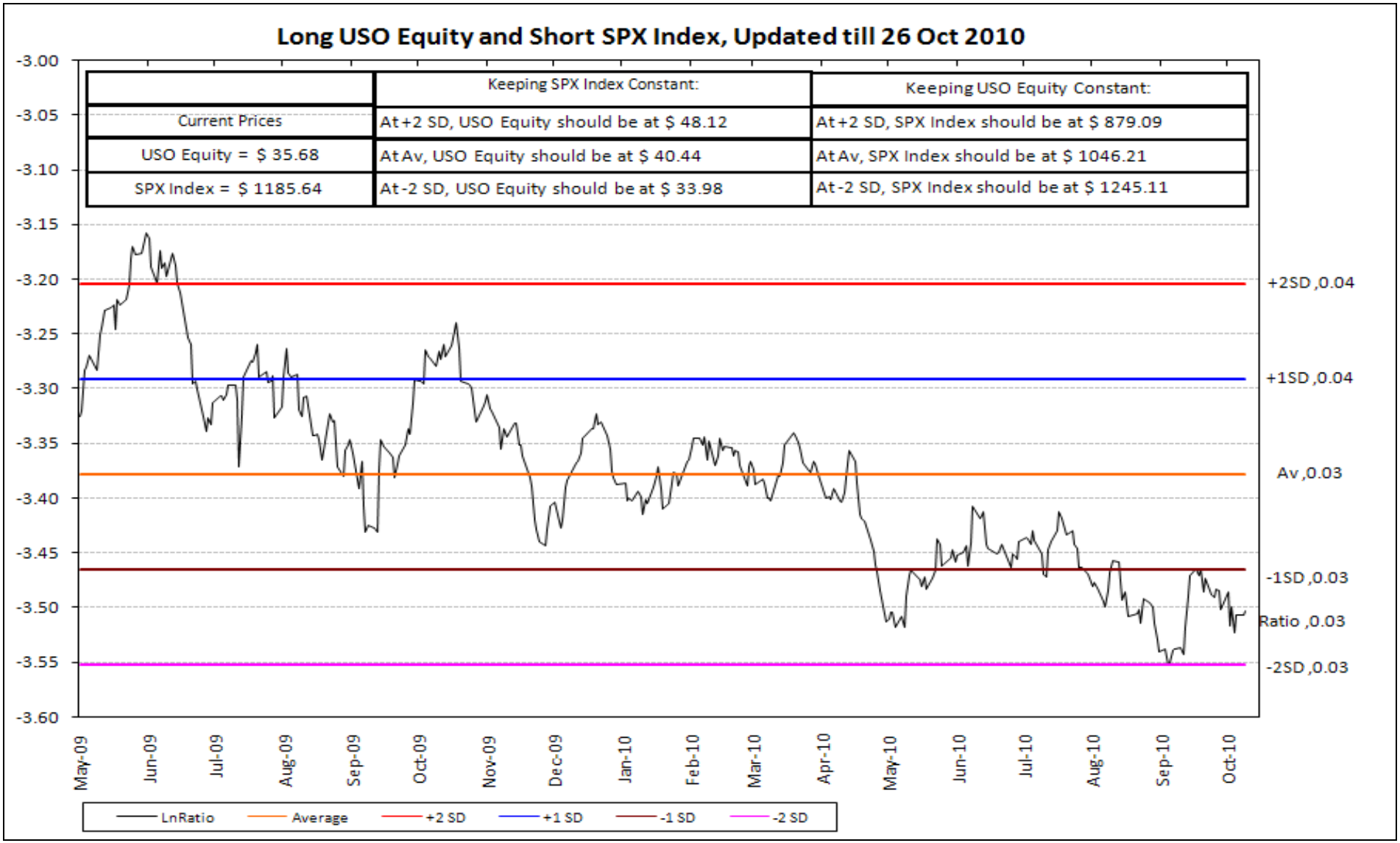


USO– Technical & Pattern Analysis (Process 3) (No change)

The USO / SPX ratio chart looks BULLISH and should trend higher in RH side chart below, confirms the relative rise in USO / SPX (is undervalued) by this matrix in Sync with SD Analysis.

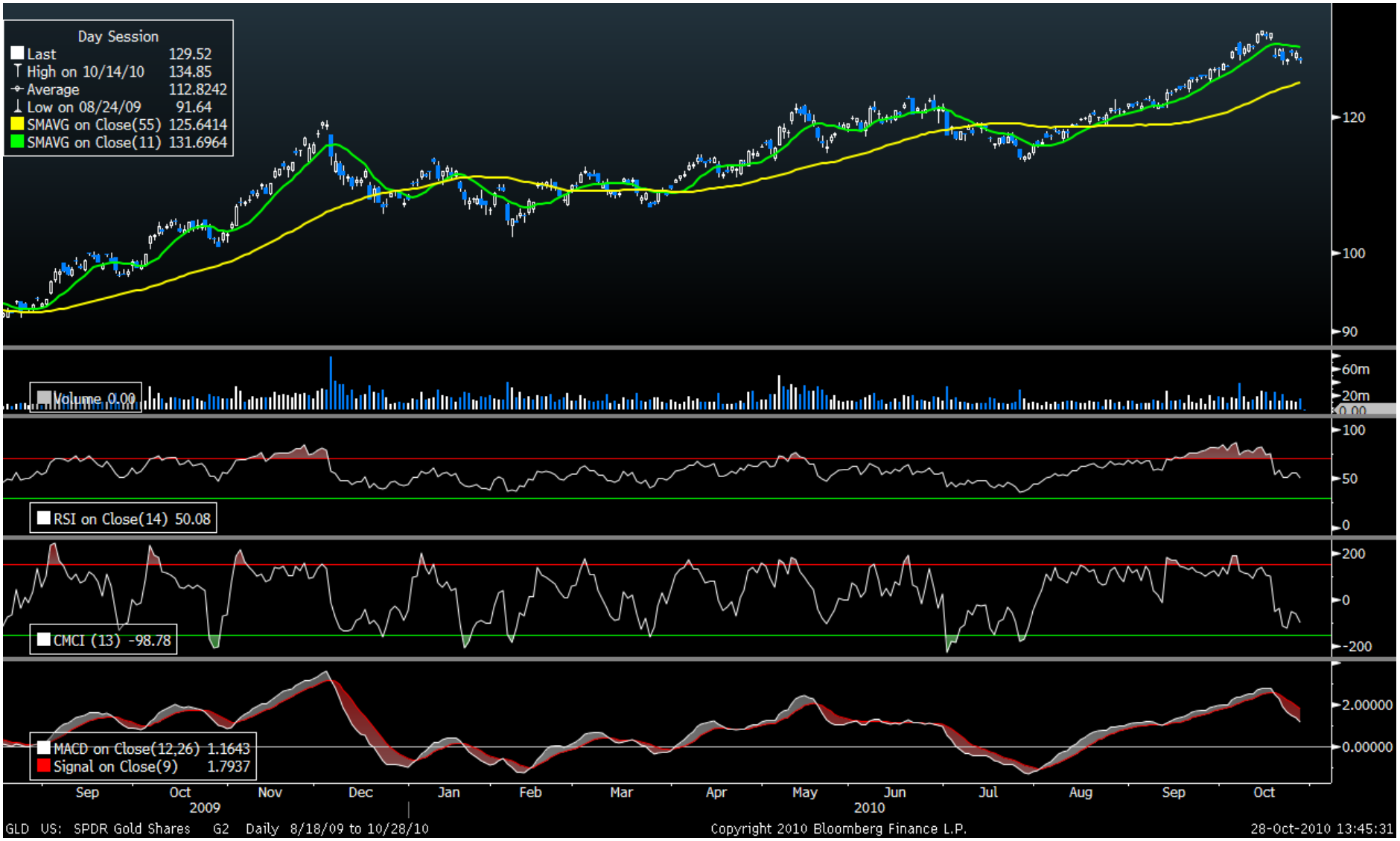


3- USO – Correlation Ratio Analysis with SPX – 365 days Time basis



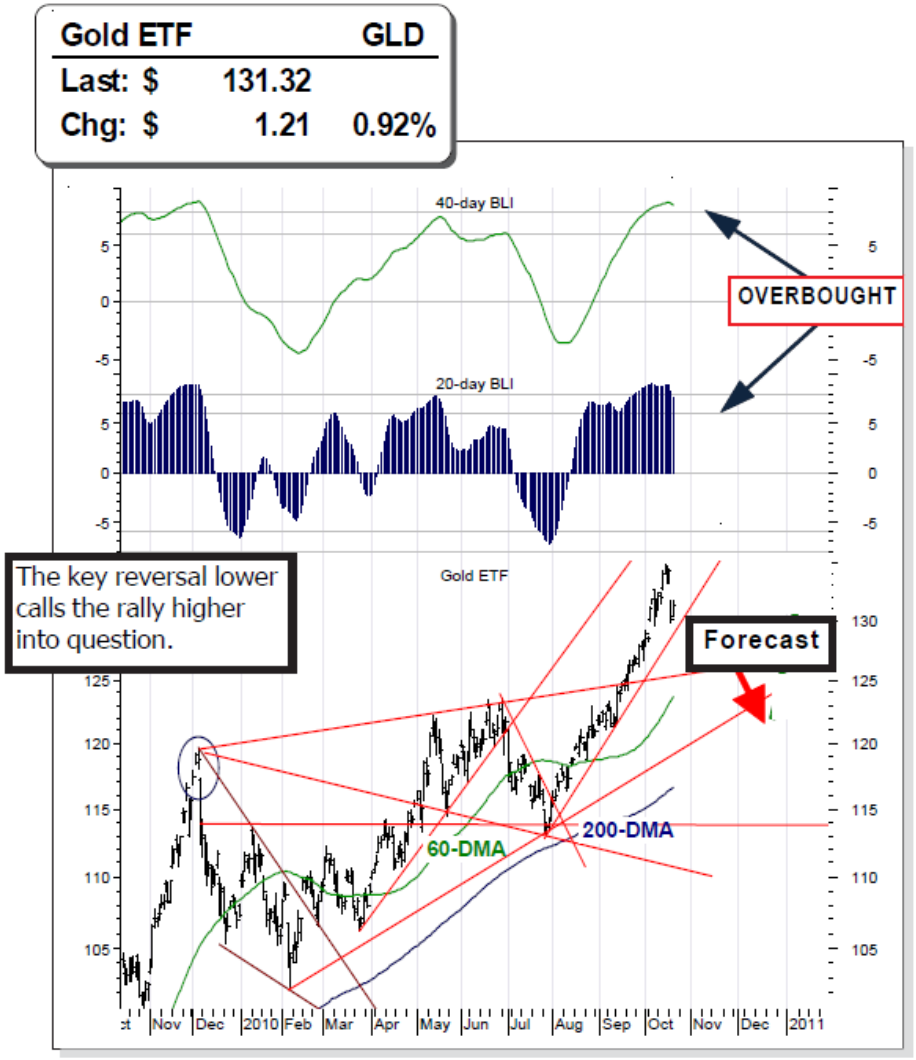
- **GLD - Weekly– 3 Year with RSI, CCI, MACD**
  (11 W / 40 W SMA)

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

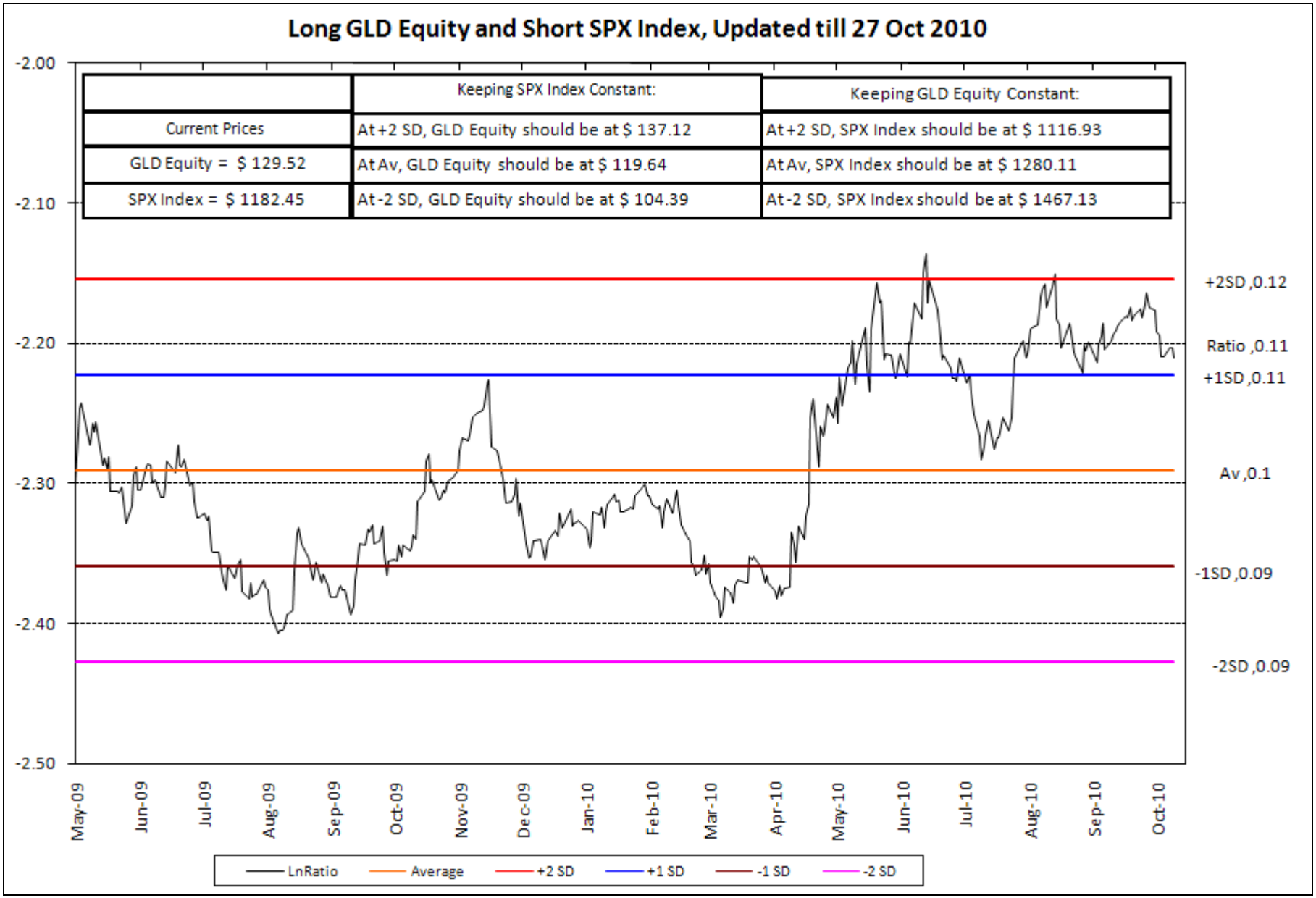


GLD- Technical & Pattern Analysis(No change)

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



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

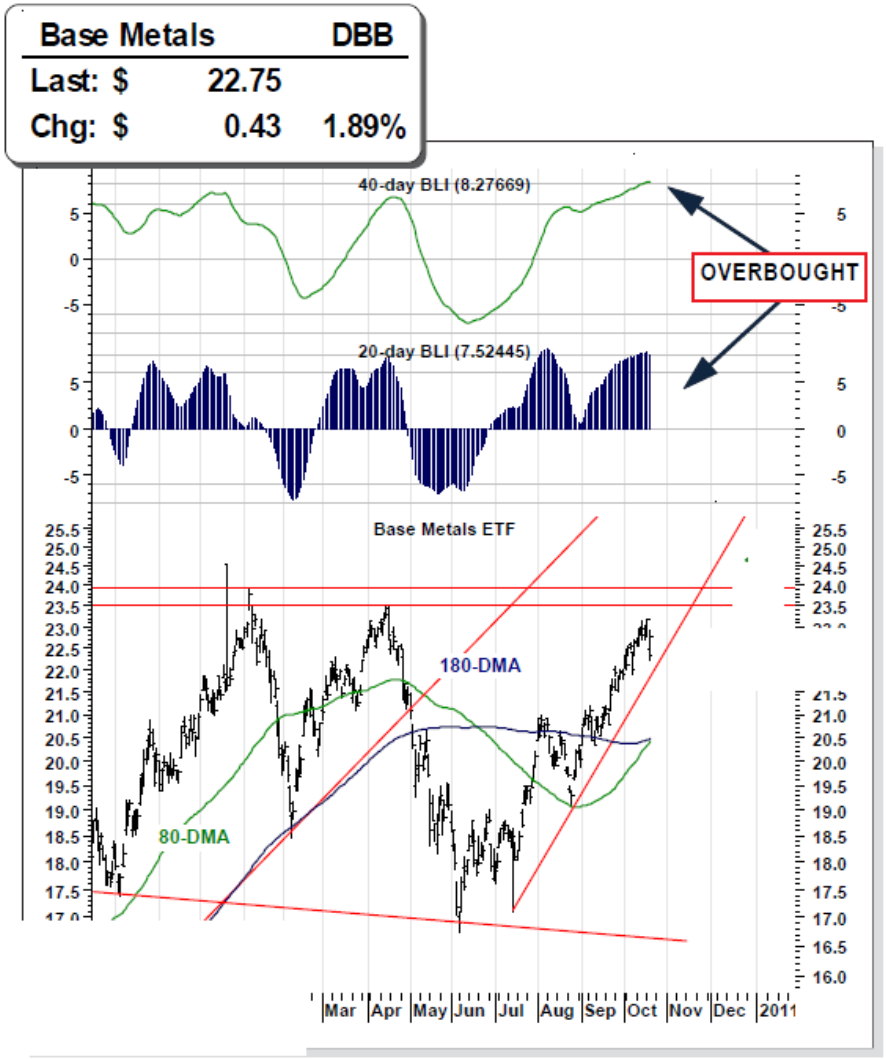


DBB - Weekly– 3 Year with RSI, CCI, MACD
(11 W / 40 W SMA)

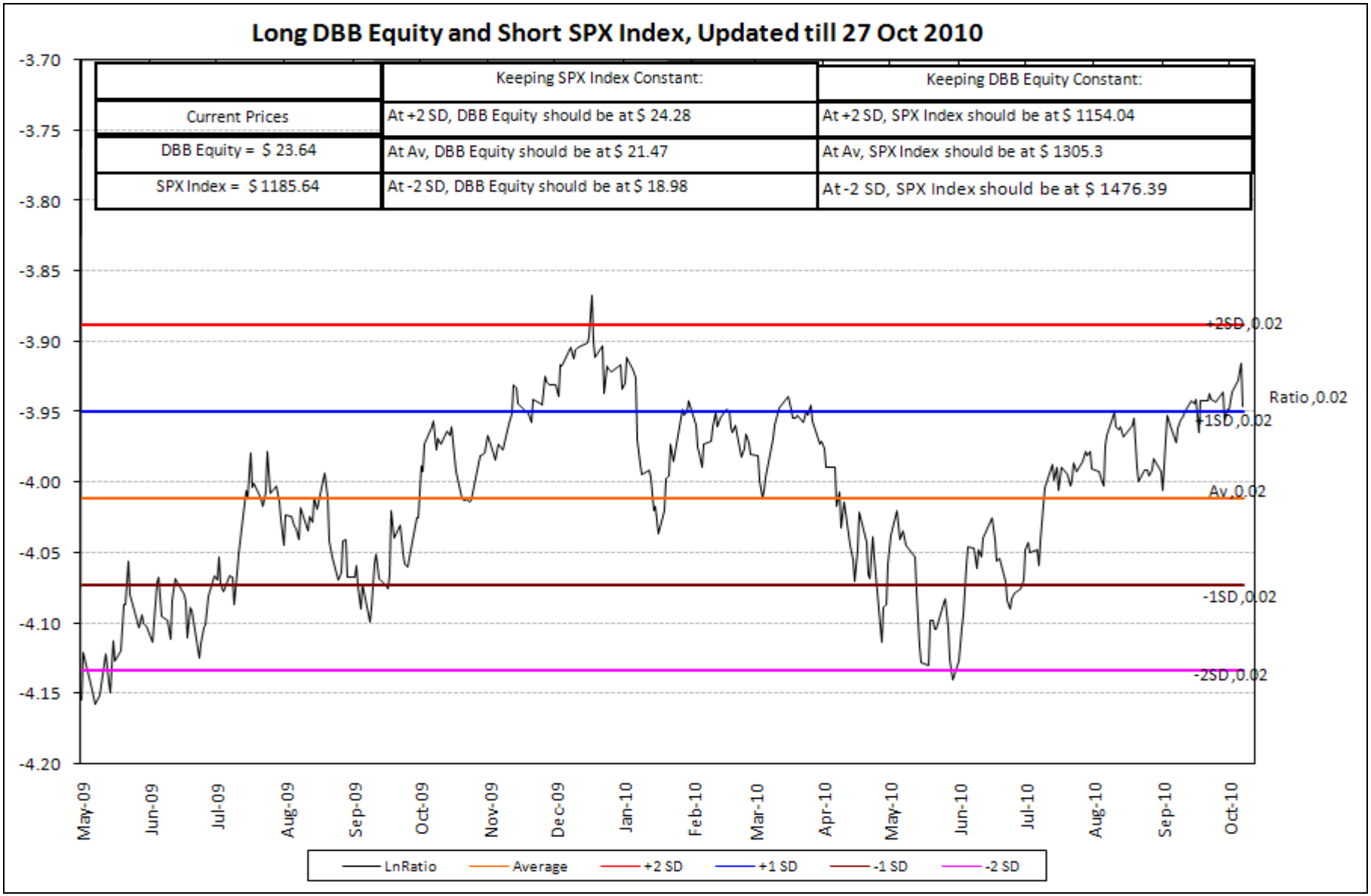
DBB - Daily – 3 Year with RSI, CCI, MACD
(11D / 55D)

DBB- Technical & Pattern Analysis(No change)

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



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



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