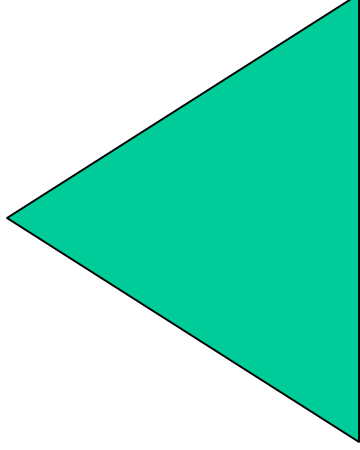


# E.B. Capital Markets, LLC

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*CHANGE is the most useful word in the dictionary for making money in the stock market. By measuring change across technical, fundamental and seasonal data points, opportunities can be exploited.*



*THE TREND IS YOUR FRIEND...sometimes, he likes to play hide and seek...*

Portfolio Manager  
Points:

- Save time: too many stocks too little time...
- Beat peer group
- Grow AUM

Investor Points:

- Improve Win/Loss Ratio
- Increase velocity of turns, avoid dead money
- Capture the bulk of a move, early actionable...

“Determine your strike zone and make them pitch to it”, Teddy Ballgame

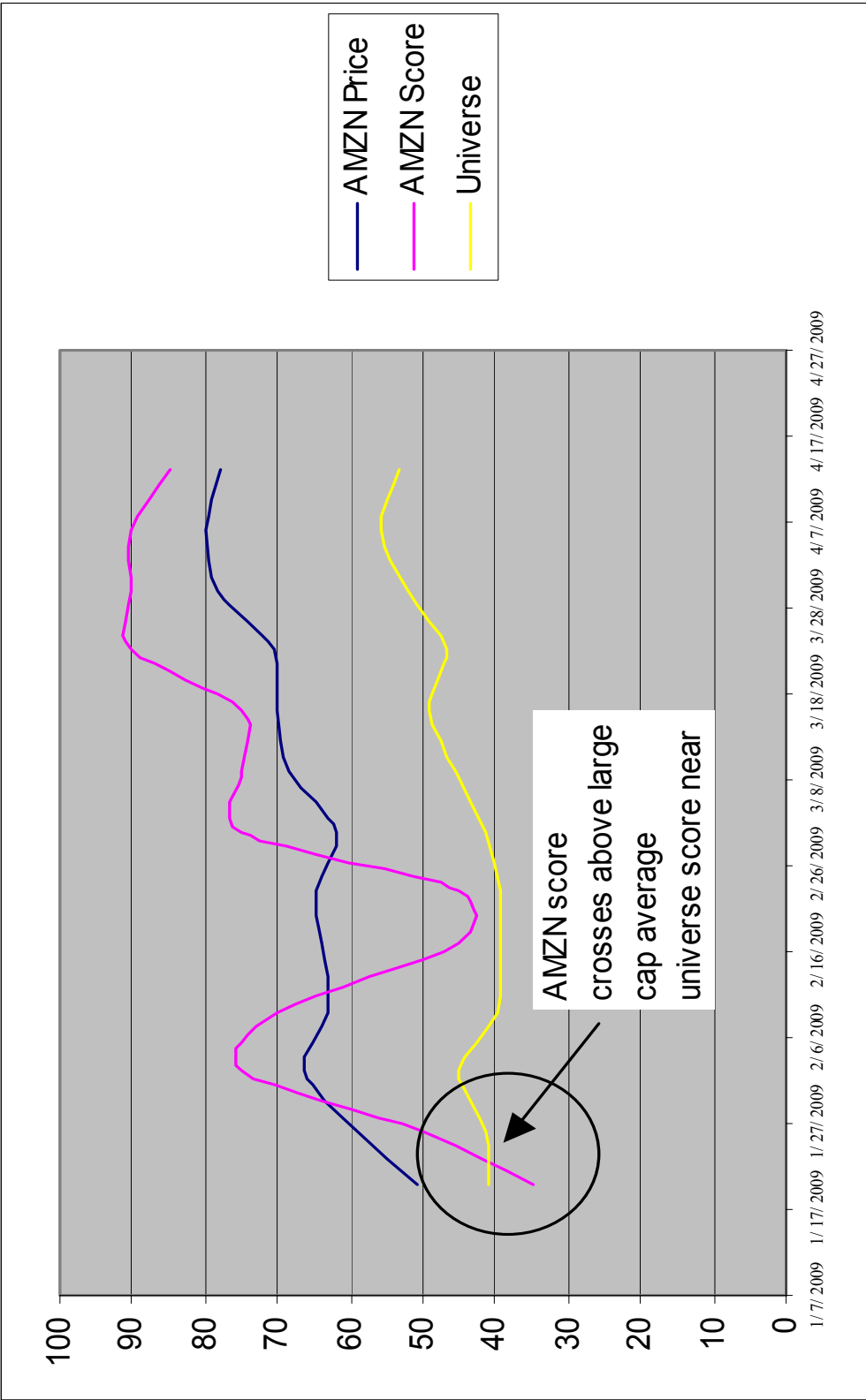
## The Technical Components of Change:

### **Momentum Factor:**

$$CP - P_5 = M$$

Where CP is Current Price,  $P_5$  is Price 5 days ago and M is momentum.

This short-term momentum indicator measures Week over Week change, providing a faster moving component to complement our long-term trend factor.

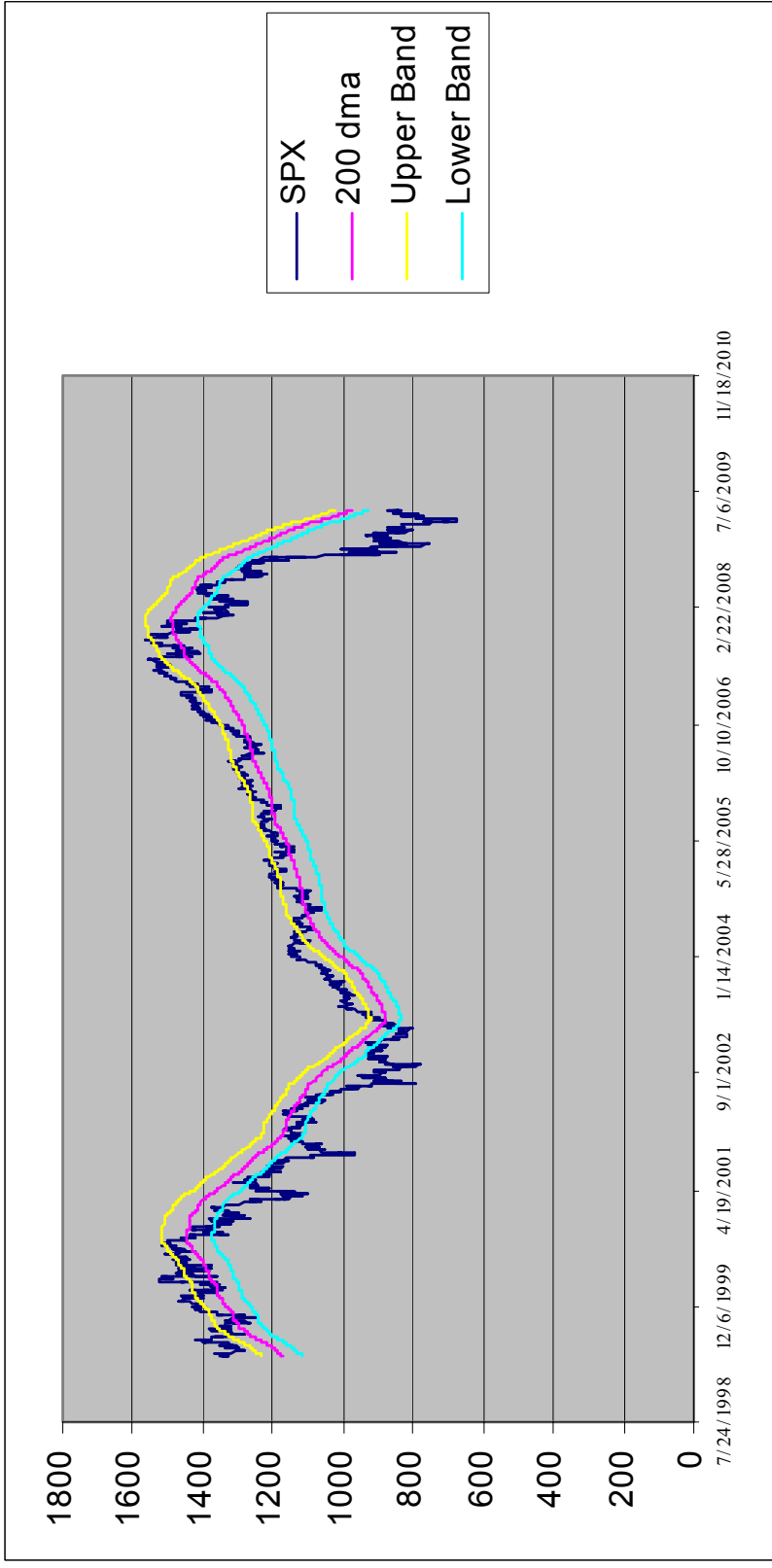


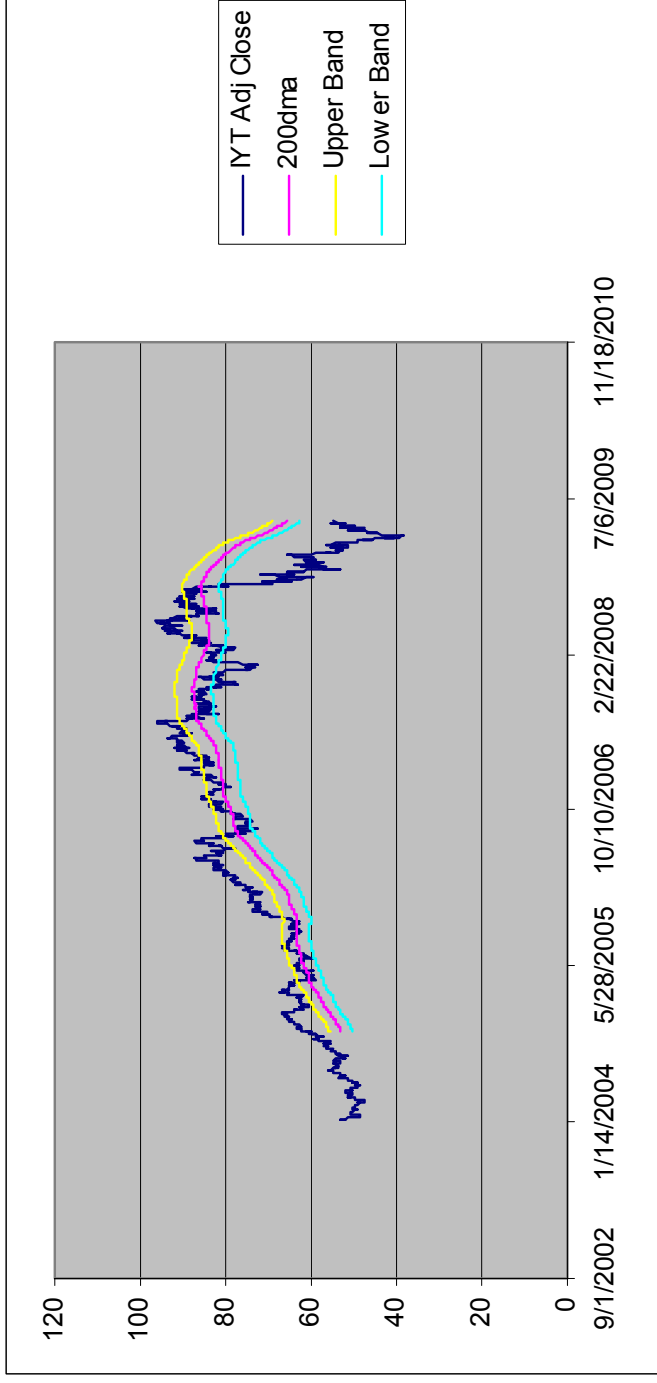
## Long Term Trend Factor:

Simple Moving Average analysis using 200 day moving average supplemented with an upper and lower band range.

200dma (1.05) = Upper Band

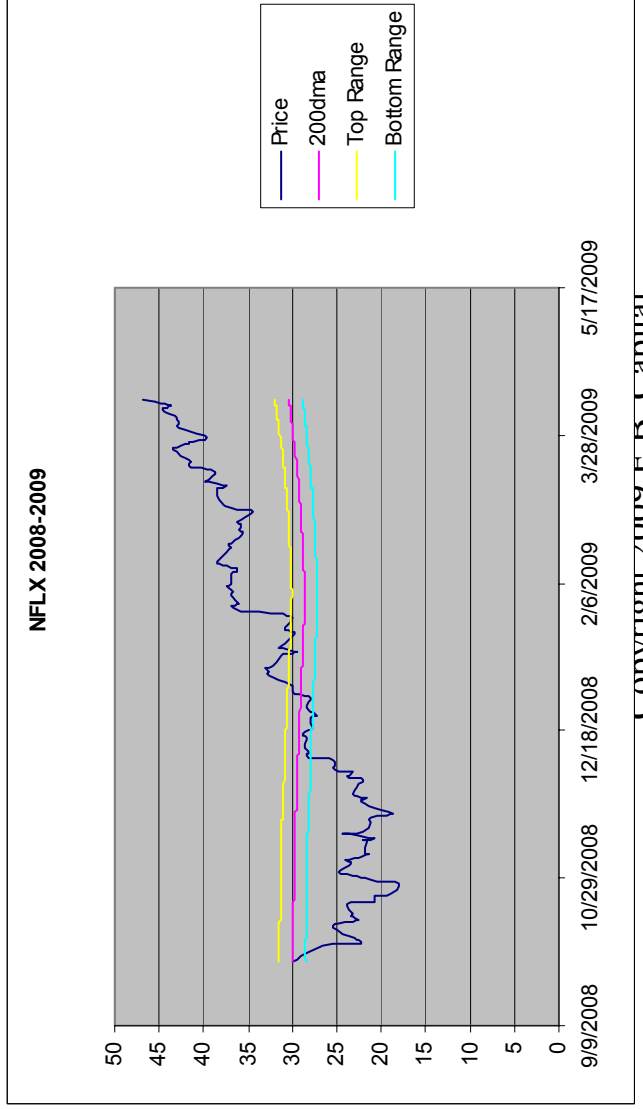
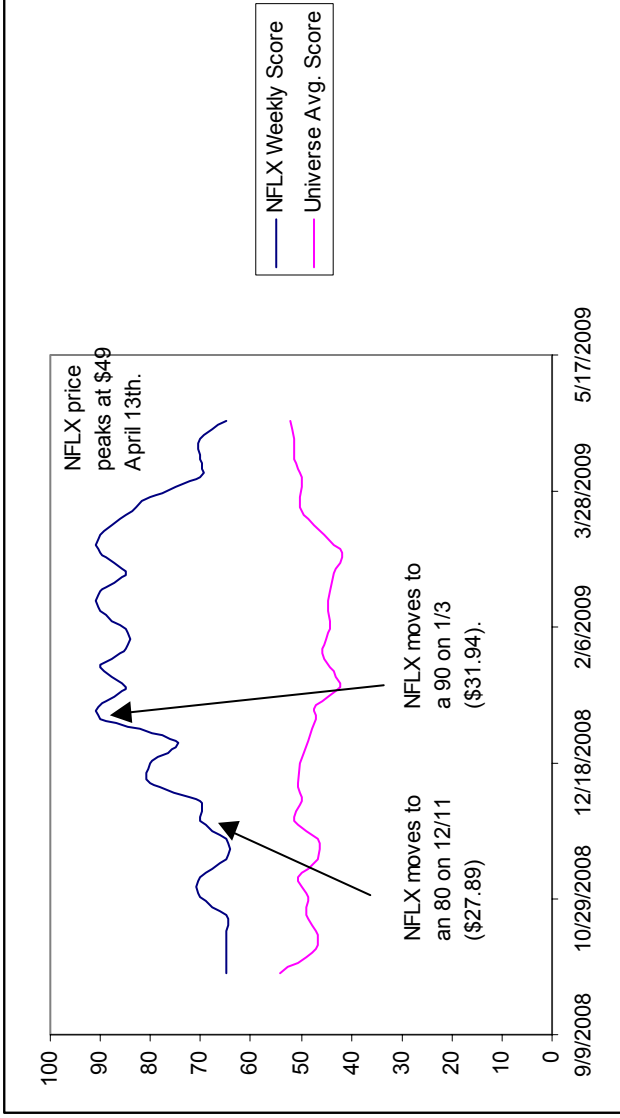
200dma (0.95) = Lower Band

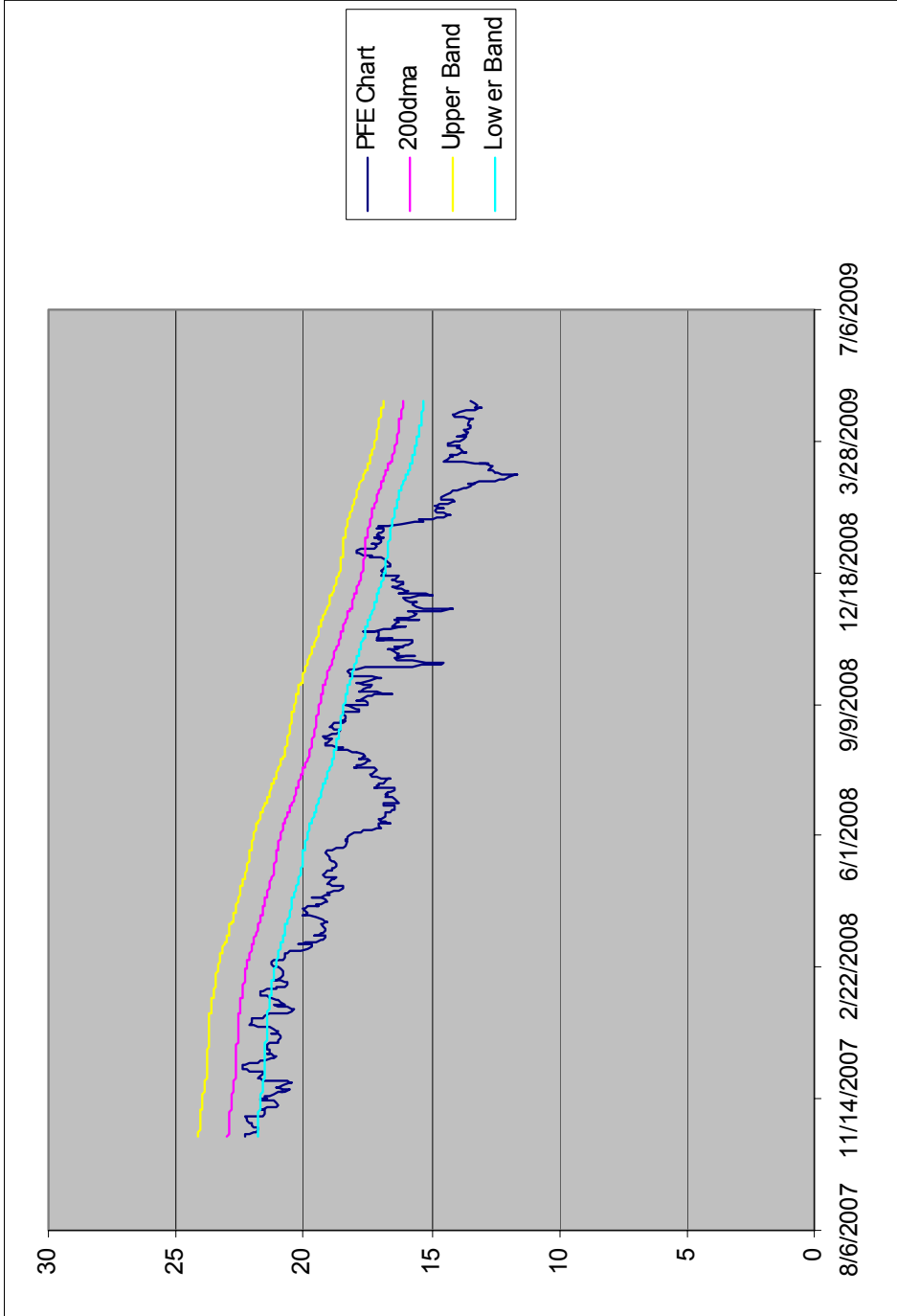




The spread between the lower and upper band is a neutral bias. The use of a banded 200dma helps reduce head fakes and false positives, allowing additional conviction. Scores are rewarded above the upper band and punished below the lower band. A move from below the lower band or down from above the upper band would add or subtract a specified number of points from the security's score.

**Score + or – Long Term Trend Factor = adjusted score.**





Other Technical inputs considered in our process for commentary:

- 50dma crossover above 200dma
- VIX as cross-check at inflection points only
- % of our 1800 stock universe above our upper 200dma band, by market cap, sector or industry.
- % of our 1800 stock universe below our lower 200dma band, by market cap, sector or industry.
- Sector and industry returns for 1-3 month and year-to-date measured by widely traded ETF's

## Volume Analysis:

### •Dow theory:

- V + P = Bullish
- V + P = Bullish
- V + P = Bearish
- V + P = Bearish

5  $d(V)/M(V)$  and  $M(V)/YTD(V)$  = Ratio of Sentiment

Where d = days, V = average daily volume, M= Monthly average daily volume, YTD = year-to-date average daily volume.

Average Daily Volumes DBB (Base Metals ETF)		% Change
March & April	YTD	
461,000	273,326	68.81%
Feb 28 <sup>th</sup>		
\$11.64	\$13.89	19.33%

- Transports action vs. SPX/DJIA action – confirm or deviate.

- Intraday activity

  - o Down open, intraday low, up close = Bullish

  - o Up open, intraday low, up close = Bullish

  - o Up open, intraday high, down close = Bearish

  - o Down open, intraday high, down close = Bearish.

Informal Action

  - o Watch 11am action – international close.

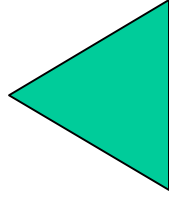
  - o Watch 2pm action – coincident properties to end of day

## Other:

- Correlation and divergence of various asset classes – re. dollar gold relationship.
  - o Corporate bond action vs. equity action.
  - o High yield action vs. equity action.
  - o Bond ETF action vs. equity action.
    - o Dollar vs. Commodity action.
- o Front Page Factor...*are folks too pessimistic? Optimistic?*
- o MACD at oversold/overbought levels.
- Investor Behavior relative to news flow
  - o Good news as bad = Bearish
  - o Bad news as good = Bullish
- Look for relative strength divergences with price.
- Fibonacci levels at inflection points.

# FUNDAMENTAL COMPONENTS OF CHANGE:

## Earnings Momentum



FY - CY =

Where FY is future year Street consensus and CY is Current Year

Earning Beats: Absolute Basis

- o Trailing 4 Qtrs
- o RE-SE=BEAT/MISS
- o Where RE is Reported EPS and SE is Street Estimate
  - 3&4 beats = bullish
  - 2 beats = neutral
  - 0&1 beat = bearish

## Insider Buying

- At the market insider purchases by key insiders (CEO, SVP, CFO, etc)
- Not compensation related purchases or options exercising.
- Same price investors would pay.
- Reflects true level of optimism in the company future, eliminating the corporate bias/cheerleading permeating analyst days

**Note:** BBY CEO bought over \$40mn of stock in October at \$21-23; the stock has traded as high as \$40 since.

# Short Interest

## High SI = Bullish

Where SI = short interest days-to-cover short based on average daily volumes and total shares short.

- Consider SI across sectors at inflection points and vs. prior rallies to gauge slope and duration of the move.
- Consider SI by market cap
- Avoid the temptation to be SPX centric on SI

The higher days-to-cover the more likely demand from covering activity will drive price momentum higher given:

- The stock has positive technicals.
- The stock is enjoying EPS growth.
- The stock is beating Street estimates.
- The stock is being undervalued vs. historical levels.
- The stock has positive 3-month seasonal support.

## PE Range Analysis

CY PE / 5 YR PE Low

FY PE/ 5 YR PE Low

CY PE / 5 YR PE High

FY PE / 5 YR PE High

Where CY is current year and FY is future year.

Relative position of ratio of PE to historical 5 Year PE range indicates current sentiment in relation to prior years sentiment.

- Investors are willing to pay a range for each \$ of EPS.
  - The range will be wider and higher for early development companies.
  - The range may be wider and higher for high growth EPS companies.
  - Dislocations of investor sentiment represent a deviation of sentiment from historical PE ranges, providing insight into future upside or downside as investor sentiment normalizes.
    - Reflects investor Fear/Greed pendulum.
1. Stocks trading above 5 Year PE ranges represent overly enthusiastic investor sentiment, which will pressure future returns.
  2. Stocks trading below % year PE ranges represent overly pessimistic investor sentiment, which will support future returns.

## Seasonality Factor

- Rolling 5-year calendar quarter returns.

- $QE\ AC - QB\ AC / QB\ AC$

Where QE is quarter end close, AC is adjusted close, QB is prior quarter close

- Rolling 5-year ongoing 3-month returns.

- o $3ME\ AC - 3MB\ AC / 3MB\ AC$

Where 3ME is 3 month close, AC is adjusted close, 3MB is prior 3 month close.

Ex. 7/31/08-4/30/08 divided by 4/30/08

## Aggregate seasonality by individual security by:

1. Market Cap
2. Sector
3. Industry

Provides cap/sector and industry over and underweight bias.

## Positive absolute returns for each period:

4 and 5 of 5 periods positive = bullish

3 of 5 = neutral

0, 1 and 2 of 5 = bearish

Where are We Today? And,  
Where do We go  
Tomorrow?