



SG Capital Research

Global Market Insights

Research Note – Market Strategy – Bi – Weekly Interim Update (A# 2)

MAEG- MARKET STRATEGY INTERIM UPDATE # SG 2011 # FEB 10

For Immediate Release – *Thursday AM (EST)*

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Market Strategy Global (A # 2) - SPX – Closed @ 1320

We have picked up charts (below) that has some distinct characteristics from observation & Special Situation this week based on our assessment:

- Coverage

- 9EMA / 3X3 Strategy – DOW & SPX
- TLT - PQV Pattern Analysis (only If > 2.0 SD)
- IWM – PQV Pattern Analysis (only If > 2.0 SD) (sp)
- QQQQ – PQV, Pattern Analysis (only If > 2.0 SD)(sp)
- EEM – PQV, Pattern Analysis (only if > 2.0 SD) (sp)
- IYT – PQV, Pattern Analysis (only if > 2.0 SD) (sp)
- EZU – PQV Analysis (if > 2.0 SD)(sp)
- Appendix - History of past SPX - POM Signals & Key Criteria

- Objective

Focus is on the Short & Intermediate term turning point of the SPX via POM's Price projections. POM is Unidirectional Judgmental Model, It utilizes multiple input signal via the Global Inter market Analysis (GIC), Price & Quality Volume (PQV), Pattern Recognition (PEC) , Cycles, Internal & External price equilibrium points to assists in output signals . POM is supplementary Analytics to add value to RA/ RI Framework for Risk Management.

- Trading & Investment Conclusions

Our start point 2011 in SPX @ 1257 – Current Indicators

- Long Side –

- POM 12 Call – **None** so far this year.
- Trend Adjusted Signal – **Buy** at SPX 1307. (**Stop @ 1307**) Revised

- Hedge Longs / Risk Management for Downside Corrections -

- We recommend **fully Hedge on long positions** via the SETUP – PQV Hedge Index, we have a **Drawdown – 5.0%** with Setup 2's & PQV – CZ Validated Equities ,
- Model Avoided Setup's 4's completely hence minimizing drawdown and maximizing mental capital (either due the CZ – PQV – NON- validation or the underlined Index did not confirm to POM 15 sub criteria's of its own)
- Our SD # 2 – CZ – PQV Validated EQWT Index has **Drawdown -0.3%** in past 8 weeks

- Net Short –

- POM 15 Calls – **None** so far Triggered this year
- Our Target has remained for SPX 1280 (Monthly close for highs) , Pre – Lehman Crash Area tests. This has not happened yet.

● SPX – POM Signals & Price Projections with Setup Index

- UPSIDE Target - (**Monthly close below 1280 should be a good signal**). POM 15 for Net Short has not Triggered. Although this extension is counting time the best case scenario would be the highs of Pre – Lehman crash price tops 1280 on Monthly . We could very well trigger POM 15. Meanwhile we continue to remain POM 14 since Jan 1st 1257 (Our new reference point for 2011).
- DOWNSIDE Target - SHORT TERM - SPX 1220 first then , Daily Bearish Wedge has the downside target of 1175. On Intermediate term Our Pull back from here should be to 1130 - 1145 (This area is false break top side driven by QE 2). The natural equilibrium price is at 1125, which also happens to be the GOLDER CROSS (SETUP 1) @ 1120. Volatility will increase in this area. Its too early to tell if something more serious (let us wait and watch)
- EQUILIBRIUM Price - favorable Risk / Reward opportunity will come at POM 13/ 12. This area we would be interested again
- Our TREND ADJUSTED SIGNAL Post POM 14 – Trend Adjusted Signal for the 3rd time is on **Buy Signal at 1307 stop on close at 1307 (REVISED) .**
- Currently, Our Model continues to recommend the fully hedge position via SECTORS with SD #2 Qualified and Tested CZ – PQV Validation only , (Currently this Equally weighted Index has **Drawdown of -0.3%**. This is the preferred risk management considering market is not at POM 15 and our Longer term time horizon for holding. (Note – if Market continues up we may have the risk of Stop being Triggered)
- Secondly our next Hedging process also recommends Setup # 2 and/ or Broken down Setups # 4 validated at the CZ- PQV. Currently has the **Drawdown of - 5.0%** (inclusive of all stopped outs, as on last week close).

We prefer to AVOID, MO – SETUP # 4 combination till such time.

• Daily SPX - “ Trend Adjusted Signal” – Long at 1307

3x3 /9EMA – Momentum Break Indicator –

- For Bull case - Previous long exit was on 11/17 at 1193 from 1105 entry 09/05 for 8%
- For Bull case – long position from 1228 to 1276 = 4.0 % & from reference point 2011 @ 1257 = 1.5%

Currently “ Trend Adjusted Signal “ **Triggered Long at 1307** - **STOP 1307 (Revised)**

In the Momentum Market the “ Trend Adjusted Signal” seem to have worked well for QE – 2 pump after the Initial profit taking on Longs from POM 12 @ 1020 to POM 14 @ 1105.



• Market Insights

- *It is all about USD and its upward move, placing pressure on all including commodities.*
- *Cisco's earnings lately tends to put pressure under the market past few quarters, we would rather see the Gap away hold into close and volume pick to give additional signal, (We saw volume come out of QQQQ on Down , see the chart below)*
- *Currently it appears the 4th of Bearish Wedge pattern we mentioned on Mondays report was completed (a gradual price advances to new highs to wave 5 / (wave C) (rally). No the follow up risk of abrupt decline ending with drop of 20-25 very quickly is on the table and then back to highs again (see the IWM Chart below) .*
- *Although the rally going into February still continues it is Risky participating. The larger correction will come in completion of this as the Time termination sets in 4TH (did not work out) and then approaching soon on 14th FEB.*
- *The early March, 2-year anniversary of the 2009 low acts as historical turn date and gets to be meaningful either for Primary top or the Secondary top (which can be lower highs) .*
- *Post POM 14, for any New longs we recommend the Momentum Strategy VIA “ Trend Adjusted Signal with STOPS “, this has done well to capture the MO move of the market post POM 14 whiles Hedging process continued. But NO NET SHORT*
- *. If a bottom forms in bonds, it could draw money away from stocks. It could even attract POMO funds which the Fed has injected into the stock market . It might be Bond market turn very soon. This should be watched carefully because a turn up in the bond market could tip the scales in favor of selling stocks and buying bonds in the near future.*

- ***Turn Dates by “ W.D. Gann should be watched for important changes in the major trend of both Industrial and Railroad stocks. If any stock makes top or bottom around any of these dates, you can expect a reversal in trend, especially if there is a sharp decline or a sharp advance around these dates: (We see a better effect of these dates only if overlapped with other matrix). We rather mark this on Calendar like very close friends Birthday.***

- ✓ ***Feb. 8th to 10th,***
- ✓ ***March 21st to 23rd,***
- ✓ ***May 3rd to 7th,***
- ✓ ***June 20th to 24th,***
- ✓ ***August 3rd to 8th,***
- ✓ ***Sept. 21st to 24th,***
- ✓ ***Nov. 8th to 11th,***
- ✓ ***Dec. 20th to 24th.***

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



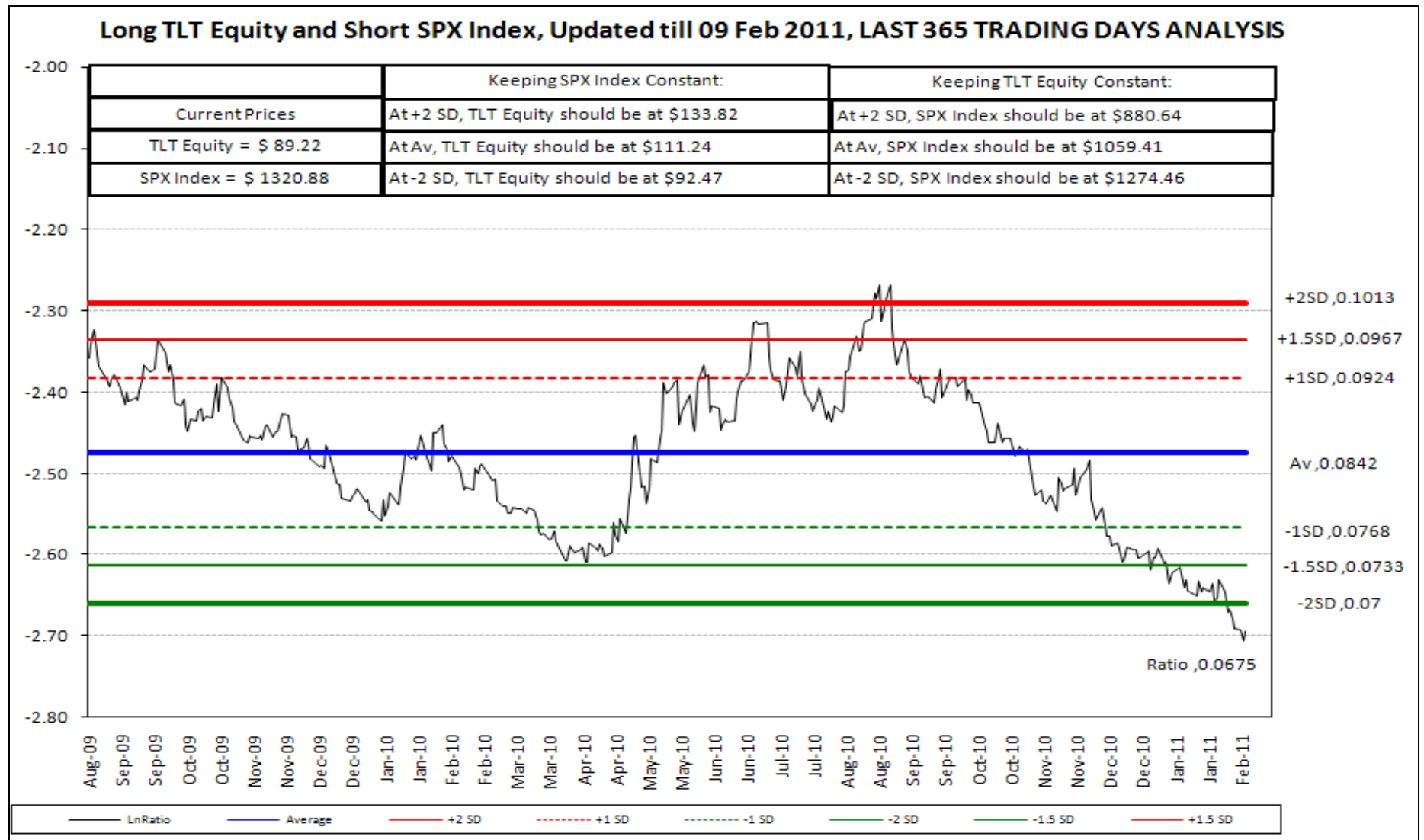
TLT - Daily - 3 Year with RSI, CCI, MACD

(11D / 55D)

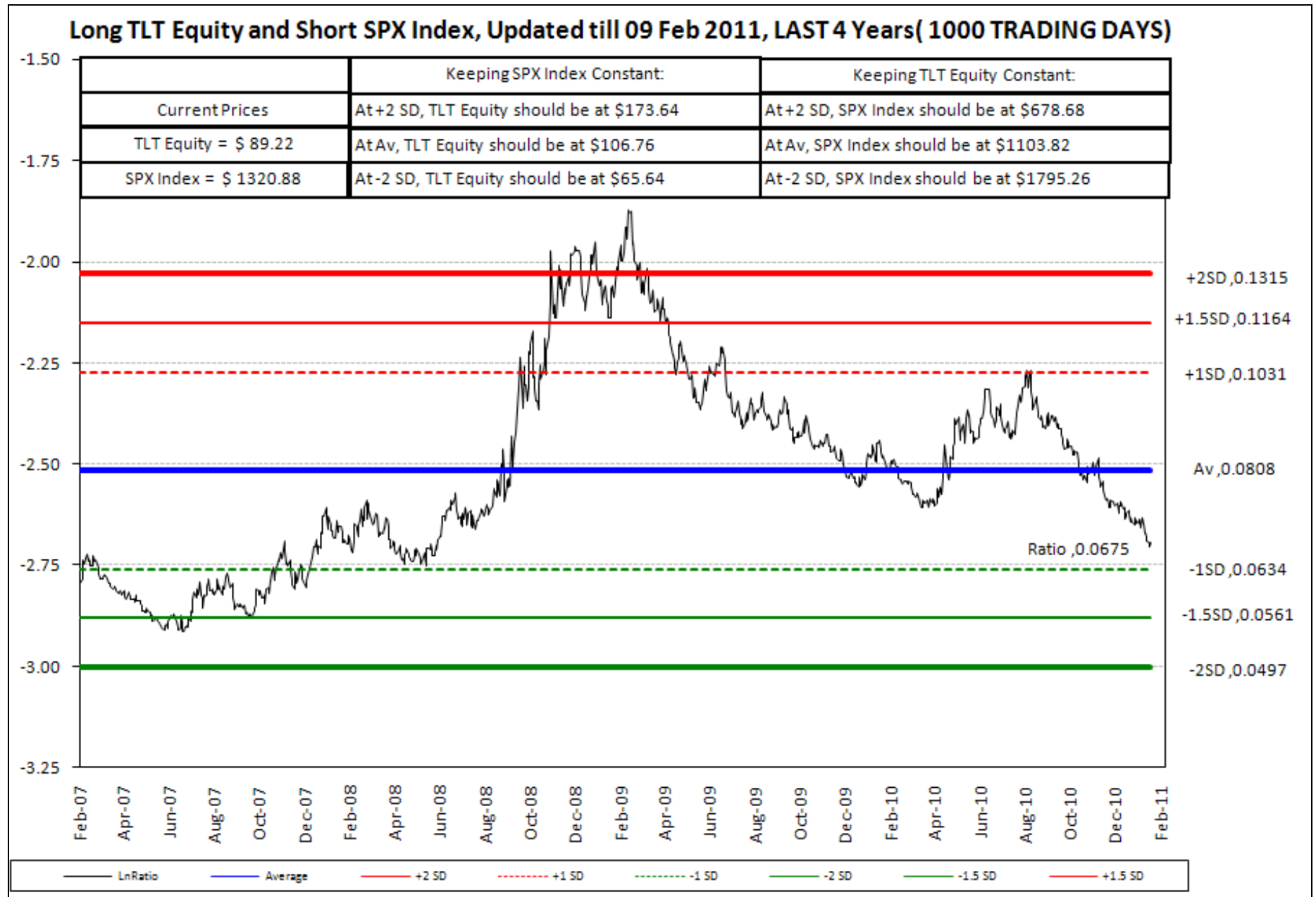


TLT – Correlation Ratio Analysis with SPX – 365 days Time basis

**We were watching this carefully for SD# - 2 , for undervaluation Zone
(MONITORING CZ –PQV in Sector Report)**



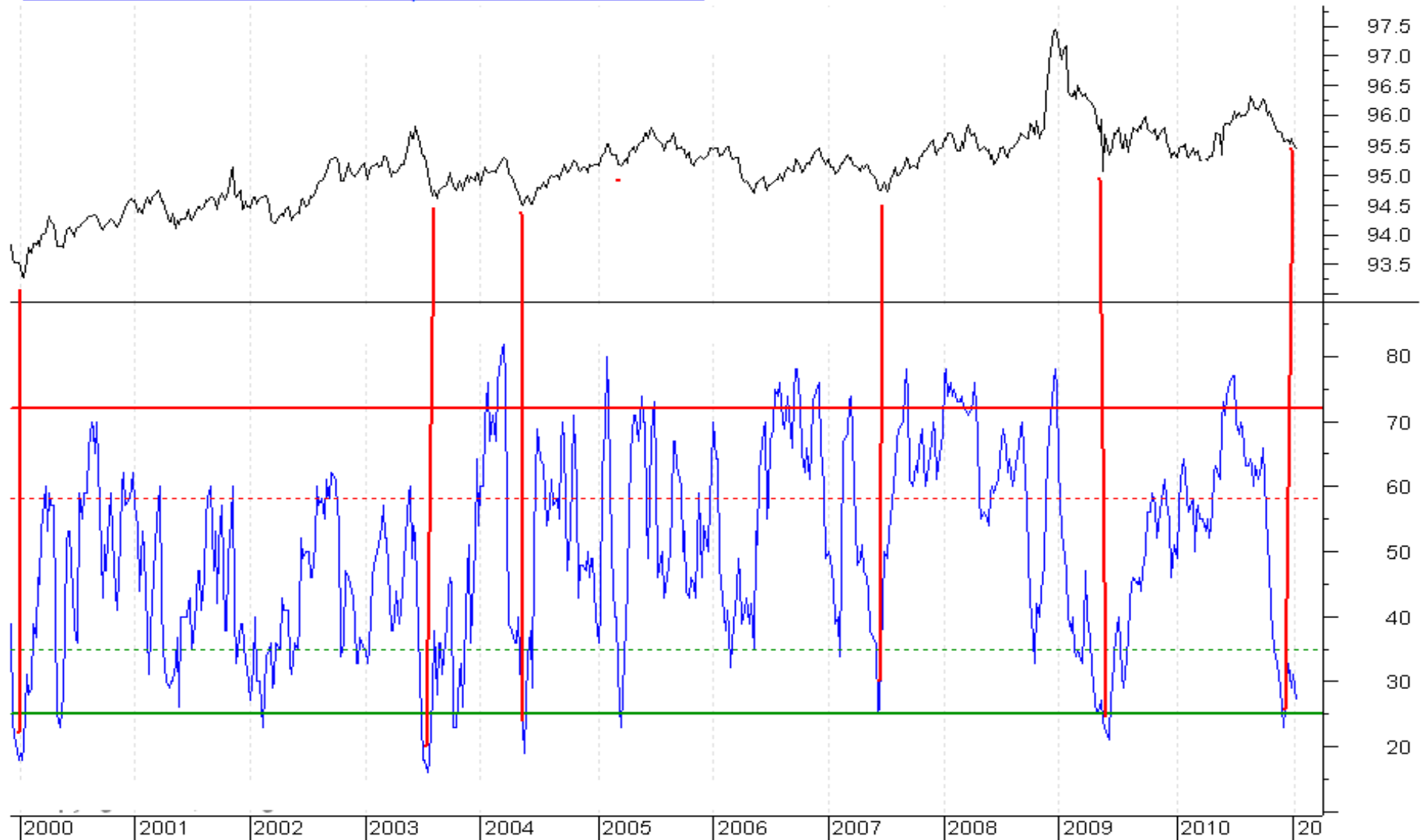
TLT – Correlation Ratio Analysis with SPX – Full Period



TLT– Bearish Sentiments at EXTERMES. (Courtesy – CFTC from Traders Sentiment data)

Past 10 yrs of Sentiments

T-BOND CONSENSUS, INC. BULLISH %



TLT- Money Flow

The money flow bullish divergence In fact, some money managers could be seriously considering a switch to bonds if they are nervous about the stock market They could sell stocks and maintain a 3.73% yield for the remainder of the year. (In fact the note from Shilling was interesting to that effect).



TLT- Technical & Pattern Analysis – 5yr Monthly Chart

TLT has reached some critical price points. This is a bigger picture



2 – TLT- POM – ST - Price , Volume & Pattern Analysis

Current situation considering the Bigger picture and our long term –time horizon could justify ½ position . The 2nd half upon re confirmation of Secondary test as indicated in CZ Tracker , As we thought last week, a possibility of bear trap seems to have experienced past 3 days. These TRAPS usually have Retest which usually looks scary (Which is a common phenomenon at the end of the Intermediate Trend)

TLT –Our price target of 89 – 91 and CZ by POM / PQV . PEC D at 91 has been reached. Weekly 40 M test was validated for ½ position.



TLT v/s SPY

Inverse Correlation still exists at every inflection point . Very soon we will see this translate once we close above 92



BROADER INDICES

- ***Whiles the extension in SPY continues only few Major Indices are qualified for NET SHORT ACTIONS at CZ / PQV VALIDATION : We have previewed only those below***

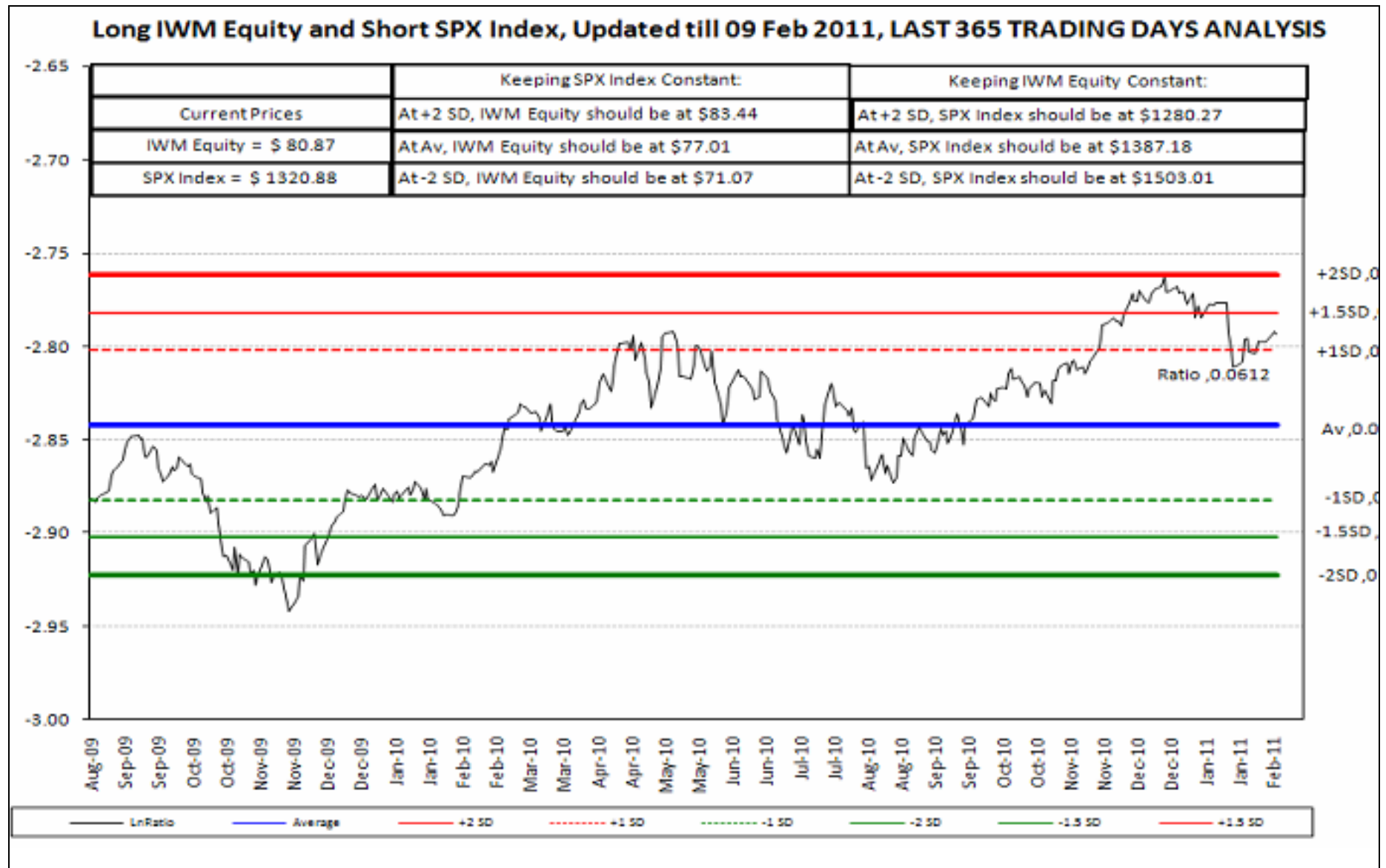
- ***IWM (79-80).... 1/2 Position for Short Sell***
- ***EEM (47-48)...Full position qualified at CZ (see chart below)***
- ***EWH (25 -26).... 1/2 Position for Short Sell***
- ***EWA (25-26) 1/2 position for Short Sell***
- ***EWP (38-40)For Short Sell , which immediately crashed to 31 after the CZ/PQV validated trigger***

- ***The others that are on Watch list of PQV but still Not validated yet (but very close to it)***

- ***QQQQ (57 -58) (Close below 56.5 this week even at current volume of 50M it should fail for ½ position)***
- ***IYT (92.5 - 94.5) (Its almost failing) & Setting up ABC down***

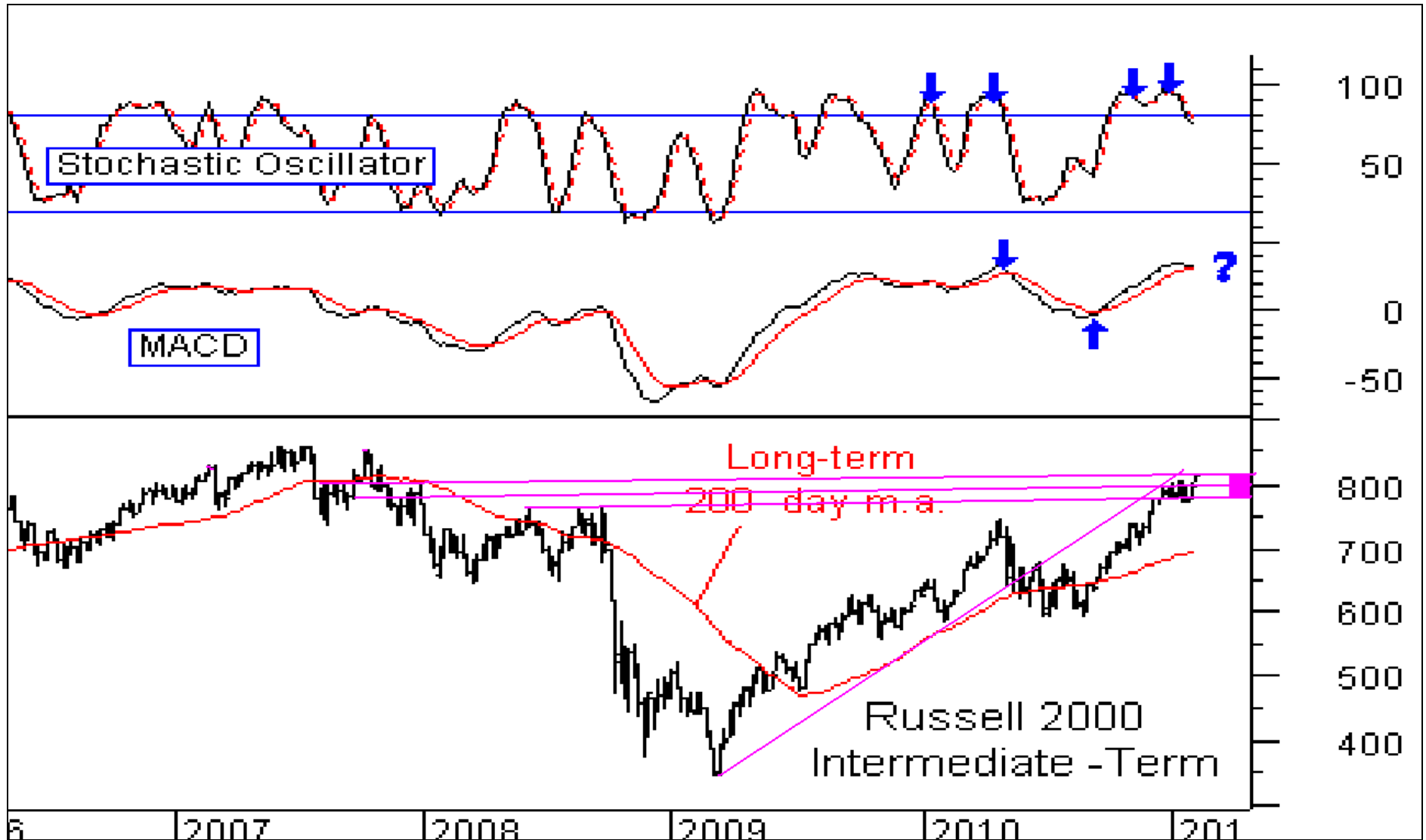
IWM – Correlation Ratio Analysis with SPX – 365 days Time basis

Is at SD# +2.0, for overvaluation



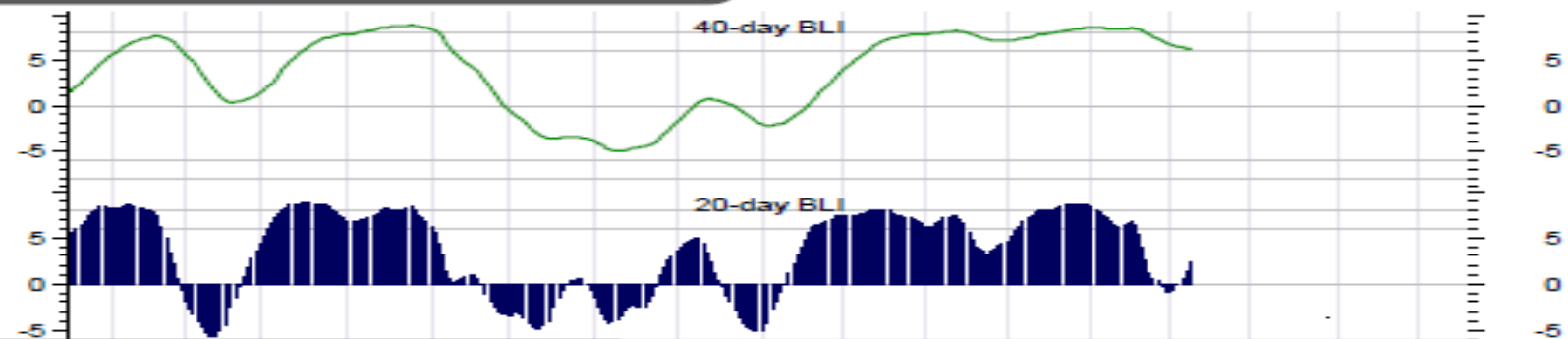
RUSSELL – MT

Far extended from 200DMA , MACD has trigged, STOC below -50 RSI should show weakness, On bigger picture the weekly volume should come in above 175 M but to Fine tuning on daily basis the CZ For ½ position is 79.50- 80 with price go above 80 and then close below 79 with 35 M shares for failure. (We finished that test with 29 -35 mm test.) We are watching closely in CZ – PQV in Sector Report



IWM - SMA / Trend line Analysis

	Russell 2000	IWM
Last: \$	81.23	
Chg: \$	0.57	0.70%



A break of trendline and 40-dma support would be bearish.



IWM- POM – LT - Price , Volume & Pattern Analysis - (MONITORING CZ –PQV)

Currently entering the CZ for 4th time & testing the back of Trend line but there is no volume behind the move as indicated in Green (Our CZ for PQV Validation is marked in Pink)

The CZ area is from way back from 2008 Jan breakdown area & 2008 highs of Sept an its derived CZ of 78 – 80.00 (currently it is in the zone 3rd time) and test with 175 M (weekly volume) and close **under 78**,) should be a good test.

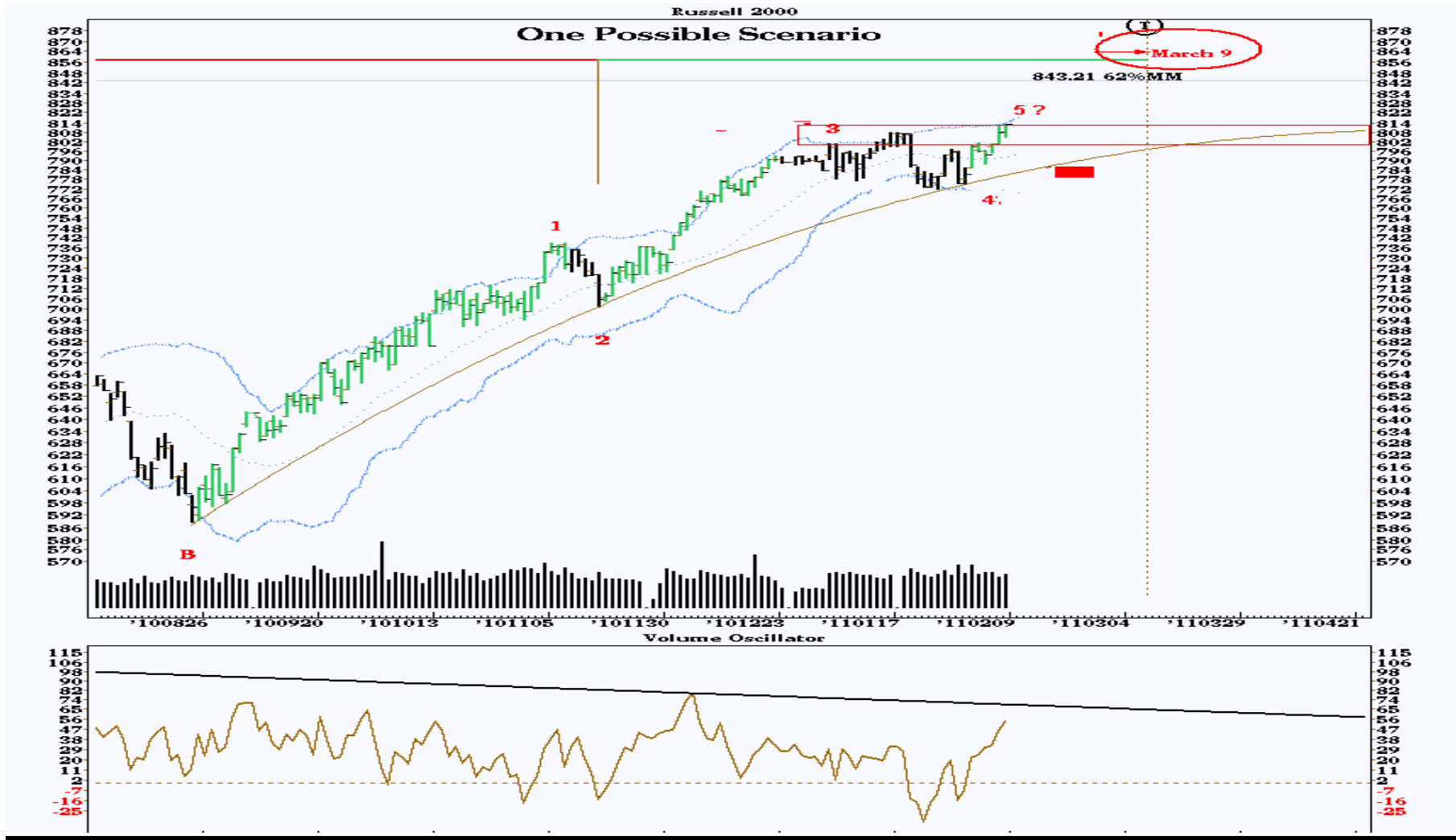
On daily basis the CZ For ½ position is 79 - 80 with price go above 80 and then close below 79 with 45 M shares for failure. For another failure . We are watching closely in CZ – PQV in Sector Report

Earlier IWM tested the 1st bearish engulfing once and snapped right back with 2nd Dark Cloud in the CZ Area (that we waited for 8 weeks to touch in spite of our bearish opinion on the market) . It also broke the trend line with MACD turned down, Volume picked up & RSI diverging bearishly .



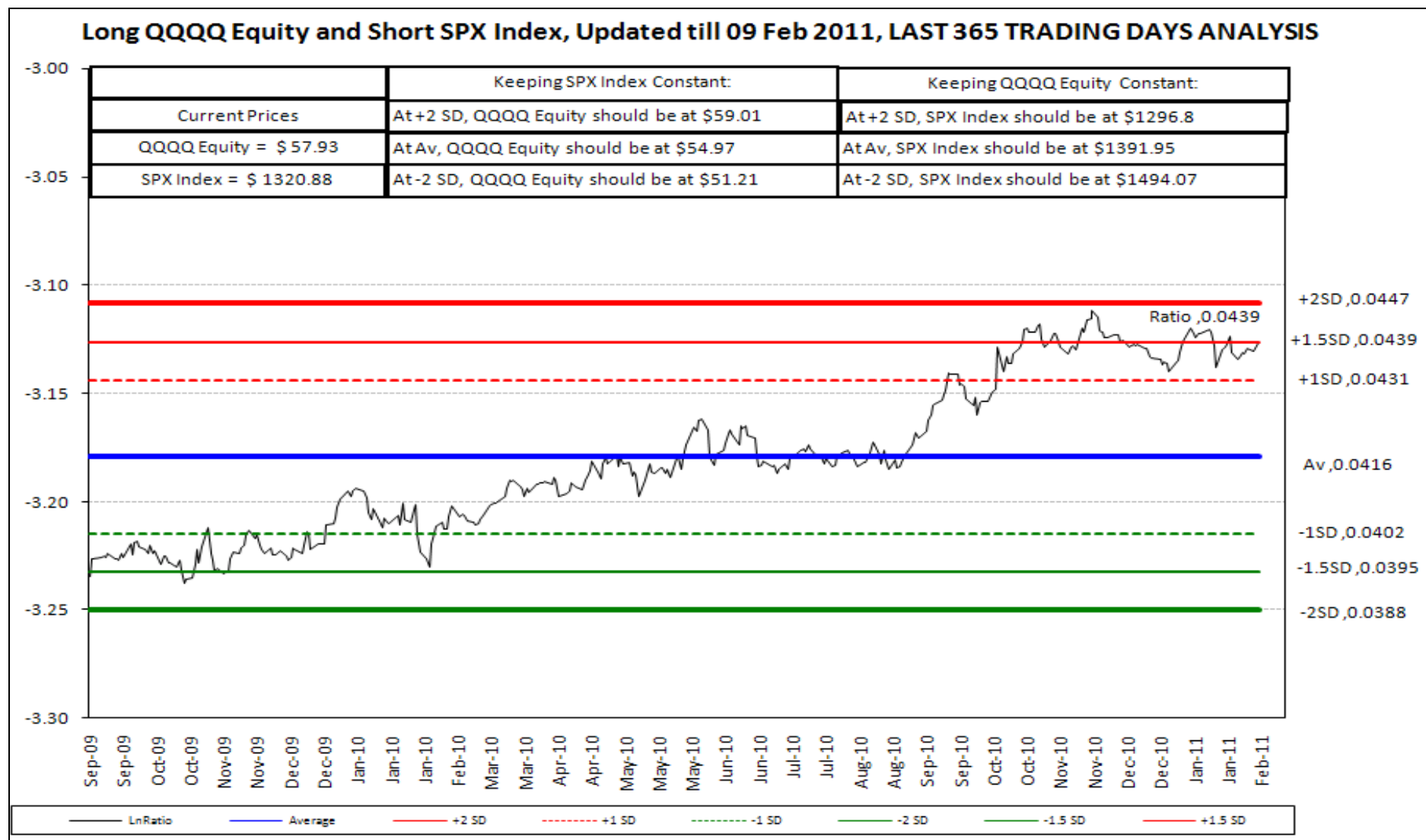
RUS - ST

*Bearish Engulfing of 4th Jan proved its merit as a stoppage point over the Poly Trend line with AD- oscillator
RUT had been a leader, It finally registered a higher high after lagging last week. If the 5th Wave of top is over (within the CZ(over the Poly Trend lines). We could get the initial Sell off to Red Box above the Poly Trend line and march time till the T expires into that early March anniversary period: This is a texture of topping process. (If we fail at / below the Red box , we run into risk of negating the bounce) Volume would be the key on that test touch.*



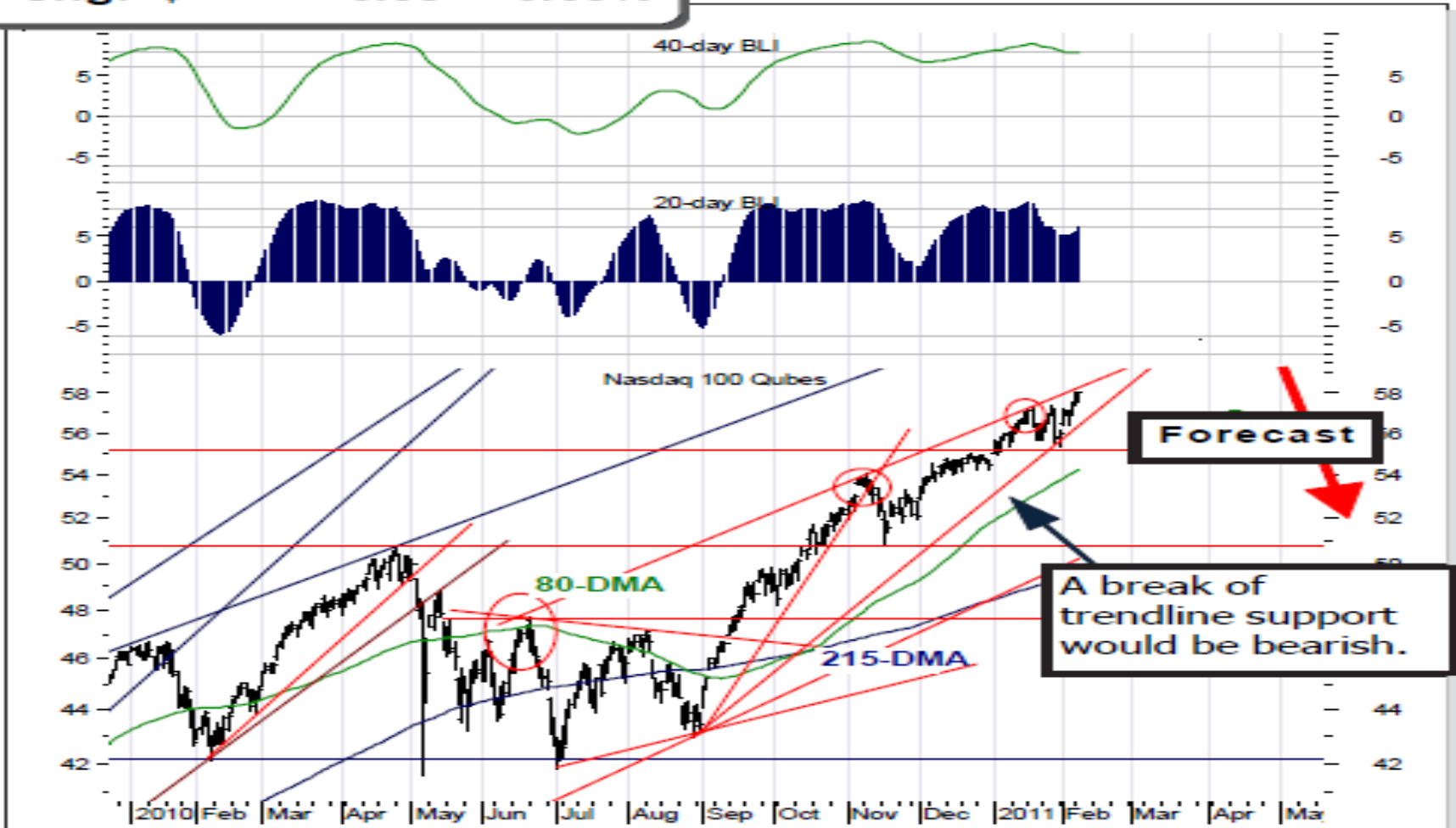
QQQQ – Correlation Ratio Analysis with SPX – 365 days Time basis

Is at SD# + 1.75, for overvaluation – We covered this for PQV and CZ, now it is in watch list Tracker SECTION - D # Wkly Sector Analysis, part II , (MONITORING CZ -PQV)



QQQQQ – SMA / Trend line Analysis

NASDAQ 100	QQQQ
Last: \$ 58.03	
Chg: \$ 0.38	0.65%



QQQQQ - POM – LT - Price , Volume & Pattern Analysis - (MONITORING CZ –PQV

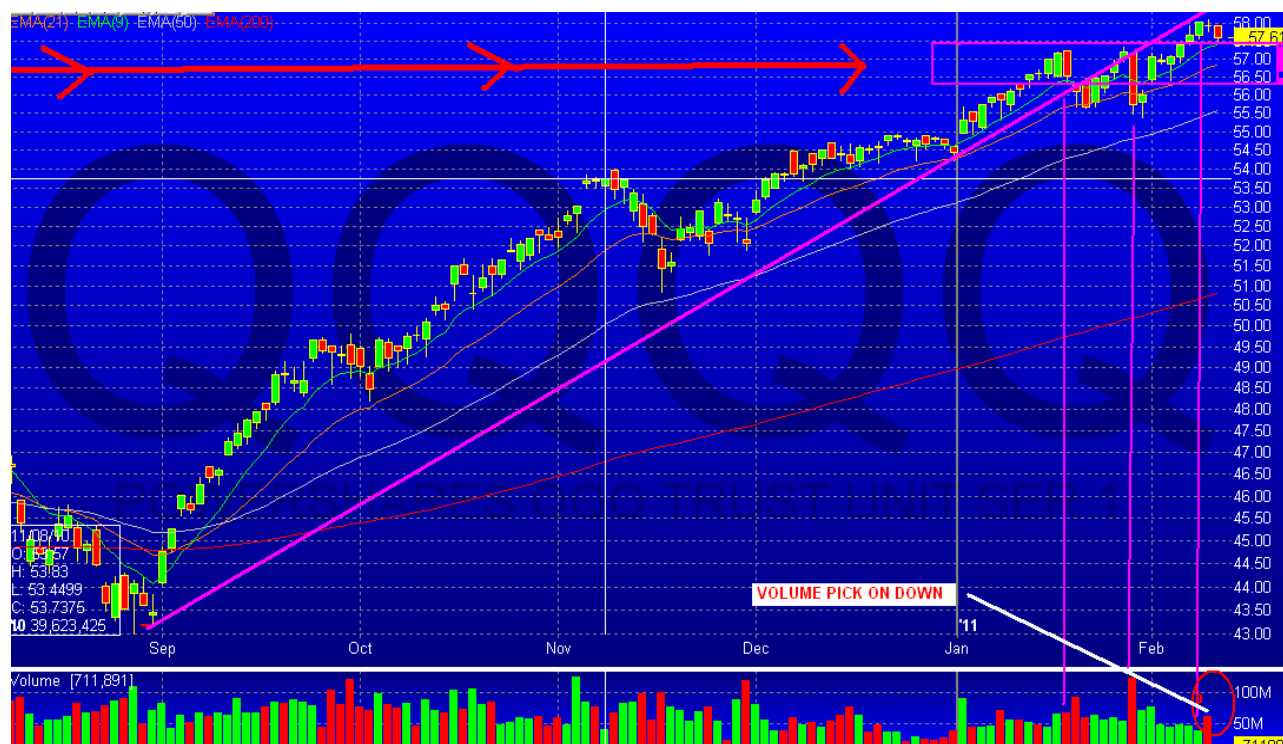
In QQQQ – There has been Validation yet – In our watch list.

Currently entering the CZ for 3th time (exceeded little) & testing the back of Trend line but there is no volume behind the move as indicated in Green (Our CZ for PQV Validation is marked in Red)

The CZ area is from way back 2008 Jan breakdown area & 2008 highs of Sept an its derived CZ of 55 – 56.5 (currently it is in the zone 3rd time) and test 57.25 with 250 M (weekly volume) and close under 56, revised) should be a good test.

*On daily basis the CZ For ½ position is with price go **above 57.25** and then close **below 56** with 50 M shares for failure. For another failure . We are watching closely in CZ – PQV in Sector Report*

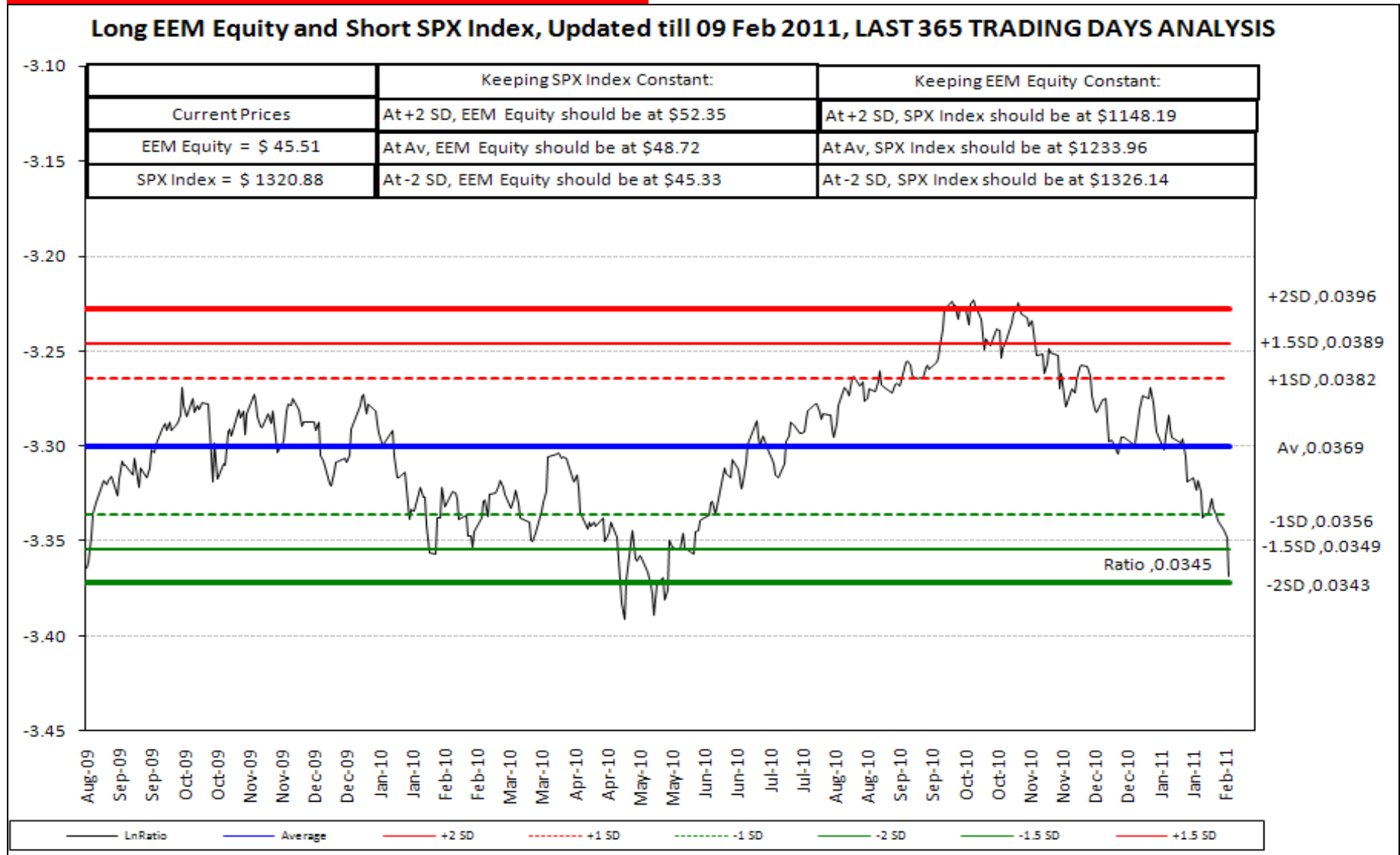
Earlier QQQQ tested the 1st bearish Dark cloud in CZ area) and snapped right back with 2nd Dark Cloud in the CZ Area(that we waited for 8 weeks to touch in spite of our Bearish tone overall . Also broke the trend line with MACD turned down, Volume picked up & RSI should very soon drop below 50.



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

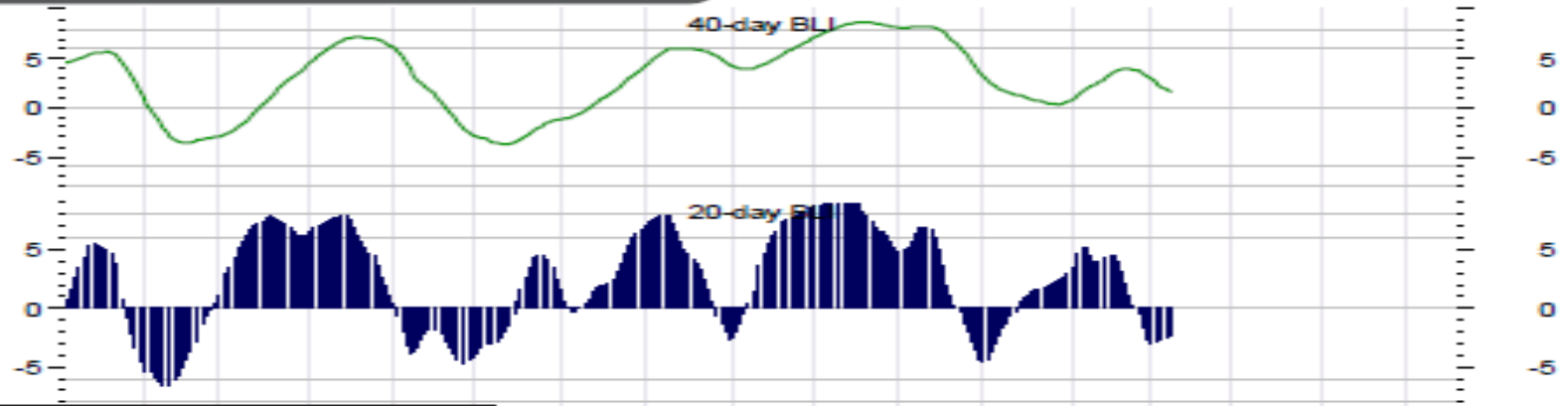
It made entry into our SD# +2.0, for overvaluation Zone and now into +1.0 Neutral Zone

We covered this for PQV and CZ, now it is in watch list Tracker SECTION - D # Wkly Sector Analysis Part II, (MONITORING CZ –PQV)



EEM - POM - LT - SMA / Trend line Analysis - - (MONITORING CZ -PQV)

Emerging Market	EEM
Last: \$	46.58
Chg: \$	0.02 0.04%



Trendline and 80-dma support were clearly violated in bearish fashion.



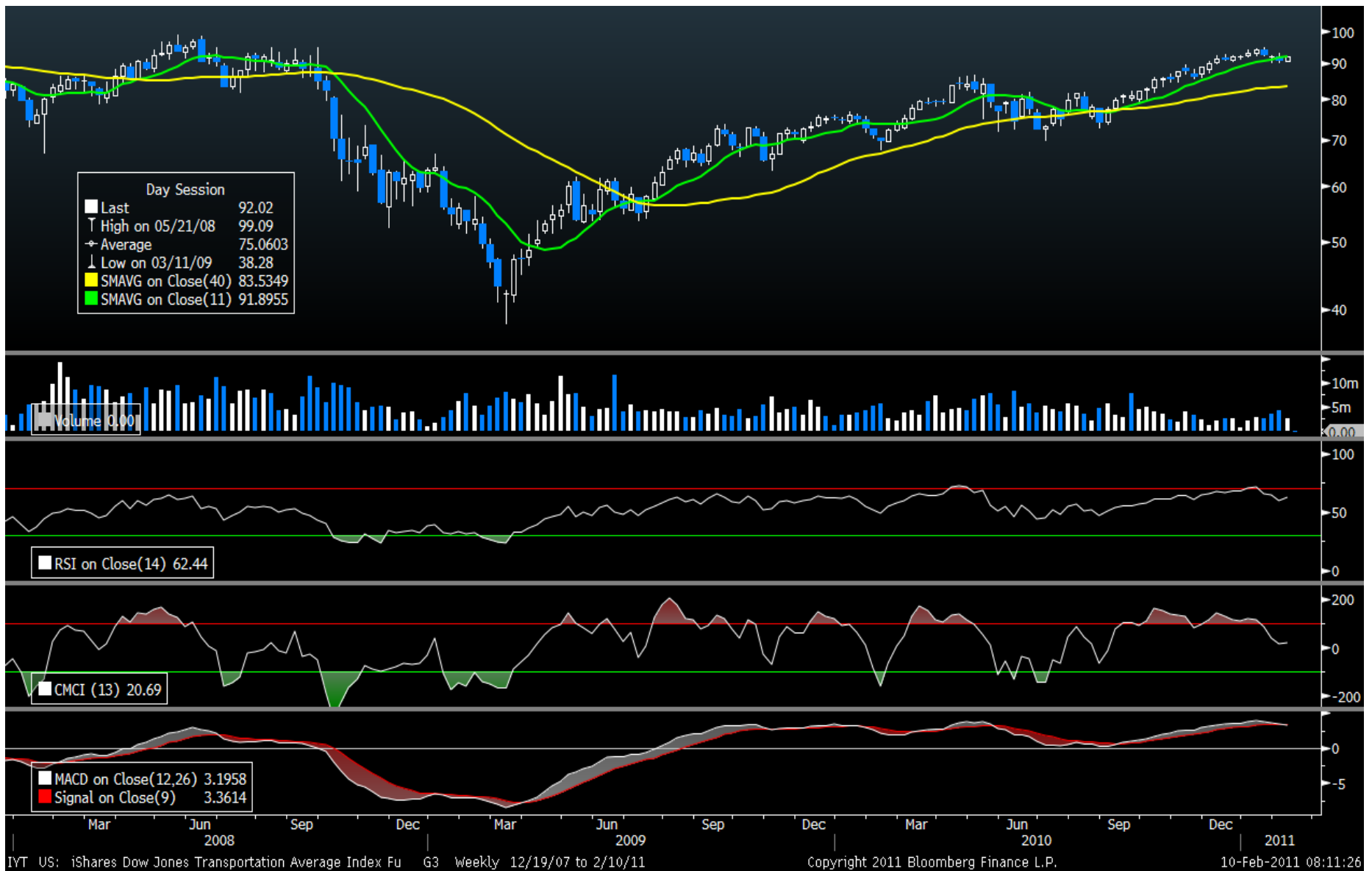
EEM - POM - LT - Price , Volume & Pattern Analysis -

EEM double topped in CZ Area, tested the broken Trend line and validated PQV test in 47.5 to 49.5. The CZ area is from way back from 2008 Jan breakdown area & 2008 highs of Sept.

Based on Volume Analysis, the trend has revered to downside. Its Showing weakness , EEM / SPY Ratio has weakened considerably Indicating flight to safety . SPX will hold much better then EEM in next decline. RSI should trigger below 50. .. MACD turned down. Currently it is setting up B point for next leg down .

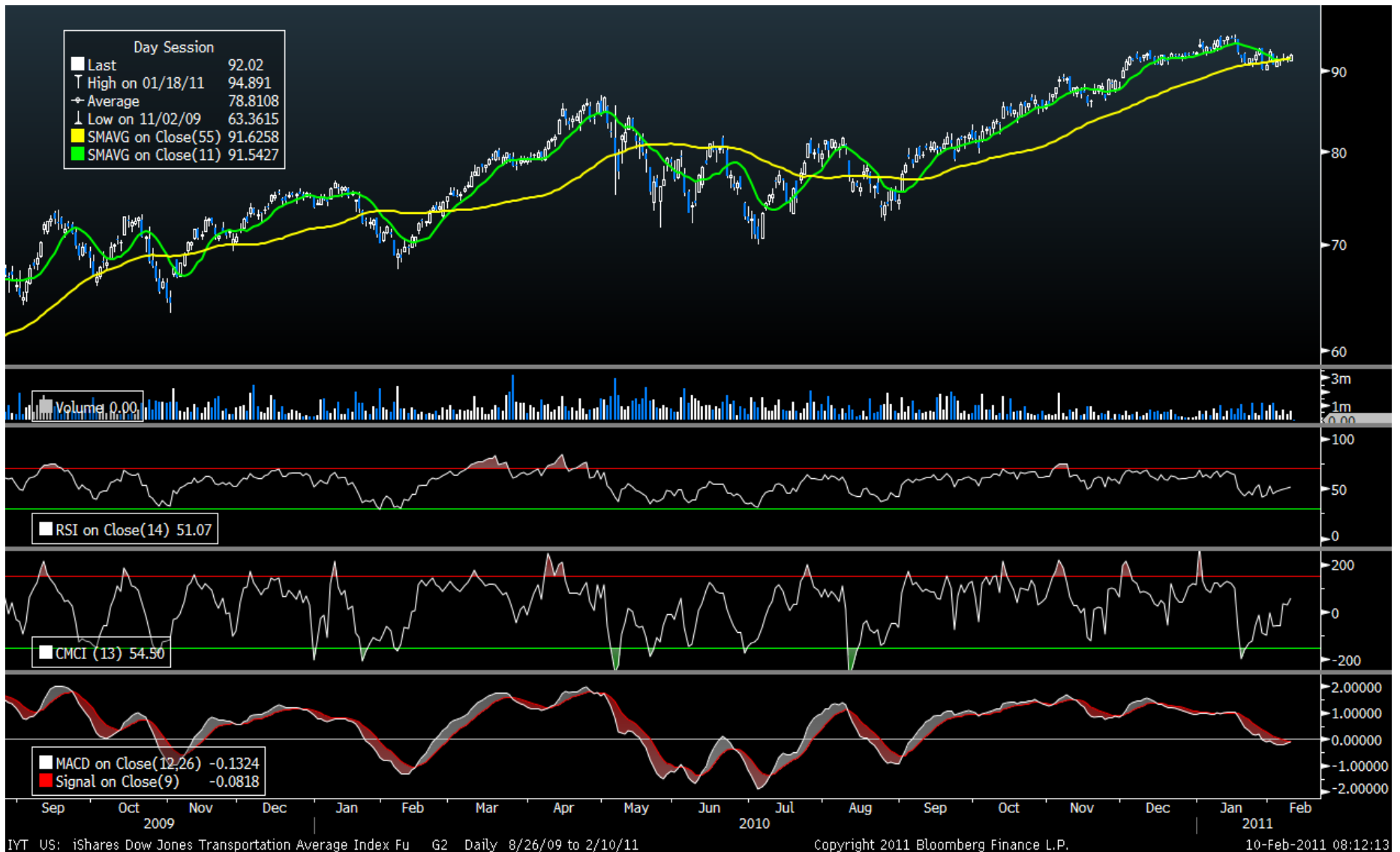


- IYT - Weekly- 3 Year with RSI, CCI, MACD**
(11 W / 40 W SMA)



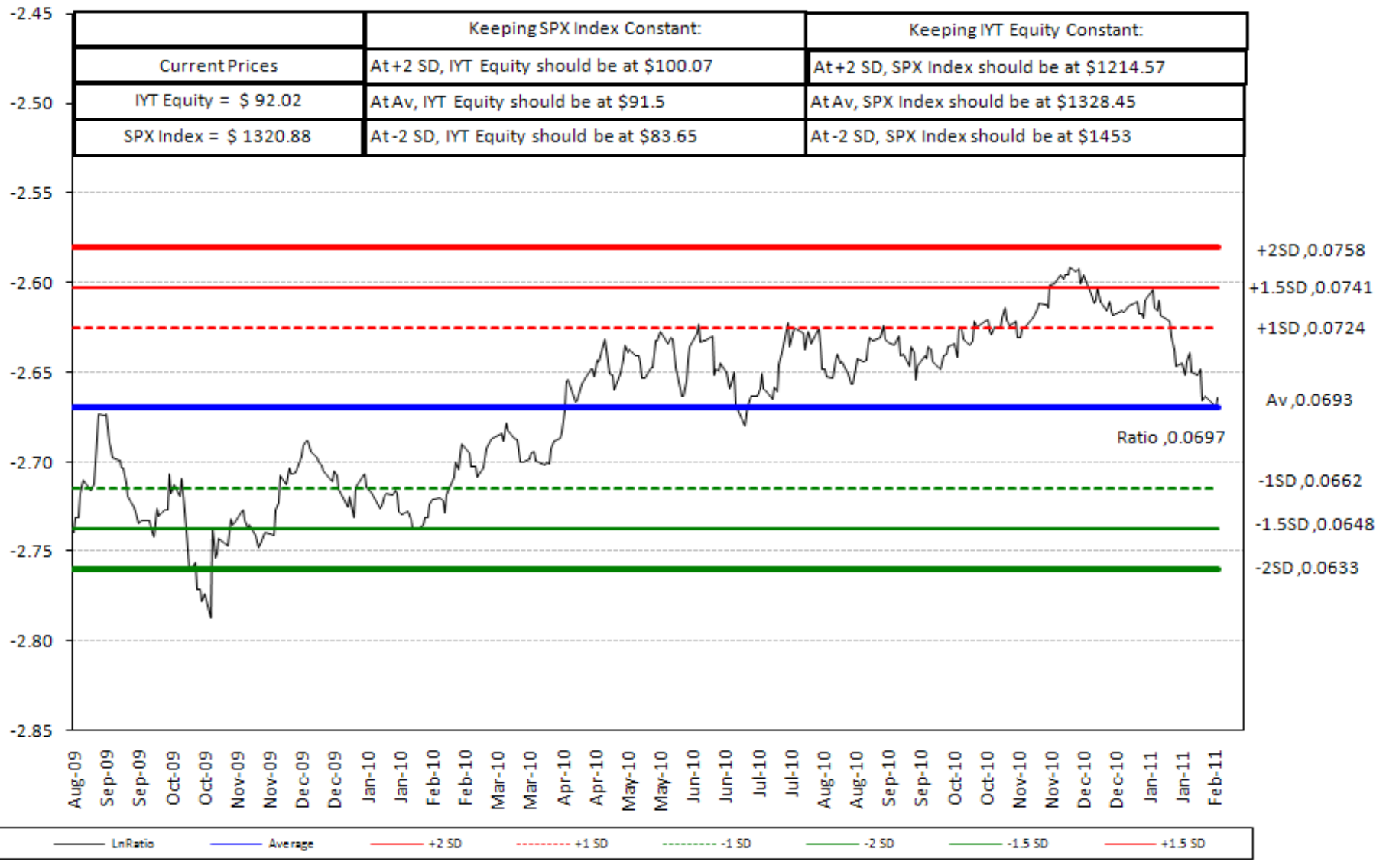
IYT - Daily – 3 Year with RSI, CCI, MACD

(11D / 55D)



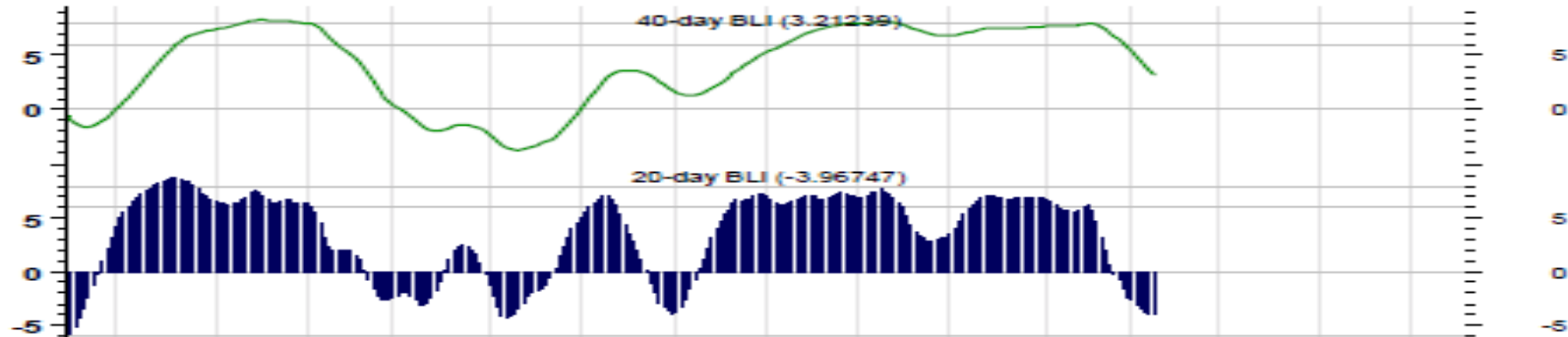
IYT – Correlation Ratio Analysis with SPX – 365 days Time basis

Long IYT Equity and Short SPX Index, Updated till 09 Feb 2011, LAST 365 TRADING DAYS ANALYSIS



IYT - Price , Volume & Pattern Analysis

Transports		IYT
Last: \$	91.79	
Chg \$	0.19	0.21%

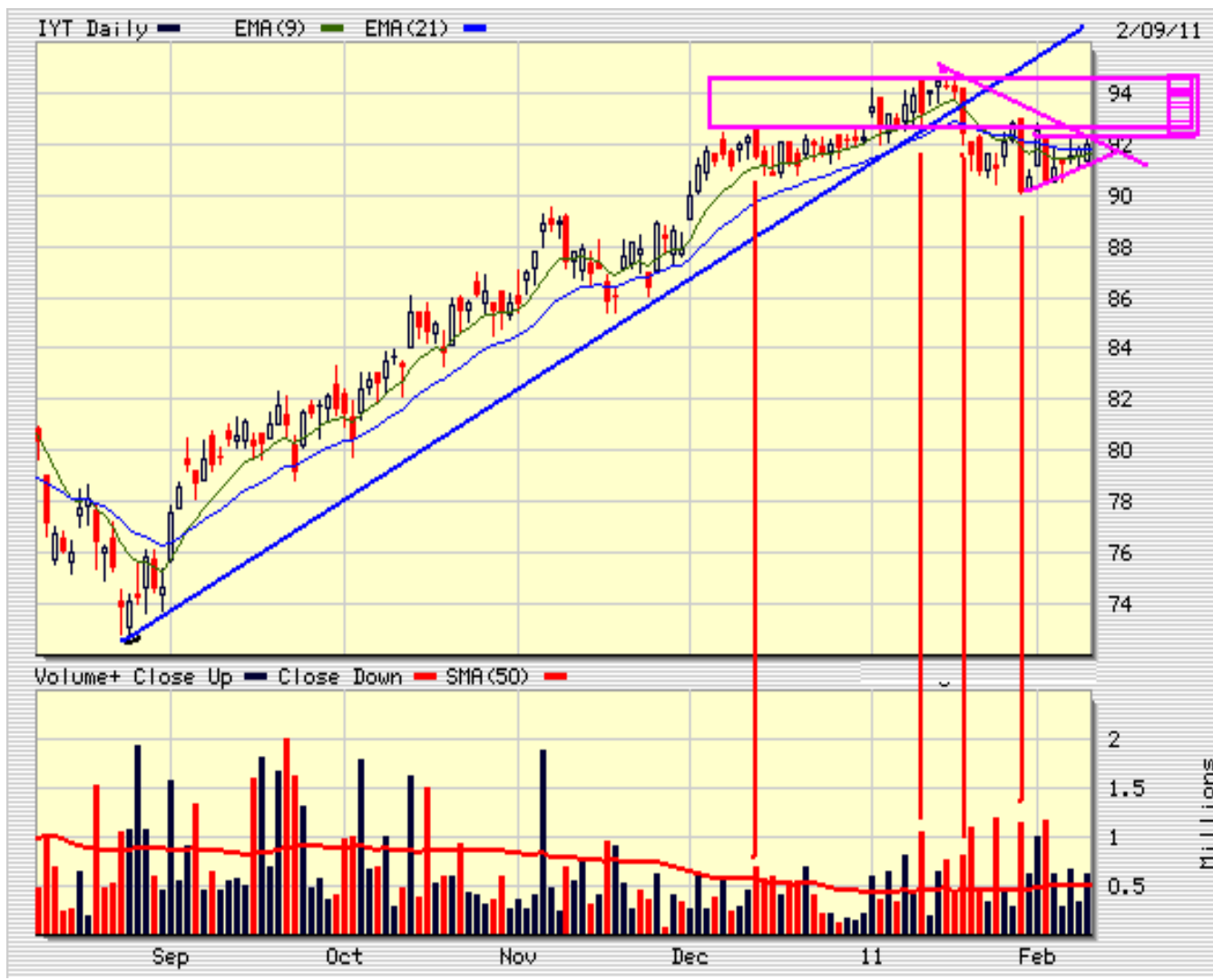


The key reversal at the highs coupled with the 40-dma breakdown suggests lower prices.



IYT - PQV Analysis – On DOW TRANSPORT THEORY

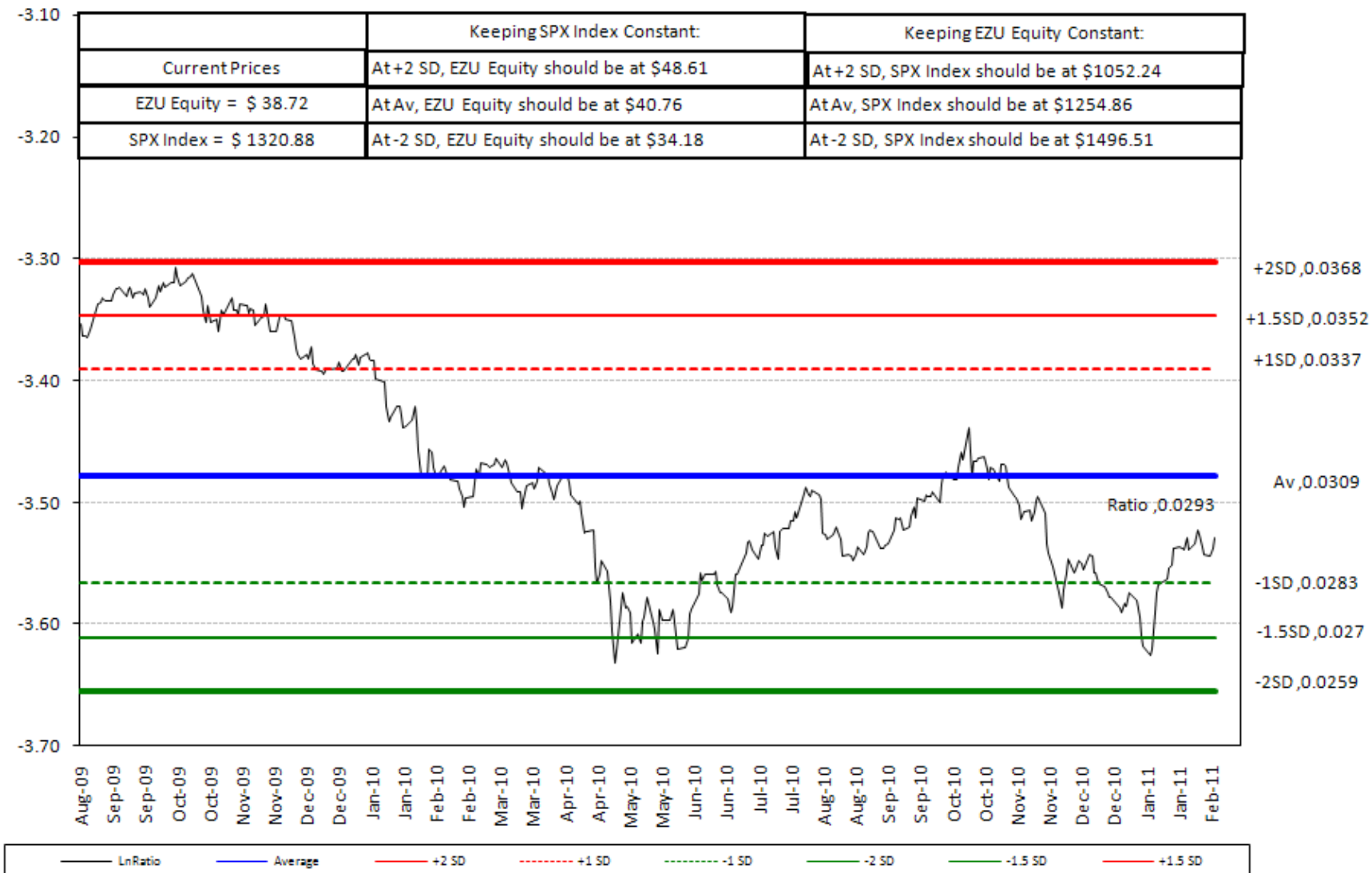
ITY failed on weekly chart at 94 to 96 CZ and on Daily chart we had our first chance at 93. Currently the CZ is at 92.5 to 94.5 and volume should come in at 650 K or close under 92 for ½ position within this week. A bearish consolidation Triangle is under formation.



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

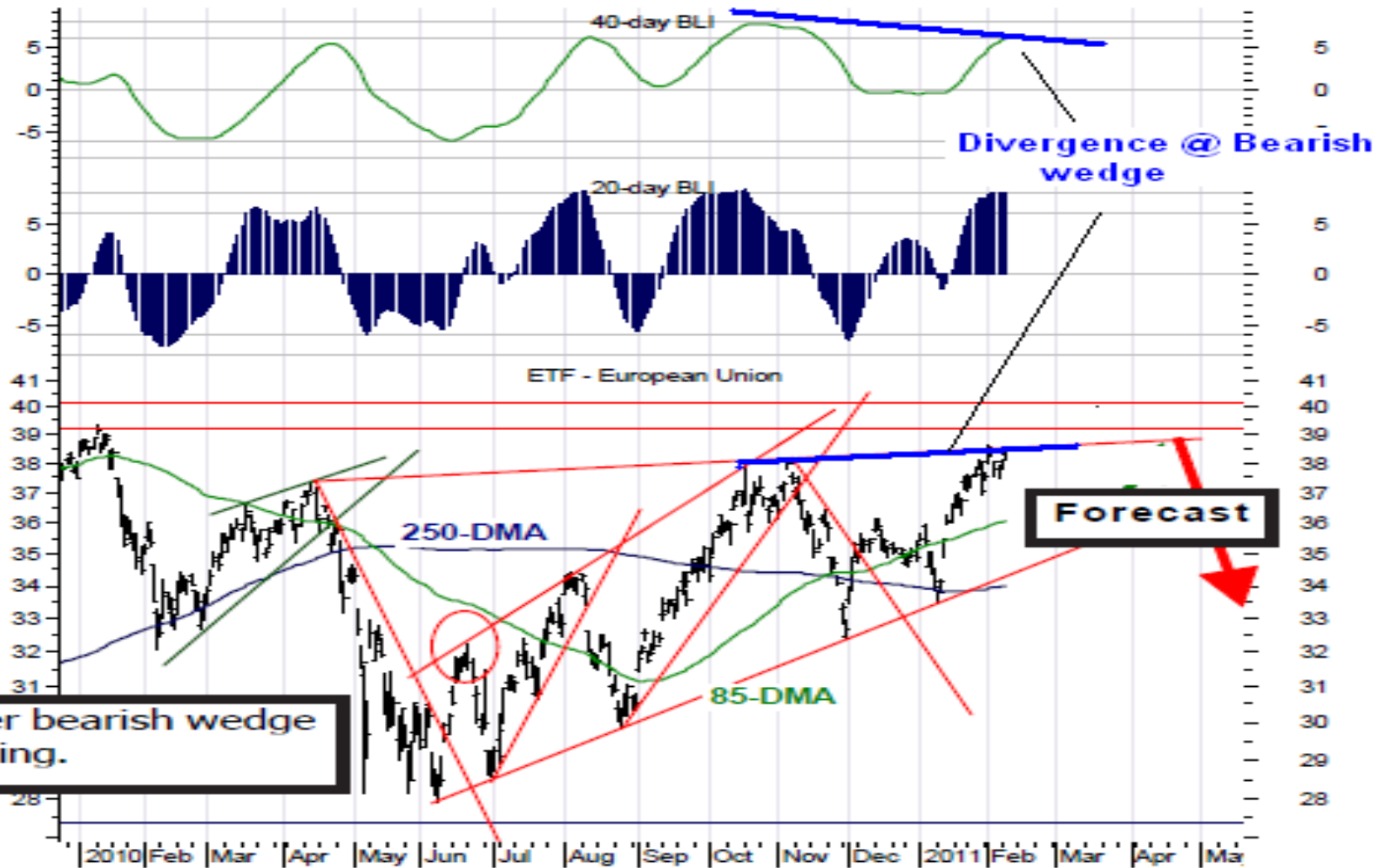
SD# is at Neutral Zone – No meaningful Risks Reward,

Long EZU Equity and Short SPX Index, Updated till 09 Feb 2011, LAST 365 TRADING DAYS ANALYSIS



EZU – Technical & Pattern Analysis

European Union	EZU
Last: \$ 38.49	
Chg: \$ 0.39	1.01%



EZU - POM – LT / ST – Key Points

- **SD # Levels are at + 1.0 SD and Neural Zone , but any bounce should take to Target Zone into +2.0 SD, we should monitor this**
- **EZU is closely related with SPX – and will follow the decline on downside , Our in dept Analysis suggest that POM – Buys and Sells of SPX are closely related with EZU**
- **Currently SPX is at POM 14 and so does EZU**

Appendix

On closure of 2010,

As we begin 2011, let us Summarize 2010 and put the year behind us. The Aggregate POM Signals for the Full year on absolute basis irrespective of the SPX market moves. Our review is to attempt to do better in the following year as best as we can within our limitations and capabilities.

- Long Side – We had (4) clear POM 12 to POM 14 (7.5% FEB, 7.0% MAY, 10% JULY, 9.5% AUG) = Total of 34% up move
- Hedge Longs / Risk Management for Downside Corrections - We had (4) , POM 14 to POM 13/12 (9% JAN, 8% JUNE, 8% AUG & In the last Qtr extended move we had – 5% Drawdown) = Total of 20% Risk management move
- Net Short – We had (1) Clear POM 15 to POM 13 – April / May for decline of 9% = Total move of 9%
- In last 4Q , 2010 – We began tracking “ Trend Adjusted Signal” 3X3 / 9EMA - on Long Side - post POM 14 (8% & 4%) = Total move of 12% .

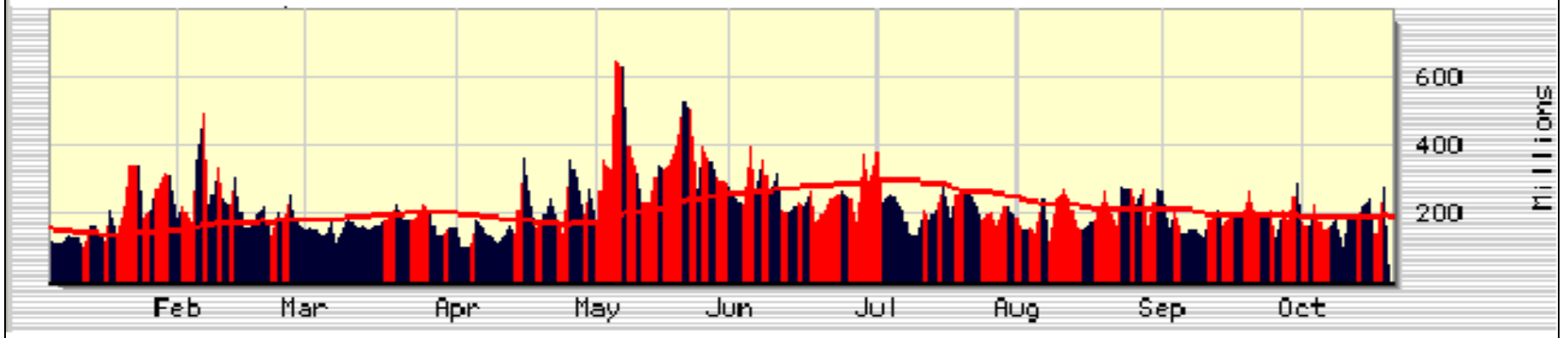
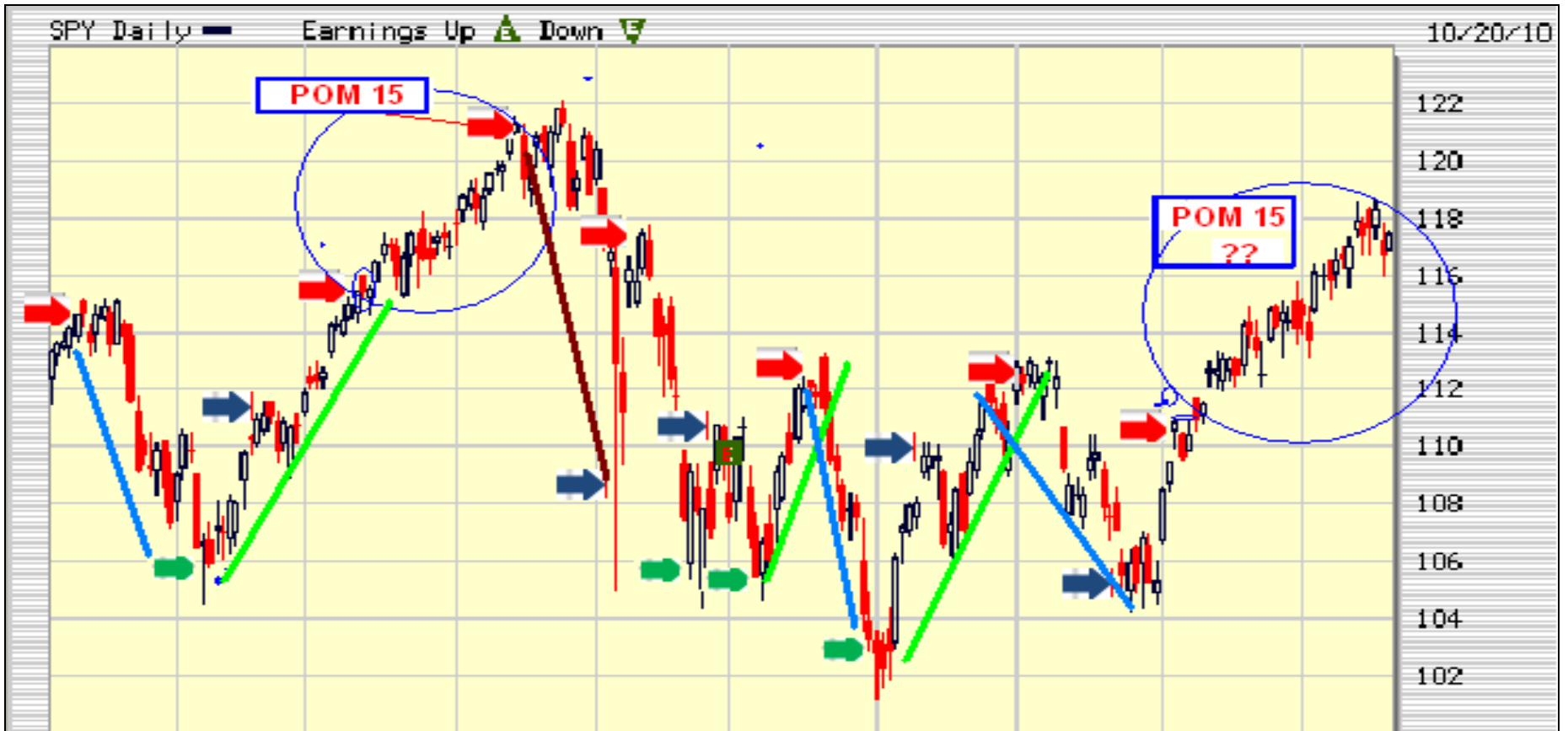
History - “ SPX – POM Signals & Projections”

- 2010 YTD – This year, we have had (3) clean TREND SIGNALS rise from “ POM 12 to POM 14 “ for LONG IDEAS
- FEB - 7.5% ,
- MAY - 7.0%
- JULY - 10.0 %

And (1) POM 15 to POM 13 (drop of - 9% - April /May) for Net Short Ideas

(3) Risk Managed POM 14 declines to POM 12 or 13

- JAN - (drop of - 9 %)
- JUNE - (drop of - 8 %)
- AUG - - (drop of - 8 %)



POM criteria for Implementation on SPX

- POM is rated from 10 to 15
- POM 14 , 15 (is Sell Signal) and 12 , 11 (is Buy Signal) both are the Actionable Area whereas POM 13 is A Neutral Signal for Risk management
- On way UP move, POM 13 signifies to STOP executing additional “New Buys” that was initiated at POM 12 or POM 11 levels
- On way DOWN move, POM 13 signifies to STOP executing additional “ New Short Sells” that was initiated at POM 14 or POM 15 levels
- (Bear Markets) POM 15 is for - Net Short & POM 14 is for - Hedge Longs
- (Bull Markets) POM 15 is for -Hedge Longs & POM 14 is for - Partial Hedge
- POM 12 & 11 is for Net Long
- POM 10 is Climatic Crash low Buy Signal to add to Net long position (Rear event)

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).

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).

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