



SG Capital Research

Global Market Insights

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

**MAEG- MARKET STRATEGY INTERIM UPDATE # SG 2011 # FEB 23**

**For Immediate Release – *Thursday AM (EST)***

*By: Suneil R Pavse*

*Contact: apavse@aol.com*

---

## **Market Strategy Global (A # 2) - SPX – Closed @ 1307**

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
- SPY
- QQQQ – PQV Pattern Analysis –
- IWM – PQV, Pattern Analysis
- GLD - PQV, Pattern Analysis - **Special Situation** Special Situation
- GDX – PQV Pattern Analysis - **Special Situation** Special Situation
- SLW - PQV Pattern Analysis - **Special Situation** Special Situation
- 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 assist 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. ( **Stopped @ 1324** )

- **Hedge Longs / Risk Management for Downside Corrections -**

- We recommend **fully Hedge on long positions** via the SETUP – PQV Hedge Index, we have a **Drawdown – 3.8%** 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 **Gain of + 2.32 %** in past 8 Validated Sectors

- **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 1<sup>st</sup> 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 3<sup>rd</sup> time is on **Buy Signal at 1307** stopped out on close at 1324 .

# Daily SPX - "Trend Adjusted Signal" – Flat @ 1324

3x3 /9EMA – Momentum Break Indicator – **Next Signal – Buy SPX above 1340 close**

July 2010 -2011		POM's & Trend Adjusted Signal				
Ticker	Entry date	Last Price	Exit Date	Validated Test price	P/L Since the Test	Comments
<b>NET SHORT SPX</b>		<b>NONE</b>				
<b>POM Triggers ( POM 15 to POM 13)</b>						
SPX						
SPX						
SPX						
						<b>0.00%</b>
<b>TREND ADJUSTED Triggers</b>						
SPX						
SPX						
SPX						
						<b>0.00%</b>
				<b>SHORT P/L</b>	<b>0.00%</b>	
<b>LONGS SPX</b>		<b>5 -Signals</b>				
<b>POM Triggers ( POM 12 to POM 14)</b>						
TLT ( POM Signal)	21-Jan-11	91.50		89.50	2.23%	<b>OPEN</b>
SPY ( POM Signal) - None		0.0		0.0		
SPY ( POM Signal ) 1	6-Jul-10	111.5	9-Sep-10	102	9.31%	
						<b>11.55%</b>
<b>TREND ADJUSTED Triggers</b>						
SPY ( Trend Adjusted Signal) - 3	1-Feb-11	132.24	22-Feb-11	130.7	1.18%	<b>Closed</b>
SPY ( Trend Adjusted Signal) - 2	2-Dec-11	128.5	28-Jan-11	122.8	4.64%	
SPY ( Trend Adjusted Signal) - 1	5-Sep-11	117.60	12-Nov-11	110.50	6.43%	
						<b>12.25%</b>
				<b>LONG P/L</b>	<b>23.79%</b>	
<b>1st July 2010 INCEPTION</b>						
				<b>AGG P/L</b>	<b>23.79%</b>	
<b>INCEPTION @ SPX 1070 to Current 1307</b>						
				<b>SPX CHANGE</b>	<b>22.15%</b>	

- **SETUP – PQV Hedge Index ( 22 stocks) , we have a Drawdown – 3.8% with Setup 2's & PQV – CZ Validated Equities ( stops Included),**
- **Our SD # 2 –CZ – PQV Validated EQWT Index has "Gain of + 2.32 %" in past 8 Validated Sectors**

## • Market Insights

- *Markets around the world fell hard on the triggers from Libya. In 12 hrs it took back 4 weeks of price rise in NASD.*
- *According to the neural network model and cyclic model we follow, we should form a lows this week which could come in within next 1- 2 days. Approximately 1290-1280 area then would be a bounce. This is just articulation of price path*
- *Considering that POMO infusions has left over cash, that does make sense. However we are stopped out of “Trend Adjusted Signal on Major Indices. SPX in particular at 1324*
- *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) .*

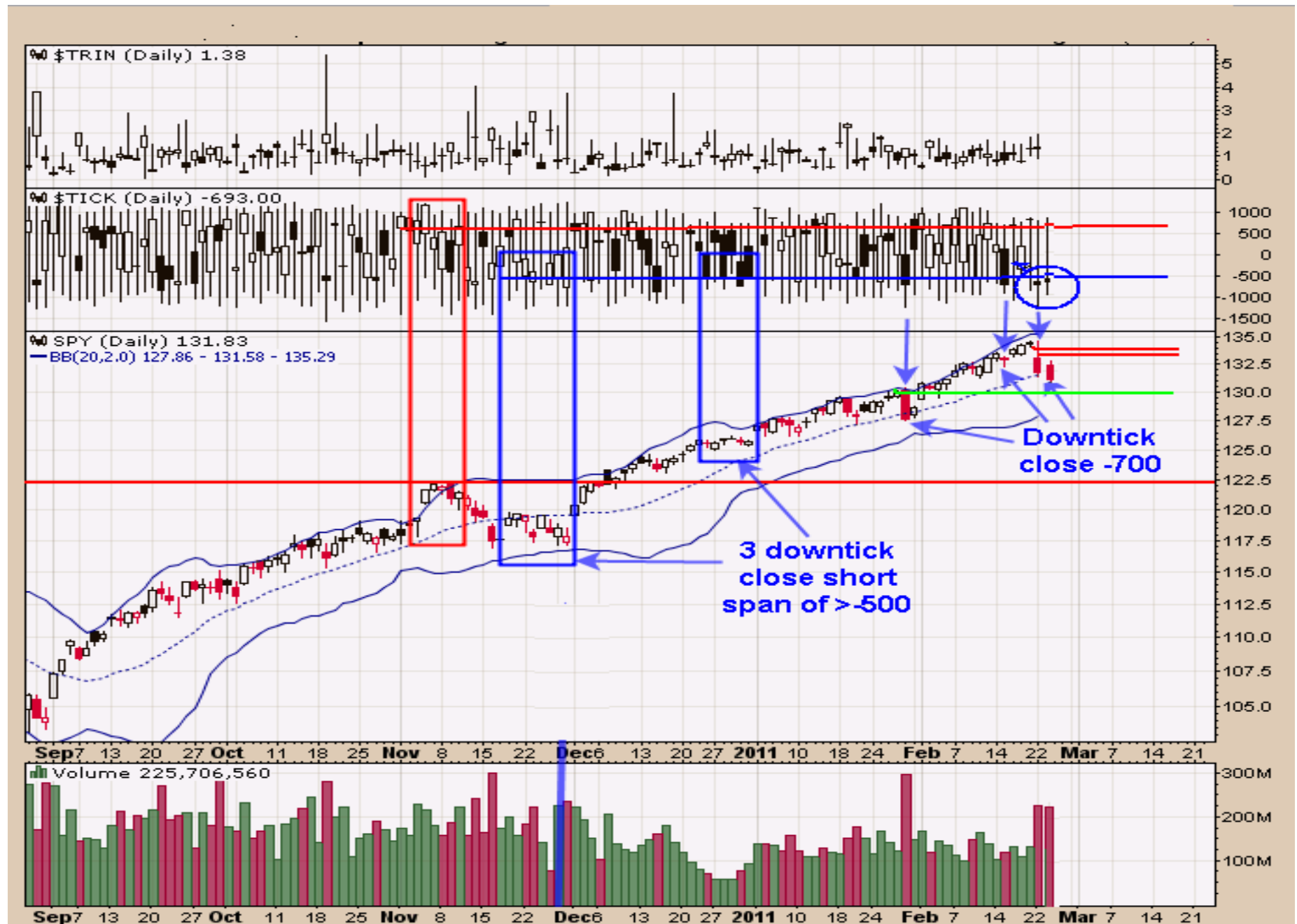
## SPX v/s TICK-

*There is a high Probability of setting up Third Black Crow today , with heavy volume coming of the top & Gap away which is LT Bearish Signal but on ST this pattern has a strong tendency of Bounce back to first crow to position ( 2 – red lines). If it fails earlier we will measure the Volume & VTO read*

*Especially , Last 2 days of decline closed with -693 & - 590 downtick ( Circled in Blue) and since POMO began (along with our Trend Adjusted Signal ) the previous pull backs in the market have found ST lows when the downticks closed higher then -700. Also markets with this pattern do not usually make a “Spike top” but rather make at least one test of the First Crow . If the volume fails in that area we should have a Good Bearish signal and give better chance for Bears to position*

*Note that meaningful lows are found when several downtick closing read higher then -500 which occurred late December low and the November 2010 low. Such Tick takes a lot of energy out of the market very quickly . ( See chart below)*

# SPX v/s TICK-



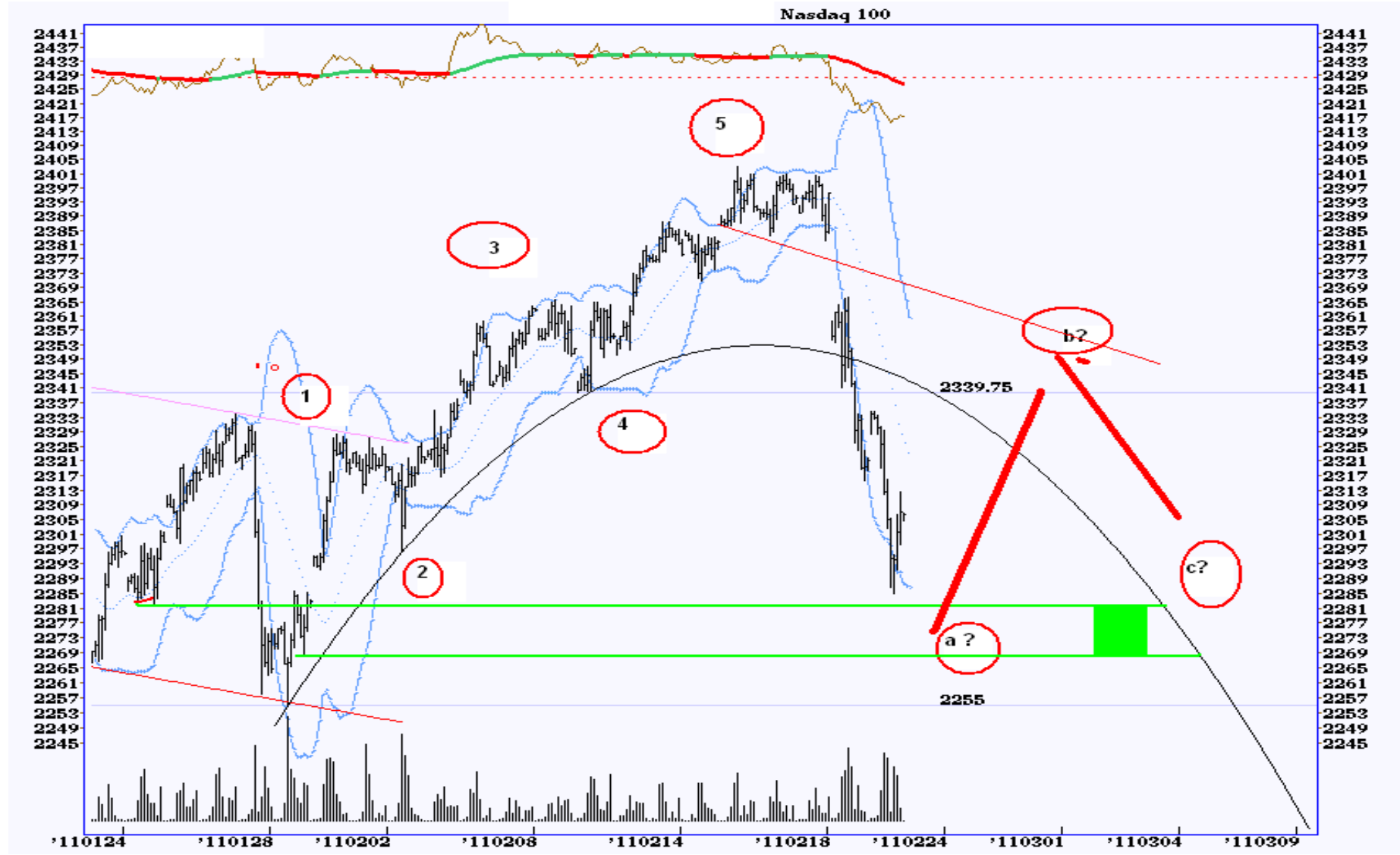
## QQQQ v/s TRIN

The daily QQQQ. The TRINQ closed over 3.00 yesterday and previous times over the last 10 months when this has occurred QQQQ made a low the day of the +3.00 reading and as late as two days later. the QQQQ is near thin CZ here ( see chart below). On completion of 3 crows , the QQQQ is flat to up then in general the market should start to bounce . If the QQQQ closes below the Crows then it would imply that decline may continue till Tuesday .



# NASD - Wave

*The NASD -100 is again giving us a clear picture: On completion of wave 5, it snapped back hard . The most likely scenario seems to be that the market will find support at the prior wave 2 low and bounce. The effort here is to look for oversold a wave or b wave for top if one is a Bear. ( We will monitor this closely on long side of TRIN reading in QQQQ)*





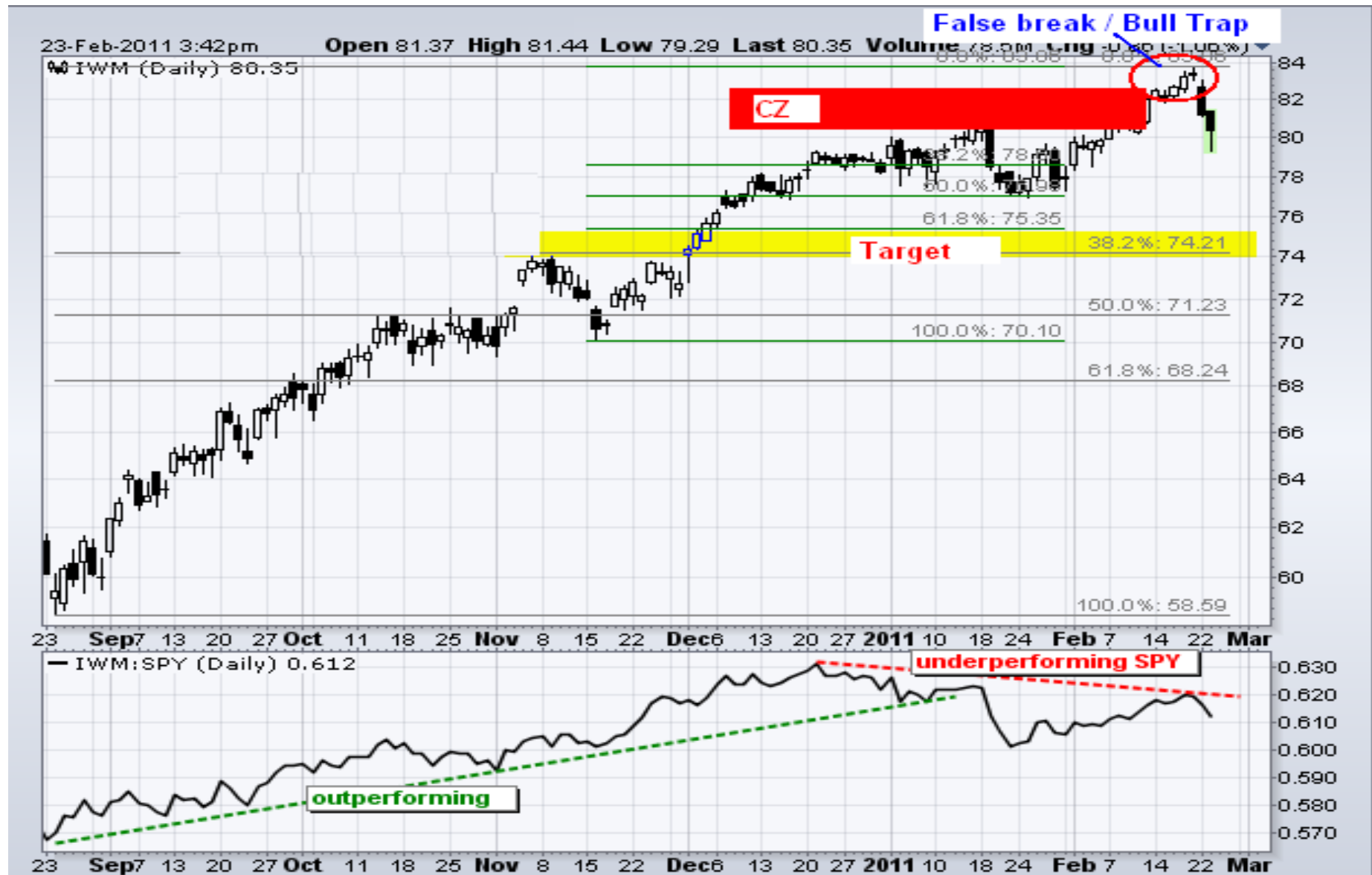
# IWM – Retracement

*Single stream of Fib calls for 79 with CCI - Oversold and negative.*



## IWM- CZ / Retracement .

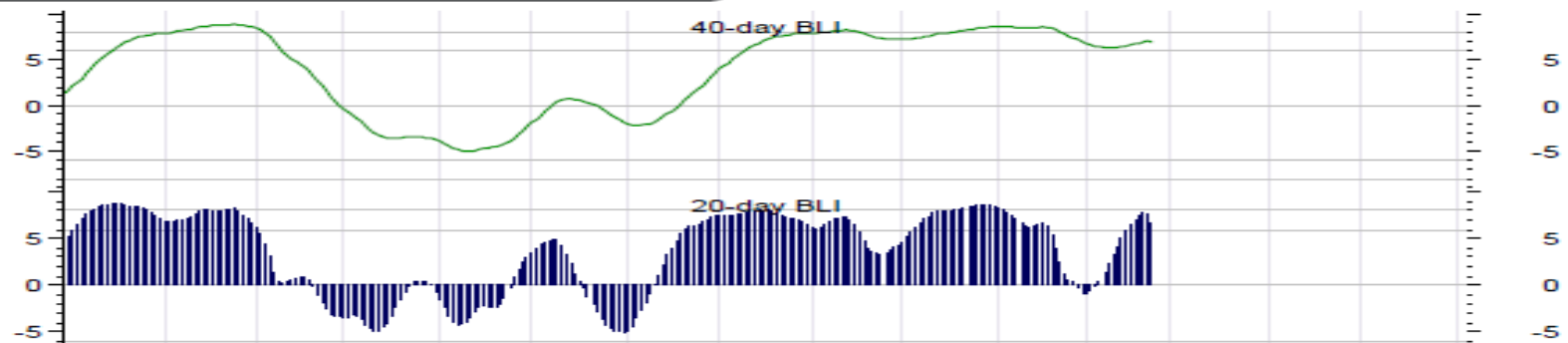
Our CZ indicated in red had the False break topside not confirmed by volume ( It was Bull Trap ), We look for target of 74 indicated below. IWM is underperforming SPX



## IWM – SMA / Trend line Analysis -

*Trend line broken that is Bearish , We are targeting 74 confirmed by this process. It is in Sync with above chart.*

	Russell 2000	IWM
Last: \$	79.81	
Chg: \$	(1.40)	-1.75%



Trendline support was given; expect previous high support at \$74 to be tested.



## **1- GLD – Price / Volume ( Add \$ 30 to GLD for Continuous contract)**

*Chart below indicates our previously announced CZ 's for risk management where the prices failed ( RED on Upside and GREEN on Downside)*

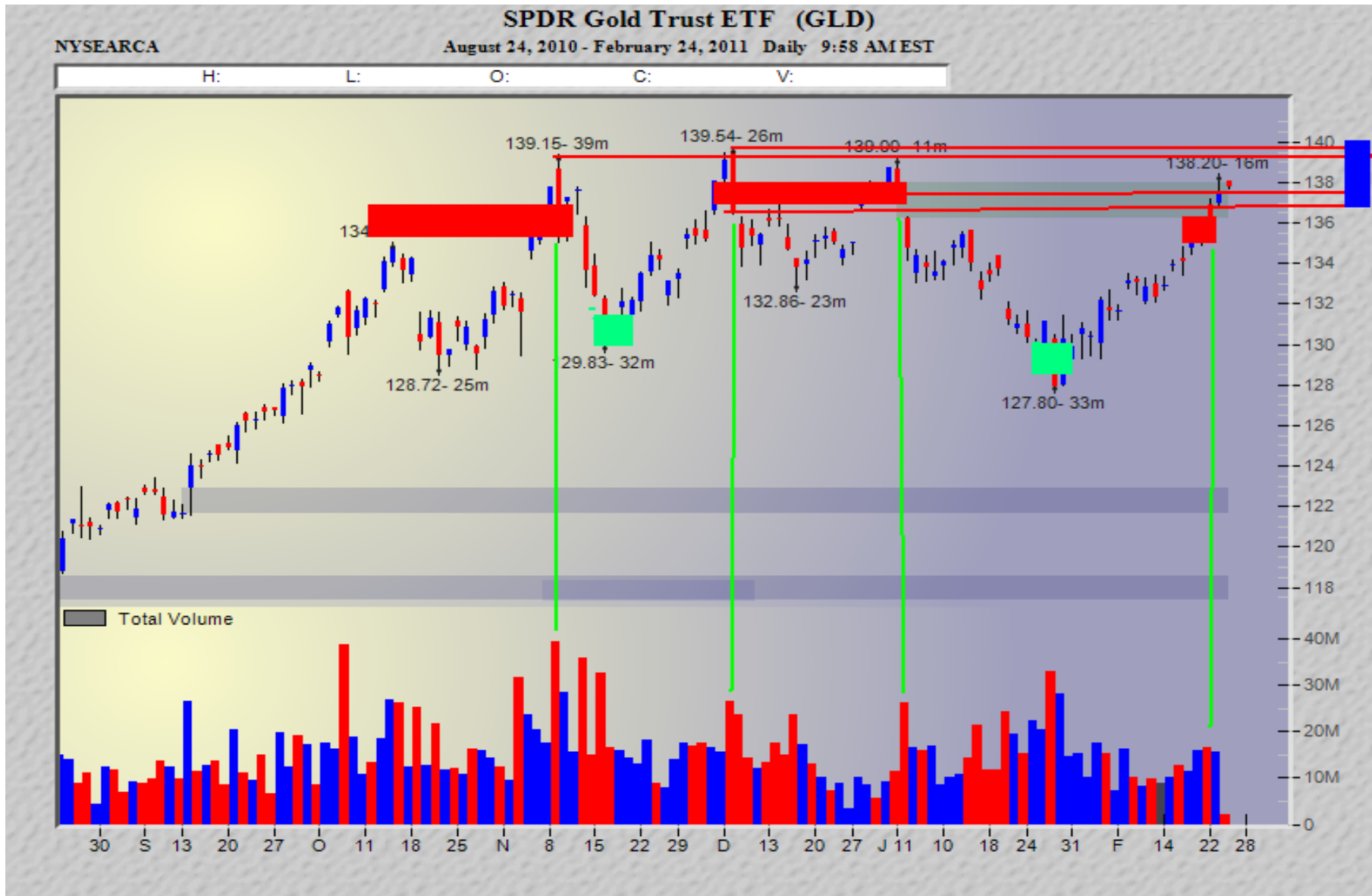
*Currently GLD reached CZ ( 133.5 – 135.5) ( as indicated in Red box) and exceeded to 138 , the volume in its cross over path came in 13 M v/s 9 M required for the test . ( bit higher than we would like ). We need at least the test of these 138 Highs and come back to CZ 135.5.*

*However the current price although outside the last CZ , is in more difficult spot on crosscurrent ( Indicated in Blue) .*

*Here is the criteria, We could even double top. If volume drops to 9M ( as required for test and close within UCZ) that will be failure and trigger POM 14 – Re Run, ( but No signal yet ) ( Stops always pre positioned on other side of CZ after the trigger) while re- deploy recycled position. If this scenario triggers then this could be larger consolidation between lows of 1300 , to the highs of 1435 to digest the earlier gains from 1150 to 1425 ( Sometimes market would rest in between 2 ABC's even in Bull market to build a cause for next leg up)*

*The Bullish case is if the Volume picks up 300K contract towards 1435 we could began ABC up . The volume is key here for the break, currently its Trading 150k contract. Where ever Gold goes SLV , GDX will follow.*

# GLD -CZ Mapping



## **1- GDX – Price / Volume**

*Chart below indicates our previously announced CZ 's for risk management where the prices failed ( RED on Upside and GREEN on Downside)*

*Currently GDX reached CZ ( 58 -59 ) ( as indicated in Red box) and exceeded to 60.5 , the volume in its cross over path came in 10 M v/s 7.5 M required for the test . ( bit higher than we would like ). We need at least the test of these 61 Highs and come back to CZ 59. Currently volume is still 9.5 M*

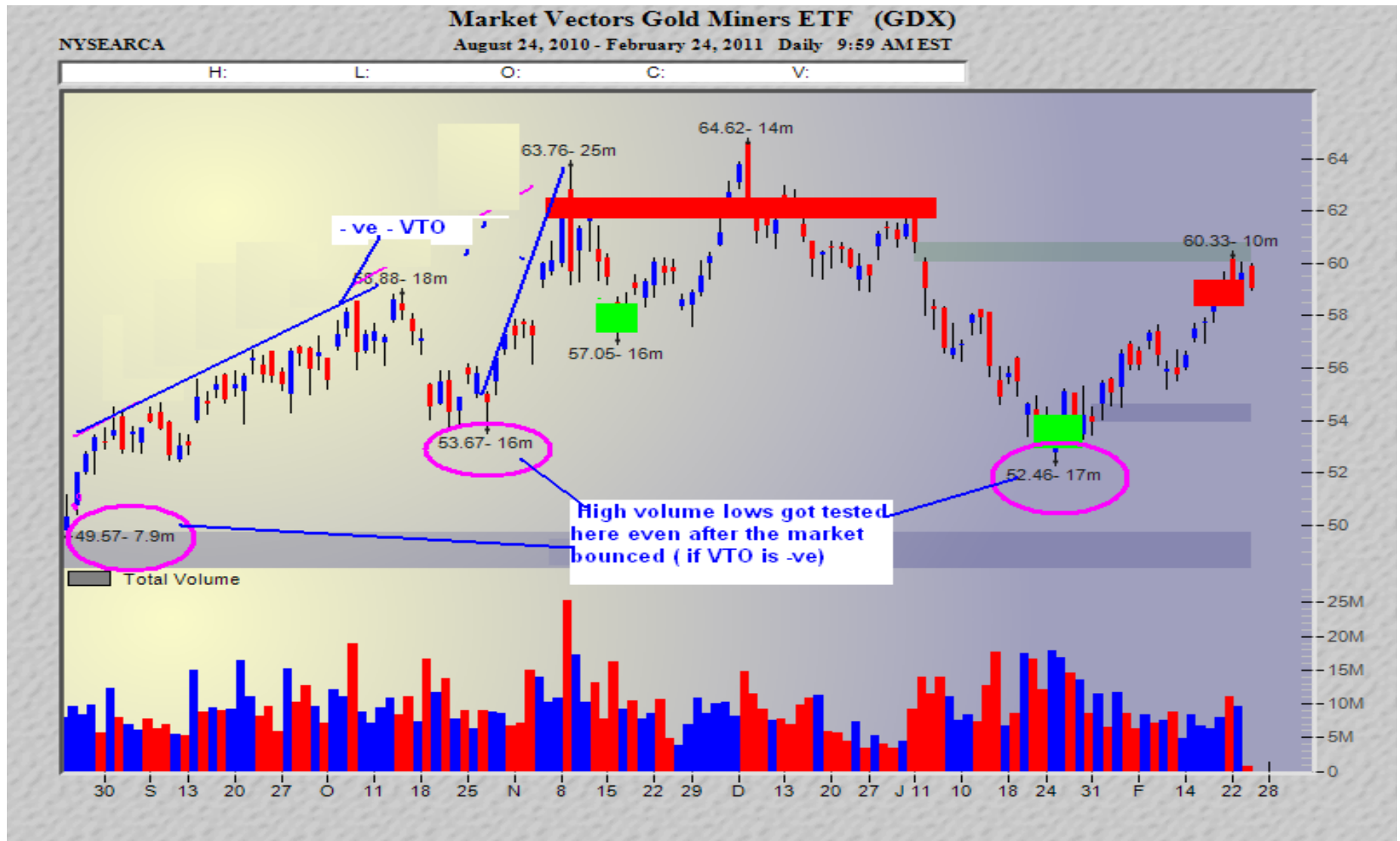
*However the current price (although outside the last CZ) , is in more difficult spot on crosscurrent*

*Here is the criteria, We should get a retest of 60-61 highs once gain and then volume drops to 7.5 M as required for test and close within UCZ that will be failure and trigger POM 14 – Re Run, ( but No signal yet ) ( Stops always pre positioned on other side of CZ after the trigger) whiles re- deploy recycled position.*

*Point to note – The high volume reversal lows have the tendencies of getting tested before any meaningful rally begins ( Off course, VTO should turn negative as well on that bounce ) circled in pink.*

# 1- GDX – CZ – Mapping

*CZ – PQV measurement is certainly not perfect and has its own drawbacks and certainly gets confusing at times in spite of our complete focus and efforts.*

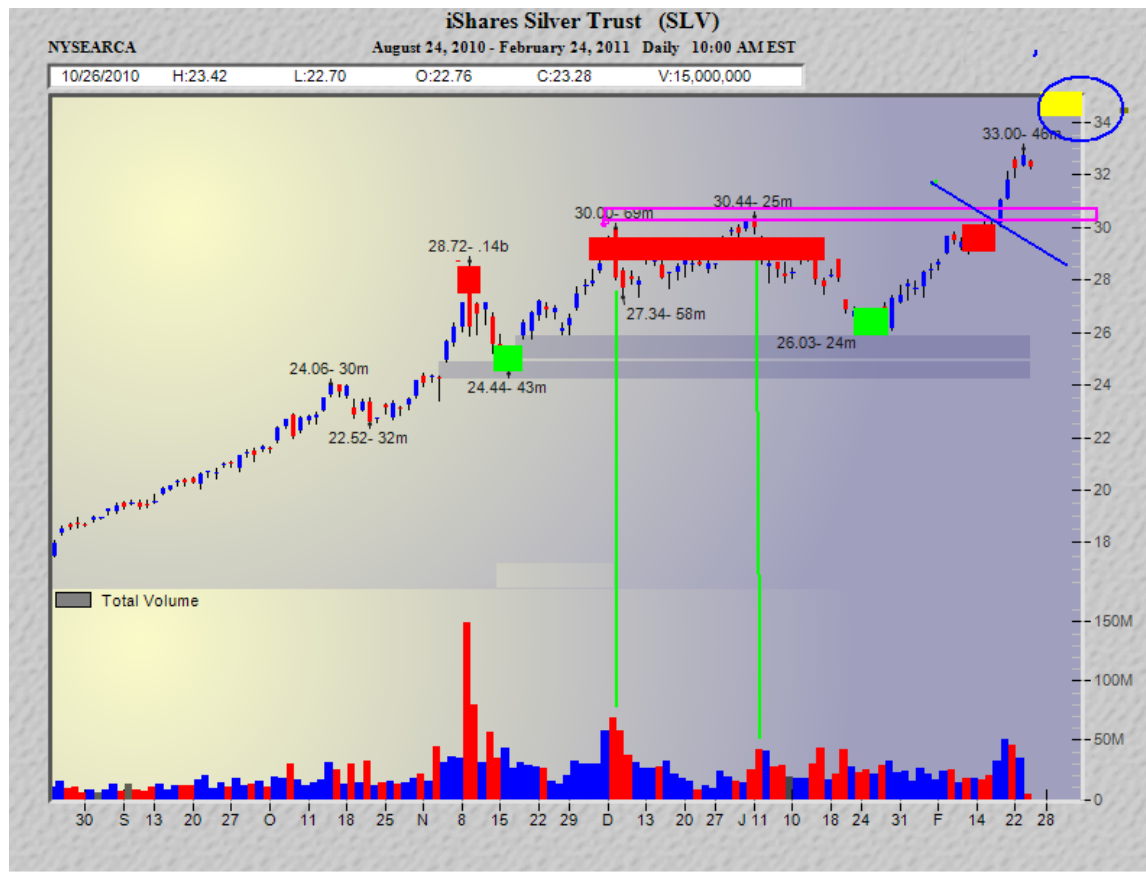


# 1- SLV – Daily - Price / Volume

Chart below indicates our previously announced CZ 's for risk management where the prices failed ( RED on Upside and GREEN on Downside)

On daily, it had Double top , closed above 30.5 with 31 M much higher then v/s 20 M required. **Short term this is valid breakout . hence can go higher. Therefore we could finish ABC up projection at 34 ( marked in yellow) from that short term breakout . If the volume drops to 20 M & below and close under ( marked in pink lines) 30 then on ( weekly and daily) will be failure and trigger POM 14 – Re Run, ( but No signal yet ) ( Stops always pre positioned on other side of CZ after the trigger) whiles re- deploy recycled position. Currently volume is 30M**

It just seem like this is harder to Trade compared to GDX, has more meat on bones. At least for now till things break loose.

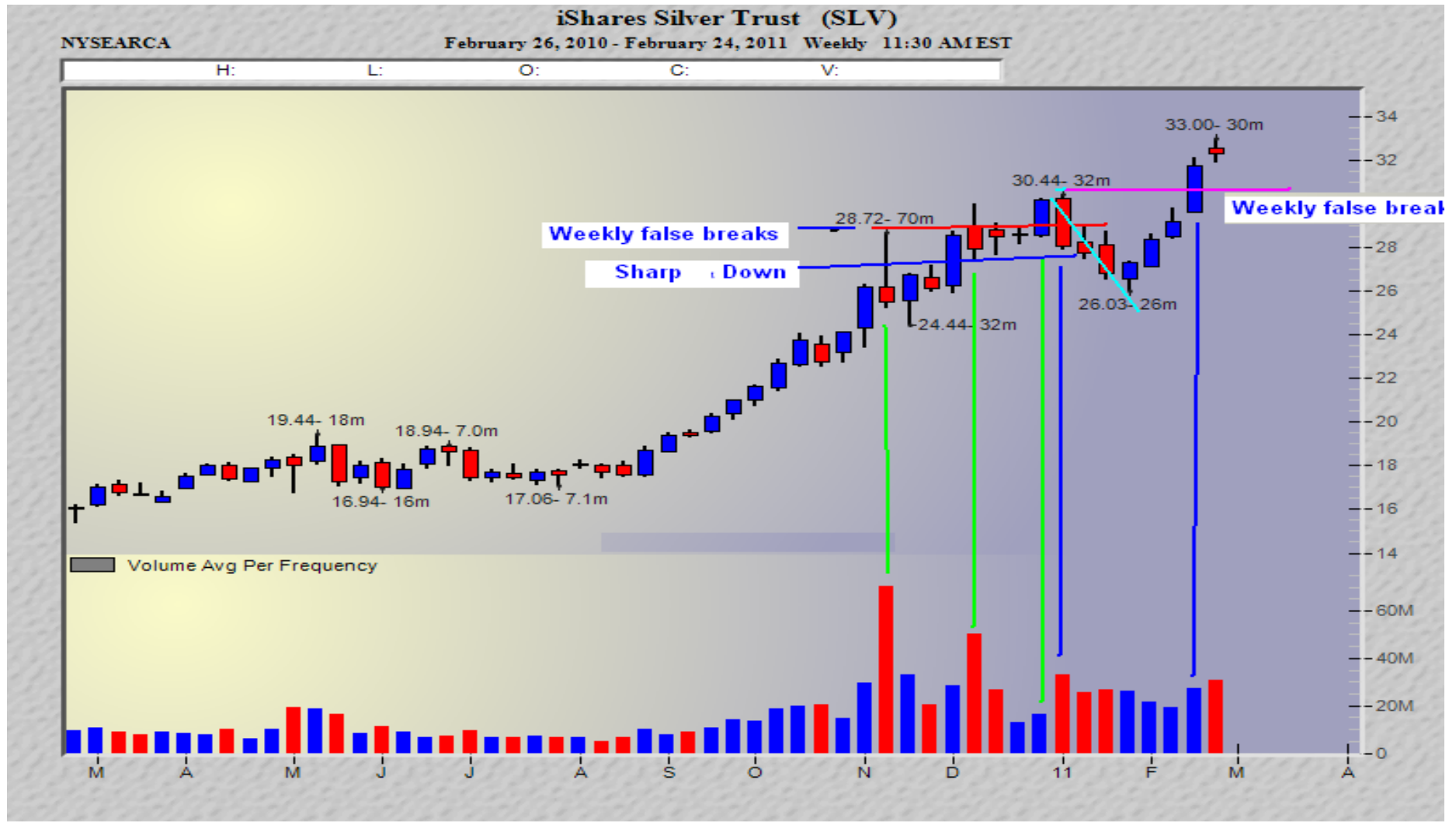




# 1- SLV – Weekly - Price / Volume

On intermediate term – In spite of short term volume breakout, the weekly we are 15 % lighter on break of double top CZ

And volume is picking . unlike GOLD and GDX . This is divergences. This will eventually follow the Gold market but getting little cloudy for PQV – CZ Analysis. May be after Daily ABC up at 34 is finished it can get better picture.



## **1- SLW – Daily - Price / Volume**

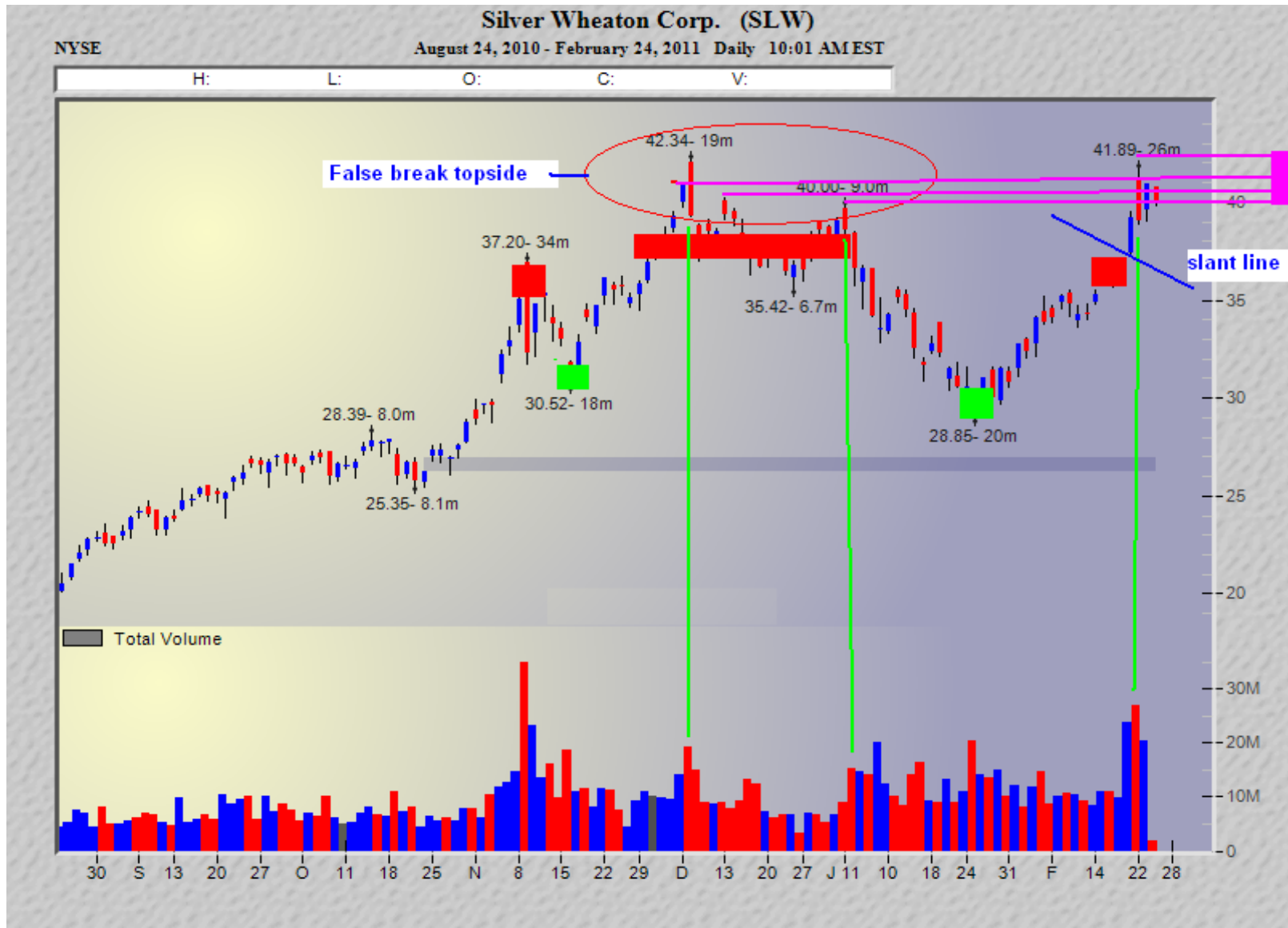
*Chart below indicates our previously announced CZ 's for risk management where the prices failed ( RED on Upside and GREEN on Downside)*

*Currently SLW reached CZ ( 35 -37 ) ( as indicated in Red box) and exceeded to 41 , the volume in its cross over path came in 22 M v/s 10 M required for the test . ( bit higher than we would like). Currently volume is still 20M*

*However the current price (although outside the last CZ) , is in more difficult spot on crosscurrent ( marked in pink) but it is more in line with GDX, GLD*

*Here is the criteria, We should get a retest of 42 -43 highs once gain and volume drops to 10 M as required for test and close below 40 that will be failure and trigger POM 14 – Re Run, ( but No signal yet ) ( Stops always pre positioned on other side of CZ after the trigger) whiles re- deploy recycled position.*

# SLW - CZ – Mapping



# 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% .

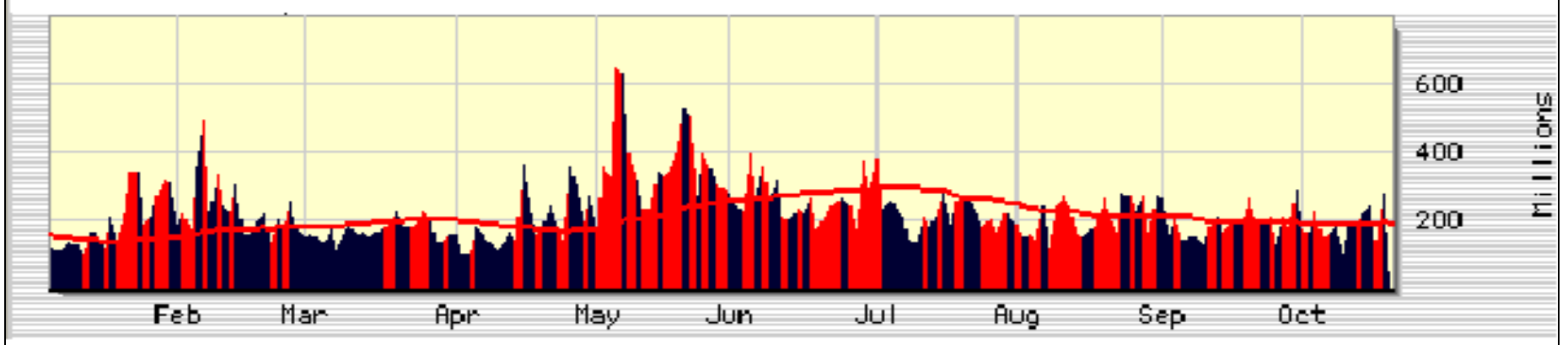
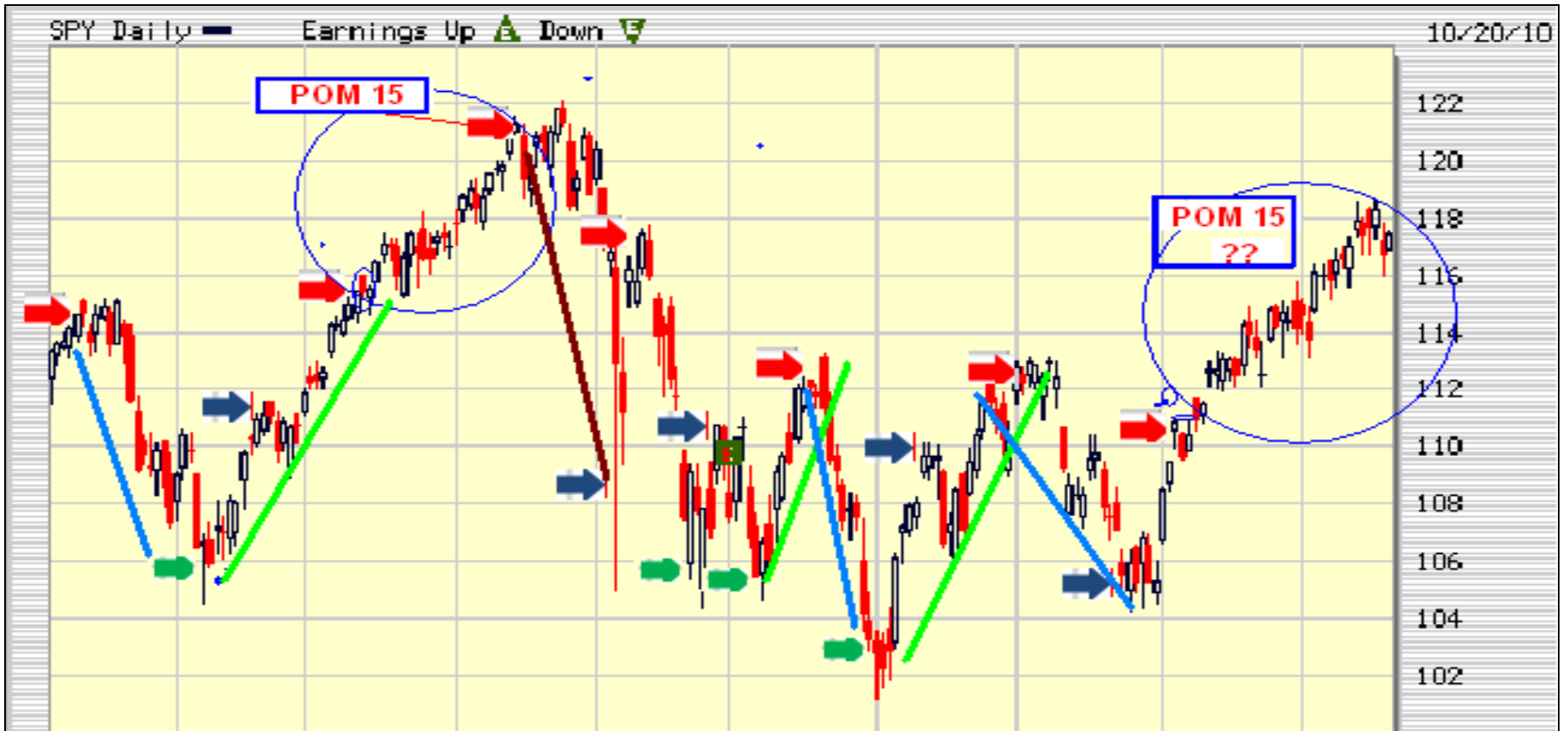
### History - “ SPX – POM Signals & Projections”

- 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).*

**Disclaimer :** The information in this report has been taken from sources believed to be reliable but SG Capital Research does not warrant its accuracy or completeness. Any opinions expressed herein reflect our judgment at this date and are subject to change. This document is for private circulation and for general information only. It is not intended as an offer or solicitation with respect to the purchase or sale of any security or as personalized investment advice. SG Capital Research or its Author does not assume any liability for any loss which may result from the reliance by any person or persons upon any such information or opinions. These views are given without responsibility on the part of SG Capital Research or its officials. No part of this report may be reproduced in any manner as Author reserves the distribution rights. Under Copyright 2002 Act: It is a violation of federal copyright and imposes liability for such infringement.