



SG Capital Research

Global Market Insights

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

MAEG- MARKET STRATEGY INTERIM UPDATE # SG 2011 # FEB 28

For Immediate Release – *Thursday AM (EST)*

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Market Strategy Global (A # 2) - SPX – Closed @ 1320 – Wkly change (- 9 points)
Jan 1st 2011 – SPX 1257 (+ 6. 0 % YTD)

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 – MT , Cycles
- DOW- Money Flow
- QQQQ – ST, MT
- IWM – ST, MT , PQV Analysis
- TRANS – DOW Theory ST , MT
- A/D – with abv 50MA Stocks
- 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 & TAD'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 – **Flat** at SPX 1324. (**New Buy Signal @ 1340**)

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

- We recommend **fully Hedge on long positions** via the SETUP – PQV Hedge Index, of (22) Stocks we have a **Drawdown – 5.8% (Friday close)**
- Our SD # 2 –CZ – PQV Validated EQWT Index has “ **Gain of + 4.8 % (Thursday's close)** in (8) Sectors - PQV – CZ Validated

- **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

- TREND ADJUSTED SIGNAL (TAS) for the 3rd TREND was **stopped on close at 1324 with 1.3% gains** . Next **Buy , Close by TAS close above 1340**
- UPSIDE Target - POM 15 for Net Short has not Triggered. (**Monthly close below 1280 should be a good signal**) the highs of Pre – Lehman crash price tops 1280 on Monthly . 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. We are watching on Intermediate term Pull back from here should be to 1130 - 1145 (This area is false break top side driven by QE 2).
- EQUILIBRIUM Price - favorable Risk / Reward opportunity will come at POM 13/ 12. This area we would be interested again

• 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 (TAS) "				
Ticker	Entry date	Last Price	Exit Date	Validated Test price	P/L Since the Test	Comments
NET SHORT SPX	NONE					
POM Triggers (POM 15 to POM 13)	NONE					
SPX						
SPX						
SPX						
						0.00%
TREND ADJUSTED Triggers	NONE					
SPX						
SPX						
SPX						
						0.00%
				SHORT P/L	0.00%	
LONGS SPX	5 -Signals					
POM Triggers (POM 12 to POM 14)						
TLT (POM Signal)	21-Jan-11	92.30		89.50	3.13%	OPEN
SPY (POM Signal) - None	NONE	0.0		0.0		
SPY (POM Signal) 1	6-Jul-10	111.5	9-Sep-10	102	9.31%	Closed
						12.44%
TREND ADJUSTED Triggers						
SPY (Trend Adjusted Signal) - 3	1-Feb-11	132.24	22-Feb-11	130.7	1.18%	Closed
SPY (Trend Adjusted Signal) - 2	2-Dec-11	128.5	28-Jan-11	122.8	4.64%	Closed
SPY (Trend Adjusted Signal) - 1	5-Sep-11	117.60	12-Nov-11	110.50	6.43%	Closed
						12.25%
				LONG P/L	24.69%	
1st July 2010 INCEPTION				AGG P/L	24.69%	
INCEPTION @ SPX 1070 to Current 1320				SPX CHANGE	23.36%	

• Market Insights

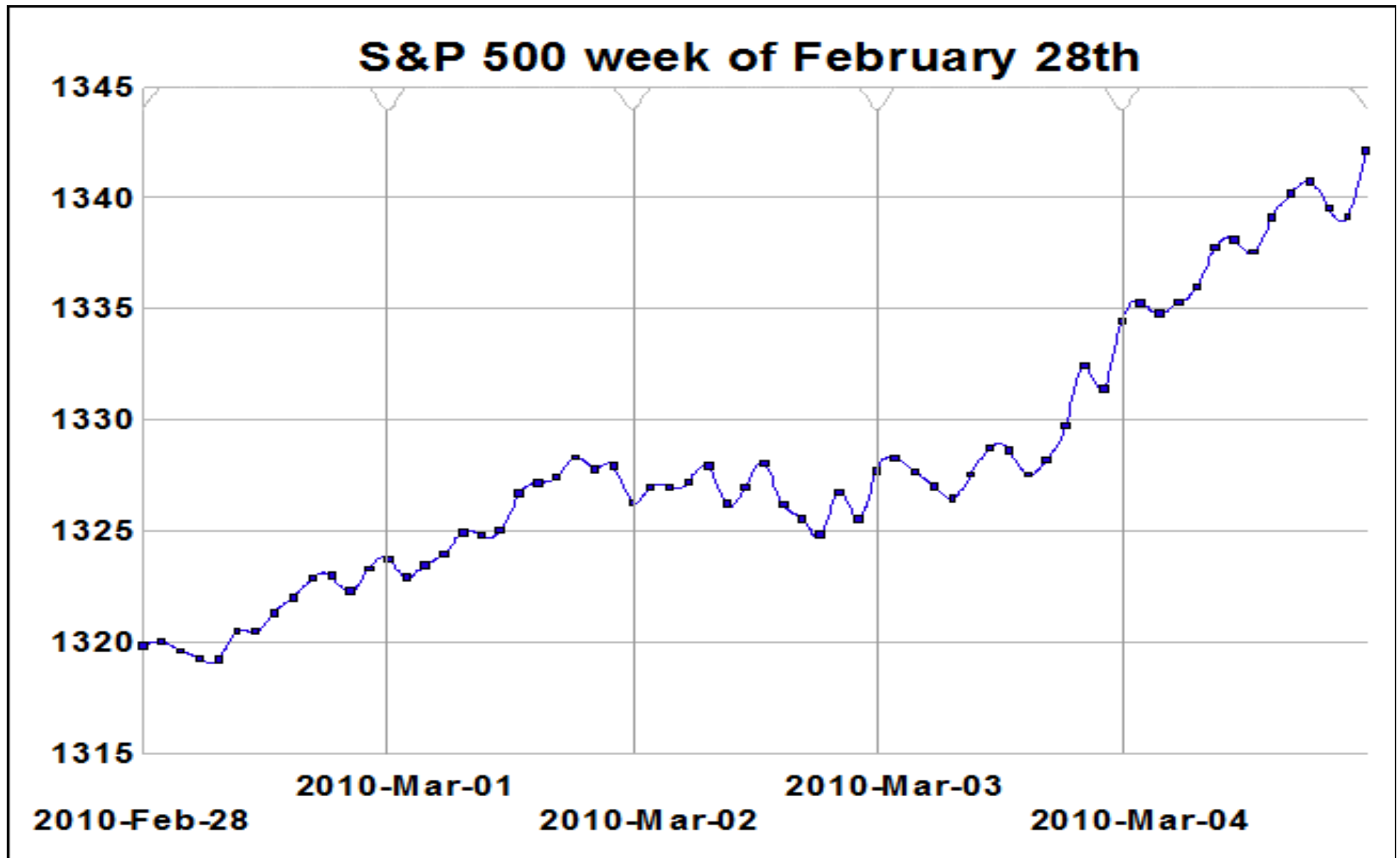
- *As mentioned on Mondays MS note – SPX , On Touch of 5 / C wave rally of 5th Bearish wedge would have a sudden drop of 30 points came in as expected (this time it was 50 points).*
- *This SPX top was also confirmed by reach of the target 1350 +/- on Price v/s Time 10 week to 10 week ABCD pattern we had point out on MS . This pattern is hard to draw and worked out perfectly.*
- *The Cycle work (chart below) was bearish going into Thursday , (All 3 methods were in Sync and contributed to the fall).*

- *But on Thursday, the target of drop price to 1290 was reached and the Mathematical Indicators pointed by TICK, TRIN and HRLY CZ called for bounce (with left over FED MONEY) which flowed the upward Price path*
- *In some Indices we would like to see the test of 3 Black Crow on bounce reaction.*
- *As we have been mentioning , 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) . We shall see.*
- *Bradley is Turing Bullish today, it was Bearish for the first 2 months of the year but did not work*
- *Astro wise we did not highlight few events as it did not work however point to note is on 21st February a combust event (mercury conjunct the sun) kicked in and market fell for 4 session , the rest on this rally is critical to see if that turn day had some long term meaning.*

Bonds - We reached POM 12 Inflection point as we have highlighted in previous Report with PQV / CZ Validation at TLT 88.5 -90. Based on the trends in the long term (weekly) charts, bonds could rise beyond the 121 level . The Treasury market is clearly could easily rally several more weeks if there is a flight to quality due to one of the conflicts in the Middle East.

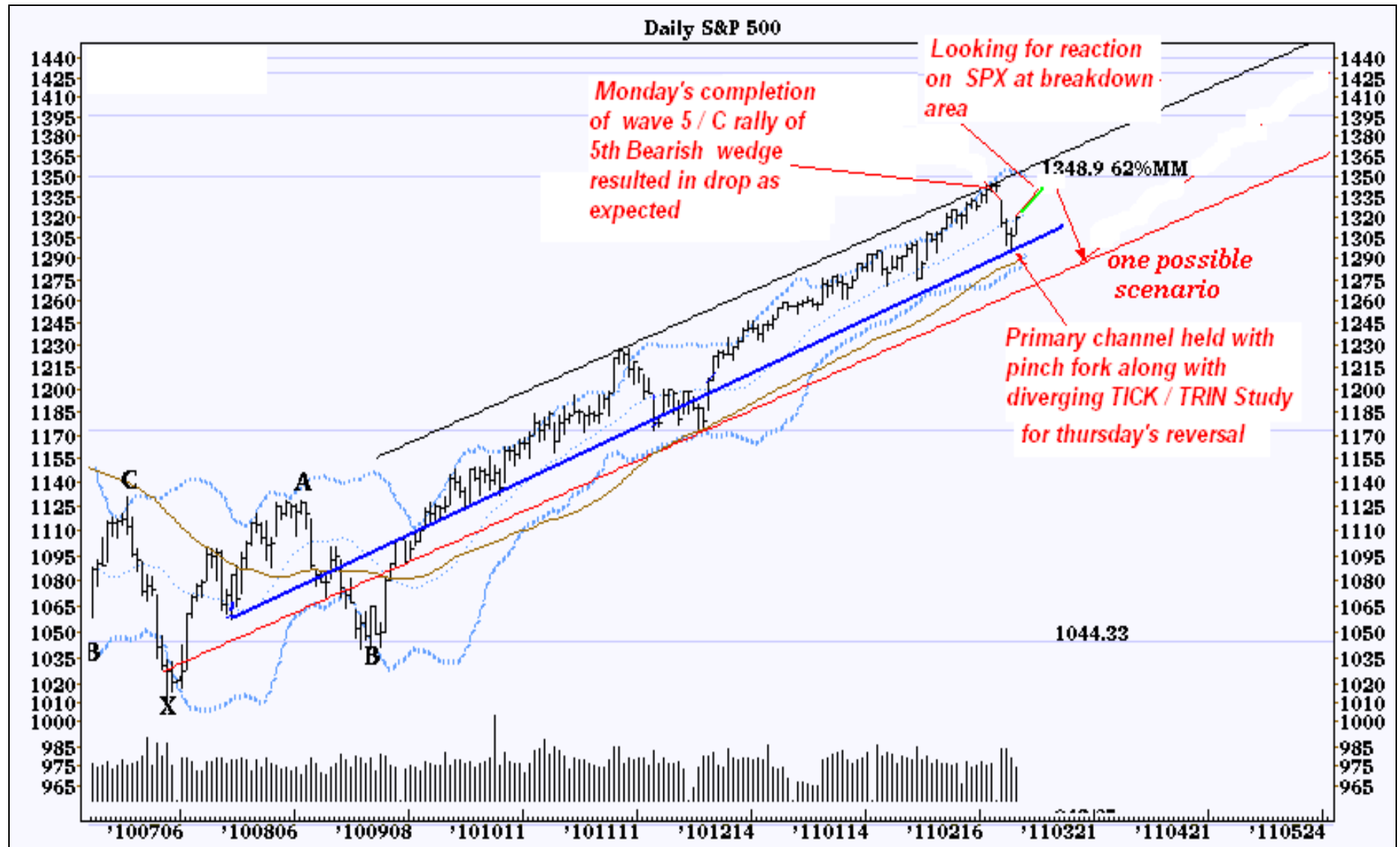
THIS WEEK ON CYCLES – *Bullish this week*

This Cycle work tends to work well if used with other tools . Last week it called the drop till thus day on nose and rally into Friday . This week , it has continued positive bias.



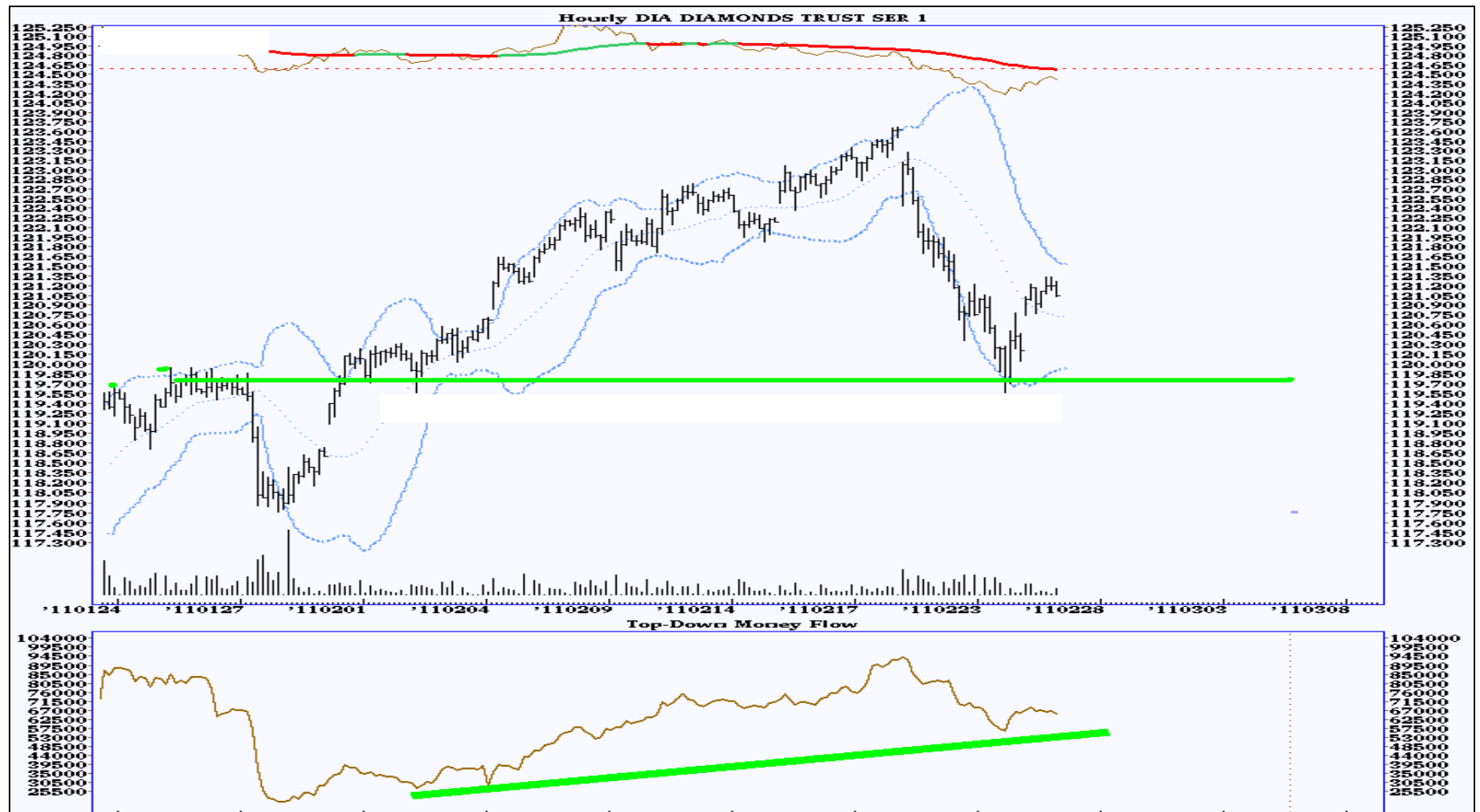
SPX -

See the Notes within the Charts. For the fall first and then Rise, now next step.



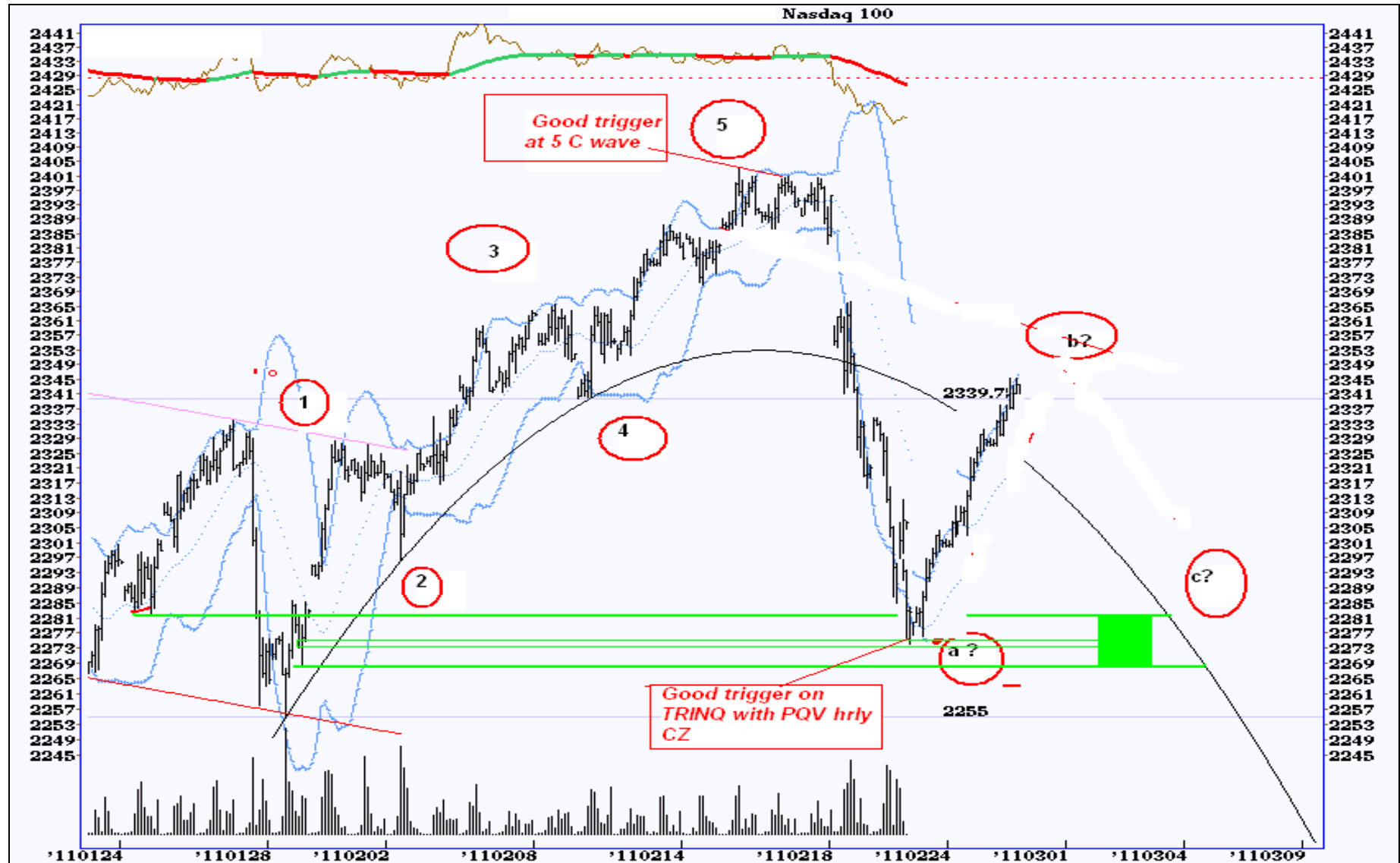
Short term - DOW v/s Money flow –

Among the other Mathematical Indicators on Thursday, We saw MF on Dow pick up, Typical reaction to Buy stocks after first move down, This tends to work well for Traders as DOW safe haven.



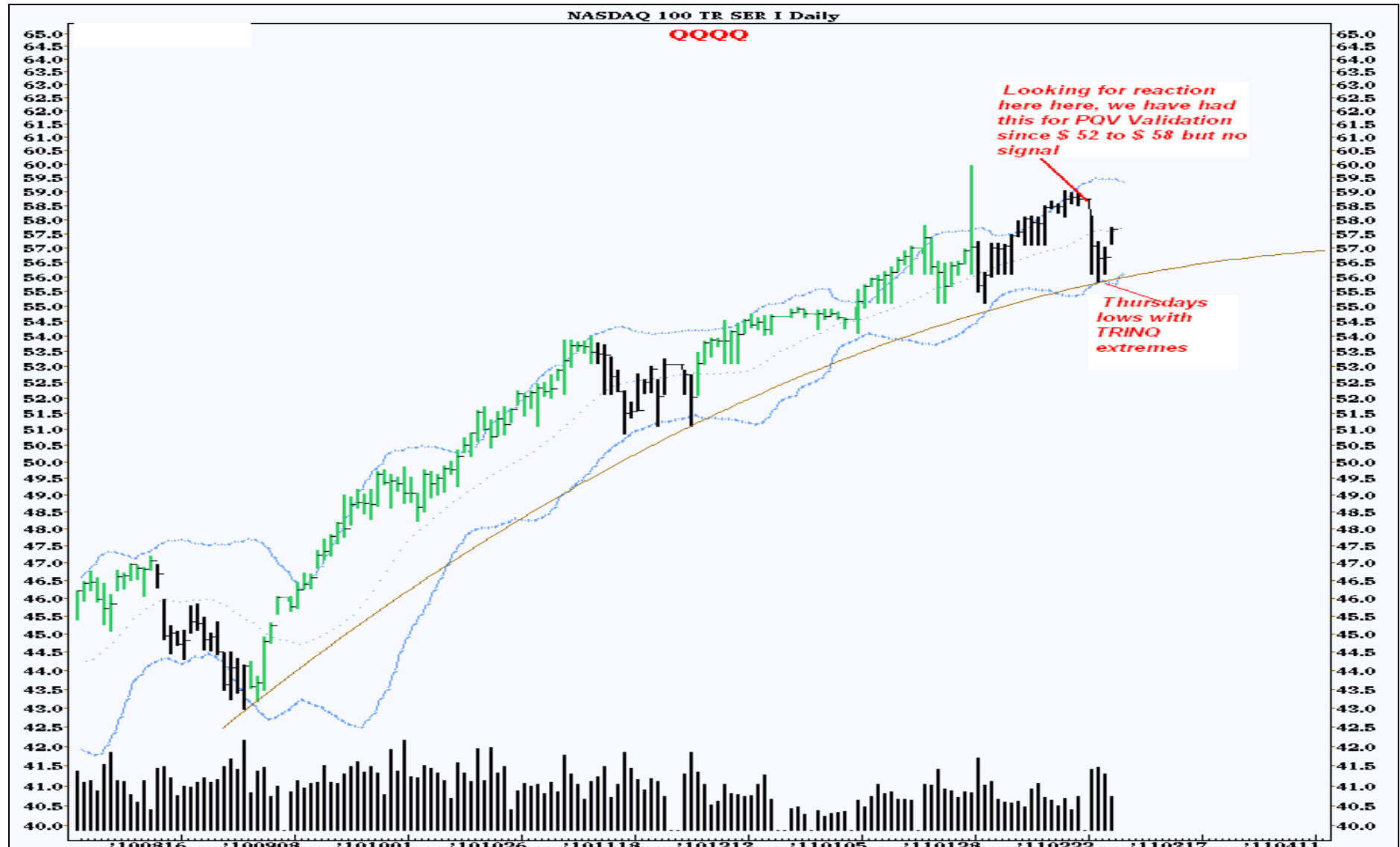
NASD - Hrly - Wave

Notes within the charts , HRLY gave better heads up



NASD -

QQQQ – supported on Poly Trend line on Thursday , We have this In our Sector Report in CZ Watch list since \$ 52. It has Kept us from harms way till \$ 59 . We are closely looking for trigger signal here.



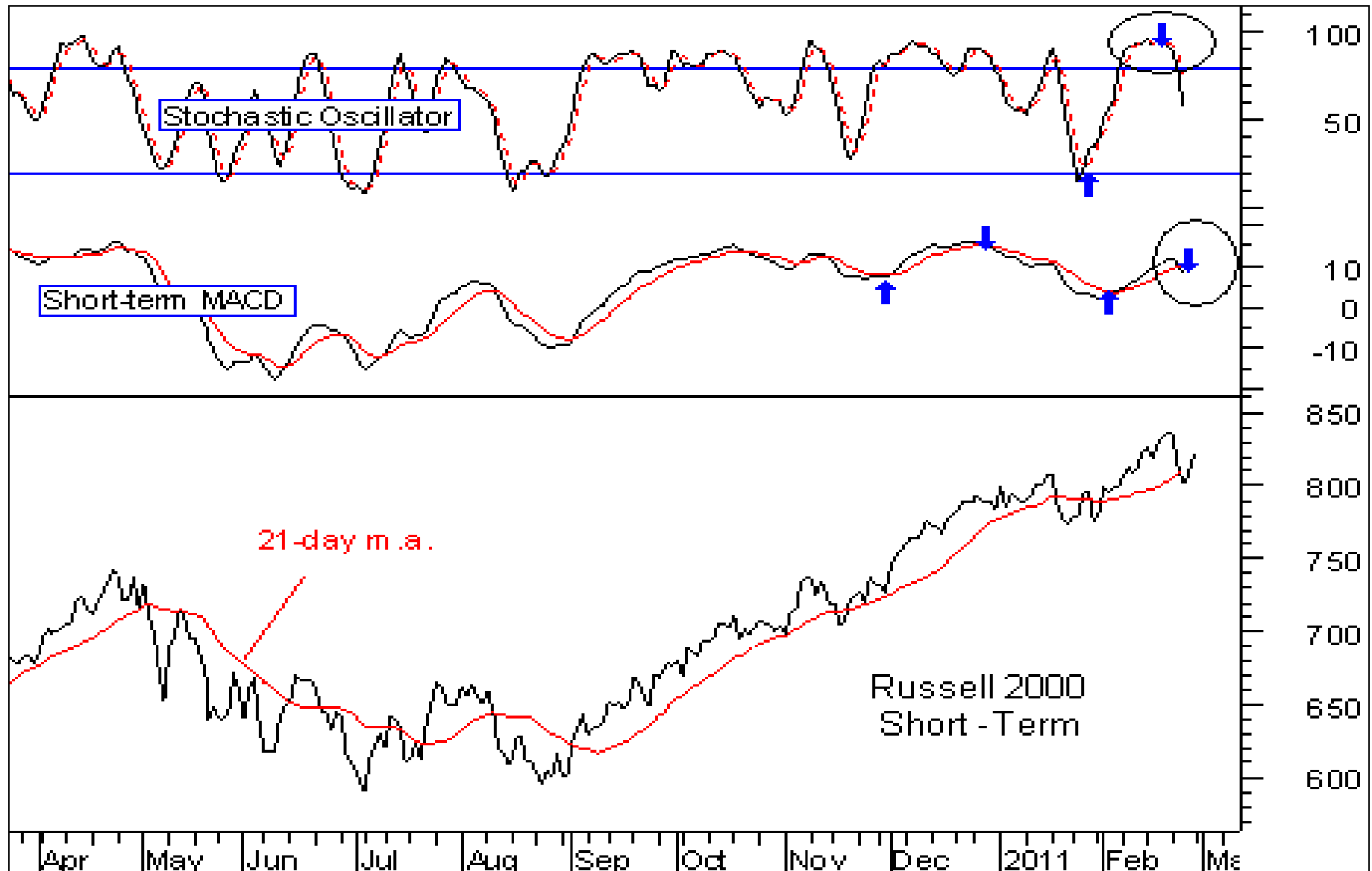
IWM -

IWM – supported on Poly Trend line on Thursday. In short term (unlike DOW , Money flow did not pick up) But on intermediate term MF is very bearish



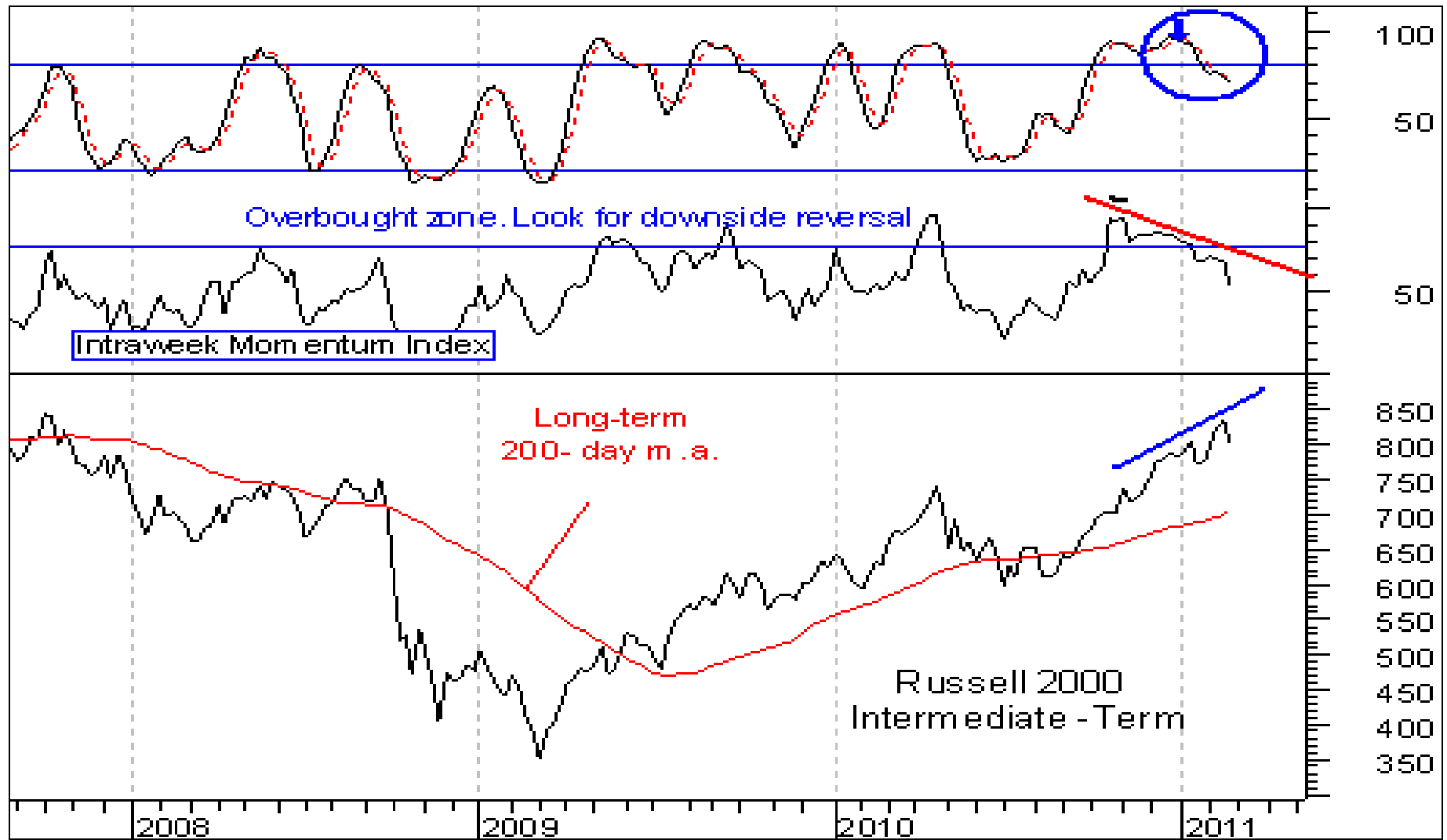
IWM - ST

Even on ST - MACD & STO is turned down, but PQV - CZ rules for final Short term Triggers



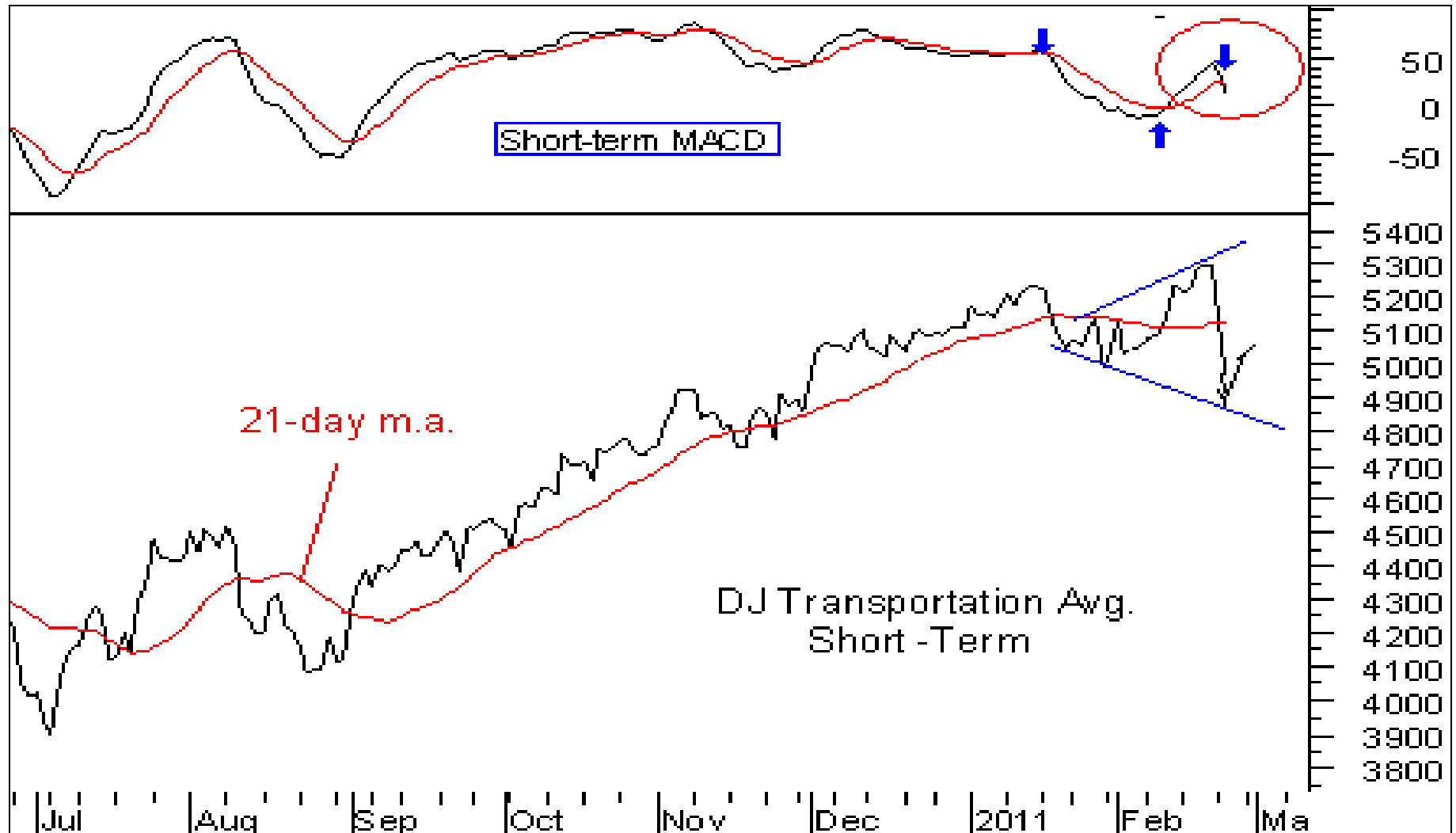
IWM – Mid Term

Mid term is certainly Bearish MACD turned down and RSI is diverging .



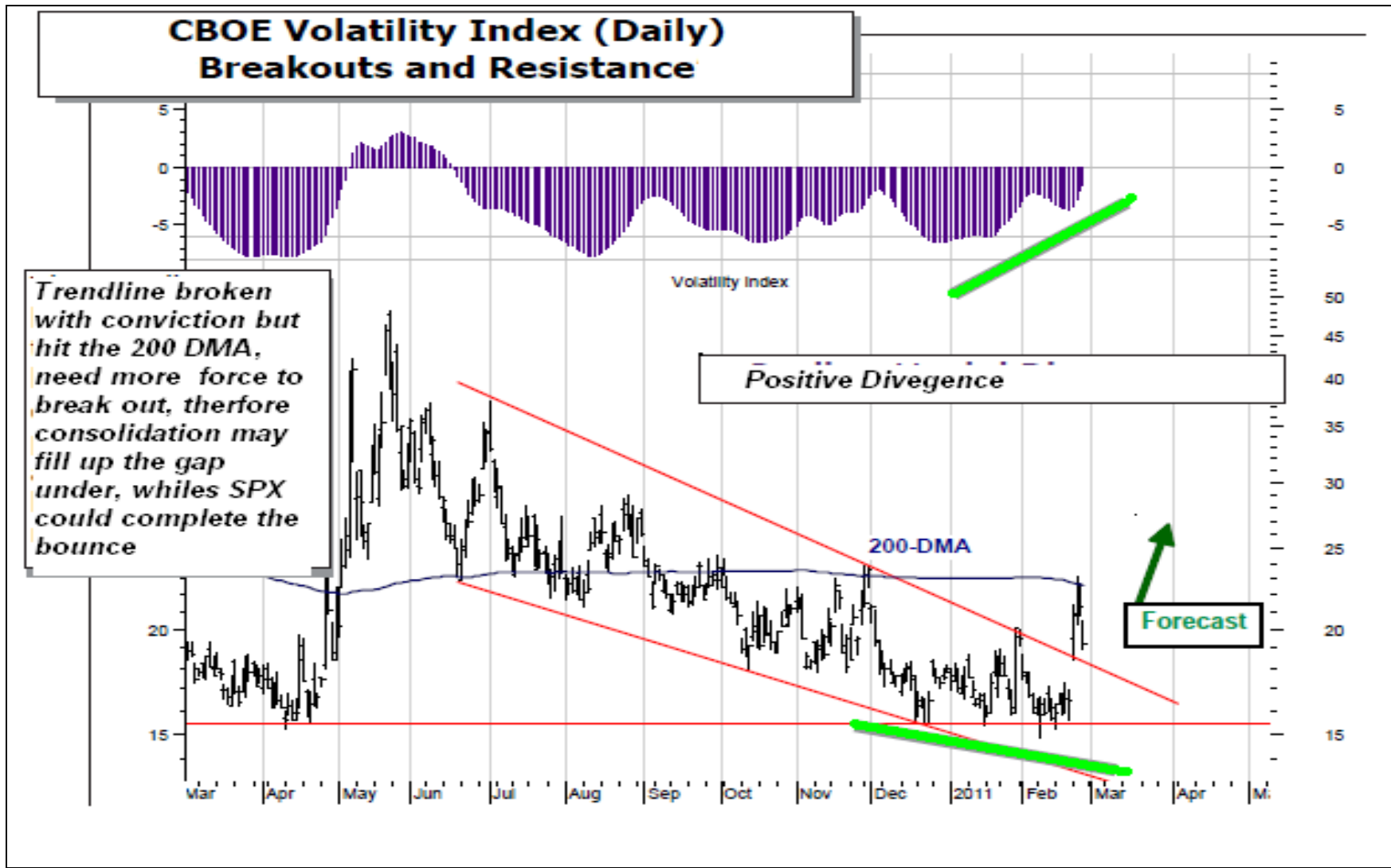
TRANSPORT THEORY – ST

This leads DOW in both direction, We have been /Bearish on this sector. In our Sector Report it is in PQV–CZ Validation as Short and proving its merit . ST MACD has turned down . On Thursday lows was hit at MEGAPHONE



VIX - Mid term

We have been indicating the decline Wedge for while and now we see the breakout (See the notes within the chart below)



A/D – Line – Stocks in SPX % of stocks above 50dma

This is the most Bullish AD line Indicators the Bulls follow. It double topped in November and has been diverging, the drop below 50% line calls for Sell Signal by this method, We shall see how this reacts in next leg down in SPX at that line,



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% .

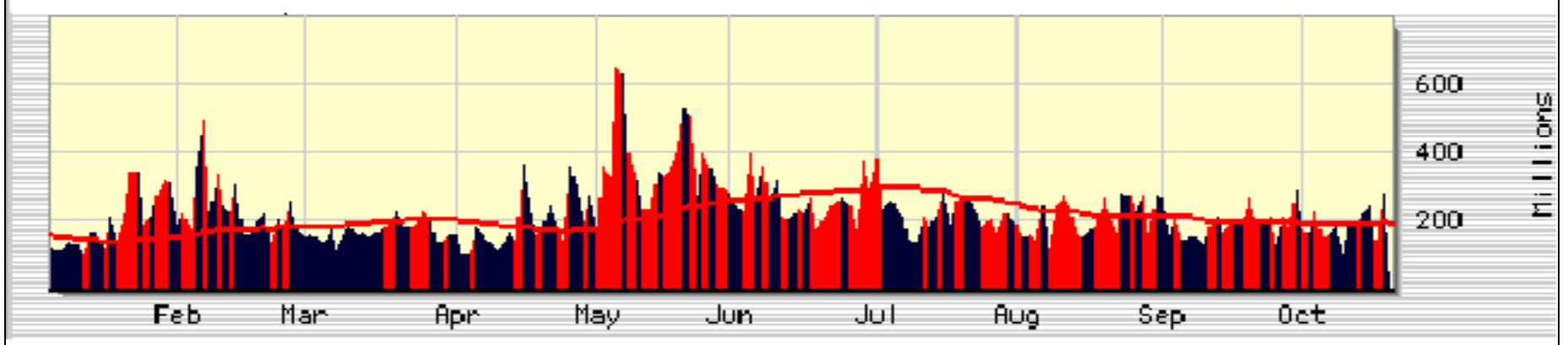
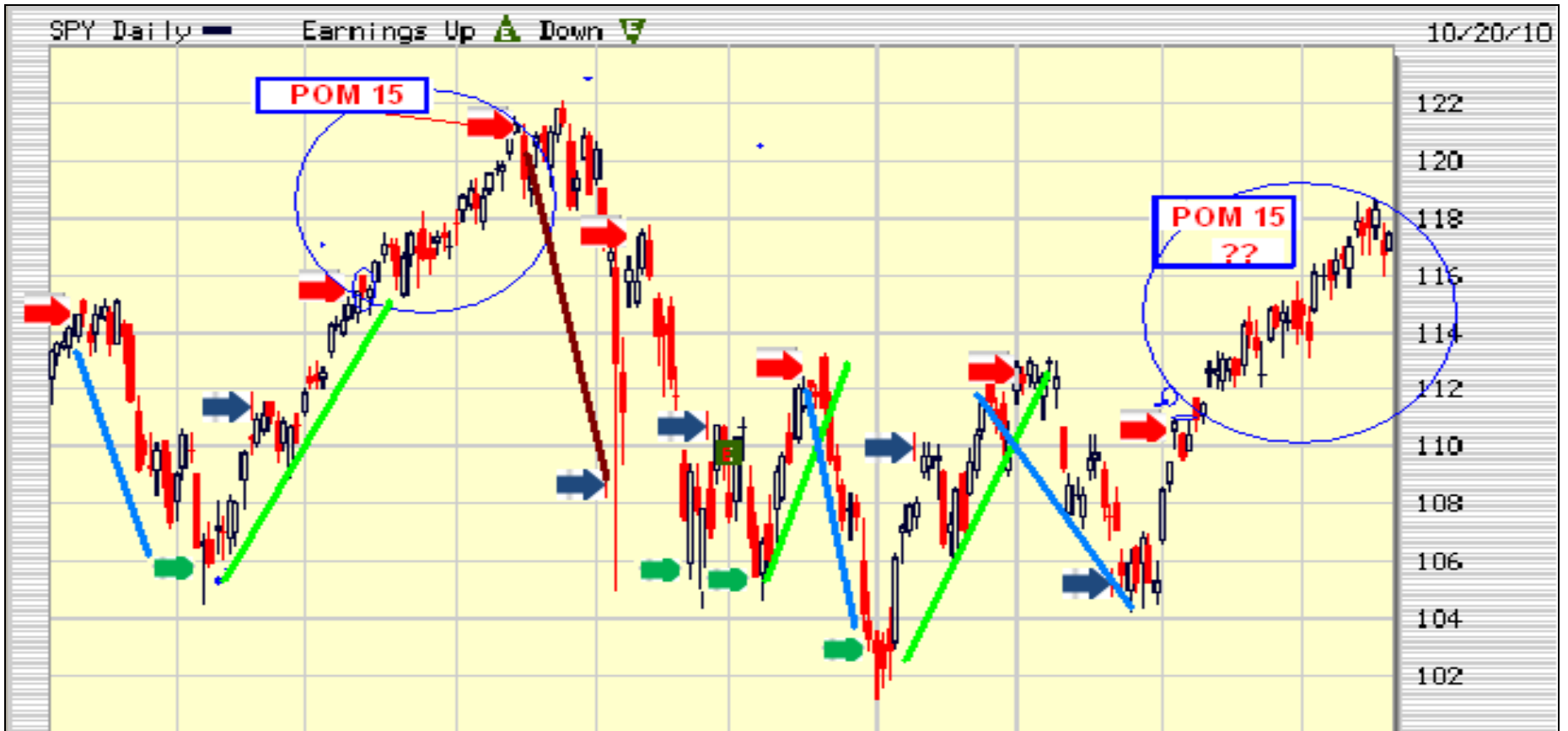
History - “ SPX – POM Signals & Projections”

- 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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