



SG Capital Research

Global Market Insights

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

**MAEG- MARKET STRATEGY INTERIM UPDATE # SG 2011 # JAN 20**

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

*By: Suneil R Pavse*

*Contact: apavse@aol.com*

---

## Market Strategy Global (A # 2) - SPX – Closed @ 1281

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
- SPX, RUS - Hrly
- XRT, COH, RL ( **Special Situation**)
- IWM – PQV Pattern Analysis ( only If > 2.0 SD)
- QQQQ – PQV, Pattern Analysis ( only If > 2.0 SD)
- TLT
- EEM – PQV, Pattern Analysis (only if > 2.0 SD) –
- EEA – PQV Analysis ( if > 2.0 SD)
- 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.*

- SPX Signals & Price Projections

- UPSIDE Target - 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 1250-1280. ( **We have approached this area, Monthly lose below 1280 should be a good signal** ). We could very well trigger POM 15. Meanwhile we continue to remain POM 14.
- DOWNSIDE Target - SHORT TERM - Daily Bearish Wedge has the downside target of 1175. On Intermediate term Our Pull back from here should be to 1130 ( 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

*Based on our market read the bigger picture shows the first turn will come in January with mild correction then snap back rally into February, followed by severe correction*

## • Daily SPX - “ Trend Adjusted Signal”

### 3x3 /9EMA – Momentum Break Indicator – Buy Signal @ 1228 SPX

- For Bull case - Previous long exit was on 11/17 at 1193 from 1105 entry 09/05 for 8%
- For Bear case - SS from last Sell Signal at 1193 to 1225 = - 2.6%
- For Bull case – Current long position from 1228 is up 3.7%

Currently “ Trend Adjusted Signal “ has Reversal stop @ 1273 SPX .(*Revised*)

We would consider all 3 major Indices to Trigger below Trend Adjusted Signal, Upon rejection of volume in CZ – PQV

(*Revised*) - SPX – 1273 , DJ – 11722 , NDX – 2300, RUT – 785

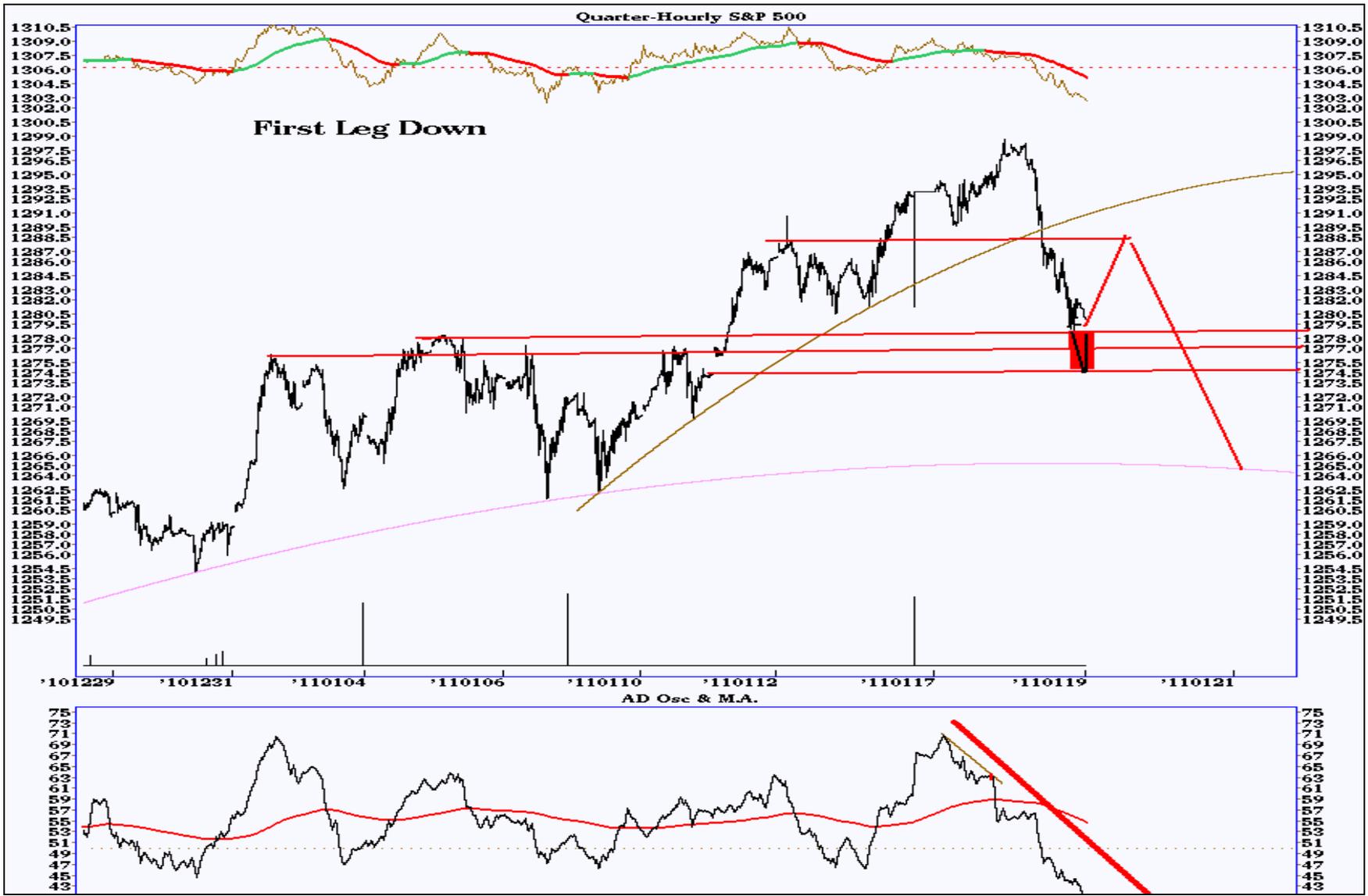
## • Trading & Investment Conclusions

### Our start point 2011 in SPX @ 1257 – Current Indicators

- Long Side –
  - POM 12 Calls – None so far this year.
  - Trend Adjusted Signal – On Buy Signal carried over from 2010 . On Jan 1<sup>st</sup> 1257 – SPX to Current Stop 1269
- Hedge Longs / Risk Management for Downside Corrections -
  - We recommend fully Hedge on long positions via the SETUP – PQV Hedge Index, we have a **Drawdown of -5%** 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 )
- Net Short –
  - POM 15 Calls – None so far Triggered this year ( 8 of 20 Sectors have reached CZ / PQV & 6 More Sectors pending tests)
  - Our Target has remained for SPX 1250 -1280, Pre – Lehman Crash Area tests

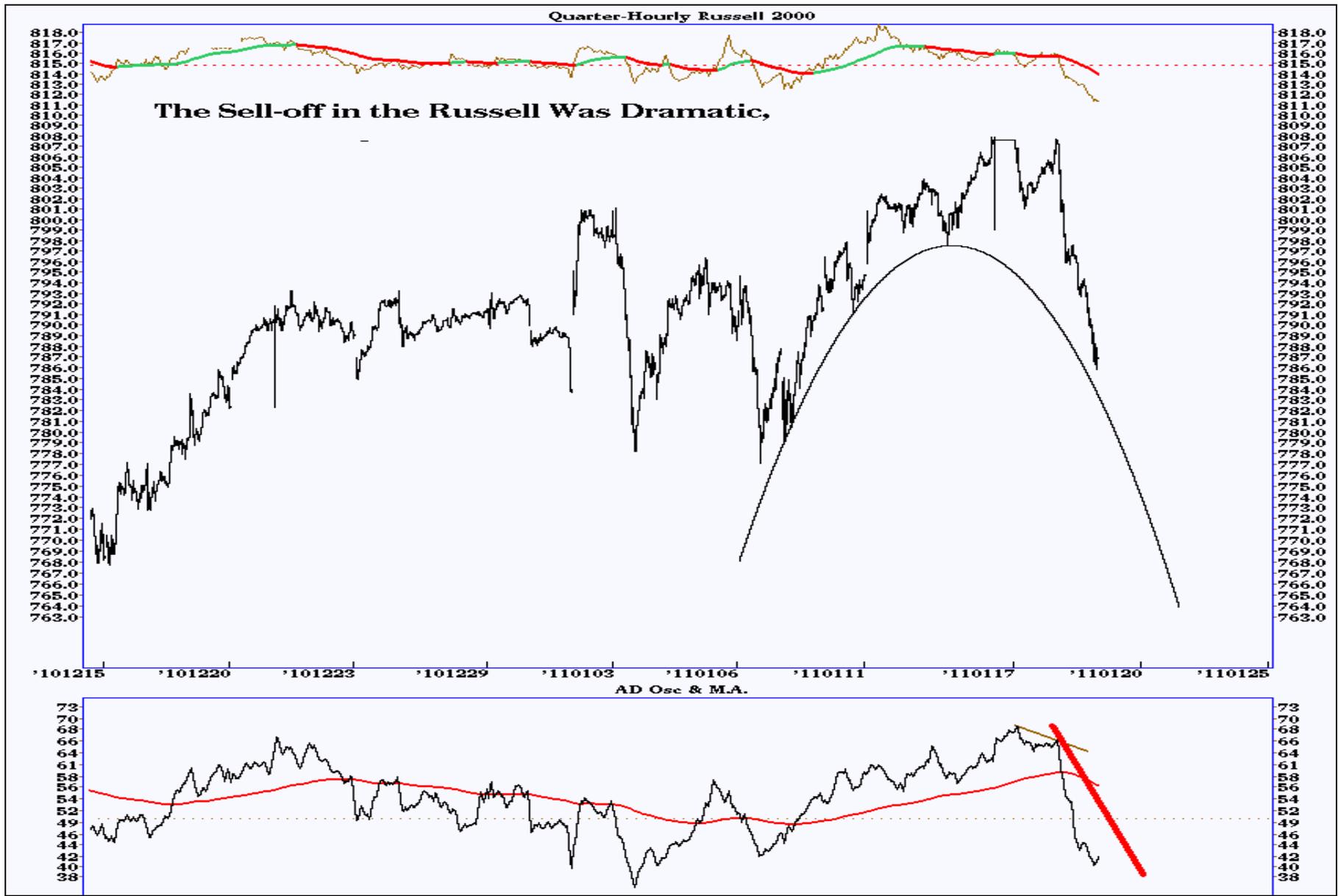
# SPX – Hourly

Quick 20 -30 points drop on diffusion of 3<sup>rd</sup> bearish wedge & on completion of 5<sup>th</sup> mini wave count on hrly .



# RUS - Hourly

*Bearish Engulfing of 4<sup>th</sup> Jan proved its merit as a stoppage point and self over the Poly Trend line with AD-oscillator*



# XRT – ( Special Situation) – Transfer this to D - Sector Report

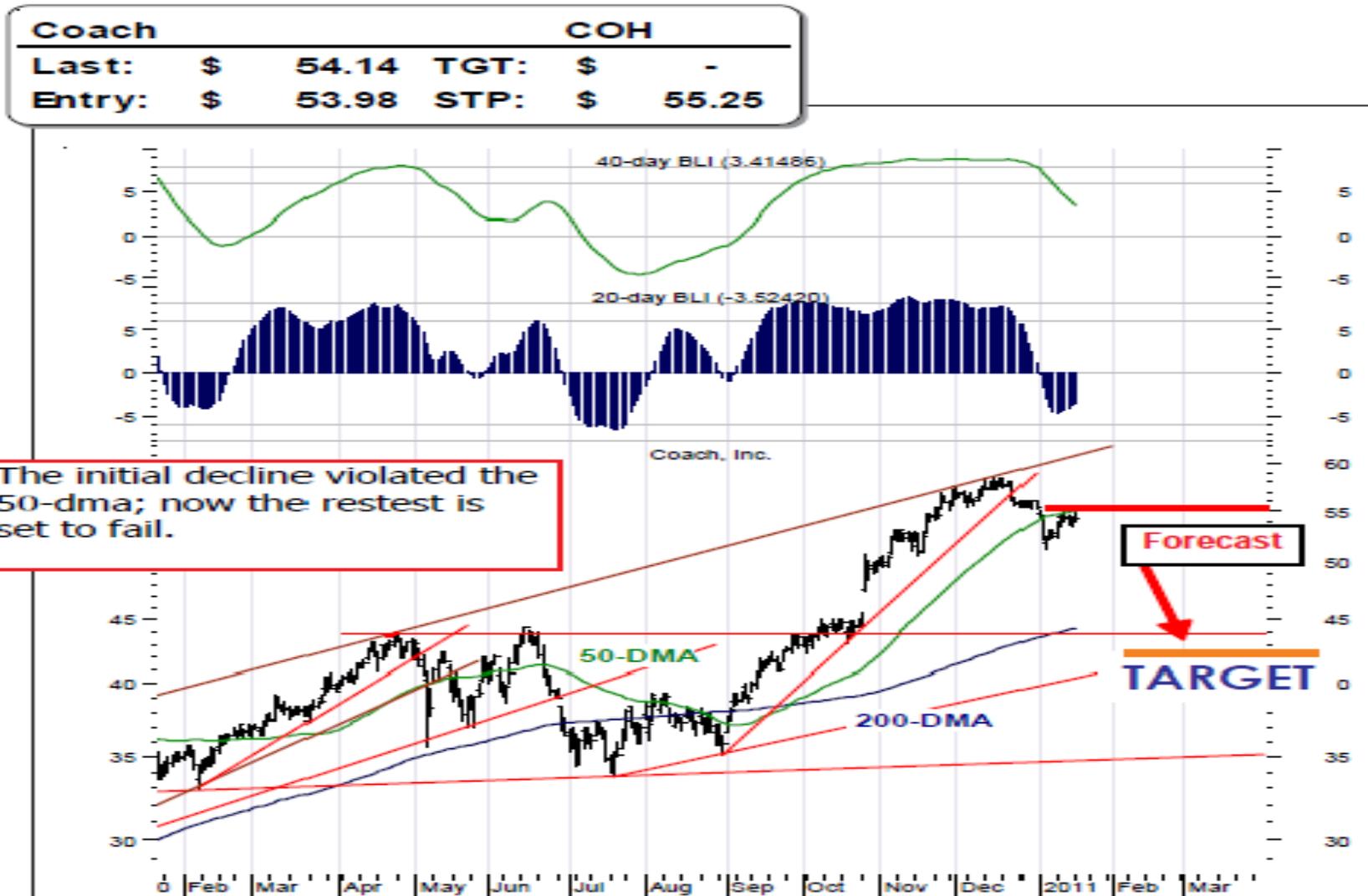
Weak broken down sector, RSI now below 50 on any bounces. Prices broke yesterday on Triangular pattern now 50D should be overhead on bounces. MACD turned down, Volume picked up on downside.

Earlier XRT double topped and broken Trend line in the CZ and PQV failed on test



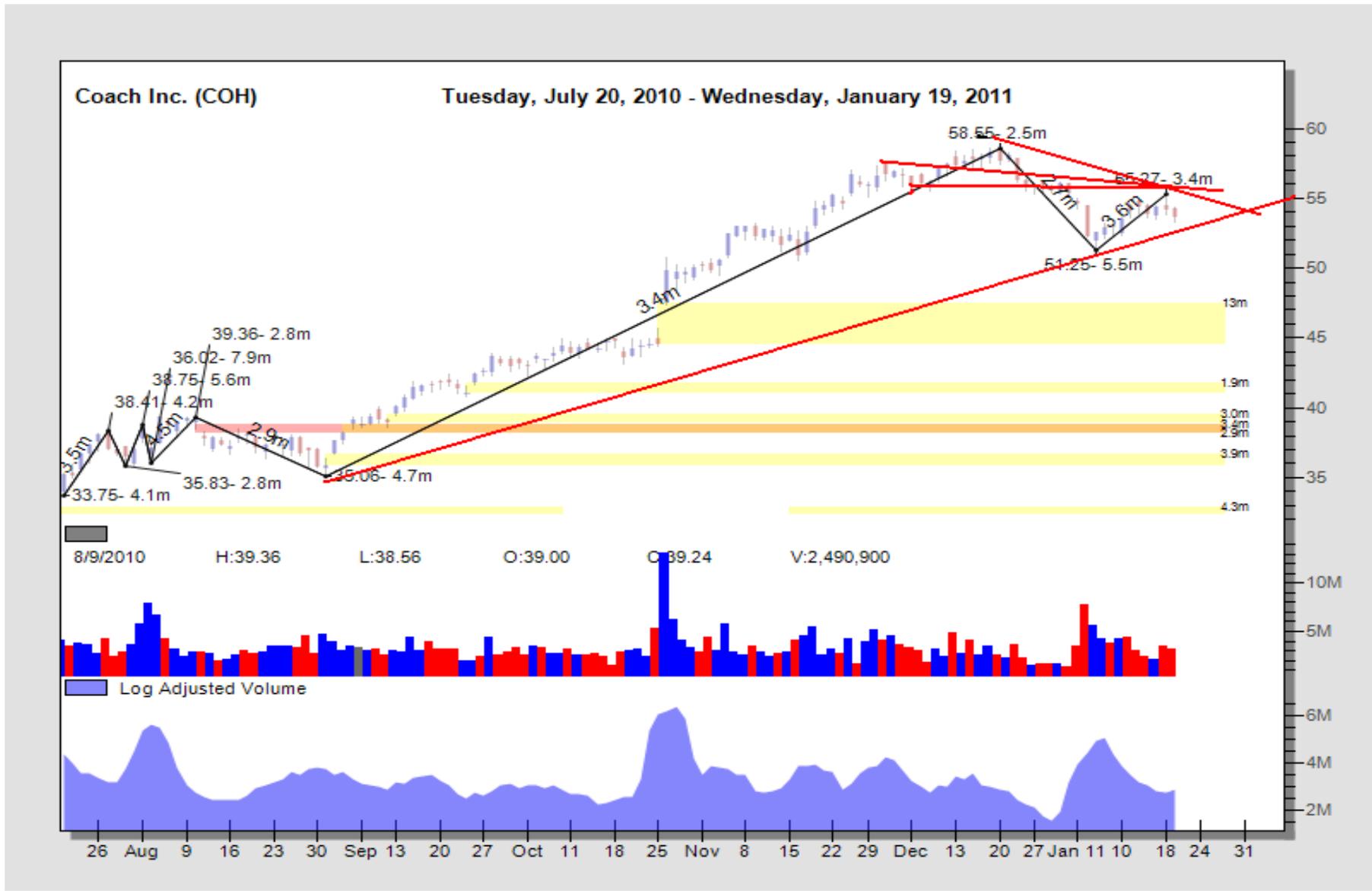
# COH – ( Special Situation) – Transfer this to E # 1 - PQV Equity Report

Tested the CZ line in Red and failed on PQV Test.



# COH - PQV

The test of 55 on bounce was a failure on PQV - CZ.



# RL – ( Special Situation) – Transfer this to E # 1 - PQV Equity Report

Tested the CZ line in Red and failed on PQV Test.

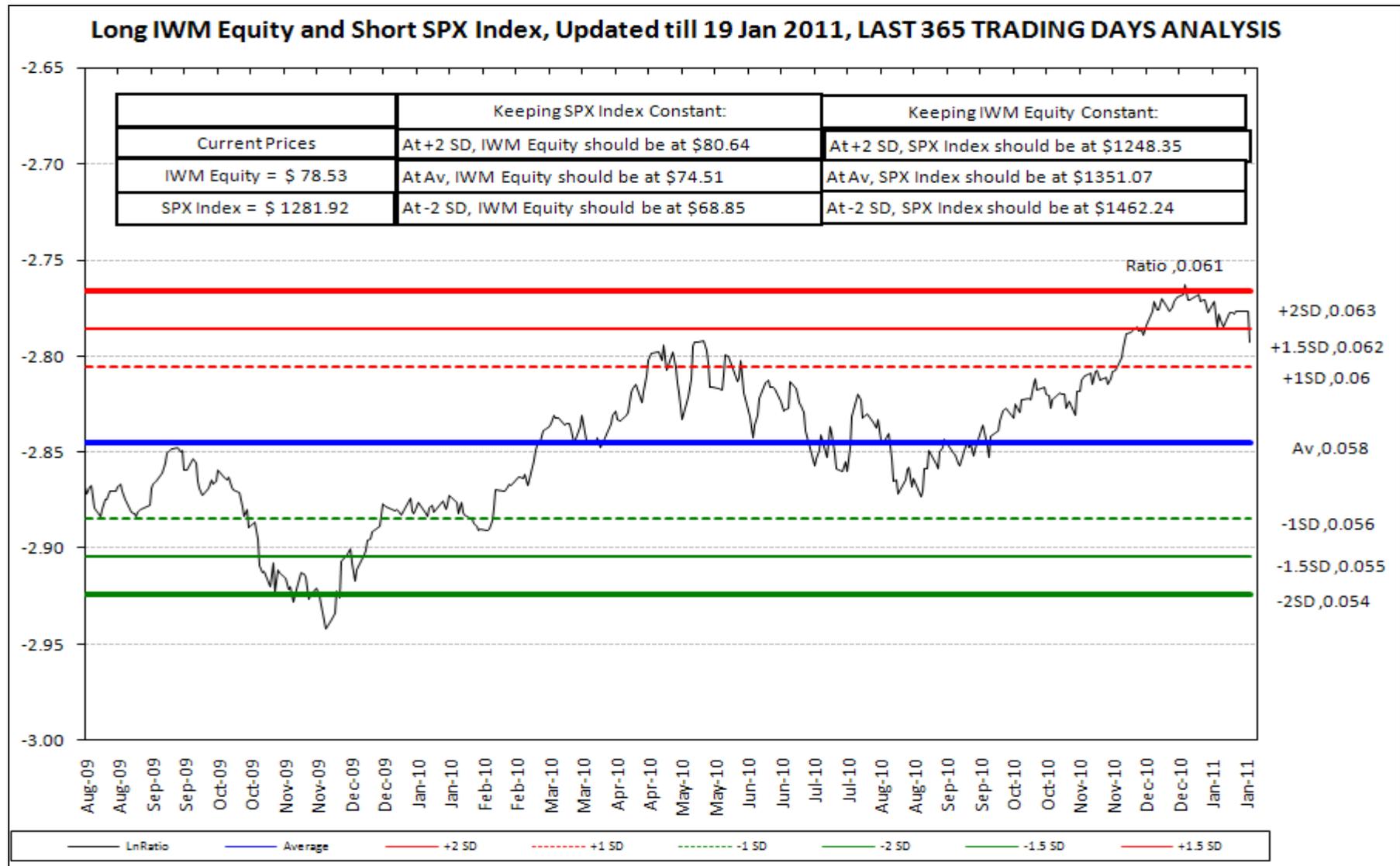
Polo Ralph Lauren		RL	
Last:	\$ 109.56	TGT:	\$ -
Entry:	\$ 110.92	STP:	\$ -





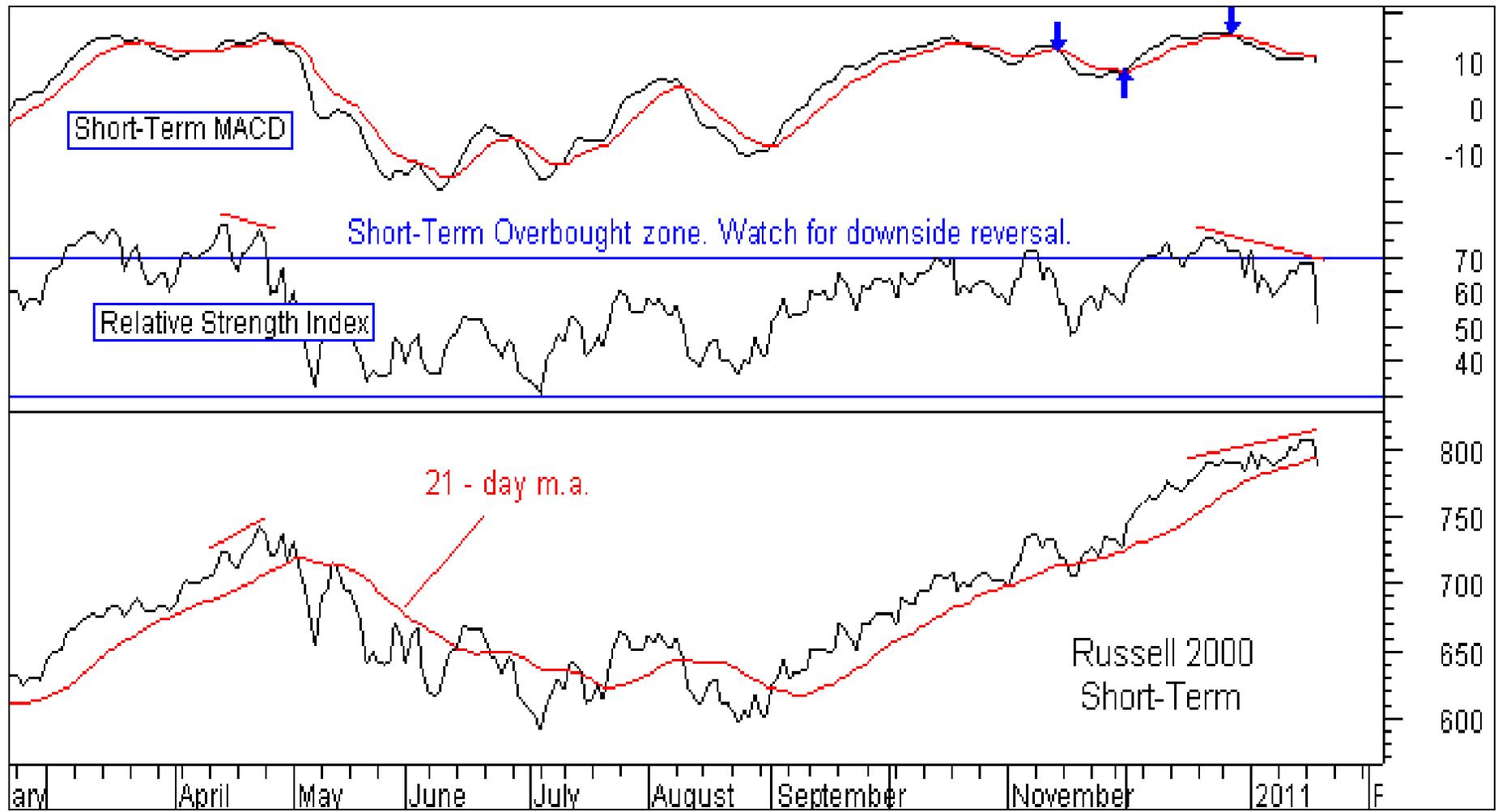
# IWM – Correlation Ratio Analysis with SPX – 365 days Time basis

**Is at SD# +2.0, for overvaluation**



# RUSSELL

MACD has trigged, Momentum Indicator 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- POM – LT - Price , Volume & Pattern Analysis - ( MONITORING CZ –PQV )

*IWM tested the bearish engulfing and extended and snapped right back . Right at the CZ of past. Also broke the trend line with MACD turned down, Volume picked up & RSI should very soon drop below 50.*

*Currently it tested 2008 Jan breakdown area & 2008 highs of Sept an its derived CZ of 77 – 80.00 ( currently it is in the zone ) and test with 175 M and weekly close under 77 ) should be a good test If SPX declines this will follow.*

*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*



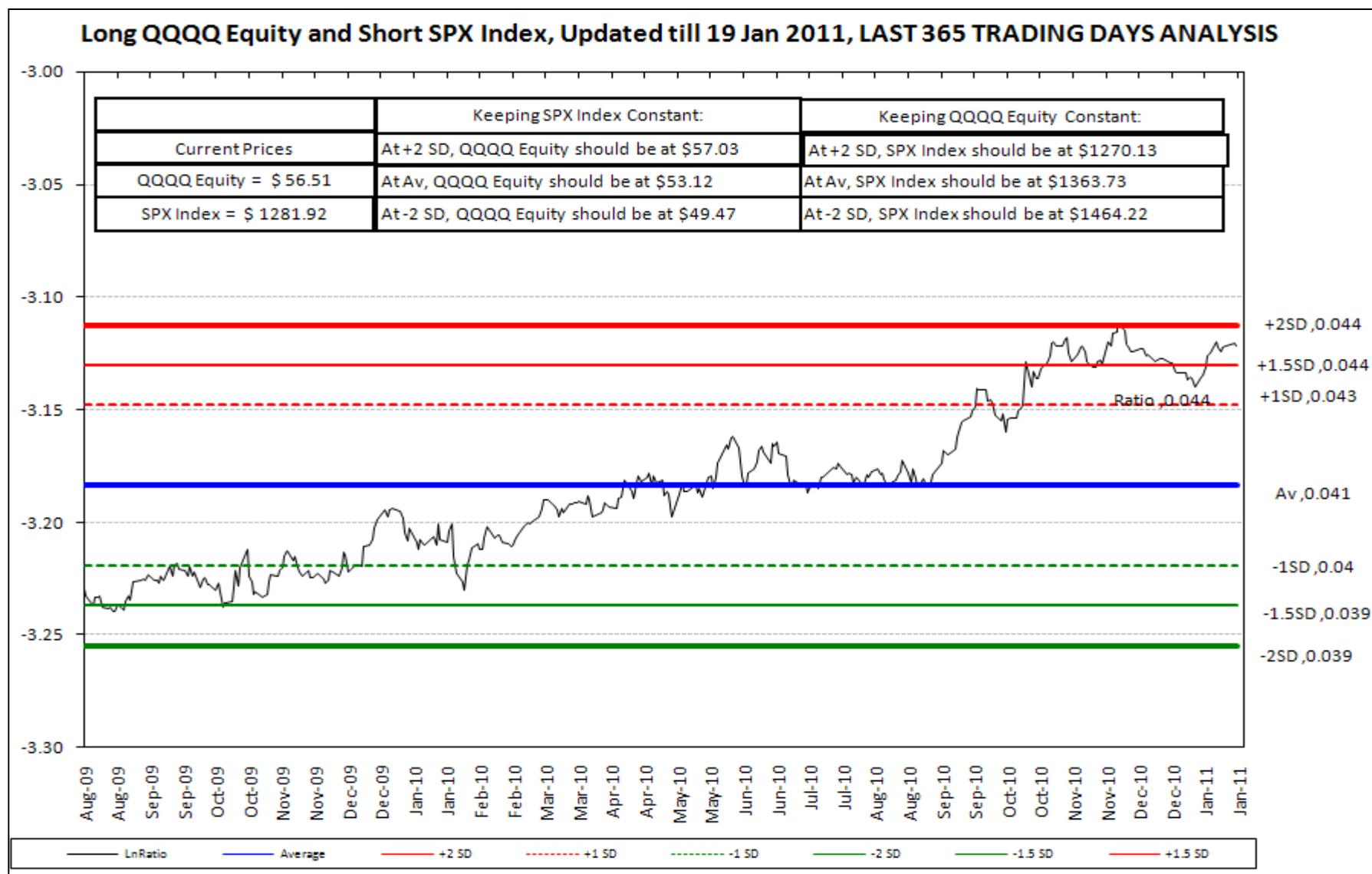
# IWM - SMA / Trend line Analysis

Russell 2000	IWM
Last: \$ 78.53	
Chg: \$ (2.07) -2.64%	



## 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 )**



# QQQQ - POM - LT - Price , Volume & Pattern Analysis - ( MONITORING CZ -PQV

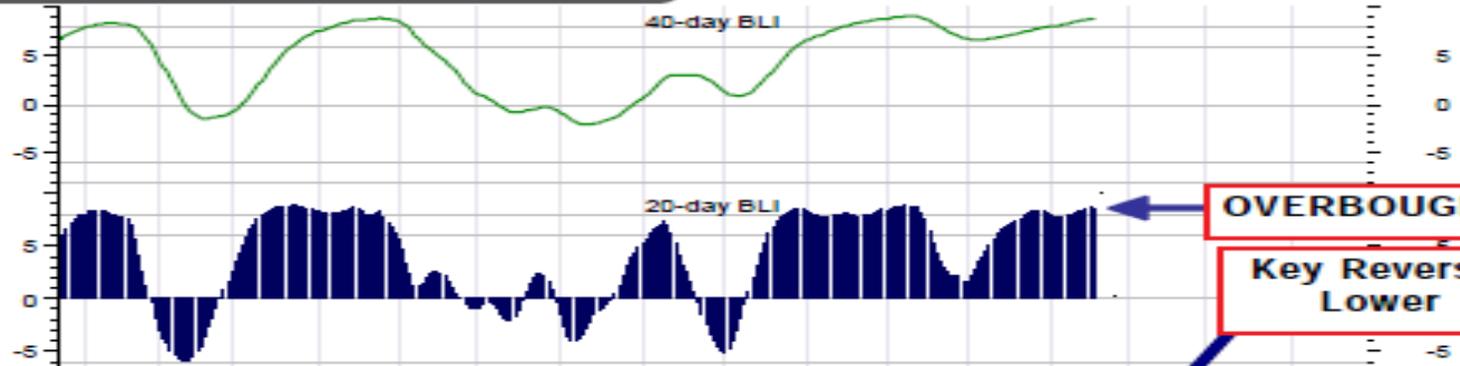
MACD has trigged, RSI in two time frames showing divergences . So we are watching closely in CZ - PQV in Sector Report

Yesterday's action was a Bull trap. Price above 55 was false break top side on lighter volume Currently slightly above CZ on lighter volume. A break below 55 on higher volume as Indicated should break the 2 trend lines and Breakout area, that action should constitute Bearishness.



# QQQQQ – SMA / Trend line Analysis

NASDAQ 100	QQQQ
Last: \$ 56.51	
Chg: \$ (0.65)	-1.15%



**OVERBOUGHT**  
**Key Reversal Lower**

Monitor trendline support for a larger breakdown.



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



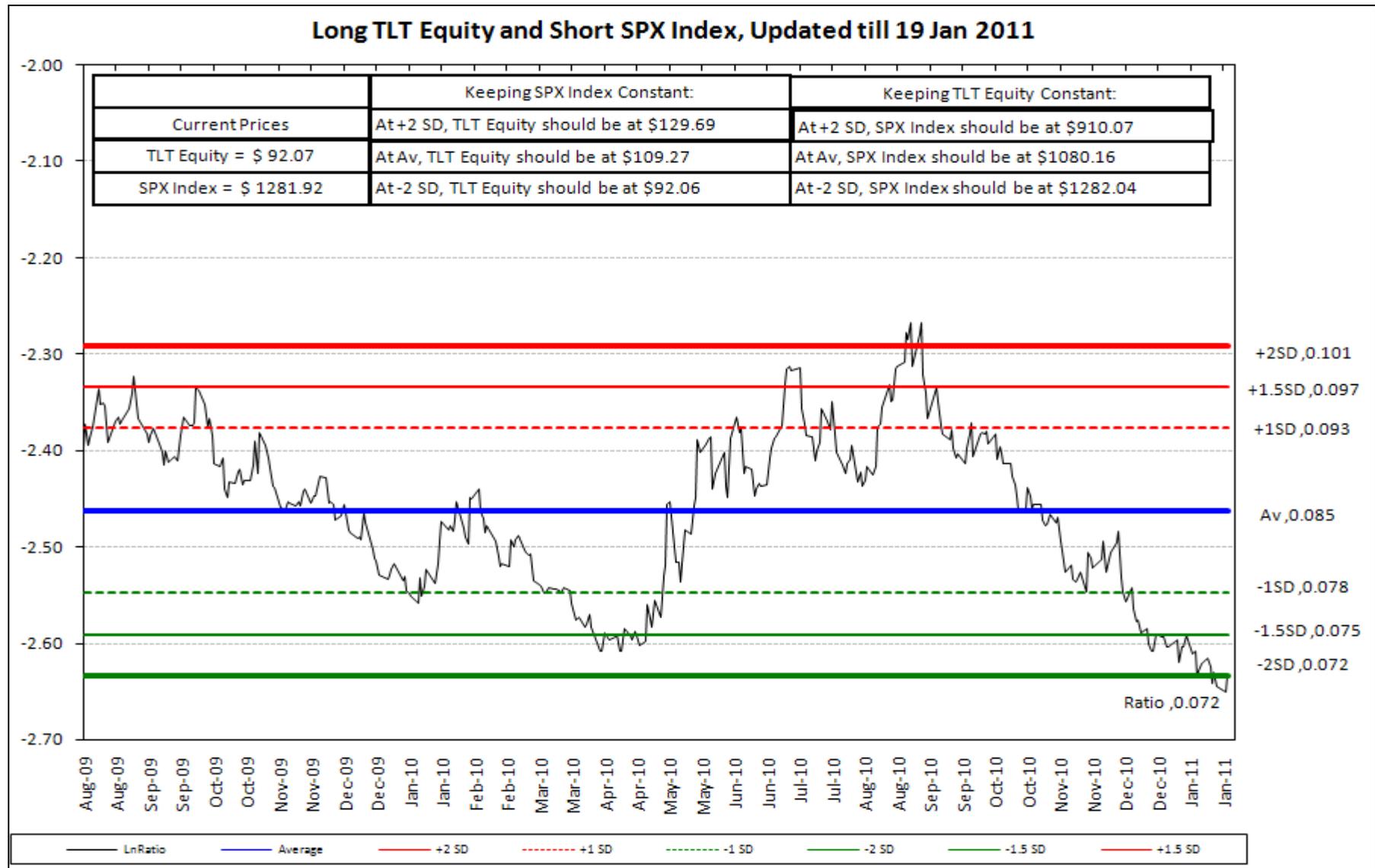
# TLT - Daily - 3 Year with RSI, CCI, MACD

**(11D / 55D)**



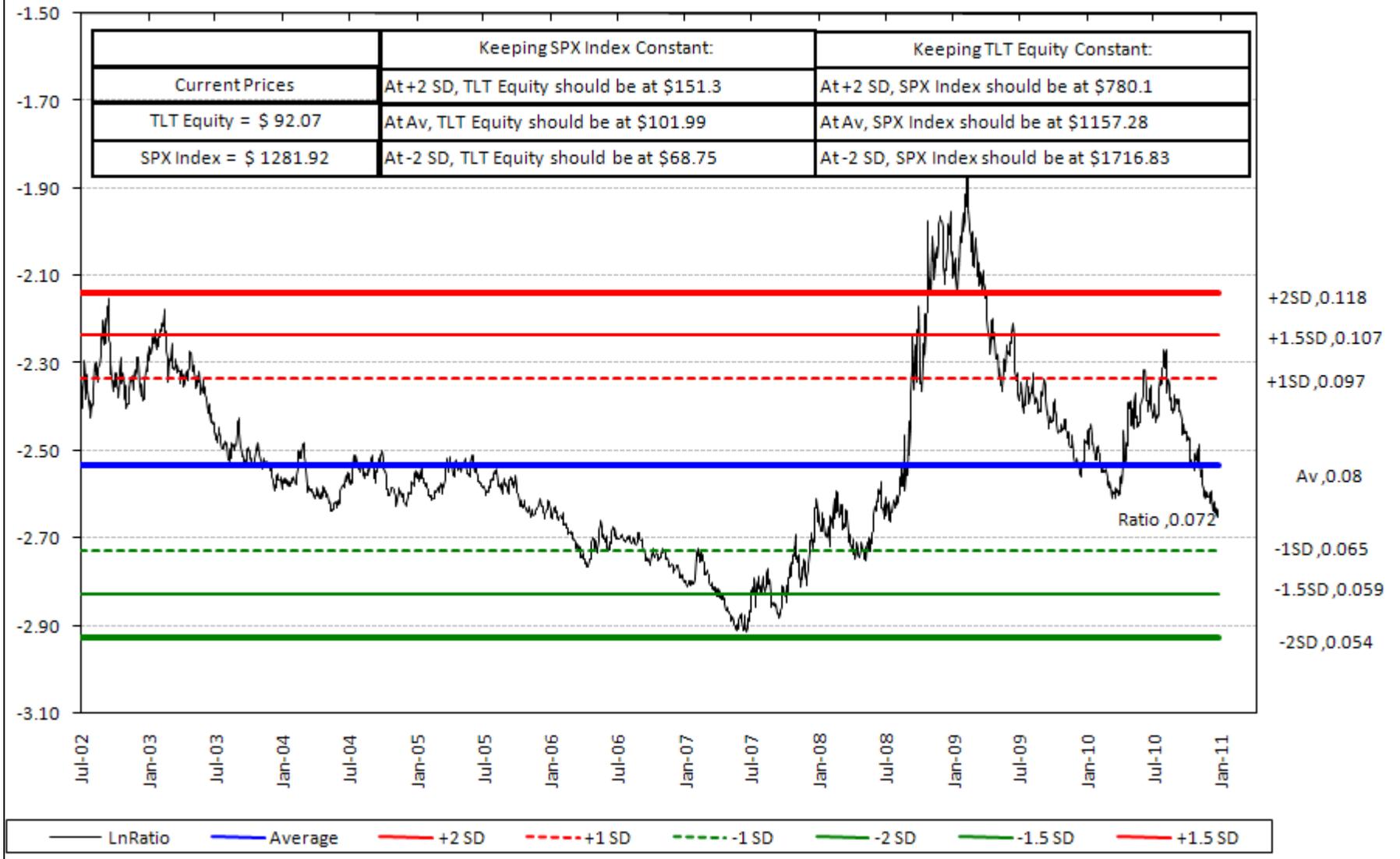
## TLT – Correlation Ratio Analysis with SPX – 365 days Time basis

**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

## Long TLT Equity and Short SPX Index, Updated till 19 Jan 2011, FULL PERIOD ANALYSIS



## 2 – US BONDS- PEC Analysis

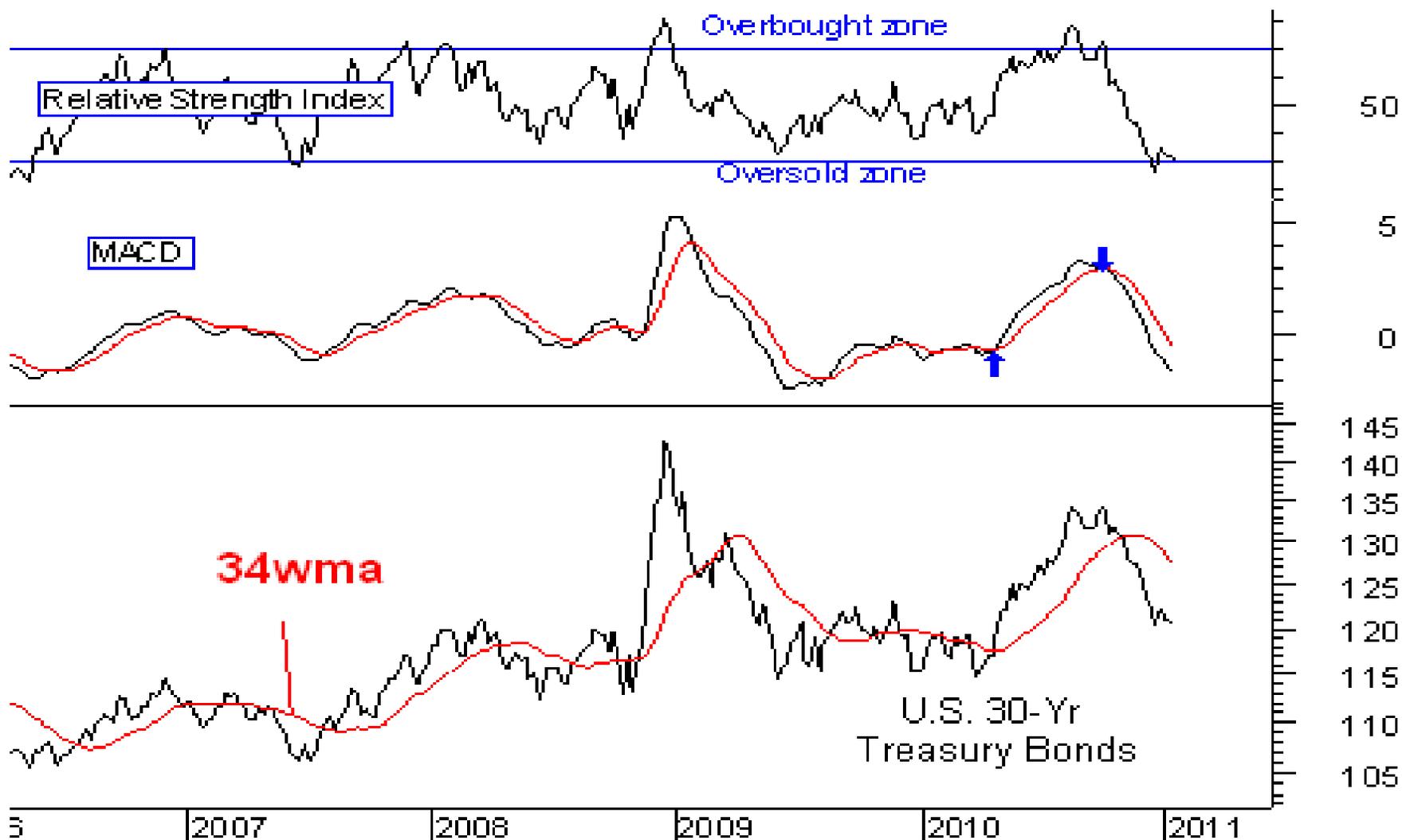
***PEC D – Target on TLT has reached 119 ( completing a 0.786 retracement) . Overall, bonds appear to be oversold and are due for a rally. if SD # 2 & POM 's lines up , We may re visit this market on buy side with TLT.***

**Our first PEC D point came in at 107 with Extreme “ Bullish Sentiment “ and that marked the Top with Triangular formation,**



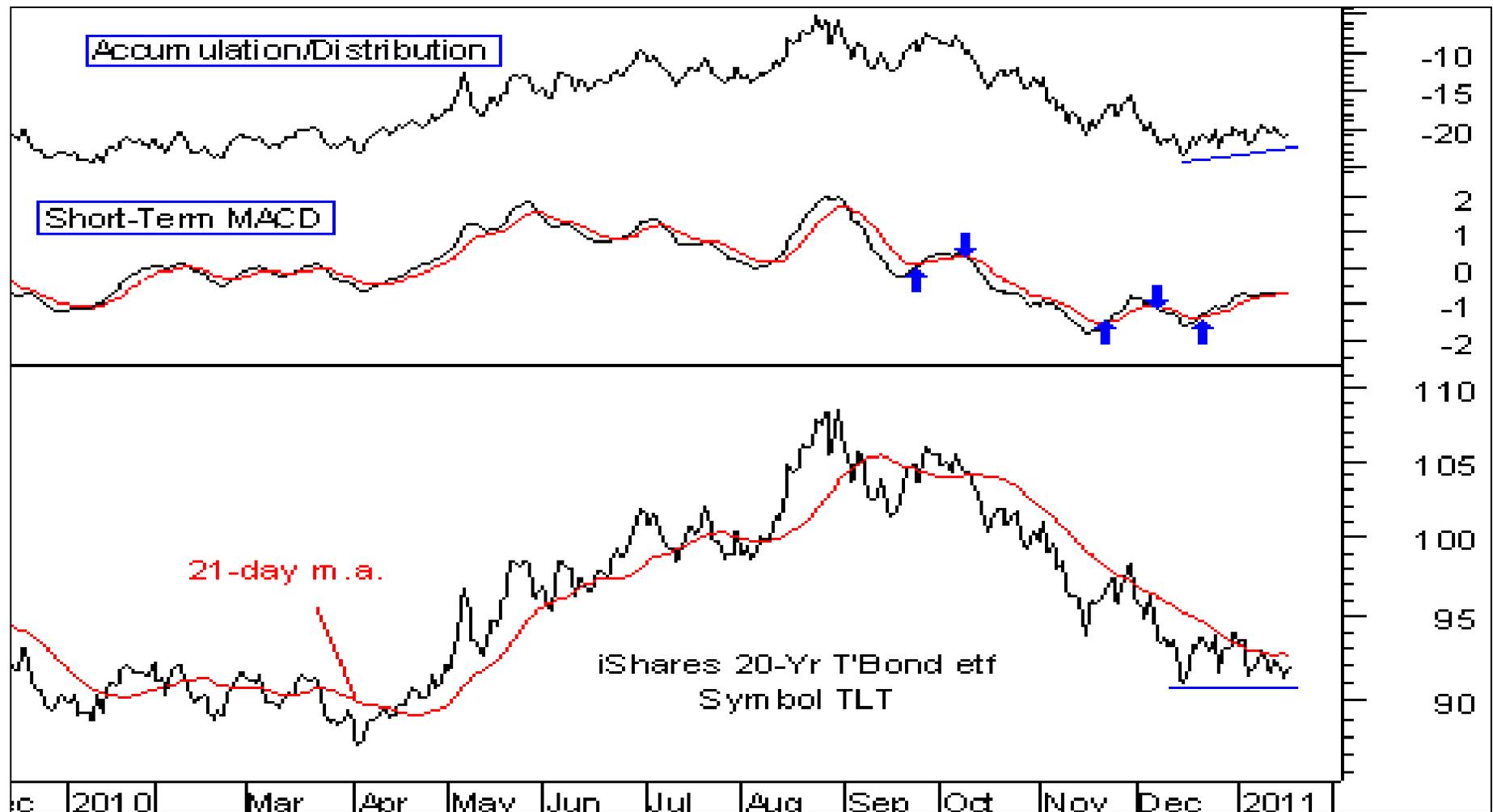
## 2 – US BONDS- POM – ST - Price , Volume & Pattern Analysis ( MONITORING CZ –PQV )

*Bonds have become quite oversold beneath their 34-week m.a. and the Relative Strength Index on bonds has just about reached its oversold zone. So we are watching closely in CZ – PQV*



## 2 – TLT - POM – ST - Price , Volume & Pattern Analysis ( MONITORING CZ – PQV )

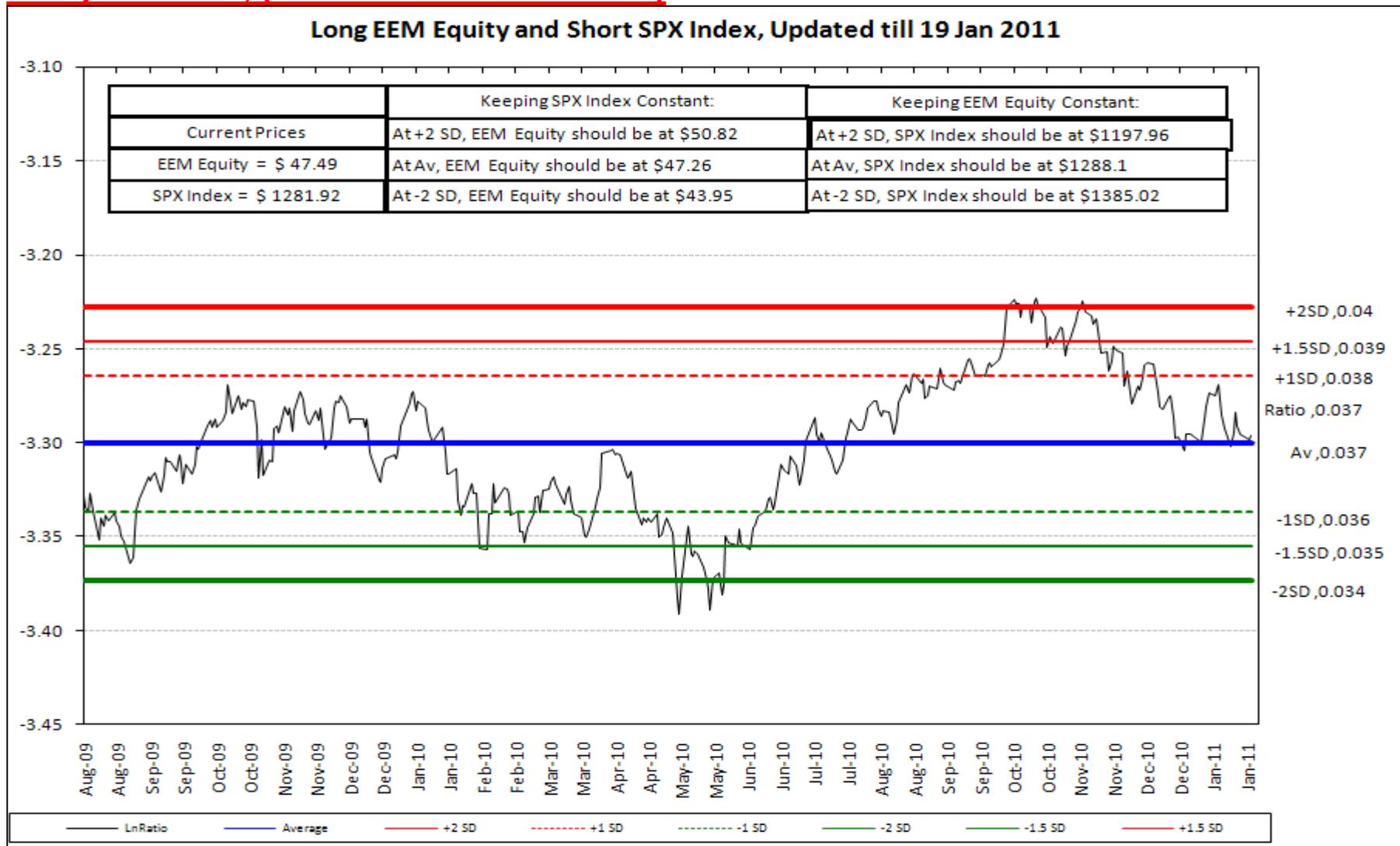
*TLT have become quite oversold beneath with bullish divergences see in Chart below , a close above 21 D should trigger new buying. So we are watching closely in CZ – PQV*



## 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 )**

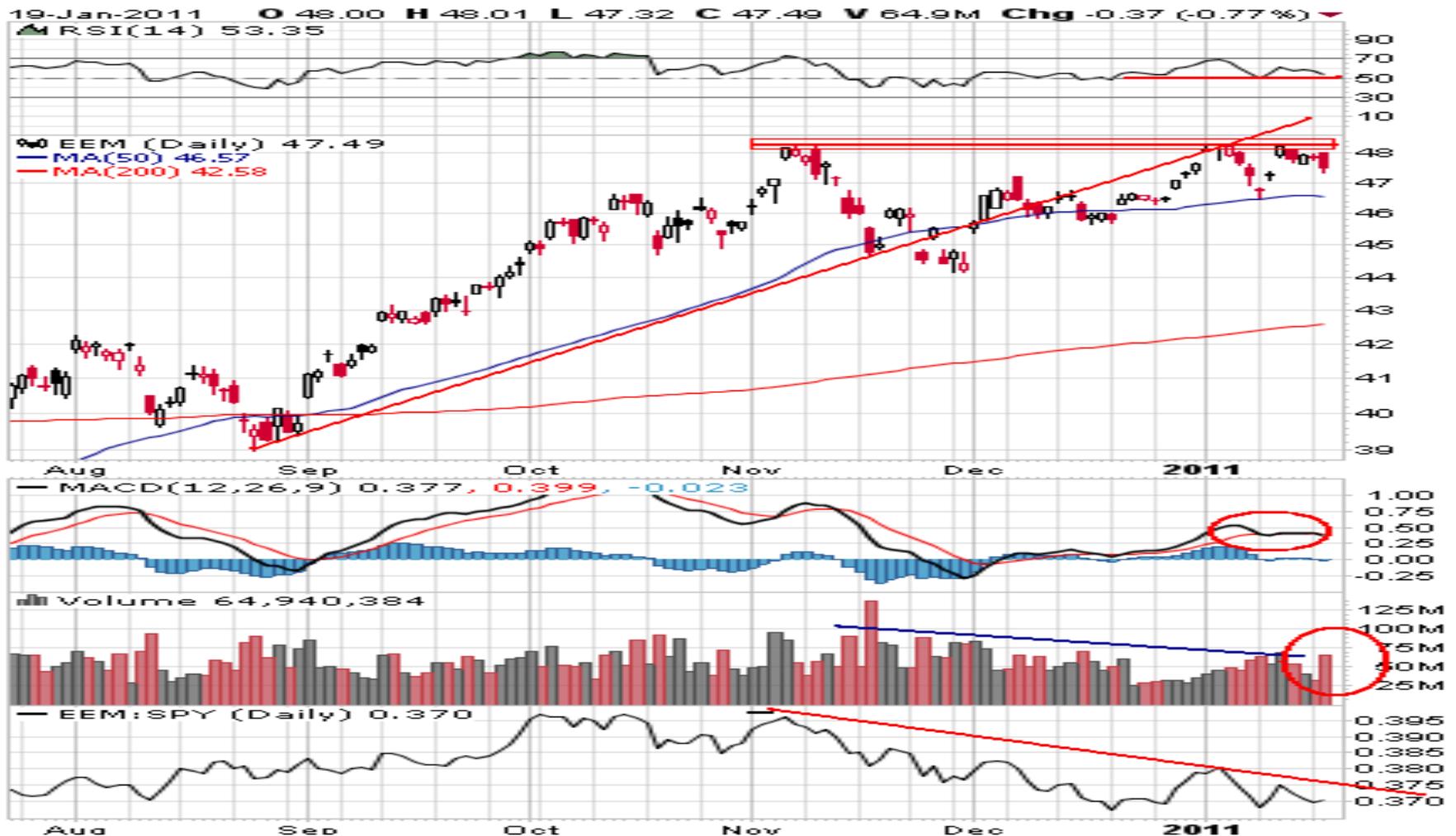


## EEM - POM - LT - Price, Volume & Pattern Analysis - **(MONITORING CZ - PQV)**

Showing weakness, EEM / SPY Ratio has weakened considerably ( See charts below) Indicating flight to safety. SPX will hold much better than EEM in next decline.

Currently RSI should trigger below 50. . Prices broke yesterday on Volume pick up on downside. MACD turned down

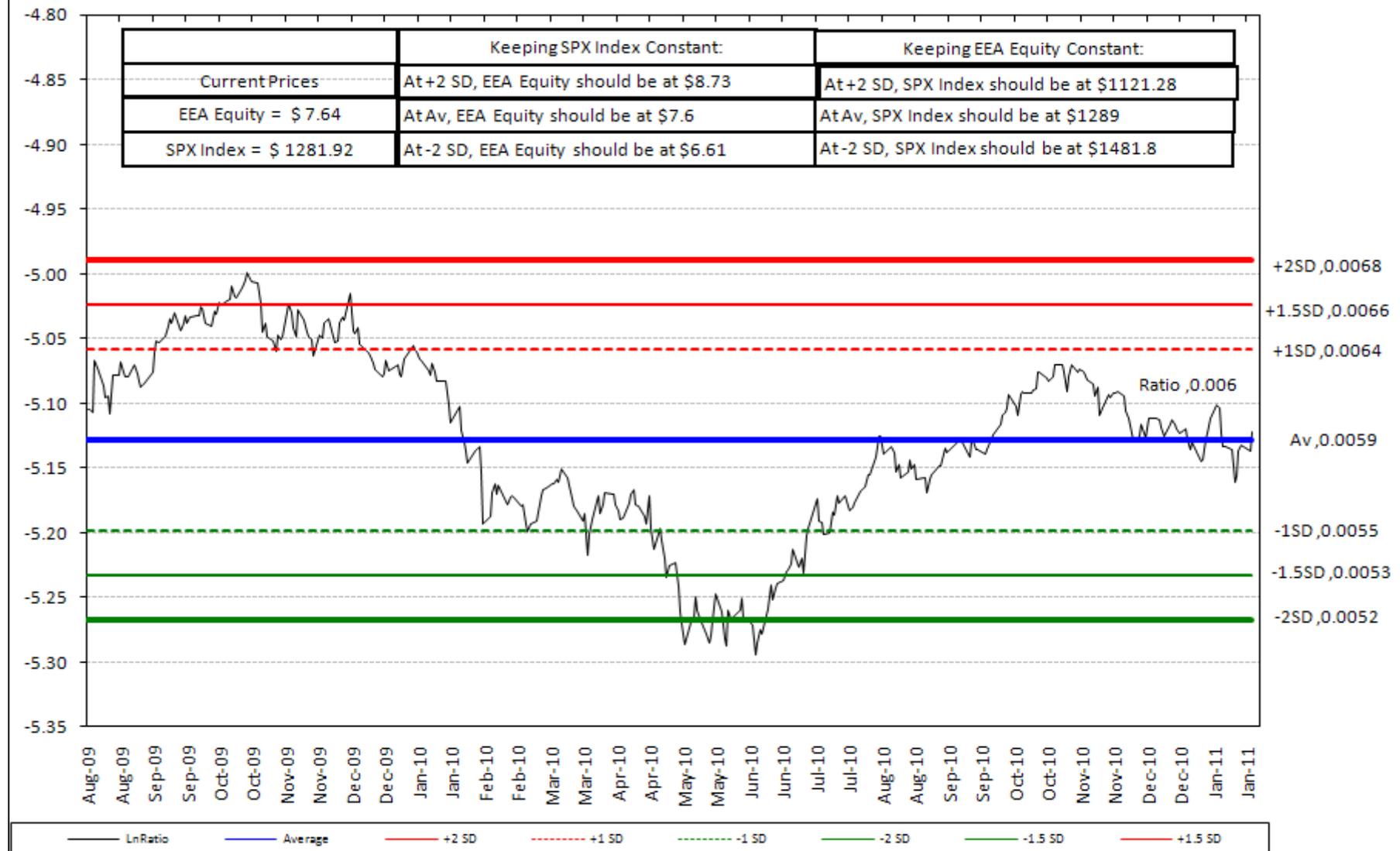
Earlier EEM double topped and Tested the broken Trend line in the CZ and PQV validated on test



## EEA – Correlation Ratio Analysis with SPX – 365 days Time basis

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

Long EEA Equity and Short SPX Index, Updated till 19 Jan 2011



## EEA- 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**
- **EEA 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 EEA**
- **Currently SPX is at POM 14 and so does EEA**

# 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.