



SG Capital Research

Global Market Insights

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

MAEG- MARKET STRATEGY INTERIM UPDATE # SG 2011 # MAR 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
- SPX - Hrly
- TLT - PQV Pattern Analysis (only If > 2.0 SD)
- IWM – PQV Pattern Analysis (only If > 2.0 SD)
- QQQQ – PQV, Pattern Analysis (only If > 2.0 SD)
- EEM – PQV, Pattern Analysis (only if > 2.0 SD)
- IYT – PQV, Pattern Analysis (only if > 2.0 SD)
- EZU – 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.

- **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.
- **Hedge Longs / Risk Management for Downside Corrections -**
 - Post POM 14, We recommend **fully Hedge on long positions** via the SETUP – PQV Hedge **SHORT** Index, of (22) Stocks
 - Our SD # 2 –CZ – PQV Validated EQWT **SHORT** Index in **(8) Sectors - PQV – CZ Validated**
- **Net Short –**
 - POM 15 Calls – **None** so far Triggered this year

• Daily SPX - “ Trend Adjusted Signal” – Flat @ 1324

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

• SPX – POM Signals & Price Projections with Setup Index

• TREND ADJUSTED SIGNAL (TAS) 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

• Market Insights

- *Although being Bearish in our opinion, Since 10th Jan 2010 our Indicators had suggested a bullish bias in our weekly MS with Wave 5 / C Rally – on 5 occasions. (Signaling caution for SHORTING, unless proven by CZ / PQV) It proved its merit.*

- *Today is our March, 2-year anniversary of the 2009 low has arrived . Such lows / highs acts as historical turn date and gets to be meaningful. Especially several T – Termination are expiring.*

- *However , we should not violate above 1350. A significant Time and Price - SPX top “ Time 10 week to 10 week” ABCD pattern is hard to form. Combined with Astro cycle change on that day 21st Feb has some significance. .*

- *There is also great danger in being short the US Dollar. Most currencies have recouped much of their 2008 losses against the dollar. ,The rush into the US Dollar will do most of the damage as a replay of 2008. This is very dangerous animal*

- *All Gold Mutual fund investors are wondering why GLD is up and their Fund is down 20% , We triggered POM 14 Re run at 139.5 yesterday on GLD and at 60 on GDX, as it failed our test within CZ , with Risk management with stops.*

- *For some time we have said that the best odds for a meaningful rally in bonds would be if a correction in the stock market takes place, which would create as a safe haven again, as happened last year correction. Although the stock market has not rolled over into a correction, bonds began to rally again in early February as some economic reports began to soften, and the corrections in a number of global markets continued*

SPX - ST

Prices seem to be following our Triangulation Pattern that is in Progress. The Upside / downside Energy defined by Tick study at SPX 1335 and 1290 , causing this pattern before it breaks or thrust in the direction of VTO



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



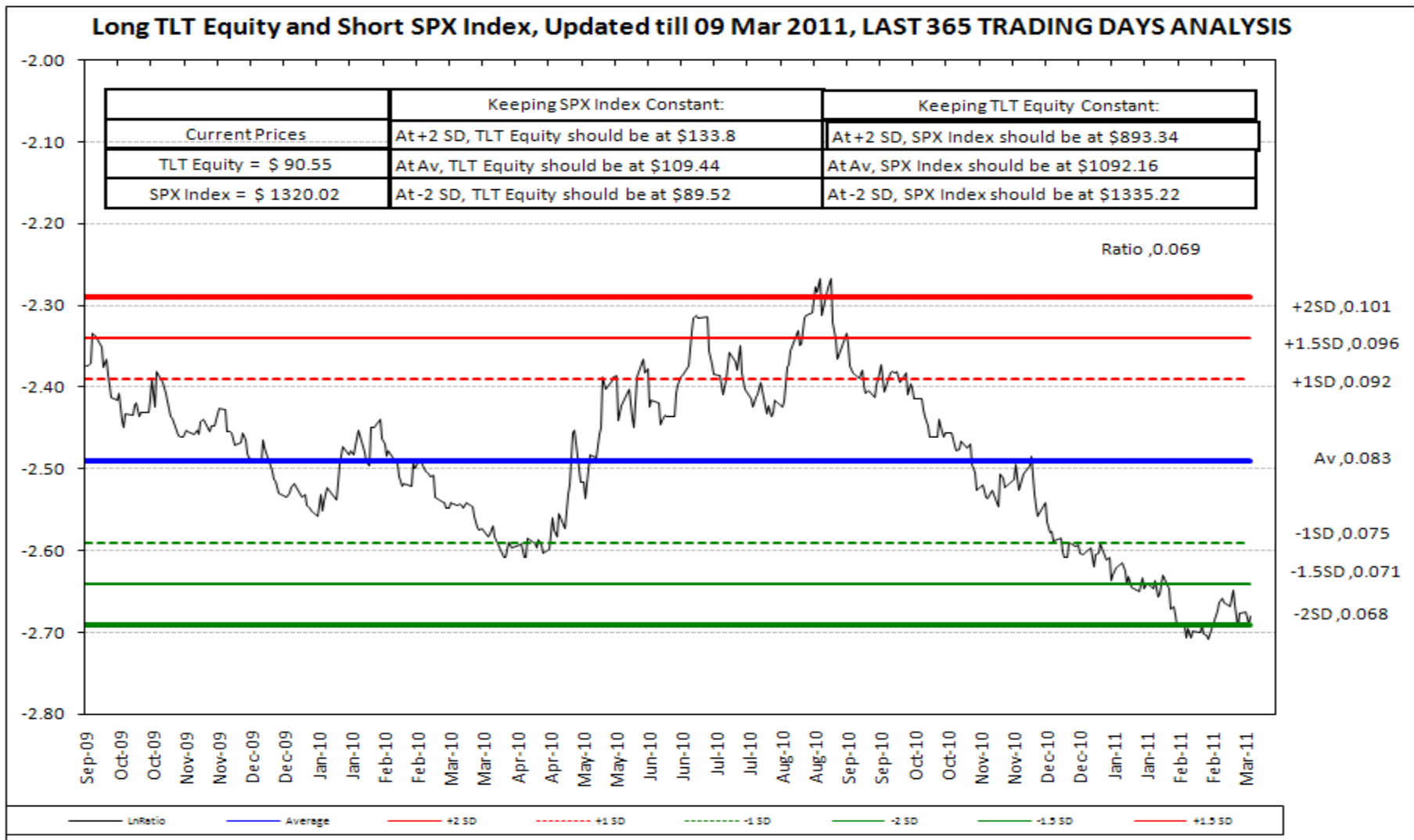
TLT - Daily - 3 Year with RSI, CCI, MACD

(11D / 55D)



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

**We were watching this carefully for SD# - 2 , for undervaluation Zone
(CZ -PQV VALIDATED)**



TLT – Correlation Ratio Analysis with SPX – Full Period

Long TLT Equity and Short SPX Index, Updated till 09 Mar 2011, FULL PERIOD ANALYSIS



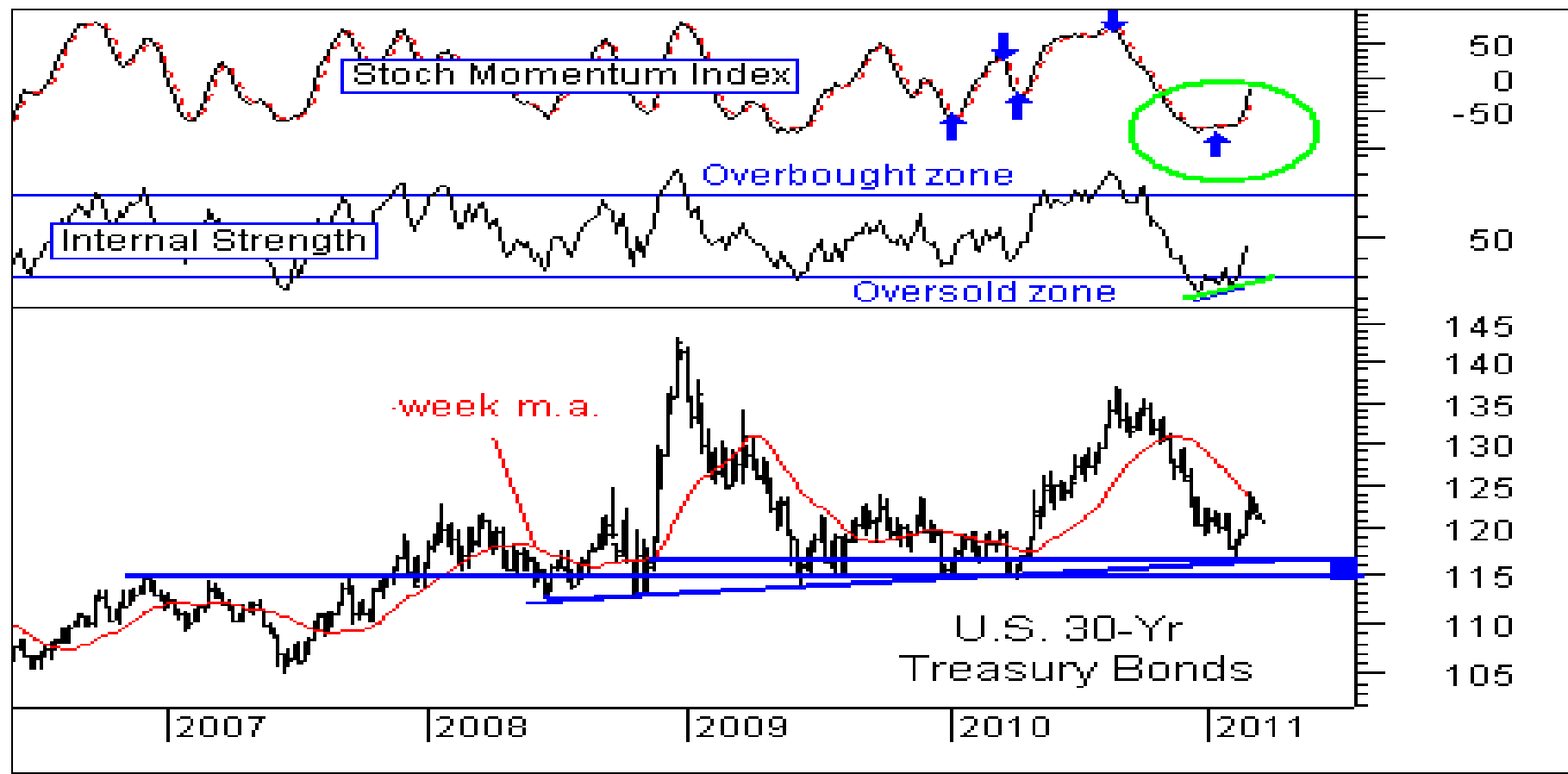
2 – 30 – YR BOND – PEC –D Analysis.

PEC D – Confirmed for next leg up .



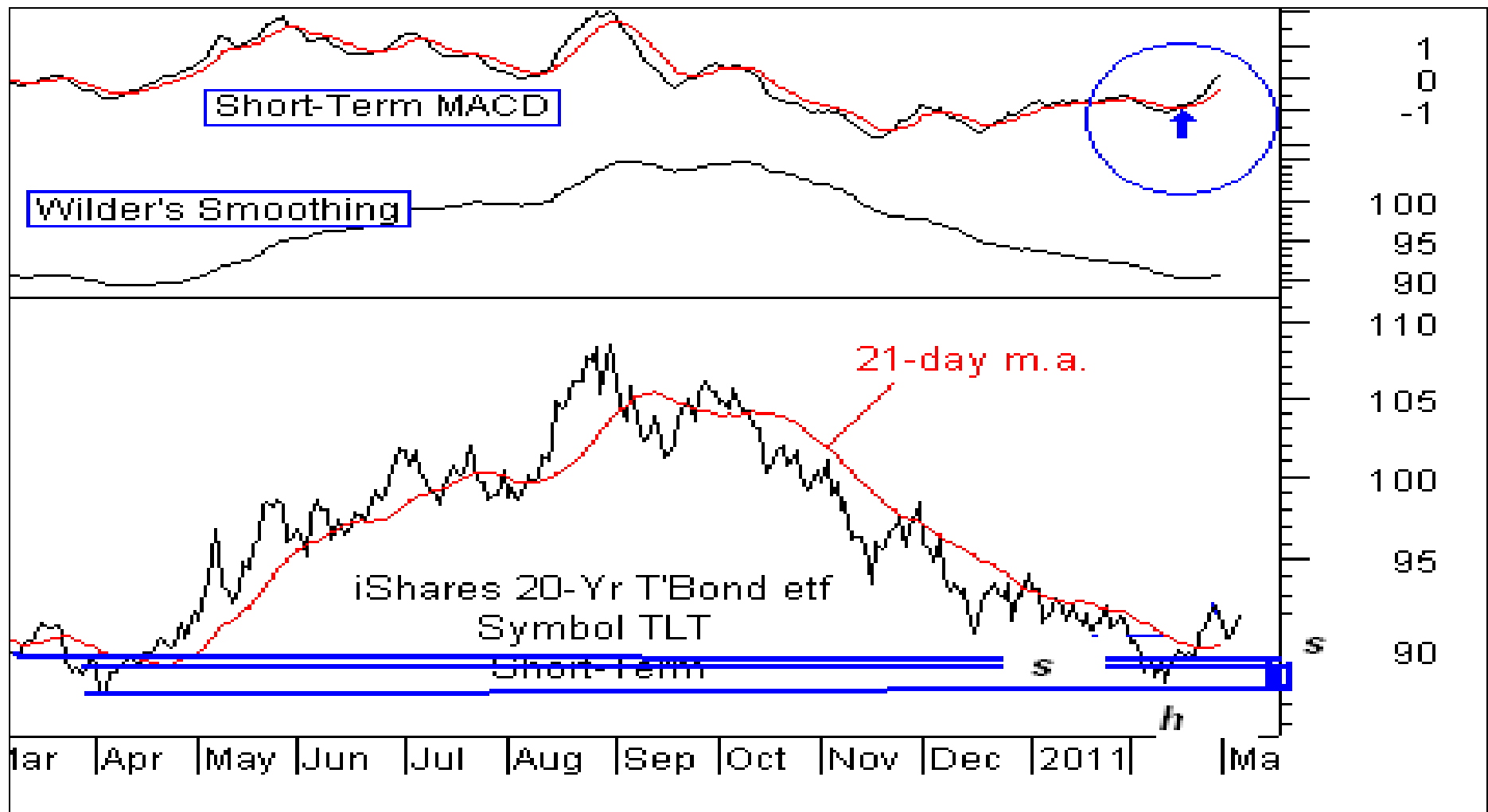
2 – 30 – YR BOND – Technical Analysis.

Money is flowing back into bonds to create an upside reversal in our momentum reversal indicators.



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

There is clearly a bullish setup here , After being effectively validated on PQV /CZ /POM 12 – Now it has established ABC up with Inverse H& S bottom (confirmed by volume) all these criteria being accomplished above 21 D and MACD triggered on ST & MT basis.. Note – Inverse H & S has much higher probability if used in concert with CZ /PQV



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 qualified at CZ -Short Sell***
- ***EEM (47-48)...Full position qualified at CZ)- -Short Sell***
- ***IYT (92.5 - 94.5) Full position qualified at CZ- -Short Sell***
- ***EWH (25 -26)..... 1/2 Position qualified at CZ- -Short Sell***
- ***EWA (25-26) 1/2 position qualified at CZ- -Short Sell***
- ***IYT (92.5 -94.5) Full position qualified at CZ - for Short Sell***

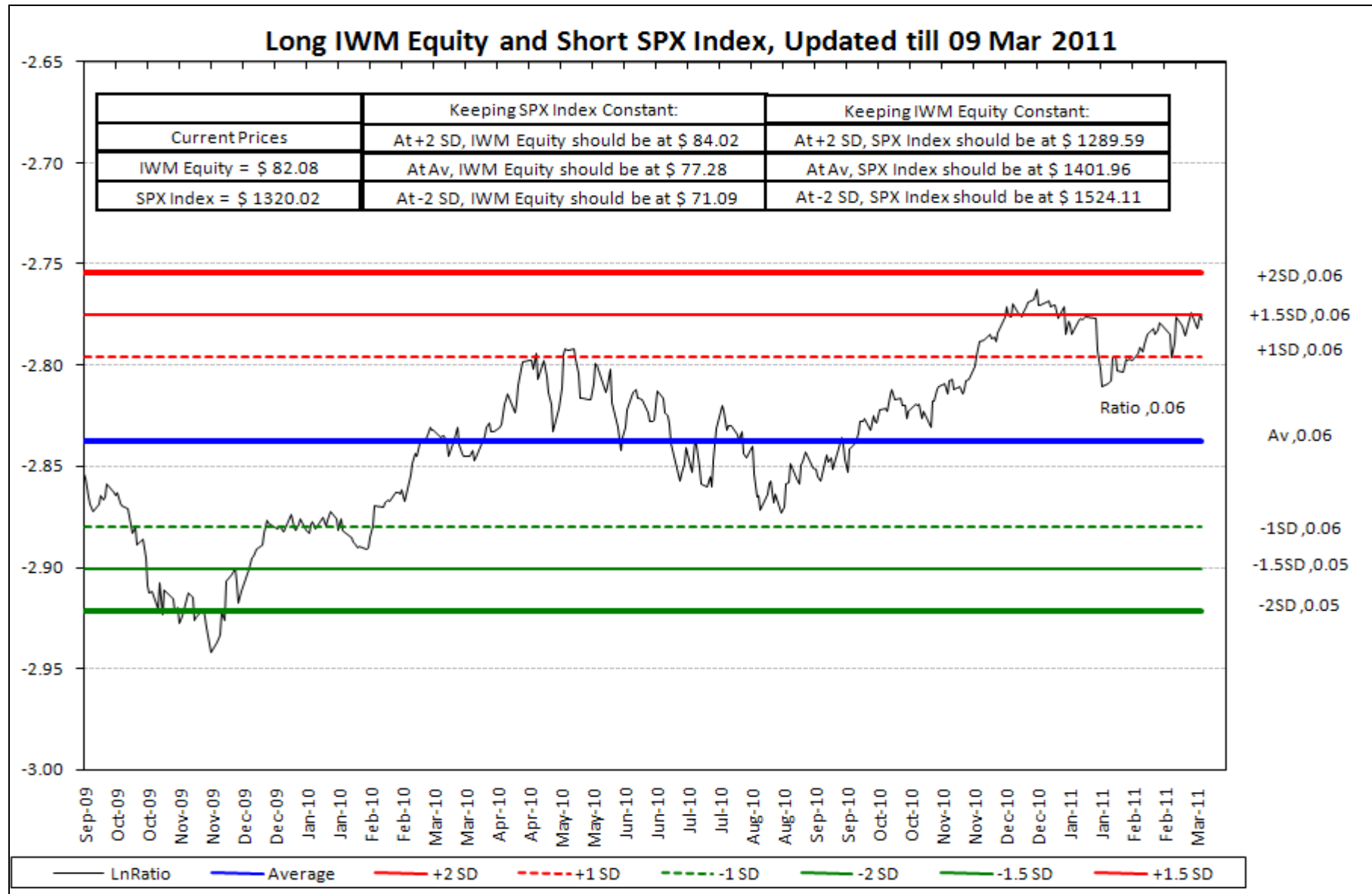
(Note – Among Sectors we have PQV / CZ Qualified for SMH, XLB, JJC, GDX, GLD in D # Release)

- ***The others that are on Watch list of PQV but still Not validated yet (but very close to it)***
- ***QQQQ (57 -58) (CZ – Voided , see the comments and chart below)***

Note – This actually failed at 58 on 3/rd March with 60 M shares v/s revised test of 100m , however due to our Offsite visit we did not get the chance to calibrate inflection point THAT DAY , otherwise we would have nailed this, We missed it but there is always another trade . Now we will wait for bounce for next decision point .

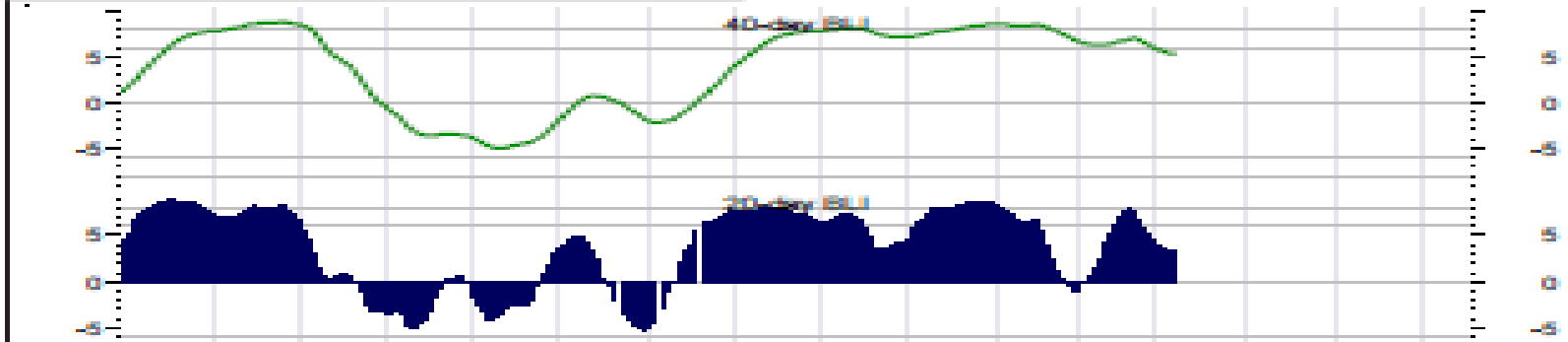
IWM – Correlation Ratio Analysis with SPX – 365 days Time basis

(CZ -PQV VALIDATED)



IWM - SMA / Trend line Analysis

	Russell 2000	IWM
Last: \$	82.41	
Chg: \$	1.32	1.60%



The 40-dma is the fulcrum point; a breakdown would test previous high support at \$74.



IWM –

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

IWM met our bounce target of 83 one more time from last message and rejected, then the decline began .

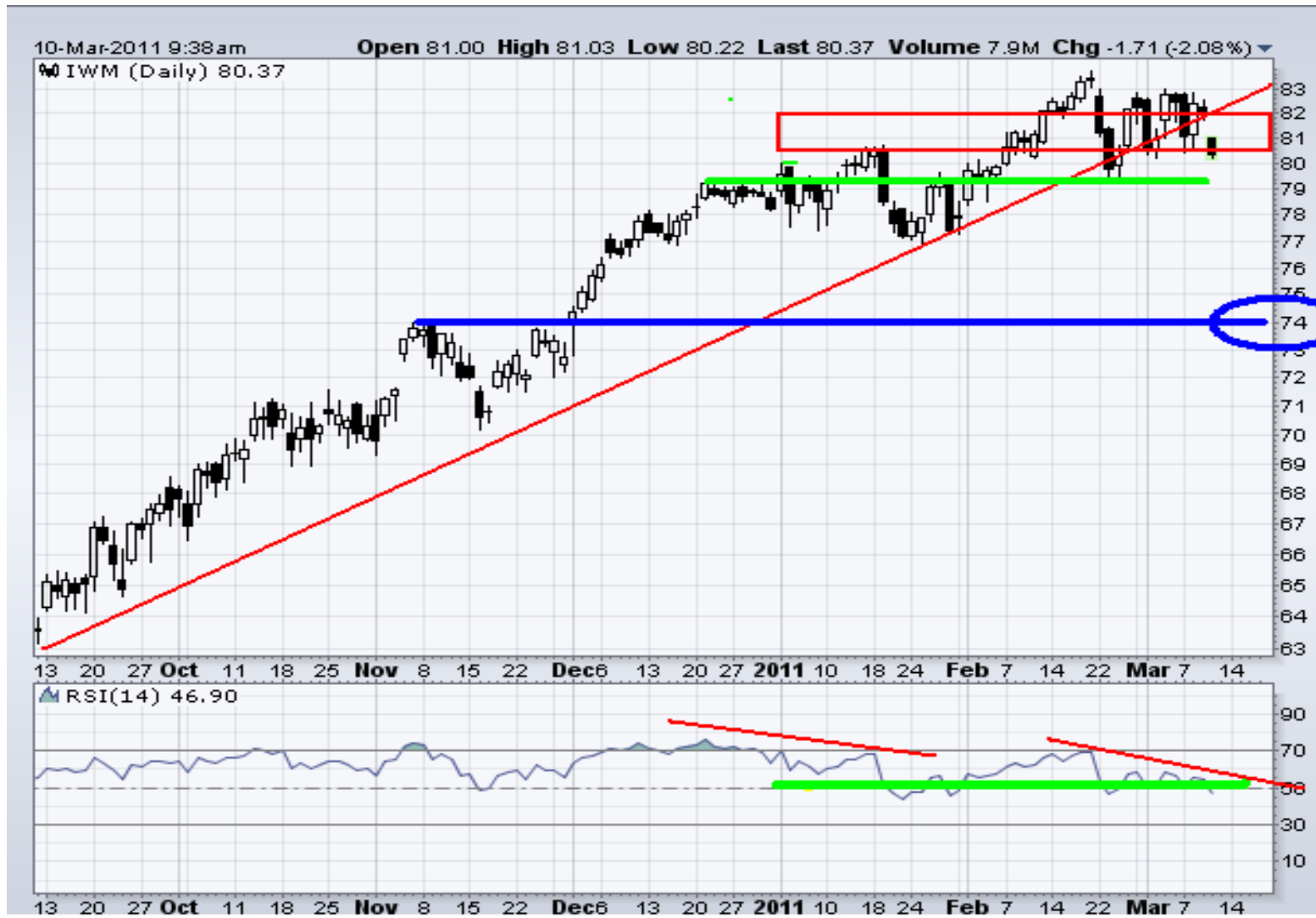
*Weekly test for ½ position(CORE) – IWM should test with GREATER THAN 350 M (weekly volume) and close under 79) for e a good test. **But hasn't happened.** We wait for next signal . We have been watching closely in CZ – PQV in Sector Report*

But on daily basis we have taken - the CZ For ½ position within 79.5 – 81.5 with 45 M failure. Volume on decline picked up . This is good for intermediate term bearish Trade , our price target is 74

For Short term - Next Level should come in at price points 77.5 to 79 and volume should come in above 125 M to get continuation of bearish signal if not we would get a bounce . This will be short term Risk Management for excess capital We will wait and see.

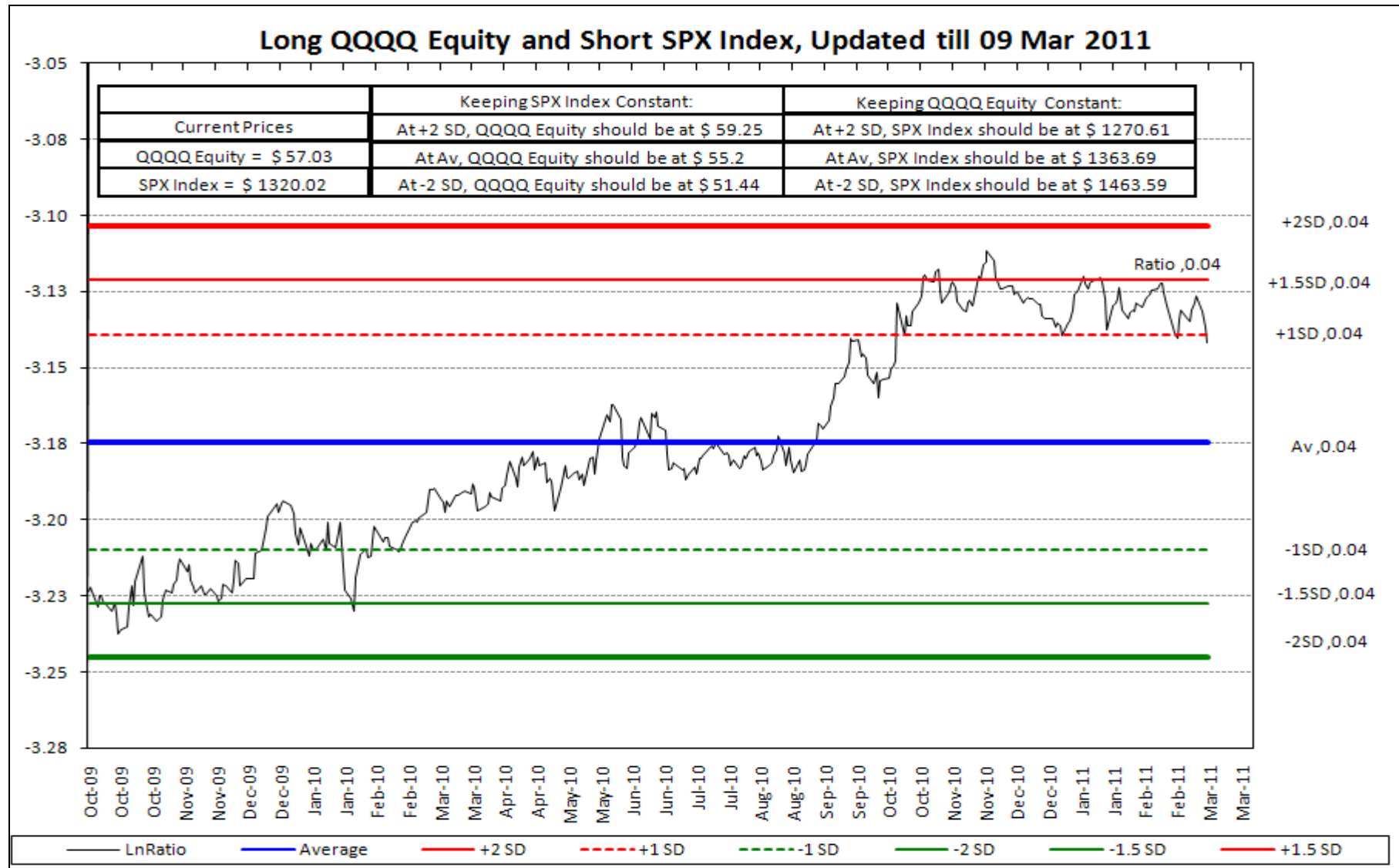
IWM- Price & Volume -

Struggling in CZ in spite of false breakout. Divergence plotted, if RSI close below 50 should have tough time to regain momentum back . Target 74



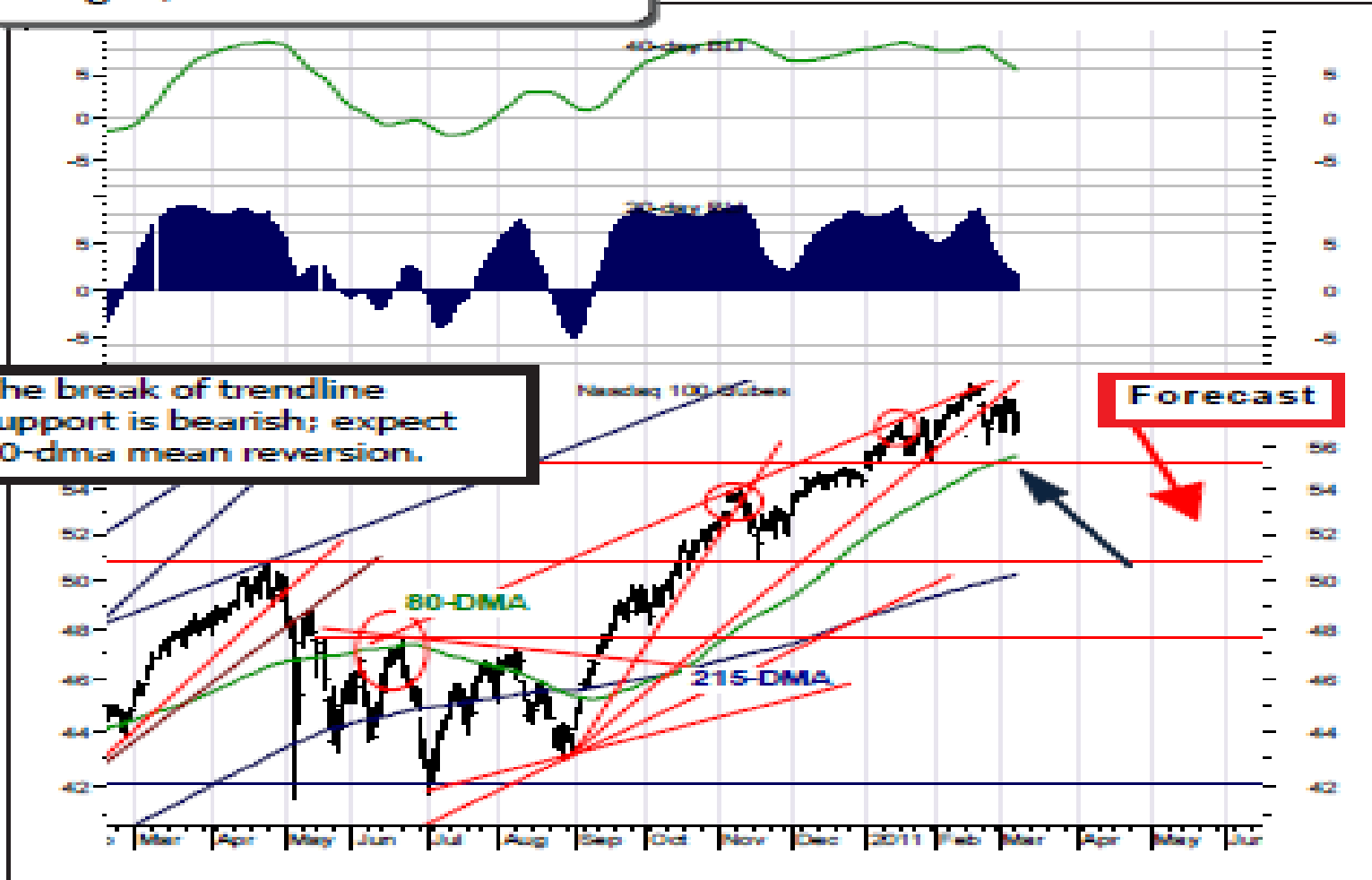
QQQQ – Correlation Ratio Analysis with SPX – 365 days Time basis

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: \$ 57.42	
Chg: \$ 0.23	0.40%



QQQQQ - - (No Signal) - Price , Volume & Pattern Analysis - (MONITORING CZ -PQV

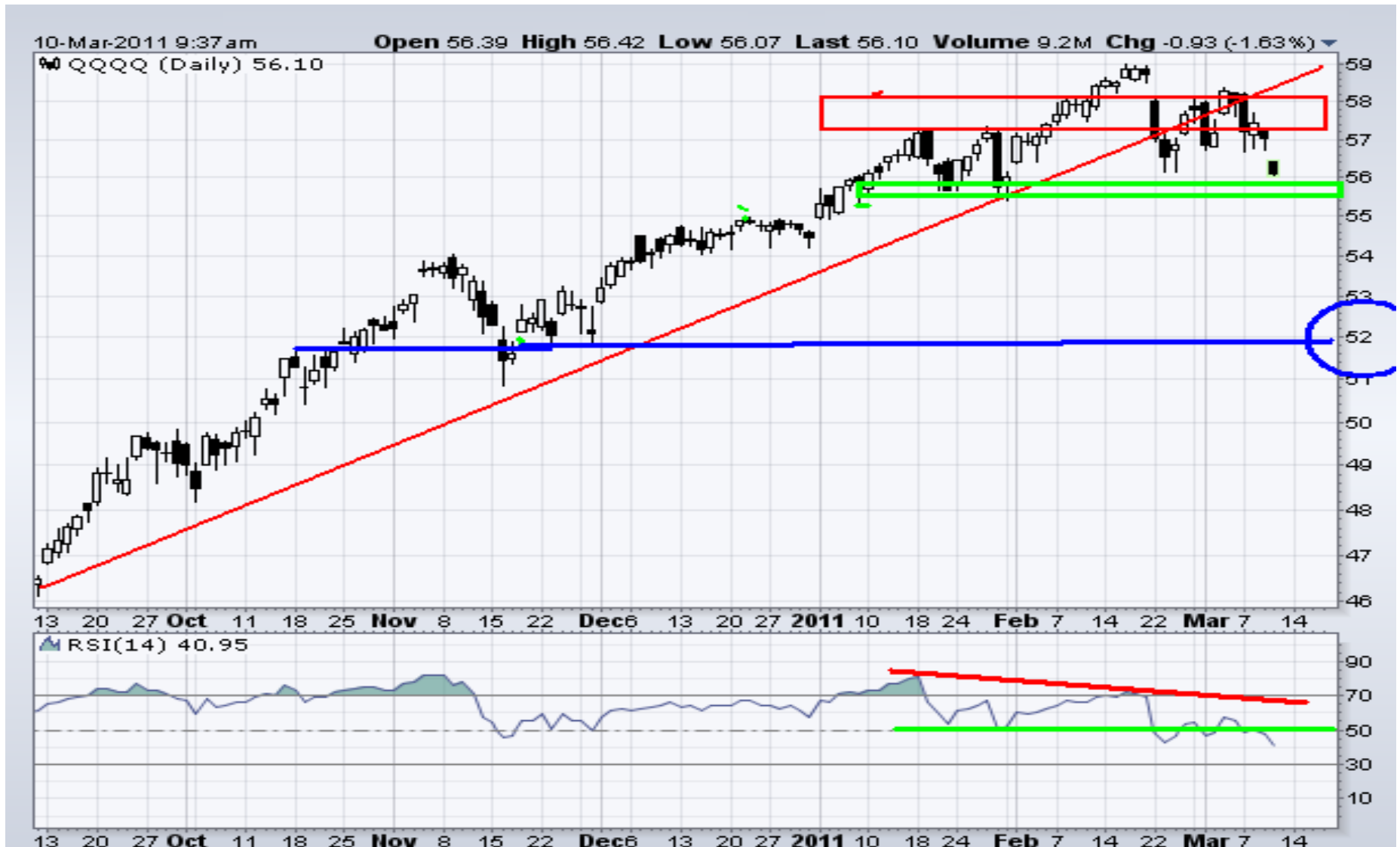
QQQQ - PQV has validated yet and refrained us from stepping in from 52 .

We had this in our CZ - 57 -58 & failed from way back 2008 Jan breakdown area & 2008 highs of Sept . and test 57.25 with 200 M (weekly volume) and close under 56, should be a good test. (voided)

On daily basis - Note - This actually failed at 58 on 3/rd March with 60 M shares v/s revised test of 100m , however due to our Offsite visit we did not get the chance to calibrate inflection point , otherwise we would have nailed this, We missed it but there is always another trade . Now we will wait for bounce for next decision point .

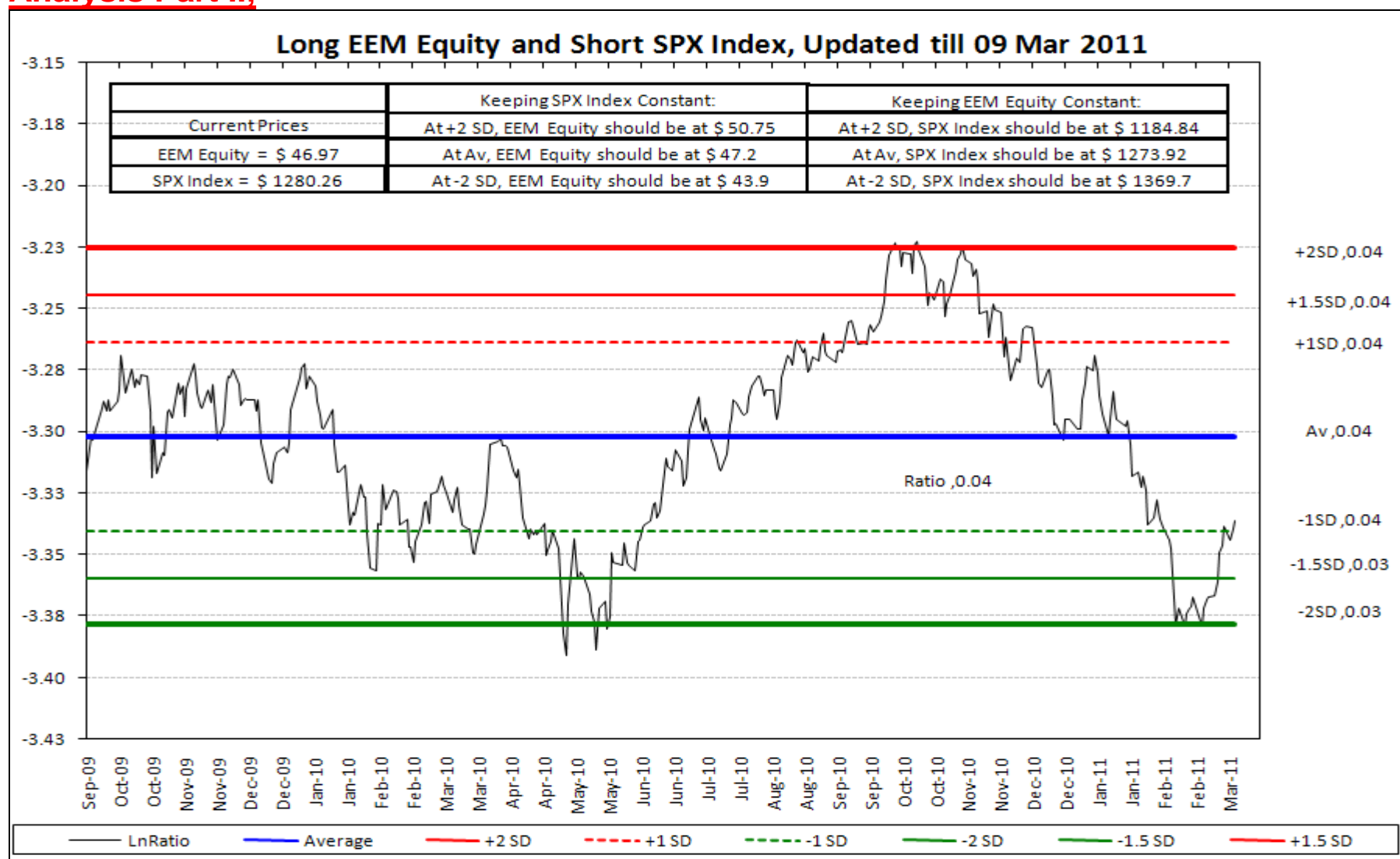
QQQQ - Price & Volume -

Struggled in CZ in spite of false breakout. Divergence plotted, if RSI close below 50 should have tough time to regain momentum back . Target 52



EEM – Correlation Ratio Analysis with SPX – 365 days Time basis - (CZ –PQV VALIDATED)
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,



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

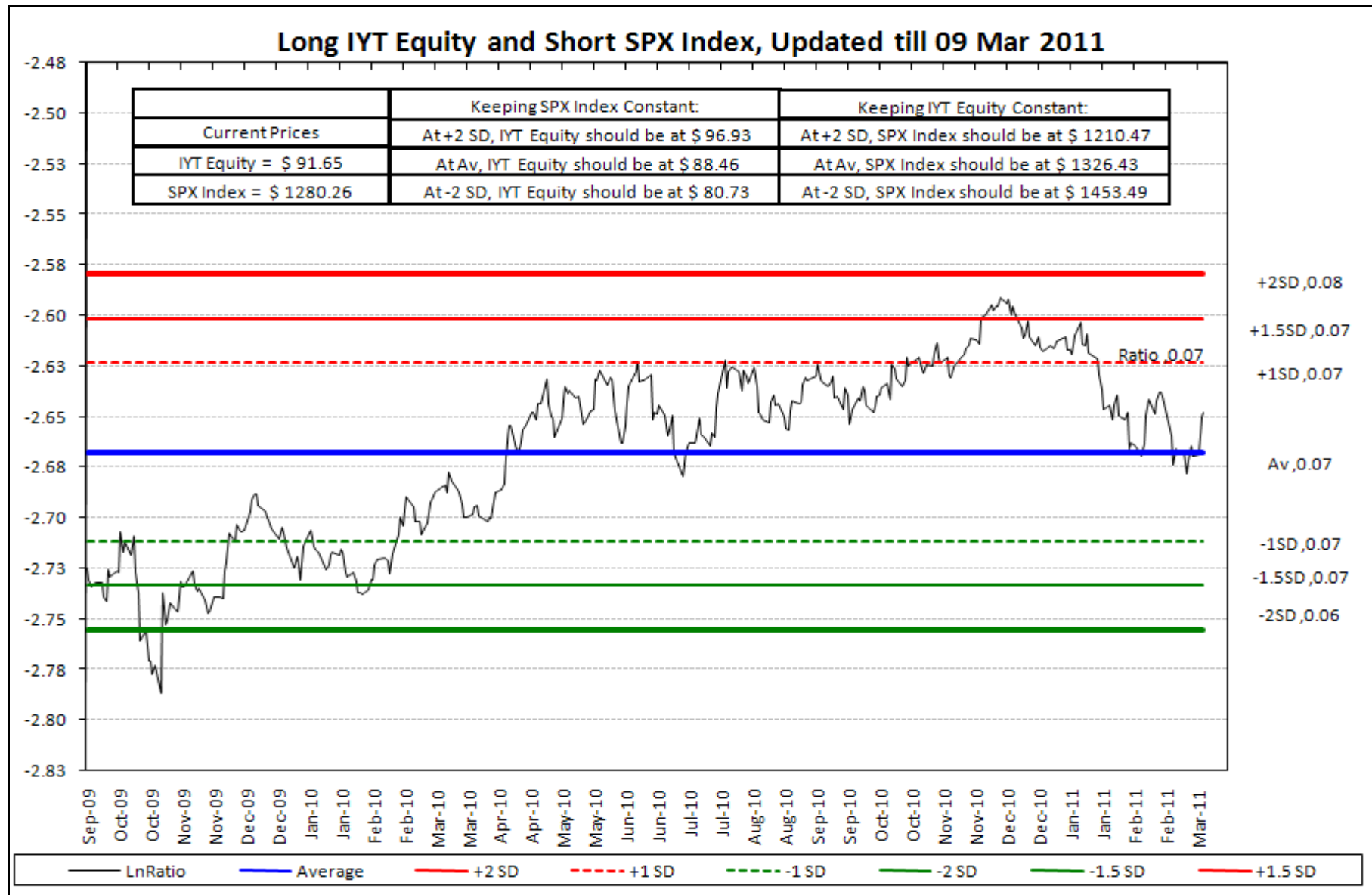
EEM double topped in CZ Area, tested the broken Trend line and validated PQV test in 47.5 to 49.5. The CZ area is from way back from 2008 Jan breakdown area & 2008 highs of Sept.

Struggled in CZ . Divergence plotted, if RSI close below 50 should have tough time to regain momentum back .



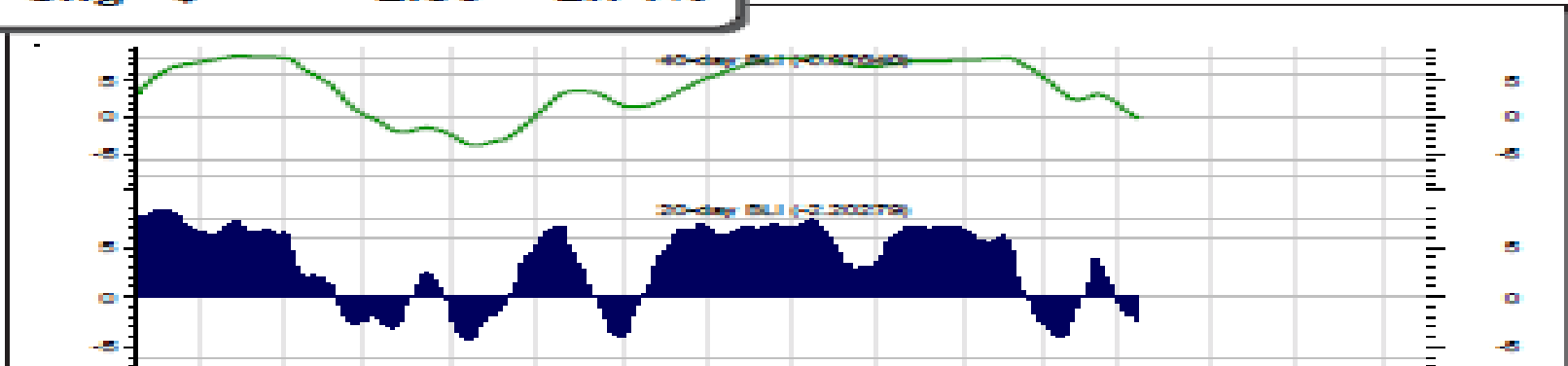
IYT – Correlation Ratio Analysis with SPX – 365 days Time basis

(CZ –PQV VALIDATED)



IYT - Price , Volume & Pattern Analysis

Transports		IYT
Last: \$	93.39	
Chg \$	2.56	2.74%



The bearish wedge is material; the 40-dma break suggests a test of \$86.00.



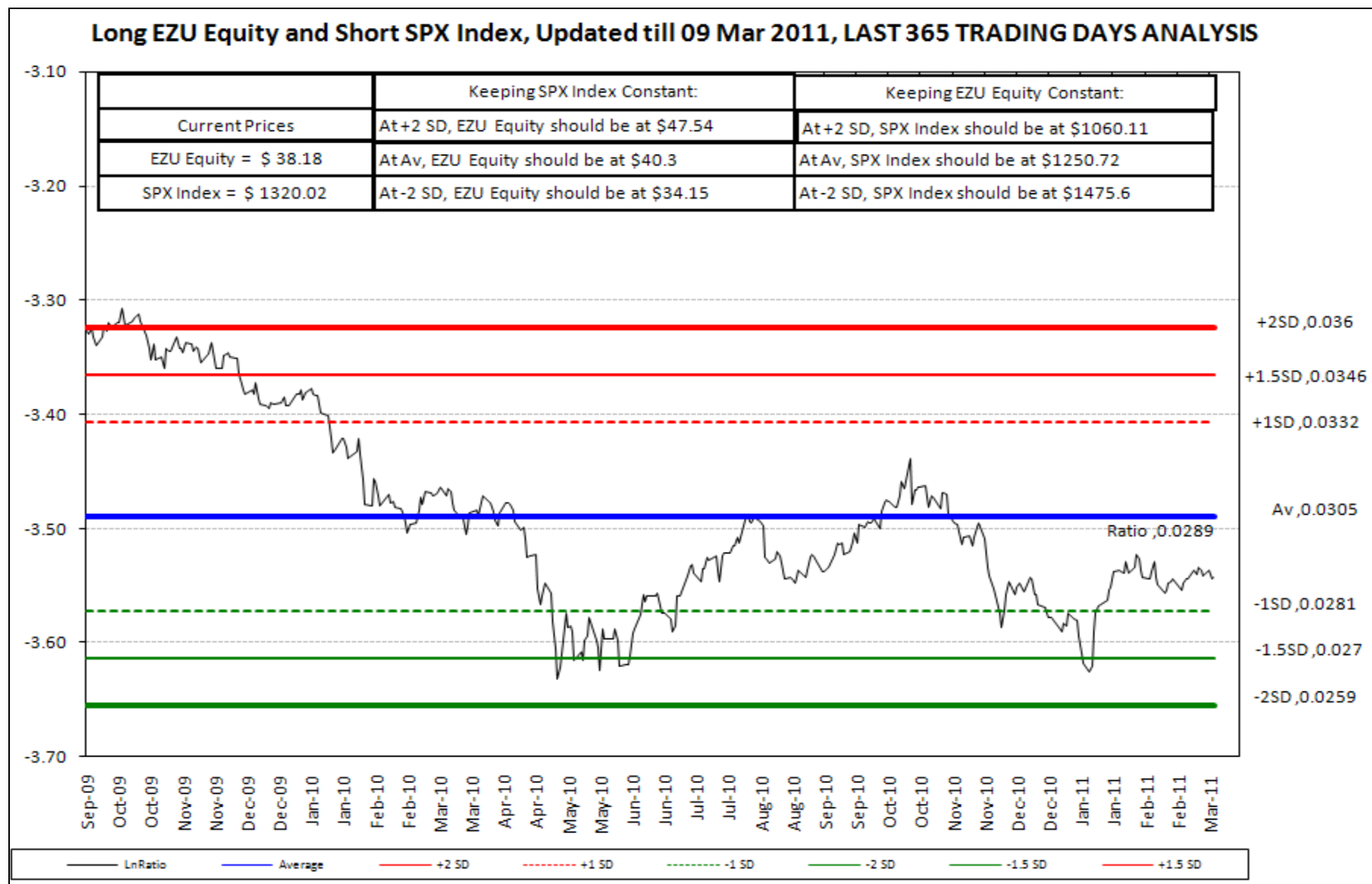
IYT - PQV Analysis

IYT failed in CZ 92.5 – 94.5, Struggled in CZ in spite of false breakout. Divergence plotted, if RSI close below 50 should have tough time to regain momentum back . Target 86



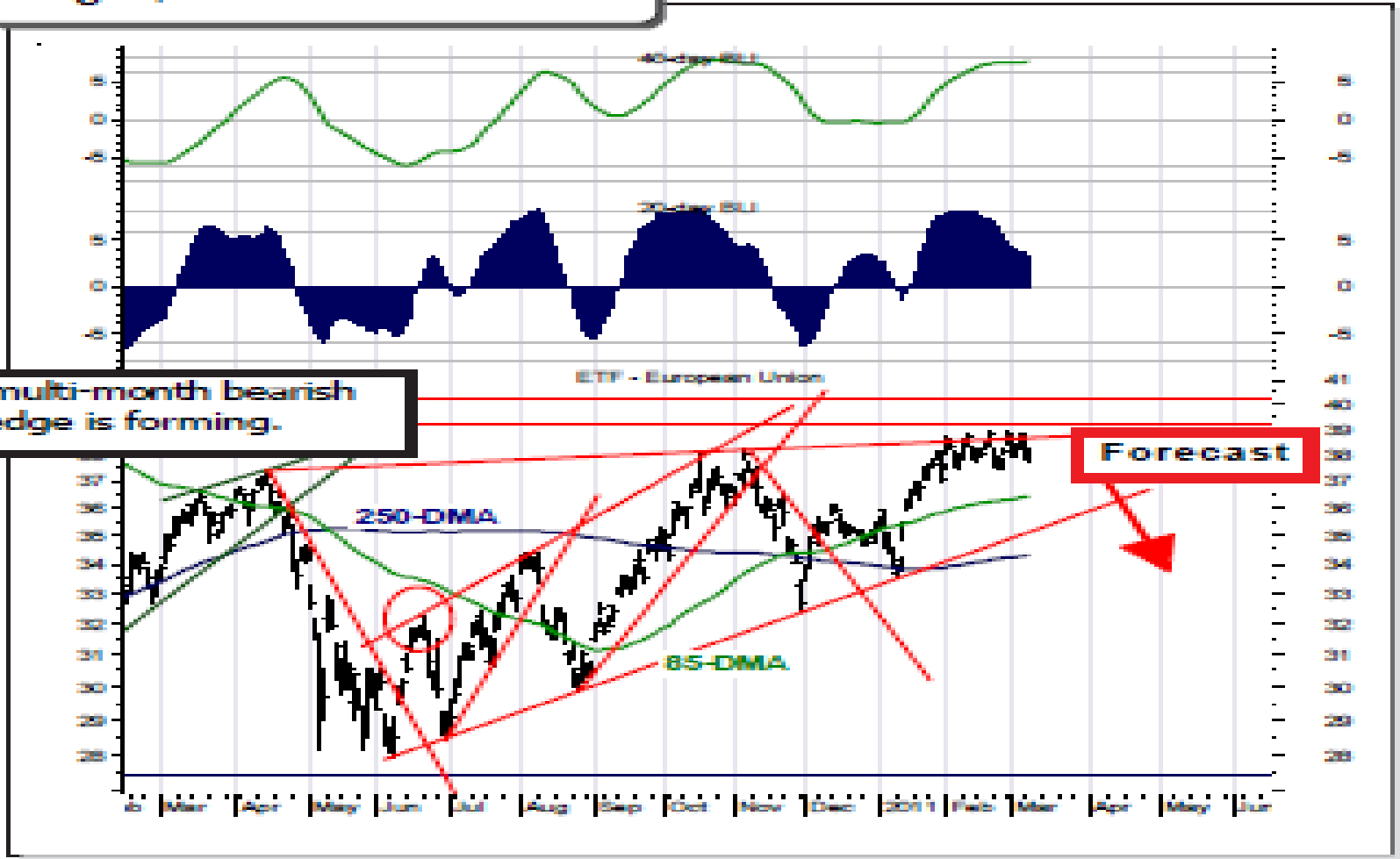
EZU – Correlation Ratio Analysis with SPX – 365 days Time basis

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



EZU – Technical & Pattern Analysis

European Union	EZU
Last: \$ 38.20	
Chg: \$ 0.08	0.21%



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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