



SG Capital Research

Global Market Insights

Research Note – Weekly Market Strategy Global (A # 1) – STRATEGY & PROP ANALYSIS –(SP)

MAEG- WKLY MKTSTR- GL- POM -SG 2011 # AUG_01

For Immediate Release – *Monday AM (EST)*

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Market Strategy Global (A # 1) – (SP) - SPX – Closed @ 1296 **(Weekly change -3.6%)**

Analysis of Broad Market that includes – Jan 1st 2011 – SPX 1257 **(+ 3.0 % YTD)**

- **Primary Market** SPX (or SPY) as main market driver and
- **Secondary Markets** NYSE, DOW (DIA) .

We have Selected charts (below) that has some distinct characteristics from last weeks observation based on our assessment:

- **Detail Coverage**

- Daily Trend Adjusted Strategy - 3x3 / 9EMA – DOW, SPX
- Primary Market Analysis – SPX, MID, ST , LT
- Secondary Market Analysis for SPX clues – NASD, RUSS, **(Detail coverage in A # 2 MS)**
- Sector Analysis for SPX clues on Money Flows – BKX, SMH **(None this week)**
- Time / Cycle Analysis- Bradley Cycle, 4 yr Cycle, Astro- Harmonic Cycle, Seasonality Cycle
- Advance / Decline Internal market behavior – A/D – SPX, % BULLISH, NH/NL, VOLUME
- Sentiment Analysis with Extreme character – TICK , TRIN, ARMS, PUT / CALL, VIX
- Global Market Analysis for SPX clues – FTSE / EZU, CHINA / EEM. AORD /EWA - **(Detail Coverage in A # 2 MS)**
- Appendix - History of past 52 Week - SPX –POM Signals & Key Criteria

- **Objective**

Focus is on the Short & Intermediate term turning point of the SPX via POM's Price projections and / or CZ (Bullish & Bearish between the POM's) . 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 acts as Risk Benchmark for all the other Markets (Key US Indices & Key Global) , these Markets gets priced off SPX-Risk (in different Proportion) . Therefore within A # 1 – MS our critical component being SPX and its internal ingredients for timely POM & Bullish CZ calls . Our A # 2 – MS focuses on Broader Indices and Global Indices.

- **SPX – POM Signals & Price Projections**
- **Trading & Investment Conclusions**

- **Net Short – *None***

- POM 15 Calls – NONE Triggered this year

- **UPSIDE Target CZ - Termination process towards POM 14 (to be advised)**

- **Risk Management for ST Corrections -**

- **BY EMAIL ALERT** – on 07/08 - Triggered - POM 13 on SPX @ 1346 , after reaching First Leg up target 1355 -1360. Short Term - Risk Management signal for High Beta Short Position & Rebalancing Longs. Via Broader Indices that reached Bearish CZ – stated in our A # 2 – MS Report dated 6/07

- **DOWNSIDE Target Previously announced in Earlier Reports**

- **ALERT - 7/18** Pull back to SPX 1300 –Retest - **BULLISH CZ** Projected reached. This is the point to **RECYCLE** the Risk Management Capital exited at POM 13 (@ Lower prices)

- **Net Long –**

- BY ALERT EMAIL** – on 6/23 - POM 12 Call – Triggered – for NET LONG . (**STILL IN TACT FOR MID TERM MOVE**)

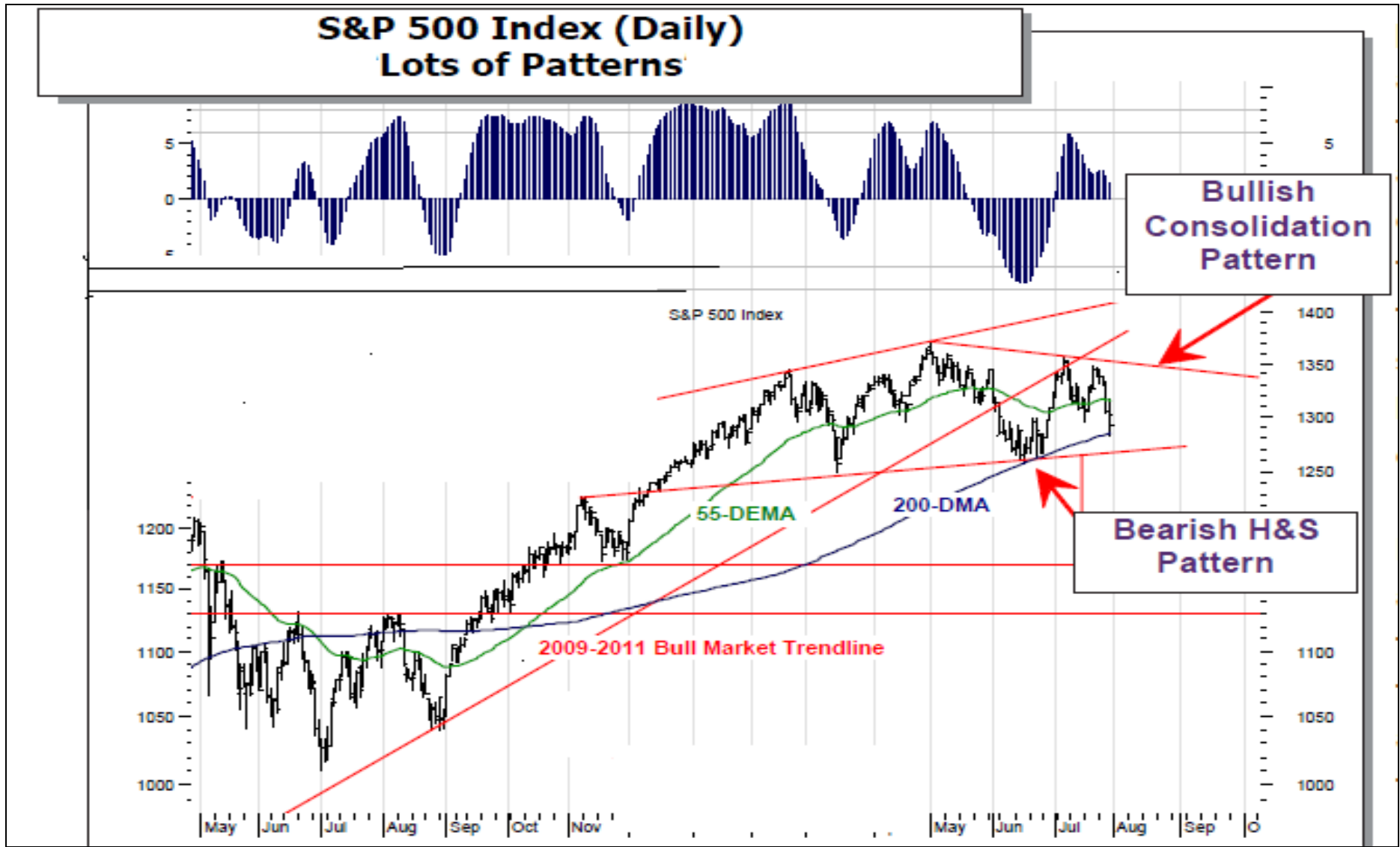
- We continue to remain on NET LONG situation on Mid term basis since SPX Triggered .. POM 12 @ 1270-1277 - The SPX Mid term Price path is stated in Chart below

• Market Insights

- *Past week SPX was down -3.6% back into the 3rd Re- test of 1300 Bullish CZ (from POM 13 @ 1348). This time with overshoot on downside towards the price of POM 12 . As of this writing SPX has swung 35 points from highs to lows in today's intra day trading on event driven volatility*
- *Such Market moves before & after High Level surprises (Political / Natural Calamity) has 50 /50 probability . It is difficult to catch such coin flips & Guess work scenarios in Market Direction dominated by non- technical factors . Relief rallies are expected but frankly no sentiment, breadth or price-pattern indicators are going to matter*
- *However , Mathematically what we know is A to B move from 1270 to 1348 (tends to be a straight line) and the Pull back to C point usually is in Zig Zag, followed by multiple tests. We seem to be experiencing just that.*
- *We think in spite of relief rally there should see another test of low again . Upon completion of C point the next 2nd ABC up could start for another leg up into August / September..*
- *On Friday July 30th, was full moon. These Cycle tends to work well at Turns especially at the CZ's. Next few days look to be highly volatile and the reports coming out of Washington regarding a debt deal should not be believed until they are signed into law*
- *Slightly longer term, Rally that began from POM 12 (is still in tact) should continue till POM 14 . The 6-year & 4 – year cycle which are down into September for a Top & Time termination of 27th September at latest .*

Primary Market Analysis –

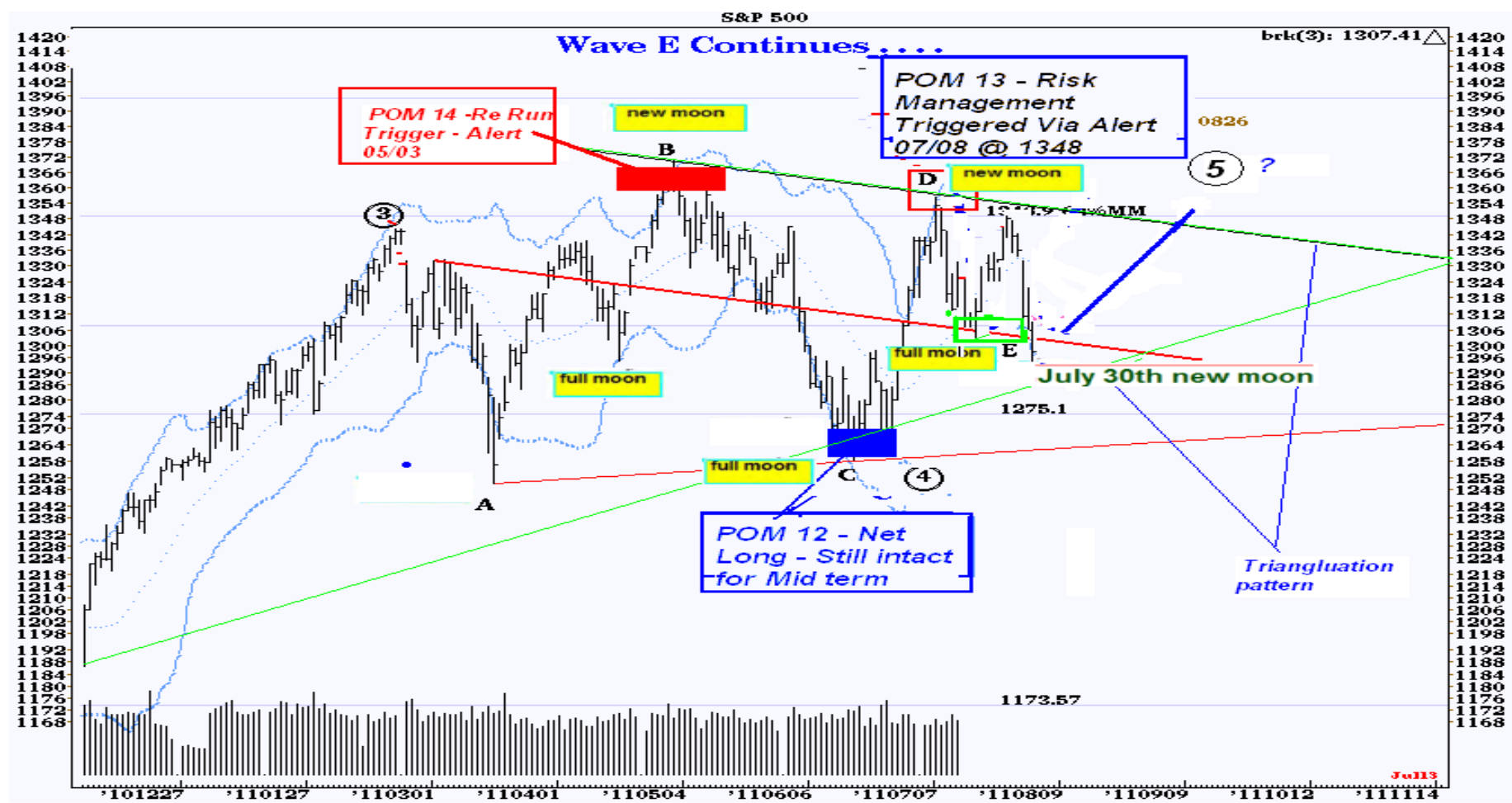
SPX – Mix Patterns *See notes within the charts, H & S Tops are easier to read then Consolidation Patterns.*



SPX – WAVE COUNT & Lunar Cycle – 30th July @ Fridays lows (see chart below)

We continue to see this move as wave E, the terminating wave, of a contracting triangle which has sent the market in a broad trading range . The 5 should end the entire sequence up from March 2009. till POM 14 - Triggers

The Time termination on right side is September 27th. Which seem to overlap with the 6-year cycle to peak . This could be expected topping zone back to highs is good probability.Price wise Wave 5 could be that projection. If this scenario works out, that could very well be the final wave .



TNX -

Reaction to Debt crisis, Another sign of panic buying is in Treasury Notes. Rates have moved down during the crisis as rush to the safety of bonds: If the stock market rally and the bond market will selloff.

The bullish divergence in rates implies we are close to a bottom.



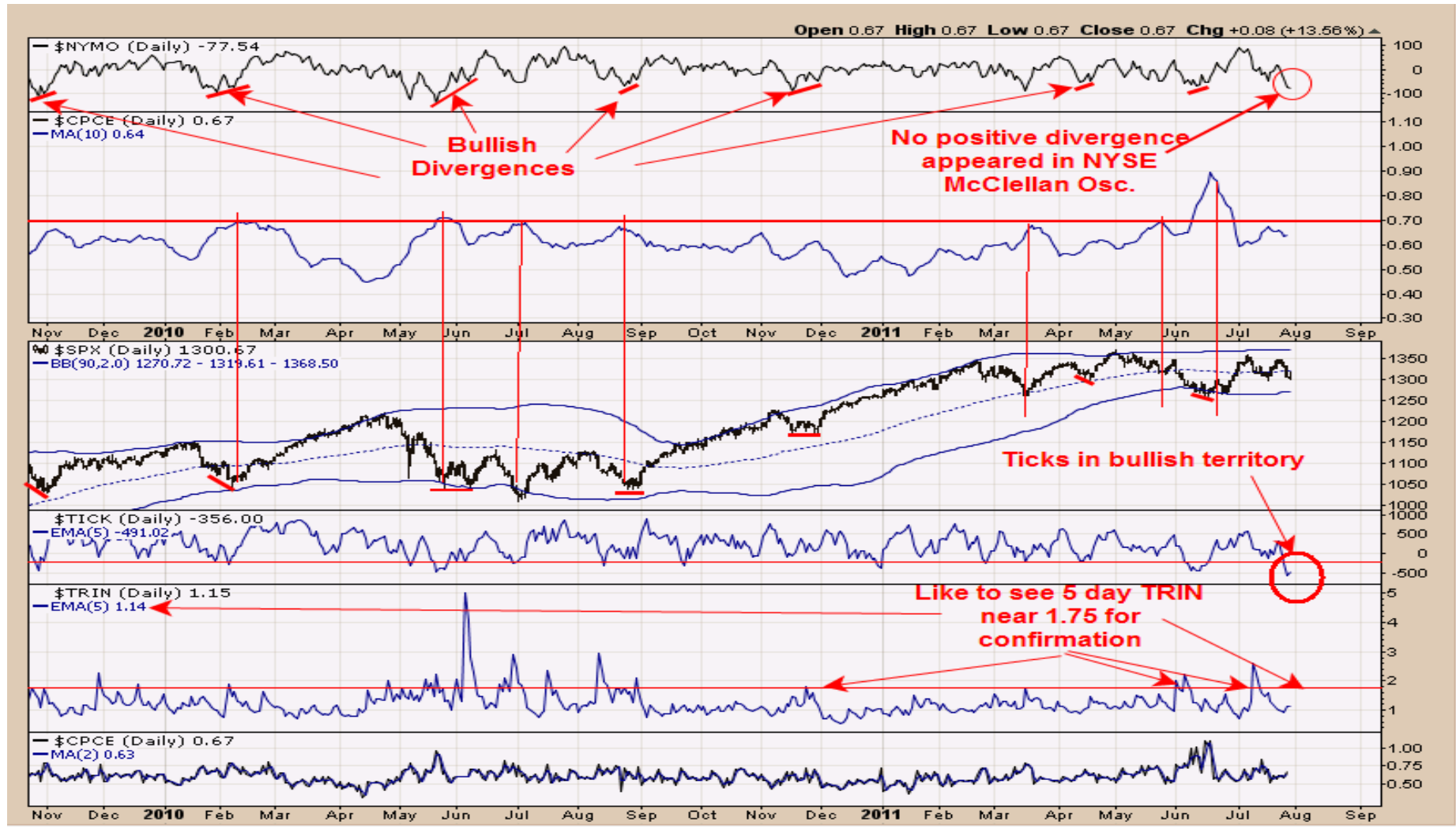
SPX – CZ - Analytics

BULLISH CZ (in green 1300 lower range) , has been getting re tested. We think even if we get a relief rally it should come back again to Re test the lows again building cause.



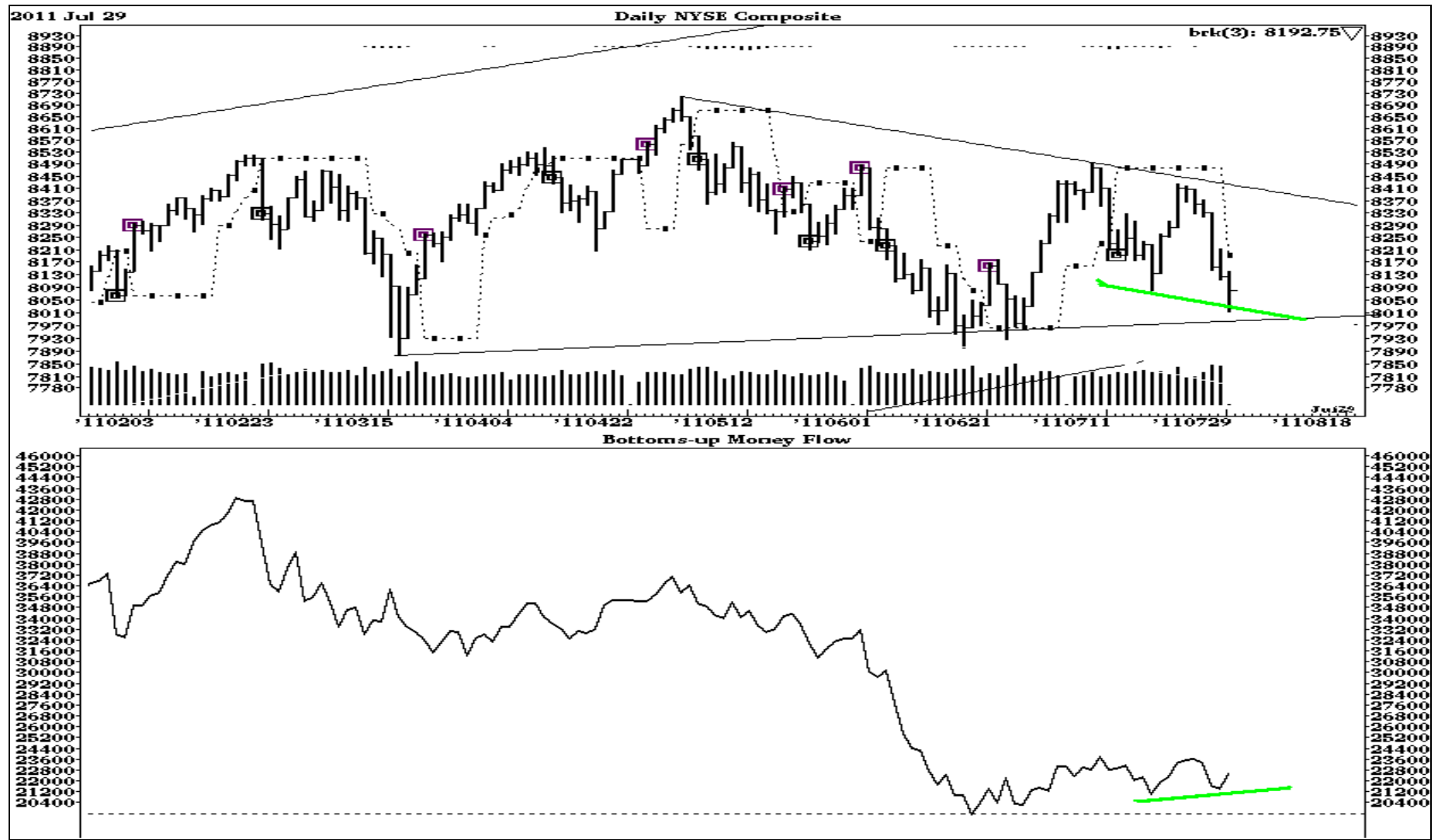
SPX – TICK / TRIN RATIO & Summation Index.

The 5 EMA of the Ticks have reached extreme levels and suggests a short term low is not far off. To help confirm a low in the market would be if the 5 EMA of the TRIN was near 1.75, It is very close. A bullish divergence of the NYSE McClellan Oscillator would also help (Rally and then pull back into lows should achieve that as well)



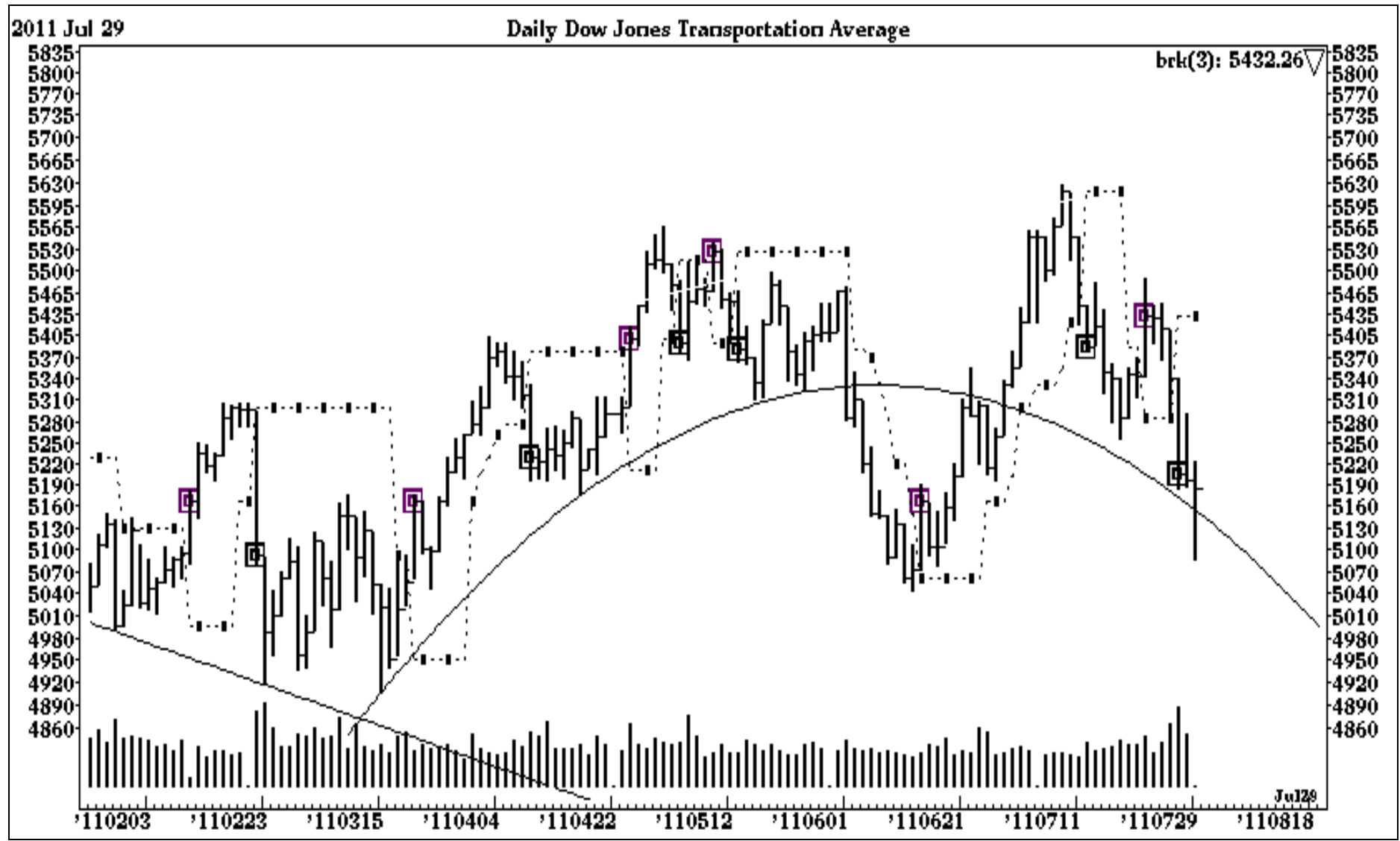
NYSE – Money flow.

The NYSE Index has begun to have positive divergence on Money flow (marked in green) . This suggests rally possibility into late September and form the final high of the expanding triangle (megaphone) pattern



Dow Transport

The Pull back towards the Poly Trend lines are holding well .



Dow Transport Theory –

We follow Dow theory for Tacking purposes. Currently IYT is still lagging DIA on price strength (chart below) and the Ratio lineIYT / DIA is broken down (see chart below 2nd window), Currently IYT is Testing Bullish CZ (where it previously triggered POM 12 on SPX. The Lower CZ @ 91.50 IYT / 11850 on DOW . The close below would signal SELL Trigger by our Method. Violating all 3 criteria. Earlier Buy was Triggered @ , DOW 11900

Note - Based on conventional DOW THEORY(stated in Jeff Saut Report , Triggered Buy 12800 in early May –



- Advance / Decline Internal behavior Analysis

- A/D Line NH / NL v/s NYSE on Equities only - SHORT TERM
- A/D Line NH / NL v/s NYSE on Equities only - MID TERM
- A/D Line NH / NL v/s NYSE on Equities only - LONG TERM
- A/D line_% BULLISH Equity in SPX BREADTH - MID TERM -
- A/D line_- VOLUME in NYSE - MID TERM -

A / D - SPX – % BULLISH IN SPX BREADTH – 50 D NH / NL – **MID TERM -**

Our A/D Analysis is based on 3rd derivative complex A/D Oscillator instead of conventional A/D Line , secondly it needs to be conformed by the % of stocks above critical SMA's divergences. Based on current market condition our observation points out the following condition

A/D line measured by (% of stocks above 50%) has reached conditions where the market has Bottomed out in past below 25 reading (indicated below) .



A/D Line v/s NYSE on Equities only - **SHORT TERM** -

Circled in Red where AD Line and NYSE are both trending lower in equilibrium with each other to the bottom of the range . This suggests after the pull back is complete , another rally phase is still left . We witnessed the similar behavior after POM 12 trigger in June (indicated in green) .



A/D Line v/s NYSE on Equities only - MID TERM

The deferential marked in (Green block) got wider this week but A/D line still leads higher then Index (shown in blue), suggests the Market tends to do catch up on upside (differential in green for Point of intersection, till market tops).

The convergence gap (in green) between A/D Line(of Equities only).



A/D line – VOLUME OSCILLATOR in NYSE -

Non Conclusive

Volume oscillator Ratio rejected the 200 DMA & Broke above 50D after the pull back , suggest still room for up move .

SPX v/s CBOE – PUT / CALL RATIO on Multiple Derivatives –

Non Conclusive

PUT / CALL on 3rd derivatives is approaching 1.08 where previous ST bottoms have occurred. Red line and Circled in Red

*(Put / call Quantity based v/s \$\$ based Ratio on 5 DMA rotated every 3 weeks @ 0.75 of the month on “Weird Wally Wednesday” prior to Expiration . **It tends to work well to identify bottoms** but not for ST Top . At the tops we prefer the \$\$ weighted Put / Calls ONLY it gives better signal by different method we use- which is not extreme yet) .*

This indicator is normalized after 1st rally in SPX – and at POM 13 is Neutral . It Gave a great Signal at BOTTOM

VIX – PEC D

Non Conclusive

No PEC – D point yet , however , As long as VIX Remains below red mark in chart , Rally could continue and good chances of completing PEC- D pattern

Note - PECD gave great signal at POM 12. & at POM 14 re run on 3rd May

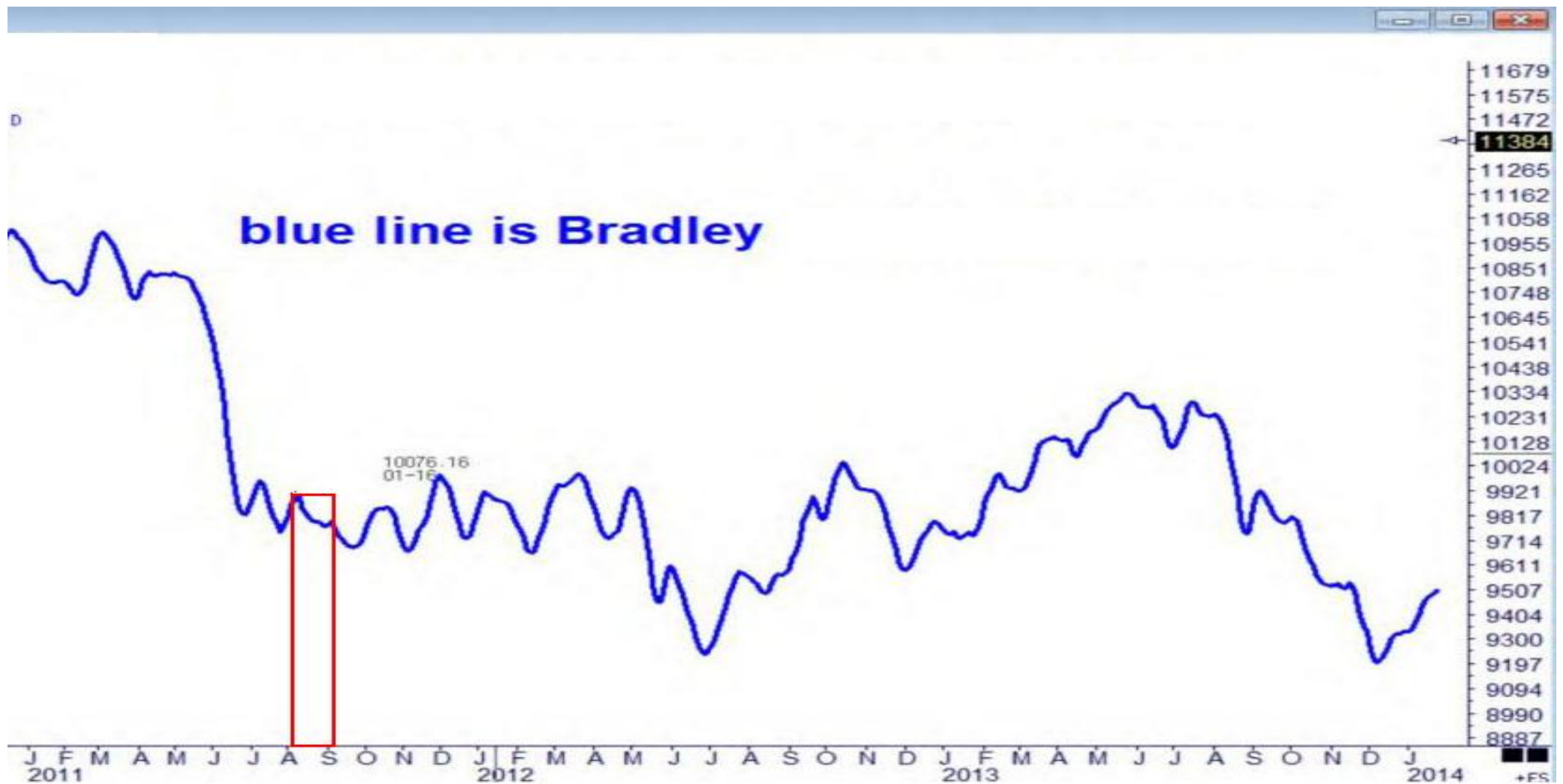
- Time Cycle Analysis

Our Time - cycle Analysis is based Seasonality, Calendar events, Astros Harmonics, Geomagnetic (including Bradley Model) & T – Termination. Based on current market condition our observation points out the following condition

The Bradley Model – (Indicated below)

JULY Month was – 1.8 % v/s Flat by Bradely Model

August is expected down (wait and see)



Calendar Cycle - Cycle dates – Historically

JULY Month was – 1.8 % v/s up + 1.55% per Historical Cycle - August is expected up (wait and see)

- EVENT 1 - 8th Jan also coincides with CITI Group study for Major market top 2011-2012
- EVENT 2 - 2011 is 3rd year of the presidential cycle and historically has positive returns
- Our own Study for January in (2003 – 2006) Uptrend & (2007 – 2010) Sideways Market.

From 2003 - 2006														
Bull Run														
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
	Average	-0.25%	0.36%	-0.40%	1.41%	1.55%	0.73%	0.57%	0.76%	0.72%	2.07%	2.43%	2.37%	13.00%
From 2007 - 2010														
Bear / Side ways Run														
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
	Average	-4.24%	-3.45%	3.71%	4.99%	0.36%	-3.94%	2.53%	0.28%	1.71%	-3.44%	-1.60%	2.06%	0.32%
Average		-2.25%	-1.54%	1.65%	3.20%	0.95%	-1.60%	1.55%	0.52%	1.22%	-0.68%	0.42%	2.21%	6.66%

Sentiment Analysis (3rd Party Data) - Courtesy : SENTIMENT TRADERS

Our Sentiment Analysis has “Intermediate & Short term” composition. We evaluate (8- 9) Indicators for sentiments out of which some are working well for Short term and other for Intermediate terms These are either Numerical Indicators as the Investors sentiments is expressed through purchases of the market

Rydex flow, Insiders activity. The Emotional / Survey sentiments we track Investors Intelligence sentiment Advisors sentiments. etc. All these are Integral part of POM composition ,

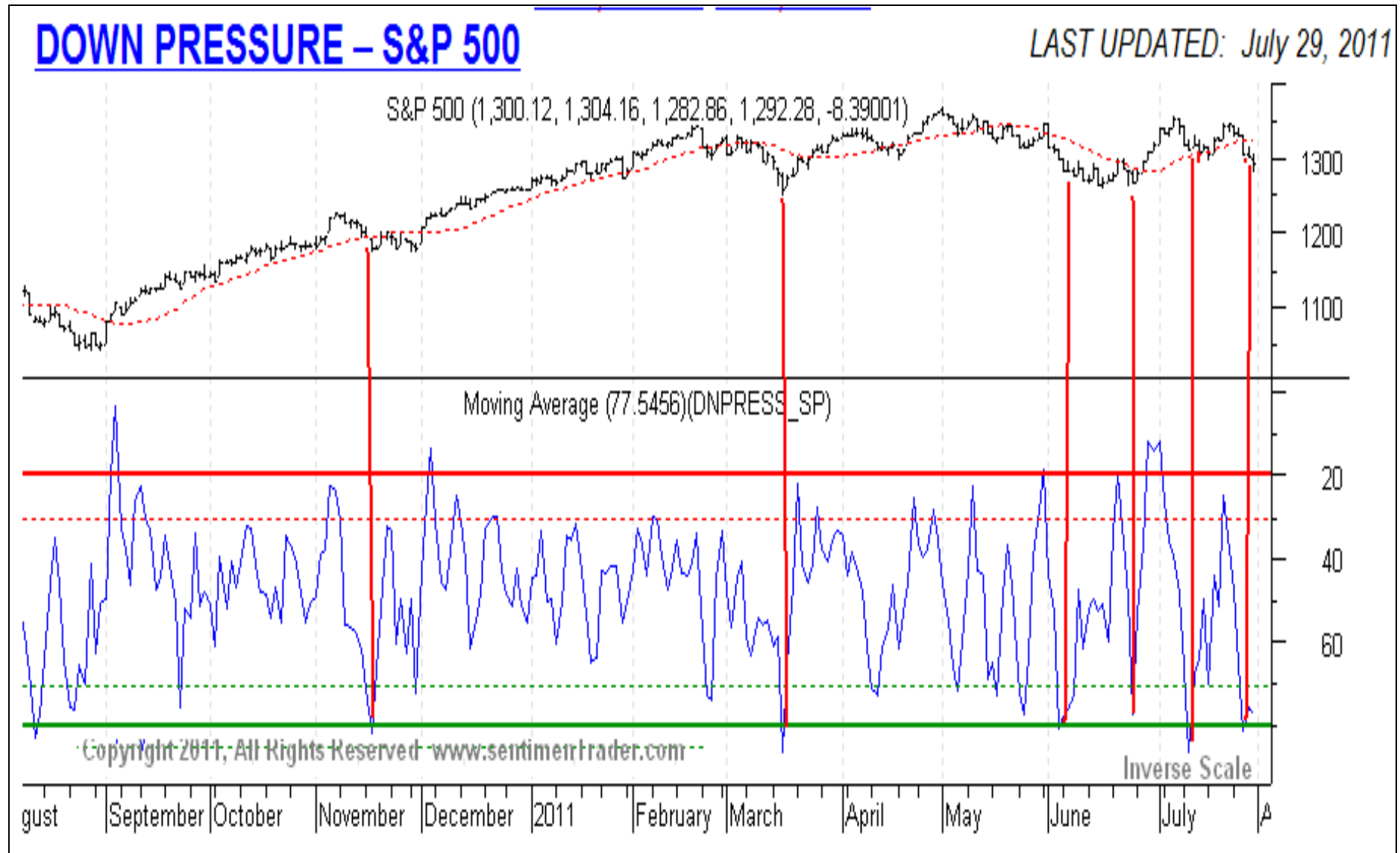
Our Behavior Indicators Commercial Hedges , AAll etc Sentiment Indicators, Insiders activity, Speculation activity,

Based on current market condition and the probability of Indicators we point out the EXTERME INDICATOR ONLY as a observation points.

- **Cumulative Extreme Sentiment Indicators - Mid Term**
- **Rydex Bull / Bear – Leveraged Ratio**
- **Rydex / Money Ratio Indicator**
- **Smart / Dump Money Ratio Indicator**

Cumulative Extreme Sentiment Indicators - Courtesy : SENTIMENT TRADERS

Down Pressure reached extremes, The previous bottoms have taken place in those areas.



Cumulative Extreme Sentiment Indicators - Courtesy : SENTIMENT TRADERS

Non Conclusive

Cumulative Indicator derived from the following Survey Sentiment Indicators collectively at extremes We think this Indicator is at or below 0.2 - tends to work well for bottoms when overlapped with Math Indicators of market Internals. Indicators used for computation of extremes are as follows

Sentiment Surveys - AAll, Investors Intelligence, NAAIM Manager Sentiment, Market Vane, Options Sentiment, Mutual Funds Sentiments, Insiders Selling

*This indicator is normalized after 1st rally in SPX – and at POM 13 is Neutral
It Gave a great Signal at BOTTOM*

Rydex Bull / Bear – Leveraged Ratio - Courtesy : SENTIMENT TRADERS

Non Conclusive

The Ratio which has called the Tops at around 3.25 are still at 2.75 in spite of rally . Suggest the intermediate term has some upside move left

*This indicator is normalized after 1st rally in SPX – and at POM 13 is Neutral
It Gave a great Signal at BOTTOM*

Rydex / Money Ratio Indicator - Courtesy : SENTIMENT TRADERS

Non Conclusive

_ Since 2006 to 2011 – The level to watch has been 0.2 for Bottoms - indicated in red bar below.

*This indicator is normalized after 1st rally in SPX – and at POM 13 is Neutral
It Gave a great Signal at BOTTOM*

Smart / Dump Money Ratio Indicator - Courtesy : SENTIMENT TRADERS

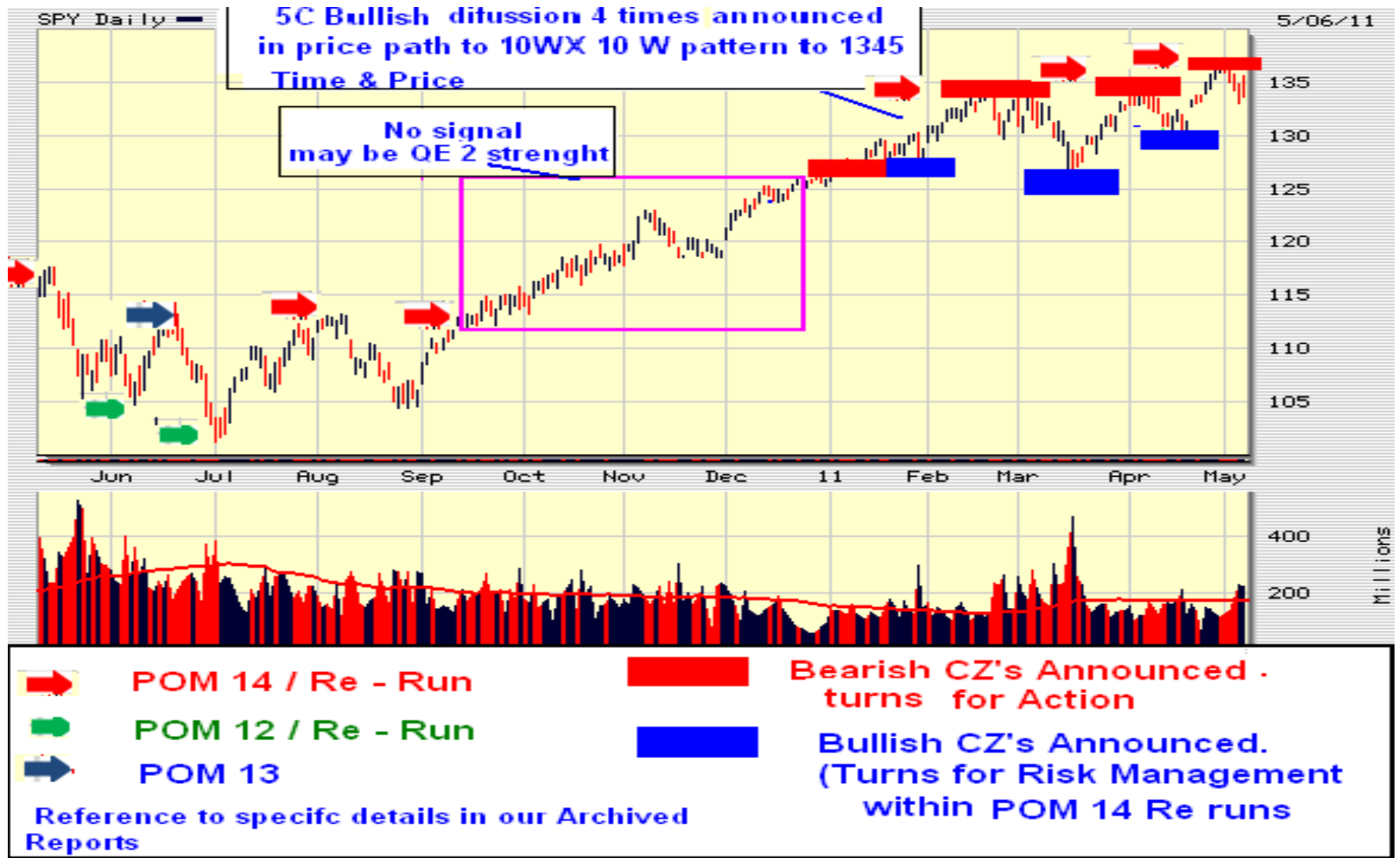
Non Conclusive

_ Since 2006 to 2011 – The level to watch has been 0.25 for Bottoms - indicated in red bar below.

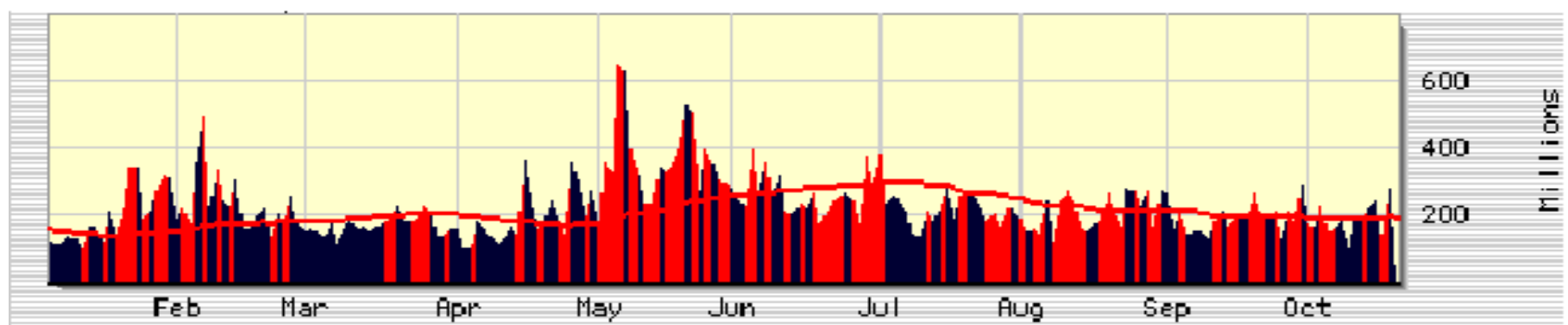
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Appendix

- Past 52 Week - POM / CZ - SPX Signal - updated 7th May 2011



- 2010 - POM - SPX Signal



• Past 52 Week DOW THEORY Signal - updated 20th April

In chart below – top most window - when IYT prices Trades above DIA prices (– green arrow) & , Confirmed by the break of blue line on IYT / DIA Ratio (window 2 below) Triggers a Buy Signal. As long as both remains in same trading overlap pattern.As soon as IYT breaks below (red arrow) confirmed by breakdown in ratio on IYT / DIA “ Sell is signal” is trigger till next time it repeats itself as indicated in Blue bar (which we are awaiting for Triggers) .

point – In spite of Sell Signal by this DOW Theory end Jan (which we used as PRE – Qualification) The real sell by our Method came on 19th Feb) , by the time IYT moved up 7% towards the CZ – Validation to finally get Trigger in PQV and then fell apart (Refer sector Report, Feb Edition)



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

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).

INTERNALS OF 3X3- 9EMA – Break Indicator.

The line break indicator has captured the post POM 14 Moves on a mechanical basis. Although can't guarantee it will continue. But, even if it misses on occasion , it's still is the best indicator we've ever seen in Market for extensions.

Tight trading ranges tend to cause whipsaws and those are environments where trading multiple markets can help for diversification, in SPX & DOW. The reason is that we have a purely mechanical indicator, our line break indicator, that is much better to use. That indicator has proven extremely good over the past several months in many markets in many extensions.

As a reminder of how simple this indicator is, when the market closes above the "break" price level, the indicator is ""bullish"; when the market closes below the break price, the indicator is then "bearish". at the close

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