



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_08

For Immediate Release – *Monday AM (EST)*

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Market Strategy Global (A # 1) – (SP) - SPX – Closed @ 1296 (Weekly change – 7.6 %)

Analysis of Broad Market that includes – Jan 1st 2011 – SPX 1257 (- 4.9% 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 - Under Review**

- **Risk Management for Corrections -**

- UPSIDE - 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 Report dated 6/07

- DOWNSIDE - ALERT - 7/18 Pull back to SPX 1310 –Retest – Mean BULLISH CZ Projected reached . This is the point to RECYCLE the Risk Management Capital exited at POM 13 (@ Lower prices). **THIS FAILED AT LOWER CZ – 1285** (As always - use of hard stops under CZ for either Event Risk or Volume Break.)

- **Net Long –**

- BY ALERT EMAIL – on 6/23 - POM 12 – Triggered @ 1275 – for NET LONG.

- On A # 3 – Report Alert – dt 7/03 - POM 12 – RE – RUN Triggered @ 1240 – for NET LONG.

- SPX - 1240 is the point to RECYCLE – the capital back in that was Stopped on Failure at Lower CZ @ 1285

- **Market –**

- ***Predictable Price path Analysis – Sequence since POM 12 Bottom @ 1275 SPX & POM 12 Re run 1240***

- **Within SPX**

- ***Trigger POM 12 – on 26th June at SPX 1275, for Rally of 73 points Gains***
 - ***Trigger POM 13 – on 8th July at SPX 1348, for Risk Management Action (completion of 1ST ABC up)***
 - ***Pull back of 40 points (Save) to Bullish CZ – 1300-1320 (Re tested 3 times) & FAILED at lower CZ 1285 –(Loss 25 points from mean CZ). As always Stops on other side of CZ due to event Risk 50/50***
 - ***Trigger POM 12 – RE RUN – on 3rd Aug – ALERT in A # 3 – Interim Update at SPX 1240,***
 - ***Currently Overshot to 1206 as of Friday close & Now in Extreme Territory***

- **Within Bonds -**

TLT exited at 101.5 (POM14) from 88.9 (POM 13) – ½ POSITION, As Alerted in earlier Reports (other half exited at 94.5 earlier)

- **Within GOLD stocks**

GDX exited at 60 from Buy at 52 (As Alerted in our Earlier Reports) Completion of Projection and Prior to this Market Crash .

TLT , GDX, has helped to dampen some of the Volatility overall on Timely exit on Bonds and GDX (Gold stocks) within the Model Portfolio Mix

- **Within GOLD Metal**

Our Trigger point for Parabolic Apex calculation was 1630. , As expected under Parabola Criteria, No sooner it hit the point a rise of 100 points came in quick as expected in continuous contract , Although in Normal price Projection 1598 – 1515 was reached from 1480. Great Rally of 130 points and Abnormal price projection although predicted, its participation is based on Portfolio Tolerances.

In our Previous commodity Report note - Parabolic Price behavior – 1630 – is Apex point of PEC –D in All time high region. By our calculations the 2nd point of “ Stop & Reversal “ Parabolic point initiation for Angular upward Trajectory with 65 to 80 degree angle is 1630. This can add 120 points to target 1750 (Similar to what we had pointed out in SLV in our April 25th Report in SLV at 42 which moved to 48) . We will wait to see how it reacts at 1630 (if at all it gets there in extension mode) . This is possibility but need some kind of Trigger

• SPX - Insights

The selloff is based upon asset liquidation in very quick panic , not technicals , not fundamentals. US assets sold off to convert dollars back into euros to meet those margin calls with mechanical selling pressure.

On Monday, a Gap down surely would happen as rest of the folks acting on Headline News should react. BUT the test of Fridays lows will happen which is critical as well to hold on weekly basis.

But a strong rally by the end of the day today or Turn around Tuesday is High probability . The news coming from Europe is much more important than the downgrade on the markets. Market is looking for Trigger for rally , Indicators are at extremes (shown in charts below) . Federal Reserve meeting tomorrow afternoon could swing this tide as catalyst.

There will be several Head fakes in the AM hrs

One possibility to keep in mind is Market crashes tend to come from oversold conditions, and those conditions are ripe. The situation given the weekend news flow and the initial reaction in the futures. We should know the answer by Monday's close. The better conclusions when dust settles down from Intraday swings of 400 points experience in past 2 days & Today smashing Stops of Bulls and Bears at the same time

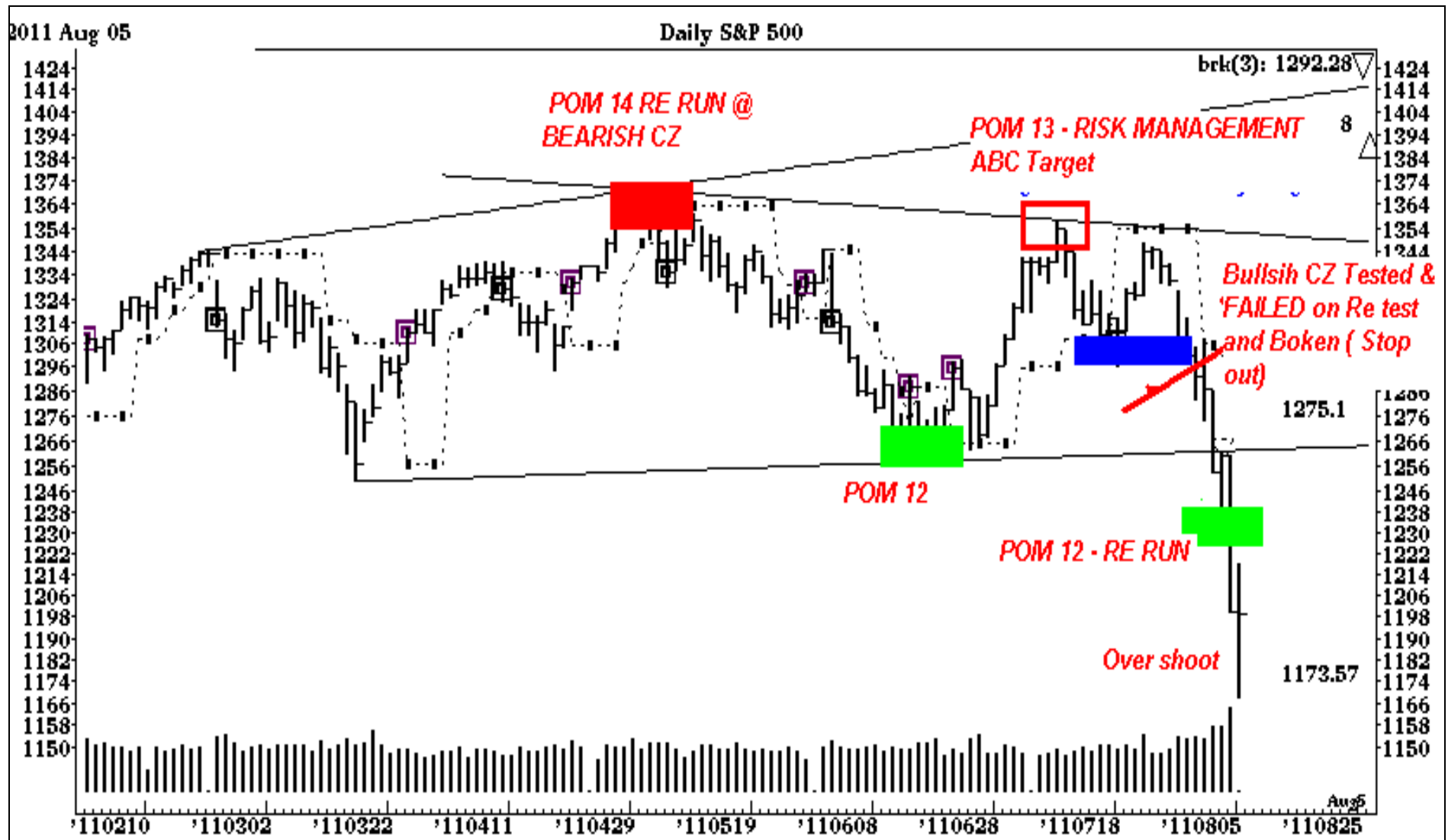
We'll look of SMH to show sign of stability first and perhaps turn green first , It was first one to top and decline.

We are at POM 12 @ 1270 & POM 12 – Re run @ 1240 . which are within Normal Market Behavior Projections. POM 11 is on Liquidation Mode & POM 10 is CRASH Mode projections in Unchartered Price v/s Time extrapolations

The Buy Signal on Crashes are very Volatile and makes it difficult to Buy . The cross verification by other methods is critical. Since No model is perfect & Risk tolerance is critical

Primary Market Analysis –

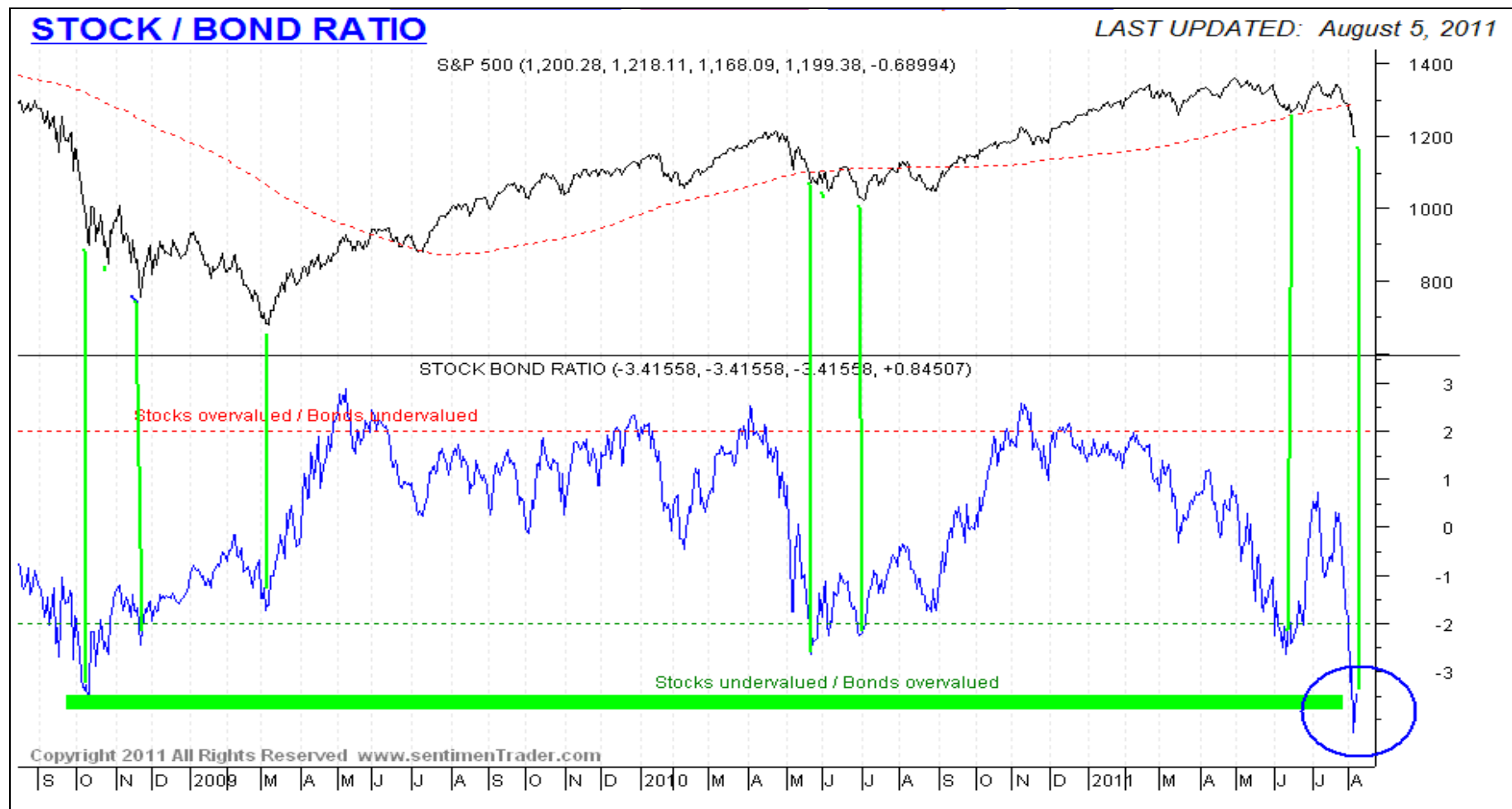
SPX – (See notes within the chart).



Stocks / Bonds Ratio - Courtesy : SENTIMENT TRADERS

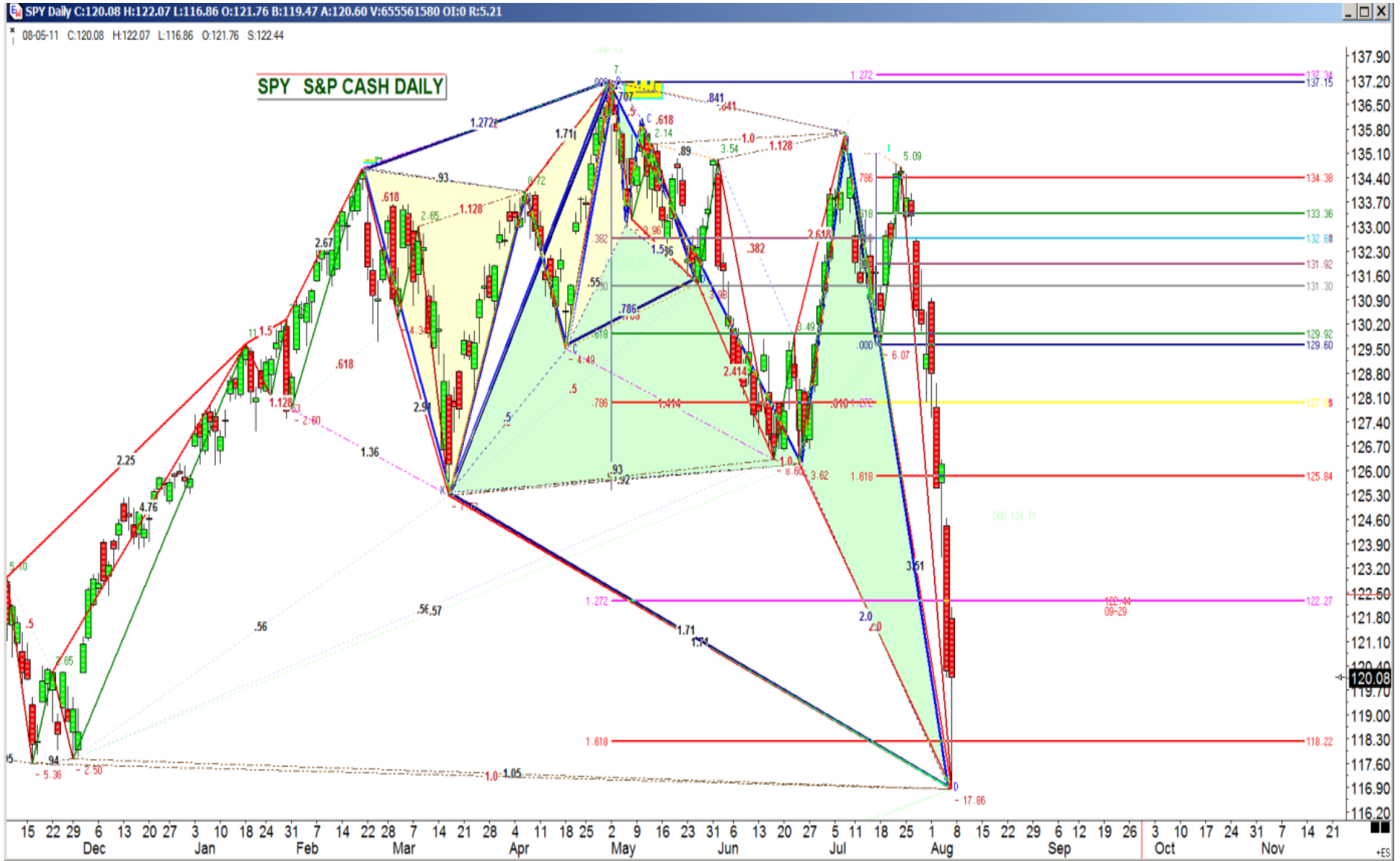
Chart below indicates SPX is undervalued as compared to Bonds – Currently SD -4 Levels reached during Oct 2008 when SPX was at 875 oversold levels

ALERT - This AM we exited the 2nd half position on TLT @ 101.57 (POM 14) Bought at 89.5 (POM 12) . TLT – ABCD should be completed at 102 on Trigger of POM 14



SPY – PEC – D Analytics

Extreme projections at 1170 are being met on PEC –D ,



VIX / TICK RATIO

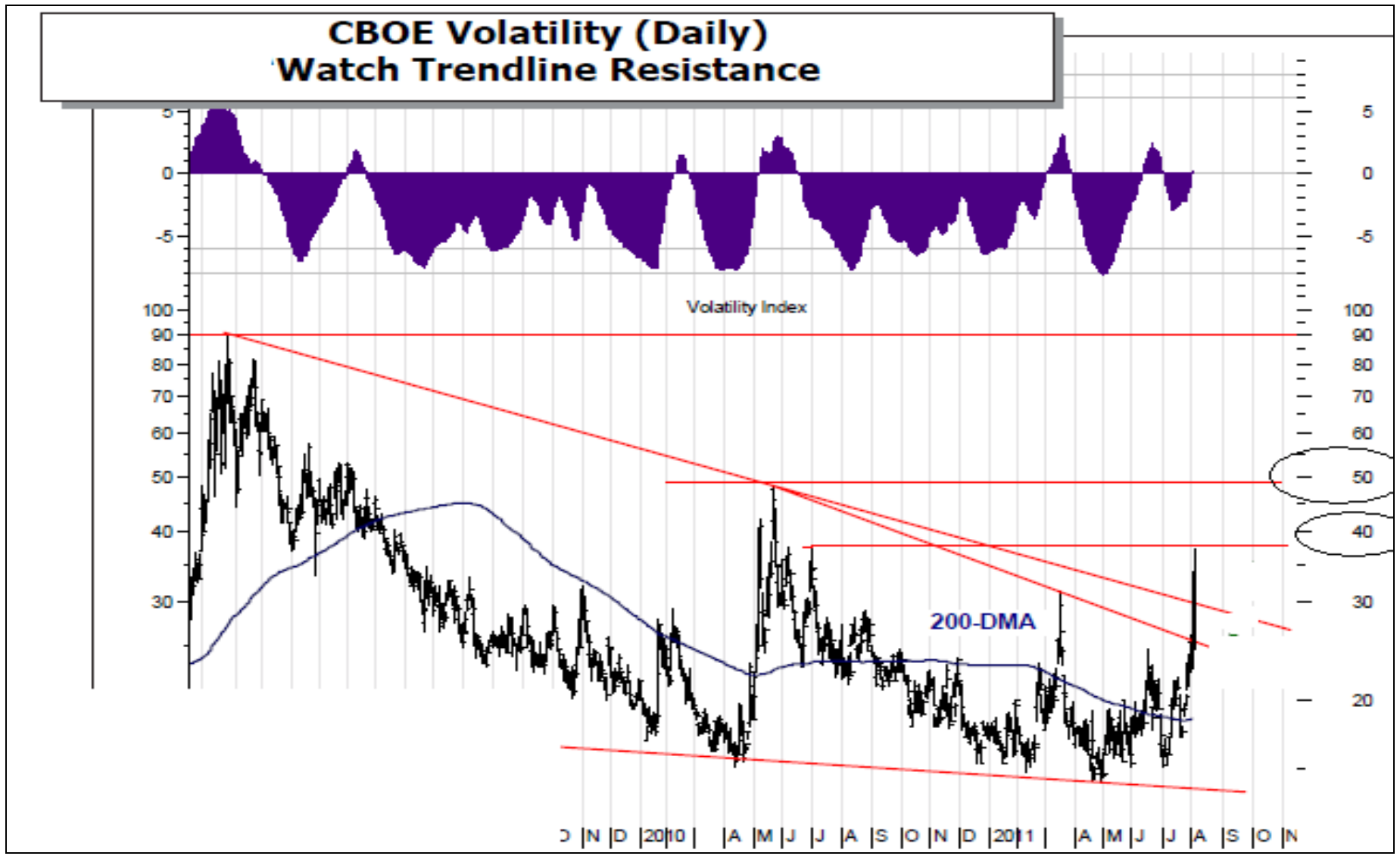
Chart below is from 2007 top. "The TICK/VIX ratio (bottom window) reached level where previous lows have formed in the past and a bullish sign. We have identified with red line previous buy signals by this indicator going back to 2007 top. What we don't know yet is how much the SPY will bounce.

For right now the TICK/VIX ratio is in bullish territory and the VIX/TICK ratio is not in the bearish level and suggests short term the market should move higher



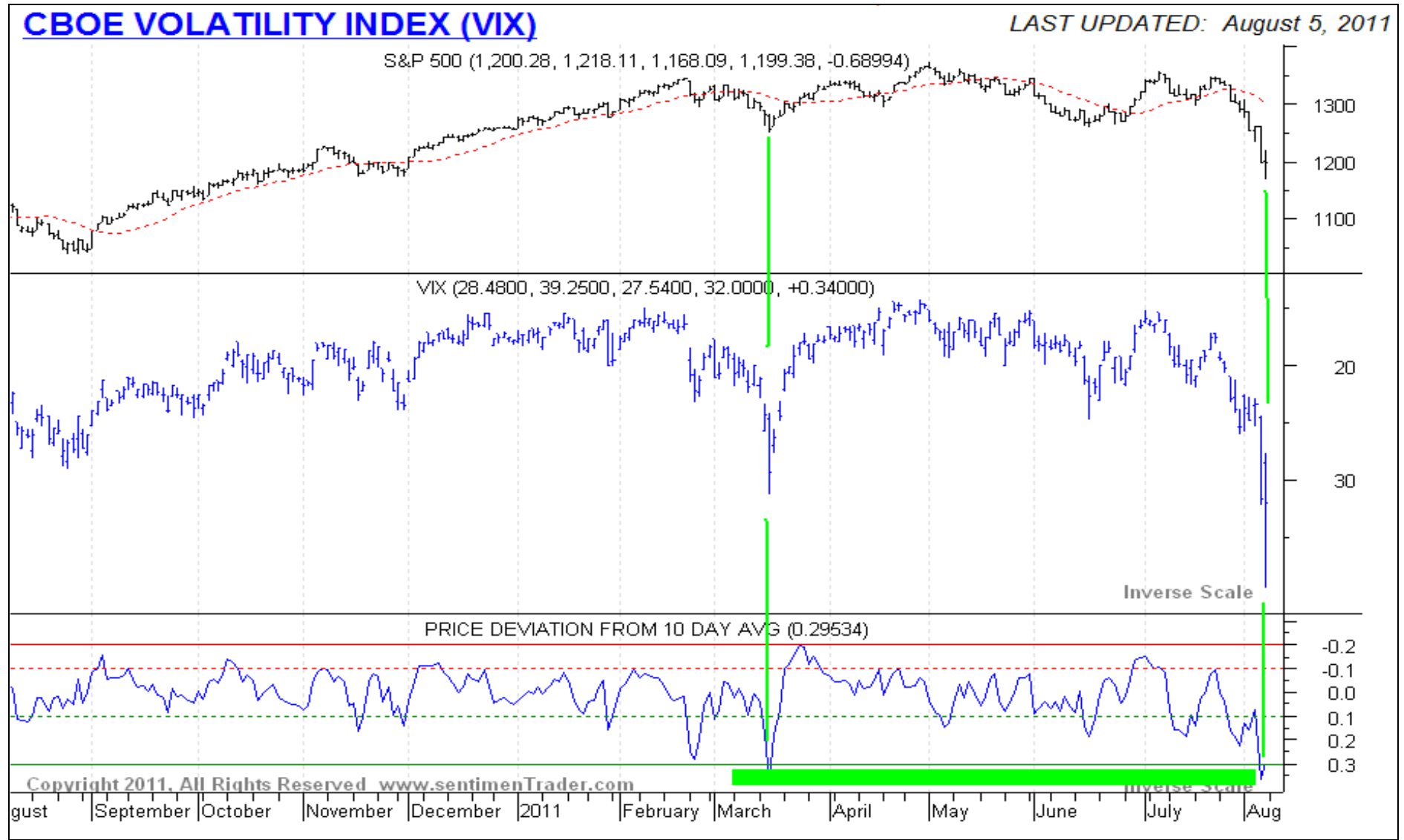
VIX - Trend Analysis

This AM on SPX Gap down VIX tested the April 2010 Highs at 40 , also currently testing the Fridays highs as well, It should be rejected , but close under Bollinger band at 35 should Trigger Sell by this method on VIX



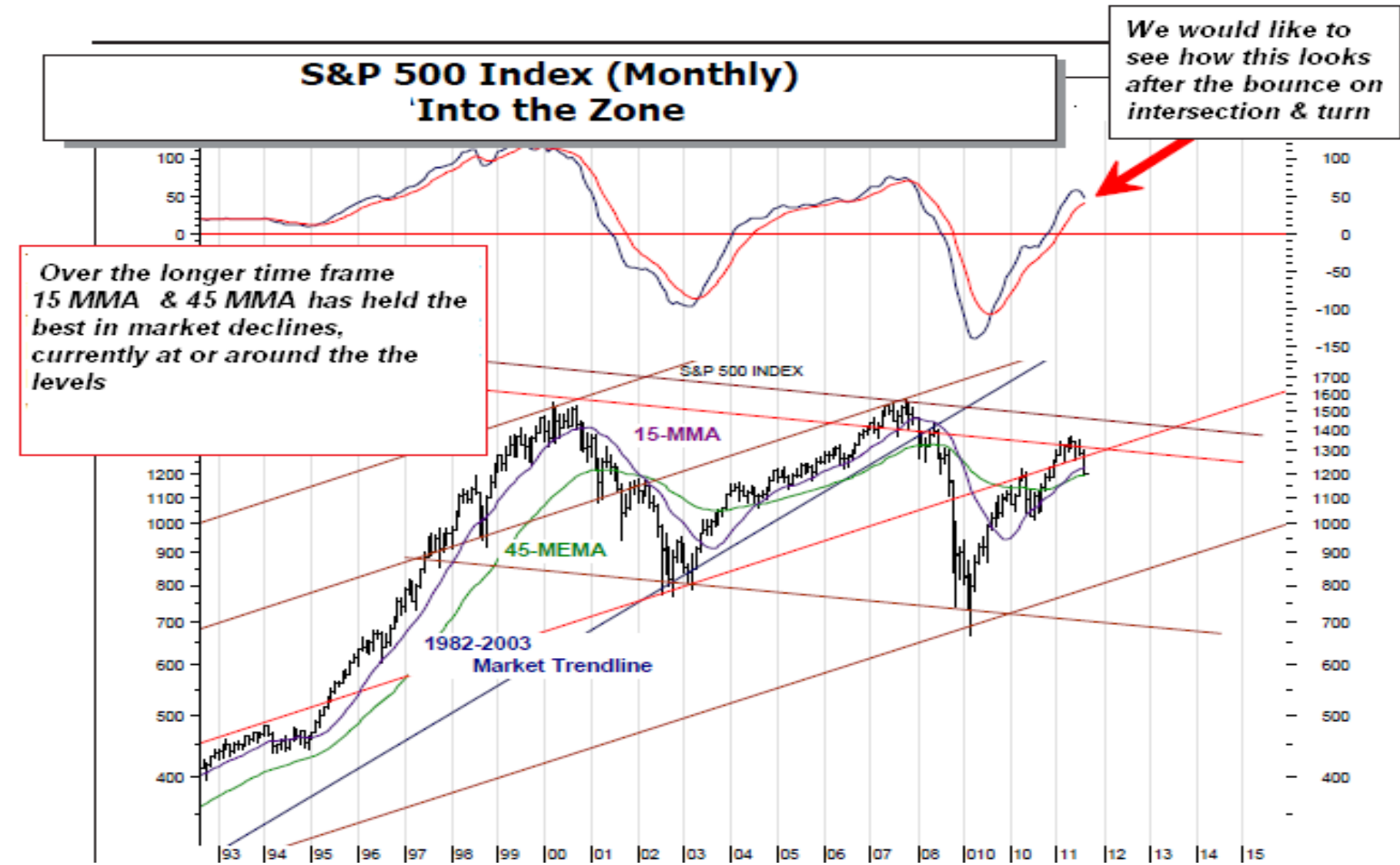
VIX – SD

Price deviation has reached 0.3 and below where Rally has initiated in past



SPX – Long Term EMA - Cross

On EMA – Cross over selection basis on Longer term (See notes within the chart)



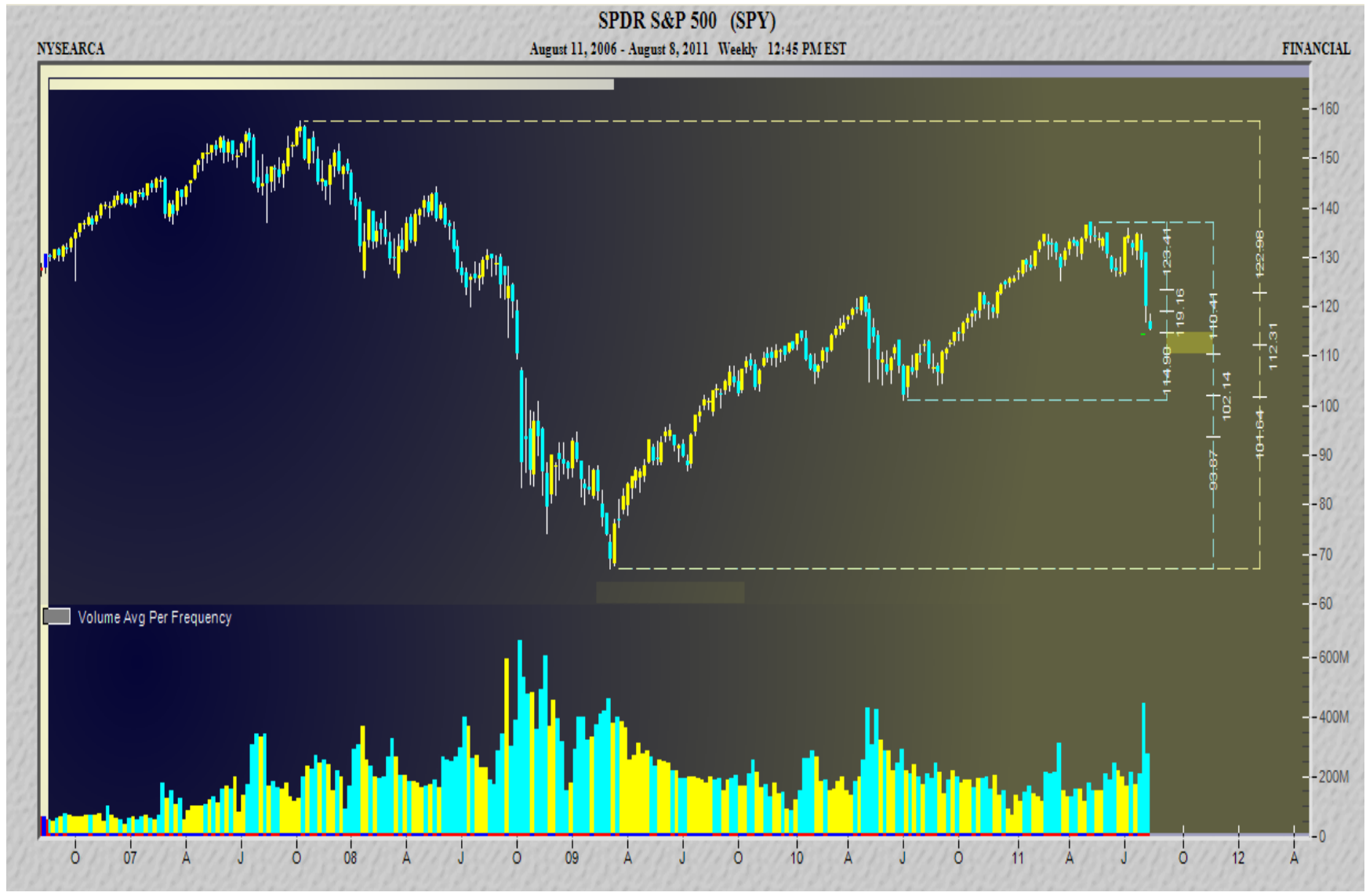
SPX – Long Term RSI

Circled in red are the Area on RSI approached 3 times in since Oct 2008 , where bottom has taken place .



SPX – Long term - Multiple Fib stream convergences

Over longer term – Multiple Fib Streams Converge to 1150 or SPY 115



Dow Transport Theory –

We follow Dow theory for Tacking purpose only – with 4 criteria for Buy Trigger / Sell Trigger (See Appendix below) .

IYT lagged DIA on price strength (chart below) and the Ratio line ...IYT / DIA is broken down (see chart below 2nd window), IYT broke the CZ – with PQV Violation – in red. The Lower CZ @ 91.50 IYT / 11850 on DOW . The close below would signal SELL Trigger by our Method. (As Alerted & given trigger point in last report) Violating all criteria. Earlier Buy was Triggered @ , DOW 11900, Exit Trigger violated almost at Entry price levels

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

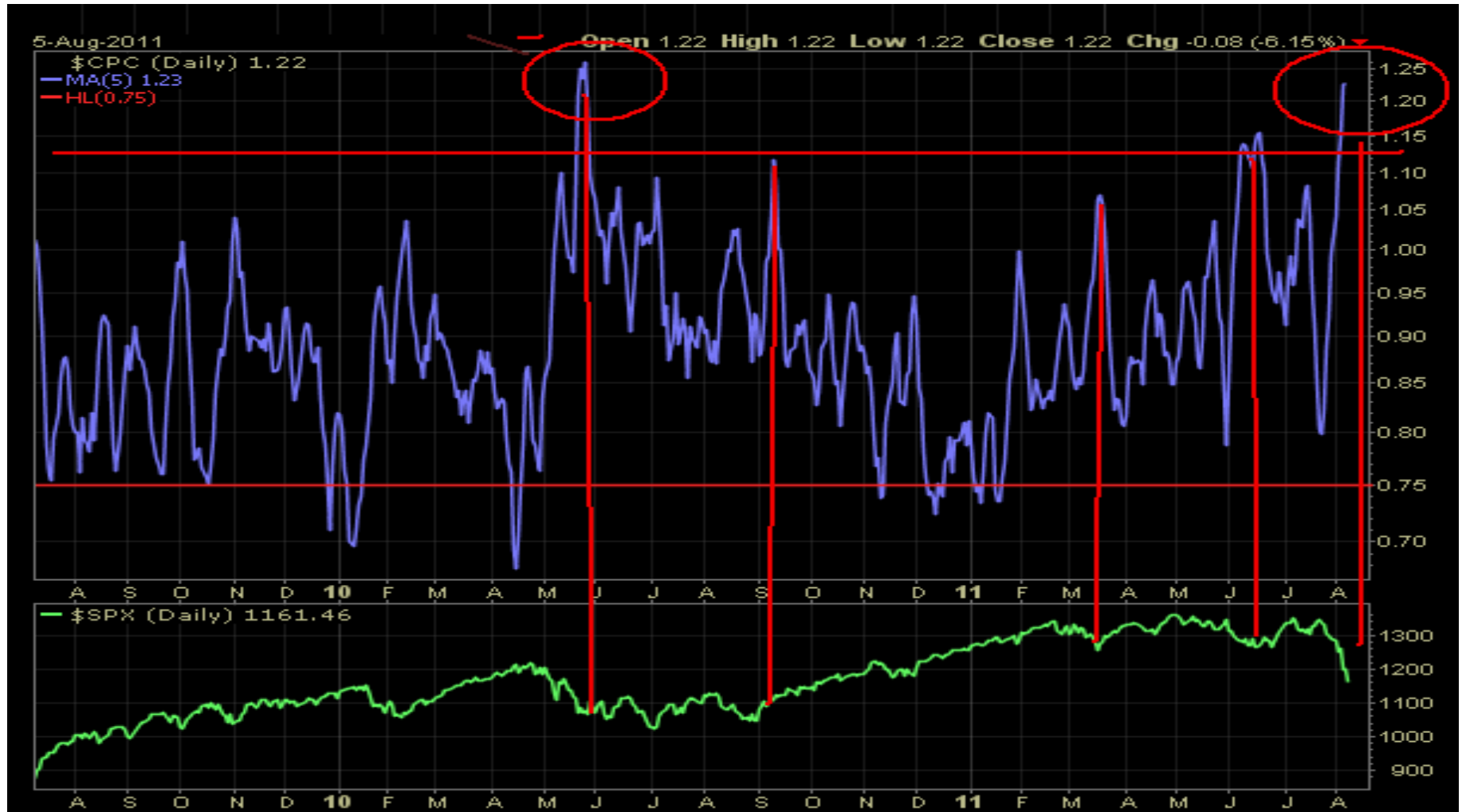
A/D line measured by (% of stocks above 50%) has reached conditions where the market has Bottomed out in past below reading (indicated below) . Extremes below 5



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

PUT / CALL on 3rd derivatives is approaching 1.08 where previous ST bottoms have occurred. Red line and Circled in Red Reached Extremes at 1.2

(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) . .



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

Non Conclusive

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**

Non Conclusive

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 .

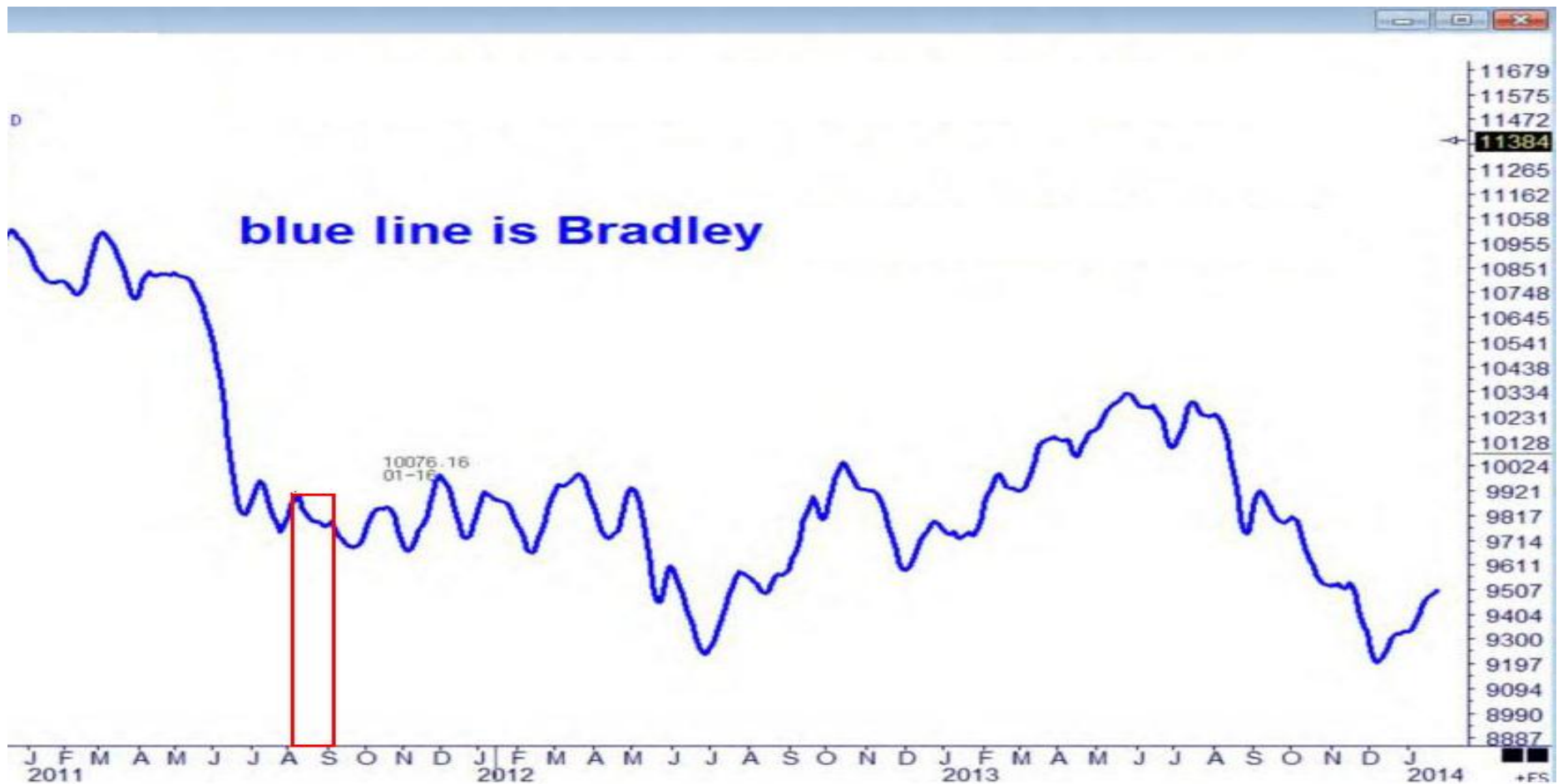
- Time Cycle Analysis

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 ,

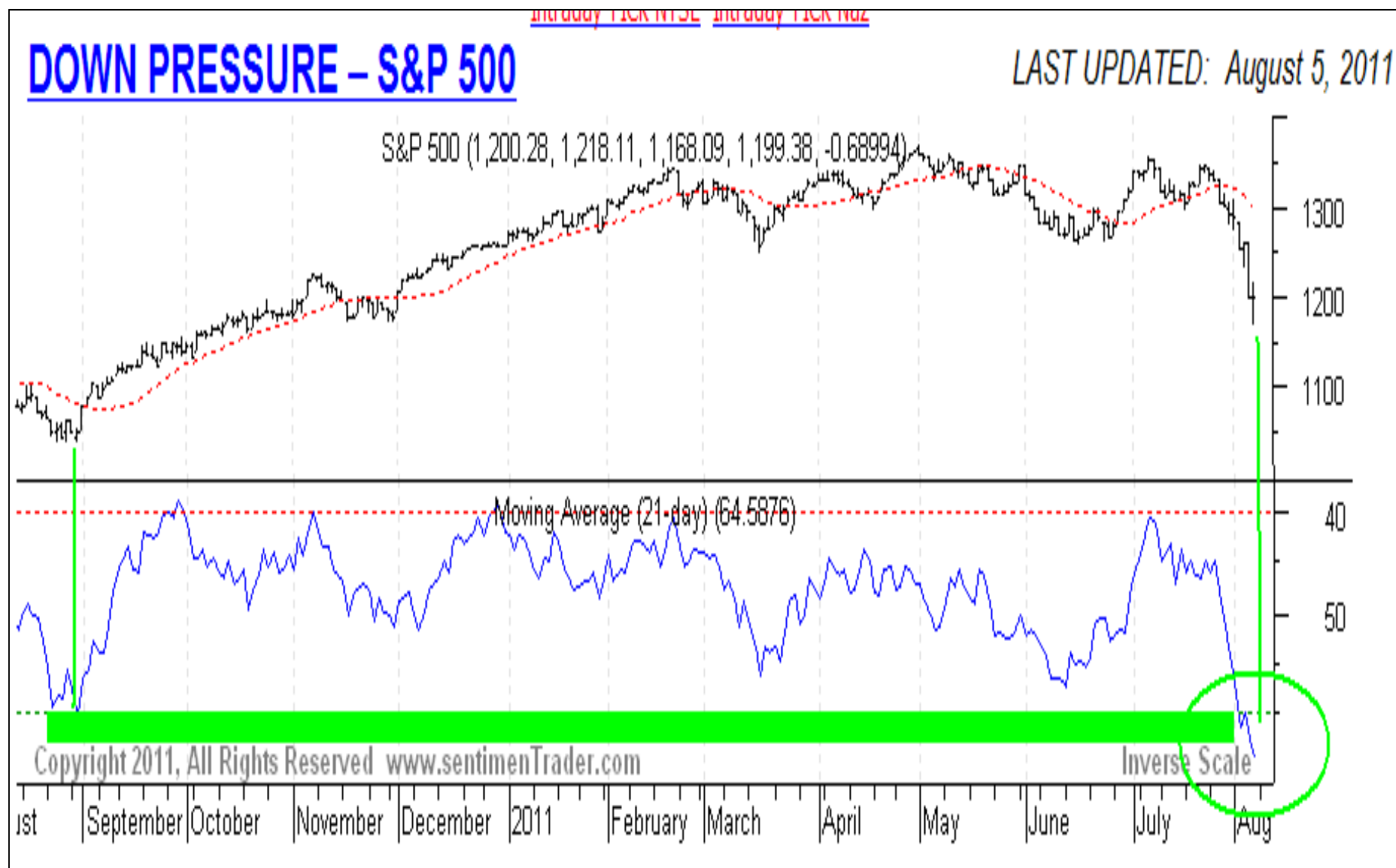
Our Behavior Indicators Commercial Hedges , AAll etc Sentiment Indicators, Insiders activity, Speculation activity,

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

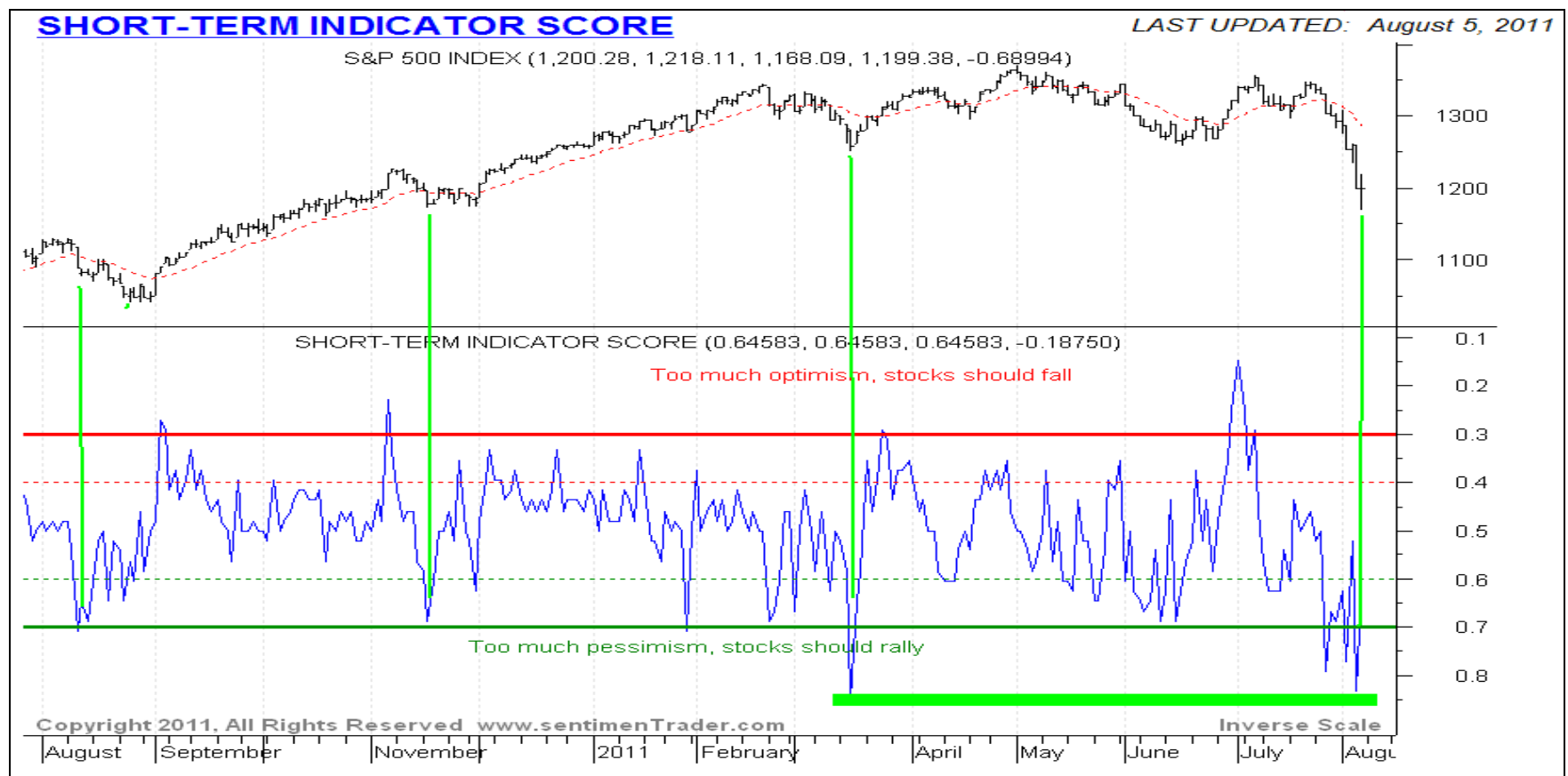
Down Pressure reached extremes, The previous bottoms have taken place in those areas.



Cumulative Extreme Sentiment Indicators - Courtesy : SENTIMENT TRADERS

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



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

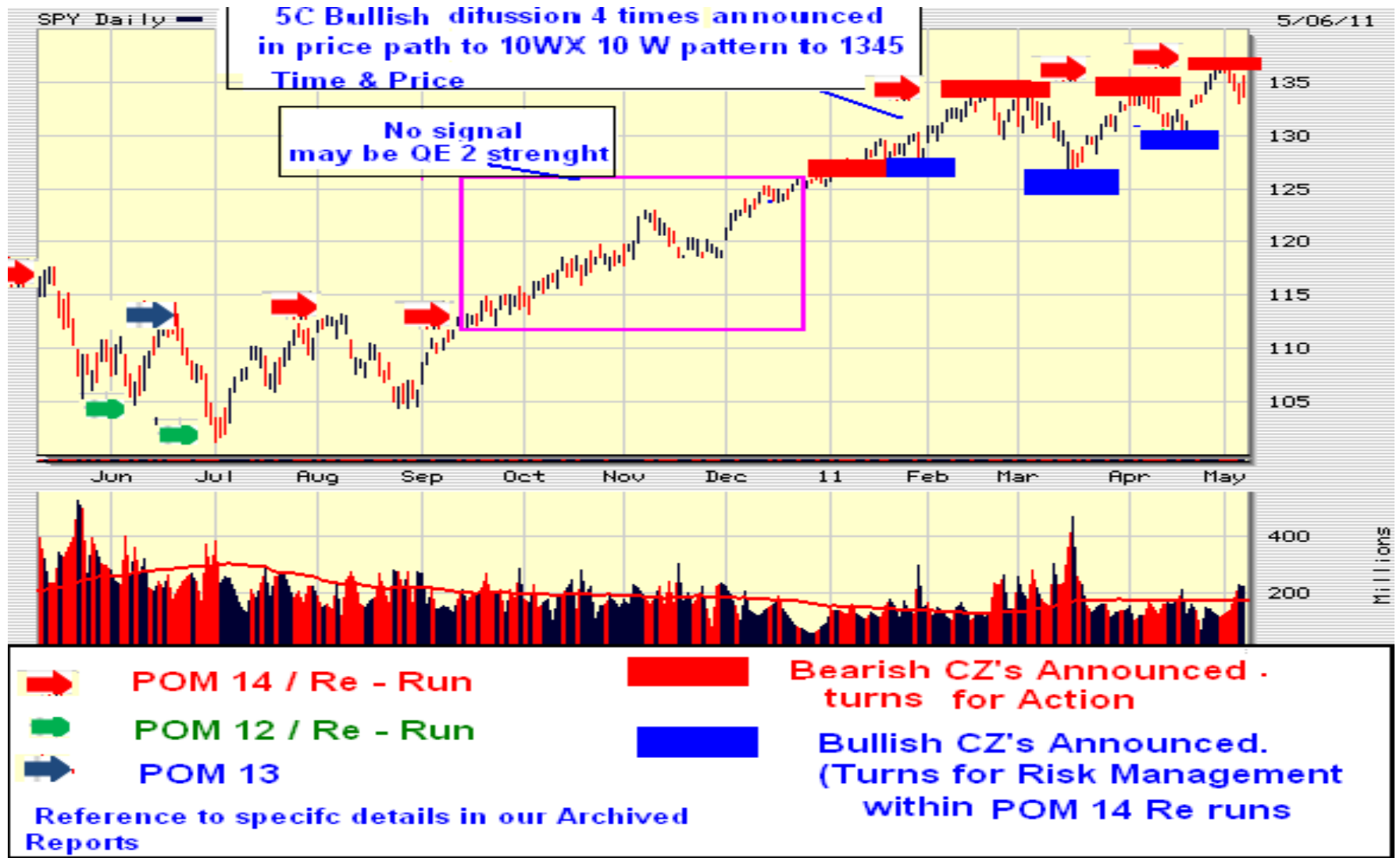
Non Conclusive

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

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

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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