



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_15

For Immediate Release – Monday AM (EST)

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Market Strategy Global (A # 1) – (SP) - SPX – Closed @ 1178 (Weekly change +1.0%)

Analysis of Broad Market that includes – Jan 1st 2011 – SPX 1257 (- 6.2 % 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 – POM 15 - **None****

- POM 15 Calls – NONE Triggered this year

- **UPSIDE Target CZ - **None****

- **Risk Management for Corrections - POM 13, POM 14**

- **- UPSIDE - - EMAIL ALERT** – on 07/08 - Triggered - POM 13 on SPX @ 1346 = 73 point up move , Short Term - Risk Management signal Via Broader Indices that reached Bearish CZ stated in our A # 2 Report dated 6/07

- **DOWNSIDE - ALERT - 7/18** Pull back Target 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). **BUT THIS FAILED STOPPED OUT AT LOWER CZ – 1285** (As always - use of hard stops under CZ due to Event Risk or Volume Break.)

- **Net Long – POM 12, POM 11**

- **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 .(RECYCLE – the capital back in that was Stopped on Failure at Lower CZ @ 1285)**

- **On A # 3 Report Alert -- on 8/09** - POM 11 – Triggered @ 1117 – **for NET LONG . Fast finger Trading call for target to 1196**

- **ALERT** - on 8/11 – **SPX 1190 -1196 Target reached in the** Area to Manage Risk for positions entered at **POM 11 @ 1117 . POM 11 is a Liquidation bottom Buy Signal. Capital to be re deployed back at the Retest of lows again .**

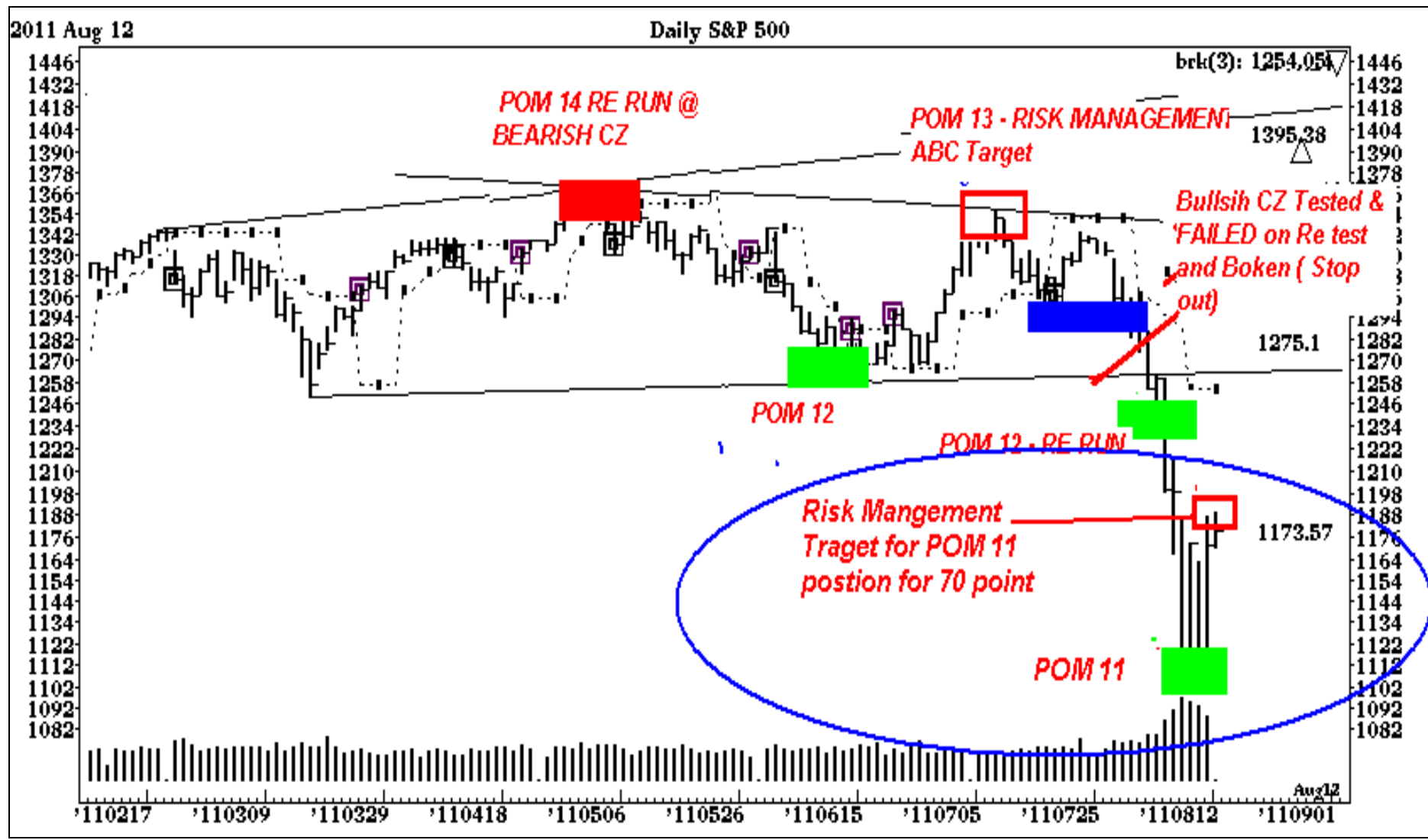
- **Our target is 1240 on this move once we get past 1196 area**

• SPX - Insights

- *Our First price target from POM 11 (1117) is at 1196 , we have CZ around 1190-1198 , Usually such point from the lows of POM 11 are achieved in 5 to 7 Trading days when corrections are -20% . Today is day 4*
- *Finally we have established the B point we were looking for(See the chart below) after the water fall drop at the end of Exhaustion move of the Liquidation Signal (POM 11), Any immediate pull back will be held back by the High Volume , 90% reversal day*
- *To break the lows of 1103 we need to build side ways cause to gain some energy . Any immediate re - test will just create a sold bottom for the rally towards 1240 .*
- *Friday's rally made a new recovery high, although several other indices have their own time table in next 2-3 days. Fridays High will be tested sooner rather than later @ CZ 1190-1196 , Decisive break above 1200 should have a continuation move toward next target*
- *The first move off the bottom is characteristic of a countertrend bounce. But, despite the rally being countertrend, the market did cover a lot of price ground. As we move into this new week, we will see the high-water mark of the bounce and Then pull back before moving higher .*
- *Most volatile part in this Liquidation has been when the computerized trading programs kick in and control the market. The European closing hour, Margin calls which tends to pressure the US market. but once it passes, things settle down. However, given that the market needs to build a base and put in less oversold readings on the oscillators on first pull back ,*
- *On 17TH August we have very powerful Astro Harmonic Cycle , Happens 3 Times a year. We are rallying into it. we will wait and see its Impact on upside or downside . 1st of August Lunar Cycle created some havoc on that cycle.*
- *Over all the 6-year cycle peak due this September – October , but it would allow for considerable trading range activity ahead before a solid downtrend takes the market into its scheduled 120-year cycle low due in 2014.*

Primary Market Analysis –

SPX – (See notes within the chart).



SPY – ST - Analytics

From POM 11 to Risk Management CZ – Several cross currents with Multiple Fibs and Inverse Pull into 1200. Now needs to Build some cause to pass 1200 or break decisively after 100 point rally from lows. But eventually we'll get through it. Even if we get the pull back towards the test of the lows



VIX - Trend Analysis

VIX tested the April 2010 Highs at 48, RSI also topped out & rejected but close under Bollinger band at 32 should Trigger Sell by this method on VIX, that will happen when SPX rallies from 1200 to 1240



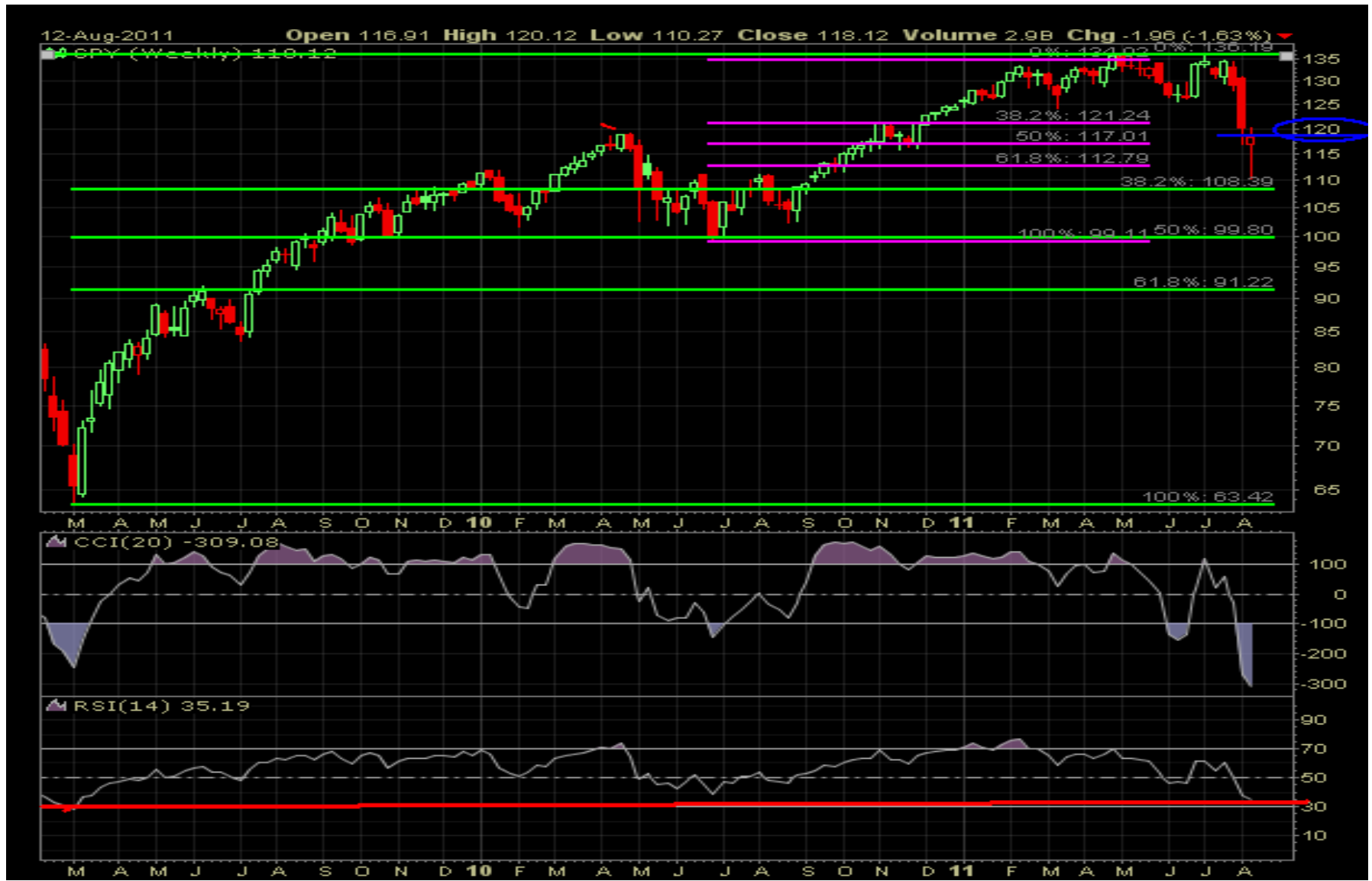
SPX – Long Term EMA - Cross

1999 to 2011 One of the Indicator to check if Large decline in SPX has began (Refer last green circle) barely touching but not crossed yet, Market is oversold and Rally can get this cross out of harms way if one is Bullish



SPX – Long term - Multiple Fib stream convergences

Over longer term – Multiple Fib Streams Converge to 1100, still don't seem to have broken down. More of pull back mode of larger move However weekly close above 1200 would be Bullish and the test of lows gets delayed much further or else it can happen earlier. RSI & CCI is at lows of March 2009



Dow Transport Theory –

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

IYT crossed bullishly over DIA on price strength (chart below) and the Ratio lineIYT / DIA is not broken downtrend (see chart below 2nd window), Trigger Buy will come in Cross of down trend line (We will monitor and advise in next message0) – Dow Theory usually is late comer to the party

Earlier had Trigger Buy in Green and stopped out at Red both around the same price of 11900 (As Alerted in our Previous Reports)

Note - Based on conventional DOW THEORY(stated in Jeff Saut Report , Triggered Buy 12800 since early May around the time of POM 14 re run



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

Circled in Red where AD Line is lagging the move in the Index trending higher . This suggests , there could be pull back and then on second leg up , It should pick up , if market breaks above 1200 .



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

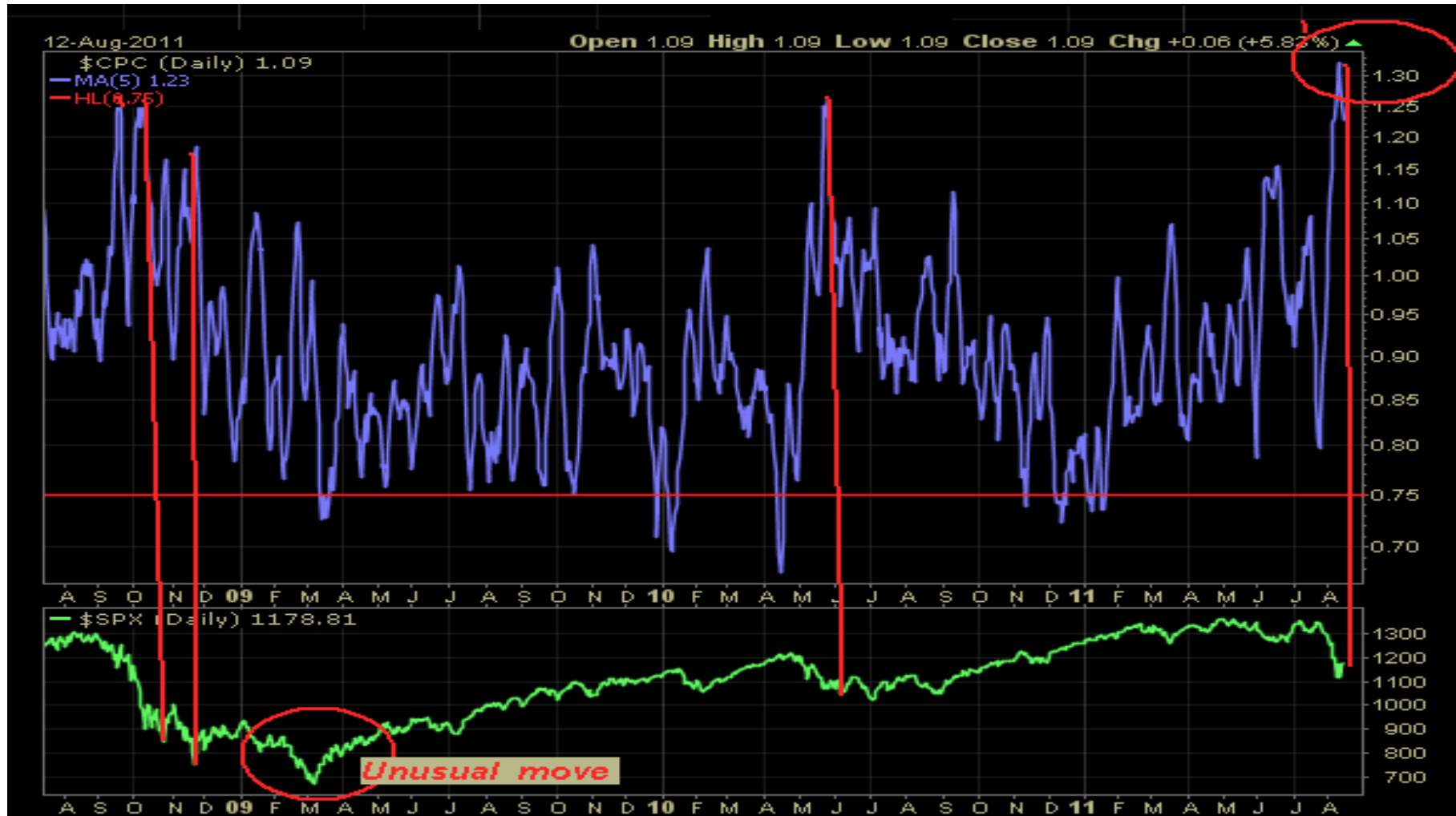
Extremes below 5 – This should provide fire power from 1200 to 1240 SPX move.

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



SPX v/s CBOE – PUT / CALL RATIO on Multiple Derivatives – **MID TERM -**

PUT / CALL on 3rd derivatives is approaching 1.08 where previous ST bottoms have occurred. Red line and Circled in Red Reached Extremes at 1.3, This should provide fire power from 1200 to 1240 SPX move. (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 - MID TERM

Non Conclusive

The differential 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%

EXTREAME 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 ,

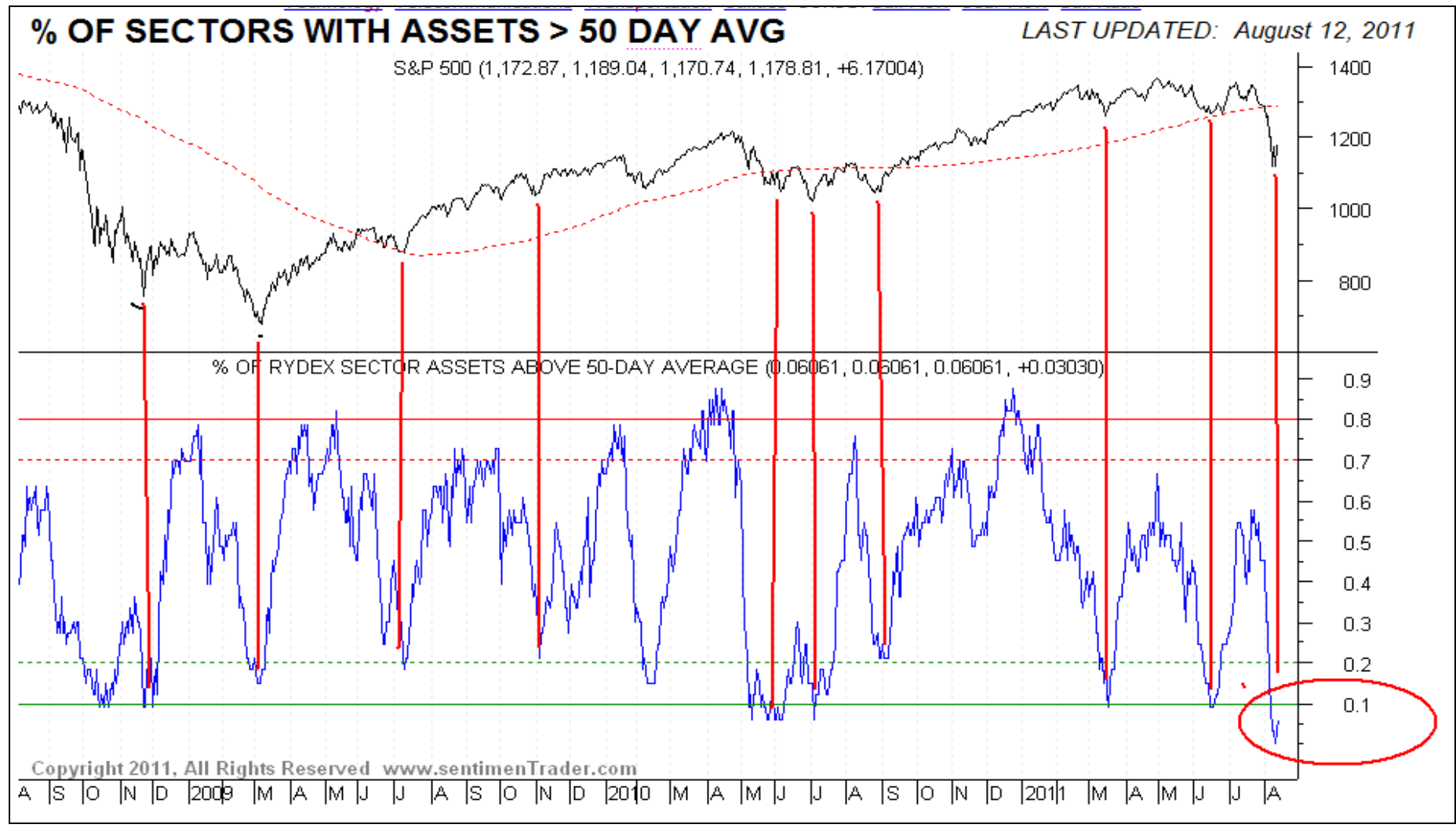
Our Behavior Indicators Commercial Hedges , AAll etc Sentiment Indicators, Insiders activity, Speculation activity,

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

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

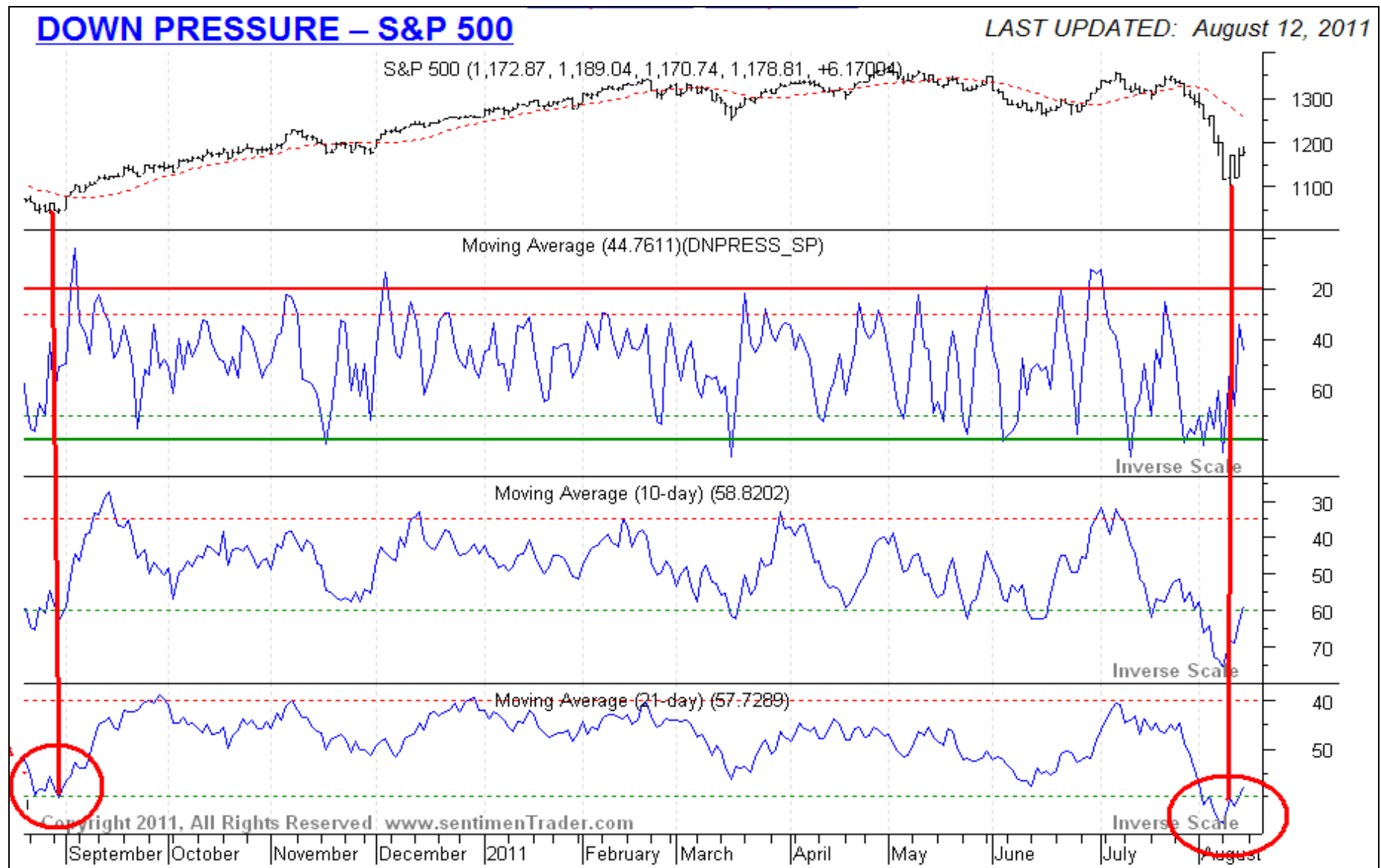
% Sectors Extreme Indicators - Courtesy : SENTIMENT TRADERS

Reading lower than March 2009



DOWN PRESSURE – Courtesy : SENTIMENT TRADERS

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



Cumulative Extreme Sentiment Indicators - Courtesy : SENTIMENT TRADERS

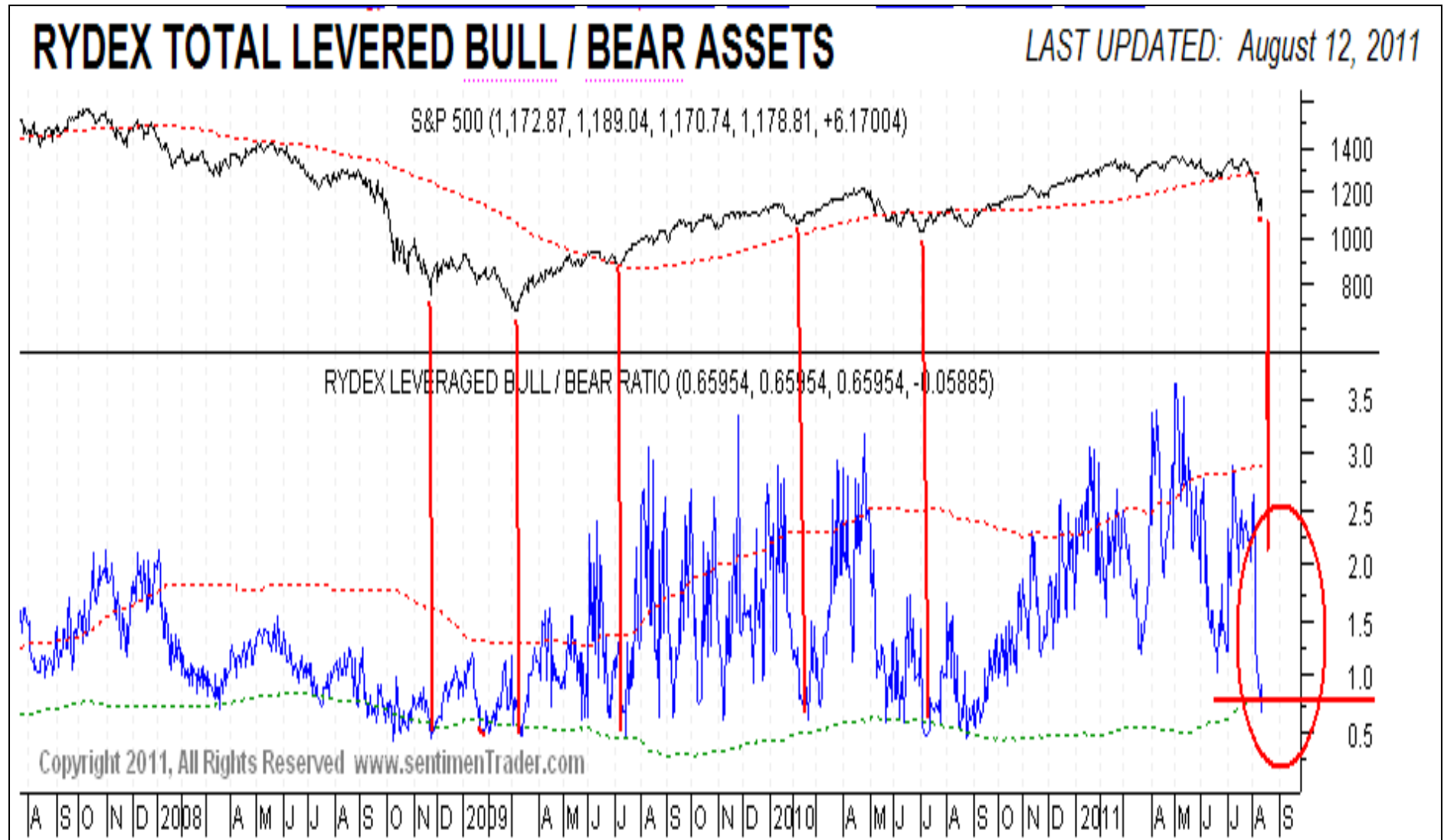
Cumulative Indicator derived from the following Survey Sentiment Indicators collectively at extremes We think this Indicator is at or below 0.2 - tends to work well for bottoms when overlapped with Math Indicators of market Internals. Indicators used for computation of extremes are as follows

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



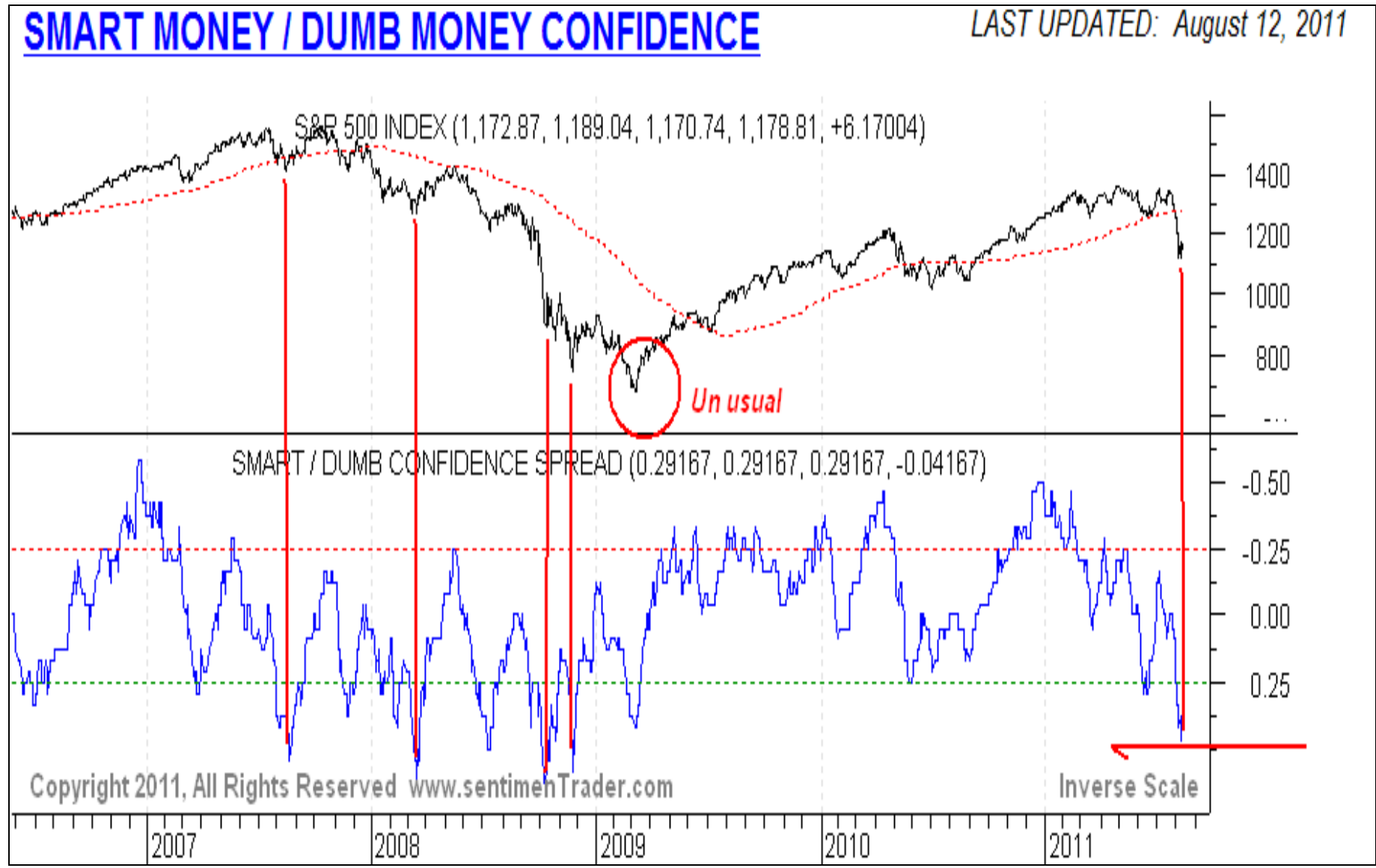
Rydex Bull / Bear – Leveraged Ratio - Courtesy : SENTIMENT TRADERS

The Ratio IS 0.75 - called the Bottoms . Suggest the intermediate term has some upside move left



Smart / Dump Money Ratio Indicator - Courtesy : SENTIMENT TRADERS

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



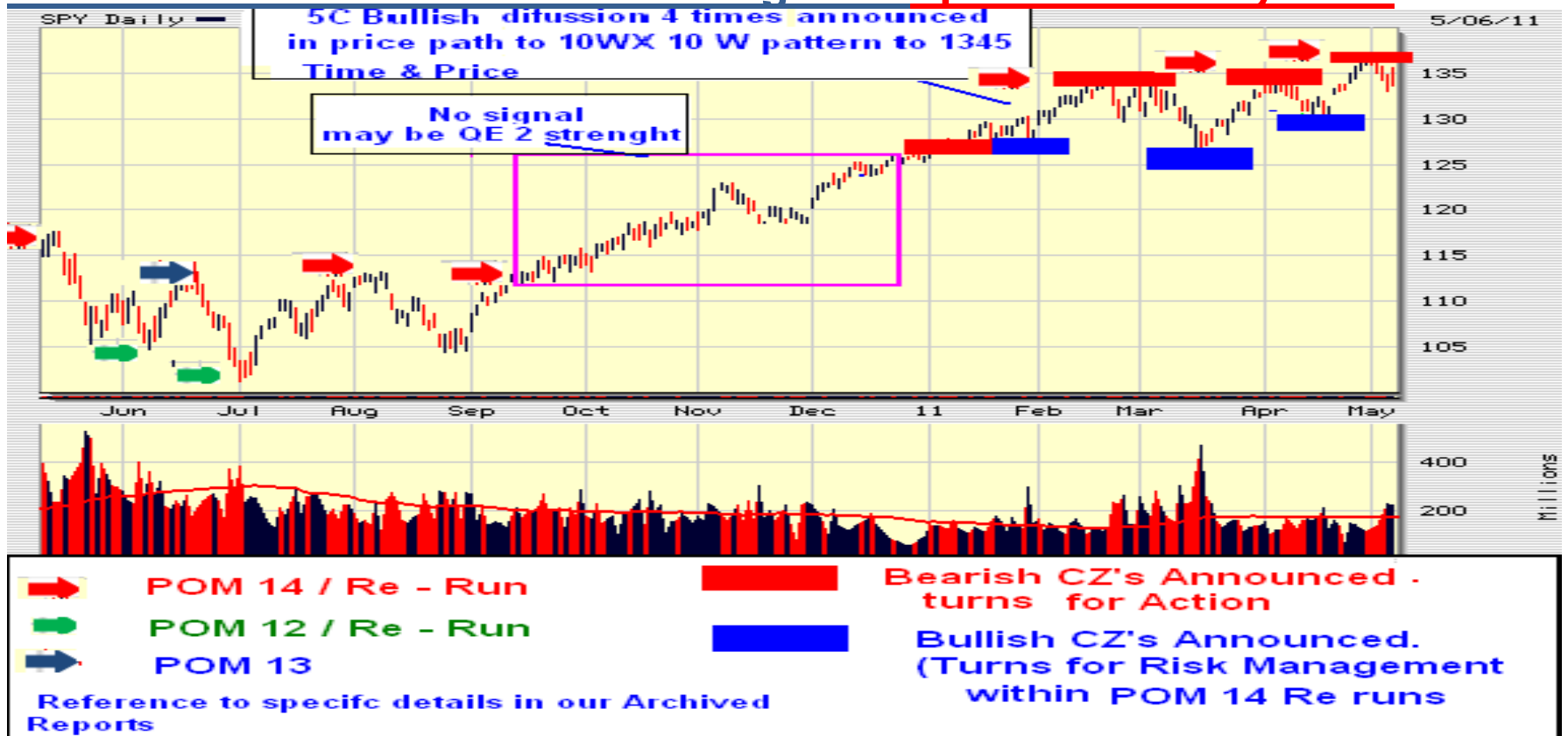
Rydex / Money Ratio Indicator - Courtesy : SENTIMENT TRADERS

Non Conclusive

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

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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