



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_22

For Immediate Release – Monday AM (EST)

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Market Strategy Global (A # 1) – (SP) - SPX – Closed @ 1123 (Weekly change -4.6%)

Analysis of Broad Market that includes – Jan 1st 2011 – SPX 1257 (- 10.6 % 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 Reversal - 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 .

- 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)

- A # 3 Report Alert -- on 8/09 - POM 11 – Triggered @ 1117 – for NET LONG . for target to 1196

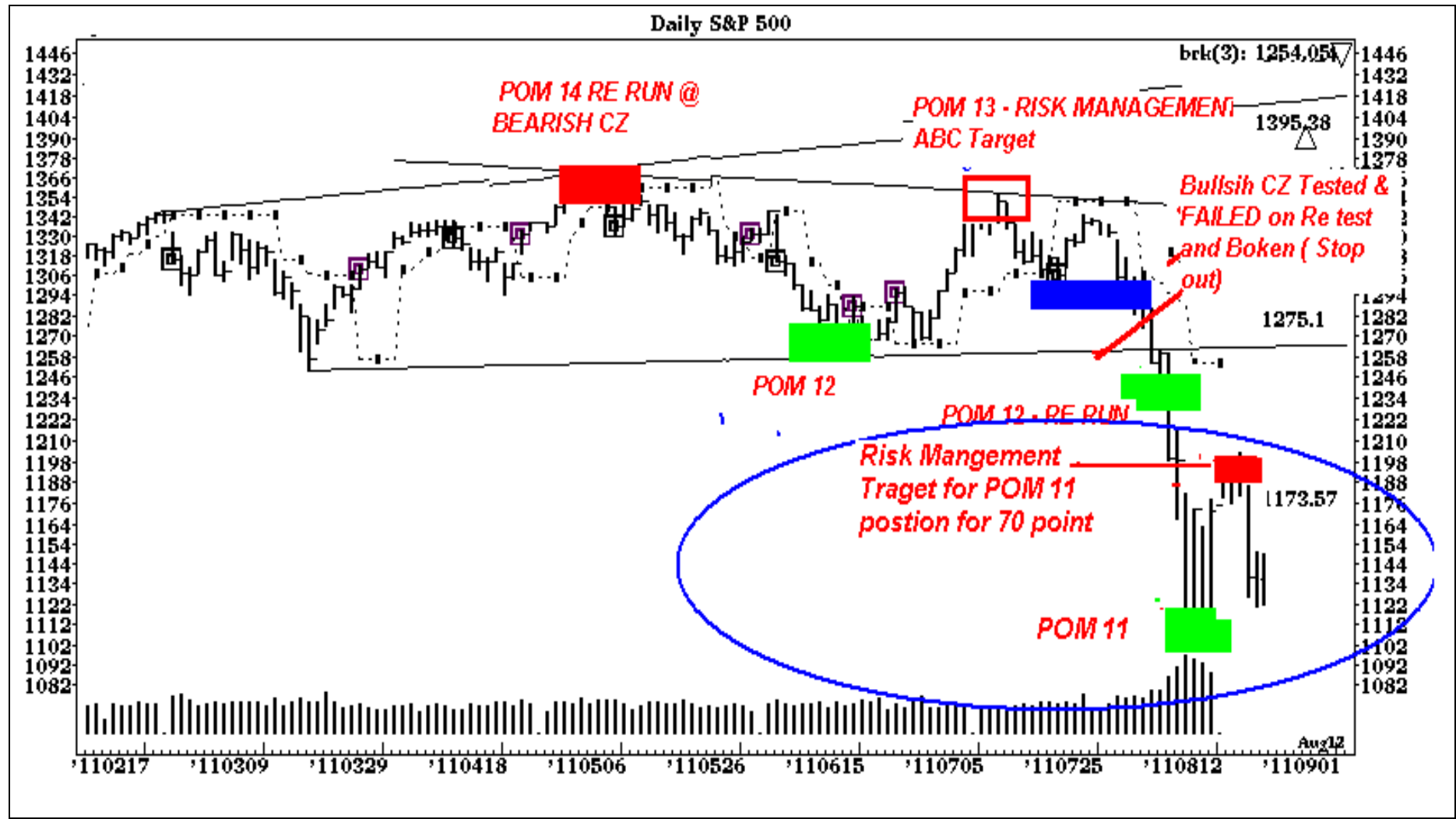
- Alert announced 8/11 for reversal @ 1196 to Re cycle back to enter re test of lows on POM 11 Re run

• SPX - Insights

- **Our First price target from POM 11 (1117) to (1196) achieved , a huge move upside was met within 5-7 days = 80points . Then announced the turn , On 17th Aug – Astro Cycle turn day at 1206 proved its merit to Neutralize the POM 11 – Risk Management .**
- **Since then we have dropped 70 points on SPX, big downside move . 17th Aug gave the opportunity to rebalance Hedges or go Short depending on the Portfolio Objectives & Beta tolerances . Now are experiencing the Re test towards the lows 1100 - 1125 of 90% reversal day as we have been expecting.**
- **Timing Triggers around POM 11 has assisted to Manage the Drawdown around POM 12 Re Run position - in tough volatile condition**
- **Decision points around CZ targets and POM 's does certainly assists in Risk Management .**
- **On Friday some indication of Money flow coming in on the dip. so having large Short exposure might be a Caution ahead of Dr Ben's take in Jackson WY on QE -3 excitements. Rebalancing Short position on Down days which are closer to the CZ target gives a good fill then covering on Gap up days takes the gravy away**
- **Monday market Gaped higher without setting a proper footing on floor, this usually is suspect. Especially if Gap doesn't hold In ability to hold suggests bottom heavy nature and has unfinished business below 1115 at Liquidation lows of POM 11 .**
- **But currently a good Bottom would be to break the lows and undercut the prices and show positive divergence to prove the point on bottom formation to get POM 11 Re run . Simultaneously Re test the highs in VIX for another fearful move**
- **We have a Time Ratio – Termination Low due on Tuesday near the closing bell and it could be a real Turnaround Tuesday (with some possibility it might extend into Wednesday)& Cycle turn day on Friday . however the testing process is critical to check the penetration into the floor , if is real or soggy. We let the market signal it .**
- **Slightly Mid term basis, Over all we are very oversold to achieve our Mid term Objective of 1240 , As majority of the indicators (highlighted below suggests that conclusions) for rally after this bottom is in place . 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.**

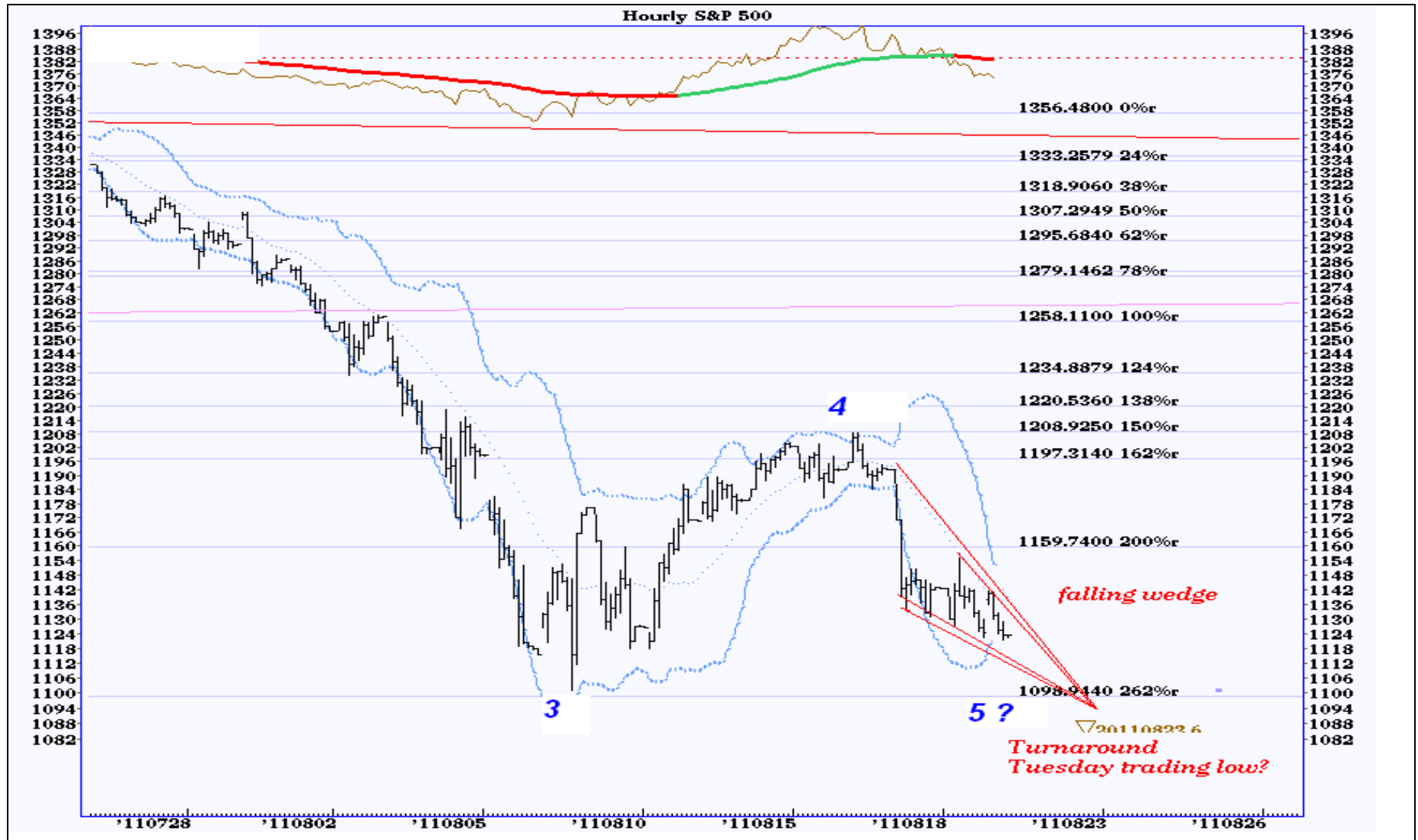
Primary Market Analysis –

SPX – (See notes within the chart) . *Conversely if market rallies again without proper testing process, rallies tend to get some headwinds towards upper CZ . But if we break through decisively 1195 -1210 then it can delay the re testing process of 1100 for later date*



SPY – Hrly Wave - Analytics

When we get into Hrly moves we like to verify CZ's with Wave count . We got our wave 4 top at midweek and wave 5 down has carried the market down to slice 1100 for healthy process of testing . We are likely to see that end to wave 5 (completing a larger And, from an five-wave move to the downside, ending the first larger- wave down from the all-time highs). Once the retracement rally starts , there are lots of Mid term indicators at extremes which will add fire to the rally. But testing process needs to be complete we don't want to jump the guns.



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

Circled in Red where ST AD Line – This is encouraging to see during bottoming process. AD line stay with market moves up and down . AD line usually never leads from bottom. But should not lag either on up or down . It is holding neutral in volatile market .



SPX – MID Term RSI

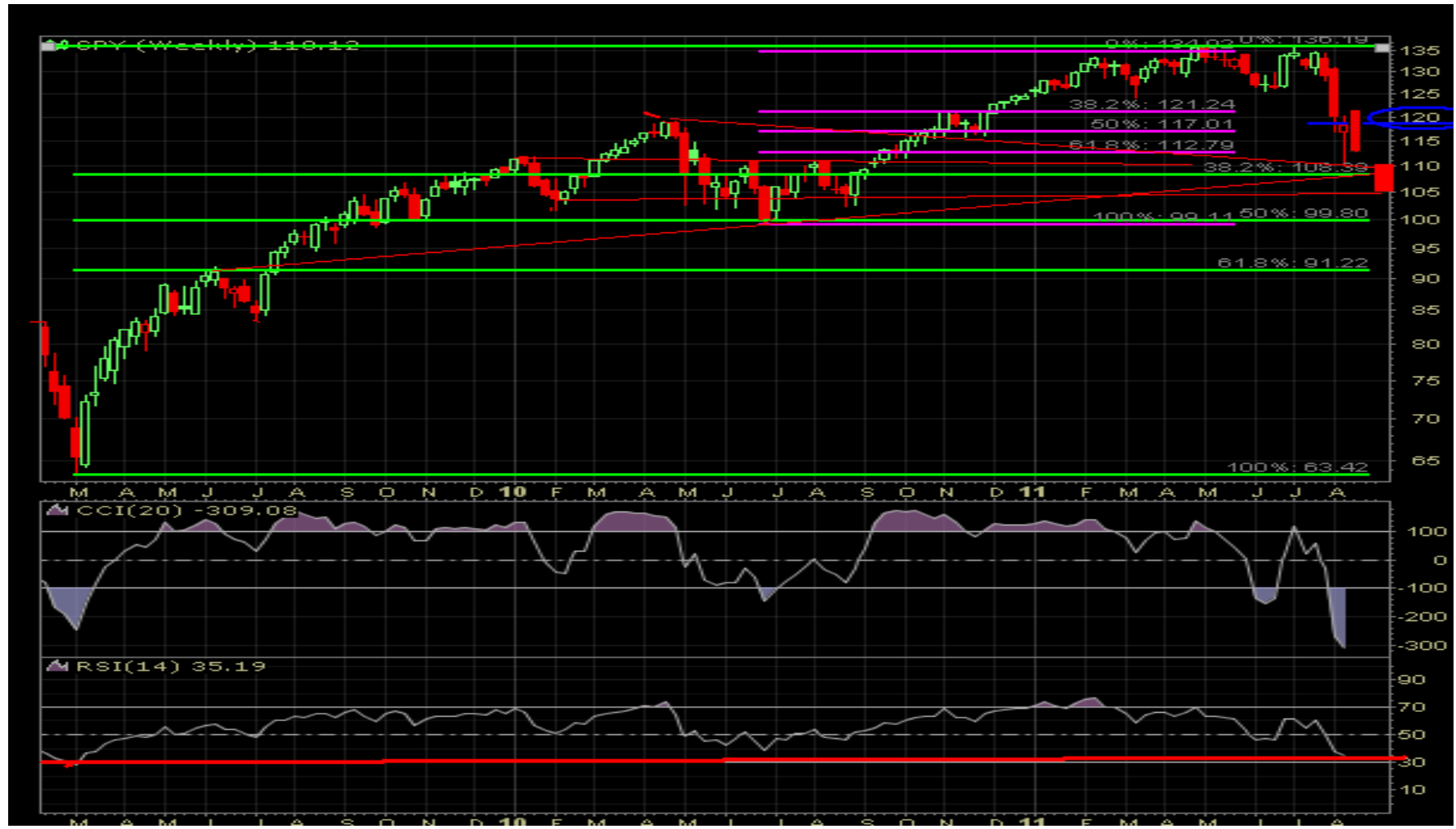
We do not put much weight age on ST – RSI, This is MID TERM AND WEEKLY , achieved in march 2009 lows, therefore hard to ignore the case for another rally once the bottom testing is done.



SPX – MID TERM – Downside CZ & Multiple Fib stream convergences

Over longer term – Multiple Fib Streams Converge to 1100, still don't seem to have broken down. It appears more of pull back mode of larger move originated from March lows . However weekly close above 1200 would be Bullish

CZ 1100 - 1050 is being testing should in progress. RSI & CCI is at lows of March 2009



SPX – MID TERM – Upside CZ & Multiple Fib stream convergences

Weekly RSI readings near 30 come in a down-trending market and also appear near short term lows. A bearish market setup occurs when the weekly RSI reaches back near the 50 range & CZ indicated in red is rally target . This sell signal setup occurred back mid 2008 (see in red on chart above).



SPX – Long Term EMA - Cross

As this correction takes place and market bounces between th' CZ TO CZ , POM's to POM 's , we keep eye on chart below 1999 to 2011 One of the Indicator to check if Large decline in SPX has began (Refer last red circle) barely touching but not crossed yet, Market is oversold and Rally can get this cross our of harms way **if one is Bullish but cross remains we will see the reaction of market at 1200-1240 bounce**



Dow Transport Theory – **No signal**

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

IYT cross with DIA on price strength has not given signal (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 message) – 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 -

Indicators below displays via various Matrix & Oversold conditions. It suggests another rally should be coming after testing the bottoming process. However the extend of Rally will be limited towards our upward CZ & Market ineternals

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

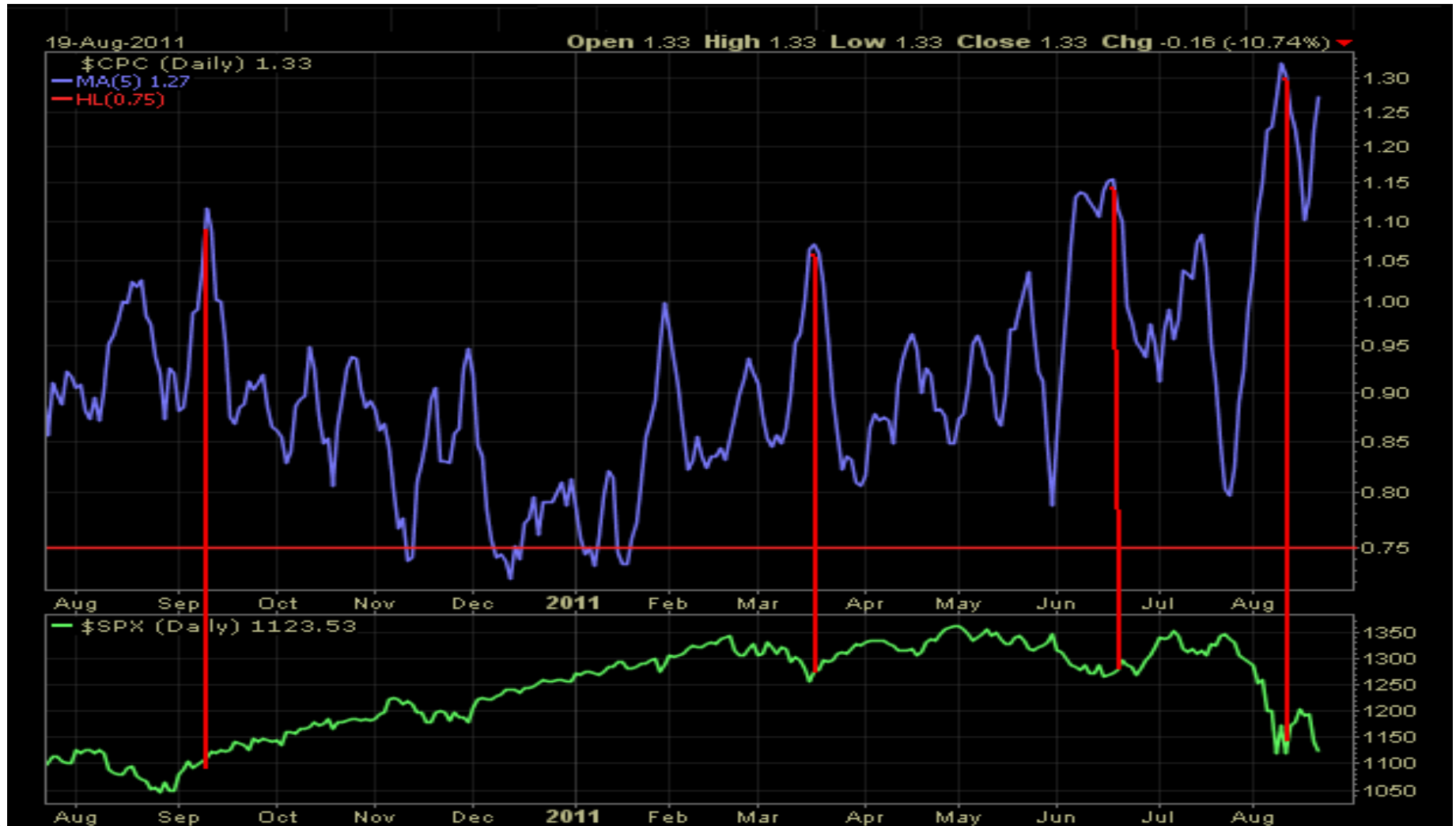
Extremes below 5 – This should provide fire power towards 1200 to 1240 SPX move.

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 towards 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 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 .

VIX - Trend Analysis

Currently another move towards 48 to test the highs it set 2 weeks ago is a good possibility .

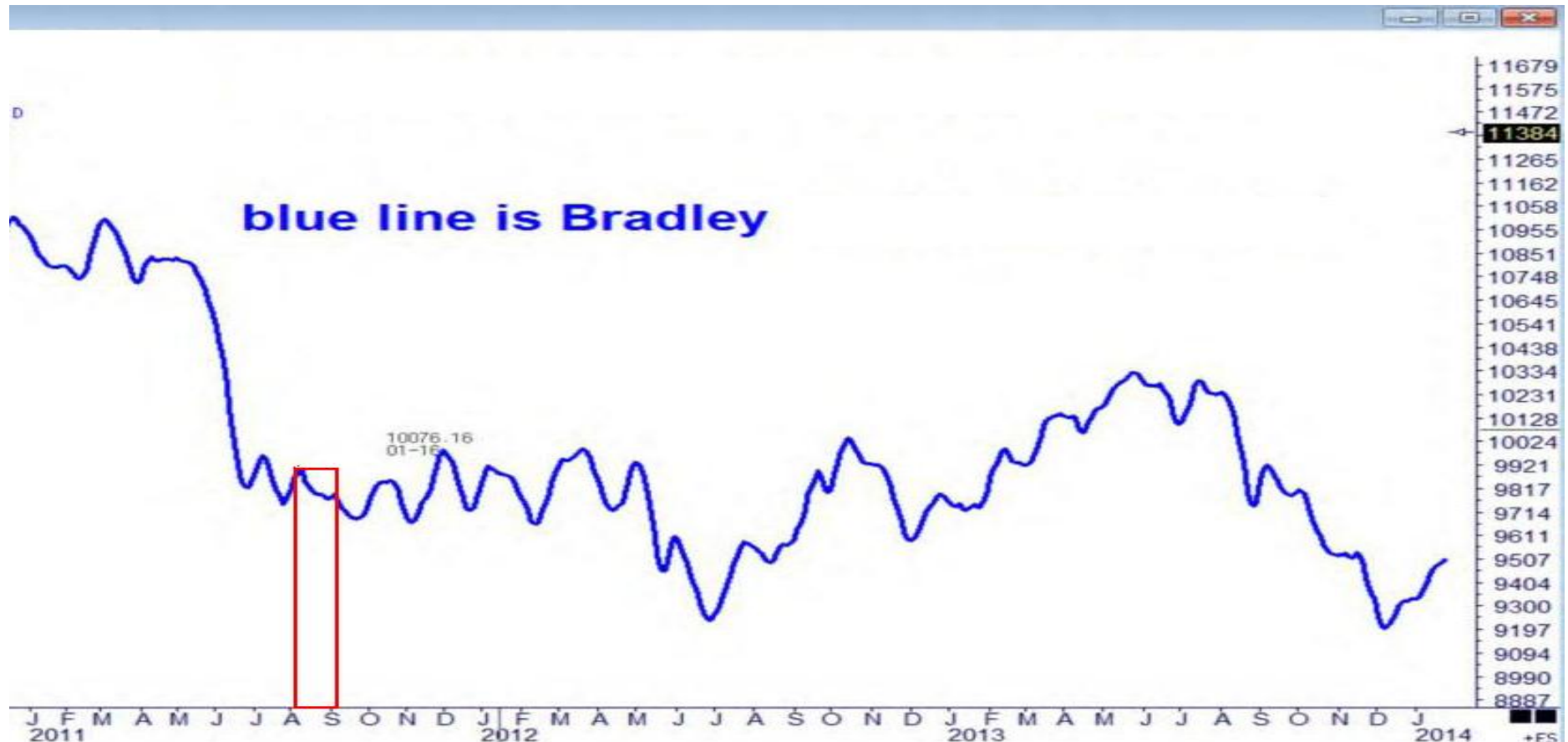
Earlier VIX tested the April 2010 Highs at 48 , RSI also topped out & rejected but close under Bollinger band at 32 should Trigger Sell by this method on VIX , that will happen when SPX rallies from 1200 to 1240

- 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 ,

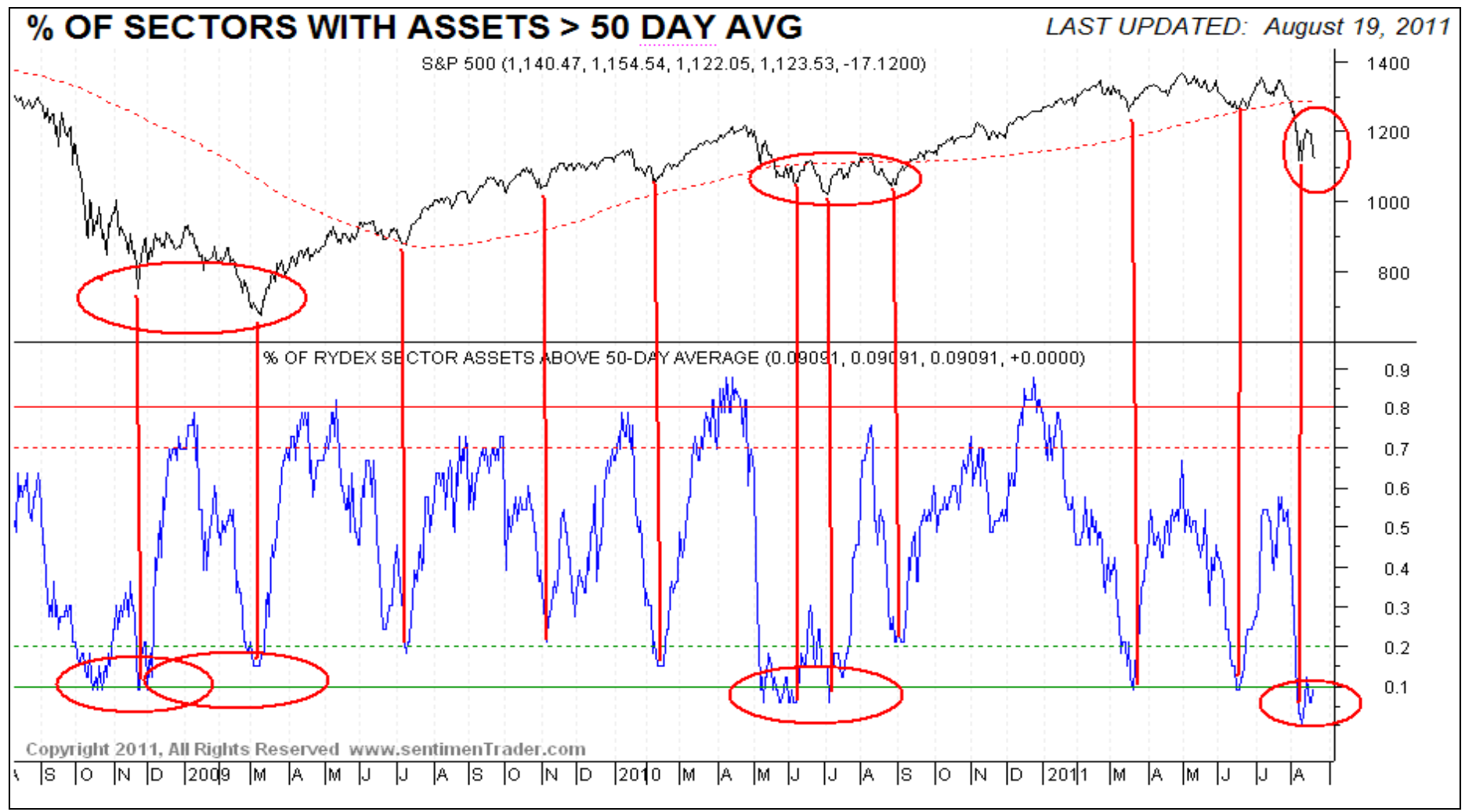
Our Behavior Indicators Commercial Hedges , AAll etc Sentiment Indicators, Insiders activity, Speculation activity,

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**

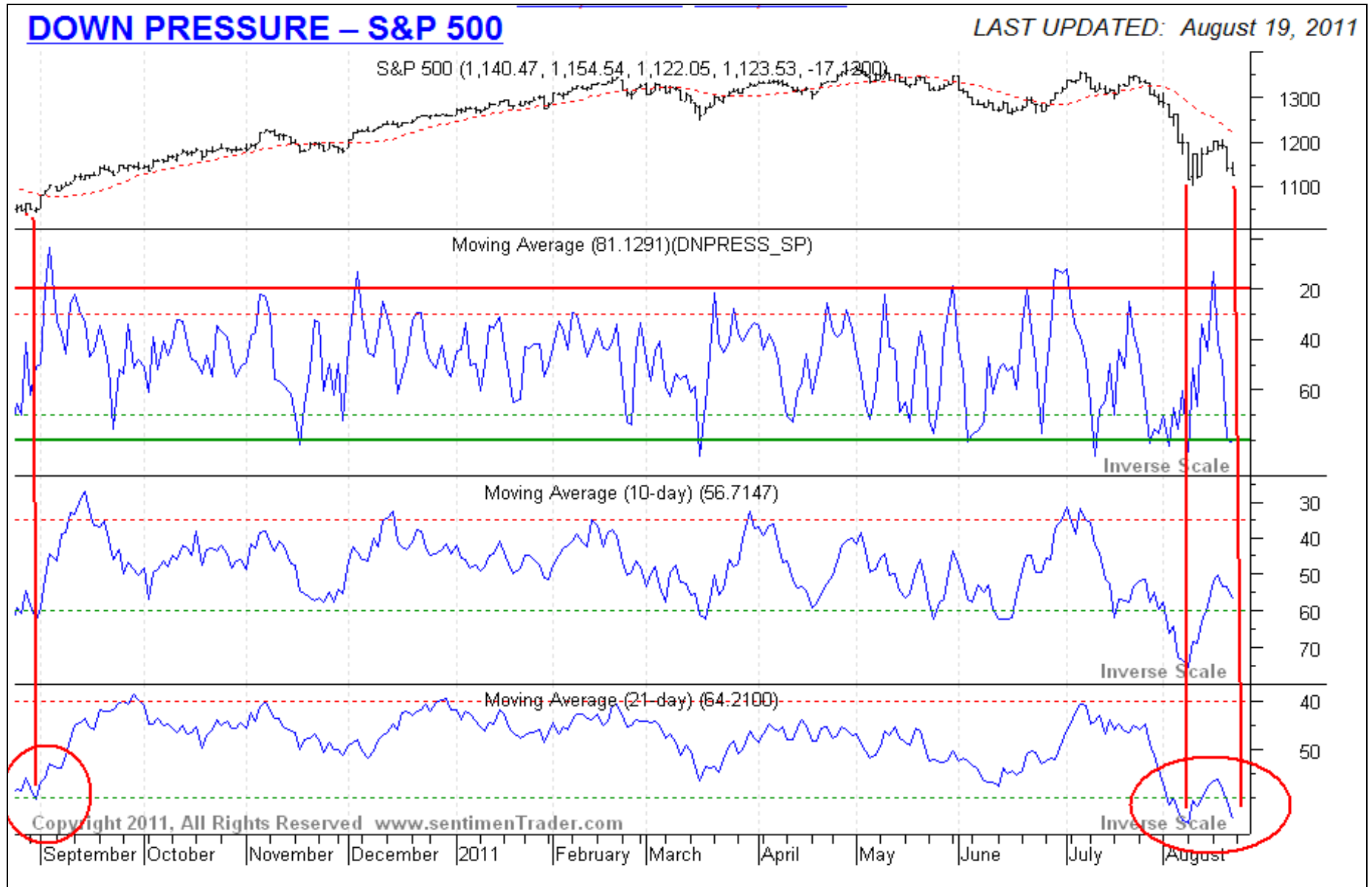
% Sectors Extreme Indicators - Courtesy : SENTIMENT TRADERS

Reading lower then March 2009



DOWN PRESSURE – Courtesy : SENTIMENT TRADERS

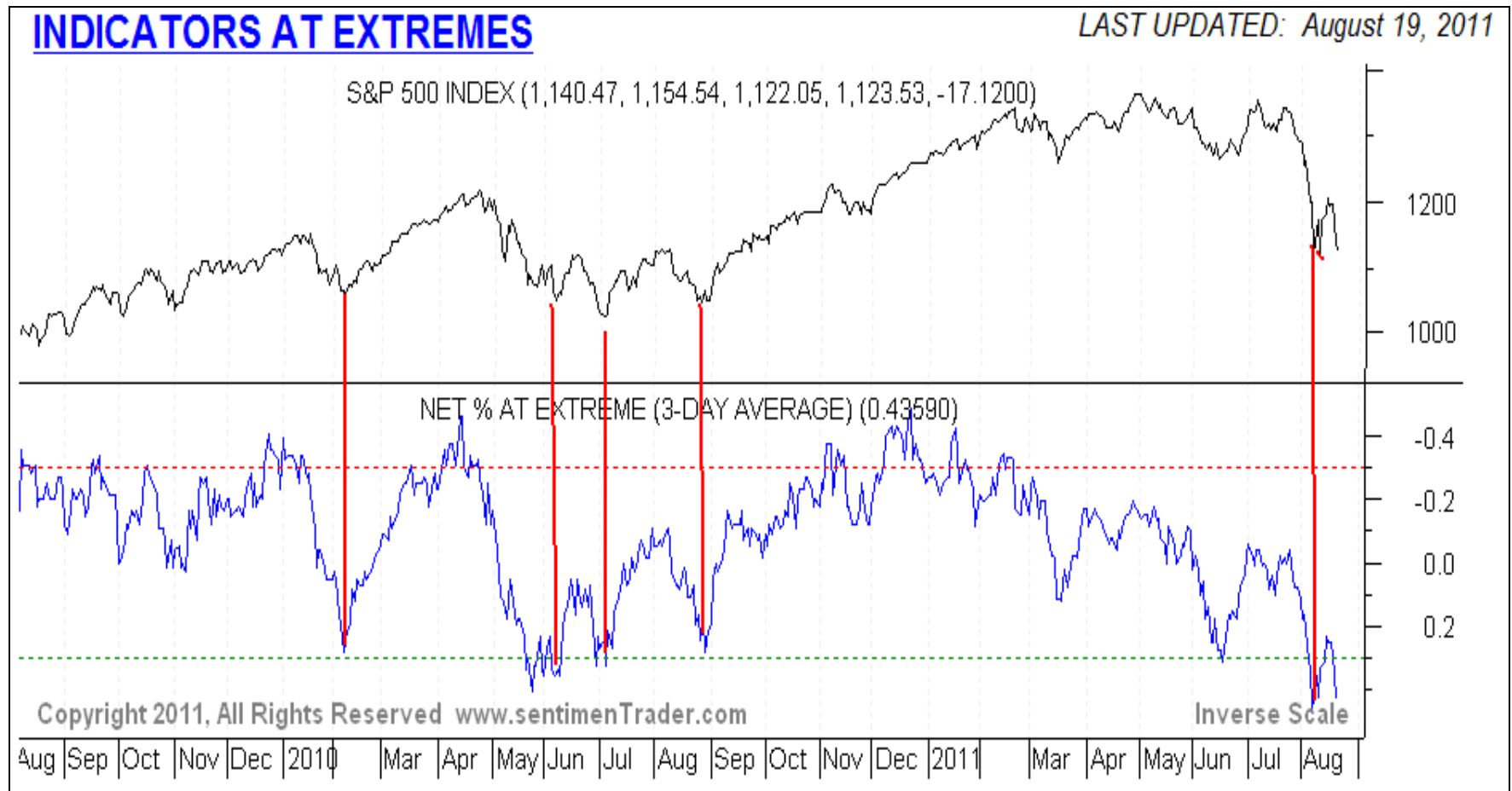
Down Pressure reached extremes, The previous bottoms have taken place in those areas.



Cumulative Extreme Sentiment Indicators - Courtesy : SENTIMENT TRADERS

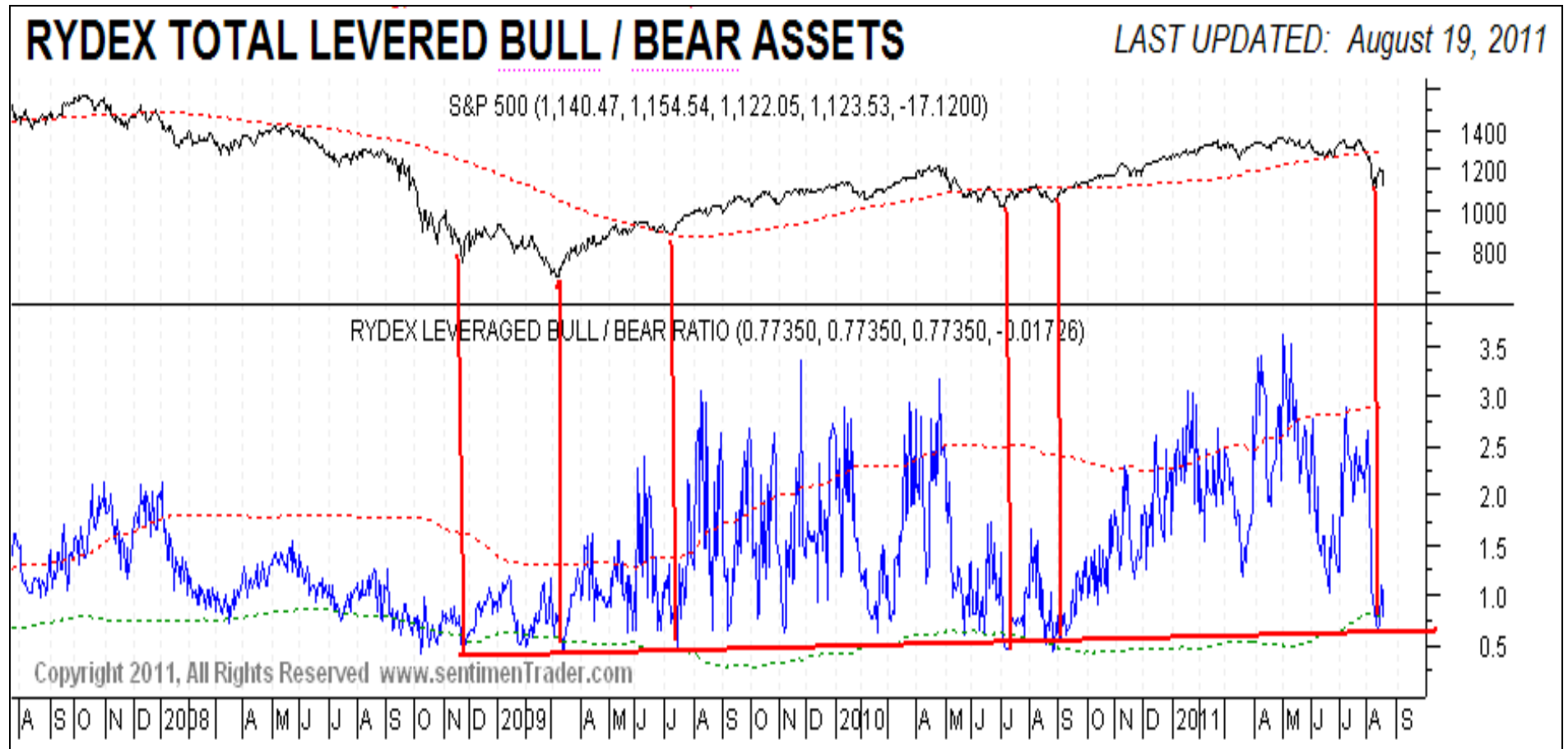
Cumulative Indicator derived from the following Survey Sentiment Indicators collectively at extremes We think this Indicator is at or below 0.2 - tends to work well for bottoms when overlapped with Math Indicators of market Internals. Indicators used for computation of extremes are as follows

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



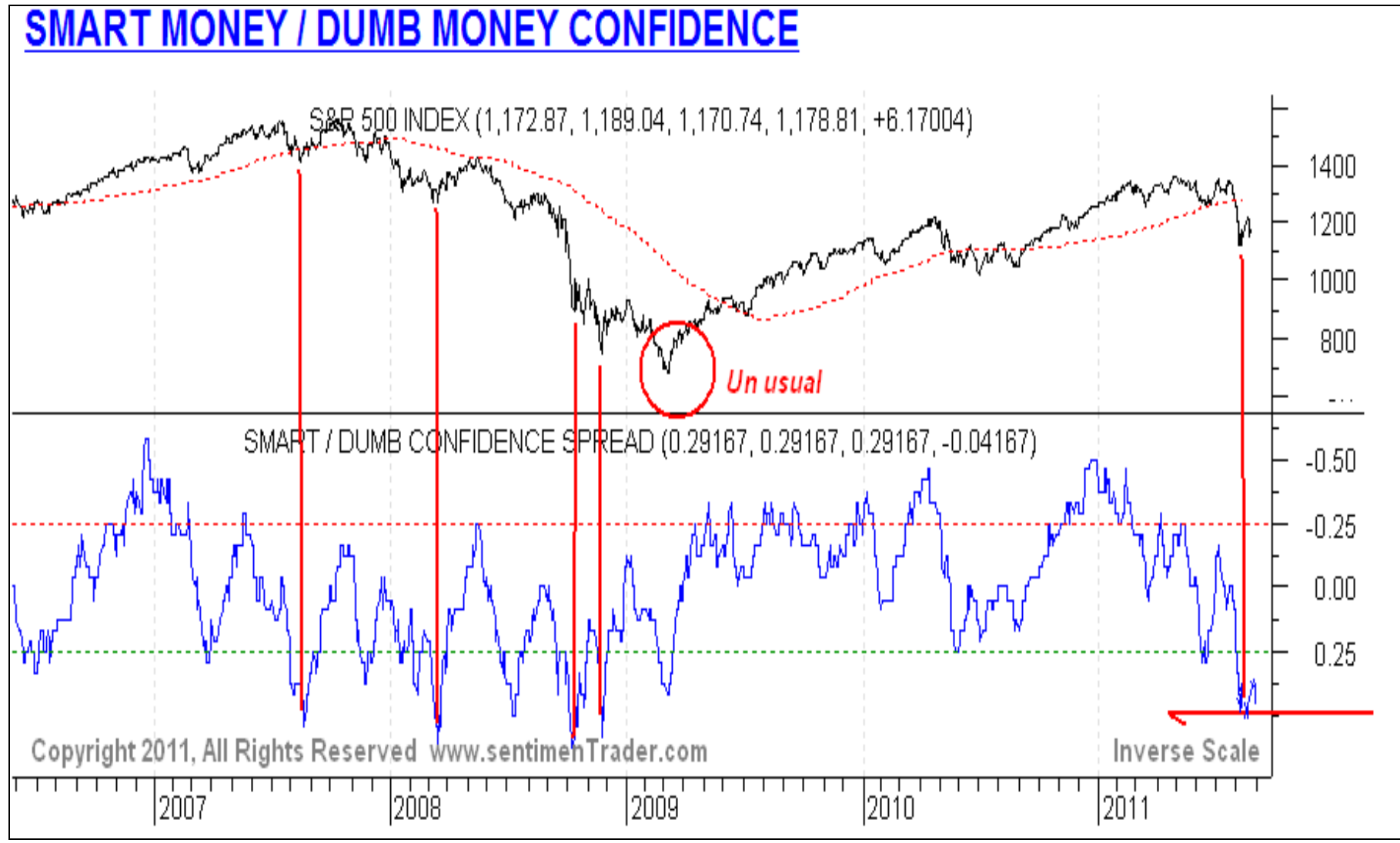
Rydex Bull / Bear – Leveraged Ratio - Courtesy : SENTIMENT TRADERS

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.



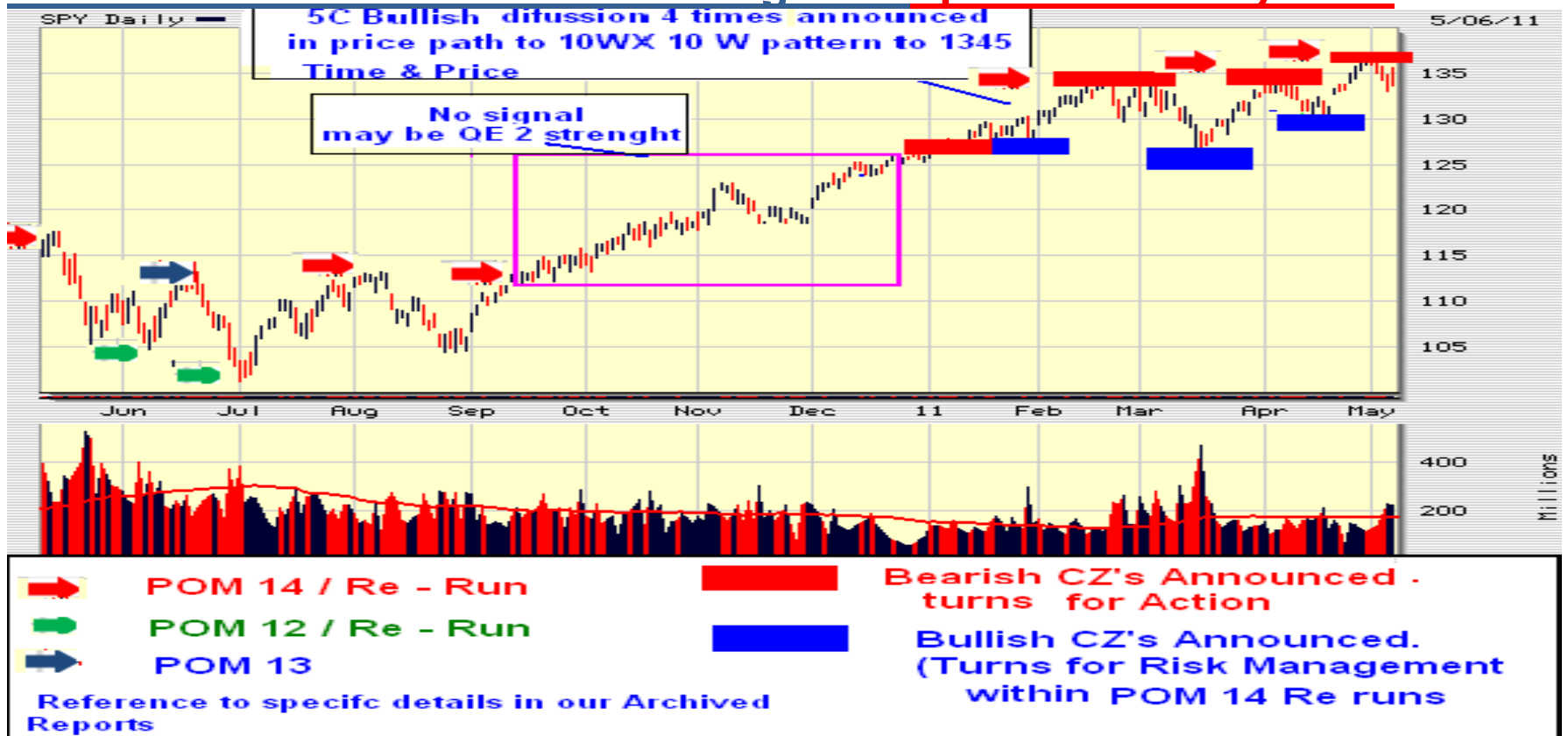
Rydex / Money Ratio Indicator - Courtesy : SENTIMENT TRADERS

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 PQQV 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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