SG Capital Research
Global Market Insights

Research Note – Market Strategy – SPX Interim Update (A# 3) – STRATEGY & PROP Analysis (SP)

MAEG- MARKET STRATEGY- SPX – Interim Update # SG 2011 # DEC_20

For Immediate Release – Tuesday PM (EST)

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Market Strategy SPX – Interim (A # 3) - (SP)-

SPX – Closed @ 1253 **(Past Weekly change -0.03%)**
SPX – Closed @ 1219 / 1257 **(YTD change – 0.03%)**

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• 1. Executive Summary

- *Market has been on POM 14 re run since 1251 within <u>CZ (1251-1270</u>) - **12/02 ALERT,** since then the SPX declined 55 points . POM 14 – Re Run has proved its merit.*

- *Currently SPX is at 1205. Our First downside Price Target for this move was to <u>CZ 1195-1205</u> . We are almost in that price vicinity.*

- *We have entered the CZ 1205-1195 but <u>not Triggered POM 13 yet</u>. We are looking for rejection with Positive divergence for high probability reversal.*

- *But if market rallies (due to positive seasonality) without proper reject in CZ, the light volume Holiday bounce tends to fail.*

- *On other hand, If the test is proper / complete we should try for another attempt towards our re- test POM 14 – CZ (1251-1270) once again. We will let the market "talk and walk" at that time to tell us the story and we will position accordingly.*

• *SPX – Market Commentary*

Our Price path , CZ, POM's has kept us on right side of the market avoiding us the mental strains during "Thanks giving and Christmas" .

Point to note- Last week we witnessed classic example of market coming down to 1212 (above CZ, without entering CZ) and subsequent rally to 1231 failing . Now back down to 1205. As discussed before market tends to get the inertia after entering CZ successfully.

SPX now has entered the CZ 1205-1195 in silent manner , we do like to see diffusion to its mathematical reaction. Point of observation is , Just below that CZ, there is SPX 1185. This is the initiation of powerful "3 Gap play" on upside which it completed at 1260. The pull back target of such pattern is lows of the 1st Gap. Tends to be quite a high probability. We will monitor if it reaches there.

We are re balancing the SHORT TERM Bullish and Bearish Indicators for its final completion

SPX Bullish Completion

- *We are in positive Seasonality,*

- *We are in CZ – 1205-1195, we are beginning to see the positive divergence (BUT NO Trigger Yet for POM 13).*

- *China after the Bearish CZ Trigger – 2500-2450 (refer A # 2G . MS) has now reached 2100 in painful waterfall droplet decline . Such price behavior is classic occurrence of " 3rd Leg Down " scenario as mentioned in our previous messages. (This is just Laws of Motion) .*

- *Catalyst- NOW- China is at 2100, looking attractive for rally to begin. This should help World market to trigger upward move.*

- *Last ½ hr of Trading suggested several MATHEMATICAL Indicators with TRIN, TICK, A/D oscillator, OBV and Put / Call Ratios are lining up for Bullish Divergence.*

NEXT Seasonality days in December

- *Next to come –*
- *21st Dec to 23rd ,*
- *28th Dec – 30TH Dec (We will monitor these as they come)*

SPX - <mark>Awaiting for Bearish turn Bullish soon.</mark>

- *DAX which has been lead dog on downside did not act well on upside on Mondays Trade. We need DAX to complete its downward move properly when this is completed SPX will get traction. (Tuesday Morning as of this writing its turning around well)*

- *We have " NEW MOON' on 25th and Bradley turn date is 28th Dec , we will monitor how the Market approaches into it . If we approach into lows (within +/- 2-3 days) then .Bradley has Positive January Forecast after negative December Forecast. (Earlier, 10TH DEC – was our Double Combust date Astros Cycle which coincided with POM 14 re run +/- 4 if one recollects)*

- *In addition, we have Euro reaching very very close to our SHORT TERM Target of 1.28 & USD to 80.5 , TLT as well is within few points. Any reversal move (even short covering in EURO) should give us some impetus to SPX to rally (EURO Charts below are very critical)*

Upon completion or close to completion of the above events .

(Triggering POM 13, with positive divergence) . We should rally back towards CZ – POM 14 area.CZ 1251-1270 in whatever time frame it takes to top.

IF NOT - *without Trigger on POM13 then we run into risk of bounce failing after 3rd – 6th of Jan 2012.*

**BAC - We are certainly not BAC basher but just from Reliable Pattern recognition Model we notice**

BAC is reading back to its lows again at 5.00 , Any close below 4.75 now runs into Hyperbolic Flag post Risk to target 2.80. Going back to our Research note from Sept 2008 . We had pointed similar pattern structure in AIG, C , LEH etc. And earlier days of 2002 from LU, GLW, NT etc

SPX – Waves & Poly Trend Projection Analysis –

We are approaching the D point which might terminate our CZ – 1205-1195. But Most importantly we have <u>Inverse Poly Trend formation</u> . This has price projection of 1260
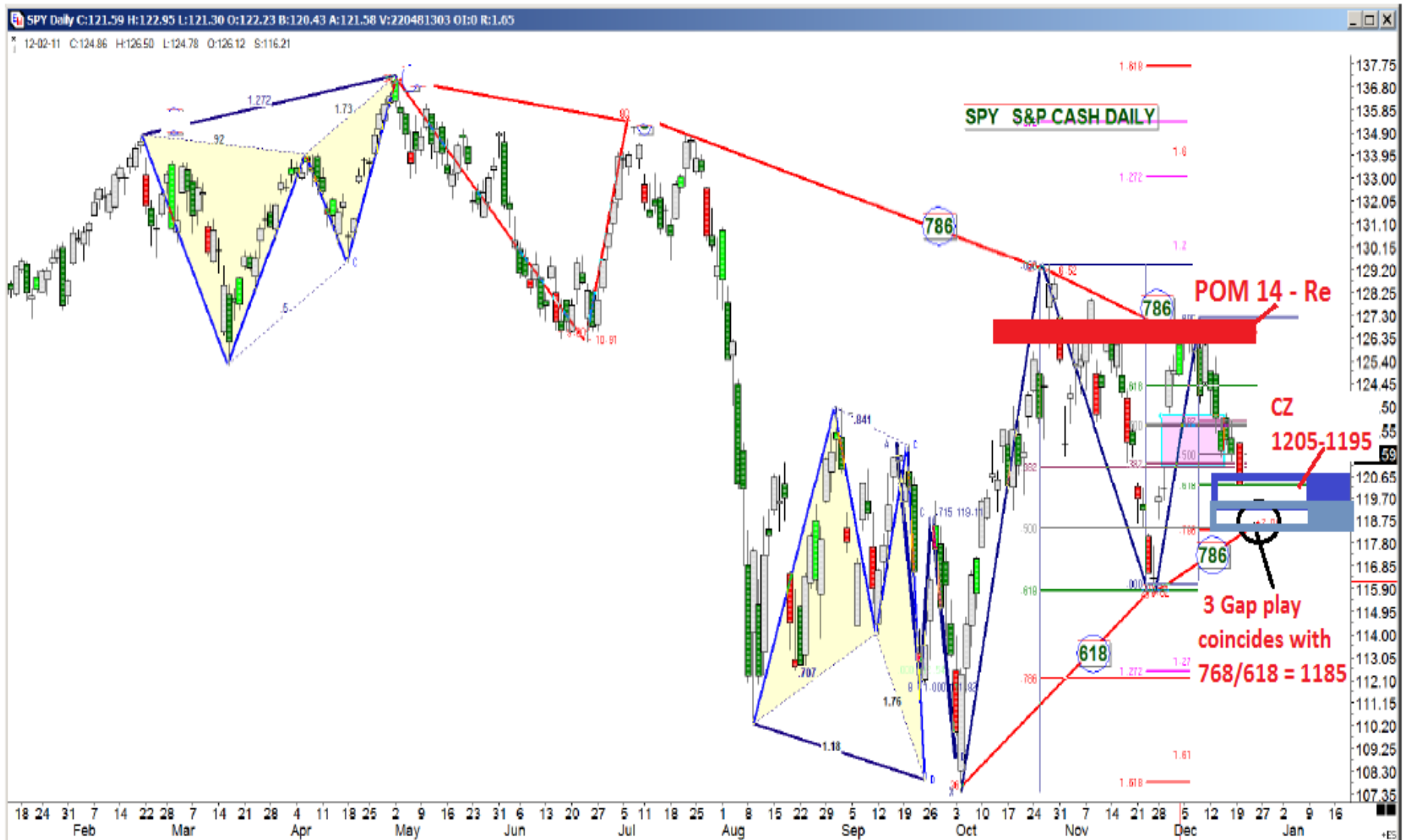
Most importantly we have another Triangulation formed .

<u>*Earlier our*</u> *Wave C - in POM 14 proved it merit on our (1 to 5) / ABCD pattern.*
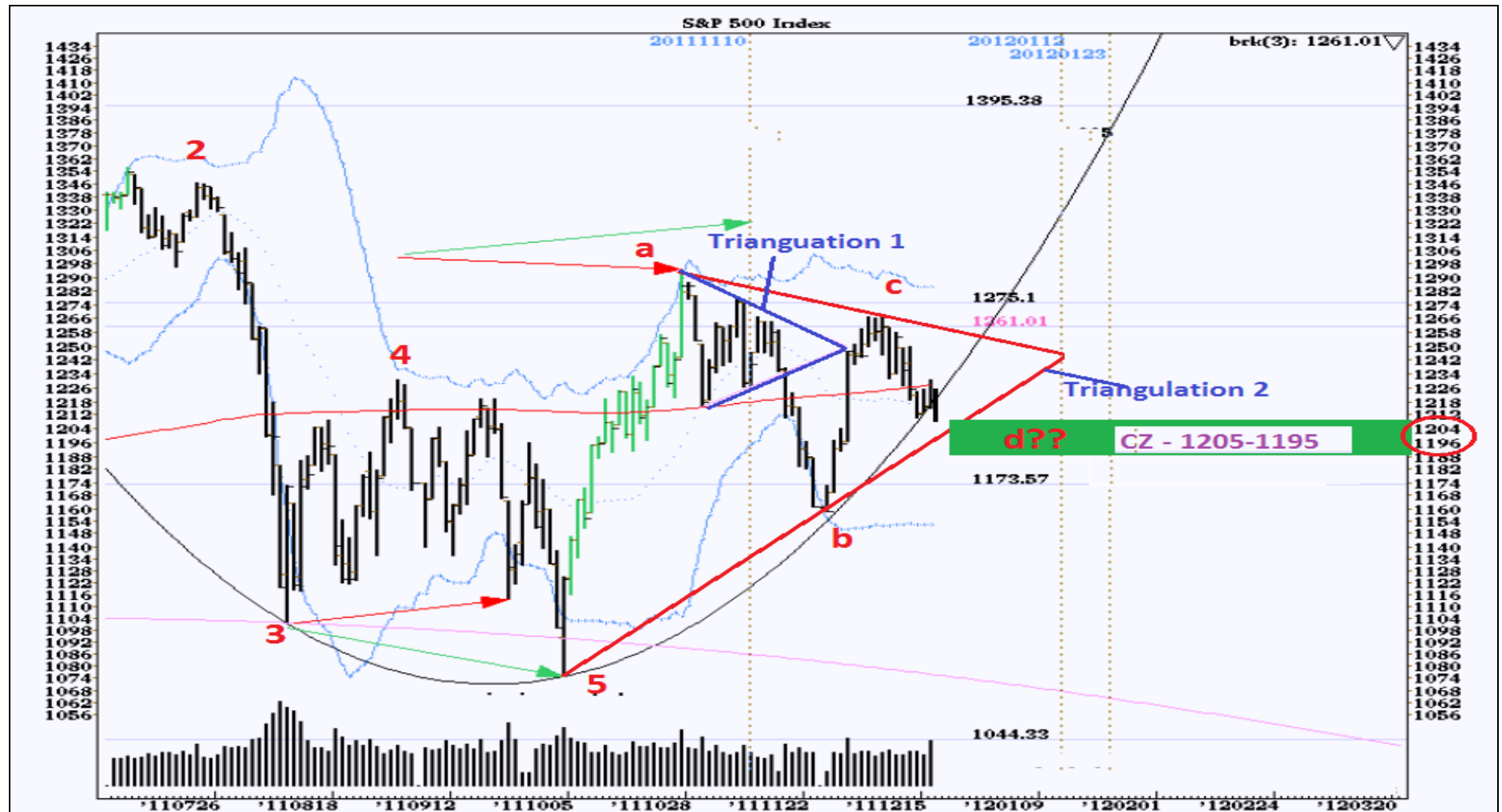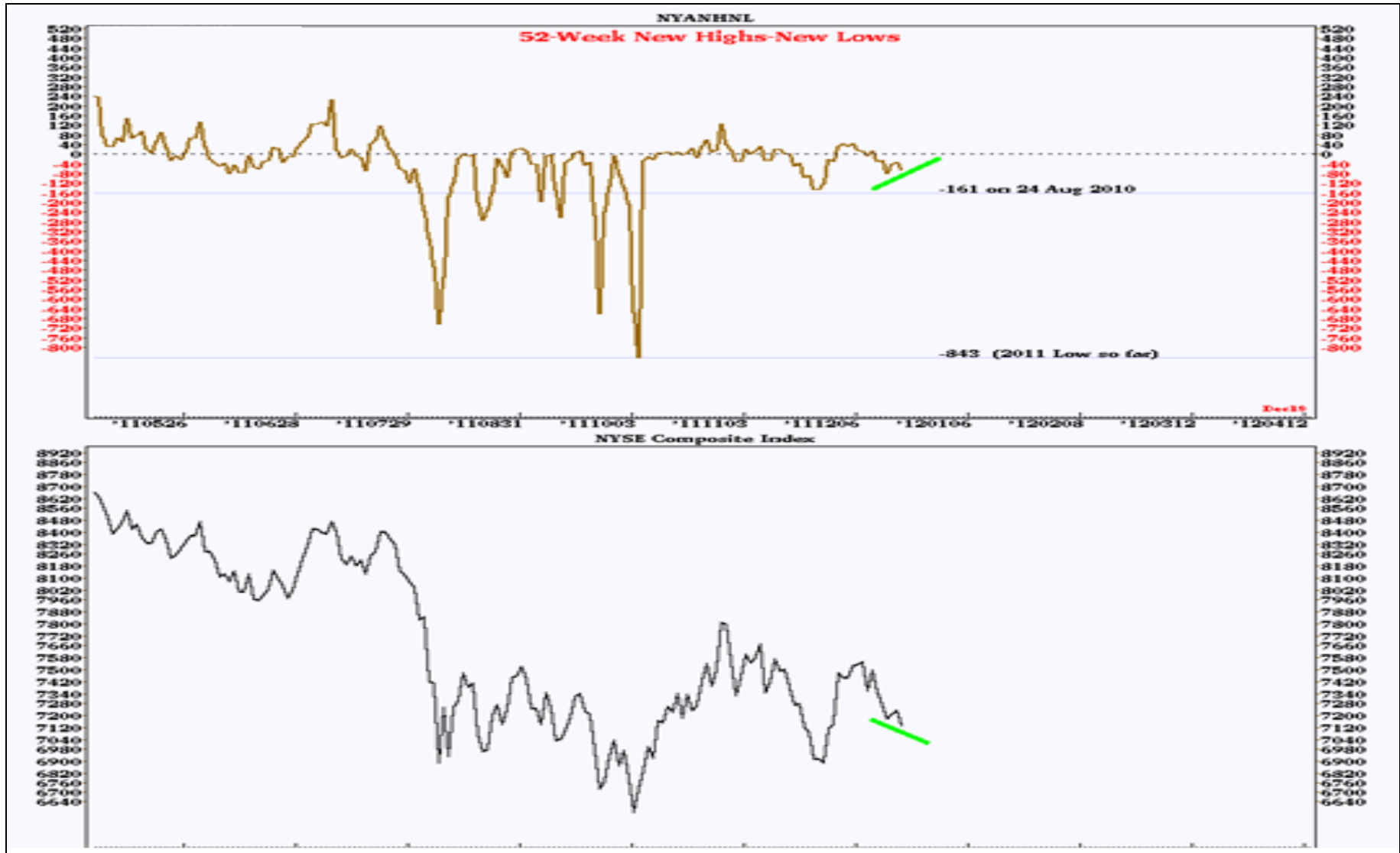
SPX – PEC-D Analysis –

Refer - The chart below suggests the PEC-D – 786/618 on SPY is terminating into the initiation point of 1185 on 3 Gap Play
This could very well be the shake out move point .

A/D - Oscillator Analysis –

SPX - Into the CZ area with 10 points down day occurred with 32 NH : 26NH: 14NH v/s 40NL: 51NL: 96NL while 100 points drop yesterday . This is sign that the strongest stocks beginning to make advance. .

NYANHNL
52-Week New Highs-New Lows

-161 on 24 Aug 2010

-843 (2011 Low so far)

'110526 '110623 '110729 '110831 '111003 '111103 '111206 '120106 '120208 '120312 '120412

NYSE Composite Index

EURO – Poly Trend Projection Analysis –

The euro is approaching the Poly Trend line .towards our target 1.29-1.28 . There is tremendous short position open. After or before the last test it could rally back in a countertrend move before resuming its trend lower down the line:

But the rally should assist SPX to rally

EURO – PEC-D Analysis –

Euro – PEC-D projections comes towards 1.28 . we are pretty close. SPX should rally with it .
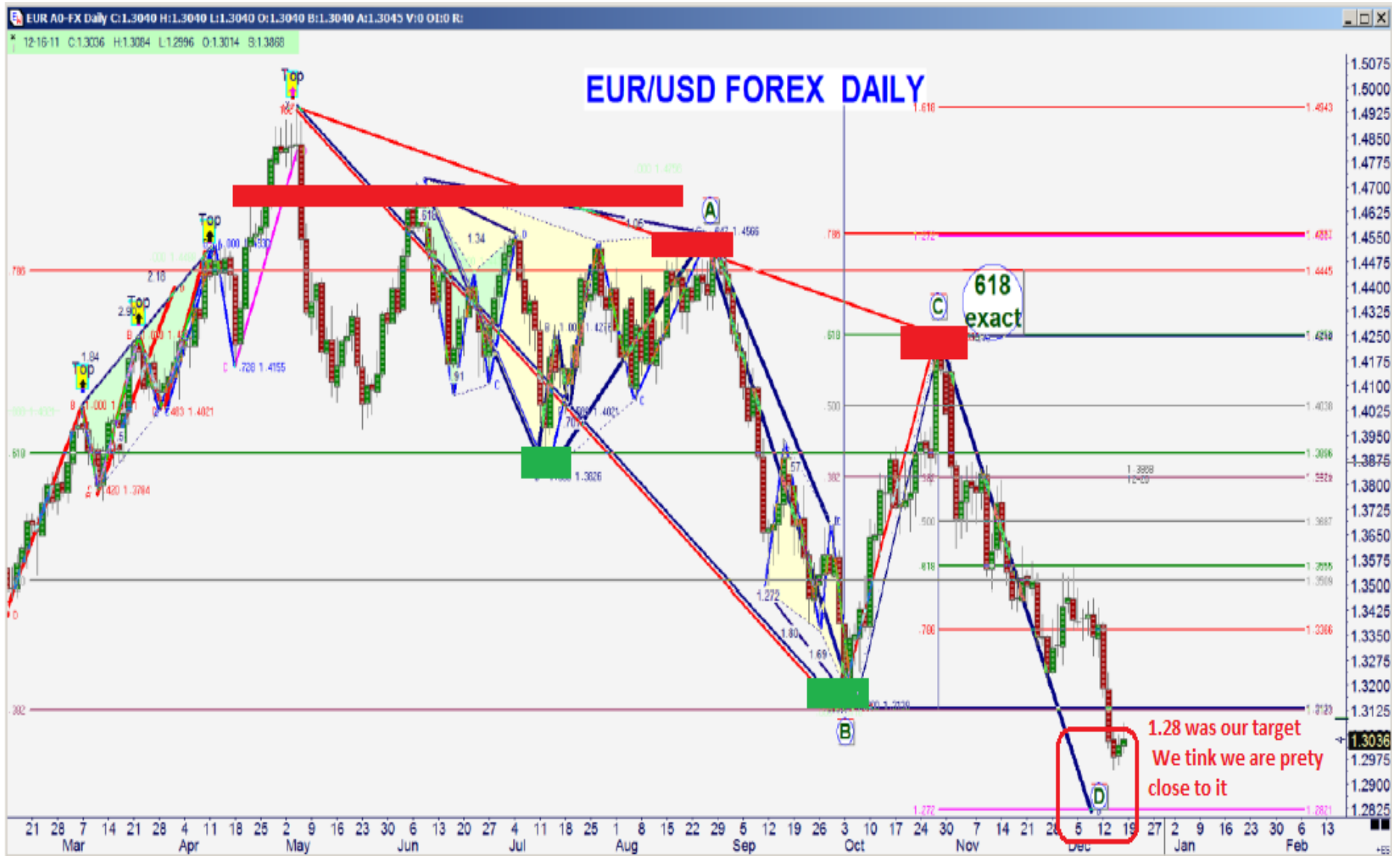
TLT – POM's / CZ Analysis

Our POM 12 was one of the Original Bull on Bonds (30% ago) . *Our last signal was POM 13 at 112 – we announced in Alert*
(But we did not take it as Trade, due unavailability during the Travel to Goa)

Since that signal TLT has moved up 10% , It is forming <u>BULLISH TOP.</u> But that would come in handy only after retracement . For it to capitalize, FIRST – POM 14 – needs to Trigger (We might be very close to it (See chart below) and then on Pull back towards POM 13 needs to be Trigger.

Earlier - POM 12(89) to POM 14 (104) was ended and then POM 15 (123) to 112 . We had our bite out of this apple (ALL YELLOW LINES).

BONDS – PEC-D / CZ Analysis

The tops are being formed with BULLISH TOPS, it allows to participate on next ABC if initiated at CZ with POM Trigger.

From Bond chart below- POM 14 could be slightly away unlike TLT is more closer to the target.

Appendix Content

- **SPX – POM Signals History for 2011**

- **Trading & Investment Conclusion History 2011**

- **Objectives & POM /CZ Guidelines**

- **Guidelines for Full Utilization of " SP" Report with Limitations**

- **SPX – 52 Weeks Chart with POM Signals**

- **SPX- POM – " Price Oscillation Model " Criteria**

- **SPX – TAS 3x3x3 / 9EMA - " Trend Adjusted Signal " Criteria**

- **Definitions of Extreme Sentiment Indicators**

- ## **SPX – POM Signals & Price Projections History 2011**
- ## **Trading & Investment Conclusions – Start point 1257 (1ST Jan) – YTD –Flat**

- ### *POM 15 - Net Short –- None Triggered in 2011 - (Total points gains = 0)*

- ### *POM 14 / Re - Fully Hedged –- (Total points gain = -88+ 85+ 97 = + 94 = +7.4*

Last Alert (Open Position) - SPX - POM 14 re– Triggered (12/02) at 1251 (Fully Hedge Position) & Alert note A# 3 – MS - QQQ Trigger was at 59 Monday (10/31)

  - ➤ *Alert - 3rd May @ 1370 - POM 14 Re run to POM 12 – Alert 6/23 to 1273- POM 12 Trigger = 97 points gain*
  - ➤ *During POM 14 regime - Recycle partial capital to Trade from Bullish CZ to CZ - whiles the bigger Trend kicks in*
  - ➤ *POM 14 Re Run @ 1335 on 3/01 to 1250 on 3/16 = 85 points gain (from 1250 dt. 3/16 to 1370 dt 3rd No Signal)*
  - ➤ *1st Jan @ 1257 to 2/17 @ 1345 = (-88 loss) on stretch extension*

- ### *POM 13 - Risk Management Hedges - (Total decline saved) = 71+140 +70 = + 281*
  (Proportion of Rebalancing Beta & Net Exposures to be based on individual Portfolio Objectives)

  - ➤ *Alert – 09/ 01 - POM 13 (@ 1220 to Trigger on 10/4 Price Projection of 1080 (POM 12) avoided decline of 140 points –*
  - ➤ *Earlier- Alert – Triggered on 7/08 - POM 13 (@ 1346 & avoided decline till CZ @ 1300- re-entry = 46 points & then (STOPPED OUT @ 1285) = (-20 points) & then avoided further decline to 1240 POM 12 Re Target = (45 points) = 46-20+45= 71 points*
  - ➤ *Risk Management Signal -SPX - POM 13 – Triggered (11/22) at 1188 . The following AM 11/23, the Market opened with Gap Down to 1178. Position Rebalanced at 1251 on 12/02 POM 14 re Run = 70 points*

- ### *POM 12, POM 11 - Net Long – - (Total points gains = 75-20+79+123 = + 257*

  - ➤ *NET LONG 4 - Alert – Triggered on 10/04 - POM 12 (@ 1080) NET LONG- Closed on 10/11 @ SPX 1192 (up 10.3% or gains of 112 (2/3 position) & Balance 1/3 @ POM 14 @ 1226 on 11/01 = Avg 123 gains points*
  - ➤ *NET LONG 3- Alert - on 8/09 - POM 11 @ 1117 – for NET LONG for target to 1196 (where it Nullified POM 11 liquidation Signal) for = +79 points gains - Alert announced 8/11 for reversal*
  - ➤ *NET LONG 2 - Alert - on 8/03 POM 12 re run @ 1240 – to POM 13 – Triggered @ 1220 Alert - 09/01= (-20 points loss)*
  - ➤ *NET LONG 1 - Alert – on 6/23 POM 12 @ 1273 – for NET LONG for target to 1348 POM 13 Trigger on 7/08 Alert = 75 points gain*

Objective & POM / CZ Guidelines

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 <u>Unidirectional</u> 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 Report, our critical component being SPX and its internal ingredients for timely POM & Bullish CZ calls . Our A # 2 – MS Report focuses on Broader Indices and Global Indices.*

- *All the Broader Indices tends to follows the Price path of POM 11, 12, 13 of SPX (except @ POM14, 15), various Instruments will Top out at different time to Trigger CZ – Validation for NET SHORT.*

- *SPX is still following the Bear Market / Trading Market POM Regimes unlike GOLD market*

- *All CZ / PEC D / POM's – Marked on charts (in color) below has been Announced on Real time in our Previous Reports prior to Price shifts.*

- *Stops always on other side of CZ @ value based on Portfolio's Objectives and Risk tolerance*

- *POM Conclusions to be cross verified by other methods prior to final decision*

- *For Maximum utilization of POM / PEC –D Process for Risk Management. Refer to guidelines within the Appendix below*

➤ *Key Points for Full utilization of SP- Reports*

- **_Maximum Utilization of various POM's , CZ's & ABC's – for Risk Management & full enhancements on CZ pricing & CZ-PQV Timeliness_**

- ➤ _At Top down Level_ – *Triggers around POM's -Mid term & CZ's - Short term – (CZ's happens in between the POM's) . Critical component for Clean execution is to maintain ongoing updated data base spreadsheet of CZ's Pre announced in SP releases prior to price shifts. These inputs when Computerized Daily Monitoring, Triggers, Timely PQV validations, Price projections Alerts on real time should warn in timely manner to take action. .*

- ➤ _Rebalancing Pre Planned procedure at Triggers_ – *" Rebalancing % of Overall Position Sizing" , Beta & , Net Exposures sizing depending on each Portfolio's Objective & Risks Tolerances for either Recycling of Capital or Fresh capital.*

- ➤ _Key points for Risk Management_

- ➤ *Hard Stops around CZ's*
- ➤ *STOP SELL- " early warning Alerts" in fast moving markets, Over night Day / Night (IST) time delay Risks.*
- ➤ *Cross verification by Other Methods*
     Computerized Daily Monitoring, CZ Triggers, Timely PQV validations

- ➤ **_2. CZ – Tracking_**

  - ➤ _Programing - "Time/ Price Displacement, Supply / demand Activity Bar Analysis" –_

- *At "Institutional Grade - Price , Volume with Time Integration*

- *Supply / Demand Activity bar Analysis – Real time.*

- *Candlestick – Price displacement Algo Programing experience at CZ Validation for Triggers*

- ## 2011- POM / CZ - SPX Signal

SPX- 2011 – TURNS REAL TIME – POM & CZ

SPX - YTD - (-10 points) ———————————————————— (-0.1%)
POM 12 to 13- Gains 257 Points (4 Signals) ——————————— + 25%
POM 13 - Risk Mangement savings - 280 points (5 Signals) ——— + 28%
POM 14 to 13 - Fully Hedged - Gains 150 points (4 Signals) ——— +12%

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)

• 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 , AAII etc Sentiment Indicators, Insiders activity, Speculation activity,

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

• 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