



SG Capital Research

Global Market Insights

Research Note – Market Strategy – Bi – Weekly Interim Update (A# 2)

MAEG- MARKET STRATEGY INTERIM UPDATE # SG 2011 # FEB 02

For Immediate Release – *Thursday AM (EST)*

By: Suneil R Pavse

Contact: apavse@aol.com

Market Strategy Global (A # 2) - SPX – Closed @ 1307

We have picked up charts (below) that has some distinct characteristics from observation & Special Situation this week based on our assessment:

- Coverage

- 9EMA / 3X3 Strategy – DOW & SPX
- 25 Sector Analysis
- IWM – PQV Pattern Analysis (only If > 2.0 SD)
- QQQQ – PQV, Pattern Analysis (only If > 2.0 SD)
- EEM – PQV, Pattern Analysis (only if > 2.0 SD)
- Appendix - History of past SPX - POM Signals & Key Criteria

- **Objective**

Focus is on the Short & Intermediate term turning point of the SPX via POM's Price projections. 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 – POM Signals & Price Projections with Setup Index (update)**

- **UPSIDE Target** - (**Monthly close below 1280 should be a good signal but hasn't happned in January**). POM 15 for Net Short has not Triggered. Although this extension is counting time the best case scenario would be the highs of Pre – Lehman crash price tops 1280 on Monthly . We could very well trigger POM 15. Meanwhile we continue to remain POM 14 since Jan 1st 1257 (Our new reference point for 2011).
- **DOWNSIDE Target - SHORT TERM** - SPX 1220 first then , Daily Bearish Wedge has the downside target of 1175. On Intermediate term Our Pull back from here should be to 1130 - 1145 (This area is false break top side driven by QE 2). The natural equilibrium price is at 1125, which also happens to be the GOLDER CROSS (SETUP 1) @ 1120. Volatility will increase in this area. Its too early to tell if something more serious (let us wait and watch)
- **EQUILIBRIUM Price** - favorable Risk / Reward opportunity will come at POM 13/ 12. This area we would be interested again
- Our **TREND ADJUSTED SIGNAL** Triggered “ Buy Signal on Close above 1299 @ 1307 .

• Daily SPX - “ Trend Adjusted Signal” – Long at 1307 (Close above 1299)

3x3 /9EMA – Momentum Break Indicator –

- For Bull case - Previous long exit was on 11/17 at 1193 from 1105 entry 09/05 for 8%
- For Bear case - SS from last Sell Signal at 1193 to 1225 = - 2.6%
- For Bull case – long position from 1228 to 1276 = 4.0 % & from reference point 2011 @ 1257 = 1.5%

Currently “ Trend Adjusted Signal “ **Triggered Long at 1307 (close above 1299) STOP 1276**

Our start point 2011 in SPX @ 1257 – Current Indicators

- Long Side –
 - POM 12 Call – **None** so far this year.
 - Trend Adjusted Signal – **Buy** at SPX 1307.
- Hedge Longs / Risk Management for Downside Corrections -
 - We recommend **fully Hedge on long positions** via the SETUP – PQV Hedge Index, we have a **Drawdown – 2.0%** with Setup 2's & PQV – CZ Validated Equities ,
 - Model Avoided Setup's 4's completely hence minimizing drawdown and maximizing mental capital (either due the CZ – PQV – NON- validation or the underlined Index did not confirm to POM 15 sub criteria's of its own)
 - Our SD # 2 – CZ – PQV Validated EQWT Index has **Drawdown -0.25%** in past 8 weeks
- Net Short –
 - POM 15 Calls – **None** so far Triggered this year
 - Our Target has remained for SPX 1280 (Monthly close for highs) , Pre – Lehman Crash Area tests

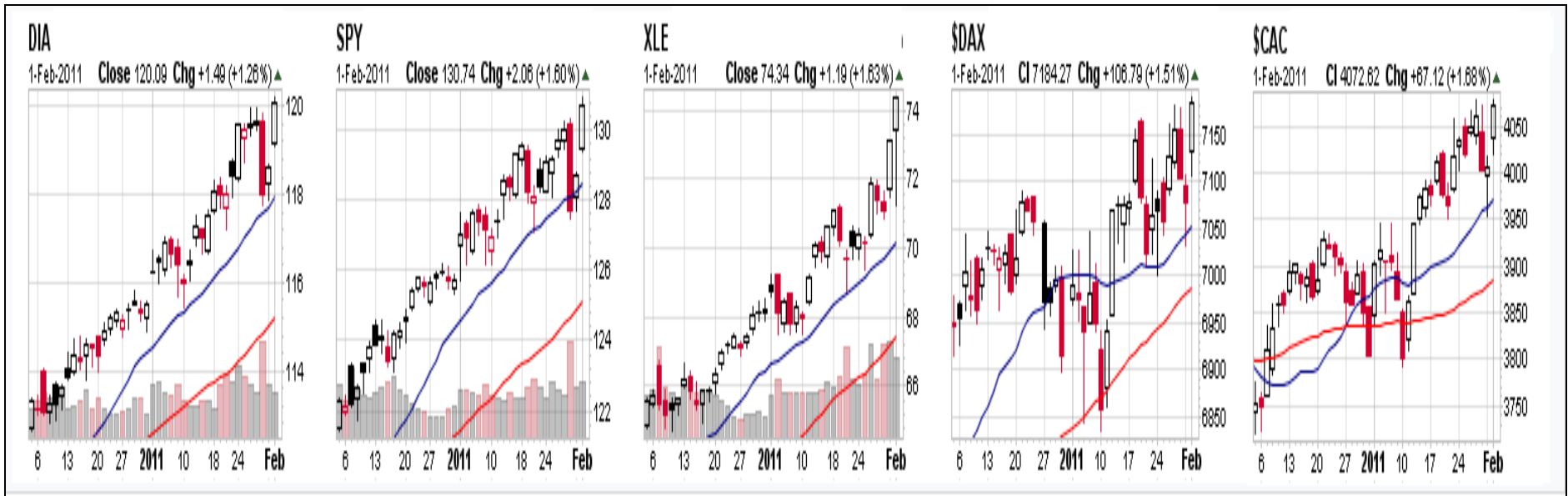
• Market Insights

- *Although we are BEARISH for Mid term (past 10 weeks in opinion) but we do not have indication of Net SHORT SELL especially since 10th of Jan we have been highlighting in MS . The , 3rd time, the wave 5 wave rally / (wave C) its completion ending up 20-25 drop very quickly and then back to highs again . Also indicating the rally going into February which still continues till now. But the larger correction will come in completion of this as the Time termination sets in 4TH and then 14th .*
- *Also The early March, 2-year anniversary of the 2009 low acts as historical turn date and gets to be meaningful (This can very well be lower highs or Secondary if not the top).*
- *Our Model continues to recommend the fully hedge position via SECTORS with SD # 2 Qualified and Tested CZ – PQV Validation only , (Currently this Equally weighted Index has Drawdown of -0.25% (unlike Equity Index , this no stops so far but we recommend it on other side of CZ)) . This is the preferred risk management considering market is not at POM 15 and our Longer term time horizon for holding. (Note – if Market continues up we may have the risk of Stop being Triggered)*
- *Secondly our Hedging process also recommends via Setup # 2 and/ or Broken down Setups # 4 validated at the CZ- PQV which currently has the **Drawdown of -2.0%** (inclusive of all stopped outs, as on last week close).*
- *Thirdly and most importantly AVOIDED , MO – SETUP # 4 combination that helps to save Mental Capital*
- *For any New longs we recommend the Momentum Strategy VIA “ Trend Adjusted Signal with STOPS “, this has done well to capture the MO move of the market post POM 14 whiles Hedging process continued*
- *Our focus continues to be on Risk Management first and try to do as best as we can. Like any other method this has its own draw back as much as its getting frustrating for the decline to pen out and action to begin*

• Markets showing “Strength” .

**Monday’s Report, the indicators pointed out that – the Major Indices (SPY/DOW) would show strength this week and Fridays lows would hold for a bounce into early February. Apparently we are seeing that currently and major indices below showed that strength. We are still awaiting for Broader Indices to signal outright Short Sell and Trigger POM 15 .
..but running out of patience.**

On XLE – we did not qualify for PQV Validation at all and rightfully the is a breakout topside. Again saves the metal capital



• Markets showing “Neural” but Buy on Watch list for PQV - Validation

XLV,XLP, XLU are on our Buy Watch list – Approaching our CZ– PQV Validation test.

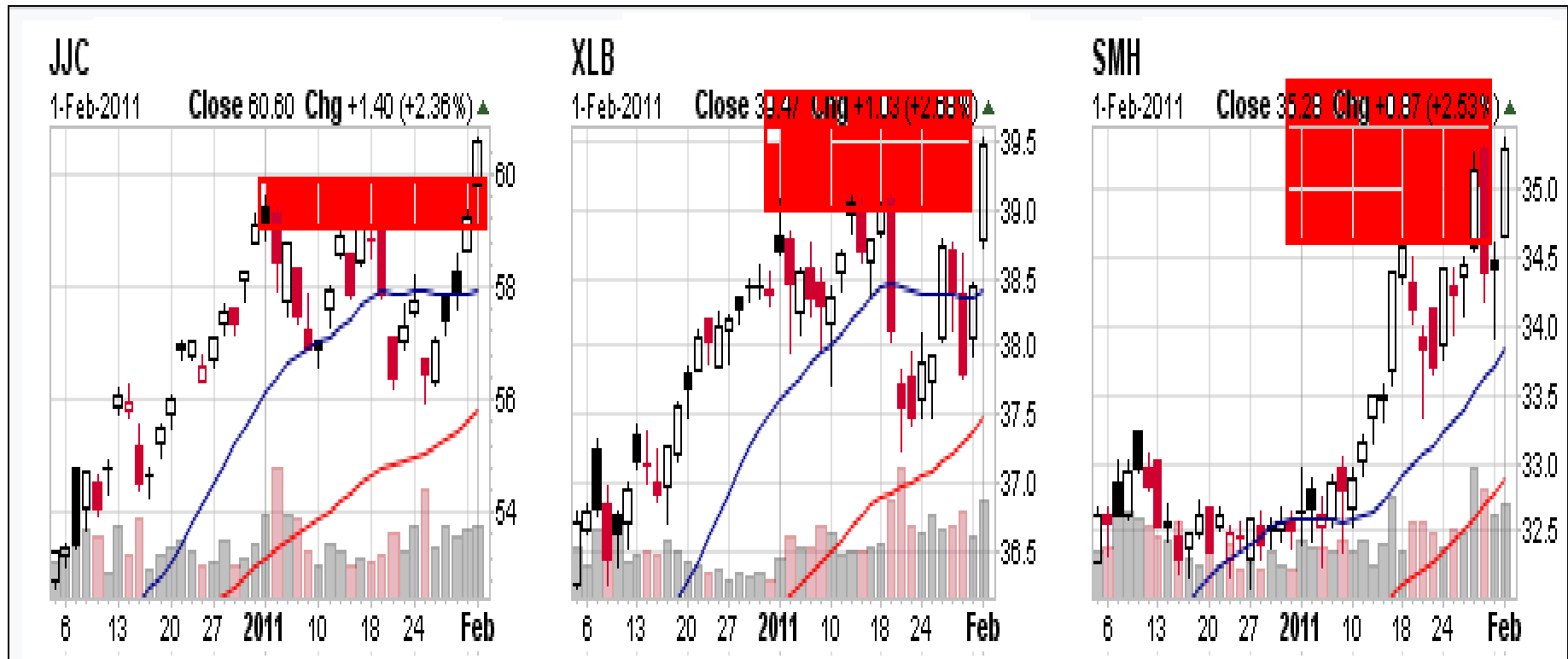


- “ Weak” Markets turning into “Strengths” - CZ indicated in Red from our Sector Validation -

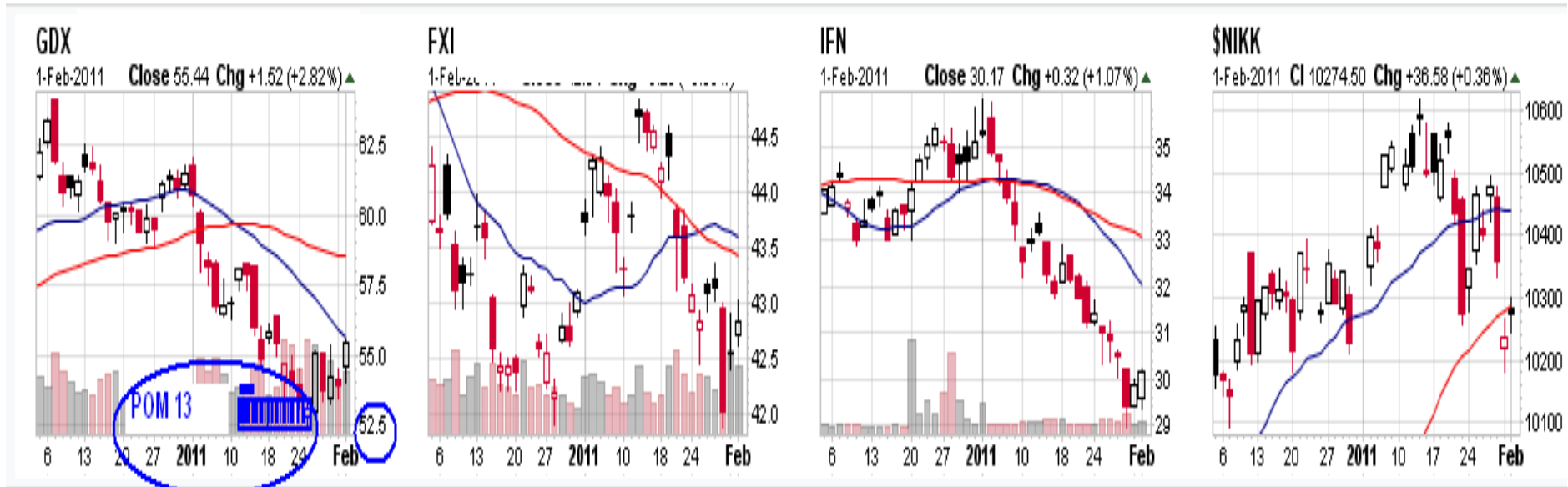
JJC, XLB, SMH have approached once again into CZ again where it previously failed into these CZ on price and Volume.....

*.JJC & XLB **Volume picked up** quite a bit.....*

SMH is still on track price and volume wise. .



• “Oversold” Markets and are closer to CZ levels for “Bounces only”



Reached POM 13 at 53 from 63

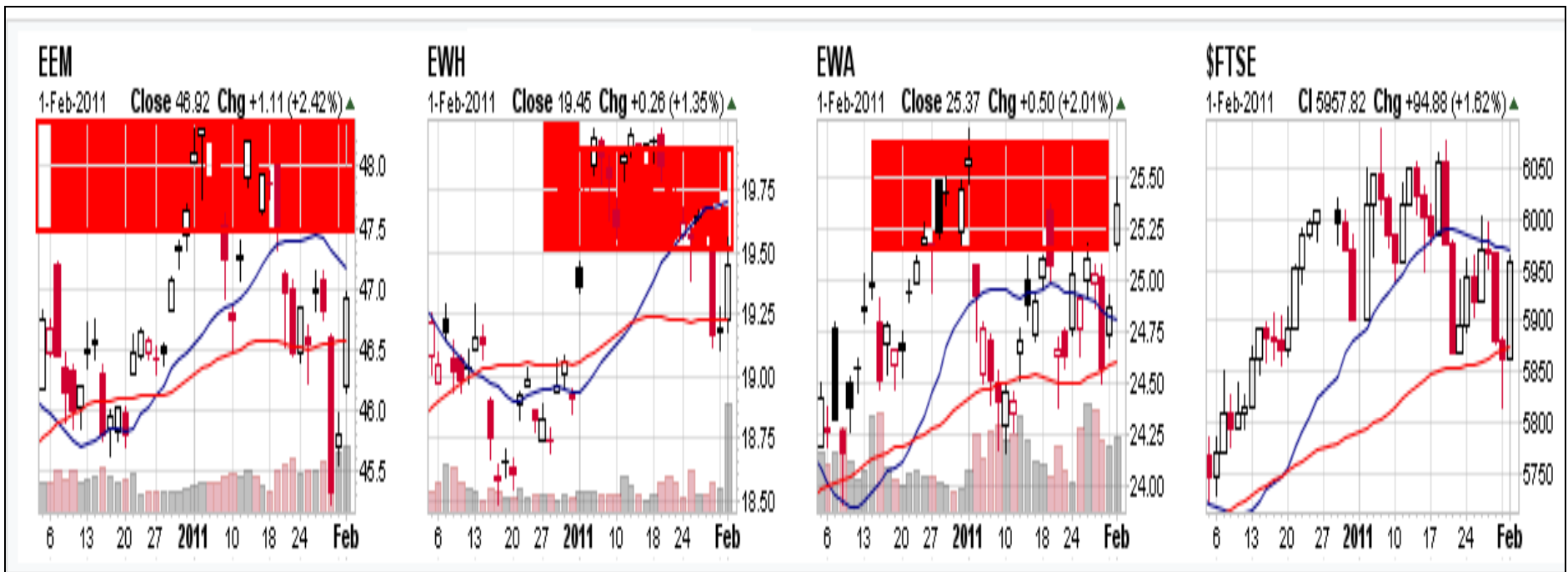
POM 12 price targets in
Commodity Release would be
good area to add longs

CZ still at lower prices

Underlined Index Sensex
reached at 18000 as expected
from 20200,

- *“ Weak Markets still looking weak on bounce - CZ indicated in Red from our Sector Validation*

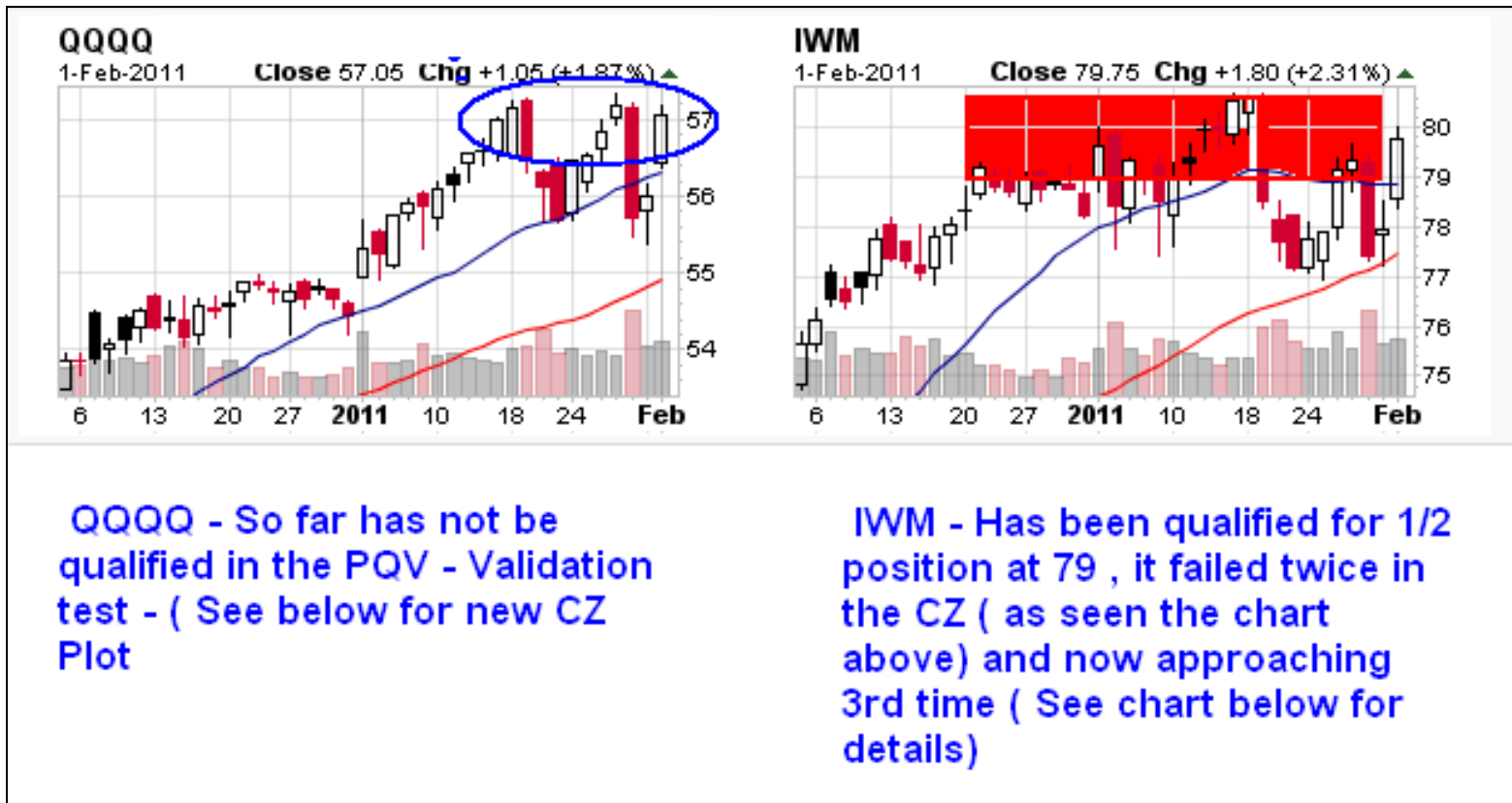
Approached once again into CZ (in red) again where it previously failed into these CZ on price and Volume, but still on track volume wise.



- “ Weak Sectors still looking weak on bounce to – CZ’s indicated in Red for Sector Validation



- *“ Weak Markets still looking weak on bounce - CZ indicated in Red from our Sector Validation ”*



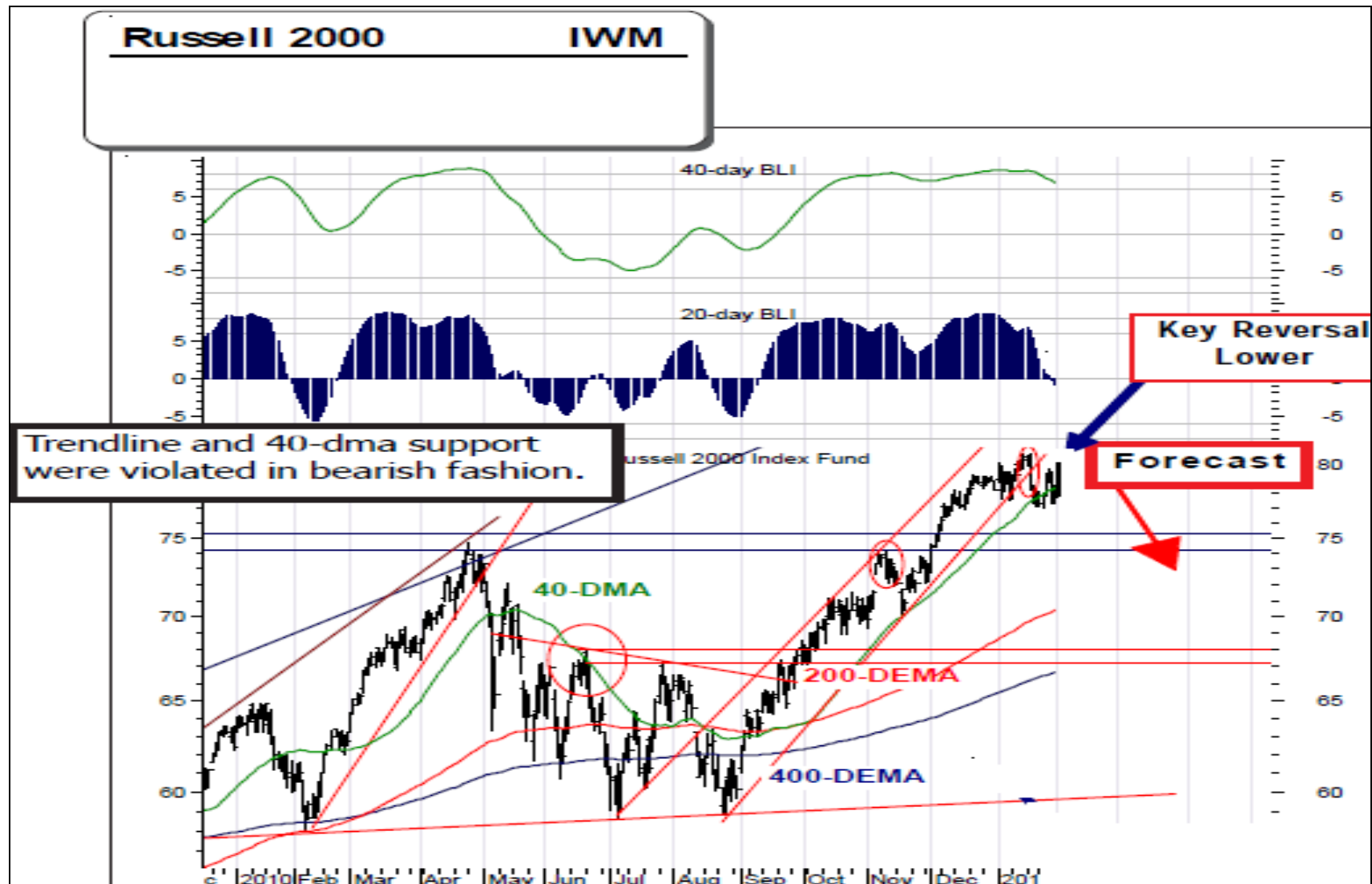
IWM - (Repeat - Chart from our Monday Report)

This chart indicated that this current bounce we experienced would be coming" at the critical point above Poly trend line for another bounce"Although the decline was from our trigger price of 79 to 77 , it is hard to react & lock in quick bucks considering our Holding time frames involved. Similar to SLV which had repeated fractures at the touch of CZ.



IWM – SMA / Trend line Analysis - (MONITORING CZ -PQV)

Trigger at 79 price point within the CZ 78- 80 . IWM was initiated with ½ position in capital allocation, No confirmation for the balance ½ half yet



IWM- POM – LT - Price , Volume & Pattern Analysis -

IWM tested the 1st bearish engulfing once and snapped right back with 2nd Dark Cloud in the CZ Area (that we waited for 8 weeks to touch in spite of our bearish opinion on the market) . It also broke the trend line with MACD turned down, Volume picked up & RSI should very soon drop below 50.

*The CZ area is from way back 2008 Jan breakdown area & 2008 highs of Sept an its derived CZ of 78 – 80.00 (currently it is in the zone 3rd time) and test with 175 M (weekly volume) and close **under 78, revised**) should be a good test.*

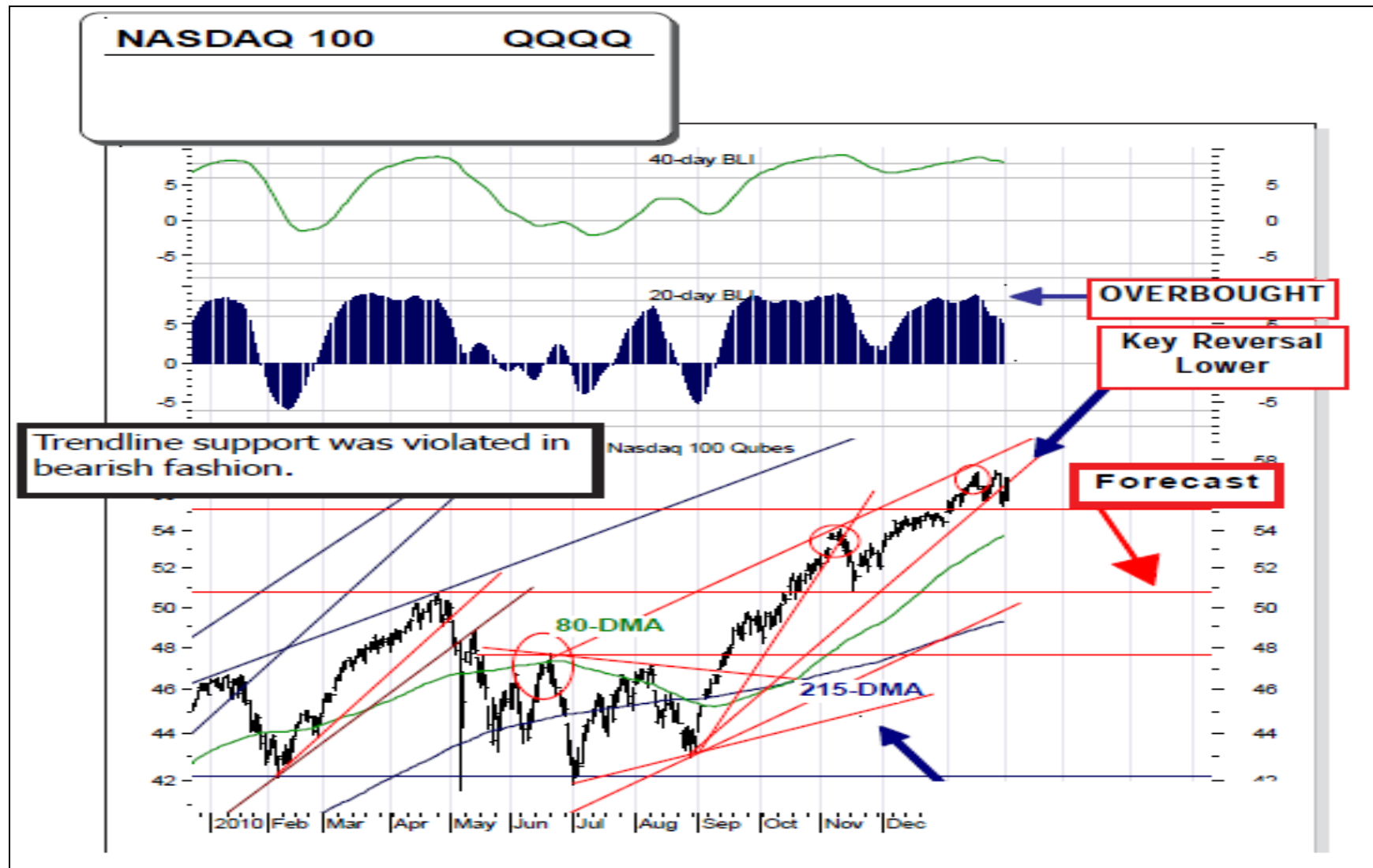
On daily basis the CZ For ½ position is 79 - 80 with price go above 80 and then close below 79 with 45 M shares for failure. For another failure . We are watching closely in CZ – PQV in Sector Report

Currently entering the CZ for 3rd time & testing the back of Trend line but there is no volume behind the move as indicated in Green



QQQQQ – SMA / Trend line Analysis - (MONITORING CZ –PQV)

*We have no confirmation on PQV – Validation on QQQQ , although 55-56 was a potential and SD # conired it at 52.
(See revised CZ for PQV - CZ validation)*



QQQQ - POM – LT - Price , Volume & Pattern Analysis -

QQQQ tested the 1st bearish Dark cloud in CZ area) and snapped right back with 2nd Dark Cloud in the CZ Area(that we waited for 8 weeks to touch in spite of our Bearish tone overall . Also broke the trend line with MACD turned down, Volume picked up & RSI should very soon drop below 50.

The CZ area is from way back 2008 Jan breakdown area & 2008 highs of Sept an its derived CZ of 55 – 56.5 (currently it is in the zone 3rd time) and test 57.25 with 250 M (weekly volume) and close under 56, revised should be a good test.

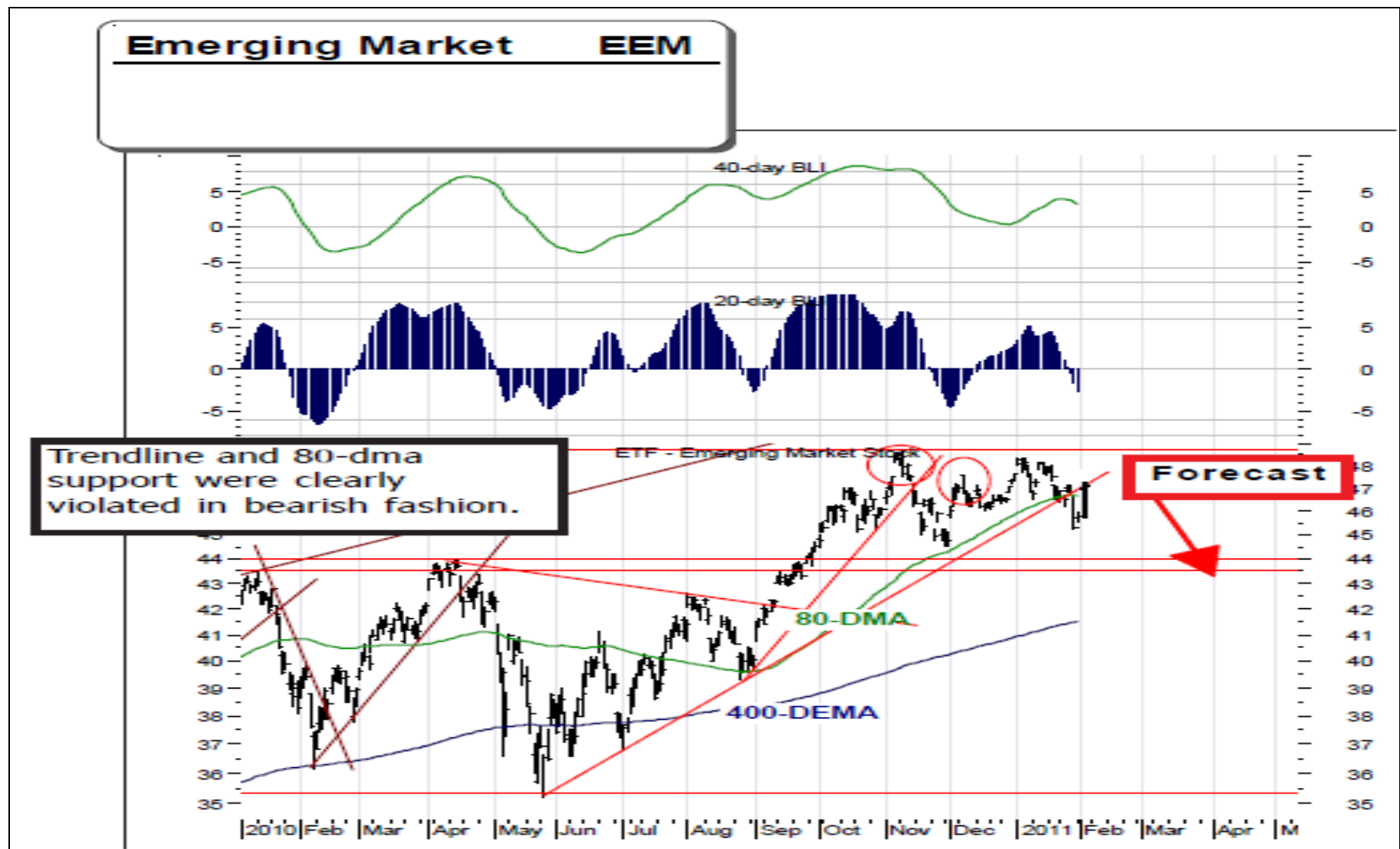
On daily basis the CZ For ½ position is with price go **above 57.25** and then close **below 56** with 50 M shares for failure. For another failure . We are watching closely in CZ – PQV in Sector Report

Currently entering the CZ for 3rd time & testing the back of Trend line but there is no volume behind the move as indicated in Green



EEM – SMA / Trend line Analysis - (MONITORING CZ –PQV)

Trigger at mean CZ @ 48.5 , EEM position was initiated



EEM - POM - LT - Price , Volume & Pattern Analysis -

Showing weakness , EEM / SPY Ratio has weakened considerably Indicating flight to safety . SPX will hold much better than EEM in next decline. RSI should trigger below 50. . Prices broke yesterday on Volume pick up on downside. MACD turned down

Earlier EEM double topped and Tested the broken Trend line in the CZ and PQV validated on test



Appendix

On closure of 2010,

As we begin 2011, let us Summarize 2010 and put the year behind us. The Aggregate POM Signals for the Full year on absolute basis irrespective of the SPX market moves. Our review is to attempt to do better in the following year as best as we can within our limitations and capabilities.

- Long Side – We had (4) clear POM 12 to POM 14 (7.5% FEB, 7.0% MAY, 10% JULY, 9.5% AUG) = Total of 34% up move
- Hedge Longs / Risk Management for Downside Corrections - We had (4) , POM 14 to POM 13/12 (9% JAN, 8% JUNE, 8% AUG & In the last Qtr extended move we had – 5% Drawdown) = Total of 20% Risk management move
- Net Short– We had (1) Clear POM 15 to POM 13 – April / May for decline of 9% = Total move of 9%
- In last 4Q , 2010 – We began tracking “ Trend Adjusted Signal” 3X3 / 9EMA - on Long Side - post POM 14 (8% & 4%) = Total move of 12% .

History - “ SPX – POM Signals & Projections”

- 2010 YTD – This year, we have had (3) clean TREND SIGNALS rise from “ POM 12 to POM 14 “ for LONG IDEAS
- FEB - 7.5% ,
- MAY - 7.0%
- JULY - 10.0 %

And (1) POM 15 to POM 13 (drop of - 9% - April /May) for Net Short Ideas

(3) Risk Managed POM 14 declines to POM 12 or 13

- JAN - (drop of - 9 %)
- JUNE - (drop of - 8 %)
- AUG - - (drop of - 8 %)

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 – On Buy Signal since SPX - 1115

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).

Disclaimer : The information in this report has been taken from sources believed to be reliable but SG Capital Research does not warrant its accuracy or completeness. Any opinions expressed herein reflect our judgment at this date and are subject to change. This document is for private circulation and for general information only. It is not intended as an offer or solicitation with respect to the purchase or sale of any security or as personalized investment advice. SG Capital Research or its Author does not assume any liability for any loss which may result from the reliance by any person or persons upon any such information or opinions. These views are given without responsibility on the part of SG Capital Research or its officials. No part of this report may be reproduced in any manner as Author reserves the distribution rights. Under Copyright 2002 Act: It is a violation of federal copyright and imposes liability for such infringement.