



SG Capital Research

Global Market Insights

Research Note – Weekly Market Strategy Global (A # 1)

MAEG- WKLY MKTSTR- GL- POM -SG 2011 # JAN 03

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Market Strategy Global (A # 1) - SPX – Closed @ 1257 – Wkly change (+1 points)

Analysis of Broad Market that includes

- Primary Market SPX (or SPY) & DOW (DIA) as main market driver and
- Secondary Markets NYSE, NASD (or QQQQ), RUSS (or IWM) .

We have picked up charts (below) that has some distinct characteristics and values from last weeks observation at Inflection points based on our assessment:

- **Detail Coverage**

- Daily Trend Adjusted Strategy - 3x3 / 9EMA – DOW, SPX
- Primary Market Analysis – SPX, MID, ST ,
- Secondary Market Analysis for SPX clues – RUSS
- Sector Analysis for SPX clues – BKX
- Time / Cycle Analysis- Bradley Cycle, 4 yr Cycle,
- Advance / Decline Internal market behavior – A/D – NASD , SPX
- Sentiment Analysis with Extreme character – AAI, VIX, TICK
- Global Market Analysis for SPX clues – CHINA, AUST
- 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.

- **Trading & Investment Conclusions**

- *We recommend Fully Hedged on Long positions that were triggered at POM 12 @ SPX 1020 in July 2010 and / Or at last POM 13 @ 1045.*
- *Via accumulations in the "SETUP - PQV VALIDATED EQUITY INDEX – EQWT (from Sec E – MAEG) , with desired price points & scaled entry @ the Mean Confluence Zone on these weakest Equities in Setup #2. This would capitalize on current situation (Within RA / RI framework for Risk management) .*
- *Our current " SETUP –PQV EQWT EQUITY " Hedged Index is at – 5.38 % Drawdown v/s 13.92 % SPX Longs during post POM 14 extension in same timeframe.*
- *No Net Short Position" till POM 15 Re- run is triggered. Therefore we have been on sidelines post SPX -1105 move*
- *The price Equilibrium and favorable Risk / Reward opportunity will come at POM 13/ 12. This area we would be interested again*

- SPX Signals & Price Projections (update)

- *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 1250-1280. (**We are approaching this area finally today**). We could very well trigger POM 15. Meanwhile we continue to remain POM 14 since SPX 1105,*
- *Our Pull back from here should be to 1130 (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)*
- *Daily Bearish Wedge has the downside target of 1175.*

- Daily SPX - “ Trend Adjusted Signal” - **UPDATED**

3x3 /9EMA – Momentum Break Indicator – Long @ 1228 SPX

- 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%

Currently “ Trend Adjusted Signal “ has Reversal stop @ 1247 - SPX & DOW - 11511 .

• Market Insights

Today Gap up move with overbought conditions and Extreme Bullish sentiments could very well be a final last Engulfing. If we reverse and give up even 50% of the gains, that would signal either shooting start or bearish engulfing , however we think volume should come in high, Also point to be noted is this move is happening while EURO acting weak today and VIX is almost flat that makes it suspect. VIX is reaching inflection point (See the VIX Charts below & Astro turn date for volatility) We had +900 Tick

Although the Sentiments are extremes but the market cannot be timed by sentiment alone, or by overbought conditions. Both can remain at extremes for months and be-come even more extreme. But when put to gather we historic resistances and volume study has us cautious until we see if the short-term overbought condition can be alleviated without turning into an intermediate-term selling of more serious correction.

As a whole the internals of the market is deteriorating and now seasonal have subsided, we are likely to see a rather sharp, abrupt decline first and then followed by another rally but on intermediate term we simply understand risk is high and rising. There are various cycle change coming to gather.

- *On very short term - The pattern in the market is the typical topping pattern, a diagonal triangle. We had two of them back to back and the second one should diffuse very soon. Although our focus is intermediate term, but short term 3X3 / EMA stop is 1247 (where momentum traders may bail out) .*
-
- *Last week the market continued sideways overall, but important bearish divergences are building which are typical of late stage top formations. In particular, some of the strong broad market indices (Mid cap in particular) which had been the backbone of the advance are begin to diverge substantially on rallies. Overall, expect a minor correction in the first half of January, but another move to higher highs going into early February. But, that may be the final rally in this bear market.*
-
- *EURO which is closely correlated with SPX move wants to bounce. Top on the bounce has been put in EURO , once the secondary test of this bounce is complete then SPX should follow as well.*
-
- *Till we get a pull back or Selloff nothing changes in the chart as topping process continues, we are awaiting for any Exhaustion here to Trigger POM 15*

Various cycle summary & dates

Some seasonality, Cycles note .

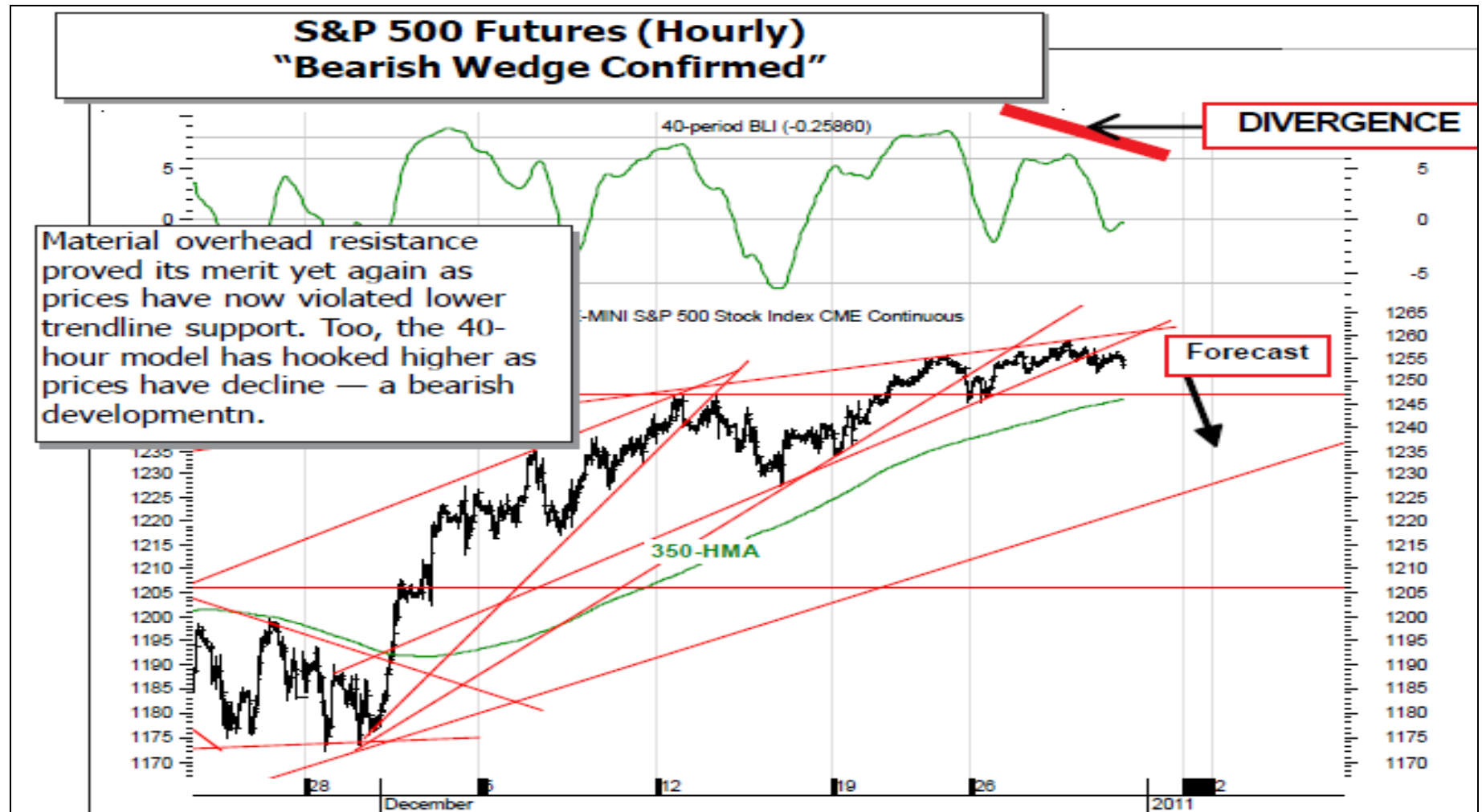
- *Just ended , Calendar wise Jerry Minton's 20 day, phase III that began on 22nd Dec at 1254 - SPX ended 31st Dec at 1258. (just 4 point move) Total of 4.13% gains in 20 days. Proved its Merit.*
- *Also important to note past 6 yrs since 2004, NASD has dropped every year from 8th Jan to 31st Jan with average -3.5% loss worst being -7.5%.,*
- *8th Jan also coincides with CITI Group study for Major market top 2011-2012*
- *2011 is 3rd year of the presidential cycle and historically has positive returns*
- *As far as time cycles are concerned, is forecasting a January peak in the stock market and a decline to mid-February, which fits very well with the extended condition of this market.*
- *Sentiment runs high on the bull side as the measures are near extremes. The Hindenburg Omen sell signal. Its last signal was triggered in October 2007 over three years ago based on its parameters and not in August 2010 as Media thinks.*

Astro Cycle

- *This could all change this week, Volatility can increase as we come into a large number of astro-harmomic aspects that are due to start on Tuesday (January 4):*
- *A new moon accompanied by solar eclipse;*
- *Jupiter conjunct (i.e. zero degrees) Uranus (once in 4 ½ year);*
- *- Venus is square with Neptune, in trine with Uranus, and in trine with Jupiter;*
- *- Venus will change sign on **January 6***

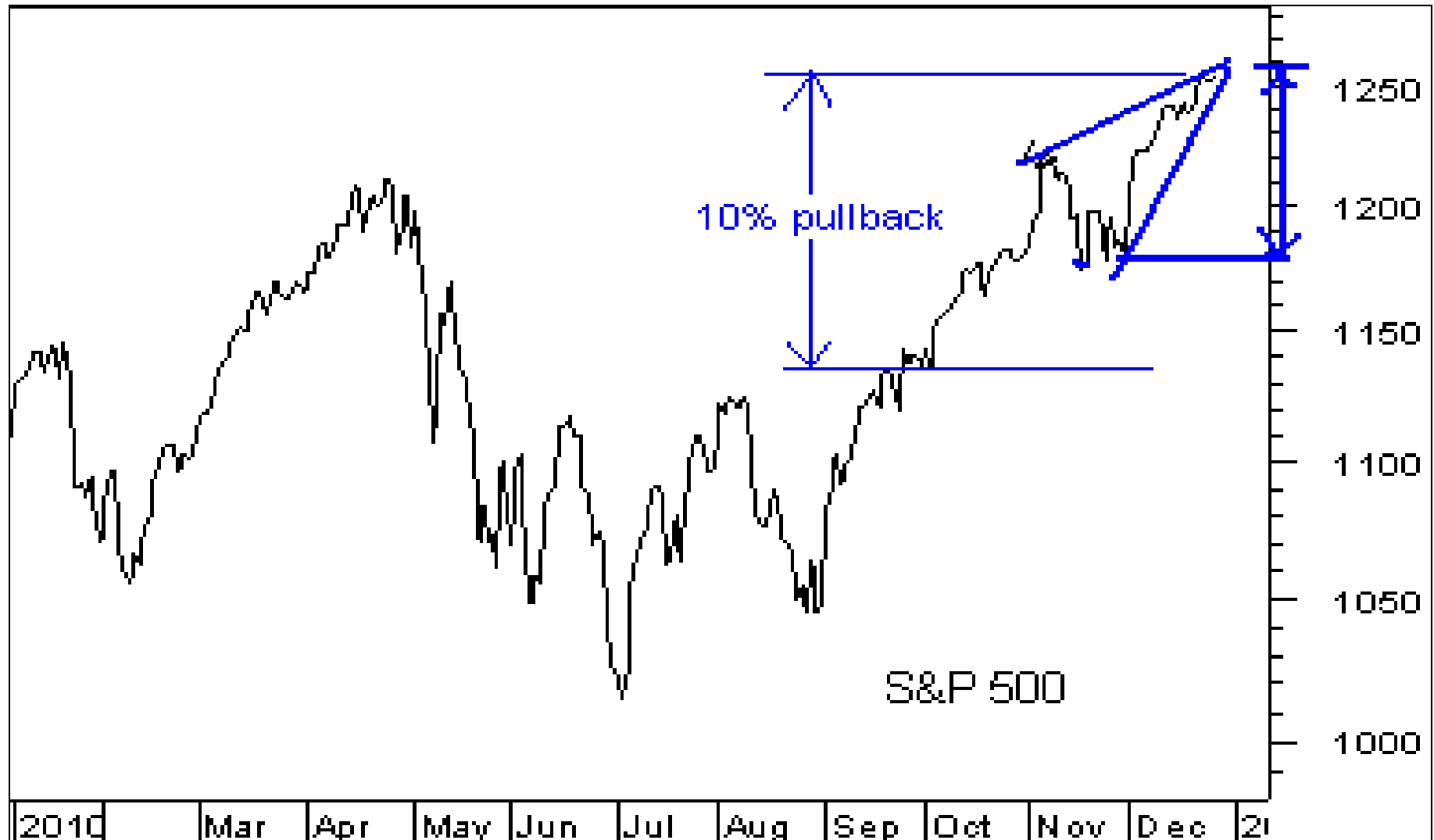
Primary Market Analysis - SPX – HRLY – Trend lines & HMA

The SPX is apparently still in a rising wedge, or diagonal triangle, a termination pattern to all rallies in the stock market. The broad market may still be in a horizontal, or contracting, triangle. Both patterns would allow for a last exhaustion rally going into the final top. (*This might be happening today*) The SPX could be planning on a Jan. 7th top as its reaching formidable short and long term resistance should prove its merit then a correction to be followed by another rally



SPX – MT

On Mid term basis we are looking at the Bearish Wedge first and then the false breakout area as our downside targets.



SPX – TRIN - MID TERM –

TRIN is good combination of Sentiments, Volume, A/D line all in one tool , Currently it is at nose bleed territory. The bottom window is our SPY/TRIN ratio. this ratio reached into the area where the 2007 top started to form and suggest the upside on the SPY is limited. We pointed out on a previous chart that the SPY may be drawing a Bearish “Rising Wedge” which has a downside target near the 1175 range and that a pull back is possible in January. If the pull back does come to pass it will most likely not be the final high and another rally will most likely come and at least go back and test the potential January high if not exceed it.

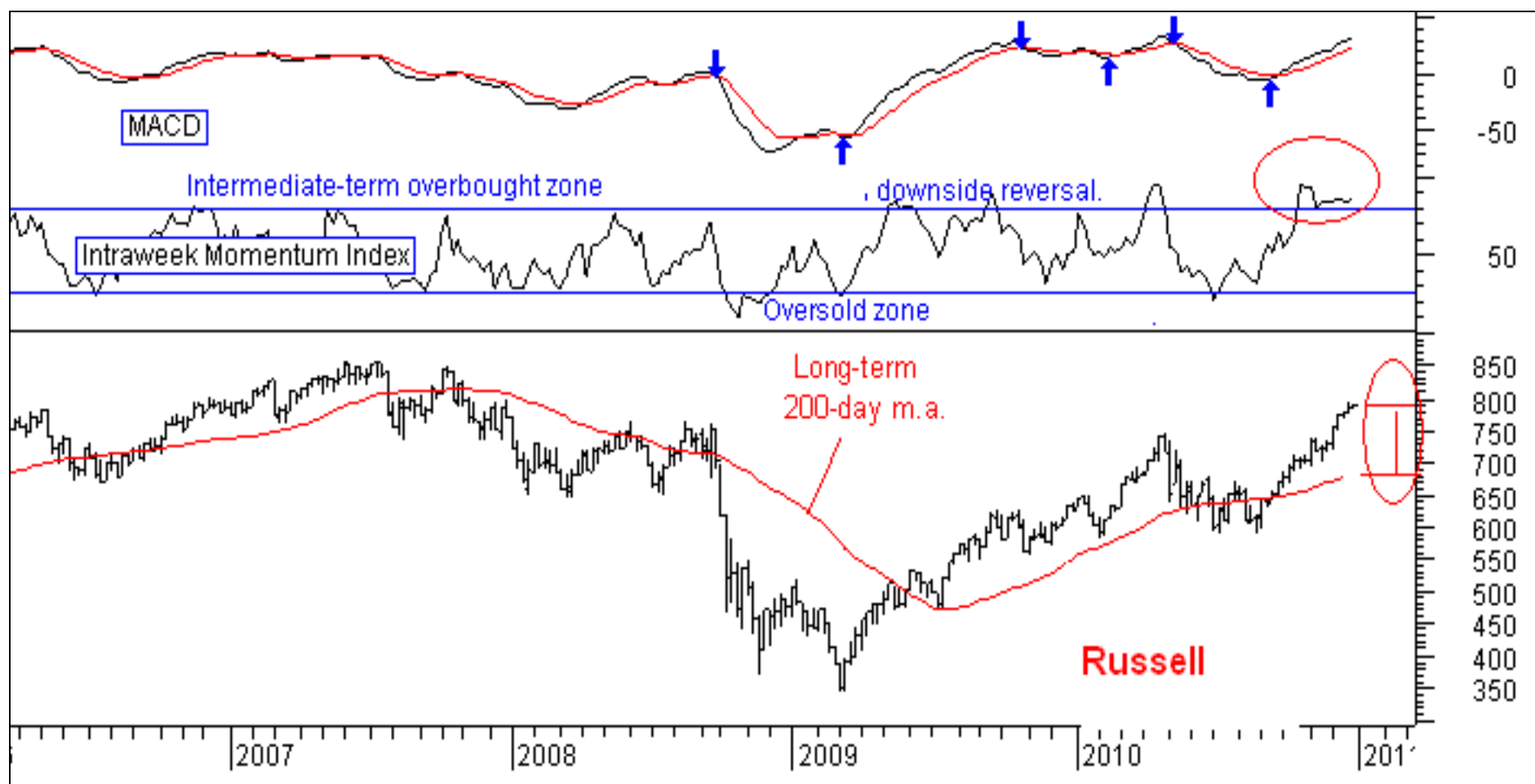
On relative basis, the percentage differential between Blue and Yellow line has widened tremendously. On absolute basis we touched 160 higher then 2007 Oct top



- Secondary Market Analysis for SPX – POM clues – RUSSEL

RUSSEL

This Index is most extended above 200 DMA But a more normal decline to alleviate the overbought condition above the 34-week m.a.'s, test the potential sup-port at that m.a., and cool off the extreme investor bullish sentiment. Momentum Indicators are showing ROC (as circled) degrading in overbought conditions.



- Sector Analysis for SPX – POM clues – BKX

BKX

BKX right on the other side of Poly Trend and diverging bearishly against the money flow index. This leading sector is very weak and warning of problems to come. Not much interest in Bank stocks in spite of the SPX rally.



- 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

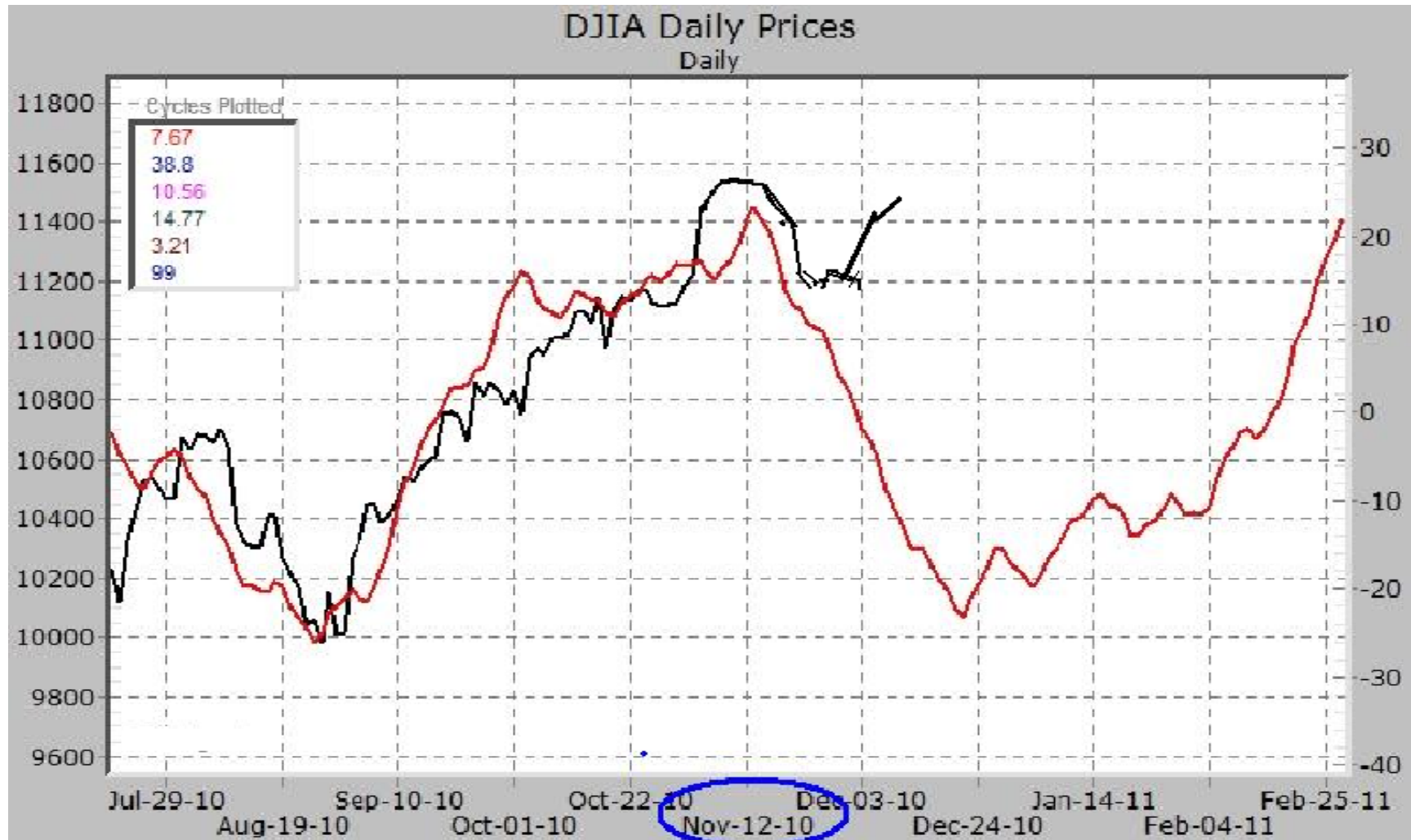
The Bradley Model – Turns Negative 1st JAN 2011 till 28th FEB

If you look at the model on a long term basis, it also provides a very good outline of what should happen (not always what will happen) over a period of months (We will retain this chart and monitor with SPX)



The 4 Yr – Price path Cycles – **Bullish - 28th DEC to End FEB**

(We will retain this chart and monitor with SPX)

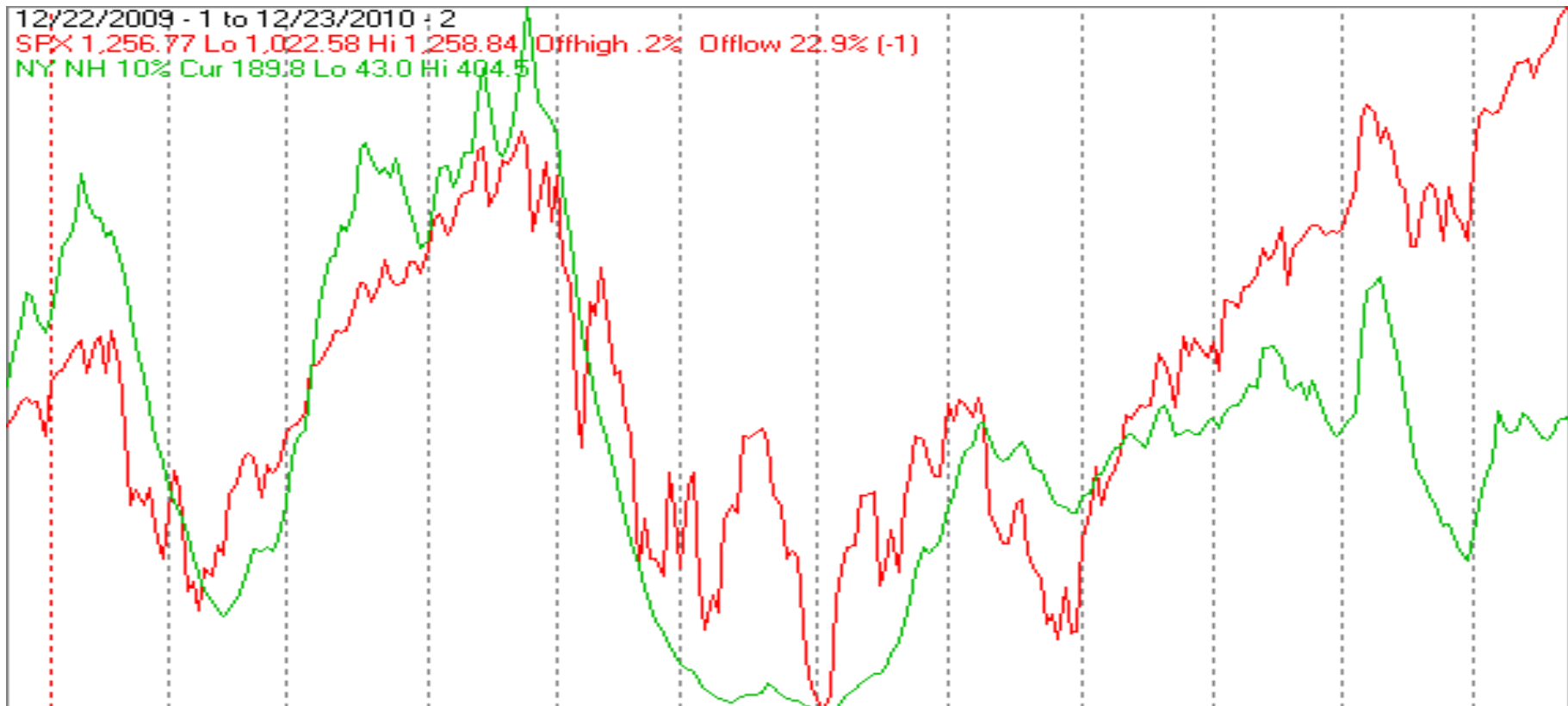


- Advance / Decline Internal behavior Analysis

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

SPX – NH - . NON-CONFIRMATIONS IN SPX BREADTH...(METHOD 1 – Excluding the Bonds, ETF's and Large cap Equally weighted)

The chart below covers the past year showing the SPX in red and a 10% trend of NYSE new highs (NY NH) in green. NY NH is lower than it was in early November which was lower than it was in April while the SPX hit a multi year high on Wednesday. Declining new highs narrowing leadership negative.



SPX – NH - . CONFIRMATIONS IN SPX BREADTH...(METHOD 2 – Including the Bonds, ETF's and Large cap weighted)

Advance - Decline lines are a running total of declining issues subtracted from advancing issues and offer a perspective on how the broad market is performing relative to the, capitalization weighted, indices. The chart below covers the past year showing the SPX in red and an advance - decline line calculated from all of the issues traded on the NYSE (NYSE ADL). The NYSE ADL has been a little weak since its November high, but it hit a new all time high last week.

Warning point to be noted , In the chart below, This was very strong in April and raced ahead of the market , but the subsequent decline was brutal 17% drop with flash crash.



- **Sentiment Analysis**

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*

The Numerical we track are Tick, TRIN Arms, Put / call ratio, VIX Transform volatility (all 2nd / 3rd derivatives) , Rydex flow, Insiders activity. The Emotional / Survey sentiments we track Investors Intelligence sentiment Advisors sentiments. etc. All these are Integral part of POM composition ,

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

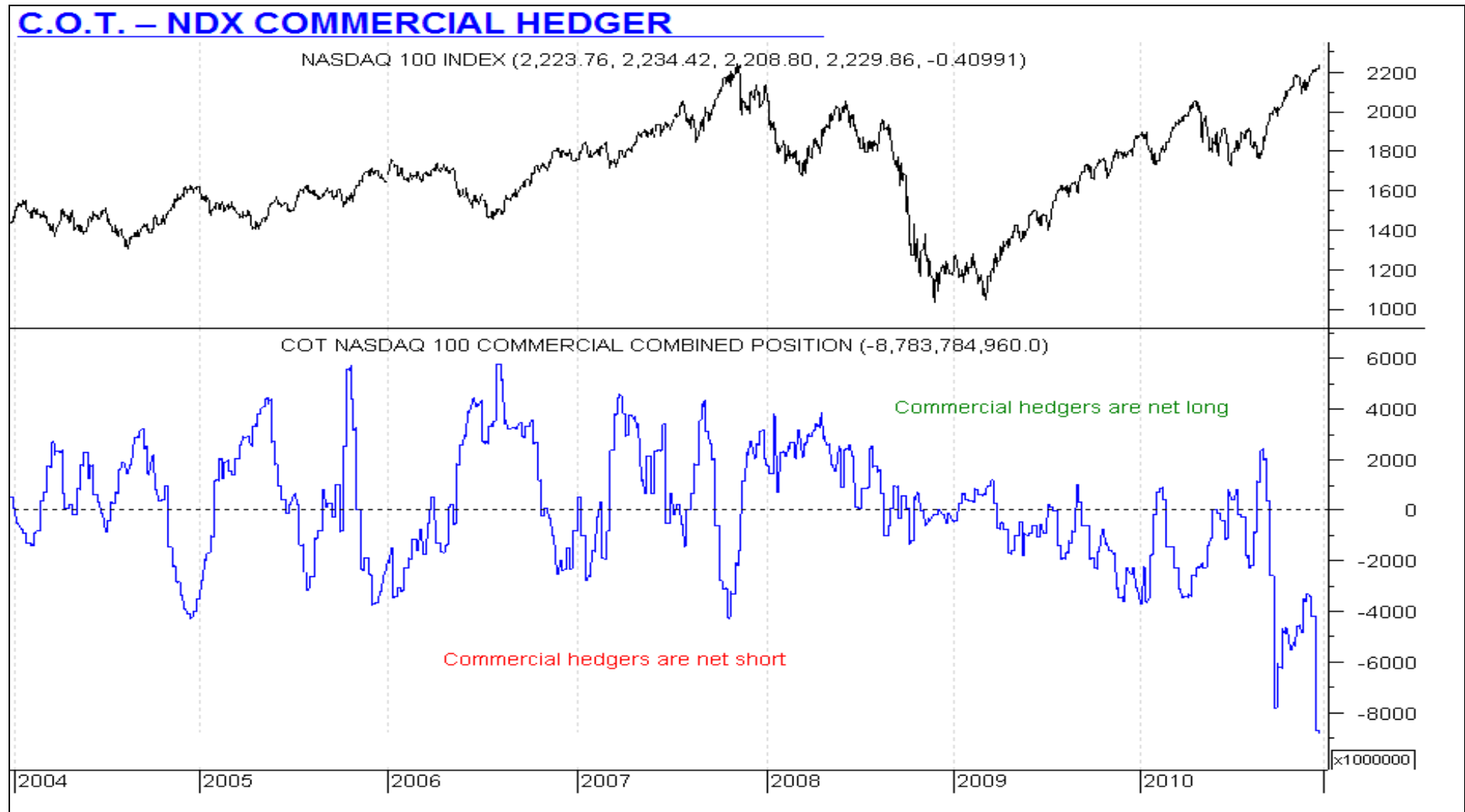
EXTERME INDICATORS

- . **Sentiment (Short term) has reversed** Our Mathematical Indicators such as **OEX Ratio, ARMS, TRIN, TICK, VIX** in their first and second derivatives have reached areas where at least a meaningful pull back has happened.
- **Commercial Hedgers** are at extremes Net position where the Previous tops have occurred
- **Rydex NASD Bull Ratio** are at Positions where the Previous extremes tops have occurred
- **AAll @** at Positions where the Previous extremes tops have occurred
- **Insiders Selling @** at Positions where the Previous extremes tops have occurred
- **Speculator Buying @** at Positions where the Previous extremes tops have occurred
- **Mutual fund cash levels are at 3.5 percent — very close to their all time low of 3.4 percent.**

COMMERCIAL HEDGERS – Another extreme

Reported by CFTC from Traders Sentiments

Commercial Hedgers are at extremes Net position where the Previous tops have occurred

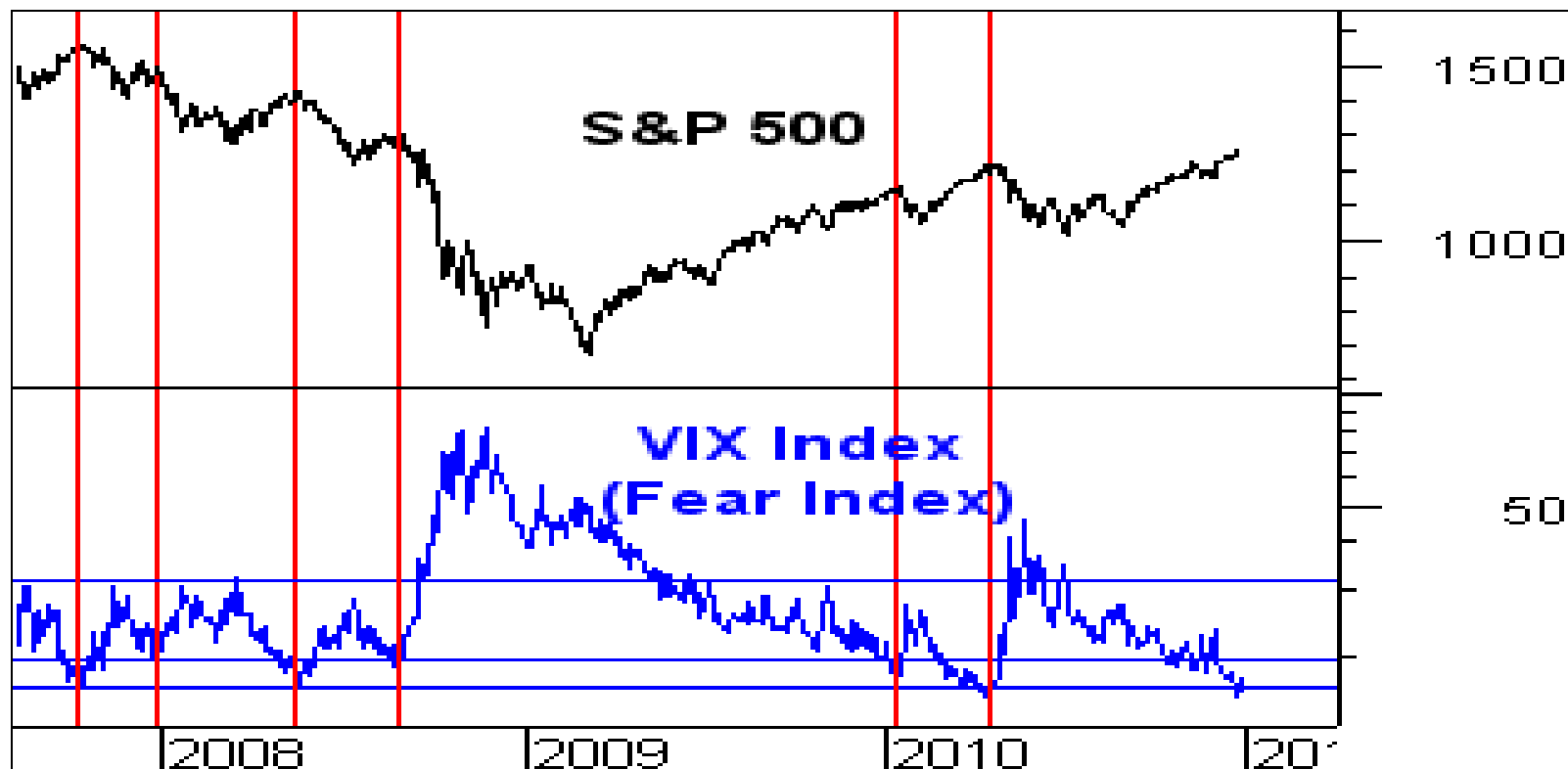


AAII – Another extreme spread

- *AAII) to have reached its another warning with bullishness to 64 %, and bearishness to 16% . That's a spread of + 48%, an extreme not seen in a number of years.*
- *By contrast, the spread was minus 55% on March 5 of last year, just before the*
- *In Jan and April peaks 36% and 41% respectively . .*

VIX

The VIX is also at its lowest level since the 2007 market top, and at a level associated with all the rally tops since 2007.



VXX

The ETF for VIX shows positive Money flow divergences. There is lot of Hedging going on here



VIX

VIX had finished ABCD pattern similar to last April . This gives well with Astro dates



- Global Market Analysis for SPX – POM clues – , AORD,CHINA

AORD

A break below 4830 should trigger Sell, EWA should be reaching the CZ . This market is double topping



.CHINA - MID TERM

Shanghai has been very weak recently, but could find support near here short term and rally. This might be giving some warning on China. .



Appendix

• 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

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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