SG Capital Research
Global Market Insights

Market Strategy Global (A # 1) - SPX – Closed @ 1271 – Wkly change (+14 points)

Analysis of Broad Market that includes – Jan 1st 2011 – SPX 1257

- **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, NYSE**
- **Sector Analysis for SPX clues – BKX, SMH**
- **Time / Cycle Analysis- Bradley Cycle, 4 yr Cycle,**
- **Advance / Decline Internal market behavior – A/D – SPX**
- **Sentiment Analysis with Extreme character – TICK , PUT / CALL**
- **Global Market Analysis for SPX clues – CHINA, AUST, SPAIN**
- **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 <u>Unidirectional Judgmental Model</u>, 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 Signals & Price Projections

- *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). We could very well trigger POM 15. Meanwhile we continue to remain POM 14.*

- *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 <u>GOLDER CROSS (SETUP 1) @ 1120</u>. 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.*

- ## **Market Insights**

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% .*

Now we begin 2011 with start at SPX 1257 as reference point

- *Long Side –*

  - *POM 12 Calls – None so far this year.*
  - *Trend Adjusted Signal Call - Start point - Jan 1st 1257 – SPX to Current Stop 1269*

- *Hedge Longs / Risk Management for Downside Corrections -*

  - *In the Hedge Index, we have a Drawdown of -5% 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)*

- *Net Short –*

  - *POM 15 Calls – None so far this year (8 of 20 Sectors have reached CZ / PQV & 6 More Sectors pending tests)*
  - *Our Target has remained for SPX 1250 -1280, Pre – Lehman Crash Area tests*

- ## **Daily SPX - " Trend Adjusted Signal" – <mark>On Buy Signal</mark>**

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 <mark>stop @ 1269 (Revised)</mark> SPX & DOW 11650 <mark>(Revised)</mark> .

We would consider all 3 major Indices to Trigger below Trend Adjusted Signal for POM 15 Upon rejection of volume in CZ – PQV

- *POM 12 has taken SPX buy signal from 1020 to 1105 POM 14 and 1st Trend Adjusted signal has taken from Buy 1105 to 1190.*
- *The 2nd " Trend Adjusted Momentum Break Indicator is still on Buy Signal since SPX 1228 with Stop at 1269*
- *We still do not have Trigger for POM 15 for Net Short Sell Signal at current levels of SPX 1285 . We monitor our Indicator to keep us at bay from Shorting high flier stocks.*
- *The process views at " how much we can loose" as a priority v/s " how much we can gain" is secondary , hence we have shown considerable patience with no urgency of Net short especially avoiding Short Sell of Momentum stocks till date. It has tested our patience for 12 weeks without a Signal.*
- *But now at least (10) Sectors out off (20) Majors are testing CZ in PQV Validation for Short Sell Signal in Sector Analysis.*
- *On bigger picture , Evaluating our Market Ratio Analysis , we think Emerging Market will outperform on downside considerably on next decline whiles it will be very volatile*
- *In our current Report - Sectors Previously Qualified XLV, XLE, XLU, XLP for SD # 2 and CZ – PQV are tabulated in Validation sheet awaiting for tests.*
- *NOTE : We have re calibrated the Triggers for the Long / Short Index effective this Report , Previously triggers were SD # 1.5 , 2.0 and CZ- Validation tests / POM 15 /12. We modified it without SD # 1.5 this has better performance tracking.*

Current upcoming Cycle dates

- *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*

- *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.*

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- *Earnings Cycle to begin very soon, Last January, April, July had triggered the Selloff, however the September it did not work . We would certainly like to see the impact post 15th January if the good earnings are already priced in or not*

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- *Astro Harmonic Cycle tends to Acts within + /- 4 days . On 6th January , Venus changes sign , square with Neptune, in trine with Uranus, and in trine with Jupiter;*

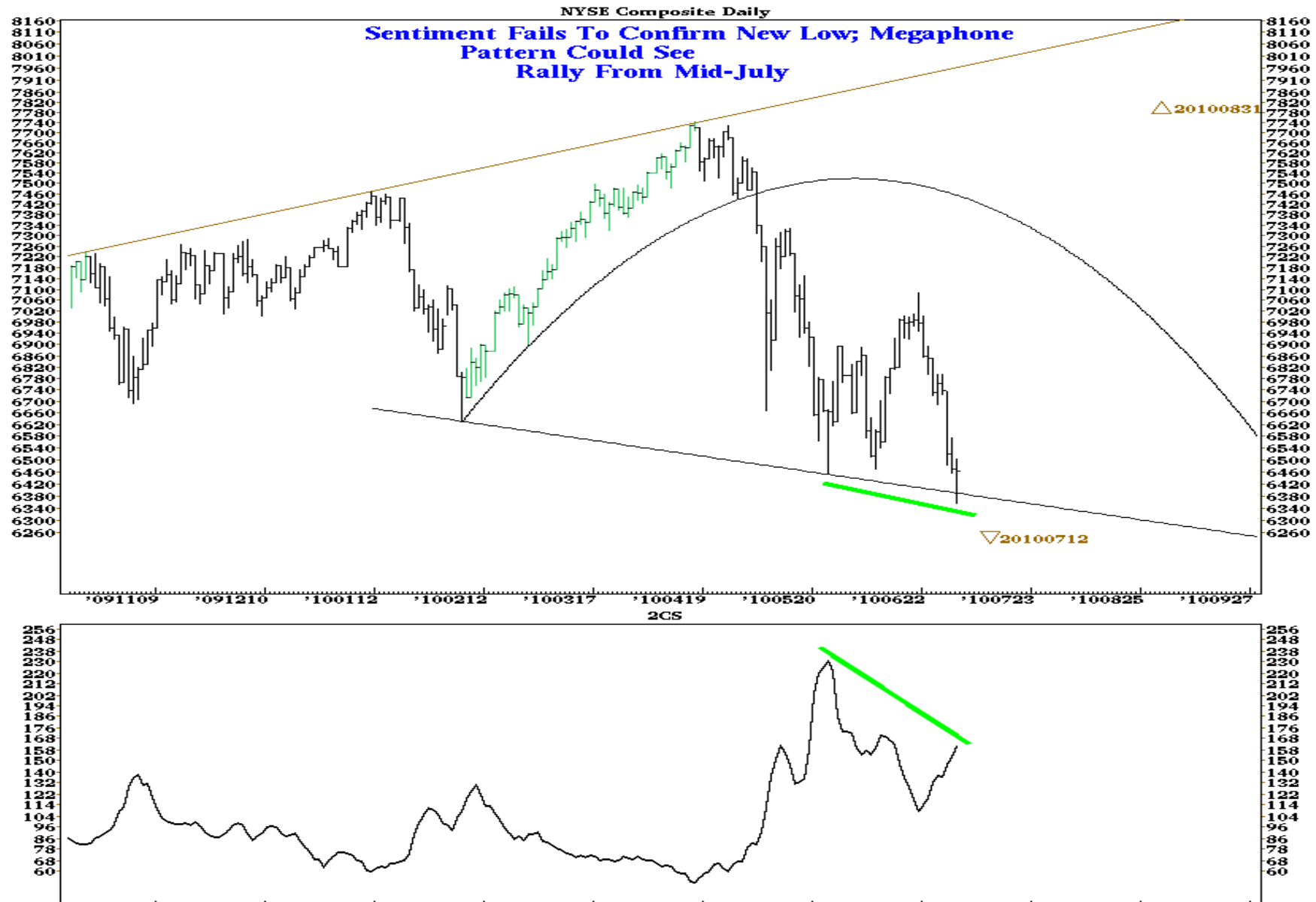- *Our own Study for January in (2003 – 2006) Uptrend & (2007 – 2010) Sideways Market.*

From 2003 - 2006													
		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													
		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%**

CONT….

- *The Model is certainly not perfect, but its primary job is Risk Management and if POM Signals does not follow the script in such time to attempt minimum Drawdown on "Hedges" and be ready for next actionable Signal of either at POM 12 or POM 15 for real Capital deployment till the time the market achieves the equilibrium point*

- *But currently the market is at the point where crucial small stock sectors are weakening in relative strength to the big blue SPX and Dows and that's a warning that we are approaching the end of the rally phase on several timeframes. Another sign of an approaching high in equities is the strength in the USD, which for many years has moved contrary to the stock market. Past week Euro has been weak and this morning its translating into weakness in European markets.*

- *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 which had been the backbone of the advance are begin to diverge substantially on rallies. Overall, we expect a minor correction in January, but another move to higher going into early February in Majors . But, that may be the final rally move off the March, 2009 lows before a resumption of the major trend to the downside.*

- *This market is showing telltale signs of breaking down in MID CAP & RUSELL so the risk-reward of a Net Short position comes in after the first break and failing rally.*

- *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*

- *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 1269 (where momentum traders may bail out) .*

- *To Refresh our Memory 3 first 3 charts below on SPX is from July 2010 , We called the Bottom and the back to current situation.*

SPX – July 2010 - Chart 1 - Long time readers know Our Model Called POM 12 at SPX 1020 Bottom (See chart below, why !!)

The CS – Sell Calls indicator is diverging bullishly now, suggesting high level of pessimism at lows great contra indicator.

NYSE Composite Daily

Sentiment Fails To Confirm New Low; Megaphone
Pattern Could See
Rally From Mid-July

SPX – Chart 2 - Another view that we presented for Buy at the bottom at that time SPX 1030 – "The whole world was Bearish"

Time Cycles – Chart 3 – July 2010 This chart kept us in the trade till the end.

DJIA Daily Prices
Daily

Cycles Plotted
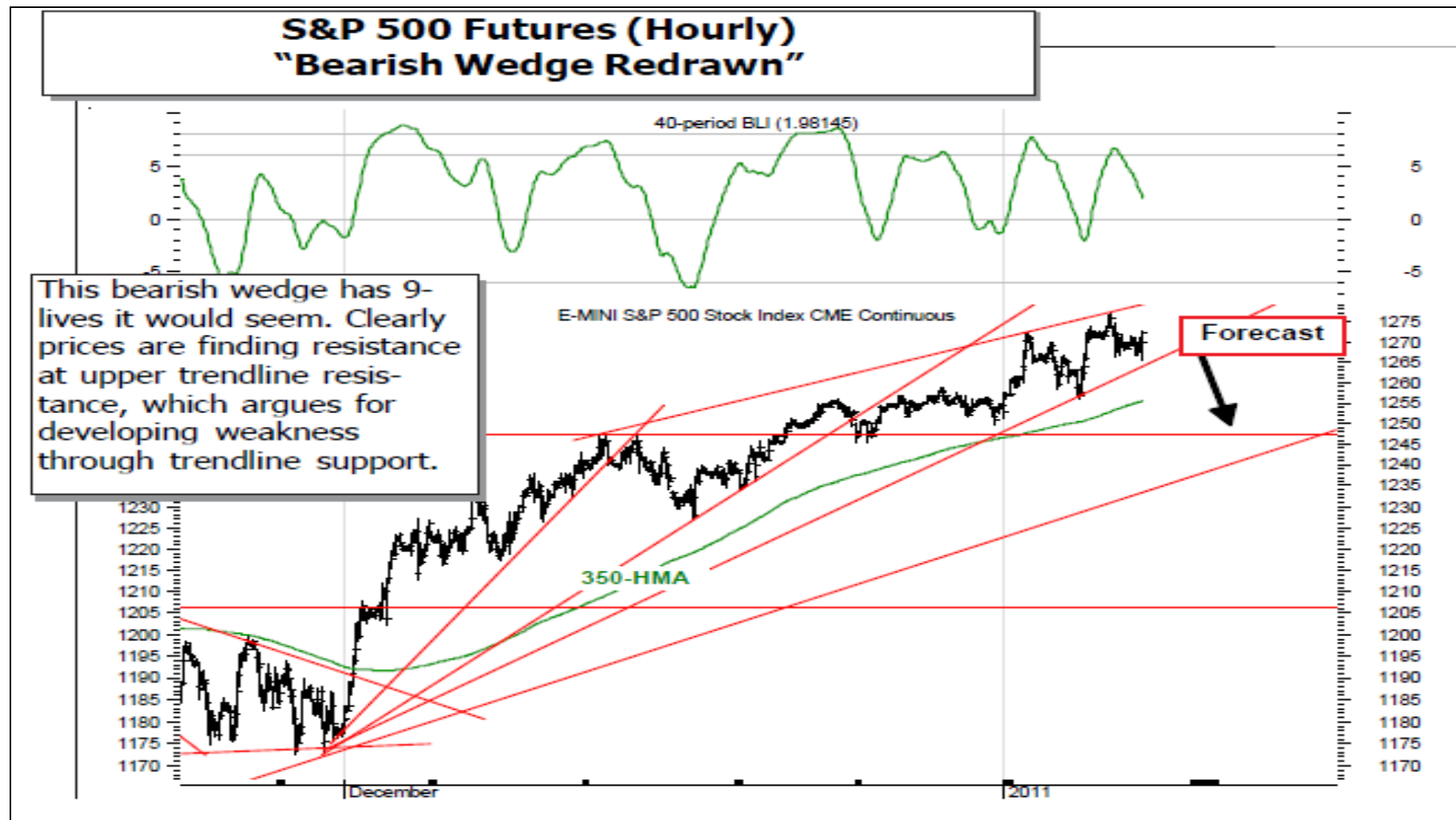7.67
38.8
10.56
14.77
3.21
99

7/13
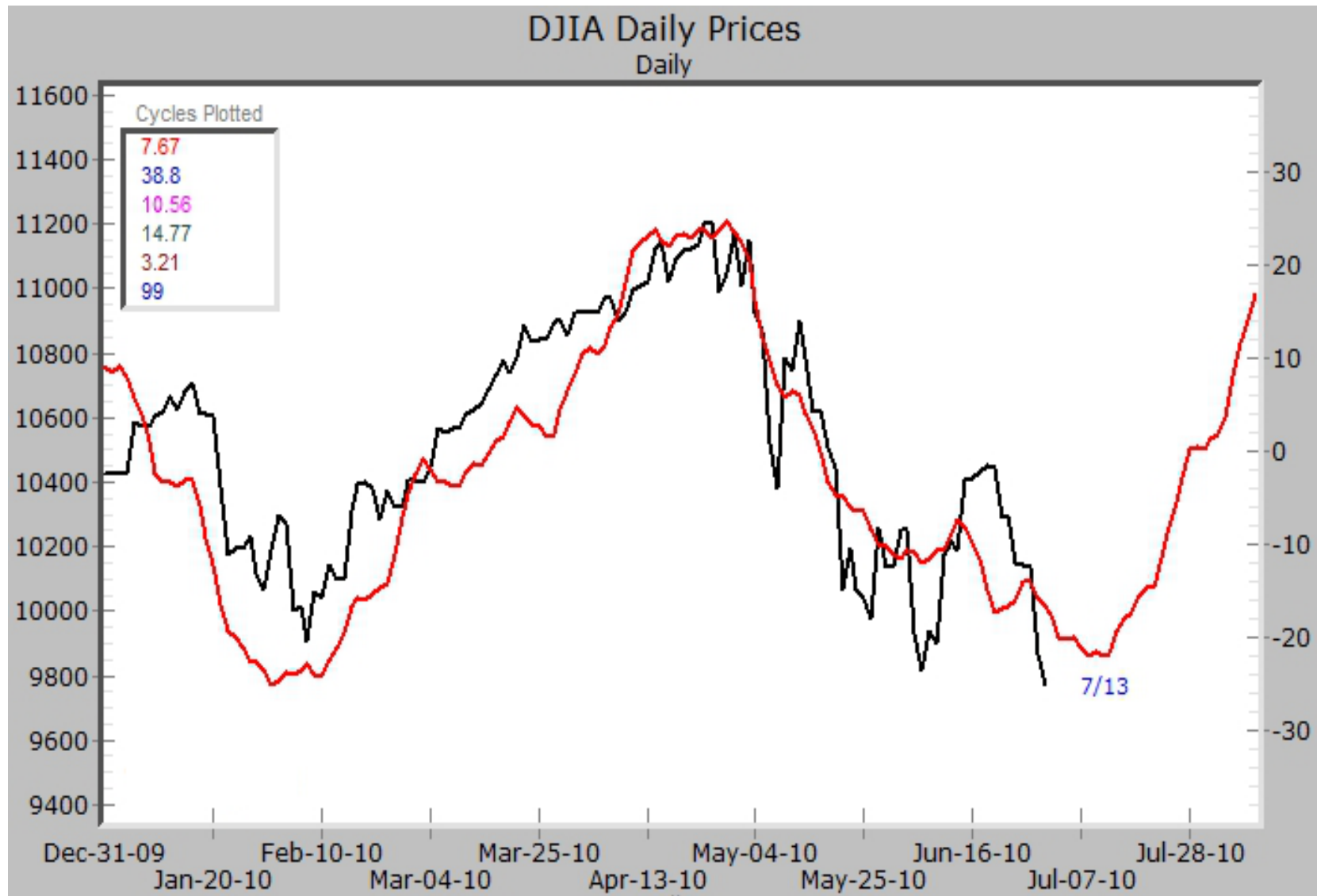
FXE – Current

(FXE) breaking support with a decline in November. Broken support and the December highs mark resistance at 1.34. Past 2 days decline reinforces this resistance level. Also notice that RSI hit resistance in the 50-60 zone. First, the indicator became oversold in late November. While <u>oversold conditions can give way to a bounce, they are usually part of a bigger downtrend.</u> *Second, expect RSI to hit resistance in the 50-60 zone when the bigger trend is down. The failure in the 50-60 zone affirms the bigger downtrend for the Euro. The real decline in AOM will being when C to D begins in FXE from 1.29 to 1.22. The sideways consolidation 1.30 to 1.34 should be top building process in AOM.*

5-Jan-2011 2:21pm   Open 130.86 High 131.38 Low 130.75 Last 131.11 Volume 614.4K Chg -1.34 (-1.01%)
FXE (Daily) 131.11

RSI(14) 43.03

50-60 resistance

RSI becomes oversold in downtrends

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

The Third bearish diagonal triangle is in completion process (seems to have 9 lives) and almost on hrly another wave 5 completion which had a projection of 1280 on snap back (20- 30 point)s quickly just similar to last time as ST indicators suggests . Watch the trend line.

S&P 500 Futures (Hourly)
"Bearish Wedge Redrawn"

40-period BLI (1.98145)

E-MINI S&P 500 Stock Index CME Continuous

Forecast

This bearish wedge has 9-lives it would seem. Clearly prices are finding resistance at upper trendline resistance, which argues for developing weakness through trendline support.

350-HMA

December

2011

SPX – ST

Each of the Hrly Bearish wedge has formed wave 1 and wave 3. If the third one is in progress then we could very well get wave 5 on daily. According to the count shown, we're in a wave 4 with a final wave 5 rally to go to finish, the most unreliable of waves . It is possible that the fifth wave fails to move above the prior wave 3 high (this is called a "failure"). Most of the time the market will make a higher high, though. The market has earnings reports coming and they are likely to be peaking and will add fuel

Daily S&P 500

Bottoms-up Money Flow

SPX – MT

On Mid term basis we are looking at the Bearish Wedge of Hrly to fail, then snap back to 1230 target first and then daily Wedge indicated at the base is 1180 and then finally to the false breakout area as our downside targets 1135 (the last target may take time and not in straight line) .

SPX – MT

The daily indicators RSI line) is pulling back from overbought territory over 70 and forming a slight "negative divergence" from its early November peak. A pullback were to is likely at 1225 which is the November price peak (a drop of 4%). The blue 50-day average (currently at 1220) . [Major chart support should reside along the 1135 to 1150 (Green CZ) also 40W.

4-Jan-2011 1:27pm   Last 1265.32 Chg -6.57 (-0.52%)

RSI(14) 68.59

short-term overbought

90
70
50
30
10

↯ $SPX (Daily) 1265.32
— MA(50) 1218.96
— MA(200) 1147.30

1276.17

support

1219.80

1150.45

1131.23   1129.24

1044.50   1040.78   1039.70

1010.91

1275
1250
1225
1200
1175
1150
1125
1100
1075
1050
1025
1000

Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec **2011**

SPX – MT – MA's & Trend lines

1280 is material resistance, and we'll look for a correction to develop towards the 1220 level then assess the market condition once this level is achieved. The 20-D and 40-D models are showing signs of turning.
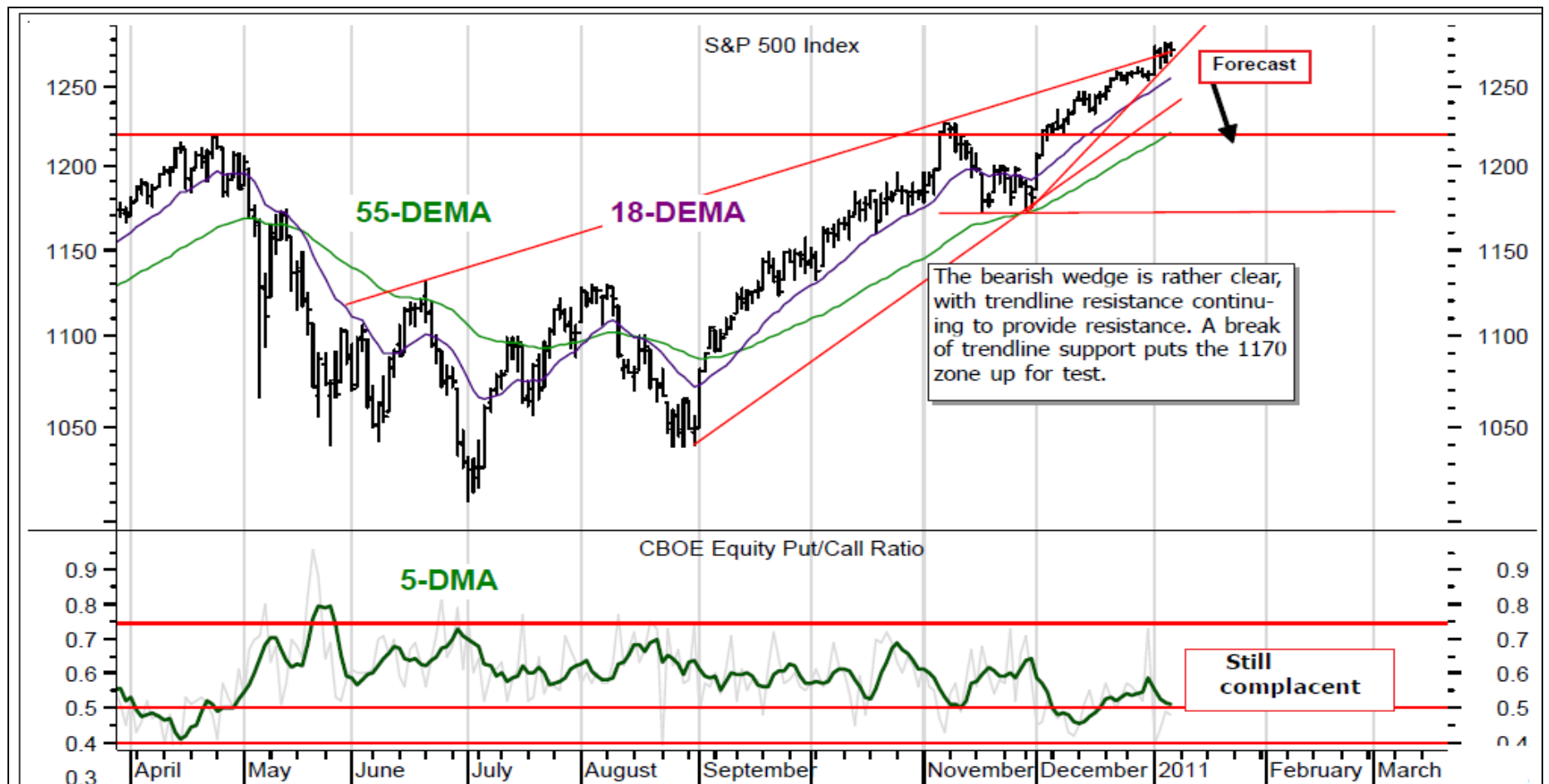
SPX – TRIN - MID TERM –

Intermediate term view of the SPY. There are two different configuration SPY/TRIN ratio to determine a short term view (A couple of months) and an intermediate term view (6 months or longer). The bottom window is the short term view of the SPY/TRIN ratio and it has reached levels where in the past has stalled the market, which is a reading above 160. The top window is the intermediate term view of the SPY/TRIN ratio and it also has reached levels where the market made little headway. Market may hold up into the March timeframe.

SPX -Put / Call

(We use proprietory non conventional $$ based ratio v/s qty based ratio, it has given us better heads up in past)

The Equity Put/Call ratio printed a rather low .40 reading on last Monday, .44 on Tuesday and .49 on Wednesday, and .48 yesterday. These are complacent readings below .50, and clearly indicative of a complacency not seen since the highs in April-2010

S&P 500 Index

Forecast

55-DEMA   18-DEMA

The bearish wedge is rather clear, with trendline resistance continuing to provide resistance. A break of trendline support puts the 1170 zone up for test.

CBOE Equity Put/Call Ratio

5-DMA

Still complacent

SPX – LT – No Change – Bigger Picture

The weekly bars show the market trading at the highest level in more than two years and in a potential resistance zone marked by the early 2008 low near 1270 up to the summer high near 1 280 (see lines). The S&P 500 has also retraced two-thirds of the 2007/2009 decline which often acts as a resistance level. More importantly, the RSI line on weekly (which is more critical to achieve) has reached the overbought 70 level for the first time since April and diverging If nothing else, that may be a warning that the market rally has reached a point where it's in need of a pullback

The volume is contracting , This week we are into these area on <u>SPY with 325 v/s 350M v/s 600M v/s 800 M v/s 1000</u> and v/s 2.0B required by Benchmark for confirmed breakout. This is the 4th failure . There is a larger bearish wedge on Declining volume.
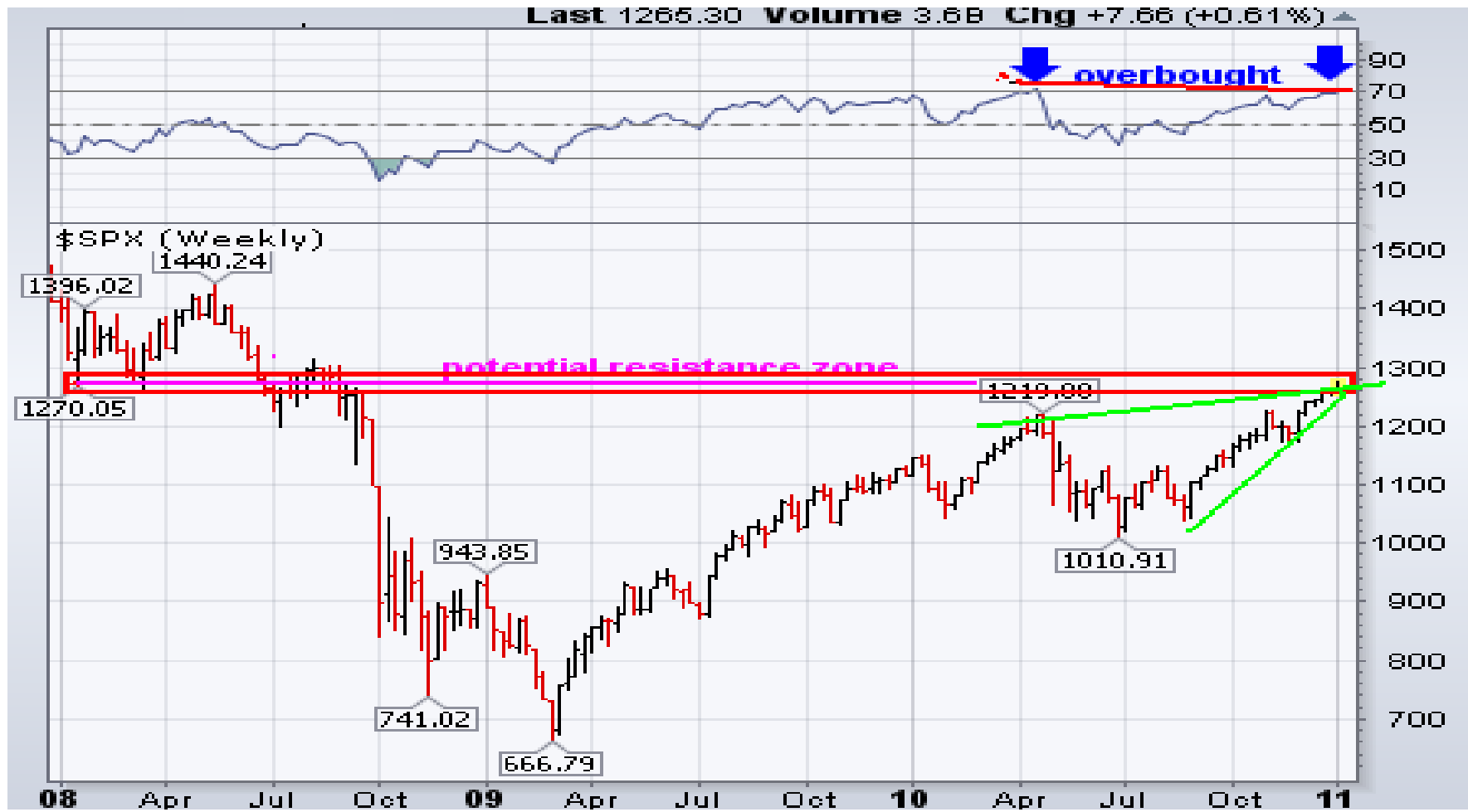
SPX -

Bounced 0.625 from highs of 1365 to lows of 666 on linear basis but on Relative basis, is in the confluence of PEC D- with 0.786 and 1.27 to current levels

SPY CASH S&P 500 WEEKLY

- **Secondary Market Analysis for SPX – POM clues – NASD, NYSE, RUSSEL**

NASD –

At Critical levels , bounce 0.382 from highs of 4900 to lows of 800 to current levels
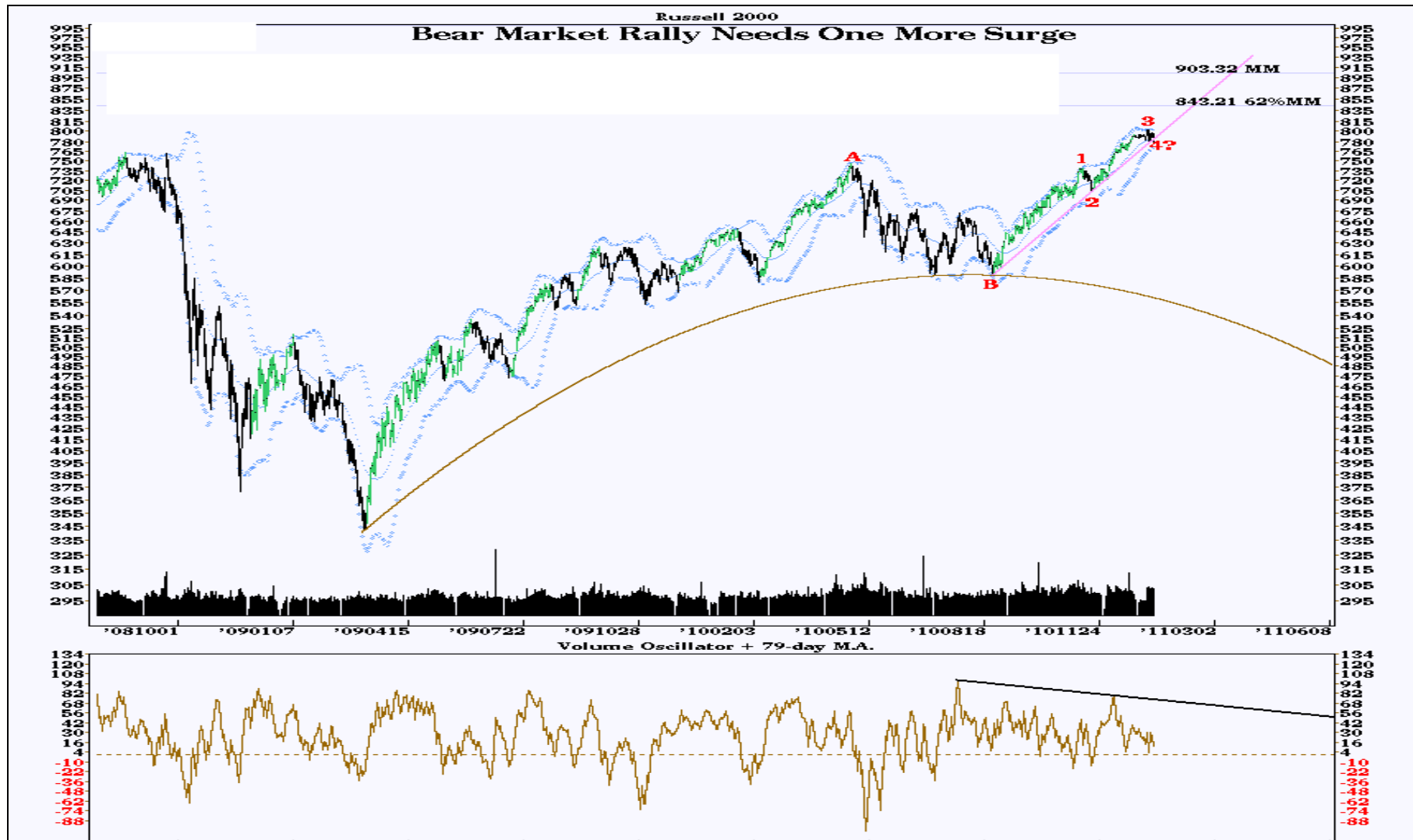

NASDAQ WEEKLY

NYSE –

The expanding triangle pattern is still intact, but the overall money flow picture is indicative of a total collapse coming

Daily NYSE Composite

Bottoms-up Money Flow

RUSSEL

Also indicating the wave 4 and 5 scenario similar to SPX except that , Russell has broken trend line on heavy volume with Bearish engulfing , this suggests the bounce will be bottom heavy compared to SPX. The test of Bearish engulfing is a better test of breakdown. This is all part of topping process within CZ of PQV price criteria.
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IWM – Correlation Ratio Analysis with SPX – 365 days Time basis

<mark>Is at SD# +2.0, for overvaluation</mark>

Long IWM Equity and Short SPX Index, Updated till 11 Jan 2011, LAST 365 TRADING DAYS ANALYSIS

Current Prices	Keeping SPX Index Constant:	Keeping IWM Equity Constant:
	At +2 SD, IWM Equity should be at $79.97	At +2 SD, SPX Index should be at $1263.63
IWM Equity = $ 79.29	At Av, IWM Equity should be at $73.98	At Av, SPX Index should be at $1365.93
SPX Index = $ 1274.48	At -2 SD, IWM Equity should be at $68.44	At -2 SD, SPX Index should be at $1476.52

Ratio ,0.062
+2SD ,0.063
+1.5SD ,0.062
+1SD ,0.06
Av ,0.058
-1SD ,0.056
-1.5SD ,0.055
-2SD ,0.054

Legend: —— LnRatio —— Average —— +2 SD ------- +1 SD ------- -1 SD —— -2 SD —— -1.5 SD —— +1.5 SD

RUSSELL

MACD has trigged, Momentum Indicator below -50 should show weakness, On bigger picture the weekly volume should come in above 175 M but to Fine tuning on daily basis the CZ For ½ position is 79.50- 80 with <mark>price go above 80 and then close below 79 with 35 M shares for failure</mark>. We are watching closely in CZ – PQV in Sector Report
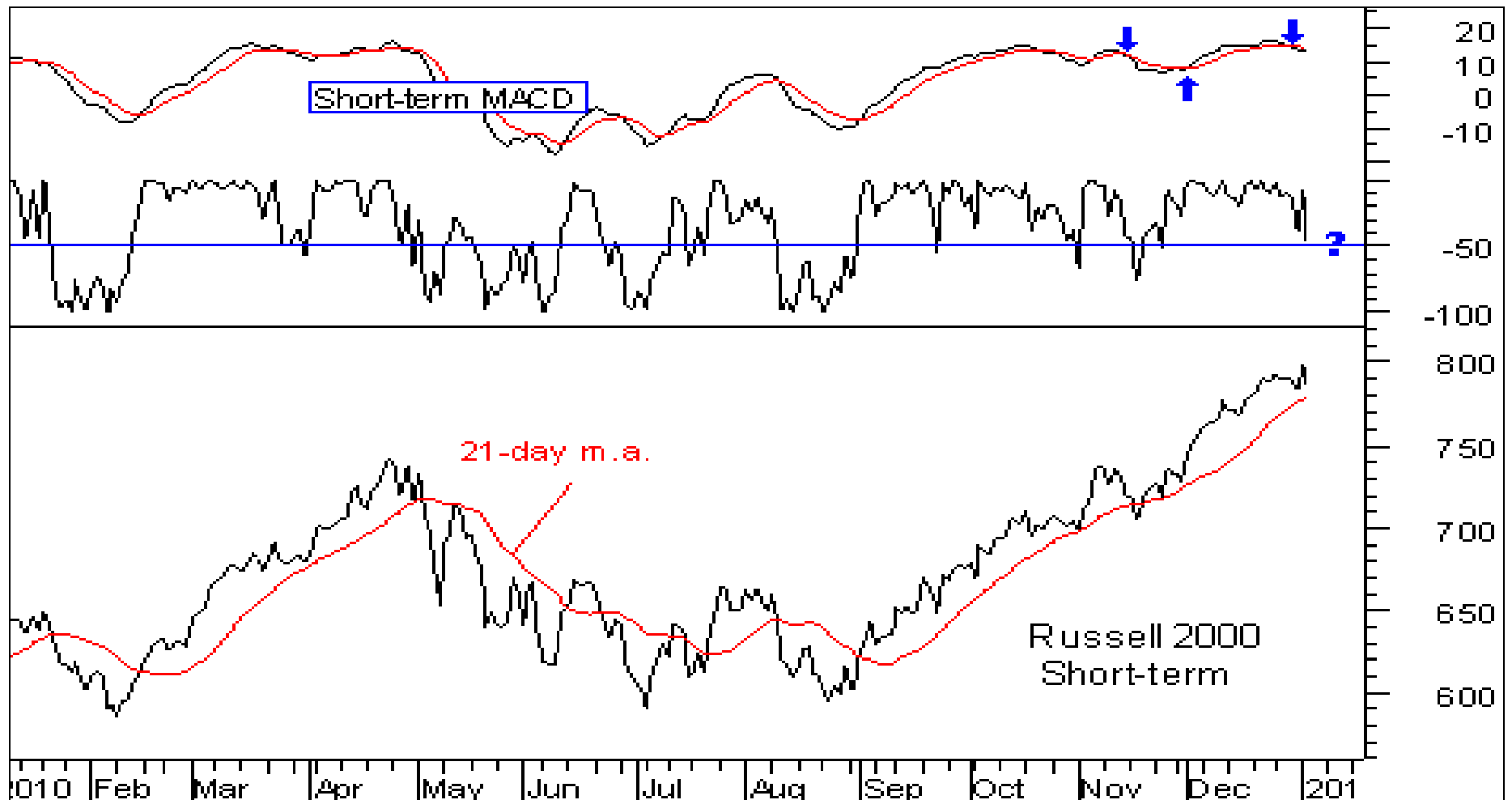
RUSSELL
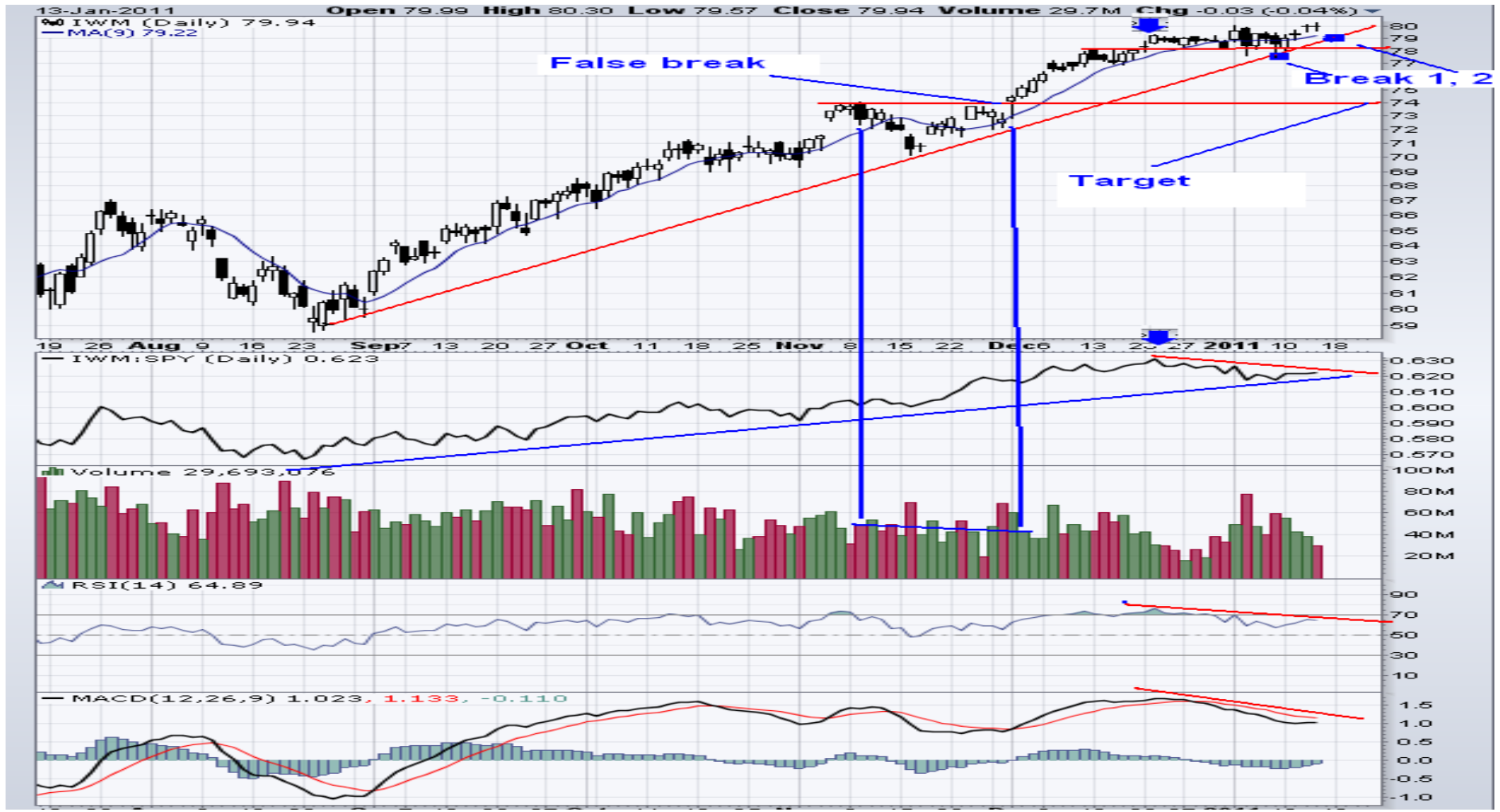
Wait for Trend line and 3X3 / 9EMA break for acceleration
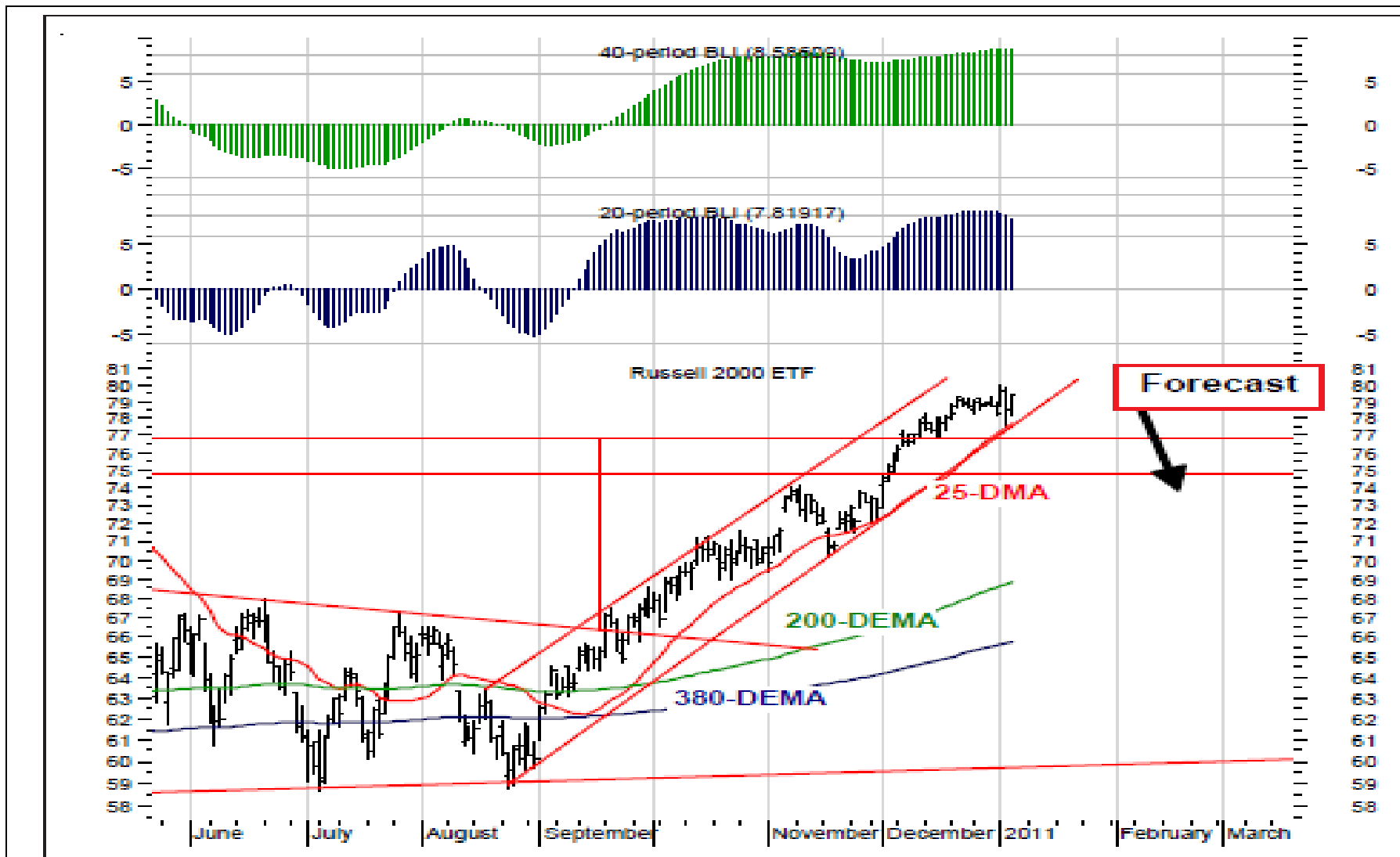
IWM- POM – LT - Price , Volume & Pattern Analysis - (MONITORING CZ –PQV)

Finally after so much patience , the day arrives for CZ – As required , currently it is testing 2008 Jan breakdown area & 2008 highs of Sept an its derived CZ - 1 of 77 – 80.00 (currently it is in the zone) and test with 175 M and weekly close under 77 should be a good test If SPX declines this will follow.
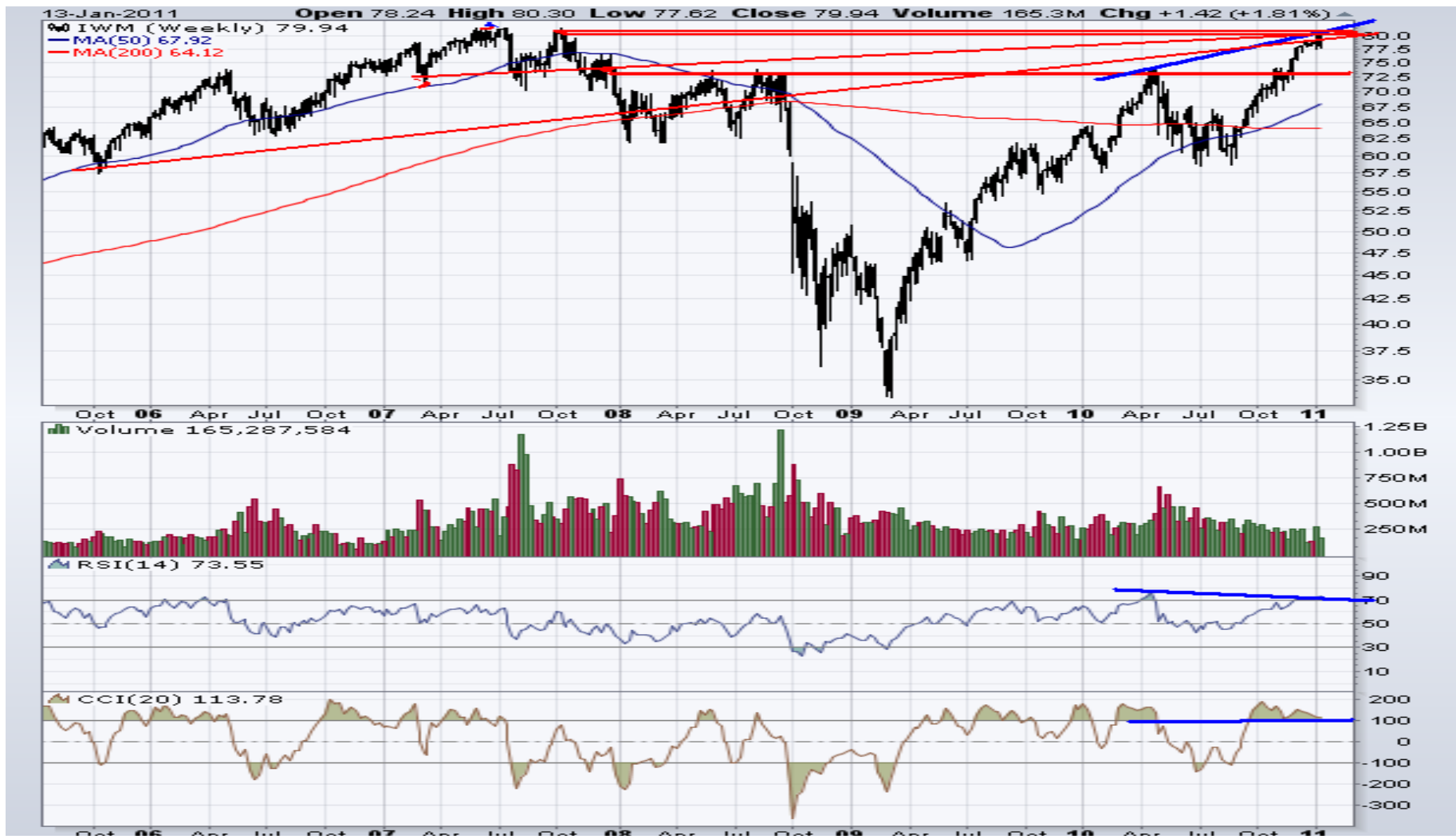
IWM- POM – LT - Price , Volume & Pattern Analysis - (MONITORING CZ –PQV)

Ratio of the IWM / SPY has weakened along with MACD and RSI diverging on last rise , Momentum Indicator below -50 should show weakness, The volume on break of 74 was false and market to achive those levels , sooner rather then later The Break points are at 79 and 77 (see the chart blow) . To Fine tuning on daily basis the CZ For ½ position is 79.50- 80 with price go above 80 and then close below 79 with 35 M shares for failure. We are watching closely in CZ – PQV in Sector Report. Stops on other side of CZ for Risk movement.
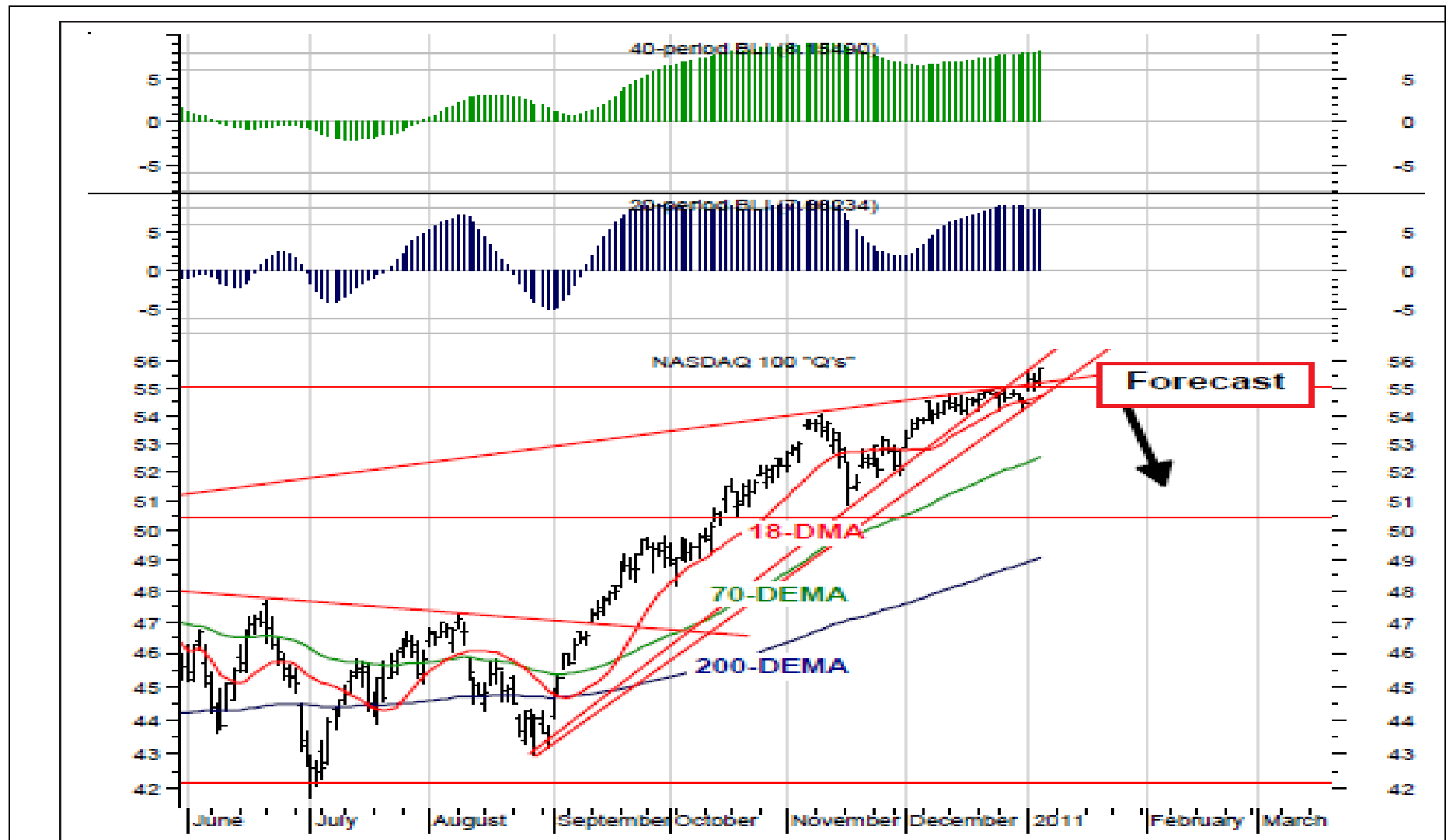
QQQQQ

MACD has trigged, RSI in two time frames showing divergences . <mark>*So we are watching closely in CZ – PQV in Sector Report*</mark>
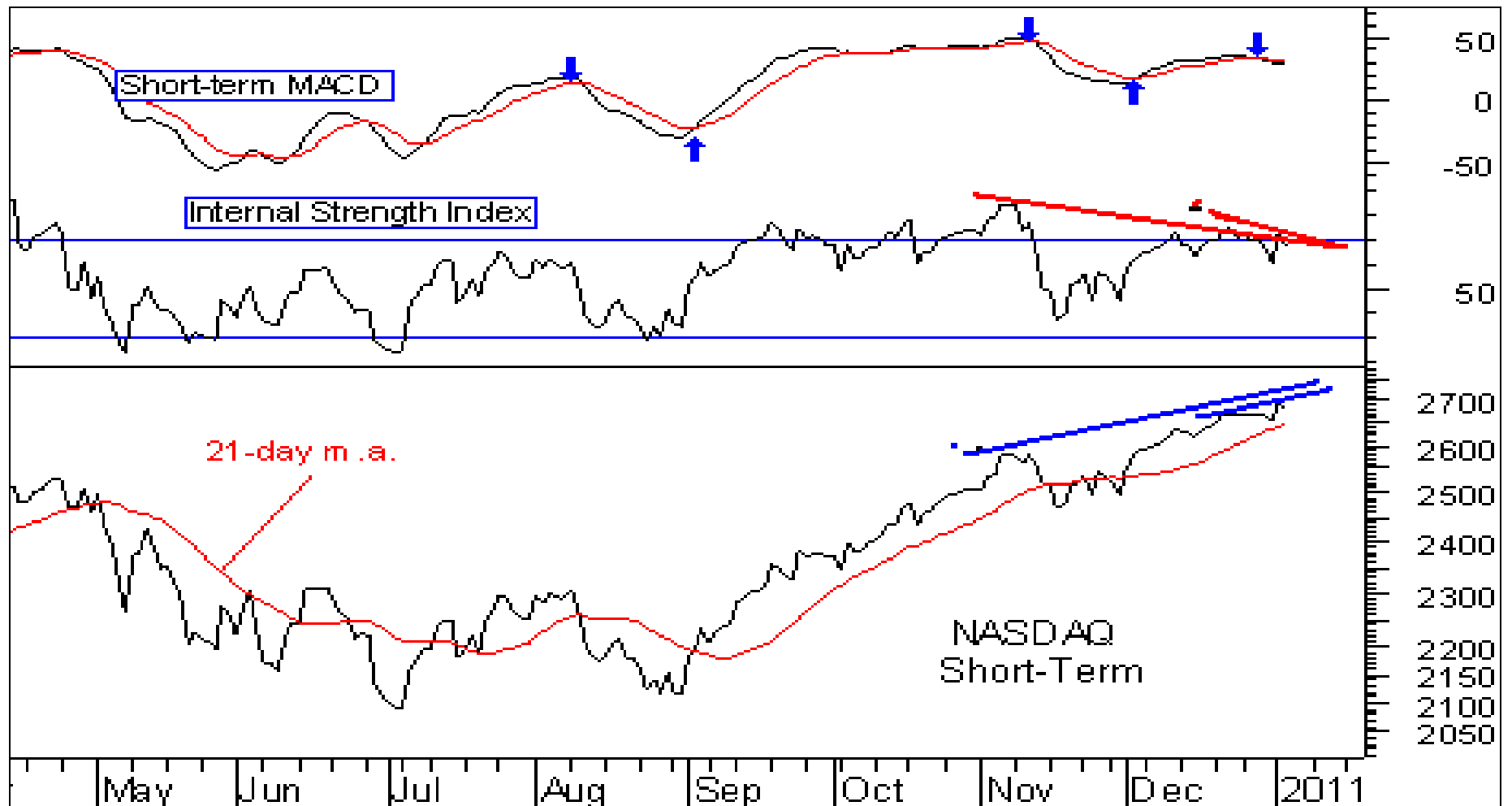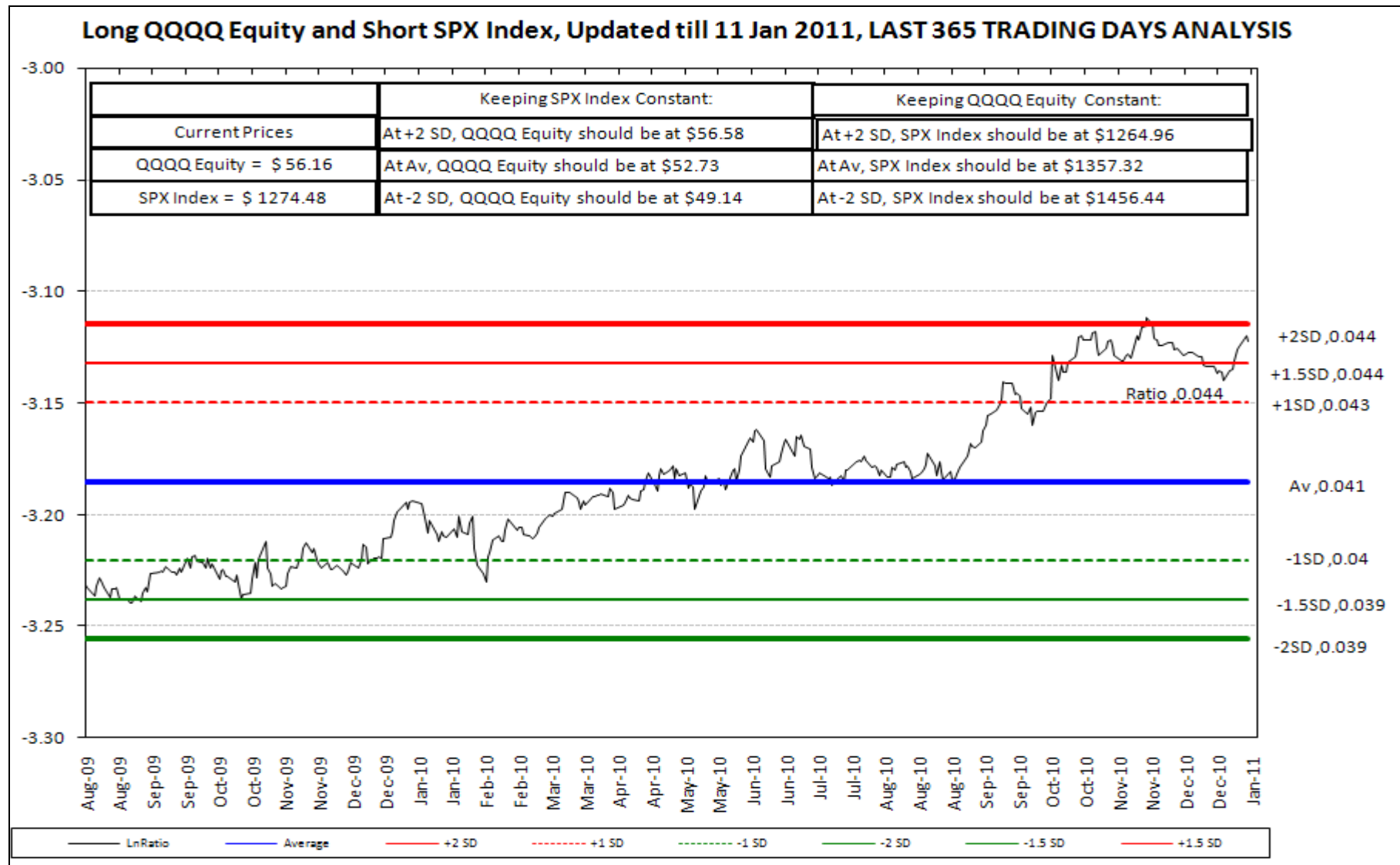
QQQQ

Wait for Trend line and 3X3 / 9EMA break for acceleration

QQQQ – Correlation Ratio Analysis with SPX – 365 days Time basis

Is at SD# + 1.75, for overvaluation – We covered this for PQV and CZ, now it is in watch list Tracker SECTION - D # Wkly Sector Analysis, part II , (MONITORING CZ –PQV)

Long QQQQ Equity and Short SPX Index, Updated till 11 Jan 2011, LAST 365 TRADING DAYS ANALYSIS

Current Prices	Keeping SPX Index Constant:	Keeping QQQQ Equity Constant:
	At +2 SD, QQQQ Equity should be at $56.58	At +2 SD, SPX Index should be at $1264.96
QQQQ Equity = $ 56.16	At Av, QQQQ Equity should be at $52.73	At Av, SPX Index should be at $1357.32
SPX Index = $ 1274.48	At -2 SD, QQQQ Equity should be at $49.14	At -2 SD, SPX Index should be at $1456.44

+2SD ,0.044
+1.5SD ,0.044
+1SD ,0.043
Ratio ,0.044
Av ,0.041
-1SD ,0.04
-1.5SD ,0.039
-2SD ,0.039

Legend: LnRatio — Average — +2 SD — +1 SD — -1 SD — -2 SD — -1.5 SD — +1.5 SD

- ## Sector Analysis for SPX – POM clues – BKX, SMH

BKX & SMH are the Lead Sectors on radar either for market tops or Bottom, Money flow into these are very critical for market advances.

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.
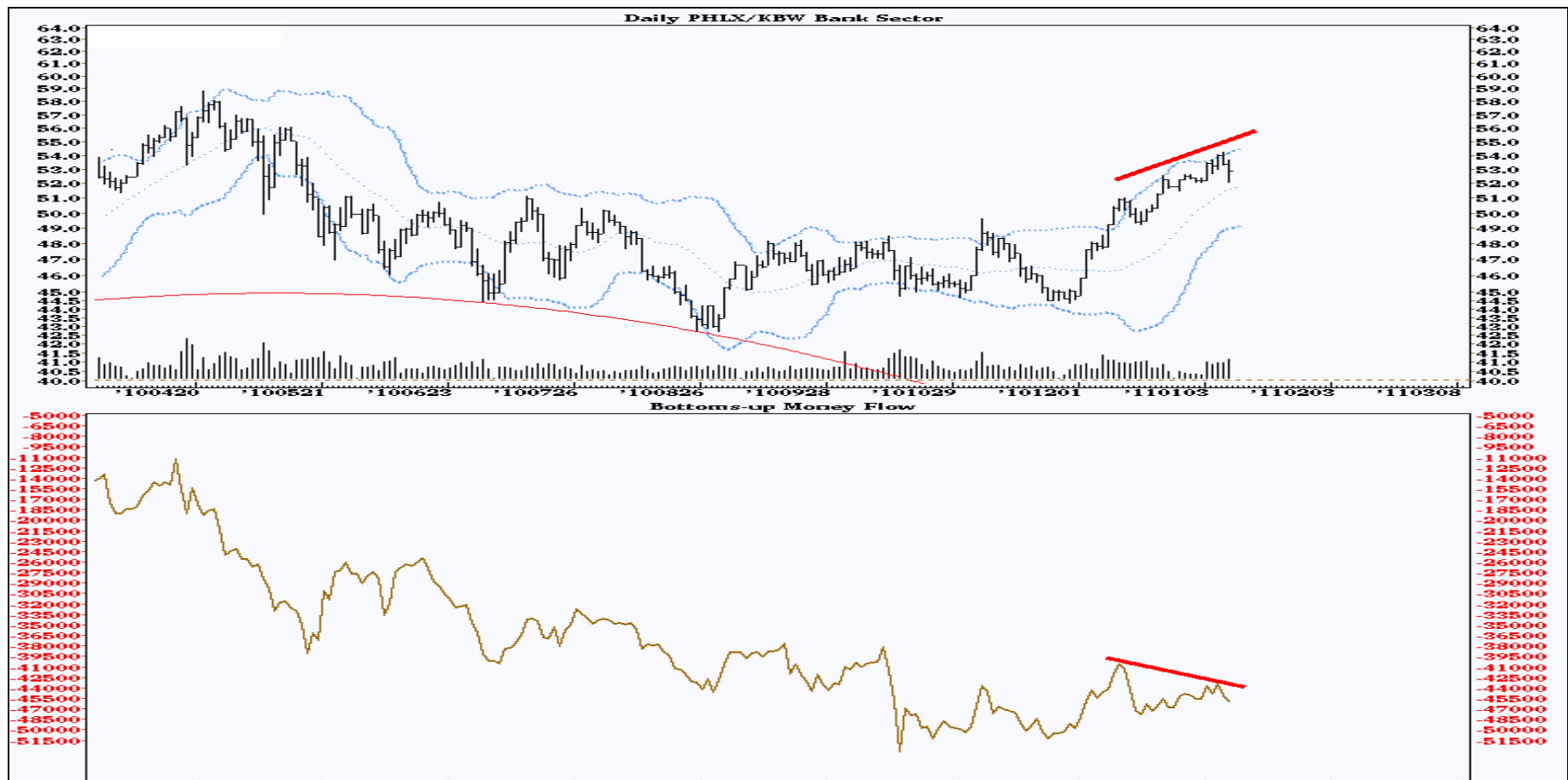
SMH

Despite a last-gasp rally in SOX, the insiders are not bullish (No one is in the store to buy these) GDX had the similar situation 3 weeks ago before its fall.

Daily Semiconductor Sector

Bottoms-up Money Flow

• 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 – <mark>Turns Bearish 1st JAN 2011 till 28th FEB</mark>

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)
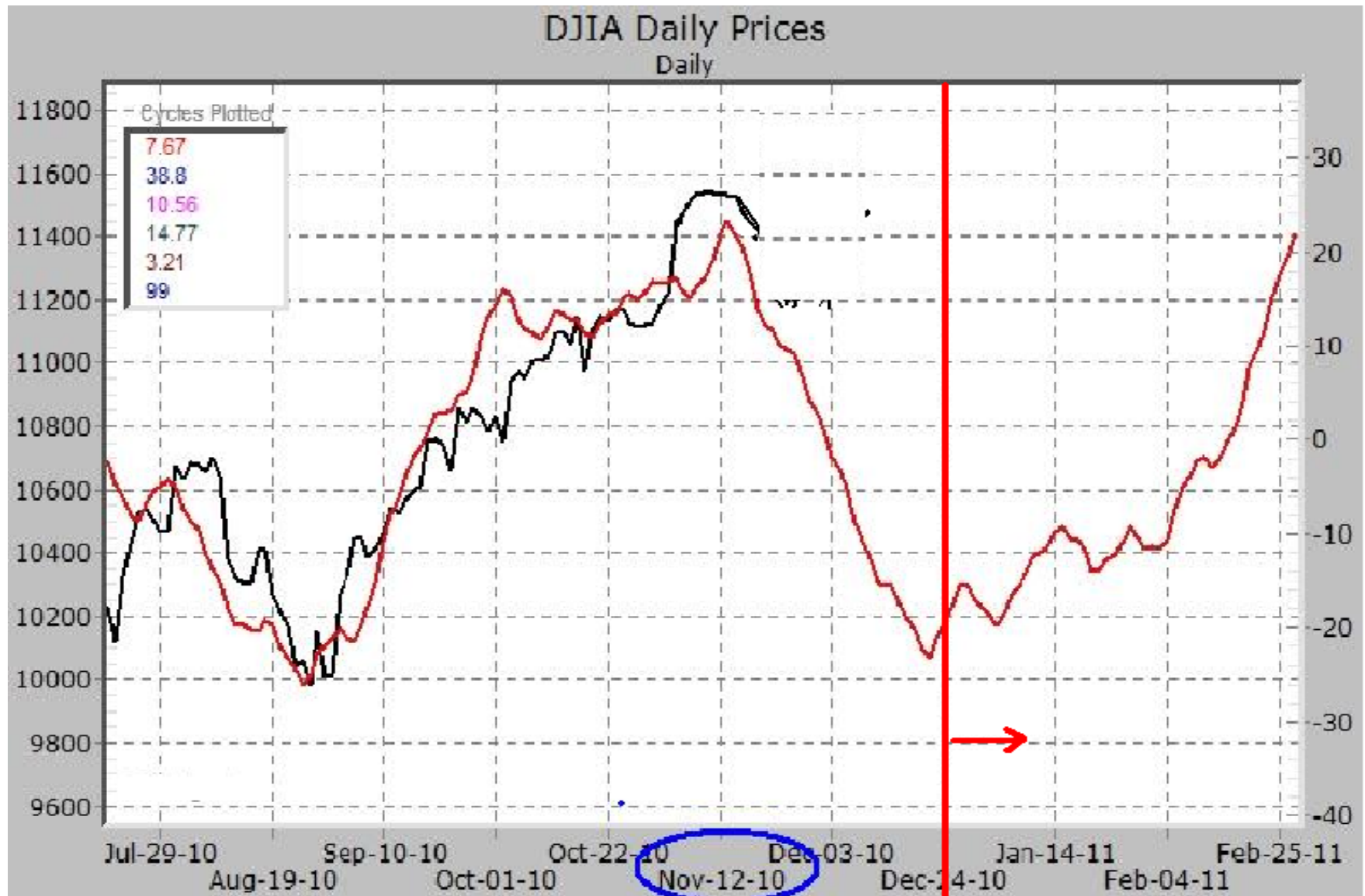
The 4 Yr – Price path Cycles – ==Turns Bullish - 28th DEC to End FEB==

(We will retain this chart and monitor with SPX)

NEXT ONE WEEK ON CYCLES - BULLISH

S&P 500 week of January 10th
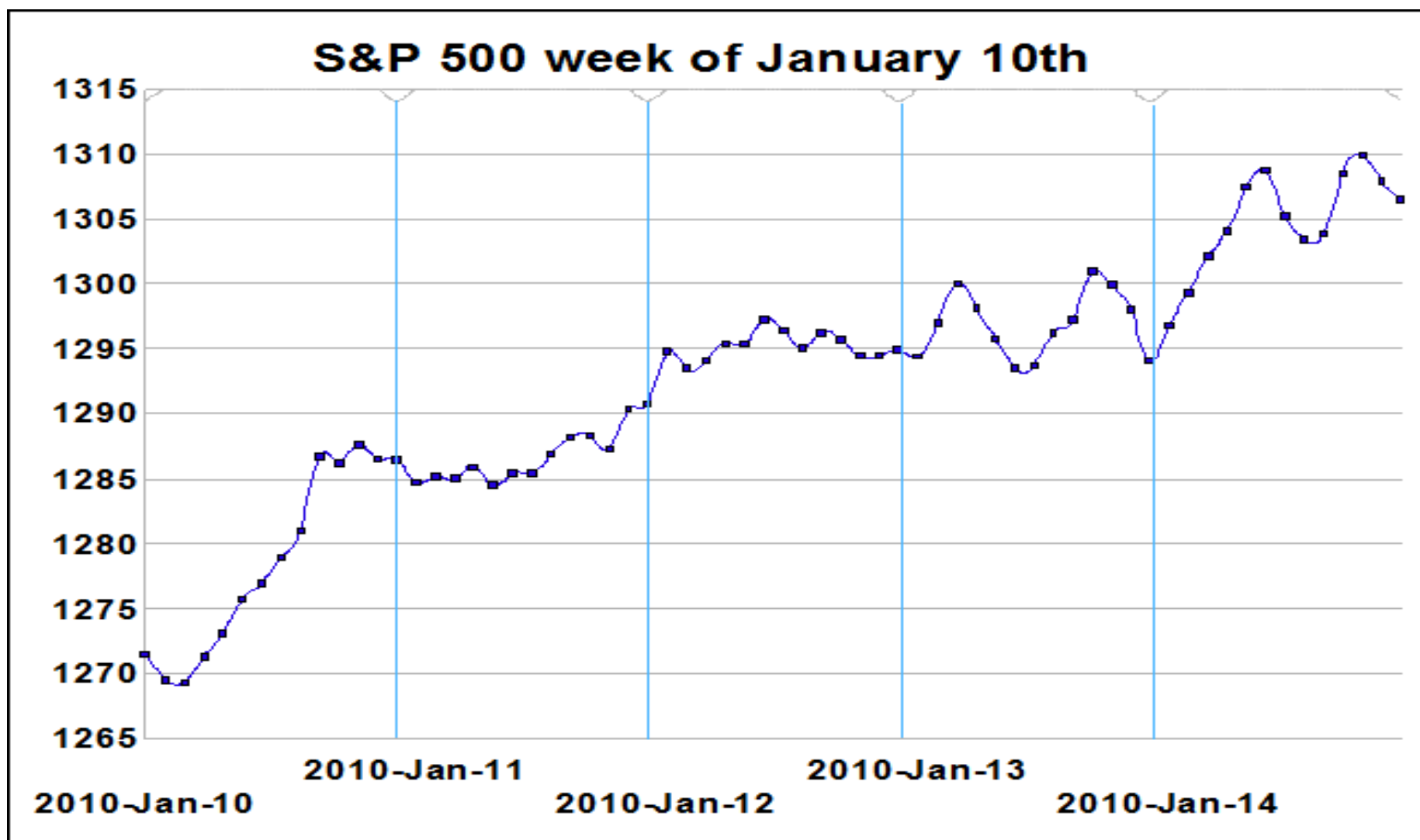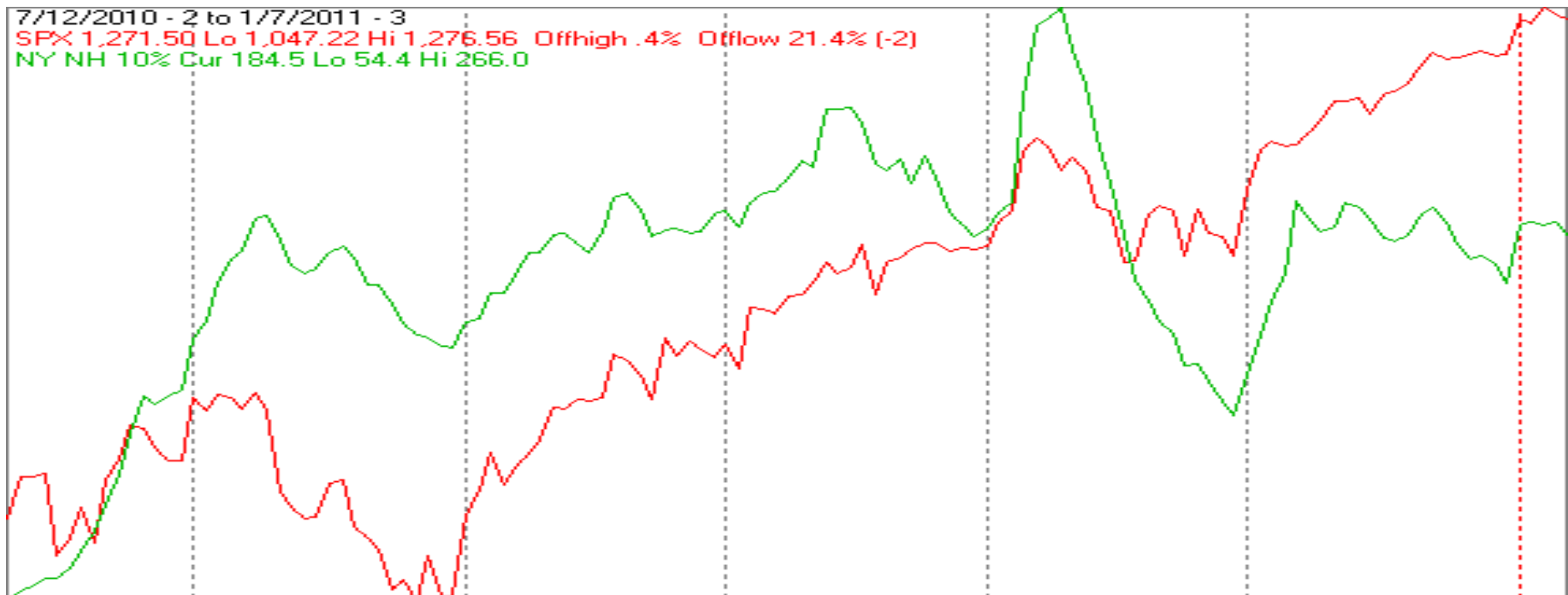
NEXT TWO MONTHSON CYCLES - *BULLISH*

- ## **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 <mark>Large cap Equally weighted</mark>**)**

 The chart below covers, 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 , Declining new highs narrowing leadership negative.


```
7/12/2010 - 2 to 1/7/2011 - 3
SPX 1,271.50 Lo 1,047.22 Hi 1,276.56  Offhigh .4%  Otflow 21.4% (-2)
NY NH 10% Cur 184.5 Lo 54.4 Hi 266.0
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- ## **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 2^{nd} / 3^{rd} 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 <u>EXTERME INDICATOR ONLY</u> as a observation points.

<u>EXTERME INDICATORS</u>

- . **Sentiment (Short term) has reversed** Our Mathematical Indicators such as **OEX Ratio, ARMS, <mark>TRIN, TICK, VIX</mark>** 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

- **AAII** @ 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.**

VIX

The declining wedge is dominate, with lower trendline and April low support having held in bullish fashion. Moreover, the "gap higher" above minor trendline resistance is a positive, with the Model in the process of turning higher in positive divergence. Look for higher prices.
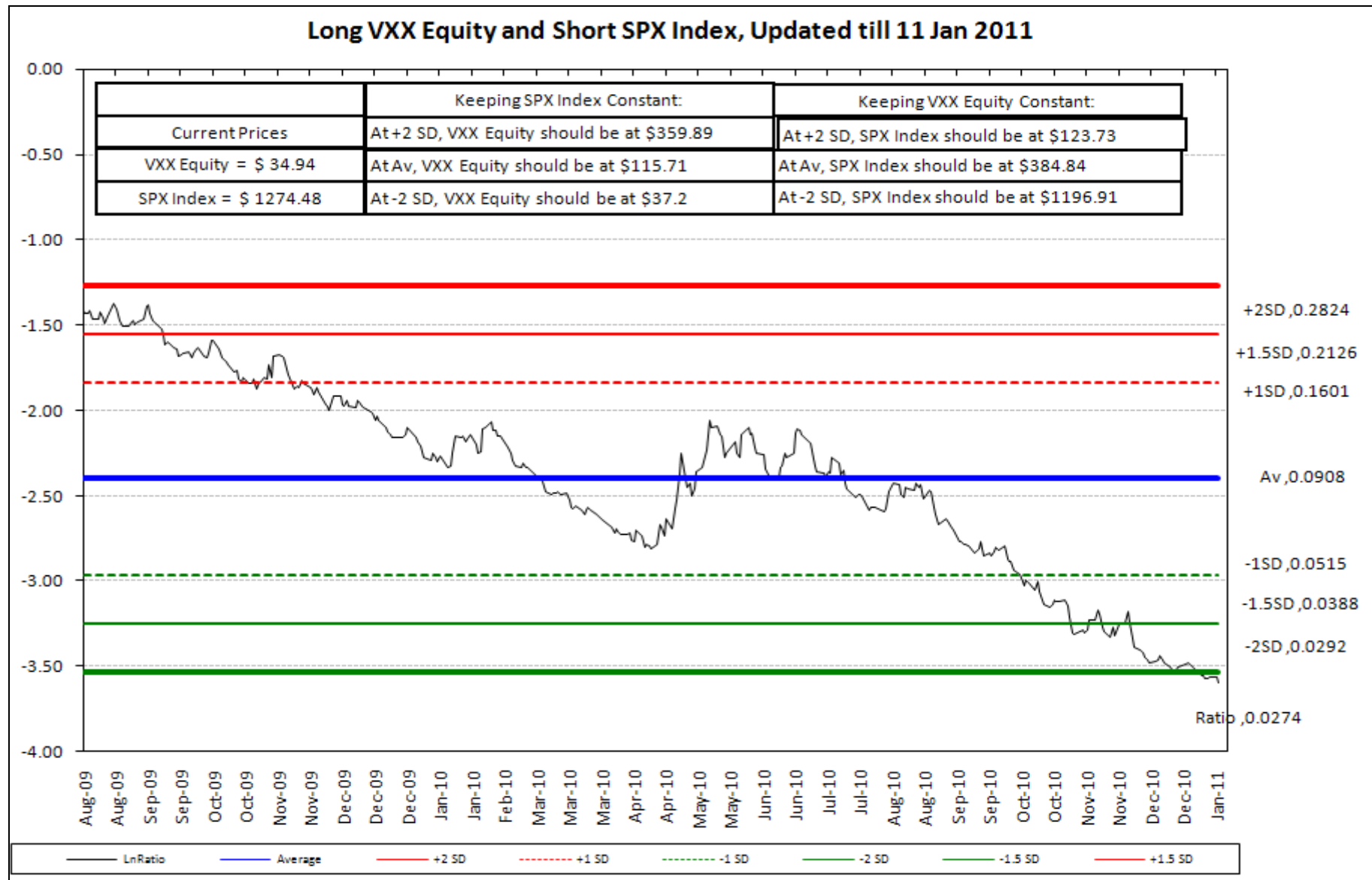
VIX – This is very significant

VIX had finished ABCD pattern similar to last April .

VXX v/s SPY - <mark>This volatility ETF is @ -2 SD</mark>

VXX – Correlation Ratio Analysis with SPX – 365 days Time basis

Long VXX Equity and Short SPX Index, Updated till 11 Jan 2011

Current Prices	Keeping SPX Index Constant:	Keeping VXX Equity Constant:
	At +2 SD, VXX Equity should be at $359.89	At +2 SD, SPX Index should be at $123.73
VXX Equity = $ 34.94	At Av, VXX Equity should be at $115.71	At Av, SPX Index should be at $384.84
SPX Index = $ 1274.48	At -2 SD, VXX Equity should be at $37.2	At -2 SD, SPX Index should be at $1196.91

+2SD ,0.2824
+1.5SD ,0.2126
+1SD ,0.1601
Av ,0.0908
-1SD ,0.0515
-1.5SD ,0.0388
-2SD ,0.0292
Ratio ,0.0274

Legend: LnRatio — Average — +2 SD — +1 SD — -1 SD — -2 SD — -1.5 SD — +1.5 SD

VXX v/s SPY

VXX- ETF is oversold on Absolute and relative basis , 40 W should be tested once the trend line is broken . especially at SD # -2
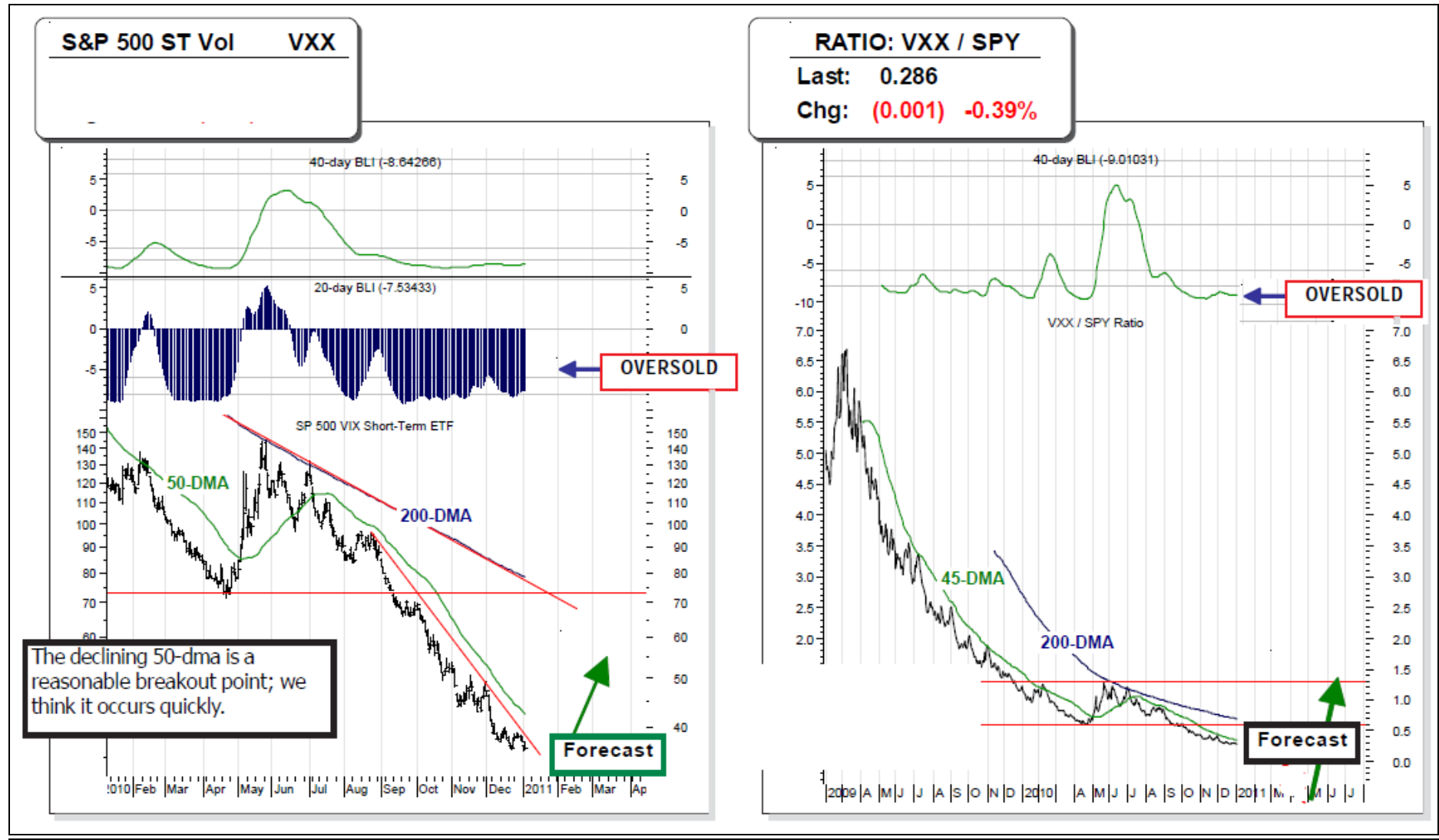
Put / Call

PUT/CALL RATIO BOUNCES FROM BULLISH EXTREME... the 5-day EMA for the CBOE Total Put/Call Ratio. A dip below .75 shows excessive call volume or bullishness. The red dotted lines show the 5-day EMA moving back above .75 and There was a double dip (see green lines) that would warrant caution as Market moves higher.

3-Jan-2011 9:50am   Open 0.35 High 0.74 Low 0.35 Last 0.57 Chg -0.42 (-42.42%)

$CPC (Daily) 0.57
EMA(5) 0.75

5-day EMA of CBOE Total Put/Call Ratio ($CPC)

excessive call volume/bullishness

$SPX (Daily) 1271.30

A/D - (Followed by Buy Side Analyst – Also showing Divergences)

Now even if we take the A/D line that Bullish case is made by market observers based on A/D line has followed the market with respect to April….by this measurements Market is topping out.

In this case we measure, the percentage of stocks above a certain moving average is a breadth indicator designed to measure the degree of participation. At their most basic, these indicators have a bullish bias. This indicator is always late. Currently this indicators is also diverging negatively
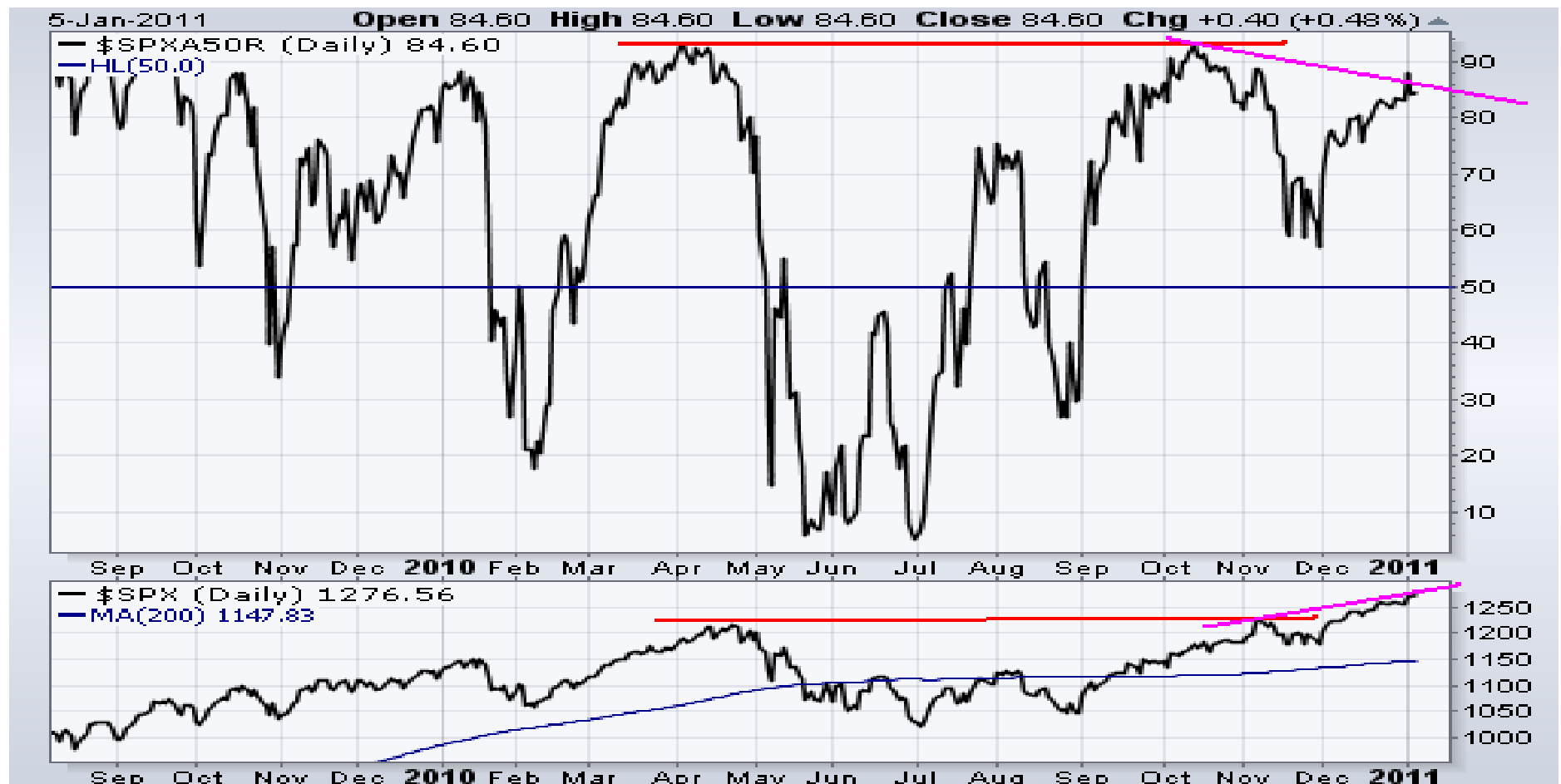
• Global Market Analysis for SPX – POM clues – SPAIN, AORD,CHINA

EWP - SPAIN

ECB v/s PIIG's surfacing back again, however the PQV – CZ suggested of these events much before the events . On tocuh of CZ it caused the waterfall drop in market.

AORD

Bullish divergence on the volume oscillator and the trade down to the lower band strongly suggests we should see a rally

EWA should be reaching the CZ . This market is double topping
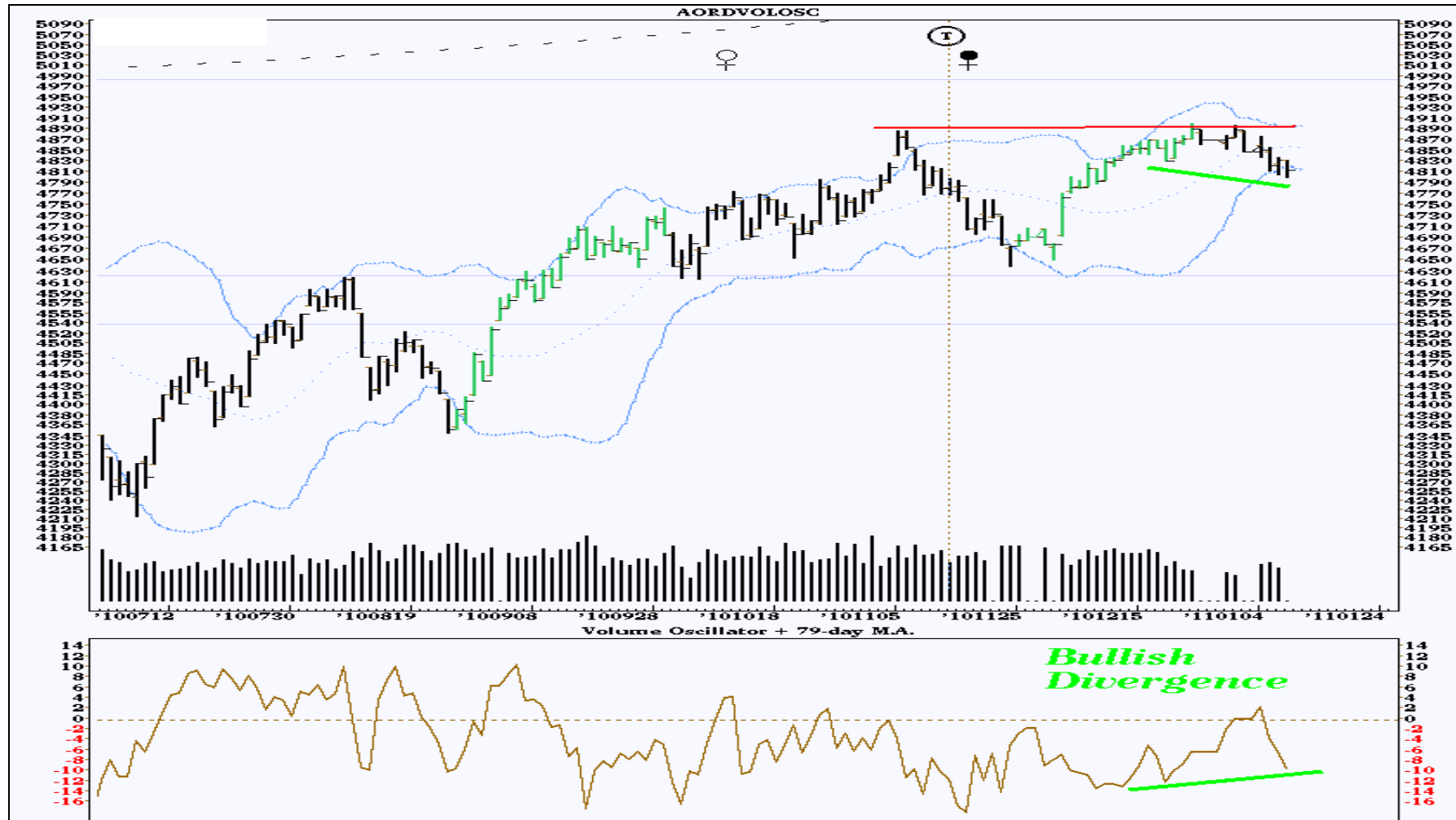
.CHINA - MID TERM

50 % Bounce is still a Bear Market . Shanghai has been very weak recently, This might be giving some warning on China. As it puts in lower highs above the Poly Trend lines. .
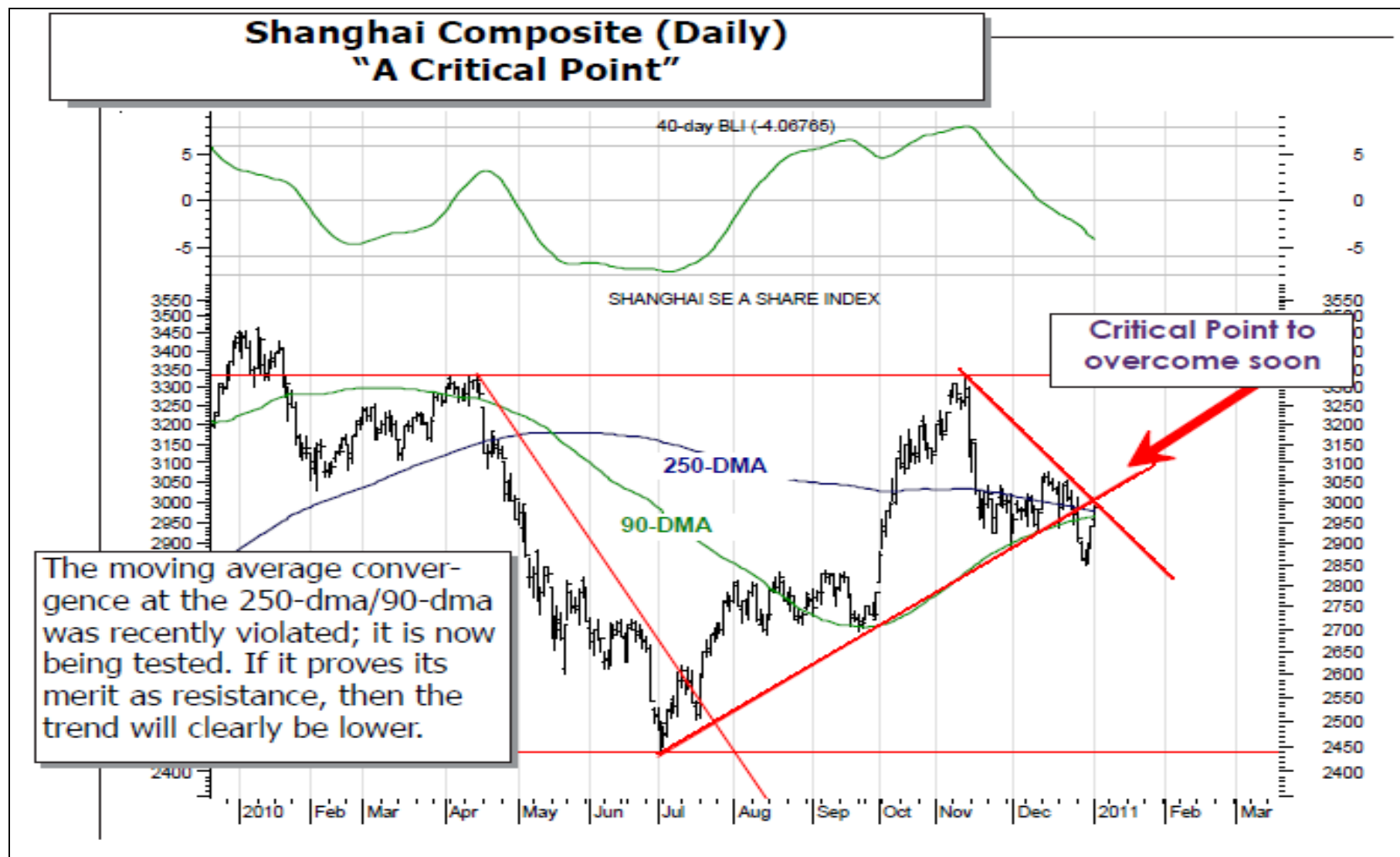

As of 7 Jan 2011

Weekly Shanghai Composite

6124.04 0%r

4914 24%r

4166.16 38%r

3561.14 50%r

2956.12 62%r

2094.38 78%r

998.228 100%r

'050513 '060120 '061013 '070629 '080314 '081114 '090724 '100409 '101217 '110819 '120420

CHINA v/s COPPER

Another potential canary is the Copper market, which tends to warn of turns in the economy. China tops and bottom 3-4 weeks ahead of Copper , we see that happening now. It is currently warning of a correction in the market.

CHINA - SHORT TERM

At a critical point at 2950 , Converging trend lines & EMA's produces a formidable resistance . We have EWH at the CZ – PQV to capitalize on this move.I

Shanghai Composite (Daily)
"A Critical Point"

40-day BLI (-4.06765)

SHANGHAI SE A SHARE INDEX

250-DMA

90-DMA

Critical Point to overcome soon

The moving average convergence at the 250-dma/90-dma was recently violated; it is now being tested. If it proves its merit as resistance, then the trend will clearly be lower.

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