



SG Capital Research

Global Market Insights

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

MAEG- WKLY MKTSTR- GL- POM -SG 2011 # JAN 24

For Immediate Release – *Monday AM (EST)*

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Market Strategy Global (A # 1) - SPX – Closed @ 1283 – Wkly change (- 10 points)

Analysis of Broad Market that includes – **Jan 1st 2011 – SPX 1257 (up 2.0%)**

- **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 , LT**
- Secondary Market Analysis for SPX clues – **NASD, 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 , VIX**
- 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**

Our start point 2011 in SPX @ 1257 – Current Indicators

- **Long Side –**

- POM 12 Calls – None so far this year.
- Trend Adjusted Signal – On Buy Signal carried over from 2010 . On Jan 1st 1257 – SPX to Current Stop 1273

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

- We recommend fully Hedge on long positions via the SETUP – PQV Hedge Index, we have a **Drawdown – 4.2%** 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 Triggered 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

• SPX Signals & Price Projections

- UPSIDE Target - 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 have approached this area, Monthly lose below 1280 should be a good signal**). We could very well trigger POM 15. Meanwhile we continue to remain POM 14.
- DOWNSIDE Target - 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)
- EQUILIBRIUM Price - favorable Risk / Reward opportunity will come at POM 13/ 12. This area we would be interested again
- SHORT TERM Target - Daily Bearish Wedge has the downside target of 1175.

• Daily SPX - “ Trend Adjusted Signal”

3x3 /9EMA – Momentum Break Indicator – Buy Signal @ 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%
- For Bull case – Current long position from 1228

Currently “ Trend Adjusted Signal “ has Reversal stop @ 1273 SPX

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

SPX – 1273 , DJ – 11722 ,
NDX – 2300 (Stopped out) ,
RUT – 785(Stopped out)

• Market Insights

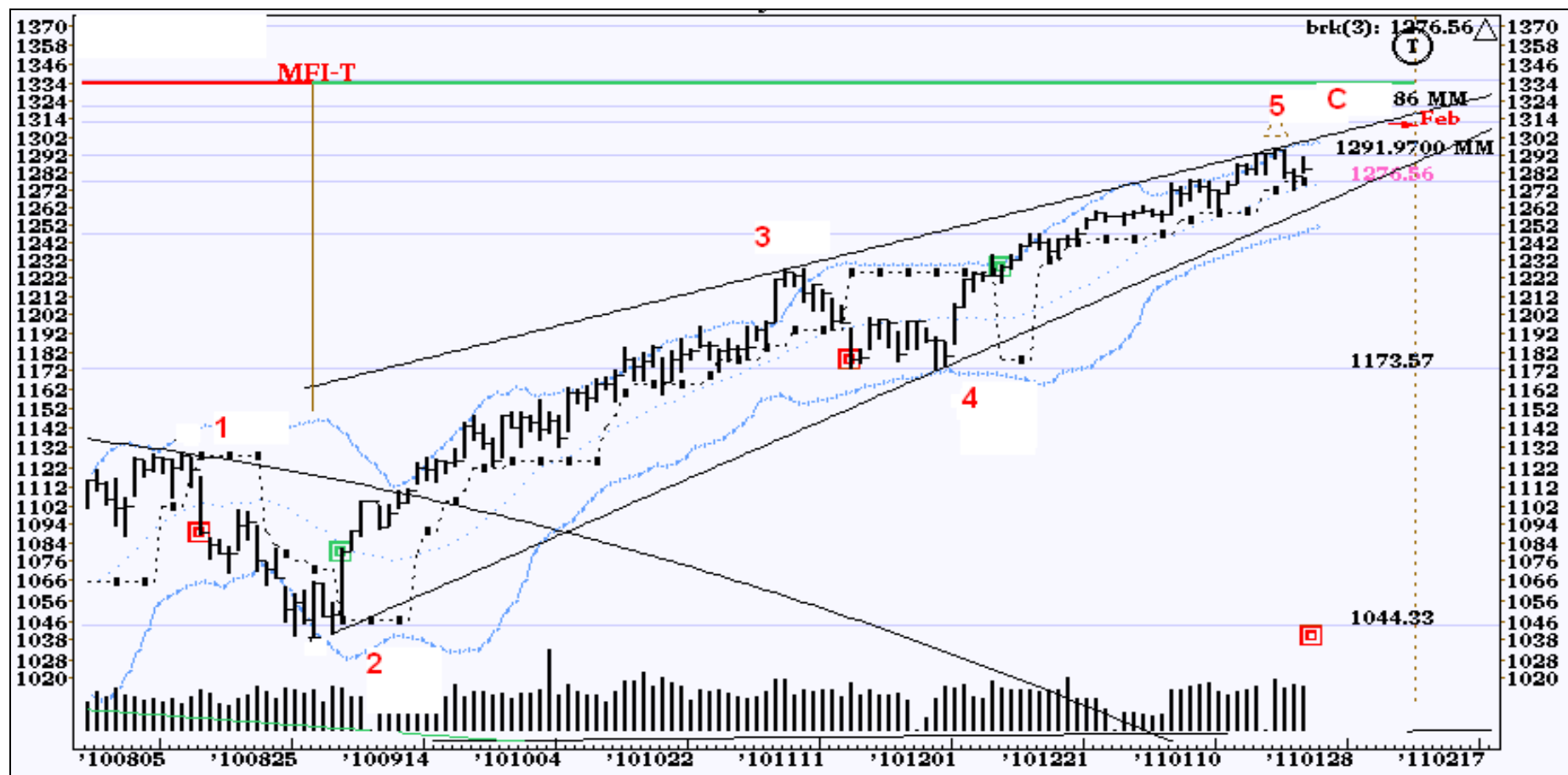
- *Last week market showed the first sign of cracks, especially as Small cap Russell reached the Price Confluence zone and fractured on the spot . NASD is similar along with Transports and Material. However the Blue chips and SPX are showing still life here (Call it Generals not giving up) . but important bearish divergences are building which are typical of late stage top formations as Earnings Cycle , stocks selling of good news.*
- *On Price Performance side we had quick 25 point drop as we expected into 1270 we had indicated, call it minor Jan correction . The indicators call for another bounce in next 2-3 days and correction. Finally another move to higher going into early February Tops 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.*
- *We are still looking for POM 15 on SPX for Net Short position, it comes in after the first break and failing rally. Till we get a that scenarios, nothing changes in the chart as topping process continues, we are awaiting for any Exhaustion here to Trigger POM 15.*
- *Money flow on Major Indices are drying up, this is a great warning sign as similar to what was witnessed with GDX and SLV recently*
- *China is our MAIN Trigger point on Global market, On Fundamentals and on charts. We have been expressing these critical Charts for past 4 weeks (See below) We think it might be bigger problem than 1000 troubled banks and 6000 banks struggling in US*
- *As we Top our Charts remains the same but picture and indicators well change when we get to POM 13, However the picture is changing with weak sectors with CZ – PQV measurements as we covered in A # 2.*

Primary Market Analysis -

SPX – ST

According to the count shown on Momentum measurements, we're in final wave 5 rally to go to finish wave C for big move downside but the most unreliable of waves is 5 . Most of the time the market will make a higher high, though. Intermediate the early March, 2-year anniversary of the 2009 low some times those historical turn dates gets to be meaningful (This can very well be lower highs or Secondary if not the top).

The mid-February end of trend money flow T could be a big obstacle for March 2 yr Cycle .



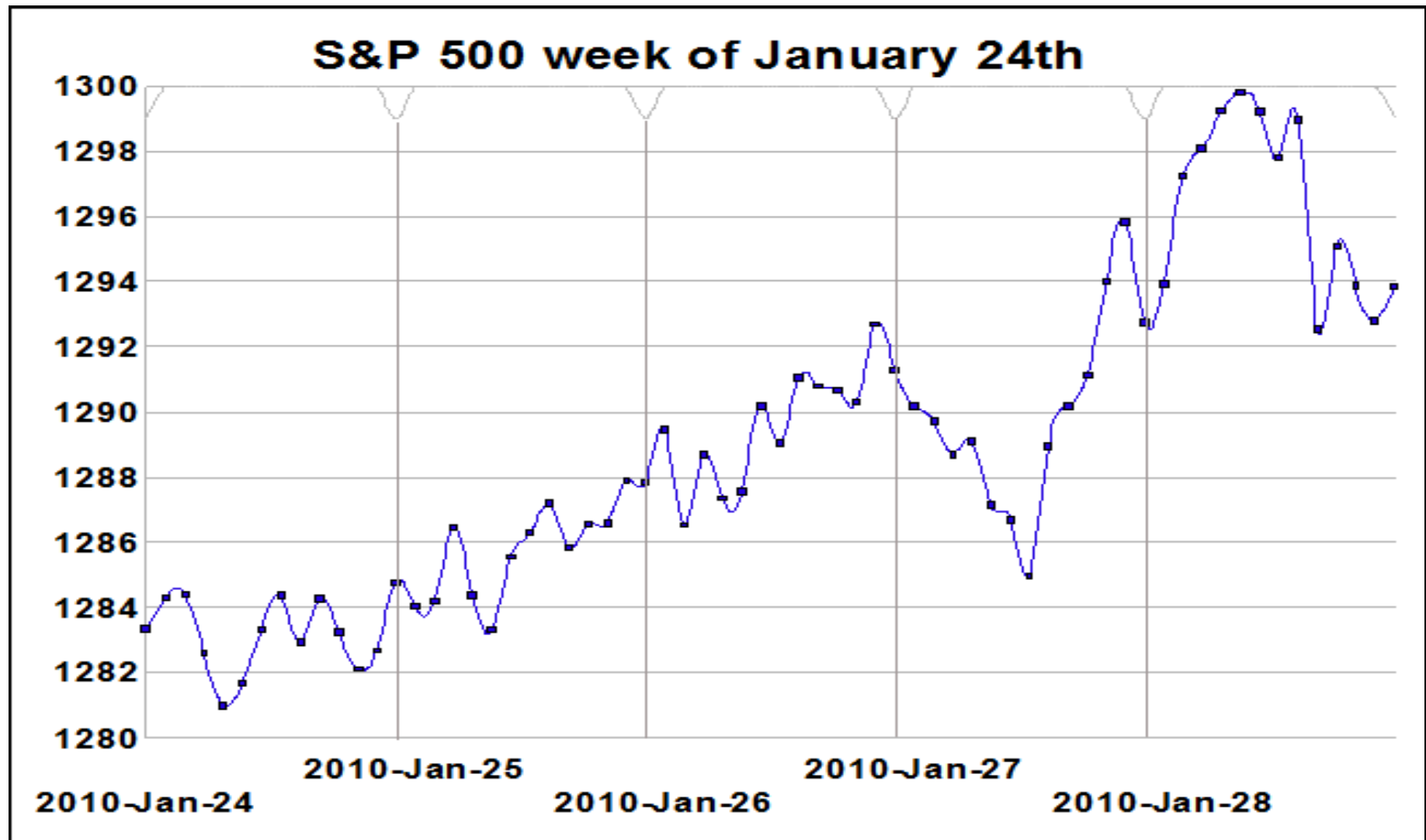
SPX – TRIN (View) - SHORT TERM

Going to 5th wave & C wave might very well coincide with Tick going to 300. Therefore on short term there could be little more room to move to +300. We have marked with red arrows Right now the ticks are +270 and below the area where highs in the SPY can occur.



NEXT ONE WEEK ON CYCLES – BULLISH

Might just be good for bounce whiles Weak sectors lag



SPX – MT - MA's & Trend lines

The last Bearish wedge failed but the Trend line has not broken , On Trend Adjusted signal still on Buy side with stop at 1273 Our Target 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) . 1280 is material resistance, and we'll look for a correction to develop then assess the market condition once this level is achieved. The 20-D and 40-D models are showing signs of turning.



SPX – TRIN (View 1) - MID TERM –

The SPY/TRIN ratio and it has reached levels 160 where in the past has stalled the market,.



SPX – TRIN (View 2) - MID TERM

The SPY/TRIN ratio separation line have turned up from last week suggests the Top is almost in (although we may get another test of highs in Dow) and hold up till February. In 2009 bottom and 2010 Tops it had a Lead and LAG of 2 weeks .



SPX – MT

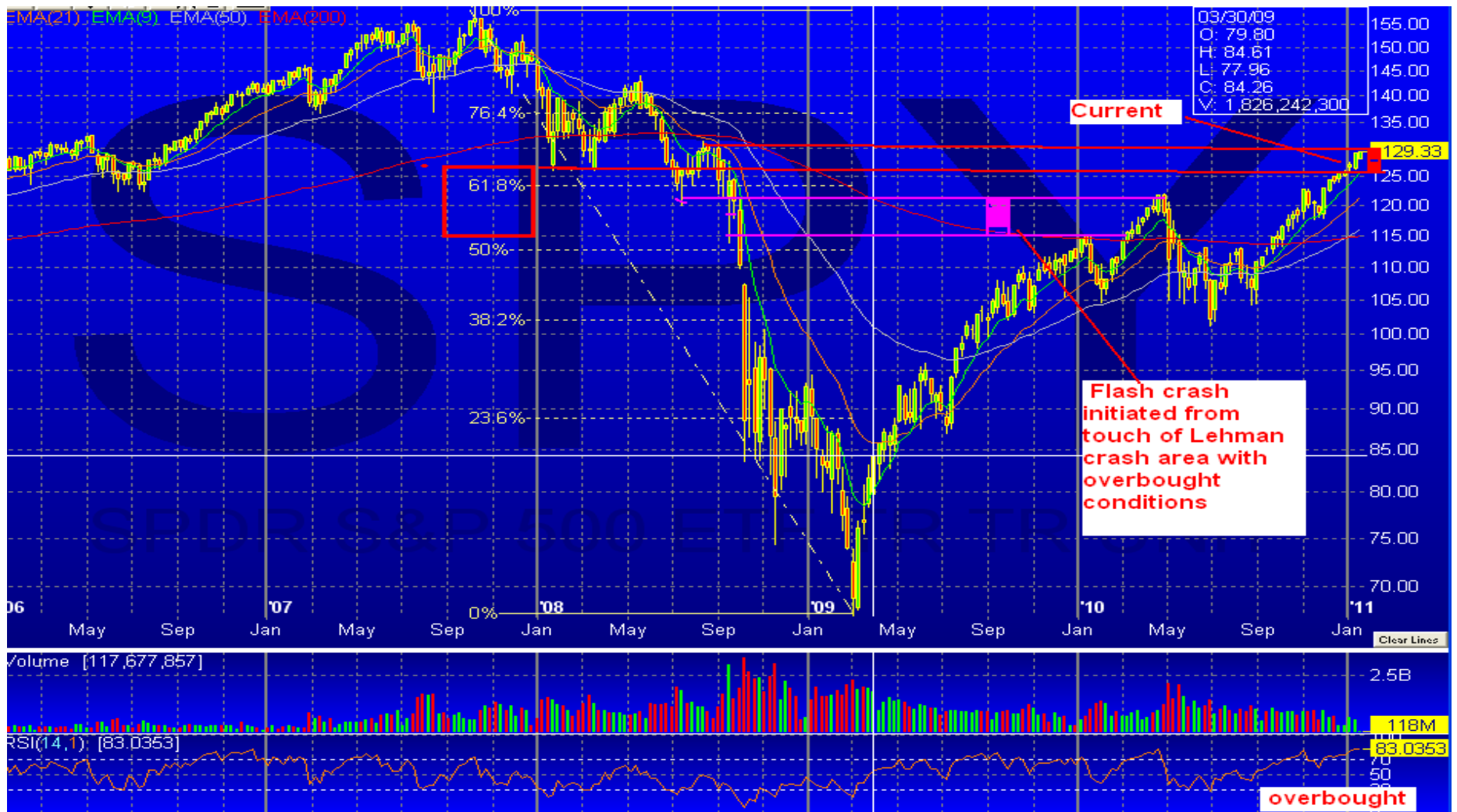
MACD has turned down & Rolled over . RSI is clearly diverging, uptrend starting to weaken a bit. Of concern are the two surrounding indicators. The inability of the MACD lines to exceed their November highs also shows loss of upside momentum. A normal pullback would bring the SPX back to 1225 in green that initial support line and the second to 2nd green. These are the strategic areas where the SMA's Trend lines and swing Swing points crosses. We will monitor the VTO and Volume study for the tests. .



SPX – LT – wkly Bigger Picture – NO CHANGE

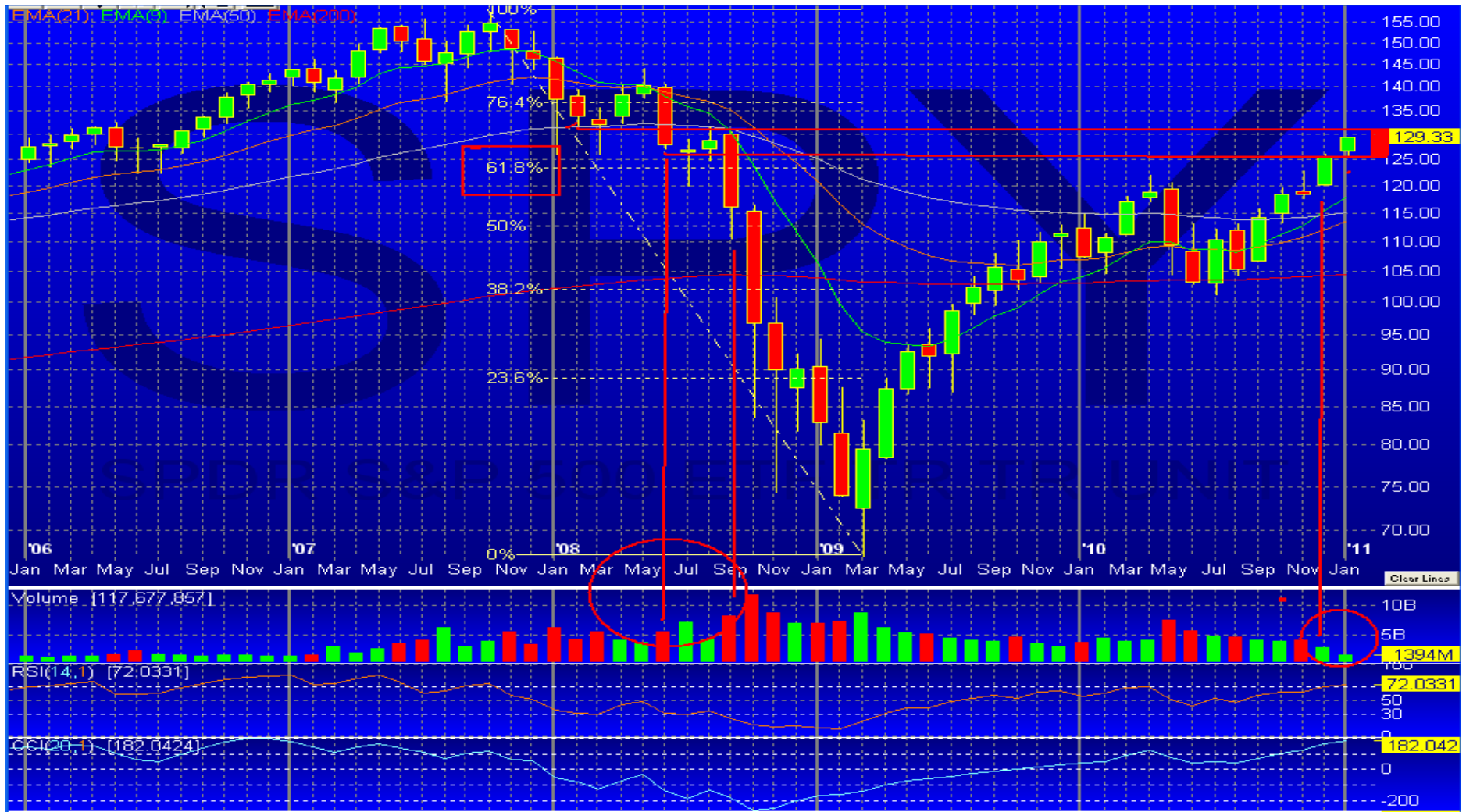
The weekly bars show the market trading at the highest level in more than two years and in a potential resistance zone marked by the early 2008 low near 1270 up to the summer high near 1280 (see lines). The S&P 500 has also retraced two-thirds of the 2007/2009 decline which often acts as a resistance level. More importantly, the RSI line on weekly (which is more critical to achieve) has reached the overbought 80 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 SPY with 150 v/s 500 v/s 325 v/s 350M v/s 600M v/s 800 M v/s 1000 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 – LT – Monthly - Bigger Picture – NO CHANGE

The Monthly RSI above 70 is very hard to achieve, we are currently in that area as indicated in red, approaching with lighter volume. The Leman Crash month is more visible here. If we close below 1280 this month, it should be rejection on monthly basis. We are in 61% retracement area which suggests the market may be trading range from 1280 to 1135 for some time .



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

NASD –

NDX cracked last week with line break indicator break , On poly trend lines suggest the risk to downside, Diverging money flow.



NYSE -

T on Money flow might be the First stoppage point , then a pull back . The 2-year anniversary of the 2009 , a Larger turn date. We are over the Right side of Critical Poly Trend line as well.



RUSSEL

Russell had high volume with Bearish engulfing and then last week Re test that & failed , it gave few warning signs, part of topping process within CZ of PQV price criteria that was triggered. .



- Sector Analysis for SPX – POM clues – BKX, SMH (2 lead Sectors)

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. It triggered the CZ / PQV zone , Similar to GDX – 4 weeks ago before its fall.



• 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

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.*
- *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*
- *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%	

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

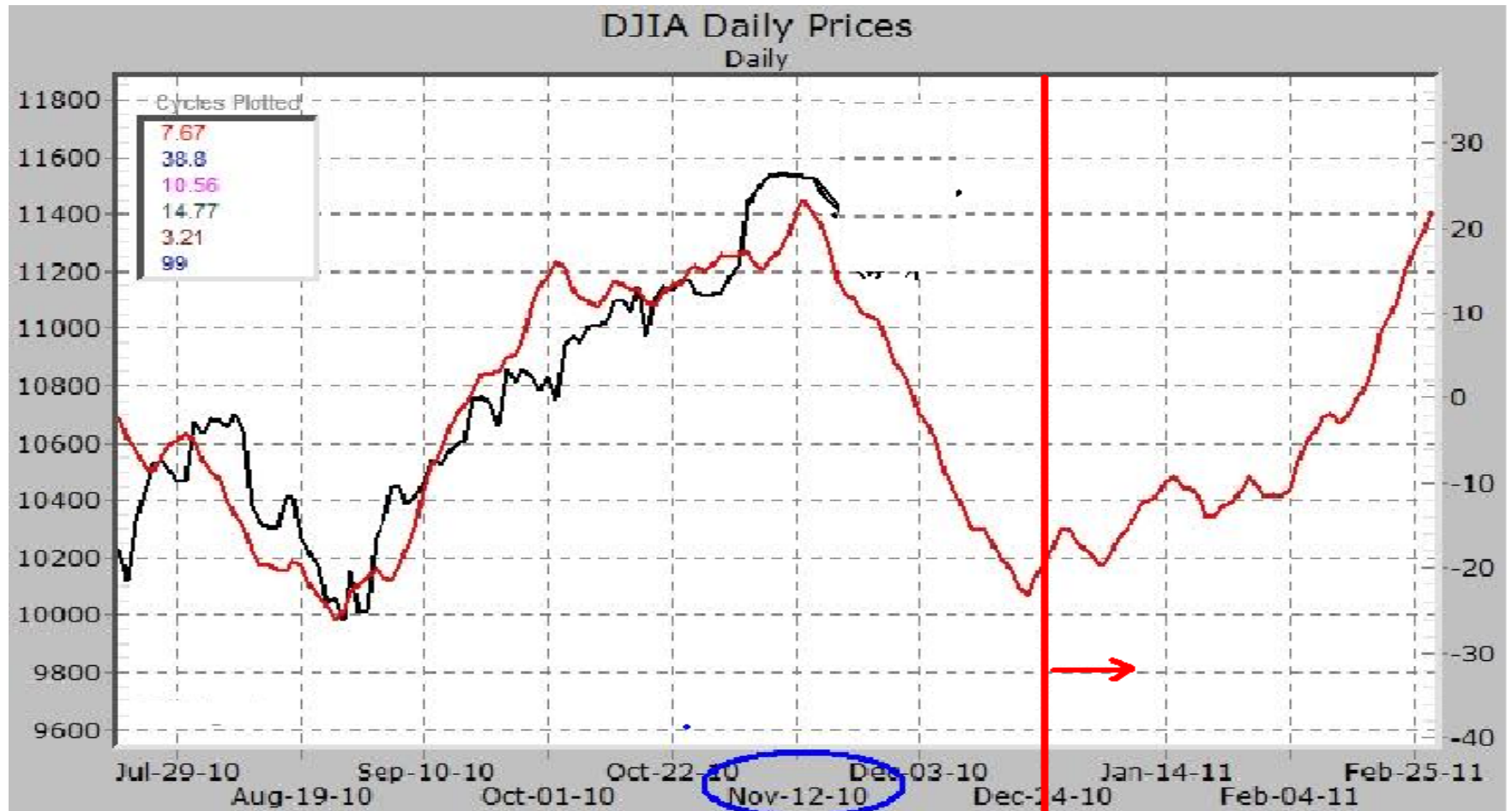
If you look at the model on a long term basis, it also provides a very good outline of what should happen (not always what will happen) over a period of months (We will retain this chart and monitor with SPX)



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

(We will retain this chart and monitor with SPX)

NEXT TWO MONTHSON CYCLES - BULLISH



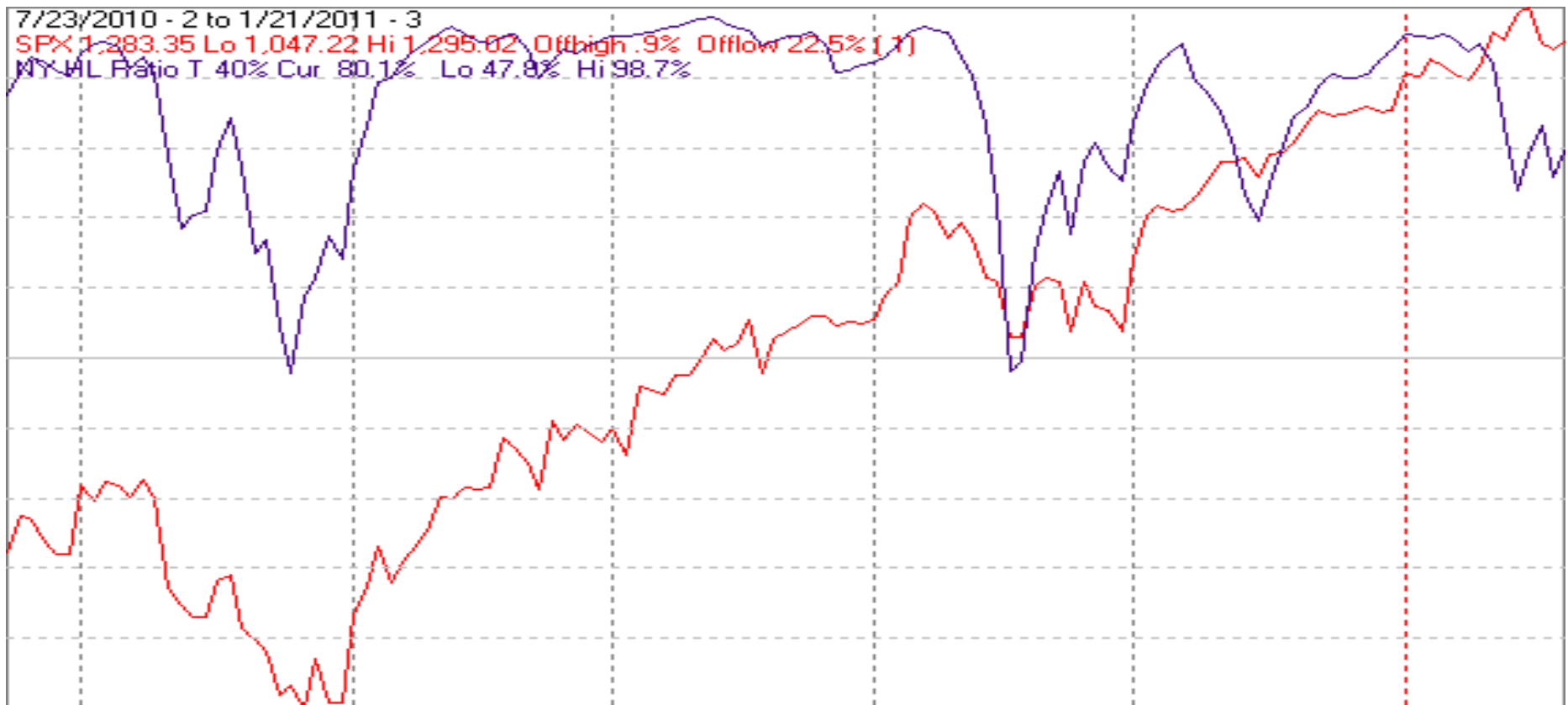
- Advance / Decline Internal behavior Analysis

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...

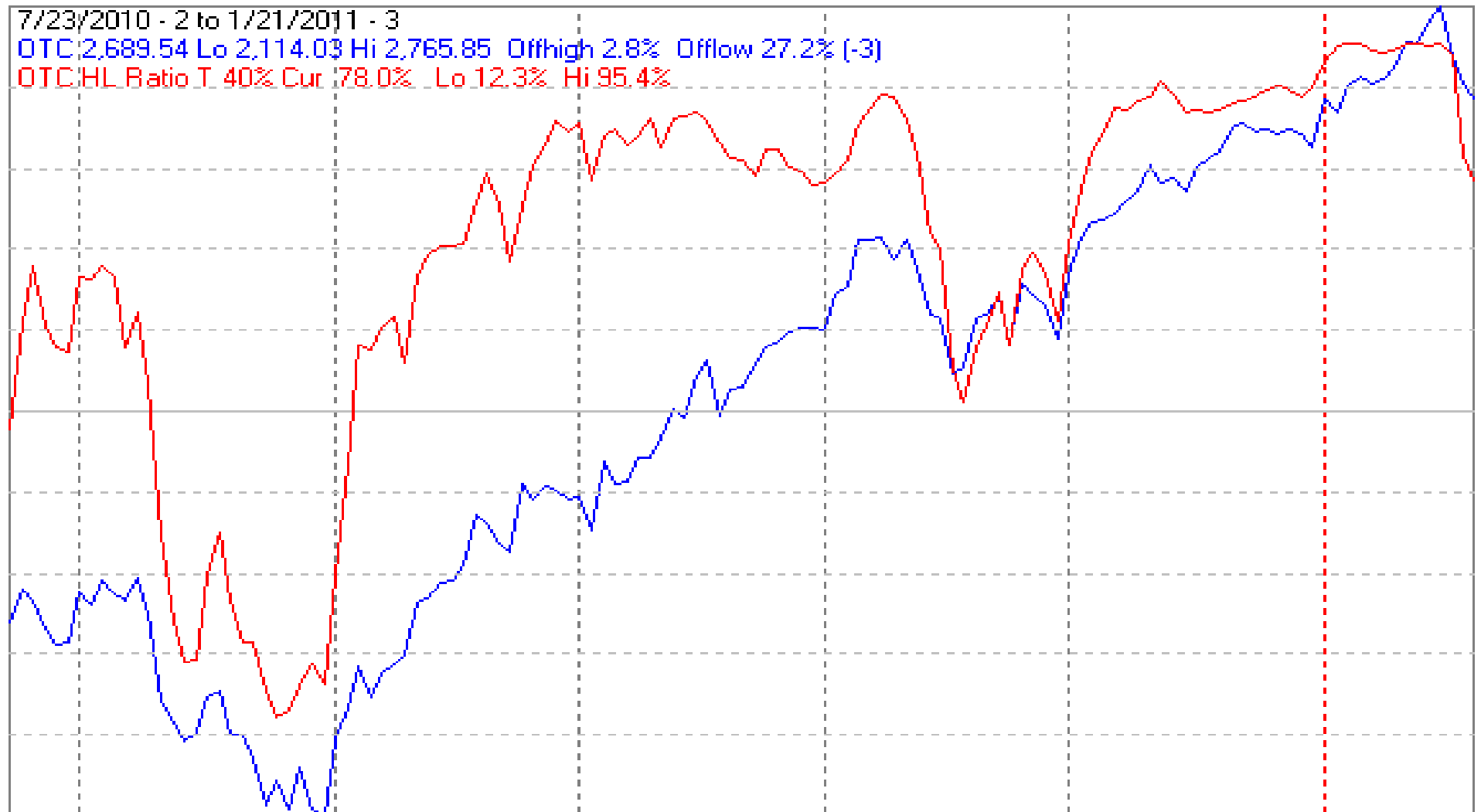
(METHOD 1 – Excluding the Bonds, ETF's and **Large cap Equally weighted)**

The chart below covers, showing the SPX in red and trend of NYSE new highs: Low Ratio (NY HL) in Blue. NY HL moved sharply lower last week.



NASD (OTC) – AD Price line - . NON-CONFIRMATIONS IN NASD BREADTH...

NASD doesn't have ETF and Bond funds , Equally weighted AD line . The multi month high in NASD, HL is significant because this indicator has a decidedly negative bias.



- **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.**

VIX – This is very significant

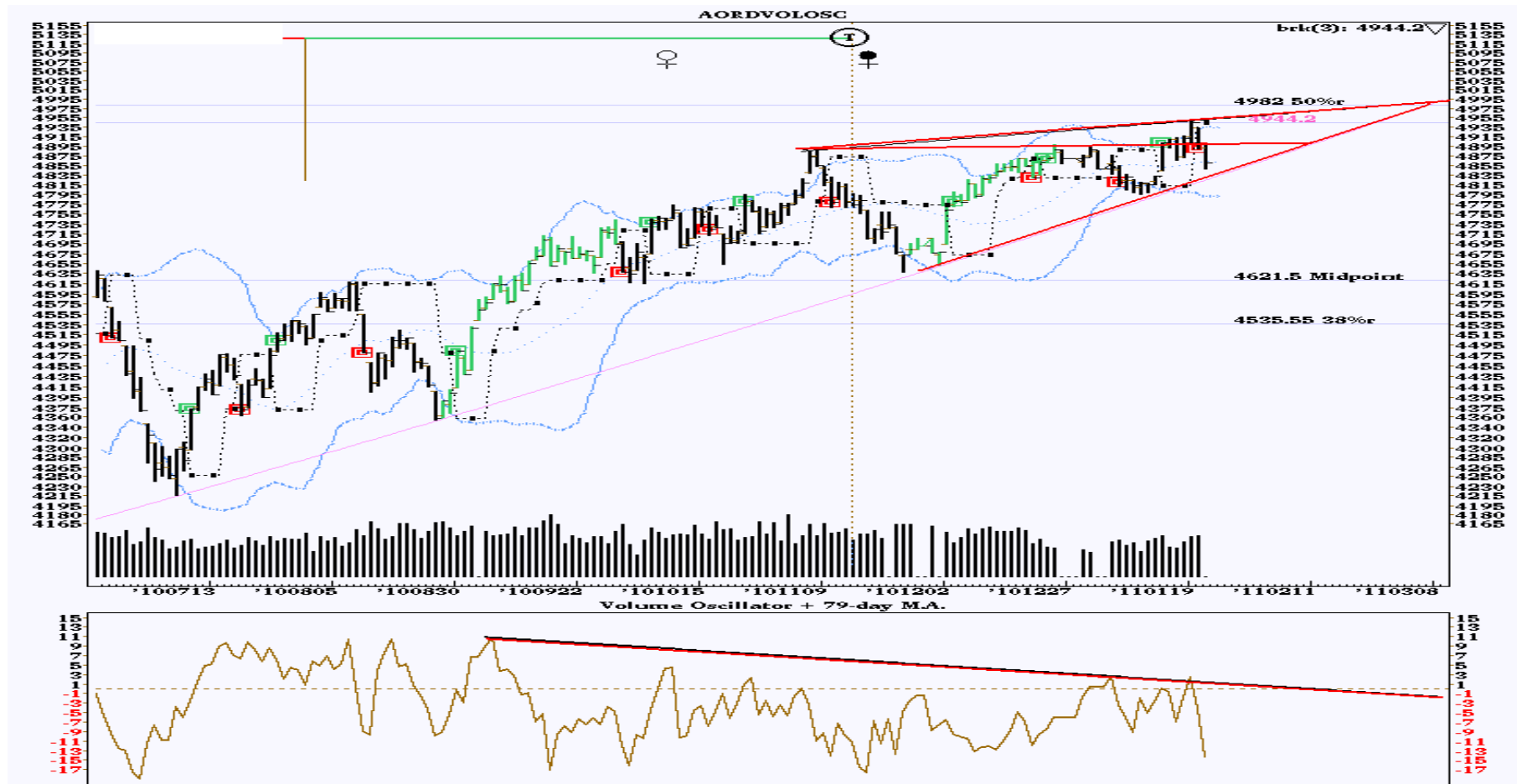
VIX Broke out with sign of strength after several bottom tests. Since October, the VIX index with sentiment of options players, has been in the zone of extreme low fear seen at each of the rally peaks, see last April peak and in the last two weeks declined to the lower limit of that zone. But it is at levels where the risk is high, especially when combined with the unusually overbought condition.



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

AORD

EWA should be reaching the CZ. This market is double topping. If pressed, we'd have to say that a bounce off the support line is expected, followed by a rally. The lines imply a diagonal triangle with a collapse ahead once the pattern is broken.



.CHINA - MID TERM

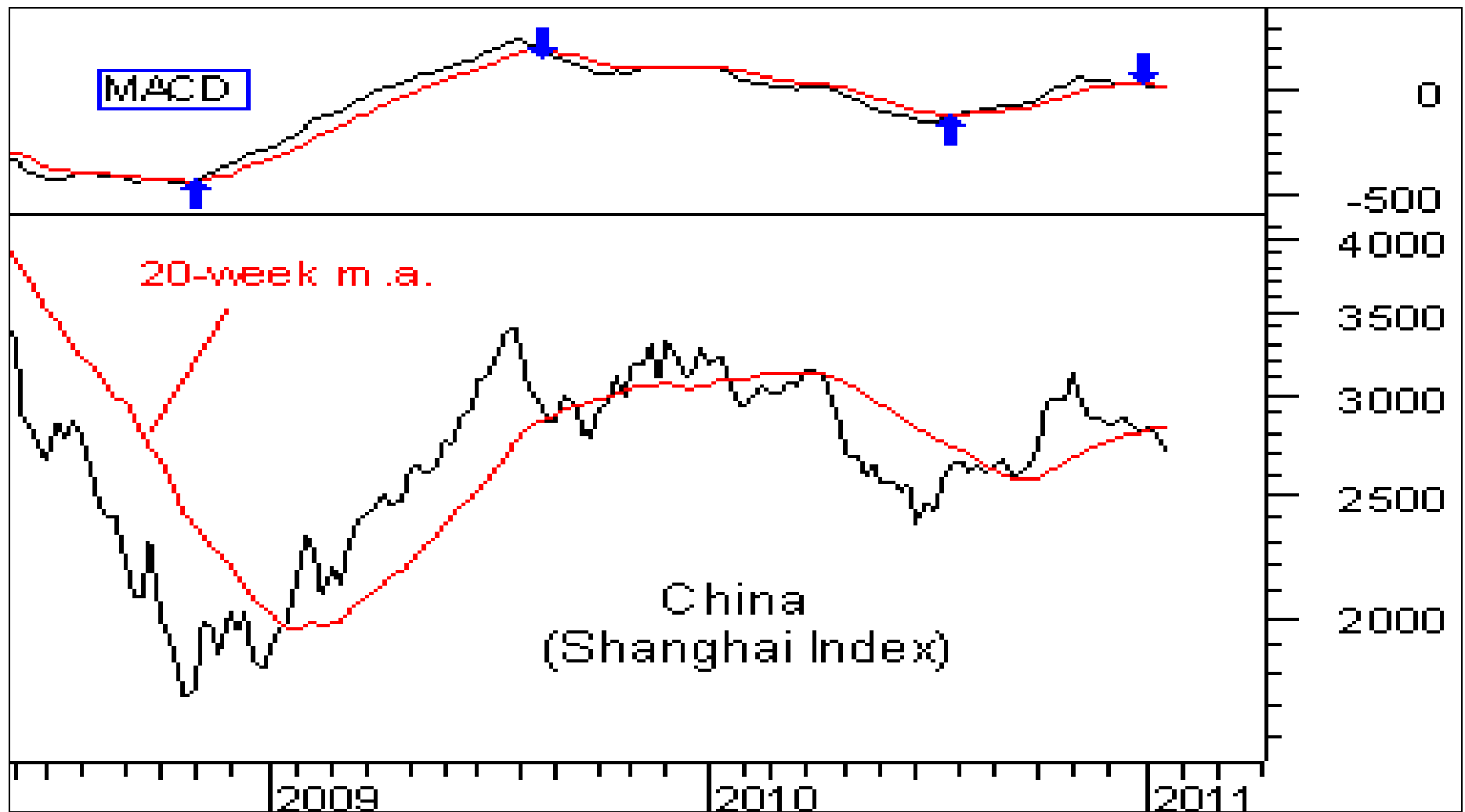
50 % Bounce is still a Bear Market . Shanghai has been very weak recently, At a critical point at 2950 , Converging trend lines & EMA's produces a formidable resistance . We have EWH at the CZ – PQV to capitalize on this move.

SSEC remains in a descending channel as it approaches a support line. China's economy is on thin ice with inflation out of control



CHINA - MID TERM

MACD has rolled over and Index broke the 21 D on heavy volume, any bounce back to 21 D to fail



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

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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