



SG Capital Research

Global Market Insights

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

MAEG- MARKET STRATEGY INTERIM UPDATE # SG 2011 # JAN 06

For Immediate Release – *Thursday AM (EST)*

By: Suneil R Pavse

Contact: apavse@aol.com

Market Strategy Global (A # 2) - SPX – Closed @ 1276

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
- SPX – ST,MT,LT
- FXE
- VXX v/s SPX
- A/D Line
- Put / Call Ratio
- TLT
- 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) –
- EEA – PQV Analysis (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.

- **Trading & Investment Conclusions**

- *Post POM 14 (SPX 1104) - We recommend Fully Hedged positions for Longs 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) .*
- *No Net Short Position" till POM 15 Re- run is triggered.*
- *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

- *Our post POM 14 move in SPX has been extended. We are seeing signs of POM 15 and extensions especially NASD / IWM and confirmed POM 15 for on SLV stocks.*
- *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)*
- *Due to seasonality 1160- 1150 SPX may hold first time around for the bounce.*

• 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 @ 1269 (Revised) SPX & DOW 11650 (Revised).

- **Insights**

- ***Post POM 14, Our “ Momentum Break Indicator has been on Long side on Trend Adjusted Signal 3X3 / 9EMA” twice. First, 1105 TO 1193 (8% move) and then in current trend from 1228 to 1276 (4% move) . We will stop this position at 1269.***
- ***On POM 14 basis current situation requires Fully Hedged position with Setup 2 stocks accumulations***
- ***Based on our market read the bigger picture shows the first turn will come in January with mild correction then snap back rally into February, followed by severe correction.***
- ***Our assumption last week was the first few days of January as a potentially " Bull trap" as the market tends to make trend changes in January due to forecasts for the entire year affecting near term positioning.,***
- ***Lehman pre crash Price in SPX 1250-1280 that we have been indicating for while, finally has been reached at the upper end of that Zone. We could very well trigger POM 15 for Net Short on its break***
- ***Today 6th January , Venus changes sign , square with Neptune, in trine with Uranus, and in trine with Jupiter;***
- ***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***
- ***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***
- ***Euro still seem to be the cover story for us for time being to monitor the close correlation with commodity and SPX***

Cont

- ***On very short term - The pattern diagonal triangle on Hrly chart . - We had the 3rd one completed as per our assumption and completion of the Wave 5 (hrly) as indicated last week.***
- ***This market is showing telltale signs of breaking down and they are coming from the broad market, Looking the Russell and Midcap, cracked below last weeks lows on heavy volume. As they say .. the "troops" are in retreat. It indicates that the correction we've been looking for has already gotten underway internally , but not in the whole market yet. (especially the Generals SPX, DOW). Timing wise, this correction is likely to not do a lot of price damage to the market in first pull back (unless we have another Flash crash) , so the risk-reward of a Net Short position comes in after the first break and failing rally.***

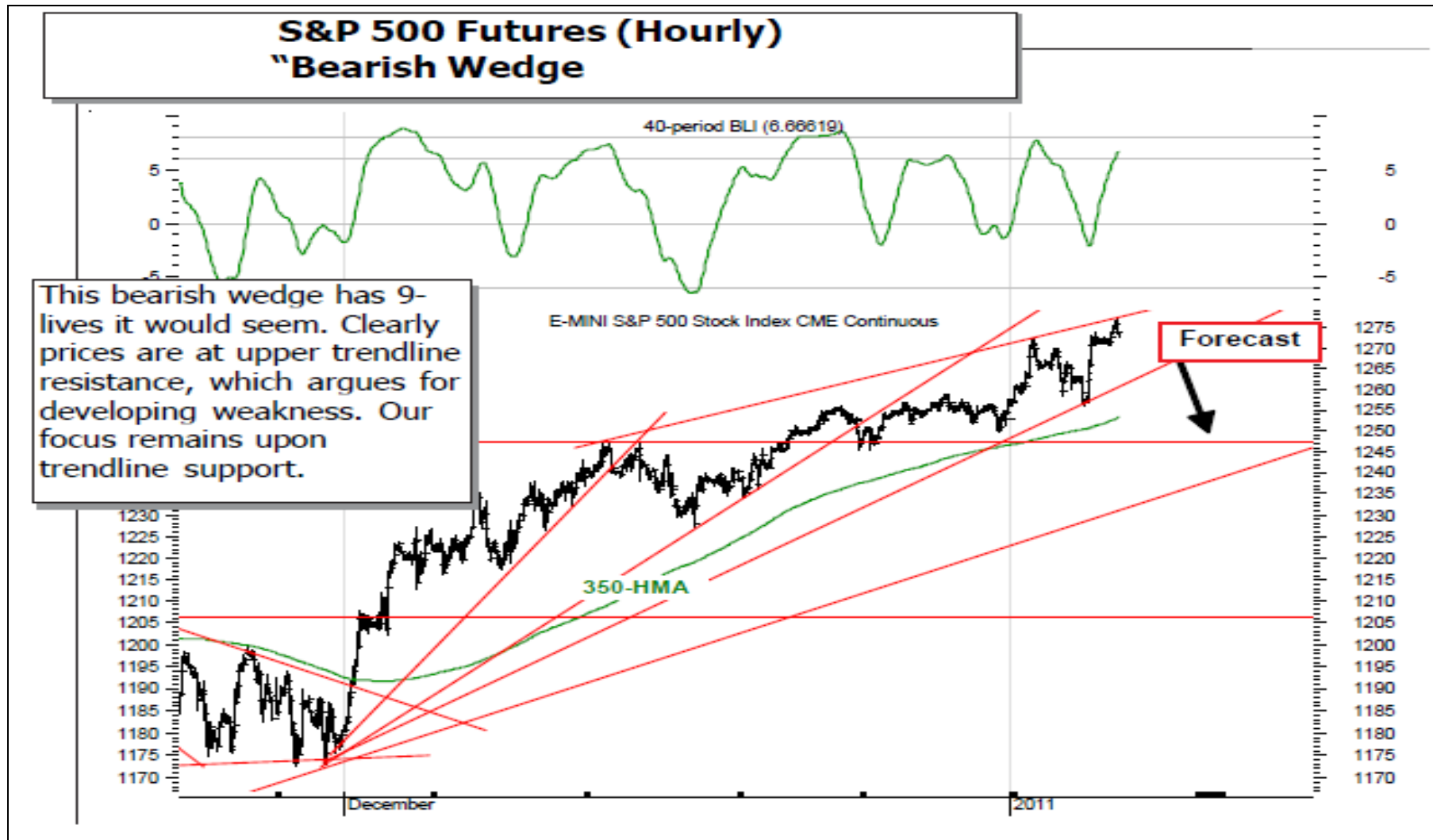
FXE

(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 oversold conditions can give way to a bounce, they are usually part of a bigger downtrend. 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 be 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.



SPX - Hourly

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 1260 on snap back (20 point)s quickly just similar to last time as ST indicators suggests . Watch the trend 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.



SPX – LT

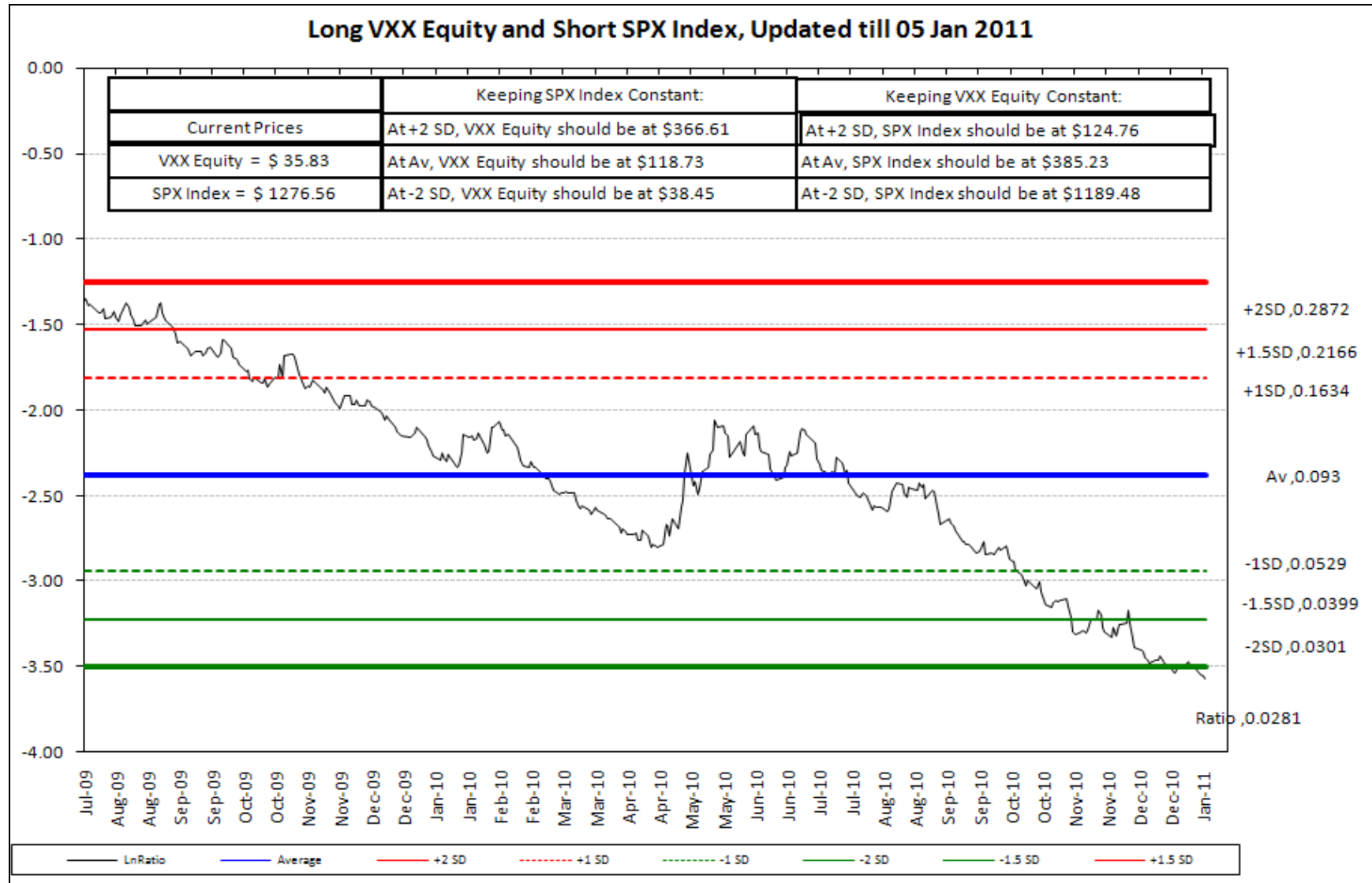
The weekly bars show the market trading at the highest level in more than two years and in a potential resistance zone marked by the early 2008 low near 1270 up to the summer high near 1280 (see lines). The S&P 500 has also retraced two-thirds of the 2007/2009 decline which often acts as a resistance level. More importantly, the RSI line on weekly (which is more critical to achieve) has reached the overbought 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 SPY with 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.



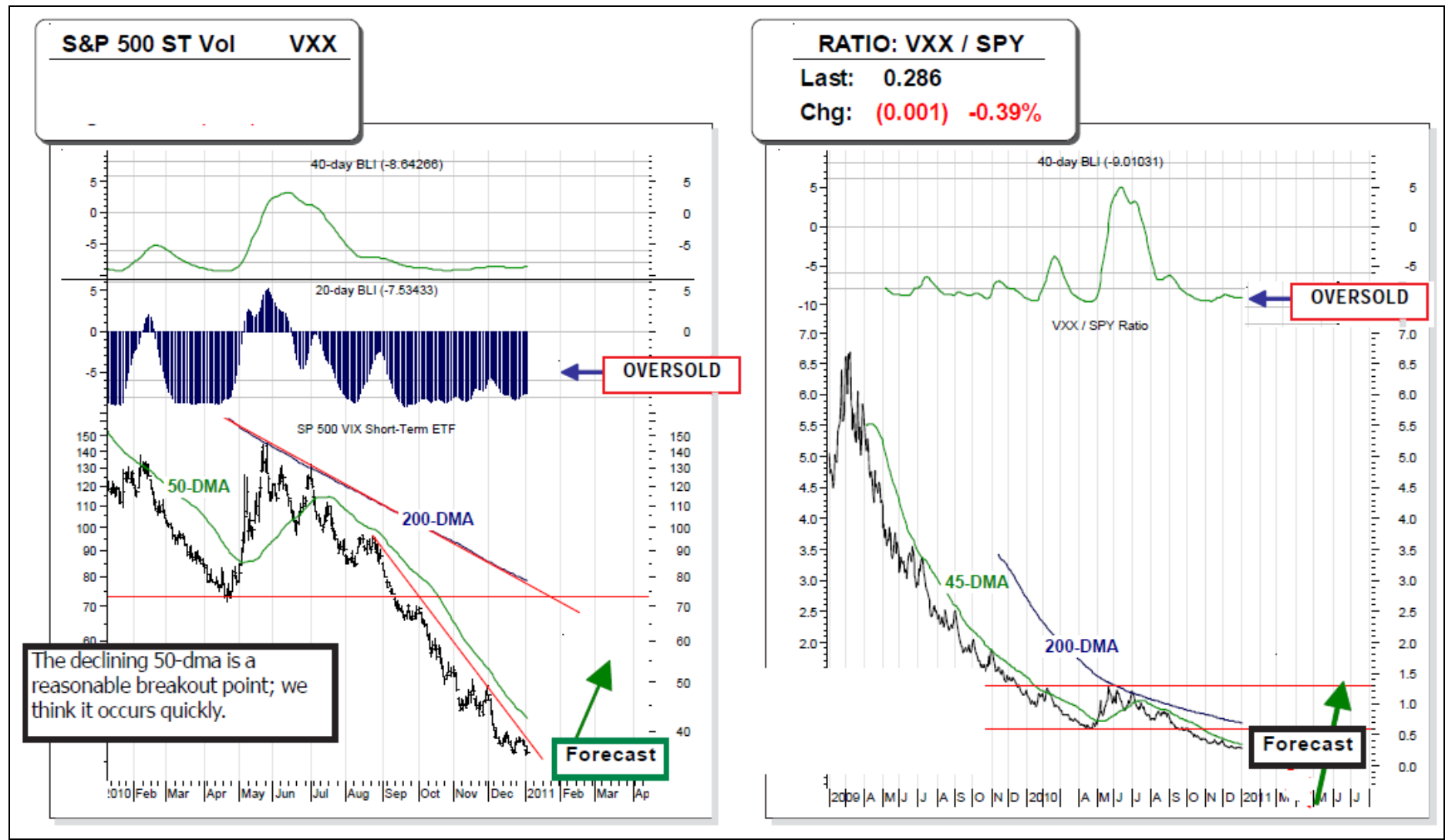
VXX v/s SPY - This volatility ETF is @ -2 SD

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



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

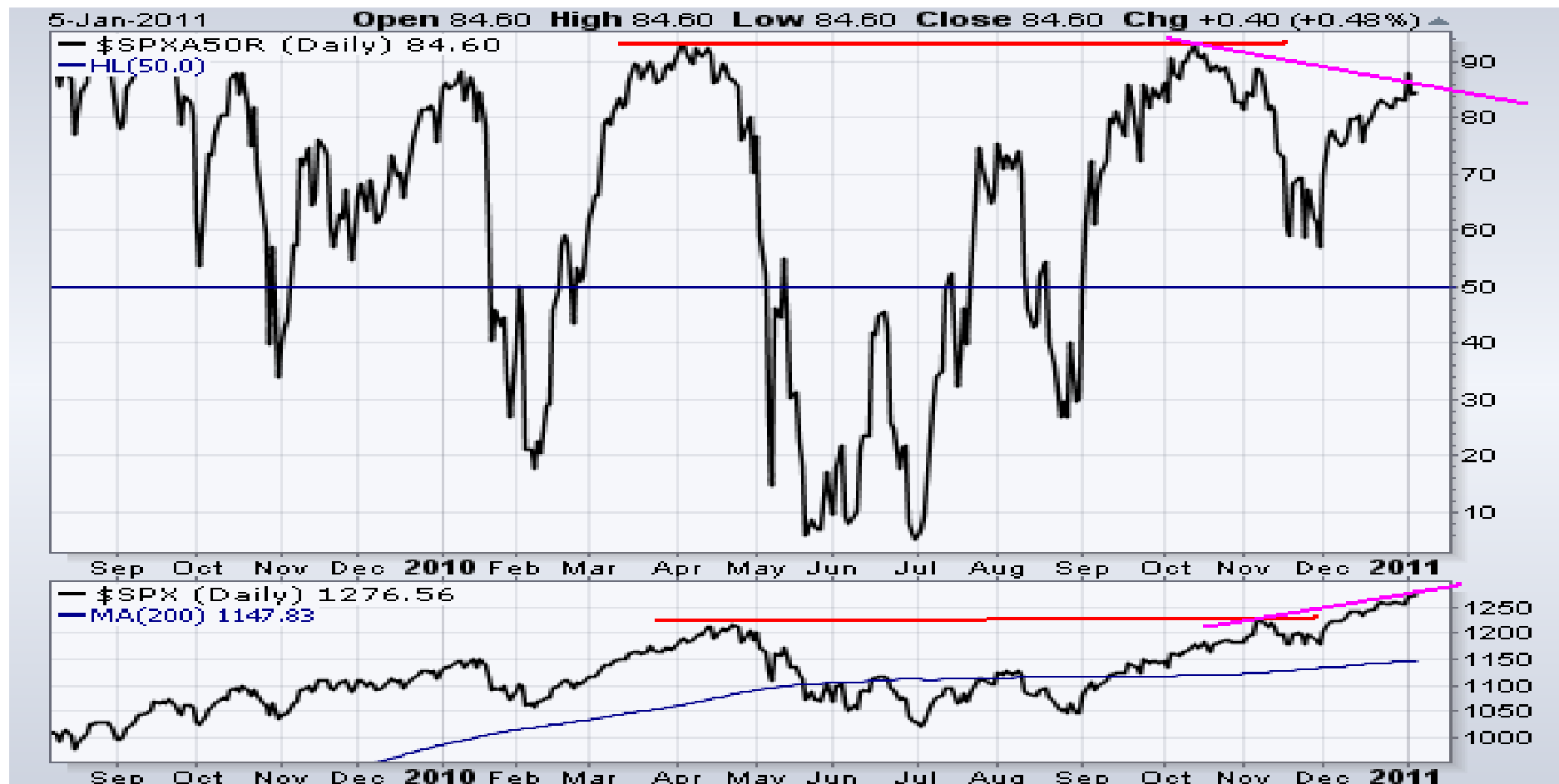
PUT/CALL RATIO BOUNCES FROM BULLISH EXTREME... the 5-day EMA for the CBOE Total Put/Call Ratio. A dip below .75 shows excessive call volume or bullishness. The red dotted lines show the 5-day EMA moving back above .75 and There was a double dip (see green lines) that would warrant caution as Market moves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



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



- **TLT - Weekly- 3 Year with RSI, CCI, MACD**
(11 W / 40 W SMA)

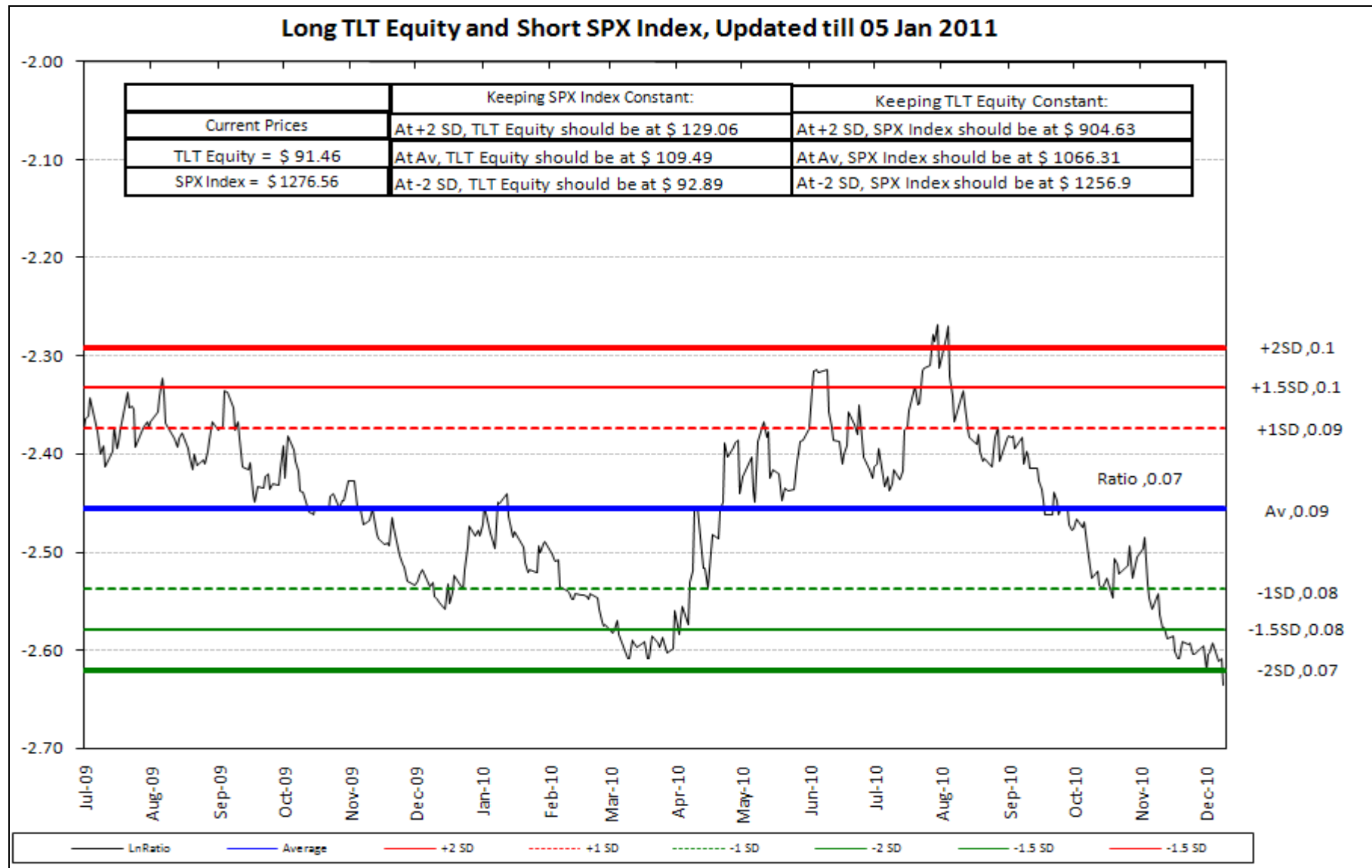


TLT - Daily - 3 Year with RSI, CCI, MACD (11D / 55D)



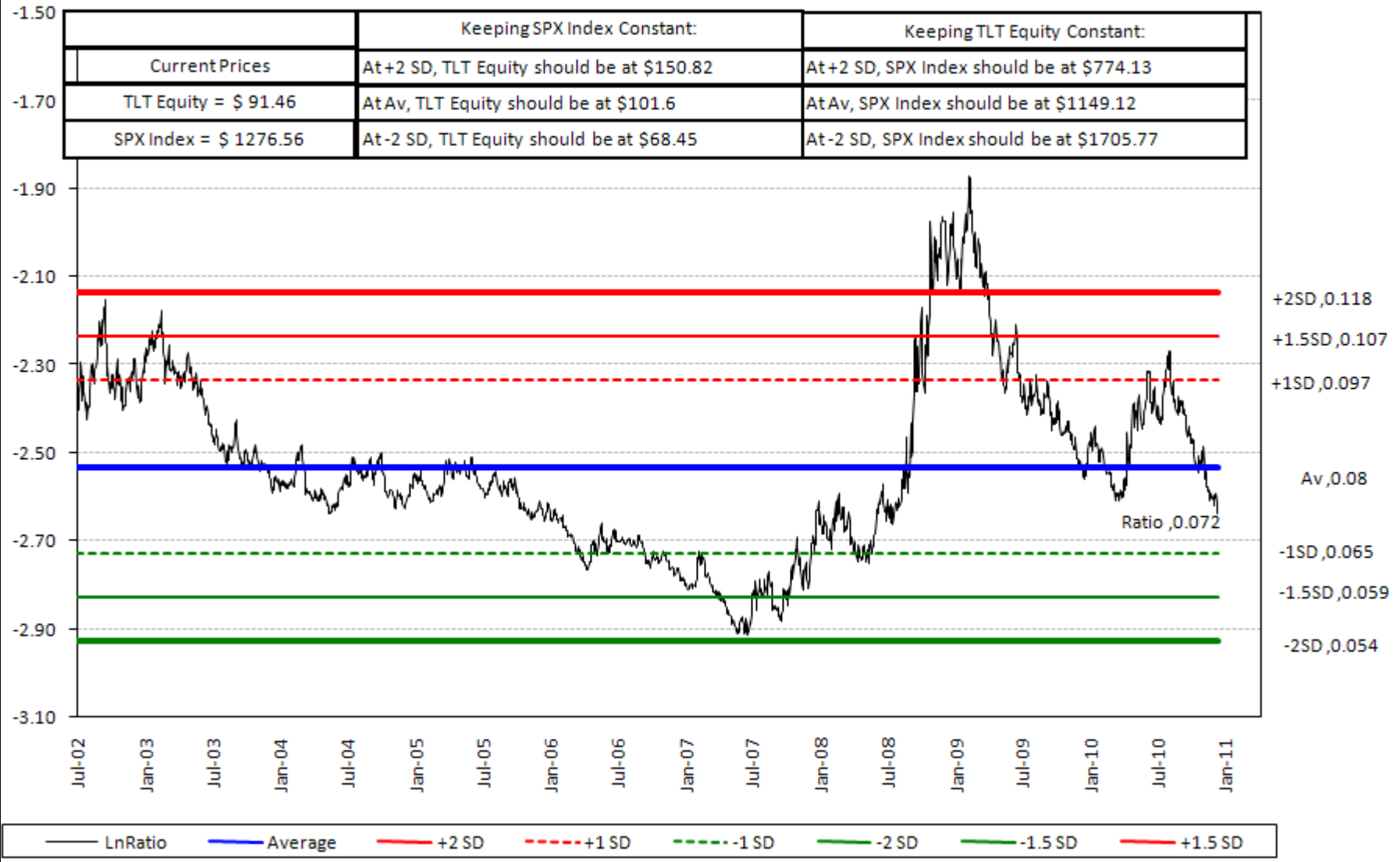
TLT – Correlation Ratio Analysis with SPX – 365 days Time basis

**We were watching this carefully for SD# - 2 , for undervaluation Zone
(MONITORING CZ –PQV in Sector Report)**



TLT – Correlation Ratio Analysis with SPX – Full Period

Long TLT Equity and Short SPX Index, Updated till 05 Jan 2011, FULL PERIOD ANALYSIS



2 – US BONDS- PEC Analysis

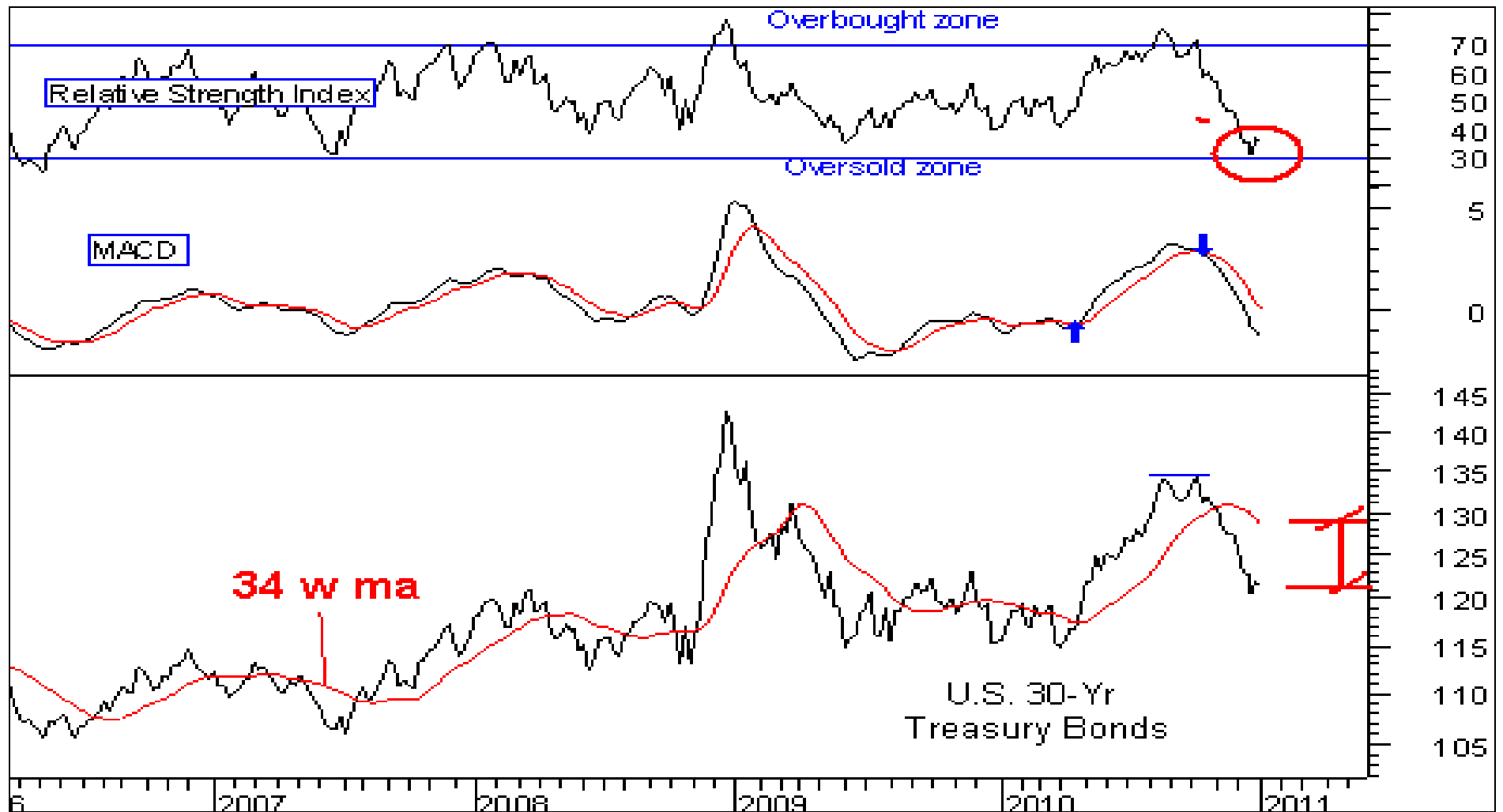
PEC D – Target on TLT has reached 119 (completing a 0.786 retracement) . Overall, bonds appear to be oversold and are due for a rally. if SD # 2 & POM 's lines up , We may re visit this market on buy side with TLT.

Our first PEC D point came in at 107 with Extreme “ Bullish Sentiment “ and that marked the Top with Triangular formation,



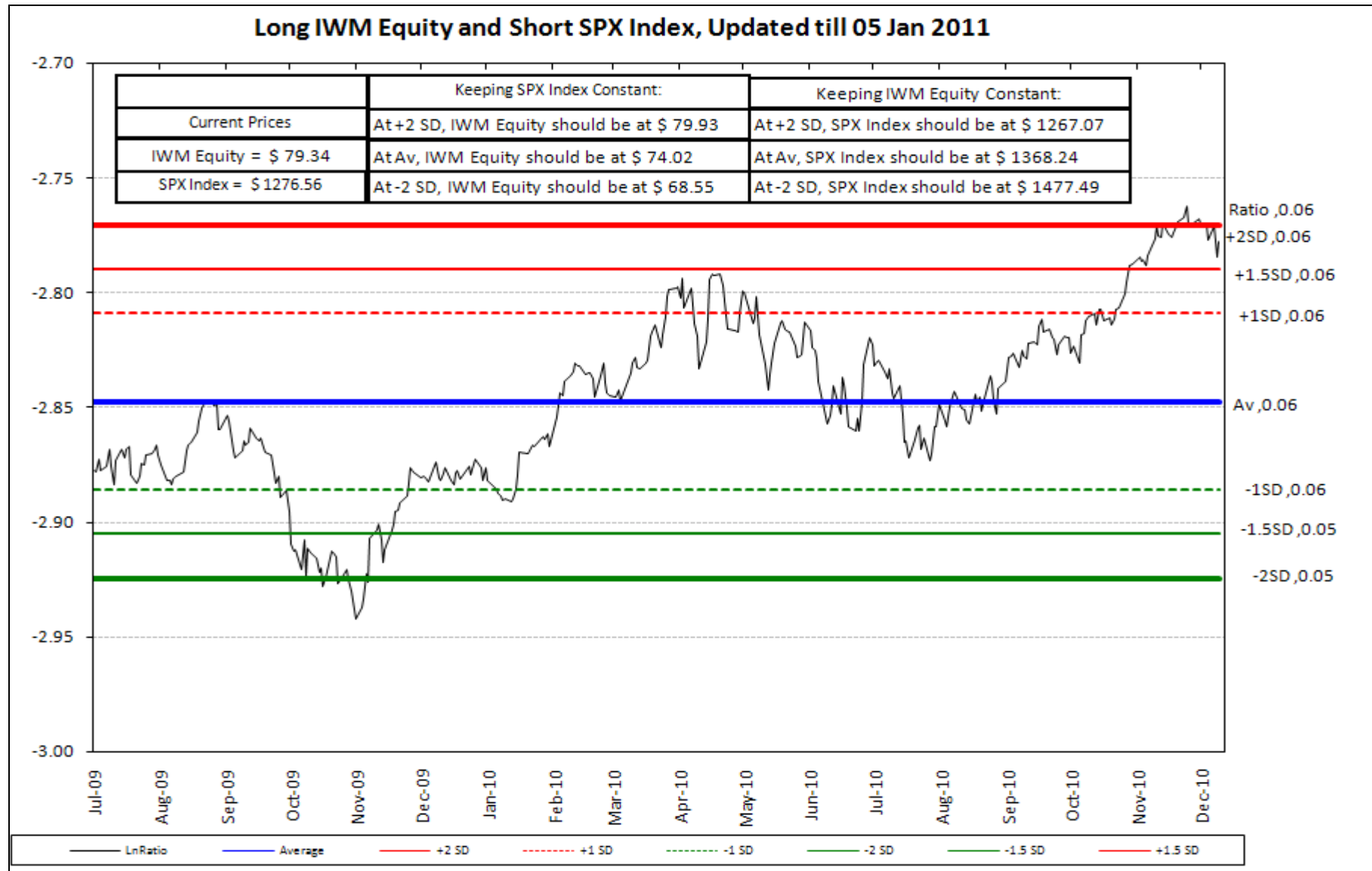
2 – US BONDS- POM – ST - Price , Volume & Pattern Analysis (MONITORING CZ – PQV)

Bonds have become quite oversold beneath their 34-week m.a. and the Relative Strength Index on bonds has just about reached its oversold zone. So we are watching closely in CZ – PQV



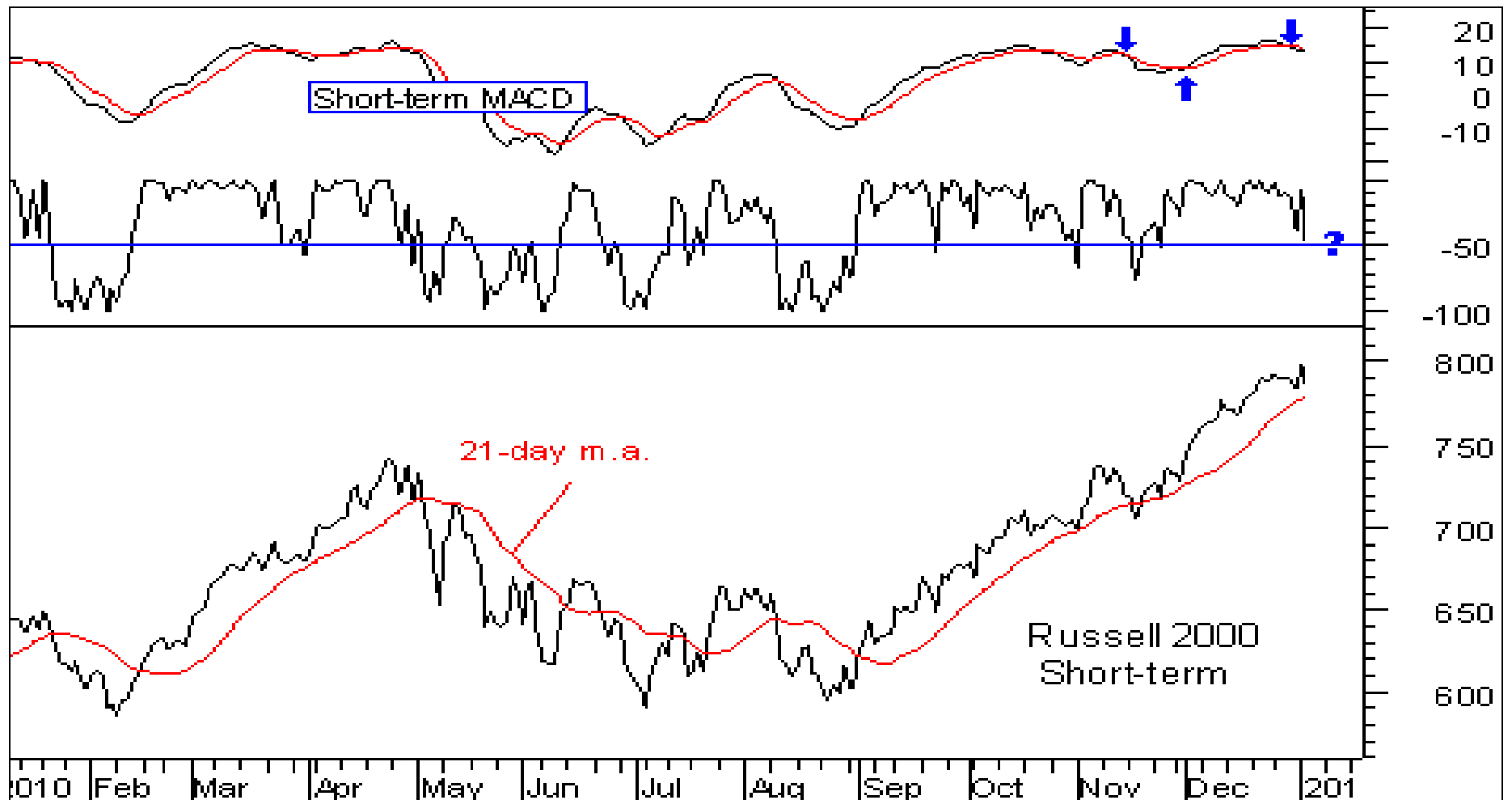
IWM – Correlation Ratio Analysis with SPX – 365 days Time basis

Is at SD# +2.0, for overvaluation



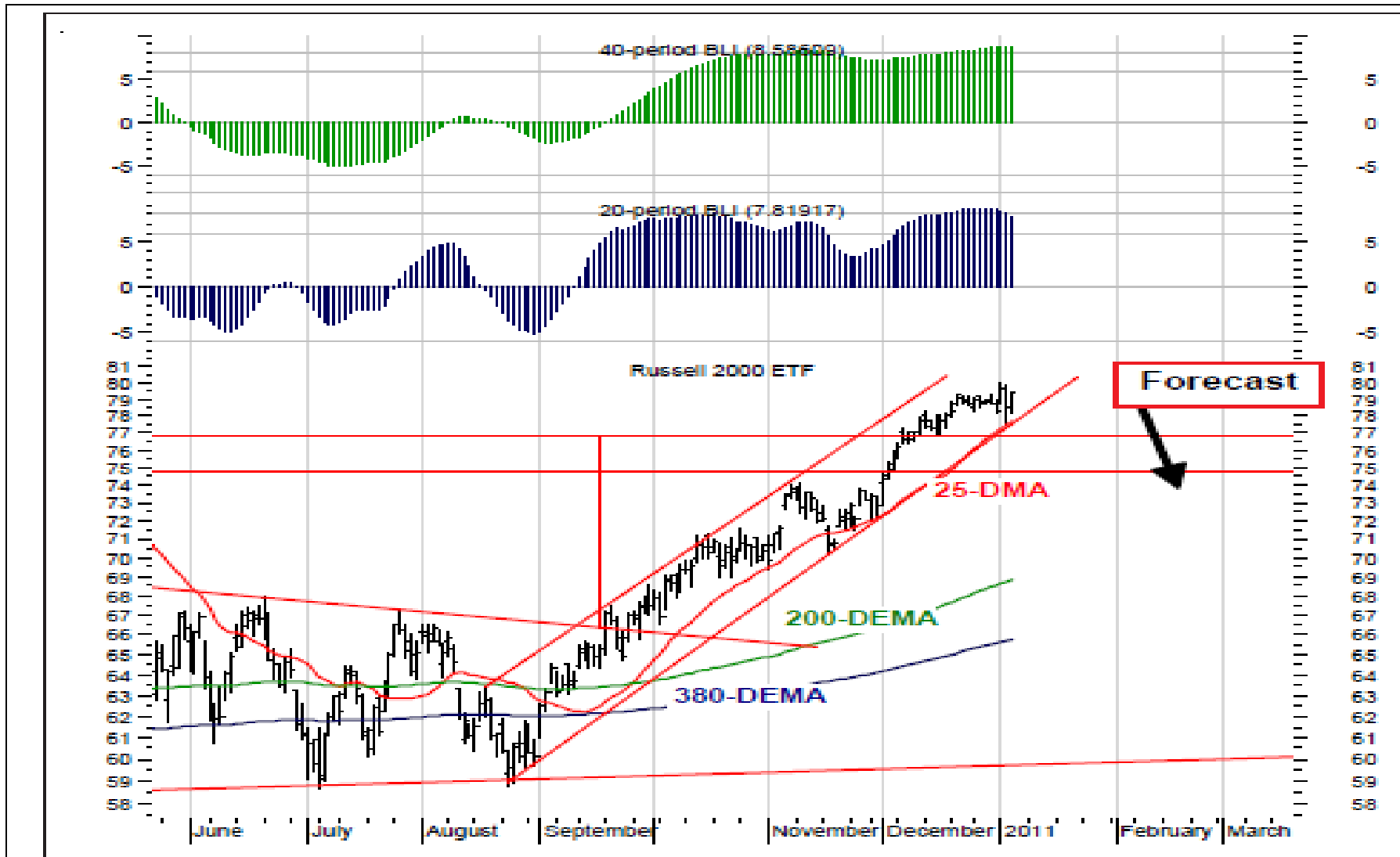
RUSSELL

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 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



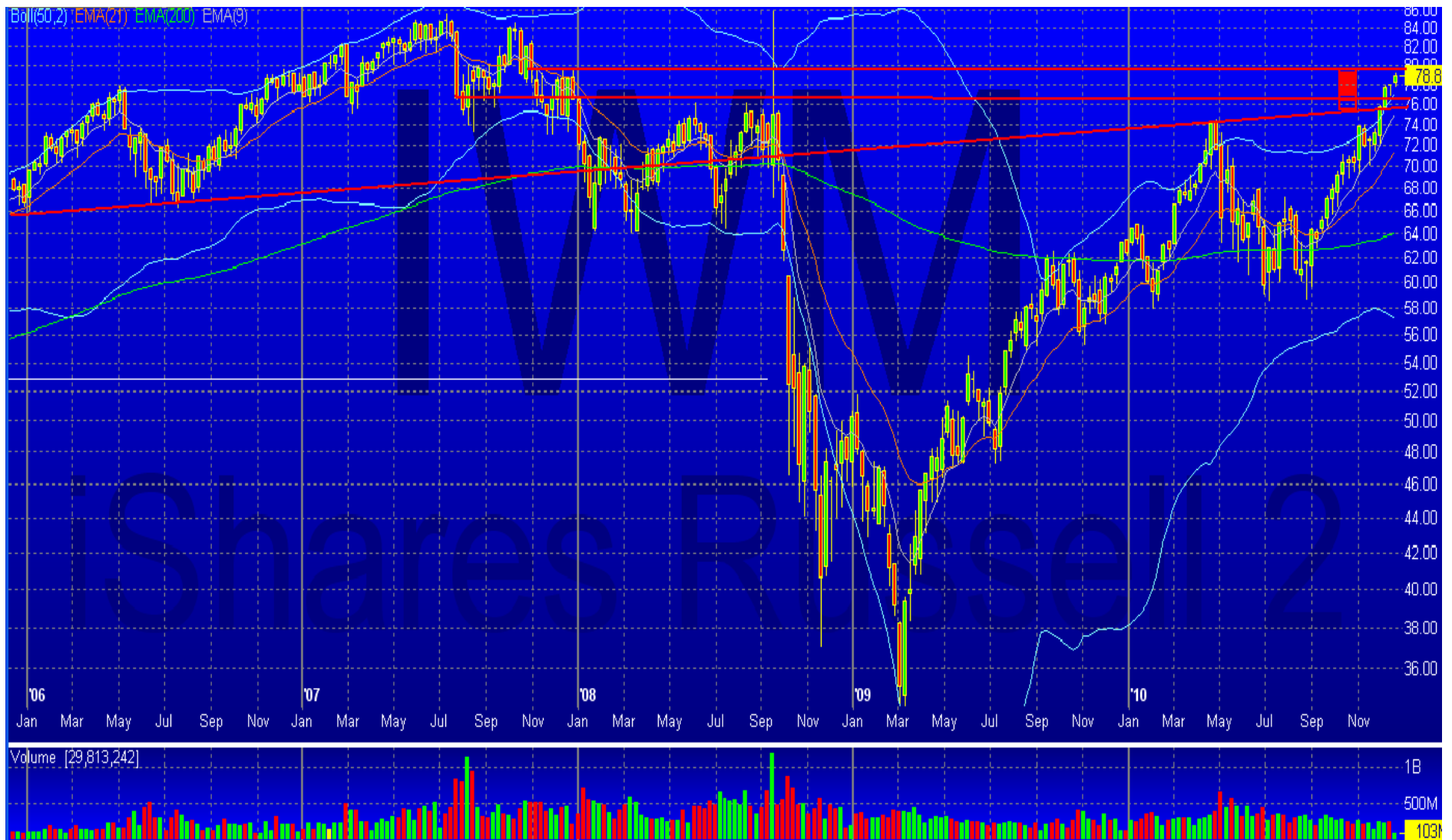
RUSSELL

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



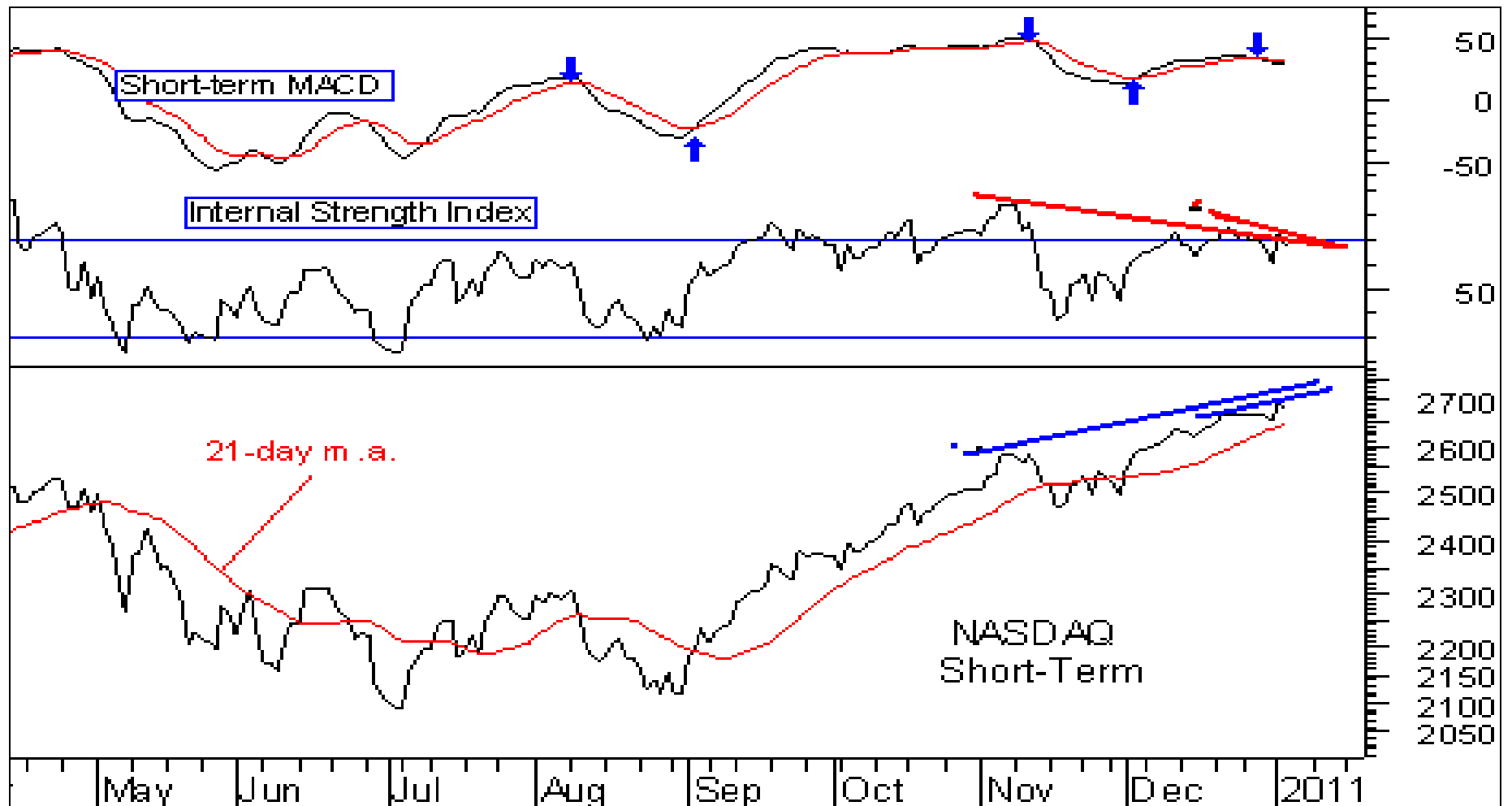
IWM- POM – LT - Price , Volume & Pattern Analysis - (MONITORING CZ –PQV)

IWM did not validate the PQV – CZ test in first get go and got extended with heavier volume then our benchmark. Currently it is testing 2008 Jan breakdown area & 2008 highs of Sept an its derived CZ of 76.50 – 80.00 (currently it is in the zone) and test with 175 M and weekly close under 77 (Revised) should be a good test If SPX declines this will follow.



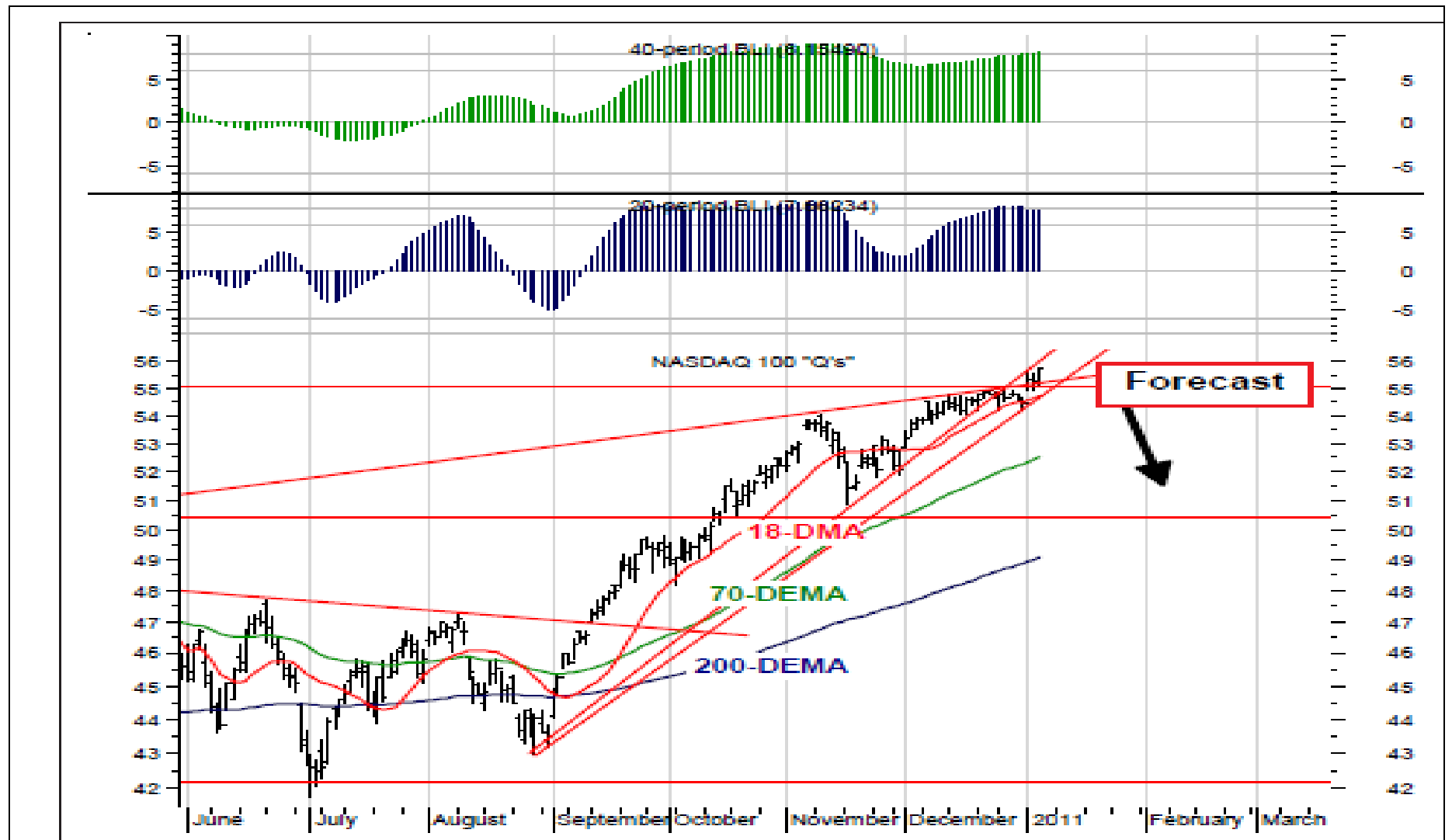
QQQQQ

MACD has triggered, RSI in two time frames showing divergences . So we are watching closely in CZ – PQV in Sector Report



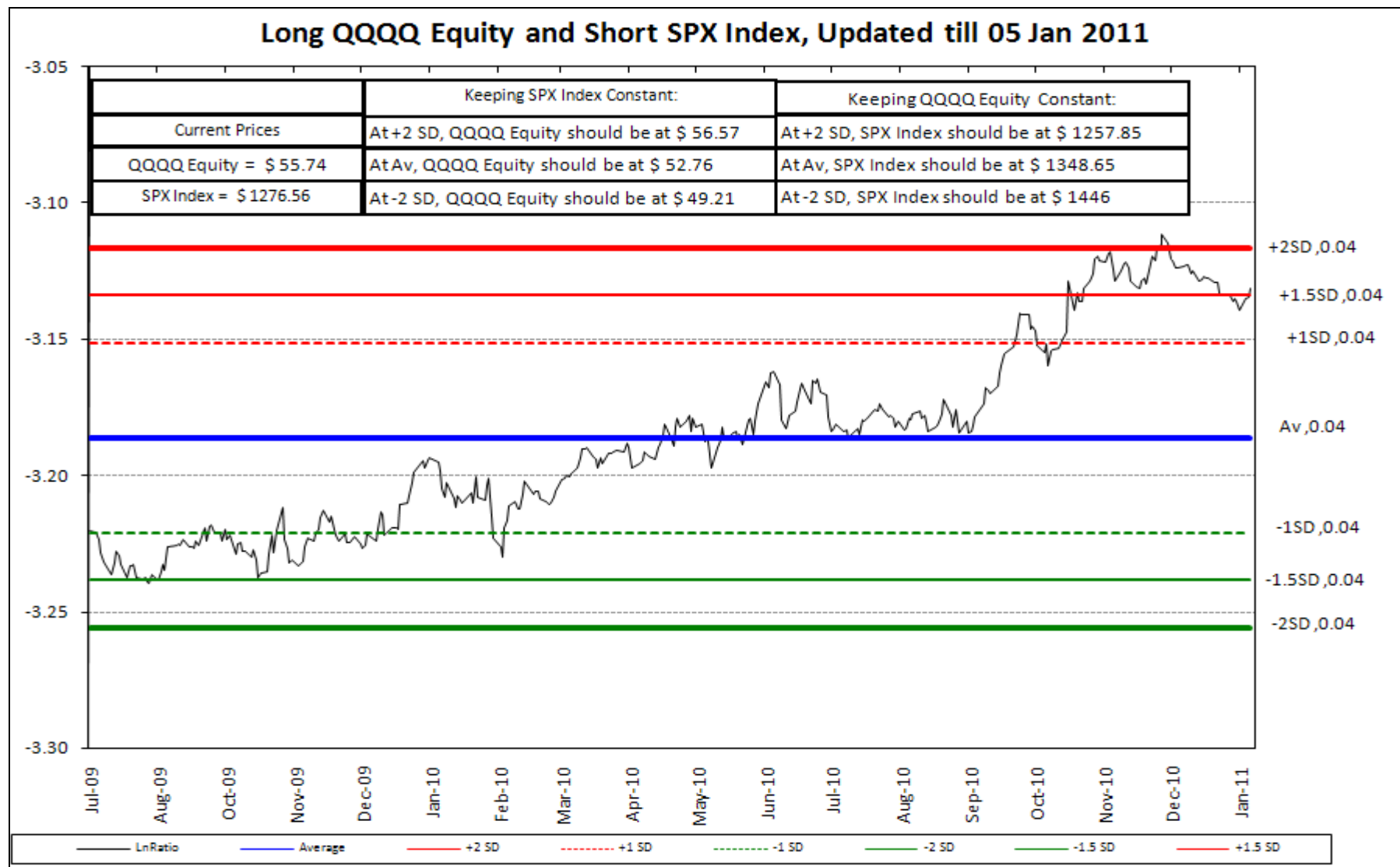
QQQQ

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



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

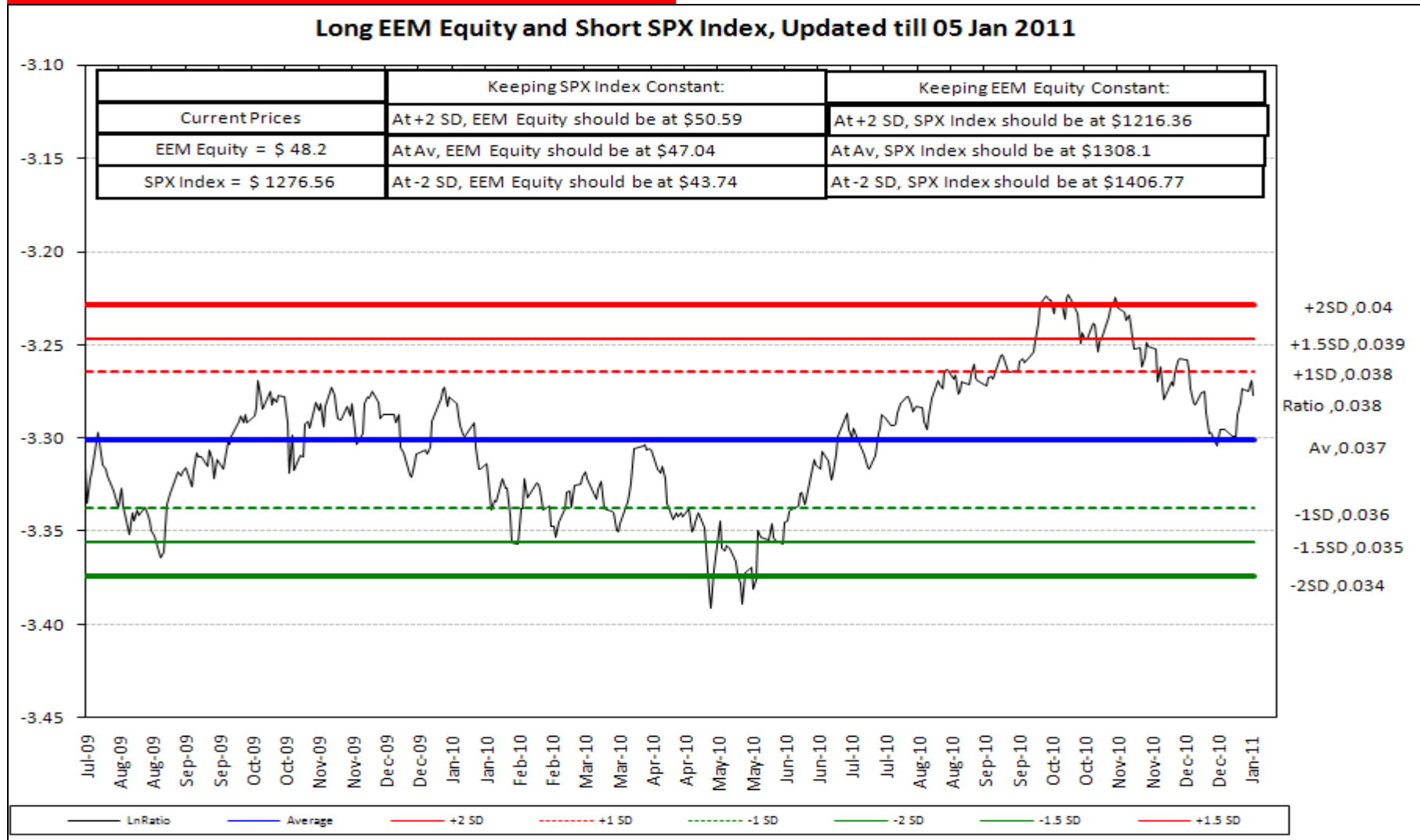
Is at SD# + 1.75, for overvaluation – We covered this for PQV and CZ, now it is in watch list Tracker SECTION - D # Wkly Sector Analysis, part II , (MONITORING CZ –PQV)



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

It made entry into our SD# +2.0, for overvaluation Zone and now into +1.0 Neutral Zone

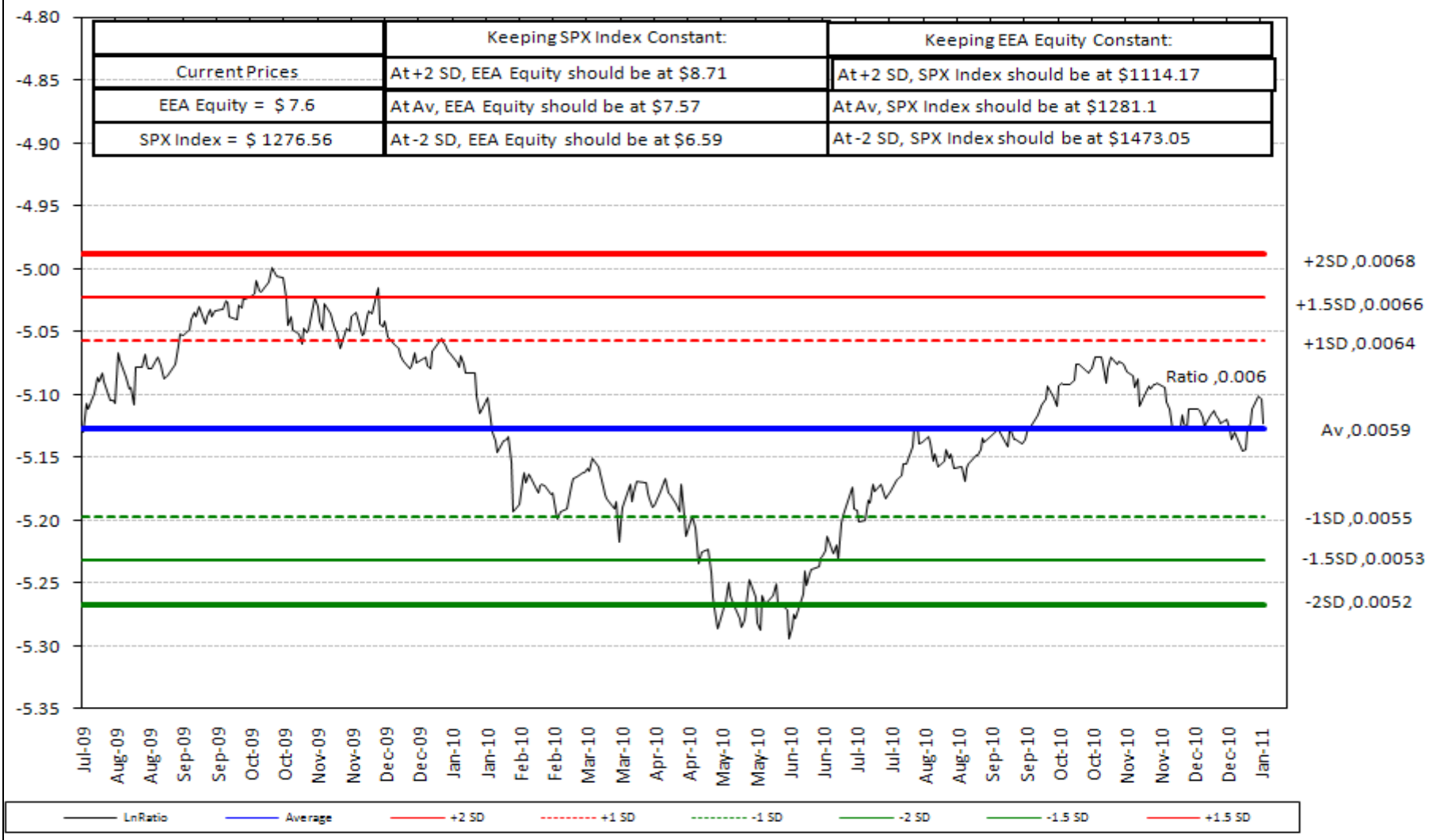
We covered this for PQV and CZ, now it is in watch list Tracker SECTION - D # Wkly Sector Analysis Part II, (MONITORING CZ –PQV)



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

SD# is at Neutral Zone – No meaningful Risks Reward,

Long EEA Equity and Short SPX Index, Updated till 05 Jan 2011



EEA- POM – LT / ST – Key Points

- **SD # Levels are at + 1.0 SD and Neural Zone , but any bounce should take to Target Zone into +2.0 SD, we should monitor this**
- **EEA is closely related with SPX – and will follow the decline on downside , Our in dept Analysis suggest that POM – Buys and Sells of SPX are closely related with EEA**
- **Currently SPX is at POM 14 and so does EEA**

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 – 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.