



# SG Capital Research

Global Market Insights

## Research Note – Weekly Market Strategy Global (A # 1) – STRATEGY & PROP ANALYSIS

**MAEG- WKLY MKTSTR- GL- POM -SG 2011 # JULY\_04**

**For Immediate Release – Monday AM (EST)**

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## Market Strategy Global (A # 1) - SPX – Closed @ 1340

Analysis of Broad Market that includes – **Jan 1<sup>st</sup> 2011 – SPX 1257 (+ 6.6 % YTD)**

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

We have Selected charts (below) that has some distinct characteristics from last weeks observation 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, ( Detail coverage in A # 2 MS)**
- Sector Analysis for SPX clues on Money Flows – **BKX, SMH ( None this week)**
- Time / Cycle Analysis- **Bradley Cycle, 4 yr Cycle, Astro- Harmonic Cycle, Seasonality Cycle**
- Advance / Decline Internal market behavior – **A/D – SPX**
- Sentiment Analysis with Extreme character – **TICK , TRIN, ARMS, PUT / CALL, VIX**
- Global Market Analysis for SPX clues – **FTSE / EZU, CHINA / EEM. AORD /EWA - ( Detail Coverage in A # 2 MS)**
- Appendix - History of past 52 Week - SPX –POM Signals & Key Criteria

- **Objective**

*Focus is on the Short & Intermediate term turning point of the SPX via POM's Price projections and / or CZ ( Bullish & Bearish between the POM's) . POM is Unidirectional Judgmental Model, It utilizes multiple input signal via the Global Inter market Analysis (GIC), Price & Quality Volume (PQV), Pattern Recognition ( PEC) , Cycles, Internal & External price equilibrium points to assists in output signals . POM is supplementary Analytics to add value to RA/ RI Framework for Risk Management.*

*SPX acts as Risk Benchmark for all the other Markets ( Key US Indices & Key Global ) , these Markets gets priced off SPX-Risk ( in different Proportion) . Therefore within A # 1 – MS our critical component being SPX and its internal ingredients for timely POM & Bullish CZ calls . Our A # 2 – MS focuses on Broader Indices and Global Indices.*

- **SPX – POM Signals & Price Projections**
- **Trading & Investment Conclusions**

- **Net Short – *None***

- *POM 15 Calls – NONE Triggered this year*

- **UPSIDE Target CZ - *We will wait and see the quality of next rally and its termination process towards POM 14***

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

- *Hedge on long positions triggered @ POM 14 – Re run SPX @ 1370 on 5/3 along with SD # 2 / CZ – PQV Validated Sectors on Sell Side as stated in Sector Report*

- **DOWNSIDE Target – *POM 13, Triggered POM 13 on 6/10 @ 1270. - Risk Management for High Beta Short position and rebalancing Longs***

- **Net Long – *BY ALERT EMAIL***

- POM 12 Call – Triggered POM 12 on 6/23 – for NET LONG.*

## • Market Insights

### Our Last Report

*“The quality and quantity of the rally from the bottom came in as expected in our Previous Releases. SPX Trigger POM 12 –for Net Long proved its merit with 70 points or so gains. Focus is on turning points in the markets for actionable areas via either POM’s for Midterm and / or CZ – PQV triggers for Short term for high probability moves.*

*– Alert- Interim Market Update send on Friday as Short term top. SPX closed at 1340*

### This week

#### SHORT TERM PULL BACK -

*Our First breather point on SPX is around current levels . **( let us Call it SHORT TERM BEARISH CZ for risk management )**  
Given the tendency of Quick rise, we should see the short-term backing & filling .*

***PRICE PATH ANALYSIS suggest a Short term Top** and warns against adding the long position Although various lagging indicators are turning Bullish which has tendency of” time out” on contrary basis*

*July 1st was New moon & Solar eclipse. The last 4 lunar cycles have rallied into the new moon and dropped into the full moon . On Hrly basis SPX has reached its.. PEC- D pattern. Our Intra day 120 MIN Tick – Trin – Arms study suggests a pull back and slight exhaustive energy from 2.00 PM Friday to close. The ST sentiments are at extremes which usually signals degree of turn.*

#### AFTER THE PULL BACK –

*It should provide another opportunity / Secondary low for Money flow from the Managers who have missed the first leg up and required to chase the performance .*

*But on slightly longer term, Rally that began from POM 12 / 13 (end of June ) should have Pull back and then continue to rally. This fits in well with the idea that the 6-year cycle is still pointed up( most of the cycles more than 4 yrs are down) into September for a Top, It could very well see POM 14 (However we will let the market guide us with 40 – 50 indicators rather than the opinion) .*

## Primary Market Analysis –

### SPX – Mid term

*The SPX was at near a significant low at POM 12 which conceded with wave 4 & C . First leg up was quite powerful (usually they are quite profitable as well . .....In last July 2010 similarly POM 12 was Triggered at 1030 which had offered us 85 points gains very quickly to 1115 levels, usually such trades are most skeptical and are against the crowded trades )*

*Now rally back to highs and perhaps to 1380 -1400 is good probability. ....Price wise Wave 5 could be that projection. If this scenario works out, that could very well be the final wave . The Time termination on right side is September 27th. Which seem to overlap with the 6-year cycle to peak . This could be expected topping zone. Let us wait and see.*

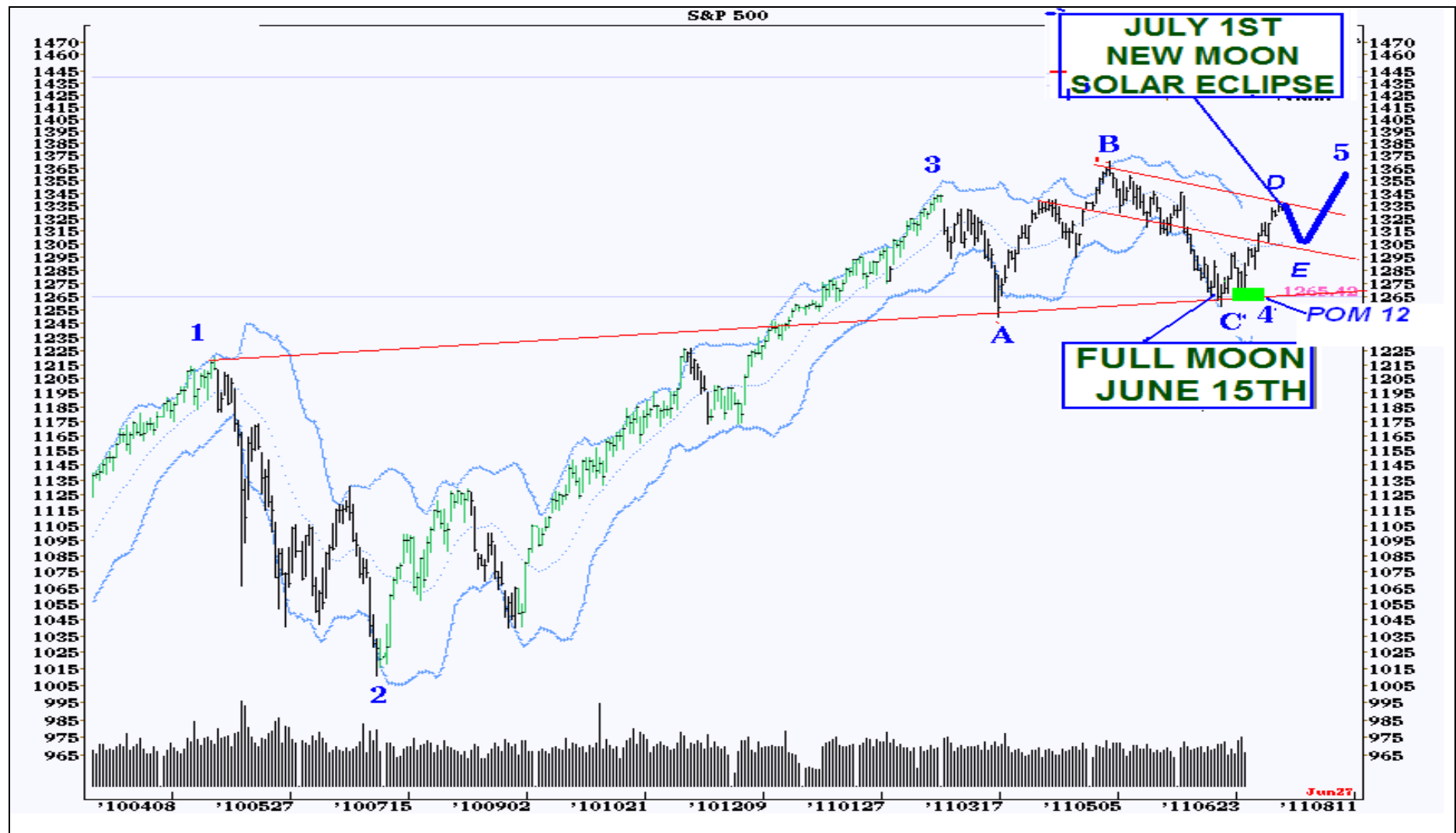
*On Short term basis , PRICE PATH ANALYSIS - the pull back appears to be to Sub Wave E to 1300- 1315 surely more evidence will come on 1<sup>st</sup> 2 days of pull back . We should see some quick finger Traders capitalize on it with shorter time frame objective with risk of quick snap back. As always we could be wrong and method is not perfect*

*SPX 1300 – 1320 seem to have some Mathmetcial imbalances within internals that we Track and Monitor in Tape reading*

### SPX – Chart below

## SPX – Mid term - counts

Referring back to our counts from April to May towards POM 14 Re run at 1370 , the B wave to C wave coinciding with WAVE 4 along with POM 12 for lows.



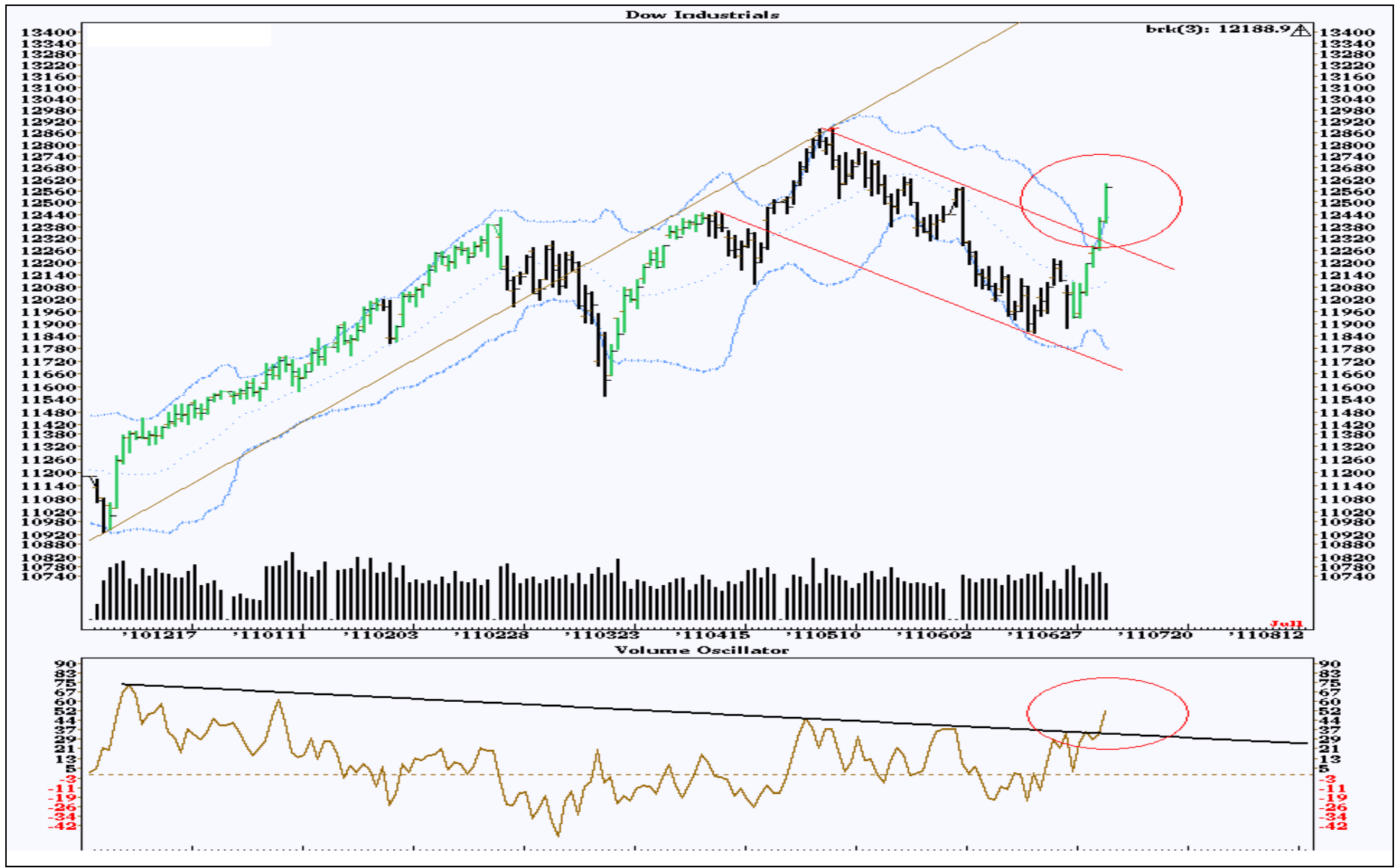
## DX – Analysis – Could be a Trigger for Short term pull back in SPX

*In the short run, if DX can find support on the line of contracting Triangle then rally back to Apex will trigger the pull back in SPX, then the dollar seems likely to thrust once more to the downside to finish its secular bearish trend that could coincide with 6 yr cycle low on USD in September as longer term picture*



# DIA – Short term

*The Dow and its Oscillator has broken hugh in this rally. Most of the DOW 30 Stcoks*

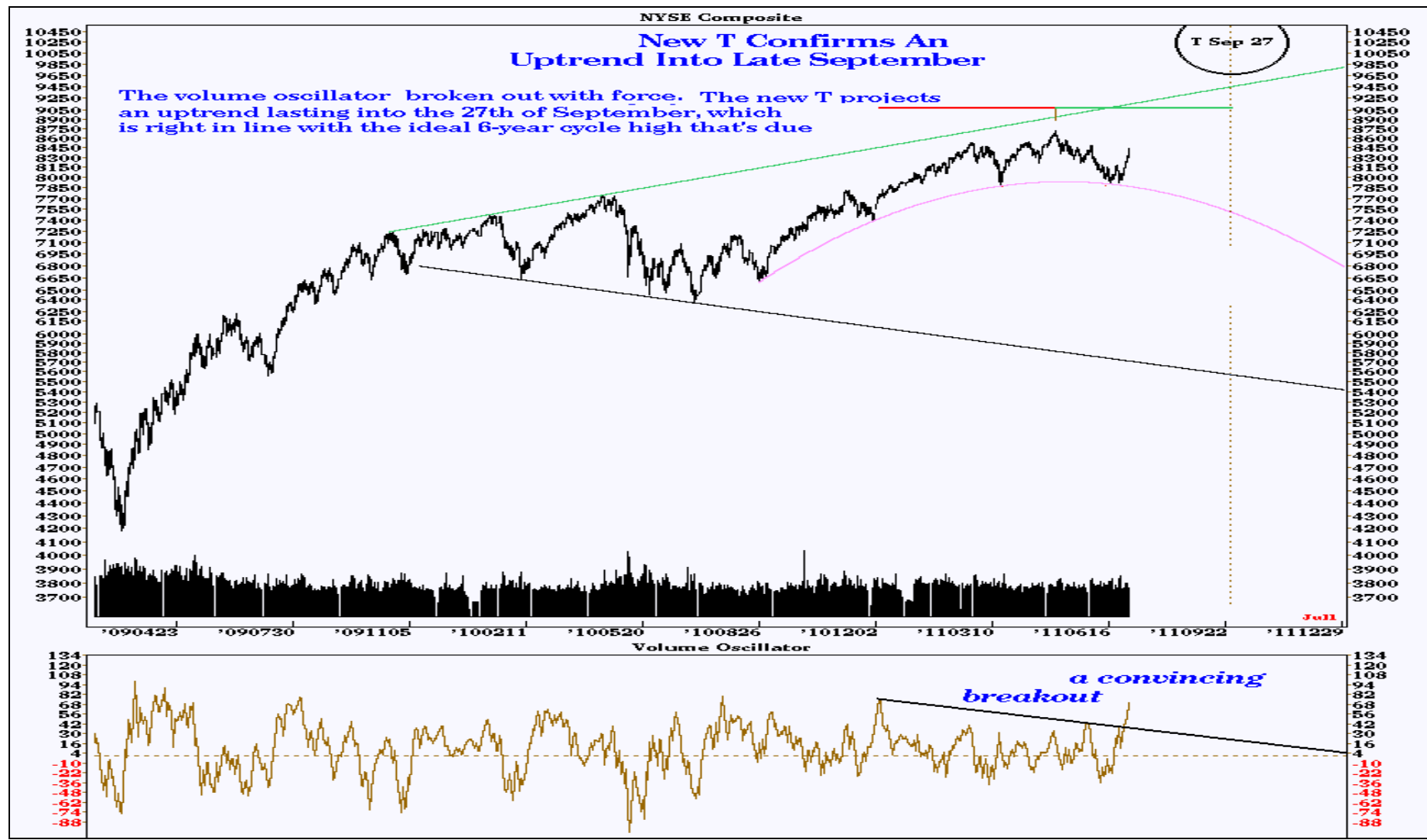




## NYSE – Short term

As indicated in last week's message the Poly Trend top proved its merit for POM 12 trigger ( See chart below) . we have a significant breakout on the oscillator. The Time termination T now expire Sept 27<sup>th</sup> ( converges with other indicators Time & Price , Cycle) . NYSE :Expanding Megaphone is still in tact.

When MAJOR Indices concludes the same conclusion the signal tends to have better validity in our Inter Market Analysis



## SPX – CZ - Analytics

*We have reached ST Bearish zone for Pull back within our Price path Analysis*

## SPX – TRIN / TICK - Mid term –

### Comment –

*Gave a great Signal at BOTTOM . This indicatoris normalized after 1<sup>st</sup> rally in SPX .*

## SPX v/s CBOE – PUT / CALL RATIO on Multiple Derivatives

*(Put / call Quantity based v/s \$\$ based Ratio on 5 DMA rotated every 3 weeks @ 0.75 of the month on “Weird Wally Wednesday” prior to Expiration . It tends to work well to identify bottoms but not for ST Top . At the tops we prefer the \$\$ weighted Put / Calls ONLY it gives better signal by different method we use- which is not extreme yet ) . .*

### Comment –

*Gave a great Signal at BOTTOM . This indicatoris normalized after 1<sup>st</sup> rally in SPX .*

## VIX – PEC D – Next clue

*Next ABCD pattern is at slightly lower prices. This should be the first signal of Topping in SPX . ( Refer notes within charts )*



## VIX - Band - Next clue

*The Bollinger band break tends to work out well on VIX ( as fear levels tends to be variable) . Abrupt widening of BB band is very common and VIX prices tends to chase these bands till the end of the move . At POM 12 on 6 /23 AND at POM 14 re on 5/3 it was no different ( Refer our previous commentary) . Next level of complacency should come at Lower end of BB ( marked in green ) similar to previous times. As long as ABCD pattern mentioned above is met . ( Off couse this is not stand alone method other indicators should line up as well )*



# Dow Transport Theory -

As pointed out last week Triggered Buy Signal same time as SPX – POM 12 , DOW 11900  
Based on our DOW Transport Theory –DOW & IYT is trading above DIA ( see chart below) , Second the IYT / DIA Ratio is break out .



# Railways - Sub component of Dow Transport Theory -

*Based on our Sub DOW Theory – Railways is Breakout of highs and rally mode ( Refer chart below)*



## • Advance / Decline Internal behavior Analysis

Our A/D Analysis is based on 3<sup>rd</sup> 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 – MID TERM - CONFIRMATIONS IN SPX BREADTH - A –D line confirmed by Bullish % Above 50-D MA WITH NH / NL's** .

A/D line measured by ( % of stocks above 50%) has **NOT** reached conditions where the market has Toped out . This Breadth usually favors further rally to 85 – 90 . This indicators called the bottom fairly well at POM 12 .



## NYSE v/s A/D Line on Equities only ( case 1)

*Last week we indicated - This convergence gap indicated in green between A/D Line and NYA Indices is now closing in. Very soon it will intersect during toping process.*

*A/D line still leads higher than Index and has not fully converged ( shown in blue) is still leading the market suggests the Market tends to do catch up on upside ( Areas marked in green) , ( Point of intersection ) Till market tops .*





## NYSE v/s A/D Line on Equities only ( Case 2)

*In spite of correction . The Cumulative Net New Highs Line( Blue) is still above its 10-D EMA ( pink) , suggest there is energy left in rally .*

*We would look to cross the 2 lines for Sell signal ( This has not happened in this correction) . Since July last year the lines have been on side of the Trend. Indicated in Red box*



## SPX – MID TERM

Even on slightly bigger time frame see the chart below RSI at 50 held on intermediate time frame along with other market internals.

But over all, in the bigger time frame we see negative divergences on daily and weekly indicators . and The weekly Relative strength to confirm the recent SPX move to new highs and forming a negative divergence( In red) . Divergence at bottom in 2009 lows indicated in green . We shall see how the current Rally impacts the further divergence at 1400, that would be caution



- 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 – ( Indicated below) - **JULY is FLAT – Wait an see**



**Calendar Cycle - Cycle dates – Historically “ Month of JULY ” – has positive gains in Bear / Sideways Market – Wait and see**

- **EVENT 1** - 8<sup>th</sup> Jan also coincides with CITI Group study for Major market top 2011-2012
- **EVENT 2** - 2011 is 3rd year of the presidential cycle and historically has positive returns
- **Our own Study for January in (2003 – 2006) Uptrend & ( 2007 – 2010) Sideways Market.**

From 2003 - 2006															
Bull Run															
		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															
Bear / Side ways Run															
		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%	
<b>Average</b>		<b>-2.25%</b>	<b>-1.54%</b>	<b>1.65%</b>	<b>3.20%</b>	<b>0.95%</b>	<b>-1.60%</b>	<b>1.55%</b>	<b>0.52%</b>	<b>1.22%</b>	<b>-0.68%</b>	<b>0.42%</b>	<b>2.21%</b>	<b>6.66%</b>	

- **Sentiment Analysis ( 3<sup>rd</sup> Party Published Data)**

**Investors Intelligence .**

*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*

*Rydex flow, Insiders activity. The Emotional / Survey sentiments we track Investors Intelligence sentiment Advisors sentiments. etc. All these are Integral part of POM composition ,*

*Our Behavior Indicators Commercial Hedges , AAll etc Sentiment Indicators, Insiders activity, Speculation activity,*

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

**Courtesy – Schaeffer’s Research – Past 4 weeks data ..**

**= Conclusion – Sudden change in Bearish ness – dropped**

Date Published	Percent Bullish	Percent Bearish
06/29	39.8	26.9
06/22	37.6	28
06/15	37	26
06/08	40.9	22.6
06/01	45.2	20.4

## **Sentiment Summary Indicator - ( 3<sup>rd</sup> party)**

**Courtesy : SENTIMENT TRADERS -**

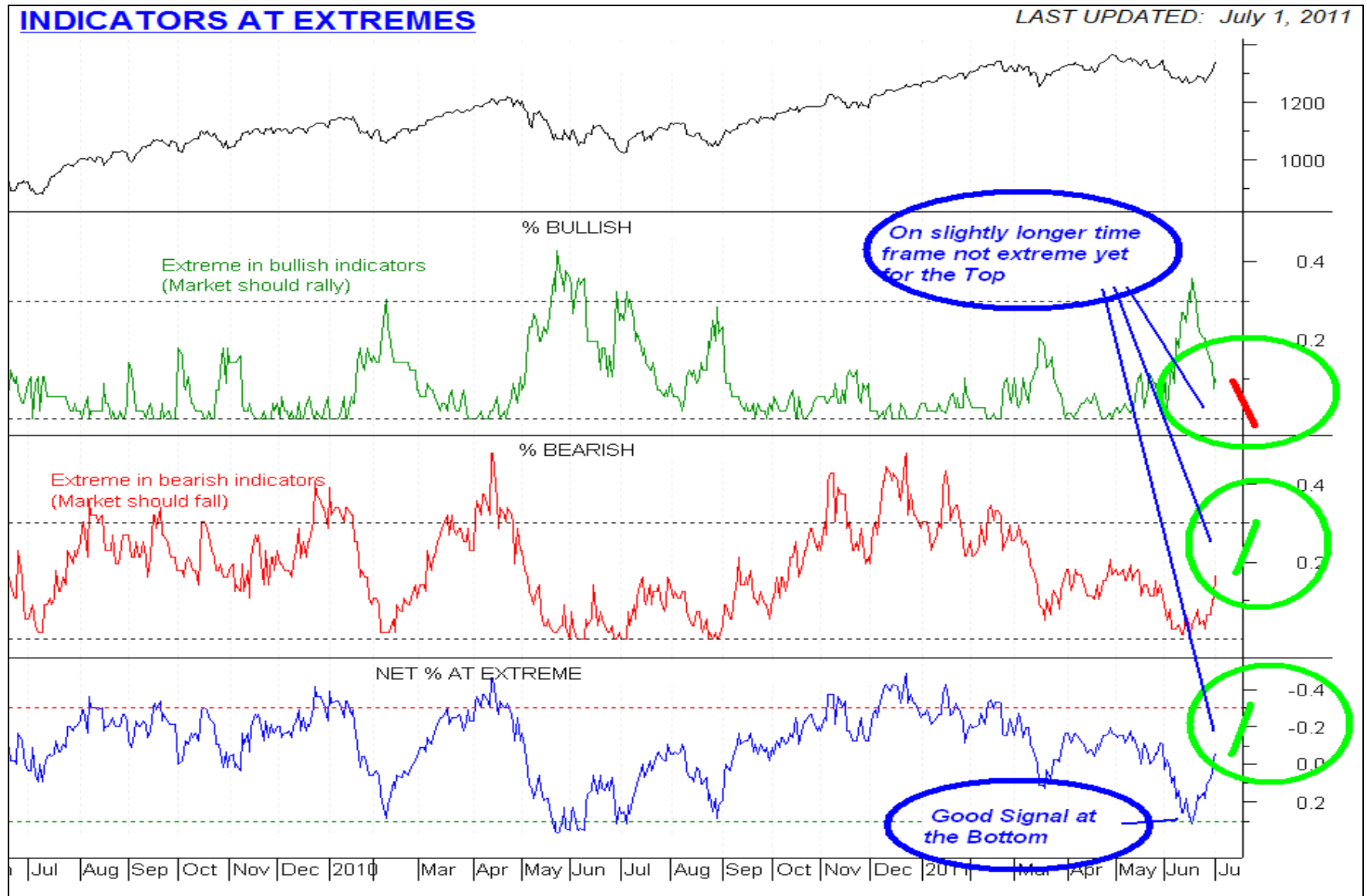
*Cumulative Indicator derived from the following Survey Sentiment Indicators collectively at extremes ..... We think this Indicator is at or below 0.2 - tends to work well for bottoms when overlapped with Math Indicators of market Internals. Indicators used for computation of extremes are as follows*

*Sentiment Surveys - AAll,  
Investors Intelligence  
NAAIM Manager Sentiment  
Market Vane  
Options Sentiment  
Mutual Funds Sentiments  
Insiders Selling*

**Mid term - Sentiment Chart of all cumulative indicators ( Below)**

# Mid term - Sentiment Chart of all cumulating indicators

Areas circled and notes within the chart indicates the message .



## **RYDEX / Money Ratio Indicator - ( 3<sup>rd</sup> party)**

Courtesy : SENTIMENT TRADERS - *Since 2006 to 2011 – The level to watch has been 0.2 for Bottoms - indicated in red bar below.*

### **Comment –**

*Gave a great Signal at BOTTOM . This indicatoris normalized after 1<sup>st</sup> rally in SPX .*

## **Smart / Dump Money Ratio Indicator - ( 3<sup>rd</sup> party)**

Courtesy : SENTIMENT TRADERS - *Since 2006 to 2011 – The level to watch has been 0.25 for Bottoms - indicated in red bar below.*

### **Comment –**

*Gave a great Signal at BOTTOM . This indicatoris normalized after 1<sup>st</sup> rally in SPX .*

## **RYDEX BULL / BEAR – LEVERAGED RATIO - Courtesy : SENTIMENT TRADERS**

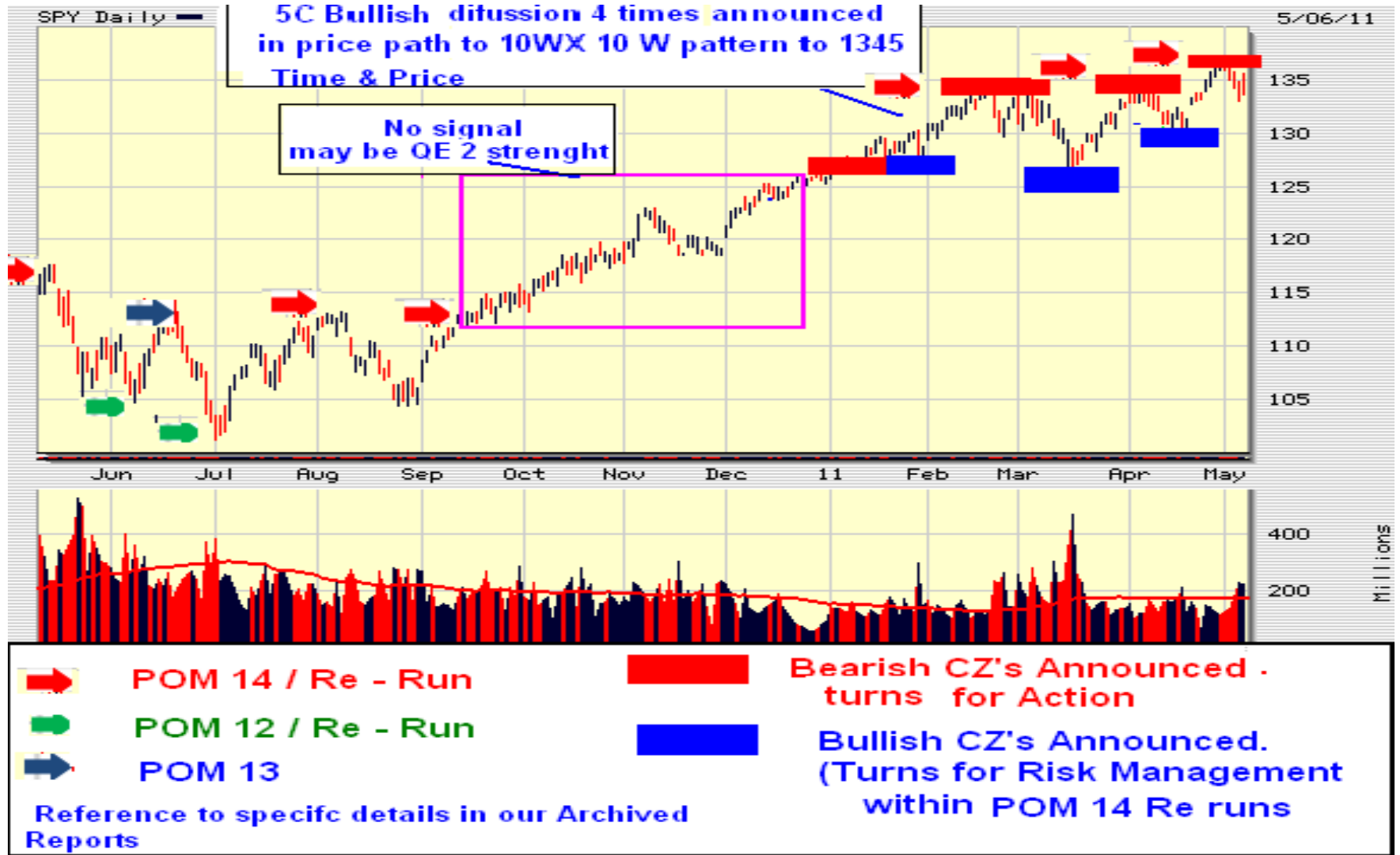
### **Conclusion – Non conclusive**

*This is Top finding Indicator inspite of rally has not moved much and was Inconlusive at Market bottoms timing*



# Appendix

- Past 52 Week - POM / CZ - SPX Signal - updated 7<sup>th</sup> May 2011



- 2010 - POM - SPX Signal



- Past 52 Week DOW THEORY Signal - updated 20<sup>th</sup> April

In chart below – top most window - when IYT prices Trades above DIA prices (– green arrow) & , Confirmed by the break of blue line on IYT / DIA Ratio ( window 2 below) Triggers a Buy Signal. As long as both remains in same trading overlap pattern. ....As soon as IYT breaks below ( red arrow) confirmed by breakdown in ratio on IYT / DIA “ Sell is signal” is trigger till next time it repeats itself as indicated in Blue bar ( which we are awaiting for Triggers) .

point – In spite of Sell Signal by this DOW Theory end Jan ( which we used as PRE – Qualification) The real sell by our Method came on 19<sup>th</sup> Feb ) , by the time IYT moved up 7% towards the CZ – Validation to finally get Trigger in PQV and then fell apart ( Refer sector Report, Feb Edition)



## 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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