



# 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\_11**

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

*By: Suneil R Pavse*

*Contact: apavse@aol.com*

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## Market Strategy Global (A # 1) - SPX – Closed @ 1343

Analysis of Broad Market that includes – **Jan 1<sup>st</sup> 2011 – SPX 1257 (+ 6.8 % 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 - Termination process towards POM 14 ( to be advised)**

- **Risk Management for Downside Corrections -**

- **BY EMAIL ALERT – on 07/08 - Triggered - POM 13 on SPX @ 1346 , after reaching First Leg up target 1355 -1360.**

- **Short Term - Risk Management signal for High Beta Short Position & Rebalancing Longs. Via Broader Indices that reached Bearish CZ – stated in our A # 2 – MS Report dated 6/07**

- **DOWNSIDE Target – Pull back to SPX 1320 -1300**

- **Net Long –**

- BY ALERT EMAIL – on 6/23 - POM 12 Call – Triggered POM 12 – for NET LONG . ( still in tact for Mid term move)**

- **Market Insights**

**SHORT TERM PULL BACK - ALERTED VIA EMAIL 07/08 – On Friday pre open.**

**Breather point on SPX 1348 – POM 13 – Trigger point. SHORT TERM BEARISH CZ for risk management .**

**PRICE PATH ANALYSIS suggest a Short term Top and warned adding the long position. "We got a run from the bottom of the range to very near the top of the range last week.**

- **Several of Broader Indices in A #2 – MS approached the Bearish Short term CZ,**

**AFTER THE PULL BACK –**

**we should get a retracement back toward the middle of the range going into the middle of the month, It should provide another opportunity / Secondary low.**

**But on slightly longer term, Rally that began from POM 12 ( still in tact) should have Pull back and then continue to rally. This fits in well with the idea that the 6-year & 4 – year cycle which are down into September for a Top, It could very well see POM 14 for Top**

## Primary Market Analysis –

### SPX – Short Term – Wave count on this Rally alone

**SHORT – TERM** - The 5<sup>th</sup> wave sequence from the mid June low was completed at around POM 13 (our Price target for first move up) . Upon Wave 5 completion ABC pull back would be expected. A lot of the time Corrective pull backs go to the wave 4 low which would be near 1320 . A Bullish CZ on SPX is around 1320 -1300.

Notice on the SPY chart - the Chaikin Oscillator is overbought. & STO crossed over at 85 ( circled in last window confirming the Overbought ) .



## **SPX – Mid term - counts**

*First leg up was quite powerful to POM 13 – SPX 1348 ( Point D ) in chart below . The SPX was at near a significant low at POM 12 which conceded with wave 4 & C .*

*After the pull back 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 .*

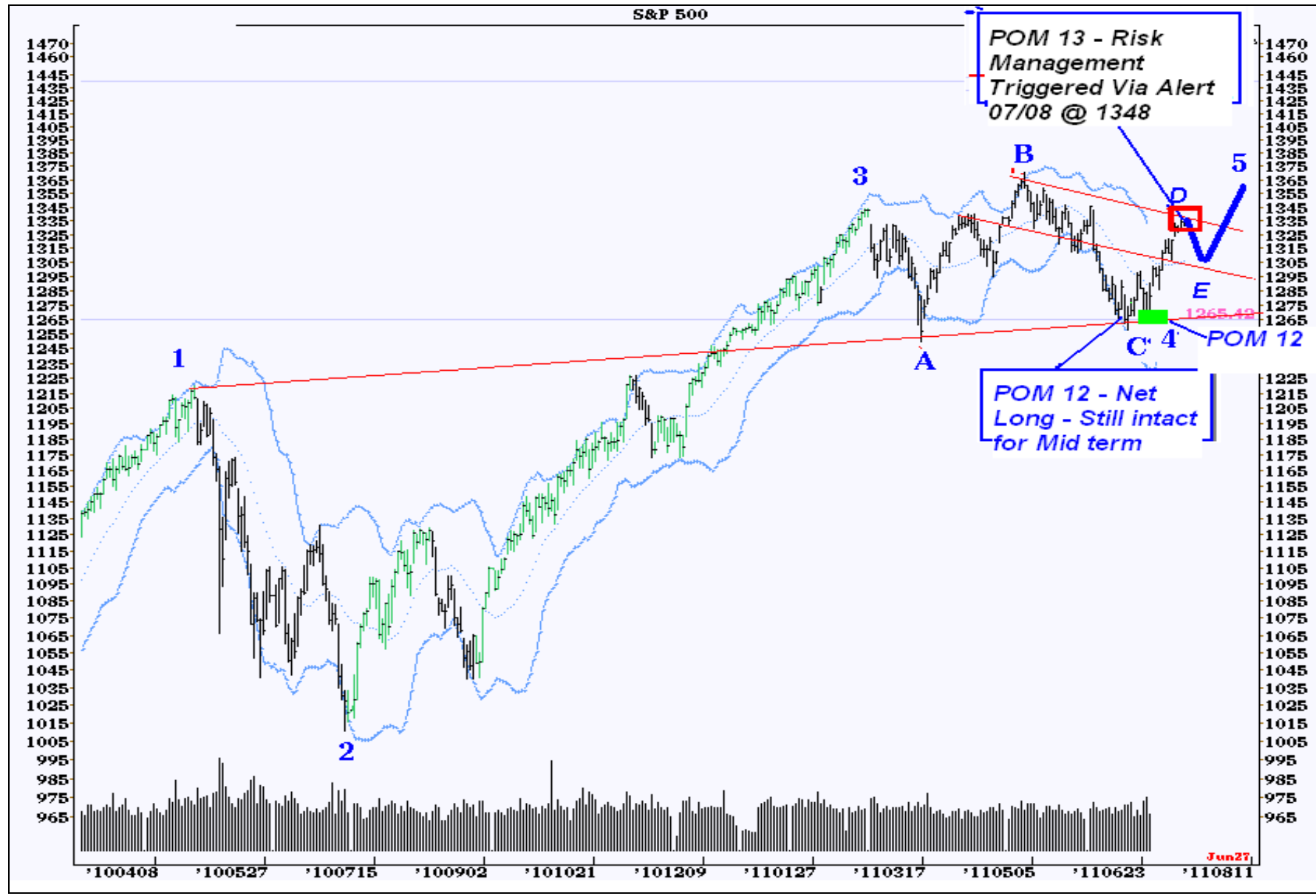
*The Time termination on right side is September 27th. Which seem to overlap with the 6-year cycle to peak . This could be expected topping zone.*

*On Short term basis , PRICE PATH ANALYSIS - the pull back appears to be to Sub Wave E to 1320 – 1300 seem to have some Mathematical imbalances within internals & Monitor in Tape reading*

**SPX – Mid term - CHARTS BELOW**

# SPX – Mid term - counts

Notes within the charts



## SPX – CZ - Analytics

*The blue line should be Bullish CZ ( if confirmed) . However we have reached ST Bearish zone for Pull back within our Price path Analysis. ( See notes with the chart ) ST overbought % 10DMA and Mid term 40D – BLI still has room*

### S&P 500 INDEX/ BROAD MKT INDICATORS





# DIA – Short term

ST – Pull back Target 12300 -12200 , Monitor the defensive stocks for Risk off Trades



# NYSE – Short term

The NYSE Index is likely to follow pullback, It appears it is forming Right shoulder of ( E wave point) of Head and Shoulder bottom . This pull back may be followed by a rally . We have a significant breakout on the oscillator, it goes well for mid term strength

The Time termination T now expire Sept 27<sup>th</sup> ( converges with other indicators Time & Price , Cycle) .



## SPX – Longer term

*On slightly bigger time frame see the chart below - intermediate time frame .*

*EMA price move cross over should Signal a Trigger bearish signal ( Circled in Red) – BUT NOT YET*



## SPX – TRIN / TICK - Mid term –

*This indicator is normalized after 1<sup>st</sup> rally in SPX – and at POM 13 is Neutral  
It Gave a great Signal at BOTTOM*

## 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 ) .*

*This indicator is normalized after 1<sup>st</sup> rally in SPX – and at POM 13 is Neutral  
It Gave a great Signal at BOTTOM*

## **VIX – PEC D –**

*This indicator is normalized after 1<sup>st</sup> rally in SPX – and at POM 13 is Neutral  
It Gave a great Signal at BOTTOM*

## **VIX - B. Band -**

*This indicator is normalized after 1<sup>st</sup> rally in SPX – and at POM 13 is Neutral  
It Gave a great Signal at BOTTOM*

# Dow Transport Theory –

*IYT is still Trading on Strength with respect to Dow*

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



## • 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 Topped out in past . 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)

*The convergence gap indicated in green between A/D Line and NYA Indices is now closing in. When it intersects then should give bearish picture during toping process.*

*A/D line still leads higher than Index ( 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 .*





- 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)**

## **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)**

## **EXTREME - Sentiment - All cumulating indicators ( 3<sup>rd</sup> party)**

**Courtesy : SENTIMENT TRADERS**

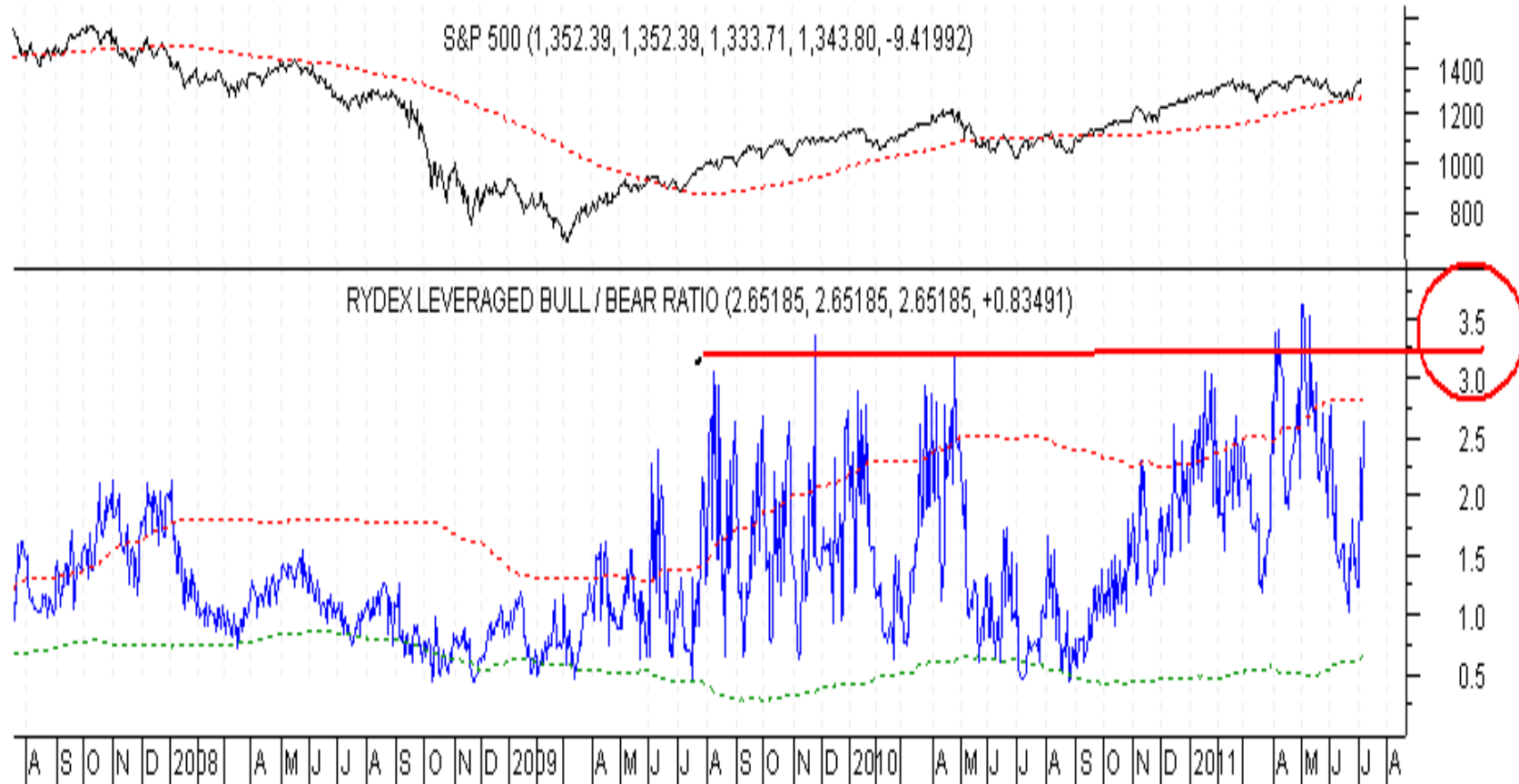
***This indicator is normalized after 1<sup>st</sup> rally in SPX – and at POM 13 is Neutral  
It Gave a great Signal at BOTTOM***

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

*The Ratio which has called the Tops at around 3.25 are still at 2.75 in spite of rally . Suggest the intermediate term has some upside move left*

## RYDEX TOTAL LEVERED BULL / BEAR ASSETS

LAST UPDATED: July 8, 2011



## **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.*

*This indicator is normalized after 1<sup>st</sup> rally in SPX – and at POM 13 is Neutral  
It Gave a great Signal at BOTTOM*

## **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.*

*This indicator is normalized after 1<sup>st</sup> rally in SPX – and at POM 13 is Neutral  
It Gave a great Signal at BOTTOM*

## **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 Bullish ness picked up**

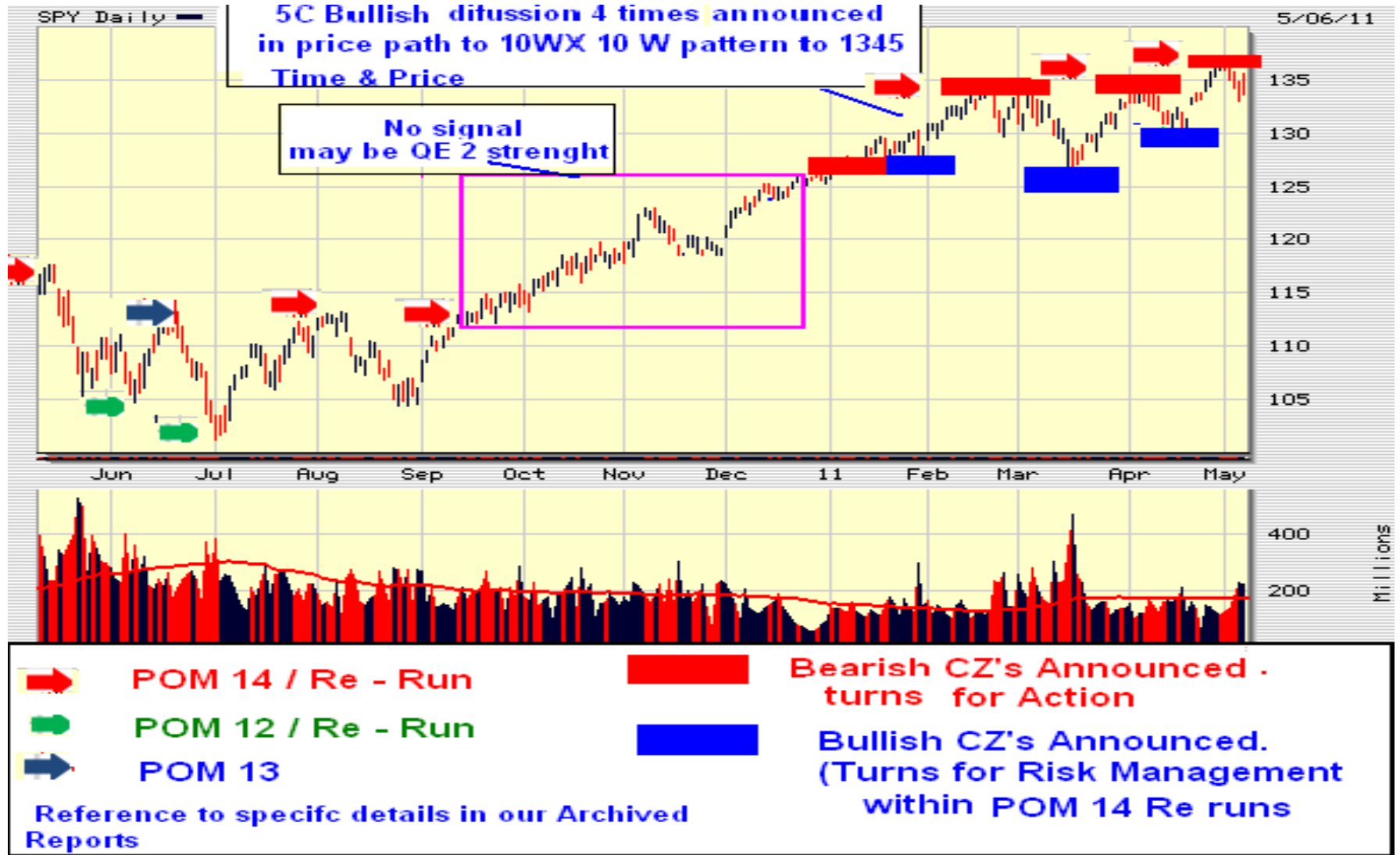
Date Published	Percent Bullish	Percent Bearish
07/06	40.9	24.7
06/29	39.8	26.9
06/22	37.6	28
06/15	37	26
06/08	40.9	22.6

**Sentiment Summary Indicator - ( 3<sup>rd</sup> party) – Alternate Week conclusions**

Courtesy : Sentiment Overview: Week Of July 1st, 2011 -

# 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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