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

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Market Strategy Global (A # 1) – (SP)   - SPX – Closed @ 1305

Analysis of Broad Market that includes – <mark>Jan 1st 2011 – SPX 1257</mark> (+ 3.8% 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**

- ## <u>Objective</u>

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 <u>Unidirectional</u> 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 – <u>NONE</u> Triggered this year*

    - ***UPSIDE Target CZ* -   *Termination process towards POM 14 (to be advised)***

- ### *Risk Management for Downside Corrections* -

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

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

    - ***<u>DOWNSIDE Target –</u> Pull back to <u>SPX 1300 -1320</u> has been reached***

- ### *Net Long* –

    BY ALERT EMAIL – on 6/23 - POM 12 Call – Triggered – <u>for NET LONG .</u> (STILL IN TACT for Mid term move)

- ## <u>Market Insights</u>

THE PULL BACK

- ***On Wednesdays Report A # 2 – MS , our expectation was that the market would test 1300 lows (the lows of the previous week). We seem to be experiencing that currently.***

- ***Our SPX Pull back Target was 1300 to 1320 (Bullish CZ stated in our earlier Reports is still intact) . The First Leg up price projection ABC up of <u>1355 was met from POM 12 @ 1275 -</u> for Risk Management & Recycling of Capital between CZ to CZ Levels .***

- ***This retracement back toward the middle of the range should provide Secondary low. If rally begins we could be in for another leg up into August / September. (We could certainly be wrong, our analysis is far from perfect but we try to follow the Indicators as best as we can with odds in the favor) .***

- ***Slightly longer term, Rally that began from POM 12 (still in tact) should continue. This fits in well with the idea that the 6-year & 4 – year cycle which are down into September for a Top & Time termination of 27th September . It could very well see POM 14 for Top.***
- ***Our Focus remains on the announcement of Turing point conclusions & PRICE PATH ANALYSIS utilizing integrated Indicators. Our Multiple Analysis of Price and Time should converge us to same price points for better probability***
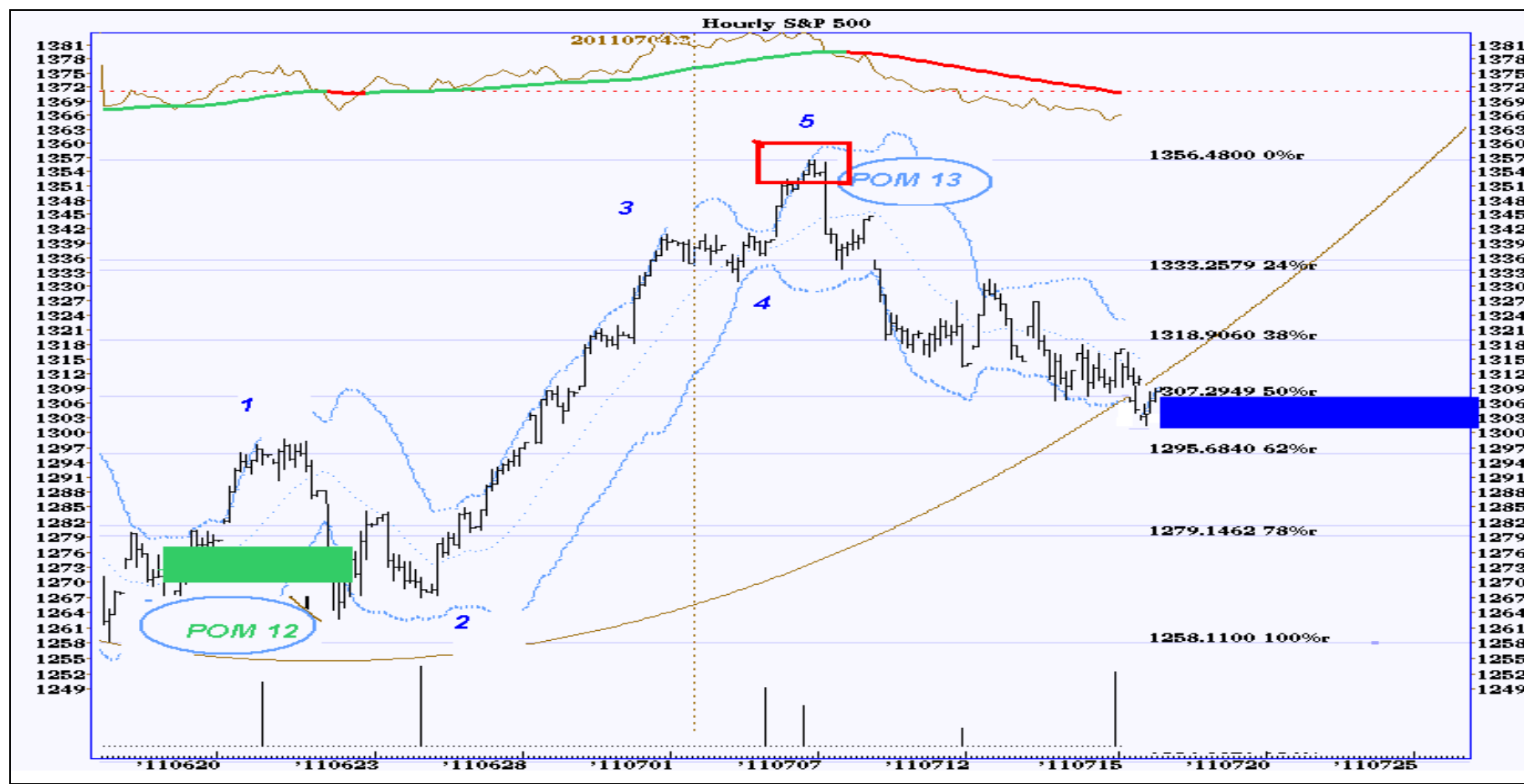

CURRENT MARKET

- *** We are now entering a very interesting cycle with a with the full moon cycle of Friday. There is a strong cycle component occurring on July 18th and 19th. This should be a rally week. The 19th Cycle is the same type of cycle on a lunar basis that occurred on July 7th.***

- ***Failure of the market to move higher this week would constitute a Hugh cycle failure in both the lunar cycle and the larger cycle that is due this week***
- ***No shortage of bad news, European Bank contagion & US Debt ceiling crisis. The danger to our scenario is panic and panic can rarely be predicated in advance. As the market moves on hope more than rationality and, right now, rationality says the crisis in Europe must end badly. Yet, the euro has not yet collapsed, so you have to assume that most of the market hasn't yet snapped to reality. Hugh Gap down of 200 points should be a Trigger for such collapse***

Primary Market Analysis –

SPX – Short Term – Wave count on the last Rally – from POM 12 to POM 13

SHORT – TERM - The 5th wave sequence from the mid June low was completed at around POM 13 Trigger (our Price target for first move up) . Upon Wave 5 completion ABC pull back would be expected. A Bullish CZ on SPX is around 1300-1320 which is being tested and re tested.

Poly – Trend Analysis suggests a move higher

SPX – Mid term - counts - See chart below

We continue to see this move as wave E, the terminating wave, of a contracting triangle which has sent the market sideways in a broad trading range . The wave 3 end of QE 2. The current 5-month correction will be labeled 4 . then another rally phase wave labeled 5. This 5 should end the entire sequence up from March 2009.

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 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 .

Caution - We will take the wave 5 as much as it goes till POM 14 - Triggers

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

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 .

SPX – Mid term - CHARTS BELOW

SPX – Mid term - counts

Notes within the charts – Effect of New moon and Full moon, Full Moon cycle is due on 18th / 19th July

SPX – ST . Cycle due

We are getting close to a cyclic low and then testing previous lows . One this week and one early next week, and that would play out as a double bottom. That would also fit the 5 weeks in this cycle (3rd Friday of July to 3rd Friday of August)

SPX forecast to August 12th
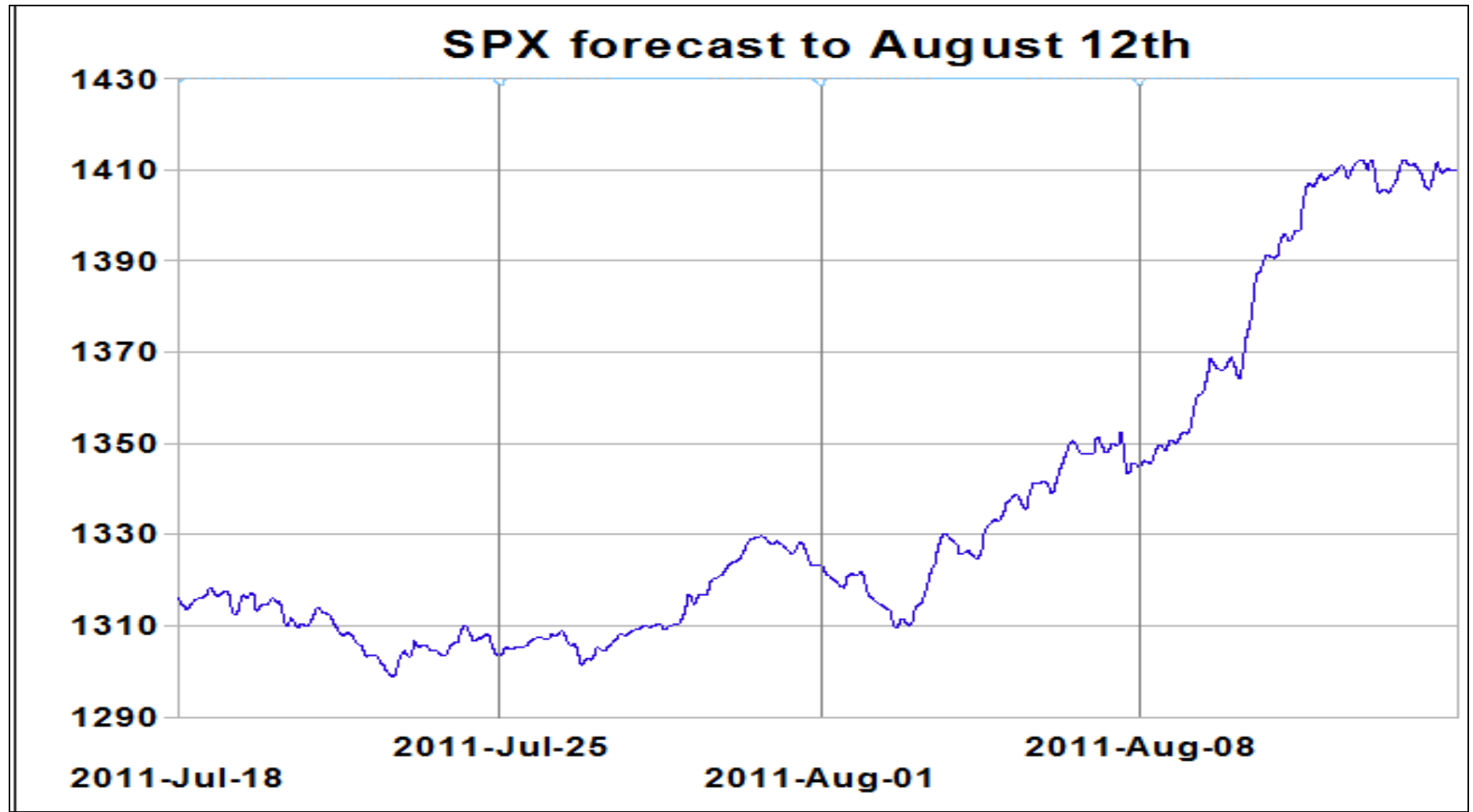
SPX – CZ - Analytics

The decline went into Bullish CZ 1300 -1320 . Slow STO % could turn bullish any day even on bounce circled below in green .

SPX – Longer term

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

The Major SELL SIGNAL should come from here . EMA price move cross over should Signal a Trigger (Circled in Red)

We are watching this carefully on each correction and decline along with other Indicators

SPX – TRIN / TICK - Mid term –

The signal that work best are when our 2nd derivative TRIN indicator and tick indicator are both in the bullish territory. Right now the TRIN derivative is bullish and the TICKS is nearing and is getting closer. We are expecting a bullish outcome of the current decline,.

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

PUT / CALL on 3rd derivatives is approaching 1.08 where previous ST bottoms have occurred. Red line and Circled in Red

(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). .

Dow Transport Theory –

IYT is still lagging DIA on price Trading on Strength with respect to DIA (chart below) but the Ratio line is still in uptrend and Breakout mode (see char below 2nd window) . Violation of both Triggers Sell Signal on IYT

Based on our DOW Transport Theory – Buy Signal same time as SPX – POM 12   , DOW 11900

- ## **Advance / Decline Internal behavior Analysis**

A/D Line v/s NYSE on Equities only - SHORT TERM

The move from SPX 1270 to 1348 , the A/D line was leading on way up. The decline from 1348 to 1300 A/D line held better then Index , Suggests Strength in the market . (Green Circle) . On previous occasions May 3rd POM 14 to 20th June POM 13 , A/D Line lagged and correction was larger (Red Circle)

A/D Line v/s NYSE on Equities only - MID TERM

A/D line still leads higher then 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 .

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

SPX – MID TERM - CONFIRMATIONS IN SPX BREADTH –

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

  A –D line confirmed by Bullish % Above 50-D MA WITH NH / NL's   .

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

This indicator is normalized after 1st rally in SPX – and at POM 13 is Neutral
*It Gave a great Signal at BOTTOM at 1270 & Also TOP in May 1370*

VIX – PEC D – No Signal

No Signal . This indicator is normalized after 1st rally in SPX and current Pull back . This PECD gave great signal at POM 12.

VIX - MA & Trend Analysis

Current Trend lines proving its merit on upside on VIX . For larger correction in SPX, the pull back in VIX should hold at 200D (Along with our other VIX indicators such as BB, and PEC- D etc.)

CBOE Volatility Index (Daily)

Volatility index

200-DMA
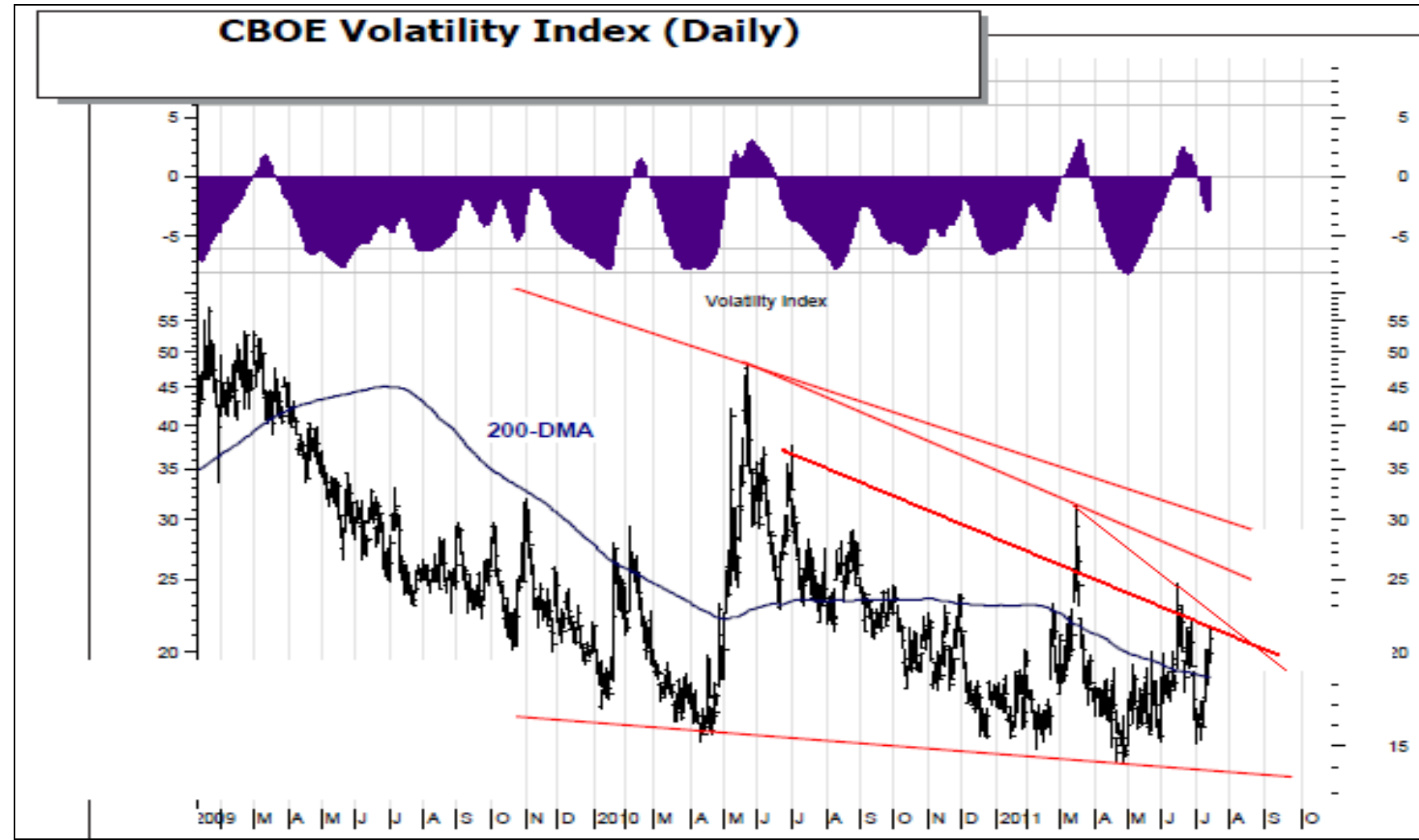
• Time Cycle Analysis

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) - <mark>JULY is FLAT – Wait an see</mark>

blue line is Bradley

FOR MONTH OF JULY UP /
DOWN AROUND & CLOSE
FLAT

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

- *EVENT 1 - 8th 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%
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%

- ## <u>Sentiment Analysis</u> (3rd Party Published Data)

<u>Sentiment Summary Indicator - (3rd party)</u>
<u>Courtesy : SENTIMENT TRADERS -</u>

 <u>*Cumulative Indicator*</u> *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 - AAII,
Investors Intelligence
NAAIM Manager Sentiment
Market Vane
Options Sentiment
Mutual Funds Sentiments
Insiders Selling

<u>Mid term - Sentiment Chart of all Mid Term cumulative indicators</u>

This indicator is normalized after 1st 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

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

RYDEX / Money Ratio Indicator - (3rd 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 1st rally in SPX – and at POM 13 is Neutral
It Gave a great Signal at BOTTOM

Smart / Dump Money Ratio Indicator - (3rd 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 1st 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 , AAII etc Sentiment Indicators, Insiders activity, Speculation activity,

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

<u>Courtesy – Schaeffer's Research –</u>   Past 4 weeks data ..
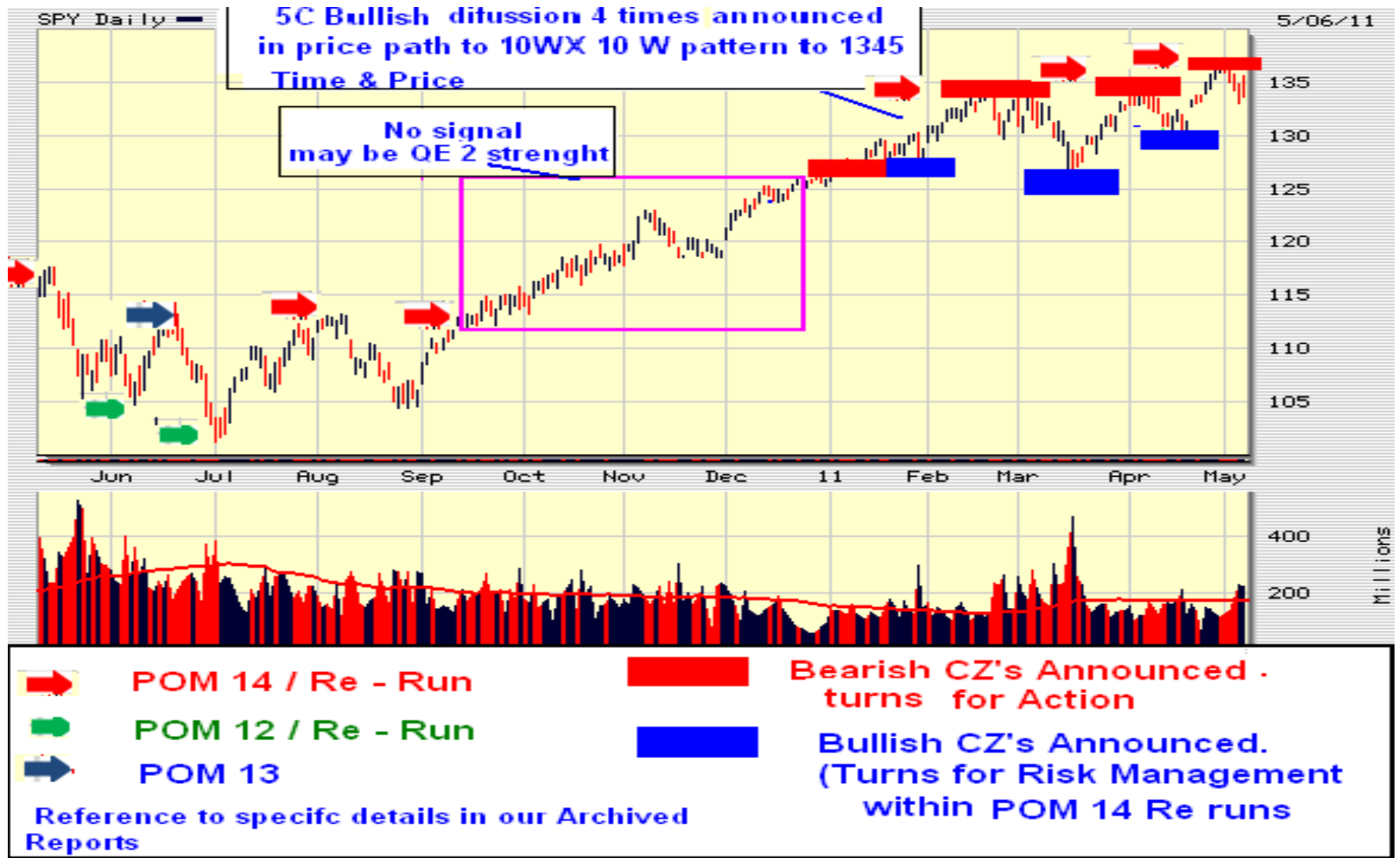
<mark>Conclusion – Sudden change in Bullish ness picked up</mark>

Date Published	Percent Bullish	Percent Bearish
07/13	44.1	22.6
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

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

<u>Courtesy :</u> **Sentiment Overview: No change**

Appendix

- ## Past 52 Week - POM / CZ - SPX Signal - updated 7th May 2011

- ## 2010 - POM - SPX Signal

- # Past 52 Week DOW THEORY Signal - updated 20th 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 19th 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

- <u>(Bear Markets)</u> POM 15 is for - **<u>Net Short</u>** & POM 14 is for - **<u>Hedge Longs</u>**

- <u>(Bull Markets)</u> POM 15 is for -**<u>Hedge Longs</u>** & POM 14 is for - **<u>Partial Hedge</u>**

- 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