



# SG Capital Research

Global Market Insights

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

**MAEG- WKLY MKTSTR- GL- POM -SG 2011 # JULY\_25**

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

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## **Market Strategy Global (A # 1) – (SP)** - SPX – Closed @ 1342

Analysis of Broad Market that includes – **Jan 1<sup>st</sup> 2011 – SPX 1257 (+ 6.7% YTD)**

- **Primary Market** SPX ( or SPY) as main market driver and
- **Secondary Markets** NYSE, DOW ( DIA) .

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, % BULLISH, NH/NL, VOLUME**
- 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 Previously announced in Earlier Reports**

- **ALERT - 7/18 Pull back to SPX 1300 –Retest - BULLISH CZ Projected reached. This is the point to RECYCLE the Risk Management Capital exited at POM 13 ( @ Lower prices)**

- **Net Long -**

- BY ALERT EMAIL – on 6/23 - POM 12 Call – Triggered – for NET LONG . ( STILL IN TACT FOR MID TERM MOVE HIGHER)**

- **We continue to remain on NET LONG situation on Mid term basis since SPX Triggered .. POM 12 @ 1270-1277 - The SPX Mid term Price path is stated in Chart below**

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- *Important thing about the charts we show in our Reports, it allows us to explain what is inside the market within the limits. The picture says thousand words.*
- *July 18th and 19<sup>th</sup> Lunar Cycle( showed last week) proved its merit at the re- test of 1300 ,it happened exactly at our re test - BULLISH CZ that we been articulating in all our earlier messages in our Investment and Trading conclusions stated and highlighted above*
- *Secondary low was put in and rally began . If rally continues to 2<sup>nd</sup> ABC up, 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 ( is still in tact) should continue till POM 14 . 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 27<sup>th</sup> September at latest .*
- *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*
- *When Bearish news in background, yet the market doesn't go down Hugh usually suggests strong indication the markets want to go higher. Just the opposite is true if bullish markets fail to make markets go higher. However Hugh Gap down of 200 points and does not recover intraday should be a Trigger for such warning*
- *Cyclic models pointing sharp down on Monday and rally the rest of the week. We will wait and see if it happens*

## Primary Market Analysis –

### SPX – Price path on the Rally – from POM 12

*A Bullish CZ on SPX is around 1300-1320 was Retested as expected and rally began . ( Refer notes within the charts)*

*Poly – Trend Analysis suggests a move higher, The SPX caught hold of that rising poly trend line and is hanging on. Overhead resistance is coming into play very soon, so how the index reacts to it this week should be important. If the market pulls back Monday, watch for the low of the week to be planted early, with the rest of the week on the upside. A breakout through the overhead resistance would be a very bullish indicator.*



# SPX – WAVE COUNT & LUNAR CYCLE

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 5 should end the entire sequence up from March 2009. till POM 14 - Triggers

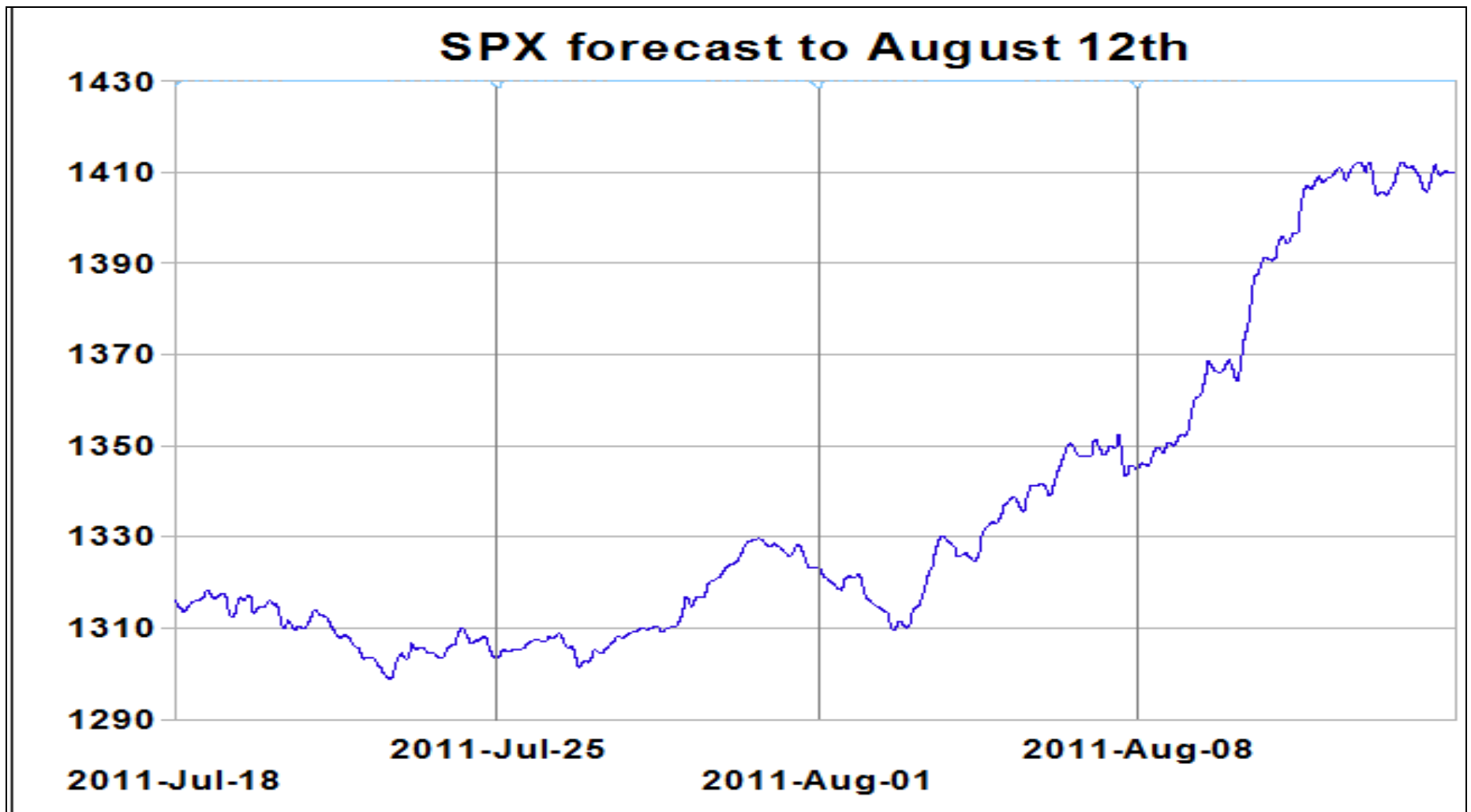
The Time termination on right side is September 27th. Which seem to overlap with the 6-year cycle to peak . This could be expected topping zone back to highs and perhaps to 1380 -1400 is good probability. ....Price wise Wave 5 could be that projection. If this scenario works out, that could very well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

Notes within the charts – Effect of **Full Moon cycle** on 18<sup>th</sup> / 19<sup>th</sup> July proved its merit on Turn at BULLISH CZ.



## SPX – ST . Cycle due

*We are getting close to a cyclic low once gain . That would also fit the 5 weeks in this cycle (3rd Friday of July to 3rd Friday of August)*



## SPX – CZ - Analytics

*Last week we indicated the BULLISH CZ ( in green 1300 lows re test ) was Triggered and proved its merit with Slow STO % turn bullish Boxed in green .*





## SPX – TICK / VIX RATIO

*TICK/VIX ratio have been found -5 , generally starts a move higher . We should get cautious when TICK / VIX ratio to +15 where another pull back could materialize. The Bollinger band is calibrated for the weekly time frame which more or less is trading sideways and suggests the trend is sideways for now. The market is heading back to the top of the trading range and we see what transpires there.*



## VIX – PEC D =

No PEC – D point yet , however , As long as VIX Remains below red mark in chart , Rally could continue and good chances of completing PEC- D pattern

Note - PECD gave great signal at POM 12. & at POM 14 re run on 3<sup>rd</sup> May



# VIX - RSI Analysis

*VIX should remain below red circle line for Rally to continue . ( in all rally's it has remained below those levels)*



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

*PUT / CALL on 3<sup>rd</sup> 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 ) .*

**NO SIGNAL CURRENTLY - 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 lagging DIA on price Trading on Strength with respect to DIA ( chart below ) and the Ratio line is at border of breakdown ( see char below 2<sup>nd</sup> window) . This is very close but CZ on bearish Sell side is not violated to Trigger Sell Signal on IYT ( BUT WE ARE WATCHFUL)*

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



- Advance / Decline Internal behavior Analysis

- A/D Line NH / NL v/s NYSE on Equities only - SHORT TERM
- A/D Line NH / NL v/s NYSE on Equities only - MID TERM
- A/D Line NH / NL v/s NYSE on Equities only - LONG TERM
- A/D line\_% BULLISH Equity in SPX BREADTH - MID TERM -
- A/D line\_- VOLUME in NYSE - MID TERM -

## A / D - SPX – % BULLISH IN SPX BREADTH – 50 D NH / NL – **MID TERM -**

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

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 .



## A/D Line v/s NYSE on Equities only - **SHORT TERM** - Last week A/D line diverged positively

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** than Index , **Suggests Strength in the market** . ( Green Circle) . On previous occasions May 3<sup>rd</sup> POM 14 to 20<sup>th</sup> June POM 13 , A/D Line lagged and correction was larger ( Red Circle)





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

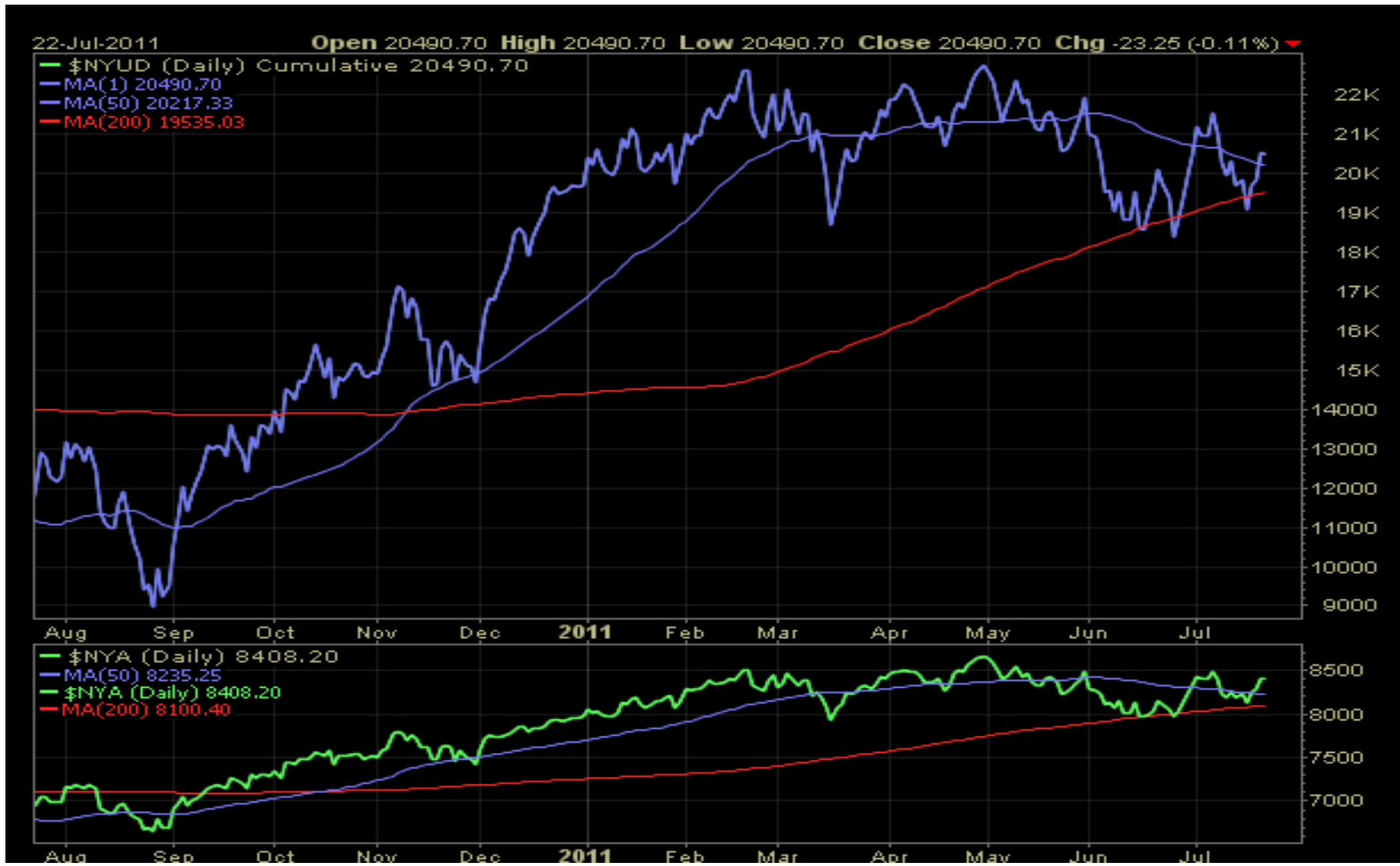
*The differential keep getting narrow on rally ( Green block) but A/D line still leads higher then Index ( shown in blue)is still leading the market suggests the Market tends to do catch up on upside ( Areas marked in green) , ( Point of intersection ) Till market tops .*

*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.*



# A/D line – VOLUME OSCILLATOR in NYSE – MID TERM -

Volume oscillator Ratio rejected the 200 DMA & Broke above 50D after the pull back , suggest still room for up move .



## SPX – Longer term

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

*Caution would come when LT – RSI, would go red line or break below green, so far so good.*



- 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%
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%

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

*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.*

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

## **Mid term - Sentiment Chart of all Mid Term cumulative indicators**

***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*

*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 / 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)**

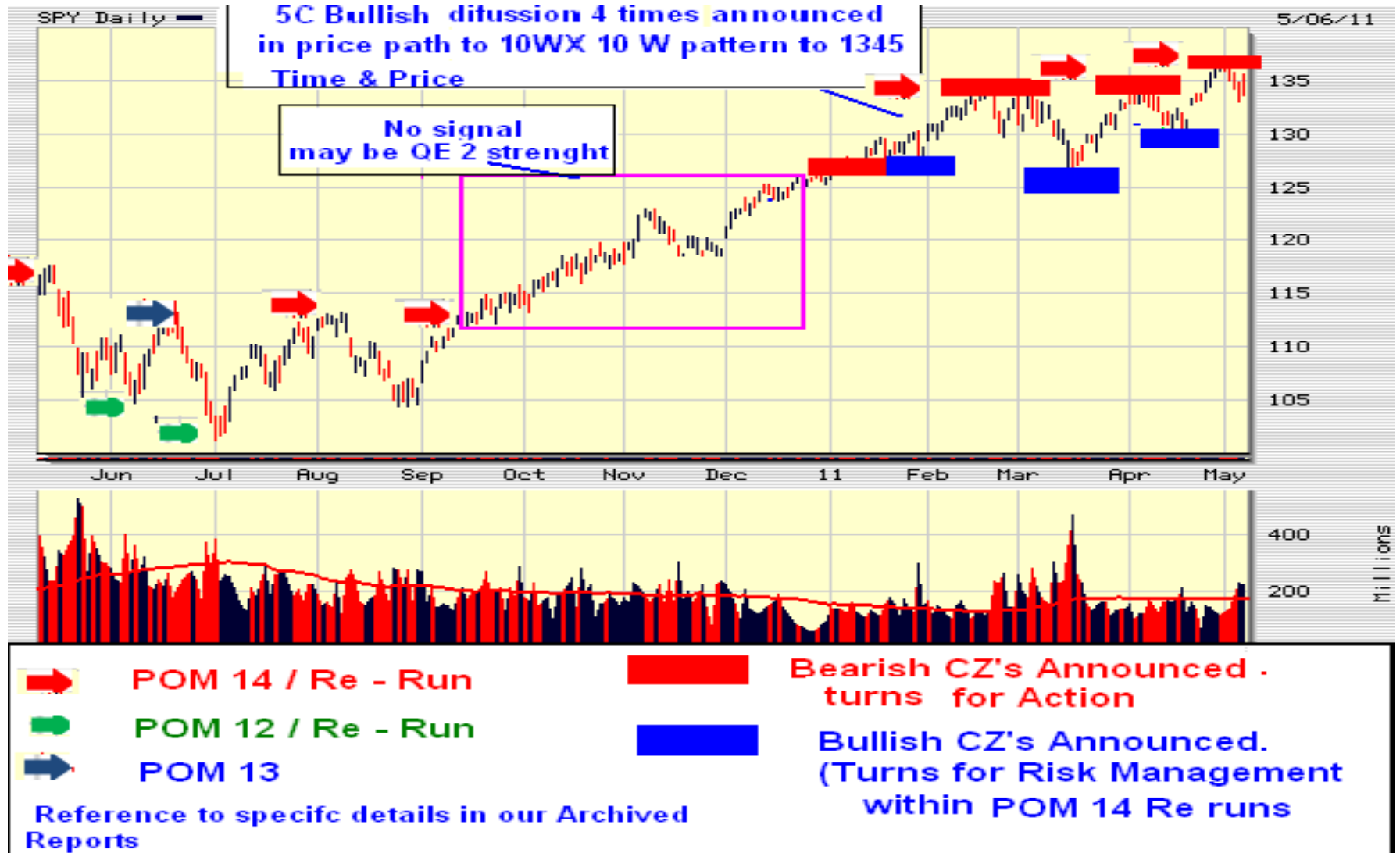
Courtesy : SENTIMENT TRADERS - Since 2006 to 2011 – The level to watch has been 0.25 for Bottoms - indicated in red bar below.

*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*



# 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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