



SG Capital Research

Global Market Insights

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

MAEG- WKLY MKTSTR- GL- POM -SG 2011 # JUNE_06

For Immediate Release – *Monday AM (EST)*

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Market Strategy Global (A # 1) - SPX – Closed @ 1300

Analysis of Broad Market that includes – **Jan 1st 2011 – SPX 1257 (+ 3.4 % 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,**
- Advance / Decline Internal market behavior – **A/D – SPX**
- Sentiment Analysis with Extreme character – **TICK , TRIN, VIX**
- Global Market Analysis for SPX clues – **FTSE / EZU, CHINA / EEM - (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 – POM Signals & Price Projections**
- **Trading & Investment Conclusions**

- **Net Short – *None***

- *POM 15 Calls – NONE Triggered this year*

- **UPSIDE Target CZ - *Our objective still remains intact - of SPX into Bearish CZ - 1370 -1380 earlier validated on 5/2 , A # 1 – MS . We will wait and see the quality of next rally***

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

- Hedge on long positions @ POM 14 via

- *SD # 2 / CZ – PQV Validated Sectors on Sell Side as stated in Sector Report OR*

- *Utilization of Bullish CZ to Bearish CZ prices moves in SPX to Recycle partial capital till the Bigger Trend sets in.*

- **DOWNSIDE Target CZ -**

- SHORT TERM - BULLISH CZ - Triggers - Alert ON 5/25 - *SPX has reached our Bullish CZ 1315 - 1295 within the regime of POM 14 re runs.***

- **Net Long – *None***

- *POM 12 Call – None – Triggered this year.*

- *TAS – Next Buy to Trigger – Close above 1360 in SPX*

• Market Insights

Our last Report 5 /25 (Alert)

- *SPX has reached our Bullish CZ 1315 – 1295 ,this should initiate the 4th counter trend rally in 2011 from CZ to CZ*
- *Our Math indicator last week suggested primary lows in CZ on (Alert 5/25) followed by rally into 1st June(+/-) at time termination,(with June Cycle work and New moon cycle) followed by Re test of Bullish CZ 1315 -1295 back again That expectation on price path was completed last week and this AM.*

This week - Short Term

The market will finish the sixth week of correction early this week and lagging indicators are still providing excuses for selling pressure. The numbers released last week were a big surprise but the Market seem to have signaled this decline early May (5/2) at near CZ 1370- 1380 .

Currently Market may keep the bearish bias alive for early part of the week as we consolidate into Bullish CZ . The downside pressure will dissipate and the market rebounding in the near term. Lagging news report on the economy should turn less bearish in coming weeks, which would support a rebound to finish the 5th wave up.

- *The volume oscillators & Money flow – continues to build up a bullish divergence .*
- *The A /D Line and TRIN / TICK - work suggests that after this pull back is complete market should rally towards Time Ratios T – Termination 17th / 27th June for more significant peak. (chart below)*
- *The June cycle is a four-week cycle and the normal cycle has put-buying putting pressure during the first week. If we do get more downside pressure early this week, it will build up energy for a rally into the June.*

Intermediate Term

We are on POM 14 . The completion of Wave 5 should bring us to Bearish CZ once again . We would like to see how SPX reacts there. We have some Longer term charts on SPX and Dow Transports below to get some sense of it.

- **Since the Market is on POM 14 , we have more weight age for BEARISH CZ on SPX around 1370 -1380 and (monitor the direction of slightly larger correction from 1370 - 1380).**
- **BULLISH CZ are very critical for Risk management to review High beta Short Positions on bounces (such as current situation) .**
- **Therefore our view is when SPX's triggers Bullish CZ, the stronger / High beta Broader Indices will bounce faster (as depicted in lasts weeks A # 2 MS QQQ,IWM, EEM)**

KEY NOTE : On (6/8) Wednesday's scheduled Release A # 2 MS - we have full coverage on QQQ,IWM, EEM, , EZU & CHINA

Primary Market Analysis –

SPX – Short term

Another touch into Bullish CZ for completion of wave 4 was achieved . Currently may slightly overshoot for false break downside. But the Bullish reverse Poly Trend will be at play towards the 17th June / 27th June time frame for rally . (Refer notes within charts)



DIA – Short term

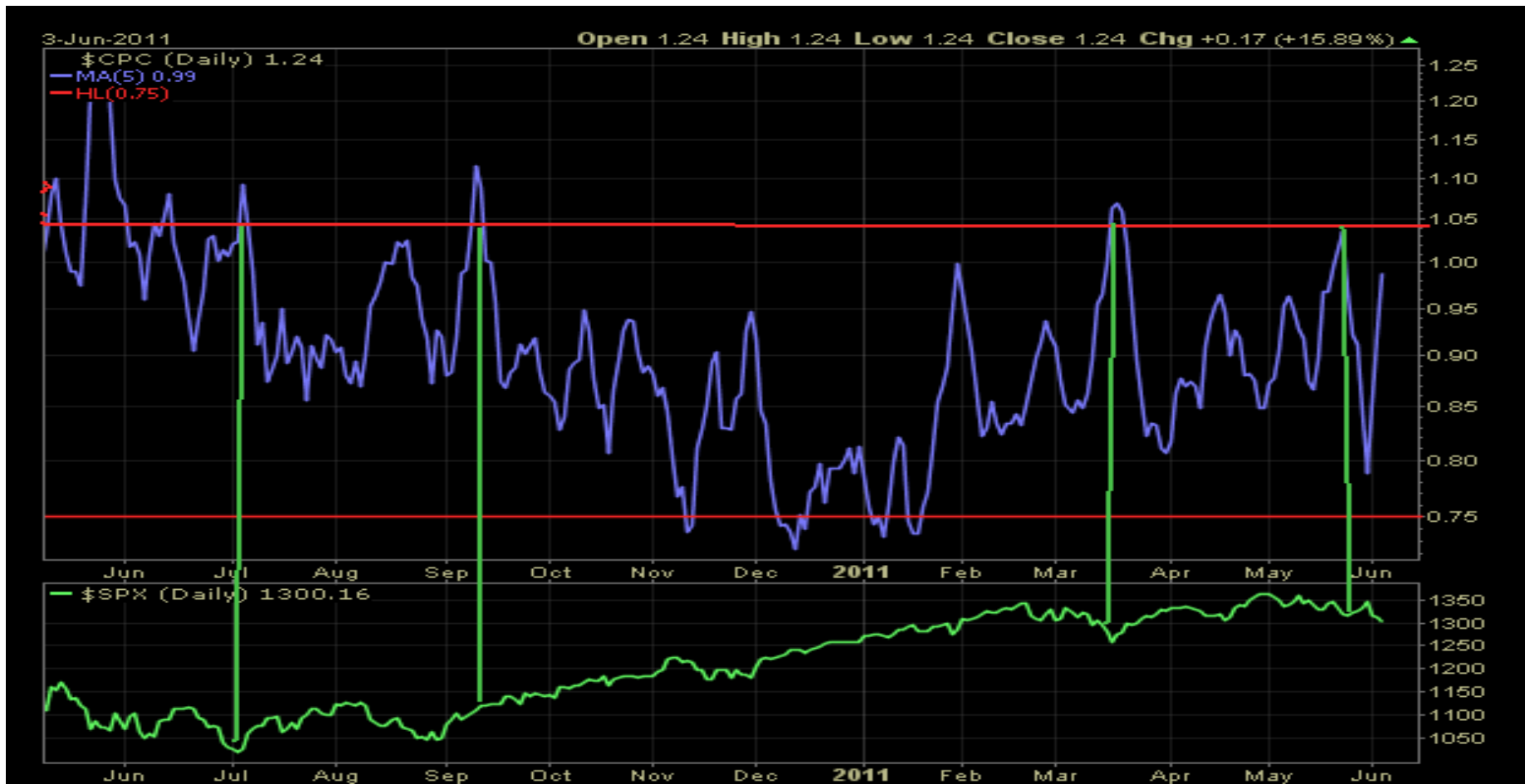
The Dow is oversold and trading at MULTI channel , suggesting a rally into late June.



SPX v/s CBOE – PUT / CALL RATIO

In chart below , We hit Ratio of 1.05, two weeks ago when the bottom was put in SPX and the rally began at 1300 , we expect similar to happen now on its re test of 1.05 once again on ratio to set a stage for completion of wave 4 .

(Put / call Quantity 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 ST bottoms (see the chart below, green vertical lines) but not for ST Top .** At the tops we prefer the \$\$ weighted Put / Calls it gives better signal by different method we use). .



SPX – TRIN / TICK - Mid term -

Third window up from the bottom is the 50 period EMA of the ticks. When the weekly mid Bollinger band is rising (which it is, BB bands on SPY above have been calculated for the weekly time frame on the hourly chart), then in this rising trend, a low in the SPY comes in when the 50 EMA of the ticks reach near 180.

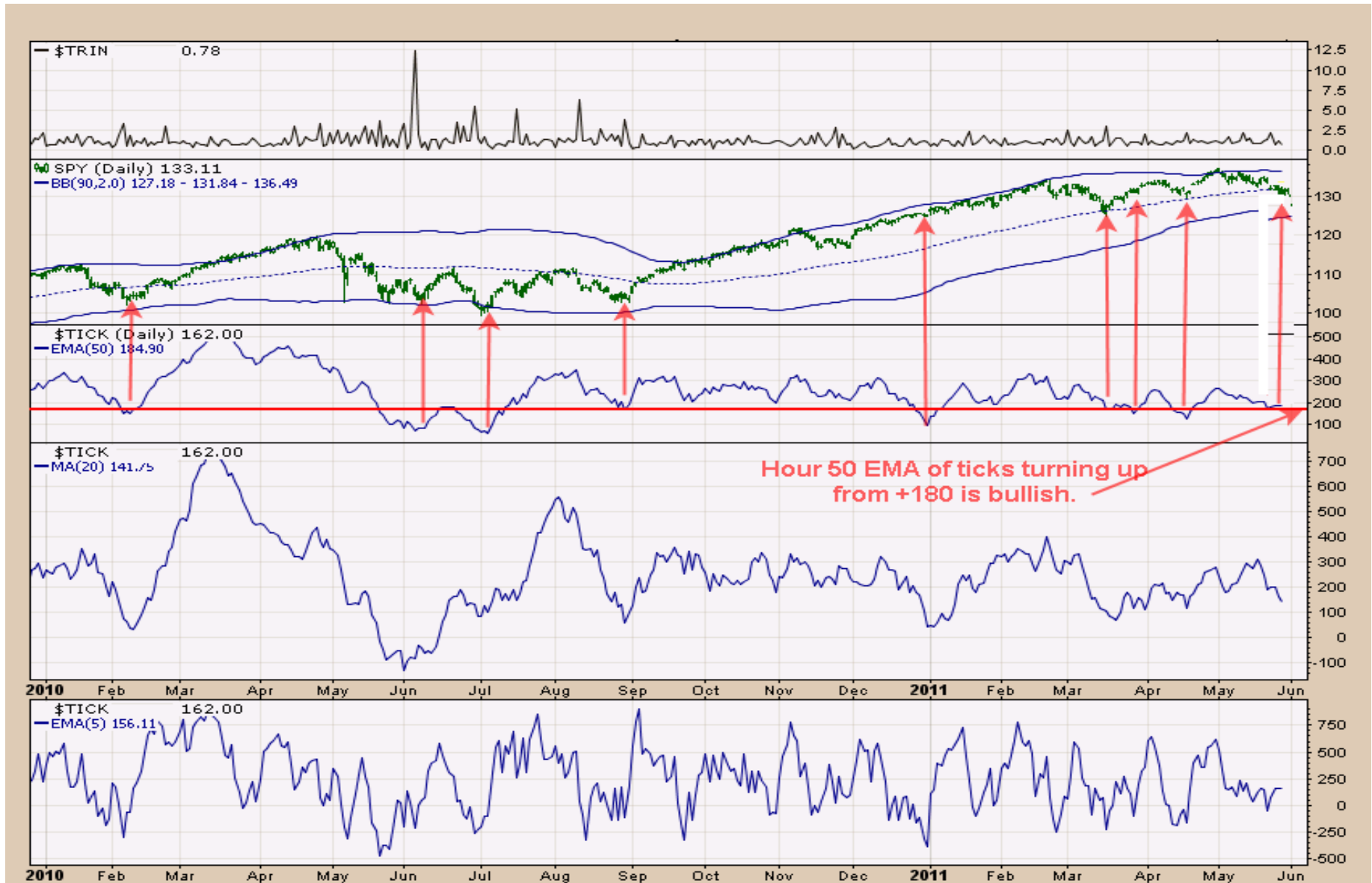
As you can see this level as been reached and is starting to turn. We would expect the ticks to perform strong next week.

The Tick & Trin each Indicator and its ratios Analysis . Normally when the Tick/Trin and Trin/Tick ratio turns and heads higher, the market continues to move higher. Last week's decline produced extremes in the ticks, TRIN and Ratios. We will watch this indicator closely for a bullish setup on 4 C re test

*If WAVE 4 – Re test would suggest Math energy is still left in the market to identify the Bullish CZ & PQV on SPX .(**important Test**) then we should Trigger rally .*

Chart....continues below

SPX – TRIN / TICK - Mid term.....cont



SPX – MID TERM

The CZ of 1305 -1295 should be valid based on our VTO study . Tuesday's rise tested the previous high of 5/19 showed upward energy in the market based on Oscillator . Last week 5 -15 p avg - TRIN closed above 4.00 & similar Tick average close at 5-15 p avg -400 also bullish. Such occurrence takes place in same week than the chances for a low increases. Chart below is slightly Mid term and RSI is approaching 30 at the same time .



Dow Transport Theory -

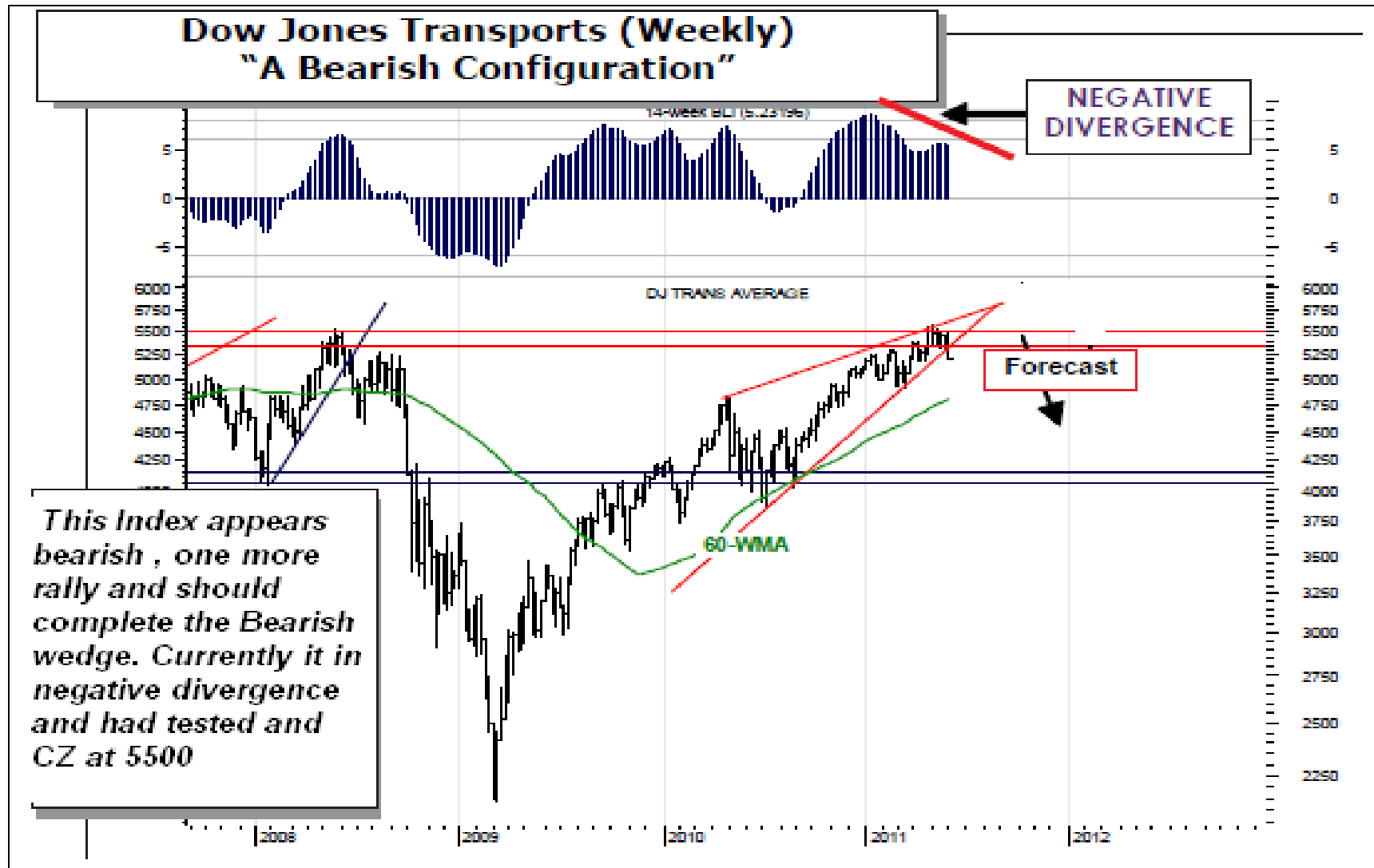
Point to Note – As mentioned in our Previous Reports - **We do not validate this Signal till CZ- PQV Validation break upside is complete which it has not. However**

By Conventional Transport Theory, Triggered BUY SIGNAL – on 5/5 @ DOW 12565 based on our Methodology (currently DOW at 12100 (Last Sell Signal was at 12,225). On other hand Method by Jeff S. triggered Buy at 12800. DOW Transports has history of getting in late with at least 3 whipsaws. Therefore we conclude it is best to be validated with CZ for .



Dow Transport

Refer notes within the chart –



• Advance / Decline Internal behavior Analysis

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

SPX – MID TERM - CONFIRMATIONS IN SPX BREADTH - A –D line confirmed by Bullish % Above 50-D MA WITH NH / NL's .

Past 2 weeks of decline of A/D line measured by (% of stocks above 50%) has reached conditions where the rally has began indicated in Red. This Breadth usually favors another bounce after this current pull back to 4 C & Bullish CZ in SPX .



NYSE v/s A/D Line on Equities only

If A/D still leads and has not converged (shown in blue)is still leading the market suggests the Market tends to do catch up on upside (Areas marked in green) , conversely if A/D line lags as in previous trend (indicated in red mark), the market tends to catch up on downside . This suggests that after the current pull back market should bounce back .



NASD v/s A/D Line

Unlike Broader Market NASD – A/D LINE is leading down on similar Analysis. This suggest bounce in NASD after the pull back should be weaker. Both the lines will be intersected during the next Top



SPX – MID TERM

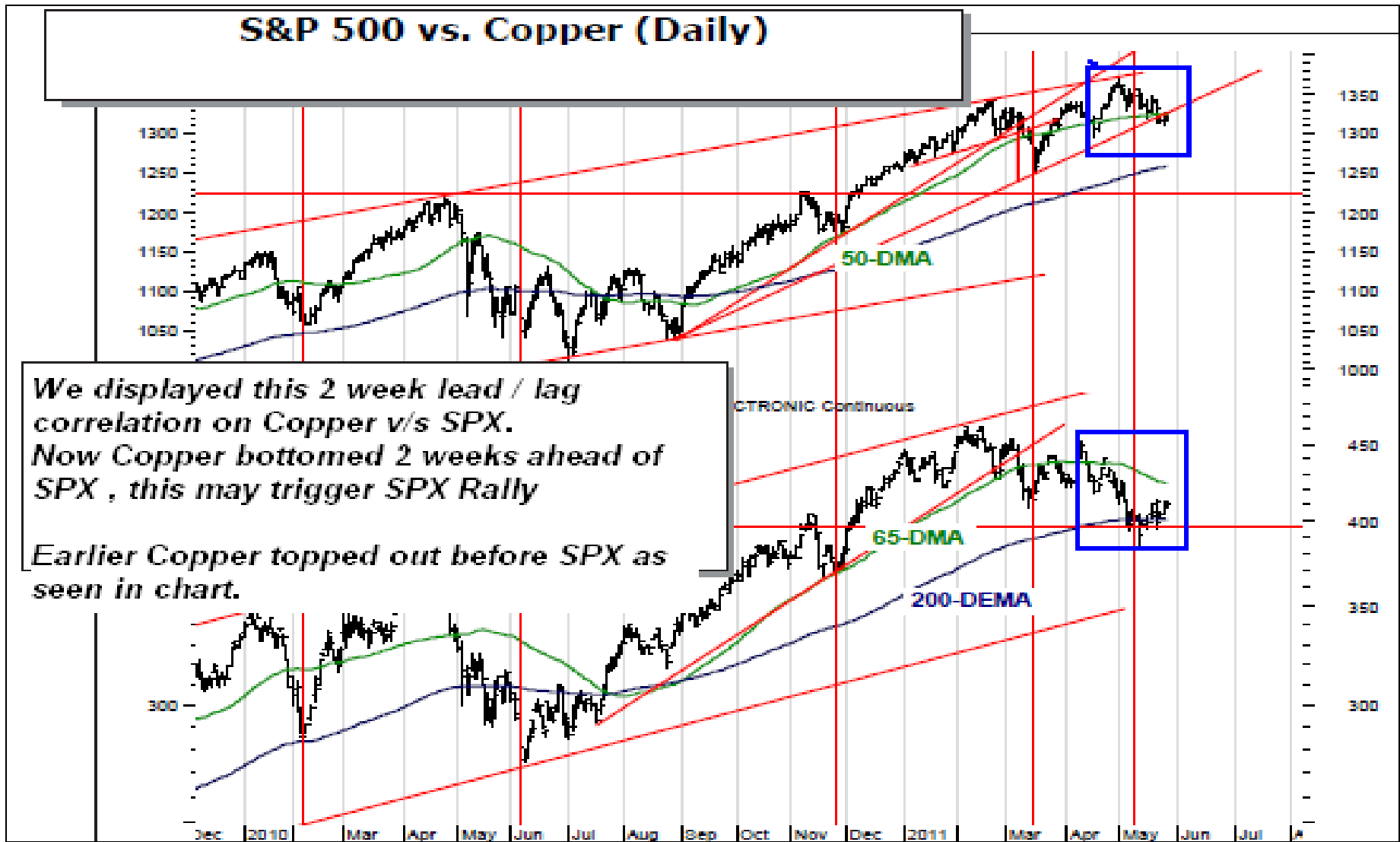
Even on slightly bigger time frame see the chart below RSI at 50 (Yellow line and circle in red) Suggests the rally should be coming in soon. RSI of 50 when holds on intermediate time frame along with all the Math indicators it tends to be very critical for rally.

But over all, in the bigger time frame we see negative divergences on daily and weekly indicators . We think 1275 on SPX should be the area to re visit for review. The weekly Relative strength to confirm the recent SPX move to new highs and forming a negative divergence. .



- SPX v/s Copper Cycle. Analysis

Refer notes within the chart –



- 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 – Month of May – Turns negative – CORRECT (Indicated below)

JUNE has negative bias



Calendar Cycle - Cycle dates – Historically “ Month of JUNE” – has Negative positive Gains in Bear / Sideways Market

- 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%	

- **Sentiment Analysis (3rd 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.

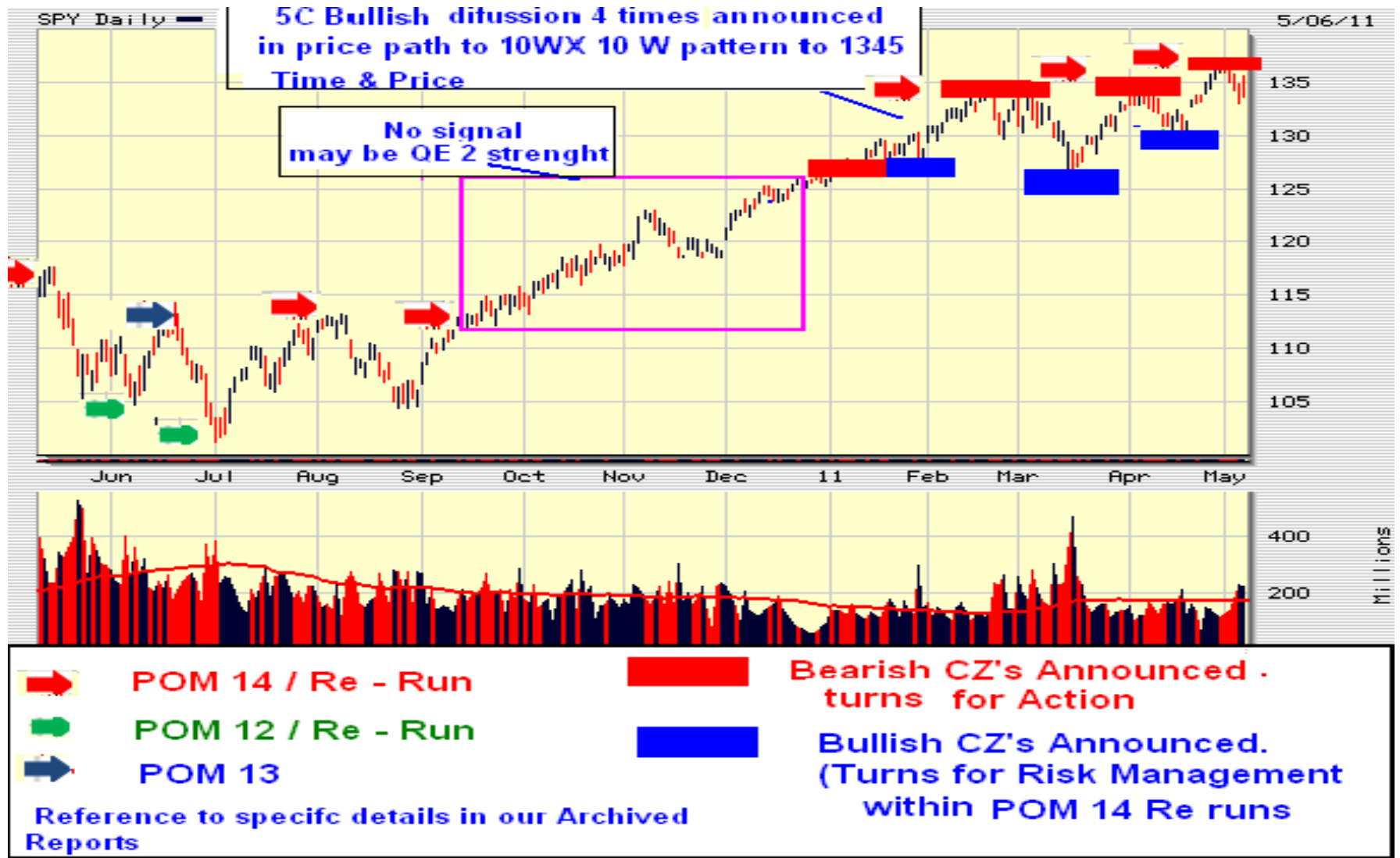
Courtesy – Schaeffer’s Research - Investors Intelligence – Past 6 weeks data ..

Date Published	Percent Bullish	Percent Bearish
06/01	45.2	20.4
05/25	43	19.4
05/18	45.6	19.6
05/11	51.1	18.5
05/04	54.9	16.5

Conclusion – Not much 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 PQQV 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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