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_14

For Immediate Release – Tuesday AM (EST)

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Market Strategy Global (A # 1) - SPX – Closed @ 1270

Analysis of Broad Market that includes – Jan 1ˢᵗ 2011 – SPX 1257 (+ 1.03 % 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**

- ## <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 – POM Signals & Price Projections**
- ## **Trading & Investment Conclusions**

- ### *Net Short – None*

  - ➢ *POM 15 Calls – NONE Triggered this year*

  - *UPSIDE Target CZ -   POM 14 – re run into Bearish CZ - 1370 -1380   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*

  - *DOWNSIDE Target – POM 13*

    Triggered POM 13 on 6/10 @ 1270. Prices below 1300 MCZ have been diverging Bullishly .

- ### *Net Long – None*

  - ➢ *POM 12 Call – None – Triggered this year.*
  - ➢ *TAS – Next Buy to Trigger – Close above 1360 in SPX*

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

Our last Report 6 / 07

" Market may keep the bearish bias alive for early part of the week as we enter & consolidate into Bullish CZ . with False break downside. 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.

Past week net – net SPX dropped below into MCZ 1300 by 30 points and On 6/10 we triggered POM 13 at 1270

This week -

- _<u>The volume oscillators</u> & Money flow – continues to build up a bullish divergence ._

- _<u>The A /D Line and TRIN / TICK</u> - work suggests that after this pull back is complete market should rally towards Time Ratios T – Termination   17th / 27th June._

- _<u>Lunar Cycle -</u> SPX been making highs on new moons and lows on full moon which is exactly opposite of RBS's study several months back. <u>This does not mean</u> it invalidates their findings. Rather, what we are seeing is simply an example of markets <u>having inverted during this cycle</u>. Our Goal is to Track the turning point regardless of the event (Full moon or New moon alike), Therefore we apply such cycles carefully in concert with our other Math Indicators at extremes (See the SPX Chart below) ._

- _<u>The astro harmonic</u> event (full moon and eclipse) due in a few days (15th June +/-) . Past cycles suggest that these events have a high probability to coincide with significant moves in the market._

- _<u>Sentiment Shows Extreme Bearishness</u> - The CBOE put/call ratios show that the <u>I</u>ndex options put/call ratio was 1.36. & Equity-only put/call came in at 0.99. These are readings usually seen near market lows and typically are followed by rallies. The recent geomagnetic storms could be keeping investors nervous. Short covering going into options expiration on Friday — could provide the excuse to get back into the market to avoid missing the rally._

- *Headline Watch - It's interesting to see some of the headlines extremes in scare, suggest Sentiments is far more bearish : The sentiment should be correct in Longer term. At this point, we would caution that the possibility of a short-covering rally on unexpectedly perceived good economic news appears very likely.*

  Market Watch Summary…………

- *CNN Poll: 48% Say Depression Will Strike America.*
- *Economists Predict Financial Meltdown Directly Ahead. Prepare Now.*
- *Is a Second Great Depression Bearing Down on Us?*
- *Rogers: Staggering Debt to Spark Even Worse Financial Crisis Than 2008.*
- *Bove: Fed Pushes US to Brink of New Recession.*
- *El-Erian: Big Policy Mistake Will Spark Recession.*
- *Shiller: Housing, Jobs May Push US Into Recession.*
- *NEWSFLASH: It's Too Late to "Save America".*
- *18 Signs The Collapse Of Society Is Accelerating*

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Primary Market Analysis –

SPX – Short term

Another touch into Bullish CZ for completion of wave 4 was achieved . But the Bullish reverse Poly Trend will be at play towards the 17th June / 27th June time frame for rally .

NEW MOON & FULL MOON TURNS are pretty evident as we have pointed these in our Previous Reports for Turns . (Refer notes within charts)

DIA – Short term

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

Dow Industrials

High level Rising Channel and Low Level falling Channel has met

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SPX v/s CBOE – PUT / CALL RATIO

In chart below , We Finally hit Ratio of 1.05 that we been expecting for while . Previous such occurrence marked in green

(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 – (important chart)

This is Option expiration week. The chart below shows there is evidence that there is a low near current prices as the 5 day EMA of the TRIN; 5 day EMA of the Ticks and 2 day MA of the Equity Put/Call ratio all are in bullish areas at the same time as well as the SPX is at the lower weekly Bollinger band which is support. There could be a quick pull back next week for a test of yesterdays low and if the above indicators remain near bullish territory. (See the chart below for vertical red lines)
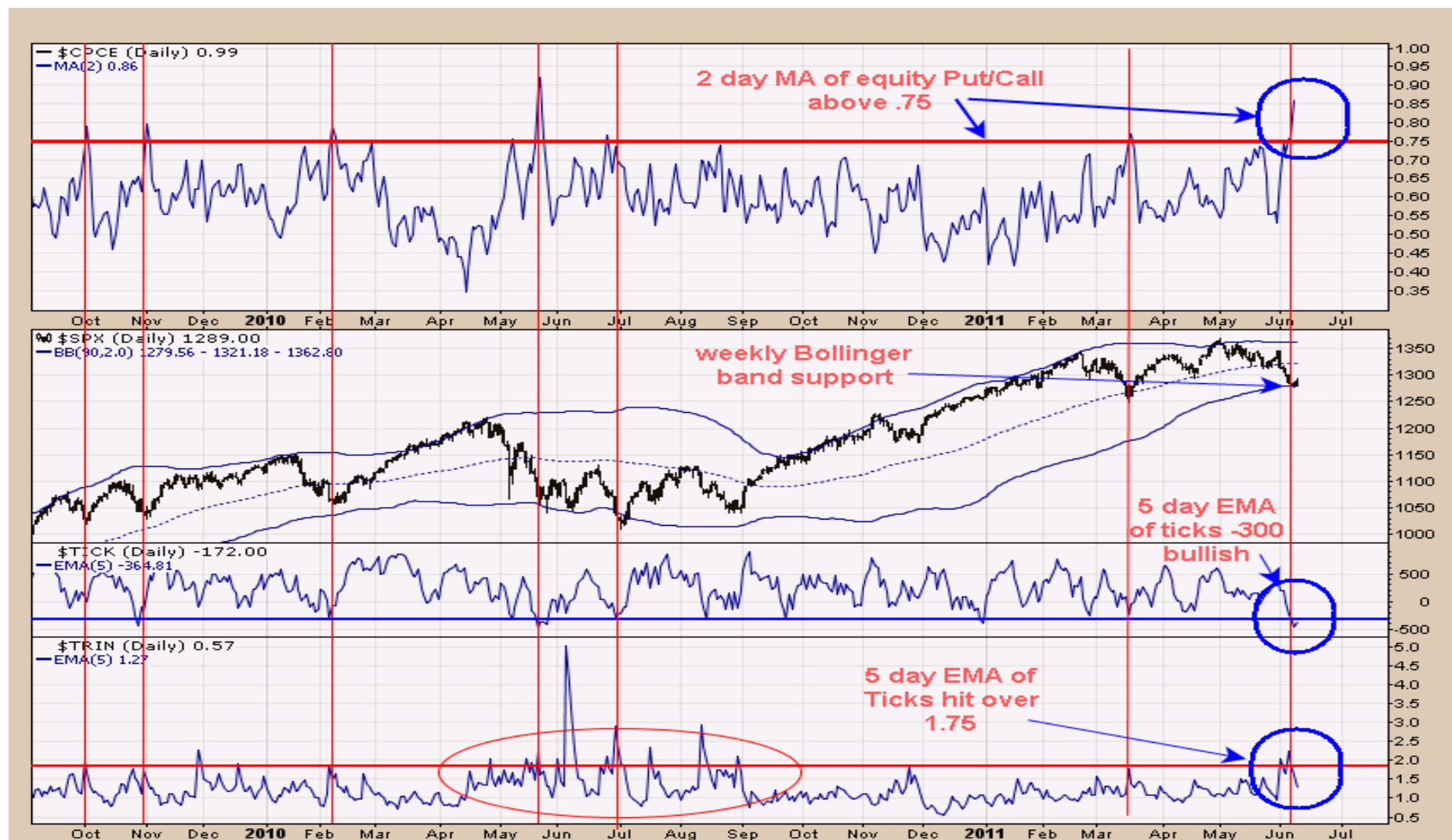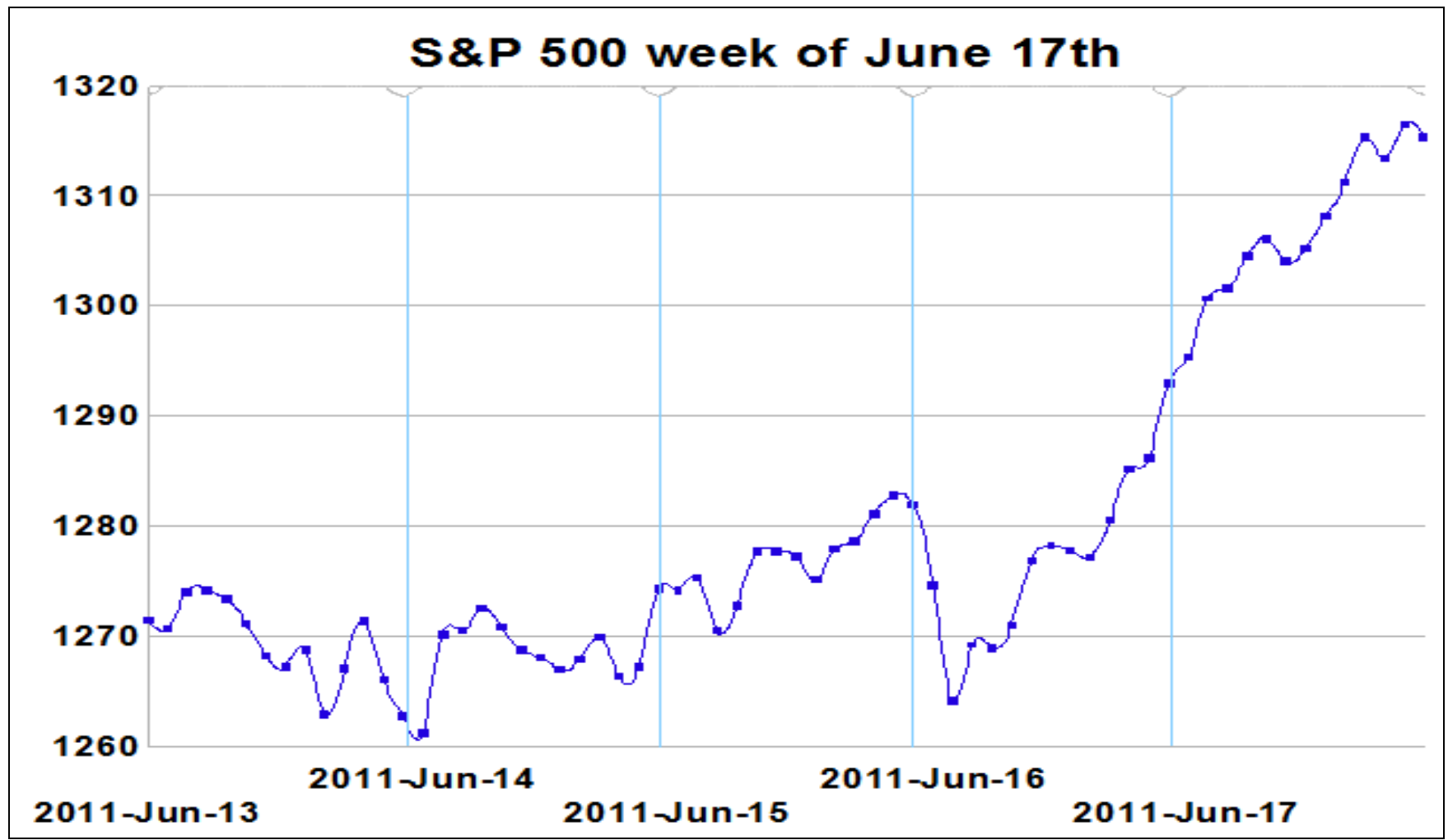
SPX – MID TERM

We Indicated this chart last week 's Report . The prices entered this Zone in green CZ – PQV with VTO divergences. . Now CCI showing divergence as well . RSI approaching below 30. All pointing toward the rally substantiated by chart above.

SPX – SHORT TERM CYCLE PATH

S&P 500 week of June 17th

Dow Transport Theory - UPDATE

- ***By Conventional Transport Theory, Triggered BUY SIGNAL*** *– on 5/2 @ 12800 The day of the Market top.*

- ***Our improvised Methodology -*** *With IYT price lead v/s DIA price lag along with IYT / DIA Ratio Analysis – Triggered on 5/5 @ DOW 12565 .*

Point to Note – As mentioned in our Previous Reports –

We do not validate these signals   till our most important condition : CZ- PQV Validation break upside is completed – (which it had not) . There for there was no Trigger in our Aggregate process.

Matter of fact IYT was a SHORT SELL Candidate by CZ – PQV Validation on 5/2 & 5/5

• 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 .*

In this correction since our POM 14 , 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 from current levels

NYSE v/s A/D Line on Equities only

A/D still leads higher then Index 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) , (Point of intersection) Till market tops . This suggests that after the current pull back market should rally .

SPX – MID TERM

Even on slightly bigger time frame see the chart below RSI at 50 (Green horizontal bar line) 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. (Vertical Red lines)

But over all, in the bigger time frame we see negative divergences on daily and weekly indicators . The weekly Relative strength to confirm the recent SPX move to new highs and forming a negative divergence. .

- ## 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) - JUNE has negative bias – so far correct

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		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
Bull Run														
	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 , AAII 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 4 weeks data ..

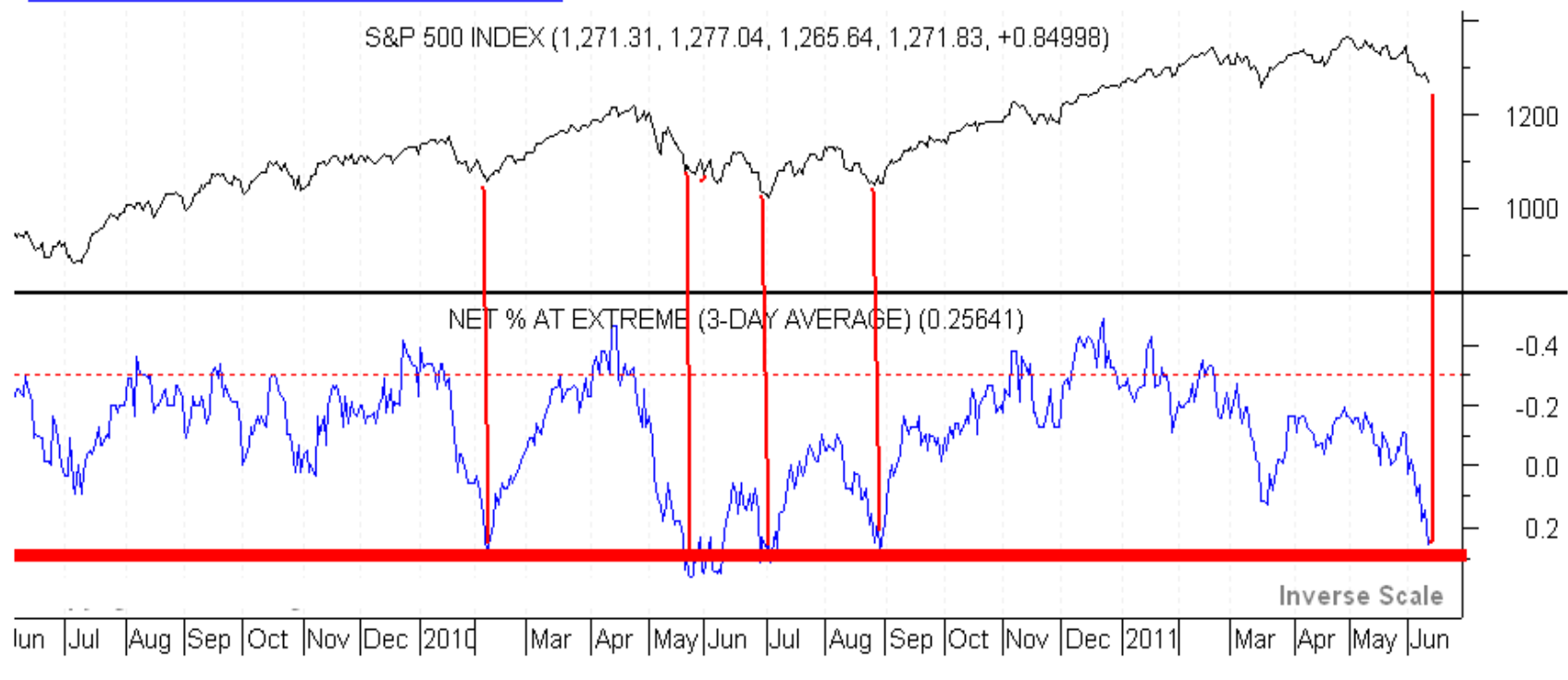| Date Published	Percent Bullish	Percent Bearish
06/01	45.2	20.4
05/25	43	19.4
05/18	45.6	19.6
05/11	51.1	18.5
05/04	54.9	16.5

Conclusion – Not much change

Sentiment Summary Indicator -

Cumulative Indicator derived from the following Survey Sentiment Indicators at extremes collectively …………. We think this Indicator is at 0.2 - tends to work well when overlapped with Math Indicators of market Internals. CFTC Reported

Sentiment Surveys - AAII,
Investors Intelligence
NAAIM Manager Sentiment
Market Vane
Options Sentiment
Mutual Funds Sentiments
Insiders Selling / Buying Ratio

INDICATORS AT EXTREMES

LAST UPDATED: June 13, 2011

S&P 500 INDEX (1,271.31, 1,277.04, 1,265.64, 1,271.83, +0.84998)

NET % AT EXTREME (3-DAY AVERAGE) (0.25641)
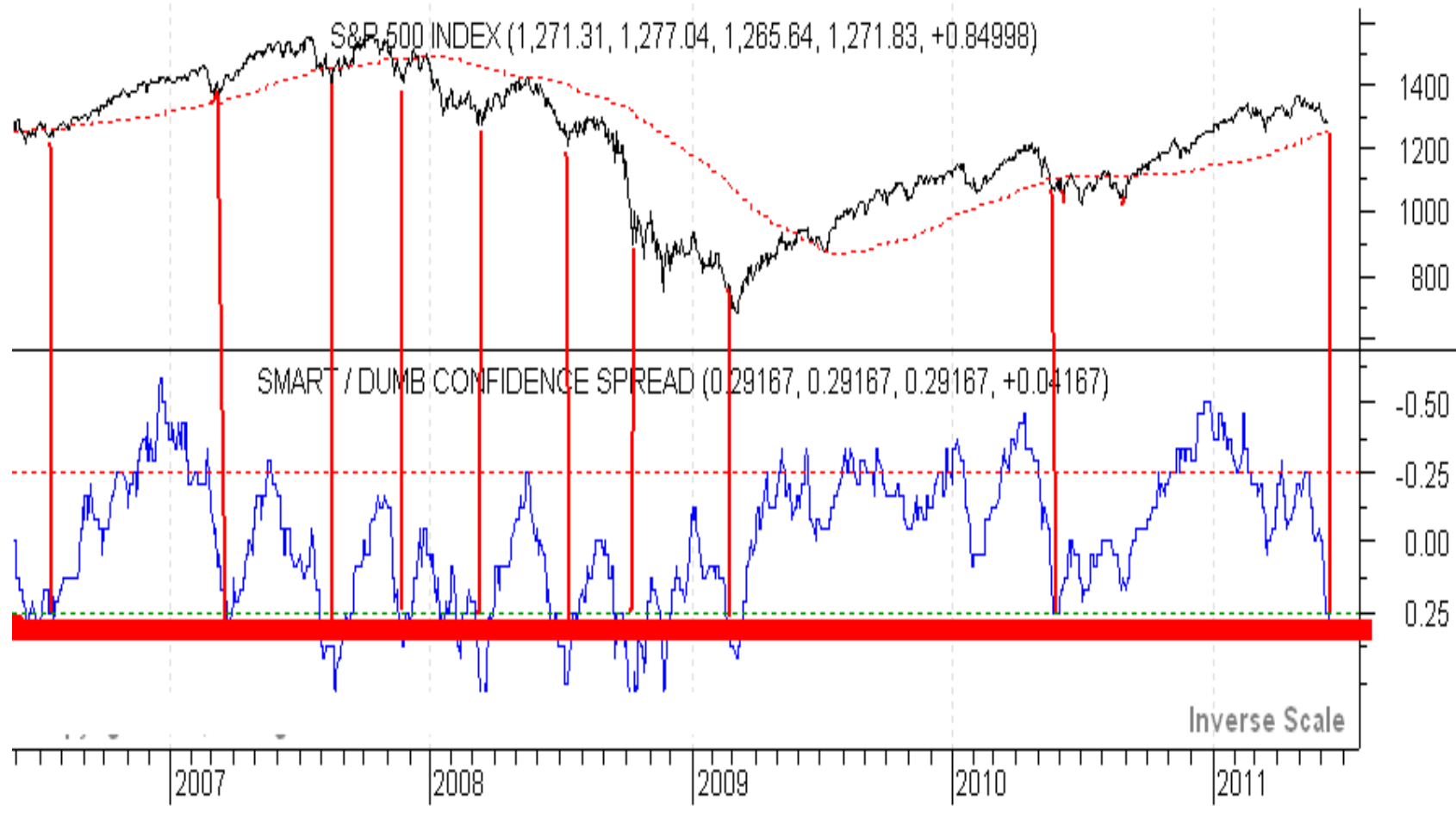
Inverse Scale

Smart / Dump Money Ratio Indicator -
Since 2006 to 2011 – The level to watch has been 0.25 indicated in red bar below. CFTC Reported

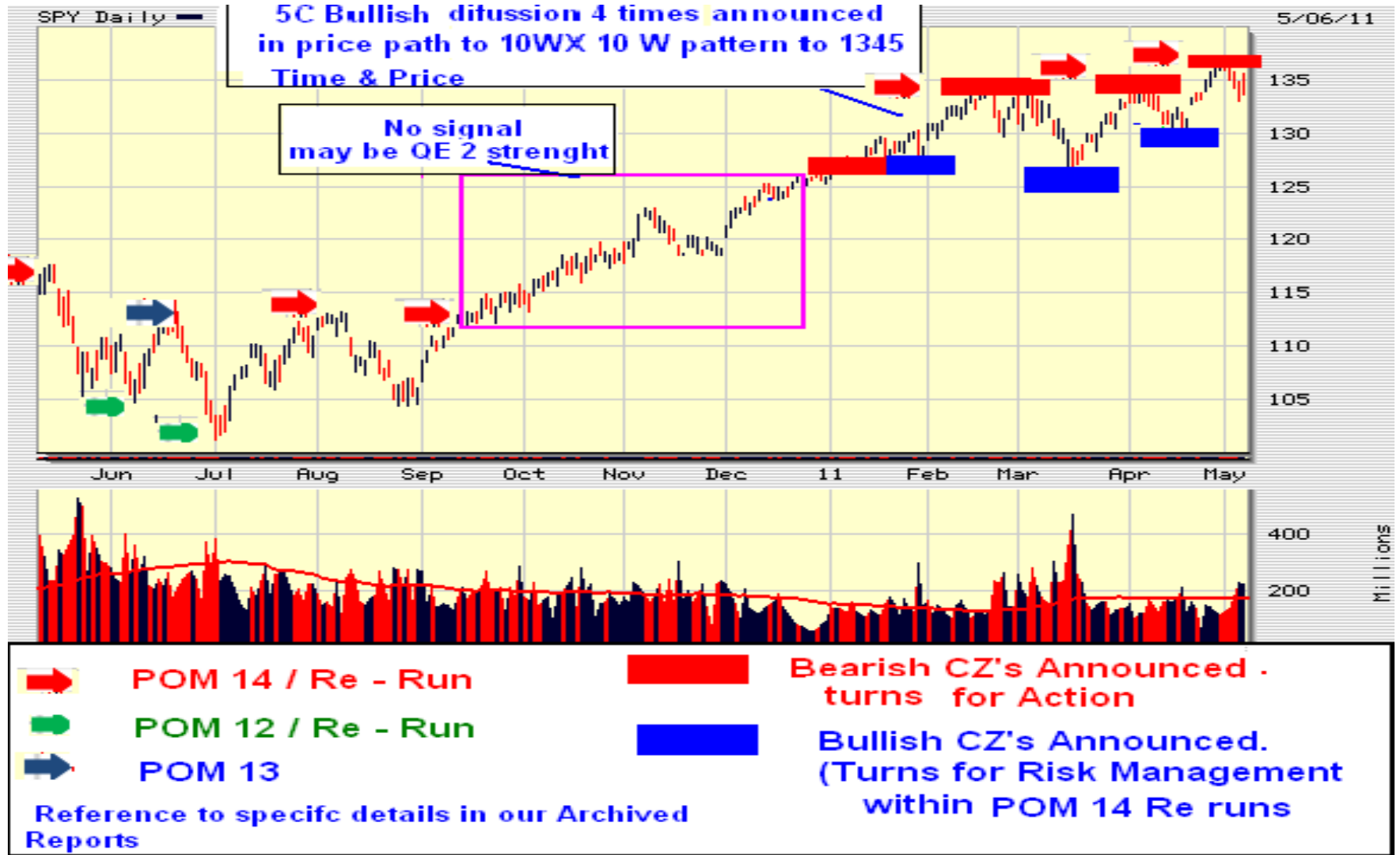SMART MONEY / DUMB MONEY CONFIDENCE

LAST UPDATED: June 13, 2011

S&P 500 INDEX (1,271.31, 1,277.04, 1,265.64, 1,271.83, +0.84998)

SMART / DUMB CONFIDENCE SPREAD (0.29167, 0.29167, 0.29167, +0.04167)

Inverse Scale

2007   2008   2009   2010   2011

RYDEX BULL / BEAR – LEVERAGED RATIO

Conclusion – Inconlusive at Market bottoms but has good input at market tops when linned up with math Indicators

Appendix

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

SPY Daily

5/06/11

5C Bullish difussion 4 times announced
in price path to 10WX 10 W pattern to 1345
Time & Price

No signal
may be QE 2 strenght

Jun   Jul   Aug   Sep   Oct   Nov   Dec   11   Feb   Mar   Apr   May

POM 14 / Re - Run

POM 12 / Re - Run

POM 13

Bearish CZ's Announced -
turns for Action

Bullish CZ's Announced.
(Turns for Risk Management
within POM 14 Re runs

Reference to specifc details in our Archived
Reports

- ## 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

- (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