



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_20

For Immediate Release – *Monday AM (EST)*

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Market Strategy Global (A # 1) - SPX – Closed @ 1271

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**

- **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 which gets priced off SPX Risk in different Proportion. Therefore in A # 1 – MS . Emphasis is on SPX and its internal ingredients.

- **SPX – POM Signals & Price Projections**
- **Trading & Investment Conclusions**

- **Net Short – *None***

- *POM 15 Calls – NONE Triggered this year*

- **UPSIDE Target CZ** - *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 – P/QV 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.*

- *We should be very close to Trigger POM 12 – for NET LONG.*

• Market Insights

Our Last Report 6 / 16

“ Interim update on potential Trigger POM 12 –for Net Long . Earlier on 6/10, SPX triggered POM 13 at 1270 (Currently in false break to downside)

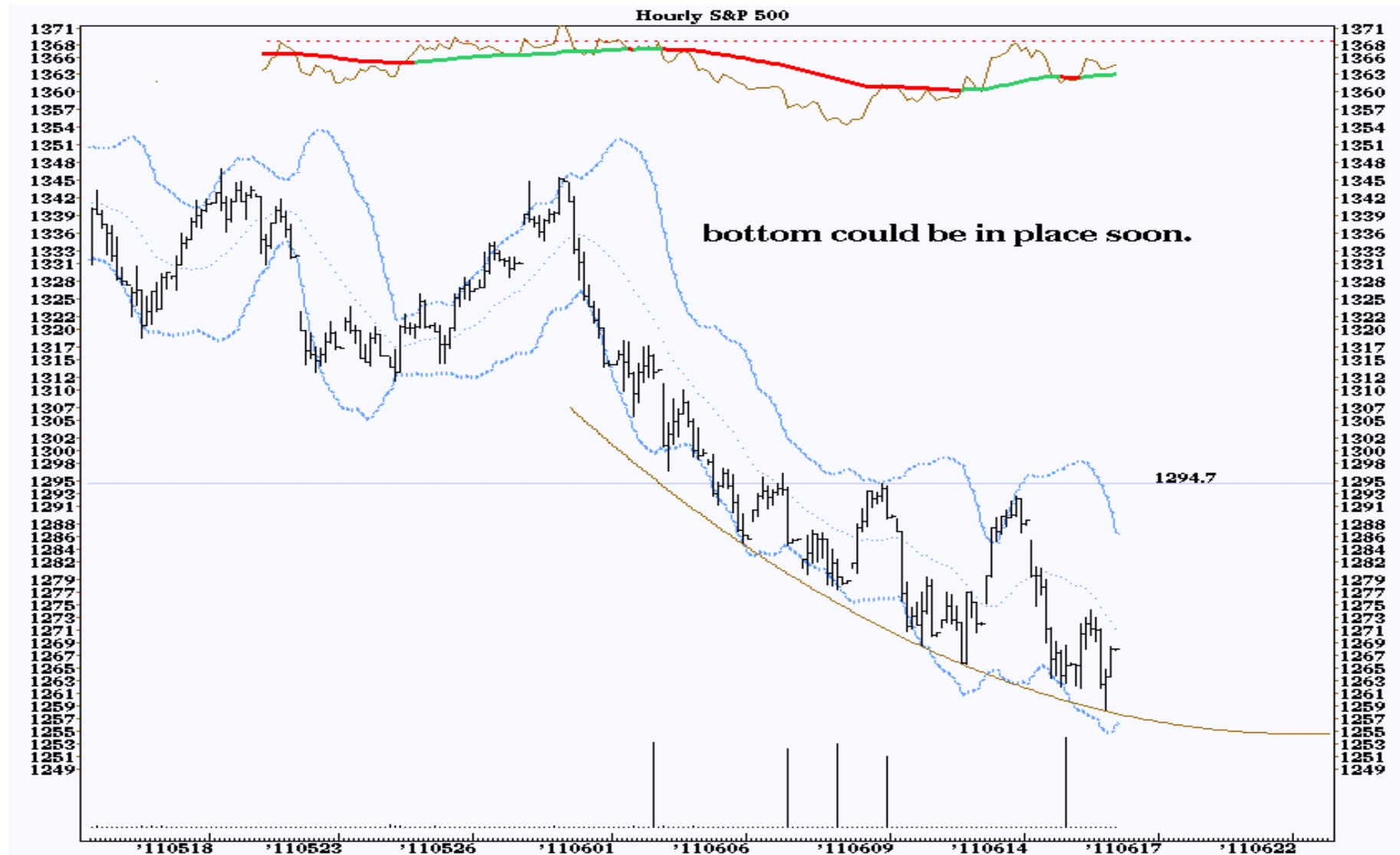
This week -

- ***Federal Reserve meeting beginning tomorrow and ending on Wednesday afternoon. The market paused last week, but is heading for a cycle low due in the period from the end of June to the beginning of July. This tends to be a seasonal low which is followed by the "Summer Rally" and this year looks to be no different.***
- ***One caution is the Fed pulling QE2 support from the market that it will come at the end of June . Market is pricing in this phenomena. If Market further reacts to such event then such low should be a buying opportunity . This is one of reason we are awaiting for POM 12 to be Triggered.***
- ***The Time Termination on Multiple count ends between 17th – 27th for lows, measured by Prices of broader Index and AD line termination.***
- ***June 27th is also the date on which the apex of the rising diagonal triangle on the Dow Industrials . (If that pattern is correct, See chart below). One of the most effective patterns in the market at tops over the last few years has been the diagonal triangle, or wedge, pattern. (Certainly when it is combined with Math Indicators and Volumes). Time termination of Apex of the wedges is that the date on which the apex of the pattern forms in the bottom following the collapse of the wedge pattern.***
- ***Our money flow gauges indicate that the reduction in downside momentum we've been seeing in the last week.***
- ***The seasonal low period of time. Almost every year, we get a late June or early July low and a Summer Rally in the market. We haven't heard a good fundamental reason why this happens. The market is deeply oversold at the present time and there's enough bullish sentiment still out there put buying pressure take over and send the market back up to POM 14 Targets***

Primary Market Analysis –

SPX – Short term

The Bullish reverse Poly Trend will be at play towards the 17th June / 27th June time frame for rally. Bottom could be in place



DIA – Short term

The Dow is oversold and trading at MULTI channel , suggesting a rally into late June. The rising wedge during the QE2 rally period. (the chart below) , the support line of the rising wedge was broken (Japanese earthquake), but the market rallied back from the March nuclear panic low to retest the wedge. That retest formed the May top. (Refer notes within the Chart)



NYSE – Short term

Divergence exist in bottom formation, Time Ratio lows in progress on top of Poly Trend . The Rally could be putting in Right shoulder (We keep a watch if Volume confirms)



SPX v/s CBOE – PUT / CALL RATIO

In chart below , Our long awaited target of 1.1 on 5DMA @ 0.75 . 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 –

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.

(Technical Problems with Chart)

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 v/s VIX

WE PREVIEWED LONGER TERM LAST WEEK IN OUR SPECIAL ALERT – Today we show the SHORT TERM

The VIX must close outside the its Bollinger Band (step one) and the second step which produces the buy signal is when the VIX closes back inside of the Bollinger band. VIX pushed higher even though the SPY closed higher last week . This is in process. We like to see our ducks in a row and there are a couple of ducks out in left field. This is all probabilities.



VIX – PEC D - Complete

The volatility index has rallied to the 618 / 381 retracement of the March high.



Dow Transport Theory -

Based on our DOW Transport Theory – IYT is trading above DIA (see chart below) , Second the IY / DIA Ratio is close to break out . CZ validation should happen at the time of POM 12 Trigger . Currently Dow is at 12000.



• 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 rally from current levels



NYSE v/s A/D Line on Equities only (case 1)

This convergence gap between A/D Line and Index indicates the rally is up coming soon to intersect back in

A/D still leads higher than 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 .



NYSE v/s A/D Line on Equities only (Case 2)

In spite of correction . The Cumulative Net New Highs Line(Blue) is still above its 10-D EMA (pink) , suggest there is some energy left in rally . We would look to cross the 2 lines for Sell signal . Since July last year the lines have been on side of the Trend.



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 Gains in Bear / Sideways Market – Proved correct so far

- 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)**

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 ..

Date Published	Percent Bullish	Percent Bearish
06/15	37	26
06/08	40.9	22.6
06/01	45.2	20.4
05/25	43	19.4
05/18	45.6	19.6

Conclusion – Sudden change in Bearish ness within one week to be noted.

Sentiment Summary Indicator - (3rd 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

INDICATORS AT EXTREMES

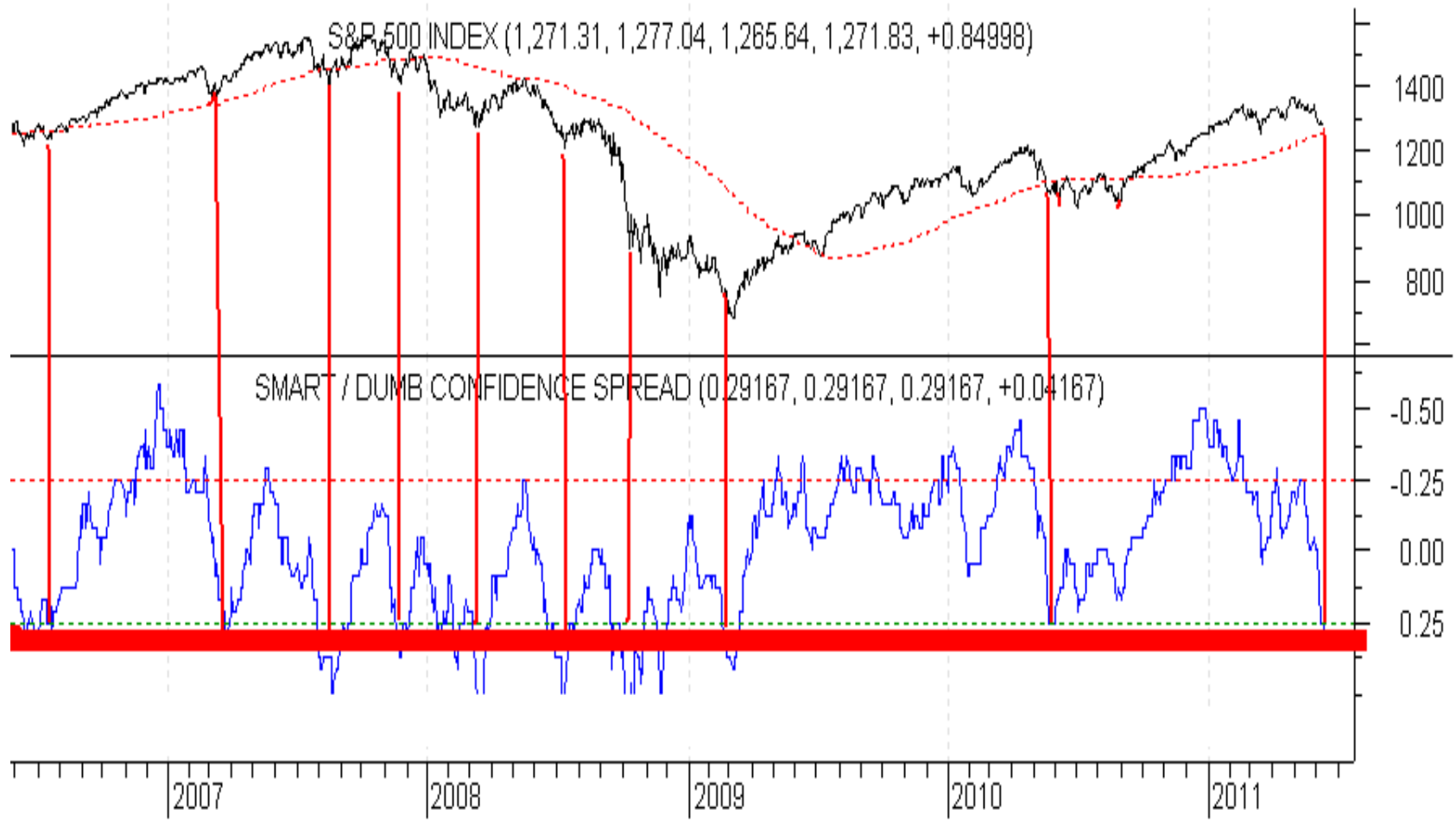
LAST UPDATED: June 17, 2011



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.

SMART MONEY / DUMB MONEY CONFIDENCE

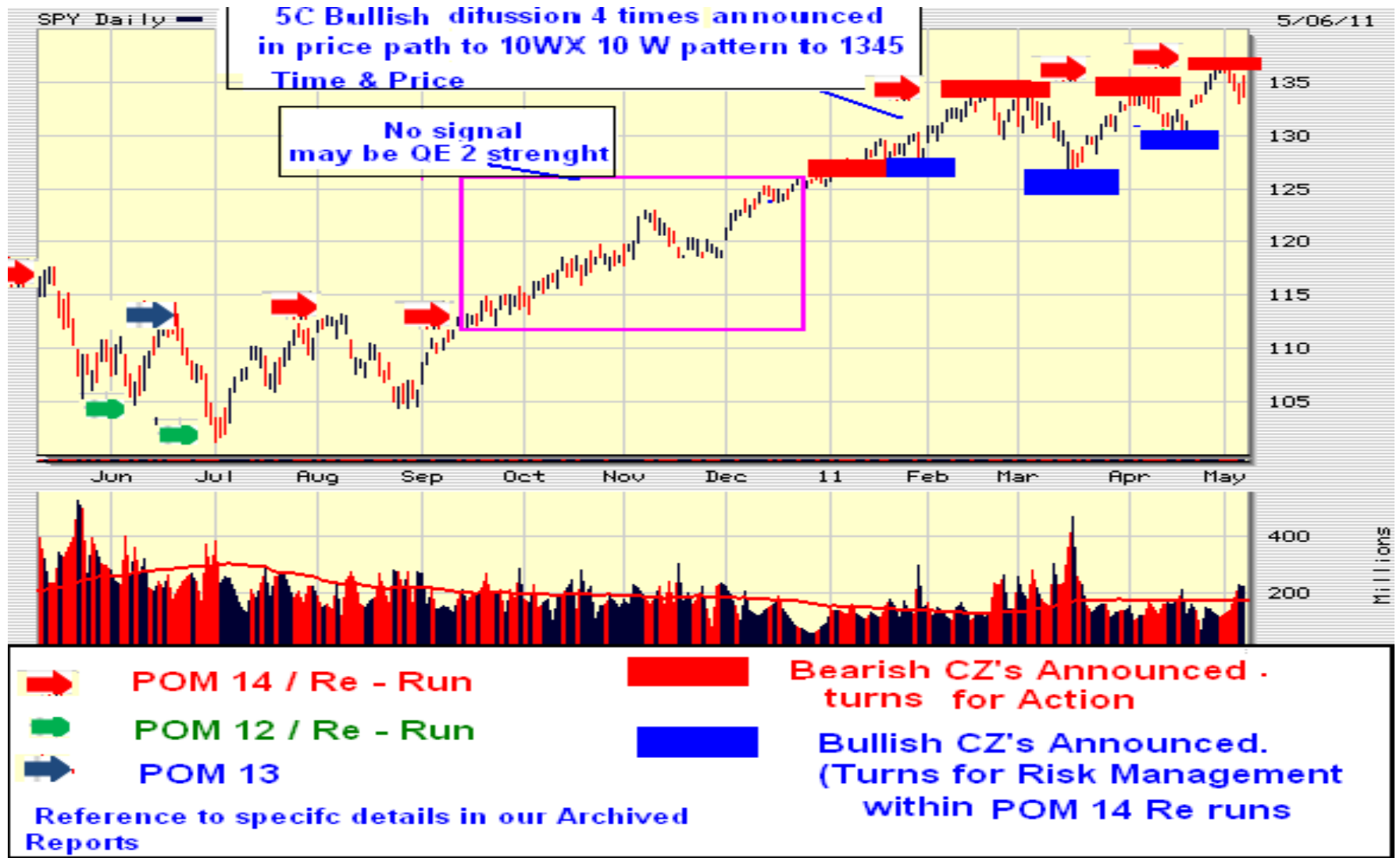


RYDEX BULL / BEAR – LEVERAGED RATIO - Courtesy : SENTIMENT TRADERS

Conclusion – This is mmre of Top finding Indicator and Inconlusive at Market bottoms timing

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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