



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_27

For Immediate Release – Monday AM (EST)

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Market Strategy Global (A # 1) - SPX – Closed @ 1268

Analysis of Broad Market that includes – Jan 1st 2011 – SPX 1257 (+ 1.01 % 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 but in different Proportion. Therefore in A # 1 – MS on SPX and its internal ingredients are covered in detail for POM calls.

Our A # 2 – MS with Broader Indices and Global Indices gets priced based on this SPX Risk & POM's.

- **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 triggered @ POM 14 – Re run SPX @ 1370 on 5/3 along with 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. - Risk Management for High Beta Short position and rebalancing Longs

- **Net Long** – *BY ALERT EMAIL*

- *POM 12 Call – Triggered POM 12 @ 1278 - on 6/23 – for NET LONG . Prices below have been diverging Bullishly*

• Market Insights

Our Last Report

“ On Friday we send “ Interim update” Alert email on SPX Trigger POM 12 – for Net Long on 6/23- @ 1270

This week -

- ***This week should continue the range bound trade of the last couple of weeks. Due to end of month seasonality, there may be an attempt to rally the market very soon. we expect the best buying opportunity to come if any further fall. 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. This fits in well with the idea that the 6-year cycle is still pointed up into late September or October Top .***
- ***There is a talk of Crash by several Prominent - If there's going to be a crash, we're at Ground Zero right now. (Understandably so based on imbalance of ECNs & HFT - If all the Bids provided based on QE -2 free money expires / cancels (at once) on 30th June causing wide spreads on Bid and Ask) – that would result in Crash - If it happens, it will be a buying opportunity.(REFER TO NYSE CHART BELOW FOR POSSIBLE PRICE PATH) If it doesn't happen, we should get an all-clear no later than the 4th of July. As always there is a risk of being wrong on our call and Money managements to be in place to live another day.***
- ***However based on our current Indicators , we can certainly get a shake out move as” Bear Trap “ below but It doesn't "look" like we're going to get a crash. Especially the QE –2 dollars have been priced in the Trade platforms. Although there has been less buying interest on Friday but that interest should come in at higher prices as always***
- ***On our hourly trend model . The first indication came in on the NASD, where the trend tured neutral, then bullish. This is why NASD a "lead dog index." & We see the same behavior with SMH as well .***
- ***Our best guess is that the market will Flirt around in this general price area waiting for direction from the Good news reports (or surprise element) , it will set off what is likely to be the final rally to even double top on some Indices .***

- *The Time Termination on Multiple count ends between 17th – 27th for lows, measured by Prices of broader Index and AD line termination.*
- *Our money flow gauges indicate that the reduction in downside momentum we've been seeing.*
- *The seasonal low period of time. we get a late June or early July low and a Summer Rally in the market and send the market back up to POM 14 Targets*

Key points on Indicators

- *Not “ all “ the Indicators give a green light at the market turns, some will be more prominent & crucial at times, It is a fine balance of judgment within the indicators and its weight age. There are always the late comer indicators that triggers after the lows have been put in .*

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 should be in place



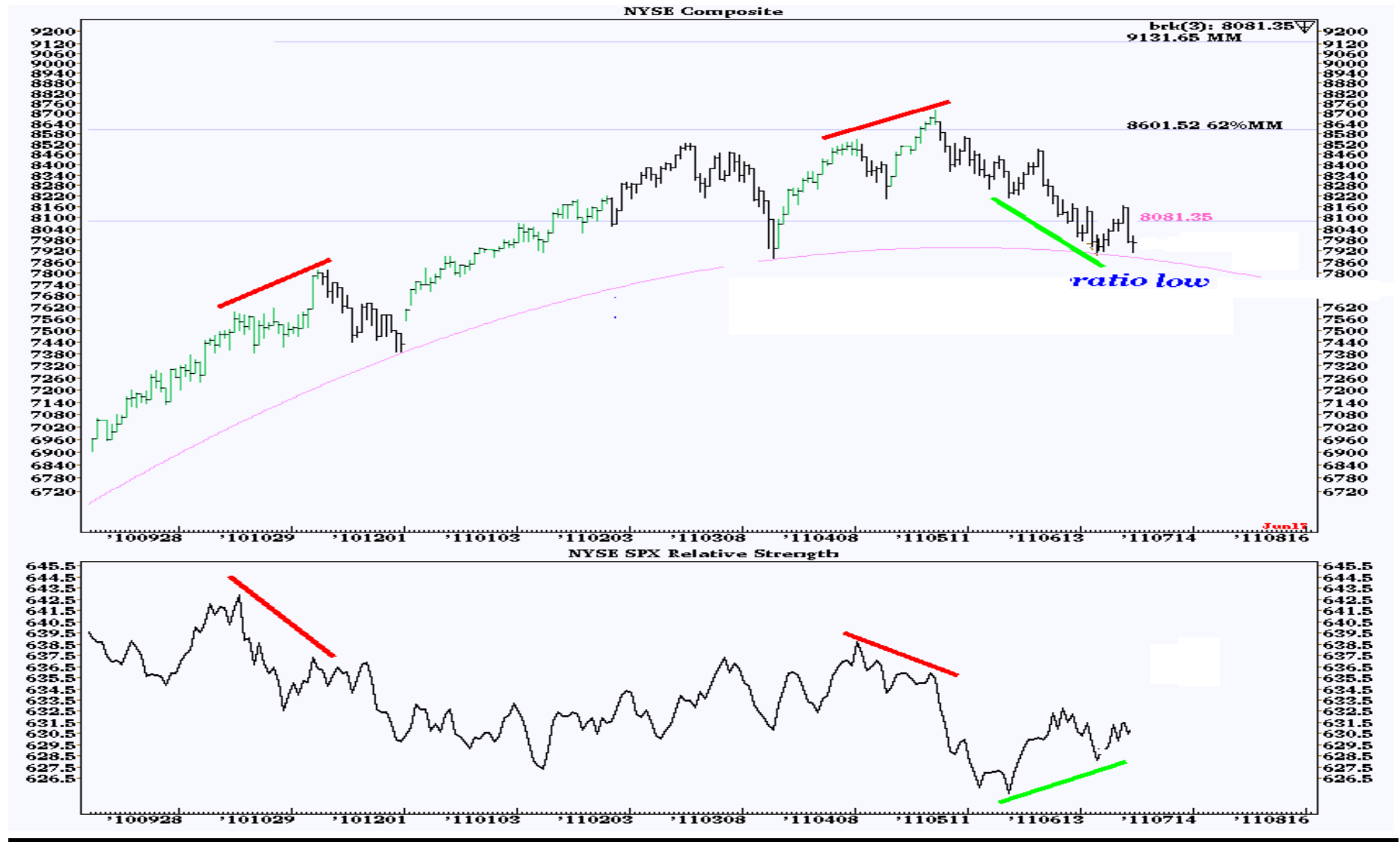
DIA – Short term

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



NYSE – Short term

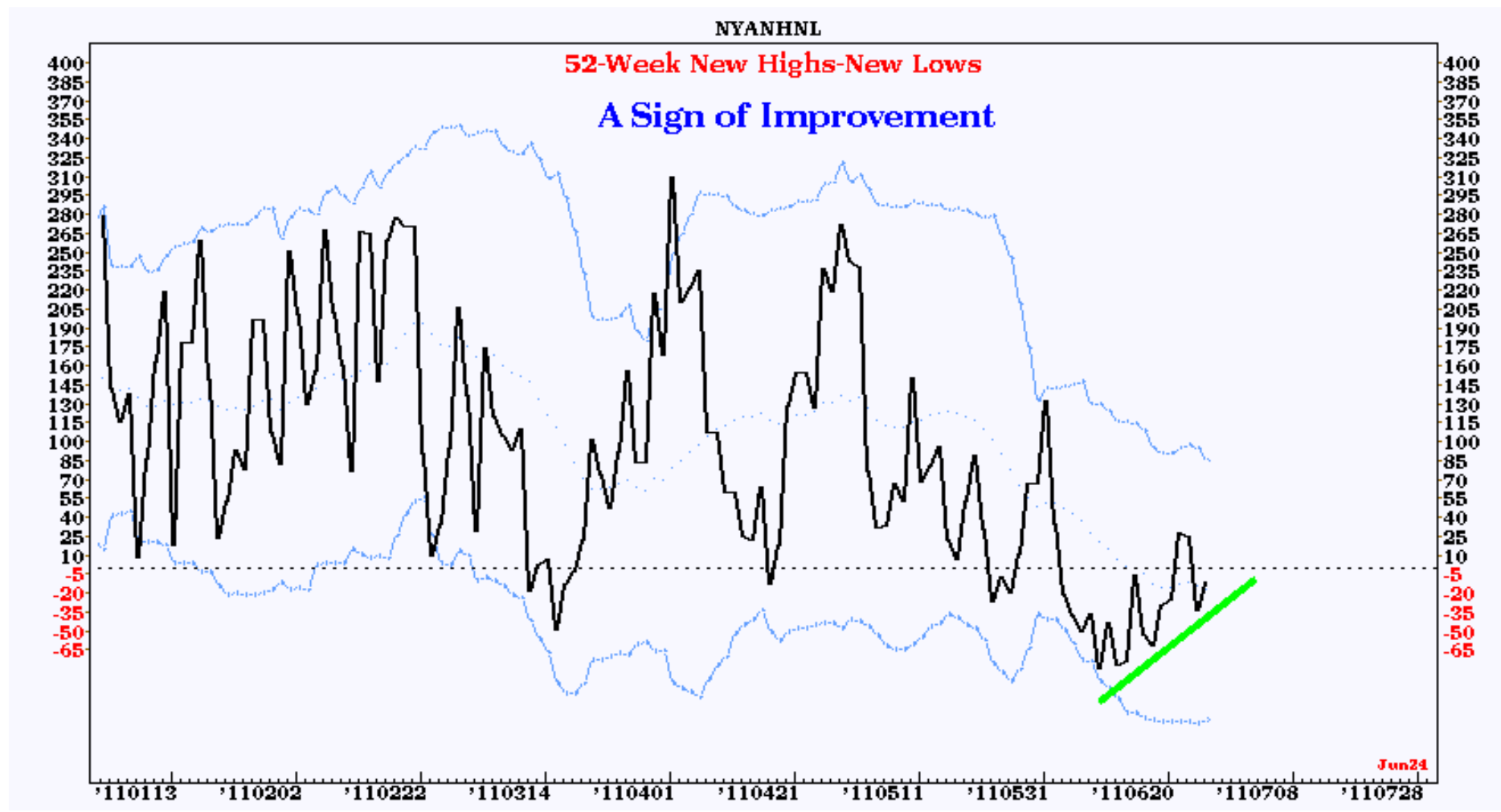
Divergence exist in bottom formation, Time Ratio lows in progress on top of Poly Trend . The Rally could be soon .



NYSE – SHORT TERM - A/D line

One sign of improvement comes in the 52-week New Highs - New Lows Indicator. As you can see below, the number of new lows is just barely exceeding the number of new highs even as the NYSE Composite retests its former low:

The highest number of new lows occurred on June 8th with 92 (EXCLUDING ETF's, BONDS and Substandard companies) . We had lower numbers of new lows on subsequent spikes: 85 on the 13th, 69 on the 16th and 49 on the 23rd. The number of new highs is also expanding from a low of 5 on the 6th, 7 on the 16th, and 15 on the 23rd.



NYSE – Short term - ALTERNATIVE POSSIBILITY

If the Possibility of the CRASH or BEAR TRAP happens , this would be the path it could flow but that should setup the buying opportunity . The decline should be hed on Top of the Poly trend line.



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

Indicators are in Area where low previous lows have taken place

(See chart below)

*(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 Bollinger bands for the SPY are calibrated for a weekly timeframe are at lower end of the band. The ticks reach to a more oversold lower level both on the 50 day EMA and the 20 day MA (blue horizontal lines). When the ticks reach this lower level than a rally is very likely. It would be unusual for the decline to continue with the ticks already in extreme territory and still suggests low is forming here. Monday did have a 90% up day and then re test of the start point normally seen at the beginning of a rally.



SPX – CZ - Analytics

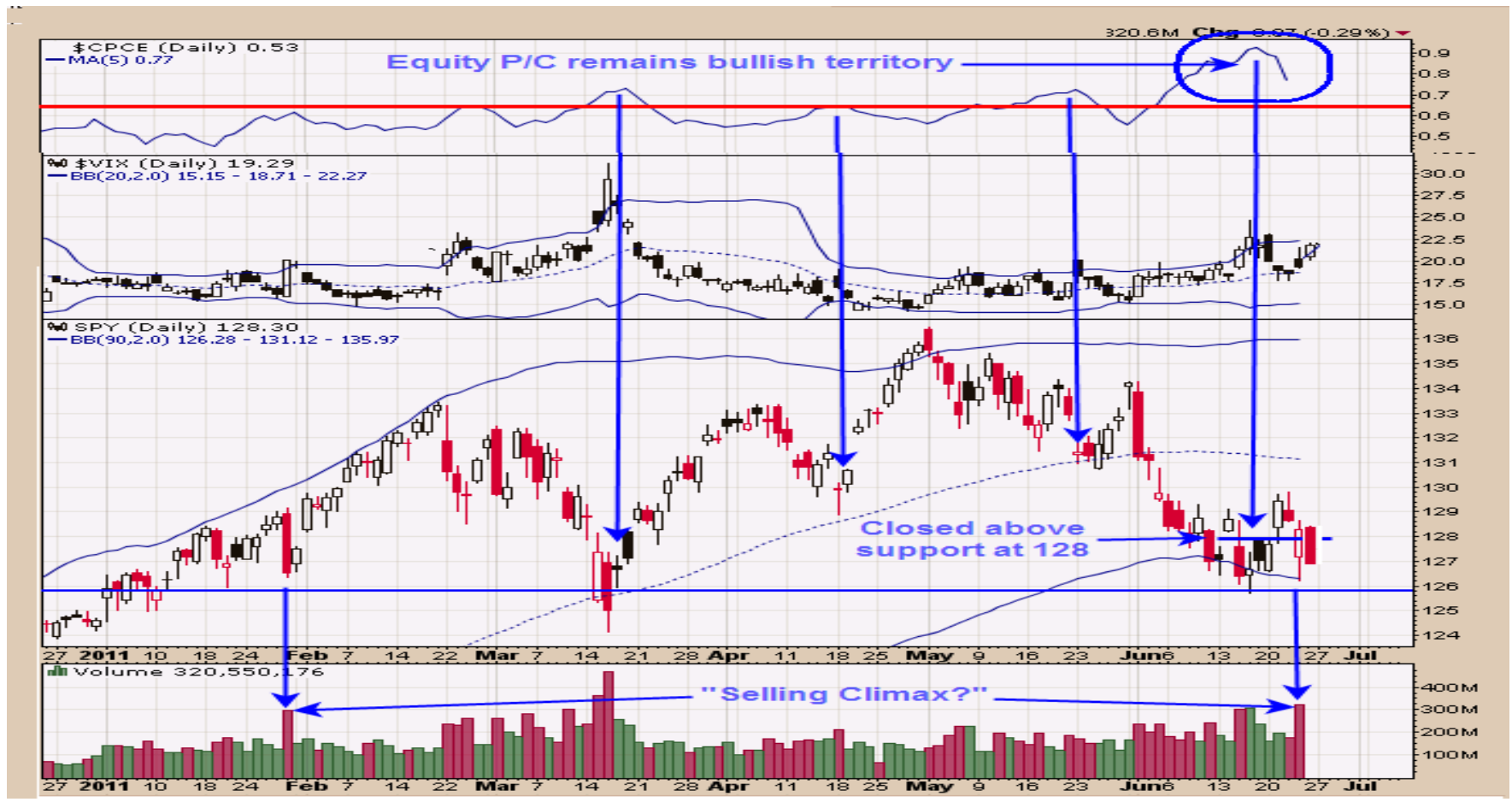
We Indicated this chart last week 's Report . The prices entered this Zone in green CZ – PQV with VTO divergences. . Now CCI showing divergence as well . Chi Oscillator is in extreme Buy where previous lows have been put in place.



SPX v/s VIX & Linear PUT / CALL

The intermediate term stick indicator remains in bullish territory and suggests a low is forming here. Fridays big move suggested a possible "Selling Climax" occurred and similar to the day back in late January (see chart). When Volume jumps over 30% compared to the days around it, it suggests a "Selling Climax" day and a bullish sign short term although looks bearish (Especially not violating CZ – PQV Criteria's). The Equity Put/Call ratio is still in bullish territory and the news surrounding FOMC meeting may have had its effect on the market short term.

When (40)odd indicators we closely monitor for turning points, one of them when lines up on one side, one of this indicator we look at VIX. Good Signals comes from PEC- D projection and Bollinger band touch, pull back and re test all 3 steps . We seem to have experienced such situation lately. (See charts below)



VIX – PEC D - Complete

Completion of ABCD completion – If we look back on May 3rd – Trigger point on POM 14 . Currently VIX has rallied to the 618 / 381 retracement of the March high. (Refer notes within charts)



Dow Transport Theory -

Based on our DOW Transport Theory – IYT is trading above DIA (see chart below) , Second the ITY / DIA Ratio is break out . CZ validation should happen at the time of POM 12 Trigger . Triggered Buy Signal same time as SPX – POM 12



• 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 indicated in green between A/D Line and NYA Index indicates the rally is up coming soon to intersect back in

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 .



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 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. Indicated in Red box



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 . and The weekly Relative strength to confirm the recent SPX move to new highs and forming a negative divergence(In red) . Divergence at bottom in 2009 lows indicated in green .



- 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 ..

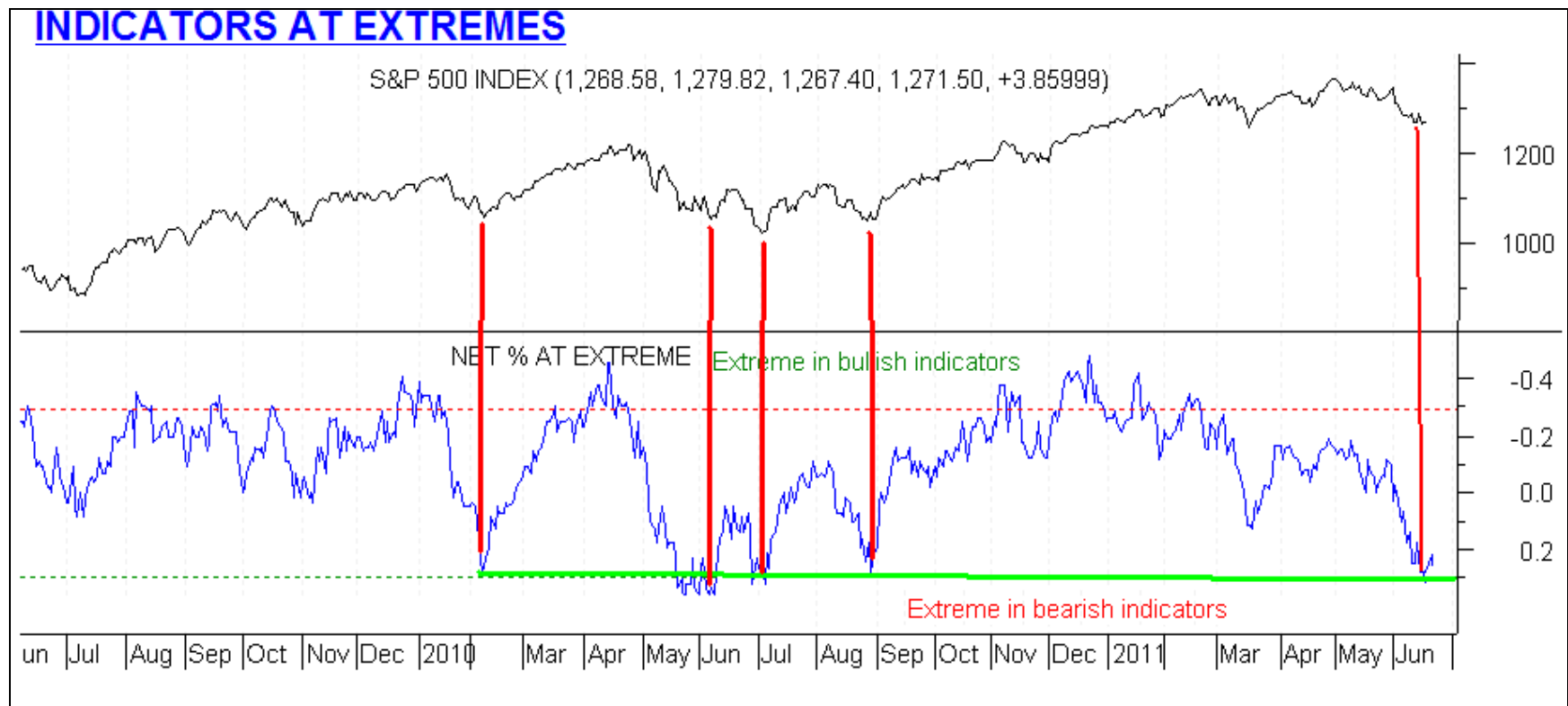
= Conclusion – Sudden change in Bearish ness within past 2 weeks to noted. to 28 from 20

Date Published	Percent Bullish	Percent Bearish
06/22	37.6	28
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

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 - AAll,
Investors Intelligence
NAAIM Manager Sentiment
Market Vane
Options Sentiment
Mutual Funds Sentiments
Insiders Selling



RYDEX / Money Ratio Indicator - (3rd party)

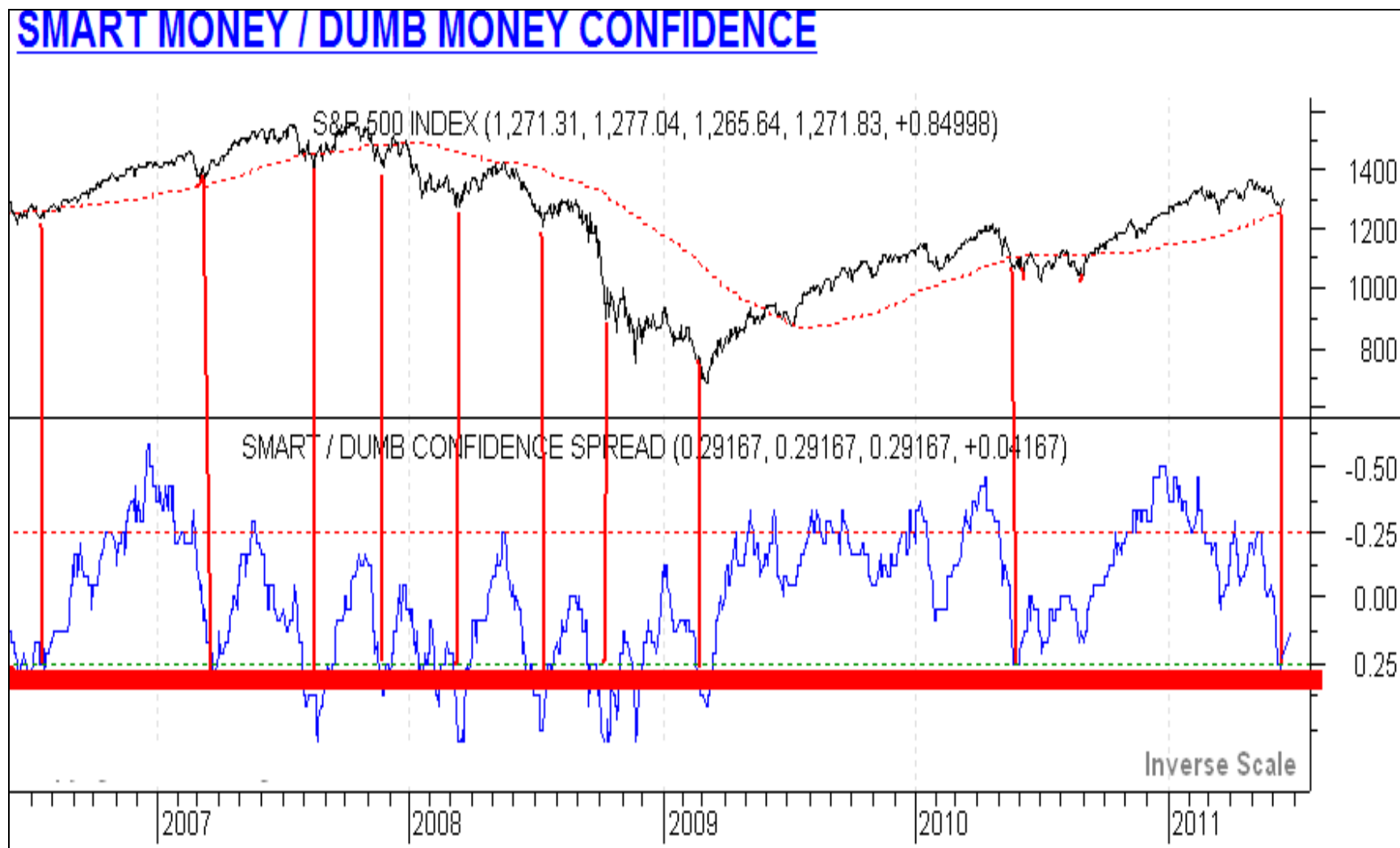
Courtesy : SENTIMENT TRADERS - Since 2006 to 2011 – The level to watch has been 0.2 for Bottoms - indicated in red bar below.

The Rydex (SPX) Traders are not position on the long side and a bullish sign. Reading above .2 on the Rydex Cash Flow ratio has lead to intermediate term rallies which suggests the current move up could have legs and could last a number of weeks. There could be some backing and filling short term.



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.

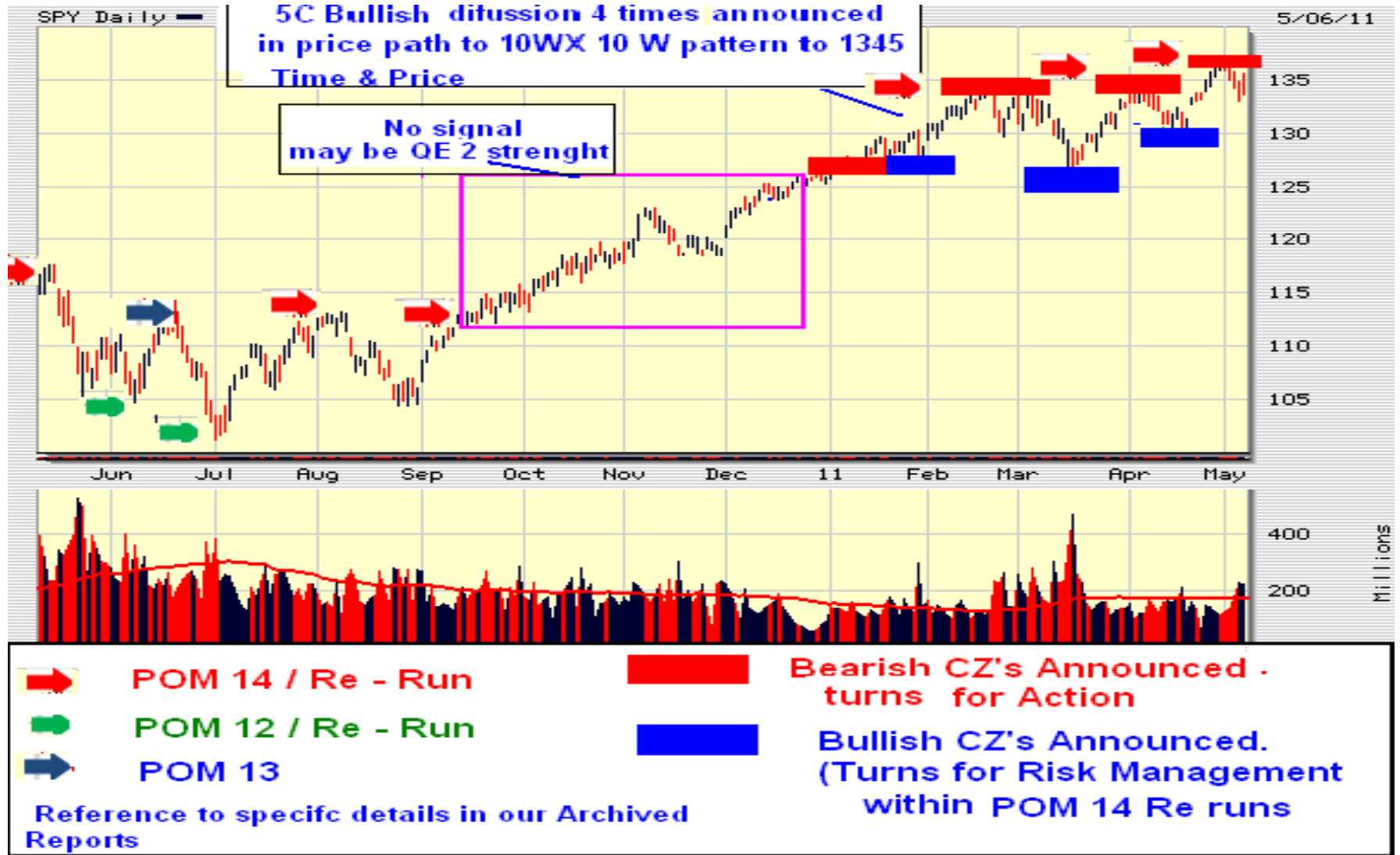


RYDEX BULL / BEAR – LEVERAGED RATIO - Courtesy : SENTIMENT TRADERS

Conclusion – This is more of Top finding Indicator and Inconclusive 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 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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