



SG Capital Research

Global Market Insights

Research Note – Weekly Market Strategy Global (A # 1)

MAEG- WKLY MKTSTR- GL- POM -SG 2011 # MAR_07

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Market Strategy Global (A # 1) - SPX – Closed @ 1321

Analysis of Broad Market that includes – **Jan 1st 2011 – SPX 1257 (+ 5.0 % YTD)**

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

We have picked up charts (below) that has some distinct characteristics and values from last weeks observation at Inflection points 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 – **TRANS,NASD,RUSS,**
- Sector Analysis for SPX clues on Money Flows – **BKX,**
- Time / Cycle Analysis- **Bradley Cycle, 4 yr Cycle,**
- Advance / Decline Internal market behavior – **A/D – SPX**
- Sentiment Analysis with Extreme character – **TICK , VIX**
- Global Market Analysis for SPX clues – **CHINA, AUST, GREECE**
- Appendix - History of past SPX –POM Signals & Key Criteria

- **Objective**

Focus is on the Short & Intermediate term turning point of the SPX via POM's Price projections. 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.

- **Trading & Investment Conclusions**

Our start point 2011 in SPX @ 1257 – Current Indicators

- **Long Side –**

- POM 12 Call – **None** so far this year.
- **Trend Adjusted Signal – Flat** at SPX 1324.

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

- Post POM 14, We recommend **fully Hedge on long positions** via the SETUP – PQV Hedge SHORT Index, of (22) Stocks we have a **Drawdown – 4.8% (Friday close)**
- Our SD # 2 –CZ – PQV Validated EQWT SHORT Index has **Gain of + 3.08 % (Friday' close)** in (8) Sectors - PQV – CZ Validated

- **Net Short –**

- POM 15 Calls – **None** so far Triggered this year

● SPX – POM Signals & Price Projections with Setup Index

- TREND ADJUSTED SIGNAL (TAS) **Next Buy , Close by TAS close above 1340**
- UPSIDE Target - POM 15 for Net Short has not Triggered. (**Monthly close below 1280 should be a good signal**) the highs of Pre – Lehman crash price tops 1280 on Monthly . Meanwhile we continue to remain POM 14 since Jan 1st 1257 (Our new reference point for 2011).
- DOWNSIDE Target - SHORT TERM - SPX 1220 first then , Daily Bearish Wedge has the downside target of 1175. We are watching on Intermediate term Pull back from here should be to 1130 - 1145 (This area is false break top side driven by QE 2).
- EQUILIBRIUM Price - favorable Risk / Reward opportunity will come at POM 13/ 12. This area we would be interested again

The technical picture that the odds are for the major indexes to decline down to retest the support at their 40 WMA , which even in strong bull markets they tend to do once or twice a year. And even in years when the government is providing unusual stimulus, as it did in 2008, 2009, and 2010. From current extreme overbought levels such a pullback would amount to 12% for the Dow, 13% for the S&P 500, 16 % for the Nasdaq, and 18% for the Russell

• Market Insights

- *SPX went back to the TOP of the 1st CROW (In this case Invisible Gap) of 3 Black crow area and failed on PQV /CZ on volume test , So far On IWM it has been its 5th visit in that Area and test has failed.*
- *We have entered the Month of March and our message as remained the same about early March, 2-year anniversary of the 2009 low acts as historical turn date and gets to be meaningful as we have been announcing it past 2 months.*
- *We should not violate above 1350. The Time and Price - SPX top “ Time 10 week to 10 week” ABCD pattern is hard to form..*
- *We see the Oil Prices jump up along with Geopolitical risk, this is the reminder of previous OIL v/s SPX Crises , which has triggered SPX correction (As indicated in last weeks chart) .*
- *Just to summarize, we think something different is happening here with indicators for the first time since 10th of Jan 2010 (See all the charts and indicators below)*

Daily SPX - "Trend Adjusted Signal" – Flat @ 1324

3x3 /9EMA – Momentum Break Indicator – Next Signal – Buy SPX above 1340 close

July 2010 -2011		POM's & "Trend Adjusted Signal (TAS) "				
Ticker	Entry date	Last Price	Exit Date	Validated Test price	P/L Since the Test	Comments
NET SHORT SPX		NO -Signals				
POM Triggers (POM 15 to POM 13)		NONE				
SPX						
SPX						
SPX						
						0.00%
TREND ADJUSTED Triggers		NONE				
SPX						
SPX						
SPX						
						0.00%
				SHORT P/L	0.00%	
LONGS SPX		5 -Signals				
POM Triggers (POM 12 to POM 14)						
TLT (POM Signal)	21-Jan-11	90.75		89.50	1.40%	OPEN
SPY (POM Signal) - None		0.0		0.0		
SPY (POM Signal) 1	6-Jul-10	111.5	9-Sep-10	102	9.31%	Closed
						10.71%
TREND ADJUSTED Triggers						
SPY (Trend Adjusted Signal) - 3	1-Feb-11	132.24	22-Feb-11	130.7	1.18%	Closed
SPY (Trend Adjusted Signal) - 2	2-Dec-11	128.5	28-Jan-11	122.8	4.64%	Closed
SPY (Trend Adjusted Signal) - 1	5-Sep-11	117.60	12-Nov-11	110.50	6.43%	Closed
						12.25%
				LONG P/L	22.96%	
1st July 2010 INCEPTION						
INCEPTION @ SPX 1070 to Current 1320						
				AGG L /S - P/L	22.96%	
				SPX CHANGE	23.36%	

Primary Market Analysis –

SPX – ST

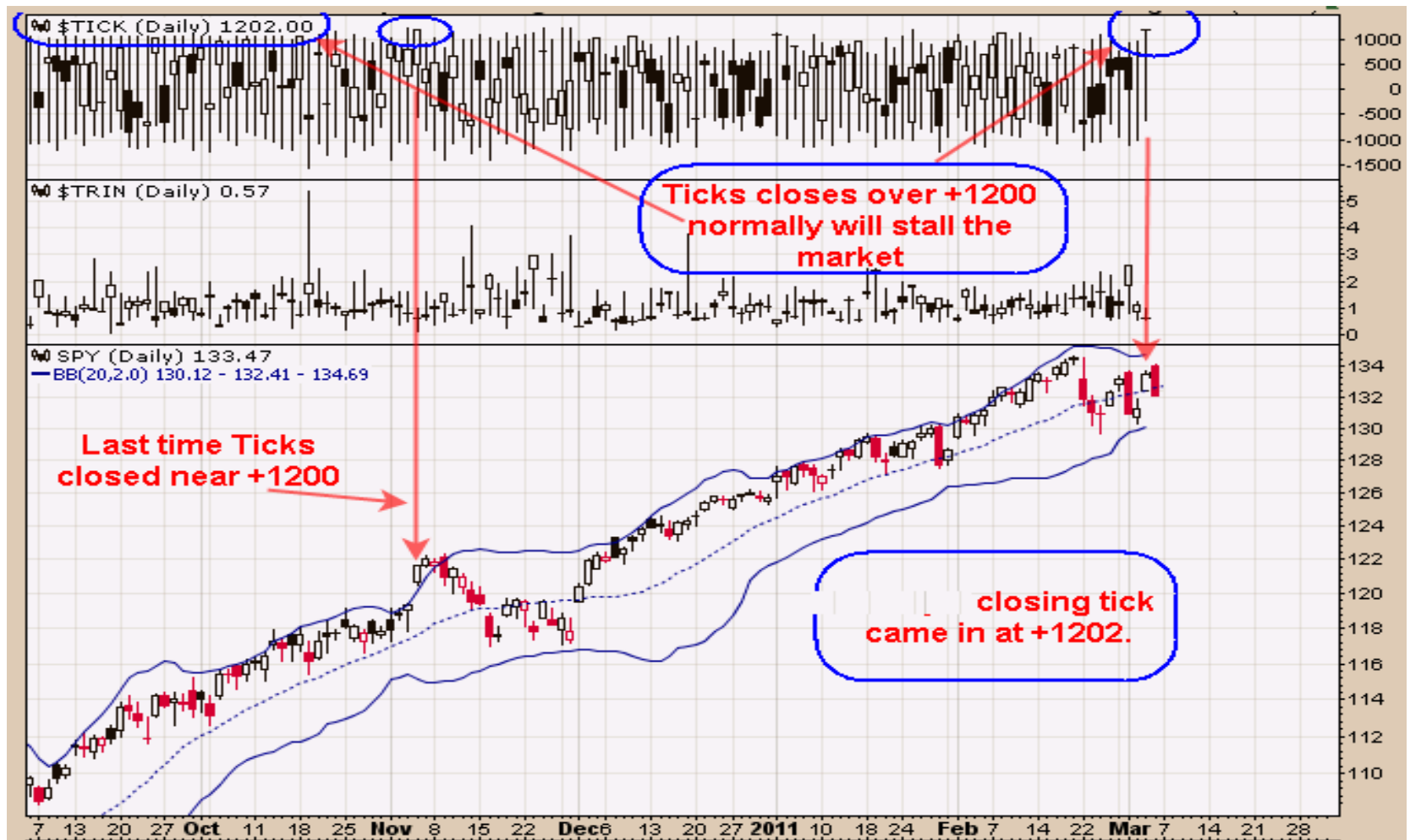
Triangulation Pattern in Progress, The point is quite serious, see the LT chart below. Energy defined by Tick study at SPX 1290 and at 1335 on Thursday is causing this pattern and now Price will break. (see the notes within the chart)



SPX – TICK - SHORT TERM

When SPX hit the retest 1st Crow, the tick index reading study over +1200 suggests energy dissipated. The last time the ticks closed near +1200 came on November 4 and stalled the market for the rest of the month. Therefore, with the SPY above in the gap (1st crow) and the NYSE tick index closing over +1200 it suggests the market will stall near current levels.

Either market continues the sideways consolidation for a while to relieve the upside exhaustion or topping process begins here.



SPX – TRIN - MID TERM –

Intermediate term view of the SPY. When there has been a wide separation of the blue and red line then that condition has led to large reversals. When both the red and blue lines start to trend from down to up then the market is expected to reverse also. We have been watching carefully . This turn should nail it

SPY is extended. When the red line gets just beneath the blue line then there will be evidence the market has reversed.



SPX – MT - MA's & Trend lines

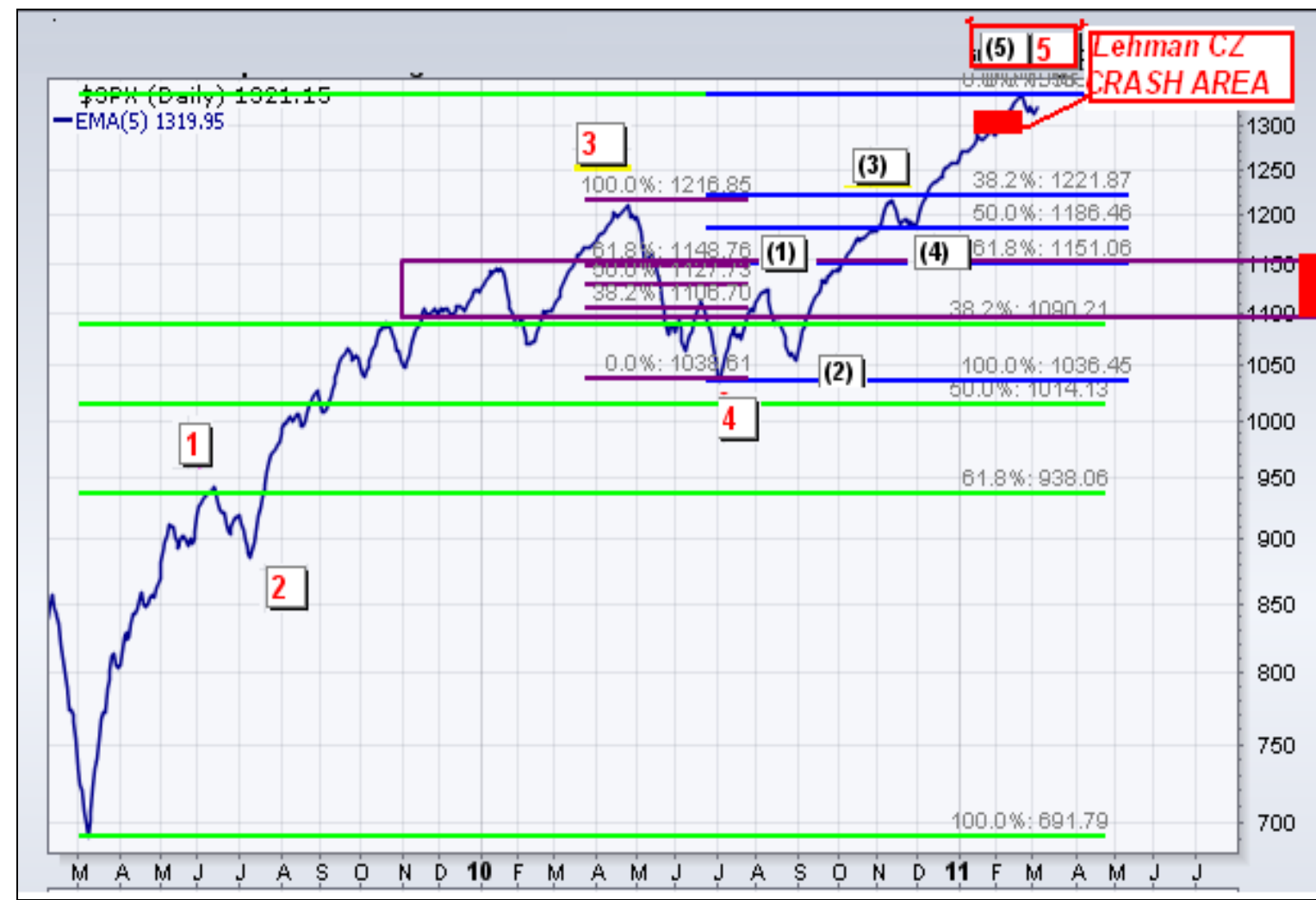
Price wise and Volume wise something similar to April for the first time, but no Signal for POM 15 yet , as we had in April



SPX – MID TERM - FIB & Wave Trend lines – This is interesting Analysis

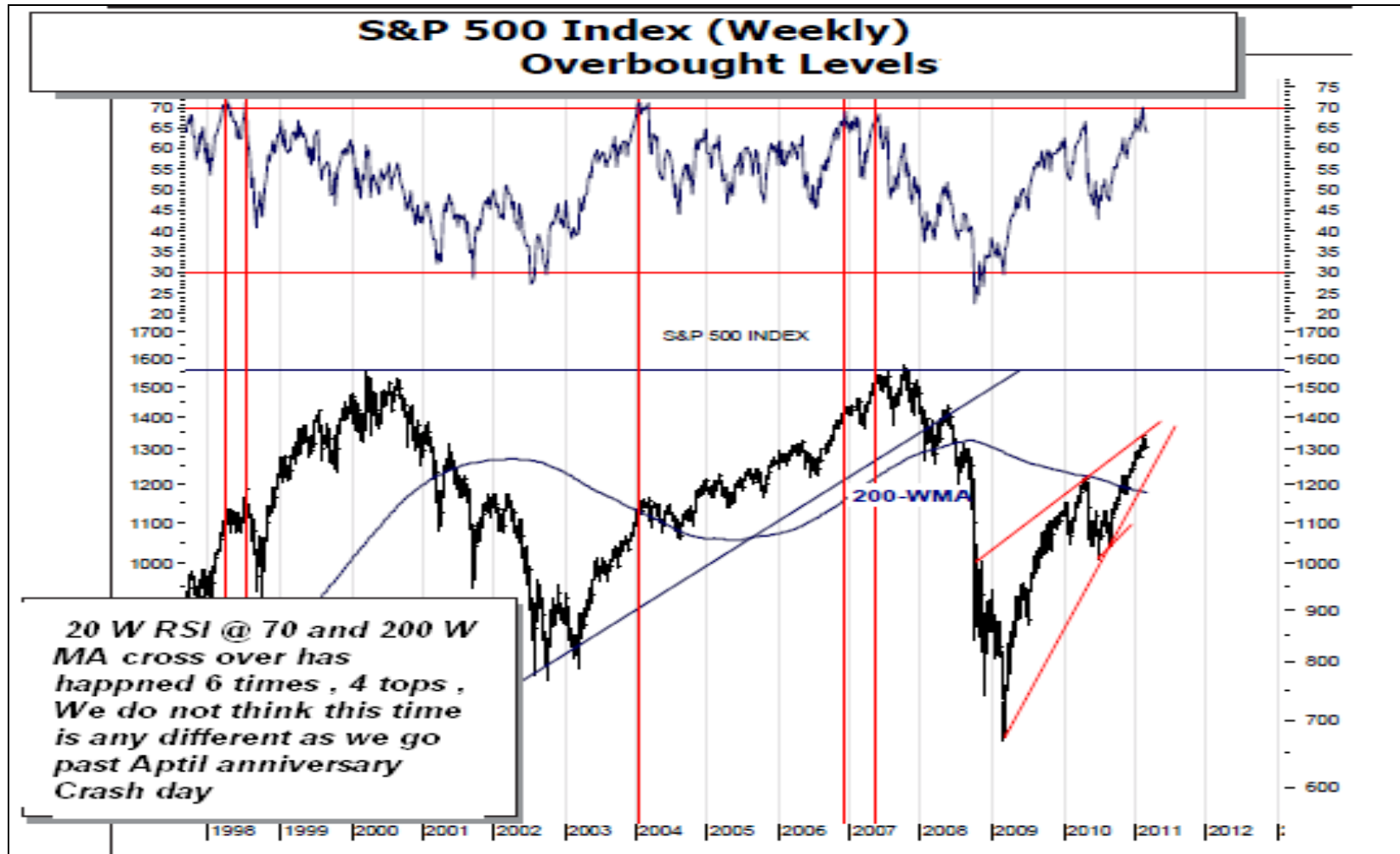
First on upside , we have completed wave 5 on two time frames (Which is stronger for energy dry up) this combined with false volume breakout above LEHMAN Crash CZ past 1280 .

On downside - We have" 3 FIB – Streams" coming to gather here for Retracement from various highs and lows, between 1100-1150 for price contraction, we will fine tune this are when market gets there.



SPX – LT - Bigger Picture –

Over longer term 200 WMA has been so significant on Tops and bottoms of past decade. With RSI at areas that it past reached 4 times in decade and Oscillator diverging .

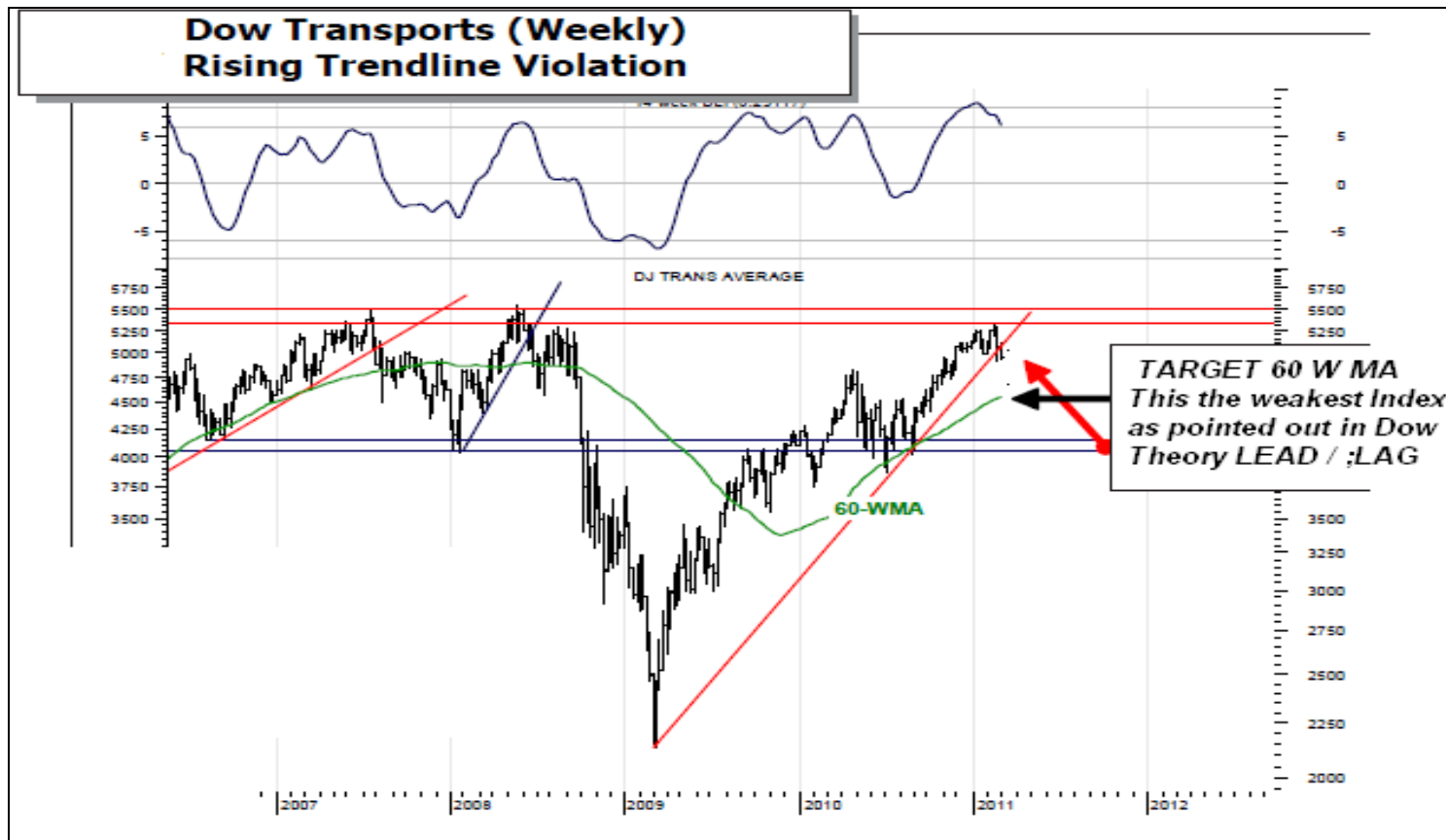


- Secondary Market Analysis for SPX – POM clues – TRANS, NASD, RUSSEL

TRANS

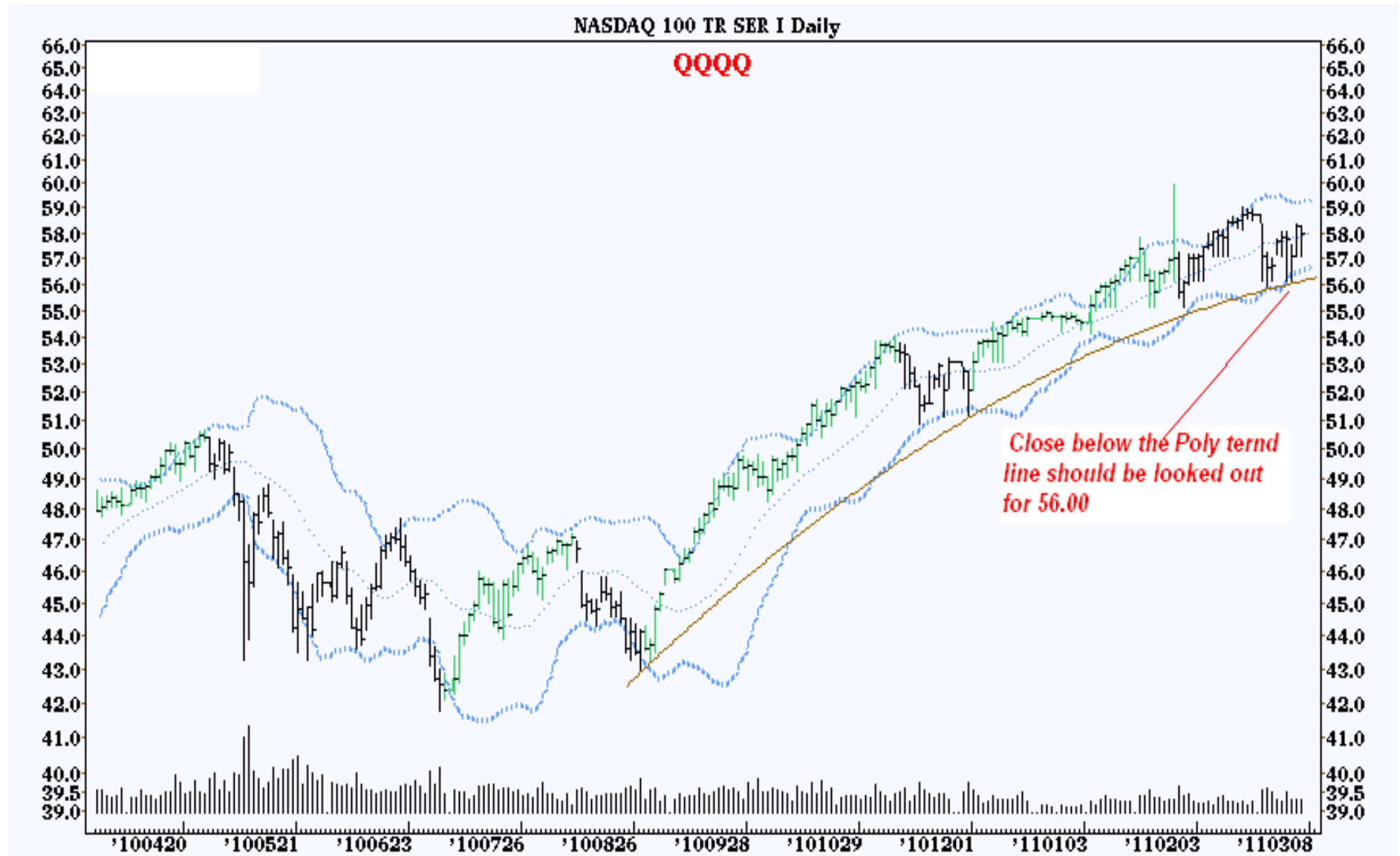
Dow Transport theory , often leads the market in both directions, and short-term it had dropped below the previous short-term support at its 21DMA, and the negative appearance was threatening to spread to intermediate-term indicators.

Actually, RSI is diverging and MACD has turned down, the consensus of our indicators have triggered a sell signal on the Transports, and with the index very overbought above its 60WMA to a degree that usually brings a swift decline to at least retest the support at the MA



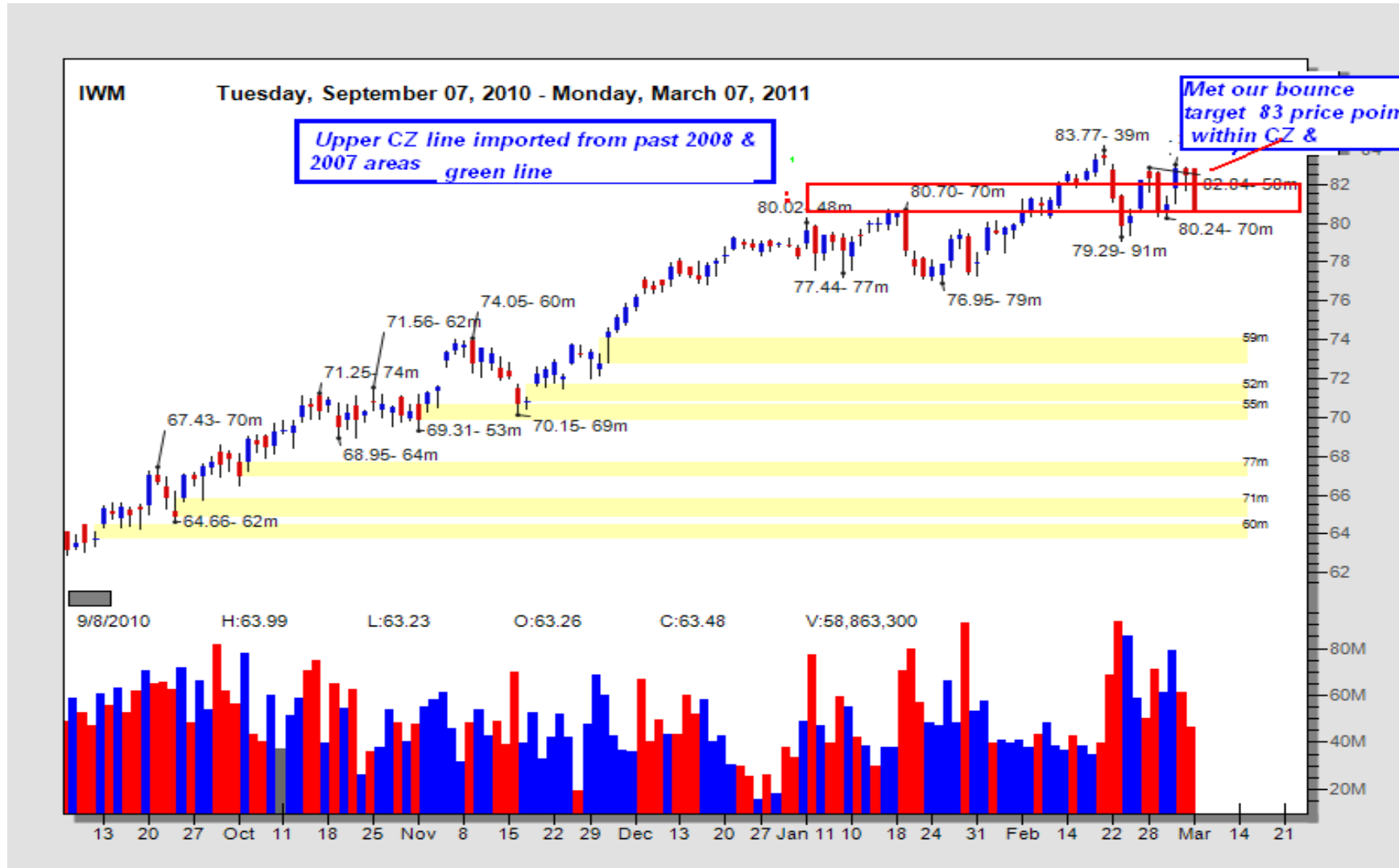
QQQQ

Keep close eye on Poly Trend lines.



IWM

IWM's repeated failure at CZ test including Fridays Gap up & sell off . The force on downside picking up on every fall.



- Sector Analysis for SPX – POM clues – BKX, (lead Sectors)

BKX the Lead Sectors on radar either for market tops or Bottom, Money flow into these are very critical for market advances.

BKX

This sector is broken down , may be one final rally , volume has been picking on downside. .

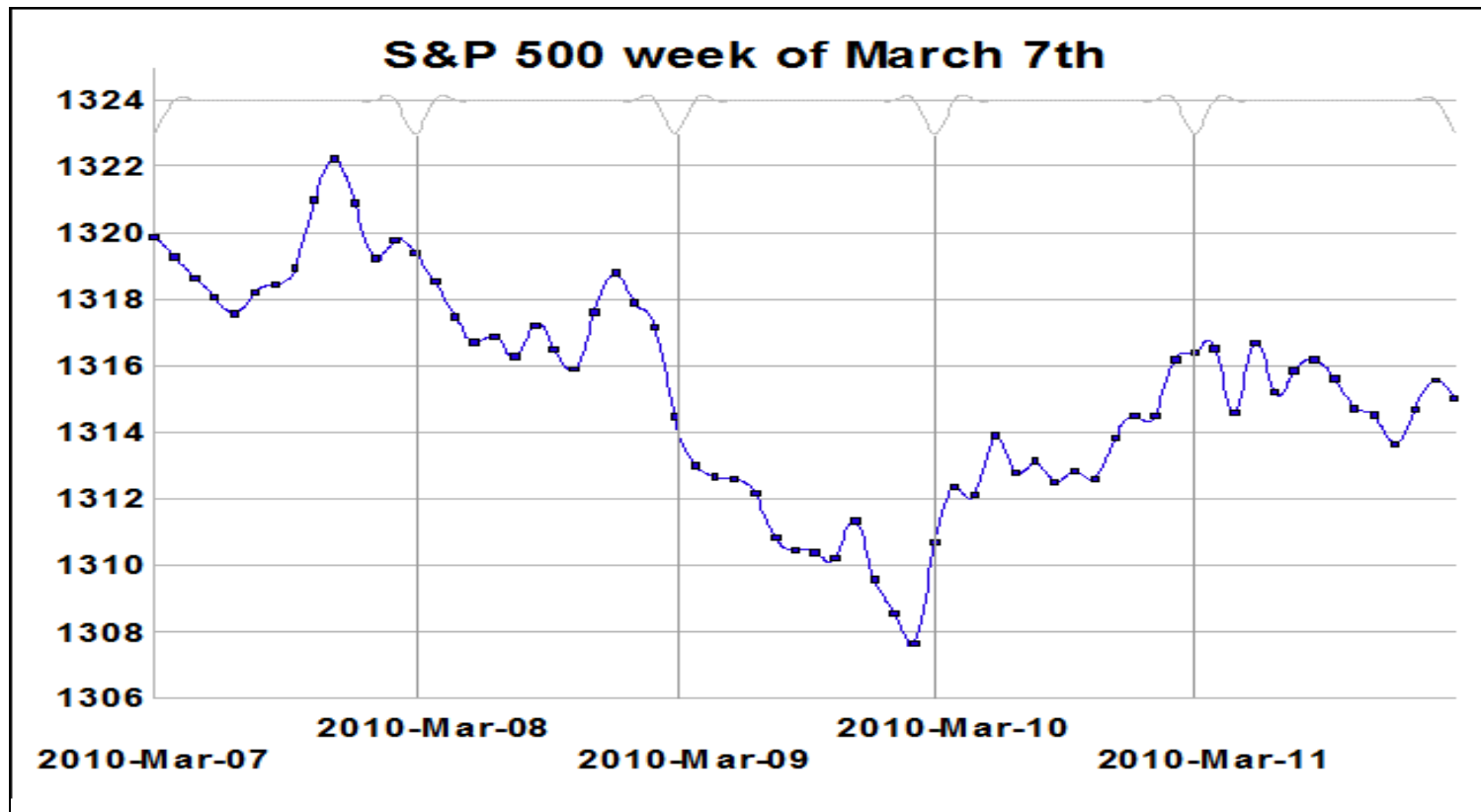


- Time Cycle Analysis

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

THIS WEEK ON CYCLES – “Weak” this week

Last week it worked well as Path Projected. This week the path is down most of the week and then bounce . This indicator tends to work well if used with other tools .



The Bradley Model – Turned Bullish from 1st March @ 1328

If you look at the model on a long term basis, it also provides a very good outline of what should happen (not always what will happen) over a period of months (We will retain this chart and monitor with SPX)



On Astro Harmonic Cycle -

First, on the week of 21st we had pointed out “ correlates with a temporary high in the market “ (Since post QE- almost those cycle failed, we did not place any emphasis. However the next day was 1346 in SPX . This event was followed shortly by a combust (Feb 25) which was accompanied by a brief rally. Although the upward move been substantial, we have still not revisited the highs of Feb 21.

Given that the aftermath of combust events usually occur within a window that typically lasts a maximum of 10 days, we are now entering the time range for the effects of this latest combust to wear off. What makes this all the more significant

Second, there was a new moon on March 4. Recall from previous discussions that the RBC found that buying on a new moon and selling on the full moon was an 10 X more effective long-term.

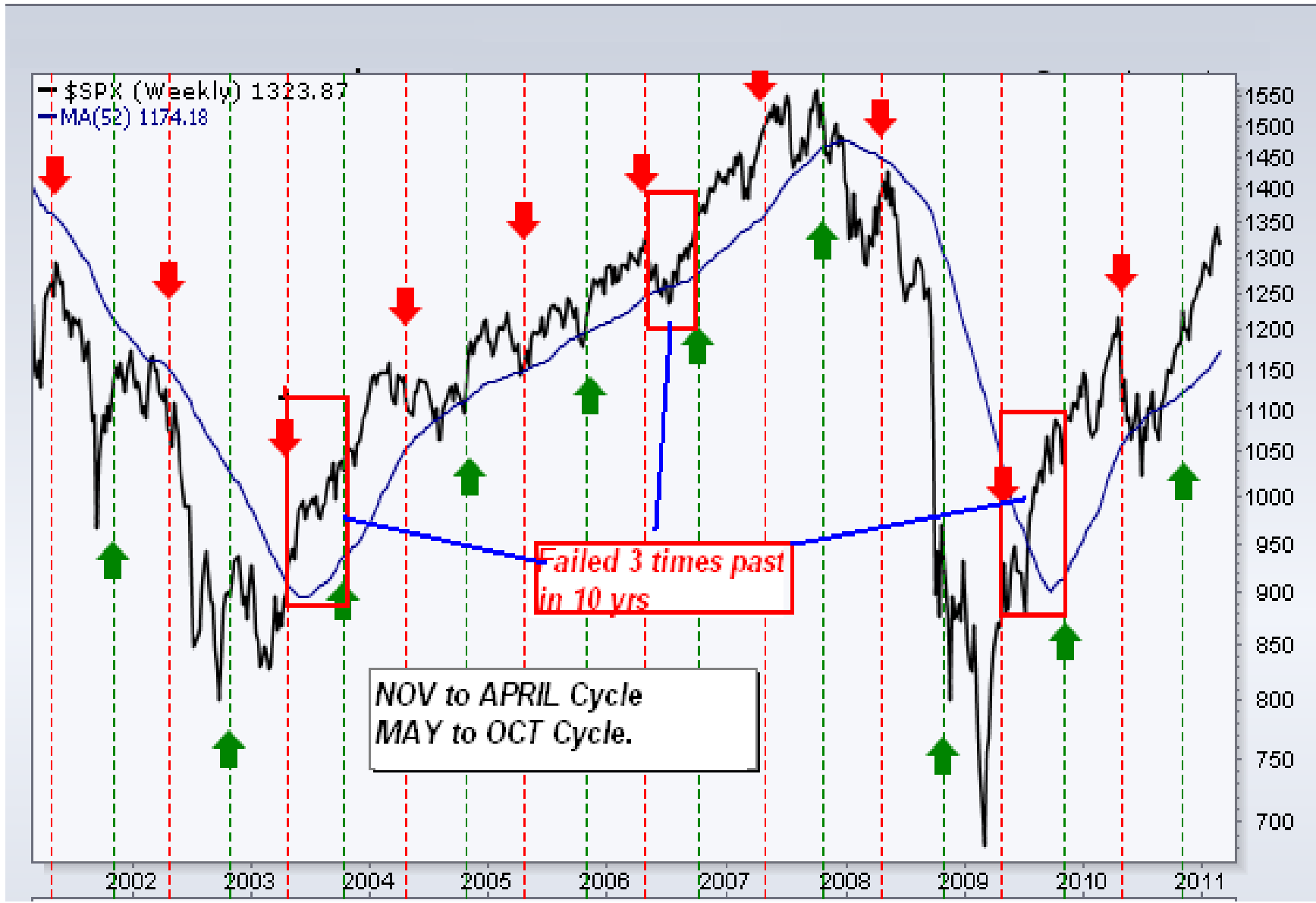
However, we believe in Inversion - when markets are bearish, this strategy should be reversed (i.e. sell on the new moon and buy on the full moon). Since stock markets were up on the new moon early in the morning and then closed sharply lower that day, it would suggest we are in an inverted cycle this time nonetheless fitting nicely, which suggests we should be headed down as we move into the March 19 full moon. This seem to line up with our other Indicators as well

Current upcoming Cycle dates – March has positive bias

- 8th Jan also coincides with CITI Group study for Major market top 2011-2012
- 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
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		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%	

Up coming Seasonality Preparation – “ April to Oct



- 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 – NH - . NON-CONFIRMATIONS IN SPX BREADTH...

(METHOD 1 – Excluding the Bonds, ETF's and **Large cap Equally weighted)**

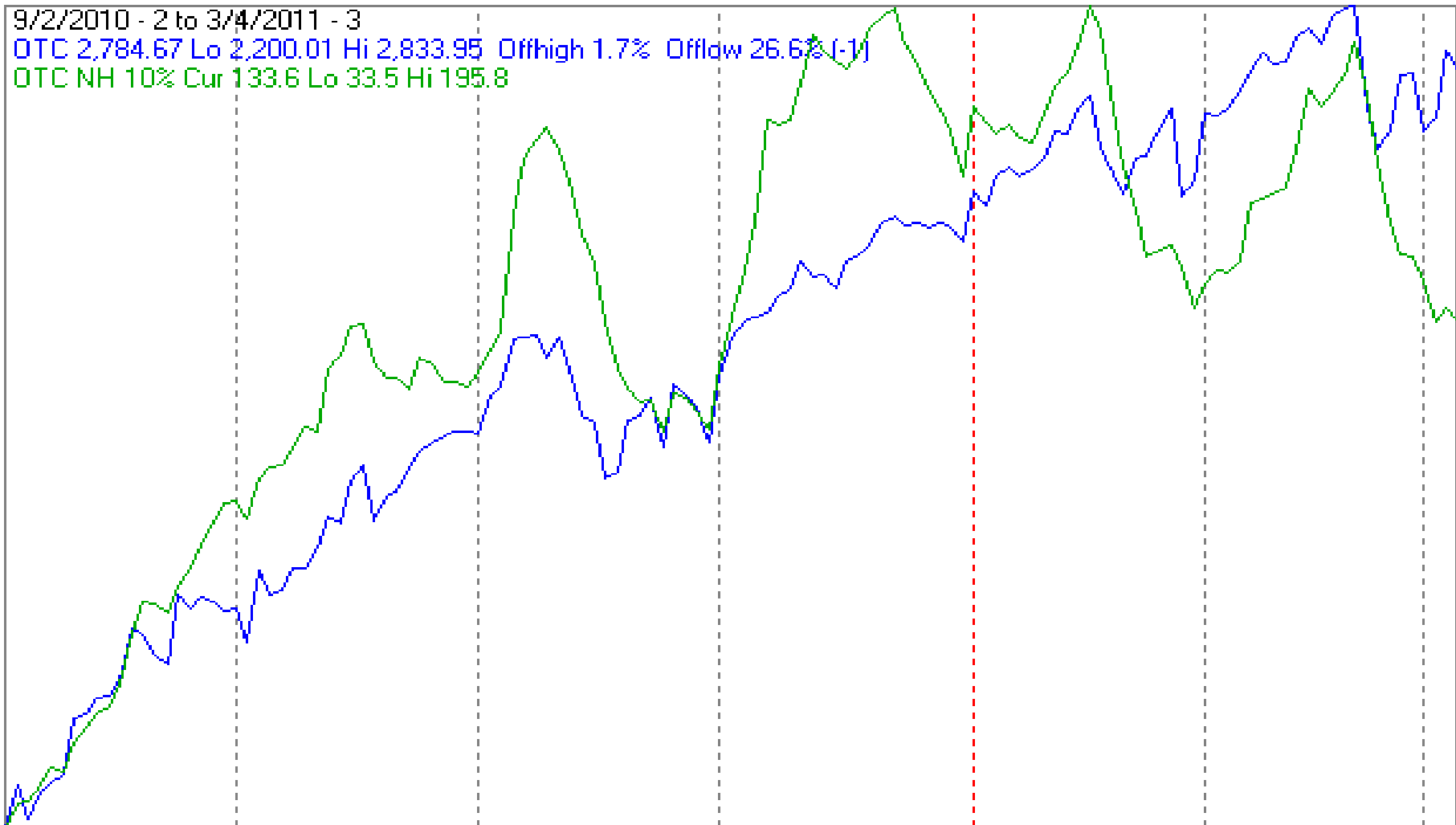
In really strong markets new highs lead prices upward and for the past 2 weeks that has not been happening.

The chart below covers the past 6 months showing the SPX & new highs.



NASD (OTC) – AD Price line - . NON-CONFIRMATIONS IN NASD BREADTH...

Chart shows the SPX. The pattern is similar.



- **Sentiment Analysis**

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

The Numerical we track are Tick, TRIN Arms, Put / call ratio, VIX Transform volatility (all 2nd / 3rd derivatives) , 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.

A review on Sentiment Trader Courtesy - “ Doug Kass’s sell signal from something called the Farrell Sentiment Index (FSI). This technical measure “takes the number of bulls in the market (as reported by the American Assoc of Individual Investors) and divides by the bears plus half the neutrals,” ”When the ratio is under .50 and rising it’s a bullish signal. When it’s over 1.5 it’s bearish and the ratio rose to 1.50 on the week of January 14th – a definitive sell signal,”

- Global Market Analysis for SPX – POM clues – AORD,CHINA, GREECE

AORD

Australian & China market are very critical for clues. As expected it double topped and Bearish wedged then set up for a big decline. The 50% retracement level represents significant resistance. The bear market rally. We are Tracking EWA closely with this move in Sector PQV



CHINA - MID TERM

Short term we had the oversold bounce we were expecting on reaching critical Triangular areas as shown in the Sector Report. China continues to be danger to world markets. Currently we are at the channel lines double topping ,even if it breakout it should stop at the trend line.

Larger picture - 50 % Bounce is still a Bear Market . A critical point at 3000. We have EWH & EEM at the CZ – PQV to capitalize on this move.



GREECE

See the notes with the charts



Appendix

On closure of 2010,

As we begin 2011, let us Summarize 2010 and put the year behind us. The Aggregate POM Signals for the Full year on absolute basis irrespective of the SPX market moves. Our review is to attempt to do better in the following year as best as we can within our limitations and capabilities.

- Long Side – We had (4) clear POM 12 to POM 14 (7.5% FEB, 7.0% MAY, 10% JULY, 9.5% AUG) = Total of 34% up move
- Hedge Longs / Risk Management for Downside Corrections - We had (4) , POM 14 to POM 13/12 (9% JAN, 8% JUNE, 8% AUG & In the last Qtr extended move we had – 5% Drawdown) = Total of 20% Risk management move
- Net Short– We had (1) Clear POM 15 to POM 13 – April / May for decline of 9% = Total move of 9%
- In last 4Q , 2010 – We began tracking “ Trend Adjusted Signal” 3X3 / 9EMA - on Long Side - post POM 14 (8% & 4%) = Total move of 12% .

• History - “ SPX – POM Signals & Projections”

- 2010 YTD– This year, we have had (3) clean TREND SIGNALS rise from “ POM 12 to POM 14 “ for LONG IDEAS
- FEB - 7.5% ,
- MAY - 7.0%
- JULY - 10.0 %

And (1) POM 15 to POM 13 (drop of - 9% - April /May) for Net Short Ideas

(3) Risk Managed POM 14 declines to POM 12 or 13

- JAN - (drop of - 9 %)
- JUNE - (drop of - 8 %)
- AUG -- (drop of - 8 %)
-



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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