



SG Capital Research

Global Market Insights

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

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Market Strategy Global (A # 1) - SPX – Closed @ 1304

Analysis of Broad Market that includes – **Jan 1st 2011 – SPX 1257 (+ 3.7% 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 – 5.3% (Friday close)**
- Our SD # 2 –CZ– PQV Validated EQWT **SHORT** Index has **Gain of + 9.85 % (Friday' close)** in **(8) Sectors - PQV – CZ Validated currently**

- **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

• Market Insights

- ***: Two week ago on 21st Feb we pointed out that for the first time since 10th Jan, our indicators looked weak especially after putting in a significant Time and Price – (difficult pattern on SPX) “ Time 10 week to 10 week” ABCD pattern is hard to form. This was combined with Astro cycle change on that day 21st Feb has some significance. .***
 - ***Secondly our expectation was for lower low or / secondary top in March, (2-year anniversary of the 2009 low) which proved its merit, Such lows / highs acts as historical turn date and gets to be meaningful. Especially several T – Termination are expiring. These are important data points***
- ***On Short term basis last week we were expecting correction into Thursday with rally on Friday., which seem to have a happened . Now wee think although we could have lower lows on Monday / Tuesday with lows of 1270 -1280 , is now showing a strong reading for another bounce. The breadth data indicators turned bullish on Friday. Those indicators are usually early, but often correct.***
- ***It's clear that we now have a ST rising bottoms pattern on the volume oscillator. This is setting up yet another bullish as long as the cash buildup phase on the left side of T.***
- ***Our clip on ORD (EWA) . The real estate bubbles Australia, the commodity bubbles bursting is the likely strength in the US Dollar that is the wild card for many markets . This will make the last few months of this stock bear market rally increasingly volatile.***
- ***On Mid term basis as long as we remain below 1350 , the correction should continue. Yes, the market is within its final stages this bear market rally, but the bounce will come in necessary to shake the weak hands out and the psychology to buy dips. Once the real top comes in, they'll be buying all the way down. For Risk reward another test of higher prices should be good place for bears to position***

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

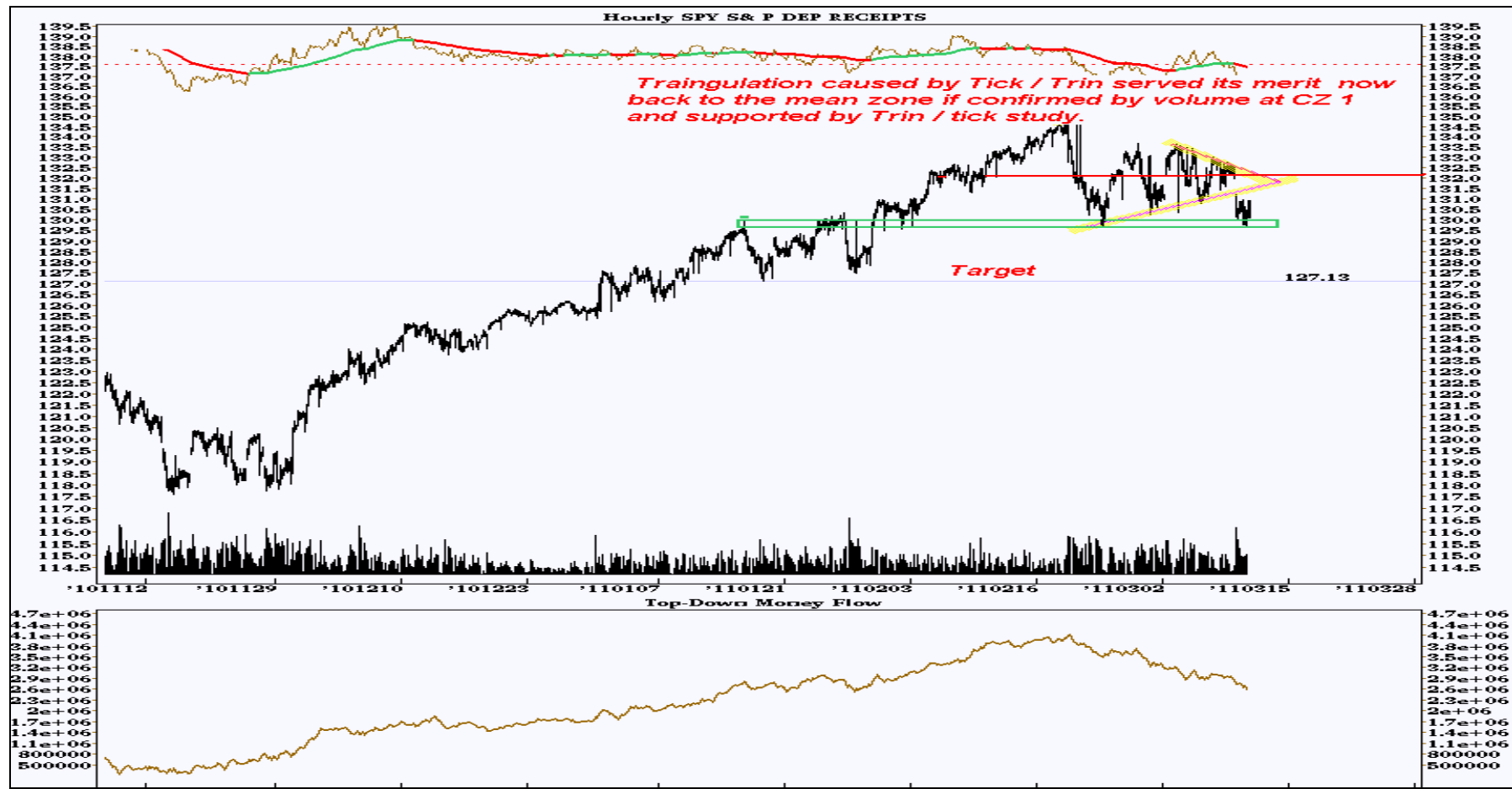
3x3 /9EMA – Momentum Break Indicator – **Next Signal – Buy SPX above 1340 close**

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 14)	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	91.31		89.50	2.02%	OPEN
SPY (POM Signal) - None	NONE	0.0		0.0		
SPY (POM Signal) 1	6-Jul-10	111.5	9-Sep-10	102	9.31%	Closed
						11.34%
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	23.58%	
1st July 2010 INCEPTION						
				AGG L /S - P/L	23.58%	
INCEPTION @ SPX 1070 to Current 1304				SPX CHANGE	21.87%	

Primary Market Analysis –

SPX – ST

Since the Top at 1345 , the prices have followed the script well on Triangulation Pattern (was completed on Thursday) now the final move usually the mean line tends to get tested marked in Red. When it gets energy from TICK , TRIN , VTO, and at min CZ with Poly trend and MF (See charts below) The green zone at 1270 -1280 should give another rally to Mean Triangulation.



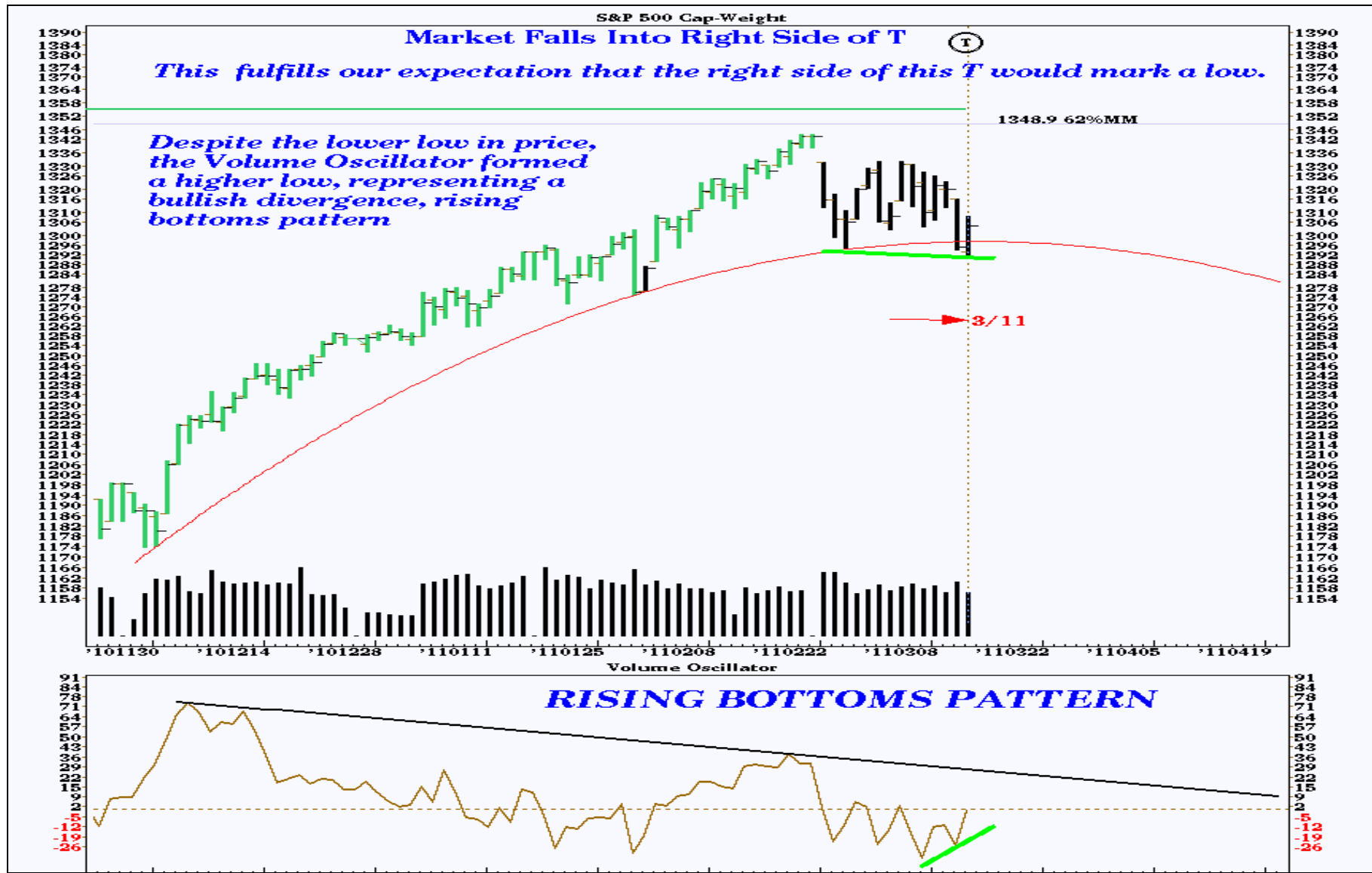
SPX – TICK - SHORT TERM

Daily chart of SPY and a short term view. We have been looking for the SPY to test the 1270 -1280 Zone and we will be watching the TRIN and Ticks and Volume at CZ for signs to what to expect next. On Friday we had another bullish downtick reading but the TRIN remains neural . The Chaikin Oscillator is in bullish territory. For a low here we would like to see a TRIN >2.50 and Volume test and another tick reading . A signal could develop shortly from that zone .



SPX – Poly Trend and Money flow.

Refer notes within chart for another confirm by this method.



SPX – MID TERM (2nd target)

Our downside target for next leg down is indicated in Yellow. Looking at the CZ 1200-1220 area in the SPX the 40-50 zone for RSI as possible correction targets. (This should for summer Rally from that CZ, if we get signal)



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 lead 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 expect this happen in th next leg down target 1200 -1220

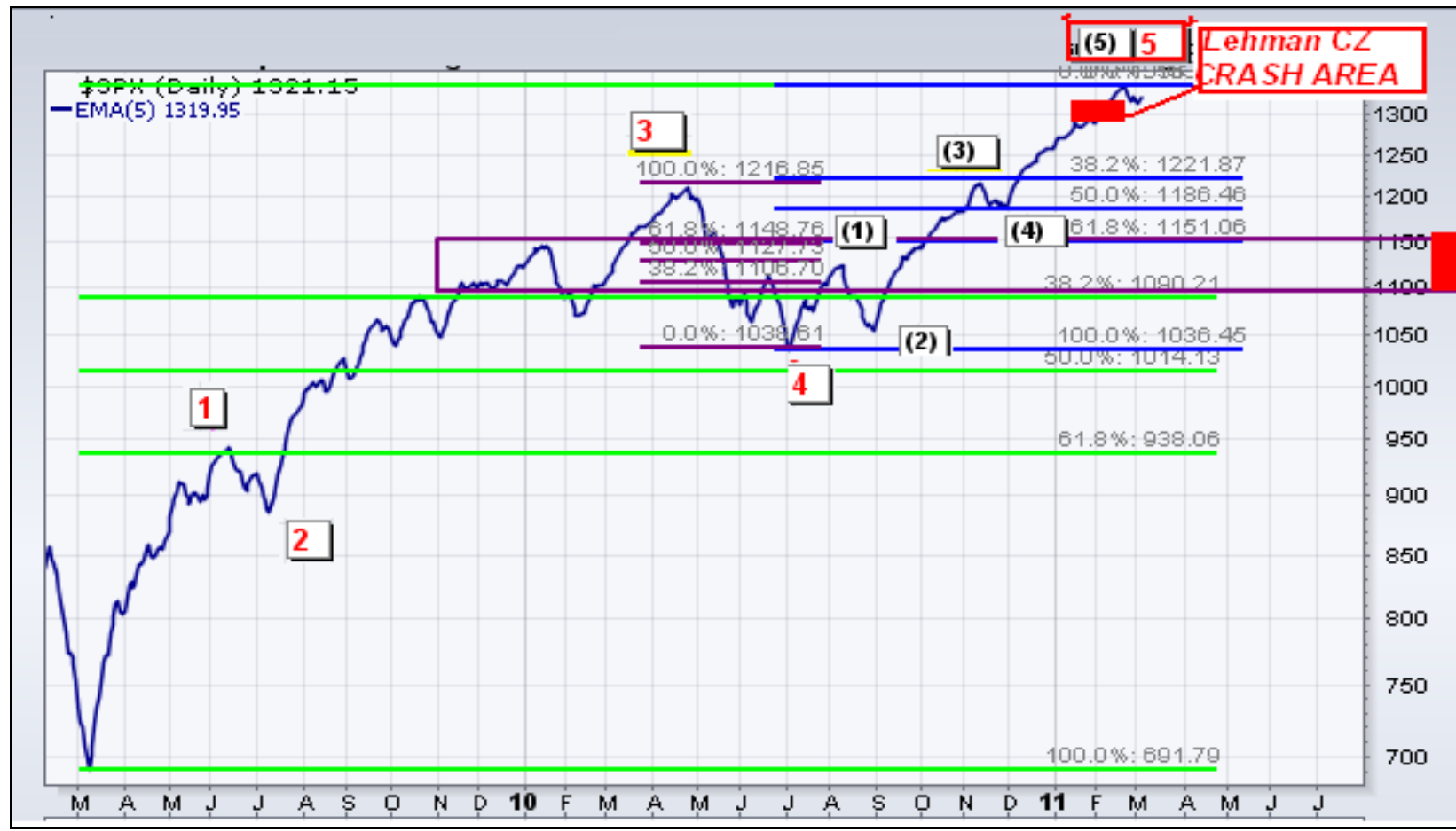
When the red line gets just beneath the blue line then there will be evidence the market has reversed.



SPX – MID TERM - FIB & Wave Trend lines – (NO CHANGE) Testing patience

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 - Point and Figure

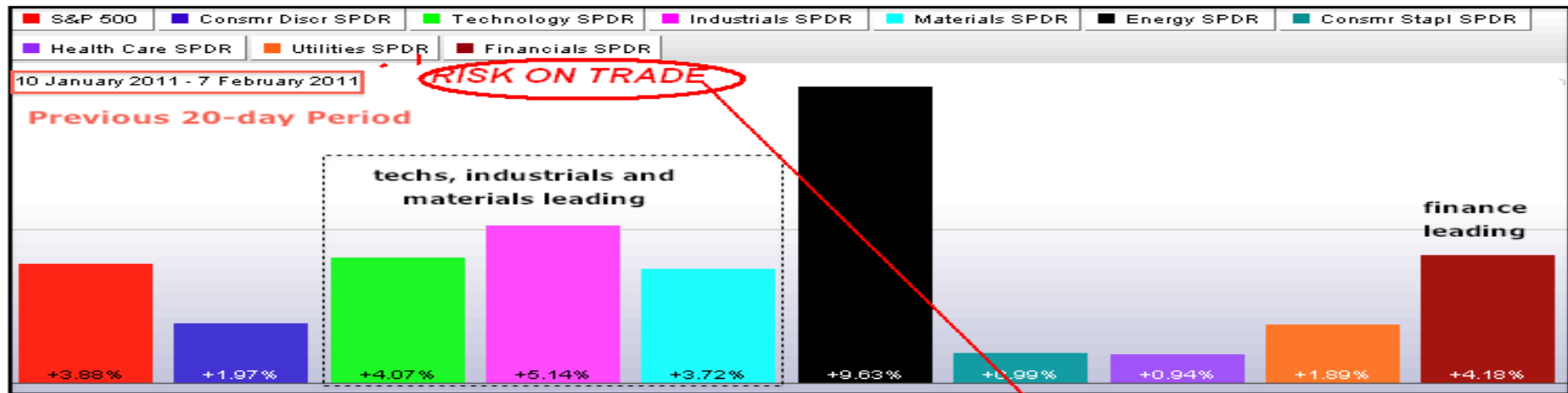
P & F charts from what I have noticed tends to get trigger almost 10% after the Top or Bottom. By this method 9 see below) the Sell signal in DOW - at 11600 , SPX @ 1230

Also indicated Last Buy signal was SPX 1125 , DOW 10500 while the actual bottom was at 1020 in SPX , mostly in comparison with other methods P & F has the highest drawdown.



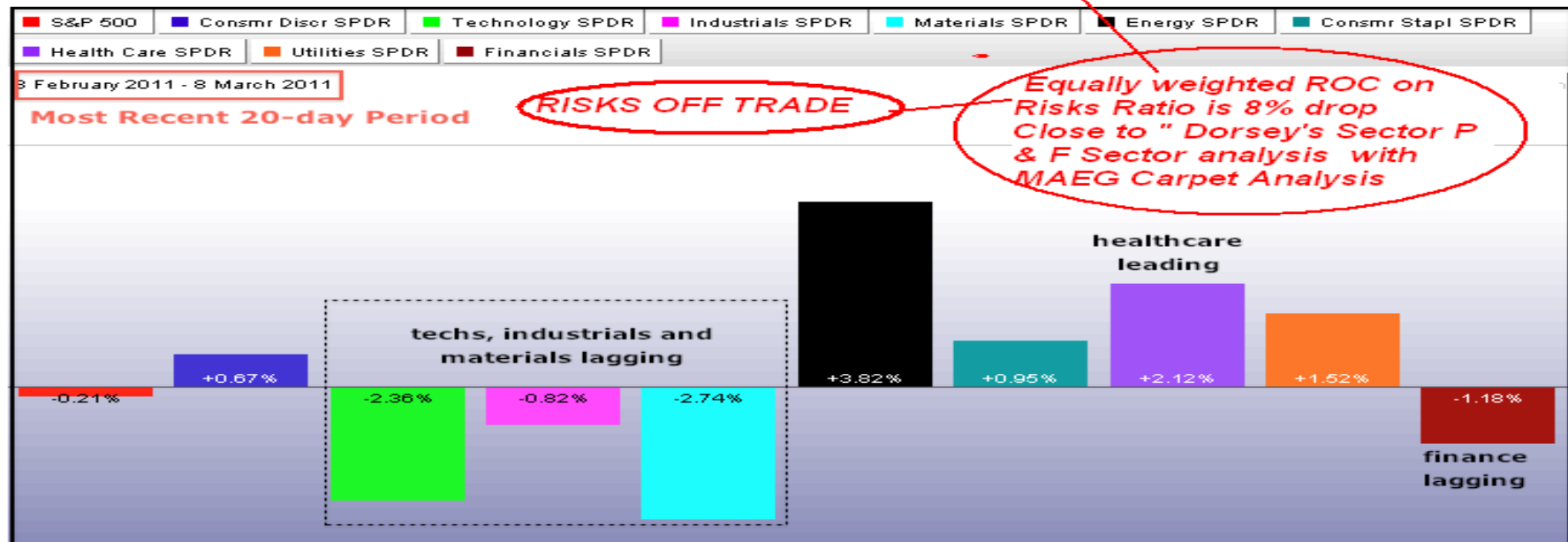
SPX - Sector ROC – Carpet v/s Point and Figure

Risk ON v/s Risk OFF Trade signal for correction . See Contributing sectors (Notes within the chart and compare the sectors for ROC drop from 66% to 62% by P & F)



(click to view a live version of this chart)

Chart 1



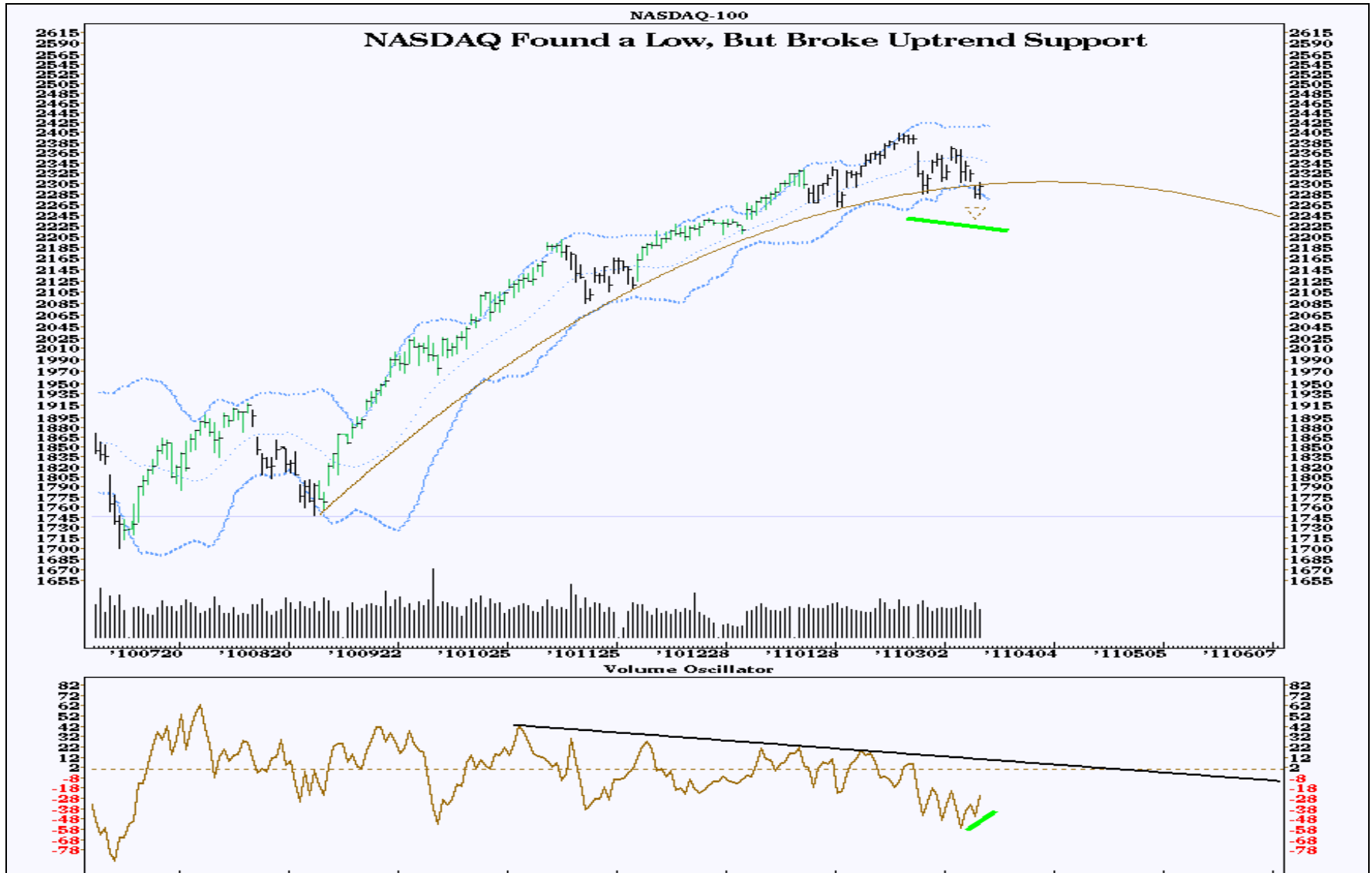
- Secondary Market Analysis for SPX – POM clues – DIA, NASD, RUSSEL

DIA



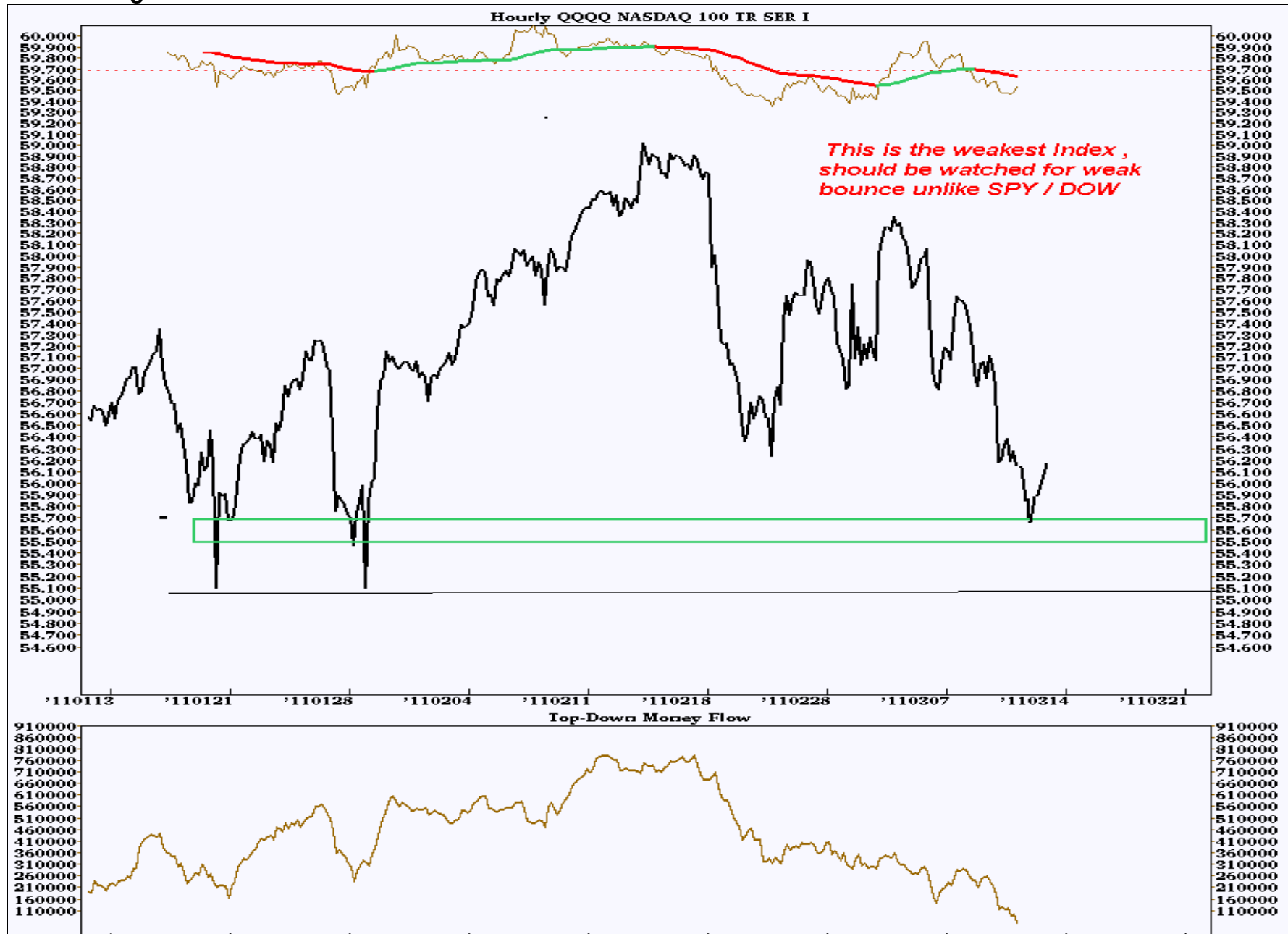
QQQQ

As you can see, even the NASDAQ showed bullish divergence on the oscillator . Still, the uptrend support line was broken and that's a negative. (This suggest QQQQ is the weakest Indices . We will revisit CZ for SHORT on bounce .



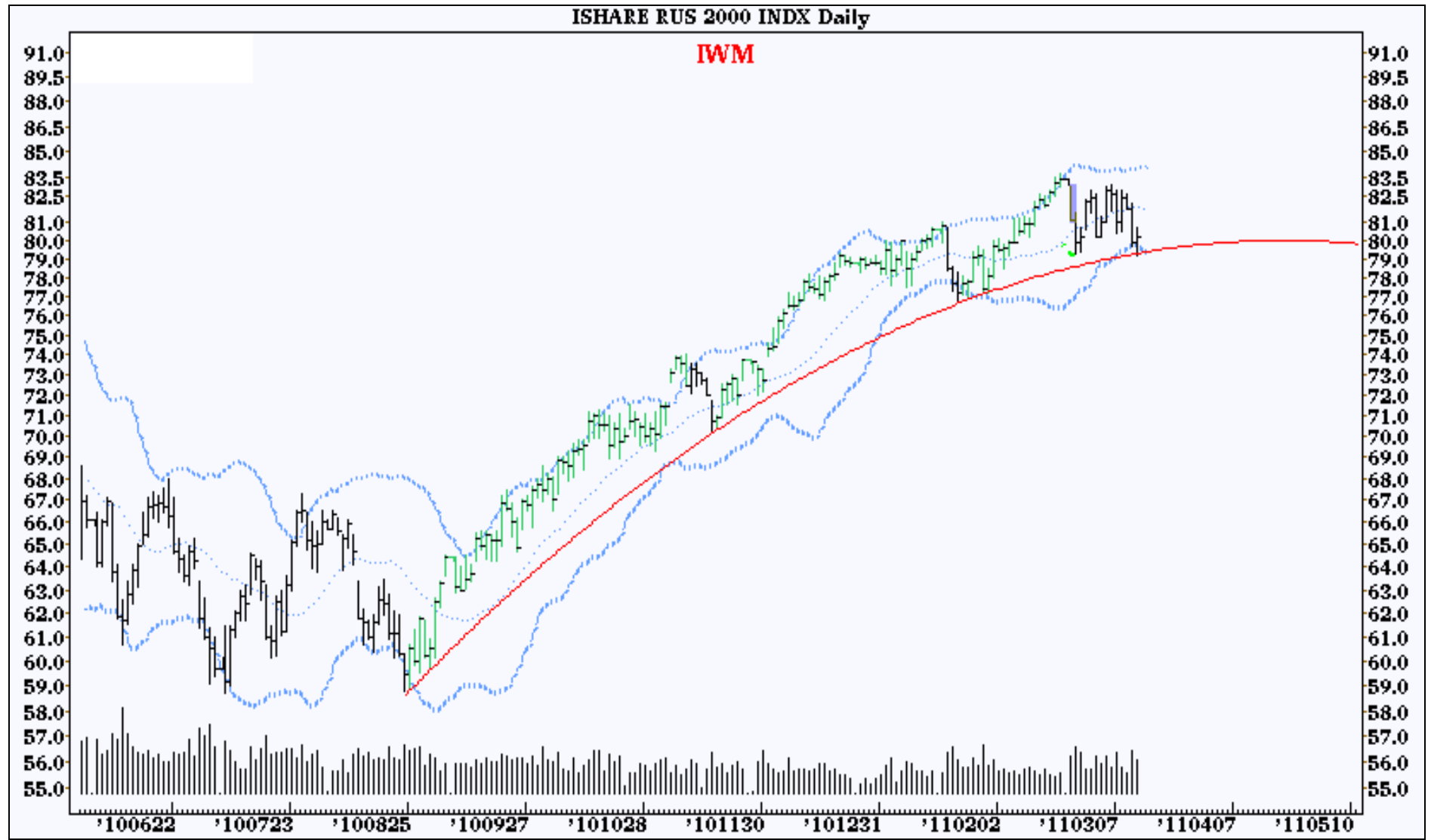
QQQQ

We should get bounce in the test of this zone .



IWM -

This has the Poly Trdn lined up better.



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

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

MID – MID TERM

The best sector is in drastic MF drop, , Next leg down, This sector should be watched for carefully for larger decline.



- 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 – 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)



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	Annual
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%	

- 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

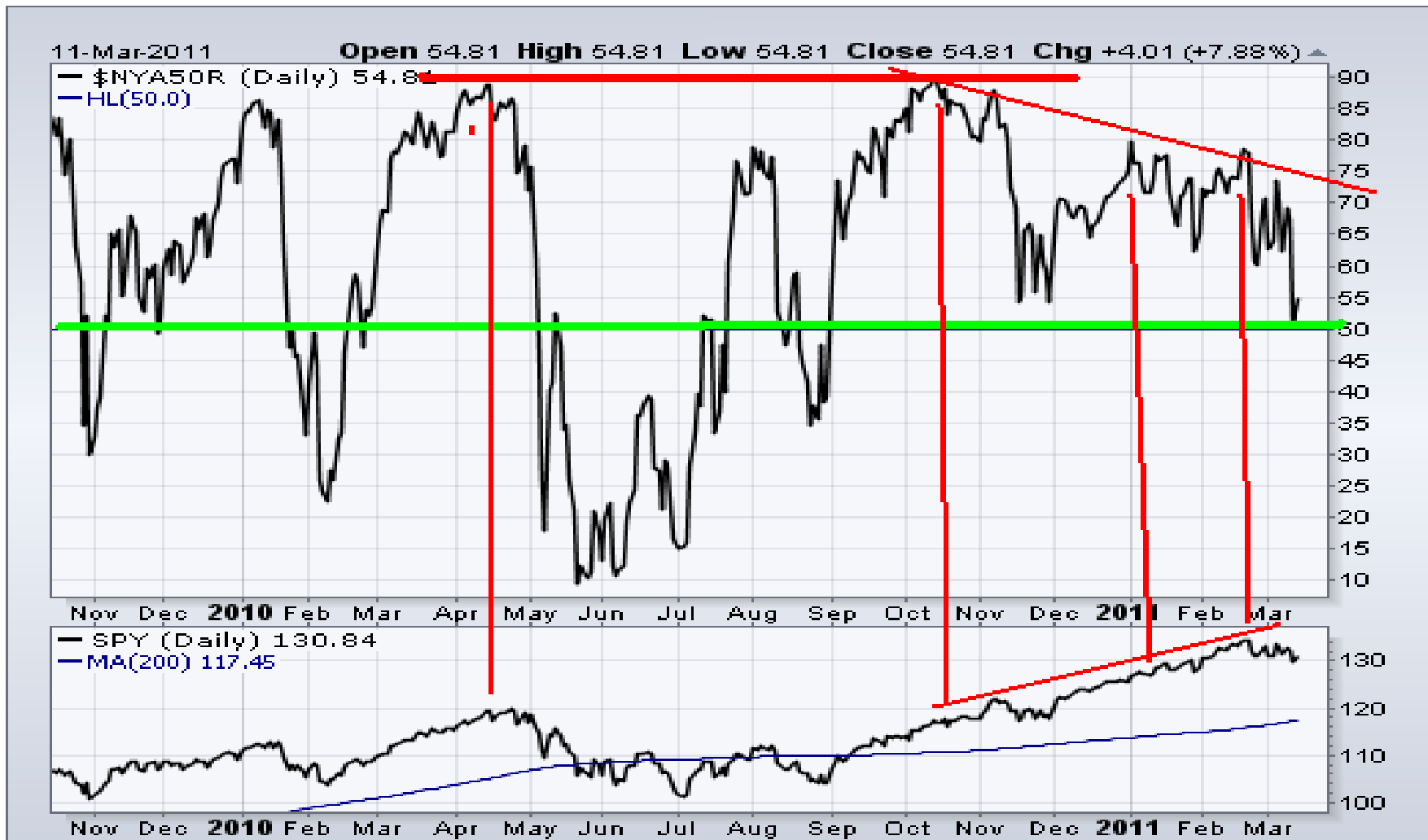
SPX – NH - . CONFIRMATIONS IN SPX BREADTH FOR BOUNCE..

The market has come down to the zero line on the New High - New Low indicator. This is where it's critical that we get a turn to the upside. Last year, we got a move down to the zero line, FOR BOUNCE – this line should hold



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

A/D wok followed by Bulls – Green line should hold for bounce. .



- **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 / 3^d 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.

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

AORD

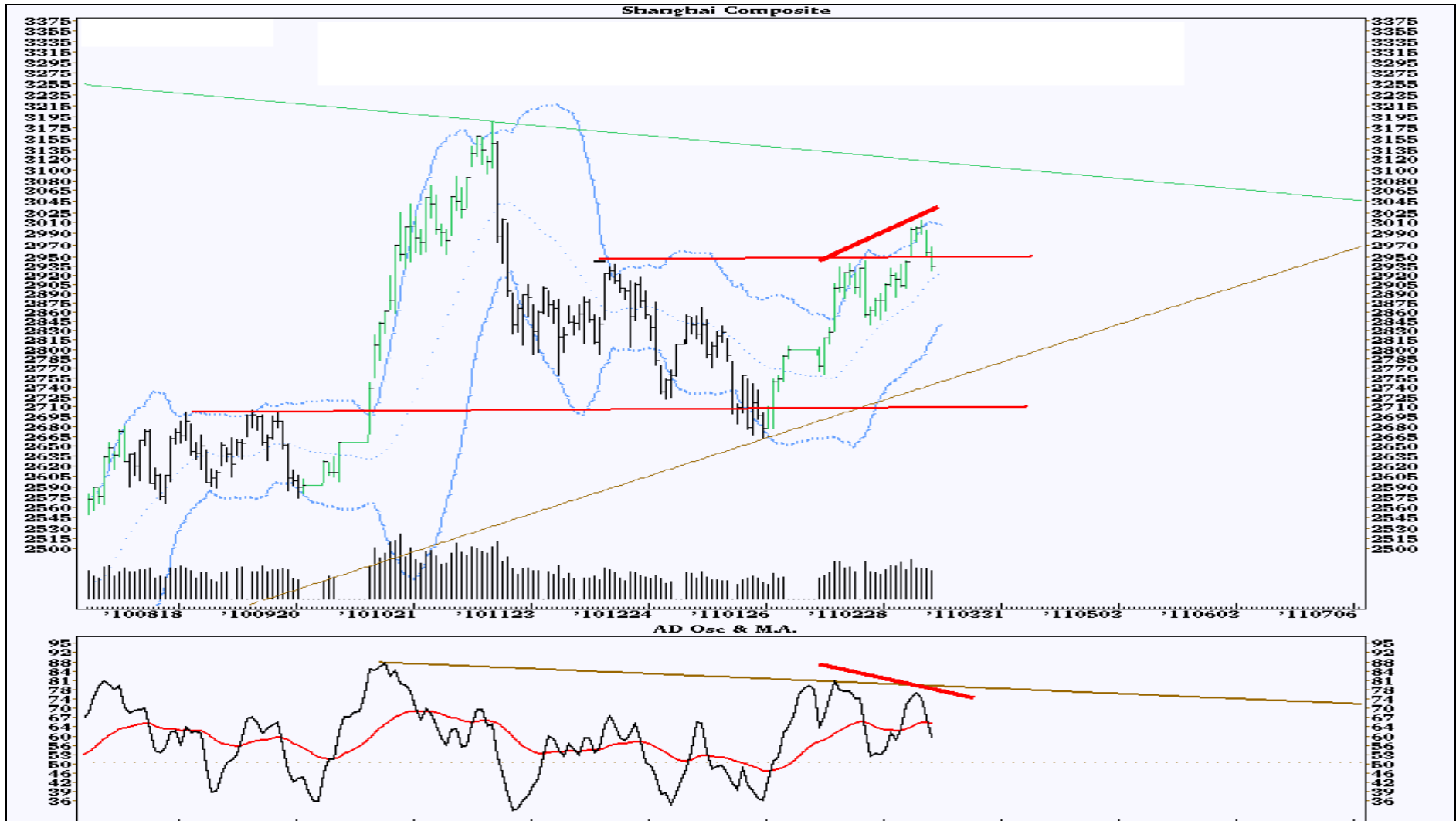
AORD: The stock market followed our script very closely, It is crashing on news from China. There is also a real estate bubble in Australia. We have been drawing the pattern past few week. We are Tracking EWA closely with this move in Sector Report PQV – CZ and had Trigger at CZ



CHINA - MID TERM

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

It's now become obvious that the Chinese economy is not going to pull out of its Global Financial Crisis, and that's having effects in other markets. Australia is the biggest market affected by China. The triangle pattern is still intact .



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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