



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 @ 1313

Analysis of Broad Market that includes – **Jan 1st 2011 – SPX 1257 (+ 4.4% 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 – **NASD, RUSS,**
- Sector Analysis for SPX clues on Money Flows – **BKX, SMH**
- 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,**
- 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 (Update)**

Our start point 2011 in SPX @ 1257 – Current Indicators

- **Long Side –**
 - POM 12 Call – **None** so far this year.
 - **Trend Adjusted Signal – Buy Signal SPX 1309.**
 - **On first pull back consider Longs in Stock specific in Sectors that have achieved our CZ level in our Sector Report. i.e XLV, XLP & Some stock specific in XLK are to be considered. .**
- **Hedge Longs / Risk Management for Downside Corrections via -**
 - **Since First Target on SPX 1270-1280 was reached that was the area to lighten up on some volatile Hedges**
 - **On bounce Fully Hedged long positions with the SETUP – PQV Hedge SHORT Index, and / or**
 - **SD # 2 –CZ – PQV Validated EQWT SHORT Index.**
- **Net Short –**
 - POM 15 Calls – **None** so far Triggered this year

- **Daily SPX - “ Trend Adjusted Signal” – Buy SPX @ 1309 stop 1256**

3x3 /9EMA – Momentum Break Indicator - TREND ADJUSTED SIGNAL (TAS)

SPX – POM Signals & Price Projections with Setup Index

- **CURRENT UPSIDE** - 1295 to 1305, achieved, the quality of the bounce is a deciding factor of the next move .
- **EARLIER DOWNSIDE Target** - Our First Projected **SPX 1270 – 1280 & IMW 77.5-78.5 Target** was achieved .

Important note to Monitor is (March monthly close below 1280 would be bearish but we still have 4 – Trading days left) the highs of Pre – Lehman crash price tops 1280 on Monthly . **Monthly Signals overrides weekly and daily charts**

- **TARGETS :** We certainly have some work to do on downside towards the 1250 area , although our several matrix measurements have called for 1220 (But that is longer term picture)
- **EQUILIBRIUM Price** - favorable Risk / Reward opportunity will come at POM 13/ 12. This area we would be interested for Fresh capital for Longs

• Market Insights

- *This week, a pullback to force the bears to re-establish short positions. **Several of our Sectors and Indices are reaching our CZ – in Sector Report & failing** and peaking (ST) A/D study (see the chart below) suggest a pullback and then a rally would probably point toward looking for a April .*

- *SPX is currently at 1313 exceeded our bounce target by a bit of 1295 to 1305, the quality of the bounce measures how much mathematical energy it generated during this move. We think we are flipping in consolidation and currently a Pull back or at worst case scenario is Retest of lows in this round as evident from several divergence charts we have shown below*

- *ABC down might be saved at later date (See the ST / MT charts below & criteria)*
- *On the Bullish side of the ledger , exactly at the time SPX hit 1270 – 1280 that very moment in our Sector Report – Watch list Sectors - XLV, XLP, XLU hit the CZ's. although volume was little heavy but not alarming . The stocks specifics within these group & select technology (had their s own CZ – PQV Validated on lighter volume). Those are the ideas to be considered during the pull back*

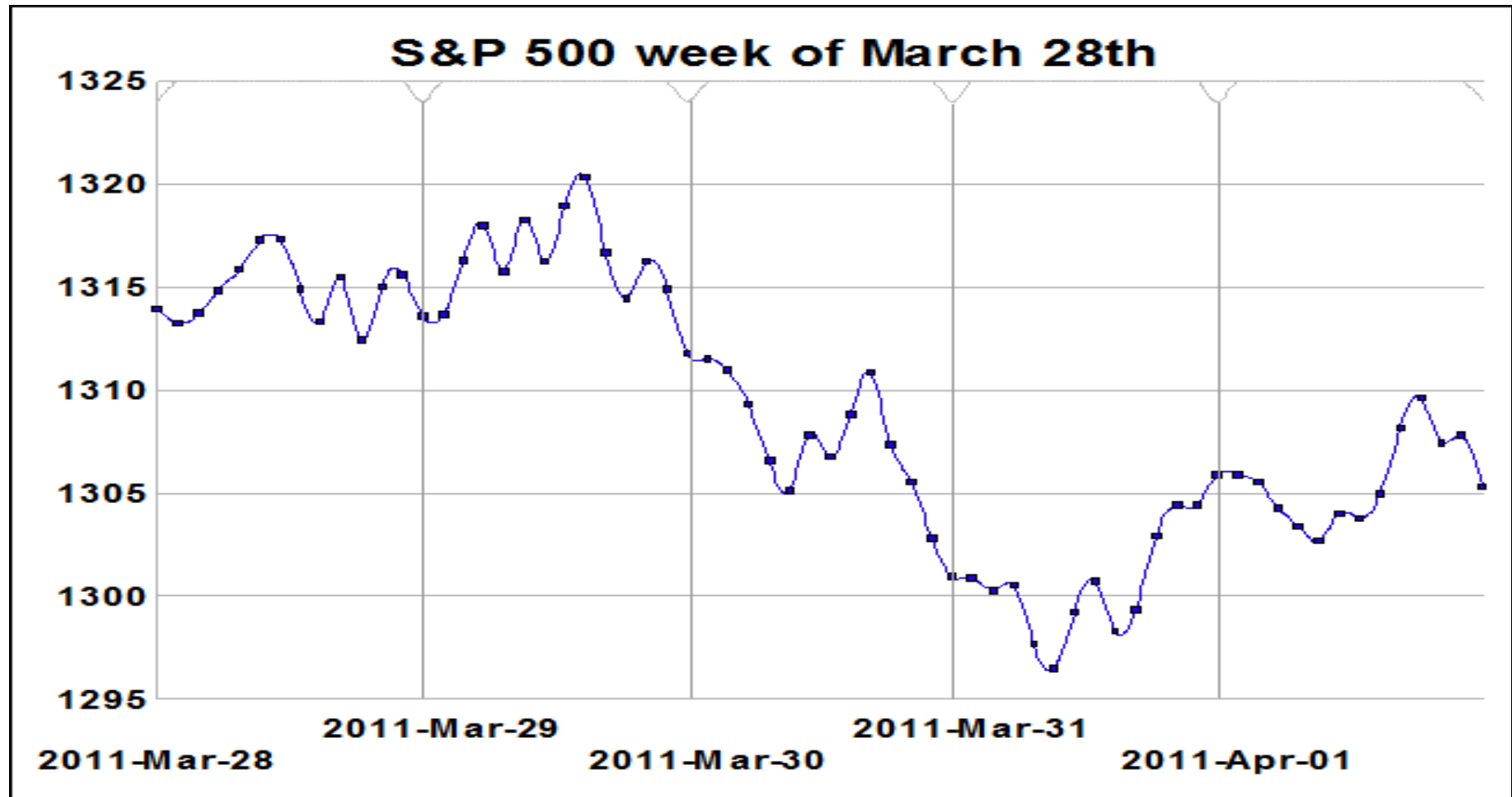
There is divergence among few Indices, For Shoring the bounce WEAK Indices to be considered at POM Verified CZ – PQV Validated & STRONG Indices or Sectors @ CZ Verified with participation of Specific STOCKS at around CZ validated by RA / RI

- ***On stock Specific basis from our E # 1 – PQV LONGS , The First pull back in SPX from 1313 towards 1285 we will have the opportunity to enter ½ position (If volume is = / < THEN TEST VOL) and balance ½ on the full test of the CZ – Validation.***
- *In previous Mondays MS, A # 1 notes , we had previewed Key Mathematical Indicators that gave us the “heads up” for upcoming reversal . In IWM 77-78.5, QQQQ 55 -55.75 (s had shown in chart_ and SPX 1270 -1280, These were good areas if pre positioned trades @ mid CZ to get the fine Granular “out it in fast moving markets. **The objective being to reduce Volatile and overweight Hedges on bounces to recycle the same capital back at current levels .***

Primary Market Analysis –

SPX – ST

After making a solid bottom, the market rallied. Fed infusions into the markets continued . This week, cycles suggest a modest retracement , with a bottom in the last half of the week and a then another up move.



SPX – Rydex Cash flow chart.

This is one reason we think of another bounce after retracement and not ABC down yet . Just consolidation

The Rydex Cash flow ratio chart, Since the bottom in the SPX back in March 09, worthwhile lows have formed in the SPX when the Cash Flow ratio was above .95 and the current reading is .97 which suggests the rally in the SPX may continue. The Rydex Cash Flow Ratio remains in the bullish level above .95. Over the last couple of weeks the rally in the SPX and the Cash Flow Ratio increased and showed that the Rydex trader was becoming more bearish as the market rallied. By contrarian thought, this condition suggests the rally in the SPX may be still left or shallow retracement . If and when the Rydex Cash Flow ratio reaches back down to .75 or lower will be the time to be careful of the current rally.

I lost the chart saving last minute after completion of work

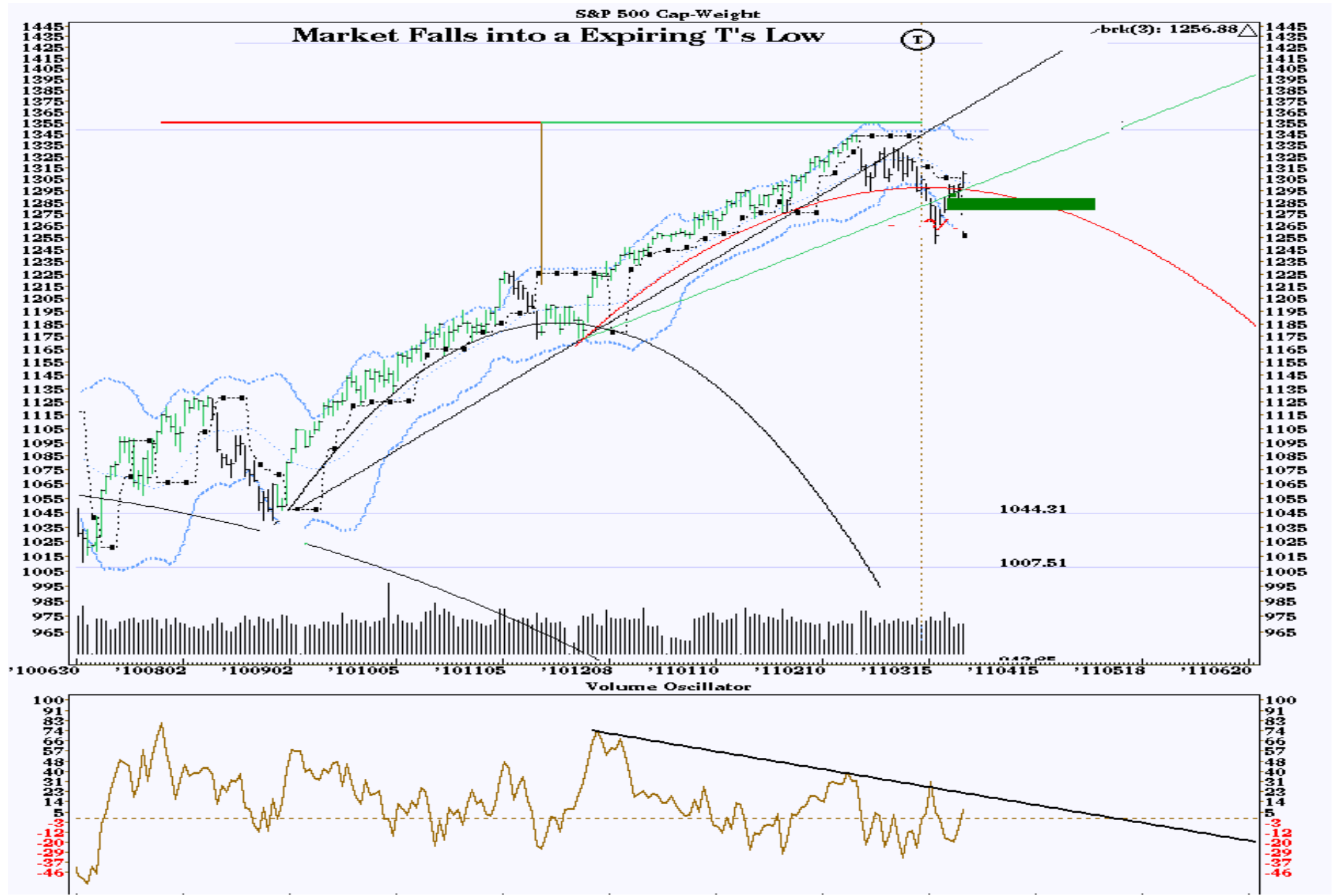
SPX – MT

Similar to Rydex , Tick reading. Suggests consolidation and not ABC down yet , simple rested of lows. The bottom window is the 20 DMA of the ticks. Since March 2009 low, worthwhile lows have formed when the Ticks turned up from below 100 and that condition do so last week. When the 20 DMA average of the ticks reaches above 300 then conditions can form where a top materializes. The blue arrows where tops have formed when the ticks reached above 400. Right now the ticks are coming in at 200 level . We are expecting the market after the pull back to have the bounce



SPX – Poly Trend and Money flow.

While the above internals are suggesting the consolidation, we should remain above 1275 on poly trend , we'll wait and see.



(From past – Bigger Picture)

SPX – MID TERM (2nd target) - For later date longer time frame

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)

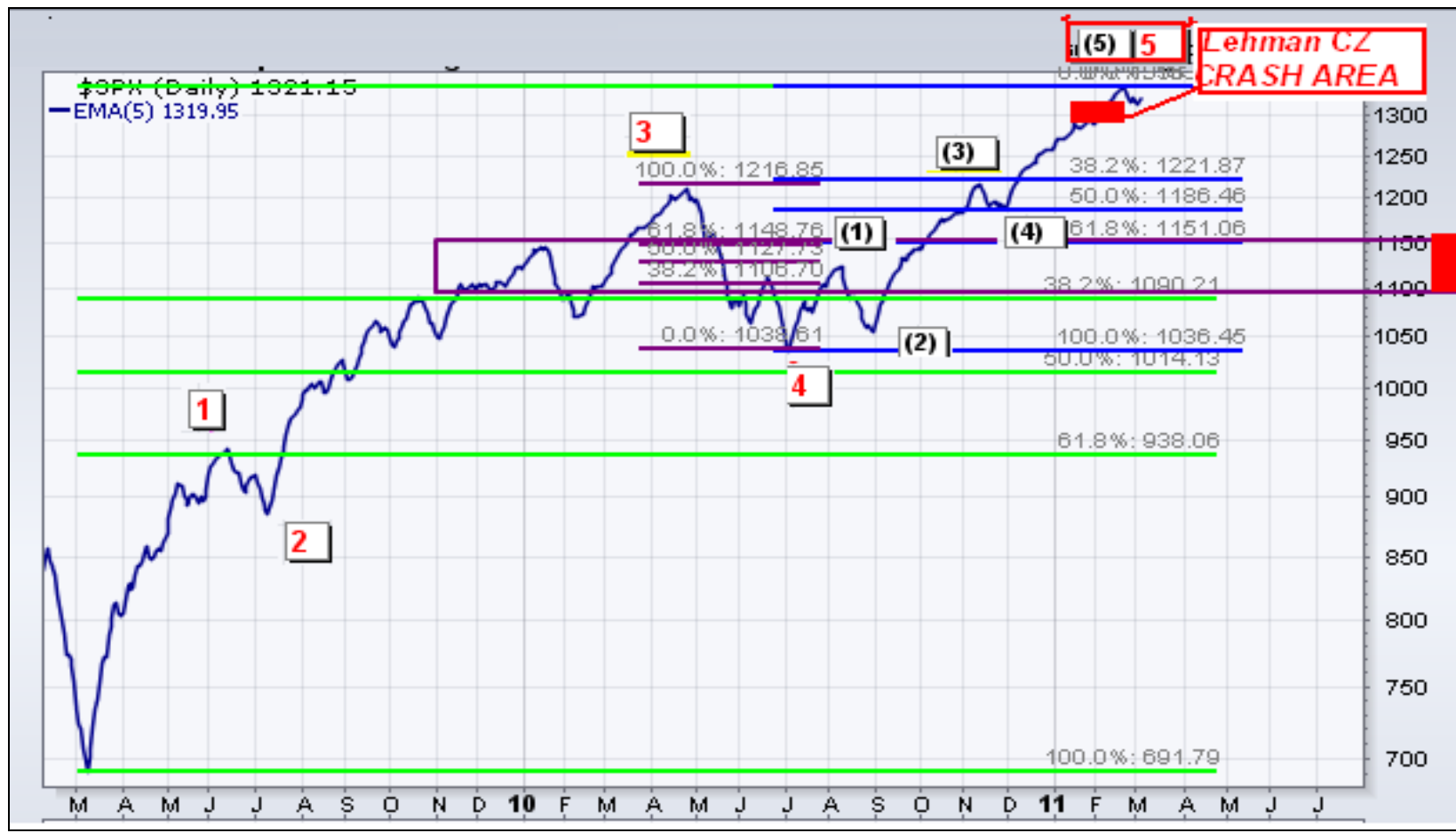


(From past – Bigger Picture)

SPX – LT TERM (3rd target) For later date longer time frame

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.



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

QQQQ

As you can see, even the NASDAQ showed BEARISH and under Poly trend line , suggest this lows would get tested.



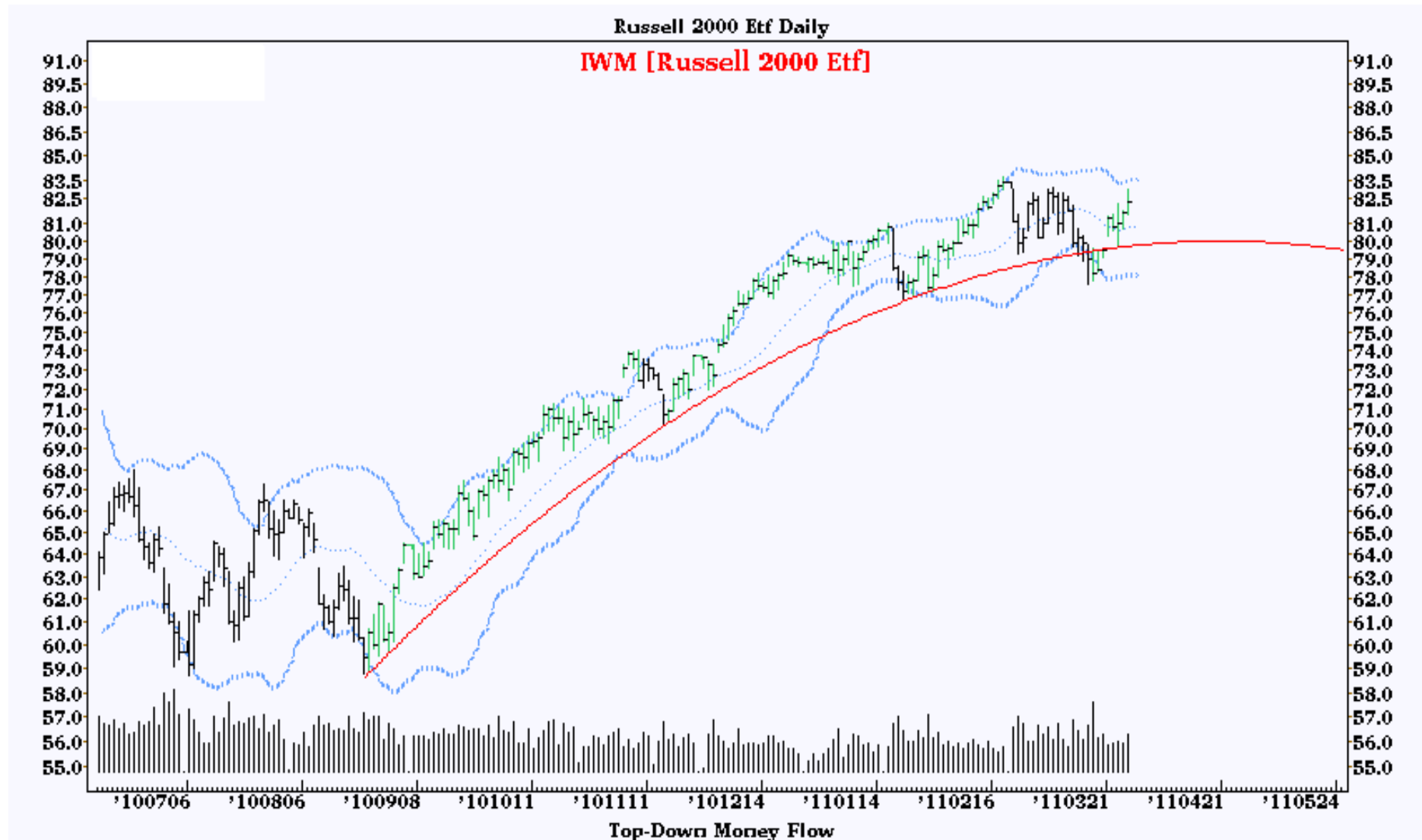
QQQQ

Divergence evident from Weak Index. .



IWM –

This is stronger sector and Pull back should hold above the Poly Trend line. While weaker Indices may show more weakness.



IWM -

Divergence evident from STRONG INDEX. .



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

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

XLF

Divergence evident from Weak sector .



XLF

Divergence evident from Weak sector .



SMH

Divergence evident from Weak Money flow .



• 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 Bearish from 15st March @ 1280 till 15st April (so far wrong)

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 – SPX @ 1310 (1st)

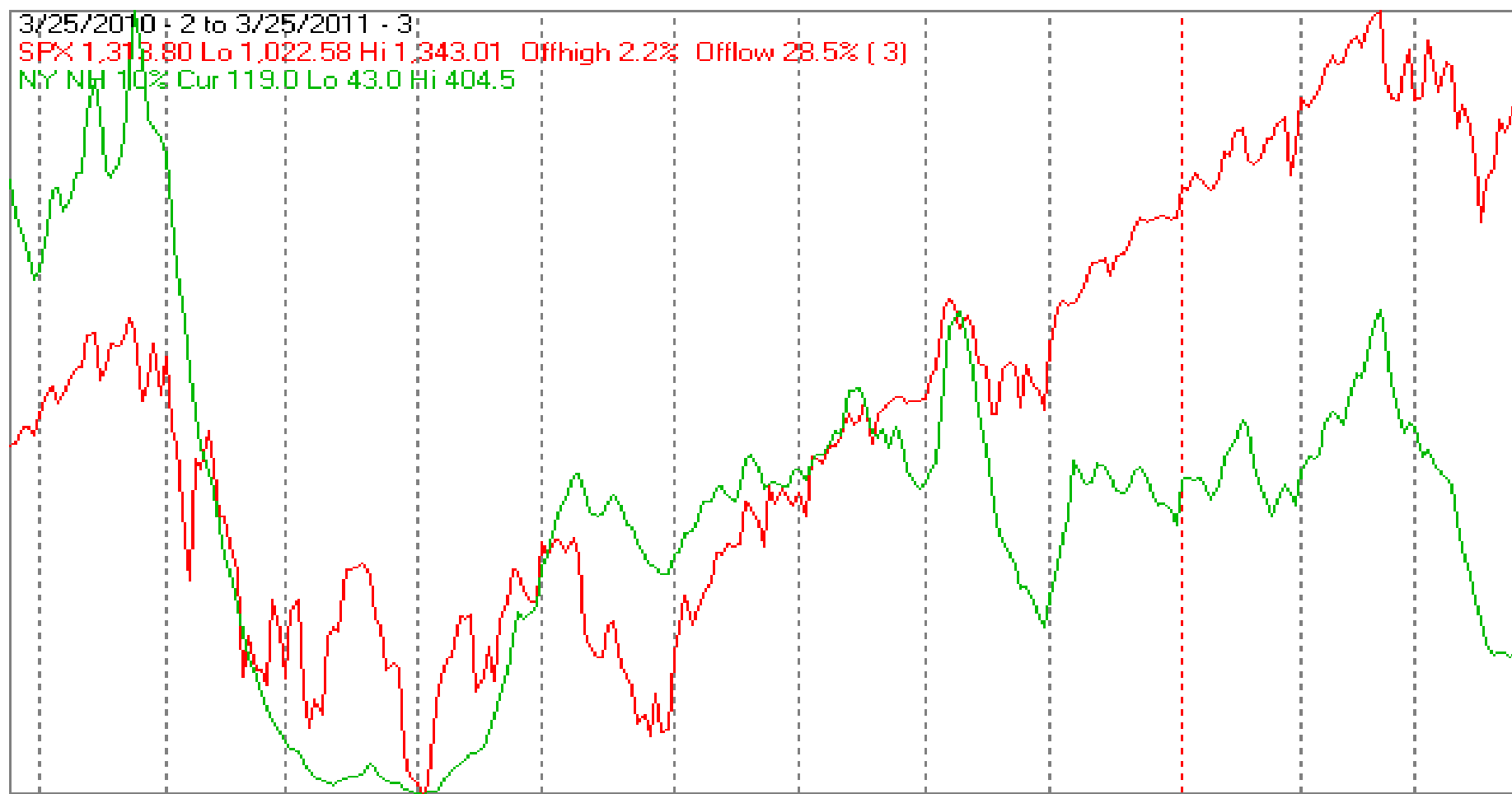
- 8th Jan also coincides with CITI Group study for Major market top 2011-2012
- 2011 is 3rd year of the presidential cycle and historically has positive returns
- Our own Study for January in (2003 – 2006) Uptrend & (2007 – 2010) Sideways Market.

| 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% | |

• 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

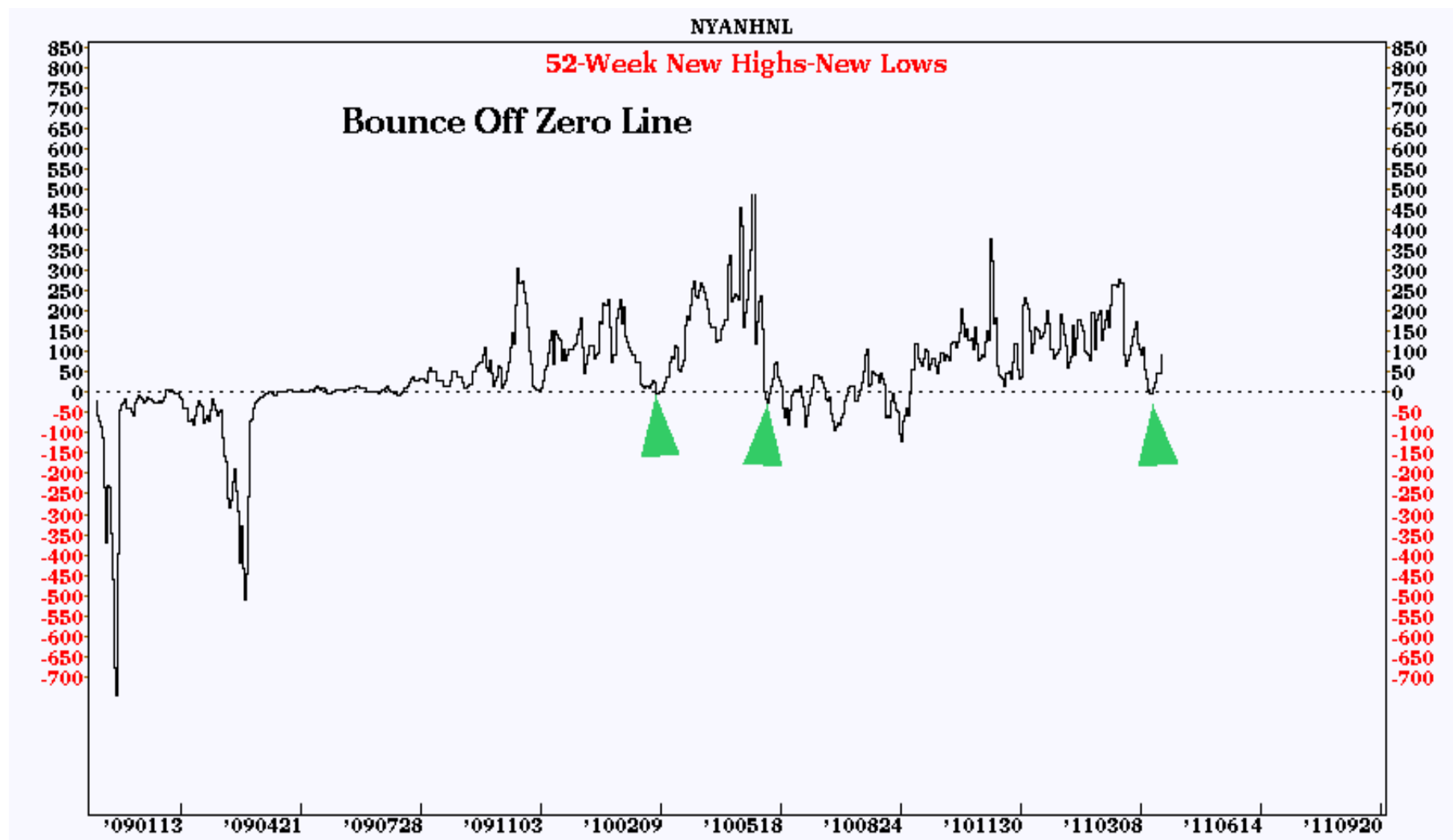
SPX – NH - . On very SHORT TERM suggest the 2nd half of the rally the A/D has lagged and hence pull back first is evident



SPX – NH - . CONFIRMATIONS IN SPX BREADTH

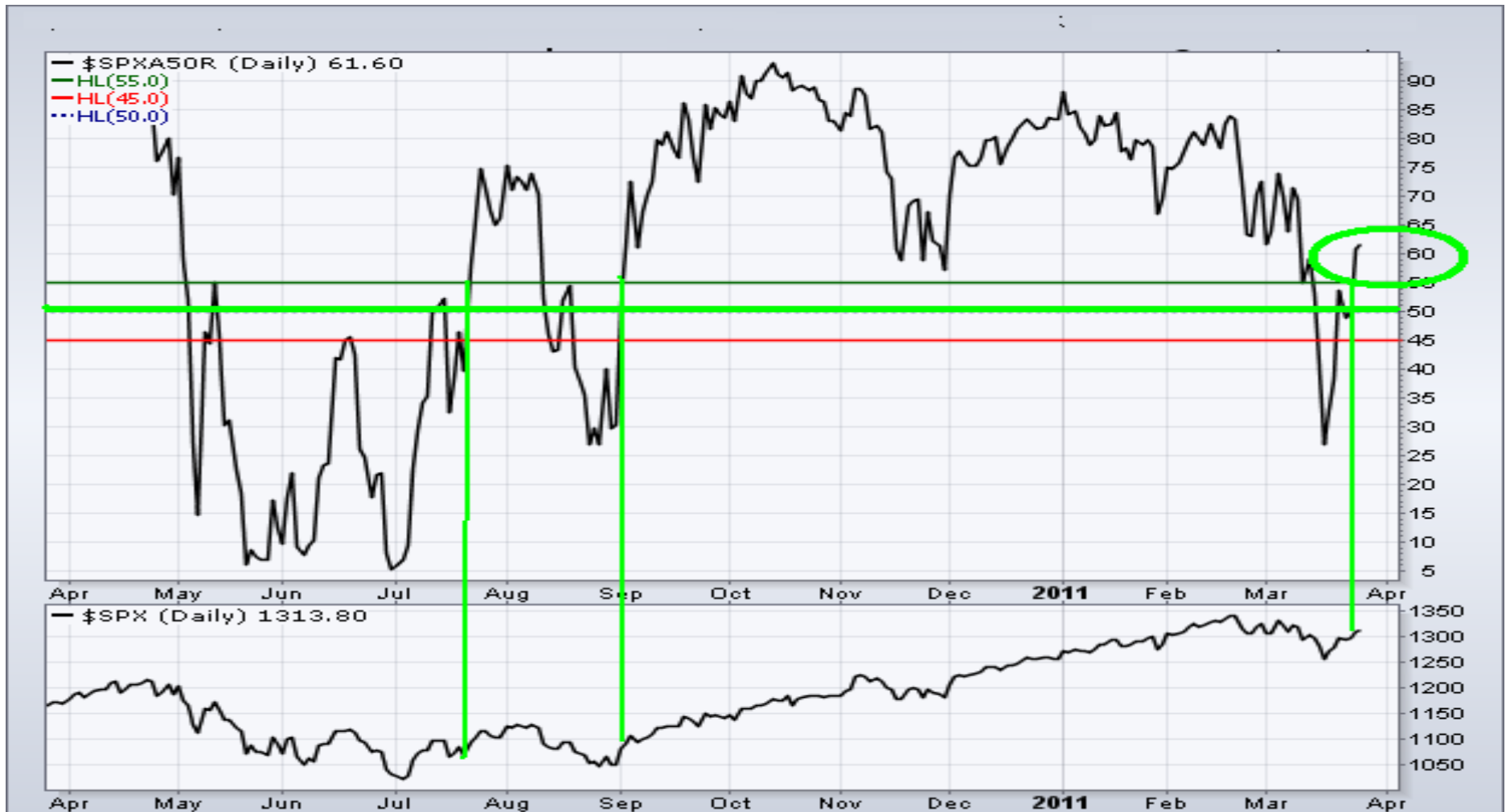
Currently it held the zero line on the New High - New Low indicator suggest , the pull back in SPX will be Retracement and not ABC down.

Earlier this indicators nailed the bottom at 1270 quite accurately as we had presented in our A # 1 – MS in previous report.



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

A/D wok followed by Bulls – Green line should hold for bounce. . This to suggest the same conclusion, first Pull back and then bounce Rally next and then Top little later.



- **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.

VIX

Notes within the chart.



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

AORD

AORD: The stock market followed our script very closely , It is crashing at CZ . This not a safe market especially from China & real estate bubble (No US FED to bail them out) . 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

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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