



SG Capital Research

Global Market Insights

Research Note – Weekly Market Strategy Global (A # 1) – STRATEGY & PROP ANALYSIS

MAEG- WKLY MKTSTR- GL- POM -SG 2011 # MAY_02

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Market Strategy Global (A # 1) - SPX – Closed @ 1363

Analysis of Broad Market that includes – Jan 1st 2011 – SPX 1257 (+ 8.4 % 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, (In A # 2 MS)
- Sector Analysis for SPX clues on Money Flows – BKX, SMH - None
- 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 – FTSE / EZU, CHINA / EEM - (In A # 2 MS)
- 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.

- Daily SPX - “ Trend Adjusted Signal” – 3x3 /9EMA – Momentum Break Indicator –
- **TAS – BUY @ 1335 Triggered on 4/26 – Stop 1337 on Close**

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

- **Net Short – *None***

- *POM 15 Calls –so far NON Triggered this year*

- **UPSIDE Target conformation** - *As noted in our Previous messages – Our objective was SPX to reach Triple Top at 1445 achieved*

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

- **Fully Hedge on long positions @ POM 14** via the SETUP – PQV Hedge SHORT Index or

- *SD # 2 –CZ – PQV Validated EQWT SHORT Index in Sectors - PQV – CZ Validated*

- *Use CZ to CZ moves either SPX or sector for partial Recycled capital till the Bigger Trend sets in.*

- **DOWNSIDE Target** -

- SHORT TERM** - **To be determined.**

- **Net Long** – *None*

- *POM 12 Call – None so far this year.*

- **Trend Adjusted Signal** – *Buy @ 1335 SPX*

• Market Insights

Since the lows of 1295 -1305 in SPX , 4/14 . The math indicators pointed at Triple top in SPX towards 1345 with Time Termination expiring towards a high in the April 25-27th as indicated in previous commentary.

On SHORT TERM - reason for caution here is the fact that the indices have been closing above their upper trading bands. Now, while that's actually a sign of strength — the ability to close above the upper band so many times in a row suggests that the trend is strong — it's also very likely that the potential for traders to take profits after such a long run is growing. So, a near term pullback would relieve the overbought condition and bring the market back toward a equilibrium price area:

With the memory of the Flash Crash just a year old Anniversary (it was actually May 6th, 2010, but the market made its pre-crash high in late April),

Cyclic forecast for the stock market this week has a high occurring on Monday / Tuesday around SPX 1370 -1380 and a decline into the sub-1340 - 1335 . This week, the market is likely to put in a short term peak and enter a correction. Once this correction is behind us, a run to the end of June. .

Lunar Cycle – The previous Lunar Cycle coincided with highs made on New moon followed by correction in Full moon. We have New moon coming this Tuesday the 3rd May 2011 and several Astro dates converging into Sunday .

When few of these events coincide with each other gives better confirmation. Sell in May and Go Away kicks in “

The A /D Line and TRIN / TICK work suggests that after another pull back from around current levels market should rally towards Time Ratios T – Termination 4th June for more significant peak.

Participation in Hedges in such Trading range .

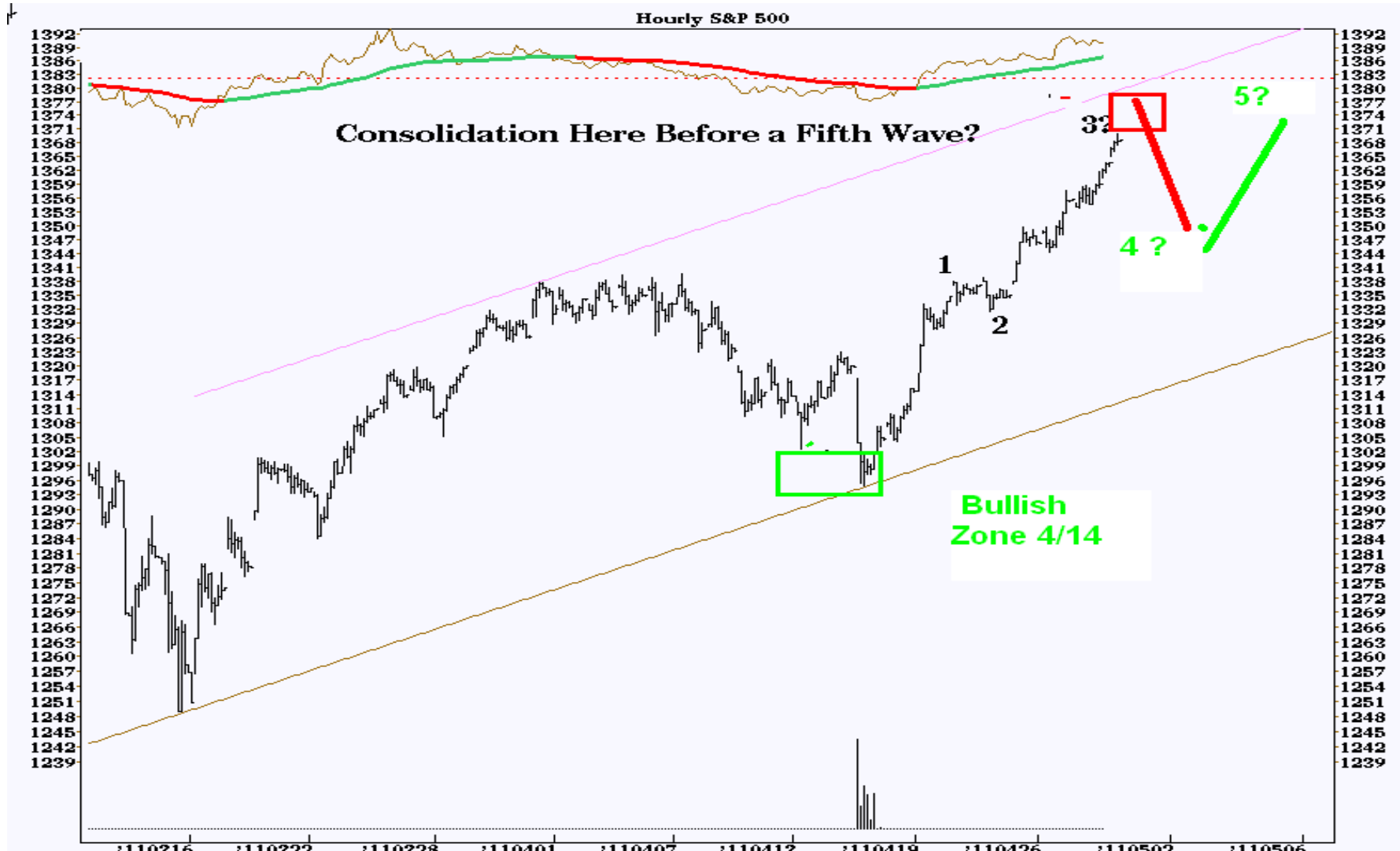
Several of our Technically weak BROADER INDICES / SECTORS have reached @ CZ and Triggered Sell by PQV during the counter Trend move in SPX. QQQ, EEM, IWM in Sector Report but we will cover in our MS – A# 2 this week), SMH, XLB, JJEC etc in Sector D Reports

We have still remained on POM 14 since 1ST week of September 2010, longer than anytime before. No indicators signaled POM 15. (NET SHORT)

Primary Market Analysis –

SPX – Hrly – ST

The market continued to advance higher into overbought territory but momentum is on. It could finish wave 3 and then pull back and possibility to wave 5 rally . The pull back to wave 4 should be around 1340 level looks likely.



SPX - Hrly - ST

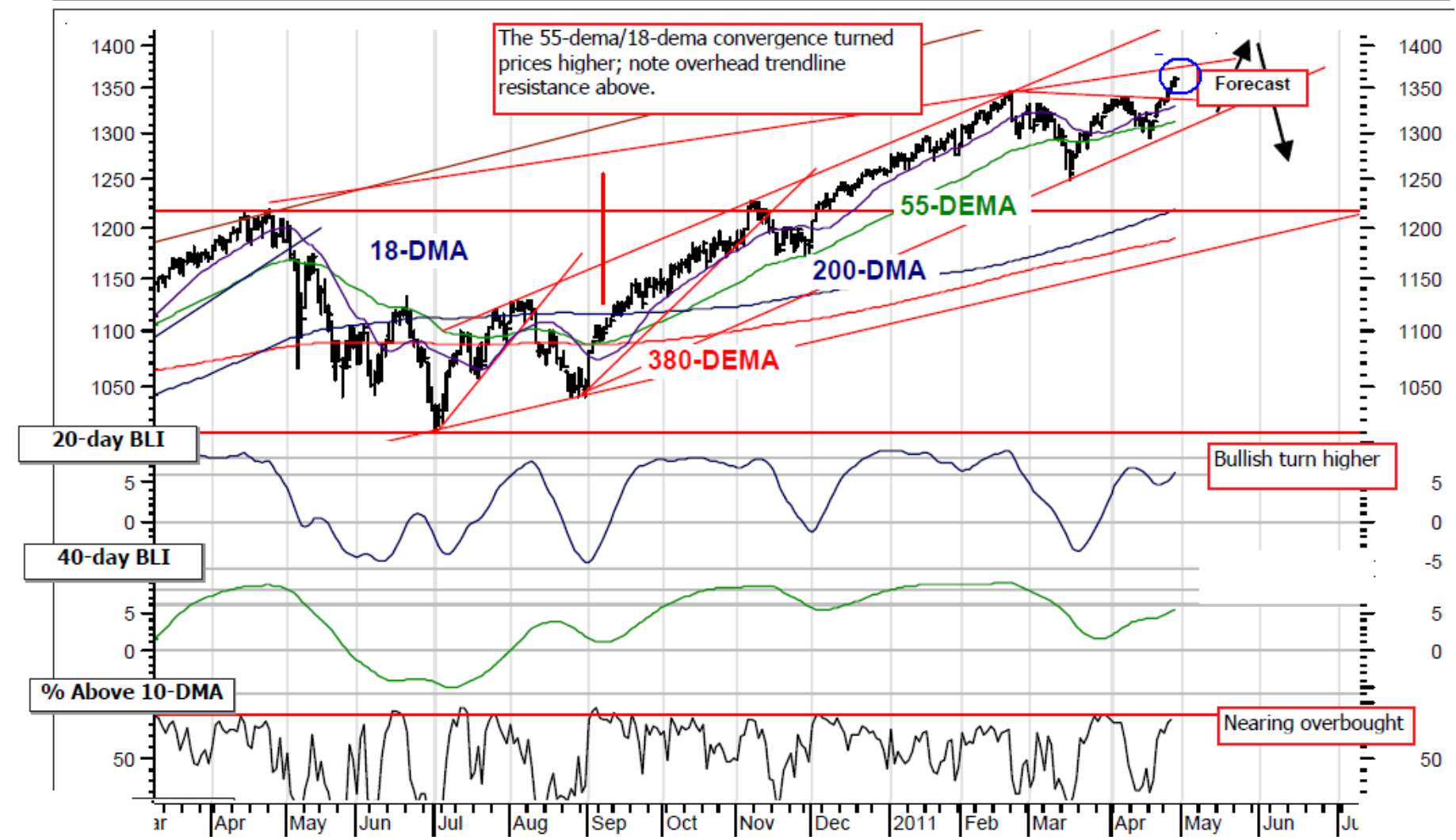
Short term Topping process.



SPX – ST

There is some headroom to move higher , in Blue circle , It appears that should be wave 5 completion but to achieve that we need to pull back to Wave 3 first.

S&P 500 INDEX/ BROAD MKT INDICATORS



SPX – TRIN / TICK - Study 1 – Mid term -

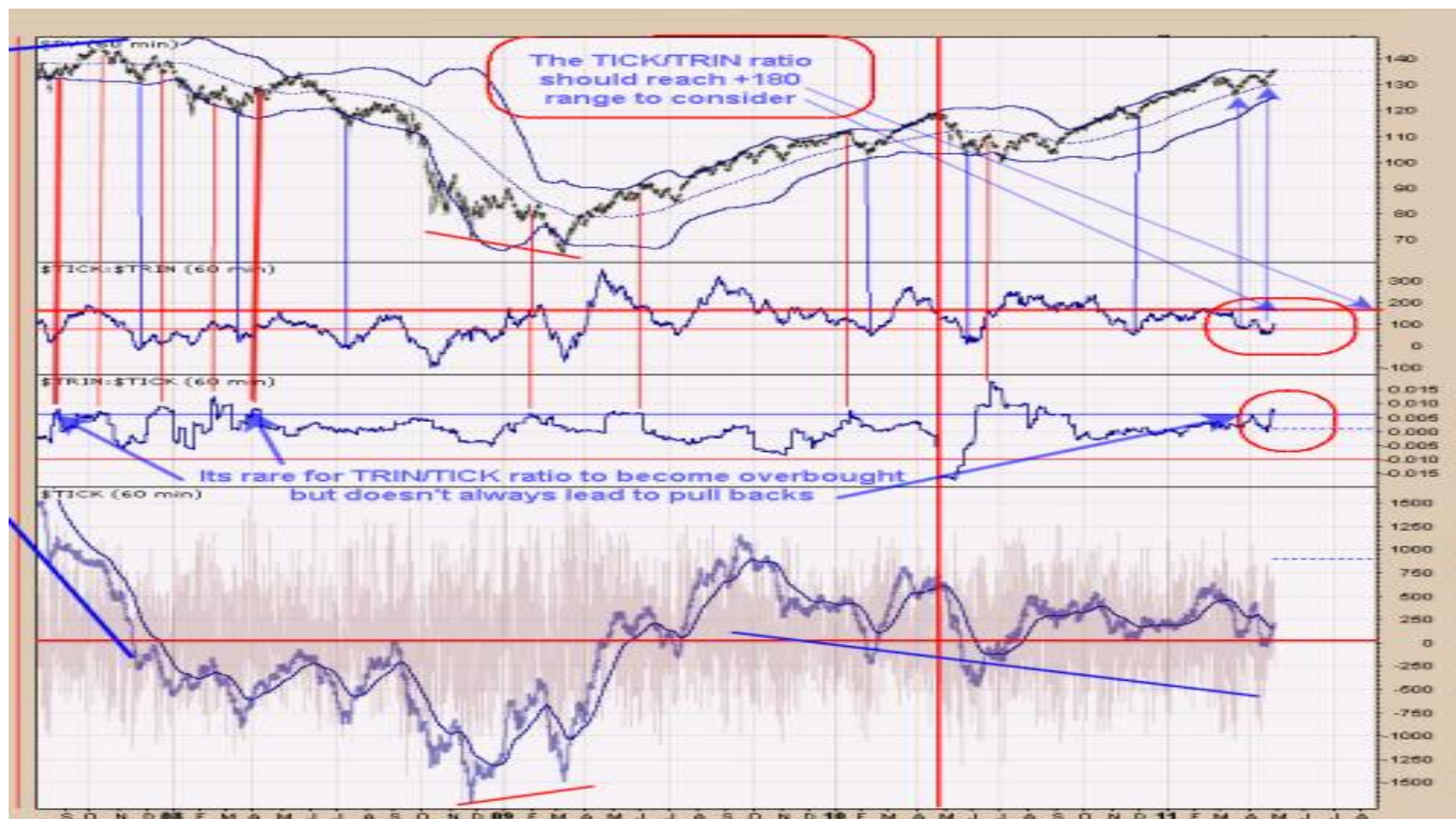
The 50 period EMA of the TICK closed at 260 and below the overbought area of +300 and suggest the market has some room to move higher near term. Suggest still Math energy is left in the market in spite of low volume. (we think this level could be reached after the first pull back from current levels and then rally back here) When the ticks reach over +300 then the market is considered frothy and in an area where a Major top can form.



SPX – TRIN / TICK – Study 2 - SHORT TERM

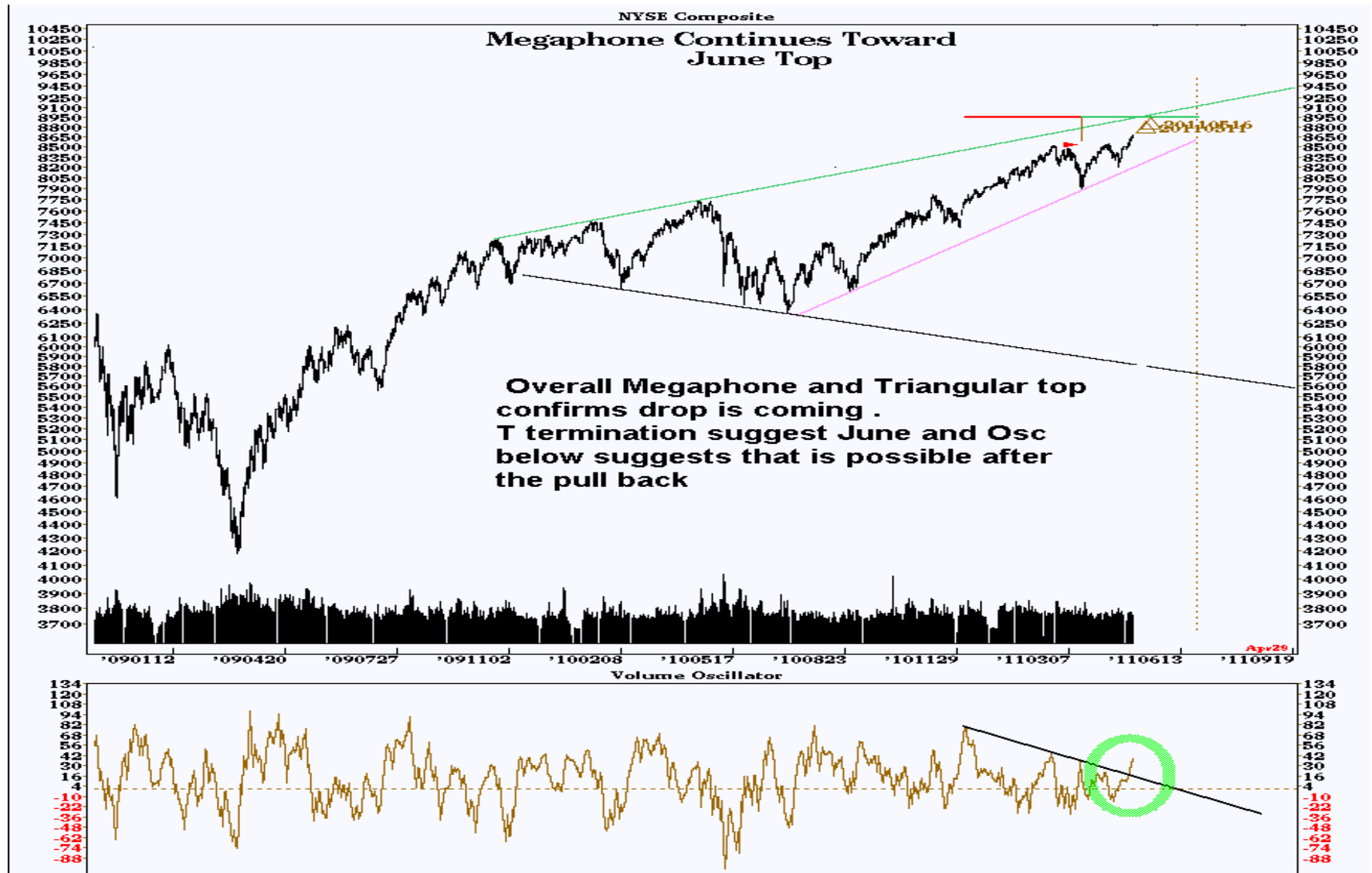
The second window up from bottom is the TRIN / TICK RATIO. When this ratio reaches above .006 (current there now) then a pull back for the SPY. Its rare for this ratio to reach this level but in some instances the market continued higher short term (see blue arrows on left of chart).

Next window up is the Inverse TICK / TRIN ratio. Works well on intermediate term Normally top in the SPY don't occur until this ratio reaches +180. The current reading is coming in near 140 and suggests the market has room to move higher near term..



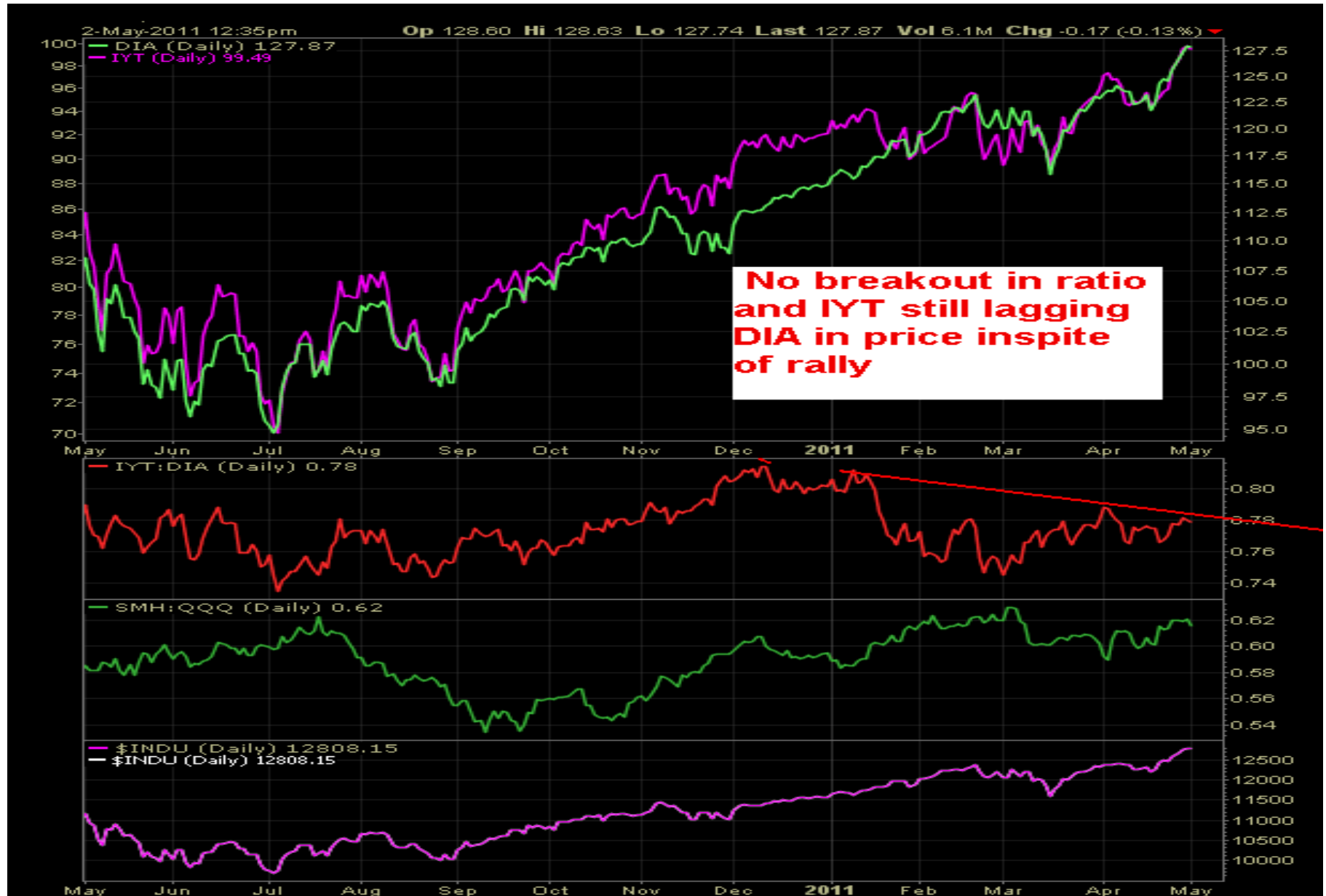
NYSE – Poly Trend Analysis. – Intermediate term

The final rally tends to be more and more selective. And, the pattern on the NYSE Composite is a megaphone (expanding triangle), which tends to lead to a huge move in the opposite direction (down) once it is complete



Dow Transport Theory -

BUY SIGNAL – NOT TRIGGERED , Last Sel Signal was at 12,225

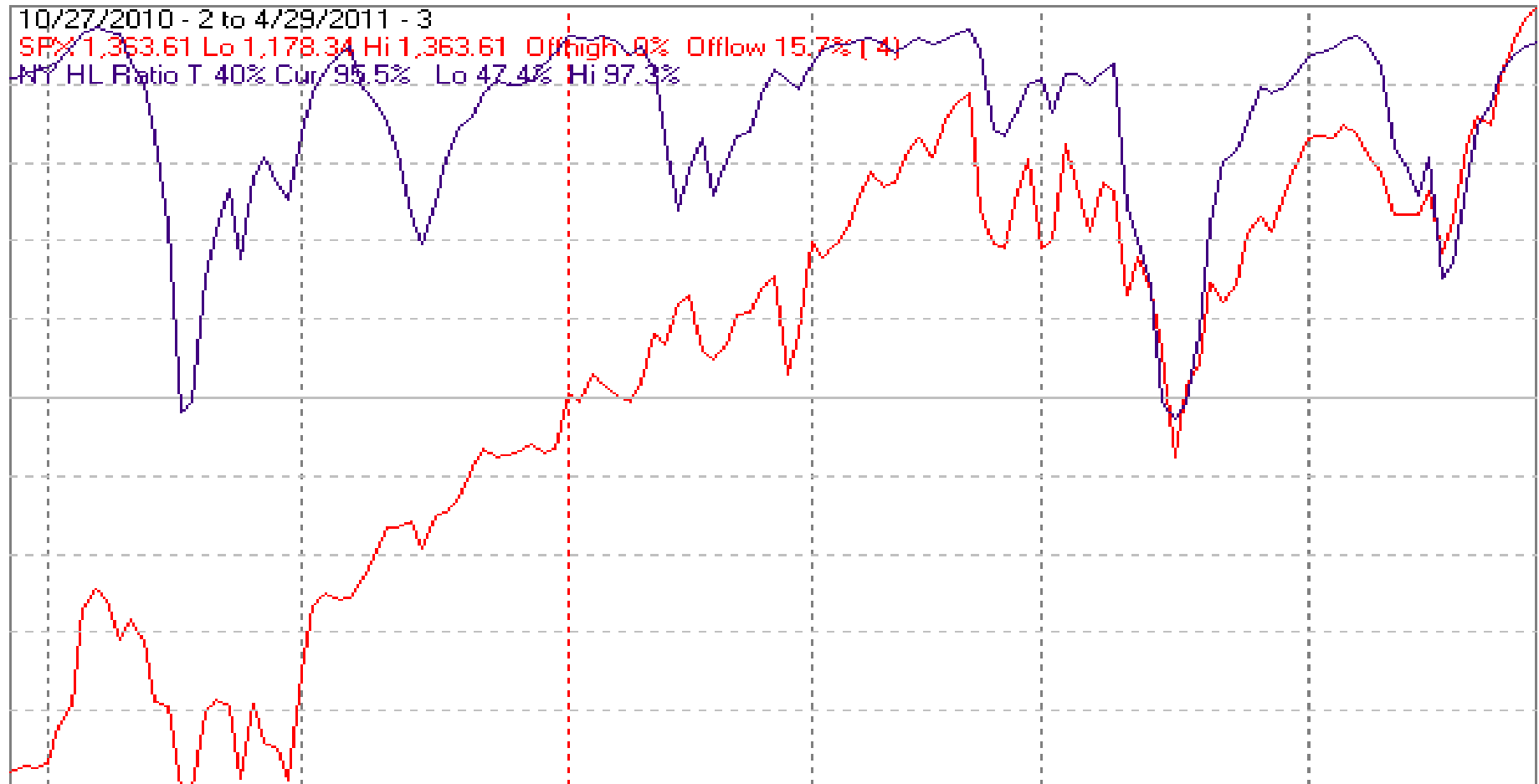


• Advance / Decline Internal behavior Analysis

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

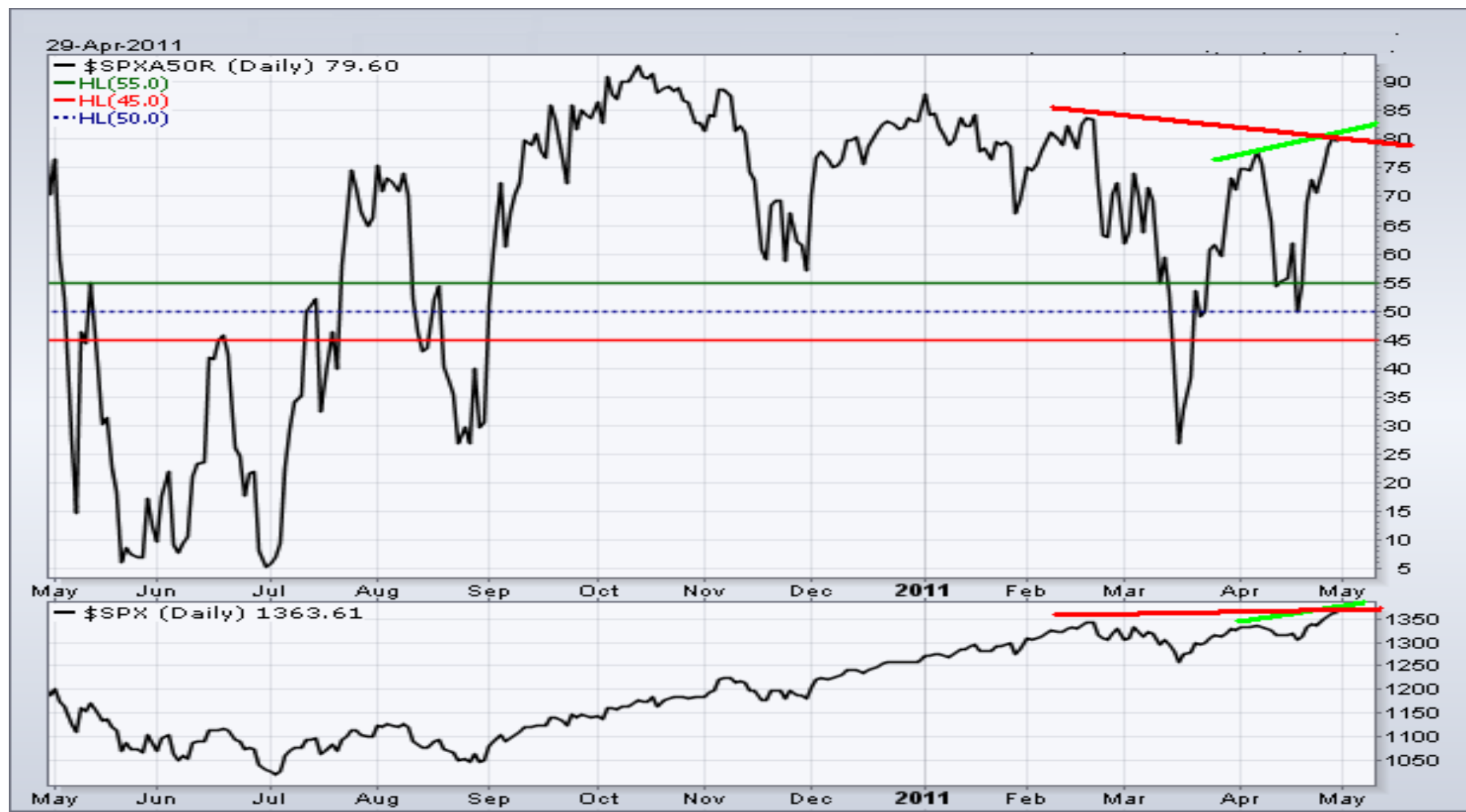
(SPX) in red and NY HL Ratio, in dark blue, At 95% NY HL Ratio is very strong. Suggest after the pull back the market should rally again



SPX – .MID TERM - CONFIRMATIONS IN SPX BREADTH

A –D line confirmed by Bullish % Above 50-D MA Stocks . Last week's late surge carried the indicator from 50% to 72.5% . This shows strong participation in last week's rally. Breadth favors after pull back another rally but close under 45% should be watched .

But on intermediate term basis compared to last April still diverging in spite of the rally



- 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 – **Month of May – Turns negative** (Indicated below)



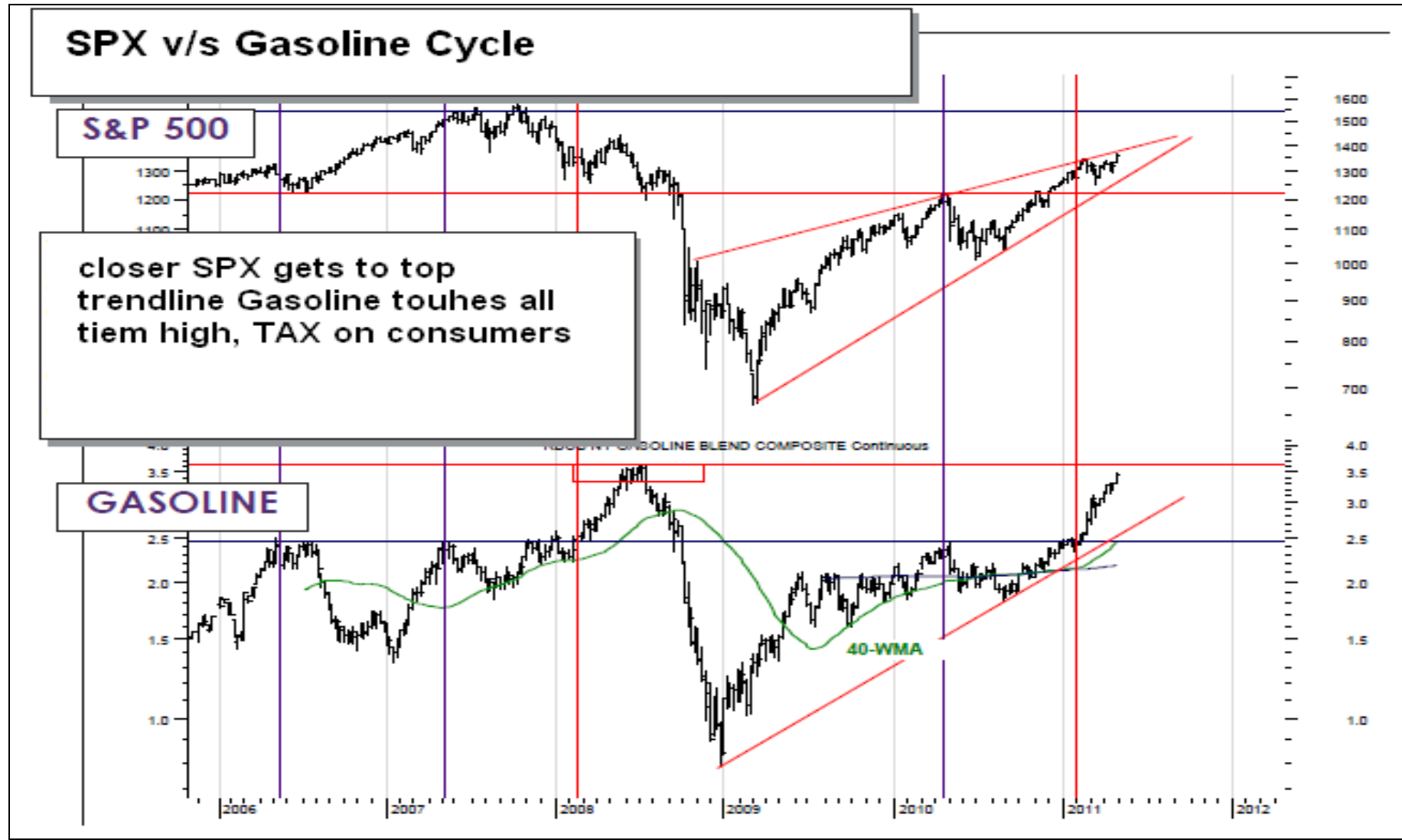
Calendar Cycle - Cycle dates – “May” gains in Bull and Bear Cycles

- 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%

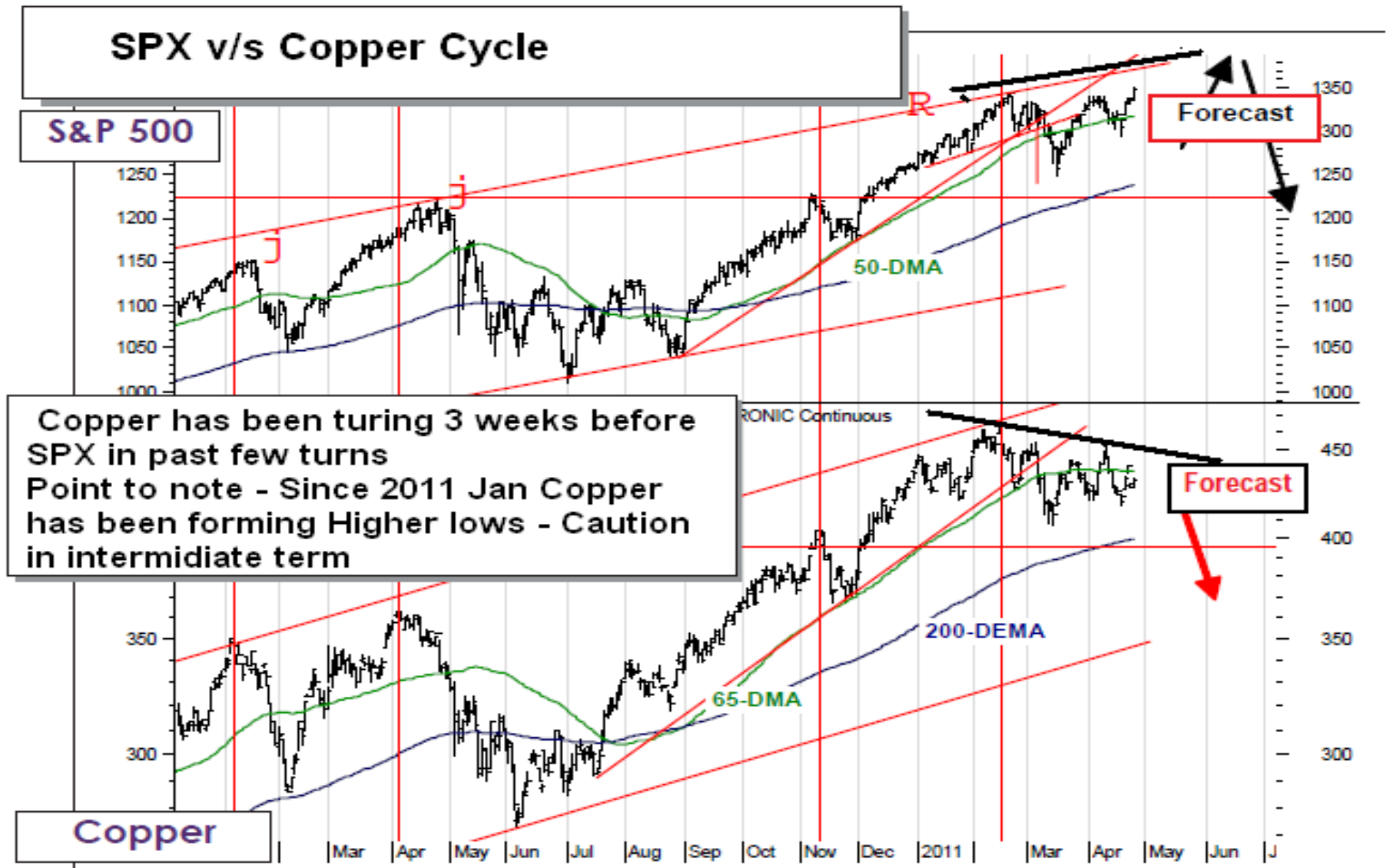
SPX v/s Gasoline Cycle

Previous highs in Gasoline needs to be watched wrt to SPX – On intermediate term



SPX v/s Copper Cycle

Previous highs in Gasoline needs to be watched wrt to SPX – On intermediate term



- **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.

Investors Intelligence – Past 4 weeks data ..Courtesy – Schaeffer’s Research

We have made table to monitor this weekly data .

Date Published	Percent Bullish	Percent Bearish
04/26	54.3	18.5
04/20	54.2	19.2
04/13	55.4	16.3
04/06	57.3	15.7

VIX –

*After meaningful breakout Testing the breakout area CZ – we will validate VXN - ETF on PQV . Validation.
We think this will move sideways supports the process of SPX Consolidation and complacency and of fear*



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

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