



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\_09**

**For Immediate Release – *Monday AM (EST)***

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**Market Strategy Global (A # 1) - SPX – Closed @ 1340**

Analysis of Broad Market that includes – **Jan 1<sup>st</sup> 2011 – SPX 1257 (+ 6.6 % 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 , 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 ( NEW – Work in progress) & 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 – Stopped out 1337 on Close dated 5/5, ( Our Growth Stock Portfolio E # 2 is now fully Hedged )**
- **Close above 1360 – would Signal Buy by TAS**

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

- **Net Short – *None***

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

- **UPSIDE Target CZ** - *As noted in our last week message – Our objective was SPX to reach 1370 -1380 top by Tuesday 5/2 - ( 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 CZ** -

- **SHORT TERM** - *Last week's Commentary had a projection to 1340 which was achieved as well in the same week but no confirmation of reversal*

- **Net Long** – *None*

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

- *Trend Adjusted Signal – **Stopped out @ 1335 SPX 5/5***

## • Market Insights

### Past week –

- *The Indicators forecasted the highs occurring on last Tuesday around 1370 -1380 (BEARISH CZ) with assistance collectively from Internal math indicators ,Cyclic Model, and Lunar Cycle on 3<sup>rd+/-</sup> May, which it did in timely manner. The downside Projection towards 1340 apparently reached the same week to lows 1330.*

### This week -

- *We think on ST basis although our 1340 was achieved, there is some downside work to do around 1340-1330 level to give another rally. If bounce occurs from current level (without diffusing lower price areas of 1340) the rally may not last long which will limit upside back to Bearish CZ 1370 -1380.*
- *If 1330 -1340 or below levels gets successful by our forecasting Indicators we may very well get another rally. ( Refer the chart below ). We will be traveling and not able to Monitor if the successful re test occurs in next 2 days.*

### Broader Strategy-

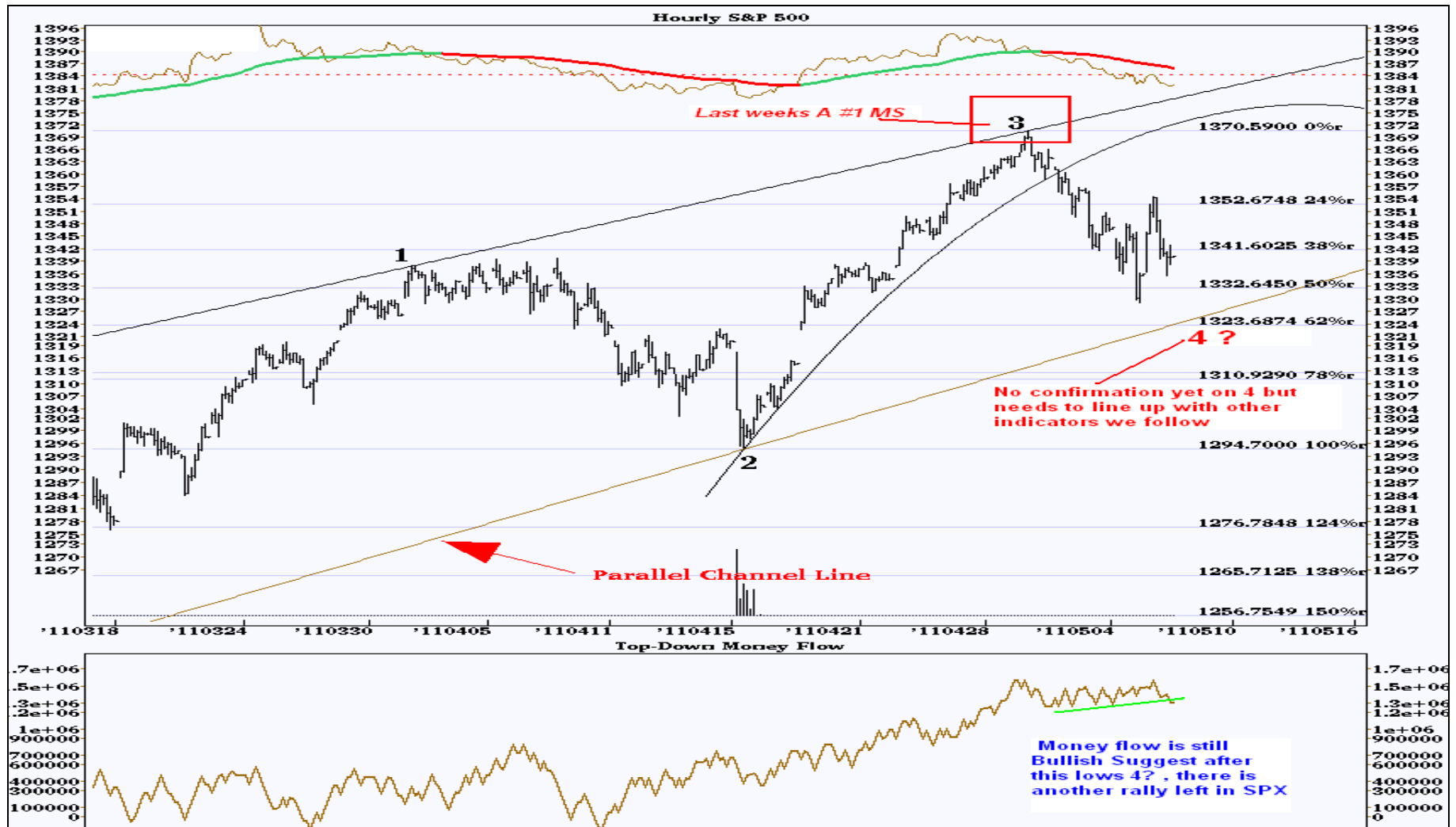
- *While Market is on POM 14 , we have more weight age for BEARISH CZ on SPX ( which is the direction of bigger Trend) while BULLISH CZ are very critical for Risk management to review High beta Short Positions on bounces.*
- *Therefore in our view when SPX's Bearish CZ triggered, the Weaker Broader Indices are better choices for declines ( as depicted in lasts weeks A # 2 MS QQQ,IWM, EEM , which had its CZ Validation complete much earlier ) for Actionable Ideas before this decline began . Weaker Indices / Sectors are likely to go down harder in decline and underperform in any Rally phase of SPX.*
- *The A /D Line and TRIN / TICK work suggests that after this pull back is complete market should rally towards Time Ratios T – Termination 4<sup>th</sup> June for more significant peak.*

*Next full moon on May 17 (Tuesday) , On 3<sup>RD</sup> May as pointed last week was the Top at 1370-1380 , we shall see how the indicators pen out at that time.*

# Primary Market Analysis –

## SPX – Hrly – Short term

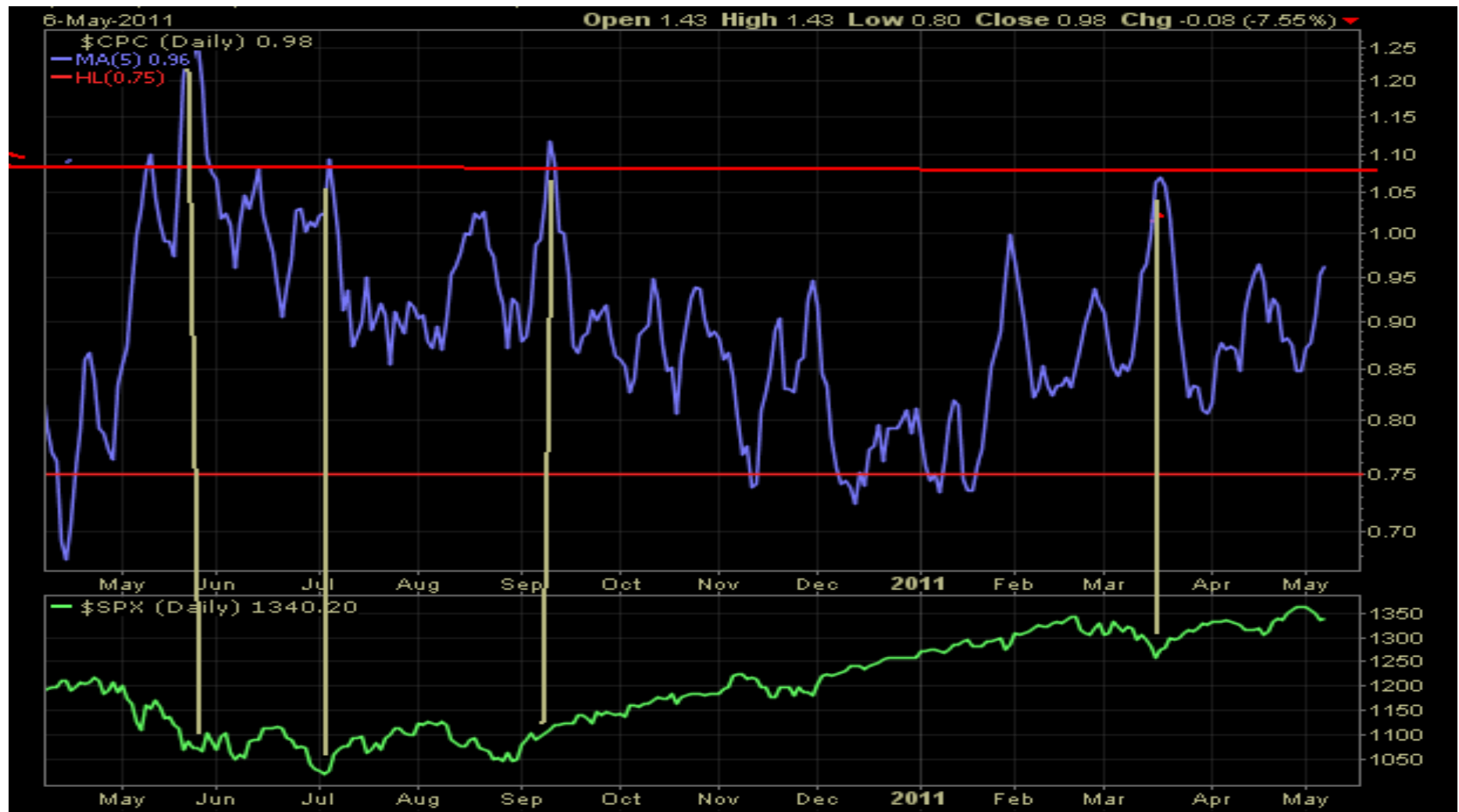
Bounce from current levels has Poly Trend to stop on upside, on downside although 1340 is reached we would like to see more work at Wave 4 indicated for Re test . The market has followed our Price path depicted in Last Mondays' A #1 MS – ( Refer notes with the chart),



## Case 1- SPX v/s CBOE – PUT / CALL RATIO

*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 but not for ST Top ( see chart below) . At the tops we prefer the \$\$ weighted Put / Calls it gas give better signal.*

*However Currently the Ratio should move up towards 1.10 . This may coincide with the WAVE 4 – RETEST 1330 -1340 in SPX chart indicated above*



## Case 2- SPX v/s TNX

*First time since Mid April – Divergence between – 10 yr – T notes lower and SPX higher . One of them will Catch up and this could give us WAVE 4 levels*

*However with respect to TLT, this correlation is good indicator to move TLT to POM 13 on completion of its ABCD at 95*



# SPX – Mid Term -

Refer the notes within – Potential Areas with our Analysis. Although 1340 was reached as expected , it has some work to do for validation at lower price

## S&P 500 INDEX/ BROAD MKT INDICATORS

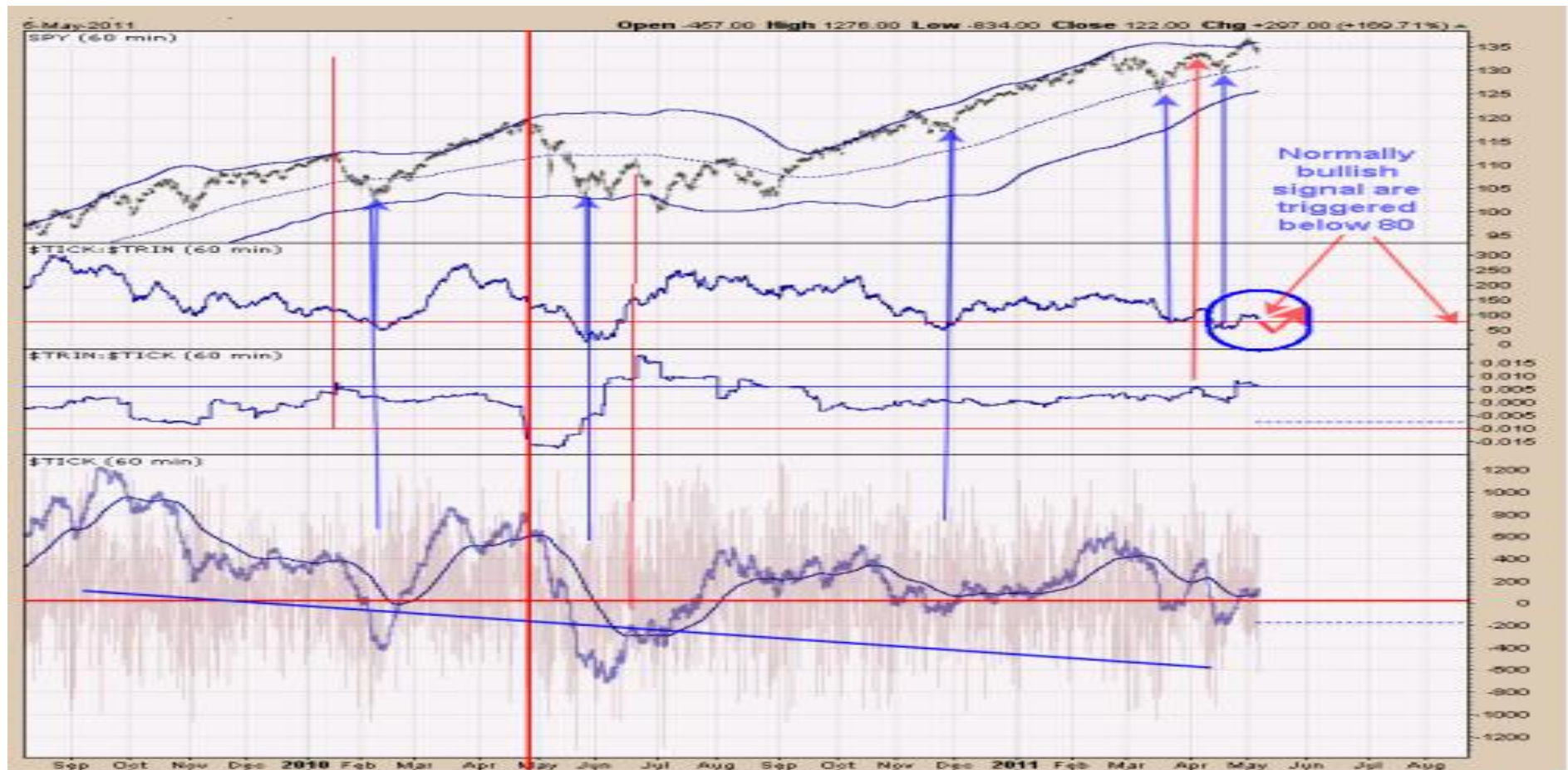




## SPX – TRIN / TICK - Mid term -

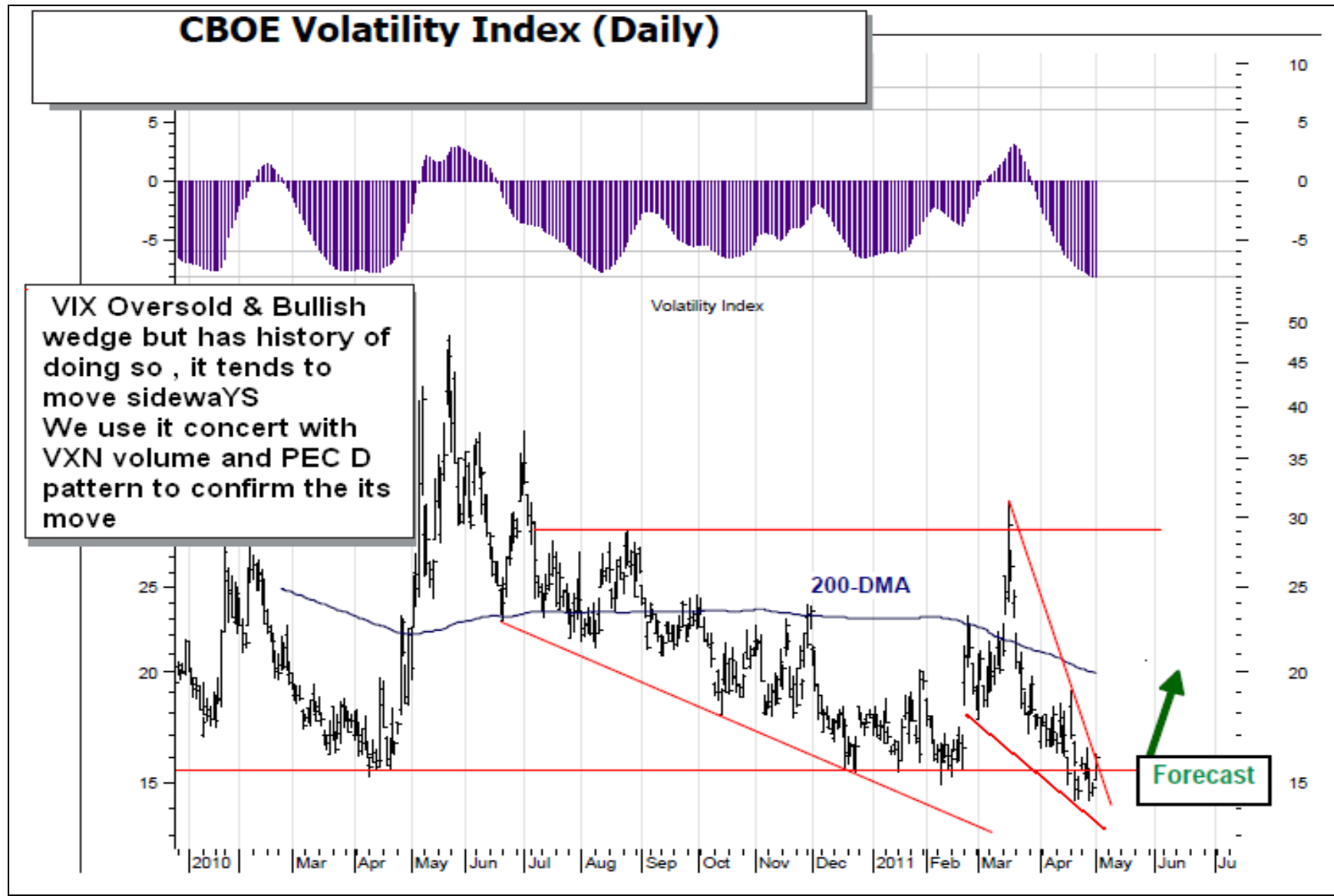
If WAVE 4 – Re test is successfully held, then it would suggest Math energy is still left in the market . The TRIN nor the Ticks readings and its 2<sup>nd</sup> / 3<sup>rd</sup> derivatives is suggesting a Retest . If the 2 D, 60min, EMA ticks reached less than we desired on the close and 5D / ARMS / Avg TRIN closed more than we desired to plot a Bullish CZ & PQV on SPX .( **important Test** ) We should Trigger rally .

The third window from the bottom is the TICK/TRIN 60 minute ratio. When this ratio gets below 80 and turns up it has lead to decent rallies. To reach the 80 level from the current level would not take little more decline and suggest a bottom is not far off in the S&P. Last week's decline did not produce any extremes in the ticks or TRIN. We will be watch this indicator closely for a bullish setup on 4 C re test ( **if it fails we wont get trigger** )



# VIX -

Refer comments within the CHARTS



## Dow Transport Theory -

**BUY SIGNAL – TRIGGERED on 5/5 @ DOW 12565 based on our Methodology ( Last Sell Signal was at 12,225). Jeff Saut's Triggred Buy Signal @ 12810. We respect him immensely, way back in Mid to late 1990's, as a Junior kid, I had a pleasure to work under him when he was Advisor to our Fund at that time.**

**Point to Note – In addition to this we need CZ Validation break upside which has not happened yet**



## • Advance / Decline Internal behavior Analysis

Our A/D Analysis is based on 3<sup>rd</sup> 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 .

*Although intermediate term basis compared to last April still diverging in spite of the rally red line time for Caution*

*But on Short term basis , past 2 shallow declines/ Rises ( Green lines) are positively diverging and held above 45% . This Breadth usually favors another bounce but after this current pull back .*



## SPX v/s A/D Line

*If A/D leads ( shown in blue) Market tends to do catch up on lagging prices ( Areas marked in green) , conversely if lags areas indicated in red mark. This also suggests that after the successful re test of 4C market may bounce back after this current pull back .*



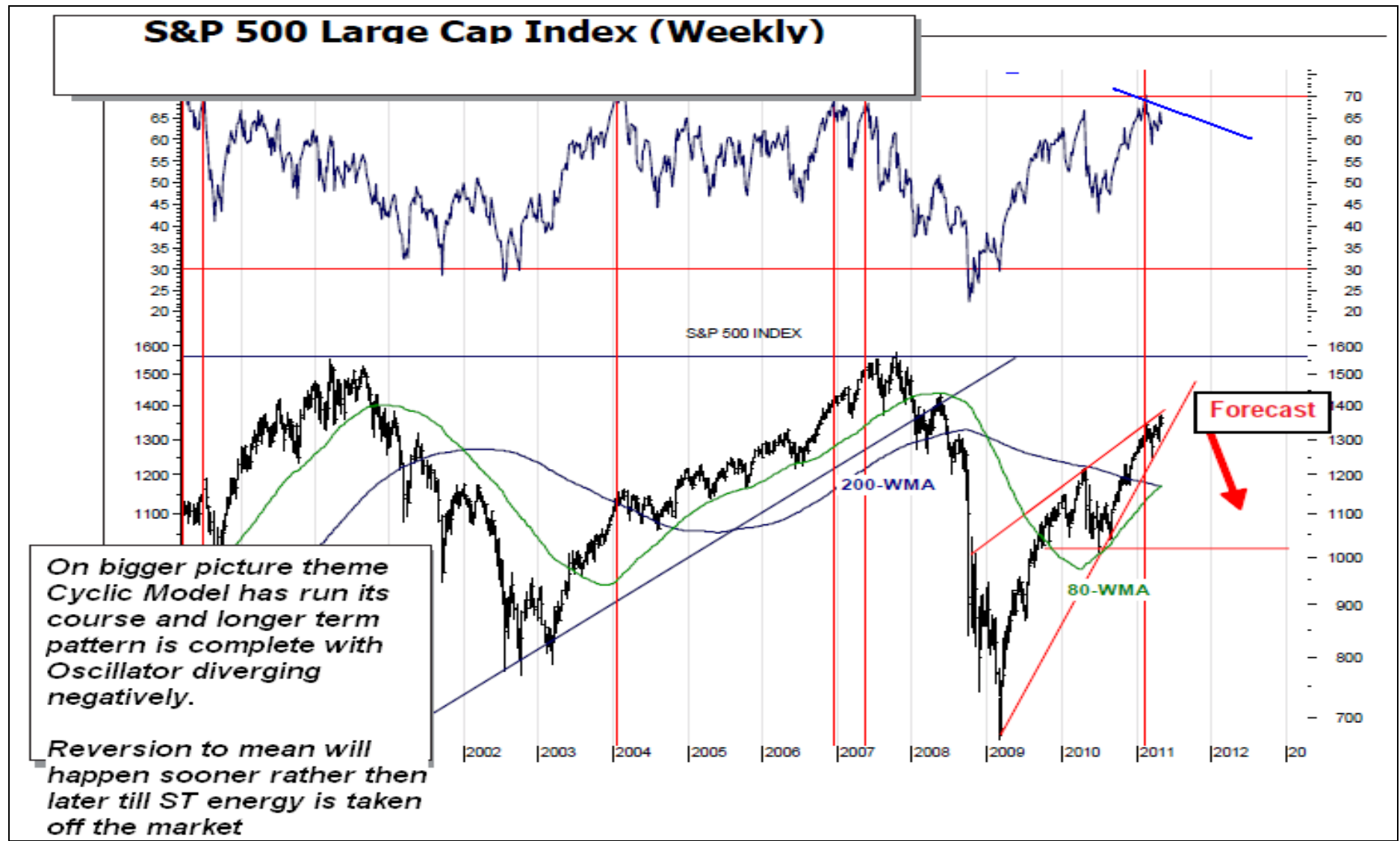
## NASD v/s A/D Line

*Similar Analysis as above, but currently NASD – A/D LINE is leading down. This suggest bounce in NASD after the pull back should be weaker.*



## SPX – Bigger Picture

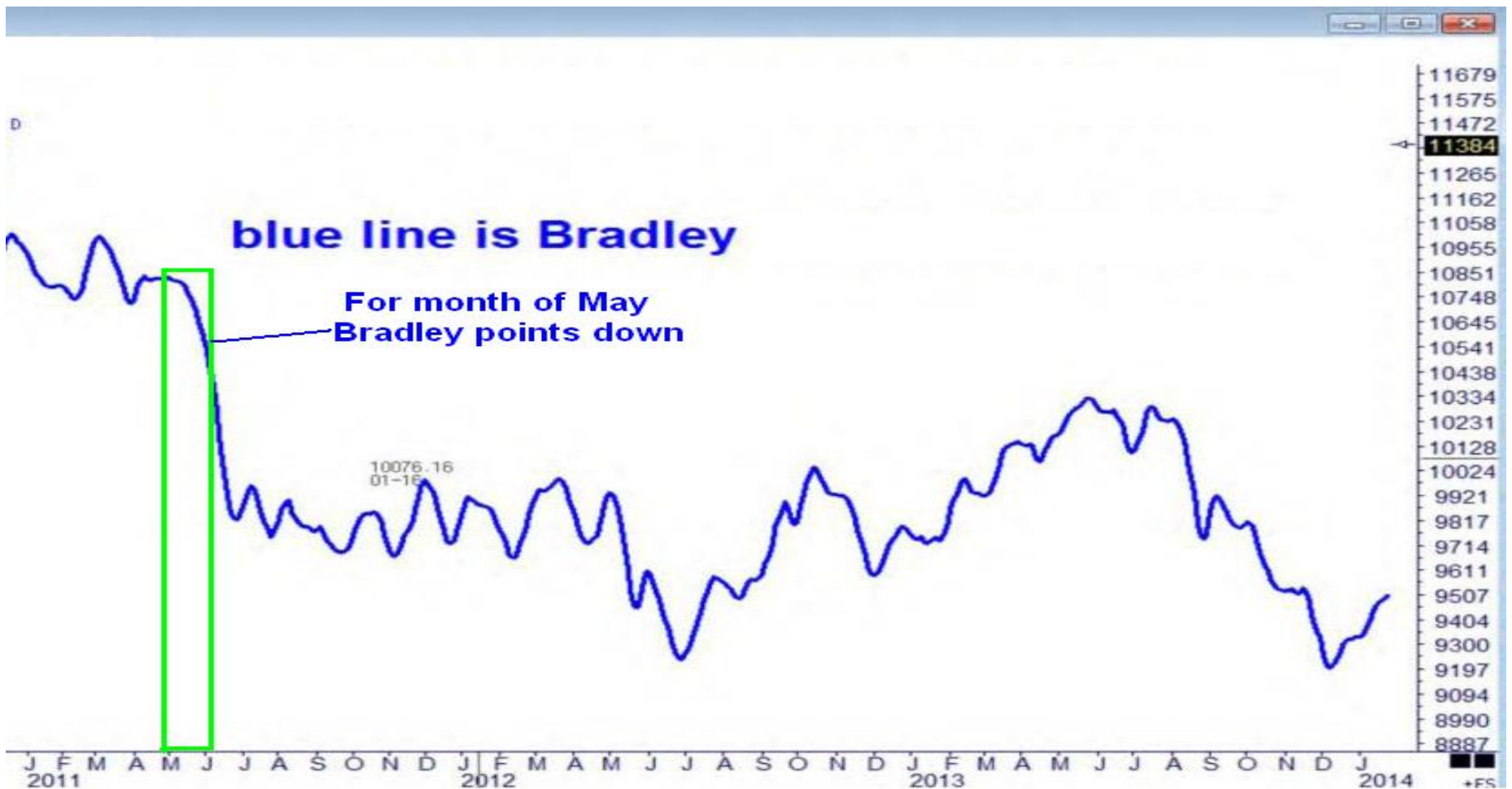
Refer notes within the chart.



- 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 – “ Month of May” – Gains – but they say Sell in May and Go Away.

- EVENT 1 - 8<sup>th</sup> 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.

<b>From 2003 - 2006</b>														
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%
<b>From 2007 - 2010</b>														
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%
<b>Average</b>		<b>-2.25%</b>	<b>-1.54%</b>	<b>1.65%</b>	<b>3.20%</b>	<b>0.95%</b>	<b>-1.60%</b>	<b>1.55%</b>	<b>0.52%</b>	<b>1.22%</b>	<b>-0.68%</b>	<b>0.42%</b>	<b>2.21%</b>	<b>6.66%</b>

- **Sentiment Analysis ( 3<sup>rd</sup> Party Published Data)**

*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 - Investors Intelligence – Past 4 weeks data ..**

Date Published	Percent Bullish	Percent Bearish
05/04	54.9	16.5
04/26	54.3	18.5
04/20	54.2	19.2
04/13	55.4	16.3
04/06	57.3	15.7

## **Courtesy : TRADERSNARRATIVES- Sentiment Overview: Week of May 6th, 2011**

**We Repeat – “ Here is this week’s overview of sentiment data :**

### **Sentiment Surveys**

*The retail investors sentiment survey conducted by the AAll continues to show a lack of bullish enthusiasm with just 35.5% expecting the stock market to be higher in the next 6 months. That compares to 32% who are pessimistic and expect it to fall. The result is a bull ratio at 53%, not far from its long term average of 58%. So overall, we are seeing a tepid result from this indicator.*

*The AAll asset allocation survey provides for small changes this month with a small uptick in equities to 63% of their model portfolio and a similar reduction in bond allocation to 19%. Cash was unchanged at 18%. Equity allocation is approaching elevated levels but has not yet reached recent heights we’ve seen from earlier this year.*

### **Investors Intelligence**

*Chart Craft’s Advisor Sentiment survey monitoring stock market newsletter editors and market services is continuing to be a fertile source of contrarian signals. The bullish camp was relatively unchanged at 55% this week but the bearish camp once again fell to 16.5%, approaching levels that show an extreme lack of fear or concern for declines. This also resulted in the bull bear ratio hitting 3.33:1 a level that we last saw in early April and January 2011.*

*The lowest bearish reading we’ve seen recently was on April 6th at just 15.7%. Since the bullish reading at that time was higher than now, it provided us with a bull bear ratio of 3.7:1. Historically, when we see such a lack of consideration for the downside, the market invariably suffers a correction (sooner or later).*

### **NAAIM Survey Sentiments**

*Active money managers surveyed in this poll were slightly less bullish than last week with an average 75% exposure to the market (down from 82% last week). However, we are still seeing this group crowding on the bullish side:*

*The decline in the final number comes as a result of the most bullish becoming slightly less bullish and the first tiny glimmerings of short exposure from the bears. As noted previously, it was impossible to find anyone among these money managers that were making bets against the market. We’re starting to see that now but they are by far still very bullish.*

### **Corporate Insiders**

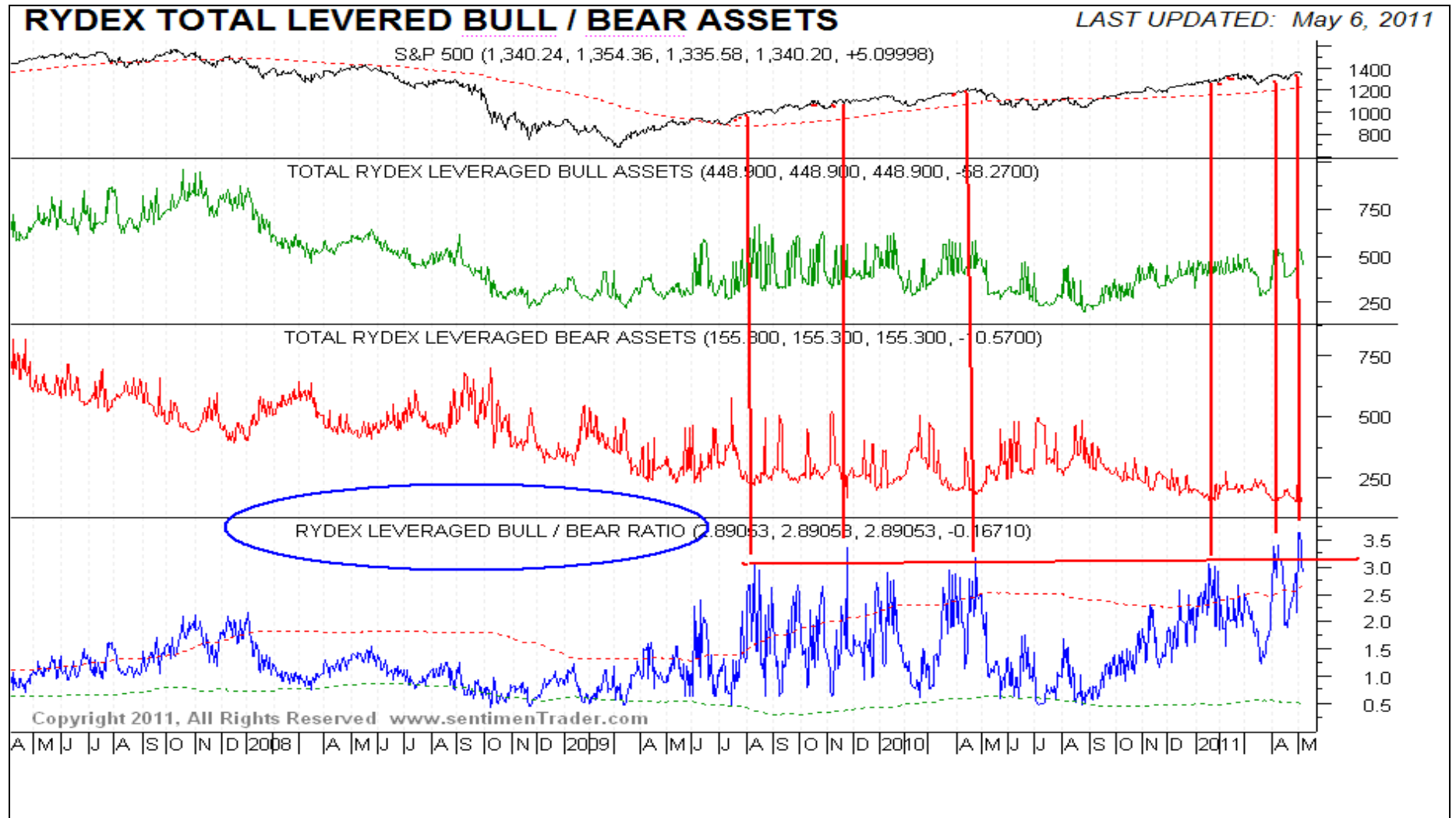
*For the second week, corporate insiders are providing an extreme signal with a very lopsided ratio of stock sales relative to stock purchases. We normally expect these market players to sell more than they buy but at this ratio, we have to ask if they know something that others don’t:*

### **Mutual Fund Flows**

*According to Lipper FMI, mutual fund flows for the week ended May 4th show \$962 million of inflows into domestic mutual funds and \$386 million into foreign mutual funds. ICI reports \$906 net outflows in equity funds with the majority of that coming out of domestic mutual funds and \$180 from foreign funds. Based on data from Lipper FMI, this week also saw \$3.7 billion going into fixed income, the 20th consecutive net inflows for this sector. ICI reports fixed income receiving \$3.6 billion of inflows.*

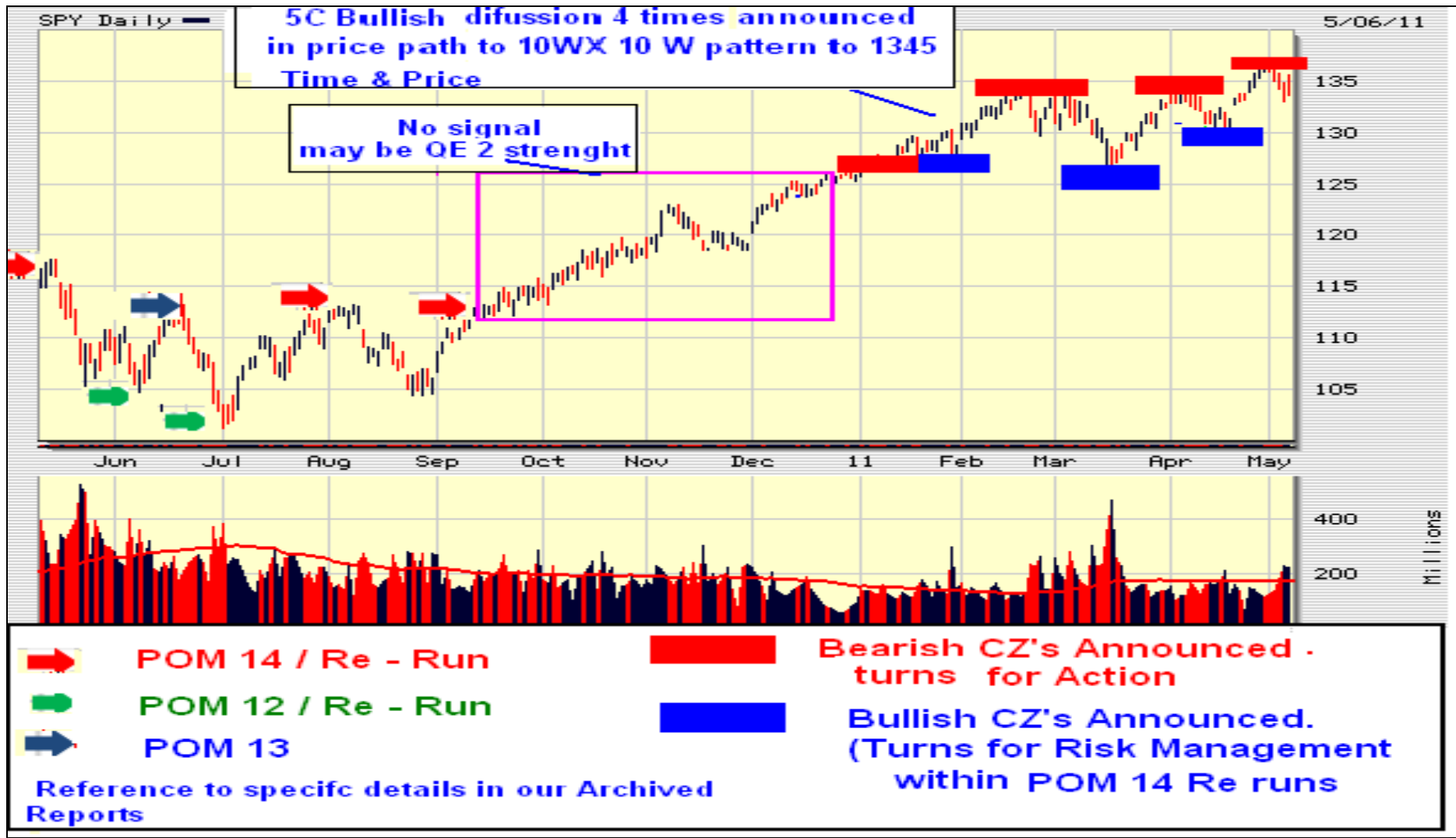
# RYDEX BULL / BEAR – LEVERAGED RATIO - [Courtesy : SENTIMENT TRADERS](#)

*Ratio above 3.25 needs to be watched closely, we watch it regularly but works well when used with other indicators as seen below at times it's not a clear signal.*



# Appendix

- Past 52 Week - POM / CZ - SPX Signal - updated 7<sup>th</sup> May 2011



- 2010 - POM - SPX Signal



## • Past 52 Week DOW THEORY Signal - updated 20<sup>th</sup> 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 19<sup>th</sup> Feb ) , by the time IYT moved up 7% towards the CZ – Validation to finally get Trigger in PQQV 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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