



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 23

For Immediate Release – *Monday AM (EST)*

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Market Strategy Global (A # 1) - SPX – Closed @ 1333

Analysis of Broad Market that includes – **Jan 1st 2011 – SPX 1257 (+ 6.0 % YTD)**

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

We have 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 , TRIN, 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 & Key Criteria**

- **Objective**

Focus is on the Short & Intermediate term turning point of the SPX via POM's Price projections and / or CZ (Bullish & Bearish between the POM's) . 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 fully Hedged since 5/5)**
- **Close above 1360 – would Signal Buy by TAS**

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

- **Net Short – *None***

- *POM 15 Calls – NON Triggered this year*

- **UPSIDE Target CZ** - *Our objective still intact - of SPX into Bearish CZ - 1370 -1380 validated on 5/2 , A # 1 - MS*

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

- *Hedge on long positions @ POM 14 via*

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

- *Utilization of Bullish CZ to Bearish CZ moves either in SPX or Sector for partial Recycled capital till the Bigger Trend sets in.*

- **DOWNSIDE Target CZ** -

- **SHORT TERM** - *Although we hit lows of 1320 slightly below our expected level but no confirmation of reversal and Bullish CZ Trigger yet (to be advised)*

- **Net Long** – *None*

- *POM 12 Call – None – Triggered this year.*

- *TAS – Next Buy to Trigger – Close above 1360 in SPX*

• Market Insights

Our last Report 5/9

- ***“Our expectation was when SPX @ 1345, it needed to do some downside work below 1340 and we stated that the bounce any bounce would not hold” - What we saw was SPX rallied to 1360 and then hit lows of 1320. Currently at 1335 on Friday close. No sign of Bullish CZ conformation yet.***
- ***Our Bearish CZ 1370 -1380 Trigger still remains in tact (coincided with POM 14 – Re run) as stated in , A # 1 , MS Report 5/2***

This week - On Short term

- ***The A /D Line and TRIN / TICK - work suggests that after this pull back is complete market should rally towards Time Ratios T – Termination June for more significant peak. (chart below)***
- ***This week, cycles are calling for a downside move and trough in the week and a rally thereafter towards the end . However, the move toward what should be the secondary high going into June.***
- ***May Options Expire, We are seeing seasonal downside pressure “ Sell in May and go away” – heavy put buying. That should also put at least one more push to upside into June.***
- ***The June cycle is a four-week cycle and the normal cycle has put-buying putting pressure during the first week. If we do get more downside pressure early this week, it will build up energy for a rally into the first week of June.***
- ***The volume oscillators over last week just began to setup a very minor bullish divergence but might get more divergence if it drops early this week .***
- ***While all the above criteria are achieved, we would look for Bullish to Trigger with our Math Indicators, wait and see.***
- ***Regarding the moon cycles, past few consecutive cycles, we have achieved highs on new moons and lows at full moons. The May 17 full moon has already made another clear low. Should we now go below 1,320 in the SPX, it appears we could be looking at another low around next new moon on June 1 plus / minus 2 days.***

Broader Strategy-

- *Market is on POM 14 , we have more weight age for BEARISH CZ on SPX (which is the direction of slightly larger correction from 1370 - 1380). BULLISH CZ are very critical for Risk management to review High beta Short Positions on bounces.*
- *Therefore in our view is when SPX's triggers Bearish CZ, 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 5/3, A # 2 Report). Weaker Indices / Sectors are likely to go down harder in decline and underperform in any Rally phase of SPX*

KEY NOTE : On (5/25) Wednesday's scheduled Release A # 2 MS - we have full coverage on QQQ,IWM, EEM, , EZU & CHINA

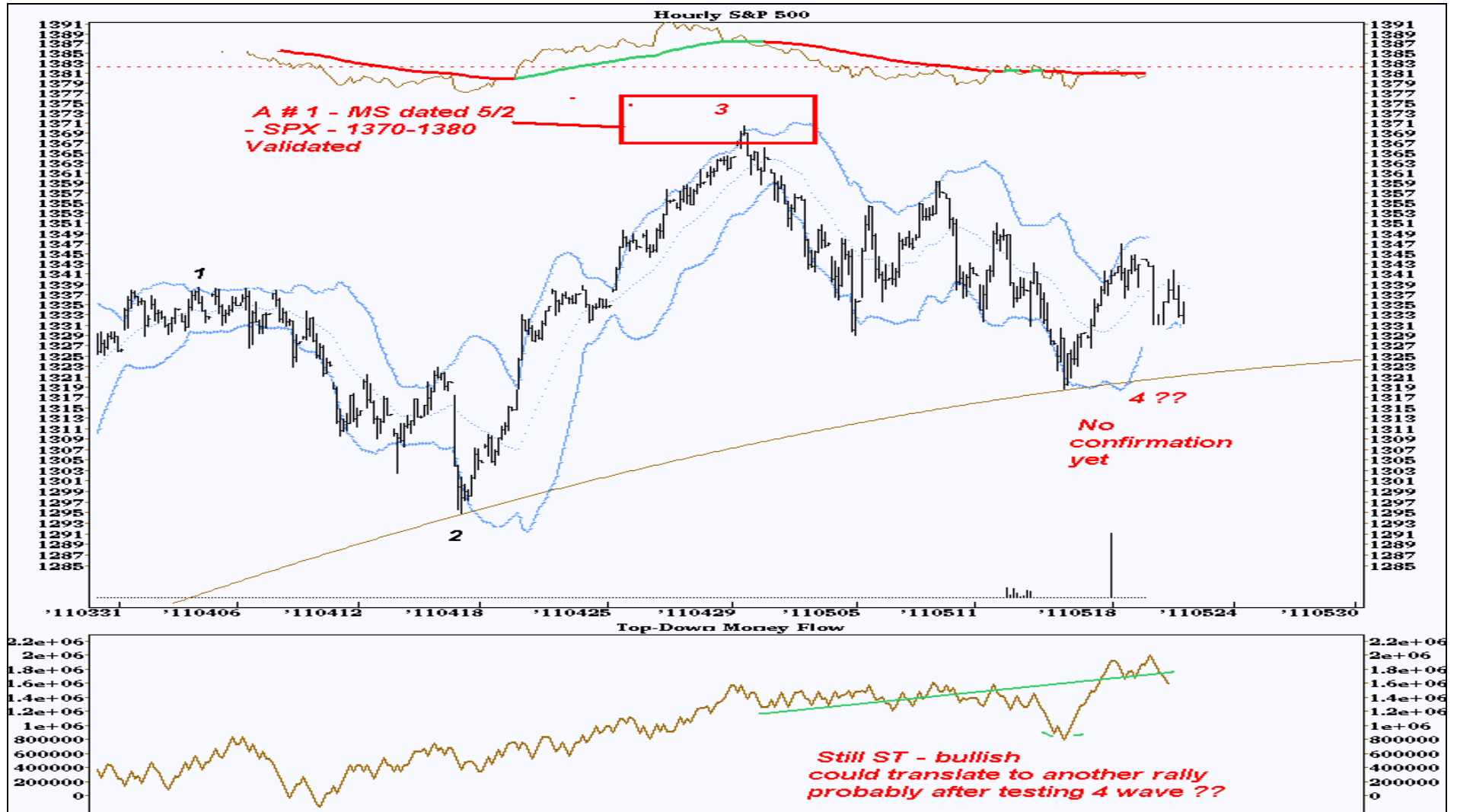
On Intermediate term

- *USD has finished its first ABC up and the 2nd ABC should be more powerful then first (the consolidation of C to D should be shallow) .*

Primary Market Analysis –

SPX – Hrly – Short term

Another touch of poly trend from upside and wave 4 touch – might be needed on this downside to 1320. We will review this for validation but no Signal yet. But the market has followed our Price path. (Refer notes with the chart),



SPX v/s CBOE – PUT / CALL RATIO

Ratio can provide a case for little more pull back. This Ratio moved up from 0.95 - to current 1.03 while the decline was in process from 1360 to 1320 , This ratio could go to 1.1 , little higher to red horizontal upper line. Then it could coincide with the WAVE 4 – RETEST 1320 in SPX chart indicated below

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 (see the chart below, green vertical lines)** but not for ST Top . At the tops we prefer the \$\$ weighted Put / Calls it gives better signal by different method we use. .



SPX – TRIN / TICK - Mid term -

The Tick & Trin each Indicator and its ratios Analysis . Normally when the Tick/Trin and Trin/Tick ratio is heading lower the market in general continues the pull back. It would appear the pull back is not complete yet . At current level it would not take little more decline. Last week's decline did not produce any extremes in the ticks or TRIN or Ratios. We will watch this indicator closely for a bullish setup on 4 C re test (if it fails we wont get trigger)

*If WAVE 4 – Re test is successfully held, then it would suggest Math energy is still left in the market to identify the Bullish CZ & PQV on SPX .(**important Test**) then we should Trigger rally .*

Chart....continues below

SPX – TRIN / TICK - Mid term.....cont



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



Dow Transport Theory -

Transport Theory Triggered BUY SIGNAL – on 5/5 @ DOW 12565 based on our Methodology (Last Sell Signal was at 12,225). Point to Note – We do not validate this Signal till CZ- PQV Validation break upside is complete which has not happened yet



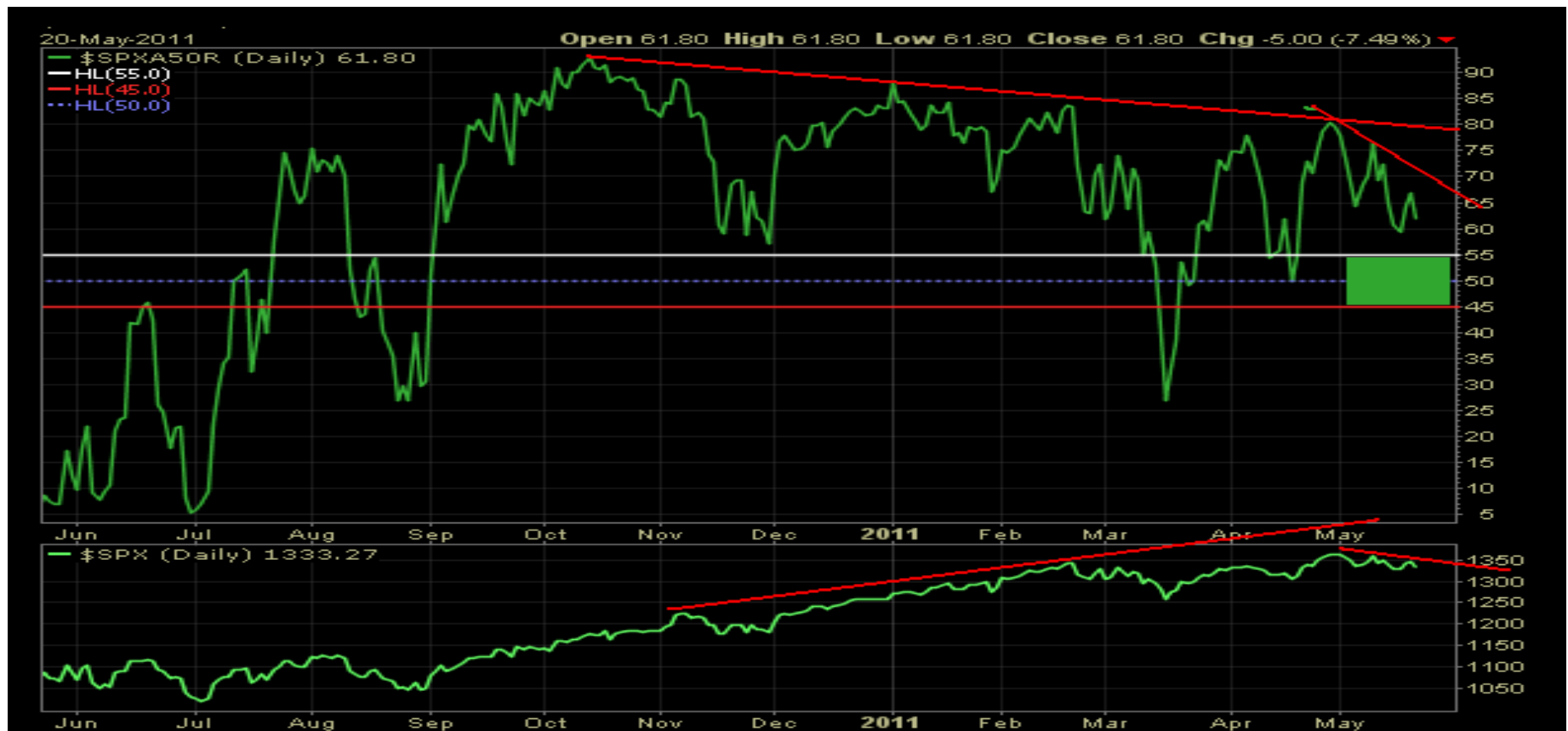
• Advance / Decline Internal behavior Analysis

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 – MID TERM - CONFIRMATIONS IN SPX BREADTH - A -D line confirmed by Bullish % Above 50-D MA WITH NH / NL's .

On Short term basis , past 2 weeks of decline (redlines) are weakening, as long as the A/D line holds above 55-45 % (region in green) the Bullish bounce would happen . This Breadth usually favors another bounce after this current pull back to 4 C in SPX .

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



NYSE v/s A/D Line on Equities only

If A/D leads (shown in blue)is still leading the market suggests the Market tends to do catch up on upside (Areas marked in green) , conversely if A/D line lags as in previous trend (indicated in red mark), the market tends to catch up on downside . This suggests that after the current pull back market should bounce back .



NASD v/s A/D Line

Unlike Broader Market NASD – A/D LINE is leading down on similar Analysis. This suggest bounce in NASD after the pull back should be weaker. In our A # 2 – MS Report we have QQQ – CZ validated at 58 on 21st April



SPX – MID TERM

If RSI hold at 50 and CCI at 100, with Math indicator confirming Bullish CZ , then the rally should begin.



SPX – MID TERM

Something to watch : On slightly bigger time frame we see negative divergences on daily and weekly indicators . We think 1275 on SPX should be the area to re visit for review. The weekly Relative strength to confirm the recent SPX move to new highs and forming a negative divergence. Recent intermarket trends which include a stronger dollar/weaker Euro, falling bond yields, and rotation into defensive market sectors are also consistent with a market correction. So is the seasonal trend which normally starts to weaken. .



- 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 – CORRECT (Indicated below)



Calendar Cycle - Cycle dates – Historically “ Month of May” – has positive Gains – but they say Sell in May and Go Away. - WRONG

- 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%

- **Sentiment Analysis (3rd 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.

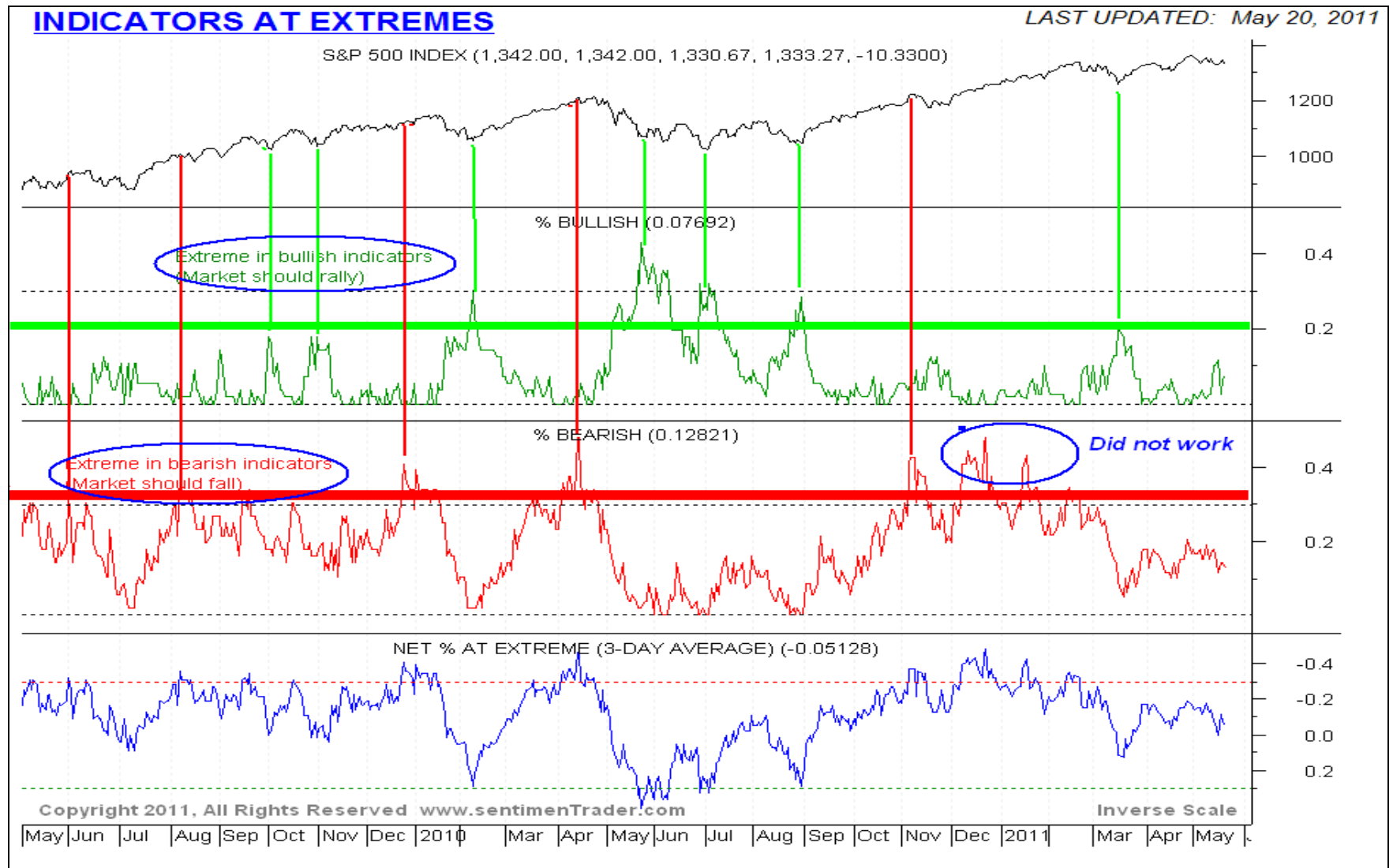
Courtesy – Schaeffer’s Research - Investors Intelligence – Past 6 weeks data ..

Date Published	Percent Bullish	Percent Bearish
05/18	45.6	19.6
05/11	51.1	18.5
05/04	54.9	16.5
04/26	54.3	18.5
04/20	54.2	19.2
04/13	55.4	16.3

Conclusion – Not much change

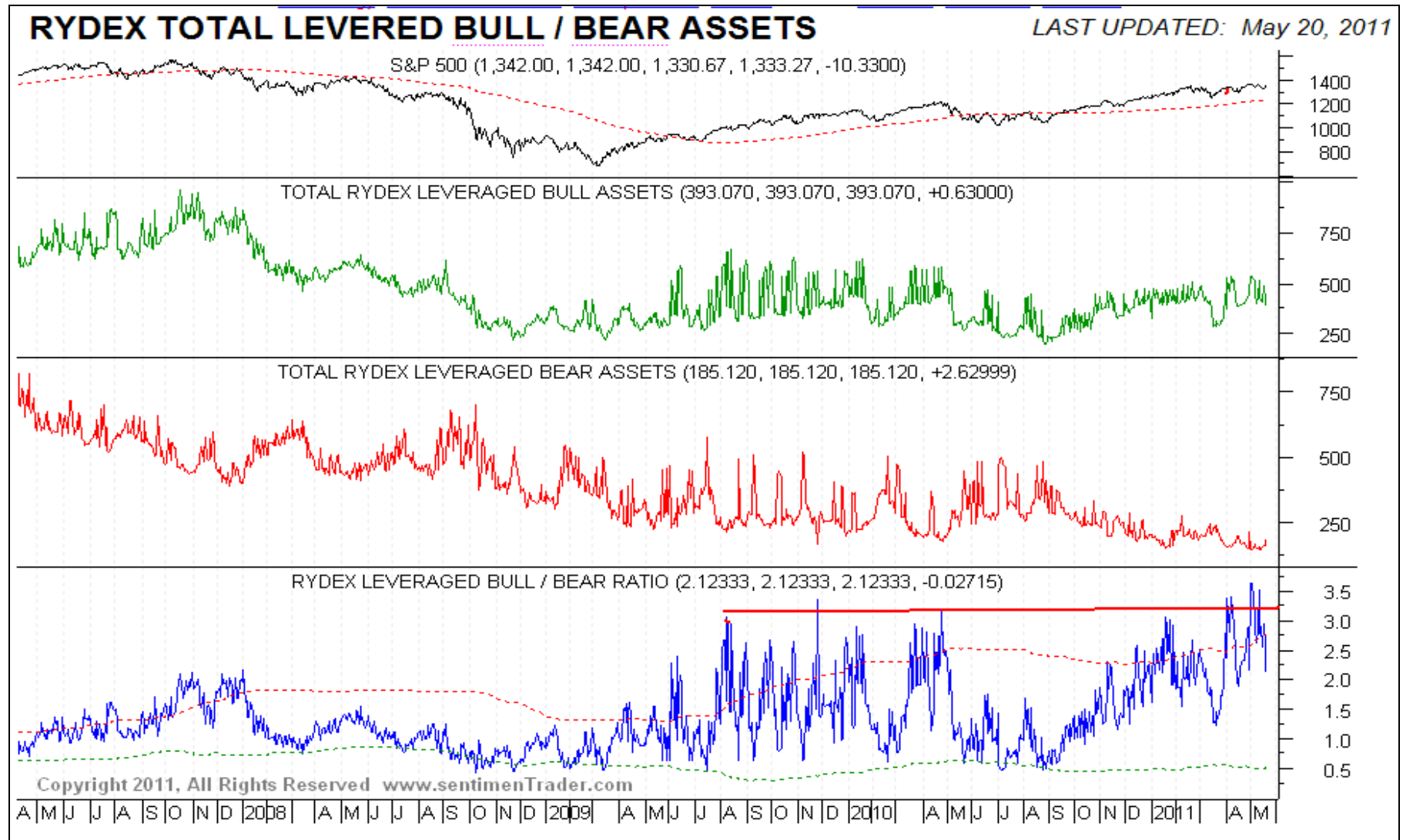
INDICATORS AT EXTREMES - Courtesy : SENTIMENT TRADERS

Chart below Collective indicator of EXTREME SENTIMENTS composed of - Sentiment Surveys, Investors Intelligence, NAAIM Survey Sentiments, Corporate Insiders, Mutual Fund Flows – **Currently not at extremes**



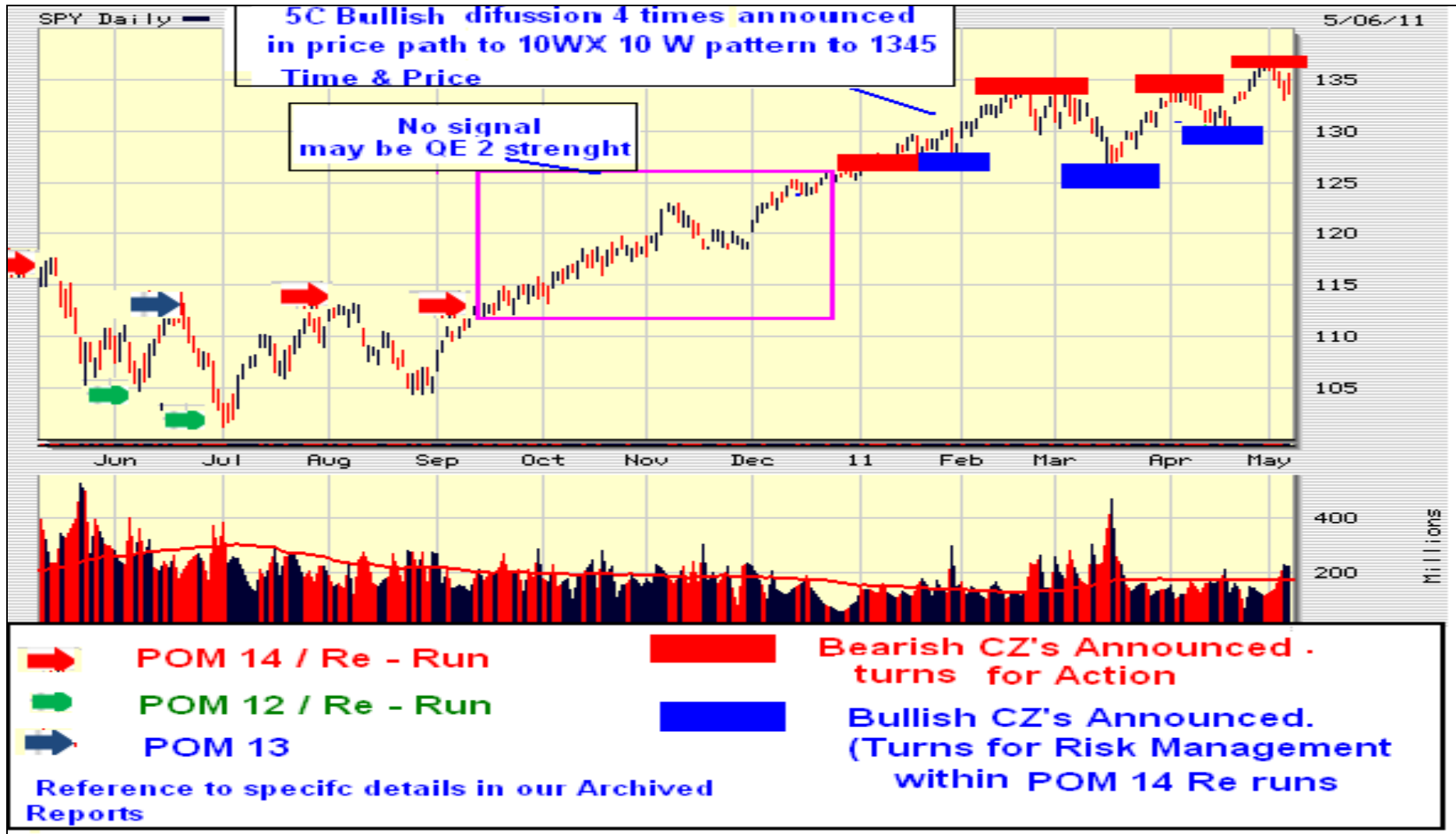
RYDEX BULL / BEAR – LEVERAGED RATIO - Courtesy : SENTIMENT TRADERS

The Ratio is now back to mean @ 2.0 (SPX Currently at 1333) . Earlier Ratio reached at 3.25 (SPX @ 1350) . We will watch this regularly but works well when used with other indicators as seen below at times its not a clear signal .



Appendix

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



- 2010 - POM - SPX Signal



- Past 52 Week DOW THEORY Signal - updated 20th 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 19th 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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