



SG Capital Research

Global Market Insights

Research Note – Weekly Market Strategy SPX - (A # 1) – STRATEGY & PROP ANALYSIS –(SP)

MAEG- MS – SPX – POM-SG 2011 # NOV_28

For Immediate Release – *Monday AM (EST)*

By: Suneil R Pavse

Contact: apavse@aol.com

Market Strategy SPX (A # 1) – (SP) - SPX – Closed @ 1158 (**Past Weekly change – 4.6%**)

Analysis of Broad Market that includes – Jan 1st 2011 – SPX 1257 (**YTD change – 7.8%**)

- Primary Market SPX (or SPY) as main market driver and
- Secondary Markets NYSE, DOW (DIA) .

Selected charts (below) that has some distinct characteristics from last weeks observation based on our assessment:

● **Contents for coverage within A # 1 MS**

- Daily Trend Adjusted Strategy - 3x3 / 9EMA – **DOW, SPX (if change of Signal)**
- Primary Market Analysis – **SPX, MID, ST , LT**
- Time / Cycle Analysis- **Bradley Cycle, 4 yr Cycle, Astro- Harmonic Cycle, Seasonality Cycle, Oil / CU / TNX Cycles**
- Advance / Decline Internal market behavior – **A/D – SPX, % BULLISH, NH/NL, VOLUME, in 2nd & 3rd Derivatives**
- Sentiment Analysis with Extreme character – **TICK , TRIN, ARMS, PUT / CALL in 2nd & 3rd Derivatives, VIX , M. Flow,**
- Secondary Market Analysis for SPX clues – **NASD, RUSS, ((if required)**
- Sector Analysis for SPX clues – **BKX, SMH (if required)**
- Sector Analysis for SPX clues – **CHINA, FTSE (if required)**
- Appendix - **Objective, POM Signals Summary , History Trading conclusion , POM /C Guidelines & Criteria.**

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- *SPX – POM Signals, Price Projections & Conclusions.*
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- *SPX – Charts MID TERM – Secondary Analysis*
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- *APPENDIX – Objectives, POM Signal History, **POM /CZ Guidelines & Limitation , Disclaimers***

● Executive Summary

- *As per our Analysis SPX began its Price Oscillation @ POM 14 into CZ 1226-1255 (Fully Hedged) The Price Target for this Current Oscillation is expected to be around 1125. SPX - upon proving itself at around 1125 target, we will evaluate the possibility of NEW POM 12 to energize new signal at that time.*
- *Meanwhile Risk Management - POM 13 area (between this Oscillation) was achieved with SPX gapping down Bearishly 1175 -1188 Trigger & NOT recovering back in with Bullish divergence .*
- *Any Rally from Fridays close levels 1158 into the Broken CZ area 1195-1205 will require force to Burst through. Even if it false break itself above that zone , the prices run into s TOP HEAVY POM 14 area to set up another leg down as it appears now*
- *We will wait patiently for our next decision point Zone either POM 12 or POM 14 Re to offer us the best Risk/ Reward and The Mid point was for Rebalancing the risk .*
- *For more Justification for the Market Calls , Refer Detail Charts in the Trailing sections within the Report*

- SPX – POM Signals & Price Projections
- SPX -Trading & Investment Real Time Conclusions
- Start point 1257 (1ST Jan) – YTD 1158 – (-7.8%)

Current Signal – POM 14 into CZ 1226-1255 for Price target of 1125

- POM 15 - Net Short -- **None Triggered in 2011 - (Total points gains = 0)**
- POM 14 / Re - Fully Hedged -- (Total points gain = -88+ 85+ 97 = + 94 = +7.4%)

Alert (Open Oscillation) - SPX - POM 14 – Triggered (11/01) at 1226 into the CZ 1220 -1250 of POM 14 (Fully Hedge Position) with Warning - SPX rally towards 1252. & Alert note A# 3 – MS - QQQ Trigger was at 59 Monday (10/31)

- POM 13 - Risk Management Hedges - (Total decline saved) = 71+140 = + 211= +19%
(Proportion of Rebalancing Beta & Net Exposures to be based on individual Portfolio Objectives)
- *Risk Management Signal -SPX - POM 13 – Triggered (11/22) at 1189 @ close . The following AM 11/23, the Market opened with Gap Down to 1178*
- POM 12, POM 11 - Net Long - - (Total points gains = 75-20+79+123 = + 257 = +25%
- Breakdown of POM Summary points & Signals are sated in Appendix.
- *Like any other Model, it is not perfect but Risk Management is the First objective (Generate Alpha @ 1/2 Market Risk from POM to POM – CZ 's).*
- **Focus - POM's are better actionable areas for us to produce Highest Reward for the Risk" then entering positions in between the moves of POM**

• SPX – Market Insights

This week will be important, with bond auctions that has been Euro focus is due in several key countries most importantly Italy. Past week we showed the LIBOR Chart would act as trigger which proved its merit to fuel the downside decline on SPX .

Meanwhile SXP closed Friday 1158 after jumping POM 13 – CZ Area, if the jump is not reversed within 2-3 days (or by weeks close) back into CZ with Bullish divergence of Market internals with PQV then it tends to go to next level . Our Target of this decline move that began at POM 14 (1226-1255) is 1125 (but not in straight line) . We shall evaluate what happens there.

Any rally / Bounce from current levels should have much greater inertia to go past POM 13 CZ – (1190 -1205) as its first goal. Within a week we shall see some headwind . Time termination on SP is around 12th Dec . We shall see. This rally will certainly take in some of the sideline cash in name of “Santa “

Seasonality anxiety fooled Wall street once again. In our experience we respect it more when the market is not at POM 14 or POM 15 and internal math indicator is in sync OR if QE is in operation

Best Seasonality days in November – December – These historically produces 50% of the Seasonality gains

31st Oct – 4th Nov – Failed (Did not produce seasonality gains)

22st Nov – 2rd Dec – Began @ SPX 1191 and currently in progress

To come Next – 21st Dec to 23rd , 28th Dec – 30th Dec (We will monitor these as they come)

Similar anxiety will now kick in again with “ Santa” Rally but “ If we approach POM 12 it should have good fire power to kick off from good footing.

Point to note from Last weeks A # 1 – MS – Charts demonstrated in LT – indicators, A/D Analysis and several Extreme Internal Analysis proved its merit for decline.

In October SPX Gained approximately 150 points from POM 12 Oscillation and in November declined 100 points from POM 14 Oscillation .

However, Since the start of this year, the SP X has lost 7%. By comparison, EAFE (World – Ex US) have fallen 18%. EEM have lost 23%. Thankfully POM has kept us from this harms way.

SPX - SHORT TERM – Primary Analysis

- SPX – Hrly Poly Trend & Wave Analysis
- SPX - Wave Projection Analysis
- SPX - DMA & Trend Analysis
- SOX - Poly Trend Analysis (**Correlation Lead Indicator**)
- QQQ – Pattern Analysis (**Correlation Lead Indicator**)

SPX - MID TERM – Secondary Analysis

- SPX – TICK / TRIN Ratio
- SPX – TRIN Ratio
- DAX - Pattern Trend Analysis (**Correlation Lead Indicator downside**)
- A/D Line - Oscillator NH / NL
- SPX –Calendar Cycle
- SPX – Bradley Cycle
- SPX- Inter market Analysis with other Markets

SPX - LONG TERM – Tertiary Analysis

- SPX – Price Target 875 Analysis

Since Market is not at Extremes we do not as many charts Today's A #1 – MS

Primary Analysis

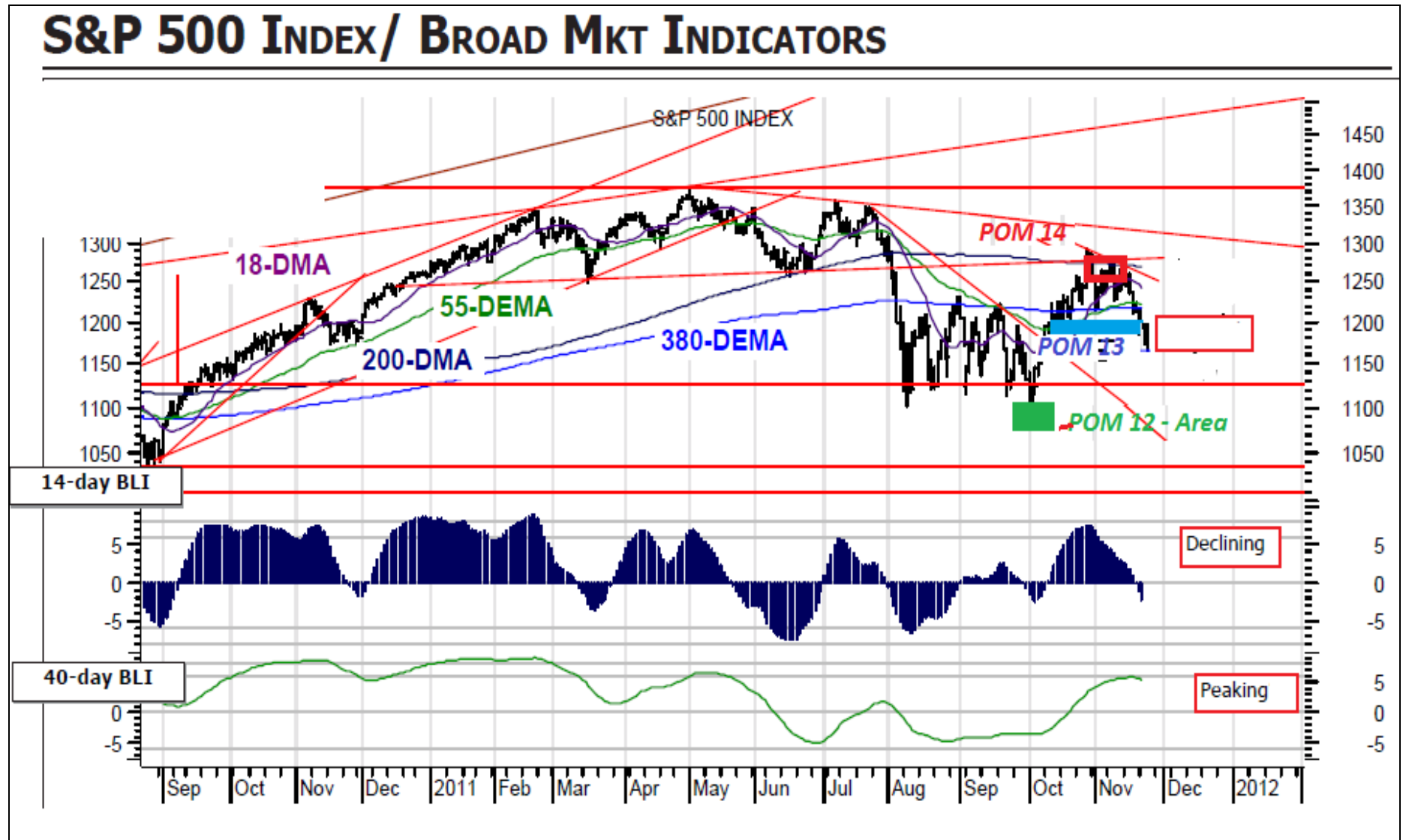
SPX – Hrly - Poly trend Analysis

- Today's Gap up takes us back into POM 13 CZ , we have meaningful Poly Trend in between , we think on completion of this price move , We should have a leg down . (We monitor closely)
- Above POM 13 – CZ Area , there is Top Heavy POM 14 – It is fund time for Traders volatility.



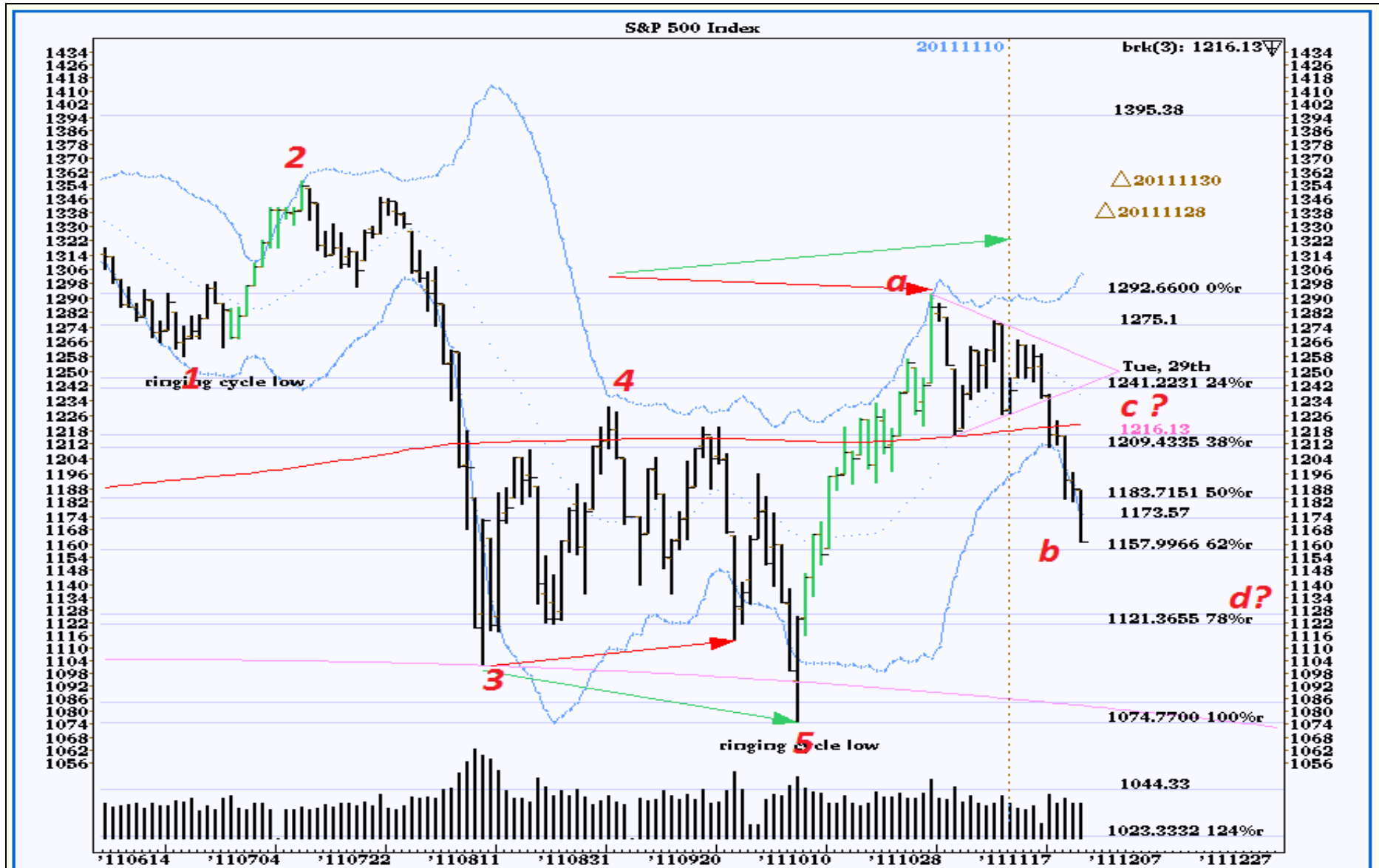
SPX - DMA & Trend Analysis

As we stand now, On Trend and DAM analysis , the POM 13 area CZ 1205-1195 is being tested from underneath - BLI is peaking and declining that should change if todays rally has any meaning



SPX – Wave Projection Analysis

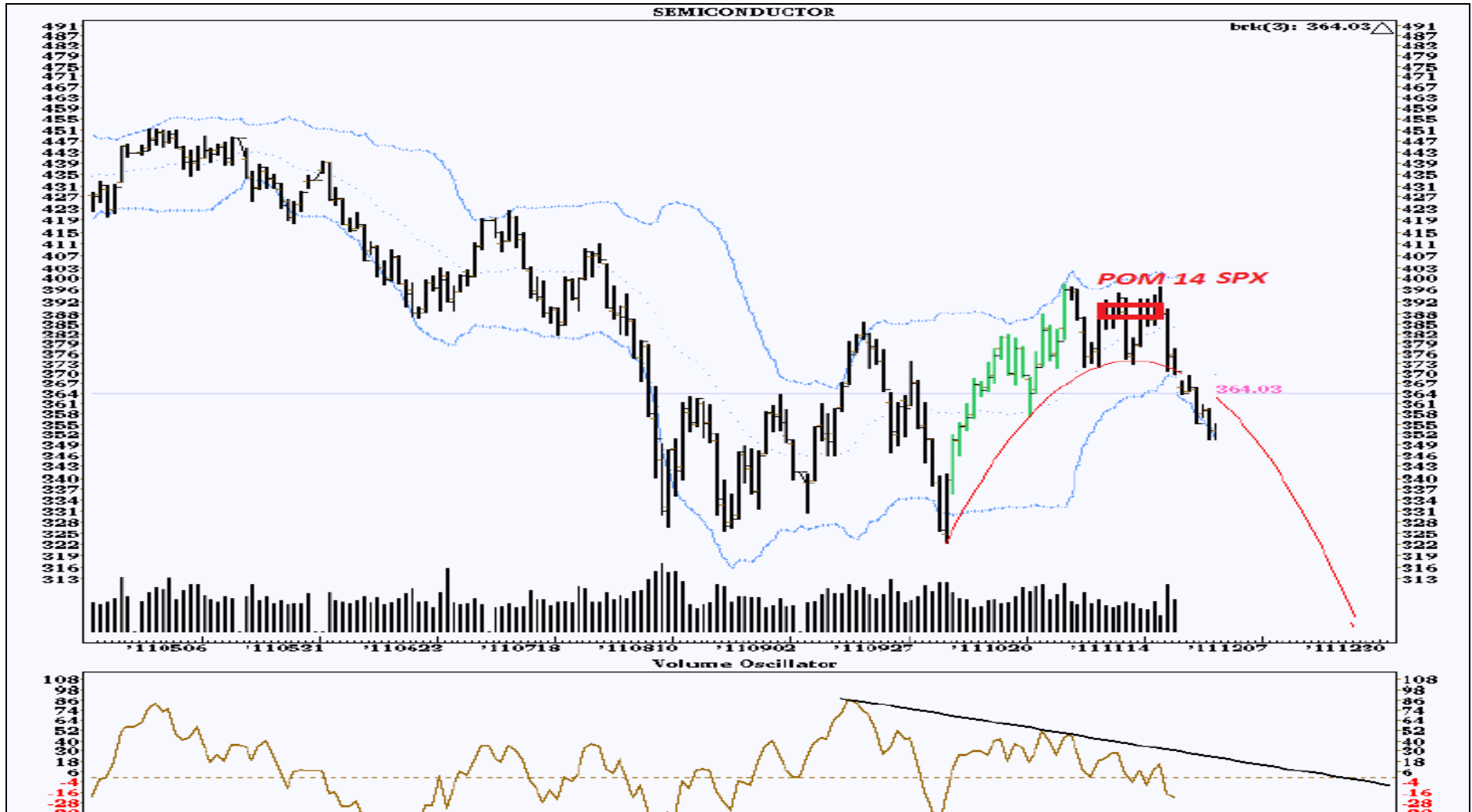
On wave Analysis we are on wave C (1225) seem like target point by this Method to setup Wave D



SOX – Poly Trend Analysis – Lead Indicator

A lead index is now suggesting any rally will stop underneath the Poly Trend on the right side . Money flow shows that the smart money has been escaping . There is Bearish divergence on oscillator.

SOX which gave excellent signal for the decline ,



NASD – Poly Trend – Pattern Analysis – Lead Indicator

The bounce a minor intermission in the downtrend.

NASD finished its 3 drives to the Top along with PECD- Pattern at QQQ 59 TOP remains in pace f



- **SPX – MID TERM**

- **Tiggered@ POM 14- CZ 1226 - 1255**

- **Currently SPX has Price target of 1125 from POM 14**
- ***In spite of recent decline, the key Indicator charts below suggest why we think Mid term 1125 target will be reached sooner then later.***

SPX v/s TRIN – TICK Ratio – Mid term Bearish

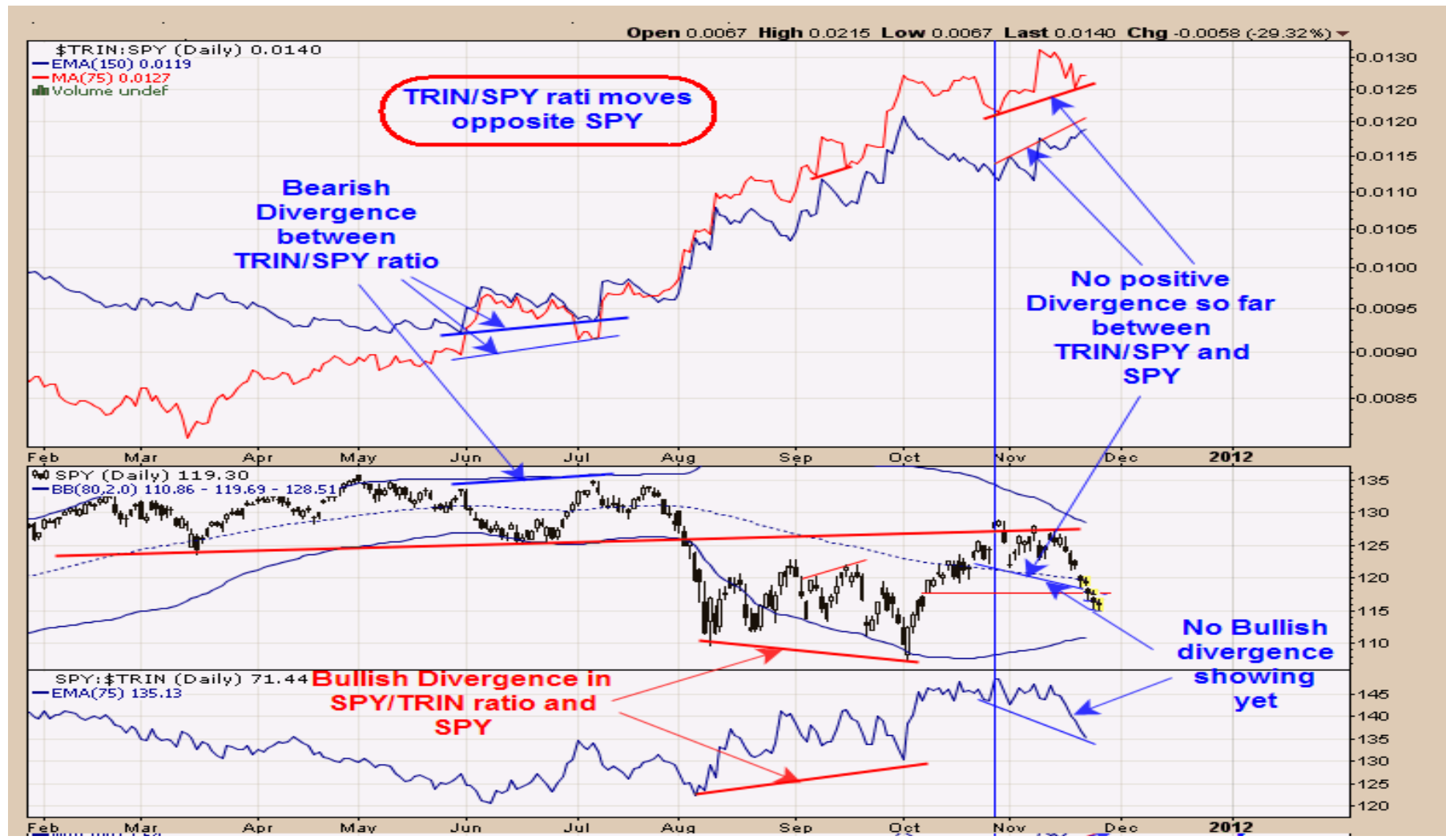
The TRIN/TICK ratio indicated in spite of decline shows bearish sign (Intermediate term) when the ratio falls to .01 identified tops that where relative significant and therefore is keeping us alert.



SPX – TRIN Ratio - Mid term Bearish

SPY/TRIN ratio - A negative divergence appears still appears in spite of decline and suggests the pull back in SPY is not complete.

Also since the October 27 high the 100 MA of the TRIN is in bearish camp.



DAX – CZ – Ratio Analysis – **Lead Indicator on Downside**

Mid term Bearish

On **DOWNSIDE** move we have good correlation factor on DAX v/s SPX .

Price Target of bearish H & S Top still not complete , suggest Euro will drive world markets. SPX will bottom along with DAX. DAX / SPY Ratios is in down trend and new uptrend is also broken



- Advance / Decline - Analysis
- Put / Call Ratio - Analysis

NOTE : Various derivatives of A/D lines is required for full assessment

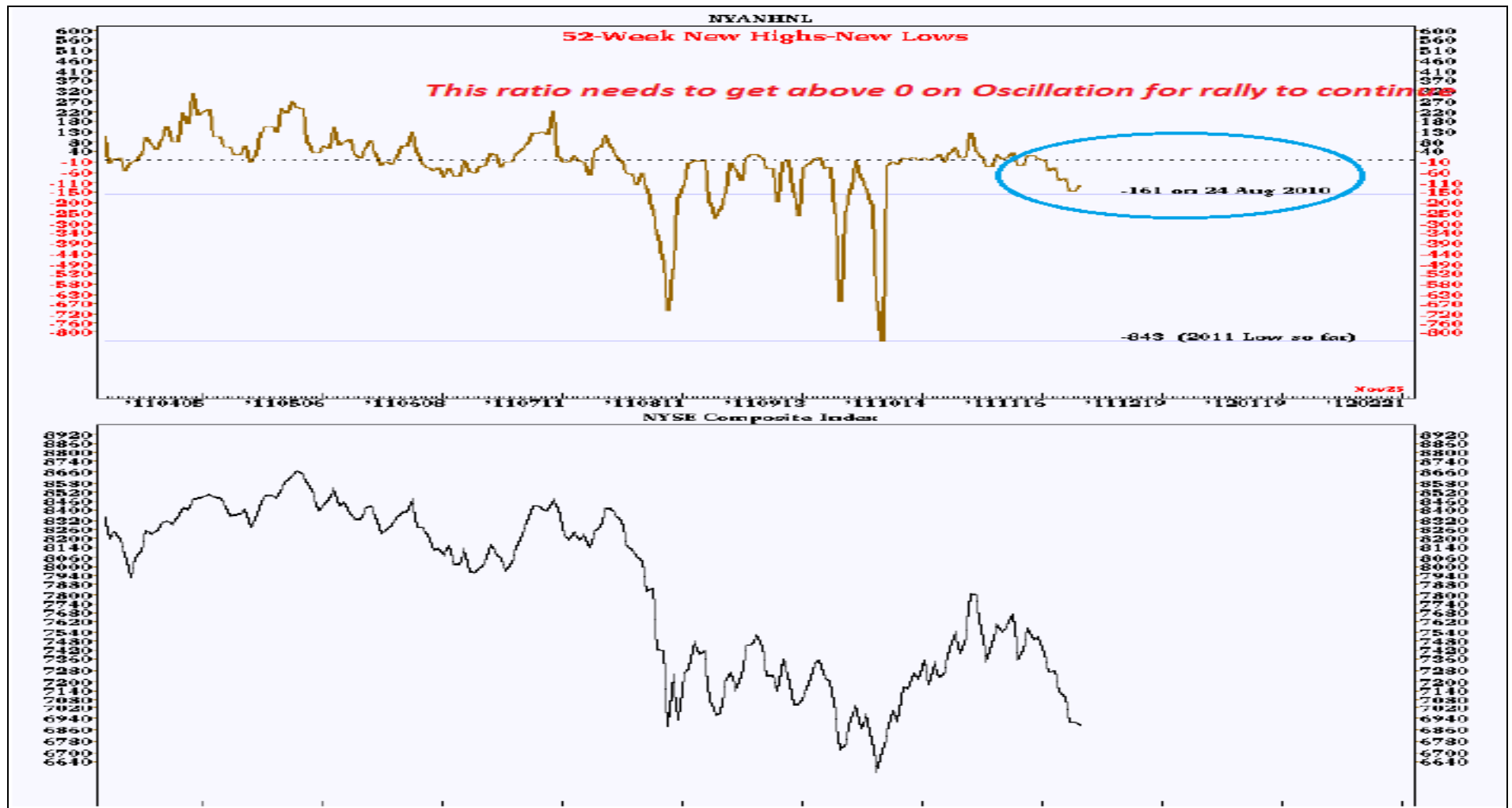
Our A/D Analysis is based on 3rd derivative complex A/D Oscillator instead of conventional A/D Line , secondly it needs to be conformed by the % of stocks above critical SMA's divergences. Based on current market condition our observation points out the following condition

- A/D Line NH / NL Ratio v/s NYSE on Equities only - MID TERM - **NON CONCLUSIVE**
- A/D Oscillator Volume v/s NYSE on Equities only - MID TERM- (**See below**)
- A/D Line NH v/s NYSE on Equities only - MID TERM - **NON CONCLUSIVE**
- A/D line_% BULLISH Equity 50 D - in SPX BREADTH - MID TERM - **NON CONCLUSIVE**
- SPX v/s CBOE – PUT / CALL RATIO on Multiple Derivatives MID TERM **NON CONCLUSIVE**
- *PUT / CALL on 3rd derivatives . Put / call Quantity based v/s \$\$ 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 bottoms but not for ST Top . At the tops we prefer the \$\$ weighted Put / Calls ONLY it gives better signal by different method we use- which is not extreme yet).*

SPX – A / D Oscillator – NH – NL - Mid term Bearish

Our expectation that October market rally was very poor quality and Differential Oscillators inability to significantly move the above the zero line. Along with % 50D A-D Indicator showed last week Proved its merit with nasty correction

The lack of leadership moving to new highs is indicative that NO new leg up appears to have gotten started, but just a large oversold bounce instead. A rally to the top of the range. This will take in more sidelines cash



- **SPX – LONGER TERM – (CAUTION)**

No Change from our Previous message & LT Charts

- ***Caution - we think the real decline would start initiated by 6 yr Cycle into 2014 based on the Charts and Indicators shown in Earlier message***
- ***Price Target 875 on SPX – Analysis .***

Technical Problem –

We had this chart that was lost , We wil preview this in our next messge

EXTREAME Sentiment Analysis (3rd Party Data) - Courtesy : SENTIMENT TRADERS

None of the Critical Indicators we track (below) are at Extremes

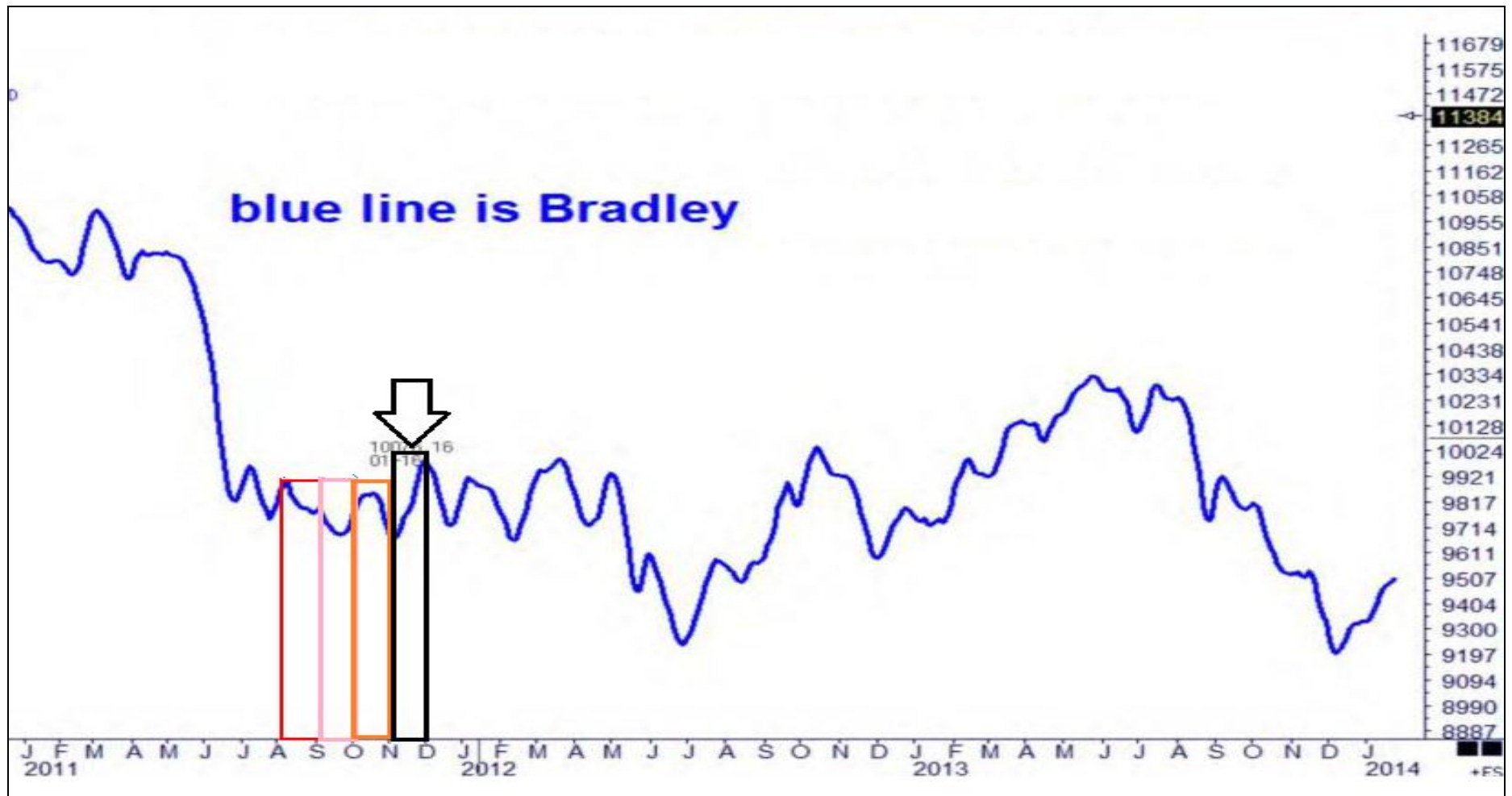
- % Sector Extremes - **NON CONCLUSIVE**
- Rydex Bull / Bear – Leveraged Ratio - **NON CONCLUSIVE**
- Rydex / Money Ratio Indicator - **NON CONCLUSIVE**
- Smart / Dump Money Ratio Indicator - **NON CONCLUSIVE**
- Down Pressure on SPX Indicator - **NON CONCLUSIVE**
- ISE Sentiment Index – **NON CONCLUSIVE**
- Investors Intelligence Bull / Ratio - **NON CONCLUSIVE**

- **Time Cycle SPX**

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

- **Bradleys - Cycle dates –**

November is expected to be up (wait and see)



- **Calendar Cycle - Cycle dates – Historically**

November is expected to be down (wait and see)

- 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%

. Cycles - Inter market Analysis

- **SPX v/s \$ COPPER - Coverage in C # Commodity Report**
- **SPX v/s OIL - Coverage in C # Commodity Report**
- **CHINA v/s \$ COPPER - Coverage in C # Commodity Report**
- **SPX v/s USD - Coverage in B # Currency Report**

Appendix Content

- **SPX – POM Signals History for 2011**
- **Trading & Investment Conclusion History 2011**
- **Objectives & POM /CZ Guidelines**
- **Guidelines for Full Utilization of “ SP” Report with Limitations**
- **SPX – 52 Weeks Chart with POM Signals**
- **SPX- POM – “ Price Oscillation Model “ Criteria**
- **SPX – TAS 3x3x3 / 9EMA - “ Trend Adjusted Signal “ Criteria**
- **Definitions of Extreme Sentiment Indicators**

- **SPX – POM Signals & Price Projections History 2011**

- **Trading & Investment Conclusions – Start point 1257 (1ST Jan) – YTD –Flat**

- **POM 15 - Net Short -- **None Triggered in 2011 - (Total points gains = 0)****

- **POM 14 / Re - Fully Hedged -- (Total points gain = -88+ 85+ 97 = + 94 = +7.4%)**

Last Alert (Open Position) - SPX - POM 14 – Triggered (11/01) at 1226 into the CZ 1220 -1250 of POM 14 (Fully Hedge Position) with Warning - SPX rally towards 1252. & Alert note A# 3 – MS - QQQ Trigger was at 59 Monday (10/31)

- **Alert - 3rd May @ 1370 - POM 14 Re run to POM 12 – Alert 6/23 to 1273- POM 12 Trigger = 97 points gain**
- **During POM 14 regime - Recycle partial capital to Trade from Bullish CZ to CZ - while the bigger Trend kicks in**
- **POM 14 Re Run @ 1335 on 3/01 to 1250 on 3/16 = 85 points gain (from 1250 dt. 3/16 to 1370 dt 3rd No Signal)**
- **1st Jan @ 1257 to 2/17 @ 1345 = (-88 loss) on stretch extension**

- **POM 13 - Risk Management Hedges - (Total decline saved) = 71+140 = + 211= +19%**
(Proportion of Rebalancing Beta & Net Exposures to be based on individual Portfolio Objectives)

- **Alert – 09/ 01 - POM 13 (@ 1220 to Trigger on 10/4 Price Projection of 1080 (POM 12) avoided decline of 140 points –**
- **Earlier- Alert – Triggered on 7/08 - POM 13 (@ 1346 & avoided decline till CZ @ 1300- re-entry = 46 points & then (STOPPED OUT @ 1285) = (-20 points) & then avoided further decline to 1240 POM 12 Re Target = (45 points) = 46-20+45= 71 points**

- **POM 12, POM 11 - Net Long – - (Total points gains = 75-20+79+123 = + 257 = +25%**

- **NET LONG 4 - Alert – Triggered on 10/04 - POM 12 (@ 1080) NET LONG- Closed on 10/11 @ SPX 1192 (up 10.3% or gains of 112 (2/3 position) & Balance 1/3 @ POM 14 @ 1226 on 11/01 = Avg 123 gains points**
- **NET LONG 3- Alert - on 8/09 - POM 11 @ 1117 – for NET LONG for target to 1196 (where it Nullified POM 11 liquidation Signal) for = +79 points gains - Alert announced 8/11 for reversal**
- **NET LONG 2 - Alert - on 8/03 POM 12 re run @ 1240 – to POM 13 – Triggered @ 1220 Alert - 09/01= (-20 points loss)**
- **NET LONG 1 - Alert – on 6/23 POM 12 @ 1273 – for NET LONG for target to 1348 POM 13 Trigger on 7/08 Alert = 75 points gain**

- **Objective & POM / CZ Guidelines**

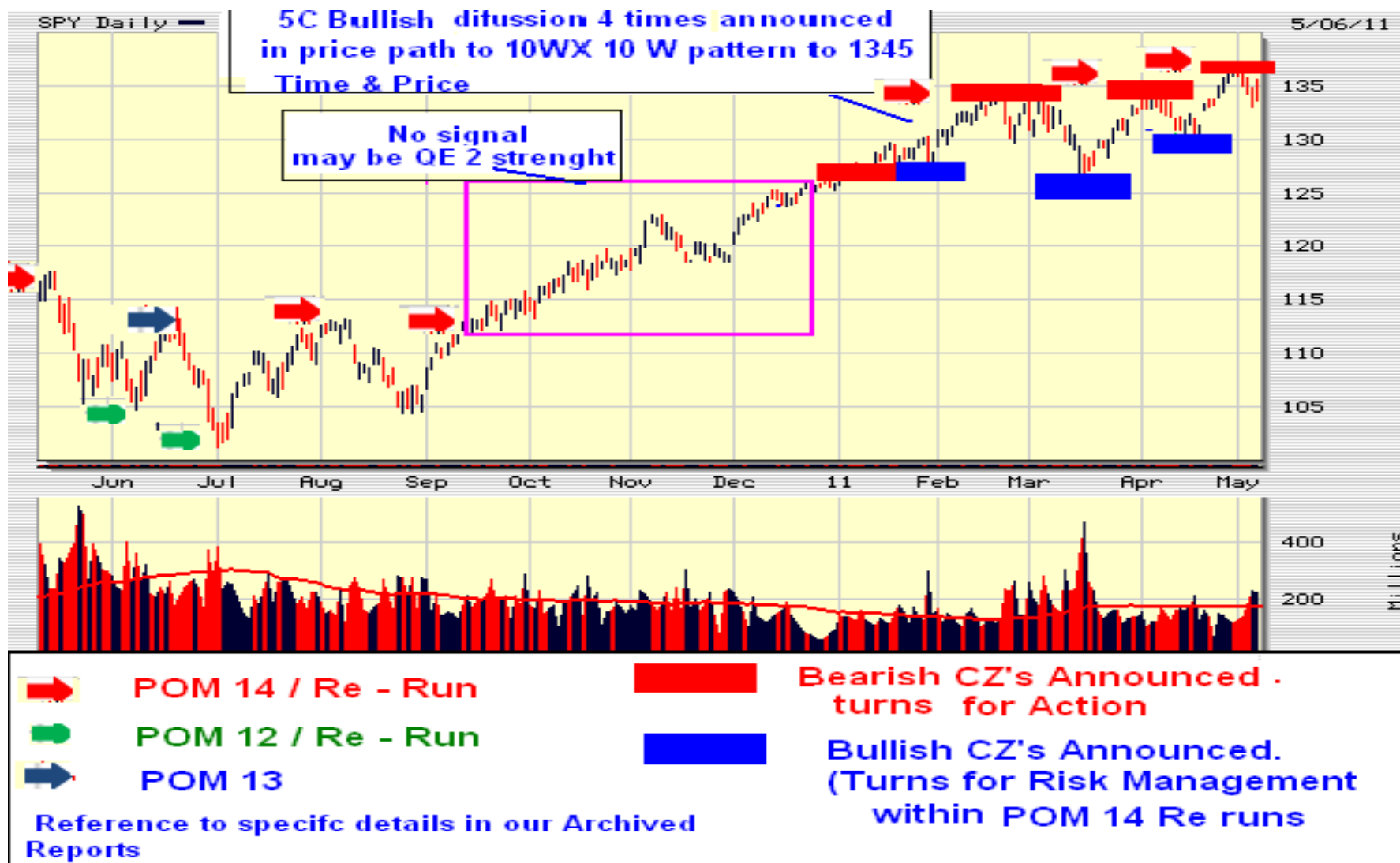
Focus is on the Short & Intermediate term turning point of the SPX via POM's Price projections and / or CZ (Bullish & Bearish between the POM's) . POM is Unidirectional Judgmental Model, It utilizes multiple input signal via the Global Inter market Analysis (GIC), Price & Quality Volume (PQV), Pattern 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.

- *SPX acts as Risk Benchmark for all the other Markets (Key US Indices & Key Global) , these Markets gets priced off SPX- Risk (in different Proportion) . Therefore within A # 1 – MS Report, our critical component being SPX and its internal ingredients for timely POM & Bullish CZ calls . Our A # 2 – MS Report focuses on Broader Indices and Global Indices.*
- *All the Broader Indices tends to follows the Price path of POM 11, 12, 13 of SPX (except @ POM14, 15), various Instruments will Top out at different time to Trigger CZ – Validation for NET SHORT.*
- *SPX is still following the Bear Market / Trading Market POM Regimes unlike GOLD market*
- *All CZ / PEC D / POM's – Marked on charts (in color) below has been Announced on Real time in our Previous Reports prior to Price shifts.*
- *Stops always on other side of CZ @ value based on Portfolio's Objectives and Risk tolerance*
- *POM Conclusions to be cross verified by other methods prior to final decision*
- *For Maximum utilization of POM / PEC –D Process for Risk Management. Refer to guidelines within the Appendix below*

➤ Key Points for Full utilization of SP- Reports

- **Maximum Utilization of various POM's , CZ's & ABC's – for Risk Management & full enhancements on CZ pricing & CZ-PQV Timeliness**
- At Top down Level– Triggers around POM's -Mid term & CZ's - Short term– (CZ's happens in between the POM's) . Critical component for Clean execution is to maintain ongoing updated data base spreadsheet of CZ's Pre announced in SP releases prior to price shifts. These inputs when Computerized Daily Monitoring, Triggers, Timely PQV validations, Price projections Alerts on real time should warn in timely manner to take action. .
- Rebalancing Pre Planned procedure at Triggers – “ Rebalancing % of Overall Position Sizing” , Beta & , Net Exposures sizing depending on each Portfolio's Objective & Risks Tolerances for either Recycling of Capital or Fresh capital.
- Key points for Risk Management
- Hard Stops around CZ's
- STOP SELL- “ early warning Alerts” in fast moving markets, Over night Day / Night (IST) time delay Risks.
- Cross verification by Other Methods
Computerized Daily Monitoring, CZ Triggers, Timely PQV validations
- **2. CZ – Tracking**
- Programing - “Time/ Price Displacement, Supply / demand Activity Bar Analysis” –
- At “Institutional Grade - Price , Volume with Time Integration
- Supply / Demand Activity bar Analysis – Real time.
- Candlestick – Price displacement Algo Programing experience at CZ Validation for Triggers

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



2010 - POM - SPX Signal



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)

• EXTREAME Sentiment Analysis (3rd Party Data)

Courtesy : SENTIMENT TRADERS

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.

- **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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- Start point 1257 (1ST Jan) – YTD 1158 – (-7.8%)

Current Signal – POM 14 into CZ 1226-1255 for Price target of 1125

- POM 15 - Net Short -- **None Triggered in 2011 - (Total points gains = 0)**
- POM 14 / Re - Fully Hedged -- **(Total points gain = -88+ 85+ 97 = + 94 = +7.4%)**

Alert (Open Oscillation) - SPX - POM 14 – Triggered (11/01) at 1226 into the CZ 1220 -1250 of POM 14 (Fully Hedge Position) with Warning - SPX rally towards 1252. & Alert note A# 3 – MS - QQQ Trigger was at 59 Monday (10/31)

- POM 13 - Risk Management Hedges - (Total decline saved) = 71+140 = + 211= +19%
(Proportion of Rebalancing Beta & Net Exposures to be based on individual Portfolio Objectives)

- **Risk Management Signal -SPX - POM 13 – Triggered (11/22) at 1189 @ close . The following AM 11/23, the Market opened with Gap Down to 1178**
- **POM 12, POM 11 - Net Long – - (Total points gains = 75-20+79+123 = + 257 = +25%**
- **Breakdown of POM Summary points & Signals are sated in Appendix.**
- **Like any other Model, it is not perfect but Risk Management is the First objective (Generate Alpha @ 1/2 Market Risk from POM to POM – CZ 's).**
- **Focus -POM's are better actionable areas for us to produce Highest Reward for the Risk” then entering positions in between the moves of POM**

• **SPX – Market Insights**

This week will be important, with bond auctions that has been Euro focus is due in several key countries most importantly Italy. Past week we showed the LIBOR Chart would act as trigger which proved its merit to fuel the downside decline on SPX .

Meanwhile SXP closed Friday 1158 after jumping POM 13 – CZ Area, if the jump is not reversed within 2-3 days (or by weeks close) back into CZ with Bullish divergence of Market internals with PQV then it tends to go to next level . Our Target of this decline move that began at POM 14 (1226-1255) is 1125 (but not in straight line) . We shall evaluate what happens there.

Any rally / Bounce from current levels should have much greater inertia to go past POM 13 CZ – (1190 -1205) as its first goal. Within a week we shall see some headwind . Time termination on SP is around 12th Dec . We shall see. This rally will certainly take in some of the sideline cash in name of “Santa “

Seasonality anxiety fooled Wall street once again. In our experience we respect it more when the market is not at POM 14 or POM 15 and internal math indicator is in sync OR if QE is in operation

Best Seasonality days in November – December – These historically produces 50% of the Seasonality gains

31st Oct – 4th Nov – Failed (Did not produce seasonality gains)

22st Nov – 2nd Dec – Began @ SPX 1191 and currently in progress

To come Next – 21st Dec to 23rd , 28th Dec – 30TH Dec (We will monitor these as they come)

Similar anxiety will now kick in again with “ Santa” Rally but “ If we approach POM 12 it should have good fire power to kick off from good footing.

Point to note from Last weeks A # 1 – MS – Charts demonstrated in LT – indicators, A/D Analysis and several Extreme Internal Analysis proved its merit for decline.

In October SPX Gained approximately 150 points from POM 12 Oscillation and in November declined 100 points from POM 14 Oscillation .

However, Since the start of this year, the SP X has lost 7%. By comparison, EAFE (World – Ex US) have fallen 18%. EEM have lost 23%. Thankfully POM has kept us from this harms way.

SPX - SHORT TERM – Primary Analysis

- SPX – Hrly Poly Trend & Wave Analysis
- SPX - Wave Projection Analysis
- SPX - DMA & Trend Analysis
- SOX - Poly Trend Analysis (**Correlation Lead Indicator**)
- QQQ – Pattern Analysis (**Correlation Lead Indicator**)

SPX - MID TERM – Secondary Analysis

- SPX – TICK / TRIN Ratio
- SPX – TRIN Ratio
- DAX - Pattern Trend Analysis (**Correlation Lead Indicator downside**)
- A/D Line - Oscillator NH / NL
- SPX –Calendar Cycle
- SPX – Bradley Cycle
- SPX- Inter market Analysis with other Markets

SPX - LONG TERM – Tertiary Analysis

- SPX – Price Target 875 Analysis

Since Market is not at Extremes we do not as many charts Today's A #1 – MS

Primary Analysis

SPX – Hrly - Poly trend Analysis

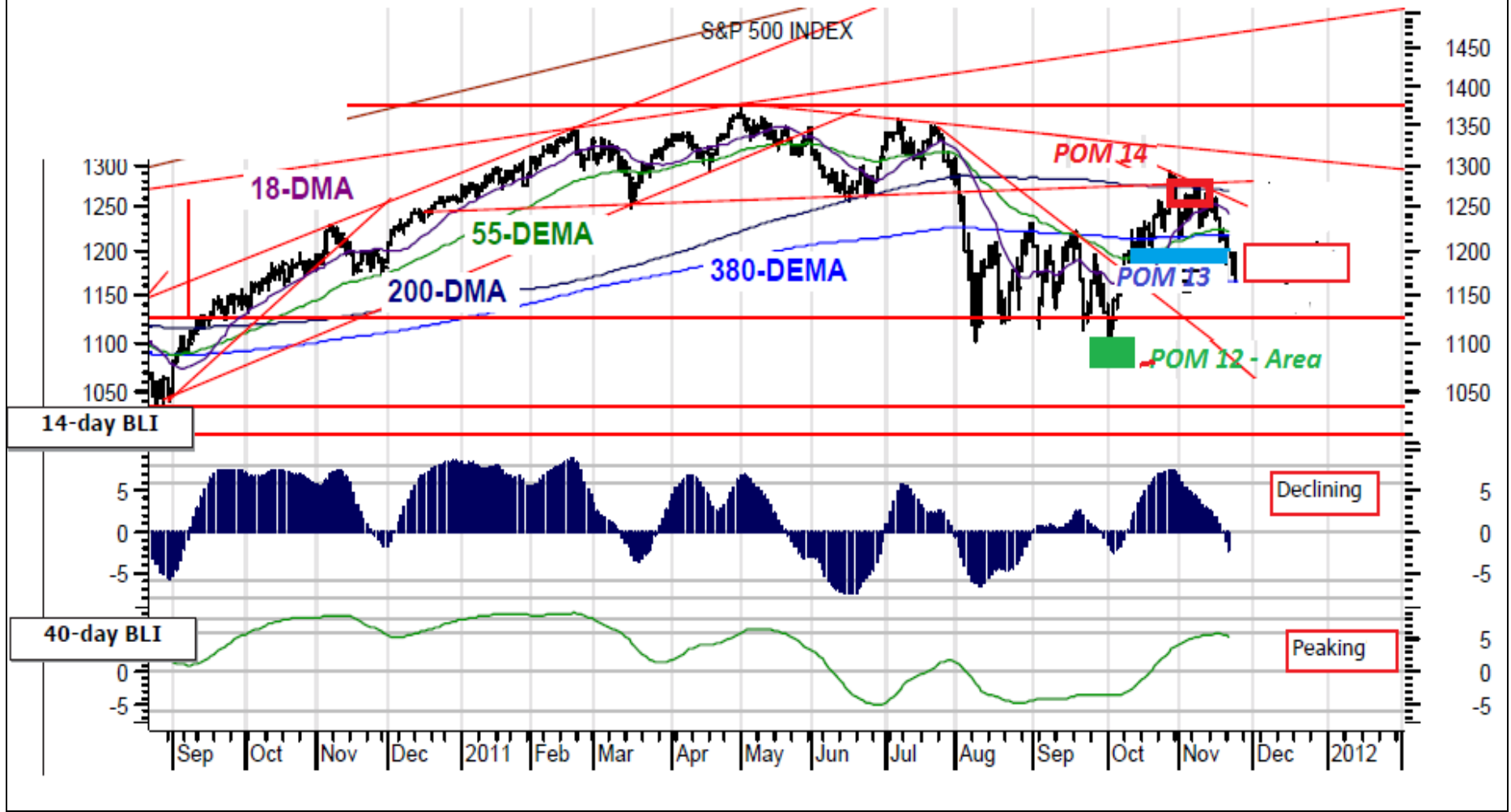
- *Today's Gap up takes us back into POM 13 CZ , we have meaningful Poly Trend in between , we think on completion of this price move , We should have a leg down . (We monitor closely)*
- *Above POM 13 – CZ Area , there is Top Heavy POM 14 – It is fund time for Traders volatility.*



SPX - DMA & Trend Analysis

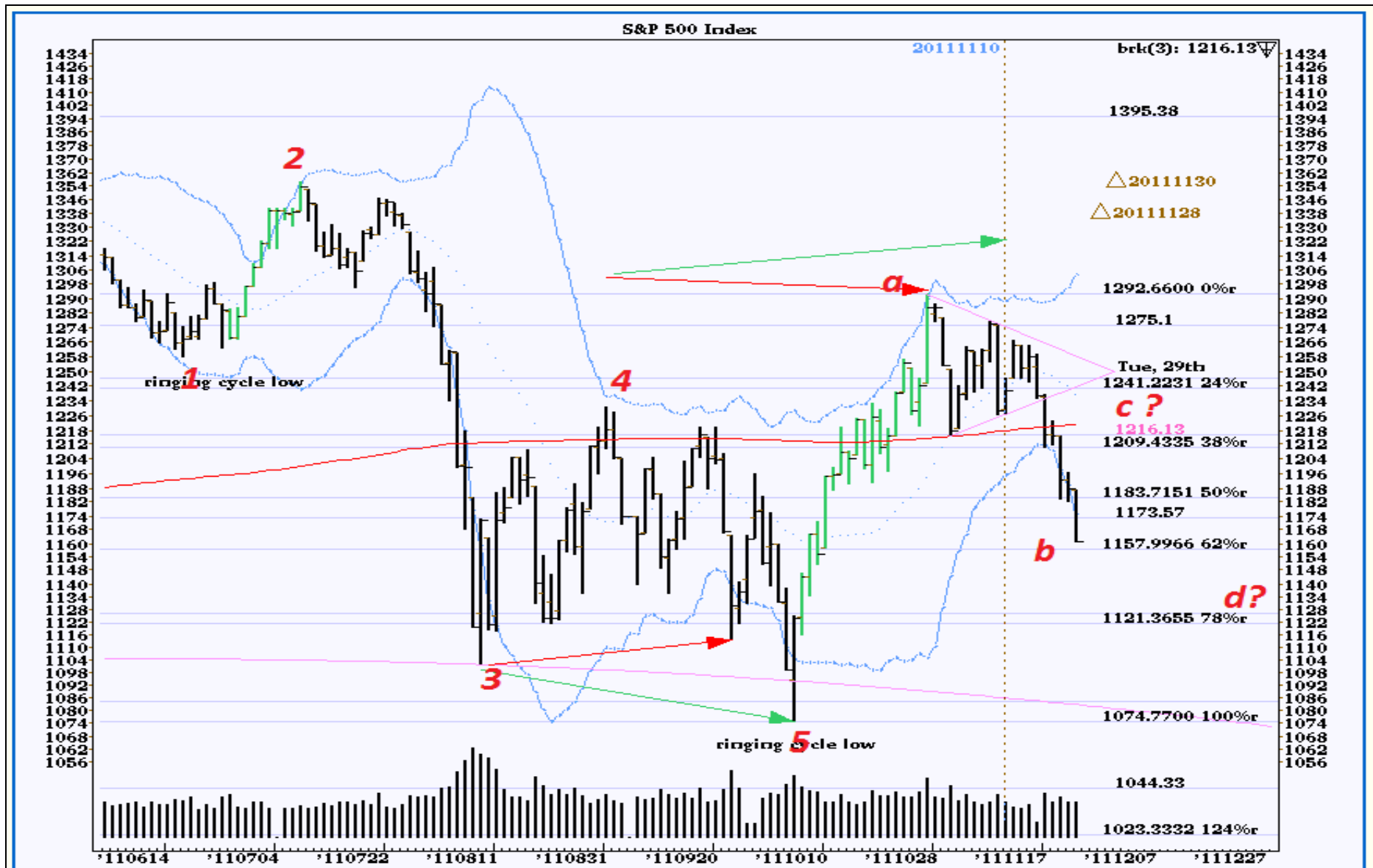
As we stand now, On Trend and DAM analysis , the POM 13 area CZ 1205-1195 is being tested from underneath - BLI is peaking and declining that should change if todays rally has any meaning

S&P 500 INDEX/ BROAD MKT INDICATORS



SPX – Wave Projection Analysis

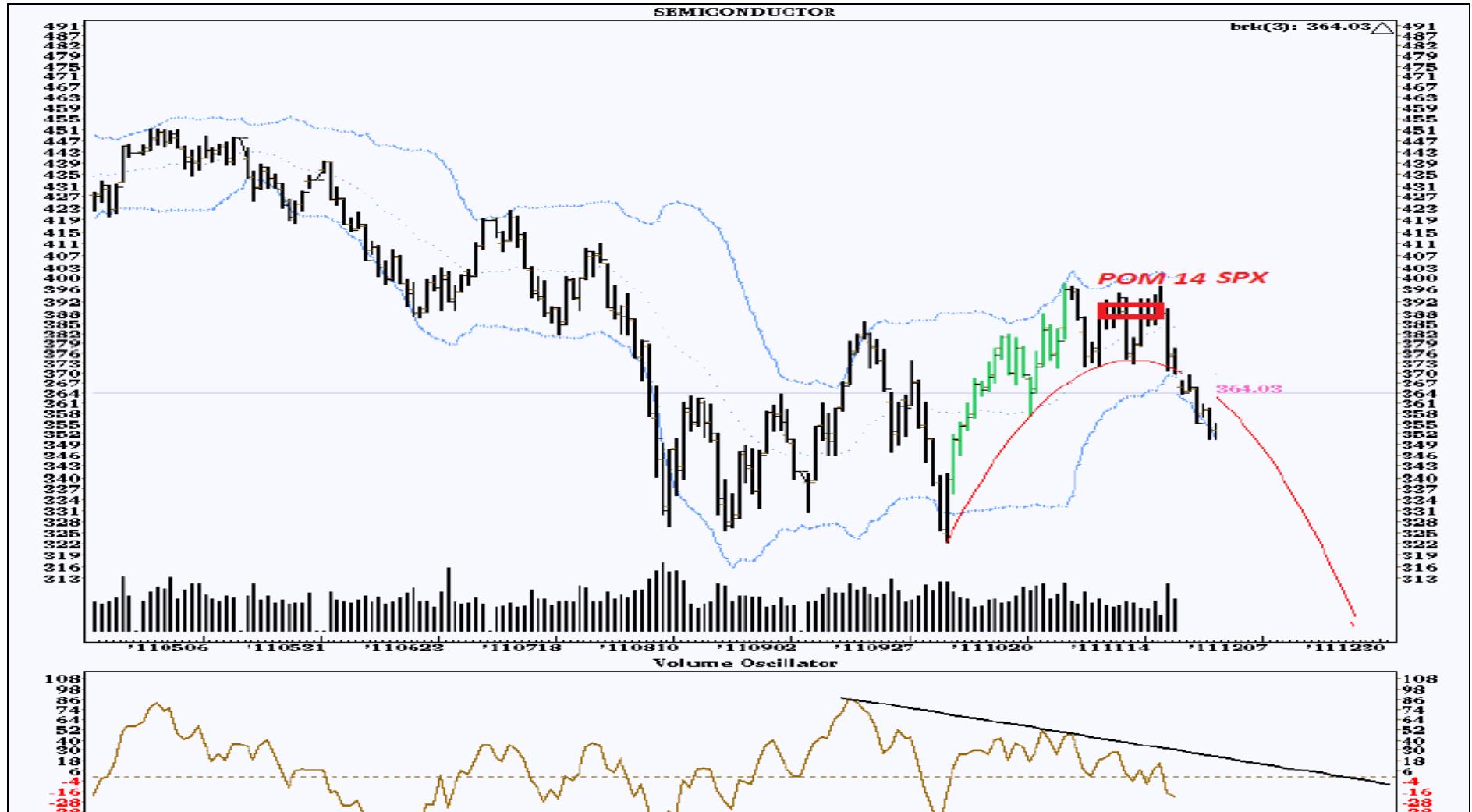
On wave Analysis we are on wave C (1225) seem like target point by this Method to setup Wave D



SOX – Poly Trend Analysis – Lead Indicator

A lead index is now suggesting any rally will stop underneath the Poly Trend on the right side . Money flow shows that the smart money has been escaping . There is Bearish divergence on oscillator.

SOX which gave excellent signal for the decline ,



NASD – Poly Trend – Pattern Analysis – **Lead Indicator**

The bounce a minor intermission in the downtrend..

NASD finished its 3 drives to the Top along with PECD- Pattern at QQQ 59 TOP remains in pace f



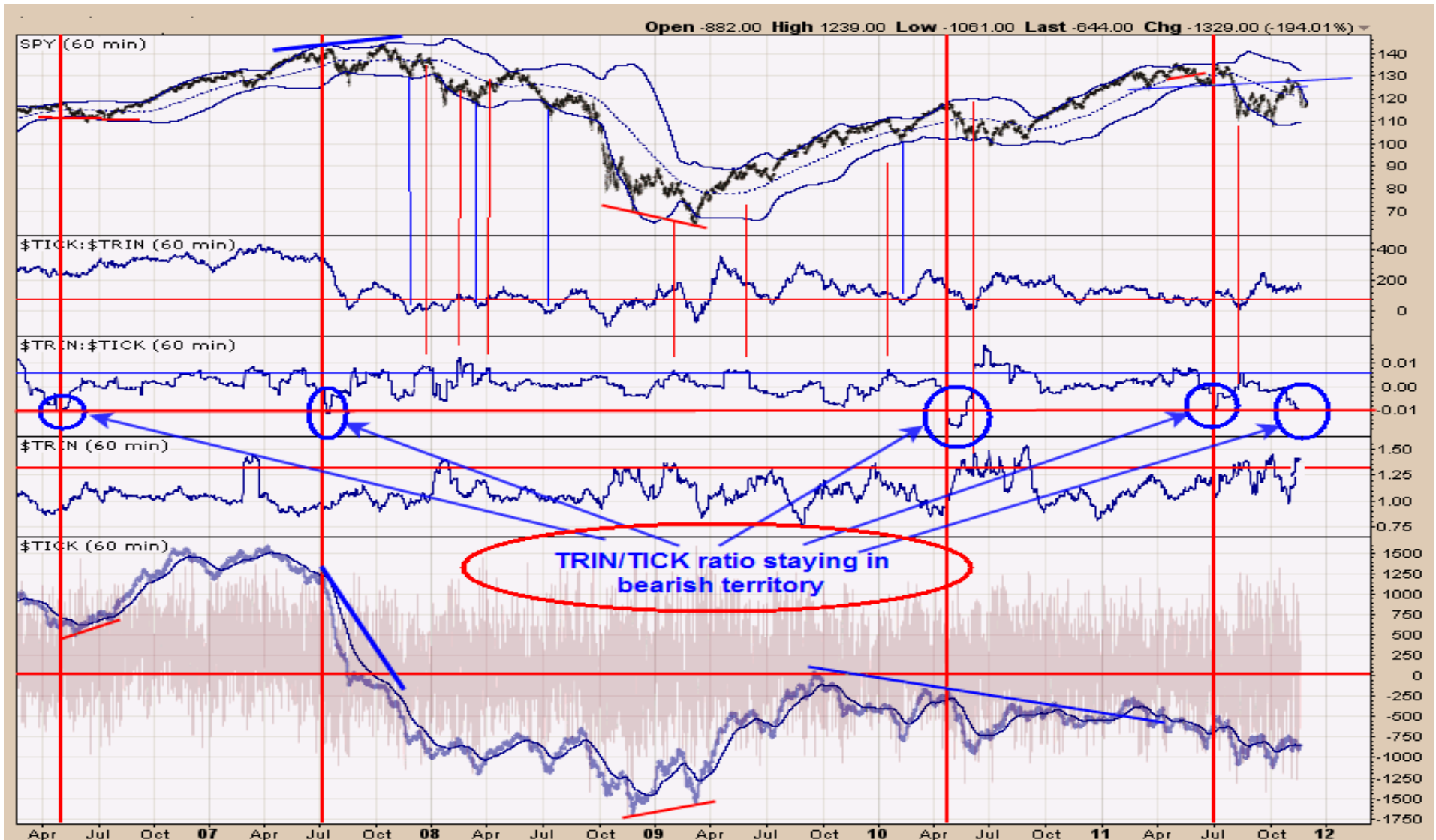
- SPX – MID TERM

- **Tiggered@ POM 14- CZ 1226 - 1255**

- **Currently SPX has Price target of 1125 from POM 14**
- **In spite of recent decline, the key Indicator charts below suggest why we think Mid term 1125 target will be reached sooner then later.**

SPX v/s TRIN – TICK Ratio – Mid term Bearish

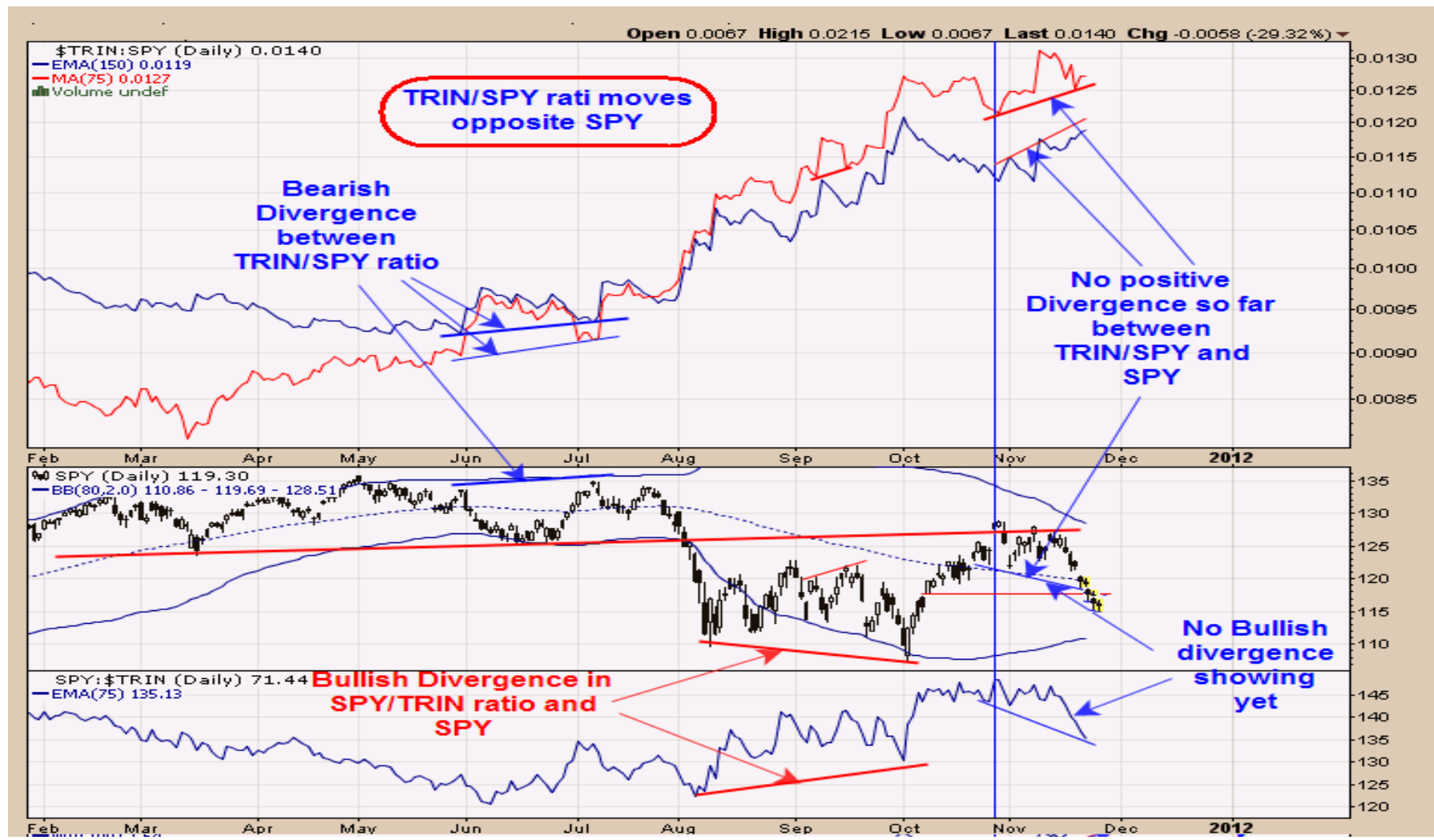
The TRIN/TICK ratio indicated in spite of decline shows bearish sign (Intermediate term) when the ratio falls to .01 identified tops that where relative significant and therefore is keeping us alert.



SPX – TRIN Ratio - Mid term Bearish

SPY/TRIN ratio - A negative divergence appears still appears in spite of decline and suggests the pull back in SPY is not complete.

Also since the October 27 high the 100 MA of the TRIN is in bearish camp.



DAX - CZ - Ratio Analysis - Lead Indicator on Downside

Mid term Bearish

On **DOWNSIDE** move we have good correlation factor on DAX v/s SPX .

Price Target of bearish H & S Top still not complete , suggest Euro will drive world markets. SPX will bottom along with DAX. DAX / SPY Ratios is in down trend and new uptrend is also broken



- Advance / Decline - Analysis
- Put / Call Ratio - Analysis

NOTE : Various derivatives of A/D lines is required for full assessment

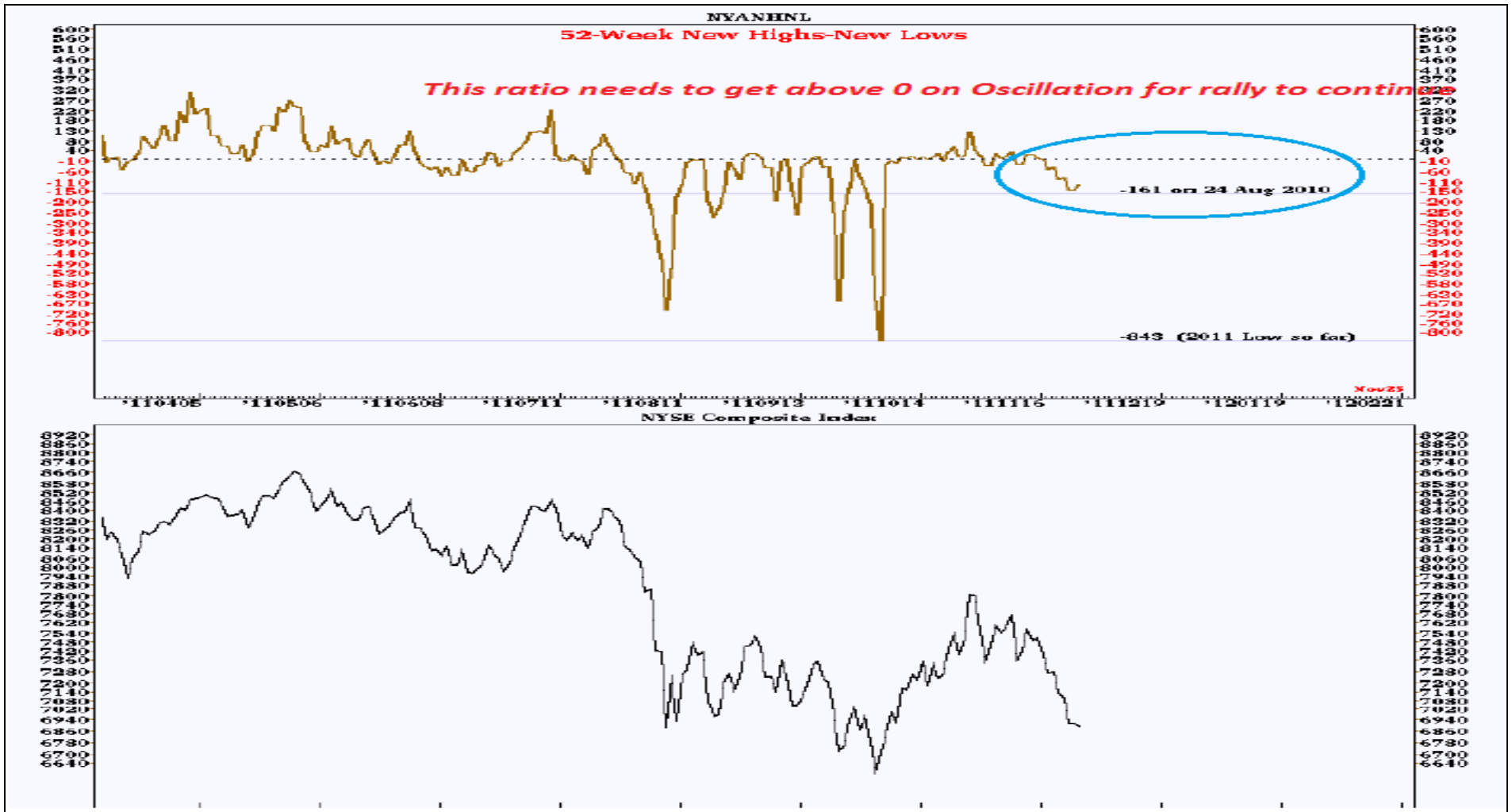
Our A/D Analysis is based on 3rd derivative complex A/D Oscillator instead of conventional A/D Line , secondly it needs to be conformed by the % of stocks above critical SMA's divergences. Based on current market condition our observation points out the following condition

- A/D Line NH / NL Ratio v/s NYSE on Equities only - **MID TERM** - **NON CONCLUSIVE**
- A/D Oscillator Volume v/s NYSE on Equities only - **MID TERM-** (See below)
- A/D Line NH v/s NYSE on Equities only - **MID TERM** - **NON CONCLUSIVE**
- A/D line_% BULLISH Equity 50 D - in SPX BREADTH - **MID TERM** - **NON CONCLUSIVE**
- SPX v/s CBOE – PUT / CALL RATIO on Multiple Derivatives **MID TERM** **NON CONCLUSIVE**
- *PUT / CALL on 3rd derivatives . Put / call Quantity based v/s \$\$ 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 bottoms but not for ST Top . At the tops we prefer the \$\$ weighted Put / Calls ONLY it gives better signal by different method we use- which is not extreme yet).*

SPX – A / D Oscillator – NH – NL - Mid term Bearish

Our expectation that October market rally was very poor quality and Differential Oscillators inability to significantly move the above the zero line. Along with % 50D A-D Indicator showed last week Proved its merit with nasty correction

The lack of leadership moving to new highs is indicative that **NO** new leg up appears to have gotten started, but just a large oversold bounce instead. A rally to the top of the range. This will take in more sidelines cash



- SPX – LONGER TERM – (CAUTION)

No Change from our Previous message & LT Charts

- ***Caution - we think the real decline would start initiated by 6 yr Cycle into 2014 based on the Charts and Indicators shown in Earlier message***
- ***Price Target 875 on SPX – Analysis .***

Technical Problem –

We had this chart that was lost , We wil preview this in our next messge

EXTREAME Sentiment Analysis (3rd Party Data) - Courtesy :

SENTIMENT TRADERS

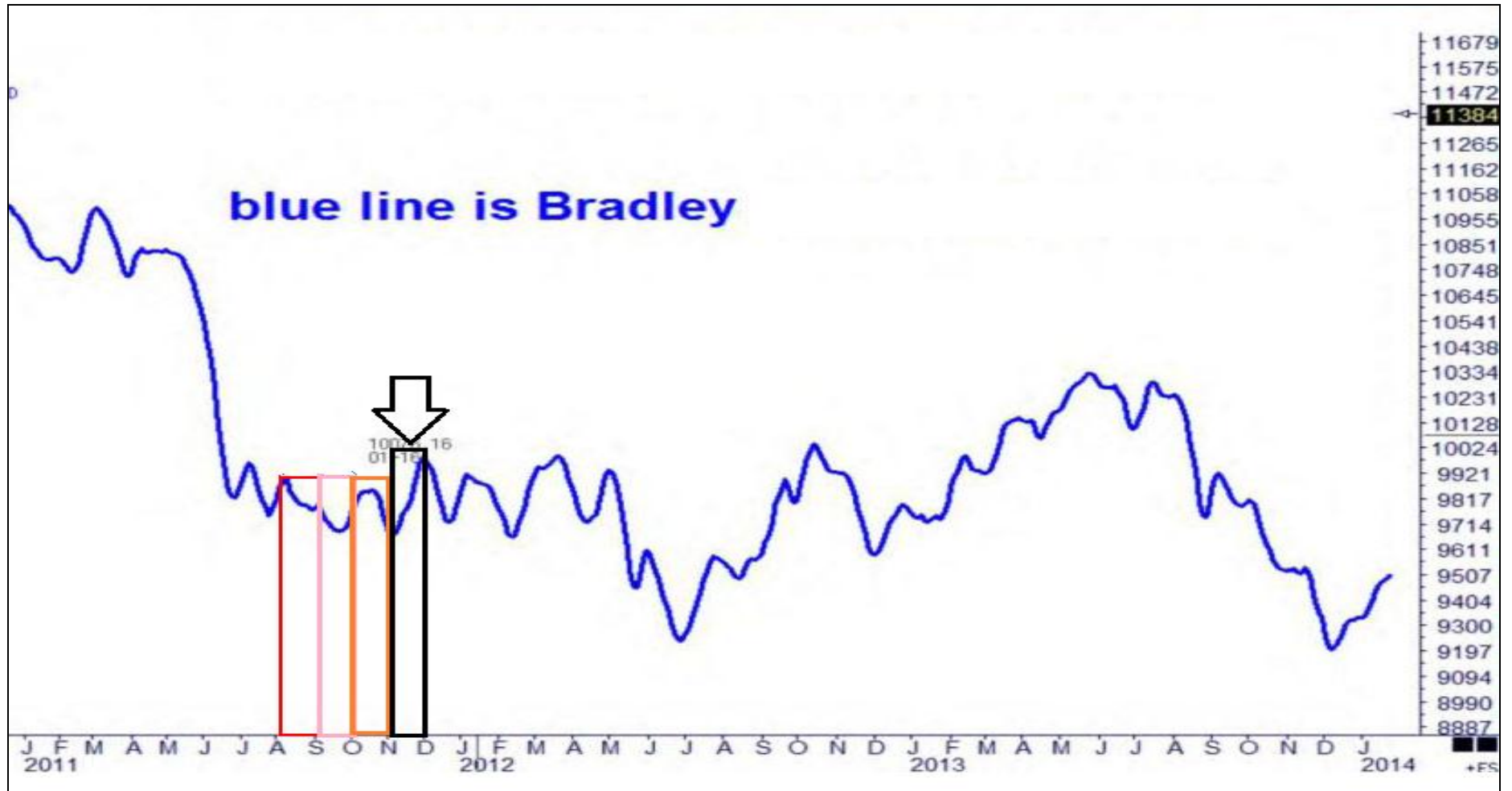
None of the Critical Indicators we track (below) are at Extremes

- % Sector Extremes - **NON CONCLUSIVE**
- Rydex Bull / Bear – Leveraged Ratio - **NON CONCLUSIVE**
- Rydex / Money Ratio Indicator - **NON CONCLUSIVE**
- Smart / Dump Money Ratio Indicator - **NON CONCLUSIVE**
- Down Pressure on SPX Indicator - **NON CONCLUSIVE**
- ISE Sentiment Index – **NON CONCLUSIVE**
- Investors Intelligence Bull / Ratio - **NON CONCLUSIVE**
- **Time Cycle SPX**

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

- Bradleys - Cycle dates -

November is expected to be up (wait and see)



- Calendar Cycle - Cycle dates - Historically

November is expected to be down (wait and see)

- **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%

. Cycles - Inter market Analysis

- **SPX v/s \$ COPPER - Coverage in C # Commodity Report**
- **SPX v/s OIL - Coverage in C # Commodity Report**
- **CHINA v/s \$ COPPER - Coverage in C # Commodity Report**
- **SPX v/s USD - Coverage in B # Currency Report**

Appendix Content

- **SPX – POM Signals History for 2011**
- **Trading & Investment Conclusion History 2011**
- **Objectives & POM /CZ Guidelines**
- **Guidelines for Full Utilization of “ SP” Report with Limitations**
- **SPX – 52 Weeks Chart with POM Signals**
- **SPX- POM – “ Price Oscillation Model “ Criteria**
- **SPX – TAS 3x3x3 / 9EMA - “ Trend Adjusted Signal “ Criteria**
- **Definitions of Extreme Sentiment Indicators**

- SPX – POM Signals & Price Projections History 2011
- Trading & Investment Conclusions – Start point 1257 (1ST Jan) – YTD –Flat

• POM 15 - Net Short -- **None Triggered in 2011** - (Total points gains = 0)

• POM 14 / Re - Fully Hedged -- (Total points gain = -88+ 85+ 97 = + 94 = +7.4%)

Last Alert (Open Position) - SPX - POM 14 – Triggered (11/01) at 1226 into the CZ 1220 -1250 of POM 14 (Fully Hedge Position) with Warning - SPX rally towards 1252. & Alert note A# 3 – MS - QQQ Trigger was at 59 Monday (10/31)

- Alert - 3rd May @ 1370 - POM 14 Re run to POM 12 – Alert 6/23 to 1273- POM 12 Trigger = 97 points gain
- During POM 14 regime - Recycle partial capital to Trade from Bullish CZ to CZ - while the bigger Trend kicks in
- POM 14 Re Run @ 1335 on 3/01 to 1250 on 3/16 = 85 points gain (from 1250 dt. 3/16 to 1370 dt 3rd No Signal)
- 1st Jan @ 1257 to 2/17 @ 1345 = (-88 loss) on stretch extension

• POM 13 - Risk Management Hedges - (Total decline saved) = 71+140 = + 211 = +19%
(Proportion of Rebalancing Beta & Net Exposures to be based on individual Portfolio Objectives)

- Alert – 09/ 01 - POM 13 (@ 1220 to Trigger on 10/4 Price Projection of 1080 (POM 12) avoided decline of 140 points –
- Earlier- Alert – Triggered on 7/08 - POM 13 (@ 1346 & avoided decline till CZ @ 1300- re-entry = 46 points & then (STOPPED OUT @ 1285) = (-20 points) & then avoided further decline to 1240 POM 12 Re Target = (45 points) = 46-20+45= 71 points

• POM 12, POM 11 - Net Long – - (Total points gains = 75-20+79+123 = + 257 = +25%)

- NET LONG 4 - Alert – Triggered on 10/04 - POM 12 (@ 1080) NET LONG- Closed on 10/11 @ SPX 1192 (up 10.3% or gains of 112 (2/3 position) & Balance 1/3 @ POM 14 @ 1226 on 11/01 = Avg 123 gains points
- NET LONG 3- Alert - on 8/09 - POM 11 @ 1117 – for NET LONG for target to 1196 (where it Nullified POM 11 liquidation Signal) for = +79 points gains - Alert announced 8/11 for reversal
- NET LONG 2 - Alert - on 8/03 POM 12 re run @ 1240 – to POM 13 – Triggered @ 1220 Alert - 09/01= (-20 points loss)
- NET LONG 1 - Alert – on 6/23 POM 12 @ 1273 – for NET LONG for target to 1348 POM 13 Trigger on 7/08 Alert = 75 points gain

• Objective & POM / CZ Guidelines

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.

- *SPX acts as Risk Benchmark for all the other Markets (Key US Indices & Key Global) , these Markets gets priced off SPX- Risk (in different Proportion) . Therefore within A # 1 – MS Report, our critical component being SPX and its internal ingredients for timely POM & Bullish CZ calls . Our A # 2 – MS Report focuses on Broader Indices and Global Indices.*
- *All the Broader Indices tends to follows the Price path of POM 11, 12, 13 of SPX (except @ POM14, 15), various Instruments will Top out at different time to Trigger CZ – Validation for NET SHORT.*
- *SPX is still following the Bear Market / Trading Market POM Regimes unlike GOLD market*
- *All CZ / PEC D / POM's – Marked on charts (in color) below has been Announced on Real time in our Previous Reports prior to Price shifts.*
- *Stops always on other side of CZ @ value based on Portfolio's Objectives and Risk tolerance*
- *POM Conclusions to be cross verified by other methods prior to final decision*
- *For Maximum utilization of POM / PEC –D Process for Risk Management. Refer to guidelines within the Appendix below*

➤ Key Points for Full utilization of SP- Reports

- Maximum Utilization of various POM's , CZ's & ABC's – for Risk Management & full enhancements on CZ pricing & CZ-PQV Timeliness

- At Top down Level – Triggers around POM's -Mid term & CZ's - Short term – (CZ's happens in between the POM's) . Critical component for Clean execution is to maintain ongoing updated data base spreadsheet of CZ's Pre announced in SP releases prior to price shifts. These inputs when Computerized Daily Monitoring, Triggers, Timely PQV validations, Price projections Alerts on real time should warn in timely manner to take action. .

- Rebalancing Pre Planned procedure at Triggers – “ Rebalancing % of Overall Position Sizing” , Beta & , Net Exposures sizing depending on each Portfolio's Objective & Risks Tolerances for either Recycling of Capital or Fresh capital.

- Key points for Risk Management

- Hard Stops around CZ's

- STOP SELL- “ early warning Alerts” in fast moving markets, Over night Day / Night (IST) time delay Risks.

- Cross verification by Other Methods

Computerized Daily Monitoring, CZ Triggers, Timely PQV validations

- 2. CZ – Tracking

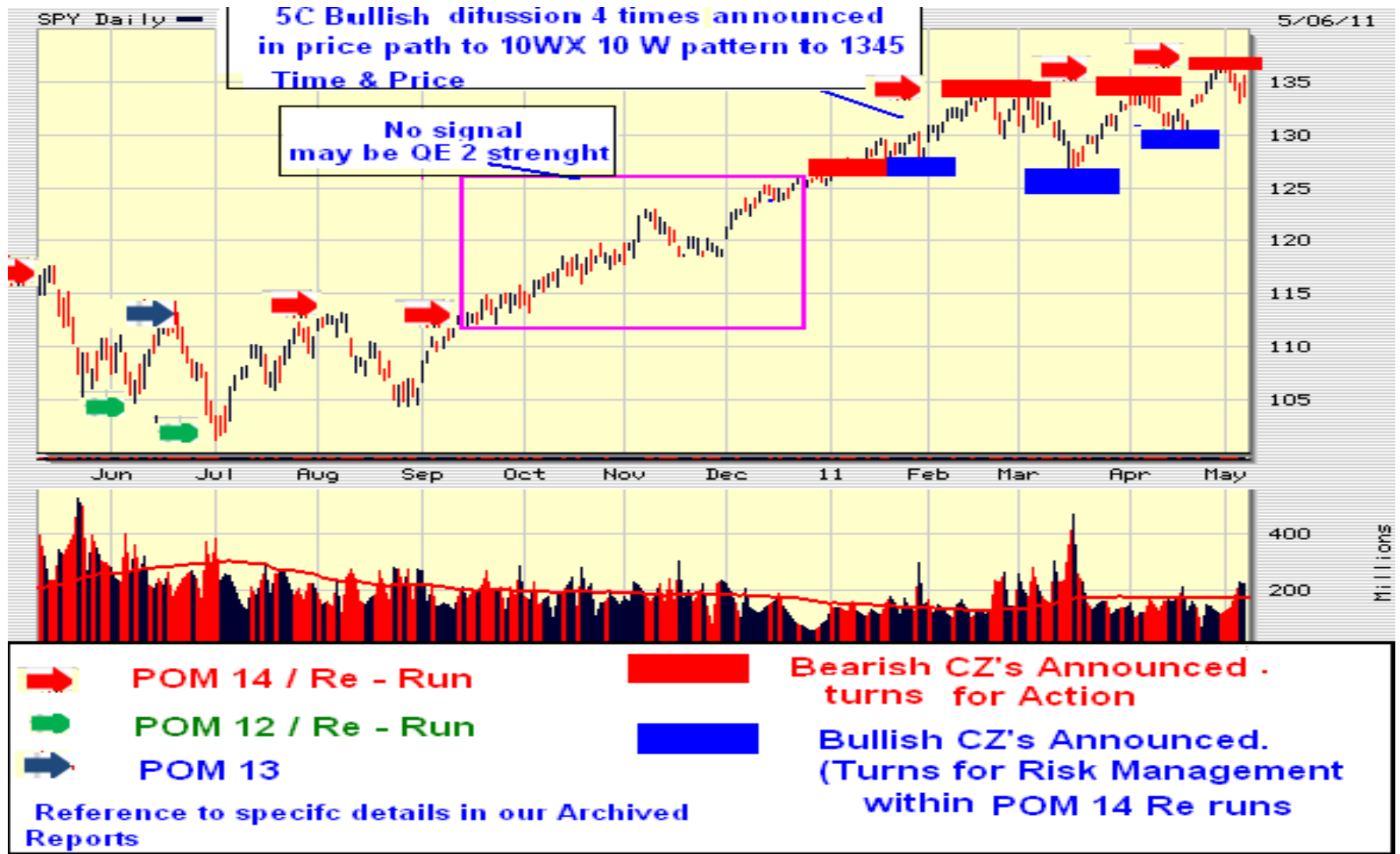
- Programing - “Time/ Price Displacement, Supply / demand Activity Bar Analysis” –

- At “Institutional Grade - Price , Volume with Time Integration

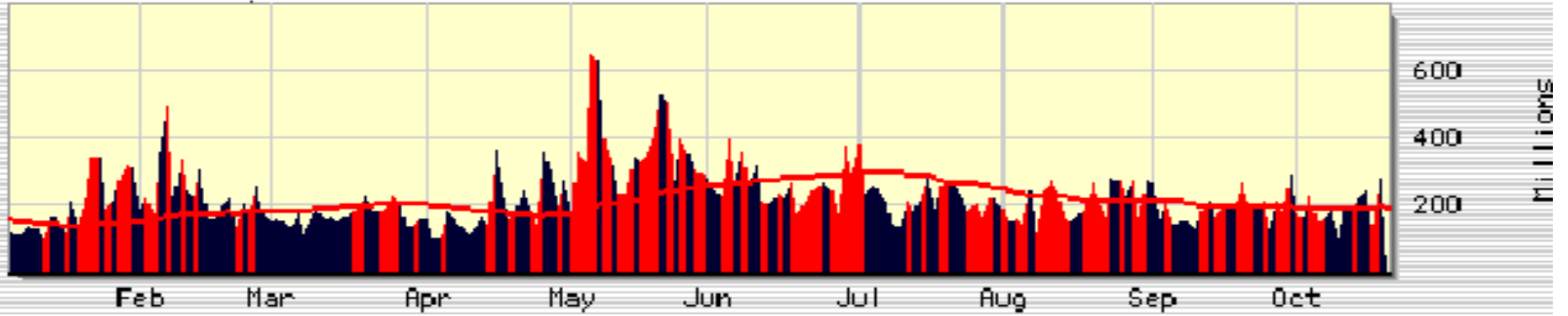
- Supply / Demand Activity bar Analysis – Real time.

- Candlestick – Price displacement Algo Programing experience at CZ Validation for Triggers

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



- 2010 - POM - SPX Signal



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)

• EXTREAME Sentiment Analysis (3rd Party Data)

Courtesy : SENTIMENT TRADERS

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.

- **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