



SG Capital Research

Global Market Insights

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

MAEG- MS – SPX – POM-SG 2011 # NOV_07

For Immediate Release – *Monday AM (EST)*

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Market Strategy Global (A # 1) – (SP) - SPX – Closed @ 1253 (Past Weekly change - 2.4%)

Analysis of Broad Market that includes – Jan 1st 2011 – SPX 1253 (YTD change – Flat)

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

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 (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
- Sentiment Analysis with Extreme character – TICK , TRIN, ARMS, PUT / CALL, VIX , Money Flow,
- Secondary Market Analysis for SPX clues – NASD, RUSS, ((if required)
- Sector Analysis for SPX clues on Money Flows – BKX, SMH (if required)
- Appendix - History of past 52 Week - SPX –POM Signals & Key Criteria

SHORT / MID TERM

- **SPX – Hrly Poly Trend & Wave Analysis**
- **SPX - Wave Projection Analysis**
- **SPX - DMA & Trend Analysis**
- **SPX – PEC-D**
- **VIX – PEC - D**
- **SPX – TICK / VIX Ratio**
- **NASD – Poly Trend Analysis**
- **SOX - Poly Trend Analysis**
- **A/D Oscillator NH / NL**
- **SPX –Calendar Cycle**
- **SPX – Bradley Cycle**
- **Sentiments- Rydex Extremes**
- **Sentiments- Sector Extremes**

LONG TERM

- **SPX – WEEKLY – EMA Cross & PPO Analysis**
- **SPX – MONTHLY - MACD Analysis**

- **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.

- *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 Risk tolerance*
- *POM Conclusions to be cross verified by other methods prior to final decision*

• SPX – POM Signals & Price Projections - UPDATE

• 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%)

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= +17%

(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 = +21%

- **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**

• STRATEGY – Insights

- YTD – SPX is – Flat @ 1252) from 1257 levels since 1st Jan . The above page Breaks down YTD Opportunities on “POM Investment Conclusions” on Real time . Summary as follows.
- +257 points gains on NET LONG (+21%),
- +211 points save – Avoid Declines on Risk Management for hedging or recycling as Portfolio Objective (+17%).
- +94 points gains on NET SHORT (+7.4%)
- *Like any other Model, it is not perfect but Risk Management is the First objective (Alpha @ 1/3rd Market Risk)*

- **LATEST SIGNAL** -

- *We reached our first price objective of POM 14 – CZ 1220 – 1250 from 1080 – POM 12 completing the Natural price Oscillation*

- *Via Alert -11/01 Triggered POM 14 @ 1226 with warning SPX to rally up to 1255 from Trigger point. (For FULLY HEDGE POSITION via scaled in within CZ 1226 -1255.*

- *This is the area to consider Rebalance Hedges & Position sizing on Net & Beta Exposures depending on the Portfolio Objectives & its Beta tolerances .*

- *Via Alert note A# 3– MS Report - QQQ Trigger was at 59 Monday (10/31) Triggered First - showed all the weakness and Price projections and other follow one by one as per CZ's depicted in A # 2 – MS – Broader IDX reference .*

Note –

- *It is certainly time to manage the Positions Taken POM 12 - Oscillation start @ 1080 , ended at POM 14 @ 1226 into the CZ 1226 -1252 in which ever form the Risks objectives are.*

- *POM 14 is not a Pick a point areas , it is more managed in range for scaling in position*

• SPX – Insights

THE WORLD MARKETS are again reacting to News events AROUND GREECE AND ITALY this morning, Traders are having a very difficult time to understand or to forecast the markets, Friday we had 4% SPX intraday Trading range which is ½ of what Investors wants the Returns annually 8% . Overnight, SPX futures down -19 points and rally back to +6 . This simply illustrates a volatility surrounding the situations that in the end will likely end in tears. The question is only “when” and not “if” in our opinion. Therefor we’ll focus on internal Mathematics of markets and let the smart folks on Wall Street figure out the rest of the story “as usual” after the fact.

Projective indicators are pointing to tops in risk markets this week. Some may hold up all week long as it continues to form a Rolling Top , but the leading indices, NDX and SOX, are giving early clues to the topping pattern as the week progresses

We are at the Top end of CZ of POM 14. If it shows further strengthen . The Market could very well make another attempt towards the false breakout area (which it experienced earlier) . However, Recall that our Time Ratio High Projections have been pointing toward one more attempt to the secondary high in the November 10th-11th timeframe . The countertrend rally is certainly very long of tooth now, so exactly when the market starts firmly down the slippery slope is when the downside breaks 1200 -1190 CZ (previous POM 13 area) . This Trading range 1220-1260 might continue till that break .

Otherwise , nothing much has changed. It is probably a good idea to stay with the signals as they come rather than trying too hard to finesse them that might even get be self-defeating in such volatile markets which tends to traps in untenable positions.

The Action behind the False break outside / above the CZ of POM 14 area and back into the range with (-ve VTO) appears that the possibility of MOMENTUM PATTERN of False break is negated with Price path of - Wave 1-2-3-4-5 (Bearish Wedge) & pull back to 3 on to the nearest hrly CZ target around (3x3 – 9 EMA area) then back up again repeated X 3 Times on negative divergence.

However it does not rule out the possibility of Double top until 11th November – T termination

Best Seasonality days in November – December

31st Oct – 4th Nov – This produced the Gap up above CZ BUT gains did not last

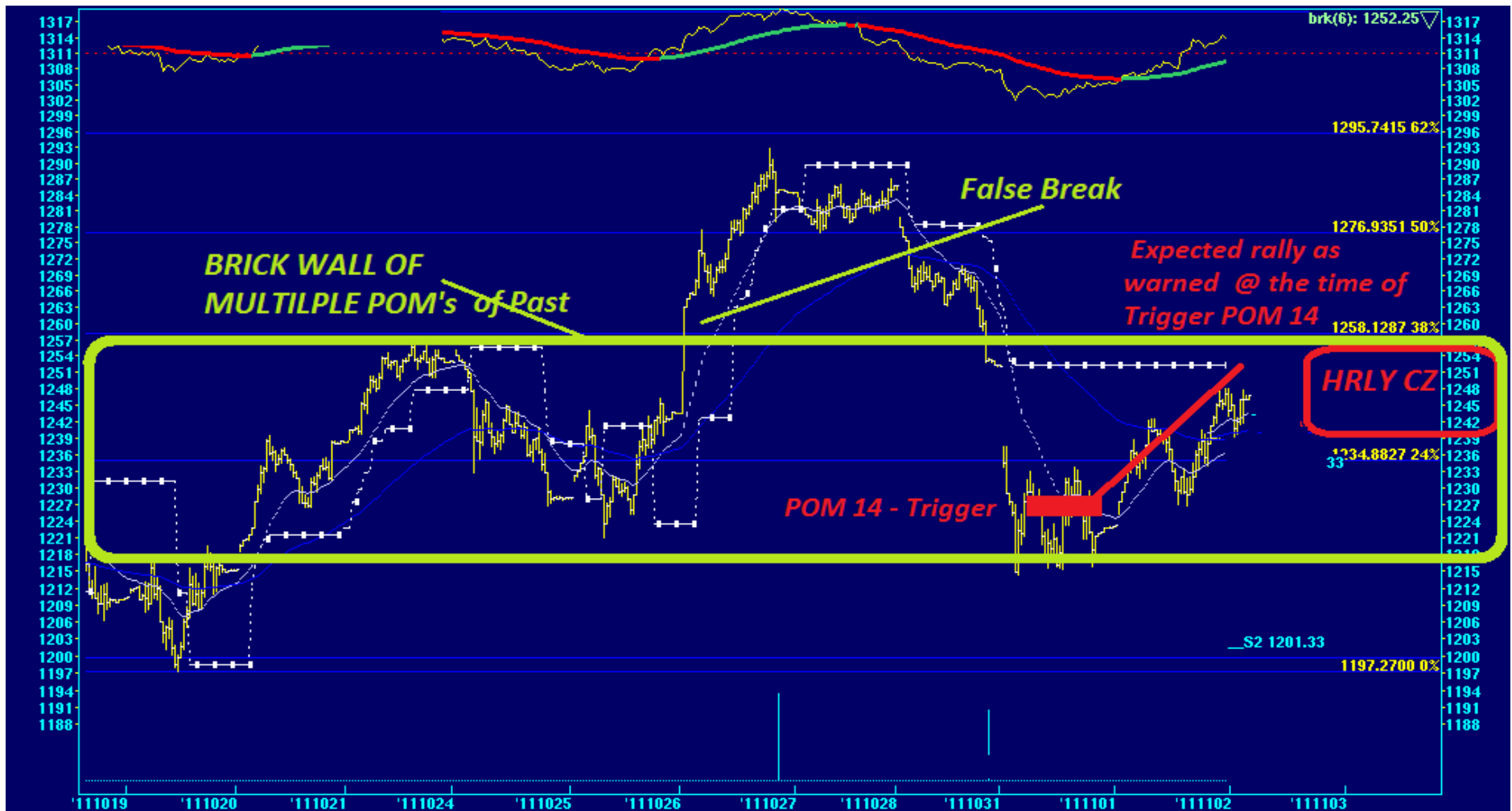
21st Nov – 23rd Nov – Next in line

To come – 29th Nov to 6th Dec , 21st Dec to 23rd , 28th Dec – 30TH Dec (We will monitor these as they come)

Primary Market Analysis

SPX – Hrly - Poly trend Analysis

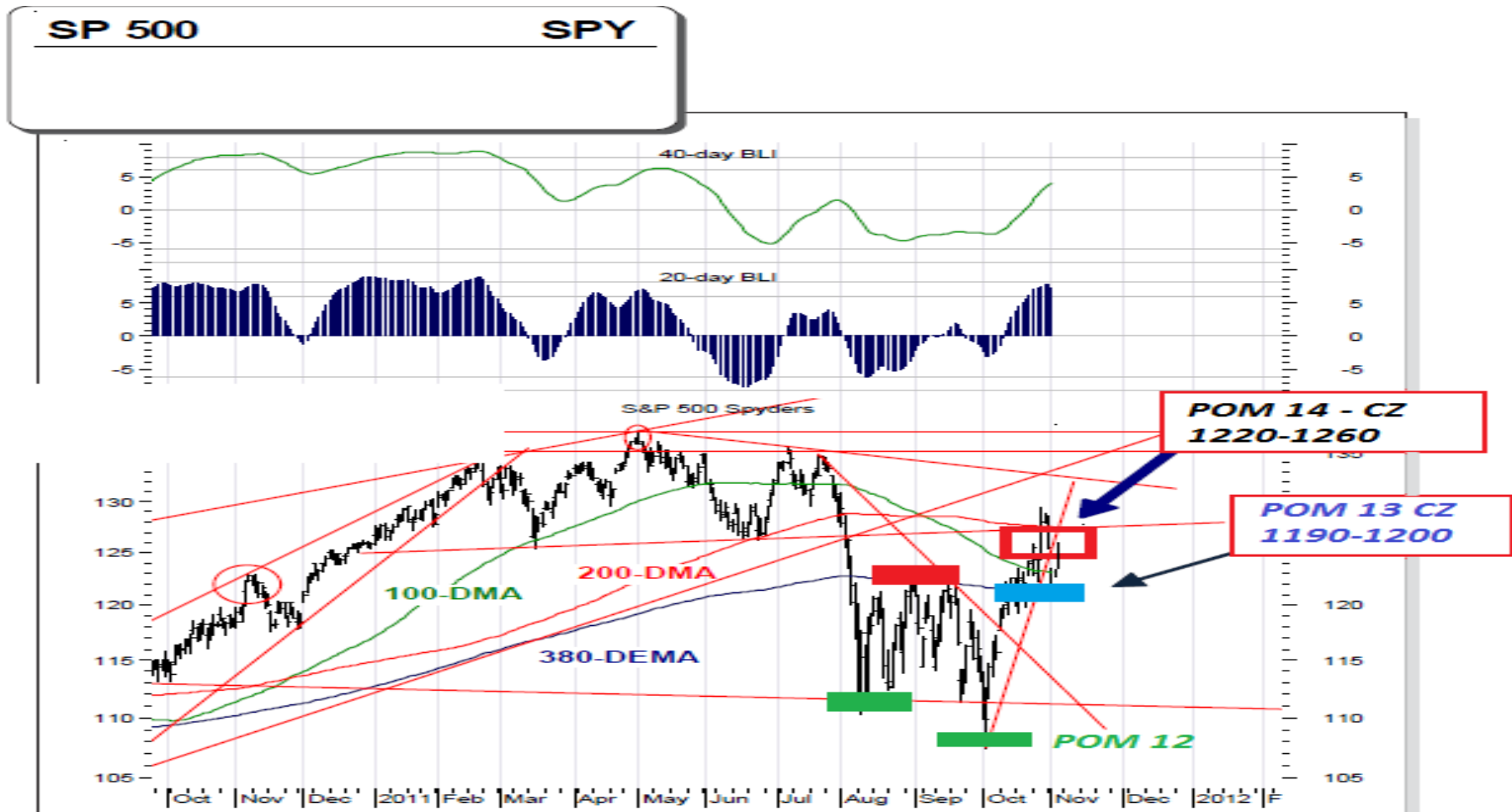
- The Warning rally indicated towards 1252 was reached today after the 1226 Trigger. There is the possibility of last Gasp to Double top (but doesn't have to)
- POM 14 – CZ 1226 -1252 is good area to accumulate the Hedges – POM 14 is for Fully Hedge by SP - RA/RI
- Chart below indicates how Earlier the Market jumped from 1254 to under 1240 negating the Momentum Price Path move via Wave 1-2-3-4-5- X 2 to 3X3/9EMA – CZ



SPX - DMA & Trend Analysis

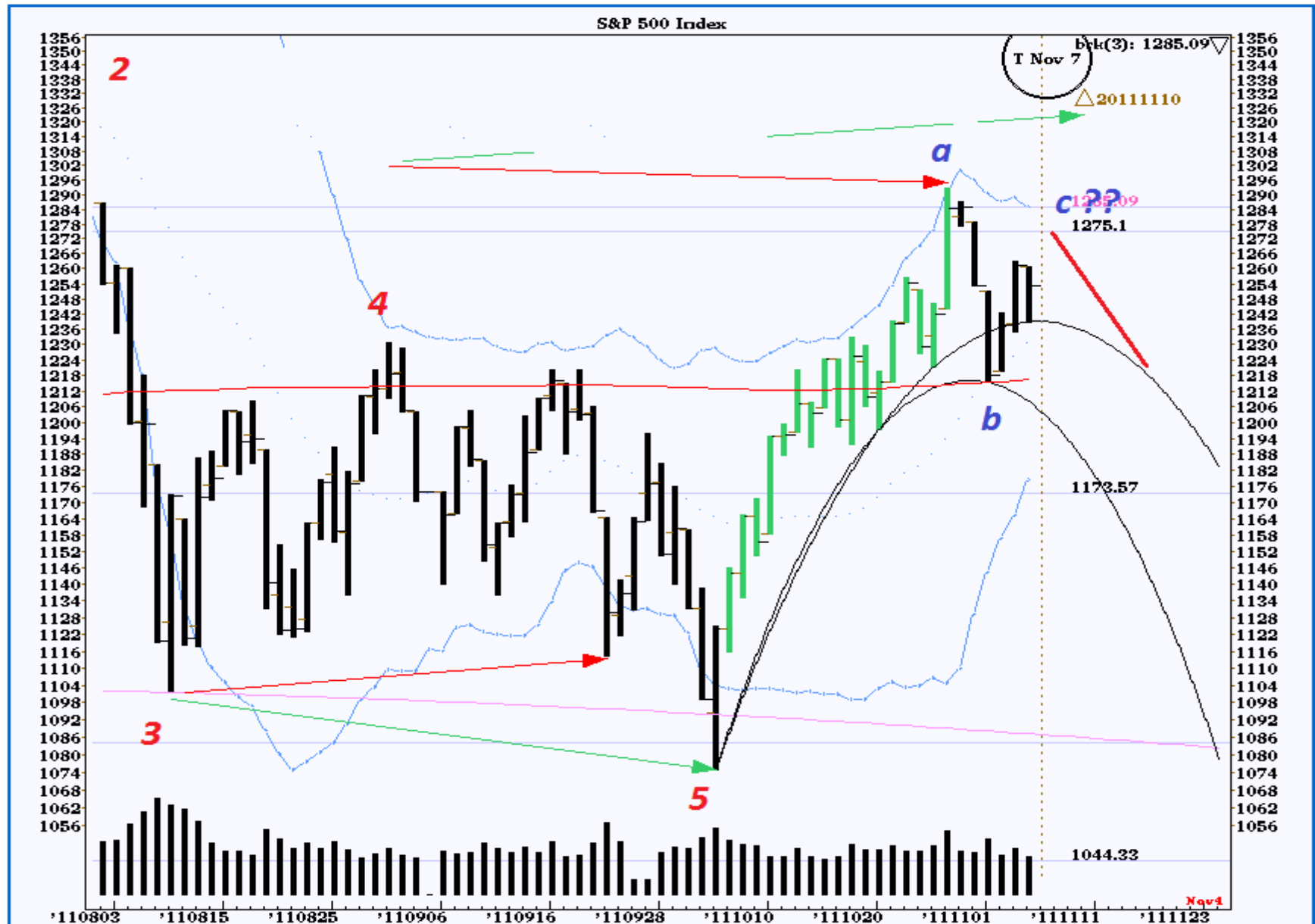
In our Triggered POM 14 @ 1226 with rally to 1252 (CZ 1220-1255) & By PEC-D Method we had projections (618 / 718) to 1250, & then jumped on false break outside with poor internals and came back in

On the Pull back down SPX needs to break below previous POM 13 area (1190-1200) as first down target. (see mark in Blue)



SPX – Wave Projection Analysis

The PRICE projection is to C – This might be slightly below the Double Top. But at the Top of Poly Trend Right side of the slope



SPX – PEC D- Analysis

Our Earlier messages suggested – By PEC –D Method, we had projections (618 / 718) to 1250, which was met and then just Jumped price levels outside of it but with poor internals & came back in

*Several other Indices also approached PEC – D Pattern especially QQQ Triggered at 59 at the Market Top (Alerted) .
QQQ has been lead dog for the market is diverging .*



SPX – TICK – VIX Ratio & Complex H & S on hrly

VIX/TICK ratio in HRLY Chart reaches above .5 or below, a high in the market is anticipated as indicated in red circled. This ratio entered the bearish level late last week just the time when SPX – Triggered POM 14. Over the last couple of days the VIX/TICK ratio has moved more into the bearish level with a reading today at .09.

Although it is quite possible market may double top, (this is topping process) with very complex Head and Shoulder top (ON Hrly chart). There is a large open gap near 117 on the SPY.



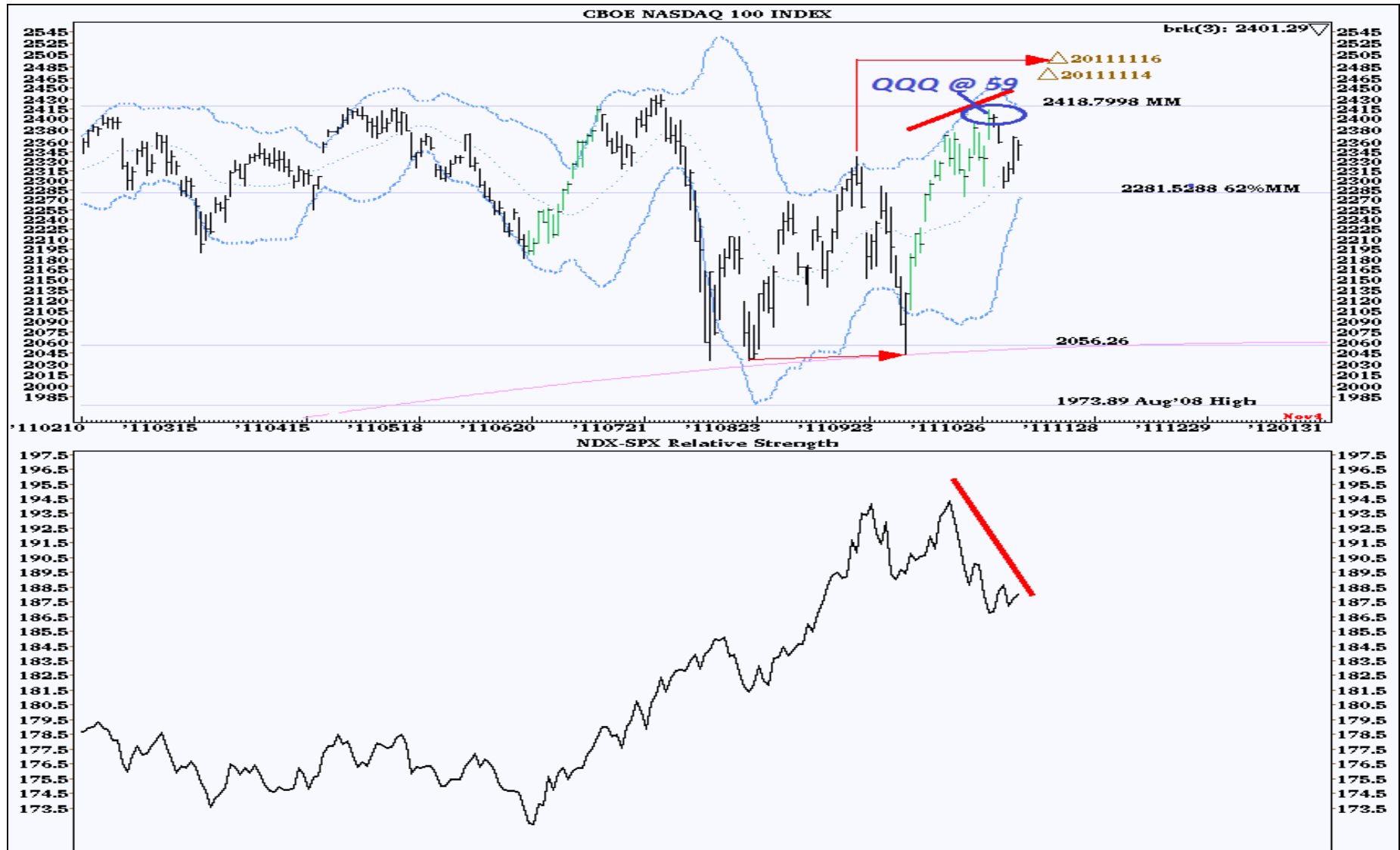
VIX – PEC D – Analysis

- *PEC –D Pattern on VIX complete was on the nose . The day of Market top . VIX was first to rally & give signal along with QQQ @ 59 .*



NASD – Poly trend Analysis

NASDAQ – Led the SPX market as expected for the top with diverging on Oscillator unable to breakout the prices while the Dow and SPX followed later . Strongly bearish divergence between NASD and the SPX is a loud warning.



SOX – Hrly - Poly

Within NASD , Sub component - the SOX should lead as well (if the SPX Move is real) . There is Bearish divergence, It warns that this rally is almost at the end to turn the rest of the market. SOX is running out of "juice" to push up the hill — the falling tops pattern on the volume oscillator isn't bullish for an acceleration to the upside.

The polytrendline suggests we might have another Zig / Zag move till prices on Right side of Poly Trend.



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

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

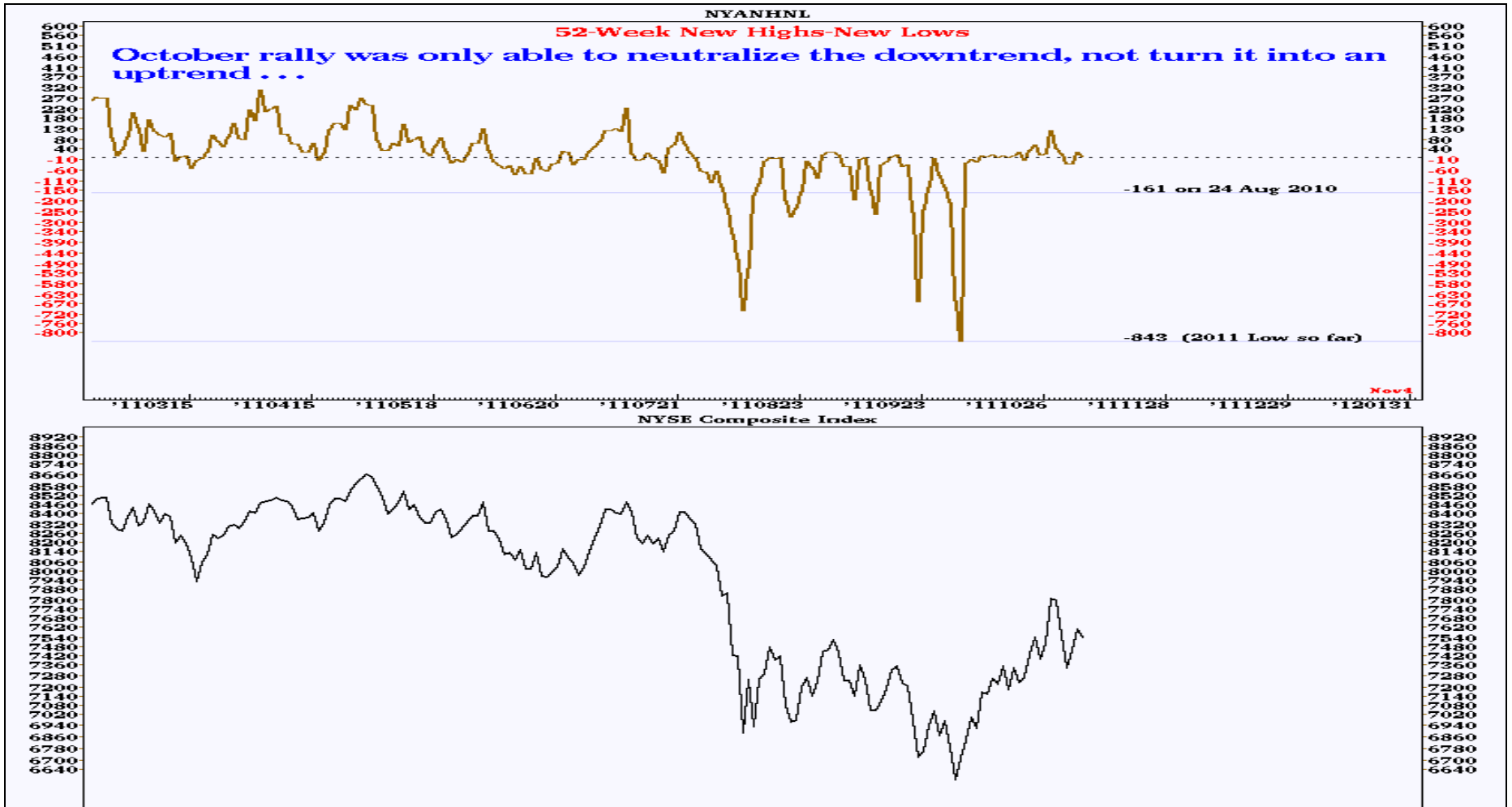
Our A/D Analysis is based on 3rd derivative complex A/D Oscillator instead of conventional A/D Line , secondly it needs to be conformed by the % of stocks above critical SMA's divergences. Based on current market condition our observation points out the following condition

- 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

The October market rally was very poor quality . The New High - New Low Differential and its inability to significantly move the above the zero line.

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.



- **SPX – LONGER TERM – CAUTION**

No Change from our Previous message

➤ ***Caution - we think the real decline would start initiated by 6 yr Cycle into 2014 based on the Charts and Indicators shown below.***

- ***SPX – Weekly EMA Cross with PPO***
- ***SPX - Monthly MACD Cross***

SPX – WEEKLY – EMA – Cross v/s PPO – Long Term - Caution

We will keep eye on this chart below (Circled in red) – Long term 1990 to 2011 - One of the Indicator to check if Large decline in SPX has began . PPO is more critical during the EMA cross over , PPO has dropped below 0 level (2nd window)



SPX - MONTHLY – MACD CROSS – LONG TERM - Caution

This is Monthly chart – Some bearish development. RSI is breaking down below 50 for the First time . MACD is crossing over Bearishly & MACD (in yellow circle is begin to roll over below 0) . This concludes that after the final Rally, the market should be viewed very cautiously. .



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

• **Cumulative Extreme Sentiment Indicators - Mid Term**

- *Cumulative Indicator derived from the following Survey Sentiment Indicators collectively at extremes We think this Indicator is at or below 0.2 - tends to work well for bottoms when overlapped with Math Indicators of market Internals. Indicators used for computation of extremes are as follows*
- *Sentiment Surveys - AAI, Investors Intelligence, [NAAIM Manager Sentiment](#), Market Vane, Options Sentiment, Mutual Funds Sentiments, Insiders Selling*

• **% Sector Extremes - (EXTREME - See chart below)**

• **Rydex Bull / Bear – Leveraged Ratio - (EXTREME - See chart below)**

• **Rydex / Money Ratio Indicator - NON CONCLUSIVE**

• **Smart / Dump Money Ratio Indicator - NON CONCLUSIVE**

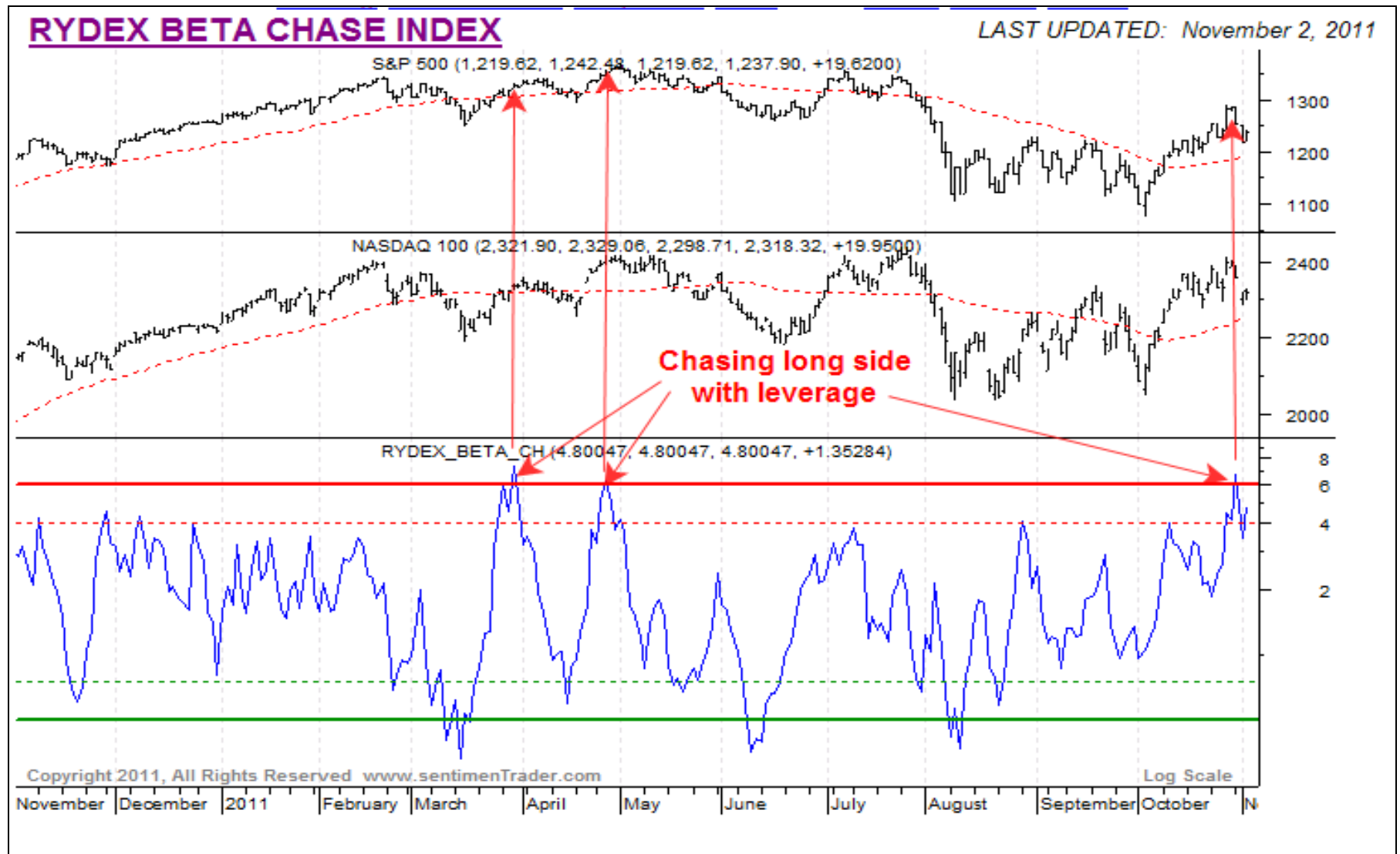
• **Down Pressure on SPX Indicator - NON CONCLUSIVE**

• **ISE Sentiment Index – NON CONCLUSIVE**

• **Investors Intelligence Bull / Ratio - NON CONCLUSIVE**

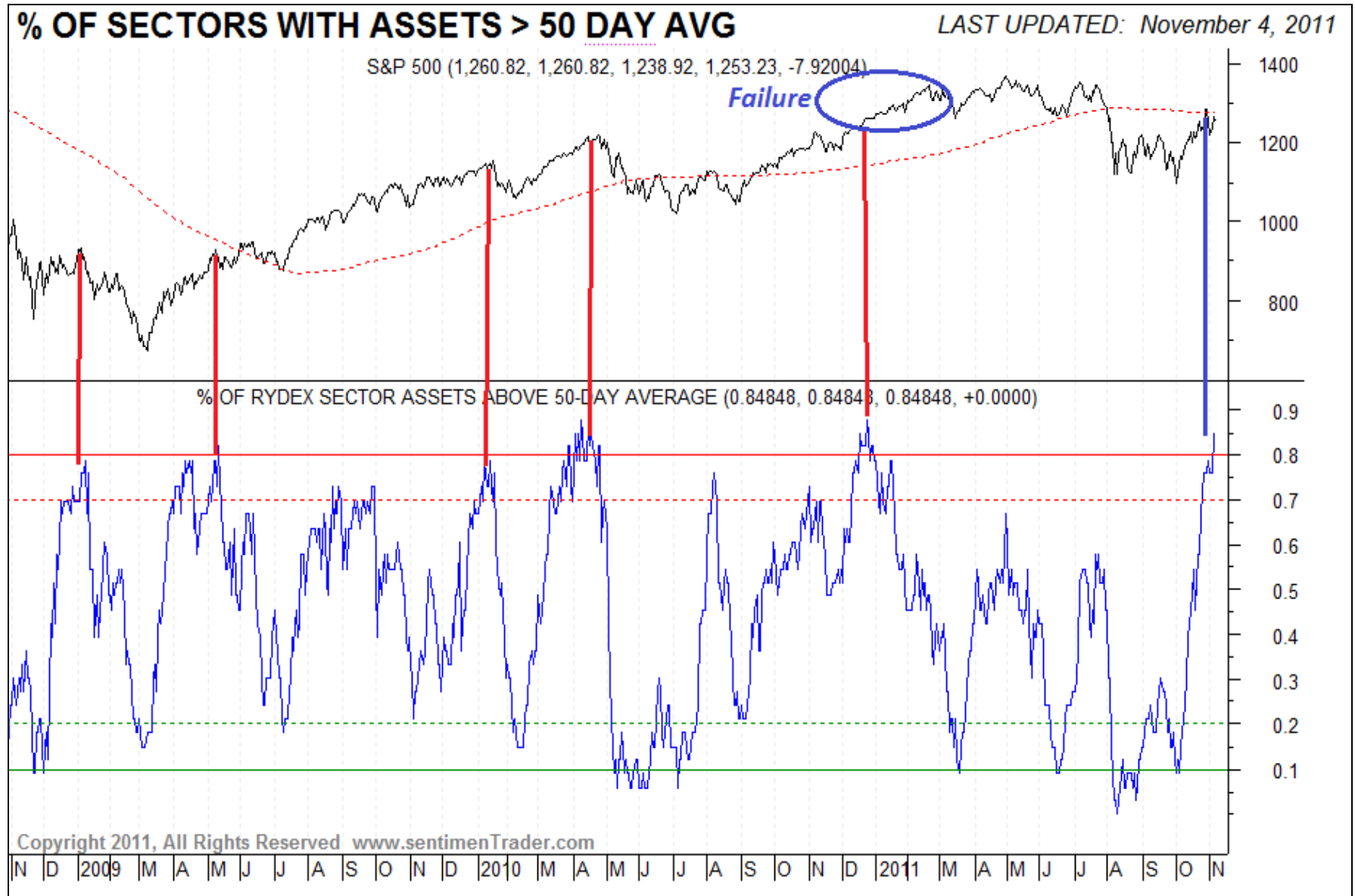
Rydex Bull / Bear – Leveraged Ratio

Traders Bullishness comes out of the leverage funds to capitalize on the expected move and in this case there are leveraged on the long side to the tune of a beta of 4.8% . Previous times they have been leveraged to this excess the market was near a pull back.



% Sector Extremes

The Sector Extremes also reached the extremes levels This tends to coincide with Tops Except indicated in blue circle



• EXTREAME Sentiment Analysis (3rd Party Data)

Courtesy : SENTIMENT TRADERS

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

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.

- [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.**

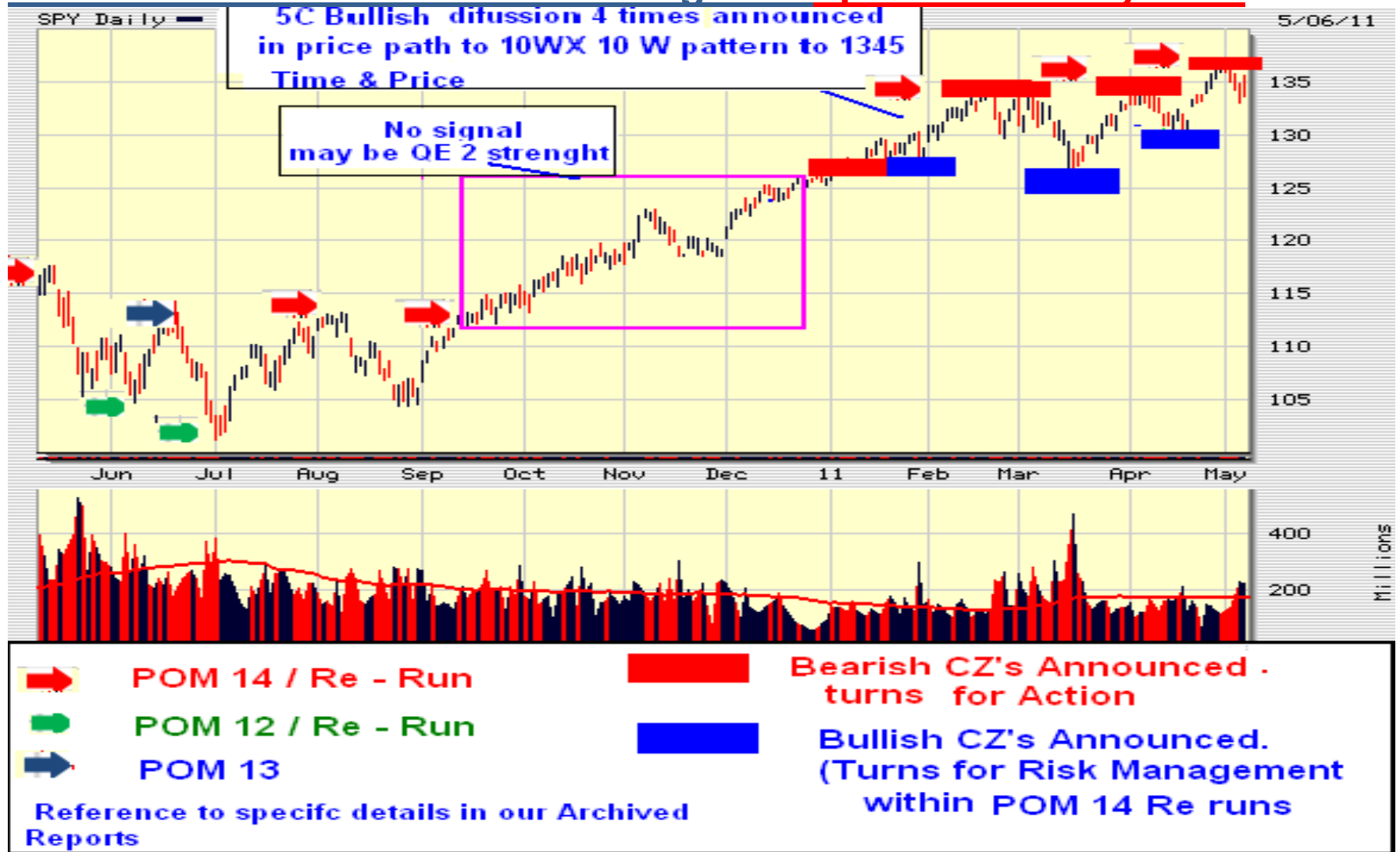
From 2003 - 2006														
Bull Run														
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
	Average	-0.25%	0.36%	-0.40%	1.41%	1.55%	0.73%	0.57%	0.76%	0.72%	2.07%	2.43%	2.37%	13.00%
From 2007 - 2010														
Bear / Side ways Run														
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	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

- 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)**

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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