



SG Capital Research

Global Market Insights

**Research Note – Market Strategy – Interim Update (A# 3) – STRATEGY & PROP Analysis ( SP)**

**MAEG- MARKET STRATEGY INTERIM UPDATE # SG 2011 # OCT \_ 11**

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

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## **Market Strategy Global (A # 3) - (SP)-**

We have picked up charts (below) that has some distinct characteristics from observation & Special Situation this week based on our assessment:

SPX – Closed @ 1155 ( **Weekly change + 3.1%** )

SPX – Closed @ 1155 / 1257 ( **YTD change – 8.0%** )

### • **Special Coverage**

- **SPX Waves**
- **VIX – Waves**
- **SPX – WMA & Trend Analysis**
- **SPX - DMA & Trend Analysis .**
- **SPX – P & F**
- **SPX - TRIN v/s CPCE Ratio**
- **SPX – MID TERM – Downside CZ & Multiple Fib stream convergences**
- **SPX – WEEKLY – WMA & Trend Analysis**
- **SPX – PEC D**
- **SPX – Peak Pattern Identity.**

- **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 ( in color) on charts below has been Announced Real time in our Previous Reports prior to Price shifts.*
- *Stops always on other side of CZ @ value based on Portfolio's Risk tolerance*

- **SPX – POM Signals & Price Projections - UPDATE**

- **Trading & Investment Conclusions – Start point 1257 (1<sup>ST</sup> Jan)**

- **Net Short – POM 15 - **None** - ( Total points gains = 0 )**

- POM 15 Calls – NONE Triggered this year

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

- **Alert** - 3<sup>rd</sup> 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 3<sup>rd</sup> No Signal)
- 1<sup>st</sup> Jan @ 1257 to 2/17 @ 1345 = (-88 loss) on stretch extension

- **Risk Management Hedges for Reversal - POM 13 - ( Total decline saved = + 226 )**  
( Proportion of Rebalancing Beta & Net Exposures to be based on individual Portfolio Objectives)

- **Alert** – Triggered on 10/4 Price Projection of 1080 ( POM 12)from 09/ 01 - POM 13 ( @ 1220) & avoided decline of 140 points
- Earlier **Alert** – Triggered on 7/08 - POM 13 ( @ 1346 ( from POM 12 @ 1273 on 6/ 23 **Alert**) & avoided decline till CZ @ 1300 ( STOPPED OUT @ 1285) = ( -20 points) went to 1240 POM 12 Re Target = 106-20 = 86 points

- **Net Long – POM 12, POM 11- ( Total points gains = 75-20+79 = + 134 + 75 Open positn )**

- **NEW - Alert** – Triggered on 10/04 - POM 12 ( @ 1080) ( up 8% or 75 points OPEN POSITION)
- **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
- Earlier **Alert** - on 8/03 POM 12 re run @ 1240 – to POM 13 – Triggered @ 1220 **Alert** - 09/01= (-20 points loss)
- Earlier **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 down - 8% ( 100 points) from 1257 levels on 1<sup>st</sup> Jan . The above page “ Investment Conclusions” summarizes the YTD opportunities POM’s offered by SPX on Real time .***
- ***As echoed past several weeks finally we reached our price objective and Triggered POM 12 @ 1080 SPX ( 4<sup>th</sup> Oct – Email Alert ) . NET LONG . This is the area to consider Rebalance Hedges & Position sizing on Net & Beta Exposures depending on the Portfolio Objectives & its Beta tolerances .***
- ***As expected we undercut the bottom heavy area 1100 -1075 at Previous liquidation Area of POM 11 to prove the point on bottom formation with Positive divergence and Rejections. Market has lost lot of energy going down .***
- ***The First week of reversal from POM 12 tends to have overriding effects on chart patterns . We monitor these closely as too how much energy was left in the market for upside . We are currently experiencing it .***
- ***Since POM 12 is Triggered (rally move of 10% , this is one last surge really to POM 13/ POM 14 before the big move to the downside. In fact, if you look back in market history, you'll find that bear markets have some of the biggest bull rallies. Volatility is high and Quick fingers & Pre plan is needed in BEAR MARKETS prior to price shifts . ( we have some critical charts to this effect)***
- ***After nasty August - September, October has good tendencies of decline further and then placing a lows for good rally ( Provided confirmed POM 12, 11). We witnessed this last week.***

## • SPX – Insights

- Last week SPX hit , Time Ratio 1<sup>st</sup> – 3<sup>rd</sup> Oct. All the internals of POM 12 @ SPX 1080 Lined up very well around this area. With Astro Cycle New Moon on 4<sup>th</sup> Oct it Produced the highest Reward for the Risk at 1080 .
- **It is important to note - POM's are better actionable areas for us to produce highest Reward for the Risk where the “Back is against the Wall” ( so to speak) then entering in between the moves of POM's .**
- 10% move which began from SPX 1080 has tremendous energy that was recoiled in the market . For the shorter time frame we have BEARISH CZ 1155-1165 within POM process. ( This seem to have sliced in very good )
- 
- These CZ's have tendencies for Pull back. **Caution- The way the market is moving we are moving towards previous POM 13 for the test. IF IT FAILS may very well get POM 13 and finish the move. We will not jump the gun let the market indicator speak for itself on its failure to focus on POM's. Upside we are looking is towards the earlier POM 13 ( @ 1220) and old POM 12 ( @ 1240) and fail in between**
- **Our Next Full Moon Cycle is due on 12<sup>th</sup> Oct. Our weekly Close is holding above 1125. This is quite meaningful for any Pull back**
- **Previous note – but critical for current condition till its is resolved - We are still in Market volatility within the range of 1220 to 1100. It has been nothing more then rebalancing (by our Mathematical calculus) around “Lehman Crash” area of 2008. Such areas do not let prices breakout either way for while . During such time you will see DOW 200 points Gap ups and Gap downs violently . We had pointed out last year of such possible occurrence. Another reason that is contributing towards SPX reverting back to 1130 area in spite of its rally towards 1230 is due to “CZ – Zone 1130 @ POM 14 from Sept 2010” . If one recollects , we had pointed out last Sept that the break above 1130 SPX area was false above POM 14 Trigger. (Argument could be QE 2 influx skewed it but at the end of the day such false breakouts never last in our opinion) . Combination of – (2 #) POM's / CZ's (1) from Sept 2010 ( POM 14) from past and (2) Current from August 2011 ( POM11). When such combination lines up Back to Back , it forms harder Brick wall to break. ( Refer chart below**

# Primary Market Analysis –

## SPX Waves

*Last week SPX completed the Wave 5 of Aug rally (we have been expecting this to end at the top of Poly Trend Top & POM12 – CZ Areas) . . Positive divergence in SPX @ POM 12 during a fifth wave is usually worth paying attention. The Wave 5 decline is usually followed by a rally which could reach the top of wave 4 ( 1220) . That would fit into a seasonal pattern for an October bottom and a normal yearend bounce. Unfortunately, bear markets rarely end with a five-wave decline. Since that is the case any 4Q rebound could be followed by another down leg*

*Currently A point is at Trigger of POM 12. We are in the middle of an ABC, with the current consolidation/retracement likely of the pattern. The implication is for higher highs in the C-leg up.*



## VIX - Waves, CZ Analysis

*VIX - also inversely signaled the wave 5 completion on upside at the same time as SPX 5 WAVE down ( VIX fell little short)  
SPX & VIX has inverted Wave count . Currently we have broken down 50D – MA, this suggests some complacency might  
come in SPX on second leg up . This might be in time related move and not price . We will wait and see.*



# SPX - DMA & Trend Analysis

*We are approaching previous POM 13 area very quickly . The rally will be stopped below are key critical DMA's that has served well in past. . It has become rather clear that the rally into overhead resistance at the 55-dema/380-dma was part of a Block 1220 -1240.*

*Earlier Bearish Flag and consolidation from last several weeks was resolved to downside into POM 12*

## S&P 500 INDEX/ BROAD MKT INDICATORS

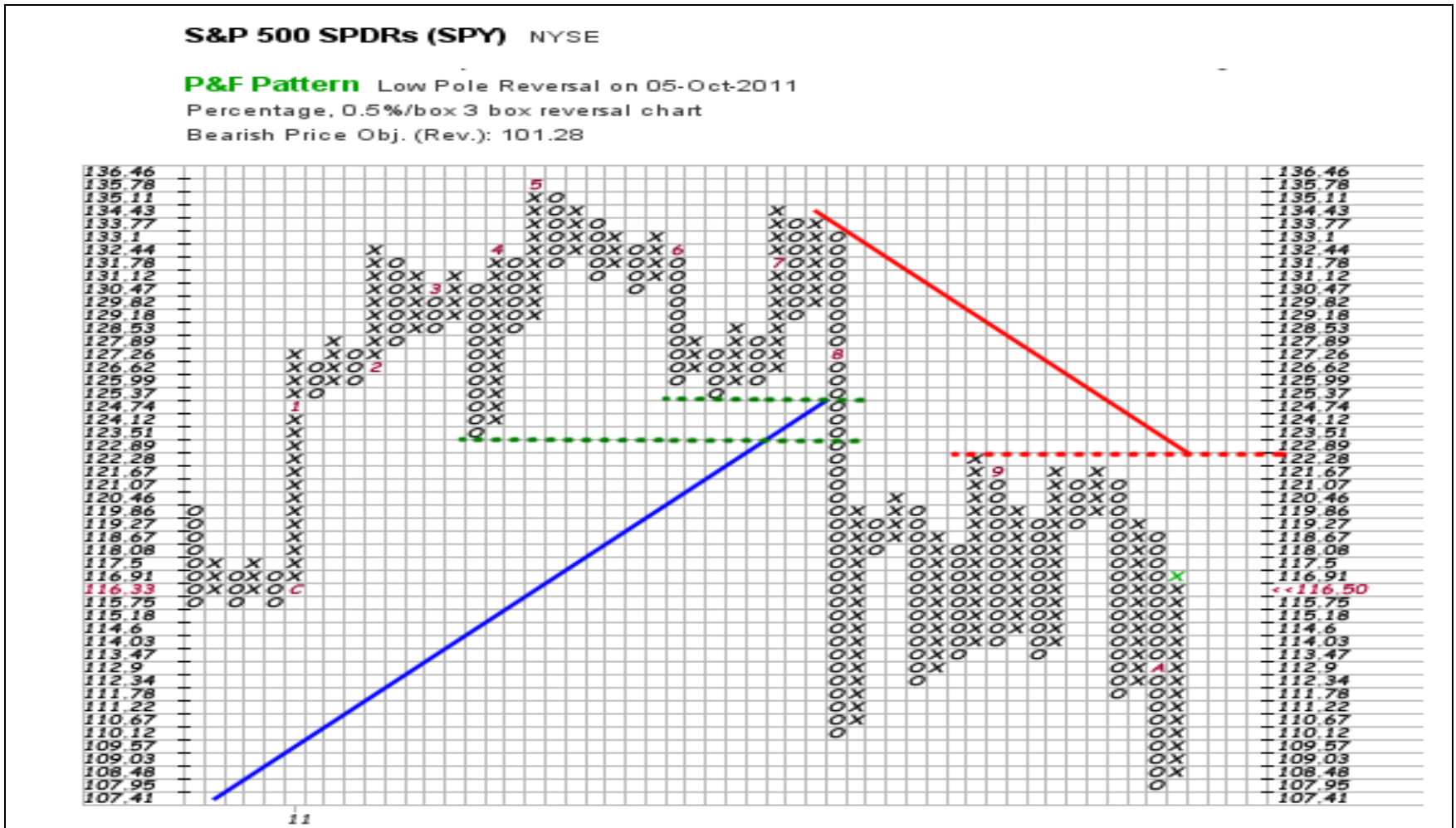




# SPX - P & F Charts

This is by far most late comer Indicator for the party . Therefore in Bear market or Sideways market it is whip saws However as a part of process we review it on weekly basis.

The chart below is in downtrend well below the Bearish Resistance Line (red). Secondly it has yet to break above its prior X-Column, which would produce a Double Top Breakout OX, OX . Third there is a clear resistance zone marked by the late August high and September high. A move above these highs is needed to actually reverse the overall downtrend 1222 which we do not think so.



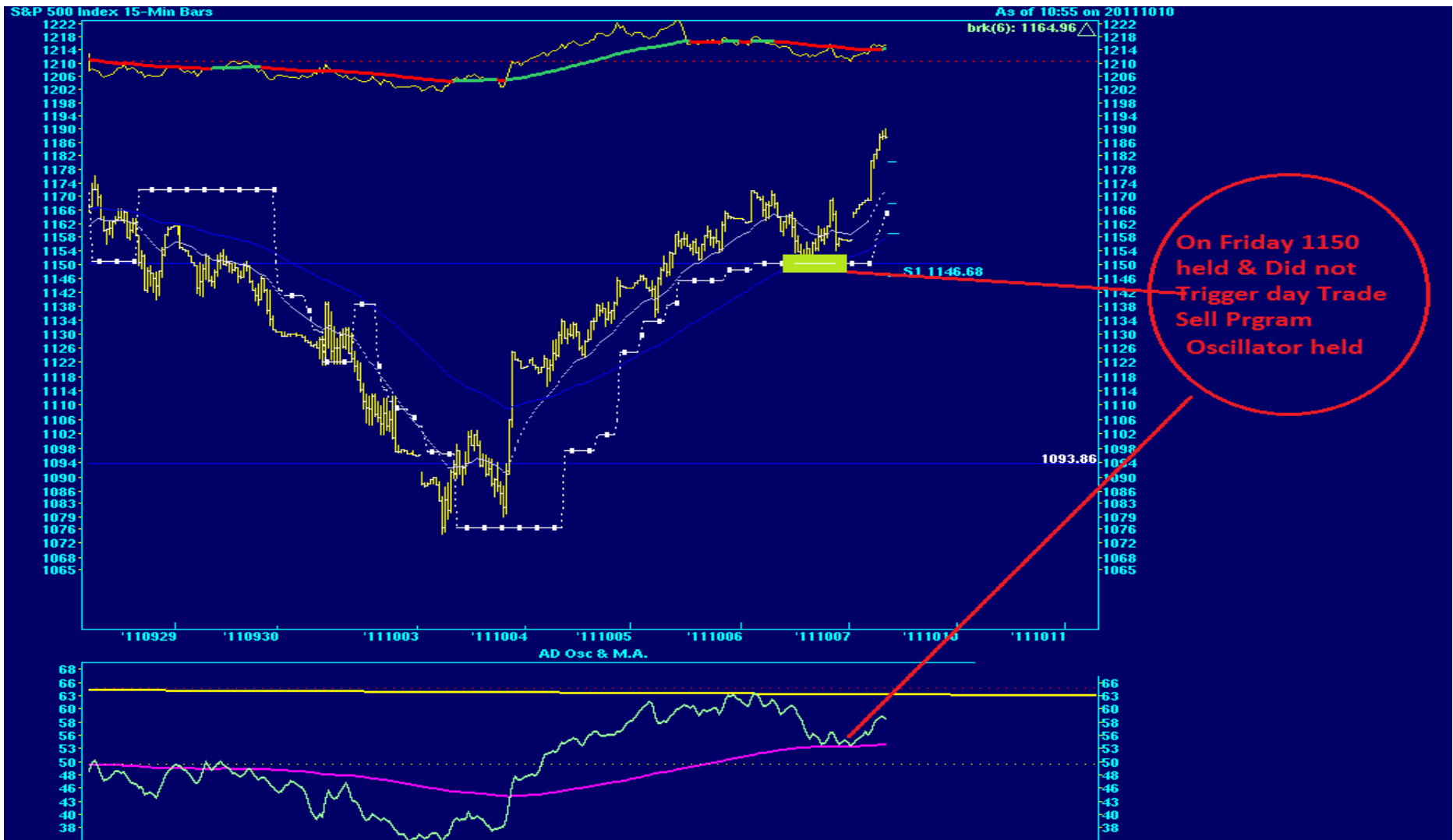
# SPX - TRIN - MC - Oscillator

*MC – Oscillator diverged positively at POM 12 . The 100D gave a Bullish Trigger at the bottom 1080. Weekly we held 1125 levels for continuation move this week . This is critical to prove our point of POM 12 energy that we see being dissipated now*



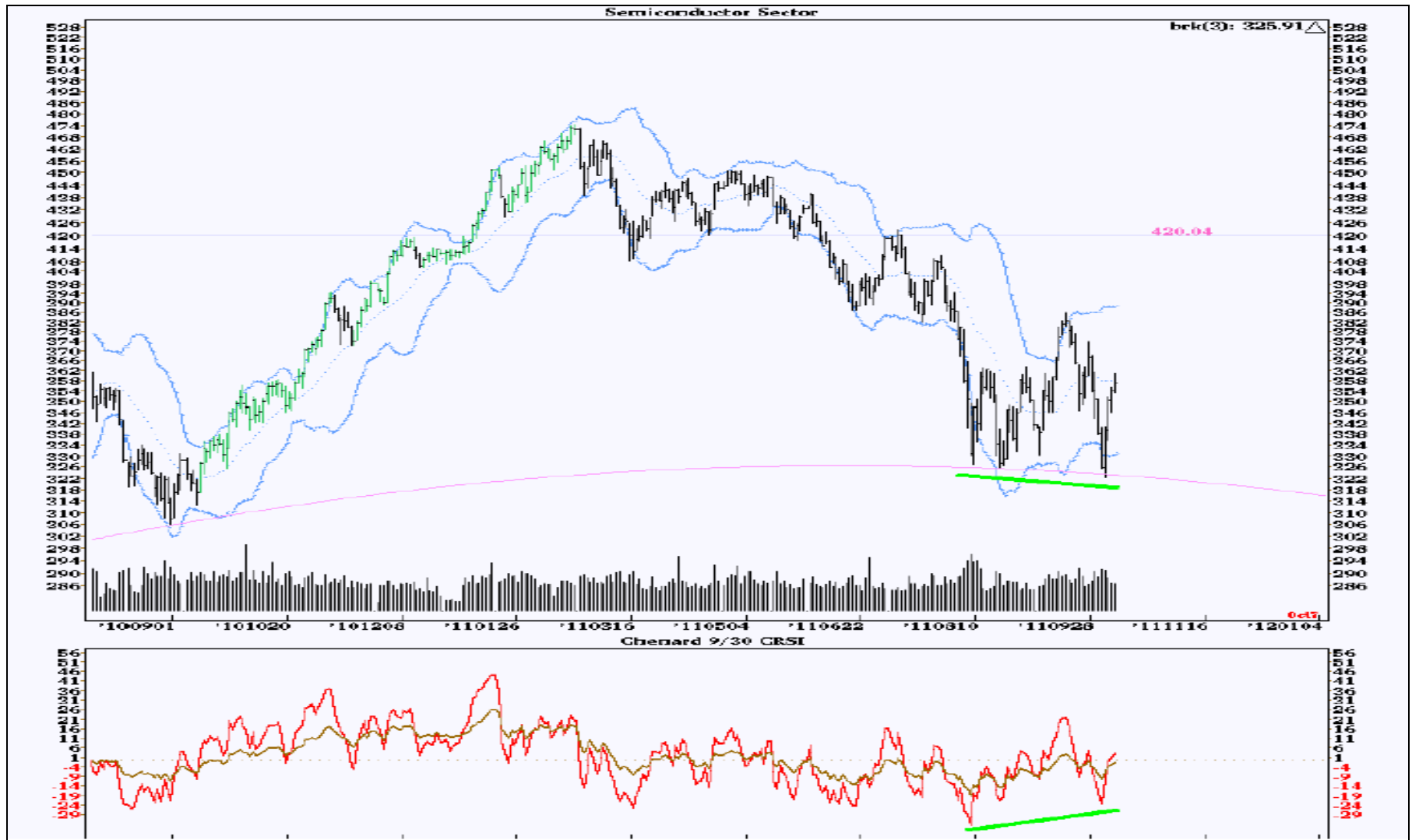
# SPX – Hrly - Poly trend Analysis

Chart below shows hrly price action the strength in the market . On Friday it held the Hrly CZ around 1150 and did not Trigger Sell Program and Market rallied ( Notes within the chart)



# SOX – Poly trend Analysis

*Semiconductors usually a lead dog showed good test at POM 12 as well on Poly trend along with positive divergence. We need SEMI to rally to confirm good up move.*



- **SPX – MID TERM – Tigger we awaited for 5 weeks @ POM 12**  
**1080**

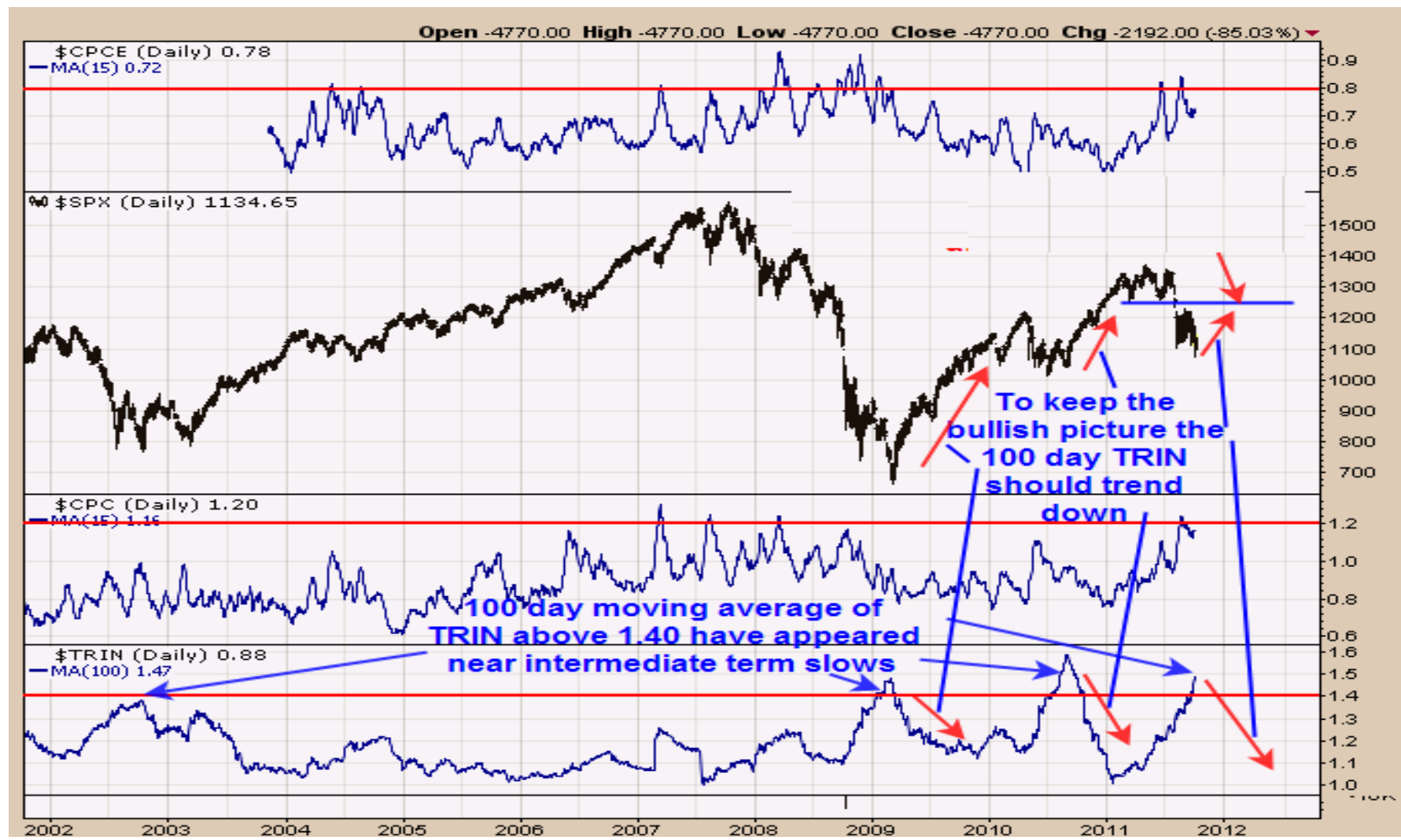
**Alert** - Tremendous amount of recoiled energy is being dissipated in the price move from earlier decline .

***In Last weeks charts within this section, we demonstrated where the energy came from***

***This has been great move from POM 12 – 1080 to 1180 current ( but No new POM Trigger yet)***

## SPX – TRIN, CPCE, CPE Analysis

( chart below) *The 100DMA- TRIN , CPCE Ratio -15 DMA, CPE – 15 DMA gave good signal for strong rally that is in effect. Suggest the energy will be at equilibrium at 1220*



# SPX - MID TERM – Downside CZ & Multiple Fib stream convergences

( Refer to notes within charts)

Weekly Rejection ( weekly overrule) at the CZ – in green which we indicated past several was finally met with Trigger at POM 12 – This was Brick wall on downside with Multiple Fib Streams & Main CZ Converge to 1100 -1085 ( In green ),

Upside we are looking at back to POM 13 ( 1220 ) and old POM 12 (1240), fail in between on weekly chart Another Brick wall on Top heavy

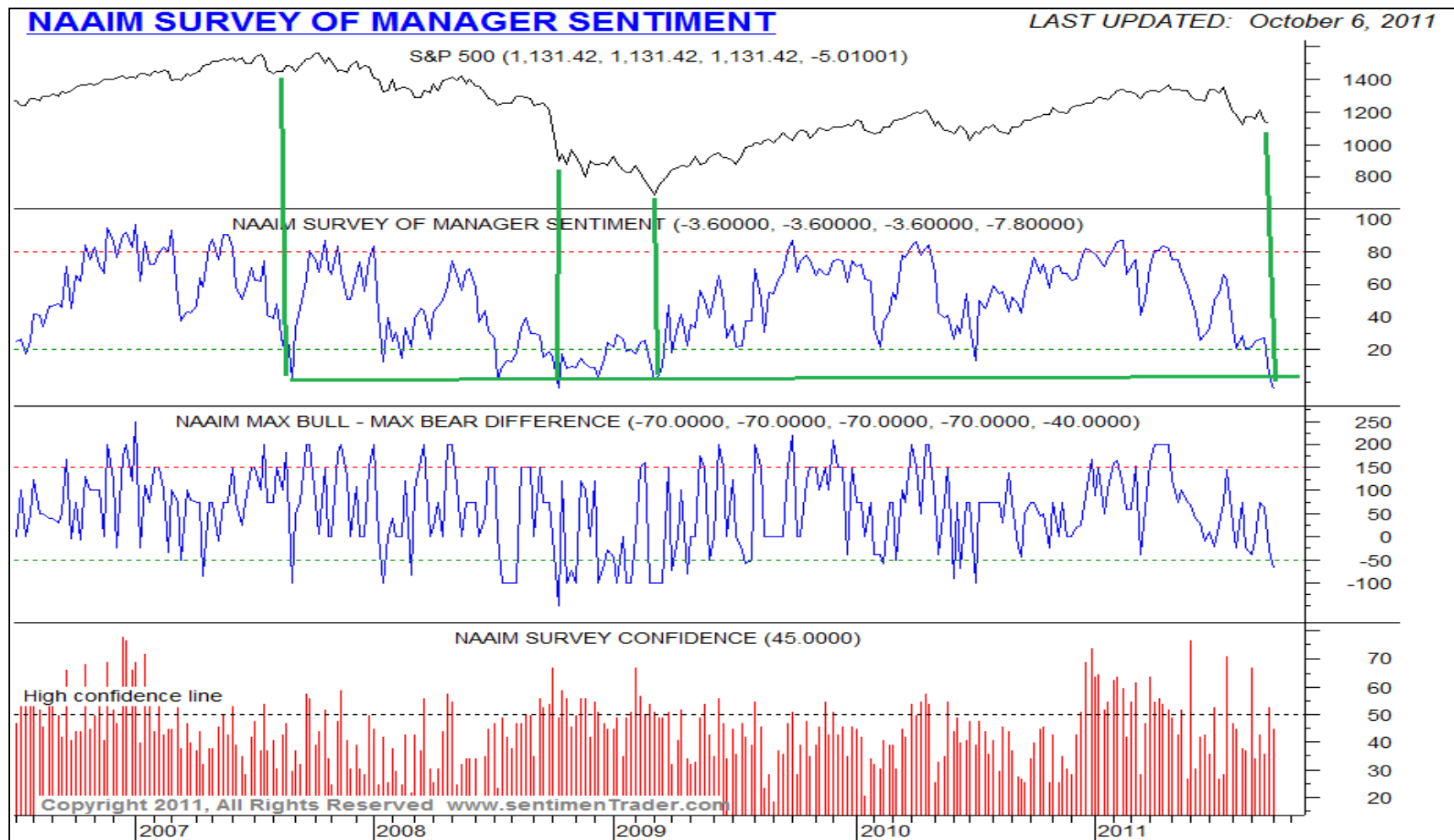


# EXTREAME Sentiment Analysis ( 3<sup>rd</sup> Party Data ) Courtesy :

SENTIMENT TRADERS

## NAAIM

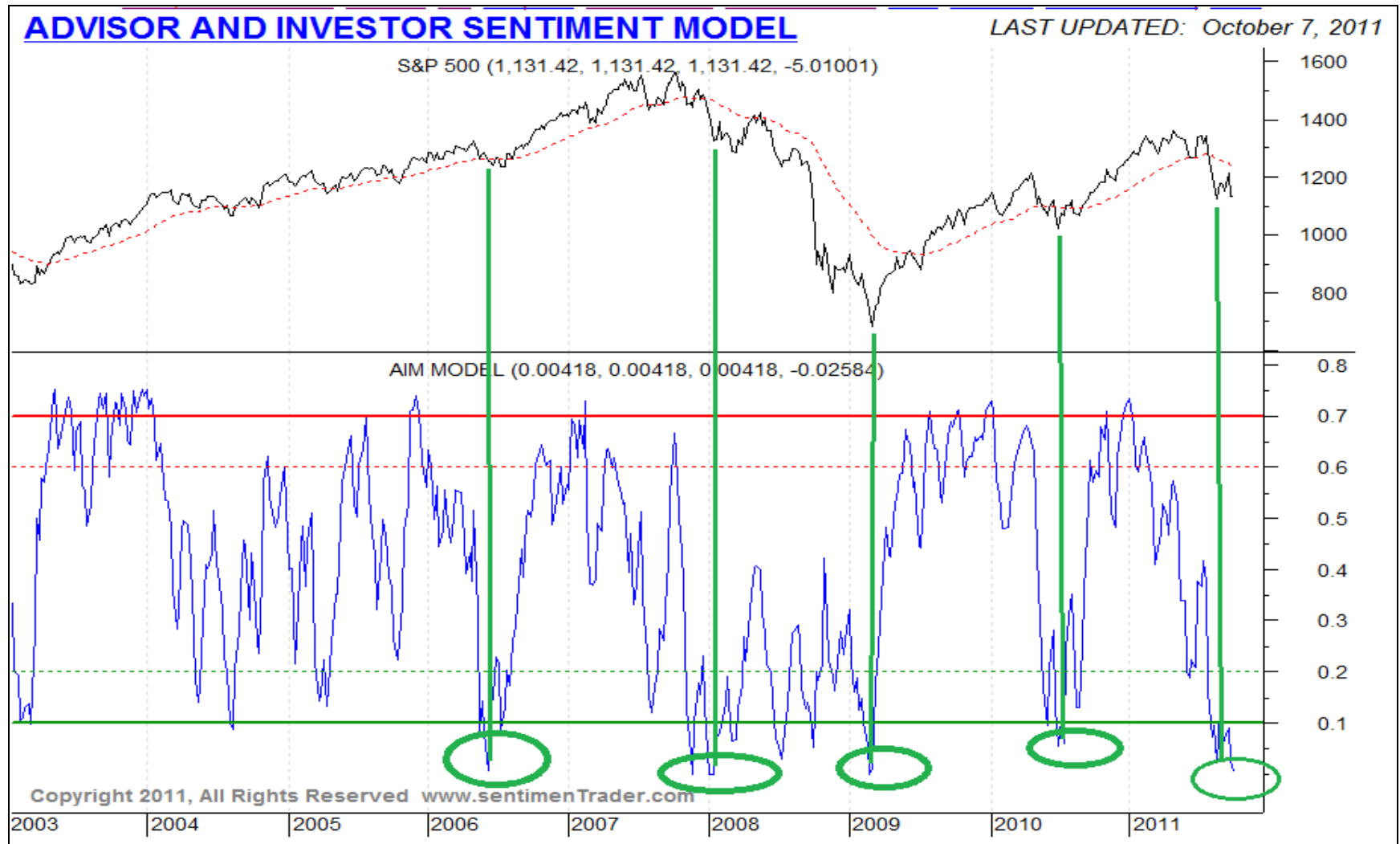
Chart below – extreme sentiments





# ADVISOR

Chart below – extreme sentiments



- **SPX – LONGER TERM – CAUTION**

***Once all the MID TERM projections ( indicated in above charts) are satisfied then we think the real decline would start initiated by 6 yr Cycle into 2014 based on the Charts and Indicators shown below.***

**We have 3 case study for Caution**

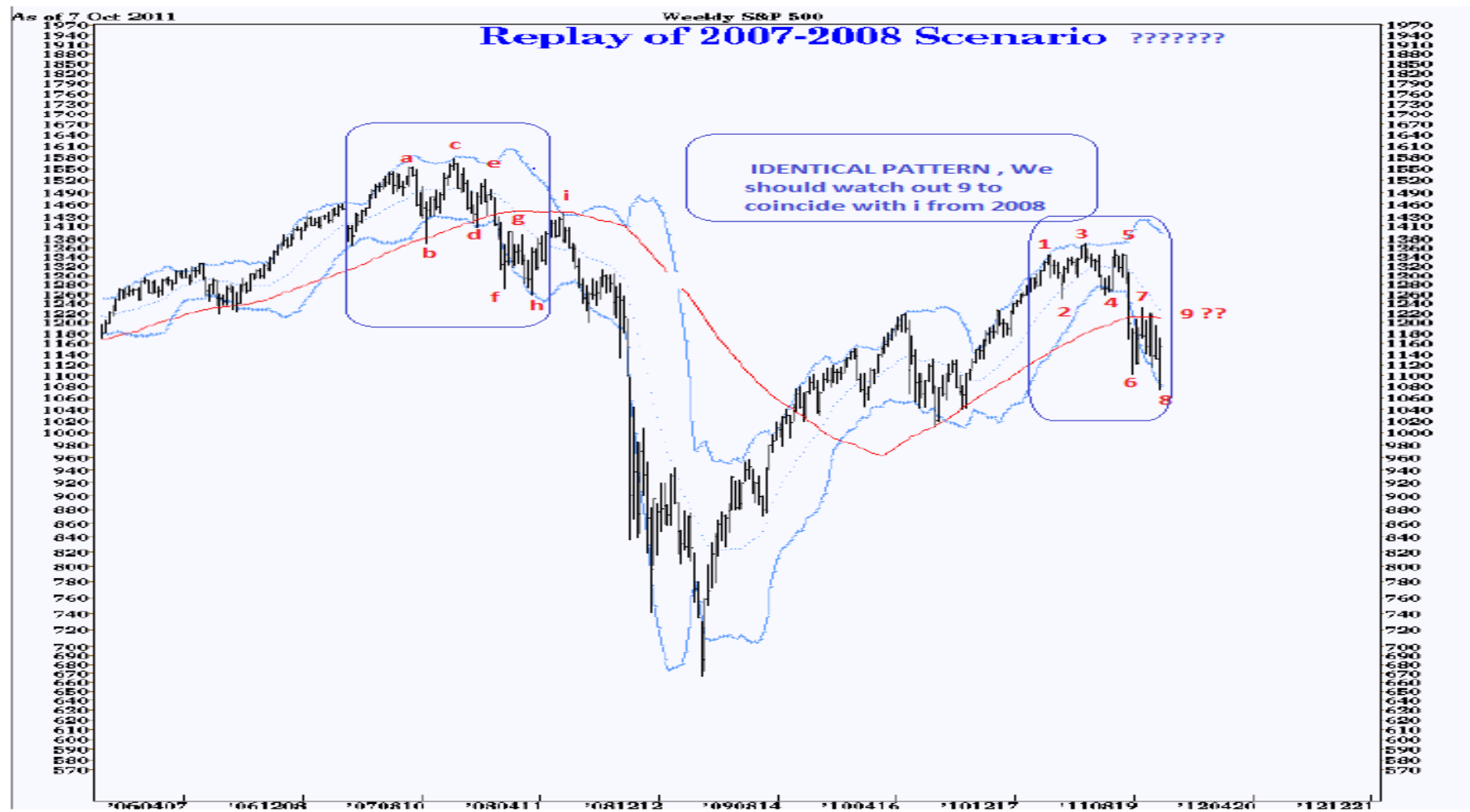
- ***SPX - PEC – D***
- ***SPX - Peak Identity Pattern***
- ***SPX – DMA & Trend Identity Pattern***

***Very rarely all 3 come to gather in such collective manner***

- SPX – Peak Identity Pattern - Caution**

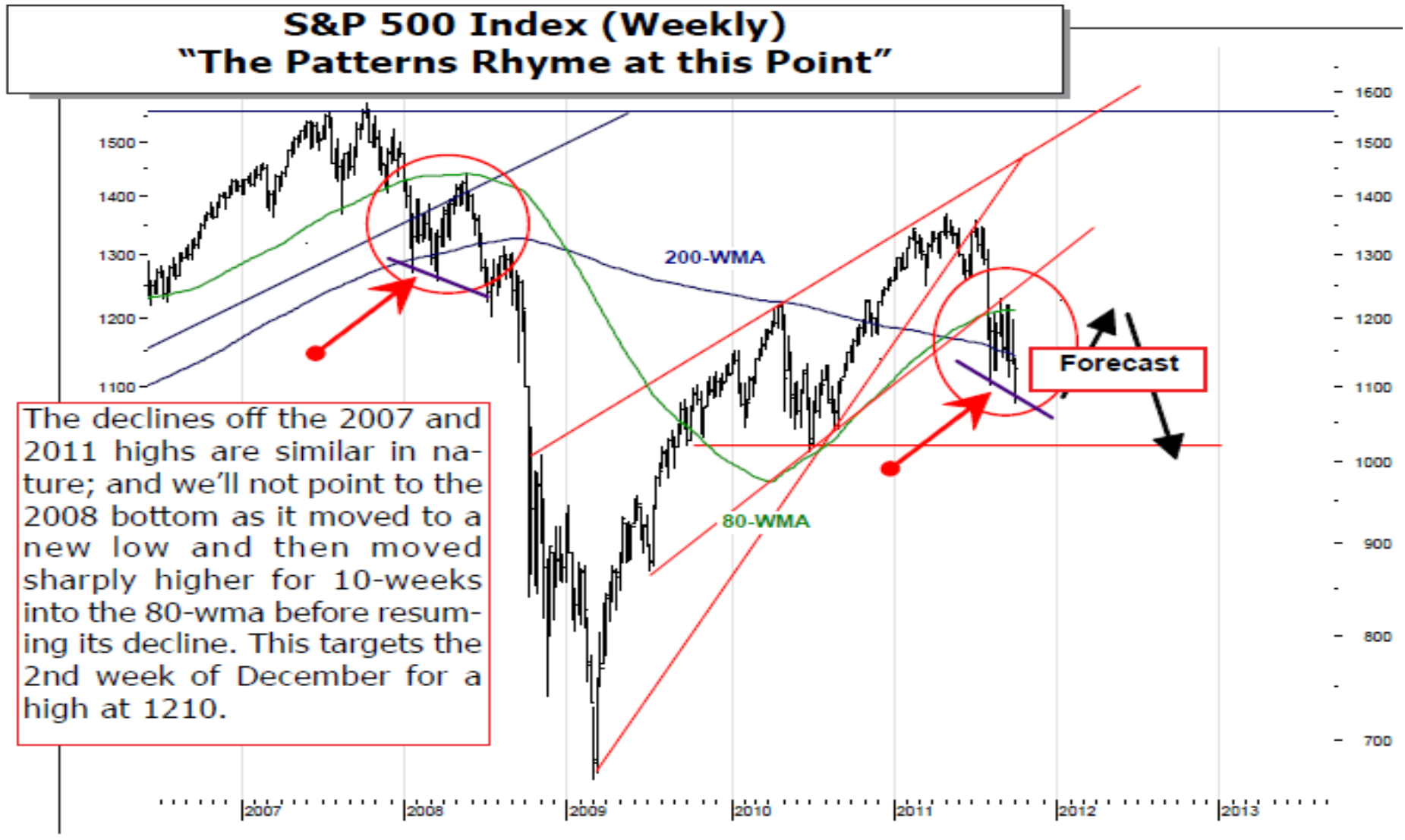
*If it's an exact replay, the current rally should go higher (probably as it did in 2008). That's despite the fact that the bigger picture will turn bearish on completion of that move .*

*In the chart below point (9 ??) points toward that area. Refer notes within the chart. Upside we are looking at back to POM 13 ( 1220 ) and old POM 12 (1240), fail in between on weekly chart*



# SPX – WEEKLY – WMA & Trend Analysis – **Caution**

*In the chart below – it indicates valid intersections. We would like to verify by other methods as well for similar price behavior ( notes within the chart)*



# • SPX – PEC D - **Caution**

Although we have several Mid term indicators Turning Bullish since POM 12 that has resulted in this current rally.

Chart below is our PEC D Pattern to be completed soon ( several week ) , which has some resemblance to previous drop in 2008 for warning ( Red arrow ) . We will wait and see.



## APPENDIX -

### **POM criteria for Implementation on SPX**

- POM is rated from 10 to 15
- POM 14 , 15 ( is Sell Signal) and 12 , 11 ( is Buy Signal ) both are the Actionable Area whereas POM 13 is A Neutral Signal for Risk management
- On way UP move, POM 13 signifies to STOP executing additional “New Buys” that was initiated at POM 12 or POM 11 levels
- On way DOWN move, POM 13 signifies to STOP executing additional “ New Short Sells” that was initiated at POM 14 or POM 15 levels
- (Bear Markets) POM 15 is for - Net Short & POM 14 is for - Hedge Longs
- (Bull Markets) POM 15 is for -Hedge Longs & POM 14 is for - Partial Hedge
- POM 12 & 11 is for Net Long
- POM 10 is Climatic Crash low Buy Signal to add to Net long position (Rear event)

## Daily SPX - “ Trend Adjusted Signal”

- 3x3 /9EMA – Break Indicator – On Buy Signal since SPX - 1115

*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).*

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