



SG Capital Research

Global Market Insights

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

MAEG- MARKET STRATEGY INTERIM # SG 2011 # OCT_19

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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 @ 1224 (Past Weekly change + 5.97%)

SPX – Closed @ 1224 / 1257 (YTD change –2.6%)

- Special Coverage

SHORT TERM

- SPX – Hrly Poly Trend Analysis
- SPX - Waves & Poly Trend Analysis
- SPX - DMA & Trend Analysis.
- SPX - TRIN – MC Oscillator
- SPX – PEC D – Analysis
- SPX – POM – Brick wall Analysis
- SPX – Cycle

MID TERM

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

LONG TERM

- SPX – WEEKLY – WMA & Trend Analysis
- SPX – PEC D
- SPX – Peak Pattern Identity.
- SPX – Peak Poly Trend 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 (1ST Jan)

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

➤ POM 15 Calls – NONE Triggered this year

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

- **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 for Reversal- (Total decline saved = 71+140 = + 211)

(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+112 = + 246)

- **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 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 down – 2.6% (32 points) from 1257 levels since 1st Jan . The above page summarizes YTD Opportunities on “ POM Investment Conclusions” on Real time .*
- *We reached our first price objective and Triggered Risk Management signal POM 13 @ 1192 SPX (11th Oct – **Email Alert**) . Resulting in gains of 112 – SPX points from 1080 NET Long POM 12 Signal. This is the area to consider Rebalance Hedges & Position sizing on Net & Beta Exposures depending on the Portfolio Objectives & its Beta tolerances .*
- *The upward move in SPX from 1195 onwards, towards 1220 -1240 levels as **indicated in several charts within our A # MS Report**) would be a process of plucking high Apples.*
- *The extension move would be “ Time based” rather than the price based move, till everyone gets Bullish to chase the additional 25 /30 SPX points on rally extension which would be a distribution process and fool majority at the end.*
- ***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 position in between the moves of POM’s .*

• SPX – Insights

Our Market Calculus work (including Volume Tape reading) suggests most of the Wall Street missed out on the last rally 120 point rally . Now the struggle between BULLS & BEARS should be within SPX 1200-1240 (3.5% bandwidth range). There is great deal of Price motion within the range. This will be News driven “ Time based move” within positive seasonality for next 8 weeks till all the Bids gets cleaned up & Shorts gets Stopped out. Then there will be vacuum created underneath. This process of distribution will Build cause for next leg down .

European version of QE -3 is key News of obsession. This caused all the shorts to panic and cover their positions causing Volatility. This is why we focus on paying attention to what the market is doing, rather than what it should be doing. It is entirely possible to get another fake out. However this time in 2011 we have thicker Brick wall “overhead” to break through (see chart below) then what was available during 2010 – Oct breakout

Short term indicators suggests market is at extreme oscillation. This week we expect the market to form a short term top as options expiration is likely to be to the downside . And, that trading range is sloped to the downside. On Risk Management basis for POM 12 Trigger captured the bulk of the points on the upside. This move has been in straight line up each time holding Hrly CZ for next rally (See chart below). The risk here is in giving the bulk of those gains away.

The cyclic target for the next big high is around October 26th and that date corresponds to multiple Time Ratio High projections, making it a more valid turn date than normal. The pattern call of a wave A rally, a B-wave correction and a final C-wave rally into that late October period still seems to be the most likely pattern. (see the chart below)

All we know is that the C-wave should rally the market higher before it's over. This is similar to the May 2008 upward correction where the market forced as many short sellers as possible to cover their positions before the floor dropped out from under the market (see the LT – Charts below)

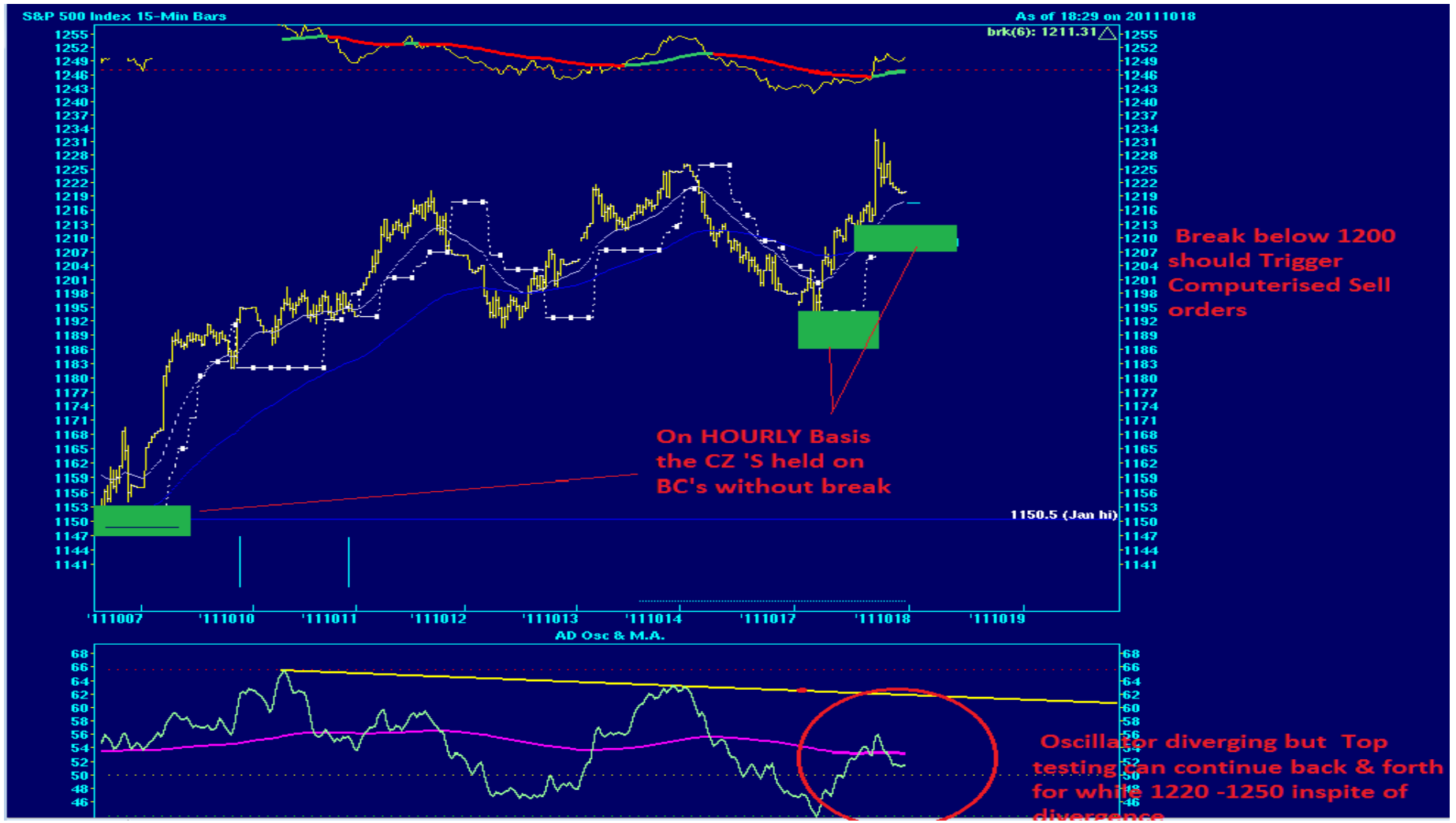
This surge is one of the last surge towards POM 14 before the big move to the downside. In fact, if you look back in market history, you'll find that bear markets have some of the biggest bull rallies. Volatility is high and Quick fingers & Pre plan is needed in BEAR MARKETS prior to price shifts .

Weekly chart below has Key Weekly Bullish reversal above 1125 (See chart below) . Although large part of its energy has been dissipated in this up move. We need SPX to close the week below 1220 on (Weekly & Monthly this month to negate the effect . That would be good indication of Top

Primary Market Analysis –

SPX – Hrly - Poly trend Analysis

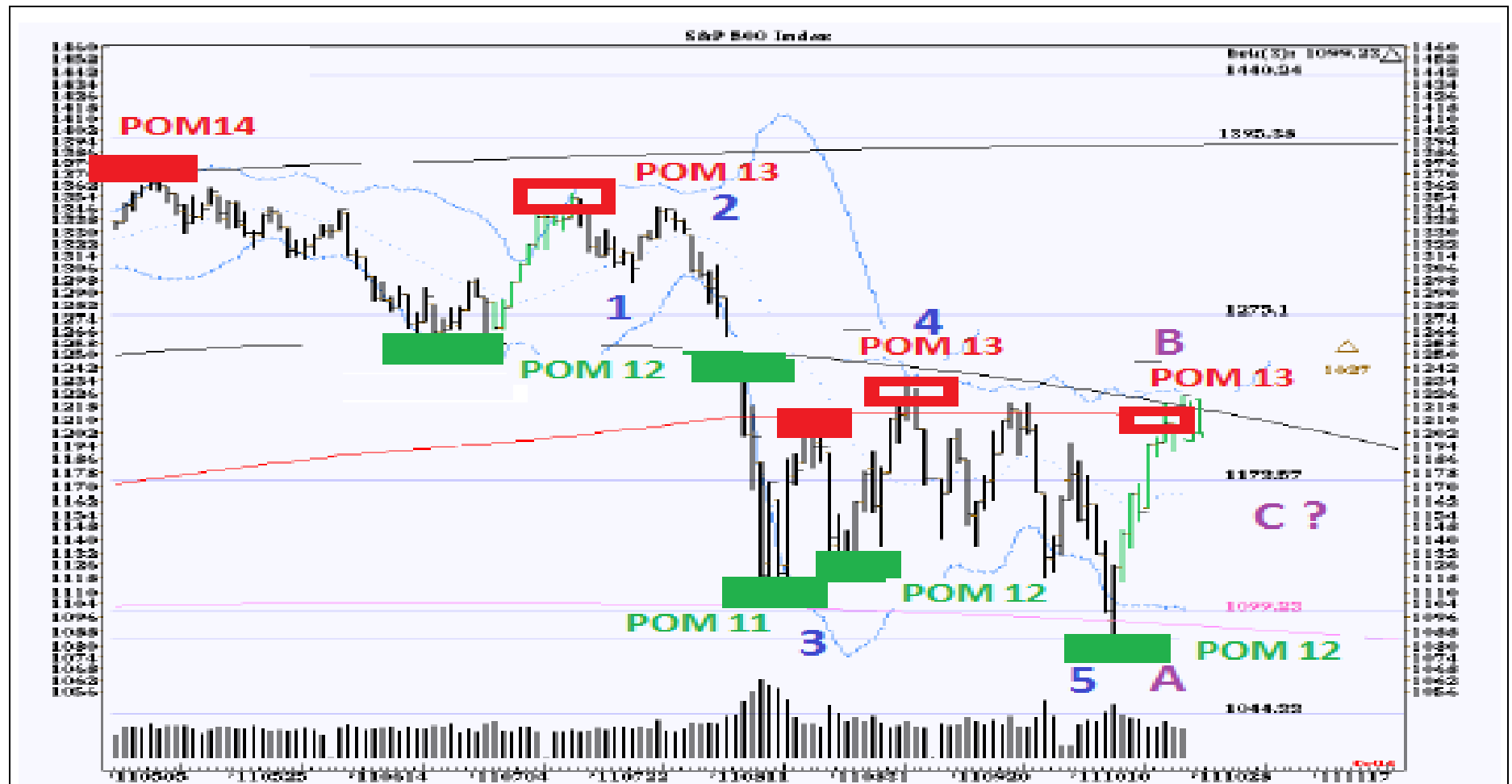
Chart below shows hrly price action & the strength in the market . All the Hrly CZ within miniature price path was held and did not penetrate to Trigger Sell Program as market kept rallying with negative divergence from 1195. (Notes within the chart). Close under 1200 should kick in Day Trade Computerized Program. (This is just academic or day trading) our decision points are based on Weekly CZ & POM's unless



SPX- Waves & Poly Tend Analysis

Currently A point is at Trigger of POM 12 (End of wave 5). 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.

Chart below indicates our POM's and Wave 1 to 5 - SPX completed the Wave 5 of Aug rally to end at the top of Poly Trend Top & POM12 - CZ Areas). The Wave 5 decline is usually followed by a rally which could reach the top of wave 4 (1220). The bear markets rarely end with a five-wave decline. Since that is the case any year end rebound could be followed by another down leg



SPX - TRIN - MC - Oscillator

MC – Oscillator diverged negatively at 1220 (see chart below). This is critical to prove our point that the energy is being dissipated. We looking for weekly reversal. At POM 12, MC Osc diverged positively with Bullish Trigger at the bottom 1080. Weekly we held 1125 levels Bullish levels for continuation move this week.

The direction of the weekly Mid Bollinger band defines the larger trend which right now is trending down and can also act as resistance of which the SPY is running into now. The 15D Tick close running in the 500 range since our POM 13 @ 1195 with the market making little head way. This is bearish sign



SPX - DMA & Trend Analysis

We have approached POM 13 area from 12 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. (Notes within the chart)

S&P 500 INDEX/ BROAD MKT INDICATORS



SPX – PEC D- Analysis

PEC – D Pattern created on May 3rd called the top at 1370 (We had that signal correct for POM 14 - Re Trigger) . Similar pattern was validated on 3rd Oct at SPX 1080.

Those projections of Tops and Bottoms at 618/718 has projection of 1245 . (We will wait and see how it approaches those 20 points additional.



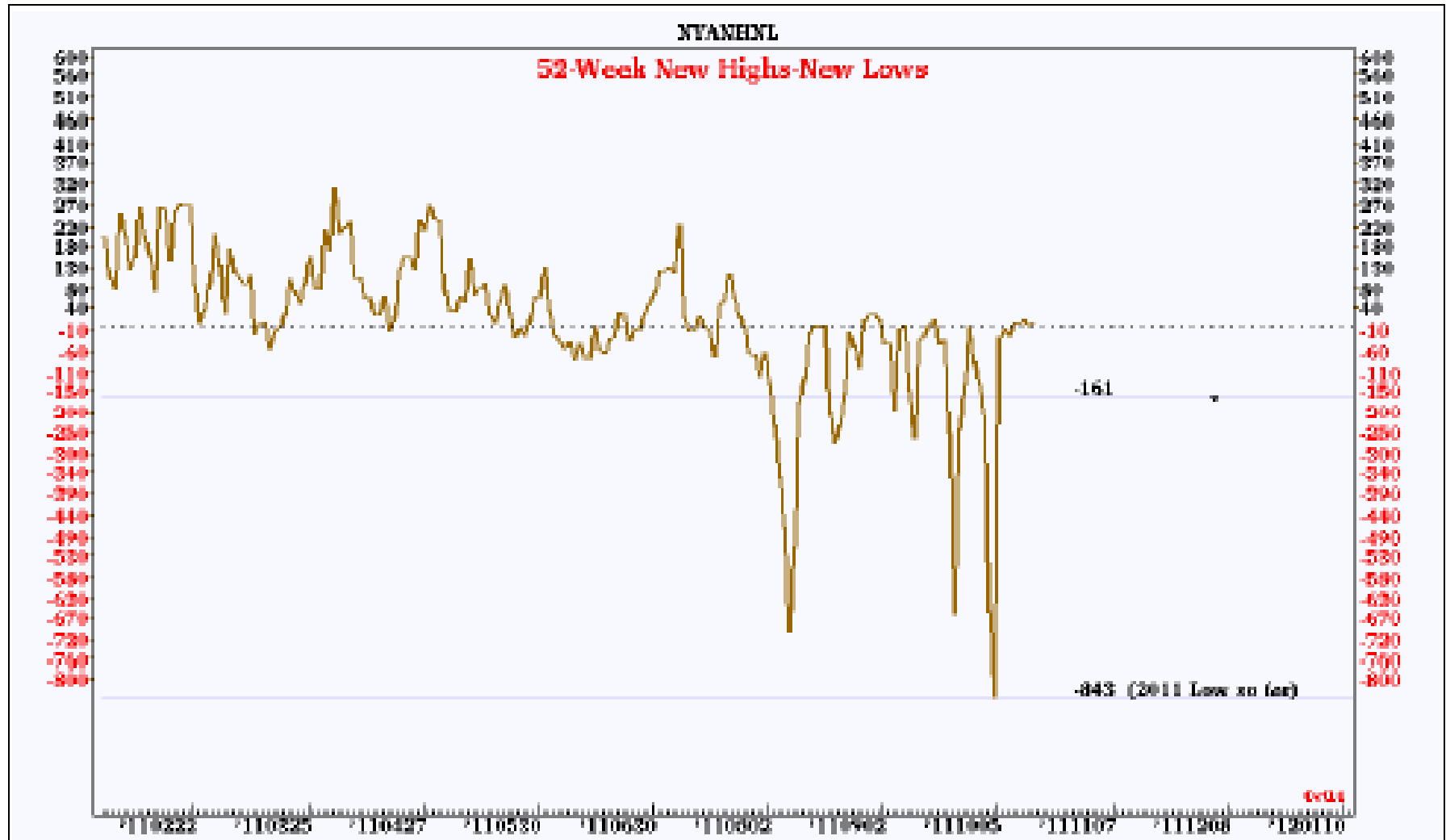
SPX – Brick Wall of POM's (Overhead)

- Chart below is Brick wall build by various POM's of past .
- Additionally 1220 -1250 has several of current Market Projections and patterns converging into it forming additional layer.
- Would European QE in positive seasonality be enough to break through it ??? We let the market decide.
- Point to note – in 2010 – There was no brick wall and \$ 600B of POMO gave a round trip
- Market is currently overbought (via our Integrated Math Indicator) after strong rally. It is around very critical . **IF IT FAILS** may very well get POM 14 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.



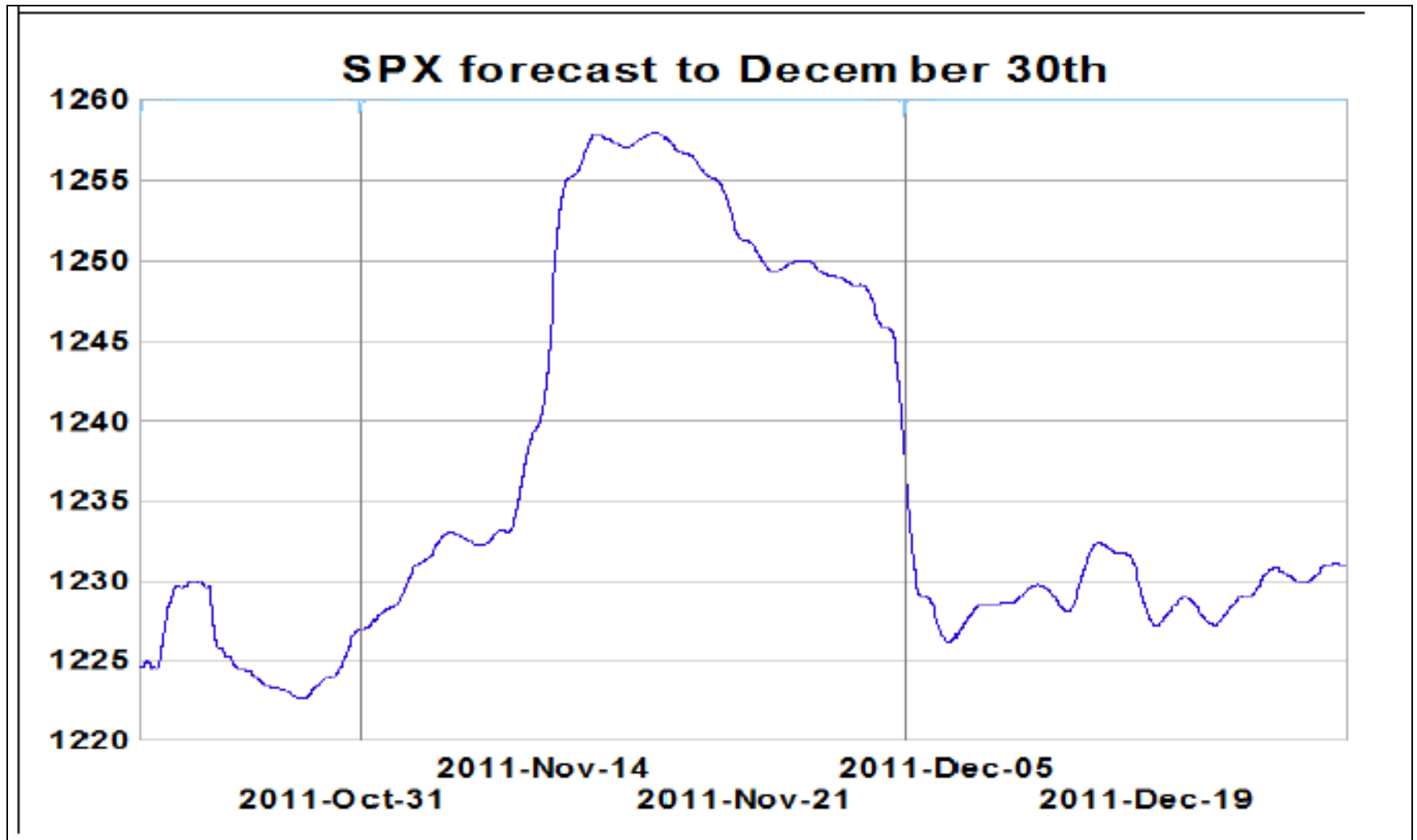
SPX – A / D Oscillator – NH – NL

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 is shown by the fact that the differential (below) could only make it to the neutral zero line. If this were a new bull market currently the reading should be 220 coming off the bottom .



SPX – Cycle

The Cycle work suggest slightly higher prices, could be seasonality or QE – Europe. We don't know if it will happen



- **SPX – MID TERM – Triggered @ POM 13- 1192**

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

This has been great move from POM 12 – 1080 to 1192 – POM 13

DOW - Bradley Cycle

Featured the Bradley model that is useful in giving us a rough idea of how stocks should perform over a shorter term interval (i.e. 6-10 weeks). While the Bradley model's accuracy goes much higher when used in conjunction with our CZ & POM's to provide the most reliable results

Bradley is expecting retracement very soon and then rally back .



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

(Refer to notes within charts) – We need

Key Bullish reversal on Close 1125 is holding. This is quite meaningful for any Pull back. 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 .

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 (3rd Party Data) Courtesy :
SENTIMENT TRADERS

No Sentiment Indicators are at extremes

- **SPX – LONGER TERM – CAUTION**

- *Our View still valid from A# 3 – MS Report– 11TH Oct.*
- *Once all the MID TERM projections (indicated in above charts) are almost approaching satisfied levels.*
- *Caution - we think the real decline would start initiated by 6 yr Cycle into 2014 based on the Charts and Indicators shown below.*

We have 4 case study for Caution

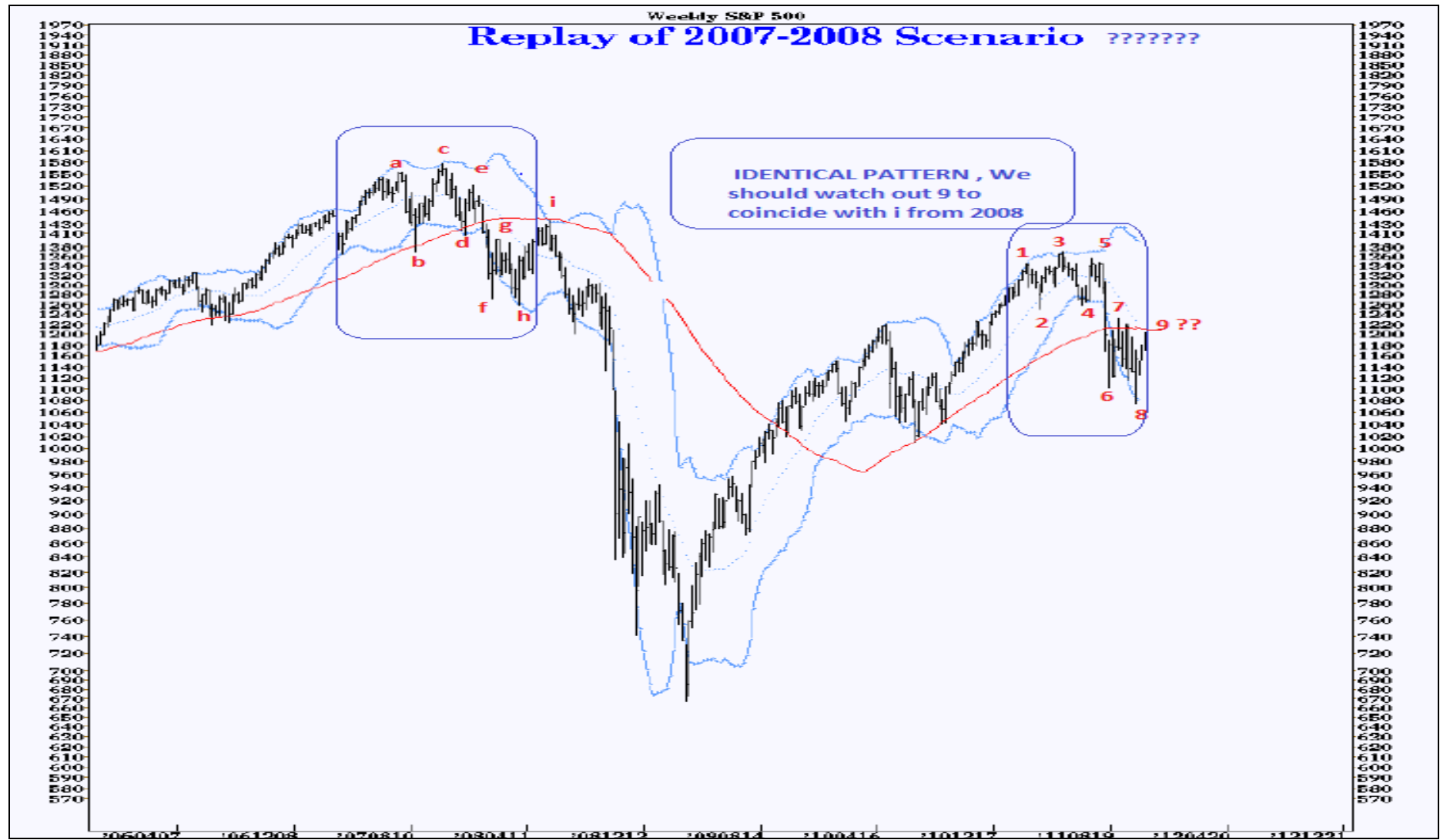
- **SPX - PEC – D**
- **SPX - Peak Identity Pattern**
- **SPX – DMA & Trend Identity Pattern**

Very rarely all 4 come to gather in such collective manner

• SPX – Peak Identity Pattern - LT- Caution

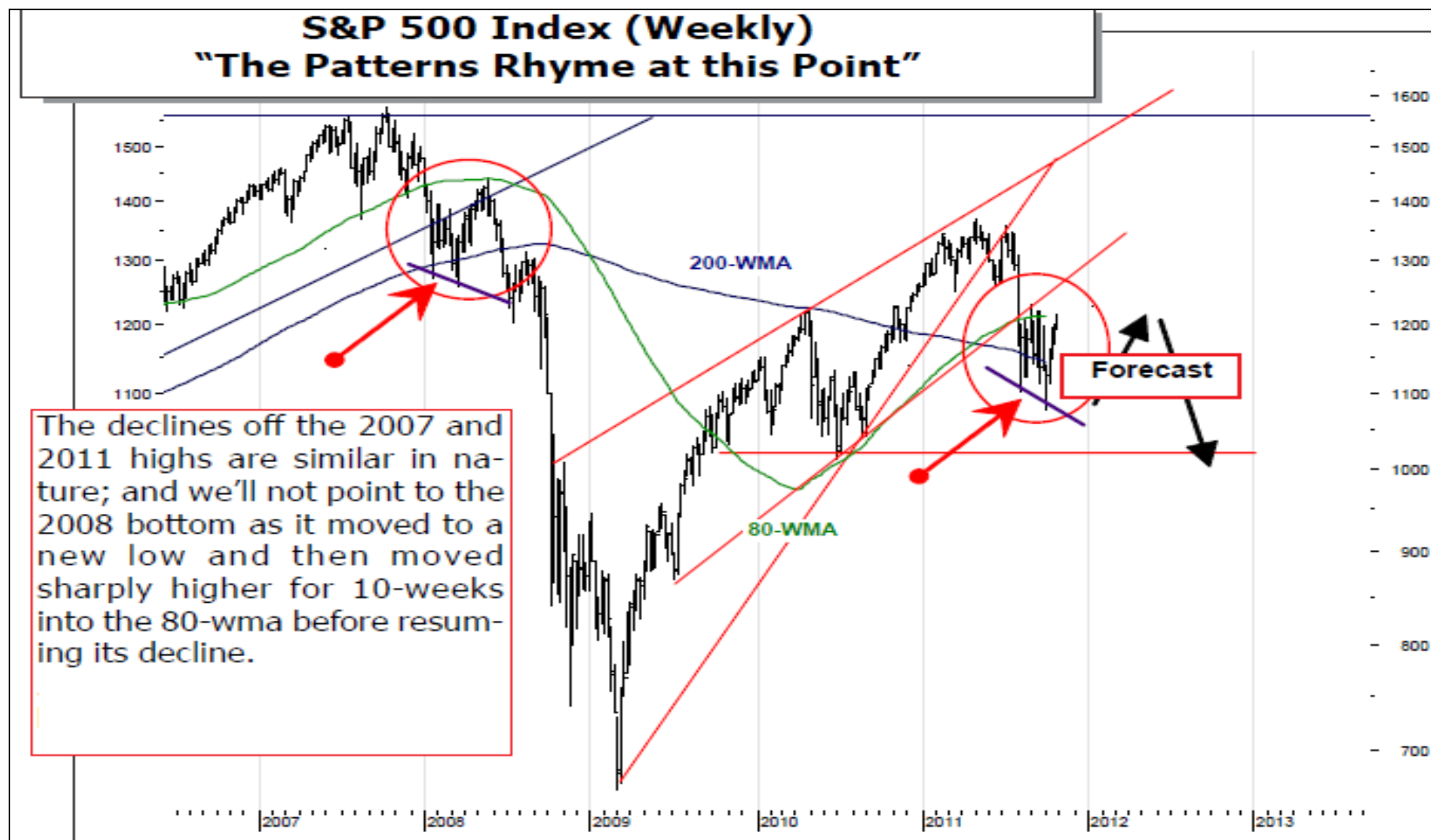
If it's an exact replay, the current rally should go higher (probably as it did in 2008). That's despite the fact that the bigger picture will turn bearish on completion of that move .

In the chart below point (9 ??) points toward that area. Similar to point (i) in 2008. Refer notes within the chart. Upside we are looking at Brick wall of previous POM's 1220 -1250 & fail in between on weekly chart



SPX – WEEKLY – WMA & Trend Analysis – **LT - 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 - LT - Caution**

We are at POM 13 after turning Bullish at POM 12 . This 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.



SPX – WEEKLY – Poly Trend – **LT** - **Caution**

In the chart below Bigger Picture – POM 12 was at the Top of larger Poly Trend and on Right side of Poly Trend. – **Caution**

Since the major March 09 low. In August it has already peaked (top of Poly trend) and is heading lower. (marked in green). On Right side of Poly trend, the slope of the descent is modest now . As time goes on, that Poly Trend rolls more steeply to the downside by 2014.

Looking back after the 2007 top in the chart, the market formed a 5 Wave pattern to the downside but after Wave 1 rallied before crashing in 2008. (circled in Blue) If got to the bottom of the wave 1 & re tested again the Poly trend at 1080. Now the market is on rally mode wave 2 up. At the end of which this will start decline downside for wave 3. (On Right side of Poly.



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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