



SG Capital Research

Global Market Insights

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

MAEG- MARKET STRATEGY INTERIM # SG 2011 # OCT_24

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 @ 1238 (Past Weekly change +1.15%)

SPX – Closed @ 1238 / 1257 (YTD change -1.5%)

- Special Coverage

SHORT TERM

- SPX – Hrly Poly Trend Analysis
- NASD – Hrly Poly Trend Analysis
- SPX - Waves & Poly Trend Analysis
- SPX - EQWT Analysis.
- SPX - TRIN – MC Oscillator
- SPX – PEC D – Analysis
- SPX – POM – Brick wall Analysis
- SPX – A/D HL Oscillator
- SPX – Cycle

MID TERM

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

LONG TERM

- SPX – WEEKLY – WMA & Trend Analysis
- SPX – PEC D
- SPX – Peak Pattern Identity.
- SPX – Peak Poly Trend Identity

- **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 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)

• 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 (– 1.5 % = - 19 points) from 1257 levels since 1st Jan . The above page summarizes YTD Opportunities on “ POM Investment Conclusions” on Real time .
- +216 points gains on NET LONG,
- +211 points save – Avoid Declines on Risk Management.
- +94 points gains on NET SHORT

- Natural price of our Oscillation has been to 1195 from 1080. The upward move in SPX from 1195 onwards, towards 1220 -1250 (as **indicated in several charts within our A # MS Reports**) are being achieved now. These are high Apples which over time be proved costly to Wall Street.

- Although 1220 -1250 was our Price target . It happened in straight line up without Retracement. The topping process in such moves into Brick wall will comprise of Pull back and then double top (see chart below for details) .

- The last Price move of 30-40 in SPX is “ Time based” rather than the price based move, till everyone gets Bullish to chase the rally whiles distribution process is complete and fool majority at the end. Even if false break it will not last long . Chasing such moves are not Rational part of POM Processes. **As we wait for next signal**

- **LAST SIGNAL** - we reached our first price objective and Triggered Risk Management signal POM 13 @ 1192 SPX (**10/11 – Email Alert**) . Resulting in gains of 112 – SPX points from 1080 NET Long POM 12 Signal on 10/04. This is the area to consider Rebalance Hedges & Position sizing on Net & Beta Exposures depending on the Portfolio Objectives & its Beta tolerances .

• SPX – Insights

*The market is holding up with optimism that European agreement will end the debt crisis. This is News driven deal & another smooth talk during Market exhaustion period . On Friday, the market made a slightly higher high in the DOW & SPX, but lower highs in the broad market NASD, RUSS. Last week our expectation was for down market but did not happen. This week, **We have NEW MOON cycle on 26th Oct .(Important date)** It points down.*

The All-One-Market Hypothesis, which says that there is no real diversification possible in the market today, USD continues to rule inversely. It's like the Carry Trade. As long as it moves, it will continue until the rules change. .

In such environment HFT works well till it stops working. Retail would try to fight them from outside the exchange. They're too fast and too close to the NYSE servers. But, we certainly detect & recognize patterns and act accordingly via our POM's and CZ's .

The interesting thing is that the cyclic projection is exactly inverse to the normal seasonal plan for the market. Market usually forms a bottom in October and rallies into May . If this cycle projection works out, it is going to trap the maximum number of participants.

The cyclic target for the next big high is around October 26th (+/- 2-3 days) and that date corresponds to multiple Time Ratio High projections, making it a more valid turn date than normal.

Short term indicators suggests market is at extreme oscillation. 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 without retracement.

The pattern call of a wave A rally, a B-wave correction and a final C-wave rally. (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

Cont...

In Oct 2010 with impetus from QE -2 , Year End Seasonal event worked out well for false breakout just to find out all the gains were given back in 3 months.

In Oct 2011, we have impetus from European, Twist from FOMC, QE from UK combined with Presidential Cycle BUT this time “Mathematically” we are under Brick Wall of POM’s overheads (See chart below) which is much harder to break then 2010. (If it does then this false break will have much lesser life then what we witnessed in 2010 false break.

It is typical for Wall Street to catch up after missed rally to play the musical chair. Now the struggle between BULLS & BEARS is within SPX 1220-1250 (3.5% bandwidth range). There is great deal of Price motion within the range. As expected this is 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 .

This surge is one last surge towards in “Brick Wall Region 1220 -1250” (Our Target price) before the big move to the downside. Upon rejection this could well signal POM 14 (No Indication Yet) . We will not jump the gun let the market indicator suggest us to confirm POM 14 to act .

Our Focus - POM’s are better actionable areas for us to produce Highest Reward for the Risk where the “ Back is against the Wall” then entering positions in between the moves of POM

To negate Weekly Reversals We need SPX to close the week below 1220 (if it does so by 31st Oct it will be Monthly Reversal as well . That would be good indication of Top – Tuesday 1st Nov is good time to judge. At POM 12, Weekly charts had Key Weekly “Bullish Reversal” above 1125 . Although large part of its energy has been dissipated in this up move

Note – Nothing much has changed since our last A # MS Report other than market is struggling in the Brick Wall “ 1220-1250”. Hence few of the Indicators and chart will not change till market Pulls back. Last 30-40 points we and our charts will sound like broken record but we just follow the market

Primary Market Analysis

SPX – Hrly - Poly trend Analysis

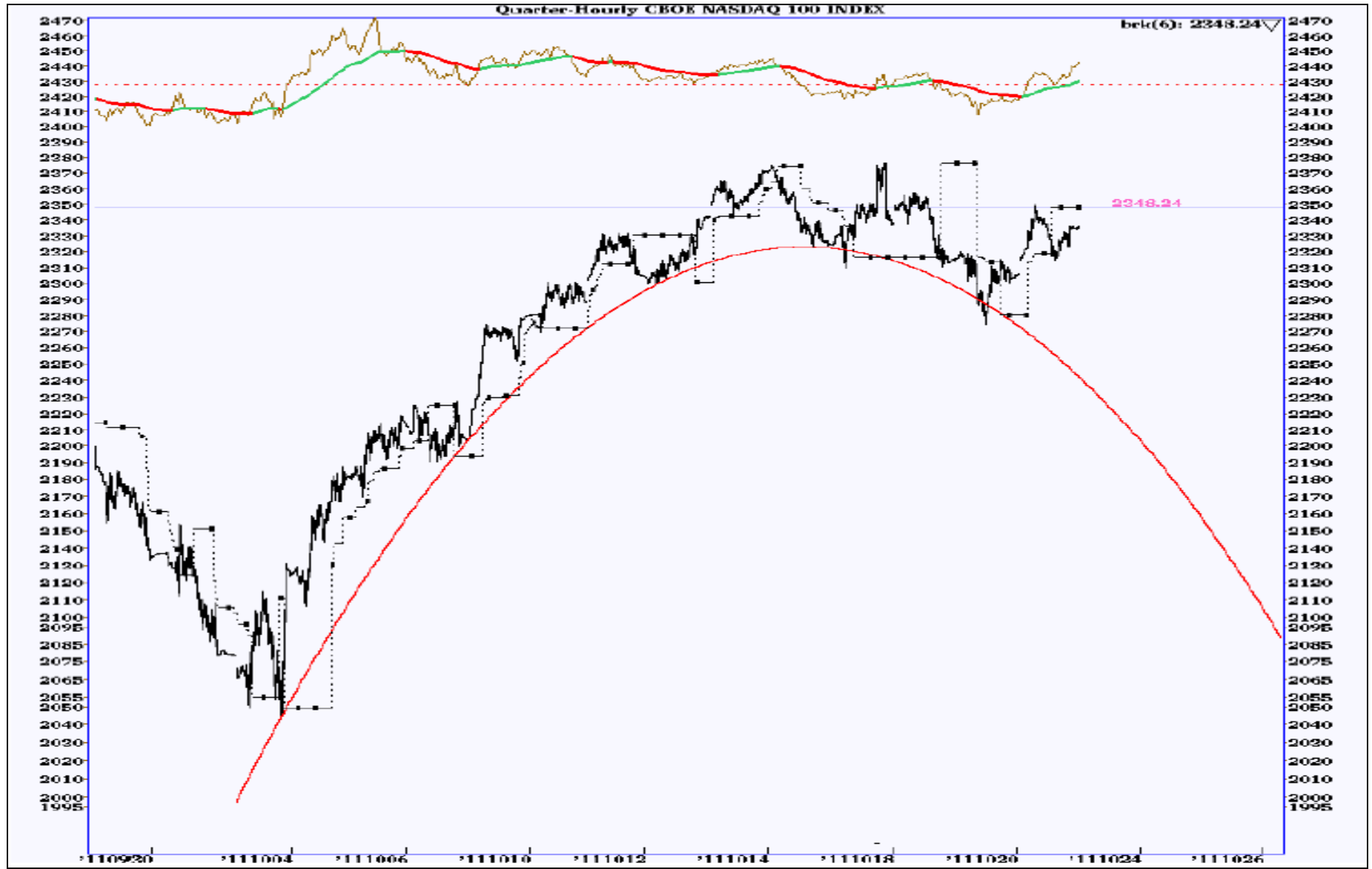
Chart below shows hrly price action & the strength in the market .

Friday we broke the Hrly Triangulation with “Up thrust” . We should pull back to Apex. Close under the Apex is first sign to watch. Secondly, we are trading on RIGHT SIDE of Poly Trend, break below it should Trigger (indicated in red) Computerized Sell Program . The move above our POM 13 – SPX 1195 has been with negative divergence.



NASD – Hrly - Poly trend Analysis

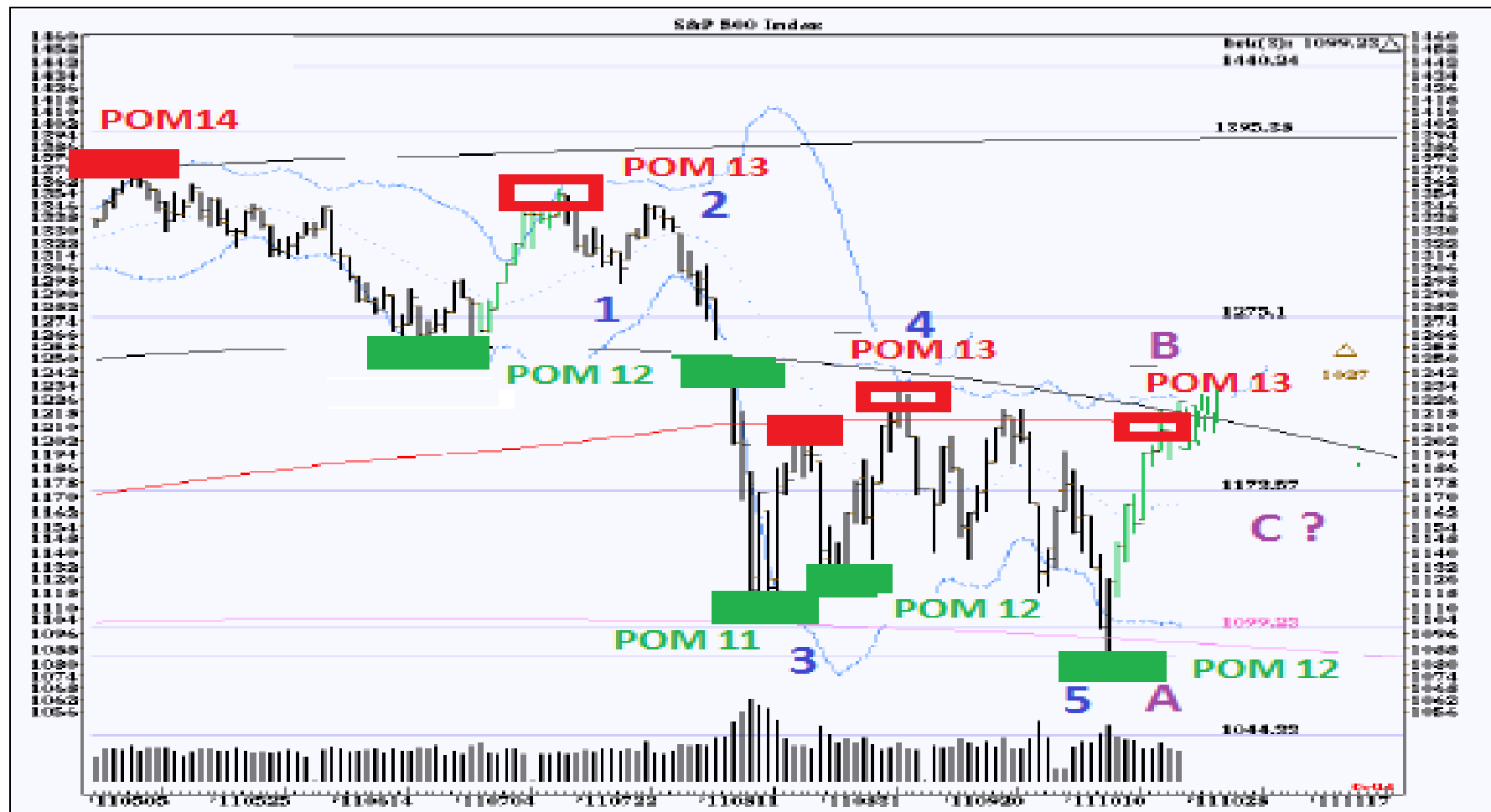
NASDAQ traditionally leads the rest of the market by anywhere from 2-5 trading days. We find confirmation as NASD is currently on other side of POLY TREND. It has been declining while the Dow and SPX have been moving up. This is a bearish divergence of the first order as market top.



SPX- Waves & Poly Tend Analysis

On Friday SPX went above the Poly Trend but We are in the middle of an ABC, with the current consolidation/retracement likely of the pattern. Point B (Coincided with POM 13 @ 1192 is now way extended which is ready for pull back. 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 Larger Poly Trend Top & POM12 - CZ Areas). A point is at Trigger of POM 12 (End of wave 5). 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- (EQUAL WEIGHTED) Analysis

Despite the move higher on Friday in SPX -500 , The SPX – EQWT Index is bearish with bearish divergence. As they say on Wall Street - when the generals are advancing and the troops retreating

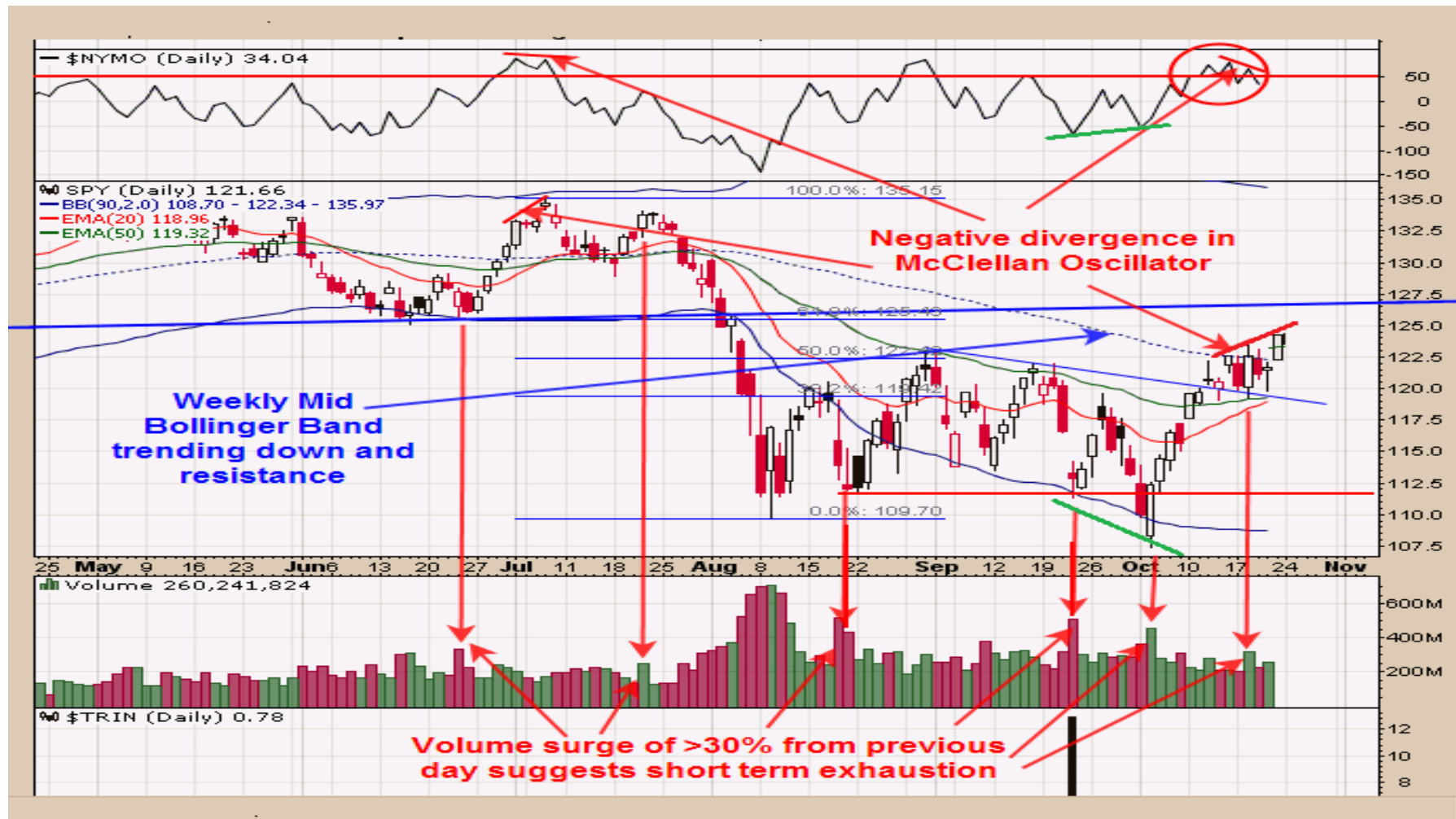
Volume Oscillator charts, see that a short T has expired Friday, so this rally may be over.



SPX - TRIN - MC - Oscillator

MC – Oscillator diverged negatively at 1220 onward towards 1250 (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 – PEC D- Analysis

In our last message on 19th Oct – By PEC –D Method we had projections 618/718 to 1250, we have reached there this morning .

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.



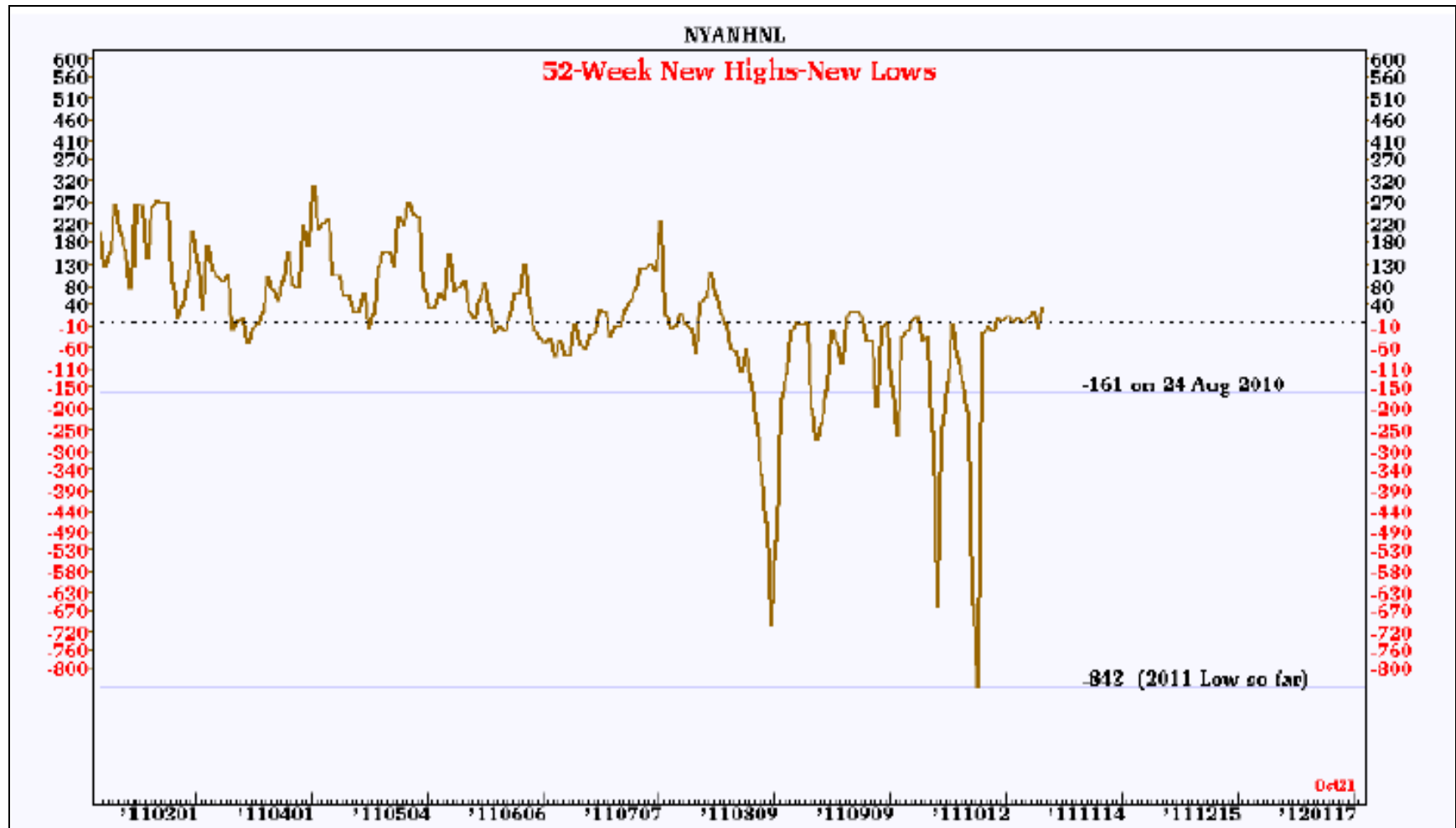
SPX – Brick Wall of POM's (Overhead)

- 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.
- We need extra- Ordinary fire power to get through this area. (Any break above would be false break)
- 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.



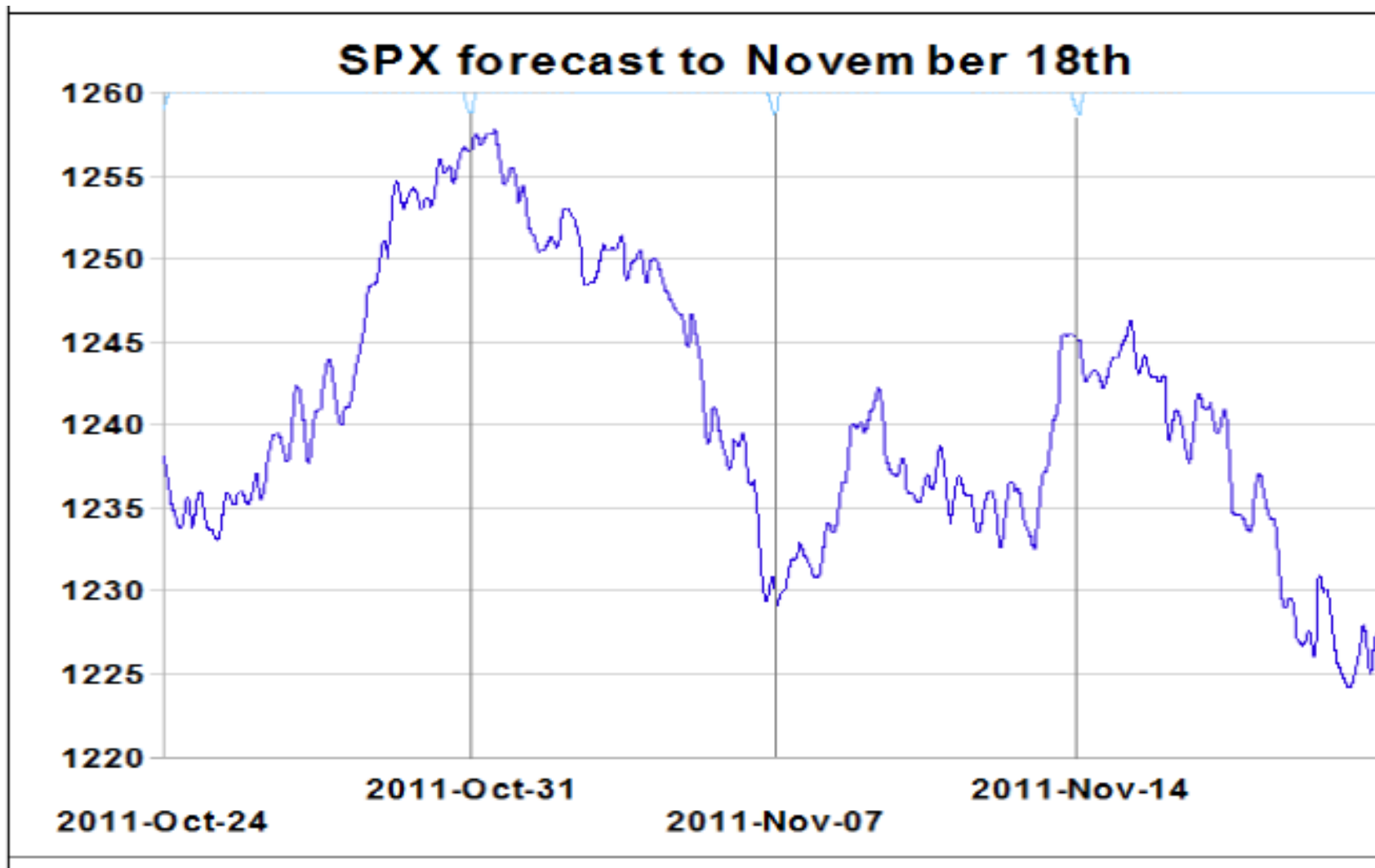
SPX – A / D Oscillator – NH – NL

Past 4 days in spite of the rally, there is 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



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

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 for 112 point Rally

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

(Refer to notes within charts) – *We need weekly reversal in the Upside area 1220 – 1250 to fail in the Brick wall*

Earlier - 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 ..



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

No Sentiment Indicators are at extremes

SPX v/s Market in News (Supplement Analysis)

- *CHINA*
- *FTSE*

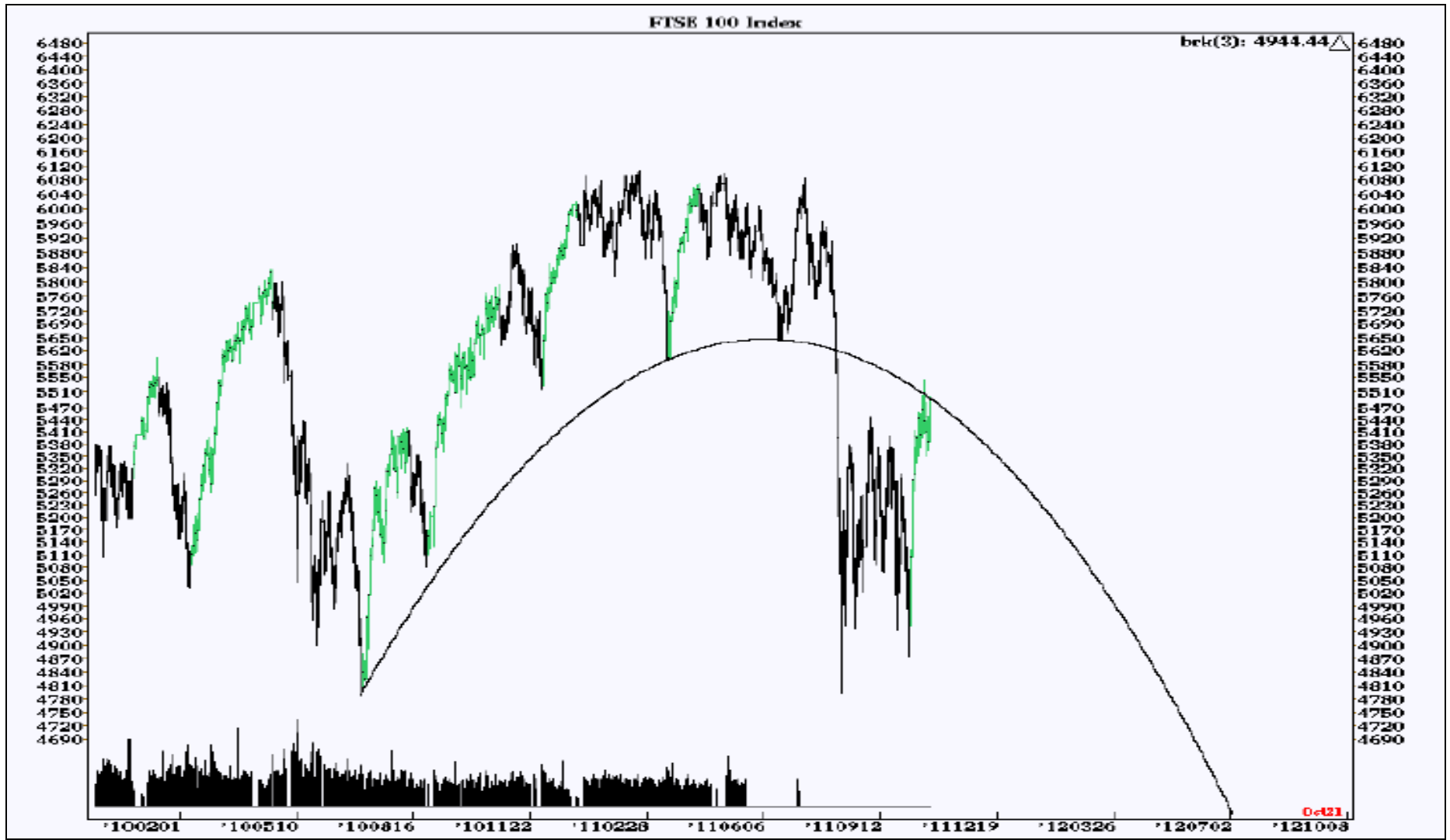
CHINA

From 6500 peak to 2300. Wonder boom in china . CHINA will bail out the world !! Typical Bear Market texture. (notes within the chart) . We had Sell Signal at 3200



FTSE

*Europe's strongest market UK's in spite of its own \$ 100 B – QE could not get the market above Poly Trend.
CAUTION . FTSE is on right side of Poly Trend & Underneath ...All bearish*



- **SPX – LONGER TERM – CAUTION**

No Change from our Previous message

- ***Our View still valid from A# 3 – MS Report– 11TH Oct & 19th 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

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 –

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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