



SG Capital Research

Global Market Insights

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

**MAEG- MARKET STRATEGY INTERIM SUMMARY# SG 2011 # OCT\_31**

***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 @ 1285 ( Past Weekly change + 3.8%)

SPX – Closed @ 1285 / 1257 ( YTD change +2.2% )

- Special Coverage

### SHORT TERM

- SPX – Hrly Poly Trend & Wave Analysis
- SPX - T-1 – Extension Projection Analysis
- SPX - Time & Price Projection Analysis
- SPX – PEC-D
- SPX – POM – Brick wall Analysis
- VIX – PEC - D
- NASD – Poly Trend Analysis
- SOX - Poly Trend Analysis
- QQQ - TRIN – MC Oscillator
- NASD– PEC D – Analysis
- SPX –Calendar Cycle
- SPX – Bradley Cycle

### MID TERM

- SPX – MID TERM – Downside CZ & Multiple Fib stream convergences
- CHINA ( **Special Situation** )
- AUD / USD ( **Special Situation** )

### LONG TERM - No Change

- 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.*
- *POM's are more favorable Areas to act for better Reward / Risks.*
- *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 (1<sup>ST</sup> 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** - 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

#### • 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 +2.2% = +28 points) from 1257 levels since 1<sup>st</sup> Jan . The above page Breaks down YTD Opportunities on “ POM Investment Conclusions” on Real time . Summary as follows.
- +216 points gains on NET LONG,
- +211 points save – Avoid Declines - Risk Management 1.
- +94 points gains on Fully Hedged. – Risk Management 2.
- **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

**POM 14 Signal – Not yet Triggered - to be FULLY HEDGED.** But our forecast for a top on October 26<sup>TH</sup> / 27th was met in terms of Cycle , Astros, T termination into the Projected target of 1220-1250 Brick Wall of POM 14 on SPX. But there is still question "Was it the final top !! It's looking like some corrective action first and then the market wants to move higher with Momentum Program Trades to close remaining OPEN STOPS .

If indeed the Momentum play remains in play then Price Path would be similar to what we witnessed in 2010 Oct- Nov . On hrly charts, It would begin 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 . This is very common occurrences in Momentum Pattern but tends to happen on negative divergence. . In 2010 it happened 5 times, We do not believe it will happen 5 times this time. ( 3 Time more probable but could fail anywhere in between)

But the memories of 2010 rings the bell again, October month, Seasonality, QE Bullishness, Catch up on the performance anxiety by Wall Street participants who have missed on three previous rallies initiated at POM 12 and POM 11 will attempt to chase at POM 14. This will setup Extreme Bullish Sentiments during Momentum play.

## Cont....

*The Thursdays strength of the move was substantial manic rally and took a lot of bears by surprise closing STOPS but we think Violent extension is part and parcel of such CZ areas that is converged with several POM's (we call it Brick Wall). We prefer the market to settle down First after huge rally.*

*Although we had manic rally in Equities, the Credit market is a better judge of reality. It is still betting on additional defaults from the other sovereign basket cases. The Currency PIP's widening as they reach their Projective levels.*

*This October has been strongest in 40 yrs, it explains the move from POM 12 TO 14 happened in straight line up without Retracement. This is very rear event in our Analysis. The topping process in such moves into "Brick wall" will comprise of Pull back First and then rally to double top with extension . The Final Price move of 30-40 in SPX is churning process for BULLS / BEARS .*

*Conversely, If Large Sell order kicks in very soon with weak internals , it could put in weekly price Reversal to negate the weekly Bullish reversal created at 1125 lows.*

*In October, Bradley and Historical Seasonality was indicating down market but in actual, this Oct was up for the market . In November, the Bradley and suggesting Positive . ( Refer charts below for details)*

*MF Global Traded below \$1.00 Friday and Today its halted. MF should initiate closing several large Trade books soon. There are many counter party Risk here with Clearing house. Market Need to be careful on this Liquidation event*

*Note – Although SPX currently may be a Victim of Momentum Price path with (3) Bearish Wedges & (5 Wave count) . However NASD might comparatively get capped on its move due to negative divergence . ( See the NASD Analysis below)*

**ALERT – QQQQ IS BETTER INDEX TO HEDGE**

# Primary Market Analysis

## SPX – Hrly - Poly trend Analysis

Chart below shows hrly price action & the strength in the market . ( Refer notes within the chart )

The first pull back could be to the rising Poly trend ( and CZ indicated in red 1240-1255). This could be tested on first pull back and then rally back to the old highs. ( A breakdown below the Poly Trend 1240 could be very Bearish ) .

The Price path Pattern SPX should follow would be the Momentum play. Price moves Wave 1-2-3-4-5 (Bearish Wedge) & back to Wave 3 on to nearest hrly CZ around ( 3x3 – 9 EMA) target on negative divergence. . Usually the Price pattern repeats itself 3 times but can fail anytime in between which Could **Trigger POM 14**. We would like to see how it plays out.









# SPX – Time & Price Projection Analysis

*On Bigger Frame , the Projection of Time v/s price is also converging around the current neighborhood.*



# SPX – PEC D- Analysis

*In our Earlier messages – By PEC –D Method we had projections (618 / 718) to 1250, On Thursday we just Jumped price levels outside of it but with poor internals*

*However several other Indices are Still Holding their projections below PEC – D Pattern especially QQQ which has been lead dog for the market but QQQ has been diverging .*



## SPX – Brick Wall of POM's ( Overhead )

- *Chart below is Brick wall build by various POM's of past occurrence .*
- *Thursday, it jumped the Brick Wall CZ ( where the volatility is the highest) with weak internals , we think after going for the momentum spin ( with the Price path as mentioned above) , SPX will come back in the range Sooner rather than later . We will wait and see if POM 14 gets Triggered*



# VIX – PEC D – Analysis

- *PEC –D Pattern on VIX is complete suggests the Top in Market is not very far . VIX may rally First and Re test 25 again whiles SPX could go slightly higher .*





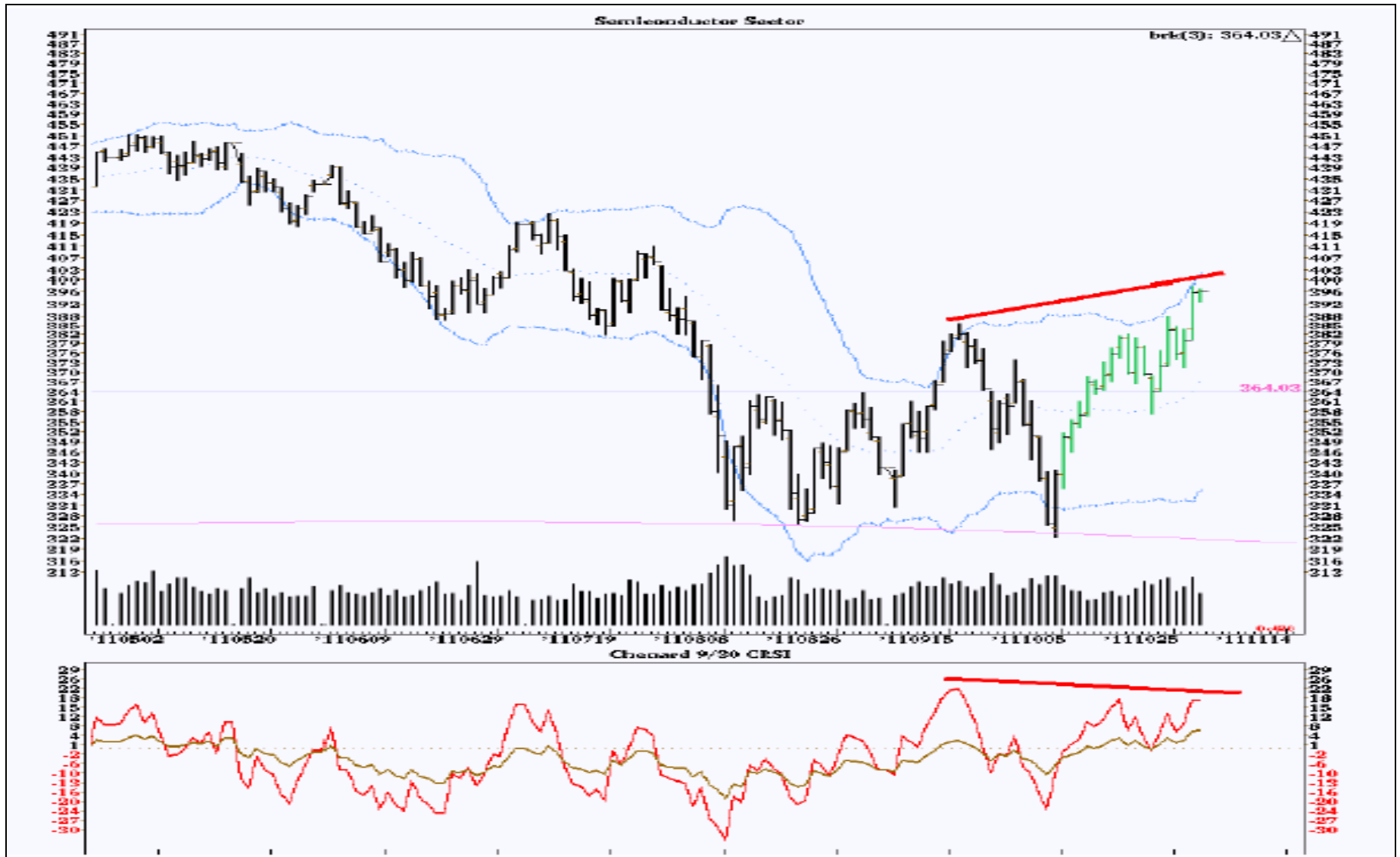
# NASD – Poly trend Analysis

*NASDAQ traditionally leads the rest of the market by anywhere from 3 to 8 trading days. We find confirmation as NASD is currently diverging on Oscillator unable to breakout the prices while the Dow and SPX have Broken out . This is a bearish divergence of the first order. ( Refer notes within the charts )*



# SOX – Hrly - Poly

*Within NASD , 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.*



# QQQ – TICKQ - MC - Oscillator

*In Spite of Thursdays rally QQQ did not break the tops, The MC – Oscillator & TICKQ diverged negatively . This is critical to prove our point that the energy is being dissipated.*





# NASD - PEC -D Analysis

*PEC -D Pattern on QQQ is complete suggests the Top in NASD might be here .*



# • Time Cycle Analysis

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

## The Bradley Model – ( Indicated below)

**OCT Month was up But Bradely Model was indicated down**  
**November is expected to be up ( wait and see)**





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

*Awaiting for Weekly Reversal to negate this effect*

*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 on the Upside within / around Brick Wall Zone

Earlier - Key Bullish reversal on Close SPX 1125 was the First week of reversal from POM 12 Trigger . This was a good Bullish Signal overriding Bearish effects on chart patterns @ 1080



**EXTREAME Sentiment Analysis ( 3<sup>rd</sup> Party Data )** Courtesy :  
SENTIMENT TRADERS

**No Sentiment Indicators are at extremes**

## *SPX v/s Market in News ( Supplement Analysis)*

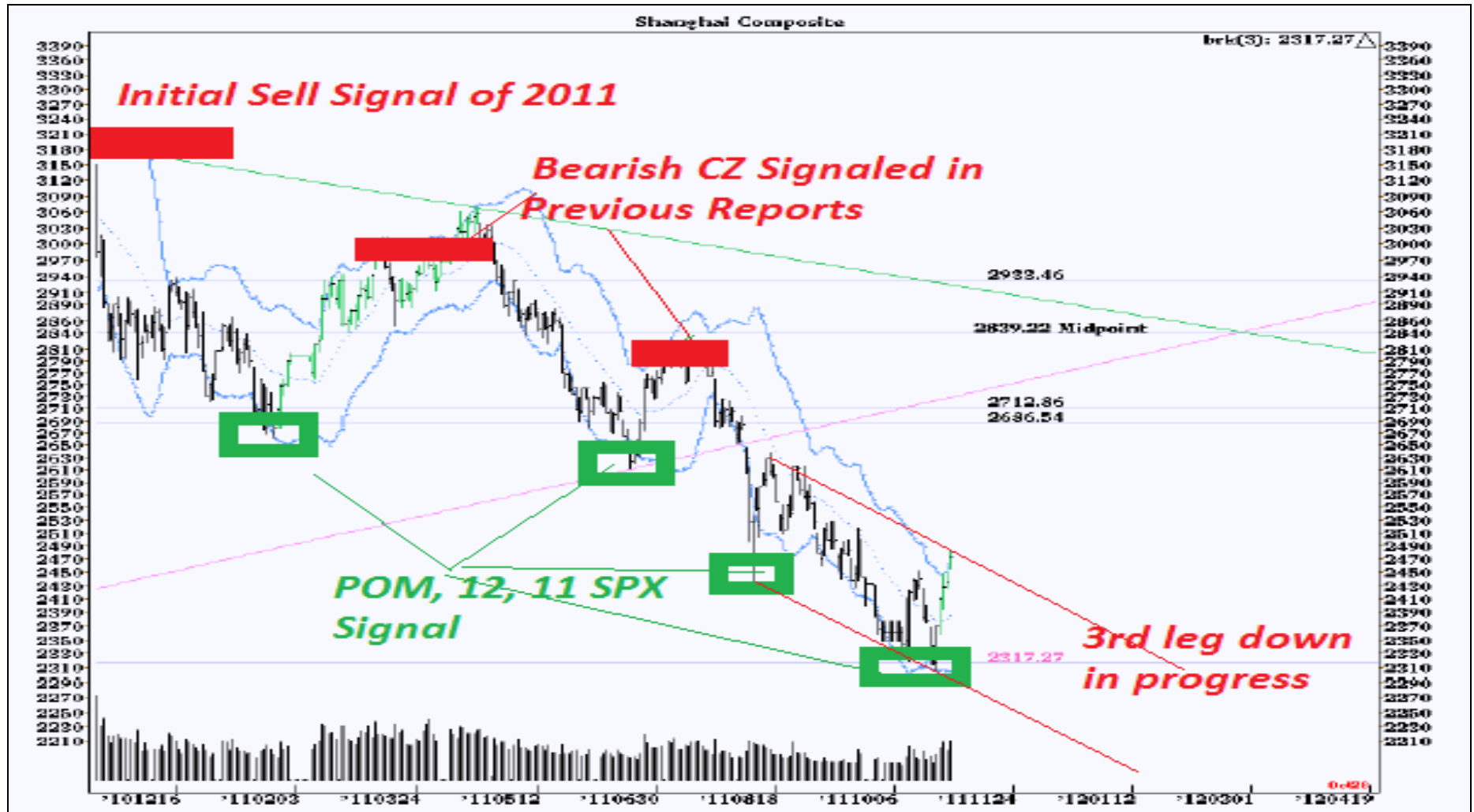
- *CHINA*
- *AUD/USD*



# CHINA - (Supplement Analysis)

The countertrend bounce in the market within 3<sup>rd</sup> Downtrend Channel . China's markets will be under threat . ( Refer notes within the chart ) . Chart below indicated the how AUD / USD move could impact from China

Market has moved from 6500 peak to 2300. For 2011 our Sell Signal at 3200.



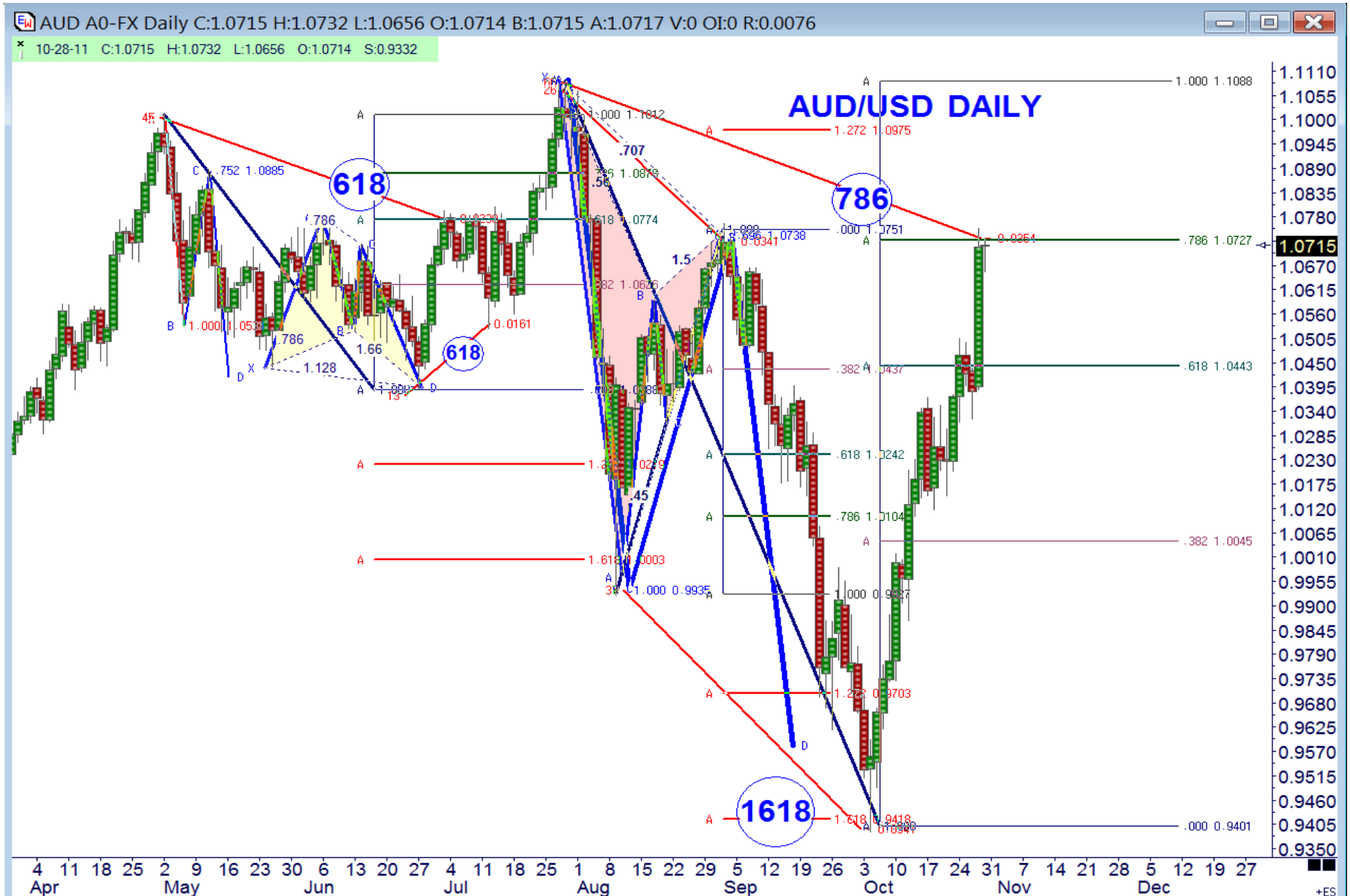
# AUD/USD – Trend & Osc Analysis (*Supplement Analysis*)

*AUD bounced back to Trend line from 0.94 levels we had indicated in our earlier Reports. We as CHINA may not continue to buy as much from Australia . Therefore AUD should remain strong till such time but likely trapped in a range bound trade for now .*



# AUD/USD - PEC -D Analysis - (*Supplement Analysis*)

**PEC -D Pattern is complete @ 618 /786 suggests the bounce might be over @ 1.07 ( Stops always on other side of PEC-D )**



- **SPX – LONGER TERM – CAUTION**

## **No Change from our Previous message**

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