



SG Capital Research

Global Market Insights

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

MAEG- MS – SPX – POM-SG 2011 # SEPT_12

For Immediate Release – Monday AM (EST)

By: Suneil R Pavse

Contact: apavse@aol.com

Market Strategy Global (A # 1) – (SP) - SPX – Closed @ 1154 (Weekly change + 1.4%)

Analysis of Broad Market that includes – Jan 1st 2011 – SPX 1257 (- 8.1 % YTD)

- 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
- 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, (Detail coverage in A # 2 MS)
- Sector Analysis for SPX clues on Money Flows – BKX, SMH (None this week)
- Global Market Analysis for SPX clues – FTSE / EZU, CHINA / EEM. AORD /EWA - (Detail Coverage in A # 2 MS)
- Appendix - History of past 52 Week - SPX –POM Signals & Key Criteria

- **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.*
- *Note – 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 – POM Signals & Price Projections**
- **Trading & Investment Conclusions**

- **Net Short – POM 15 - **None****

- POM 15 Calls – **NONE** Triggered this year

- **Fully Hedge – POM 14 Re -**

- **Alert** - 3rd May @ 1370 to POM 12 – **Alert** 6/23 – 1273- POM 12 Trigger = **97 points**

- During POM 14 regime - Recycle partial capital to Trade from Bullish CZ to CZ - while the bigger Trend kicks in

- **Risk Management Hedges for Reversal - POM 13**

- **NEW - Alert – Triggered on 09/01 - POM 13 (@ 1220)**, from POM 12 – Re run @ 1240 on 8/03 **Alert** for (-20) **points loss but avoided current decline**

- Earlier **Alert** – Triggered on 7/08 - POM 13 (@ 1346 , from POM 12 @ 1273 on 6/23 **Alert** for +73 **points gain** & avoided decline till CZ @ 1300 and @ 1240 POM 12 Re =

- **Net Long – POM 12, POM 11**

- **NEW - Awaiting for test of lower Level to Trigger POM 12 – Re run (No Indication yet)**

- **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 6/23 POM 12 @ 1273 – for NET LONG for target to 1348 POM 13 Trigger on 7/08 **Alert**

- Earlier **Alert** - on 8/03 POM 12 re run @ 1240 – to POM 13 – Triggered @ 1220 **Alert** - 09/01 (**Note** - Gains offered by POM 11 produced Alpha in tough conditions)

• SPX – Insights

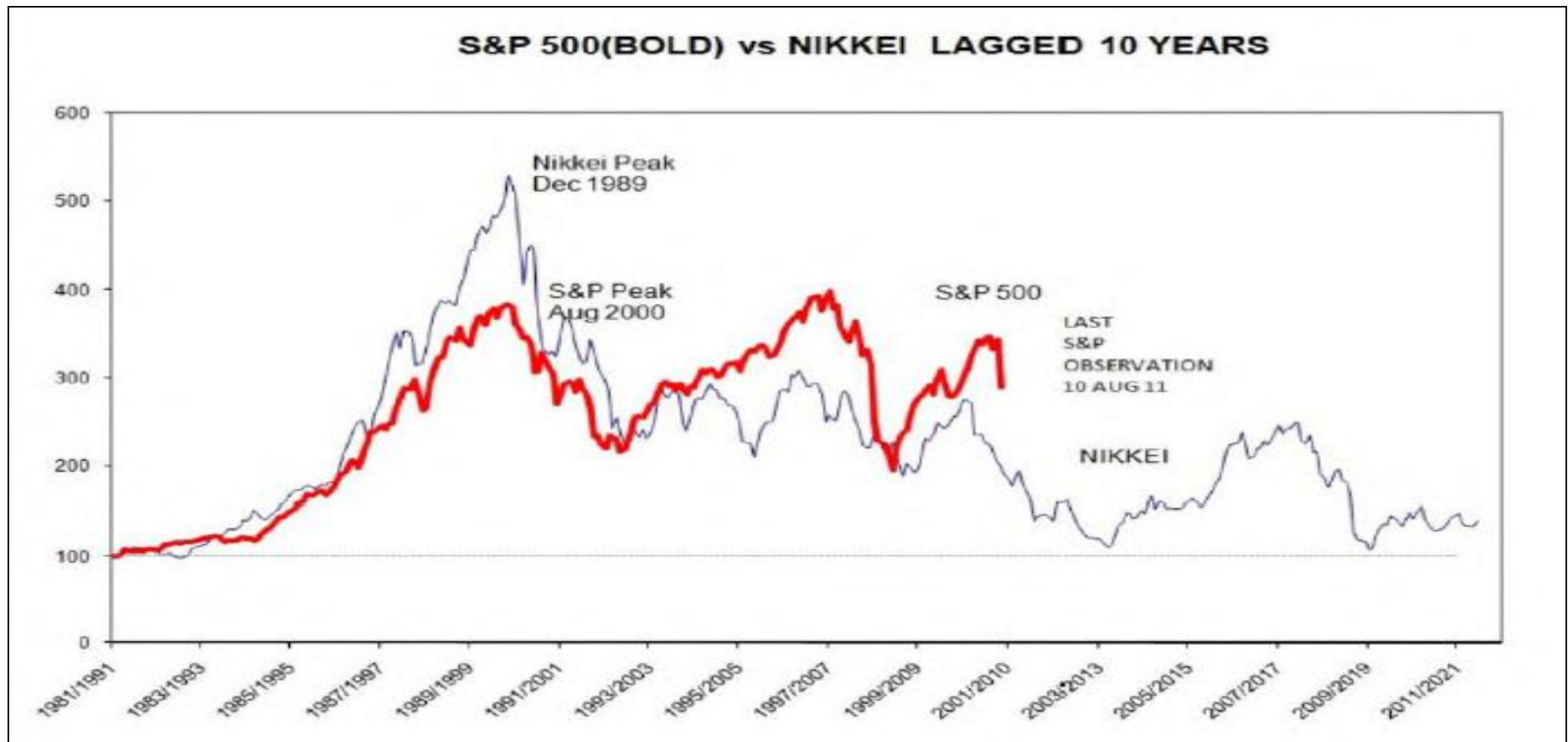
- **We remain on POM 13 @ 1220 Trigger . On 1st Sept – AM - Email Alert – Announcement - Risks Management . This Turned out “Timely call “ considering we were on vacation that day and had very limited access to the computer. As of this writing, SPX is at 1140. (82 points decline since our Alert (- 7% drop) .**
- **At 1220 SPX , Market gave a very good opportunity for Position sizing & rebalance Hedges on Net exposures depending on the Portfolio Objectives & its Beta tolerances .**
- **Also we Indicated on A # 2 – MS Report on last Thursday , 9/07 SPX @ 1200 SPX , a Caution sign was raised (on Secondary bounce) . Majority of the indices were holding on BEARSH FLAGS at that time which had limited upside.**
- **Based on Our Risk / Reward Analysis, We have been looking for POM 12 Re –Run, only upon successful test (No Indication yet) We will let the market prove itself first. The Re test towards the Bottom heavy unfinished business around 1100 - 1120 is Critical . This should be good floor footing at Previous liquidation Area of POM 11**
- **A good Bottom would be to break the lows and undercut the prices and show positive divergence to prove the point on bottom formation. Simultaneously Re test the highs in VIX for another fearful move**
- **Our Price Objective of 1240 (We projected in earlier Reports) was almost met with Tick high of 1231. Overall the 6-year cycle peak due this early October. We are entering the most volatile seasonality of the market**
- **European Market got clobbered last week . Our Key indicator for Monitoring has been DAX , close below 5100 would be something to look very closely for Bulls as well as Bears.**
- **Today is 12th Sept, Full Moon cycle is due. This coincides with 9/11 Anniversary as well .**
- **This week , short term “T” Termination is trying to pull the SPX into the 15th: a bounce should be coming as we approach a ST Miniature CZ . This combined with the Turn dates & Cycle work, as we approach the Option expiration date (see chart below suggest a bounce) but remember that bounces are countertrend moves. (This very might be 3 Drives to the Top , we will preview it if bounce begins)**

SPX v/s NIKKEI Market Analysis – Bigger Picture

Our old friend at MF Global – Chicago, who we respect a great deal brought this my attention this weekend. SPX v/s NIKKEI - I overlapped his Analysis over our own Kress Cycle that we have previewed on previous occasions. (chart below)

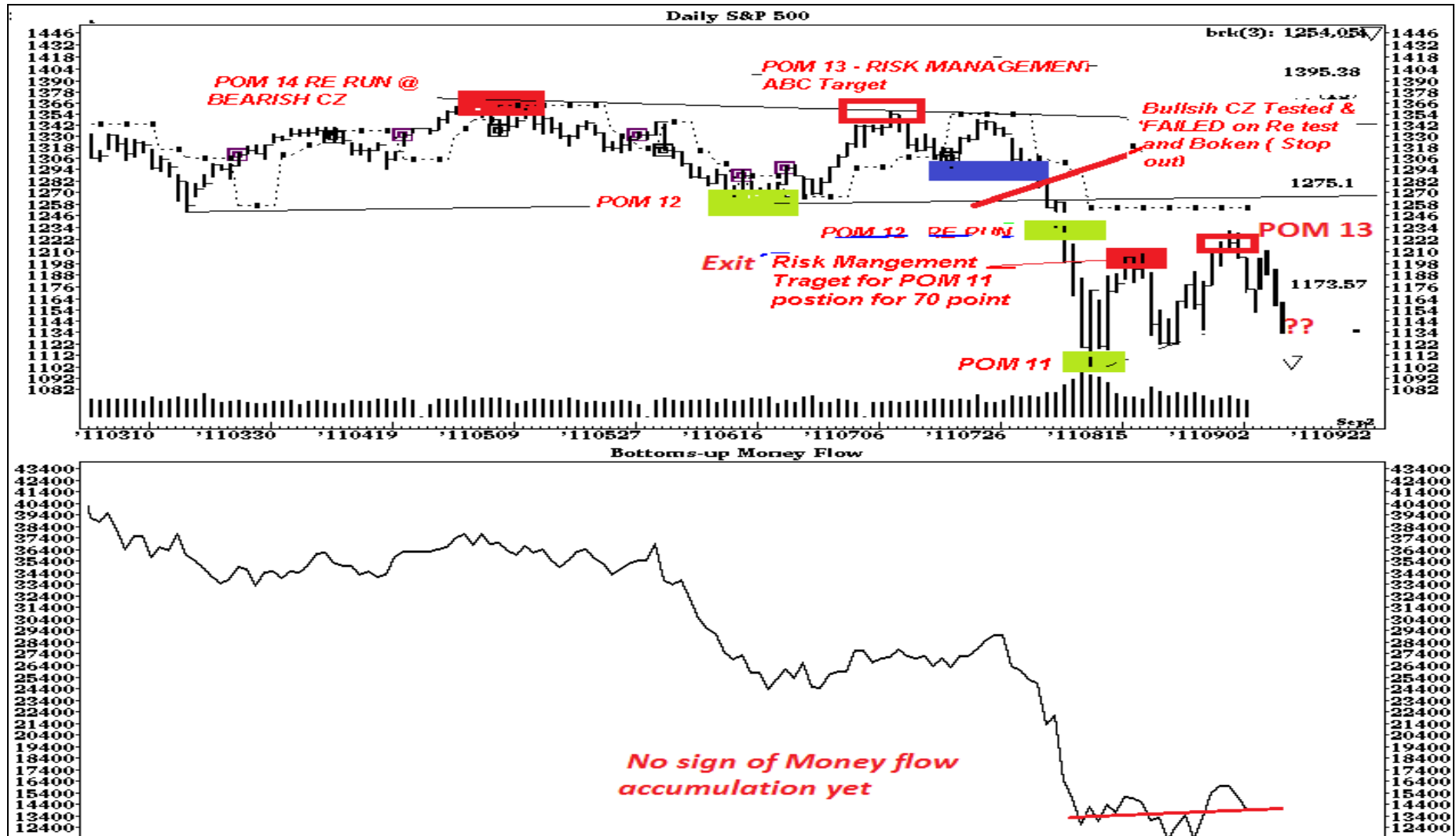
The Bigger picture - The larger trend is clearly down and growing stronger . Although the exact date of the peak in the 6-year cycle is early October. The Kress cycles remain down going into a major nest of cycle lows due in 2014 .

Such charts are always interesting for Dry discussions but for us, the most important is Focus on Turing Point within those moves & Triggers Real Time



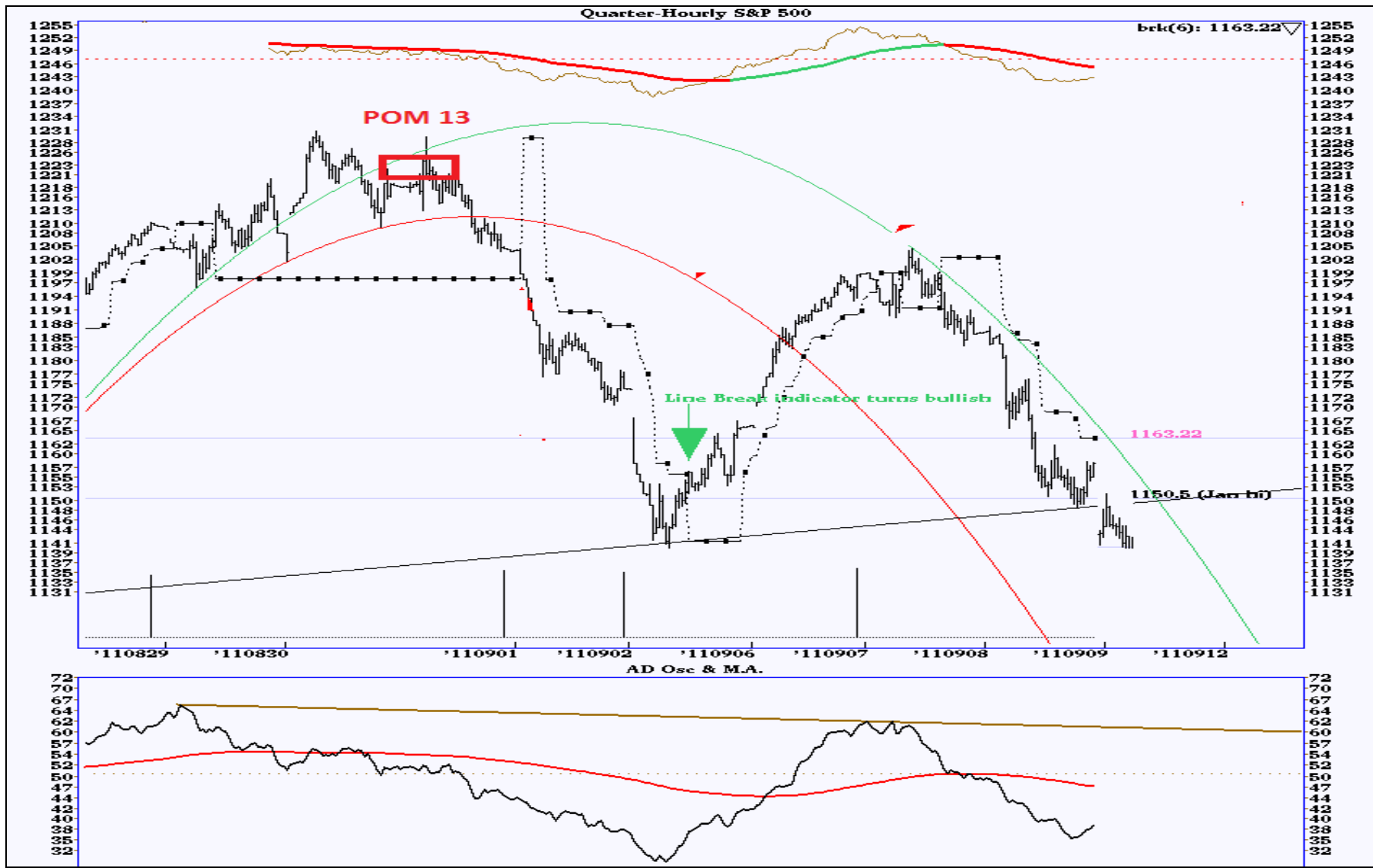
Primary Market Analysis –

SPX – (For Price / Time Triggers - See notes within the chart) . Since SPX 1100 lows , as we witnessed the market rallies without proper testing process tends to have a tremendous headwinds towards its upper CZ (Earlier POM's) . The bottom heavy imbalanced Market prices will gravitate towards it like magnet . In our earlier commentary we warned of such outcome.



SPY – Poly Trend Analytics

POM 13 on SPX coincided well with Poly Trend Top as well (see chart below) , Oscillator has been diverging negatively.
Secondary High at 1205 last week was also halted at Poly Trend



SPY – Wave - Analytics

SPX started moving to wave 5 last week as expected . Wave count . We completed our wave 4 top last midweek and wave 5 down in healthy process of testing We are likely to see that end to wave 5 (completing a larger And, from an five-wave move to the downside, ending the first larger- wave down from the all-time highs). We wait for the confirmation from critical POM elements which are much more powerful than this indicator.

- . A very short term “T” is trying to pull the SPX up into the 15th (see the chart below) :



VIX - Trend Analysis

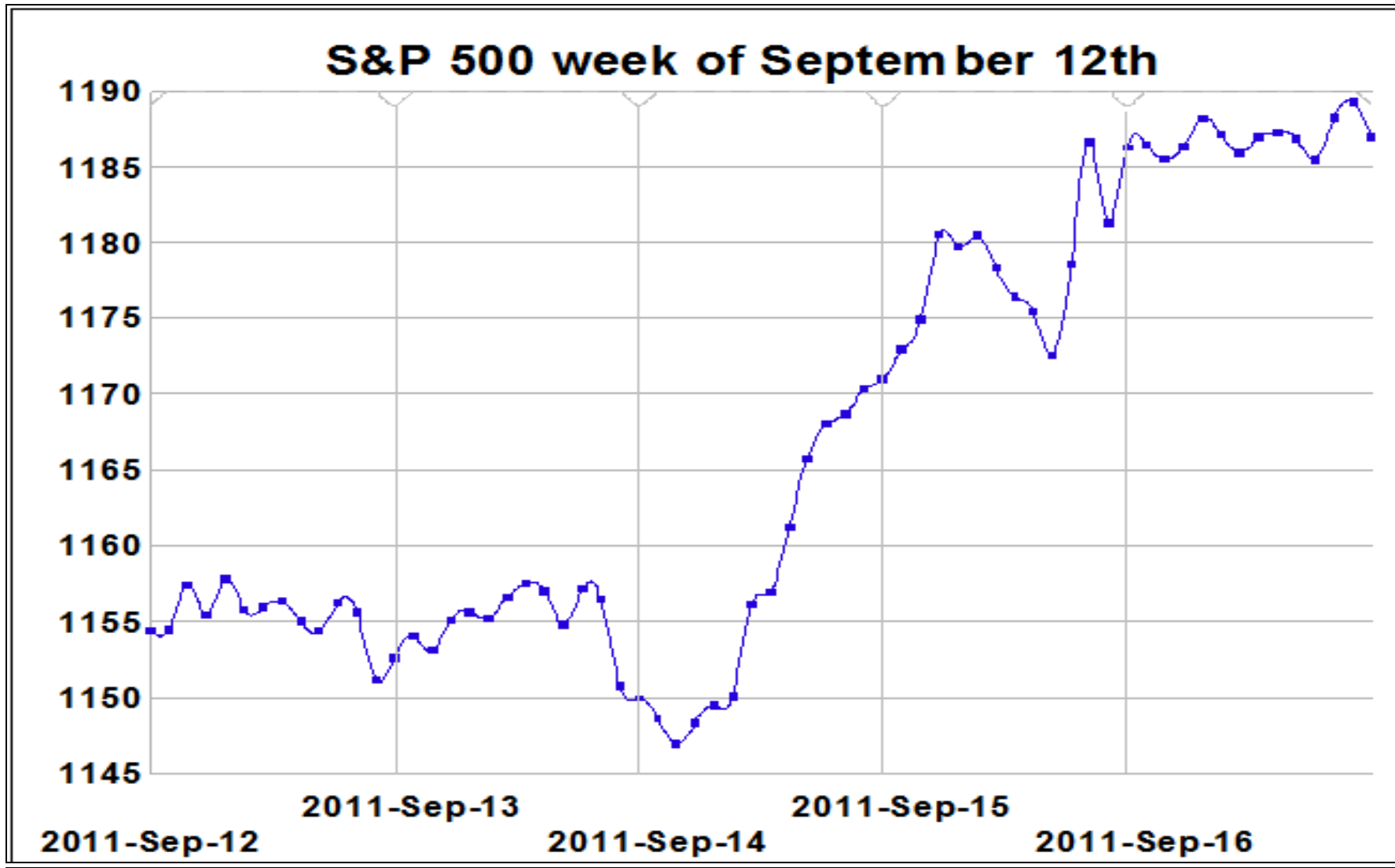
VIX started moving towards the wave 5 last week as expected . SPX & VIX has inverted Wave count . We completed our wave 4 last midweek and now wave 5. We will see how far it goes

Earlier VIX tested the April 2010 Highs at 48 ,



Cycle Analysis

On Short term basis Cycle work suggest a bounce as Option expiration date approaches. (see chart below suggest a bounce) but remember that bounces are countertrend moves only for time being .



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

Over longer term – Multiple Fib Streams & Main CZ Converge to 1100 -1065 (In green), Market still hasn't broken down yet as seen in chart below (weekly appearances) . It appears more of pull back mode of larger move originated from March lows . Any bounces should Limit RSI to 50



- Advance / Decline Internal behavior Analysis

- A/D Line NH / NL v/s NYSE on Equities only - SHORT TERM
- A/D Oscillator Volume v/s NYSE on Equities only - SHORT TERM
- A/D Line NH / NL v/s NYSE on Equities only - MID TERM
- A/D line_% BULLISH Equity in SPX BREADTH - MID TERM -

A/D Line v/s NYSE on Equities only - **SHORT TERM** -

Rally off the POM 11 bottom – A/D line has been in sync (not lagging), this is positive. Additional positive is (Red Arrow). A/D line has been leading in the last rally . **This suggest that the pullback should show +ve divergence towards POM 12 Re run correction**



Volume A/D Oscillator v/s NYSE on Equities only - **SHORT TERM** -

Here the Volume oscillator on A/D (indicated in yellow) on decline has been lagging . This is positive sign . **This suggest that the pullback should show +ve divergence towards POM 12 Re run. correction .**



A/D Line- HL v/s NYSE on Equities only - **MID TERM** -

At the Current POM 13 (1220) & Recent pull back of 7% has not resulted in HL Ratio / EMA cross to Trigger Outright Sell . (circled in red). Earlier The last Sell has been on 3rd May when SPX Triggered POM 13 @ 1348 (see chart below)

Since last October EMA – HL Ratio been on Buy Signal.

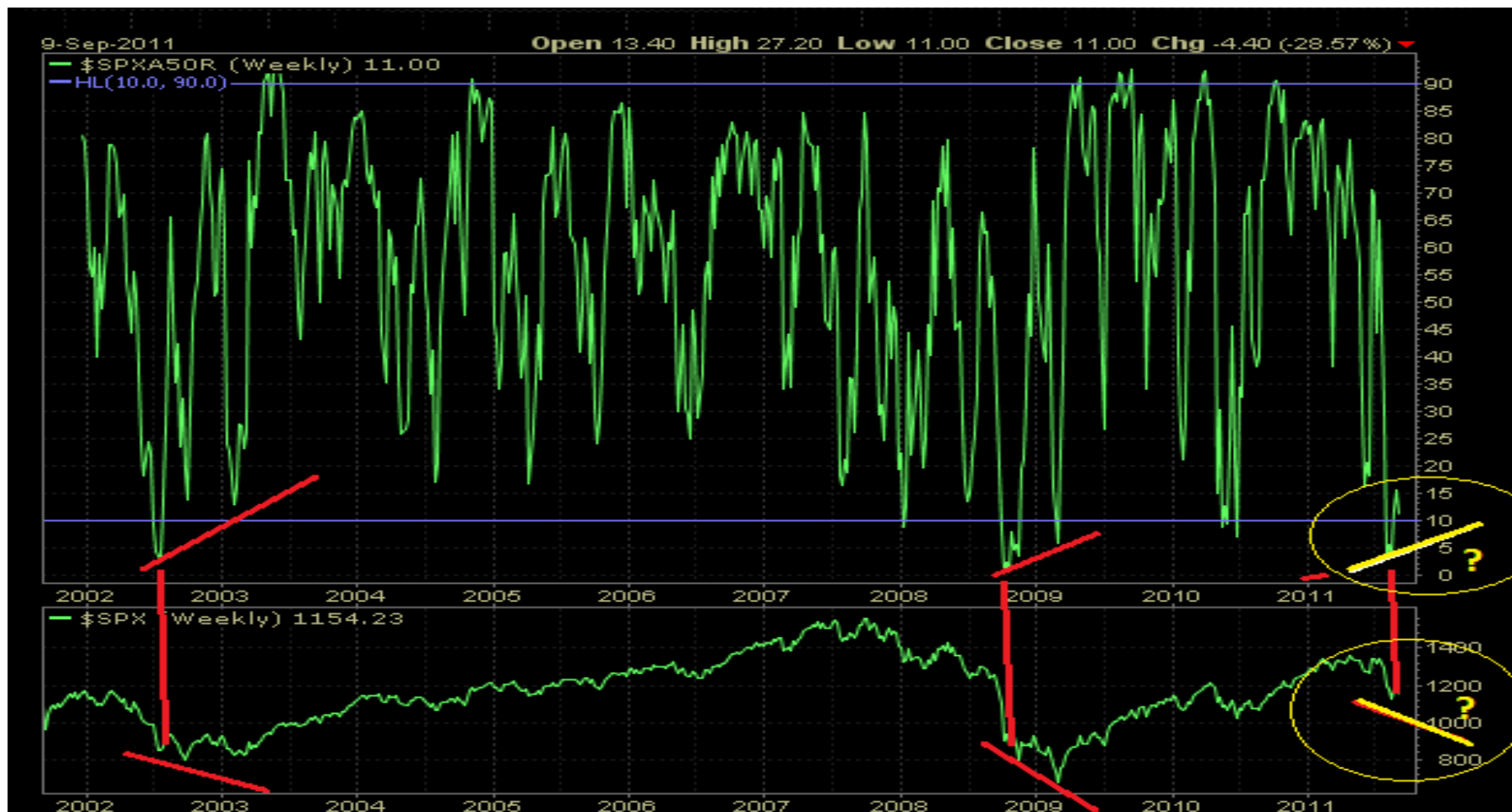


A / D - SPX – % BULLISH IN SPX BREADTH – 50 D NH / NL – MID TERM -

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

Extremes below 5 – This has Long term history for sensible bottom , This will be Bullish once the rally begins on POM 12 Re test. – This is positive

A/D line measured by (% of stocks above 50%) has reached conditions where the market has Bottomed out in past below reading (indicated below) . **We require another Higher high on HL & lower Lows on SPY for stable bottom (CIRCLED IN YELLOW)**



SPX v/s CBOE – PUT / CALL RATIO on Multiple Derivatives – **MID TERM -**

PUT / CALL on 3rd derivatives is approaching 1.15 where previous ST bottoms have occurred. Red line and Circled in Red Reached Extremes at 1.3, This should be positive for POM 12 Re Run .

(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 – WEEKLY – Long Term EMA - Cross – Caution

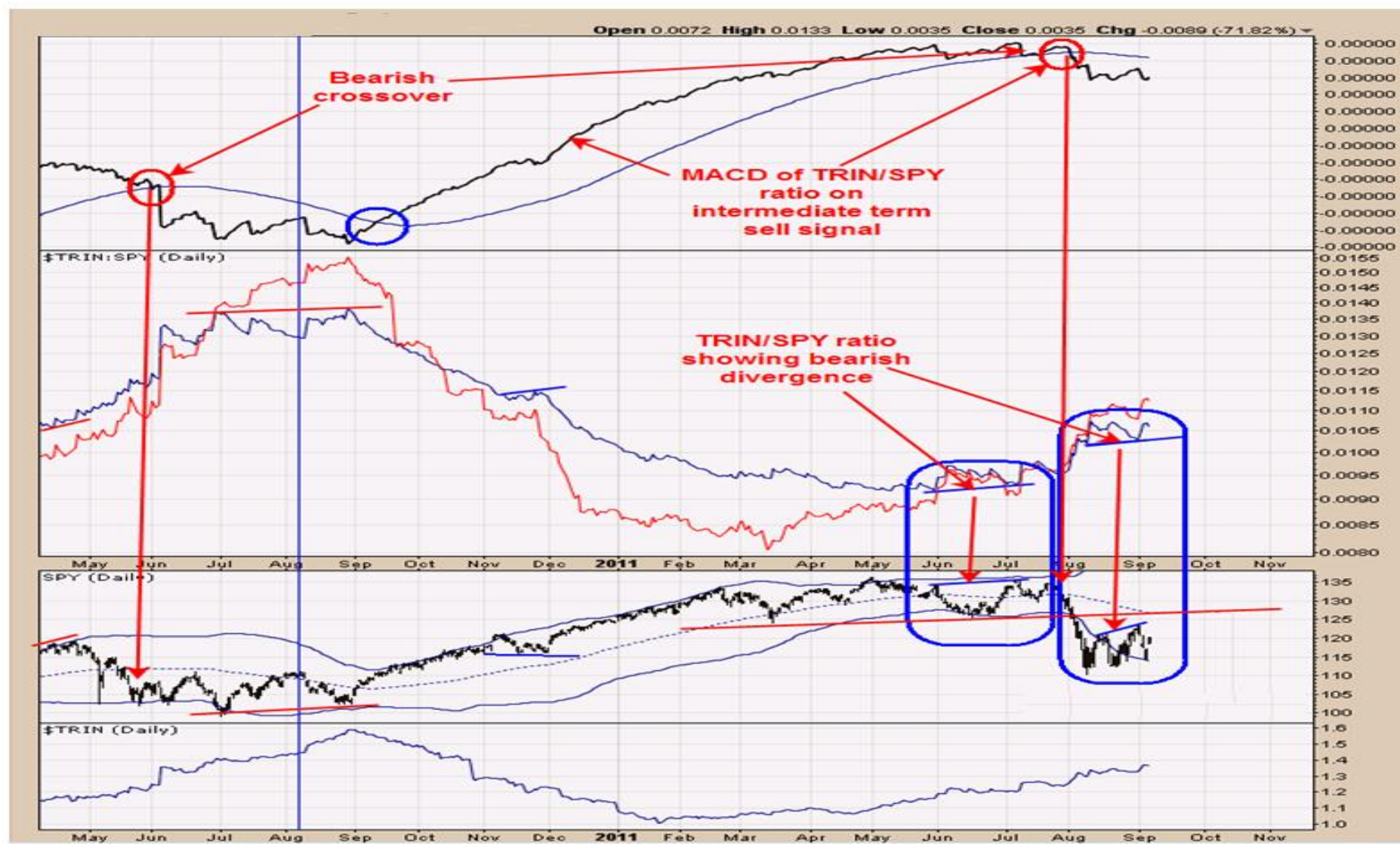
We will keep eye on this chart below – Long term 1990 to 2011 One of the Indicator to check if Large decline in SPX has began (Refer last red circle) crossed (We had warned in our previous Commentary this could happen at 1240)

PPO is more critical during the EMA cross over , PPO has dropped below 0 level (2nd window) . We will wait and see



SPX – Weekly – **Long Term**- TRIN / SPY- Ratio Cross – **Caution**

TRIN/SPY ratio helps to identify trend with energy . Divergence show up when the SPY makes a higher high and the TRIN/SPY ratio makes a higher low In the current consolidation the SPY has made a higher high and the TRIN/SPY ratio made a higher low which is a bearish sign



SPX - MONTHLY - Long Term EMA - Cross - Caution

This is Monthly chart – Some bearish development. (we wait and see) RSI is breaking down below 50 for the First time . MACD is crossing over Bearishly.



Inter market Analysis – TNX v/s SPX

Intermarket Trends confirms and often leads to use one market as a confirming or leading indicator of another. Our Analysis with CZ – PQV , outside the market assists for Key Inflection point on SPX

Recent price action on TNX suggested to us the drop in SPX was at a Turn . the falling green line shows that yields failed to confirm the August bounce in stocks before hitting a new low earlier this week. That drop in bond yields also warned that the short-term bounce in stocks was on weak footing and set the stage for past week's downturn.



Inter market Analysis – OIL v/s SPX

Commodity leads Market lower. (ex GLD, Agro) . Chart below Oil, The Correlation Coefficient shows that link becoming much stronger, the price of crude has been leading stocks lower. The breakdown in crude during June also warned of the coming drop in stocks during August. Both markets ended the week on the downside.



Inter market Analysis – SOX v/s SPX

Our best leading index, SOX, is seeing virtually no buying interest. The trend remains down, as does the general market



Dow Transport Theory – **No signal**

We follow Dow theory for Tacking purpose only – with 4 criteria for Buy Trigger / Sell Trigger (See Appendix below) .

IYT cross with DIA on price strength has not given signal (chart below) and the Ratio lineIYT / DIA is not broken downtrend (see chart below 2nd window), Trigger Buy will come in Cross of down trend line (We will monitor and advise in next message) – Dow Theory usually is late comer to the party

Earlier had Trigger Buy in Green and stopped out at Red both around the same price of 11900 (As Alerted in our Previous Reports)

Note - Based on conventional DOW THEORY(stated in Jeff Saut Report , Triggered Buy 12800 since early May around the time of POM 14 re run



- 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)

AUG Month was – 6.0% as expected by Bradely Model
Sepeتمبر is expected down & up – close flat (wait and see)



Calendar Cycle - Cycle dates – Historically

AUG Month was – 6.0 % v/s up + 0.52% per Historical Cycle - September is expected up (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%

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

SENTIMENT TRADERS - NO SIGNAL - None of the Critical Indicators 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 ,

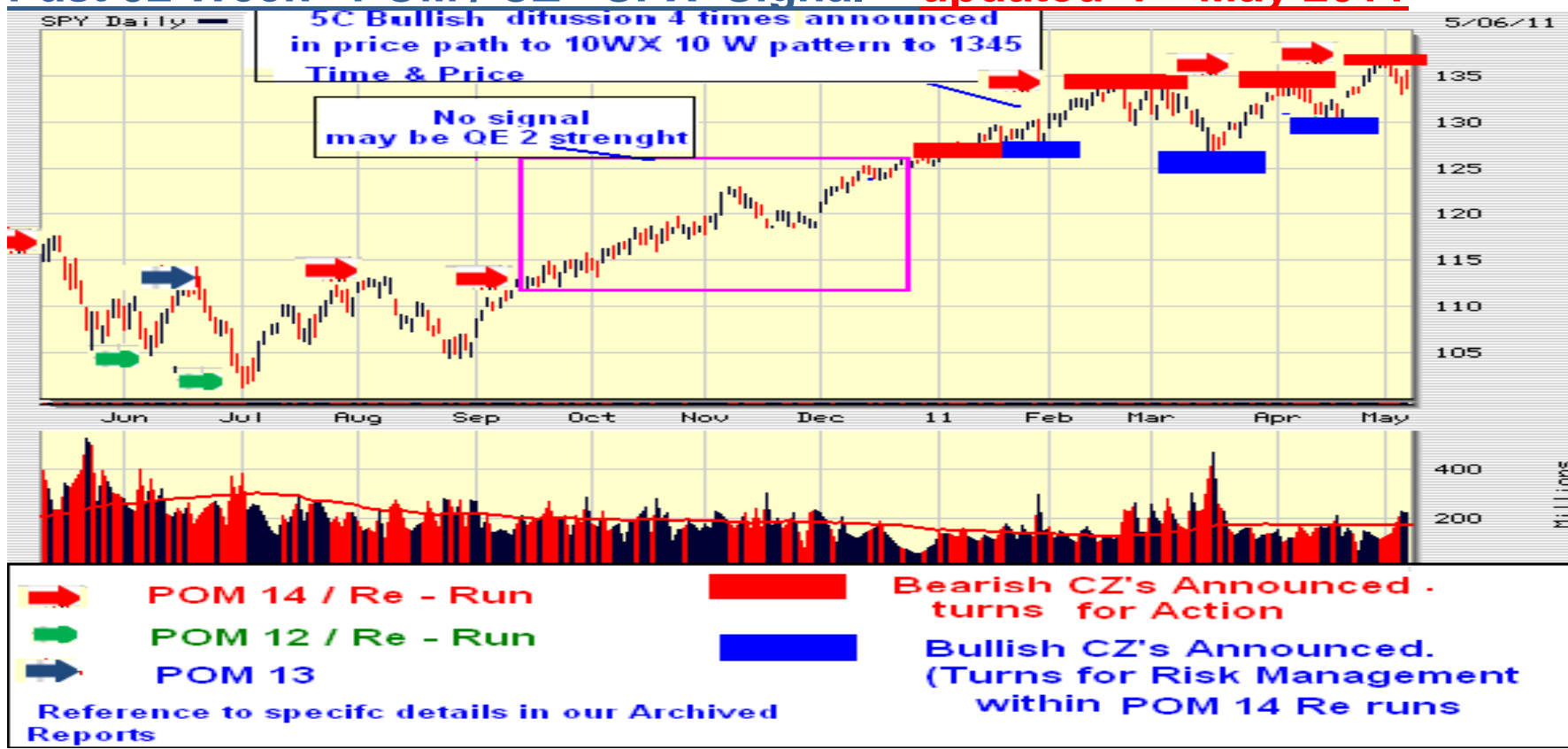
Our Behavior Indicators Commercial Hedges , AAll etc Sentiment Indicators, Insiders activity, Speculation activity,

Based on current market condition and the probability of Indicators we point out the EXTERME INDICATOR ONLY as a observation points.

- **% Sectors Extremes**
- **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 - AAll, Investors Intelligence, NAAIM Manager Sentiment, Market Vane, Options Sentiment, Mutual Funds Sentiments, Insiders Selling*
- **Rydex Bull / Bear – Leveraged Ratio**
- **Rydex / Money Ratio Indicator**
- **Smart / Dump Money Ratio Indicator**
- **Down Pressure on SPX Indicator**

Appendix

- Past 52 Week - POM / CZ - SPX Signal - **updated 7th May 2011**



- 2010 - POM - SPX Signal



• Past 52 Week DOW THEORY Signal - updated 20th April

In chart below – top most window - when IYT prices Trades above DIA prices (– green arrow) & , Confirmed by the break of blue line on IYT / DIA Ratio (window 2 below) Triggers a Buy Signal. As long as both remains in same trading overlap pattern.As soon as IYT breaks below (red arrow) confirmed by breakdown in ratio on IYT / DIA “ Sell is signal” is trigger till next time it repeats itself as indicated in Blue bar (which we are awaiting for Triggers) .

point – In spite of Sell Signal by this DOW Theory end Jan (which we used as PRE – Qualification) The real sell by our Method came on 19th Feb) , by the time IYT moved up 7% towards the CZ – Validation to finally get Trigger in PQV and then fell apart (Refer sector Report, Feb Edition)



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

Disclaimer : The information in this report has been taken from sources believed to be reliable but SG Capital Research does not warrant its accuracy or completeness. Any opinions expressed herein reflect our judgment at this date and are subject to change. This document is for private circulation and for general information only. It is not intended as an offer or solicitation with respect

to the purchase or sale of any security or as personalized investment advice. SG Capital Research or its Author does not assume any liability for any loss which may result from the reliance by any person or persons upon any such information or opinions. These views are given without responsibility on the part of SG Capital Research or its officials. No part of this report may be reproduced in any manner as Author reserves the distribution rights. Under Copyright 2002 Act: It is a violation of federal copyright and imposes liability for such infringement.