



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_19
For Immediate Release – *Monday AM (EST)*

Market Strategy Global (A # 1) – (SP) - SPX – Closed @ 1216 (**Weekly change + 5.3%**)

Analysis of Broad Market that includes – Jan 1st 2011 – SPX 1257 (**- 3.3% 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 ,EWH. 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**

- 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 continue to remain on POM 13 @ 1220 Trigger (1st Sept – AM - Email Alert) . Risk Management Announcement This the area to consider Position sizing & rebalance Hedges on Net exposures depending on the Portfolio Objectives & its Beta tolerances .**
- **Our Price Objective of 1240 (We projected in earlier Reports) was almost met with Tick high of 1231. However there is a possibility we may re test that area & fail. This could very well Trigger POM 14 . But currently we remain at POM 13 @ 1220. Overall the 6-year cycle peak due this early October. We have entered the most volatile seasonality of the market**
- **Based on Our Risk / Reward Analysis, We have been looking for POM 12 Re –Run, only upon successful test of lows (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 created 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**
- **Last week's note, we suggested 12th Sept Full Moon cycle, 9/11 Anniversary turns, "T" Termination into 15th Sept, approached miniature CZ for bounce. This combined with Cycle work lows (which had a chart projection of from SPX 1145 to 1190) on positive option expiration week bias to complete the 3 drives to the Top. All proved its merit (Refer Commentary A #1 MS – Dated 09/12).....But remember that it would be bounce only .**
- **The week following positive options expiration as expired put hedges are replaced. Rebalancing / Re purchasing puts initiates a bearish position. This process puts downward pressure on the underlying Index . Thus, the week following expiration tends to have a downward bias. Trading range of such nature SPX 1130 -1200 have straddle sellers It is a Traders paradise .**

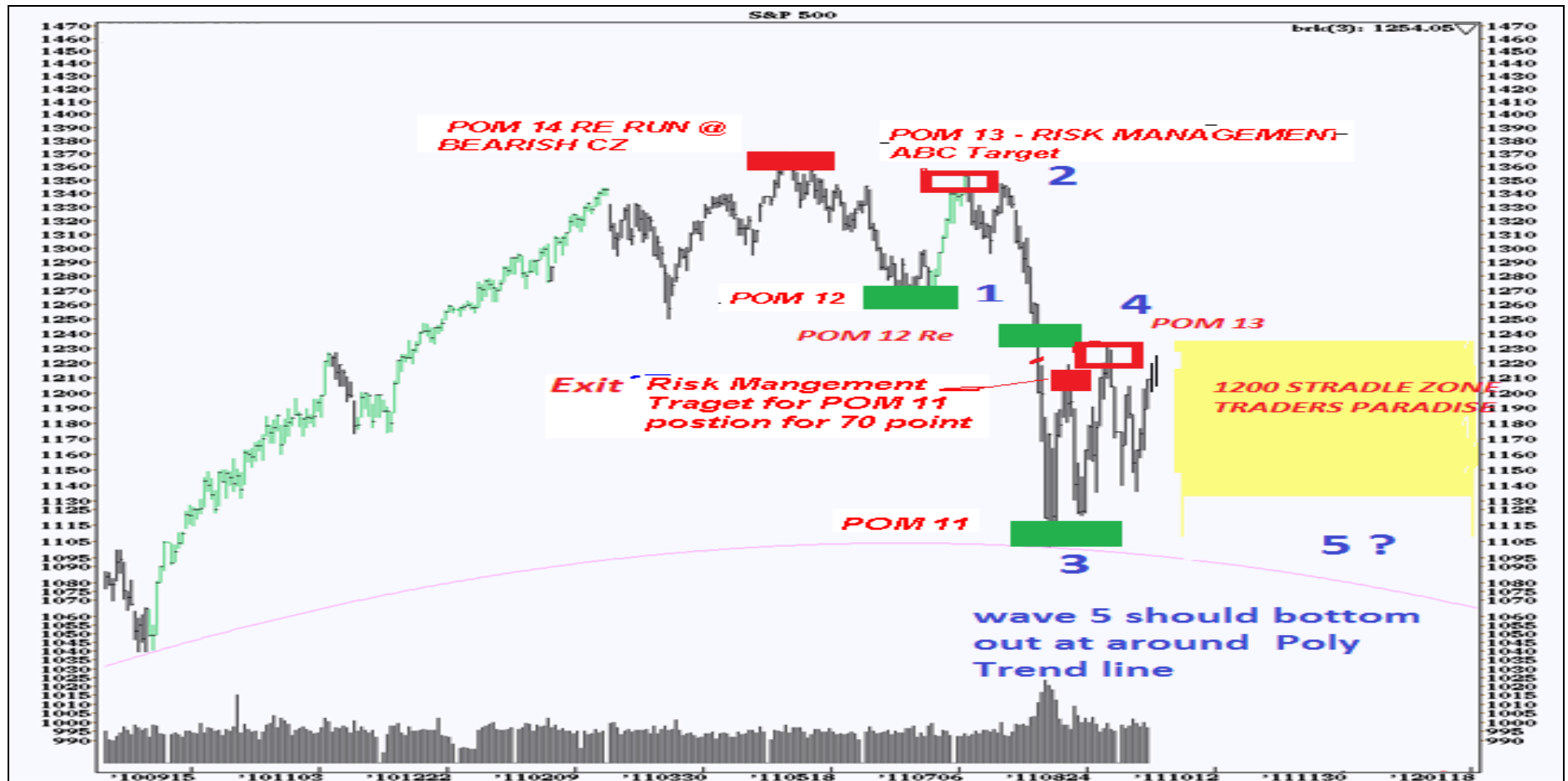
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- ***The 6-year cycle peaked in terms of price in May, although the time peak is schedule for the end of September/beginning of October with a very less probability for the SPX to exceed the 1,375 price peak at the forthcoming time peak.***
- ***The Fed meets this week and market expects to announce some sort of QE3. There is no telling how the market will react to the Fed policy statement. But this is a Repeat of Sept last year on QE 2***
- ***Key markets going in consolidation within Trading Range 1120 -1200 with Unique patterns - QQQ (3 drives to the Top, IWM (Bearish Flag) & SPX (Bottom Diamond Pattern) with weak internal (See each chart below)***

SPX Waves

Since SPX 1100 lows in AUG , all the market rallies have been without proper testing process. These tends to have a tremendous headwinds towards its upper CZ (Earlier POM areas) . The bottom heavy imbalanced Market prices will gravitate towards lows like magnet sooner then later.

SPX completed our wave 4, wave 5 down is healthy process of testing towards Poly Trend Top & POM11 – CZ Areas. We are likely to see that end to wave 5 (completing a larger five-wave move to the downside, ending the first larger- wave down from the all-time highs).



VIX - Waves, CZ Analysis

VIX is testing its CZ area currently . We use the PQV volume on couple of ETF's which has given good signals in past . Also VIX move is coinciding with WAVE Count as well. Currently started moving towards the wave 5 as expected . SPX & VIX has inverted Wave count . We completed our wave 4 and now wait for wave 5.

Earlier VIX tested the April 2010 Highs at 48 ,



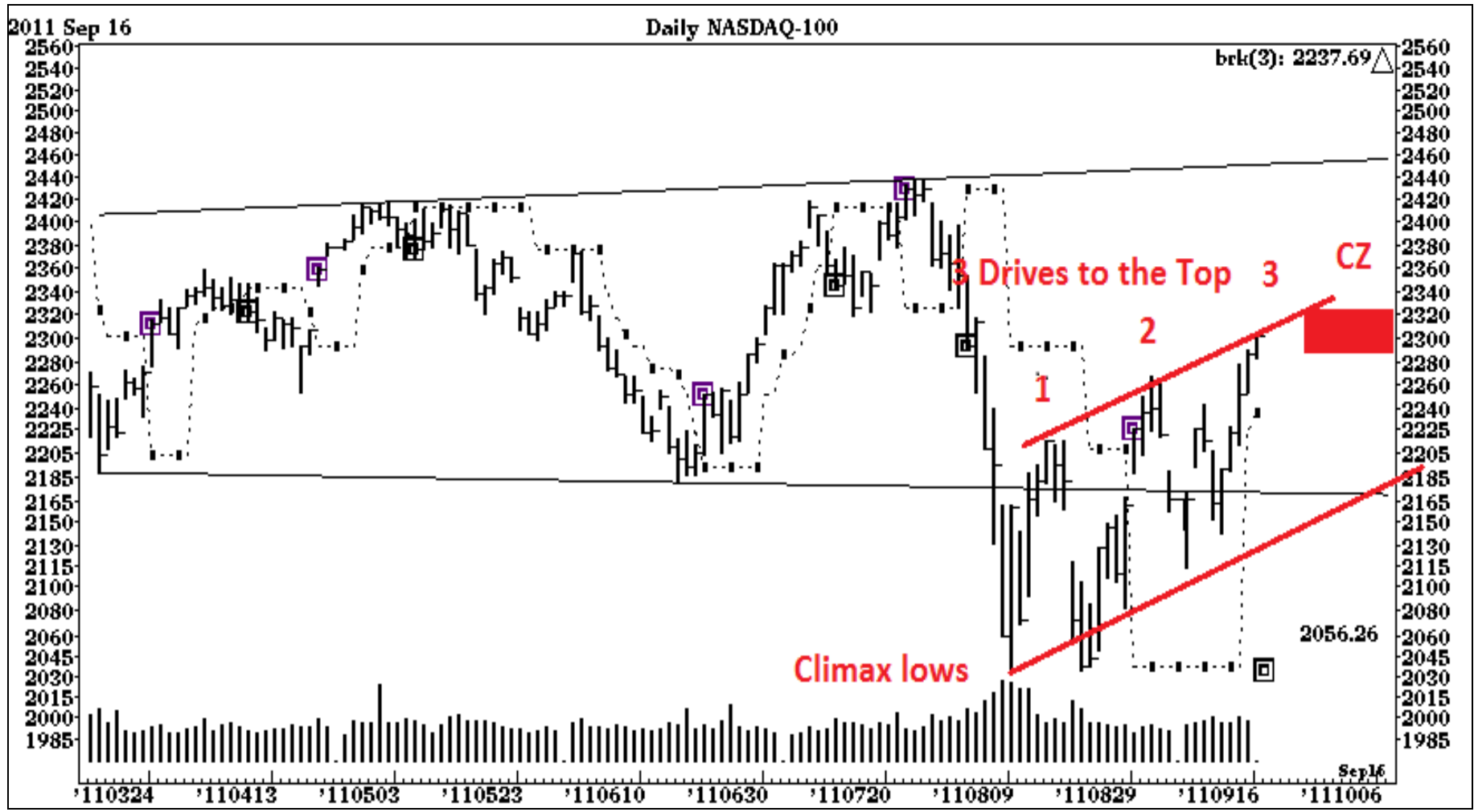
SPX - DMA & Trend Analysis

Bearish Flag and consolidation in progress below key critical DMA's that has served well in past. .



NASD – 100

At the 8/9 low a “Selling Climax” formed . After Selling climax, stronger market tends to form 3 - Drives to the Top . We see that pattern quite visible in NASD 100 (below) . This pattern has high probability of testing the Climax lows when the DEMA – NQ curve at 3rd Drive had +900 Ticks & TRIN Summation Index was 3,. Currently the price path has converged towards the CZ indicated in red (Refer to QQQ – CZ in A # 2 MS Report) .



SPX v/s \$ COPPER

Past 3 weeks, Copper has been heading down with -ve divergence with SPX. In past (Circled in Blue) such occurrence has resulted in Sell off the market (Yellow line).



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 line ...IYT / 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

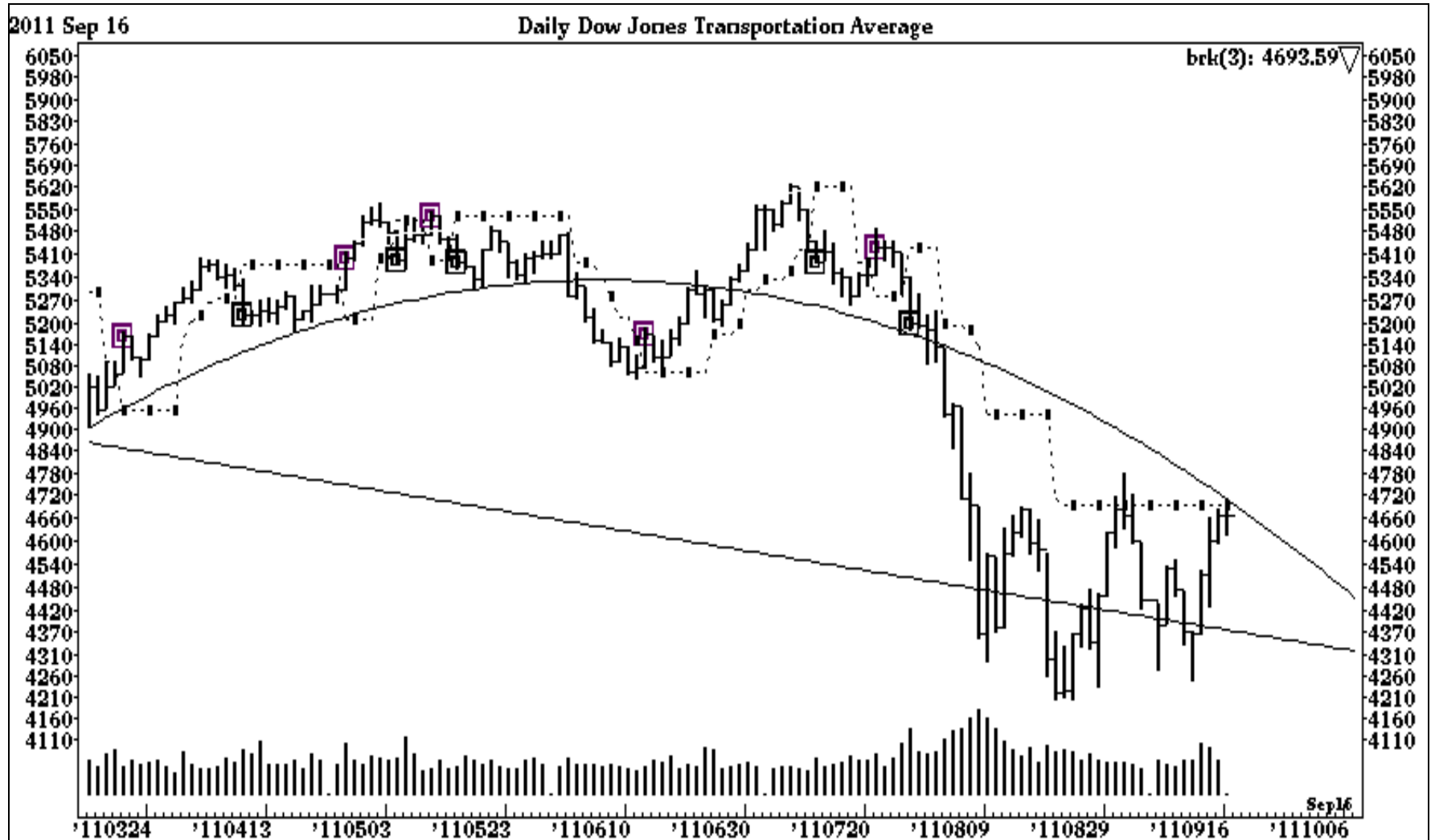
Earlier had Trigger Buy in Green and stopped out at Red both around the same price of 11900 (As Alerted in our Previous Reports)

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



Dow Transport

However DOW Transport has reached the Poly Trend from underneath on right side of the curve . Suggest weak pattern.

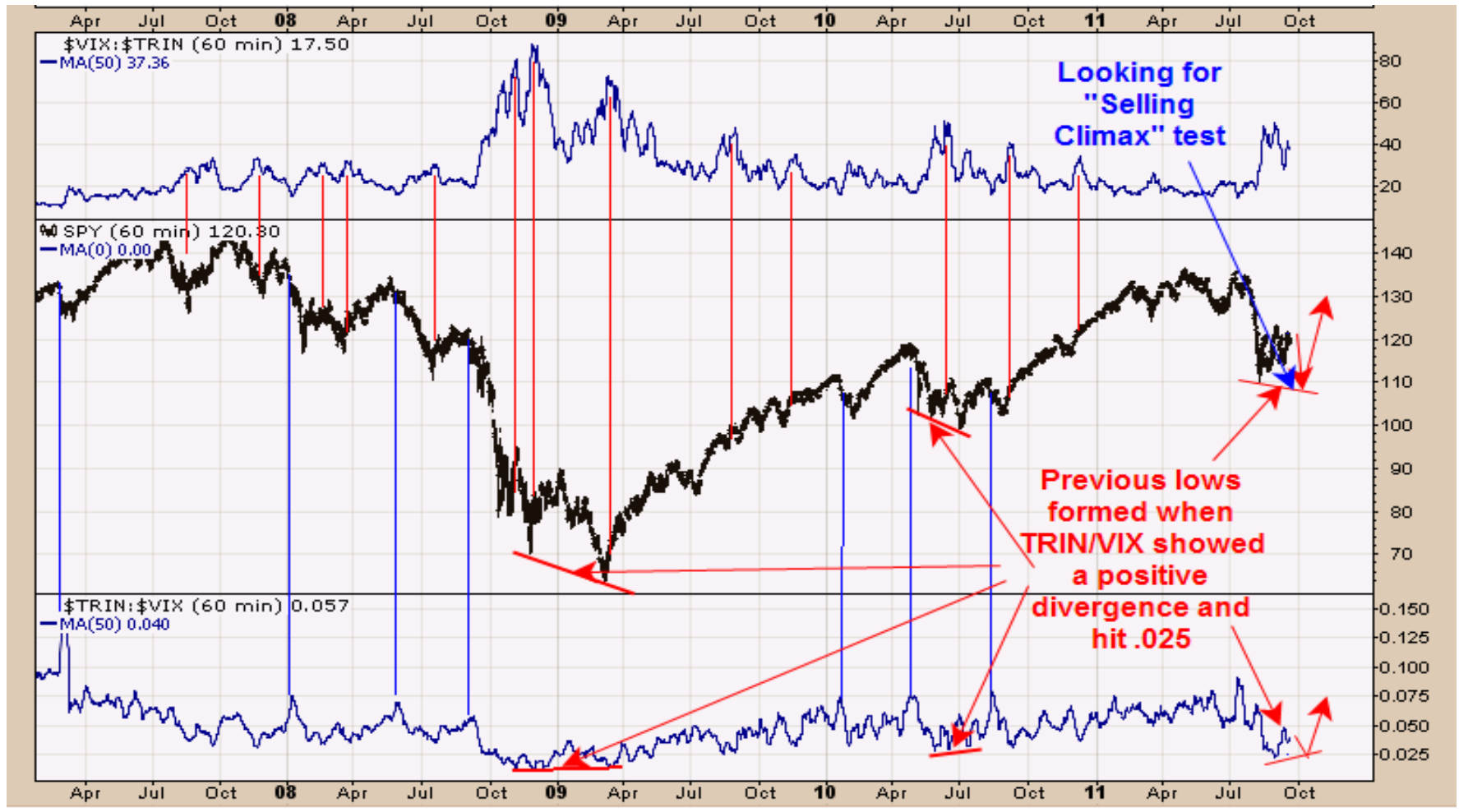


- **SPX – MID TERM**

Once all the Short term projections (indicated in above charts) are satisfied and the Market completes a successful test of the previous POM 11 areas then we think another Rally is left in the market based on the Charts and Indicators shown below.

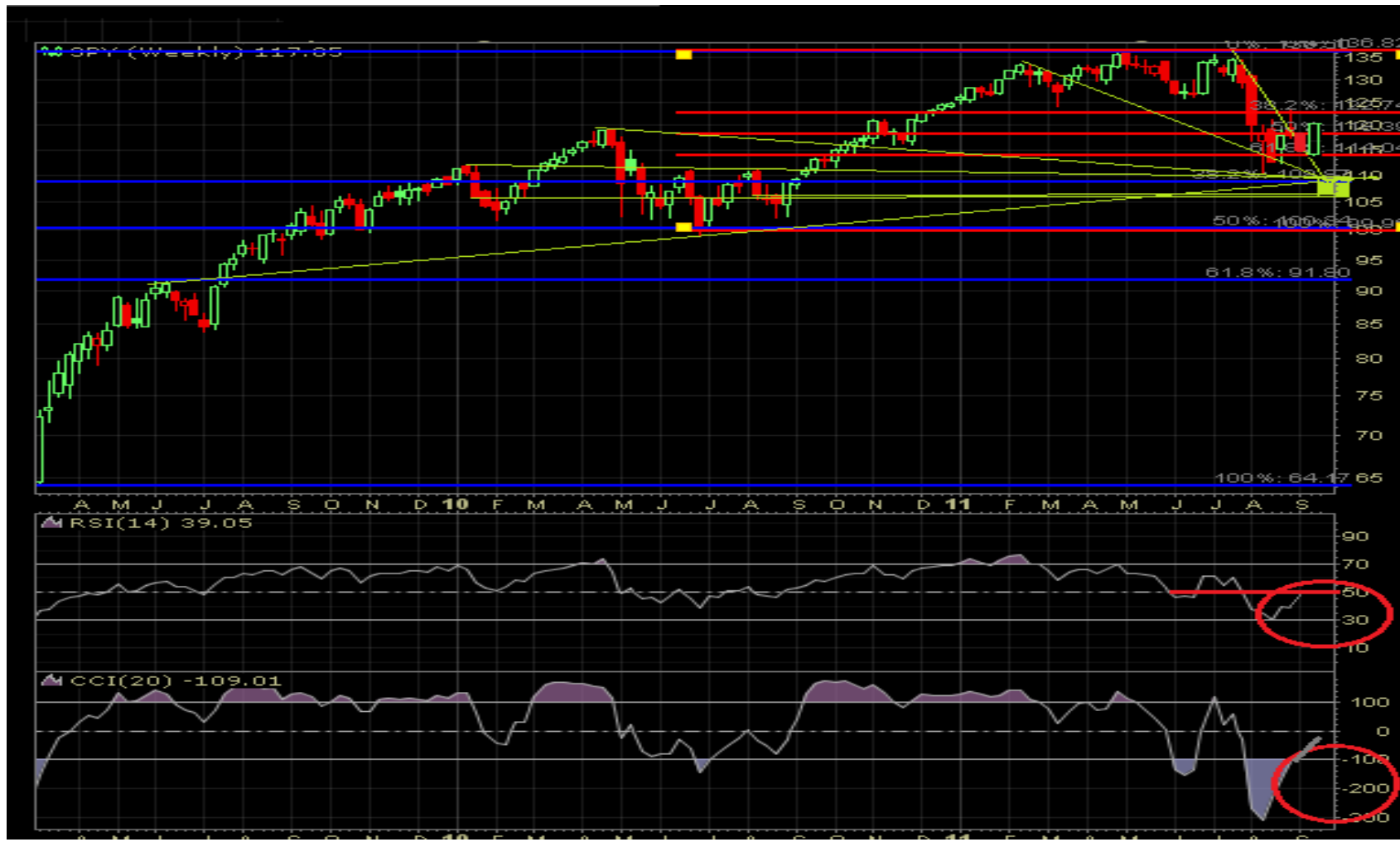
TRIN – VIX Ratio

At previous important lows the TRIN/VIX ratio showed a positive divergence where the SPY made a lower low as the TRIN/VIX made a higher low. Also an important low where found in the SPY when the TRIN/VIX ratio reached .025 or lower and this condition was achieved at the 8/9 low - "Climax" low formed . At the test of lows we think TRIN/VIX ratio will show a positive divergence then a possible bullish signal could be triggered. We don't have it shown but the Rydex Cash Flow Ratio is at the intermediate term bullish levels showing the Rydex equity traders are positioned on the bearish side of the market suggest another rally left



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

Over MID 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 & Pull back will have the RSI diverging positively



- Advance / Decline Internal behavior Analysis

NOTE : Various derivatives of A/D lines is required for full assessment

- A/D Line NH / NL Ratio v/s NYSE on Equities only - MID TERM
- A/D Oscillator Volume v/s NYSE on Equities only - MID TERM
- A/D Line NH 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 - MID TERM - positive

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 as well . This suggest that on the test of Climax lows of August we should show +ve divergence towards POM 12 Re run correction area



Volume A/D Oscillator v/s NYSE on Equities only - MID TERM - positive

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. Test.



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

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.

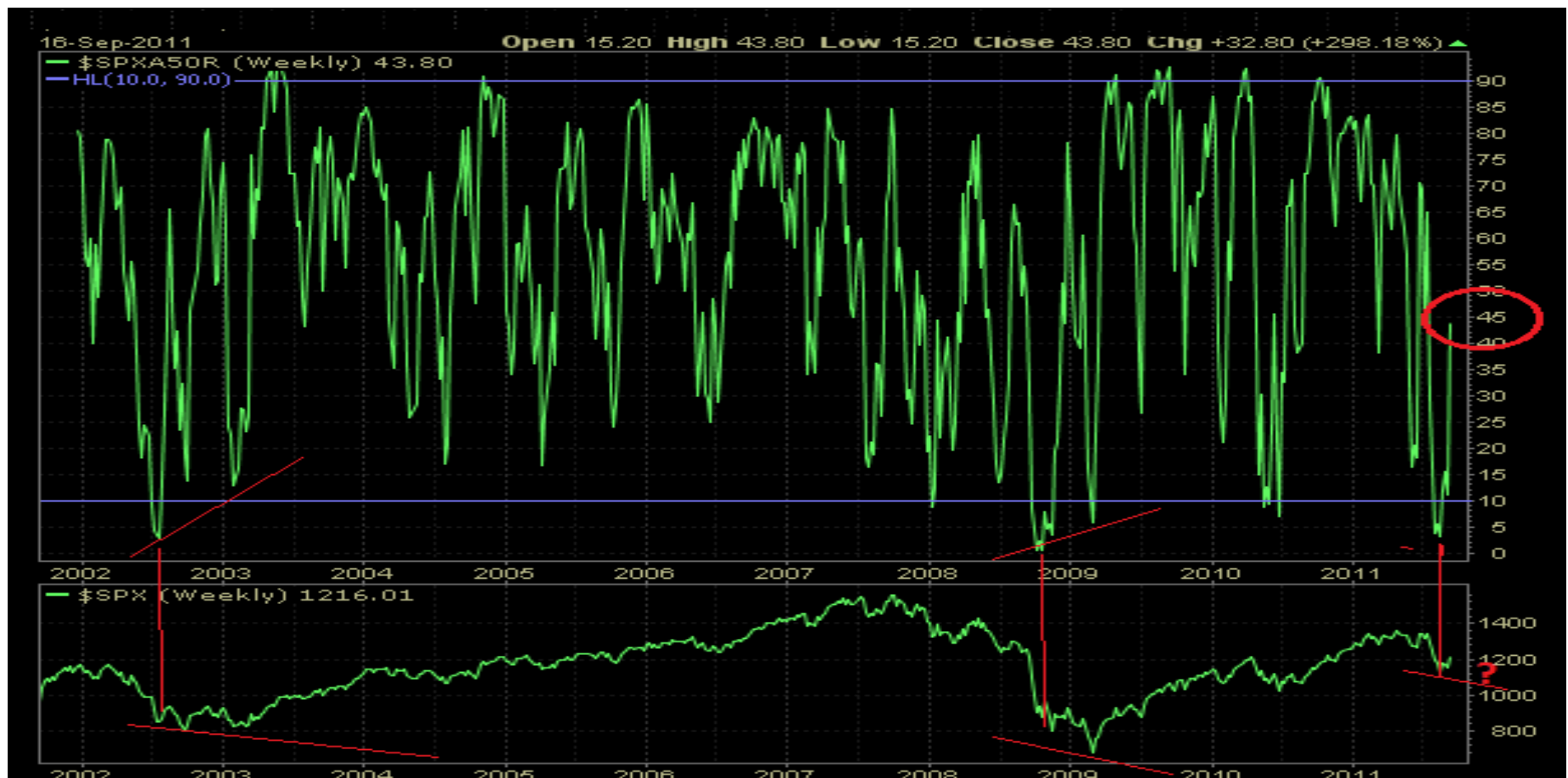


A / D - SPX – % BULLISH IN SPX BREADTH – 50 D NH / NL – MID TERM -

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

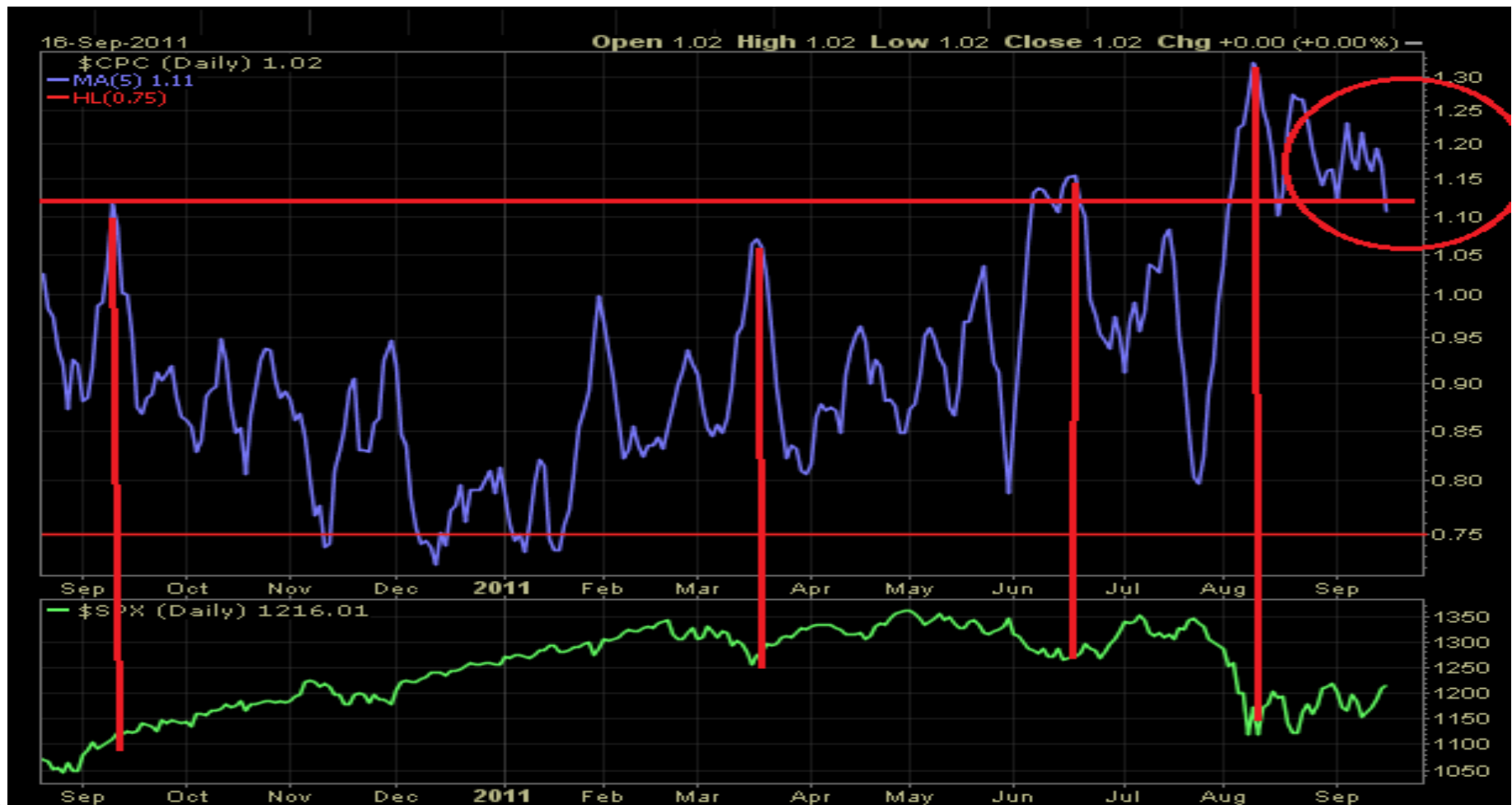
A/D line measured by (% of stocks above 50%) has reached conditions where the market has Bottomed out in past below reading (indicated below) . **We require another Higher high on HL & lower Lows on SPY for stable bottom (CIRCLED IN RED)**



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

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).



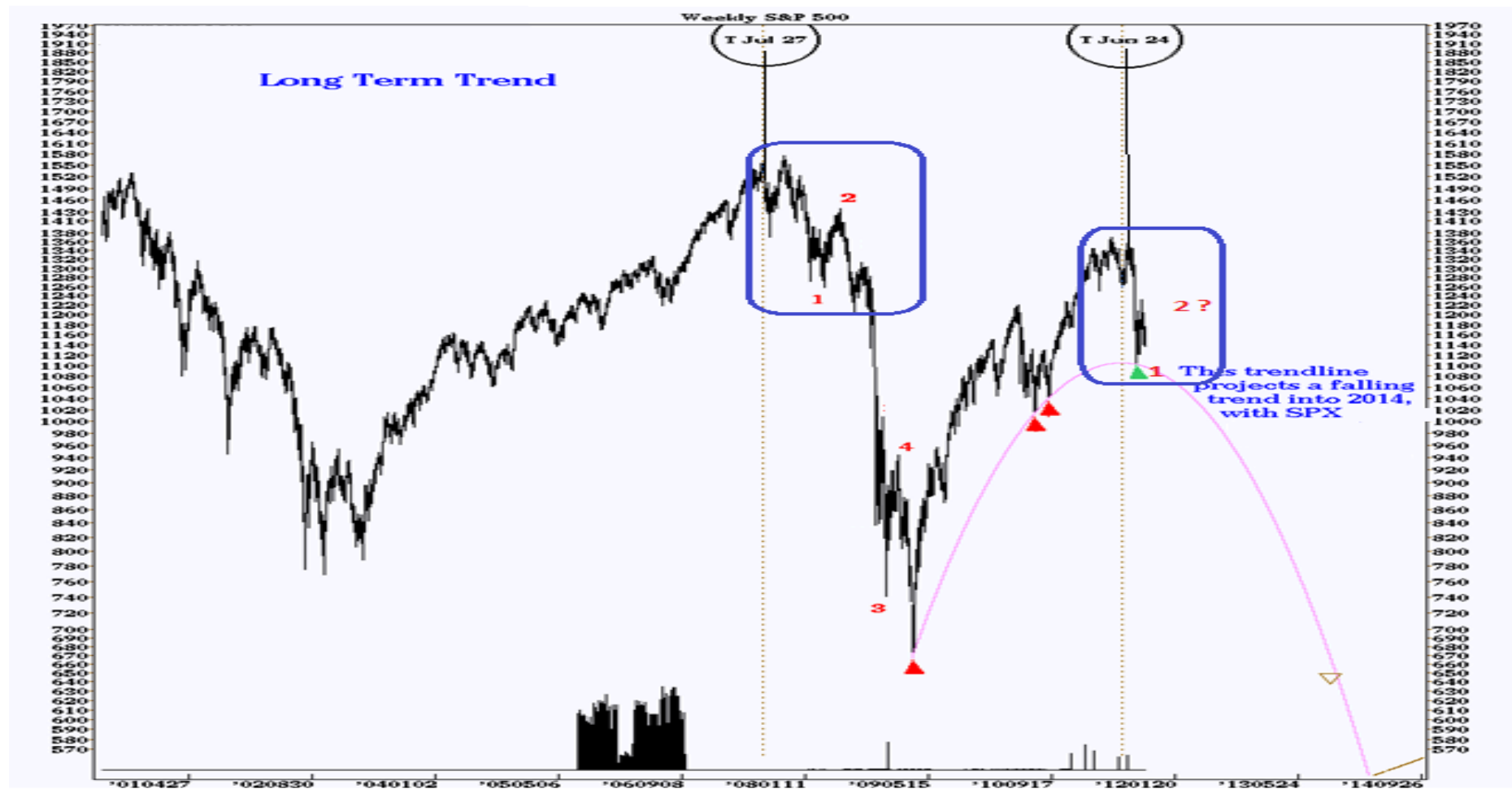
- **SPX – LONGER TERM – CAUTION**

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.

SPX – WEEKLY – Poly Trend – Long Term - Caution

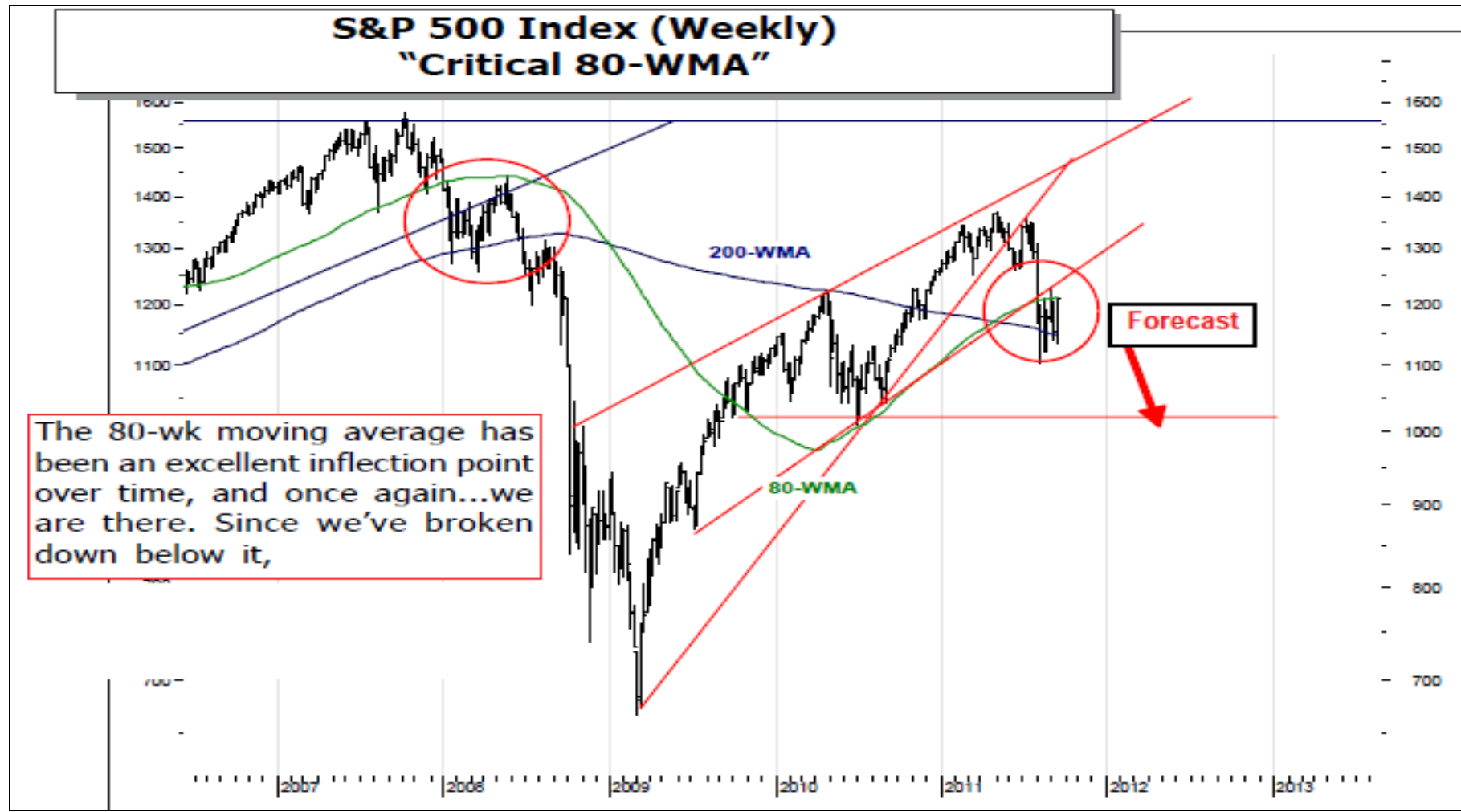
In the chart below the Poly Trend lines since the major March 09 low. In August it has already peaked (top of Poly trend) and is heading lower. (marked in green). On Right side of Poly trend, the slope of the descent is modest now — it's about a tenth of a percentage point now. As time goes on, that 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 we're near the bottom of the wave 1 now, we could expect another low (another test of Poly trend line) and a market rally to follow in wave 2 up. This will start major decline downside for wave 3.



SPX – WEEKLY – WMA & Trend Analysis – Long Term - Caution

In the chart below – it indicates meaning and valid intersections. We would like to verify if our POLY TREND ANALYSIS is in line with WMA Analysis of the similar price behavior. Volatility between the WMA's with a cap on price at lower trend line of the Bearish wedge (notes within the chart)



SPX – WEEKLY – EMA - Cross – Long Term - Caution

We will keep eye on this chart below (Circled in red) – Long term 1990 to 2011 - One of the Indicator to check if Large decline in SPX has began . PPO is more critical during the EMA cross over , PPO has dropped below 0 level (2nd window)



SPX - MONTHLY – MACD CROSS – NO SIGNAL

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.



- 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

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,

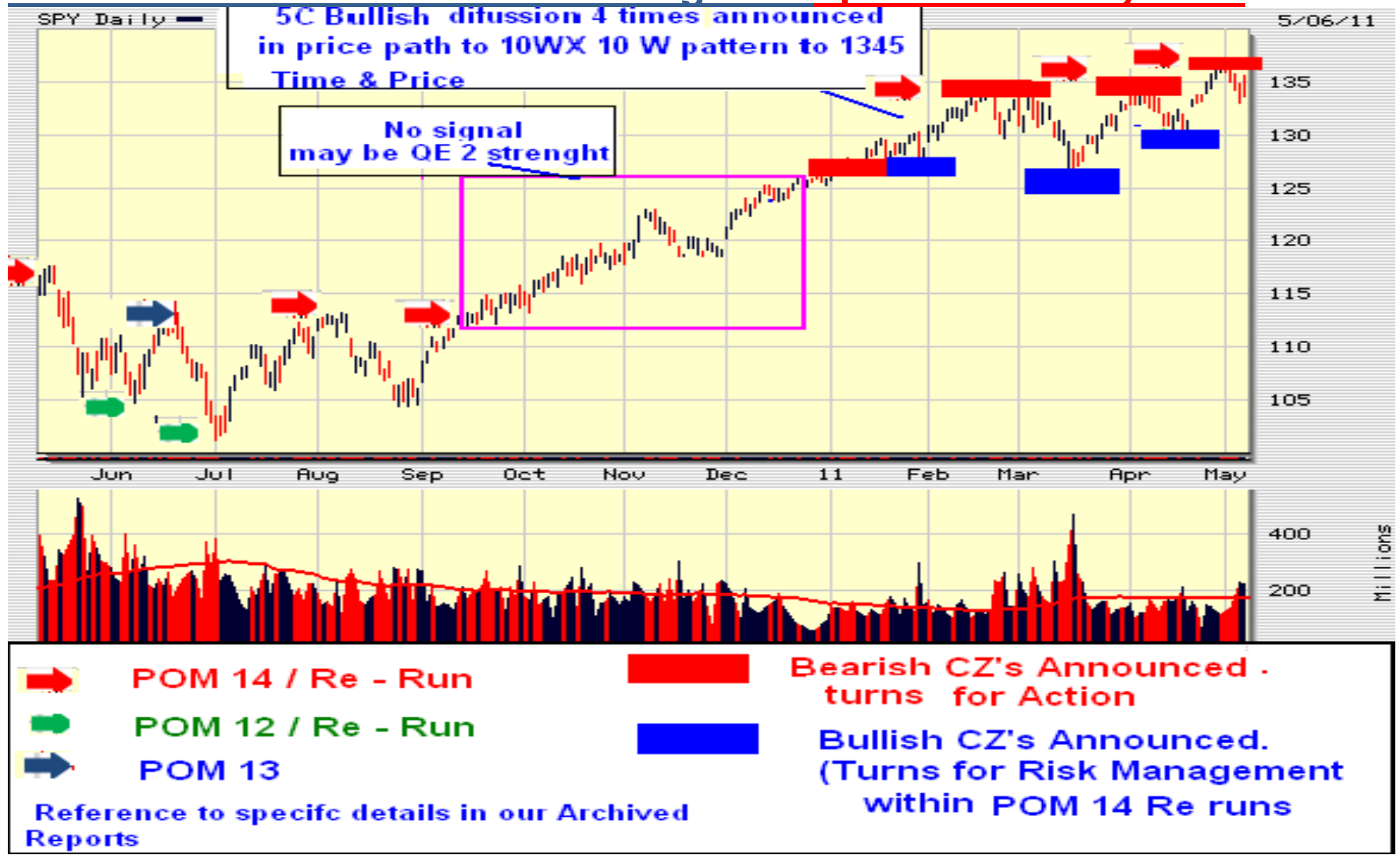
Based on current market condition and the probability of Indicators we point out the EXTERME INDICATOR ONLY as a observation points.

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

- **% 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

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