



SG Capital Research

Global Market Insights

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

MAEG- MARKET STRATEGY INTERIM UPDATE # SG 2011 # SEPT_26

For Immediate Release – Monday PM (EST)

By: Suneil R Pavse

Contact: apavse@aol.com

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 @ 1135 / 1216 (**Weekly change – 6.5%**)

SPX – Closed @ 1135 / 1257 (**YTD change -9.7%**)

- **Special Coverage**

- TRIN v/s CPCE Ratio – SPX
- A/D Line & Oscillator – SPX
- SPX Waves
- SPX - DMA & Trend Analysis .
- Dow Transport
- TRIN v/s CPCE Ratio – SPX
- SPX – MID TERM – Downside CZ & Multiple Fib stream convergences
- SPX – WEEKLY – WMA & Trend Analysis
- \$ SMI - Zurich

- **SPX – POM Signals & Price Projections - UPDATE**
- **Trading & Investment Conclusions – Start point 1257 1ST Jan**

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

- POM 15 Calls – NONE Triggered this year

- **Fully Hedge – POM 14 Re - (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**

- **Risk Management Hedges for Reversal - POM 13 - (Total decline saved = +86)**

- **NEW - Alert – Triggered on 09/01 - POM 13 (@ 1220) (OPEN POSITION)**
- **Earlier Alert – Triggered on 7/08 - POM 13 (@ 1346 (from POM 12 @ 1273 on 6/23 Alert) & avoided decline till CZ @ 1300 (STOPPED OUT @ 1285) = (-20 points) went to 1240 POM 12 Re Target = 106-20 = 86 points**

- **Net Long – POM 12, POM 11- (Total points gains = 75-20+79 = + 134)**

- **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 8/03 POM 12 re run @ 1240 – to POM 13 – Triggered @ 1220 Alert - 09/01= (-20 points loss)**
- **Earlier 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

- **We continue to remain on POM 13 @ 1220 Trigger (1st Sept – AM - Email Alert). Risk Management Announcement**
This is the area to consider Position sizing & rebalance Hedges on Net exposures depending on the Portfolio Objectives & its Beta tolerances .
- *Last week as expected in our Mondays A # 1 – MS Report – SPX topped out at re test of POM 13 area (1220) & failed (on completion of QQQ- 3 drives to the Top, IWM (Bearish Flag) & SPX (Bottom bearish Diamond) with weak internal. Then the decline began. Closed the week down -7% since then. 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.*

• SPX – Insights

- ***Mondays advance came on what appeared to be a short-covering episode, so without a retest of our POM 12 - CZ below , we can't trust this market (but then, when can you really trust a market?). Breadth statistics were wobbly and isn't quite sure it trusts this rally either (refer chart below) . Despite today's huge point gains, the TRIN / TICK Ratio Analysis were pitiful. (see chart below) We saw such a huge bearish divergence between the behavior of the DOW , NASD & NYSE.***
- ***Although on Miniature version –In our E mini triggered Bullish CZ @ 1141 SPX (Alert send out by email along with TLT – Alert) . This is for quick Traders Fingers ONLY . 1142 in SPX is for Short term bounce as long as it last. When bounce finishes Risks management advised. However if by any other cross verification method if our ST – SPX @1141 Bullish CZ is classified as LT signal then this can be different story.***
- ***This week, the alternative cyclic model points slightly up as it heads into a projected low on the 1st to 3rd day of October along with TIME RATIO lows but We have New Moon Cycle due on Tuesday 27th Sept. which can support Short term turn for another bounce . Plus end of the month positives . But we think that it would be bounce only . We look for safer spot based on Risk / Reward by our Method i.e POM 12 Re – Run. We rather pick our spots that we understand with conviction without anxiety. Although YTD - SPX – points cushion under the belt allows more flexibility on new f drawdown but we'll save it for Crisis. (data stated in Trading Conclusions update above)***
- ***In last week's decline NYSE INDEX HIT NEW LOW ... The SPX CZ is below its current level. September is living up to its reputation as one of the market's cruelest month. Our last week's warning was rally fading and bearish internals.***
- ***Given the momentum of the wave to the downside, it's a very high probability that CZ below in SPX (refer charts) will be retested before this wave is over. In fact, as the price accelerates to the downside, it's within the possibility that it will break and undercut. Margin selling in European market has some energy left.***
- ***After POM 12 Trigger , There may be one last surge left in Market before we hit the really big moves 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 .***

Primary Market Analysis –

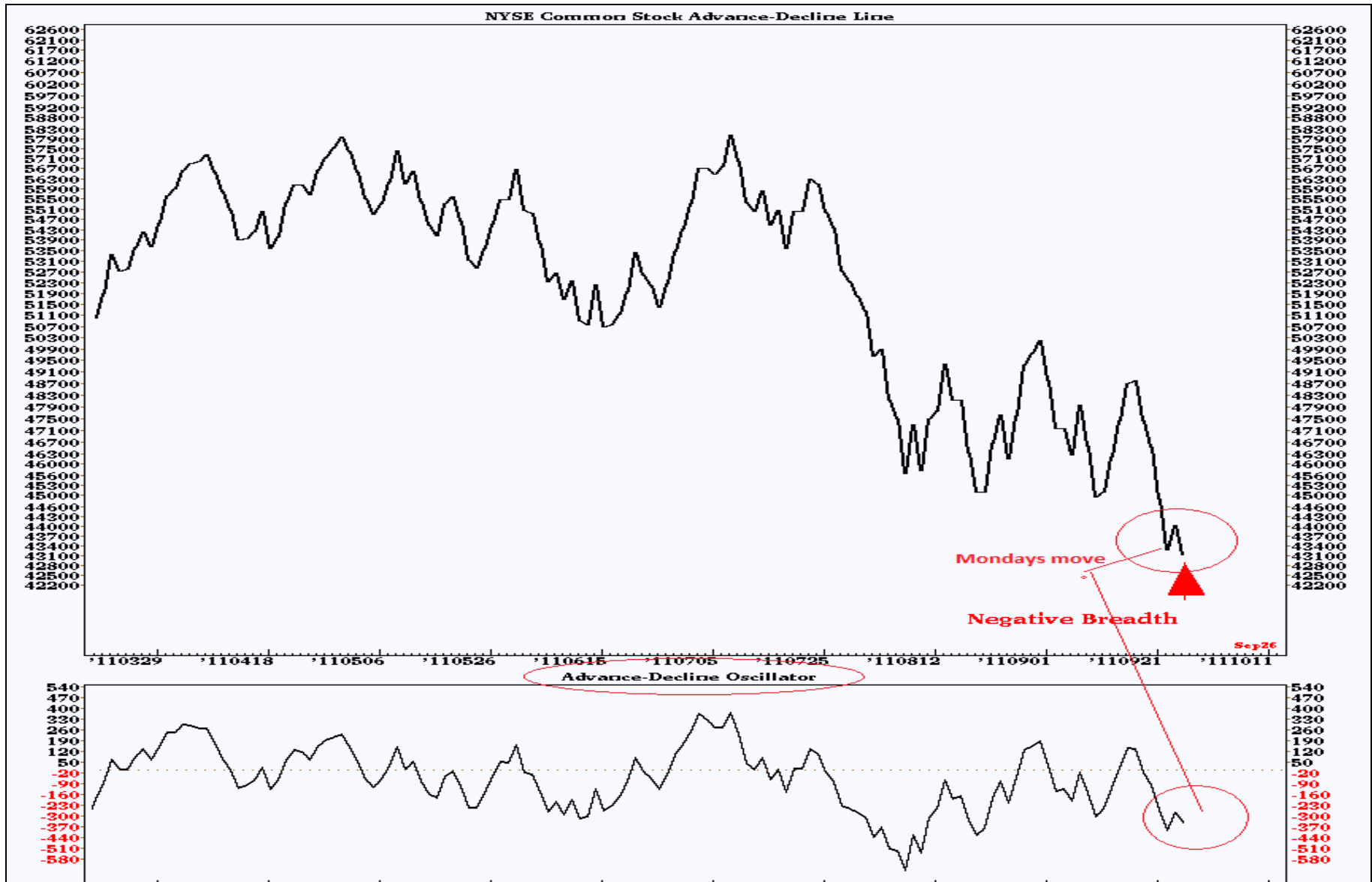
TRIN v/s CPCE Ratio – SPX

A “Selling Climax” occurred at the 8/9 low which came in near 110 on the SPY and 1100 on SPX and most “Selling Climax” low are tested at some point. Last Thursday another “Selling Climax” occurred but of a lesser extent and may be tested at some point. We have found that the McClellan Oscillator will form a divergence (positive divergence for bottoms and negative divergence at top) and right now there is no divergence and suggests today’s rally may be short lived. In general we are looking for a bullish signal to develop on the Test of the August 9 low near 1100 or a little below. On that potential test, most likely the 100 day average of the TRIN would be pushed to 1.45 range and signal an intermediate term low. Current 100 day TRIN is coming in at 1.41 an interring the bullish intermediate term level. Stay flat for now.



A/D Line & Oscillator – SPX

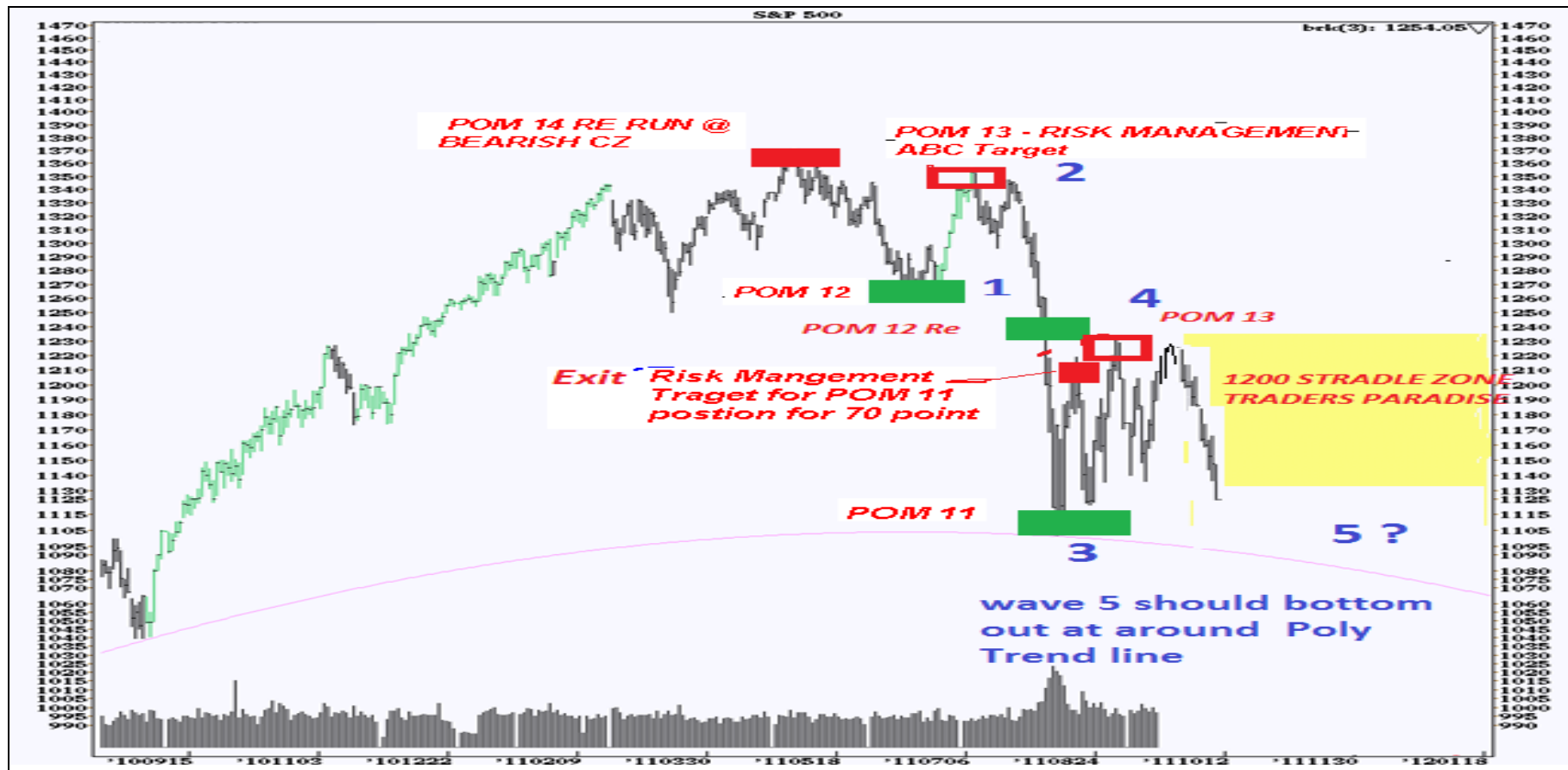
Notes with the charts



SPX Waves

Last week SPX topped out slightly below Wave 4 price and decline to Wave 5 began. 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. We saw those events few times in these consolidation patterns

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).



SPX - DMA & Trend Analysis

Bearish Flag and consolidation from last week was resolved to downside. 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-dema was part of a bearish "flag" consolidation. Quite simply price action suggests an increasing probability of a breakdown of CZ lows.

S&P 500 INDEX/ BROAD MKT INDICATORS



Dow Transport

The DOW Transport has reached & penetrated the Top of Long term Poly Trend suggest a bounce is coming . But the way it penetrated I suggest it will come back to that area . Earlier the rally was stopped underneath on right side of the curve of upper Poly Trend and then declined last week (Refer last week's message). We think similar will happen again on this bounce

In our version of DOW TRANSPORT THEORY (with 4 point criteria) it has been on Sell Signal DOW 11900, currently DOW is at 10900 and has not given a Buy Signal. (Refer our regular A # 1 MS)

On the contrary the Dow Transports Average has been quite bearish broken the Aug lows. TRASPONENT is a leading indicator for the market..

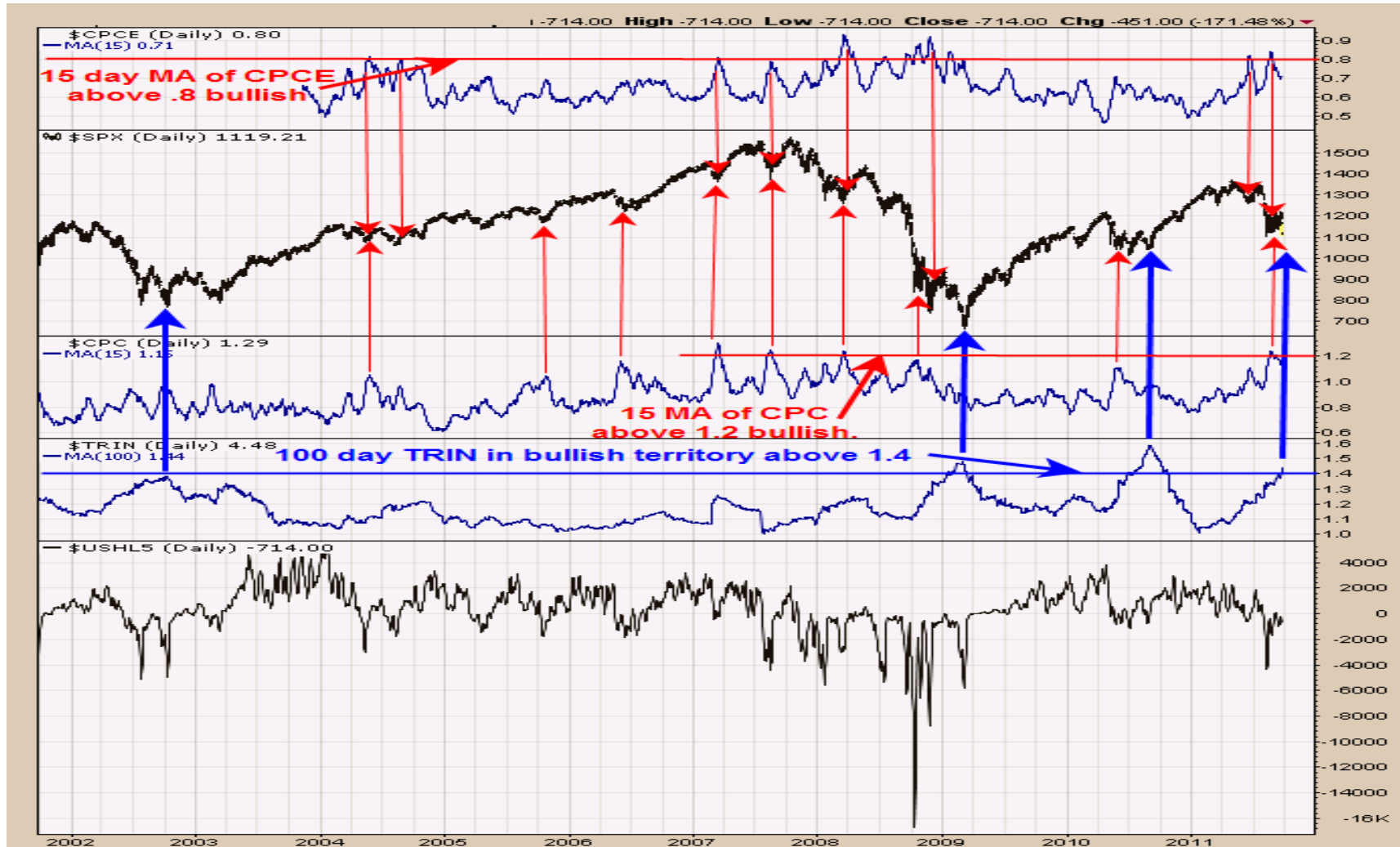


- **SPX – MID TERM**

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 v/s CPCE Ratio – SPX

On Midterm basis , after proper testing of bottom, another rally could begin. Some indicators within chart below suggest the same . The 100DMA- TRIN , CPCE Ratio -15 DMA, CPE – 15 DMA appears to be near intermediate term low which are bullish for one last strong rally after the test and currently doesn't appear an extended down leg is beginning.. Still looking for a test of the CZ on SPX.



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

With the recent short-term bounces, SPX is building cause to break the lows. 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

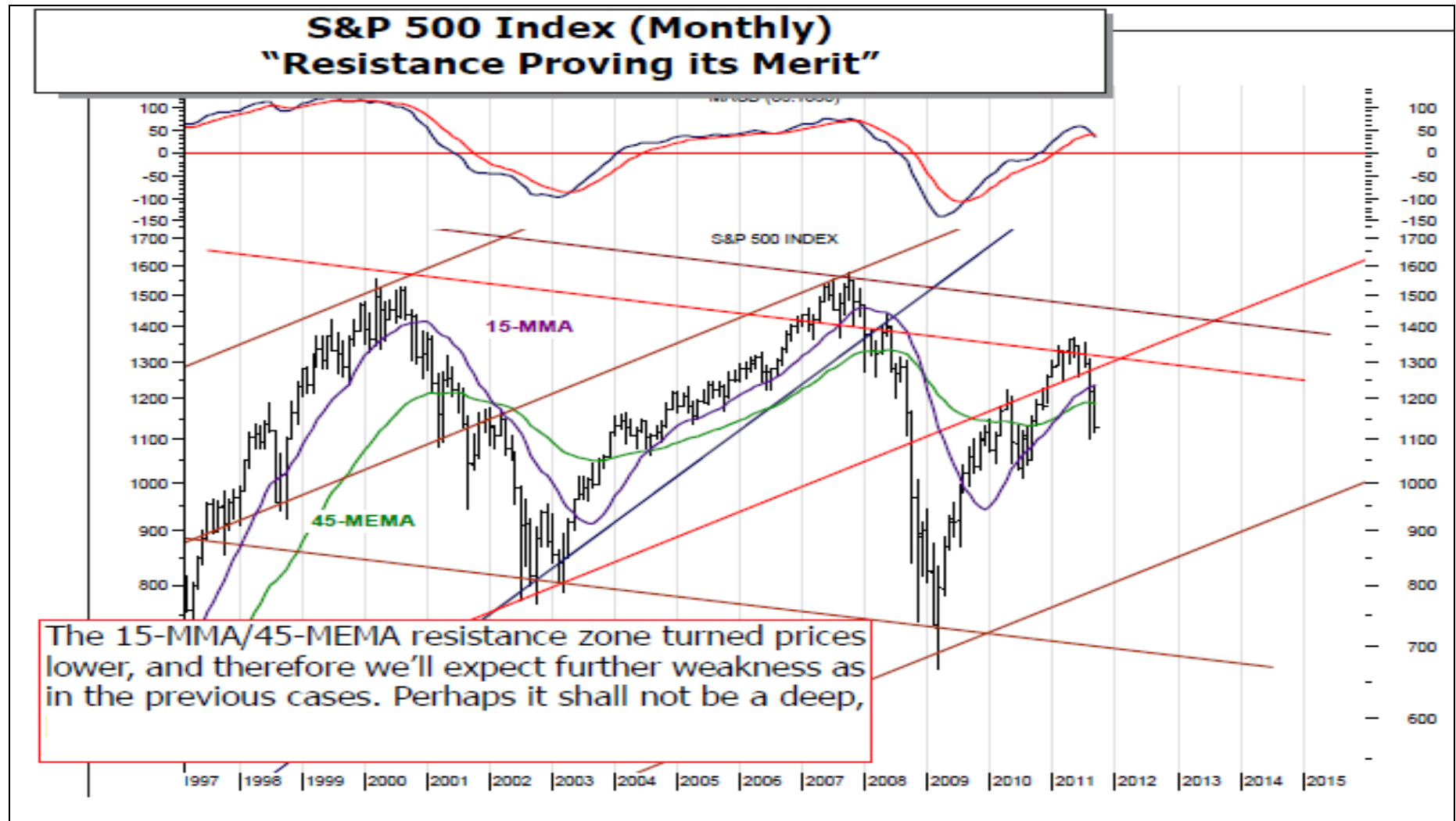


- **SPX – LONGER TERM – CAUTION**

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 – WMA & Trend Analysis – **Long Term- Caution**

In the chart below – it indicates valid intersections. We would like to verify if our POLY TREND ANALYSIS is in line with WMA Analysis of the similar price behavior. (notes within the chart)



CHINA v/s \$ COPPER

CHINA'S market collapse hurts copper. We have been Tracking the Top & Price Path Analysis in CHINA market in our A # 2 – MS GLOBAL Report as warning to Global Markets. And in C # Commodity Report CZ in JJC for Top



Inter market Analysis – USD v/s EFA (WORLD ex US)

We often use currency market in our Inter market Analysis . Our Analysis with CZ – PQV confirmed in USD rally as Key Inflection point.

We had warned in earlier messages- When USD begins its full rally, the Equity market needs to watch out. This confirms our inverse relation & demonstrates how action in one market can give early warning of action in the other. DOLLAR RALLY HURTS FOREIGN MAREKTS MORE.



EXTREAME Sentiment Analysis (3rd Party Data)

Courtesy : SENTIMENT TRADERS

None of the Critical Indicators are at Extremes

• SMI – Short Term

On August 11th, we prevised \$SMI would fail in CZ 5400-5650 & it just did that (red box below) . Since all the markets are so closely associated we think SPX – POM 12 Trigger should be good indication of bottom bounce.

However SMI / SPY Ratio is beginning to form up trend and should break out of from Triangle (see chart below) to sustain the up move.

In order to begin another ABC up, A break th' CZ with fire power is required with sign of strength . (Although anything can happen in the market & cross verification is required by other methods)



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).

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.