



SG Capital Research

Global Market Insights

Research Note – MS – Market Strategy Report (A # 1)

MAEG- MS_SPECIAL REPORT ANALYSIS_SPX_ SG 2012 # AUG_20

For – Immediate Release – *Monday*

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• 1- Executive Summary – I

SIGNALS.

SPX – Currently @ POM 14 – HEDGE - Triggered @ 1377 within CZ 1410-1375

We turned Bullish on SPX at 1300 -1290 on 23rd May with POM 13 NET long. Currently We are within CZ 1410-1375 and Turned cautious with POM 14..... BUT No NET Short Signal till we trigger POM 15 & Completion of Terminal process to target SPX 1425 and above.

The terminal process consists of Bearish wedge , Triangulation pattern with 2-3 Gap play move higher with key reversal, that has not happened till such time the Market could move higher (to maintain long positions) with Momentum Indicator. Early NET SHORT can be expensive. Let the Market prove itself.

Last POM Trigger Action – Announced POM 14 in “Alert Email 7/19 at Primary highs of SPX 1375 to initiate – scaling into Hedge position within CZ 1410-1375 during testing.

Projected Target -

At this point the highest Risk / Reward would come in at SPX **1425 (or above)** with Key reversal . The Trigger for POM 15 NET SHORT only after the completion of Terminal Process. We wait patiently with current Hedge Positions to protect our downside risk.

We shall watch this week how the Tip of Terminal process gets completed. We shall announce the POM 15 – NET SHORT accordingly - NO NEW TRIGGER

This week - We see the late stage of rally , Early dip due to –ve bias post option expiration Tuesday followed by another rally attempt as part of Topping process

PLAN A – **“CAUTION Model** at POM 14 , the Hedging continues to position for FIRST leg down towards Target **CZ 1390-1370**, on Short term

On Mid term basis our Target ABC down is **CZ 1310- 1280** at Bottom heavy Bearish bottom which tends to eventually get tested.

PLAN B – For **BULLISH MODEL** to continue, We need a valid breakout Bullishly during Terminal Process to begin next ABC up.

We have disciplined criteria for breakout . Weekly price needs to close above 1425 with 1.5 B share and SPY with 600 M shares with Market internals (TICK , TRIN PUT CALL) showing normal read without exhaustion” . This along with at least 2 Major IDX (DOW, NYSE, QQQ) accompanying the up move with volume breakout . This is a low probability event at present. **I am monitoring it closely**

We will announce if this happens, it will only delay POM 15 Trigger.

More details in our - Market Commentary below

TLT (BONDS) – Currently @ POM 14 – FULLY HEDGE - Triggered @ 125 within CZ 125-124

Last POM Trigger Action – Announced POM 14 TO Hedge position in “Alert Email 5/21 as TLT put in highs @ 124, price currently is at 121.

Projected Target -

TLT topped out at 132 & failed once again with Bearish Top . It did not complete POM 15 terminal process to get best Risk / Reward for NET SHORT and decline began . We are not ruling out, TLT could Trigger POM 15 – NET SHORT

The current decline projection ABC down is into CZ 120-118. We are monitoring how it PQV validates at these levels. After completion of down we think there is another move upside still left in TLT. – NO NEW TRIGGER

NEXT

This week - This Market is currently in middle of the Trend , how PQV validates the CZ 120-118. is critical. If this Zone does not validate, We would rather wait for TLT to bounce and take NET SHORT – POM 15 position of Bigger Trend rather than Go NET LONG in ST Oversold CZ 120-118. We shall announce once we get any Signal. Decline in Bonds have been source of funds for SPX past 2 weeks.

More detail in our Regular – A # 2 B – BROADER IDX Report.

GOLD – Currently @ POM 13 – NET LONG - Triggered @ 1540 within CZ 1540-1580

Last POM Trigger Action – Announced POM 13 in “Alert Email 5/15 to scaling into NET LONG Position within CZ 1540-1580 (overweight towards 1540) .

Projected Target -

We are looking for the 2nd ABC up projection to **1670** on this rally that began from POM 13 – **1540**.

The 1st ABC up at **CZ 1625-1635**), keeps getting tested in Bullish Manner suggest more upside BUT it has NOT able to close above 1640 with PQV Validation till such time consolidation in Trading range remains in place .

The downside pull back to CZ **1580-1540** is still a solid floor which has been tested several times in Bullish Manner for base formation of bottoming process 4 month without breaking the lows. Overall Gold has broken out of the Bullish triangle.

NEXT

OUR PLAN

Since we have “ Bullish Model - Decisive close **above 1635**, with (SOS) Sign of strength with PQV validation should begin next impulse ABC up that started from our POM 13 – 1540 price point . The breakout has upside **PEC-D projection to 1670**.

PLAN B

Instead of PLAN A , If the Model should turn ST failure at test of **1630 -1620** , the pull back to CZ **1580- 1560**, once again . .

More detail in our Next – C # Commodity Report on Wednesday Release

POM Signals , Trading Conclusions - Price / CZ Projection Summary.

A # 1 - MS Report				
20-Aug	CURRENT STATUS	CZ - Trigger Confluence Zone	Target	Comments
SPX				
POM 15 (Bearish)	NO TRIGGER		1420	(Awaiting final rally to POM 15), No POM 15 Yet for any NET SHORT
SHORT-TERM (POM 14 - CZ 1410-1375 Open)	BEARISH	1410-1375	1390-1370	SPX in CZ 1410-1375 and Triggered POM 14, Pull back to 1370-1360 , CZ Target Reached - hedge
MID -TERM	NEUTRAL	1270-1295	1410-1375	POM 13 - NET LONG Position closed (1300 into CZ 1375 - 1410)
GOLD				
SHORT-TERM -	NEUTRAL	1630-1620	1580-1560	Approaching , but Close above 1640 would validate breakout or pull back to 1580 if 1630 fails
MID-TERM - POM 13 (1540) - Open	BULLISH	1540-1580	TBA	Projection once 1630 is broken with PQV validation / Nimble into longs (1540 - 1580)
LONG-TERM POM 12 (1250-1225)	BULLISH	1250-1225	1900 -2000	Consolidation in larger range 1450-1825 Building up floor to test the Highs Covered Short -Decline from 1775 to 1580 met
ILI				
POM 15 (Bearish)	NO TRIGGER		130-128	(Awaiting final rally to POM 15)
SHORT-TERM (POM 14) 124 Open	BEARISH	125-124	120-118	CZ Target Reached - fully hedge
MID-TERM (last) - POM 12 (88-90)	NEUTRAL	89	130-128	ABC up to POM 15 in Progress to Terminal Process
-				NOTE
-				For Detail Price Path Chart Analysis
-				Indicators, Justification for our
-				Conclusions, refer to the full Report
-				for cross varification
-				USE STOPS AROUND CZ's Risk Protection
-				based on Objective

BACK UP SECTION - II

Commentary & Charts below are for Reference backup & cross verification ONLY . It is required for in- depth understanding behind our Logic & Risk limitation

SPX – Commentary - Current Market conditions

- Weekly - SPX Closed @ 1418 (up 1%)
- YTD - SPX – Closed @ 1257 / 1418 (+ 12.7% gains)

As expected , Last week early “Sell Off” and then the Option expiration strength took over the market Momentum but with light volume into the expiring T’s August 17th termination & Cycle date . Although we did not witnessed weakness on Friday in Major IDX. Our best leading indicator, the Semiconductor SOX Index, made its week’s high on Thursday and started dropping on Friday while most other indices continued to advance. There are technical risks for the market in the near term. Short interest is declining.

This week, we expect a dip to hedge the long positions. Although solid evidence that the leg up from POM 13 is ending with late stage rally (Not a breakout) . No Trigger for POM 15 – NET SHORT, turning NET Short too early can be expensive.

Let's take a look at the evidence here. Despite the narrow ranges we've been seeing over the last 2 weeks, which normally would be considered bullish by some and distribution by others , our view was that the rally Friday was simply a short-covering and would dissipate once expiration was out of the way, as it happens on the Monday / Tuesday after expiration.

With VIX hitting a post-2008 low this week, warning of “complacency” and saying that low VIX readings always lead to higher ones as the market falls. The lag between low VIX and higher levels can sometimes be quite long. This is Caution suggests Bumps in the Market.

Other Market internals although fading but NOT reached the terminal process yet to achieve POM 15 for NET SHORT Signal. The breakout from here would be false breakout on PVQ / VTO . It could even be tertiary top process similar to April Trigger POM 15 @ 1400 .completing all price & volume patterns. Let this Market prove itself. On Monthly and Weekly PQV / VTO , Bearish Top has been established but on Daily PQV / VTO is still slightly Neutral for POM 15 .

We are closely monitoring the Correlation Prices for POM 15

DXY v/s SPX - One possibility for an extension of the stock rally to POM 15 could come if the DXY gives a shake out move into CZ 82.5-81.5.

BONDS v/s SPX - SPXs we have an upward wedge, which is a bearish pattern unless it breaks out extension to POM 15 can come if TLT goes to lower lows. :

SHORT TERM - Price path Analysis

Right now it's all about the short-term, extended the summer rally with SPX back close to their levels at the April top.

However once the current pull back is completed 1390-1370 (if Market internals validates) from 1420 , we should get another counter trend move & then decline in September followed by rally into Election based on EDCOT Forecast, Election cycle. .

MID TERM – Price path Analysis

.On Mid term basis our Target ABC down is CZ 1310- 1280 at Bottom heavy Bearish bottom. At some this needs to get tested . We are still expecting a meaning lows this year until the October time-frame.

- **MARKET INTERNALS - Our 2ND / 3rd derivative interpretations**

- *Relative Strength of RUT v/s Versus SPX shows underperformance in the small stocks. This is not bullish, despite the overall bull trend in DOW & SOX.*
- *Summation Index is at 0 line in spite of rally , this is –ve divergence.*
- *The CBOE - VIX - is trading below 15, a level from which it has rallied several times during the past two years. VIX – Completed the PEC-D @ 15 BOTTOM.*

EXTREME READINGS

TRIN, ARMS, TICKS, AD Oscillator, Ratio's.,

NOT -EXTREME READINGS

PUT CALL

- **SPX - Sentiments Model**

AAll Weekly Sentiment Survey is Turning more Bullish then last week suggestive of contrary sentiment indicator!

- **SPX - Geomagnetic / Lunar Cyclic Model**

Lunar Model suggests turn on AUG 17th still in effect + / - 2 days.

- **SPX - Seasonality Model - On Track**

It is supported by seasonality, as we are now in the three-month period of August, September, and October. Historically August is noted as often being a reversal month, September being a down month, and October seeing the low for the year before an upside reversal

- **The EURO - EDCOT Model Forecast, - On Track**

*By this Model leg up into the early Part of August / September , then correction and then rally back year end .
The larger decline 2014 by EURO Future Model. Earlier put in lows in June and highs in February as expected*

- **SPX - Election Cycle Model - On Track**

We are following into Election year seasonal chart closely which point to a fairly steady uptrend into Aug then September correction and then year end rally .

CHARTS BELOW

Looking at the charts, if we get POM 15 for full price completion to 1425 & Key reversal , we point out that the rally should be running into strong headwinds into CZ of previous POM 15 . . Mostly in the areas of price taper, the relative strength should diverge bearishly with oscillator to consider NET SHORT. Via completion of terminal process.

SPX- CZ / Pattern Oscillator Analysis

_POM 15 – NET SHORT – Target remains at 1425 with Key reversal with terminal Process & Bearish wedge. (NO TRIGGER)

POM 14 – Triggered in CZ 1410-1375, Oscillator diverged –vely

First Pull back target CZ 1390-1370



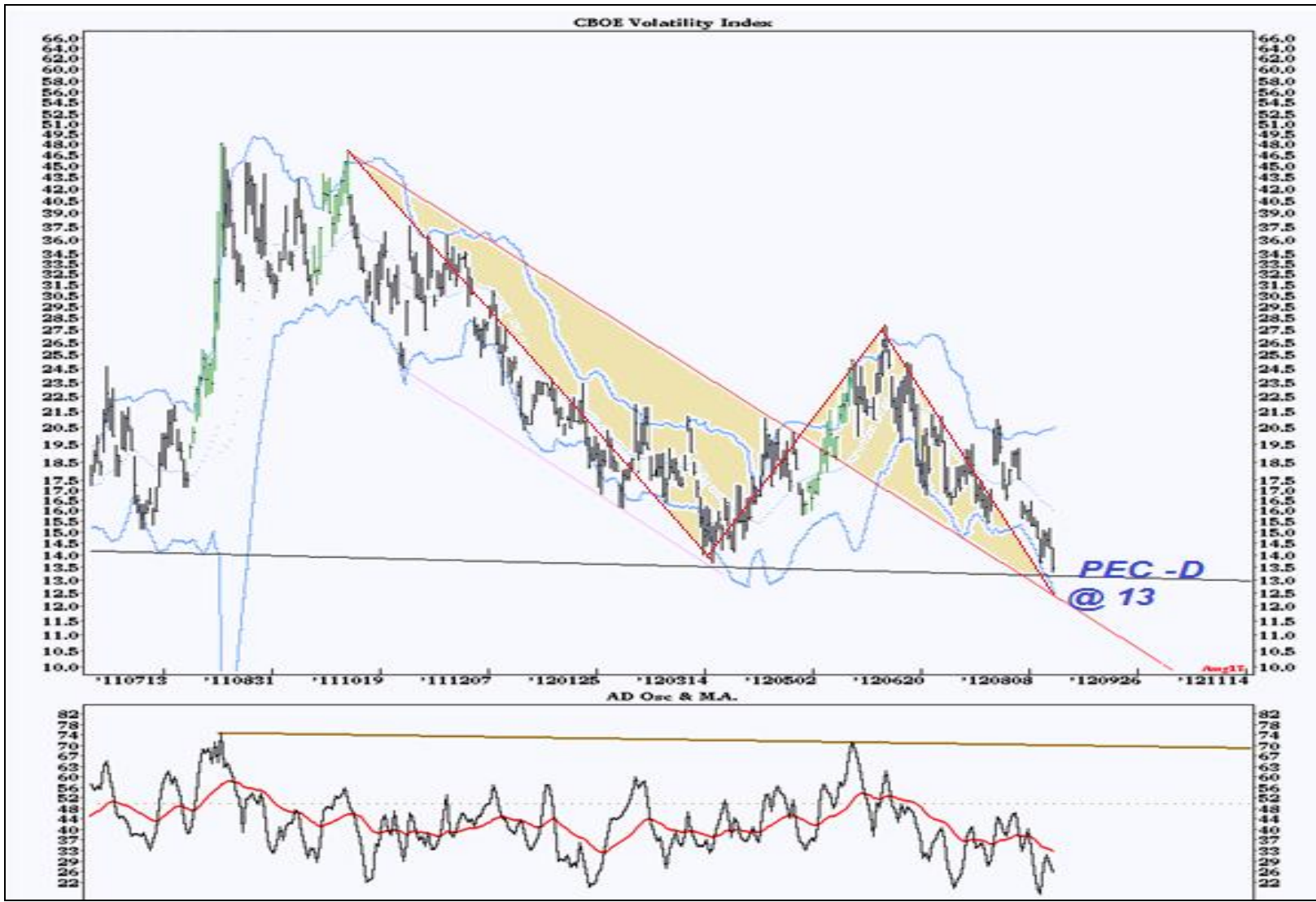
SPX- PEC-D & Pattern Analysis with PQV – Validation

Convergence of (2) PEC-D patterns to 1410 & 1415 . with PQV Validation



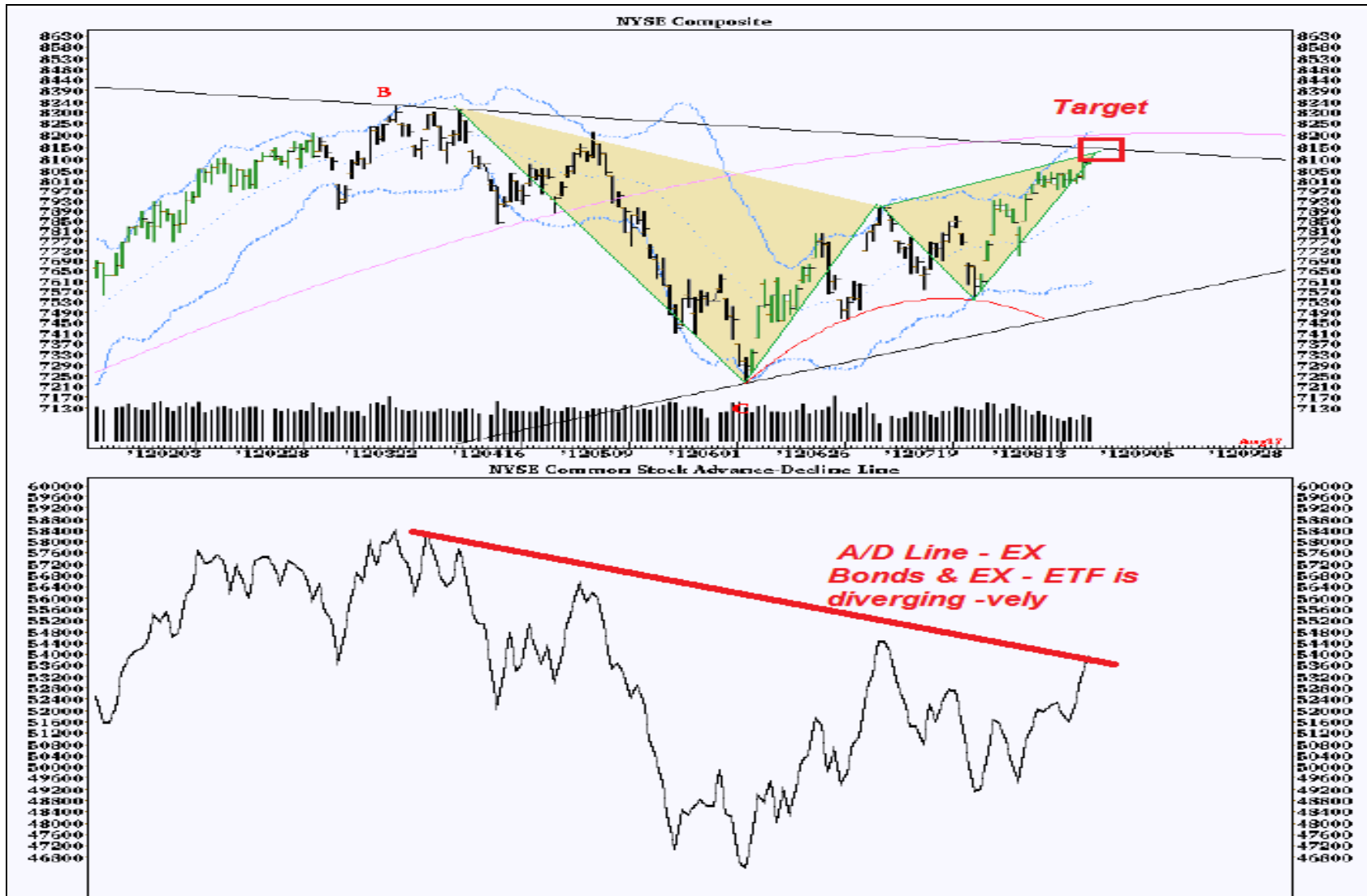
SPX- VIX Analysis

The CBOE - VIX - is trading just below 15 , PEC-D 13.5, a level from which it has popped several times during the past two years. This has completed 3 drive to the Bottom as well.



NYSE – A/D Analysis with PEC-D

NYSE – PEC-D Target met , AD – Cumulative is –vely diverging .



- **OUR SPX POSITIONS 2012 (FYI)**

1) (OPEN) Triggered - POM 14 – HEDGE @ 1375 in CZ (1410-1375) , dated 7/19

2) CLOSED – NET LONG from POM 13 @ 1300 (6/19 & 6/20) to POM 14 – 1375 (CZ 1410-1375) , a 75 point rally

3) CLOSED - We were Net Short – POM 15 from the Top of the Market SPX 1415 – 1375 CZ into CZ 1345-1355 triggered @ PEC-D -1345 for decline , completing first leg down Our Model in conservatively took profit on NET SHORT Positions in first half of decline.. We Closed / Reduced the NET SHORT depending Portfolio Objective. In the Broader, NYA, IWM , Global weaker IDX, EFA (World) , EEM , Commodity IDX CRB, XHB DBB, XLE is where we are concentrated have declined more than 8 to 10%) at the time of covering Short Position

4) CLOSED - Thereafter since 5/09 – email Alert – SPX from CZ 1355-1345 till CZ 1290-1310 we have remained Fully hedged / Cash position with POM 14 Rating (using each portfolio Objectives for rebalancing) Till POM 13 was triggered.

Appendix Content

- **Objectives & POM /CZ Guidelines**
- **Guidelines for Full Utilization of “ SP” Report with Limitations**

Critical Guidelines Review. – for CZ / PEC – D-

Bullish / Bearish indicators within the charts in our Reports is simply a Road Map on what to expect next !!! but CZ price Projections are more important for decision making especially the POM Trigger points are the most important for Actions. Once the signal is Triggered, Scaling into CZ range especially on the Re test is more prudent thing to do whiles accumulating positions.

In our Commentary and Reports, Our focus remains on giving head up on price Targets via Price Paths Analysis via Projective CZ (Confluence Zones)/ PEC (Pythagoras EC) Methodologies . These allows to pre – plan action prior to price shifts ahead of time.

In our CZ & PEC D indication, the conclusion zone defined on charts within Reports are derived via integration of various Proprietary Methodologies and calculations on PQV, ABC's , Market internals & Oscillators etc. developed in our Analysis process.

Although we try to be graphical on charts to reflect our thinking (sufficiently to indicate the technical conditions supporting our signals / triggers) , at times due to time & space limitation , we cannot show all the backup calculation work . Therefore we show only colorful final conclusion, less complicated sets of indicators to keep it simple to make a Price path decisions and not to force unnecessary more complex detail. I shall continue to provide coverage on these Analysis with one Methodology at a given time via Presentations and Workshop in step wise format for academic exercises.

STOP LOSS CALCULATOR – Around CZ – Outside the CZ, PQV validated STOP is recommended for Risk Management based on Portfolio Objectives. To avoid getting False stop outs, one recommendation would be to integrate Volatility and Momentum Oscillator within its calculations by taking Average Trading range of Highs and lows for 9 days X 1.618 and adjust the last traded price with that differential for the STOPS and Auto Trail it on daily basis once the position is “in the Money”.

POM implementation - Bigger Picture - Ideal participation of New money still remains entry at POM 12, POM 11, which has Highest Probability of building ALPHA. & Sell (Fully Hedge at POM 14) . Weather one is a BULL or BEAR

- **point to note**

CZ & PEC-D Indicators are Projective. PQV – Validation with Market Internal extremes Indicators are Reactive which Triggers POM . This process of Price Projections are with “Leading” Indicators measuring forward looking price path v/s Lagging Indicators which are back ward looking.

Backward looking Indicators has 80% tendencies of Whip Saw. Forward looking Indicators are usually Contrarian in nature which makes it more difficult to get convinced & react to it very quickly within the time window offered by the market at the Turning points.

Therefore Our Action Zone remains POM ‘s for core positions within CZ move & rebalancing of Portfolio’s remains in CZ to CZ move if desired by any objectives.

Sometimes, the better part of trading is buying a secondary low where there is a successful retest rather than trying to catch the falling knife right at the point of impact. Or, perhaps best of all, scaling-in—buying is the best plan. .

POM Corner – For Trend reversal / Swing Position

CZ Corner – For Risk Management positions within POM

- CZ to CZ - is Multi Day OR Multi Week Pattern
- POM to POM - is Multi Week OR Multi Month Pattern
- POM Ratings is for Position / Trend Swing whereas CZ to CZ is for Risk Management within POM or / CZ Traders. to generate ALFA on ongoing basis with no consideration to Bigger picture.

Process to be used based on each Individual Objectives.

Our Process of Entry, Exit or Re- entry Position is more suitable / relevant for the Positions entered by our very own Previous Signals. This tends to give better Reward when round price trip gets completed. .

• 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 Objectives and Risk tolerance*
- *POM Conclusions to be cross verified by other methods prior to final decision*
- *For Maximum utilization of POM / PEC –D Process for Risk Management. Refer to guidelines within the Appendix below*

➤ Key Points for Full utilization of SP- Reports

- **Maximum Utilization of various POM's , CZ's & ABC's – for Risk Management & full enhancements on CZ pricing & CZ-PQV Timeliness**
- At Top down Level – Triggers around POM's -Mid term & CZ's - Short term – (CZ's happens in between the POM's) . Critical component for Clean execution is to maintain ongoing updated data base spreadsheet of CZ's Pre announced in SP releases prior to price shifts. These inputs when Computerized Daily Monitoring, Triggers, Timely PQV validations, Price projections Alerts on real time should warn in timely manner to take action. .
- Rebalancing Pre Planned procedure at Triggers – “ Rebalancing % of Overall Position Sizing” , Beta & , Net Exposures sizing depending on each Portfolio's Objective & Risks Tolerances for either Recycling of Capital or Fresh capital.
- Key points for Risk Management
- Hard Stops around CZ's
- STOP SELL- “ early warning Alerts” in fast moving markets, Over night Day / Night (IST) time delay Risks.
- Cross verification by Other Methods
Computerized Daily Monitoring, CZ Triggers, Timely PQV validations
- **2. CZ – Tracking**
- Programing - “Time/ Price Displacement, Supply / demand Activity Bar Analysis” –
- At “Institutional Grade - Price , Volume with Time Integration
- Supply / Demand Activity bar Analysis – Real time.
- Candlestick – Price displacement Algo Programing experience at CZ Validation for Triggers

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