



SG Capital Research

Global Market Insights

Research Note – MS – SPX Market Strategy Report

MAEG- MS_SPX_MARKET STRATEGY REPORT A#1 SG 2012 # AUG_27

For – Immediate Release – *Monday*

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• 1- Executive Summary – I

SIGNALS.

SPX – is Currently @ POM 14 – We Advise Hedging

Triggered Action – Announced POM 14 “Alerted Email 7/19 at Primary highs of SPX 1375 to initiate – scaling into Hedging position within CZ 1410-1375 during its testing process. (This POM signal ended the rally that was initiated from POM 13- CZ 1290-1310 for Net long .on 5/25) **we have been Bullish on the Market since 5/25 for almost 85 - 90 points move**

Projected Target -

POM 15 can be Triggered only after the completion of **Terminal Process or Tertiary Process** . Price wise the highest Risk / Reward for NET SHORT is at SPX **1425 (or slightly above)** ONLY with Key reversal & PQV invalidation. Meanwhile we advise Hedging our Positions to protect the downside risk.

Last week – Reached projected Target of 1425 at the Tip of Terminal process, but Market did not have ingredient of POM 15 to Trigger in terms of internal indicators.

This week – SPX is at Late stages of rally. From last weeks pull back along with Friday’s Bullish piercing resulted in another attempt of rally towards the Apex 1425 to diffuse “the Momentum indicators. The T-Time Termination is on 30th Aug (Thursday) and Cycle change is on 31st Aug. (Friday) . We shall announce the Trigger when it Triggers

OUR PLAN – “CAUTION Model at POM 14. The Hedging should continue to position for **FIRST** leg down towards Target CZ 1390-1370, on Short term

On Mid term - Our ABC down Target is into CZ 1310- 1280 . This CZ is Heavy Bearish bottom and projection should get tested once the Major decline begins.

PLAN B – Instead of PLAN A , If the Model should turn BULLISH during Terminal Process, to begin next ABC up via Valid breakout . Although this is a low probability event with current Market internals).

For valid Breakout, We have disciplined criteria. If NOT it will negate the up move

- Weekly SPX price needs to close **above 1430 with 1.5 B share and SPY with 600 M shares** .
- The Market internals (TICK , TRIN, PUT CALL, ARM, VIX) should display Normal reading without exhaustion during the breakout”
- The 2 Major IDX's (DOW, NYSE, or QQQ) should accompany the up move with PQV breakout
- If such Event occurs, SPX shall delay POM 15 Trigger.
- **I am monitoring it closely**

More details in our - Market Commentary below

TLT (BONDS)- is Currently @ POM 14 – We Advised Hedging

Triggered Action – Announced POM 14 “Alerted Email 5/21 at Primary highs of TLT @ 124 to initiate – scaling into Hedging position within CZ 124-125 during its testing process. (This POM 14 signal ended the rally that was initiated from POM 13- CZ 111-112 for Net long.) **we have been Bullish on the Market for almost 11% move**

Projected Target -

Last week – TLT reversed from Middle of the trend without meeting projected pull back CZ 120-118 . It reversed in Bearish Manner without any validation.

This week - Bounce should continue towards the top of CZ 128-132 in Late stages of rally. The completion of **Secondary failure** in CZ which previously produced Bearish Top, should set up failure in Price & PQV in TLT.

OUR PLAN – “CAUTION Model at POM 14. The Hedging should continue to position. Our Mid term ABC down Target is into CZ 116-114. we advise Hedging our Positions to protect our downside risk.

More detail in our Wednesday’s Regular – US BROADER IDX Report. (A # 2 B)

GOLD – is Currently @ POM 13 – We Advised NET LONG. @ 1540 within CZ 1580-1540

Triggered Action – Announced POM 13 “Alerted Email 5/15 to initiate – scaling into NET LONG position within CZ 1540-1580 during its testing process. (This POM 13 signal is still open initiated at 1540 for Net long since 5/15.) **we have been Bullish on Gold since 5/15 for almost 110 – 120 point move**

Projected Target -

Natural Process Oscillation Target of 1670 is achieved with Bullish Top. (2nd ABC up completed) This suggests in very short term , Bullish top could get extended within 5 to 10 points & reverse . **We hit the highs of 1678** in September GC contract. **(Special GOLD Chart demonstrated below)**

The downside pull back towards CZ 1645-1630 . This is the breakout area Zone with SOS (Sign of strength). After the retracement which should hold, the next leg up should begin.

Overall Bullish base formation of bottoming process with brake out the Bullish triangle remains intact from CZ 1580-1540 .

OUR PLAN – We have “BULLISH MODEL” since POM 13. We will hold our Core NET LONG position and ride out the positions till next POM 14 signal.

PLAN B

If Short term failure occurs between Target 1670 (PEC –D) & 1680 (bullish extension), The overweight positions taken at POM 13 entry could be lightened up for recycling purpose, whiles maintaining CORE POSITION.

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

A # 1 - MS Report				
27-Aug	CURRENT STATUS	CZ - Trigger Confluence Zone	Target	Comments
SPX				
POM 15 (Bearish)	NO TRIGGER		1425	(Awaiting terminal Process to POM 15), No POM 15 - Trigger for any NET SHORT
SHORT-TERM (POM 14 - CZ 1410-1375 Open Hedges)	BEARISH	1410-1375	1390-1370	SPX in CZ 1410-1375 for Fully hedge, Triggered POM 14 - Pull back to 1370-1360
MID -TERM	NEUTRAL	1270-1295	1410-1375	POM 13 - NET LONG Position, Rally Complete (1300 into CZ 1375 - 1410)
GOLD				
SHORT-TERM -	BULLISH	1670	1645-1630	Target approached to 1670 Bullihs top , Retracement to 1645-1630
MID-TERM - POM 13 (1540) - Open Net long	BULLISH	1540-1580	1670	Target met 1670 with PQV validation / from (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
ILTI				
POM 15 (Bearish)	NO TRIGGER		130-128	(Awaiting final rally to POM 15)
SHORT-TERM (POM 14) 124 Open	BEARISH	125-124	118-116	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
-				
-				
-				
-				
LEGEND				<p>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</p>

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 – Market Overview Commentary

- Weekly - SPX Closed @ 1411 (down -0.5%)
- YTD - SPX – Closed @ 1257 / 1411 (+ 12. 5% gains)

August month end has Bullish bias along with Labor day weekend. Such event should kick in low volume into the Market, ideal for traders to move the market both ways. News released from Jackson Hole with renewed hope of QE might be a Trigger this week.

Last week the first sign of Terminal process was witnessed with rally to SPX 1428 projected mark & failed with key reversal as expected . On Short term we do have residual Short term strength for another round of diffusion at Terminal Top. (Chart demonstrated below).

Our next significant Cycle turn is likely to be around the Full Moon due on Friday 31st we shall see if Market tops out in those time frame. (+/- 2 days). The last turn came in 2days after 17th August day . SPX – T – Time termination is due on Thursday 30th .

Intermediate term the upside target has completed with the Natural Price oscillation into POM 14 – Zone with Bearish top. It is hinting that the next big meaning low should come in the first week of October. September tends to be the worst month of the year for the equity markets, even outside the US. So, a correction lasting into early October would actually follow the seasonal pattern quite well.

Our best leading indicator, the Semiconductor SOX Index, suggested another short rally but it has Topped out compared to its strength 2 weeks ago. Short interest is declining. Copper has been lagging SPX considerably (Refer chart below)

In summary - Solid evidence that the leg up from POM 13 is ending with late stage rally . No Trigger for POM 15 – NET SHORT position

Market internals although fading but NOT reached the terminal process yet to achieve POM 15 Signal. The breakout from here would be false breakout on PVQ / VTO . It is tertiary top process similar to April Trigger POM 15 @ 1400 .completing all price & volume patterns. 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** – Last week , DXY gave a shakeout move into CZ 81.5– 82 as we had expected and rally in early week went towards POM 15 target of 1425 but did not Trigger the POM 15 .

The shake in DXY was not with bullish divergence, the chances favor the DXY coming back to retest support before moving substantially higher in September and put pressure SPX . This favors risk-off next month.

- **BONDS v/s SPX** - Both are at POM 14 – Fully Hedged position with downside Risk. One of them should resolve first to POM 15 – NET SHORT. It is difficult to predict which one. We favor SPX to complete

SHORT TERM - Price path Analysis

The summer rally with SPX back close to their levels at the April top. The pull back to 1390-1370 from 1425 .We should get another counter trend move & then decline in September. The Hedging should continue to position for FIRST leg down towards Target CZ 1390-1370, on Short term (Chart demonstrated below)

MID TERM – Price path Analysis

On Mid term - Our ABC down Target is into CZ 1310- 1280 . This CZ is Heavy Bearish bottom. This projection should get tested once the Major decline begins. We are still expecting a meaning lows this year until the October time-frame.

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

The SPX Ratio-Adjusted McClellan Oscillator is about the zero line & dipping, this is telling us that the Intermediate market is not very strong. If the market were strong, we would see the oscillator remaining above zero. The small number of stocks leading the way higher. The NYSE Summation Index has been unable to get above 300 on this rally, a sign of a Mid term topping process.

Evidence on VIX suggests, PEC-D @ 13.5 is complete with 3 Drives to the Bottom. There is storage of Kinetic energy getting recoiled to unlock into Potential Energy as witnessed in April 2012. With VIX hitting warning of “complacency” and saying that low VIX readings always lead to suggest Caution.

- *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.*

EXTREME READINGS

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

NOT -EXTREME READINGS

PUT CALL, TICK

- **SPX - Election Cycle Model - Update**

Research from MER “ Curtsey Market Watch” has shown that the last two years of the four-year Presidential Cycle are normally positive for the market. Additional research on this cycle pattern shows that when a Democratic President is in office, cycle lows prior to the election occur on or near, May 30, June 22, July 31 & August 21.

- **SPX - Seasonality Model - Update**

- End of the Month Positive into Labor day weekend.
- Negative September
- Lows & Reversal in October.

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

Lunar Model suggests turn on AUG 31st +/- 2 days.

- **SPX - Sentiments Model**

AAll Weekly Sentiment Survey is Turned Bullish but – SAME AS LAST WEEK

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

By this Model leg Down in September , then correction and then rally back year end . Then Correction in February then rally in May

The larger decline post May 2014 by EURO Future Model.

SPX- CZ / Pattern Oscillator Analysis

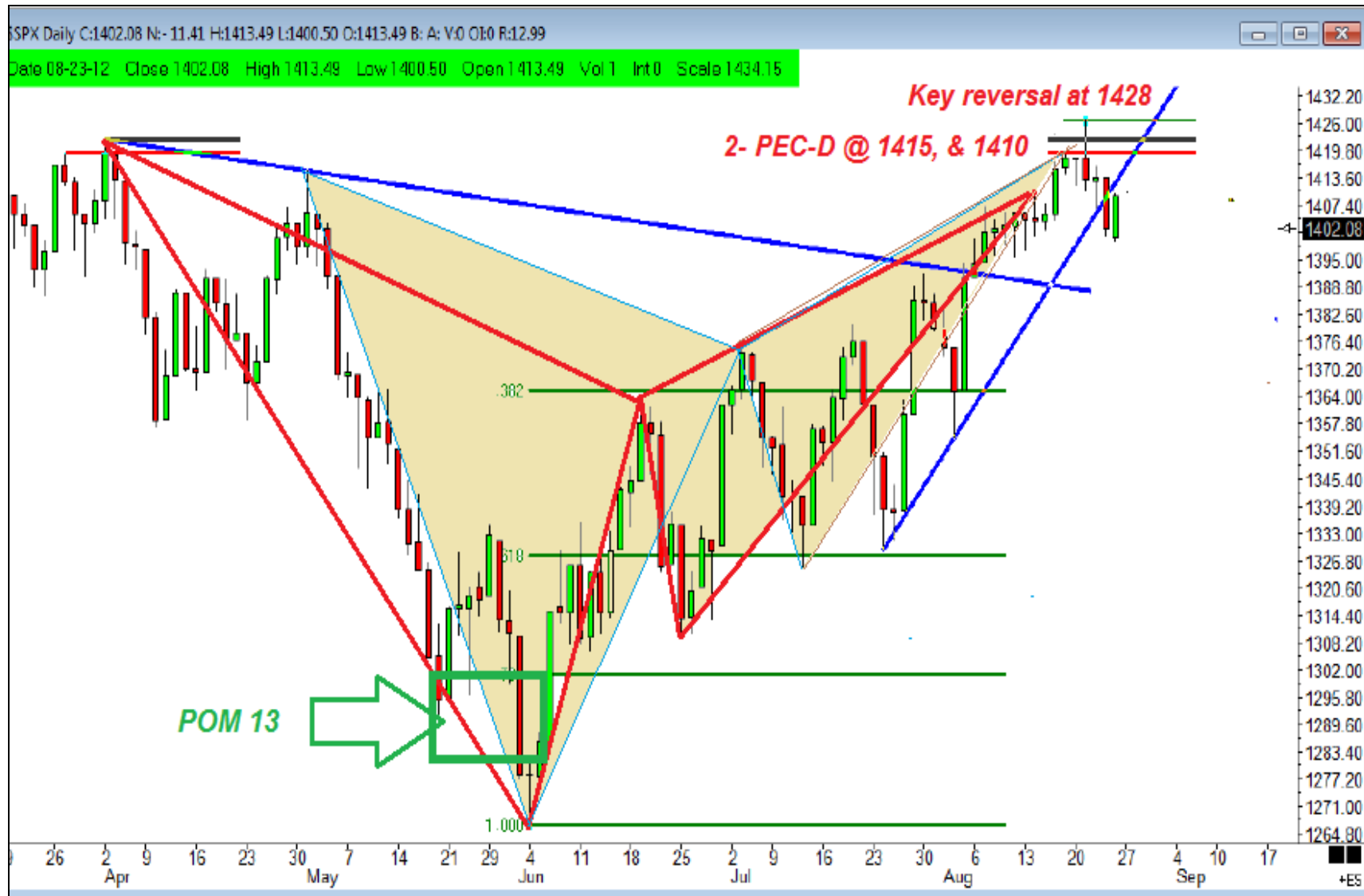
POM 15 – NET SHORT – Target remains at 1425 with Key reversal with terminal Process & Bearish wedge.
(NO TRIGGER)

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

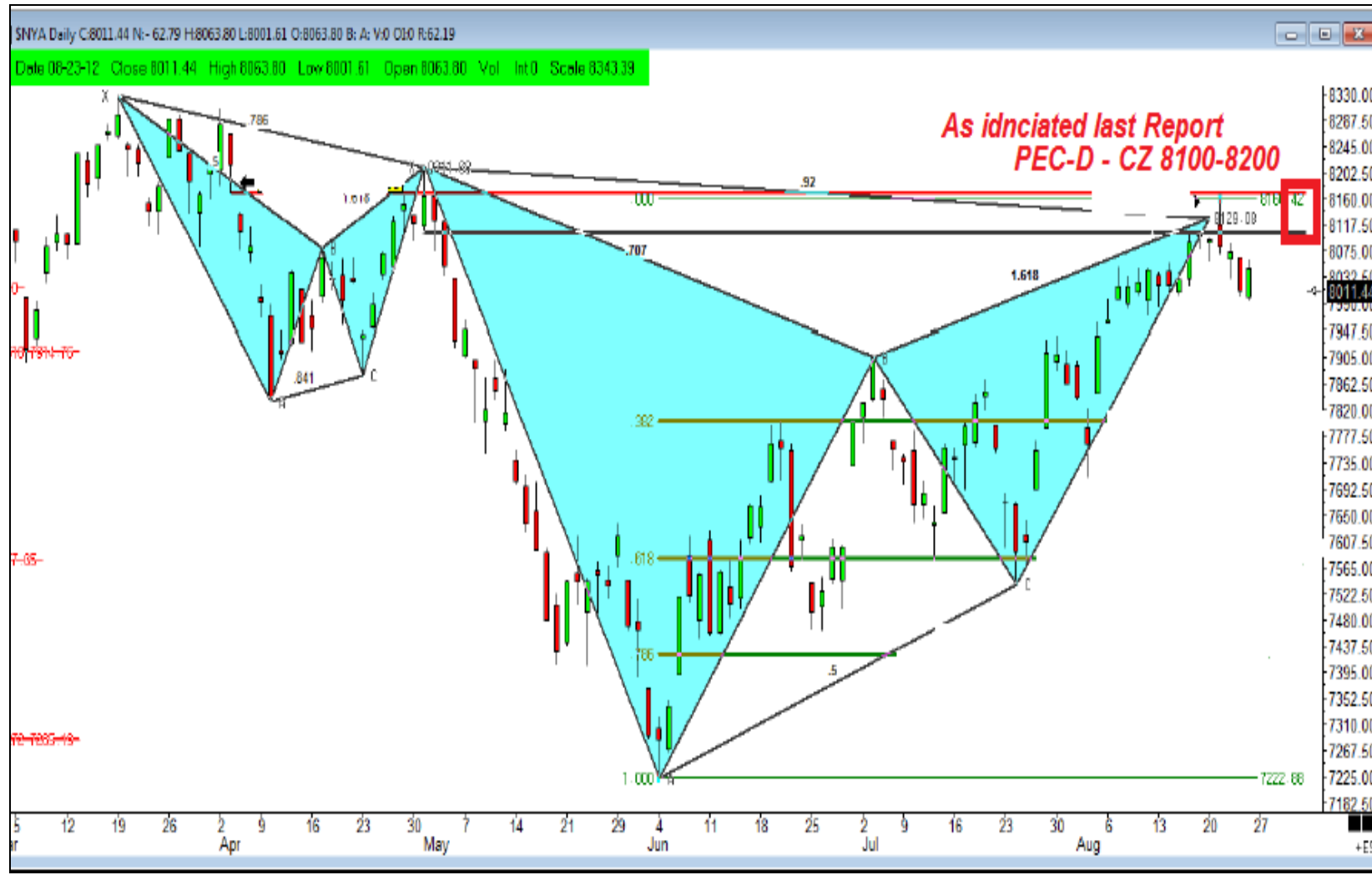
Convergence of (2) PEC-D patterns to 1410 & 1415 . with PQV Validation



NYSE – A/D Analysis with PEC-D

NYSE – PEC-D Target 8150 – CZ met Last week & then sold off , Next bounce NYSE should lag SPX ,

NYSE v/s SPX – Ratio is –vely diverging .



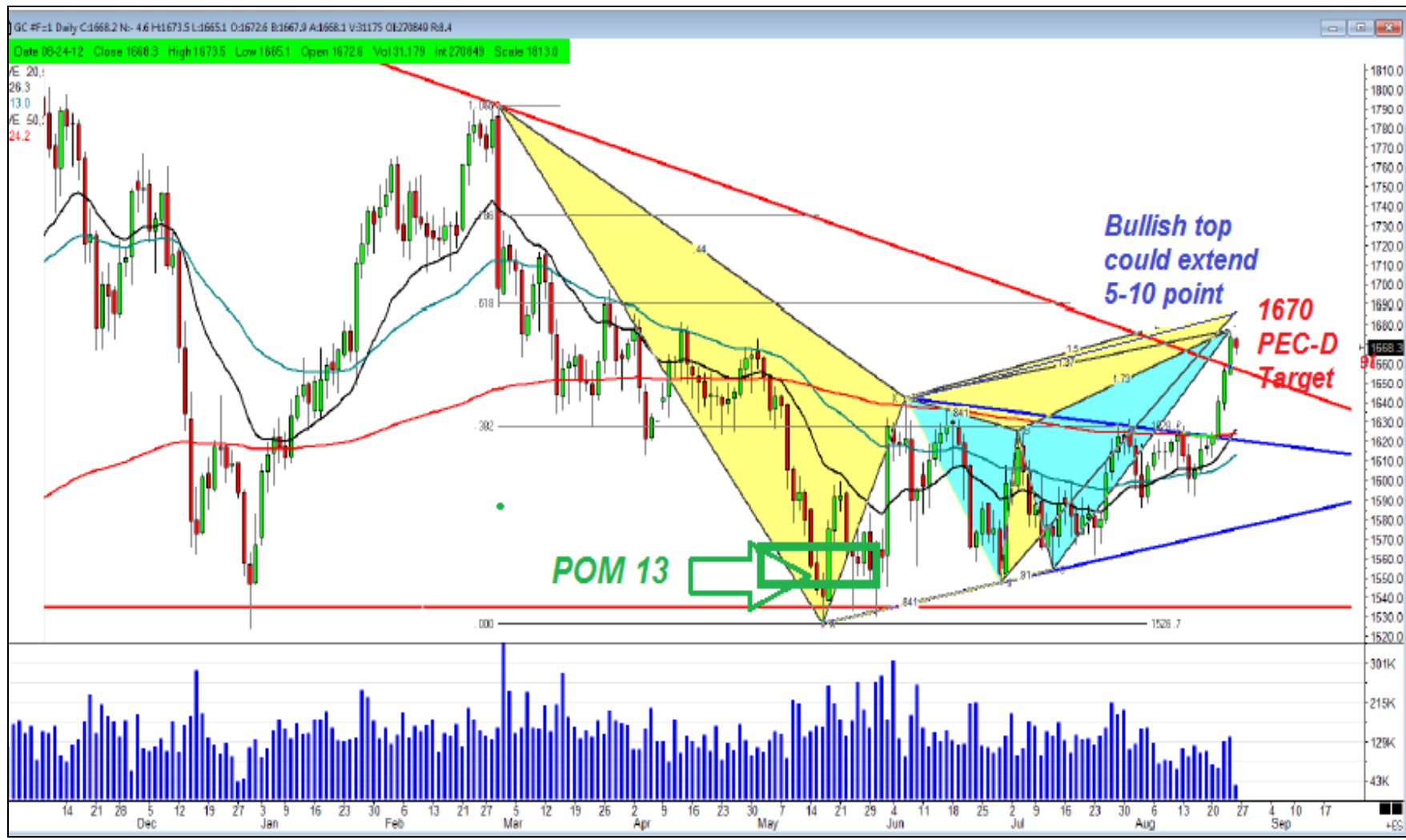
SPX v/s Copper Analysis

Copper LAG SPX – Historically such rallies get non sustainable. – April 2011 top we witnessed the same scenario just during the time of POM 15 .



GOLD – PEC-D Analysis (Special Situation)

Target of **1670** is achieved with Bullish Top. (2nd ABC up completed) The Bullish tops have tendencies of extension within 5 to 10 points & then reverse . We hit the highs of 1678.



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

1) 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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