



SG Capital Research

Global Market Insights

**Research Note – Strategy & Prop Analysis**

**MS\_SPX\_MARKET STRATEGY REPORT \_SG 2012 # NOV\_05**

**For – Immediate Release – *Tuesday***

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## **MS . SPX – MARKET STRATEGY Report**

### ***1. Executive Summary***

- *SPX, GOLD, TLT, Signal.*
- *POM, Price Projection CZ , Summary – Trading / Investment Conclusion.*

### ***2. Market Overview Commentary***

### ***3. Chart Analysis***

- **SIGNALS. - Price Projection CZ , Trading / Investment Conclusion**

**SPX** – Triggered POM 13 Re – Run @ 1422 ( Avg. ) - CZ 1425-1410 - **NET LONG**

Triggered **POM 13** on 10/15, we initiated  $\frac{1}{2}$  **NET LONG** (Or Rebalancing Hedges) & advise to Scale in remaining  $\frac{1}{2}$  within **CZ 1425-1410**, This signal completed **POM 14 – Caution** Triggered on 7/01 within **CZ 1410-1375**. All subsequent commentary refers to CZ to CZ moves are for Risk Management.

**NEW POSITION – NONE**

**Triggered Action** - POM 13 Triggered @ 1422 ( Avg. ) for Net Long (or Rebalancing hedges) is in progress till we announce next trigger.

**Projected Target**

**NEAR TERM** – Downside Target **CZ 1425-1410** .( **With Smash down to 1395 as “Bull & Bear” Trap as possibility** ). Existing positions should continue to remain Net long @ 1422 Handle).

**UPSIDE** – Target is **1485-1500**.

**Brief Commentary on Price path on SPX - Refer Market overview below**

- **Weekly Change - SPX** Close Price @ 1415 ( + 0.3% gain )
- **YTD Change - SPX** – Closed @ 1257 / 1415 ( + 12.3% gains)

## **TLT ( BONDS)- Remains Triggered at POM 14 within CZ 125-124 – “CAUTION”**

Triggered **POM 14-** on 5/21 we initiated to raise cash ( or Hedge) within **CZ 125-124**, This signal completed **POM 13** Triggered on 10/27 for **Net Long** within **CZ 111-112**. All subsequent commentary refers to CZ to CZ moves are for Risk Management/ rebalancing overweight positions.

### **NEW POSITION – NONE**

**Triggered Action** POM 14 within **CZ 125-124** is in progress till we announce next trigger.

### **Projected Target**

**UPSIDE –** Capped into **CZ – 125-128** area . Rally towards **136** is POM 15 Target.

**NEAR TERM –**Downside Target **CZ 120-118**

**MID TERM –.** Downside to **CZ 116-114** is the Target for potential POM 13 to initiate Net- Long. Existing positions should continue to remain in raised cash ( or hedged).

## **Brief Commentary on Price path on TLT**

TLT's trading range between (120-125) continues for 5 months with No Net effect on price building cause. Currently bouncing back towards our upside **CZ 125-128**. ( 4<sup>th</sup> time failure in that CZ) . In order for rally to continue, volume needs to pick up in CZ to negate Bearish Top to target 136, **Ideal place to get “ Net short”** , this has not happened.

Near term downside **CZ 118-120**, has heavy bottom, eventually it be broken. Mid Term Target of **CZ 116-114** . This is Target area for potential POM 13 to be triggered if PQV is validated. **Ideal place to get “ Net long”** for one last rally before the 30 yr old Bull Market ends.

## **GOLD – Remains Triggered at POM 13 @ 1540 within CZ 1540 -1580 – “NET LONG”**

Triggered **POM 13 @ 1540-** on 5/15 we initiated **NET LONG** within **CZ 1540-1580**, This signal completed **POM 14 Triggered** . On 2/6 for **HEDGING** within **CZ 1790-1765**. All subsequent commentary refers to **CZ to CZ** moves are for Risk Management.

### **NEW POSITION – NONE**

**Triggered - Action** - We Announced Short Term **CAUTION** @ 1770 on 9/17

POM 13 Triggered @ 1540 within **CZ 1540-1580** is in progress till we announce next trigger.

### **Projected Target**

**NEAR TERM** – Downside pull back to **CZ 1650-1625 – PEC-D @ 1635**

**MID TERM** –Upside **target is CZ 1790-1820** for POM 14. Positions continue to remain **NET LONG** till next POM 14 is Triggered .

## **Brief Commentary on Price path on GOLD**

Our Short term **CAUTION** signal was defined @ 1770 to target 1705 ( Mean avg CZ price) this was met. After initial rally , the Retest failed in CZ on PQV Validation to set up next ABC down to **CZ 1650-1625**. This breakdown was on Neutral basis and might get negated soon if we get quick sign of strength in next 2 days on large volume. .

However our Model do not recommend any “New position” with “ **Fresh Capital**” without Fresh POM Trigger. If the next ABC down is completed at **1650-1625**, the strong November seasonally rally should begin . OUR Cautious note at 1770 capitalized on the  $\frac{3}{4}$  of current decline via RM and it has enabled us to lower cost basis on “Core” position by avoiding the decline from 1770 to 1705 mean price within confine of the Bull Market . The fast and furious corrections are typical patterns of Bull Markets to shakeout the Golden Bulls. We have good profit cushion.

# GOLD – CZ/ PEC- D Analysis – **Bullish** - with ST Caution @ 1770

- Current price 1678 - Texture - **BULLISH TOP & NEUTRAL BOTTOM**

Near Term Pull back – CZ – 1650-1630, PEC-D @ 1635 (Notes within the charts)

Upside - POM 14 – area 1790- 1820, 3<sup>RD</sup> ABC up with BULLISH TOP



## **SPX – Market Overview**

*Our “Tape reading” Indicators suggests the Last week’s activity has been on artificial price move. The two days of Market close and continued disruption rest of the week is contributing to “wide Price spreads” both ways up & down) on low volume. It is much simpler to move prices on low volume.*

*Our Time line – T Termination indicated last week by several Models and Cycle turn are clearly delayed by a week . Although as expected , We rallied hard from CZ and then Sold off the next day. CZ is well know to trap Bulls and Bears alike. This is part of bottoming process to shake the weak hands. This year, 2012 Friday’s BLS Report statistically resulted in down Market with 75% probability on the day of Report. Program Trading were pre - positioned for this occurrence and low volume helped the cause especially when intraday creek of 1422 was jumped ( indicated in Intraday chart email sent out) .*

*For Investors with midterm timeframe , now being good opportunity to “scale in” CZ for Net long and simultaneously good opportunity for professional desks to use the intraday volatility to further lower cost basis on their core position to get the last tick.*

*We do think the Natural lows is behind us @ 1405 with possibility of forced 1393 smash down lows. ( as we have been indicating since 10/26- Special Report – CASE 1& 2 as Typical price behavior at POM 13 ). The secondary test of that low coming on Election Day (Tuesday) of this week. The market is likely to rally no matter who wins, may be initial sell off and then rally into mid- December / year end and then we should watch out for the nasty decline within first 8 weeks next year*

*Internal Market Indicators are showing a Great deal of positive divergence pushing in our CZ 1425-1410 . which is positive & in line with seasonal lows.*

**Among the other Broader IDX's our Bullish textured MDY ( Mid cap ) , SMH (semi), XHB ( Home – Builders) XLF , XLV are very strong showing excellent strength relative to SPX and suggests higher highs ahead. They are all building higher highs above pivot points. QQQ is Neutral with Bullish bias is oversold, awaiting for AAPL to reach its ABC projection at 570 and reverse. AAPL being 20% of QQQ**

The STORM and aftermath of rebuilding of damaged homes has put in fire power under **XHB ( Home builders)**. The Lumber – **ETF ( CUT)** simultaneously is breaking out.

**Among the Weaker / Neutral IDX , CRB ( Commodity), OIL continues to remain weak **ALERT** in Commodity Report – Copper is approaching to attractive levels CZ for testing .**

### **POSSIBLE CAUTION –**

1 **PQV Related** - During the smash down of 1393, if volume expands or SPX fails to close above the Creek **1405** weekly with pattern failure and Market internals at Neutral , it would diminish & perhaps negate the ability of Momentum Indicators to re- ignite on upside. (Although PQV Analysis do not expect it to happen).

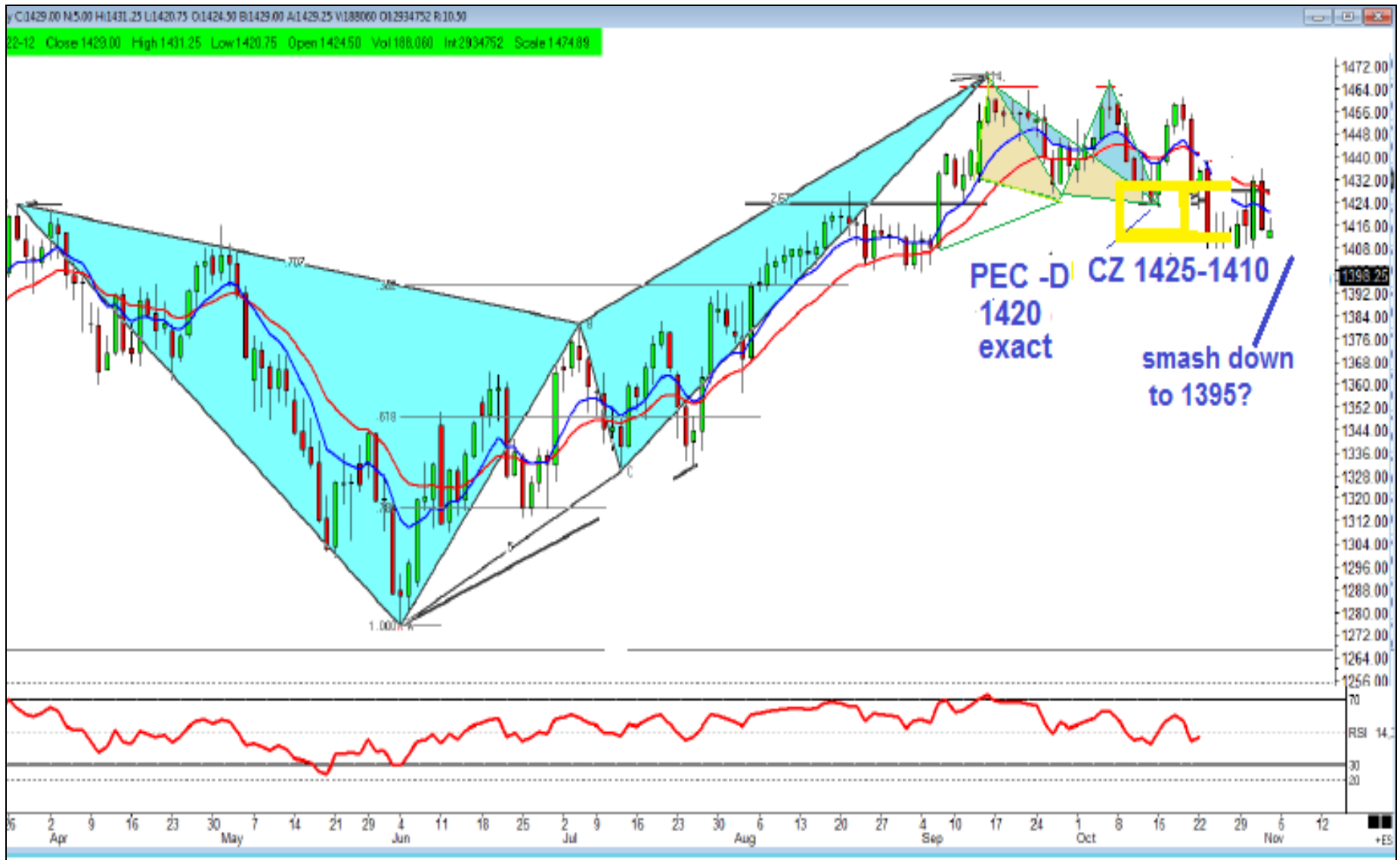
2. **Election Related** - Wild card - If Big Money” expresses the displeasure against the incumbent to generate temporary Sell off. These events are difficult to control . AL- GORE v/s Jr BUSH comes to my mind. Which was “ close to call” . If History repeats itself all bets off !!! “ Hanging Chad “ forces are more powerful.

**Overall nothing has changed in our thinking from previous week and the charts below remains intact in Bottoming criteria. Until the trend reverses our chart Analysis should be monotonous .**



# SPX- CZ / POM 13 Analysis – NEAR TERM

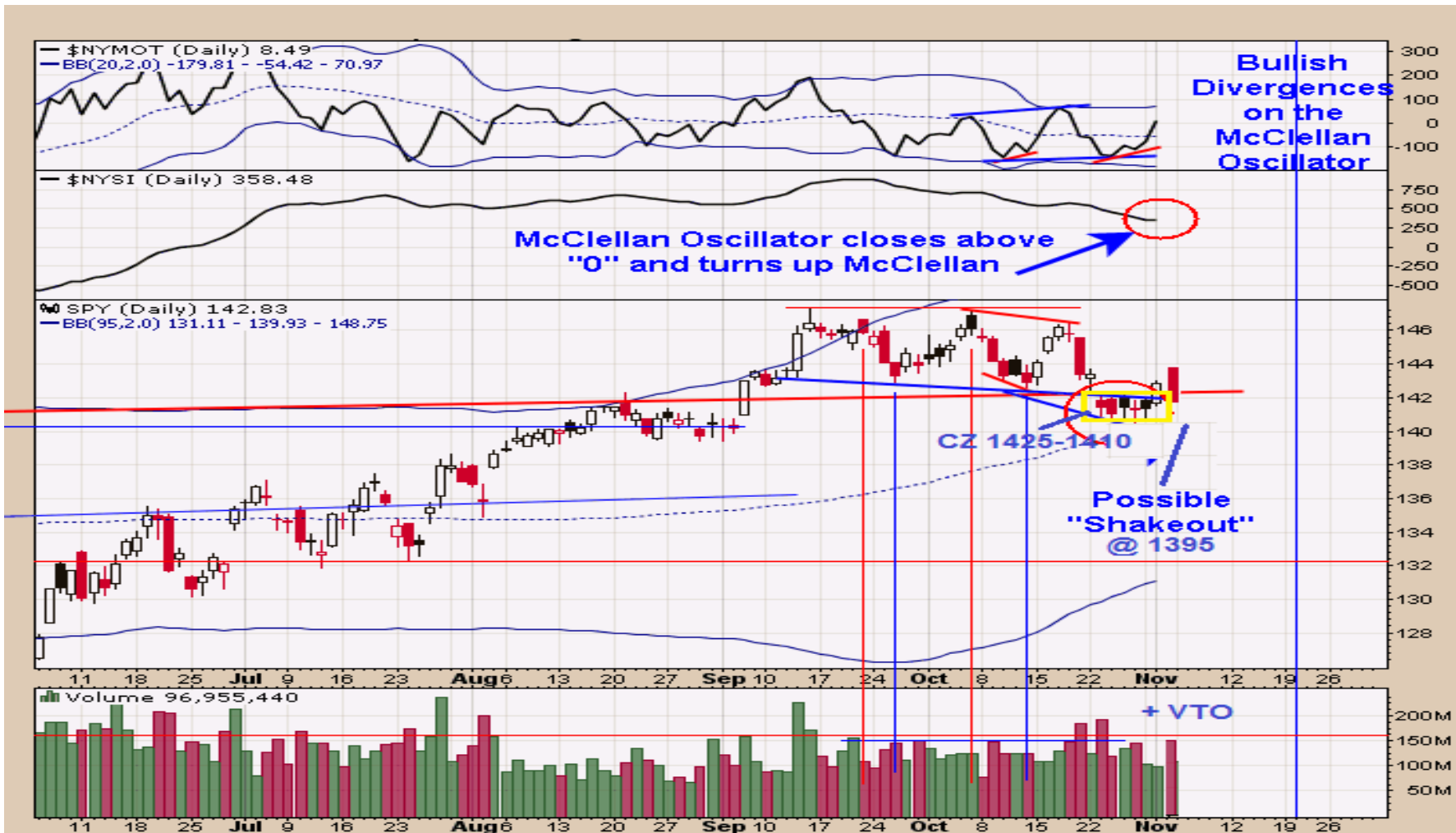
SPX in process of re test CZ 1425-1410, Possibility of smash down to 1395 ,





# SPX- CZ / POM 13 Analysis – NEAR TERM

McClellan Oscillator has been on bullish divergences last couple of weeks & shorter term last few days, suggests a rally. The pattern that appears to have formed over the last week is a "Shakeout", we need one last gasp on downside to 1395 & close above 1405.



# SPX- Price path – **NEAR TERM**

The SPX is showing an accumulation pattern on its volume oscillator within CZ, The rally once begins should Trigger Wave 1-2-3-4-5 with 3x3x3/9EMA to end the Projection to **E 5 for 1485- 1500** ( the **DIAGONAL TRIANGLE**)



# MID CAP – Oscillator Analysis – LEAD INDICATOR

The breakout of downward wedge is a bullish pattern , now possible re test . This pattern usually has continuation upside. MidCaps have the volume oscillator show accumulation pattern which is a strong positive.



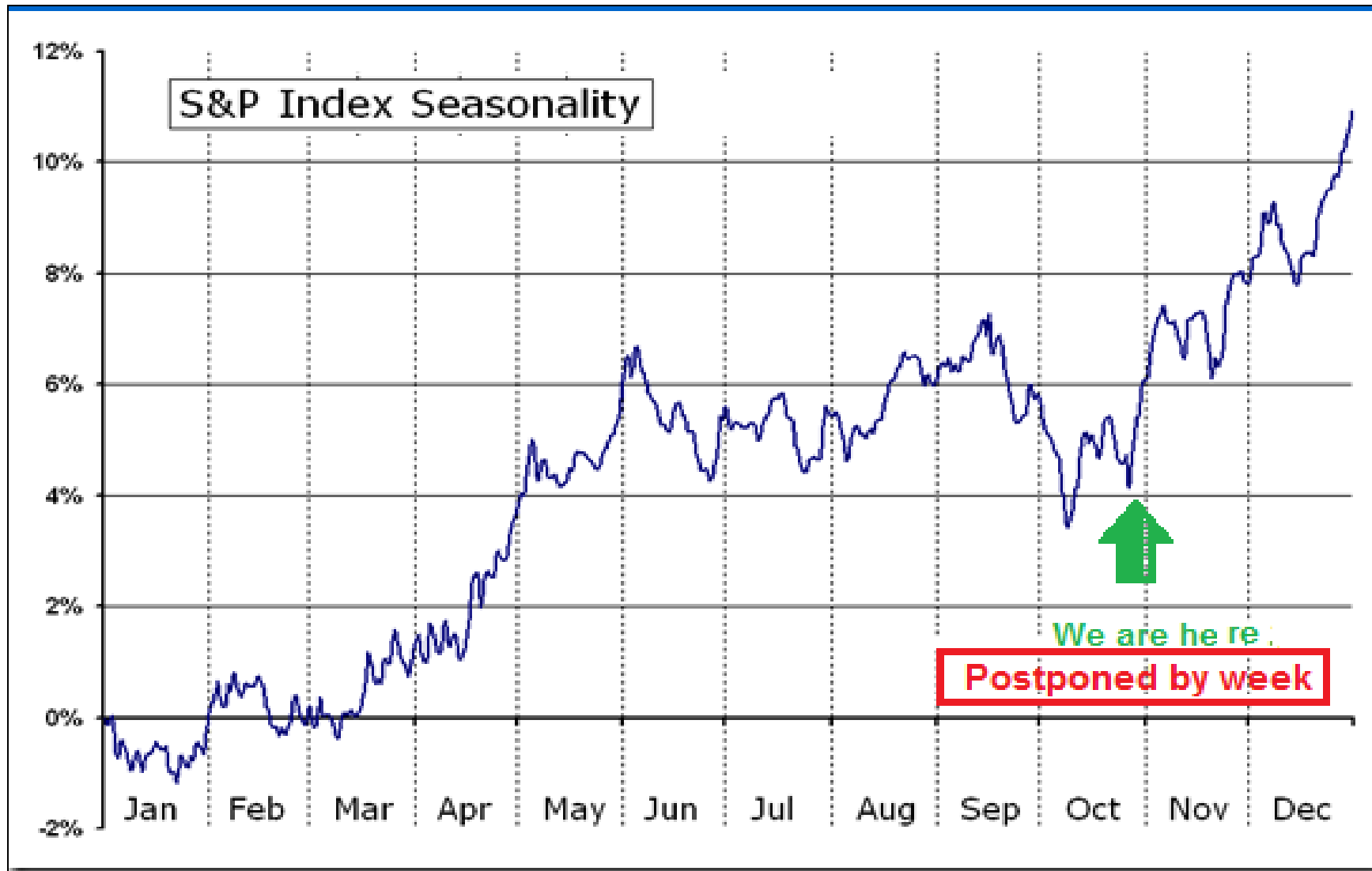
# SOX ( SEMIS) – Volume Oscillator Analysis - **LEAD INDICATOR**

SOX has exhibited Sign of strength of the Bullish bottom with Bullish divergence. which suggests SOX should be turning up and leading the market higher once SPX finishes its CZ test. .



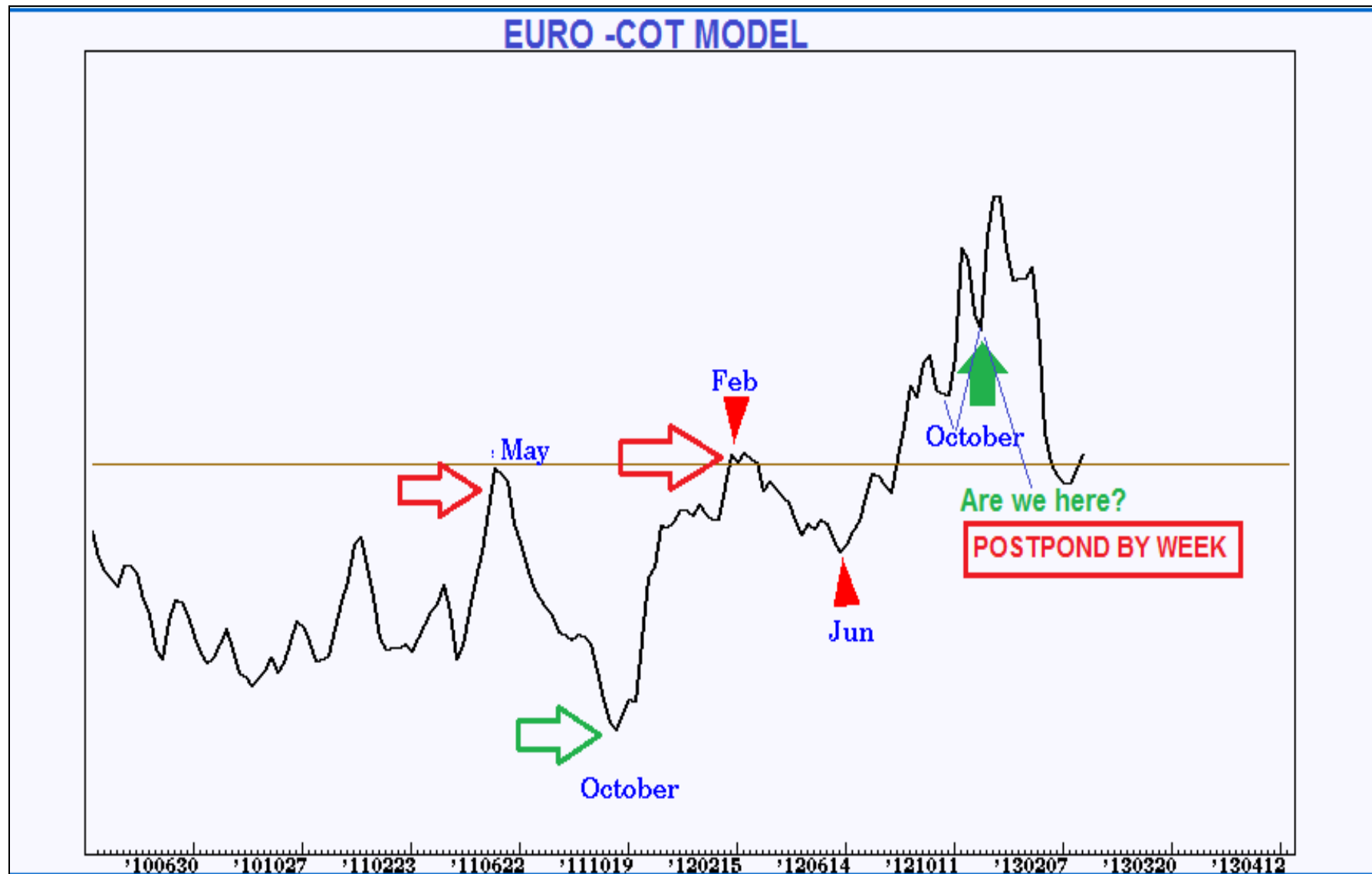
## SPX- Seasonality Model – NEAR TERM

**POSTPONED BY WEEK DUE TO STORM BUT TIME LINE APPEAR TO BE IS INTACT**



## SPX- EURO -COT Model – NEAR TERM

**POSTPONED BY WEEK DUE TO STORM BUT TIME LINE APPEAR TO BE IS INTACT.**



## SPX – Cyclical Model

- SPX - Seasonality / Election Model -
- Lows on October Month end on 29<sup>th</sup>
- SPX - Geomagnetic / Lunar Cyclic Model

Lunar Model suggests turn on Oct 29<sup>th</sup> – Full Moon is in place.

- SPX - Sentiments Model

AAll Weekly Sentiment Survey is turning BEARISH

- The EURO – Future Model Forecast, -

By this Model, lows 11<sup>TH</sup> October with secondary lows on 30<sup>th</sup> Oct 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 – Internals Model

EXTREME READINGS – TRIN / VIX Ratio

NOT -EXTREME READINGS - PUT CALL, TICK, ARMS, AD Oscillator, Ratio's,



# **Appendix Content**

- **2012 YTD – SPX - Position Summary**
- **Objectives & POM /CZ / PEC –D Guidelines – Refer to detail Annexure**
- **Full Utilization of “ SP” Report Guidelines & Limitations - Refer to detail Annexure**
- **POM – “ Price Oscillation Model “ Criteria**
- **PEC –D “ Pythagoras – Expansion & Contraction Criteria**
- **CZ- Confluence Zone Criteria**
- **TEXTURES – Bullish , Bearish , Neutral**

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

1) *Triggered - POM 14 – HEDGE( Raise Cash) in CZ (1410-1375) , initiated 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.*

## (42) - INSTRUMENTS COVERAGE SUMMARY

Re - STRATEGY & PROP ANALYSIS with – POM, CZ, PEC-D, PQV

GR 1 (13+2) Coverage in MS	GR 2 ( 9 +4 ) Coverage in SECTORS	GR 3 (8+1) Coverage in COMMODITY	GR 4 (5) Coverage in CURRENCY
<p><u>US BROADER IDX</u></p> <ul style="list-style-type: none"> <li>• SPY ( SPX 500)</li> <li>• DIA ( DOW 30)</li> <li>• QQQ ( NASD100)</li> <li>• IWM (Small Cap)</li> <li>• IYT ( Transports)</li> <li>• NYA (NYSE)</li> </ul> <p><u>BOND IDX</u></p> <ul style="list-style-type: none"> <li>• TLT ( Bonds)</li> <li>• MUB ( Muni). (SP)</li> </ul> <p><u>GLOBAL IDX</u></p> <ul style="list-style-type: none"> <li>• EEM (Emerg.)</li> <li>• EWJ (Japan)</li> <li>• FXI (China)</li> <li>• EWZ ( Brazil)</li> <li>• FTSE (Europe Proxy)</li> <li>• BSE (India)</li> <li>• EWA (Aust) SP</li> </ul> <p><b>SP - Special situation</b></p>	<p><u>SECTORS IDX</u></p> <ul style="list-style-type: none"> <li>• XLF ( Financials)</li> <li>• XLV ( Health )</li> <li>• XLB ( Materials)</li> <li>• XLE (Energy)</li> <li>• XLK (Tech) / QQQ - Proxy</li> <li>• XLI ( Industrial) –</li> <li>• XLP ( Staples)</li> <li>• XLY ( Discretionary)</li> <li>• XHB ( Home Builders)</li> <li>• XLU ( Utility) SP</li> <li>• RTH ( Retail) - SP)</li> <li>• SMH ( Sem.) SP</li> <li>• BBH ( Biotech) SP</li> </ul>	<p><u>COMMODITY IDX</u></p> <ul style="list-style-type: none"> <li>• CRB /DBC</li> <li>• GLD (Gold)</li> <li>• SLV (Silver)</li> <li>• GDV (Miners)</li> <li>• OIL</li> <li>• Copper</li> <li>• DBA ( Agro)</li> <li>• UNG ( Natural Gas)</li> <li>• DBB ( Base M) SP</li> </ul>	<p><u>CURRENCY</u></p> <ul style="list-style-type: none"> <li>• USD / DXY</li> <li>• EUR/USD</li> <li>• AUD/ USD</li> <li>• USD/JPY</li> <li>• GBP/ USD</li> </ul>

## 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)

# Pythagoras Expansion / Contraction – (PEC) Model

- PEC Model is a 2<sup>th</sup> Derivative Timing Tool utilized on core currencies which identifies the turning point, for Tops and Bottoms on “Short & Intermediate term” Trend in the currency market.
- Methodology is based on Mathematical Pattern Recognition with Symmetrical Pythagoras Triangular expansion and contraction ( PEC) in concert with Price Oscillation ( POM) . This has a high probability for greater accuracy on Price projections at confluence when Integrated together.
- Once our POM analysis is complete, it will overlay PEC. The input signals are from tracking rolling Arithmetic Numerical series of Regression utilizing Fibonacci to Identify Triangular patterns of Expansion / Contraction. Triangular pattern completes at the convergence of 2 separate Fibonacci extension levels and overlay Price Oscillation Model.
- Since the Currency has 2 dimensional pairs, PEC is critical to analyze with 2x2 Fibonacci steams to achieve confluence point D coinciding with POM

## PYTHAGORAS EXPANSION / CONTRACTION –(PEC) Model

The output signal of ABCD price moves preceded by a swing high or low (XA) generates projection point D, which is actionable point derived from 2 connecting triangles with convergence ratio. As with all geometric patterns, a Buy or Sell signal occurs as the pattern completes at point D

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