



SG Capital Research

Global Market Insights

**Research Note – Strategy & Prop Analysis**

**MS\_SPX\_MARKET STRATEGY REPORT \_SG 2012 # NOV\_12**

**For – Immediate Release – *Monday***

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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**

**DOWNSIDE** - Target is extended (false break) below **CZ 1425-1410**.. Existing positions should continue to remain Net long @ 1422 Handle).

**NEAR TERM** – Upside Target is **1425-1410**

**MID TERM** - Upside Target is **1485-1500**

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

- **Weekly Change - SPX Close Price** @ 1380 ( -2.4% gain )
- **YTD Change - SPX** – Closed @ 1257 / 1380 ( + 9.7% gains)

## **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 -**

POM 13 Triggered @ 1540 within **CZ 1540-1580** is in progress till we announce next trigger. On 9/17 we advised Short Term **CAUTION** @ 1770 for decline towards 1705 for – recycling position.

#### **Projected Target**

**NEAR TERM** – Downside pull back to **CZ 1705-1690**

**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**

Last week, GOLD with false break below **CZ 1720-1690** came back quickly in the range. It was a classic “ Bull & Bear Trap” We stayed with our planned course for recycling the capital.

The “ shake out “ **CZ 1705-1690-** has tendencies of getting re tested but with Neutral texture it can create higher high price pattern. DXY is finishing its ABC up at 82 and its pull back should assist Gold move higher.

The strong November seasonally rally should kick in. Our Cautionary note on the decline (from 1770 to 1705) has enabled us to lower cost basis on “Core” position. ( **GOLD in Wednesday’s currency Report**)

## 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 – No change

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.

## **SPX – Market Overview**

*At the outset , we illustrate DXY. Few weeks back DXY broke below 81.25 to 79.5 with false break on news driven trigger ( FOMC meeting), today we find DXY trading back within the CZ closer to 81.6. SPX in past 3 - trading is demonstrating similar price behavior and likewise should come back within CZ 1410-1425 sooner than later. False breaks on sudden news driven slippages (around CZ's) do not constitute new ABC's under PQV*

*With reference to SPX, Our flush out point was at 1395 for key reversal but the slippage below 1395 was triggered by “presidential election or Fiscal cliff event” which temporarily changed the path of the market. Thursday & Friday. At 1395, the Climax volume strongly suggests that tax selling to avoid high tax structure next year is responsible to put damper on next leg up . The Political events have delayed out bottom formation / T termination by week.*

*The market apparently is discounting the Fiscal Cliff ahead of time and liquidating assets at lower capital gains tax rates. We have a potential turn around Tuesday with New Moon 13<sup>th</sup> Nov which has been very consistent this year for Market turns ( see chart below) .*

*For Investors with midterm timeframe, it is good opportunity for Net long. If there is another false start in the next bounce, the professionals would use the opportunity to further lower cost basis on their core position. The biggest risk is actually trying to time clarity. Majority Bulls would wait until bad news to clear from system and end up buying at highs. Bears are losing momentum and Market is getting tired.*

*We are overweight in Mid – Cap in particular, it has the best texture. Majority of our Bullish Instruments are indicating Natural pull backs without showing any false breaks. These are positioned well around our Trigger points.*

**In closing,** *DAX & FTSE Rejected the lows in Bullish way. Both the Indices have Bullish Top in place. DXY is finishing ABC up at 82 , its pull back should assist equity Market to rally. Internal Market Indicators continue to show positive divergence and extremes, We have several charts to demonstrate it*

**CONCLUSION** - Our next step would be SPX Market close weekly above 1405 to confirm weekly key reversal, to re entered if stopped out . If not the bottoming process gets delayed by a week. . The market appears to be setting up a significant bottom. All our Bullish IDX's are setting up very well in this correction. *Not much have changed in our Analysis since last Thursday's special Report on 11/08*

### **Status of Bullish IDX Positions - - Net long at Trigger prices**

*The excellent strength relative to SPX and suggests higher highs ahead*

#### **1. Broader IDX**

*MDY ( Mid cap), SMH (semi), XHB ( Home – Builders) XLF ( Fin) are all above our trigger point / CZ 's in spite of market correction..*

*SPY, XLV, XLP are slightly below our pull back CZ ( false break) but Bullishness is intact.*

#### **2. Global IDX**

*FXI ( china) , EWJ( NIKKE), EWZ ( BZL) – are all building higher highs above our initial Triggers / CZ in Bullish Manner.*

#### **3. Commodity**

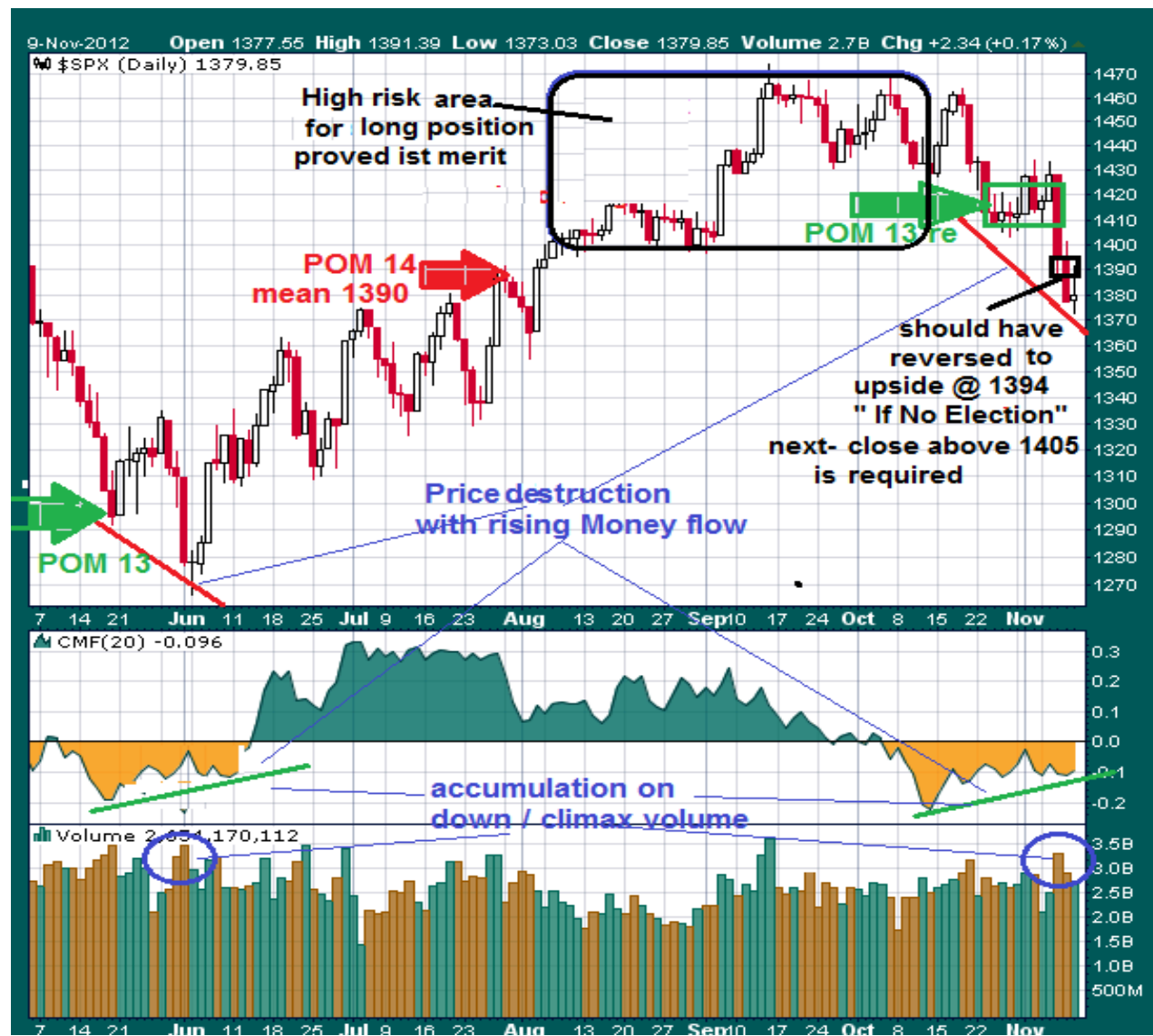
***GOLD. GDX** – are all above our trigger point CZ in spite of false breaks and volatile market correction.  
**UNG** – continues to remain Bullish.*

**ALERT** in Commodity Report – **Copper** is approaching to attractive levels CZ for testing

**FYI - CRB ( Commodity), OIL** continues to remain Neutral.

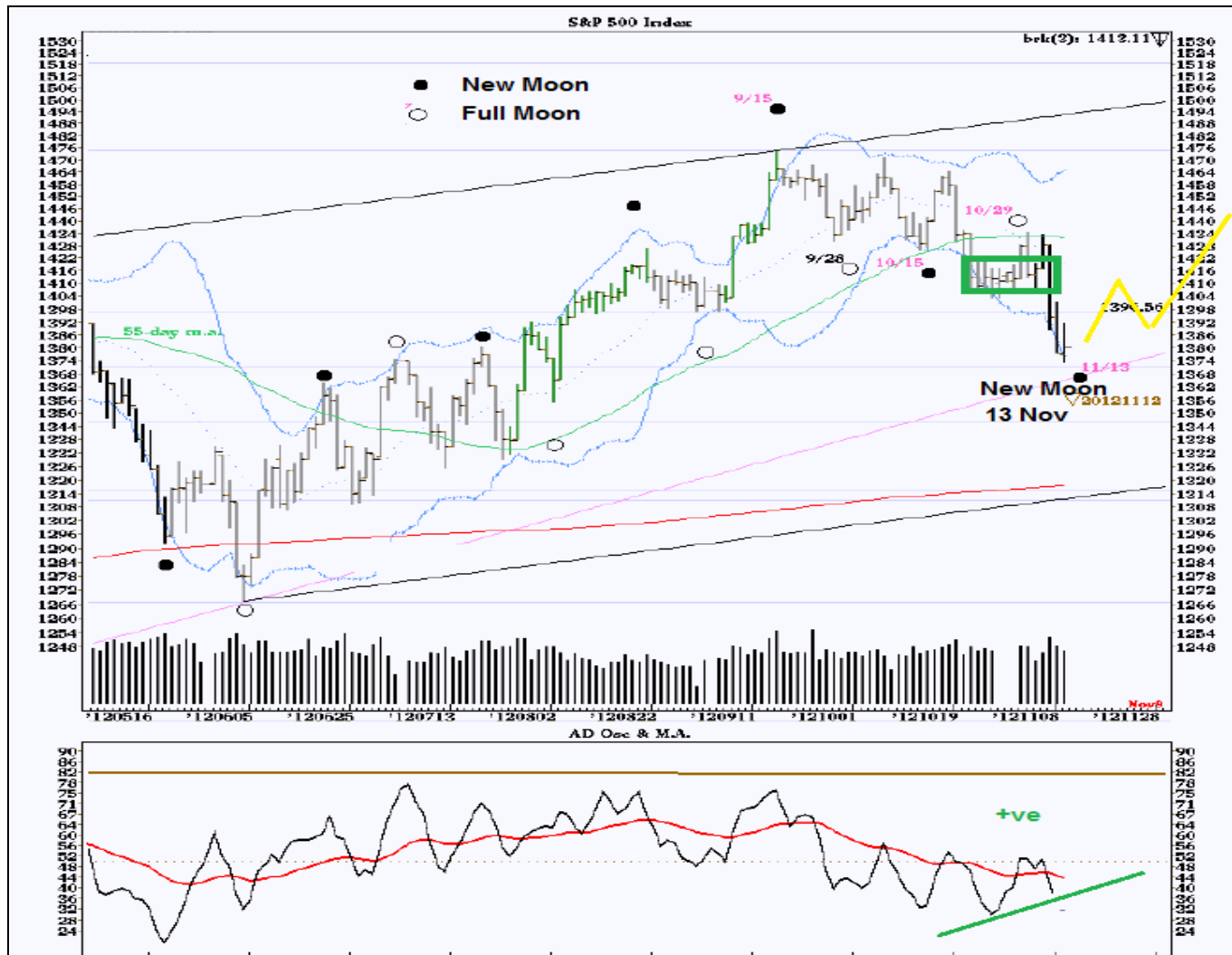
# SPX- CZ / POM 13 Analysis – NEAR TERM

Price destruction beyond CZ is on increasing Money flow & accumulation. ( Notes within the chart ) . The expected *smash down to 1395 did not reverse @ 1395 causing false break due to Election news.*



# SPX- Price path / Cycle – NEAR TERM

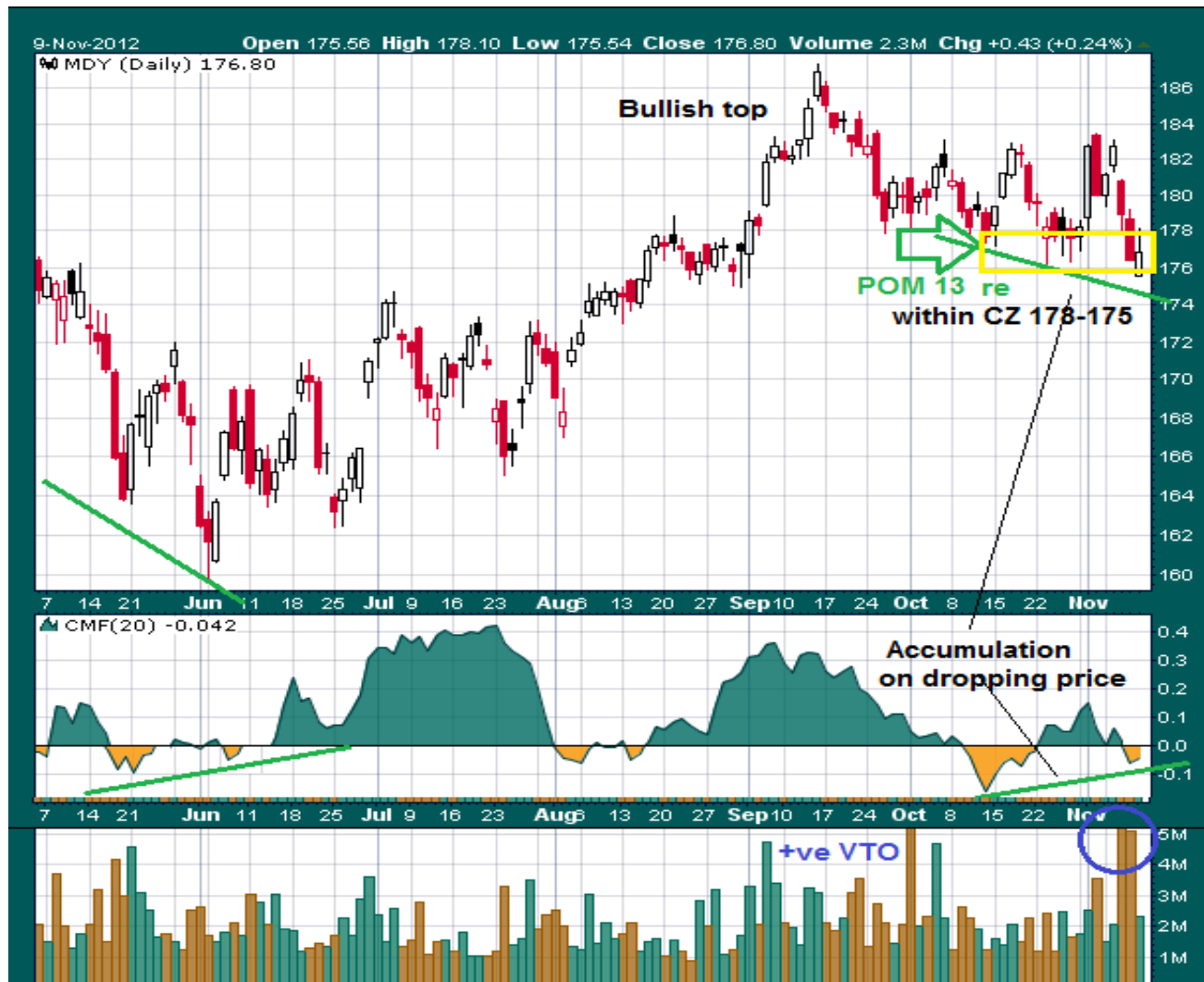
The SPX is showing an accumulation pattern on its volume oscillator within CZ, The rally once begins should end up in CZ 1425-1410 with pullback and then continuation move higher. *New Moon turn is on 13<sup>th</sup> Nov*





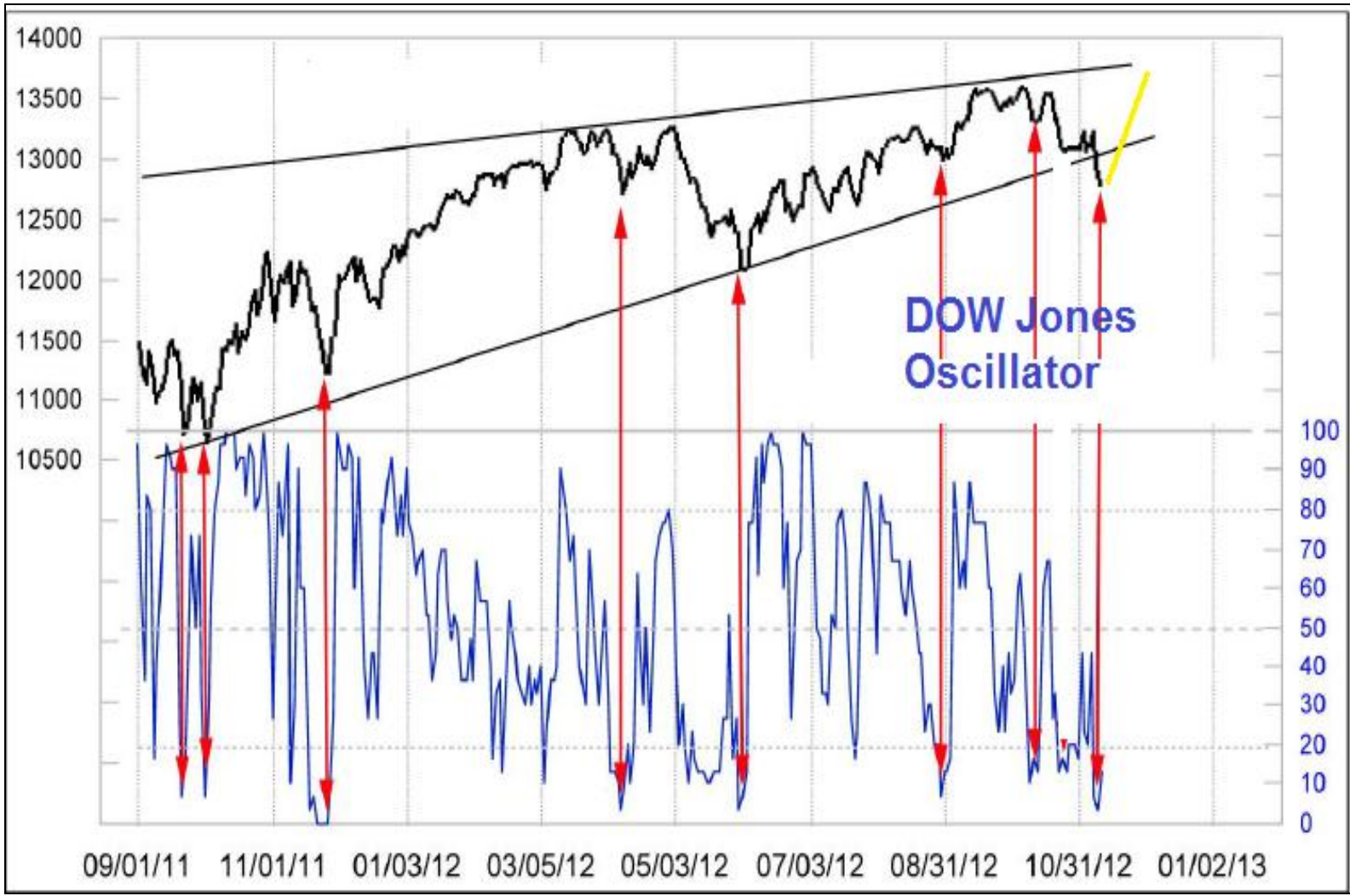
# MID CAP - PEC-D / CZ Analysis ( LEAD INDICATOR )

*MidCaps didn't come anywhere close to breaking the CZ shown in this correction, showing great resiliency compared to the SPX.. This pattern usually has continuation upside. MidCaps have the Money flow show accumulation pattern which is a strong positive.*



# DOW J. Oscillator Analysis

*Dow J oscillator at various previous lows..*



# SMH - PEC-D / CZ Analysis (LEAD INDICATOR)

One of our very best leading indicators, the Semiconductor, This is bullish bottom with Bullish divergence. for the trend. Inversed H & S bottom is confirmed by PQV.



## **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 Nov 13<sup>th</sup> – New Moon. .

- **SPX - Sentiments Model**

AAll Weekly Sentiment Survey is turning more BEARISH every week

- **The EURO – Future Model Forecast, -**

By this Model, lows by 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** - 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>• GDX (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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