



Date : 24nd Oct 2012 (**Wednesday**)

MS – SPECIAL REPORT

Market Observation – Update (FYI)

Tuesdays Trading, SPX entered the **CZ 1425-1410** (pull back target) that we have been patiently awaiting for quite sometimes and refrained from chasing it on upside . As indicated on Mondays Report our expectation was SPX to enter CZ in a “smashing way” to flush Bulls/ bears and we got what we were hoping for. The reaction within CZ is usually very volatile due to order to offset imbalances in volume from previous market dislocations. Now we just need a rejection in price followed by some back filling which should continue till the end of the Month to complete the bottoming process. Such quick selling takes quite a bit of energy out of the market very quickly

POM 13 re run was Triggered at 1435 SPX to “scaling in” within **CZ 1425-1410** . As we know this is anticipated continuation move higher as re run from the original run that began from SPX 1300 (POM 13) to 1390 mean (POM14) with brief Risk Managed time out from 1390 to 1420 till Market resolved itself. .

The Market may very well overshoot to 1400 on intraday basis. It's not likely that the market will have put in a V-bottom (although a possibility) . It's more likely that we are going to see a few days of sideways trade before the launch of the next trend higher. But, we are definitely seeing Indicators of a bottom forming

During this smash down in CZ as witnessed on Tuesday , we had following observations -

Strong Sectors approached its individual CZ (depicted) showed great deal of relative strength especially XHB (Home Builders, XLV (Health Care , GDX (Gold Miners)

Lead Indicators SMH (Semis) closed higher. and now IYT (transport) seem to be joining it

Mid Cap continued to show the strength, By the end of the day, the Mid Caps had recovered most of their losses while the SPX remained near the lows of the day.

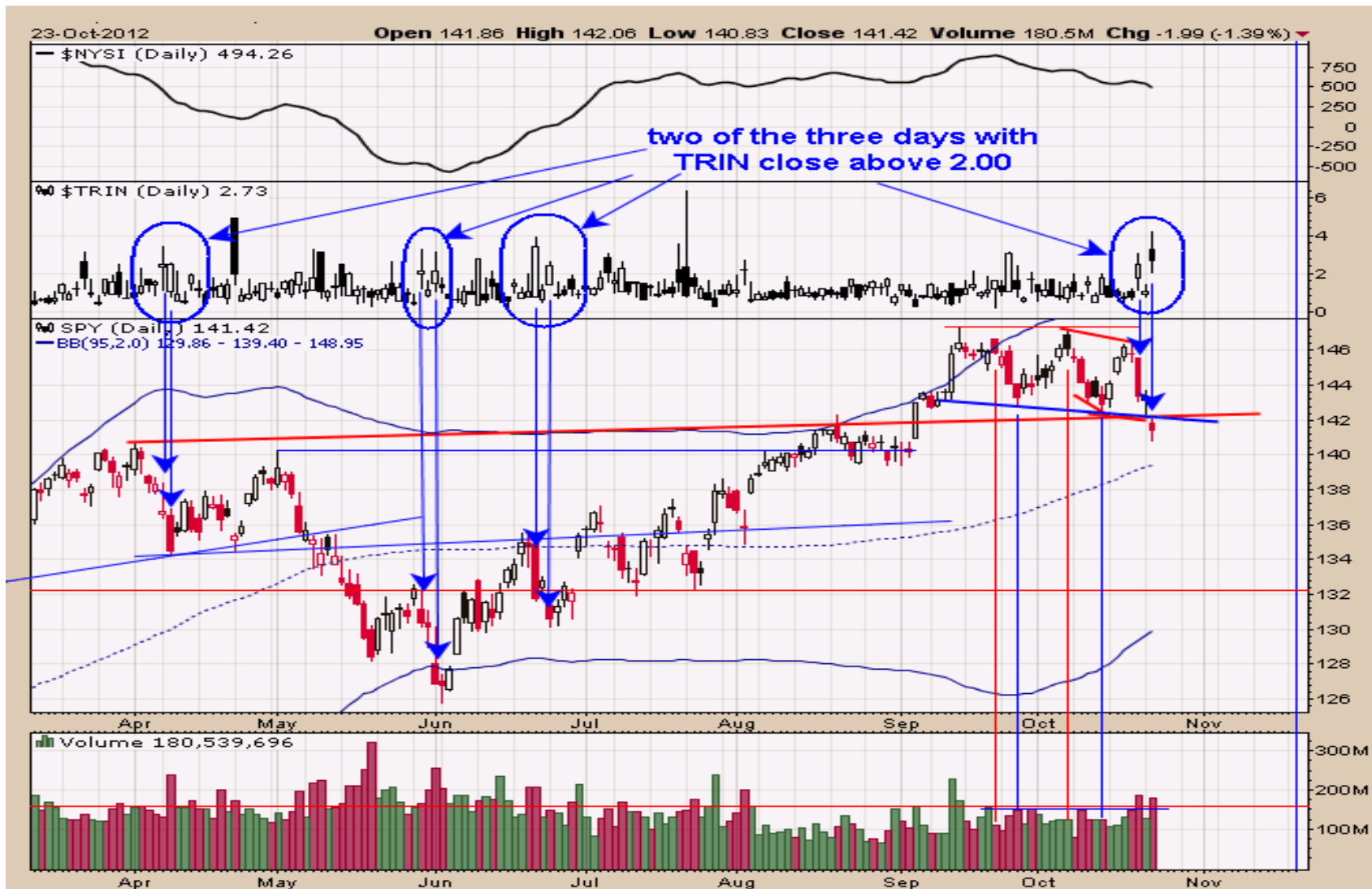
When both of these leading indicators are bullish, the market as a whole must be considered as priming the pump for a big rally once we get the price rejection that we are now looking for close **above 1425 this week** .

Indicators serves us good for Pre – warning / Pre – Planning for change of Trend but the “Price” is the final arbitrator for Pre- Positioning.

Gold has sold off 65 points from our Short term Caution Bell at 1770 on 9/17. Currently within the CZ 1720-1690., We think all Markets should bottom in sync. (More of Gold in our Commodity Report later this week)

TRIN Analysis - Market Internals

It is rare to get TRIN Closes above 2.00 for 2/3 days., such Math sentiments has marked bottom within 2-3 days. TICK reading hit lows of -800, which is Bullish, such reading results in another reading of -800 next few days . This should be part of bottoming process.



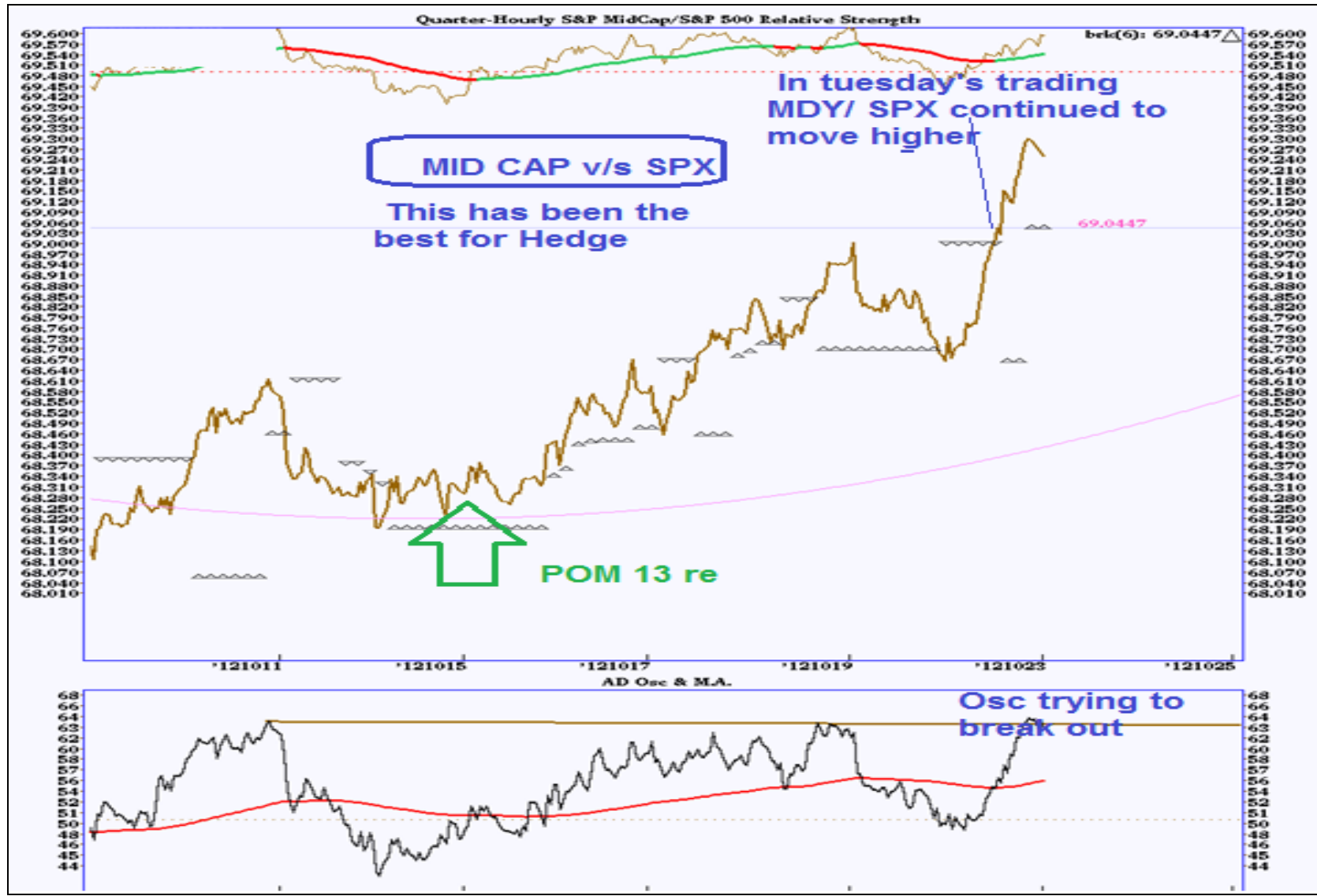
MID CAP – Oscillator Analysis – **NEAR TERM**

MID CAP behavior after Tuesday's price drop into CZ



MID CAP v/s SPX – LEAD INDICATOR

MID CAP v/s SPX , we have been recommending since POM 13 Re run , continues to Fly



SPX- CZ / POM 13 Analysis – NEAR TERM

Notes within the charts



SEMI v/s SPX – LEAD INDICATOR

SEMI Closed the day higher on Tuesday in spite of huge decline in SPX . INTC looks far better at 21 then at 28
(Notes within the charts)



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