



SG Capital Research

Global Market Insights

**Research Note – Strategy & Prop Analysis**

**MS\_SPX\_MARKET STRATEGY REPORT \_SG 2012 # OCT\_22**

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

*By: Suneil R Pavse*

*Contact: apavse@aol.com*

---

## **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 @ 1435 to initiate position within CZ 1435-1410 - **NET LONG**

Triggered POM 13 @ 1435 on 10/15, we initiated ½ NET LONG (Or Rebalancing Hedges) & advise to Scale in remaining ½ within CZ 1435-1410, 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 – WATCH FOR CONTINUATION TRIGGER IN CZ,**

Position to be “scaled in” during the pull back into CZ 1425-1410 – at the re test of POM 13 – Re run CZ .

**Triggered Action** - POM 13 Triggered @ 1435 for Net Long (or Rebalancing hedges) is in progress till we announce next trigger.

**Projected Target**

**NEAR TERM** – Downside Target CZ 1425-1410 . Existing positions should continue to remain Net long ).

**UPSIDE** – Target is 1485-1500.

### **Brief Commentary on Price path on SPX**

In spite of Fridays massive decline , SPX is still trading at our POM 13 Trigger price. Internal Market Indicators are showing a great deal of positive divergence pushing in our CZ 1425-1410 . which is positive We shall initiate position to “ scale into” 1425 to 1410 entry . Awaiting patiently

## **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, Exited ½ Position in GOLD @ 1770 as Risk Management move

#### **Projected Target**

**NEAR TERM** – Downside pull back to **CZ 1720-1690 (PEC-D @ 1720)**

**MID TERM** –Upside **target is CZ 1790-1820** for POM 14. Existing ½ positions continue to remain NET LONG till next POM 14 is Triggered .

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

GOLD dropped 55 points to lows of 1715. since our Short term CAUTION signal @ 1770. Our PEC-D target is at 1720. ( exact) The suitable floor for pull back is **CZ 1720-1690.**, If this area is tested successfully we can re – instate back in our ½ exited position of 1770. , This should position us back for strong November seasonality after weak October.

**We think pull back lows in GOLD should come at the same time with lows in SPX.** Our upside target is POM 14 CZ 1790-1820 target. We remain on POM 13 with ½ position NET LONG .

## **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 few months. Nothing much we can do but to exercise patience. Currently it is bouncing back towards our upside **CZ 125-128**. This has been 4<sup>th</sup> time failure. In order for rally to continue, volume needs to pick up in CZ to target 136, this has not happened past 4 times.

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.

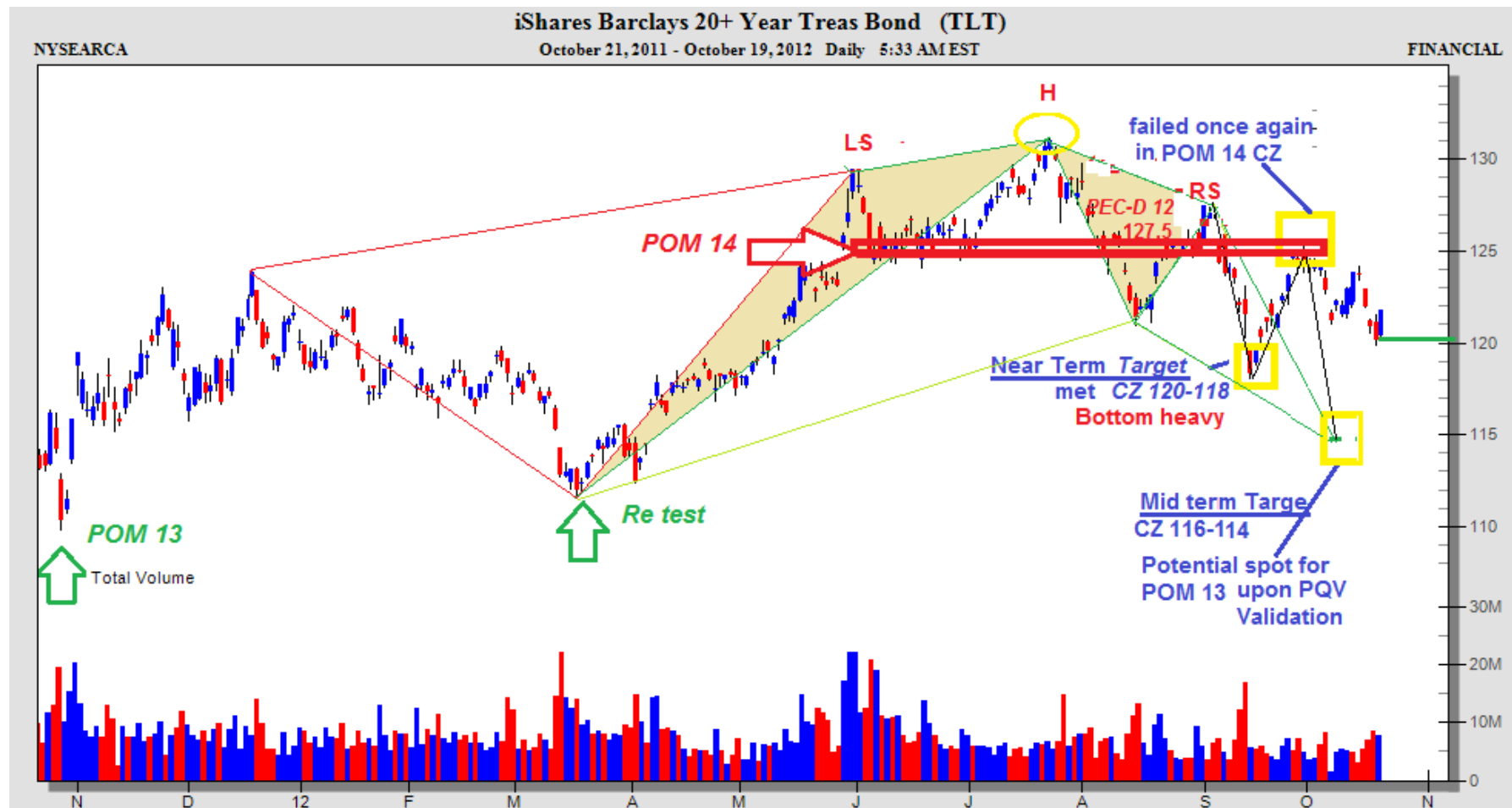
# TLT ( Bond ) – PEC- D Analysis – **Near Term . - “CAUTION”**

- Texture - **TOP BEARISH CZ. & BOTTOM BEARISH CZ -**

Upside - CZ – 125-128. Attempting to enter this area 4<sup>th</sup> time with anemic volume. .

Near Term Downside - CZ – 118-120 heavy bottom

Mid Term Downside - CZ – 116-114, Potentially may be good area to Trigger POM 13, if PQV validates it



## **SPX – Market Overview Commentary**

- Weekly Change - SPX Close Price @ 1433 ( + 0.3%)
- YTD Change - SPX – Closed @ 1257 / 1433 ( + 14% gains)

*On Friday, the computer program trading which virtually tried to emulate the plunge of 87 Crash anniversary, came up very short of a 22% decline of Black Monday.*

*The plunge in the blue chips was worse than in the MidCaps and the Relative Strength Charts (below) reflected that fact. In fact, Hedge Investors who bought MidCaps and sold the SPX short were making out just fine despite the plunge on Friday:*

*Last Monday's lows came in as expected with Trigger at POM 13 – Re @ 1435 and Market rallied to 1465. ( Quick profits for ST traders). Followed by Friday's smash down is normal pattern, initial rally fueled by short covering and thereafter secondary re test back into CZ . This is why we do not recommend chasing rallies after initial Trigger entry position. The retest would be the opportunity to “scale in” remaining position for rebalancing.*

*SPX trading at same level as our POM 13 trigger price of last Monday. T – Termination is the end of October. The re testing process can continue till then , followed by Month end move higher . ( October Month end is The 3<sup>rd</sup> strongest Month end after December & November).*

*We think the Seasonal / EURO COT lows in October should be in place in our CZ 1425-1410., Especially Market Internals TRIN / VIX remains at extremes ( chart below) The lunation pattern suggests that the SPX could see a low around the 29<sup>th</sup> Oct, the date of the next Full Moon. (Last Lunar Cycle date 15<sup>th</sup> Oct came exact lows at 1428 followed by rally ) .*

*Ideally we would like one smash down in CZ 1425-1410 flipping all the bulls & Bears to Short the market. This should set stage to suck all the side line cash and trend higher until the market tops into positive year end seasonality and into election target 1485-1500. By several counts it could be home stretch of the run followed my massive correction of at least 20% in 1Q of 2013.*

POSSIBLE CAUTION – Although we do not expect it to happen, during the test of CZ 1425-1410, if volume expands or SPX jump the price Creek below 1400 with pattern failure, it would diminish & perhaps negate the ability of Momentum Indicators to re-ignite.

**Strong IDX -** Midcap continues to be strongest in spite of Fridays decline along with Bullish IDX' s in other Reports. Within all Global Reports, Bullish Top IDX NIKK up 6% ( & EWJ ) , CHINA ( & FXI up 12% ) has rallied substantially since our CZ Trigger. Lows in both Market came in during worst fundamental news Reported.

Gold which has been our Strong sub asset Class is under retracement. Gold and SPX could bottom to gather into its respective CZ to put in bottom in sync. .

**Weaker IDX -** , The weaker Instruments within other Reports should be underweight in next rally triggered by POM 13 and still being suitable as Hedging instruments

# SPX – HRLY – CZ Analysis

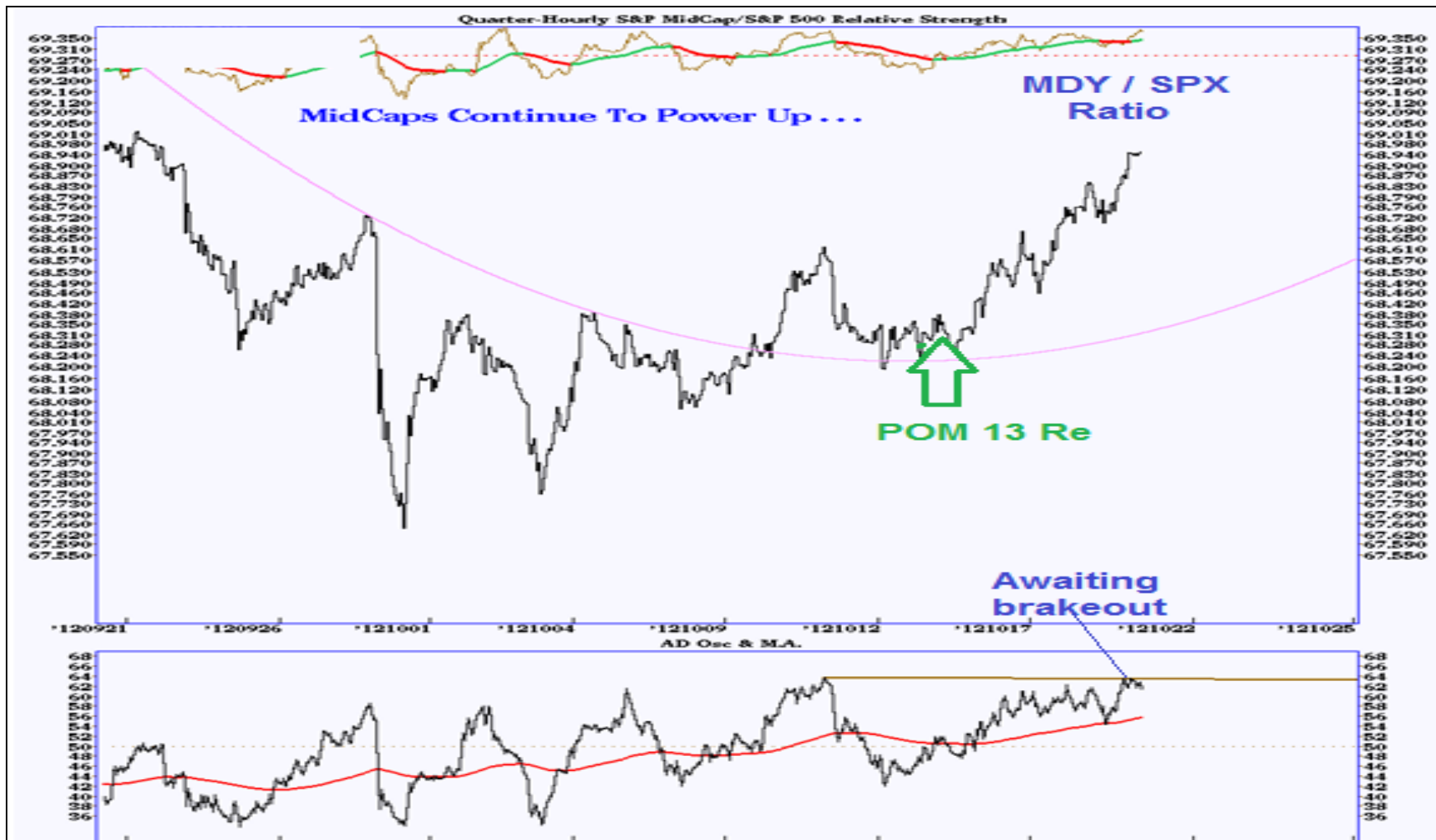
*SPX in process of re test CZ 1425-1410 after initial Trigger POM 13 , Rally back up and back down.*





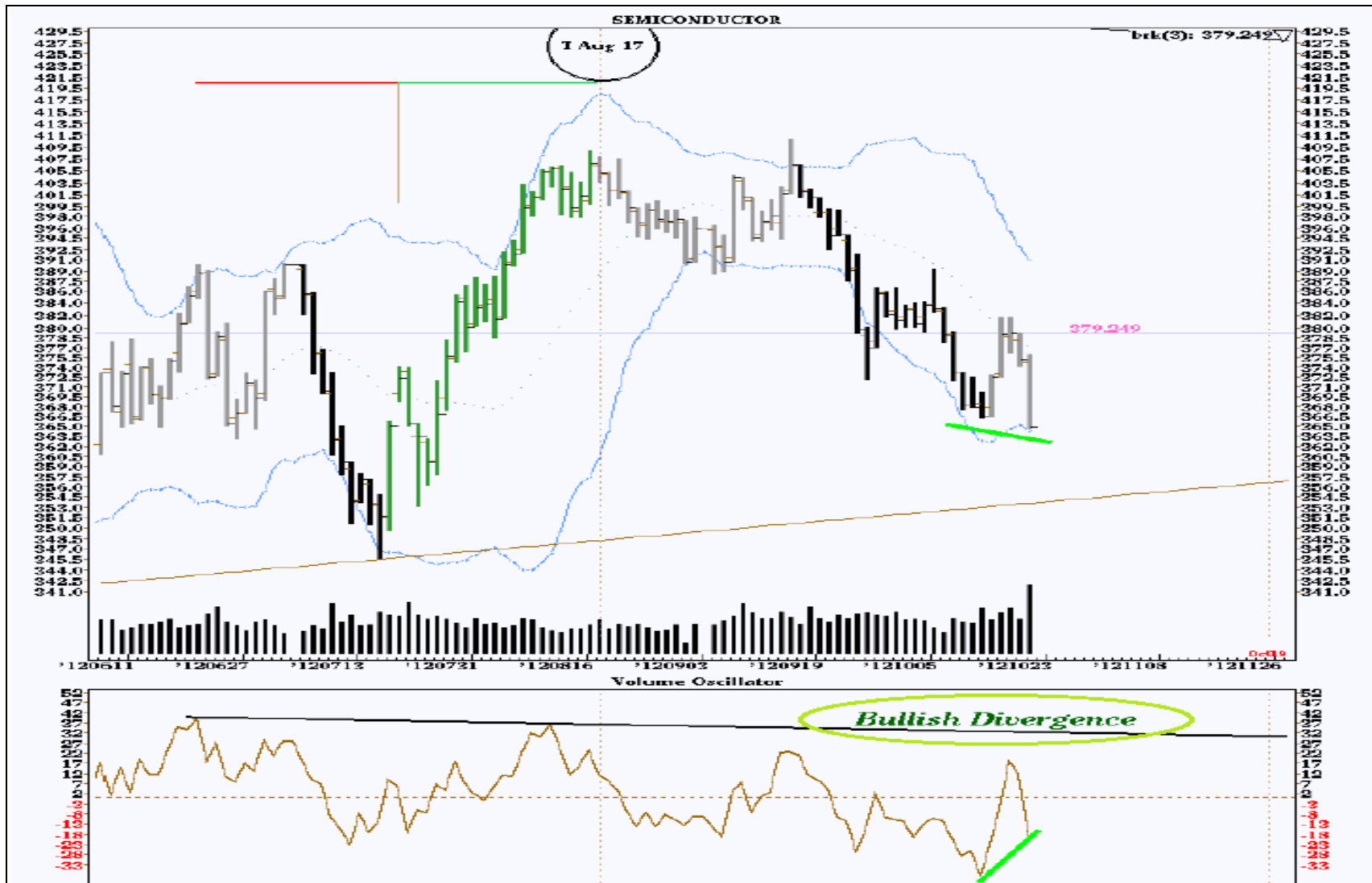
# MID CAP v/s SPX – Oscillator Analysis – **LEAD INDICATOR**

MidCaps are maintaining excellent strength relative to SPX, which is a strong positive. Poly Trend test gave excellent POM 13 Trigger ( Indicated) . Oscillator trying to breakout. Year end MidCap has traditionally outperformed SPX. Hedge Investors who bought MidCaps and sold the SPX short were making out just fine despite the plunge on Friday:



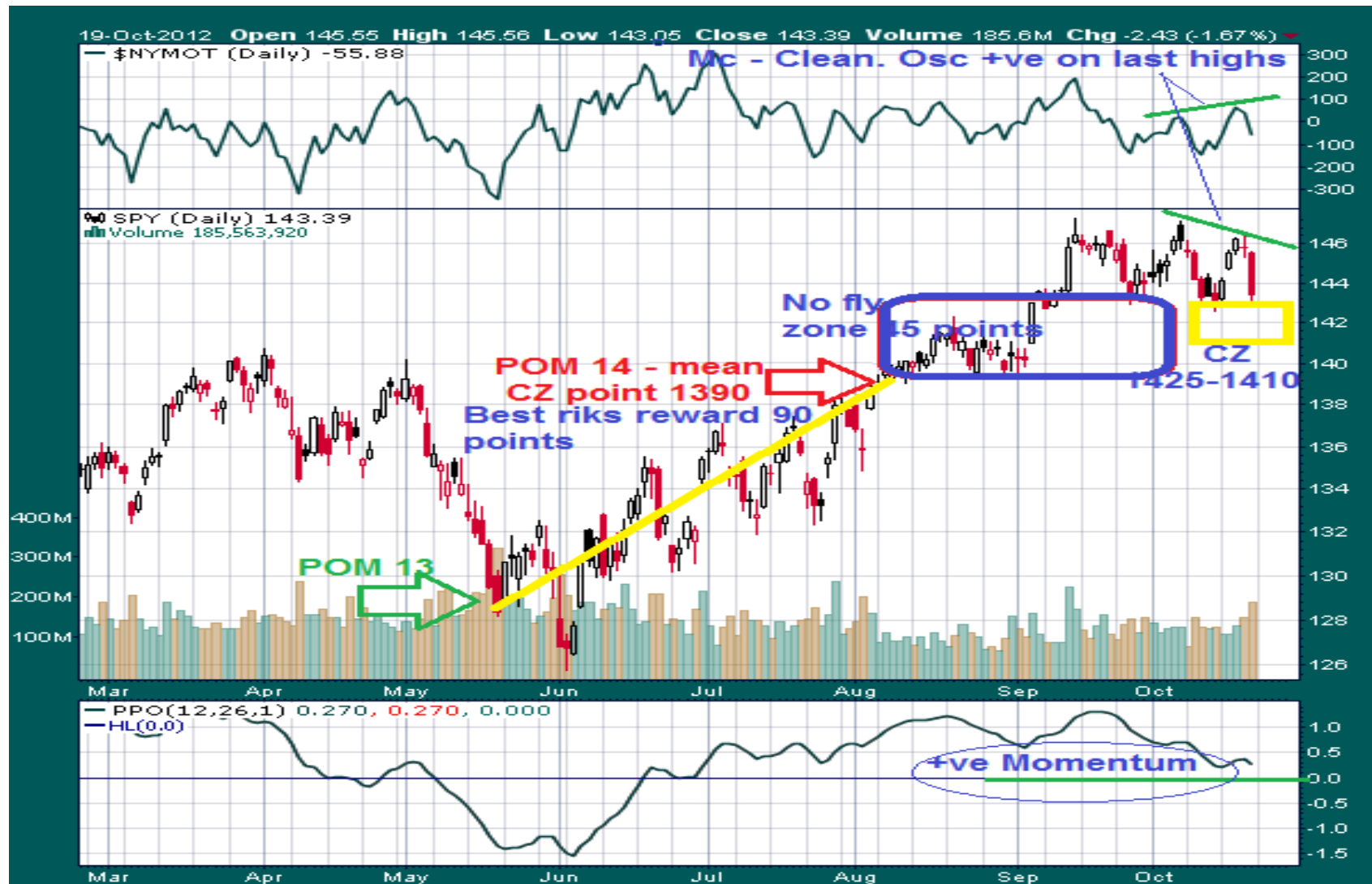
# SOX ( SEMIS) – Volume Oscillator Analysis - **LEAD INDICATOR**

*SOX has exhibited bullish divergence at Friday's low, which suggests SOX should be turning up and leading the market higher once SPX finishes its CZ test .*



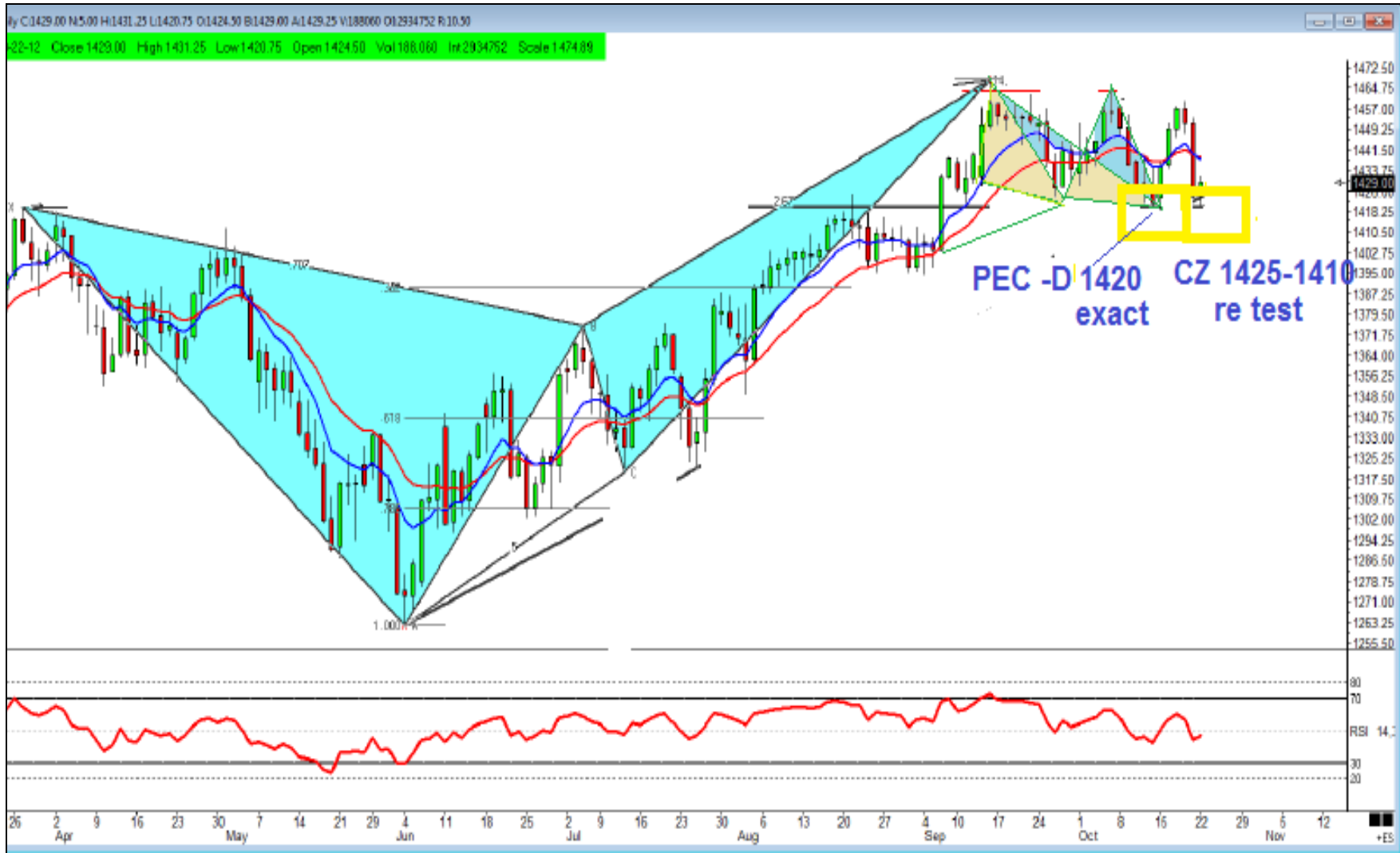
# SPX- CZ / POM 13 Analysis – NEAR TERM

Refer notes within the charts – MC – Oscillator has diverged Bullishly in last high. PPO & Momentum is still positive in spite of Fridays decline.



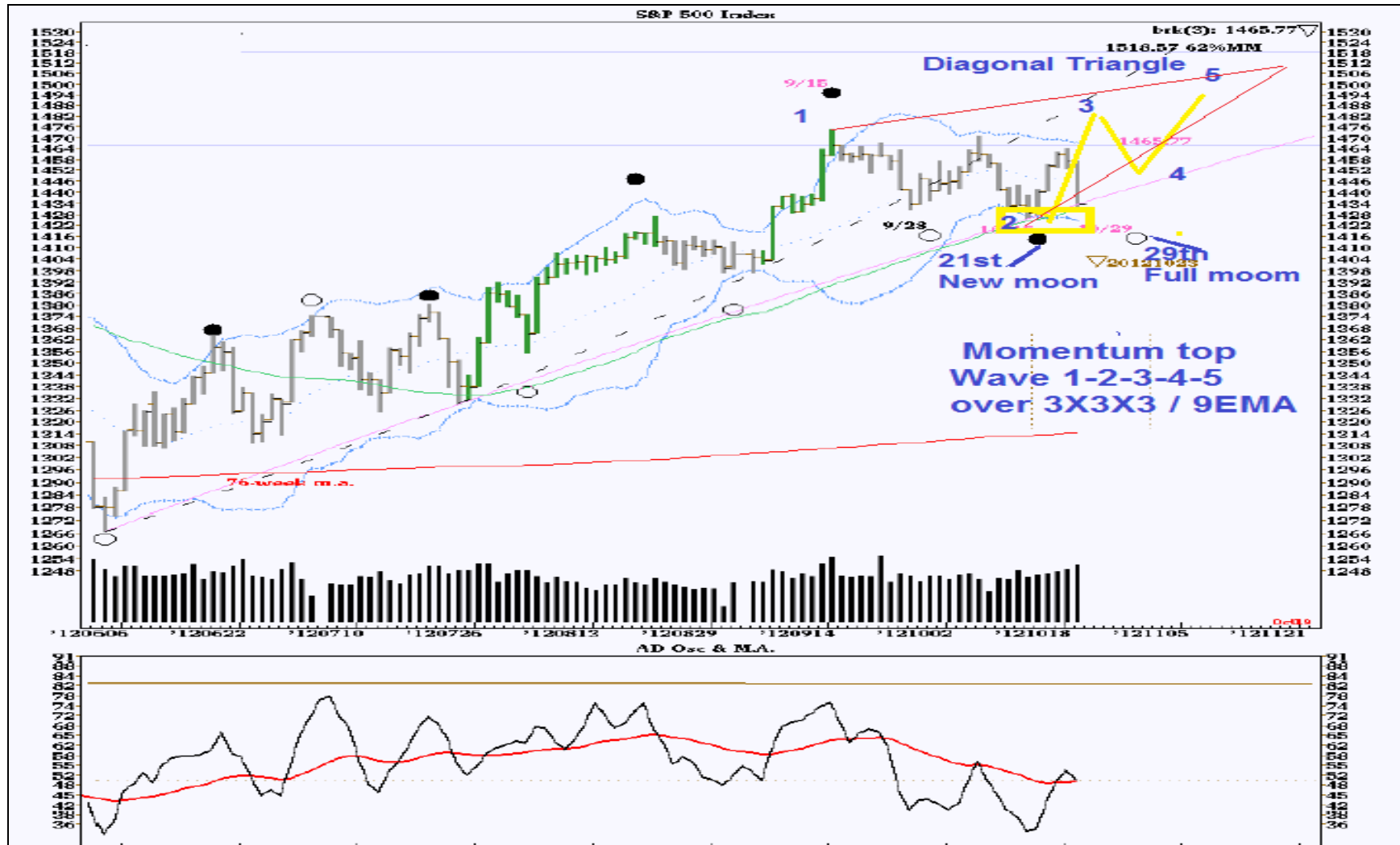
# SPX- CZ / POM 13 Analysis – NEAR TERM

We hit lows of 1419. Pull back PEC-D is at 1420 - our Pull back CZ 1425-1410,



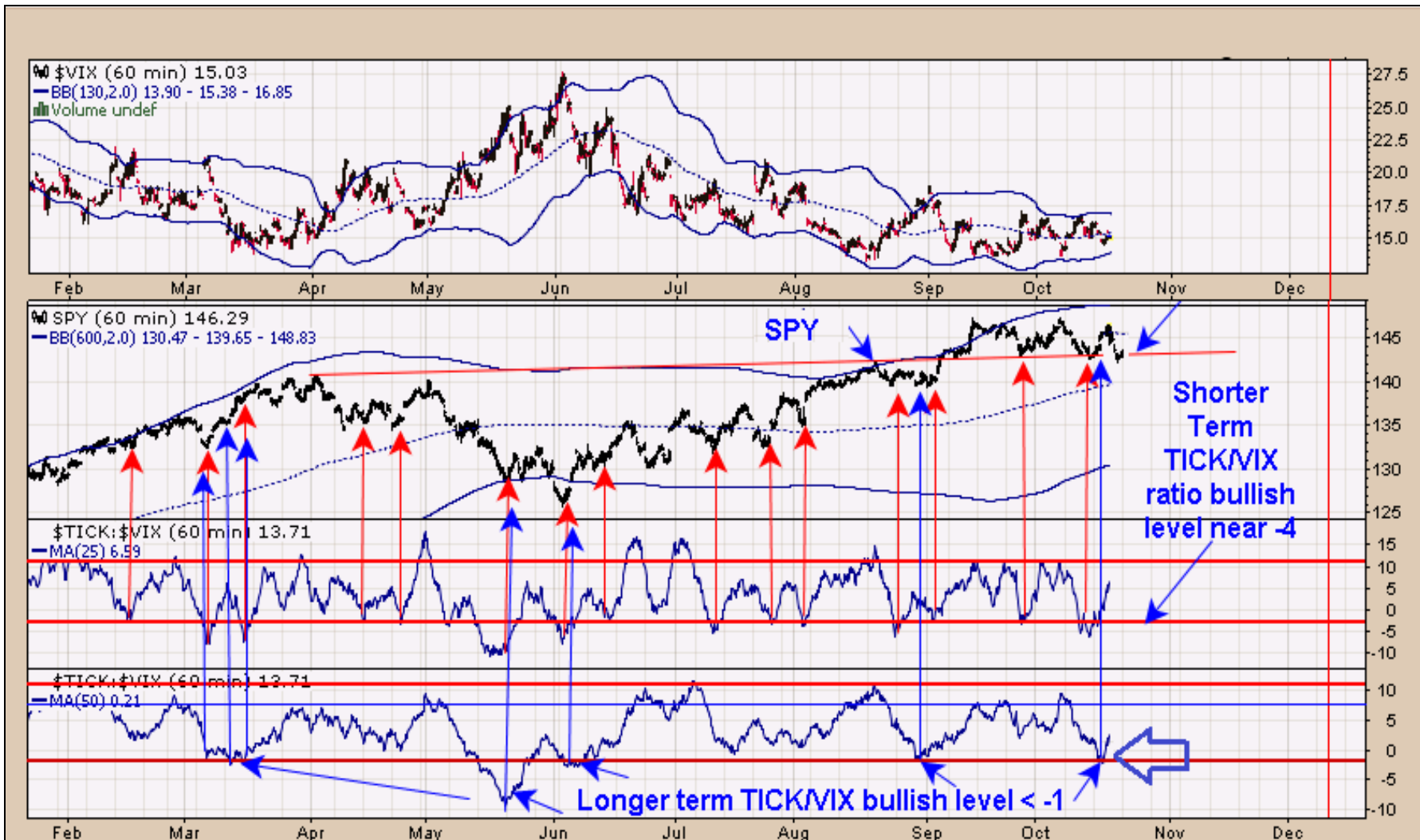
# SPX- Price path – Potential Momentum Top - **NEAR TERM**

Near Term, this Model suggests, by 29<sup>th</sup> Oct, Time termination lows pull back in CZ should be complete. This should trigger Momentum Indicators Wave 1-2-3-4-5 with 3x3x3/ 9EMA to end the Projection to **E 5 for 1485-1500** (the **DIAGONAL TRIANGLE**)



# SPX - TICK / VIX Ratio Analysis.

Refer chart below for TICK / VIX Ratio is below -2.0 on 60 mints basis . Market internals suggests , SPX is at previous lows have taken place .



## SPX – Cyclical Model

- SPX - Seasonality / Election Model -
- Lows & Reversal on October by 9<sup>TH</sup> is in progress.
- 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 NEUTRAL

- The EURO – Future Model Forecast, -

By this Model, lows 11<sup>TH</sup> October 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>• 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

**Disclaimer :** The information in this report has been taken from sources believed to be reliable but SG Capital Research does not warrant its accuracy or completeness. Any opinions expressed herein reflect our judgment at this date and are subject to change. This document is for private circulation and for general information only. It is not intended as an offer or solicitation with respect to the purchase or sale of any security or as personalized investment advice. SG Capital Research or its Author does not assume any liability for any loss which may result from the reliance by any person or persons upon any such information or opinions. These views are given without responsibility on the part of SG Capital Research or its officials. No part of this report may be reproduced in any manner as Author reserves the distribution rights. Under Copyright 2002 Act: It is a violation of federal copyright and imposes liability for such infringement.