



SG Capital Research

Global Market Insights

Research Note – Strategy & Prop Analysis

MS_SPX_MARKET STRATEGY REPORT _SG 2012 # OCT_30

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 @ 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,

2nd , (½) 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

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.

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 –

Initiate Scaling in the ½ recycling position back in **CZ 1720-1690**, this position was exited 9/17 at 1770 for Risk Management

Triggered - Action

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 1720-1690**

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

The Time Termination lows in Gold is suggesting the end of the Month for lows. GOLD has dropped 75 points to lows of 1695 within lower end of **CZ 1690-1720 (EXACT)** . Our Short term CAUTION signal was defined @ 1770. **We may get first rally from CZ, followed by Re test the zone.**

This pull back has enabled recycling the position , the opportunity to lower our cost basis on Core position
The November rally after weak October in GOLD should rally with SPX . Our upside target is POM 14 CZ 1790-1820 target.

GOLD – CZ/ PEC- D Analysis – *Bullish*

. Time Termination is expiring on 1st Nov (blue line) for turn at the Apex of the Break out Triangle.



GOLD – CZ/ PEC- D Analysis – *Bullish*

- Current price 1710 - Texture - *BULLISH TOP & BULLISH BOTTOM*

Near Term Pull back – CZ – 1720-1690, (Notes within the charts)

Upside - POM 14 – area 1790- 1820, 3^{RD} ABC up with *BULLISH TOP*



SPX – Market Overview

- Weekly Change - SPX Close Price @ 1411 (-1.5%)
- YTD Change - SPX – Closed @ 1257 / 1411 (+ 12% gains)

The equity markets are closed on Monday / Tuesday due to Storm. We are looking at a shortened week but very active 7-8 economic reports due out. Market movers within those are ADP report scheduled for Wednesday. Jobless Claims on Thursday. Friday is the last employment report before Election Day.

Aftermath of storm on Wednesday could get volatile in Market due to accumulation of order flow piled up last 2 days. If SPX move into lows on 1395 on light volume to clean up stops, it would be ideal for Bulls.. The wild card is the extent of the storm could have fears of long-lasting effects on economy from many perspectives . Conversely after initial down move if the storm damage is realized to be much less than expected we could initiate relief rally”

*On technical evaluation , the seasonal low may be behind us now. Last week’s drop is within the range for an October low in the retest of **CZ 1425-1410**. The T time termination indicated last week for lows is also 29th Oct. The Bullish divergences is good opportunity for Bulls for the Market to rally back to the top of the range.*

The MidCap Index. showing excellent strength relative to the blue chips once again and suggests higher highs ahead. The Full Moon on Monday 29th +/- 2 days is likely to make opportunity for turn. Due to storm could be turn around after the return .

Program trading for best 15 days of the year could trigger (1st Trades, Oct end – Nov beginning, 2nd Trade, 2 days Prior and 2 days after Thanksgiving and 3rd Trade – Around is Christmas & New Year)

The rally up could last into December and perhaps year end and then we should watch out for the nasty decline within first 8 weeks next year. We shall just follow the indicators for such event.

Weak October lows is usually a month of opportunities to hold for what is the best half of the year: Most of the year it seems to offer but we are bombarded with bearish news items including the “ Storm” which on balance prevent Bears from cutting back Bearish position at lows and later to get stopped out at higher prices which should fuel the rally at later stages of up move.

One thing is clear: the market is trying its best to base . Once it does, there are going to be a lot of bears who are going to be forced to buy as prices rise. Bears are proclaiming their day has finally arrived and short the break below 1400 SPX and Bulls are waiting for Bells to ring that bottom tick has arrived which they will find out & Buy at when SPX is above 1480 SPX

Opinion Sentiments - *The sentiment surveys are showing about as many bears now as at the June lows and the market exploded higher off that low this is great plus. Opinion Sentiments - this week's AAll survey shows bears at 43%, bulls at 29% and neutral at 27%.*

Mathematical Sentiments –

- 1. CBOE index options traders \$\$ weighted PUT / CALL are turning bullish 70 %. The latter tend to be more in tune with Institutional behavior in underlying trend than the individual investors, who tend to over react the negative price drop and turn bearish just before big rallies.*
- 2. The second Math based Sentiment Indicator is VIX – PUT / CALL Ratio which has been Neutral .*
- 3. The Third Math based Sentiment Indicator is TRIN & TICK derivative reading.*

POSSIBLE CAUTION–

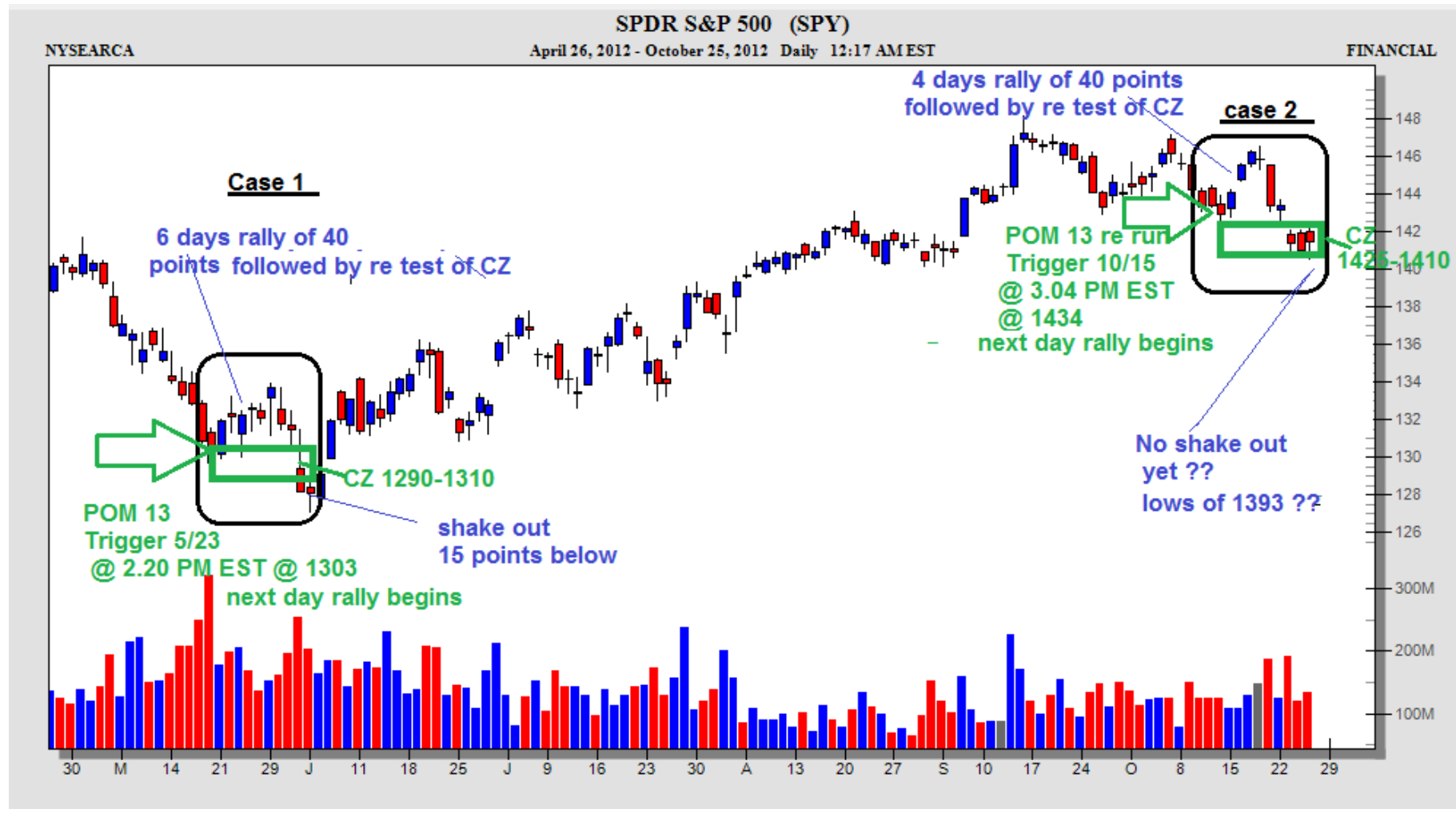
During the test of CZ 1425-1410, if volume expands or SPX jump the price Creek below 1400 with pattern failure and Market internals at Neutral , it would diminish & perhaps negate the ability of Momentum Indicators to re-ignite on upside. (Although PQV Analysis do not expect it to happen).

But 2nd wild card is how the “ Big Money” expresses the displeasure against the incumbent to generate temporary Sell off. These events are difficult to control

SPX –POM 13 - Comparison

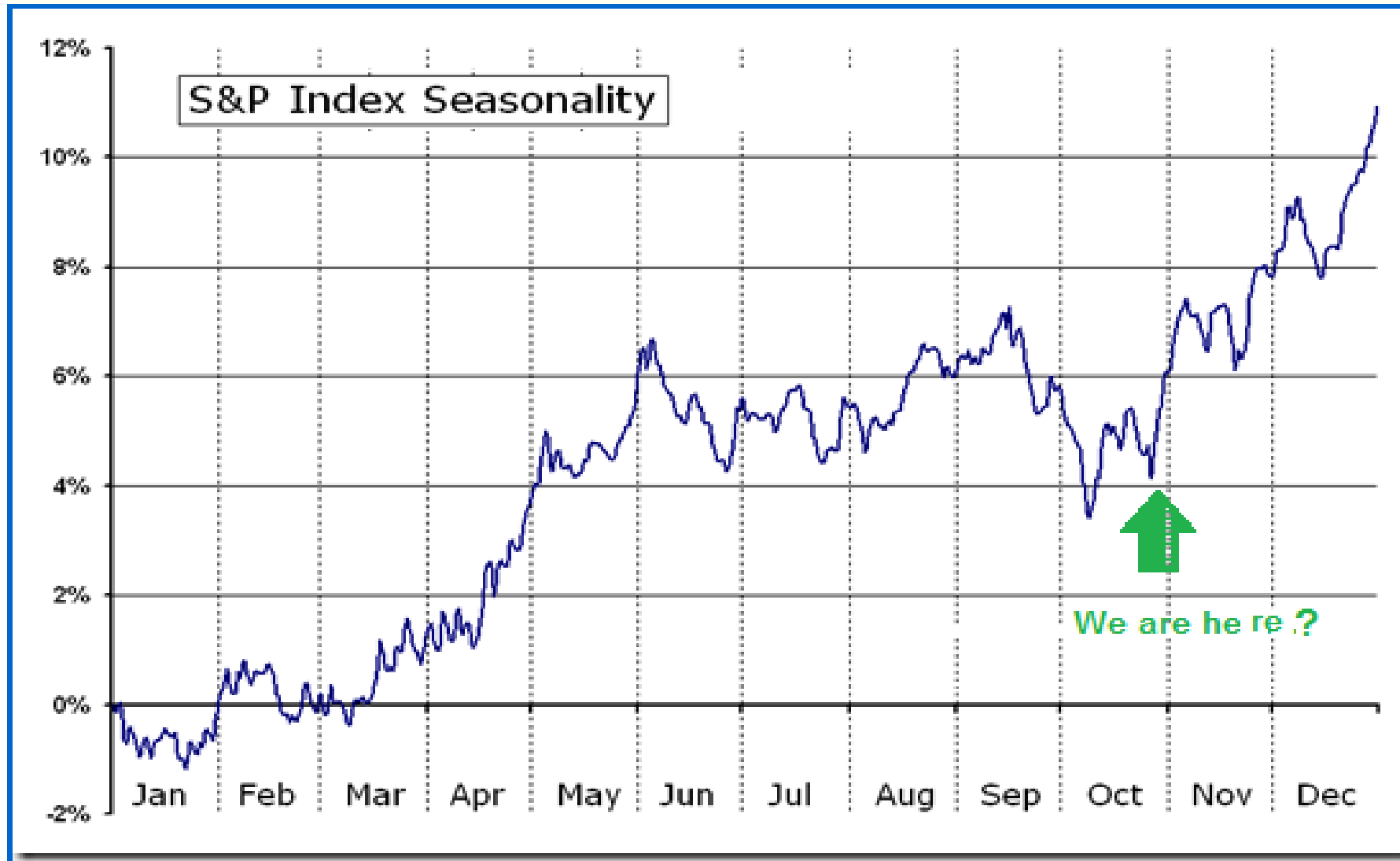
Case (1) 5/23 bottom v/s Case (2) 10/ 15 bottom- Typical Price path at POM 13

Notes within the chart



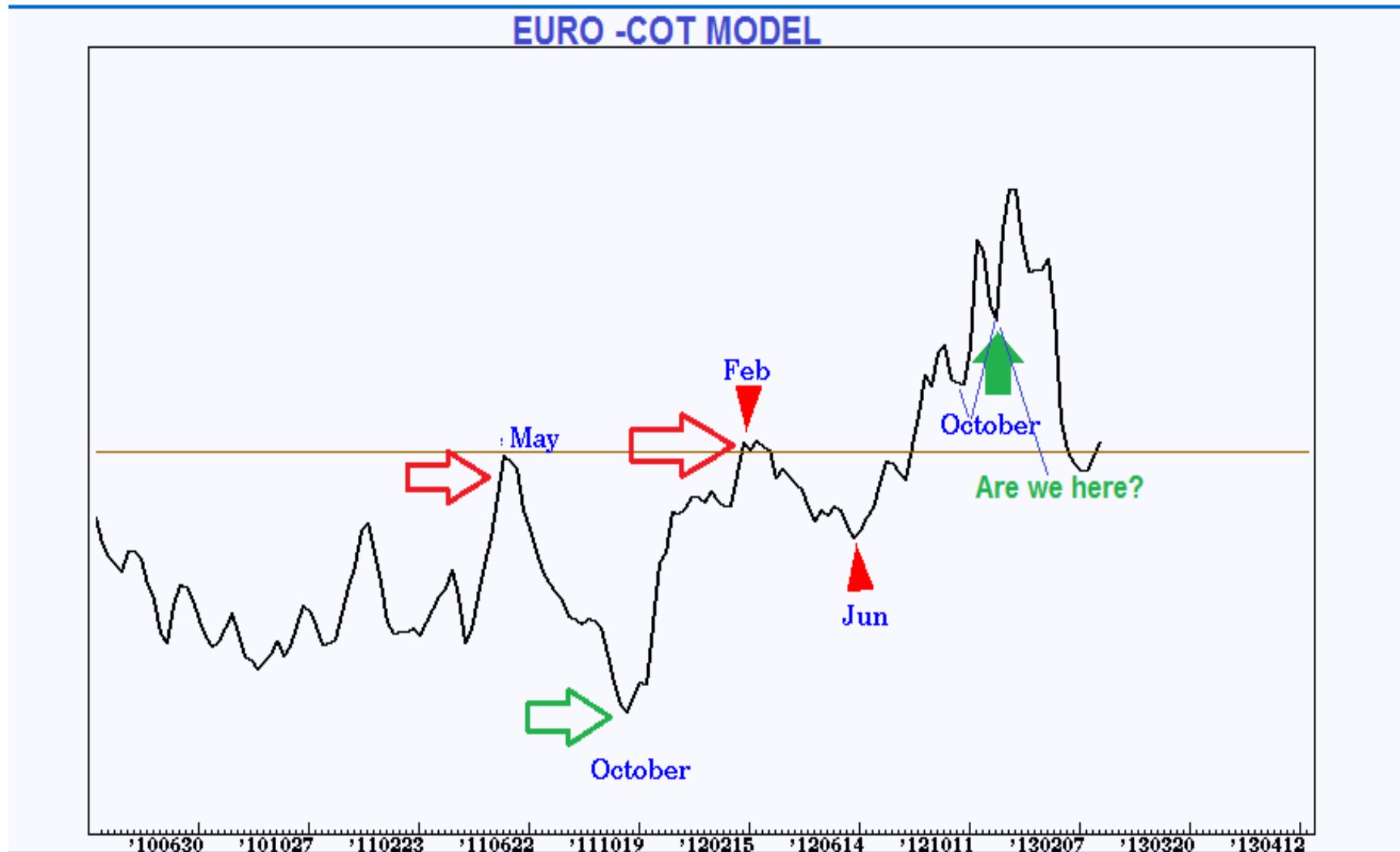
SPX- Seasonality Model – NEAR TERM

Seasonality's primary lows in early October and secondary lows at the end of October.



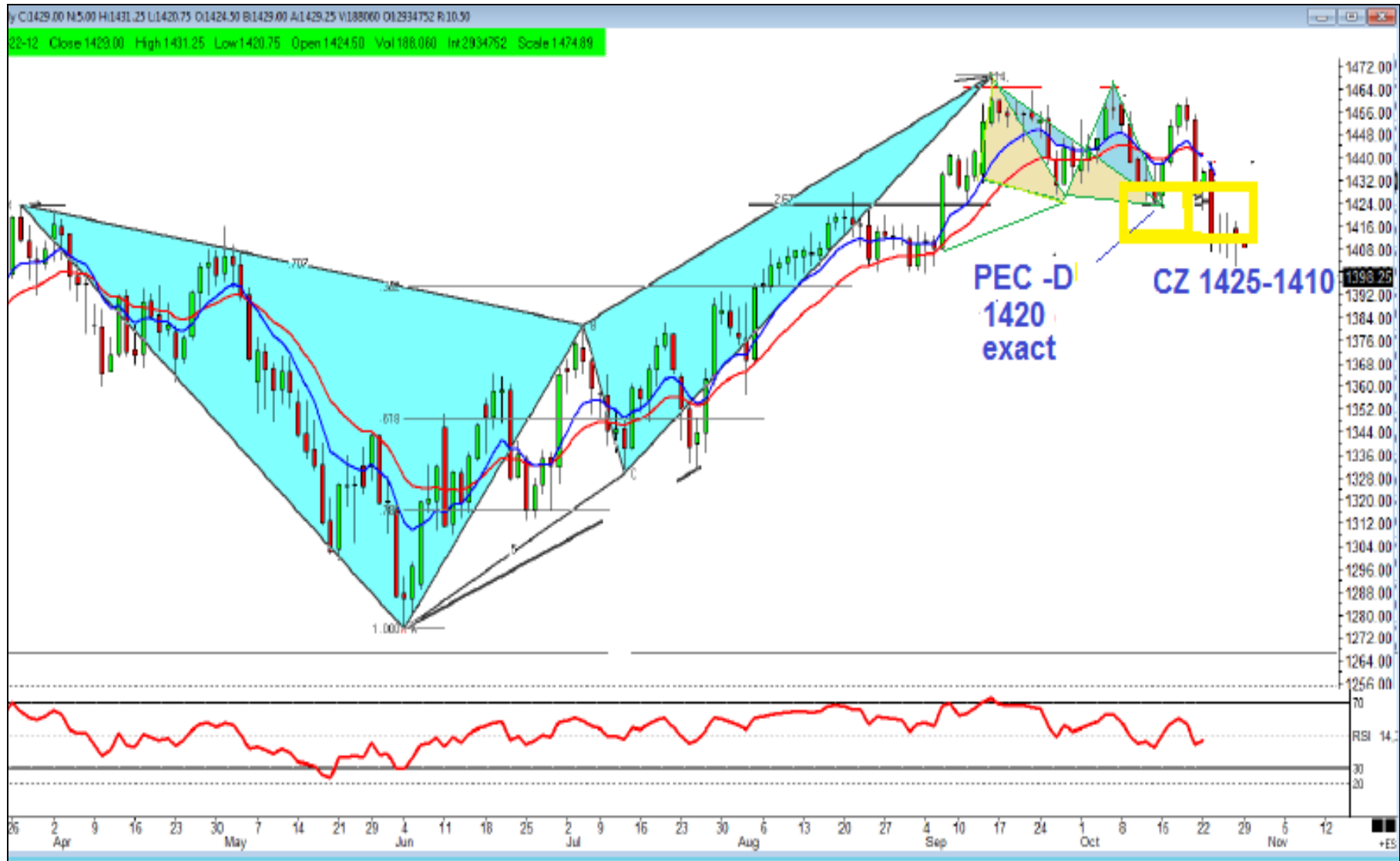
SPX- EURO –COT Model – NEAR TERM

Secondary October lows due end of the Month is here by EURO – COT Model.



SPX- CZ / POM 13 Analysis – NEAR TERM

SPX in process of re test CZ 1425-1410 after initial Trigger POM 13 ,



SPX- Price path – **NEAR TERM**

The SPX is showing an accumulation pattern on its volume oscillator within CZ, Full Moon on 29th for pull back in 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**)



SPX – TRIN & PUT CALL RATIO Analysis (Market Internals)

Mathematical Sentiments

TRIN Oscillator - On 4 day basis is at Bullish 7.00

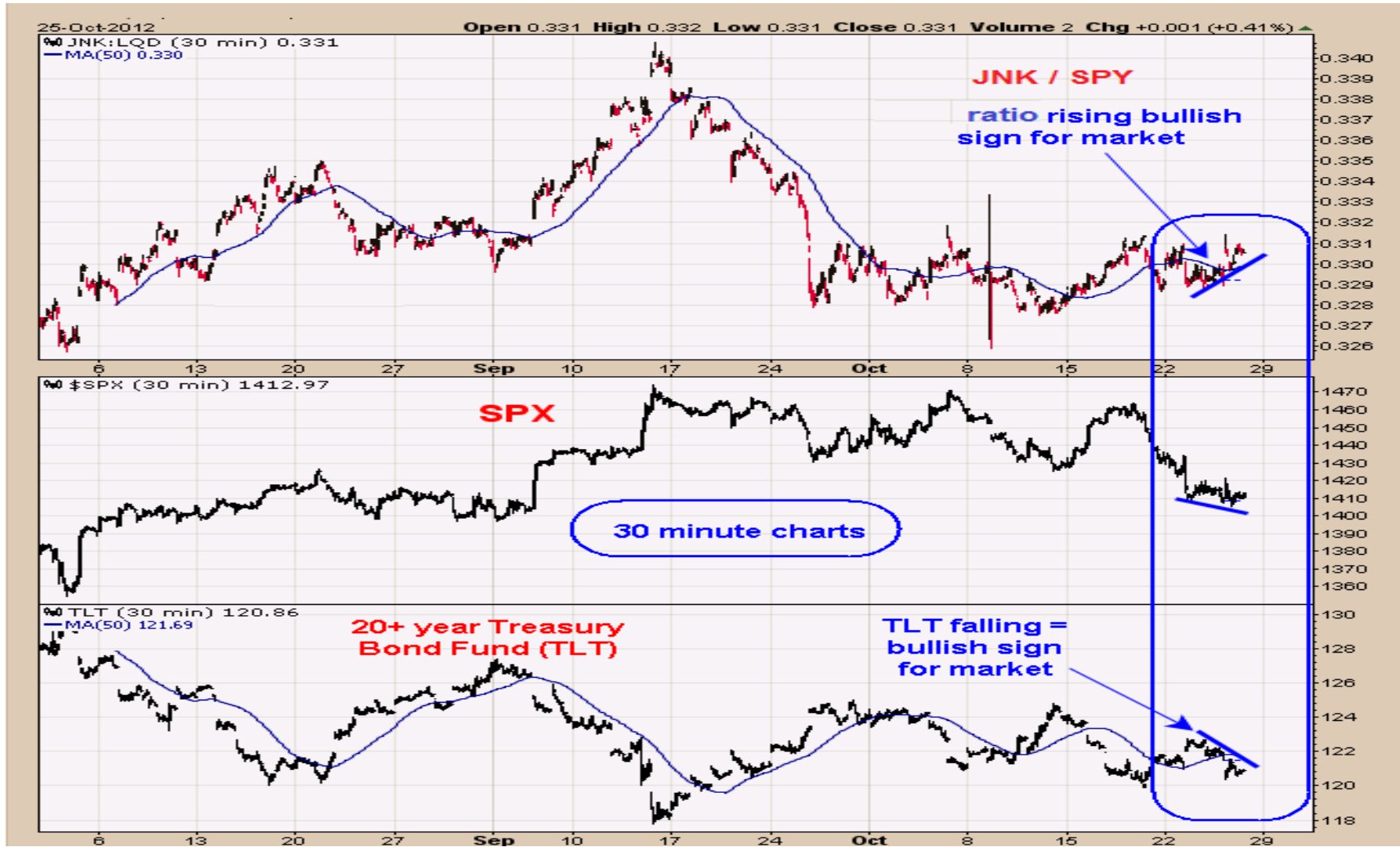
\$ Based PUT CALL - On 4 day basis is at Bullish 0.82 & Mc Clellan Oscillator - (-200 diverging Bullishly)



BOND v/s SPX Analysis

FOMC – QE-3 remains in place through mid-2015 to support housing and housing related Equity through 2015.

The following Charts Indicates Junk Bond & 10 yr (JNK & TLT) / SPY Ratios divergence on Market turns since QE has began



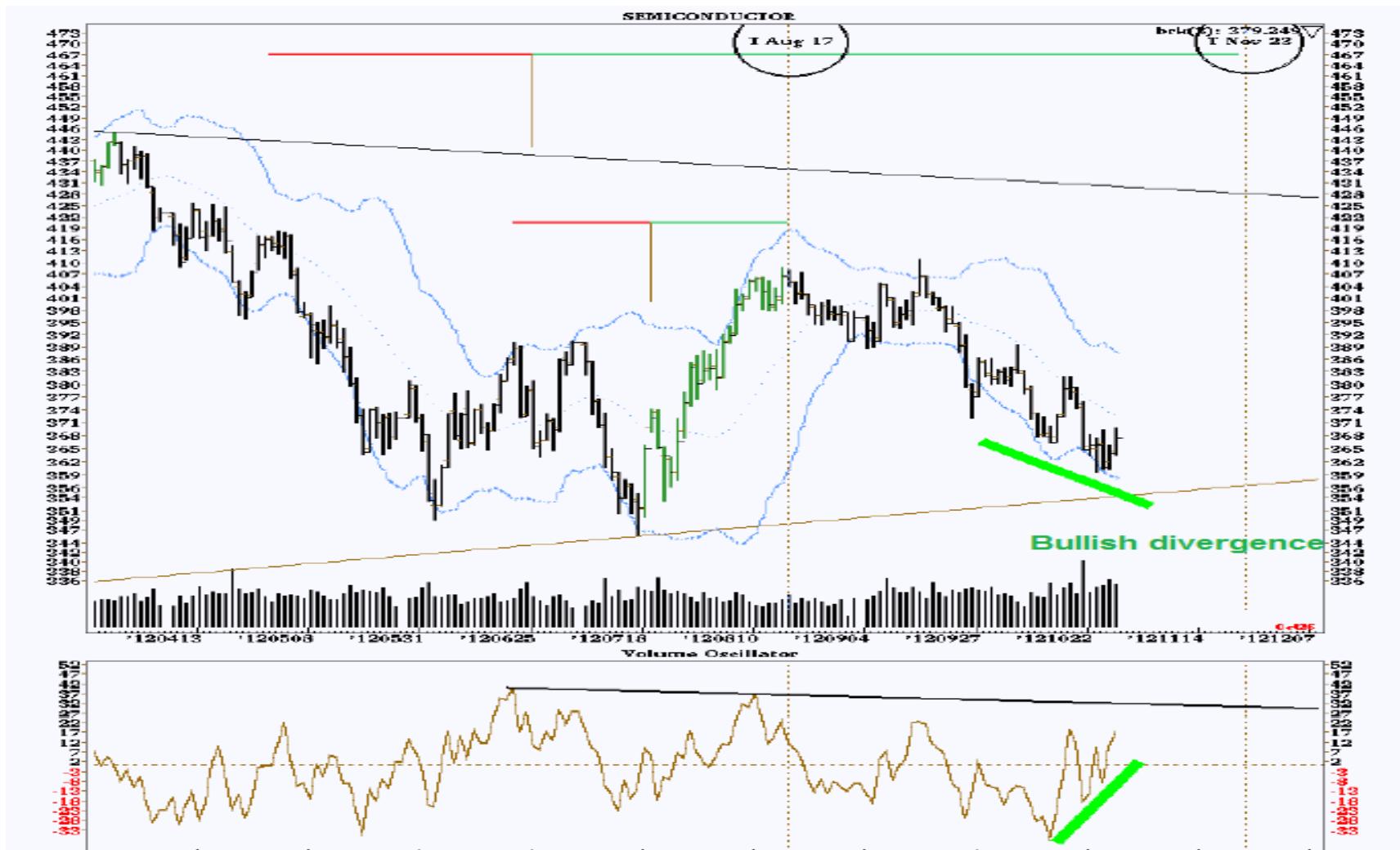
MID CAP v/s SPX – Oscillator Analysis – **LEAD INDICATOR**

The downward wedge is a bullish pattern which often results in reversals to the upside. MidCaps have the volume oscillator show accumulation pattern which is a strong positive.



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 – Cyclical Model

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

Lunar Model suggests turn on Oct 29th – Full Moon is in place.

- SPX - Sentiments Model

AAll Weekly Sentiment Survey is turning BEARISH

- The EURO – Future Model Forecast,-

By this Model, lows 11TH October with secondary lows on 30th 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"> • SPY (SPX 500) • DIA (DOW 30) • QQQ (NASD100) • IWM (Small Cap) • IYT (Transports) • NYA (NYSE) <p><u>BOND IDX</u></p> <ul style="list-style-type: none"> • TLT (Bonds) • MUB (Muni). (SP) <p><u>GLOBAL IDX</u></p> <ul style="list-style-type: none"> • EEM (Emerg.) • EWJ (Japan) • FXI (China) • EWZ (Brazil) • FTSE (Europe Proxy) • BSE (India) • EWA (Aust) SP <p>SP - Special situation</p>	<p><u>SECTORS IDX</u></p> <ul style="list-style-type: none"> • XLF (Financials) • XLV (Health) • XLB (Materials) • XLE (Energy) • XLK (Tech) / QQQ - Proxy • XLI (Industrial) – • XLP (Staples) • XLY (Discretionary) • XHB (Home Builders) • XLU (Utility) SP • RTH (Retail) - SP) • SMH (Sem.) SP • BBH (Biotech) SP 	<p><u>COMMODITY IDX</u></p> <ul style="list-style-type: none"> • CRB /DBC • GLD (Gold) • SLV (Silver) • GDV (Miners) • OIL • Copper • DBA (Agro) • UNG (Natural Gas) • DBB (Base M) SP 	<p><u>CURRENCY</u></p> <ul style="list-style-type: none"> • USD / DXY • EUR/USD • AUD/ USD • USD/JPY • GBP/ USD

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 2th 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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