



**SG Capital Research**

Global Market Insights

**Research Note – MS – SPX Market Strategy Report**

**MAEG- MS\_SPX\_MARKET STRATEGY REPORT A#1 SG 2012 # OCT\_09**

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

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## **MS – SPX – Report - Coverage**

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

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

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

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

# • 1- Executive Summary

*Nothing new has happened to the markets past 2 weeks. We are awaiting patiently for our Price points to hit the mark*

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

**SPX – Remains Triggered at POM 14 - within CZ 1410-1375 – ‘CAUTION’**

*Midterm- on 10/04/2010, at POM 12- CZ 1080-1100, we initiated FULLY LONG Signal.*

*All subsequent commentary refers to POM 13 to POM 14 moves within the NET LONG / HEDGING stance. CZ to CZ moves are for Risk Management.*

**NEW POSITION – WATCH FOR TRIGGER , We will Announce the “ALERT”**

*The pull back in SPX into CZ 1425-1410 for successful test would Trigger POM 13 – Re run Signal.*

**Triggered Action** - POM 14 is in progress till we announce next trigger

*POM 14 Triggered on 7/1 for positions to be HEDGED (or raise cash within CZ 1375-1410), this signal completed POM 13 Triggered on 5/21 for Net Long within CZ 1290-1310.*

**Projected Target**

**UPSIDE –** Target is POM 15 - at around 1485-1500 to initiate Net- Short. .

**NEAR TERM –** Existing positions should continue to remain Hedged ( or raise cash). Downside Target CZ 1425-1410 . .

**MID TERM –** Expectation is Downside to CZ 1310-1280. , provided the POM 15 is triggered at the top of the range

**PLAN A** – WATCH FOR TRIGGER , We will Announce the “ALERT”

Successful test of **CZ 1425-1410** would trigger POM 13 Re run –back to Net Long position for continuation move higher to target **1485-1500**. This move higher should be short term final momentum run before the larger decline

**Brief Commentary on Price path**

**CZ 1425-1410** , is the area of Price breakout @ 1425 and 1410 being the “ Thrust” Apex of triangulation should be tested successfully to build floor in anticipation of Momentum Indicator. This would kick off . WAVE 1-2-3-4-5- with 3x3x3 / 9 EMA process for rounded top to move higher into positive seasonality / election rally.

If CZ 1425-1410 triggers, we shall rebalance our previous POM 14 – Hedges to re position us Net Long - POM 13 Re Run.

**PLAN B** – The “Post POM 14 move is **CAUTIOUS** phase

**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.**

The Terminal Process/ Tertiary Triangulation was left incomplete during post QE-3 price moves. POM 15 – NET SHORT Triggers tends to be a Significant Top and result in much larger correction. .

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

Midterm - On 01/21/2011, at POM 12- CZ 89-91, we initiated FULLY LONG position for a Target to 136

All subsequent commentary refers to POM 13 to POM 14 moves within the NET LONG / HEDGING stance . CZ to CZ moves are for Risk Management.

### **NEW POSITION – NONE**

**Triggered Action** - POM 14 is in progress till we announce next trigger.

POM 14 Triggered on 5/21 for positions to be HEDGED (or raise cash within CZ 125-124), this signal completed POM 13 Triggered on 5/21 for Net Long within CZ 111-112

### **Projected Target**

UPSIDE – Capped into CZ – 125-128 . .

NEAR TERM –Downside Target CZ 120-118

MID TERM – Existing positions continue to remain Hedged( or raise cash). Downside to CZ 116-114. Is Target for POM 13 to initiate Net- Long. .

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

TLT bounced back towards our upside CZ 125-128 & failed once again. This has been heavy top 4<sup>th</sup> time failure. Near term downside CZ 118-120, has heavy bottom, eventually it be broken. Mid Term Target of CZ 116-114 is intact. This is Target area for POM 13 to be triggered if PQV is validated.

**More details in our scheduled Mid week US Broader IDX Report .**

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

Mid term - on 02/05/2010, at POM 12- CZ 1125-1075, we initiated FULLY LONG Signal for a Long term target of 2150

All subsequent commentary refers to POM 13 to POM 14 moves within the NET LONG stance. CZ to CZ moves are for Risk Management.

**NEW POSITION** - Announced ALERT - on 9/17, to Exit ½ Position in GOLD @ 1770 as Risk Management move. Hold the remaining ½ Net long position till POM 14 Target

**Triggered - Action** - POM 13 in progress till we announce next trigger

. POM 13 Triggered on 5/15 for Net Long position at 1540 within CZ 1540-1580.

### **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**

Although GOLD hit highs of 1790, it did not enter POM 14 CZ decisively to get a trigger. We would like to see a huge spike up to Trap all the “ Bulls in buying late” for termination process. Good possibility it may do it especially its hanging at the top for past few days. The move could reverse as quickly.

The current GOLD price of 1770,( PEC-D) showed -ve divergence. We would not like the overweight position. The floor for pull back is CZ 1720-1690 with PEC-D's @ 1720. October seasonality is weak. The November has strong seasonality.

**USD** has triggered CZ 79.55- 79, when USD rally begins should place pressure in GOLD for pull back. The Commercials are aggressively moving toward a big net long position. It is important to remember that the large commercial traders tend to take positions little early and therefore USD will begin its next significant move up.

# GOLD – CZ/ PEC- D Analysis

With GOLD not backing off with Bullish top and STO @ 90% is a high probability of “ Spike up “ or Bull Trap which can very well trigger POM 14.

**Upside - POM 14 – area 1790- 1820,** 3<sup>RD</sup> ABC up with BULLISH TOP (Exited ½ @ 1770)



# GOLD – CZ/ PEC- D Analysis

Near Term Pull back – CZ – 1720-1690, PEC-D – 1720, . Bullish Top tends to have shallow retracements



## **SPX – Market Overview Commentary**

- Weekly Change - SPX Closed @ 1460 ( +1.37% ) :
- YTD Change - SPX – Closed @ 1257 / 1460 ( + 16.1% gains)

Legendary investor Roger Babson, used the Isaac Newton's laws of Force & Motion with Pythagoras & Fibonacci spirals for Investments is re surfacing this morning with SEC after 80 year of guessing, to apply same logic .

**Strategy** - Till SPX enters either CZ 1425-1410 successfully – OR - Conversely SPX moves towards POM 15, this market has no actionable ideas to get best Risk / Reward. Our call is simple, if POM 13 re is triggered in ( 1425-1410) then we aim for 70 points on way up to SPX 1500. OR conversely if POM 15 is Triggered at 1500 then we aim for 60 points on way down. Patience is virtue. Just to re iterate on this current trend, we have locked in gains from POM 13 @ 1300 to POM 14 (1390 mean) = 90 point move.

**Last week** - SPX obliged us with a rally, but did not initiate from our CZ 1425-1410 , therefore we did not trigger any signal.

**This week** - Earnings season begins .1<sup>st</sup> week has +ve bias. Market should bounce back to the top of the range. Especially due to Time– Termination under observations such as Seasonality has lows 9<sup>th</sup> Oct, Euro – COT lows on 11<sup>th</sup> Oct are all expiring this week which suggest upward bias in headline IDX . but for us the Price / Volume is ultimate arbitrage with CZ 1425-1410 to be tested with PQV Validation.

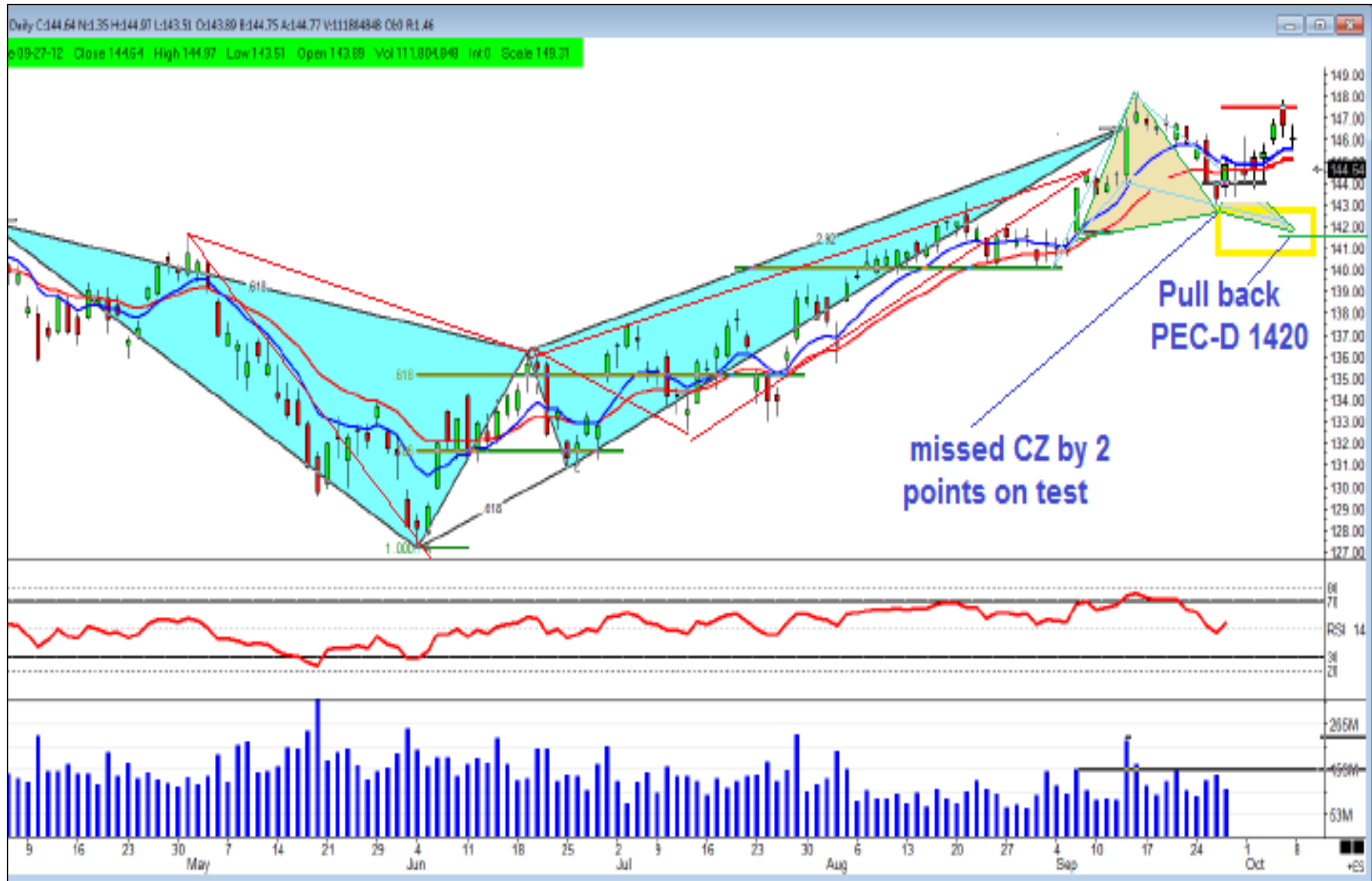
**Weaker IDX** - , The weaker Instruments should continue to be failing around bearish CZ target. Even if SPX rallies they should underperform in upside. In this week's IDX Report we shall preview IWM, IYT, NYSE, QQQ to indicate the strength and weakness within CZ .

**Others** - No cycle is due this week, Mathematical sentiments are not at extremes this week. However the Seasonality / Election rally by yearend should be watched carefully for Fiscal cliff , expiration 31<sup>st</sup> Dec 2012. ( EUTO – COT chart below) . **Chart Picture is worth 1000 words.**



# SPX- CZ / POM 15 Analysis – NEAR TERM

Pull back PEC-D is at 1420 - our Pull back **CZ 1425-1410**



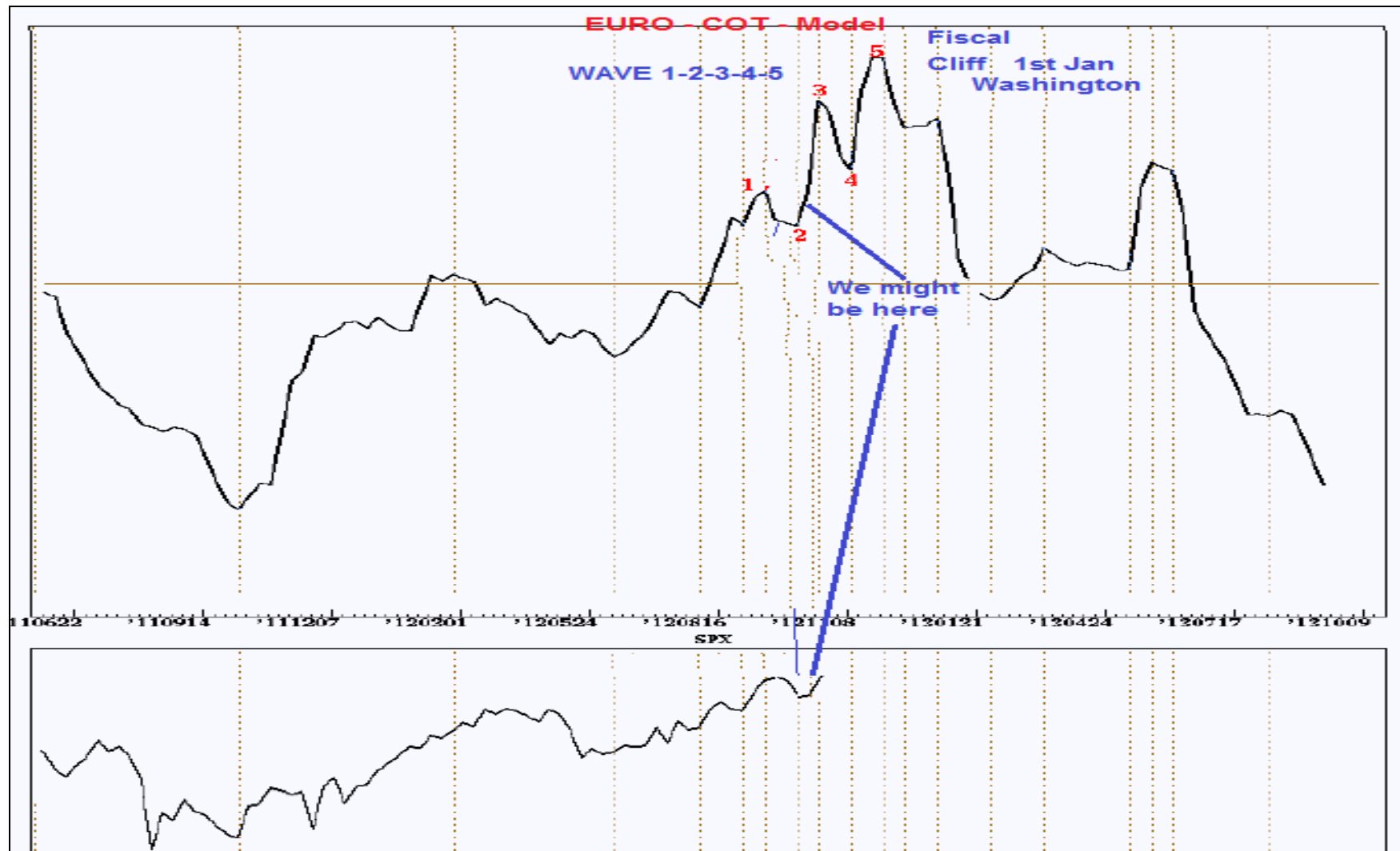
# SPX- Price path – Potential Momentum Top - NEAR TERM

Near Term, this Model suggests, the Momentum Indicators Wave 1-2-3-4-5 with 3x3x3/9EMA should kick in, after brief pull back. SPX could be at point 2 prices currently . The end of the Projection to E 5 for 1485- 1500



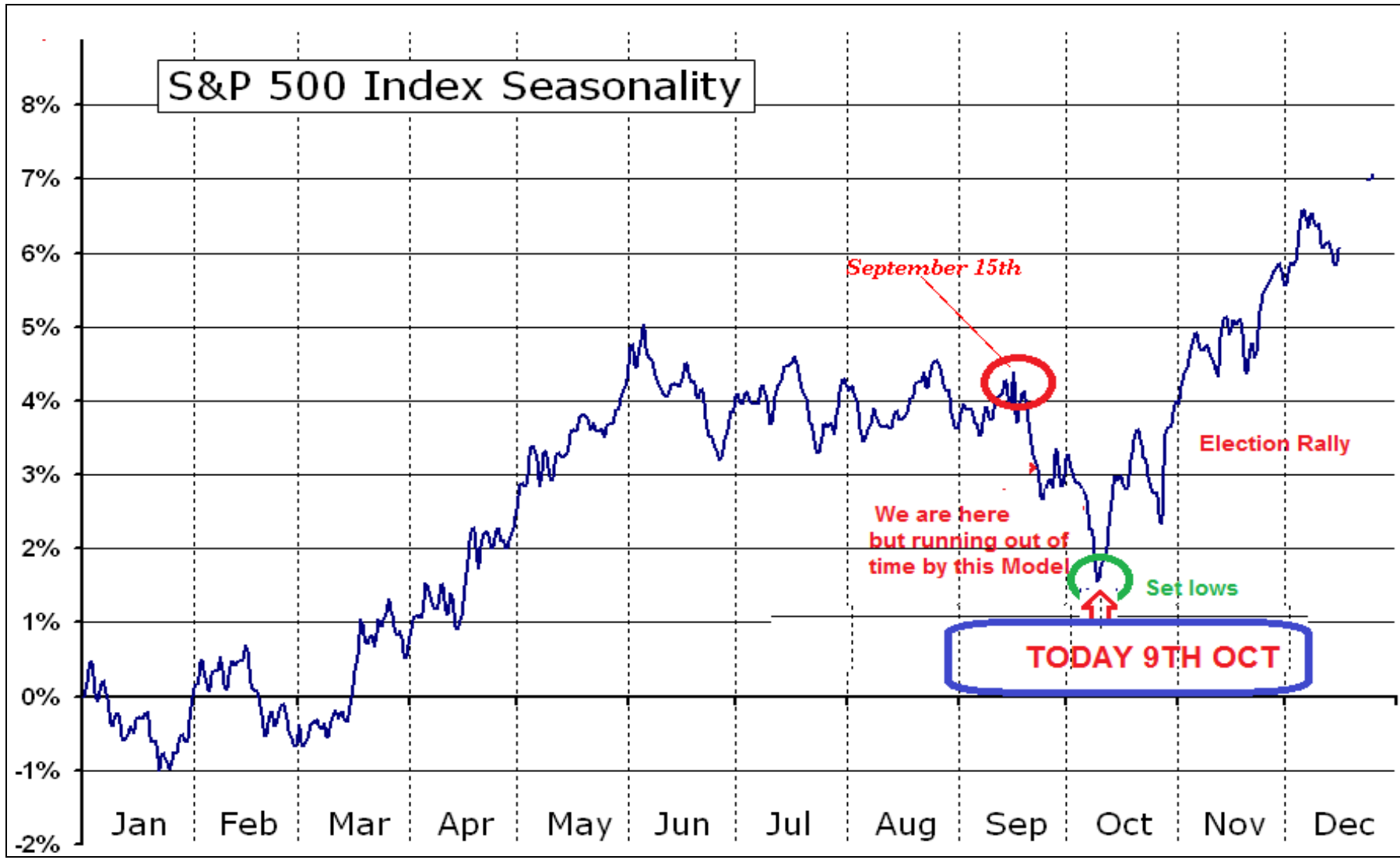
# **SPX- EURO – COT Model - NEAR TERM - EXPIRING - 11 th OCT**

Near Term, EURO – COT is tracking the Momentum Indicators Wave 1-2-3-4-5 price path ( notes within the chart) With highs on 1<sup>st</sup> Jan Fiscal cliff



# SPX- SEASONALITY Analysis – **EXPIRING TODAY - 9<sup>TH</sup> OCT**

*This Model pull back LOWS into 9<sup>TH</sup> Oct and then rally back ( Without testing CZ 1425-1410) .*



# 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**

## **SPX – Cyclical Model**

- **SPX - Seasonality Model -**
- *Lows & Reversal in October.*
- **SPX - Geomagnetic / Lunar Cyclic Model**

*Lunar Model suggests turn on SEPT 29<sup>th</sup> +/- 2 days. We may see bottom put in .*

- **SPX - Sentiments Model**

*AAll Weekly Sentiment Survey is Bullish*

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

*By this Model, lows in 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 - Election Cycle Model -**

*During Presidential Election Cycle, if a Democratic President is in office, the cycle lows are put in prior to the election in October)*

## **SPX – Internals Model**

**NOT -EXTREME READINGS** - PUT CALL, TICK TRIN, ARMS, AD Oscillator, Ratio's, VIX, TRIN / VIX, Ratio

- **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.

## 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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