



SG Capital Research

Global Market Insights

Research Note – MS – SPX Market Strategy Report

MAEG- MS_SPX_MARKET STRATEGY REPORT A#1 SG 2012 # SEPT_04

For – Immediate Release – *Tuesday*

By: Suneil R Pavse

Contact: apavse@aol.com

MS – SPX – Report - Content 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

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

SPX – Has Triggered POM 14 – ‘CAUTION’

Triggered Action

Announced POM 14 on 7/19, when we advised commencement of HEDGING in CZ 1375-1410 . POM 14 to continue till we advise otherwise. **This signal completed POM 13 – Bullish Model that was trigged on 5/25 in - CZ 1290-1310 for Net long positions**

POM 14 is sideways phase for Hedging. We wait for POM 15 to initiate Net Short. Currently either the Tertiary Triangulation Test or Terminal Process is on. POM 14 can break either way if pattern is not completed, though our expectation is Downwards.

Projected Target

UPSIDE – POM 15 Target SPX -1425

NEAR TERM – Existing positions continue to remain Hedged, Downside Target CZ 1390-1370

MID TERM – Expectation is for Downside to CZ 1310-1280.

NEW CORE POSITION – NONE

PLAN B – Instead of our Cautionary Model PLAN A, if Model turns BULLISH during Terminal Process/ Tertiary Triangulation test, SPX can begin next ABC up only via Valid breakout . Although this is a low probability event with current Market internals.

For valid Breakout, We have disciplined criteria. If NOT, SPX will negate the up move

- Weekly SPX price needs to close **above 1430 with 1.5 B share and SPY with 600 M shares .**
- The Market internals (TICK , TRIN, PUT CALL, ARM, VIX) should display Normal reading without exhaustion during the breakout”
- The 2 Major IDX's (DOW, NYSE, or QQQ) should accompany the up move with PQV breakout
- If such Event occurs, SPX shall delay POM 15 Trigger.
- **I am monitoring it closely**

More details on Price path in our - Market Commentary below

TLT (BONDS)– Has Triggered POM 14 – **“CAUTION”**

Triggered Action

Announced POM 14 on 5/21, when we advised commencement of HEDGING in CZ 125-124 . POM 14 to continue till we advise otherwise. **This signal completed POM 13 Bullish Model that was triggered on 10/27 in - CZ 111-112 for Net long positions**

POM 14 is sideways phase for Hedging. We wait for POM 15 to initiate Net Short. Currently the Tertiary Triangulation Test or Terminal Process is on. POM 14 can break either way if pattern fails, though our expectation is Downwards.

Projected Target

UPSIDE – POM 15– CZ – 127-131

NEAR TERM – Existing positions continue to remain Hedged, Downside Target CZ 120-118

MID TERM – Expectation is for Downside to CZ 114-116.

NEW “CORE” POSITION – NONE

Brief Commentary on Price path

Bounce from last week, On Friday’s Jackson Hole speech turned out to be SOS (Sign of Strength). Path of TLT remained as expected towards slowly and surely to our CZ 127-131 . The completion of **Secondary test** in this Bearish Top CZ should set up failure in Price & PQV in TLT.

GOLD – Had Triggered POM 13 – “NET LONG”

Triggered Action

Announced POM 13 on 7/19, when we advised commencement of NET LONG in CZ 1540-1580 .

POM 13 to continue till we advise otherwise. This signal completed POM 14 that was triggered in - CZ 1740-1775 for HEDGING positions

POM 13 is rally up phase. We wait for POM 14 to initiate HEDGING . Currently there is NO SIGN of it, our expectation is move upwards is intact in spite of Near term pull backs. .

Projected Target

UPSIDE – GOLD -1725

MID TERM – Existing positions continue to remain NET LONG, Downside pull back to CZ 1670-1680

NEW “CORE” POSITION – NONE

Brief Commentary on Price path

FED Announcement acted a good impedes to reverse GOLD from lows of 1646 last week after a shallow retracement above our CZ 1645-1635) . The break of upside of 1670 (Bullish Top) is valid NEW ABC up Bullish breakout which has Projection of 1720. The floor for this new leg up is now CZ 1670-1680 for any pull back which is setting higher high PEC-D's . PQV should validate on retracement.,

Overall Bullish on CORE Position NET LONG from CZ 1540-1580 based on Monthly & Weekly Indicators till next POM 14 signal. On Daily Model, Near Term pull backs should re balance.

BACK UP SECTION – II.

Commentary & Charts below is backup & cross verification ONLY . For in- depth understanding behind our Logic & Risk limitation please refer.

SPX – Market Overview Commentary

- Weekly - SPX Closed @ 1406 (down -0.3%)
- YTD - SPX – Closed @ 1257 / 1406 (+ 12. 2% gains)

Friday's Market Gyration on Bernanke's speech , up and down hundreds of Dow points before coming to rest up on the day. It's a computer trading pit suited for Triangulation Pattern to run the maximum number of stops as quickly as possible. If the Triangulation Pattern results into correction, it's best to act near the end of the triangle. (Refer chart below) . Sentiment got pretty Bullish on the 100 point up move on Friday measured by Tick , Arms, Put call Ratio reading.

Today, Wall Street back from Long weekend and the volume should pick up. It appears we are running out of time to Trigger POM 15 . Typically in any given year, that has “No POM 12” offered , SPX tends to offer two POM 15's. We have seen only 1 – POM 15 so far this year. Therefore we are exercising patience.

In Past 6 Months, total of (3) Good Signals were Triggered in SPX. In March, POM 15 at average price of 1400 (1410-1375) for Net Short , In June POM 13 at 1300 for Net Long both having worked out well. Now we have POM 14 (1410-1375) and No sign of POM 15 just yet.

*POM 15 **Terminal Process** being left incomplete in spite of meeting our 1425 target now has taken over by **Tertiary Triangulation Process** . (Refer chart below). We need Volume pick up on downside break with SOW (Sign of weakness. IWM , EEM indicated shown the best failure in CZ in instruments as lead indicator for downside position*

Our hedging on positions is close to the highs of the move. The T- Termination expired on 30th Aug (Thursday) & Cycle on 31st August. . Seasonality wise September has the worst History of decline. . We require 4 week of patience to participate in continuing uptrend and awaiting the next opportunity to go Net long to position for yearend rally only after Sept / Oct pull back. into the end of November / December.

This current price path clearly agrees with our EURO - EDCOT Forecast.

Trim Tabs Investment Research reports that selling by insiders surged 30 X times more than buying, this is highest level in 4 years.

Correlation for POM 15

- **DXY v/s SPX** – Last week , On the day of Bernanke's speech Friday , DXY gave the shakeout move into CZ 81.5 – 82 as we had expected causing SPX to Gap higher. DXY is re testing CZ before moving substantially higher in September and put pressure SPX . This favors risk-off next month.
- **BONDS v/s SPX** - Both are at POM 14 – Fully Hedged position with downside Risk. One of them should resolve first to POM 15 – NET SHORT. It is difficult to predict which one. We still favor SPX to complete

NEAR TERM - Price path

SPX prices are back to April top. (Previous POM 15 – CZ) . The pull back to 1390-1370 should set up_ another counter trend move & then decline. The Hedging should continue to position for FIRST leg down towards Target CZ 1390-1370, on Near Term

MID TERM – Price path

Our ABC down Target is into CZ 1310- 1280 . This CZ is Heavy Bearish bottom. This projection should get tested once the Major decline begins. This should be a meaning lows this year possible until the October time-frame.

- **MARKET INTERNALS in 2ND / 3rd derivative interpretations**

The data from the NYSE shows the A/D line going to a new high. However, that data is polluted with a 40% content of bonds, ETF's, so they distort the statistics in favor of advancers versus decliners. Actual NYSE A/D line is not bullish. (Refer chart below)

McClellan Oscillator is still weak and below zero. The NYSE Summation Index has been below 250. Relative Strength of RUT v/s Versus SPX shows underperformance in the small stocks. This is not bullish,

VIX has come off the bottom in Bullish way from PEC-D @ 13.5 & with 3 Drives to the Bottom. Another pull back in VIX , then sharp rally in VIX suggesting Caution. There is storage of Kinetic energy getting recoiled to unlock into Potential Energy as witnessed in April 2012.

EXTREME READINGS

TRIN, ARMS, AD Oscillator, Ratio's, VIX.,(Refer chart below)

NOT -EXTREME READINGS

PUT CALL, TICK

In summary - Intermediate term the upside target has completed with the Natural Price oscillation into POM 14 – Zone with Bearish top.

Market internals although very weak but NOT reached at the weakness of the terminal process yet to achieve POM 15 Signal. Based on current Market Internals, the upside breakout from here would be false breakout on PVQ / VTO . It is tertiary top process similar to April Trigger POM 15 @ 1400 .completing all price & volume patterns. On Monthly and Weekly PQV / VTO , Bearish Top has been established but on Daily PQV / VTO is still slightly Neutral which should turn more bearish

SPX- CZ / POM 15 Pattern / TICK – VIX Analysis – **NEAR TERM**

POM 15 – NET SHORT – Target remains at **1425** . with Tertiary Triangulation Pattern. **TICK / VIX ratio on this pattern needs to be at +50** – (Refer window # 2) below)

POM 14 – Triggered in **CZ 1410-1375**, Oscillator diverged –vely, **First Pull back target CZ 1390-1370**



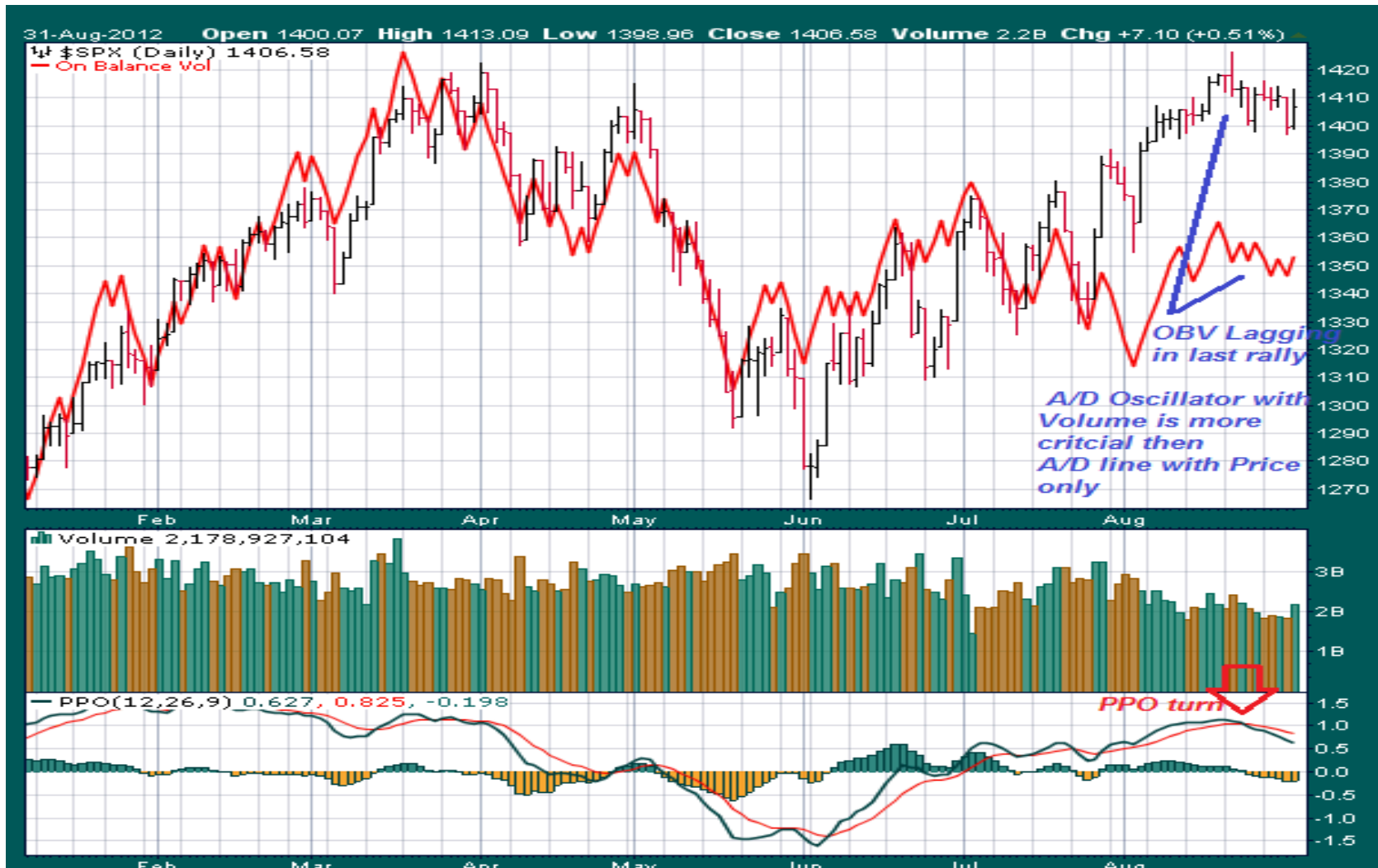
SPX- (HRLY CHART) “ Tertiary Triangulation Pattern” Analysis

“ Tertiary Triangulation Pattern” This is HOURLY CHART - (Notes within the chart) – We need volume to pick up for any downside action.



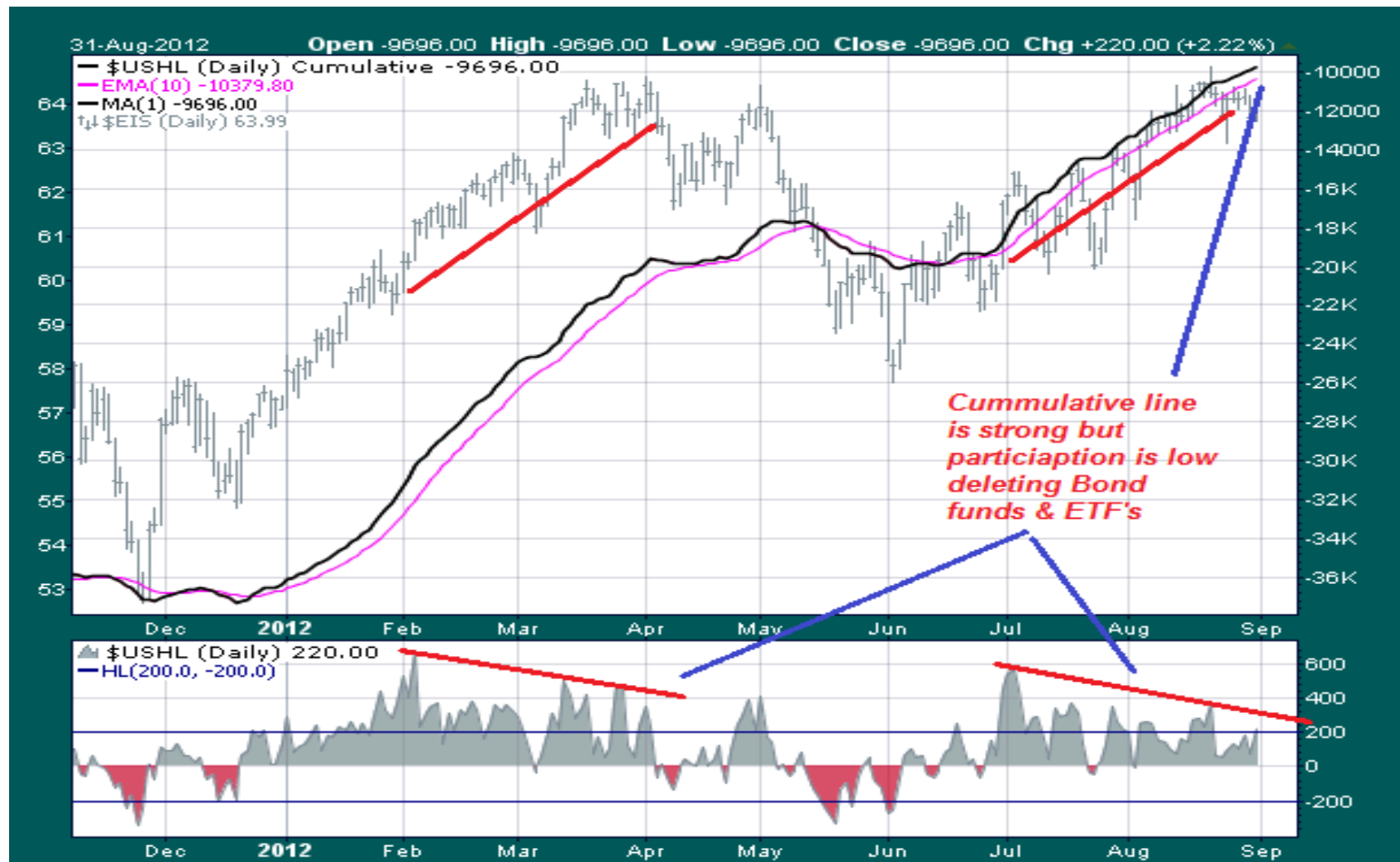
SPX- OBV (On Balance Volume) Analysis – MID TERM

OBV is not keeping up with SPX Rally. visual comparison, there are a couple of volume indicators that show the same lack of strong upside buying pressure created a "negative divergence" between the two, PPO has turned down on OBV.



SPX- AD Line without (Bonds & ETF's) Analysis - **MID TERM**

AD LINE OF NEW HIGHS is still advancing (**TOP WINDOW**) . This includes total NYSE, but excluding **BONDS** and **ETF's** Net New Highs, indicators are diverging (**Bottom window**) on AD Volume Line. .



SPX- PEC-D & Pattern Analysis with PQV – Validation - **MID TERM**

Convergence of (2) **PEC-D** patterns to **1410 & 1415** . with PQV Validation



SPX – Cyclical Model

- **SPX - Seasonality Model - On Track**

- Negative September
- Lows & Reversal in October.

- **SPX - Geomagnetic / Lunar Cyclic Model - Non Conclusive.**

Lunar Model suggests turn on AUG 31st +/- 2 days. We shall see how it reacts this Monday.

- **SPX - Sentiments Model - No change from last week**

AAll Weekly Sentiment Survey is Turned Bullish

- **The EURO - EDCOT Model Forecast, - On Track**

By this Model leg Down in September , then correction 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 - On Track**

During Presidential Election Cycle shows that when a Democratic President is in office, cycle lows are put in prior to the election occur. .

Appendix Content

- 2012 YTD – Position Summary
- Objectives & POM /CZ / PEC –D Guidelines – Refer to detail Annexure
- Full Utilization of “ SP” Report Guidelines & Limitations - Refer to detail Annexure

- **OUR SPX POSITIONS 2012 (FYI)**

1) *Triggered - POM 14 – HEDGE 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)

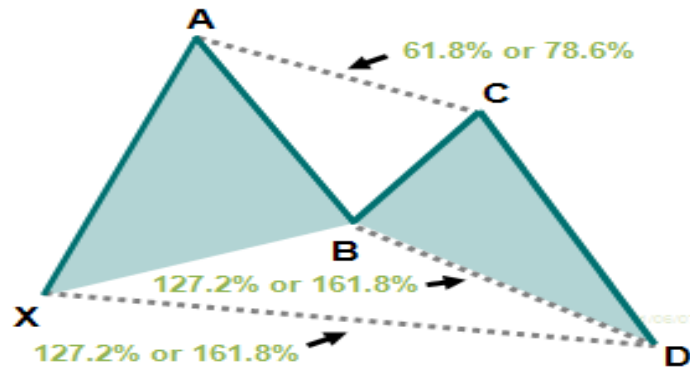
Pythagoras Expansion / Contraction – (PEC) Model

- PEC Model is a 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

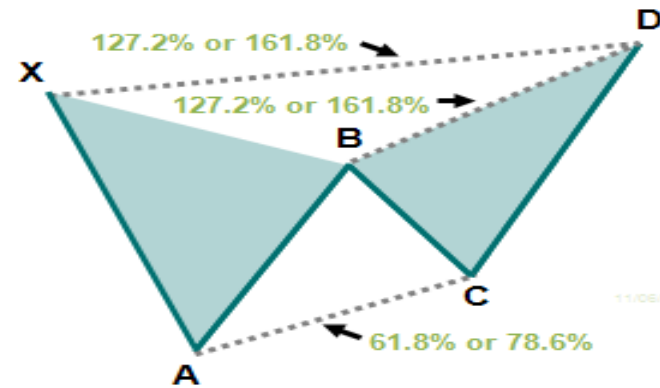
PYTHAGORAS EXPANSION / CONTRACTION –(PEC) Model

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

Buy Pattern (bullish)



Sell Pattern (bearish)



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