



SG Capital Research

Global Market Insights

Research Note – MS – SPX Market Strategy Report

MAEG- MS_SPX_MARKET STRATEGY REPORT A#1 SG 2012 # SEPT_10

For – Immediate Release – *Monday*

By: Suneil R Pavse

Contact: apavse@aol.com

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

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

SPX – Remains Triggered at POM 14 - CZ – ‘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 the previous POM 13 that was triggered on 5/25 in CZ 1290-1310 for Net long positions . Our POM 13 was right at the lows of this current Trend and we had outstanding rally on that call.

We wait for POM 15 to initiate Net Short. Currently Tertiary Triangulation Test towards our target 1425 & higher is being completed. But Market still has upside bias . We are not ready for NET SHORT till process is complete.

Projected Target

UPSIDE – POM 15 Target SPX -1425 higher was met on Friday , SPX touched high of 1438. We are looking for exhaustion process to initiate for POM 15 Trigger.

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

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

NEW “CORE’ POSITION – NON

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 . **This is a low probability event with current Market internals. This has not happened in spite of last week's rally.**

For valid Breakout, We have disciplined criteria (below) . All conditions to be met . If it does not than SPX up move should be a false breakout.

- Weekly SPX price needs to close above 1430 with 1.5 B share and SPY with 600 M weekly Volume .
- 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.

DOW, NYSE hasn't broken out. (REFER CHARTS BELOW)

More details on Price path in our - Market Commentary below

GOLD – Remains Triggered at POM 13 – CZ – “NET LONG”

Triggered Action

Announced POM 13 on 5/15, at 1540 when we advised commencement of NET LONG in CZ 1540-1580 . POM 13 to continue till we advise otherwise. This signal completed previous POM 14 that was triggered 2/1 in CZ 1740-1775 for HEDGING positions.

POM 13 is rally up phase and we remain so . Our POM 13 was right at the lows of this current Trend and we had outstanding rally on that call.

Projected Target

UPSIDE – GOLD – Our Target of 1725 was met on Friday , We touched a high of 1736. (refer chart below)

MID TERM – Existing positions continue to remain NET LONG, Downside pull back to CZ 1690-1675 (PEC-D @ 1695)

NEW “CORE” POSITION – NON

Brief Commentary on Price path

The upside target of 1725 is met with Bullish Top. The floor for pull back on this leg up is CZ 1690 -1675 with PEC-D's @ 1695 . Usually the pull back from Bullish Tops tends to hold, however PQV should validate this retracement.

Point to note - Since POM 13 Trigger at 1540 , Gold has made – 3 successive ABC ups and each move ending with Bullish top. This is great illustration of Market with Bullish Tops and Bullish bottom works its self higher . The pull backs are smaller, a Risk Management move within the larger move higher. The next meaningful top should come in at our next POM 14.- potential target to 1825 (Non validated as of yet) .

More details on Price path in our - Wednesday's Commodity Report.

TLT (BONDS)– Remains Triggered at POM 14- CZ – “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 the previous POM 13 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 are both incomplete. POM 14 can break either way, **our Mid term expectation is break downwards.** .

Projected Target

UPSIDE – CZ – 127-131 , reached last week with PEC-D @ 127.5

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 – NON

Brief Commentary on Price path

Last week TLT reached highs of 127.70 within the CZ / PEC-D @ 127.5 completed and gave back. .This would be completion of **Secondary test** in the Bearish Top CZ ,

BACK UP SECTION – II.

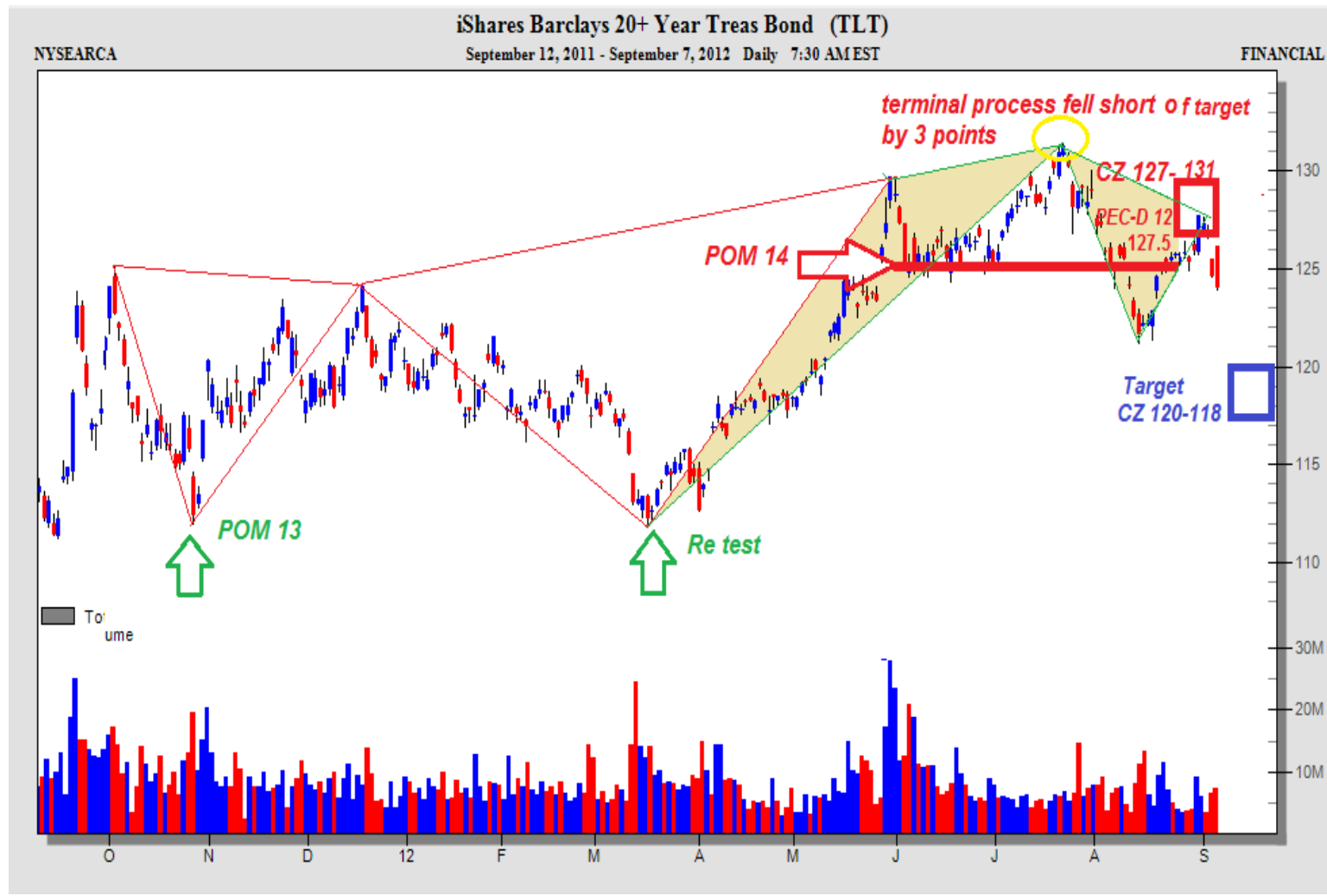
Commentary & Charts below is backup for cross verification and in- depth understanding behind our Logic with Risk limitation please refer.

TLT (Bond) – PEC- D Analysis – **Near Term .**

Projections -

Upside - **PEC-D – 127.5- met , CZ – 127-131**

Downside - **CZ – 120-118**



GOLD – PEC- D Analysis – Mid Term

Projections -

Upside - PEC-D – 1732,
CZ – 1725-1720



SPX – Market Overview Commentary

- Weekly - SPX Closed @ 1438 (up +2.2%)
- YTD - SPX – Closed @ 1257 / 1438 (+ 14.4 % gains)

Last week's rally took the SPX prices towards our projected target of 1425 or Higher. The Tertiary Triangulation pattern driven by Tick , Arms, Put call Ratio recoiled Potential Energy reading proved its merit with upward THRUST move initiating at the APEX 1407 to target of 1425. (Prior to that price shift of 230 points, we had send " Special Report out" indicating academics of such move for FYI) . Sentiment as measured by Tick Arms, Put call Ratio reading got pretty Bullish and those readings have not fallen off yet and such Ratio readings have retests (refer chart below) . .

Now we need the Exhaustion process to complete for POM 15, till such time we wait for " till the paint to get dry" on " Net Short ' Signal . If downside had to begin, we need Volume pick up on downside with break & SOW.

All our HEDGING, on the POM 13 positions has been close to the highs. Our mean CZ Price of 1390 eventually be a good Price to lock in gains of POM 13 @ 1300. The Net Short / POM 15 is all different game as and when get it . We do not want to prematurely try it.

This current price path clearly agrees with our EURO - COT - Forecast. We are coming into a bull market peak of extreme significance which the EURO – COT Projection implies. The bulk of indicators always tend to top out 3-4 weeks before the final peak in the indices, which is something that history tells us every single time.

According to EURO – COT that top will take little more time to form, so it's too early to turn NET SHORT. But Turning CAUTIOUS for HEDGING at these prices is much better action. After the decline , we should get another fantastic opportunity to get NET LONG similar to May 25th according to EURO – COT. because we have a low due in early October. That idea of a low in early October is, we admit, fairly standard. The top in the market in September and a decline into October and rally back into the end of November / December.

CYCLE TURN- date on 31st Aug , we had cycle inversion, established Lows instead of Highs with massive subsequent move higher last week from turn date. Next the Full Moon due on Saturday, September 15th. If that lunation pattern still holds, we should see the markets making highs this week. (However we need the Exhaustion move to complete , if not it may not have any meaningful effect)

Correlation for POM 15

- **DXY v/s SPX** – DXY went to **80.50** below the **CZ 81.5 – 82** , we still think this is shake out move. This causing SPX to Gap higher last week . Once the rally in DXY begins it should pressure SPX . This favors risk-off in coming weeks.
- **BONDS v/s SPX** - Both are at POM 14 – Fully Hedged position with Mid term downside Risk. We favored SPX to complete upside target first which it did last week.

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 a bigger decline. The Hedging should continue to position for FIRST leg down towards Target **CZ 1390-1370,** on Near Term

MID TERM – Price path

The POM based ABC down Target is into **CZ 1310- 1280** . This CZ is Heavy Bearish bottom. This projection should get tested once the Major decline begins and set up a meaning lows this year possible until the October time-frame.

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

EXTREME READINGS

AD Oscillator, Ratio's, VIX.,

NOT -EXTREME READINGS

PUT CALL, TICK TRIN, ARMS

In summary –

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 Weekly PQV / VTO , Bearish Top has been established but on Daily PQV / VTO is still slightly Neutral which should turn more bearish

Intermediate term the upside target has completed with the Natural Price oscillation into POM 14 – Zone with Bearish top. But No sign of POM 15 yet

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

Near term, the Tertiary Triangulation Pattern is complete with blow off move from 1407 Apex - TICK / VIX ratio at -25 proved its merit . (Refer window # 2) below), In Special Report, we had warned of such Market behavior **NEXT** – We need another rally in the TICK / VIX ratio Ratio to +50 with divergence during Exhaustion process. (Notes within the chart)

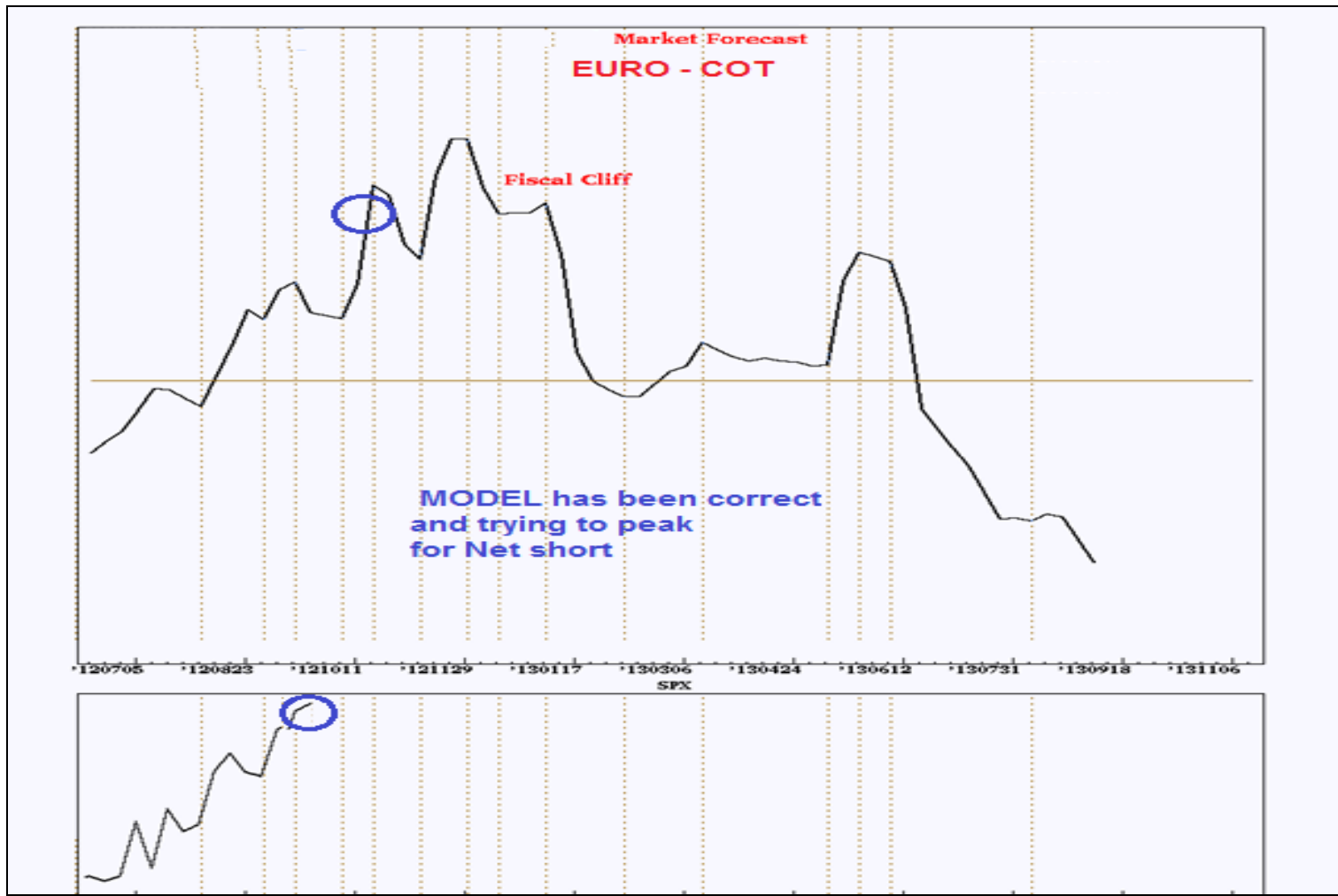
POM 15 – Target met 1428 or higher

POM 14 – Triggered in CZ 1410-1375, . First Pull back target CZ 1390-1370



SPX- EURO – COT Model - NEAR TERM

Near Term, This Model has been Tracking Exact, CIRCLED in blue suggests some room to move before meaning decline. , It appears to be Time function then price function.



SPX- \$ WT - Volume Analysis – MID TERM

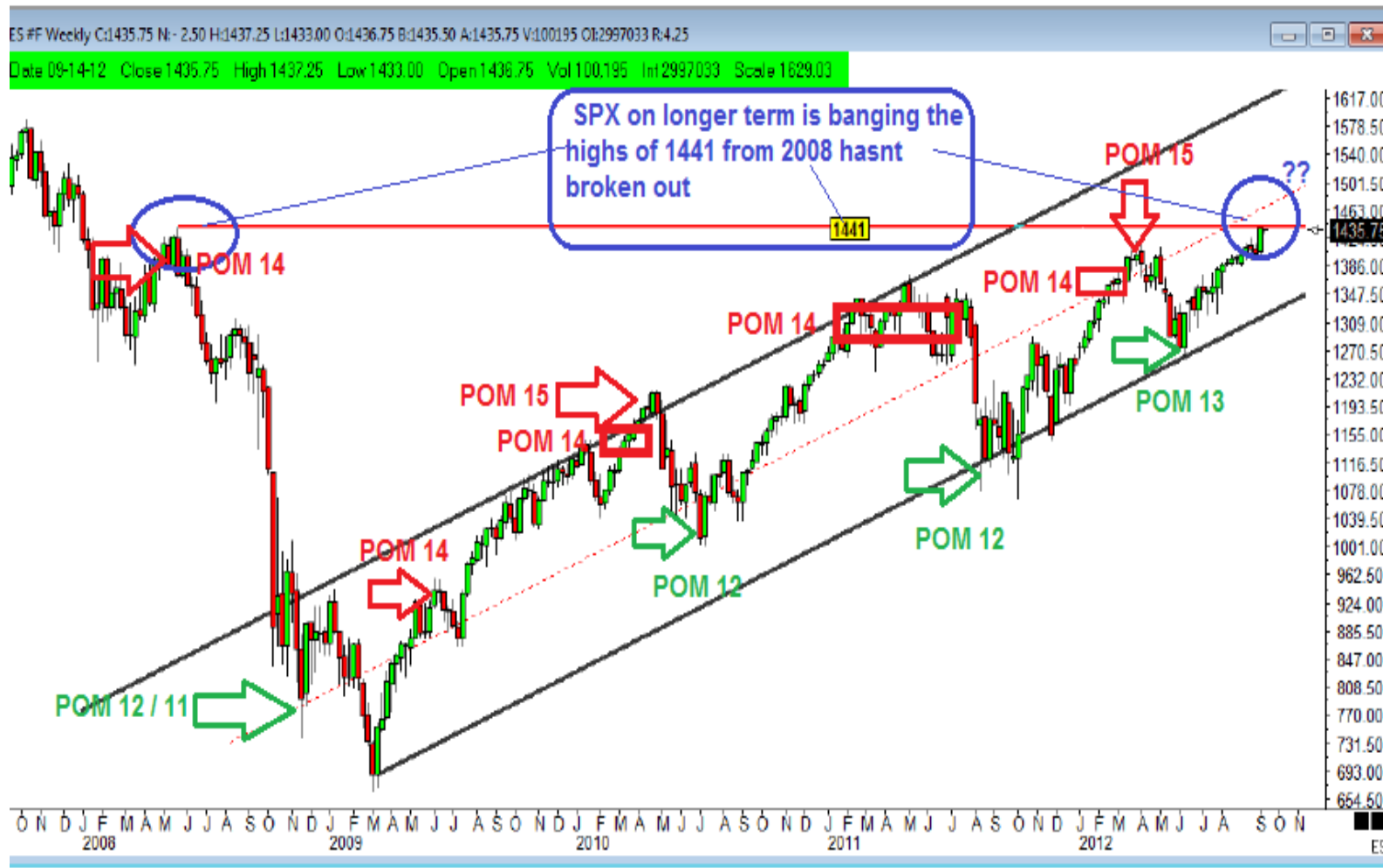
Mid term, In looking for negative divergences in last weeks price move, the SPX Dollar weighted volume vs. cash index provides a caution sign. Dollar weighted volume on cumulative total shows divergence suggests that we should see a pullback moving into this week's New Moon.



SPX- “ Break out of Highs “ – LONG TERM

The SPX has still not taken out the Highs of 1440 from 2008, If the POM 15 test fails, meaning prices close back below , then the breakout above 1425 was a false breakout. (As internals / PQV fails with CZ & PEC-D pattern)

Chart below indicates, the previous POM 15 since 2009 lows.



DOW- (1st Major IDX) “ Break out of Highs “ – MID TERM

The DOW has still not taken out from previous (3) high points in spite of last week rally (All circled in blue) .



NYA- (2st Major IDX) “ Break out of Highs “ – **MID TERM**

The NYA has still not taken out from previous (3) high points in spite of last week rally (All circled in blue) .



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 SEPT 15th, +/- 2 days. We shall see how it reacts.

- **SPX - Sentiments Model - Turned more Bullish**

AAll Weekly Sentiment Survey is Turned Bullish

- **The EURO – Future 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 – 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**

- **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)

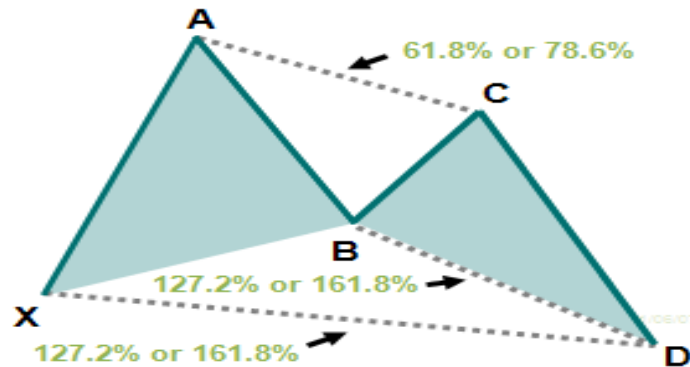
Pythagoras Expansion / Contraction – (PEC) Model

- 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 streams to achieve confluence point D coinciding with POM

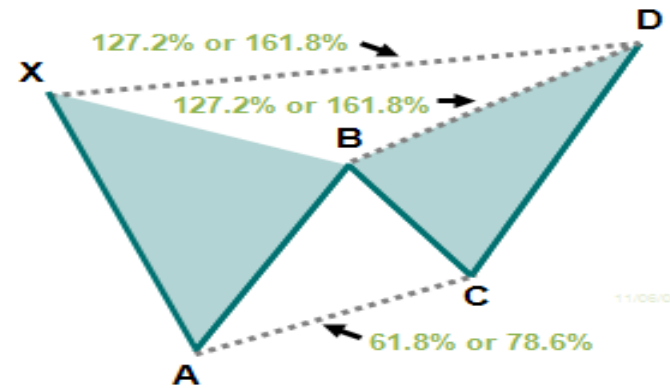
PYTHAGORAS EXPANSION / CONTRACTION –(PEC) Model

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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