



SG Capital Research

Global Market Insights

Research Note – MS – SPX Market Strategy Report

MAEG- MS_SPX_MARKET STRATEGY REPORT A#1 SG 2012 # SEPT_17

For – Immediate Release – *Monday*

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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

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

SPX – Remains Triggered at POM 14 - CZ – ‘CAUTION’

On 10/04/2010, at POM 12- CZ 1080-1100, we initiated FULLY LONG Signal for a Mid Term
, All subsequent commentary refers to POM 13 to POM 14 moves within the NET LONG / HEDGING stance
& CZ to CZ moves for Risk Management.

Triggered Action

Announced POM 14 on 7/19, when we advised commencement of HEDGING (or Raise Cash) 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

POM 14 is sideways phase for Hedging (or raising cash) . We wait for POM 15 to initiate Net Short. Currently Tertiary Triangulation Test is not complete. Upon completion of pattern **our Mid term expectation is break downwards.**

Projected Target

UPSIDE – POM 15 Target SPX is extended. We are looking for exhaustion process to initiate for POM 15 Trigger.

NEAR TERM – Existing positions should continue to remain Hedged (or Cash). Downside Target 1425-1410 . Apex of the Triangulation breakout Pattern 1410 & Breakout of 1425.

MID TERM – Expectation is for Mid-term Downside to CZ 1310-1280. If POM 15 triggers

NEW “CORE’ POSITION – NON

PLAN B –

Our Model is CAUTIOUS “Post POM 14 prices . After 1428 target price, due to our Terminal Process/ Tertiary Triangulation test being left incomplete. SPX can begin next ABC up only via Valid breakout with PQV Validation for sustainable move higher. If we achieve POM 15 sooner rather than later, this Market should be subject of larger pull back .

HOWEVER- (**IMPORTANT ACTION which is possibility due to QE-3**

If QE- Momentum ride takes over the Market then for Aggressive part of Portfolio, we can Participate into the move with Cautious Net Long (by closing some hedges) **via following criteria.**

- 1) We Let SPX pull back to Apex of Triangulation THRUST Price 1410 & 1425 , breakout with short term PQV validation . This price zone should be more closer towards previous POM 14 price upper range.
- 2) We Let SPX Satisfy the 3X3X3 / 9 EMA – Momentum Indicator simultaneously
- 3) **UPSIDE** –Price Projection in such cases is Trajectory 1-2-3-4-5 move for rounded Top
- 4) We shall announce this Aggressive Entry when the pullback to **1425-1410** Triggers. .

If downside had to begin, we need Volume pick up or Gap away on downside with Sign of weakness. This would diminish the Momentum & get larger correction than shallow one. .

More details on Price path in our - Market Commentary below

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

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 for Risk Management.

Triggered - Action

ALERT - We are Exiting ½ Position in GOLD @ 1770 as Risk Management move, Hold the remaining ½ till POM 14 Target

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 .

Projected Target

NEAR TERM – Our Target Downside pull back to CZ 1690-1675 (PEC-D @ 1695)

MID TERM – Existing ½ positions continue to remain NET LONG till next POM 14.- potential target to CZ 1790-1820.

NEW “CORE” POSITION – NON

Brief Commentary on Price path

In the current GOLD rally, this is the 3rd ABC up, each of it has been with Bullish Top. Such Tops invariably exceeds projection Targets by some margin. It also suggests a shallow Retracement . 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. September seasonality is strong in Gold and October weak.

TLT (BONDS)- Remains Triggered at POM 14- CZ – “CAUTION”

On 01/21/2011, at POM 12- CZ 89-91, we initiated FULLY LONG position for a Long term.

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

Triggered Action

Announced POM 14 on 5/21, when we advised commencement of HEDGING (or raise Cash) 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 (raising Cash) . 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 , with PEC-D @ 127.5, met on 8/31

NEAR TERM –Downside Target CZ 120-118 has been met last week.

MID TERM – Existing positions continue to remain Hedged(or Cash). Expectation is for Downside to CZ 114-116.

NEW “CORE” POSITION – NON

Brief Commentary on Price path

TLT has met our Near term downside target CZ 120-118 . Volume is very heavy at CZ – PQV Validation. We may get bounce from CZ but eventually be broken. Our Mid Term Target of CZ 116-114 is still intact.

GOLD – CZ/ PEC- D Analysis – **Near Term**

Projections- (Notes within the charts)

Upside - **POM 14 – area 1790- 1820,** Extension is with Bullish Top . 3RD ABC up

Potential Near Term Pull back – **CZ – 1695-1680, PEC-D – 1696,** . Bullish Top tends to have shallow retracements



BACK UP SECTION – II.

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

SPX – Market Overview Commentary

- Weekly - SPX Closed @ 1465 (up +1.8%)
- YTD - SPX – Closed @ 1257 / 1465 (+ 16.5 % gains)

STRATEGY

Based on our Model, the most predictable move on our “Equity Curve” in SPX was from POM 13 (1295 mean price) to POM 14 (1390 mean Price) . This was completed. We emphatically echoed “ Non participation “ and refrained from NET SHORT due to Near Term higher upside projection till the Exhaustion process to complete for POM 15, on “ Net Short ‘ Signal

The price Move beyond 1390 to 1465 in SPX , sounds sweet, But it was 2 day wonder from both side of Atlantic. During this upward move in SPX our Bullish Top Instruments(depicted as Net Long) in Various Reports, especially our XHB (Home builders main beneficiary of QE-3) performed very well and the Bearish Top Instruments (Cautioned – use as Hedges upon price Trigger points) hasn't outperformed the Bullish Top instruments on Upside.

Growth Portfolio has been flying in momentum environment in spite of being Hedged by SPX . When Growth Participates post POM 14, it is classic example of Momentum Market. On other hand GOLD move is great profitable POM to POM story.

SPX breakout above 1430 is not PQV Validated based our own criteria depicted in earlier Reports. Let us give benefit of doubt for Momentum Indicators. We shall evaluate on how we can project higher prices with assumption “ Don’t fight the Fed” . .

IMPACT OF QE – for Year end. .

We do know that QE has the power to inflate risk-on markets for some time. Our big question, since we are expecting a correction in the equity market in September here, is whether or not we will actually get a correction with the Fed liquidity.

Market loved QE3. QE- has arrived right ahead of our expected September correction. We were expecting lows in October and then year end rally. QE -3 may create a shallow & short lived retracement and possibly delay the correction for the market move higher after a shallow correction on uptrend.

If one is NET SHORT- BEAR, the market may allow the bears to make a little money in shallow decline but the bears better be very nimble. That's the problem with the perm bears market continuously flips against and never close SHORTS at the lows.

THIS WEEK

Quite simply the markets have gotten a bit ahead of it selves, and they are due for a “breather” to bring prices back to neutrality. Any pull back above 1425-1410 (certainly not any lower) than the continuation of move higher remain intact without any volume . And there are reasons to believe that the highs at POM 15 have not been seen just yet.

Seasonality - Jewish holidays typically provide, “ Sell Rosh Hashanah, Buy Yom Kippur “ phenomenon. This year, that holiday sequence starts on Sunday and ends on the 26th. So, there's another arrow in the bear camp. If Yom Kippur is the low which could coincide with 1425-1410 pull back target.

Time Termination has Major lows on 3rd October. In that case, we would look for a second low to the right of the October 3rd date. Note that the beginning of the normal seasonal decline in stocks is September 15th and the end is in early October, which fits the Jewish Holiday seasonal quite well this year.

CYCLE TURN - the Full Moon due on Saturday, September 15th, - + / - 2 days. 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)

EURO – COT

EURO – COT Forecast – is on Track . FED announcement seem to have done the job easier for this Model. If Momentum Indicator kicks in WAVE 1-2-3-4-5 is surely possible (Refer chart below). According to EURO – COT that top will take little more time to form, so it's too early to turn NET SHORT

SENTIMENTS

The Traders are wildly bullish this week. Since they were bearish before this rally began, that's a red flag that this market can be little Toppy.

DXY – DXY broke down from our pull back CZ 81.5 – 82 , (*But did not Trigger our 81.25 Price trigger for reversal*). We have been **LONG DXY** since 72 and remain so. On bigger picture nothing has changed. We are in the money but the current fall towards 79 , we should see a Sign of strength emerge for reversal & resumption of the uptrend

DXY has been victim of QE-3. One can make the case that the selling in the dollar is a mistake. That's because the ECB is actually printing more money than the Fed. Secondly, the euro has rallied based upon the wrong notion once the market realizes the truth, the Euro will drop like a rock. This ECB is helping our GOLD position. Its one way or the other. Can't get it all

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

EXTREME READINGS

AD Oscillator, Ratio's, VIX.,- Did not make new lows after FOMC announcement , this is divergence

NOT -EXTREME READINGS

PUT CALL, TICK TRIN, ARMS

In summary

Market internals although weak but NOT reached at the weakness of the terminal process yet to achieve POM 15 Signal. Based on current Market Internals, QE-3 momentum indicators should kick in WAVE 1-2-3-4-5.

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. We are running out of time on POM 15

The broad market is moving into new price highs while the advance-decline line lags. However, given the ground that the advance-decline line has made up in the last week, a new high there cannot be ruled out.

NEAR TERM - Price path

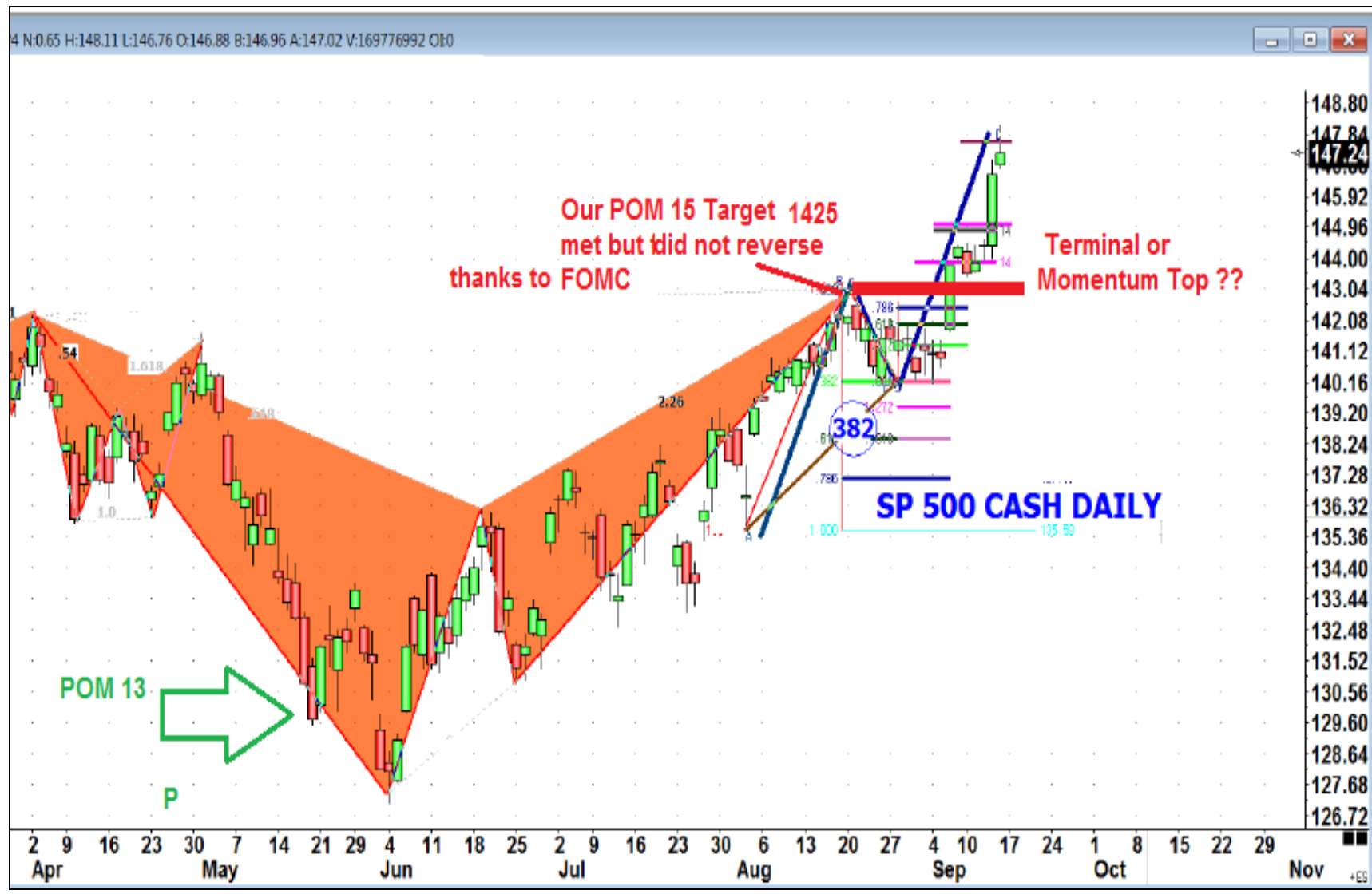
The pull back to 1425-1410 should set up another counter trend move & then a bigger decline.

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 low.

SPX- CZ / POM 15 Analysis – **NEAR TERM**

(Notes within the chart)



SPX- CZ / POM 15 Analysis – **NEAR TERM**

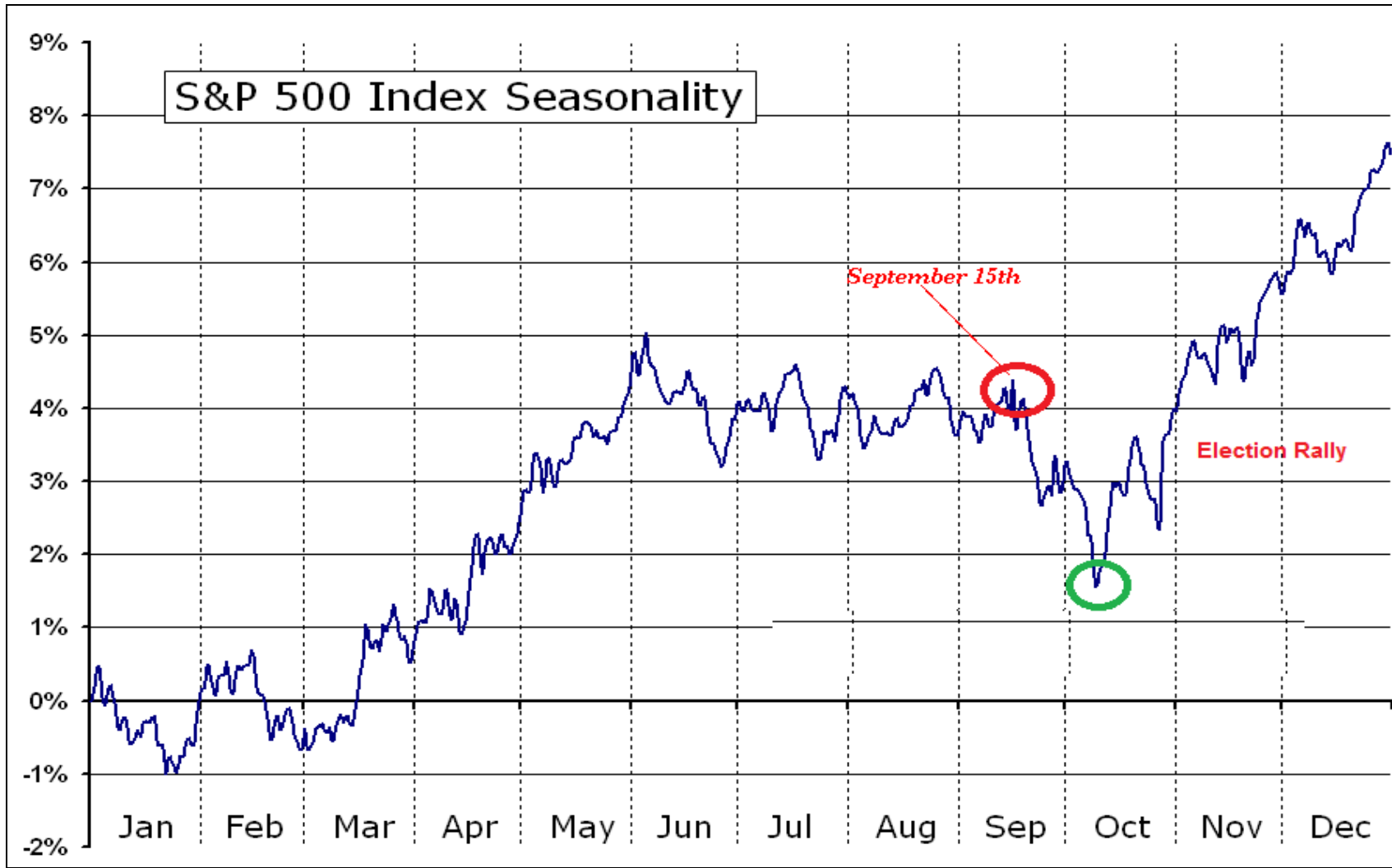
Near term, the Tertiary Triangulation Pattern has some work to do during Exhaustion process. **First Pull back target 1425-1410**

Intermediate term bearish divergence between SPX and its McClellan Oscillator. That divergence was eliminated by QE-3 However, we still have a longer term one:



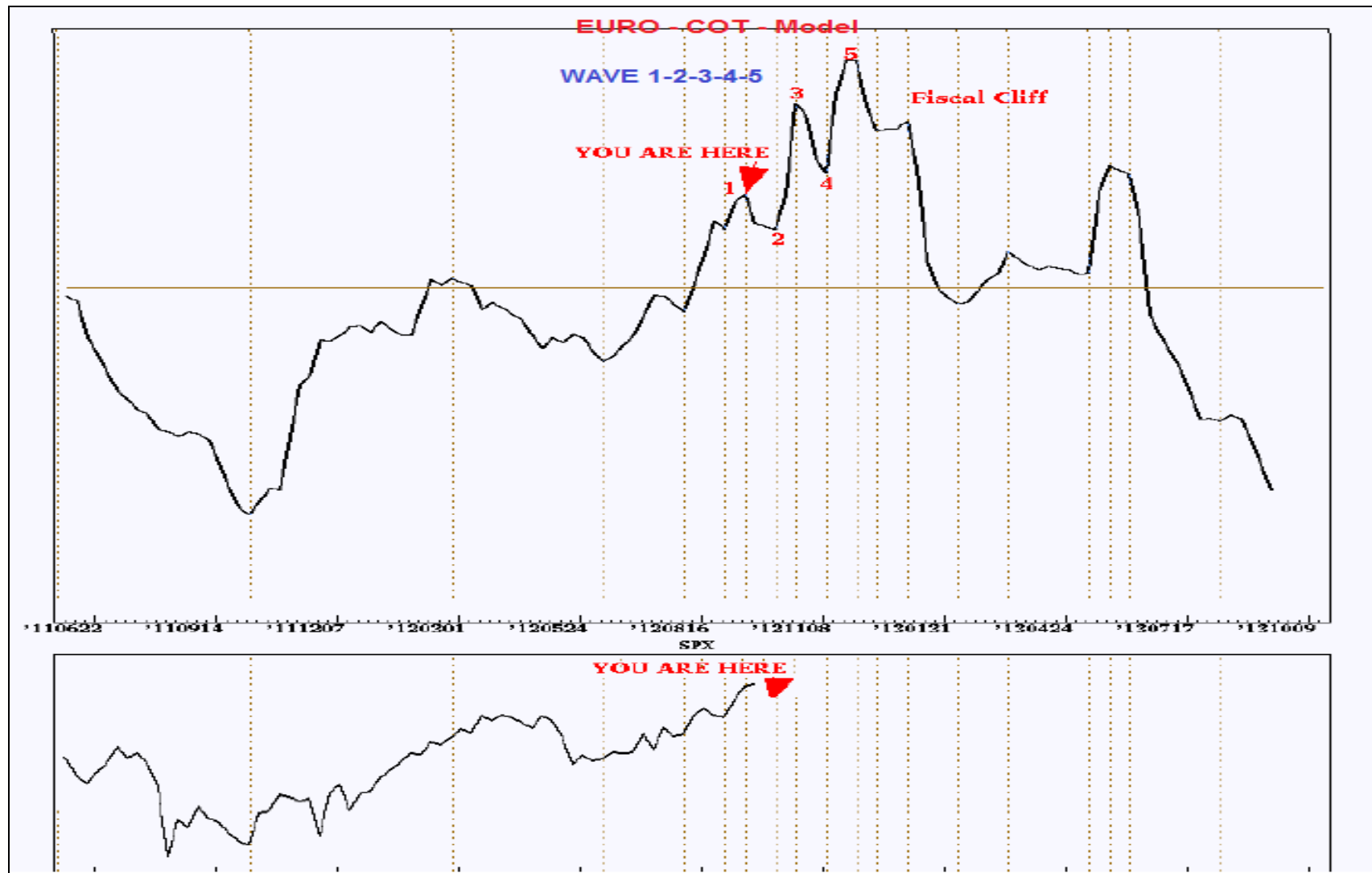
SPX- SEASONALITY Analysis – NEAR TERM

Near Term, This Model highs right about now , pull back 1st week of Oct and then rally back



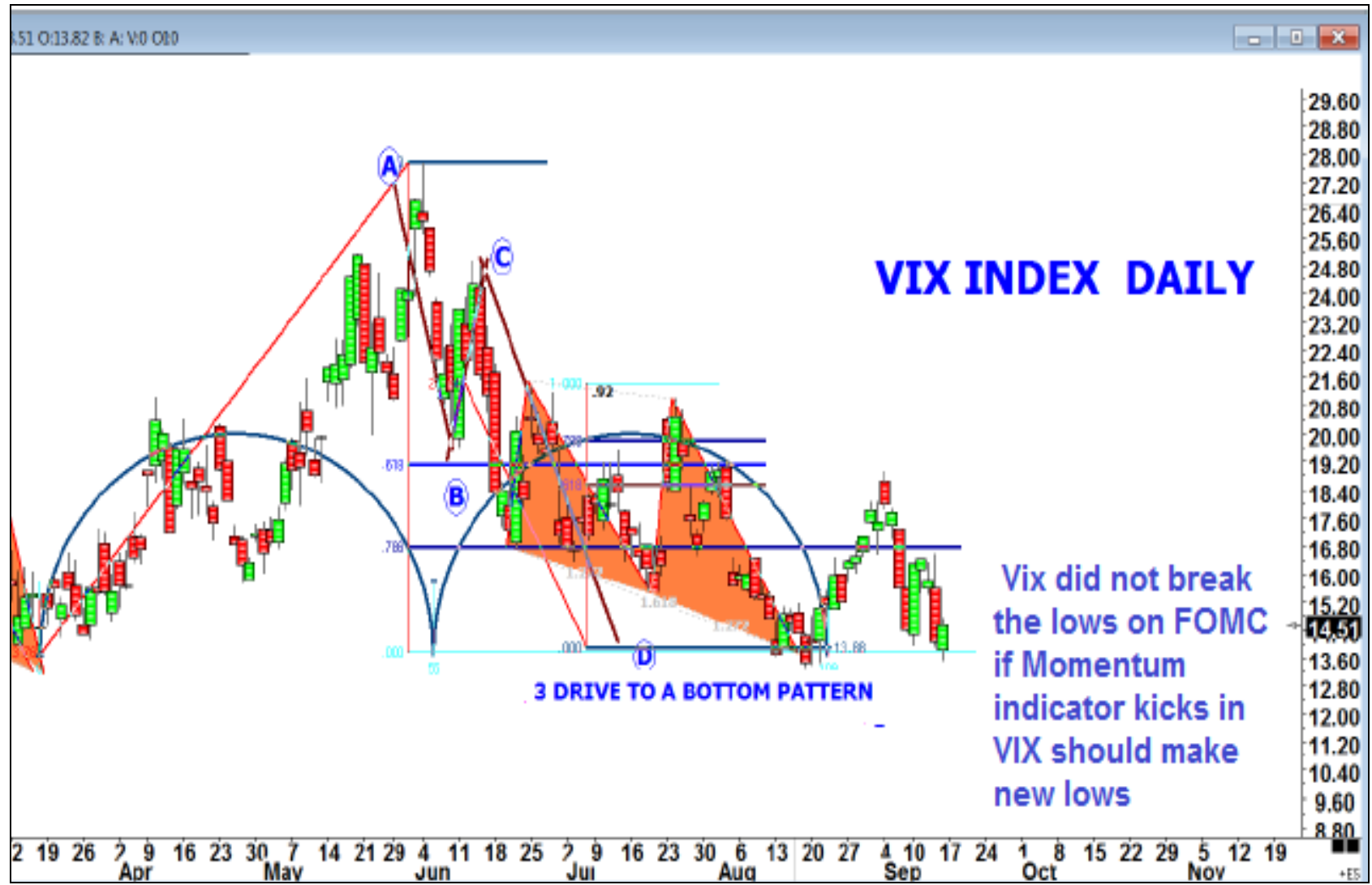
SPX- EURO – COT Model - NEAR TERM

Near Term, This Model suggests, the Momentum Indicators Wave 1-2-3-4-5 should kick in, after brief pull back. SPX could be at point 1 .



VIX - SPX – Analysis - NEAR TERM

3 rives to the bottom and now re test . Refer notes within the chart>



SPX- “ QE – Effect - QE-1 ,2, 3

QE indicated below, the areas mark the beginning-end. SPX was up from QE entry before it declined due to end of program. SPX after each decline made higher high and subsequently advanced to new highs. We shall follow the POM's on each pull back



SPX – Cyclical Model

- **SPX - Seasonality Model -**

- Negative September – **Not on Track (Skewed)**
- Lows & Reversal in October.

- **SPX - Geomagnetic / Lunar Cyclic Model**

Lunar Model suggests turn on SEPT 15th, +/- 2 days. **We shall see how it reacts.**

- **SPX - Sentiments Model**

AAll Weekly Sentiment Survey is **Turned more Bullish**

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

By this Model leg Down in September , **Not on Track (Skewed)** 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 shows that when a Democratic President is in office, cycle lows are put in prior to the election occur which is October)

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

- **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 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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