



SG Capital Research

Global Market Insights

Research Note – Market Strategy – Interim MS Update (A# 3) – STRATEGY & PROP Analysis (SP)

MAEG- MARKET STRATEGY- Interim MS Update # SG 2011 # JAN_03

For Immediate Release – Tuesday PM (EST)

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Market Strategy – Interim MS Update (A # 3) - (SP)-

SPX – Closed @ 1257 (Past Weekly change - FLAT)

SPX – Closed @ 1257 / 1257 (YTD change – – FLAT)

“Best Wishes for 2012” - Happy, Healthy Prosperous New Year”.. This year on every

Release, we are going to initiate “ Our Agreement “Today’s Quote...

“ Yesterday is gone, Tomorrow is not here, What matters is

“whatever is here Right Now” enjoy the movement !!

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- **1. Executive Summary**

SPX

Currently SPX is at POM 14 Re Run, Holiday week thin Trading brought the bounce back into CZ 1251-1270 (Announced **12/02 ALERT** . **for Fully Hedge Position**)

Earlier market **without a Trigger of POM 13- CZ @ 1200** on 11/29 (upon finishing 90% of pre requisite on price path) reacted very violently with huge GAP up at open on 11/30 to rally back up BUT did not let us participate (or chase) in up move due to unfavorable 2:1 Risk Reward.

Although currently we are on POM 14 re run (fully hedge). ($\frac{1}{2}$ Position being Core & other $\frac{1}{2}$ being rebalanced TWICE within the market swinging gyration)

If “ so called” Jan effect extends the market past our POM 14 – CZ towards 1290 and above & does not fail . We will practice **PLAN B** for at least $\frac{1}{2}$ rebalancing position (Refer to **PLAN B- below**)

However, POM 14 – CZ still remains Top heavy area. It has History of testing and re testing as a part of rolling top process . There could be another run upward possible to slightly higher prices 1270 (although it doesn't have to) before “mark down “ phase begins. –

Our First downside Price Target on this current Trigger is CZ 1195-1210 (previous POM 13 area, still unfinished business) on this ABC down.

Move above SPX - 1300 we would look for that Price path to Taper to Trigger POM 15 “ **NET SHORT POSITION'** – similar to our past processes of termination

Overall, The Price Oscillation SPX initiated at @ POM 14 still has the Final price target to be around 1125. which should complete the end of Oscillation to POM 12 area. (certainly not in straight line) .

- **PLAN B (Jan effect - Extended Bear Case or with QE -3)**

Plan B is applicable for New fresh Positions which has not taken full advantage of previous market Gyration in PLAN A (above). Therefore PLAN B will highlight the best Risk / Reward measures for such situation within following Action plan

- **If Failure (case 1)** - For such New positions (not a part of plan A). It might be worthwhile to wait for Market to move past 1270 go towards 1300 then fail and close under 1280 with –ve divergences . This would constitute a complete PQV failure. Then put a **STOP LOSS PROTECTION above 1300** based on Portfolio Objective.
- **If Breakout (case 2)** - Close above 1300 on Daily (may exit partial) and on weekly close (exit partial) . This will protect from any QE-3 extension rally if it begin from 1300 to (1350 – 1375).
- **PLAN C (Bull case past 1300 SPX to 1350-1375)**

This plan C - Mangers participating on Long side via POM's Non RA / RI process.

*In such Participation after entering longs above 1300 . The Risk Management **STOP LOSS should be 1280.** and while market moves higher, the trailing STOP LOSS should be in place @ Price 3X3X3 / 9EMA interval to avoid giving up Profits . and let the Market take you out . (Or any other Stop Mechanism based on Portfolio Objective)*

POM has its own predictable Risk / Reward Guild lines on its such aggressive participation. The Long position Post POM 14. if it happens more predictable (ST) is to play CZ to CZ of 2nd drive of this 3 drive to the Top Pattern post POM 14)

GOLD

We reached our Price Target projected into CZ 1535-1560 from POM 14 Trigger 1710. Actionable point - announced via 12/14 Alert, resulted in 160 point hard down. Currently GOLD is bouncing back from the CZ on oversold conditions. to (1620-1650). Bounces are just bounces

Since CZ target was achieved, Actionable point - we had send ALERT – 12/14– to cover hedges in the CZ 1560-1535 as Risk Management call based on Individual Portfolio Objectives of rebalancing).

We are very close to area of POM 13 for Trigger, but we could see one more move down as shake out . We think better Risk / reward should be set up on SUCCESSFUL Retesting of CZ back down to (1535-1490) dip below. Till such time our Model would not Trigger POM 13 for sustainable up move. We plan to wait patiently.

Additionally Pull back in SPX from current POM 14 could help pull back in Gold as well

Point to monitor - If the second dip into our CZ – 1560-1535 was really a retest of CZ then on this bounce the volume should pick up towards the bounce target 1620-1650 for rally to have legs.

BONDS (TLT)

Currently TLT is at POM 13, since 10/27 (CZ – 110-112). Although announced in Report, We did not take this Trade intentionally due to our absentee. Since then TLT has initiated ABC up towards 121 .

We will look for the other side of trade i.e POM 14 or 15 depending on how the price path gets setup on PRICE termination. (If and when that happens and fails). We will wait patiently.

Earlier we had closed the POM 15 Signal position from 123 trigger to Target 115.

Detail coverage in our upcoming A # 2B – US Broader IDX (SP) Report.

- **For more Justification for our current Market Calls and Price Path Analysis , Refer the “ Detail Chart Section “ within this Report**

• SPX – Market Commentary

To step back into last week before we catch up this week , In our last week's several Releases (week of Dec 20th) , we highlighted

Not having Triggered on POM 13 Signal on 11/29 (in spite of 90% ducks in row) resulted in Huge Gap up and unfavorable 2:1 risk reward on 11/30 . Non participation was by choice. Our expectation was rally into CZ 1251-1270 with 3 gap plays into seasonality. Apparently it seem to have completed such move BUT with poor internals weakness.

Pre- election Cycle 2011 did not work out. Most of the world Markets suffered Bear Market 2011 while SPX was Flat

Final Seasonality days in December

➤ *In in spite of the hype by emotions of Long only Managers , SPX produced only 16 points rally 21st to 30th Dec.*

Bradley turn date on 28th Dec had SPX put in highs at 1259 on lighter volume. Bradley has Positive January forecast. December Forecast was negative but SPX was FLAT in Dec.

Euro has reached our SHORT TERM Target of 1.28 & oversold . If it is ready for bounce, any reversal move (even short covering in EURO) should give some impetus to SPX to satisfy January effect in 1st week. Mostly this is Tax related rebalancing on Wash Rule & Mangers chasing oversold Securities. This could target 1290 in SPX but might not hold

But the risk is rising as the year end rally is pushing the market to the limits of the bear market rally which started in October. Although the potential exists for further surges in the opening sessions of the new year, the risk on the downside is for a trip back to the bottom of the trading and a test of the October lows

We think 2012 should be much volatile than 2011, as they say fasten the seat belts.

• **As we begin New Year 2012 , below is the final Wrap up & Summary of SPX – POM's on Real time for 2011**

- **2011 - CLOSED FINAL -SPX – POM Signals & Price Projections –**
- **Trading & Investment Concl – Start point 1257 (1ST Jan) – 1257 (31 Dec)**

SPX- 2011 – TURNS REAL TIME – POM & CZ



SPX - YTD - (-1. point) _____

POM 12 to 13- Gains 257 Points (4 Signals) _____

POM 13 - Risk Mangement savings - 280 points (5 Signals) _____

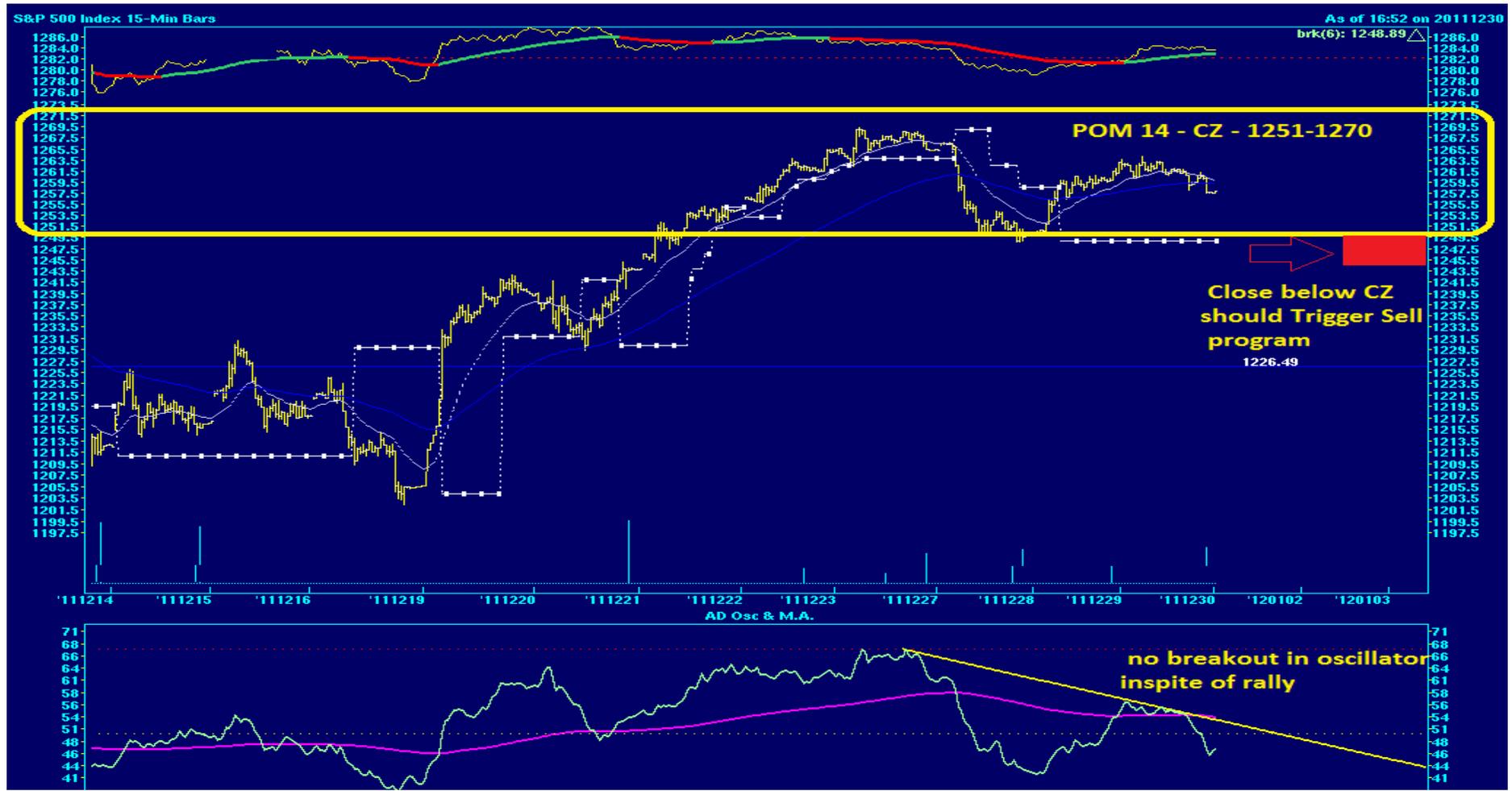
POM 14 to 13 - Fully Hedged - Gains 150 points (4 Signals) _____

(-0.1%)
+ 25%
+ 28%
+12%

SHORT TERM - Analysis

SPX – Hrly - Poly trend Analysis

- Indicates churning with CZ – 1251-1270 of POM 14 . – Yellow box (keeps getting attracted after pull back). We think on completion of this price move with upward surge and then, We should have a leg down .
- Notes within the chart highlights the A/D Oscillator needs to breakout to justify move higher.
- Close below 1245-1235 should Trigger Day Traders Sell Program (red arrow)



SPX – PEC-D Analysis –

Refer - The chart below suggests the PEC-D – 786/618 on SPY is terminating into the initiation point 1285. .



SPX - Inverse H & S - PVO Analysis

SPX has (2) Inverse H & S Bottoms. Both ending into POM 14 - CZ. Volume Oscillator & PVO, VTO is an important part of head-and-shoulders pattern. In windows below there is non-confirmation in both PVO is below 0 as we form both right shoulders (except one spike indicated in arrow).



SPX - DMA , Trend & Oscillator Analysis

Based on Trend and DMA analysis , the POM 14 is being tested from underneath - BLI is peaking and We see breakdown in Intermediate term indicators indicated with arrows in chart below.

S&P 500 INDEX/ BROAD MKT INDICATORS



RUSSELL – Poly Trend – Pattern Analysis – **Lead JANUARY** Indicator

Small Caps has tendency of leading in January. *Important January barometer*

But we have 2 powerful Opposing Poly Trend (Wedging corner) in overhead Pricing within its **CZ 74-77**. For any meaningful January effect, it needs to break through. The volume oscillator's attempted breakout was aborted . .



NASD -100 (QQQ) – Poly Trend – Pattern Analysis – **Lead Dog Indicator**

Triggered top Alert 10/31 at 59 at POM 14 (First to top). Still in tact.

On Re – Run to POM 14, NASD has lagged SPX considerably and remains well off the highs. absence of an accumulation pattern (higher low on oscillator accompanied by lower low on price) is an additional negative warning that a breakdown is more likely than a break to the upside.

Most importantly, now Trading on Right side of Poly Trend with Time termination in effect on sloppy slippery which should be a warning that this "Lead Dog" index is in poor shape on rolling Top.



GOLD – CZ, Trend Pattern Analysis – Mid term .

Off the parabolic move to highs 1875,(top most red Trigger POM 14), the corrections usually tends to have 3 lower highs (red CZ) and 3 lower lows (green CZ), once the Trend line is broken . This completes the pattern. The Price path seem to be in midst of those areas . The 3rd lower lows could bounce into 1620-1650. Which might be in process



GOLD – Poly Trend Analysis – Short term

By this Model, we put in floor at our **CZ – 1560-1530,** (Our Alert – Actionable area to rebalance hedges) . The approach into this CZ indicates we may need another test back into this area.

However there is minor Bullish divergence as indicated , which suggest bounce into **1620-1650**



GOLD – CZ, Pattern Analysis – Mid term .

By this Model, We think more solid floor for sustainable rally may come in from SUCCESSFUL Retesting of CZ back down to (1535- 1490) Green . . We think better Risk / reward should be set up on_ till such time our Model would not Trigger POM 13 for sustainable up move. We plan to wait patiently. Bounce into CZ should be accompanied by RSI move to 50



GOLD MA, Trend & Oscillator Analysis

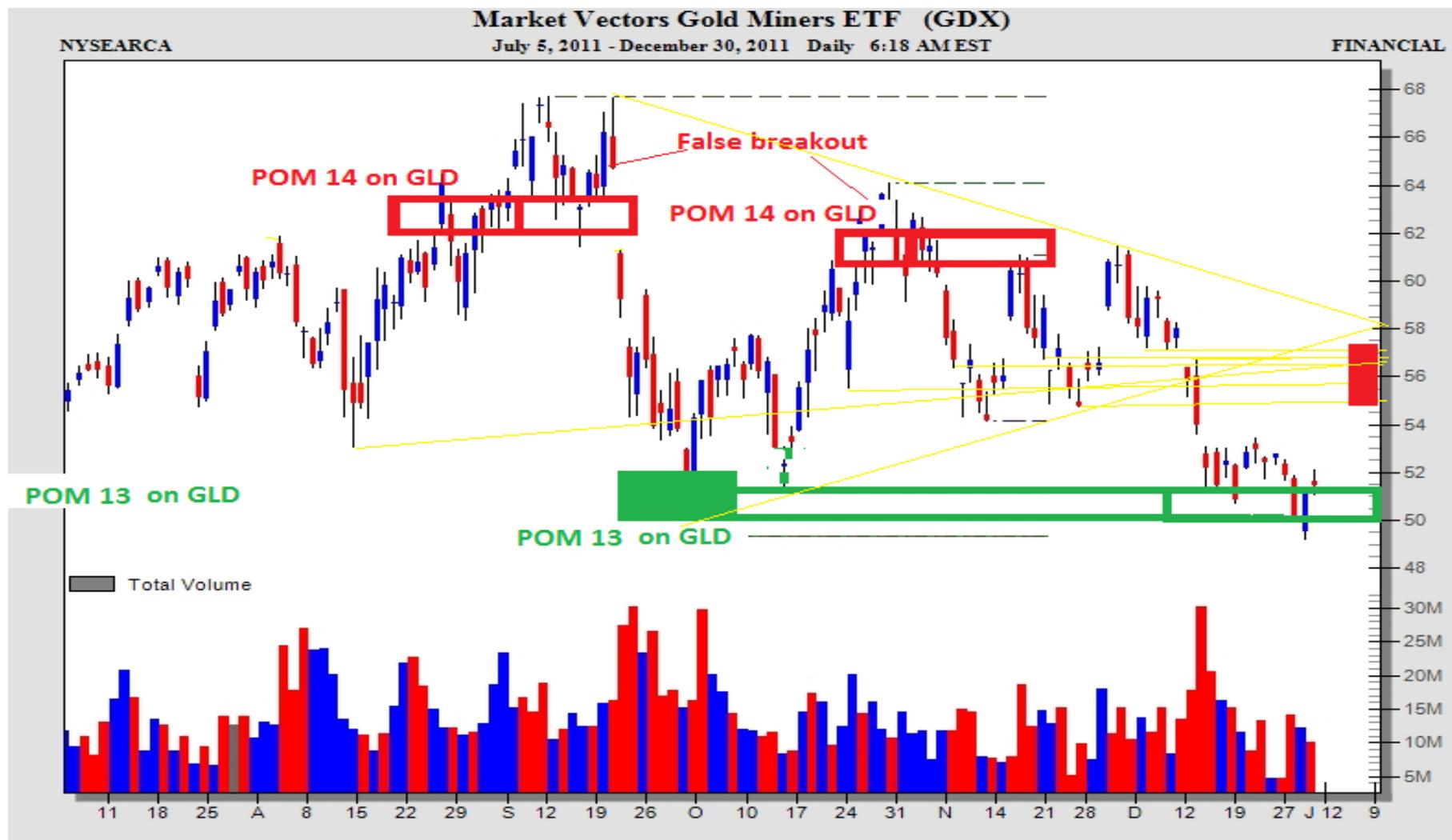
By this Model – APEX projection is 1500. BLI needs track -5 to confirm.



GDX – CZ / PQV Analysis –

GDX finally reached its destination CZ 50-52 actionable area to rebalance the hedges (Alert via email) from the Top CZ 59-61 gave a great Signal at the top for upcoming decline.

The way it approached CZ 50 -52 is not complete . We will get bounce to CZ 55-57 but needs another test for better Risk reward . SPX is on POM 14



GDx – CZ – Price & Volume (Bigger Picture)

Monthly chart of the GDx, which provide a longer term view. A large Head and Shoulder Pattern formed with combination of "Expanding Triangle". Expanding Triangle pattern are normally continuation pattern. Expect Bullish breakout in future BUT after the successful test of lows which is in progress but No rejection yet

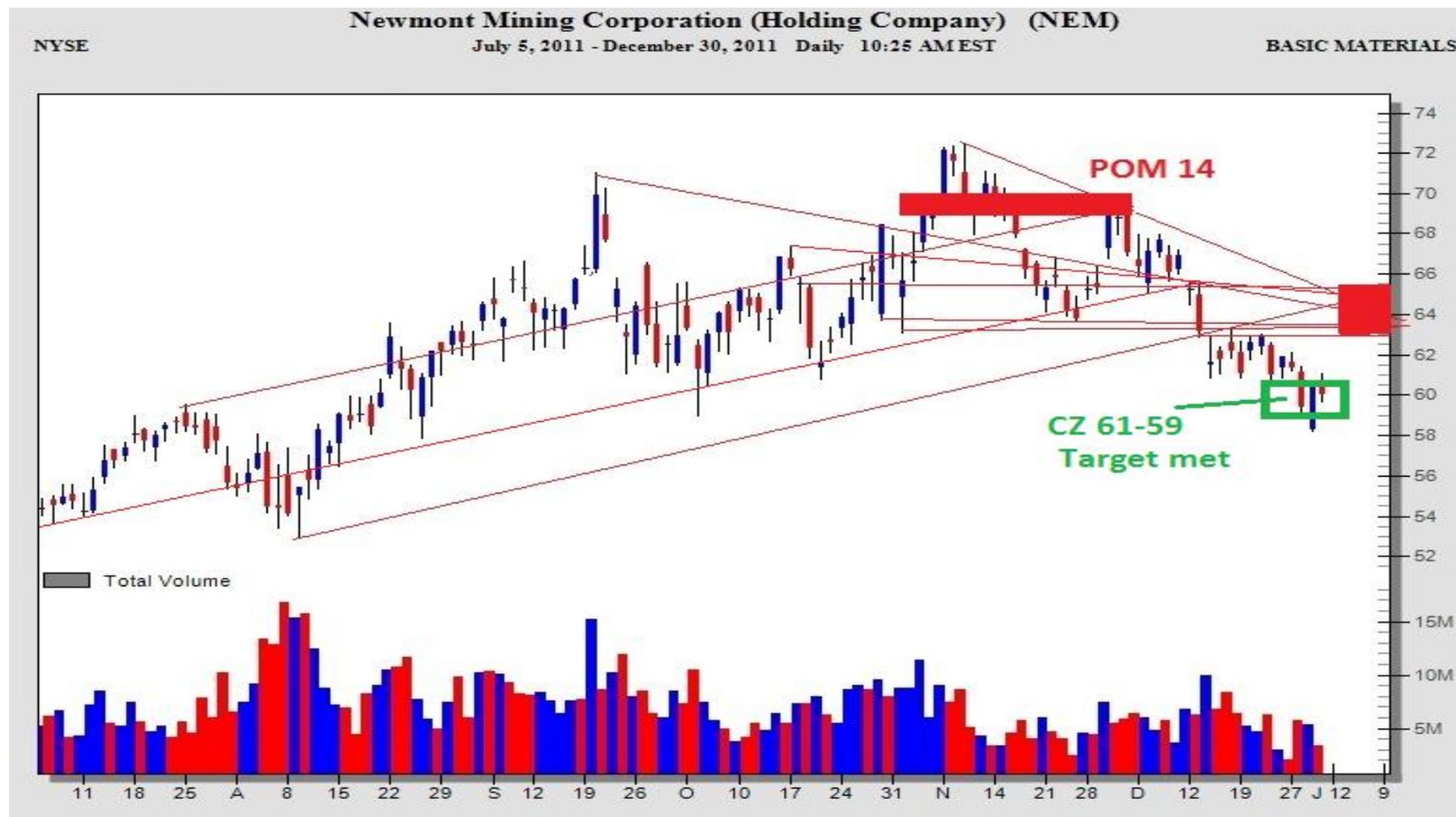
GDx has Bullish Top on weekly , Monthly basis the GDx / GOLD Ratio is under valued . The long term pattern is Bullish for breakout



NEM – CZ- PRICE & VOLUME ACTION

DOWNSIDE - Completed the initial downside projection to **CZ 61-59**, From **CZ 68-69** triggered. At 61 we announced via GDX / GOLD Alert to manage the Risk with rebalancing hedges.

UPSIDE –Oversold bounce should come in to **CZ – 63.5 -65** (red) but bounce is bounce . Upon failure, It appears the retest of back to lower **CZ 60-58** in green is quite possible. It needs to be tested and rejected before sustainable rally. (We will monitor that test closely). SPX is on POM 14



Appendix Content

- **SPX – POM Signals History for 2011**
- **Trading & Investment Conclusion History 2011**
- **Objectives & POM /CZ Guidelines**
- **Guidelines for Full Utilization of “ SP” Report with Limitations**
- **SPX – 52 Weeks Chart with POM Signals**
- **SPX- POM – “ Price Oscillation Model “ Criteria**
- **SPX – TAS 3x3x3 / 9EMA - “ Trend Adjusted Signal “ Criteria**
- **Definitions of Extreme Sentiment Indicators**

- **2011 - SPX – POM Signals & Price Projections History**
- **Trading & Investment Conclusions – Start point 1257 (1ST Jan) – YTD –Flat**

- **POM 15 - Net Short** -- **None Triggered in 2011 - (Total points gains = 0)**
- **POM 14 / Re - Fully Hedged** -- **(Total points gain = -88+ 85+ 97 = + 94 = +7.4**

Last Alert (Open Position) - SPX - POM 14 re- Triggered (12/02) at 1251 (Fully Hedge Position) & Alert note A# 3 – MS - QQQ Trigger was at 59 Monday (10/31)

- **Alert - 3^d May @ 1370 - POM 14 Re run to POM 12 – Alert 6/23 to 1273- POM 12 Trigger = 97 points gain**
- **During POM 14 regime - Recycle partial capital to Trade from Bullish CZ to CZ - whiles the bigger Trend kicks in**
- **POM 14 Re Run @ 1335 on 3/01 to 1250 on 3/16 = 85 points gain (from 1250 dt. 3/16 to 1370 dt 3rd No Signal)**
- **1st Jan @ 1257 to 2/17 @ 1345 = (-88 loss) on stretch extension**

- **POM 13 - Risk Management Hedges - (Total decline saved) = 71+140 +70 = + 281**
(Proportion of Rebalancing Beta & Net Exposures to be based on individual Portfolio Objectives)

- **Alert – 09/ 01 - POM 13 (@ 1220 to Trigger on 10/4 Price Projection of 1080 (POM 12) avoided decline of 140 points –**
- **Earlier- Alert – Triggered on 7/08 - POM 13 (@ 1346 & avoided decline_till CZ @ 1300- re-entry = 46 points & then (STOPPED OUT @ 1285) = (-20 points) & then avoided further decline to 1240 POM 12 Re Target = (45 points) = 46-20+45= 71 points**
- **Risk Management Signal -SPX - POM 13 – Triggered (11/22) at 1188 . The following AM 11/23, the Market opened with Gap Down to 1178. Position Rebalanced at 1251 on 12/02 POM 14 re Run = 70 points**

- **POM 12, POM 11 - Net Long – - (Total points gains = 75-20+79+123 = + 257**

- **NET LONG 4 - Alert – Triggered on 10/04 - POM 12 (@ 1080) NET LONG- Closed on 10/11 @ SPX 1192 (up 10.3% or gains of 112 (2/3 position) & Balance 1/3 @ POM 14 @ 1226 on 11/01 = Avg 123 gains points**
- **NET LONG 3- Alert - on 8/09 - POM 11 @ 1117 – for NET LONG for target to 1196 (where it Nullified POM 11 liquidation Signal) for = +79 points gains - Alert announced 8/11 for reversal**
- **NET LONG 2 - Alert - on 8/03 POM 12 re run @ 1240 – to POM 13 – Triggered @ 1220 Alert - 09/01= (-20 points loss)**
- **NET LONG 1 - Alert – on 6/23 POM 12 @ 1273 – for NET LONG for target to 1348 POM 13 Trigger on 7/08 Alert = 75 points gain**

• Objective & POM / CZ Guidelines

Focus is on the Short & Intermediate term turning point of the SPX via POM's Price projections and / or CZ (Bullish & Bearish between the POM's) . POM is Unidirectional Judgmental Model, It utilizes multiple input signal via the Global Inter market Analysis (GIC), Price & Quality Volume (PQV), Pattern Recognition (PEC) , Cycles, Internal & External price equilibrium points to assists in output signals . POM is supplementary Analytics to add value to RA/ RI Framework for Risk Management.

- *SPX acts as Risk Benchmark for all the other Markets (Key US Indices & Key Global) , these Markets gets priced off SPX- Risk (in different Proportion) . Therefore within A # 1 – MS Report, our critical component being SPX and its internal ingredients for timely POM & Bullish CZ calls . Our A # 2 – MS Report focuses on Broader Indices and Global Indices.*
- *All the Broader Indices tends to follows the Price path of POM 11, 12, 13 of SPX (except @ POM14, 15), various Instruments will Top out at different time to Trigger CZ – Validation for NET SHORT.*
- *SPX is still following the Bear Market / Trading Market POM Regimes unlike GOLD market*
- *All CZ / PEC D / POM's – Marked on charts (in color) below has been Announced on Real time in our Previous Reports prior to Price shifts.*
- *Stops always on other side of CZ @ value based on Portfolio's Objectives and Risk tolerance*
- *POM Conclusions to be cross verified by other methods prior to final decision*
- *For Maximum utilization of POM / PEC –D Process for Risk Management. Refer to guidelines within the Appendix below*

➤ Key Points for Full utilization of SP- Reports

- **Maximum Utilization of various POM's , CZ's & ABC's – for Risk Management & full enhancements on CZ pricing & CZ-PQV Timeliness**
- At Top down Level– Triggers around POM's -Mid term & CZ's - Short term– (CZ's happens in between the POM's) . Critical component for Clean execution is to maintain ongoing updated data base spreadsheet of CZ's Pre announced in SP releases prior to price shifts. These inputs when Computerized Daily Monitoring, Triggers, Timely PQV validations, Price projections Alerts on real time should warn in timely manner to take action. .
- Rebalancing Pre Planned procedure at Triggers – “ Rebalancing % of Overall Position Sizing” , Beta & , Net Exposures sizing depending on each Portfolio's Objective & Risks Tolerances for either Recycling of Capital or Fresh capital.
- Key points for Risk Management
- Hard Stops around CZ's
- STOP SELL- “ early warning Alerts” in fast moving markets, Over night Day / Night (IST) time delay Risks.
- Cross verification by Other Methods
Computerized Daily Monitoring, CZ Triggers, Timely PQV validations
- **2. CZ – Tracking**
- Programing - “Time/ Price Displacement, Supply / demand Activity Bar Analysis” –
- At “Institutional Grade - Price , Volume with Time Integration
- Supply / Demand Activity bar Analysis – Real time.
- Candlestick – Price displacement Algo Programing experience at CZ Validation for Triggers

- 2011- POM / CZ - SPX Signal

SPX- 2011 – TURNS REAL TIME – POM & CZ



SPX - YTD - (-10 points)	_____	(-0.1%)
POM 12 to 13- <u>Gains 257 Points</u> (4 Signals)	_____	+ 25%
POM 13 - Risk Mangement savings - <u>280 points</u> (5 Signals)	_____	+ 28%
POM 14 to 13 - Fully Hedged - <u>Gains 150 points</u> (4 Signals)	_____	+12%

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)

• EXTREAME Sentiment Analysis (3rd Party Data)

Courtesy : SENTIMENT TRADERS

Our Sentiment Analysis has “Intermediate & Short term” composition. We evaluate (8- 9) Indicators for sentiments out of which some are working well for Short term and other for Intermediate terms These are either Numerical Indicators as the Investors sentiments is expressed through purchases of the market

Rydex flow, Insiders activity. The Emotional / Survey sentiments we track Investors Intelligence sentiment Advisors sentiments. etc. All these are Integral part of POM composition ,

Our Behavior Indicators Commercial Hedges , AAll etc Sentiment Indicators, Insiders activity, Speculation activity,

Based on current market condition and the probability of Indicators we point out the EXTERME INDICATOR ONLY as a observation points.

• Daily SPX - “ Trend Adjusted Signal”

• 3x3 /9EMA – Break Indicator

The process utilizes the cumulative Algorithm of price trails 3x3 / 9EMA input signals for Trend formation. This signal tends to work well in Market extensions (i.e. Post POM 14).

This Methodology is implemented by Program Traders especially in Momentum extensions and diagonal triangle formation Trend-following system which bases its reversal signals on breaking a significant closing Break Indicator I to confirm the new trend. (it's important to use a stop if you act on a signal). The reversal price is generated on the close of a bar. (The drawback of strategy is that it can whip saw).

INTERNALS OF 3X3- 9EMA – Break Indicator.

The line break indicator has captured the post POM 14 Moves on a mechanical basis. Although can't guarantee it will continue. But, even if it misses on occasion , it's still is the best indicator we've ever seen in Market for extensions.

Tight trading ranges tend to cause whipsaws and those are environments where trading multiple markets can help for diversification, in SPX & DOW. The reason is that we have a purely mechanical indicator, our line break indicator, that is much better to use. That indicator has proven extremely good over the past several months in many markets in many extensions.

As a reminder of how simple this indicator is, when the market closes above the "break" price level, the indicator is ""bullish"; when the market closes below the break price, the indicator is then "bearish". at the close

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