



SG Capital Research

Global Market Insights

## **Research Note – Sector – ETF Analysis (D )- STRATEGY & PROP Analysis (SP)**

**MAEG – WKLY\_SECTOR ETF ANALYSIS SG 2012 # FEB\_03**

**For Immediate Release – Friday AM (EST)**

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## **Sector Analysis (D) - (SP)-**

### **Contents for coverage within D # –SP**

- Attached, the Chart list & specific Charts (below). *We have selected charts that has some distinct characteristics:*
- CZ – PQV, Ration, Trend line Patterns & Oscillator Analysis for ETF's
- ETF's Qualified for  $> +/- 2$  SD or Special Situation
- *Selected charts that has some distinct characteristics:*
  1. MA / PATTERN/ OSCILLATOR Analysis
  2. Confluence (CZ) & Price / Volume Analysis
  3. Poly Trend Analysis (*If Applicable*)
  4. Correlation Ratio Analysis v/s SPX
  5. PEC Analysis. (*If Applicable*)
  6. Sentiments Analysis Mathematical & behavior (*if Extreme character*)

## 40- INDICES SUMMARY - **Highlighted below are SD # +/- 2 & CZ –PQV Qualified –**

- Detail Coverage for sectors with extremes SD # +/- 2.0 or **Special situation (SP)** , highlighted in yellow
- For Commodity based ETF's the Extremes SD # +/- 2.0 should be qualified v/s both CRB and SPX

<p style="text-align: center;">GR1 (16) Coverage in A #1, A# 2 (B, G) MS</p>	<p style="text-align: center;">GR2 ( 14) Coverage in D # SECTOR</p>	<p style="text-align: center;">GR3 (10) Coverage in C # COMMODITY</p>
<p style="text-align: center;"><b><u>US BROADER IDX (A # 2B)</u></b></p> <ul style="list-style-type: none"> <li>• SPY ( SPX 500)</li> <li>• DIA ( DOW 30)</li> <li>• QQQQ ( NASD100)</li> <li>• IWM (Small Cap)</li> <li>• <b>IYT ( Transports) -SP</b></li> <li>• NYA (NYSE)</li> </ul> <p style="text-align: center;"><b><u>BOND IDX ( A # 2B)</u></b></p> <ul style="list-style-type: none"> <li>• TLT ( Bonds)</li> <li>• MUB ( Muni).</li> <li>• JNK ( Junk)</li> </ul> <p style="text-align: center;"><b><u>GLOBAL IDX ( A # 2G)</u></b></p> <ul style="list-style-type: none"> <li>• EEM (Emerg.)</li> <li>• EZU (Europe)</li> <li>• EWH ( HK)</li> <li>• EWA (Aust)</li> <li>• EWJ (Japan)</li> <li>• FXI (China)</li> <li>• EWZ ( Brazil)</li> <li>• IFN (India)</li> </ul>	<p style="text-align: center;"><b><u>SECTORS IDX ( D # )</u></b></p> <ul style="list-style-type: none"> <li>• RTH ( Retail) -</li> <li>• <b>XLF ( Financials) – SP</b></li> <li>• <b>XLV ( Health ) – SP</b></li> <li>• XLB ( Materials)</li> <li>• XLE (Energy)</li> <li>• <b>XLK (Tech) - SP</b></li> <li>• XLI ( Industrial) –</li> <li>• <b>XLU ( Utility) - SP</b></li> <li>• <b>XLP ( Staples)- SP</b></li> <li>• <b>XLY ( Discretionary) - SP</b></li> <li>• XHB ( Home Builders)</li> <li>• SMH ( Sem.)</li> <li>• BBH ( Biotech)</li> <li>• IYR (Real Estate)</li> </ul> <p style="text-align: center;"><b>Highlighted above are covered in Today's Report</b></p> <p style="text-align: center;"><b>SP- Special Situation</b></p>	<p style="text-align: center;"><b><u>COMMODITY IDX (C #)</u></b></p> <ul style="list-style-type: none"> <li>• DBC ( Commodity)</li> <li>• GLD (Gold)</li> <li>• SLV (Silver)</li> <li>• GDX (Miners)</li> <li>• USO (Oil)</li> <li>• JJC (Copper)</li> <li>• <b>DBA ( Agro)</b></li> <li>• DBB ( Base metal)</li> <li>• UNG ( Natural Gas)</li> </ul>

**ETF- SETUPS – 1,2,3,4 based on SMA Cross and Extension from SMA for BULLISH / BEARISH. The highlighted below are CZ – PQV Qualified Sector watch list with SD # 2 & SP )**

<u>SETUP # 1</u> (18 of 40)	<u>% away from</u> <u>Gold .Cross</u>	<u>SETUP # 2</u> (17 of 40)	<u>% away from</u> <u>Dead. Cross</u>	<u>SETUP # 3</u> ( 0 of 40)	<u>% away from</u> <u>40wk MA-</u> <u>upside</u>	<u>SETUP # 4</u> (0 of 40)	<u>% away from</u> <u>40wk MA</u> <u>downside</u>
SPY	2.69%	EEM	-8.41%				
QQQ	8.96%	EWJ	-7.68%				
TLT	25.45%	RSX	-18.00%				
IWM	1.78%	IFN	-27.68%				
RTH	9.72%	EWA	-7.76%				
<b>XLV</b>	<b>19.35%</b>	<b>XLF</b>	<b>-8.93%</b>				
XLK	6.02%	XLB	-1.93%				
XLI	1.69%	<b>XLE</b>	<b>-2.58%</b>				
<b>XLU</b>	<b>15.88%</b>	DBA	<b>-11.34%</b>				
<b>XLP</b>	<b>19.48%</b>	DBB	-24.93%				
<b>XLY</b>	<b>31.41%</b>	GDX	-2.48%				
XHB	9.32%	USO	-4.64%				
SMH	1.28%	JJC	-10.55%				
BBH	33.57%	SLX	-19.11%				
<b>IYT</b>	<b>2.49%</b>	JNK	-1.75%				
IYR	86.86%	EZU	-18.64%				
DBC	21.34%	RSX	-18.00%				
GLD	102.22%						

# Index

**1. Executive Summary.**

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- **XLY /XLP – Risk on /off – Aggressive v/s Defensive.**
- **XLV – Sp.**
- **XLP – Sp.**
- **XLU - Sp**
- **XLY – Sp.**
- **XLE – Sp.**
- **XLF – Sp.**
- **IYT - Sp**
- **XLK- Sp. ( We cover QQQ as TECH proxy in A # 2B – MS)**

**5. APPENDIX – Objectives, POM Signal History, POM /CZ Guidelines & Limitation, Disclaimers**

## • Executive Summary.

Since our last D # Sector Report , The Model in A #1 MS is still at POM 14 Re Run in SPX . All the Sectors Qualified in this Report continued to follow the upward Price Path from POM 13 “turn” date Trigger on SPX towards POM 14 Re run . Currently, SPX has approached its CZ of POM 14 with false breakout & PQV is being invalidated by pushing into it with almost 50% lighter volume required for valid breakout.

**We emphasize, after POM 14 is triggered each sector is gradually arrives to its own individual Price Path destination CZ either in Bullish or Bearish Manner and tends to TOP out “one at a time”. False breakout above CZ almost certainly tends to fizzle out on very high probability especially post POM 14 / CZ invalidation/ completion of patterns. Therefore in such situation our Model follows Retracement Buyers v/s Breakout Buyers.**

Sectors with “ Bullish Tops” Projections ( indicated in Charts below) should have shallow Retracement in next pull back retracement during next market selloff & Sectors with “Bearish Tops” should have larger retracement and perhaps break below its lower CZ.

We have evaluated “the strength and weakness” of these Sectors via Top Heavy / Bottom Heavy CZ / PQV Analysis , ABCD Trend & Pattern , Ratio Analysis, VTO structure qualifying it as Bullish Top , Neutral Top , Bearish Top & Price Projections individually.

**BULLISH TOP SECTORS- XLV, XLP, XLU ,** As expected in last Report rally continued towards the Projected Target upward. Bullish tops tend to be forming Higher high Price level for next ABC ups towards another Bullish Top. Usually these are best Ideas to accumulate at next POM 13 validation.

**NEUTRAL TOP SECTORS – XLE, IYT** will tend to pull back all the way to test Lower CZ with double bottom ( Main) CZ and high probability of Holding ( if PQV is balanced) during correction

**BEARISH TOP SECTORS- XLY, XLF** will tend to test lower CZ ( indicated) **BUT – ALERT - it needs to be looked carefully for PQV violation during the correction**

For Price Path and more Justification for the Market Calls, refer to conclusions and Detail Charts in the Trailing sections within the Report

- **2- Trading & Invest Conclusions on Qualified Sector Indices**

- **BULLISH TOP -**

- **XLV (HEALTH)**

Met Target to **CZ – 36.5 -35.5**. From POM 13 Trigger on 11/22, the rally had began **@ 31.75** in last leg up

The Retracement in correction expected to **CZ 34.25 -33.25**, IF this pull back coincides with next POM 13 , it should present good Risk / Reward

- **XLP (STAPLES)**

Target to **CZ – 33-33.5 .( fell short)** From POM 13 Trigger on 11/22, the rally had began **@ 30** in last leg up

The Retracement in correction expected to **CZ 31.25 - 30.5**, IF this pull back coincides with next POM 13 , it should present good Risk / Reward

- **XLU (UTILITY)**

The Retracement in correction expected to **CZ 34.5 – 33.5**, IF this pull back coincides with next POM 13 , it should present good Risk / Reward

## **BEARISH TOP**

- **XLY – ( DISTRICTIONARY)**

Met Target to CZ – 41-40 . From POM 13 Trigger on 11/22, the rally had began @ 36.25 in last leg up

The Retracement in correction expected to CZ 38.5 – 37.5, IF this pull back coincides with next POM 13 , it should present good Risk / Reward

- **XLF - ( FINANCIALS)**

Met Target to CZ – 14.25 – 13.5. From POM 13 Trigger on 11/22, the rally had began @ 11.75 in last leg up

The Retracement in correction expected to CZ 12.5 -12.0, IF this pull back coincides with next POM 13 , it should present good Risk / Reward

## **NEUTRAL TOP**

- **XLE ( ENERGY)**

Met Target to CZ – 73-75 . From POM 13 Trigger on 11/22, the rally had began @ 63 in last leg up

The Retracement in correction expected to CZ 67-65, IF this pull back coincides with next POM 13 , it should present good Risk / Reward

- **IYT ( TRANSP)**

Target of CZ – 91-89 ( extended) . to 96 From POM 13 Trigger on 11/22, the rally had began @ 81 in last leg up

The Retracement in correction expected to CZ 89-86, IF this pull back coincides with next POM 13 , it should present good Risk / Reward

## SD -MEAN REVERSION FROM PREVIOUS

- NONE - ( *SD – Mean to Reversion this week* )

## SD - OVERVALUED v/s SPX ETF ( SD +2 )

- NONE

## SD - UNDERVALUED v/s SPX ETF ( SD - 2 )

- NONE



# SPX – “ POM Signals with SECTORS @ SD +/- 2

## **CURRENT ACTIONABLE ZONE : HIGHLIGHTED IN YELLOW**

*The Weekly Validated Sector selection - (Undervaluation) / (Overvaluation)*

- *Utilizing SD, POMs within RA / RI framework with composition of ETF's with SD # 2 (+/-) Overvalued and Undervalued characteristics.*
- ***At POM 14 or Bearish CZ on SECTORS- Focus is on Sectors with + 2.0 SD for CZ – PQV Validation for SHORTS***
- *At POM 13 (Bounce) or Bearish CZ on SECTORS - Focus is on Sectors with +2.0 for CZ – PQV Validation for SHORTS*
- ***At POM 13 (Pull back) or Bullish CZ on SECTORS - Focus is on Sectors with -2.0 for CZ – PQV Validation for LONGS***
- *At POM 12, 11 on SPX – Focus is on All the Sectors & Broader Indices for Entry*

**This Observation above can be utilized within any specific Portfolio's Objective for Risk Management**

## **KEY NOTES**

- *In Our POM Guidelines Section – The Purpose of POM 13 Trigger is for Risk management. In volatile Market the Risk management is critical point protection on counter Trend moves for rebalancing*
- *All the Sector Indices tends to follows the Price path of POM's in general but for POM14, 15 regime various individual Sectors might Top out at different time to Trigger CZ – Validation for SELL. We have CZ – PQV validation indicated in charts below ( For Risk Management – STOPS always on other side of CZ based on Portfolio Objectives. For POM 12,11,13 , All broader market will move in concert with SPX*

## • CHART ANALYSIS - Sectors v/s SPX

- *YTD – Sectors Relative performance v/s SPX - Chart Analysis.*
- *XLY/ XLP Ratio Analysis ( Risk On v/s Risk off – Defensive) v/s SPX*

## SPECIAL SITUATION

### XLV - Chart Analysis

- *XLV - MA, Pattern Trend & Oscillator Analysis*
- *XLV – CZ – Price & Volume- Analysis*
- *XLV - CORRELATION RATIO Analysis with SPX*

### XLP - Chart Analysis

- *XLP - MA, Pattern Trend & Oscillator Analysis*
- *XLP – CZ – Price & Volume- Analysis*
- *XLP - CORRELATION RATIO Analysis with SPX*

### XLU - Chart Analysis

- *XLU - MA, Pattern Trend & Oscillator Analysis*
- *XLU – CZ – Price & Volume- Analysis*
- *XLU - CORRELATION RATIO Analysis with SPX*

## **XLY - Chart Analysis**

- ***XLY - MA, Pattern Trend & Oscillator Analysis***
- ***XLY – CZ – Price & Volume- Analysis***
- ***XLY - CORRELATION RATIO Analysis with SPX***

## **XLE - Chart Analysis**

- ***XLE - MA, Pattern Trend & Oscillator Analysis***
- ***XLE – CZ – Price & Volume- Analysis***
- ***XLE - CORRELATION RATIO Analysis with SPX***

## **XLF - Chart Analysis**

- ***XLF - MA, Pattern Trend & Oscillator Analysis***
- ***XLF – CZ – Price & Volume- Analysis***
- ***XLF - CORRELATION RATIO Analysis with SPX***

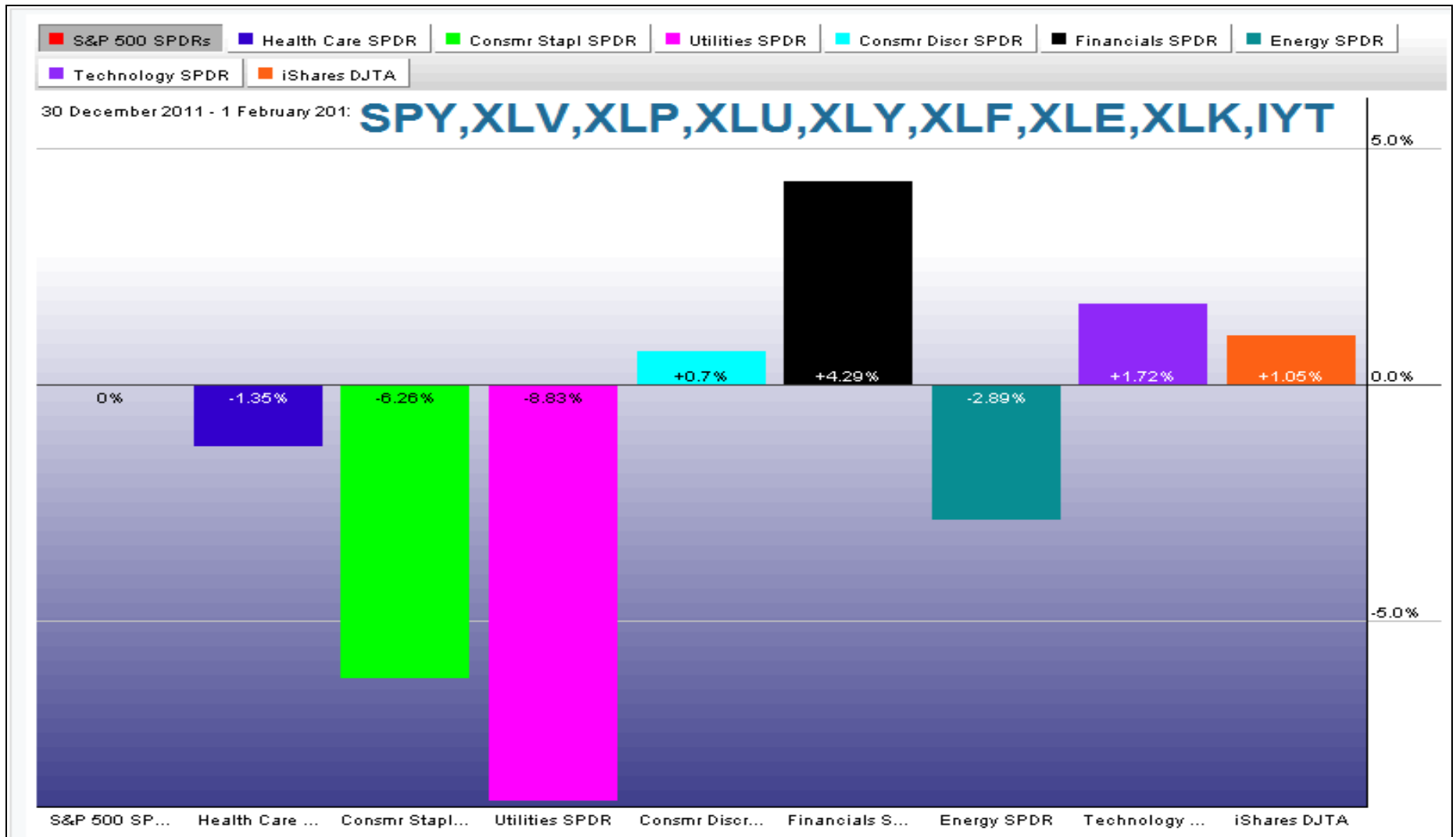
## **IYT - Chart Analysis**

- ***IYT - MA, Pattern Trend & Oscillator Analysis***
- ***IYT – CZ – Price & Volume- Analysis***
- ***IYT - CORRELATION RATIO Analysis with SPX***

# YTD - SECTOR (SD extremes / Defensive IDX) performance v/s SPX

**For Pair – Weakest and strongest Indices -**

Since is beginning of the year 2012 , **it is very critical** to keep close eye on this chart for Strength / weakness pick up in these market . ( Chart below is our Inter Sector Analysis Model with Ratio Relative performance v/s SPX)



## XLY/ XLP Ratio Analysis ( Risk On v/s Risk off – Defensive) v/s SPX

Chart below SPX tends to top out when XLY / XLP Ratio moves above 1.3, indicates the RISK ON v/s RIKS OFF Sectors moving

**DEFENSIVE LEADERSHIP...** measures the relative performance XLY /XLP market sectors compared to the SPX. It's usually a bad sign for the market when defensive sectors are market leaders. XLY is under-performing XLP .

XLY/XLP ratio turning turned up but on Low volume in downtrend . That's another bad sign for the market.



## XLV - CZ / Ratio Analysis - (Special Situation - Defensive Sector)

BULLISH TOP pointed out in last Report resulted in good rally from POM 13 Trigger & met our Target **CZ 36.5 - 35.5** (in red) with another Bullish Top

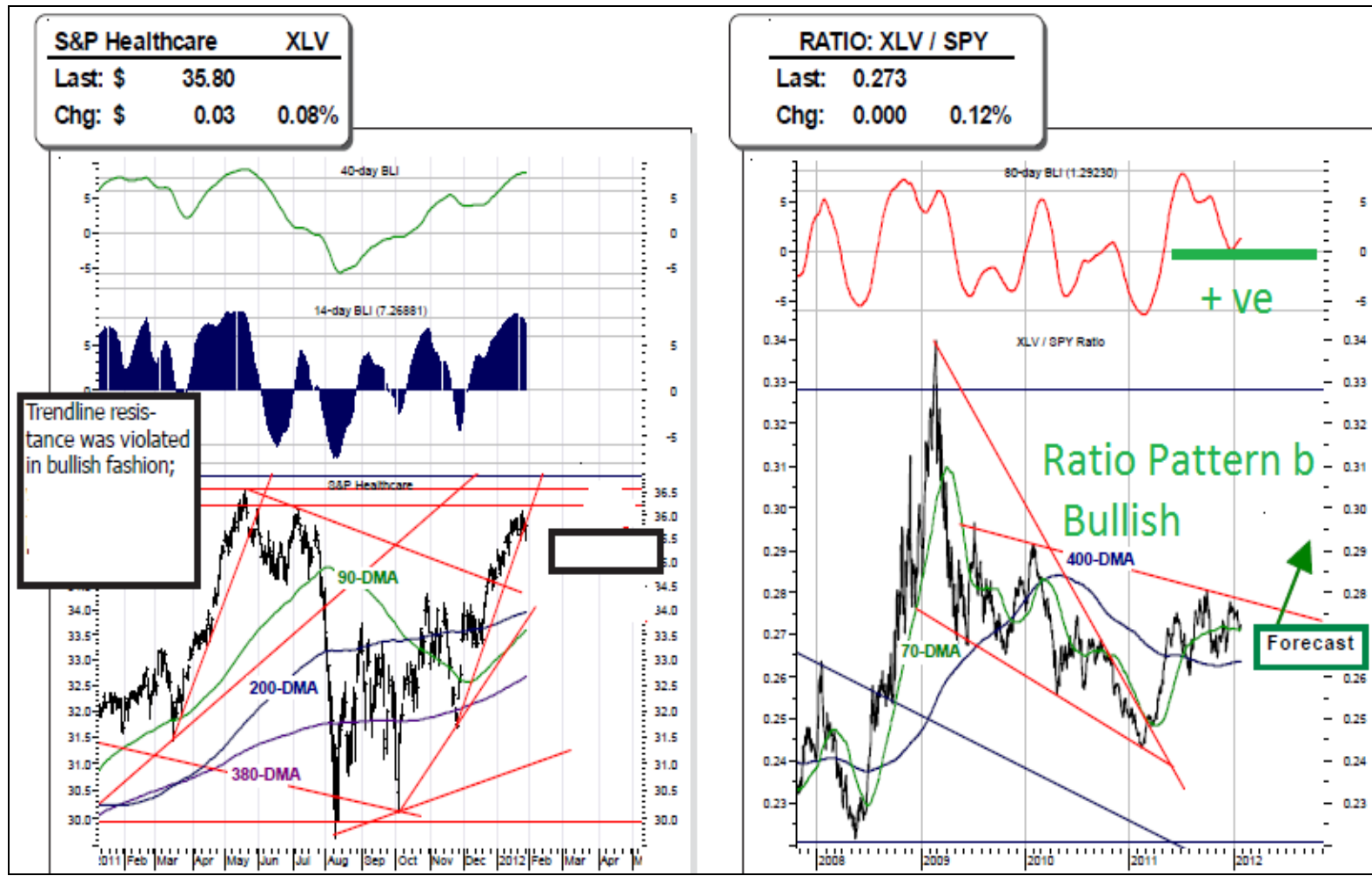
XLV / SPY Ratio is in strong up Trend with valid breakout. STOC – Bullish but Topy. This is Strong market , any Correction in general Market should have retracement back into **CZ (in yellow) 34.5 -33.5**



# XLV - MA / Pattern and Oscillator Analysis - (Special Situation - Defensive Sector)

Reconfirmation by DMA's and Trend Oscillator Analysis validates the BULLISH TOP suggestions & it proved its merit for rally to continue towards its projection.

Ratio Pattern Analysis ( Right side) diverging Bullishly with + ve oscillator. Suggest pull back in lower CZ should be Bullish for next rally. ( Notes within the charts)



## XLP - CZ / Ratio Analysis - (Special Situation - Defensive Sector)

**BULLISH TOP** pointed out in last Report resulted in good rally from POM 13 Trigger initiation & Fell short of our Target CZ 33-33.5 (in red) with another Bullish Top

XLP / SPY Ratio is in strong up Trend with valid breakout. STOC – Bullish but Toppy. This is Strong market , any Correction in general Market should have retracement back into CZ (in yellow) 31.25 – 30.5

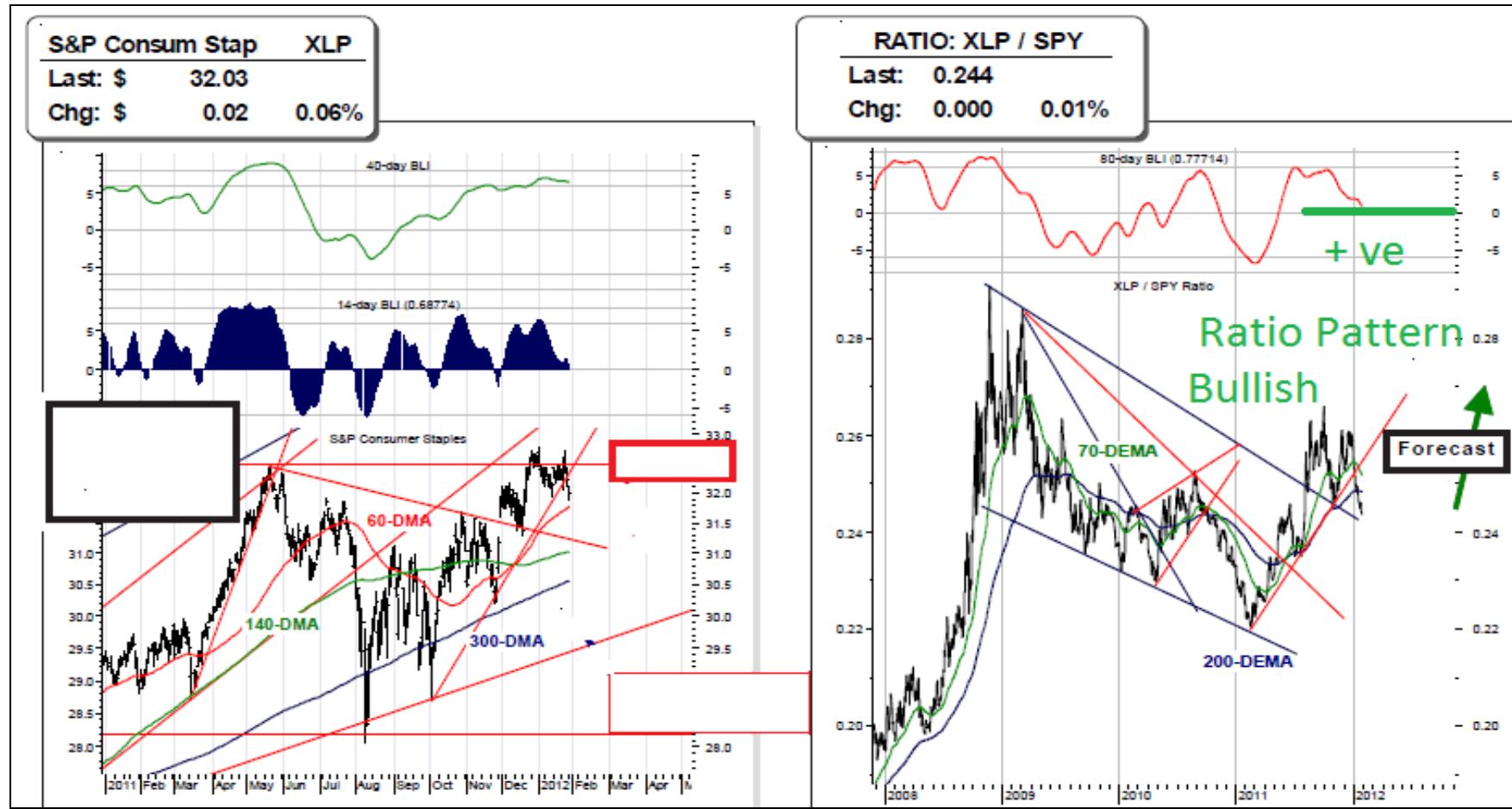




# XLP - - MA / Pattern and Oscillator Analysis - (Special Situation - Defensive Sector)

Reconfirmation by DMA's and Trend Oscillator Analysis validates the BULLISH TOP suggestions & it proved its merit for rally to continue towards its projection.

Ratio Pattern Analysis ( Right side) diverging Bullishly with + ve oscillator. Suggest pull back in lower CZ should be Bullish for next rally. ( Notes within the charts)



## XLU - CZ / Ratio Analysis - (Special Situation - Defensive Sector)

**BULLISH TOP** resulted in good rally from POM 13 trigger with another Bullish Top

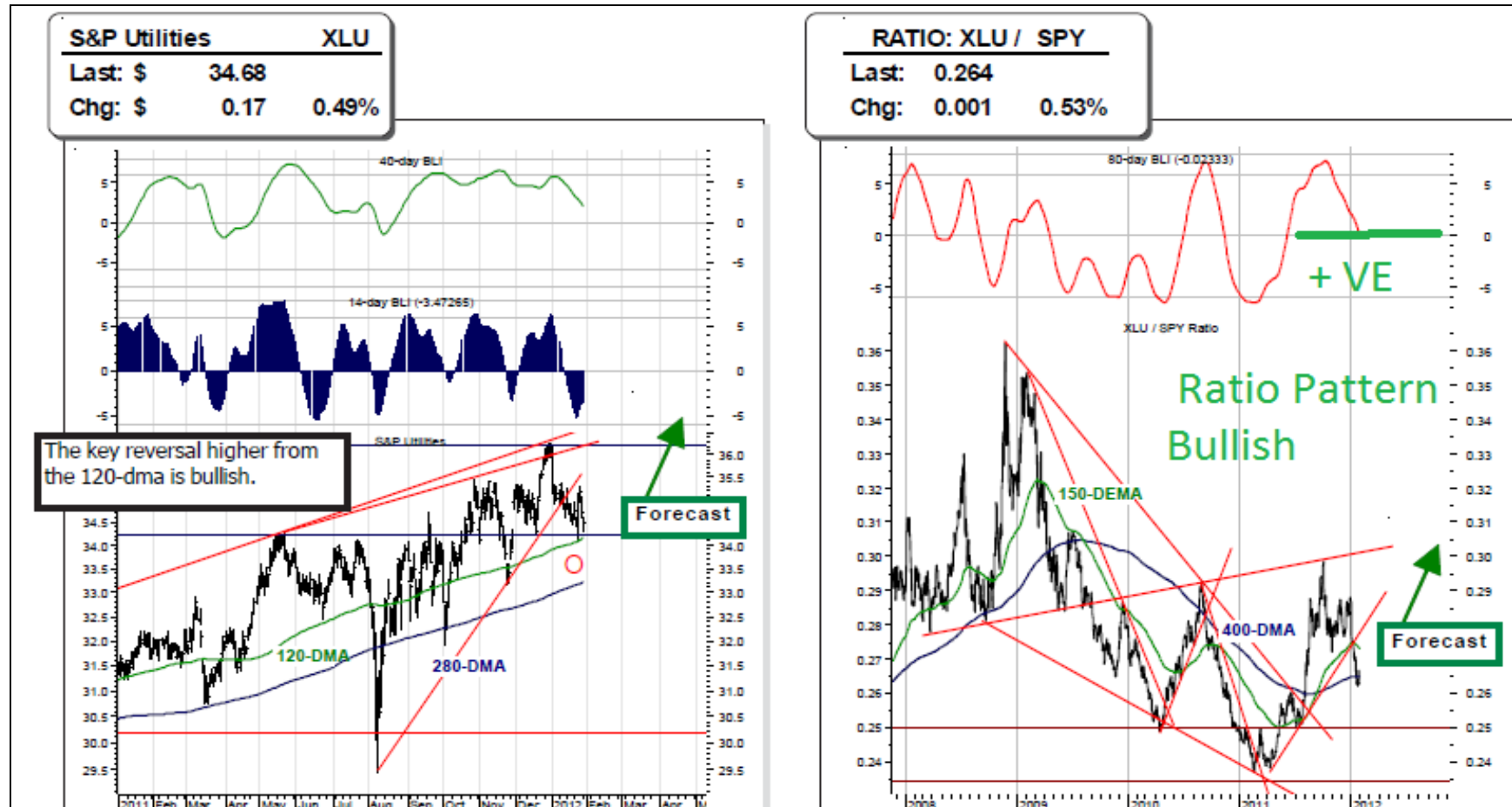
XLU / SPY Ratio is in strong up Trend with valid breakout. STOC – Bullish but Toppo. This is Strong market , any Correction in general Market should have retracement back into **CZ ( in yellow ) 34.5 -33.5**



# XLU - - MA / Pattern and Oscillator Analysis - (Special Situation)

Reconfirmation by DMA's and Trend Oscillator Analysis validates the BULLISH TOP suggestions & it proved its merit for rally to continue towards its projection.

Ratio Pattern Analysis ( Right side) diverging Bullishly with + ve oscillator. Suggest pull back in lower CZ should be Bullish for next rally. ( Notes within the charts)



## XLY - CZ / Ratio Analysis - (Special Situation )

Met our Projected Target indicated in last Report of **CZ 41-40 ( in red ) initiated** from POM 13 Trigger with another **BEARISH TOP** on PQV failure.

XLY / SPY Ratio is broken down the Trend & now testing it from under STOC – Bearish . Any Correction in general Market should have retracement back into **CZ ( yellow ) 38.5-37.5**.

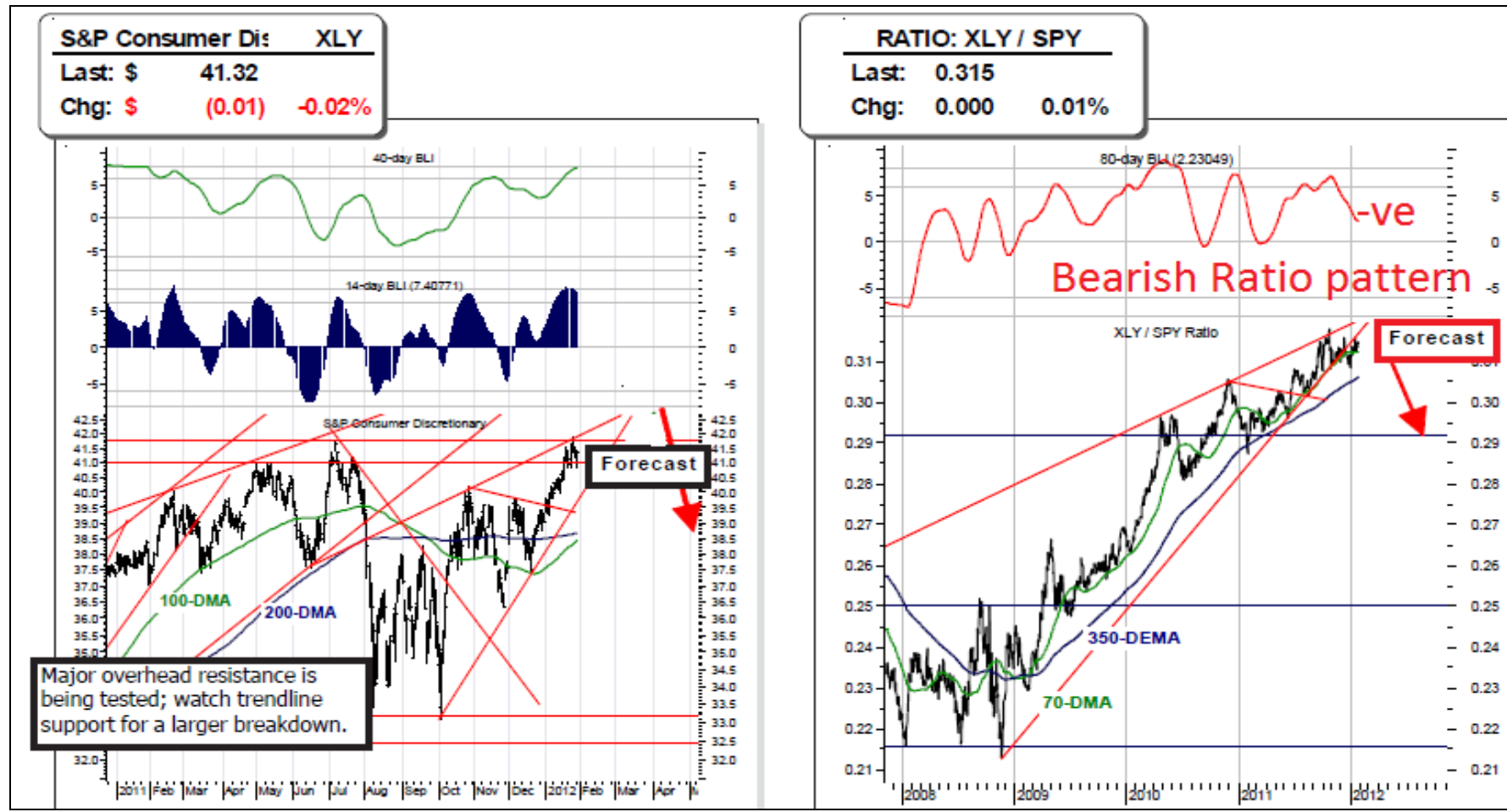
NOTE – With BEARISH TOP, The retracement can be larger.



# XLY - MA / Pattern and Oscillator Analysis - (Special Situation)

Reconfirmation by DMA's and Trend Oscillator Analysis validates the BEARISH TOP suggestions.

Ratio Pattern Analysis (Right side) diverging BEARISHLY with -ve oscillator. Suggest pull back in lower CZ should be WATCHED CAREFULLY. (Notes within the charts)



## XLF - CZ / Ratio Analysis - (Special Situation)

Met our Projected Target exact indicated in last Report of **CZ 14.25-13.5** (in red) initiated from POM 13 Trigger with another **BEARISH TOP** on PQV failure.

XLF / SPY Ratio is broken down the Trend & still downtrend. STOC – Bearish . Any Correction in general Market should have retracement back into **CZ (yellow) 12.5-12**.

NOTE – With **BEARISH TOP**, The retracement can be larger.

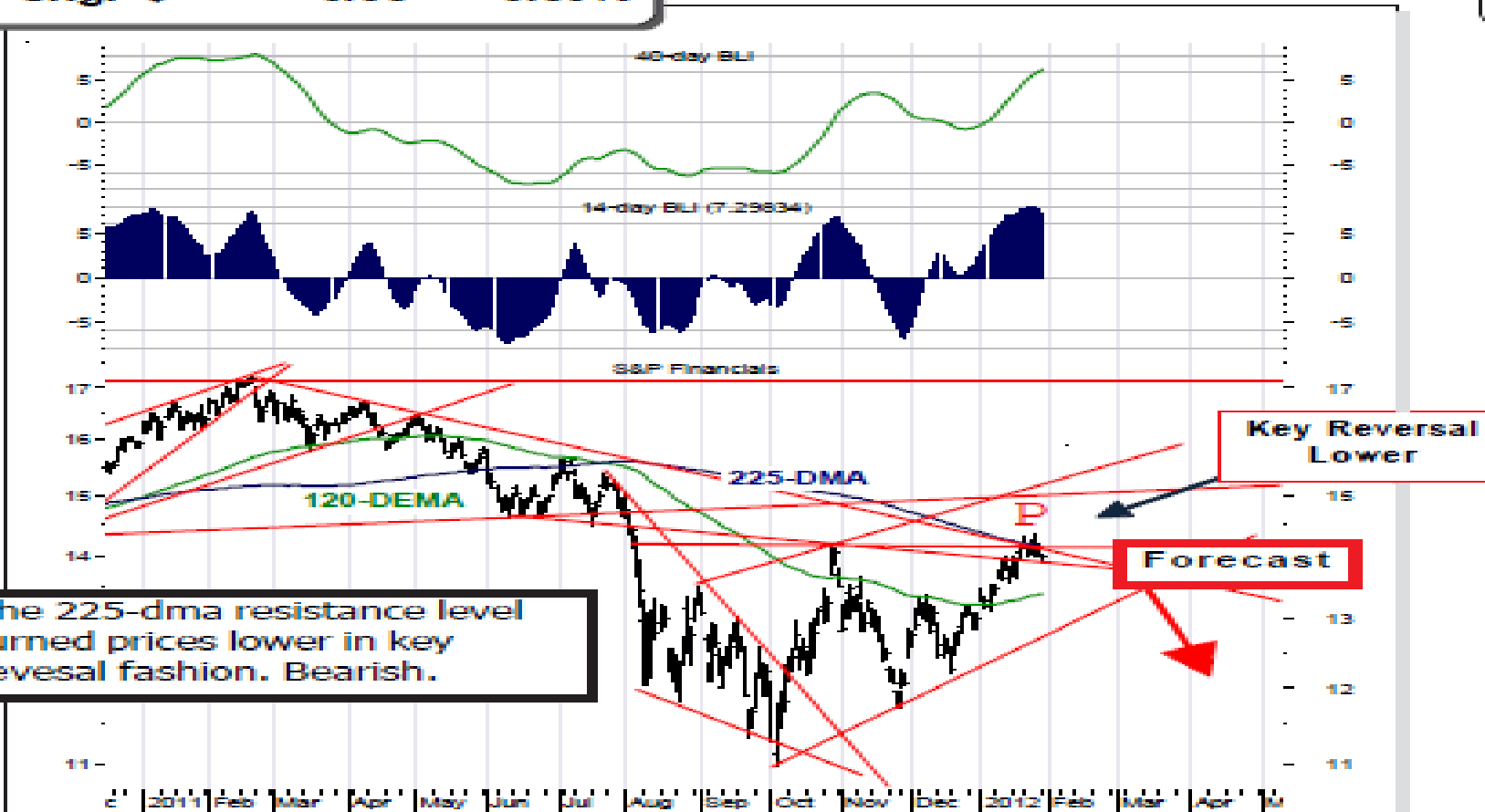


# XLF - MA / Pattern and Oscillator Analysis – (Special Situation)

Reconfirmation by DMA's and Trend Oscillator Analysis validates the BEARISH TOP suggestions.

Pattern Analysis has Key reversals BEARISHLY with -ve oscillator. Suggest pull back in lower CZ should be WATCHED CAREFULLY. ( Notes within the charts)

S&P Financial	XLF
Last: \$ 14.06	
Chg: \$ 0.06	0.39%



The 225-dma resistance level turned prices lower in key reversal fashion. Bearish.

## XLE - CZ / Ratio Analysis - (Special Situation)

Currently meeting our Projected Target exact indicated in last Report of **CZ 73-75 (in red) initiated** from POM 13 Trigger with **NEUTRAL TOP**. But possibility of another Burst

XLE / SPY Ratio is broken down the Trend & still downtrend. STOC – Bearish . Any Correction in general Market should have retracement back into **CZ (yellow) 67-65**.

NOTE – With NEUTRAL TOP, The retracement should be Natural retracement towards the upper part of CZ .





## IYT - CZ / Ratio Analysis - (Special Situation )

Met and exceeded ( false break) our Projected Target **CZ 91-89** ( in red) initiated from POM 13 Trigger with NEUTRAL TOP.

IYT / SPY Ratio is broken down the Trend & testing Trend line from under. STOC – Bearish . Any Correction in general Market should have retracement back into **CZ ( yellow) 89-86**.

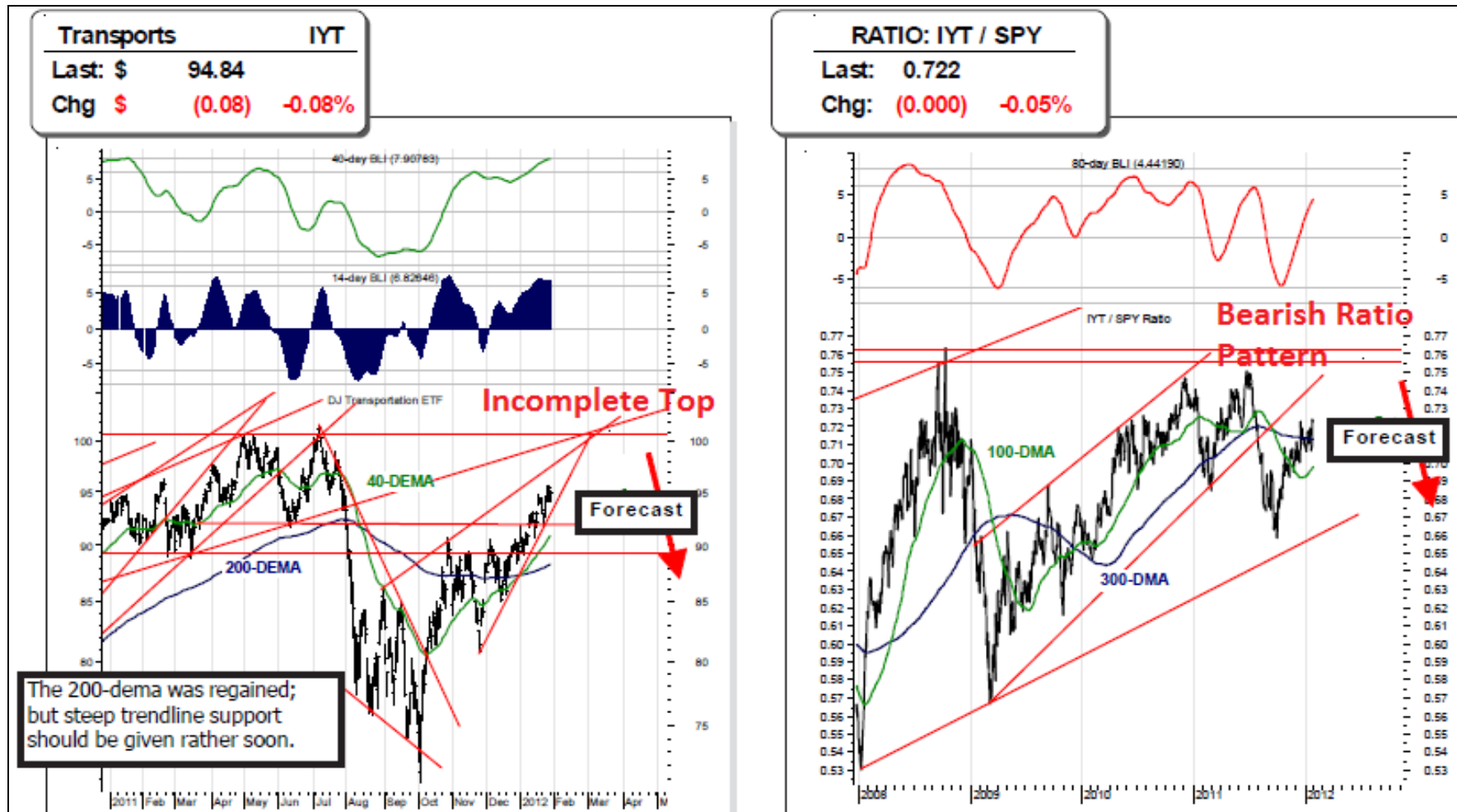
NOTE – With NEUTRAL TOP, The retracement should be Natural retracement towards the upper part of CZ .



# IYT - MA / Pattern and Oscillator Analysis – (Special Situation )

Reconfirmation by DMA's and Trend Oscillator Analysis, Incomplete Top in spite of price Projections

Ratio Pattern Analysis ( on right side) has - ve oscillator. Suggest pull back in lower CZ should be WATCHED CAREFULLY. ( Notes within the charts)



# Appendix Content

- Objectives & POM /CZ Guidelines
- Guidelines for Full Utilization of “ SP” Report with Limitations
- Trading & Investment CZ - Conclusion History 2011
- SPX- POM – “ Price Oscillation Model “ Criteria
- PEC –D “ Pythagoras – Expansion & Contraction Criteria
- SPX – TAS 3x3x3 / 9EMA - “ Trend Adjusted Signal “ Criteria.
- Definitions of Extreme Sentiment Indicators

- **Objective**

*Focus is on the Short & Intermediate term turning point of the “Sectors” via SPX’s 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 ( Sectors) , 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 D # – Sector Report focuses on Sectors of the Market.*
- *All the Sectors tends to follows the Price path of POM 11, 12, 13 of SPX (except during POM14, 15), various Sectors 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 / 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*
- *Conclusions to be cross verified by other methods prior to final decision*
- *For Maximum utilization of POM Process for Risk Management. Refer to guidelines within the Appendix below*

- **Objective ...cont...**

***The Focus is to derive and compare the Relative performance of various Sector ETFs via using Standard Deviation ( SD) Criteria, POM – SPX Methodology as a PIVOT point for start then use with SECTOR / SPX Ratio chart for their “Pattern Recognition and Technical Analysis” for OVERVALUATION AND UNDERVALUATION of Sectors.***

***Step 1 – Qualify the Sector based on Correlation Ratio Analysis with SPX to determine Standard Deviation (SD# 2) @ extremes level to define “Overvaluation and Undervaluation” of the SECTOR***

***Step 2 - Overlay this Correlation input data on Sector’s Relative strengths based on the SPX –POM latest STATUS as Pivot point to measure Maximum and Minimum strength of the Sector. Validate those ideas via technical Patterns of absolute Charts & SPX Ratio charts of these Sectors for Bullish and Bearish SETUPS via Pattern Recognition, Technical Analysis via second derivative DMA’s & Derive CZ for PQV Validation test.***

***Overlay Criteria***

- ***SD #/2 ANALYSIS EXTREMES by 365 D Correlation.***
- ***SPX - POM FRAMEWORK as PIVOT by Trend Correlation***
- ***TECHNICAL PATTERNS, 2<sup>nd</sup> Derivative DMA’s & VOLUMES” & Derive CZ for PQV Validation.***

## ➤ 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

# Trading & Investment CZ - Conclusion History 2011

**PREVIOUS LONGS – YTD – “ Price path “ update- From D- Sector Report**

**XLV, XLU, BBH, IFN, XLF, IYT, DIA, TLT**



## Previous Trend – POM to Reversion to mean

**REVERSION TO MEAN - 6/10 - SPX – POM 13 @ 1270** via SD Levels or POM 13 or CZ –

- **SMH, DBC, JJC, XLB** - ( CZ validation indicated Red on charts below)

**SMH** NYSE + BATS

16-Jun 10:24am Last 32.88 Chg +0.04 (+0.12%) ▲



**DBC** NYSE + BATS

16-Jun 10:24am Last 29.37 Chg -0.11 (-0.37%) ▼



**JJC** (iPath DJ-U...) NYSE

16-Jun 10:08am Last 53.72 Chg -0.47 (-0.87%) ▼



**XLB** NYSE + BATS

16-Jun 10:25am Last 37.19 Chg -0.02 (-0.05%) ▼

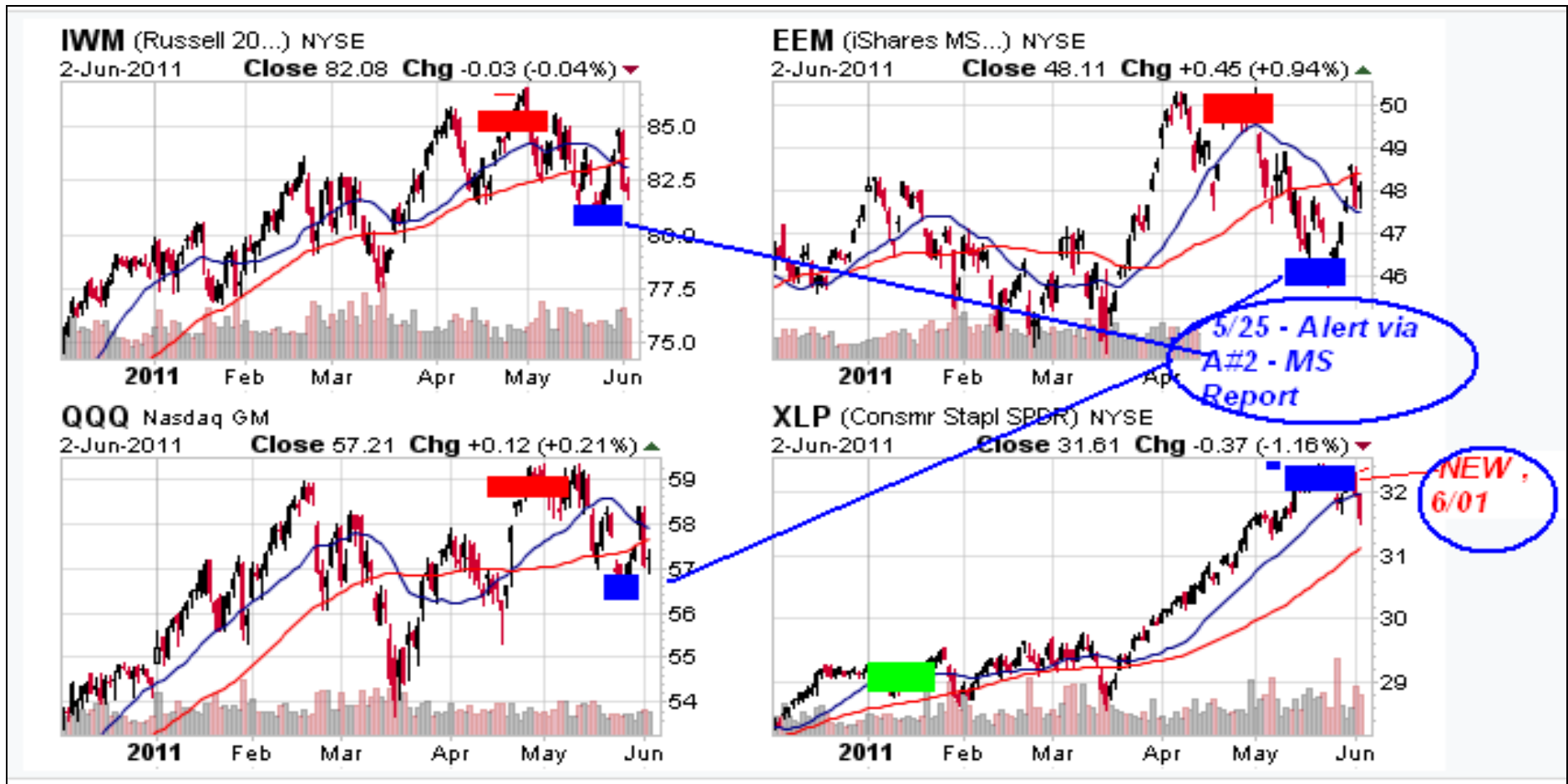


Mean to Reversion @ POM 13 SPX  
@ 1270 via Alert dt 6/10



## MEAN TO REVERSION – via SD Levels or POM 13 or CZ – First Price target achieved

- QQQ, IWM, EEM – Refer A # 2 – MS Report , 5/25 - ( Reversion to mean indicated Blue on charts, *We will now monitor the Quality of the rally for next move* )
- XLP – ( Reversion to mean by SD, indicated Blue on charts)



## POM criteria for Implementation on SPX

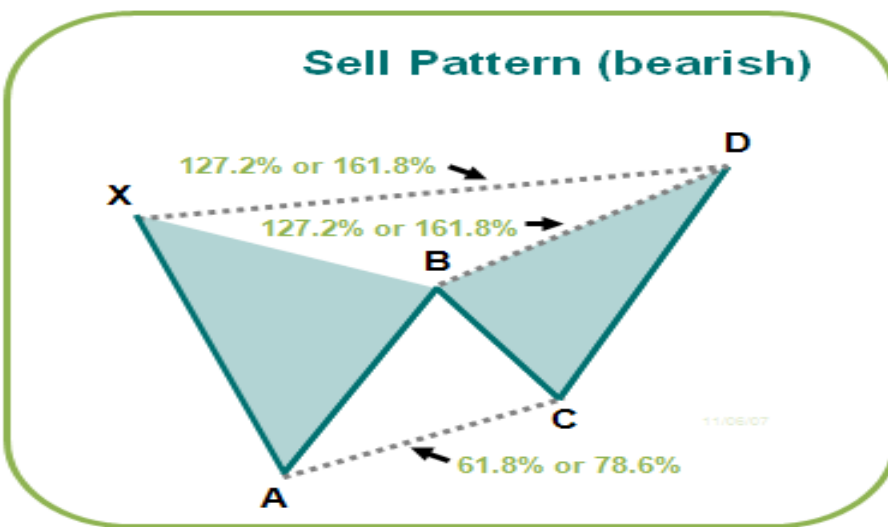
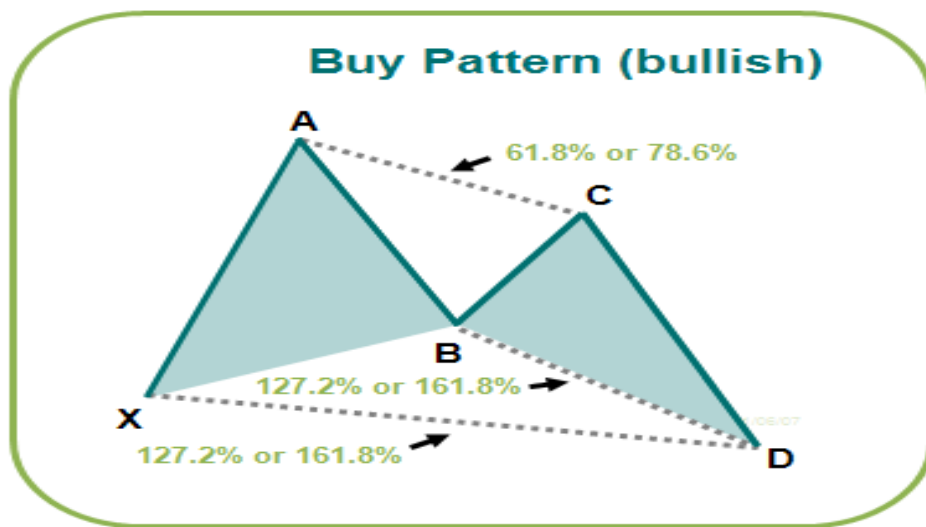
- POM is rated from 10 to 15
- POM 14 , 15 ( is Sell Signal) and 12 , 11 ( is Buy Signal ) both are the Actionable Area whereas POM 13 is A Neutral Signal for Risk management
- On way UP move, POM 13 signifies to STOP executing additional ‘New Buys’ that was initiated at POM 12 or POM 11 levels
- On 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 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



- 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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