



# SG Capital Research

Global Market Insights

**Research Note – MS – US BROADER IDX Report – (SP) STRATEGY & PROP Analysis**

**MAEG- MS \_US\_ BROADER IDX REPORT\_SP\_A#2B # SG 2011 # AUG\_29**

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

*By: Suneil R Pavse*

*Contact: apavse@aol.com*

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## **MS - US Broader IDX Report**

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- **IWM - RUSSELL 2000**
- **IYT / DIA – DOW TRANSPORT Theory**
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# 1. Executive Summary.

## US BROADER IDX

### IMPACT of Current Market Condition ( i.e. POM 14) on US Broader IDX ,

During the current topping process in Market , US Broader IDX's are reaching the CZ / PEC-D Price Projections (highlighted in charts below ) either Bullishly or Bearishly in our price path Analysis. Action points are CZ/ 's & PEC -D, PQV validation for best Risks Reward. Friday is very critical Jackson Hole speech from Dr Ben.

All Signals - benchmarked via PEC-D, CZ pattern completion, PQV & with SPX- POM 14 via COR

## IWM

**Alert – Advise is to use IWM to HEDGE within CZ 81.25 -79** - being the weakest appears good Instrument for Hedging among the piers

**Projected Target** – It is currently within CZ 81.25 -79 and showed the most divergence in CZ . The “ T Termination expiring in larger time frame at this Top. In the first pull back last week volume picked up on downside in Bearish way .

**NEXT** - when SPX moves to POM 15 , IWM should **move to 82.5 and fail on PQV** . This should give another opportunity . Downside projection Target can be measured effectively when decline begins with data points

**we have been Bullish on the Market since 5/25 From 75 to 80 move – Now Turned Bearish**

## QQQ

**Neutral - No Trigger till SPX Triggers POM 15 - CZ 68.5 -67**

**Projected Target** – Prices are within **CZ 68.5-67** BUT it has not backed off from the CZ / PEC-D. This is due to continued strength in AAPL., which is still above PQV test volume outside its CZ ( NOT Failing). AAPL pushing QQQ higher based on its weighing. Till AAPL fails QQQ will not fail. Therefore **NO Trigger**

**NEXT** - when SPX moves to POM 15 , QQQ should move **to 69 and fail on PQV**. Decline should begin along with SPX decline .

**we have been Bullish on the Market since 5/25 From 60.5 to 65 move - Now Turned Neutral**

## IYT

**Neutral - No Trigger till IYT move within CZ 93.5-95 or when SPX Triggers POM 15**

**Projected Target** – IYT should Ideally move into **CZ 93.5-95** to prove itself . This has not happened. .

**Last Report** – Fell short of projected Target CZ / PEC-D Pattern in Bearish way.

**we have been Bullish on the Market since 5/25 From 88 to 93 move - Now Turned Neutral**

## DOW

### Neutral - No Trigger till SPX triggers POM 15

Projected Target – We are awaiting for Terminal Process to fail within CZ 12900-13200 ,

NEXT - DOW should be the last IDX to fail as “flight to safety of large cap tends to remain till the end. Decline should begin along with SPX decline .

**we have been Bullish on the Market since 5/25 From 12400 to 13100 move - Now Turned Neutral**

## DOW TRANSPORT THEORY -

### Conclusion - For Monitoring Purposes ONLY

By this Method – DOW Triggered SELL SIGNAL @ 12800. DOW Triggered BUY at 12600 based on our improvised 4 point criteria ( Refer Chart below)

DOW Transport Theory in comparison to POM. - POM 13 Triggered at the beginning of this trend at ( SPX 1300= 12300 in DOW ) & ended at POM 14 @ 13000

**TLT ( BONDS)- is Currently @ POM 14 – Advised Hedging**

**Triggered Action** – Announced POM 14 “Alerted Email 5/21 at Primary highs of TLT @ 124 to initiate – scaling into Hedging position within CZ 124-125 during its testing process. ( current POM 14 signal ended the rally that was initiated from POM 13- CZ 111-112 for Net long.) **we have been Bullish on the Market for almost 11% move** –

**Projected Target - Awaiting for TLT to have secondary failure within CZ 127-131**

Bounce should continue towards the top of CZ 127-131 ( revised) in Late stages of rally. which previously produced Bearish Top. This should set up failure in Price & PQV in TLT.

**OUR PLAN**– “CAUTION Model at POM 14. The Hedging should continue to position. Our Mid term ABC down Target is into CZ 116-114. We advise Hedging our Positions to protect our downside risk.

**Commentary** - TLT, suggests the last stages of bull market and is on very long term high. This is poised for a long term decline once POM 15 is triggered. On this current bounce from 120 to 127 , TLT is showing –ve divergence .

## 2- Price Projection CZ – Summary – Trading / Invest Conclusion.

A # 2B - US Broader IDX Report 29th AUG 2012	CURRENT STATUS	Target Reached CZ - Trigger Confluence Zone	Next Target	Comments
SPX				
POM 15 ( Bearish)	NO TRIGGER		1425	[ Awaiting terminal Process to POM 15), No POM 15 - Trigger for any NET SHORT SPX in CZ 1410-1375 for Fully hedge, Triggered POM 14 - Pull back to 1370-1360 POM 13 - NET LONG Position, Rally Complete ( 1300 into CZ 1375 - 1410)
SHORT-TERM ( POM 14 - CZ 1410-1375 Open Hedges)	BEARISH	1410-1375	1390-1370	
MID-TERM	NEUTRAL	1270-1295	1410-1375	
TLT				
POM 15 ( Bearish)	NO TRIGGER		127-131	[ Awaiting final rally to POM 15) CZ Target Reached - fully hedge ABC up to POM 15 in Progress to Terminal Process
SHORT-TERM ( POM 14) 124 Open	NEUTRAL	125-124	118-116	
MID-TERM (last) - POM 12 (88-90)	BEARISH	89	130-128	
QQQ ( NDX)				
SHORT-TERM ( POM 14 )	NEUTRAL	68.5-67	follow SPX	No Trigger at CZ 68.5-67
IWM ( Small Cap)				
SHORT-TERM	BEARISH	81.25-79	follow SPX	Triggered in CZ 81.25-79
DIA ( DOW)				
SHORT-TERM	NEUTRAL	131.5-129.0	follow SPX	No Trigger at CZ 131.5-129
IYT ( Transports)				
SHORT-TERM	BEARISH	96-94.5	follow SPX	No Trigger at CZ 93.5-95

## **BACK UP SECTION – II.**

***Commentary & Charts below are for Reference backup & cross verification ONLY . It is required for in- depth understanding behind our Logic & Risk limitation***

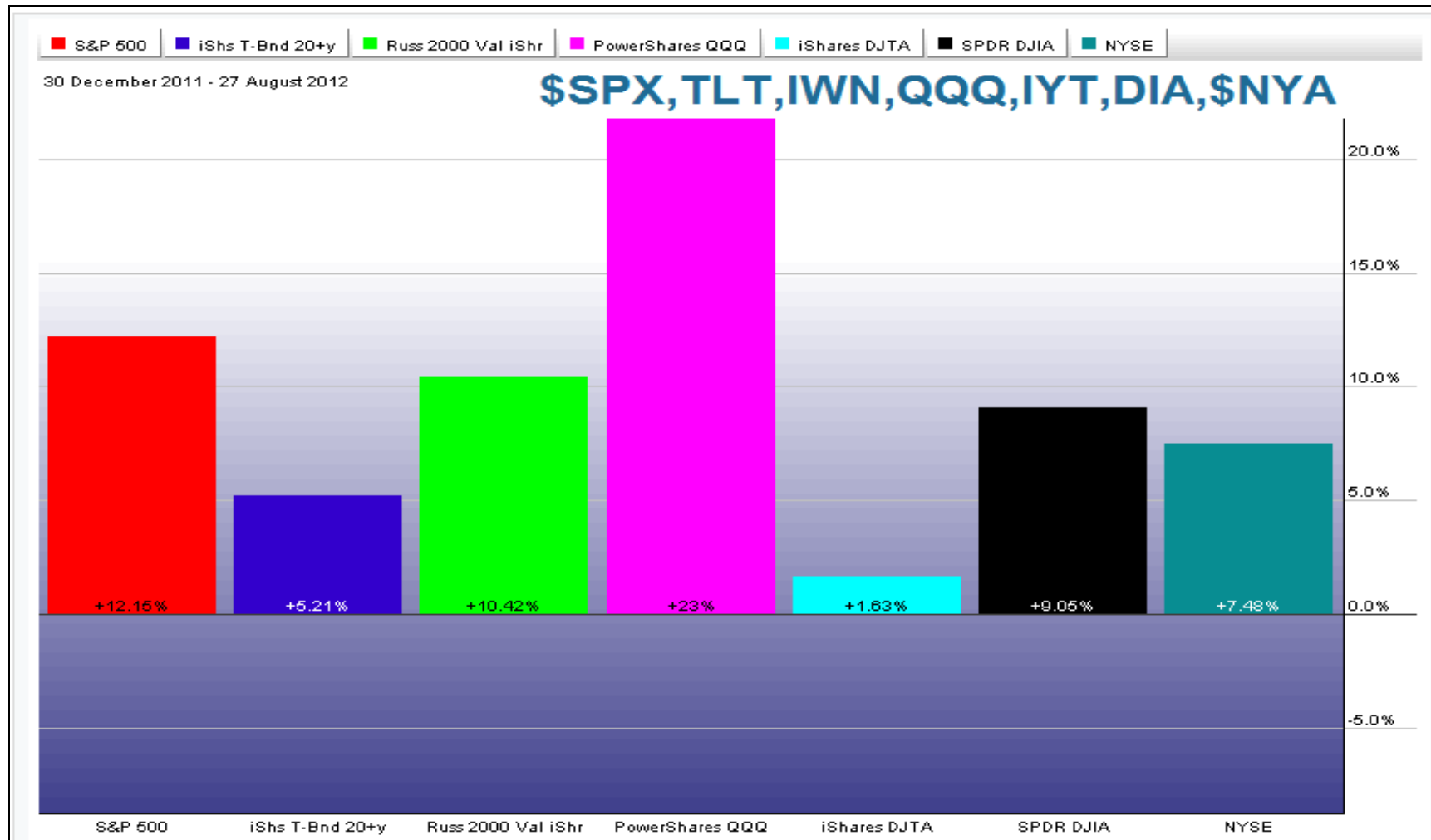
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# YTD – US Broader IDX performance v/s SPX

## Weakest and strongest Indices for PAIR TRADES

*Beginning of the year 2012 - It is very critical to Monitor this chart for Strength / weakness pick up in these market . ( Chart below is our Inter market Analysis Model with Ratio Relative performance v/s SPX) .*

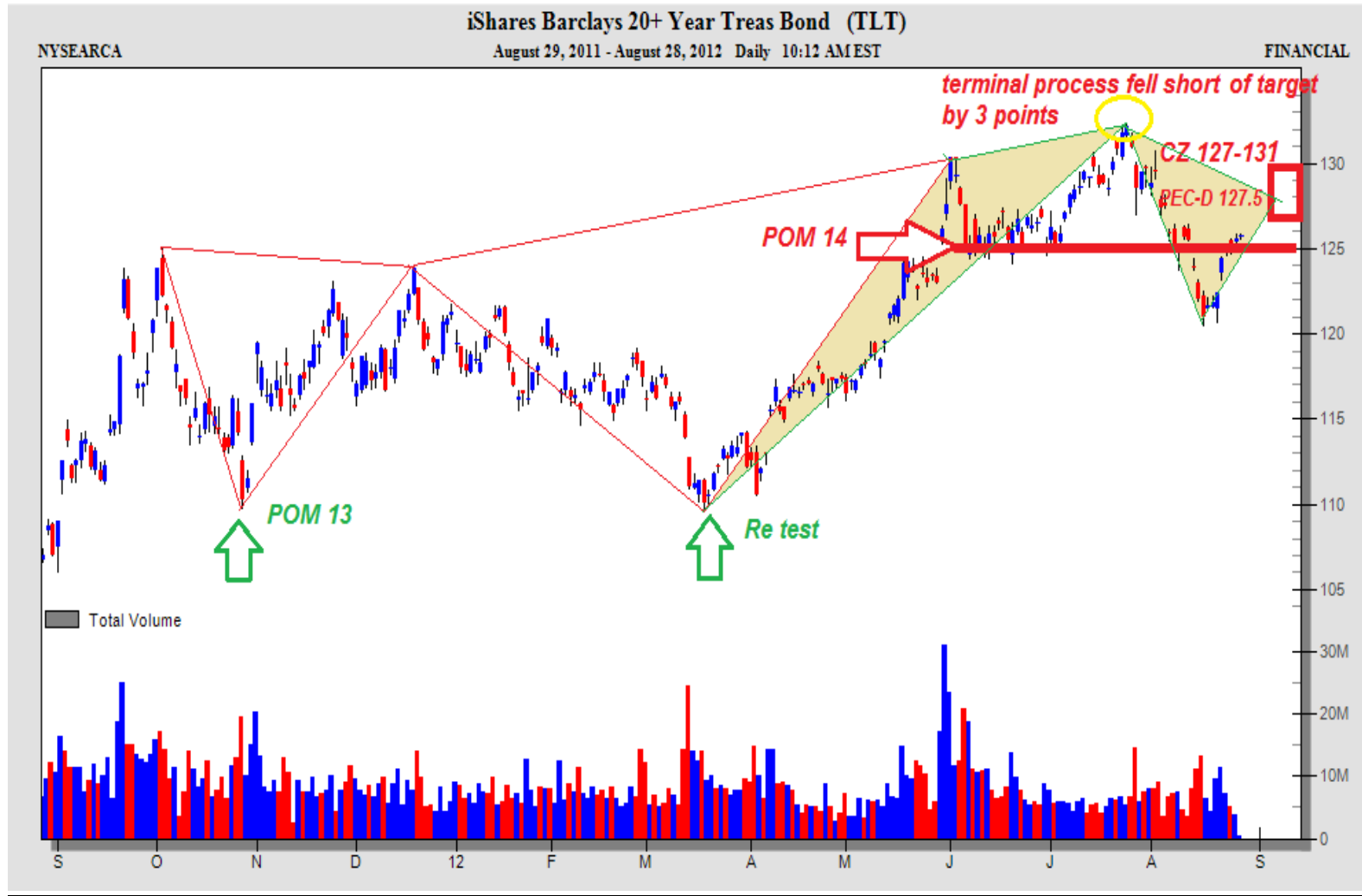


# TLT ( Bond ) – PEC- D Analysis – **Mid Term**

## Projections

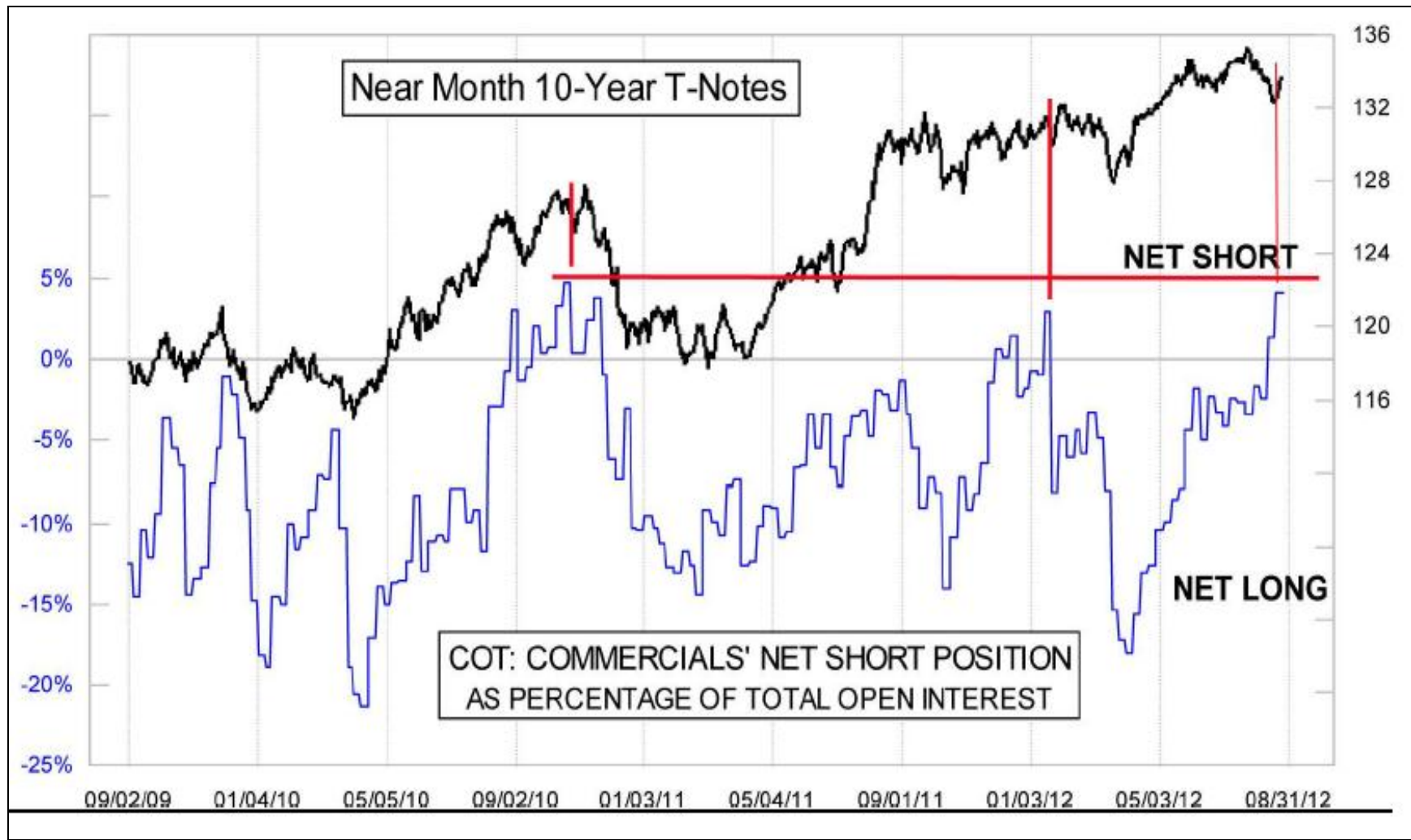
PEC-D – 127.5

CZ – 127-131



# TLT ( Bond ) – COT Analysis

*Commercials % are accumulating NET SHORT Positions which has resulted in previous Tops in TLT has occurred.*



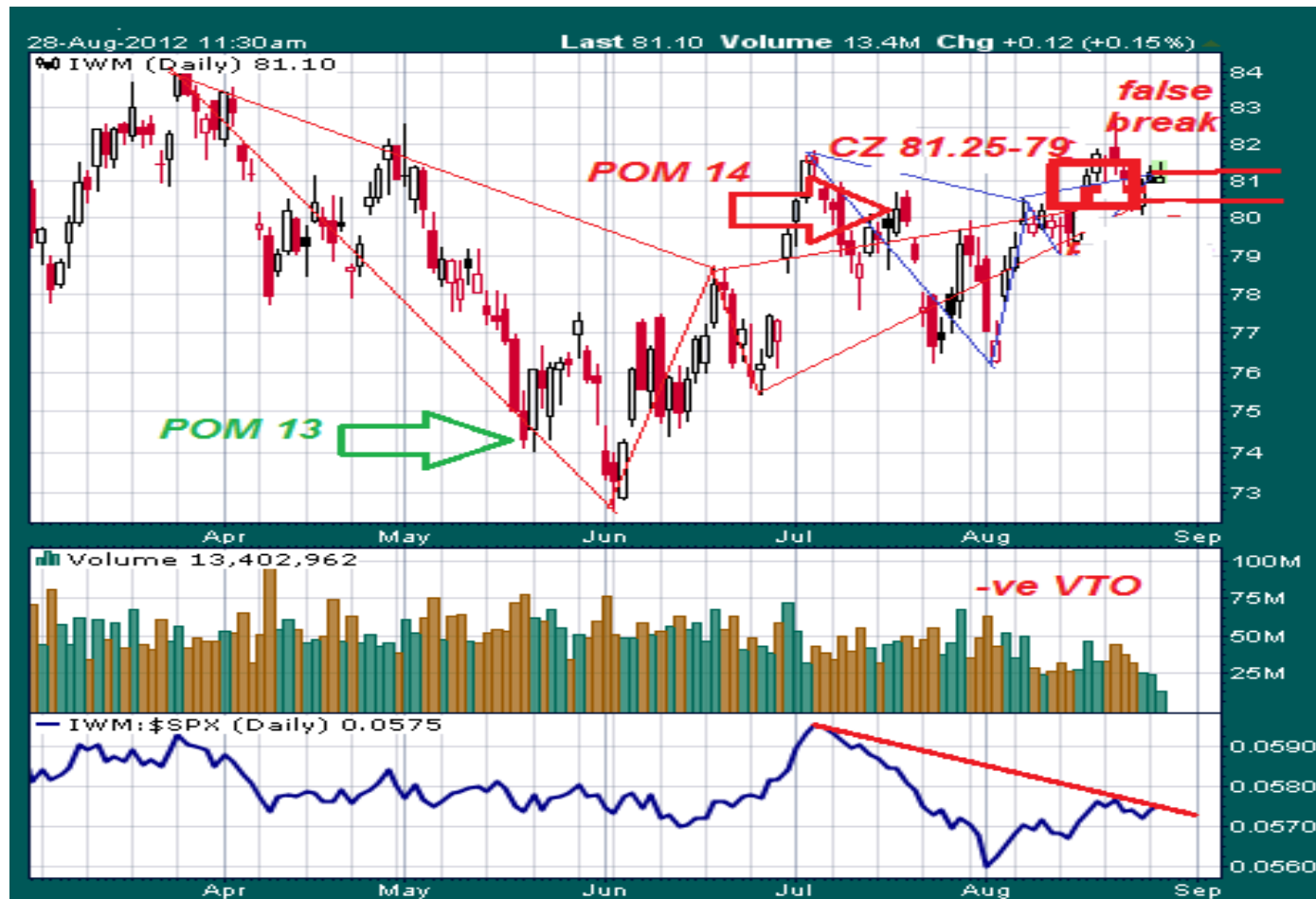
# IWM – ( RUSS – Small Cap) - CZ – PEC-D Analysis

Projections - Triggered

PEC-D – 81

CZ – 81.25-79

Last Report – At POM 14 , IWM was at 80.6. Projected Target CZ 80.5-79 was met but as suggested , VTO & Ratio Trend was still positive indicating residual strength in IWM.



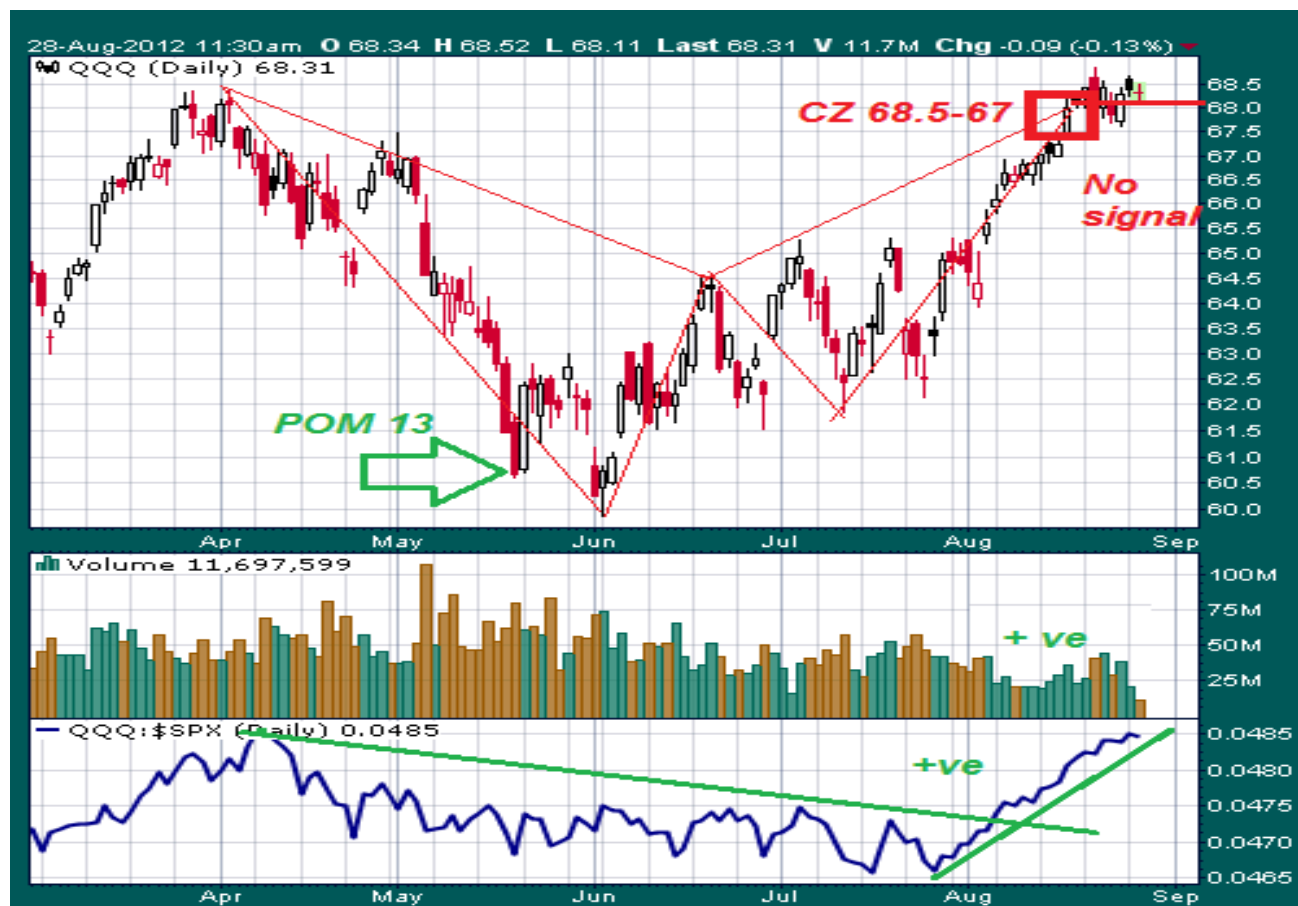
## QQQ – ( NASD 100) - CZ – PEC-D Analysis

Projections - **No Trigger** till AAPL completes Pattern or POM 15 in SPX Notes within charts)

PEC-D- 68

CZ –68.5-67

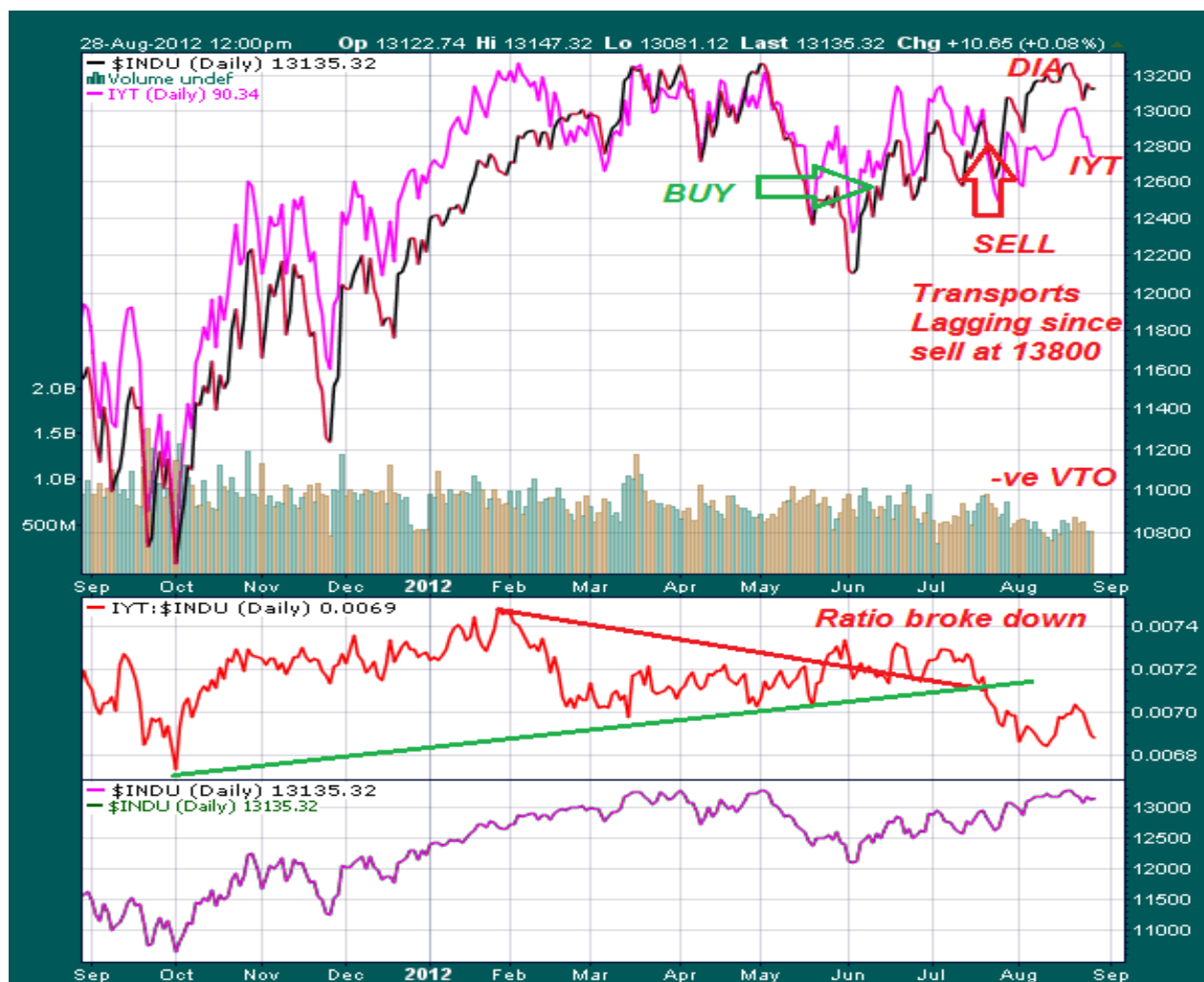
Last Report – Reached projected Target CZ 65.5-64 in natural oscillation , but as suggested , the Ratio Trend was still positive indicating continued strength in QQQ.



# Dow Transport Theory – “ Sell Triggered at 12800

By this Method – IYT ( Transport) is now leading DIA ( Dow Jones)

**DIA Price cross with IYT price strength has given SELL signal. The Ratio line ....IYT / DIA has broken downtrend SELL SIGNAL . PQV has been Invalidated - SELL SIGNAL**



# IYT - (Transport) - CZ / PEC -D Analysis -

Projections - **No Trigger** – Till bounce is complete towards CZ Notes within charts)

**PEC-D- 94.5 – Fell short of target**

**CZ –93.5-95 - Fell short of target**



## .DIA ( Dow Jones) – CZ / PEC –D Analysis

Projections - **No Trigger** till – SPX terminal process completed. Notes within charts

Last Report – Reached projected Target **CZ** in natural oscillation at **POM 14 @ 13100**, but as suggested , the Ratio Trend was still positive indicating continued strength.





- **CORRELATION RATIO ANALYSIS**

- **TNX ( Yield ) v/s SPX -**

***BOND YIELD DIVERGES FROM SPX. - Inter market divergences are showing downturns in the bond yield suggests pull back in SPX should be coming soon. .***

- **TLT v/s USD - Inter market Analysis**

***Both Trends have Normalized , SPX or TLT turns first needs to be watched.  
Inverse Correlation should continue in Next Trend.***

- **EXTREAME Sentiment Analysis ( 3<sup>rd</sup> Party Data ) - Courtesy :**  
**SENTIMENT TRADERS**

***None Indicators are at Extremes***

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

- None

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

- NYSE
- IYT

## CHART ANALYSIS – US Broader ID v/s SPX

- *YTD – Broader IDX Relative performance v/s SPX - Chart Analysis.*

## US BOND – TLT - Chart Analysis

- *BOND -TLT - Trend & Oscillator Analysis*
- *BOND -TLT - RUSSEL -IWM - PEC –D Analysis*
- *BOND -TLT - CZ – Price & Volume Analysis*
- ***CORRELATION RATIO Analysis TLT – with SPX***
- ***EXTREAME Sentiment Analysis ( 3<sup>rd</sup> Party Data )***

## NASD - QQQ – Chart Analysis

- *NASD - QQQ, Trend & Oscillator Analysis*
- *NASD –QQQ - PEC –D Analysis*
- *NASD –QQQ, Poly- Trend Analysis*
- *NASD – QQQ – CZ – Price & Volume Analysis*
- ***CORRELATION RATIO Analysis QQQ– with SPX***

## RUSSEL – IWM – Chart Analysis

- *RUSSEL -IWM, Trend & Oscillator Analysis*
- *RUSSEL -IWM - PEC –D Analysis*
- *RUSSEL -IWM Poly- Trend Analysis*
- *RUSSEL -IWM – CZ – Price & Volume Analysis*
- ***CORRELATION RATIO Analysis IWM – with SPX***

## DOW, TRANSPORT, – Chart Analysis

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

# 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
- DOW TRASPORT THEORY – Criteria.
- PEC –D “ Pythagoras – Expansion & Contraction Criteria
- SPX – TAS 3x3x3 / 9EMA - “ Trend Adjusted Signal “ Criteria.
- Definitions of Extreme Sentiment Indicators

- **2011 – TLT – POM Signals & Price Projections – Wrap Up**
- **Trading & Investment Concl – Start point 88 (1<sup>ST</sup> Jan) – 121 (31 Dec)**

## TLT- US BONDS- 2011– TURNS REAL TIME–POM & CZ



## ● 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 # 2B,G – 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.*
- *POM's are more favorable Areas to act for better Reward / Risks.*
- *Stops always on other side of CZ @ value based on Portfolio's 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

. All the GLOBAL Indices tends to follows the Price path of POM's in general but for POM14, 15 regime various Instruments EFA, EEM,EWZ,EZU,EWA, EWJ 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

## Trading & Investment CZ - Conclusion History 2011

### **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)



## **DOW THEORY Signal -**

*In chart below – top most window - when IYT prices Trades above DIA prices (– green arrow) & , Confirmed by the break of blue line on IYT / DIA Ratio ( window 2 below) Triggers a Buy Signal. As long as both remains in same trading overlap pattern. ....As soon as IYT breaks below ( red arrow) confirmed by breakdown in ratio on IYT / DIA “ Sell is signal” is trigger till next time it repeats itself as indicated in Blue bar ( which we are awaiting for Triggers) .*

*point – In spite of Sell Signal by this DOW Theory end Jan ( which we used as PRE – Qualification) The real sell by our Method came on 19<sup>th</sup> Feb ) , by the time IYT moved up 7% towards the CZ – Validation to finally get Trigger in PQV and then fell apart ( Refer sector Report, Feb Edition)*

*RULE - We follow Dow theory for Tracking purpose only – with 4 criteria for Buy Trigger / Sell Trigger ( See Appendix below) . Dow Theory usually Triggers late Signal and tends to Whipsawed in Trading Range Market . Conventional DOW THEORY BUY SIGNAL triggered @ POM 14 has failed 4 times in 2011 – whiles Our Modified DOW THEORY did not Trigger Buy Signal.*

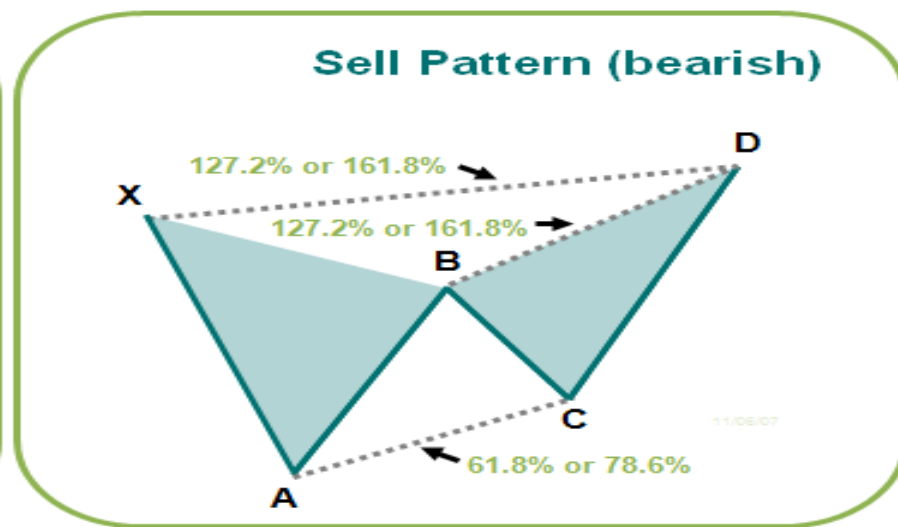
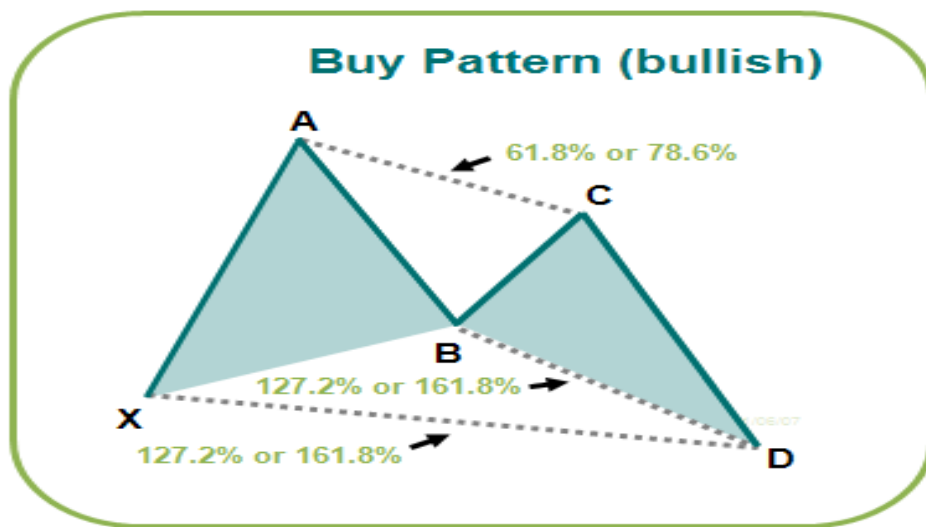


# Pythagoras Expansion / Contraction – (PEC) Model

- 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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