Research Note – Market Strategy – US BROADER IDX (A# 2B) – STRATEGY & PROP Analysis (SP)
MAEG- MARKET STRATEGY _US_BROADER IDX # SG 2011 # FEB_15
For Immediate Release – Wednesday AM (EST)

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Market Strategy US Broader IDX (A # 2 B) - (SP)

Contents for coverage within A # 2B –SP

- **US BONDS -TLT**
- **QQQ – NASD 100**
- **IWM - RUSSELL 2000**
- **IYT / DIA – DOW TRANSPORT Theory**
- **IYT – TRANSPORTS**
- **DIA – DOW 30**
- **NYA - NYSE (As required)**

Today's Quote –

" Fear is false appearance that looks Real "

Index

1. Executive Summary.

US BRODER IDX

Primary Risk Market SPX – *We are watching 1375 as our Target point for <u>POM 15 – Net Short</u> Position <u>ONLY</u>(if & when the Key reversal takes place) .*

Since our 1325 Trigger price point on 1/26- <u style="color:red">Alert</u> *- for (½ recycling position Hedge entry) , In <u>Past 3 weeks</u> SPX has added <u>ONLY 25 SPX point</u>. (from 1325 to 1350 levels) except if one is Long AAPL and NDX then it has effected quite a bit . In in our case eventually we would like SPX to get to 1375 to capitalize on it on it on reverse side . AAPL should help us to get to that Target AAPL is 17% of NDX and 8% of SPX .*

As projected AAPL moved into our Parabolic slope projection of <u>510-517</u> indicated on chart in Monday's Report A # 1 – MS .

We remain at <u>POM 14 re</u>, (for Fully Hedge Position) Locking in our Profits from POM 12 and POM 13 and awaiting patiently (within our RA/ RI process) to let the Momentum patterns fade into extension. This would allow us to take the opposite side of the Market that has completed bearish larger pattern and Projection.

Secondary Markets – *Post POM 14 on SPX* **-** *Each US Broader IDX – QQQ, IWM, DIA, IYT are approaching / approached its own Individual CZ's & Price Projections (indicated in our previous messages as price targets) for its own validation via PQV's & Pattern completion.*

In Summary , within our all coverage USD, EWJ (Japan) , DBA (Agro) , UNG (Ngas) , USD/YEN, TLT (Bonds) are on <u>Bullish trigger</u> whiles all the others are either ST & MT Bearish setups.

<u>ALERT</u> – At the Trigger of POM 15 in SPX @ 1375, all the secondary market will be Qualified for adding into NET SHORT, especially the instruments which has crossed the CZ with lighter PQV, should come down harder.

US BONDS (TLT)

TLT is at POM 13 , since 10/27 (CZ – 110-112). It has initiated ABC up towards 123, we are in midst of this move . We are seeing signs of Bullish Top. If this move higher occurs it could very well put pressure on SPX due to its inverse correlation & flight to quality. ALERT – Risk Management below 107 (STOPs based on Portfolio's Objectives). Earlier we had closed the POM 15 Signal position from 123 trigger to Target 115.

- *For Price Path and more Justification for the Market Calls, refer   to conclusions and Detail Charts in the Trailing sections within the Report*
- *All the Broader Indices tends to follows the Price path of POM's in general but for POM14, 15 regime various Instruments IWM, IYT, QQQ, DIA, NYA 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*

2- *Trading & Invest Conclusions -* Price / CZ Projection Summary

A # 2B - US Broader IDX Report 15th Feb 2012	CURRENT STATUS	Target Reached CZ - Trigger Confluence Zone	Next Target	Comments
SPX				
NEW - POM 15 (1375)	BEARISH	1375 ?		NO TRIGGER YET (NO NET SHORT YET)
SHORT-TERM -(1325) - Fully Hedge - Triggered	BEARISH	1325	1260-1240	leg down to begin soon
MID -TERM -POM 14 - 1280-1310	BEARISH			
TLT				
SHORT-TERM	NEUTRAL		123	Consolidation (RISK Management below 107)
MID-TERM (last) - POM 13 (110-112) - Triggered	BULLISH	111	123	ABC up in Progress
LONG-TERM (last) - POM 12 (88-90) - Triggerd	BULLISH	89	123	3rd ABC up in Progress
QQQ (NDX)				
SHORT-TERM	BEARISH	60.5	TBA	@ ALERT SPX - 1325 on 1/26
MID-TERM (10/31 & 01/17)	BEARISH	60-59		@ ALERTED - 1/17 & 10/31
IWM (Small Cap)				
SHORT-TERM	BEARISH	79.5	TBA	@ ALERT SPX - 1325 on 1/26
MID-TERM (01/17)	BEARISH	77		@ ALERTED - 1/17
DIA (DOW)				
SHORT-TERM	BEARISH	12800	TBA	@ ALERT SPX - 1325 on 1/26
MID-TERM (01/17)	BEARISH	12600		@ ALERTED - 1/17
IYT (Transports)				
SHORT-TERM	BEARISH	94.5	TBA	@ ALERT SPX - 1325 on 1/26
MID-TERM (01/17)	BEARISH	91-89		@ ALERTED - 1/17 (False Bursted)
				NOTE
LEGEND	**Bull Market Signals** **BONDS**	**Trading Range Signals** **SPX**		For Detail Price Path Chart Analysis Indicators, Justification for our Conclusions, refer to the full Report for cross varification
POM 15	Full Hedge Status	NET SHORT Status		
POM 14	Partially Hedge Status	Full Hedge Status		
POM 13	NET Long Status	REBALANCE BETA		
POM 12	FULL Long Status	NET Long Status		
Yellow color	Zone Triggered			
Red Color	Zone Bursted			

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 (3rd 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*

SPX – Terminal Process – View 1 - (Special Situation)

SPX is now trading inside the May 2nd swing point and staying inside the ascending wedge pattern. A close within the May 2nd swing point suggests a test of the high of May 2nd. Within this wedge pattern , we have 2nd & 3rd Drive to the Top build in .

By 26th Jan 1325 were finished the Hedging process, locking in POM 12, 13. We are awaiting for NET SHORT – POM 15 – Position on Trigger of 1375 .

SPX – Terminal Process – View 2 - (Special Situation)

Continuing from above chart , zoomed in Bearish wedge has the graphic price path view of the 3ʳᵈ Drive)

(Notes within the chart) to target 1375

YTD – US Broader IDX performance v/s SPX

<mark>Weakest and strongest Indices for PAIR TRADES</mark>

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 market Analysis Model with Ratio Relative performance v/s SPX)
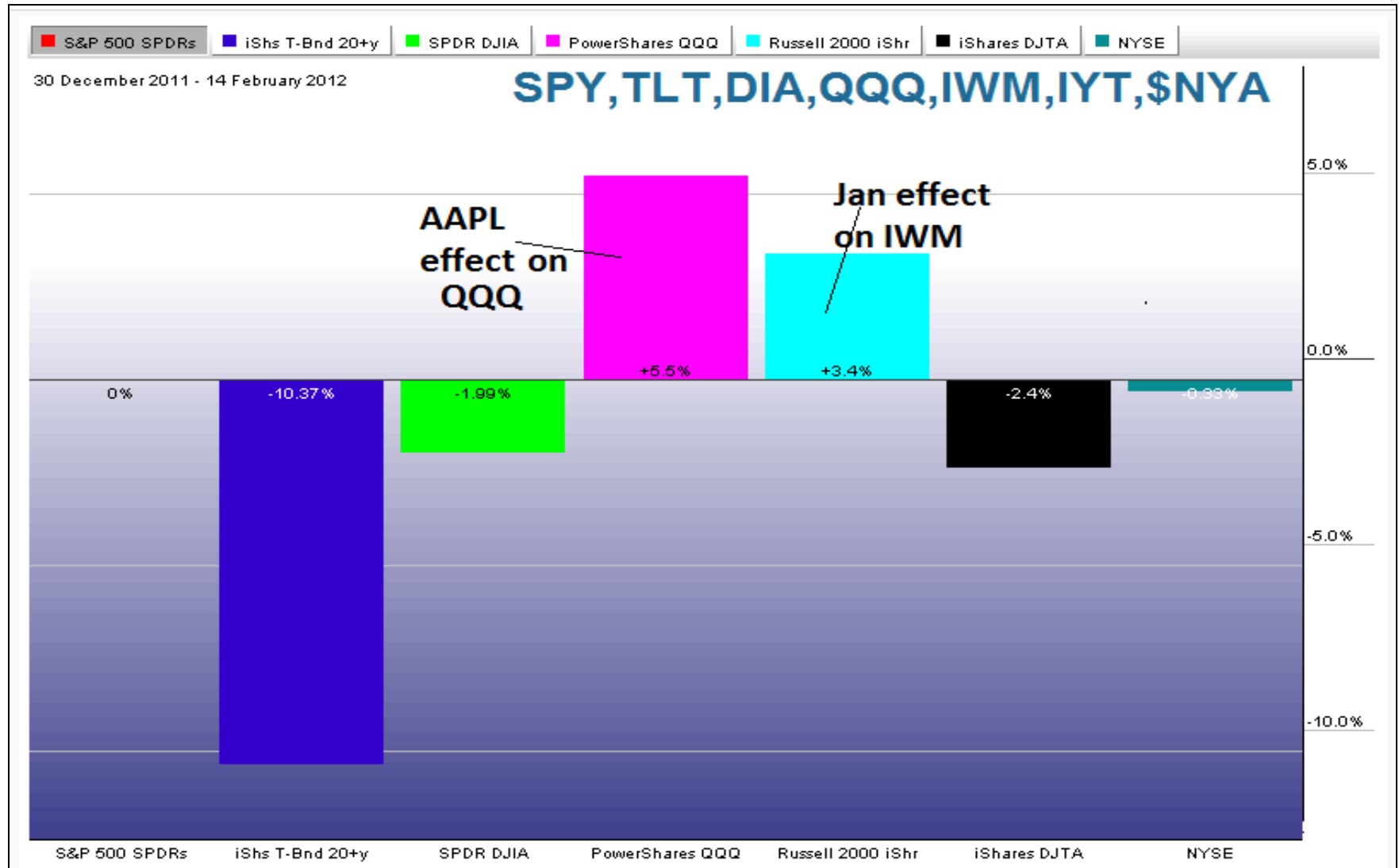
SD - OVERVALUED v/s SPX   ETF (SD +2)

- **NONE**

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

- **NYSE**

TLT – CZ / Ratio Analysis

Price & Volume with Pattern action suggest, TLT is building cause towards its higher price target 123 from POM 13 initiation price 111. (Refer notes within the chart)
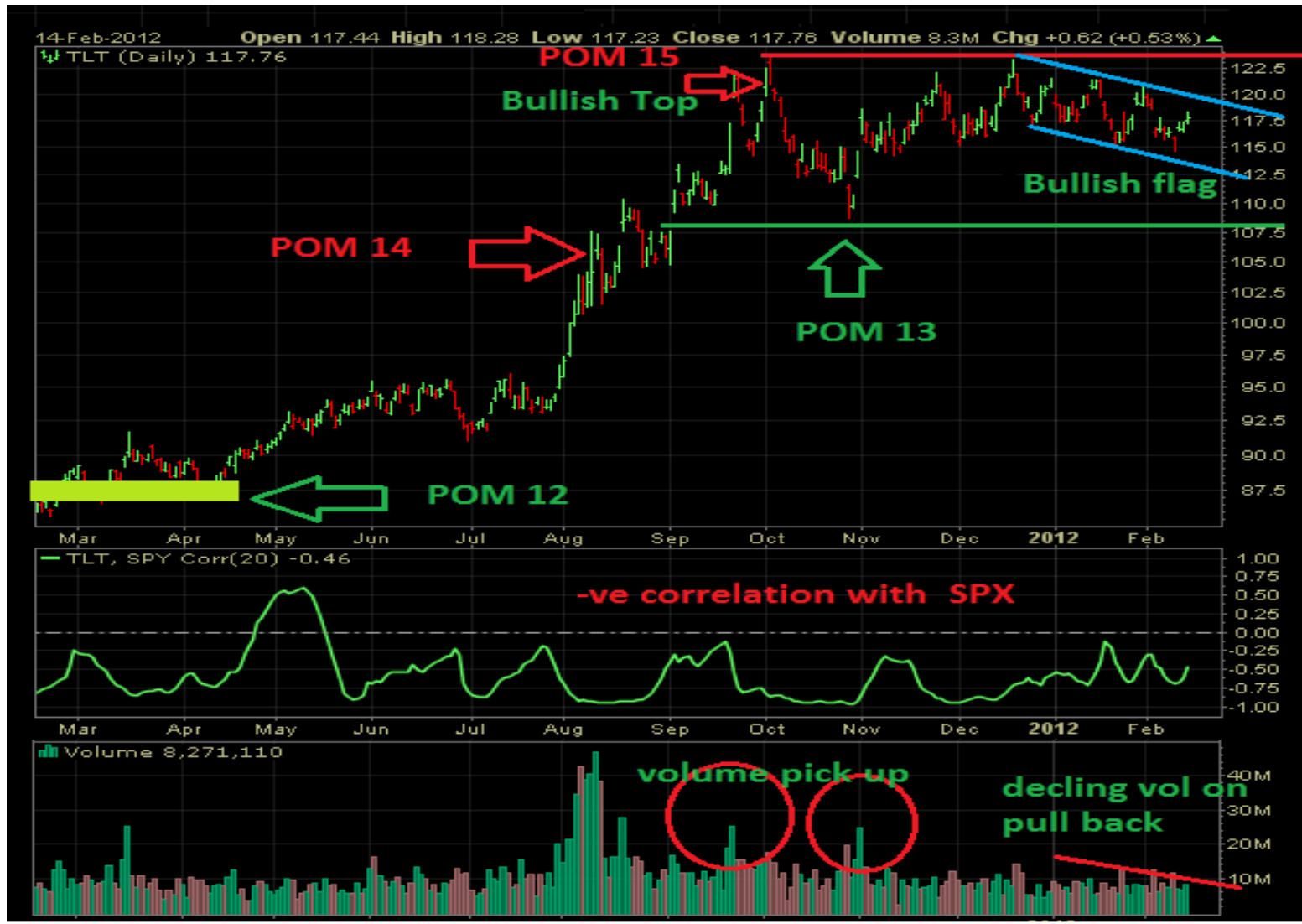
TLT – MA / Trend Pattern and Oscillator Analysis -

TLT this TEXT BOOK example how BULL Market Leg began @ 88 – POM 12 went all the way to all the way to POM 15 to 123

On pull back , the latest POM 13 triggered @ 111 is building a LEG UP, TLT/ SPY Ratio pattern acting very Bullish ..
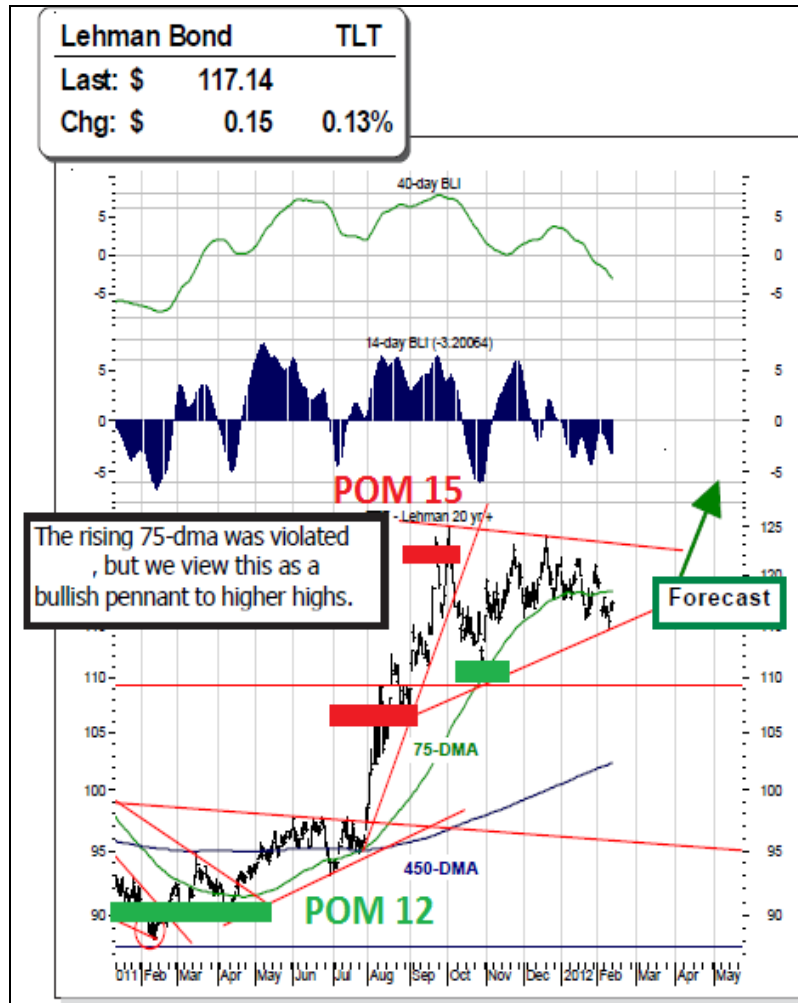
• *CORRELATION RATIO ANALYSIS*

• *TNX (Yield)   v/s SPX -*

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

- ## *CORRELATION RATIO ANALYSIS*

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

Inverse Correlation continues in Current Trend

- ## *EXTREAME Sentiment Analysis (3rd Party Data) - Courtesy : SENTIMENT TRADERS*

None Indicators are at Extremes

NDX - PEC –D Analysis

PEC –D Pattern on NASD is completed 127/618 which equates to 60 on QQQ – Alerted on 1/17.
*Thanks to AAPL for extension. On the day of 1325 SPX Trigger Alert – QQQ was at 60.5*

NDX – PEC –D Analysis – Bigger picture

This is the only Index that has taken highs off 2007 . On longer term . **On 10/31 – Alert - PEC –D Pattern was completed (QQQ @ (59) .**
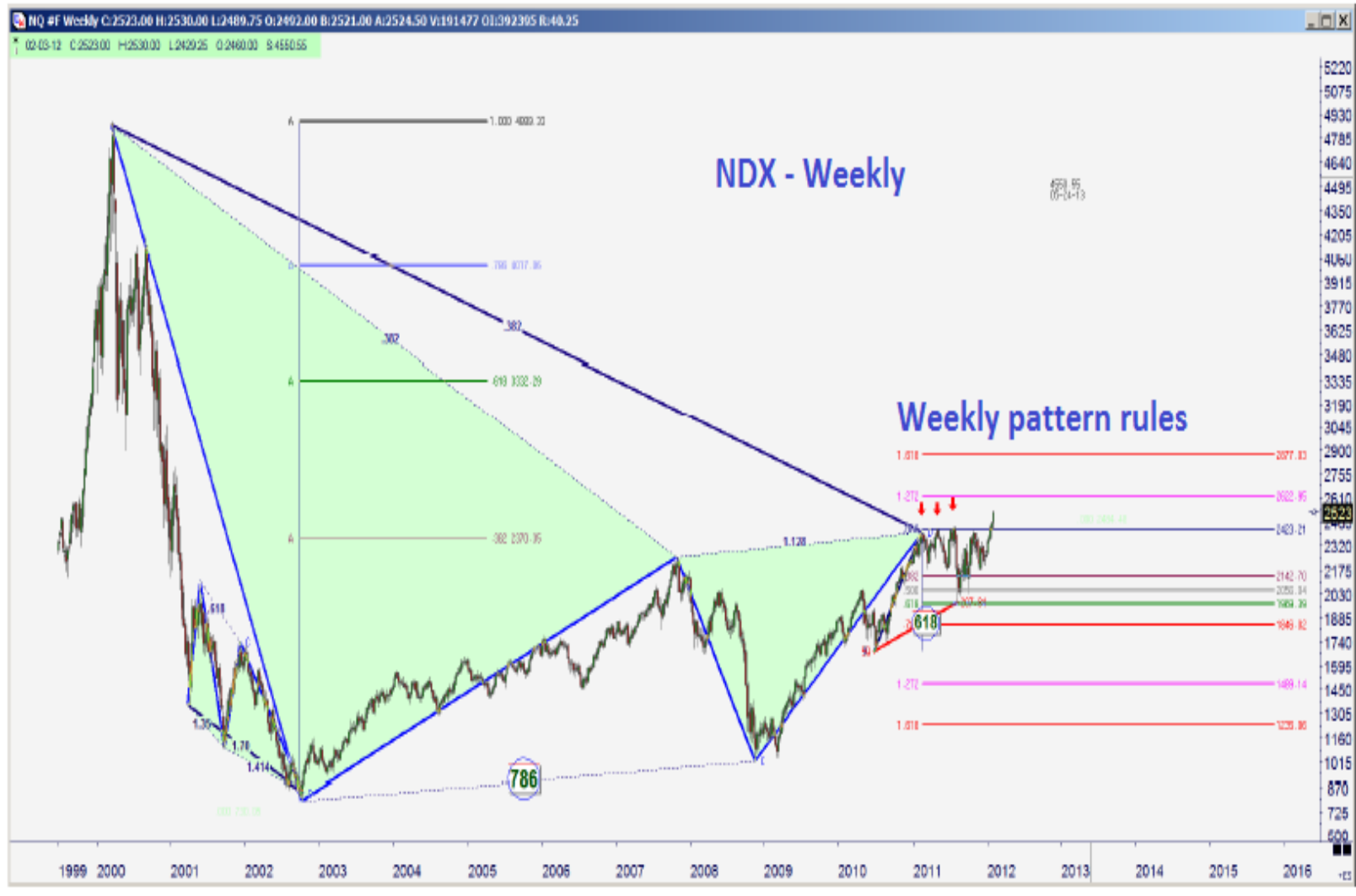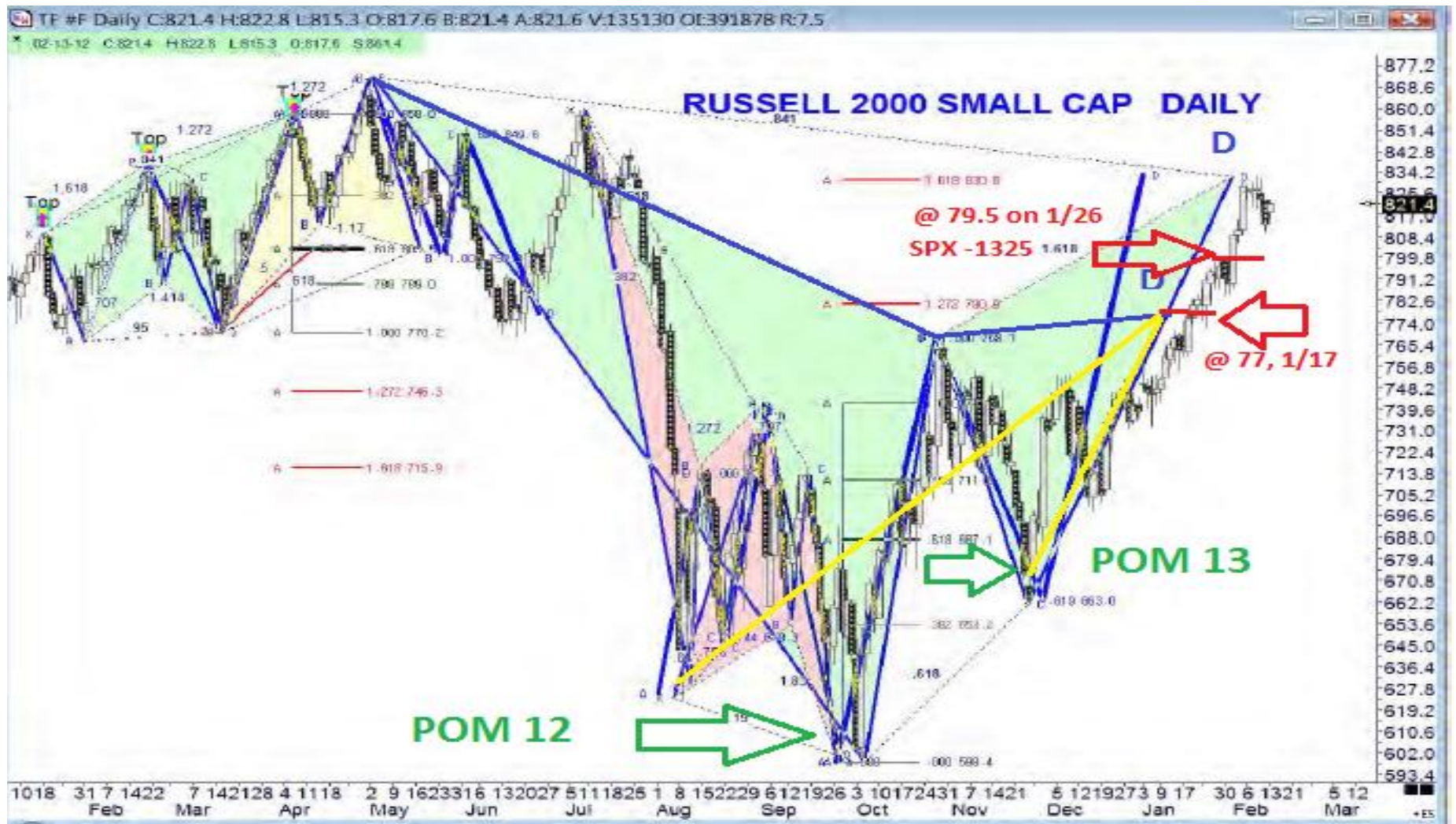
QQQ – MA / Trend Pattern and Oscillator Analysis -

By this Analysis , QQQ is getting parabolic due to AAPL's composition within. But Bearish divergence on the McClellan Oscillator continues to remain. Ratio – QQQ / SPY continues to show bearish pattern.

The natural pull ==*back target 55 indicated in yellow*== *.*
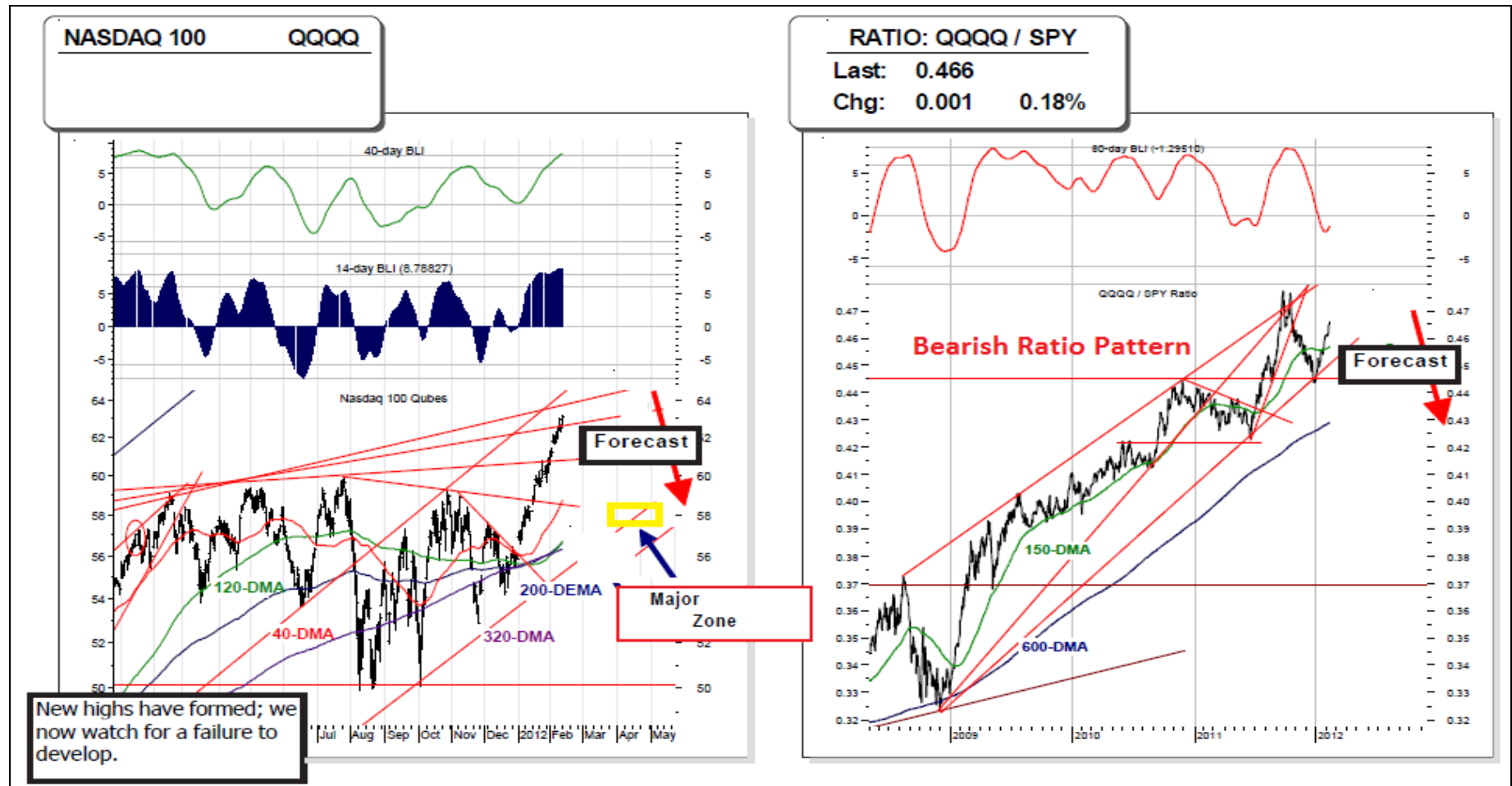
IWM - PEC –D Analysis

PEC –D Pattern on IWM is completed 127/618 which equates to 77 – Alerted on 1/17.
. On the day of 1325 SPX Trigger Alert – IWM was at 79.5

IWM – MA / Trend Pattern and Oscillator Analysis

By this Analysis , IWM in spite of rally Bearish divergence on the McClellan Oscillator continues to remain. Ratio – IWM / SPY continues to show bearish pattern. CZ 74-77 was entered into but prices did not close under 75.5 as required to Trigger PQV and continued to move higher. To PEC-D 77, 1/17 triggered signal as Alerted .

The natural pull back target 75 indicated in yellow .

Dow Transport Theory – " No Buy signal "- Still on SELL SIGNAL

Since our Trigger at SPX 1325 on 1/26 , IYT has lagged considerably (see chart below)

In Current situation IYT has lagged once again on POM 14 Re run . (window 1 in chart below) . More over IYT cross with DIA on price strength has not given signal (1st chart below) The Ratio line ….IYT / DIA is has broken downtrend but is suspect (see chart below 2nd window), Trigger Buy comes in if Cross the down trend line . PQV has not validated yet .

We follow Dow theory for Tracking purpose only – with 4 criteria for Buy Trigger / Sell Trigger (See Appendix below) . Dow Theory usually is late comer to the party & Gets Whipsawed in Trading Range Market . Conventional DOW THEORY BUY SIGNAL triggered @ POM 14 failed 4 times in 2011 – But Our Modified DOW THEORY did not Trigger Buy.

DIA – PEC D- Analysis

**By PEC –D Method   projections (618 / 1.27)   to 12600 – ALERTED 1/17 indicated in red ,
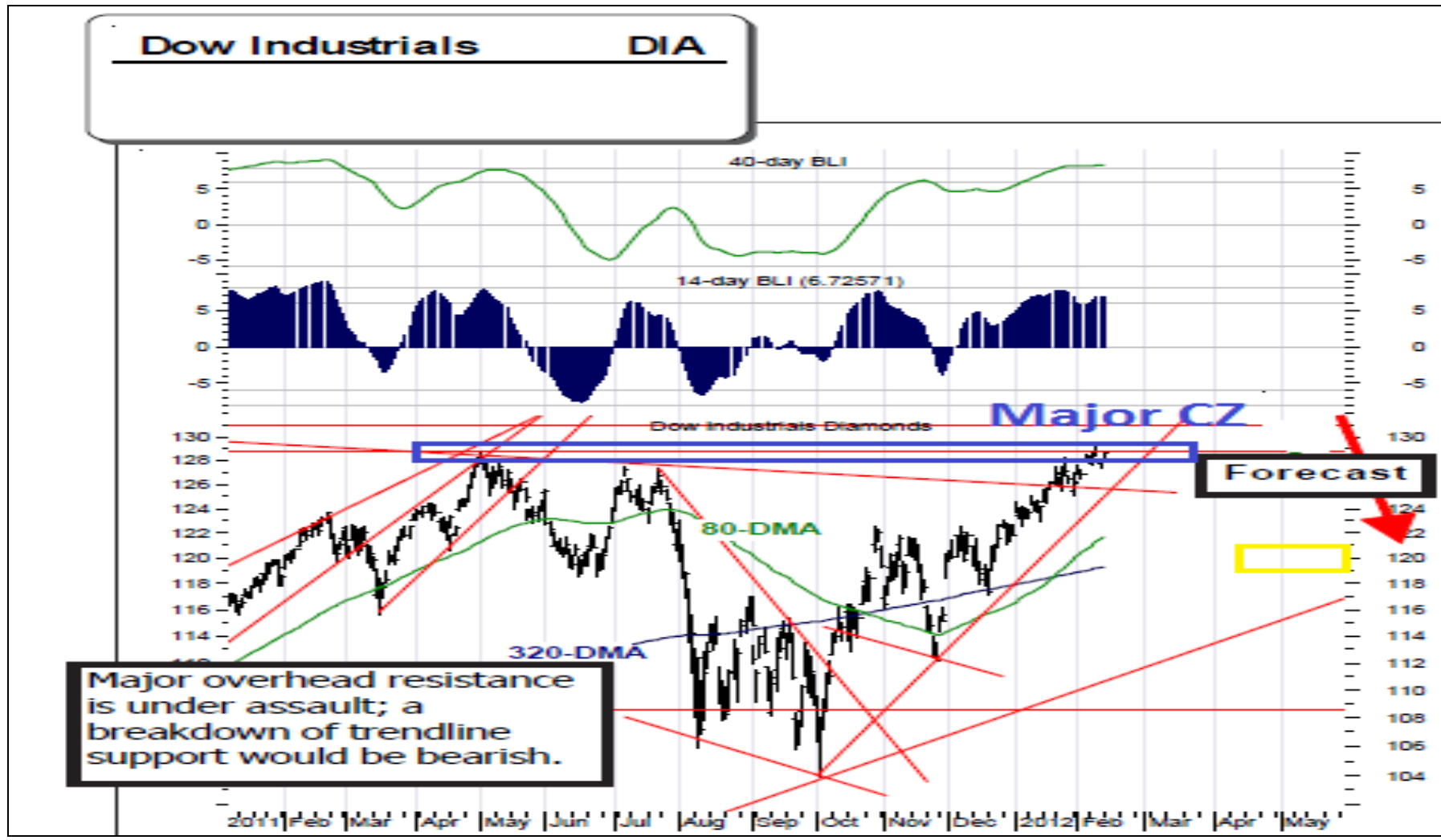On 1/26 – SPX – 1325 Trigger – DOW was at 12800.**
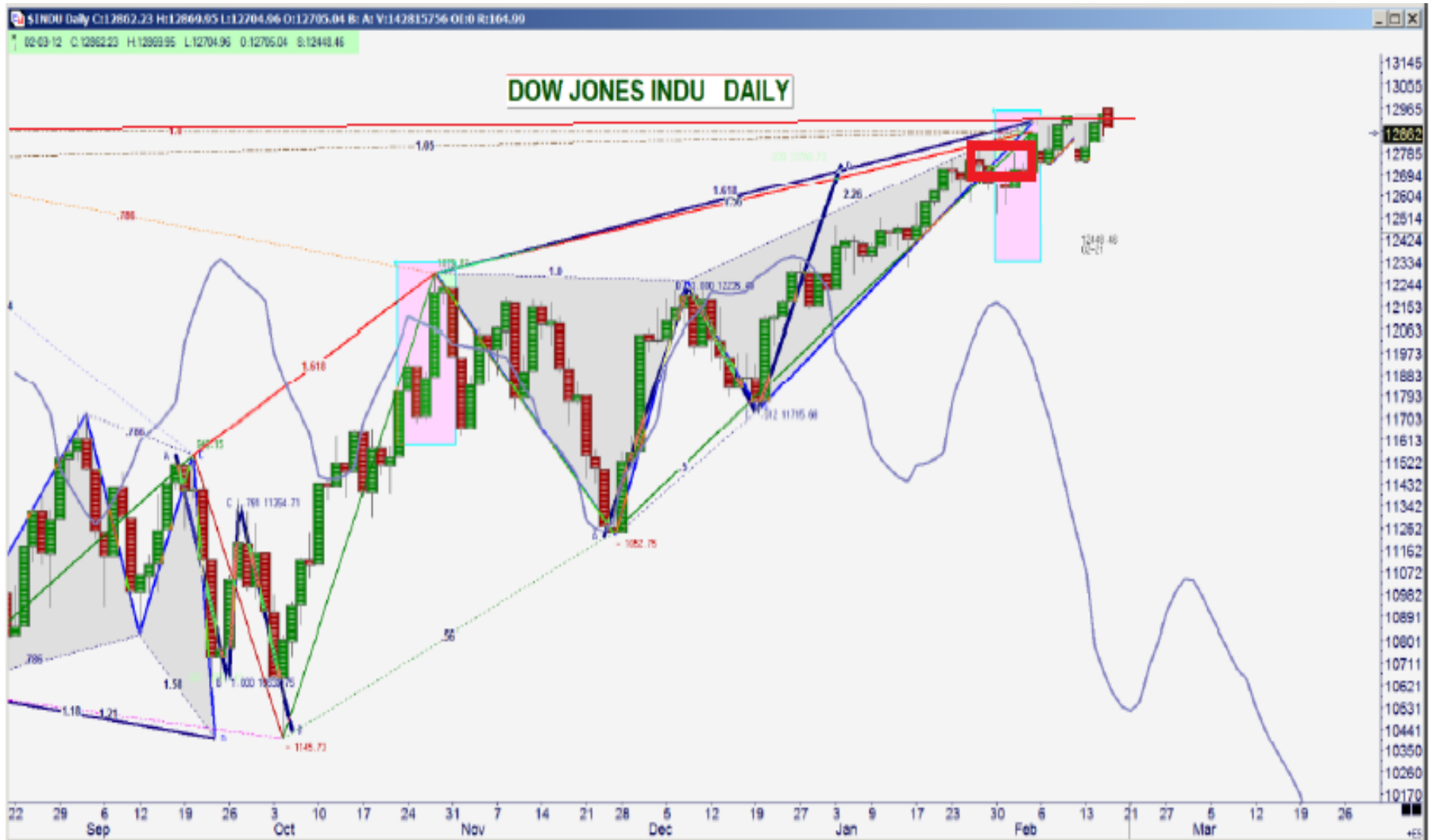
DIA - MA / Trend Pattern and Oscillator Analysis

DIA is into Major CZ at current prices (indicated blue in chart below)
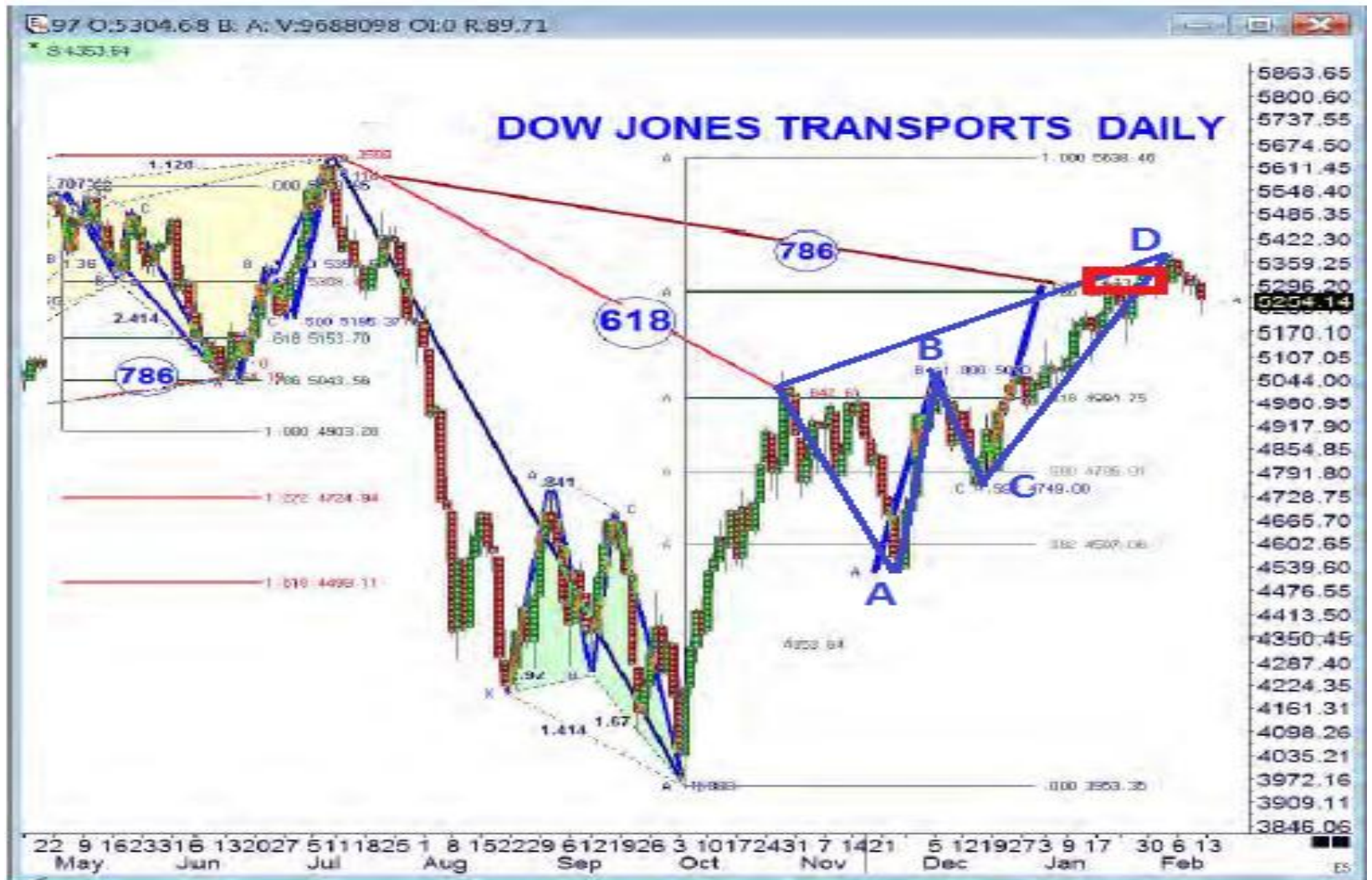*By this Analysis , in spite of rally extension Bearish divergence on the McClellan Oscillator continues to remain.*

The natural pull back target 12,100 indicated in yellow

IYT – PEC –D Analysis

DOW JONES TRANSPORTS DAILY

IYT - MA / Pattern and Oscillator Analysis –

Met and <u>exceeded with</u> (false break) our Projected Target <mark>CZ 91-89</mark> (in red) initiated from POM 13 Trigger.
After entering the CZ 91-89 it did not close under and continued to extend.. <mark>On 1/26 – SPX – 1325 Trigger – IYT was at 94.75.</mark>

By this Analysis , in spite of rally extension Bearish divergence on the McClellan Oscillator continues to remain. Ratio – IYT / SPY continues to show bearish pattern.
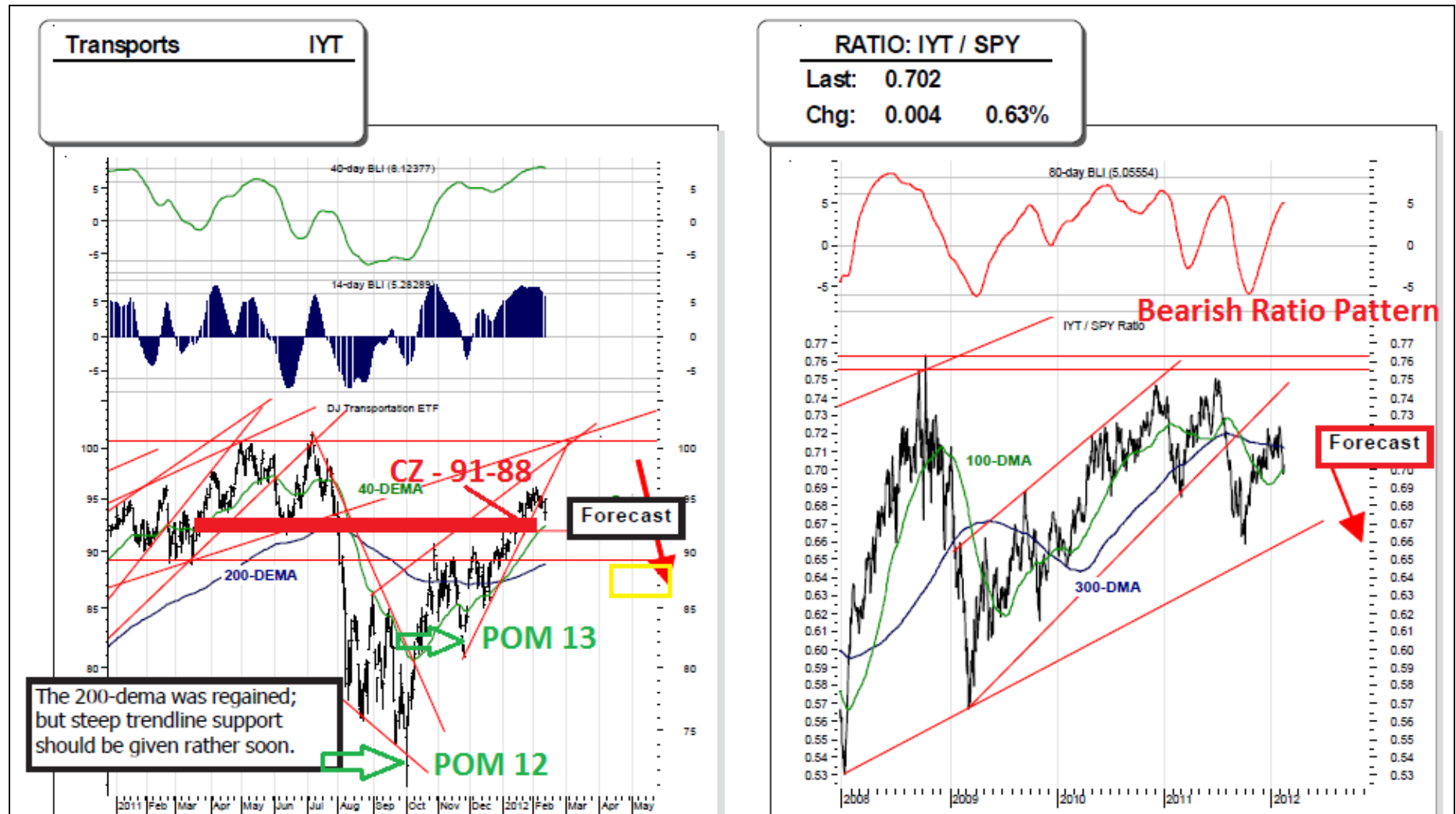
Contra - Indicator on SPX –

Courtesy – **Our retired old friend and Trader " Eddy " has kept a track of this Indicator.**

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 (1ST Jan) – 121 (31 Dec)**

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

- **TLT – POM Signals & Price Projections -**

  - **TLT - Trading & Investment Conclusion**

  - **Start point 94- 1ST Jan**

- _**Net Short – POM 15 - (Total points gains = +6.5   )**_

  TLT – Short position closed @ 115 from 123.5 via Trailing stop for 8 points gains

  - _Alert 4_ - POM 15 –, TLT – Triggered Alert – 10/4 @ 123.25 closed @ 115 = (+ 8.5 Points gains)
  - _Alert 3_- POM 15 –, TLT – Triggered Alert – 9/30 @ 119.25 / closed @ 117.25 = (+2. Points gain)
  - _Alert 2_ - POM 15 –, TLT – Triggered Alert – 9/26 @ 120 / Stopped @ 122 = (-2. Points loss)
  - _Alert 1_ - POM 15 –, TLT – Triggered Alert – 9/6 @ 113.65 / Stopped @ 115.5 = (-2. Points loss)

- _**Net Long – POM 12,13 (Total point gains = + 9) + Yield of 6 months**_
  (POM 12 for Full Fresh capital to go long)

  - _Alert – 8/35_ - POM 14 Triggered @ 102 exit (1/2) – Earlier POM 12 Triggered 01/21 (1/2p) & 04/ (1/2) for average price @ 89.5 = +12.5 points gains
  - _Alert – 5/5_ - POM 13 Triggered @ 95 exit (1/2) – Earlier POM 12 Triggered 01/21 (1/2p) & 04/08 (1/2) for average price @ 89.5 = +5.5 points gains

- _**Hedge Longs / Risk Management for corrections - NONE**_

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*

Trading & Investment CZ - Conclusion History 2011

CHARTS UPDATED 16TH AUG - FOR ABOVE IDX IN AREAS OF " CZ STOPS" ANNOUNCED - REALTIME

Read notes within the chart . ……….
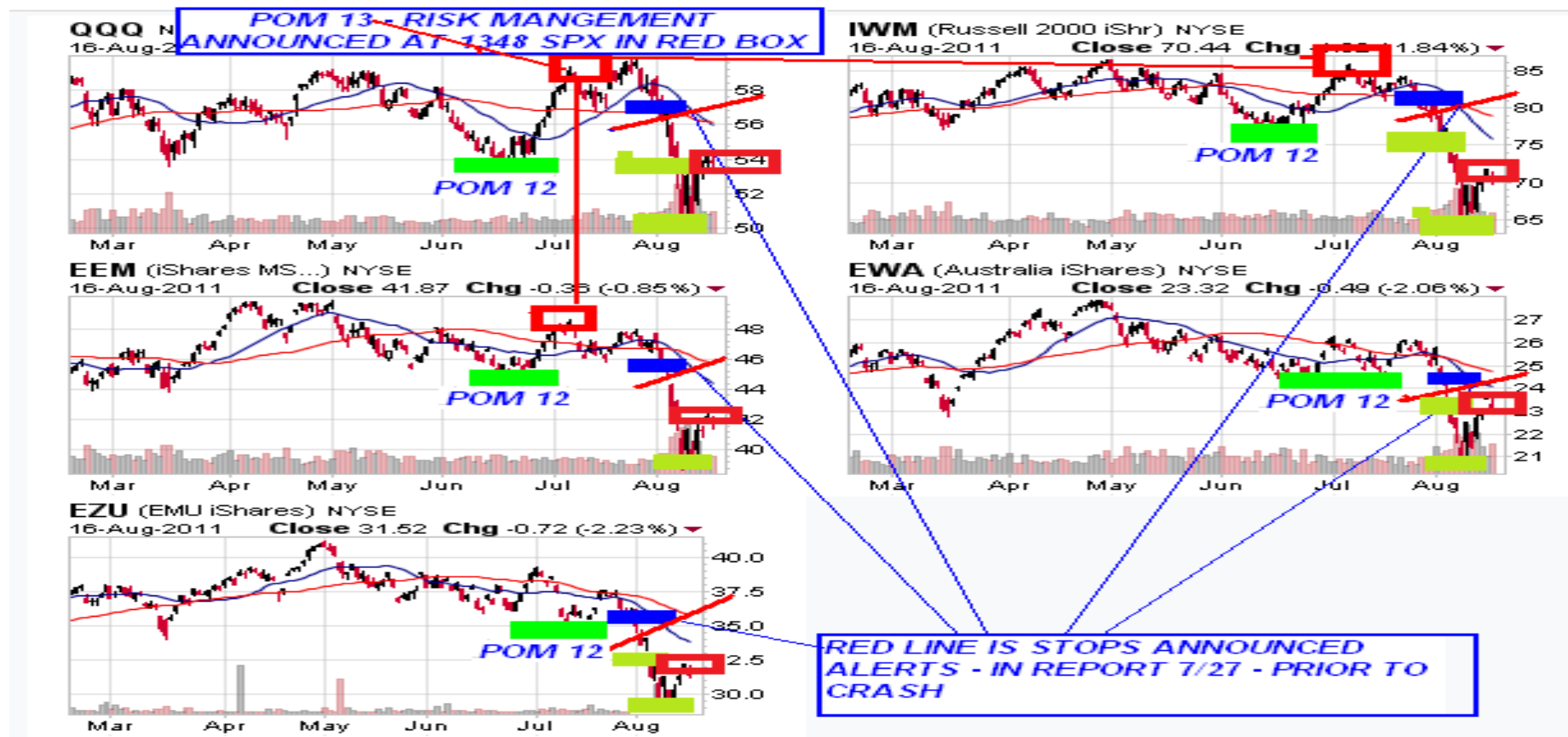
Quick Summary of Turning points - "Price path Reported " from Previous Reports - UPDATE dt – 7/21

Previous Signals

SELL SIDE *- Triggered at Qualified CZ on "time & price"*

- *IWM (83-85)….with 40 M or less test - qualified at CZ Sell – 31st March @ 84*
- *QQQ (56- 58) … with 75 M or less test - qualified at CZ Sell – 21st April @ 58*
- *EEM (49.5 – 52.5)… with 55 M or less test - qualified at CZ Sell – 21st April @ 50.19*
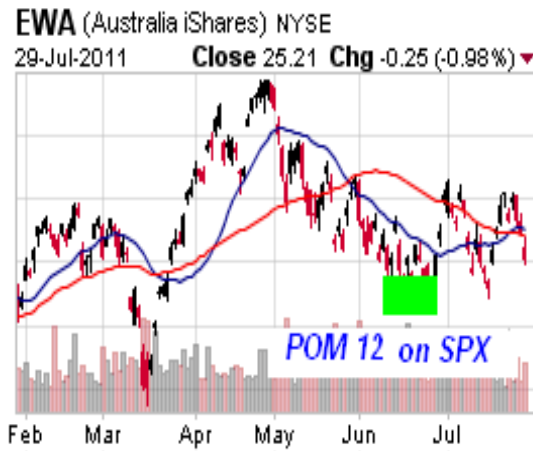- *EZU ….No Validation*

BULLISH CZ *- Triggers at Qualified CZ*

- *Alert - SPX has reached our Bullish CZ 1315 - 1295 , this will be 4th counter trend rally in 2011 within the regime of POM 14 re runs, All the above broader indices will follow the same price path in different proportion based on its own Relative Strength (see details of ech below)*

Short term Risk mangement zone announced for POM 13 on 7/08 & on A # 2 - MS - 7/06

Bullish CZ on Pull back but in Case of IWM violated at 81

QQQ Nasdaq GM
29-Jul-2011 **Close** 58.00 **Chg** -0.19 (-0.33%) ▼

POM 12 on SPX

IWM (Russell 2000 iShr) NYSE
29-Jul-2011 **Close** 70.74 **Chg** -0.10 (-0.13%) ▼

POM 12 on SPX

EEM (iShares MS...) NYSE
29-Jul-2011 **Close** 47.11 **Chg** +0.20 (+0.43%) ▲

POM 12 on SPX

EWA (Australia iShares) NYSE
29-Jul-2011 **Close** 25.21 **Chg** -0.25 (-0.98%) ▼

POM 12 on SPX

EZU (EMU Index iShares) NYSE
29-Jul-2011 **Close** 35.90 **Chg** +0.01 (+0.03%) ▲

POM 12 on SPX

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)

Past 52 Week DOW THEORY Signal - updated 20th April

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 19th 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)

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

Buy Pattern (bullish)

Sell Pattern (bearish)
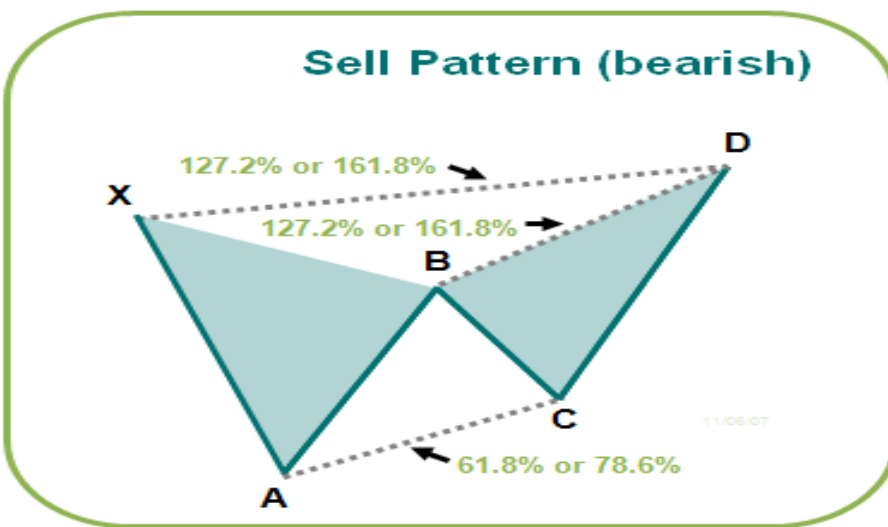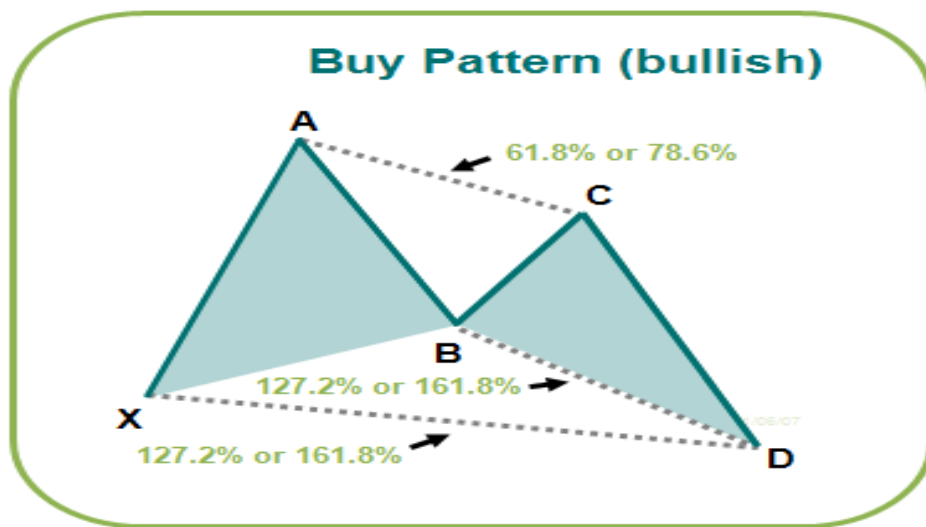
- ## Daily SPX - " Trend Adjusted Signal"

- ## 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).

<u>INTERNALS OF 3X3- 9EMA – Break Indicator.</u>

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