



SG Capital Research

Global Market Insights

Research Note – Market Strategy – US BROADER IDX (A# 2B) – STRATEGY & PROP Analysis (SP)

MAEG- MARKET STRATEGY CZ _POM _US_ BROADER IDX # SG 2011 # JAN_18

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....**”

Art of Mastery is more of Practice, Devotion & Experience than just gaining Knowledge .”

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

1. Executive Summary.

US BRODER IDX

Primary Risk Market - SPX remains at POM 14 Re Run, into CZ 1251-1270 (Announced 12/02 ALERT for Fully Hedge Position). (The price areas for any Rebalancing based on Individual Portfolio Objective).

Secondary Markets – US Broader IDX – QQQ, IWM, DIA, IYT are approaching its own Individual CZ's & Price Projections (indicated in our previous messages as price targets) for its own validation via PQV's and several other Methodologies we cross verify for similar conclusions.

Monday's Trading SPX was moving towards HOURLY projections of Wave “ e” 1300-1310 of a,b,c,d,e. Bearish wedge pattern and failed intraday, as we had expected in A # 1 MS. QQQ, IWM, IYT showing divergences and Ratio charts are not making higher highs if new leg has to begin. SPX Close below 1285 should be failure to line up other IDX along with it

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

We will look for the other side of trend position 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.

- ***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 BROADER (US) Indices**

- **TLT (BONDS)**

Currently at POM 13 .

This is on LEG UP to 123 from POM 13 @ 111 – (Refer the charts below for reference “ TEXT BOOK type POM example.

Earlier we nailed the POM 15 , 10/4 @ 123 and closed the position 115

- **IWM (RUSSEL)**

CZ – 74-77 – tested successfully 01/17 @ 77 , close below 76.50 should validate PQV

- **QQQ (NDX)**

At Point @ 59 – tested successfully 10/31 & 01/17 close below 58.50 should validate PQV,

- **DIA (DOW)**

At Point @ 12600 – tested successfully 01/17

- **IYT (TRANSPORT)**

CZ – 88-91 – tested successfully 01/17 @ 91 , close below 91 should validate PQV

IMPORTANT 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 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*

YTD – US Broader IDX 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**

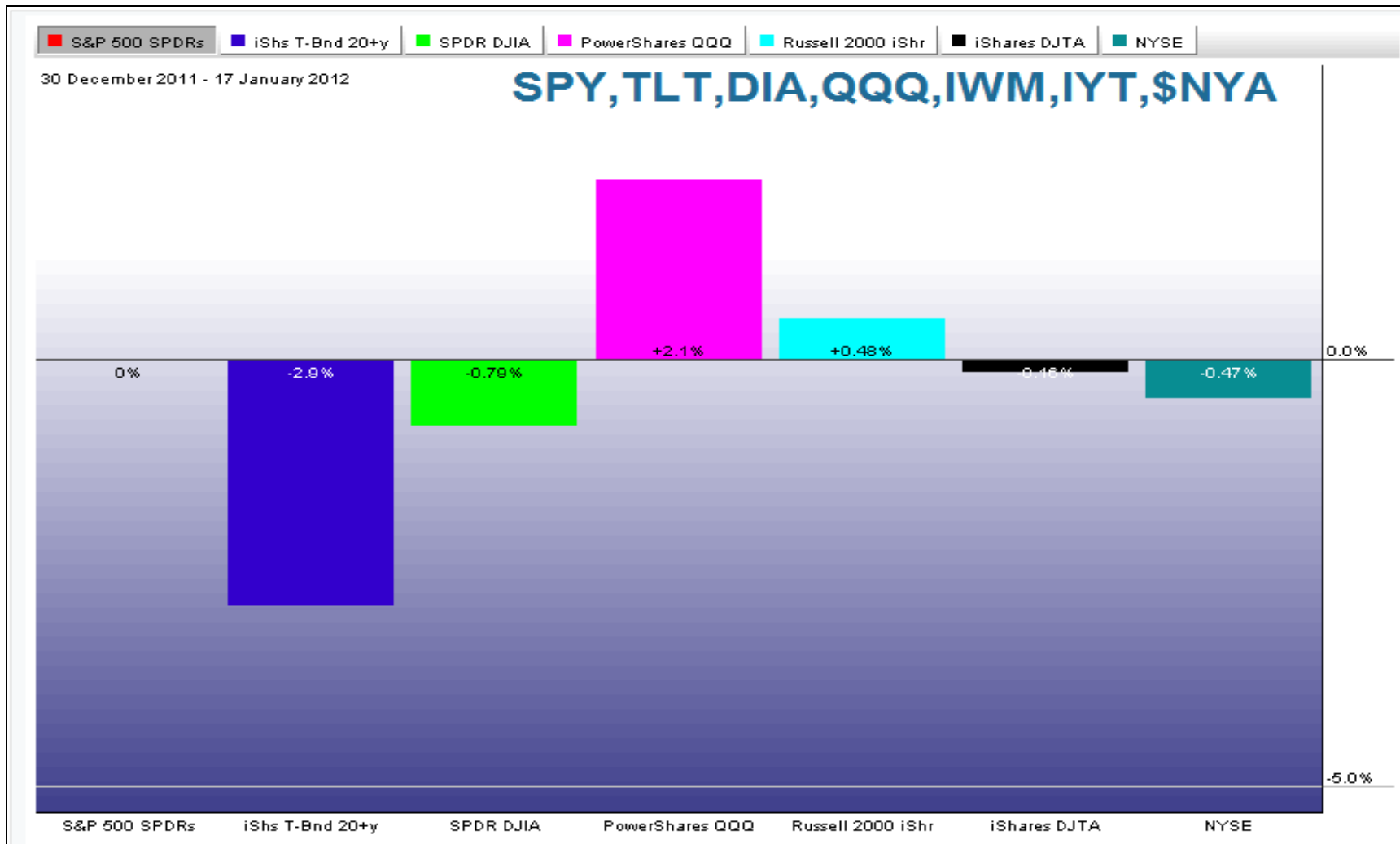
DOW, TRANSPORT, – Chart Analysis

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

YTD – US Broader IDX performance v/s SPX

Weakest and strongest Indices for PAIR TRADES

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)



US BONDS - PEC –D Analysis

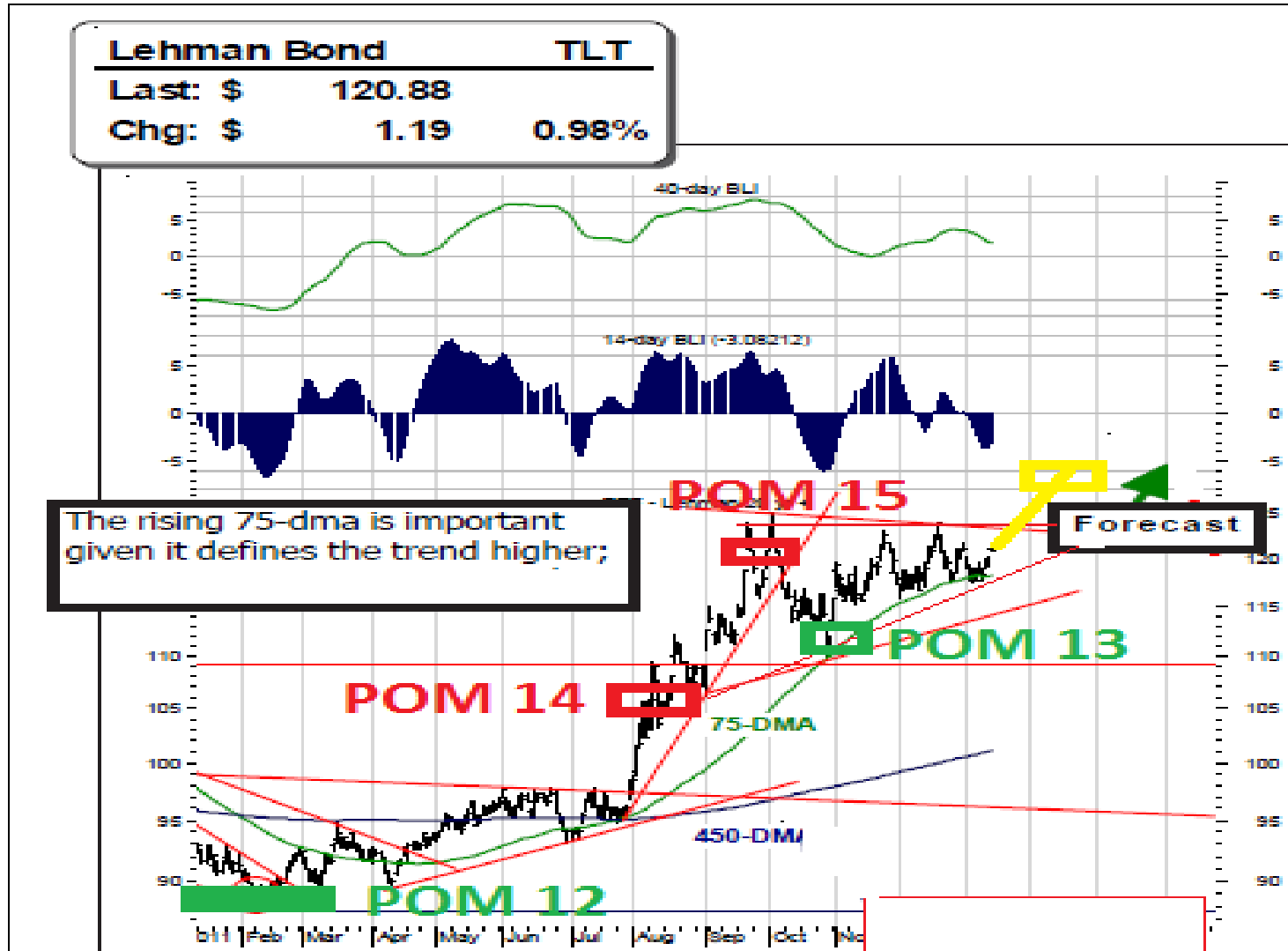
BONDS initiated another ABC up since **POM 13 trigger @ 141** . **ABC up towards 148** for leg up termination into **POM 14** or **15** .



TLT – MA / Trend Pattern and Oscillator Analysis -

TLT this TEXT BOOK example how BULL MARKET LEG BEGAN @ 88 – POM 12 all the way to POM 15 to 123

The latest POM 13 triggered @ 111 is building a LEG UP .



TLT – CZ / Ratio Analysis

Price & Volume action suggest, TLT is building cause towards its higher price target 123 from POM 13 initiation price .
TLT/ SPY Ratio pattern acting very Bullish .



- **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

NASD - PEC -D Analysis

PEC -D Pattern on NASD is completed (QQQ @ 59) once again on bounce from POM 13

Earlier - On 10/31 A # 3 MS - Alert - PEC -D Pattern on NASD for TOP was completed (QQQ @ (59)).

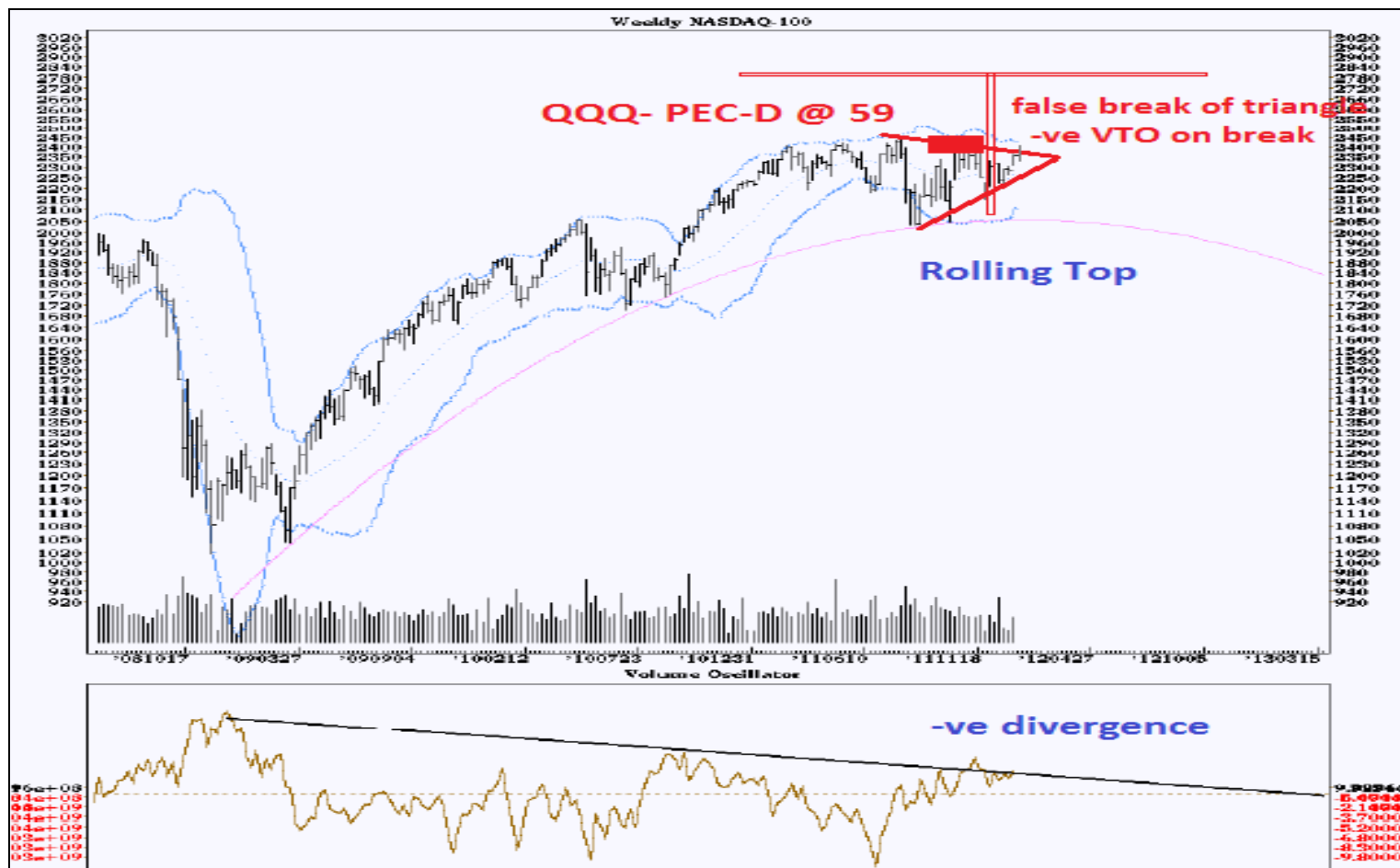


NASD -100 (QQQ) – Poly Trend – Pattern Analysis – **Lead Dog Indicator**

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

On Re – Run to POM 14, NASD has lagged SPX with 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.

QQQ 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.



QQQ – MA / Trend Pattern and Oscillator Analysis -

By this Analysis , QQQ indicating Topping process and pull **back target 55 indicated in yellow**



QQQ – CZ / Ratio Analysis

On this Current bounce, back in CZ, there is still Bearish divergence on the McClellan Oscillator. NASDAQ traditionally leads the rest of the market, MACD, Signaled SELL & Ratio – QQQ / SPY continues to Trigger weakness (see window below). unable to breakout the prices. **QQQ - Main Triggered @ 59 , CLOSE UNDER 58.5.**



RUSSELL – Poly Trend – Pattern Analysis – Lead JANUARY Indicator

Small Caps has not lived up to its leading January barometer .

IWM met - 2 powerful Opposing Poly Trend (Wedging corner) in overhead & extended little bit on diverging . Pricing within its CZ 74-77 . The volume oscillator's attempted breakout CZ & would fail if closed under 76.5.



IWM – MA / Trend Pattern and Oscillator Analysis

By this Method we are looking for it fail on Re run

IWM - has resulted in counter Trend bounce to **Our Main – IWM Triggered CZ – 74-77**



IWM - PEC -D Analysis

By PEC -D Method we had projections (618 / 718) @ (76) indicated in red is still valid



Dow Transport Theory – No Buy signal

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 lineIYT / 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 3 times in 2011 – But Our Modified DOW THEORY did not Trigger Buy.



DIA – PEC D- Analysis

By this Method we are looking for it fail on re run.

DIA has resulted in counter Trend bounce . **By PEC –D Method projections (618 / 1.27) to 12600 indicated in red**



IYT - MA / Trend Pattern and Oscillator Analysis

In Current bounce, there is still Bearish divergence on the McClellan Oscillator. Transport should lead SPX . Stoc is where tops have occurred and IYT / SPY continues to Trigger weakness (see window below). unable to breakout the prices.

IYT is extended CZ bearishly past CZ 88- 91 - CLOSE UNDER 91 would be failure .



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*

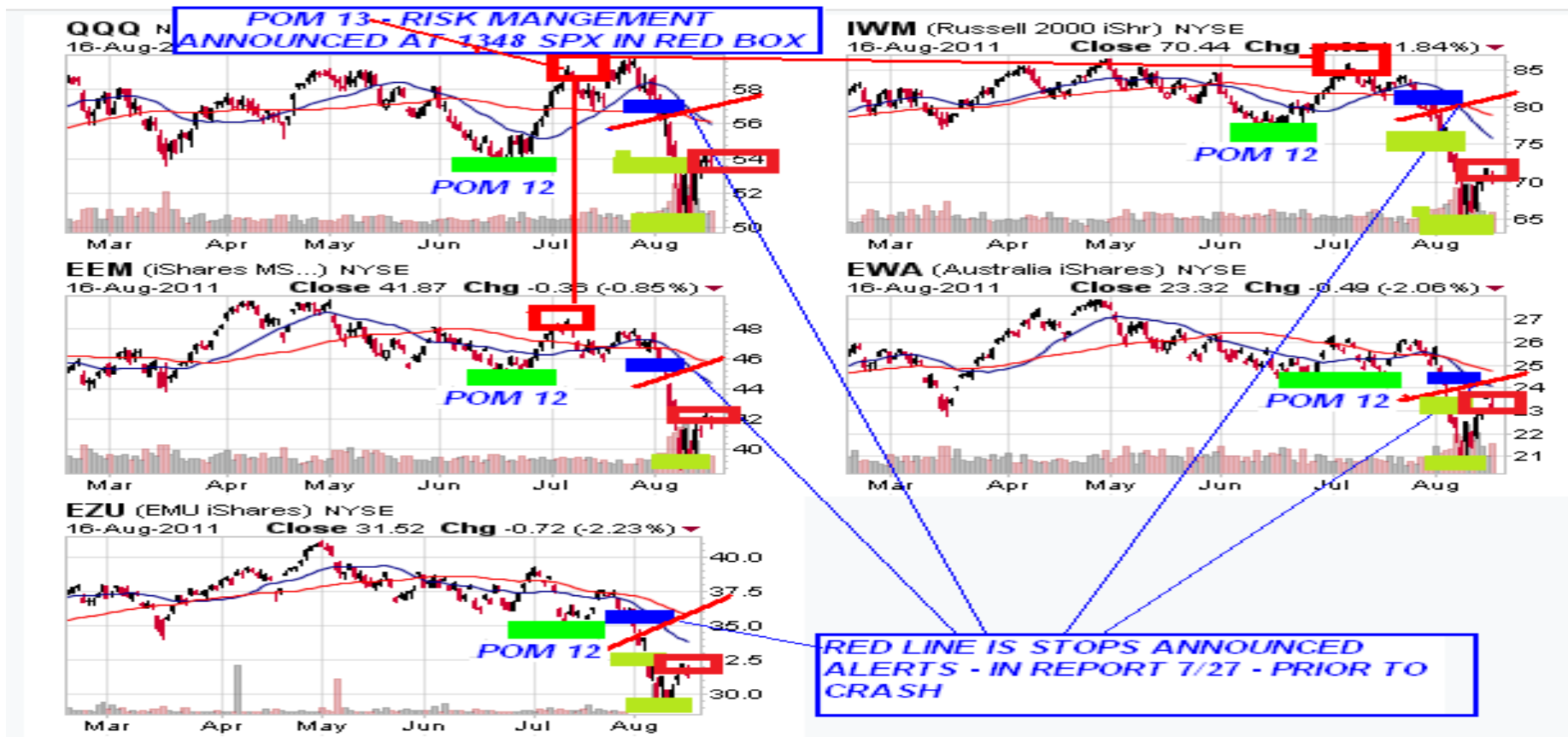
➤ Key Points for Full utilization of SP- Reports

- **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

QQQ Nasdaq GM

20-Jul-2011 **Close 58.80 Chg -0.25 (-0.42%)** ▼



IWM (Russell 2000 iShr) NYSE

20-Jul-2011 **Close 83.18 Chg -0.14 (-0.17%)** ▼



EEM (iShares MS...) NYSE

20-Jul-2011 **Close 46.93 Chg +0.14 (+0.30%)** ▲



EWA (Australia iShares) NYSE

20-Jul-2011 **Close 25.48 Chg +0.29 (+1.15%)** ▲



EZU (EMU Index iShares) NYSE

20-Jul-2011 **Close 36.31 Chg +0.60 (+1.68%)** ▲



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**
- **EZUNo Validation**

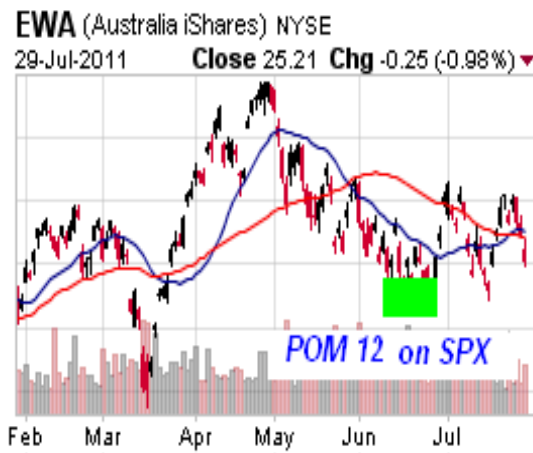
BULLISH CZ - Triggers at Qualified CZ

- **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)**

Cont.....QQQ, IWM, EEM, EWA, EZU, EWH “ Price path” update - From A # 2 MS Global

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

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



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)

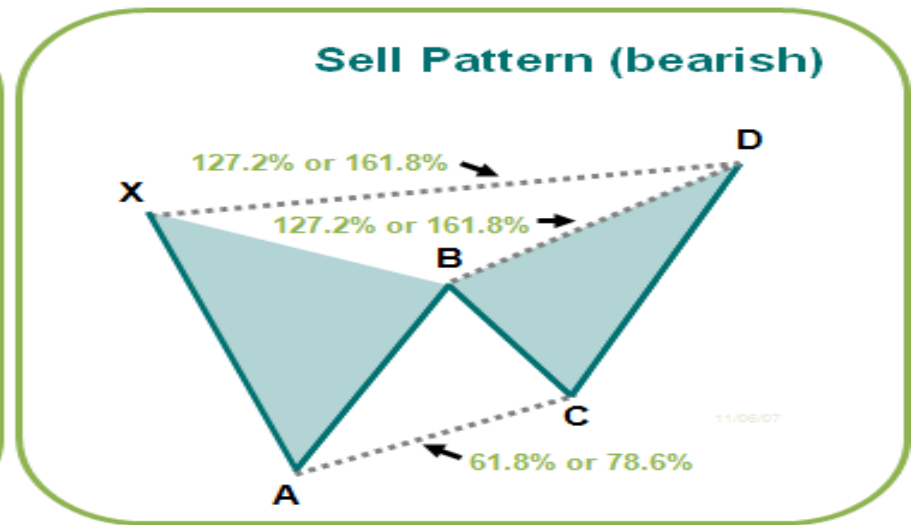
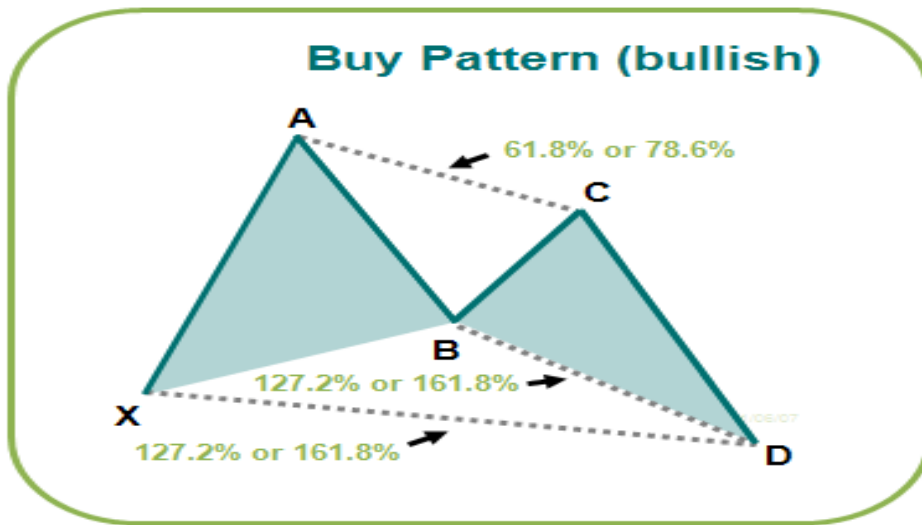


Pythagoras Expansion / Contraction – (PEC) Model

- 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



- 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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