



SG Capital Research

Global Market Insights

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

MAEG- MARKET STRATEGY _US_ BROADER IDX # SG 2011 # JULY_ 011

For Immediate Release – *Wednesday AM (EST)*

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

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SPX – Commentary - special situation

Today volatility may increase as FOMC minutes of last meeting should be released. In short term price path , this week, the market pulled back to CZ 1335 – 1345 (indicated on Monday's charts) still in progress **FOMC may very well complete the move into CZ.** 4 days ago we topped out within striking distance highs of 1377 in lower end of our CZ with “ Short term extreme overbought reading resulted in 4 days correction / sell off due to Trigger from Friday BLS Report as we had anticipated in earlier reports.

Now SPX suggests once the current move into CZ 1335-1345 needs to be tested & if we close this week above 1350 , the next bounce **towards 1380 would** decide if we are going to continue move higher or begin leg down. We would like a confirmed failure within CZ towards the May top to next trigger.

Conversely If the Market has to continue lower , we need the volume to pick up which hasn't happened yet but there are gaps under almost all market trying to fill (refer charts below) .

Possibility 1 – If the volume drops in next rally as measured by VTO & PQV with PEC-D pattern completion within / near CZ, we could signal POM 14 for next leg down.

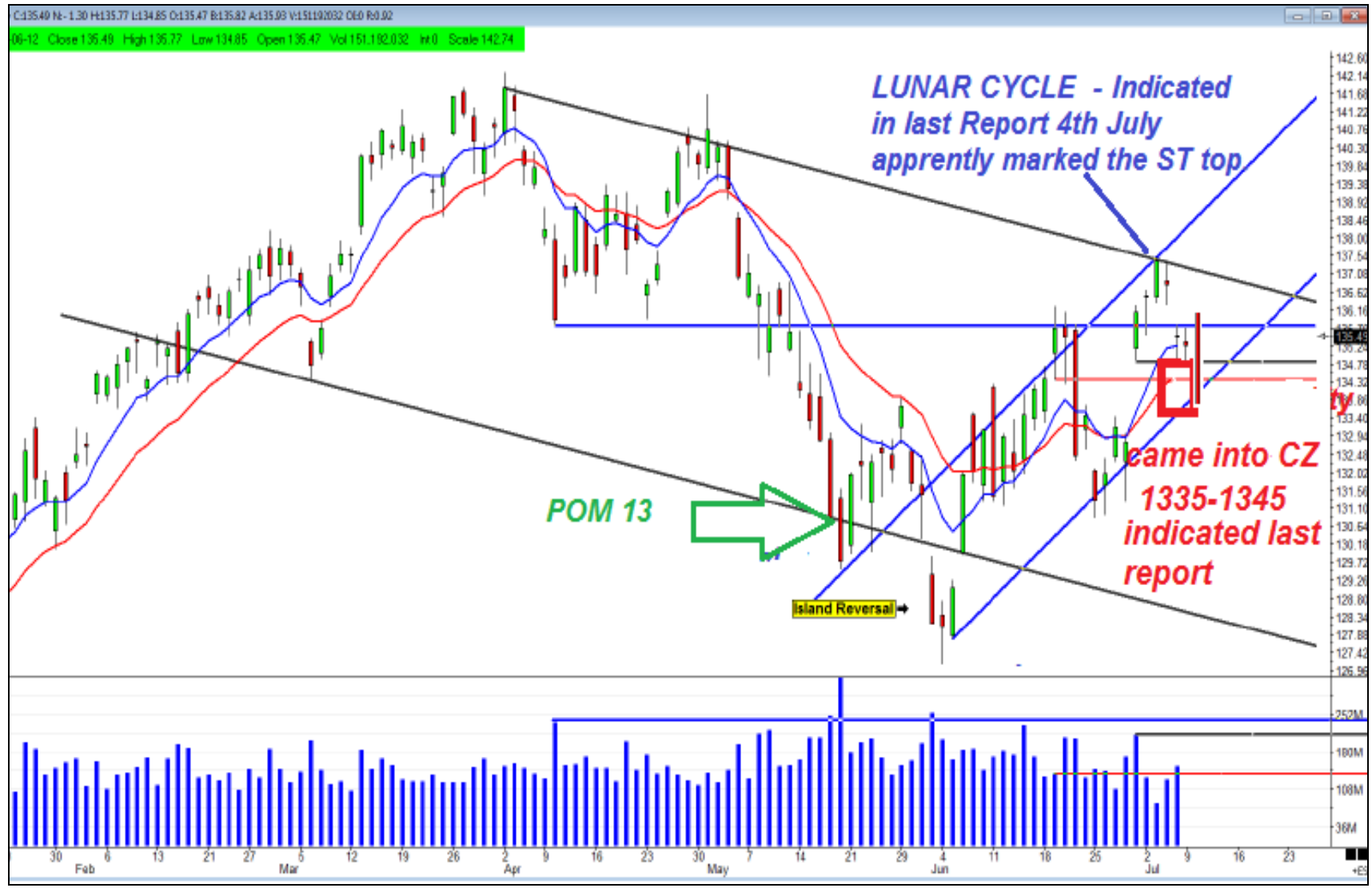
Possibility 2- If the Volume pick up on rise , our POM 13 signal will remain intact and market would flip in consolidation. Usually it's the move after the move that conveys a better story.

Note – We do not anticipate a Bullish Top to happen on this run with CZ 1380-1410, which diminishes the possibility of real breakout . We were Bullish at POM 13 Trigger but are Neutral no, after the completion of the rally to 1375 . At POM 14 – CZ re test we would turn FULLY Hedge / Bearish.

IMPORTANT NOTE – First time in 2 yrs based on complying our 4 point criteria, “ DOW THEORY” has signaled BUY. BUT this doesn't mean much to us as we been on POM 13 almost at the beginning of this trend. Most of the 1-2 point criteria observers have got creamed with The DOW Theory past 2 yrs. Our model has more filters to Trigger **but we put more emphasis on POM** . (See charts below) . Take it for it is worth

SPX – CZ/ PEC-D Analysis

Pull back into **CZ 1335-1345** indicated in last Report is underway



1. Executive Summary.

US BROADER IDX

IMPACT of above Market action on US Broader IDX ,

In this pull back of last 4 days, IWM has held the best, followed by QQQ and IYT , They haven't backed off from the CZ / PEC-D top indicated in our last Report. SPX and DOW has pulled back the most (See the charts below) .

Since SPX is at POM 13 Trigger , in this rally / pull back in the Market, several of the IDX's are reaching the CZ Price Projections (we have highlighted in (yellow)) & PEC-D completion in charts below . CZ points are met either Bullishly or Bearishly in our price path Analysis. Action points are CZ/ 's & PEC -D, PQV validation for best Risks Reward. .

NOTE – *Positions taken in Broader IDX 's at POM 13 NET Long at 1290-1310 on 5/23 are in money. We shall continue to ride the Profits. We have the option to lock (exit) in profits or put in STOP loss to protect the profit, therefore we are playing close to vest. Overall Decision should be based on Individual Portfolio objective on Risk Management*

1. TLT - @ POM 14 - FULLY HEDGE. - No change

- **Our Last Trigger** - POM 14 FULLY HEDGE Position on 5/21 - Alert Within CZ @ 124.

LAST ACTION On 5/21, - We Closed LONG & advised Fully Hedged within CZ 124 for position entered @ 111 - 11% Profit and yield.

Projected TARGET -

As expected in previous Reports, TLT is moving higher towards the previous POM 15 area **CZ 130-128** . The ST, pullback into (**124-123**) came in twice close to it , which suggested 128 was happening first.

NEXT -

Our Action point would be rally back up to double top (**130-128**) towards the POM 15 highs and perhaps break it building a Bearish Top during that test whiles completing the Termination process Pattern, TLT could Trigger POM 15 - NET SHORT . We shall wait to taper into 135

This will be the last leg up in 30 yr Bull Market and is going to end badly..

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

A # 2B - US Broader IDX Report 10th July 2012	CURRENT STATUS	Target Reached CZ - Trigger Confluence Zone	Next Target	Comments
SPX				
SHORT-TERM	NEUTRAL	1410-1375	1235-1345	
MID TERM (POM 13) -1300 Open	BULLISH	1290-1311	TBA	NET LONG / Closed Hedges @ 1301 POM 15 - net short Position closed (1400 to 1350)
ILTI				
SHORT-TERM (POM 14) 124 Open	BEARISH	111	124	CZ Target Reached - fully hedge (Awaiting final rally to POM 15)
MID-TERM (last) - POM 12 (88-90)	NEUTRAL	89	130-128	ABC up to POM 15 in Progress
QQQ (NDX)				
SHORT-TERM	NEUTRAL	65.5-64	follow SPX	Pull back in progress to SPX (1335-1345)
MID -TERM - POM 13 on 5/25 (open)	BULLISH	62-61.6		
IWM (Small Cap)				
SHORT-TERM	NEUTRAL	80.5-79	follow SPX	Pull back in progress to SPX (1335-1345)
MID -TERM - POM 13 on 5/25 (open)	BULLISH	76.5-75.6		
DIA (DOW)				
SHORT-TERM	NEUTRAL	130 -128.5	follow SPX	Pull back in progress to SPX (1335-1345)
MID -TERM - POM 13 on 5/25 (open)	BULLISH	124.25-123.6		
IYT (Transports)				
SHORT-TERM	NEUTRAL	96-94.5	follow SPX	Pull back in progress to SPX (1335-1345)
MID -TERM - POM 13 on 5/25 (open)	BULLISH	91-91		
				NOTE

BACK UP SECTION

Commentary & Charts below are for Reference , backup & cross verification . It is required for in- depth understanding behind our Conviction, Logic & Risk disclosures / limitation

US BONDS (TLT) - Commentary

US Bonds - TLT, which seems to be at a very long term high and poised for a long term decline once POM 15 is triggered. It suggests the last stages of bull market. In order to take it to those higher price of POM 15 levels, Euro crises should deepen to act as catalyst for one final run. Let the process be finished towards target 135

Bond Bubble to burst, 6 decade low cycle in interest rates makes it even more significant. .

If bond prices are peaking after the next final rally to new high is possible in TLT, but it could be on -ve divergence.

We are at POM 14 – Fully hedged at 124. This has been very profitable position and has been following our price path closely. This Finished its ABC up from 111 for 11% profit Short term topping with Bearish divergence

Once this POM 15 is re tested with secondary POM 15 with Bearish Top and invalidated PQV, it would signal a beginning of Termination Process, Momentum, and the end of the Bull Market.

Our Position - TLT is at POM 14 (Fully Hedge), Closing position at 124 from 10/27 (CZ – 110-112) ABC up.

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***

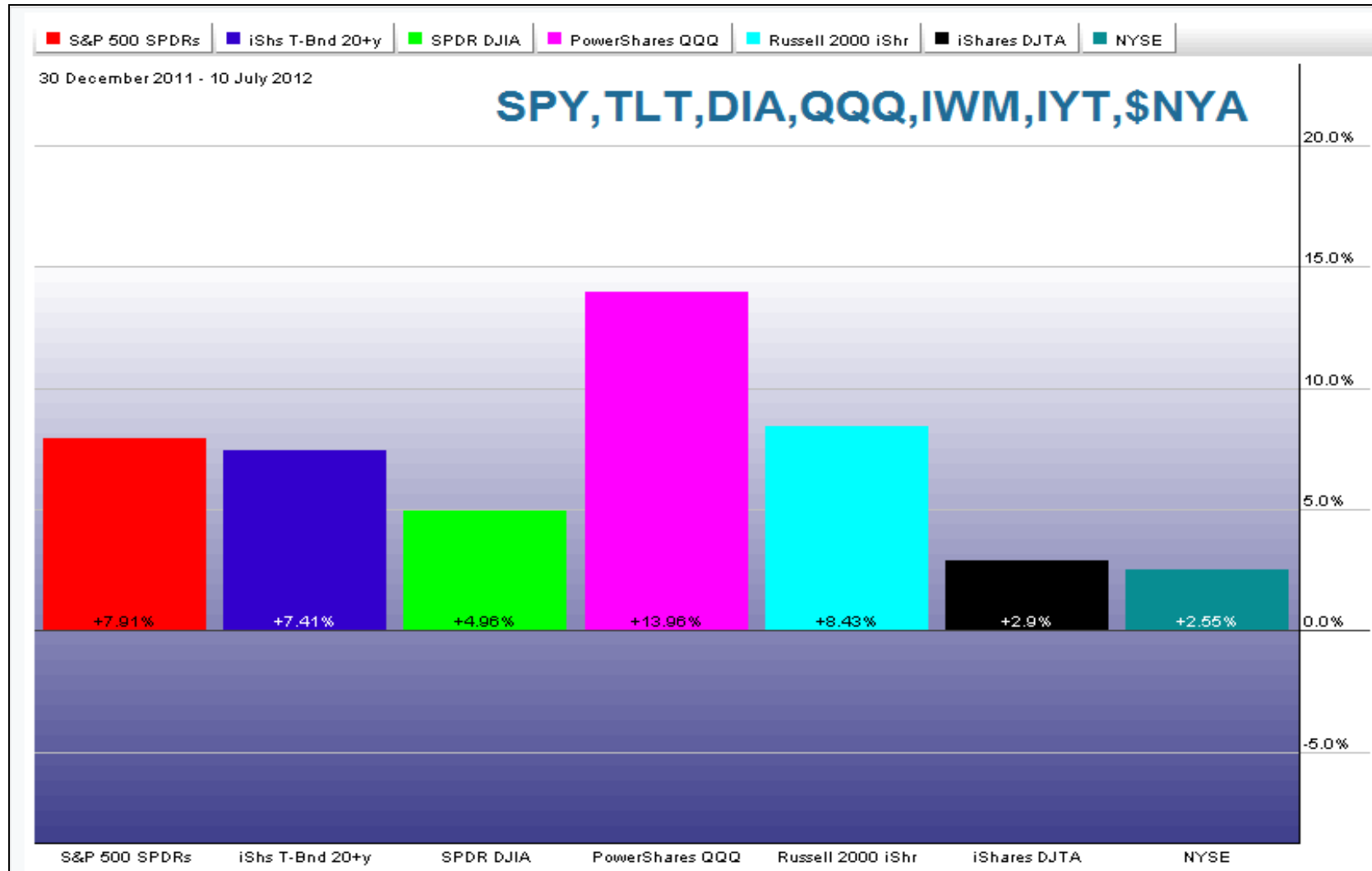
DOW, TRANSPORT, – Chart Analysis

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

YTD – US Broader IDX performance v/s SPX

Weakest and strongest Indices for PAIR TRADES

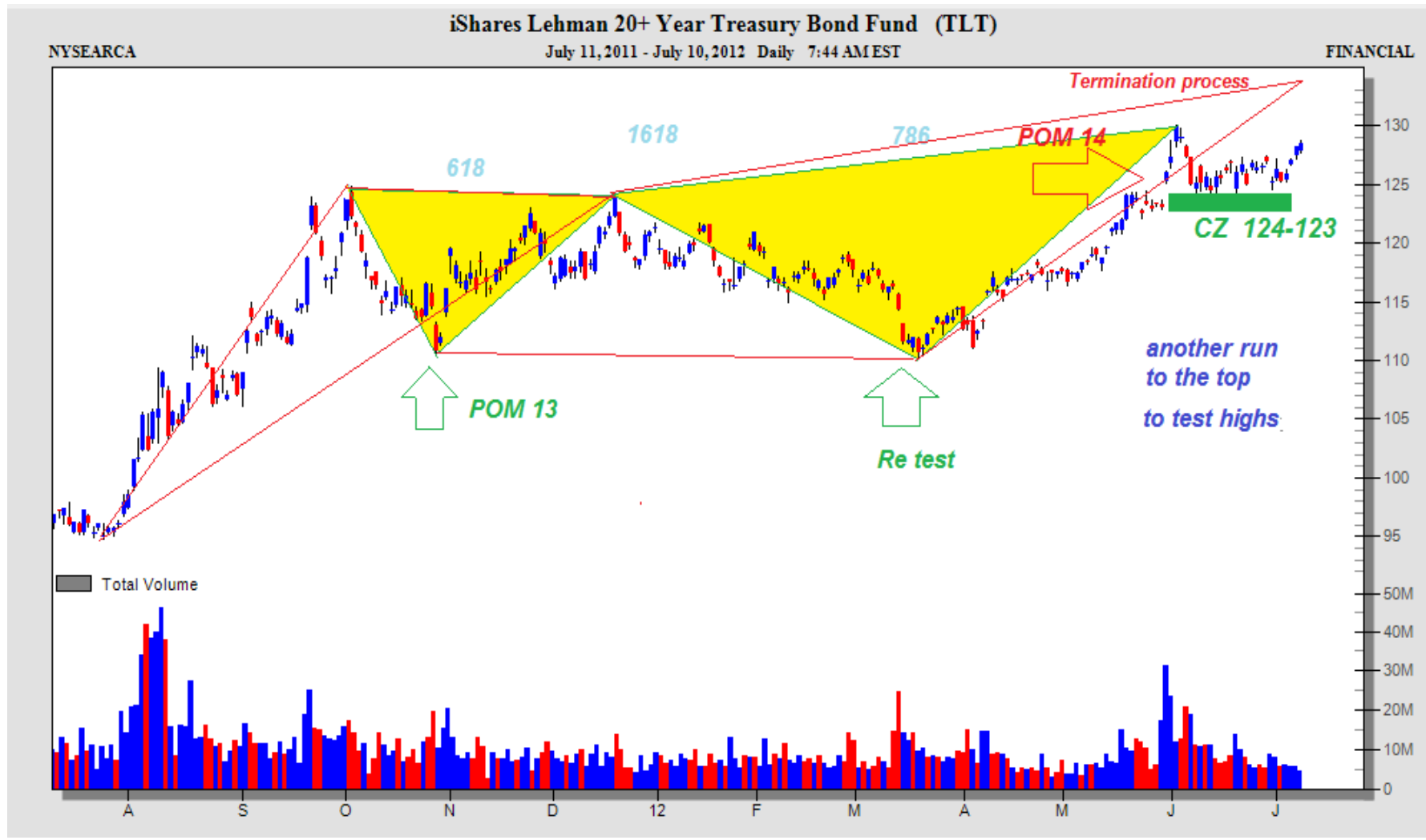
Since is beginning of the year 2012 , it is very critical to keep close eye on this chart for Strength / weakness pick up in these market . (Chart below is our Inter market Analysis Model with Ratio Relative performance v/s SPX)



TLT - Bonds – PEC- D Analysis – Mid Term

TLT is heading towards the BULLISH TOP which is previous POM 15 area. At the end of the run, TLT can get volatile with “Terminal PRICE PATH Process” which may be final run in this Bull Market with BEARISH TOP and TERMINAL PROCESS.

Pull back to **124-123** was followed by run back to 130-128 highs. Price, Volume & Pattern action suggested of this current upcoming move . Target 135.



- **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**

_Inverse Correlation continues in Current Trend

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

None Indicators are at Extremes

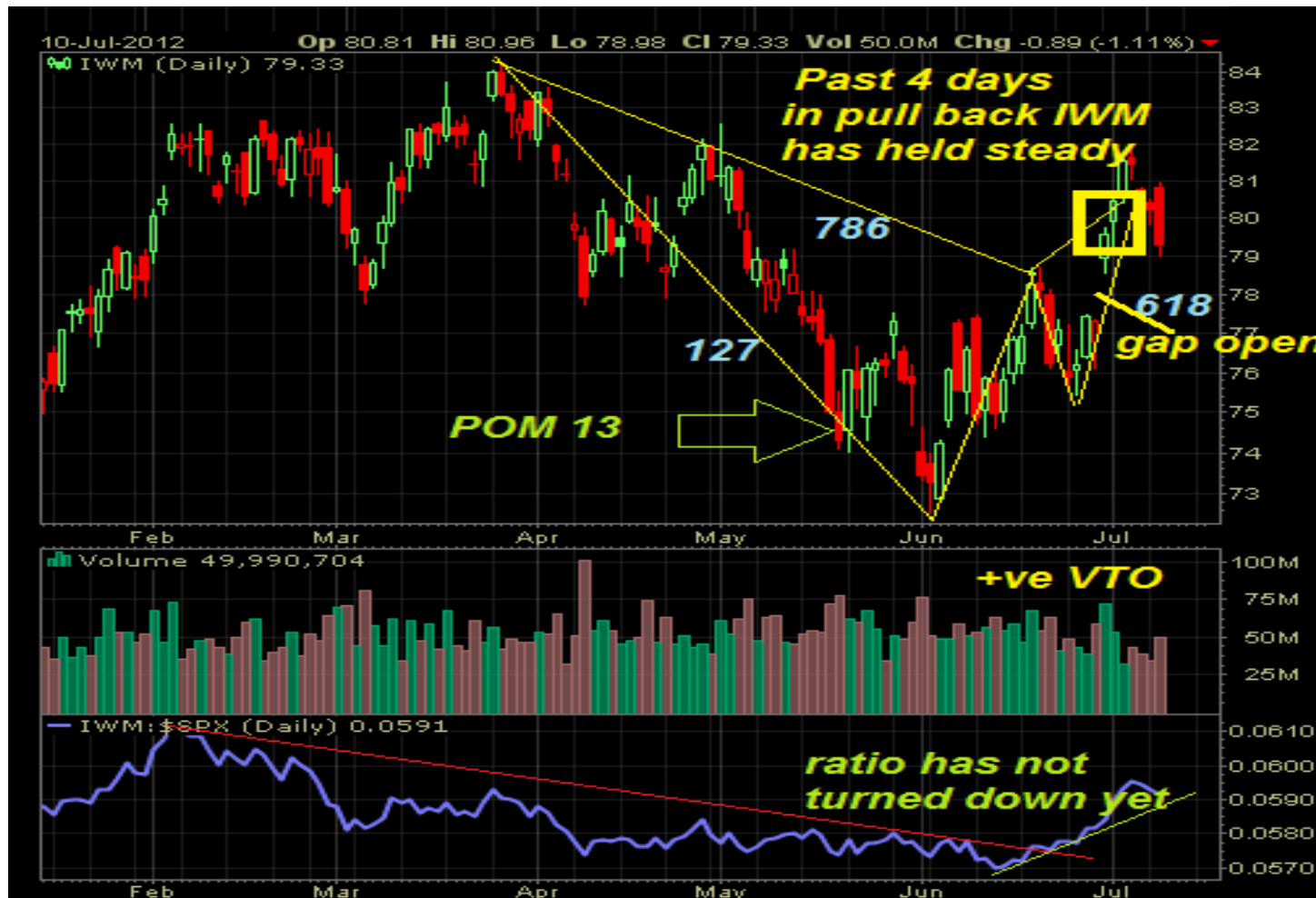
IWM - CZ – PEC-D Analysis

Projections Reported in last Report

PEC-D - 79.75 – met

CZ - 80.5 – 79 – met

IWM rallied the most from POM 13 and hasn't pulled back as much others in past 4 days (notes within the charts)



QQQ - CZ – PEC-D Analysis

Projections Reported in last Report

PEC-D- 65 - met

CZ -64-65.5 - met



Dow Transport Theory – “ Buy signal “

By this Method – IYT is now leading DOW

IYT Price cross with DIA's price strength has given signal. The Ratio lineIYT / DIA has broken downtrend . The Trigger Buy is announced when Ratio Cross the down trend line) . PQV has validated therefor - SIGNAL,

OUR COMMENTS – THIS METHOD INPSITE OF OUR IMPROVISATION IS INDICATOR IS NOT FULL PROOF



RULE - 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.

IYT - CZ / PEC -D Analysis -

Projections Reported in last Report

PEC-D- 95.5 – Fell short of target

CZ –94.5-96 - Fell short of target



.DIA – CZ / PEC –D Analysis

Projections Reported in last Report

PEC-D- 12900 – Met

CZ –12850-13000 – met



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

- None

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

- NYSE

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



• 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)***

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)

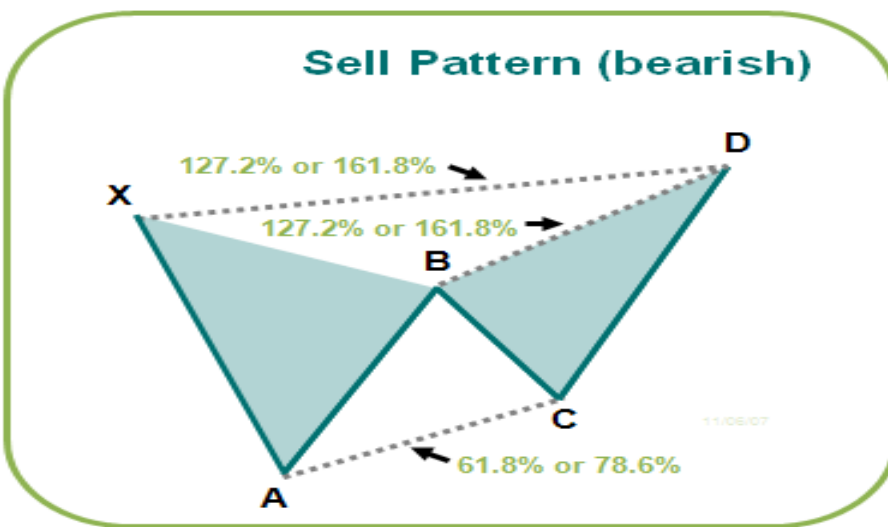
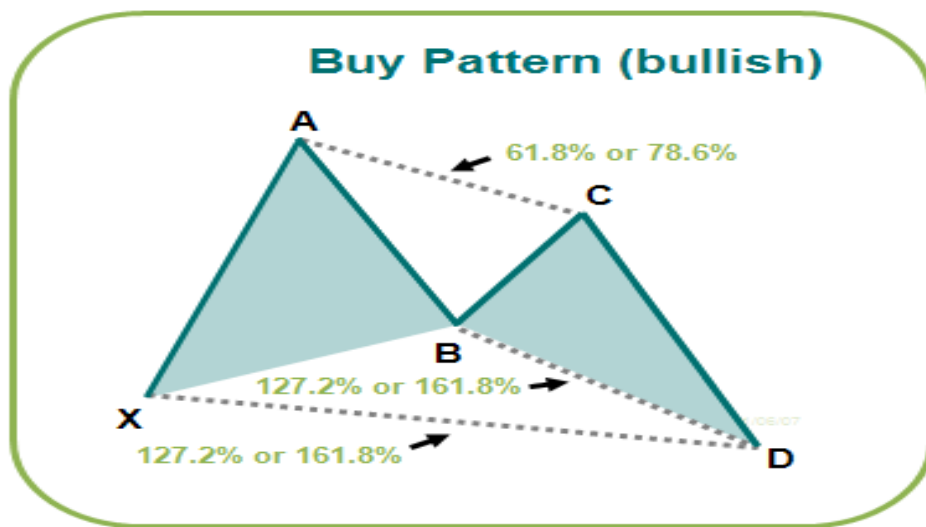


Pythagoras Expansion / Contraction – (PEC) Model

- 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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