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)**

Index

1. *Executive Summary.*

SPX – Commentary

FMOC Policy statement to be released today. We expect volatility to increase as prices approach into the CZ – projection.

Wall Street thinks the Fed will extend Operation Twist, if not start QE3. Any positive further surprise on stimulus would take the Market to the Top of CZ with slightly higher print on prices before showing the Overbought conditions & failure for pull back . Past week's rally has priced in most amount of good news from FMOC.

Reversal after the statement would suggest the news is already priced into the Market. Any disappointment would result in Sell off from / within CZ, pull back and then rally backup

US BROADER IDX

Backdrop on Current Signal - SPX – @ POM 13 – NET LONG

- ***Our Last Trigger** –POM 13 NET LONG Position within CZ 1290-1310. (On 5/23 – Alert via email) . ending the Decline to current levels from POM 15 NET SHORT @ CZ 1400.*

OUR Projected TARGET (indicated on A # 1- MS Report) - Rally towards CZ 1345 – 1360 is fast approaching . We would look at PQV validation & PEC-D completion 1370 & close below 1365. This result in ST pull back.

But close above 1365 would suggest continuation move past our current CZ in extension towards the previous POM 15 area CZ 1390-1410 & then fail at that time .

IMPACT of above Market action on US Broader IDX ,

We have been benefited in this rally in the Market since POM 13 Trigger , several of the IDX's are reaching the CZ Price Projections (one at a time as we have highlighted in (yellow)) & PEC-D completion PRICE POINTS in charts below . The Short term upside CZ Projection Target should be met either Bullishly or Bearishly in our price path Analysis. Action points are CZ/ 's & PEC –D, PQV validation for best Risks Reward, only if the positions have been taken from previous rebalancing action point at POM 13.

NOTE *– POM 13 NET Long position taken at 1290-1310 on 5/23 is in the 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*

TLT – @ POM 14 – FULLY HEDGE.

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

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

OUR Projected TARGET - Move is completed with BULLISH TOP to 125, & extended 128.

NEXT

We should get a pull back first (124-123) and rally back up to double top (128-130) , If we build a Bearish Top during that test with Higher highs towards 130 whiles completing the Termination process Pattern, TLT could Trigger POM 15 – NET SHORT .(We shall wait and see) .

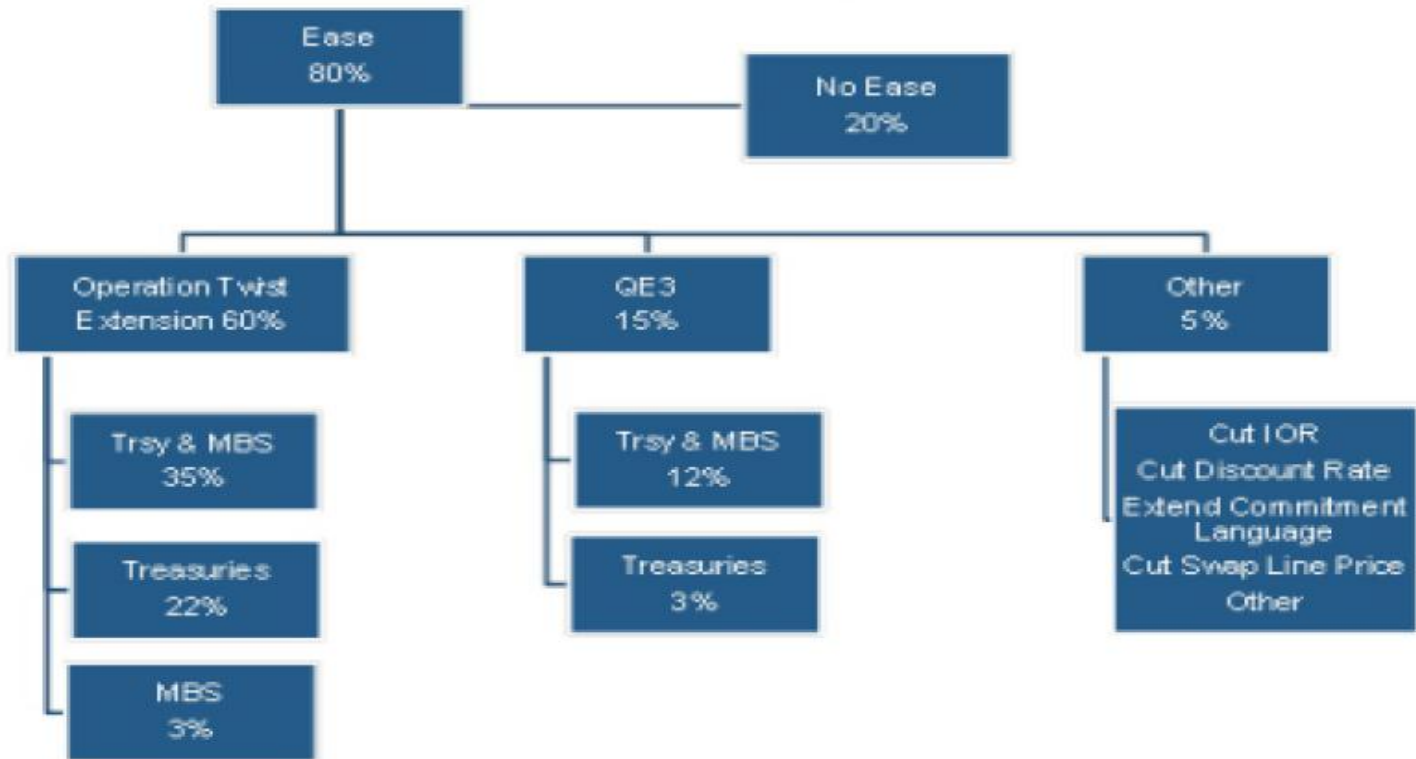# 2- *Trading & Invest Conclusions -* Price / CZ Projection Summary

A # 2B - US Broader IDX Report 20th June 2012	CURRENT STATUS	Target Reached CZ - Trigger Confluence Zone	Next Target	Comments
SPX				
SHORT-TERM (POM 13) -1300 Open	BULLISH	1290-1310	1340-1360	NET LONG / Closed Hedges @ 1300
MID-TERM	NEUTRAL	1260-1240	TBA	POM 15 - net short Position closed (1400 to 1350)
TLT				
SHORT-TERM (POM 14) 124 Open	BEARISH	111	124	Awaiting pull back / CZ Target Reached - fully hedge
MID-TERM (last) - POM 12 (88-90)	NEUTRAL	89	125	3rd ABC up in Progress complete
QQQ (NDX)				
SHORT-TERM - POM 13 on 5/25 (open)	NEUTRAL	62-61.5	65.5-64	Rally in progress till SPX (1340-1360)
MID-TERM	BULLISH			
IWM (Small Cap)				
SHORT-TERM - POM 13 on 5/25 (open)	NEUTRAL	76.5-75.5	80.5-79	Rally in progress till SPX (1340-1360)
MID-TERM	BULLISH			
DIA (DOW)				
SHORT-TERM - POM 13 on 5/25 (open)	NEUTRAL	124.25-123.5	130 -128.5	Rally in progress till SPX (1340-1360)
MID-TERM	BULLISH			
IYT (Transports)				
SHORT-TERM - POM 13 on 5/25 (open)	NEUTRAL	91-90	96-94.5	Rally in progress till SPX (1340-1360)
MID-TERM	BULLISH			

• QE – 3 Analysis (FYI)

The Fed will announce any changes to its policy. There's been a lot of talk about the possibility of more Fed easing (QE3), or some extension of Operation Twist. (Attached the Probability chart – Curtsey CS).

Credit Suisse's Probability Tree

Exhibit 1: Probabilities of Fed Action on June 20

```
                        Ease
                        80%                    No Ease
                                               20%

    Operation Twist          QE3                    Other
    Extension 60%            15%                     5%

    Trsy & MBS           Trsy & MBS             Cut IOR
    35%                  12%                    Cut Discount Rate
                                                Extend Commitment
                                                Language
    Treasuries           Treasuries            Cut Swap Line Price
    22%                  3%                     Other

    MBS
    3%
```

Source: Credit Suisse

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*
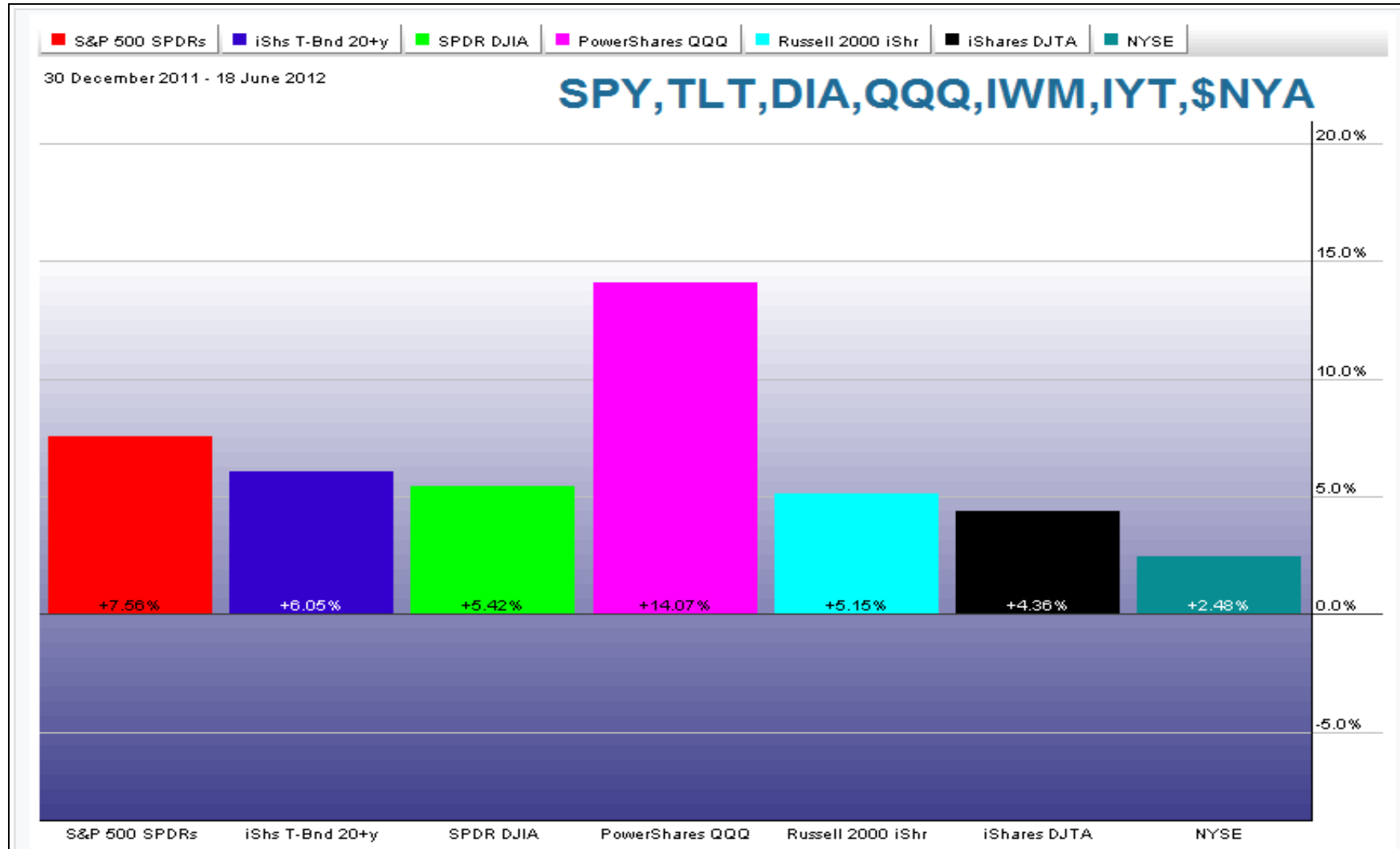- *CORRELATION RATIO Analysis IWM – with SPX*

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*
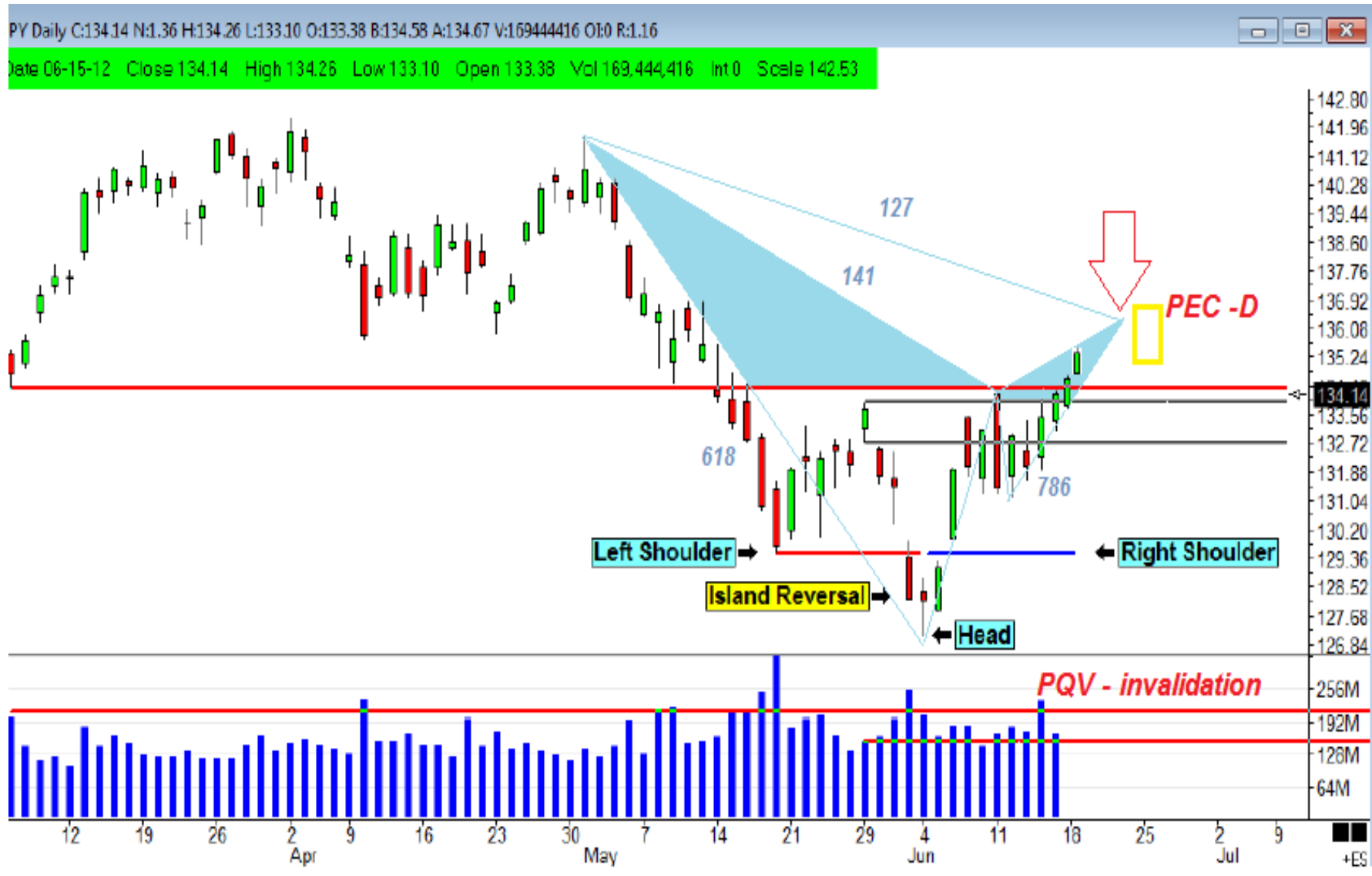
YTD – US Broader IDX performance v/s SPX

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)

Chart legend: S&P 500 SPDRs | iShs T-Bnd 20+y | SPDR DJIA | PowerShares QQQ | Russell 2000 iShr | iShares DJTA | NYSE

30 December 2011 - 18 June 2012

SPY,TLT,DIA,QQQ,IWM,IYT,$NYA

| Index	Performance
S&P 500 SPDRs	+7.56%
iShs T-Bnd 20+y	+6.05%
SPDR DJIA	+5.42%
PowerShares QQQ	+14.07%
Russell 2000 iShr	+5.15%
iShares DJTA	+4.36%
NYSE	+2.48%

SPX – CZ/ PEC-D Analysis

PEC-D - 1370,
CZ – 1345-1360.

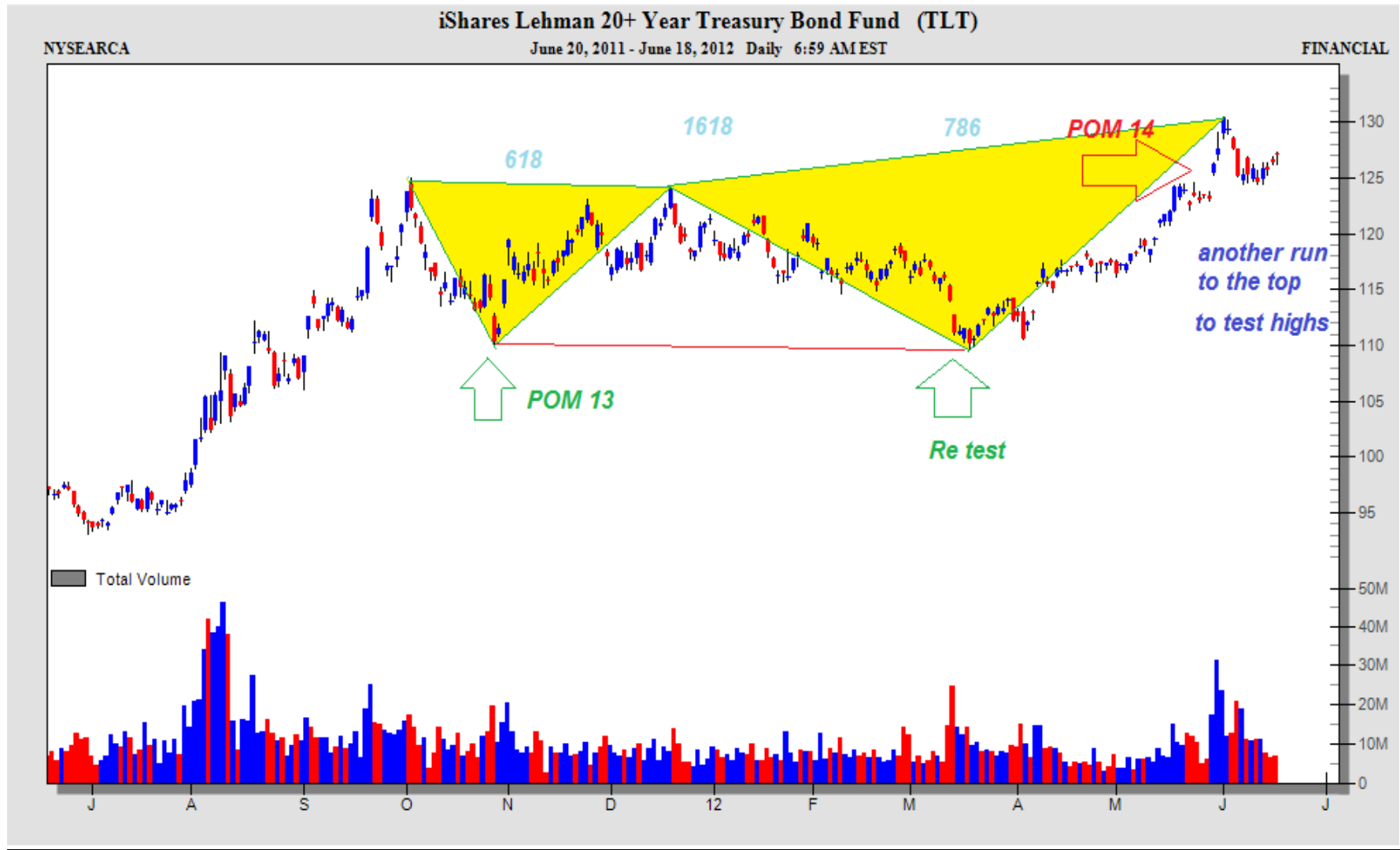# TLT – CZ / Oscillator Analysis

Pull back to 124-123 followed by run back to 128-130 highs . Price, Volume & Pattern action suggests of this upcoming move . .

Oscillator and Money supply suggests weakness.
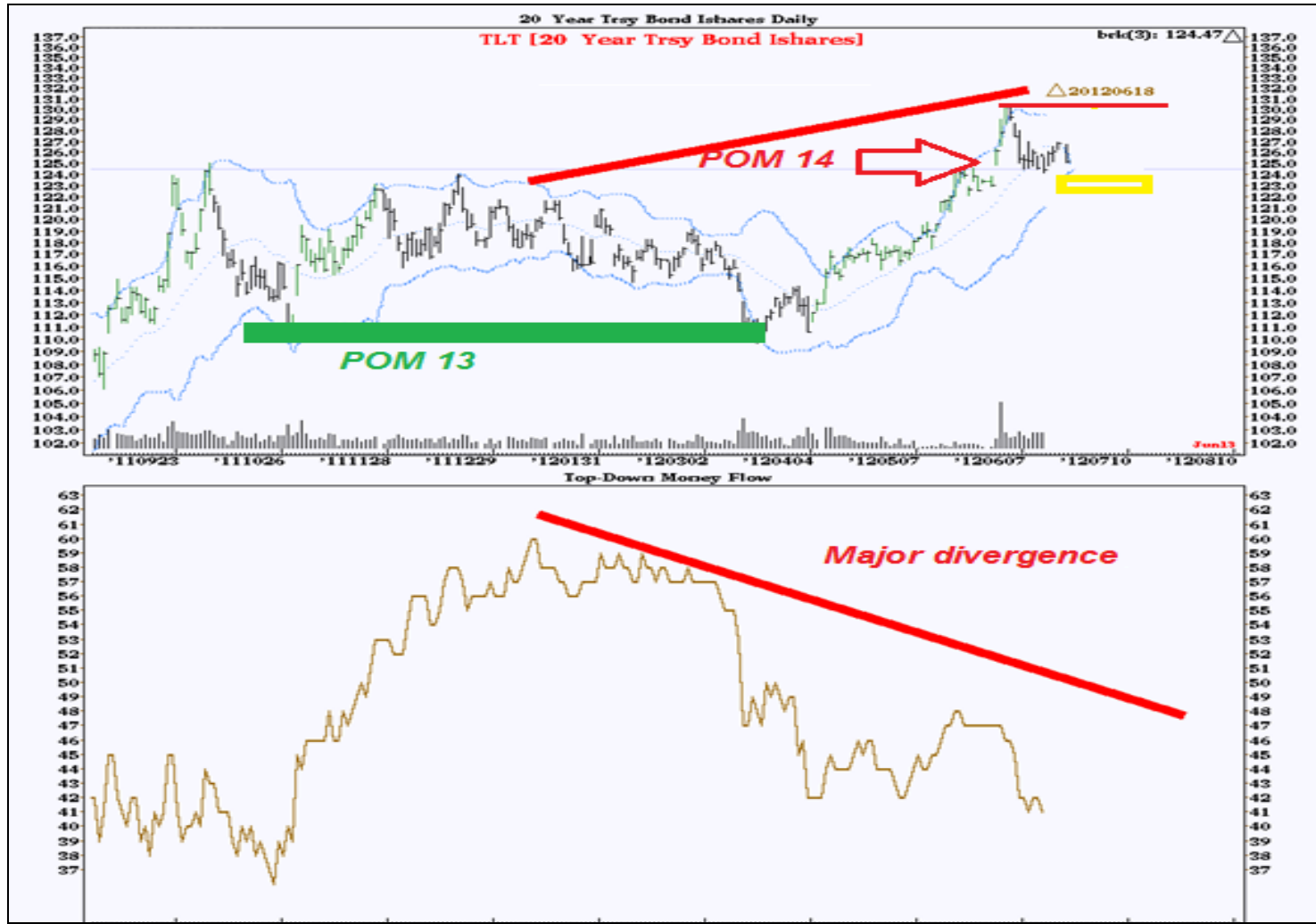
TLT - Bonds – PEC- D Analysis – Mid Term

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.

iShares Lehman 20+ Year Treasury Bond Fund (TLT)

NYSEARCA

June 20, 2011 - June 18, 2012 Daily 6:59 AM EST

FINANCIAL

618

1618

786

POM 14

another run
to the top
to test highs

POM 13

Re test

Total Volume

- ## _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

PEC-D - 79.75,
CZ – 79-80.5

This was our best vehicle in last correction - H & S TOP within POM 15 – CZ with – 2 POWERFUL PEC-D's @ 83.5 proved its merit with downside target 74-75 EXACT as indicated in previous A # 2 B - Reports

QQQ - CZ – PEC-D Analysis

PEC-D- 65
CZ –64-65.5

Dow Transport Theory – " <mark>No Buy signal</mark> "

IYT has lagged DOW considerably since POM 15 – FEB (see chart below)

More over IYT Price cross with DIA's price strength has not given signal. The Ratio line ….IYT / DIA is has not broken downtrend . The Trigger Buy is announced when Ratio Cross the down trend line) . PQV has not validated therefor - NO SIGNAL, Past 2 yrs , All the DOW theorist has been smashed with whipsaws

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 -

PEC-D- 95.5
CZ –94.5-96

.DIA – CZ / PEC –D Analysis

PEC-D- 12900
CZ –12850-13000

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)**

- # 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 <u>Unidirectional</u> 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)
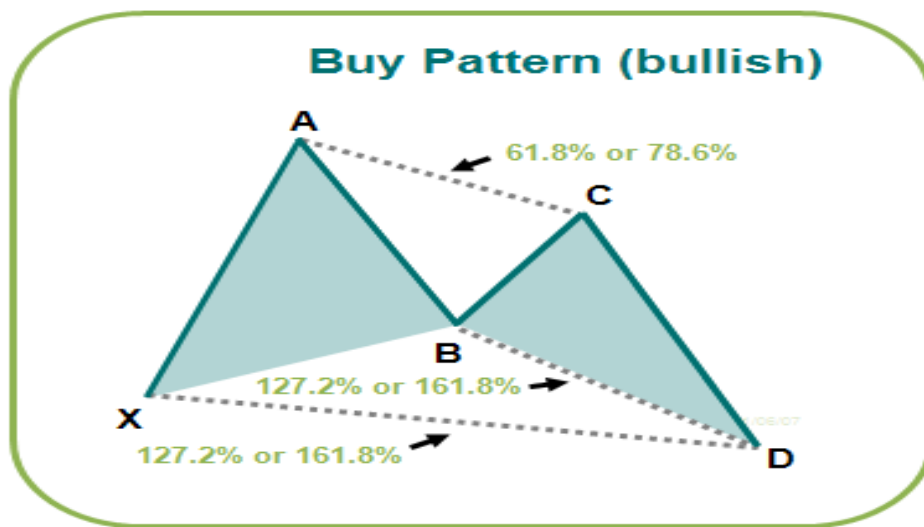
Pythagoras Expansion / Contraction – (PEC) Model

- 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

Buy Pattern (bullish) — A, C, B, X, D with 61.8% or 78.6% and 127.2% or 161.8%

Sell Pattern (bearish) — X, D, B, A, C with 127.2% or 161.8% and 61.8% or 78.6%
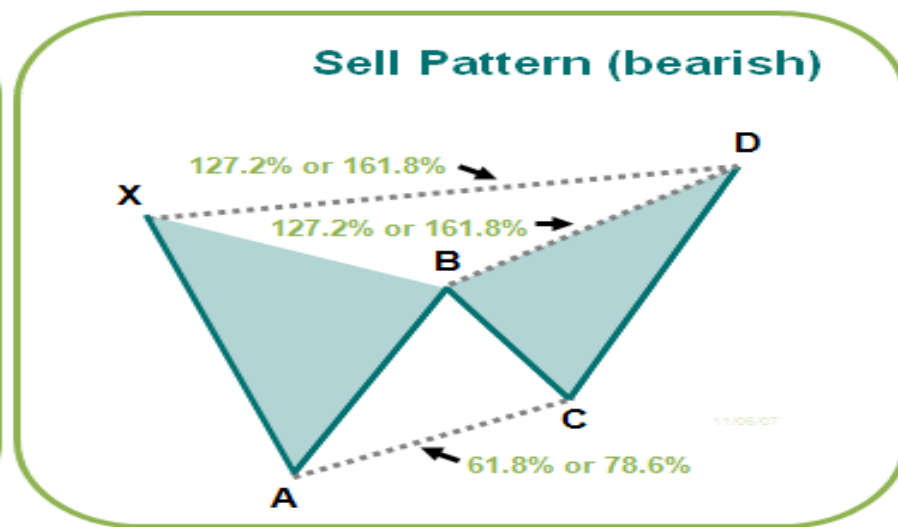
- ## Daily SPX - " Trend Adjusted Signal"

- ## 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