



SG Capital Research

Global Market Insights

Research Note – STRATEGY & PROP Analysis

MAEG- MS _US_ BROADER IDX REPORT # SG 2011 # OCT_12

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MS . US Broader IDX Report

Coverage

- ***US Bonds - TLT***
- ***NASD 100- QQQ.***
- ***RUSELL 2000- IWM***
- ***TRANSPORTS - IYT***
- ***DOW INDUSTRIAL – DIA***
- ***DOW – TRANSPORT THEORY***
- ***MID CAP – MDY (*Special situation*)***

1. Executive Summary.

US – BROADER IDX SIGNALS. - Price Projection CZ, Trading / Investment Conclusion

- STRONG IDX –

MDY

- WEAKER IDX

TLT, IWM, IYT, NYA

- NEUTRAL IDX

DIA - NEURAL with Bullish bias

QQQ - NEURAL with Neutral bias

TLT (BONDS)– Remains Triggered at POM 14 within CZ 125-124 – “CAUTION”

On 05/21, Triggered **POM 14-** we initiated **HEDGING(or Raise Cash)** within **CZ 125-124**, This signal completed **POM 13** Triggered on 10/27 for **Net Long** within **CZ 111-112**. All subsequent commentary refers to CZ to CZ moves are for Risk Management/ rebalancing overweight positions.

NEW POSITION – NONE

Triggered Action - POM 14 within **CZ 125-124** is in progress till we announce next trigger.

Projected Target

NEAR TERM –Downside Target **CZ 120-118**

MID TERM –. Downside to **CZ 116-114** is the Target for potential POM 13 to initiate Net- Long. Existing positions continue to remain Hedged (or raised cash)

UPSIDE – Capped into **CZ – 125-128** area . Rally towards **136** is POM 15 Target.

Brief Commentary on Price path

TLT bouncing back towards our upside **CZ 125-128**. This has been 4th time failure. In order for rally to continue, volume needs to pick up in CZ to target POM 15.

Near term downside **CZ 118-120**, has heavy bottom, eventually it be broken. Mid Term Target of **CZ 116-114**. This is Target area for potential POM 13 to be triggered if PQV is validated.

- **IWM (RUSSELL 2000) – Remains Triggered CZ – “CAUTION”**

Triggered Bearish CZ 81.50 -79 within POM 14 of SPX , we initiated HEDGING (or Raise Cash) , This signal completed POM 13 Triggered on 5/21 for Net Long within CZ 75-76. All subsequent commentary refers to CZ to CZ moves are for Risk Management / rebalancing overweight positions.

NEW POSITION - NONE

Action – Triggered - At 82 with 45 M – PQV validation within Bearish CZ 81.50-79 of POM 14 .
CAUTION for decline is in progress till we announce next trigger

Projected Target

NEAR TERM - Downside Target CZ 82.5-80.5

MID TERM –Positions should continue to remain HEDGED (or raised Cash) . Downside Target to be achieved at next POM 13 in SPX

UPSIDE - Price_Projection to POM 15 of SPX for Net Short action

Brief Commentary on Price path

Among all the US Broader IDX , IWM remains more favorable for Hedging due to weaker setup with –ve divergence as compared to SPY. However Net Short position in IWM would trigger only with POM 15 in SPX.

- **QQQ (NASD 100) – No Trigger in CZ – “ NEUTRAL ”**

No Trigger - <i>NEUTRAL</i> , we initiated <i>POM 13</i> Triggered on 5/21 for <i>Net Long</i> within <i>CZ 61-62</i> . All subsequent commentary refers to CZ to CZ moves are for Risk Management / rebalancing overweight positions

NEW POSITION - NONE

Action – No Trigger

NEUTRAL for the decline in progress till we announce next trigger

Projected Target

NEAR TERM - Downside Target *CZ 66.75-65.25*

MID TERM – Downside Target to be achieved at next POM 13 in SPX

UPSIDE - Price_Projection to POM 15 of SPX for Net Short action

Brief Commentary on Price path

QQQ remains Neutral with more Bullish consolidation. Our expectation is move up upon successful test of CZ .

- **IYT (TRANSPORT)** – **Remains Triggered CZ – “CAUTION”**

Triggered Bearish CZ 93-95 within POM 14 of SPX , we initiated HEDGING (or Raise Cash) , This signal completed POM 13 Triggered on 5/21 for Net Long within CZ 87-88. All subsequent commentary refers to CZ to CZ moves are for Risk Management./ rebalancing overweight positions

NEW POSITION - NONE

Action – Triggered - At 93.5 with 415 M – PQV validation within Bearish CZ 93-95 of POM 14 .
CAUTION for decline is in progress till we announce next trigger

Projected Target

NEAR TERM - Downside Target – No Projection

MID TERM – Positions should continue to remain HEDGED (or raised Cash) . Downside Target to be achieved at next POM 13 in SPX

UPSIDE - Capped into CZ 93-95 .

Brief Commentary on Price path

IYT has remained weaker setup with –ve divergence . However Net Short in IYT would trigger with POM 15 in SPX.

- **DOW TRANSPORT THEORY - For Monitoring Purposes ONLY -**

NEW SIGNAL - NONE

Action – Triggered - DOW Transport Theory” (Improvised) .

DOW Triggered - **SELL SIGNAL @ 12800**. Completing earlier Triggered **BUY at 12600** .

In comparison - POM 13 Triggered at the beginning of this trend at (**12250 in DOW**) & ended at POM 14 @ **13100**

US Broader IDX – Market Overview Commentary

POM 14 is currently in progress. Our next Potential Trigger should be POM 13 –re run for Net Long rebalancing.

Since our last US Broader IDX Report dated 09/19, SPX's has dropped 40 points to 1430 level . During this timeframe **IWM, IYT, NYA, TLT** has failed around its bearish CZ target and has **declined to levels below our POM 14 /CZ** projected prices, confirming its weakness v/s SPX during post POM 14. It has been Bifurcated Market. Mid Cap is showing Bullish divergence with accumulation. MID CAP IDX should rally first out of gates.

The last of the cycle has low is due early next week, we can't completely discount the possibility that it bottoming this week. We are seeing strong signs the internal market wants to rally. Enough reasons for Bears everything from the Fiscal Cliff, Spain or IMF noise . We are looking for SPX to test CZ 1425-1410 that should be the great opportunity for POM 13 Re run – Net long for the seasonal rally. The seasonal rally lasting closer election & then to the Fiscal Cliff.

YTD – US Broader IDX performance v/s SPX

Weakest and strongest Indices for PAIR TRADES

2012 - Strength / weakness in these market . Chart below is our Inter market Analysis Model with Ratio Relative performance v/s SPX .



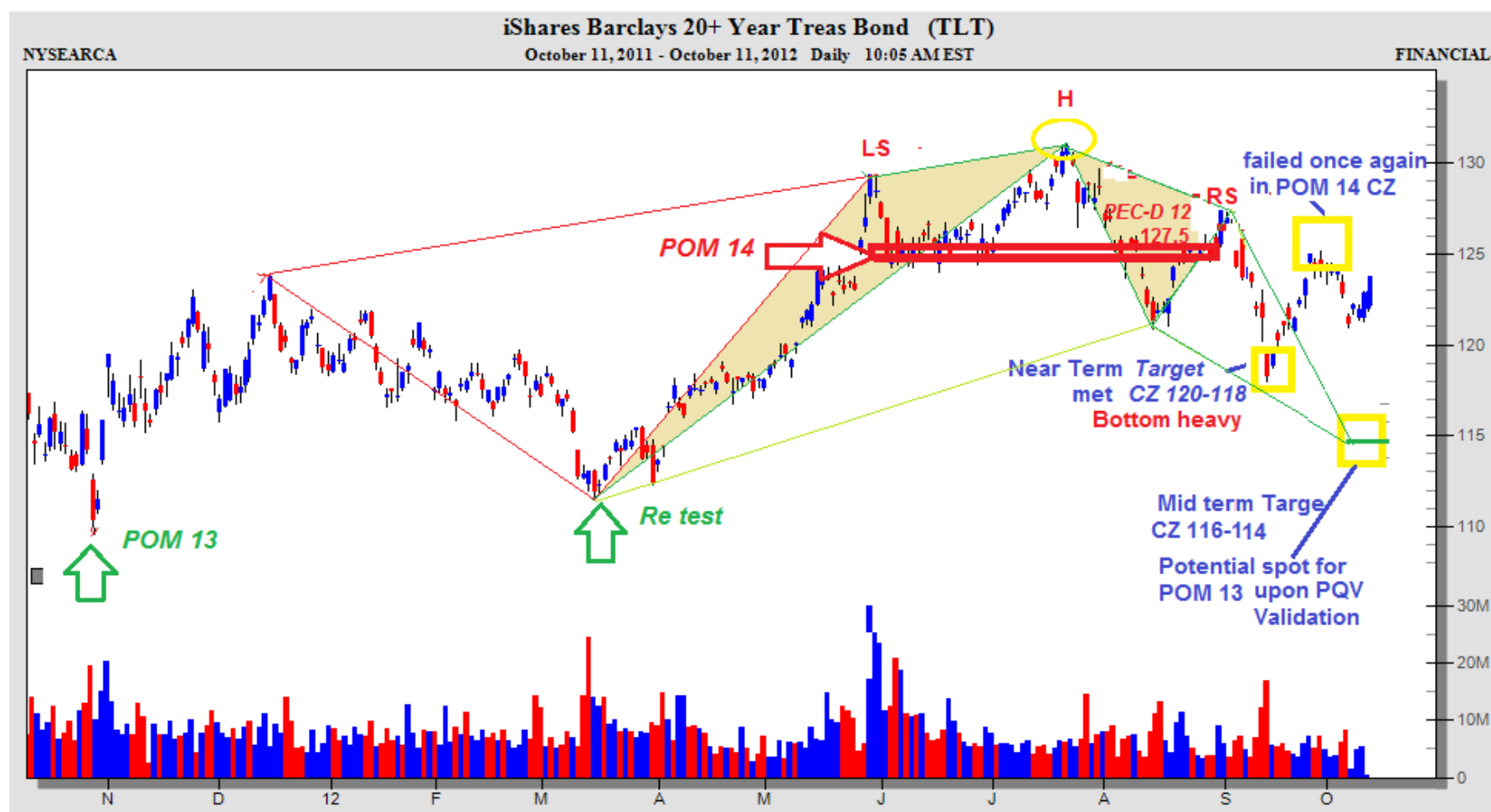
TLT (Bond) – PEC- D Analysis – Near Term . - “CAUTION”

- Current price 123.50 - Texture - **TOP BEARISH CZ. & BOTTOM BEARISH CZ** -

Upside - CZ – 125-128 Attempting to enter this area once again. Pick up in volume required to break upside to target 136

Near Term Downside - CZ – 118-120 heavy bottom

Mid Term Downside - CZ – 116-114, Potentially may be good area to Trigger POM 13, if PQV validates it



IWM – (RUSS 2000) - CZ – PEC-D Analysis - **Near term - “CAUTION”**

- Current price – 82.80 , Texture - **TOP BEARISH CZ. & BOTTOM BEARISH CZ**

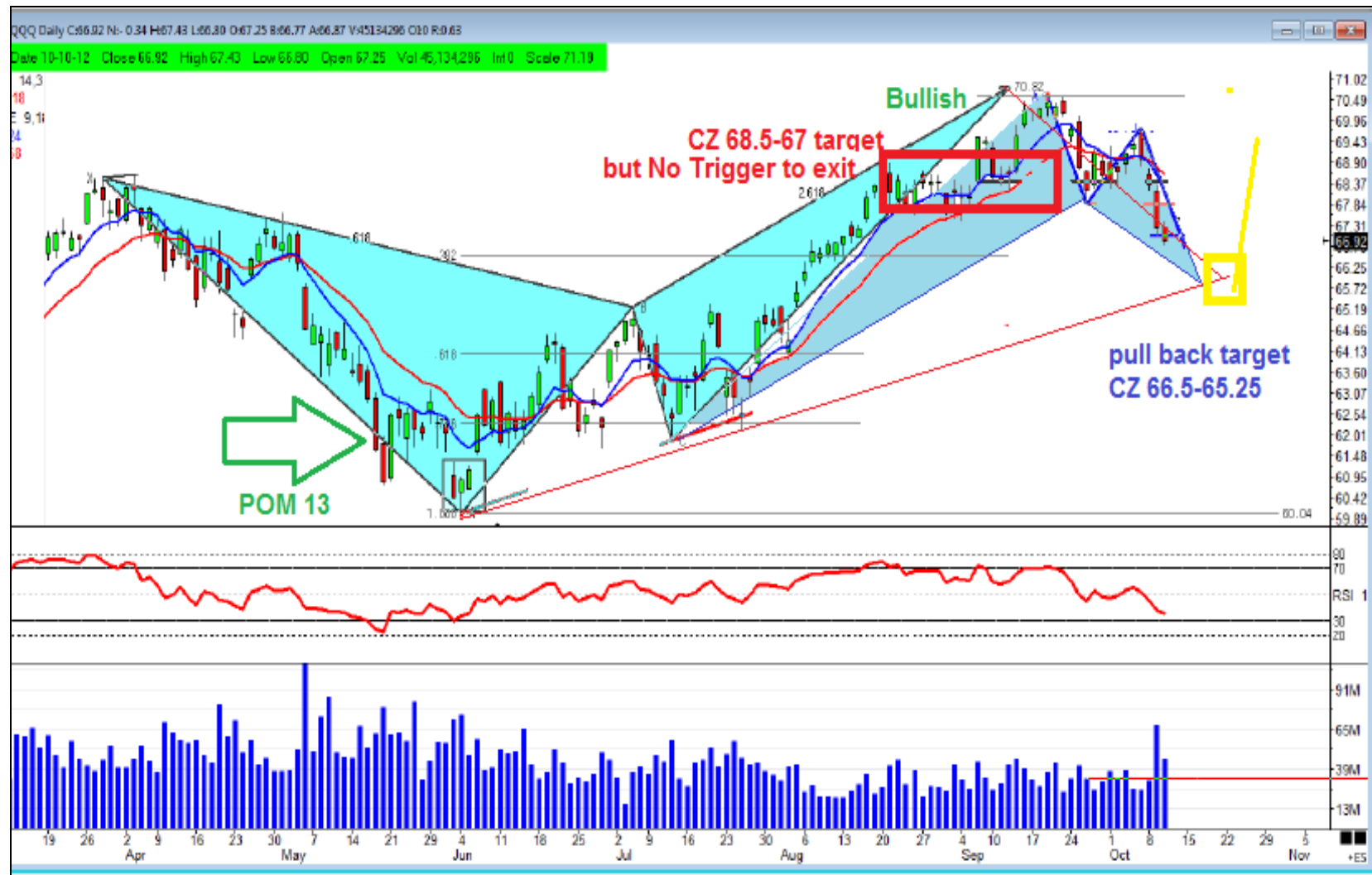
Price path in yellow , pull back target **CZ 82.5-80.5 – to be tested** , Target by 2- PEC-D counts at **81.75 & 82.75**



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

- Current price – 66.75 - Texture - **BULLISH TOP CZ** & **BEARISH BOTTOM – CZ**

Price path in yellow , pull back target CZ 66.75-65.25 – to be tested, Target by 2- PEC-D counts at 66.5 & 65.25



MID CAP Analysis - **BULLISH**

Mid Cap is showing Bullish divergence with accumulation & Money flow MID CAP IDX should rally first out of gates.



Dow Transport Theory – FYI only – Non conclusive

No NEW signal, last Sell signal at 12800

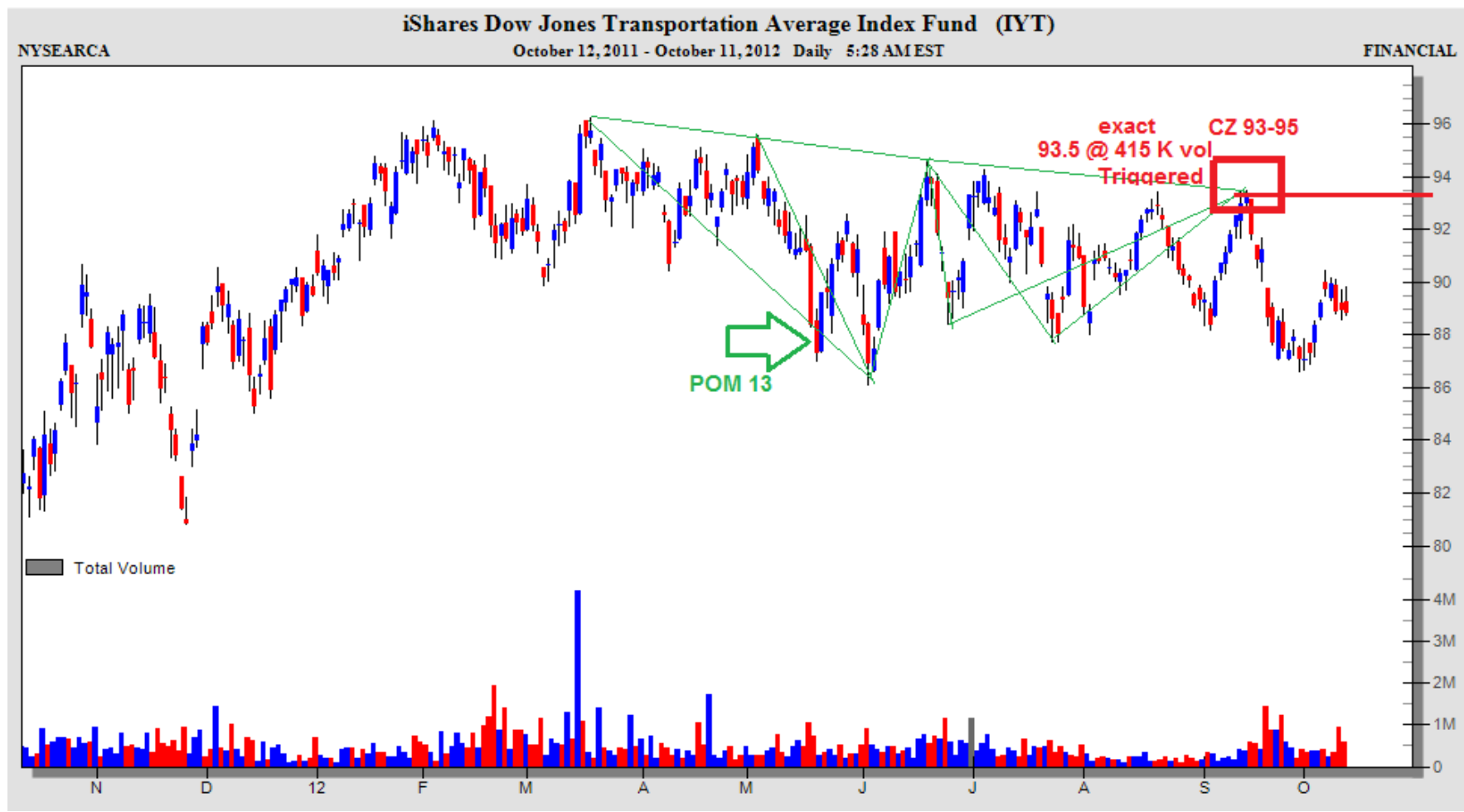
By this Method – IYT (Transport) is lagging DIA (Dow Jones) - DIA Price cross over with IYT price has given SELL signal. The Ratio curveIYT / DIA has broken downtrend . PQV has been Invalidated - SELL SIGNAL Triggered @ 12800



IYT – (Transport) - CZ / PEC –D Analysis - **Mid term - “CAUTION”**

- Current price – 88.80 Texture - TOP BEARISH CZ. & BOTTOM BEARISH CZ

*IYT being weakest among specialty IDX has **PQV test failure** at 93.5 in **CZ 93-95**. IYT has been on –ve VTO and good Hedge for part of POM 13 position.*



DIA (DOW JONES) - CZ – PEC-D Analysis - *NEUTRAL*

- Current price – 13325- Texture - *BULLISH TOP CZ* & *BEARISH BOTTOM – CZ*

Price path in yellow , pull back target *CZ 13250-10050– to be tested,* Target by 2- PEC-D counts



Appendix Content

- Objectives & POM /CZ / PEC –D Guidelines – Refer to detail Annexure
- Full Utilization of “ SP” Report Guidelines & Limitations - Refer to detail Annexure
- POM – “ Price Oscillation Model “ Criteria
- PEC –D “ Pythagoras – Expansion & Contraction Criteria
- CZ- Confluence Zone Criteria
- Chart Analysis
 - *Trend & Oscillator Analysis,*
 - *PEC –D Analysis,*
 - *Poly- Trend Analysis,*
 - *Pattern / CZ – Price & Volume Analysis.*
 - *Externe Indicator Analysis*

CORRELATION RATIO ANALYSIS

Inter market Analysis – TNX (Yield) v/s SPX

- *Direct Correlation continues in Current Trend*

Inter market Analysis – TLT v/s USD

- *Inverse Correlation continues in Current Trend*

- EXTREAME Sentiment Analysis

- (3rd Party Data) - Courtesy : SENTIMENT TRADERS

None @ EXTREMES

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 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)

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.



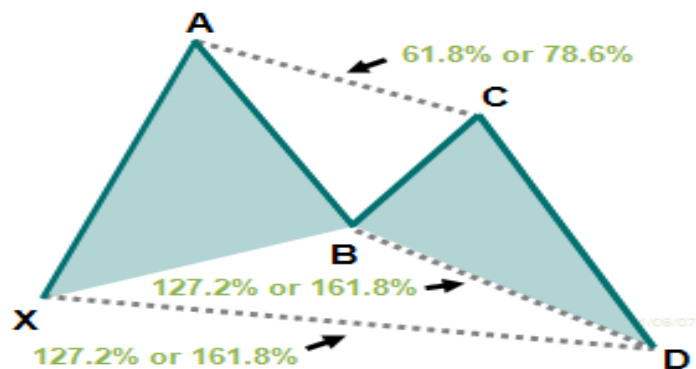
Pythagoras Expansion / Contraction – (PEC) Model

- PEC Model is a 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

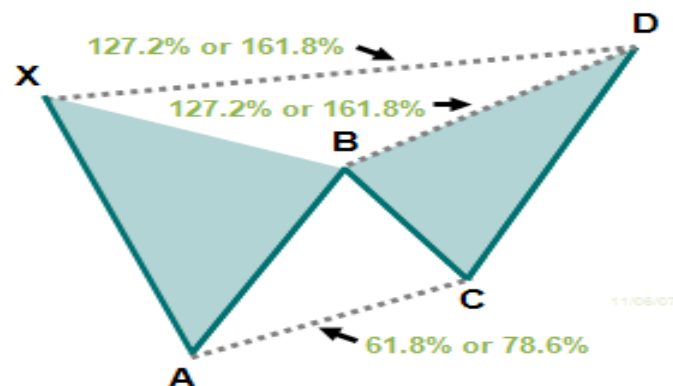
PYTHAGORAS EXPANSION / CONTRACTION –(PEC) Model

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)



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