SG Capital Research

Global Market Insights

Research Note – STRATEGY & PROP Analysis
 MAEG- MS _US_BROADER IDX REPORT # SG 2011 # OCT_31
For Immediate Release – Friday AM (EST)
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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.*

- ## SIGNALS. - *Price Projection CZ , Trading / Investment Conclusion*

Broader Indices

*POM 13 Re run for Net Long triggered on 10/15. Scaling in respective CZ's of IDX is in progress. **MDY DIA -** Bullish Indices should lead the next rally. The Neutral (Equity) Indices **QQQ, IWM, IYT, NYA** should be UNDERWEIGHT in next rally.*

- ### STRONG INDICES

  MDY , DIA

- ### WEAKER INDICES

  TLT

- ### NEUTRAL INDICES

  QQQ, - NEUTRAL (**Bullish bias)**

  NYA, IWM, IYT - NEUTRAL

  MUB, JNK - NEUTRAL

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

Triggered   POM 14- on 5/21 we initiated to raise cash (or Hedge) 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

UPSIDE – Capped into CZ – 125-128 area . Rally towards 136 is POM 15 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 should continue to remain in raised cash (or hedged).

Brief Commentary on Price path on TLT

TLT's trading range between (120-125) continues for few months, building cause. Currently bouncing back towards our upside CZ 125-128. This has been 4th time failure in that CZ . In order for rally to continue, volume needs to pick up in CZ to target 136, Ideal place to get " Net short" , this has not happened.

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. Ideal place to get " Net long " for one last rally before the 30 yr old Bull Market ends.

MDY (MID CAP) Triggered POM 13 Re Run @ 178.5 to initiate within CZ 179-176 - NET LONG

Triggered POM 13 @ 178.5 on 10/15, we initiated ½ NET LONG (Or Rebalancing Hedges) & advise to Scale in remaining ½ within CZ 179-176, This signal completed POM 14 – Caution Triggered on 7/05.
. All subsequent commentary refers to CZ to CZ moves are for Risk Management.

NEW POSITION – WATCH FOR CONTINUATION TRIGGER IN CZ,

2nd , (½) Position to be "scaled in" during the pull back into CZ 179-176 – at the re test of POM 13 – Re run CZ .

Triggered Action - POM 13 Re run Triggered @ 178.5 for Net Long (or Rebalancing hedges) is in progress till we announce next trigger.

Projected Target

NEAR TERM – Downside Target CZ 179-176 . Existing positions should continue to remain Net long).

UPSIDE – Target is POM 14 in SPX

Brief Commentary on Price path on MDY

Among all the Broader IDX , MDY appears to be the strongest with +ve divergence as compared to SPY. MDY should out perform

IWM (RUSSELL) Triggered POM 13 Re Run @ 82.5 to initiate within CZ 82.5-80.5 - NET LONG

Triggered   POM 13 @ 82.5 on 10/15, we initiated ½ NET LONG (Or Rebalancing Hedges) & advise to Scale in remaining ½ within CZ 82.5-80.5, This signal completed POM 14 – Caution Triggered on 7/05 within CZ 81.5-79 . All subsequent commentary refers to CZ to CZ moves are for Risk Management.

NEW POSITION – WATCH FOR CONTINUATION TRIGGER IN CZ,

 2nd , (½) Position to be "scaled in" during the pull back into CZ 82.5-80.5 – at the re test of POM 13 – Re run CZ .

Triggered Action - POM 13 – Re run Triggered @ 82.5 for Net Long (or Rebalancing hedges) is in progress till we announce next trigger.

Projected Target

NEAR TERM – Downside Target CZ 82.5-80.5 . Existing positions should continue to remain Net long).

UPSIDE – Target is POM 14 in SPX

Brief Commentary on Price path on IWM

IWM remains Net Long but "underweight" in position.

QQQ (NASD 100) – Original Trigger on POM 13 within CZ 61-62 is intact - NET LONG

Triggered POM 13 @ 62 on 5/21 , we initiated Net Long within CZ 61-62. All subsequent.
commentary refers to CZ to CZ moves are for Risk Management / rebalancing overweight positions

NEW POSITION - NONE

Triggered Action - continuation move higher

POM 13 – Re run Triggered @ 67 for Net Long (or Rebalancing hedges) is in progress till we announce next trigger

Projected Target

NEAR TERM - Downside Target CZ 66.75-65.25

UPSIDE - Target is POM 14 in SPX

Brief Commentary on Price path on QQQ

 QQQ remains Net Long with original position taken at @ 61 from 5/21.
QQQ did not trigger POM 14 at the Market highs of August / September

IYT (TRANSPORT _Triggered POM 13 Re Run @ 82.5 to initiate within CZ 82.5-80.5 - NET LONG_

Triggered POM 13 @ 89.6 on 10/15, we initiated ½ NET LONG (Or Rebalancing Hedges) & advise to Scale in remaining ½ within CZ 90-88, This signal completed POM 14 – Caution Triggered on 7/05 within CZ 95-93
All subsequent commentary refers to CZ to CZ moves are for Risk Management.

NEW POSITION – WATCH FOR CONTINUATION TRIGGER IN CZ,

2nd , (½) Position to be "scaled in" during the pull back into CZ 88-89– at the re test of POM 13 – Re run CZ .

Triggered Action - POM 13 – Re run Triggered @ 89.6 for Net Long (or Rebalancing hedges) is in progress till we announce next trigger.

Projected Target

NEAR TERM – Downside Target CZ 88-89 . Existing positions should continue to remain Net long).

UPSIDE – Target is POM 14 in SPX

Brief Commentary on Price path on IYT

IYT remains Net Long but "underweight" in position. IYT being weakest among specialty IDX .

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

 ### *NEW SIGNAL - NONE*

 ### *Action – Triggered - - DOW Transport Theory" (Improvised Model)   .*

 No new Buy Signal . Last Signal - DOW Triggered - SELL SIGNAL @ 12800. Completing   BUY at 12600. .

YTD – Broader Indices 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 .*
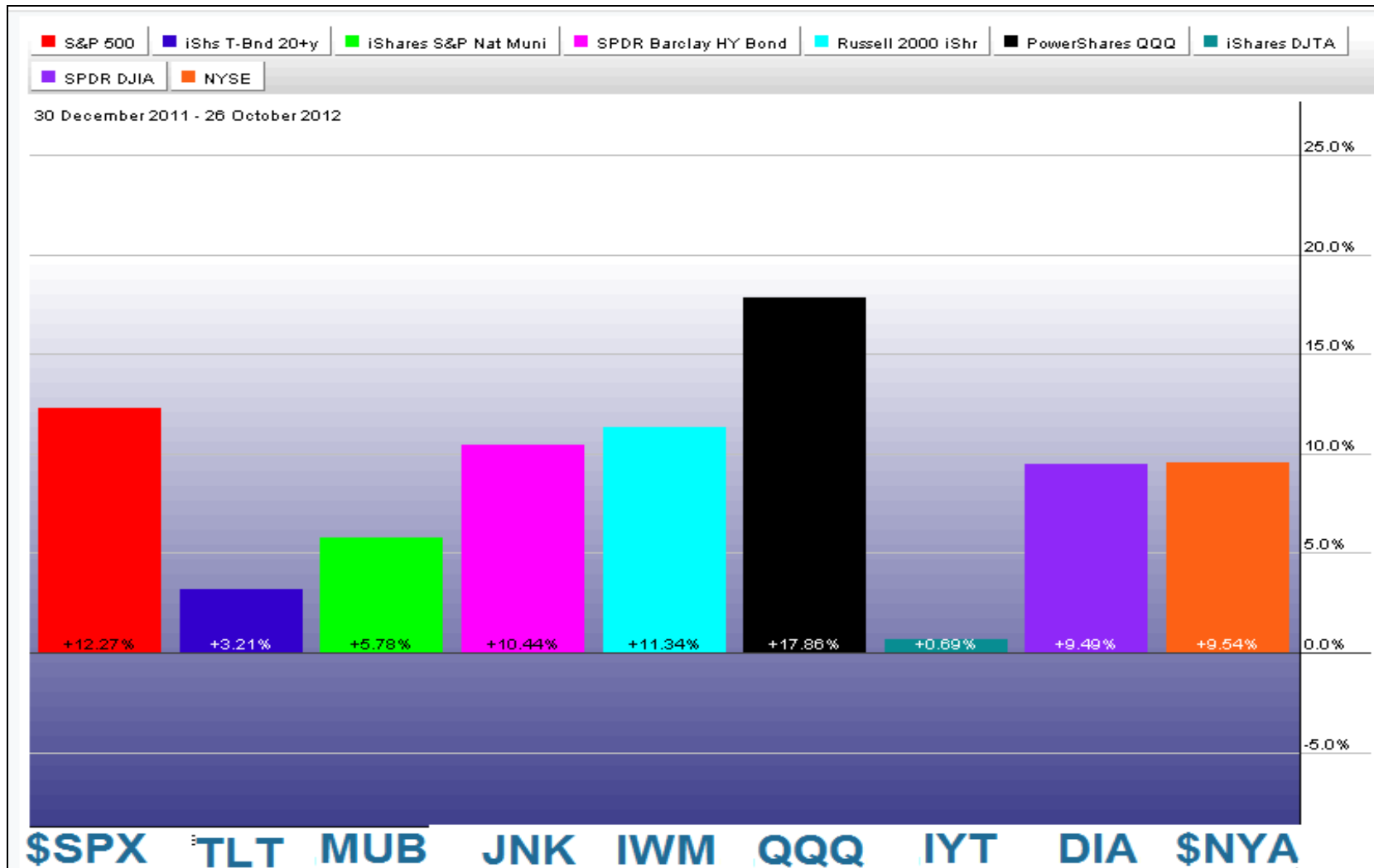
TLT (Bond) – PEC- D Analysis – Near Term . - *"CAUTION"*

- ***Current price 122.50 - Texture -*** *TOP BEARISH CZ. & BOTTOM BEARISH CZ -*

Upside - *CZ – 125-128. Attempting to enter this area once again. Pick up in volume is 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*
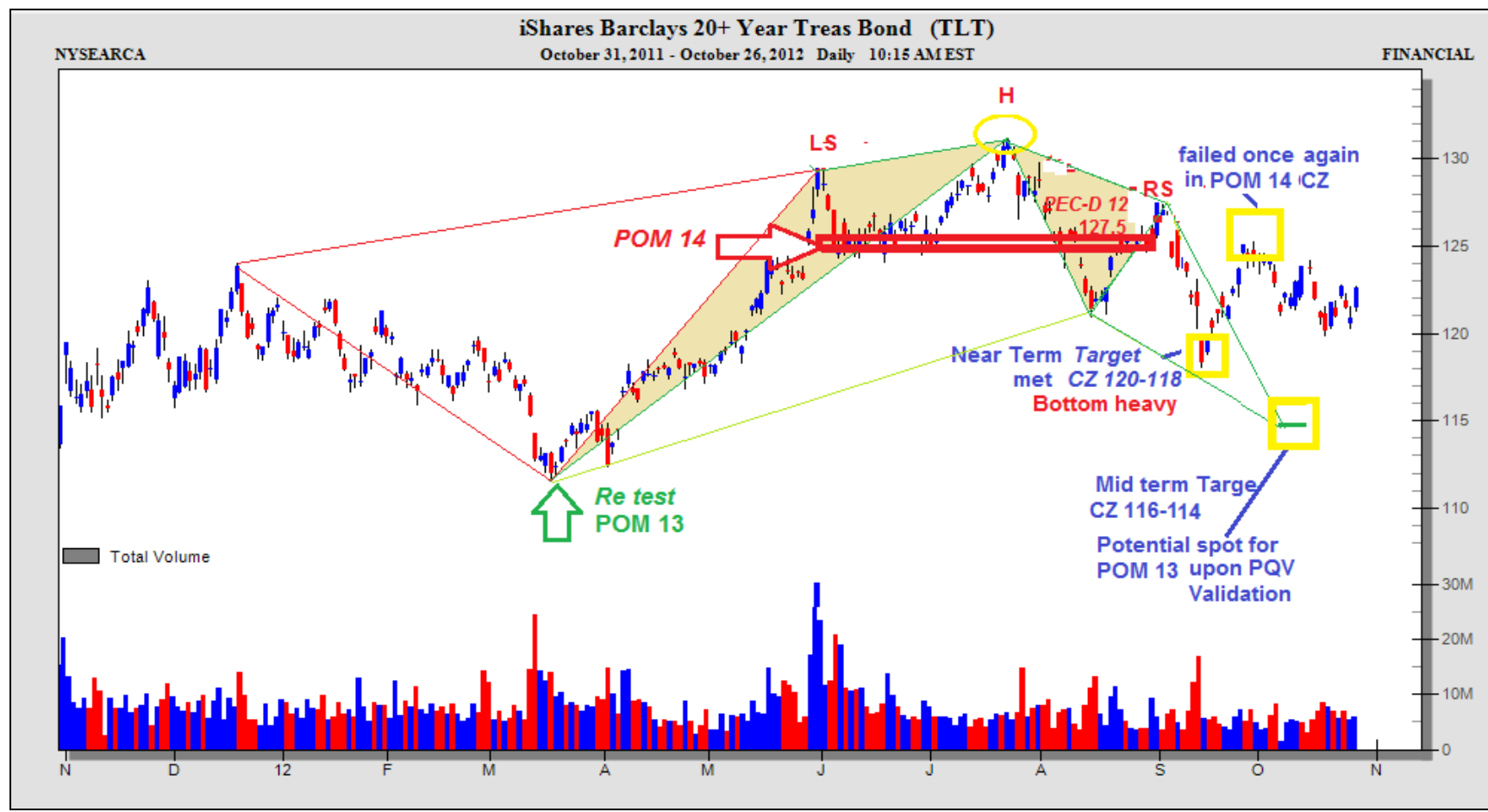
TLT (Bond) – PEC- D Analysis – BIG PICTURE - " NEUTRAL"

 30 yr Bull Market . *LT Monthly PEC- D projections of POM 15 to 136 with PQV Analysis is a possibility , Therefore still not ready for NET SHORT. Until PQV negates & qualifies the down move.*

POM 12 entry @ 90 ended at POM 14 to 125 with " 2 # POM 13 in between the moves. TLT is at the same level as Oct 2011 (past 12 months) . Therefore we shall pick and choose out best price points for Investment Trades.

iShares Barclays 20+ Year Treas Bond (TLT)
October 31, 2007 - October 26, 2012 Monthly 3:14 AM EST

NYSEARCA

FINANCIAL

MONTHLY VIEW

136
POM 15 ??

POM 14

POM 12

Volume Avg Per Frequency
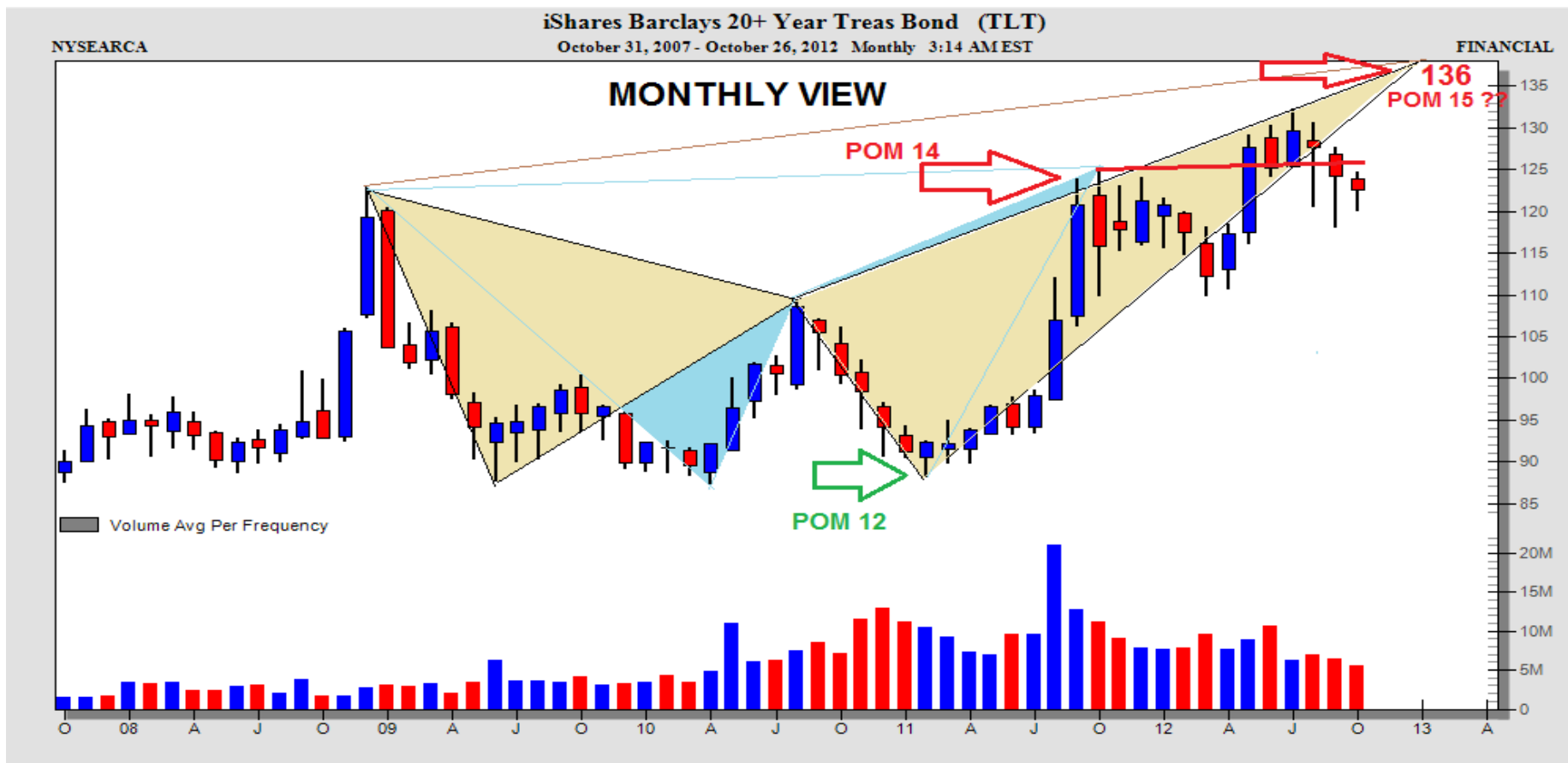
MDY (MIDCAP)   – PEC- D Analysis – Near Term . – *Bullish*

- **Current price – 177.5 - Texture -** *BULLISH TOP CZ & BULLISH BOTTOM – CZ*
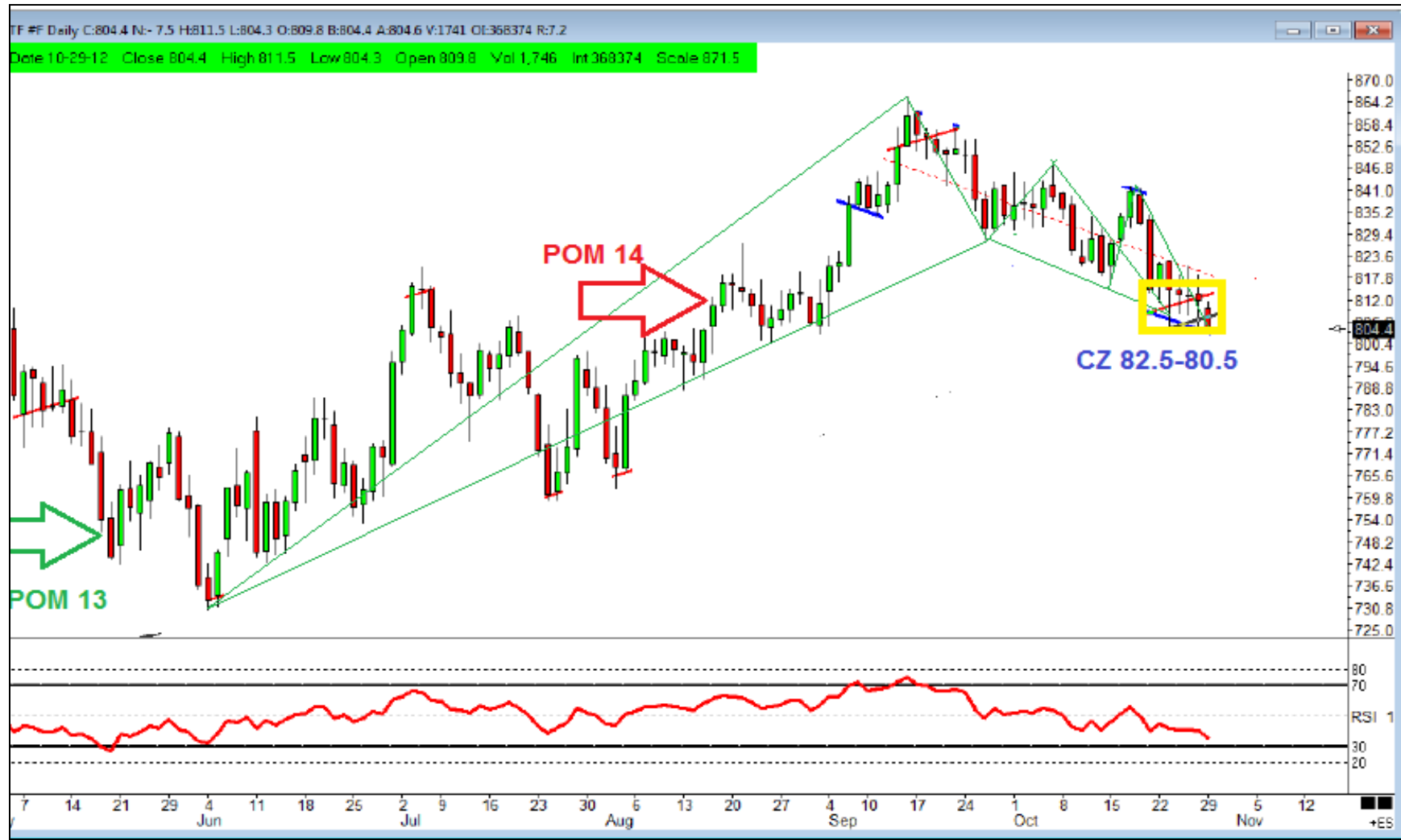
Near Term Downside - *CZ – 178-175, Should rally with POM 13*
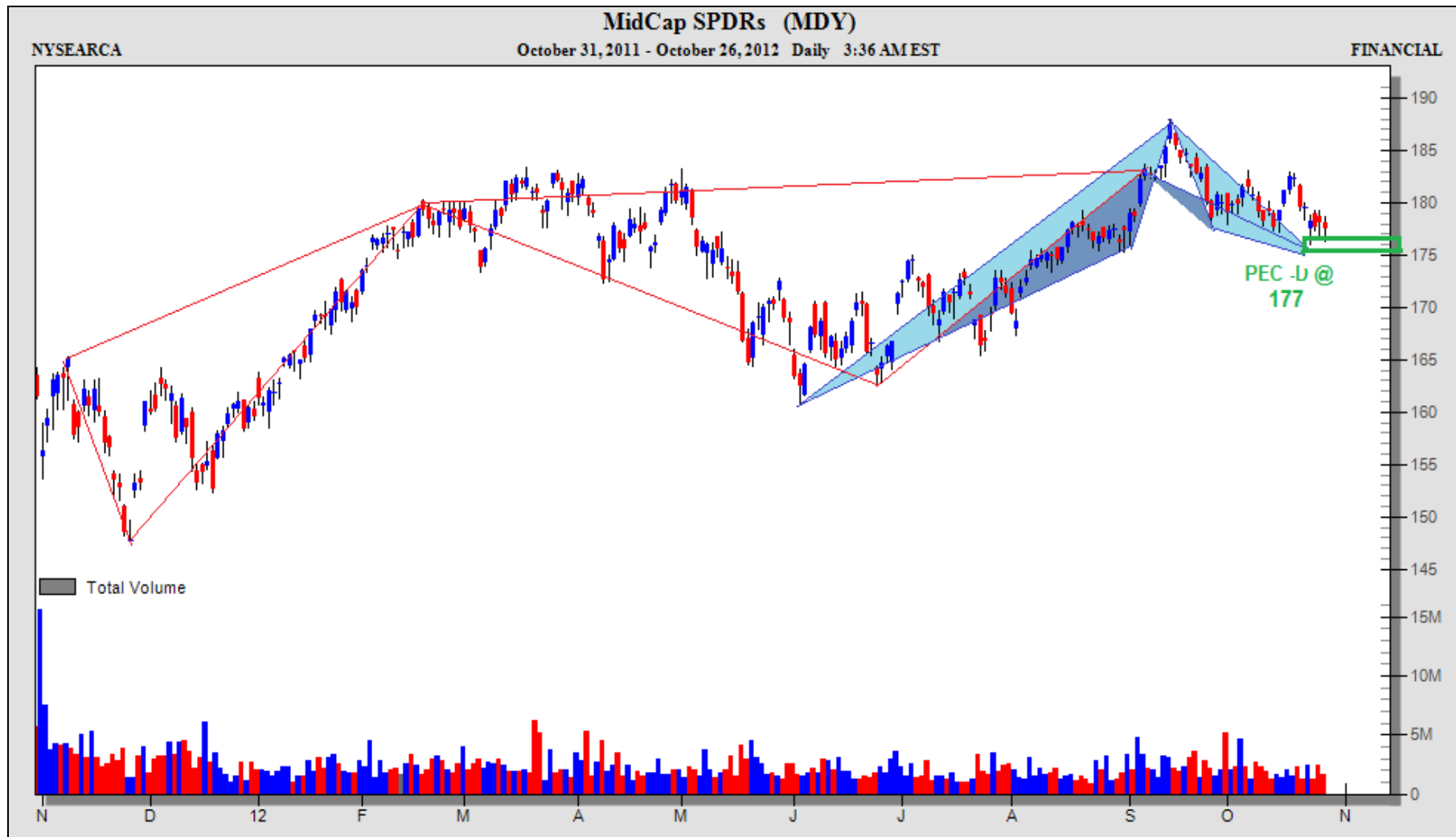
IWM – (RUSS 2000) - CZ – PEC-D Analysis - "*NEUTRAL*

- ***Current price – 81.14 , Texture - TOP BEARISH CZ. & BULLISH BOTTOM CZ (UNDERWEIGHT)***

 Price path in yellow , pull back target CZ 82.5-80.5- met , Target by 2- PEC-D's 81.75 & 82.75 .

QQQ – (NASD 100) - CZ – PEC-D Analysis   - *"NEUTRAL (Bullish bias)*

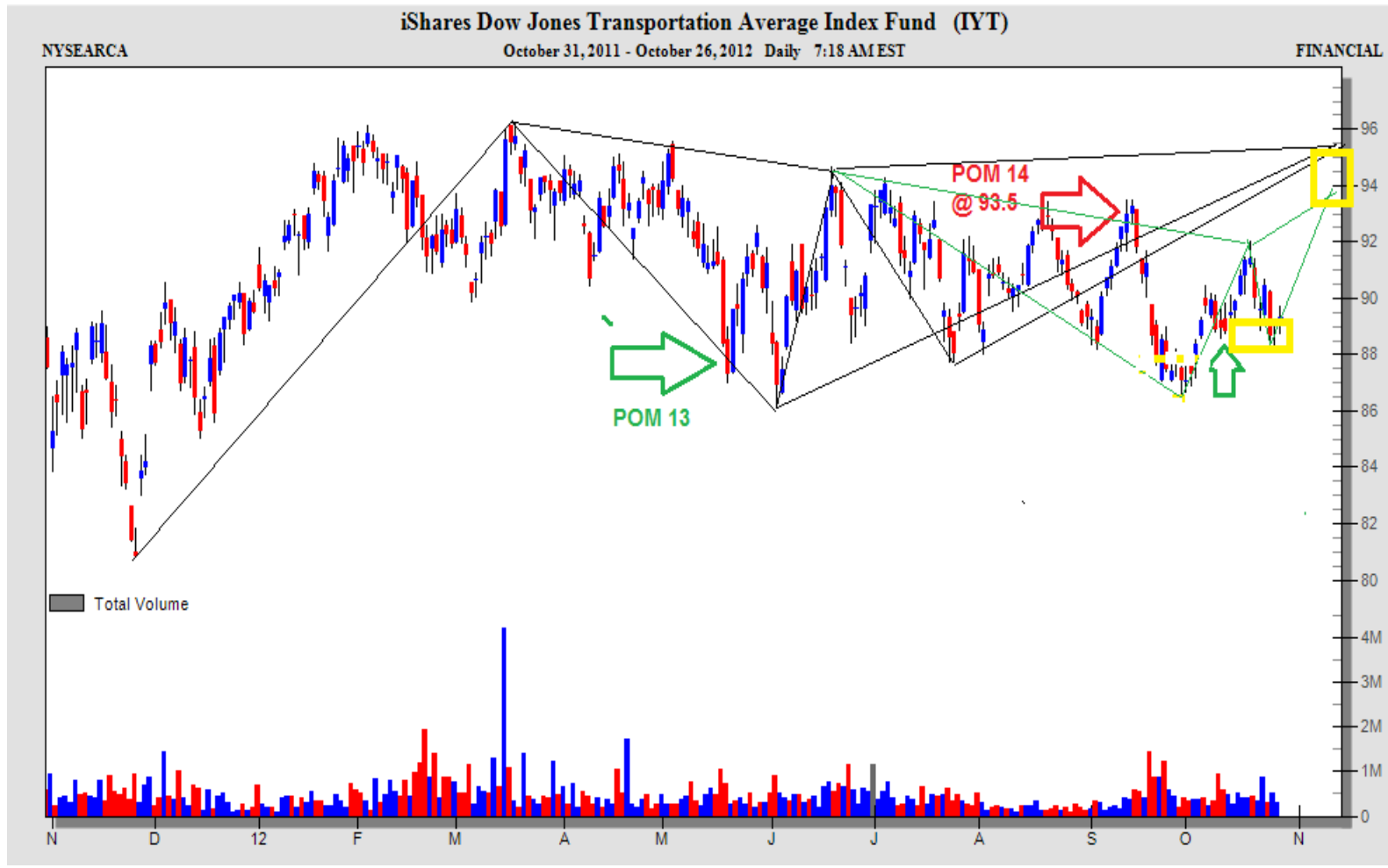- ***Current price – 65.35 - Texture - BULLISH TOP CZ & BEARISH BOTTOM – CZ (UNDERWEIGHT)***

Price path in yellow , pull back target CZ 66.75-65.25 met , Target by 2- PEC-D's 66.5 & 65.25

IYT – (Transport) - CZ / PEC –D Analysis - *"NEUTRAL*

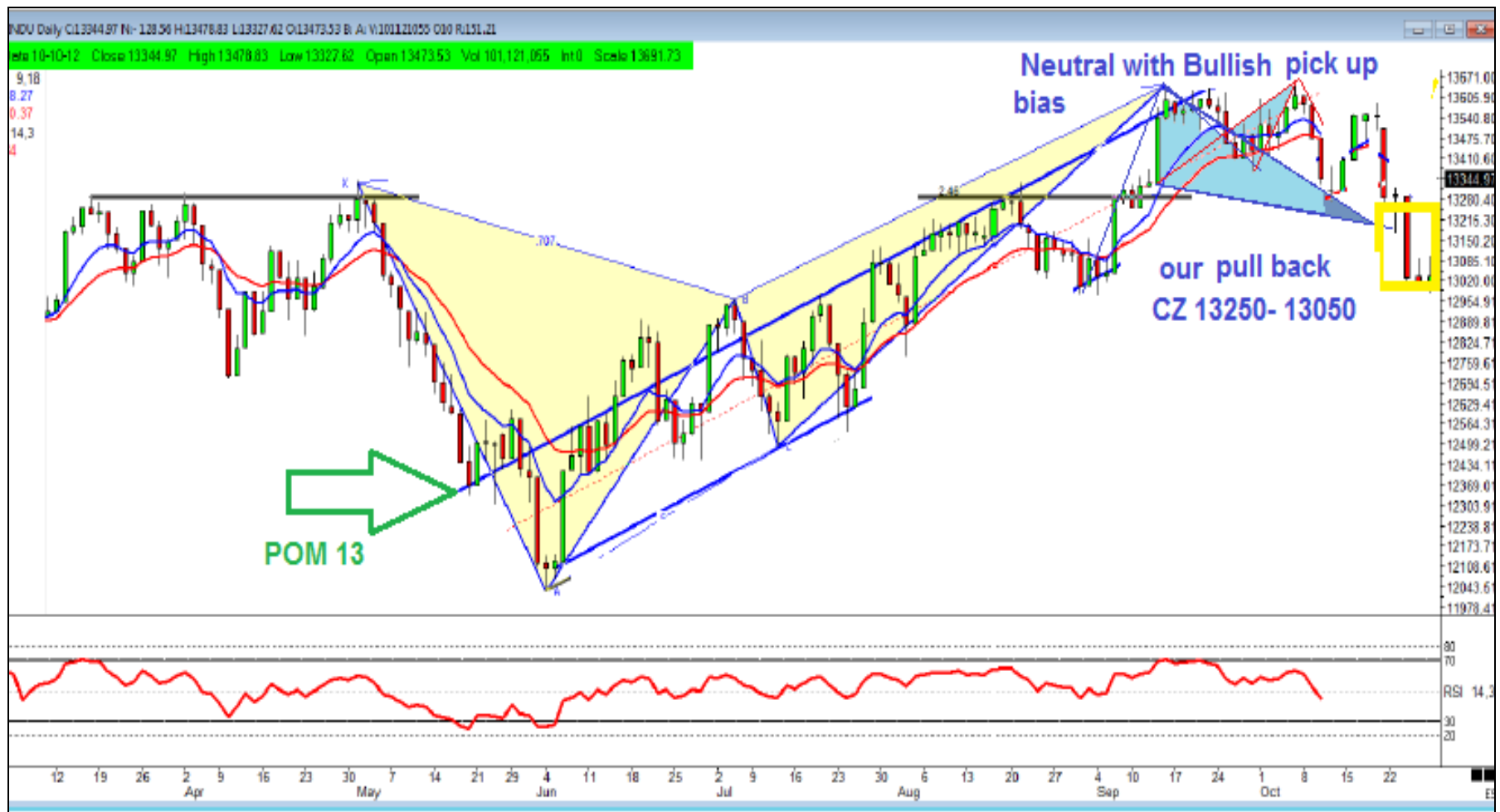- ***Current price – 89.33 Texture –*** *TOP BEARISH CZ. & BULLISH BOTTOM CZ (UNDERWEIGHT)*

Price path in yellow , pull back target CZ 88-89

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

- **_Current price – 13080- Texture -_ BULLISH TOP CZ & BULLISH BOTTOM – CZ**

Price path in yellow , pull back target CZ 13250-13050 met, Target by 2- PEC-D counts

Dow Transport Theory – FYI only – Non conclusive

No NEW Buy 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 curve ….IYT / DIA has broken downtrend   . PQV has been Invalidated   - SELL SIGNAL Triggered @ 12800
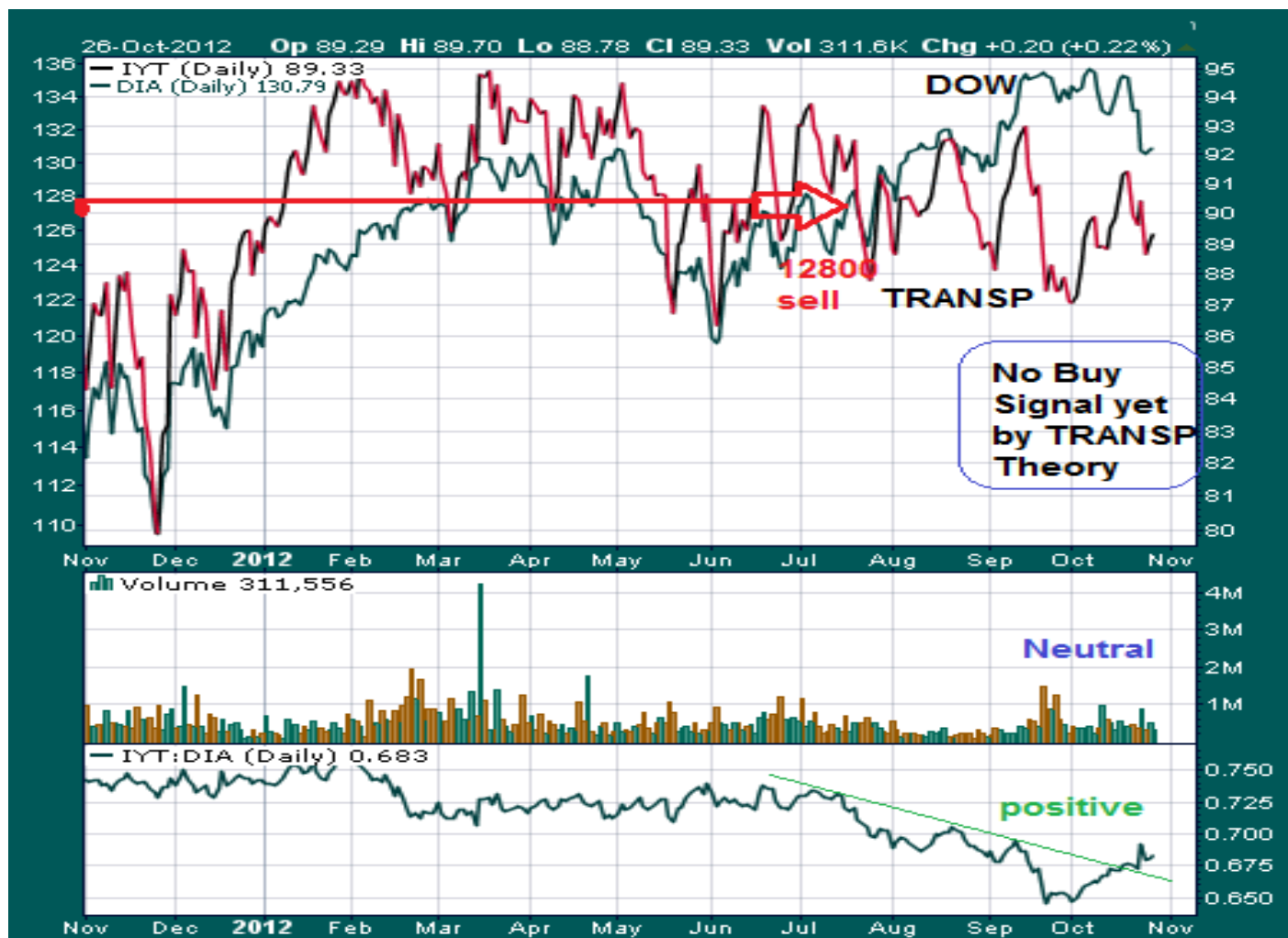
Appendix Content

- **Objectives & POM /CZ / PEC –D Guidelines – <u>Refer to detail Annexure</u>**

- **Full Utilization of " SP" Report Guidelines & Limitations - <u>Refer to detail Annexure</u>**

- **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.*
  - *Exterme Indicator Analysis*

CORRELATION RATIO ANALYSIS

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

- ***Direct Correlation <u>continues</u> in Current Trend***

*Inter market Analysis – **TLT v/s USD***

- ***Inverse Correlation <u>continues </u>in Current Trend***

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

None @ <u>EXTREMES</u>

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.
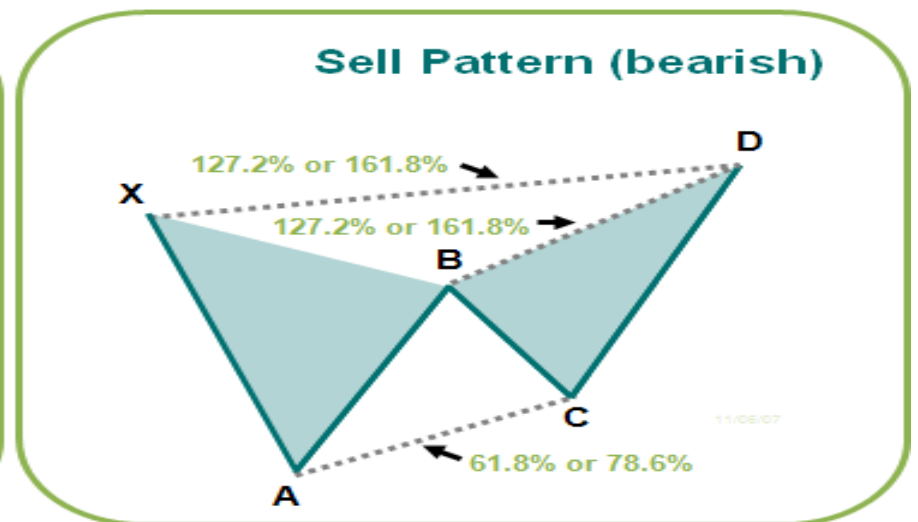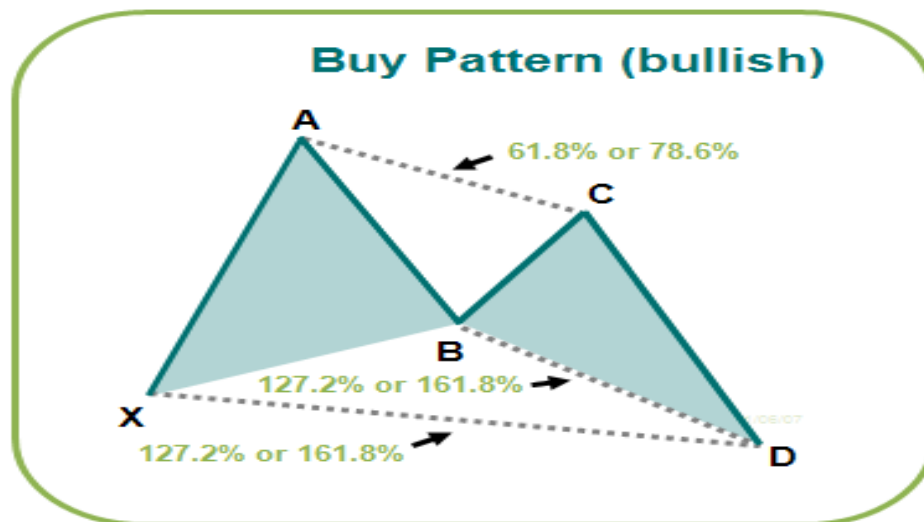
Pythagoras Expansion / Contraction – (PEC) Model

- 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)

A
61.8% or 78.6%
C
B
127.2% or 161.8%
X
127.2% or 161.8%
D

Sell Pattern (bearish)

D
127.2% or 161.8%
X
127.2% or 161.8%
B
C
A
61.8% or 78.6%