



Date : 2<sup>nd</sup> Dec 2013 ( Monday)

**MS –SPX – POM - MARKET STRATEGY REPORT (SP)**

By : Suneil R. Pavse, E : apavse@aol.com

**Executive Summary.**

	Current Price	POM Triggered within CZ & Date	Follow up <b>Alert</b> Update For ST Trend Reversal & RM	Progress Status	Existing Position / Exposure	<b>NEW ACTION</b> ( Trigger to Watch)	Upside CZ Near Term	Upside CZ Mid term	Downside CZ Near term	Downside CZ Mid term	Remark
<b>SPX- 500</b>	1806	<b>POM 15</b>  CZ 1687-1653- <i>Mean CZ At 1670</i>  <i>Triggered 7/24</i>	<b>@ 1671 –SPX</b> <i>Reduced Net Short fr On 10/3</i>	<b>BEARISH</b>  <i>Momentum bounce Is in progress</i>	<b>Net Short</b>  Via IWM,QQQ Instrument	<b>NONE</b>  <i>No sign of failure yet</i>	– false break above _3 drives to top to <b>1780</b>	<b>Target</b>  <b>Momentum Thrust continues -ABC up To 1820</b>	Pull back to PEC-D 1780 <b>Met exact &amp; rallied</b>	CZ 1735-1725 & one more rally up to double Top  <u>1<sup>ST</sup> ABC</u> down to 1710	<b>Close Under 1735 weekly</b> with volume. It would Trigger Mid term Sell  <b>Best Risk / Reward to go long @ 1710</b>
<b>TLT (BONDS)</b>	104.45	<b>POM 13 – Re Run</b> CZ 107-115 <i>Mean CZ At 111</i> <b>Triggered 8/9</b>	<b>NONE</b>	<b>BULLISH</b>  <i>Should turn Neutral if close under 102.2</i>	<b>Net Long</b>	<b>NONE</b>	Target – PEC-D 108-	<u>1<sup>ST</sup> ABC</u> PEC-D 112 <b>Bullish Top</b>	<b>Pull back to Crash PEC-D 104 –</b> retesting Bullishly	CZ 104-105,  <b>Should come into range above 105</b>	<b>RM ½ @ 102.2</b>

	Current Price	POM Triggered within CZ & Date	Follow up <b>Alert</b> Update For Trend Reversal	Progress Status	Current Position / Exposure	<b>NEW ACTION</b> (Trigger to Watch))	Upside CZ Near Term	Upside CZ Mid term	<b>Downside CZ Near term</b>	Downside CZ Mid term	Remark
<b>GOLD</b>	1240	POM 13 Re – Run CZ 1205-1190- Mean CZ At 1200  Triggered 6/28	<b>@ 1280</b> Re entry ½ <b>On 10/6</b>	<b>BULLISH</b>  ST pull back in progress	Net Long  <b>Stopped out</b> ½ @ 1245 11/02. <b>Entry @</b> <b>1319</b> ½ On 9/18 For -5.6% loss	NONE		ABC up to CZ 1350-1335 Neutral Top  Target CZ 1425- 1445 Bullish Top In tact	False break below 1250 On lighter volume  Bullish Bottom	Possible re test of PEC- D 1220	<b>We shall look to Re- enter ½ stopped out position once 1220 lows is tested and close above 1250 daily.</b>

## **Notes**

1. To Add Net Short exposure in SPX & related Instrument , let the Market exhaust itself on Bearish Momentum Top or let the volume pick up on downside with “close under price” as Trigger . One can short counter Trend rally upon 1<sup>st</sup> failure.

– **We shall announce**

2. Detail Charts on GOLD in Wednesday’s Currency Report

## Portfolio – Overview & Update

GOLD @ 1280 on 10/16, Announced to add GOLD & GDV each – Net Long exposure @ 1280

SPX @1670 on 10/3, Announced to close XLB & XLE each – Short exposure - Reduced @ 1670

**NET LONG exposure** - XLV for Obama-Care, XHB for Housing recovery and XLP is for Consumer staple Inflation themes. Our Bullish Top Instrument theme are working well for +ve Spread.

For Short bias Portfolio ONLY Since , 7/24 in Bearish Instruments QQQ, IWM equally – **POM 15 exposure @ 1687.**

**Portfolio Holdings** **NEUTRAL /SHORT BIAS EQUITY- NON LEVERAGED** Refer to Respective Reports for details

- LONG at POM 13 / in Main CZ : .....  
Non- Equity - GOLD , GDV , USD/JPY , CU , TLT AUD .  
Equity - XLV ,XHB , XLP, \_EWJ / NIKKE ,
- SHORT ( Hedges v/s Longs) / in CZ : .....  
Equity –( Hedges) - QQQ , IWM, EEM), EMB ( acting as Hedge against TLT decline)
- **NET SHORT** -.....Preferred Instruments  
QQQ , IWM, for Short bias Portfolios only
- **OPEN ORDERS**  
Oil : Trigger for Net long within CZ 91-90,  
DBA: - Trigger for Net Long within CZ 24.60-24.40 ,

## GOLD - Bullish- – pull back in progress.

**Downside** - false break below 1250 in progress into PEC-D 1220 . We should reject it with Bullish Bottom. **Close above 1250 on daily if 1220 is tested.**

**Upside** - Projected Cap 1350-1335 .

*RM Stopped out @ 1245* “entry @ 1319 , ½ exposure , 9/18 for -5.6% loss ).  
Triggered entry on 10/16 @ 1280 , ½ exposure to remain

## TLT ( BONDS)– Bullish- Bottoming CZ in progress

We are of the opinion that the Bonds should rally once the correction in Equity begins. However on the contrary if the rates rise, buying the government bonds still get beneficial due to the yield advantage if rates do continue to rise and bond prices fall, the bonds should come out even at maturity. This makes bonds very much better than stocks in the current environment.

**TLT** shows accumulation at the lows. So far, we have only seen a “circling around the recent lows” . This for a longer term investment and don't mind 1-2 months of drawdown . The money flow is picking up closer to the lows.

**TLT** - Pull back Retesting CZ 104-105 – Bullishly . We would like to see if it rejects lows, close above 105 this week . **Stop RM -102.2 .**

**Upside** - , Upward move to 108 – met but was left incomplete for test .

**BACKDROP** - Our drawdown of **-5.5+%** has been cushioned by EMB hedged profits +3.5%

## Market Overview SPX

**Last week** – Thanksgiving seasonality rally proved its merit, assisting the Market towards the *Momentum thrust Target past its completion of WAVE 5 & 3 DRIVES-PEC-D pattern to 1780 & beyond. This is very CRITICAL weekly and Monthly Pattern ( Refer chart below)*

**This week** - Based on past 2- week's action , the “Thrust” Target remains to **1820**. Even if we get slight pull back early this month as it is showing signs of weakening now, the late December is positive. A final blow-off rally, which we are calling could finish the entire uptrend going into the quarterly expiration of futures and options in December.” The **secondary failure** should define a the Top.

The apex of the triangle on the daily chart occurs between December 17<sup>th</sup> - 19<sup>th</sup>. Those dates correspond to Triple-Witching Options Week, December 17<sup>th</sup> is also the next Full Moon. Lately, we've been seeing lunar inversions where the Full Moon corresponds to highs in the market. There's definitely reason to think that that time period will be significant perhaps for Melt up.

Although we have been projecting higher and higher price targets post **1687** during Momentum ride and technically, the market is clearly in melt-up mode, the ratio of new highs to new lows shows the signs that breadth weakening on Friday . Friday's highs on the NYSE, SPX failed to be confirmed by their respective advance-decline lines.

This is a very tricky trading environment and the trend must be assumed to still be to the upside. But, risk on the downside is extremely high for long side traders. Our Bearish calls in current environment, suggests simply not worth the risk of holding overweight / adding Mid term Long positions during this time frame.

It appears the larger decline may be Triggered in January 2014. Especially 17<sup>th</sup> Jan is Major turn date. Based on internals, Signs of a top continues to build in Bubble like Top. But downside volume is not picking up on decline . We are awaiting for the pull back to **CZ 1735-1725** then rally back to double top , this should diffuse the extra volume and then upon secondary top failure begin 2<sup>nd</sup> leg down to **PEC-D 1710**. This the best Risk / reward to go long

Sentiments are at extremes with bull/bear ratios, the Smart Money/Dumb Money Index & Margin Debt well into its danger zone. The overall, the longer term – SPX - PEC-D is on completion ( Refer LT chart below) . but the breadth A-D is positive not breaking down. We would like to see further –ve VTO .

Russell ( Small caps) continues to underperform and showing weakness v/s SPX , the volume on downside picked up and last week's rally has been on endemic volume. . This appears to be good candidate to add Net Short once SPX fails. Midcaps are normally stronger than SPX this time of year.

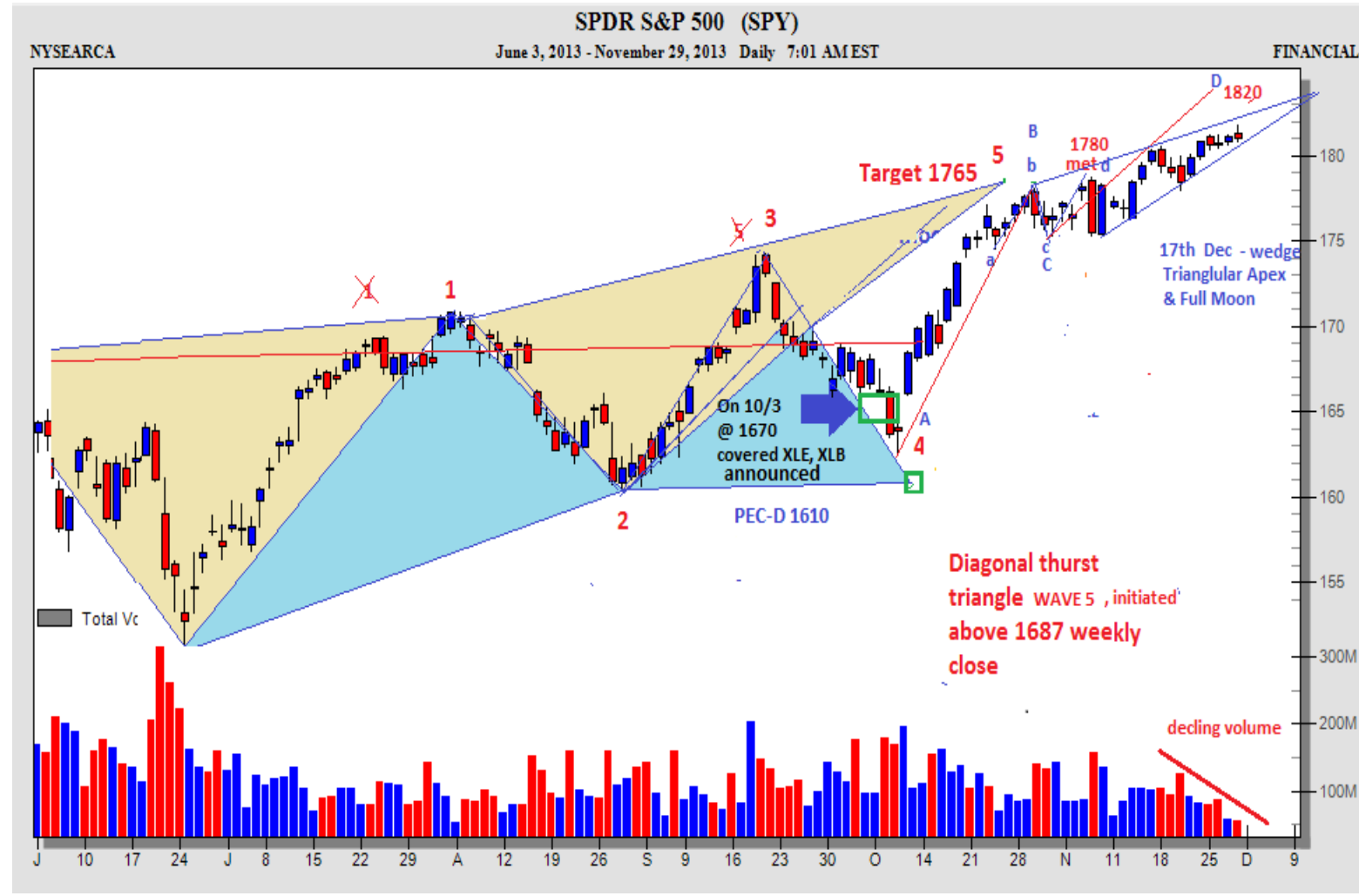
Within POM 15 regime - We shall add Net – Short exposure , **ONLY** when the Market fails on Volume to Re instate the exposure that were exited on 10/3 at 1670 prior to this current **bounce . Till then we hold tight and avoided the Short Squeeze.**

*Backdrop- On 10/3, SPX @ 1670- Announcement, **Alerted** to close ½ of our Net Short exposure taken at avg price 1670 on 7/24 in Bearish Instruments. And indeed SPX Moved from 1670 to our projected target of PEC-D 1780 on way to 1820 avoiding the short squeeze.*

# SPX- PEC- D / CZ Analysis POM 15 - Mid term chart – WAVE 1-3-5 – Pattern 1

**UPSIDE** — ABC up to 1820 is still in tact based on past 2 weeks action . WAVE 5 to PEC-D 1780 – met on Momentum Thrust Indicators.

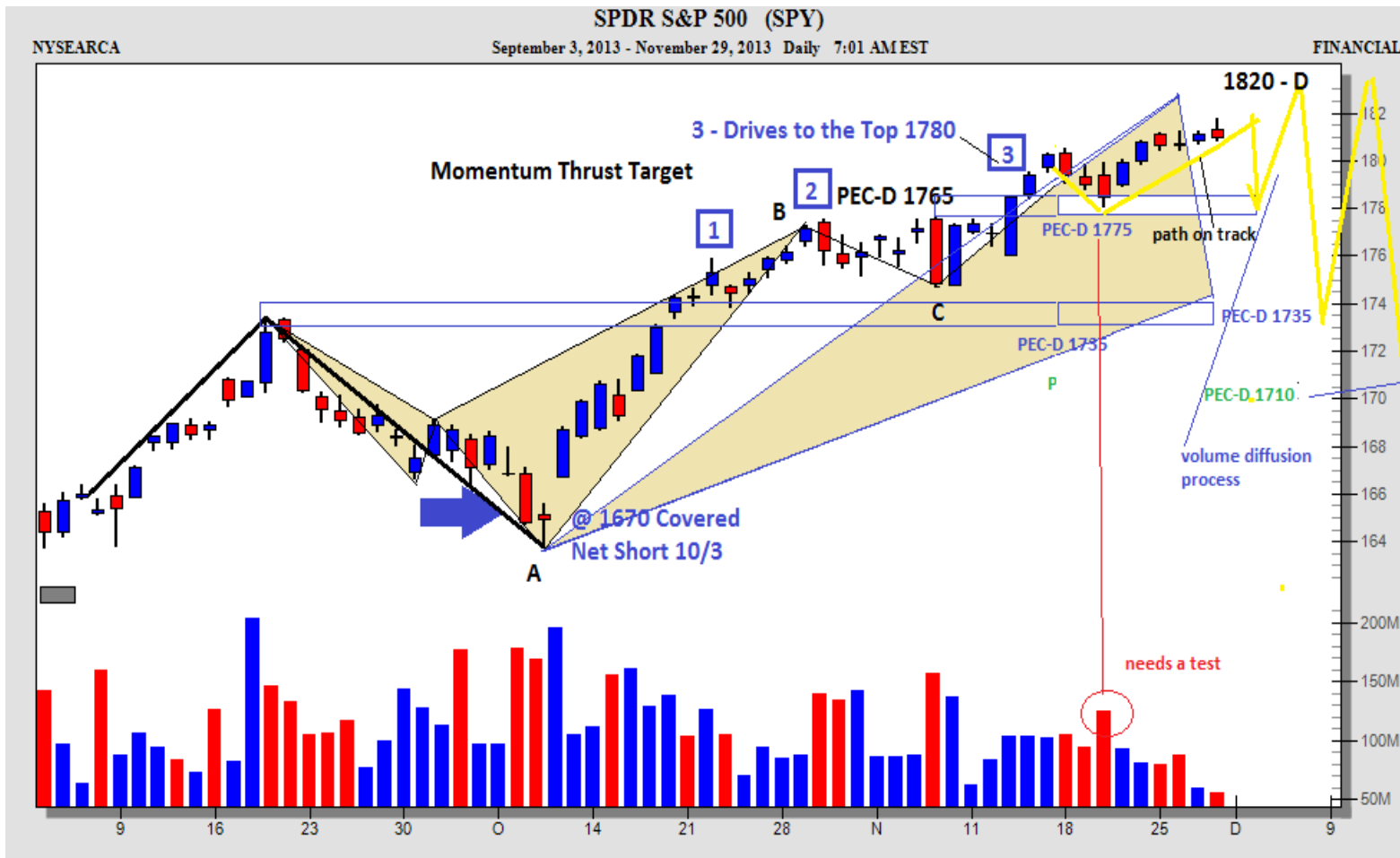
**DEC 18<sup>TH</sup> is the – Wedge Apex Triangle coinciding with “ Full Moon”**



# SPX- PEC- D / CZ Analysis POM 15 - Daily chart – 3 Drives to Top – Pattern 2

**Upside** - ABC up to 1820 based on last week's action . 3 drives to the Top to PEC-D 1780 – met on Momentum Thrust Indicators.

**Downside** - Shallow Pull back to PEC-D 1780 , but Solid floor is CZ 1735-1725 then rally back to double top , then decline to ABC down to PEC-D 1710 .





## SPX v/s RSI – 30 Year Monthly

Long term RSI – is overbought but we are looking for counter Trend rally after first selloff as seen in previous Tops ( chart below)



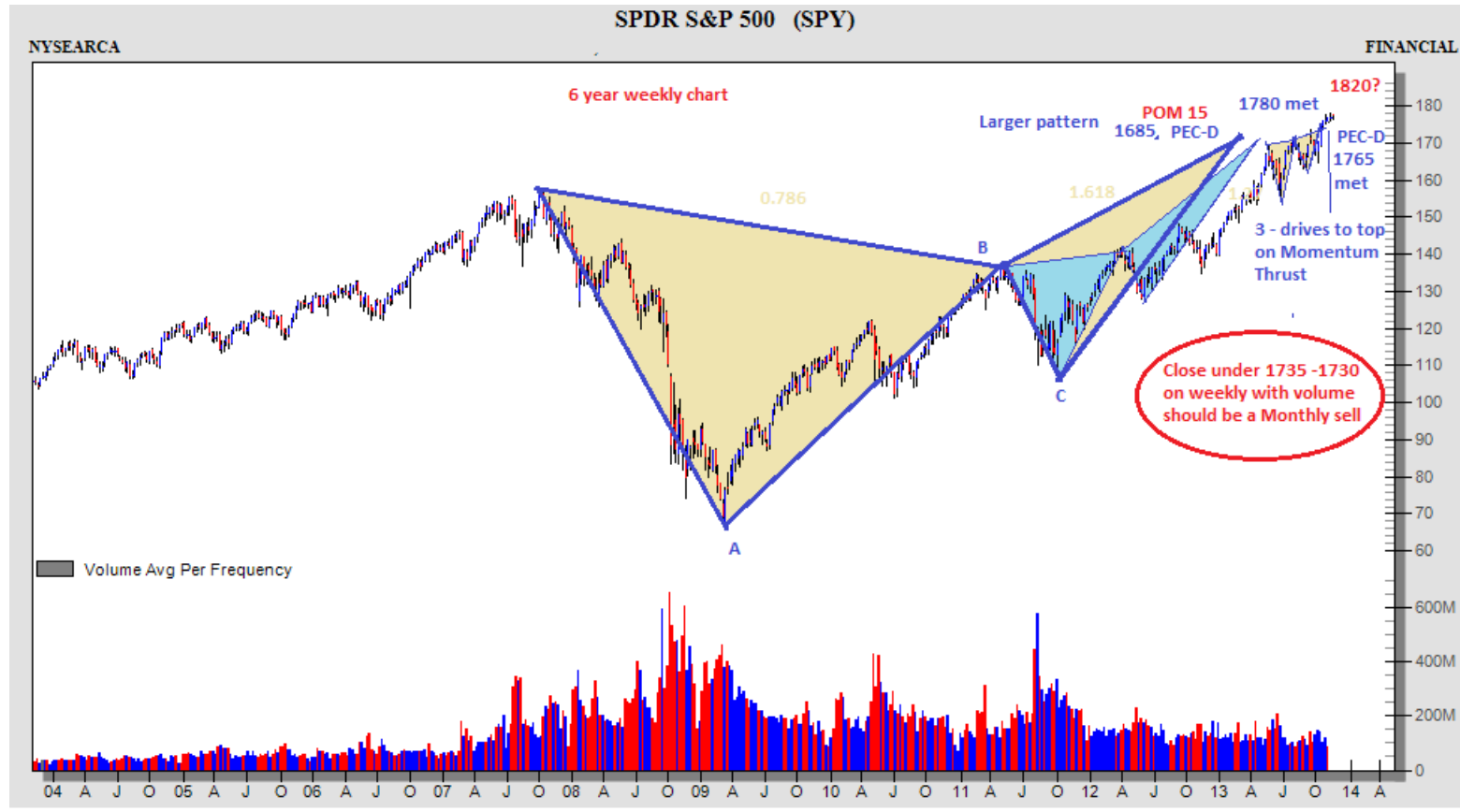
## SPX v/s Margin debt – 30 Year Monthly

Margin account at its highest .



# SPX – 6 year – LT – Weekly Chart- Mid term – **No Change**

POM 15 was Triggered on completion of PEC-D 1685 on 7/24, it is still in effect on larger time frame. But on ST basis pull back to PEC-D 1670 , we **Alerted on 10/3** to cut back to protect against the Momentum Thrust . This resulted in **3 drive to top** with PEC-D @ 1780 . Let the Market fail

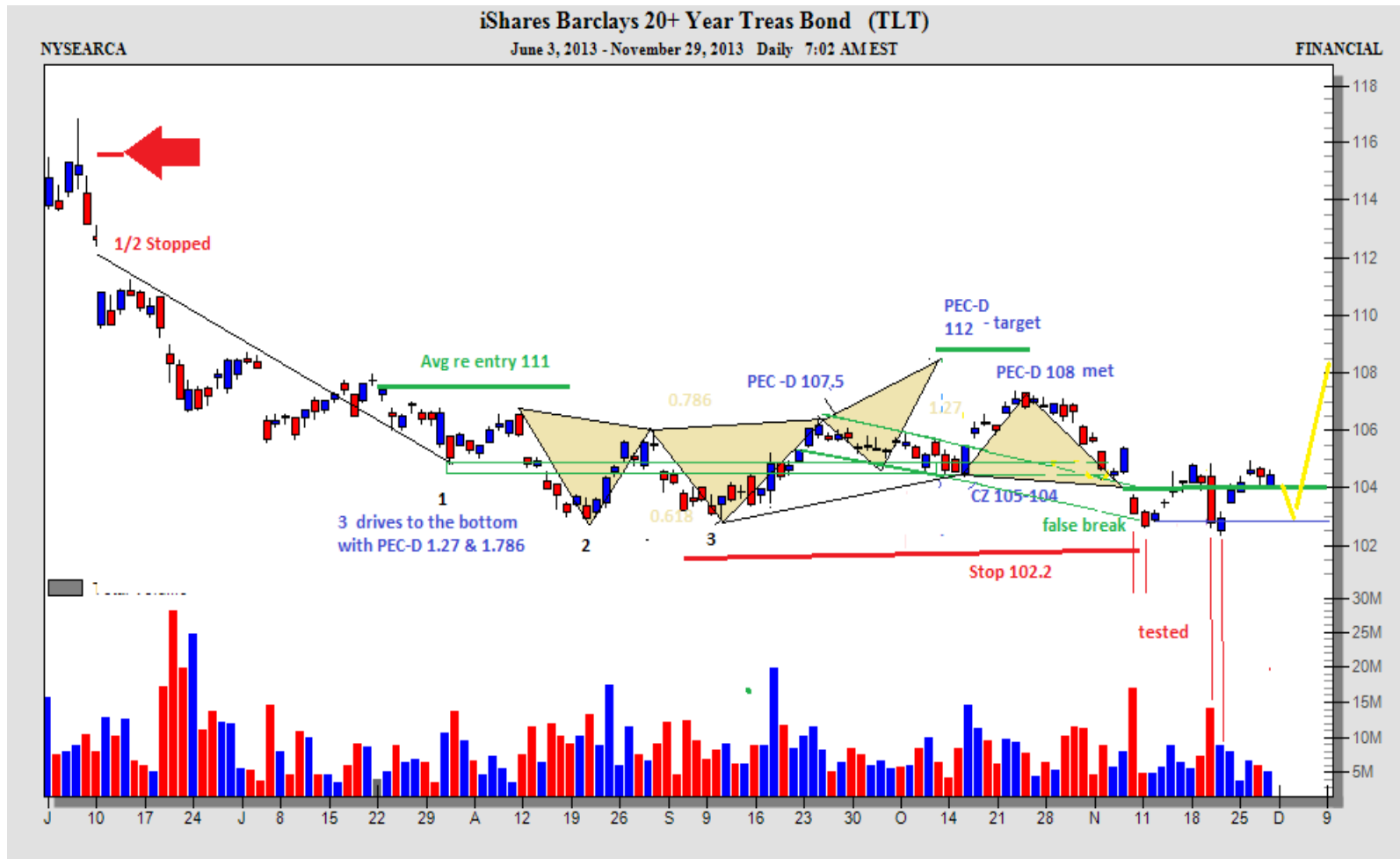


# TLT ( Bond ) – CZ- PEC- D Analysis – Daily - Bullish

**Downside –** Pull back Retesting CZ 104-105 several times

. We would like to see close above 105 on weekly . Stop RM -102.2

**Upside -** , Upward move to PEC-D 108 is left incomplete for re test .



## SPX – Cyclical Model

- SPX - Seasonality -

Statistically – in past 60 years , 50 times Market has moved up from 1<sup>st</sup> Nov to 15<sup>th</sup> Jan , after Jan effect, including 18 years in a row from 1983 to 2000. This 10-11 week period has averaged more than 7 % to 10%.

- SPX - Election Model -

Statistically next year is the 2nd year of the Four-Year Presidential Cycle. Historically It tends to be negative . When there is not a correction in the first year, the odds increase significantly for a correction in the second year. The second important point is a strong rally from whatever is the low in the second year

- SPX - Geomagnetic / Lunar Cyclic Model

Bradley Model topped on 1<sup>st</sup> June @ 1650 , with Subsequent high on 18<sup>th</sup> Nov @ 1800

- SPX - Sentiments Model

AAll Weekly Sentiment Survey is still very BULLISH

## SPX – Internals Model

ST EXTREME READINGS -, TICK / TRIN , AD Oscillator, Ratio's, -

# Appendix Content

- 2012 YTD – SPX - Position Summary
- 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
- TEXTURES – Bullish , Bearish , Neutral

## Critical backdrop Notes –

- *Price path Analysis is running commentary of the Market’s price behavior , Not a Trade Signal.*
- *Intermittent CZ’s are Short time out / Risk management for overweight position / rebalancing spots. Unless your own Portfolio objective demands.*
- *POM’s are Action points. Also at times Action points is at Main CZ’s when specifically announced Triggers.*
- *Model does not encourage Buying in between unless its false break upside or false break downside soon after POM / Main CZ Trigger and is specifically announced . Model stays with Trend POM to POM Signal.*

## (42) - INSTRUEMNTS COVERAGE SUMMARY

Re - STRATEGY & PROP ANALYSIS with – POM, CZ, PEC-D, PQV

GR 1 (13+2) Coverage in MS	GR 2 ( 9 +4 ) Coverage in SECTORS	GR 3 (8+1) Coverage in COMMODITY	GR 4 (5) Coverage in CURRENCY
<p><a href="#">US BROADER IDX</a></p> <ul style="list-style-type: none"> <li>• SPY ( SPX 500)</li> <li>• DIA ( DOW 30)</li> <li>• QQQ ( NASD100)</li> <li>• IWM (Small Cap)</li> <li>• IYT ( Transports)</li> <li>• NYA (NYSE)</li> </ul> <p><a href="#">BOND IDX</a></p> <ul style="list-style-type: none"> <li>• TLT ( Bonds)</li> <li>• MUB ( Muni). (SP)</li> </ul> <p><a href="#">GLOBAL IDX</a></p> <ul style="list-style-type: none"> <li>• EEM (Emerg.)</li> <li>• EWJ (Japan)</li> <li>• FXI (China)</li> <li>• EWZ ( Brazil)</li> <li>• FTSE (Europe Proxy)</li> <li>• BSE (India)</li> <li>• EWA (Aust) SP</li> </ul> <p>SP - Special situation</p>	<p><a href="#">SECTORS IDX</a></p> <ul style="list-style-type: none"> <li>• XLF ( Financials)</li> <li>• XLV ( Health )</li> <li>• XLB ( Materials)</li> <li>• XLE (Energy)</li> <li>• XLK (Tech) / QQQ - Proxy</li> <li>• XLI ( Industrial) –</li> <li>• XLP ( Staples)</li> <li>• XLY ( Discretionary)</li> <li>• XHB ( Home Builders)</li> <li>• XLU ( Utility) SP</li> <li>• RTH ( Retail) - SP</li> <li>• SMH ( Sem.) SP</li> <li>• BBH ( Biotech) SP</li> </ul>	<p><a href="#">COMMODITY IDX</a></p> <ul style="list-style-type: none"> <li>• CRB /DBC</li> <li>• GLD (Gold)</li> <li>• SLV (Silver)</li> <li>• GDV (Miners)</li> <li>• OIL</li> <li>• Copper</li> <li>• DBA ( Agro)</li> <li>• UNG ( Natural Gas)</li> <li>• DBB ( Base M) SP</li> </ul>	<p><a href="#">CURRENCY</a></p> <ul style="list-style-type: none"> <li>• USD / DXY</li> <li>• EUR/USD</li> <li>• AUD/ USD</li> <li>• USD/JPY</li> <li>• GBP/ USD</li> </ul>

## 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)



## Pythagoras Expansion / Contraction – (PEC) Model

- PEC Model is a 2<sup>th</sup> 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

**Disclaimer :** The information in this report has been taken from sources believed to be reliable but SG Capital Research does not warrant its accuracy or completeness. Any opinions expressed herein reflect our judgment at this date and are subject to change. This document is for private circulation and for general information only. It is not intended as an offer or solicitation with respect to the purchase or sale of any security or as personalized investment advice. SG Capital Research or its Author does not assume any liability for any loss which may result from the reliance by any person or persons upon any such information or opinions. These views are given without responsibility on the part of SG Capital Research or its officials. No part of this report may be reproduced in any manner as Author reserves the distribution rights. Under Copyright 2002 Act: It is a violation of federal copyright and imposes liability for such infringement.