



Date : 9th Dec 2013 (Monday)

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

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Executive Summary.

	Current Price	POM Triggered within CZ & Date	Follow up Alert Update For ST Trend Reversal & RM	Progress Status	Existing Position / Exposure	NEW ACTION (Trigger to Watch)	Upside CZ Near Term	Upside CZ Mid term	Downside CZ Near term	Downside CZ Mid term	Remark
SPX- 500	1806	POM 15 CZ 1687-1653- Mean CZ At 1670 Triggered 7/24	@ 1671 –SPX Reduced 1/2 Net Short fr (-12% to-6%) On 10/3	BEARISH Momentum bounce Is in progress	Net Short Only Via IWM,QQQ Instrument	NONE No sign of failure yet	– false break above .3 drives to top to 1780	Target Momentum Thrust -ABC up To 1820	Pull back to PEC-D 1780 Met exact last week & rallied back	CZ 1735-1725 & one more rally up to double Top 1 ST ABC down to 1710	Close Under 1735 weekly with volume. It would Trigger Mid term Sell Best Risk / Reward to go long @ 1710
TLT (BONDS)	103.0	POM 13 – Re Run CZ 107-115 Mean CZ At 111 Triggered 8/9	NONE	BULLISH Should turn Neutral only if close under 102.2	Net Long	NONE	Target – PEC-D 108-	1 ST ABC PEC-D 112 Bullish Top	Pull back to Crash PEC-D 104 – retesting Bullishly	CZ 104-105, Should come into range above 105	RM ½ @ 102.2

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GOLD	1220	POM 13 Re – Run CZ 1205-1190- Mean CZ At 1200 Triggered 6/28	@ 1220 Re entry ½ On 12/4 @ 1280 Re entry ½ On 10/6	BULLISH pull back in progress	Net Long	NONE <u>Close above 1235 should begin rally</u>	Target PEC-D 1265	ABC up to CZ 1350-1335 Neutral Top Target CZ 1425- 1445 Bullish Top In tact	PEC-D 1220 False break below 1250 On lighter volume Bullish Bottom	Weekly 5 year CZ 1220-1190 Is solid floor Best Risk / Reward	We Re- entered ½ stopped out (@ 1245) Position as per Trigger noted

Notes

- 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 1735 ” as Trigger** . One can short counter Trend rally upon 1st failure.
– **We shall announce**
- Detail Charts on GOLD in Wednesday’s Precious Metal Commodity Report

Portfolio – Overview & Update

GOLD @ 1220 on 12/4, Announced to add 6% GOLD & GDV each – Net Long exposure added @ 1220

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** ,

TLT (BONDS)– Bullish- Bottoming CZ in progress

We are looking at the bond market making some big moves once the correction in Equity begins. . This makes bonds very much better than stocks in the current environment going into 2 months into 2014.

TLT “circling around the recent lows” shows accumulation. This for a longer term investment. The money flow is picking up closer to the lows. (See chart below)

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

Past week -

Friday's rally should have come as no surprise, technicals have been saying last week that pull back to 1780 exact from 1805 and rally back towards the *Momentum thrust Target*. The market was due to rally out of apex triangle pattern. We simply saw a lack of selling at 1780 rejecting lows and then shoot up, forcing short covering by Traders trying to Sell Tick in Bubble environment.

Our expectation remains for prices moving higher *beyond its WAVE 5 & 3 DRIVES-PEC-D 1780 pattern completion*.
This is very CRITICAL weekly and Monthly Pattern (Refer chart below)

This week - The "Thrust" Target remains to **1820**. 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 with the sideline cash likely to surge back into the market. The **secondary failure** should define a the Top.

The apex of the triangle on the daily chart occurs between December 17th - 19th. Those dates correspond to Triple-Witching Options Week, December 17th is also the next Full Moon. If we get lunar inversions on Full Moon, that time period will be more significant for Melt up on signs of further divergence. The pros generally will close out their books for the year by December expiration and take the remaining days of the calendar year off, leaving the junior traders in control for Santa Clause rally fueled by Short covering.

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 has weakened. Friday's huge up day failed to be confirmed by their respective advance-decline lines.

The trend is still on upside. But, risk on the downside is extremely high for long side. Our Bearish calls in current environment, suggests simply not worth the risk of holding overweight / adding Mid term Long positions during this time frame. RASI – Ratio adjusted Summation Index has turned down below 500 on mid term. (Refer NYSE chart below)

It appears the larger decline may be Triggered in January 2014. Especially 17th Jan is Major turn date for decline into next 2 months. Based on internals, Signs of a top continues with 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 2nd 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 highest 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 anemic volume. . This appears to be good candidate to add Net Short once SPX fails. Midcaps are normally stronger than SPX this time of year.

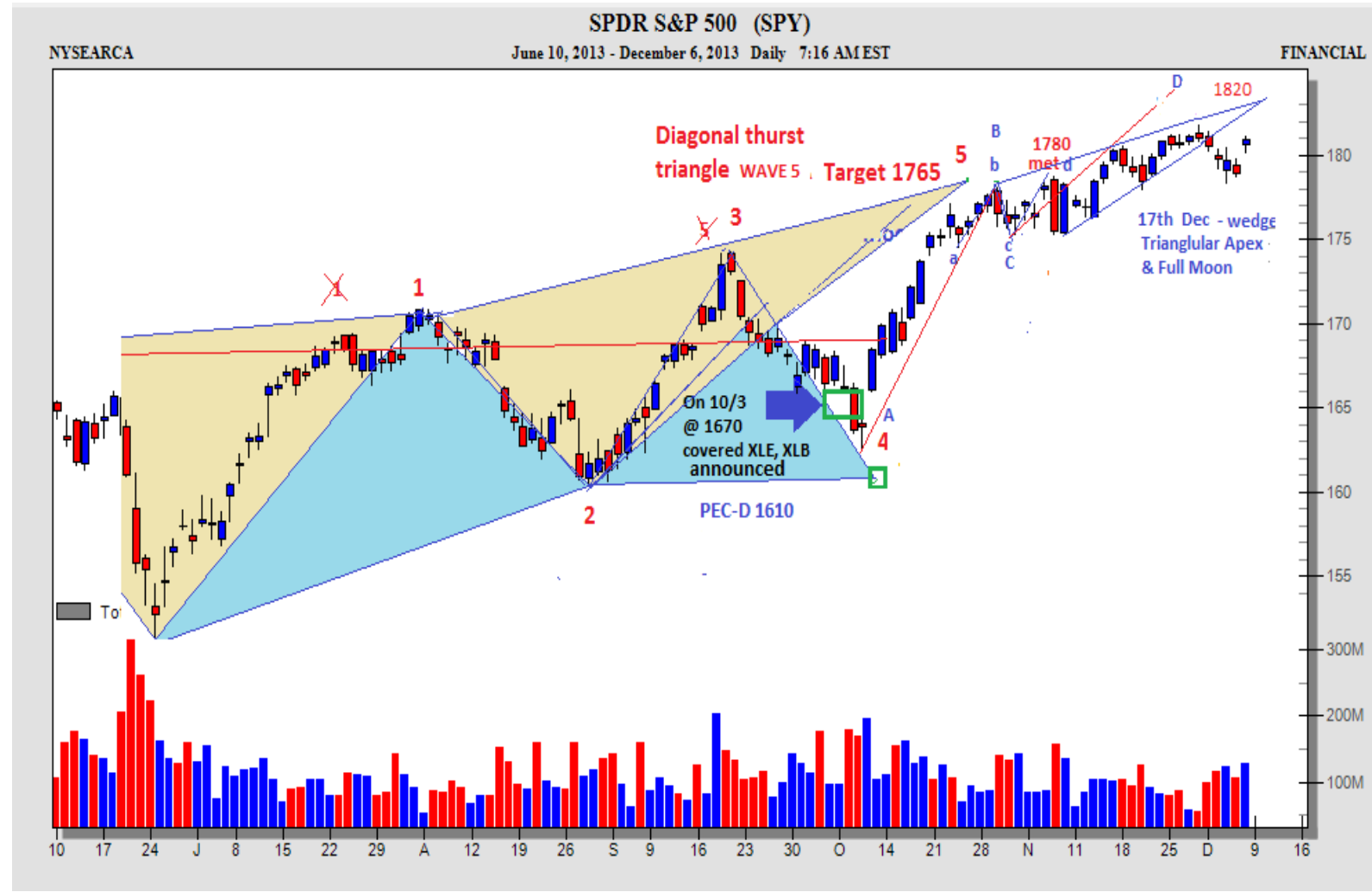
Being within POM 15 regime - We shall add Net – Short exposure , **ONLY** when the SPX fails on Volume, this is a trigger to Re instate the exposure that were exited on 10/3 at 1670 prior to this current bounce . Till then we continue to hold tight and avoided the Short Squeeze.

*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 suggested upside without volume.

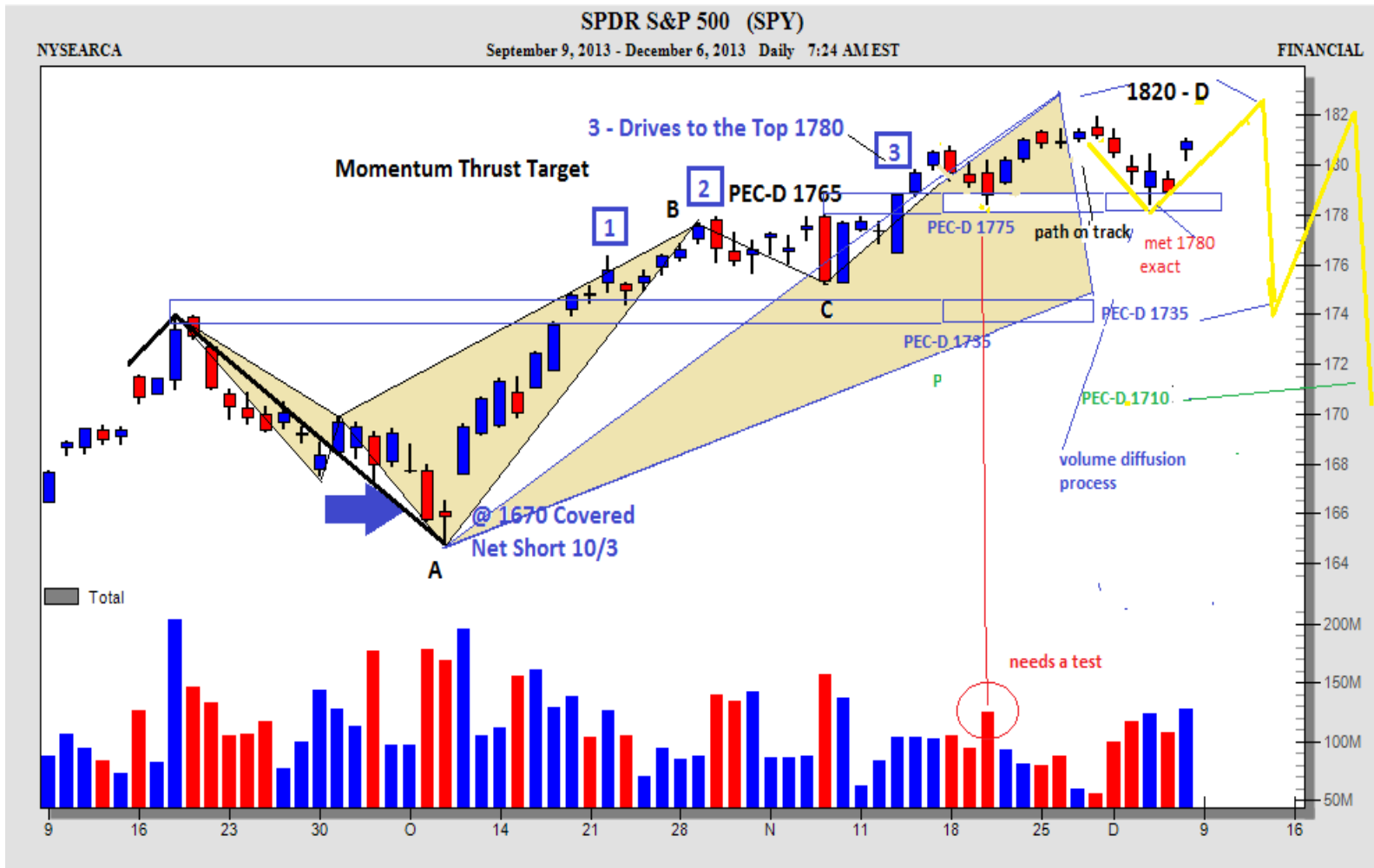
DEC 18TH is the – Wedge Apex Triangle coinciding with “ Full Moon”



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

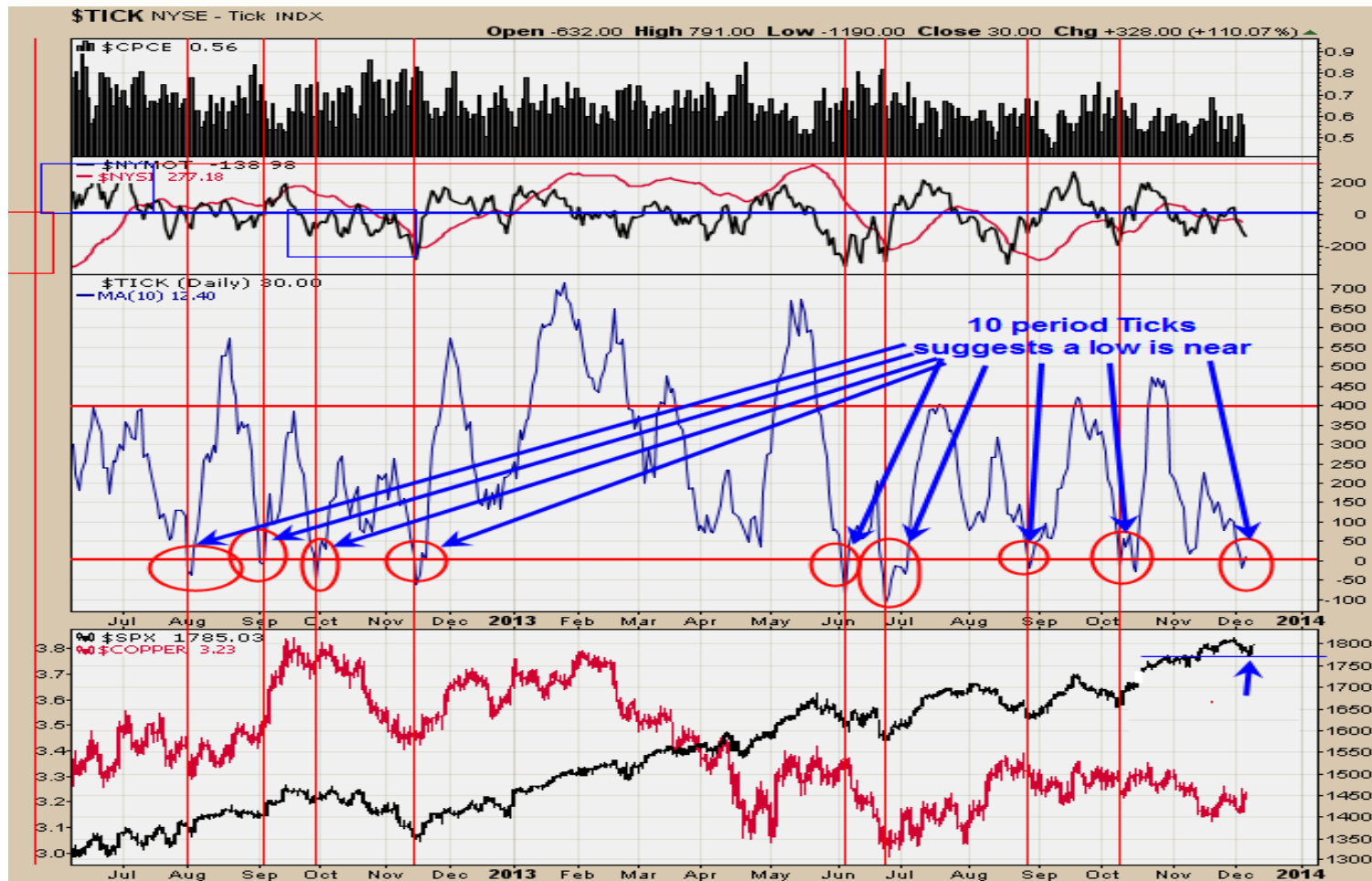
Upside - ABC up to 1820 based on last week's action . 3 drives to the Top to PEC-D 1780 – met on Momentum Thrust Indicators suggested upside .

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



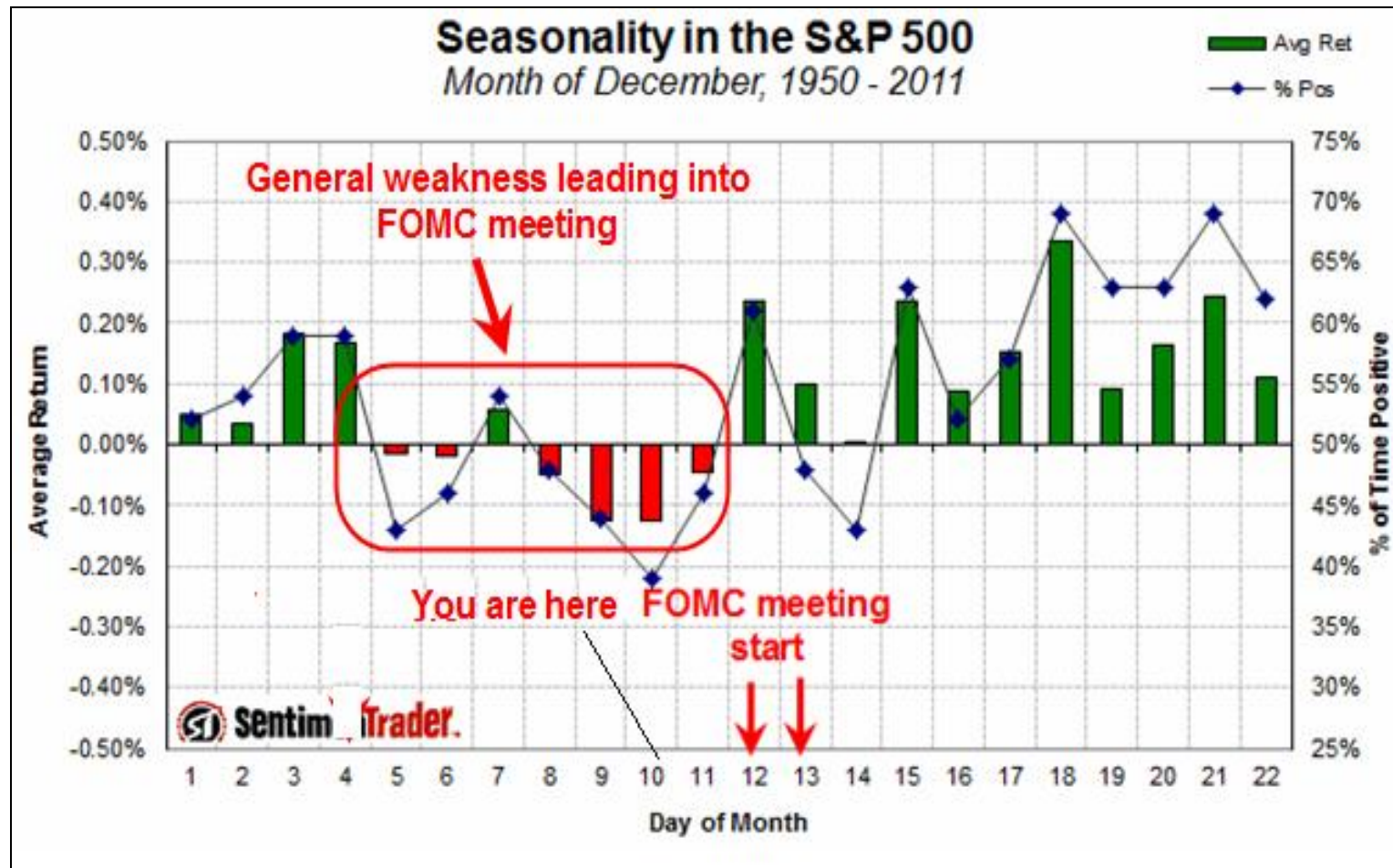
SPX- v/s TICK - Short term – Bullish bias till SPX 1820

The chart shows the TICK v/s SPX . Normally when the Ticks reach below the “0” than the market is near a short term low. We have pointed to previous instances where the Ticks closed below the “0” and in each case the market was near a low. This chart suggests we have some bounce still remaining from current levels.

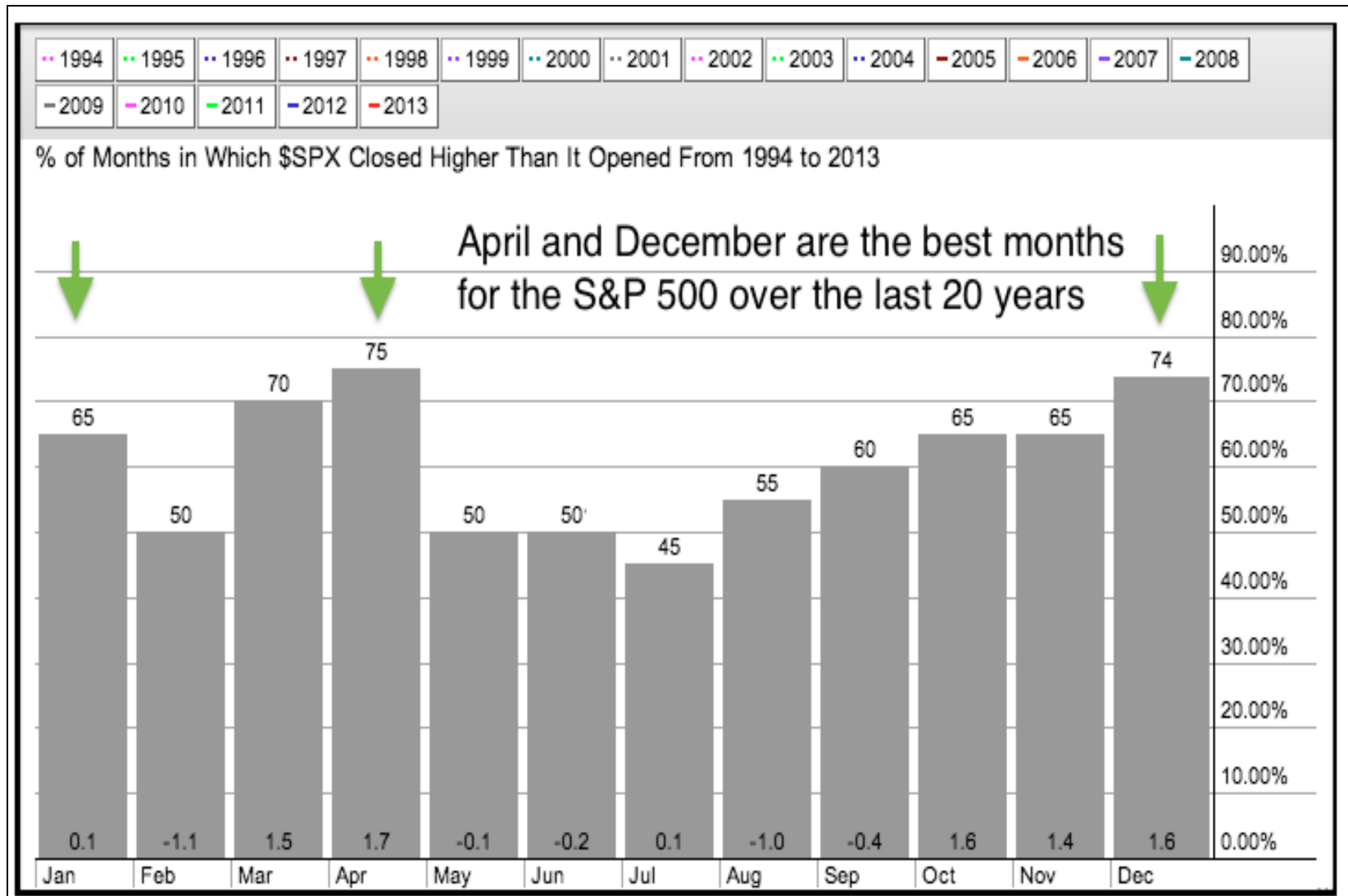


SPX- December days seasonality - Short term – Bullish bias till SPX 1820

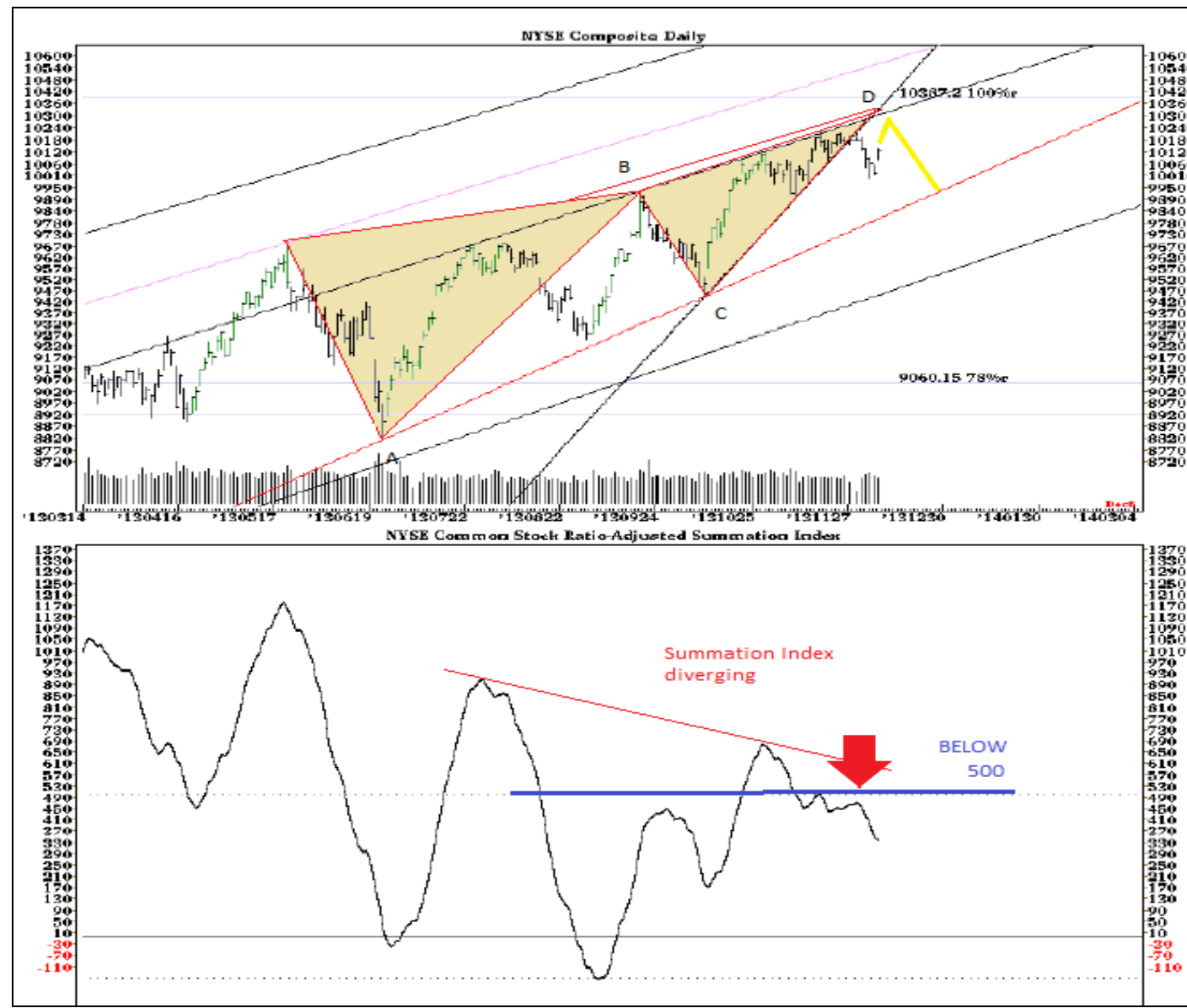
The second half of December very bullish. The Seasonality charts show weakness going into the FOMC meets. Previous FOMC meets produce worthwhile turns in the market.



SPX- December Month seasonality - Short term – Bullish bias till SPX 1820

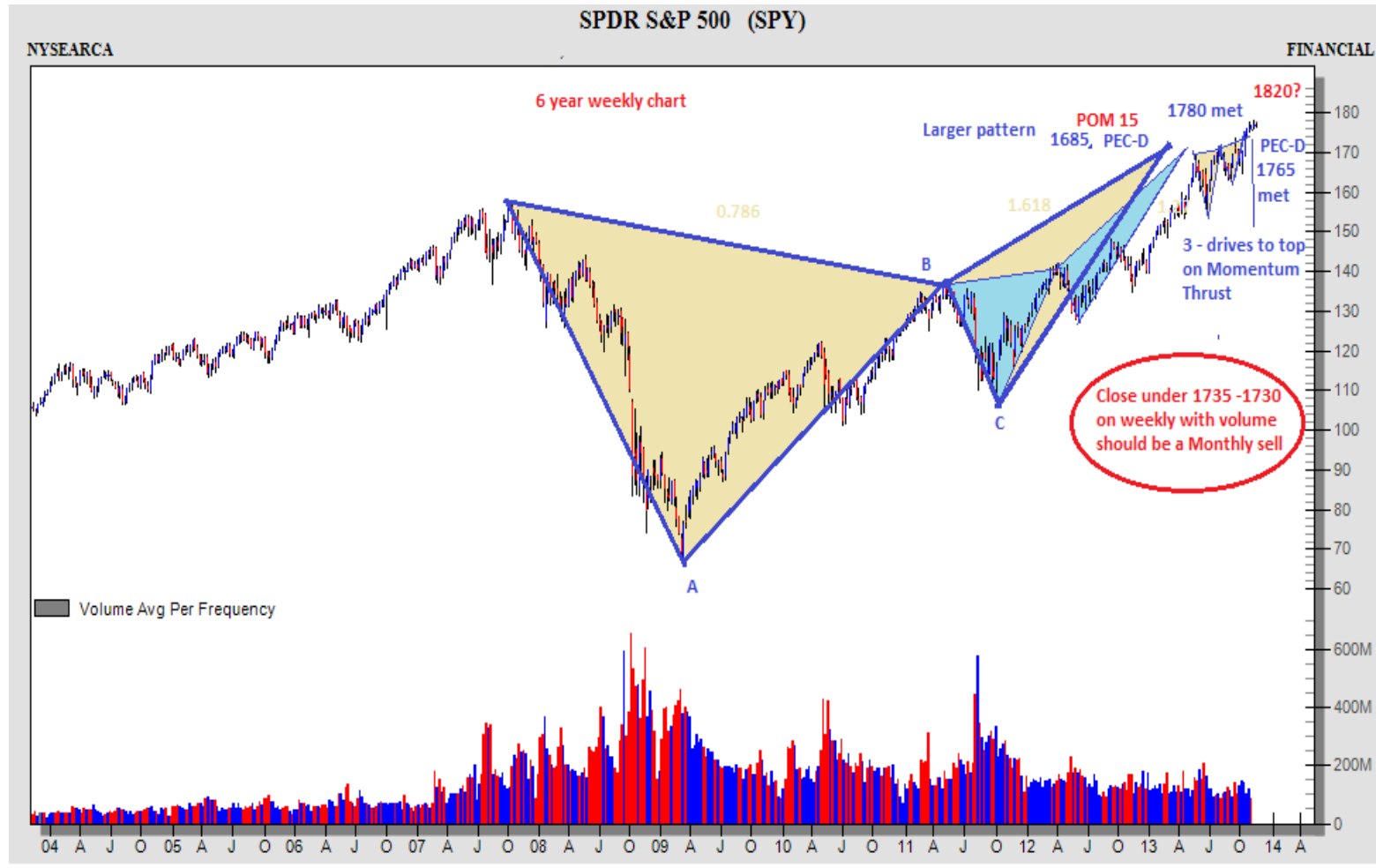


NYSE v/s RASI – Summation Index. - Mid term – Bearish



SPX – 6 year – LT – Weekly Chart- Mid term – **Bearish (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

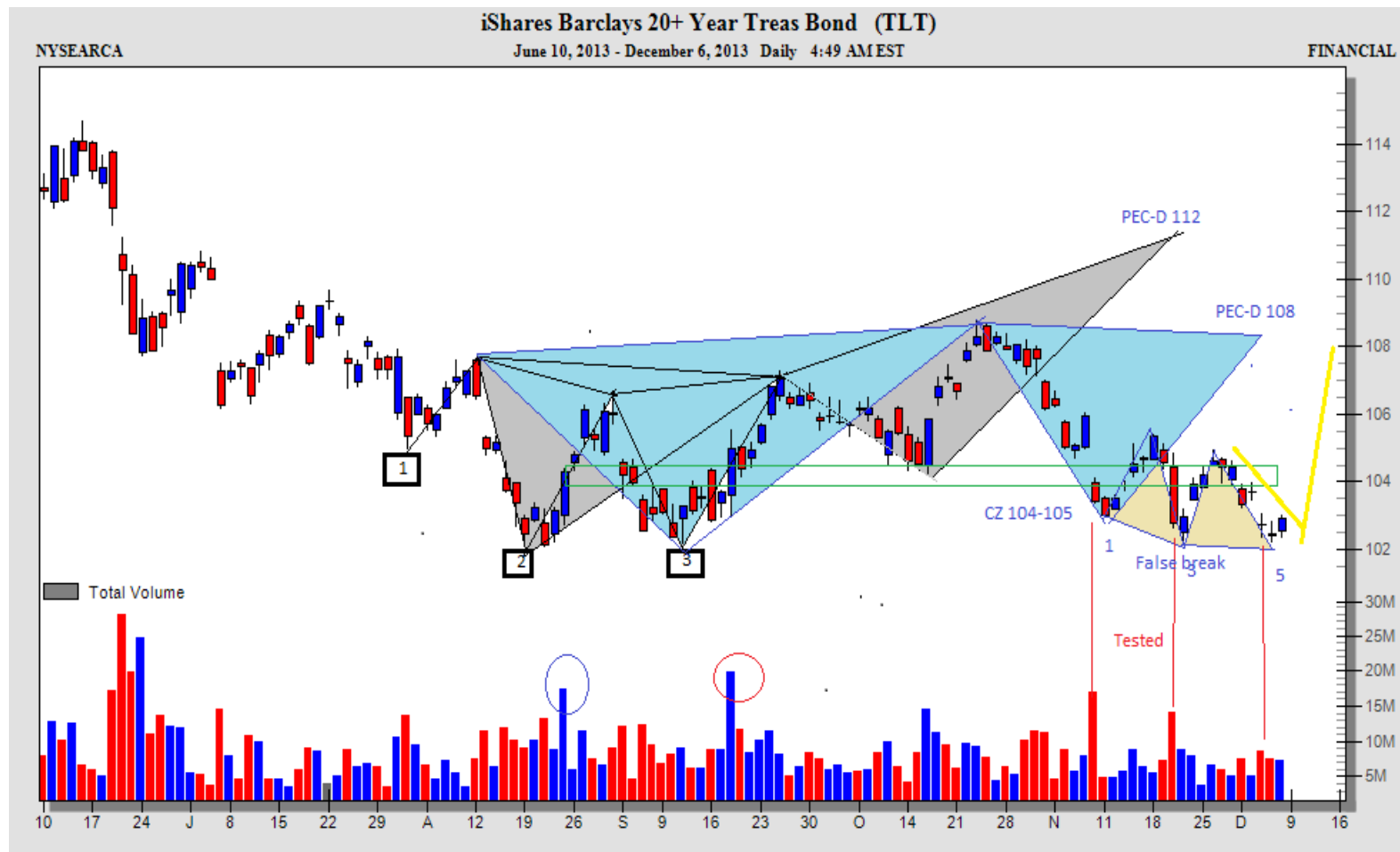


TLT (Bond) – CZ- PEC- D Analysis – Daily - Bullish

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 1st Nov to 15th 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 1st June @ 1650 , with Subsequent high on 18th 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>US BROADER IDX</p> <ul style="list-style-type: none"> • SPY (SPX 500) • DIA (DOW 30) • QQQ (NASD100) • IWM (Small Cap) • IYT (Transports) • NYA (NYSE) <p>BOND IDX</p> <ul style="list-style-type: none"> • TLT (Bonds) • MUB (Muni). (SP) <p>GLOBAL IDX</p> <ul style="list-style-type: none"> • EEM (Emerg.) • EWJ (Japan) • FXI (China) • EWZ (Brazil) • FTSE (Europe Proxy) • BSE (India) • EWA (Aust) SP <p>SP - Special situation</p>	<p>SECTORS IDX</p> <ul style="list-style-type: none"> • XLF (Financials) • XLV (Health) • XLB (Materials) • XLE (Energy) • XLK (Tech) / QQQ - Proxy • XLI (Industrial) – • XLP (Staples) • XLY (Discretionary) • XHB (Home Builders) • XLU (Utility) SP • RTH (Retail) - SP • SMH (Sem.) SP • BBH (Biotech) SP 	<p>COMMODITY IDX</p> <ul style="list-style-type: none"> • CRB /DBC • GLD (Gold) • SLV (Silver) • GDV (Miners) • OIL • Copper • DBA (Agro) • UNG (Natural Gas) • DBB (Base M) SP 	<p>CURRENCY</p> <ul style="list-style-type: none"> • USD / DXY • EUR/USD • AUD/ USD • USD/JPY • GBP/ USD

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 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

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