Date : 16th 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	1781	POM 15 CZ 1687-1653- *Mean CZ At 1670* *Triggered 7/24*	**@ 1671 –SPX** *Reduced Net Short* **On 10/3**	BEARISH *Momentum bounce Is in progress*	Market Neutral Net Short ONLY IF Bearish bias Port Via IWM,QQQ Instrumen	NONE	– false break above 3 drives to top to 1780 *No sign of failure yet*	Momentum Thrust Target to *1820 Met at 1817 & sold off as expected Last week*	Pulled back to PEC-D 1780 – met With low volume *SPX should hold and now rally to double Top*	CZ 1735-1725 1ST 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)	103.2	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-	1ST 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	1230	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	Net Long	NONE	PEC-D 1265 Met Bullishly & Pulled back Last week	Target ABC up to CZ 1350-1335 Neutral Top Target CZ 1425- 1445 Bullish Top In tact .	PEC-D 1220 Rejecting lows, bottoming process On lighter volume Bullish Bottom	**Weekly 5 year** CZ 1220-1190 Is solid floor Rejected *Best Risk / Reward*	*We Re- entered ½ stopped out (@ 1245) Position as per Trigger noted*

Notes

1. To Add Net Short exposure in **SPX & related Instrument** , let the Market give another counter Trend rally to double Top on Bearish Momentum to exhaust itself out after the year end seasonality ends.

   If the volume picks up on downside . The "*close under price 1735 "* *would be a Trigger* .*– We shall announce*

2. Detail Charts **on TLT** in Wednesday's Broader Indices Report

Portfolio – Overview & Update

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

GOLD @ 1280 on 10/16, Announced to add GOLD & GDX each – Net Long exposure <mark>@ 1280</mark>

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

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** <mark>NEUTRAL /SHORT BIAS EQUITY- NON LEVERAGED</mark> Refer to Respective Reports for details

- **LONG at POM 13 / in Main CZ : ………..**
  Non- Equity - GOLD , GDX , USD/JPY , CU , TLT AUD , UNG, DBA
  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
  EURO/USD

GOLD – Daily – PEC –D / CZ   Analysis – Bullish-

GOLD has seen a solid bottom at 1220 on 5 year weekly chart within CZ 1220-1190. The COT continues to show extremes sentiments.

Upside -   First to 1265- met & pulled back but Projected to Cap 1350-1335 .

Downside -   PEC-D 1220 – Rejected lows +ve VTO & Bullish Bottoming process . CZ 1220-1190 is solid floor on weekly
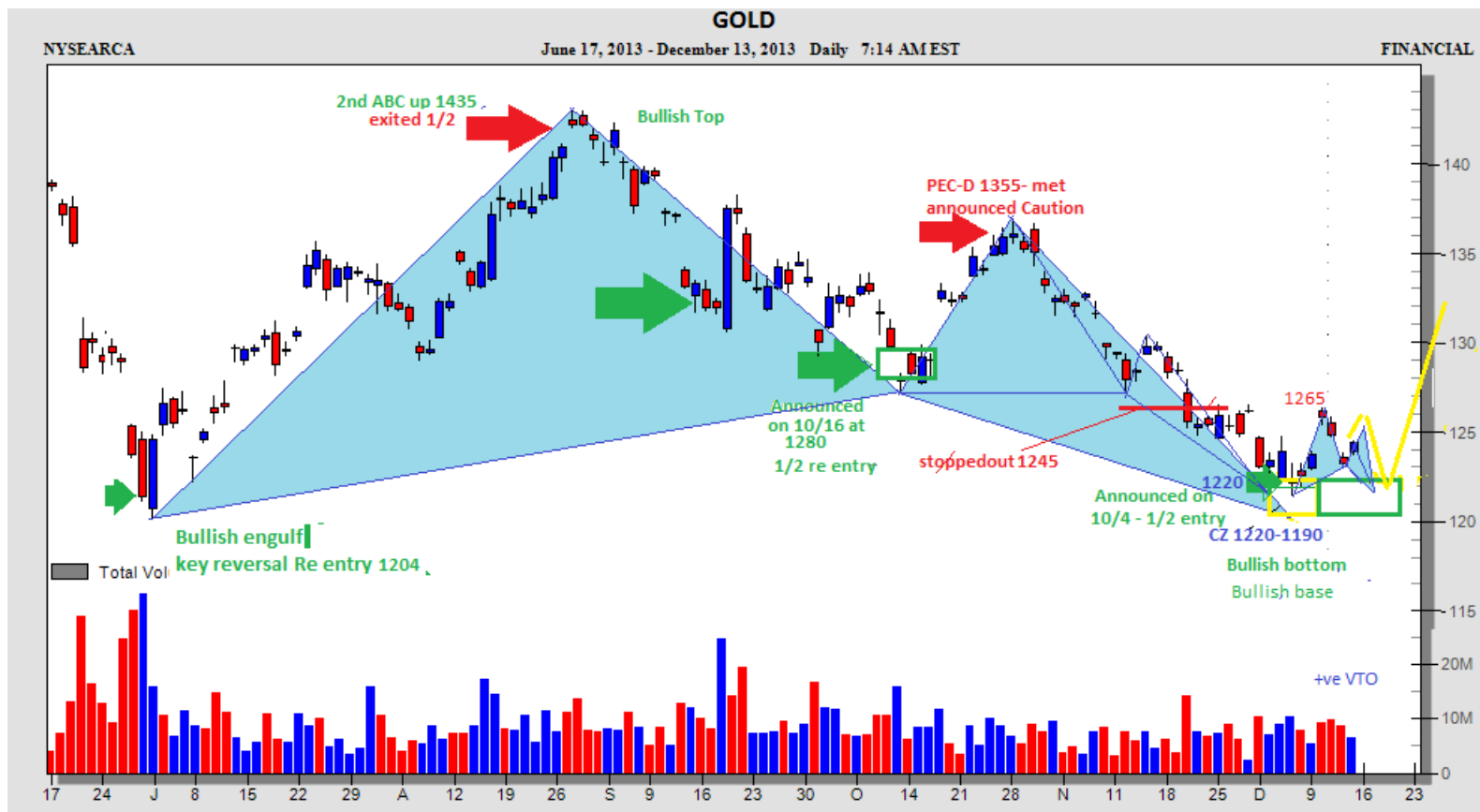
Market Overview SPX

Past week -

Our *Momentum thrust Target* to 1820 met (at 1817) last week and Market sold off to our first downside target 1780 . We see lack of selling at PEC-D 1780 rejecting lows. The downside volume is not picking up on decline

 This week -   The late December is positive. This week quarterly Triple witching expiration of futures and options in December with the sideline cash likely to surge back into the market . FOMC meeting this week should put in volatility. We have Full Moon on 17$^{th\ December}$. The December 18th Change-In-Trend date appears to have inverted and now becomes the likely low for the current pull back . A rise into yearend now looks like a probability.

Friday's TRIN closed at 1.62, the Ticks closed at -718 and when the ROC of the VIX jump above 20% in one day is a bullish combination that predicts a low on the day of the readings to as late as two days later which would be Monday / Tuesday . We have been saying the 1775 range on the SPX should hold and that area was tested last week.

Actually, when we look at seasonals, One of the strongest seasonal rallies is the **Santa Claus Rally** there is a tendency for the SPX to form a bottom by 20th of December, then rally into the 22nd. At that time, the market tends to correct into the 26th of December, then rally into the 29th. The latter is the real Santa Claus Rally. For position trader, buying on the 20th and holding long into the 29th is certainly a valid seasonal rally. Then Market has tendency for year-ending rally ending on 2nd Jan. At this point we could very well see a final blow off rally .

That would be followed by a pullback in the first week of January, then a surge to retest the prior high in the middle of the month . Time Ratio High is on 13th of January 2014 which is more likely to fail which we are calling could finish the entire uptrend.   The **secondary failure** should define a the Top. . And, in that instance, we could see some heavy selling in January as the realization that the correction has began. Major turn date calls for decline into next 2 months from 14th January 2014

Overall on Mid term basis , the *CRITICAL weekly and Monthly Pattern of WAVE 5 & 3 DRIVES-PEC-D 1780 pattern are completed. The* ratio of new highs to new lows shows the signs that breadth has weakened. The risk on the downside should be extremely high for long side after the 1st of the year . Our the pull back to first leg down to CZ 1735-1725 and 2nd leg down to PEC-D 1710. This the best Risk / reward to go long

Russell (Small caps) continues to underperform and showing weakness v/s SPX , the volume on downside picked up. This appears to be good candidate to add Net Short once SPX fails on double top. Midcaps are 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- Poly trend -   Daily chart

DEC 17th - coinciding with " Full Moon" possibility of turn
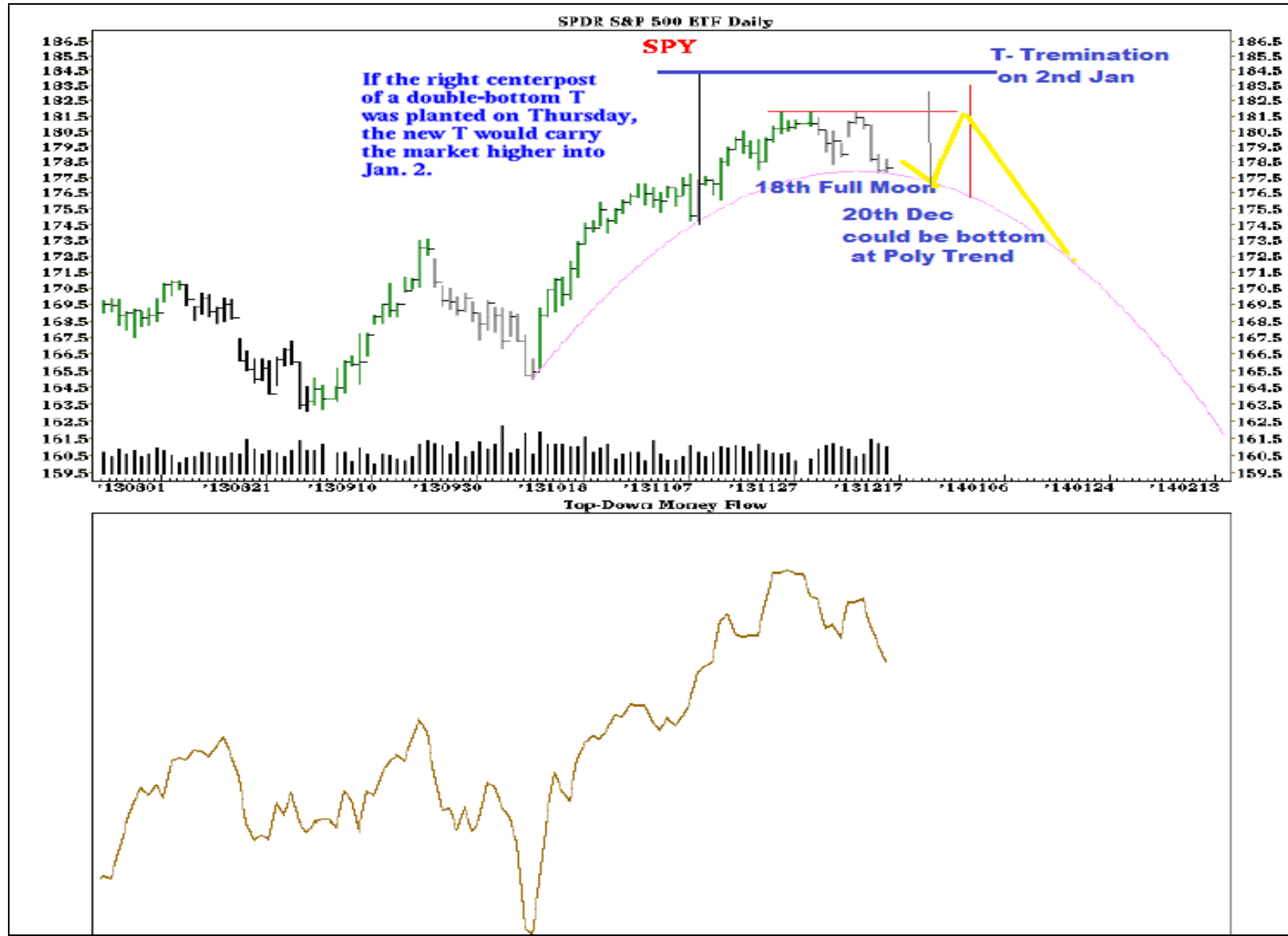
SPX- PEC- D / CZ Analysis POM 15 -   Daily chart – 3 Drives to Top

UPSIDE - ABC up to 1820 – met above **3 drives to the Top** to PEC-D 1780 Momentum Thrust Indicators without volume.

Downside -–   Shallow Pull back to PEC-D 1780 should reject and rally once again to double top 1820. To begin decline to t
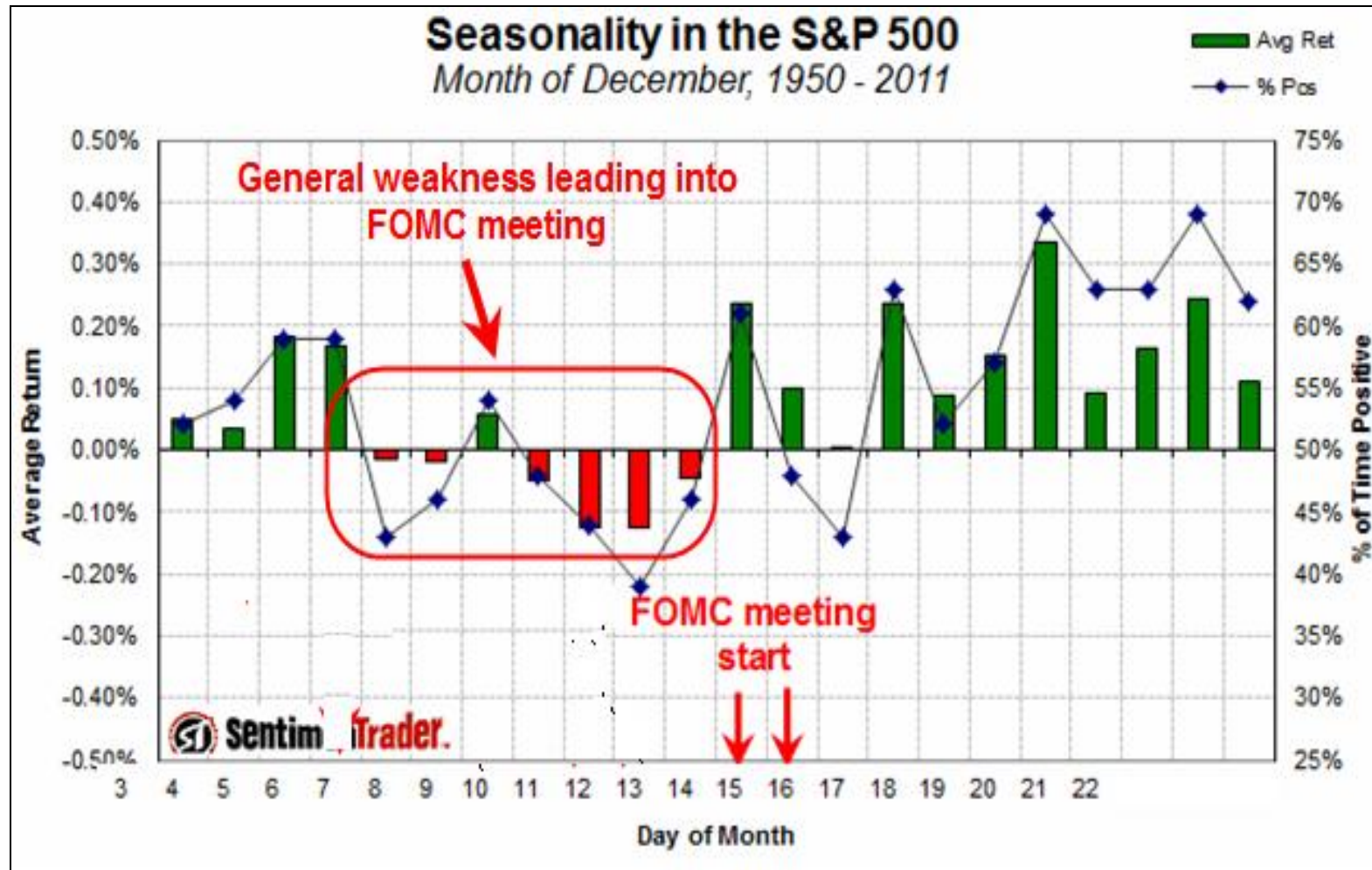Solid floor is CZ 1735-1725.

SPDR S&P 500 (SPY)
September 16, 2013 - December 13, 2013 Daily 8:22 AM EST
NYSEARCA   FINANCIAL
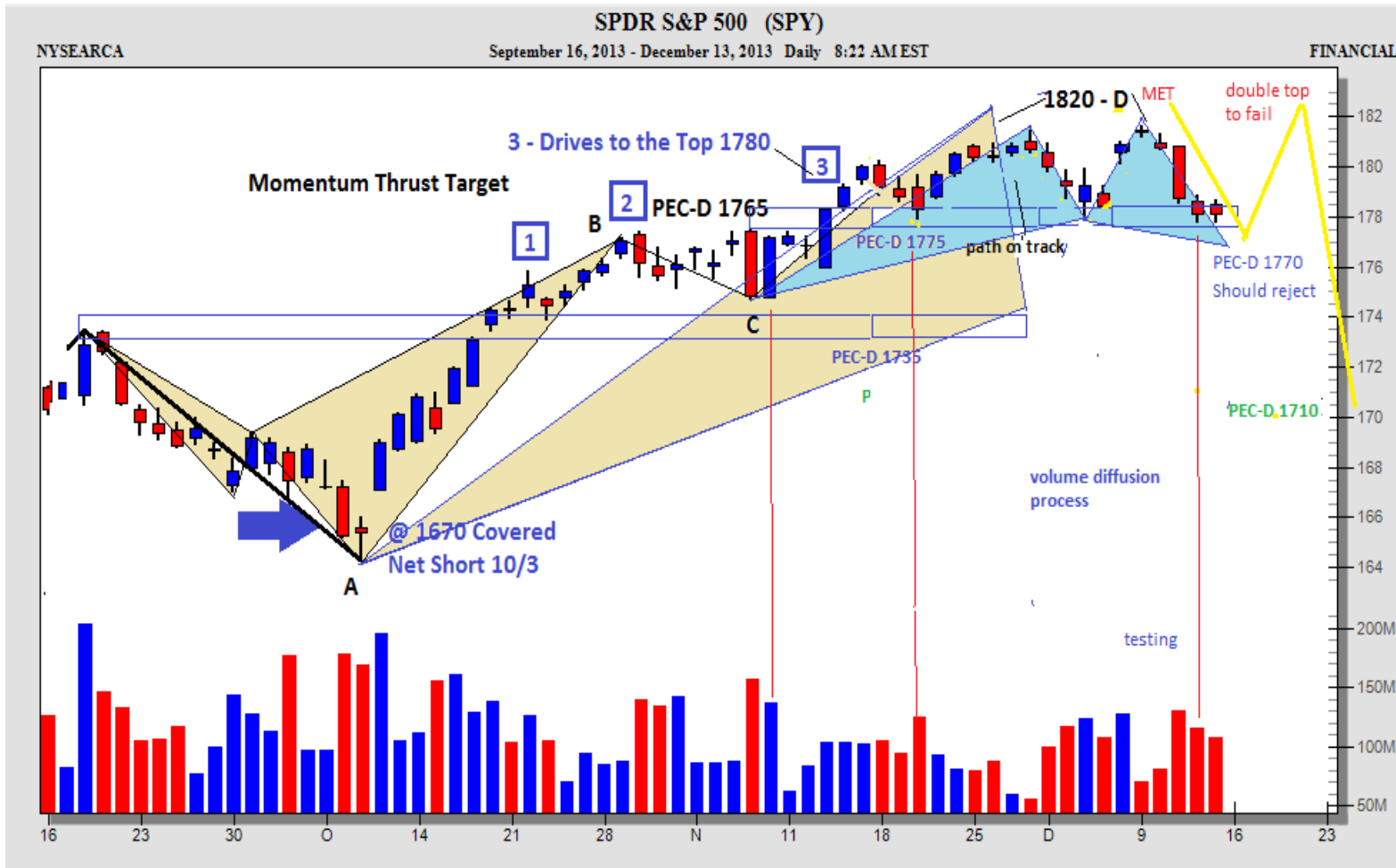
SPX- v/s TICK - Short term – Bullish bias

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.
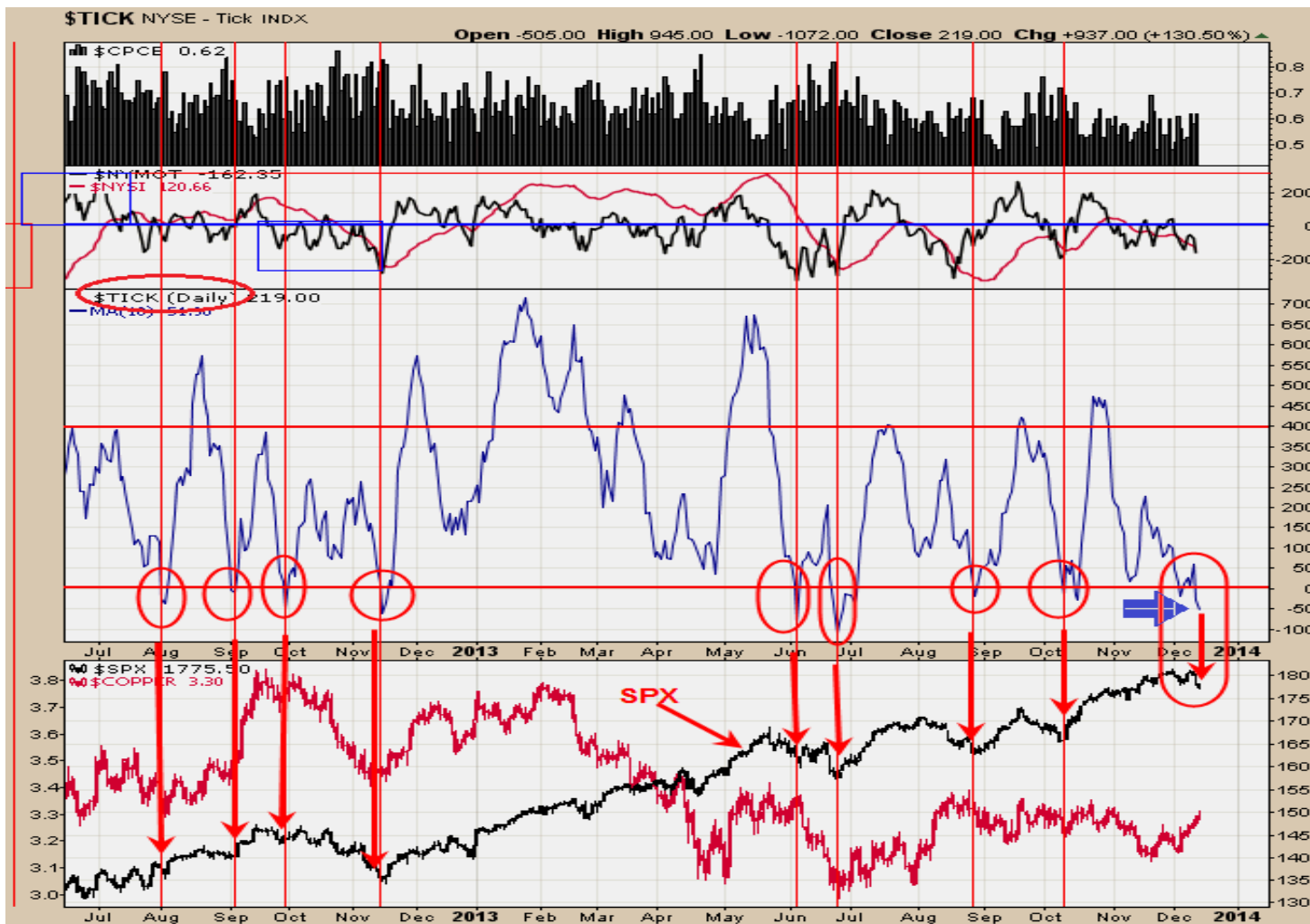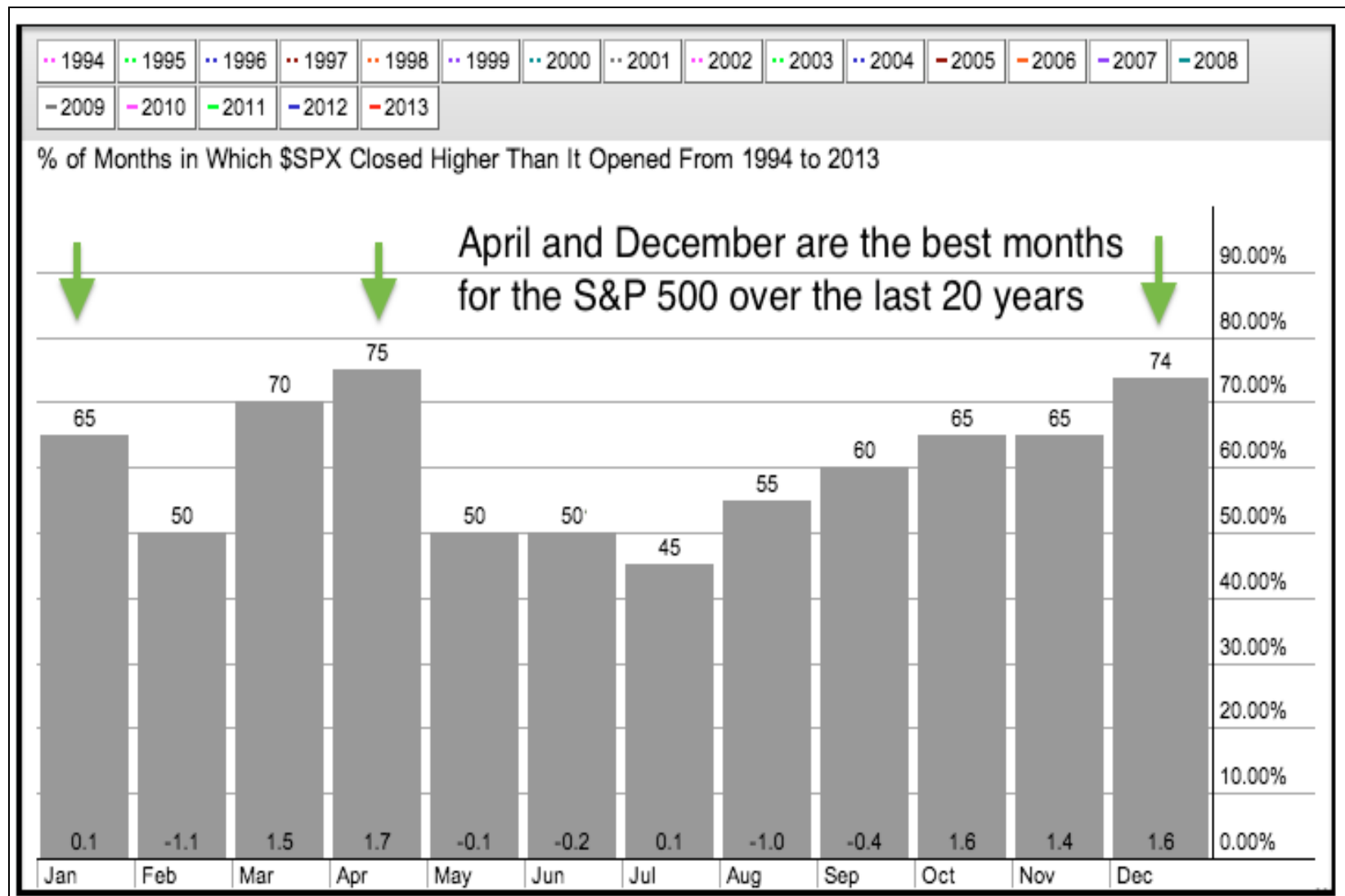
SPX- December days seasonality - <mark>Short term – Bullish bias</mark>

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.


Seasonality in the S&P 500
Month of December, 1950 - 2011

SPX- December Month seasonality - Bullish bias

SPX December Month seasonality chart showing % of Months in Which $SPX Closed Higher Than It Opened From 1994 to 2013. April and December are the best months for the S&P 500 over the last 20 years.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
% higher	65	50	70	75	50	50	45	55	60	65	65	74
Avg	0.1	-1.1	1.5	1.7	-0.1	-0.2	0.1	-1.0	-0.4	1.6	1.4	1.6

Legend: 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013

SPX – 6 year – LT – Weekly Chart- Mid term – Bearish (No Change)

Momentum Target at 1820 met & pulled back , the next rally should double Top . Let the Market fail

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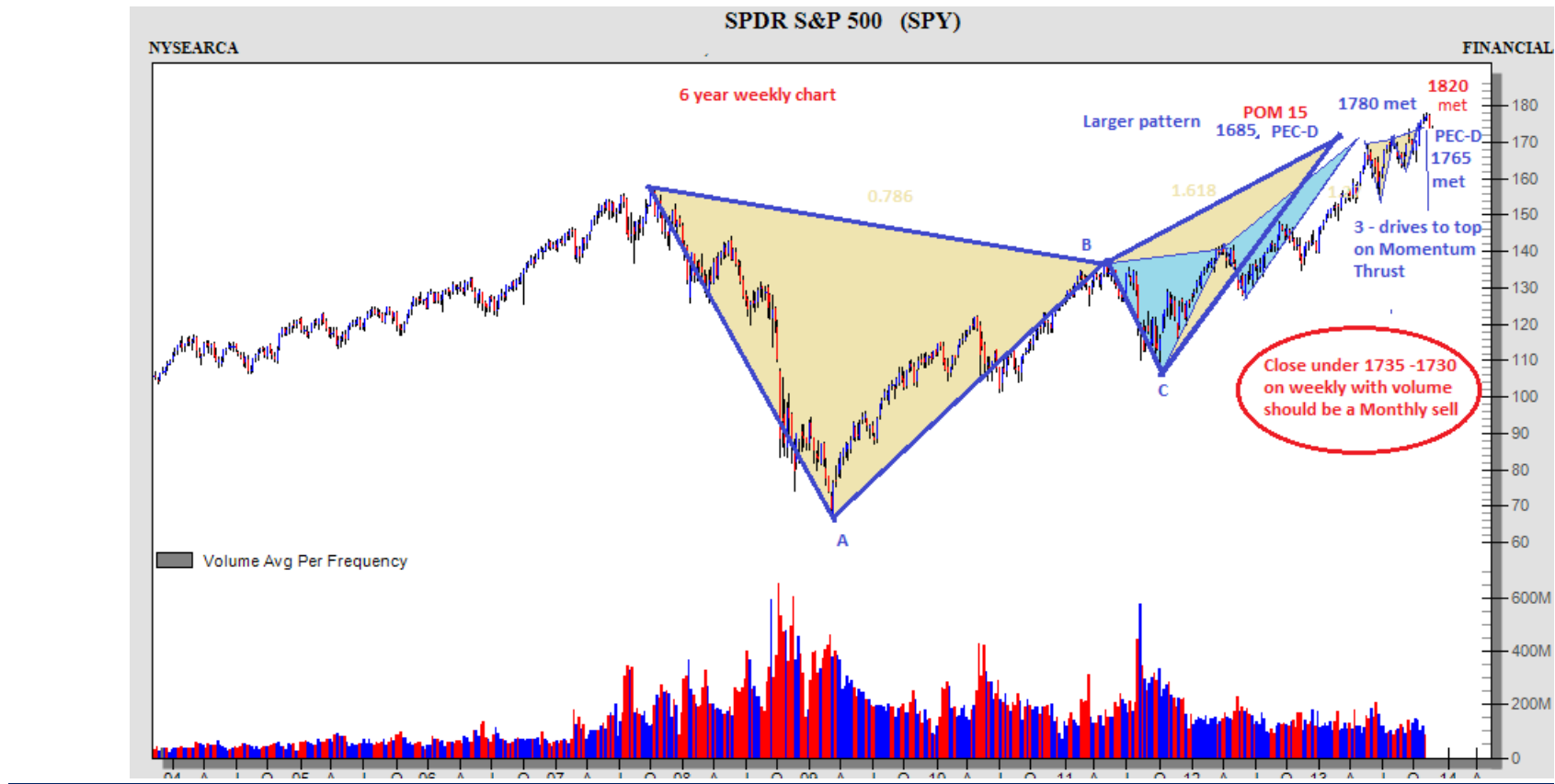
SPX – Cyclical Model

- ## 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

AAII 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 – <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**

- **TEXTURES – Bullish , Bearish , Neutral**

<u>Critical backdrop Notes –</u>

- *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
US BROADER IDX • SPY (SPX 500) • DIA (DOW 30 • QQQ (NASD100) • IWM (Small Cap) • IYT (Transports) • NYA (NYSE) **BOND IDX** • TLT (Bonds) • MUB (Muni). (SP) **GLOBAL IDX** • EEM (Emerg.) • EWJ (Japan) • FXI (China) • EWZ (Brazil) • FTSE (Europe Proxy) • BSE (India) • EWA (Aust) SP **SP - Special situation**	**SECTORS IDX** • 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	**COMMODITY IDX** • CRB /DBC • GLD (Gold) • SLV (Silver) • GDX (Miners) • OIL • Copper • DBA (Agro) • UNG (Natural Gas) • DBB (Base M) SP	**CURRENCY** • 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