



Date : 6<sup>th</sup> Nov 2013 ( Wednesday)

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

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## Executive Summary.

	Current Price	Trigger POM or CZ & Date	Triggered Within CZ & Date	Progress Status	Current Position	<b>NEW ACTION</b> ( Trigger to Watch)	Upside CZ Near Term	Upside CZ Mid term	Downside CZ Near term	Downside CZ Mid term	Remark
SPX- 500	1760	POM 15	CZ 1687-1653- <i>Mean CZ At 1670</i>  7/24 <i>Scaled in Net Short -6%</i>	BEARISH  <i>ST bounce Alerted On 10/3 @ 1670 Is in progress</i>	CASH  <i>Reduced Net Short</i> Announced <i>On 10/3 @ SPX 1670)</i>	NONE	Target PEC-D 1765 <i>Met</i>  Momentum Thrust Target <i>Was initiated on Close above 1687</i>	<i>Extension Target could get To 1780</i>	Pull back to CZ 1735-1725 & one more rally up to double Top	1 <sup>st</sup> ABC down to 1710  2 <sup>nd</sup> ABC down to PEC-D 1687	<i>Close Under 1735 weekly with volume would Trigger Mid term Sell</i>  <i>Refer Price path below</i>
TLT (BONDS)	105.29	POM 13 –Re Run On 01/7  <u>Core position</u>	CZ 115-107  <u>Triggered</u> @ 107 8/09 – 2 <sup>nd</sup> -1/2 re entry	BULLISH Bottoming  <i>Building cause for upmove</i>	Net Long  Avg entry Price 111	NONE	Target – PEC-D 108- met & failed	1 <sup>st</sup> ABC PEC-D 112 Bullish Top 2 <sup>nd</sup> ABC CZ 124-125	<i>Pull back to PEC-D 106 Did not hold</i>	Crash PEC-D 104, tested Bullish divergence	<b>Current Drawdown --- 4.5%</b> managed with EMB Hedged profit of 3.5%

	Current Price	Trigger POM or Main CZ & Date	Triggered Within CZ & Date	Progress Status	Current Position	<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>	1317	POM 13 Re – Run @ 1205	CZ 1205 1190 @ 1205 6/28- Re entry Triggere d	Bullish ST pull back in progress  RM @ ½ @ 1245	Net Long  <b>Alerted 10/16- ½</b> <b>Reentry @ 1280 &amp;</b>  <b>Earlier On 9/18- ½</b> <b>Reentry @ 1319</b>	<b>NONE</b>	Target CZ 1350-1335 <b>Met Exact</b> Neutral Top	ABC up CZ 1425-1445 Bullish Top In tact	<b>Pull back to CZ 1320-1315</b> <b>In progress</b> Bullish Bottom	PEC-D 1295 Rejected With Bullish Bottom	For Recycled <u>1/2 exposure</u>  <b>Exited (2)</b> on 8/26 @ 1429, Entry 1204, 1280 for Profits <u>224+148</u>  <b>Earlier exited 4- Profits</b> <u>72 + 220</u>  <b>5- stop Loss --</b> <u>(-15+ 0-3-9-2)</u>

**Note 1** – To Add Net Short exposure in SPX / related , 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.

**Note 2** – Detail chart on Gold to be Currency Report

## Portfolio – Overview & Update

GOLD @ 1280 on 10/16, Announced to add GOLD & GDV each – Net Long exposure - **increased @ 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 **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 , FXI  
FXI – **closed for 16% profit**
- 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

## GOLD - Bullish- ST – pull back .

**Upside -** Projected to Cap 1350-1335 – MET Exact & declined began .

**Downside -** Pull back to CZ 1320-1315 is in progress. Volume is drying up but since USD is trying to come back in range to 81, GOLD could pull back to re test PEC-D 1295.

RM Stop below 1245 “

Triggered Re entry on 10/16 @ 1280. & ½ entry @ 1319 ( Refer Alert 9/18). The position that was exited at 1428 to book 250 point profit from 1205 on 6/28.

## TLT ( BONDS)– Bullish- Bottoming CZ

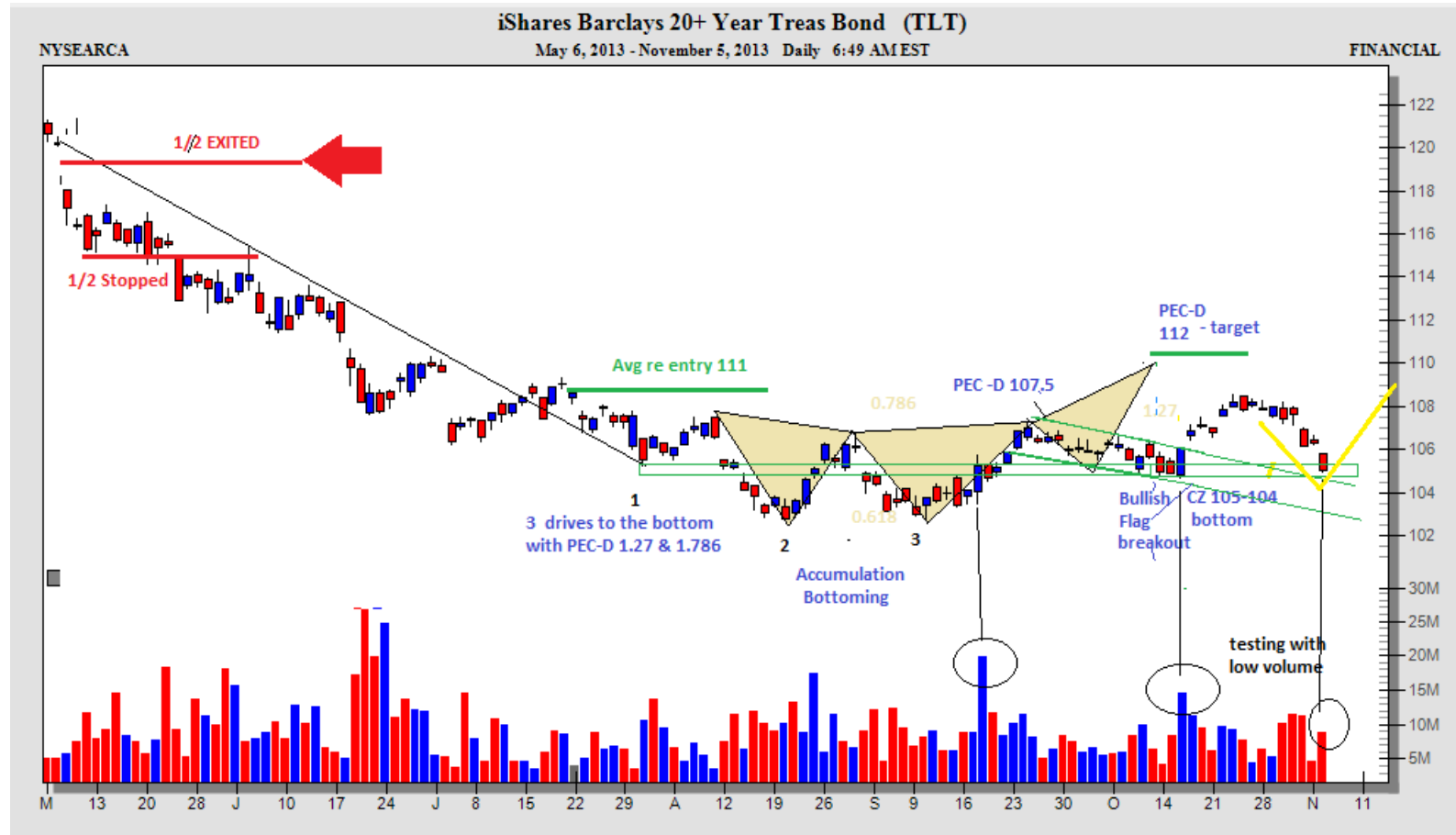
**TLT -** Target to PEC-D 108 – met & decline began . Pull back to PEC-D 106 **did not hold**, but the volume is drying up . We should Retest CZ 104-105 once again & begin the leg up to 112 .

**BACKDROP -** Our drawdown of -4.5+% has been cushioned by EMB hedged profits +3.5% . **Earlier round trip** on 10% exposure with profitable gains - 1<sup>ST</sup> half 117 to 121.5 and 2nd half from 115.5 to 118 (stopped out)

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

**Downside –** Pull back to 106 did not hold , Retest of Bottoming process 105-104 with lighter volume is in progress .

**Upside -** , Upward move to 108 was left incomplete . Eventual rally to PEC-D 112 – Target .



## Market Overview SPX

On 10/3- Announcement @ 1670- SPX, **Alerted** to close ½ of our Net Short exposure taken at avg price 1670 – on 7/24- in XLE, XLB Bearish Instruments. This was purely to avoid the Momentum ride up from seasonality lows . And indeed SPX Moved from 1670 to our projected target of PEC-D 1765 avoided the squeeze.

**Last week — Momentum thrust rally target continued towards our Projected PEC-D - 1765 without any retracement.  
The validated 3 DRIVES to the Top has extension to 1780**

**This week** - Repeat of last week, the **diagonal 5th wave in an ABC pattern target** is in progress . Cluster of Turn dates to come. Time Termination Top is into Nov 12<sup>th</sup> . **The Bradley Model highs is on 18<sup>th</sup> Nov** . New moon on November 3rd, which is also a partial lunar eclipse may have lag effect. ( see chart below) .

Signs of a short term top continue to build but downside volume is NOT picking up on decline . We shall see the pull back to **CZ 1735-1725** then rally back , this should diffuse the extra volume and then 2<sup>nd</sup> leg down to **PEC-D 1710**. Annual seasonals going into Thanksgiving & late December is positive . QE pumping action has skewed the normal moves but It appears the larger decline may be Triggered in January 2014 ahead of New FOMC chair.

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%.

Last week Russell Index greatly underperformed v/s SPX . Although the bears interpreted the action as a top of significance, chances are that was only one more step toward the ultimate top. This week should see the market forming a trading low and rallying towards the extension .

Now that you have that bullish historical backdrop, consider the warning signs- The Negative remains on SPX with longer term – PEC-D completion ( Refer chart below) . **but** Positive for Bulls is the breadth A-D is **not** breaking down . Given the overbought nature of the market and unsustainable bubble like tops, the risks are high and the rewards are simply not worth the risk of holding overweight Mid term Long positions. Sentiments are at nose bleed.

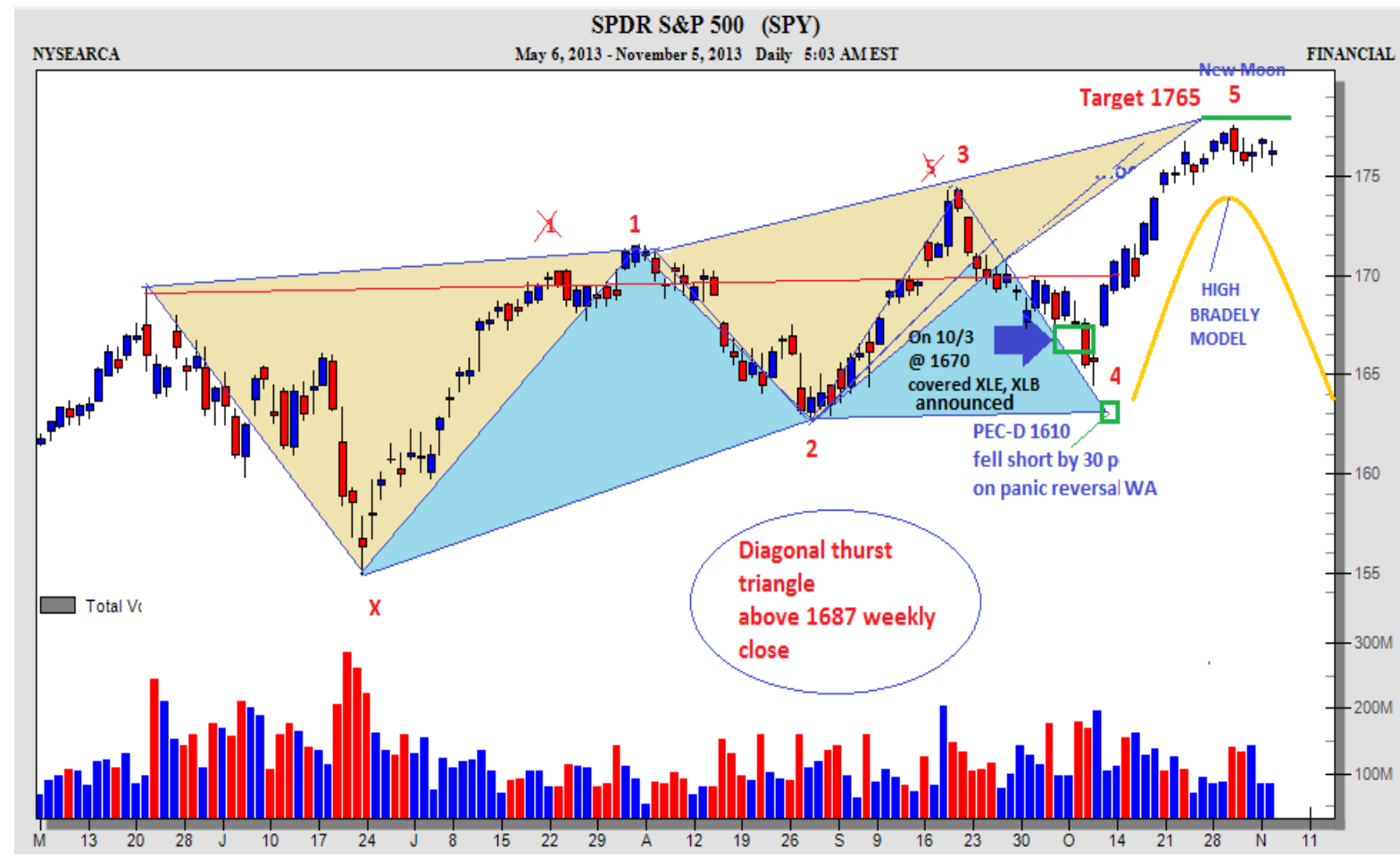
We are violently overbought on weekly timeframes. We have negative divergences on the weekly MACDs on 3 of our 4 major indices (NASDAQ is the exception). Copper and crude oil prices - both of which normally correlate positively with the SPX - are not supporting higher equity prices at this time. Financials are now falling on an absolute and relative basis

Although on POM 15 - We are maintaining our opinion to act, ONLY when the Market fails on Volume to add Net Short exposure that we exited on 10/3 at 1670 prior to this current bounce. . Except , hedging against long positions in some fashion probably makes sense to hold.

# SPX- PEC- D / CZ Analysis POM 15 - Mid term chart

**UPSIDE** — The Diagonal Pattern Wave 5 is in progress to target, 1765 – PEC-D is almost approached but appears to get extended to 1780 .

Bradley Model indicated below has high on 18<sup>th</sup> Nov . New Moon on 3<sup>rd</sup> November can have effect with 2 days either up or down price move.



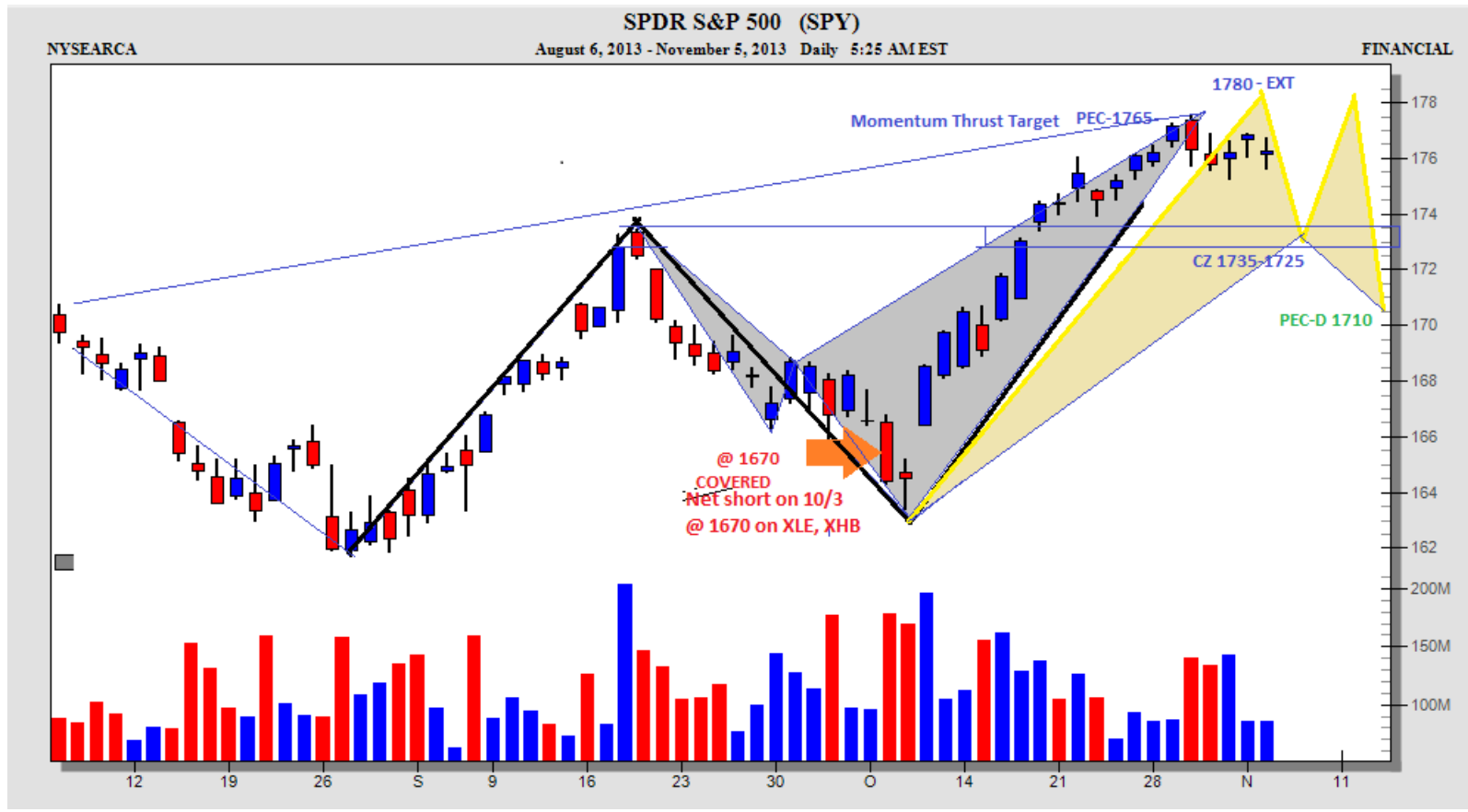


# SPX- PEC- D / CZ Analysis POM 15 - Daily chart

**Upside** s- Momentum Thrust Rally . PEC-D @ 1765 could get extended 1780

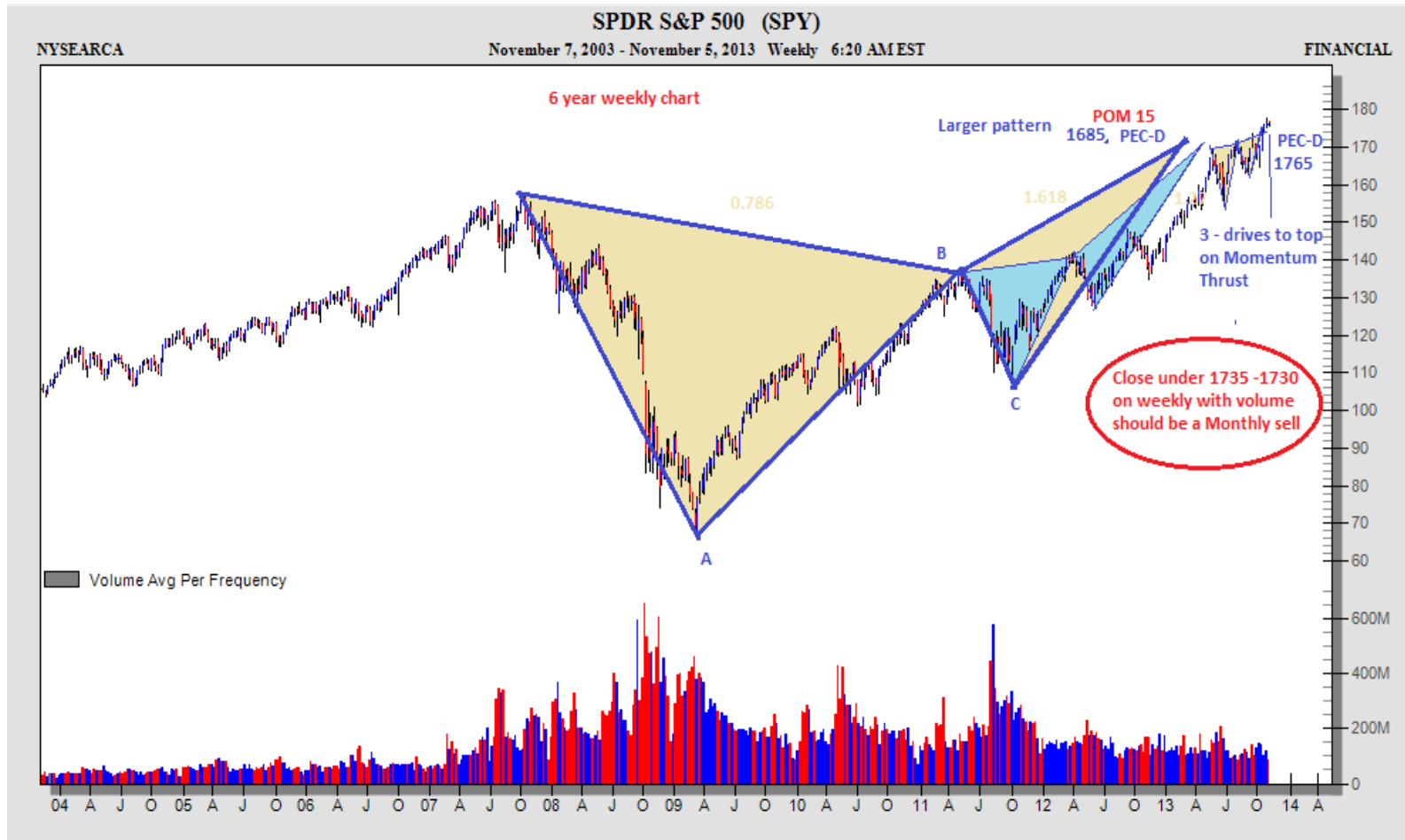
**Downside** --- . Pull back to CZ 1735-1725 then rally back to double top , then decline to ABC down to PEC-D 1710 .

Notes within the chart.

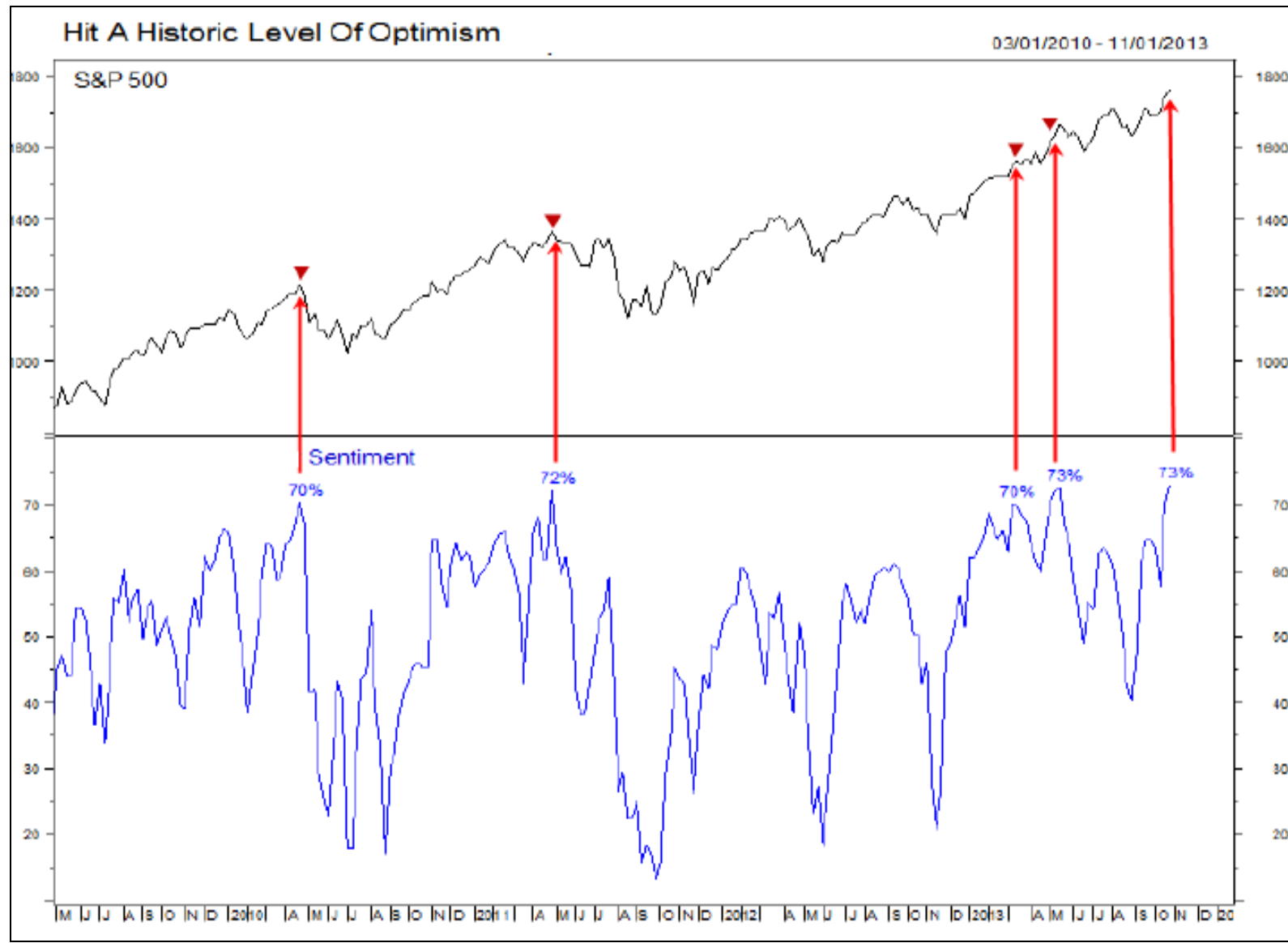


# SPX – 6 year – LT – Weekly Chart

POM 15 was Triggered on completion of PEC-D 1685 , 7/24 is still in effect on larger time frame. But on ST basis pull back to PEC-D 1670 , we a Alert on 10/3 to cut back to protect against the Momentum Thrust . This resulted in **3 drive to top** with PEC-D @ 1765 is being completed with extension to 1680 . Let the Market fail



# SPX – Sentiment Analysis - Daily chart



## SPX – Cyclical Model

- SPX - Seasonality / Election Model -

Market tend to put in lows in positive seasonality

- SPX - Geomagnetic / Lunar Cyclic Model

Bradley Model topped on 1<sup>st</sup> June @ 1650

- SPX - Sentiments Model

AAll Weekly Sentiment Survey is still very BULLISH

- The EURO – Future Model Forecast,-

By this Model, Correction Larger decline to Mid Oct by EURO Future Model.

## 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



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