



SG Capital Research

Global Market Insights

Chart System

Date : 4RD February 2014 (Monday)

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

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Executive Summary. -

	Current Price	POM Triggered within CZ & Date	Follow up <u>Announcement</u> - Update For ST Trend Reversal & RM	Progress Status	Existing Position / Exposure	<u>NEW ACTION</u> (Trigger to Watch)	Upside CZ <u>Near Term</u>	Upside CZ <u>Mid term</u>	Downside CZ <u>Near term</u>	Downside CZ <u>Mid term</u>	Remark
SPX- 500 <u>Announcement</u>	1742	POM 15 Marked to Market on 1/01 start <u>@ 1848</u>	<u>@ 1735</u> , to close <u>Net Short</u> , instated position on 1/9 at 1842 for <u>107 points</u> profit 6%	BEARISH @ 1735 be Neutral ST bounce to begin soon	Reducing Remaining ½ Net Short Via IWM,QQQ Instrument	NONE	Target Cap into CZ 1790-1780 should fail & back to re test the lows	Target Cap into CZ 1825-1835 should fail	1 ST ABC down to 1775- <u>Met</u> With heavy bottom Heavy bottoms can get extend	2 ND ABC down to 1735, <u>Approaching</u>	<u>Closed Under</u> 1770 weekly with <u>high volume</u> would Trigger Mid term Sell
TLT (BONDS) <u>Announcement</u>	109.32	POM 13 – Re Run Marked to Market On 1/01 start <u>@102</u>	<u>@ 108.28</u> on 2/4, close ½ <u>Net long</u> position M2M on 1/1 at 102 for <u>7 pts</u> profit 6.5%	BULLISH ST pull back to begin soon	Reduce ½ Net Long	NONE	Target – PEC-D 108 <u>Met with</u> Bullish Top now ST pull back	1 ST ABC PEC-D 112 Bullish Top	Short term pull back to CZ105-106 & then next rally Higher highs	CZ 102-104 <u>retested</u> rejected on low volume Bullishly	<u>Best Risk / Reward to go long below 104 as announced</u>

We get to 2nd ABC down @ SPX- 1735 we shall cover the balance ½ Net short position & Trigger POM 14 – Market Neutral .

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GOLD	1260	POM 13 Re – Run Marked to Market on 1/01 start <u>@1205</u>	<u>@ 1220</u> Re entry ½ On 12/4 & <u>@ 1280</u> Re entry ½ On 10/6	BULLISH	Net Long	NONE	<u>Target</u> PEC-D 1265 – 1 st ABC up Bullish Top <u>Met exact twice</u>	2 nd ABC up CZ 1335-1325 Bullish Top In tact	<u>Pull back</u> to CZ 1245-1230 <u>Re tested Bullishly Held twice & rallied</u>	PEC-D 1220 Rejected lows On lighter volume <u>Weekly 5 year CZ 1190-1220</u> Is solid floor Bullish floor	<i>Best Risk / Reward to go long below 1220 as announced</i>

Notes

- Since 1st Jan 2014, SPX , GOLD & BONDS have been following our price path EXACTLY. It has been very Profitable month Profits of 5% in SPX, 6% in BONDS , 5% in GOLD . as all the 3 assets have moved in the direction of projected price path
- Detail Charts on TLT in Wednesday's Broader Indices Report .

Portfolio – Overview & Update

SPX- NET SHORT exposure - Overall Portfolio is at “ Short Bias (- 18%) **Marked to Market @ 1848 – 1st Jan 2014 .–**
in Bearish Instruments QQQ, IWM . **POM 15 exposure - Reduced ½ @ 1777 – 1/28 & ½ @ 1735 – 2/3– NEW**

GOLD- NET LONG exposure – Marked to Market @ 1204 – 1st Jan 2014 .

GOLD entry @ 1220 on 12/4, Announced to add ½ exposure GOLD & GDX and @ 1280 on 10/6, Announced to add ½ exposure in GOLD & GDX.

NET LONG exposure - XLV for Obama-Care, XHB for Housing recovery and XLP is for Consumer staple. Bullish Top Instruments should continue to provide +ve Spread.

BONDS - NET LONG exposure – Marked to Market @ 102 – 1st Jan 2014 . Reduce ½ @ 109.25 – 2/4 - NEW

Portfolio Holdings	NEUTRAL /SHORT BIAS EQUITY- NON LEVERAGED	Refer to Respective Reports for details
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- **LONG at POM 13 / in Main CZ :**
Non- Equity - GOLD , GDX , USD/JPY , CU , TLT AUD , UNG, DBA, DXY
Equity - XLV ,XHB , XLP, _EWJ / NIKKE ,
- **SHORT (Hedges v/s Longs) / in CZ :**
Equity –(Hedges) - QQQ , IWM,
- **NET SHORT -.....Preferred Instruments**
QQQ , IWM, for Short bias Portfolios only
EURO/USD

Market Overview SPX

Past week -

Since **SPX 1848** failure on 1/8, we had pointed out our projection target to **PEC-D 1775 & 2nd ABC down 1735**. PEC-D 1775 breached with heavy volume. Due to heavy bottom it tends to extend past its projection to next ABC down

This week If it is going to rebound, it had better start real soon now. Otherwise, it may be using up some of its potential. 2nd ABC down projection to **PEC-D 1735** is approaching without any bounce

The indicators suggests we should go below 1735 and reject for short term bottom. The Arms reading exploded to 4.0 along with Tick of -1100. This possibility can generate another -1100 Tick reading in next 2 days. The rebound rally that could be quite impressive. The NYA Volume Oscillator on short term is quite oversold with positive money flow past week that would allow for what appears to be a countertrend bounce before a lower low. We have Time Ratio Lows in the NYSE Index due February 7th— it could just be a retest/ secondary low after first run up. The Short term advance-decline line is diverging bullishly, a sign that the market isn't ready for a sustained downtrend quite yet till bounce is over. The bounce high in mid / 3rd week February would likely represent the ideal point to be bearish once again.

When we look at the action in Treasury bonds, we find that a real bottom in yields may be getting closer. And, a bottom in yields implies a Short term bottom in stocks as well. The stock market has been very sensitive to big moves in the Treasury Bond market. Money flow into bonds came out of stocks this year. Although Bonds have met 1st ABC up with Bullish top, It should pull back up and then rally which suggests the 2nd leg down in stock market is not over after the bounce is completed on mid term basis. The final low could come in much ahead, what may be a fourth wave correction, with a fifth wave yet to come

Based on VTO numbers, the volume pick up on downside suggest correction for decline into next 2 months from January 1st. If we get successful volume test with +ve divergence @ 1735, It would provide opportunity to go Net Long for Bullish bias portfolios. This is slightly pre mature.

Geomagnetism/Lunar Model Projection For 2014 - Mid term

Chart below courtesy http://en.wikipedia.org/wiki/Solar_cycle, which may or may not be a reasonable projection of geomagnetic and lunar influences on the equity market during 2014.

The January Barometer and Mid term Election years. - Mid term

January turned out to be a down month makes that warning for a volatile year more likely. With SPX down -3.6%, the **January Barometer** has a negative warning. It is based on the belief that "as January goes, so goes the year". The January Barometer is backed up by market history which has predicted 76% of the time since 1950.

'The Four-Year Presidential Cycle Suggests that 2014 Could Suffer larger Downside Correction" between May & October which leads to great buying opportunity . During these years the two of the best months to take long side profits were during January and April. The good news is that midterm election years usually finish the year stronger than they start.

GOLD

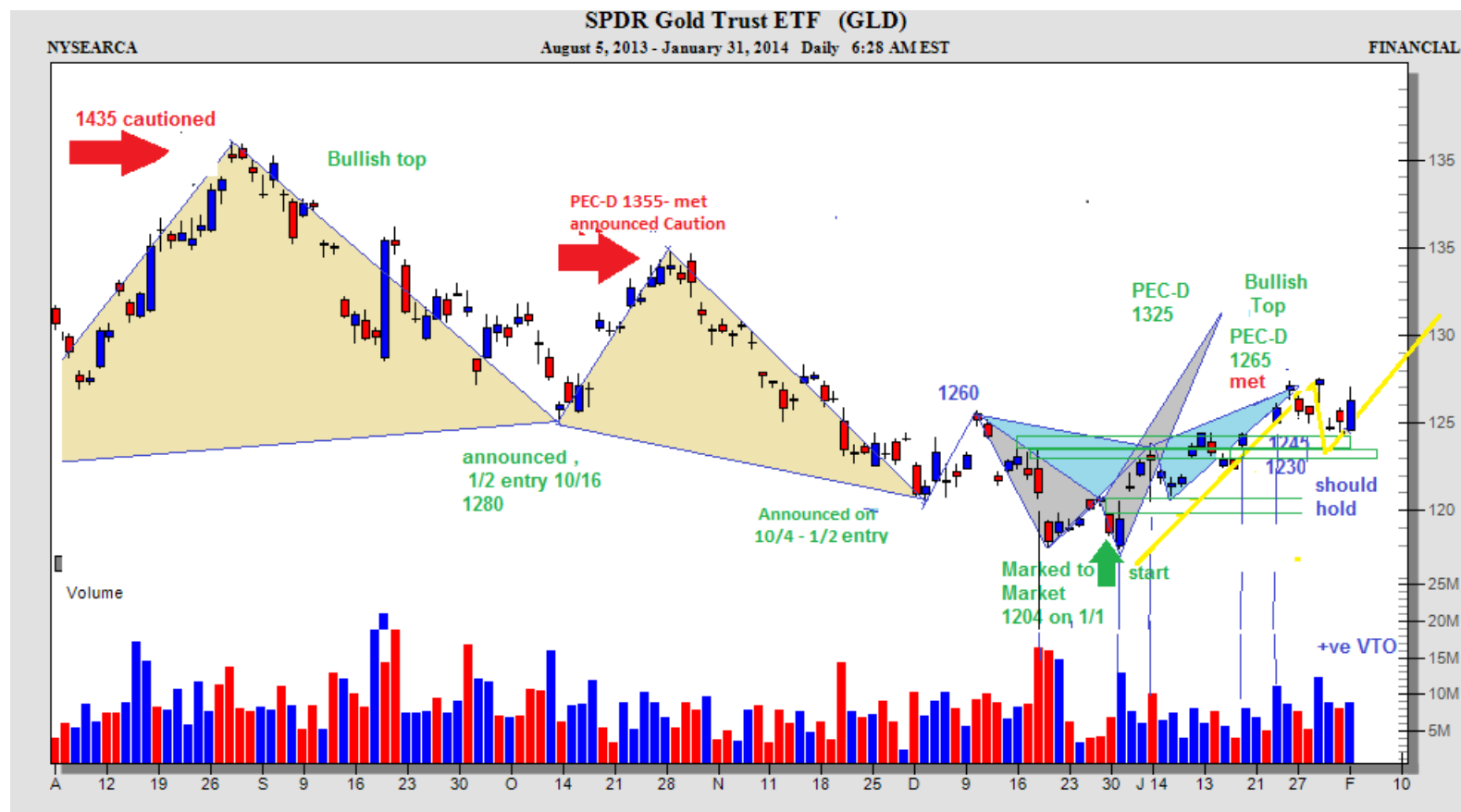
Rally as expected with accumulation . This is a bullish trend, but must be maintained in order to declare the bear market has finished. Early signs of a bottom are appearing. The uptrend in gold mining stocks tends to start about 6-8 weeks before an upturn in the price of gold.

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

Downside - Pull back to CZ 1245-1230 should hold and rally back up

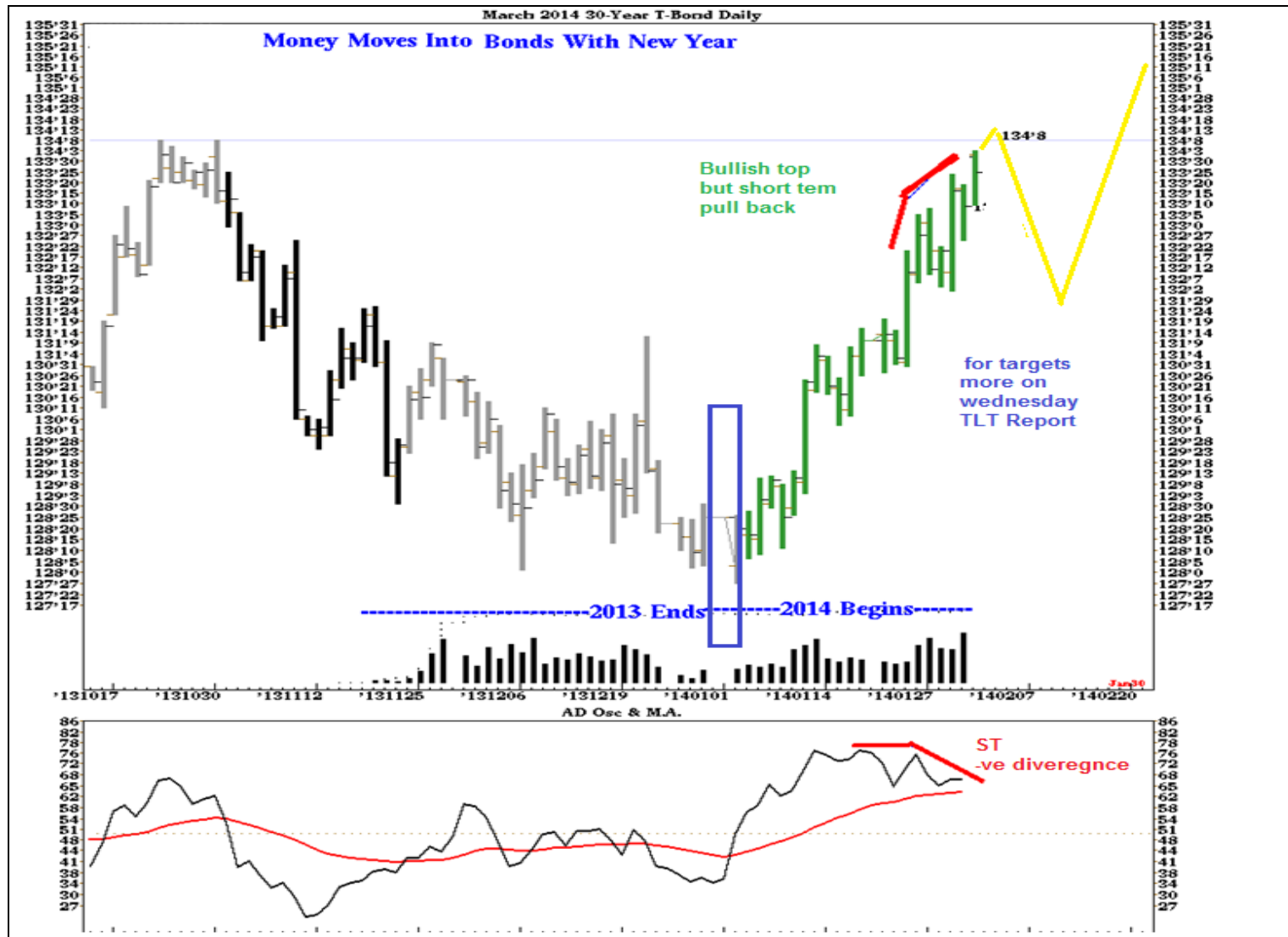
Upside - First ABC up to 1265 Met once before with Bullish Top & pulled back - but Projected to Cap 1325-1335 .

PEC-D 1220 – Rejected lows +ve VTO & Bullish Bottoming process . GOLD has seen a solid bottom on 5 year weekly chart within CZ 1190-1220.



BONDS – Daily – Analysis – Bullish- ST pull back

Notes within the charts. Short term pull back in bonds should give relief rally in Stocks

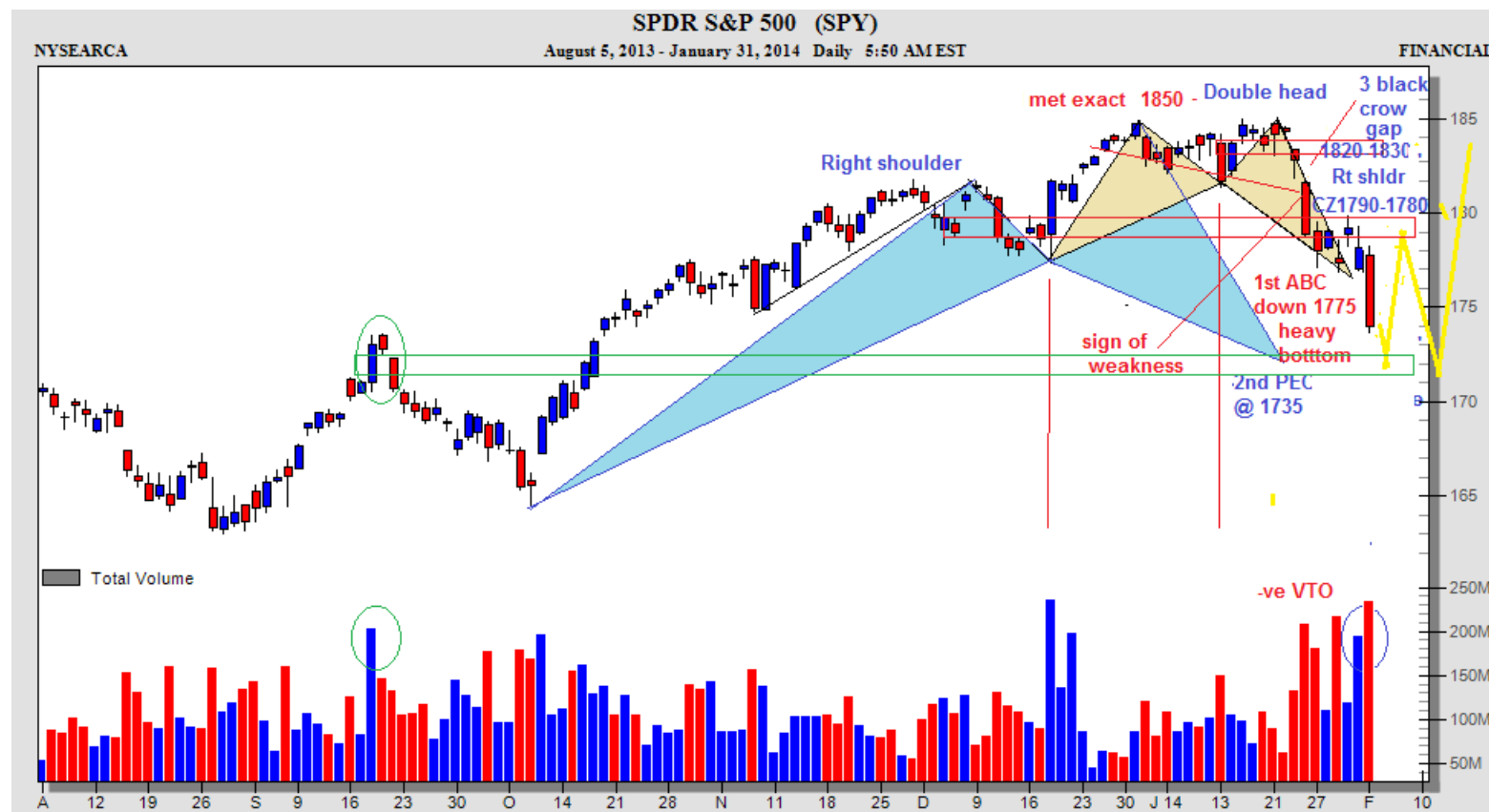


SPX- PEC- D / CZ Analysis POM 15 - **Daily chart – SHORT TERM**

Downside — 1st ABC down PEC-D 1775 – Met with heavy bottom , - 2nd ABC down to PEC-D 1735.

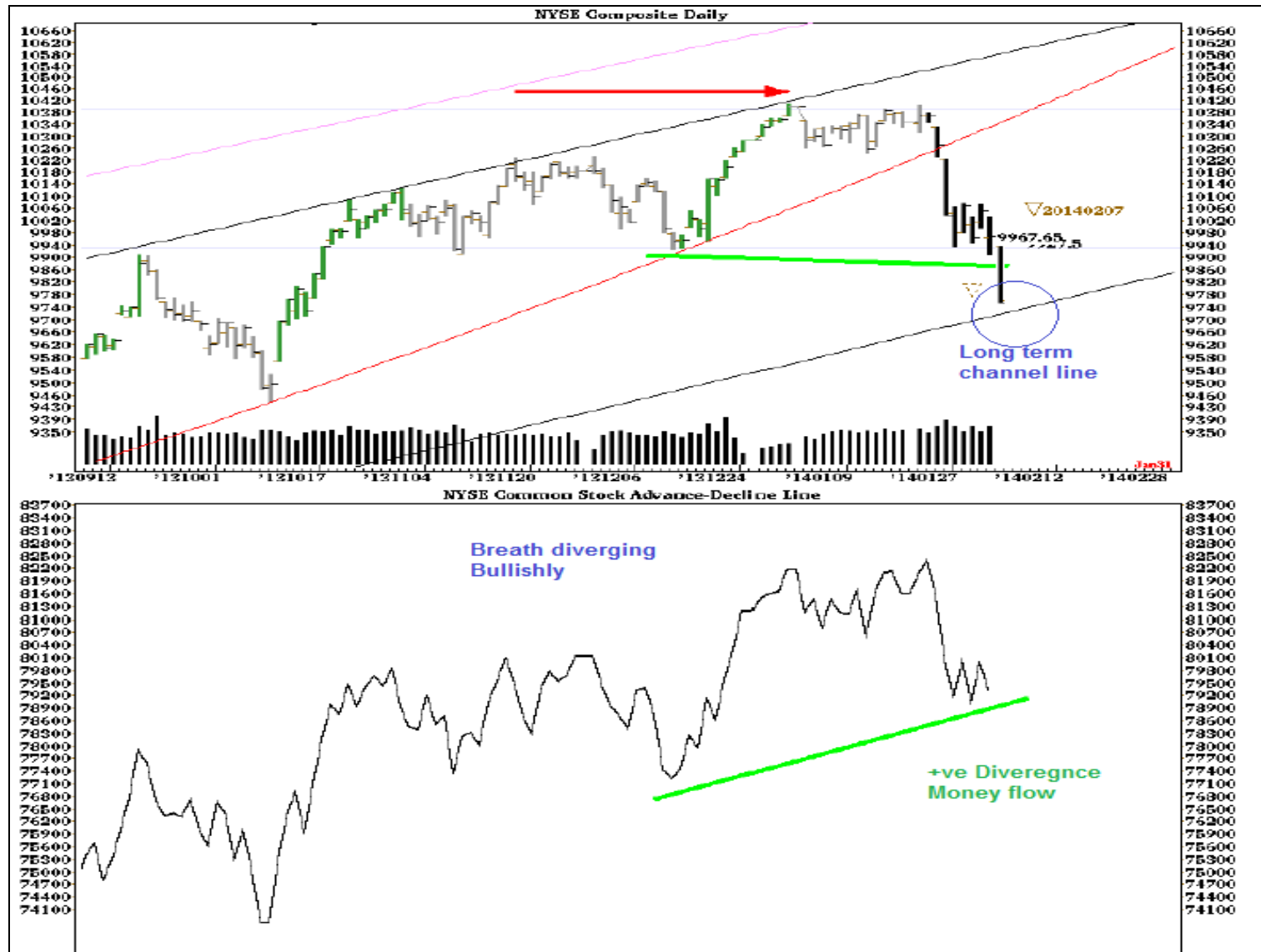
This appears to be 3 back crow & forming right shoulder of H & S Top .

UPSIDE – First bounce to CZ 1790-1780 should fail. . Final Cap within CZ 1825-1835 , within high volume Gap away, should fail.



NYSE Poly trend - Daily chart

Money flow diverging positively .



SPX v/s 50 DMA stocks **Daily chart – Short term**

NUMBER OF STOCKS ABOVE THE 50 DMA IS AT A RALLY LEVEL - gets low in green box , the market tries to rally.



SPX v/s 200 DMA stocks Weekly chart – Mid Term

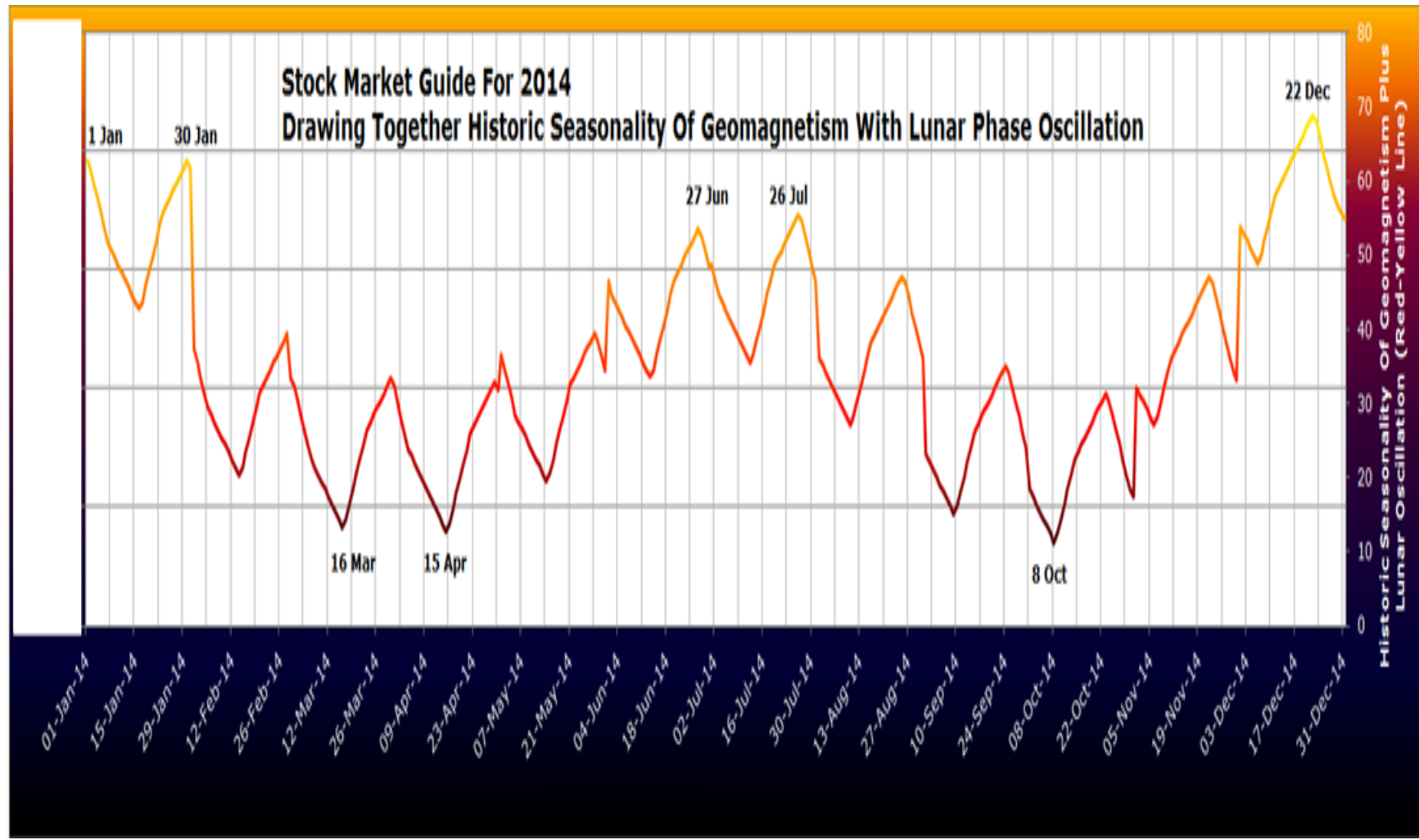
NUMBER OF STOCKS ABOVE THE 200 DMA IS WEAKENING - NEXT RALLY MAY DEFINE TOP as fewer stocks are still above the 200 DMA . The market tops out when the percentage of stocks above the 200 DMA cannot stay above 70%. Currently we are at 70%. **On this next rally, we need to see a % above 70% .** We have broken the uptrend line on the 200 D line. We are making lower highs for the last few months which is topping pattern. .



SPX- Solar Cycle – Mid term

Geomagnetism/Lunar Model Projection For 2014 - Mid term

Chart below courtesy http://en.wikipedia.org/wiki/Solar_cycle, which may or may not be a reasonable projection of geomagnetic and lunar influences on the equity market during 2014.



SPX – Cyclical Model

- SPX - Seasonality -

NONE -

- SPX - Election Model -

Statistically next year is the 2nd year of the Four-Year Presidential Cycle. Historically It tends to be negative I.E 2014 . 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 18th Nov @ 1800

- SPX - Sentiments Model

AAll Weekly Sentiment Survey – Neutral

SPX – Internals Model

Neutral -, 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) • GDX (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)

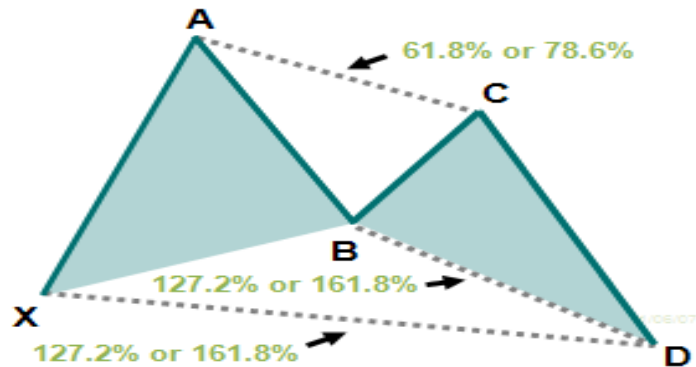
Pythagoras Expansion / Contraction – (PEC) Model

- 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 streams to achieve confluence point D coinciding with POM

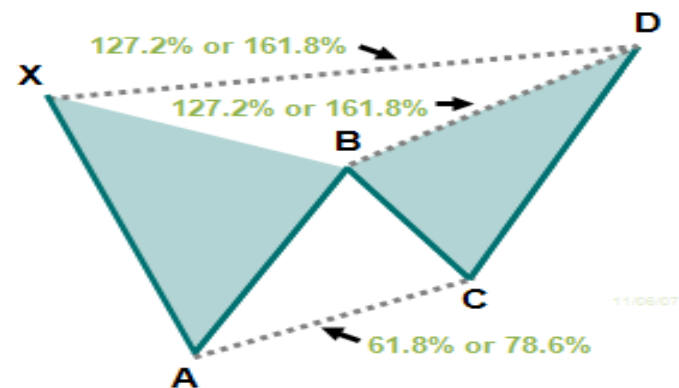
PYTHAGORAS EXPANSION / CONTRACTION –(PEC) Model

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)



Sell Pattern (bearish)



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