



Date : 2<sup>st</sup> January 2014 ( Thursday)

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

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**Executive Summary. -**

	Current Price	POM Triggered within CZ & Date	Follow up <b>Announcement- Update</b> 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
SPX- 500	1848	POM 15 @ 1848 <b>Marked to Market on 1/01 start</b>	@ 1671 <b>announced to Reduce Net Short On 10/3</b>	BEARISH <i>Momentum bounce Is in progress</i>	Net Short Via IWM,QQQ Instrument	NONE	PEC-D 1820 Met as projected in last Report 12/16	Momentum Thrust Target to <b>1855</b> <b>Should fail</b>	<b>Pull back to PEC-D 1810</b> Within CZ 1810-1820  <b>Should hold For another rally up</b>	1 <sup>ST</sup> ABC down to 1780  2 <sup>ND</sup> ABC down to 1735, at later date	<b>False break abv</b> 1780 with _3 drives to top.  <b>Close Under</b> 1770 weekly with high volume would Trigger Mid term Sell
TLT (BONDS)	101.86	POM 13 – Re Run @102 <b>Marked to Market on 1/01 start</b>	NONE	BULLISH	Net Long	<b>Overriding The stop @ 102.2</b>	Target – PEC-D 108-	1 <sup>ST</sup> ABC PEC-D 112 Bullish Top	PEC-D 104 <b>retesting on low volume Bullishly</b>	<b>Extended Below to 102 on false break</b>	<b>Best Risk / Reward to go long</b>

**Update- Mark to Market – POM 15 - Jan 1<sup>st</sup>**

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<b>GOLD</b>	1205	POM 13 Re – Run @1205 <b>Marked to Market on 1/01 start</b>	<b>@ 1220</b> Re entry ½ <b>On 12/4</b> & <b>@ 1280</b> Re entry ½ <b>On 10/6</b>	BULLISH	Net Long	NONE	PEC-D 1265 – 1 <sup>st</sup> ABC up	Target CZ 1350- 1335 Bullish Top In tact	<b>PEC-D 1220</b> <b>Rejecting lows</b> On lighter volume  Bullish Bottom	<b>Weekly 5 year CZ 1220-1190</b> Is solid floor Bullish floor  <b>Best Risk / Reward to go long</b>	

**Update- Mark to Market – POM 15 -Jan 1<sup>st</sup>**

## **Notes**

1. To Add Net Short exposure in **SPX & related Instrument** , let the Market finish this counter Trend double top rally on Bearish Momentum to exhaust itself out as January effect seasonality ends.

If the volume picks up on downside . The **“close under price 1770 ” would be a Trigger .– We shall announce**

2. Detail Charts **on GOLD** in Friday’s Currency Report

## Portfolio – Overview & Update

### NET LONG exposure – Marked to Market @ 1204 – 1<sup>st</sup> Jan 2014 .

GOLD entry @ 1220 on 12/4, Announced to add 6% GOLD & GDX each & GOLD entry @ 1280 on 10/6, Announced to add 6% GOLD & GDX each

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.

### NET SHORT exposure - Overall Portfolio is at “ Neutral Marked to Market @ 1848 – 1<sup>st</sup> Jan 2014 .–

Hedges in Bearish Instruments QQQ, IWM . **POM 15 exposure**

Portfolio Holdings **NEUTRAL /SHORT BIAS EQUITY- NON LEVERAGED** 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

## Market Overview SPX

### Past week -

In our last MS Report 12/16 we had pointed out the “change of trend” on 18<sup>th</sup> December, suggested by TRIN, TICK & VIX reading collectively pointed out Bullish rejection at 1775 –SPX for “yearend rally to target 1820 “. It certainly proved its merit . SPX has extended past its target 1820 towards 1448 on Momentum thrust indicators . This rally of 75 points in just 10 days.

**This week** - Year end TRIN closing averaged at 0.6 with TICK averaging around +1000, while VIX rally 20% past 2 days along with SPX . This is bearish combination that predicts a high within 2-3 days . We think the highs of 1855 should fail.

When we look at seasonal, Market has a tendency for January effect from year-ending rally extending on 2<sup>nd</sup> -5<sup>th</sup> Jan, on rebalancing as a final blow off. 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 End Game for the mania is close at hand. Many indicators are pointing toward 2<sup>nd</sup> -5<sup>th</sup> Jan , as the ideal 1<sup>st</sup> peak date

The **secondary peak failure** should define a the Top. . And, in that instance, we could see some heavy selling in January 2<sup>nd</sup> half as the realization that the correction has began. Major turn date calls for decline into next 2 months from 14<sup>th</sup> January 2014 .

**On different note, BSE** , certainly not one of our strength, today touched 21331 & failed miserably with 450 point decline exactly as depicted Price path, Price target & failure point in our last BSE Report on 12/21 . BSE at times tends to signal first clues . We shall see.

Overall on Mid term basis , the *Critical weekly and Monthly Pattern of WAVE 5 & 3 DRIVES-PEC-D's are completed. The* ratio of new highs to new lows shows the signs that breadth has weakened year end in spite of rally. The risk on the downside should be extremely high for long side after the 1<sup>st</sup> of the year . Our the pull back to first leg down to CZ 1810-1820 and 1<sup>st</sup> leg down to PEC-D 1770.

NASDAQ & Russell have met all long term weekly targets in Mid term time frame, Russell continues to underperform and showing weakness v/s SPX, the volume on downside v/s upside is heavy on Russell. Monitor this as a good candidate to add Net Short once SPX fails. We are watching the NASDAQ-100 Index as our "Lead Dog".

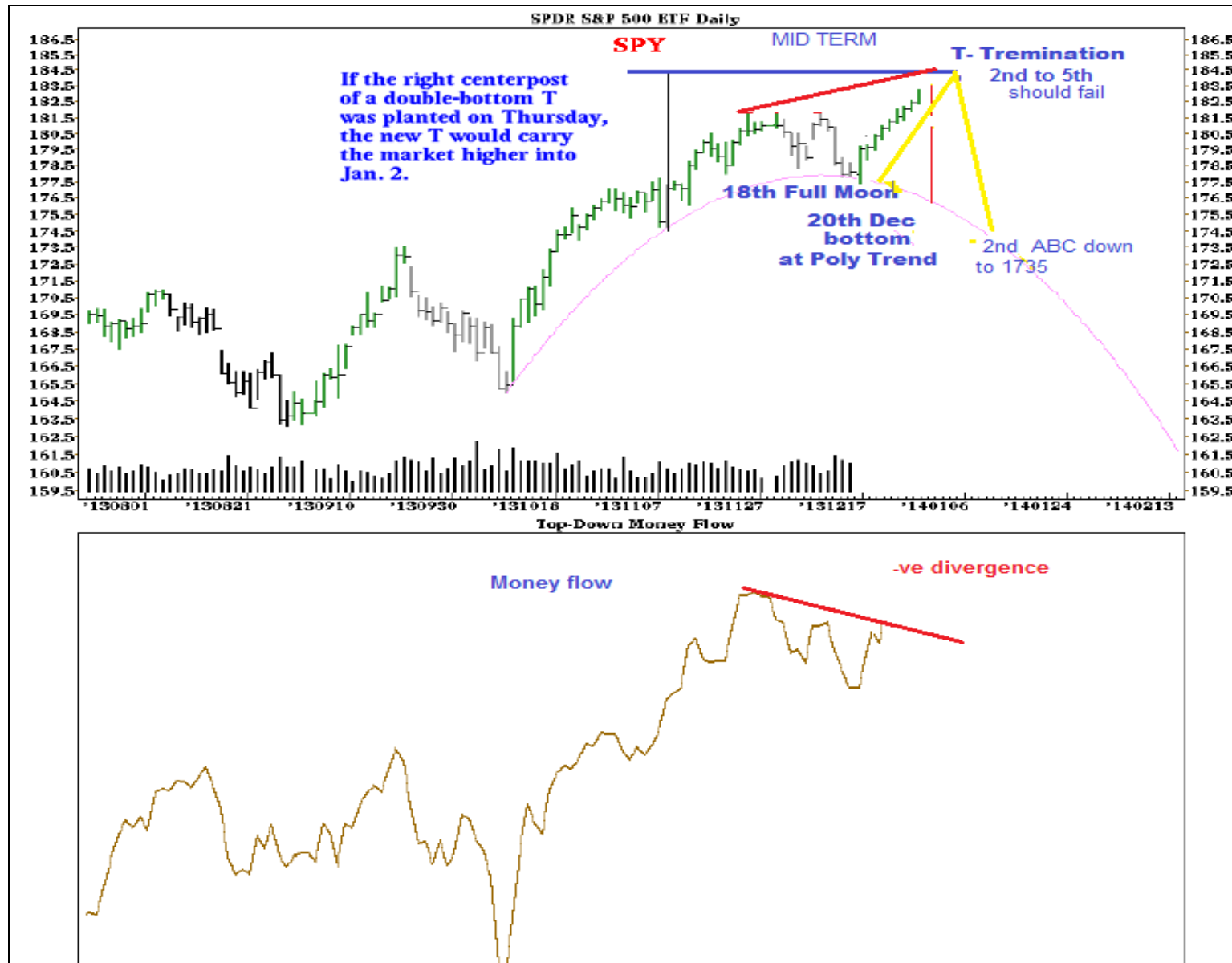
**We expect Bonds** to move sideways building base till January effect is completed in equity. Thereafter we expect bond making big moves once the correction in Equity begins.. Bonds should be much better than stocks for 3 months into 2014. For sometime the Money flow is showing +ve divergence with accumulation & **We expect GOLD** to put in strong bottom for great rally as long as 1165 holds which we think it should hold ( More chart in currency Report)

**SPX- Update** – We begin the year 1<sup>st</sup> January on Mark to Market basis at 1845 –SPX, having closed out ½ Net Short position at 1670 on 10/3 prior to this rally 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.

To Add to Net Short exposure in IWM, QQQ, Market should complete the exhaustion mode after Jan effect is complete with Bearish Momentum top. 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.

**THE HISTORY OF THE FOUR-YEAR CYCLE – The 2<sup>nd</sup> year Presidential term is usually the worst** - The current bull market started in March 2009 and is in its fifth year. That's long for any bull market without a major setback, that makes the coming year (2014) especially dangerous considering that it's also the second year of the presidential cycle and a midterm election year. The two first years of the four-year cycle are usually the worst with the last two usually the best. Bear markets usually occur during the first two years. Since 2013 (the first year of this term) was so strong, historical odds for 2014 (the second year) to suffer a downside correction are pretty high. We have chart below since 1990 on history overlays four-year cycle lows on the SPX. Most of those bottoms took place during the second half of those years and have coincided with midterm elections. Assuming the four-year pattern repeats, the next larger correction and the bottom is due in 2014. The second year of a presidential term (like 2014) is usually the weakest, the third year (2015) is usually the strongest.

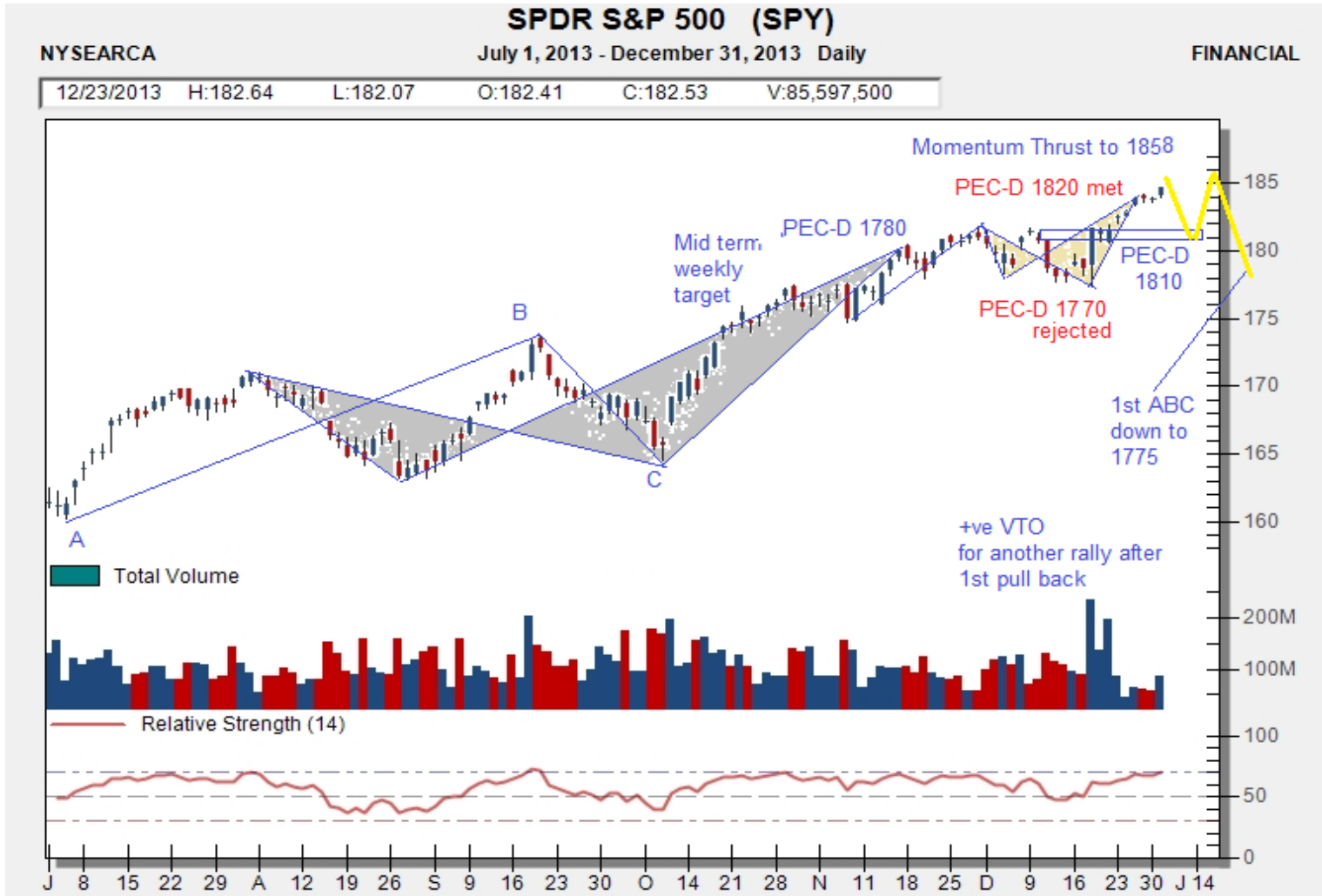
# SPX- Poly trend - Daily chart – Mid term



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

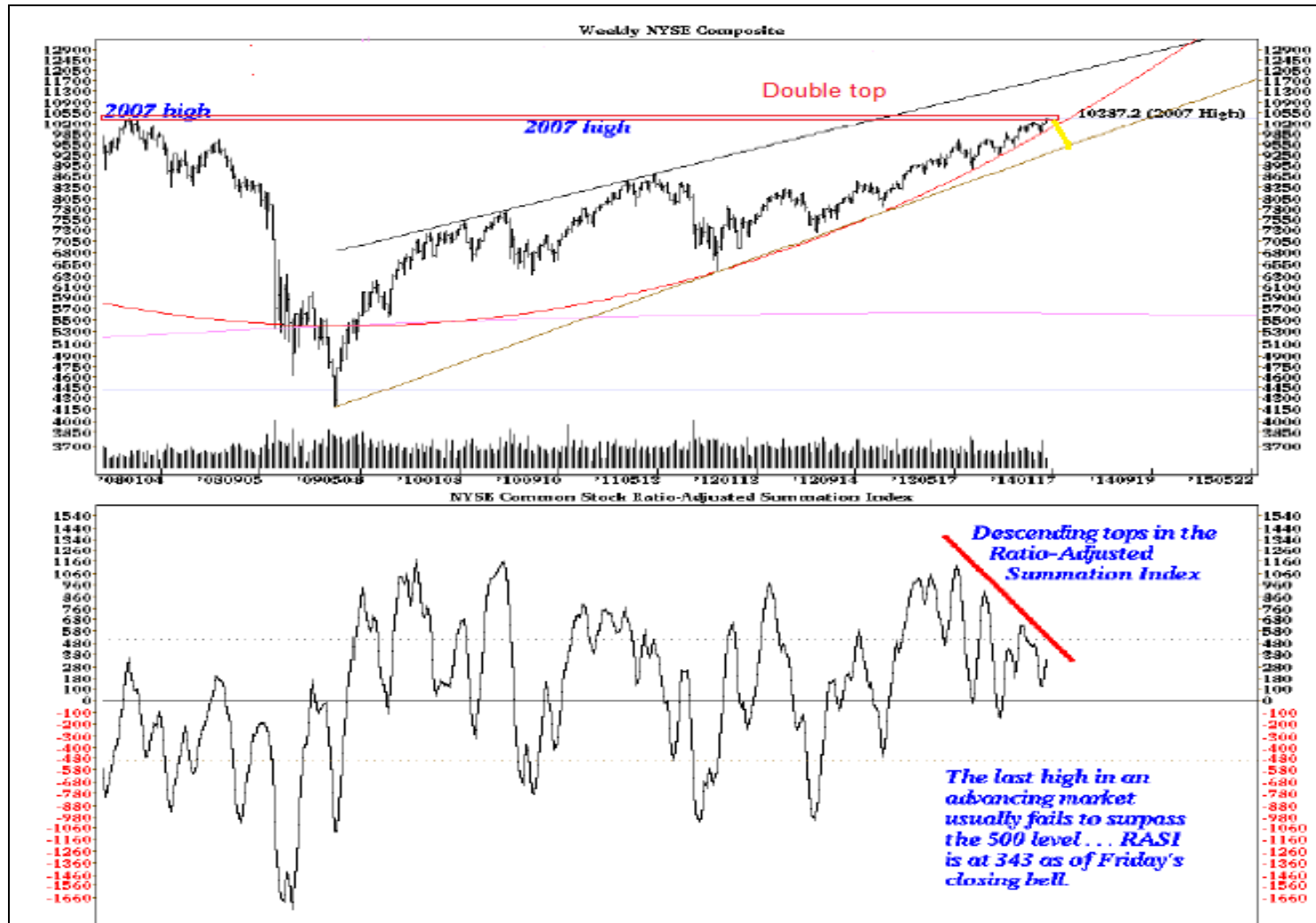
**UPSIDE** - ABC up to 1820 – met . The Momentum Thrust Indicators extend SPX to 1848.

**Downside** — Shallow Pull back to PEC-D 1810 should reject and rally once again to 1840. To begin decline to 1<sup>st</sup> ABC down PEC-D 1775 within CZ 1770-1780.



## SPX- v/s RASI

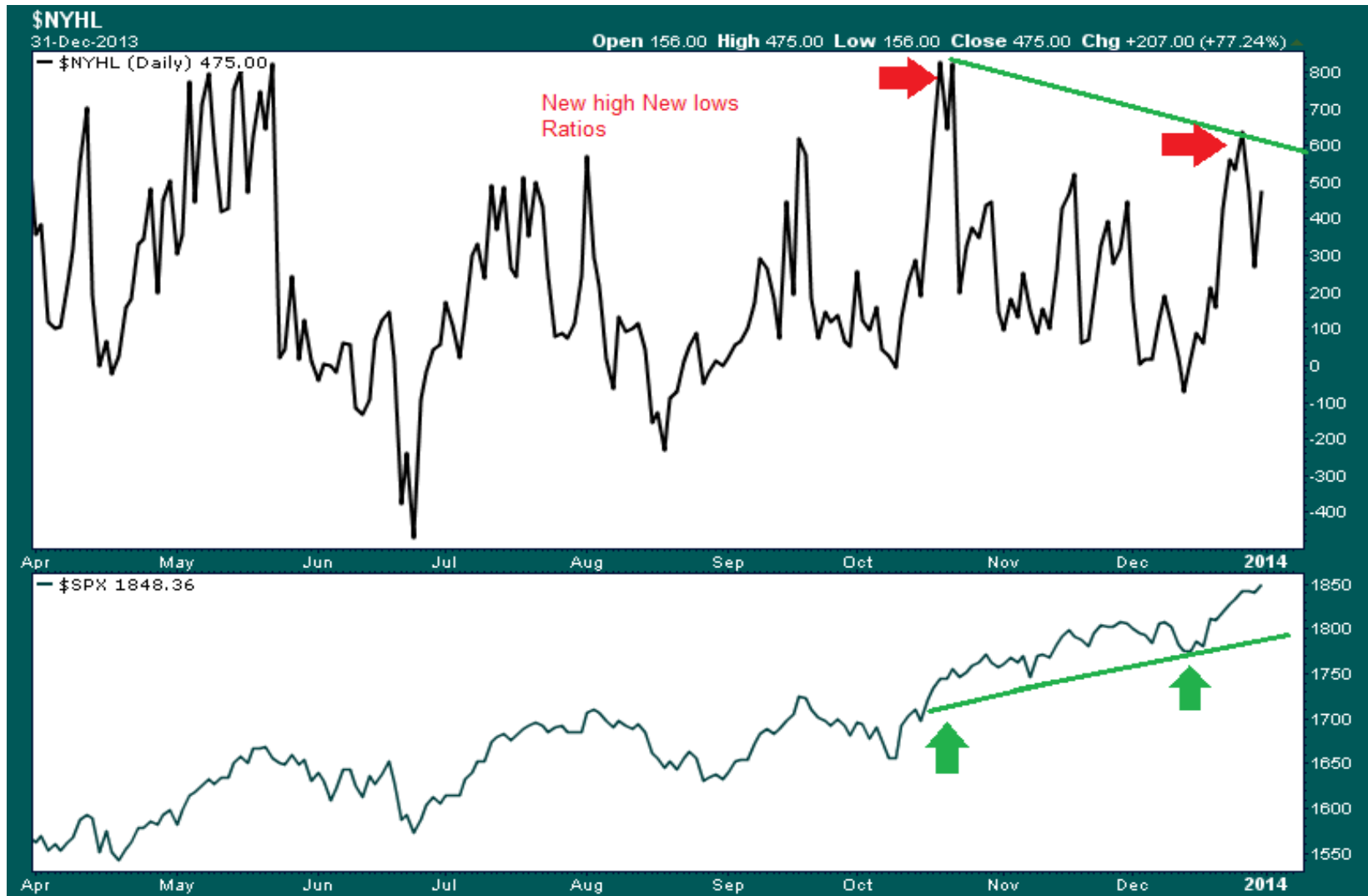
In short, we are almost there. The market hit a high on year end , we are getting very close to a major top. The NYSE weekly chart below illustrates a double top with the 2007 high. At the same time, the McClellan Ratio-Adjusted Summation Index (RASI) has only reached a high of **343** on this rally. The final rally in an up-market tends to see the RASI fail to exceed the **500** level. That 500 level is very significant historically.





## SPX- v/s A-D Line

Using the \$NYHL we can see A-D Line defined by volume and New highs v/s New lows. Market is higher and A-D line is diverging. We will need the market to broaden out to keep the uptrend intact



## SPX- v/s Presidential Cycle.

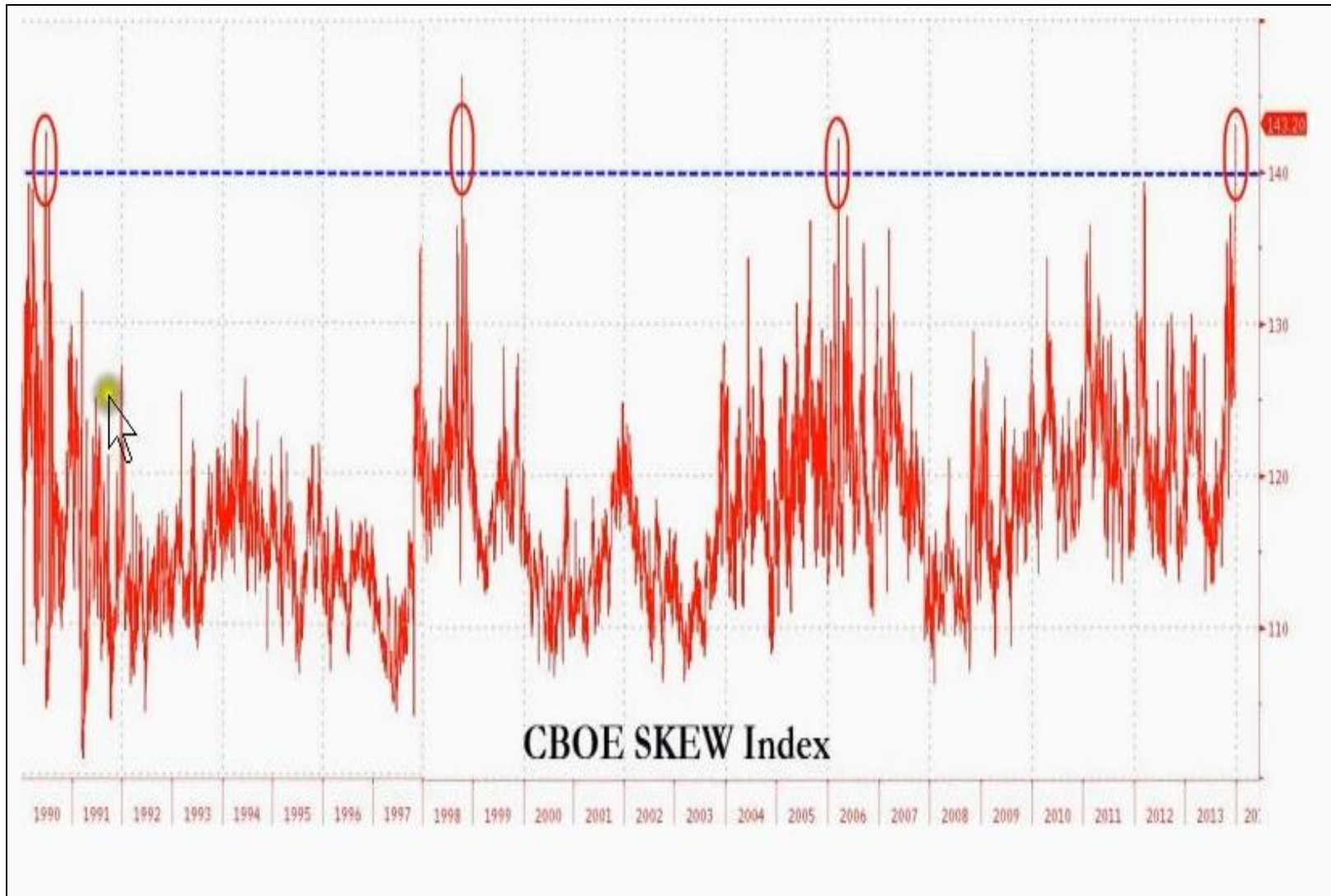
**THE HISTORY OF THE FOUR-YEAR CYCLE – The 2<sup>nd</sup> year Presidential term is usually the worst**

. We have chart below since 1990 on history overlays four-year cycle lows on the SPX. Most of those correction took place in that year and followed by strong market within that year .



## SPX- v/s CBOE .

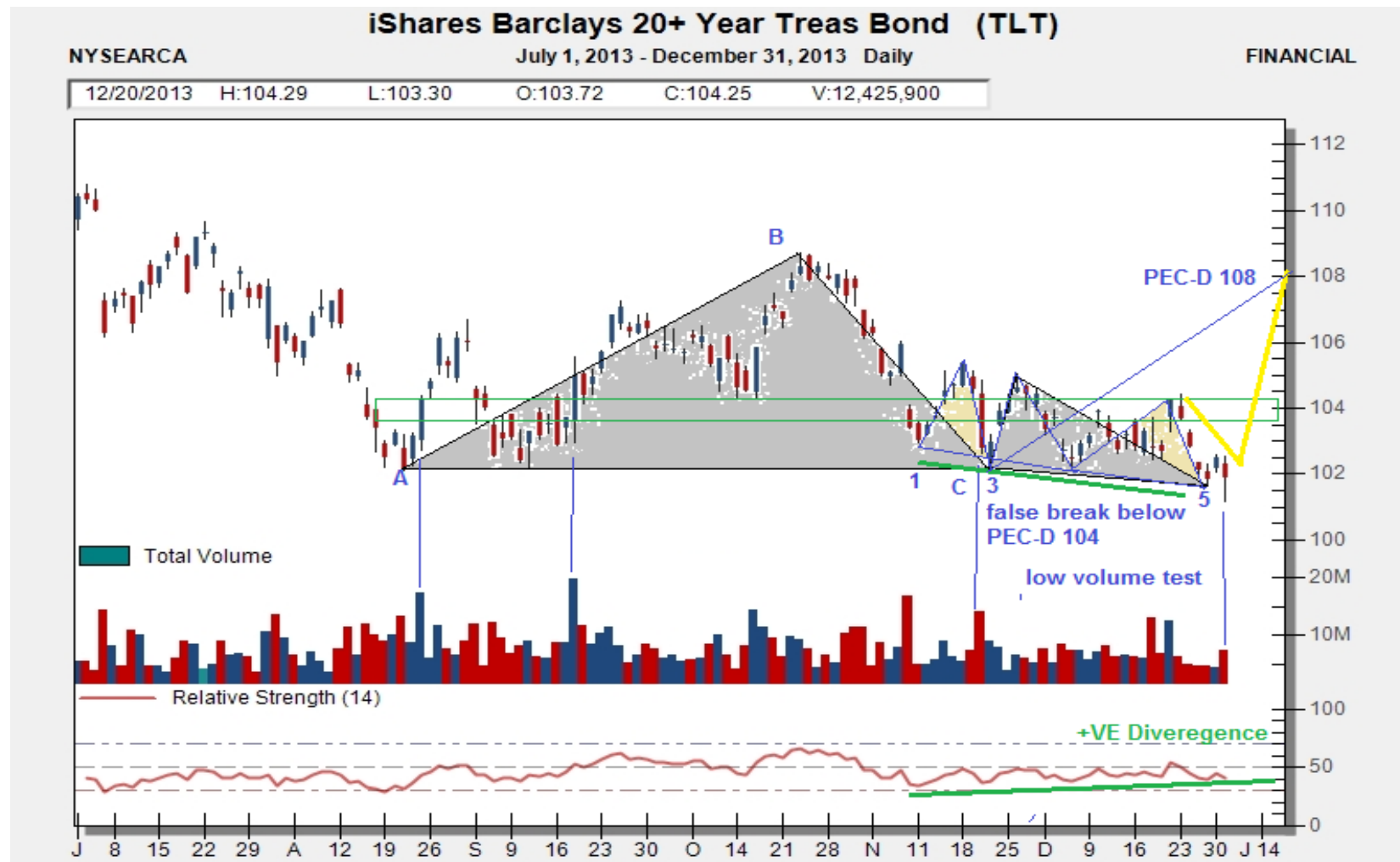
Curtsey Market watch.



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

**Downside –** Pull back Retesting below PEC-D 104 on false break below several times  
. We would like to see close above 105 on weekly . **Stop RM -102.2 – Override it**

**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 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 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)



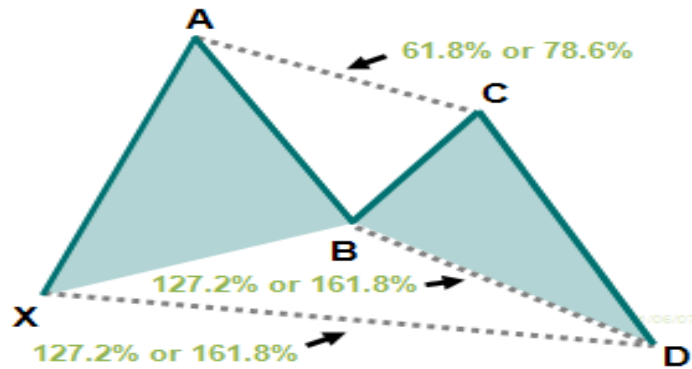
# Pythagoras Expansion / Contraction – (PEC) Model

- 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 streams to achieve confluence point D coinciding with POM

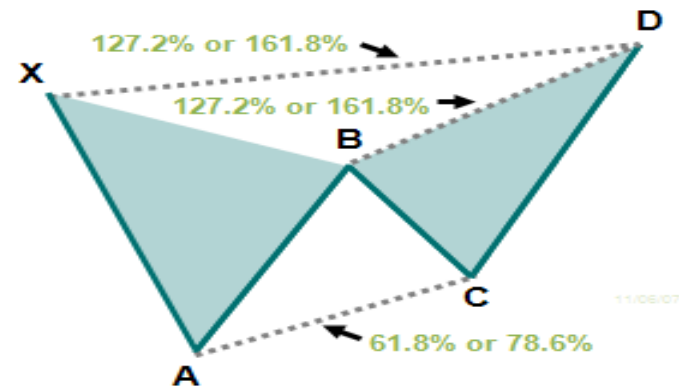
## PYTHAGORAS EXPANSION / CONTRACTION –(PEC) Model

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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