



Date : 6st January 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 Near Term	Upside CZ Mid term	Downside CZ Near term	Downside CZ Mid term	Remark
SPX- 500	1828	POM 15 Marked to Market on 1/01 start @ 1848	@ 1671 announced to Reduce Net Short On 10/3 intact	BEARISH <i>Momentum bounce is in progress</i>	(-6%) Net Short Via IWM,QQQ Instrument	NONE	Double top to 1850 <i>Should fail</i>	Momentum Thrust Target to 1855 <i>Should fail</i>	Pull back to PEC-D 1810 Within CZ 1820-1810 <i>Should hold For another rally up</i>	1 st ABC down to 1775 2 nd ABC down to 1735, at later date	<i>False break abv</i> 1780 with 3 drives to top. <i>Close Under</i> 1770 weekly with high volume would Trigger Mid term Sell
TLT (BONDS)	102.2	POM 13 – Re Run Marked to Market on 1/01 start @102	NONE	BULLISH	10% Net Long	NONE	Target – PEC-D 108-	1 st ABC PEC-D 112 Bullish Top	PEC-D 104 retesting on low volume Bullishly	False below Extended to 102	<i>Best Risk / Reward to go long</i>

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GOLD	1240	POM 13 Re – Run Marked to Market on 1/01 start @1205	@ 1220 Re entry ½ On 12/4 & @ 1280 Re entry ½ On 10/6	BULLISH	12% Net Long	NONE	PEC-D 1265 – 1 st ABC up	Target CZ 1350- 1335 Bullish Top In tact	PEC-D 1220 Rejected lows On lighter volume Bullish Bottom	Weekly 5 year CZ 1190-1220 Is solid floor Bullish floor	Best Risk / Reward to go long below 1220 as announced

Notes

1. To Add Net Short exposure in **SPX & related Instrument** , 1st peak is in at 1850, let the Market finish counter Trend double top rally on Bearish Momentum after this pull back to exhaust itself out for secondary failure. (Refer commentary)

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 Wednesday’s Prec. Metal Commodity Report

Portfolio – Overview & Update

NET LONG exposure – Marked to Market @ 1204 – 1st 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 – 1st 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 1/02 & prior Report 12/16 we had pointed out that Market would turn down between 2nd - 5th Jan. The top was evident in first week of January for the 1st peak suggested by volume failures, TRIN, TICK & VIX readings for Bearish Top . It has certainly proved its merit . SPX put in a top at **1850 and declined to 1825.**

This week - The downside of last week's decline, there wasn't much force. It suggests that the mania isn't dead yet depending upon how the current downturn resolves. SPY money flow remained positive during last week's 25 points decline. .

Therefore, we think our first pull back target of **CZ 1820-1810** should hold followed by 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.

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

It is the riskiest time to play the long side, but that won't prevent the market from moving rapidly higher as the final thrust exhausts itself. The risk on the downside should be extremely high for long side after the 13th January . Our pull back to **CZ 1810-1820 and 1st leg down to PEC-D 1775.** Thereafter we can evaluate if one needs to consider Bullish position.

Last week's decline volume picked up on downside on NASDAQ . This should be lead dog on counter trend bounce on failure. NASD & Russell have met all long term weekly targets in Mid term time frame. Both are good candidates to add Net Short once SPX fails.

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 \$NYHL, A-D Line defined by volume and New highs v/s New lows diverging, the signs that breadth has weakened. The McClellan Ratio-Adjusted Summation Index (RASI) is setting up lower lows from 500 bench mark level of earlier Bullish uptrend.

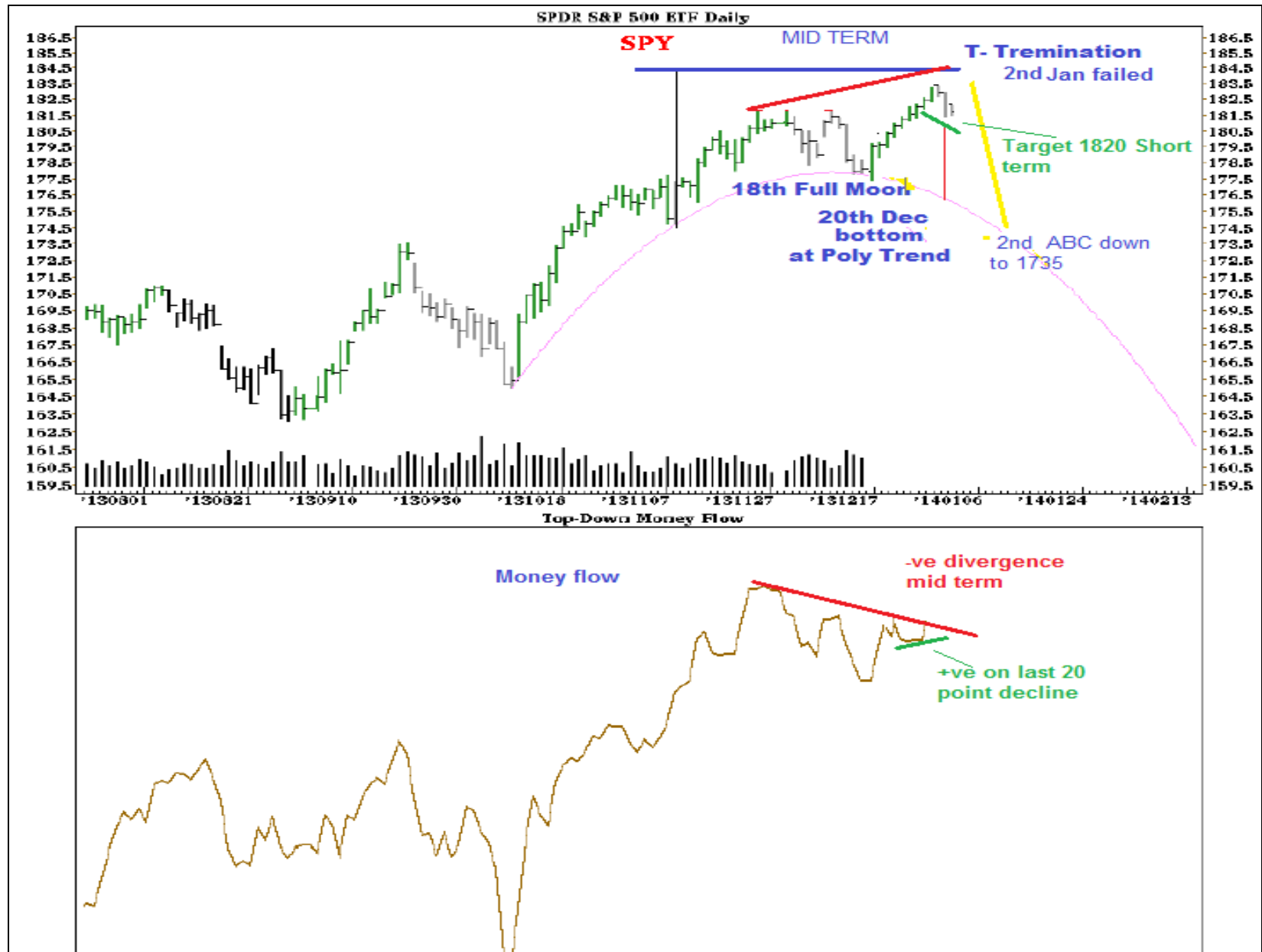
SPX— We shall add Net – Short exposure **ONLY** when the SPX fails on secondary peak rally, this is a trigger to Re instate the exposure that were exited on 10/3 at 1670. SPX is Marked to Market at 1845 in POM 15 regime.

To Add to Net Short exposure in IWM, QQQ, Market should complete the exhaustion mode on **secondary failure with** Bearish Momentum top OR Let the volume pick up on downside with “**close under price**” as Trigger . One can short counter Trend rally of 1st peak.

Our best estimate of the course of the stock market path over 2014 is as follows:

- SPX peaks by mid-January and start of “correction” and the first leg down. Stocks then find a “bottom” and a rebound rally commences which should be a Bull trap.
- Bond prices should find bottom as investors rush back into bonds from equities especially once selling pressure in the stock market intensifies . That should come later in 2014. The Money flow is showing +ve divergence with accumulation.
- GOLD has put in bottom in CZ 1190-1220 and the rally should continue with minor pull backs.

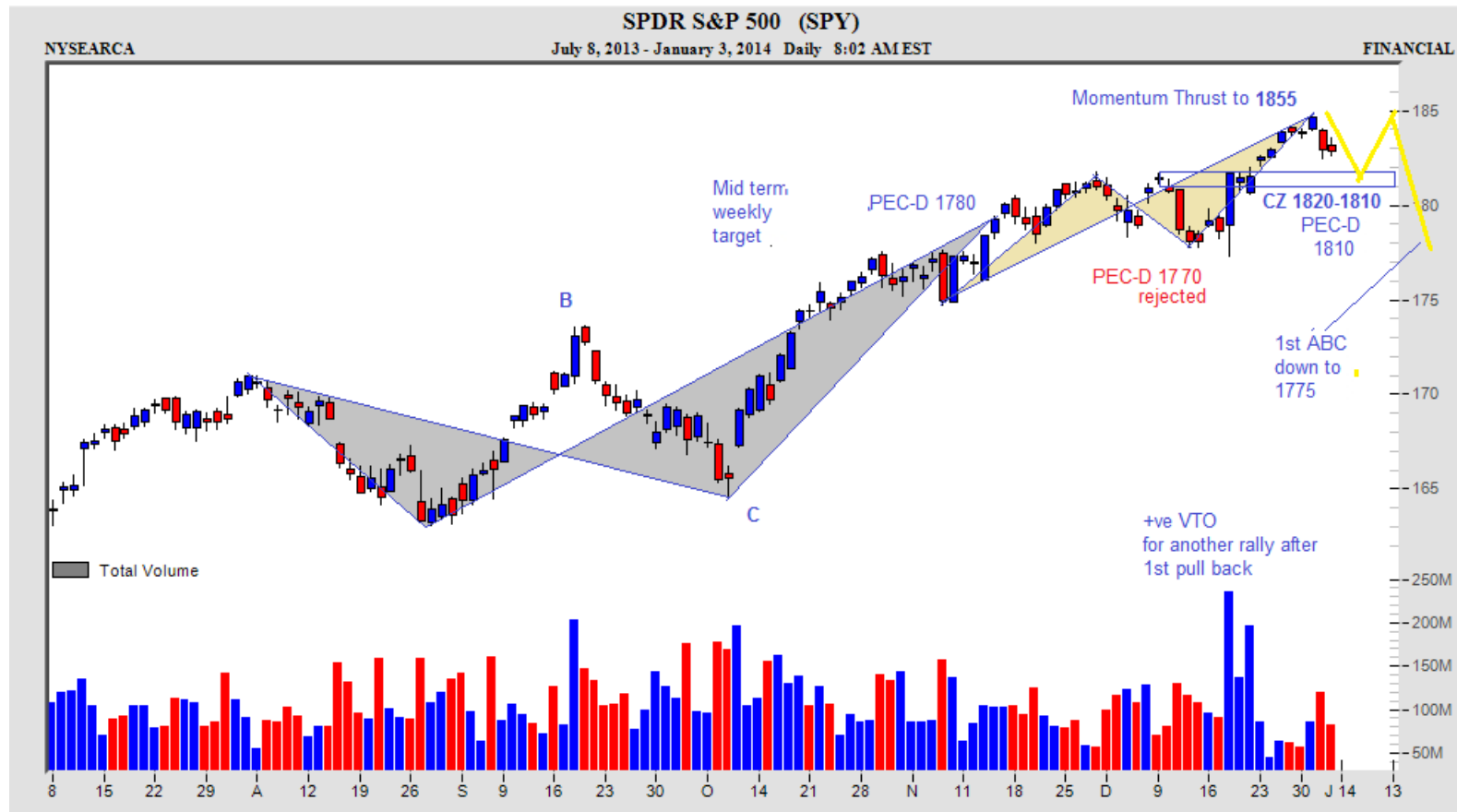
SPX- Poly trend - Daily chart – Mid term



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

Downside — Shallow Pull back to PEC-D 1810 within CZ 1820-1810 should reject and rally once again to 1850. To begin decline to 1st ABC down PEC-D 1775 within CZ 1770-1780.

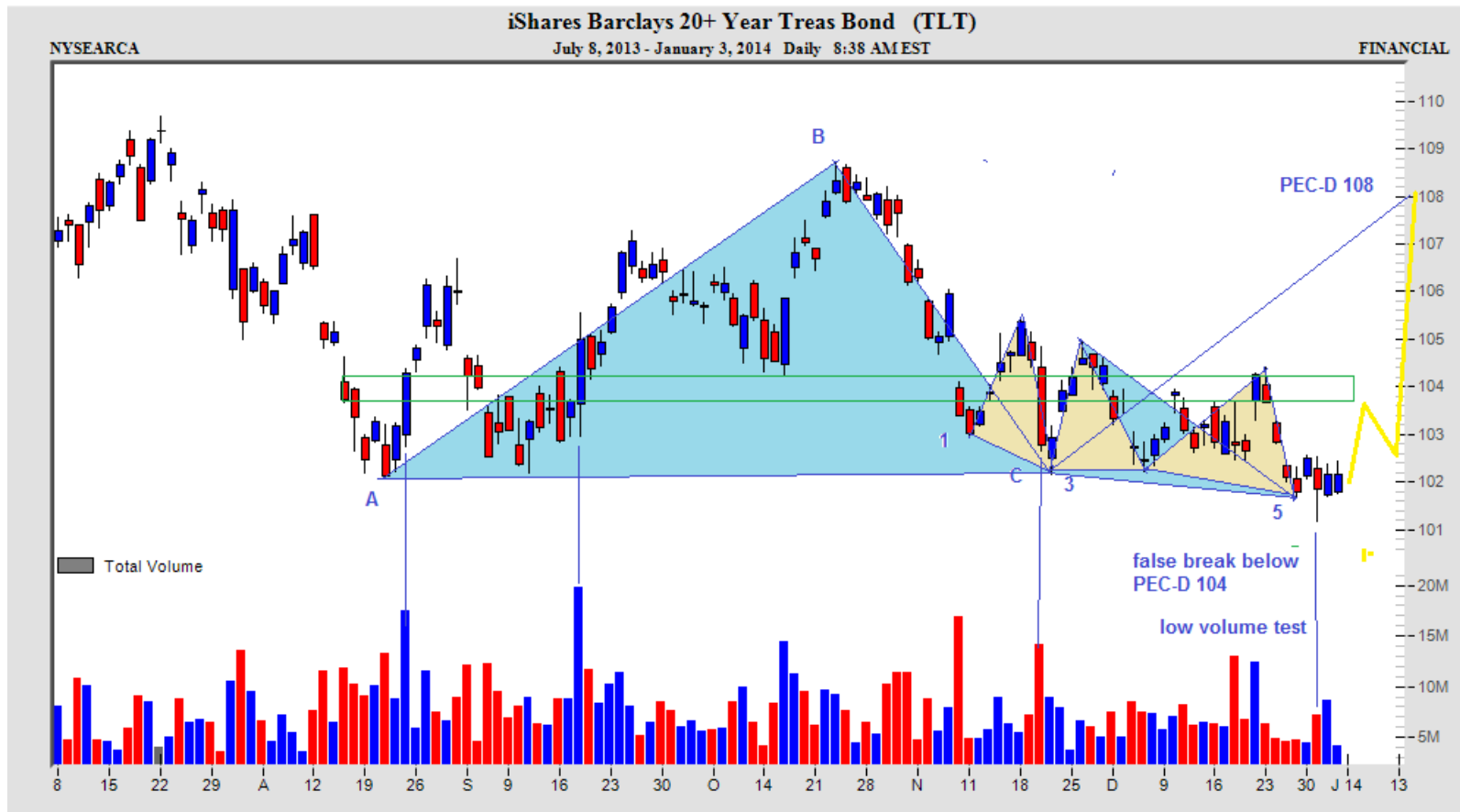
UPSIDE - The Momentum Thrust Indicators extend SPX to 1855.



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 .

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 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 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)

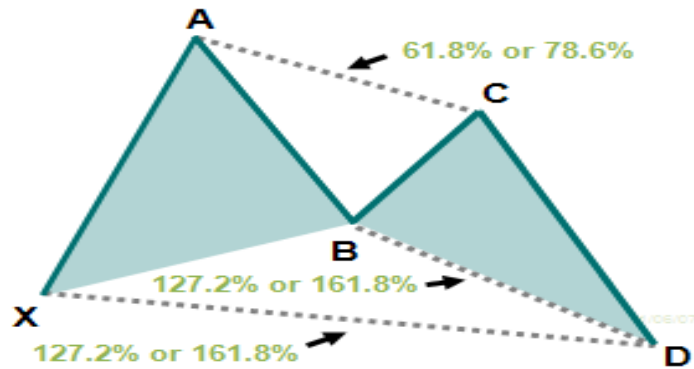
Pythagoras Expansion / Contraction – (PEC) Model

- 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 streams to achieve confluence point D coinciding with POM

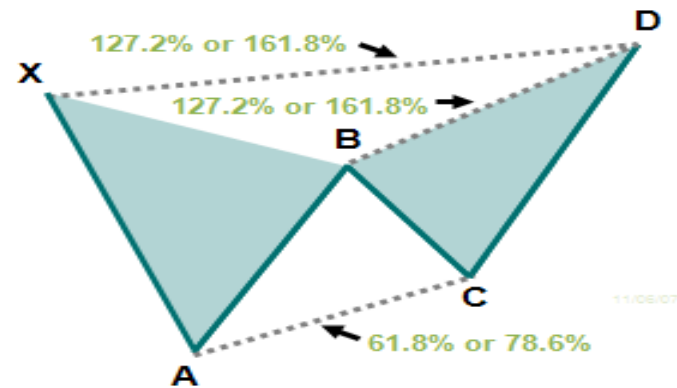
PYTHAGORAS EXPANSION / CONTRACTION –(PEC) Model

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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