



Date : 13th 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 Announcement - 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	1842	POM 15 Marked to Market on 1/01 start @ 1848	@ 1842 , announce to add Net Short bias to re instate position exited On 10/3 at 1670	BEARISH	Net Short Bias Via IWM,QQQ Instrument	NONE Stop loss At 1860 On 1842 exposure	Double top to 1850 Should fail Once again	Momentum Thrust Target to 1855 Failed	Pull back to CZ 1820-1810 – Met & rallied	1 ST ABC down to 1775 2 ND ABC down to 1735, at later date	False break abv 1780 with <u>3</u> drives to top. Close Under 1770 weekly with high volume would Trigger Mid term Sell
TLT (BONDS)	104.4	POM 13 – Re Run Marked to Market on 1/01 start @102	NONE	BULLISH	Net Long	NONE	Target – PEC-D 108-	1 ST ABC PEC-D 112 Bullish Top	PEC-D 104 retesting & rejecting on low volume Bullishly	False below Extended to 102	Best Risk / Reward to go long

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GOLD	1245	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	Net Long	NONE	PEC-D 1265 – 1 st ABC up	Target CZ 1335- 1325 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	<i>Best Risk / Reward to go long below 1220 as announced</i>

Notes

1. Detail Charts on TLT in Wednesday's Broader Indices Report
2. Link below from Bloomberg . 2013 – Average performance of Hedge Funds 7.5%. underperforming SPX 27% gains

<http://www.bloomberg.com/news/2014-01-07/hedge-funds-rise-7-4-in-year-to-trail-s-p-500.html>

Portfolio – Overview & Update

SPX- NET SHORT exposure - Overall Portfolio is at “ Short Bias **Marked to Market @ 1848 – 1st Jan 2014 .** –
in Bearish Instruments QQQ, IWM equally Since , 7/24 . **POM 15 exposure**

GOLD- 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 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.

BONDS - NET LONG exposure – **Marked to Market @ 102 – 1st Jan 2014 .**

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 1/06, we had pointed out that Market would hold its first decline from 1855 to 1820 at around 1820 due to lack of downside volume then rally back towards 1850 once again going into 13th January Time ratio for secondary peak. This price path has been tracked pretty closely as per our MS Report. SPX put in a lows at 1820 and rallied back to 1845 towards the 1st peak .

This week - The upside of last week's rally , there wasn't much force. It suggests that rally should taper soon with failure at double top 1850 for final Thrust to exhaust. Tops are trendless affairs and our approach was to wait patiently since 1670 (10/3) to avoid short squeeze till 1842. It's only a matter of time before we have both trend and volatility working together. Option expiration has +ve bias till mid this week.

Full Moon is this week on 16th January, may possibly coincide with turn . Therefore, we think the secondary failure should result in another decline to CZ 1820-1810. Based on VTO numbers we may get another bounce for " Rolling top " and then the volume pick up on downside resulting in correction into January 2nd half for decline into next 2 months. Our 1st leg down to PEC-D 1775 once we break CZ 1820-1810 . Thereafter we can evaluate if one needs to consider Bullish position at PEC-D 1775. We should have plenty of time to go long to get the Best Risk / Reward

Last week's rise, the volume dried up on upside on NASDAQ v/s pick up in volume downside in week prior. But NASD has time termination peak around 18th January . 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.

Overall on Mid term basis , the 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.

Our best estimate of the course of 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” end of January and a rebound rally commences which should be a Bull trap.
- Bond prices should find bottom as bonds rally especially once selling pressure in the stock market intensifies . The Money flow is showing +ve divergence with accumulation.
- Open Interest in GOLD has shrunk . GOLD & SPX has been moving in inverse correlation since April 2013 (Refer chart below) . GOLD has put in bottom in CZ 1190-1220 and the rally should continue with minor pull backs. We should see a solid bottom very soon on 5 year weekly chart with accumulation .

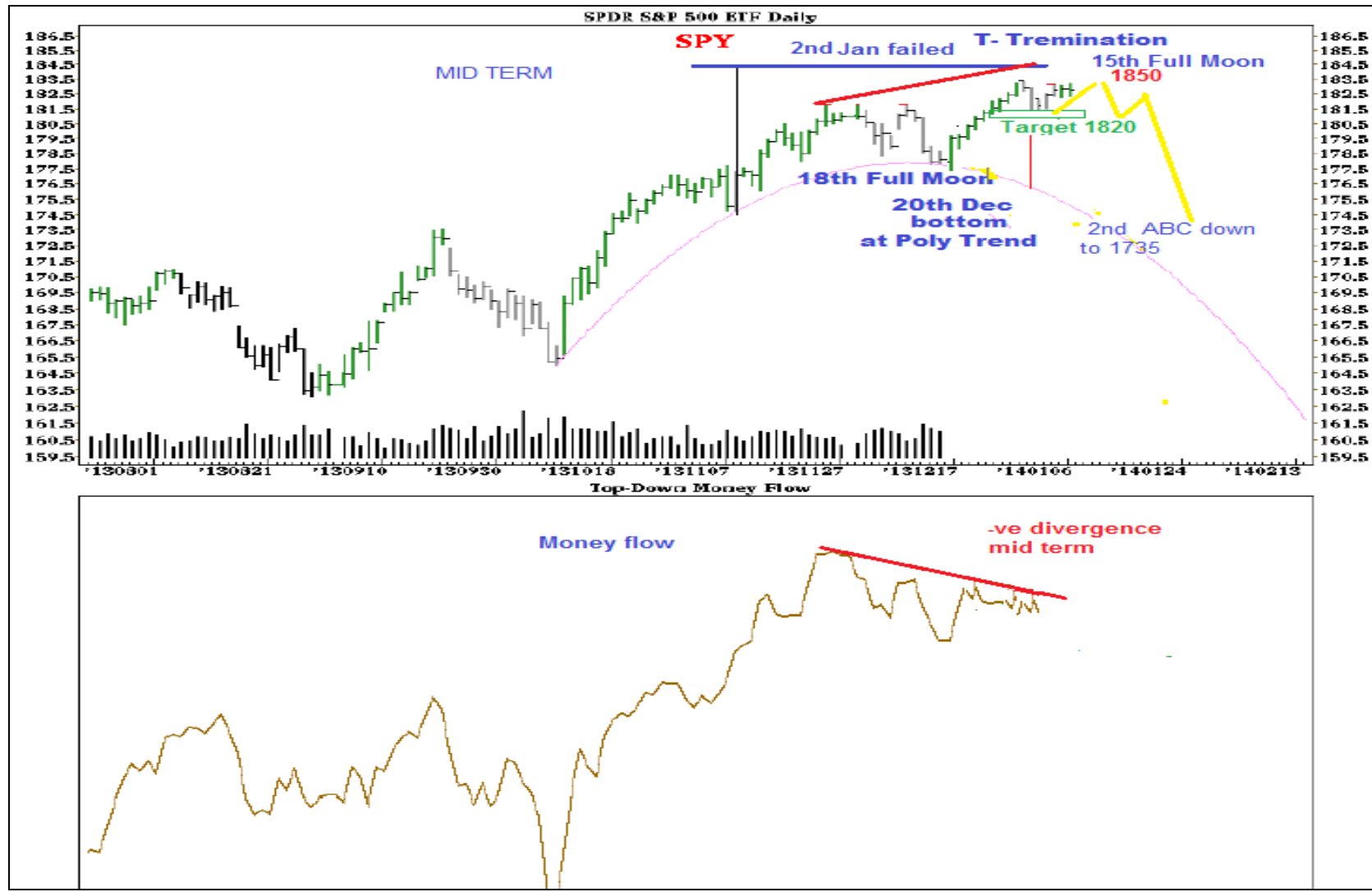
The 2nd year Presidential term- Curtsey 3rd Party - In follow up with our 1/02 – MS Report. -

Here is a table , derived from a study of the Four-Year Presidential Cycle going back to 1941 by Marshall Nickles of Pepperdine University.

Presidential Term	Market Bottom	Decline from Previous peak	Year within 4- Year Cycle
1941-44	April. 1942	-30.4%	2nd year
1945-48	Oct 1946	-22.1%	2nd year
1949-52	June, 1949	-16.2%	1st year
1953-56	Sept., 1953	-11.8%	1st year
1957-60	Oct., 1957	-19.0%	1st year
1961-64	June, 1962	-27.0%	2nd year
1965-68	Oct., 1966	-24.9%	2nd year
1969-72	May, 1970	-35.9%	2nd year
1973-76	Oct., 1974	-42.5%	2nd year
1977-80	March, 1978	-25.3%	2nd year
1981-84	August, 1982	-23.6%	2nd year
1985-88	Dec., 1987	-35.8%	3rd year
1989-92	Oct., 1990	-20.0%	2nd year
1993-96	Apr., 1994	-10.4%	2nd year
1997-2000	Aug., 1998	-18.9%	2nd year
2001-04	Oct., 2002	-33.4%	2nd year
2005-08	Nov., 2008	-46.7%	4th year
2009-12	Mar., 2009	-32.0%	1st year

SPX- Poly trend - Daily chart – Mid term

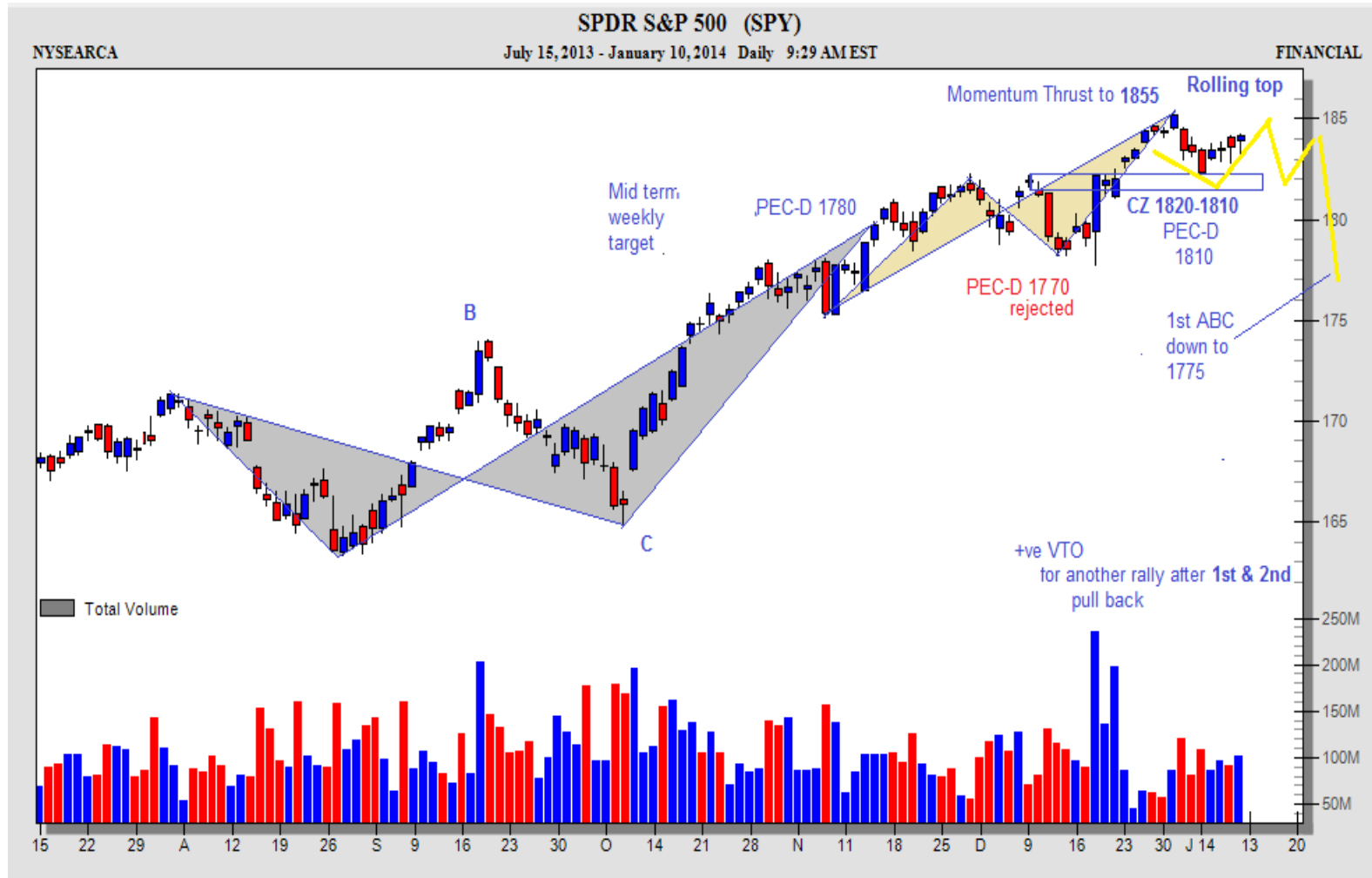
Rolling Top – Full Moon on 15th January, 1820 should hold for another pull back based on VTO



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

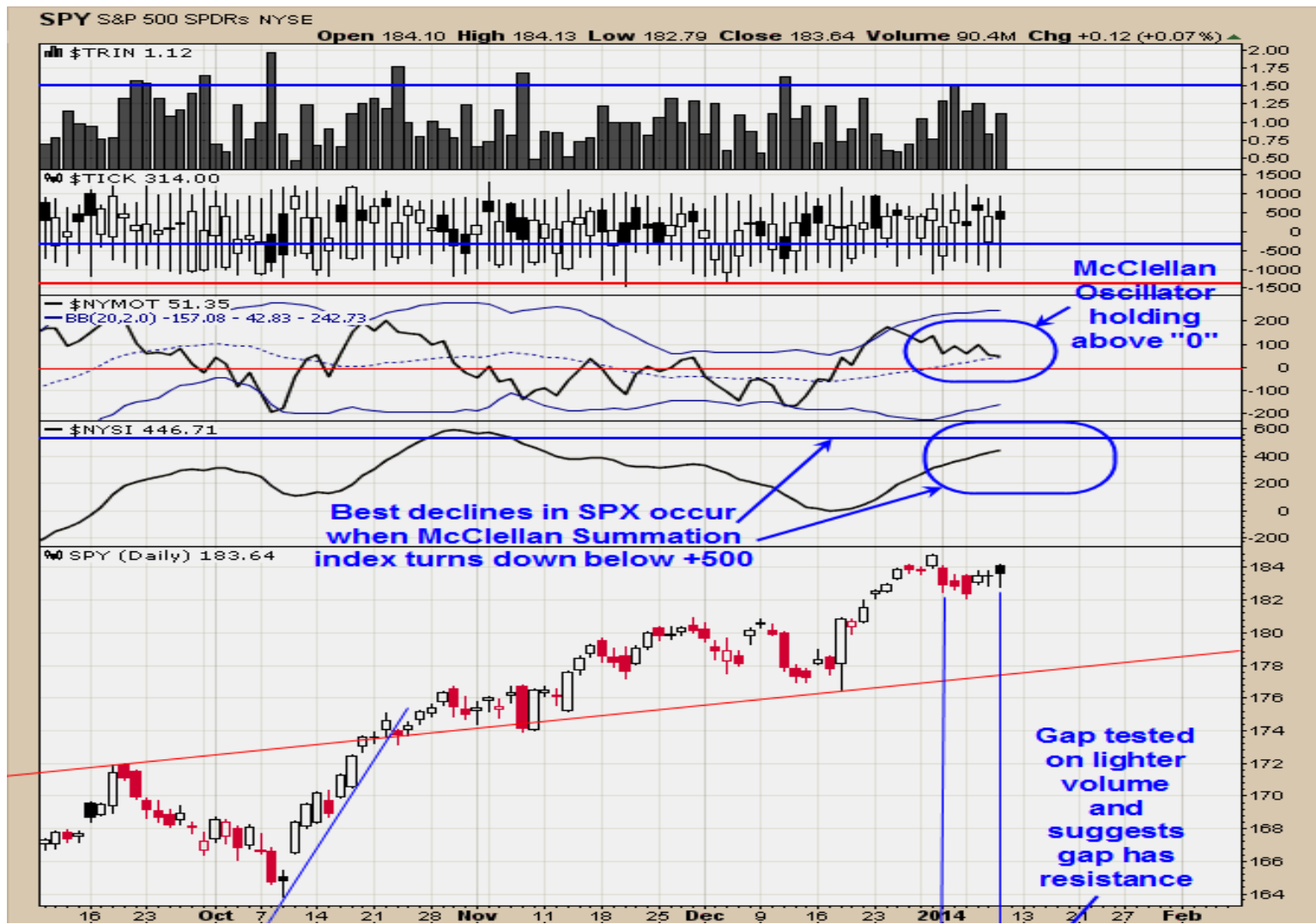
Upside – Double Top into the Gap **SPX to 1855 should fail.**

Downside – One more pull back to Pull back **within CZ 1820-1810 to PEC-D 1810** & rally once for lower lows to begin decline to **1st ABC down PEC-D 1775 within CZ 1770-1780.**



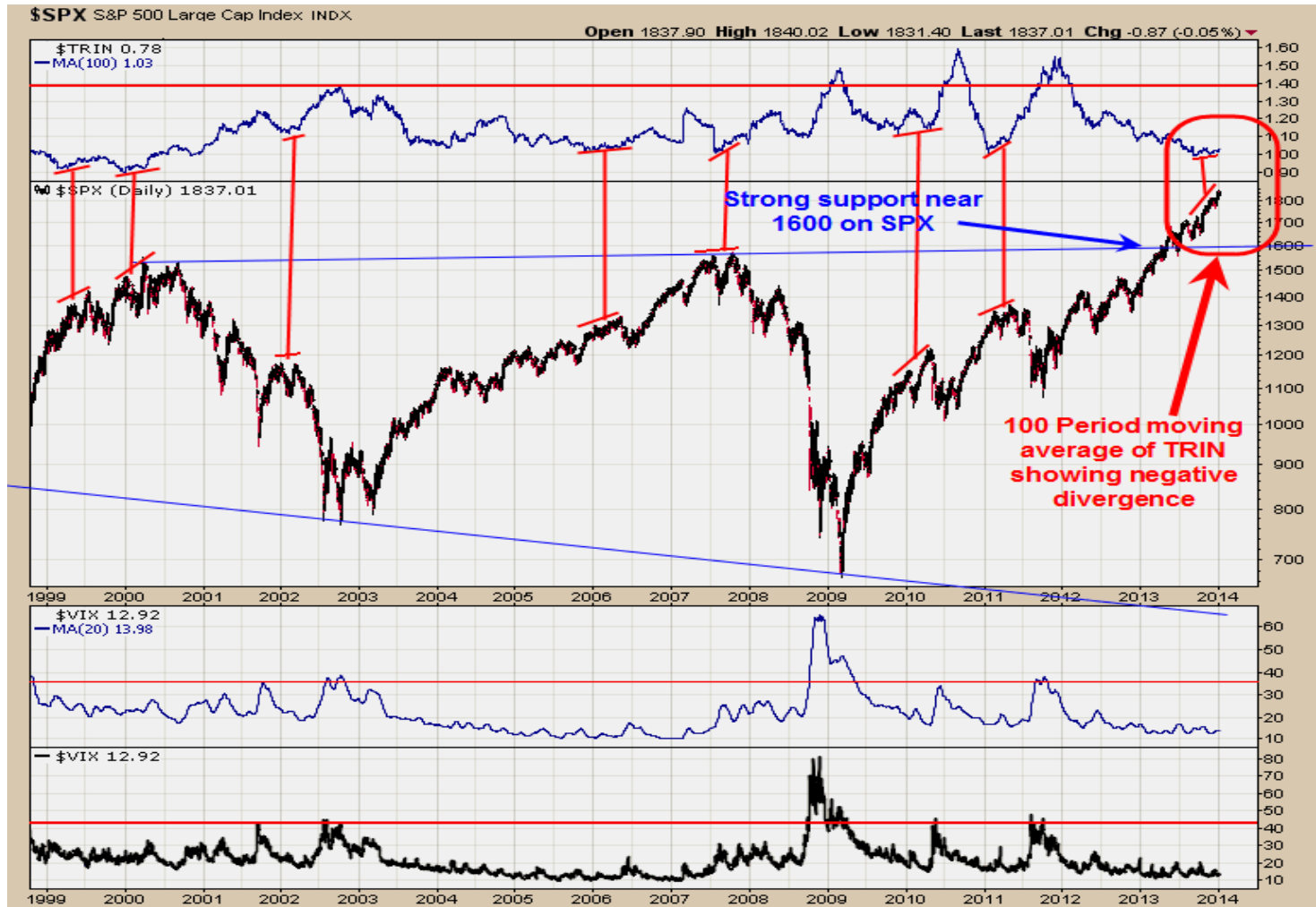
SPX- Mc – Oscillator - Daily chart – Mid term

The McClellan Oscillator falls below the "0" line which in turn will turn down the McClellan Summation index which is still below the +500 range. Best declines in the market come when the McClellan Summation index turns down below +500 and currently the McClellan Summation index stands at +445.



SPX- Poly trend - Long Term

Intermediate term indicators which is the 100 MA of the TRIN have formed higher lows as the SPX made higher highs. Last couple of months SPX has made higher highs and the 100 period MA of the TRIN has made higher lows and a warning that the SPX could be developing a top in this region.



GOLD v/s SPX- Long Term

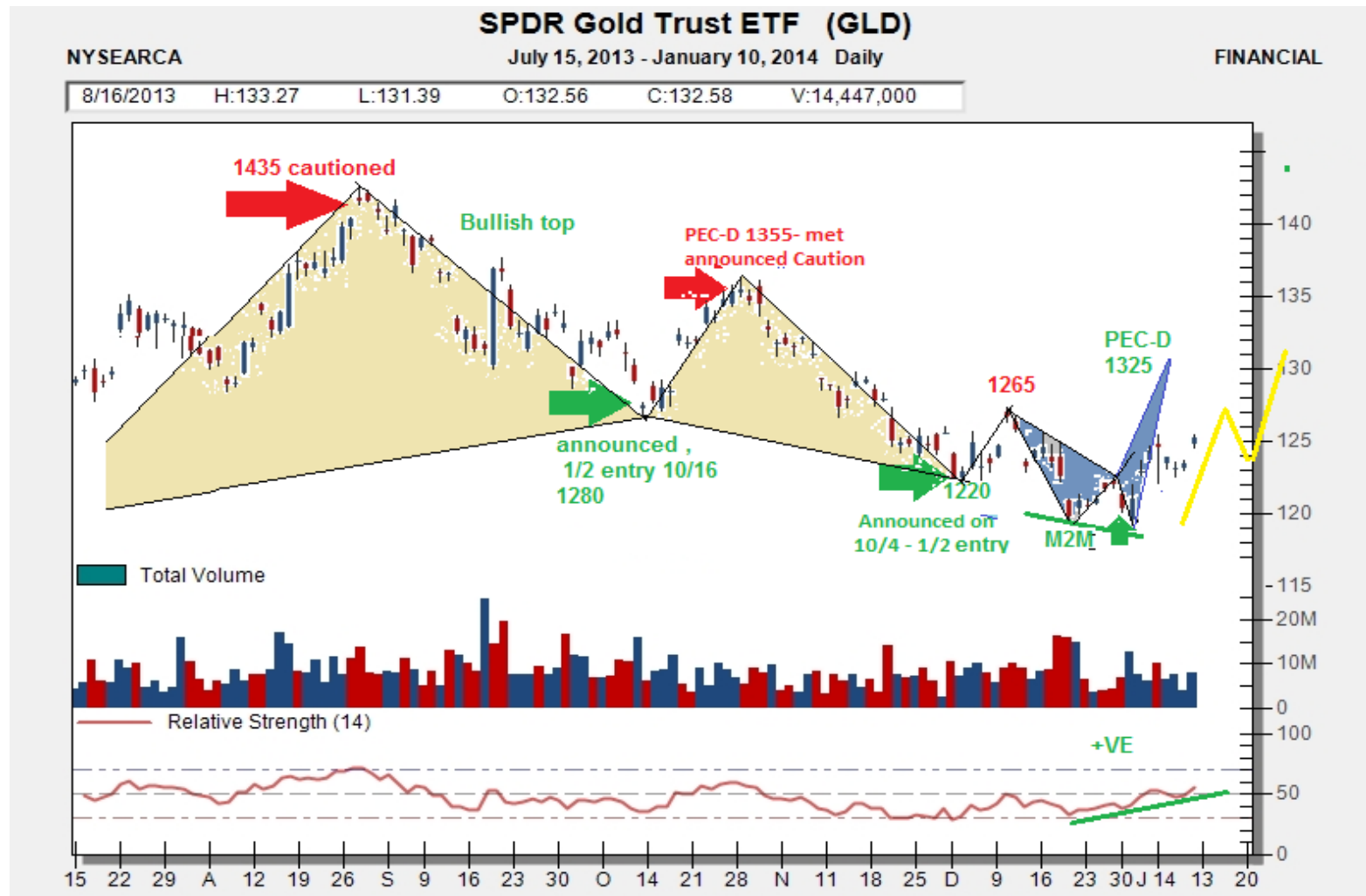
GOLD & SPX has been moving in inverse correlation since April 2013



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

Upside - First to 1265- but Projected to Cap 1335-1325 .

Downside - 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.



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)

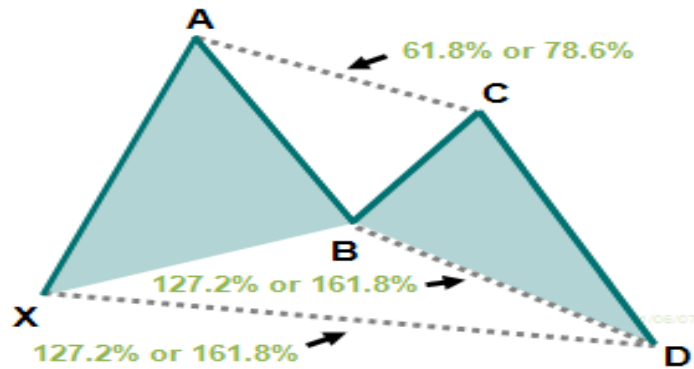
Pythagoras Expansion / Contraction – (PEC) Model

- 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

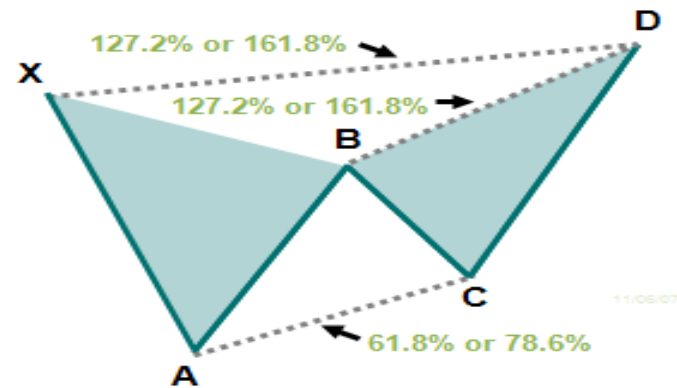
PYTHAGORAS EXPANSION / CONTRACTION –(PEC) Model

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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