



Date : 21ST January 2014 (Tuesday)

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	1838	POM 15 Marked to Market on 1/01 start @ 1848	@ 1842 , on 1/9, announced to add Net Short to re instate position exited On 10/3 at 1670	BEARISH	Net Short For Bearish bias Portfolios Via IWM,QQQ Instrument	NONE <u>Stop loss</u> At 1860 On 1842 exposure	Double top to 1850 Another test of highs due to hourly volume Should fail Once again	Momentum Thrust Target to 1855 Failed	Pull back to CZ 1820-1810 – Met & rallied once again	1 ST ABC down to 1775 2 ND ABC down to 1735, at later date	False break abv 1780 with _3 drives to top. Close Under 1770 weekly with high volume would Trigger Mid term Sell
TLT (BONDS)	105.48	POM 13 – Re Run Marked to Market On 1/01 start @102	NONE	BULLISH	Net Long	NONE	Target – PEC-D 108- Weekly close above 105 is positive	1 ST ABC PEC-D 112 Bullish Top	PEC-D 104 retested rejecting on low volume Bullishly	False below Extended to 102	Best Risk / Reward to go long

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GOLD	1252	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	Target PEC-D 1265 – 1 st ABC up <i>Target Fell short by 10 points GOLD Hit highs of 1255</i>	2 nd ABC up CZ 1335- 1325 Bullish Top In tact	PEC-D 1220 Rejected lows On lighter volume Bullish Bottom	<u>Weekly</u> <u>5 year</u> CZ <u>1190-1220</u> Is solid floor Bullish floor	<i>Best Risk / Reward to go long below 1220 as announced</i>

Notes

1. Detail Charts on GOLD in Thursday's Currency Report .
2. Since last week's Report SPX , GOLD & BONDS have been following our price path closely. SPX has been going back & forth more frequently between its CZ below its top 1850 . GOLD & BONDS have begun its rally from its bottom as expected .

Portfolio – Overview & Update

SPX- NET SHORT exposure - For “ Short Bias Portfolios - Marked to Market @ 1848 – 1st Jan 2014 .
in Bearish Instruments QQQ, IWM . POM 15 exposure

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 .

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, 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 -

In our last MS Report 1/13, we had pointed out that Market would put in secondary T - peak by 13th January **below 1850** with lack of force on upside and fail, to decline to 1820 with pick up in volume. This price path has been tracked pretty closely as per our MS Report. SPX put in a **high of 1845 on 13th Jan and declined to 1820** lows coincided with 16th January Full Moon . BUT it did not crack down below 1820 and rallied back once gain to **1838 Friday's close**.

This week - Since the upside rally , there wasn't much force once again , It suggests that rally should fail once again at double top **1850 for final Thrust to exhaust**. This gyration should continue till 1820 is decisively broken, It's only a matter of time. This is the week after option expiration with -ve bias. (On hourly basis there is some volume to be diffused at 1850 with possible another test)

Based on VTO numbers, Markets are on " Rolling top " and the volume pick up on downside resulting in correction 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 or NOT**. We should have plenty of time to go long to get the Best Risk / Reward but certainly 1845 is not the appropriate price.

Last week's price and volume action on NASD & RUSSEL indicated its rolling top in these Indices as well and not ABC ups . There was also pick up in downside volume v/s upside. NASD & Russell have met all long term weekly targets in Mid term time frame. Both are good candidates to add Net Short as per our Triggers stated in Broader Indices Report. .

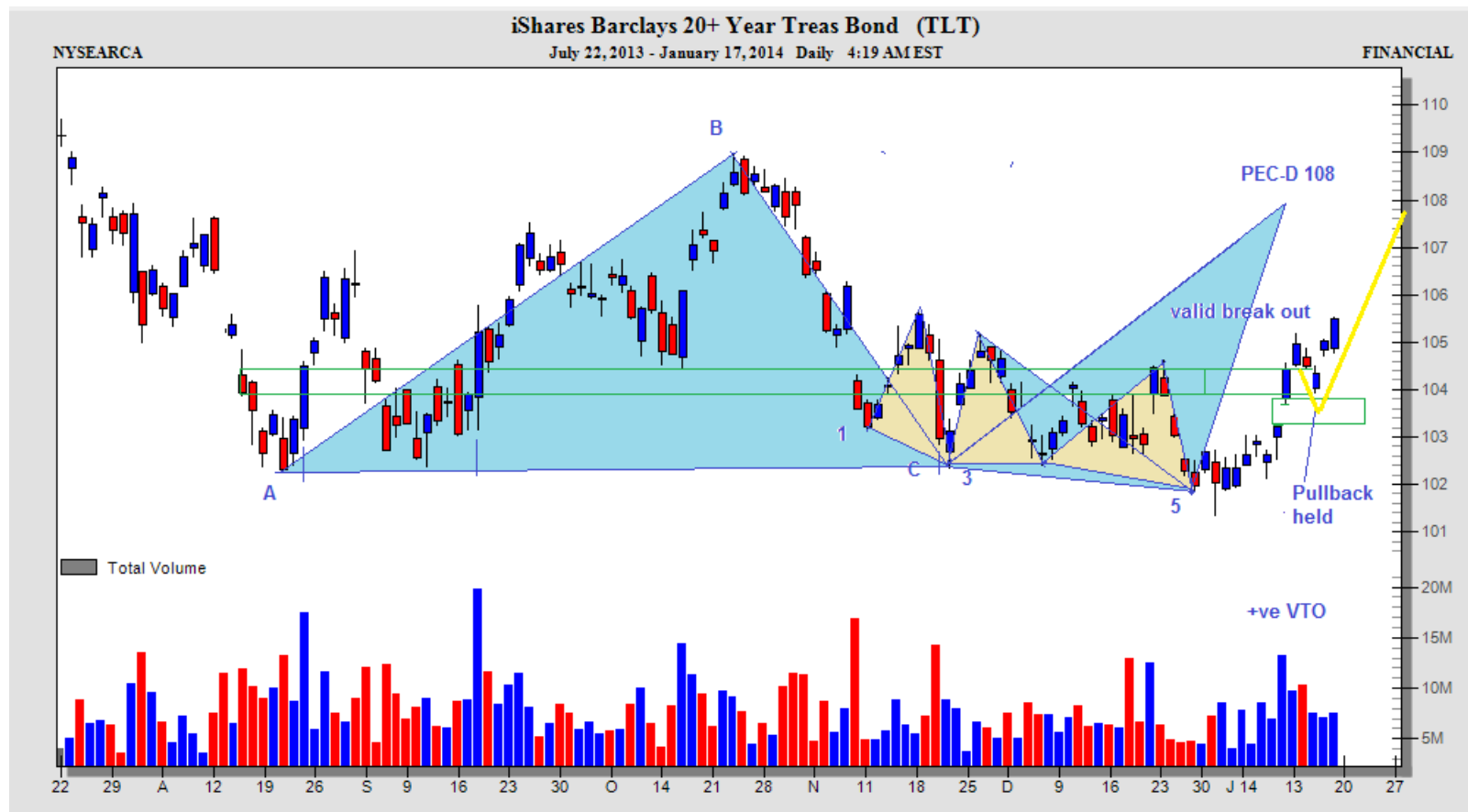
Overall on Mid term basis , the weekly and Monthly Pattern of WAVE 5 & 3 DRIVES-PEC-D's are completed. The ratio of new highs to new lows shows \$NYHL, A-D Line with volume and New highs v/s New lows diverging, the signs that breadth has weakened.

- SPX peaks by January and start of "correction" for the first leg down from top **1848** .
- Bond prices found the bottom at **TLT- 102** for rally . 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. We should see a solid bottom very soon on 5 year weekly chart with accumulation.

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

Upside - , Broke out from the cap CZ 104-105 with volume . Now TLT should set the leg to PEC-D 108 .
Close above 105 on weekly is positive for continuation move higher.

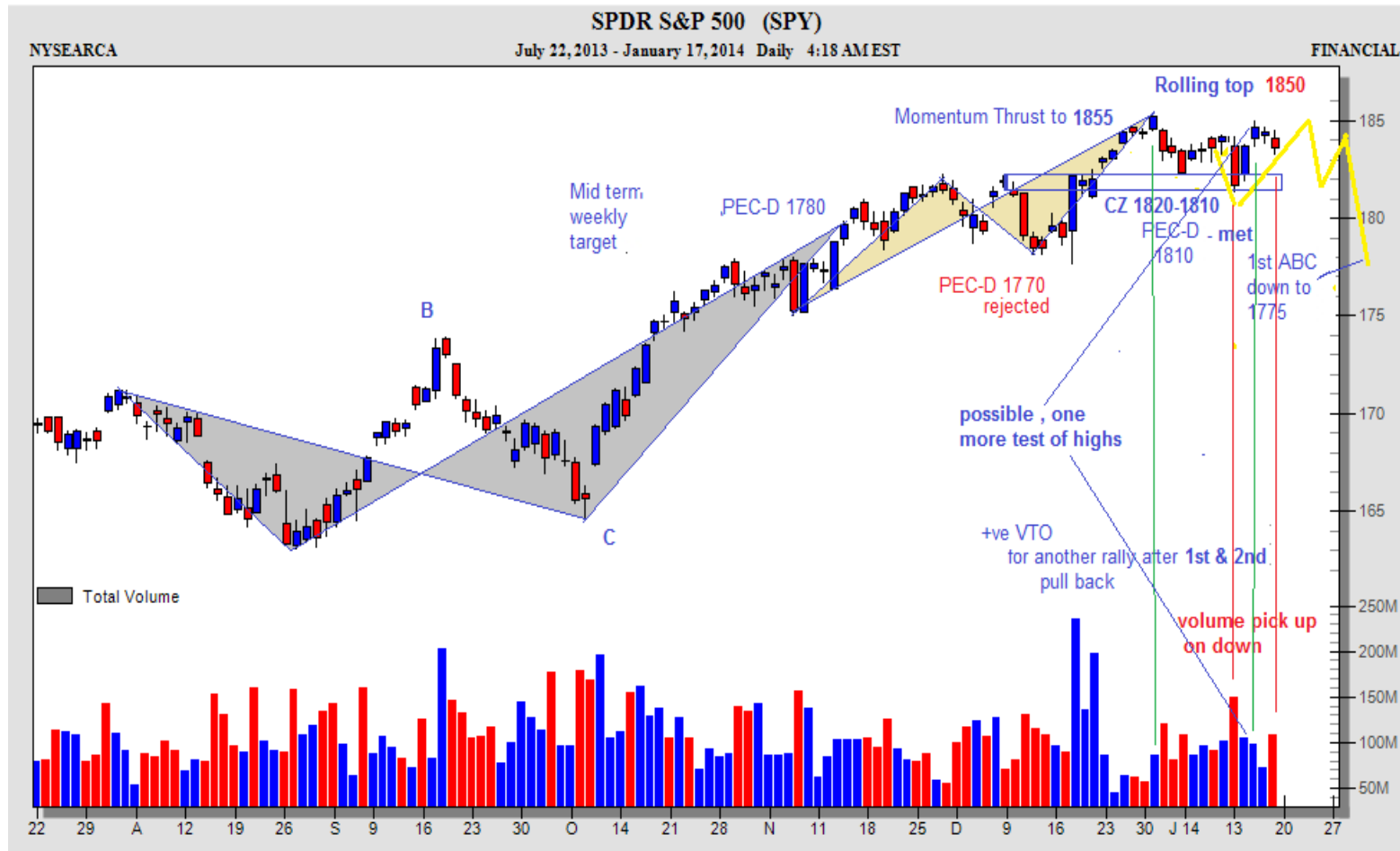
Downside – Pull backed into the break away gap at 103 – HELD with lighter volume and now headed higher.
PEC-D 104 has been tested successfully.



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

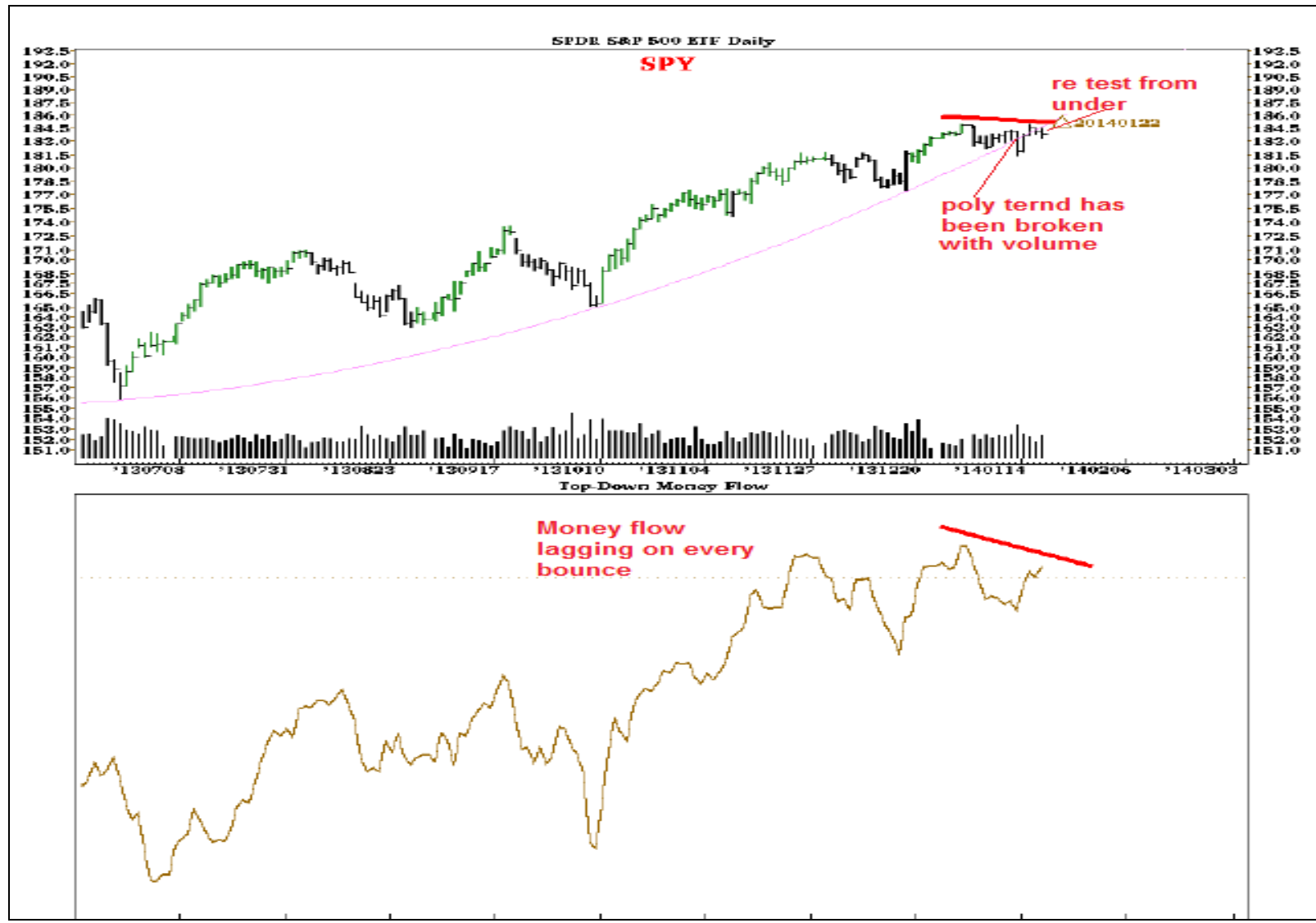
UPSIDE – Double Top into the Gap SPX to 1855 should fail. One more test of highs possible due to hrly volume diffusion (see chart below)

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



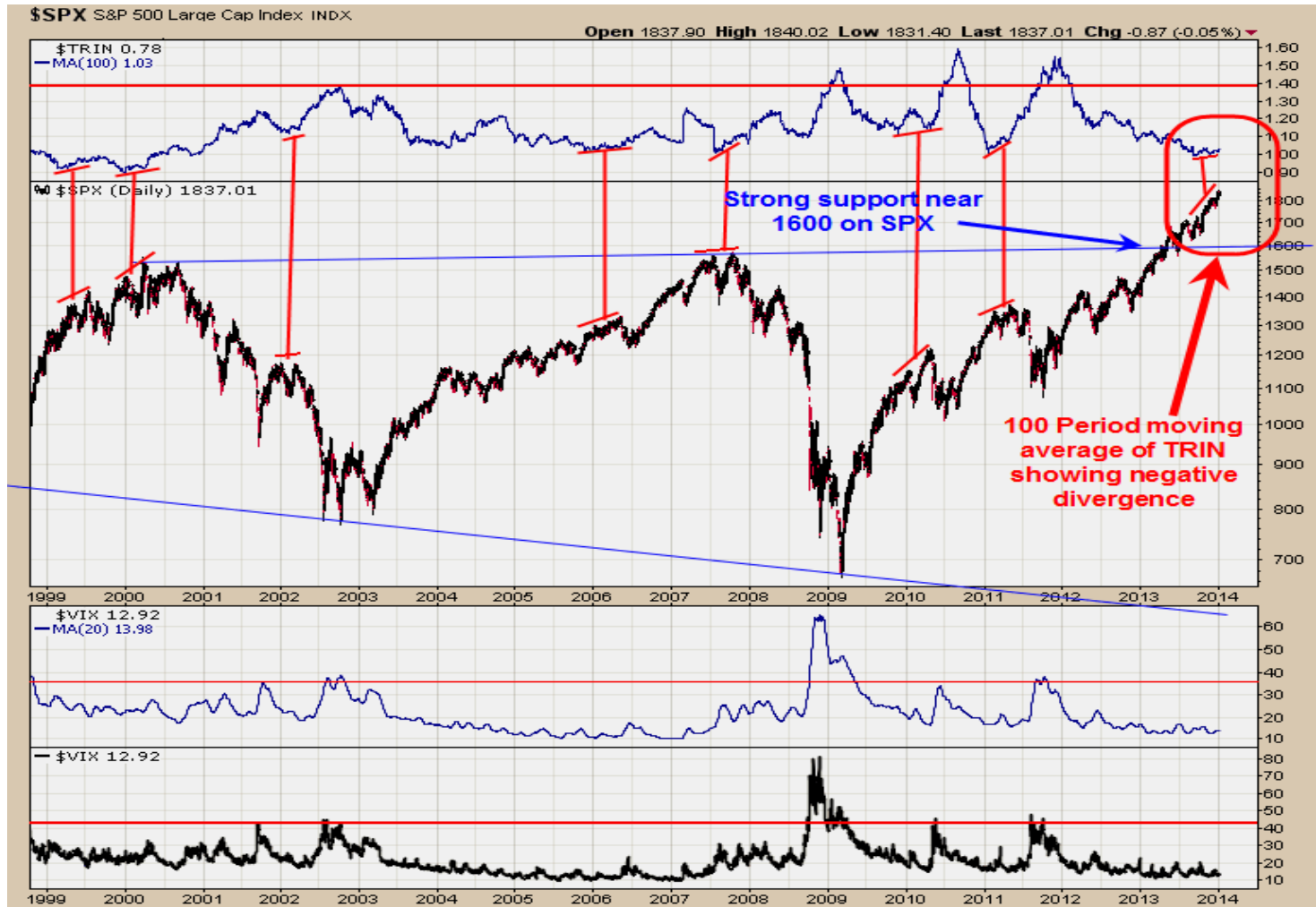
SPX- Poly trend - Daily chart – Mid term

Rolling Top – Money flow is lagging with poly trend line break.



SPX- Poly trend - TRIN - Long Term

Intermediate term indicators which is the 100 MA of the TRIN have formed higher lows as the SPX made higher highs. Since 1770, SPX has made higher highs and the 100 period MA of the TRIN has made higher lows and a warning that the SPX's price above 1770 is false as judged by TICK & TRIN.



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 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)

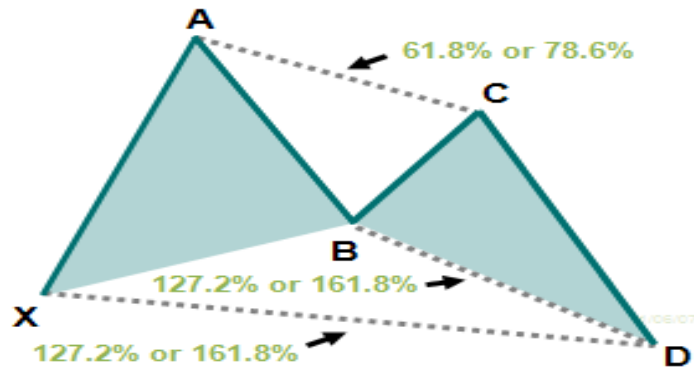
Pythagoras Expansion / Contraction – (PEC) Model

- 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

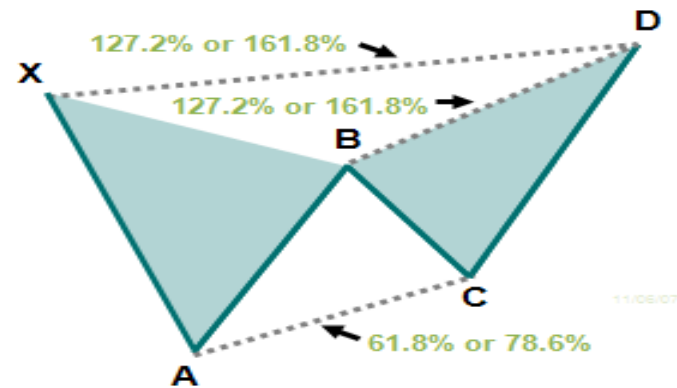
PYTHAGORAS EXPANSION / CONTRACTION –(PEC) Model

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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