Date: January 08, 2017 (Sunday)   **www.sgcr.us**   **SPX – BONDS – Institutional Report**

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Executive Summary.

	Current Price	POM Triggered within CZ & Date	Announcement- ST Trend reversal & Risk Management .	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	2275	POM 14 Triggered @2258 On January 1st 2017	None	NEUTRAL	0%	None	Double top target to retest CZ 2280-2300 Should fail.	PEC-D target to 2300 Fell short by 13 points (hit highs 2283)	Pull back to 2240-2230 & bounce should fail	Target ABC down to 2200-2180 *Best Risk/ Reward for new longs*	

- As announced in our yearend Report; on January 01, we exited our Net Longs @ 2258 **for 10.1 % profit**. "[Election night Trump Trade]" .
- This was strictly "Cash Management" move.
- We stay on sidelines for now.
- The best Risk Reward for new equity purchases (Net long) would come around CZ 2200-2180.

	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
TLT (BONDS)	121	POM 13 Triggered 11/20 CZ 121-118	Fully scaled in @ 119.2 Average price	BULLISH	Net Long 30%	Marked to Market @ 119. on Jan 1st	Rally to target 124	PEC-D to target Gap area 127	Possible pull back to 120 & rally up	ABC down to 118 Net exact Bullish Bottom	Stop loss at 117

- We scaled into TLT Net long POM 13 position ; avg price 119.2.
- Currently TLT is at 121. …..(1.5% profit)
- On 1st Jan Marked to Market at 119 as cost basis

Keep stop losses based on risk appetite, volatility and asset allocations.

Market Overview SPX- BONDS

SPX: Currently SPX has Triggered POM 14- Neutral Signal from Bullish Signal. We are holding 30% Cash in the Portfolio from the proceeds sale; waiting for the market to rebalance itself towards SPX- 2200-2180. We do <u>not</u> have Net Short Signal yet.

Dow nearing the 20,000 level but couldn't make it. This is Psychological number for retail Investors to "Trade" . For the professional / Institutions, the real trade was entry point on the "Election night "during the Crash" of 700 point or next day AM when Dow was down 300 points at market open.

 On Friday, the Dow touched 19999.63 before backing off. Historically, big round numbers have acted as magnets during market advances. At the same time, traders are often programmed to take some profits as that big number is approached. Statistically, it took Dow to bang 18 times around 1000 level and 16 times around 10,000 levels before it was able to break out decisively. Technically, the Dow is still in an over-extended condition which explains why it's been moving sideways for the past three weeks. .

Quantitatively : stock/bond ratio, the value/growth ratio, and the transportation/utilities ratio also in overbought territory

Fundamentally, Market is priced for perfection on "Trumponomics" Theories; …….The 1st wild card is "over promise".
2nd ; Analyst forecasts 15% earnings rise for 2017 in SPX . SPX is trading at 2x Times Sales " . Historically it trades 1.5 Times. These numbers are overvaluation but quite irrelevant considering the Market has moved up mostly based on "***Fed Juice".***
As long as Fed remains intact on Buy Mode, the market remains on uptrend and pull backs will be shallow.

The Biggest wild card is "Inflation" based on "Trumponomics". We see the Commodity Index finished its 1st leg up and now is in retracement mode. Major Commodity countries; Australian and Canadian markets has acted quite strong. This may be signaling something else !!! .

Tax cuts and infrastructure stimulus spending should add considerably to the "***Records Debt levels***" which should help **Gold.**

Technically : We don't believe this is a good time to *Sell Short* the market. There is sizable cash on sidelines to add to the 1st pull back.

Our price projection of 2300 fell short by 13 points. The pattern "*3 drives to the top*" in ratio 1.27, 1.41, 1.618 was completed on PEC-D Pattern. The volume contracted on upside failed and volume on downside expanded during the decline towards 2245. *The 3 Drive pattern has double top to 2283 which it may be completing now.*

On short term basis, Indicators shows signs of Cracks as well. The put/call ratios nearing extreme lows that imply traders are extremely bullish. When everyone is very bullish, that is generally when the market reverse.
==The best Risk Reward for new equity purchases (Net long) would come around CZ 2200-2180.==

Cycle : Planetary Index suggests High by January 14, then pull back by Mid-February and then rally up in spring.

TLT: During the "Trump Rally "since Election day, a typical Retirement Portfolio (50% Stocks / 50% Bond)   has ***Net gains of 0%.*** [Equity up 8% and Bonds down -8% during the time frame] . This is clear demonstration of 0 sum game for retail.

As per recent beige book, Federal Reserve's purchase of Mortgage backed Securities and Purchase of Treasuries is still in progress. Fed has not backed off in spite of higher rates. If this continues, it should help the Bond Market higher and move rates lower. There are several cross currents here. **We are at POM 13 - Net long at 119 on TLT.**

On Short term basis, PEC-D 118 Met exact and rally began as expected. The bounce target is 124 and then PEC-D 127. The Yields are pulling back. But their pullback is having ripple effects elsewhere. The main impact is a weaker dollar. That's giving a boost to gold and gold miners.

On midterm basis, it appears the yield is going higher and Bond Market could be in significant leg down much later especially if the " Fed Juice is taken off the buying the Treasuries
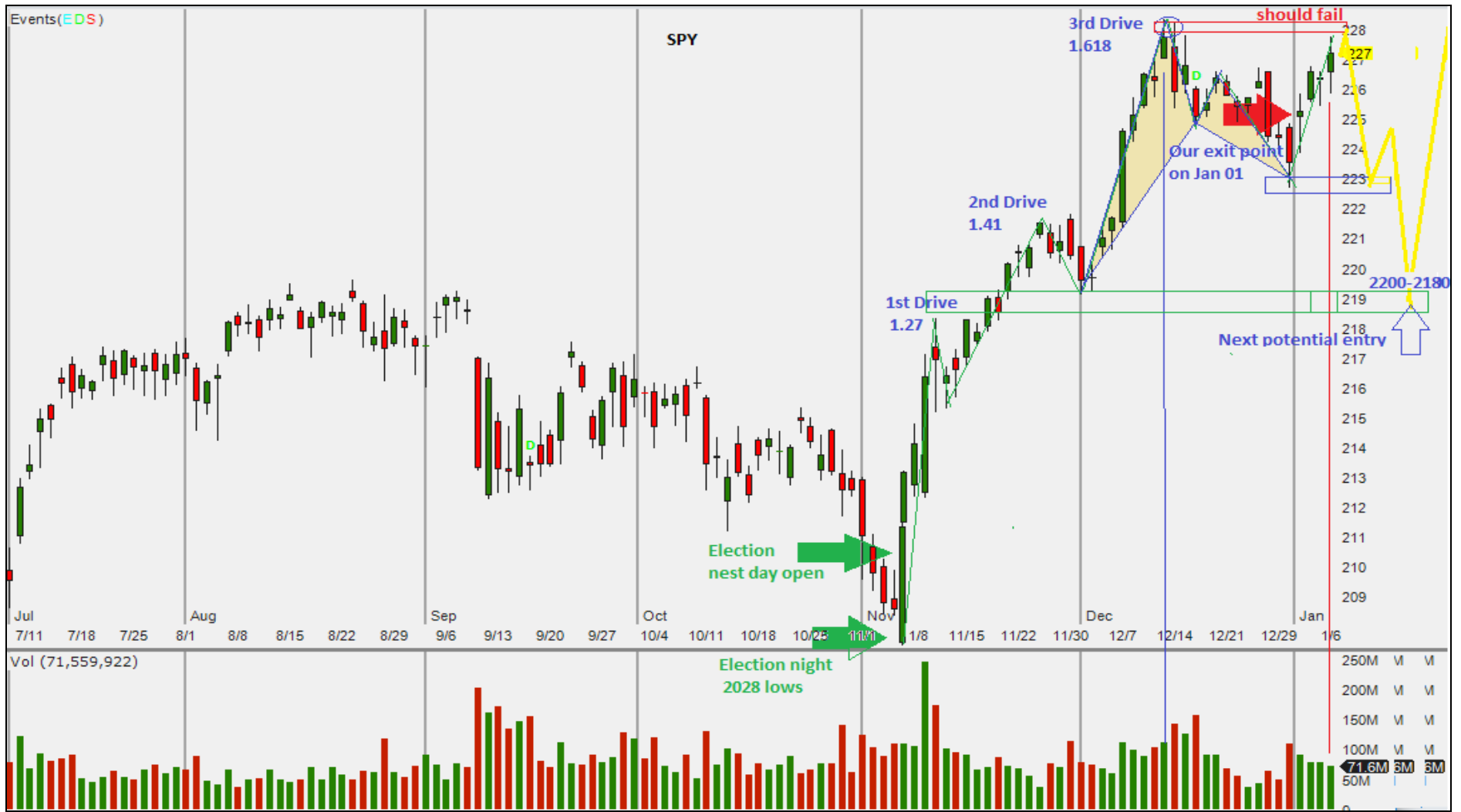
DOW / Volume Analysis – C Z- PEC- D Daily

DOW shy of 20,000 . RSI hit highs of 90 and is diverging bearishly. Directional Index (DI) lines are diverging bearishly and ADX is diverging bearishly. It suggests that investors may start taking some profits. And they may be using the approaching 20,000 milestone in the Dow to start doing that.
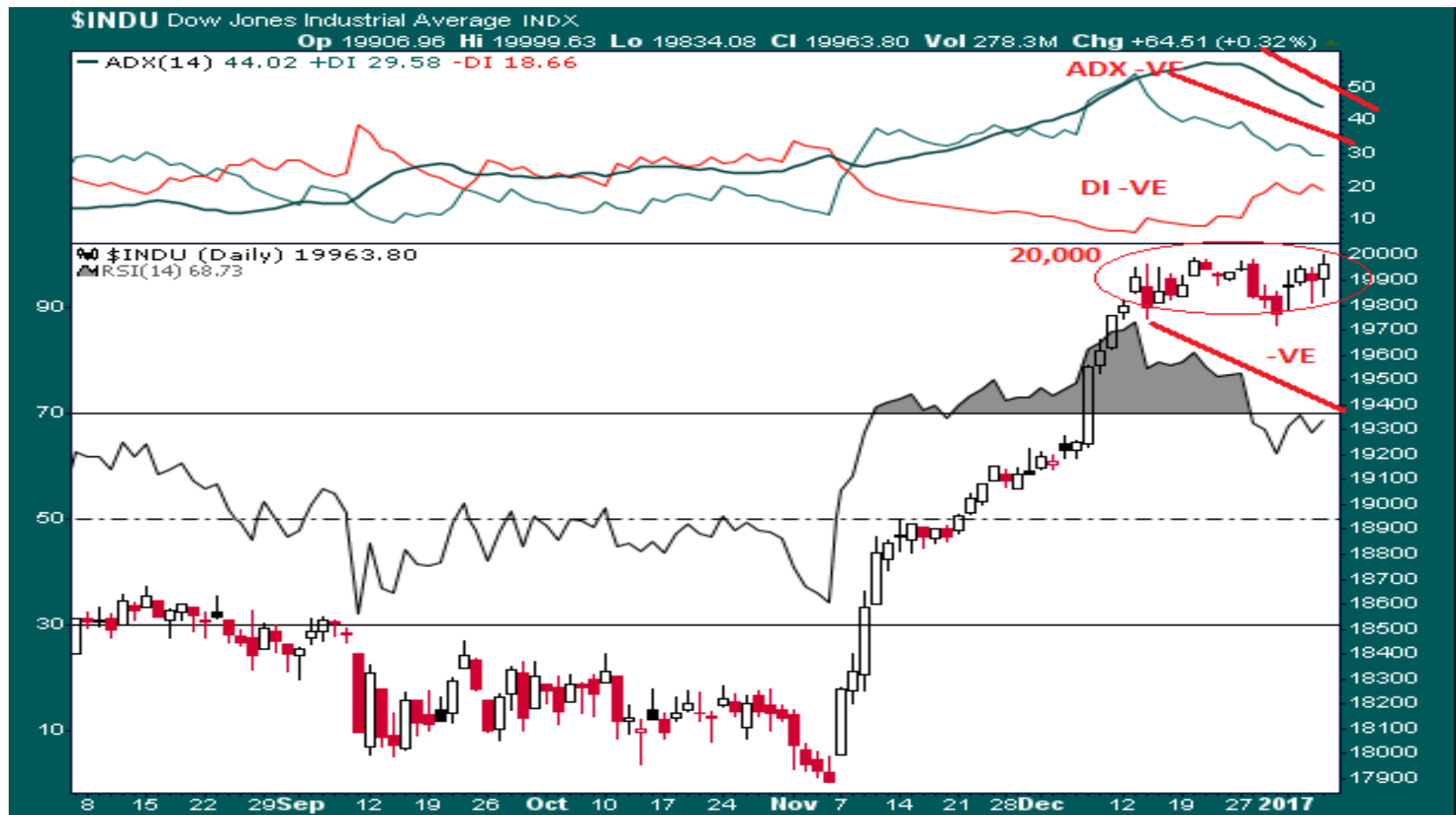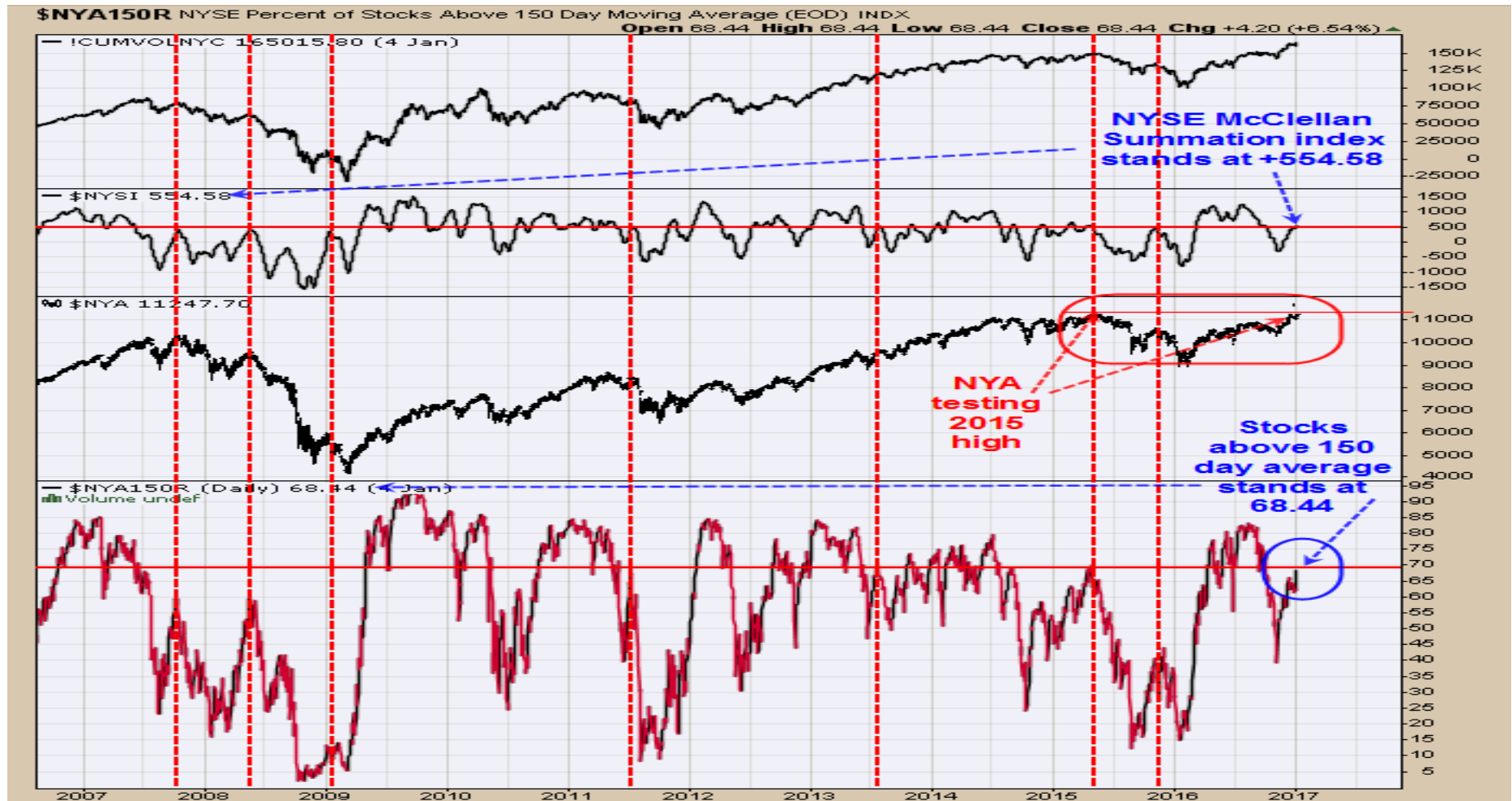
SPY / Volume Analysis – C Z- PEC- D Daily

Target of 2300-2280 is being tested with double top after completing 3 drives to the top. The first pull back is towards 2245.
The best Risk Reward for new equity purchases (Net long) would come around CZ 2200-2170.

NYSE / Summation Index   Analysis – C Z- PEC- D Daily

NYSE is testing the previous high of 2015 and a resistance area. A "Sign of Strength" would be needed to get through this Confluence zone.

McClellan Summation index closed at +554. As it gets closer to +600 than sharp decline can occur. The Stocks above 150 day average stood at 68 and still below the 70% and intermediate term bearish. There is still evidence that a short term top is building.

TXN – 10 year Yield Analysis – C Z- PEC- D Daily

 After the steep rise in Treasury bond yields since the November 8 election, TXN is pulling back. The RSI line reached 70 and was already starting to weaken. The RSI line is now slipping below 50 which signal a deeper pullback. That's good for Bond prices which had become deeply oversold. The upturn in bond yields may not be over but TXN rose too far, too fast and are due for a pullback.

TLT / Volume Analysis – C Z- PEC- D Daily

PEC-D 118 Met exact and rally began as expected. The bounce target is 124 and then PEC-D 127.
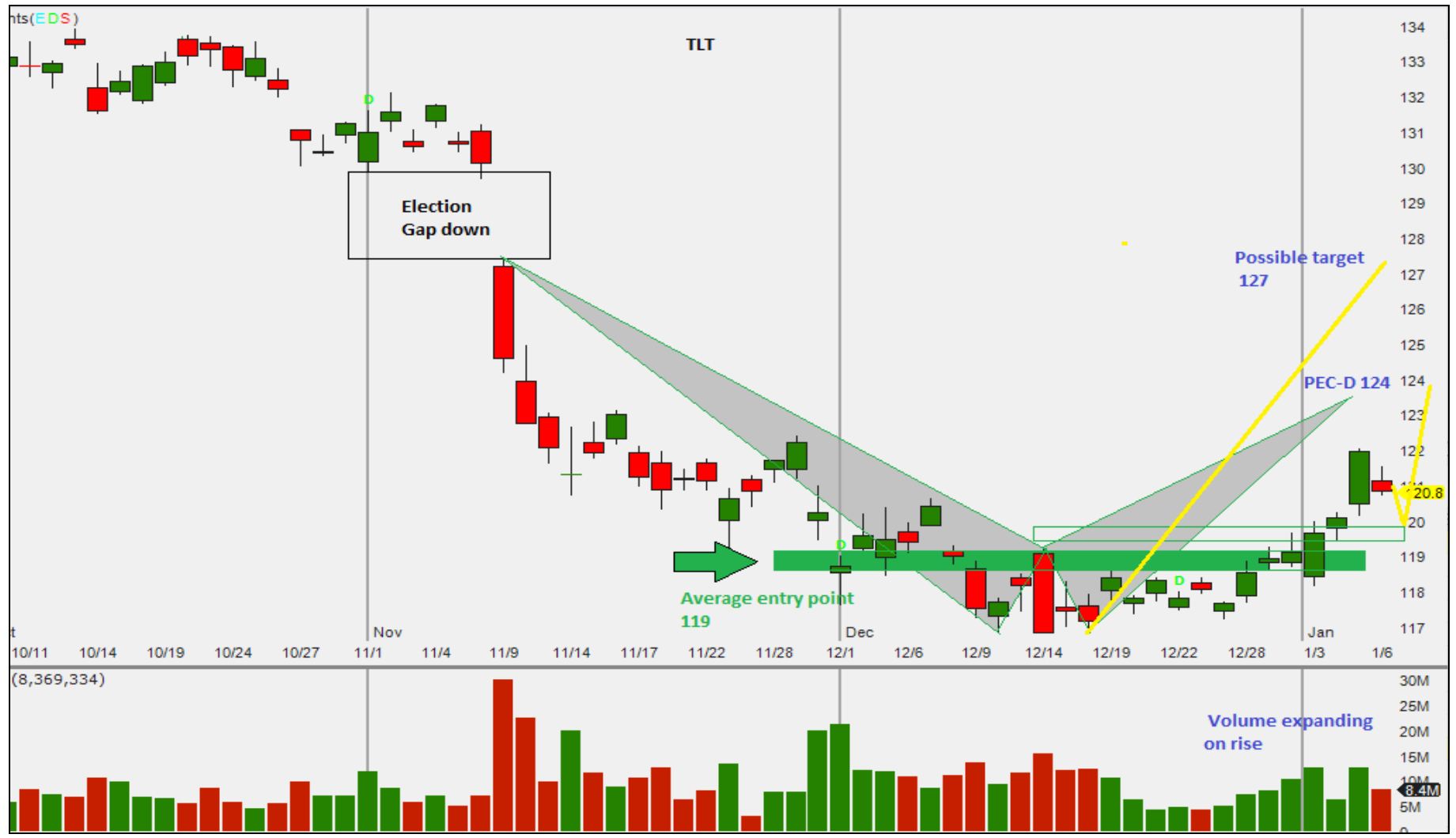
SPX – Cyclical Model

- **SPX - Seasonality**

None

- **SPX - Geomagnetic / Lunar Cyclic Model**

None

- **SPX - Sentiments Model**

AAII Weekly Sentiment Survey – Bullish

SPX – Internals Model

- Midterm - TICK / TRIN -   Bearish
- AD Oscillator, Ratio's – Bullish

Appendix Content

- **Objectives & POM /CZ / PEC –D Guidelines – <u>Refer to detail Annexure</u>**

- **POM – " Price Oscillation Model " Criteria**

- **PEC –D " Pythagoras – Expansion & Contraction Criteria**

- **CZ- Confluence Zone Criteria**

- **TEXTURES – Bullish , Bearish , Neutral**

<u>Critical backdrop Notes –</u>

- *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.*

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 <u>UP</u> move, POM 13 signifies to <u>STOP</u> executing additional 'New Buys" that was initiated at POM 12 or POM 11 levels

- On way <u>DOWN</u> move, POM 13 signifies to <u>STOP</u> executing additional " New Short Sells" that was initiated at POM 14 or POM 15 levels

- <u>(Bear Markets)</u> POM 15 is for - <u>Net Short</u> & POM 14 is for - <u>Hedge Longs</u>

- <u>(Bull Markets)</u> POM 15 is for -<u>Hedge Longs</u> & POM 14 is for - <u>Partial Hedge</u>

- 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 steams to achieve confluence point D coinciding with POM
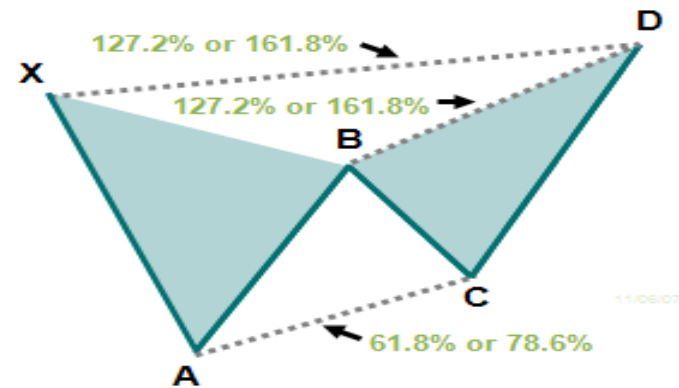
PYTHAGORAS EXPANSION / CONTRACTION –(PEC) Model

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)

A

61.8% or 78.6%

C

B

127.2% or 161.8%

X

127.2% or 161.8%

D

Sell Pattern (bearish)

D

127.2% or 161.8%

X

127.2% or 161.8%

B

C

A

61.8% or 78.6%