SG Capital Research
Global Market Insights — *Chart System*

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	2382	POM 15 Triggered @2375 3/19	Stop loss at 2415	BEARISH	Net Short to Fully Hedge long positions	None	Bounce to 2397 , Double top Failed on volume	Target 2405 should be a Exhaustion Gap should fail	Pull back to Gap Area 2350-60 Met	1st ABC down -2280-2300 *Best Risk/ Reward for new longs*	

- **POM 15 – Net Short Signal Triggered at 2375 on 3/19 Announcement**:   **Hedge all Net Long positions**.
- Core Net Long Holdings in Equity Portfolio MSFT, FB, and JNJ are all hedged at SPX 2375 on 3/19.
- 1ST ABC downside Target at **CZ 2280-2300.**
- For next Net long opportunity, we plan to wait patiently for best Risk / Reward.
- Protect your position with Stop Loss
- **FYR – Exited Net Long SPX at 2275 on Jan 1, 2017 (Entry @ 2050 on November 8)**

	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)	123.75	POM 13 Triggered 3/13 @ 118.25 Within CZ 117-118	Stop loss at 118.25	BULLISH	Net Long	None	1st ABC up Rally to Retest 124.0 Approaching	Target to PEC-D / Gap area 127	Pull back to CZ 121-122 Rejected lows – Exact. Bullish Bottom	Lows of 116.5 tested and Rejected Bullish Bottom	

- **POM 13 – Net Long Signal Triggered at 118 on 3/13 Announcement**:
- Since our Trigger, projected Rally to 1st **ABC up 124.0 Approaching**
- Pull back to CZ 121-122 Rejected with Bullish Bottom.
- Protect your position with Stop Loss

Market Overview SPX- BONDS

SPX: Our POM 15 Triggered – Net Short @ 2375 on 3/19.

In our last Report 5/7, we suggested the completion of **Exhaustion Gap at 2400** would <u>FAIL</u> on the upside and SPX would go back down to fill the First Gap **at 2350-2340**. SPX price drop of 50 points exactly filled that Gap at 2350 as expected.

Political leaks out of Washington were blamed for the fall in the market. We think it was more related to failure in Market internals such as **PQV and POM 15 trigger point at 2375**.

Last week's decline from the price highs came in with "Gap away "and heavy volume off the top, which suggests more selling to come. In last week's Report, we also had pointed out the Bearish **Mercury turning direct** and **the "Hindenburg" Cycle;** both having trigger impact on the market.

The snap back rally on Thursday / Friday to the "Gap away" high **CZ 2380-2390** with Neutral volume suggests, SPX may build some cause sideways in 2 passes within Trading Range **CZ 2390-50**, diffusing some Bearish volume before next decline begins towards our target of **2280-2300**.   Close below 2350 will initiate unwinding of Stop Sells.

 "<u>**Dow theory**</u>" has triggered Sell Signal past week. Dow Jones Industrial and Dow transports have been diverging negatively. Currently, the transport index is trading well below its March 1st high unlike the industrials. The leadership in the market has got fractured since our POM 15 Trigger at 2375.

<u>**Selling in May**</u> A number of caution signs have been warning a setback. Political concerns are causing, money to rotate from Equity to US Treasury Bonds. Some catalyst always surfaces to cause stocks to suddenly take notice of those concerns. Seasonal trends start to weaken in May- June.

On weekly basis, **SPX i**s building a distribution pattern to move lower with multiple "Signs of weakness and escalated

 Bearish volume.   **On Balance Volume** has fallen to the lowest level in more than two months.

TLT: **Triggered POM 13 - Net long. CZ 117-118: Our "scale- in" entry on 3/13 at 118.25 initiated our Net long Trade.**

In our last Report 5/7, we had suggested rejection of lows with lighter volume at the pullback target of **CZ 121-122.** TLT held within this CZ and rally began to **124.0 – PEC-D.** TLT's move to 123.5 was exactly as we had projected. This is a huge move in the Bond Market.

POM13 Trigger – Net Long within **CZ 117-118**, on weekly basis TLT began its move higher with multiple "Signs of strength and increased bullish volume. **Our final target is PEC-D 127**.

 USD and Bond Yields have been on free fall. We had forecasted this decline ahead of price move. **This was the most contrarian call we have made in 2017 against the Treasury's strong Dollar policy and Federal Reserve's hawkish tone on rate increases.**

Our Contra trade we Triggered Sell on USD at 103 and Buy on TLT at 118 has resulted in price moves of USD at 96 and TLT at 123.5. Jawboning is not an analysis for sure.

The spread between the yields of the 2-year and 10-year notes, which surged after the election, has now done a complete round trip. The steeper the spread, the more the market is betting on inflation.

Bank Sector (KBE) touching a three-week low. The **KBE/SPX ratio** is bearishly diverging. This is direct impact of Bond Yields. The huge amount of Real estate Debt held by Regional Bank is unknown considering the rapid closing of Retail stores. The Chart of XRT (Retail Index) shows it all.

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

The snap back rally back to the Gap away highs **2380-2390** with Neutral volume suggests, SPX may build some cause sideways within **CZ 2390-50** trading range diffusing some Bearish volume in 2 passes before next decline begins towards our target of **2280-2300.** The test of **CZ 2380-90** is being tested on lighter volume. Mc – oscillator has turned down below 0 which is Bearish.
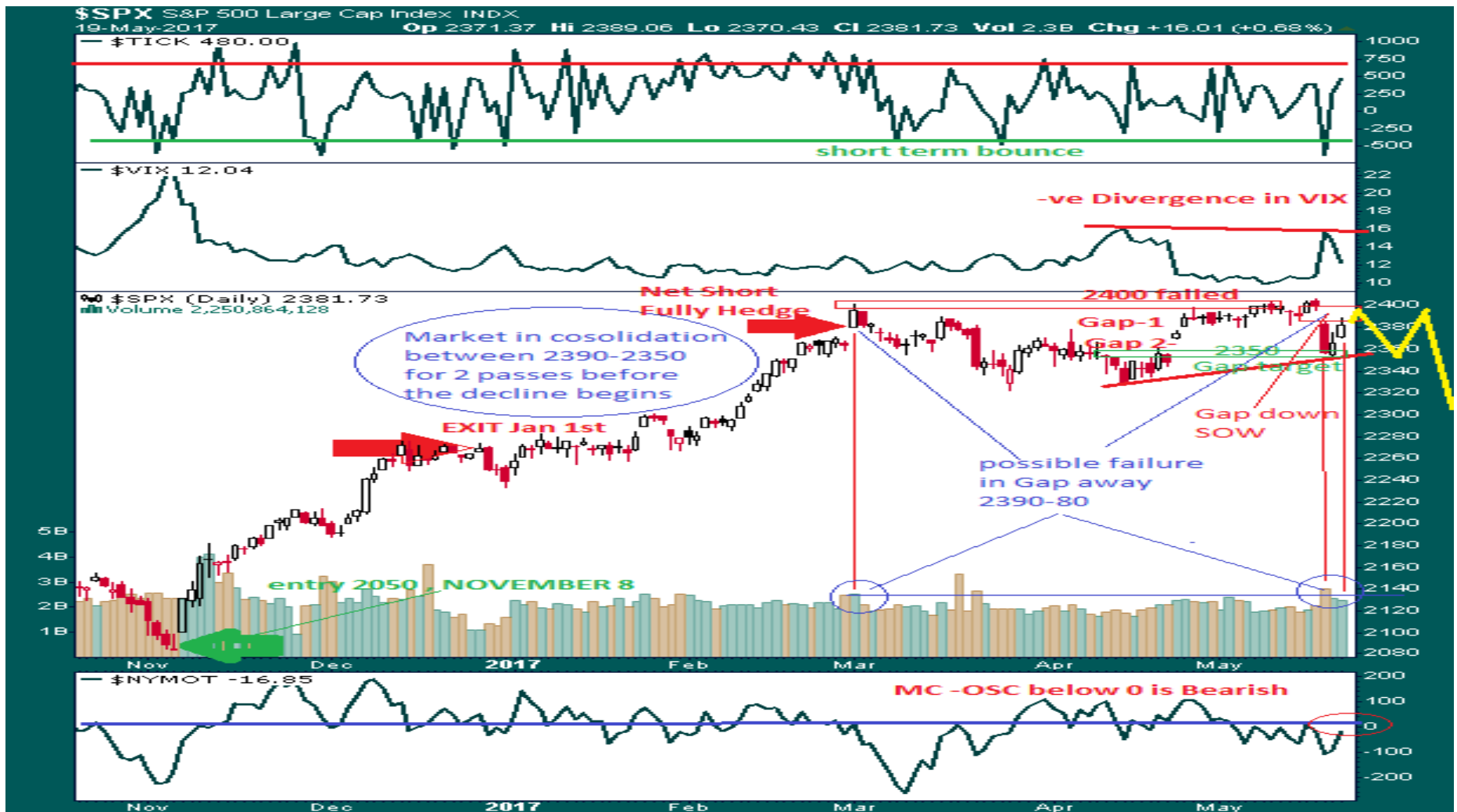
DOW – TRANSPORT Theory.

Dow Transports falling to a three week low and the **Dow Jones Industrial is still holding up.** The negative divergence between the Dow and the two lines is warning Sell Signal .
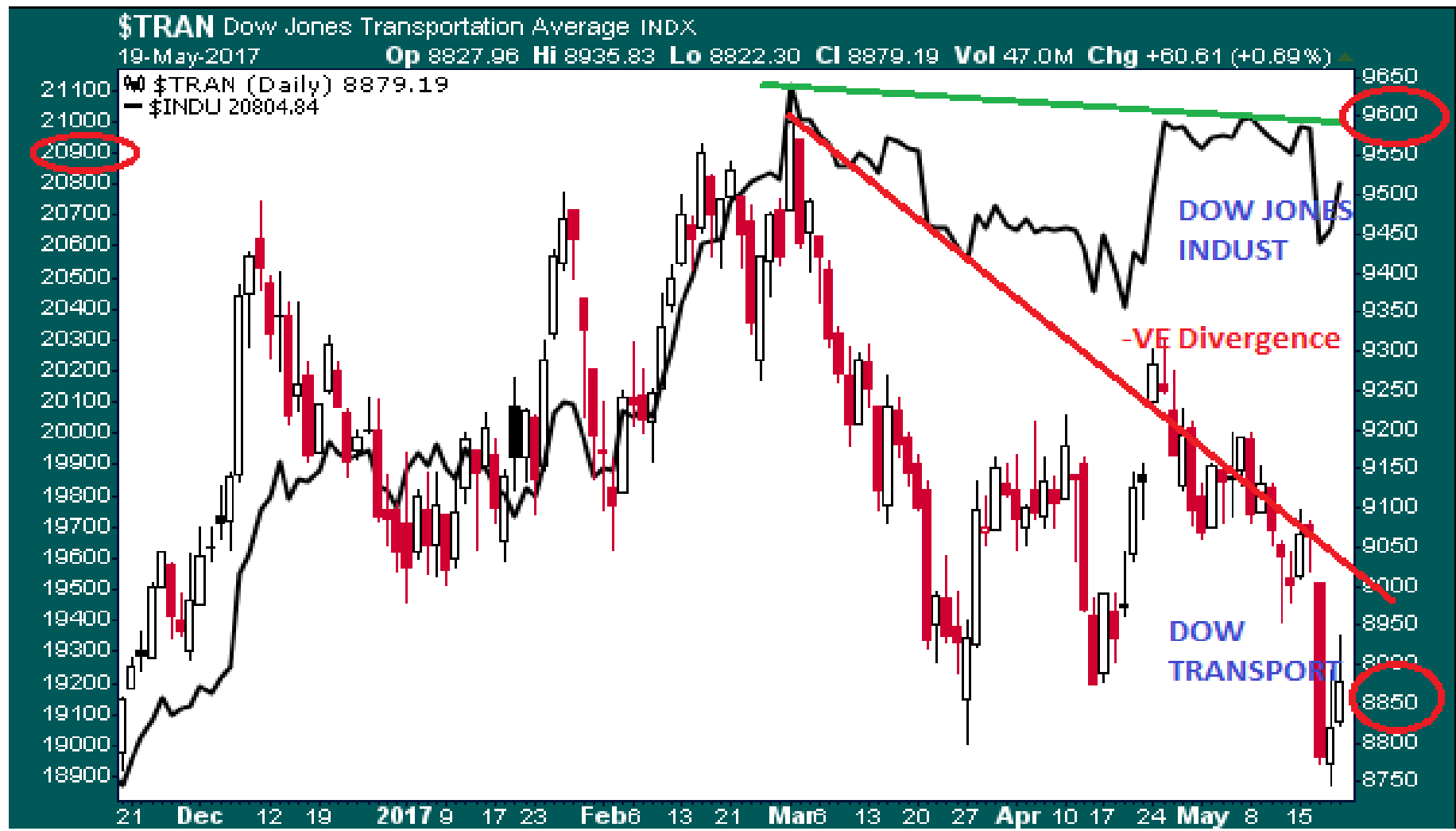
Statistical Data.

Regardless of the fear of large decline from this Data, we will trade both sides of the market in our Portfolio based on reasonable value of Equity relative to the risk, as per our regular strategy.

S&P500 Longest Bull Markets Since WWII	Months	Bull Mkt Return	Following Correction	Months	Full cycle Return
Jun 13, 1949 to Aug 02, 1956	86	267%	-22%	15	188%
Oct 03, 1974 to Nov 28, 1980	74	126%	-27%	20	64%
Aug 12, 1982 to Aug 25, 1987	60	229%	-34%	3	119%
Oct 11, 1990 to Mar 24, 2000	114	417%	-49%	31	163%
Oct 09, 2002 to Oct 09, 2007	60	101%	-57%	17	-13%
Mar 09, 2009 to May 15, 2017	98 ??	255%	??	??	??

YIELD-TXN   Analysis

The spread between the yields of the 2-year and 10-year notes, which surged after the election, has now done a complete round trip. The steeper the spread, the more the market is betting on inflation

BANK SECTOR / KBE - TXN   Analysis

Bank Sector (KBE) touching a three-week low. The **KBE/SPX ratio** is bearishly diverging. This is direct impact of Bond Yields. The huge amount of Real estate Debt held by Regional Bank is unknown considering the rapid closing of Retailers. The Chart XRT (Retail Index) shows it all.

BONDS - TLT / Volume Analysis – C Z- PEC- D Weekly

Pull back to **CZ 121-122** – Held EXACT with Bullish rejection. The **On Balance Volume** is rising which is substantiating the price move higher.   **1ˢᵗ PEC-D 124 approaching**
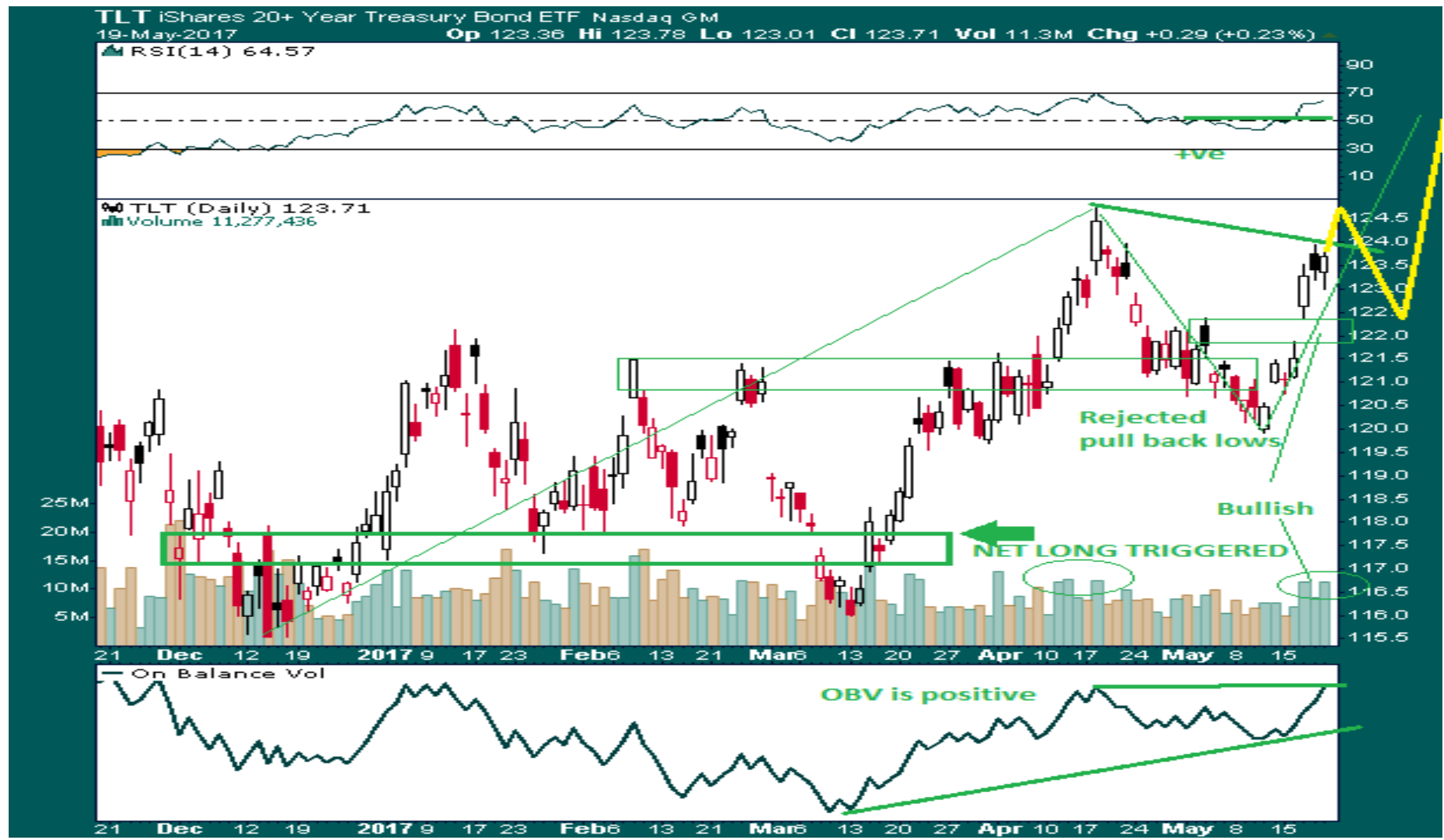
BONDS - TLT / Volume Analysis – C Z- PEC- D Weekly

POM13 Trigger – Net Long within **CZ 117-118**, on weekly basis TLT began its move higher with multiple "Signs of strength and escalated bullish volume. **Our final target is PEC-D 127**.

SPX – Cyclical Model

- **SPX - Seasonality**

Negative- Post Presidential Cycle.

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

Negative

- **SPX - Sentiments Model**

AAII Weekly Sentiment Survey – Bullish

SPX – Internals Model

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

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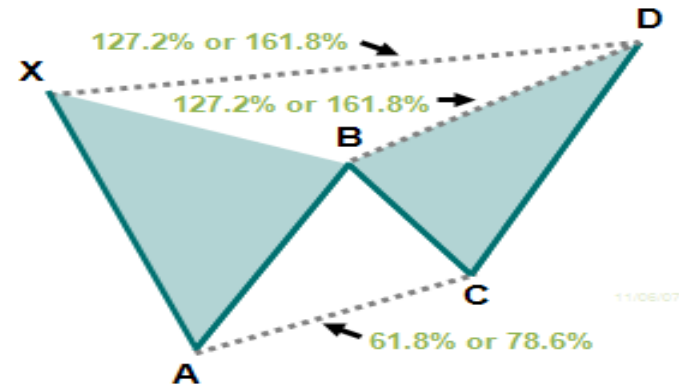
PYTHAGORAS EXPANSION / CONTRACTION –(PEC) Model

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

61.8% or 78.6%

A