SG Capital Research

Global Market Insights

Research Note – Intermediate Update (B)

MAEG INTERMIDATE UPDATE SG 2010 # AUG 026

For Immediate Release

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Tomorrow's scheduled *Intermediate update* is one day earlier today due to yesterday's market development

Market Strategy Global (A) - SPX – Closed @ 1056

Analysis of Broad Market that includes

- **Primary Market SPX & DOW as market driver and**
- **Secondary Markets NYSE, NASD, RUSS .**

We have picked up charts below that has some distinct characteristics and values from last weeks observation at Inflection points based on our assessment:

- **VIX**
- **OEX 100**
- **SPX – - IT**
- **NASD – IT**
- **SOX/SPX**
- **XLF**
- **TLT**
- **EURO (FXE)**

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SPX – “Our Current Signals & Projections”

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- ***On 6th Aug*** ***– POM 14 – Re run was triggered at 1125***
- ***We have decisive weekly close below 1085*** *which is intermediate bearish conformation*
- ***On 26th Aug (Yesterday) ,*** *Our Indicators conformed* ***POM 13 @ SPX 1047*** *(We send out intraday Alert).* ***SPX dropped (-7.0%)*** *from our previous Signal* ***POM 14 – Re Run @ 1125****.*

Market Insights

A low was put in 1039 SPX. The market should bounce here. We are still looking for the contracting triangle consolidation Price path from b to c point. (This chart demonstrated yesterday in the Intermediate commentary) .

The upside as measured by (3) – T – Terminations is on till 27th Aug (A/D Oscillator) , 29th Aug (Geomagnetic Storm) , 2nd Sept (NYSE T). We would look at 1085 SPX as topside to this bounce (but we will be very vigilant) and have more clarity when the bounce begins. If we do not get the meaning full bounce then …

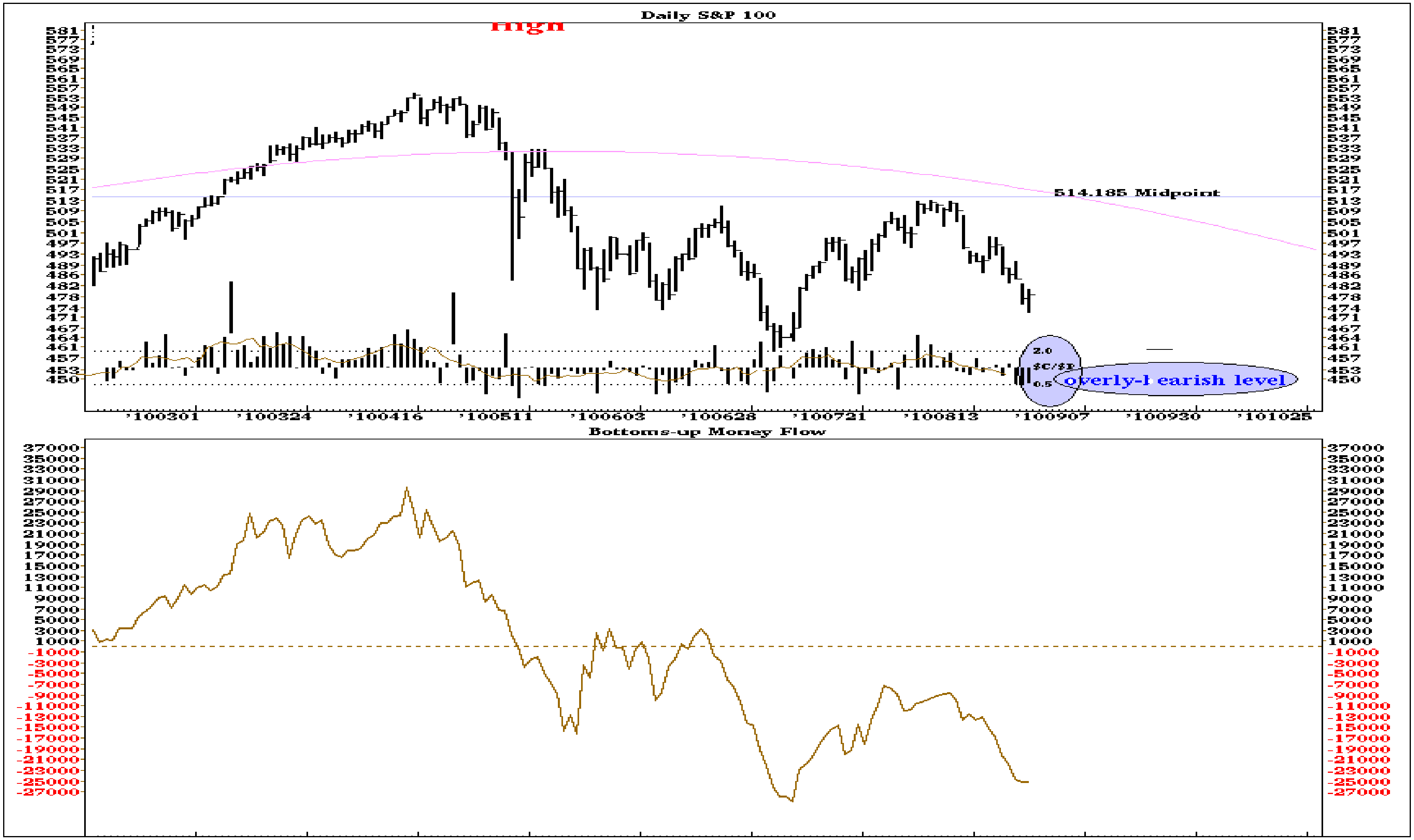
The conclusion of this analysis , there will be cause build to break the Apex of the contracting triangle and then the right side of Poly trend will act like magnet . **The ABC which has Confluence Zone of down to 1010 – 960 SPX** , from there a bigger bounce could materialize and sentiments get really bearish. **We may very well get POM 12 there** (Charts below could explain that possibility)
This has been our downside target for this move

VIX Ratio -

The VIX / VXN Ratio chart we previewed had PEC – D - short term target at 31 , yesterday we touched 29 from 25 (last week’s read was 25). This did assist us in calling POM 13 at VIX 29 on short term basis.

SPX – ST – OEX Sentiments

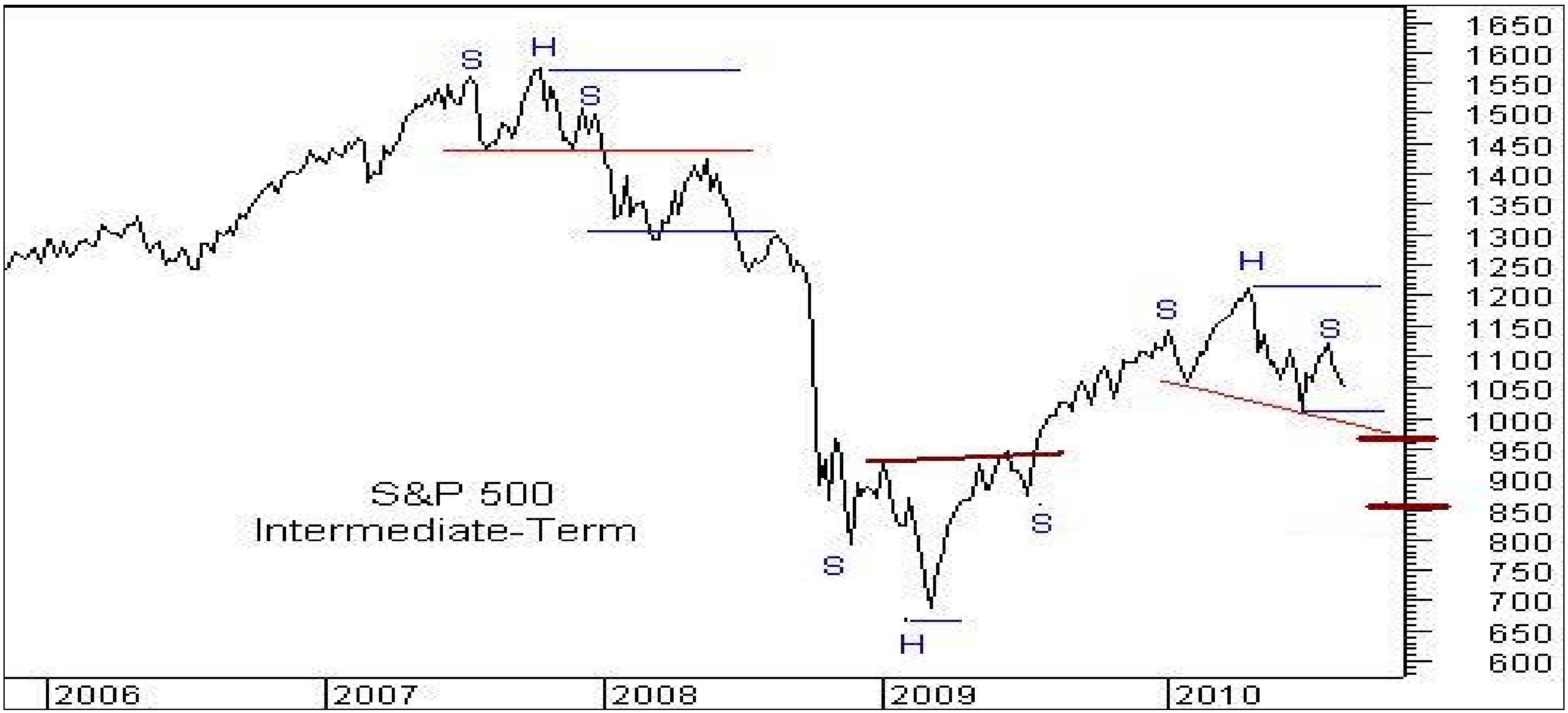
Sentiment remained extremely bearish as measured by OEX Dollar-Weighted Call-Put Ratio, which usually signals a short term bottom when it closes very near the 0.50 level where twice as much money is being spent on puts as calls is sitting in the right place for a rally: (See chart below)



SPX – Intermediate Term (Pic 1)

If the SPX breaks below its neckline this time, which is at roughly 1,010, (This also a confluence zone for this move down) it would likely decline to about 950. But realize that is possibility only keep in mind since the S&P has not broken below the neckline, and unless it does there is no head and shoulders top, only the potential for one but we can't rule out as its done this before as indicated in chart

Now let's have a look at how a reverse head and shoulders bottom can also provide similar guidance. Note the potential reverse head and shoulders that formed off its low in March of last year. Once it broke through the red 'neckline', confirming the pattern, the SPX continued higher. .

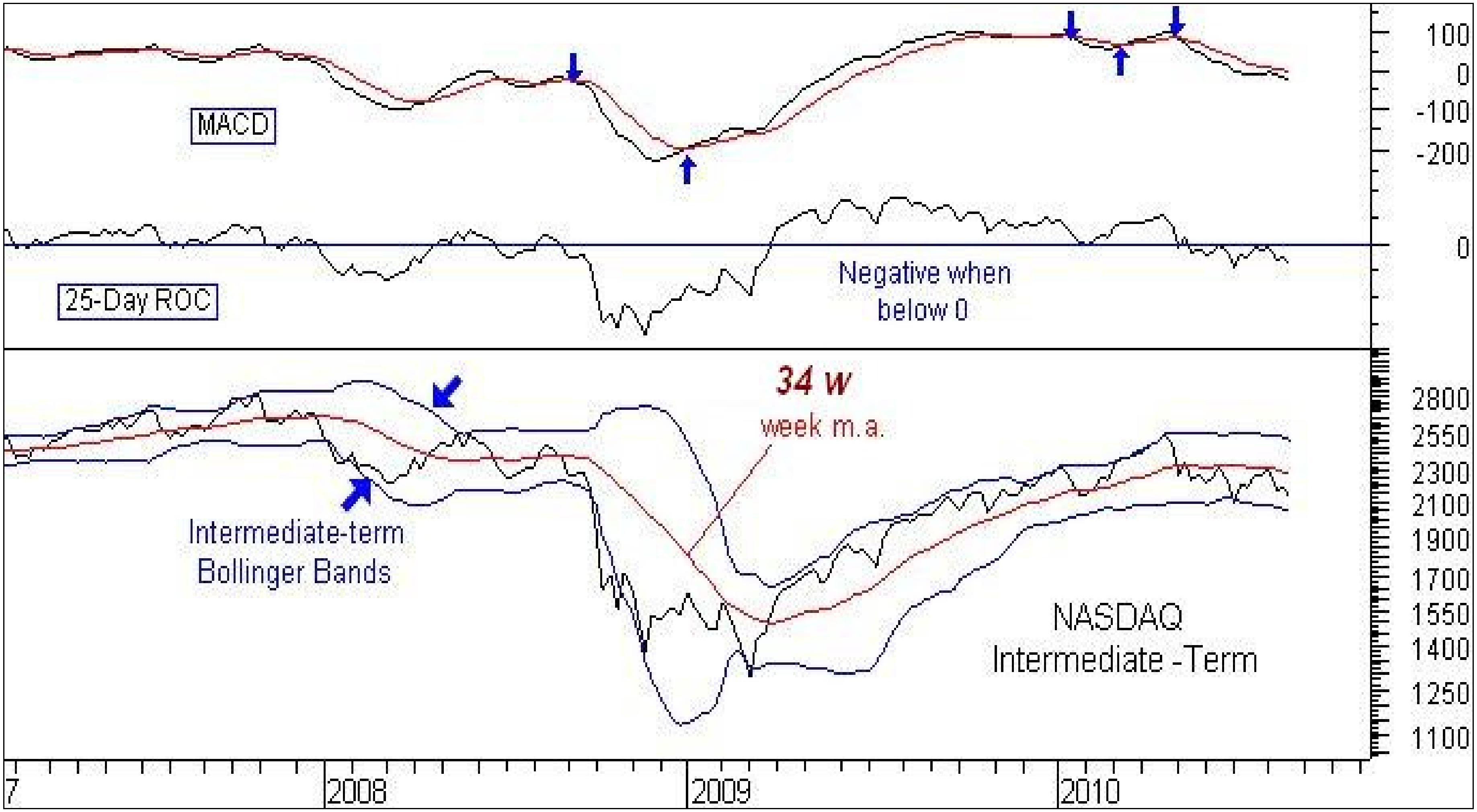


SPX – Intermediate Term - (Pic 2)

We showed you the megaphone formation for SPX. It indicates a further intermediate decline as well for 960 SPX target.

NASDAQ. Intermediate-Term.

Our intermediate-term technical indicators Nasdaq up only to the resistance at its 34-week m.a., where the rally failed. As with the other major indexes, that kept the Nasdaq in the usually negative lower half of weekly Bollinger Bands. The bands themselves have now rolled over to the downside, and we expect the market will work its way lower, with the 34 -week m.a. continuing to be overhead resistance on rally attempts.

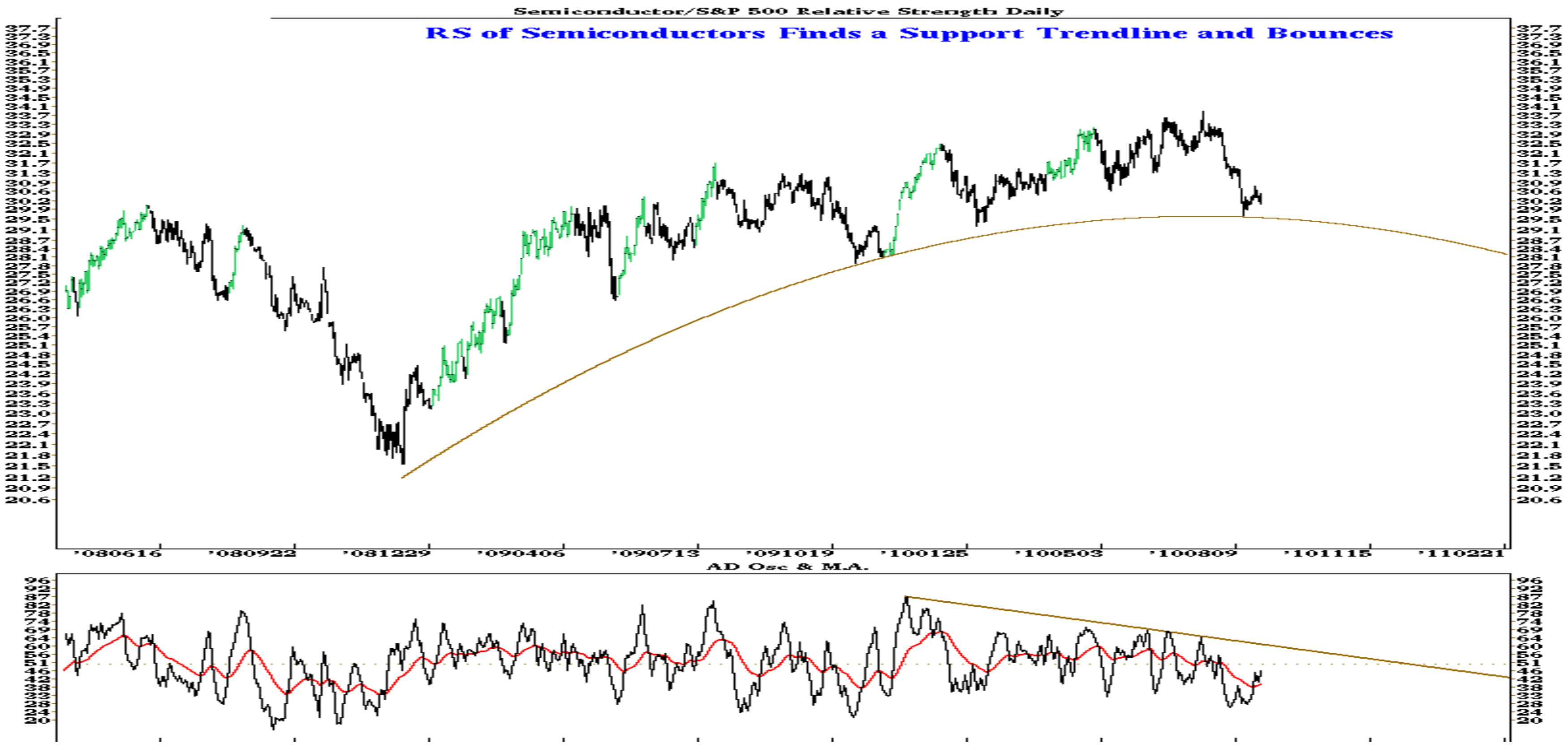


Sector ETF Analysis (C)

Sector Clues for market Bounce : POM 13 signal from SOX, XLF (see below)

SOX / SPX - Ratio

SOX Semiconductor Index has been much weaker than SPX for several weeks. The relative strength measure hit a support line and bounced, proving it is still valid. Now, we have to see how long it will bounce, but we do know that periods when the SOX Index is stronger than SPX have coincided with strength in SPX in the past. This should be a good signal for short term bounce in market.



XLF

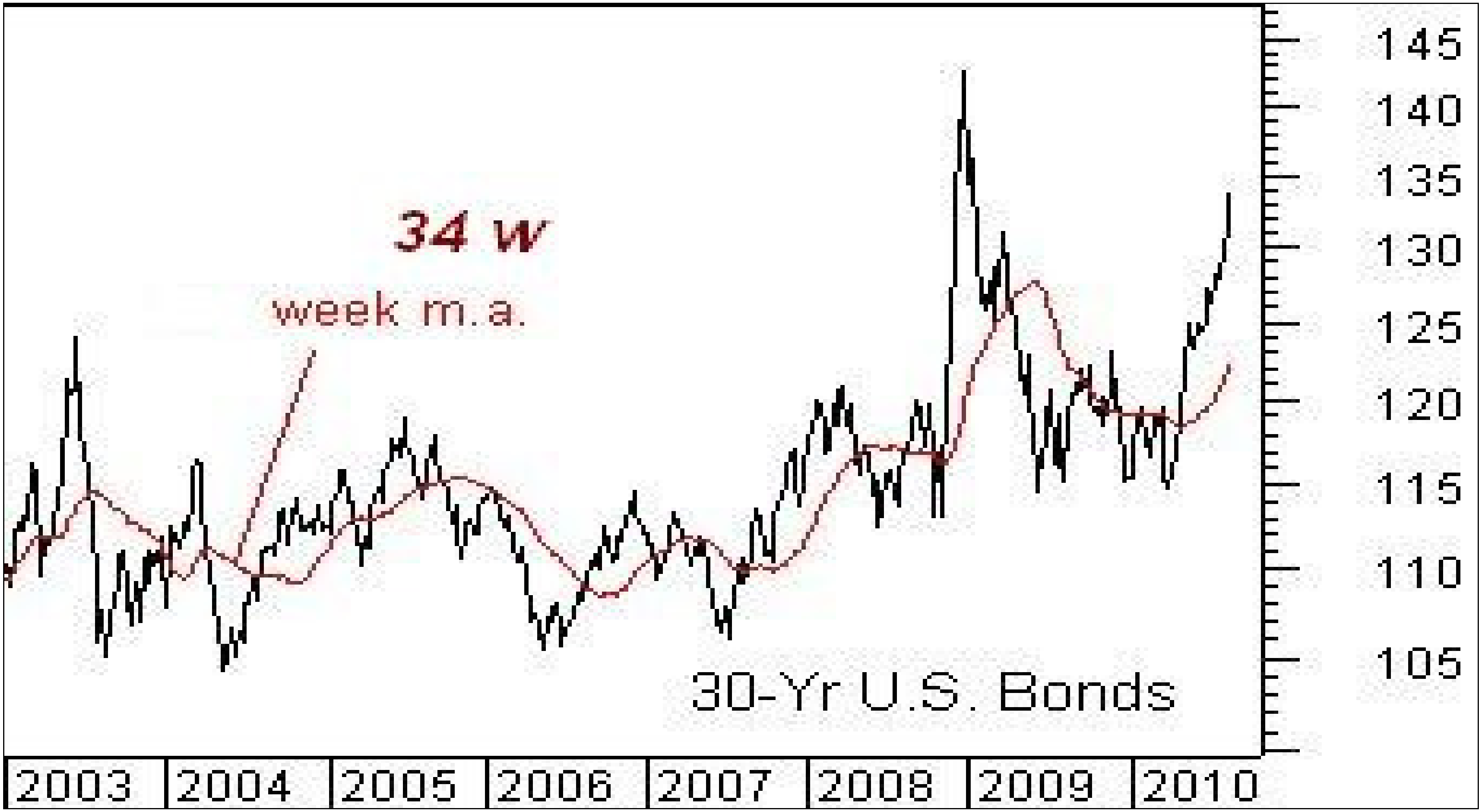
The daily XLF . The RSI (top window) has reached oversold levels below 30 and **suggests a short term bounce** should materialize here but should be short lived. In mid August the MACD and Bullish Percent index had bearish crossovers and remain on sell signals. Bottom window is the On Balance Volume indicator (OBV) with a 30 day moving average. When the 30 day moving average is trending down then implies trend is down (which currently it is) and vice versa.

TLT

TLT BONDS have been on straight up the last five months since April . This move is sharp, but not as sharp as the 10-week surge from October to early December 2009. The current advance is certainly steep, but yesterday we had some key reversal . RSI moved to its highest level since December 2008. RSI has been overbought for three weeks now and could remain overbought. Notice that RSI became overbought with the surge above 95 in November 2008.

30 YR BOND

BONDS is way extended above 34 W MA and at 135 its had pattern PEC - D indicated yesterday. Secondly this is "3 drives to the top pattern ends with exhaustion test "



Currency Analysis (D)

EURO -

We're still looking for a rally in the euro back to about 1.30 before the next big leg down gets started. But, it is a countertrend move and it's possible it just won't happen. A retracement rally in the euro, either back to the congestion zone above at the 38% retracement level, or a more preferred retracement back to the broken trendline .Sometimes in these bounces we get cautious