



SG Capital Research

Global Market Insights

Research Note – Weekly Market Strategy Global (A # 1)

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Market Strategy Global (A # 1) - SPX – Closed @ 1188 – Wkly change (+36 points)

Analysis of Broad Market that includes

- **Primary Market** SPX (or SPY) & DOW (DIA) as main market driver and
- **Secondary Markets** NYSE, NASD (or QQQQ), RUSS (or IWM) .

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

- **Detail Coverage**

- Daily Trend Adjusted Strategy - 3x3 / 9EMA – DOW, SPX
- Primary Market Analysis – SPX, MID, ST , DOW MT
- Secondary Market Analysis for SPX clues – NASD, NYSE
- Sector Analysis for SPX clues – SMH, BKX
- Time / Cycle Analysis- Bradley Cycle, 4 yr Cycle,
- Advance / Decline Internal market behavior – A/D – NYSE, NASD , SPX
- Sentiment Analysis with Extreme character – ,AII, NAAIM, VIX, TICK
- Global Market Analysis for SPX clues – FTSE, CHINA
- Appendix - History of past SPX –POM Signals & Key Criteria

- **Objective**

Focus is on the Short & Intermediate term turning point of the SPX via POM's Price projections. POM is Unidirectional Judgmental Model, It utilizes multiple input signal via the Global Inter market Analysis (GIC), Price & Quality Volume (PQV), Pattern Recognition (PEC) , Cycles, Internal & External price equilibrium points to assists in output signals . POM is supplementary Analytics to add value to RA/ RI Framework for Risk Management.

- **Trading & Investment Conclusions**

- We recommend Fully Hedged on Long positions that were triggered at POM 12 @ SPX 1020 in July 2010 and / Or at last POM 13 @ 1045.
- Via accumulations in the "SETUP - PQV VALIDATED EQUITY INDEX – EQWT (from Sec E – MAEG) , with desired price points & scaled entry @ the Mean Confluence Zone on these weakest Equities in Setup #2. This would capitalize on current situation (Within RA / RI framework for Risk management) .
- Our current " SETUP –PQV EQWT EQUITY " Hedged Index is at – 7.00 % drawdown v/s – 10.9 % post POM 14 – SPX extension.
- No Net Short Position" till POM 15 Re- run is triggered. Therefore we have been on sidelines post SPX -1105 move
- The price Equilibrium and favorable Risk / Reward opportunity will come at POM 13/ 12. This area we would be interested again

- **SPX Signals & Price Projections**

- *Our post POM 14 move in SPX has been appx 10.9% . It has been skewed by QE 2. We are seeing signs of POM 15 here especially NASD but no confirmation yet on SPX.*
- *Our Pull back from here should be to 1130 (This area is false break top side driven by QE 2). The natural equilibrium price is at 1125, which also happens to be the GOLDER CROSS (SETUP 1) @ 1120. Volatility will increase in this area. Its too early to tell if something more serious (let us wait and watch)*
- *Due to seasonality 1160- 1150 SPX may hold first time around for the bounce.*

- **Daily SPX - “ Trend Adjusted Signal”**

3x3 /9EMA – Break Indicator – Stopped out – Sell at 1193

Currently “ Trend Adjusted Signal “ has been on Sell side since (11/17) with Reversal stop @ 1225 SPX & DOW 11430.

- **Market Insights**

Euro continued the drive this market especially the bounce from SPX 1175 to 1225, in fact we had good indication of Euro bouncing from 1.30 to 1.35 but we did not think the SPX move would be this strong. Secondly as mentioned last week FTSE had also given signal of this bounce as well.

But at the end it is all about the Fed pumping of liquidity into the market. Of course, the market is ignoring the fundamentals especially after what saw in the BLS – Employment Reports on Friday which continue to argue that all we are seeing in the economy is the last stimulus, too little to counteract the negative force of falling demand, but strong enough to pump stock prices to nosebleed levels of overvaluation. Once again we have the Fed attempting to maintain an uneconomic and unhealthy level of asset prices rather than letting the market clear.

The broad market indices are testing recovery highs, near resistance and vulnerable to a selloff over the next several days to weeks except the possibility of little delay due to seasonality into the New Year." We got a minor pullback in stocks to 1173 , then a resumption of the uptrend. This wave up is likely to top this week, ideally between Tuesday and Thursday being the high probability of the beginning of a sharp move to the downside once the test of previous highs of 1225 is complete. .

The cycles projections point toward a final high in this current pop on Tuesday the 7th while our T – Termination would have the market stay up into Thursday 9th Dec on A/D – Time termination . The waveform confirms this as a corrective wave down. That would allow the current uptrend to finish and then Sell off and then another final rally possibility into yearend seasonality.

Most of the breadth indicators did not confirm Friday's highs and that, along with the seasonal pattern, suggests short term weakness.

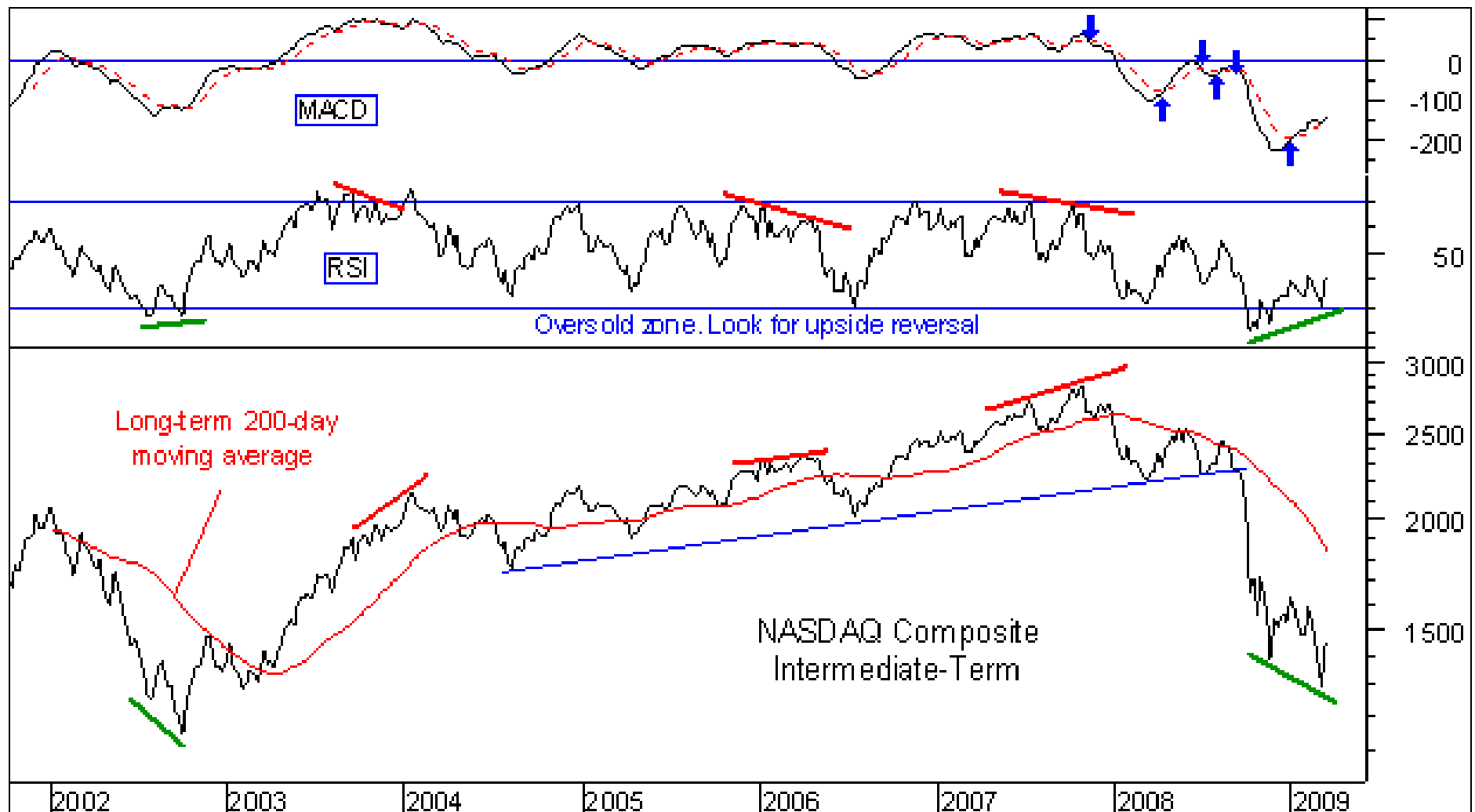
Phase II of **Jerry Minton** Cycle of 20 days with highest probability is in Progress resulted in 2.1% gains after gaining 1.9 % in phase I . The 3rd Phase will begin 22nd Dec and end on 3rd Jan. (1ST Day of the New Years)

We just follow the EURO on this market , when EURO establishes completion of bounce , that should be a good place for other markets topping

History – NASD – 2002 / 2009 bottom : 2007 top

From old commentary on 13th march 09. Chart below The green line indicated (March 09 bottom) when we were convincing ourselves of major bottom similar to October 02 both in positive divergence. Now we are looking at exactly reverse.

Red line negative divergence indicates 3- Tops as well under similar analysis including the top of Oct 2008. In conclusion – it is not different this time around. History repeats itself in market. With RSI diverging and MACD rolling over, Poly trend roll over with T Termination with –ve money flow , diverging volume, meeting price projection with internal Tick readings, extreme sentiments etc etc.... etc, all we trust the most



Primary Market Analysis - SPX

SPX – MID TERM

SPX could be on the verge of a third wave to the downside similar to past C or 2 Wave, the time termination on this top is 8th December . There selling into every rally going on **indicated by Money flow below**. This is marching time over 2 – Poly trend lines.



SPX – TRIN - MID TERM

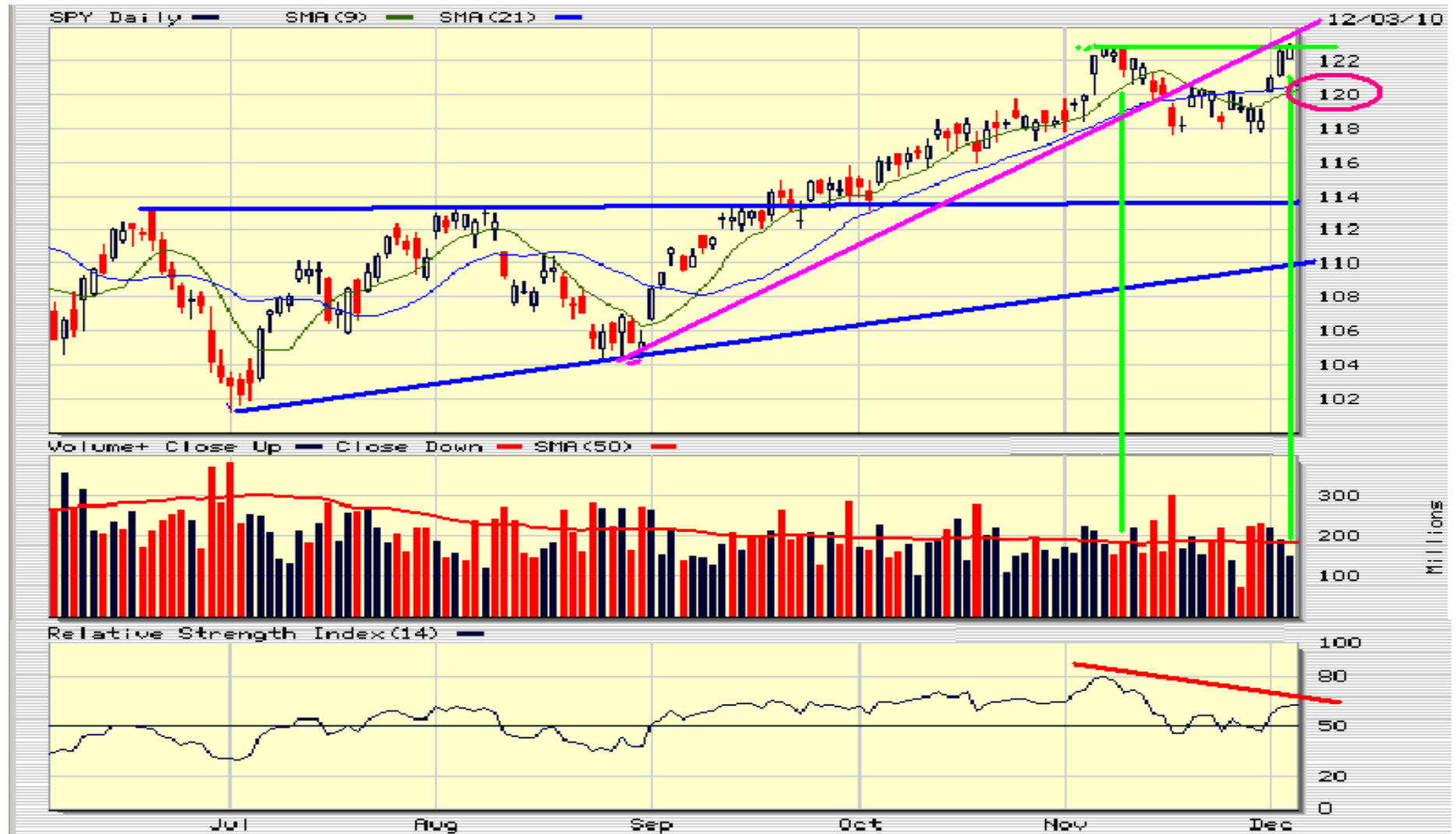
This chart has a little different setup but adds additional information to what to expect in the market. **When the Red line separates from the blue line it gives an advance warning of a possible reversal.** The separation of the blue and red line can be quite wide like at the 2007 top and the 2009 bottom or can have modest separation like at the April 2010 top and August 2010 bottom. It appears the wider the separation of the two lines the higher degree price move in the market. Right now both lines are trending down and suggest the trend is up in extension but the separation is getting wide. When both lines turn back up it will suggest the market has topped.



SPX – Price & Volume

Currently SPX is double topping on green line with 25% lighter volume. The Pink line trend line was broken and now testing it from underneath and is on lighter volume . A close below 9 SMA, 21 D SMA on daily and weekly basis would be good sign of top. The lows at 1173 was on heavy volume suggests the volume has picked up on downside

If we go above 1230 and close under 1220 would be short term bearish , RSI has diverged negatively



DIA - ST

It's clear that the "Deserting the Sinking Ship" are moving their money out of the big blue chips, this is usually last standing man



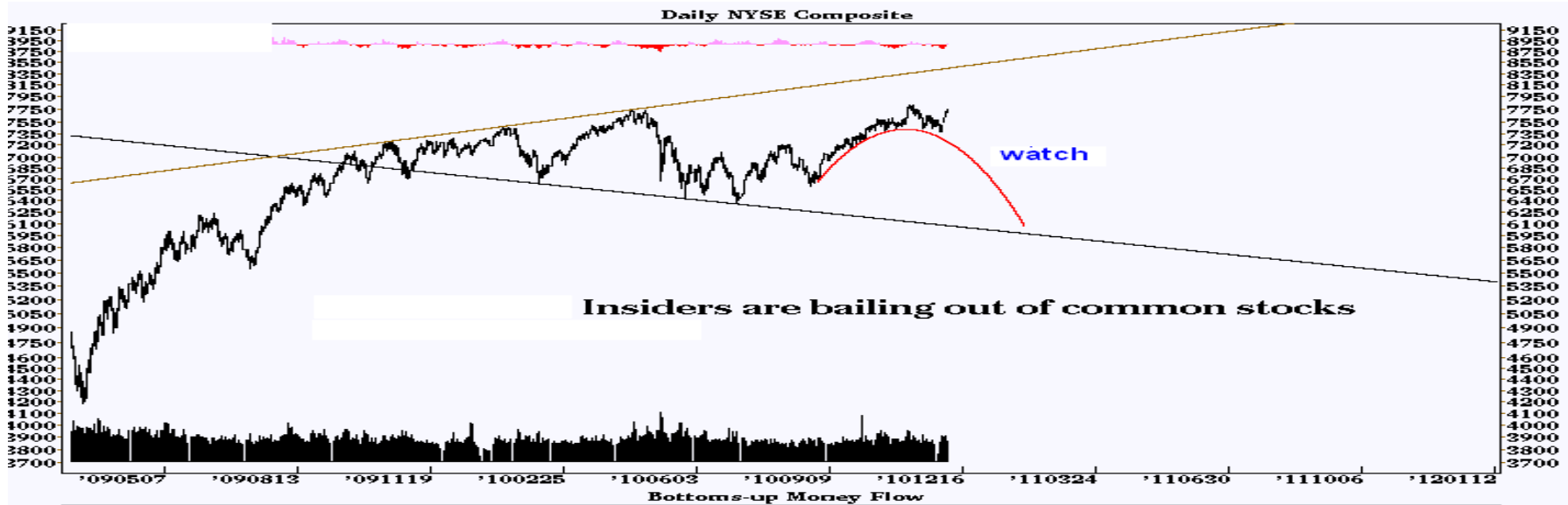
- Secondary Market Analysis for SPX – POM clues – NASD

NASD . The old leader continues to underperform and warns of a developing top, rebound has run into resistance on the old trendline. The violet support trendline, formed by the significant trading lows since the late August bottom, is rolling over to the downside now. Money flow is another serious issues,



NYSE

When all the Indices are in Sync with each other on various aspect, we get much better confirmation, therefore we use this extensive process for our Judgment explanation. Insiders are selling their holdings even as some indices appear strong on the surface. It's a false surface. Nothing bullish about this chart. Broadening Top



- Sector Analysis for SPX – POM clues – XLF, SMH

SMH

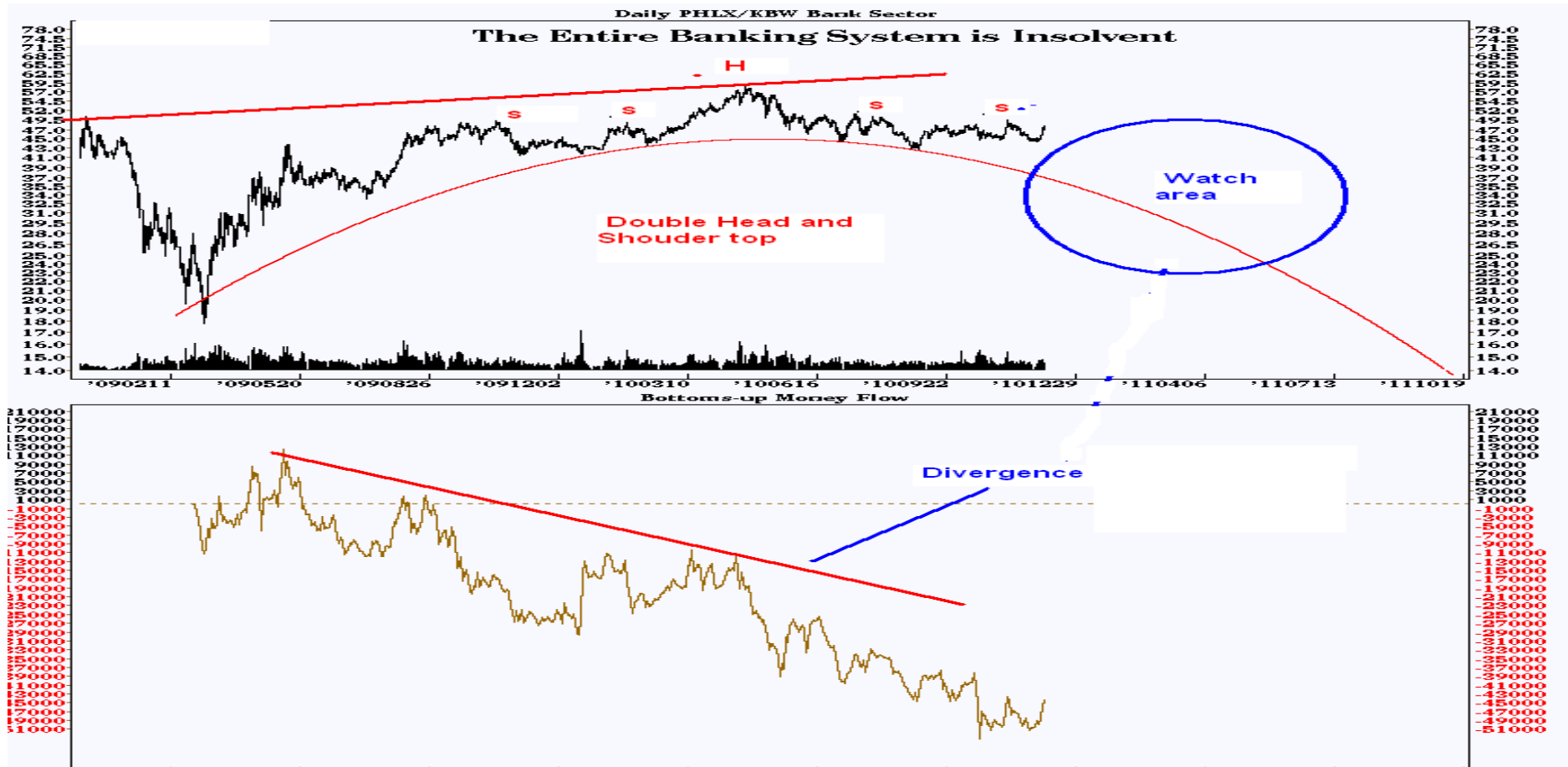
The insiders have selling their stocks. Despite the rally, Trim Tab Reports SHM stocks has the highest Insiders Selling. We think this sector is trouble just with Poly trend line and money flow, we made the higher high on lighter volume



BKX

H & Double S pattern is still in Play. (see the char below) To help confirm this potential Head and Shoulder top we would like to see a “Sign of Weakness” with a jump in volume. Also a sign of Weakness through the Neckline

Money is definitely flowing out of bank stocks. The real economy cannot recover if bank stocks are trending lower. In 2007, BKX peaked in February and the broad market continued to a higher high in October, a lag of 8 months. This year, BKX peaked in April and the broad market continued to a higher high in November, a lag of 7 months. The warnings are clear for all to see.



- **Time Cycle Analysis**

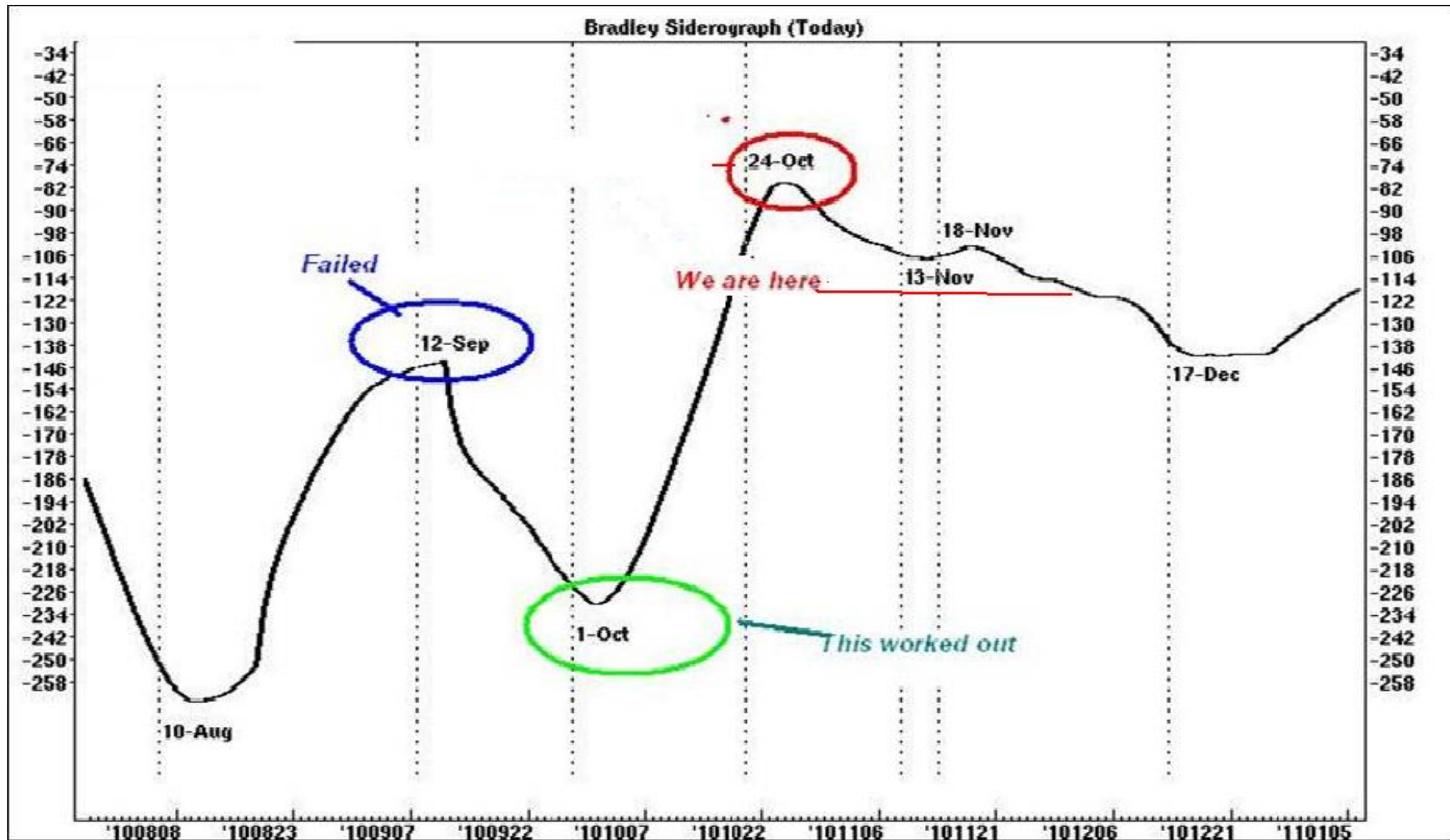
Our Time - cycle Analysis is based Seasonality, Calendar events, Astros Harmonics, Geomagnetic (including Bradley Model) & T – Termination. Based on current market condition our observation points out the following condition

Various cycle summary & dates

- Main - T – Terminations – Extended - **Bearish.** (But hasn't proven)
- **The seasonal pattern** is for the market to rally from 1ST Nov to 30 th April is till in tact. **Bullish**
- The Bradley is on 24th Oct to 17th Dec (**Bearish**) (But hasn't proven)
- **4 Year Cycle** , positive influence to begin 12th Nov t till 24th Dec (**Bearish**)
- **COPPER Cycle** – (**Bearish**)
- **OIL Cycle** – (**Bearish**)

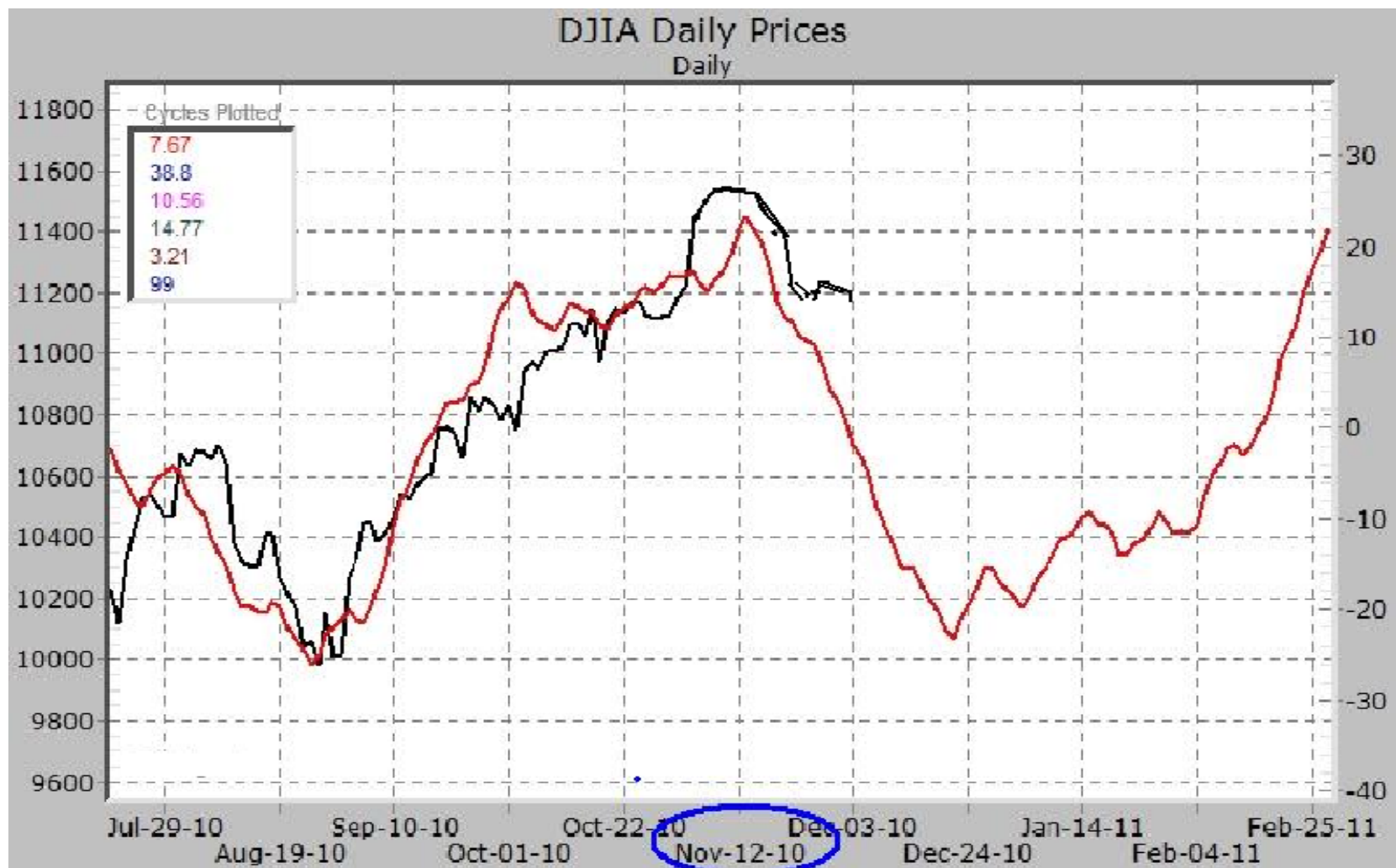
The Bradley Model – Bearish- Cycle in progress 24th Oct - 17th Dec = 12 days left

If the Bradley is still relevant, it is pointing toward a change-in-trend on 17th Dec in Downtrend. (This Model hasn't worked well for stocks consistently except the last trend but worked well for Bonds consistently) .



The 4 Yr – Price path Cycles – Bearish - Cycle in progress till 24th Dec = 20 days

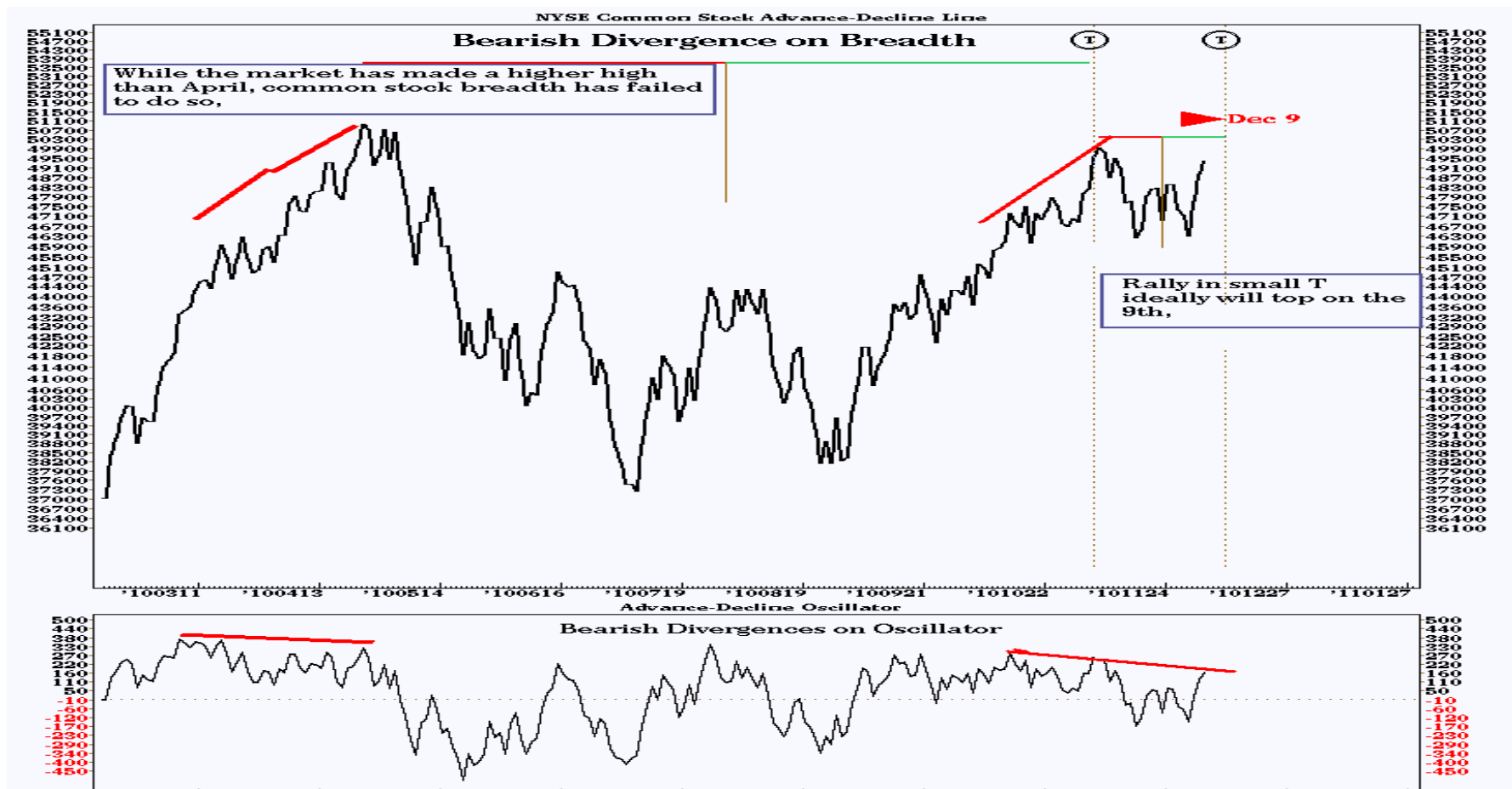
Further projections peaking from 12th Nov till 26th Dec in downtrend by 4 yr cycle.



• Advance / Decline Internal behavior Analysis

Our A/D Analysis is based on 3rd derivative complex A/D Oscillator instead of conventional A/D Line , secondly it needs to be conformed by the % of stocks above critical SMA's divergences. Based on current market condition our observation points out the following condition

Our advance-decline line has been making a series of lower highs, failing to confirm the higher highs in stock prices this year. Since the April high at **1220** , the SPX has made a slightly higher high at **1227** but took **7 months** to exceed that earlier high. that's the highwater mark since the bear market rally started . On Friday, the SPX closed at **1224**, still trying to make a new after its last high. The Oscillator has failed , Time termination on A/D line is 9th December for turn



NASD – A / D - . NON-CONFIRMATIONS IN NASDAQ BREADTH...

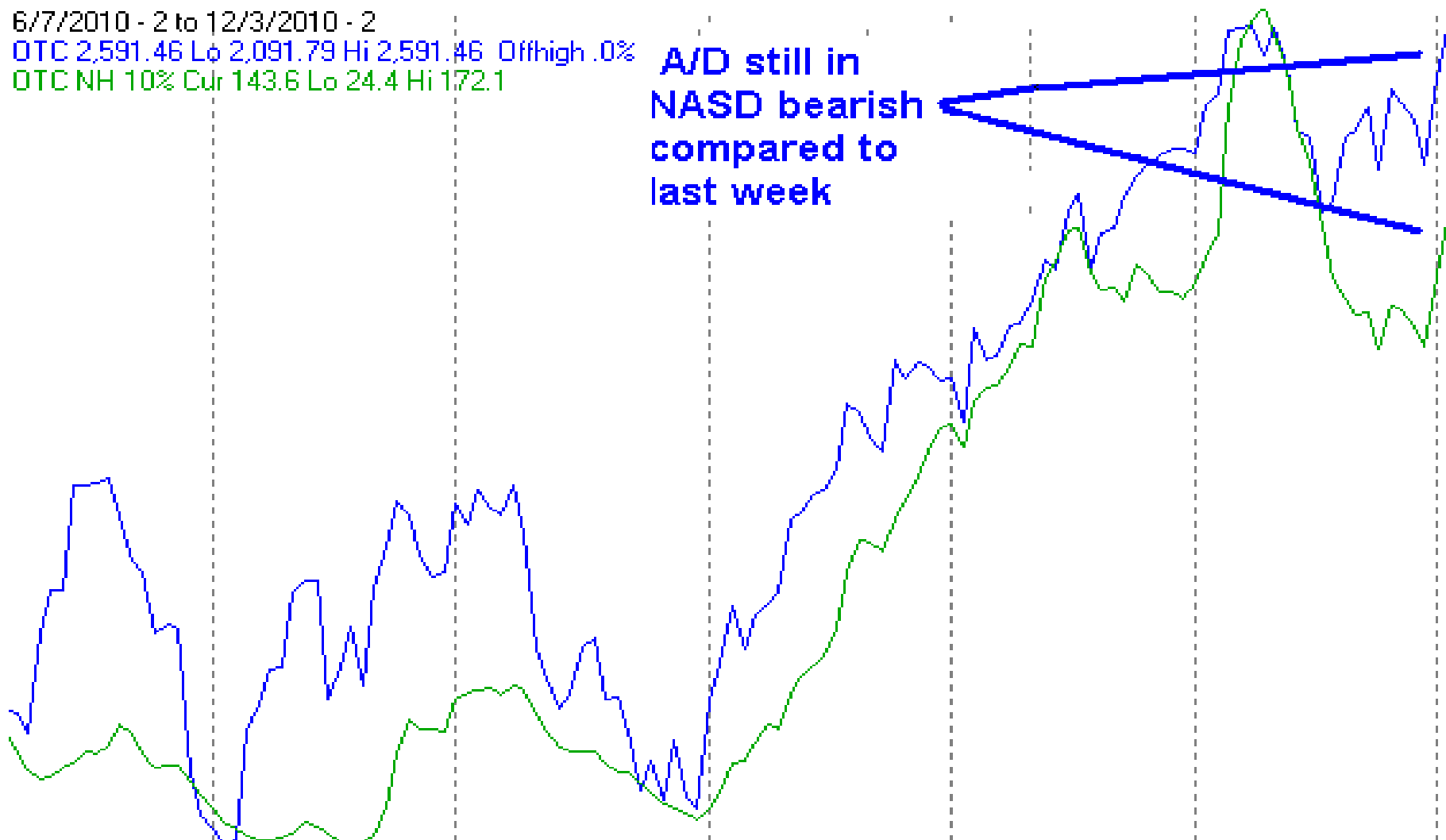
The chart below covering the past year showing the NASD in blue and NASD's new highs in green. **NH continued to lag.**

6/7/2010 - 2 to 12/3/2010 - 2

OTC 2,591.46 Lo 2,091.79 Hi 2,591.46 Offhigh .0%

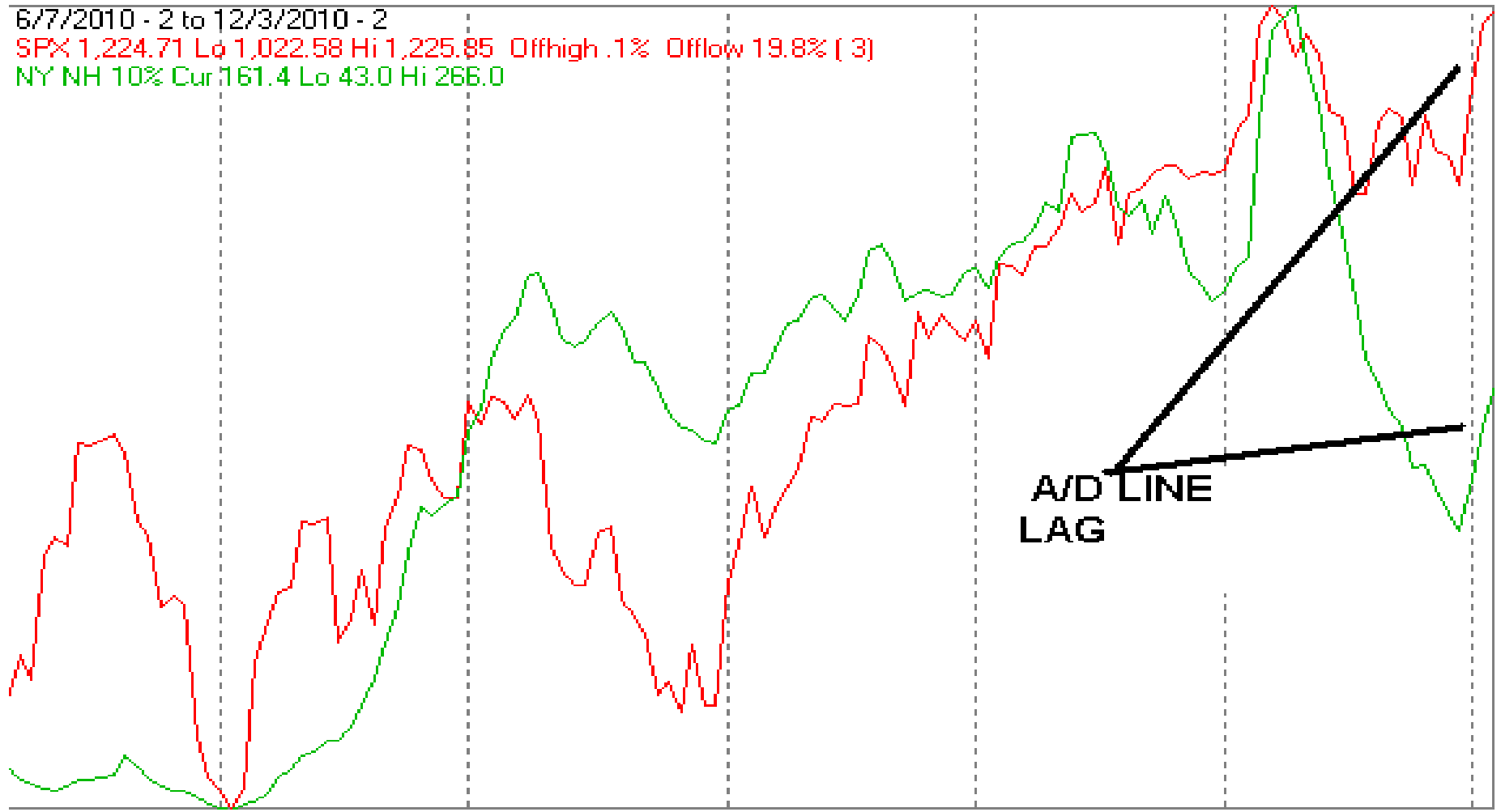
OTC NH 10% Cur 143.6 Lo 24.4 Hi 172.1

A/D still in
NASDAQ bearish
compared to
last week



SPX – NH - NL - . NON-CONFIRMATIONS IN SPX BREADTH...

The chart below is similar to the one above except it shows the (SPX) in red and NH new highs. The pattern is similar. NH continued to lag .



- **Sentiment Analysis**

Our Sentiment Analysis has “Intermediate & Short term” composition. *We evaluate (8- 9) Indicators for sentiments out of which some are working well for Short term and other for Intermediate terms These are either Numerical Indicators as the Investors sentiments is expressed through purchases of the market*

The Numerical we track are Tick, TRIN Arms, Put / call ratio, VIX Transform volatility (all 2nd / 3rd derivatives) , Rydex flow, Insiders activity. The Emotional / Survey sentiments we track Investors Intelligence sentiment Advisors sentiments. etc. All these are Integral part of POM composition ,

Based on current market condition and the probability of Indicators we point out the **EXTERME INDICATOR ONLY** as a observation points.

EXTERME INDICATORS

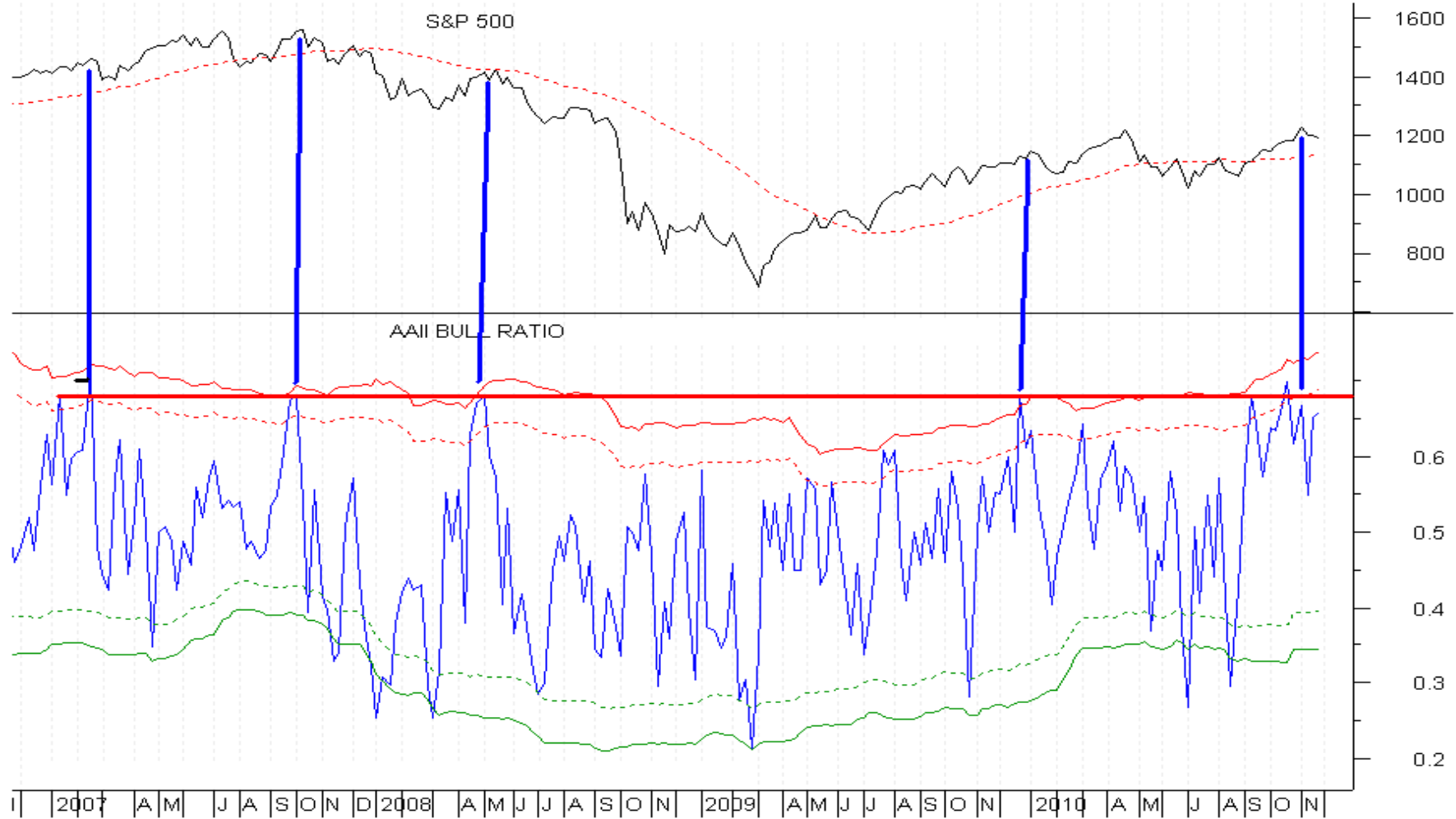
- . **Sentiment (Short term) has reversed** Our Mathematical Indicators such as **OEX Ratio, ARMS, TRIN, TICK, VIX** in their first and second derivatives have reached areas where at least a meaningful pull back has happened.
- **Commercial Hedgers** are at extremes Net position where the Previous tops have occurred
- **Rydex NASD Bull Ratio** are at Positions where the Previous extremes tops have occurred
- **AAII @ at** Positions where the Previous extremes tops have occurred
- **Insiders Selling @** at Positions where the Previous extremes tops have occurred
- **Speculator Buying @** at Positions where the Previous extremes tops have occurred
- **Mutual fund cash levels are at 3.5 percent — very close to their all time low of 3.4 percent.**

Sentiment Extremely Bullish - AAI

Reported by CFTC from Traders sentiments – On double top sometimes it lags

AAII BULL RATIO

LAST UPDATED: December 2, 2010

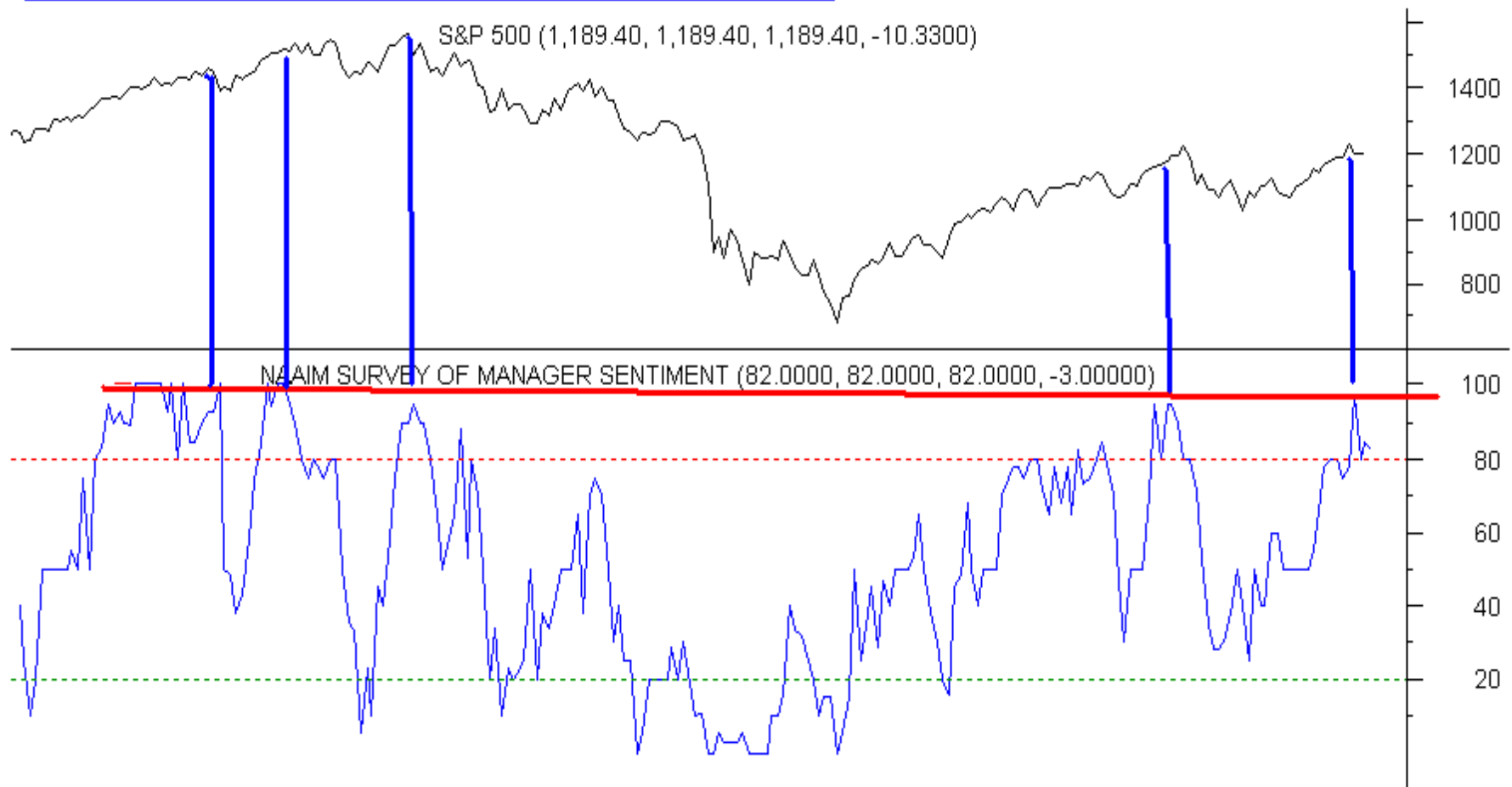


Sentiment Extremely Bullish - NAAIM

- When their cash levels are so low to 3.5 percent — very close to their all time low of 3.4 percent
- This brings the question: With so many investors bullish or fully invested, who is left to do the heavy lifting for further stock market gains.

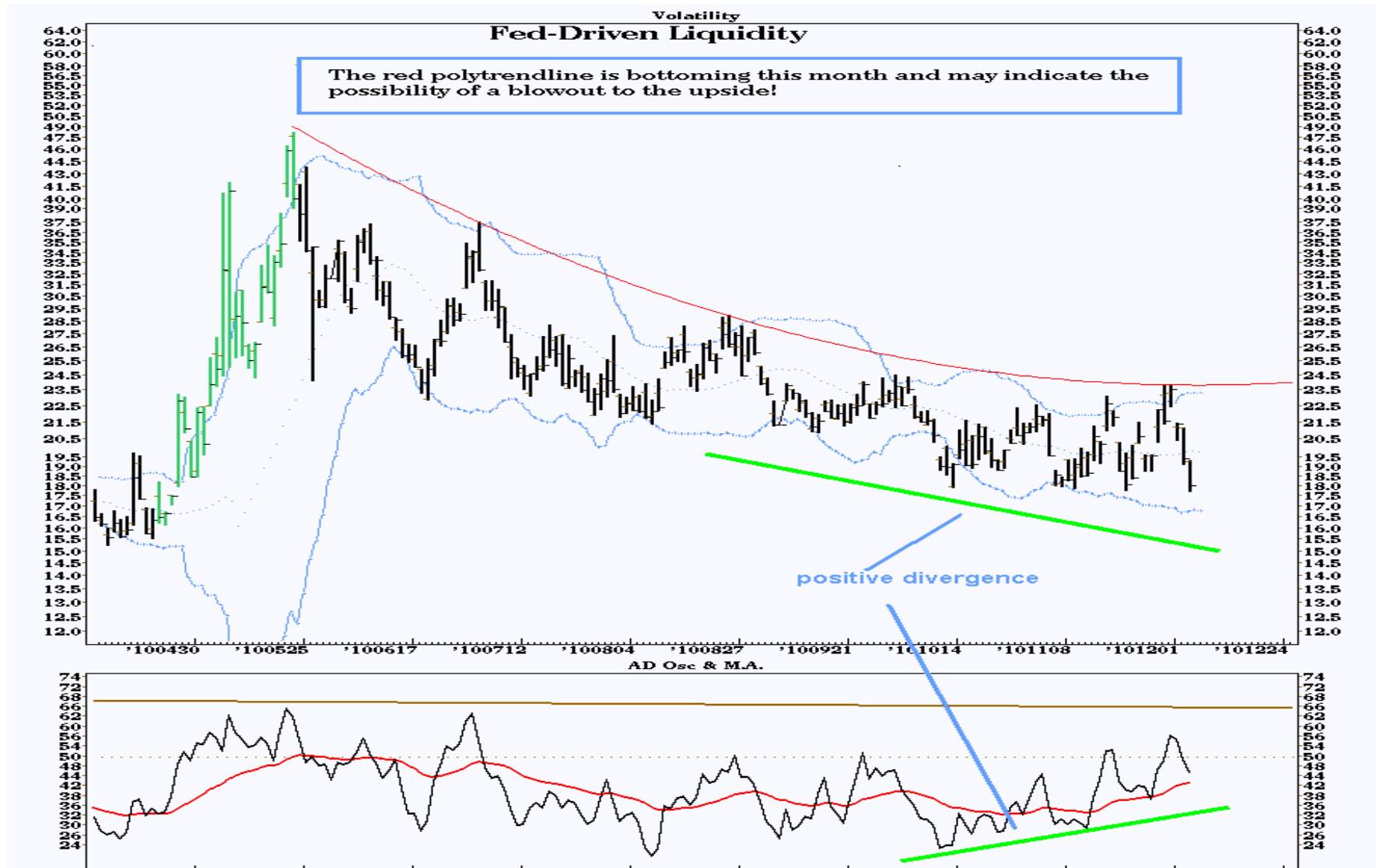
NAAIM SURVEY OF MANAGER SENTIMENT

LAST UPDATED: December 2, 2010



VIX

The likelihood of a "financial accident" happening seems to be growing. This is despite the fact that the VIX Index continues to head lower: There is positive divergence in Oscillator . Once the poly trend to upside is broken , watch out



- Global Market Analysis for SPX – POM clues – FTSE, CHINA

FTSE

This gave a good signal last week for the bounce in SPX . Earlier it had signaled its run out of uptrend time (as the expired tees indicated) . This has sometimes acted ahead of SPX for clues .



CHINA

This is a secular bear market. It has surprised us in between and now its on track for our Indicators. The long term view of the market puts the current downtrend into perspective



Appendix

• History - “ SPX – POM Signals & Projections”

- 2010 YTD – This year, we have had (3) clean TREND SIGNALS rise from “ POM 12 to POM 14 “ for LONG IDEAS
- FEB - 7.5% ,
- MAY - 7.0%
- JULY - 10.0 %

And (1) POM 15 to POM 13 (drop of - 9% - April /May) for Net Short Ideas

(3) Risk Managed POM 14 declines to POM 12 or 13

- JAN - (drop of - 9 %)
- JUNE - (drop of - 8 %)
- AUG -- (drop of - 8 %)



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)

Daily SPX - “ Trend Adjusted Signal”

- 3x3 /9EMA – Break Indicator

The process utilizes the cumulative Algorithm of price trails 3x3 / 9EMA input signals for Trend formation. This signal tends to work well in Market extensions (i.e. Post POM 14).

This Methodology is implemented by Program Traders especially in Momentum extensions and diagonal triangle formation Trend-following system which bases its reversal signals on breaking a significant closing Break Indicator I to confirm the new trend. (it's important to use a stop if you act on a signal). The reversal price is generated on the close of a bar. (The drawback of strategy is that it can whip saw).

INTERNALS OF 3X3- 9EMA – Break Indicator.

The line break indicator has captured the post POM 14 Moves on a mechanical basis. Although can't guarantee it will continue. But, even if it misses on occasion , it's still is the best indicator we've ever seen in Market for extensions.

Tight trading ranges tend to cause whipsaws and those are environments where trading multiple markets can help for diversification, in SPX & DOW. The reason is that we have a purely mechanical indicator, our line break indicator, that is much better to use. That indicator has proven extremely good over the past several months in many markets in many extensions.

As a reminder of how simple this indicator is, when the market closes above the "break" price level, the indicator is ""bullish"; when the market closes below the break price, the indicator is then "bearish". at the close

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