



# SG Capital Research

Global Market Insights

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

**MAEG- WKLY MKTSTR- GL- POM -SG 2010 # DEC 20**

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## **Market Strategy Global (A # 1) - SPX – Closed @ 1244 – Wkly change (+20 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
- Time / Cycle Analysis- Bradley Cycle, 4 yr Cycle,
- Advance / Decline Internal market behavior – A/D – NASD , SPX
- Sentiment Analysis with Extreme character – NAAIM, VIX, TICK
- Global Market Analysis for SPX clues – FTSE, HK
- 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 -3.24 % Drawdown v/s 12.67 %** SPX Longs during post POM 14 extension in same timeframe.*
- *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**

- *POM 15 for Net Short has not Triggered. Although this extension is counting time the best case scenario would be the highs of Pre – Lehman crash price 1250-1280. We could very well trigger POM 15. Meanwhile we continue to remain POM 14 since SPX 1105,*
- *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” - UPDATE**

**3x3 /9EMA – Momentum Break Indicator – Long @ 1228 SPX**

- **For Bull case - Previous long exit was on 11/17 at 1193 from 1105 entry 09/05 for 8%**
- **For Bear case - SS from last Sell Signal at 1193 to 1225 = - 2.6%**

Currently “ Trend Adjusted Signal “ has Reversal stop @ 1228 ( Revised) SPX & DOW 11006.

- **Market Insights**

*The internals of the market is deteriorating, which once we see the Santa Claus and seasonal pressures subside –then we are likely to see a rather sharp, abrupt decline to bring the market back to a technically healthy situation. For now, we don't know if that begins today, this week, next week or right into the New Year. We simply understand risk is high and rising, especially when the internals deteriorate*

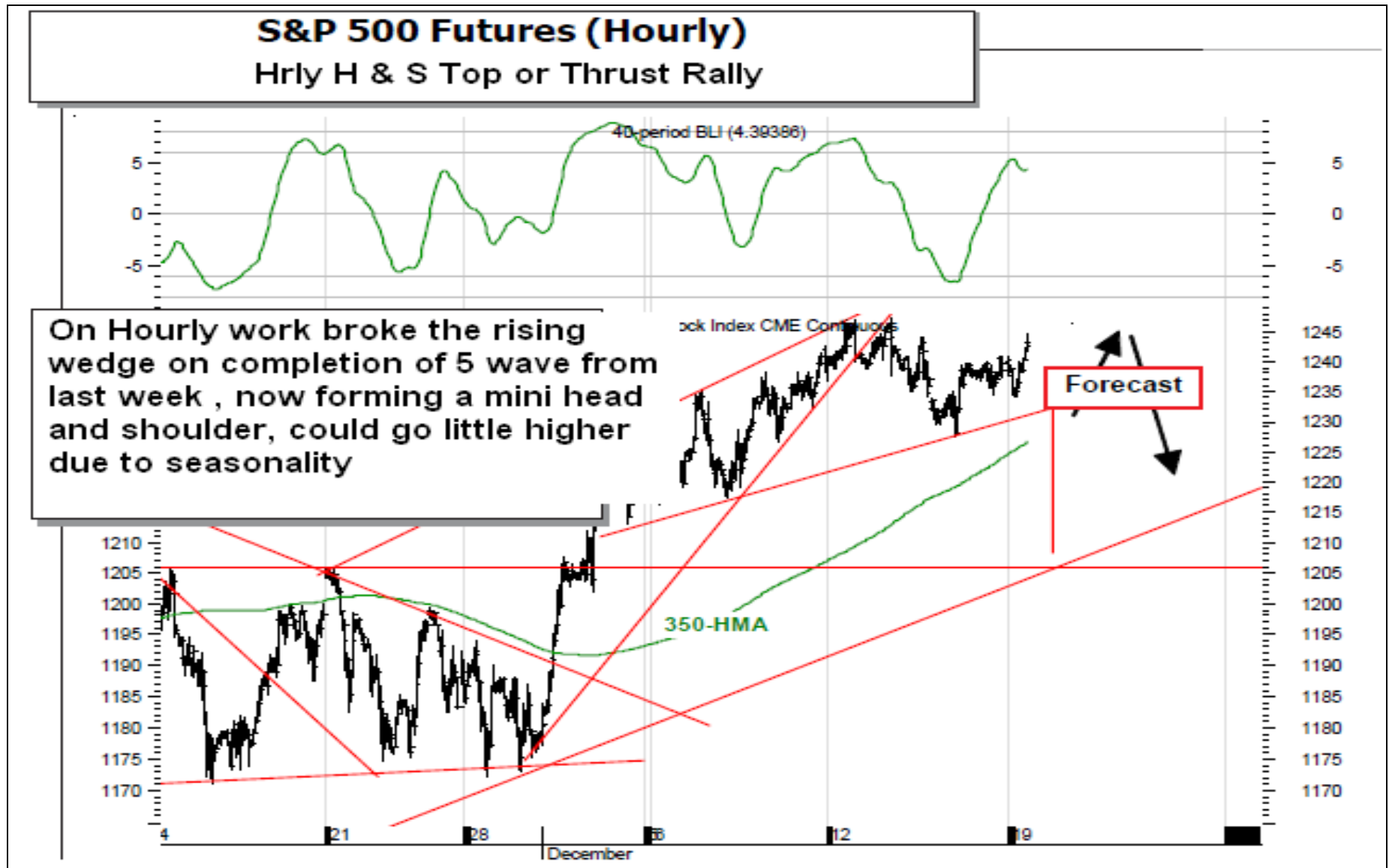
*Calendar wise Jerry Minton's 20 day, phase III should begin on 22<sup>nd</sup> Dec till 31<sup>st</sup>, first two phases resulted in 4.1% gains in 13 days. Also important to note past 6 yrs since 2004, NASD has dropped every year from 8<sup>th</sup> Jan to 31<sup>st</sup> Jan with average -3.5% loss worst being -7.5%.*

*On the broad market indices currently are testing recovery highs, near resistance and vulnerable to a selloff over the next several However EURO which is closely correlated with SPX move wants to bounce. Top on the bounce has been put in, once the secondary test of this bounce is complete then SPX should as well. But secondary bounces in the 2<sup>nd</sup> ABC down are not that reliable*

*On SPX weekly close 1210 to trigger bearish signal. Also time T termination has extended beyond 9<sup>th</sup> Dec expiration..*

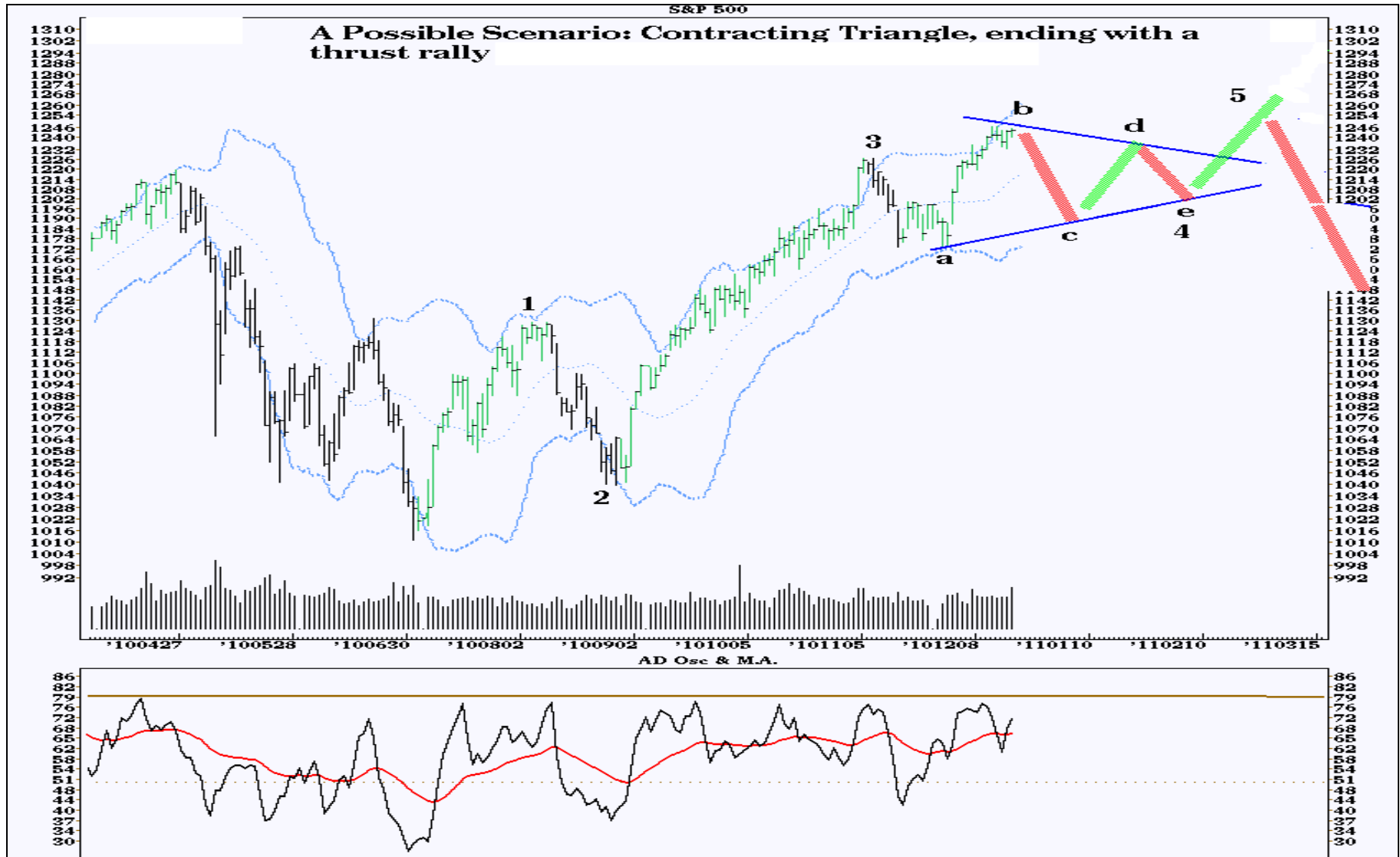
# Primary Market Analysis - SPX – HRLY – Trend lines & HMA

Short term, the SPX completed the diagonal triangle which we indicated last week and snapped back. Currently it could be a mini head and shoulder on hrly or if seasonality kicks in could take it little higher and could very well signal POM 15.



# SPX – Wave

On Daily's, there could be this contracting triangle within the five-wave pattern. The 5 rally that reaches either 1250 or 1270 and completes the pattern and then hard down into after the New Years. The Trend adjusted signal has a break point of 3x3/9ema at 1228. We could very well be at b level.



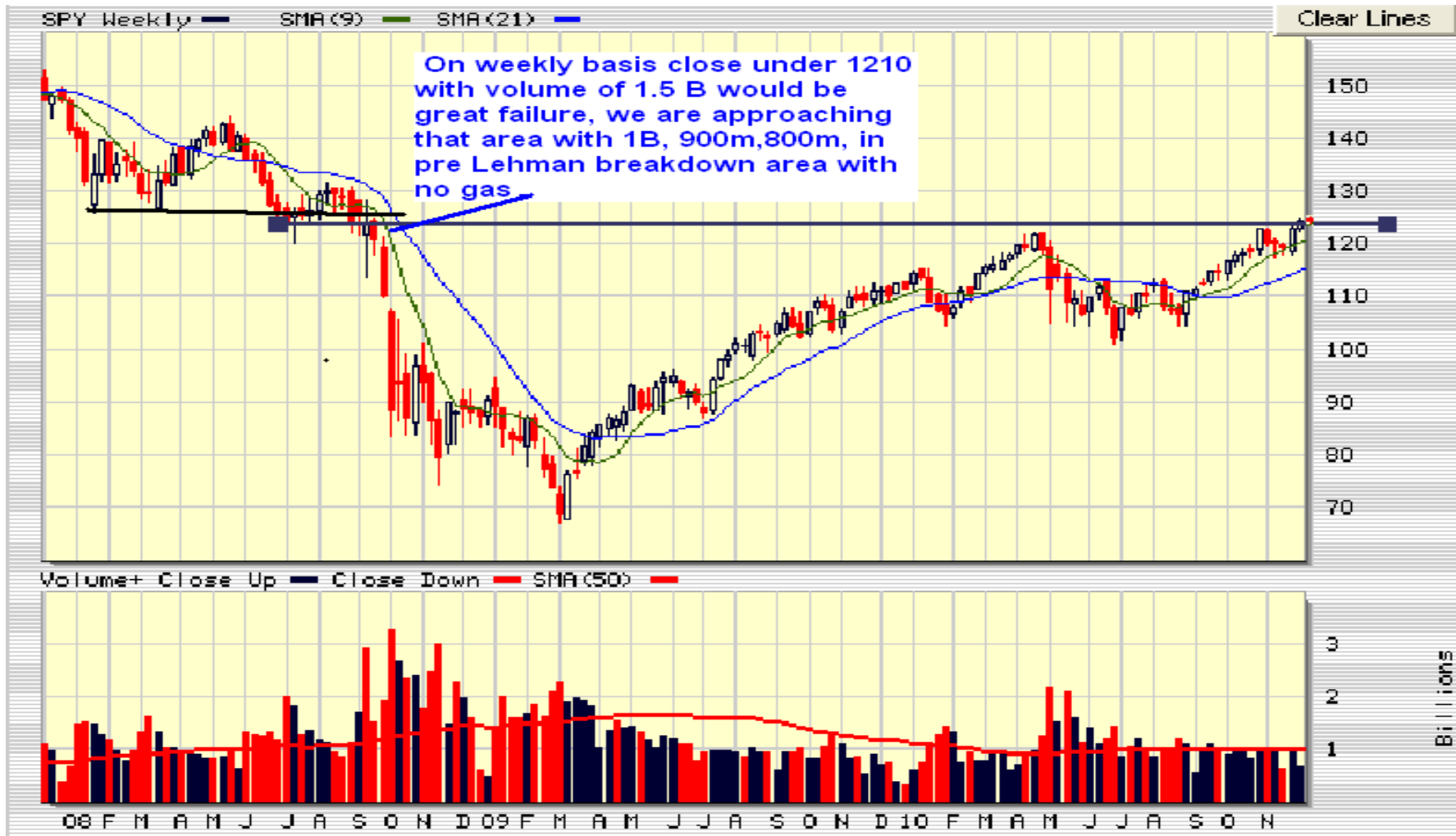
## SPX – MID TERM – Waves

SPX could be on the verge of a 5<sup>th</sup> wave, which suggest either way , we could have decline sooner than later especially upon completion of the Mini wave in above charts .The time termination on this top is 8<sup>th</sup> December . SPX is way above Poly trend lines.



## SPX – Price & Volume – LT

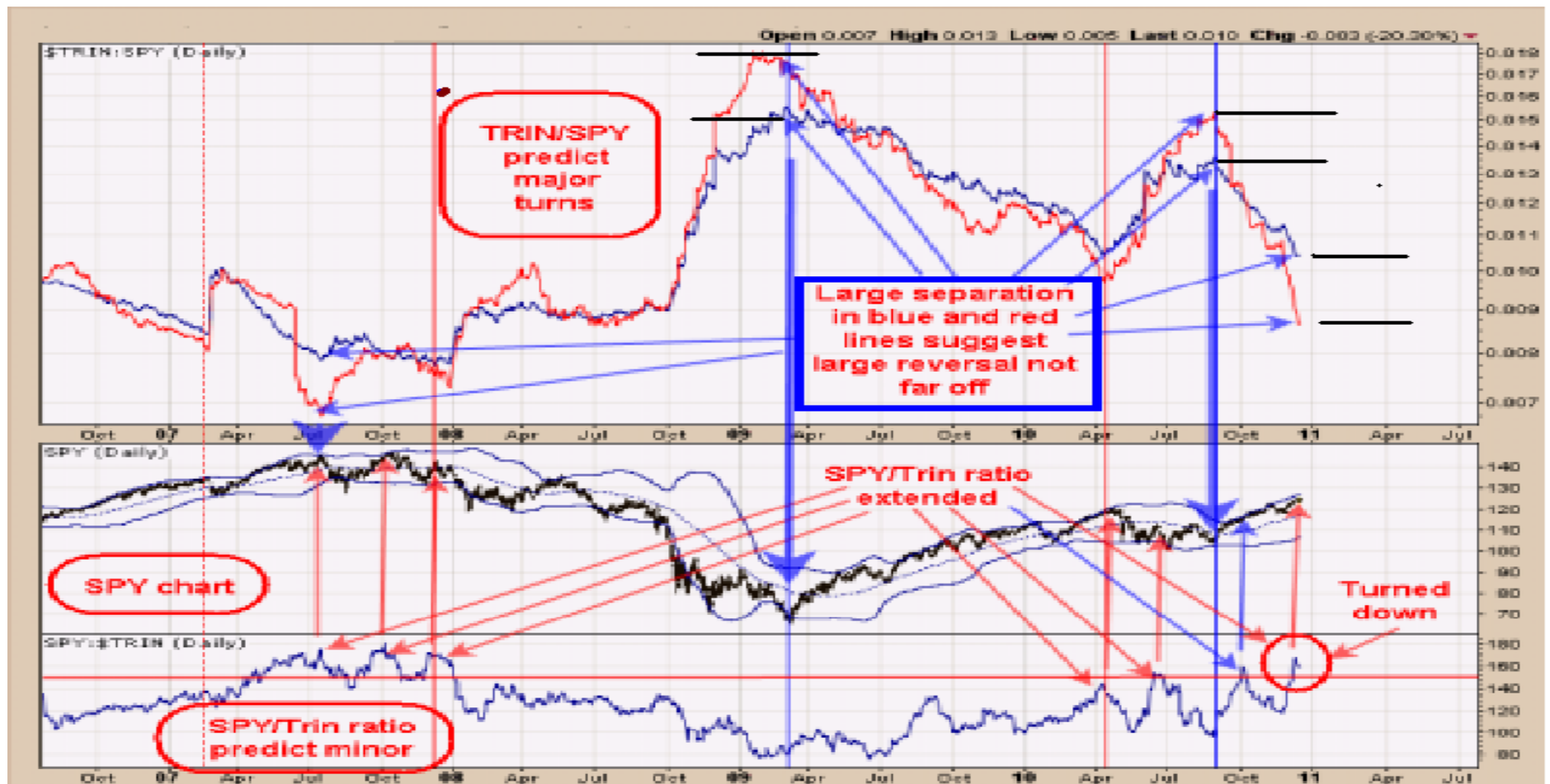
*This is the real road map story for the stoppage, Last week volume dried to 600 M from 800 M as it is Triple Topping, entering into the Lows of 2008, Lehman's Crash dates , already passed through the Flash crash area on lighter volume etc. Last week we were looking for test of the tops and close under 1228 first ( 3x3 /9ema) and then weekly 1210 on close on lighter volume we did not get. ROC has diverged negatively .*





## SPX – TRIN - MID TERM –

This Indicator has been reliable in past and its own way of looking at it. **We showed this chart on last Monday and have updated Friday. There is more widening into Trin / SPY ratio.** ( See chart below) When both the red and blue line is falling on the TRIN/SPY ratio then market rises and vice versa. When the Red line separates from the blue line in a large degree then expect a coming reversal in the market. It also appears that the wider the separation in the red and blue line the larger the move in the market. The TRIN/SPY ratio only picks out the larger moves in the market. Notice that the June and July 2009 and January February 2010 declines failed to even make a blimp on this ratio. However it has done a good job of picking the major moves in the market (see chart). . Right now both lines are trending down and suggest the bigger trend is up but the separation is getting wide which is warning that the bigger trend may not be far from a reversal. When both lines turn back up it will suggests the market has topped. Short term we expect the gap on spy near 120 to be touched.



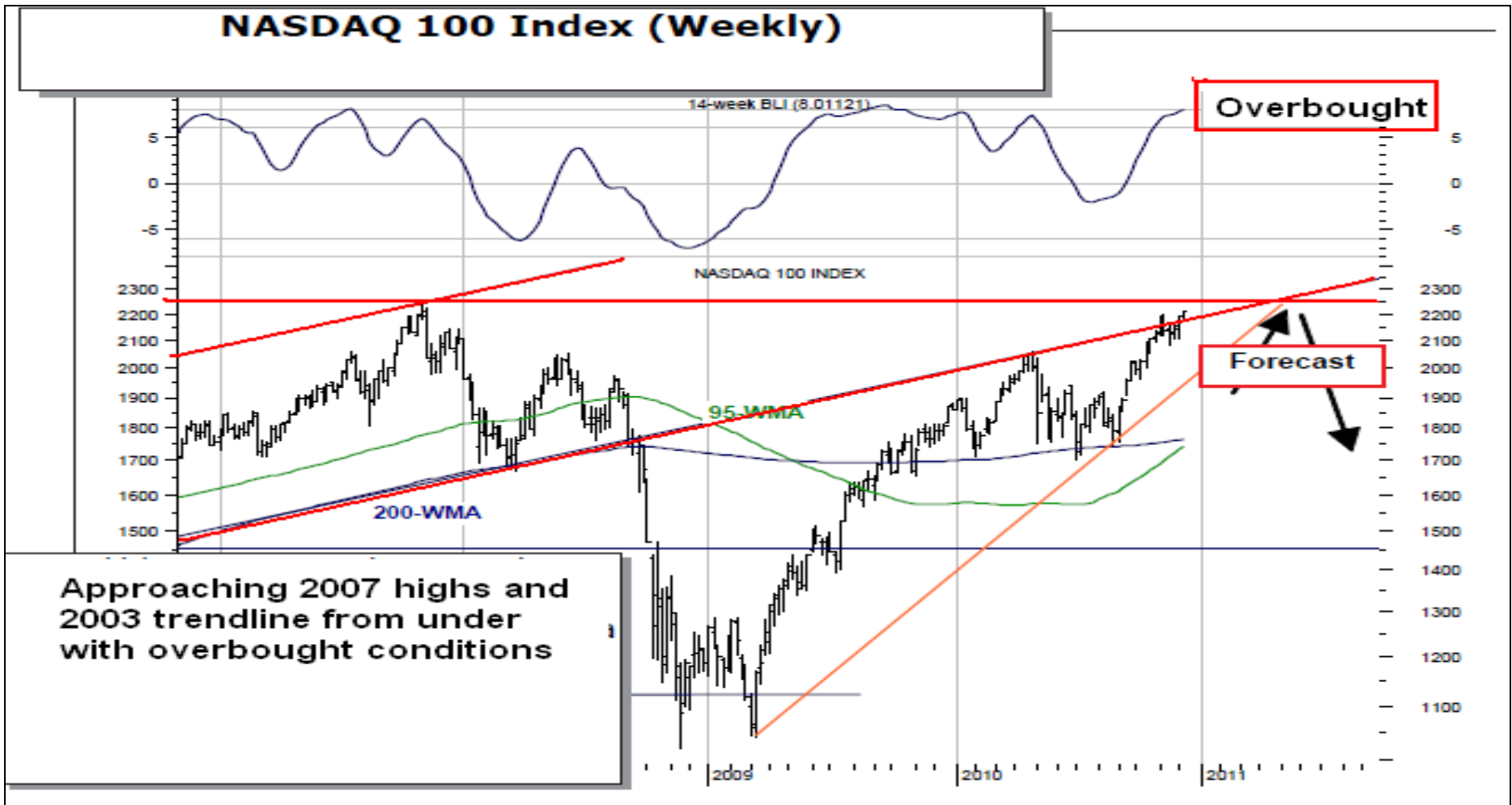
## DIA - MT

The average is very close to a long term resistance line, formed by the significant lows of 1982, 1994 and 2003. That line was broken in 2008 and has yet to be successfully since. ( Just like SPX these are some historical levels that acts like block , at least sideways consolidation is needed for 6 months to get th' this area. Especially with overbought conditions and Money flow drying up . May be next time around after the pull back or correction



- Secondary Market Analysis for SPX – POM clues – NASD, NYSE

**NASD.** *The story here is similar to SPX & DOW , The Major 3 Indices are going into high profile areas of testing, these areas usually doesn't cave in easily but once turned down it can get nasty in either direction , but in this case it will be down .*



# NYSE

*NYSE right at the upper trading band and diverging bearishly against the money flow index, the fact that it's also at the upper channel line . .*



- Sector Analysis for SPX – POM clues – SMH

## SMH

*This leading sector is very weak and warning of problems to come. Note that in the sector breakdown, Technology is the weak sector.*



- 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 1<sup>ST</sup> Nov to 30 th April is till in tact. (Bullish)
- The Bradley – Turns positive on 20<sup>TH</sup> DEC . (Bullish)
- **4 Year Cycle** , positive influence to begin 12<sup>th</sup> Nov t till 24<sup>th</sup> Dec ( Bearish)
- COPPER Cycle – (Bearish)
- OIL Cycle – ( Bearish)

## The Bradley Model – Turns positive today – Till year end

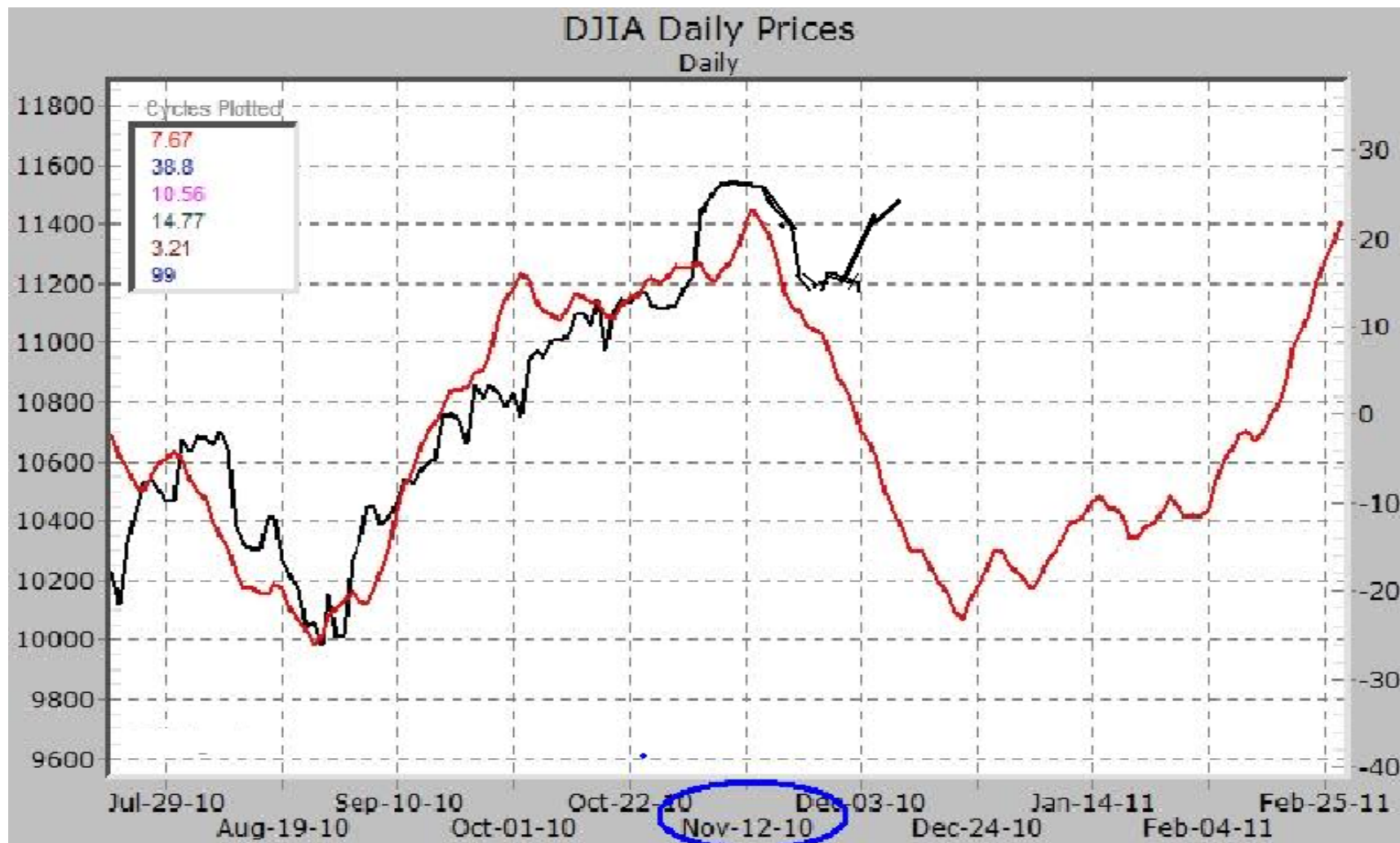
*New Bradley Chart for 2011 projection. We will track with SPX closely. Useful for highlighting trends lasting 2-4 weeks. But if you look at the model on a long term basis, it also provides a very good outline of what should happen (not always what will happen) over a period of months*





**The 4 Yr – Price path Cycles – Bearish - Cycle in progress till 24<sup>th</sup> Dec = 10 days**

**Further projections peaking from 12<sup>th</sup> Nov till 26<sup>th</sup> Dec in downtrend by 4 yr cycle.**



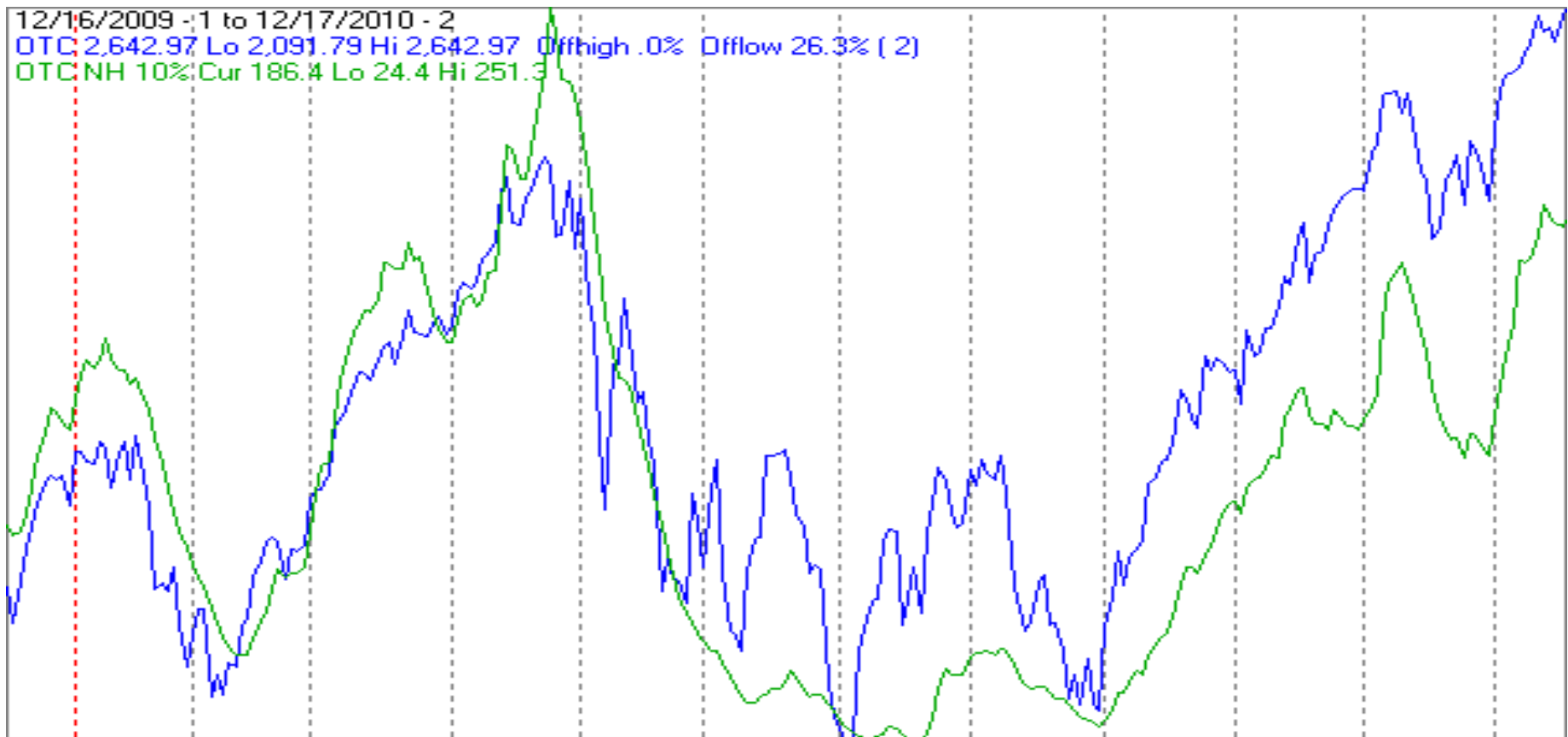


- Advance / Decline Internal behavior Analysis

Our A/D Analysis is based on 3<sup>rd</sup> 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

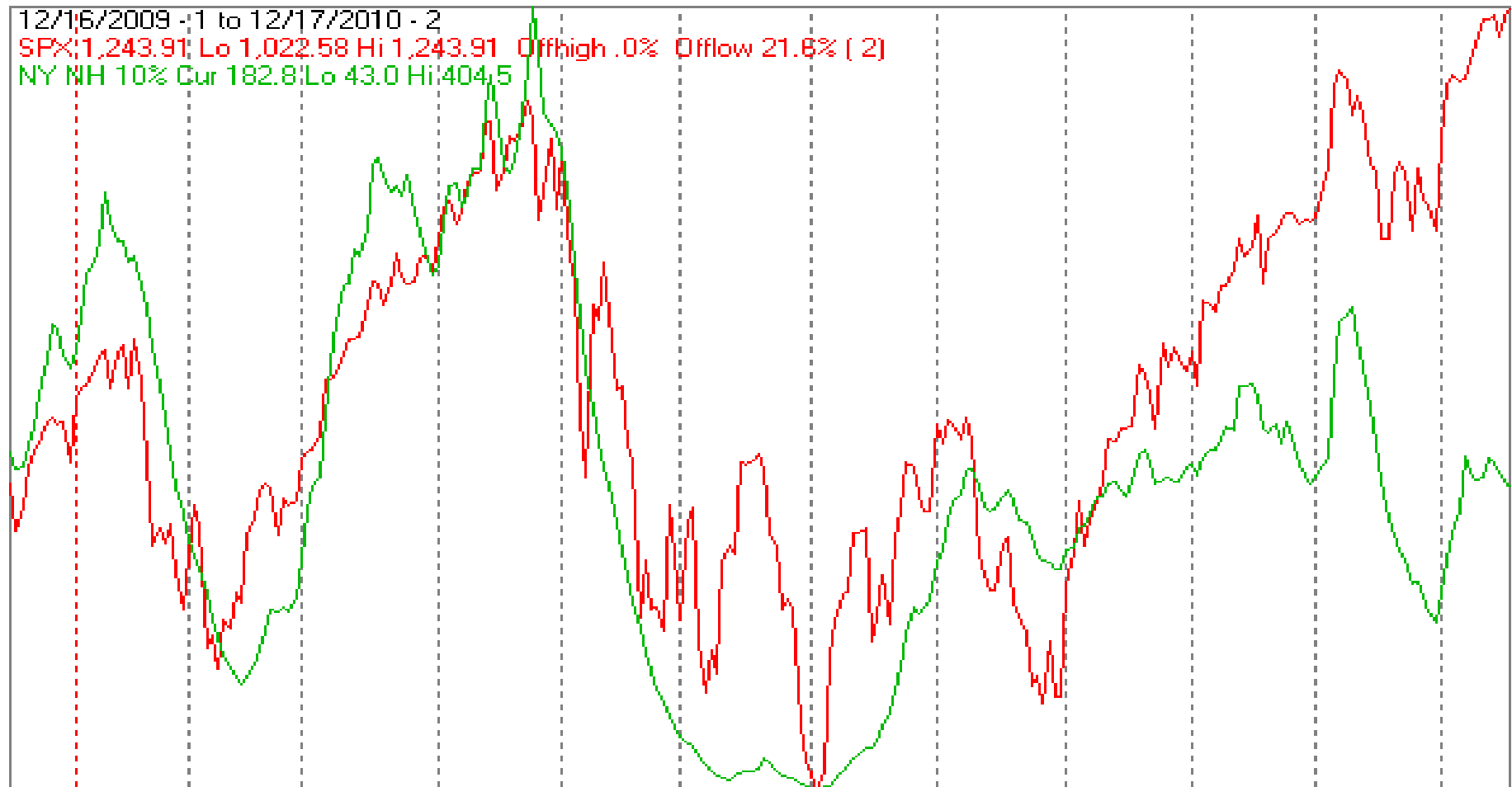
### NASD – A / D - . NON-CONFIRMATIONS IN NASDAQ BREADTH...

The chart below covering NASD in blue and NASD's new highs in green. **NH continued to lag. Especially last week**



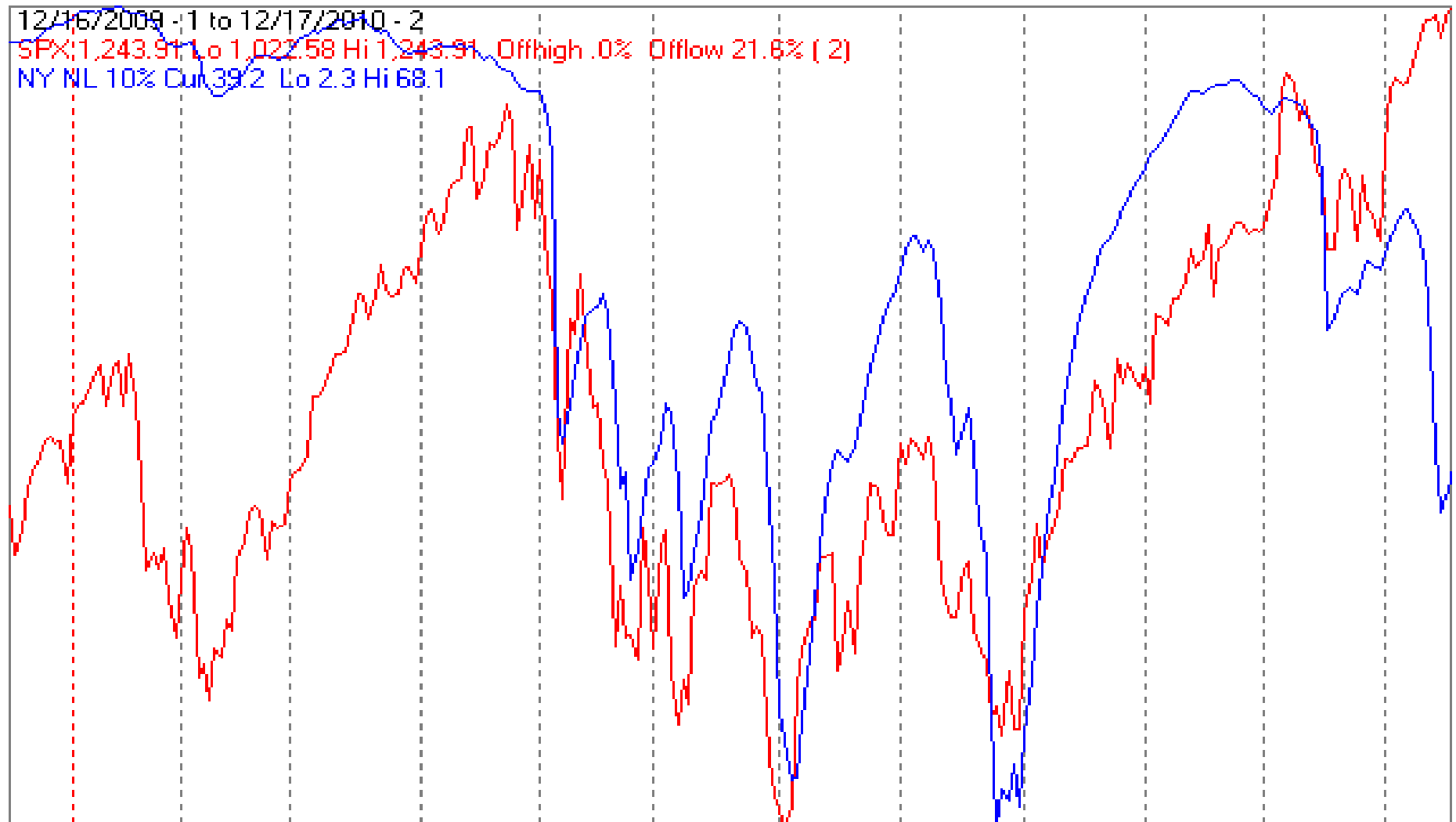
## SPX – NH - . NON-CONFIRMATIONS IN SPX BREADTH...

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 . Especially last week



## SPX - NON-CONFIRMATIONS IN BREADTH - NL (NEW LOWS)

*This indicator has an extremely negative bias past 6 week as we are seeing now is significant. Past 2 weeks dropped of the cliff*



- 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 2<sup>nd</sup> / 3<sup>rd</sup> 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.

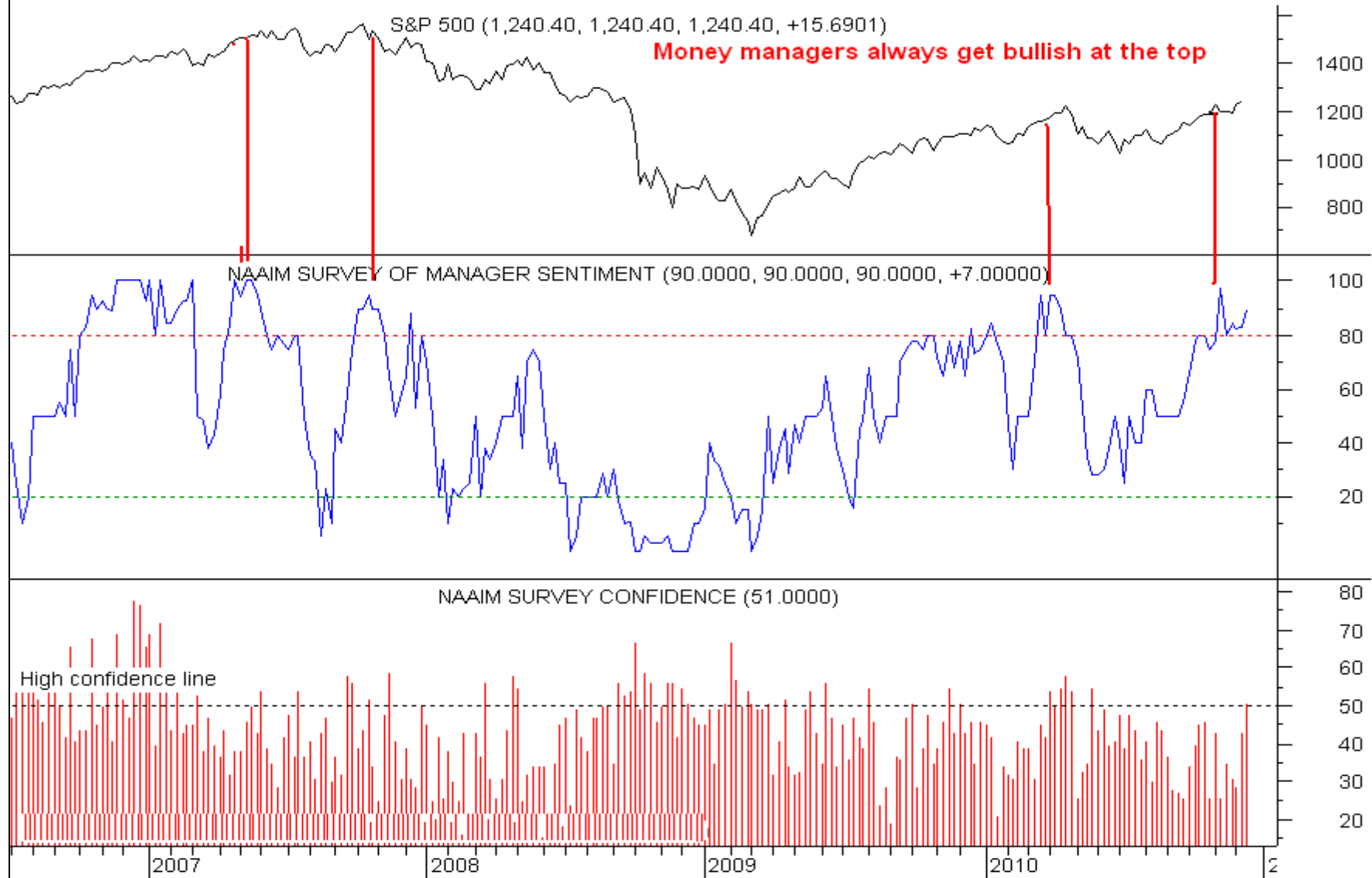
### EXTERME INDICATORS

- . **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
- **AAll @** 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 - Money Mangers -

Reported by CFTC from Traders Sentiments

## NAAIM SURVEY OF MANAGER SENTIMENT



# VIX

*The declining wedge is dominant, with lower trend line and April low support being tested. We suspect this test of support holds, with the model turning higher in bullish divergence. Heavily extended below the 220-dma and now should act like magnet.*



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

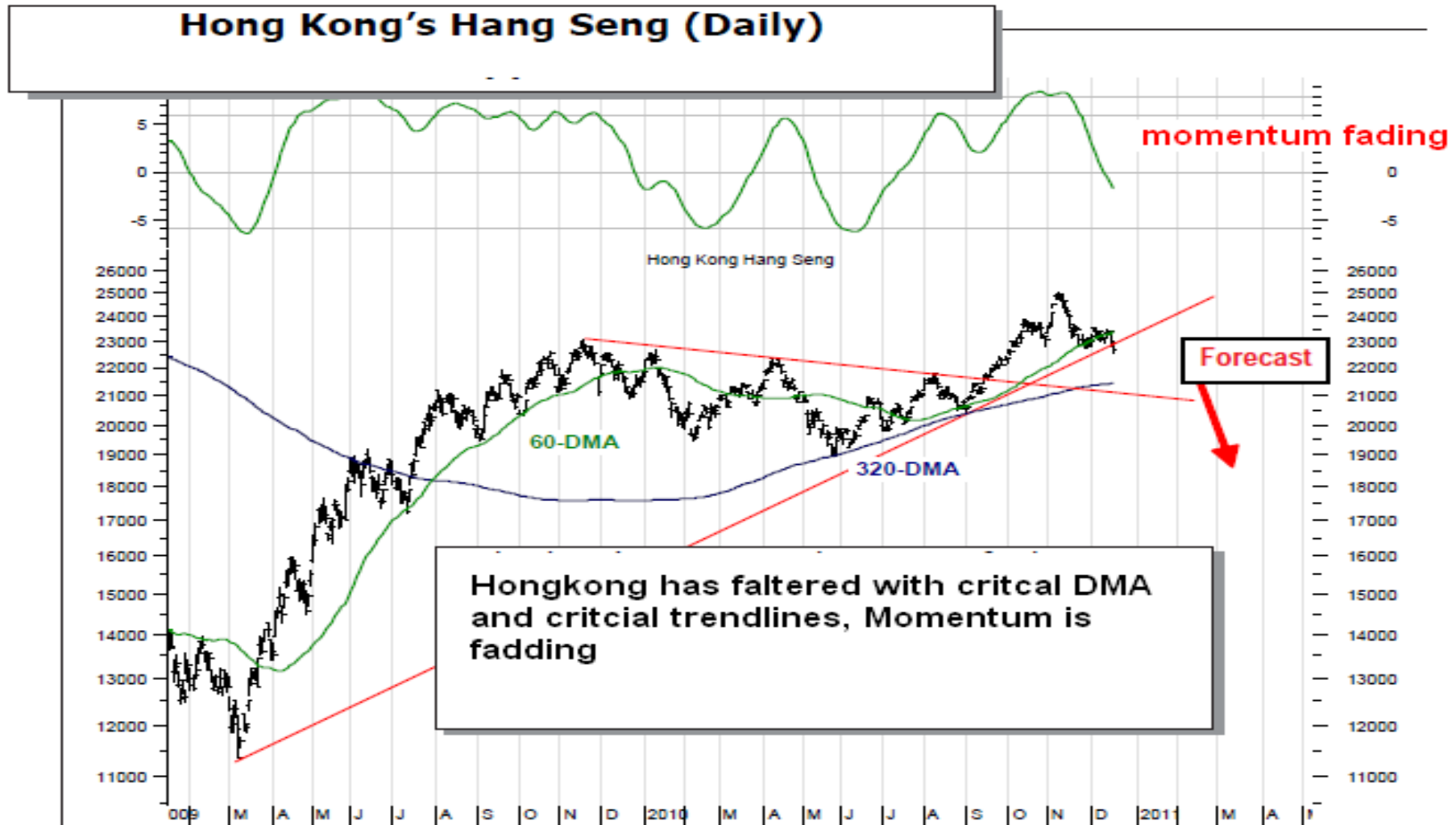
**FTSE**

*Bullish divergence at the last low but diverging again over the poly trend ( see the notes within the chart)*



## HK – MID TERM

*HK Index has formed a lower high, and it formed it on a key reversal lower. But our real concern comes with a breakdown below the key DMA and Trend line . History has shown that breakdowns or violations confirms lower. This might be giving some warning on China .*





# 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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