



SG Capital Research

Global Market Insights

Research Note – Market Strategy - Interim Update (A# 2)

MAEG- MARKET STRATEGY INTERIM UPDATE # SG 2010 # DEC 02

For Immediate Release – *Thursday AM (EST)*

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Market Strategy Global (A # 2) - SPX – Closed @ 1206

We have picked up charts (below) that has some distinct characteristics from observation & Special Situation this week based on our assessment:

- Coverage

- DOW 9EMA / 3X3 Strategy – DOW & SPX
- SPX – ST,MT,LT
- TLT
- Appendix - History of past SPX - POM Signals & Key Criteria

- Special Coverage

- IWM – PQV Analysis (If @ or > 2.0 SD)
- QQQQ – PQV Analysis (If @ or > 2.0 SD)
- EEM – PQV Analysis (if @ or > 2.0 SD)
- EEA – PQV Analysis (if @ or > 2.0 SD)

● PQV's on IWM, QQQQ, EEM, EEA (when qualified for SD # 2 limits) to be depicted in Thursday's Bi –wkly MS - A # 2

Reports , instead of D # (Fri / Sat's Sector Report)

- **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 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) .*
- *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 extended 8.8 %. 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.**

Insights

EURO v/s SPX - This market is Euro driven, in our last week's message we had EURO v/s SPX correlation chart, Although we not were expecting such a Hugh bounce in SPX but in our currency report MEEG – B, in EURO our price projection of 1.30 (oversold) was met from 1.40 and the bounce to 1.34 -1.35 should be in progress and market reacted violently to it. Month Beginning added fuel to the fire.

On Macro side, Yesterday we had a news driven gains on ECB intervention (news similar to QE 2 on 4th Nov) Hugh Gap up and we all know what happened there. It was certainly longer term trend change. If we look at EURO , SPX optimism could well remain till the EURO hits 1.34 Creek area as shown in chart below.



EURO

As you can see from the weekly chart, the euro has already lost more than half of its prior gains and is showing an increasingly strong trend to the downside



INTERNAL

On the first Pull back in SPX we were expecting was 1160 but market halted at 1173 at some minor support few times and then bounced High on news The volume downside going toward 1170 are has picked up on its approach compared to bounce volume towards 1200. Which suggests that at best market needs to go in consolidation between these trading areas till seasonality is over.

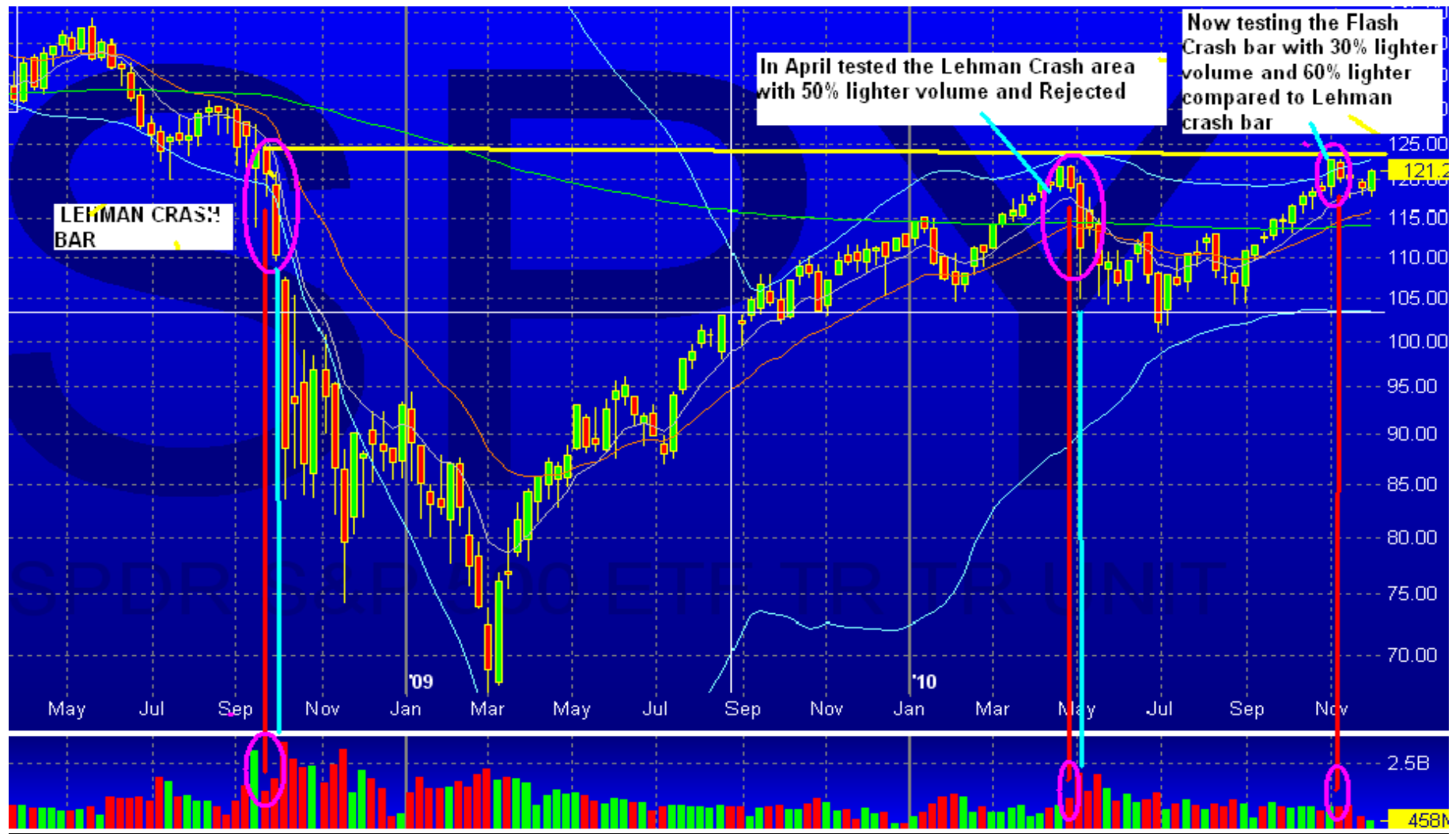
Key points on SPX

On Monday MS notes, we had SPX – Long term –CHART of SPX with Cross currents of key Trend lines and SMA's Analysis providing the resistance now in chart below we will preview once again updated the long term Volume barrier with Volume Analysis .

The combined two analysis is something worth watching. But for now its testing the patience.

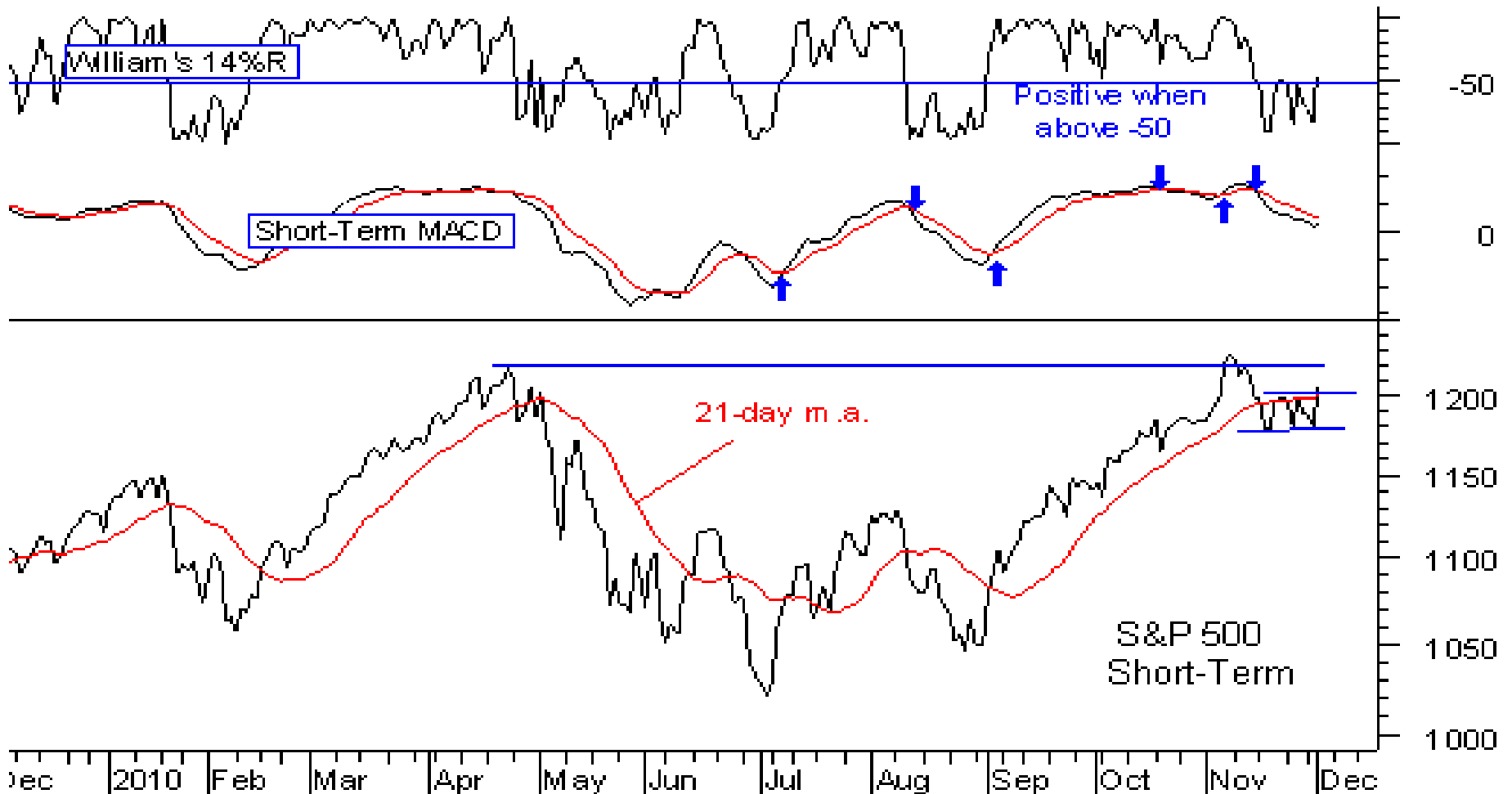
SPX – LT – Price & Volume

In chart below - On bigger picture , the simple way to assess this week - lets look for volume on SPY to come under 900M and price to go between 1200 to 1225 and close below 1200 that should be the 4th failure, indicated in pink circle, if price exceed those areas under 900 M it will be false break (We don't think this will happen but just due to seasonality issues keep mind opne). The trend line, SMA (chart of Monday) & the Volume study (today) all converge together.



SPX - Short term

The S&P broke down through the previous support at its 21 DMA for the first time since the rally began in early September. Now peaked back up, we'll wait and see but we still think EURO and / or Seasonality is the key word for reversal. We don't like this 21 D MA breakout in Short term, this just opens a possibility of double top, we'll see



- **TLT - Weekly- 3 Year with RSI, CCI, MACD**
(11 W / 40 W SMA)

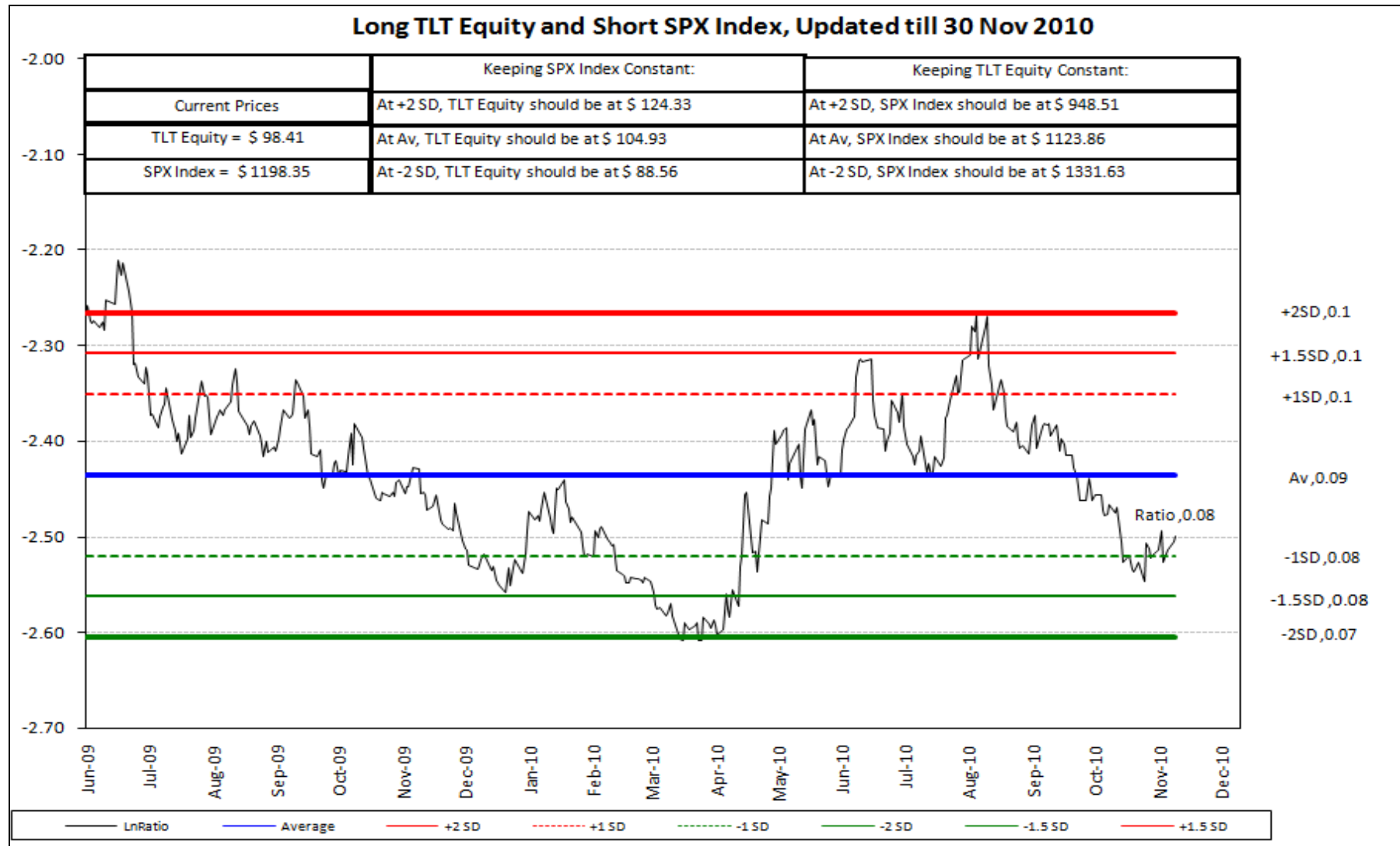


TLT - Daily - 3 Year with RSI, CCI, MACD (11D / 55D)



TLT – Correlation Ratio Analysis with SPX – 365 days Time basis

We ware watching this carefully for SD# - 2 , for undervaluation Zone



2 – TLT- PEC Analysis

Treasury Bonds - Our first PEC D point came in at 132 with Extreme “ Bullish Sentiment “ and that marked the Top with Triangular formation, The Target of 125 has reached but no conclusion on reversals, we think there is some downside risk Till 122 , if SD # 2 lines up , We will re visit this market on buy side



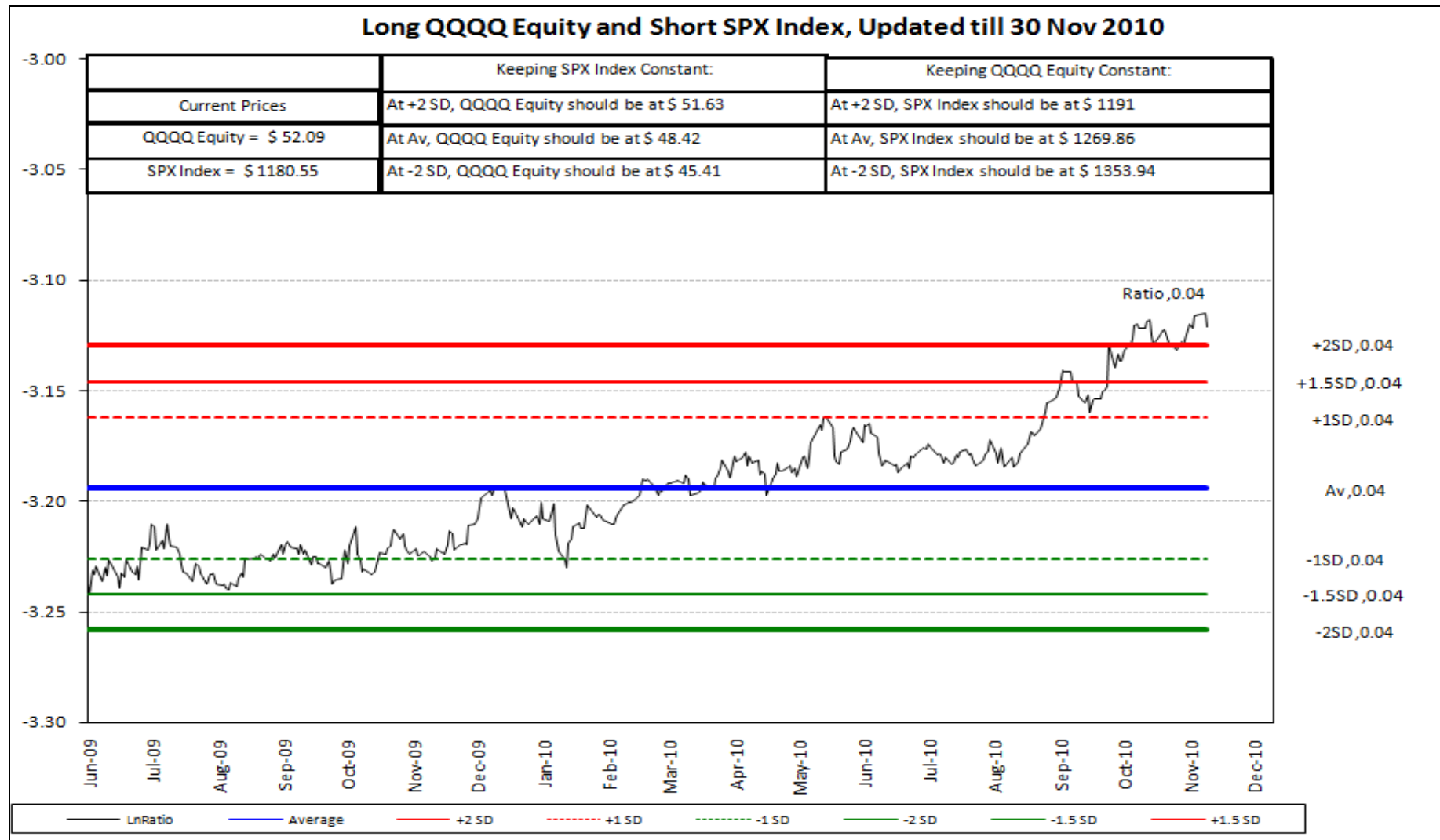
2 – TLT- POM – ST - Price , Volume & Pattern Analysis

TLT – Held its support at 94 as mentioned in our last week report , bounce materialized but the volume increased on the fall. Now the highs on bounce did not hold as well (see the chart) , look for retest of 95 back again . If that does not hold and volume expands then we could go to next level. If SD # 2 / PQV qualifies , might give a next good signal.



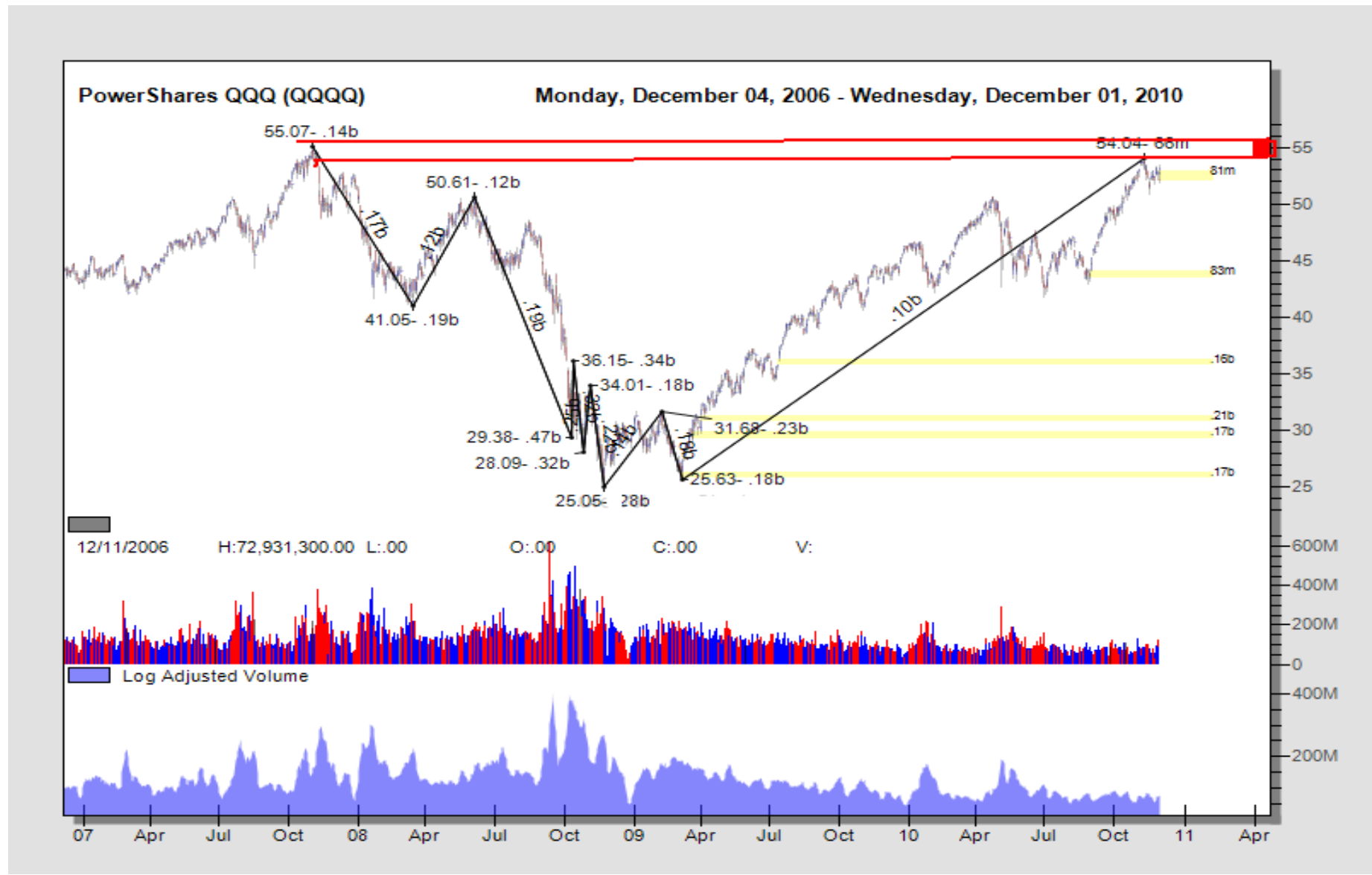
QQQQ – Correlation Ratio Analysis with SPX – 365 days Time basis

Is at SD# +2.0, for overvaluation



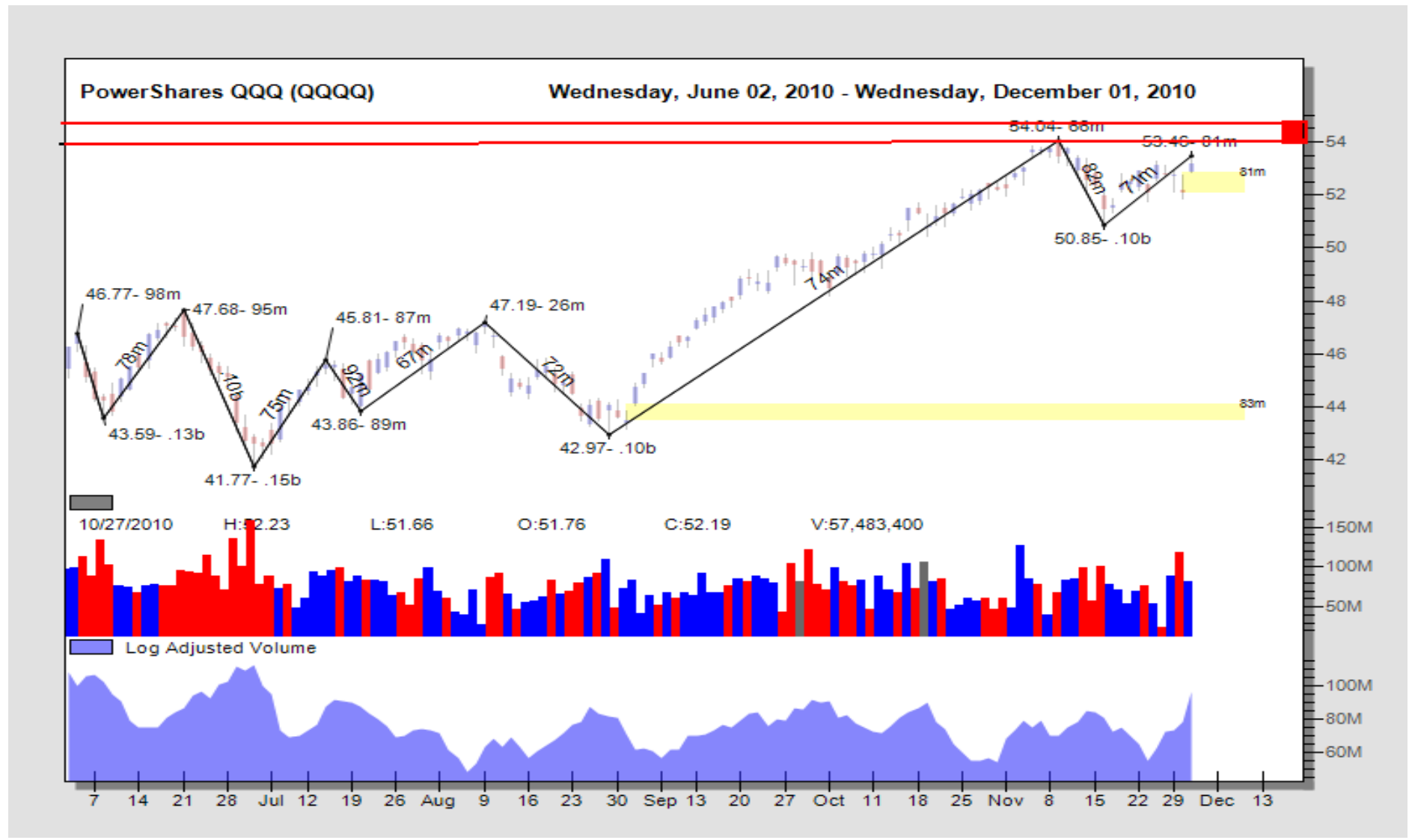
QQQQ - POM – LT - Price , Volume & Pattern Analysis

QQQQ is testing Oct 08 highs of 55 , Previously it tested the breakdown area of Oct 08 of 54 with 35% lighter volume
If the test of 55 with 100 M shares and close below 54 would be failure (This is a better failure) , On risk reward as always
the stop on other side of CZ.



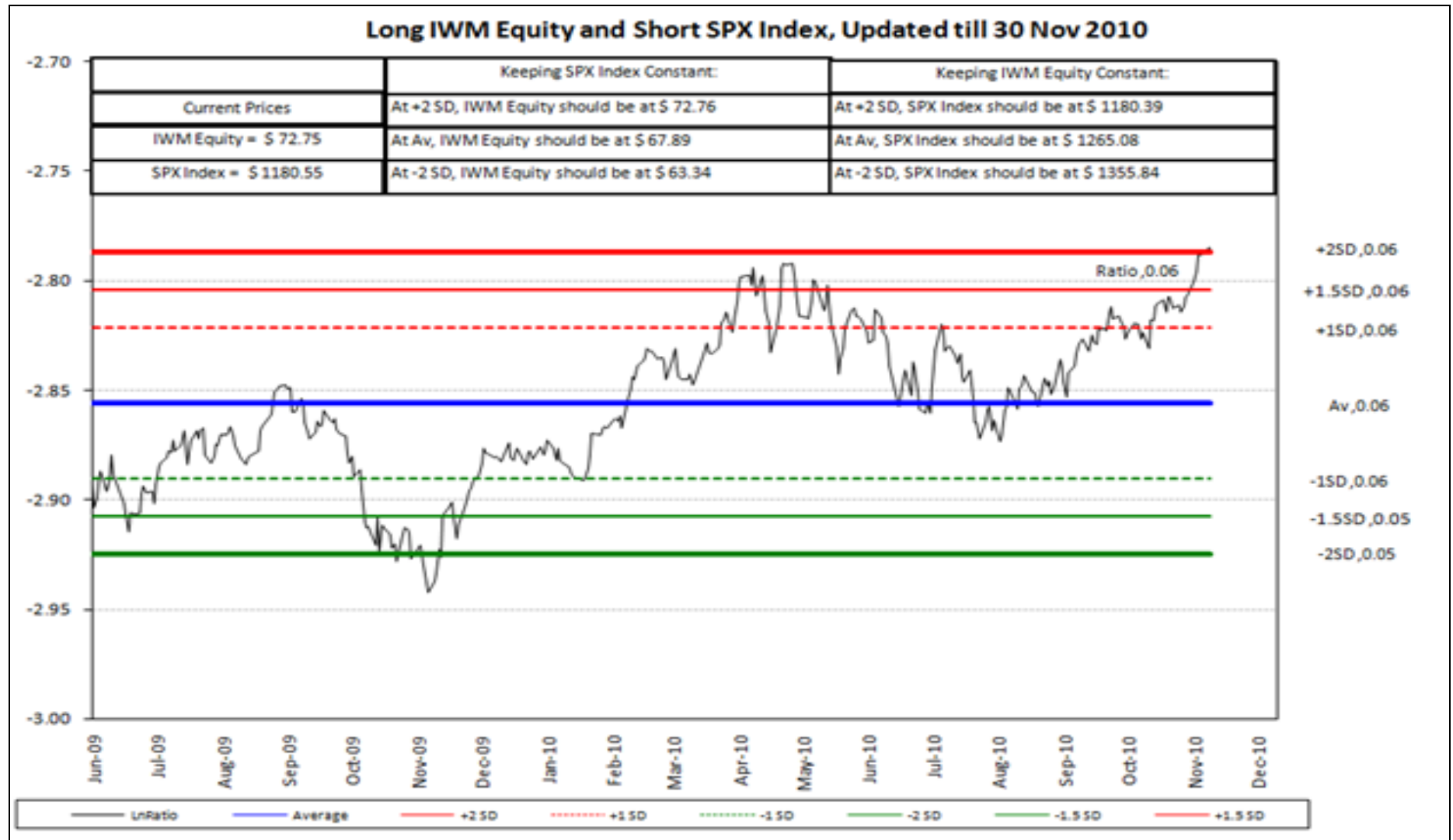
QQQQ - POM - ST - Price , Volume & Pattern Analysis

On Shorter term if SPX fails before NASD , then QQQQ may fail prematurely , in that case QQQQ to test 54 with 50 M shares (without going higher then 55) but within CZ and close below 54 would be failure ,



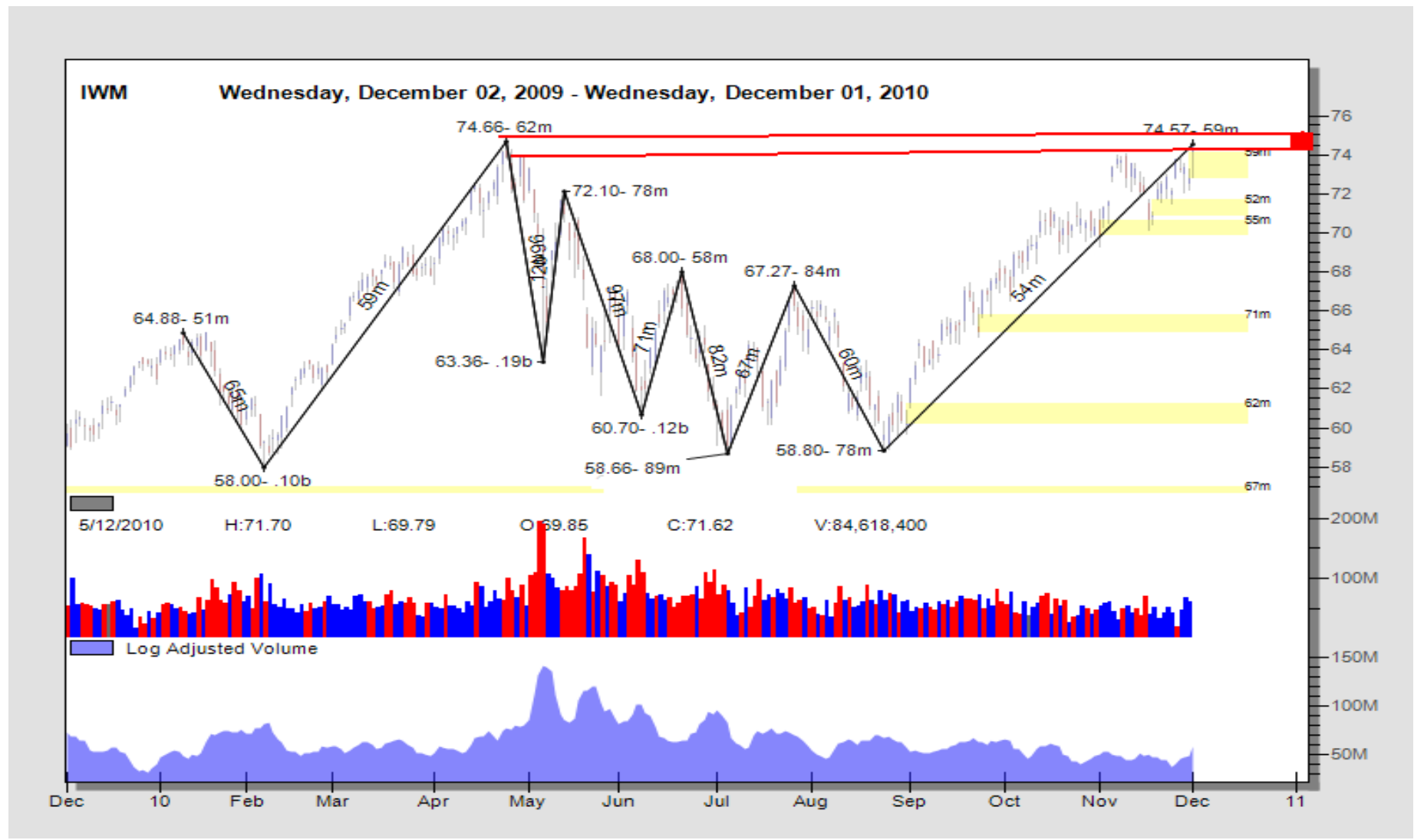
IWM – Correlation Ratio Analysis with SPX – 365 days Time basis

Is at SD# +2.0, for overvaluation



IWM- POM – LT - Price , Volume & Pattern Analysis

IWM is testing April 010 highs of 75 , Previously it tested the breakdown area of April 74 with 15% lighter volume
 If the test of 75 with 50 M shares and close below 74 would be failure (This is a better failure)



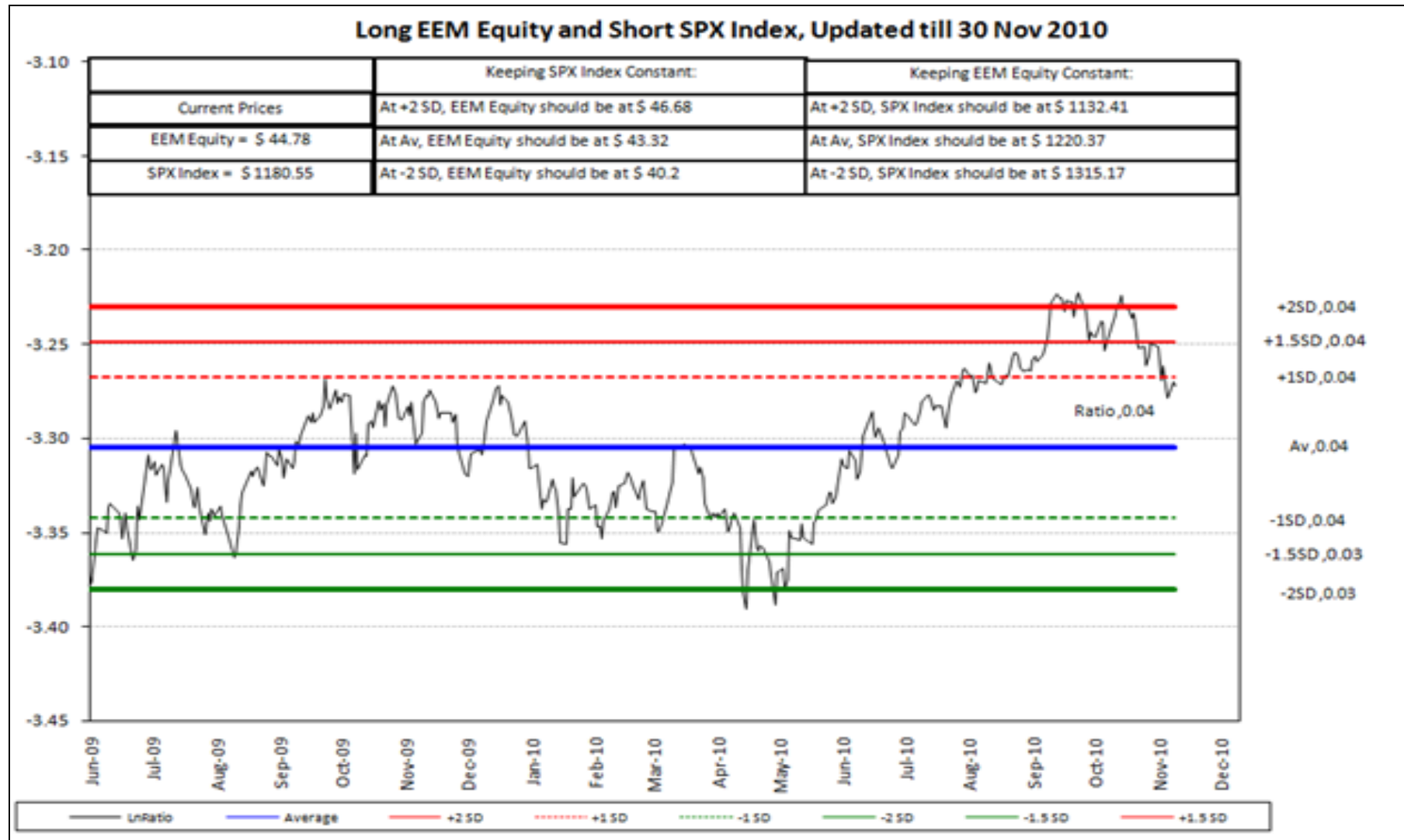
IWM – Technical & Pattern Analysis & Price / Volume

On Daily charts , the secondary test . **RSI Diverging with at SD # 2 levels**



EEM – Correlation Ratio Analysis with SPX – 365 days Time basis

It made entry into our SD# +2.0, for overvaluation Zone and now into +1.0 Zone

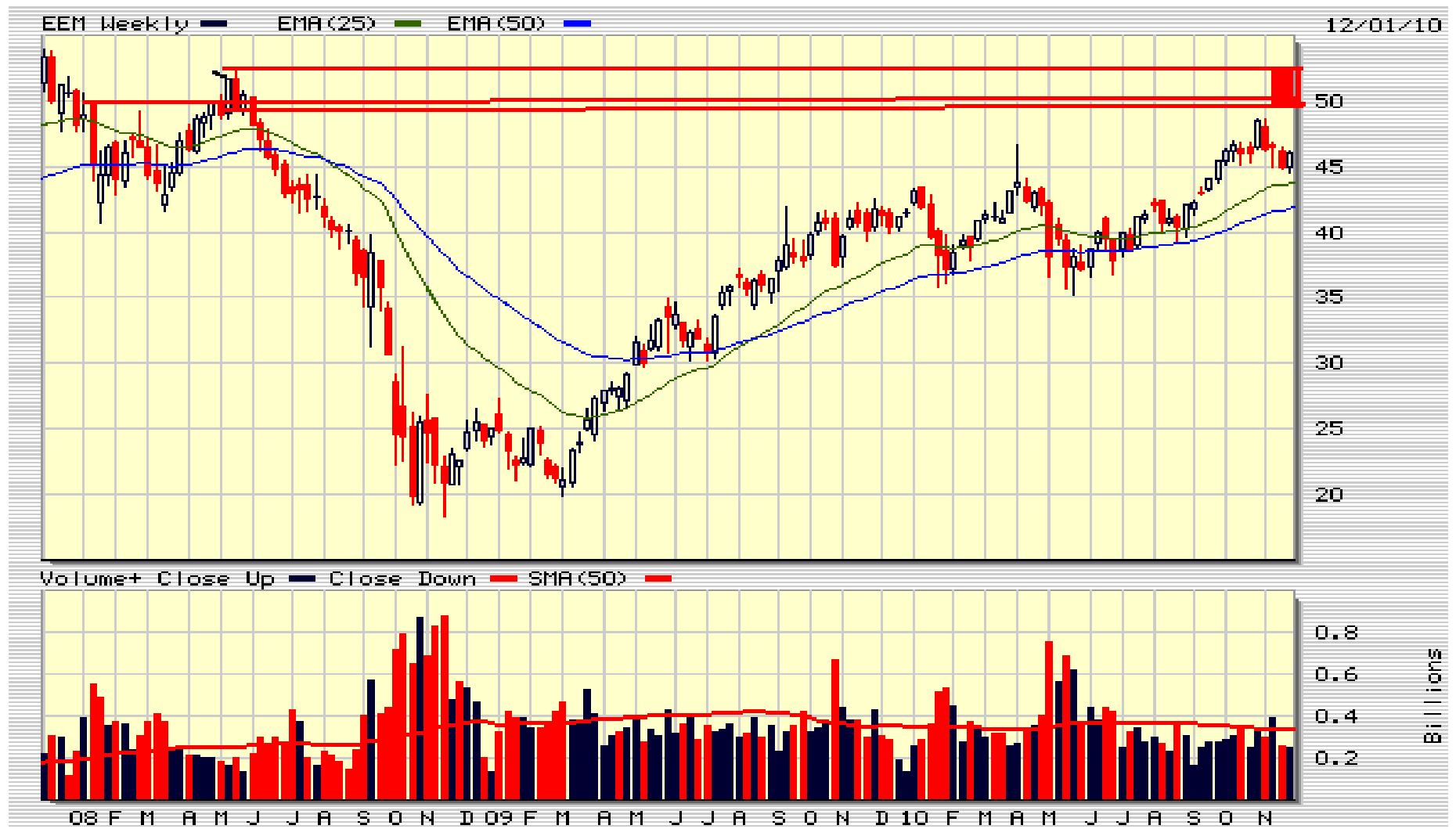


EEM- POM – LT / ST – Key points

- **EEM is closely related with SPX on downside when SPX signal is at POM 15 , EEM acts with the texture of POM 14 . We do not have that signal yet**
- **Our indept Analysis suggest that SPX 's POM – Buys POM 11,12 are closely related with the buys of EEM 's.**
- **On Price and Volume basis , We need a bounce in EEM in confluence zone & fail as Indicated in charts below**
- **SD # Levels are at + 1.0 SD, but any bounce should take to Target Zone into +2.0 SD, we should monitor this**
- **Charts below gives different possibility in different time frame with volume study**

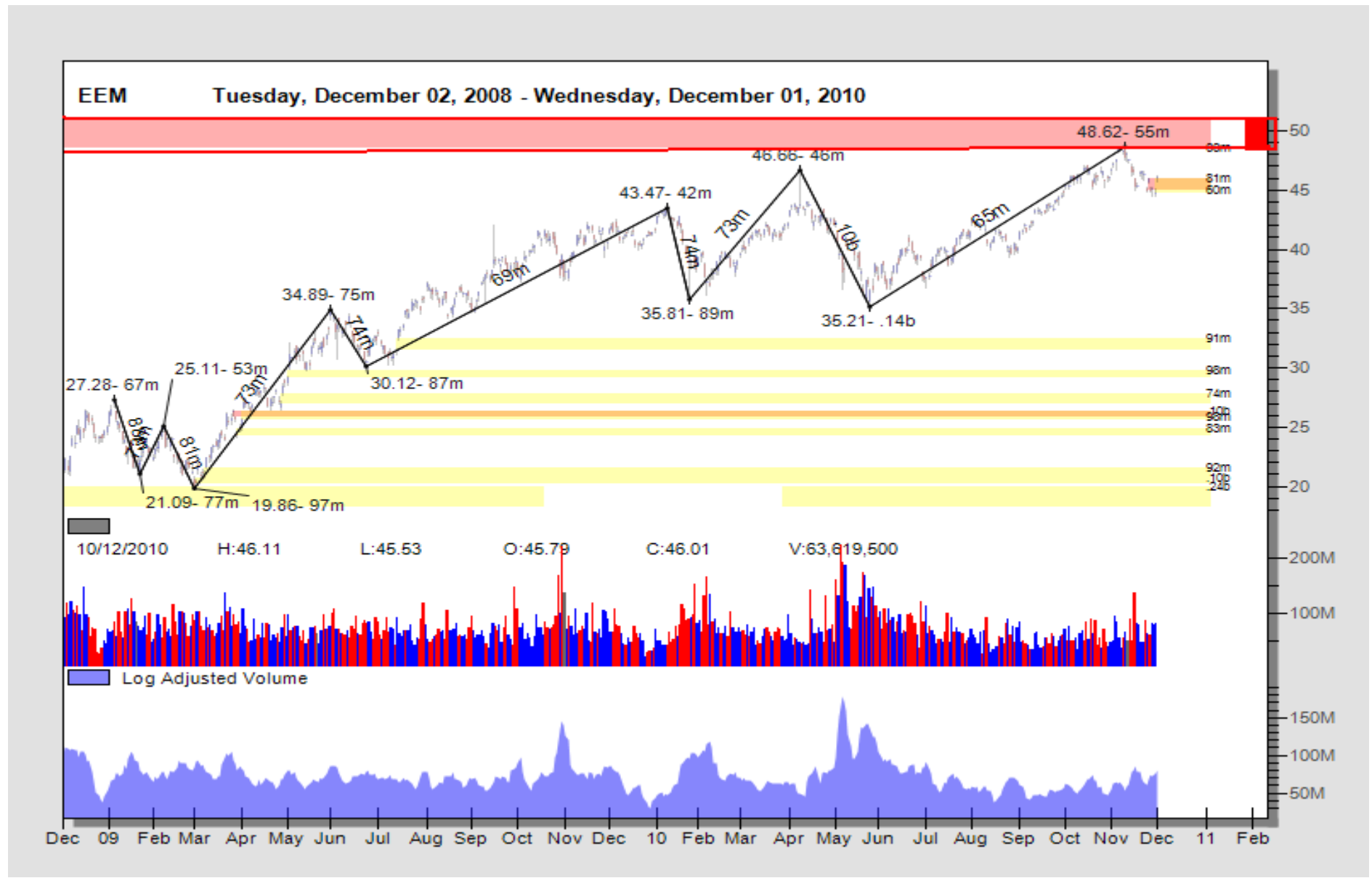
EEM- POM – LT - Price , Volume & Pattern Analysis

Backdrop - as a worst case senerio EEM may test the Previous swing highs of May 08 at 52 and breakdown area of Jan 08 of 49. We don't know yet it will get there or not in prices but (This will be a better failure) , as this would depend on SPX failure. If EEM gets to these price point , we may as well get SD # 2 and above



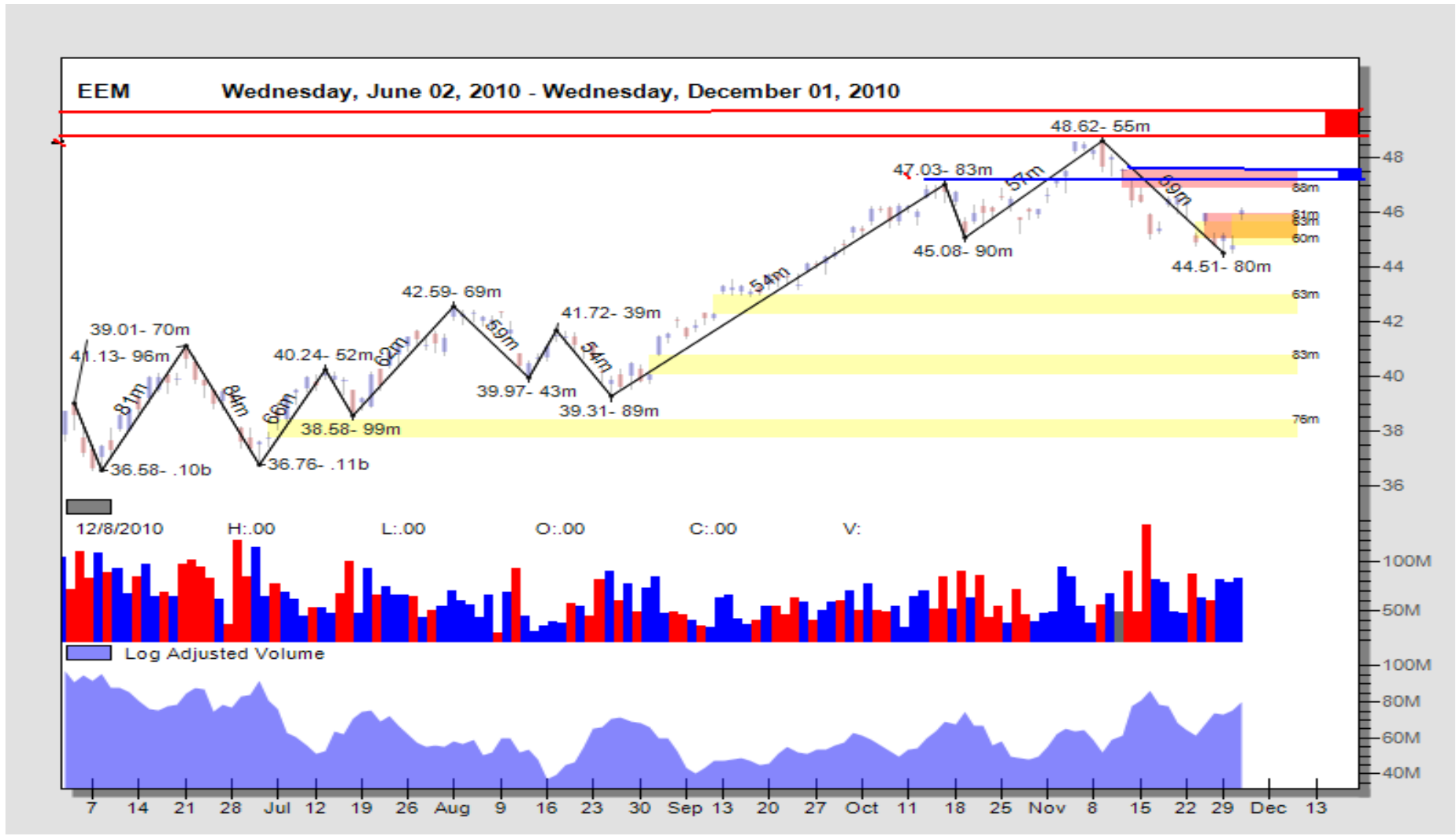
EEM- POM – ST - Price , Volume & Pattern Analysis

There is a possibility, if SPX fails, then we look for EEM is in this area of 48 -50 ,. The needs to be 40 M & price close below 48 . That would Top , On risk reward as always the stop on other side of CZ.



EEM - POM - ST - Price , Volume & Pattern Analysis

On Shorter term, there is a H & S in that case EEM , it should not break above 47 on closing basis with 50 m shares and close below 47 to keep its validity

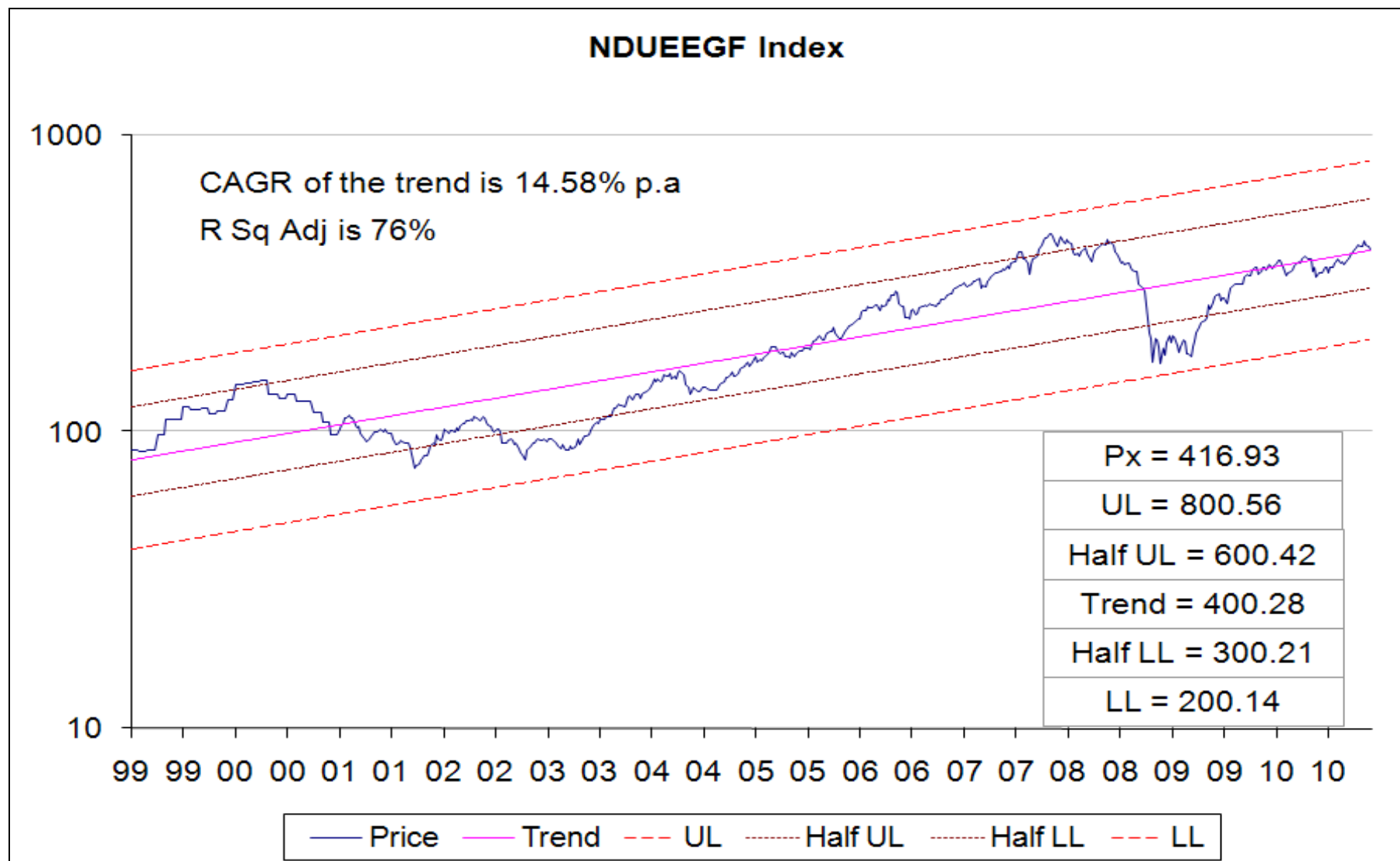


EEM – Technical & Pattern Analysis & Price / Volume

On Daily charts , the secondary test . **RSI Diverging with at Head Level** , would be interesting to see RSI at Right shoulder levels of 47 levels

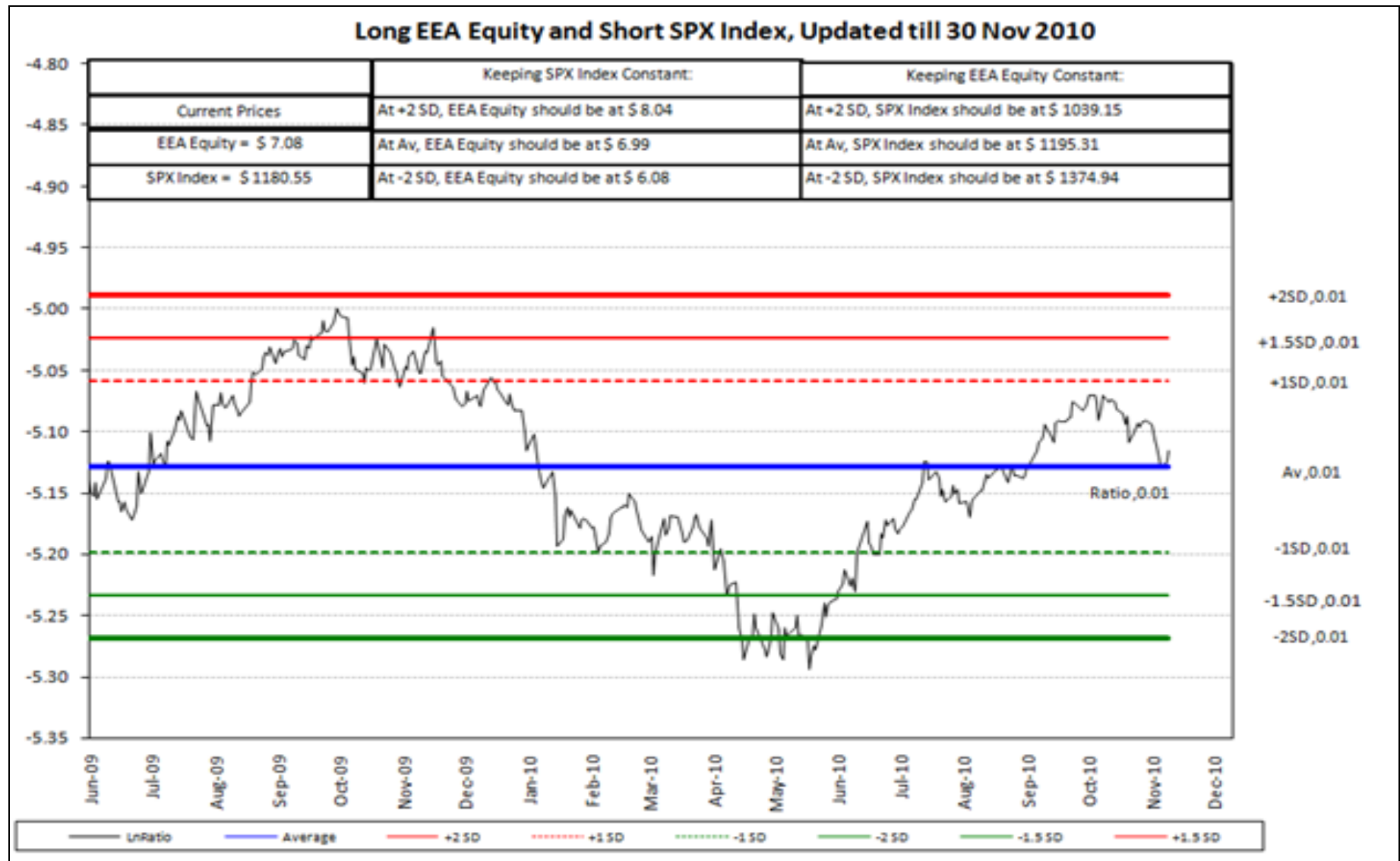


EEM – Trend Reversion Analysis – Long Term



EEA – Correlation Ratio Analysis with SPX – 365 days Time basis

SD# is at Neutral Zone – No meaningful Risks Reward,



EEA- POM – LT / ST – Key Points

- **EEA is closely related with SPX – and will follow the decline on downside , Our in dept Analysis suggest that POM – Buys and Sells of SPX are closely related with EEA**
- **Currently SPX is at POM 14 and so does EEA**

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 – On Buy Signal since SPX - 1115

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).

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