



SG Capital Research

Global Market Insights

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

MAEG- MARKET STRATEGY INTERIM UPDATE # SG 2010 # DEC 16

For Immediate Release – *Thursday AM (EST)*

By: Suneil R Pavse

Contact: apavse@aol.com

Market Strategy Global (A # 2) - **SPX – Closed @ 1235**

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

- Coverage

- 9EMA / 3X3 Strategy – **DOW & SPX**
- SPX – ST,MT,LT
- TLT,TNX
- IWM – PQV Pattern Analysis (only If @ or **> 2.0 SD**)
- QQQQ – PQV, Pattern Analysis (only If @ or **> 2.0 SD**)
- EEM – PQV, Pattern Analysis (only if @ or > 2.0 SD) (**Special situation UPDATE although it is at SD # 1**)
- EEA – PQV Analysis (if @ or > 2.0 SD)
- 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**

- *Post POM 14 (SPX 1104) - We recommend Fully Hedged positions for Longs 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.*
- *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. We are seeing signs of POM 15 and extensions especially NASD / IWM and confirmed POM 15 for on SLV stocks.*
- *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 Update - “ Trend Adjusted Signal”**

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%**

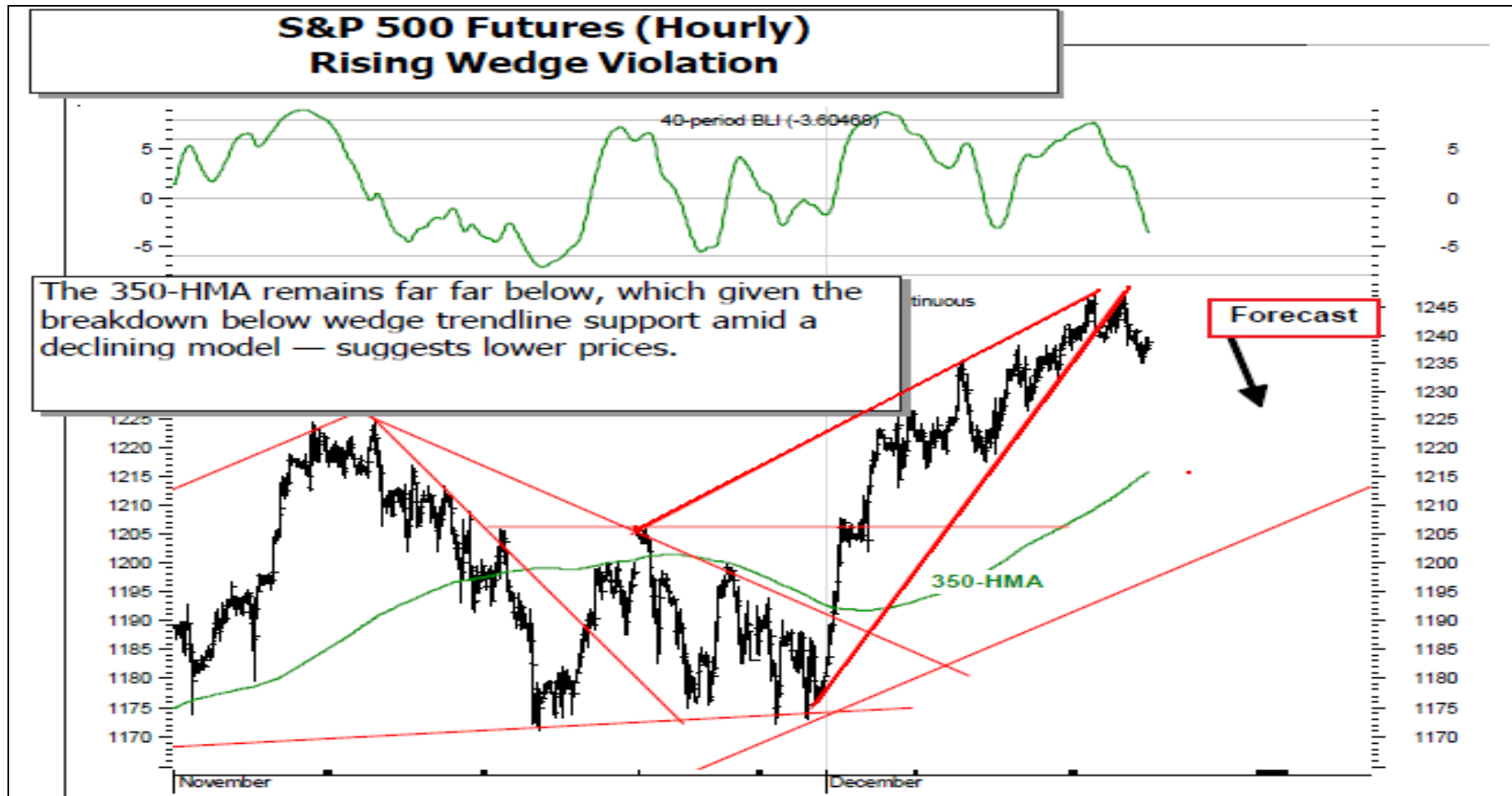
Currently “ Trend Adjusted Signal “ has **Reversal stop @ 1178 SPX & DOW 11006.**

Sym	Posn	Close	Reversal
DJ	Long	11471.4	11006
SPX	Long	1241.59	1228.69

SPX - Hourly

The bearish diagonal triangle was almost completed on hrly wave 5 which had a projection of 1248 and market snapped right down to 1235 as ST indicators were suggesting past 3 days . The question still remains , will the market hold up through options expiration. Now we see the Max pain factor is at 1200 which tend to act like magnet at times

EURO hit right on nose at 1.34 , rejected and began its bearish move down talking AOM with it, USD is beginning its ABC up.



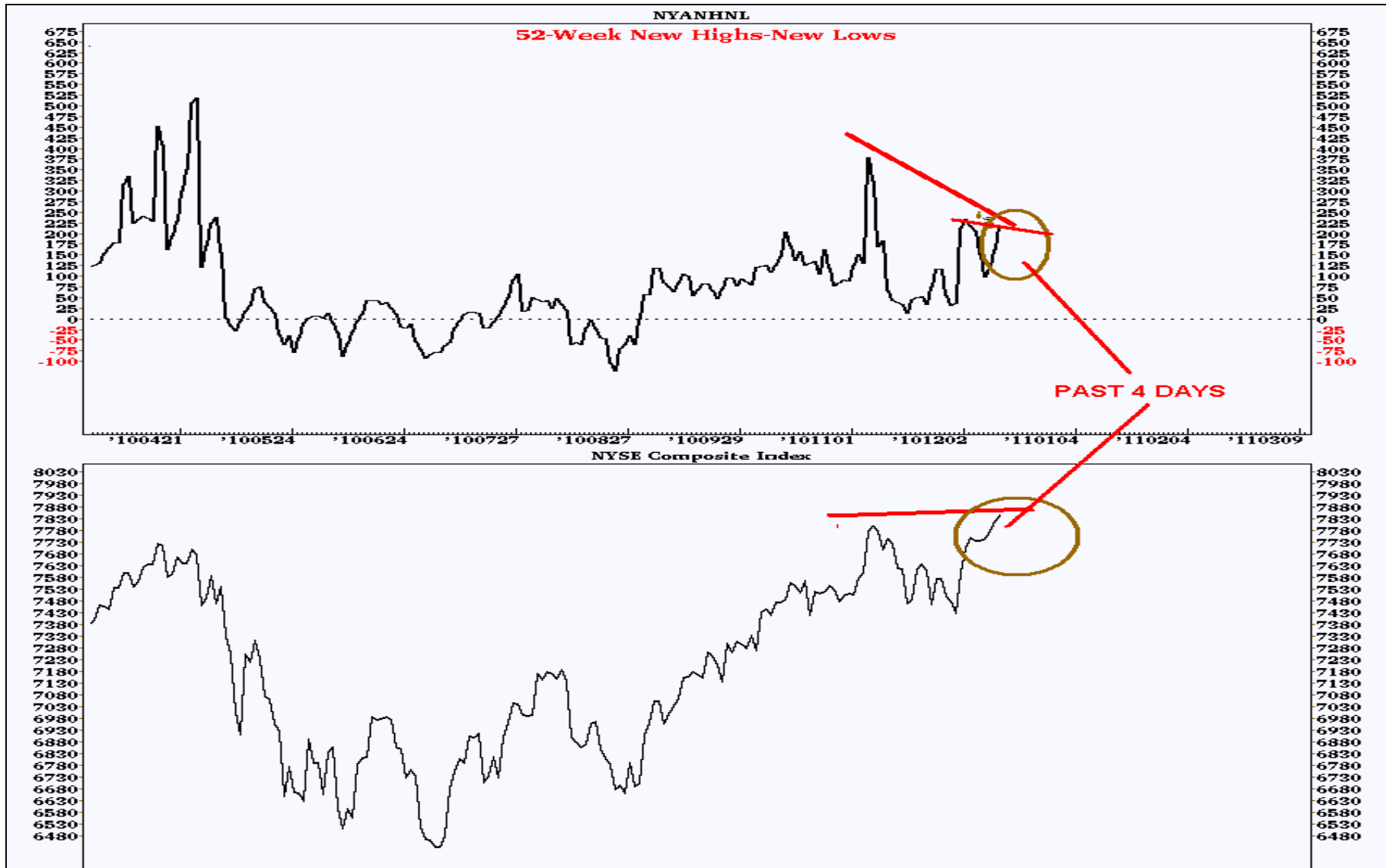
VIX

VIX HIT LONG-TERM SUPPORT with Key reversal, and completing declining Bullish wedge whiles testing Breakout area. Now there is excessive Bullishness. .



NH – NL – Past 4 days

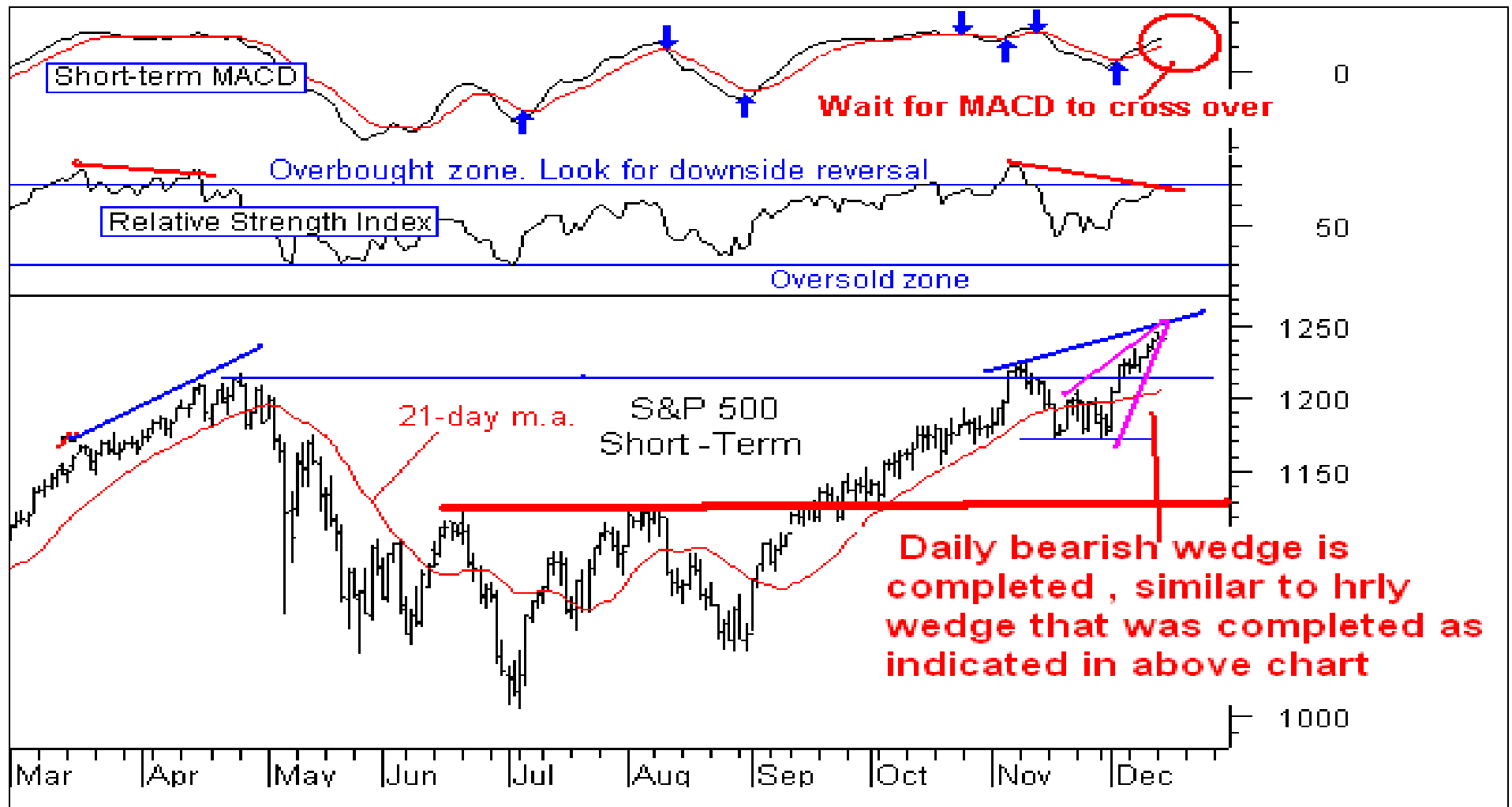
The new high / new low is not confirming the new highs in the indices, especially past 4 days. That may be a very Short and intermediate term negative, This suggests QE -2 flow has made entry into Indices and not as much in Individual stocks.



SPX - Short term

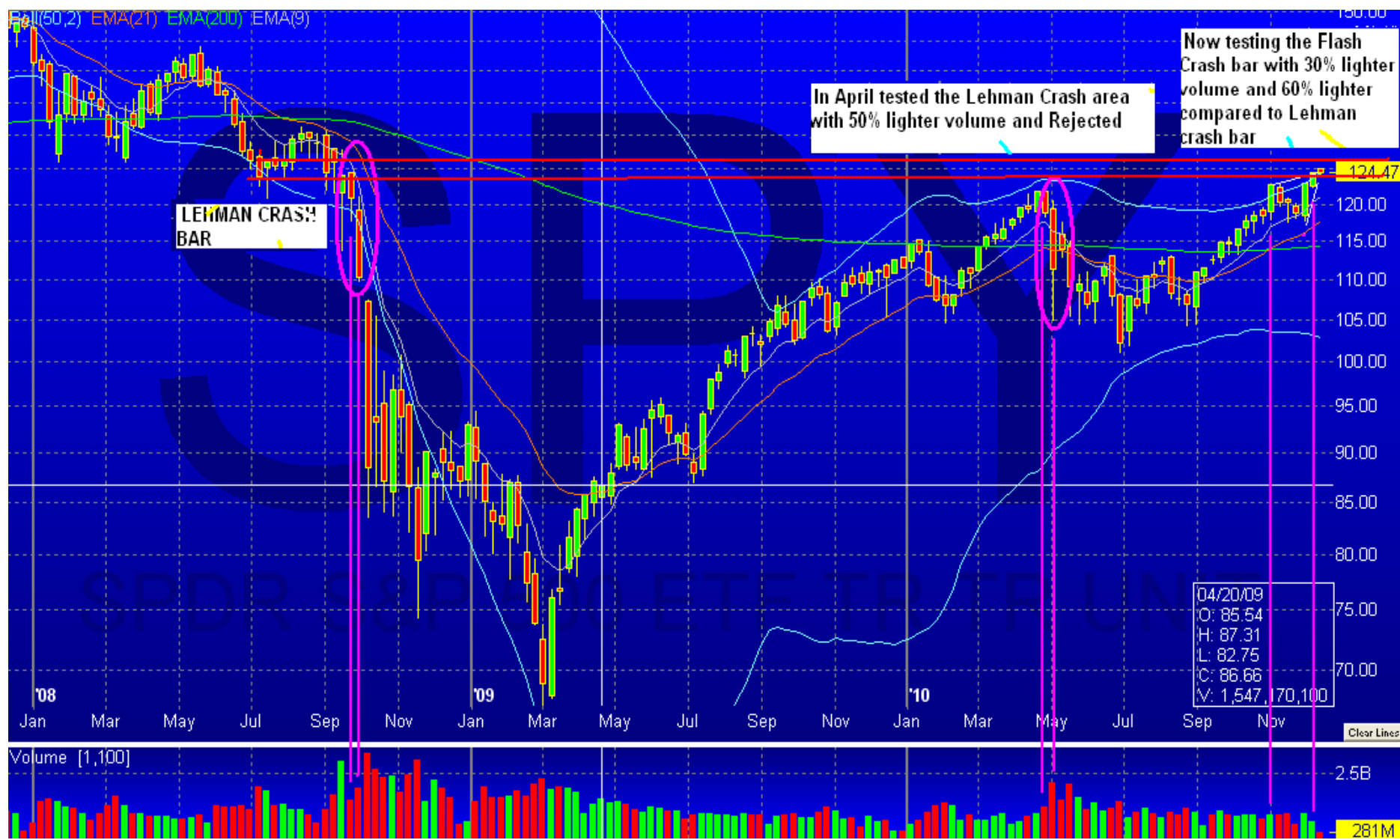
Last decline to 21D at 1173 held well, suggests that this time brake under the same 21D will trigger selling. Wait for MACD to trigger as RSI has been diverging as much as its been in April

A completion of bearish wedge as well as Indicated, this move is cont confirmed by volume and tends to have quick and fast decline.



SPX – LT – Price & Volume - UPDATE

In chart below - On bigger picture , This is the heart of all. To update from past 2 weeks. – Past 2 weeks the volume has been approaching 800M (that is 50% - 60% lighter compared to key events circled in chart below and price wise it is those areas that are hard to have a real sustainable breaks. We have had 4th failure here. Now we just need a trigger. We are watching carefully on daily basis for it



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

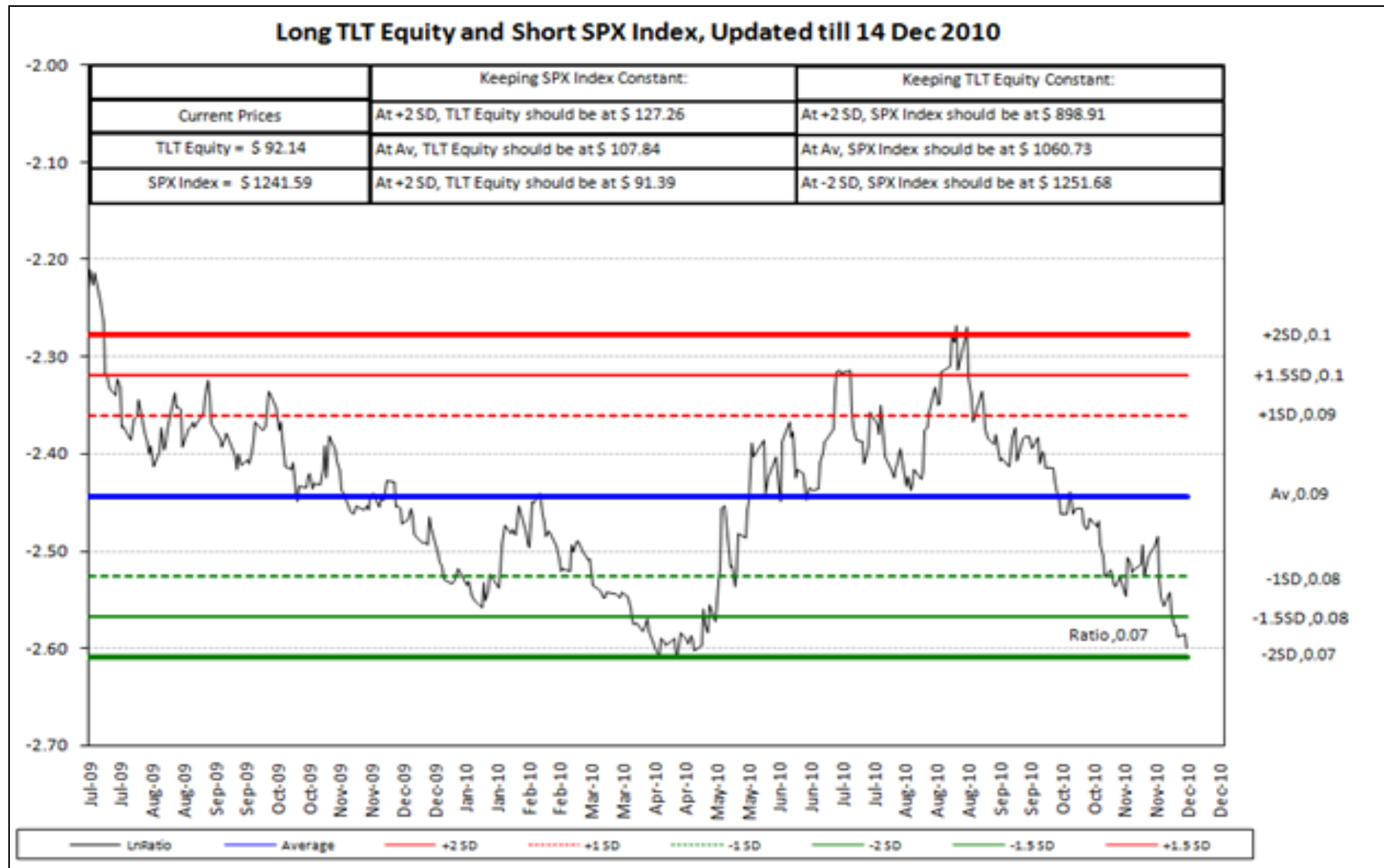


TLT - Daily - 3 Year with RSI, CCI, MACD
(11D / 55D)



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

PEC D – Target on TLT has reached 91 (completing a 0.786 retracement 0 . Overall, bonds appear to be oversold and are due for a rally. if SD # 2 & POM 's lines up , We may re visit this market on buy side with TLT.

Our first PEC D point came in at 107 with Extreme “ Bullish Sentiment “ and that marked the Top with Triangular formation,



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

TLT – Our price target of 89 - 90 should be CZ by POM / PQV . If SD # 2 / PQV qualifies , might give a next good signal on POM. PEC D at 91 has been reached. Our price target of 89 - 90 should be CZ and test to be with 40 M shares weekly, but volume is expanding this week so no signal. (Only 3 days in week volume is at 35 M)



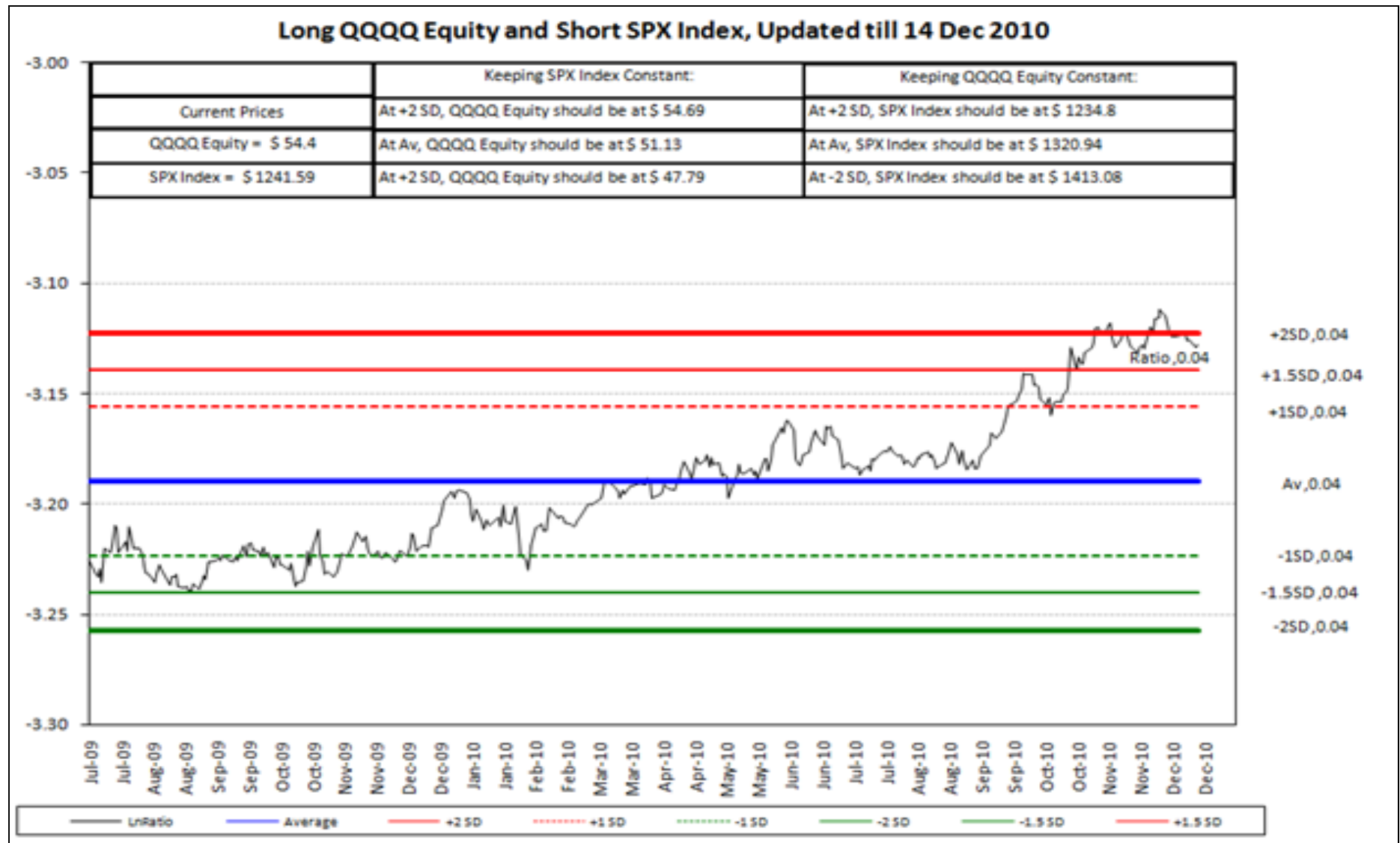
TNX

Two weeks ago our expectation was to a target at 600 DMA 3.2 from 2.8 , it has far exceeded that whiles TLT reached its 91 target .



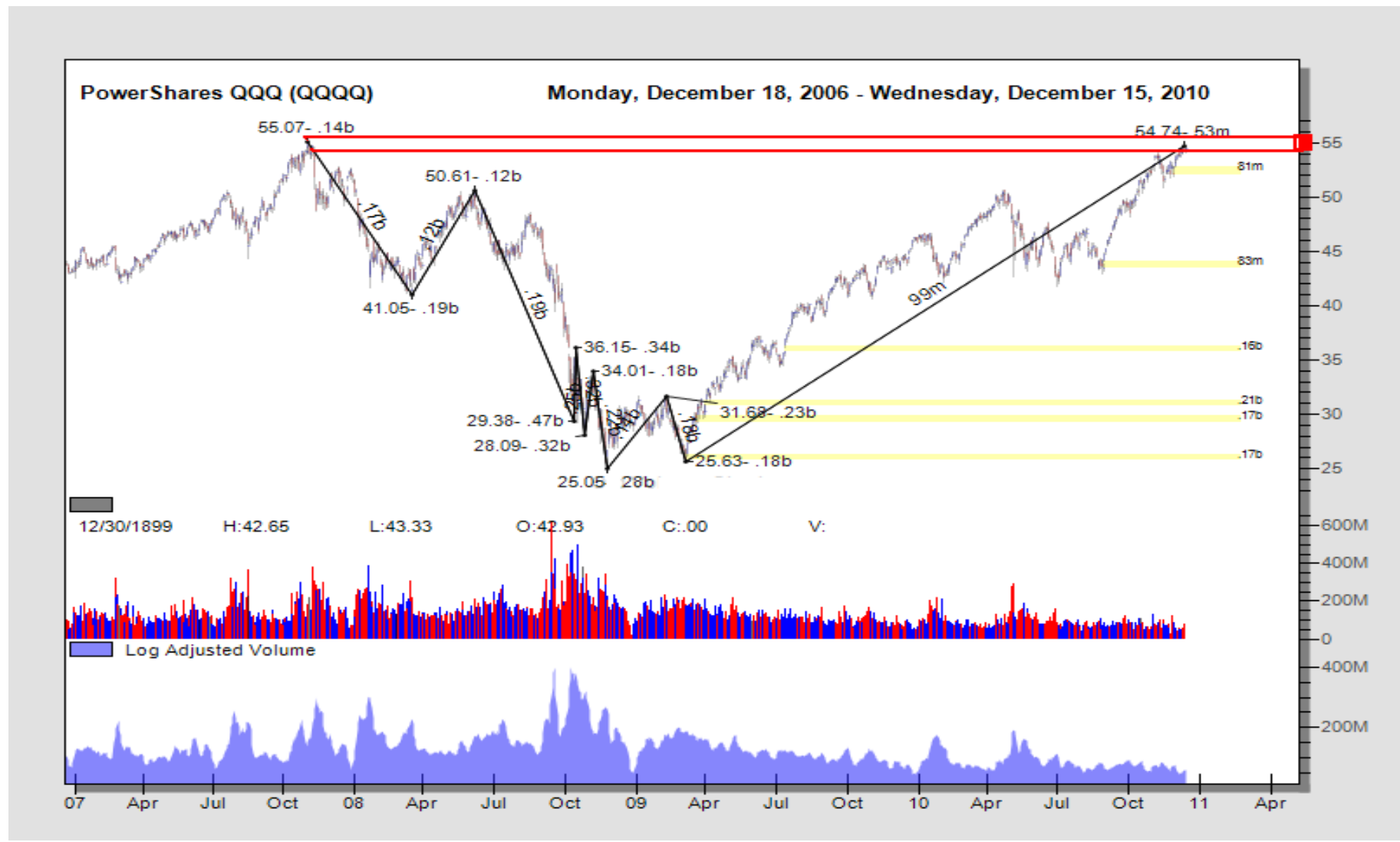
QQQQ – Correlation Ratio Analysis with SPX – 365 days Time basis

Is at SD# +2.0, for overvaluation



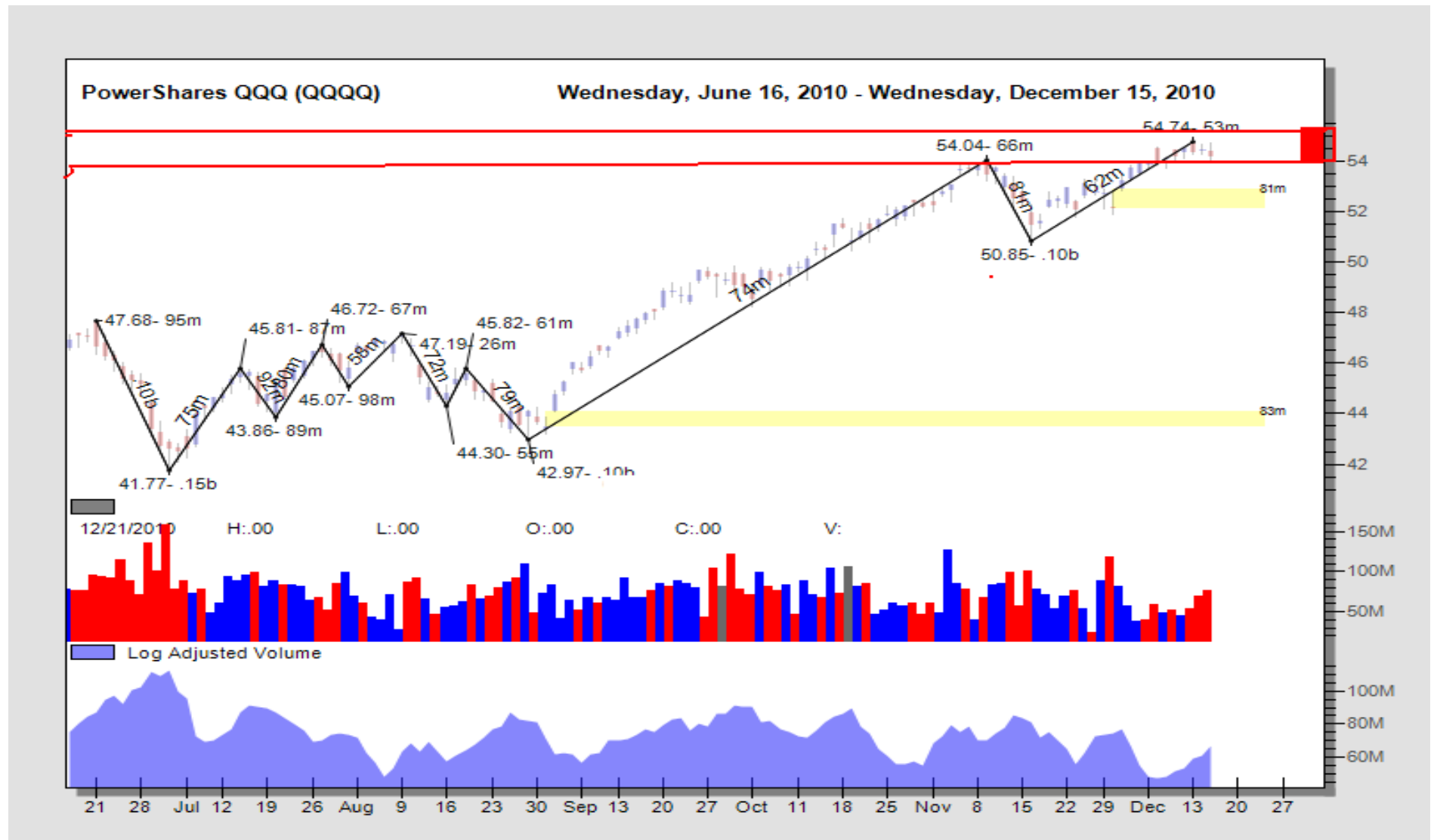
QQQQ - POM – LT - Price , Volume & Pattern Analysis

QQQQ is testing Oct 08 highs of 55 , Previously it tested the breakdown area of Oct 08 of 54 with 65% 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, QQQQ tested 54 with 53 M v/s 53 required within CZ & 5-7% and now close below 54 would be failure , if SPX fails before NASD , then QQQQ may fail prematurely (without going higher then 55)



AAPL – Proxy for QQQQ & Cross check our thinking

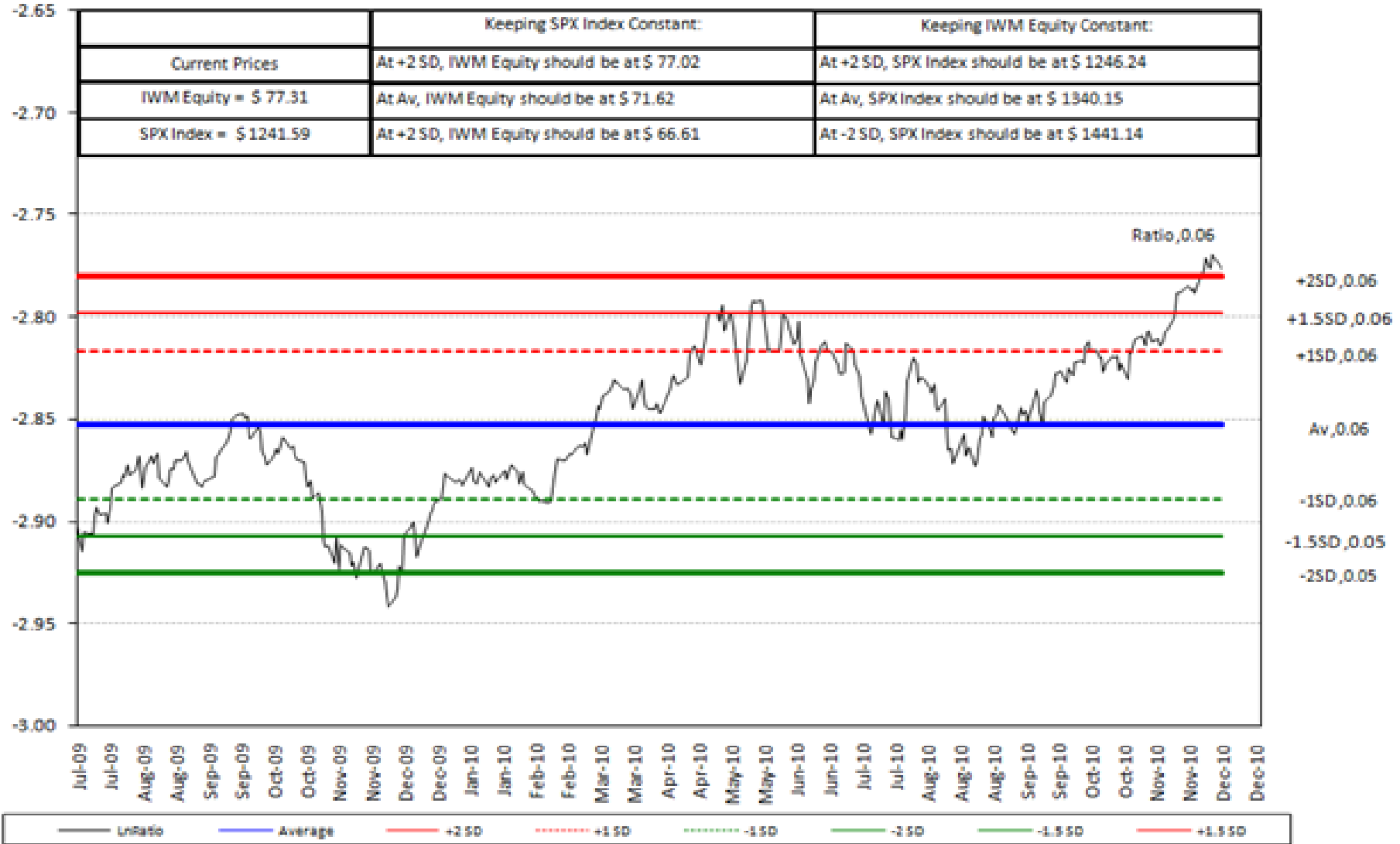
The stock which makes up about 20% of NDX and it is clearly being sold with negative money flow even as it flirts with all-time highs:



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

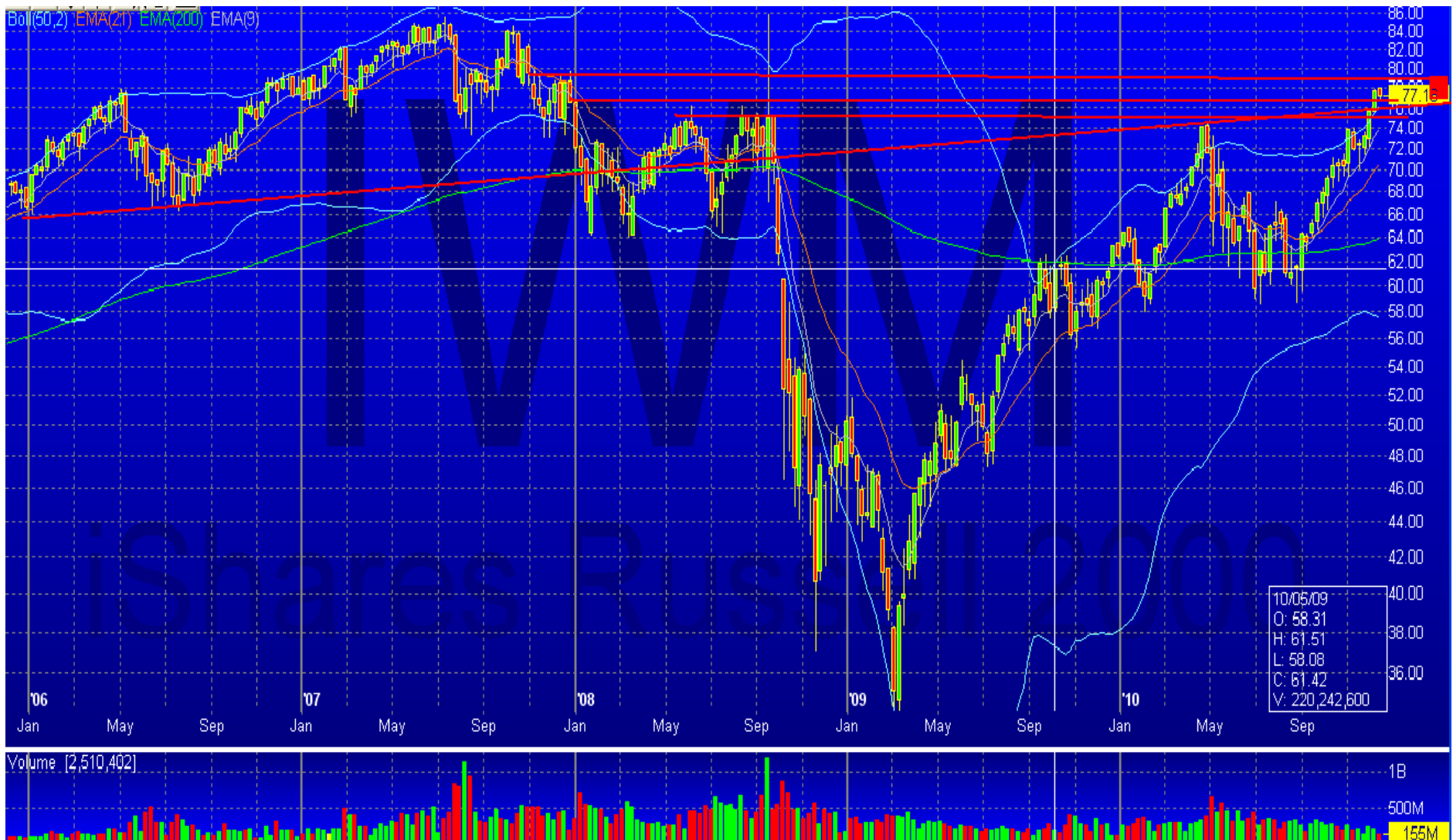
Is at SD# +2.0, for overvaluation

Long IWM Equity and Short SPX Index, Updated till 14 Dec 2010



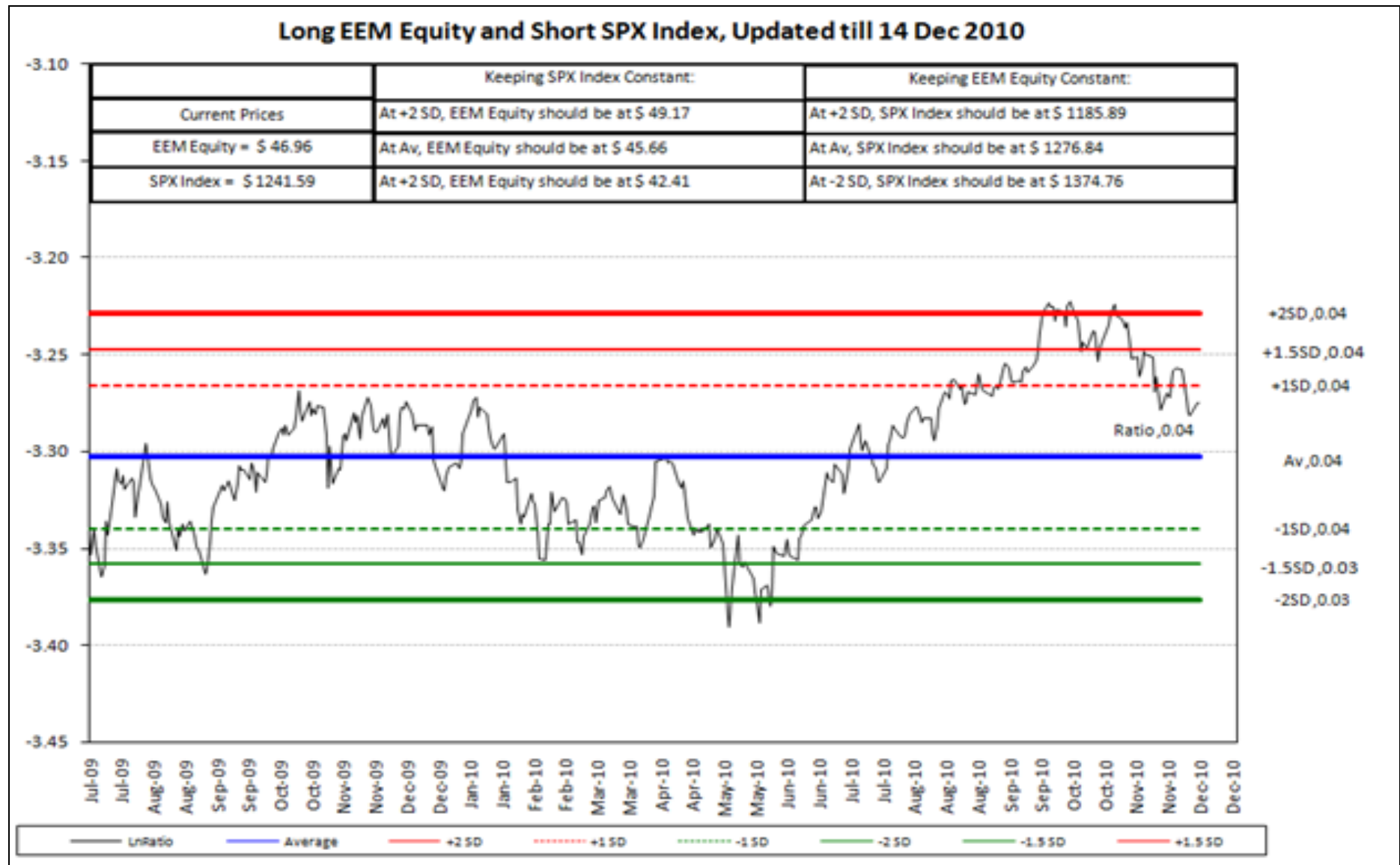
IWM- POM – LT - Price , Volume & Pattern Analysis

IWM did not pass our PQV test in CZ defined in our last note and got extended with heavier volume then our benchmark. Currently it is testing 2008 Jan breakdown area & 2008 highs of Sept an its derived CZ of 76.50 – 79.50 with 25% lighter, currently it is in the zone and to signal a failure, a close this week under 75.50 with 175 M shares should be a good test If SPX declines this will follow and QQQQ fails



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 Neutral 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 . Conversely Our in-depth Analysis suggest that SPX 's POM – Buys POM 11,12 are closely related with the buys of EEM 's.**
- **SD # Levels are at + 1.0 SD and Neural Zone , 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 – Trend line & SMA Analysis

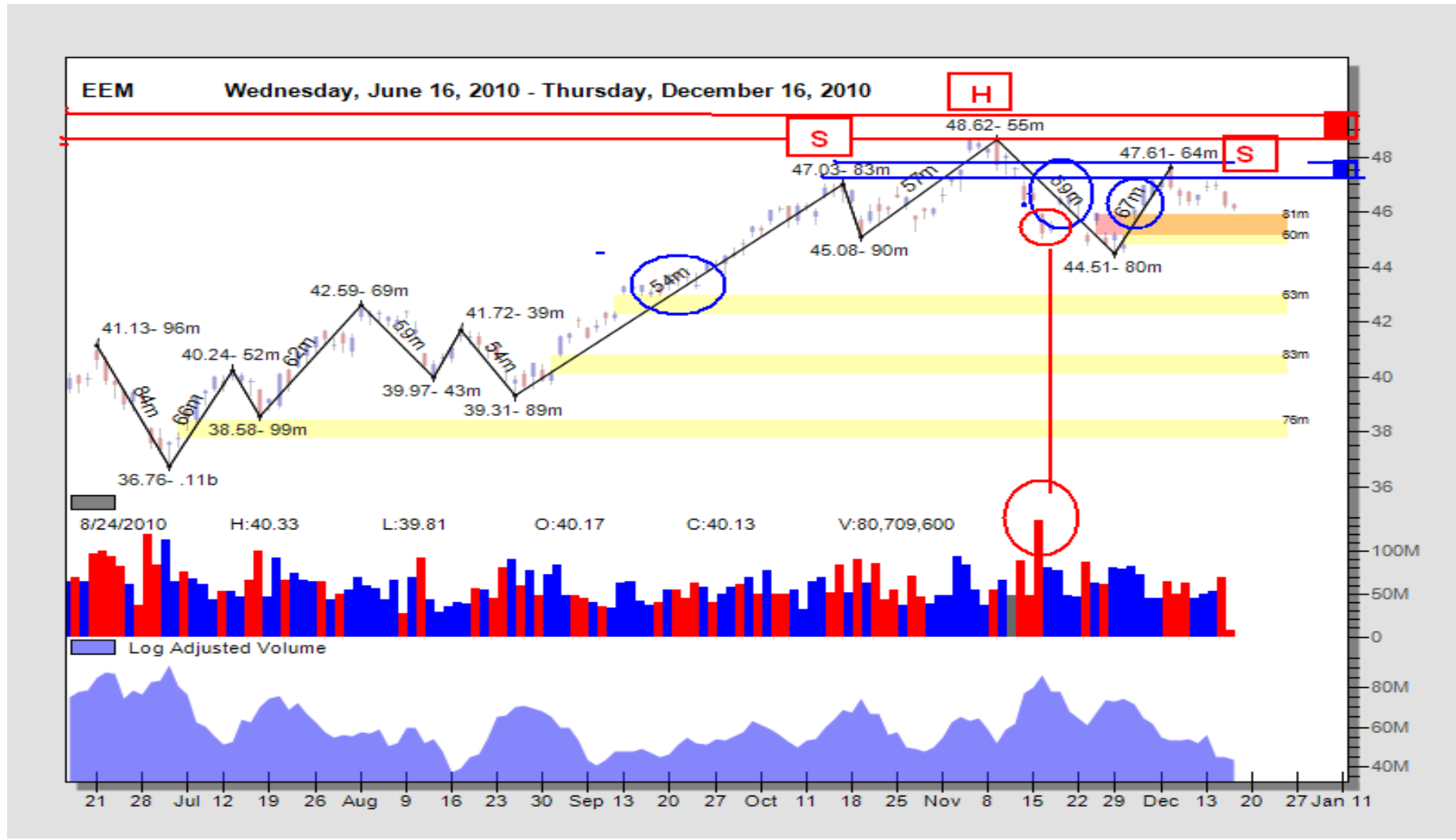
By this method , this is a Bearish Setup, these reversal are good probability patterns.

Emerging Market	EEM
Last: \$	46.96
Chg: \$	0.07 0.15%



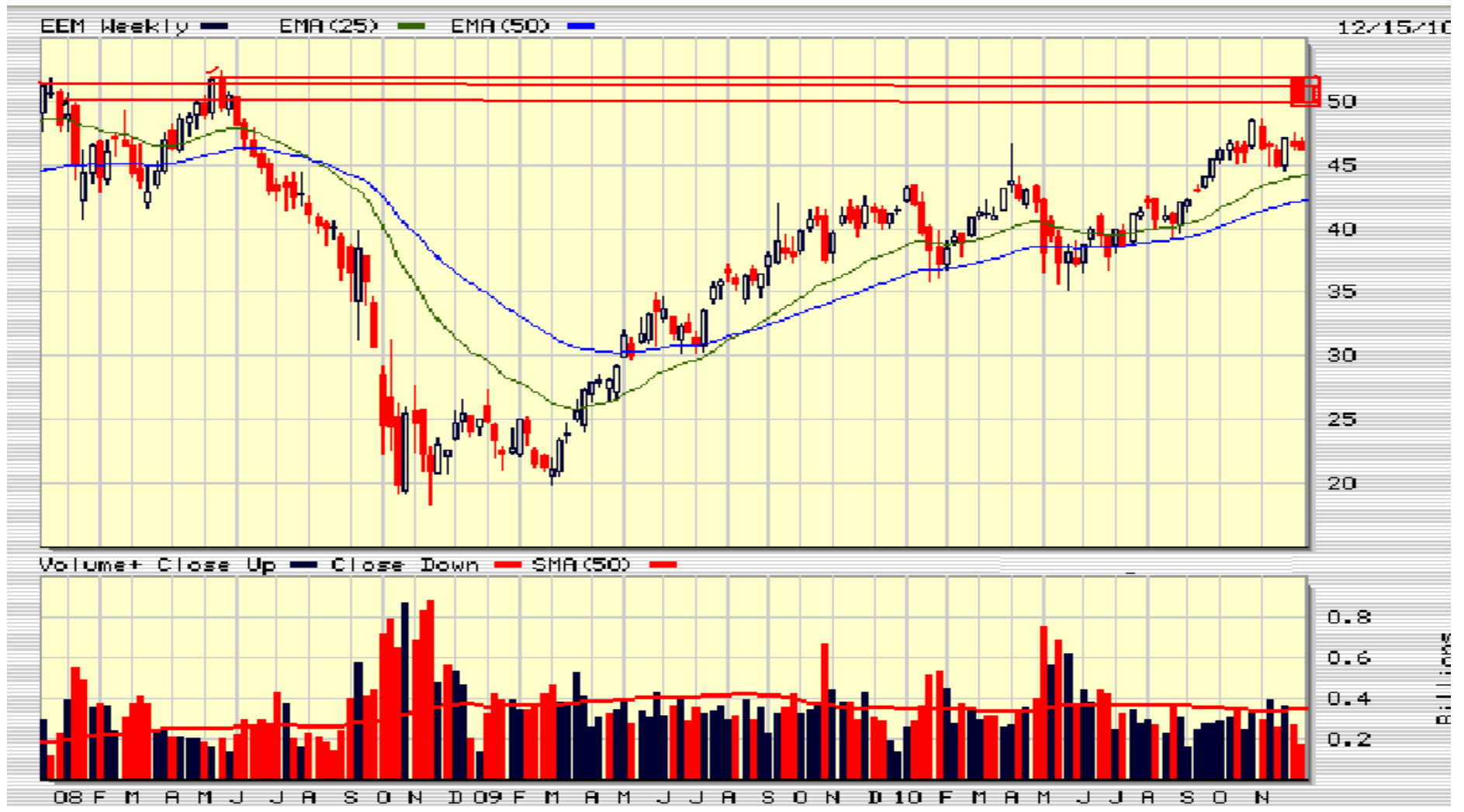
EEM- POM – ST - Price , Volume & Pattern Analysis

Since our last update , Our CZ of Head and Shoulder passed successfully with close of 47 and volume tests as Indicated
 If SPX fails, then we may not get to the CZ 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. (If volume pick up more than 40M and we could certainly not pass the
 test., that is what if ??)



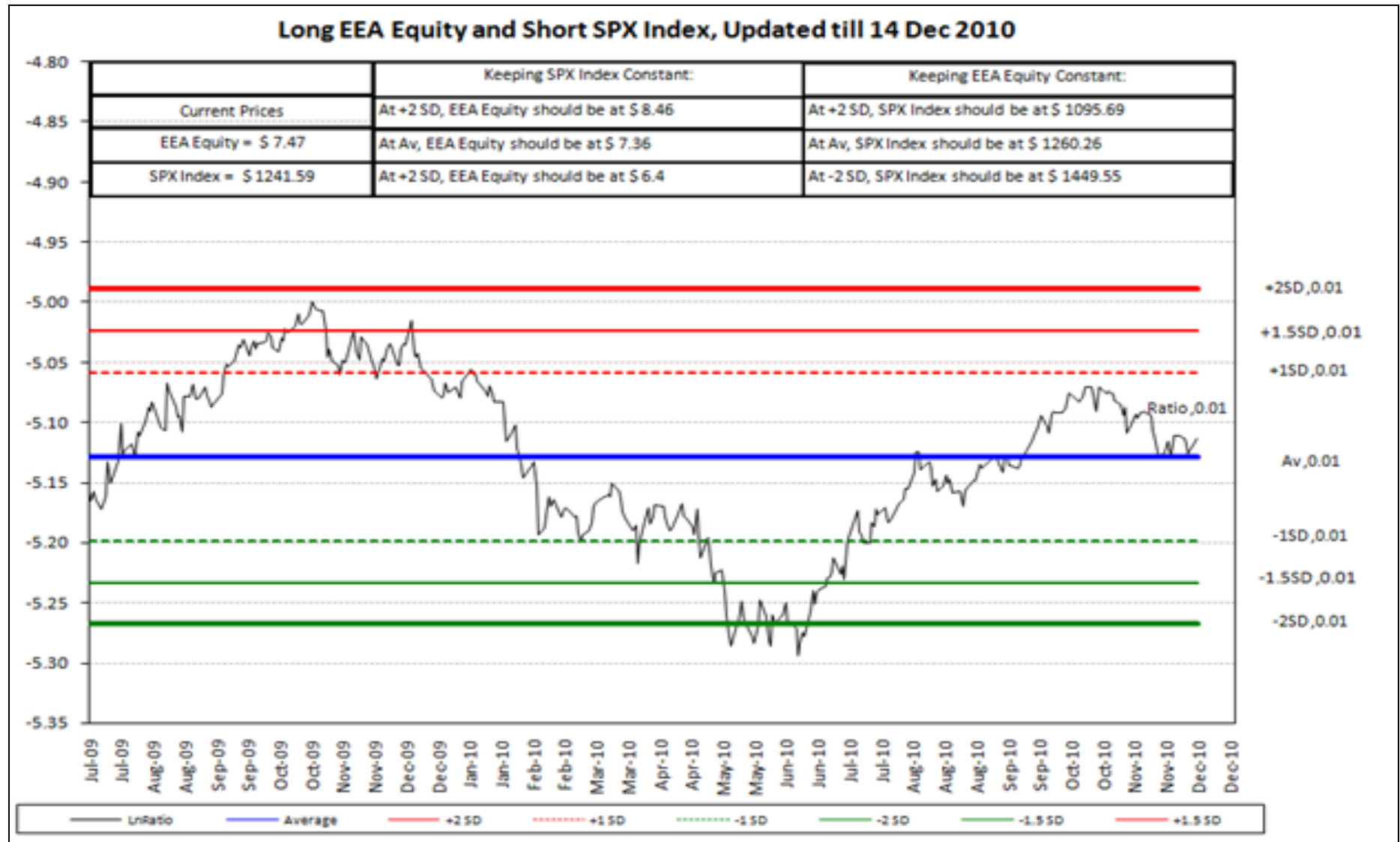
EEM- POM – LT - Price , Volume & Pattern Analysis

Heads up - As a worst case scenario if volume exceeds 40 M then test the Previous swing highs of May 08 at 52 and breakdown area of Jan 08 of 49. is wide open similar to what happened to IWM. (but we wait till it proves itself via volume study) We don't know yet it will get there or not in prices. We will do the volume study if it gets there along with SD # 2, levels for 2nd visit



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

- **SD # Levels are at + 1.0 SD and Neural Zone , but any bounce should take to Target Zone into +2.0 SD, we should monitor this**
- **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).

Disclaimer : The information in this report has been taken from sources believed to be reliable but SG Capital Research does not warrant its accuracy or completeness. Any opinions expressed herein reflect our judgment at this date and are subject to change. This document is for private circulation and for general information only. It is not intended as an offer or solicitation with respect to the purchase or sale of any security or as personalized investment advice. SG Capital Research or its Author does not assume any liability for any loss which may result from the reliance by any person or persons upon any such information or opinions. These views are given without responsibility on the part of SG Capital Research or its officials. No part of this report may be reproduced in any manner as Author reserves the distribution rights. Under Copyright 2002 Act: It is a violation of federal copyright and imposes liability for such infringement.