Aletheia SG Capital

For Immediate Release – Weekly Market Commentary, Research Note
Monday : Reference– ASG WEEKLY COMM 2010 # June 08

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SPX – Closed @ 1050

Market Insights

SPX – "Our Model Signals & Projections"

- ***On April 22,*** *POM 15 was signaled at SPX 1205,(extended to 1225)*
- ***On May 12****, Secondary high at SPX 1180,(hit 1173) it signaled the Re – run of POM 15. We had suggested, this is a good price to be Hedged or Net Short.*
- ***On May 25,*** *Our downside target of 1050 for this correction was achieved (hit a low 1040), a 150 points drop from POM 15 has achieved it and Fulfilled our expectations of POM 12*
- *Our Goal was to focus the risk from POM 15 (1205) to POM 12 (1050), a fall of 150 points, As the volatility and emotion turn high at key points, its not prudent for us to fine tune by few points as market tends to get over extended in both direction and we could loose focus of 1 or 2 months out. We will just follow the Indicators as best as we can.*

- ***On 3rd June,*** *POM 13 price was achieved at 1105 (hit 1102) on Bounce , from our POM 12 target of 1050 lows,(a rise of 55). We suggested this as Neutral point for another pull back and Re- Run of POM 12.*
- ***Now,*** *Secondary low's test is in progress (At 1050 or slightly lower lows, This should be a Re – Run of POM 12).* ***(See the charts below)***
- *On completion of this, we should have a much bigger bounce (Barring outright Crash).*
- *Since overall, We have the weekly close below 1150, and market should remain below this on any rally bounces. (We will announce the target once the bounce begins)*
- *On completion of the bounce, we should get a next leg down and looking for 960 SPX target*

Volatility is so high, the Bulls or Bears having hard to react very quickly. For us its been hard to even save chart for more than day before commentary release.

We do expect to see a return to that secular bearish trend at some point, but the current correction has yet to prove itself to follow any major trend change after this correction. It may be that the market is looking forward to more stimulus in the form either European trillion dollar or more spending from congress or more quantitative easing from the Fed, or both.

SPX

On the long side, to watch those technical indicators for example, has dipped below its 200-day moving average. That is a red flag for a lot of technicians and a lot of technicians will actually act on that signal and get out of the market. Historically, since 1972, when in a sustained uptrend for 6 to 8 months in row or longer, if you`ve been above the 200-day moving average, you get this kind of a pullback, you actually see some out performance in the subsequent months. So three to five months out, a gains of 5% to 8 %..

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Over the last 10 years the ARMS index closed in double digits three times (ARMS index closed Friday at 12.47) and the two precious times where 12/1/08 and 2/27/07. The 12/1/08 ARMS double digit close pretty much marked the low in the S&P and market rallied about a months before heading down into the March 09 bottom. This double digit ARMS close came in a down market. The 2/27/07 double digit ARMS index close was about 20 S&P points away from the bottom and came in and the rally after lasted several months. The double digit ARMS close of Friday should also mark near a third low and produce a bounce possible into expiration week which is next week and possible test the gap level near 1150 range on the SPY. **If the market does not bounce from current levels then that could be a bad omen**. Our conclusion in the past has been, when the weekly MACD turns down the second time after a negative divergence then the top is in and that happen back in late April. A 50% to 61.8% retracement of the rally from the March 09 low gives downside targets to 960 on the SPY. We remain bearish intermediate term with a possible bounce to the gap level near 1150 first, see the 20D EMA Tick oversold.

SPX

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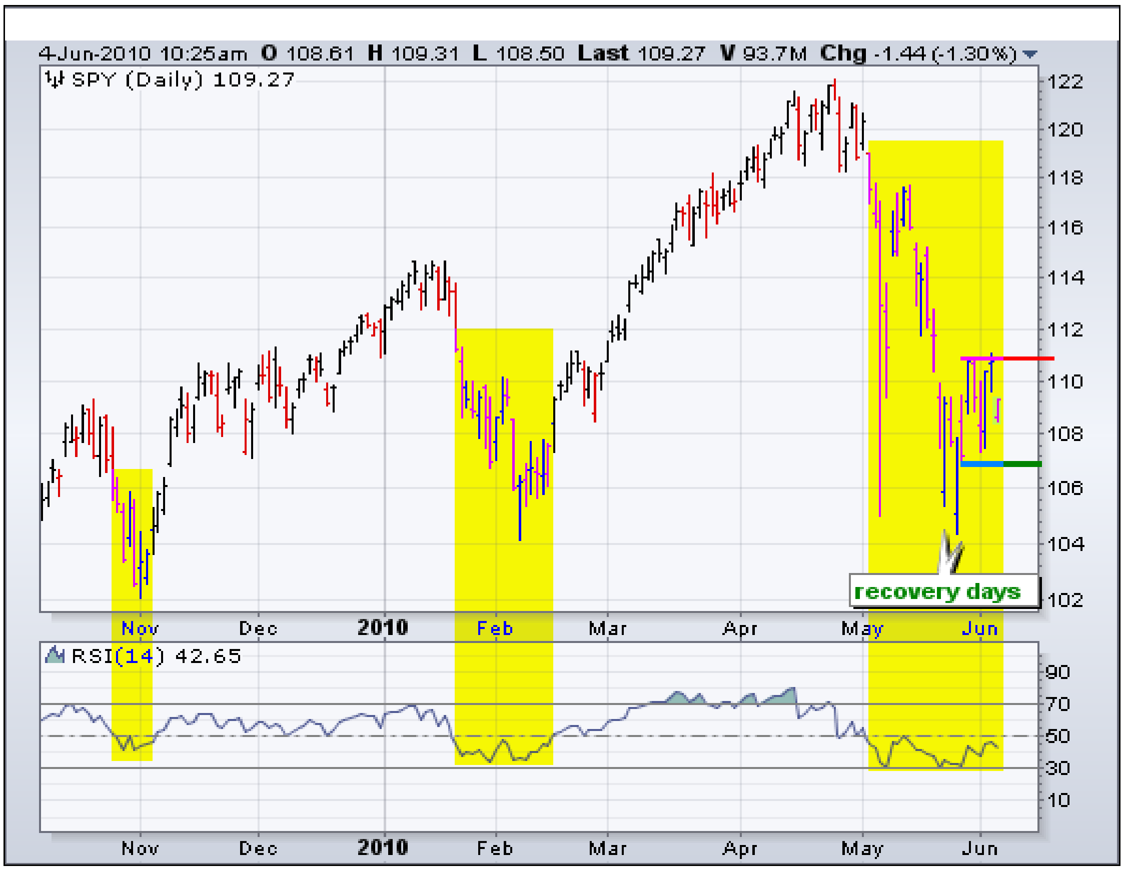
Other sectors – we find the Staples, Healthcare and Industrial sectors have held their long-term moving averages on this decline. This is bullish since it makes up 60% of the group. The sectors far below their long-term moving averages are Energy and Utilities. We were very bearish on Energy (Oil) at 88 for price target of 75 which is exceeded due to XLE Sell off due to BP fiasco. NASDAQ, since the late 2008 low and has not yet broken to a new low for 2010 in our "lead dog" index.

SPY – ST

(SPY) gapping down below 1090, which keeps it in the range of the prior six trading days. This range extends from about 1050. Since the two big recovery days in late May. The indicator window shows RSI with yellow shading for levels below 50. Dips below 50 marked the prior two corrections. Obviously, the current decline is deeper than the previous two, but RSI shows the same characteristics.



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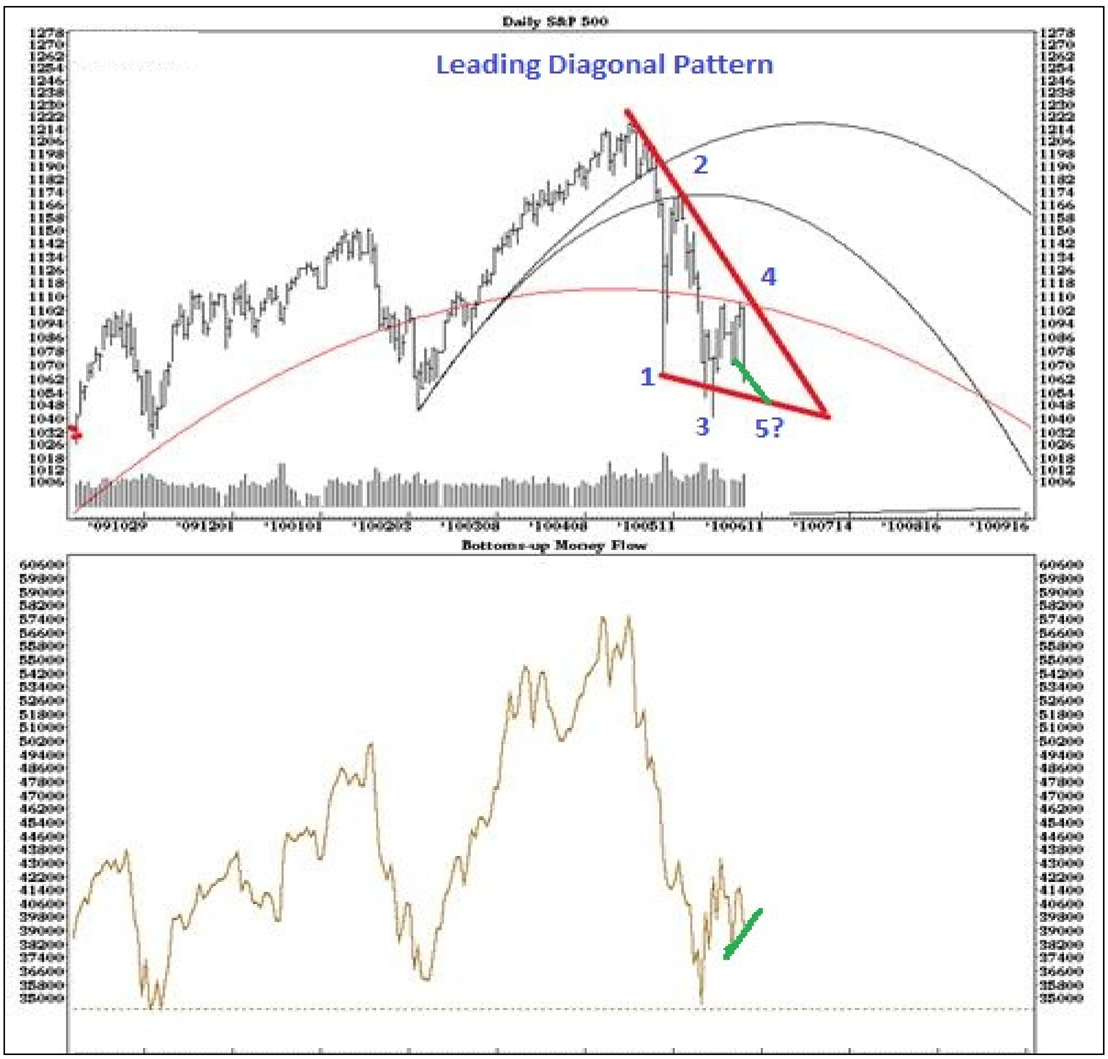
SPY – IT

If the turn due on the 9th turns into a high, the next leg down could finish this wedge pattern and reverse into the Summer Rally. Our expectation is for a bottom to form in June and a Summer Rally. The chances are fairly good that the broken support line can be retested if Congress passes a new stimulus bill that could be another impedes for the bounce rally.

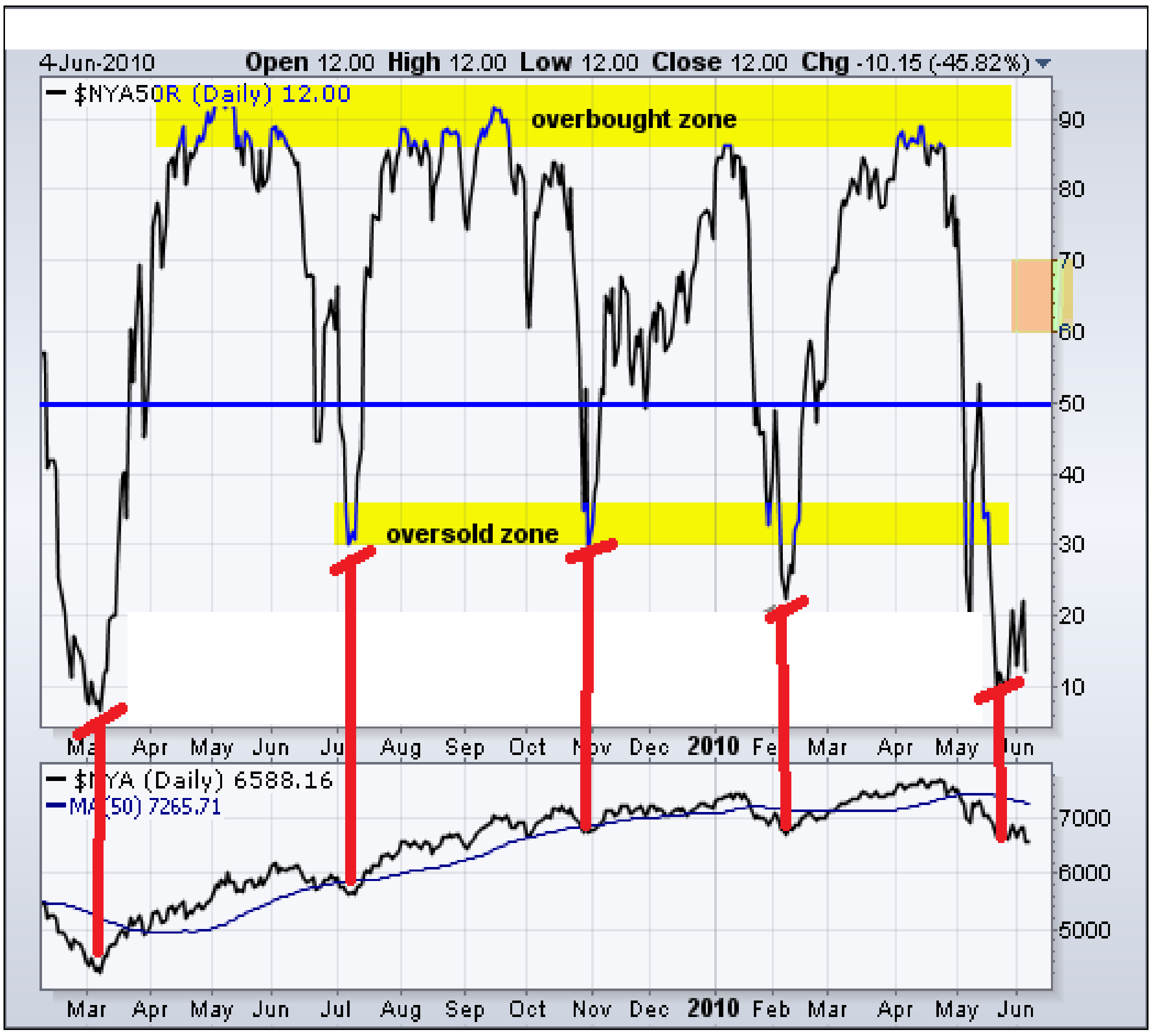
Another issue is SPX not showing massive distribution just yet. Usually, this will show bearish divergence against its money flow line if a crash were imminent (Indicated in Green marks) . Pattern-wise, this could be a leading diagonal pattern to the downside, only requiring this leg down to finish under the lows even to 1030 to get the Re- run of POM 12 and completion of 5[th] Wave, before a big rebound occurs.



SPX v/s 50 D- EMA stocks

This is the best chart for <u>" Contra – Signal"</u> , In April almost 90% of stocks traded above 50 D- SMA and market looked very bullish (We previewed it in my April Note) and this called the exact top.

NOW, THE PERCENT OF STOCKS BELOW 50-DAY SMA BREAKS DOWN - Like RSI and the Stochastic Oscillator, this indicator fluctuates between zero and one hundred (percent). In reality, the indicator rarely gets above 90 or below 10. From April 2009 until April 2010, the indicator fluctuated between 30 and 85.



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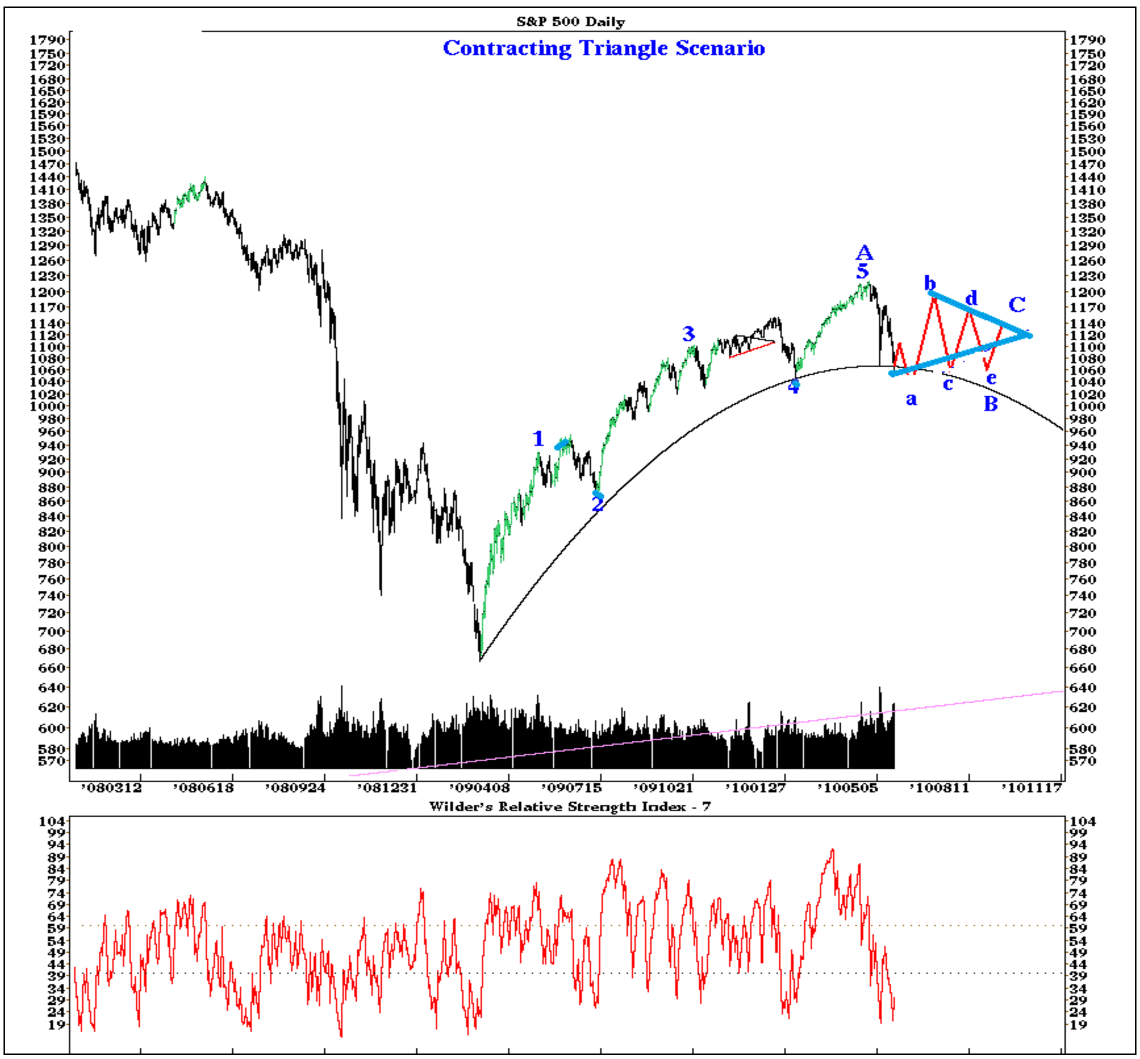
SPY – IT – " Projected Price Path"

Since we saw a very clear five-wave movement to the upside from March 2009 to April 2010, that has to be counted as a wave A advance. The correction we're now experiencing would then be counted as a wave B decline. Given the very volatile drop from the high of April 26 to the low of May 21, that wave a is very likely to be the first wave down in a contracting triangle wave B.

Consequently, we should expect a wave b rally, typically will retrace about 50% of the wave a decline). From that wave b high, we should see a wave c decline to retest the wave a low, a wave d rally which falls short of the wave b high and final decline in wave e. That wave e would end the wave B contracting triangle.



SPX v/s Rydex Ratio

Below is the Rydex Cash Flow ratio for the SPX. **This is a sentiment indicator**, when everyone is on one side of the fence then its usually a good bounce is up coming upon completing the correction. We are looking for a short term bounce that the SPX could rally to the gap level near 1150 on the SPX. The Rydex Cash Flow ratio reached into the areas where a bounce can be expected, both in a down trend market and in an up-trending market. Notice that the Cash Flow ratio reached levels seen when the market was trending down from the 2007 high down to the 2009 low and in each time this level was reached the market bounced.

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SMH – "Heads up"

On 3rd June, *via email we said , POM 13 price was achieved at 1105 (hit 1102) on Bounce , from our POM 12 target of 1050 lows,(a rise of 55). SHM Chart below signaled that.*

SMH has been a great lead Indicator for while and now on Current POM 12 – Re run we are keeping a close EYE on this sector along with NASD.

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DXY - wave

POM 12 – Re run on Stocks should be achieved via Inverse co relation in DXY move. There we have a very clear Wave pattern which counts this rally in DXY as the final one within a five-wave-up sequence. Once we form this final impulsive move as complete, DXY will be coming back to consolidate within the larger trend up. That weakeness in DXY should translate into strength in stocks, but only temporarily. but we should get a rally nonetheless on the back of DXY weakness later on completion of wave 5.

DXY - Divergence

Short term we are cautious on DXY on wave 5, Bearish divergence warns of a corrective phase in DXY. Our price target has been 90 since 73 in December

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EURO

(FXE) with a downtrend that began with the breakdown in December. There have been a few consolidations, but no real counter trend rallies. It is oversold at 120, Our price target has been 121 since 145 in December. It has tagged the long term support line and should bounce. It's always a hard decision at the panic bottom and exhaustion always looks ugly , Just to remind we were very bearish at 147 and certainly not now at 120. Even if the sentiments are very bearish and indicates a simply crash through the support. After the bounce we think EURO will be substantially lower.

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(FXE) - **We should see a counter Trend rally as Projected in the chart below. Target 127 and RSI top at 50**

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YEN

This is a real tough one, to analyze. It's fundamentally overvalued, but it has so many large funds short that it rallies every time risk returns to the stock market.

The short term interest rates at zero and allowed hedge funds to borrow and sell Yen at no cost. And buy into AUD with the "carry trade" and much profit made simply by the differential in interest rates. Further, that cash went in stocks and commodities,

If the S&P Index goes down, they unwind that carry trade by buying back their short Yen. This caused Yen to rise (see below) the panic crash day on May 6th . So, despite being a basket case, the Yen shows strength because of this unwinding effect. On crash day it set off sell stops. On a chart of the Yen, you see a big spike up---that's hedgies covering short positions in the Yen.

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Should you have any questions regarding this Daily Trade Advisory, you can reach me by email at apavse@aol.com or at 978- 662 3329. We will continue to send our " Intraday Alerts" as needed

Best Regards,

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