



SG Capital Research

Global Market Insights

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

MAEG- WKLY MKTSTR- GL- POM -SG 2010 # NOV 01

For Immediate Release – *Monday AM (EST)*

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Market Strategy Global (A # 1) - SPX – Closed @ 1183

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 , DOW
- Time / Cycle Analysis- Bradley Cycle, Seasonality Cycle, 4 yr Presidential Cycle, Astros Cycle
- Advance / Decline Internal market behavior – A/D – NASD HL
- Sentiment Analysis with Extreme character – SPX – TRIN Ratio, VIX, AAIL (@ EXTREMES)
- Secondary Market Analysis for SPX clues – NDX, NYSE
- Special Sector Analysis for SPX clues – BKX
- Global Market EEA Analysis for SPX clues – EEA
- Global Market EEM Analysis for SPX clues – EEM,
- 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 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 stay with our original Intermediate POM 15 @ 1200 of April. .*
- *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

- *The current SPX signal is skewed by QE 2 for time being . The Extension is 7.0 % in 40 days (more than we would like, above POM 14 (3rd Re run) @ 1104). The worst extension in past 4 yrs have been 7.5% in 40 days that was converted to POM 15 then subsequent CRASH !! . We are seeing some signs of POM 15 Re run here especially one input signal of 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)*

• Market Insights

- *Most of the Analytic charts in our lens will look the same till we get a change of POM at least to POM 13 .*
- *The message of the market has remained the same sounds redundant and has remained the same*
- *We are finding more clues with indicators of topping to demonstrate our findings*

Despite all the pumping being done by the Fed, overall insiders (Reported by Trim Tab) have continued to heavily sell at the prices now near the top of the two-year trading range . Semis has the worst selling insiders, the group that is suppose to lead the market rally.

After Elections, who so ever regains control in the election, the more important issue is the Bush tax cuts be allowed to expire and its effect on the market . Market has clearly not priced in this factor yet. The party continues with QE 2. If the Congress fails to rescind the tax hike due in 2011, everyone will hit the exit button at the same time for profit-taking. This would send the market lower and that's the preferred path to 1130 - 1120 SPX . This might even setup a good buying opportunity for another bear market rally into 2011.

For now Certainly market looks tired here internally. We see the expiration of extended tees although the major T 's have been expired, these are all extended T's (implying a change in trend from up to down), we have a polytrendline which is rolling over &, money flow is diverging, . Currently we have high level of investor complacency,

The market is almost out of gas, but one last exhaustion rally is pretty standard for a Fed/politically-driven rally. Anyone buying here has to have a lot of faith that the seasonal characteristics are going to bail the market out. Now, seasonal do have a lot of power behind them. However, this year seasonal haven't worked very well, as the September-October rally proves.

Daily SPX - “ Trend Adjusted Signal”

- 3x3 /9EMA – Break Indicator – On Buy Signal since SPX - 1115

Currently this signal has been on Long side since SPX @ 1115 (Mid – September) Given the evidence of strong manipulation, the best indicator of what is trending has been “ Trend Adjusted Signal “ In extension move this Indicator often keep you on the right side of the trend. No indicator is perfect, obviously.

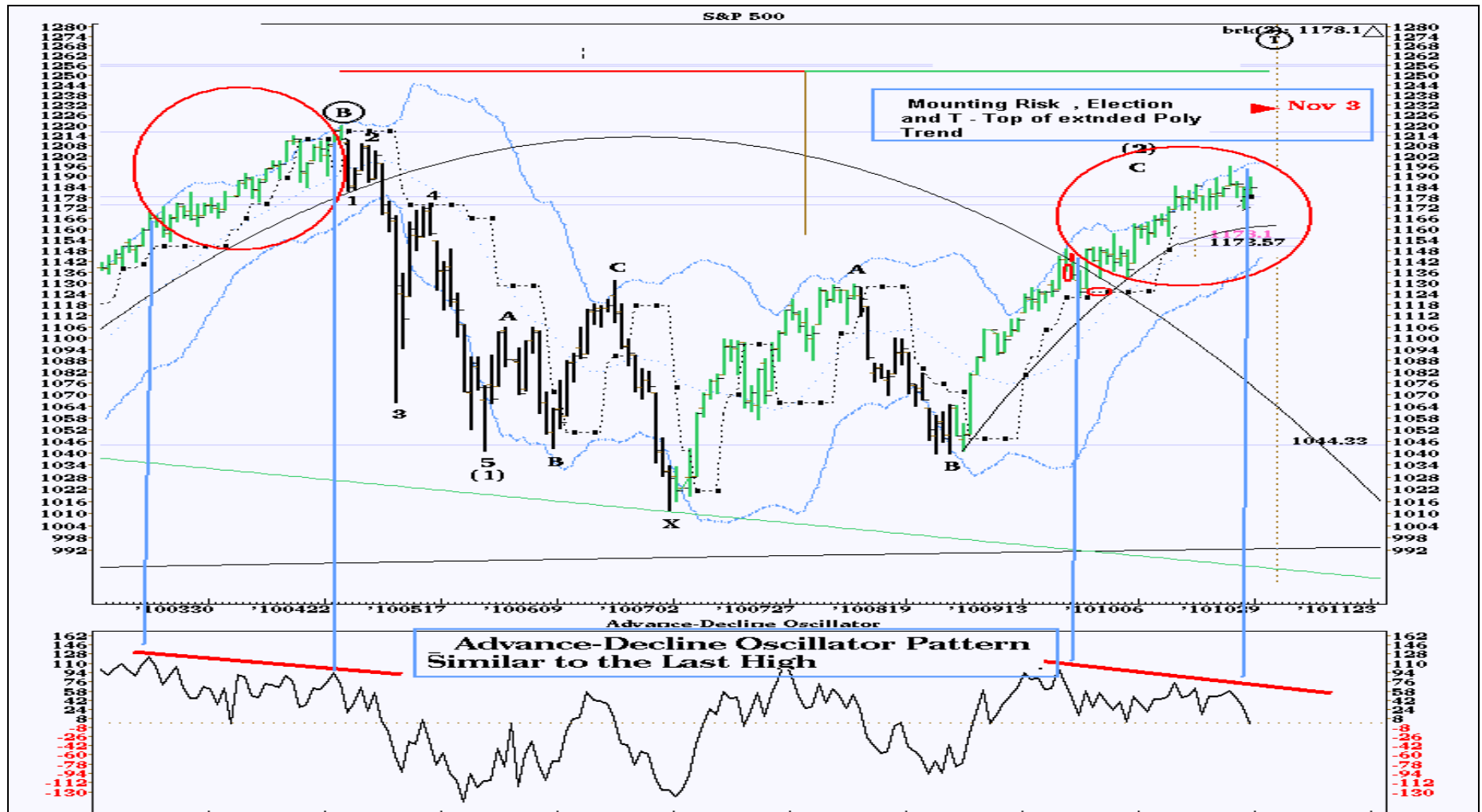
Reversal	Sym	Posn	Close	Reversal
48.07	DJ	Long	11109.8	10982.2
2113.55	NYA	Short	7513.35	7571.1
359.71	SPX	Long	1183.06	1178.1

On 15th Oct SPX was at 1183 and currently its at 1186 , Not much progress just building cause here

Primary Market Analysis - SPX

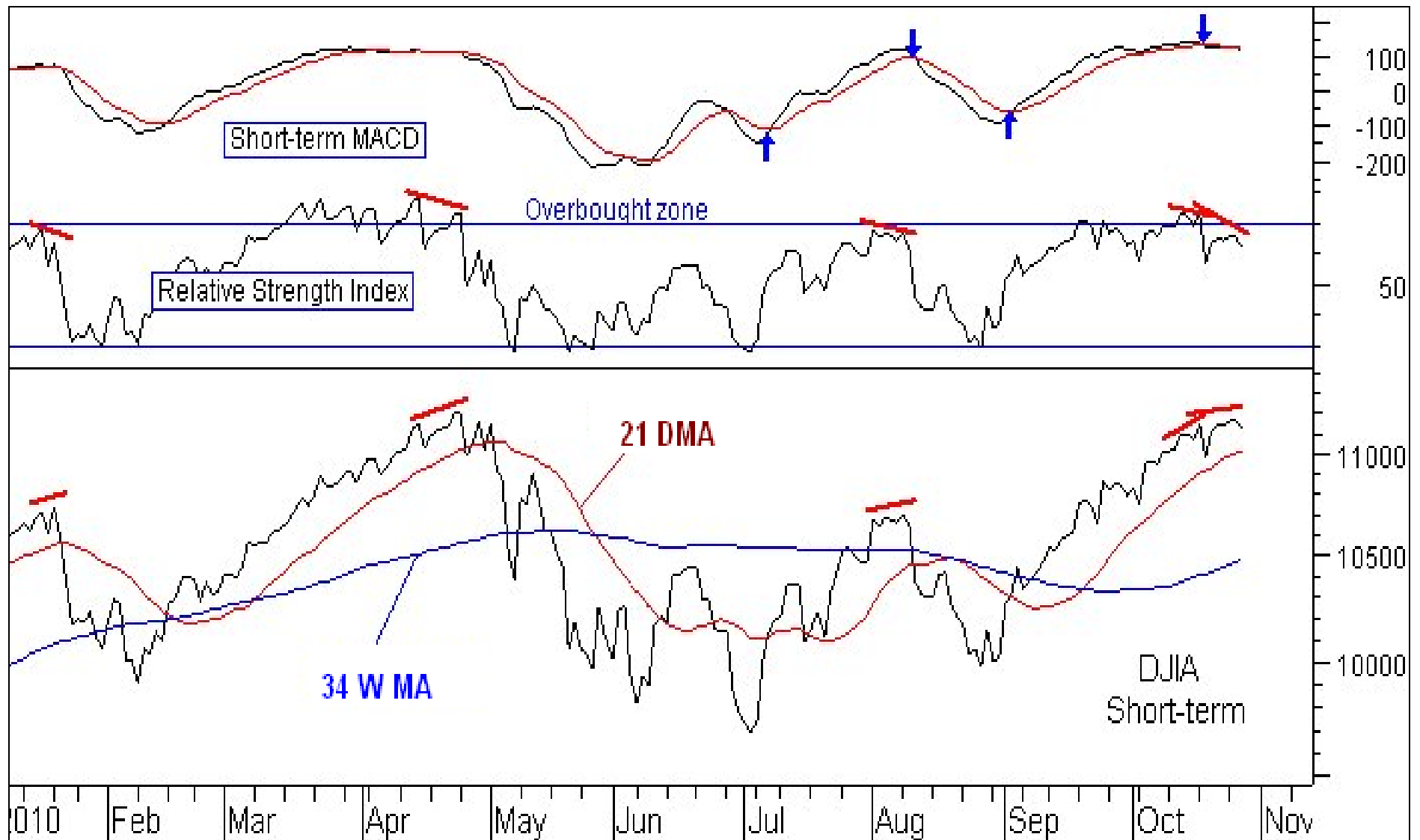
SPX – Mid Term - Waves 2 and D projects lower - T – Termination expired.

A pull back is expected from current levels. Wave 2 & D. This Extension rally is clearly a distribution affair. The reversal should be soon as the bulk of the rally gains behind us now, it's sitting right on the rising polytrend support line with a few points. The advance-decline within the SPX can be analyzed by A/D oscillator plotted below the prices. In the chart, notice that the advance-decline oscillator is acting similar to how it acted going into the April high: (Ref notes within chart)



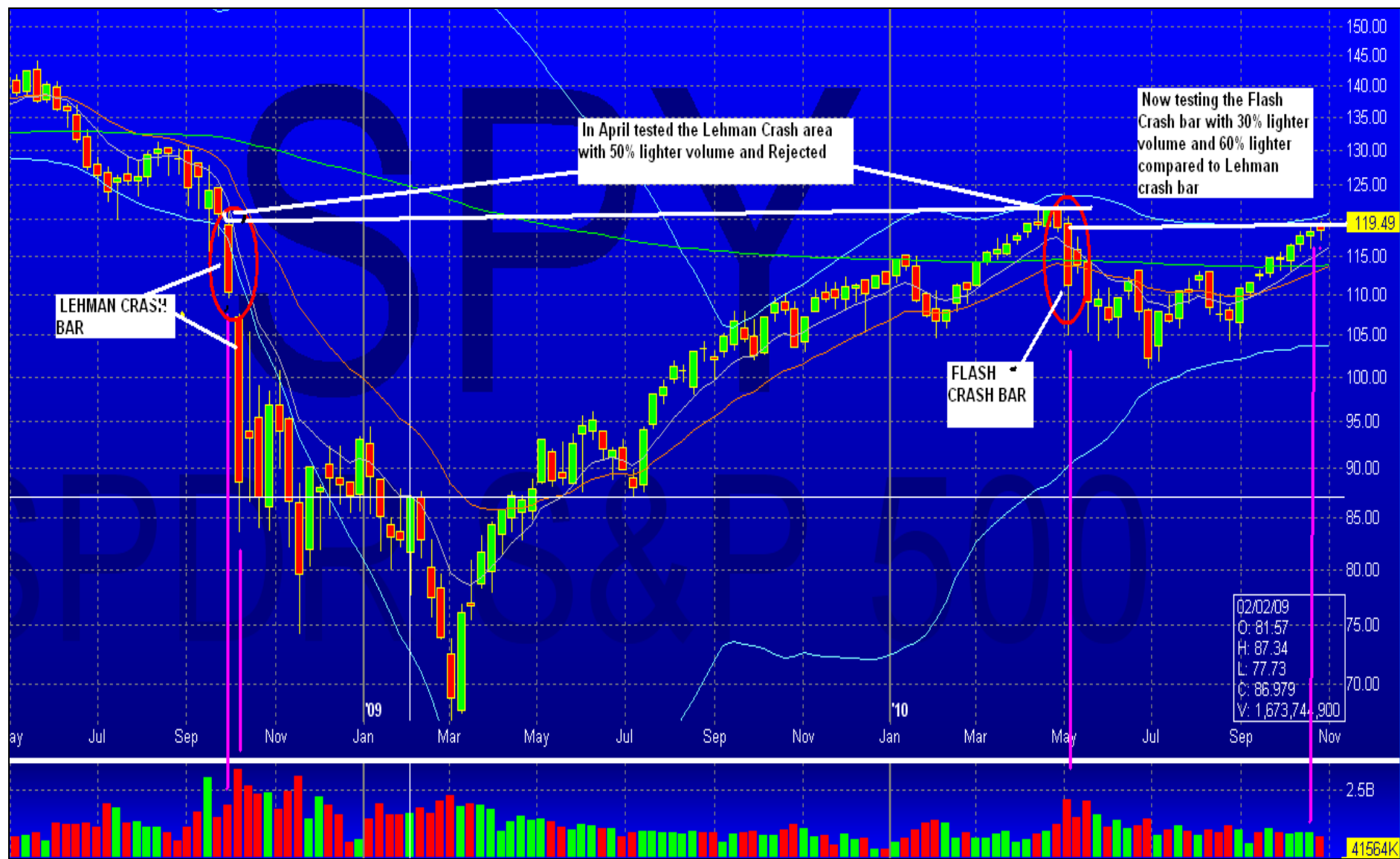
DOW

Dow MACD rolled over , RSI Diverging, usually this is the strongest Index till the end . 34 W MA is at 10,500.



SPX – PQV with respect to “ LEHMAN CRASH WEEK & FLASH CRASH WEEK “ (Real Issue)

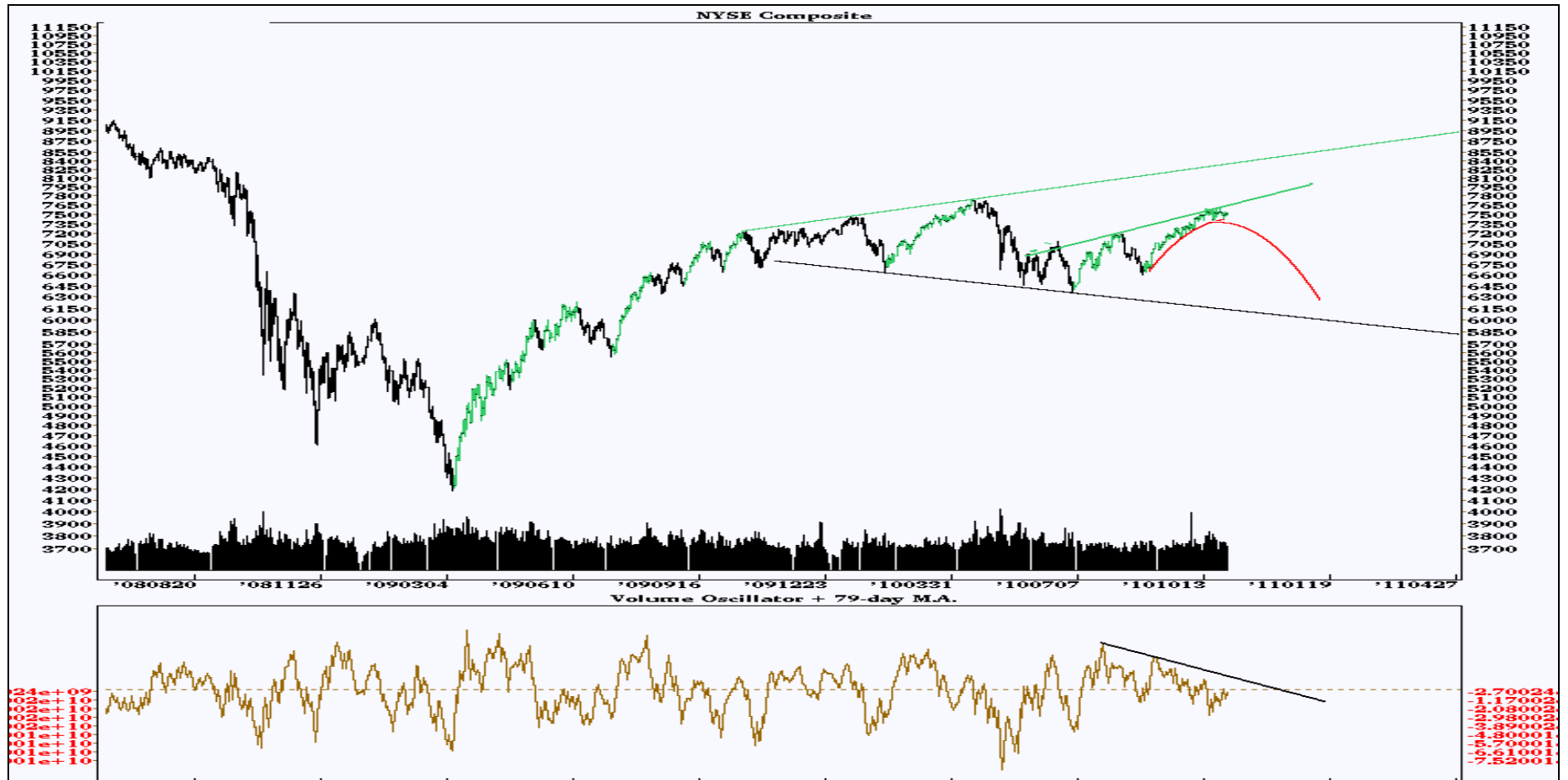
SPX is fighting to push through resistance, but is ultimately going to fail. Refer to notes within the chart for details - These two prominent Price bars # 1 - 1050 to 850 (Lehman) and # 2 - 1180 to 1050 (Flash). This bars can flip the market into two stages of consolidation for sometime. Those highs and lows are critical Trading ranges . Meanwhile this testing has a texture of triple top with each top at lighter volume



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

NYSE .

The wave similar to the last sequence from February to April presents itself. The large megaphone pattern should have internal wave similarity. now. The polytrendline and tee point toward significant reversal period to the downside . with bearish divergence. Within the larger context, the volume oscillator shows that the market is running out of gas to propel it higher:



NASD

NASD at the end of exhaustion move always tends to hug the top of the Bollinger band, which in window above qualifies the time . its been trading . This is very bearish event. This is similar to April , With Bollinger B . NASD tends works well with 100 DMA due to volatility. .



Sector Market Analysis for SPX – POM clues.

- XLF – Bullish Percent Index RSI

Right now there is about 52% of the stocks in the sector that are on buy signals and the rest are either on neutral signals or sell signals. When the bullish percent index is around 50% then this sector is weak. The RSI is at 84 on the bullish percent index and shows that the bullish percent index is extended. Once the RSI falls below 70 it will imply the decline has started.

This Indicator has previously caught the tops quite consistently.



• Time Cycle Analysis

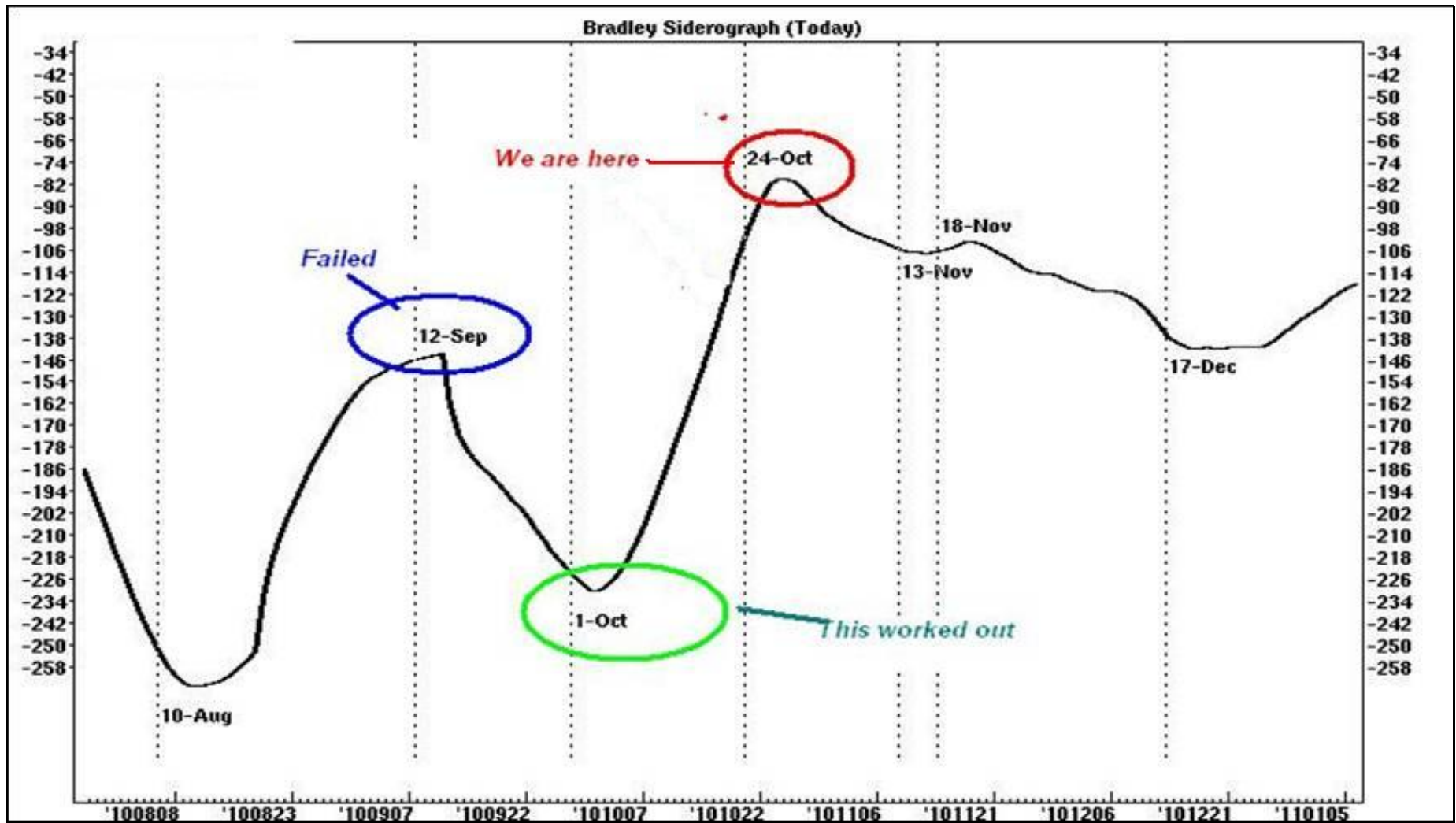
Our Time - cycle Analysis is based Seasonality, Calendar events, Astros Harmonics, Geomagnetic (including Bradley Model) & T – Termination. Based on current market condition our observation points out the following condition

Various cycle summary & dates

- **Main - T – Terminations are all expired** past 15th Sept but we tend to trust these when on right side of Poly trend) - **Bearish** . (see charts below)
- **Post Earnings Cycle** - began on 10th Oct and it is in progress - **Bearish**
- **The seasonal pattern** is for the market to rally from 1ST Nov to 30th April is till in tact. (**Bullish**)
- **The Bradley** is on 24th Oct to 17th Dec (**Bearish**)
- **Presidential Cycle** , positive influence to begin 20th Oct till 12th Nov (**Bullish**)
- **1937 Price path moves with current 2010** - **Bearish**
- **Jerry Minton's 20 Day positive cycle – Phase 1** - to begin on 27th Oct till 3rd Nov (Both on Market close (**Bullish**)
27TH Oct Entry @ 1182.5 to 3rd Oct close Exit - ??
- **Oil & Copper Cycle – (Bearish)**

The Bradley Model – Bearish-Cycle in progress

If the Bradley is still relevant, it is pointing toward a change-in-trend on **24th Oct to 17th Dec** in Downtrend. (This Model hasn't worked well for stocks consistently except the last trend but worked well for Bonds consistently).

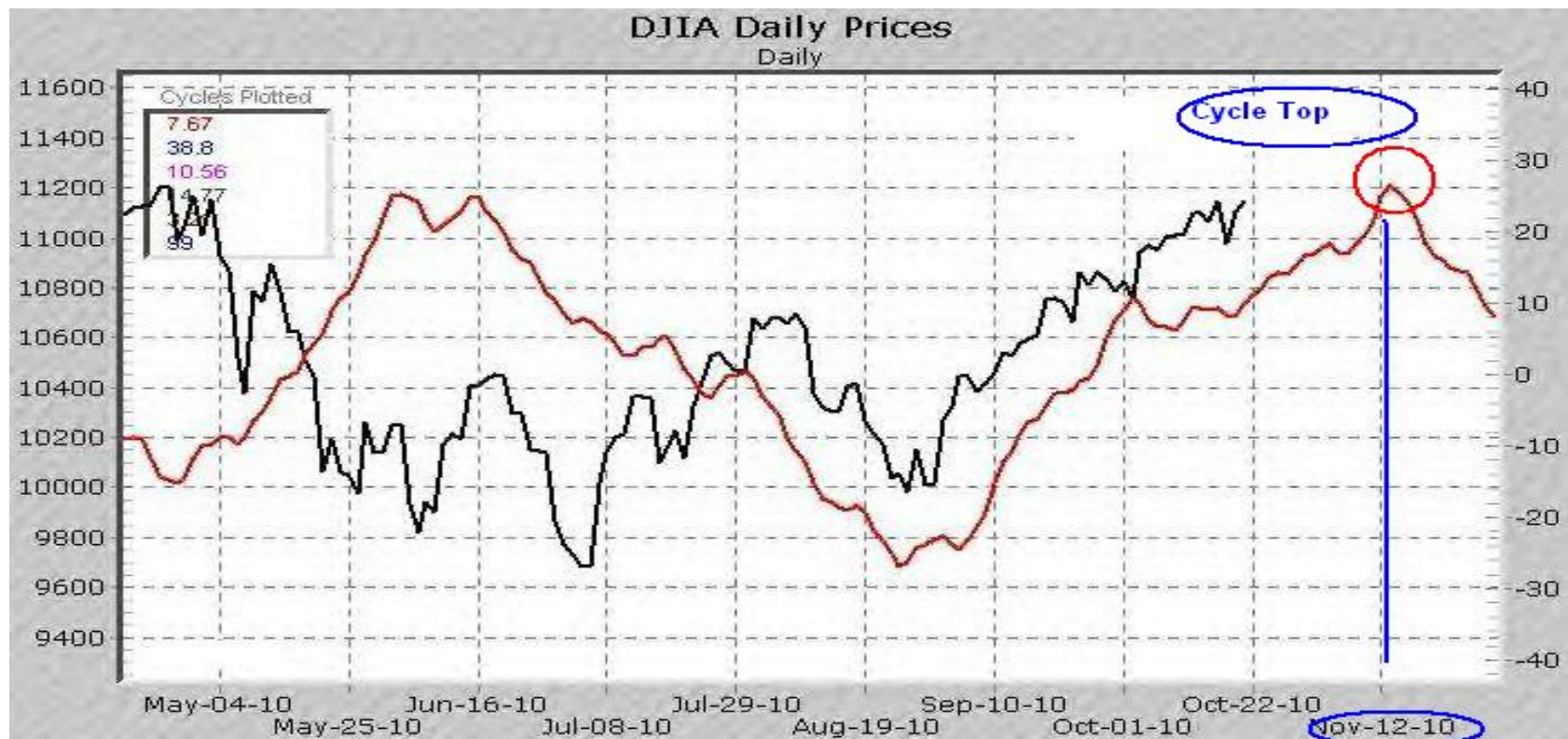


The Seasonality – Bullish Cycle in progress

In STS (Seasonal Timing strategy combined with POM) we are looking for POM 13 or 12 to Re- enter (POM fine tunes the entry and exits for Seasonality Portfolio) The entry's has not been triggered but it can come as late as November.

The 4 Yr – Cumulative Price path in Presidential Cycles – Bullish- Cycle in progress

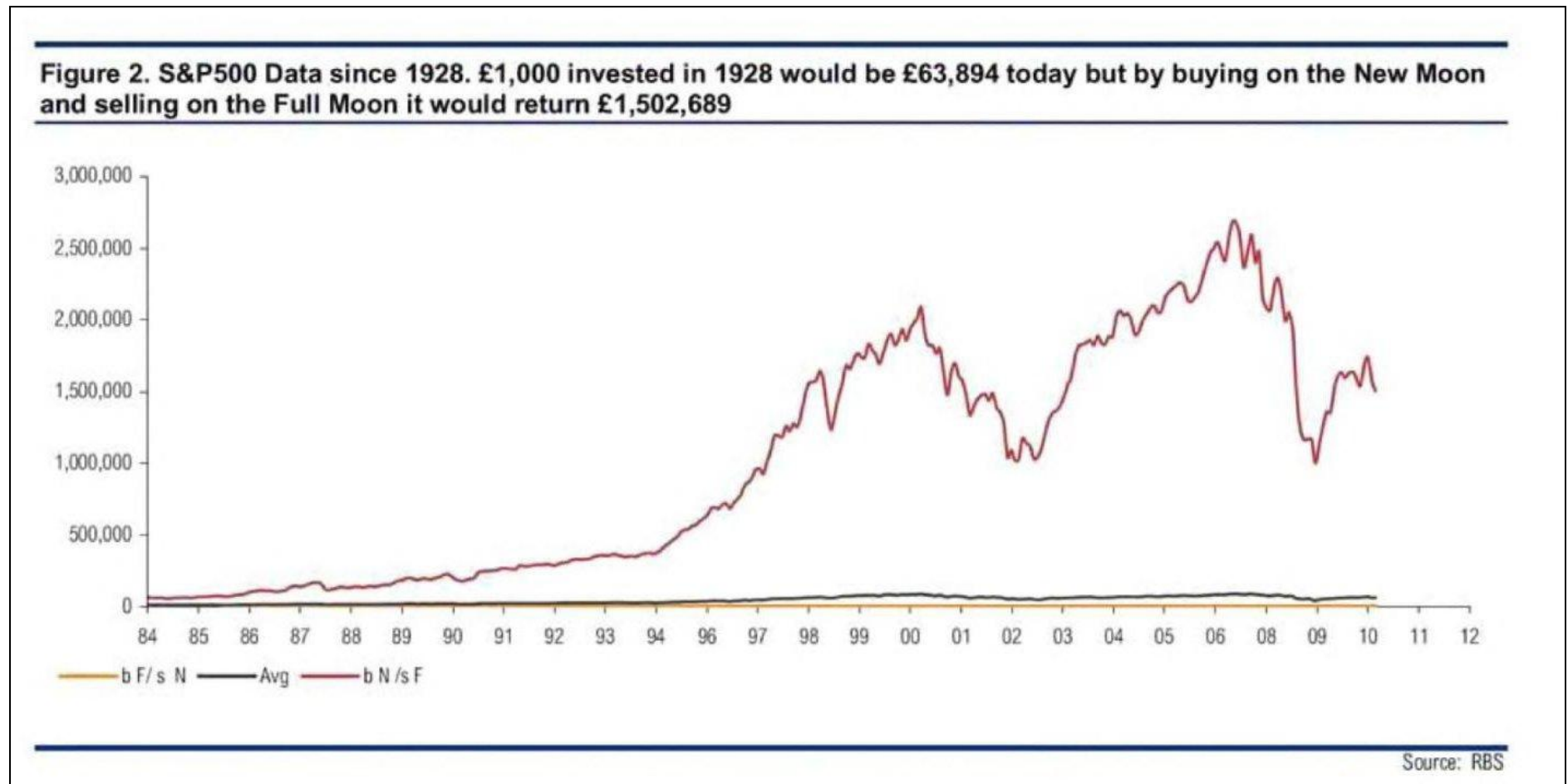
Further projections suggests to on November 12th . The rally of presidential 4 yr cycle. The chart below is Bullish Price path



The Astros cycle & Full moon cycle -

The Venus conjunct Uranus, combust cycle (on October 19) worked well causing exuberance into the trend (which was up) but did **not reverse** within 2 days . Another combust occurred on (October 29) **did not work** . There are other times it hasn't worked but overall has 80 – 85 % probability of working .

The following chart from a recent Royal Bank of Scotland study illustrates the spectacular performance of a portfolio based solely on buying and selling based on the phase of the moon. We have timed quite a few POM signals on this event if it coincide with it



- 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

NASD – A / D - . NON-CONFIRMATIONS IN NASDAQ BREADTH... While the Nasdaq moved to a new high this week, the AD Line flattened out and failed to keep pace.



- **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** in their first and second derivatives have reached areas where at least a meaning ful pull back has happened.
- **Commercial Hedgers** (Smart Money) are Net position where the Previous extreme tops have occurred
- **Rydex NASD Bull Ratio (Dumb Money)** are at Positions where the Previous extremes tops have occurred
- **AAII**
- **VIX**

VIX – The VIX Index is tracing very Bullish pattern ,testing the breakout area of past and rejecting it

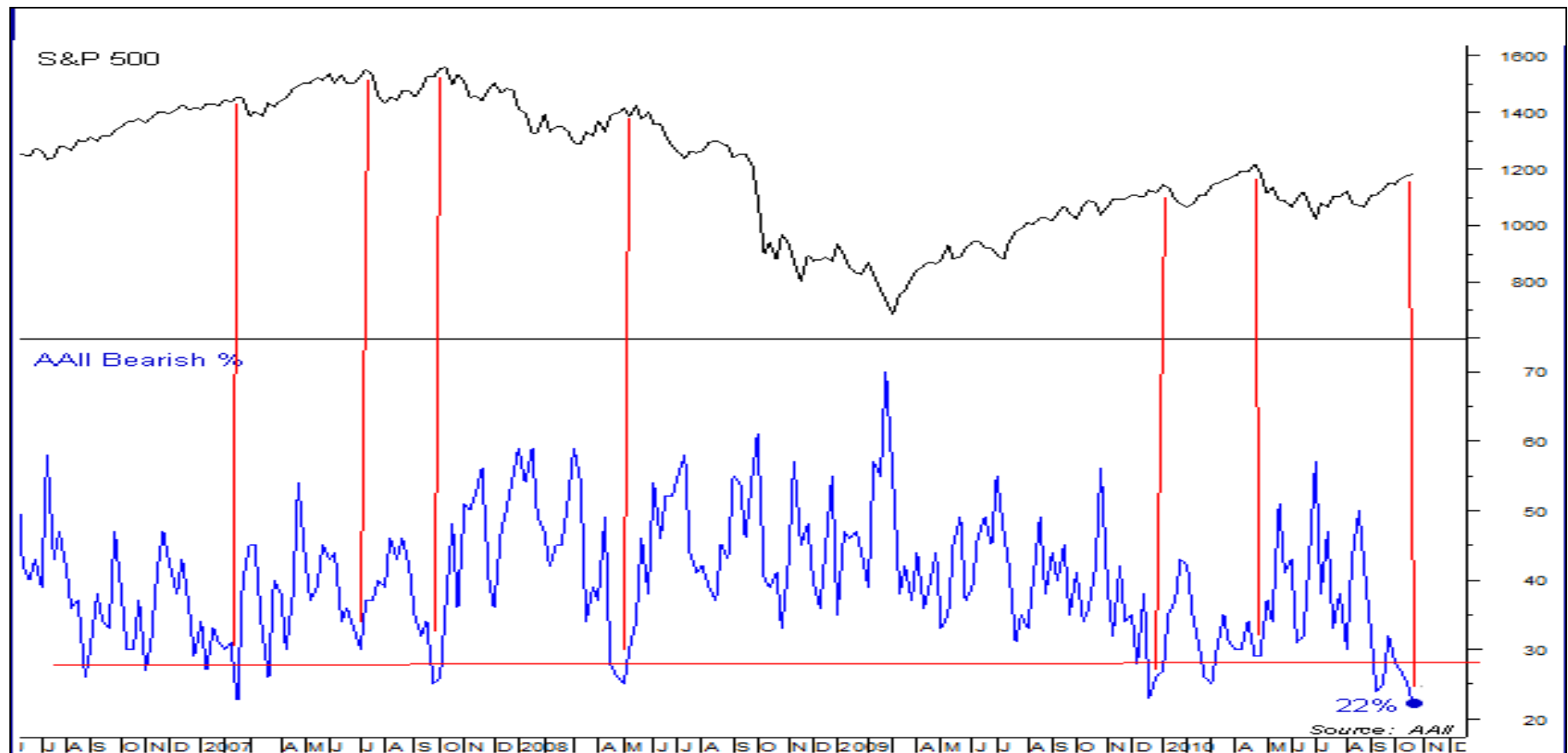


SPX – TRIN INDICATORS - SECOND HOOK

The bottom window is the weekly SPY/TRIN ratio. Significant highs in the market can occur when the weekly SPY/Trin ratio hits above 150. The current high reading came in at 180. Normally the SPY/Trin ratio leads a market top about 3 weeks and the 180 level was hit about 3 weeks ago. The VIX is shy of the white area today but any decline in the SPY will most likely push the VIX into the white are. Notice that once the SPY/Trin ratio has reached above 180 that declines come in the SPY once this ratio closes down from the second hook. **The SPY/Trin ratio is forming the second “hook” now but has not turned down. Any rise in the Trin above 1.50 on a closing basis most likely turn the second “hook” down.**

SPX v/s AAI

Last weeks AAI SENTIMENTS Released by Traders Sentiments at CFTC, shows extreme Bullishness in this Index. However other Survey Indicators are not as extremes as AAI. But this is a caution for top formation in past .



- **Global (EEA) Market Analysis for SPX – POM clues - EEA,FTSE**

EEA

Our in dept Analysis suggest that POM – Buys and Sells of SPX are closely related with EEA

- **Global (EEM) Market Analysis for SPX – POM clues - EEM,**

EEM

Our in dept Analysis suggest that POM – Buys of SPX (POM 11, 12) are closely related with EEM price path at different proportion but POM Sell (14) does not have much correlation , to some degree POM 15 has good role in Sell Signal relation.

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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