



# SG Capital Research

Global Market Insights

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

**MAEG- WKLY MKTSTR- GL- POM -SG 2010 # NOV 08**

**For Immediate Release – *Monday AM (EST)***

*By: Suneil R Pavse*

*Contact: apavse@aol.com*

---

## Market Strategy Global (A # 1) - SPX – Closed @ 1225

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 LT, MID, ST , DOW
- Time / Cycle Analysis- Bradley Cycle, 4 yr Presidential Cycle,
- Advance / Decline Internal market behavior – A/D – NASD , SPX
- Sentiment Analysis with Extreme character – SPX – VIX, AAI ( @ EXTREMES)
- Secondary Market Analysis for SPX clues – MID CAP , RUSS.
- 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 ) .*
- *Our current " SETUP –PQV EQWT EQUITY " Hedged Index is -5.2% v/s -11% post POM 14 – SPX extension.*
- *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 11% in 50 days. It has been skewed by QE 2. 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 )*

- **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***
- *We are finding more clues with indicators of topping to demonstrate our findings*

## QE

The Fed's ability to create money is powerful. The side-effects of using this tool are going to be damaging to the system in the long term. But in the short term, traders simply ignore those long term effects and concentrate solely on taking profits out of the market. Fed literally told the world that it was targeting stock prices specifically and other asset prices in general. One would find it difficult to fight the Fed on this one in short term.

Fed policy interfering with the normal market mechanisms of price discovery. Virtually everything everyone knew about how the market reacts to news has been turned on its head and the reason is, the signal that the markets are returning to normal post 1<sup>st</sup> Sept with infusion.

But the risk of substantial moves to the downside in stocks will come when &

1. If, The QE 2 may not work as well as everyone thinks, similar to QE 1
2. If, The economy begins to get better. That's because it will mean that the Fed can consider scaling back or even ending its injections of cash into the stock market.
3. If, The markets at some point move on towards sovereign debt issues in Europe. When is the question; not if. That issue has not gone away . We have attached the charts of Portugal's Credit swaps with SPX correlations.

## SPX v/s Portugal's Credit Default swaps



- Daily SPX - “ Trend Adjusted Signal”

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

*Currently “ Trend Adjusted Signal “ has been on Long side since SPX @ 1115 (Mid – September) . This Indicator tends to catch the extension momentum move ( Post POM 14 ) and often keep you on the right side of the trend till diagonal triangle is complete . The reversal points are stops and could get whip sawed at times.*

Sym	Posn	Close	Reversal
DJ	Long	11226.9	11146.3
SPX	Long	1199.68	1184.71

INTERNALS OF 3X3- 9EMA – Break Indicator.

While many professional traders have said this is the hardest market to trade they have ever seen in their careers, 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.

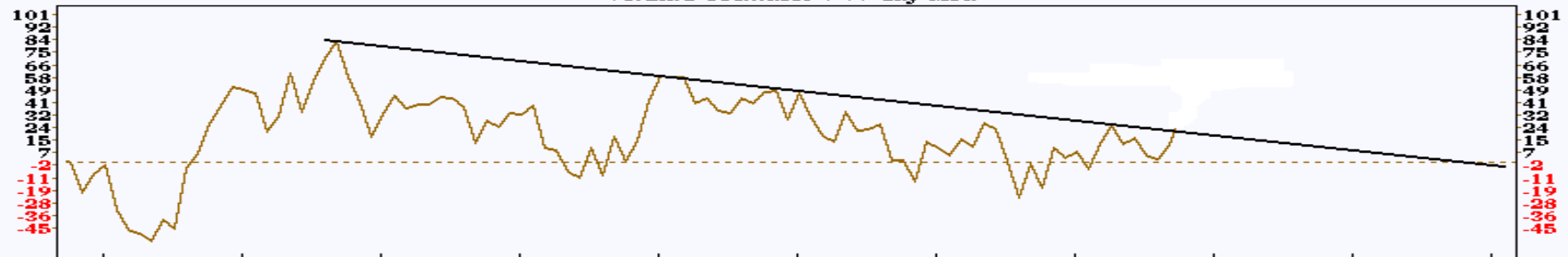
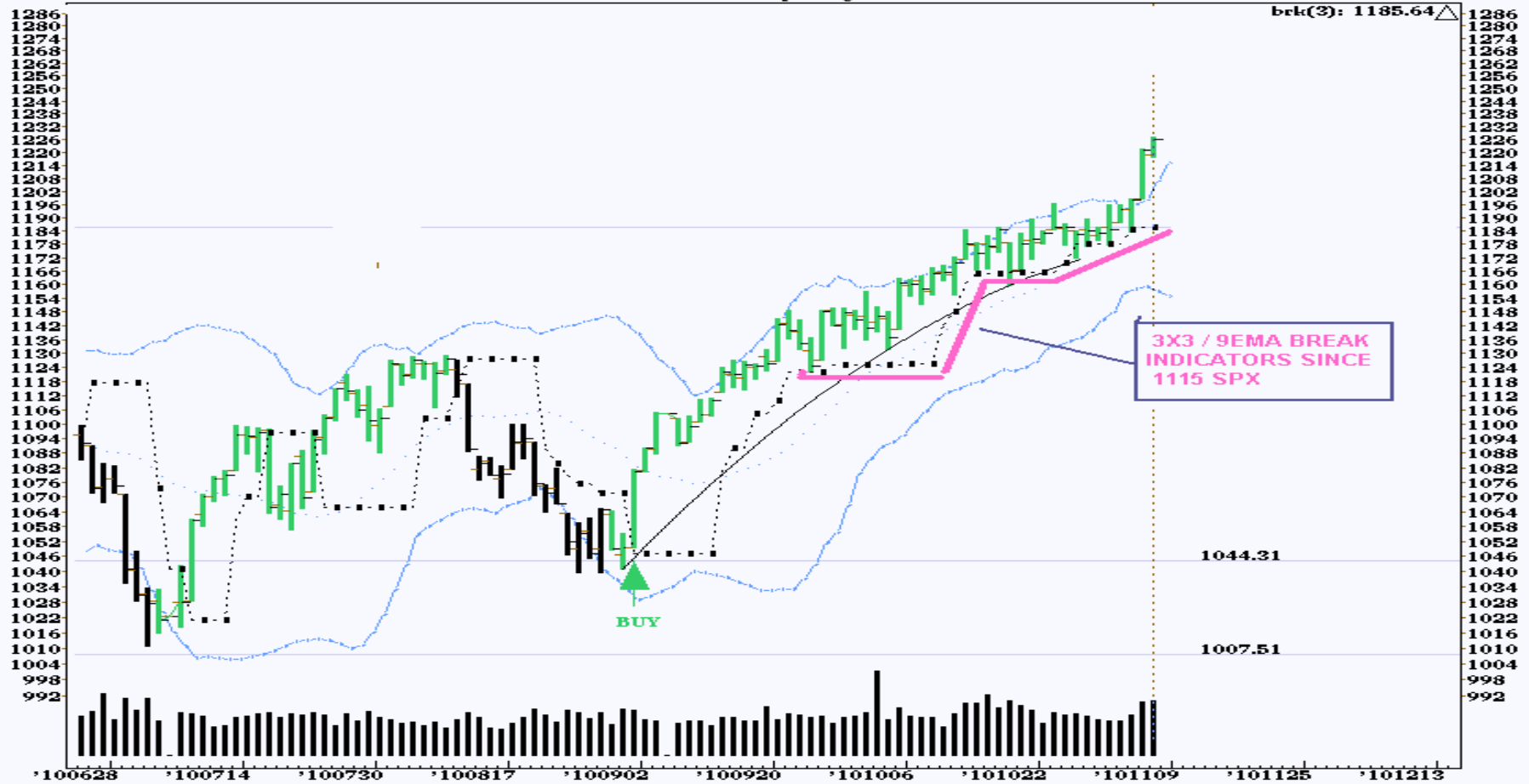
Tight trading ranges tend to cause whipsaws and those are environments where trading multiple markets can help for diversification, in SPX & DOW. The reason is that we have a purely mechanical indicator, our **line break indicator**, that is much better to use. That indicator has proven extremely good 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. ( We will integrate this on PQV Analysis on Individual Equities for Setup # 4 @ or around POM 15 and Setup # 3 @ POM 12)

On the current Trend, post Sept 5<sup>th</sup> The line break indicator has piled up, the SPX over 100 points. Undoubtedly, the Fed's flooding the market with dollars has been the underlying mechanism to get this high, but it doesn't change the fact that the indicator has given the best advice on positioning for extension. ( See the chart below on the Break line)

# SPX with 3X3 / 9EMA

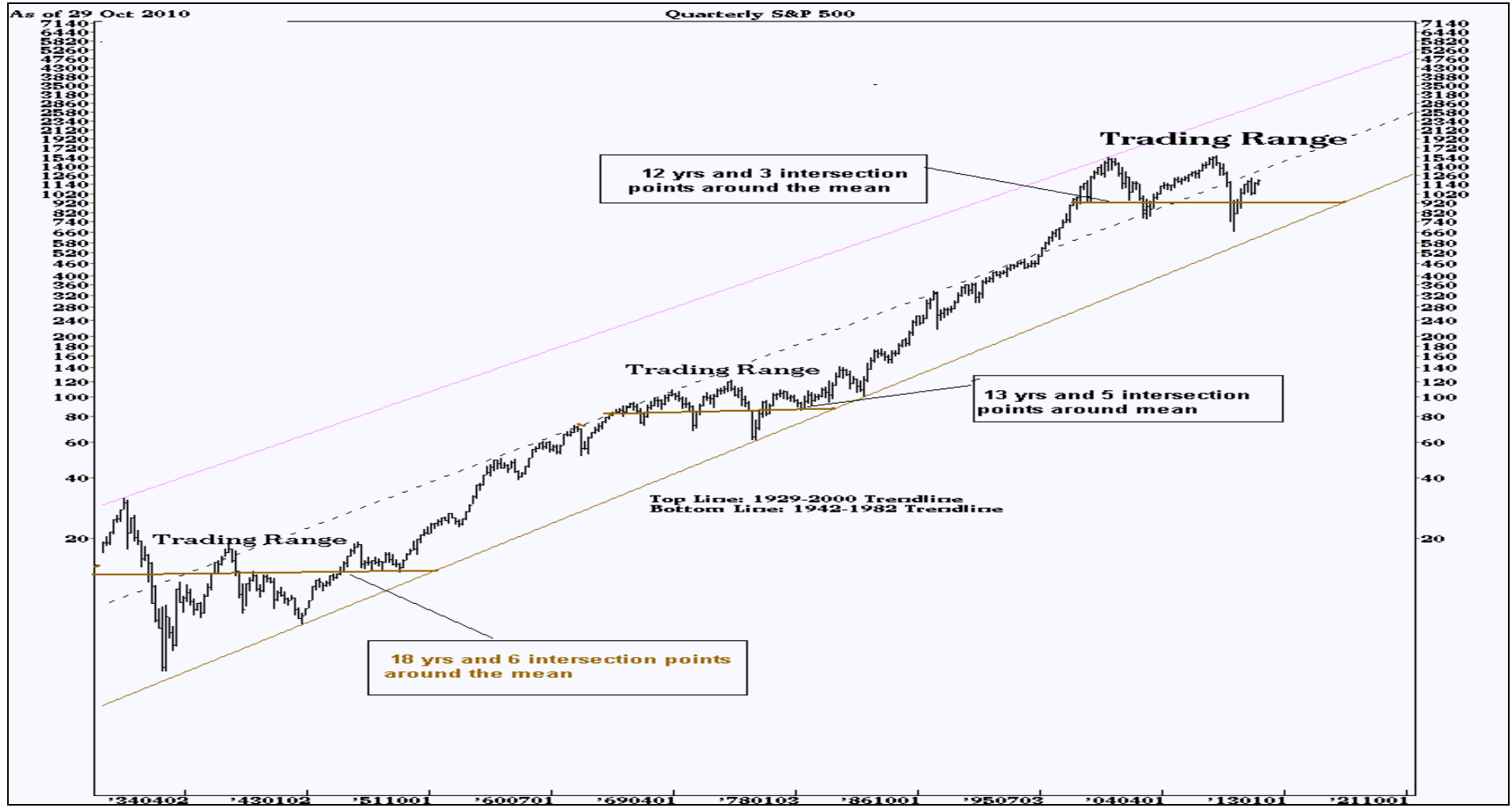
S&P 500 Cap-Weight



# Primary Market Analysis - SPX

## SPX – LONG TERM

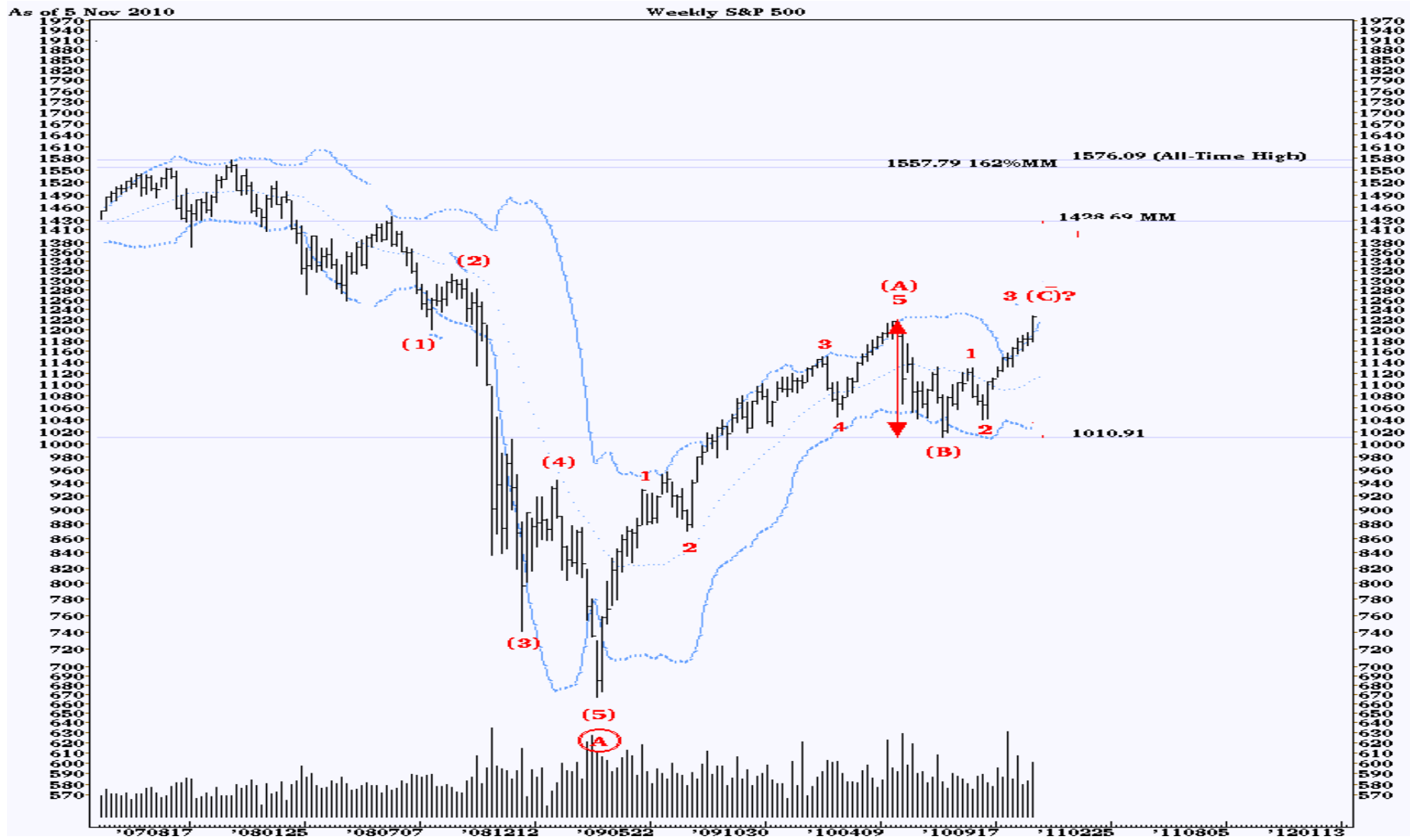
Intersection of the “Sell off “ around the mean in long term trading range. These have counts and time lines ( See notes within the chart). In current - 12 year span there may be one or more intersections to go if history is any guide.





## SPX – Mid Term - Waves

Wave analysis remains extremely bearish, but even if that is so, it may be a little longer before the markets reflect that outlook, as the following long term chart and count suggests: Should the current Wave 3 / C peak just above 1220 in the next 1-2 weeks, a bottom in Wave 4 would be expected around 1165 in late December



## SPX – with Bollinger band

Daily Bollinger Bands on the SPY. **Thrust** above and below the Bollinger bands can mean reversals in the market. We have circle in Red where the SPY surged out side of the Bollinger Bands. Will this time be different, maybe. The market will need to continue higher short term to hold the bullish case . Thrust takes quite a bit of energy out of trend and even in Bullish case flips into consolidation to digest some of these gains



## SPX – Hourly Chart since August lows.

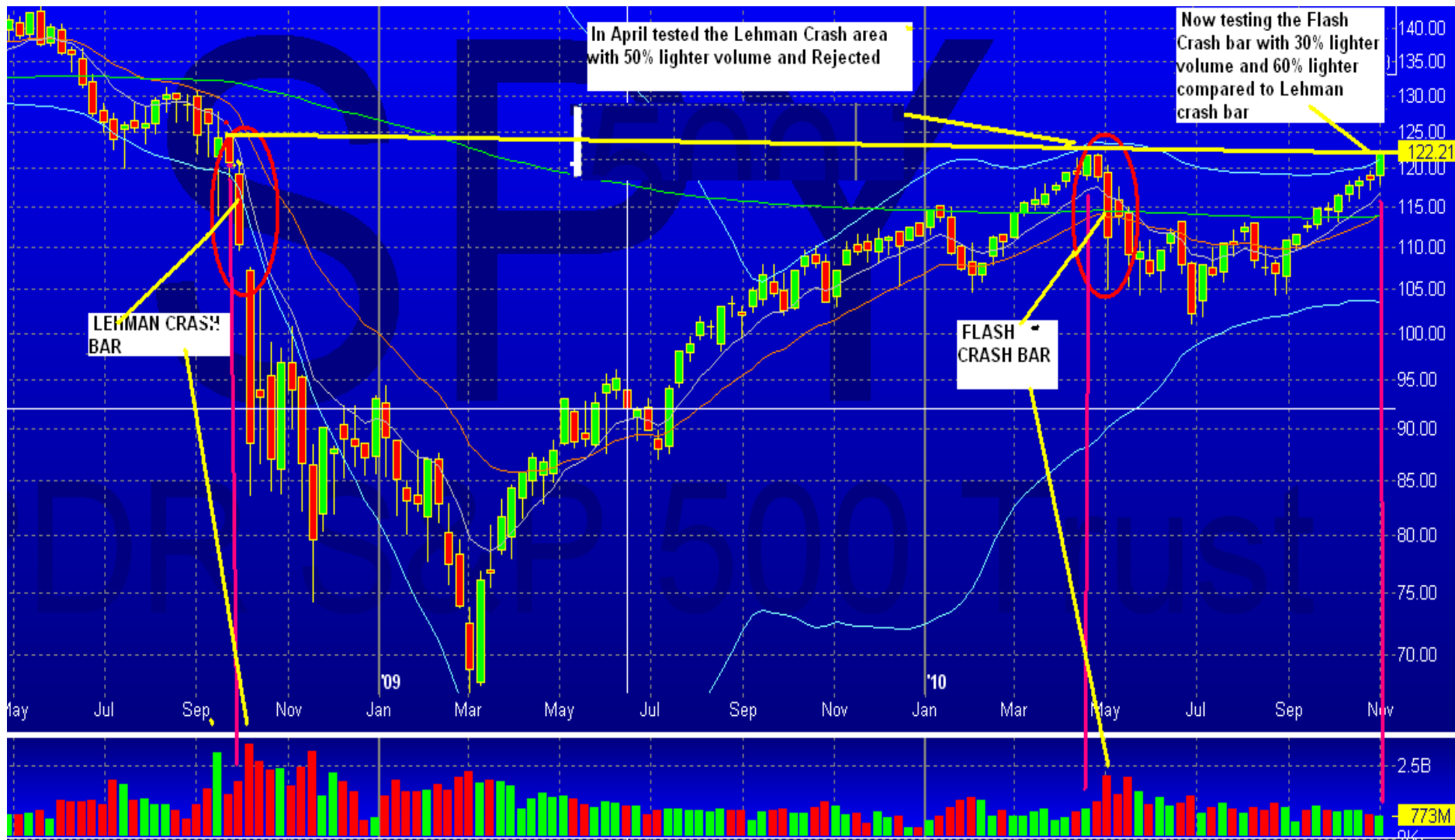
The larger bearish wedge pattern dominates, with prices gapping higher as it is in overbought, we would expect a period of back and fill to cover the gap and allow the large distance above the 100-HMA to be covered. The risk-reward suggests mean reversion to the 100-HMA; a break of which would be bearish. All the momentum player will go Short SPX



**HOURLY: S&P 500 Spyderys SPY**

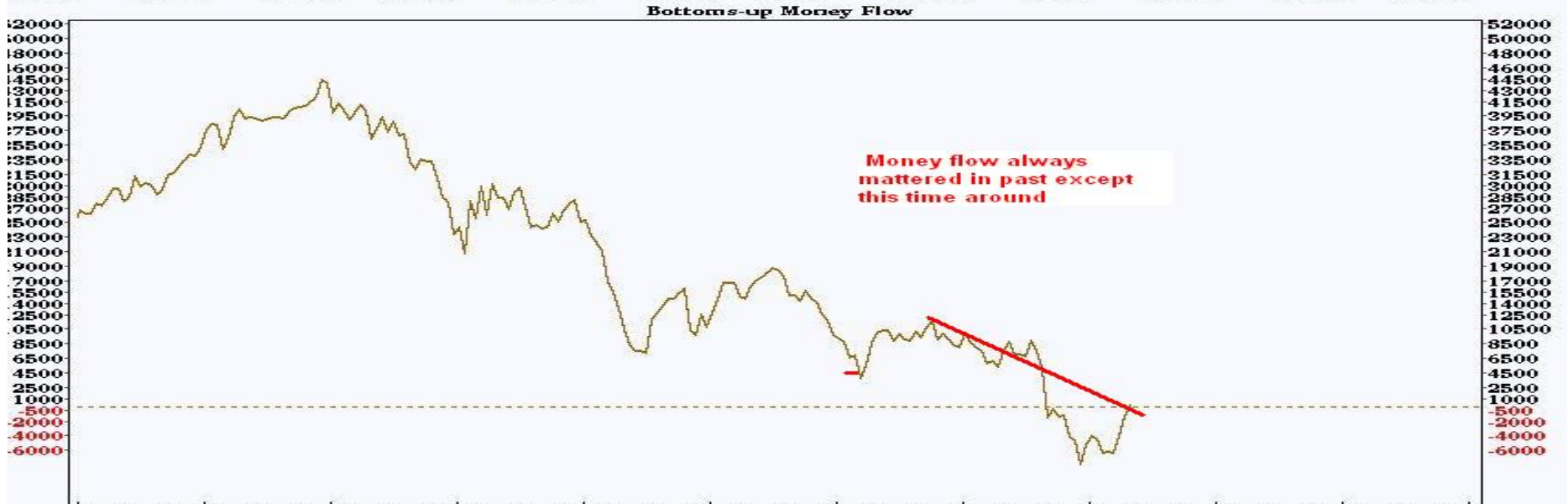
## SPX – PQV with respect to “ LEHMAN CRASH WEEK & FLASH CRASH WEEK “ ( Real Issue)

In spite of 25 points move , 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



# DOW

The Dow Industrials continue in an uptrend despite bearish technicals. Is this a top? Money flow diverging in spite of big move on last Wednesday, There a Trendline from 2007 and current Prices are above the revised Poly Trendline .



- Secondary Market Analysis for SPX – POM clues – MID CAP, RUSS

MID CAP .

The wave is 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:



# RUSS

RUT remains the only index below its April highs. In spite of big rally money flow hasn't changed.



- **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

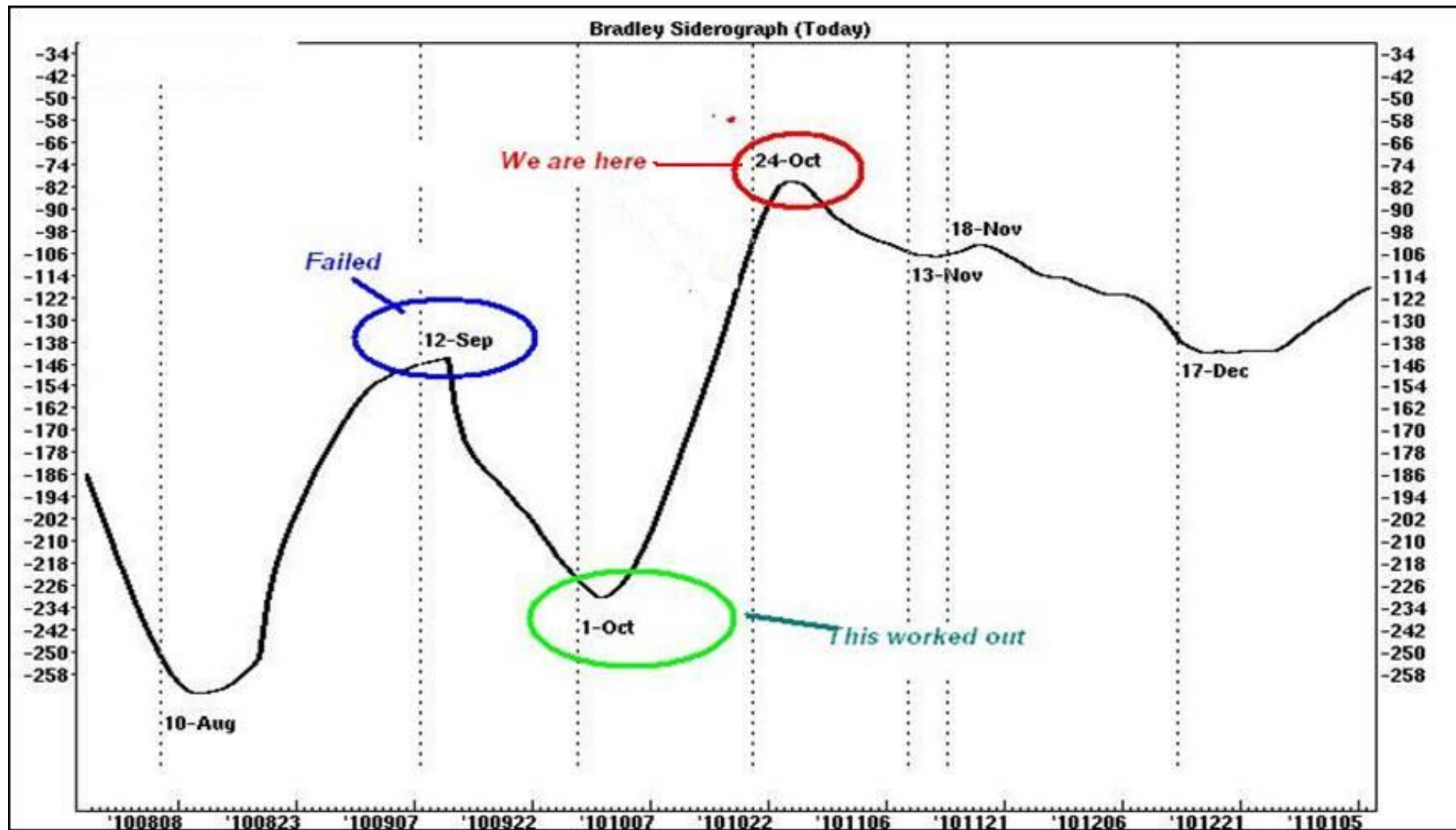
### **Various cycle summary & dates**

- **Main - T – Terminations – Extended - Bearish.**
- **Post Earnings Cycle - began on 10<sup>th</sup> Oct and it is in progress - Bearish**
- **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 is on 24<sup>th</sup> Oct to 17<sup>th</sup> Dec ( Bearish)**
- **Presidential Cycle , positive influence to begin 20<sup>th</sup> Oct till 12<sup>th</sup> Nov (Bullish)**



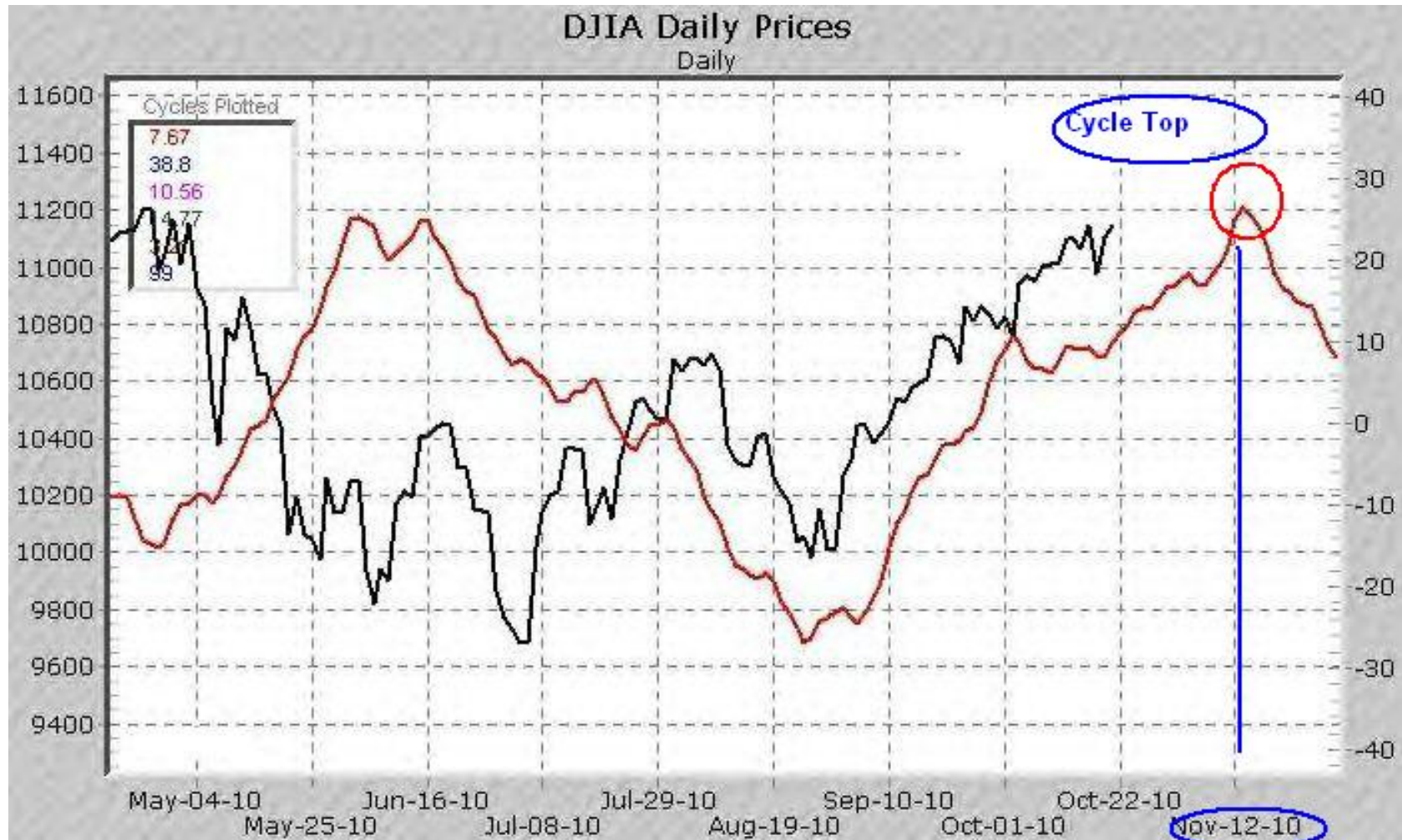
## The Bradley Model – Bearish Cycle in progress – 24<sup>th</sup> Oct to 17<sup>th</sup> Dec

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



# The 4 Yr – Cumulative Price path in Presidential Cycles – **Bullish- Cycle in progress till 12<sup>th</sup> Nov**

Further projections from 12<sup>th</sup> Nov till 26<sup>th</sup> Nov in downtrend by this presidential 4 yr cycle.

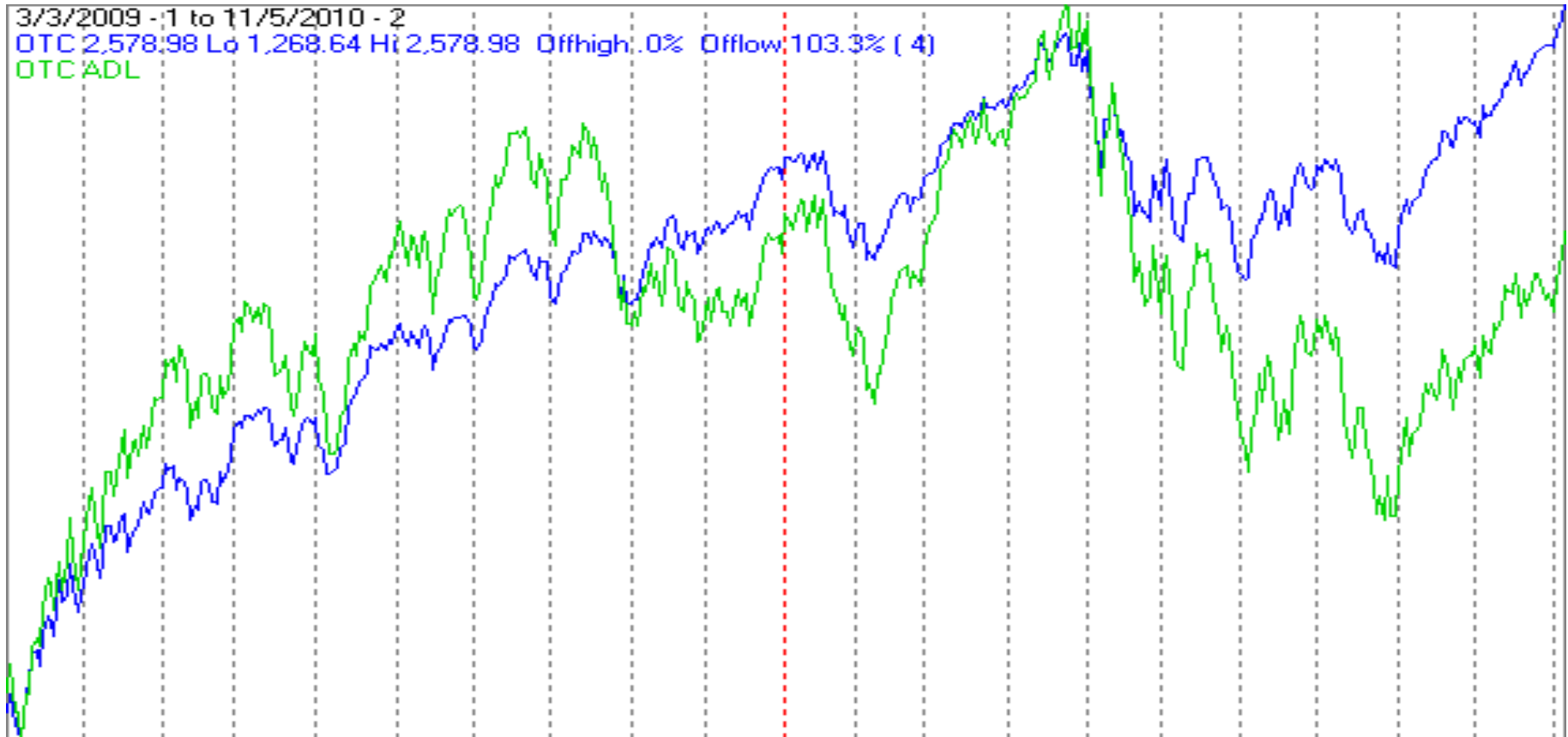


- Advance / Decline Internal behavior Analysis

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

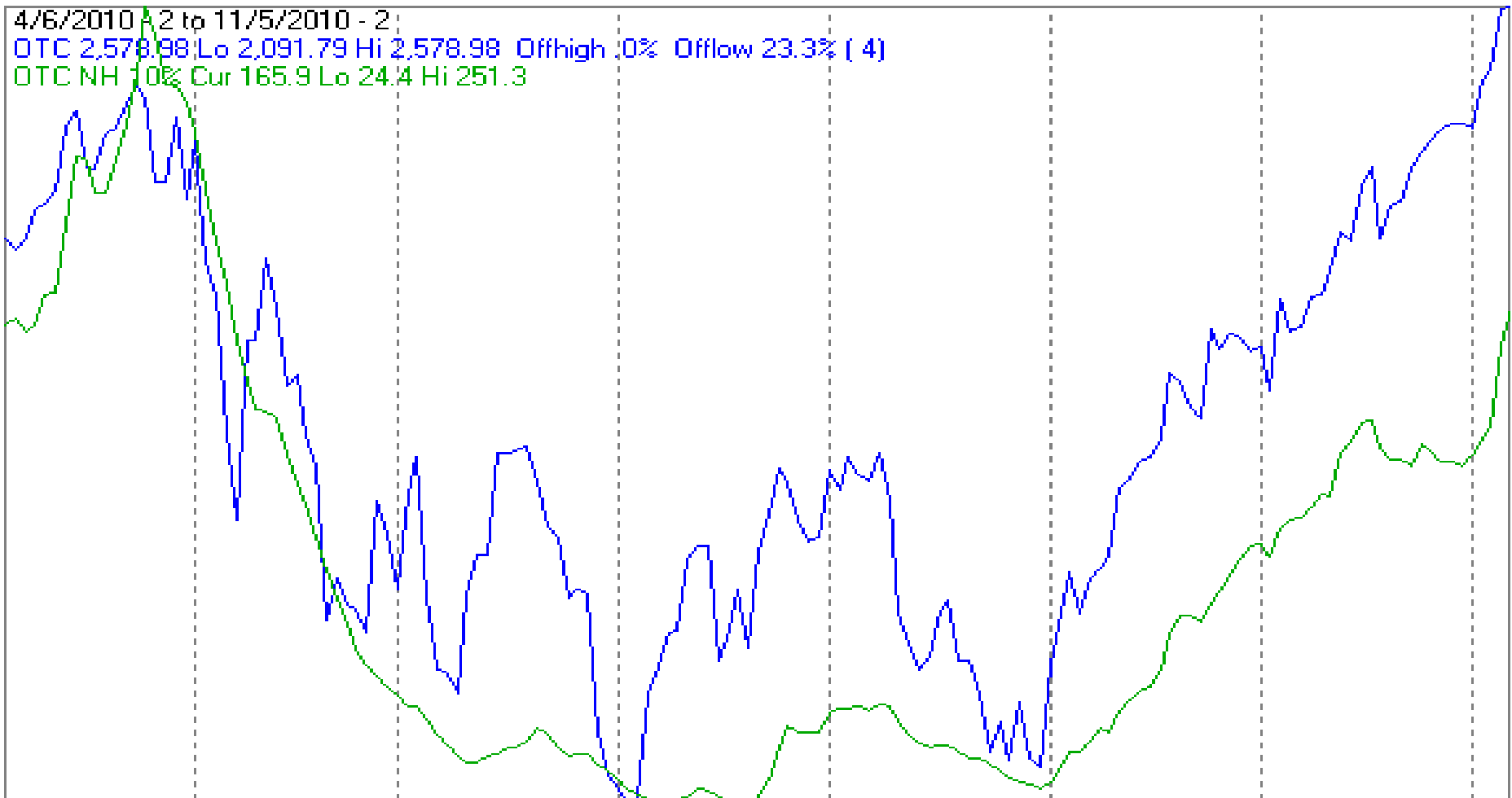
NASD – A / D - . NON-CONFIRMATIONS IN NASDAQ BREADTH...

The chart below covers the period from the March 09 low showing the OTC in blue and an ADL calculated from NASD traded (OTC ADL) in green. The OTC is broke above its high of last April while the OTC ADL has remained well below its April high.



## NASD – NH - . NON-CONFIRMATIONS IN NASDAQ BREADTH...

The chart below showing the OTC in blue and a 10% trend (9 day EMA) of NASD new highs (OTC NH) in green. New highs picked up last week, but the indicator is well below its April high while the OTC exceeded its April high.



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

The chart below is similar to the one above except it shows the (SPX) in red and NY NH has been calculated. The pattern is similar.



- **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** in their first and second derivatives have reached areas where at least a meaningful pull back has happened. Ticks have been at + 900, Trin @ 0.6 and 5 Day Arms at 4.00, \$\$ weighted Put / Calls at 1.7 for speculative buying , all of which at least short term tops
- **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 @ 19.2% Bearishness**
- **VIX - Bullish pattern testing on Breakout Areas**

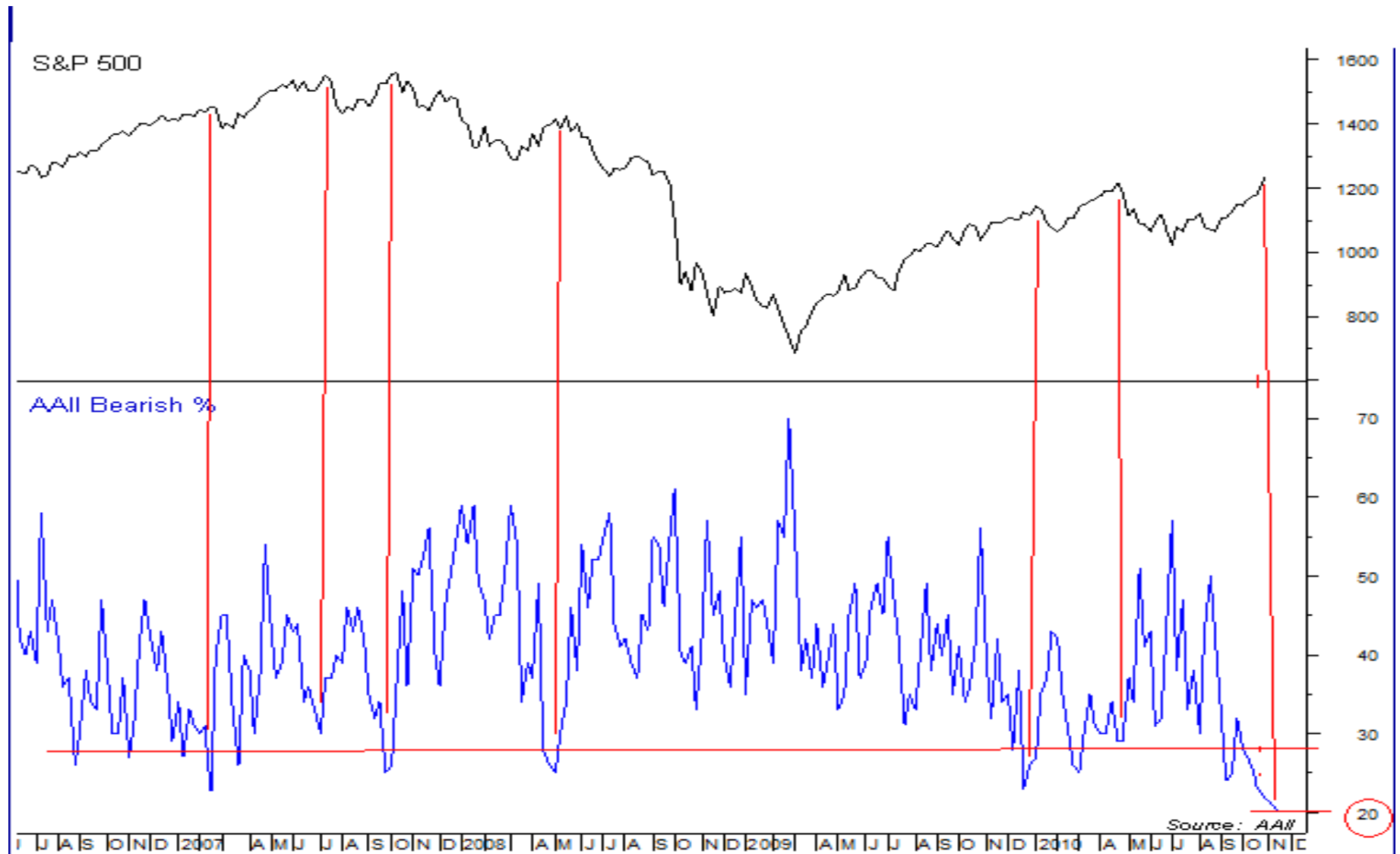
**VIX – The VIX Index is tracing very Bullish pattern ,testing the breakout area of past and rejecting it**

The declining wedge was redrawn, with prices clearly below the 220-HEMA level. The model is oversold , which suggests lower trendline support. Look for trendline support to hold the decline.



## SPX v/s AAI

Last weeks AAI SENTIMENTS Released by Traders Sentiments at CFTC, Bearishness from 22% to 19.2%, shows extreme Bullishness in the market. .





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

**EEA**

Till SPX changes direction EEA will not , Our in dept Analysis suggest that POM – Buys and Sells of SPX are closely related with EEA

**FTSE**

We may be in a topping pattern, Volume oscillator is a problem, T on 27<sup>th</sup> proved its merit for short pull back lets wait and see if 9<sup>th</sup> Nov pull a larger pull back and triggers the sell off we are looking for . This Index might very well trigger the move on downside.



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

### EEM

Till SPX changes the direction EEM will not, 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

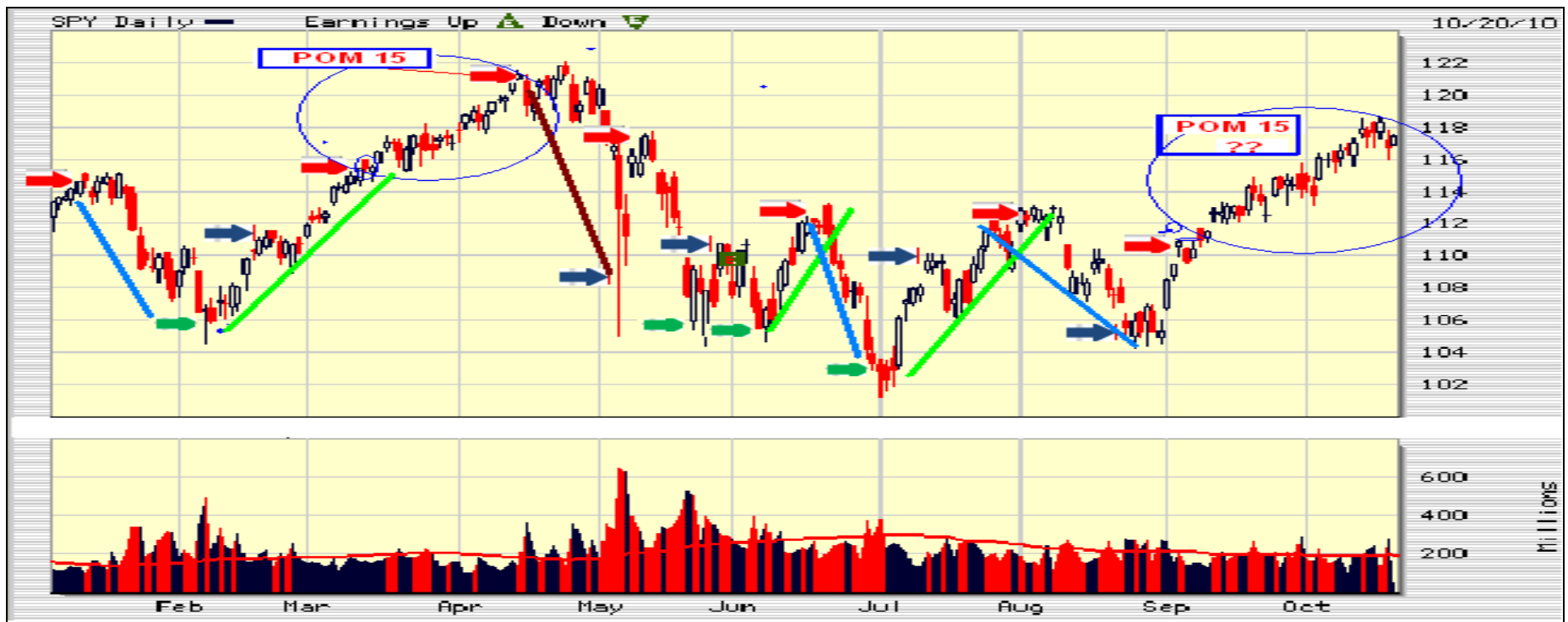
## • History - “ SPX – POM Signals & Projections”

- 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).*

- Currency Market Analysis for SPX – POM Clues - None
- Commodity Market Analysis SPX – POM Clues – None
- PQV Equity Market Analysis for SPX – POM Clues - None

**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.