SG Capital Research
Global Market Insights

Research Note – Weekly Market Strategy Global (A # 1)
MAEG- WKLY MKTSTR- GL- POM -SG 2010 # NOV 15
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Market Strategy Global (A # 1) - SPX – Closed @ 1200

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 Cycle,**
- **Advance / Decline Internal market behavior – A/D – NASD , SPX**
- **Sentiment Analysis with Extreme character – SPX – VIX, AAII (@ EXTREMES)**
- **Secondary Market Analysis for SPX clues – MID CAP , RUSS.**
- **Global Market EEA Analysis for SPX clues – EEA , EWP (Special situation)**
- **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 <u>Unidirectional</u> 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 <u>Fully Hedged</u> 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 - 4.2% v/s – 8.2 % 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 8 % . 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)***
- ***Due to seasonality 1160- 1150 SPX may hold first time around for the bounce.***

Market Insights

- ***Most of the Analytic charts in our lens will looks 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***

- **Special situation EWP (below)**

QE

Worldwide views on QE 2 from other Central Bankers. Quotes from Reuters….

• *From the central bank president of Brazil, Henrique Meirelles:* "Excess liquidity" resulting from QE2 is creating "risks for everyone" ...

• *From the vice foreign minister of China, Cui Tiankai:* "Many countries are worried about the impact of the policy on their economies. It would be appropriate for someone to step forward and give us an explanation" ...

• *From the finance minister of Germany, Wolfgang Schäuble:* "It's our problem as well if the U.S. is no longer certain that the old recipes don't work anymore." Schäuble then delivered the coup de grâce, calling Bernanke's gambit "clueless" ...

• *Jean-Claude Juncker of Luxembourg, the leader of a panel of euro-zone finance ministers*, seconded the condemnation. He said: "I see more risks and possibilities of global excesses in the decisions that have been made by the Fed than benefits."

Is the Fed Smarter than the Bank of Japan? Quote from Bloomberg…..

*Something **David Rosenberg** said yesterday suggests our Fed thinks it can succeed where the Bank of Japan failed:*

Let's learn from the Japanese lesson with its QE experiment. The day the Bank of Japan launched the program on March 19, 2001, the Nikkei surged 7.5%, from 12,190 to 13,103. It went on to make a high on May 7, at 14,529, the post-QE rally to the May highs occurred in the first four days. And that is all she wrote. Three months later, as it became painfully obvious that the real economy was not responding well to the shock therapy, the Nikkei index slid 16% to just over 12,000. Moreover, the day before 9/11 it had already tumbled all the way down to 10,500 (down 27% from the nearby post-announcement high and 14% lower than the day of the announcement itself!). Forewarned is forearmed.

Years ago many central bankers learned this lesson in the currency markets when their interventions totally failed to change currency trends. And with the Bank of Japan we have a prime example of failed central bank manipulations of the stock market.

NIKKEI v/s QE

Nikkei 225 2001-2003
16000
15000
14000
13000
12000
11000
10000
9000
8000
7000
BOJ
Quantitative
Easing
Announced
Jan-01
Jun-01
Nov-01
Apr-02
Sep-02
Feb-03
Source: Bloomberg

SPX v/s Stock – Bond Ratio – Shows signs of extremes.

SPX v/s TLT

On short term basis TLT has reached its price objective and due to rally soon (Although long term top in TLT is in place), The August lows in SPX was marked with highs in TLT , we had 3 Gap play with extreme sentiments at 107. Now lows in TLT could very well put a Top in SPX

Internals

Gaps

Since we had Hugh Fed day Gap and Exhaustion Gap. Just want to feature a Technical on Gaps. Three different kinds of gaps exist. The first are breakout gaps which usually occur when the market is spending a great deal of time at a resistance or support area before suddenly jumping beyond that area, thus forming a gap. The second type of gap is continuation gaps that occur in roaring bull or bear markets. Continuation gaps are very frequent in these types of markets, and was very common in the bull runs of NASD stocks between 1999 and 2000. Lastly, there is the exhaustion gap. Seen only at major tops and bottoms, it is a classic example of the "LMI" syndrome in the bullish case, which means “let me IN”, and in other markets, “let me OUT”.

Looking back at the chart of the SPX average, there is a classic exhaustion gap present, in my opinion. Exhaustion gaps are often accentuated by news events that cause to act irrationally like what happened after the FOMC meeting and the Fed chairman's comments about wanting stocks to go higher.

Since exhaustion gaps can turn into continuation gaps, i.e. continue to move in the same direction, it is important to watch the action around the gap area. In this case, all we need to confirm the exhaustion gap is a big move down in next 2-4 days which exceeds the low that was made on the Gap . This would trap all the people who bought on Gap up and likely set off a chain of bearish selling. Lets wait and see.

Dow Gaps are nearly always filled 98% and only in a min number of instances have they not been filled. Large gaps are expression of extreme sentiments, unfilled gaps in desert storms dow at 2800 is still open and is very rear event. Up gaps don’t have to get filled.

Daily SPX - “ Trend Adjusted Signal”

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

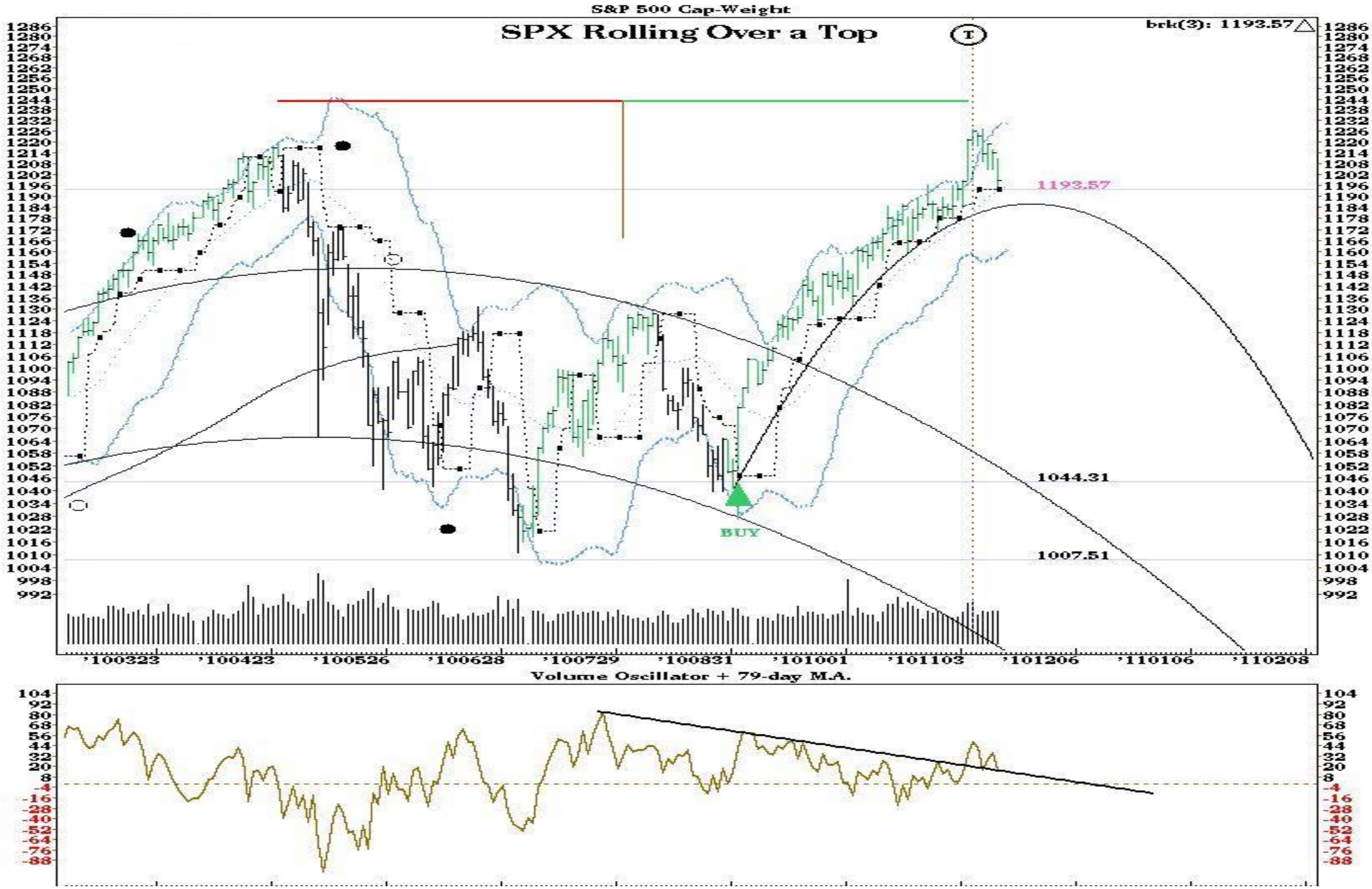
Currently “ Trend Adjusted Signal “ has been on Long side since SPX @ 1115 (Mid – September) . This Indicator tends to catch the extension momentum move (Post POM 14) and often keep you on the right side of the trend till diagonal triangle is complete . The reversal points are stops.

Sym	Posn	Close	Reversal
DJ	Long	11191.3	11174.8
SPX	Long	1198.67	1193.57

The index fell to the Line break Indicator but has yet to close underneath it and give us an official daily basis sell signal. The sharp rally of November 3-5 days appear to have exhausted, leading to a very weak short term trend.

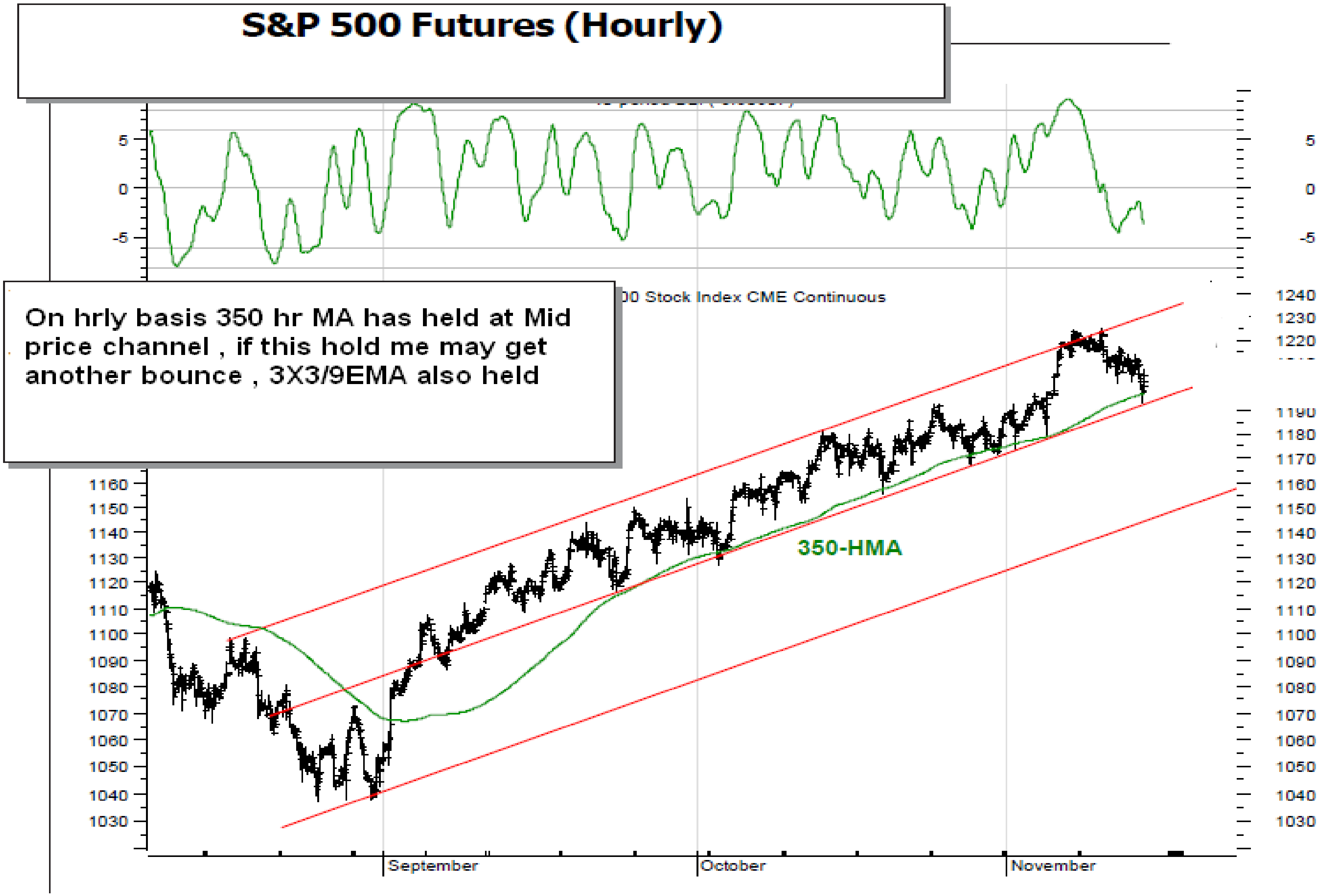
Primary Market Analysis - SPX

SPX – **Stocks Rolling Over a Top.** The Price-T has expired, but last week's low came right on the line break price. A close below that level would generate a daily basis sell signal. However, the quarter-hourly chart (below)suggests the market could bounce little more before heading lower.



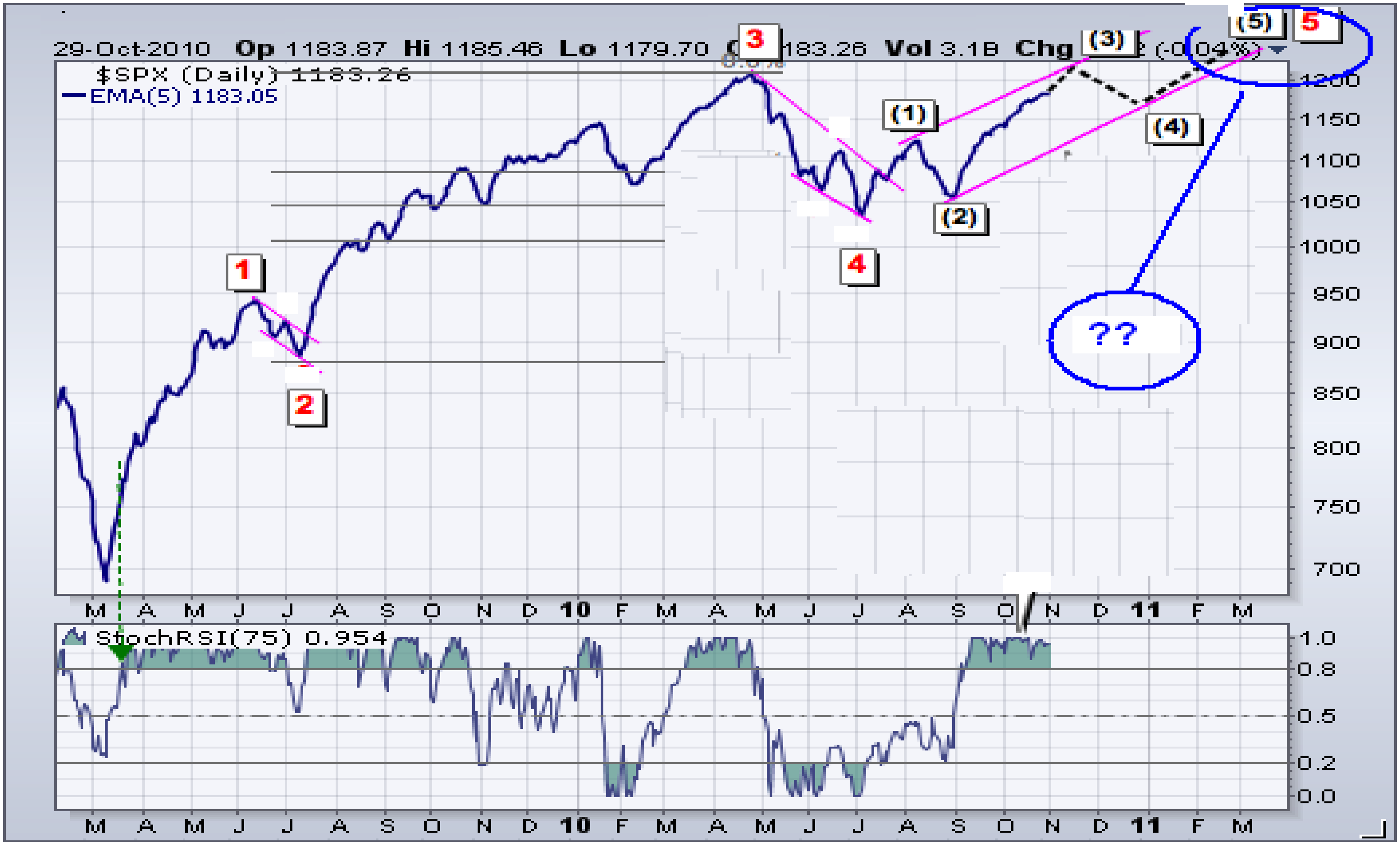
SPX – Hourly Chart since August lows.

The upper channel pattern dominates unless broken soon , for another short bounce (but doesn't have to)



SPX – Mid Term - Waves possibility

Wave analysis remains for pull back as the following chart and count suggests: Should the current Wave 3 / C peak just above 1220 a bottom in Wave 4 would be expected around 1150 - 1160. to be followed by a back up in December and January, a normally positive seasonal rally period is quite possible before market tops out and bigger decline may begin 1120-1130.



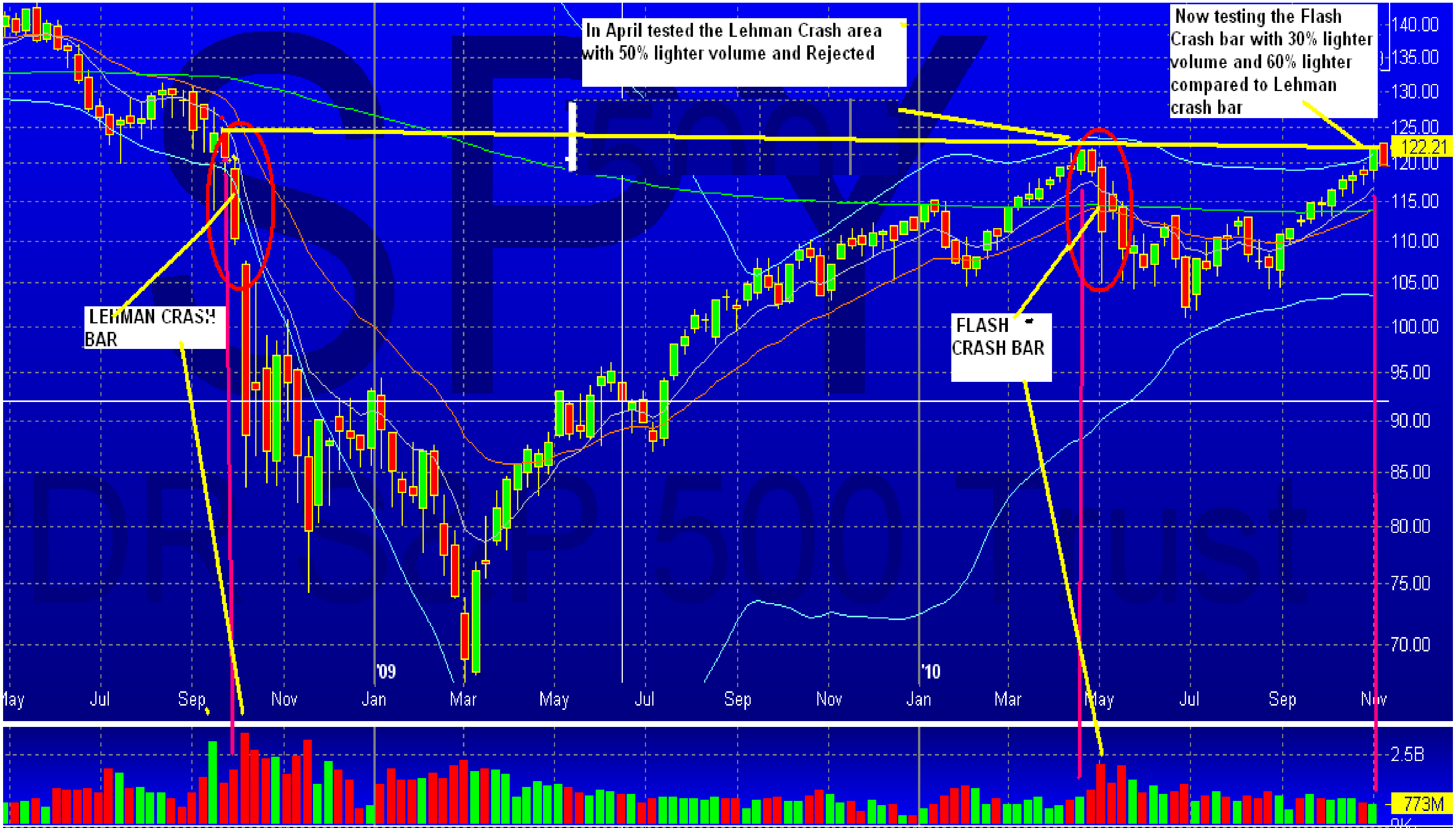
TICK - SPX – with Bollinger band

The ticks index pushing the market up and down. Usually when the tick index is trending down so is the market and vice versa. In late October the tick index had a bearish crossover and trended down but the market managed to work modestly higher. Over the last couple of weeks the tick has been working higher but the bearish crossover in late October is still in effect. We would expect a pull back to support near 1120- 1130 range on SPY in the coming weeks

SPX – **Bearish Engulfing in most of the Indices on Weekly basis. We will see how the market reacts at RSI 50 on pull back to keep the bullish case till year End**

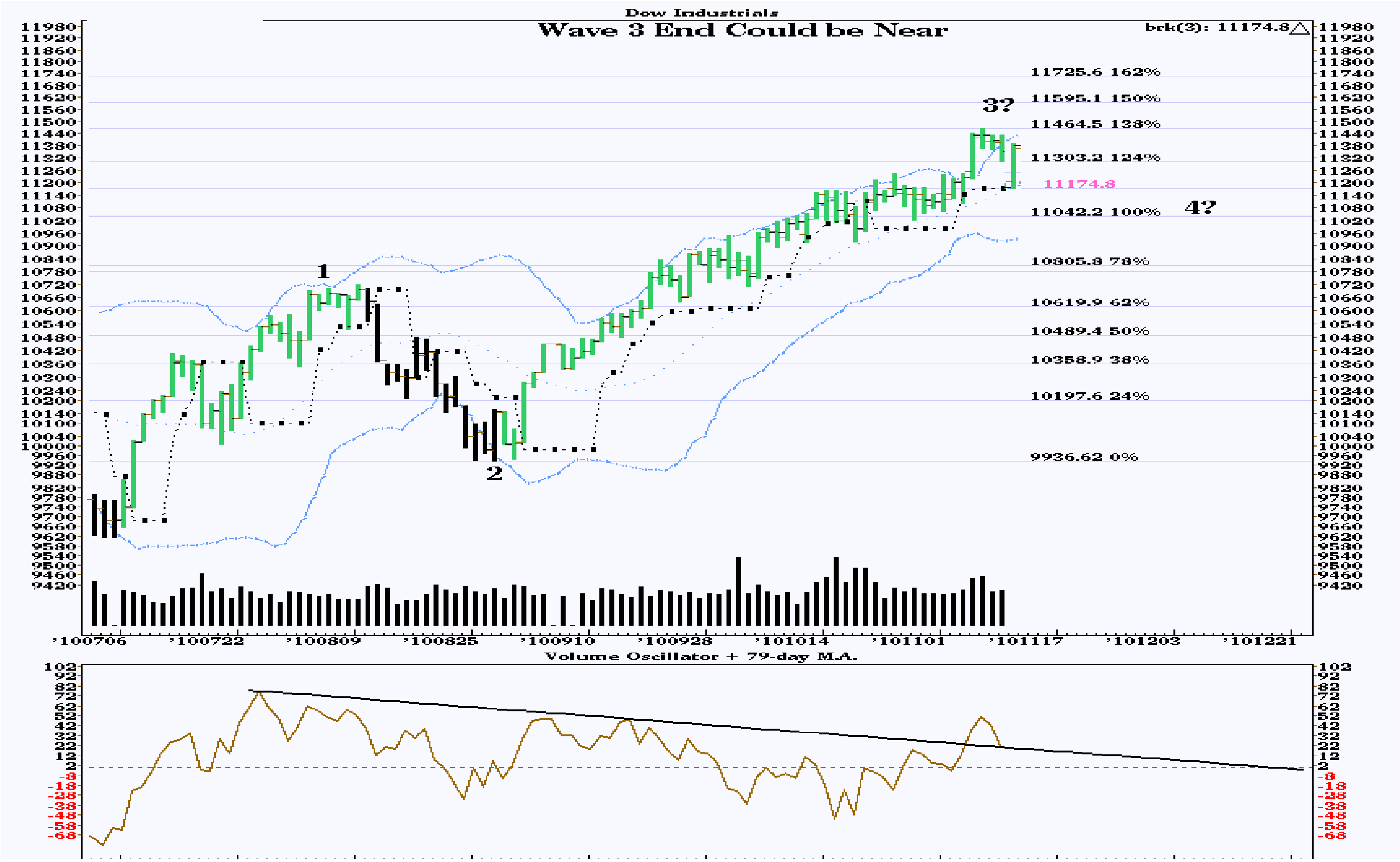
SPX – PQV with respect to " LEHMAN CRASH WEEK & FLASH CRASH WEEK " (Real Issue)

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



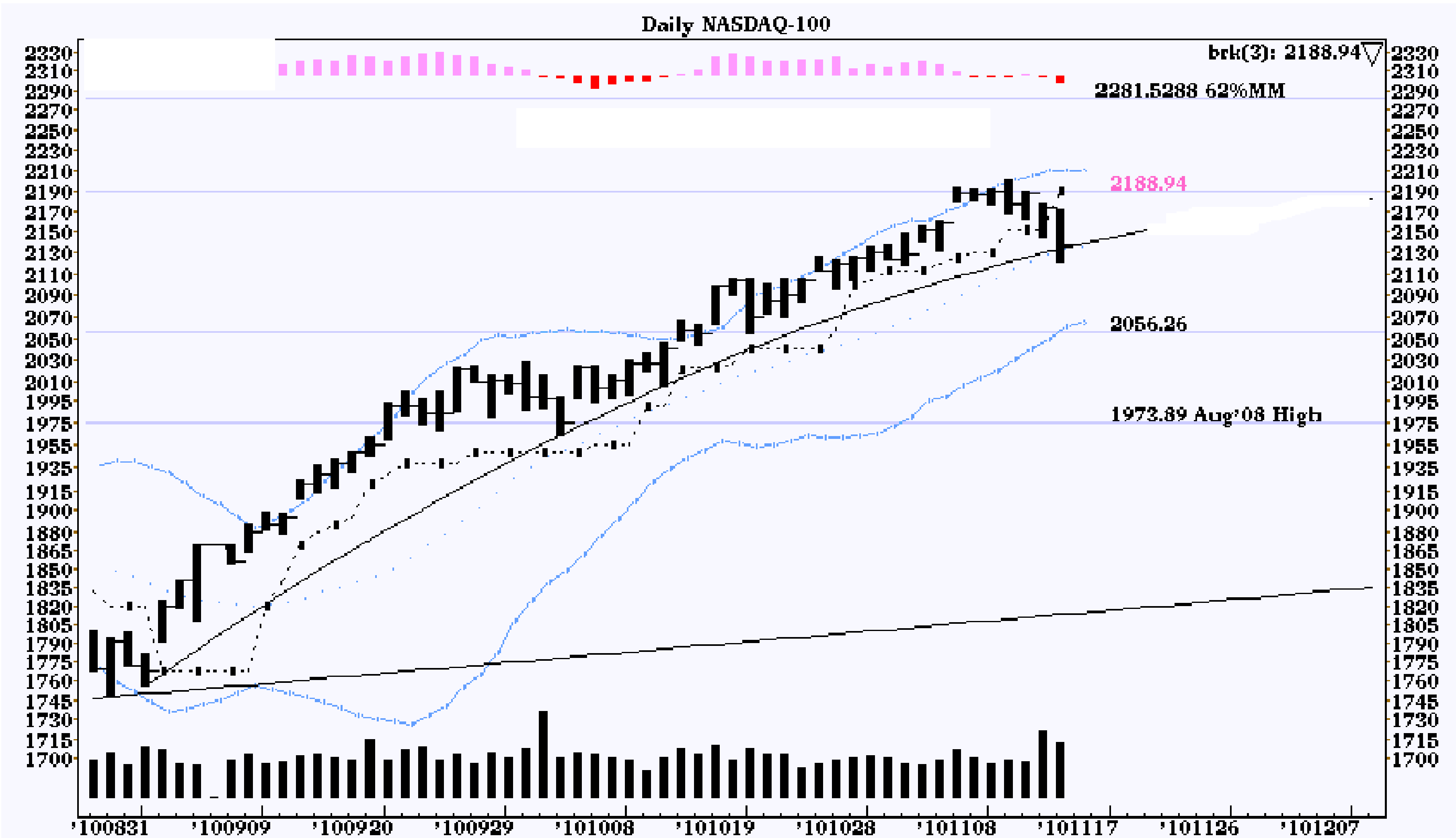
DOW

Similar to SPX , wave 3 followed by Wave 4 could be in progress and then another rally.



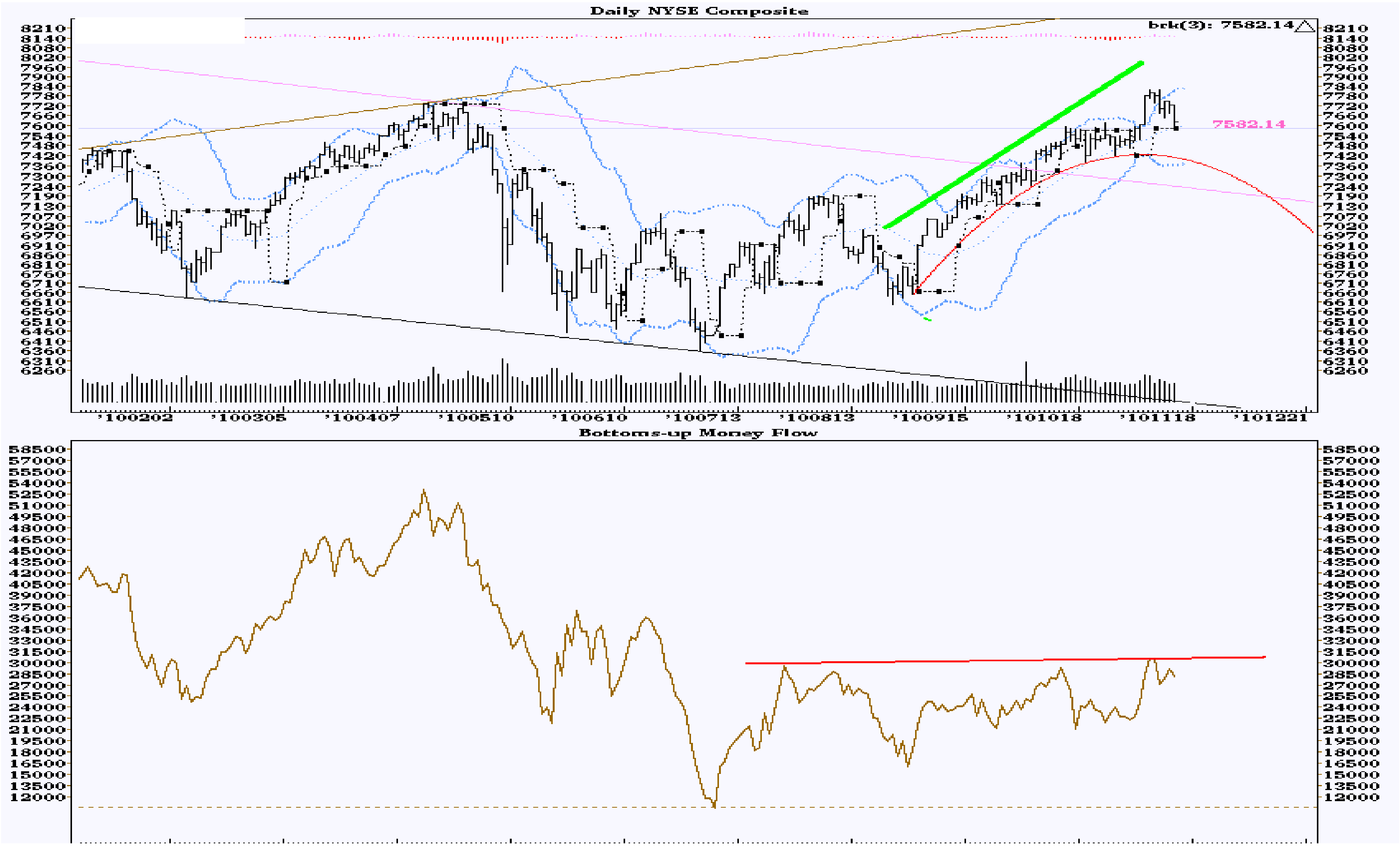
- **Secondary Market Analysis for SPX – POM clues – NASD, MID CAP, RUSS**

NASD . Break indicator has given a sell signal on NASD & Trading below the Poly Trend line.



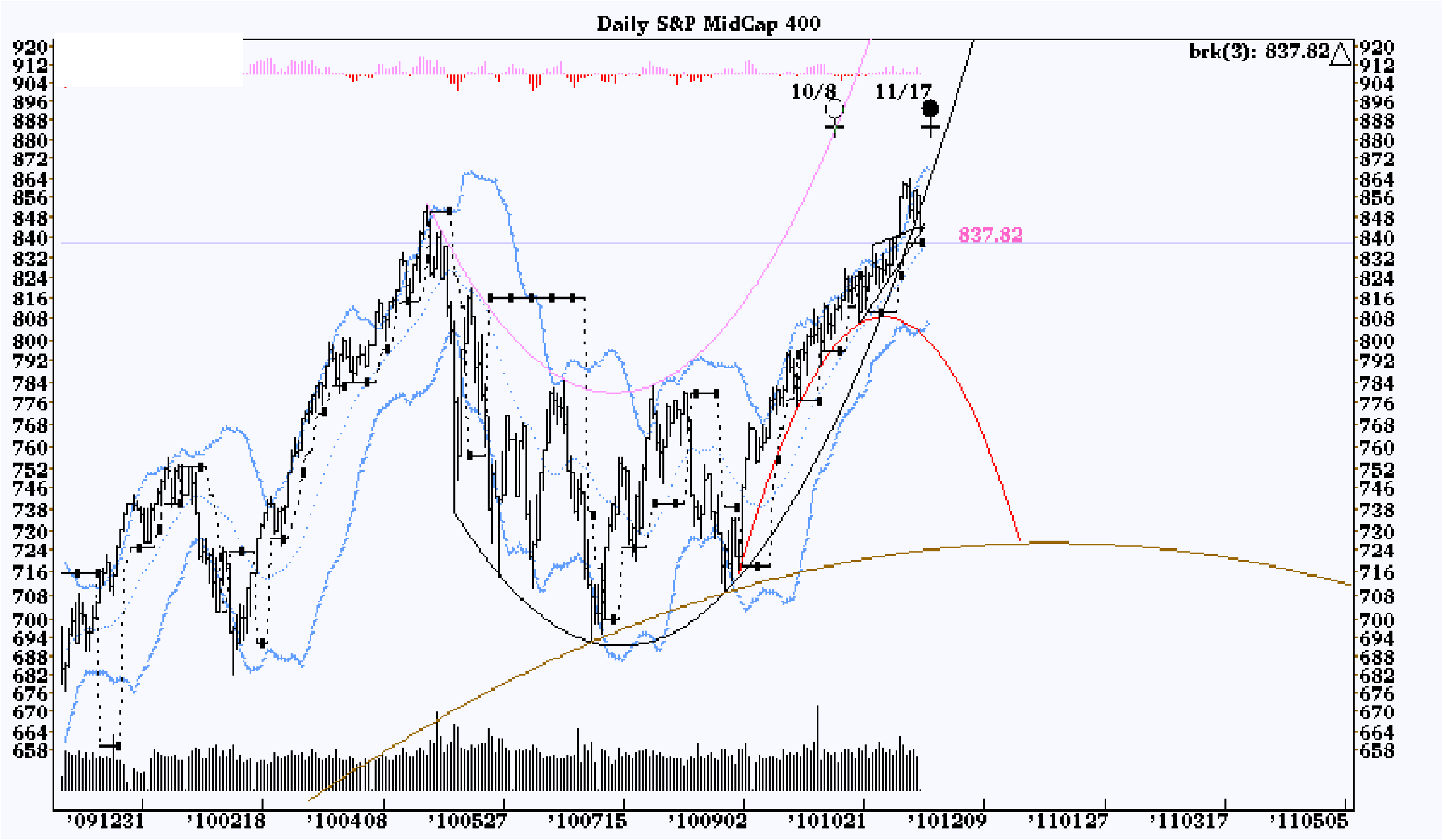
NYSE

Bearish divergence has still not changed and now trading on the right side of extended Poly Trend.



MID CAP .

Similar to NYSE - Bearish divergence has still not changed and now trading on the right side of extended Poly Trend.



- ## Time Cycle Analysis

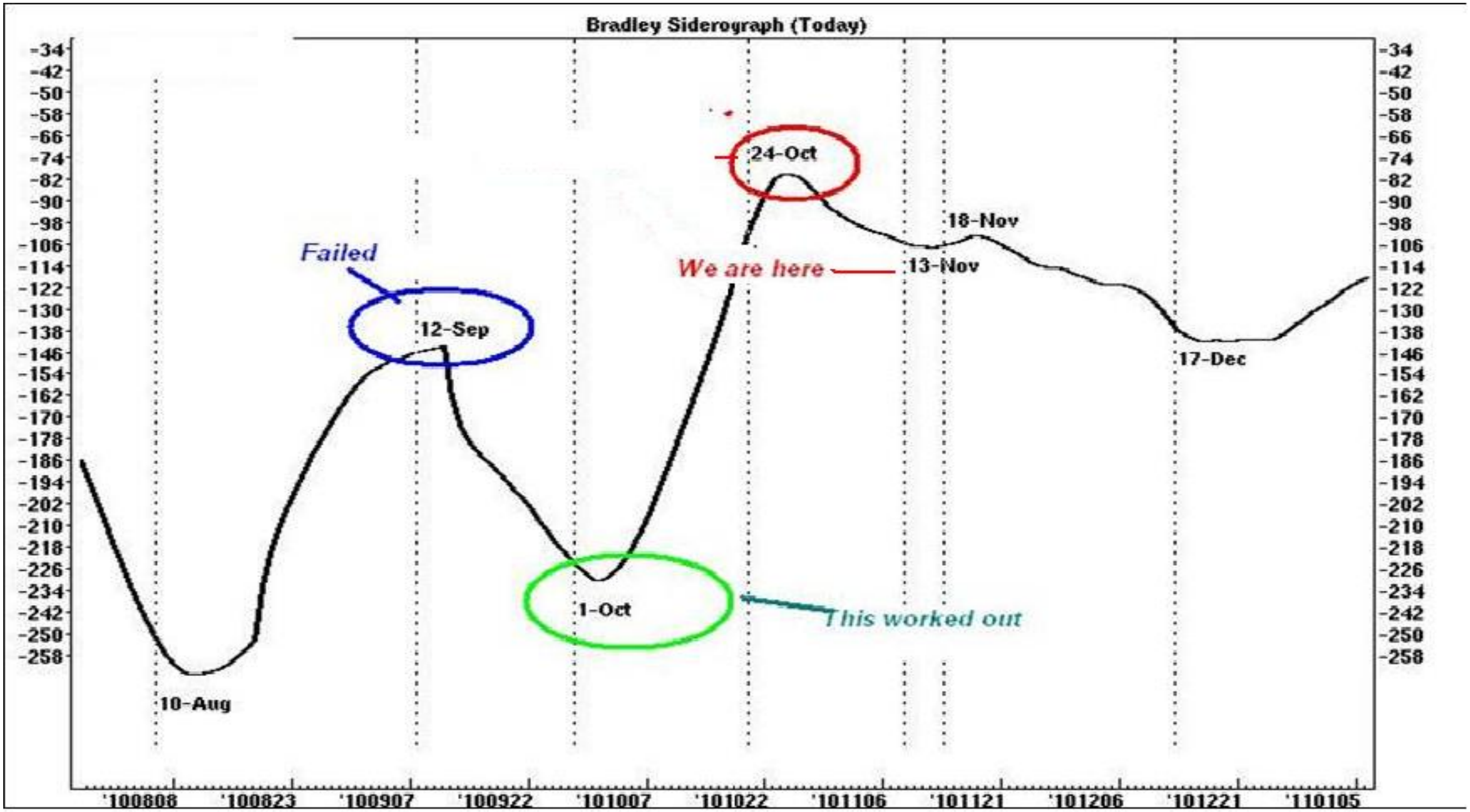
Our Time - cycle Analysis is based Seasonality, Calendar events, Astros Harmonics, Geomagnetic (including Bradley Model) & T – Termination. Based on current market condition our observation points out the following condition

Various cycle summary & dates

- **Main - T – Terminations – Extended - Bearish. (But hasn't proven)**
- **The seasonal pattern** is for the market to rally from 1ST Nov to 30 th April is till in tact.**(Bullish)**
- **The Bradley** is on 24th Oct to 17th Dec (**Bearish) (But hasn't proven)**
- **4 Year Cycle ,** positive influence to begin 12th Nov t till 24th Dec **(Bearish) – Kicks of today**
- **Oil Cycle – (Bearish)** zone above 83-85

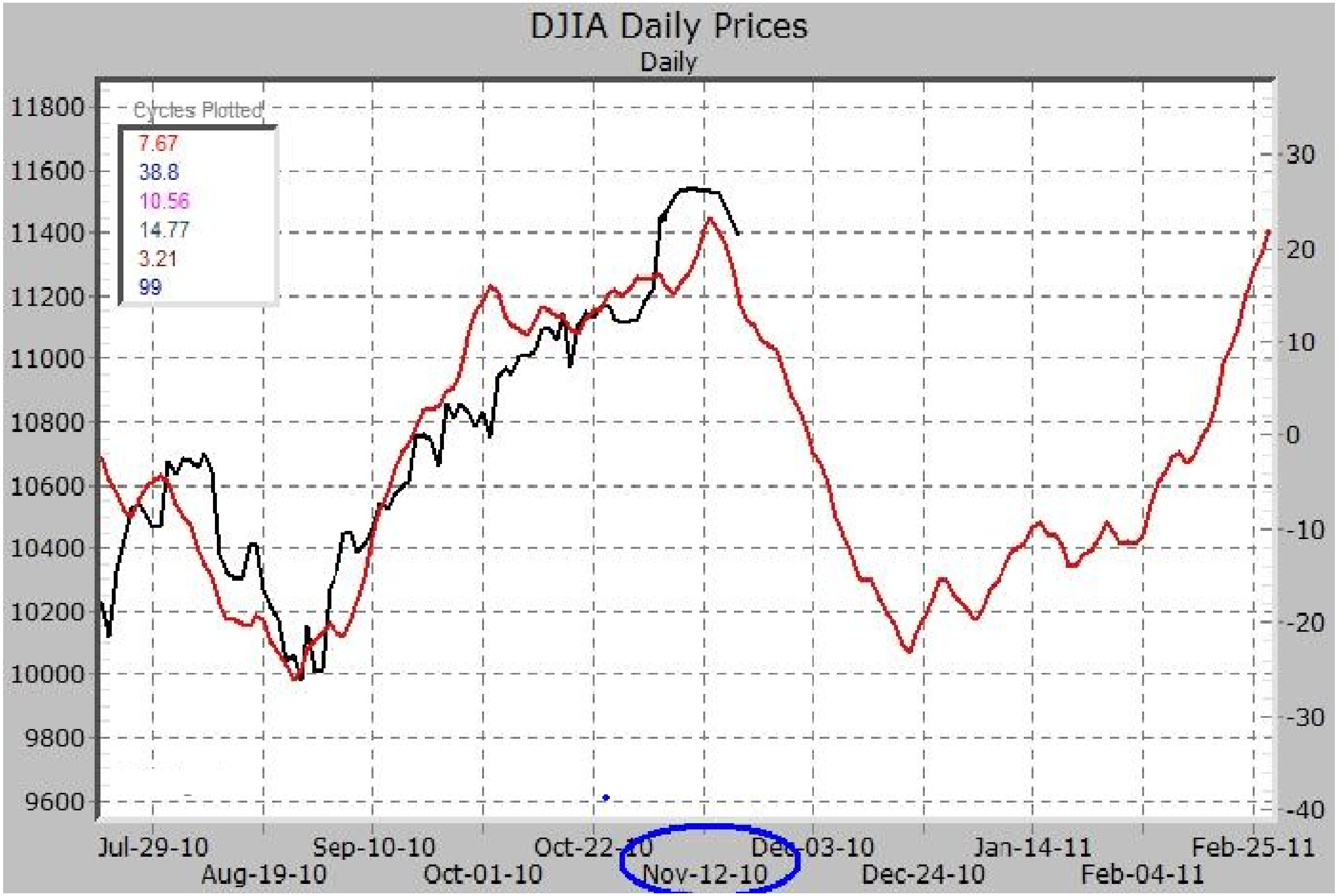
The Bradley Model – Bearish- Cycle in progress – 24th Oct to 17th Dec

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

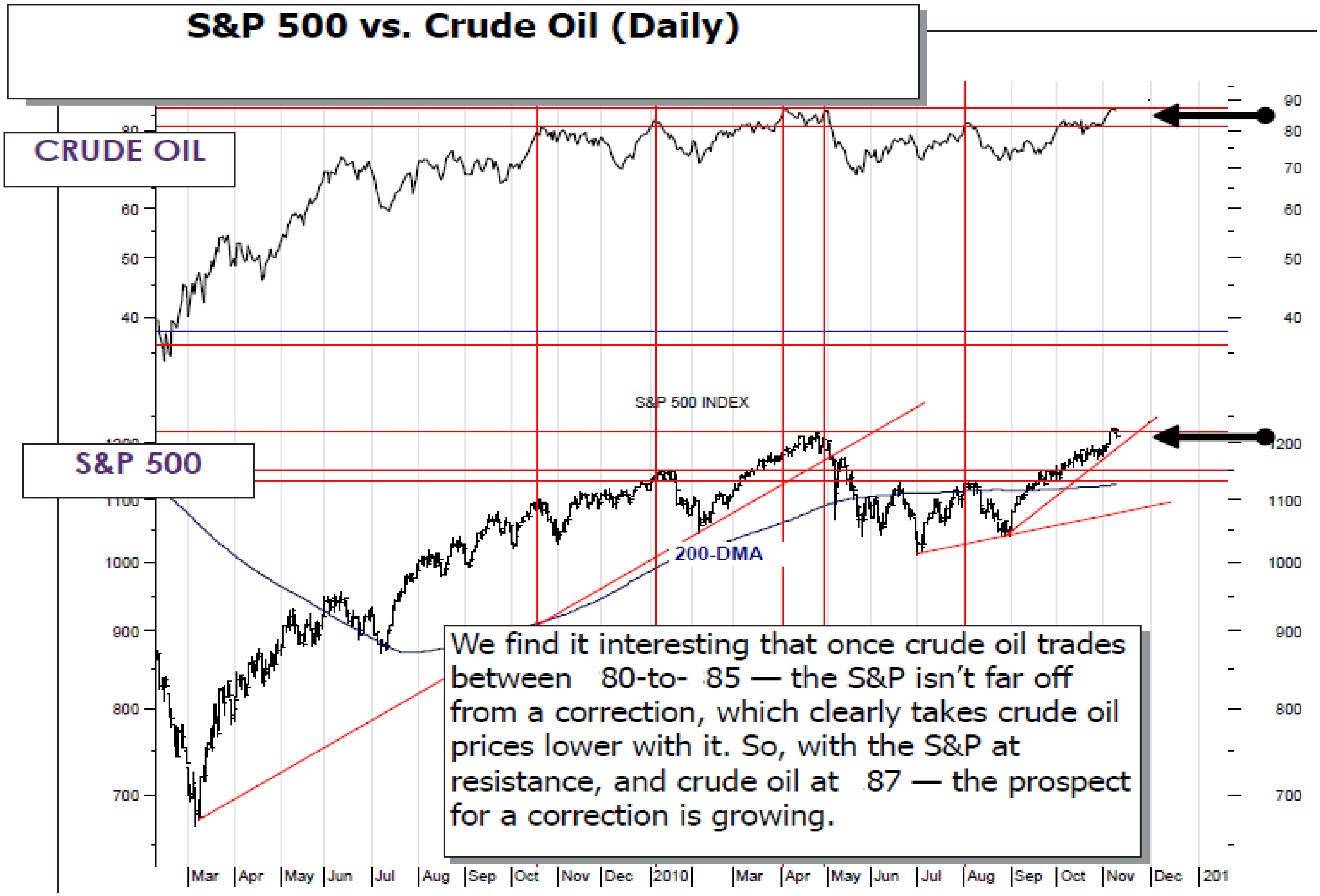


The 4 Yr – Price path Cycles – Bearish - Cycle in progress till 12th Nov

Further projections peaking today from 12th Nov till 26th Dec in downtrend by 4 yr cycle. (Kicks off Today)



Oil Cycle – Above 83-85 - Bearish - Cycle in progress



- ## Advance / Decline Internal behavior Analysis

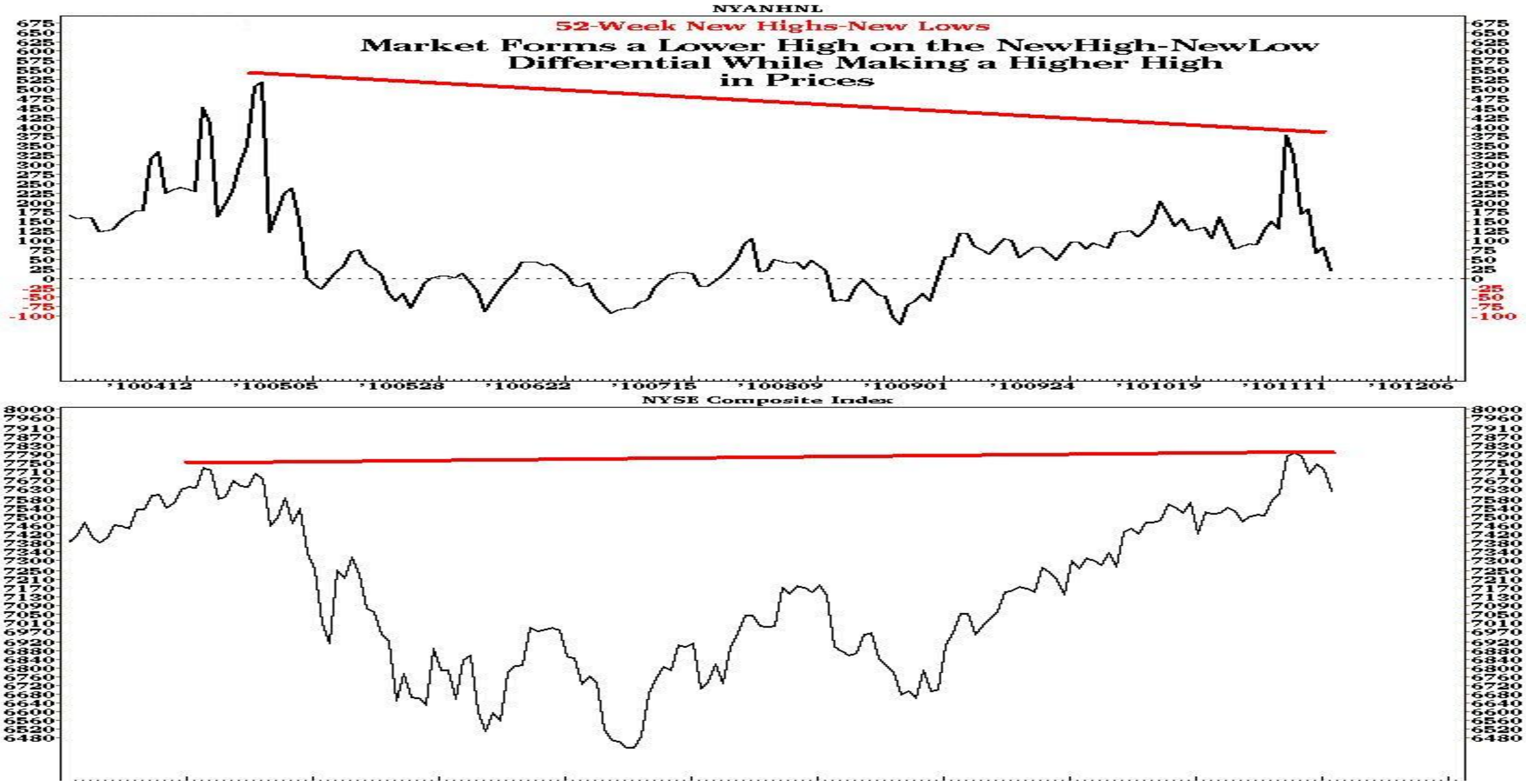
Our A/D Analysis is based on 3rd derivative complex A/D Oscillator instead of conventional A/D Line , secondly it needs to be conformed by the % of stocks above critical SMA's divergences. Based on current market condition our observation points out the following condition

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

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

NYSE – NH - NL - . NON-CONFIRMATIONS IN SPX BREADTH...

This is very similar to April's high, with the differential falling even as the market was making a higher high.



• 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.

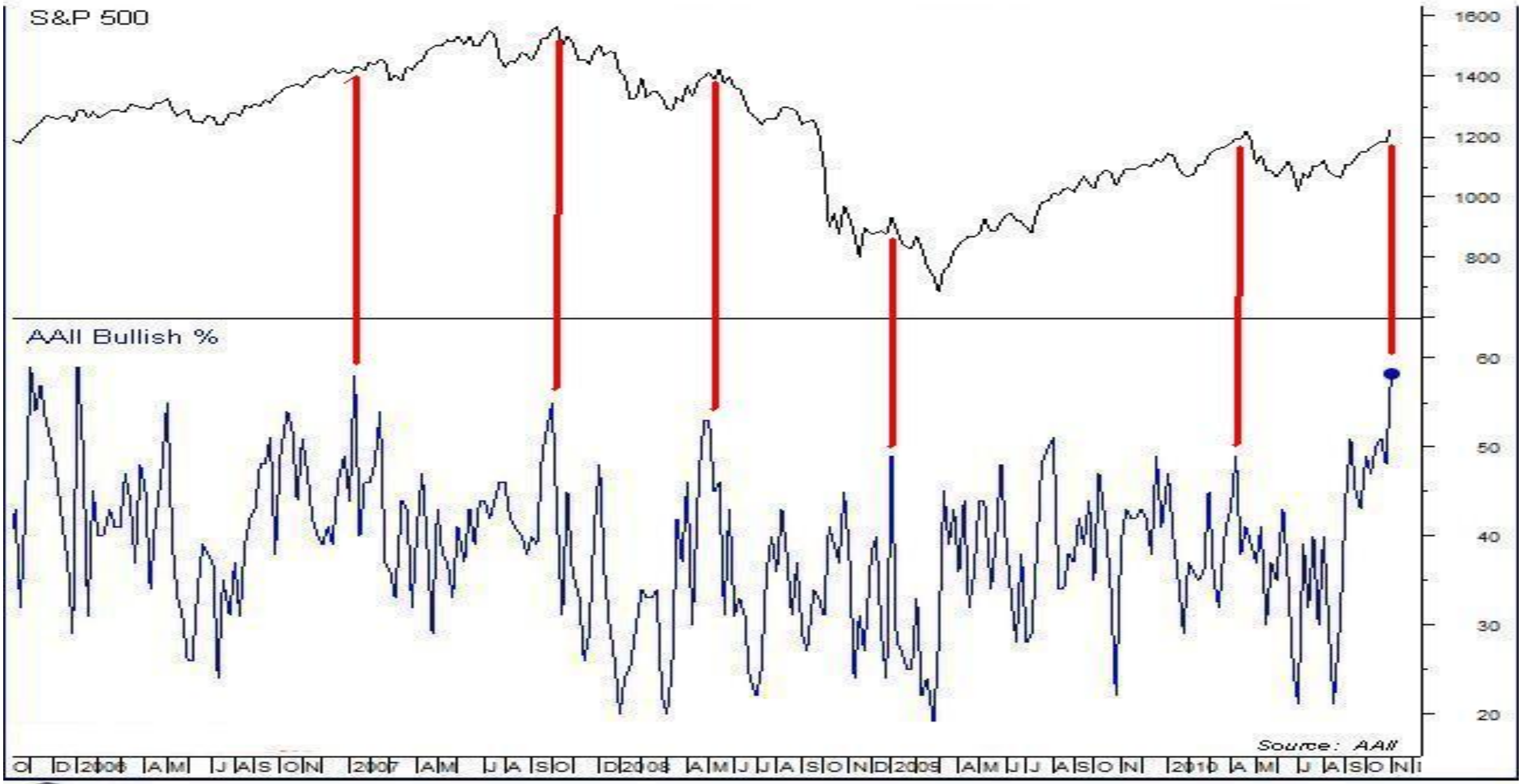
EXTERME INDICATORS

- . **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 meaningful pull back has happened.
- **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
- AAII @ 19.2% Bearishness
- VIX - Bullish pattern testing on Breakout Areas

5 CHARTS - Released by Traders Sentiments at CFTC, Bearishness shows extreme Bullishness in the market.

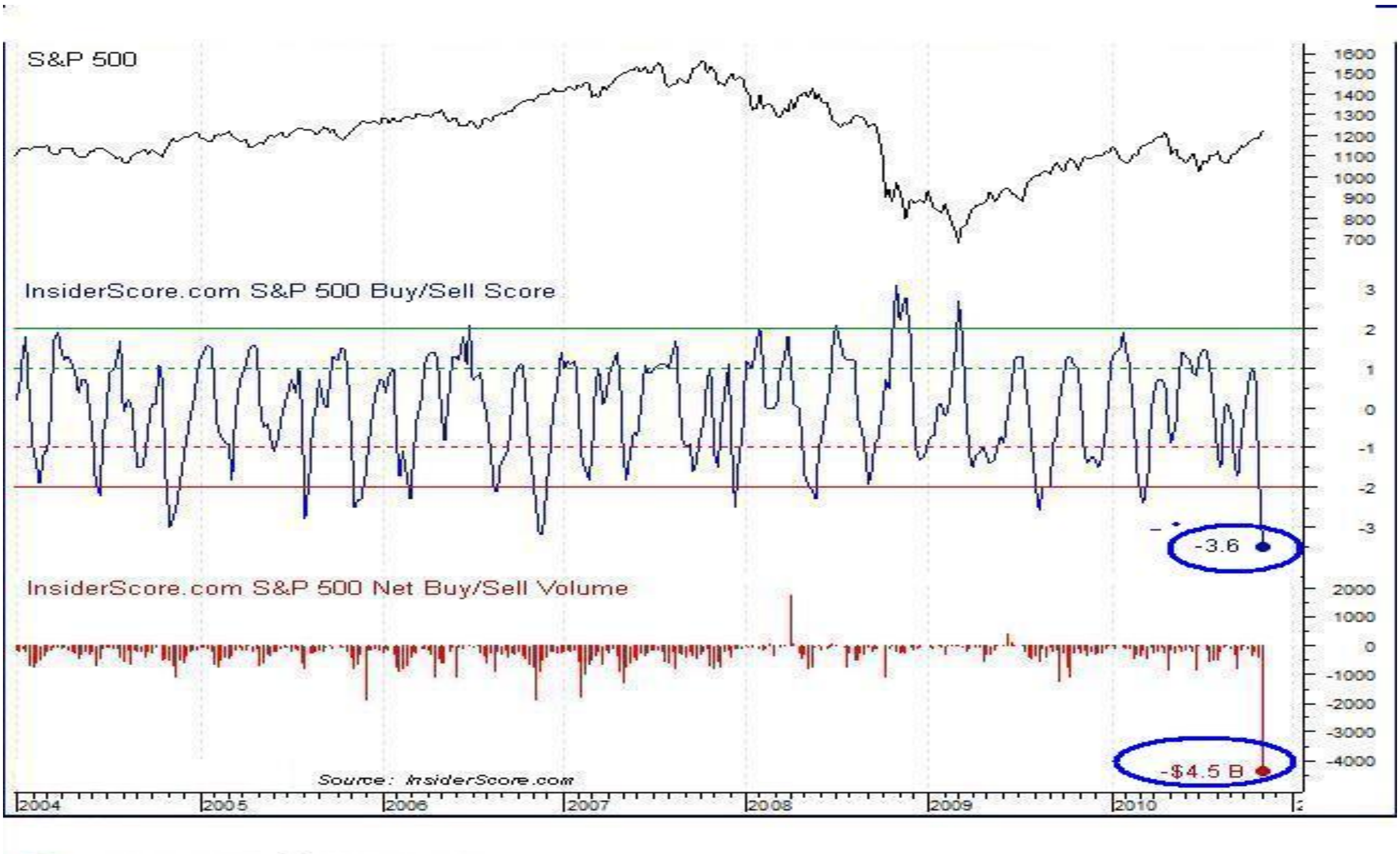
SPX v/s AAII

The public sentiment measures are very high, indicating the trading public is extremely bullish,

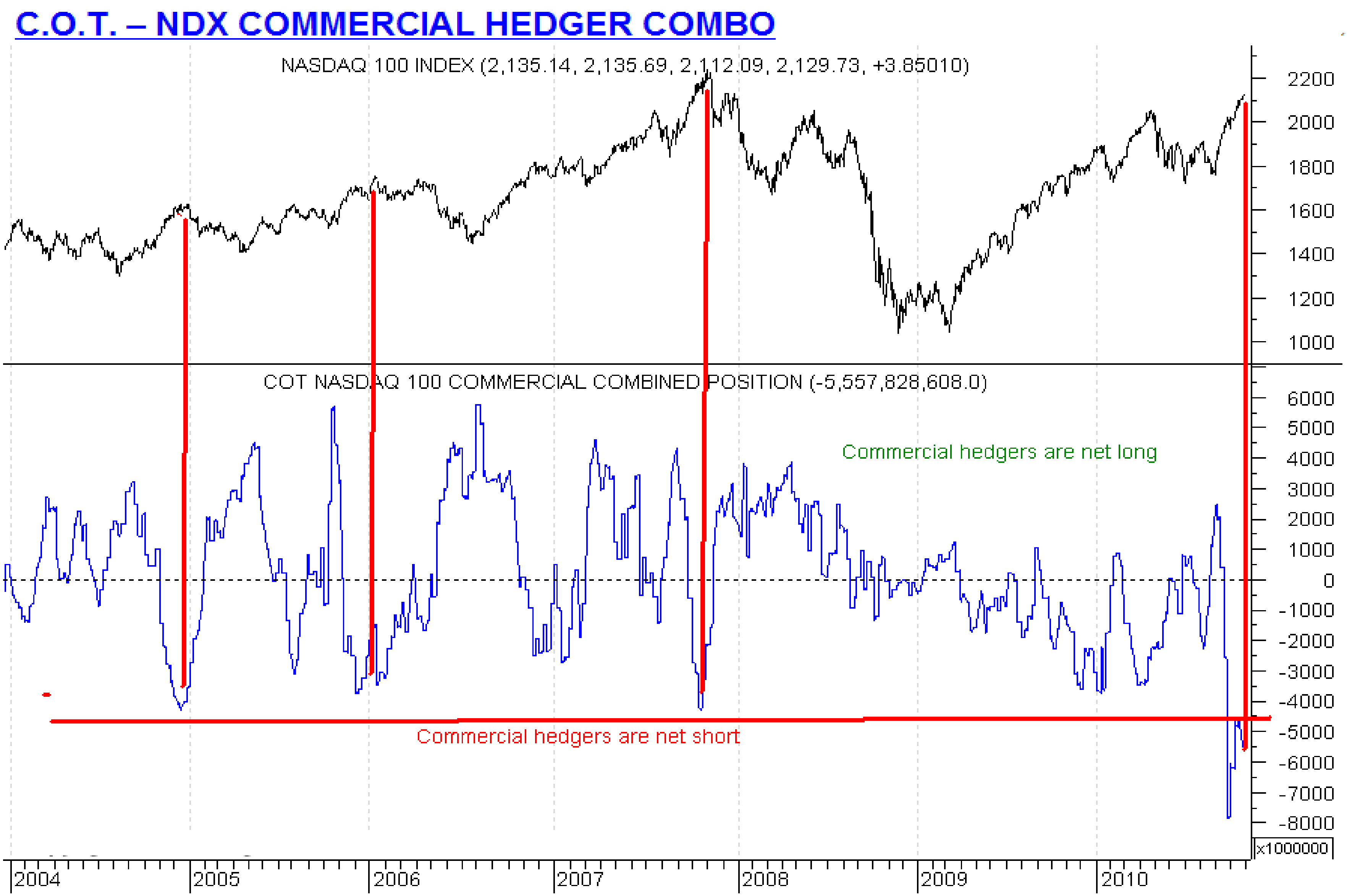


SPX v/s INSIDERS

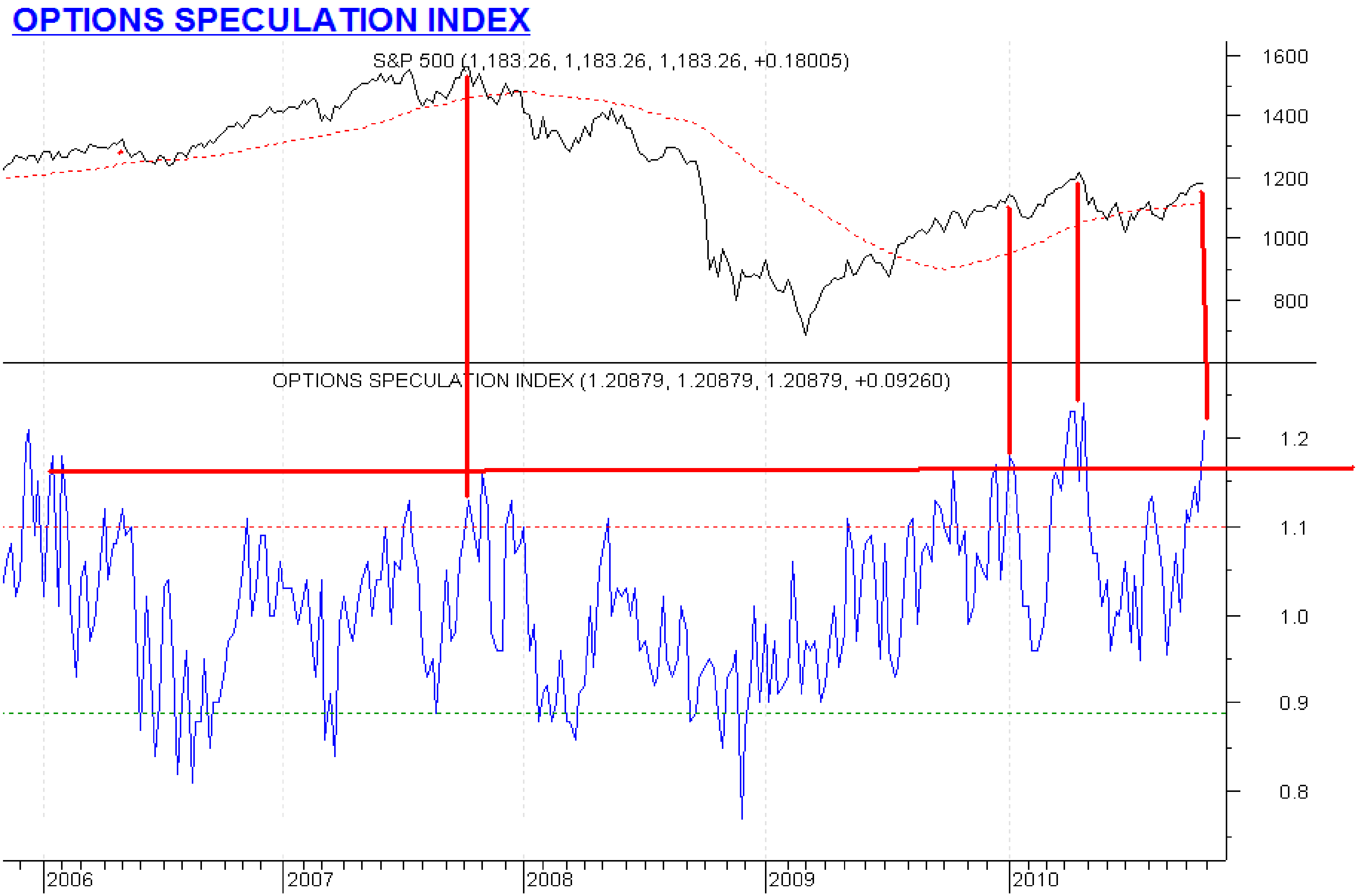
Insiders are selling at record levels into the rally according to the Investment Company Institute



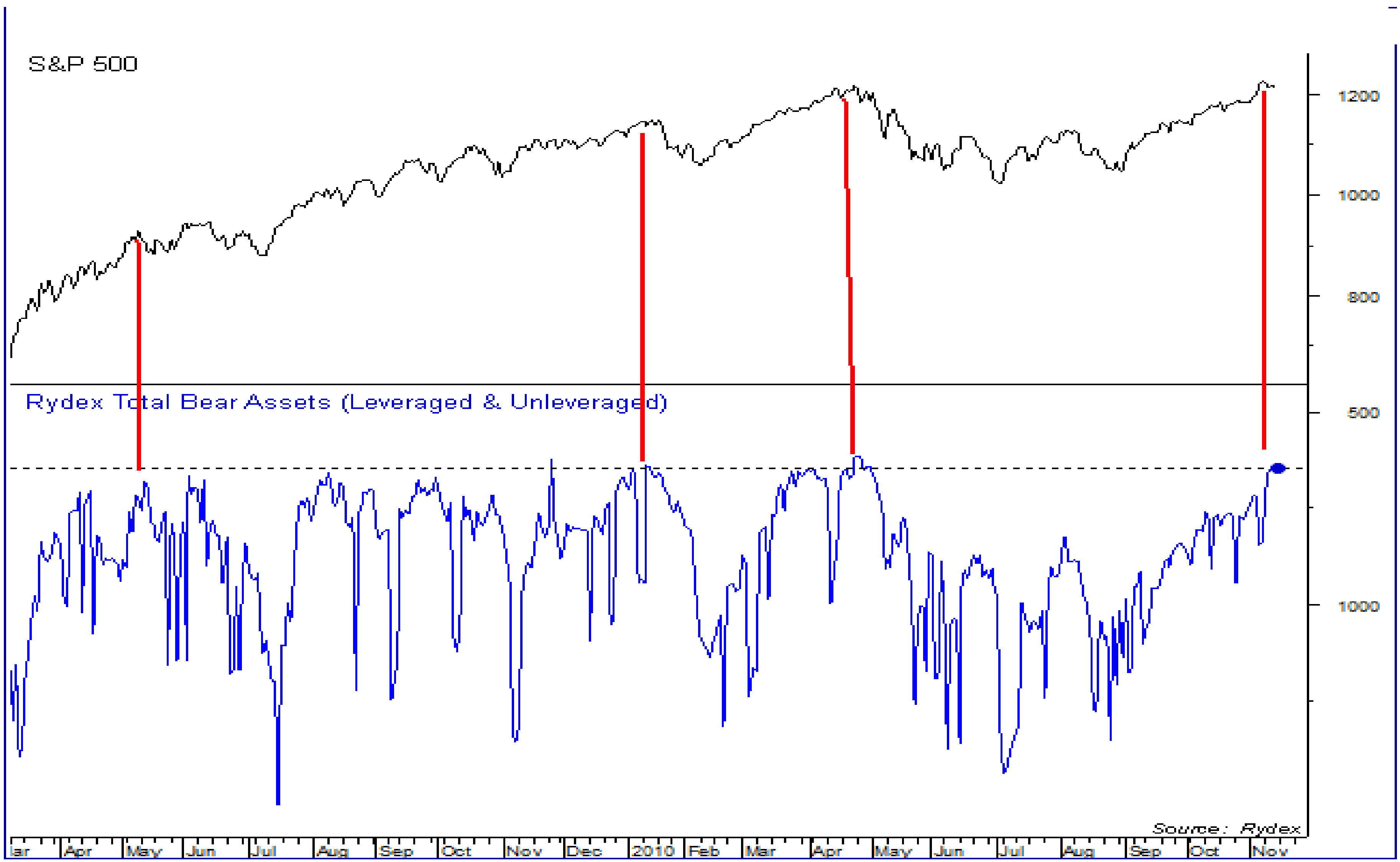
SPX v/s NDX – Commercial Hedges



SPX v/s OSI


OPTIONS SPECULATION INDEX
S&P 500 (1,183.26, 1,183.26, 1,183.26, +0.18005)
1600
1400
1200
1000
800
OPTIONS SPECULATION INDEX (1.20879, 1.20879, 1.20879, +0.09260)
1.2
1.1
1.0
0.9
0.8
2006
2007
2008
2009
2010

SPX v/s RYDEX


S&P 500
Rydex Total Bear Assets (Leveraged & Unleveraged)
1200
1000
800
500
1000
Source : Rydex
lar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2010
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov

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

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

EWP

Last week we featured Portugal and its Credit Default swaps & Correlation with SPX This week we seem to get news back again on European Sovereign Debt issue surface

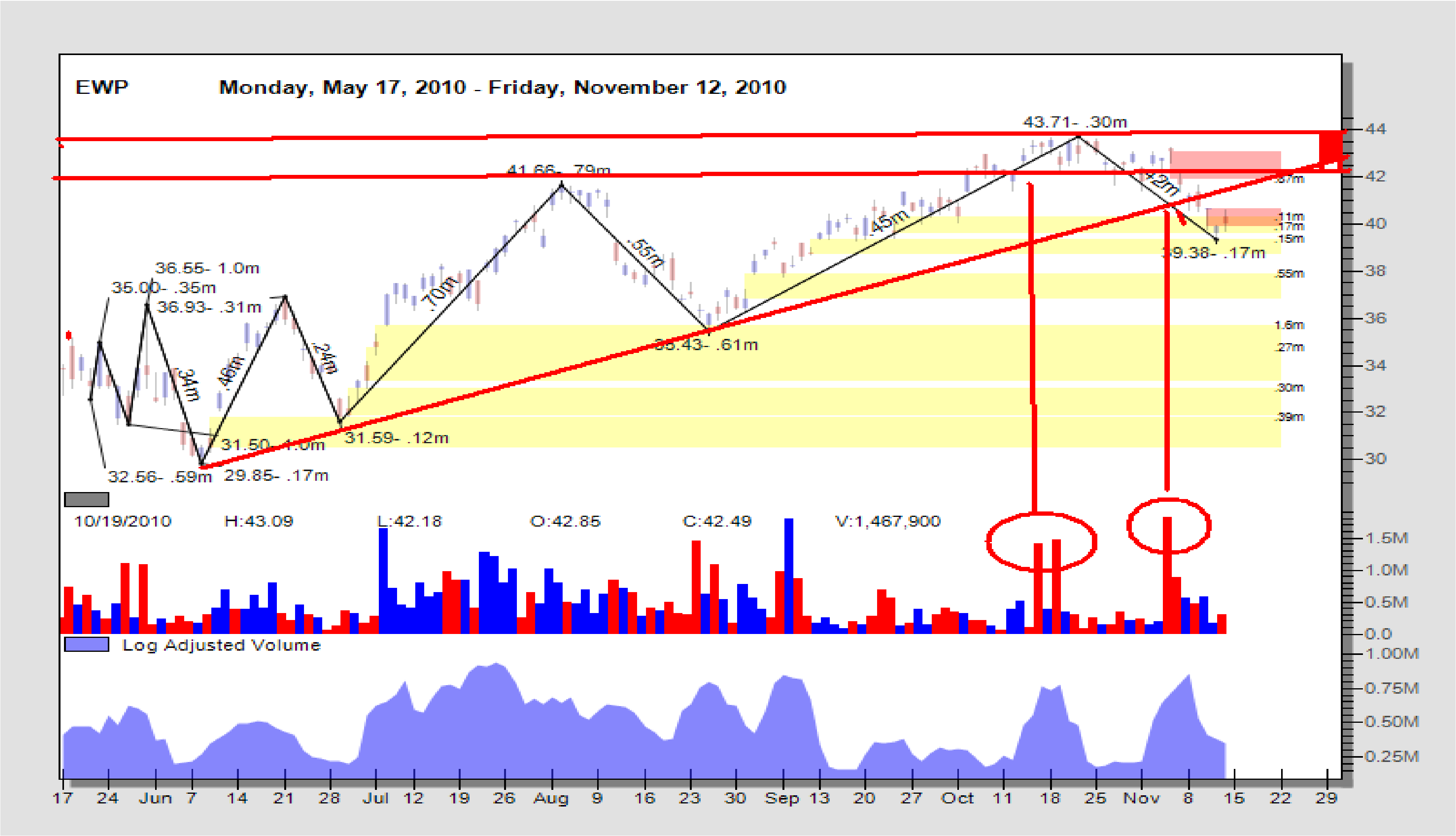
The Euro came under pressure as concern turned towards debt levels in countries of Europe. Greece, Ireland, Portugal and Spain are part of this group. Concerns are clearly evident in the bond markets for these countries. 10-year bond yields are trading at **new highs**, At some point, these doubts may filter into the Euro and their respective equity markets.

SPANISH AND PORTUGUESE INDICES BACK TO RESISTANCE... Even though equities in Spain and Portugal performed well over the last six months, both indices ran into resistance and declined sharply the last week.

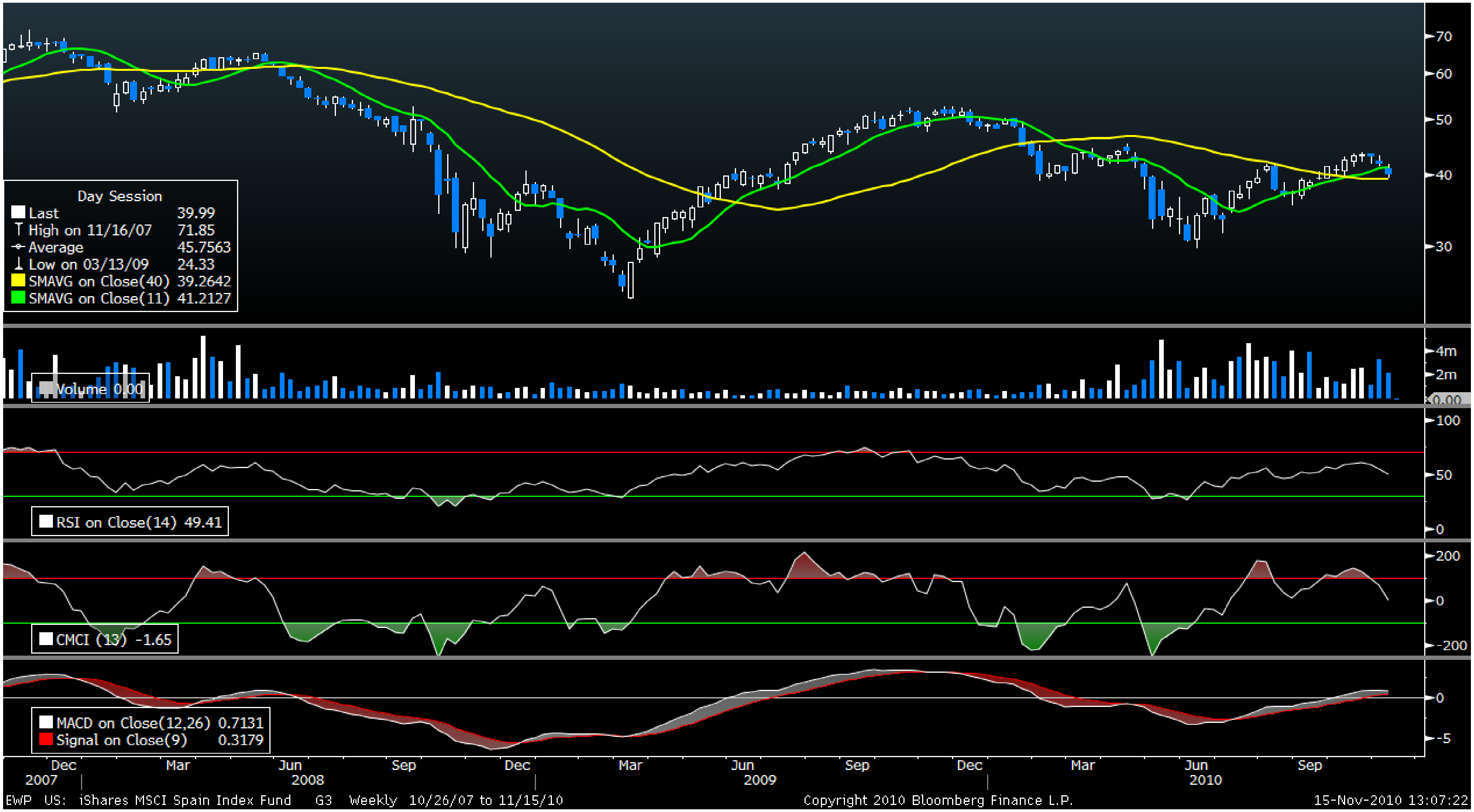
EWP is Spanish ETF failed at resistance and looks vulnerable to lower prices, surging all the way to its April high and then weakening over the last two weeks.

EWP – PRICE & VOLUME ACTION

- CONFLUENCE ZONE 41.5 - 44 , with 0.4 m volume test. In the bigger picture , this market bounced back 50% from the bottom into the breakdown area with 35% lighter volume ,
- In the current decline volume in the down move has picked up as indicated (Fundamental stated above)



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



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

- **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.

We have covered this in Detail on the weekend Sector Report

Appendix

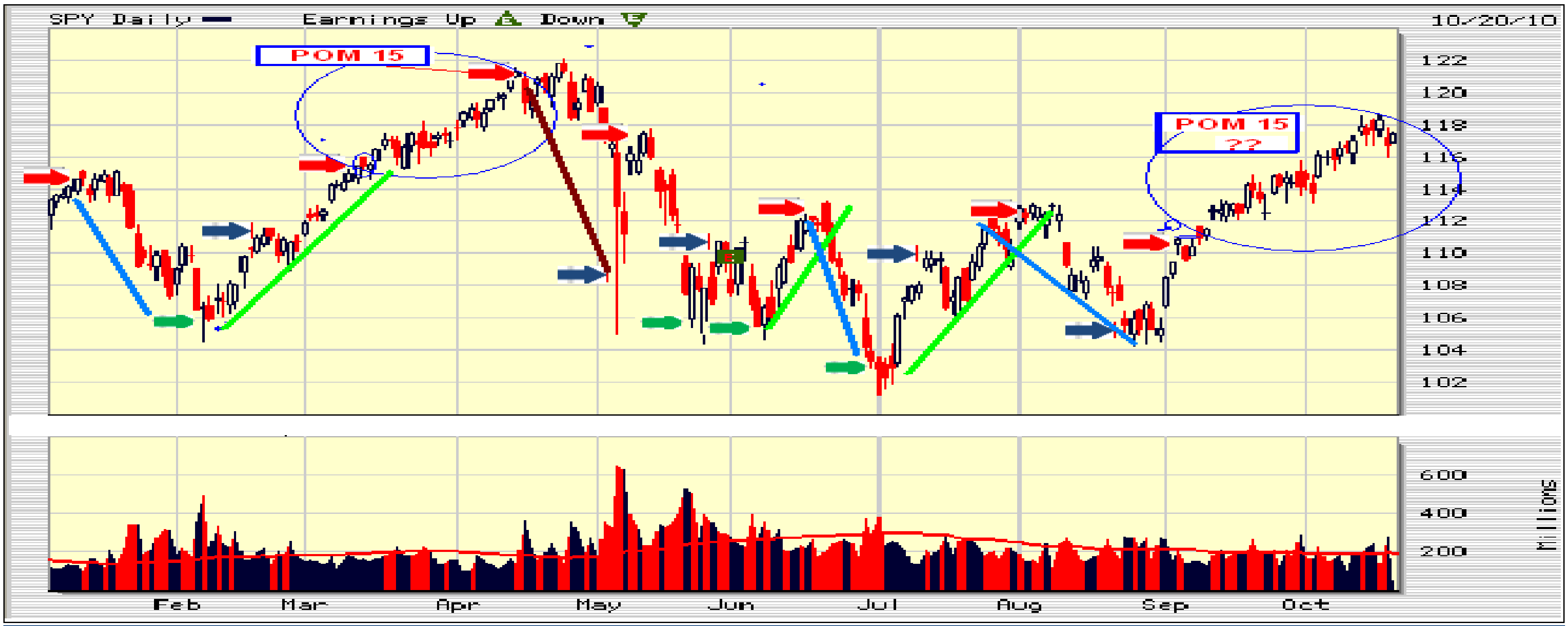
- **History - " SPX – POM Signals & Projections"**

- *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 l 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).

INTERNALS OF 3X3- 9EMA – Break Indicator.

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