



# SG Capital Research

Global Market Insights

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

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*By: Suneil R Pavse*

*Contact: apavse@aol.com*

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## Market Strategy Global (A # 1) - SPX – Closed @ 1199

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
- Secondary Market Analysis for SPX clues – NASD, NYSE
- Sector Analysis for SPX clues – BKX, XHB, SMH
- Time / Cycle Analysis- Bradley Cycle, 4 yr Cycle, Copper Cycle, Euro Cycle
- Advance / Decline Internal market behavior – A/D – NASD , SPX
- Sentiment Analysis with Extreme character – SPX – TICK
- Global Market EEA Analysis for SPX clues – EEA, FTSE
- 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 at – 5.17% v/s – 8.67 % 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 appx 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*

- Daily SPX - “ Trend Adjusted Signal”

3x3 /9EMA – Break Indicator – Stopped out – Sell at 1193

*Currently “ Trend Adjusted Signal “ has been on Sell side since SPX @ 1178 ( 11/17) with Reversal @ 1225*

| Sym | Posn  | Close   | Reversal |
|-----|-------|---------|----------|
| DJ  | Short | 11200.9 | 11430.5  |
| SPX | Short | 1199.73 | 1225.85  |

## **INTERNALS**

The market dropped sharply last week, but recovered about half of its losses. After holding 1173. This suggests that the transition from bullish trend to bearish trend was not complete due to may be 1200 strike price proved its merit and now in positive seasonality week of closing higher. Now our efforts will be to Identify the C point of the bounce for ABC down.

The day before Thanksgiving (this coming Thursday) tends to see some upward pressure on the market, Early December then has the likelihood of being the secondary top and beginning of what could be a potentially very strong down move in the market.

That timing scenario also coincides with some potentially political headwinds, including the extension of the Bush tax cuts for 2011 and the potential extension of unemployment extended benefits at the end of November. If those unemployment benefits are not extended.

Sentiment has reached an extreme of bullishness on many different gauges indicated below in our Weekly sentiment watch, but extremes in sentiment usually do not mark exact tops. Instead, the market will often come back toward the high and double top or lower highs. At the same time, it will often show a lower degree of bullishness on the retest and we think that might be the pattern the market has chosen here.

On weekly basis SPX put in a bearish engulfing pattern top going into Lehman Crash 2008 & Flash Crash area of May 2010, that has stopped this rally.

# Primary Market Analysis - SPX

## SPX v/s EURO

European Sovereign debt crisis hasn't gone away in spite of bail out talks, Euro look quite venerable. Chart below indicates the correlation of **SPX with EURO** . For SPX secondary top, **we will keep close eye on Euro putting in B point of ABC down**

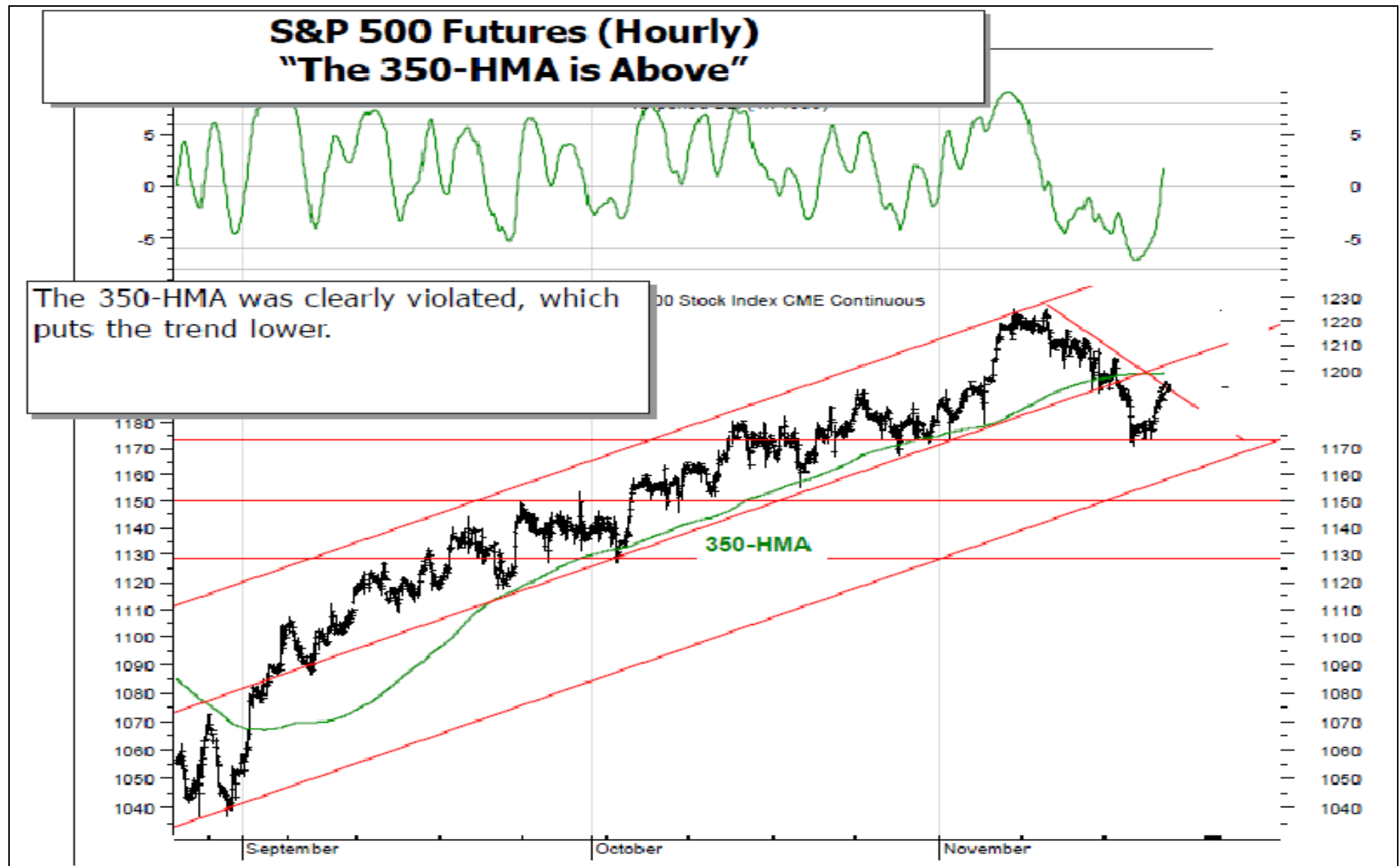


**SPX** – SPX last week moved from the upper Bollinger band down into the lower half of the bands, in the process breaking down through its rising support line from the last intermediate low in late August. On the Shorter term Poly Trend line. It then found support above that lower band and retraced half of its losses.



## SPX – Hourly Chart since August lows.

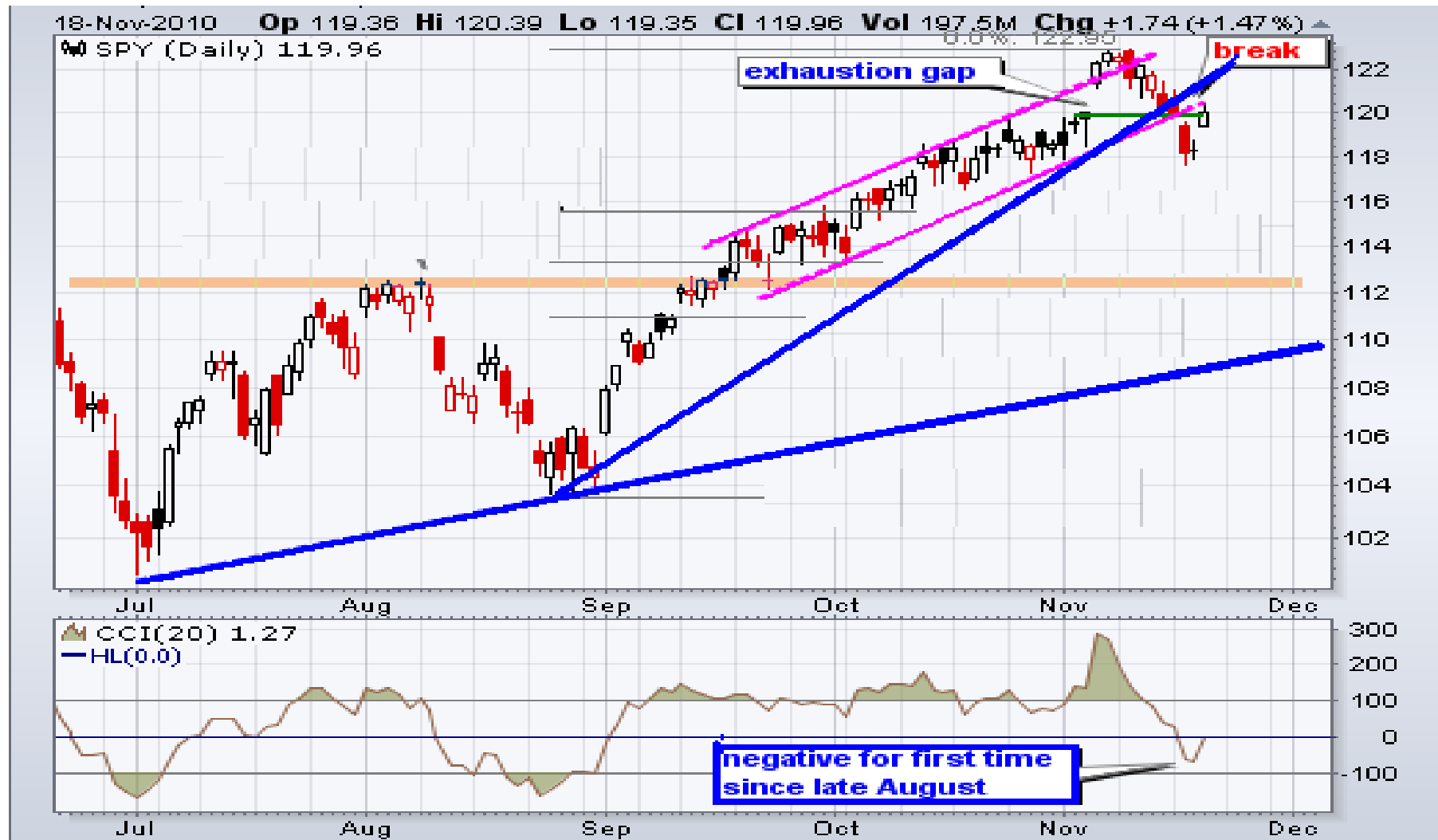
Broke the lower channel line and now bounced on hrly chart to 350 hr MA & hrly trend line





## SPX – Mid Term

**BROKEN RESISTANCE AND RETRACEMENT ZONE TURN SUPPORT ...** Chart shows the (SPY) with an exhaustion gap and a channel break. Both are bearish developments that argue for a good correction, The Mid - term point of correction target is at 1120 -1130. CCI is now turned negative



# SPX

**SHORT – TERM** - 9, SMA, 21 D SMA & Trend line was broken on heavy volume. Then put in lows at 1173 on heavy volume. Any bounce should be limited at the gap, Underneath the Trend line and below the 9, 21 SMA, If on lighter volume C point of ABC down should materialize. The double Top theory is purely a thought due to positive seasonality in Thanks giving week and month end . ( See the A/D Line divergence on this Bounce shown on the chart below in our AD SECTION)



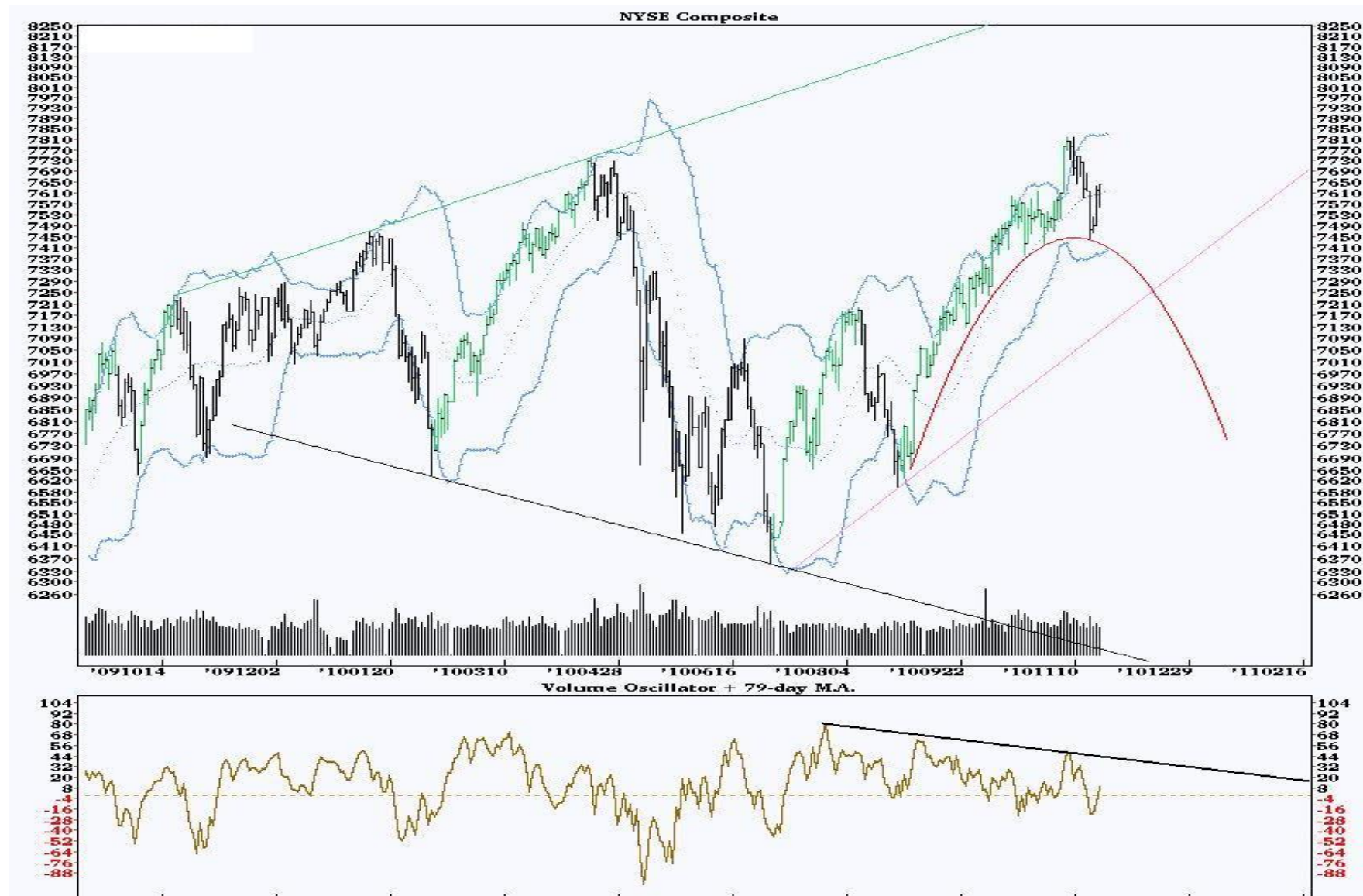
- Secondary Market Analysis for SPX – POM clues – NASD, NYSE

**NASD .** NDX was the first Last week, we saw the first leg down and now rally back to retest the broken support line, which held as a resistance line. The uptrend is over and the leader on the upside is now the leader on the downside, as it continues to show weakness and warns that any push back to the old highs could exhaust final bit of energy from the market. Money flow has shown divergence for very long time now in tech world. . The bounce has been banging on The overhead poly Trend



# NYSE

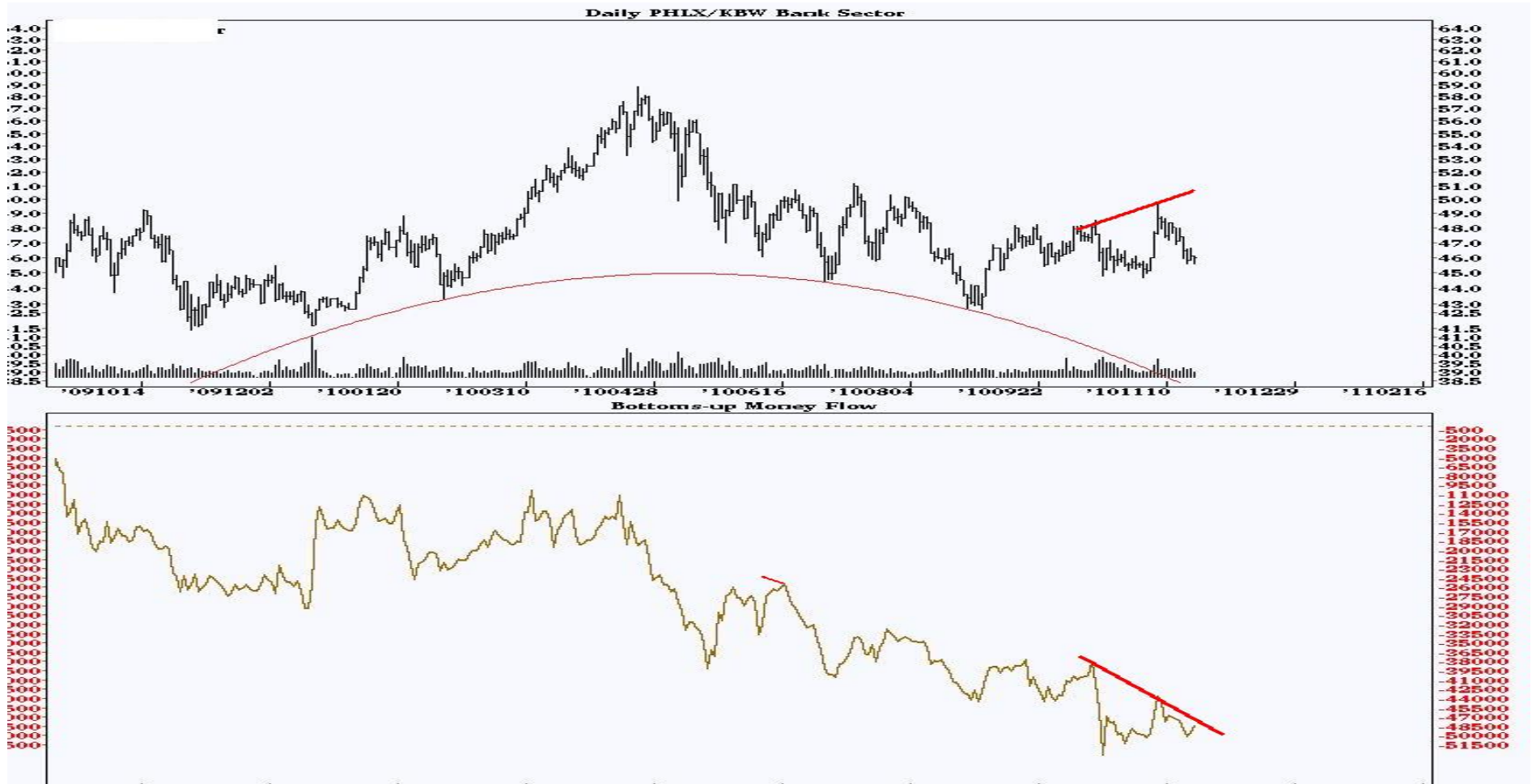
Bearish divergence has still not changed and now trading on the right side of extended Poly Trend. In the big picture, the huge megaphone pattern in the NYSE Composite Index is an ominous pattern which could be sending the message



- Sector Analysis for SPX – POM clues – BKX, SMH

## BKX

There are two conclusions from this chart: Money is definitely flowing out of bank stocks. The Broader market cannot recover if bank stocks are trending lower. This year, BKX peaked in April and the broad market continued to a higher high in November, a lag of 7 months. The warnings are clear for all to see ( We had similar issue in 2007) . There is Head and Shoulder top here and we are on Right side on dangerous polo trend line.



# XHB

**HOME-BUILDER AND HOME CONSTRUCTION CONTINUE TO LAG...** with a rising wedge. This is a pretty weak retracement so far. Technically, the **wedge is rising as long as the lower trendline low hold**. A move below both would reverse the 2-3 month uptrend and call for a continuation lower. The indicator window shows the price relative in a clear downtrend with a new low this week. Relative weakness is not a good sign.



# SMH

There's a good reason why insiders have selling their stocks. Despite the rally, the SOX is simply forming a double top. Trim Tab Reports SHM stocks has the highest Insiders Selling.



- 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

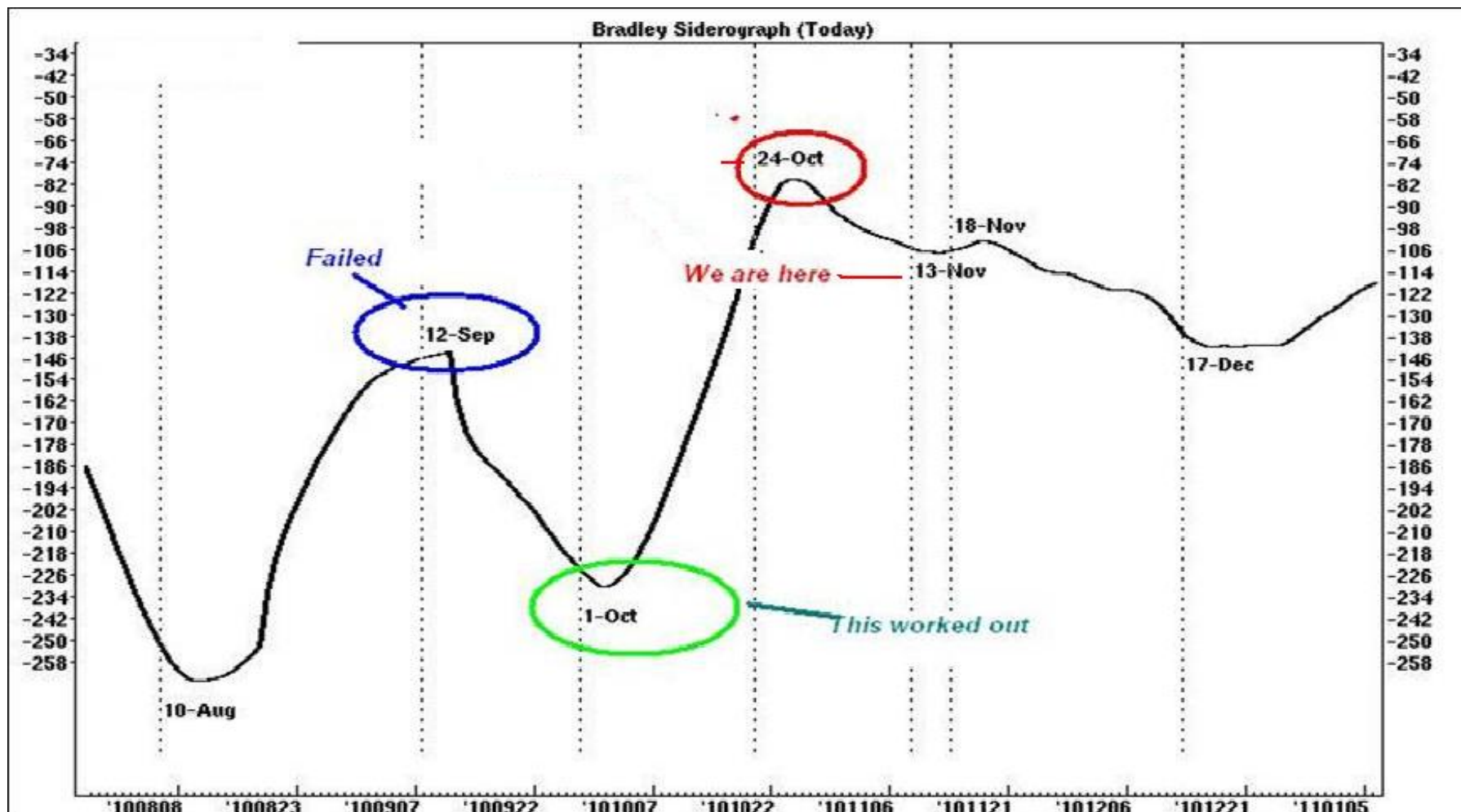
### Various cycle summary & dates

- Main - T – Terminations – Extended - Bearish. ( But hasn't proven)
- The seasonal pattern is for the market to rally from 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) ( But hasn't proven)
- **4 Year Cycle** , positive influence to begin 12<sup>th</sup> Nov t till 24<sup>th</sup> Dec ( Bearish)
- COPPER Cycle – (Bearish) ( Last week we demonstrated OIL)



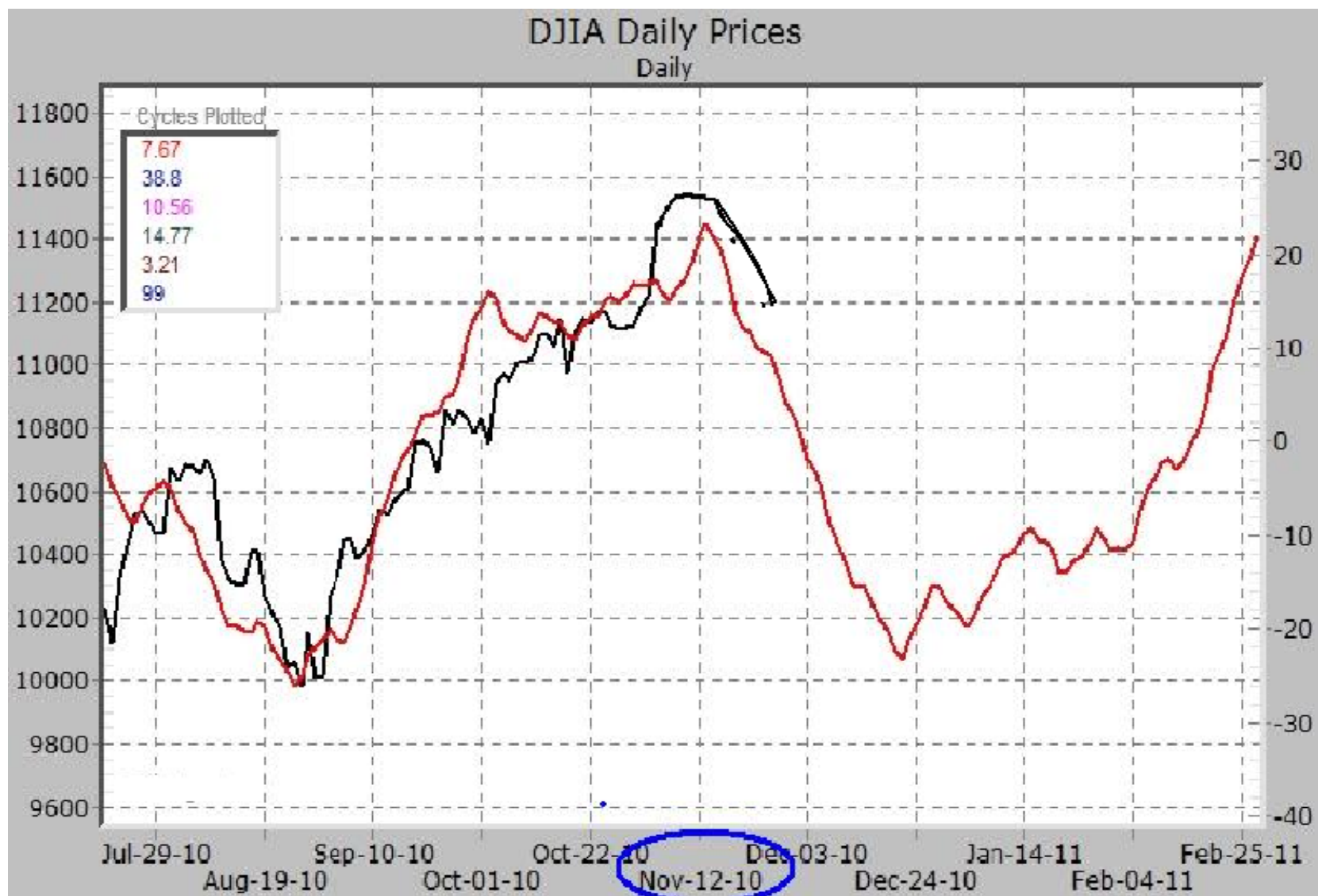
## The Bradley Model – Bearish Cycle in progress – 24<sup>th</sup> Oct to 17<sup>th</sup> Dec

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) .



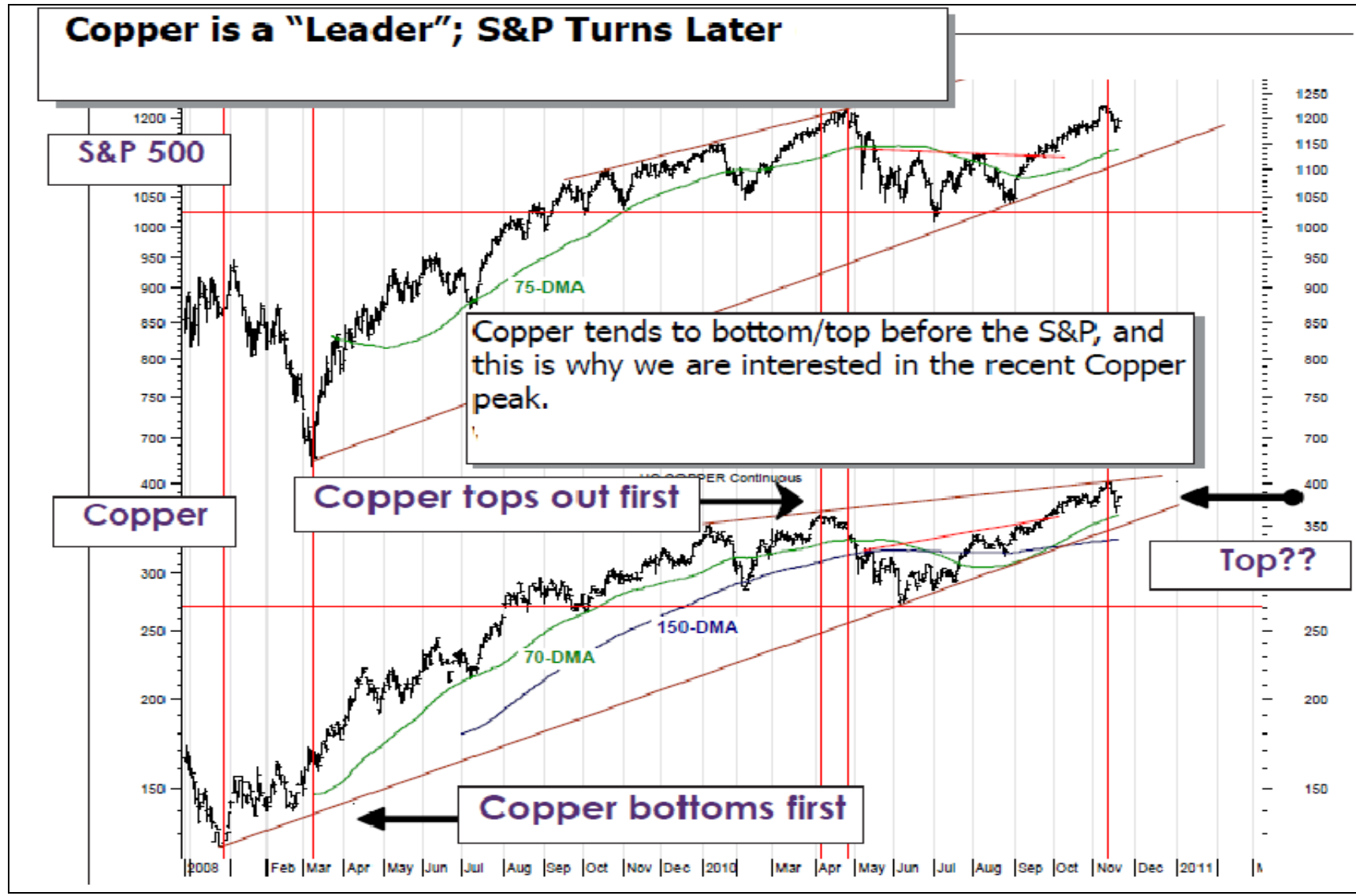
## The 4 Yr – Price path Cycles – **Bearish - Cycle in progress till 12<sup>th</sup> Nov**

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



# Copper Cycle -- **Bearish - Cycle in progress**

Last week we showed Oil but Copper has been quite a good Indicator as well at Tops and Bottoms

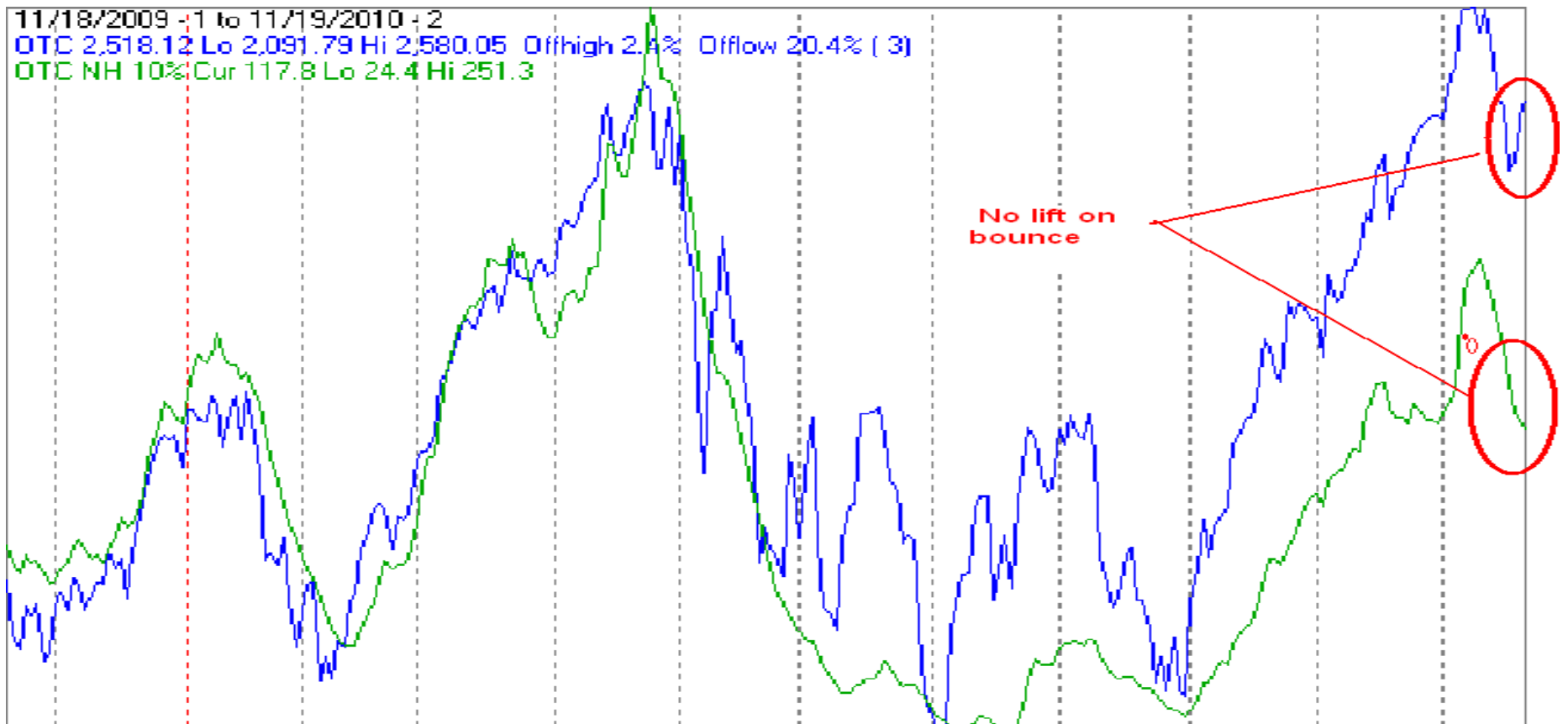


- Advance / Decline Internal behavior Analysis

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 covering the past year showing the NASD in blue and NASD's new highs in green. **NH continued to fall last week in spite of the week ending with a 3 day.**



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

The chart below is similar to the one above except it shows the (SPX) in red and NH new highs. The pattern is similar. **NH continued to fall last week in spite of the week ending with a 3 day.**



- **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 ,*

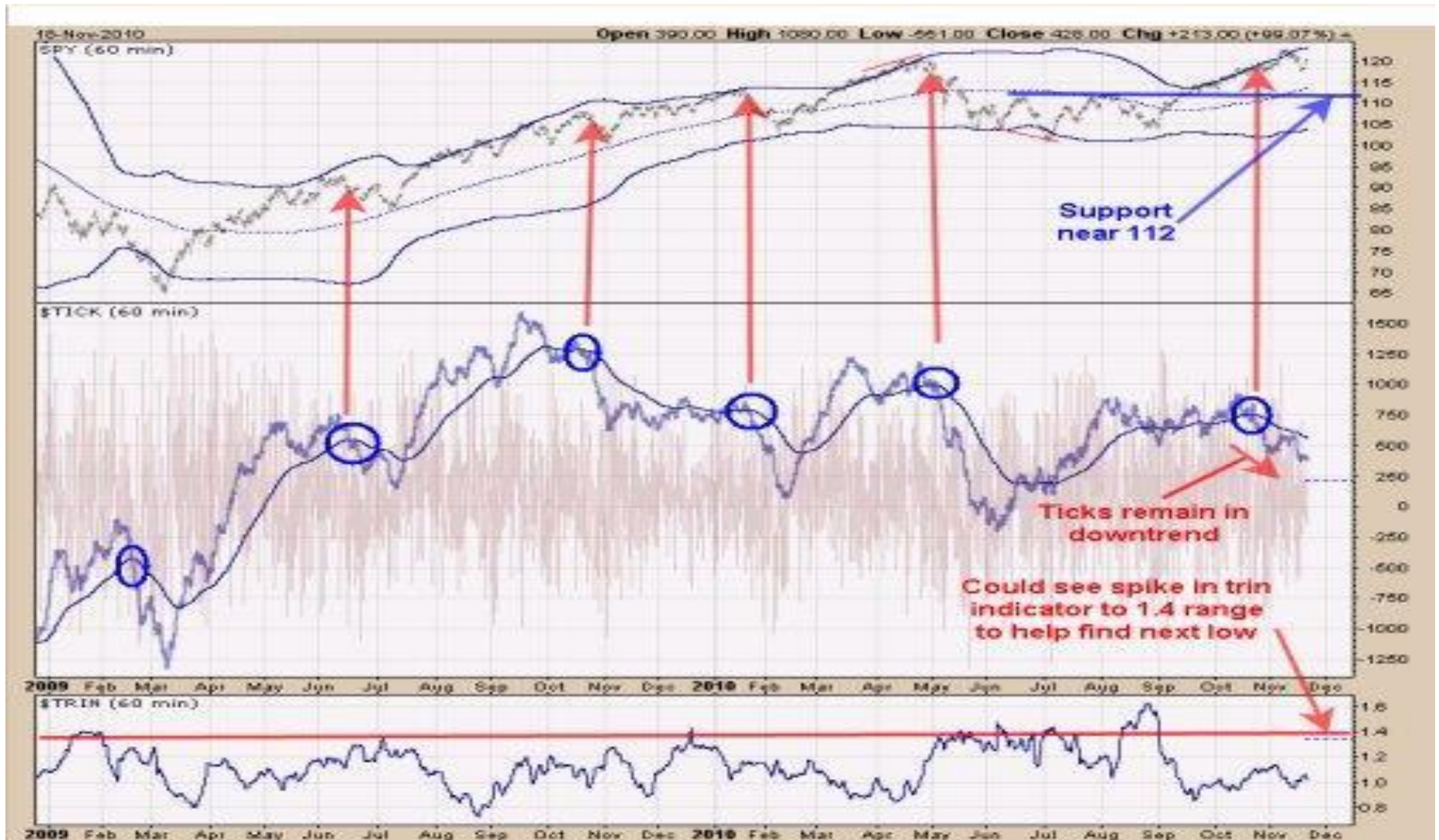
Based on current market condition and the probability of Indicators we point out the **EXTERME INDICATOR ONLY** as a observation points.

### **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.
- **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 @** at Positions where the Previous extremes tops have occurred
- **Insiders Selling @** at Positions where the Previous extremes tops have occurred
- **Speculator Buying @** at Positions where the Previous extremes tops have occurred

## TICK - SPX -

The ticks index pushes the market up and down. Usually when the tick index is trending down so is the market and vice versa. The ticks are below it's moving average and in general are moving lower and suggest the SPX should also move lower. Market near term may hold into a consolidation into next Wednesday after which the decline may continue into early December before bottoming. **Our Trin indicator may rise to 1.4 range to help signal the next low (Bottom window). We would expect a pull back to support near 1125 -1130 range on SPY in the coming weeks**



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

### EEA

EEA will follow the decline with SPX on downside , Our in dept Analysis suggest that POM – Buys and Sells of SPX are closely related with EEA (**We will cover more in next week Report**)

### FTSE

Like many of the markets, this initial move down lacked power and suggests that although we may have seen the high already, the market is buying time. .The T expired on 9<sup>th</sup> November. This has sometimes acted ahead of SPX for clues . We monitor this closely





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

**EEM** - EEM will follow the decline with SPX on downside. 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.

### 1- EEM – Technical & Pattern Analysis & Price / Volume

**SHORT – TERM - 9, SMA, 50 D SMA & Trend line was broken on heavy volume. Then put in lows at 45 at heavy volume. Any bounce should be limited at the gap , Underneath the Trend line and below the 9 , 50 SMA , If on lighter volume C point of ABC down should materialize.**



# 1- EEM – Technical & Pattern Analysis & Price / Volume

**MID TERM** - 3 higher highs have been broken with equal or slight higher volume & 2 lows have been put in with heavy volume. RSI has flat all 3 highs. Hard to get a conclusion on this . Certainly the pull back should come in but as in past it will follow SPX – POM closely. Price volume is not conclusive



# Appendix

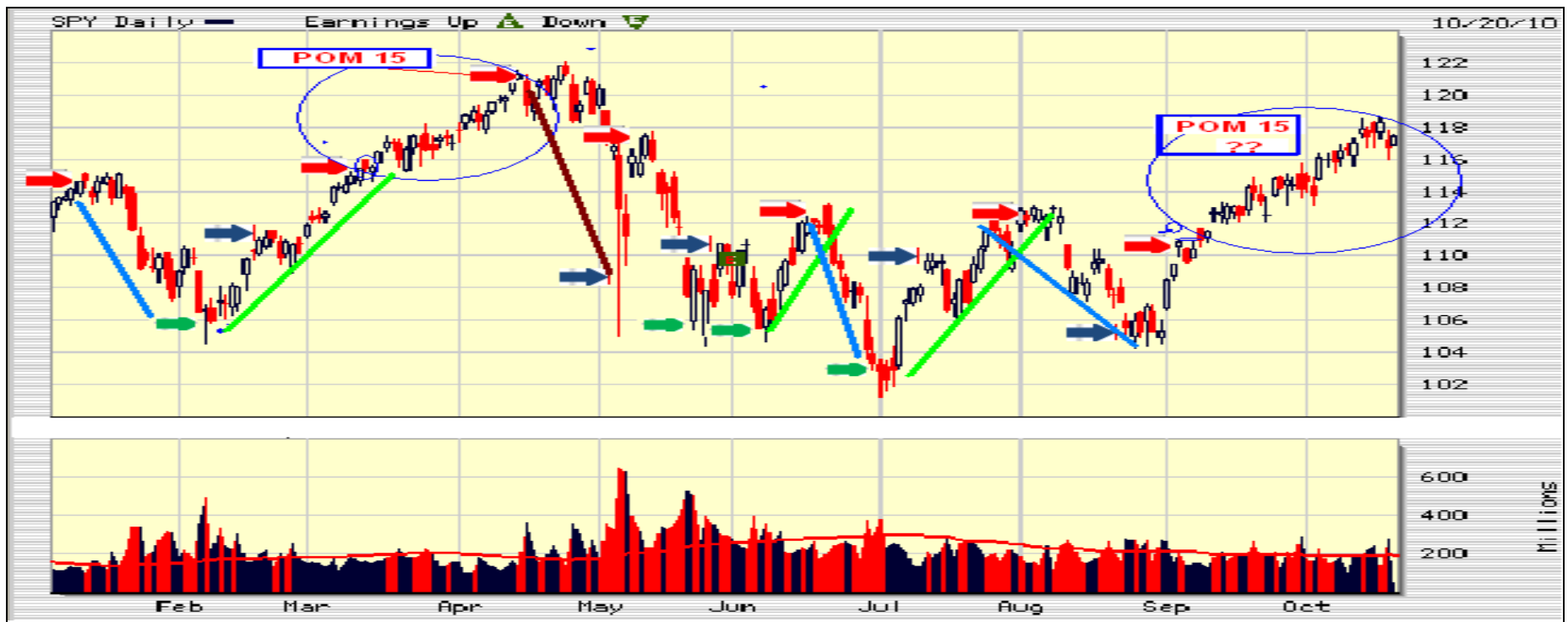
## • History - “ SPX – POM Signals & Projections”

- 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

*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).*

### 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*

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