



SG Capital Research

Global Market Insights

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

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Market Strategy Global (A # 1) - SPX – Closed @ 1188 – Wkly change (-11 points)

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 ST, LT
- Secondary Market Analysis for SPX clues – NASD
- Sector Analysis for SPX clues – XLF, SMH
- Time / Cycle Analysis- Bradley Cycle, 4 yr Cycle,
- Advance / Decline Internal market behavior – A/D – NASD , SPX
- Sentiment Analysis with Extreme character – OEX,VIX
- Global Market Analysis for SPX clues – FTSE
- 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 on 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 – 3.00 % drawdown v/s – 7.75 % 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

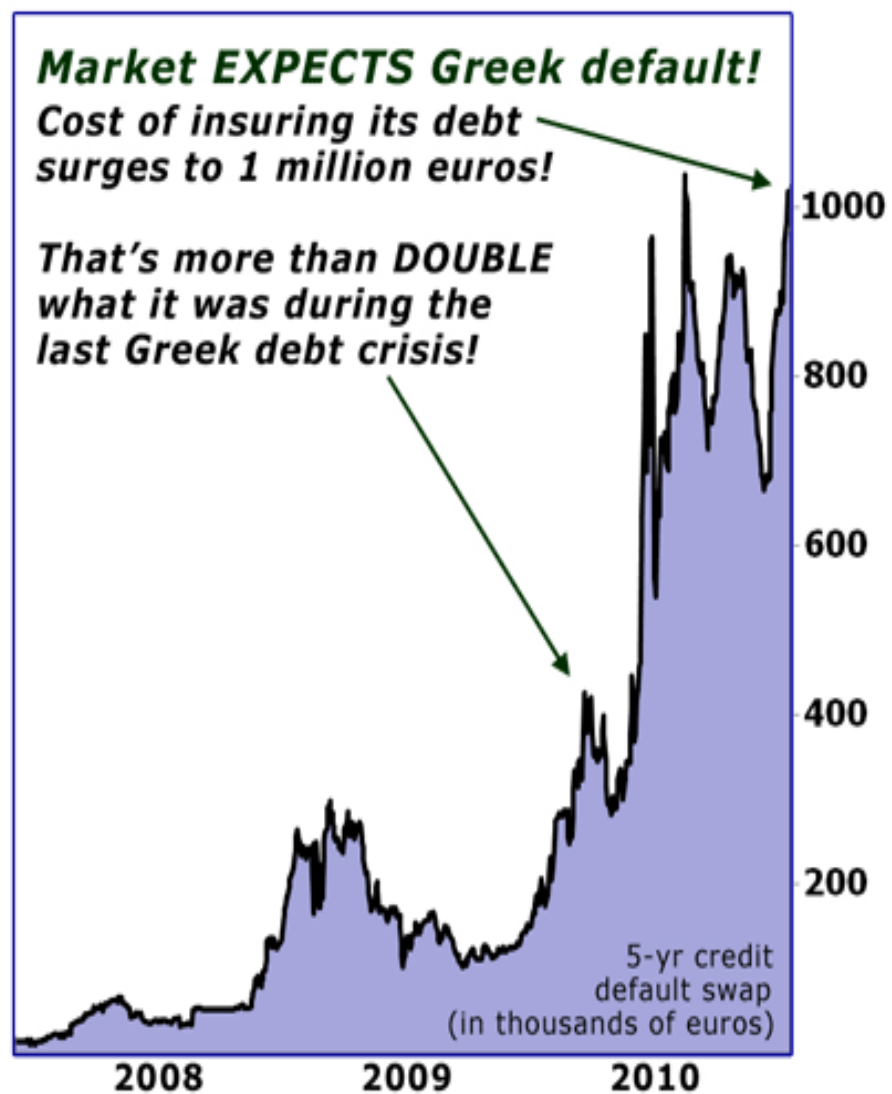
- **SPX Signals & Price Projections**

- *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**

- *FDIC Reports : 903 banks in trouble. Just this past Friday, the government released new data showing that the FDIC's list of "problem banks" now includes 903 institutions. That's ten times just two years ago. The banks on the list have \$420 billion in assets, (almost size of QE 2) and size is sixteen times the amount of two years ago.*
- *The New Phase of the Debt Crisis, we had previewed 3 weeks ago with Bearish view on Portugal & Spain in PQV list and Bearish View on Euro since 1.40 top in Currency list*
- *Rise in Interest Rates across European Nations. The yields on Ireland's 10-year notes have surged from 8 to 9 % percent in just a few days and despite the Fed's massive bond purchases, U.S. Treasury yields have also moved higher and seen even bigger jumps in U.S. municipal bond yields. We have been Indicating for while of this move on our Sector Report - TNX*
- *And for the near future rising interest rates could be a problematic for real estate Mortgage and for many financial markets.*

- *Report from Reuters below on Default on Greek & Ireland.*



- 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 (11/17) with Reversal @ 1225

Sym	Posn	Close	Reversal
DJ	Short	11072.1	11430.5
SPX	Short	1187.98	1225.85

INTERNALS

Our Target of 1200 strike price proved its merit on option expiration week, we are still in positive seasonality of Month end.

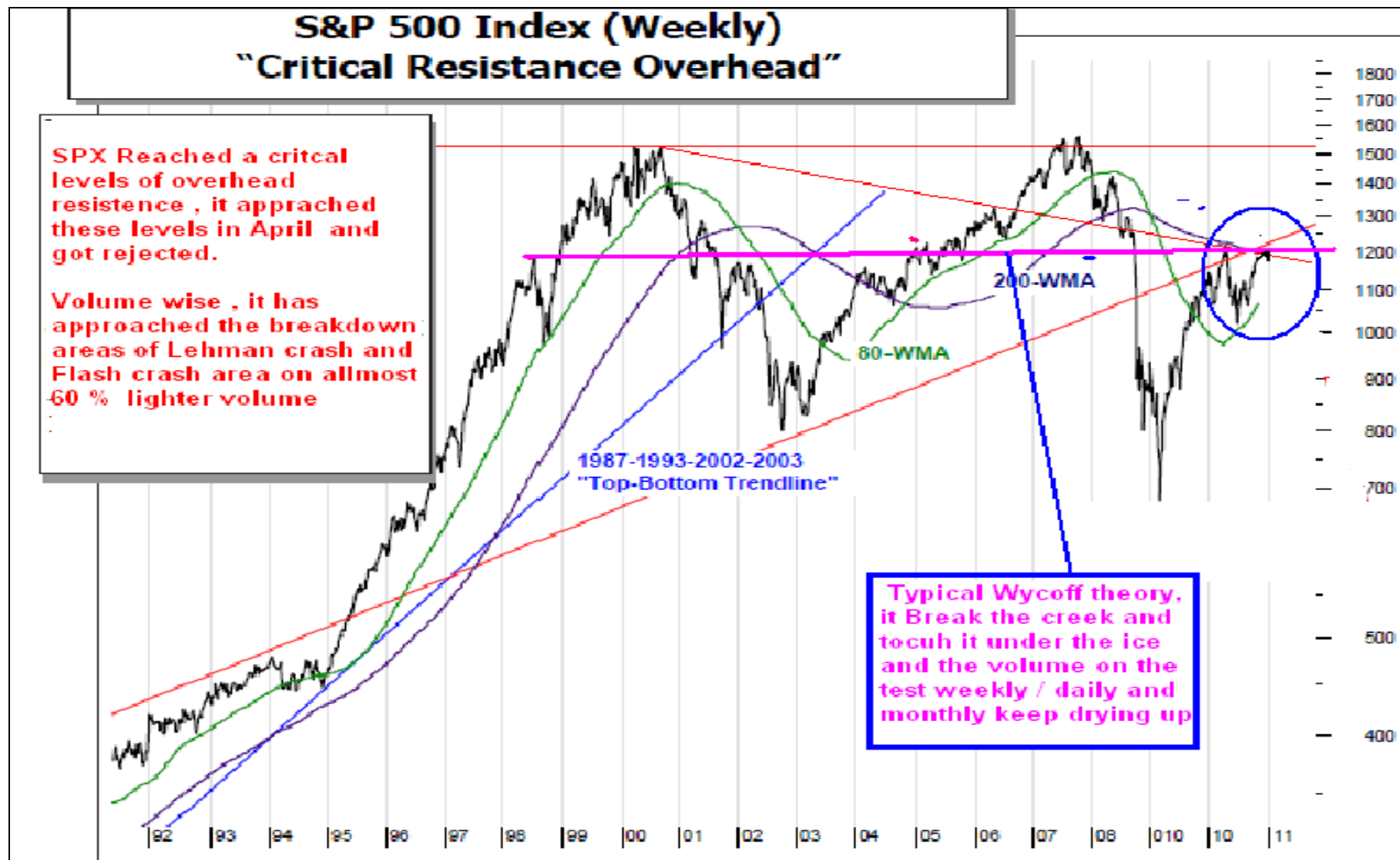
Phase II of **Jerry Minton** Cycle of 20 days with highest probability is in Progress. It began at 1198 SPX on 22nd Nov and end on 3rd December. The Phase I – resulted in 1.9% move. Phase III – will be the Year end 7 Days.

If market can hold 1170 on lighter bounce would come in, especially the EURO is way oversold and FTSE & FXE which has given some good signal past 3 weeks of top and pull back on SPX from 1200 to 1225 back to 1180 (See chart of FTSE)

Sentiment continues to be extreme of bullishness on many different gauges indicated below in our Weekly sentiment watch. The broad market indices are testing recovery highs, near resistance and vulnerable to a selloff over the next several days to weeks. Seasonality is holding it up and possibly may take the form of a "flat", with the market remaining in a relatively narrow trading range into the New Year. However 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. This along with a **Cross current on Various Trend lines as Indicated in Chart below is most important chart for us .**

We Repeat - SPX – LT Critical overhead Resistance ‘ Multi Cross currents Proved its Merit’

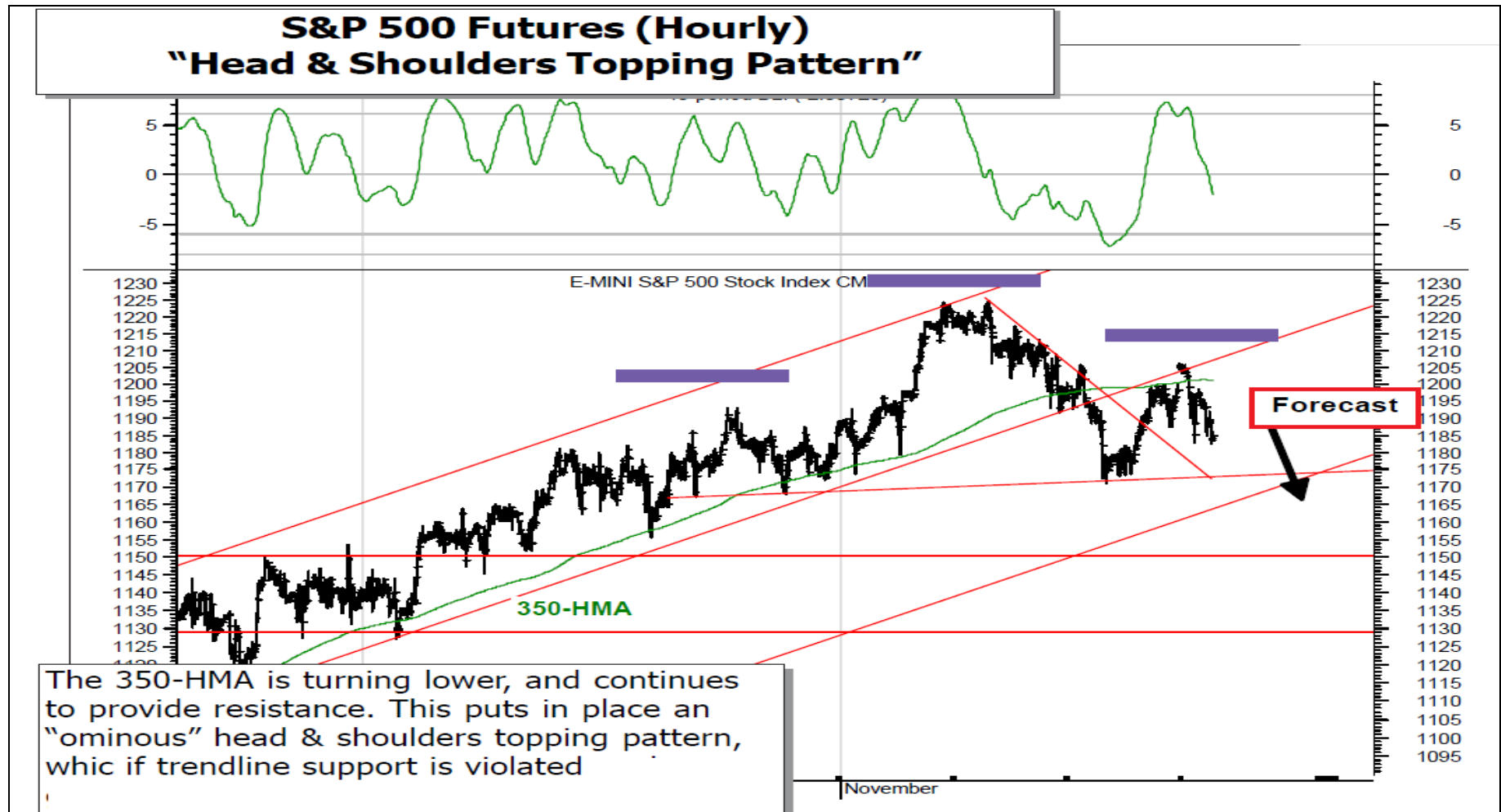
SPX has reached critical levels of cross current price zones with internal market being very weak , Please read the notes within the chart & all the trend lines crosses converges to gather.



Primary Market Analysis - SPX

SPX – Hourly Chart since August lows.

Broke the lower channel line and now bounced on hrly chart to 350 hr MA & hrly trend line under 1200, that is bearish. Now setting up H & S top, but we think due to seasonality it may hold but break under 1170 wit high volume or Gap away could see a continuation of down move. If not we could certainly have another move to the topside for santa rally



SPX – A push to rally in end December / Early January could start in the latter half of December if the various tee projections are correct. There selling into every rally going on **indicated by Money flow below**. This is marching time over 2 – Poly trend lines.



SPX – Mid Term

The weekly chart of SPX with a weekly chart of stocks above the 50 DMA. This simple chart has picked out the previous high of April and January and has again had a bearish crossover which suggests in general the pull back should continue. First meaningful support comes in near 1120 – 1130 on SPX which is where previous highs formed back in June and August and also is where the weekly Mid Bollinger bands lies which are also support. Since the weekly MACD turned down it suggest the bounce should not go far. If the ARMS index jumps to 3.00 or higher as SPX near 1125- 1130 for a couple of days or more it will imply the 1125 range will act as support. If the ARMS index does not increase significantly as the market nears 1125 it will suggest the decline will continue.



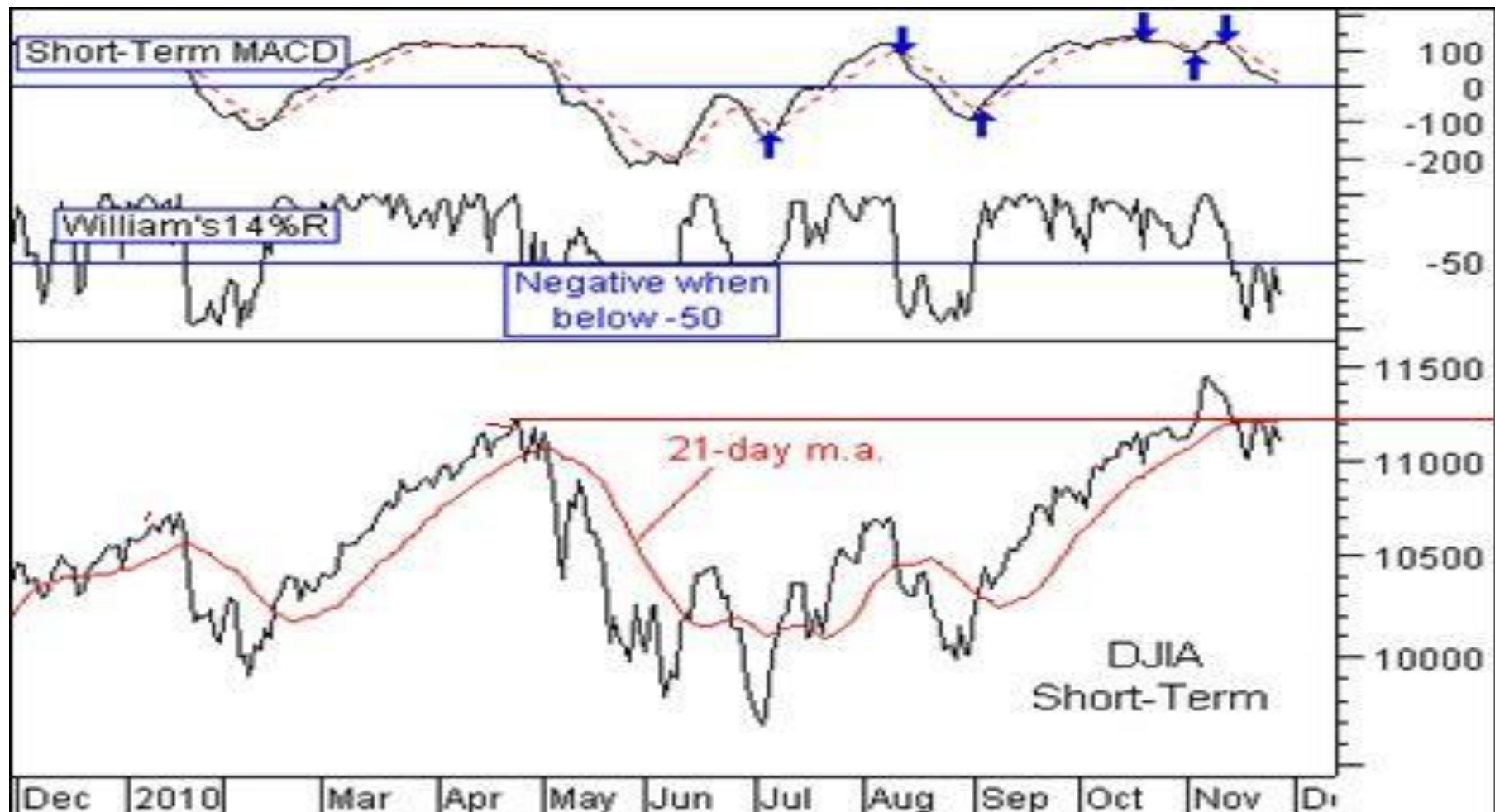
SPX

SHORT-TERM - 9, SMA, 21 D SMA & Trend line was broken on heavy volume. Then put in lows at 1173 on heavy volume. The bounce was limited at the gap, Underneath the Trend line and below the 9, 21 SMA, on lighter volume, this could very well set up ABC down if the Volume expands at 1170 equal or greater then Red Circle mark, if it holds and rejects then another bounce on The double Top theory is purely a thought due to positive seasonality. But 1200 is now new ICE.



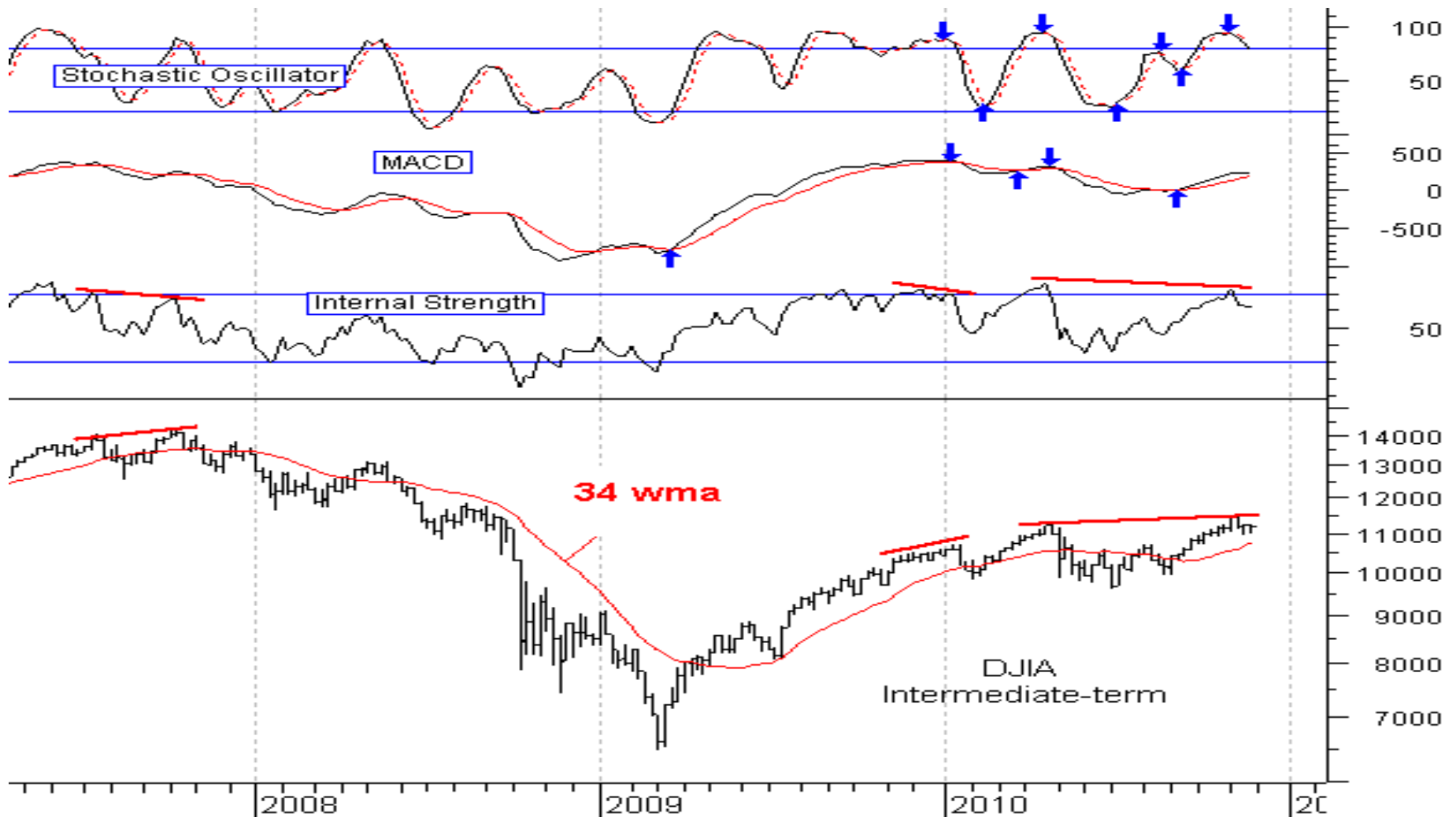
DIA - ST

Most recently the major market indexes spiked up after the Fed's QE2 decision, (above Red line) but gave it all back, topping out a couple of weeks ago, then breaking below the previous support at 21-day moving averages for the first time since the rally began in early September, the potential short-term resistance at the 21-day moving averages might have important implications for the intermediate-term.



DIA - LT

The intermediate-term indicators have turned negative, the relative strength did not confirm the DOWs last high (RSI made a lower high), and the major indexes are overbought above their 20-week moving averages,



- Secondary Market Analysis for SPX – POM clues – NASD

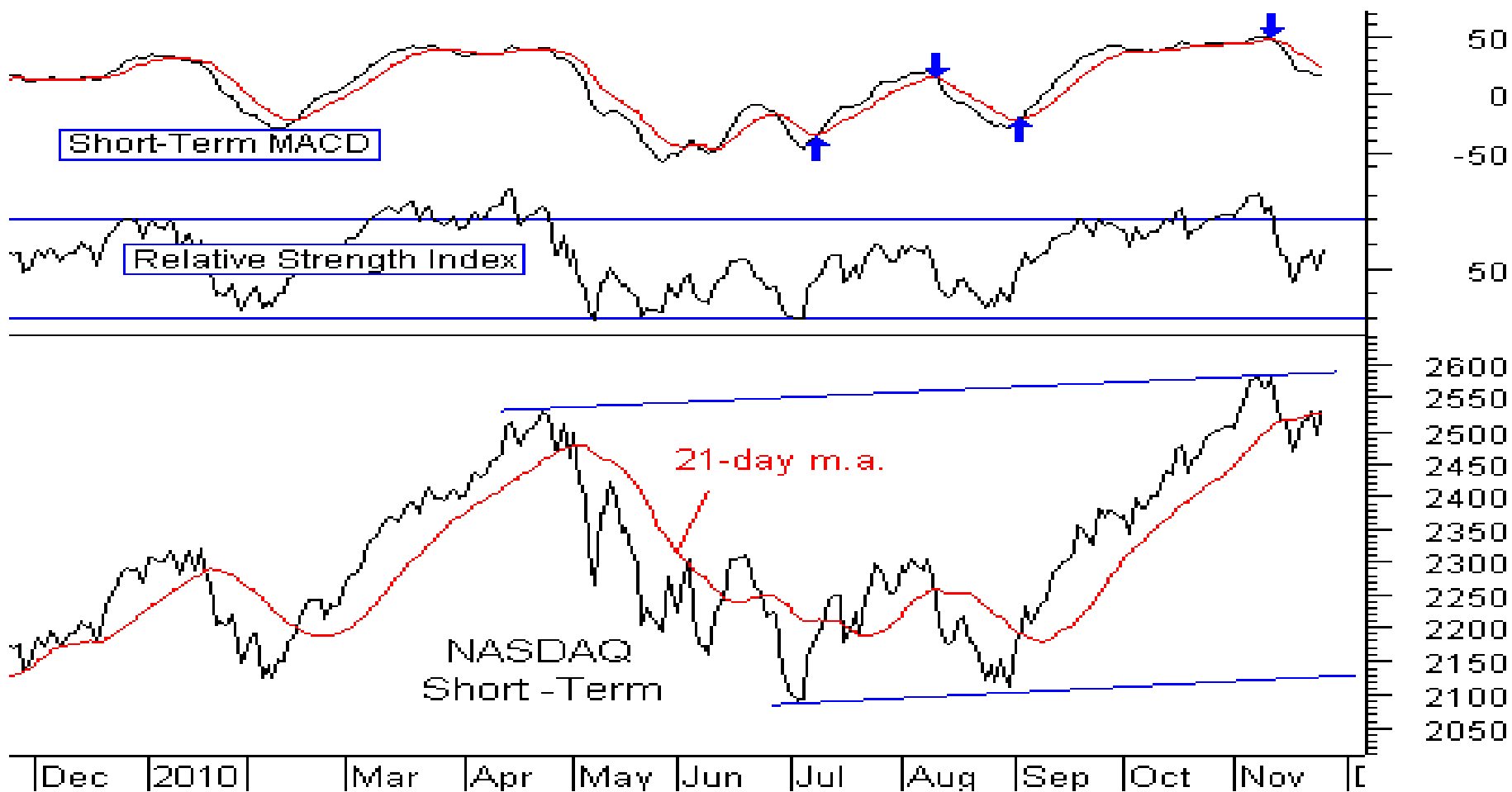
NASD. NASD made a new recovery high but fell hard, breaking through the rising support Poly trendline. The rebound has run into resistance on the old trendline. The violet support trendline, formed by the significant trading lows since the late August bottom, is rolling over to the downside now. It's very unlikely that the market is about to find another uptrend here due to the resistance line that should keep the index bounded. Money flow is another serious issues,



NASD

When all the Indices are in Sync with each other on various aspect, we get much better confirmation, therefore we use this extensive process for our Judgment explanation.

The Nasd also broke below its 21-DMA., rallied back up to it but failed to break back above it. the short-term technical indicators remain on a short-term sell signal. MACD has turned down.



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

SMH

The insiders have selling their stocks. Despite the rally, Trim Tab Reports SHM stocks has the highest Insiders Selling. We think this sector is trouble just with Poly trend line and money flow, we made the higher high on lighter volume whiles NASD did not confirm



XLF

H & S pattern is still in Play in spite of QE – 2 . To help confirm this potential Head and Shoulder top we would like to see a “Sign of Weakness” through the support zone near 14.00 range. with a jump in volume. Also a sign of Weakness through the Neckline near 13.00 would confirm the Head and Shoulder top and give a downside target to 10.00 range. The weekly mid Bollinger band is rising which is bullish but the Slow Stochastics (bottom two windows) have had bearish crossovers.



- **Time Cycle Analysis**

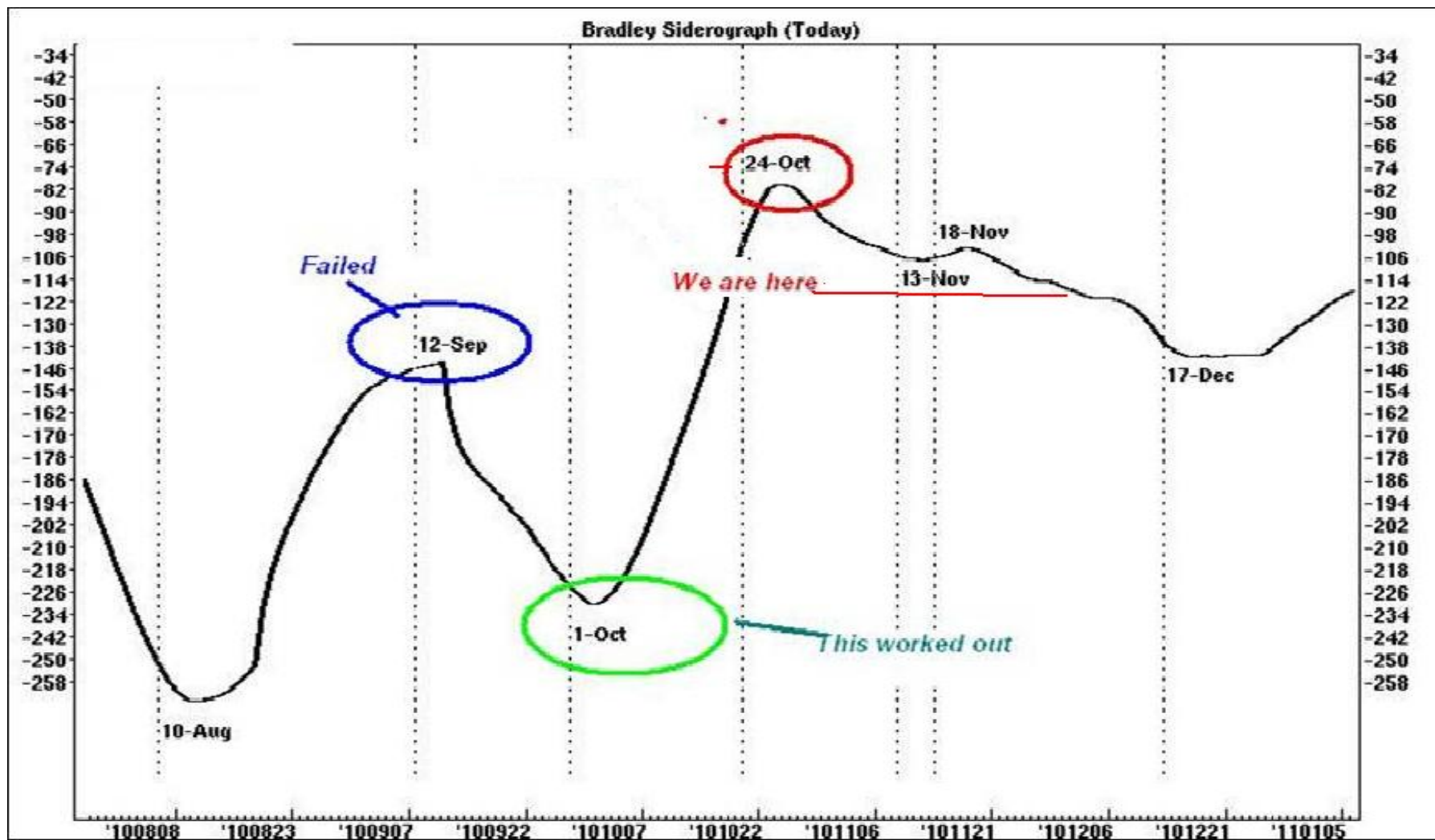
Our Time - cycle Analysis is based Seasonality, Calendar events, Astros Harmonics, Geomagnetic (including Bradley Model) & T – Termination. Based on current market condition our observation points out the following condition

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)
- **COPPER Cycle – (Bearish)**
- **OIL Cycle – (Bearish)**

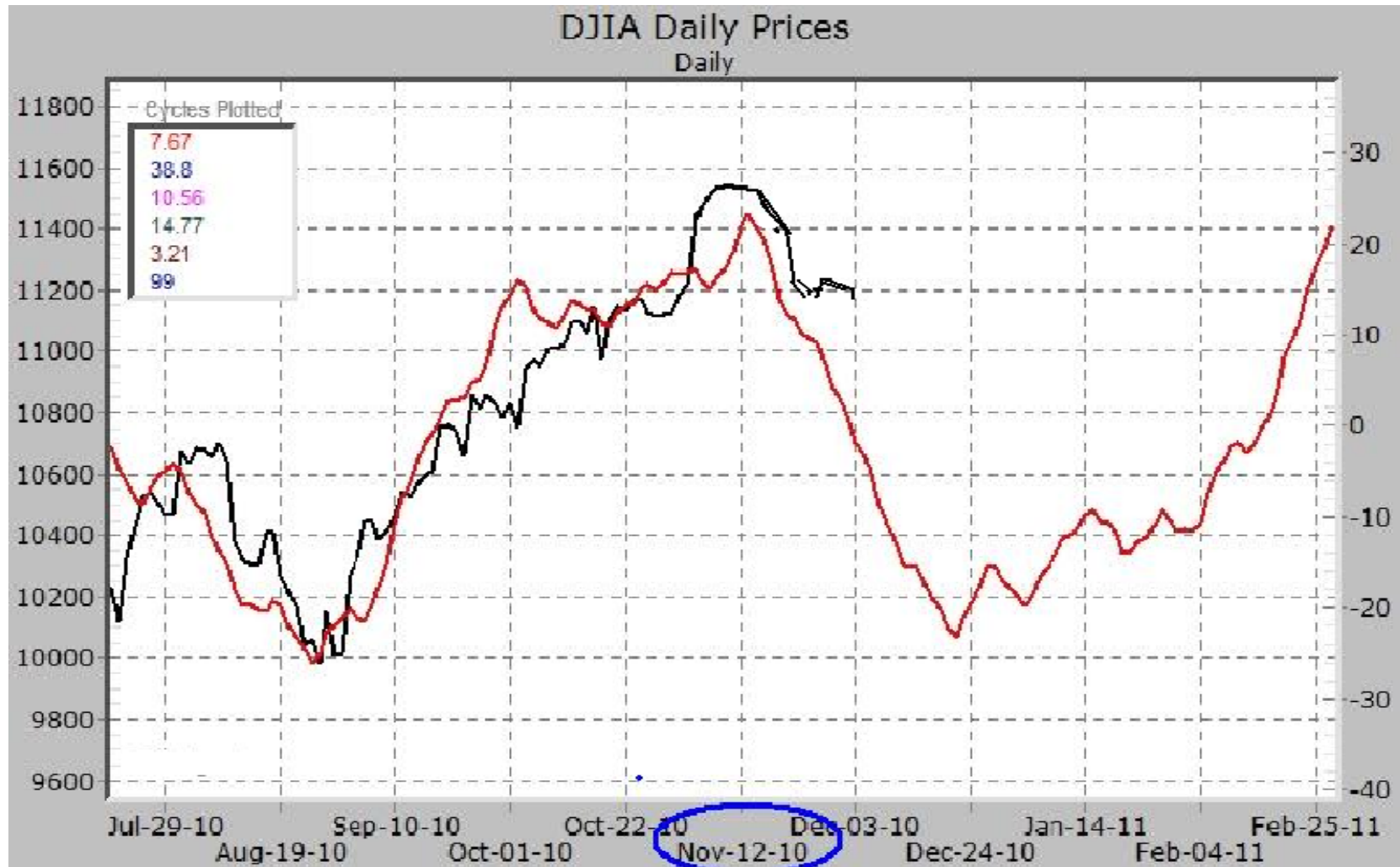
The Bradley Model – Bearish Cycle in progress – 24th Oct to 17th Dec

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 from 12th Nov till 26th Dec in downtrend by 4 yr cycle.

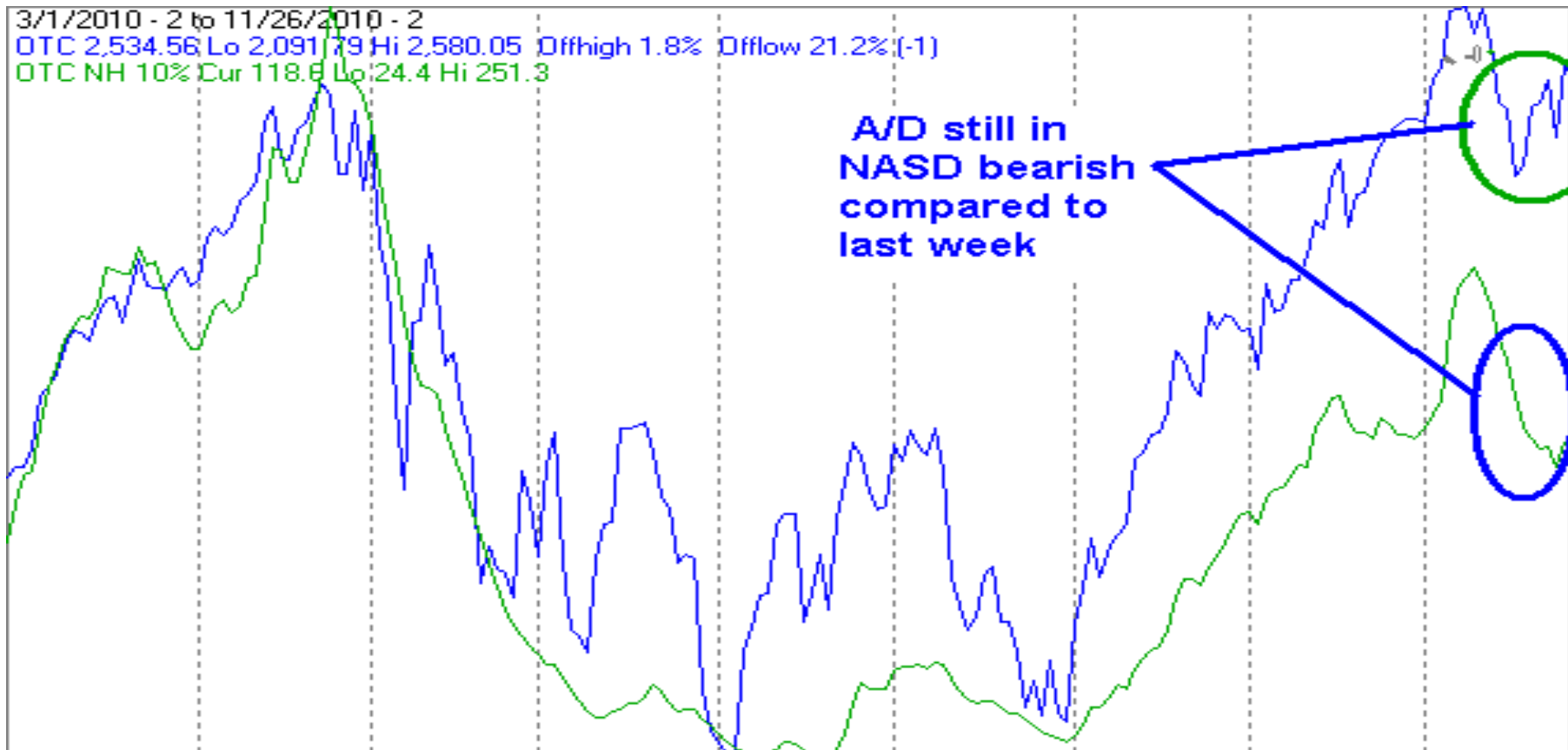


- Advance / Decline Internal behavior Analysis

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...

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.**



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.



- **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 ,

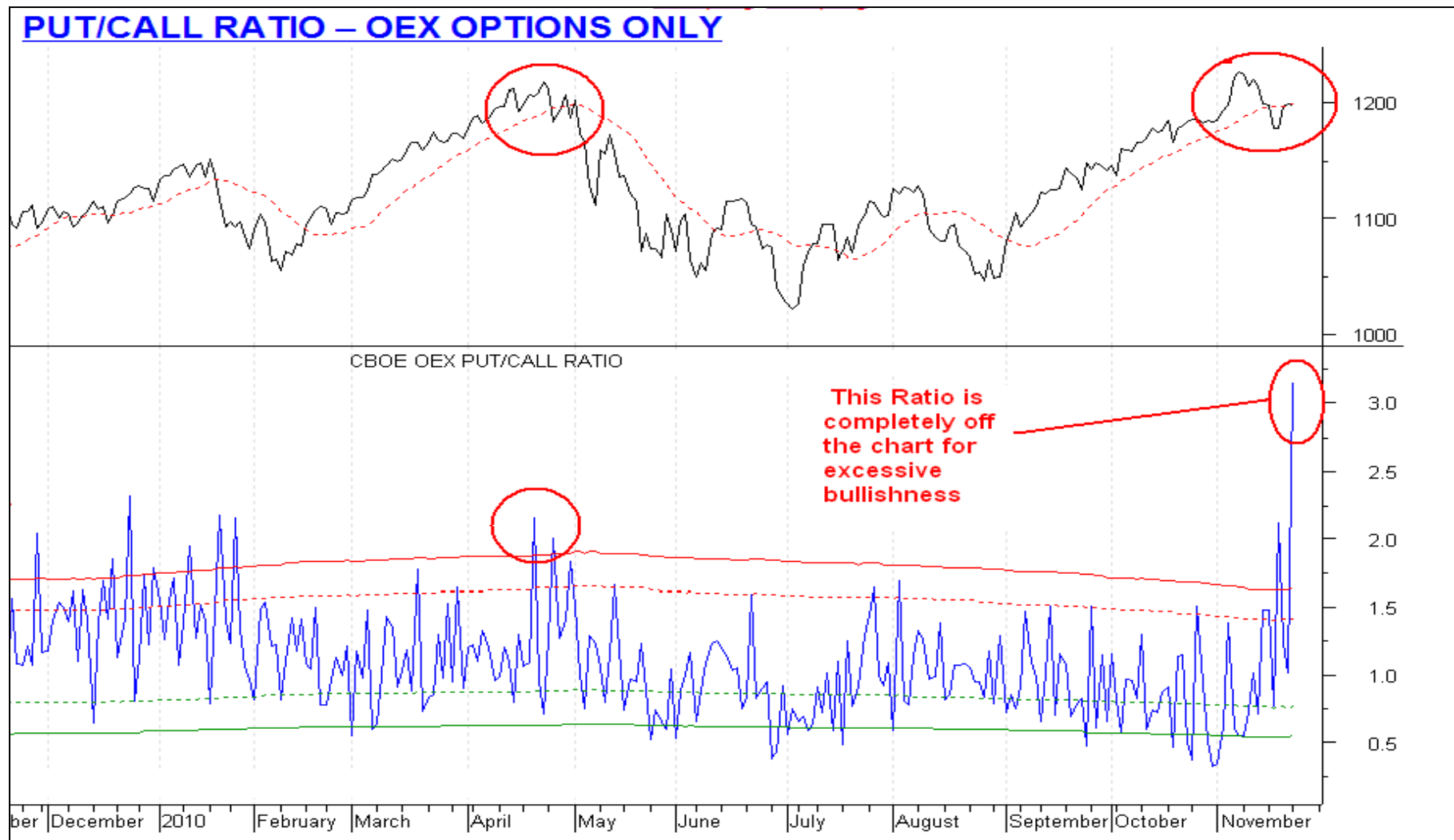
Based on current market condition and the probability of Indicators we point out the **EXTERME INDICATOR ONLY** as a observation points.

EXTERME INDICATORS

- . **Sentiment (Short term) has reversed** Our Mathematical Indicators such as **OEX Ratio, ARMS, TRIN, TICK, VIX** 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

Sentiment Extremely Bullish - Options market

Reported by CFTC from Traders sentiments – The options pit.

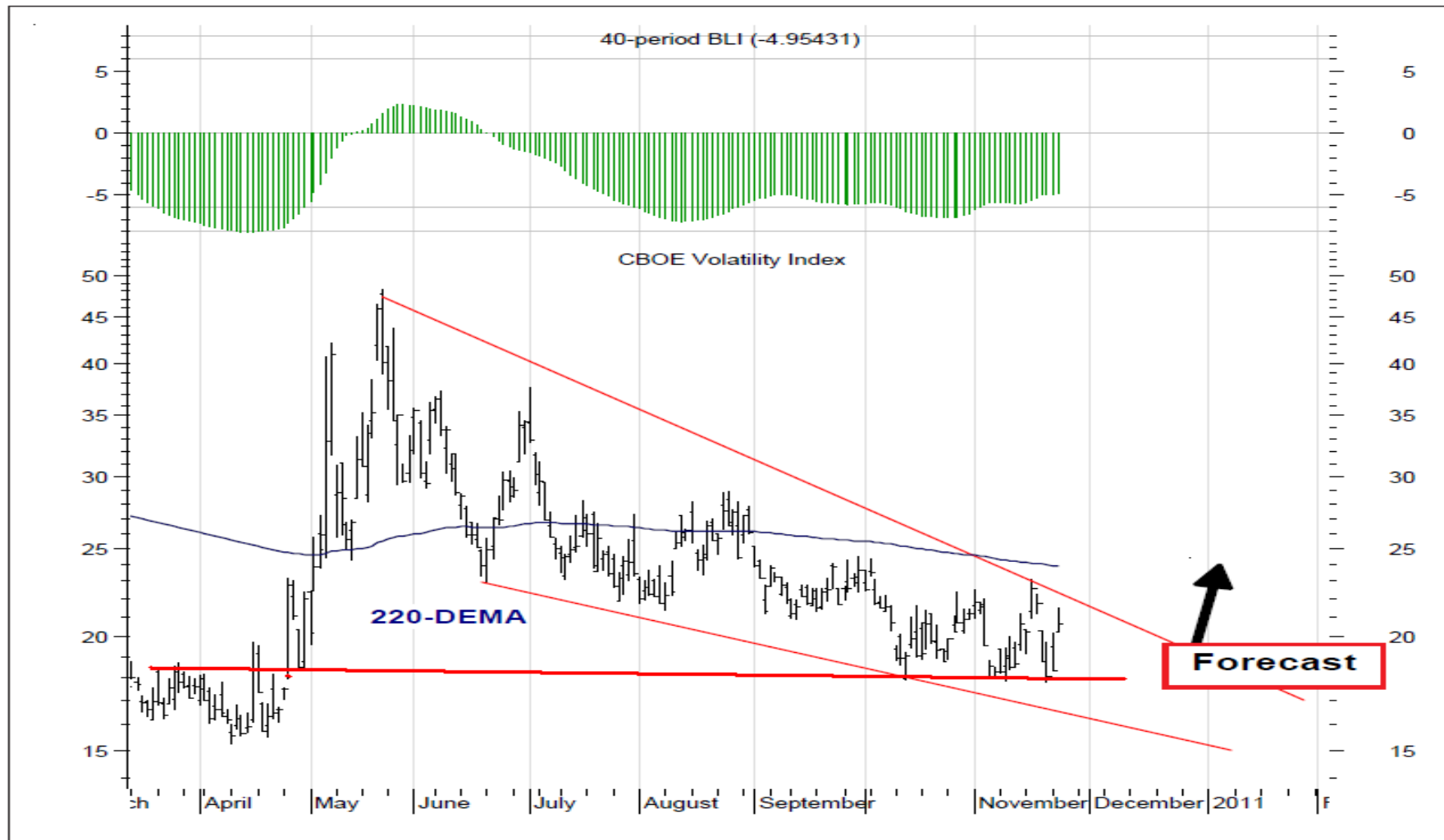


Sentiment Extremely Bullish - II & AAI

- **The Investors Intelligence (II) bullish advisory sentiment. As of last week the percentage of bullish stock market advisors surpassed the threshold of 55 percent. Readings above 55 percent. The bearish advisory sentiment and the ratio of bulls to bears — are giving the same message as Investors Intelligence.**
- **What's more, two weeks ago, when the SPX exceeded April's high, the AAI reported that 57 percent of private investors were bullish,**
- **The Total of II & AAI is $(55+57) = 112$ Reported last week.**
- **Plus mutual fund cash levels are at 3.5 percent — very close to their all time low of 3.4 percent.**
- **This brings the question: With so many investors bullish or fully invested, who is left to do the heavy lifting for further stock market gains.**

VIX

The declining wedge is dominant and has been redrawn time and time again. Thus, we must look for another test of upper trendline in the weeks ahead. However, the 50-day model is trading higher from a positive divergence, which simply means upside pressure is present for the time being.



- Global Market Analysis for SPX – POM clues - FTSE,

FTSE

In past few weeks we covered this market as it gave us the best signal of SPX top after 1200 SPX, especially the T termination expired on 9th November. This has sometimes acted ahead of SPX for clues . But now after the first move down It shows another one more rally left in the move. The volume oscillator is showing positive signs If we do get a rally , SPX should rally too



Appendix

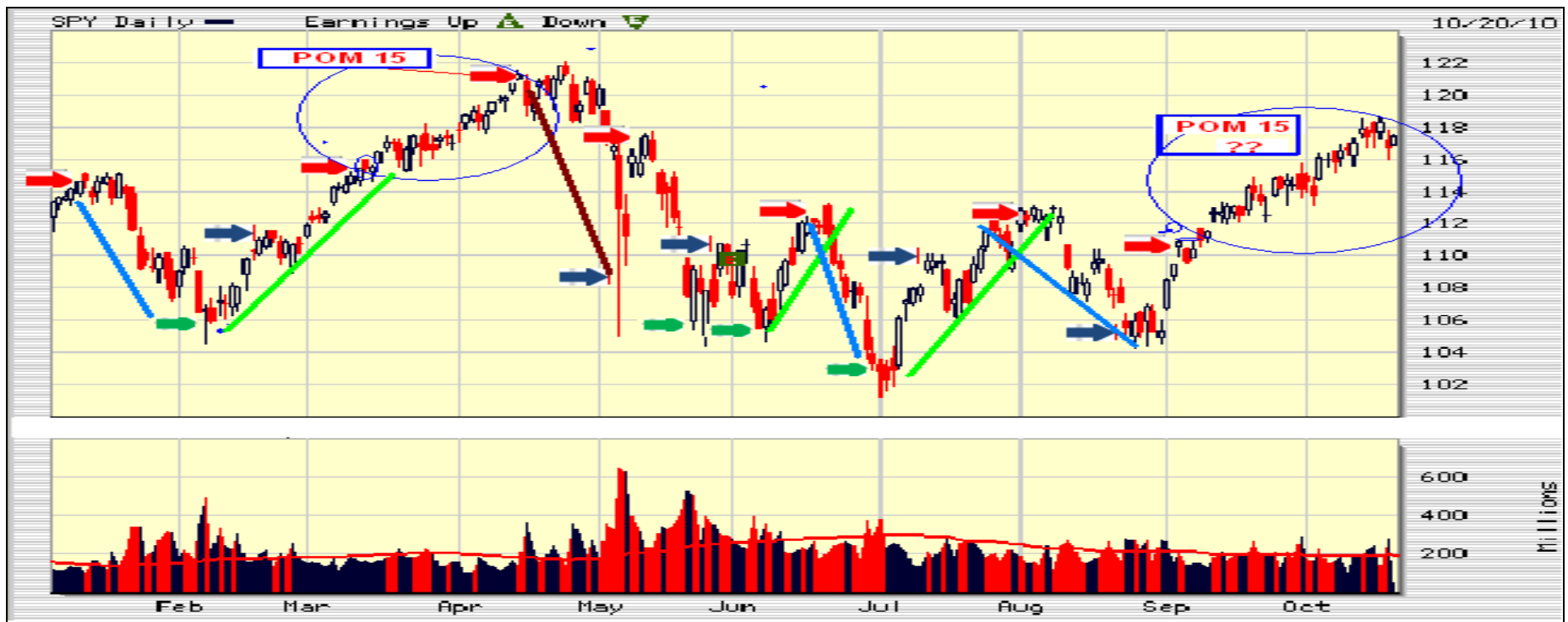
• History - “ SPX – POM Signals & Projections”

- 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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