SG Capital Research

Global Market Insights

**Research Note – Interim Update (A# 2)**

**MAEG- INTERIM UPDATE # 02 SG 2010 # NOV 18**

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# Market Strategy Global (A # 2) - SPX – Closed @ 1178

**We have picked up charts (below) that has some distinct characteristics from observation & Special Situation this week based on our assessment:**

- ## Special Coverage

- **DOW 9EMA / 3X3 Strategy – DOW & SPX**
- **QE / EUROPE CRISIS / MUNCIPAL BONDS**
- **SPX – ST,MT,LT**
- **NASD**
- **BKX/XLF**
- **TLT**
- **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 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 6.7 % . 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"

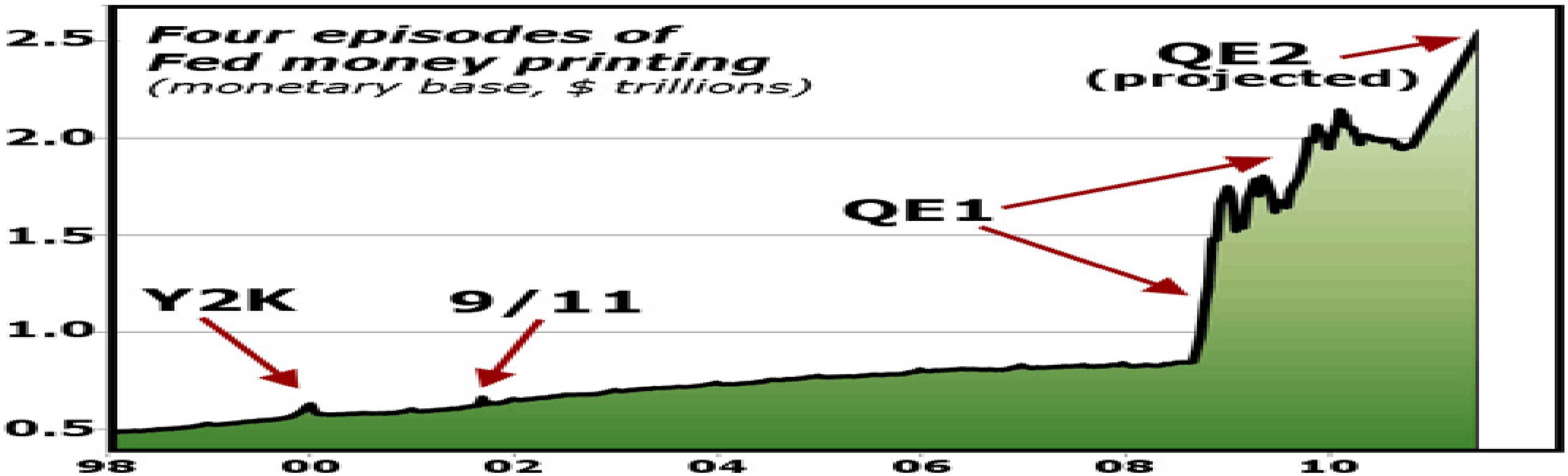
### 3x3 /9EMA – Break Indicator – Buy Signal since SPX – 1115, Stopped out at 1193

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

| Sym | Posn | Close | Reversal |
|---|---|---|---|
| DJ | Short | 11009.2 | 11430.5 |
| SPX | Short | 1178.8 | 1225.85 |

## QE

***Report from Reuters…….***




**1 — Y2K.** Between October 6, 1999 and January 12, 2000, the Fed pumped in $73 billion in three months (based on the Fed's measure of the U.S. monetary base).

**#2 — 9-11.** In the days immediately following the attacks through September 19, 2001, Greenspan rushed to pump $40 billion into the U.S. economy — one of the largest amounts ever recorded for such a short period.

**#3 — QE1.** In response to the debt crisis of 2008-2009, the Fed embarked on its first round of "quantitative easing" — buying bonds to pump more money into the economy.

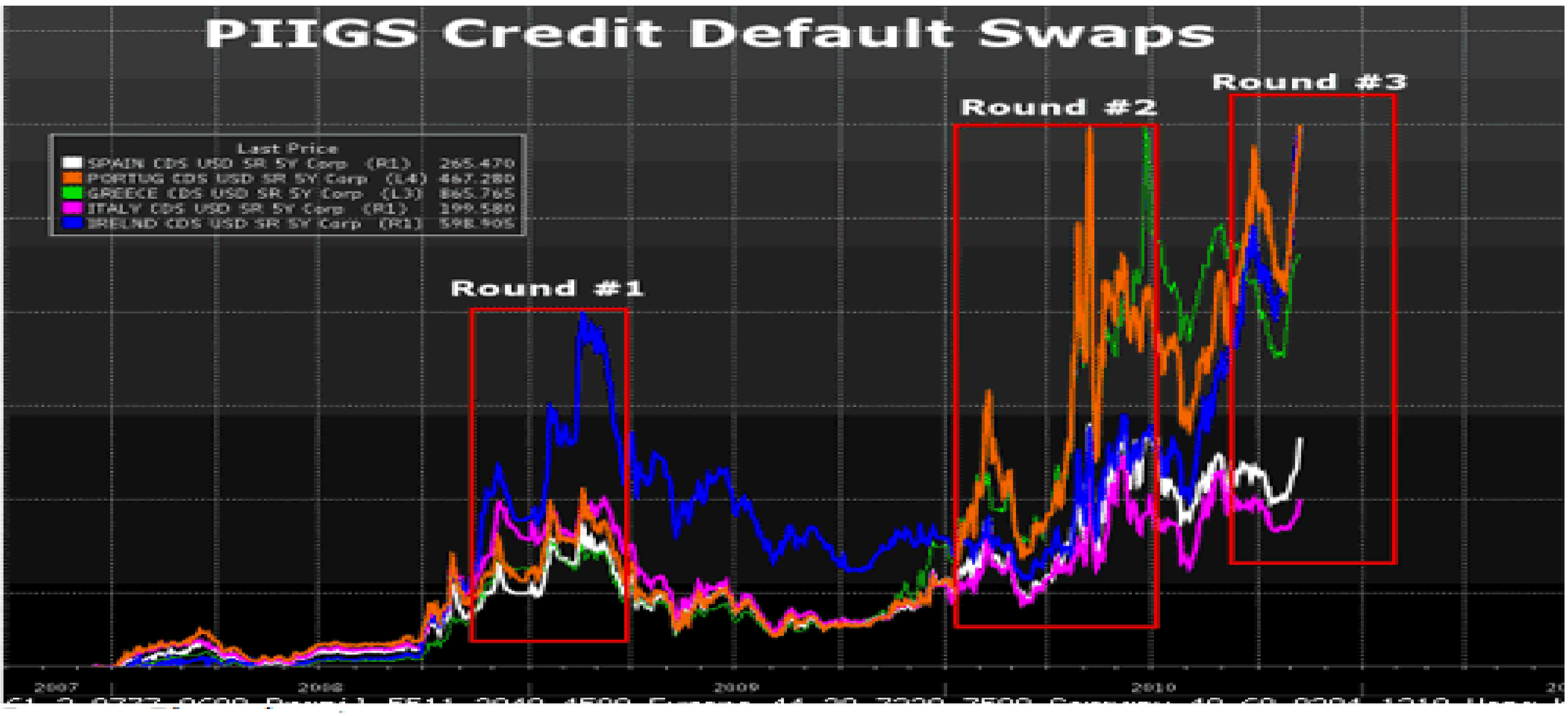
As a direct result, the monetary base exploded by $1.3 trillion from September of 2008 to February of 2009. That was nearly ***18 times larger*** than the 9-11 episode and ***32 times larger*** than the Y2K money pumping.

**#4 — QE2.** Bernanke's Fed just announced a *second round* of quantitative easing (QE2) slated to be smaller than the first — $600 billion.

# EUROPE DEBT CRISIS

The  threats in Europe have been quietly rising. Two weeks ago be noticed the Portugal credit swaps . Now Ireland's failing banks have become its government's problem. And the extent of damage makes Ireland the most dangerously diseased country in the euro-zone economy. Interest rates have soared to record levels against German rates. And the price of insurance against an Irish sovereign debt default has spiked to record levels. Like last time, the disease in one spot of the euro zone is quickly affecting market sentiment in the euro zone as a whole. We have preferred to participate via EWP –Spain in PQV as Ireland is non liquid vehicle.

You can see in the chart below, the sharp spike in the credit default swap market f suggesting the set up for round #3 of a euro crisis. And following suit is the euro — perhaps in the early stages of another plunge. It has fallen nearly 5 percent against the dollar in just seven trading days. ( as indicated in our Currency Report)

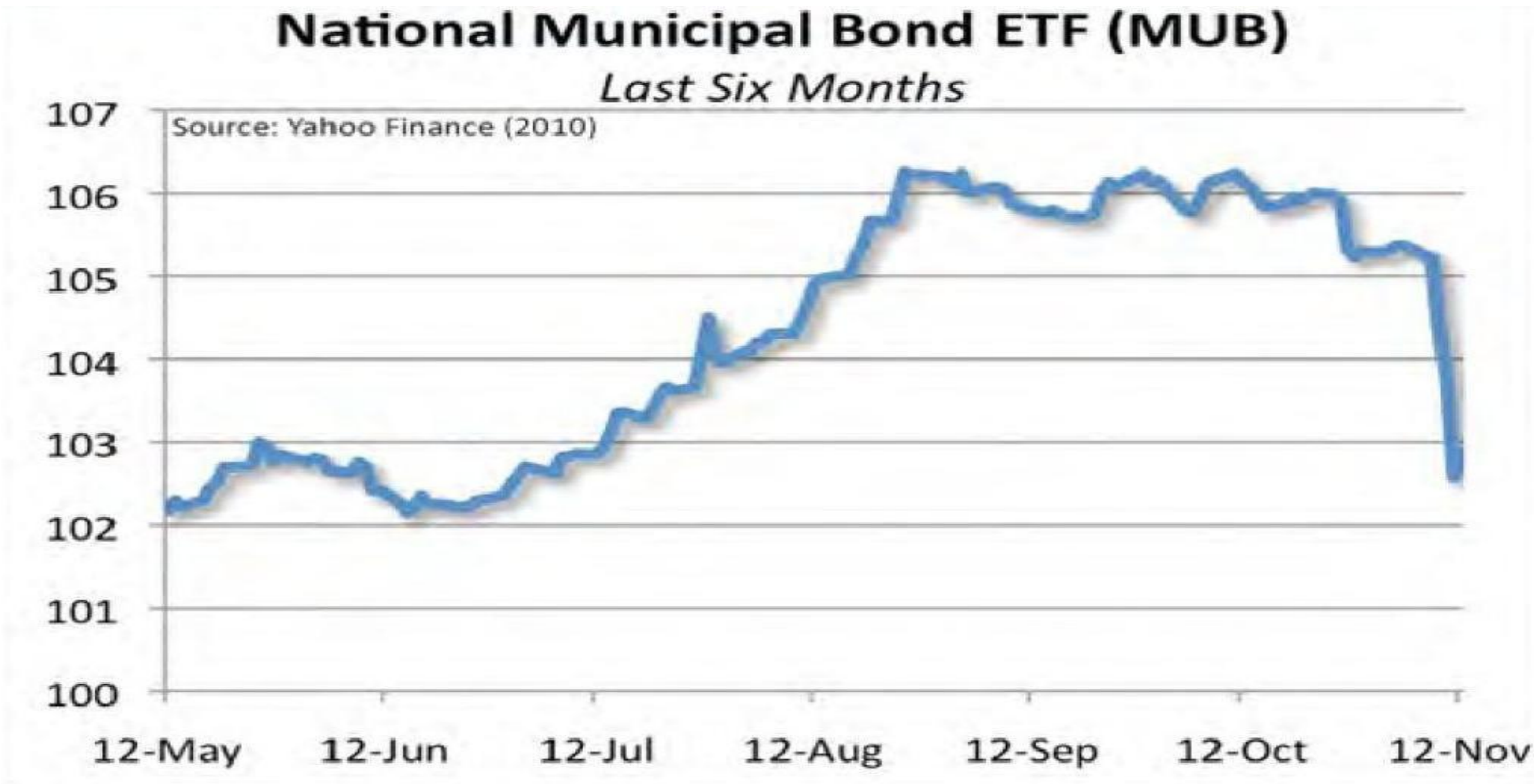


# BONDS

The past week has seen very significant changes take place within the interest rate. (QE2), which is exercise in Treasury bond purchasing by the Federal Reserve, actually led markets to fall. In fact, the announcement of QE2 was also accompanied by a upward move in the yield of municipal bonds, (a quick glance at the chart of the National municipal fund will illustrate this situation quite clearly). Now that the market has revealed its initial reaction to the Fed's monetary strategy, the big question is who will actually buy the financial instruments that the Fed does not end up purchasing. The answer could make or break the plan.

The Muni-bond market started to collapse, reflecting the balance sheets of local governments. The problems in PA & CA are responsible for yields skyrocketing, and similar issues are also deeply rooted in many other states such as NE & AZ

**We would Analyze MUB - ETF further in our Sector Analysis and PQV Report**



## INTERNALS

**The big questions the market has to face in  next 6 weeks are going to be:**

- Will Congress extend unemployment insurance benefits past November 30th? Last time Congress failed to extend those benefits in July, the economy went into an immediate and deep slump which was only halted when they belatedly approved the extension in August.
- Will Congress allow taxes to go up in 2011? The market has discounted no tax hikes at the beginning of January, so a failure to keep a lid on taxes could result in  liquidation of shares before the end of the year.

Upon testing and breaking the highs of **1225** market sold off  4% and  our short term pull back target indicated on Chart on Mondays MS Report has been **1160 ( wave 4) .** We hit a lows of **1173 ,** market could bounce from here. But we think  the correction won't be over until  at the lower correction band, currently just below the **1130** area.

An options *Time & Cycles*  Analysis has  1200 strike price on SPX clusters the largest open interest for puts and calls and it tends to serve as a magnet for moves if bounce begins ( but if the market doesn’t bounce then it’s a very weak market) .

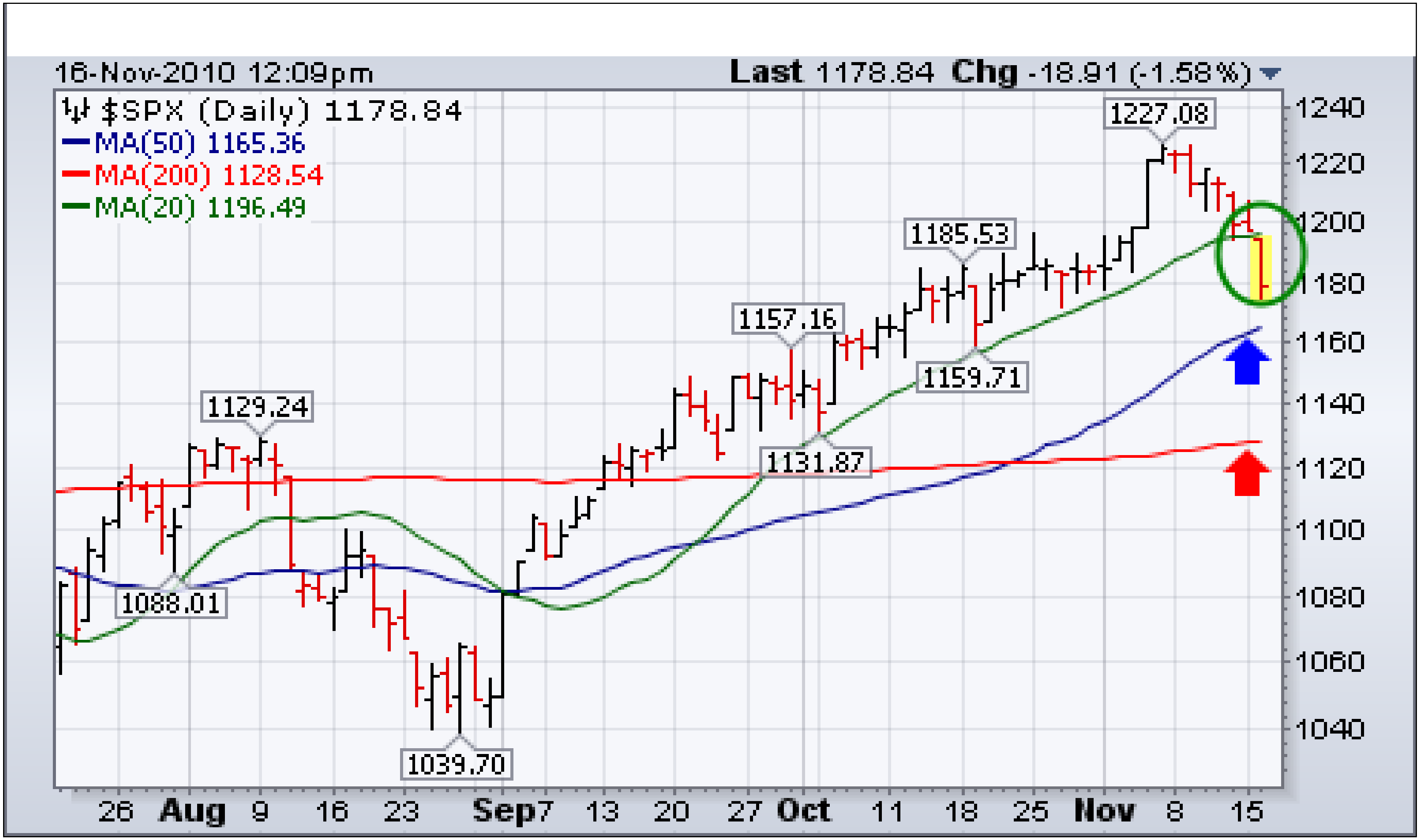
We should watch for a low around the full moon on November 20 -21. This may also coincide with the week of Thanksgiving , that has the e highest statistical probability for closing higher.

## 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.

## SPX  - Short term

**SPX  BREAKS 20-DAY – Now 50D MA is at 1165 that pretty much coincides with Wave 4  @ 1160 . Any rally should be under 20 D @ 1196 ( 1200 is Max pain factor in options market 0 . This could very well be a B point, we will check the volume on the bounce move.**



## SPX  - Mid term

From a Mid -term perspective, a more important support zone is the August high 1130 which happens to coincide with the (red)  40 W . The recent rally moved slightly above its April high (but not enough to qualify as a major upside breakout). The inability of the SPX to hold that gain is worrisome. On pull back we should see RSI at 30 levels.  As long as the neckline holds at 1130 , the current downturn will qualify as a correction in an uptrend. ( **The natural equilibrium price is at 1125, which also happens to be the GOLDEN CROSS ( SETUP 1)   @ 1120.**

## SPX - Mid term

**Weekly chart of the SPY with a weekly chart of stocks above the 50 DMA. It's a simple chart but has picked out the previous high of April and January and has again had a bearish crossover which suggests the current pull back should continue. First support comes in near 1130 on SPX where the weekly Mid Bollinger bands lies which is also support. If the Volume pick up and ARMS index jumps to 3.00 or higher as SPX near 1130 area it will imply the 1130 range will act as support If the ARMS index does not increase significantly on this pull back it will suggest the decline will continue.**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**NASD  -** **With the big drop  NDX Index which turned bearish. The bounce should be under Poly Trend line.**

## VIX – ST

**VIX surges after a double bottom at 18 and now challenges the Resistance..** With a decline in stocks now on the verge of reversing its downtrend and this would be negative for stocks. But on Short term basis it wants to pull back suggest a bounce in stocks.

## BKX- XLF

In spite of FED – QE 2, rally , the Bearish picture hasn't changed in (BKX) and (XLF) (weekly charts below), both continues to be drawing Head and Shoulders tops patterns. The BKX weekly mid Bollinger Band is trending down and implies that sector is in a downtrend. The weekly mid Bollinger Band on XLF is going sideways and puts XLF in a neutral position for now. Both Bollinger bands on BKX and XLF are starting to pinch and suggests an impulse wave is not far off.

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

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

# 2 – TLT- PEC Analysis

**Treasury Bonds - PEC D had a target of 95 but no conclusion on reversals**

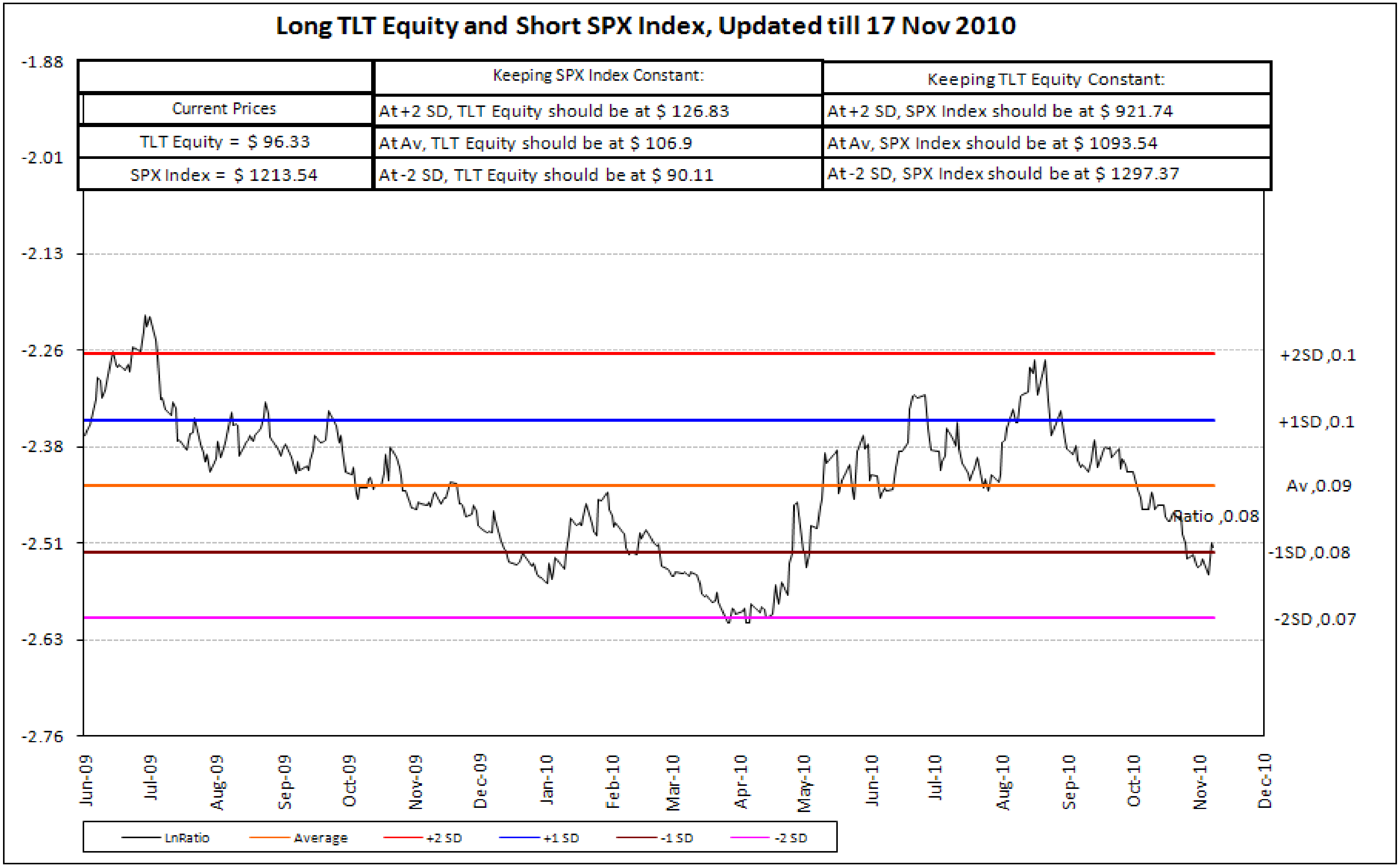
# 2 – TLT- POM – ST - Price , Volume & Pattern Analysis

**Since the price of the long bond has fallen as its yield has been rising, (TLT) is falling. Currently holding the support of 95 also tends to be PEC D point but we think volume is increasing on the fall, We should get a bounce but this lows needs to be tested and rejected for safer entry point . If it doesn't hold we could go to next level.**

## 2 – TNX -

**TNX suggests , there is some upside move with head and shoulder projections , which may coincide with the test of lows on TLT ( both move conversely with each other)**

# TLT – Correlation Ratio Analysis with SPX – 365 days Time basis




| | Keeping SPX Index Constant: | Keeping TLT Equity Constant: |
|---|---|---|
| Current Prices | At +2 SD, TLT Equity should be at $ 126.83 | At +2 SD, SPX Index should be at $ 921.74 |
| TLT Equity = $ 96.33 | At Av, TLT Equity should be at $ 106.9 | At Av, SPX Index should be at $ 1093.54 |
| SPX Index = $ 1213.54 | At -2 SD, TLT Equity should be at $ 90.11 | At -2 SD, SPX Index should be at $ 1297.37 |

# 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).***