



SG Capital Research

Global Market Insights

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

MAEG- WKLY MKTSTR- GL- POM -SG 2010 # OCT 04

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Market Strategy Global (A # 1) - SPX – Closed @ 1144

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**

- **Primary Market Analysis – SPX (ST / LT)**
- **Time / Cycle Analysis- Astros Cycle, Bradley Cycle, Seasonality Cycle, 4 yr Presidential Cycle.**
- **Advance / Decline Internal market behavior – A/D – H/L Oscillator, NYSE H/L %,**
- **Sentiment Analysis with Extreme character – VIX/VXX / SPX Ratio, AII, INTERMIDATE SENTIMENTS**
- **Secondary Market Analysis for SPX –POM clues – MID CAP, NDX,**
- **Sector Market Analysis for SPX – POM clues – BKX, SMH**
- **Global Market EEA Analysis for SPX – POM clues – EEA, FTSE**
- **Global Market EEM Analysis for SPX- POM clues – EEM,**

- **Objective**

Focus is on the Midterm turning point of the SPX via POM's Price projections. POM is Unidirectional Judgmental Model kept complete Independent from other Global markets and Sectors from its Relative performance. The Inter market Analysis (Global, Sectors) are utilized only to assists in SPX - POM process. Being a Judgmental unidirectional Model, the POM Process does not measure the Relative performance of other markets . We review multiple other market for clues to get POM Signal inputs

POM conclusions process works unilaterally only for SPX & Gold markets (exclusively) with single dimension output integrated from multi dimensional inputs. Based on broader fundamental theme of POM, all the associated markets will follow the direction of SPX – POM on intermediate term basis in different proportion of rise and fall.

- **SPX Signals & Price Projections**

- *On 26th Aug – POM 13 was triggered at 1045 SPX (we hit a low of 1039) and since then SPX rallied + 9.4 % and POM Framework captured 5.6% of it during the signal.*
- *On 3rd Sept, Our Indicators conformed POM 14 – Re Run @ SPX 1104,(currently SPX at 1144) while the market has extended 3.6% from our signal and no sign of POM 15 Re run.*

Our Intermediate Primary Signals of - POM 15 @ 1200 on 22nd April and POM 14 @ 1180 on 12th May, is still in tact, This signal conformed larger ABC down to SPX 960. (Price projections are just the guide lines path of least resistance to work within but internal market rules for reversals) and so far its on track as we have hit lows of 1010 in SPX , We have smaller ABC's Within larger ABC)

• Trading & Investment Conclusions

- Our Goal - Within the “POM FRAMEWORK & SETUP INDEX - 2” -The current 3rd Re run - POM 14- @ 1104 is to “Hedge Long position” on ideas that were triggered at POM 12@ SPX 1020 in July 2010 for rally and / Or the last POM 13 at 1045 for a bounce . Therefore this is Actionable Zone in the POM extension of +3.6% for those “Long positions” with a longer time frame portfolio within RA/RI Framework .
- “Net Short Position” should come in at POM 15 and we have no indication of that signal. Therefore we stay with our original Intermediate POM 15 @ 1200 OF April is still Intact.

Takeaways” during current circumstances ”

- **Currently SETUP - PQV VALIDATED EQUITY EQUAL WEIGHTED PORTFOLIO (in Section E – MAEG) has been activated & tracked (– 0.77%) during this SPX extension of 3.6% with desired price points scaled entry in the Confluence Zone on the weakest Equities in Setup # 2 (RA / RI) (these Equities to be Monitored with Risk management factors).**
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- **We believe weakest SETUP # 2’s are capitalizing on the -3.6% extension in SPX, doing a good job hedging the Buys Triggered at POM 12 & POM 13 positions of past.**

• Market Insights

Message of the market remains the same. POM 14 Re run at 1104 SPX after capturing the 5.6% easy rally (out of 9.4% total) now in the noisy 3.6% extension zone and gravy is gone but we are capitalizing on Hedging process in this extension with Weak SETUP # 2 . (No POM 15 Re RUN and therefore No Net Shorts).

It's a day 20 of Extension and at the cost of sounding Redundant Message from the Indicators -

The week closed was almost flat for SPX. **On Bearish side** , the market internals warns that a top is approaching. *We are far less bullish now @ 1144 then we were at @ 1045 (POM 13) or @ 1020 – when POM 12 was triggered.*

Rally top have been trying our patience, but we like to keep eye on the ball and keep the mental capital in tact. Bottoms are much easier to handle in one way: they tend to form quickly. (We will release our POM 12,POM 11 Study for Bottoms in Thursday's INTERIM UPDATE release). Tops, on the other hand, gradually fade toward their peaks with innumerable attempts before finally giving up and plunging. But in either case they don't ring the Bell.

The commonality we've seen with tops has been this very gradual fading of internal strength while continue to advance of indices This is one of the best ways to look at this is to compare price tops with breadth tops and there we clearly see a pattern which should warn to beware a developing top: This is a sign that a corrective phase has begun, or is very close to beginning. Money flow turned sharply lower. This constitutes *bearish divergence*

Although the dollar is taking much longer than expected to turn against the euro (Overshoot) , we expect it will turn and rally substantially against the euro during the coming months. Stocks have shown strength, but are approaching significant challenges here which could lead to a pullback. If support lines on the first pullback hold, a final rally into late October or early November is possible. (We will let POM 13 work out such conditions and don't want to think ahead of time that will cloud our mind)

However for now , the market is wedging into a high and a sell signal is likely to be just around the corner. Notice the bearish divergence against the advance decline oscillator. That's been a hallmark of trading tops.

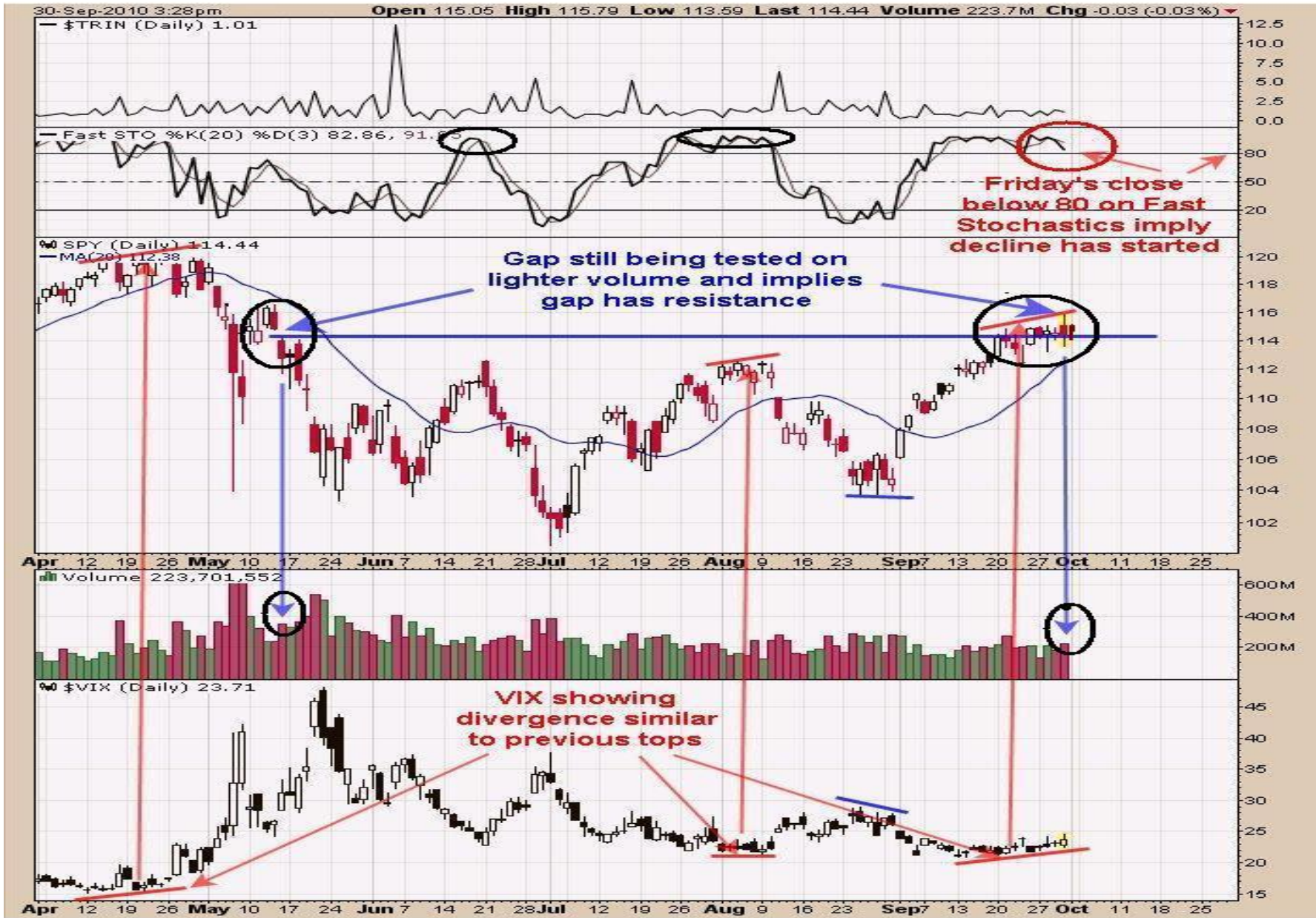
As we wait patiently, One thing we know when we get a Next Buy signal , They will make it a very difficult to Buy. How things change. a couple of months ago, money flow was diverging bullishly and the crowd was very bearish. Now, money flow is beginning to diverge bearishly and the crowd is bullish.

Primary Market Analysis - SPX

SPX – Mid Term (PRICE & VOLUME) – For us this is very important chart .

- In the chart below, the third window from the top is the 20 period Fast Stochastics. Readings above 80 are considered overbought on Fast Stochastics (high came in the 91) and a close below 80 will imply the decline as started. It touched 80 once .
- Volume and breakout wise its tested May 14th and May 6th areas on much lighter volume. On May 14 gap was again tested on about 30% lighter volume and shows has resistance. We think Important highs have been found on SPY.
- SPY makes higher highs and VIX makes higher low. This divergence between VIX and SPY has been going on over the last two weeks and suggests that SPY is at the high. This divergence showed up at the Early August high as well as the April high
-
- On FIB Measurements - The current area in SPX has touched at 62% of the prior decline. On Wave theory, the ABC pattern marks a counter trend advance that is expected to fail. Wave C is often equal to Wave A, which suggests that Wave C extended target of 1150 ($1040 + 110 = 1150$). We think we are here. It is close enough to its potential extended target.

SPX



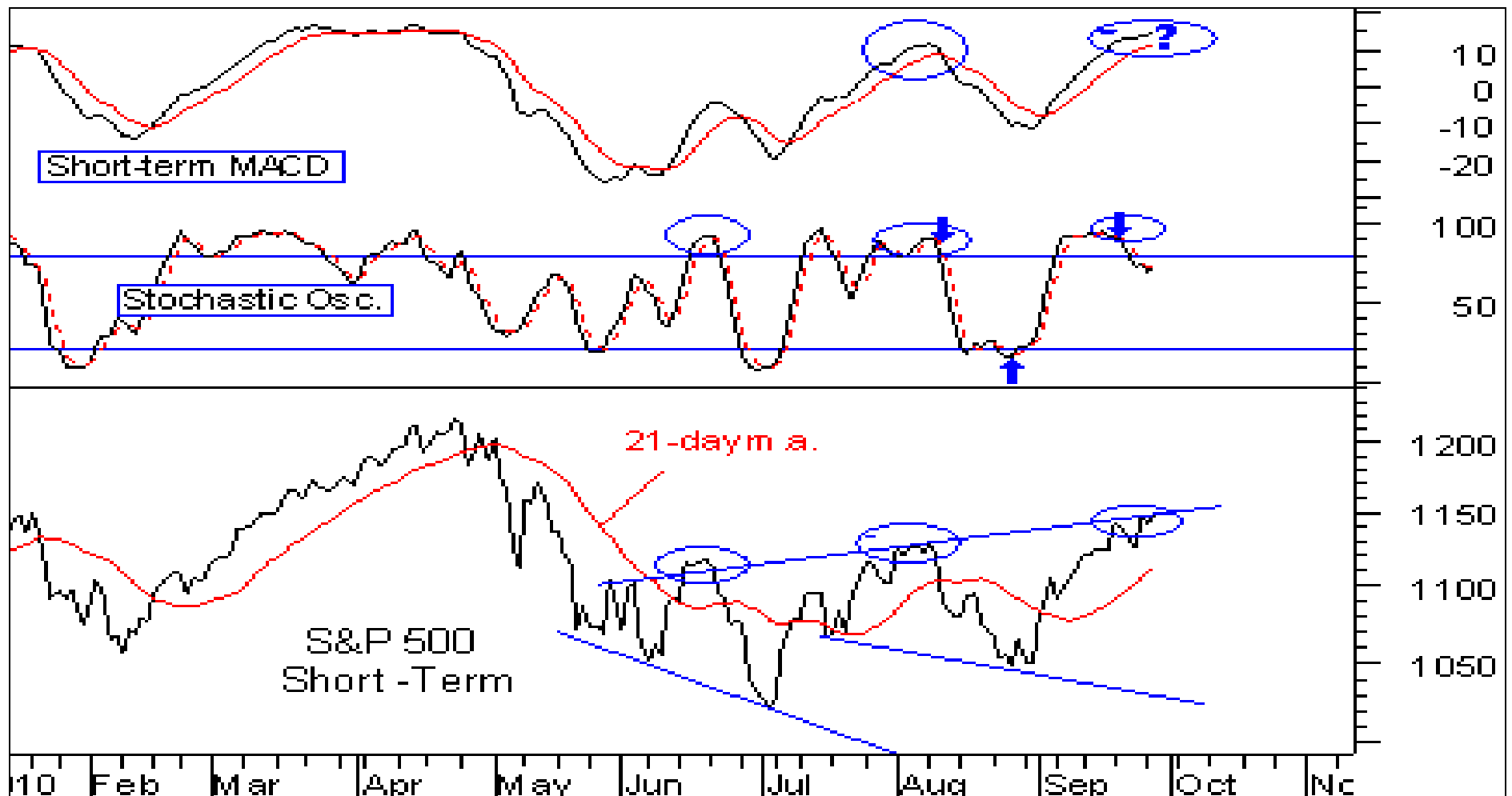
SPX – Mid Term

This Extension rally is clearly a distribution affair. Notice that the money flow line has rolled over, which is a sign of great underlying weakness. SPX is fighting to push through resistance, but is ultimately going to fail. The reversal should be soon as the bulk of the rally gains behind us now, it's sitting right on the rising polytrend support line with a few points.



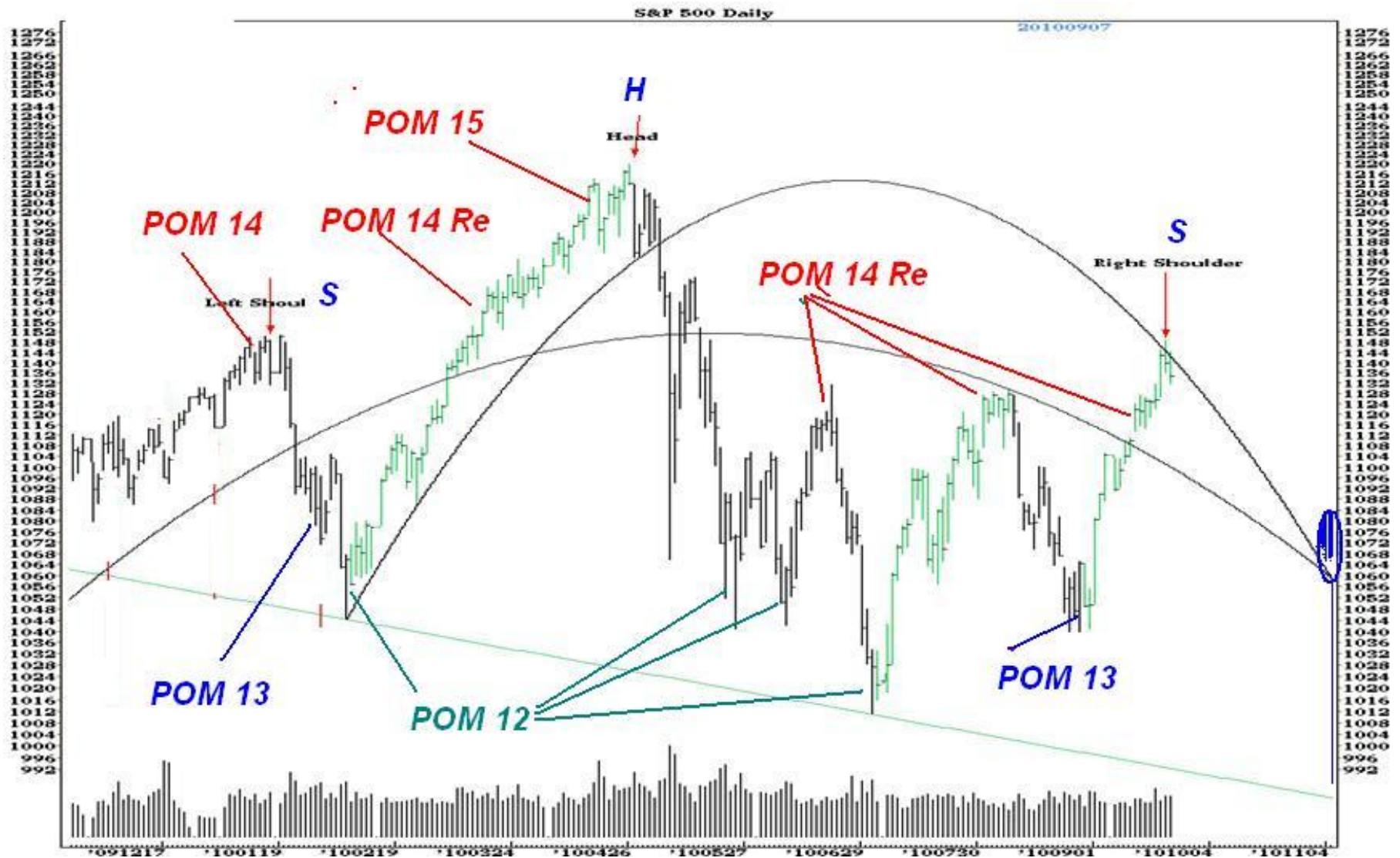
SPX – Mid Term (BROADENING TOP)

The S&P has supposedly 'broken out' to the upside because it closed at a higher high. But we think due to computerized breakout Trades it gets extended each time therefore the accurate method of measuring a breakout is whether it broke out above the trendline resistance that halted its previous rallies (This translates to MEGAPHONE) where the previous four rallies it also supposedly 'broke out', creating a lot of excitement at the time (now forgotten), by closing at a nominal new high. But actually that new high ended each rally within days as the market couldn't break through the resistance at the trendline. (Not to mention Volume in the breakouts)



SPX – Intermediate Term -

SPX is fighting to push through, **H & S. It** may not mean much but when put together with larger Poly trend, Money flow , & Volume along well, its right shoulder on Friday . This along with 2nd Derivative (H& S we covered last week on McClellan Oscillator) it just makes things more convincing which mean Red flag to us.



• 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

The cycle time,

- T – Terminations are all expired (but we tend to trust these more especially when on right side of Poly trend lines.
- The Bradley is on 1st OCT, it failed on 12th SEPT as like before. **(See chart below)**
- The seasonal pattern is for the market to decline from mid-September to mid-October is still in tact. **(See Chart below)**
- Presidential Cycle , positive influence to begin 20th Oct **(See the chart below)**
- Astros Cycle due on 8th OCT

The Astros Cycle

We are within days of an astronomical event due on October 8th: Venus will turn retrograde. The last time Venus turned retrograde was January 6th 2008. Just to keep in mind. With the market clearly overbought . Our speculation on why it happens is that Venus controls the solar wind in such a way as to affect the human psyche.

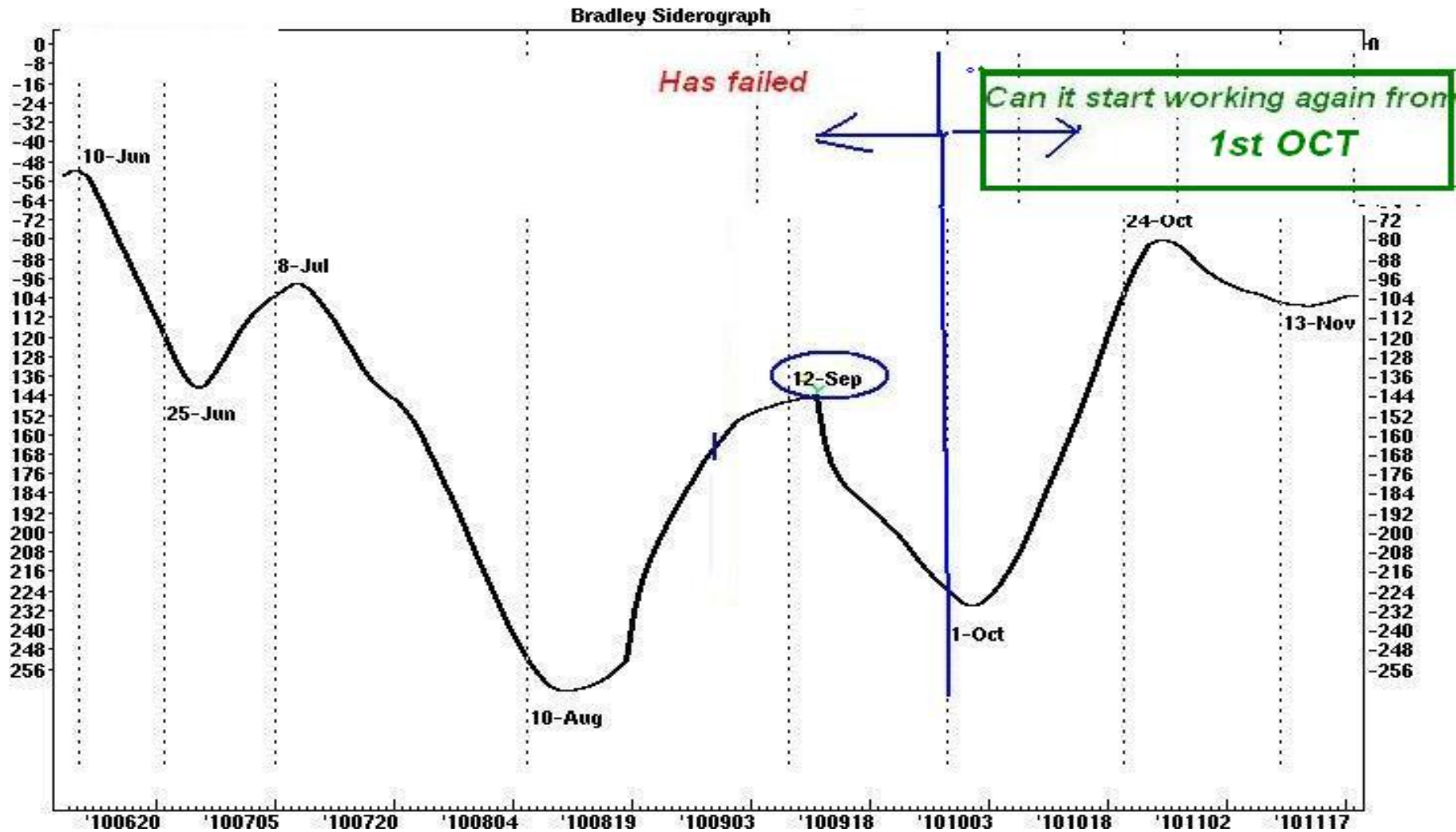
The Seasonality

We visit this Topic 4 Times every Year (end April / May beginning) & (end Sept / end Oct) . Since we are within a few weeks of the potential beginning of the market's historically favorable season, it's time to again bring up the subject of the market's seasonality. The volatility has made it an interesting year . The market topped out in late April (POM 15 & POM 14 avg @ 1180 SPX) , as called for by seasonality (Sell in May and Go Away). It then declined 17% to a low in late June (POM 12 @ 1020 SPX) , rallied back some in July (POM 14 Re Run @ SPX 1130) , then experienced its worst August to POM 13 @ 1045 SPX) for Rally to 1104 and now SPX @ 1144. But it has now rallied off that low for four straight weeks, in the process producing the best September in years.

Will seasonality work out this year? That would require the market to remain below its April top until seasonality's re-entry signal in OCT. Seasonality doesn't work out every year. But it works out so consistently that over the long-term it outperforms the market to a significant degree, while also avoiding large losses (since they most often occur in the unfavorable seasons), and while taking only 50% of market risk. October also has quite a history of being a mean month for the market. Both of the market's historical crashes, So, in my opinion anyway, we enter October with the odds still high that seasonality will prevail, that the unfavorable season is probably not over until the seasonality rules say it's over. (Some thing we will cover more after a decline in next 4 weeks)

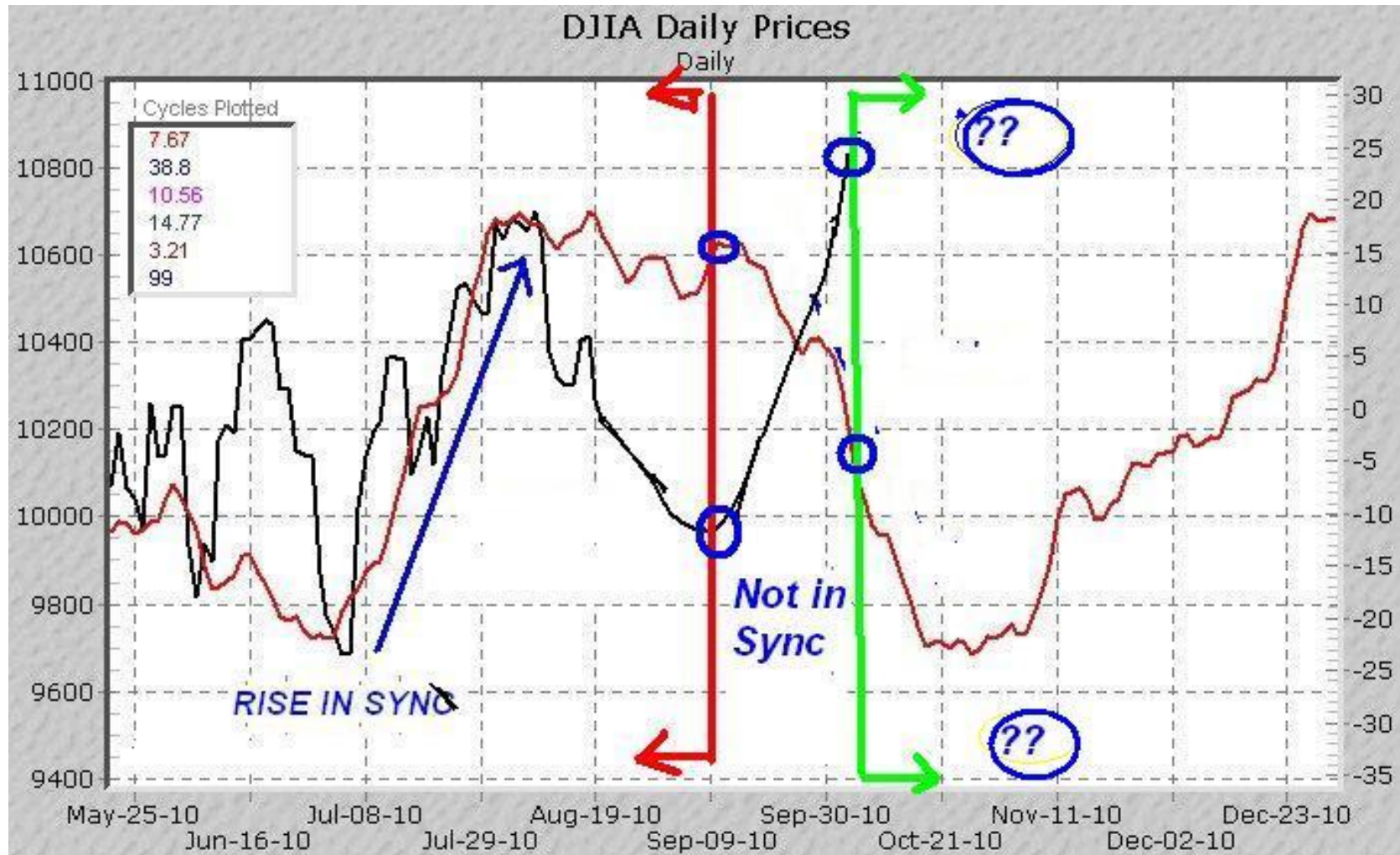
The Bradley Model

We are in the timeframe for a change, let us see if it works. It has been failing quite bit . But has tracked Bond Market pretty good.



The 4 Yr – Cumulative Price path in Presidential Cycles

Cycles chart below we showed you in July for rally & Aug decline was on track. Then Sept failed to keep up . Now for further projections suggests, still some plunge projection is yet to fulfill but the time is running out . Our turn date for Bull rally begins on 20th Oct): The rally of presidential 4 yr cycle. A lot can happen in 15 days and 20th is not cast in stone. But we have calendar marked.

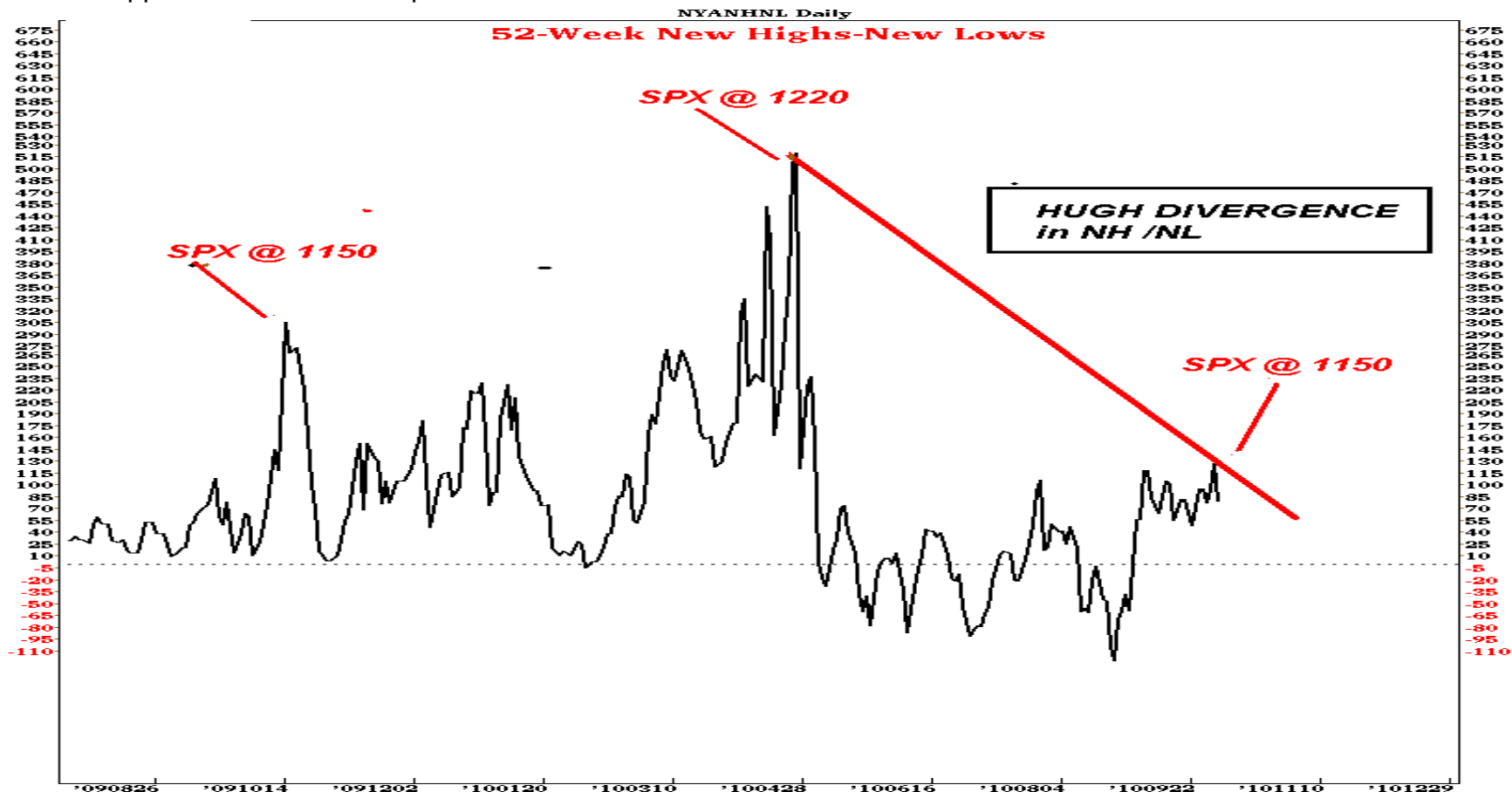


- Advance / Decline Internal behavior Analysis

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

A / D – NYA – 52 w - NH / NL

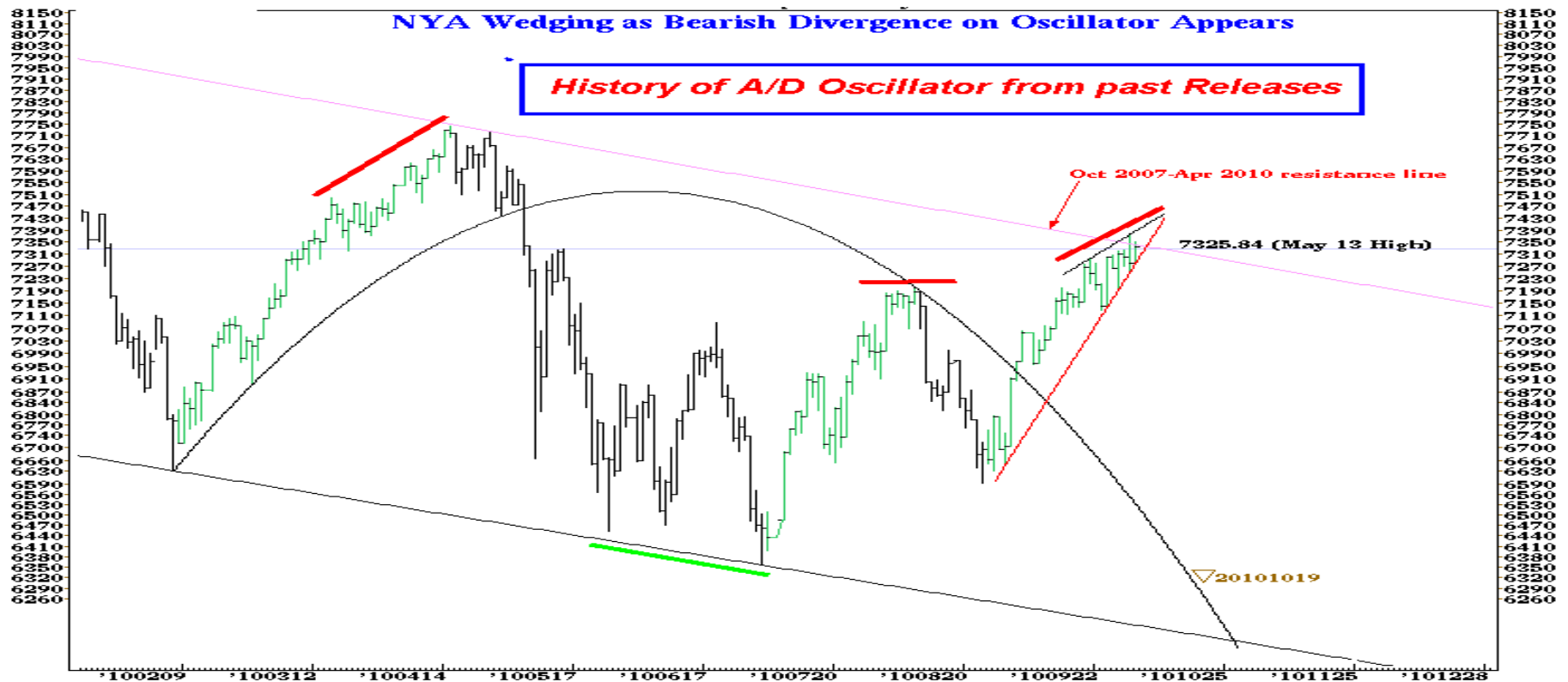
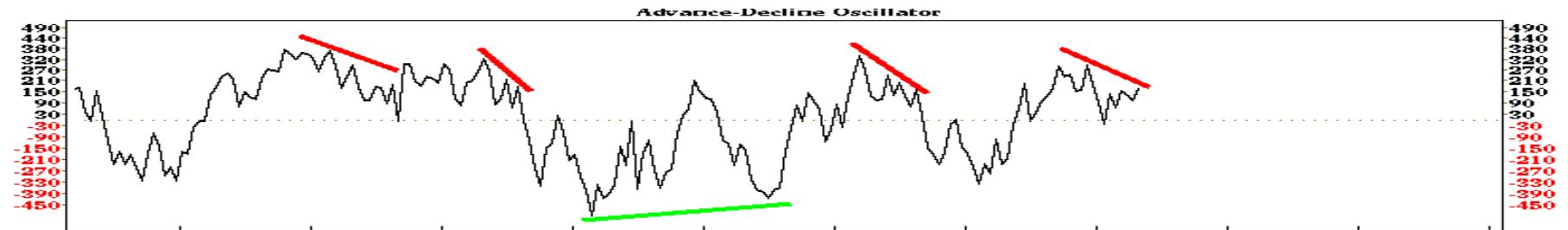
The 52-week highs and lows continues to diverge bearishly: The advance-decline line oscillator is failing to reach new highs while the index is doing so, which is another bearish divergence. In addition, the T 's are expiring, implying that the uptrend is expiring: Nothing changed after Fridays move. Since the April high, new highs and lows. The differential between them shows that we have yet to even approach the levels of April:



A/D – Oscillator - NYA

There are 4 negative divergences in 4 different time frame - NYSE Breadth Indicators: Bearish Divergences

As you can see, several of 2010's tops were preceded by lower highs on the advance-decline oscillator. That is a good warning that, even if the price indices continued up.



• 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 ,

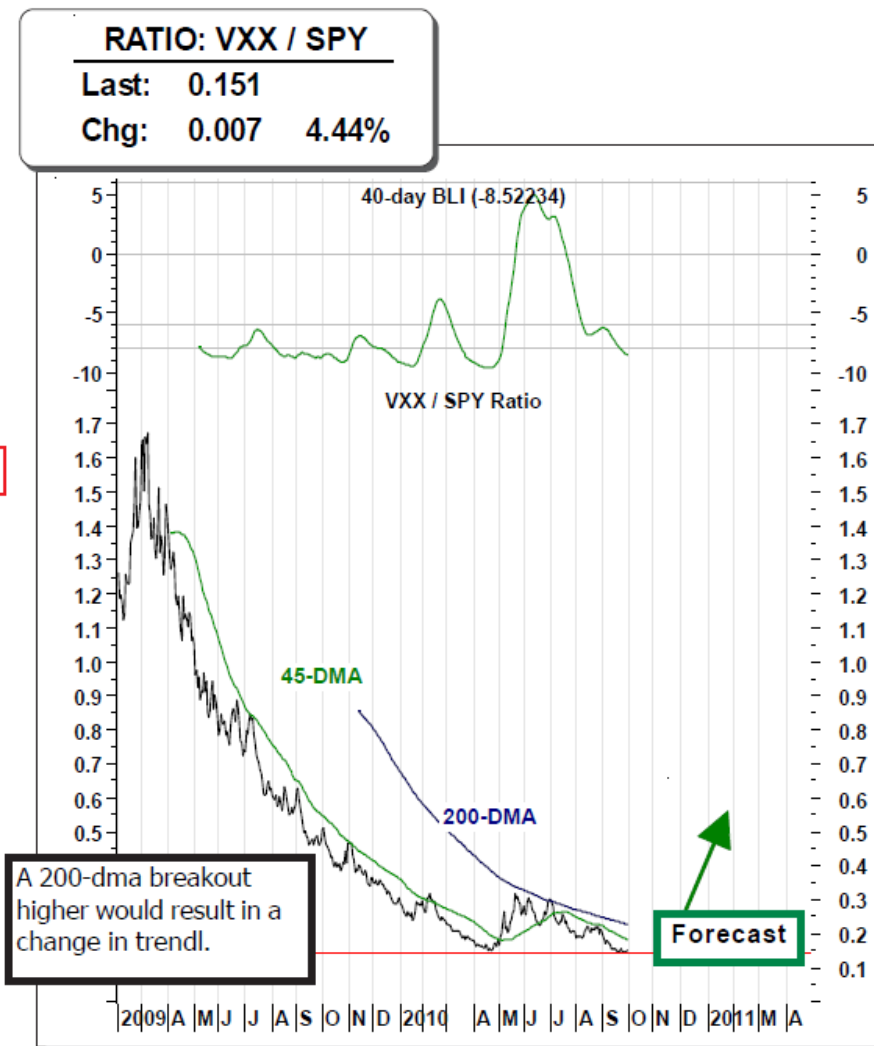
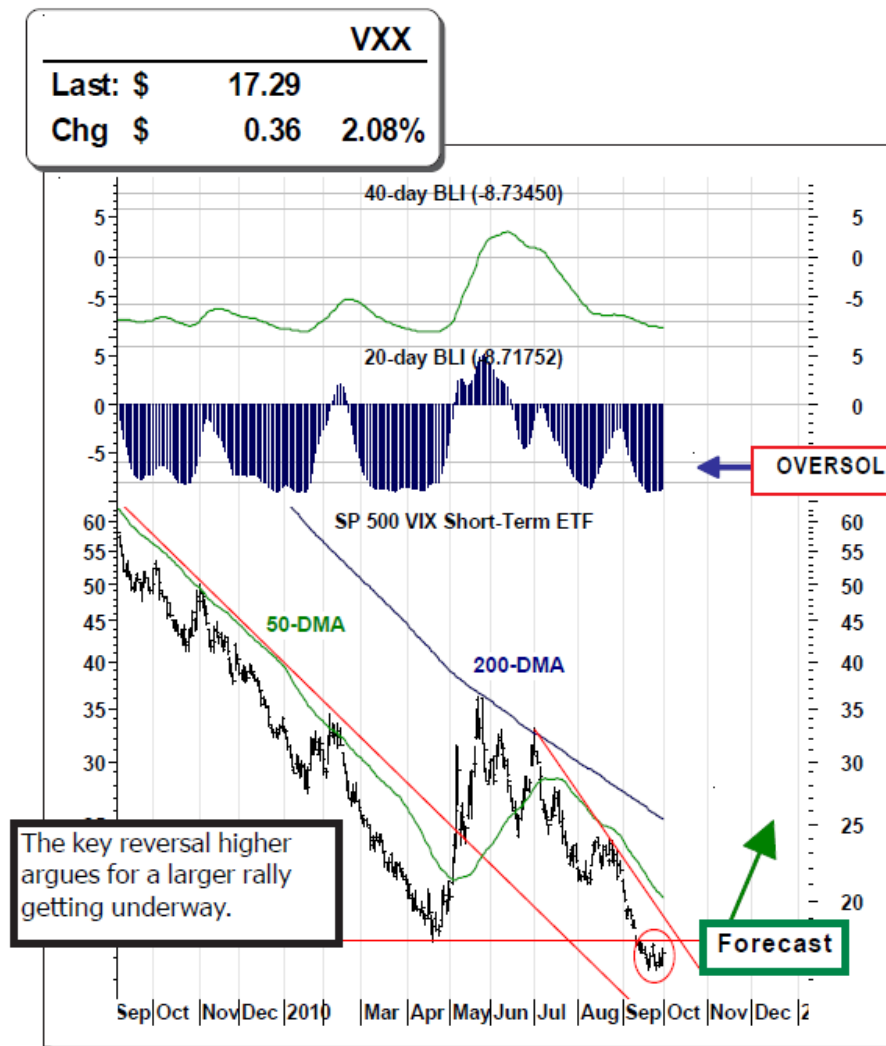
Based on current market condition and the probability of Indicators we point out the EXTERME INDICATOR ONLY as a observation points.

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 meaning ful pull back has happened.
- **Commercial Hedgers** are Net position where the Previous extreme tops have occurred (**New Event**)
- **VIX / SPX Ratio and EMA Pattern Analysis**
- **SPX v/s AAll**
- **SPX v/s IT Sentiments**

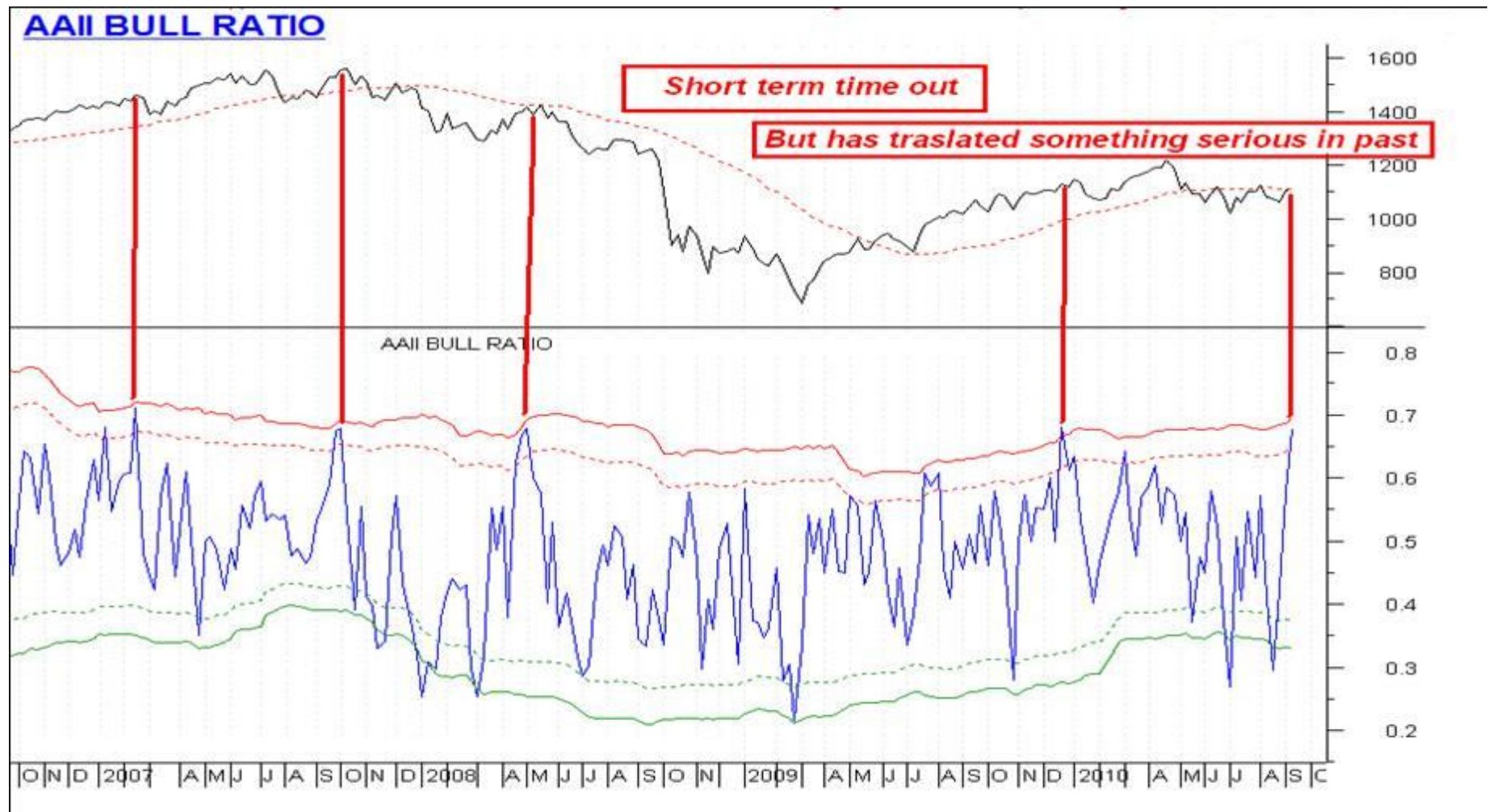
VIX v/s SPX - This is critical

Volatility VXX formed short-term lows Friday, which is bottoming process. VXX did managed to form a bullish “key reversal” higher...which in tandem with the oversold 40-day Oscillator – puts the risk towards higher levels.



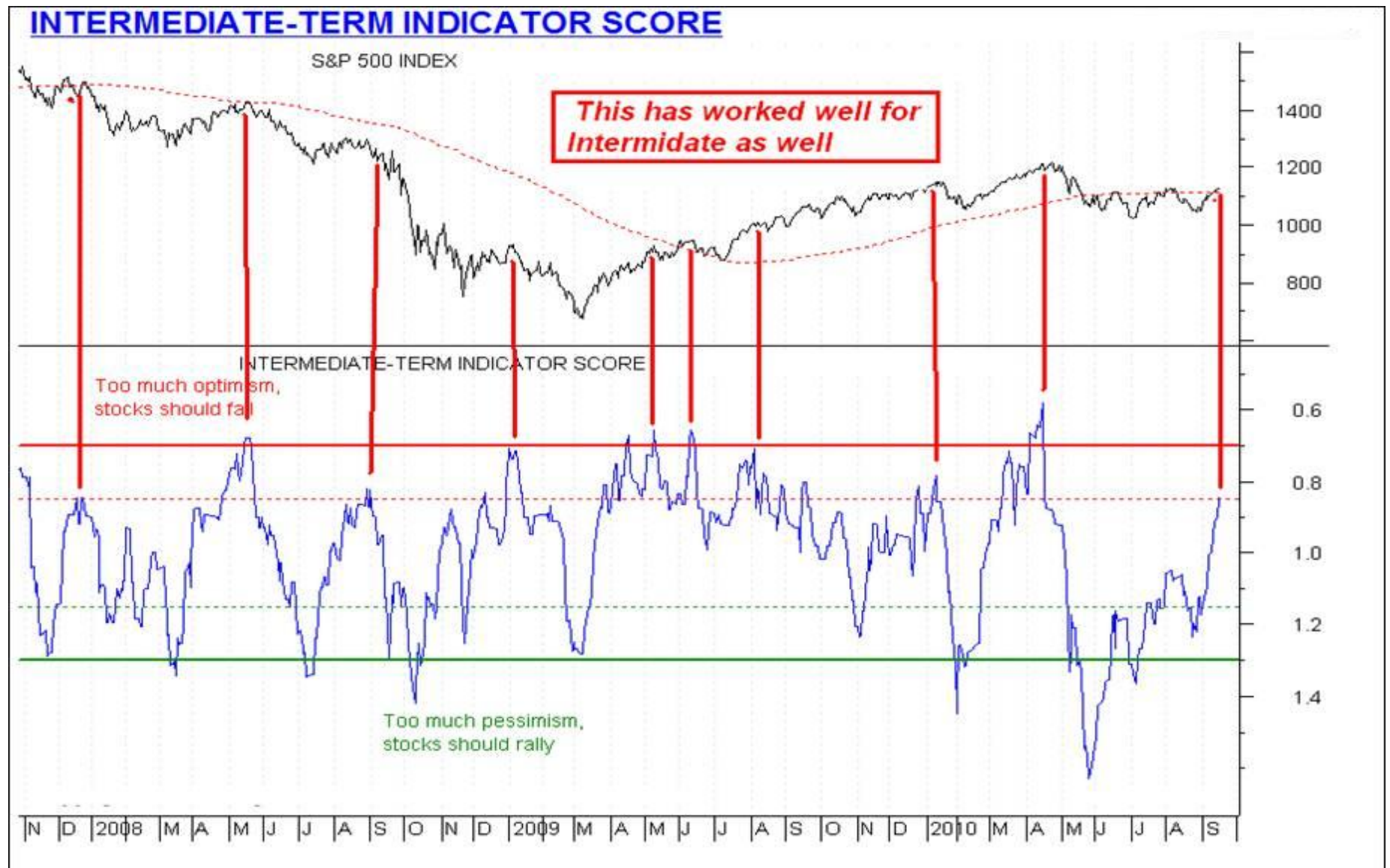
SPX v/s AAI

The AAI sentiment went further up from last week. Showed that the bulls had risen to 54%. Bearish investors are at 21%. Anytime there is a better than 2-to-1 ratio of bulls to bears, you just have to assume that the next major step in stocks is to the downside.



SPX v/s IT - Sentiment

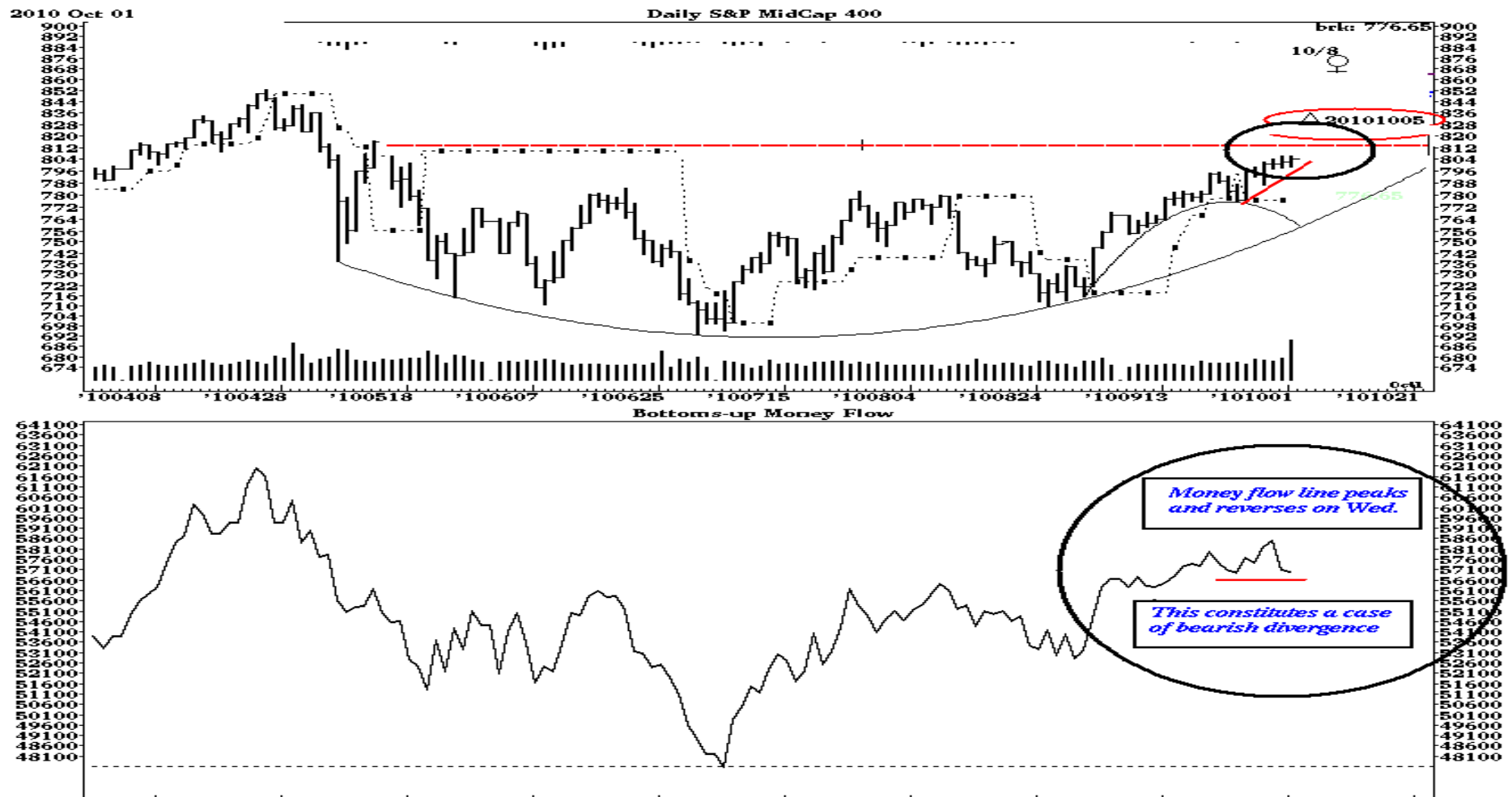
This is more intermediate sentiments



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

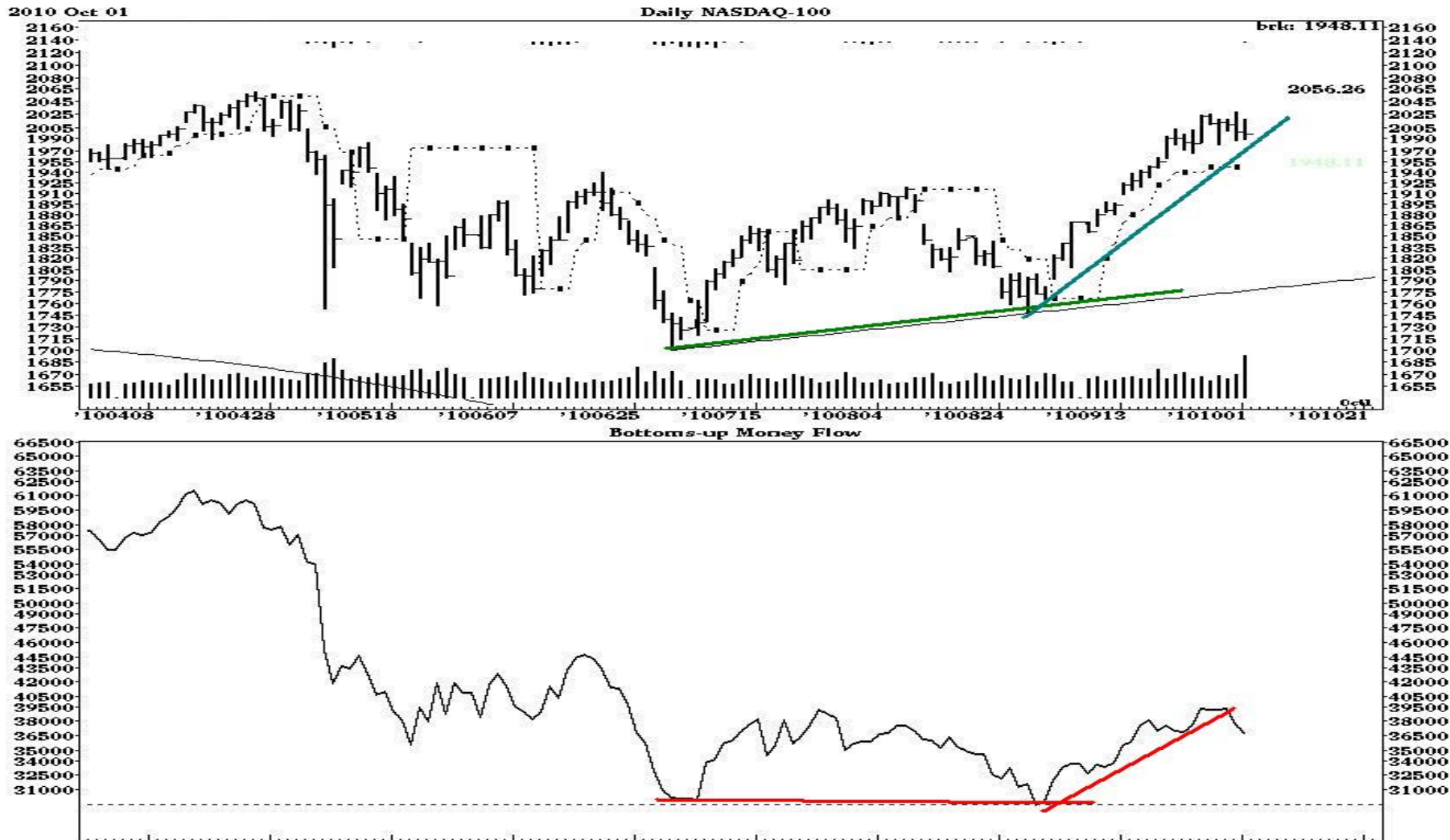
MID CAP – Short term

This was the strongest Index and now money flow is diverging especially with wave count 5 finished . It always pays to watch the strongest index . That's because the market will not suffer retracement unless and until the strongest sector starts breaking down. The MidCap has been a leader on the upside, outperforming. But, as we enter October, it's finally showing signs of substantial weakening. By some measures some little wiggle room left. (See the chart below)



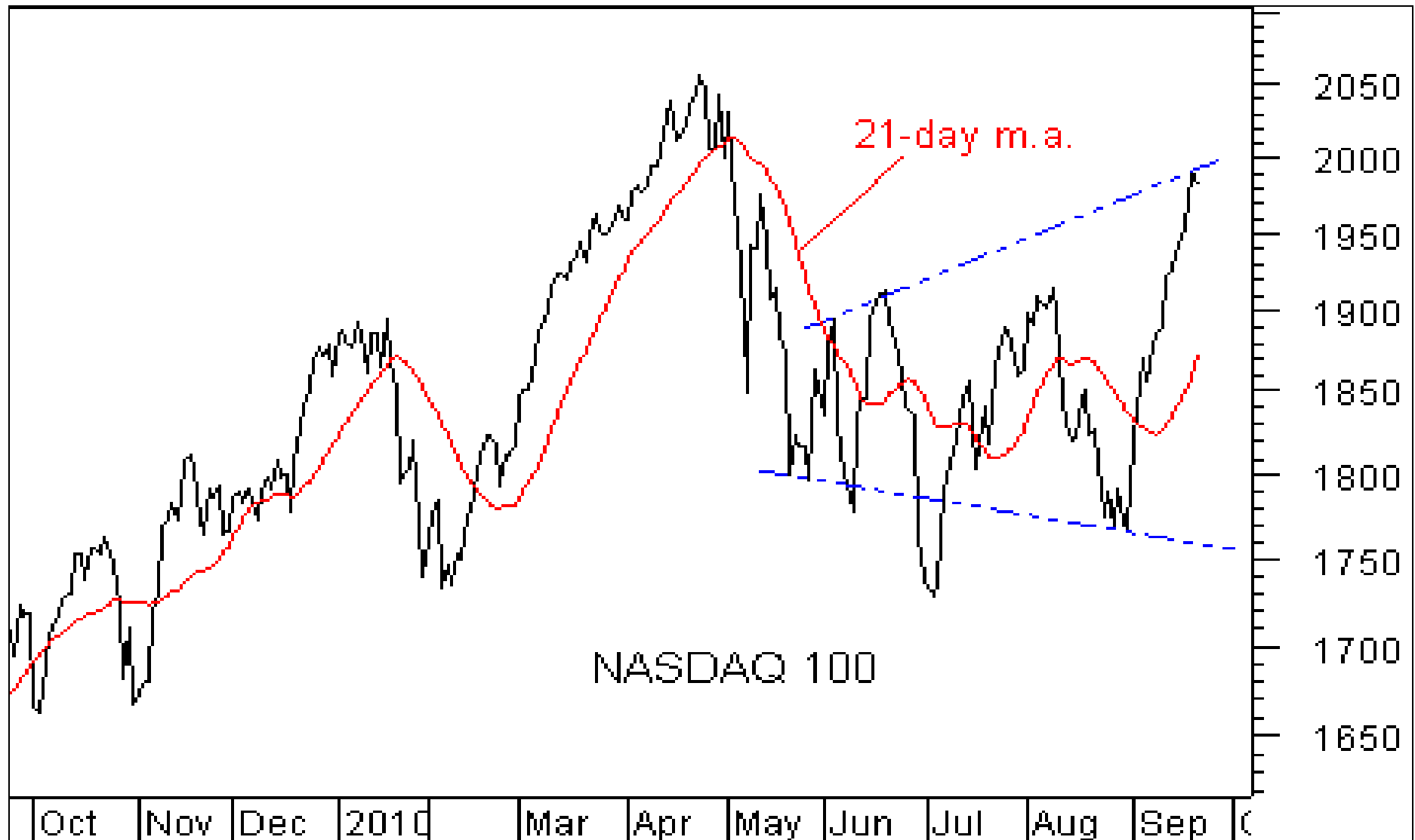
NASD- Short term

Money flow is not conforming the NASD move. Dangerously setup



NASD- Short term - This is critical .

Above 21 Day extended, should Test min 21 day back even if one is Bull. Don't be fooled by apparent strength. Money flow reveals the selling that is taking place "underneath the covers". Some downside can come of this one.

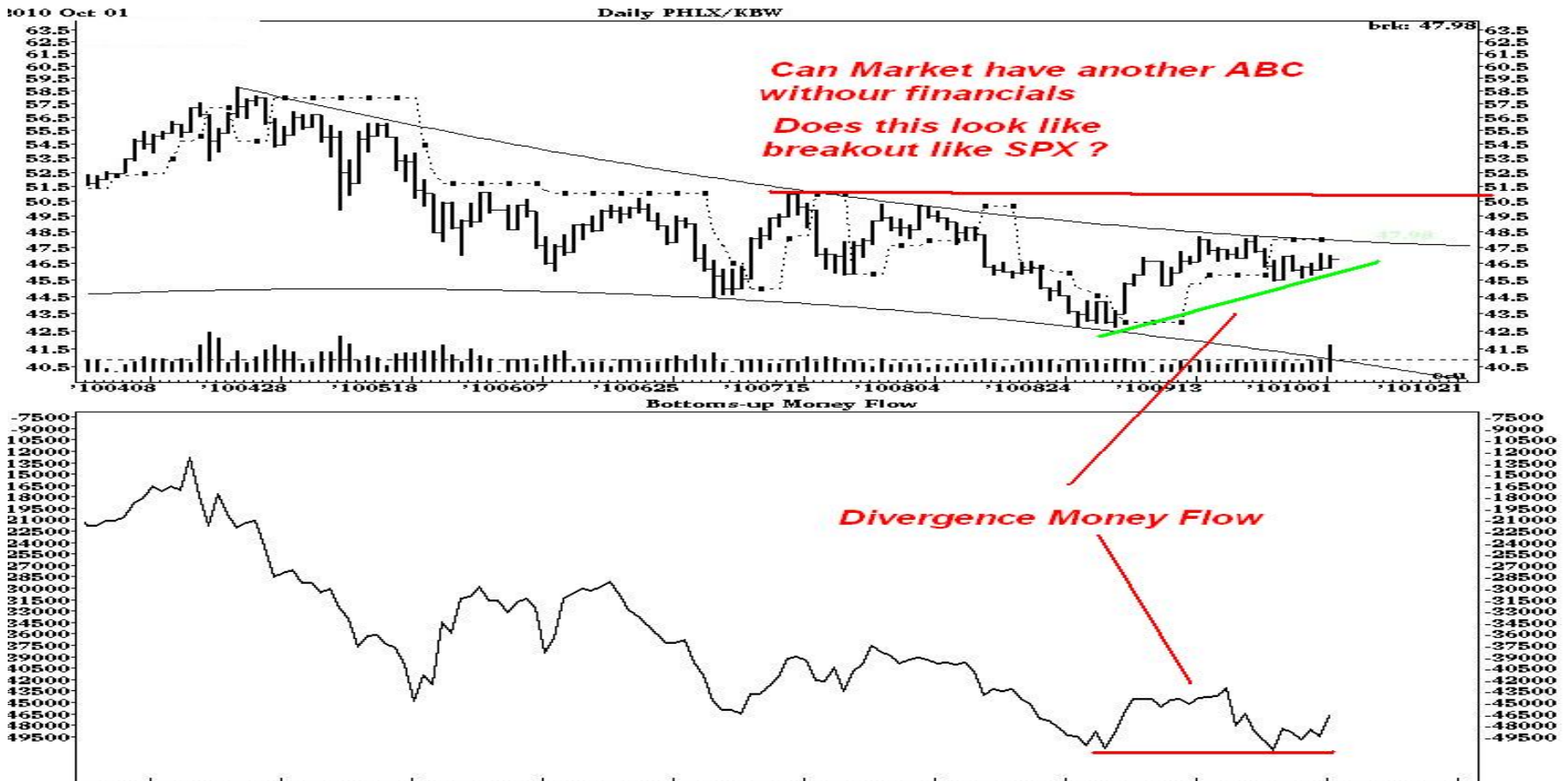


Sector Market Analysis for SPX – POM clues.

- BKX, SMH

BKX – Short term

If SPX has broken out , why not banks , its diverging bearishly . Just like 2007 the best leading indicator of top was BKX. It was diverging substantially against the rest of the market at that time, showing a pattern of lower highs and lower lows while the SPX was making higher highs and higher lows. BKX is definitely showing a bearish pattern. And, the money flow chart of the index has been diverging bearishly as well:



SMH – Mid term (Our Second Horse men)

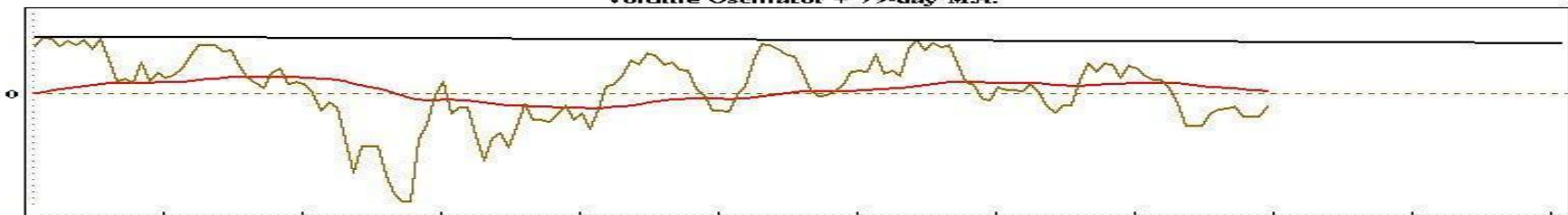
SOX was levitated higher on very weak buying power. That should be a strong warning that this rally is a fakeout, rather than a breakout. It's a last gasp, short covering rally before the next leg down. It is on right side of the hump , Money flow has been going down quick.



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

FTSE

The FTSE-100 Index is on RH side of Poly trend and shows massive bearish divergence in the volume oscillator as the final tee expired. The trend is down. This being the 2nd largest component of EEA, should follow SPX as well . T passed hence its terminal here.



EEA

The EEA – is not able to take the highs off along with SPX but volume is equal to previous highs of so it may go higher but FSE is very bearish. So its mixed signal but we think they all follow SPX eventually due to its ADR components (In Sector Analysis we have EEA / SPX) Ratio Analysis chart pattern with SD covered in detail)



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

EEM

The EEM – As you can see in the chart below , is able to take the highs off with lesser volume and weaker Relative strength but it closed higher , which means it could go higher especially 3x3 Volume me has increased. we think eventually they all follow SPX eventually. Although EEM could go little higher short term (In sector Analysis we have EEM / SPX Valuation Ratio chart pattern with SD, we have covered in detail)



- **Currency Market Analysis for SPX – POM Clues - None**

- **Commodity Market Analysis SPX – POM Clues – None**

PQV Equity Market Analysis for SPX – POM Clues - None

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