



SG Capital Research

Global Market Insights

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

MAEG- WKLY MKTSTR- GL- POM -SG 2010 # OCT 11

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By: Suneil R Pavse

Contact: apavse@aol.com

Market Strategy Global (A # 1) - SPX – Closed @ 1166

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) , POM – SPX Oscillator Summary
- Time / Cycle Analysis- Astros Cycle, Bradley Cycle, Seasonality Cycle, 4 yr Presidential Cycle, 1937 Cycle.
- Advance / Decline Internal market behavior – A/D – H/L NYSE H/L %, SPX H/L , NASD , HL VOL
- Sentiment Analysis with Extreme character – SPX – TRIN Ratio, NASD HEDGE, RYDEX RATIO (ALL EXTREMES)
- Secondary Market Analysis for SPX –POM clues – NYSE, NDX,
- Sector Market Analysis for SPX – POM clues – XHB, BKX, SMH
- Global Market EEA Analysis for SPX – POM clues – EEA, FTSE, DAX
- 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 assist 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 + 11 % and within POM Framework captured 5.7% during the signal. plus 5.5% is extension (more than we would like)*
- *On 3rd Sept, Our Indicators conformed POM 14 – Re Run @ SPX 1104,(currently SPX at 1144) while the market has extended from our signal and no sign of POM 15 Re run since we are on PO 14 – 3rd Re -run.*

Our Intermediate Primary Signals of - POM 15 @ 1200 on 22nd April and POM 14 @ 1180 on 12th May, is still in tact, Then we have hit POM 12 @ 1020 on 1st July (with lows of 1010 in SPX)

• Trading & Investment Conclusions

- Our Goal in the Model - The current 3rd Re run - POM 14 Signal @ 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 . Within the “POM FRAMEWORK & SETUP INDEX – 2 – PQV validation” This is Actionable Zone in the extension of +5.5%. with a longer time frame Portfolios & RA/RI discipline.
-
- “Net Short Position” should come in at POM 15 Re 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 ”

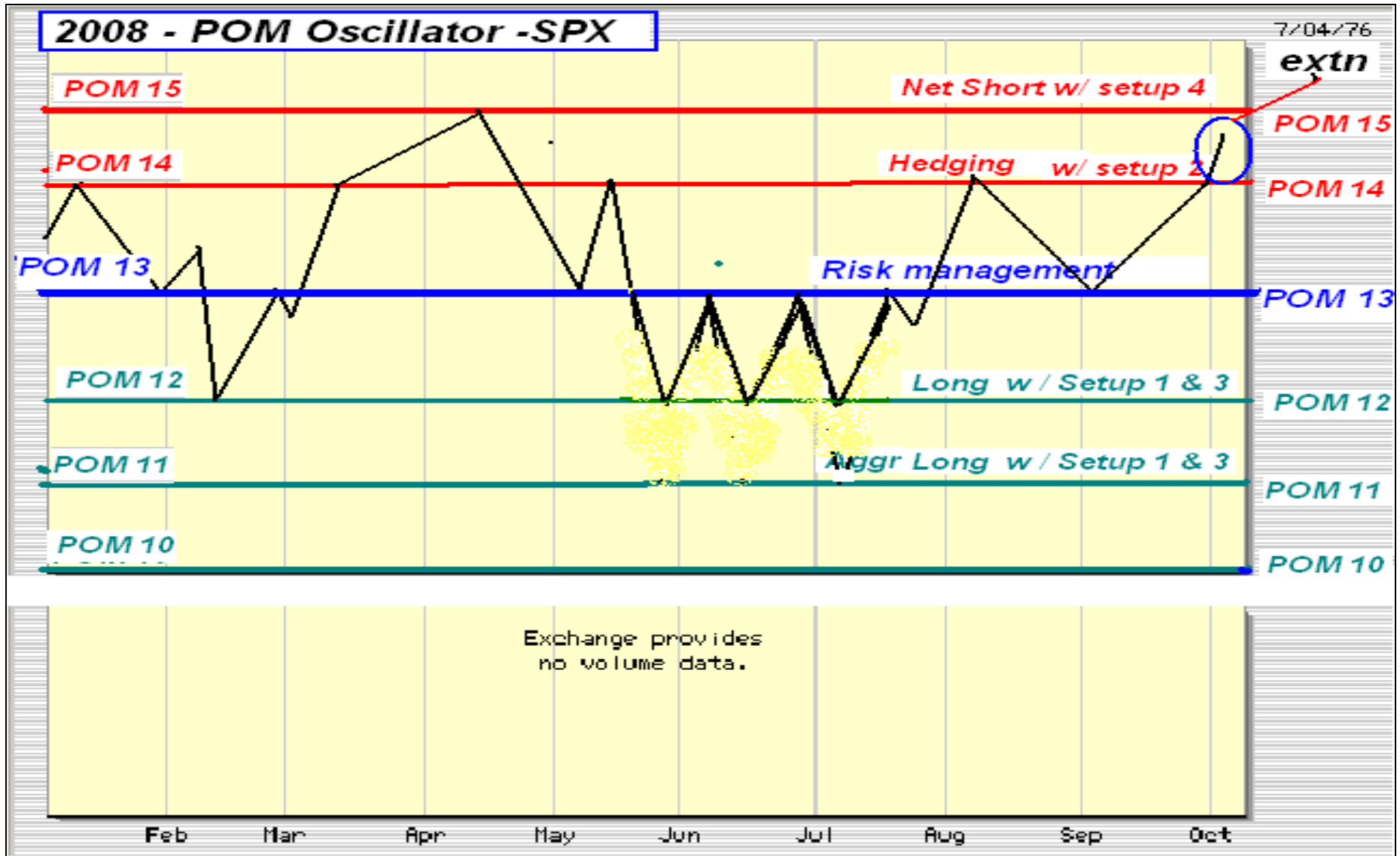
- As accumulations continues in the “SETUP - PQV VALIDATED EQUAL WEIGHTED PORTFOLIO (in Section E – MAEG) with desired price points & scaled entry @ the Mean Confluence Zone on the weakest Equities in Setup # 2 capitalizes it. Monitor this Portfolio for Risk management factors & Stops within RA / RI framework .
-
- As the Portfolio is Hedged for Longs of POM 12 & POM 13 of past , when SPX market reverses these weak SETUPS # 2’s will drop substantially by the time we are at next POM 12 or 13

History & Statistics Summary

- In Past 4 yrs, on 3 occasions POM 14 was converted to POM 15. Out of 3 only once POM 14 – 2ND Re run was converted to POM 15 Re - run.
- The typical POM Cycle has been 45 to 50 Days and On this cycle we are on 25th Day. The Average 20% probability in POM extensions lasted for 30 days (with 5.25%) and Maximum to 40 days (with 7.5%,) All above average extensions i.e above 5.25% have been converted to POM 15 (But no signal this time)
- On the balance 80% probability where POM 14 was signaled, the market reacted within 2-3 days. The average size of first immediate decline was about 4.5 % in 4 days . . Reaction time - 1-2 days to position completely for this move
- (See the chart below of POM Oscillator of SPX for 2008 for reaction Time

2008 – POM Oscillator SPX Summary

The chart below indicates the actionable ideas at various POM's, the Reaction time to execute and the Current extension



• Market Insights

- **Most of the Analytic charts in our lens will look the same till we get a change of POM at least to POM 13 .**
- **Although the extension is wearing us down. The message of the market has remained the same .**
- **It is day 26th of Grind and sounds redundant . We have been through it before and just keeping our mental capital intact.**
- **We are finding more clues with indicators**

The Fed has been manipulating the markets in order to depress the dollar and levitate the stock market. This policy of (QE) seeks to help the economy, but is much more likely to hurt it over time. Once the QE should be abandoned. Most asset markets will collapse once QE is removed. Although we do understand “ Do not fight the Fed “. Market is a discounting mechanism when it is in the News it is in the price and the News is all about QE 2. On 8/20 – SPX @ 1050 we heard nothing but Hindenburg Omen, that was incidentally 4 days prior to the bottom.

In our Model the positive enthusiasm of QE program could not get us long , We will evaluate the QE 2 when we get to POM 13 or POM 12. @ the price below 1120 .Its hard for us to think positive news at POM 14. We would like to think about all the Bullish stories and sweet memories at POM 12, it can give us confidence to act. But we think it all will be forgotten at that time. Remember Hindenburg at 1050 !!! .

But currently Rally top have been trying our patience, but we like to keep eye on the ball and keep the mental capital in tact. Tops, gradually fade toward their peaks with innumerable attempts with rounding Tops before finally giving up and plunging. The internal strength fades while continue to advance 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 a developing top: Money flow turned sharply lower. This constitutes *bearish divergence*

Primary Market Analysis - SPX

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

- The sharp rally in SPY produced an ARMS index close of .28 and implies an exhaustion move to upside. The ARMS index closed at .34 on September 20 and market has since staggered higher. The early August high an ARMS index closed at .40 an market stayed near the level for 6 trading days before turning down. The Mid June High had an ARMS index of .25 and staggered higher for four more days before dropping hard over the next two weeks. The current developing highs had two closing ARMS index readings below .40 and suggest a bigger top is developing.
- 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
- 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 .

In spite of last weeks move, the stock market continues to flutter at the breakdown areas of FLASH CRASH date 5/6 and 5/14 prices drop 1180 to 1130 (similar to what we had during the LEHMAN CRASH dates of Sept 2008 Test and SPX went into those areas at 1200 SPX in April 2010. Market loves these areas to get tested due to its complete imbalanced nature of trades on that event . (See the chart below , In fact in April this same event made us very bearish at POM 15 that caused the subsequent Crash)

SPX - Intermediate - Price, Volume, VIX, ARMS



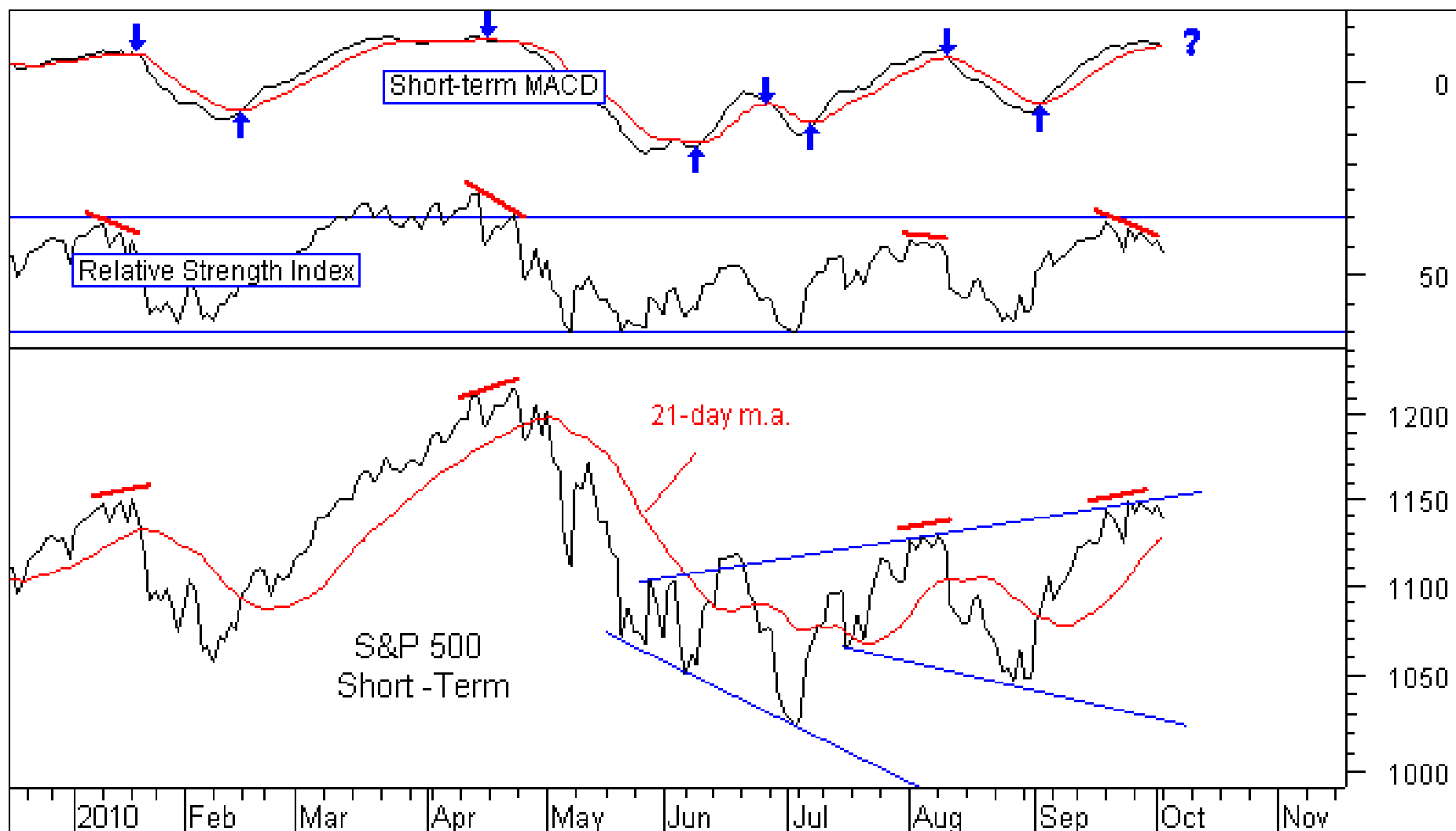
SPX – Mid Term - Waves 2 and D , Money Flow, T – Termination expired.

If Bull lets look for C to D and if Bear lets look for 2 to 3. (In chart below) . 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) & Divergences

The S&P has supposedly 'broken out' to the upside because it closed at a higher high. 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. Each of this breakouts are on Divergences (See the chart below)



- **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)(**Chart above**). **Bearish**
- **The Bradley** is on 1st OCT, it failed on 12th SEPT as like before. (**See chart below**)(**Bullish**)
- **The seasonal pattern** is for the market to rally from 1st November to April is till in tact. (**See Chart below**)(**Bullish**)
- **Presidential Cycle** , positive influence to begin 20th Oct (**See the chart below**)(**Bullish**)
- **Astros Cycle** due on 8th OCT (**see chart below**) **Bearish**
- **Earnings Cycle** to begin on 8th Oct and its impact. (**See chart below**) **Bearish**
- **1937 Price path moves with current 2010 - Bearish**

The Earnings Cycle - **Bearish**

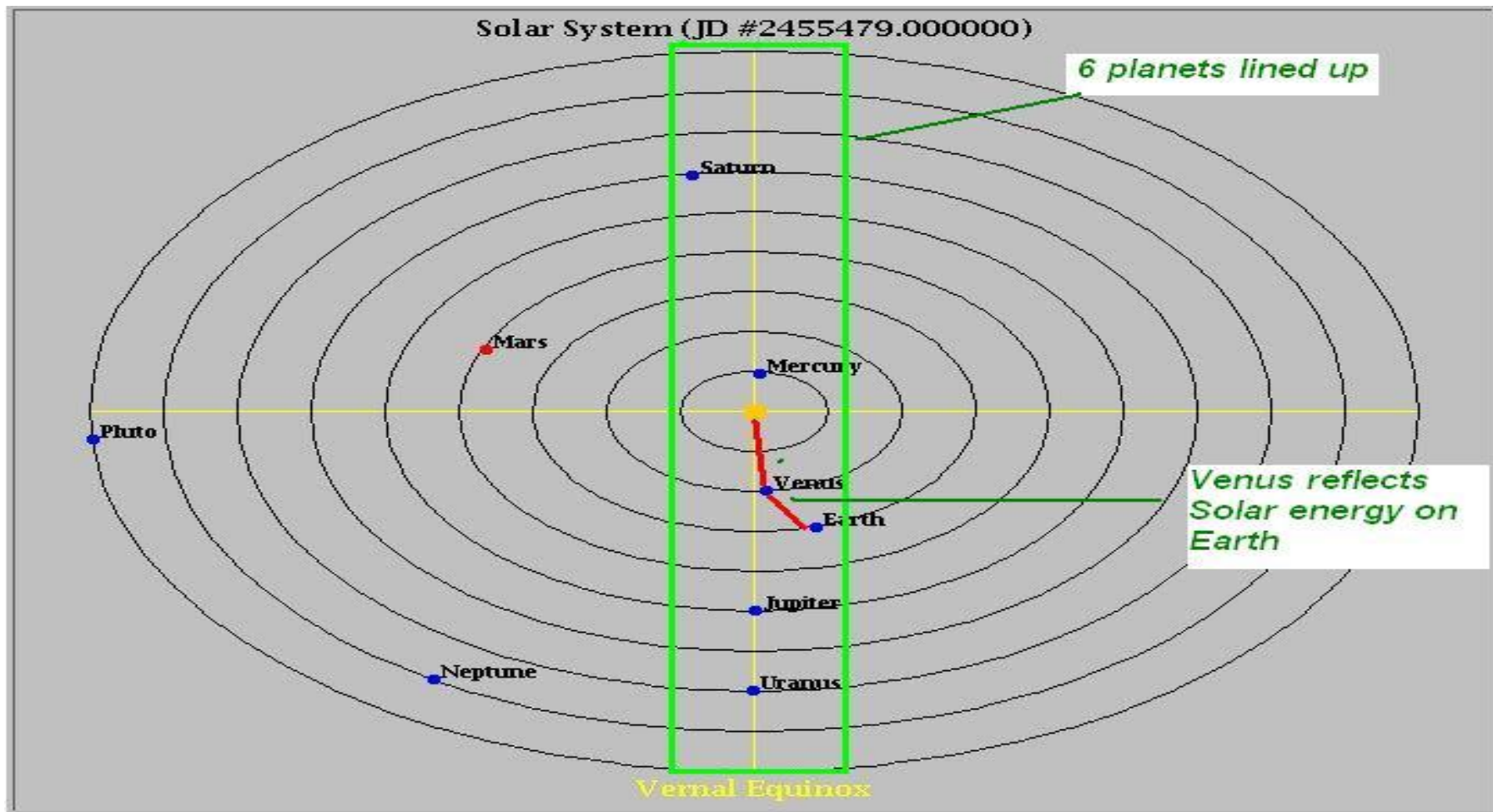
Past 4 Quarters of earnings Report – Calendar , they all coincided with POM 14 or 15 (Once) , Let us see how market reacts now . In new Bull markets at least (3) earning surprise we need at POM 13 (We need this chart upside down)



The Astros Cycle - Bearish

Astronomical event on October 8th it tends to last few days. Venus turn retrograde. We have used the Combust cycle as an evaluation Layer to our analysis for long time via UCLA / NASA study. With great guidance and edge. With six planets and a star almost lined up in a straight line, it probably means something significant with the solar magnetic wind. And, we know for a that fluctuations in the Earth's geomagnetic field affect traders

The last time Venus turned retrograde was January 6th 2008., the market formed a trend reversal . With the market clearly overbought and we going into highs. Venus is deflecting the solar wind to Earth. Our speculation is that Venus controls the solar wind in such a way as to affect the human psyche. (See the chart below for Planet positioning)



The Seasonality – Bullish

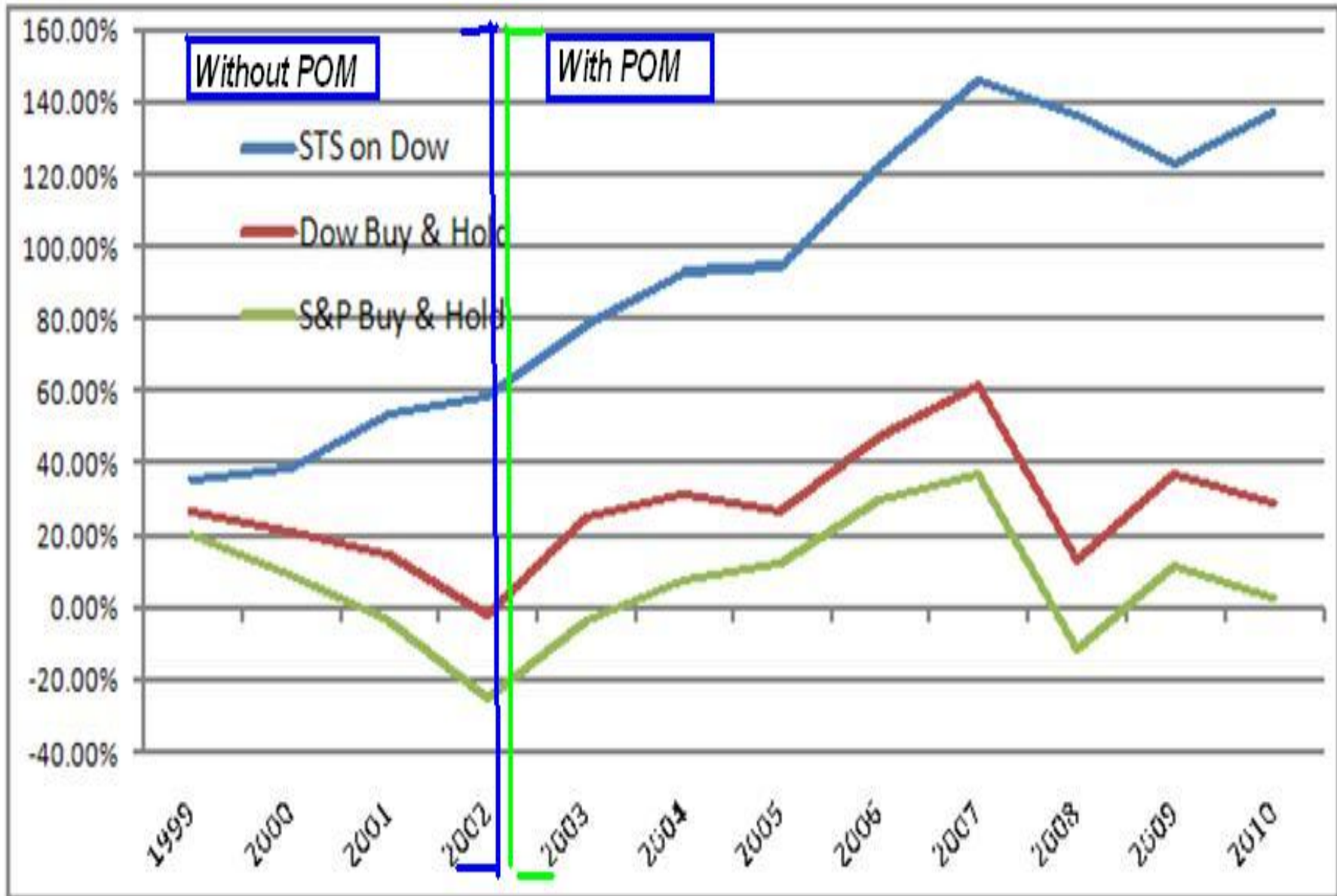
We visit this Topic 4 Times every Year (end April / May beginning) & (end Sept / end Oct) . Since we are within a few weeks of the potential beginning of the market's historically favorable season, it's time to again bring up the subject of the market's seasonality. The volatility has made it an interesting 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 October 10. 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, we will announce the entry point at POM 13 or 12)

(2) Chart below are SPX Gains from 1999 to 2010 price moves from end Oct to end April v/s 12 months Oct to Oct, The process is further refined real time from 2002 to 2010 with POM's entry and exits

SPX Seasonality with POM

1 ST NOVEMBER CALENDER ENTRY

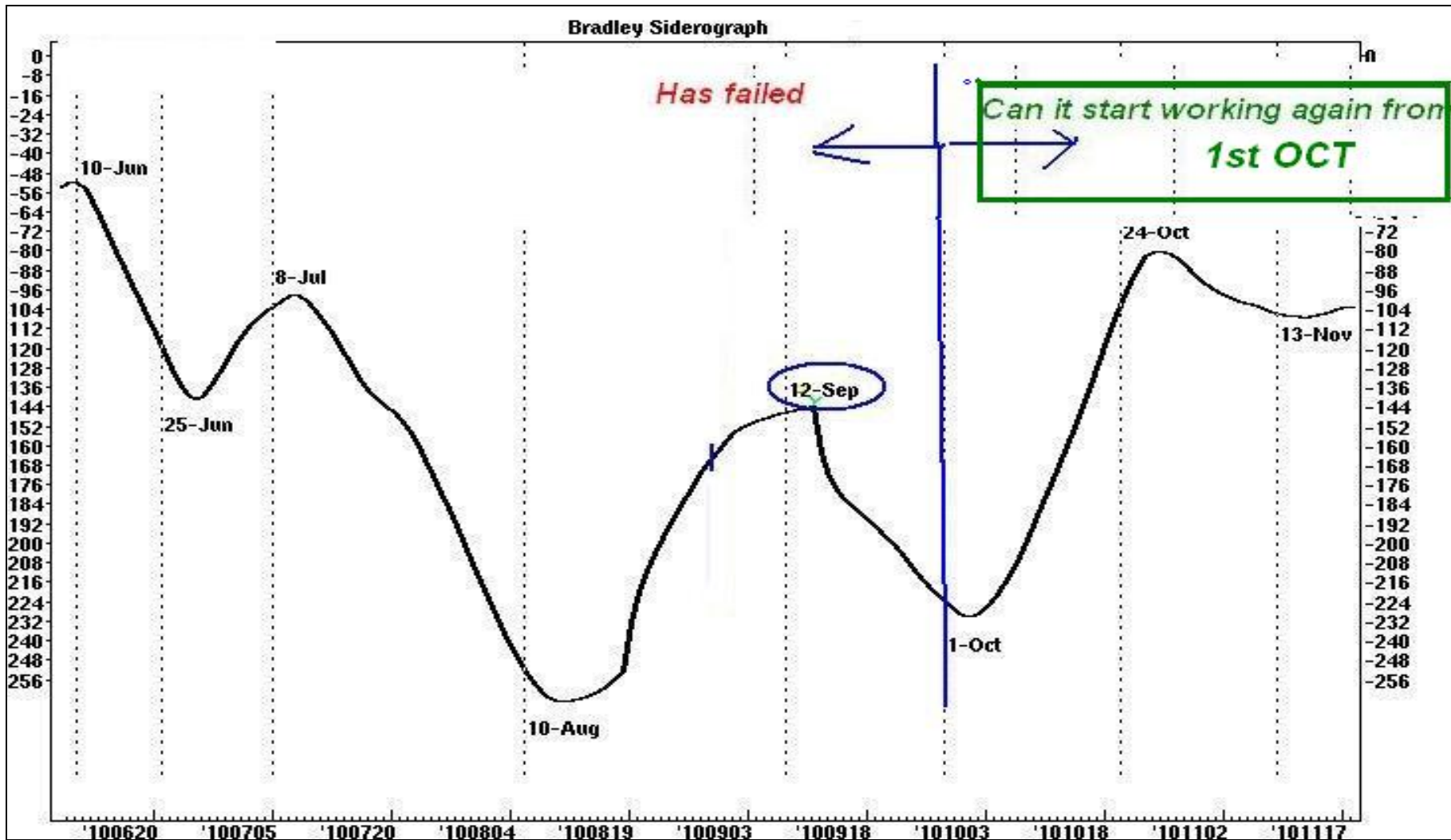


SPX Seasonality with POM – Each year Breakdown

YEAR	S&P 500	DJIA	STS using DJIA Index Fund
1999 (Bull Market)	+ 20.1%	+ 26.8%	+ 35.1%
2000 (Bear Market)	- 9.1%	- 4.6%	+ 2.1%
2001 (Bear Market)	- 11.9%	- 5.3%	+ 11.1%
2002 (Bear Market)	- 22.1%	- 14.7%	+ 3.1%
2003 (Bull Market)	+ 28.7%	+ 27.6%	+ 11.2%
2004 (Bull Market)	+ 10.9%	+ 5.5%	+ 8.1%
2005 (Bull Market)	+ 4.8%	+ 1.6%	+ 0.6%
2006 (Bull Market)	+ 15.4%	+ 18.5%	+ 14.2%
2007 (Bull Market)	+ 5.4%	+ 8.6%	+ 11.2%
2008 (Bear Market)	- 36.1%	- 31.3%	- 3.6%
2009 (Bull Market)	+ 22.4%	+ 18.8%	- 4.2%
2010 YTD	+ 2.9%	+ 4.1%	+ 6.7%
11 - Year Return	+ 6.6%	+ 40.8%	+ 124.1%
10 - Year Return	- 11.2%	+ 11.0%	+ 65.9%
5 - Year Return	- 0.3%	+ 7.0%	+ 18.0%
3 - Year Return	- 17.6%	- 11.1%	+ 2.7%
2 - Year Return	- 21.8%	- 18.1%	- 7.6%
1 - Year Return	+ 2.4%	+ 18.8%	- 4.2%

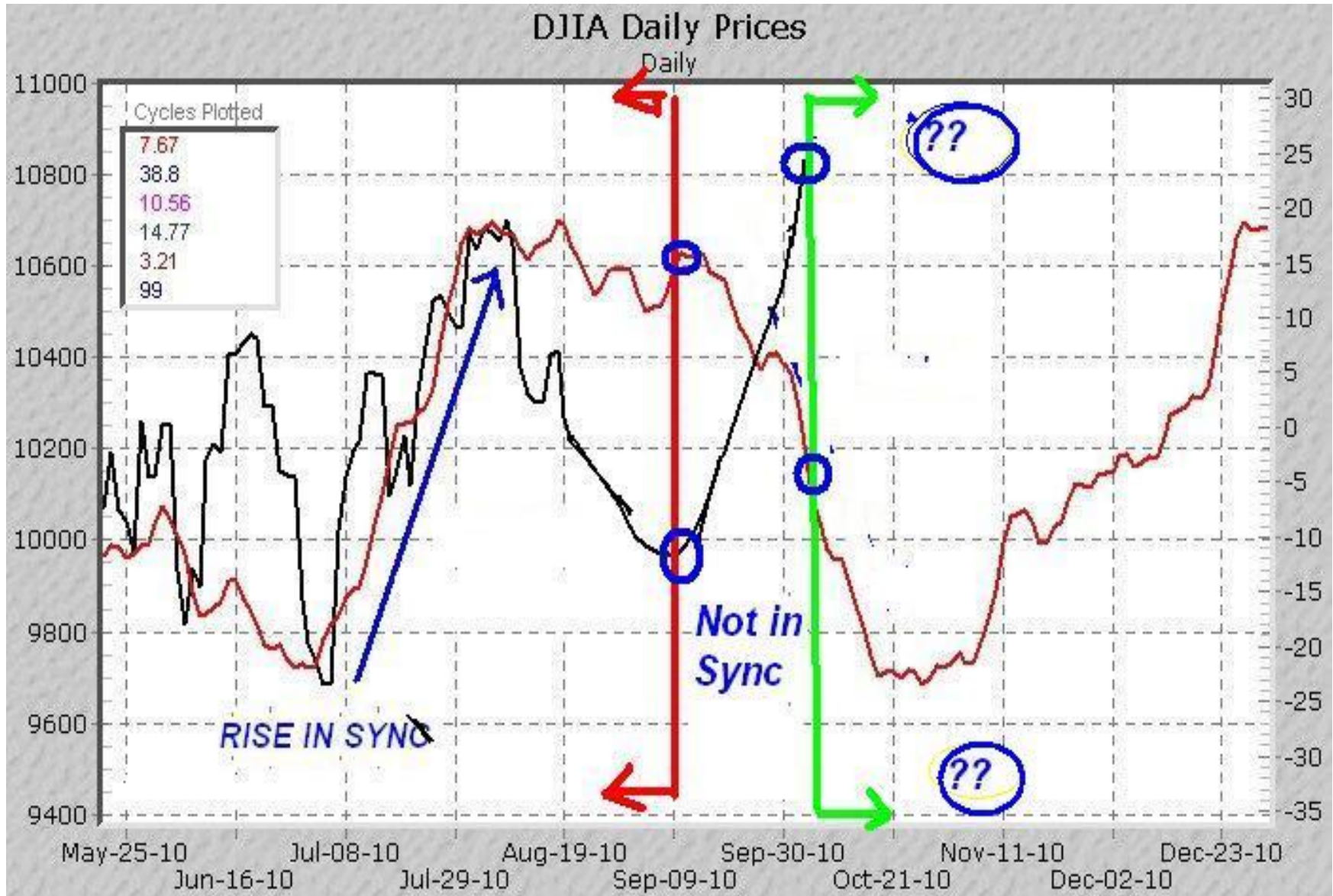
The Bradley Model - Bullish

The Bradley has become irrelevant, it hasn't worked for stocks but worked for Bonds. If 1ST Oct is turn date Cycle could Invert or may get extended to 24th Oct. We will track it as it plays out.



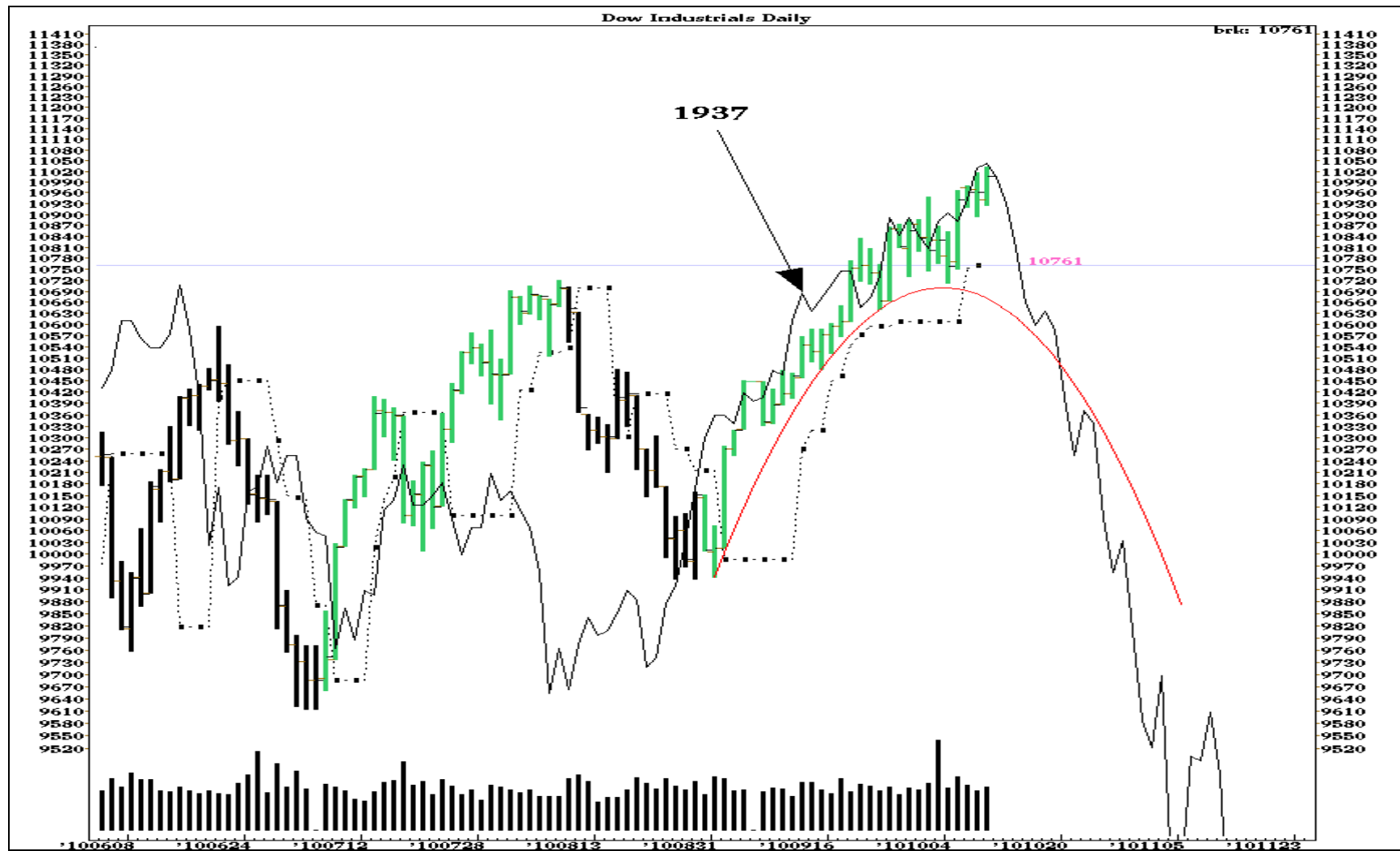
The 4 Yr – Cumulative Price path in Presidential Cycles - **Bullish**

Further projections suggests Lows on **20TH October**. The rally of presidential 4 yr cycle.



The 1937 Cycle – Bearish

In 1937 we saw the rebound in September / October similar to current rally with similar back drop and market Breathe replaying 1937. Here in the Dow chart, we have added the 1937 line to align it with today's market , if market continues the path we are watching . We are not suggesting CRASH but we are looking for POM 13 or 12 .



- Advance / Decline Internal behavior Analysis

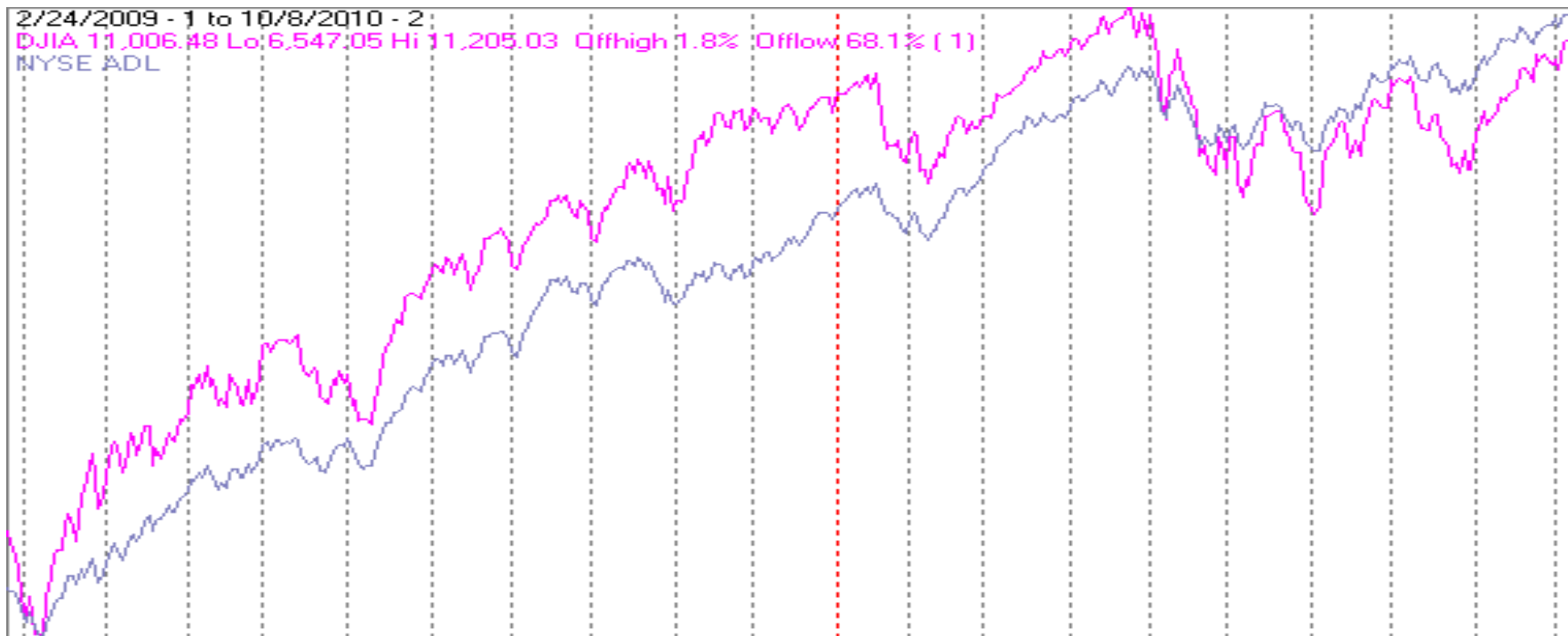
Our A/D Analysis is based on 3rd derivative complex A/D Oscillator instead of conventional A/D Line , secondly it needs to be conformed by the % of stocks above critical SMA's divergences. Based on current market condition our observation points out the following condition

A / D – NYA – 52 w - NH / NL

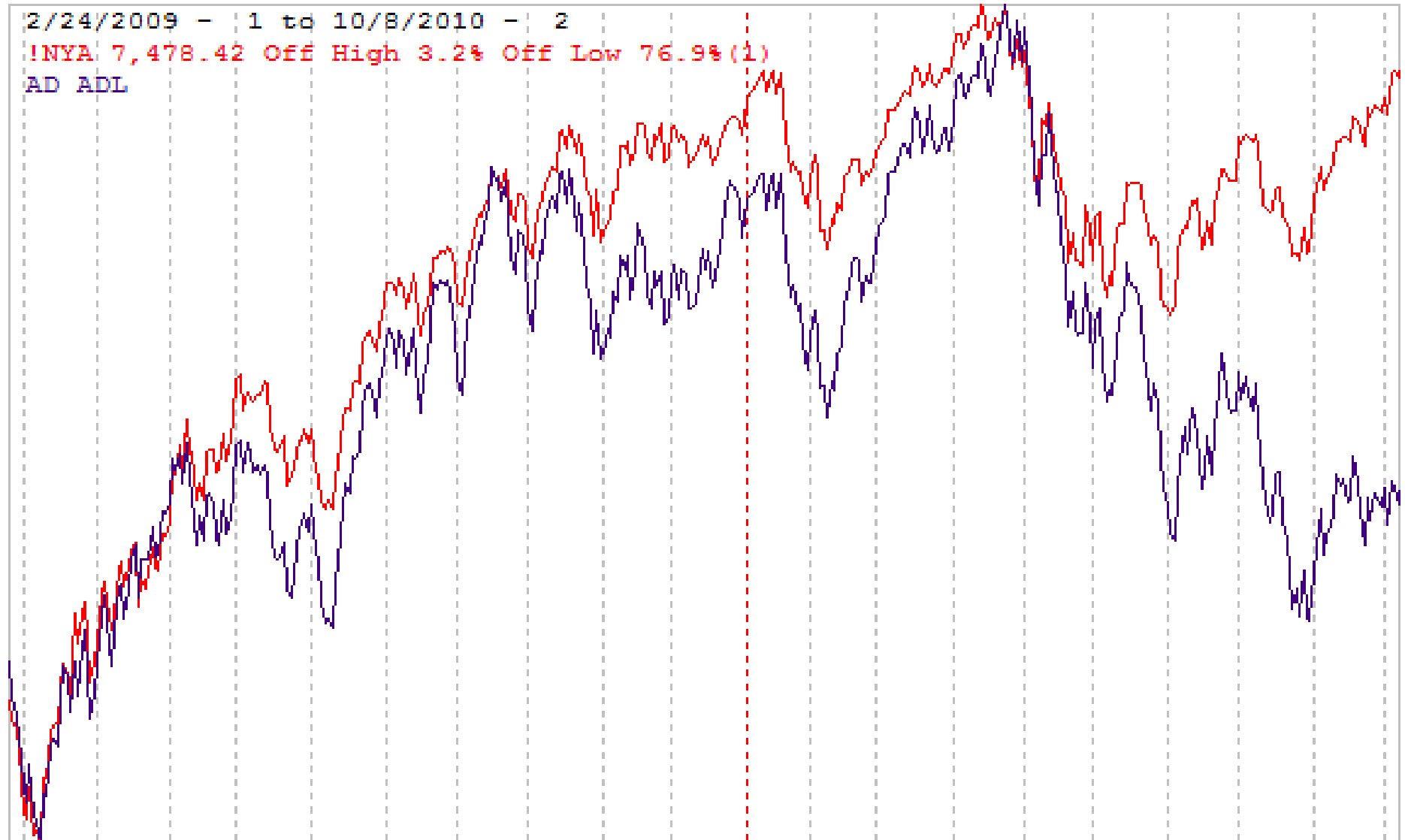
The 52-week highs and lows continues to diverge bearishly: The advance-decline line oscillator is failing to reach new highs while the index is doing so, which is another bearish divergence.

NYA WITH ALL STOCKS – Data is deceptive Market looks healthy

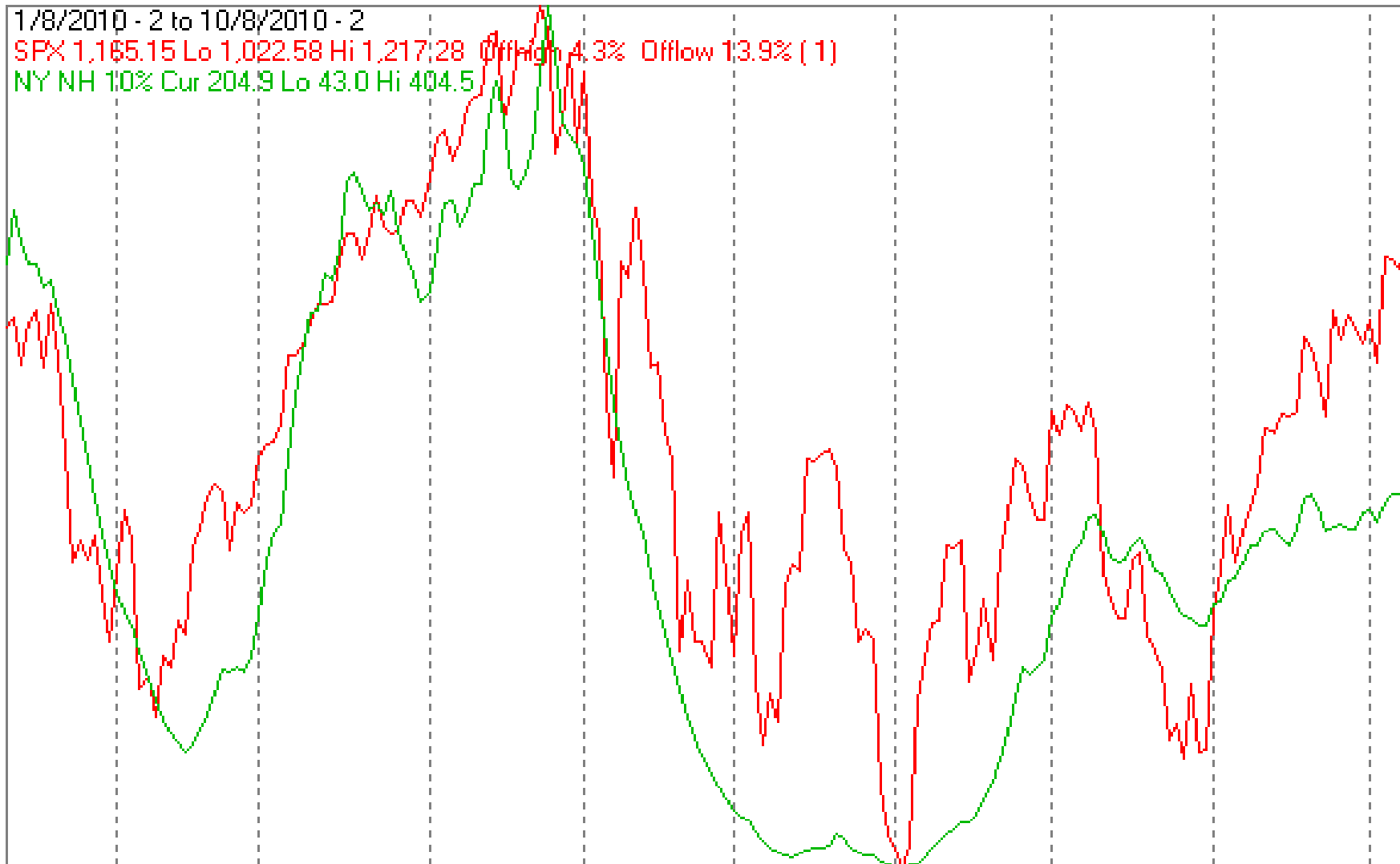
The chart covers the period since the March 2009 lows showing the DJI and the NYSE ADL on all stocks in blue.



NYA WITHOUT BONDS AND ETF S- This is real story The chart covers the period since the March 2009 lows showing the DJI and the NYSE ADL on all stocks in blue.



SPX - NH 's The chart covers the past 6 months showing the (SPX) in red and a 10% trend (20 day MA) of NYSE new highs (NY NH) in green. NY NH has all but flat lined over the past 5 weeks while the indices have shot upward.



NASD – Upside Volume - The chart covers the past 6 months showing the OTC in blue and a 5% trend of NASDAQ upside volume (OTC) in green. You would think a 13% gain in 5 weeks would bring out the buyers, but there is no sign of them here.



• 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** (Smart Money) are Net position where the Previous extreme tops have occurred
- Rydex NASD Bull Ratio (Dumb Money) are at Positions where the Previous extremes tops have occurred
- **VIX and its Multiple Fib Projections**

SPX – TRIN INDICATORS (IMPORTANT)

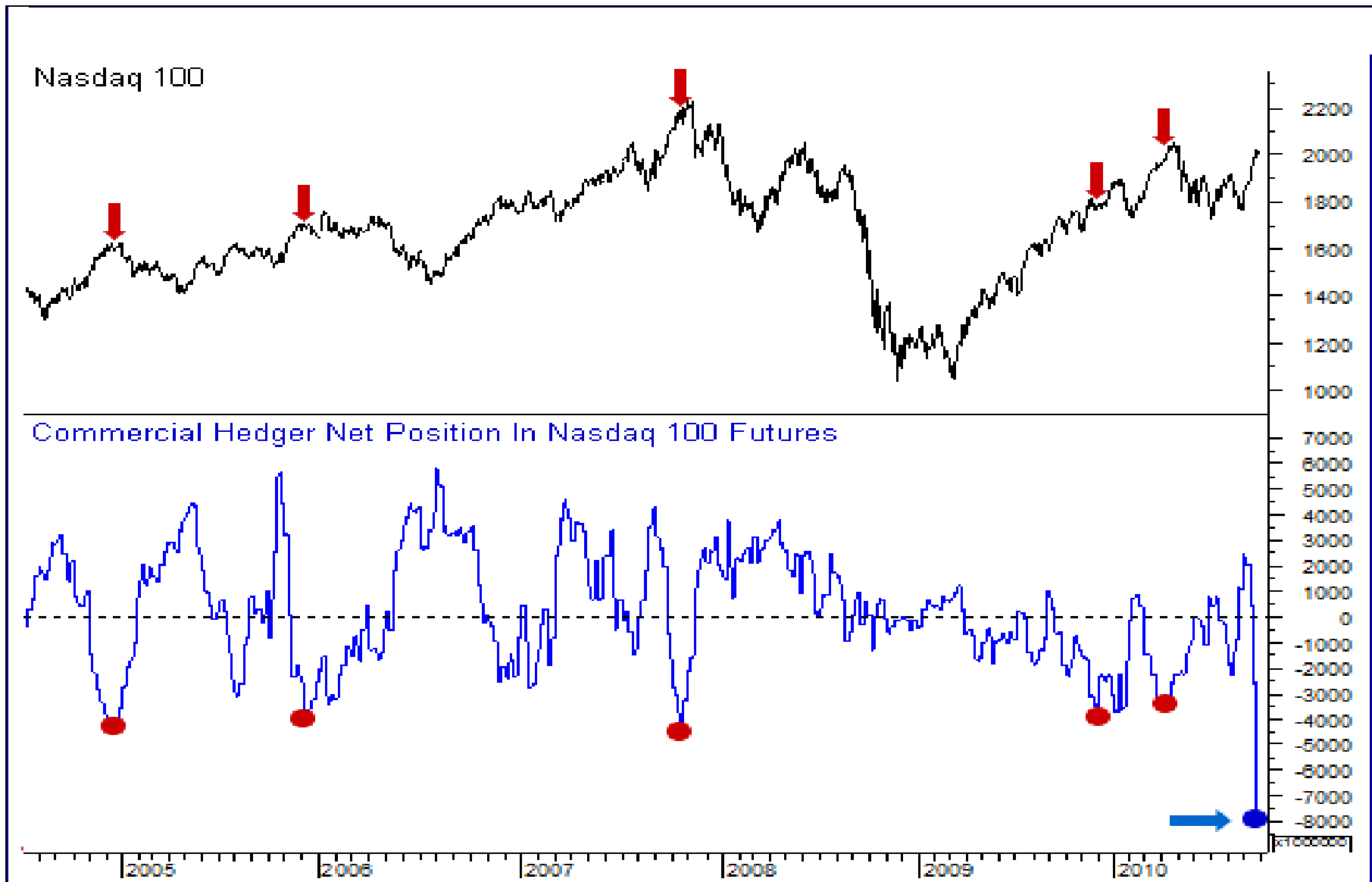
Here is a unique indicator we have been working on for the last several months and seems to work well which is the SPY/Trin ratio and Trin/SPY ratio. For shorter term (bottom window), when the SPY/Trin ratio spikes near 150 or higher then market is near a high. This ratio hit 160 . Notice back at the 2007 highs this ratio spiked higher then 150 also. It also seems that things go in three's as the 2007 had this ratio spike three times above 150 and the current pattern shows that this ratio is spiking above the 150 for the third time. The top window is the Trin/SPY chart and encompasses a longer term timeframe and seems to do well picking intermediate term moves. This ratio turned up a few days before the market turned down. Since the short term SPY/Trin Ratio is extended above 150 and due to turn down any day then Trin/SPY is very soon to turning back up which will imply the SPY will be heading down. Yesterday the ARMS index closed at .28 and implies exhaustion to the upside. If SPY close below last weeks high (115.79) on Friday it will imply the top is in.

SPX - TRIN



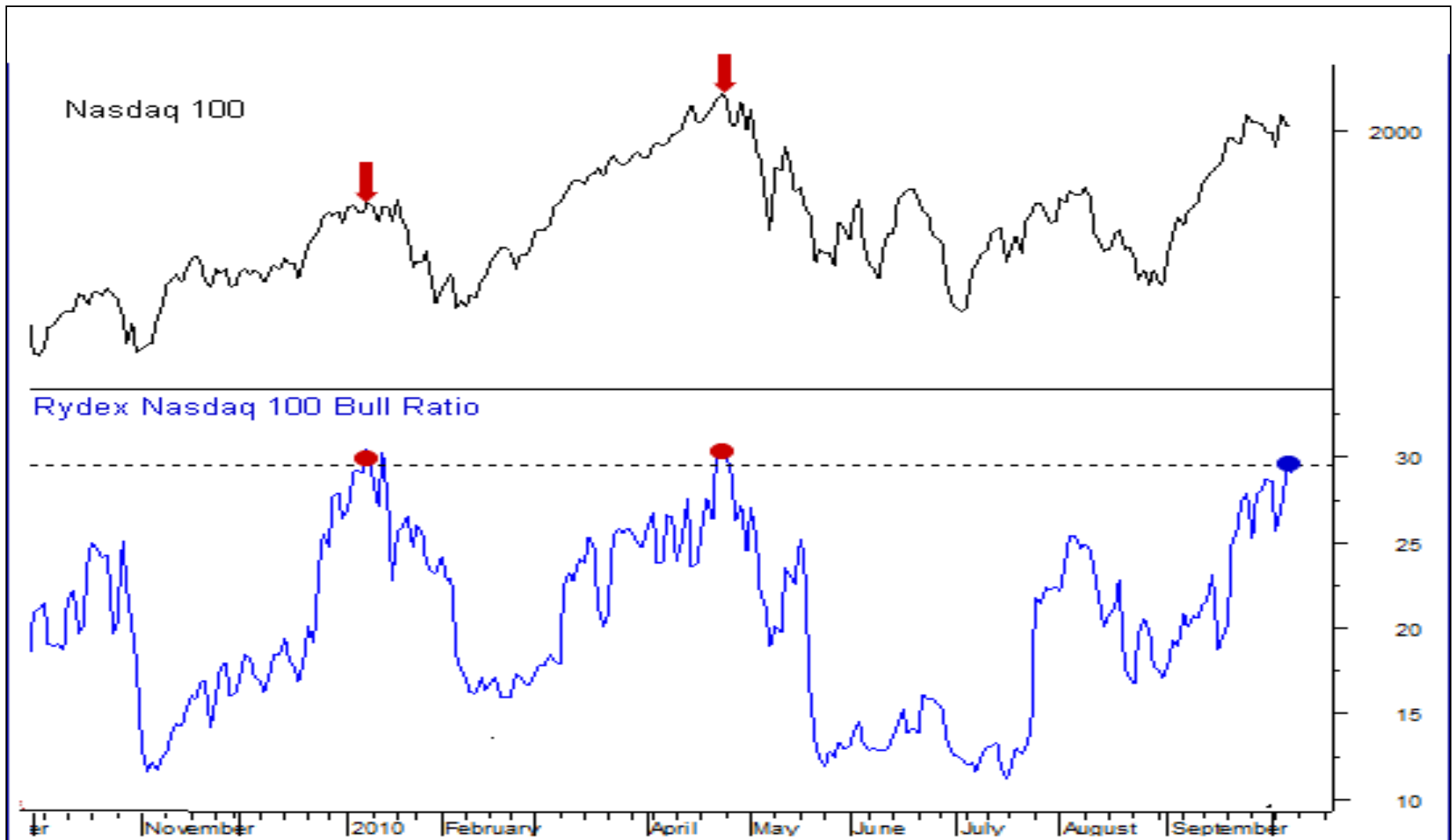
NASD v/s Commercial Hedgers (SMART MONEY)

We get this delayed data after few days from CFTC from Traders Sentiment study. Smart money is leaving .



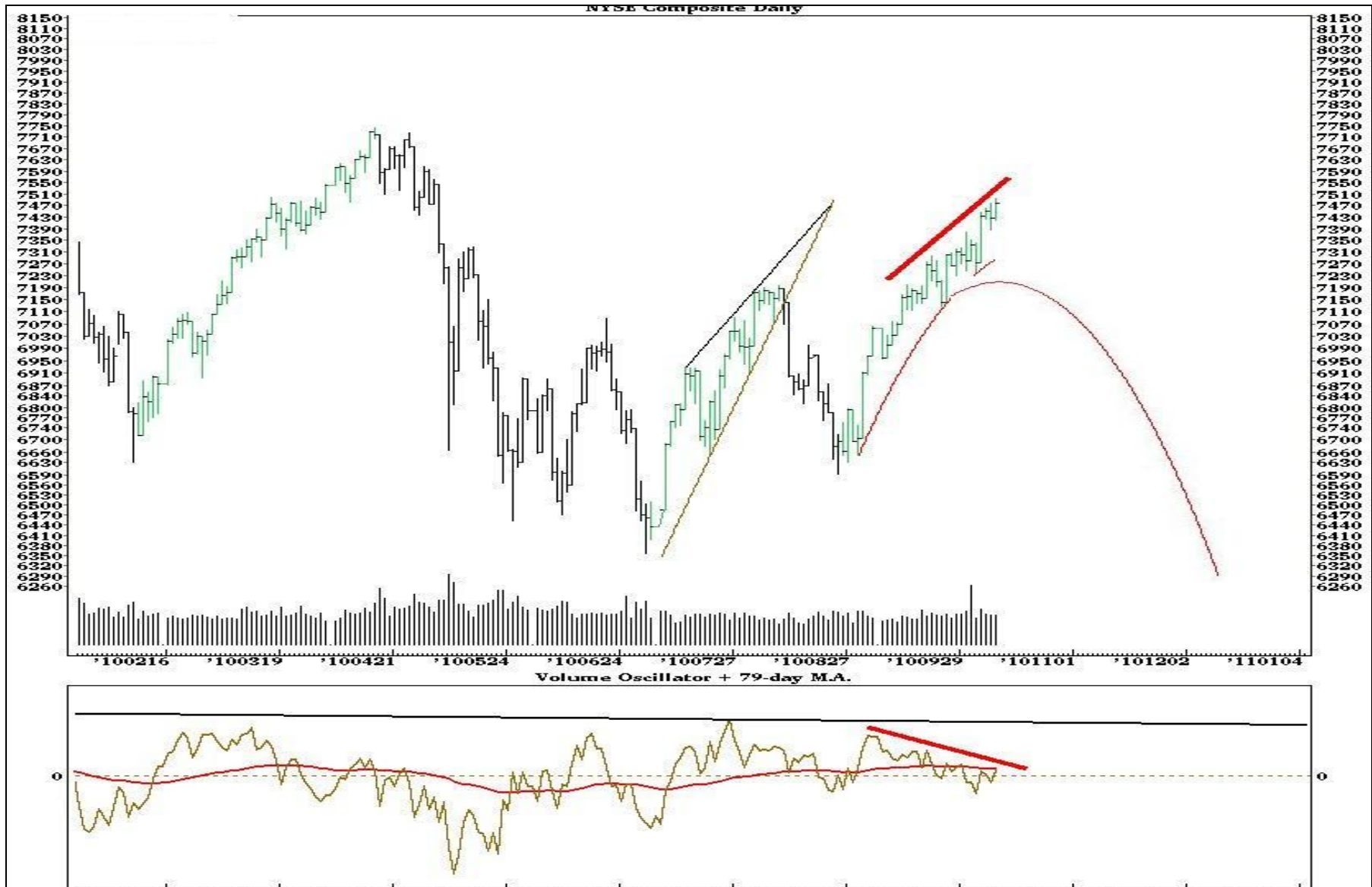
NASD v/s Rydex Bull Ratio (Dumb Money)

We get this delayed data after few days from CFTC from Traders Sentiment study. Smart money is leaving .



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

NYSE – Short term



NASD- Short term

Money flow is not conforming the NASD move. Dangerously setup

NASDAQ has hit a ceiling and that's a strong warning of a downtrend that's on the verge of starting a downside.



NASD- Short term - This is critical .

Another Divergence and Mega phone .



Sector Market Analysis for SPX – POM clues.

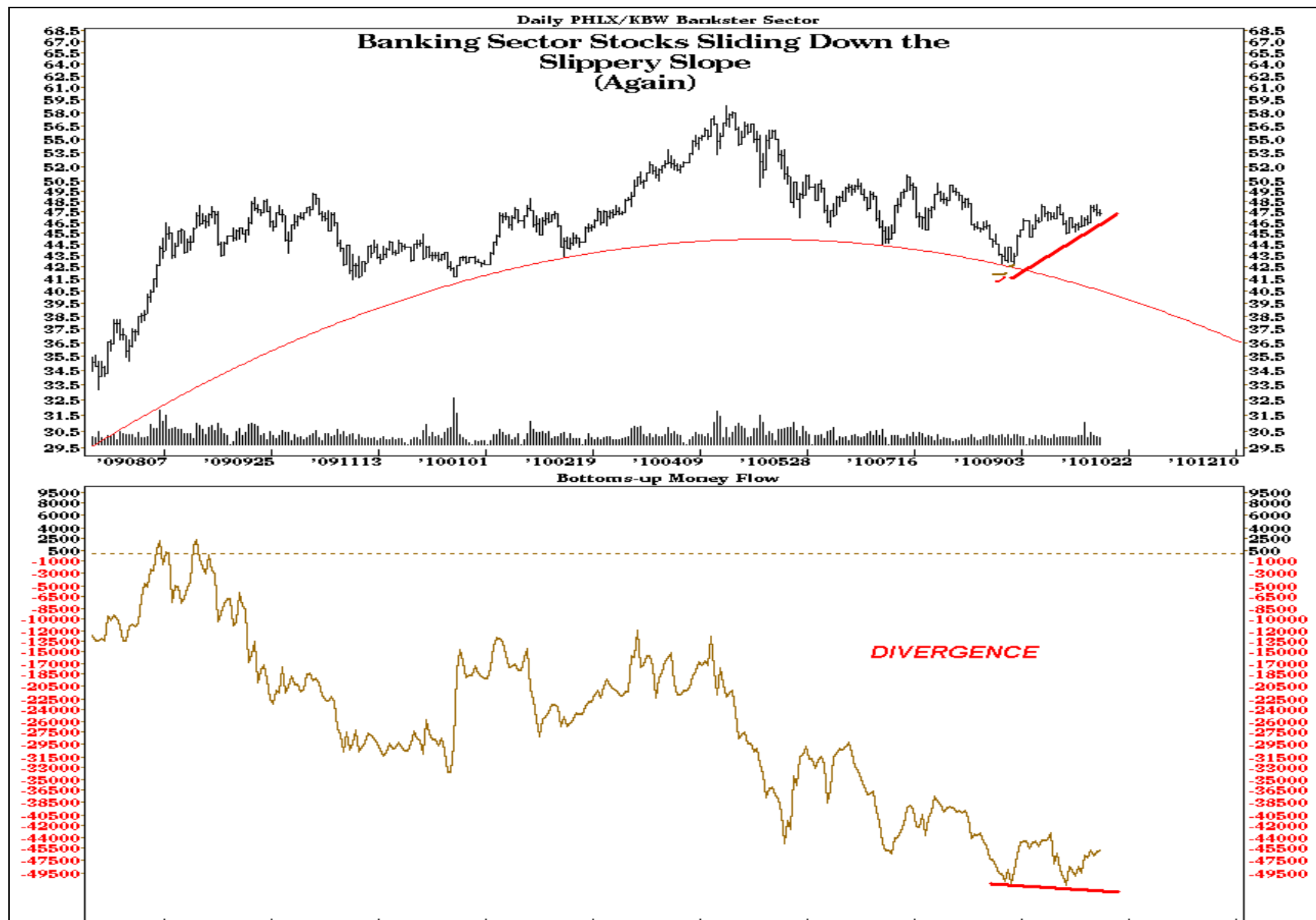
- BKX, SMH

BKX – Short term

Hard to Find the effect of QE 2 on BKX - 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:

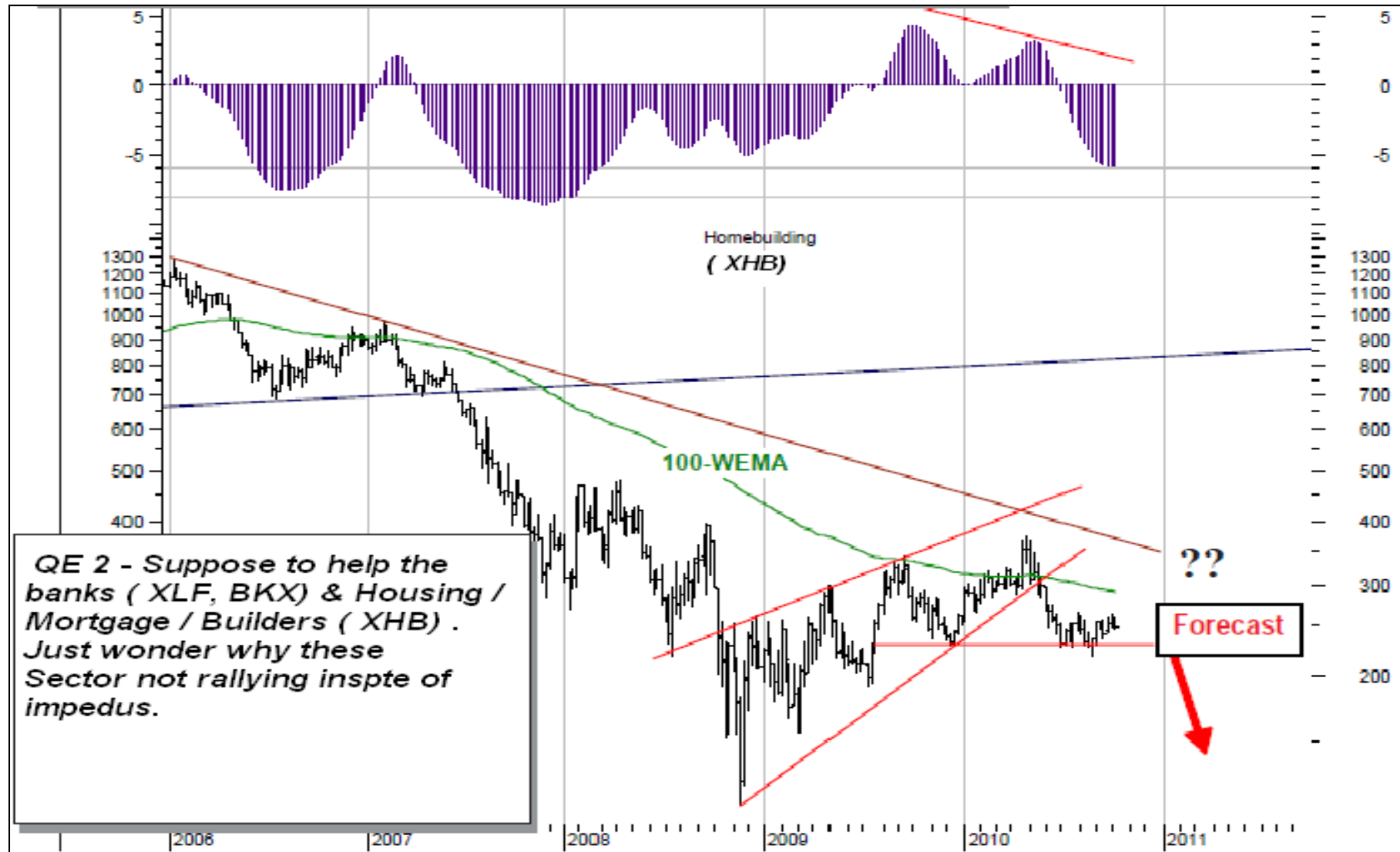
Despite several trillion dollars in bailout money, the banks are still in a state of insolvency. Approaching 300 banks. This is evident when you look at a chart of BKX, which shows a clear Head and Shoulders topping pattern and a trendline that's accelerating to the downside. The rally in bank stocks allowed the insiders to dump those shares (See the money flow) . The money flow line has been trending sharply lower.

BKX – Short term



XHB – Short term

If QE - 2 money should also go in XHB along with BKX. Just wonder why its not rallying



SMH – Mid term

Time is running out. The money flow line demonstrates that the insiders have been bailing out of the shares for a long time now



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

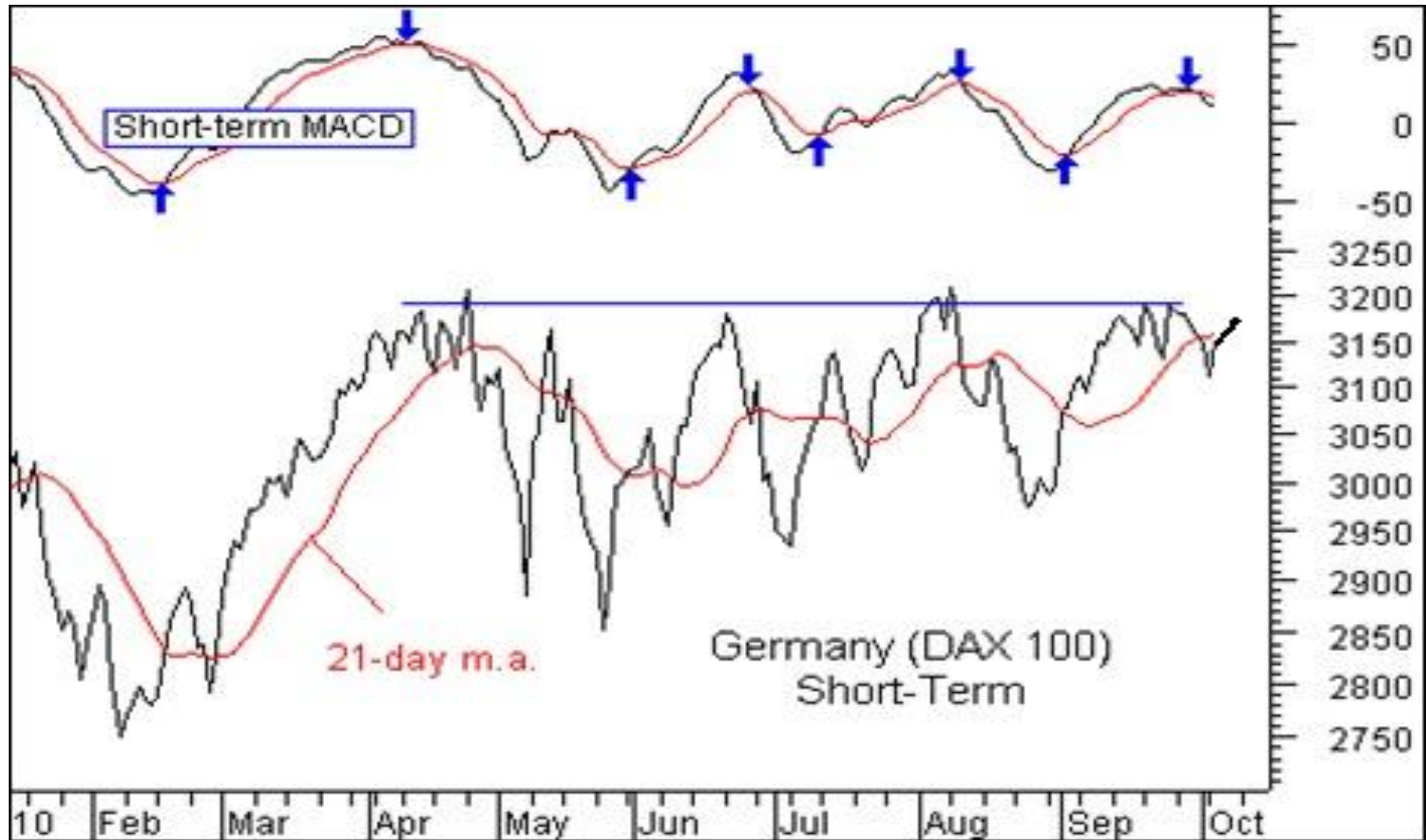
FTSE

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.



DAX -100

If SPX has a upside break and Euro is rallying why not DAX



EEA

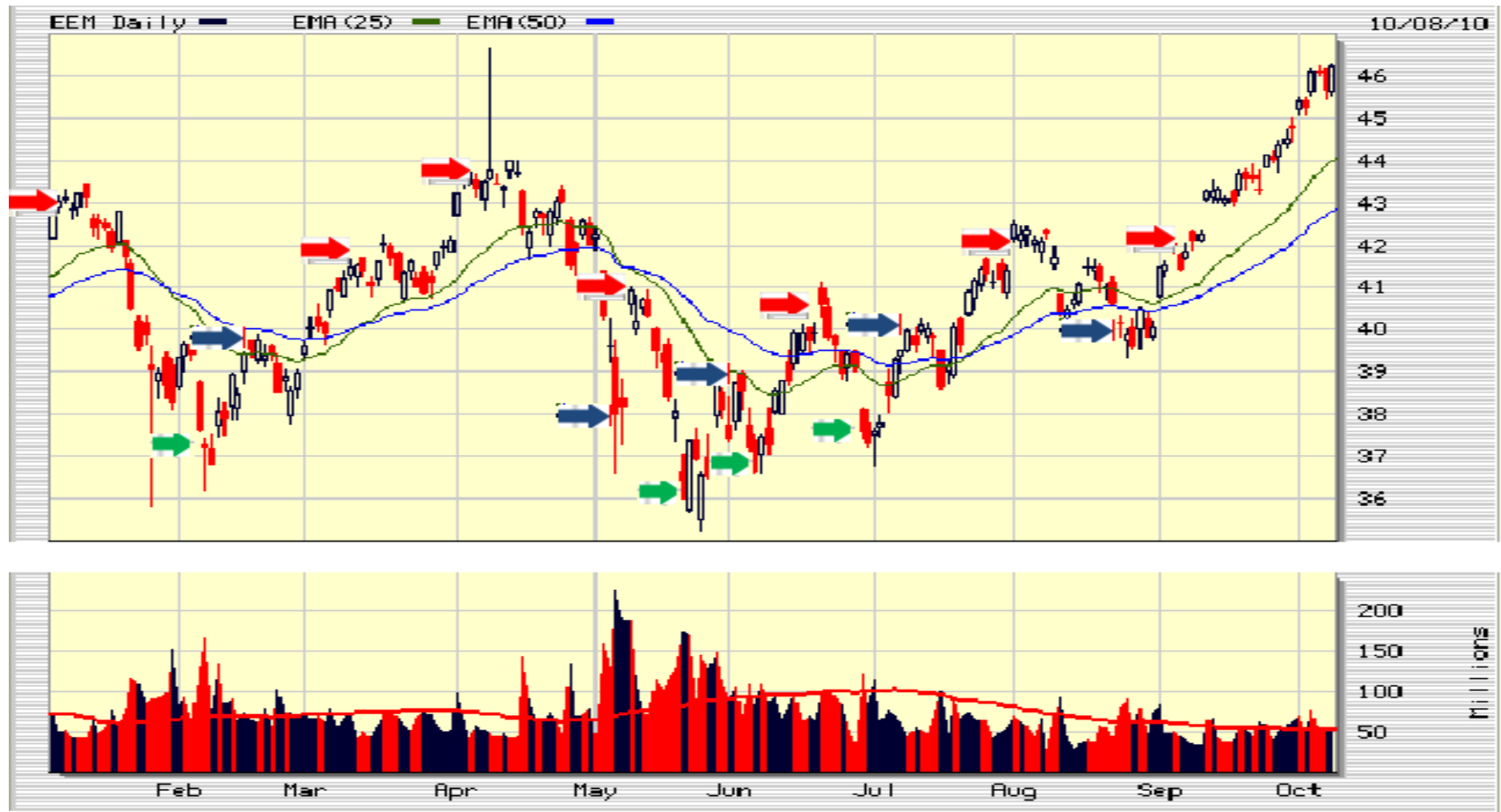
For confirmation we used all 2010 POM signals and overlaid on EEA , SPX has tremendous correlation with Western Europe . We had done this study in past to just revised it for 2010. All the result of ADR's and ETF traded in US. Of course last POM 14 I is extended along with SPX



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

EEM

For confirmation we used all 2010 POM signals and overlaid on EEA , SPX has tremendous correlation with Western Europe . We had done this study in past to just revised it for 2010. All the result of ADR's and ETF traded in US. Of course last POM 14 I is extended along with SPX But here the extension has been much more than SPX



- **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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