



SG Capital Research

Global Market Insights

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

MAEG- WKLY MKTSTR- GL- POM -SG 2010 # OCT 18

For Immediate Release – *Monday AM (EST)*

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Market Strategy Global (A # 1) - SPX – Closed @ 1176

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) , SPX / XLF, DOW - ZM 1, ZM, 2, ZM 3
- **Time / Cycle Analysis**- 1937 Cycle, Astros Cycle, Bradley Cycle, Seasonality Cycle, 4 yr Presidential 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, VIX, OEX (ALL EXTREMES)
- **Secondary Market Analysis for SPX –POM clues** – NDX, MID CAP
- **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 Mid-term 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.

- **Current Takeaways**

- *We looked back through the Analytic process if Our POM 14 Re – Run @ 1104 was little too early, Our best review in hind side) within all the indicators Which has done good job past, tells us that the maximum we would stretch would be to 1124 (20 Points) higher but it is very clear that the move above 1125 to 1175 has been clearly “QE Event driven move” . Our experience is the “Event driven Gain” beyond POM 14 does not last forever. In such time when we don't understand the Market exuberance we prefer to preserve the capital via Hedge to live another day of POM 12 or POM 15 which ever comes first.*
- *Patience is what it may be at, There is tremendous Bullish sentiments currently. Regardless of Bull or Bear case !!. Due to “ The positive seasonality or Presidential Cycle” Or “ The impact of QE 2”. The price Equilibrium in this market is at lower prices from here (at POM 13) & favorable Risk Reward opportunity will come at POM 12 within RA / RI framework. This is the area we would be interested again. At that time one could certainly wear a Bullish Hat (but most likely there won't be much company) .*
- *Conversely, We are seeing some signs of POM 15 Re run here. The base criteria for it is to have min (3) of the broader Indices to double tops and rejects. We see DOW, NASD & NYA almost in that vicinity and once complete then we will assess the other internal criteria to confirm.*
- *Currently on POM 14 – Re run (for Fully Hedged positions) and SPX is extended by 6.6% during that time frame_ but*

we are not for NET SHORT, till it triggers POM 15 within POM – RA / RI framework

● SPX Signals & Price Projections (Update Signal)

- 2010 YTD – This year, we have had (3) clean TREND SIGNALS from “ POM 12 to POM 14 “ rise (each of 7.5% (Feb), 7.0% (May) % 10.0 (July) %) for Longs Ideas & (1) POM 15 to POM 13 (drop of 9% - April /May) for Net Short Ideas and (1) Risk Managed January : POM 14 decline (drop of 9 % - Jan), Now Risk Managed October is in process.
- Extension of 6.6% is more than we would like to have. The worst extension in past 4 yrs have been 7.5% of 40 days but that was converted to POM 15 (NET SHORT) and currently we are on day 30th of extension of POM 14 re run. The Last POM 15 in April resulted in a CRASH !!
- If we just take “ One Step at a Time” . On Pull back we are looking for DEATH CROSS of past 1115 to be the GOLDER CROSS of future or check for something more serious. Too early to tell (let us wait and watch)

● Trading & Investment Conclusions

- **Accumulations continues in the “SETUP - PQV VALIDATED EQUAL WEIGHTED PORTFOLIO (in Section E – MAEG) during this SPX extension of 6.7 % with desired price points & scaled entry @ the Mean Confluence Zone on the weakest Equities in Setup # 2 capitalizes it (within RA / RI, these Equities to be Monitored with Risk management factors).**
- **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 (with above ideas).**
- **“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.**

• 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 31ST 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 to demonstrate our findings***

It is all about the Fed, QE 2 and USD . We don't believe in QE 2, but we don't have a voting seat at the FOMC so it doesn't matter. Therefore we will only watch the charts that makes sense to us to catch those loopholes. .

It is quite clear the Fed has been manipulating the markets in order to depress the dollar and blow the assets prices . A reversal low in the dollar is likely to be reflected by a downturn in all inversely-correlated markets. Almost all the markets seem to be forming a diagonal triangle topping pattern here with Extreme Divergences & Red flags in Internals . This patterns usually follows with Quick move to the downside. (Time out so to speak)

We believe after that there will be another Short covering rally with the help of Feds Buying (which then will be classified as either Seasonality Rally or Election Rally) . This will happen from the First Equilibrium Price point on the charts (This could very well be POM 13).

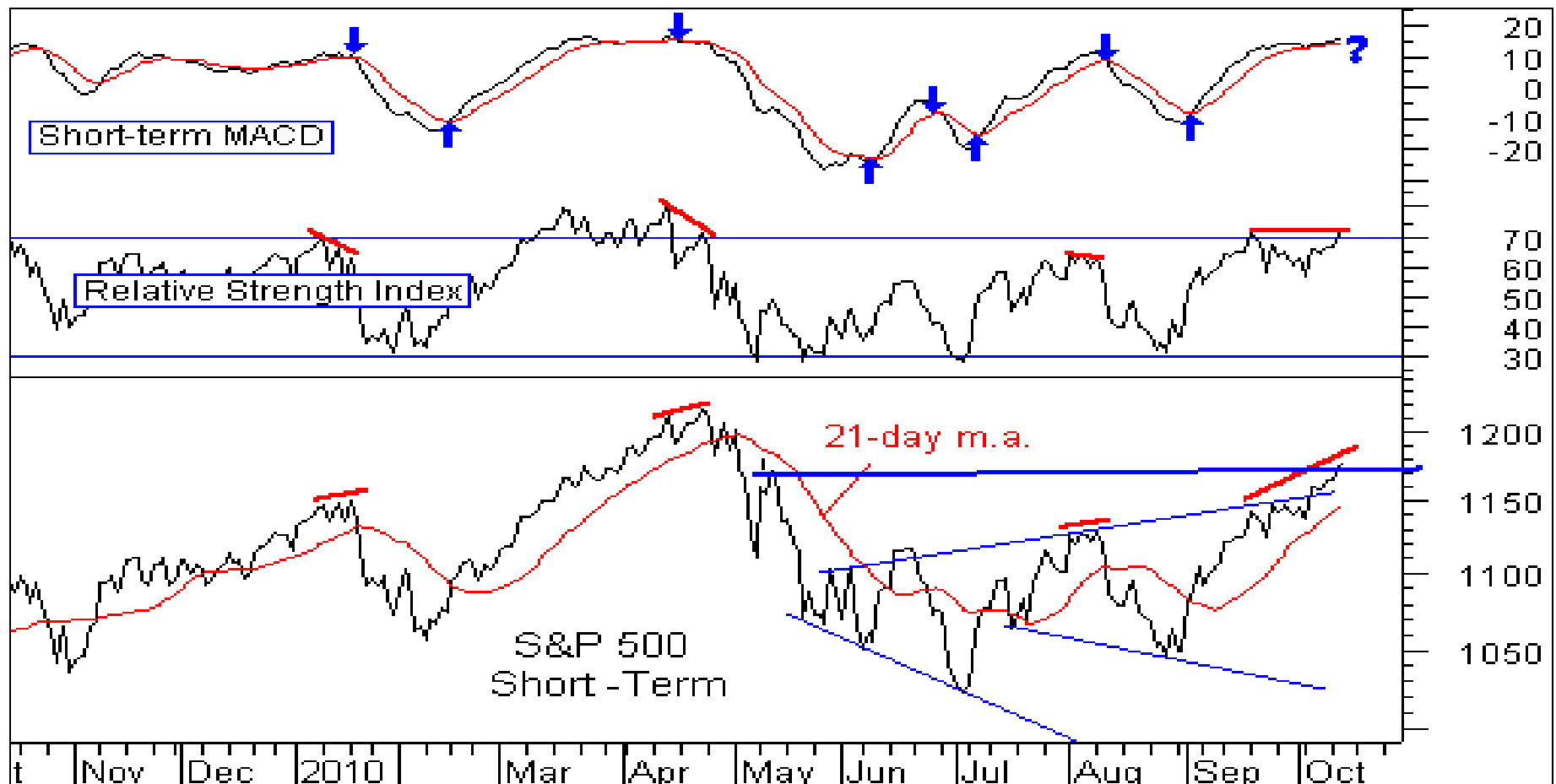
Currently we have high level of investor complacency. The markets have discounted quite a bit of very good news, November 3rd the post meeting communiqué release will be in all probability the most parsed statement. We can look for Potential "surprises, Unknowns and the Cracks among the members.

On Market Internal side, In spite of last weeks move, the 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 1200 area and SPX went into those areas at 1200 SPX in April 2010, then CRASHED. Market loves these areas to get tested due to its complete imbalanced nature of trades on that event . The Volume and breakout wise tested May 14th and May 6th areas on much lighter volume. On May 14 gap was again tested on about 30% lighter volume. We think Important highs have been found on SPX.

Primary Market Analysis - SPX

SPX – Mid Term (BROADENING TOP) & Divergences

This is now more extended , 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 for all the Negative divergences)



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

If one is Bull then let us look for C to D and if one is Bear let us look for 2 to 3. (In chart below) . In both cases a pull back / Selloff is expected from current levels. 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 of 1998 v/s XLF Today – Pattern Recognition

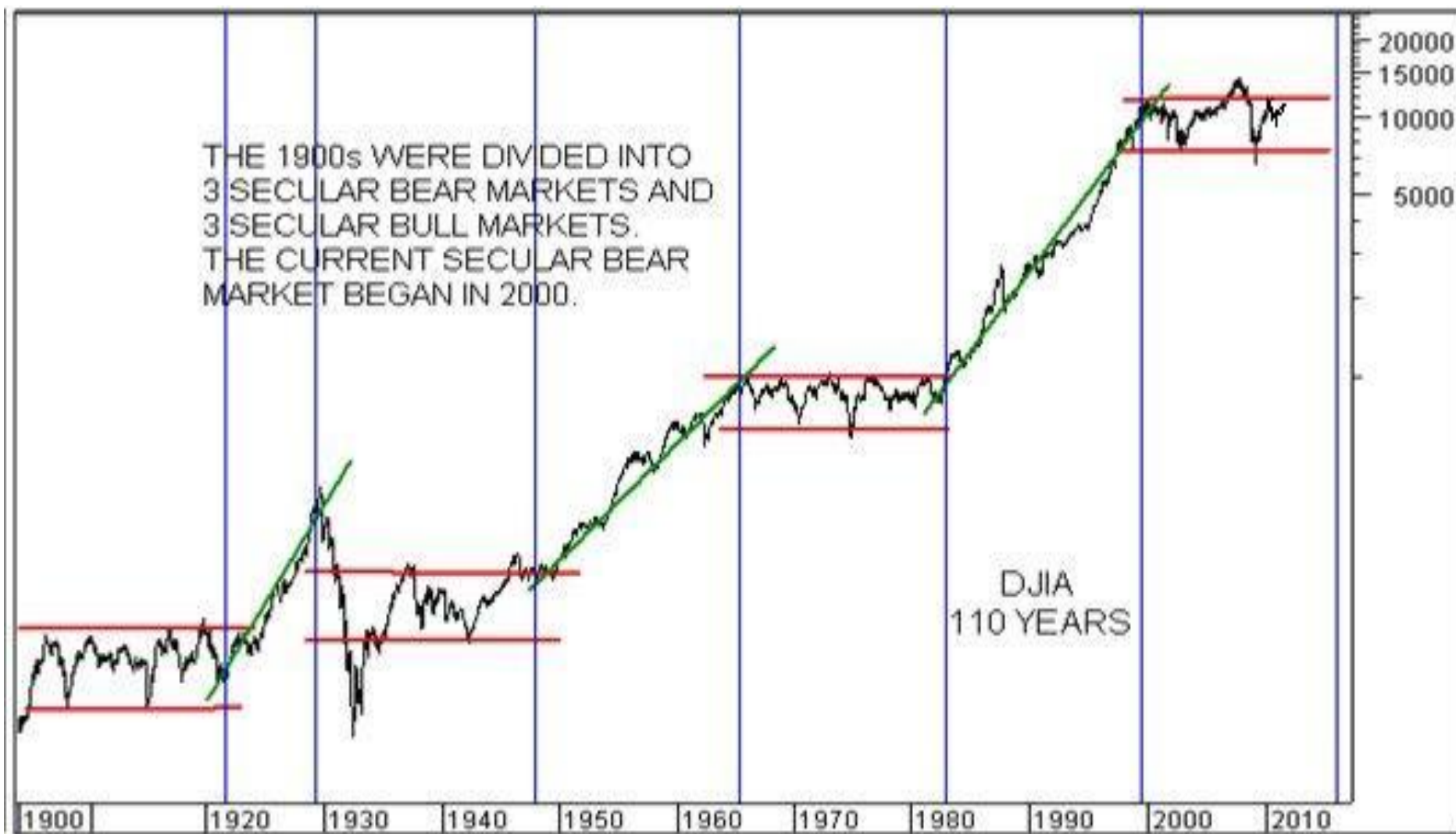
In Markets Key Patterns Repeats itself if history is any Guide. They are all created by human Behavior . This Pattern Recognition comparing the 1998 SPY chart to the current XLF chart and the similarities seem to rhyme. The current rally in XLF should be the last rally up and when it ends then an impulse wave down should start the breaks below the Neckline (red line) and head down. The

the weekly Bollinger Bands are pinching and suggest an impulse wave is about to start. Last week XLF gave a heads up with JPM, WFC, BOA.



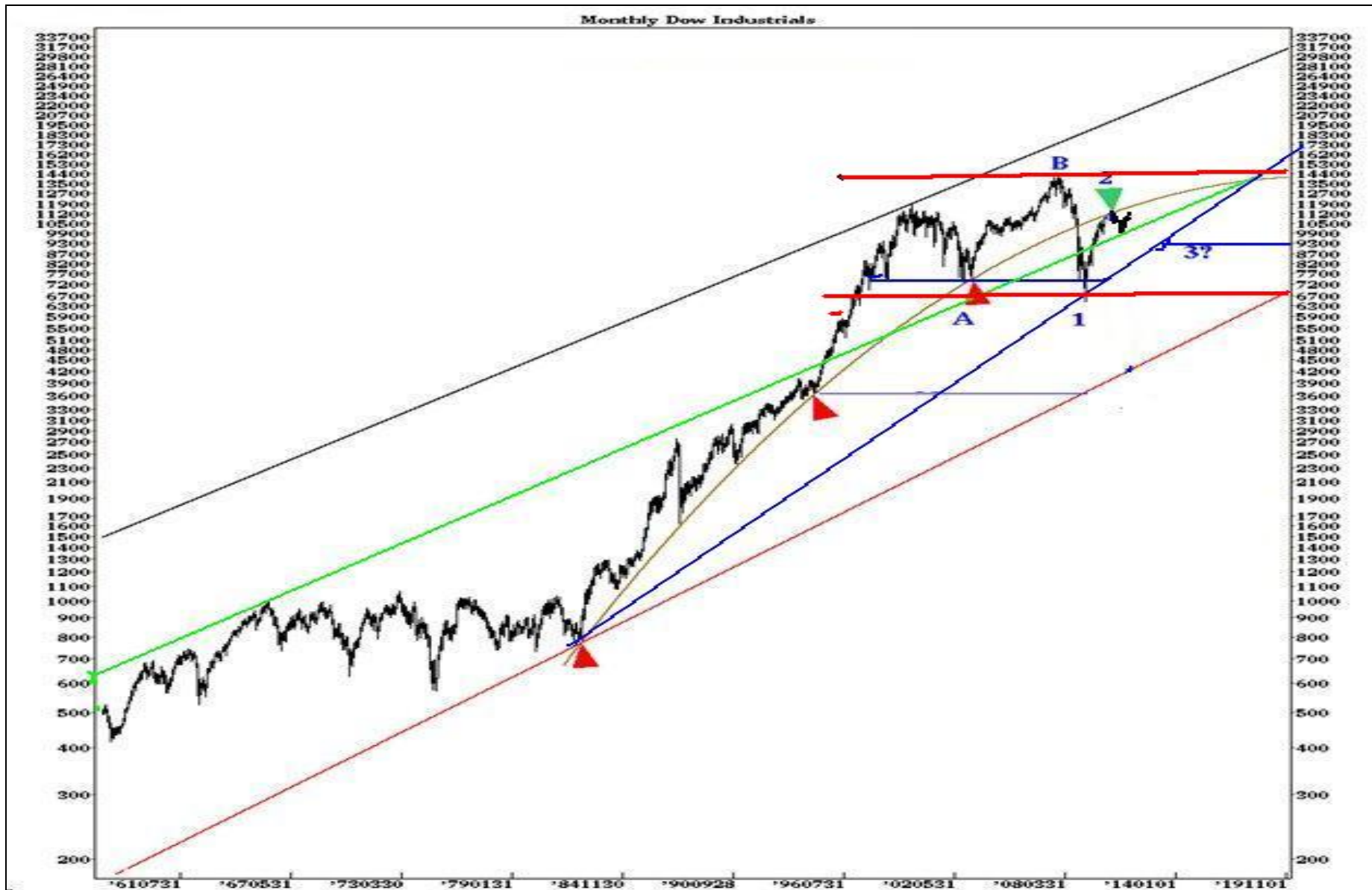
DOW - 100 Yr – Pattern Recognition (ZOOM1)

We keep a data base of several hundred charts and pull it out as when appropriate. In current Review we still have time sideways in Trading Range in Time as well as Price. If History is any Guide.



DOW - 50 Yr – Pattern Recognition (ZOOM 2)

In current Review we still have time sideways in Trading Range in Time as well as Price. Wave 3 is at 9300 (Trendline)



DOW - 11 Yr – Pattern Recognition (ZOOM 3)

We Demonstrated this Chart in our April 2010 Commentary at POM 15 - 11300. The 11 yr - RED TRADING BAND from above chart shows a sideways move in Larger Trading Range (7500 to 11500) . In chart below , the Pattern indicated in

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 till 22nd 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

We Previewed the chart SPX v/s Earnings of past 4 Quarters 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**

In our Opinion this VENUS retrograde (Combust cycle) really played havoc on everybody's mind including The Feds. Time will tell when we look back .

The Seasonality – **Bullish**

We are within a few weeks of the potential beginning of the market's historically favorable season. We use this in concert with POM Our Last Signal was 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).

Now in STS (Seasonal Timing strategy combined with POM) we are looking for POM 13 or 12 to Re- enter (POM fine tunes the entry and exits for Seasonality Portfolio) NOT Independent of other criteria. The entry's can even come as late as November.

However , we have more faith in the 20 day year end Seasonality then the 5 month seasonality

Here are some 2010 Seasonality Events

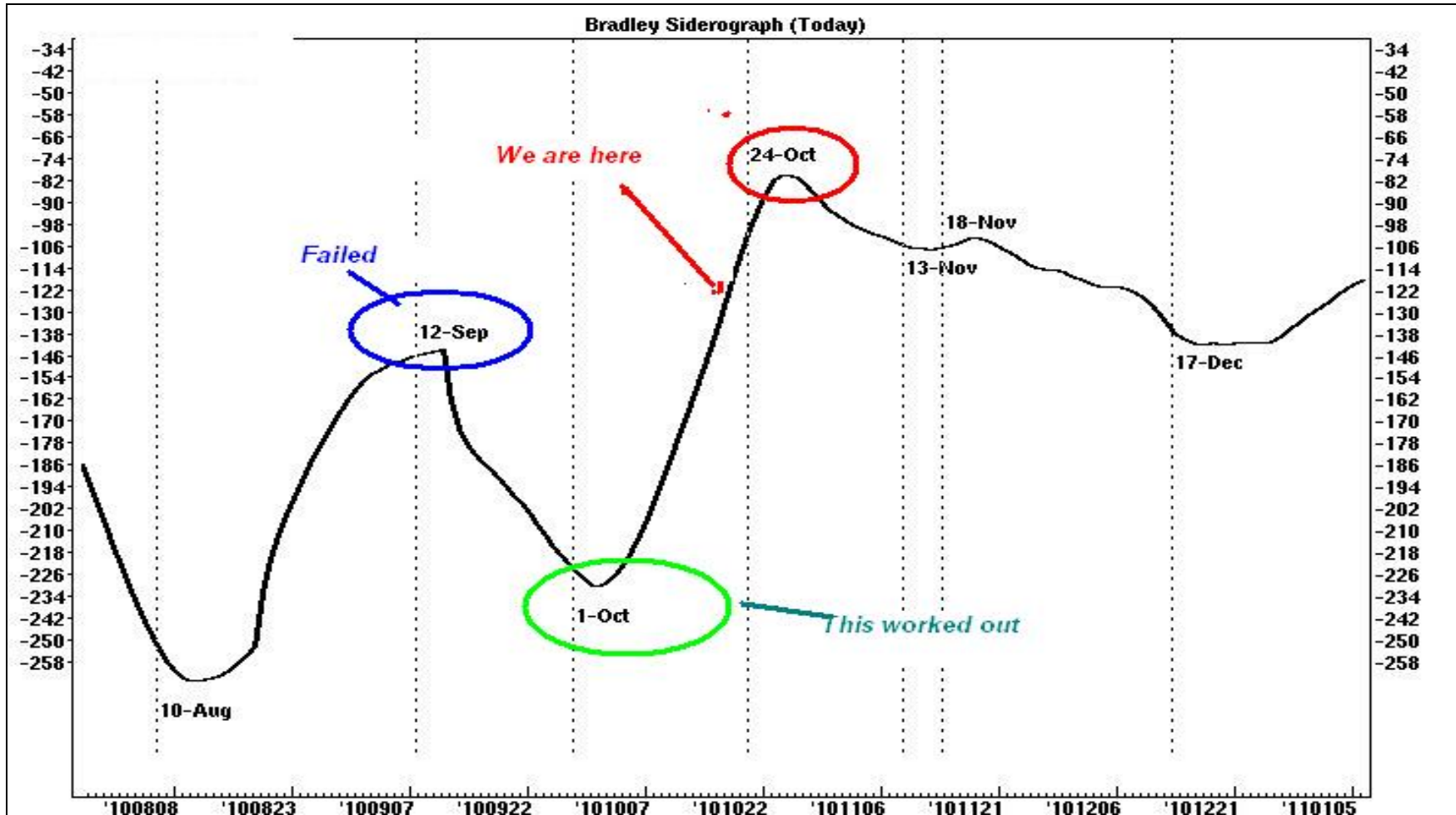
"As Goes The First Week of January, So Goes The Month"-- In the first week of January 2010, the market enjoyed a winning streak. Yet, by the end of the month, prices were back in the red, circling a two-month low.

"Sell In May And Go Away" -- And don't come back 'till October. If investors heeded this wisdom this year, they would have missed one of the strongest uptrends in stocks of the entire year from July to September.

"September Curse" -- September is widely assumed to take the financial pains. Yet this year, U.S. stocks enjoyed their strongest September in 70 years.

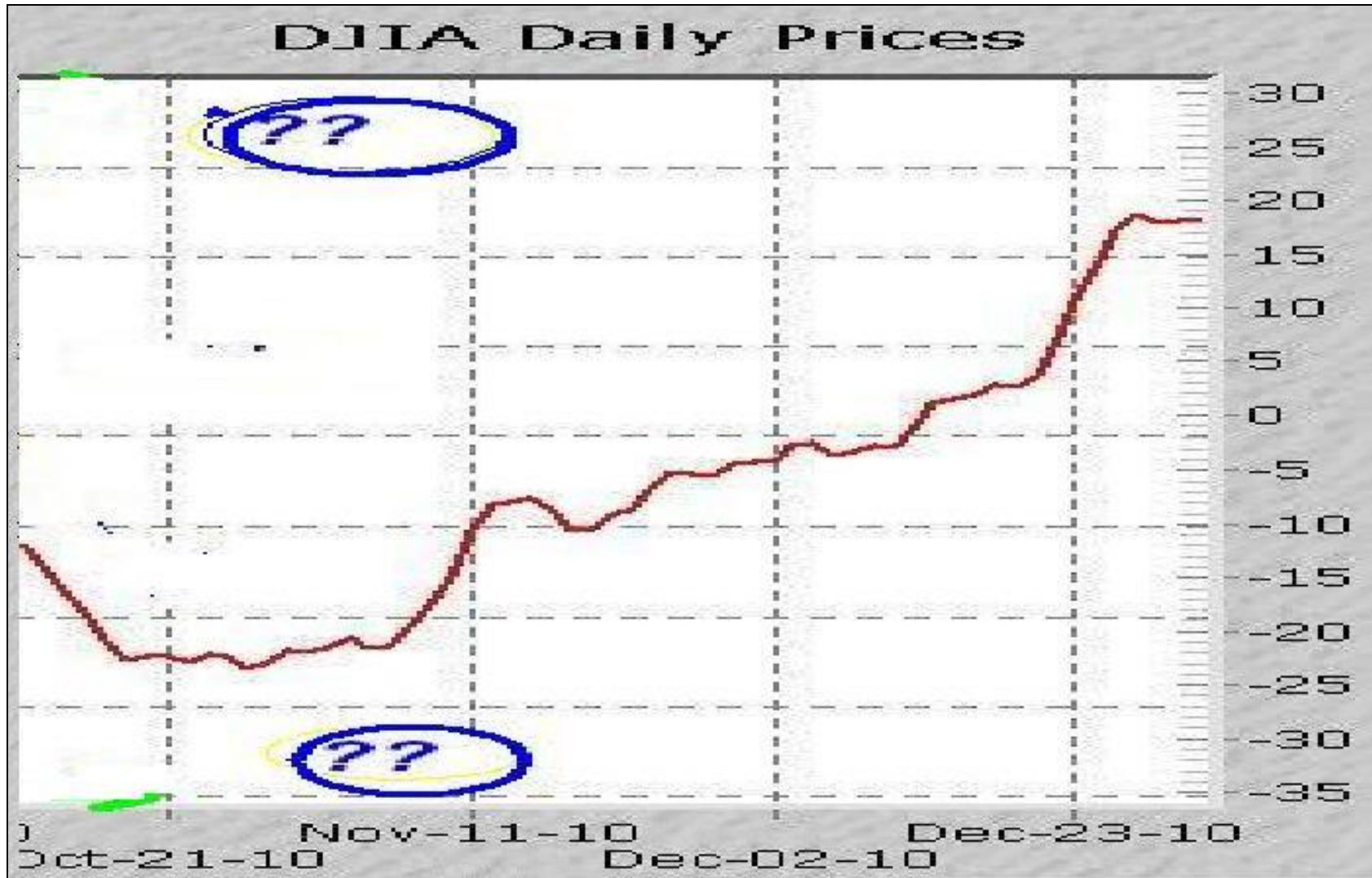
The Bradley Model – **Bullish till 24th Oct**

If the Bradley is still relevant, it's pointing toward a change-in-trend on **24th Oct** this month. If become irrelevant, then it hasn't worked for stocks but worked for Bonds.



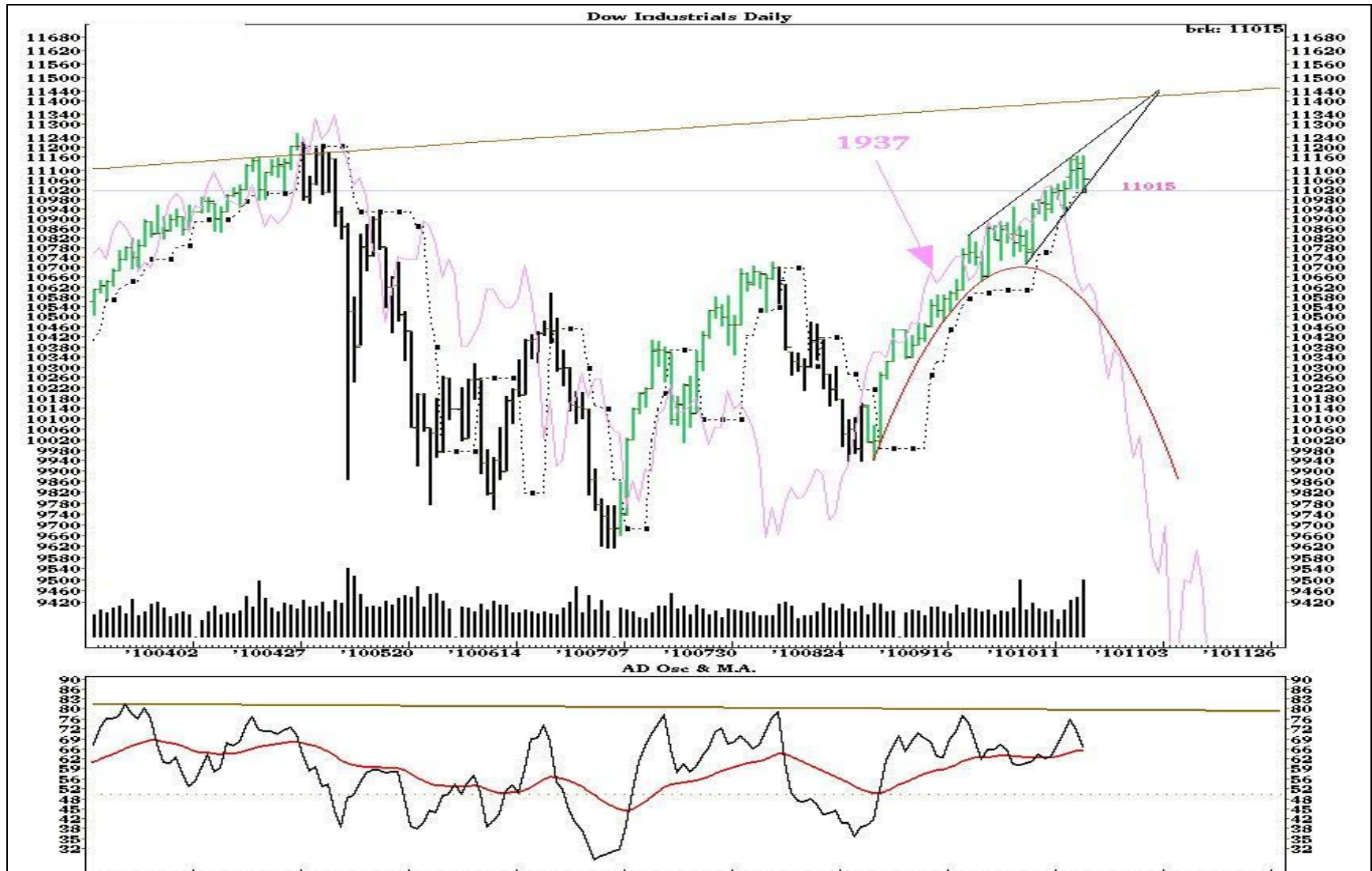
The 4 Yr – Cumulative Price path in Presidential Cycles - **Bullish**

Further projections suggests Lows on **20TH October**. The rally of presidential 4 yr cycle. The chart below is Bullish Price path



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 - Bearish

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.

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.

- **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**

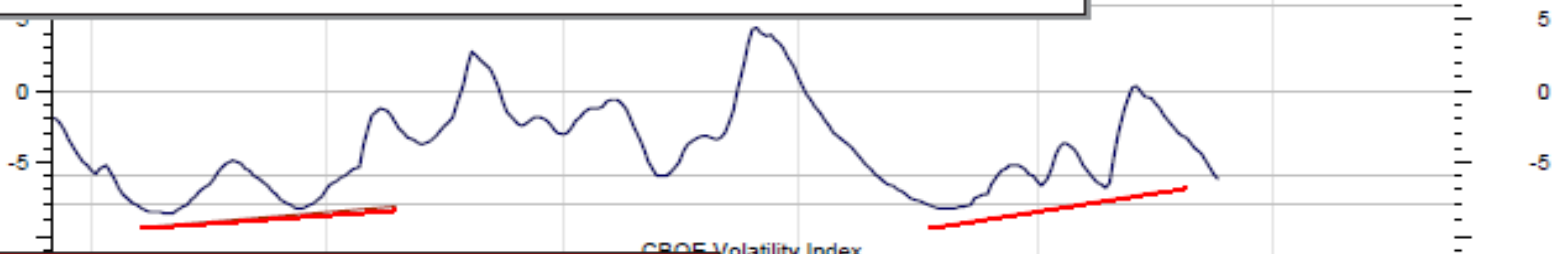
SPX – VIX - ST - TRIN INDICATORS

The bottom window is the weekly SPY/TRIN ratio. Significant highs in the market can occur when the weekly SPY/Trin ratio hits above 140. The current high reading came in at 180. Normally the SPY/Trin ratio leads a market top about 3 weeks and the 180 level was hit about 3 weeks ago. We have a 5 period moving average on the VIX and a close above this moving average suggest the SPY has seen a high. So far the weekly VIX has not closed above this high may VIX is rushing towards this level. According to the current SPY/TRIN ratio a top is not far off. We remain bearish.



VIX – Pattern Recognition - (There was some re adjustment on VIX but it should work out soon)

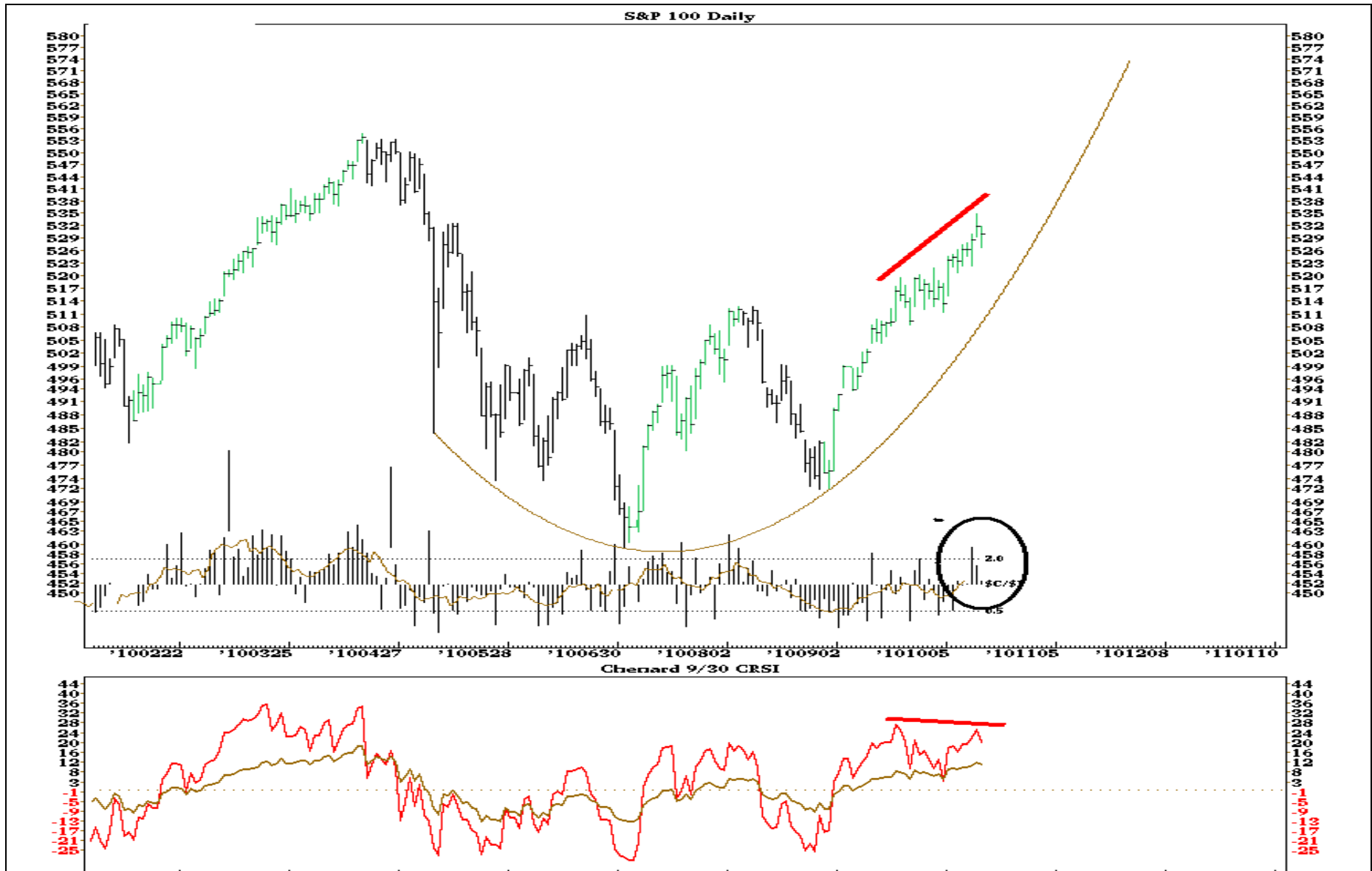
CBOE Volatility Index (Weekly) "Nearing Reversal Levels"



Over the past several years, we've seen reversals higher from the 15-16 zone. Yesterday's low was 17.90; thus traders are getting a bit more complacent.



The crowd has gotten very bullish, loading up on call options in the OEX. The stage of froth, that stage usually precedes, at the very least, a big correction. Chart circled in Black (Put / Call) in \$\$ terms



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

NASD- Short term

Money flow is not conforming the NASD move. Dangerously setup, strong warning of a downtrend that's on the verge of starting a downside. This brake out / fake out with Apple and Google masking underlying weakness in the market.



Midcap – Short term - This is critical .

Is the strongest sector and is sending an important message with bearish divergence written all over it. The recent recovery high was unconfirmed by a higher high in money flow, which is a warning that current prices are unsustainable. The rising support polytrendline and tee point toward significant reversal period to the downside .

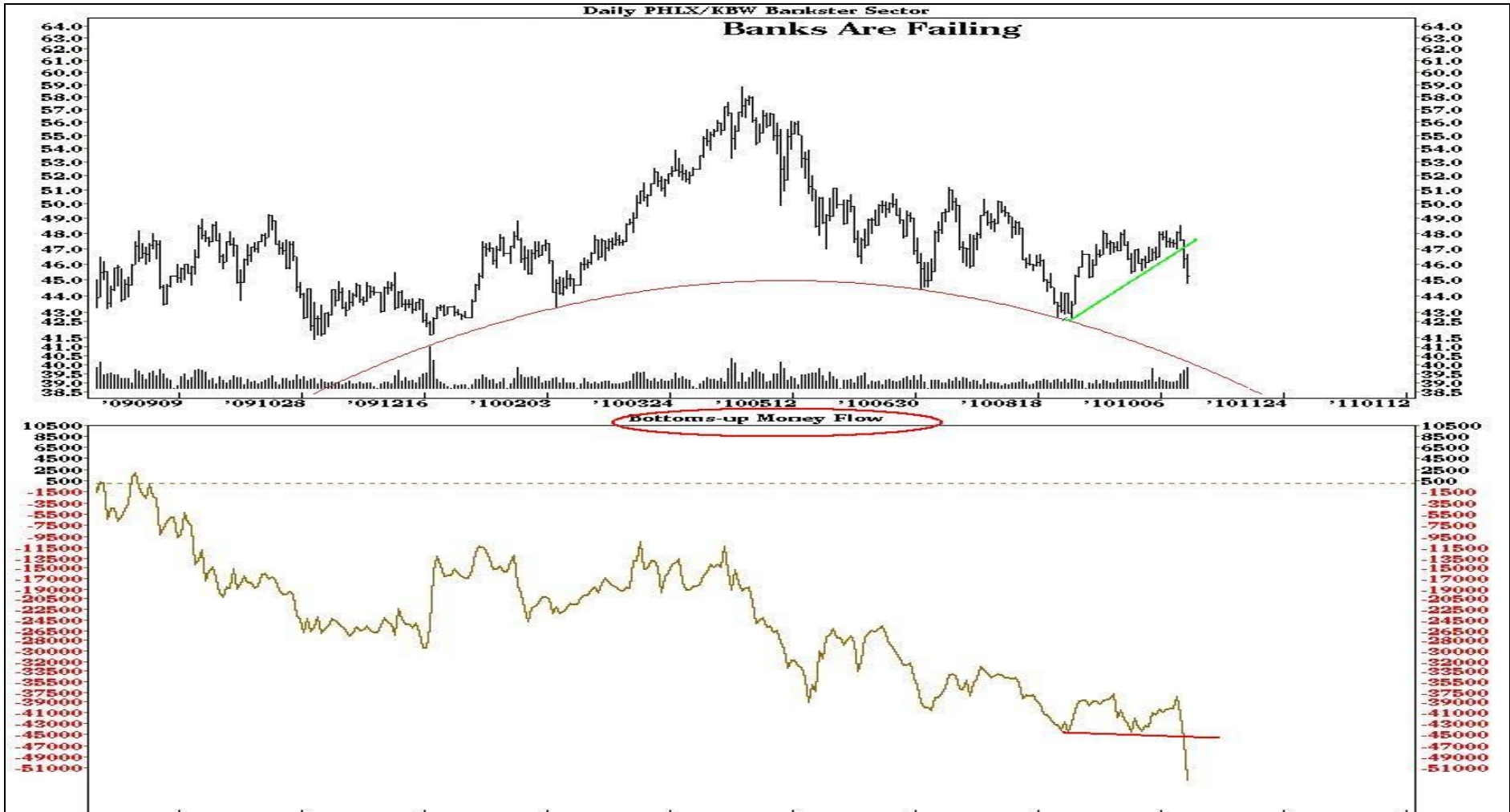


Sector Market Analysis for SPX – POM clues.

- **BKX, SMH**

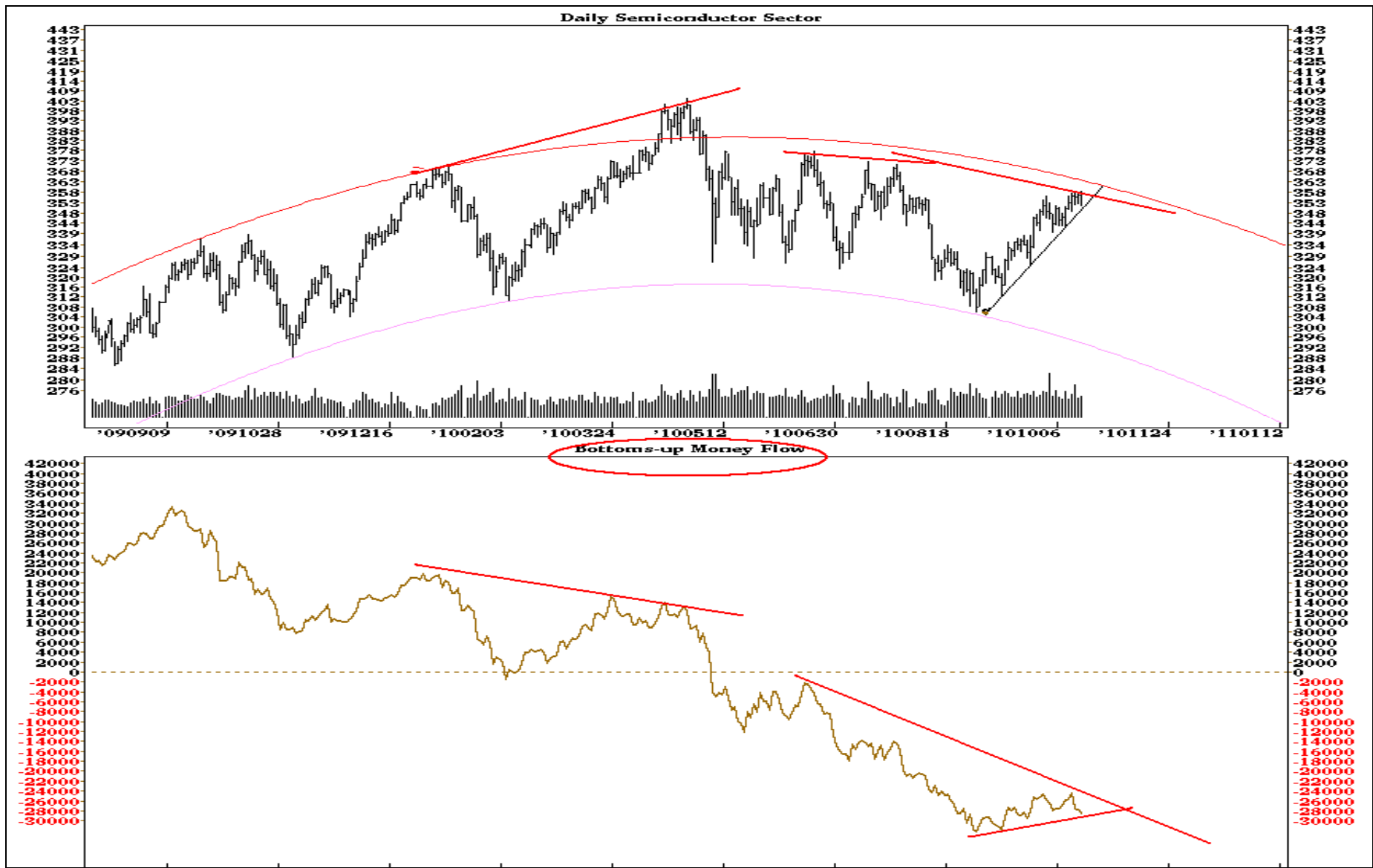
BKX – Mid term

Bank stocks are acting just like they did in the leadup to the 2008. The chart below explains the extreme weakness we've been seeing in the bank stock BKX. The banks who created the monster may end up owing the buyers of securitized mortgages. The outcome of the crisis is certainly not easy to see .



SMH – Mid term

Semiconductors lead the techs just as bank stocks lead the market. The stock market's risk-reward ratio looks very poor . 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 has been running up on increasingly bearish divergence. We could see a top finished at any time now. The RH side of Poly trend and shows massive bearish divergence in the volume oscillator . This being the 2nd largest component of EEA, should follow SPX as well with all POM 's



EEA (Monthly) - 3yrs

On Weekly basis, its gone into Lehman Crash Bar & 2010 Jan highs with lighter volume to take out the swing points of previous highs in spite of September rally. Suggest that SPX turns this will turn with it



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

EEM (Monthly) – 3 Yrs

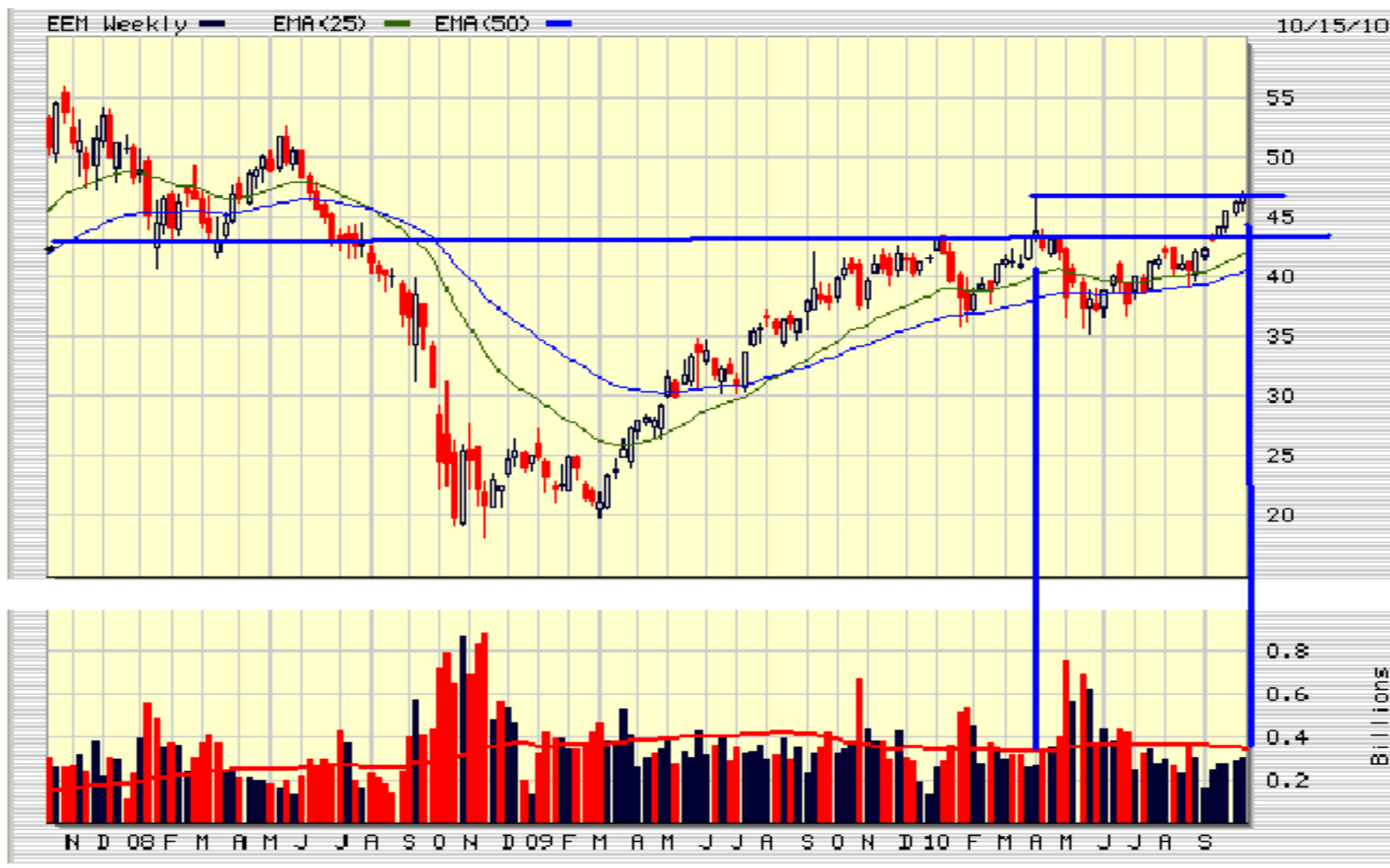
Our in dept Analysis suggest that POM – Buys of SPX (POM 11, 12) are closely related with EEM price path at different proportion but POM Sell (14) does not have much correlation , to some degree POM 15 has good role in Sell Signal relation.

Currently on monthly it does not have enough force to upside to take out the Broken Creek areas of previous lows & Highs of April in spite of September rally



EEM (Weekly) – 2 yrs

On Weekly basis, its gone into Lows of 2008 & Highs of April 2010 with Equal volume . It is inconclusive but if SPX – POM 15 is triggered , EEM is defiantly a Sell Signal till POM 13 for risk Management . (its best to Ignore POM 14 for EEM's)



- 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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