



SG Capital Research

Global Market Insights

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

MAEG- WKLY MKTSTR- GL- POM -SG 2010 # OCT 25

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By: Suneil R Pavse

Contact: apavse@aol.com

Market Strategy Global (A # 1) - SPX – Closed @ 1183

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 , DOW**
- **Time / Cycle Analysis-** 1937 Cycle, Bradley Cycle, Seasonality Cycle, 4 yr Presidential Cycle, Oil / Copper Cycle
- **Advance / Decline Internal market behavior – A/D – H/L NYSE H/L %, SPX H/L , NASD HL**
- **Sentiment Analysis with Extreme character – SPX – TRIN Ratio, VIX, OEX (@ EXTREMES)**
- **Secondary Market Analysis for SPX –POM clues – NDX, NYSE**
- **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.

- **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.*

● SPX – POM Signals & Price Projections (Update Signal)

- 2010 YTD SPX – 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 %)
 - Current Signal is skewed by QE2 for time being .
- 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 33th 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” . Our First Pull back will be to 1130 and Second 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) due to Presidential Cycle & Positive Seasonality “
 - NASD, NYSE, RUSS. EEA In unidirectional way it should follow SPX – POM Signal in different proportion as these market are closely correlated
 - EEM In unidirectional way it should follow SPX – POM Signals with high correlations at POM 12, 11, 13 & 15. (At POM 14, it continues to show its own Bull Market strength till SPX - POM 15)

• Current Takeaways

- *Our experience is that “Event driven Gains like QE2 (accumulated beyond POM 14 price point) does not tend to last. In such time we prefer to preserve the capital via Hedge till we can act decisively another day either at POM 12 or POM 15 (which ever comes first).*
- *Patience is what it may be at, There is tremendous Bullish sentiments currently. Due to “ The positive seasonality or Presidential Cycle” Or “ The impact of QE 2”. Regardless of Bull or Bear case !!. The price Equilibrium in this market is at lower prices from current level (at POM 13) and favorable Risk Reward opportunity will come at POM 12 within RA / RI framework. This is the area we would be interested again to wear a Bullish Hat.*
- *Conversely, We are seeing some signs of POM 15 Re run here especially NASD. 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 6.9% during that time frame_ but we are not for NET SHORT, till it triggers POM 15 within POM – RA / RI framework*

• 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 .*
- *The message of the market sounds redundant and has remained the same (that of topping)*
- *We are finding more clues with indicators to demonstrate our findings*

STIMULUS TRIGGERS

Markets have rallied on government pumping into the elections on November 2. That should come to an end (If we recollect the day OBAMA was elected, classic Sell on the News pattern). After the elections hopefully markets should be allowed to run mostly on their own, especially now that the banks are seen to be on the hook for large sums of fraudulent securitized mortgages and little hope of another bailout

The second date which is looking like a good candidate for is November 3, which is the "obvious" place. The Fed will announce its QE2 policy and with the market having been levitated on expectations of free money, profits will be taken. It's a case of again "buy the rumor and sell the news". And, the Fed may disappoint the crowd by announcing a smaller program than the market has factored in.

The Fed practically assured markets in recent weeks that it will be announcing another round of QE but There were some hints this weekend that the Fed is at least backing away from the size and the timing of it. Perhaps preparing markets for disappointment, St Louis Fed President Bullard said on Thursday that, "No decisions have been made

The third date could simply be, If the Congress fails to rescind the tax hike due in 2011, it would make sense for profit-taking to send the market lower and that's the preferred path. It might even setup a good buying opportunity for another bear market rally into 2011. Lets wait and see.

INTERNALS

Early November will see the expiration of extended tees although the major T 's have been expired, these are all extended T's (implying a change in trend from up to down), we have a polytrendline which is rolling over &, money flow is diverging, . . . Clearly, this is a market which is running on fumes from the Fed's QE program.

Currently we have high level of investor complacency, This is now more extended , the SPX 'broken out' to the upside but the accurate method of measuring a breakout is whether it broke out above the trendline resistance that halted its previous rallies (MEGAPHONE) where the previous four rallies have stopped with Negative divergences

In spite of the move, the market continues to move sideways around 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.

• 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

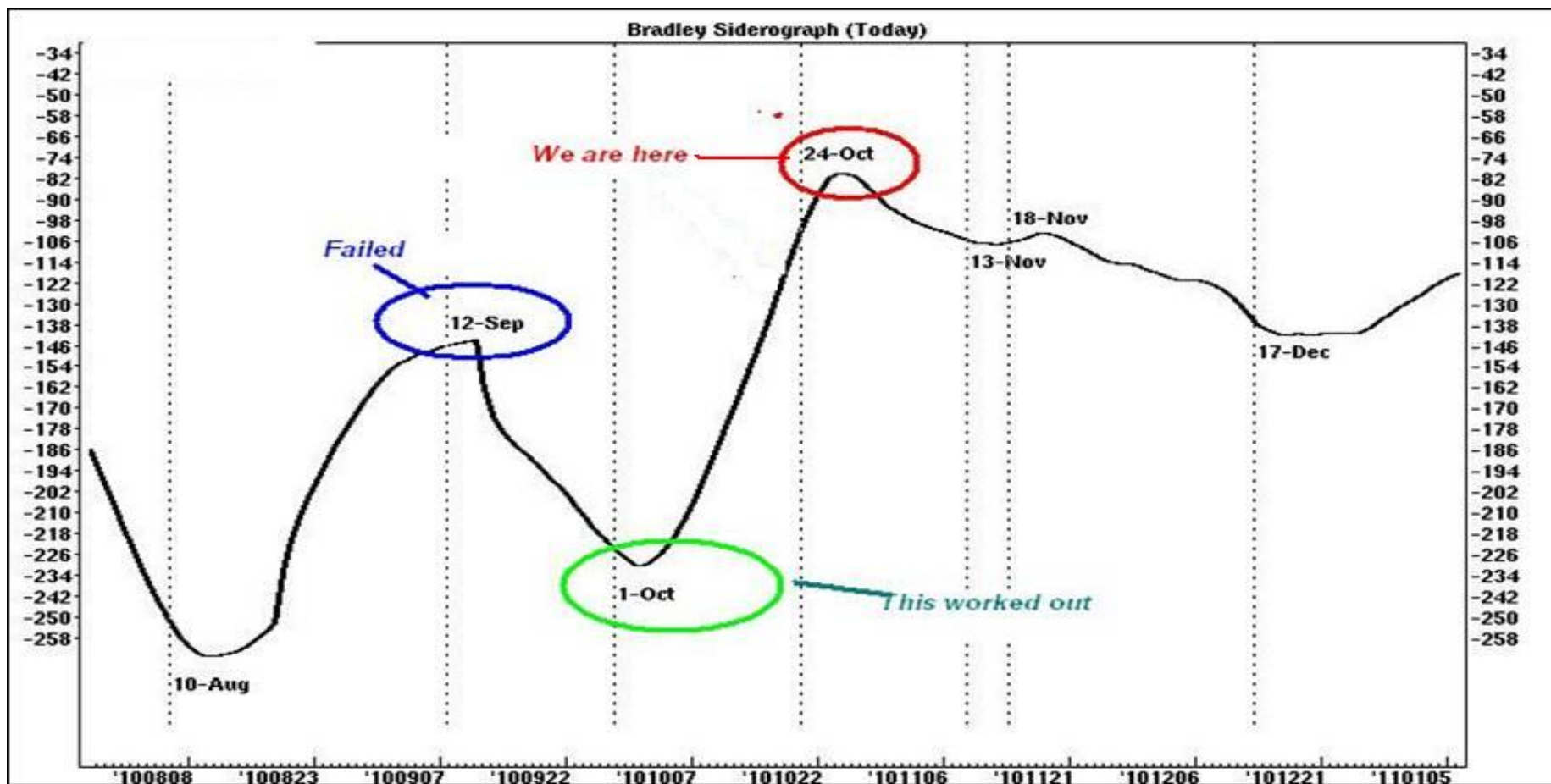
- **Main - T – Terminations are all expired** past 15th Sept but we tend to trust these when on right side of Poly trend) - **Bearish** . (see charts below)
- **Post Earnings Cycle** - began on 10th Oct and it is in progress - **Bearish**
- **The seasonal pattern** is for the market to rally from 1ST Nov to 30th April is till in tact. (**Bullish**)
- **The Bradley** is on 24th Oct to 17th Dec (**Bearish**)
- **Presidential Cycle** , positive influence to begin 20th Oct till 12th Nov (**Bullish**)
- **1937 Price path moves with current 2010** - **Bearish**
- **Jerry Minton's 20 Day positive cycle – Phase 1** - to begin on 27th Oct till 3rd Nov (Both on Market close (**Bullish**))
- **Oil & Copper Cycle – (Bearish)**

The Post 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 , Let us see how market reacts this season .

The Bradley Model – **Bearish**

If the Bradley is still relevant, it's pointing toward a change-in-trend on **24th Oct to 17th Dec** in Downtrend. (This Model hasn't worked well for stocks consistently except the last trend but worked well for Bonds consistently) .



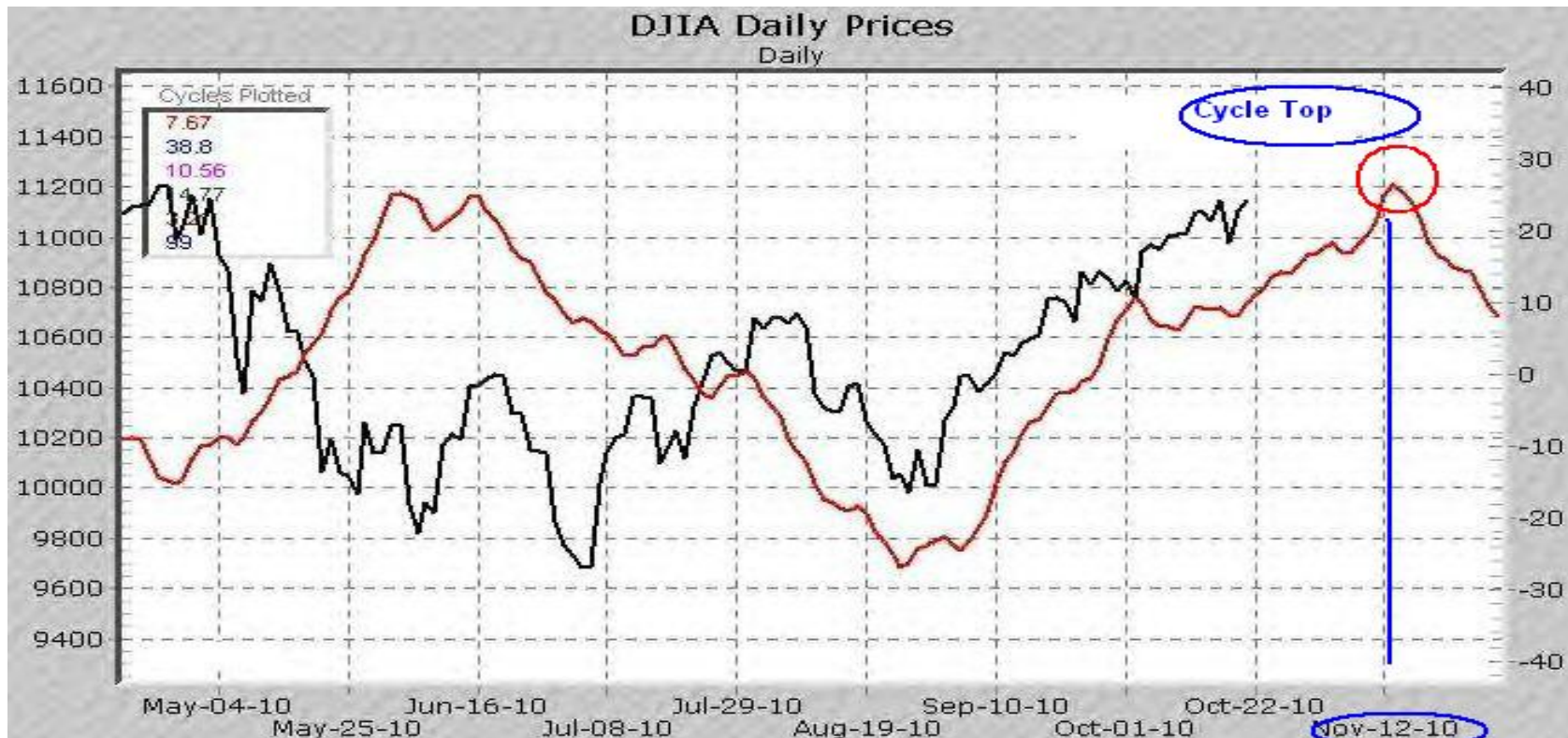
The Seasonality – Bullish

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) This is very Independent strategy . The entry's can even come as late as November.

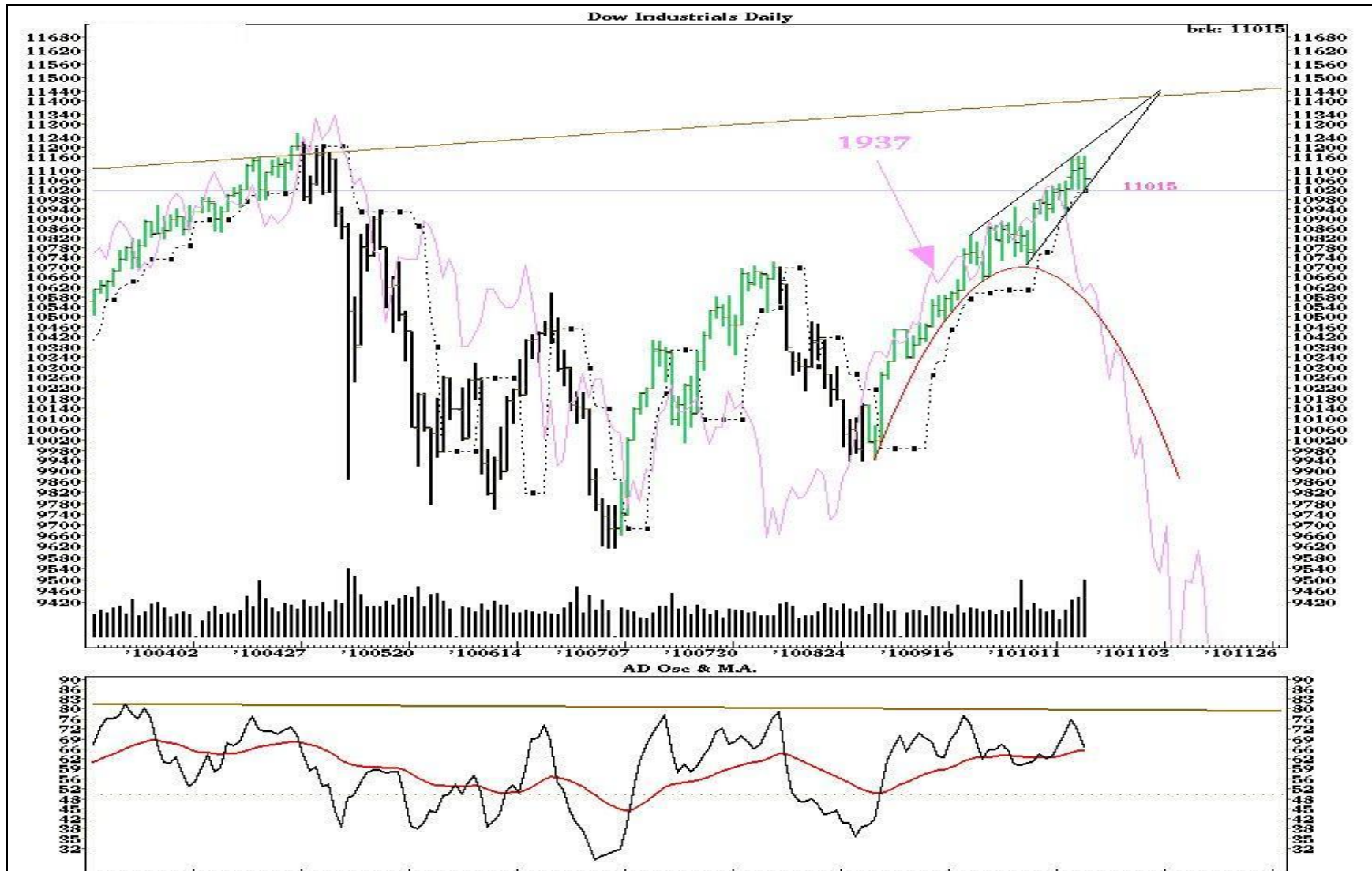
The 4 Yr – Cumulative Price path in Presidential Cycles - Bullish

Further projections suggests Lows on **20TH Oct to Nov 12th**. The rally of presidential 4 yr cycle. The chart below is Bullish Price path



The 1937 Cycle – Bearish

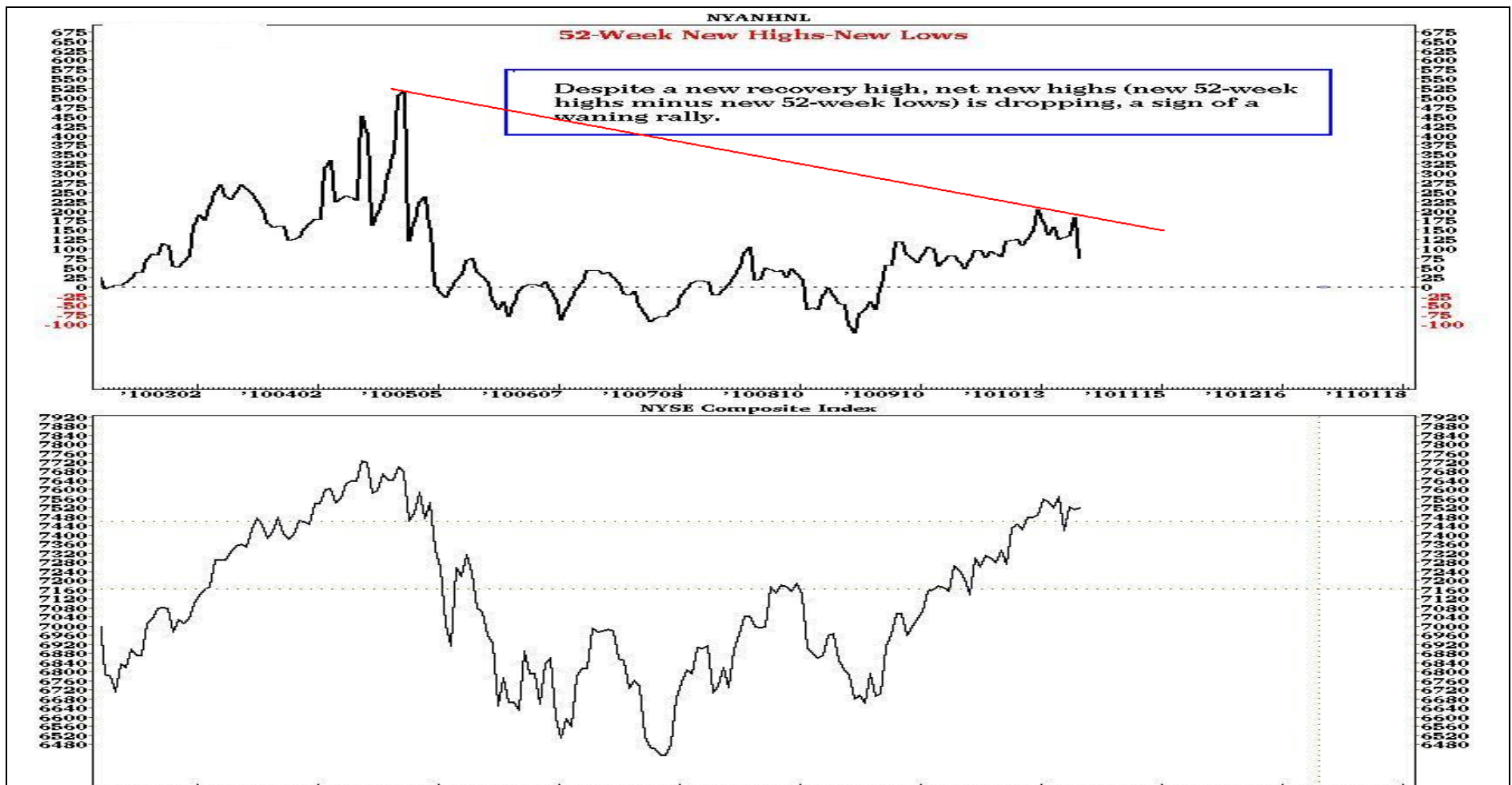
In 1937 we saw the rebound in September / October similar to current rally with similar back drop and market Breathe replaying 1937. Here in the Dow chart, we have added the 1937 line to align it with today's market , if market continues the path we are watching . We are not suggesting CRASH but we are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



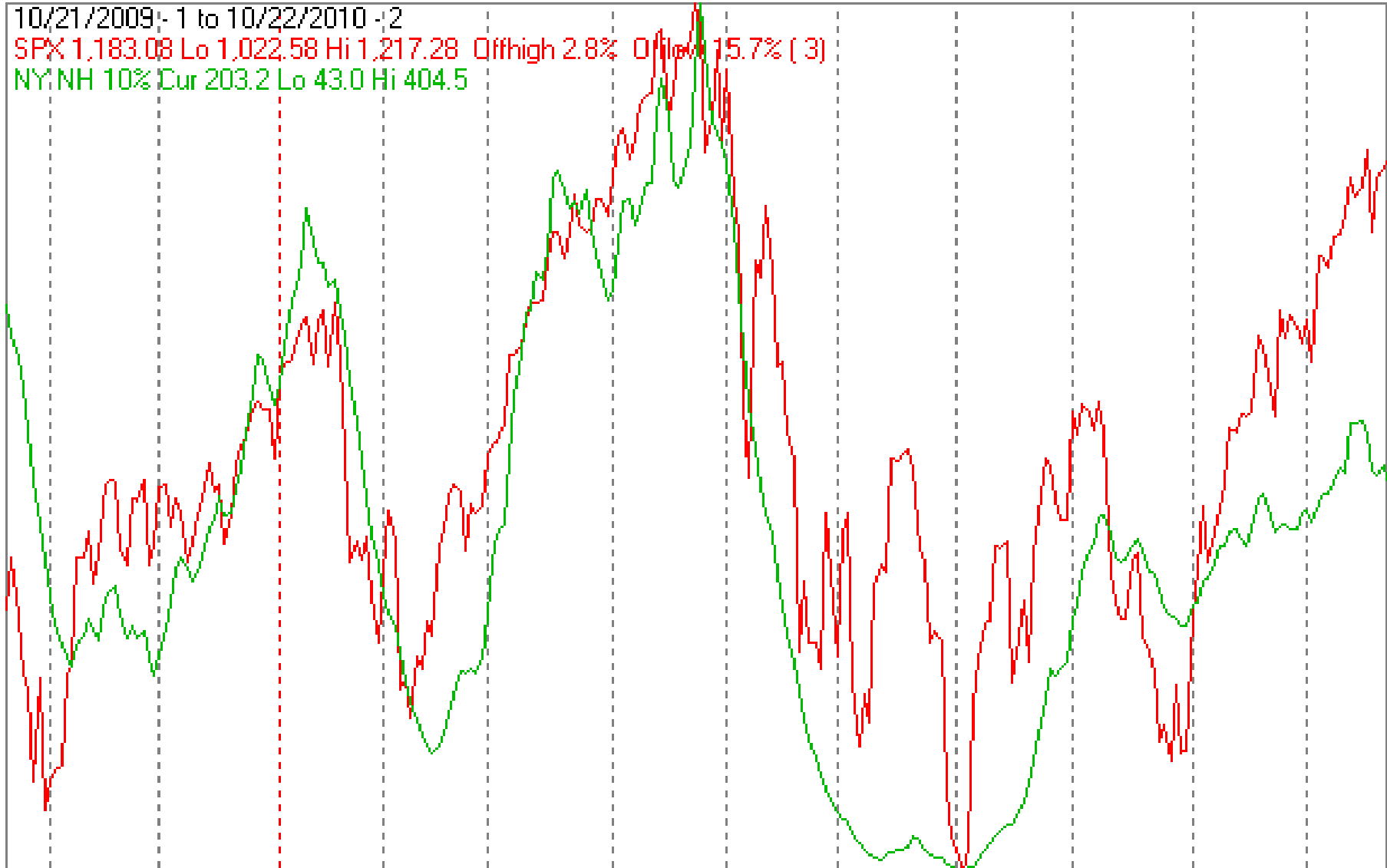
• Advance / Decline Internal behavior Analysis

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

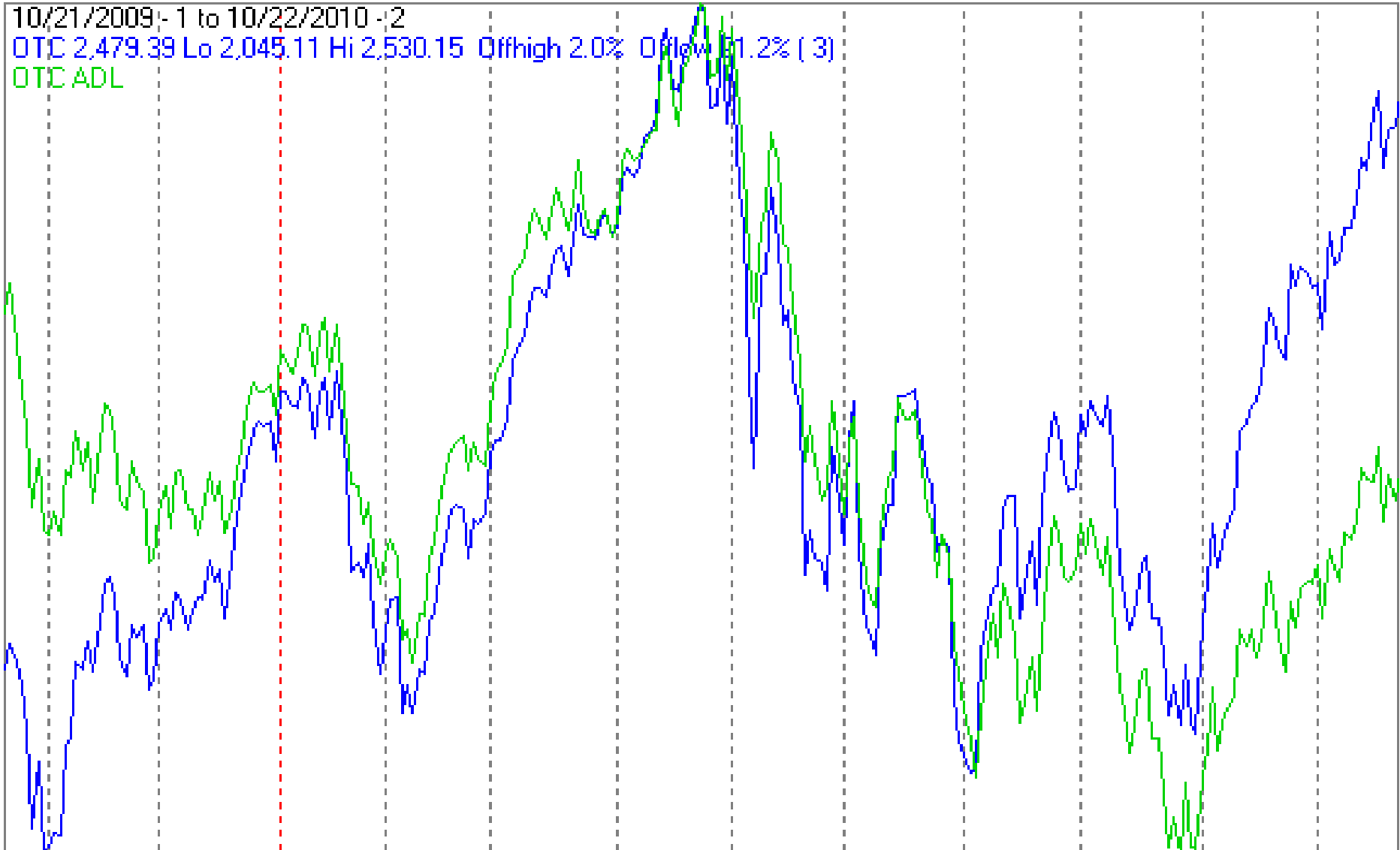
A / D – 52 w - NH / NL - Bearish - In a rising market you expect new highs to expand and they have not at the rate you would expect. The 52-week highs and lows continues to diverge bearishly: The advance-decline line oscillator is failing to reach new highs while the index is doing so, which is another bearish divergence.



SPX - NY NH 's The chart below covers the past year showing the (SPX) in red and a 10% trend (21 day MA) of NYSE new highs (NY NH) in green. The trajectory of NY NH has been sluggish relative to that of the SPX since the late August lows.

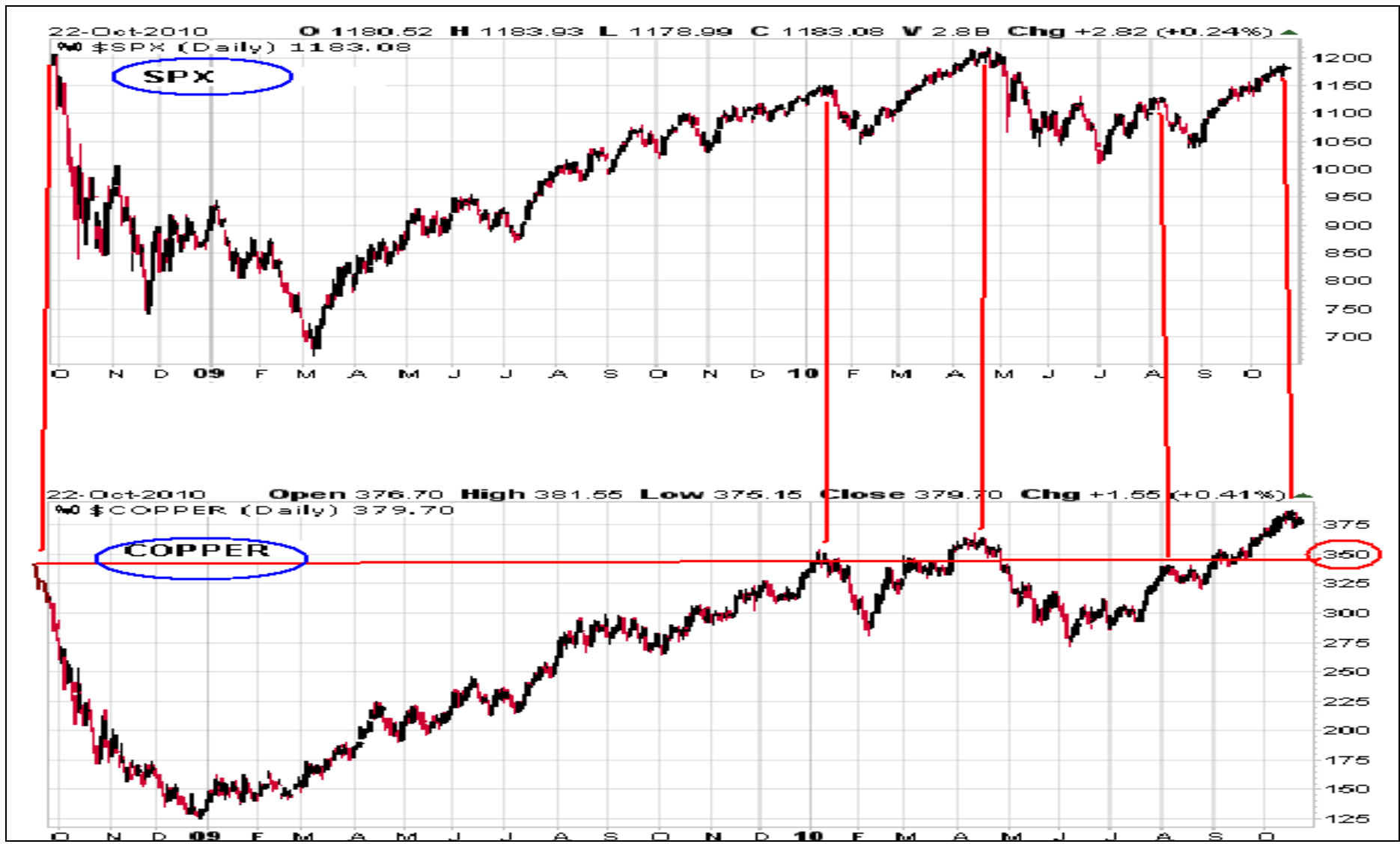


NASD – NH 's - . The chart below covers the past year NASD in blue and an ADL calculated from NASD issues (ADL Advance decline lines) in green since the late August low.



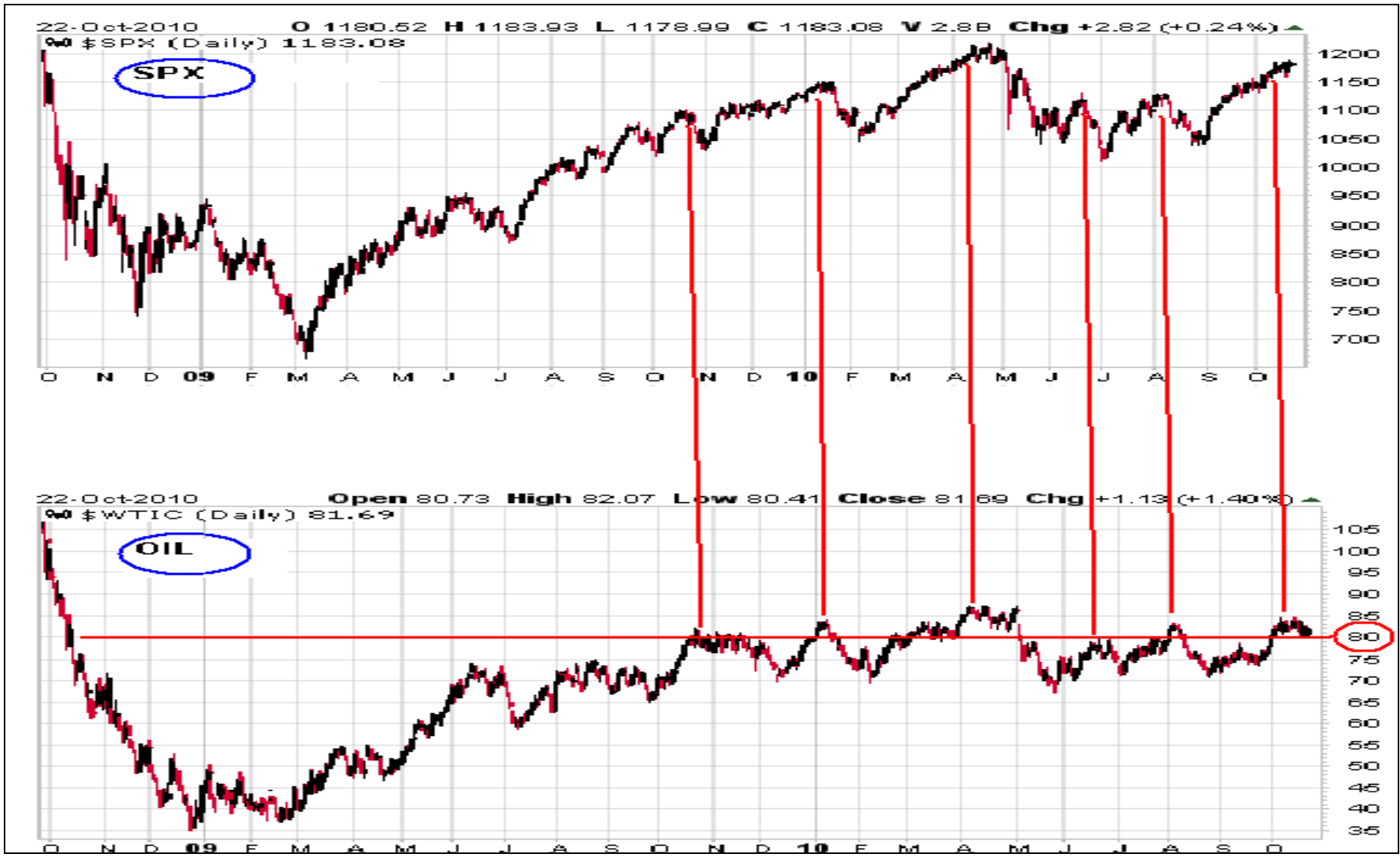
Copper Cycle – Bearish

The chart below shows SPX v/s Copper , every time the copper crosses 350 , SPX tends to top out



Oil Cycle – Bearish

The chart below shows SPX v/s Oil, every time the Oil crosses 80 , SPX tends to top out . The soft economy is not able to handle the price of oil.



- 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 ,

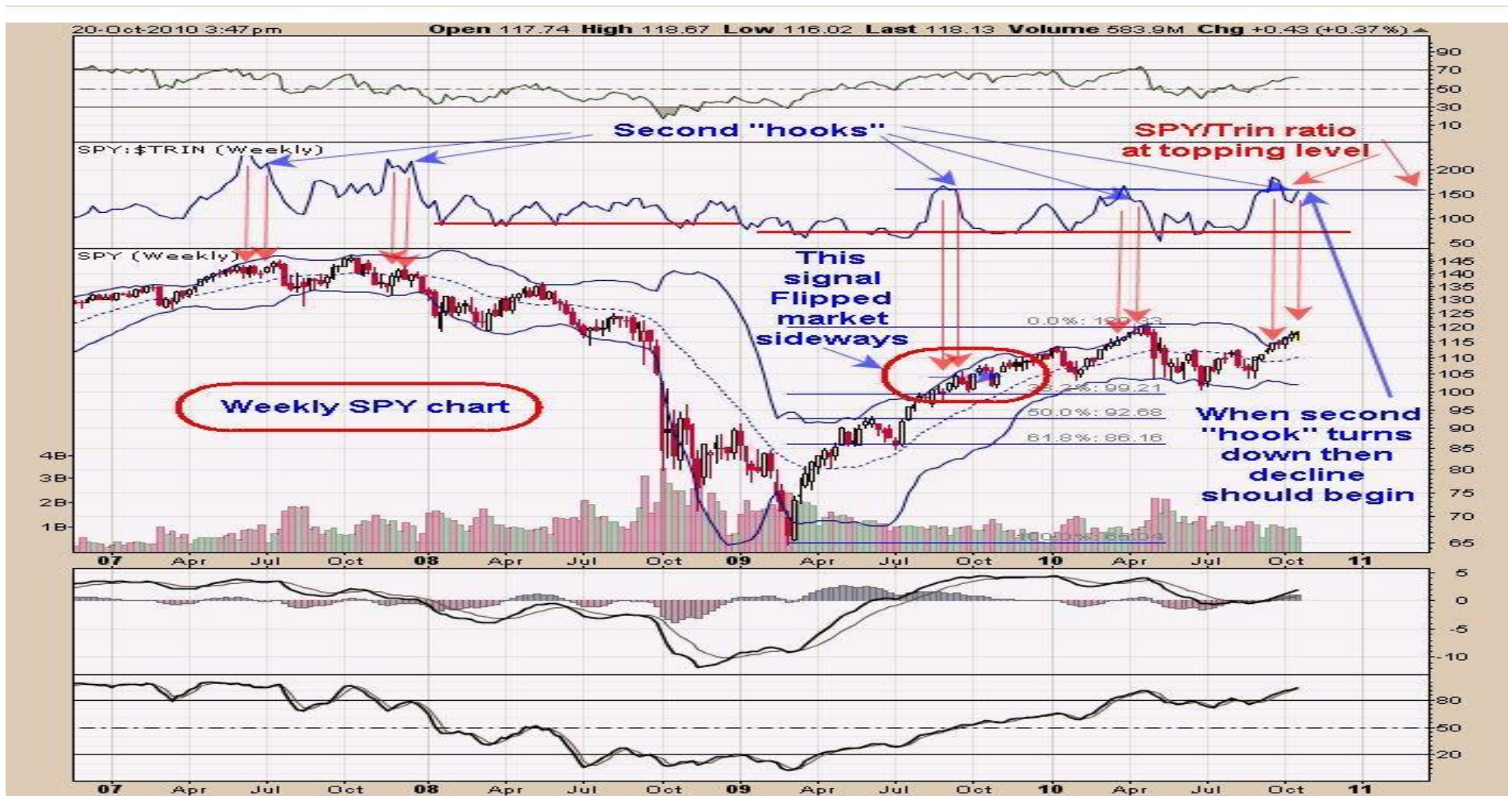
Based on current market condition and the probability of Indicators we point out the EXTERME INDICATOR ONLY as a observation points.

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 a specific glitch similar to April

SPX – TRIN INDICATORS - **SECOND HOOK**

The bottom window is the weekly SPY/TRIN ratio. Significant highs in the market can occur when the weekly SPY/Trin ratio hits above 150. 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. The VIX is shy of the white area today but any decline in the SPY will most likely push the VIX into the white are. Notice that once the SPY/Trin ratio has reached above 180 that declines come in the SPY once this ratio closes down from the second hook. The SPY/Trin ratio is forming the second "hook" now but has not turned down. Any rise in the Trin above 1.50 on a closing basis most likely turn the second "hook" down. Maybe the markets are waiting the Elections on November 2.



VIX – Glitch – Imbalance of Hedges

The VIX Index acting very similar to how it acted at the stock market high of late April: A rally to the upper trading band would be confirmation that a big move is underway in VIX to the upside, which would likely imply a major move in the stock market to the downside. In April and now it traded outside the Bollinger bank – in knee jerk reaction. It's a warning sign.



Primary Market Analysis - SPX

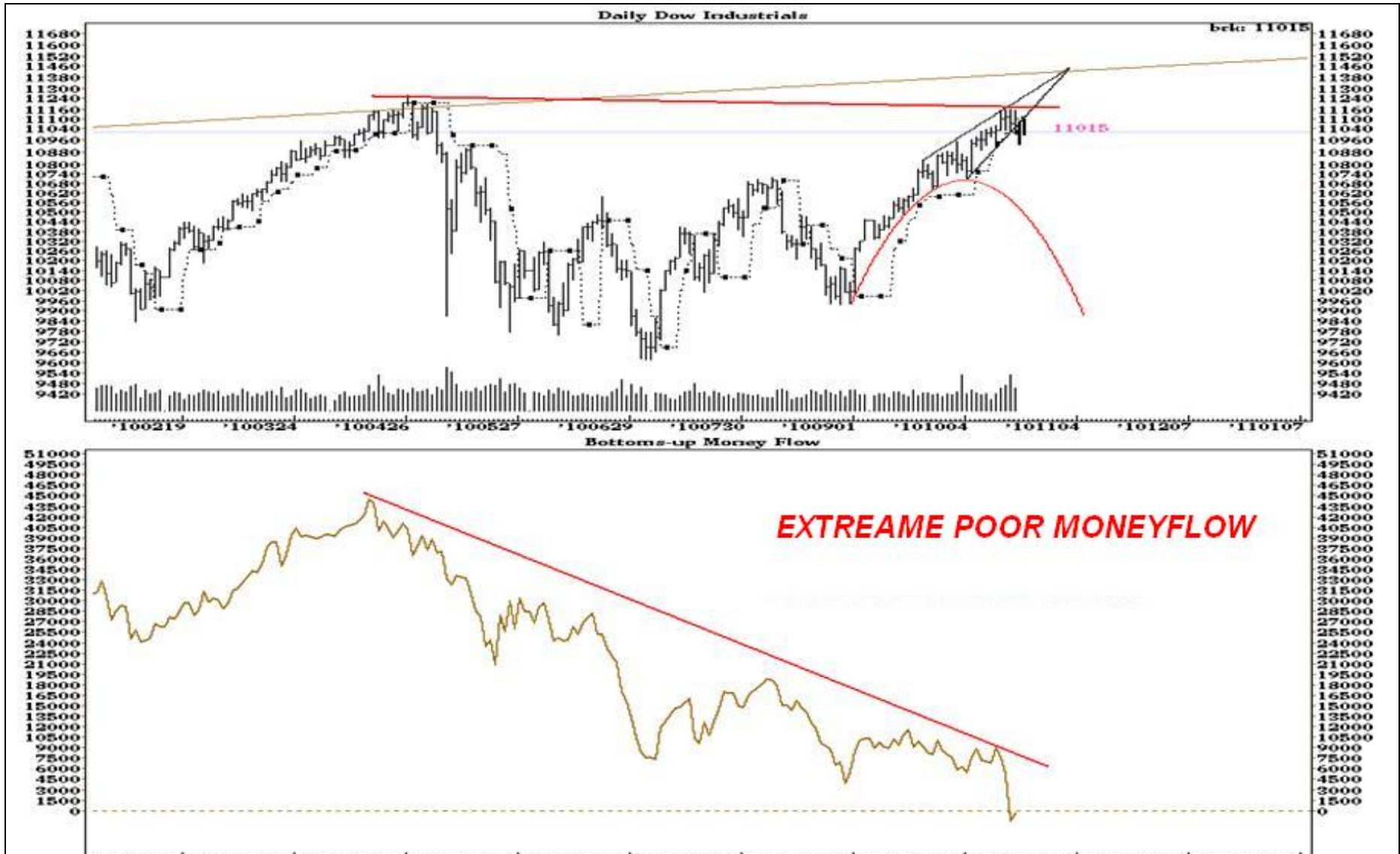
SPX – Mid Term - Waves 2 and D projects lower - Money Flow, T – Termination expired.

A pull back is expected from current levels. Wave 2 & D. 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



DOW

Dow money flow line is atrocious and continues to warn that insiders are bailing out of the big blue chips in droves (Usually that is the last group to sell) . The polytrendlines is that a deviation from that trend " which immediately tells you that the full potential isn't going to be reached.



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

NASD– Short term

Apple is 20% of NDX and that's not a good thing. But, it means that the fever must break before NDX has any meaningful downside potential. **Money flow is not conforming the NASD move. Dangerously setup**, strong warning of a downtrend that's on the verge of starting a downside.



NYSE.

The polytrendline and tee point toward significant reversal period to the downside . with bearish divergence written all over it.



Sector Market Analysis for SPX – POM clues.

- BKX, SMH

BKX – Mid term

Bank stocks are acting just like they did in the lead up to the 2008. The chart below explains the extreme weakness we've been seeing in the bank stock BKX.



SMH – Mid term

Semiconductors distribution pattern continues. 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 rising wedge pattern is bearish closes in on 27TH. 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

Our in dept Analysis suggest that POM – Buys and Sells of SPX are closely related with EEA at different proportion. But certainly Independent Analysis of EEA contributes towards SPX topping & Bottoming process as a input Signal.

On Weekly basis, its gone into Lehman Crash Bar of 2008 & 2010 Jan highs with lighter volume to take out the swing points of previous highs in spite of September rally. **Suggest that when 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.

On Weekly basis, its gone into Lows of 2008 & Highs of April 2010 with Equal volume . It is inconclusive EEM clearly ignores POM 14 but we think if POM 15 is triggered in SPX, then EEM will follow that signal till POM 13.



- **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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