



SG Capital Research

Global Market Insights

Research Note – Interim Update (A# 2)

MAEG- INTERIM UPDATE # 02 SG 2010 # OCT 06

For Immediate Release – *Wednesday AM (EST)*

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Market Strategy Global (A # 2) - SPX – Closed @ 1160

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

- **Special Coverage**

- SPX (ST)
- SPX (MT)
- SPX with OIL
- MIDCAP
- XLF
- TLT
- SPX – POM 12, 11 Extension study (10 is Crash)

• 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% 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 22rd 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- @ 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” with a longer time frame Portfolio (RA/RI)discipline). Therefore this is Actionable Zone in the POM extension of +5.0%.
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- “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 ”

- Accumulations continues in the “SETUP - PQV VALIDATED EQUAL WEIGHTED PORTFOLIO (in Section E – MAEG) during this SPX extension of 5.0 % 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).
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- This Portfolio is to Hedge 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

• Market Insights

While the extension is more than we would like to see, it is to Hedge the Longs . We think this is not a new ABC UP by any means. The natural retracement of this move (consider A point from 1010 lows and /or 2nd A' point from 1040 lows) even in run away bull markets pull back should be to 1105 SPX (this is area around where our last POM 13 was triggered on 4th Sept) . We certainly think this SPX market is being driven by DXY when DXY puts a bottom, (currently looks like last Engulfing similar to Euro had at 1.19. we will see) All the markets will flip on other side and follow. DAX which is our proxy for Europe have not broken out to its highs in spite of this AM's rally and Euro rallying that kind of puzzling .

Historically on an average our POM Change signal comes approximately every 45 to 50 days. This current extension is 23 days and 5% move from our POM 14. At POM 14 our recommendation is initiate a Hedge position with weak stocks “ PQV validated SETUP 2's “ on the Long position taken at POM 12 @ 1020 or at POM 13 @ 1045.

The exhaustion rally in stocks came after the Japan announced cutting interest rates to zero and buying shares on the open market and then Chinese buying of euros. Then Fed with its POMO. When you have so many governments acting in such unconventional ways and market rallies it always scares me. Again Market rallying on good news in overbought condition.

Internals in this case with signs of internal breakdown. The Advance-Decline Oscillator Line continues to fail to make new recovery highs while the index does so, a bearish divergence of the first order and the Money flow lag is the second order: Most of T Termination have expired and market continues.

An advance:decline ratio of 20.00 is a end of the trend phenomenon, not one of the beginning of the trend which comes out of mechanical buying and selling which synchronizes all equities to trading computers. When the time comes to sell, all stocks will be sold, not just the weakest.

And, an ARMS value of 0.28 does not match a market where the Dow was up 200 points. This is a second time it has happened in his 5% extension we have seen since POM 14 Re run at 1104.

Important day for us to watch !! 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. I think we are all experiencing it Bull being insecure that the gains will be taken away and Bears worried about the Squeeze . I must say Retrograde is working . It gives a sense of extremes so to speak.

SPX – Hourly

We had presented this Hourly chart last week and green price path is chased by traders who love this pattern, See the chart below , we could be the hook that really traps a lot of traders. With money flow and Volume negative



SPX –

Sharp rally in SPX could turn out what they call is a “ Fox bite” by traders when market jumps above previous highs (on low volume) and triggers the stops orders and then drops down below the highs and is when the real decline starts. This is also called an “Upthrust”. There is also other evidence to suggest rally is that and that is the ARMS index close. When market has been rallying for a while and the ARMS index closes below .40, then this condition shows exhaustion in the rally. This condition appeared twice in this extension and also near the June and early August highs and again today. Today’s ARMS closed at .28.

SPX 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 SPX has topped out . This divergence showed up at the Early August high as well as the April high.

IMPORTANT

In spite of yesterdays 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)

But for now this is also happening at the back of Foreign currencies reaching their inflection points causing this volatility. Talk about cross currents !!! .

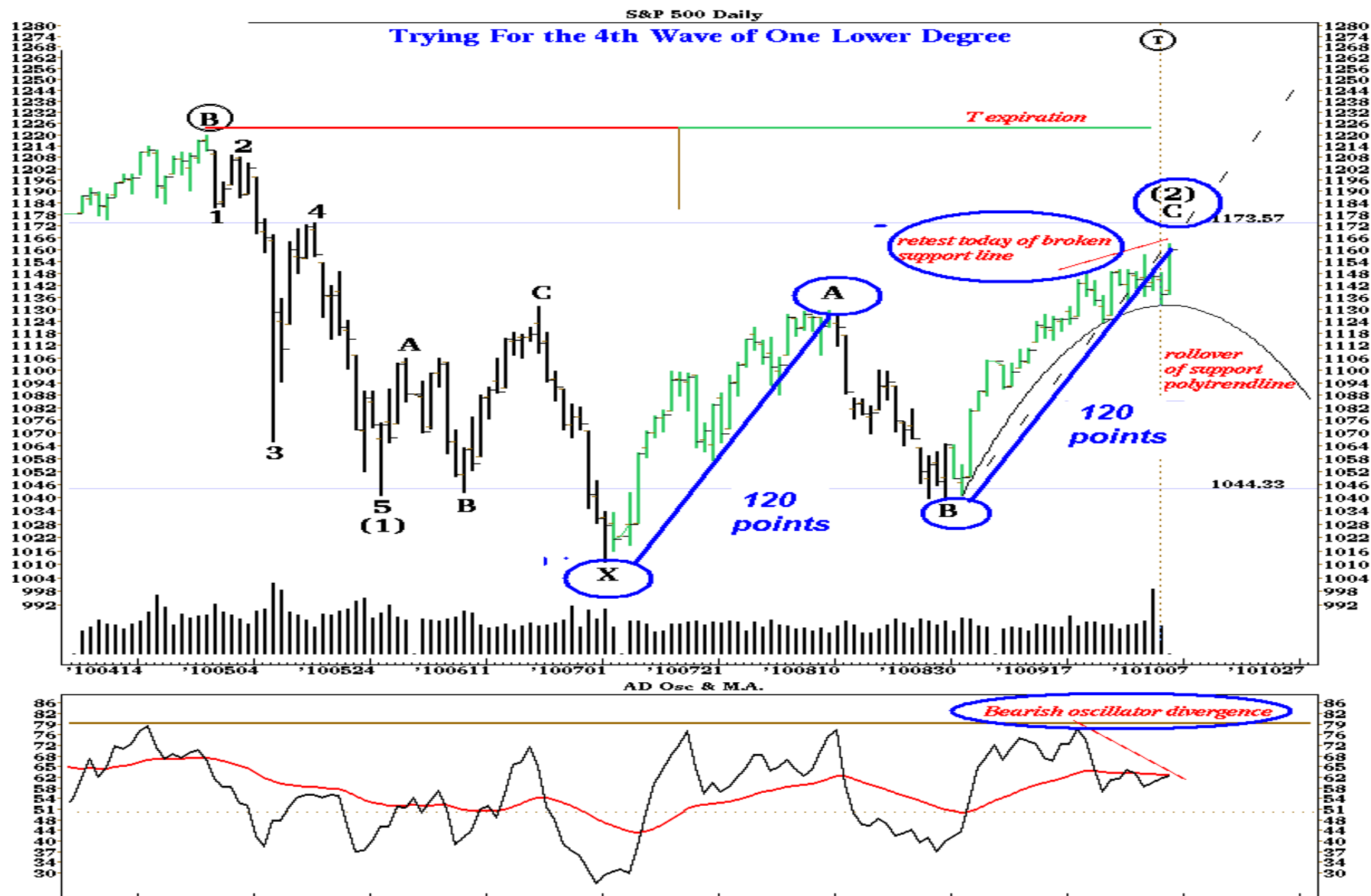
Whether it is able to reach it is hard to say. The target of **1170 where the Crash point began** is only **10** points above high. Every one from loosing position want to get even .

SPX – Important chart



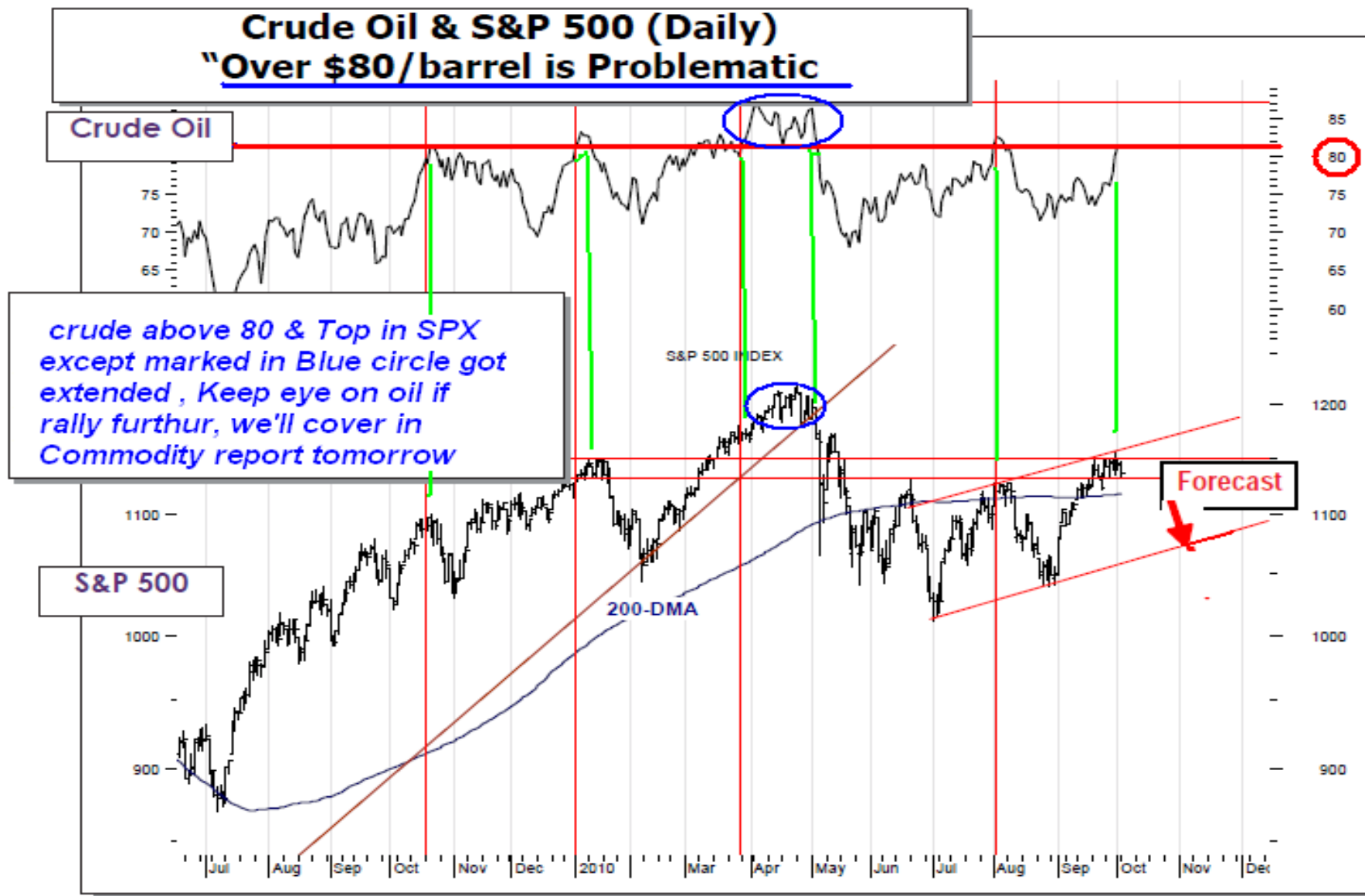
SPX –

Two Equal A to B each of 120 points is Hard to form when B point is has stated at .618 which suggest the Price above A point is clearly false break and certainly not a New ABC up. Oscillator Diverging / we are onn the Right side of Poly trend.



SPX / OIL

Crude above 80 seems like trouble for SPX (See chart below) let us keep eye of this ball . In April (For short time) t did get extended . All this is happening when SPX is on top of the price channel line in overbought zone



MID CAP

Being the strongest sector in this rally , let us keep a eye on Money flow to diverge on Yesterdays Re test. Yes it is !!



XLF

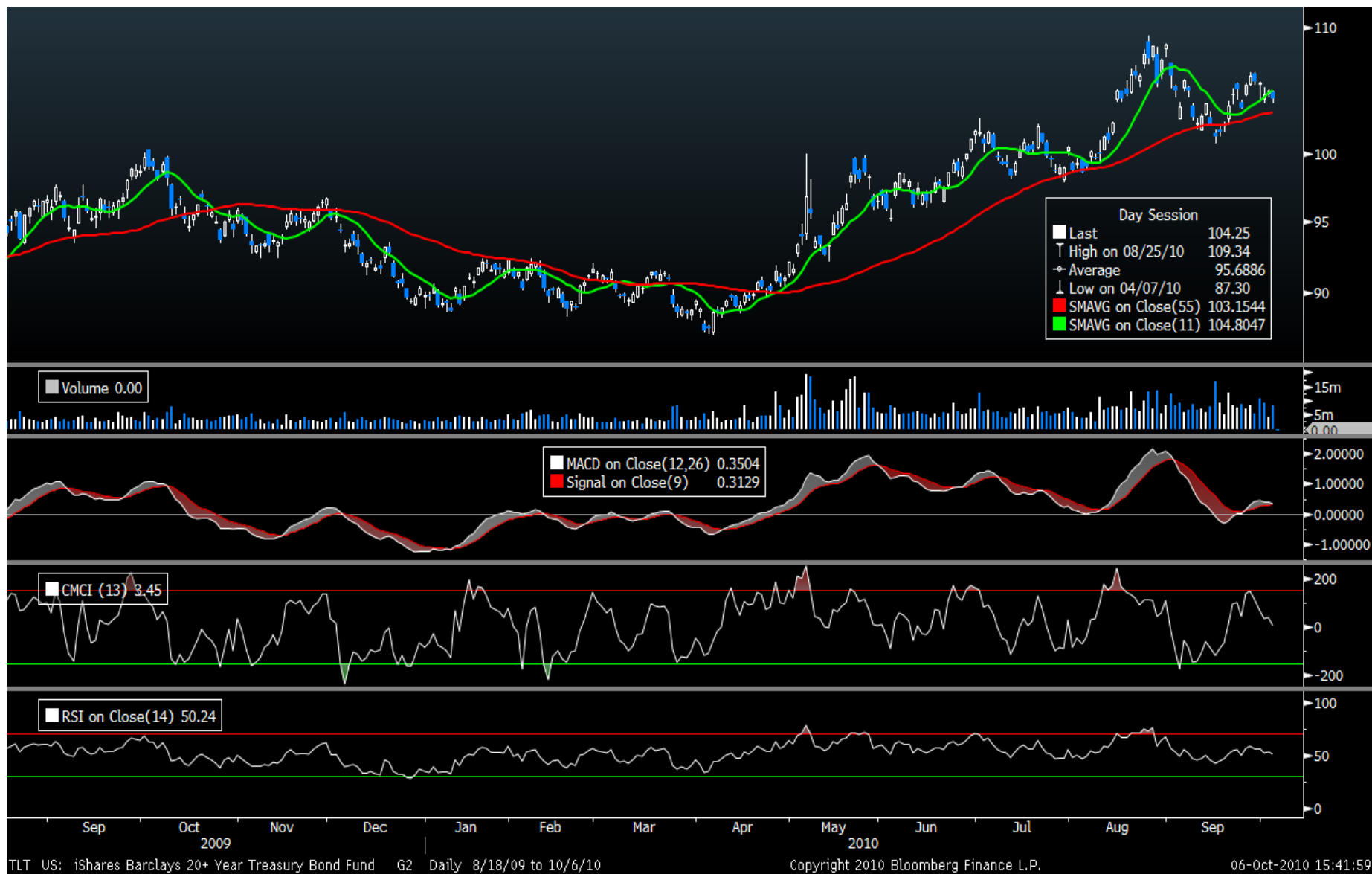
The weekly XLF is Head and Shoulder top pattern is forming . The Bollinger Bands are starting to “pinch” together which implies Volatility will be increasing soon and since the mid Bollinger band is trending down it suggest the Volatility will be to the downside . In downtrends the weekly RSI normally tops around the 50 range and today’s close on RSI was 50 , How can this be bear Market read when SPX is to begin new leg up . (See the chart below for details)



- **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 The 30-year Treasury bond have already reached the Fibi retracement level of 0.618 at the 134 level. The 0.786 level is already in place so we are most likely looking at lower highs. by this Method. If we look at TLT we can see that we are now at a place where PEC D has occurred . PEC D had nailed last time as well . with bullish sentiments at extremes at that time



ALTHOUGH CONFIRMED BY TLT - PEC D – We need some sync with 30-year Treasury,

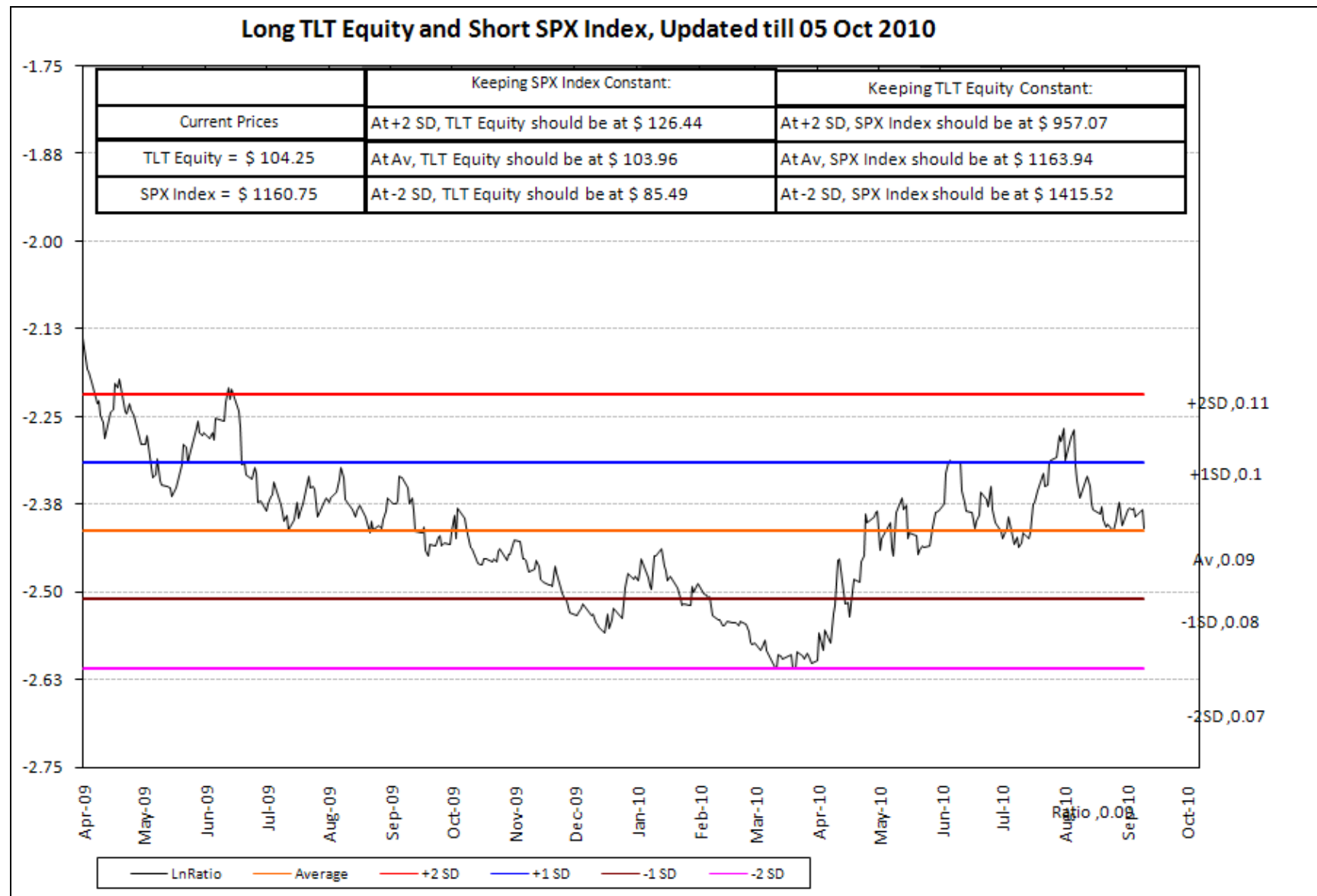


2 – TLT- POM - Price , Volume & Pattern Analysis

By this method both High volume highs and High volume lows (marked In green) both needs to be tested to prove the point to reject or diverge , we just don't know which will be first . So its inconclusive by POM / PQV . SD chart below on Correlation also is at Neutral zone that is inconclusive as well (Once we get all lined up it will confirm the trade , Keep a watch)



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



In order to get pre plan for next POM 12, 11, we have some data to digest.

- Buy side “Case study” for POM 12 & POM 11 (&10) – 4yrs data

Although I have been doing POM’ on SPX for past 8 yrs. We have analyzed 4yr data for our study since 2007 difficult years and We think in Bull Market POM read is comparatively more clear .

Summary & Breakup of Buy Signal and their extensions are as follow

2007 - 8 Buy Signal / 1 Extended (that’s 12 % probability in 2007)

2008 - 8 Buy Signal / 2 Extended (that’s 25% probability in 2008). Received Academic Award @ NECMT Tech Analysis

2009 – 7 Buy Signals / 1 Extended (that’s 15 % probability in 2009)

2010 – 5 Buy Signals / 0 Extended (that’s 0 % probability in 2010).....**Got lucky here so far**

IN TOTAL for Buy Side –

1. - 28 Signals / 5 Extended (that’s - **15 % probability** over 4 yrs).
2. - 23 Remaining Signal, The Market reversed within 1-2 days within 1.5% of price move.

BREAKUP OF EXTENTIONS IN EACH YEAR (SEE THE CHARTS BELOW)

2007 – 1. Aug – ext 5 days – 3.5% @ **POM 12 then went to POM 11**Result – recovered in 3 Days

2008 – 1. Oct – ext 4 days – 4.5% @ **POM 12 then went to POM 11**Result – recovered in 3 Days

2. Nov – ext 4 days – 3.5% @ **POM 12 then went to POM 11**Result – recovered in 2 Days

2009 – 1. March – ext 6 days – 6.5% @ **POM 12 then went to POM 11**Result – recovered in 5 Days

2010 – No extensions (So far yet)

CONCLUSION

- From Past 4 yrs , probability of extensions are (1) on every (6) events (15 % time)
- “Buy side” extensions has higher probability then “Sell side” extensions with 15% v/s 20%

STATISTICS

- AVERAGE EXTENSION - Lasted for 4.5 % and 4 ½ days till we had **POM 11 at the end** to close in
- MAXIAMUM EXTENSION - Lasted for 6.5% and 5 days till we had **POM 11 & 10 (CRASH) at the end** to close in
- AVERAGRE TIME TOOK TO GIVE THESE EXTENSION GAINS BACK was – 3 ¼ days.
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POM FRAMEWORK –

- POM 12 is for Buying New positions and Net Long
- POM 11 is Aggressive Buying New Position
- POM 10 (Rear Event) - BUY but there is Psychological freeze in Action

The Model being Judgmental , it could not capture on 15 % occasion the turn within 1.5% of price move and 3-4 days time extension but its effectiveness can be enhanced when used with other robust “Independent non correlated systems” to make up for its deficiencies

(Charts below)

POM CYCLE –

- *Over last 4 yrs POM 12 or POM 14 has occurred approximately one every (45 – 50 days) average so in that sense it has slightly longer Time frame as compared to AVERAGE extensions (5% / 25 days - Sell side & 4.5% / 5 days – Buy Side) and then Normalization back in both cases in 4 days average*
-
- *In conclusion – combined the Both extensions - Buy side @ (15%) and Sell @ (20%) for collective POM Probability of extensions of 18% since 2007, Although we don't know the future we will do as best as we can.*

“PROS & CONS” on POM TURNING POINTS

Over past decade I have had common feedback from Trading Desks & PM 's who argued the points. Although the 82% were Correct turning points . It did not give a window of time for execution to capitalize on it for capital deployment. .

For other group the balance 18% which had extensions allowed them the liberty of time but had a drawdown involved they had to deal with. Whiles the 3^d group just looked at the anticipated Price targets of Projections and pre planned the Trade Execution sheet prior to Signal. Just (3) thoughts on the table for discussion.

(Charts below)

CHARTS BELOW – Indicates - SPX – Buy POM's 2007, 2008, 2009, 2010

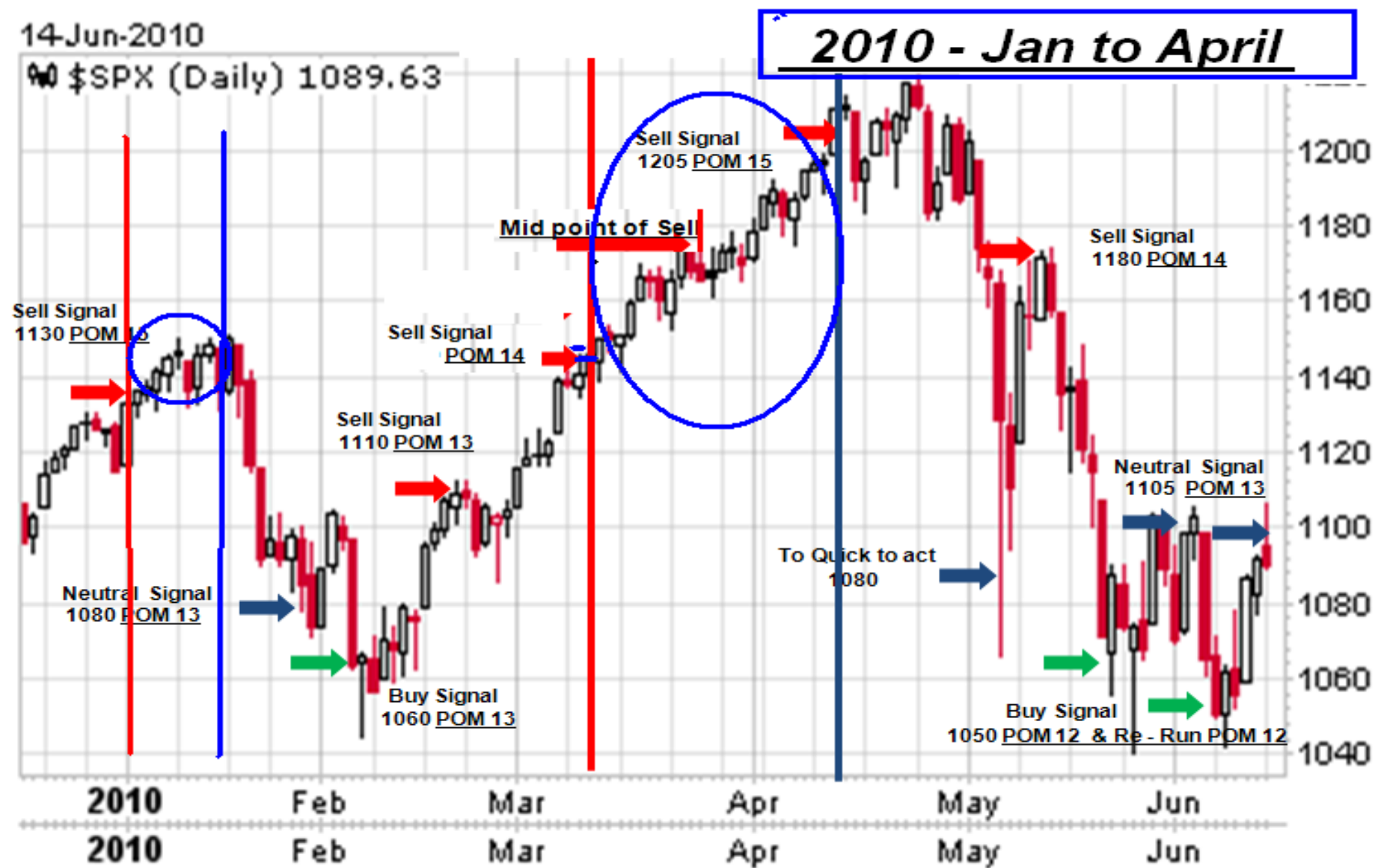
Extension bottoms POM 12, 11 ON BUY SIDE circled in PINK if applicable within the charts

2010 – POM - April to Sept



2010 – POM - Jan to April

Extension bottoms POM 12, 11 ON BUY SIDE circled in PINK if applicable within the charts



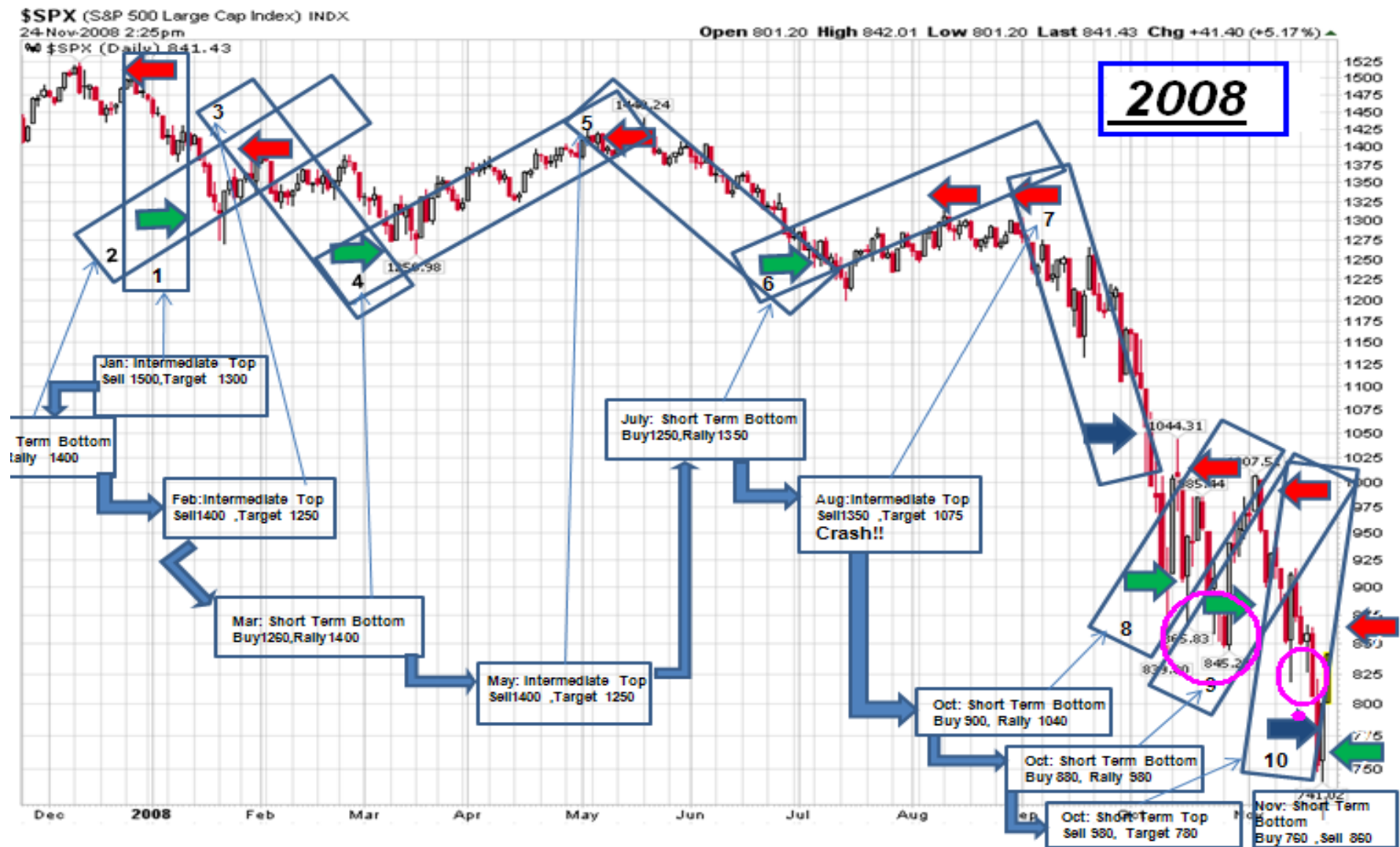
2009

Extension bottoms POM 12, 11 ON BUY SIDE circled in PINK if applicable within the charts



2008

Extension bottoms POM 12, 11 ON BUY SIDE circled in PINK if applicable within the charts



2007

Extension bottoms POM 12, 11 ON BUY SIDE circled in PINK if applicable within the charts



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