



SG Capital Research

Global Market Insights

**Research Note – Interim Update (A# 2)**

**MAEG- INTERIM UPDATE # 02 SG 2010 # OCT 28**

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*By: Suneil R Pavse*

*Contact: apavse@aol.com*

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**Market Strategy Global (A # 2) - SPX – Closed @ 1182**

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

- **Special Coverage**

- STIMULUS / INTERNALS
- DOW 9EMA / 3X3 Strategy
- DOW ST /MT
- NASD A/D
- NASD ST / 87 Cycle
- XLF / XHB / SMH
- TLT
- Appendix - History of past Signals & Key Criteria

## • SPX Signals & Price Projections

- *The current SPX signal is skewed by QE 2 for time being . The Extension is 6.8% in 38 days ( more than we would like, above POM 14( 3<sup>d</sup> Re run) @ 1104). The worst extension in past 4 yrs have been 7.5% in 40 days that was converted to POM 15 then subsequent CRASH !!*
- *Our First Pull back from here should be to 1130 ( false break top side driven by QE 2) and Second pull back we are looking for DEATH CROSS of past ( to be the GOLDER CROSS of future) @ 1115. If something more serious, its too early to tell ( let us wait and watch ) purely due to Presidential Cycle & Positive Seasonality “*
- **TLT** - *PEC – D @ 105 , POM – although had the price path correct but there was no conviction ( Inconclusive)*

## • Trading & Investment Conclusions

- *We recommend Fully Hedged positions on Longs that were triggered at POM 12 @ SPX 1020 in July 2010 and / Or the last POM 13 at 1045.*
- *Continue accumulations in the “SETUP - PQV VALIDATED EQUITY PORTFOLIO – EQWT ( from Sec E – MAEG) . With desired price points & scaled entry @ the Mean Confluence Zone on these weakest Equities in Setup # 2. This would capitalize on current situation ( Within RA / RI framework, these Equities to be Monitored for Risk management ) .*
- *No Net Short Position” till POM 15 Re- run is triggered. Therefore we stay with our original Intermediate POM 15 @ 1200 of April. .*
- *The price Equilibrium and favorable Risk Reward opportunity will come at POM 13/ 12. This is the area we would be interested again.*

- Market Insights

### 30 Year Treasury – with respect to QE 2

The noise about the QE 2 is translating into issues in the Bond Market and Interest rates, therefore we have covered TLT and TNX ( 10 year rates to see the impact. We have been covering the Topping in Bond market for a while in its market Internals ( See the charts below on TLT) and now the rates moving higher. About half the issues on the NYSE are fixed income and if and when interest rates start going up the fix incomes issues on the NYSE will start to go down and in turn will affect the combined advance/decline line on the NYSE in a big way. However we do not follow that A/D Line but market has been. In the high-yield bonds, there is a bubbly look for higher yield while disregarding the risk inherent to junk bonds. ( See the chart below)

Recently despite the prospects of QE2 and low interest rates from the Fed, the long end of the yield curve continues moving higher. This is perhaps one of the most significant developments over the last few weeks. **10-year Yield (TNX)** forming a higher low in early October, breaking above its April trend line and moving above 2.7% . Our coverage in TLT ( below ) is critical to this thinking

# TNX

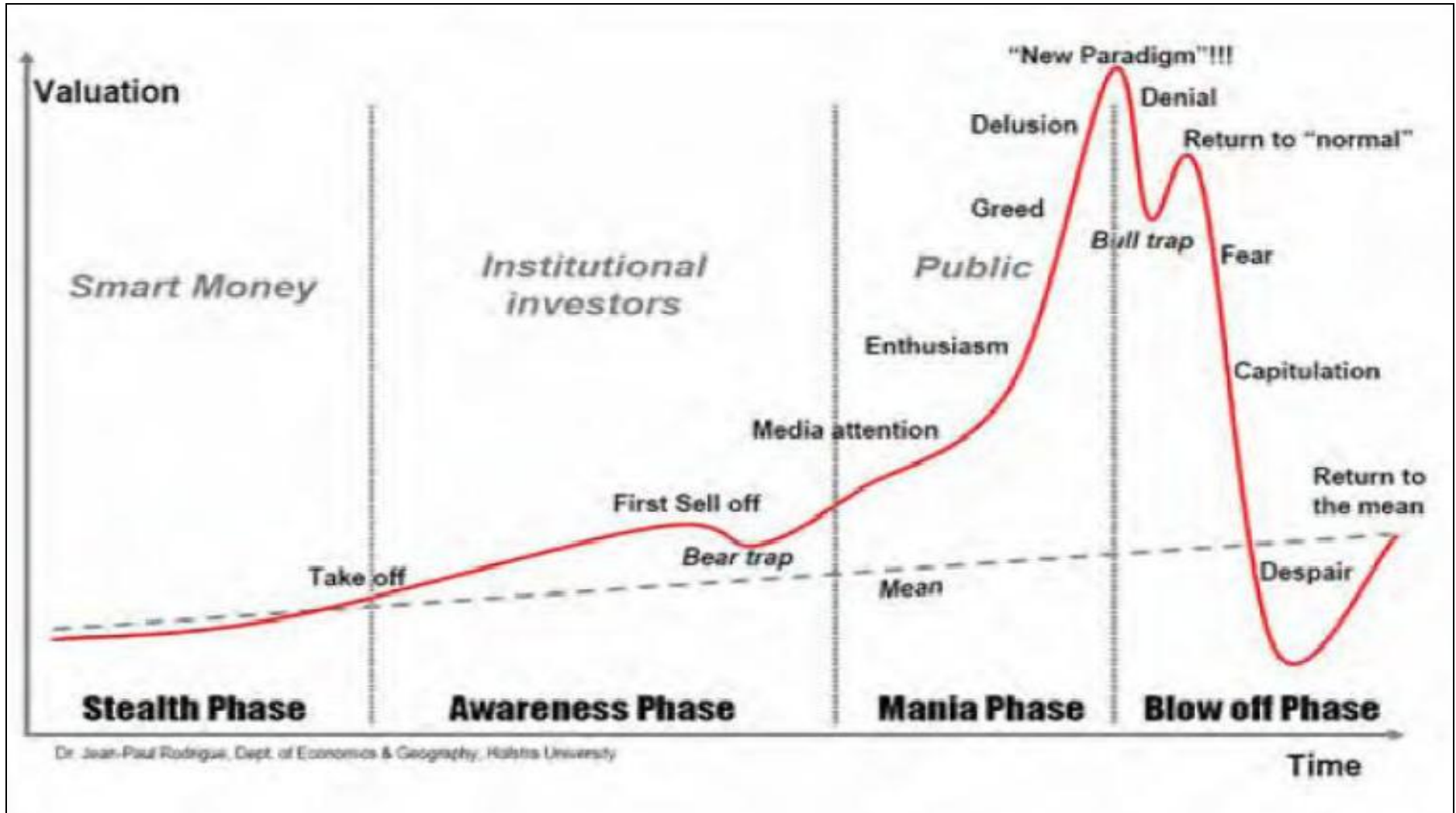
10-Year Note Yield TNX

Last: 2.64%



# HISTORY

We saved this chart from older days of NASD to learn from and used it during the Oil price of 140 and now for Bond Market with money inflow majority from retail is the sign to look for. This has been longest Bull market and looks very topy Enclosed in this useful chart developed by a professor from Hofstra University illustrating the different stages of market manias. All market manias essentially. how human psychology plays an intricate role in the growth and demise of manias



# SPX v/s TYX – 30 yrs - Fair value of SPX with respect to Interest rates.



## INTERNALS

On Calendar front , today is 1<sup>st</sup> day of **Jerry Minton** scenario of 20 days power period – **phase 1** – it will end on 3<sup>rd</sup> October ( close) of positive seasonality.

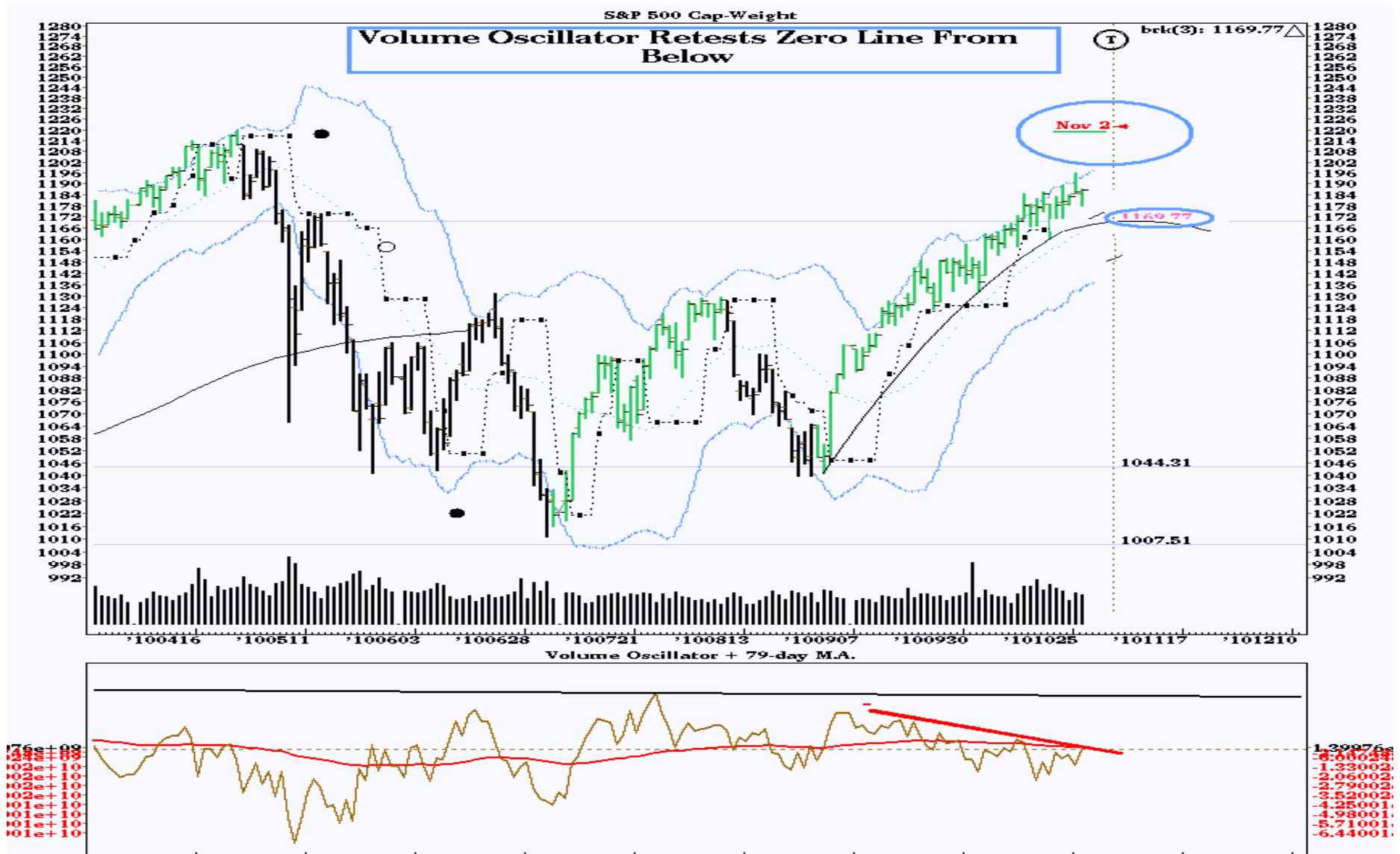
With Markets , our dollar-weighted OEX put-call ratio ended the day at a super-bearish **3.23** this usually results in sharp decline in 2/3 days. Also the ARMS Index for common shares at an extremely overbought level of 0.25. When the stock market rallies and so does VIX Index, you have to pay attention suggest from past the traders are expecting volatility to rise in the next few days. Normally, a rally in stock prices will push VIX lower, so you really have to count this as a bearish indicator

Corporate Insider Activity described by TRIM TAB have been horrendous 1 to 400 Ratio . We do track Money flow in our work and that suggest the same conclusion.

- Till the Trend changes our “Charts & Message” may appear similar as past few weeks.

## SPX – 3X3 / 9EMA – Trend Adjusted Signal .

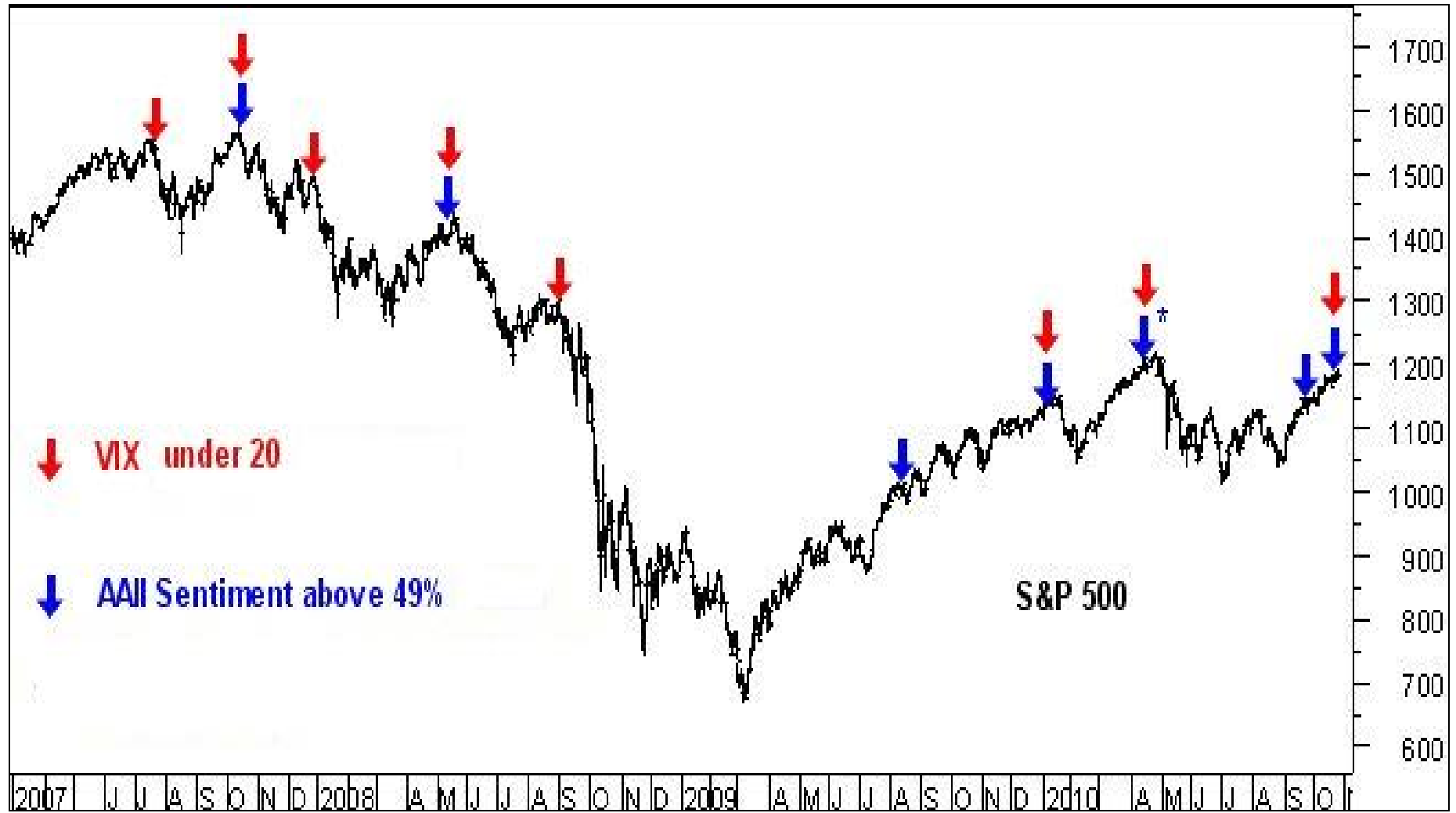
The volume oscillator in the SPX dipped below the zero line in late September and has been unable to break the trend of lower highs even as prices have moved to recovery highs. This is a strong warning that a top of intermediate significance is underway. The 3x3 / 9EMA – Trend adjusted signal price of 1169 coincides with the rising . We could very well have a final, last-gasp rally into next week and down it goes.





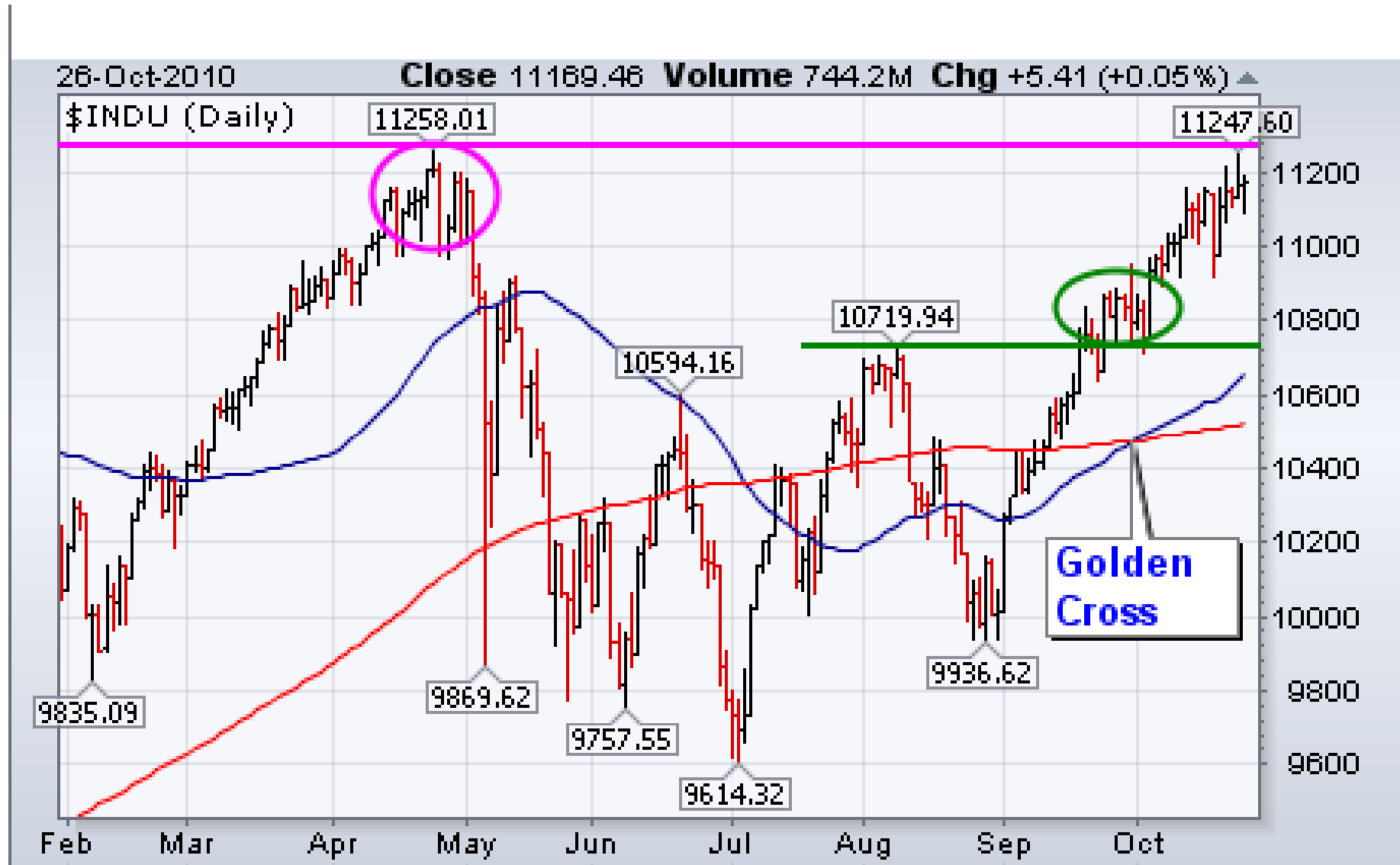
## Combination of VIX & AAI

Emotional sentiments are not at extremes so we just wanted to see the combination of indicators especially the VIX gaps away in unusual way at Tops ( It happened several days ago similar to April) . Here is the outcome on the chart below . The blue arrows show all the recent occasions when the poll of its AAI members. The red down arrows show the times when the VIX was under 20, When both measurements of excess bullishness were present at the same time, as now, it was often particularly important to pay attention.



## DOW -

. DOW INDEXES TEST APRIL HIGHS ... For POM 15 Re run , we need minimum 3 Indices, Dow tested and failed , The First pull back area could be the breakout area ( circled green) and the second pull back could very well be the Golden Cross.



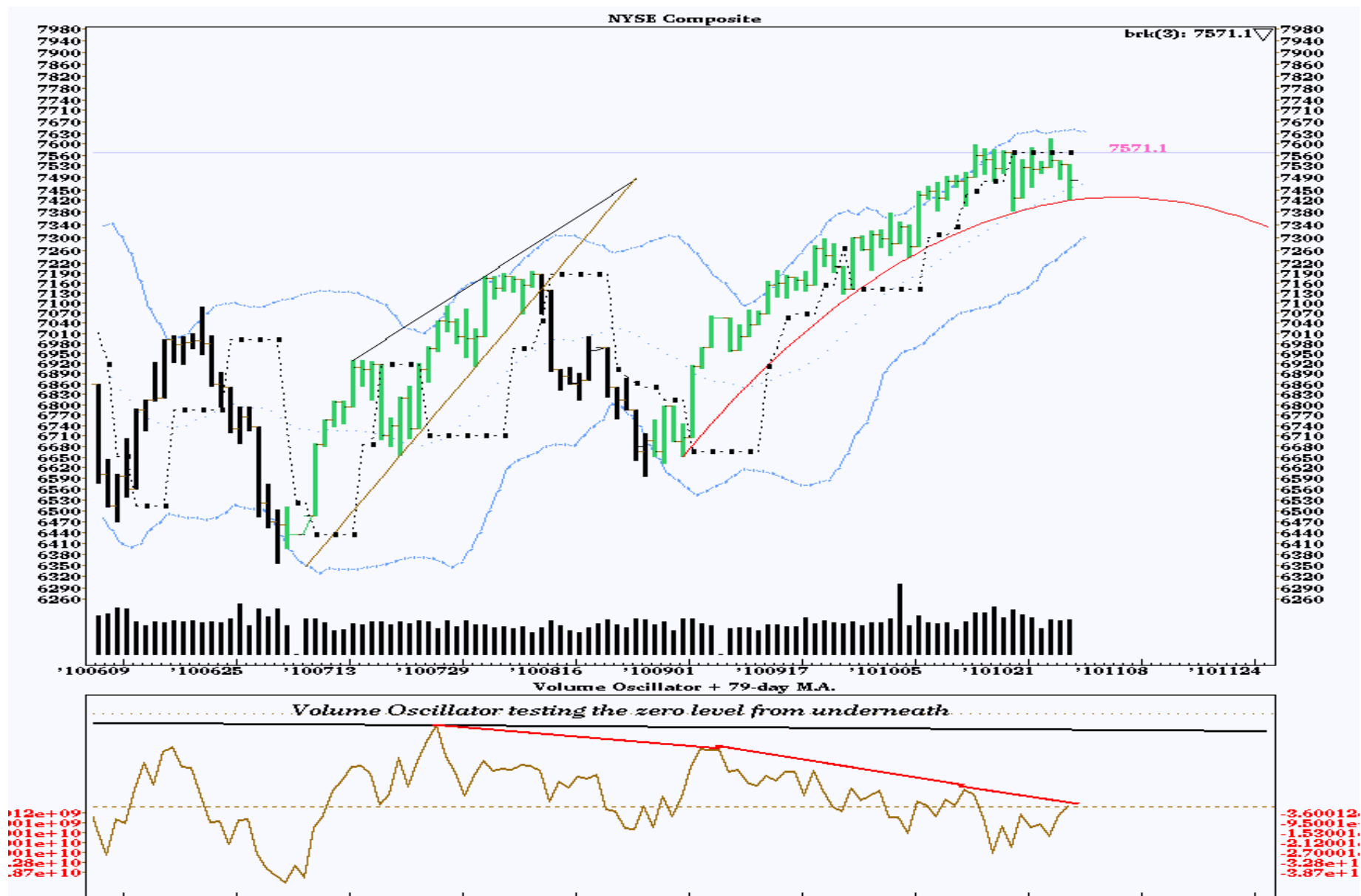
## TRANSPORTS

EST APRIL HIGHS ... Another Pre requisite for POM 15 Re run , Transport tested and failed , The First pull back area could be the breakout area ( circled green) . The 3<sup>rd</sup> Indices to complete such characteristic is NASD.



# NYSE

The volume oscillator for the NYSE continues to droop below the zero line, which indicates that sellers are active in the market: Yesterday it the Top of the Poly trend line for another short bounce.



## BKX & XLF – Bigger picture , nothing changes in spite of QE 2

We are comparing this two sectors because one affects the other. Both BKX and XLF rallied to a 38.2% retracement of the 2007 top and found resistance. Both indexes also find resistance at the previous lows way back in 2000 and 2002. Both had spike lows at the March 09 lows and usually spike lows are at least tested if not broken. We expect at some point the BKX and XLF sectors will test if not brake the March 09 lows probably in the next 12 months. If BKX goes to the downside, so will XLF and vice versa.

**These 2 charts are by no means a Bull market charts. This chart is key to our thinking ( this sector needs another leg to stand on for any rise in prices)**



- **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 - PEC D has occurred at 105, it had nailed it perfectly, its still on track but there was no confirmation from POM price point





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

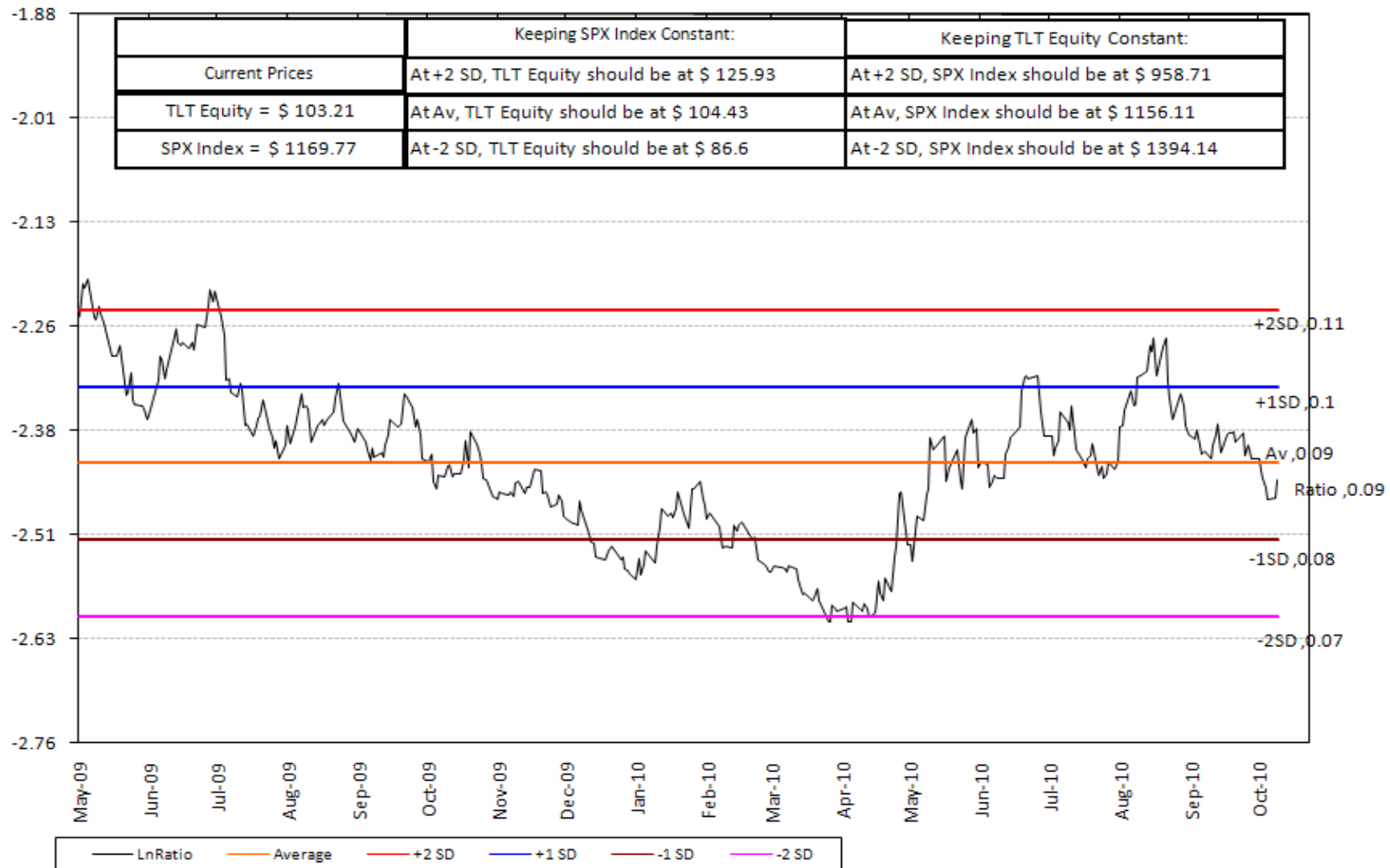
Although it has followed the price path we were expecting, there was no conviction. Currently by POM methodology we were expecting 101 high volume lows to be tested ( which it did ) and the volume came in heavy with lower close. This is bearish and in line with PEC expectation , the bounce did not materialize at the lows , therefore Risk Reward did not setup. So its inconclusive POM . SD chart below on Correlation also is at Neutral zone that is inconclusive as well ( Once we get all charts lined up, it will confirm the trade . Now it is in No Man zone. We will see how it reacts at 97.



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

**( We did not update this due to technical problem)**

Long TLT Equity and Short SPX Index, Updated till 19 Oct 2010



## Appendix

### ● History - “ Previous Signals & Projections”

- 2010 YTD – 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 % )

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