



SG Capital Research

Global Market Insights

Research Note – Interim Update (A# 2)

MAEG- INTERIM UPDATE # 02 SG 2010 # SEPT 30

For Immediate Release – Thursday AM (EST) (On special Situation)

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Market Strategy Global (A # 2) - SPX – Closed @ 1144

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

- **Special Coverage**

- SPX – POM 14,15 Extension study
- SPX (Hrly)
- SPX (ST)
- SPX (MT)
- DOW
- XLF

• 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 + 9.4 % and POM Framework captured 5.6% during the signal.
- On 3rd Sept, Our Indicators conformed POM 14 – Re Run @ SPX 1104, (currently SPX at 1144) while the market has extended 3.6% from our signal and no sign of POM 15 Re run.

Our Intermediate Primary Signals of - POM 15 @ 1200 on 22nd April and POM 14 @ 1180 on 12th May, is still in tact, This signal conformed larger ABC down to SPX 960. (Price projections are just the guide lines path of least resistance to work within but internal market rules for reversals) and so far its on track as we have hit lows of 1010 in SPX , We have smaller ABC's Within larger ABC)

• Trading & Investment Conclusions

- Our Goal - Within the “POM FRAMEWORK & SETUP INDEX - 2” -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 . Therefore this is Actionable Zone in the POM extension of +3.6% for those “Long positions” with a longer time frame portfolio.
- “Net Short Position” should come in at POM 15 and we have no indication of that signal. Therefore we stay with our original Intermediate POM 15 @ 1200 OF April is still Intact.

- Sell Side “Case study” for POM 14 & POM 15 – 4yrs data

Although I have been doing POM’ on SPX for past 8 yrs. I am analyzing 4yr data for our study since 2007.

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

2007 - 8 Sell Signal / 2 Extended (that’s 25% probability in 2007)

2008 - 8 Sell Signal / 0 Extended (that’s 0% probability in 2008). We just got lucky here in the worst market & achieved a Academic Award

2009 – 6 Sell Signals / 2 Extended (that’s 33 % probability in 2009)

2010 – 7 Sell Signals / 2 Extended (that’s 28 % probability in 2010)

IN TOTAL – 29 Signals / 6 Extended (that’s 20 % probability over 4 yrs)

- 22 Remaining Signal, The Market reversed within 3-4 days within 1.5% of price move

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

2007 – 1. May – ext 30 days – 4% @ **POM 15**.....Result – All gains lost in 4 Days

2. Sept – ext 20 days – 5% @ **POM 15**.....Result – All gains lost in 5 Days

2008 – 1. No extensions -

2009 – 1. May – ext 35 days – 6.5% for POM 14...Then went to **POM 15**Result – All gains lost in 6 Days,

2. Aug – ext 30 days – 5.0 % for POM 14... Then went to **POM 15**Result – All gains lost in 4 Days

2010 – 1. March – 40 days - 7.5% for POM 14... Then went to **POM 15**Result – All gains lost in 4 Days & CRASH !!

2. Sept – ext 25 days – 3.6% for POM 14...**No Sign of POM 15....Result – (Awaiting)**

CONCLUSION

From Past 4 yrs , probability of extensions are (1) on every (5) events (20% time)

STATISTICS

- **AVERAGE EXTENSION** - Lasted for 5.25% and 30 days till we had **POM 15 at the end** to close in
- **MAXIAMUM EXTENSION** - Lasted for 7.5% and 40 days till we had **POM 15 at the end** to close in
- **CURRENT EXTENSION** – In progress **3.6% and 25 days (No POM 15 yet) , We could certainly be wrong this time !!**
- **AVERAGRE TIME TOOK TO GIVE THESE EXTENSION GAINS BACK** was – 5 days

POM FRAMEWORK –

- POM 14 is for HEDGING LONG POSITION taken at POM 12 / 13. POM 14 which essentially puts the Portfolio in Delta Neutral during these extensions
- Use POM 15 for NET SHORT

Note – I am working on similar study on BUY SIDE POM 12, POM 11,

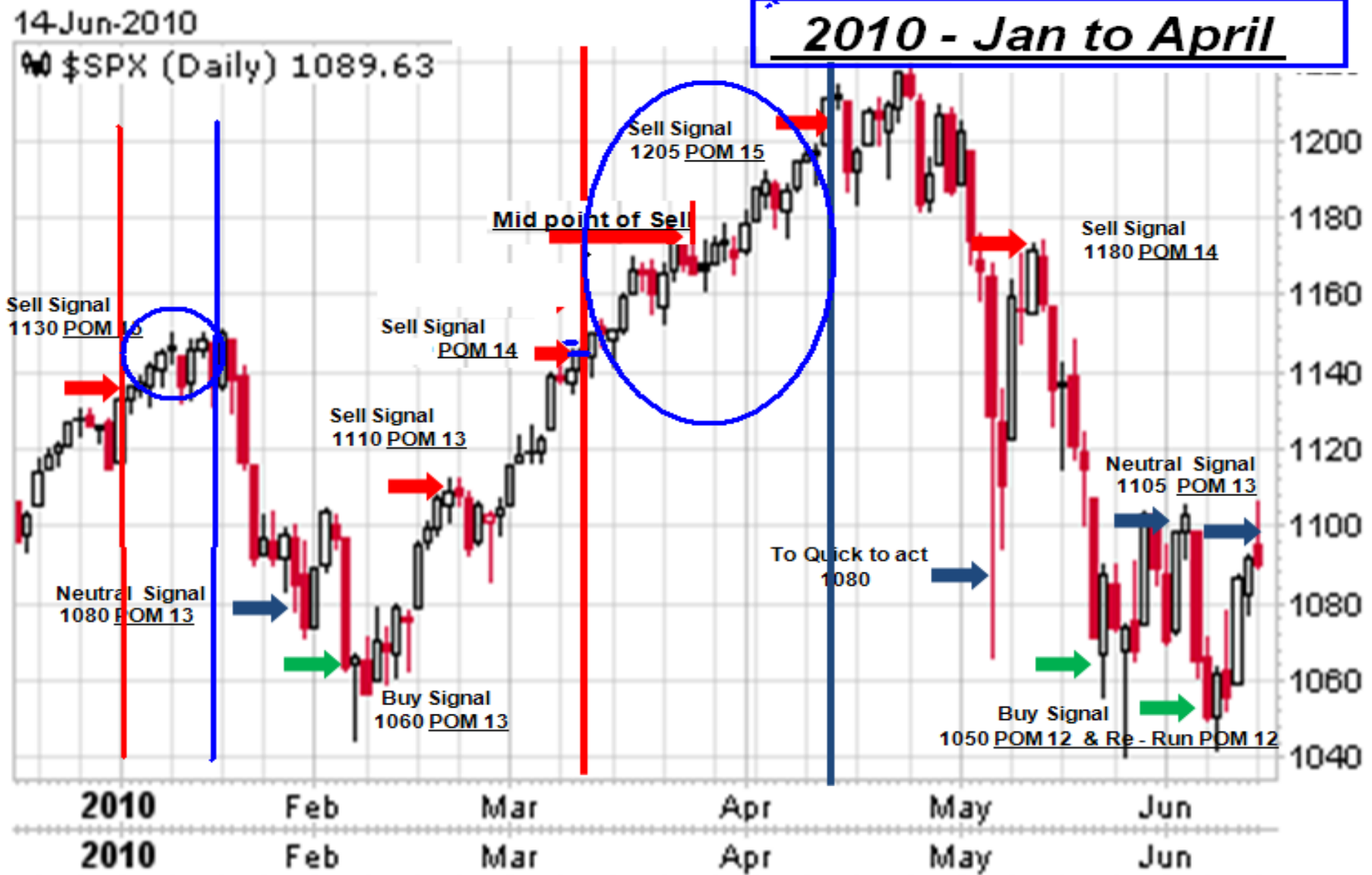
Since the Model being Judgmental , it could not capture on 20% occasion the turn within 1.5% of price move and 3-4 days time extension but its effectiveness can be enhanced when used with other robust “Independent non correlated systems” to make up for its deficiencies

CHARTS BELOW – SPX – POM 2007, 2008, 2009, 2010

2010 – POM - April to Sept



2010 – POM - Jan to April

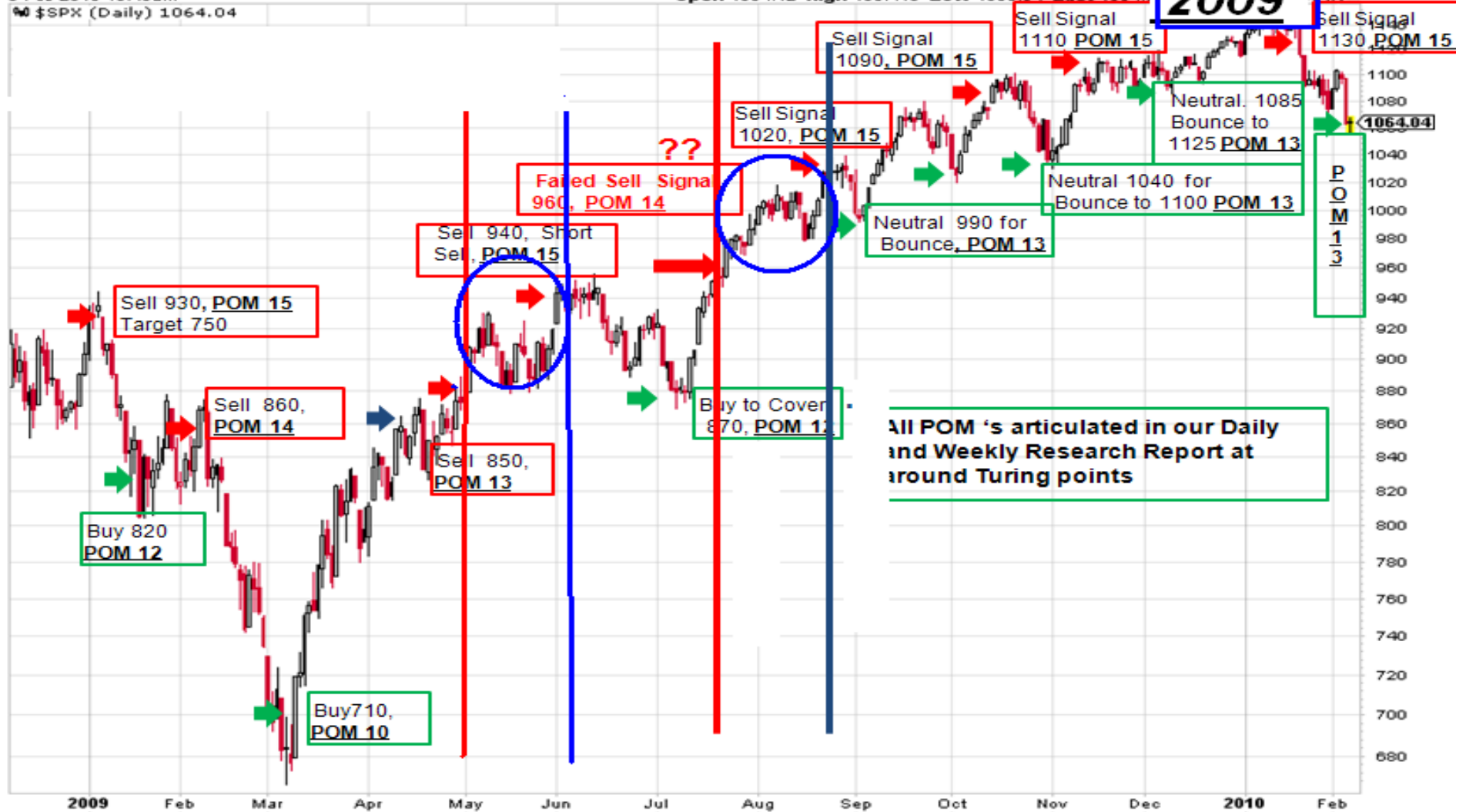


2009

\$SPX (S&P 500 Large Cap Index) INDXX
5-Feb-2010 10:46am
\$SPX (Daily) 1064.04

Open 1064.12 High 1067.13 Low 1055.64 Last 1064.04

2009



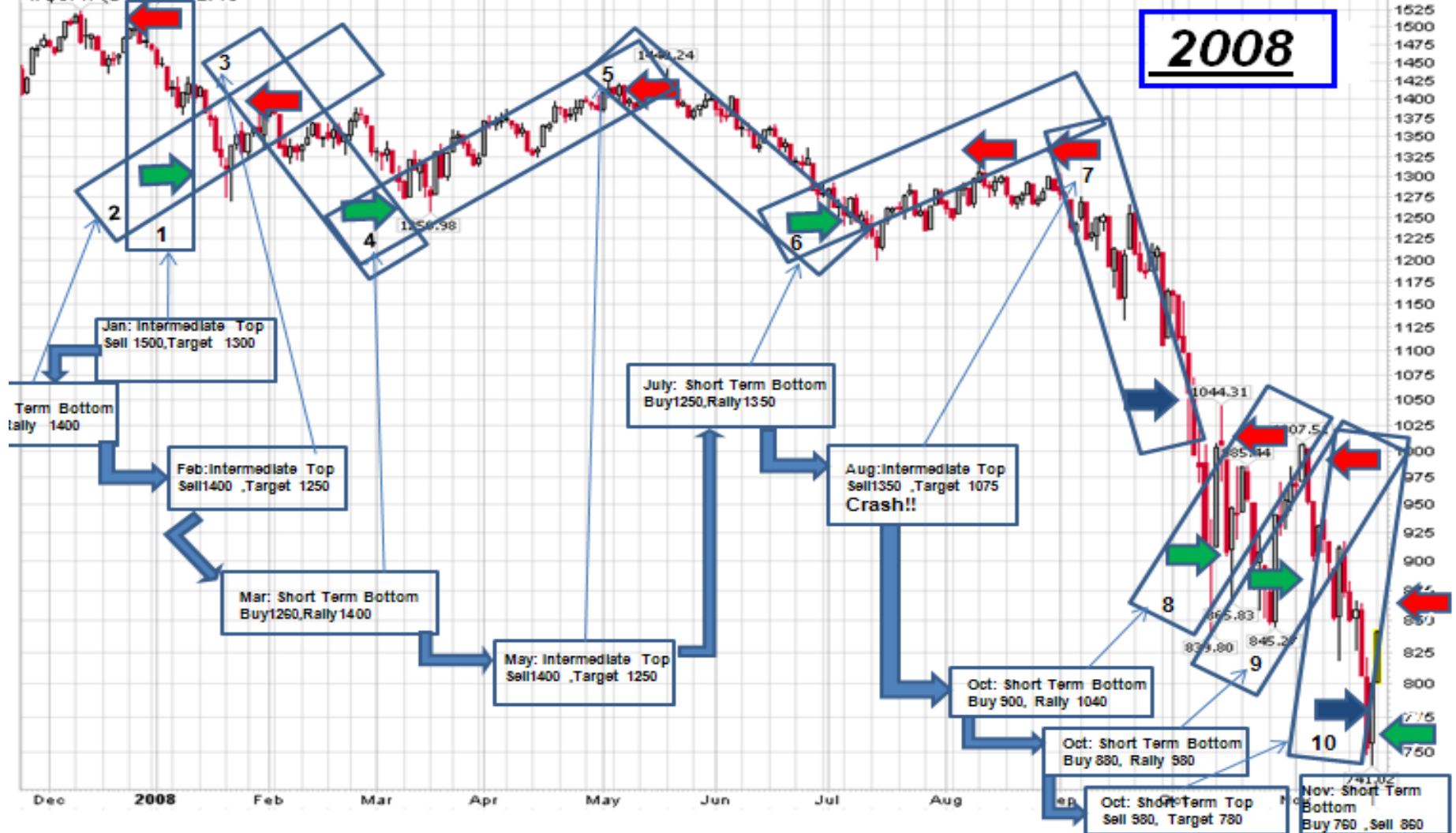
2008

\$SPX (S&P 500 Large Cap Index) INDX

24-Nov-2008 2:25pm

Open 801.20 High 842.01 Low 801.20 Last 841.43 Chg +41.40 (+5.17%) ▲

SPX (Daily) 841.43



2007



• Market Insights

We think this SPX market is being driven by currencies . One of the major currency will Top out or Bottom out first , which ever happens earlier and that will start a move in all the markets together. That will not let the remaining Assets do its full testing of of Final points.

But for now the European Markets have not broken out in spite of Euro rallying that kind of puzzling . XLF & IWM is still lagging on breakout. So is DAX. However We are at POM 14 and recommending a fully Hedge position with weak stocks “ PQV validated SETUP 2’s “ on the Long position taken at POM 12 @ 1020 or at POM 13 @ 1045.

Whiles the Extension of 25 days and 3.6% move from POM 14 is in progress till POM 15 is triggered (which is not in sight near term as yet since 15 Re run are difficult to get), but there is certainly a reward on this extension with quick fingers in trading practice. There is lots of bullishness at this point (may be not extreme) but . I wish they were all Bullish and giving us that insights when we had our POM 12 at 1020 and POM 13 @ 1045. This would have certainly made our task easy during that turning point. At 1020 % 1045 . But we'll follow the same indicators and signal that assists us over time .

Running On Fumes

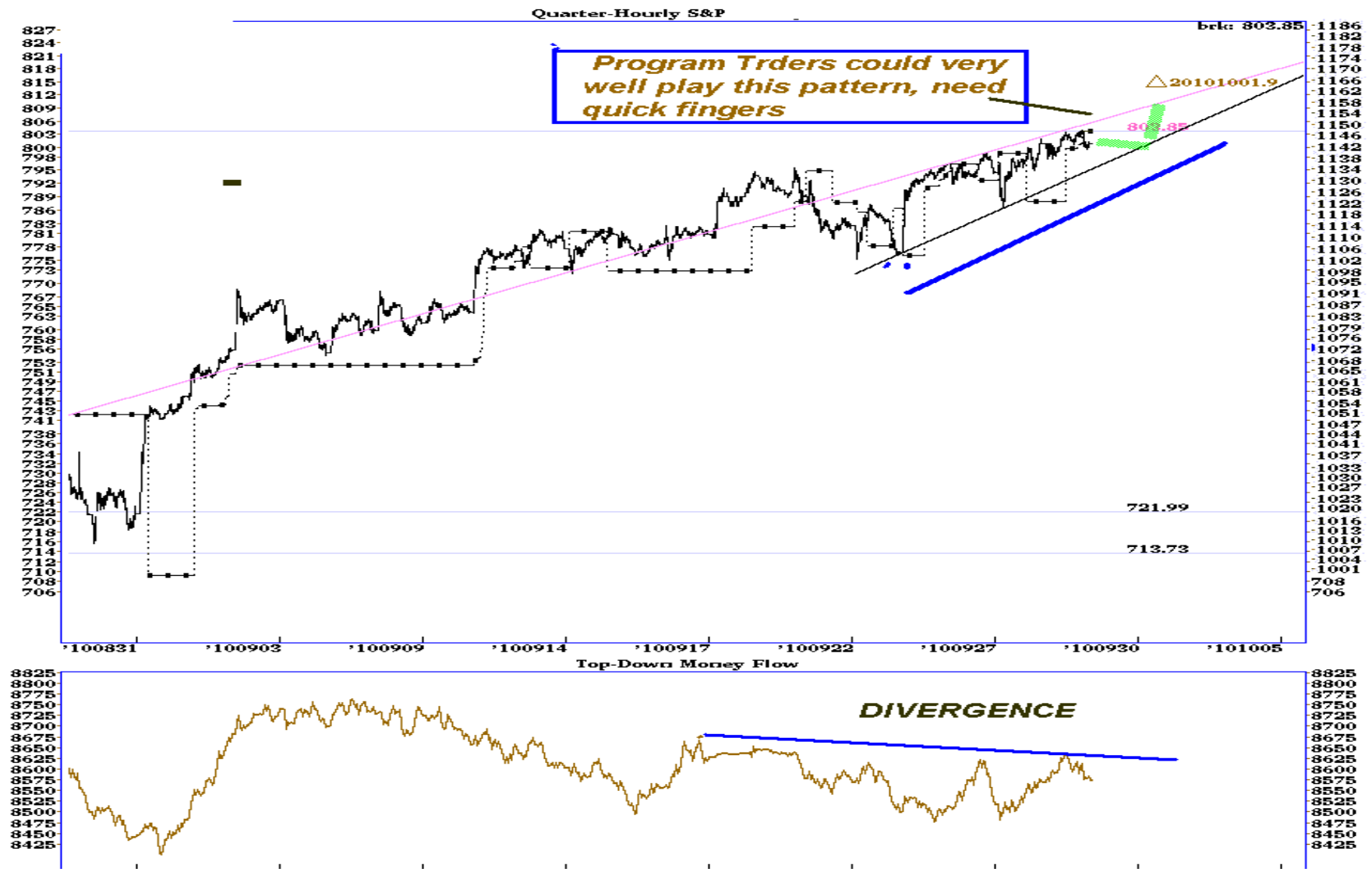
The stock market continues to flutter at resistance, but signs of internal breakdown has been appearing past 2.5% gains . The Advance-Decline Oscillator Line continues to fail to make new recovery highs while the index does so, a bearish divergence of the first order and the Money flow lag is the second order:

Most of T Termination have expired and market continues, that clearly says it currency market that drives this market.

There are too many on Street expecting the market to rally following the early November elections in the US. When the News is out its usually is in price . When to many expects we worry about it. However We will use this same argument to be Bullish when Market gets oversold on POM 12 when even we get in next couple of Months.

SPX – Hourly

Traders love this pattern, See the chart below on Price path , we have worked with Prop Traders Desks who specialize in this . We always wish them Good luck. Why !! In past could be the hook that really traps a lot of traders. With money flow and Volume



SPX – (This is the Real Story)

SPY is testing the gap level of May 14 on much lighter volume and implies the gap has resistance. Over the last couple of weeks the VIX has been making higher lows as the SPY has been making higher highs and this combination has picked out previous highs in the market, such as the early August and mid April highs. (Smart money is accumulating the VIX). The Fast Stochastics is starting to bend over but has not closed below the 80 level. A close below the 80 level would imply the decline has started.



SPX -

Bull or Bear the Equilibrium point it for us in this market is 1080 +/- : for Higher Risk reward Rational Analysis, at the root of Poly Trend Apex



DOW

Looking at the strongest index in the market especially Month end : Bull or Bear the Equilibrium point it for us in this market is 10300 +/- : for Higher Risk reward Rational Analysis, at the root of Poly trend Apex



XLF

FINANCIALS LEAD LATE SELL-OFF IN STOCKS.- After bouncing the stocks were hit with selling **Relative weakness in the finance** sector remains a concern for the overall market. The price relative (XLF:\$SPX ratio) moved to a new low today as XLF continues to show relative weakness.



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