SG Capital Research

Global Market Insights

Research Note – Intermediate Update (A# 2)

MAEG- INTERMIDATE UPDATE # 02 SG 2010 # SEPT 10

For Immediate Release – Wednesday A # 1 & Friday A # 2

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Market Strategy Global (A) - SPX – Closed @ 1104

Analysis of Broad Market that includes

- **Primary Market SPX & DOW as main market driver and**
- **Secondary Markets NYSE, NASD, RUSS .**

We have picked up charts (below) that has some distinct characteristics and values from last weeks observation at Inflection points based on our assessment:

- **SPX v/s VIX**
- **IWM, QQQQ,**
- **BULLCASE SPX**
- **CHINA**
- **GOLD**
- **YEN v/s NIKKE v/s US T notes (Special Situation)**

SPX – “Our Current Signals & Projections”

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- ***On 26th Aug** – POM 13 was triggered at 1045 SPX (we hit a low of 1039) and since then SPX rallied +5.2% during our signal*
- ***On 3rd Sept,** Our Indicators conformed **POM 14 – Re Run @ SPX 1100,** (currently SPX at 1104)*
- ***All price actions on upside should remain under the upper part of Confluence Zone around 1110 (i.e. 34 W MA underneath and Fibonacci @ 50% (wkly / daily)and several others cross current creek areas. (As per the charts Indicated in earlier Reports). This would be actionable area.***
- ***But the extension could very well happen to 1125 as market tends to extend in both directions***

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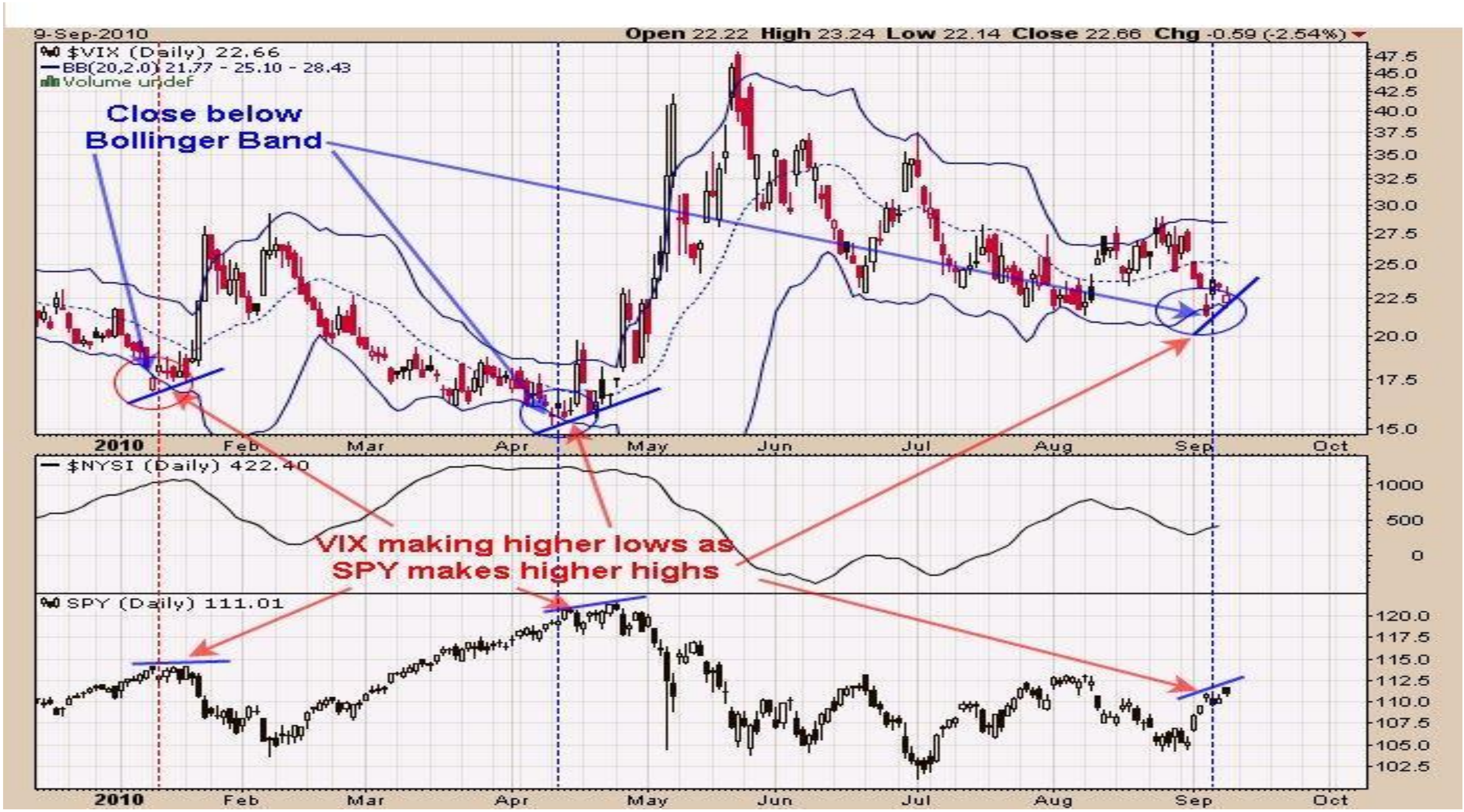
- Our assessment was that “ **the Exhaustion Gap would play out on SPX” -** Yesterday we witnessed that after a classic “Double 3 gap play pattern” (Down / Up FLIP FLOP scenario) and now its approaching at 100% move of the move from highs (6th Aug) to lows (26th Aug) and to back to highs (or current level) . All there price moves were in one breath along with High Ticks and low ARMS. This is difficult pattern to form and takes a lot of energy out of the market.

- **Non Mathematically** yesterdays move was presumed to be driven (of course after the fact news) by declaring that the Stimulus package was in works but if we use this as a catalyst to rally then we do not like the market that moves the NEWS as it did yesterday …BUT !! ….we still wonder why the market couldn’t hold the gains on such a good news. After all the 4 yr presidential cycle bullishness is based on that assumption of stimulus . We will leave this analysis on the EXPERTS to tell after the fact and we focus on what we understand that gives us the direction of the market (before it moves) . For us with due respect, the yesterdays action was the EXHAUTION GAP “
- **SPX & EURO** - almost completed its own small ABC rally approaching the Poly trend line from underneath @ 1.29 as we were expecting it and then sold off along with the market 2 days ago. (sometimes it fall short by tick or two)
- **The cycle time,** T – Terminations, 911 Anniversary, Bradley and Harmonics they all converge into a Time confluence Zone of 7th to 16th (+ / -)

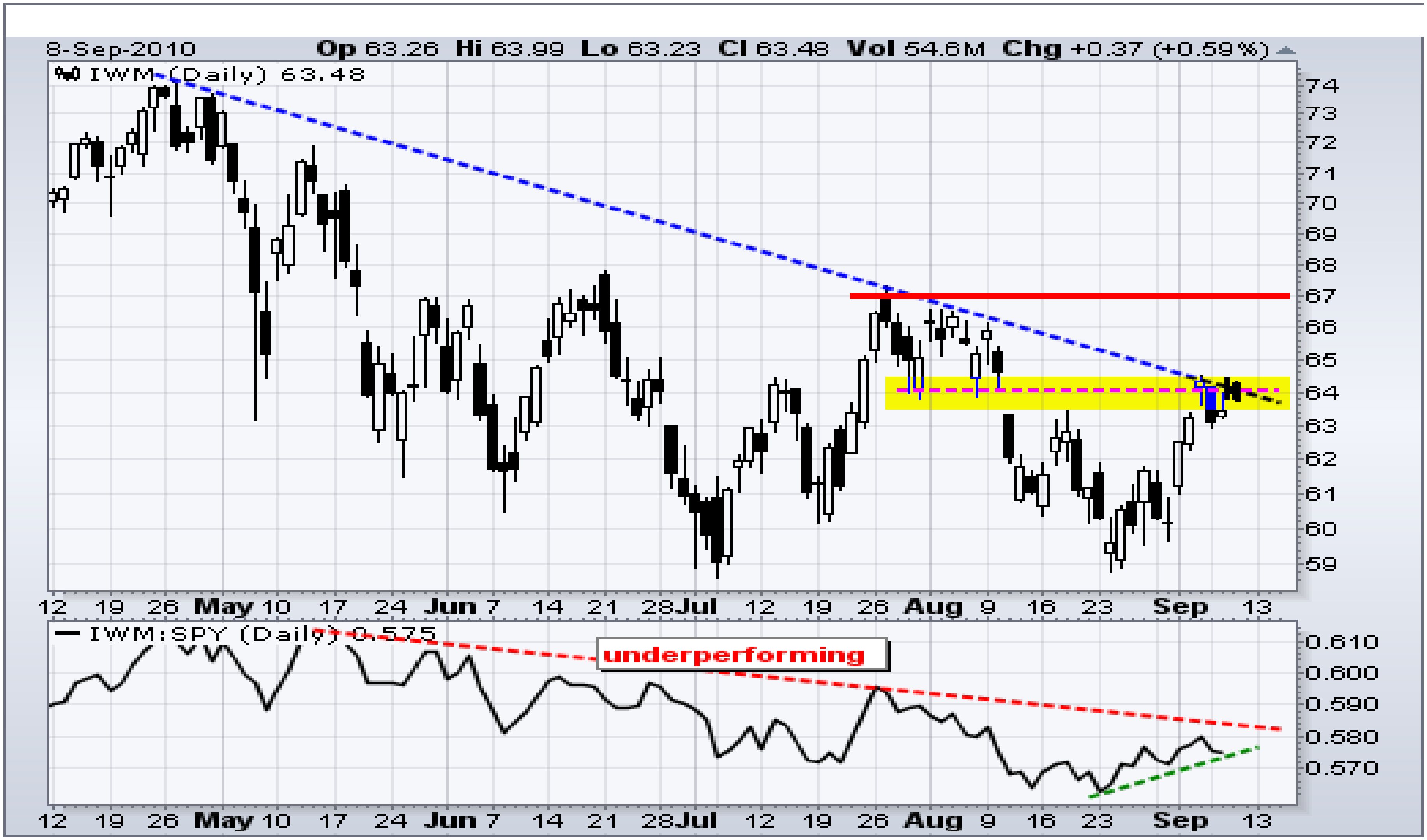
SPX v/s VIX

When the VIX closes out side of the Bollinger Band and then reverses back inside, it a warning shot that market is near a top. **The high in SPX back in January and April produced these signs and <u>it happen again three days ago</u>**. Also when SPX makes higher highs and VIX makes higher lows this divergence also is a warning sign as happened in January and April. The trading range since May be ending and the next impulse wave is about to begin and since the weekly Bollinger Bands are trending down the break should be in the direction of the band (to the downside) .



IWM

- IWM   running into trendline and swing resistance and also filling the gap at the same time whiles being overbought . It ripe for a pullback or a consolidation. Technically, the bigger trend remains down. A little follow through above this first resistance level is needed to keep this upswing alive and challenge bigger resistance around 67. The indicator window shows IWM underperforming SPY since May.



QQQQ

- QQQQ is also banging against the trendlines with a **triangle taking shape over the last few months , that is consolidation**
- **CCI is in overbought** .

“Bull case” for SPX

Although currently we are on <u>POM 14 – Re run (It is 3rd Re run)</u> on this trend, The initial conformation for POM 15 & POM 14 at average price of 1190 SPX came in April (and the decline took us to the lows of 1007)

For Risk management it is prudent to assess the other side of the Trade and therefore we will measure the Bullish side today graphically (See charts below) .

POM being a Judgmental system certainly has its weakness. Its important that we think of different scenario on the other side of the trade especially in Market timing it is difficult to get “Time and Price” correct at the same time consistently. The thought of being wrong always lingers till final assessment. Although we got lucky and this time could be different.

<u>So lets evaluate the Bullish case and use 1130 as line in the sand. So if we are wrong on the call we have some benchmark to look for Criteria’s to negate the current bearish scenario.</u>

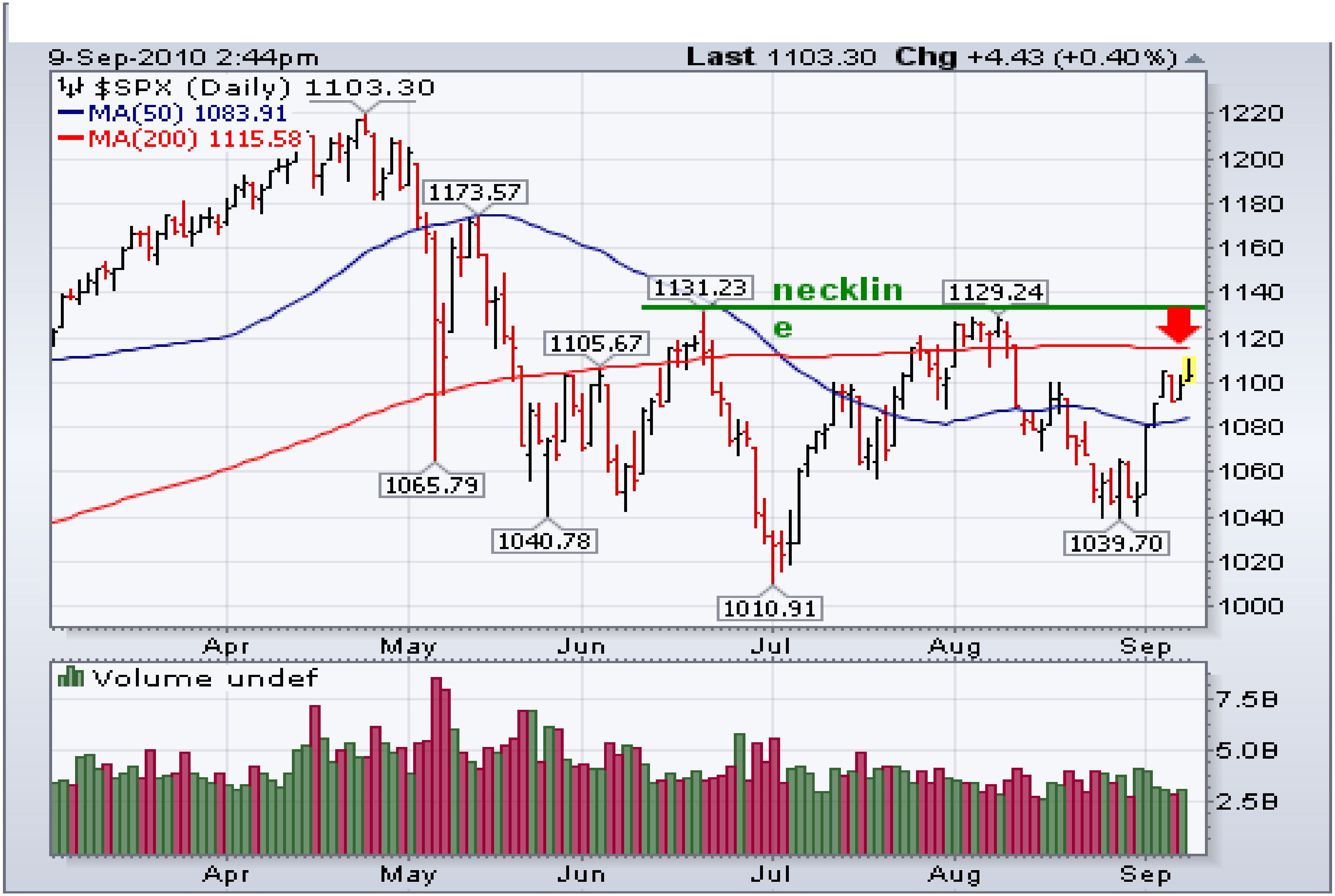
SPX MOVES UP TO CHALLENGE 34 W... a potential "head and shoulders" bottom forming in the SPX (but to us the volume is not conforming it) and secondly to clear their August high. That would accomplish two other things. It would also break the "neckline" drawn over the June/August highs, and it would break through the SMA . The move above the confluence zone of 1130 . To negate this Bear scenario, lets watch for the following criteria as benchmark

- Burst through the Neckline of 1131 with SIGN OF STRENGHT (SOS) , with daily volume of 1.6 Bill or over at approach point
- Weekly close in the same week above 1131 with 6 B volume & Weekly high TRIN number 5D SMA
- (2) lead sector to confirm the breakout along with SPX, XLF & SMH would help
- The SPX price to remain above Bollinger band on that week **(Refer 2 charts below for the view**) (Since the 2008 Bear market it has remained under this region and been the best conformation)
- RSI to stay above 50 , this too has been below 50 in the entire bear run
- This will be the break out & Movement of Truth

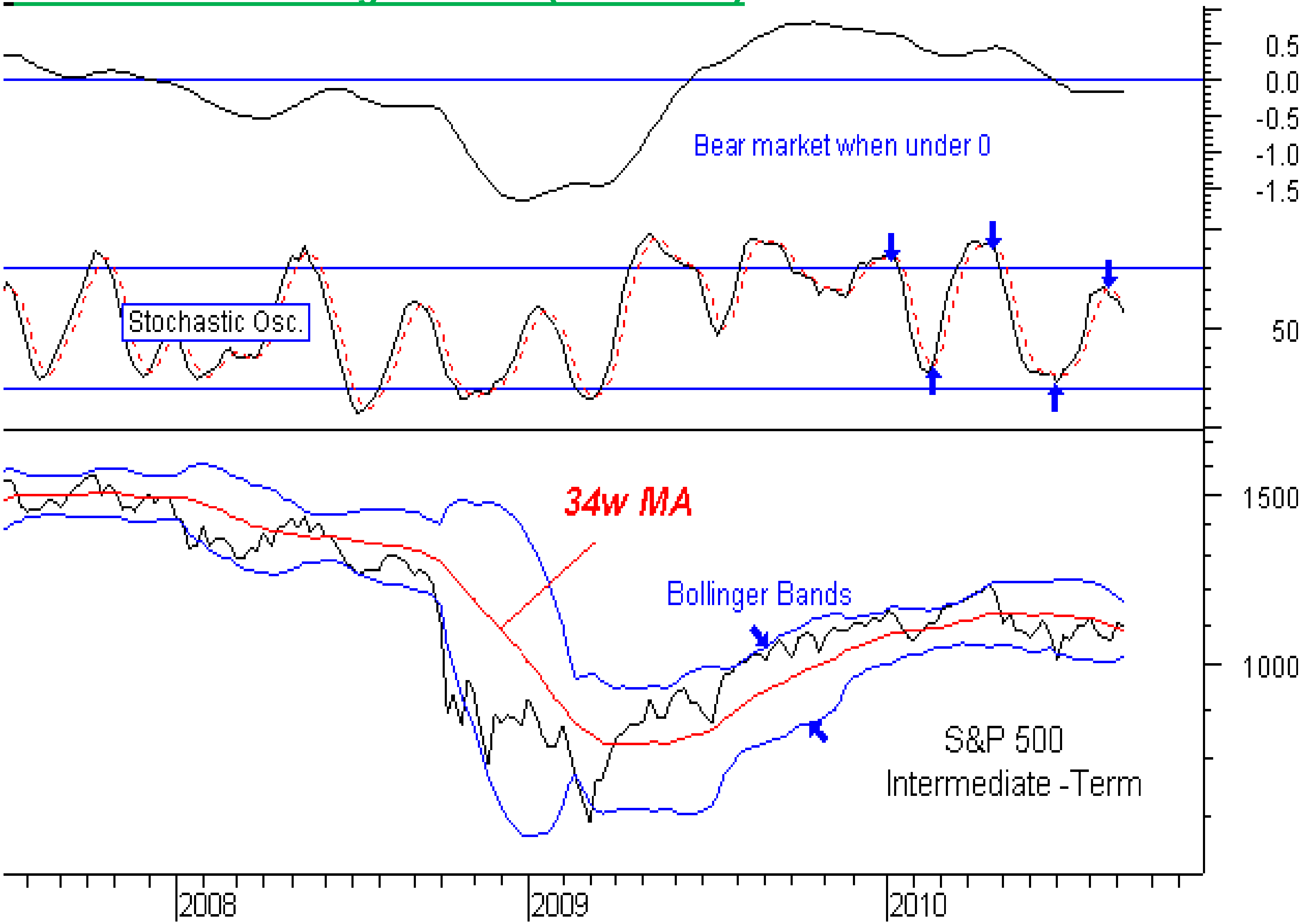
Conclusion –

- This change of signal will not give us POM 12 but we can turn Neural with POM 13 and then look for POM 15 on sell side at the test of 1180 or 1225 highs to fail (This will b extended rally in Bear market)
- The damage done here will be 30 SPX points loss from POM 14 –re run current signal at 1100

The SPY with the Neckline (Bull case breakout)



SPX with the Bollinger bands (Breakout)



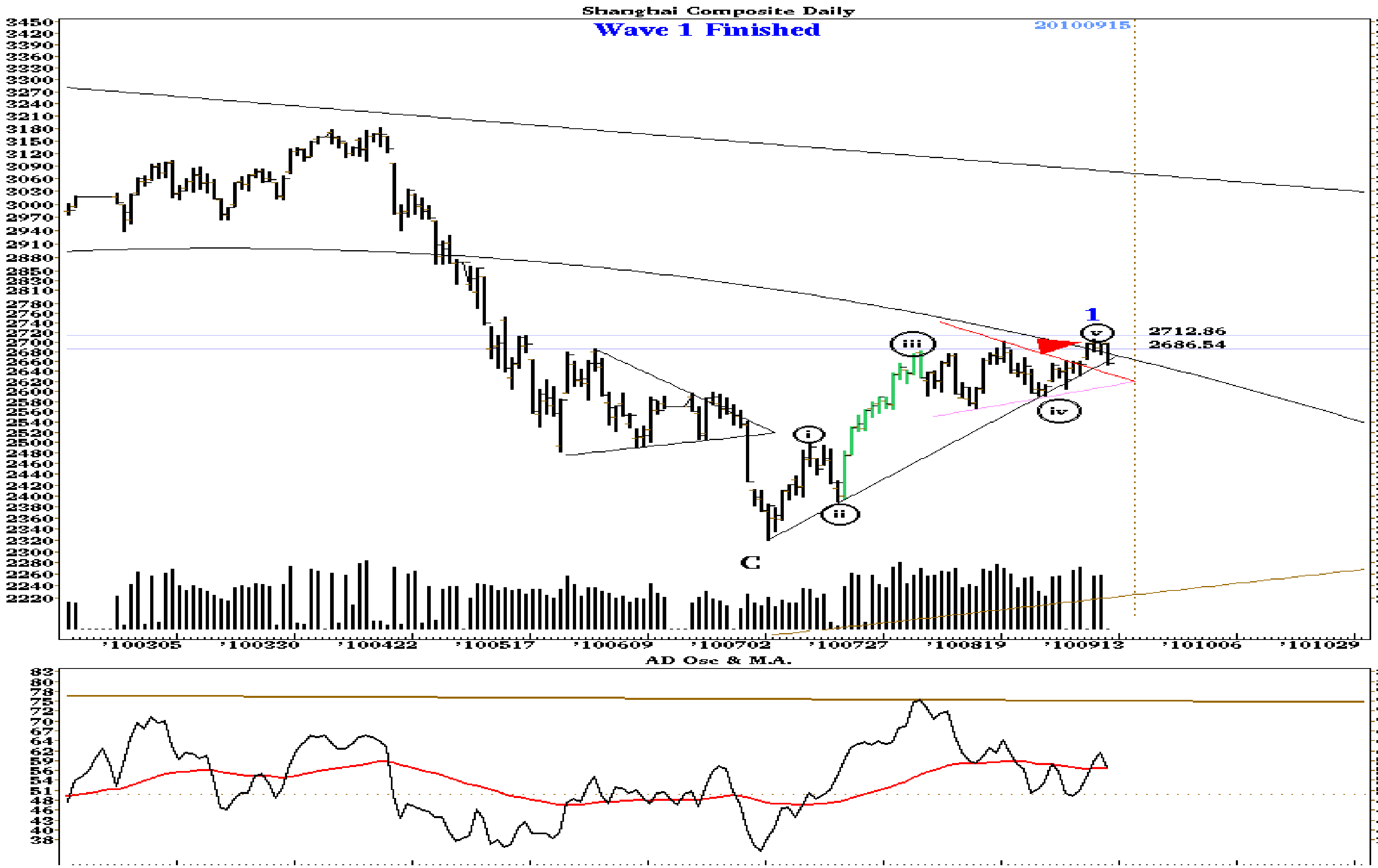
SPX with the Bollinger bands (Breakout)

When weekly mid Bollinger bands are trending down (like now) a top can be found when RSI reaches in the low 50 range. Current RSI reading is 50. Also the weekly Mid Bollinger Bands has been acting as resistance since May and the mid Bollinger Bands currently come in near 1120 range. On Balance volume indicator. This indicator is like a money Flow indicator and since July this indicator has been working lower showing money is leaving this market.

Sector _ETF Analysis (C) – Related Section

SHANGHAI

We watch this for lead signal and for it to top out first . It appears to have completed its five-wave advance just under the Poly trend line .This was our upside target we gave you in the earlier reports. Now the re count on the downside with wave 1



Commodity Analysis (D) – Related Section –

GOLD

POM criteria for Implementation on GOLD

- **Gold is in Bull market *and has different Criteria for POM's then SPX***
- ***Its tough to get POM 15 in Bull market and to get NET Short in such market***
- ***Criteria for POM 15***

1. ***Price to extend 10 % above POM 14***
2. ***Price to extend 15 to 20% above 34 W MA***
3. ***Final price exhaustion to take place on 3 Drives to the Top and Double top to it***
4. ***Sentiment to Extremes on Intermediate term***

Now the other criteria are for Bull market are

- ***POM 15 is for Net Short (Rare event)***
- ***POM 14- Re Runs is for Partial Hedge on Long position and/ or Stop New Buys***
- ***POM 13, Neutral Signal for Risk Management suggests, Unlock the Hedges on the short side executed at POM 14,15***
- ***POM 12 or POM 11 levels initiate New buys.***

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Chart below is GOLD v/s POM since 2008, its volatile market. Some of the key points to be noted :

- ***Highlighted in Yellow are the Extension after the Signals, it gets to be disbelieved at the time and loose identity , but POM 15 is very limited in powers, it needs to see more than bear market exuberance rally***
- ***2008 the Financial crisis did not spare Gold as safe haven (see the decline below in chart) , so if another crisis have to happen, will the Gold act as safe haven? is to be seen or flight to dollar USD***

GOLD – POM - Conclusion

GOLD (Bearish case) – Chart 1

Our Initial POM 14 on this trend was at 1260 area in April and then POM 13 at July end at 1170. Since then we had POM 14 re Run at 1235 Mid Aug. After that market have been extended to 1260 (by 25 points)

On upside - Currently we have tested 1260 area 3 times and each time the volume as indicated in Blue line 9 chart 1) has shrunk drastically and price failed on top side . It shows weakness on potential upside break . This has a Triple Top which is bearish. Two chart below also Indicates the divergence in Money flow at this top levels.

Currently We came off the top with 20 points yesterday and volume picked up on downside , Since the market has been consolidate for a while in this area the first pull back could be to 1240 and then rally back and if the volume lighten up on this rally as compared to the fall from 1260 to 1240 , it would be another conformation of a short term top **(We have denoted a price path for this scenario) in chart below.**

On the downside we are looking for the previous lows at 1170 (Indicated in RED Circle). This has the High volume reversal , Which needs a test before market moving for any meaning rally . At that price point we could get POM 13 potentially at that level. Incidentally this is also top of the Poly trend indicated in chart 2 below

Beyond that we do not want project anything on the downside till we see how it reacts at 1170. Although we have a view on it . The bigger picture Bull market is still in tact

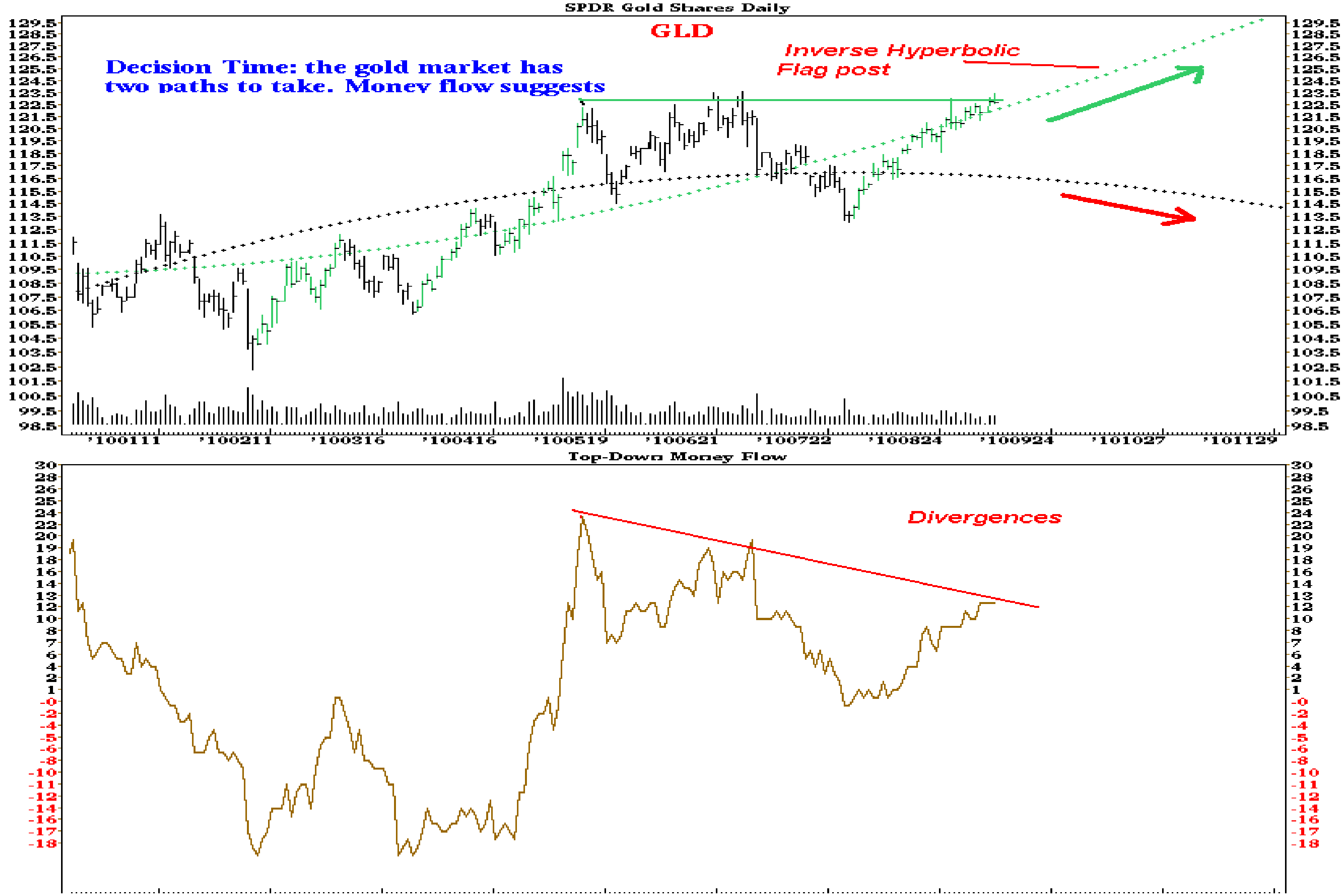
GOLD (Bullish case) - Chart 2

Break above 1265 - If this has to happen , GOLD needs to follow similar to SPX at 1231 except . RSI and Bollinger doesn't matter

- Burst through the Neckline of 1265 with SIGN OF STRENGHT (SOS) , with daily volume of 18 MM shares or over at approach point and Weekly close in the same week above 1265 with 45 MM volume
- GDX needs to lead to confirm the breakout along with GOLD
- If the volume doesn't not accompany and price does, it could move along with **Flag post / Inverse hyperbolic move** very quickly up and then smashing down **(See the chart 2 below**). This will require quick finger and it will take the energy out of Bull market . Similar to **06 April** GOLD 550 to 700 and back to 550 and **08 Jan** from 800 to 980 back to 700. The consolidation last for almost 12 to 15 months (Both those breakouts where on 40% lighter volume)

GOLD – Chart 1 – Bearish case

GOLD – Chart 2 – Bullish case



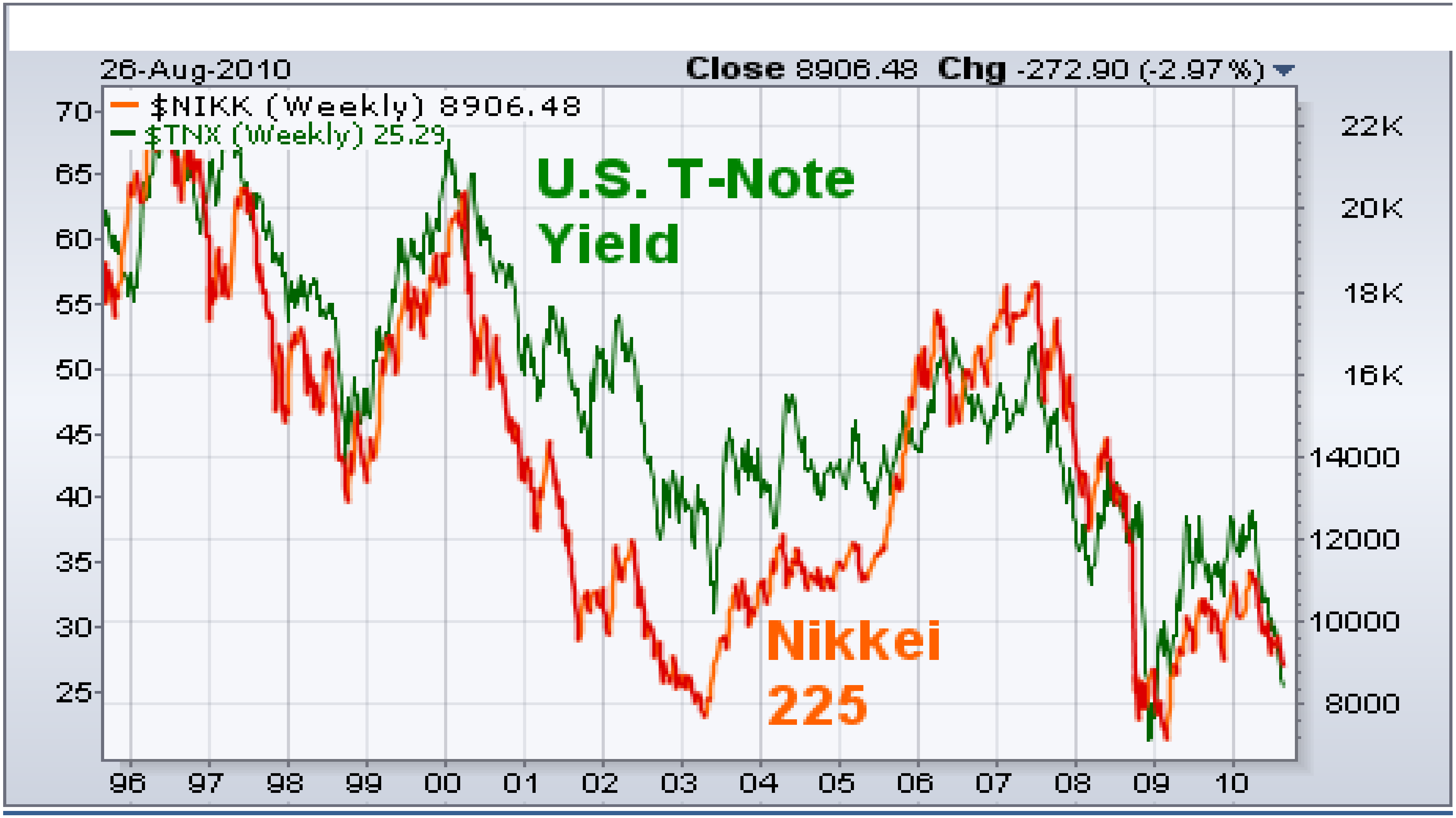
Currency Analysis (B) - Related Section

Yen v/s Nikkei (Special situation)

A rising Yen is normally bad for Japanese market as demonstrated in the chart below their inverse relationship. The negative correlation is that a rising yen makes Japanese exports more expensive, and the Japanese economy is heavily dependent on exports. **So to be long Japanese market keep close eye on Yen drop for signal**

Nikkei v/s T Notes (Special situation)

The Japanese market and U.S. rates. The remarkably close correlation between the Nikkei and T-Notes. Both have recently fallen to 52-week lows. My premise is that the Japanese market, which is the world's weakest, is one of the factors driving global rates lower. **So to be long Japanese market keep close eye on T bonds for signal** .



PQV Equity Analysis (E) - Related Section – None