



SG Capital Research

Global Market Insights

Research Note – Intermediate Update (A# 2)

MAEG- INTERMIDATE UPDATE # 01 SG 2010 # SEPT 16

For Immediate Release – *Tuesday A # 1 & Thursday A # 2*

By: Suneil R Pavse

Contact: *apavse@aol.com*

Market Strategy Global (A) - SPX – Closed @ 1125

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:

- OEX 100, NYSE – HL Ratio
- SPX v/s VIX
- QQQQ, SOX
- YEN, SPX CONTRA

SPX – “Our Current Signals & Projections”

- ***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 while the market has run up 7% during this time***
- ***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.***

POM Signal update with Setup Index

Currently we are on 3RD - Re - Run on POM 14 at SPX 1104 , Its is very Rear to get POM 15 Re- Run . Therefore Our Intermediate Primary Signals of - POM 15 @ 1200 on 22rd April and POM 14 @ 1180 on 12th May, is still in tact, This signal conformed 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.

Within the POM FRAMEWORK - POM 15 is for Net Short & POM 14- Re Runs is to Hedge Long position. Within the larger ABC down from 1200 to 960, we have smaller ABC's which are Risk Management tools with POM 13 's and other POM 14 Re - Runs.

If we operate within this POM 14 Re run framework above - currently On scaled entry basis , we could prepare for taking advantage of this scenario if conformed by valuation matrix, SETUP -2 & 4 / PQV list to Hedge the High quality existing Long term LONG position with Risk management parameters of stops.

Market Insights

Ideally we would like this market to test 1130 to get the crowd on one side with exuberance. If this 1130 happens from the current POM 14 re run at 1104 , that would be a stretch of 2.3% (from 1104 to 1130). On re visiting all the indicators for possibility for POM 15 Re Run, we do not think the criteria will line up at 1130 . Our Original POM 15 at 1200 is still be in tact as primary intermediate signal on 22nd April and 2.3% would be a invalid extension of POM 14 Re Run

First, the 2.3% extension has been quite controlled and the 5-day ARMS Index reading of 1.68 shows the stock market is actually *oversold* despite the advance, this is distribution under the carpet.

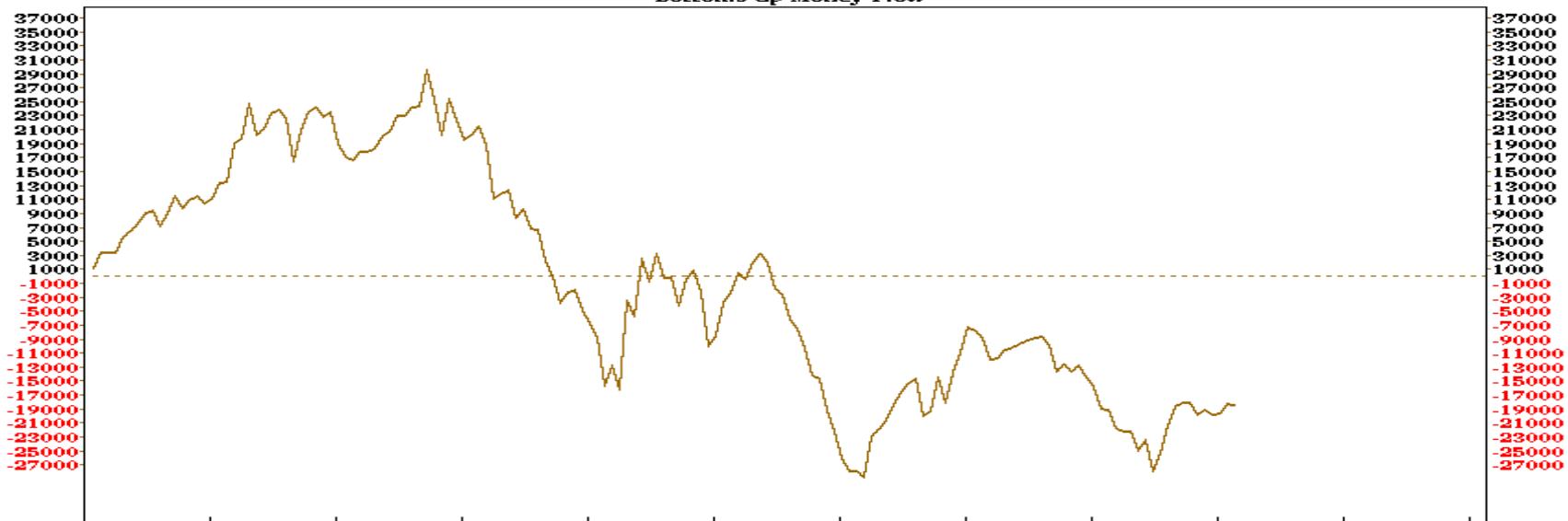
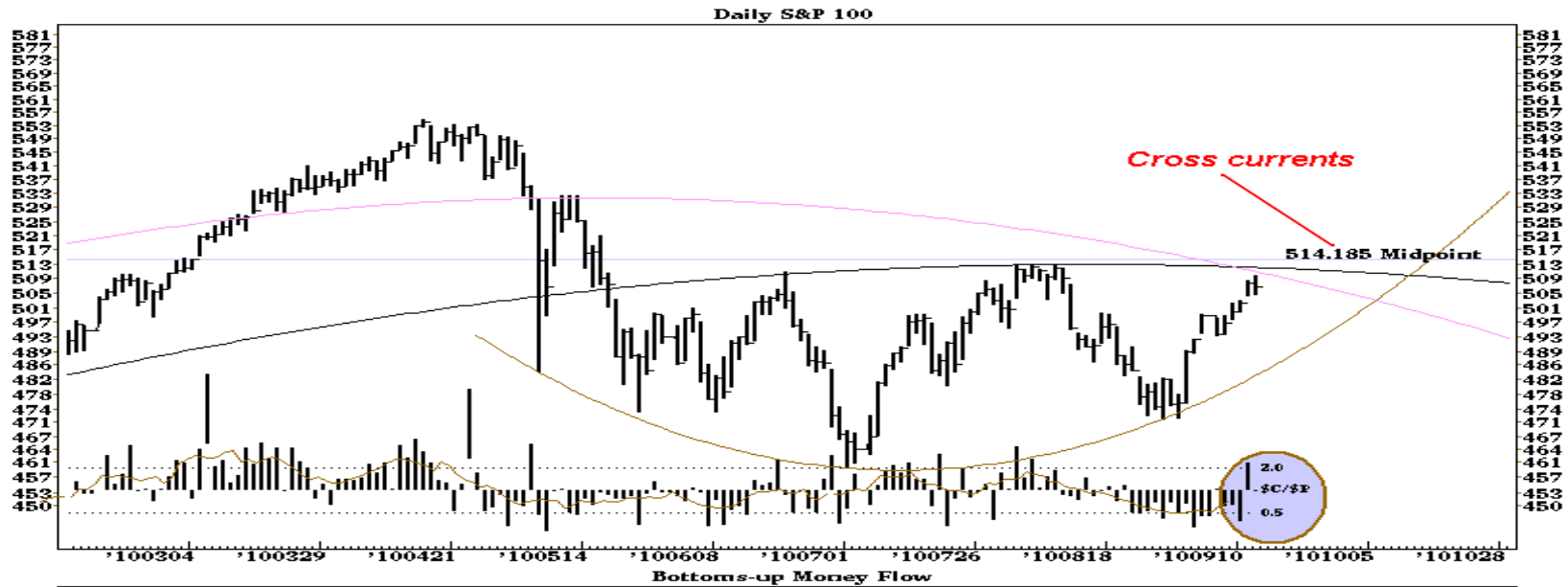
The market internals warns that a top is approaching. This week, cycles, T terminations call for the market rally to top at midweek and start a decline. **Sentiment (Short term) has reversed completely** from what it was from last week's bearish ratios to *overly-bullish*. Our OEX ratio it closed again above 2.00 which often means signal a top and a reversal within 2-3 trading days (chart below OEX)

S&P has overhead 34 W MA resistance at 1120 level. This week, volatility is likely to increase due to conflicting cycles, Triple witching and Cross currents at the price confluence.

So at the cost of sounding redundant past 10 days, we re-evaluate the indicators

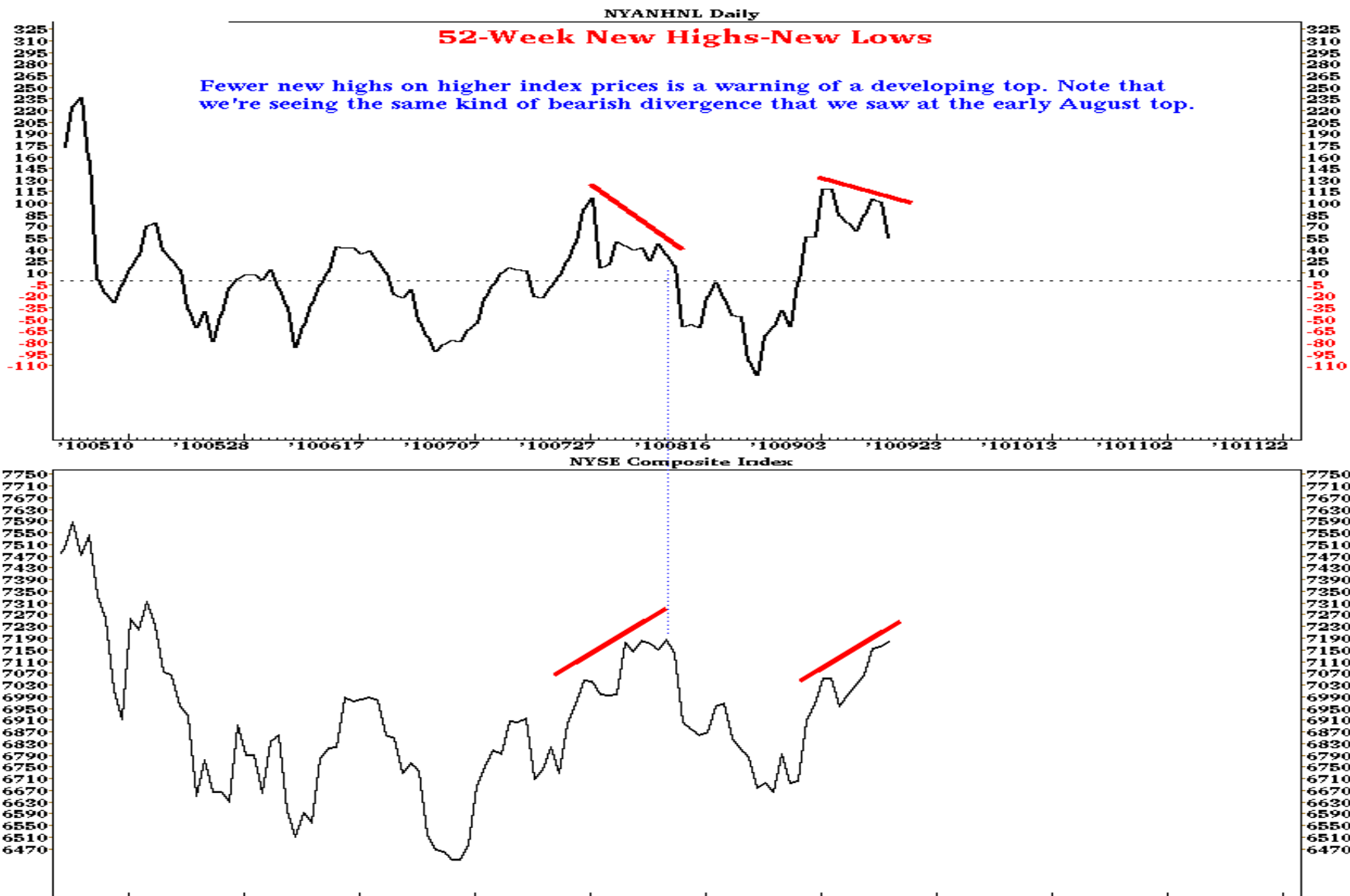
OEX – SPX – 100

Ideal one to look for on option expiration week with OEX Chart , We like to keep a check on Put / call ratio , Max pain factor on option week for that purposes. There are **3 cross current polytrend steam** coming on to this Index especially when Put / call ratio is at 2.00 above



NYSE – HL ratio

Despite new relative highs which have been seen in the NYSE Index, we are seeing a small and decreasing new highs. This *bearish divergence* is similar to what occurred at the early August top. But, there was a period of time when the market continued to move higher,



SPX v/s VIX

Since May the VIX appears to be forming a "Falling Wedge" This very bullish pattern would give an upside target to near 45. The bottom window is the SPY/TRIN ratio. Surges in this ratio have lead to tops in the SPY and it is usually an leading indicator. Since August this indicator has surged and is starting to roll over indicating that SPY may not be far from a high. Once SPY/TRIN starts to fall then that implies the decline has started. Also notice that the weekly Bollinger Bands are starting to pinch which suggests volatility will be increasing soon. Since the weekly Bollinger Bands are trending down it implies the direction of the volatility will be down. The next decline could start soon.



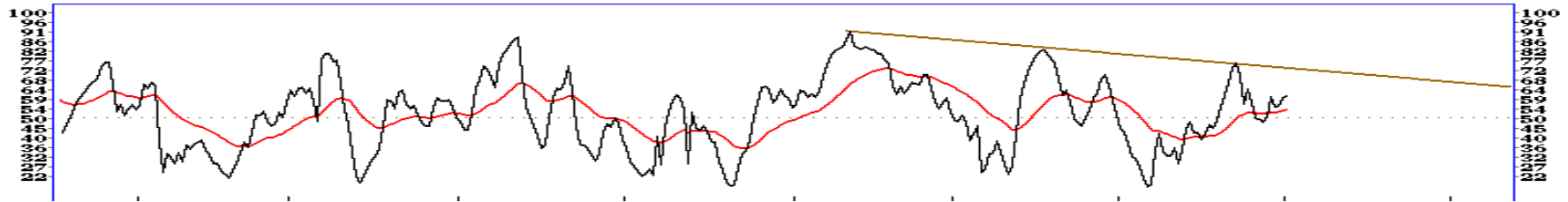
QQQQ

QQQQ gapping higher and moving into a resistance zone from the June-August highs. The Commodity Channel Index (CCI) moved above +100 last week and remains above +100. This makes it **overbought and at resistance**. With 25% lighter volume



Sector ETF Analysis (C) – Related Section – None

We are seeing patchy strength in some of the sectors which, when outperforming, are bullish for the trend, such as SOX. however: If the market tops according to its historical pattern, SOX should start heading lower soon while the broad market takes longer to top and the blue chips finally peter out a bit later in the sequence. The real action on SOX will come on other side of this Poly trend (On Tuesday Report we showed the Intermediate Poly trend)



Currency Analysis (B) - Related Section –

YEN

Japan's intervention in Yen may have been dramatic on the short term. We'll see what effected our Setup as Trigger. We had a very long term confluence Zone between 119 to 120 , we hit 119.56 and the news came out, simultaneously at 81.8 it completed the 3 drives to the bottom on Inverse at the same time. FXY dropped 3.3% Huh move for currencies in general .



Contraray Bullish case for SPX – “Just to be aware of otherside”

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 have been getting very lucky but this time could be different. *Every time we make a decision the caution always remain we could be completely wrong and that's the risk we face.*

Although currently we are on POM 14 – Re run (It is 3rd Re run) 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) .

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.

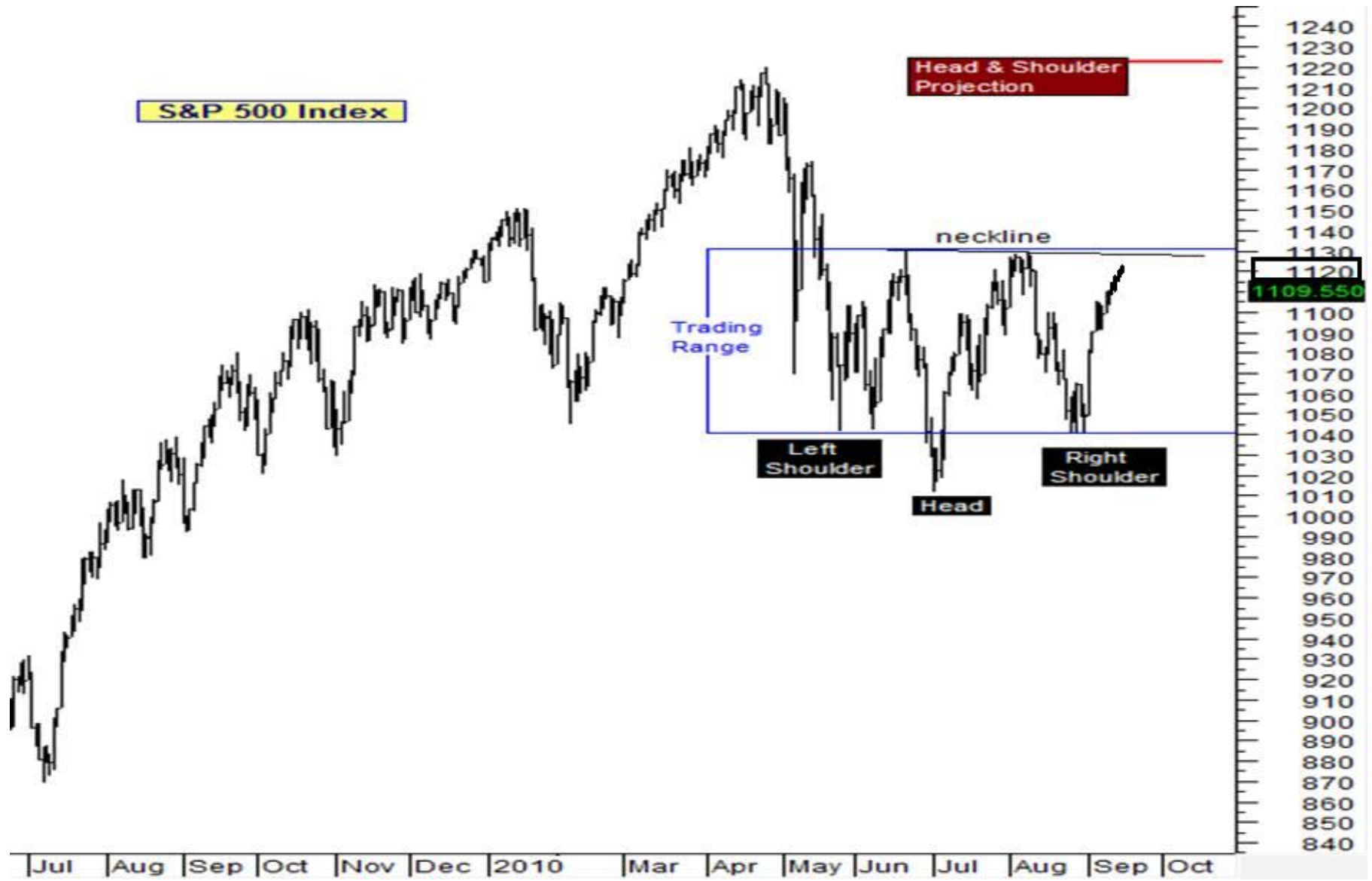
SPX MOVES UP TO CHALLENGE 34 W... a potential "head and shoulders" bottom forming in the SPX (but to us the volume is not conforming it) and secondly to clear their August high. That would accomplish two other things. It would also break the "neckline" drawn over the June/August highs, and it would break 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 STRENGTH (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 & H/S Pattern (Bull case breakout)



Commodity Analysis (D) – Related Section – None

PQV Equity Analysis (E) - Related Section – None

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