



SG Capital Research

Global Market Insights

Research Note – Weekly Market Strategy Global (A)

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Market Strategy Global (A) - SPX – Closed @ 1109

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 , VIX
- NASD, NYSE, DOW, RUSS
- DXY
- SMH, CHINA
- Bullish case for SPX (Special situation)

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
- 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**

On larger picture -

Intermediate term basis, We initiated POM 15 @ 1200 on 22rd April and POM 14 @ 1180 on 12th May, this still remains in tact. This was a “Primary Sell Signal” and conformed ABC down to 960. (Price projections are just the guide lines to work within but internal market rules for reversals) and so far its on track. We have hit lows of 1010 in SPX.

Within the larger ABC, we have smaller ABC's which are Risk Management tools with POM 13 's and other POM 14 Re – Runs (As you know the Model is not perfect but we just follow our indicators as best as we can to navigate us with higher probability).

POM criteria for Implementation on SPX & SETUPS

- ***POM 14 , 15 (is Sell Signal) & POM 15 is for Net Short & POM 14- Re Runs is to Hedge Long position***
- ***POM 13, Neutral Signal for Risk Management suggests, If Market on way DOWN move to STOP executing additional “ New Short Sells” that was initiated at POM 14 or POM 15 levels.***

Upper End of Confluence Zone

The expected bounce from the bottom of SPX 1045 is in process and it has entered our CONFLUNECE PRICE ZONE of 1085 to 1110. We are at 1110 after confirming POM 13 @ 1045 SPX, a bounce of 5.2%. We are watching carefully now.

If we fail at around / under the upper end of confluence zone 1110 , (Although its hard to pin point the exact top within 1110 to 1130 regions there is lots of cross currents here) . The “price and time” confluence of 7th to 16th Sept is good benchmark . Things could happen +/- variations on price and days but one of these days very well could be the trigger. (We just doesn't know which one and when) Possibilities are when big boys come back from vacation, Turn around Tuesday or Cycle dates and T terminations. At the upper end of confluences usually the volatility could increase either with false breaks, taking off the stops of short coverings with exhaustion moves. But certainly they will not ring the bell at the top and make it easy. We know that for a fact.

On scaled entry basis , we could prepare for taking advantage of this scenario from Setup watch list if confirmed by potential SETUP 2's in Low Quality Equities at Higher valuation band for favorable risk reward basis to Hedge the high Quality long positions. All if confirmed by other Methods.

Market Insights

The Dollar is ruling this market upturn in DXY is likely to be the controlling factor (See the DXY chart below)
The market was mixed last week and deterioration in market internals warns that a top is approaching. This week, cycles call for the market rally to top at midweek and start a decline . The initial stages of the decline should be moderate.

Today, the S&P will likely open below its overhead 34 W MA resistance at 1120 level if the S&P futures hold their +8 point gains.
This week, volatility is likely to increase as we find all the senior traders back from vacation, with it also being a “triple witching” expiration week. For one full week have been hanging around 1105 building cause.

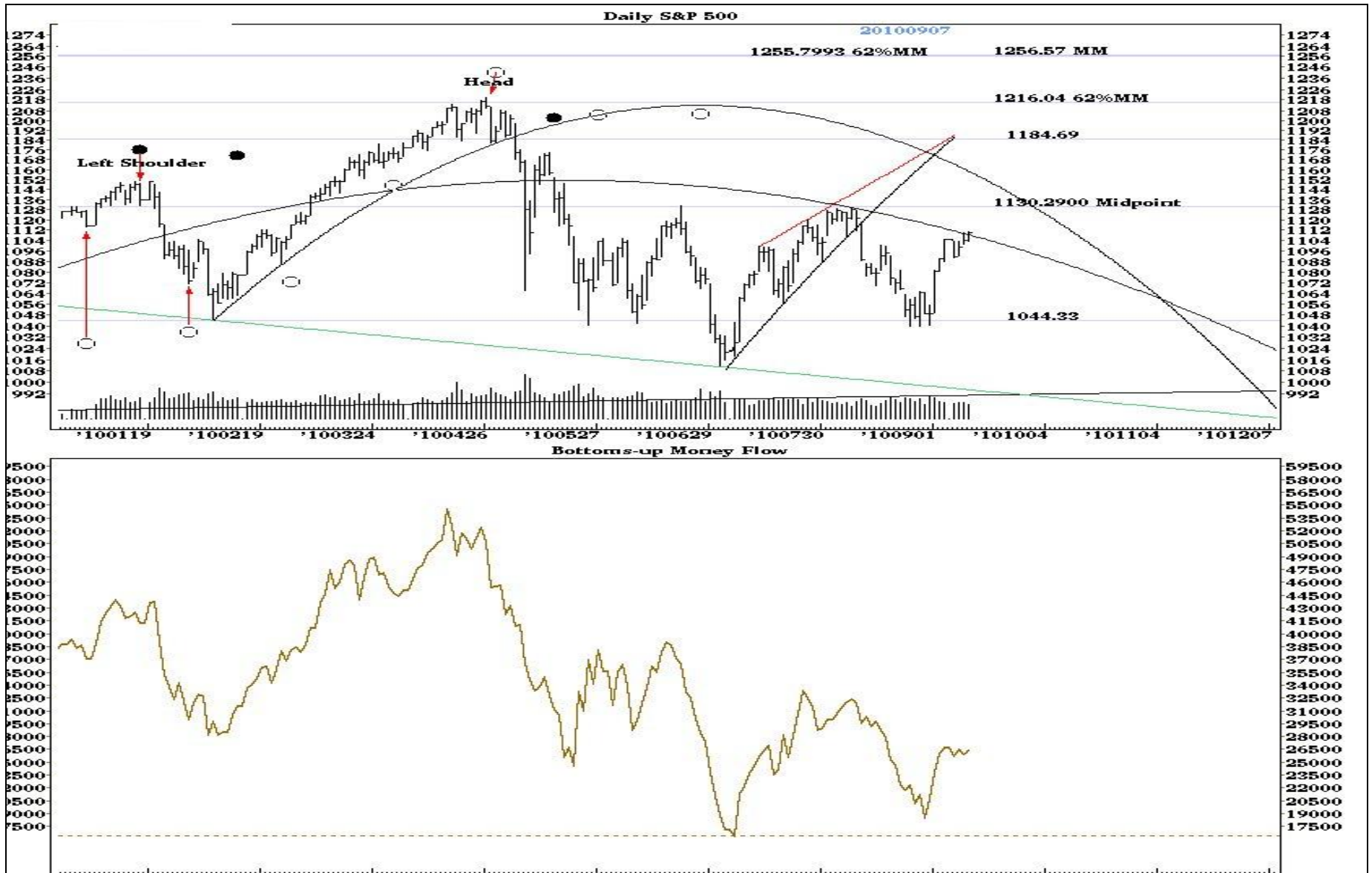
Recent rallies have slowed and topped just when things were looking healthier. We came from a deeply oversold position, the short term bearish sentiment has not yet been completely unwound. Such are the characteristics of bear market rallies. Usually, bear market rallies cover more ground, percentage-wise, in a shorter period of time.

- 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.
- **The cycle time**, T – Terminations, 911 Anniversary, Bradley and Harmonics they all converge into a Time confluence Zone of 7th to 16th (+ / -) .

We will just follow and see what market indicators tell us,

SPX – Short Term

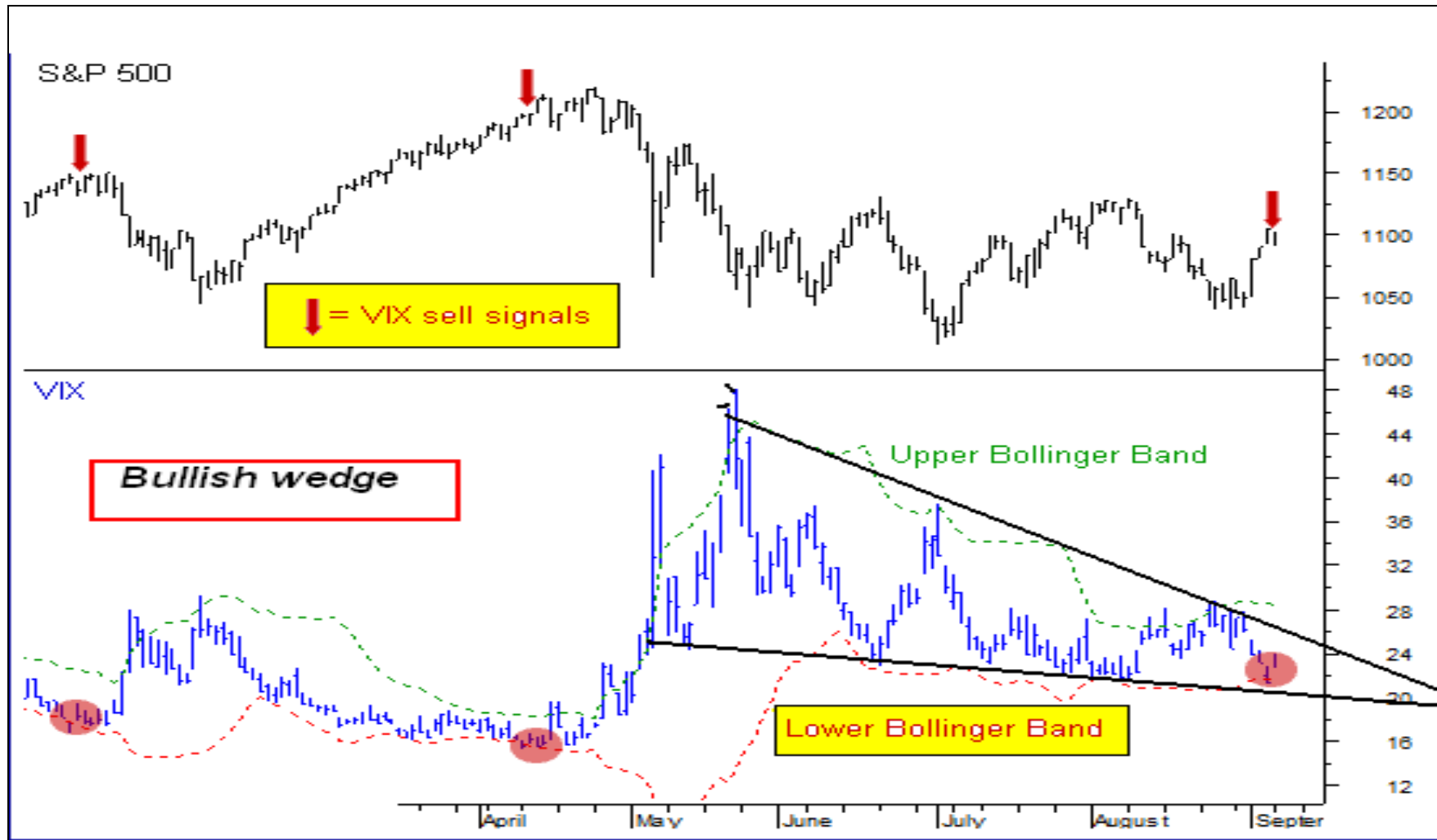
SPX is fighting to push through resistance, but is ultimately going to fail. This week we should see a reversal to the downside.



SPX v/s VIX

The VIX index of volatility is once again approaching a 0.786 retracement level . It is oversold and looks ready to rally, which translates to stocks moving lower

AAll's bullish sentiment survey for small investors has risen from 21% to 44%...which is just below the 48% high seen at the April highs, It is amazing short term sentiments change so quick. Chart below shows how ell Bollinger band has been signaling the turn in VIX which in turns SPX , off course we use this Indicator in concert with other parameters. **VIX is also forming bearish wedge .**



NASD- Short term

The Wave pattern is very clear here , Triangular consolidation E point is approaching , Money flow isn't encouraging either.



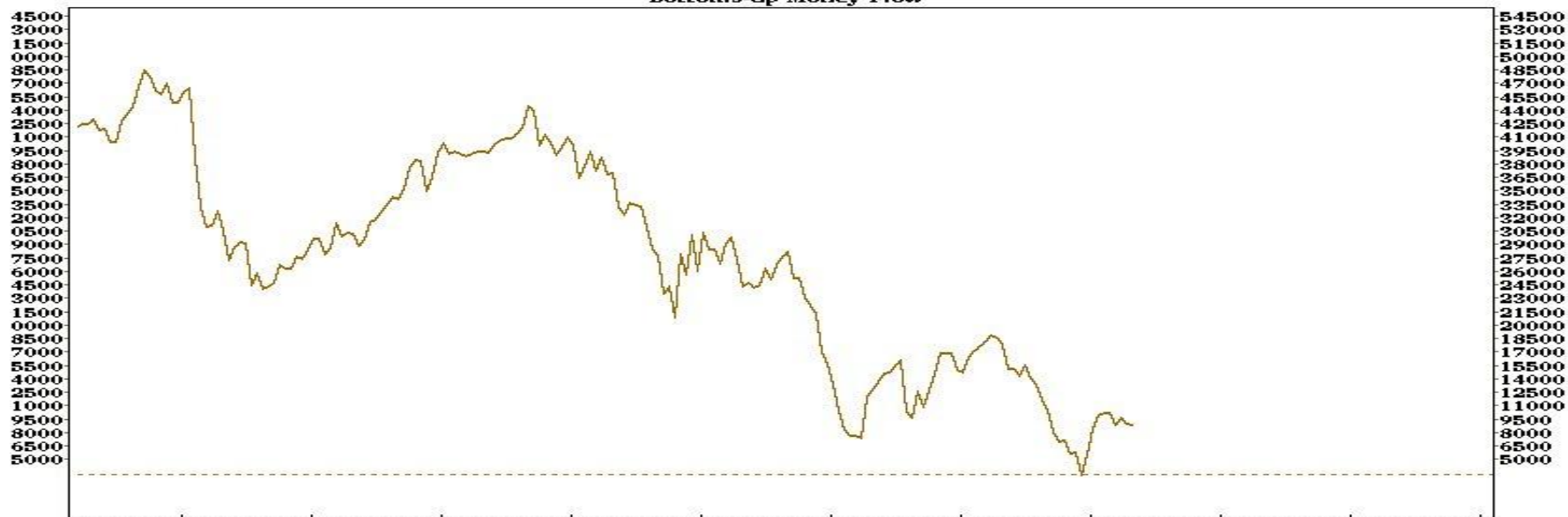
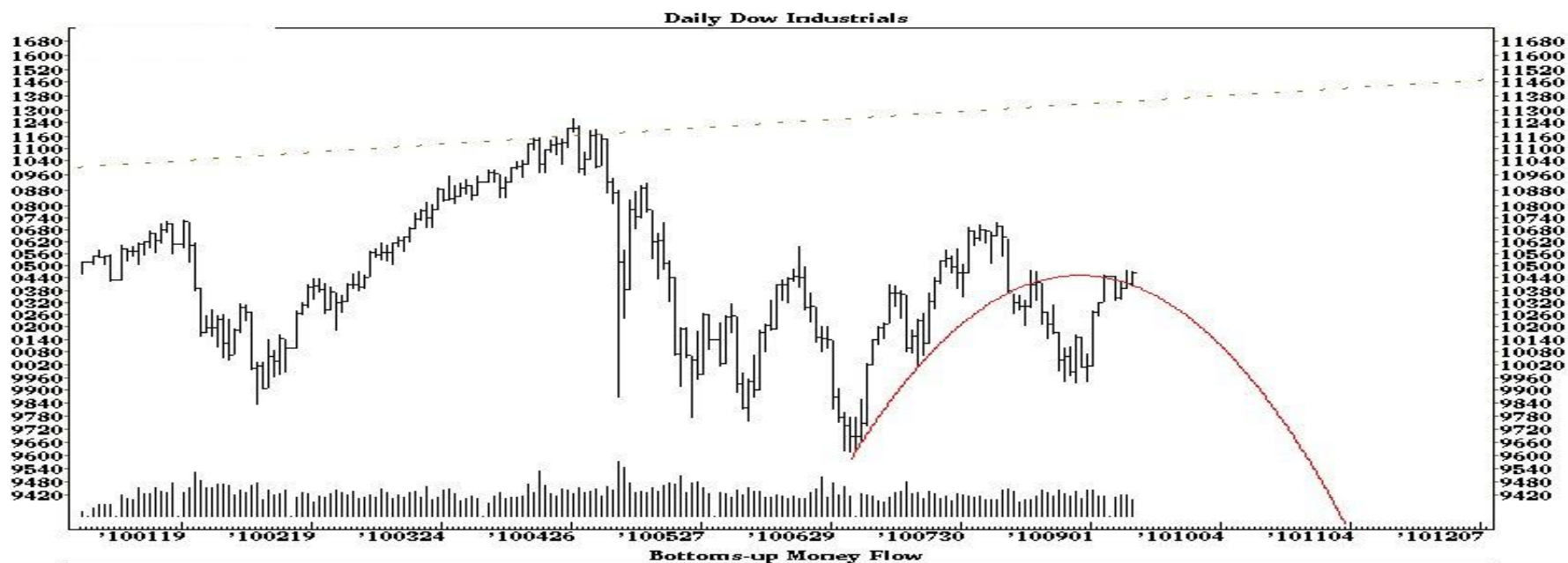
NYSE – Short term

The short term T has expired, money flow has stalled and the market trend may have already turned down., this is false break to the upside helped by Bond market in NYSE



DOW – Short term

The picture is bearish and we expect the Dow will give up with the rest of the market starting this week.



RUSS - Short term

One last gasp rally may be left in the Russell , but the trend is rolling over right It's the end of the rally this week. Banging the trend line on low volume.



Currency Analysis (B) - Related Section

DX

The big picture remains very bullish for the dollar., This should put some pressure on the rest of the market .



Sector ETF Analysis (C) – Related Section – None

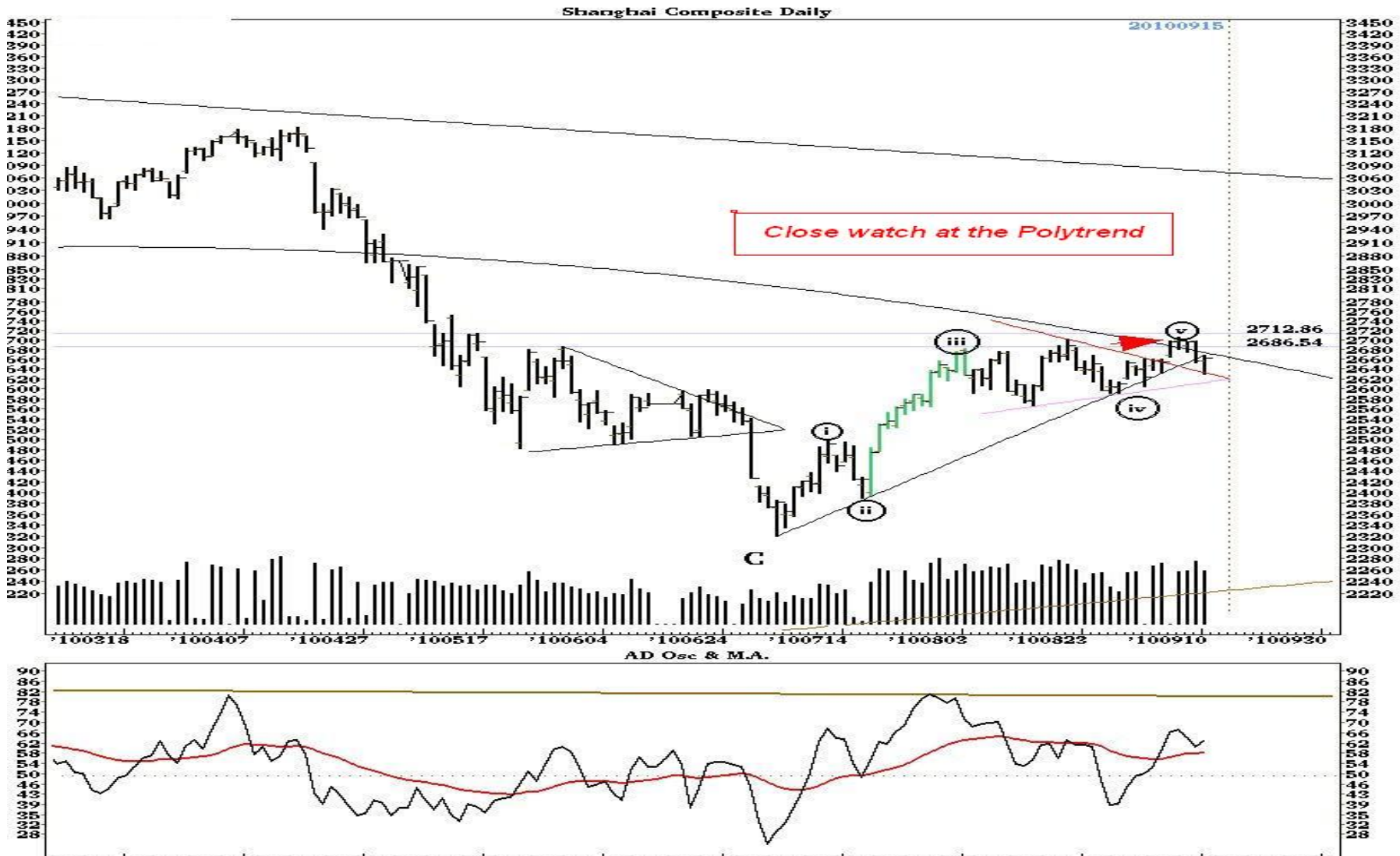
SMH – Short term

The semiconductor topped out exactly at our T in April and are on right side of the hump, Money flow has been going down quick.



CHINA

The Poly trend we showed turned the market down at (V)th wave. We suggest that a retest of the falling overhead resistance line might be the place where the market needs to reverse and trend lower. China has given good signal for SPX, with lead / lag. Now its setting up bearishly. The falling overhead resistance line will try to prevent any rally from making much progress.



“Bull case” for SPX

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) .

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.

Every time we make a decision the caution always remain we could be completely wrong and that’s the risk we face.

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.

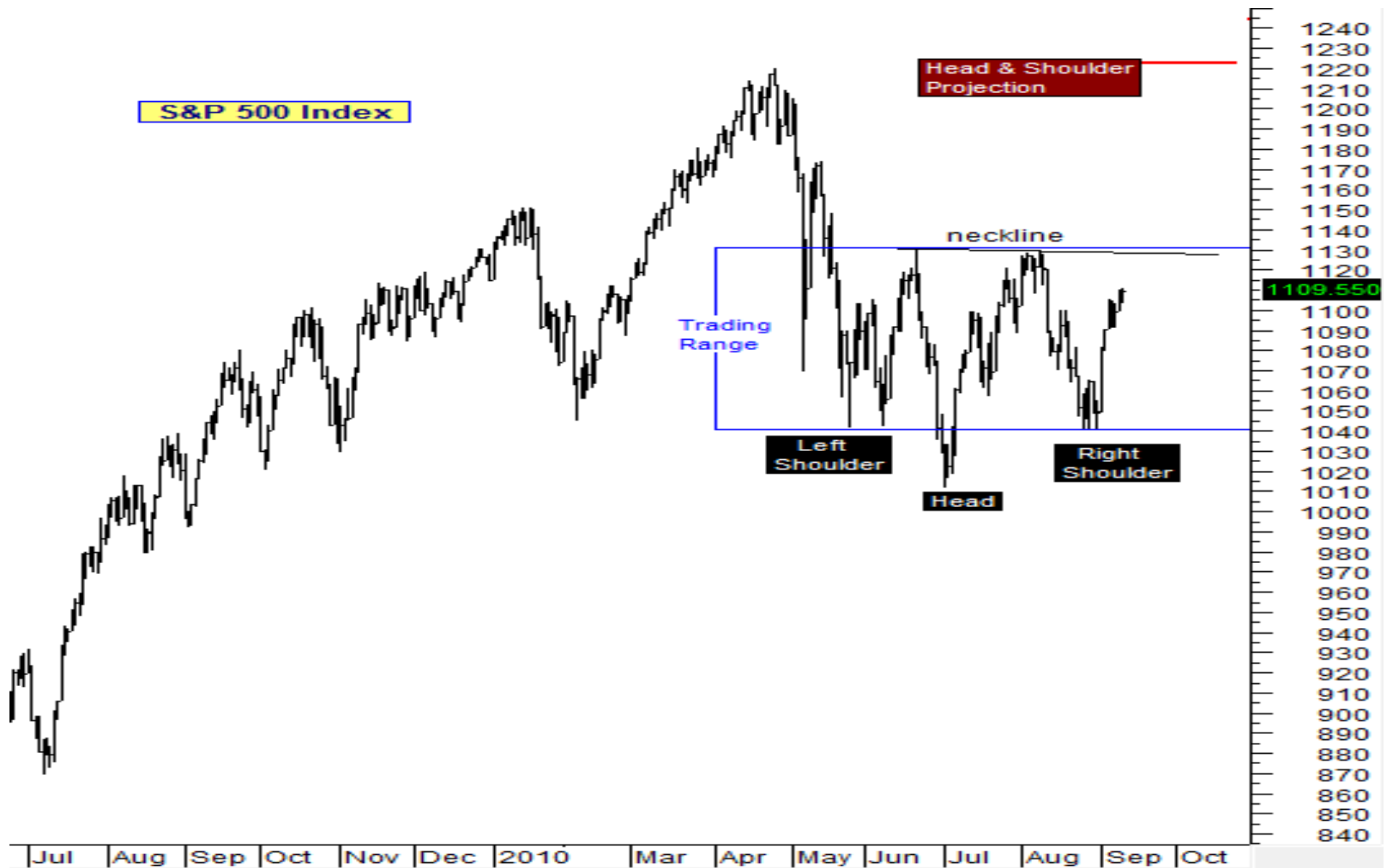
SPX MOVES UP TO CHALLENGE 34 W... a potential "head and shoulders" bottom forming in the SPX (but to us the volume is not conforming it) and secondly to clear their August high. That would accomplish two other things. It would also break the "neckline" drawn over the June/August highs, and it would break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

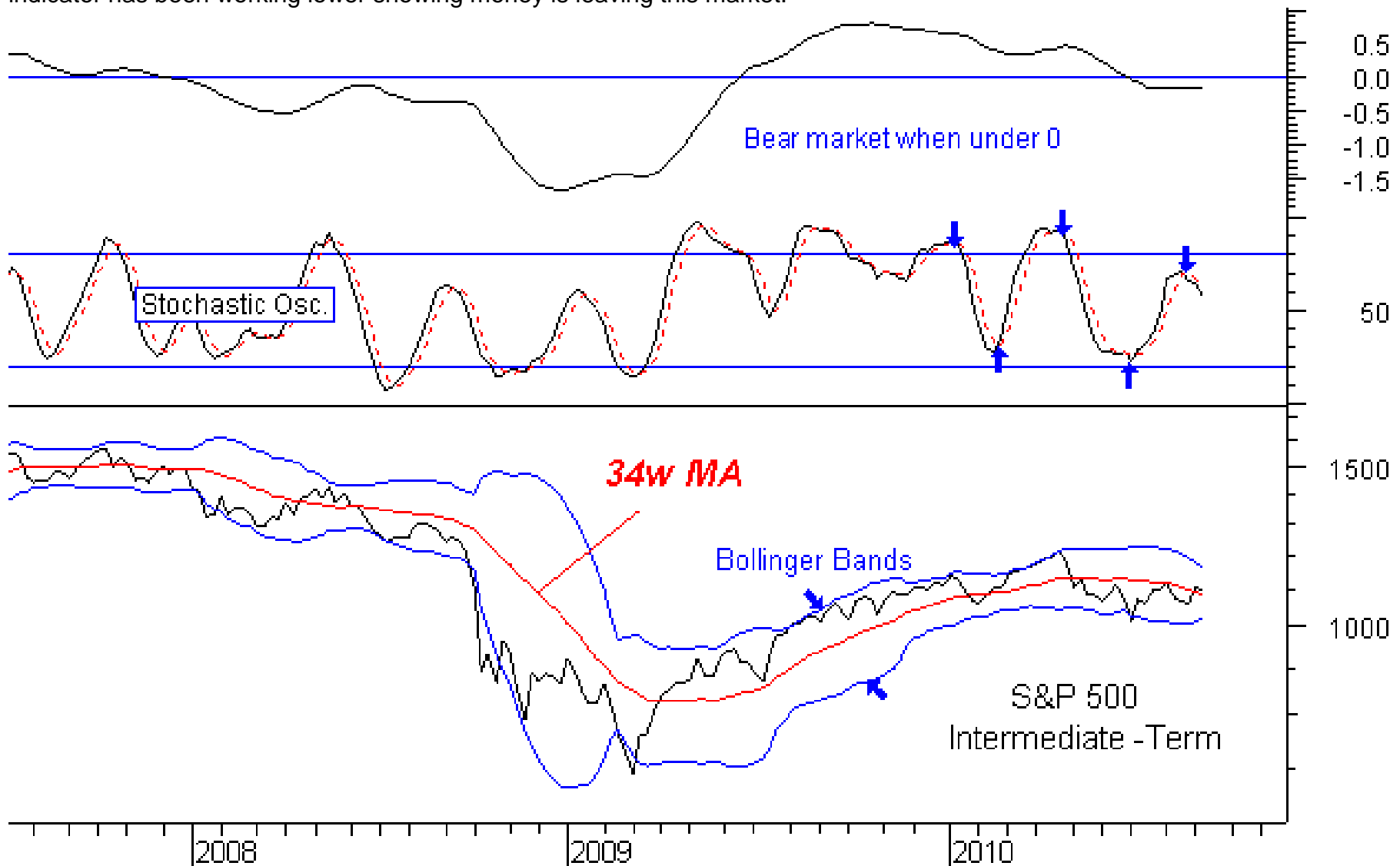
- This change of signal will not give us POM 12 but we can turn Neural with POM 13 and then look for POM 15 on sell side at the test of 1180 or 1225 highs to fail (This will b extended rally in Bear market)
- The damage done here will be 30 SPX points loss from POM 14 –re run current signal at 1100

The SPY with the Neckline & H/S Pattern (Bull case breakout)



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.



Commodity Analysis (D) – Related Section – None

PQV Equity Analysis (E) - Related Section – None

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