SG Capital Research

Global Market Insights

Research Note – Weekly Market Strategy Global (A)

MAEG- WKLY MKTSTR- GL- POM -SG 2010 # SEPT 20

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

Analysis of Broad Market that includes

- **Primary Market SPX (or SPY) & DOW (DIA) as main market driver and**
- **Secondary Markets NYSE, NASD (or QQQQ), RUSS (or IWM) .**

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

- ## Detail Coverage

- **Primary Market Analysis – SPX (ST / LT), DOW**
- **Time / Cycle Analysis**
- **Advance / Decline Internal market behavior – A/D – H/L Oscillator, NYSE H/L %, NASD H/L %**
- **Sentiment Analysis with Extreme character – ARMS, AAII, INTERMIDATE SENTIMENTS**
- **Secondary Market Analysis for SPX –POM clues only – NDX,NYSE,RUS,MIDCAP**
- **Sector Market Analysis for SPX – POM clues only- SOX**
- **Global Market EEA Analysis for SPX – POM clues only – EEA, FTSE**
- **Global Market EEM Analysis for SPX- POM clues only – EEM, CHINA**
- **Special Situation – Bullish case on SPX**

• Objective

Focus is on the turning point of the SPX via POM's Price projections. POM is <u>Unidirectional</u> Judgmental Model kept complete Independent from other Global markets and Sectors from its Relative performance. The Inter market Analysis (Global & Sectors) are utilized only to assists in SPX - POM process. Being a Judgmental unidirectional Model, the POM Process does not measure the Relative performance of other markets . Unless we review multiple other market for clues we do not get POM Signal inputs

POM conclusions can be derived <u>only</u> for SPX & Gold markets (exclusively) with single dimension output integrated from multi dimensional inputs. Based on broader fundamental theme of POM, all the associated markets will follow the direction of SPX – POM on intermediate term basis in different proportion of rise and fall.

• SPX Signals & Price Projections

- ***<u>On 26th Aug</u> – 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 8% during this time***
- ***<u>On 3rd Sept,</u> Our Indicators conformed <u>POM 14 – Re Run @ SPX 1100,</u> (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.***

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

Currently we are on 3RD - Re – Run on POM 14 at SPX 1104, and is ACTIONABLE POINT within the "POM FRAMEWORK & SETUP INDEX - 2"   - POM 14- Re Runs is to Hedge Long position on ideas that were triggered at POM 12@ SPX 1020 in July 2010 for rally and the last Risk Management signal POM 13 was at 1045 for a bounce

On Intermediate term - POM 15 – Re Runs are difficult to achieve in BEAR market conditions, there we do not believe we would get POM 15 Re – Run at 1130. However POM 15 at SPX 1200 on 22nd April for which is still in effect.

Since POM signals are derived only for SPX & Gold markets (exclusively) The broader fundamental theme of POM, all the associated Markets will follow the direction of SPX – POM on intermediate term basis in different proportion of rise and fall. And the same signals could be utilized with Risk managemnt

POM Signal with Setup Index

If we operate within this POM 14 Re- Run framework - currently On scaled entry basis , we could prepare for taking advantage of this scenario if confirmed by RA / RI matrix & SETUP Index on   PQV VALIDATED LIST (Section E – MAEG) within its own guidelines to Hedge the High quality existing Long term LONG position with Risk management parameters. .

- ## 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) and it should be a invalid extension of POM 14 Re Run

On Bullish side, buying under the current short-term overbought condition isn't good trading practice even if the market has to break out to the upside, therefore even in bullish case we would be far less bullish now @ 1125 then we were at @ 1045 when POM 13 was triggered. Therefore the gravy is gone even if one is bullish. We still think which ever way to dissect this market SPX 1045 was better point then now. At the end of our section we still have kept the criteria for breakout, however if that happens we will just Neutral at 1104 (which had trigger POM 14 Re run) and catch up with signals on retracements but so far indicators are not suggesting of it. Although there is a stretch of 2.8% for our POM change in this round and we are not going to loose our sleep over this yet, SMH is not conforming)

The computerized trading desks very well know there are lots of stops above 1130 and if they jam the market they have ready sellers for their buys till the music stops. Those are quite profitable for the desks if you get exit out on time

On Bearish side , the market internals warns that a top is approaching. 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 although some indicators show it (see the sentiment charts below) . Such are the characteristics of bear market rallies. Usually, bear market rallies cover more ground, percentage-wise, in a shorter period of time

Also of note, we've done some "on balance volume or OBV" work and it is atrocious. This simply highlights to us just how anemic this rally has been in terms of participation; which means if it turns lower – then there will be very little to support. If we look medium-term, then we can view the July-August rally in the very same light as the current rally. In fact, we viewed that rally as much stronger than the current rally, but yet it failed near current levels and dropped rather sharply.

We are very close to a significant seasonal top and are awaiting signals from our break indicators to confirm that a downtrend has commenced. The SOX Index, our best lead dog, has likely already topped, but others could possibly put in higher highs this week. The currencies EURO should continue to be fellow-travelers to stocks in downtrend and the yen transitions to a long term downtrend . (More in currency Report tomorrow).

Review NYSE chart below how the previous Breakouts and fake outs have performed under similar market Indicators. Since the market is at critical price levels we dug into far more indicators to see what has worked or not. As of this writing Dow is up 90 points and SHH is down (We wonder why) Please review the SMH charts below.

Primary Market Analysis - SPX, DOW

SPX – Short Term

SPX is fighting to push through resistance, but is ultimately going to fail. The reversal should be soon as the bulk of the rally gains behind us now, it's sitting right on the rising polytrend support line with a few points. It’s hard to believe that the crowd is growing bullish just because the market is making a triple top with negative money flow. May be some room to wiggle circle in blue

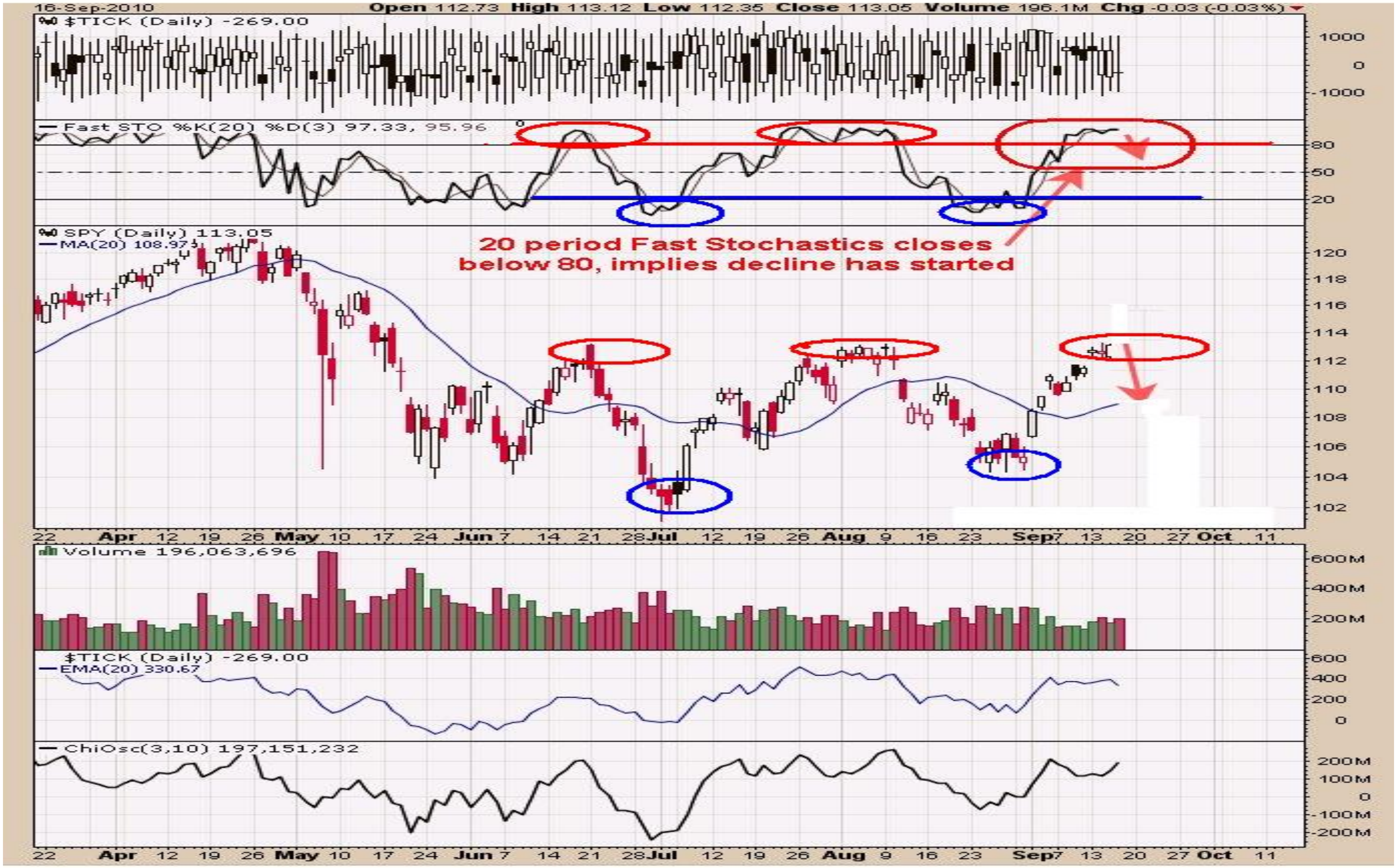
SPX – HRLY

SPX killing time in the tight price band near Poly trend top. A close below 1121 should be a good signal as well .


Quarter-Hourly S&P 500
brk: 1121.98
Close below 1121 should be a good conformation for top
1121.98

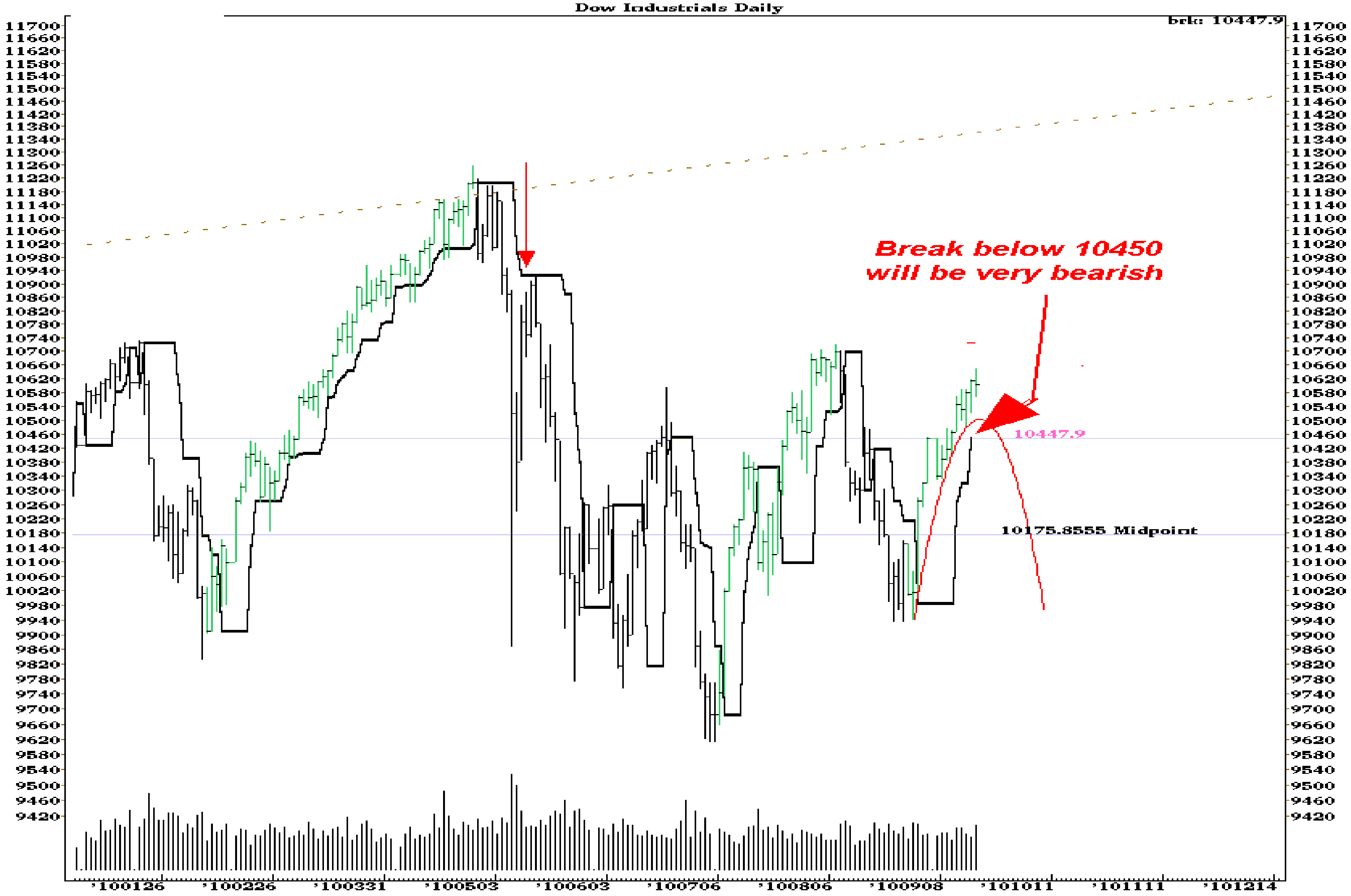
SPX – Mid Term

The second window from the top is the 20 period Fast Stochastics. Readings above 80 are considered overbought on Fast Stochastics (current reading is 95) and a close below 80 will imply the decline as started. The next decline should break below the low of this trading range and head down. (See the red and blue indicators for close relation)



<u>DOW – Short term</u>

The picture is bearish and we expect the Dow will give up with the rest of the market. Usullay we like the Index as its last man standing with big bucks, when money flow dries up here get out of the exit door. Closing in on a daily basis below 10450 should be a good conformation of top



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- ## Time Cycle Analysis

Our Time - cycle Analysis is based Seasonality, Calendar events, Astros Harmonics, Geomagnetic (including Bradley Model) & T – Termination. Based on current market condition our observation points out the following condition

The cycle time, T – Terminations are expiring one by one in Indices and sectors, Bradley on 12th Sept has passed. The seasonal pattern is for the market to decline from mid-September to mid-October and that seasonal pattern is very likely to recur again this year.

- ## Advance / Decline Internal behavior Analysis

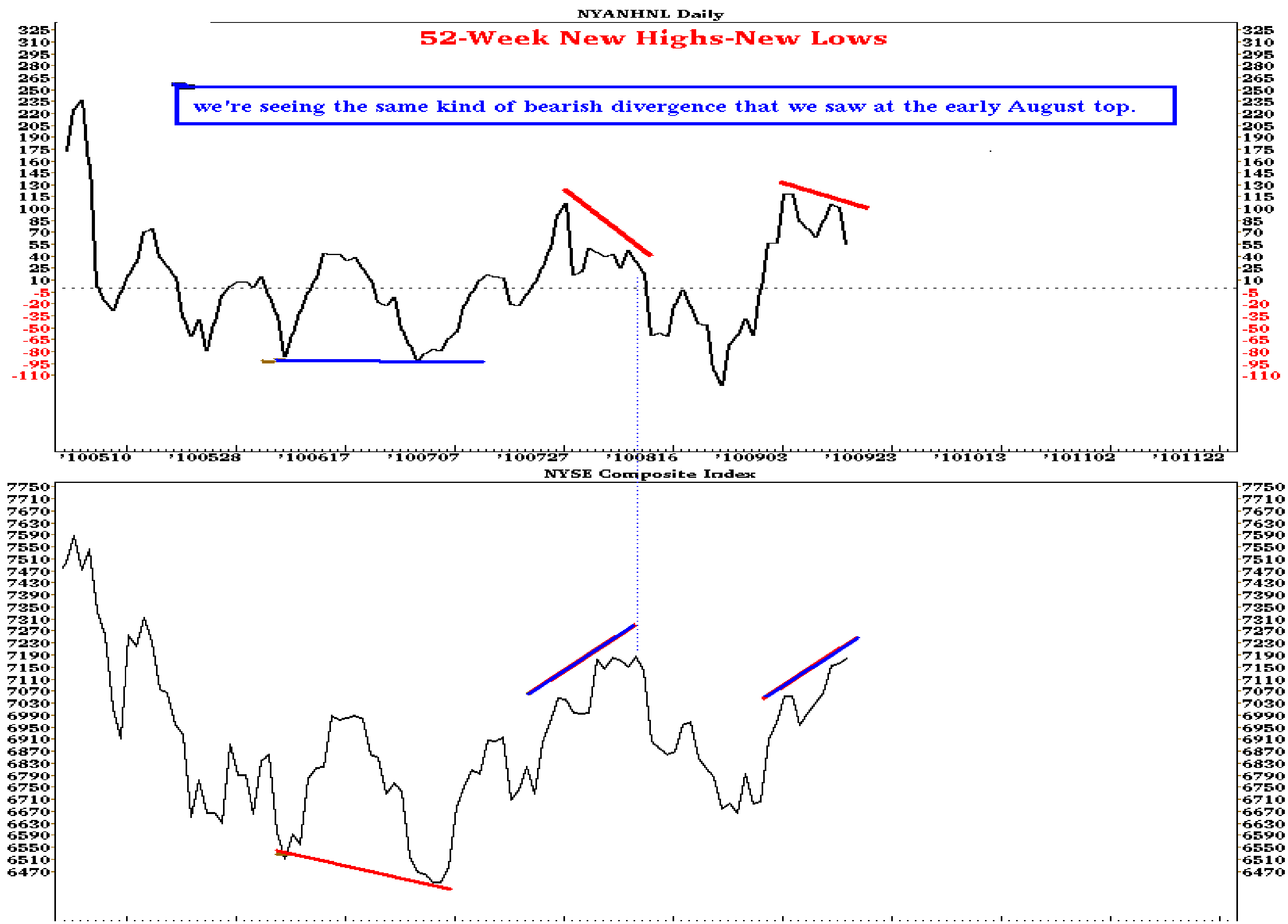
Our A/D Analysis is based on 3rd derivative complex A/D Oscillator instead of conventional A/D Line , secondly it needs to be conformed by the % of stocks above critical SMA's divergences. Based on current market condition our observation points out the following condition

NYSE Breadth Indicators: Bearish Divergences

NYSE breadth indicators. The 52-week highs and lows continues to diverge bearishly: The advance-decline line oscillator is failing to reach new highs while the index is doing so, which is another bearish divergence. In addition, the T 's are expiring, implying that the uptrend is expiring:

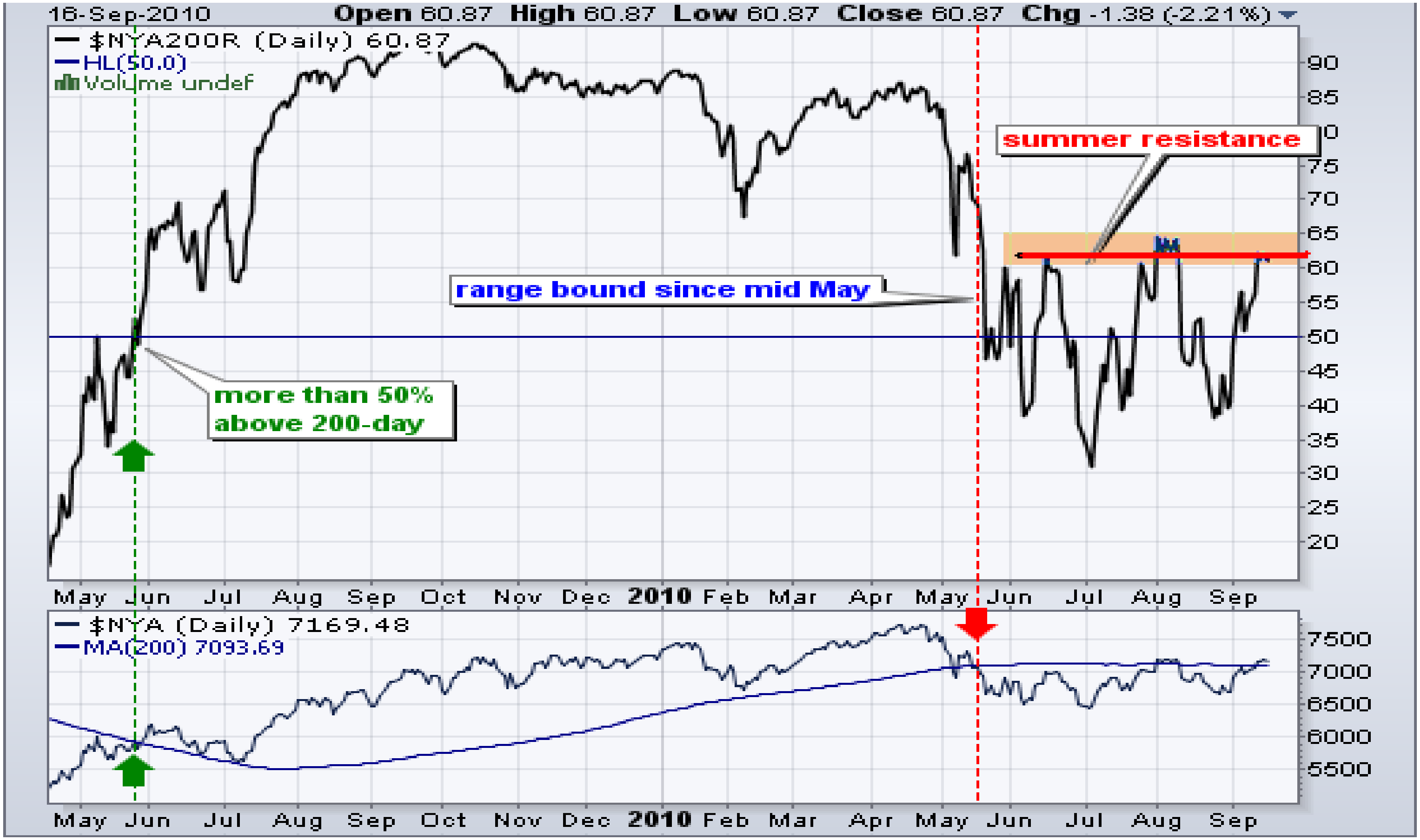
A/D – Oscillator - NYA – H/L

There are 3 negative divergences in 3 different time frame



A / D – NYA - % stocks above 200 D& 50 D

This, when coupled with the fact the percentage of stocks above their 50D is overbought, while the percentage over their 200 D have made a lower high – a negative divergence with the July-August rally.



A / D – NASD - % stocks above 200 D& 50 D

Nasdaq **b**readth is more bearish then NYA .

- ## Sentiment Analysis

Our Sentiment Analysis has "Intermediate & Short term" composition. ***We evaluate (8) Indicators for sentiments out of which some are working well for Short term and other for Intermediate terms These are either Numerical Indicators as the Investors sentiments is expressed through purchases of the market***

The Numerical we track are Tick, TRIN Arms, Put / call ratio, VIX Transform volatility (all 2nd / 3rd derivatives) , Rydex flow, Insiders activity. The Emotional / Survey sentiments we track Investors Intelligence sentiment Advisors sentiments. etc. All these are Integral part of POM composition ,

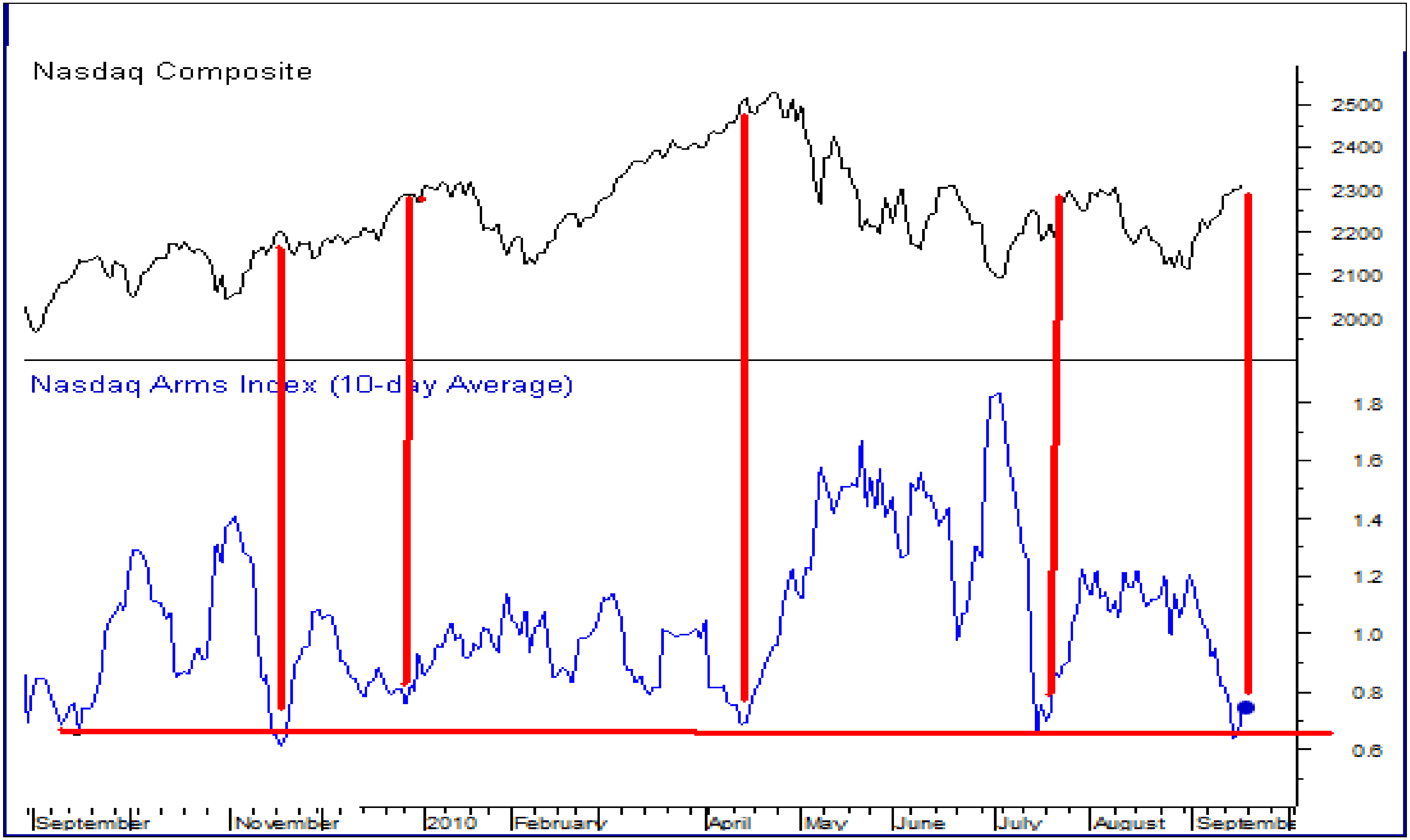
Based on current market condition and the probability of Indicators we point out the <u>EXTERME INDICATOR ONLY</u> as a observation points.

<u>EXTERME INDICATORS</u>

- . **Sentiment (Short term) has reversed** 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
- The 2.3% extension has been quite controlled and the 5-day ARMS Index reading of 1.5 shows the stock market is actually moving on thin ice.
- The indication of just how bullish sentiment has gotten this week. the crowd is expecting a breakout to the upside. Was it just three weeks ago that the crowd was expecting a crash in the stock market.
- **NASD v/s ARMS**
- **SPX v/s AAII**
- **SPX v/s IT Sentiments**

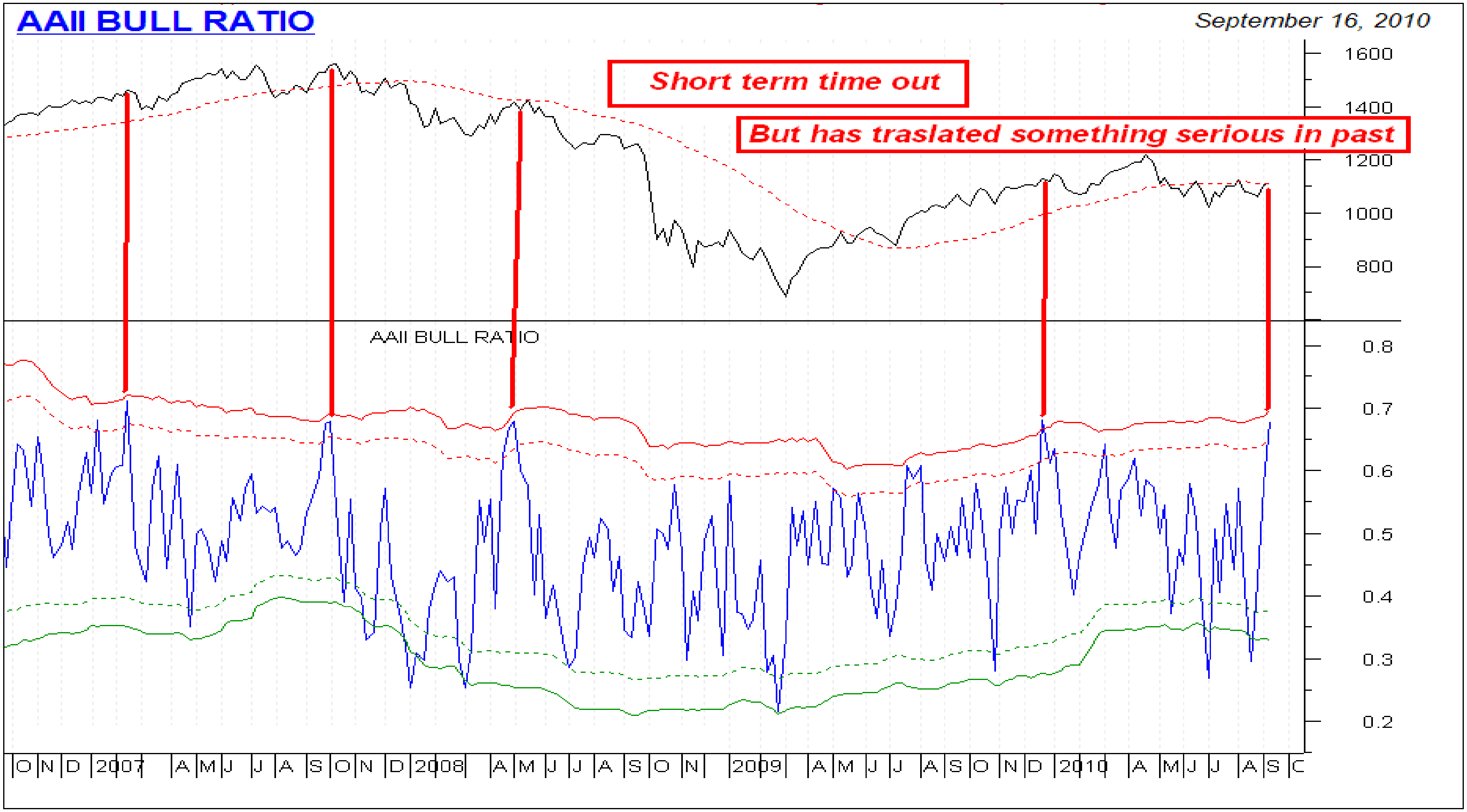
<u>NASD v/s ARMS</u>

The Arms Index using the Nasdaq breadth figures hit an extremely low level on a 10-day moving average basis, one of the lowest readings we've seen in the past few years. During the past few days, that buying pressure has eased, causing the 10-day average to lift a bit. When an indicator hits an extreme overbought level then starts to back off, consider that to be a sell signal.
When the 10-day Arms Index dropped below 0.65 then rose back above 0.75. that triggers "sell" signal.



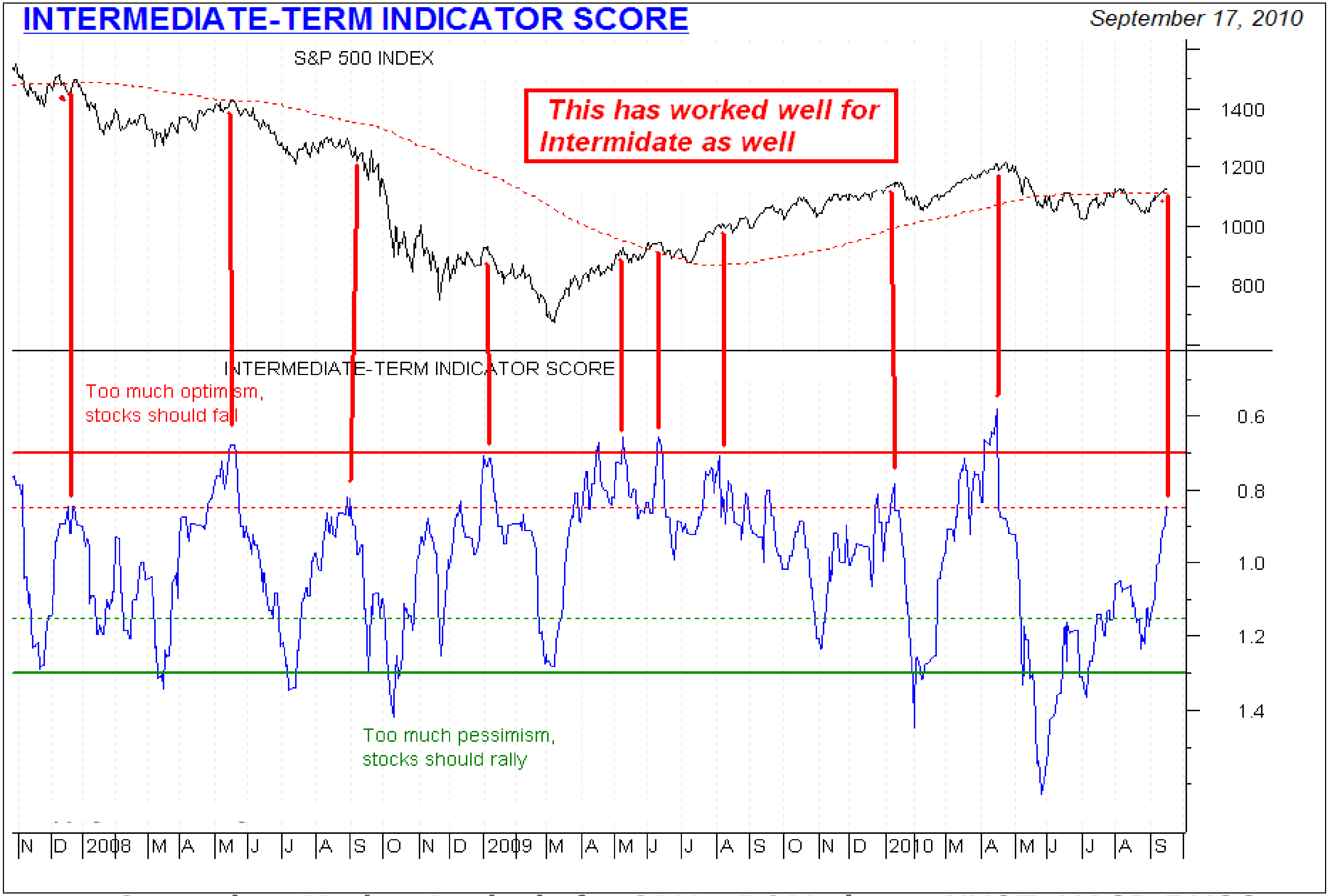
SPX v/s AAII

The AAII sentiment this week showed that the bulls had risen to 51%. Bearish investors are at 24%. Anytime there is a better than 2-to-1 ratio of bulls to bears, you just have to assume that the next major step in stocks is to the downside. As far as futures traders are concerned, 83% of traders are bullish on the OEX, which is far too many bulls for there to be much upside potential in the market. The chart below some of those sentiments.



SPX v/s IT - Sentiment

This is more intermediate sentiments



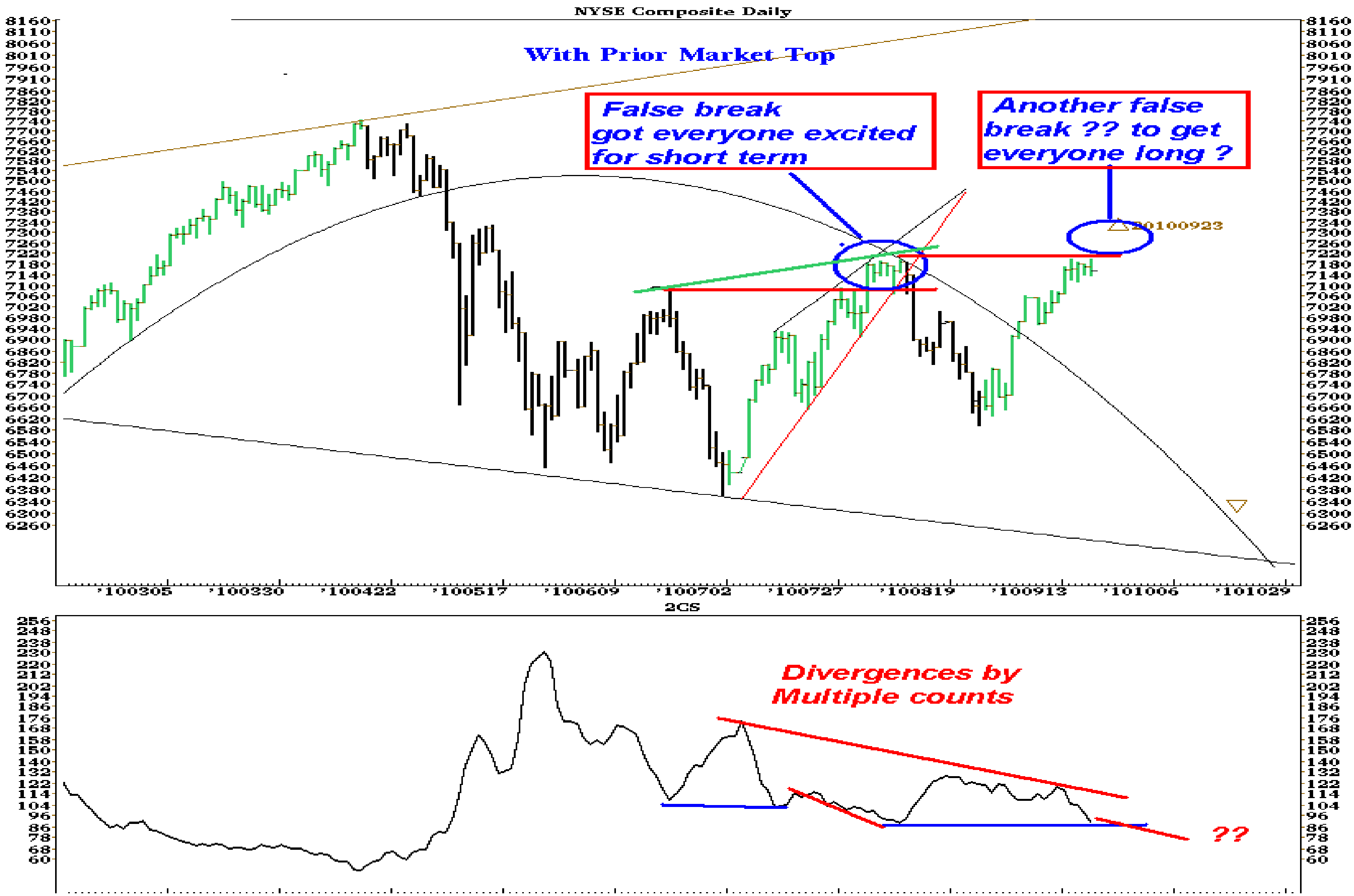
- **Secondary Market Analysis for SPX – POM clues - NYSE, NASD,RUSS**

NASD– Short term

Money flow is not conforming the NASD move , when we put it together with NASD , A/D signal on previous charts , it gives better signal

NYSE – Short term

This is false break to the upside helped , see the notes within the chart for false breaks and divergences.



RUSS – Short term

How things change. A couple of months ago, money flow was diverging bullishly and the crowd was very bearish. Now, money flow is beginning to diverge bearishly and the crowd is bullish. Small stocks are weakening relative to the blue chips. The small stocks are bumping their heads on resistance. A reversal to the downside should come very soon.

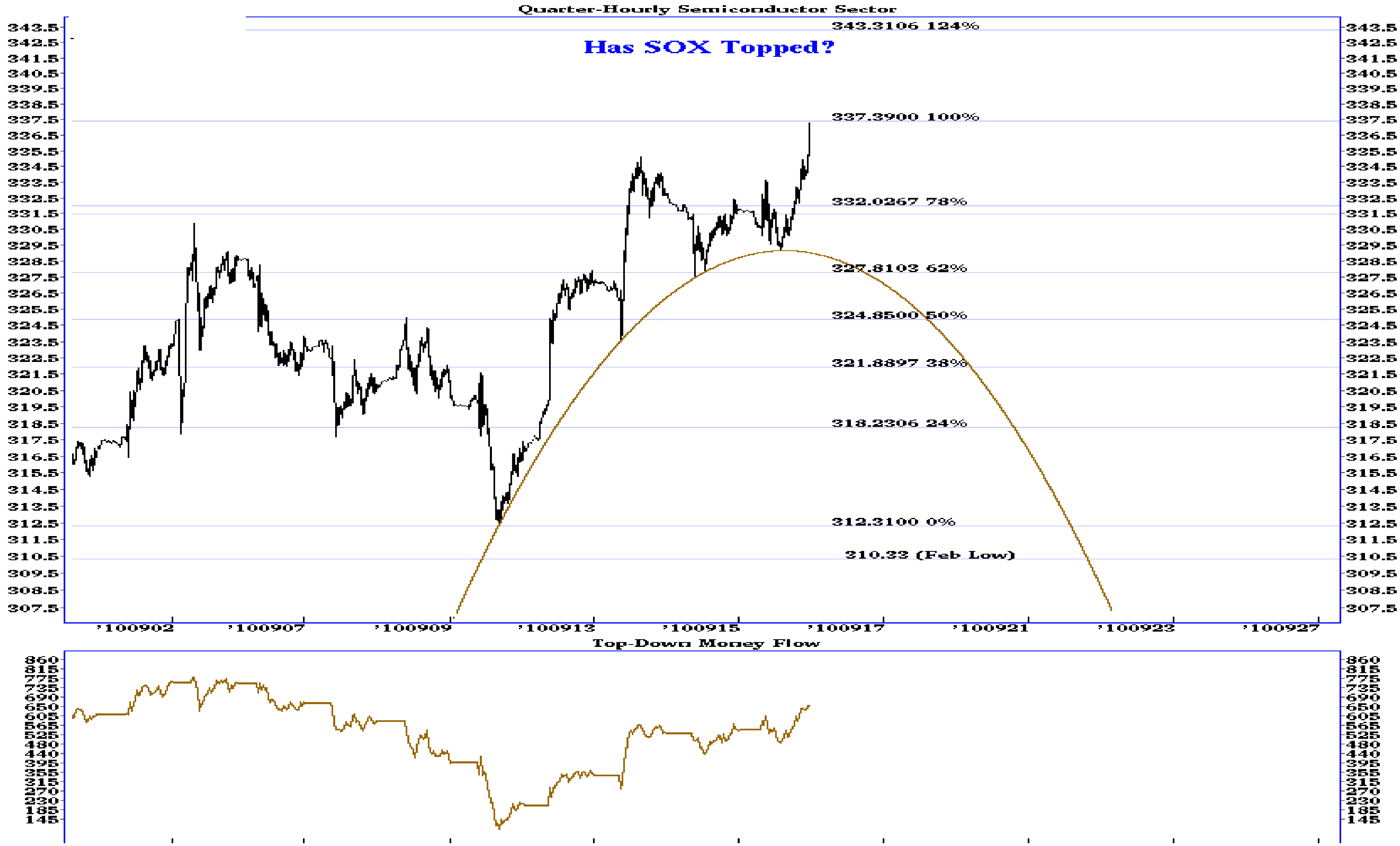
MID CAP – Short term

The T in mid cap is still intact , Is this holding the market above Poly trend .

- **Sector Market Analysis for SPX – POM clues. (Section D – MEAG) - SMH**

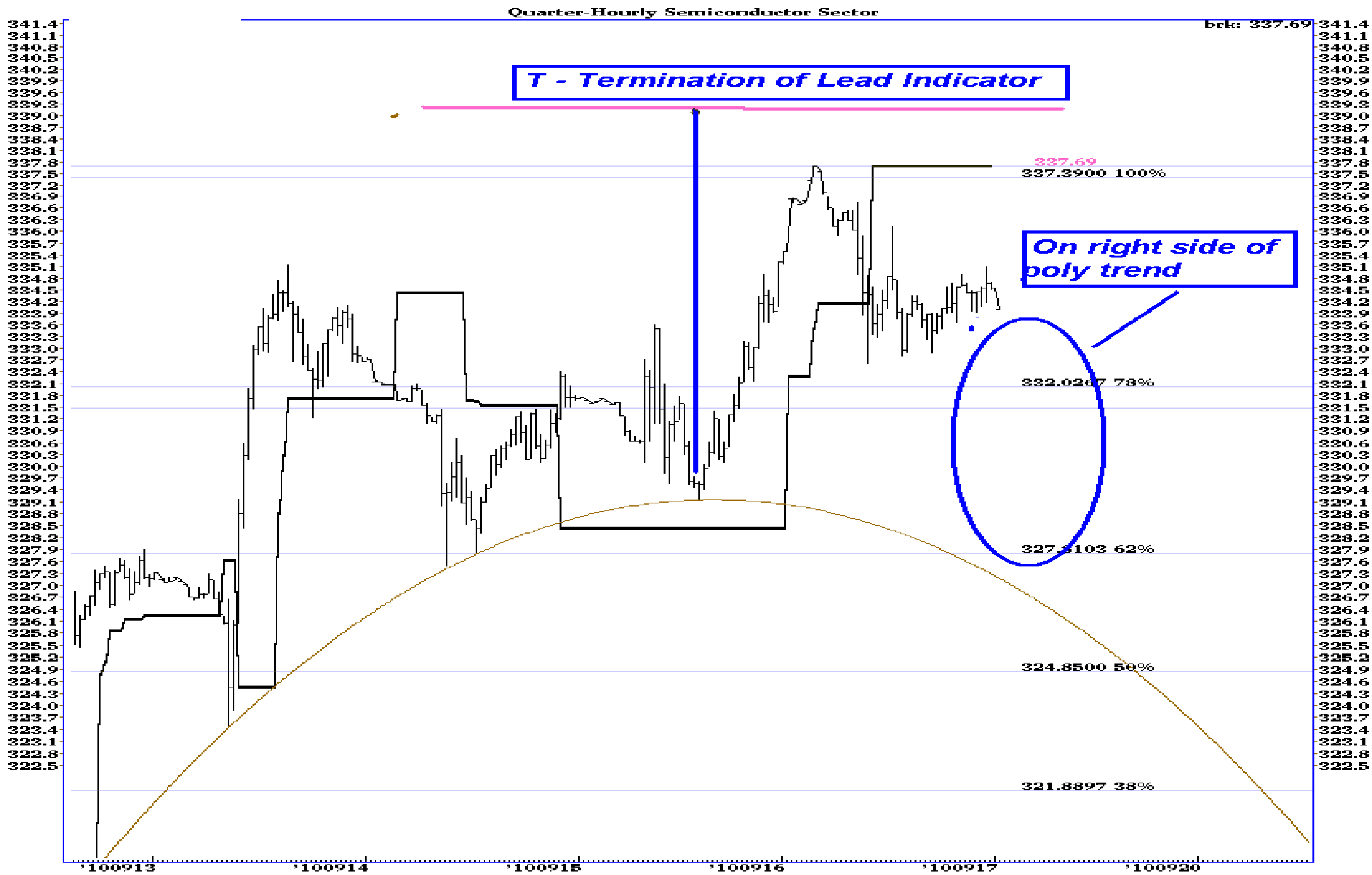
SMH – Mid term

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. We were looking for the SOX our best lead dog, to top out when the current rally leg was equal to the travel of the prior rally leg (shown by the 100% retracement price in the chart below). We'll have our first major warning sign that the top is almost finished.



SMH – Short term

Review the notes within the chart



- Global (EEA) Market Analysis for SPX – POM clues - **EEA,FTSE**

FTSE

As we process our EEA info for next time, we kicked off with the largest component of EEA , The FTSE-100 Index shows massive bearish divergence in the volume oscillator as the final tee expires. The trend is down

- [Global (EEM) Market Analysis for SPX – POM clues - **EEM,CHINA**]

CHINA

As we process our EEM info, we continue to review the largest component of EEM , The wave V indicated in earlier note proved its merit under poly trend. 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. The market has topped and is trending lower.

• <u>Special Situation - Bull case" for SPX</u>

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.

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

<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>

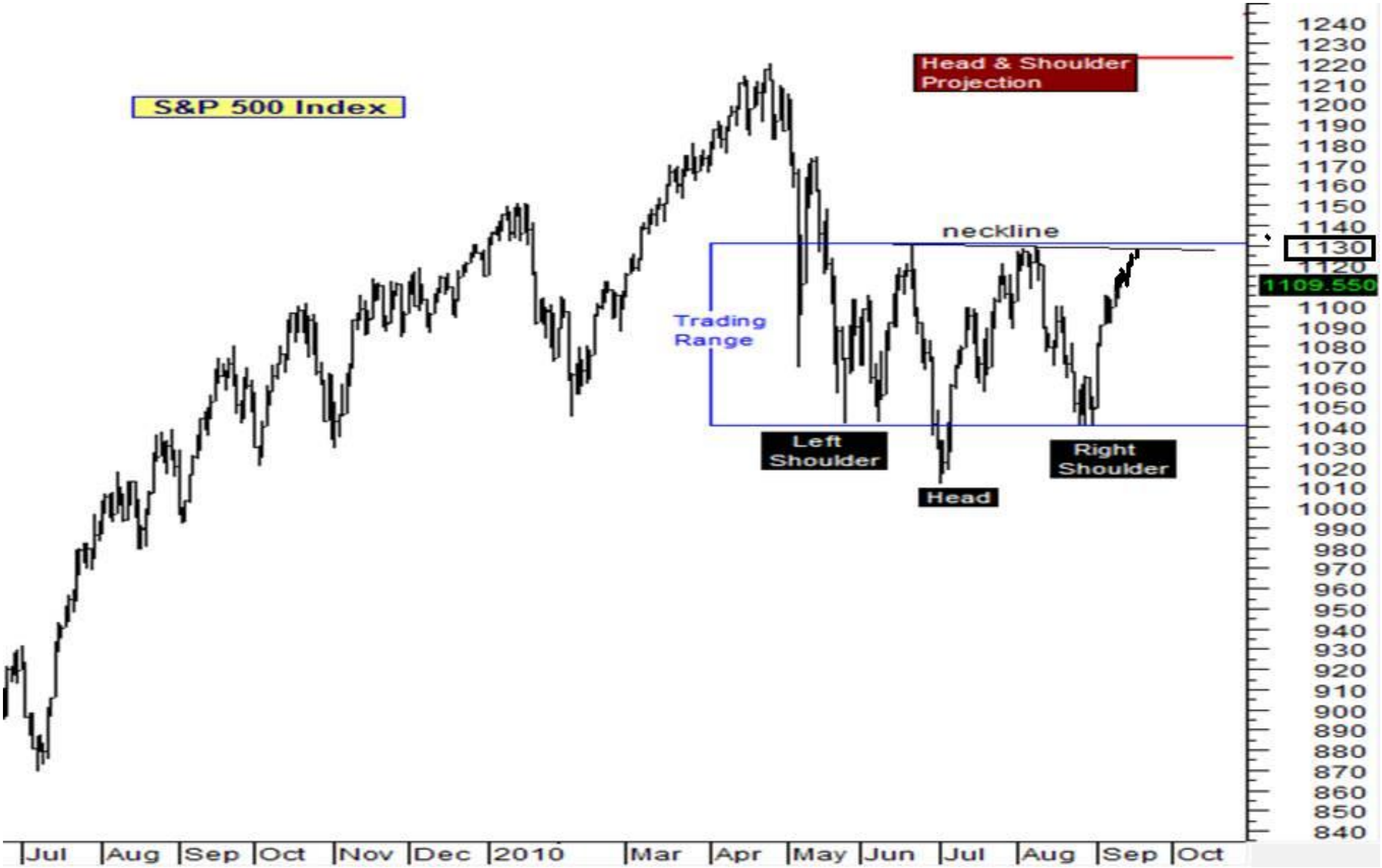
SPX MOVES UP TO CHALLENGE 34 W... a potential "head and shoulders" bottom forming in the SPX (but to us the volume is not conforming it) and secondly to clear their August high. That would accomplish two other things. It would also break the "neckline" drawn over the June/August highs, and it would break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



- **Currency Market Analysis (Section B – MEAG) - None**

- **Commodity Market Analysis (Section C – MEAG) – None**

- **PQV Equity Market Analysis (Section E – MEAG) - None**