SG Capital Research

Global Market Insights

Research Note – Weekly Market Strategy Global (A # 1)

MAEG- WKLY MKTSTR- GL- POM -SG 2010 # SEPT 27

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Market Strategy Global (A # 1) - SPX – Closed @ 1148

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, SPX H/L %,**
- **Sentiment Analysis with Extreme character – SENTIMENT SUMMARY, AAII, INTERMIDATE SENTIMENTS**
- **Secondary Market Analysis for SPX –POM clues – NDX,,RUS,MIDCAP**
- **Sector Market Analysis for SPX – POM clues – TRANS,BKX,BKX/SPX Ratio, SLF,SOX**
- **Global Market EEA Analysis for SPX – POM clues – EEA, FTSE**
- **Global Market EEM Analysis for SPX- POM clues – EEM, CHINA**

- ## 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 . We review multiple other market for clues to get POM Signal inputs

POM conclusions process works unilaterally <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***
- ***<u>On 3rd Sept,</u> Our Indicators conformed <u>POM 14 – Re Run @ SPX 1104, (</u> currently SPX at 1148) while the market has extended 3.9% thereafter from signal .***

(Currently we are on 3RD - Re – Run on POM 14 at SPX 1104 , Its is very Rear to get <u>POM 15 Re- Run although extended</u> . Therefore <u>Our Intermediate Primary Signals</u> 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

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 +3.8% for those Long positions

Trading / Investment " takeaways" during current circumstances "

- ***Currently SETUP - PQV VALIDATED EQUITY EQUAL WEIGHTED PORTFOLIO (in Section E – MAEG) has been activated & tracked +2.0% during this SPX extension of (-3.8%) with desired price points scaled entry in the Confluence Zone on weakest Equities in Setup # 2 (RA / RI) (these Equities to be Monitored with Risk management factors).***
-
- ***We believe weakest SETUP # 2's are capitalizing on the -3.8% extension in SPX, during good job hedging the POM 12 & POM 13 of past. We letr this process roll with Risk management stops***

- **Market Insights**

Technically, investor sentiment wise , seasonality, and market valuations.

We believe at this point the above factors will determine direction over the next couple of months. On two valuations, Tobin's Q-Ratio, and Shiller's cyclically-adjusted P/E ratio (CAPE10) , SPX is overvalued by 35%. In the end, earnings matter far more than a psychological crutch. (We use SPX overvaluation arguments only when the Market POM wise get extended and overbought)

This week, we should see the neutral trend in stocks continue to gradually transition into a negative trend in tune with the expected bottom in the US Dollar (which is an expected top in the Euro). As we move into October, strength in the dollar should translate to weakness in most other markets

.

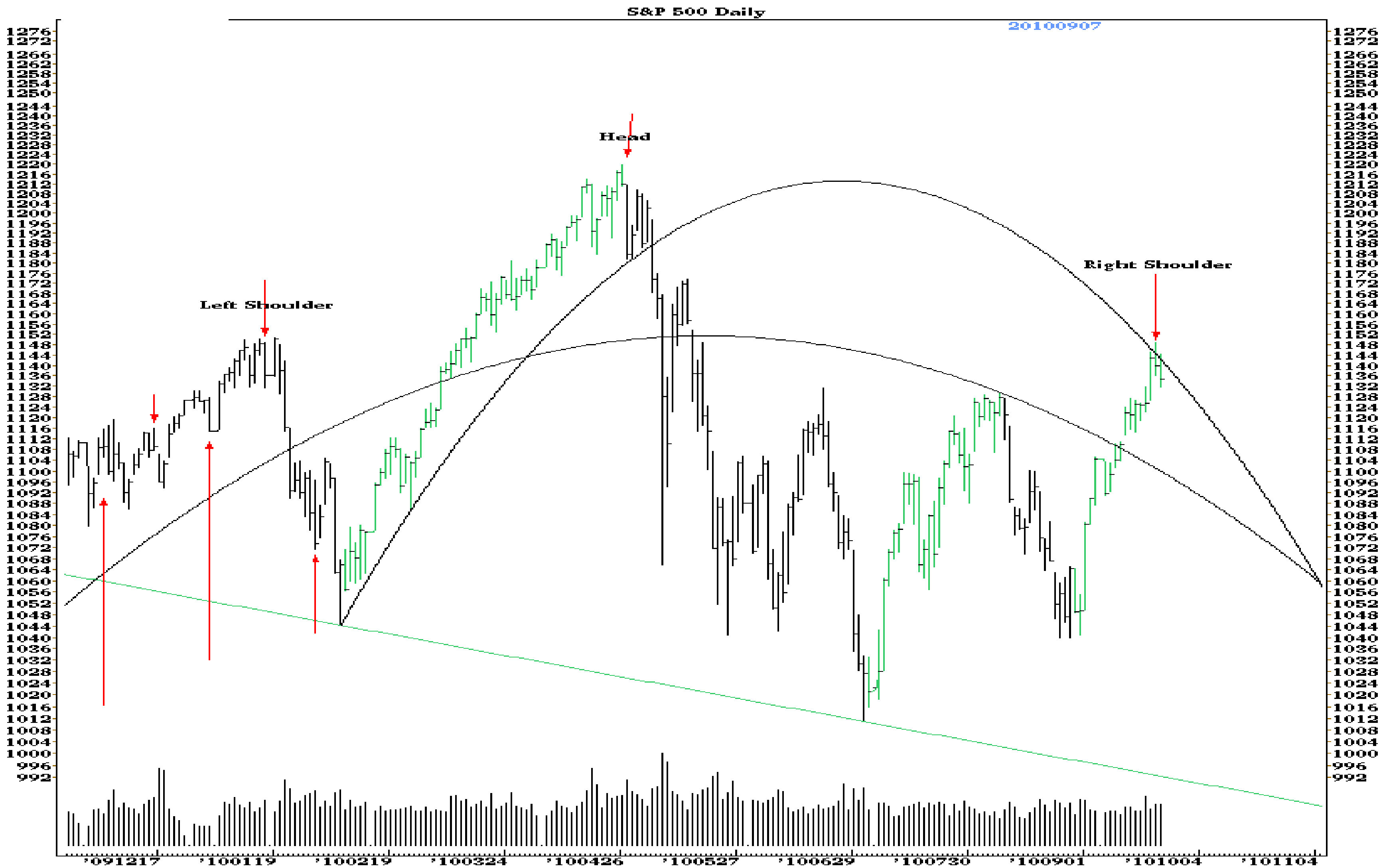
On Bearish side , the market internals warns that a top is approaching. Sentiments are getting Bullish again, We just wonder where was this Sentiments at POM 12 or POM 13. In fact, we viewed that July / August rally as much stronger than the current rally, but yet it failed near current levels and dropped rather sharply.

On Bullish side, buying under the current short-term overbought condition needs quick fingers in trading practice. The market has to broken out to the upside, therefore even in bullish case we would be far less bullish now @ 1148 then we were at @ 1045 when POM 13 was triggered. Therefore the gravy is gone even if one is bullish. Our focus is completely with our Objective of POM 14 with SETUP 2- PQV Validation Test List Portfolio for Hedging our POM 12 @ 1010 / POM 13 @ 1045

Primary Market Analysis - SPX, DOW

SPX – Intermediate Term

SPX is fighting to push through, H & S may not mean much but when put together with larger Poly trend, Money flow , Sentiments & Volume means a Red flag to us. ,



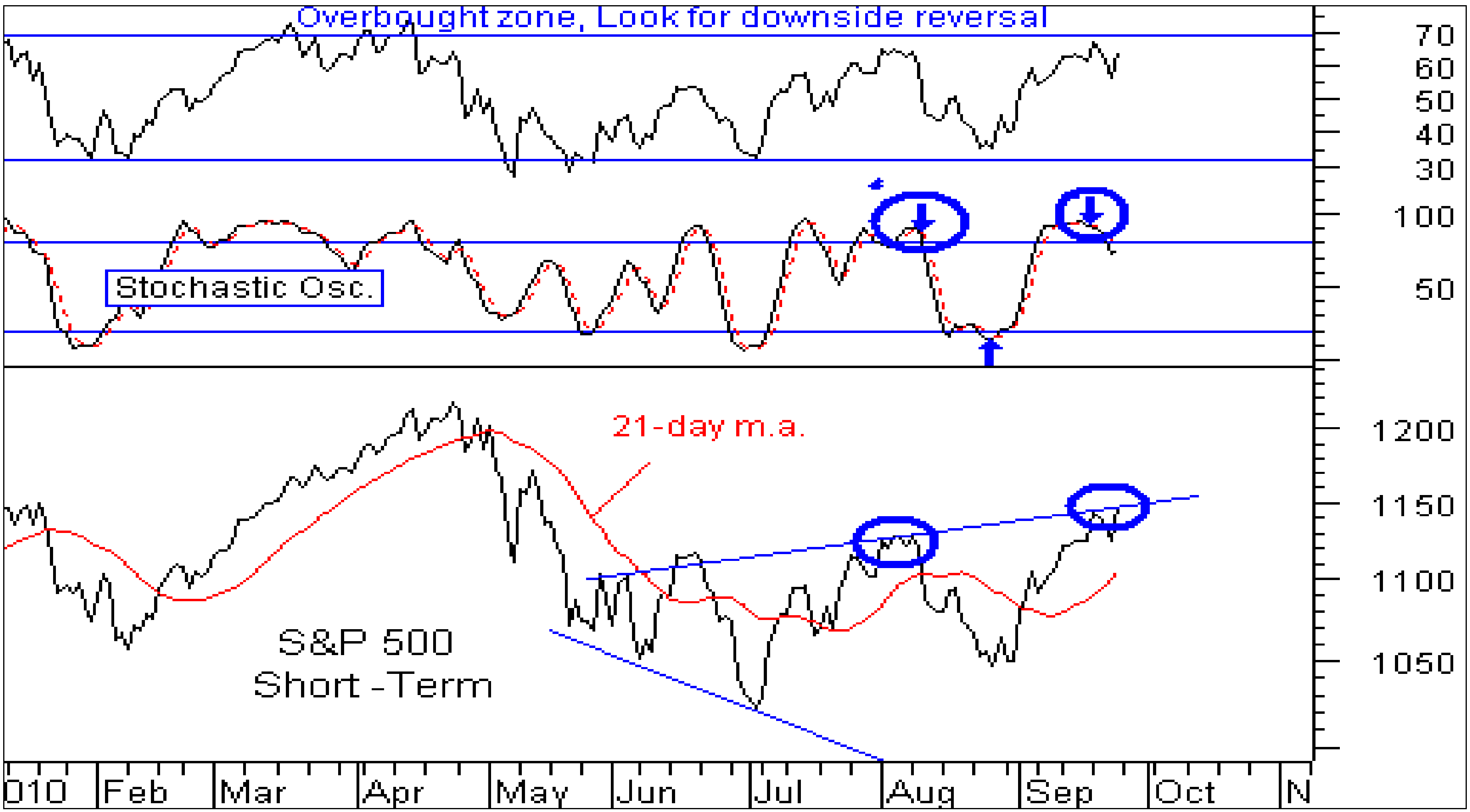
SPX – 2^ND Derivative of MCO - H & S TOP

2nd Derivative of Head and Shoulders Top Pattern

This kind of patterns works well because crowd is not following 2nd Derivatives . We had shown you this in April at 1200 POM 15 McClellan Oscillator is 2nd derivative instruments,(it draws a pattern instead of SPX) and it has finished a pattern that has worked well, its right shoulder on Friday whiles market made highs (Why ? There at computerized orders on McClellan Oscillator),. If we put this in contest with Above chart , it makes lot of sense to us

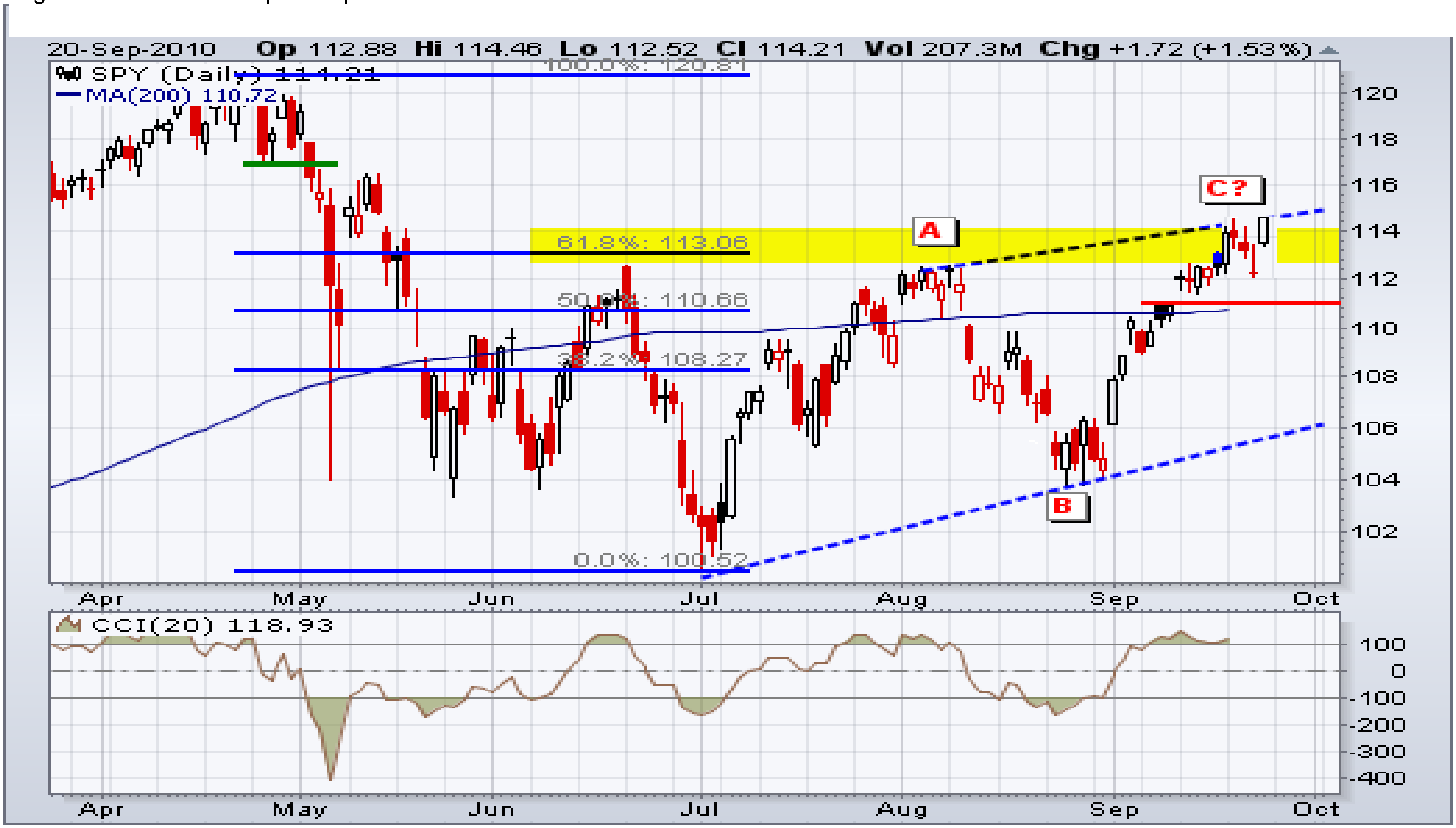
SPX – Mid Term (BROADENING TOP)

The S&P has supposedly 'broken out' to the upside because it closed at a higher high. But in this Bear bounces each time the accurate method of measuring a breakout is whether it broke out above the trendline resistance that halted its previous rallies, which it did not. As the chart shows below, in each of its previous four rallies it also supposedly 'broke out', creating a lot of excitement at the time (now forgotten), by closing at a nominal new high. But actually that new high ended each rally within days as the market couldn't break through the resistance at the trendline. (Not to mention Volume in the breakouts)



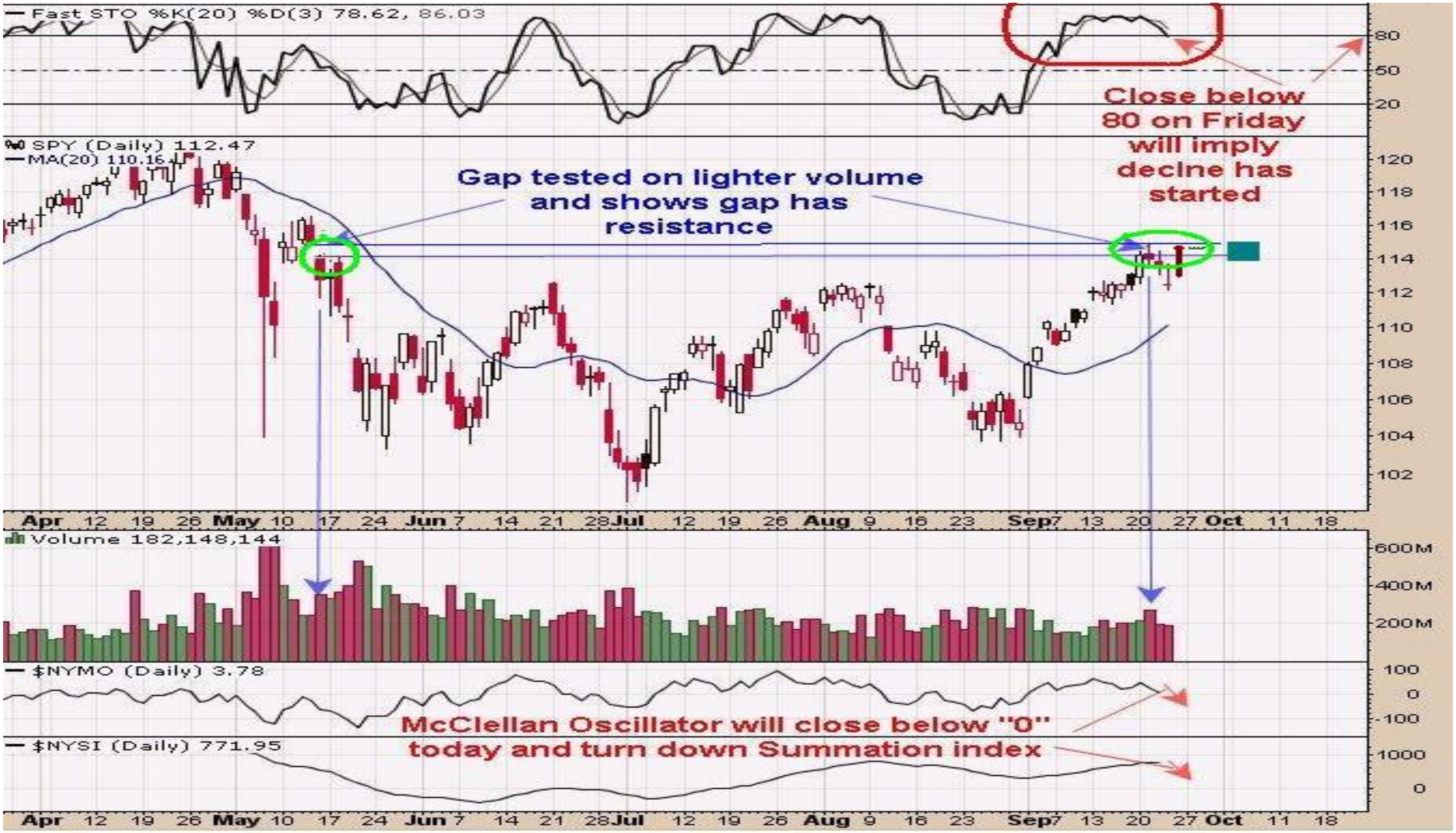
SPX – Mid Term (FIB & WAVE COUNT with Broadening Top)

If we consider the Above chart on Broadening top, The Top of the Trendline has been kissed at **62% of the prior decline on FIB** . then Wave theory, the ABC pattern marks a counter trend advance that is expected to fail. Wave C is often equal is Wave A, which suggests that Wave C could extend to 1150 (1040 + 110 = 1150). We think we are almost there. It is close enough to its potential target. With CCI at 100 prior tops



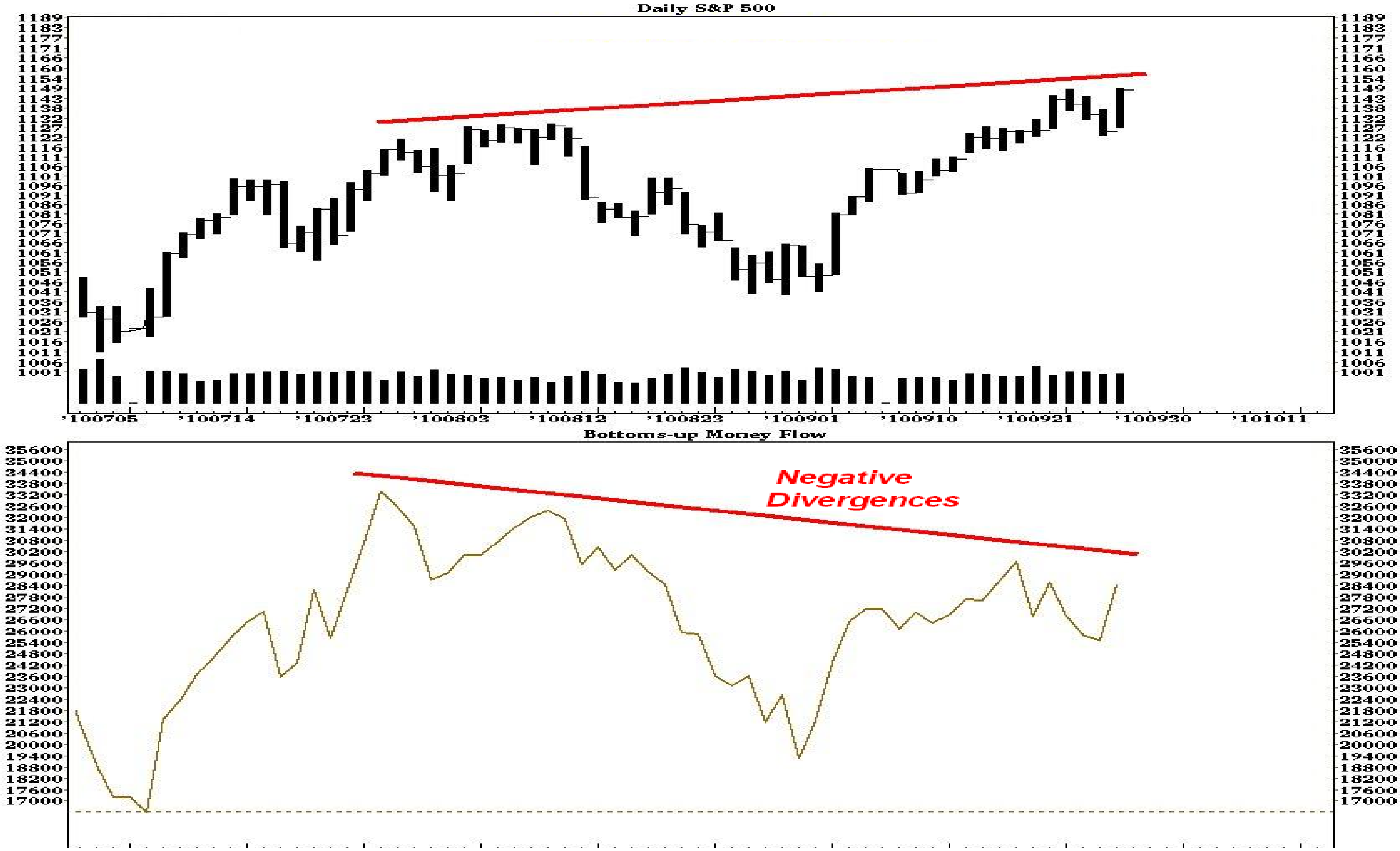
SPX – Mid Term (PRICE & VOLUME)

The third window from the top is Fast & Slow Stochastics. Cross it closed below 80 will imply the weakness on Fridays bounce The May 14 Gap was tested on about 30% lighter volume and shows the gap had resistance. McClellan Oscillator below the “0” line which in turn turned down the McClellan Summation index. Normally the direction of the market follows the direction of the McClellan Summation index. See the Price & Volume Test of the SPX market below circled in green at 1048 levels after the volume shrunk at 1130 break



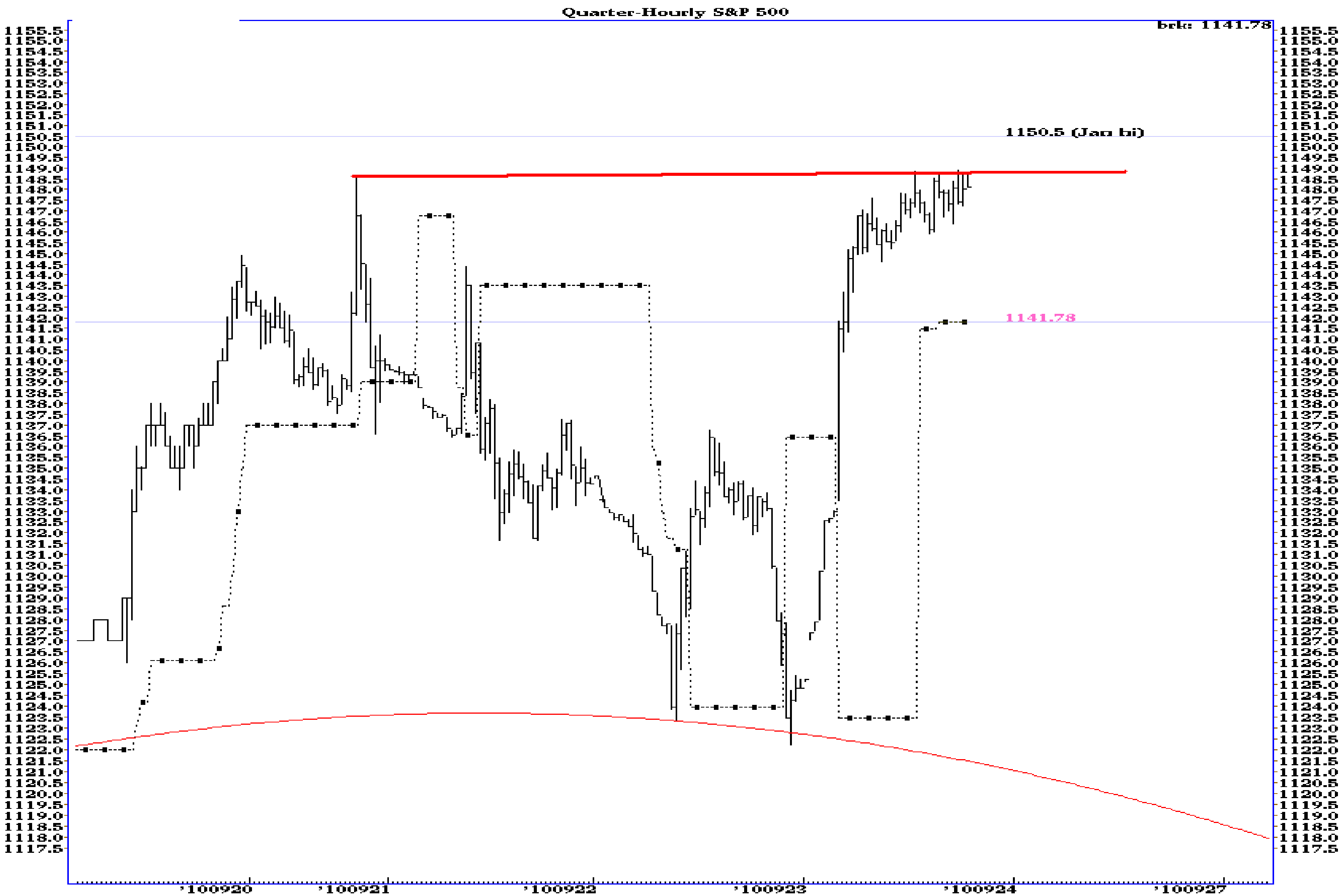
SPX – Mid Term

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 with **negative money flow has been our key indicator**



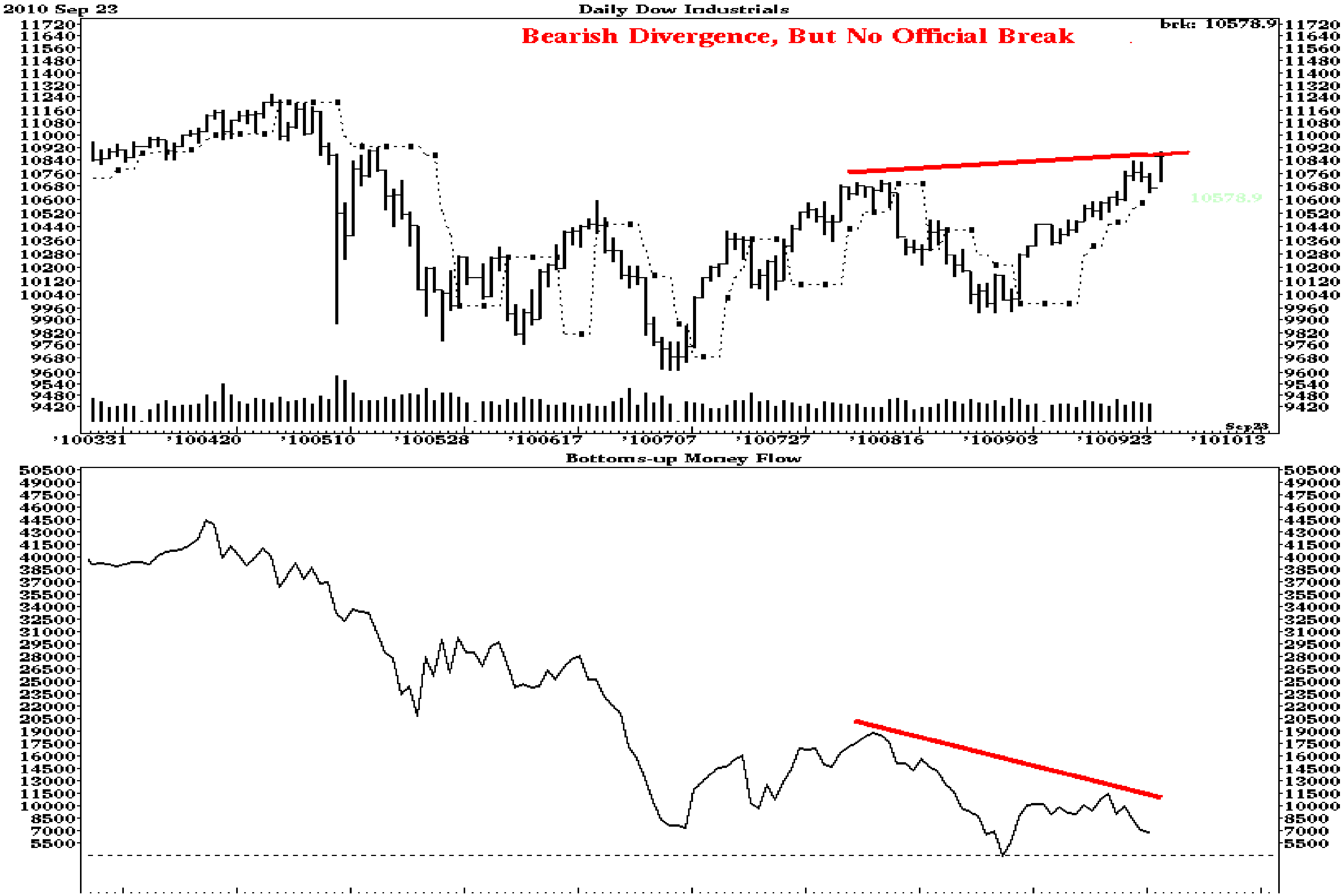
SPX – HRLY

On miniature levels SPX in Hourly charts is double topped can certainly go higher short term.



DOW – Short term

Dow usually get Money flow till the end of the trend as large caps are held till the end but look at the massive bearish divergence on money flow



• 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 all expired (but we tend to trust these more especially when on right side of Poly trend lines.
- The Bradley failed on 12th as like before.
- The seasonal pattern is for the market to decline from mid-September to mid-October is still in tact and that seasonal pattern is very likely to recur again this year.
- Equinox has delayed reaction at time (Market went into this date with Highs)

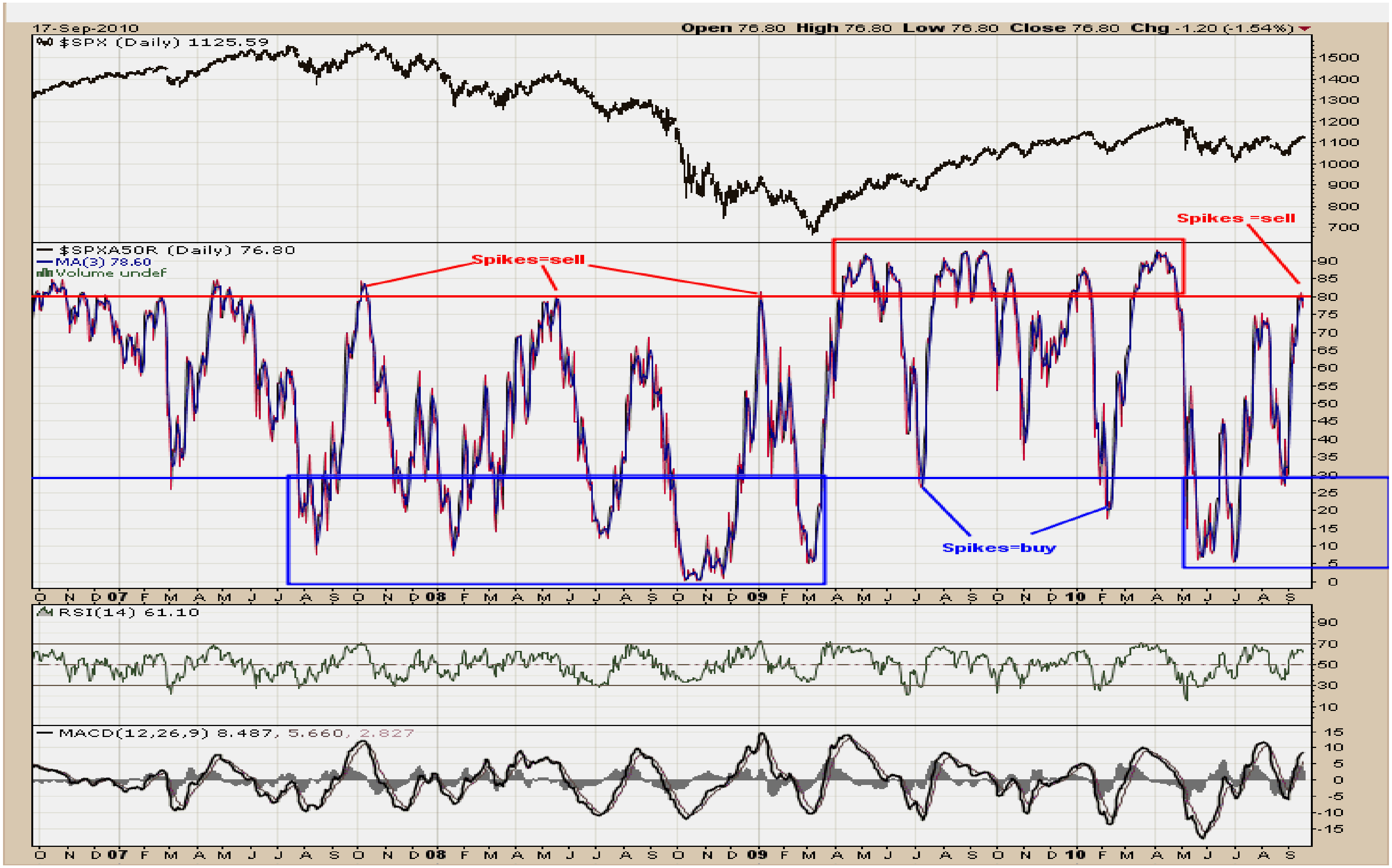
• Advance / Decline Internal behavior Analysis

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

A / D – SPX - % stocks above 50 D

This, is another alternate method we cover A/D stocks in large cap space coupled with the fact the percentage of stocks above their 50D is overbought, This has been good signal – a negative divergence with the July-August rally. See char below , Good signals

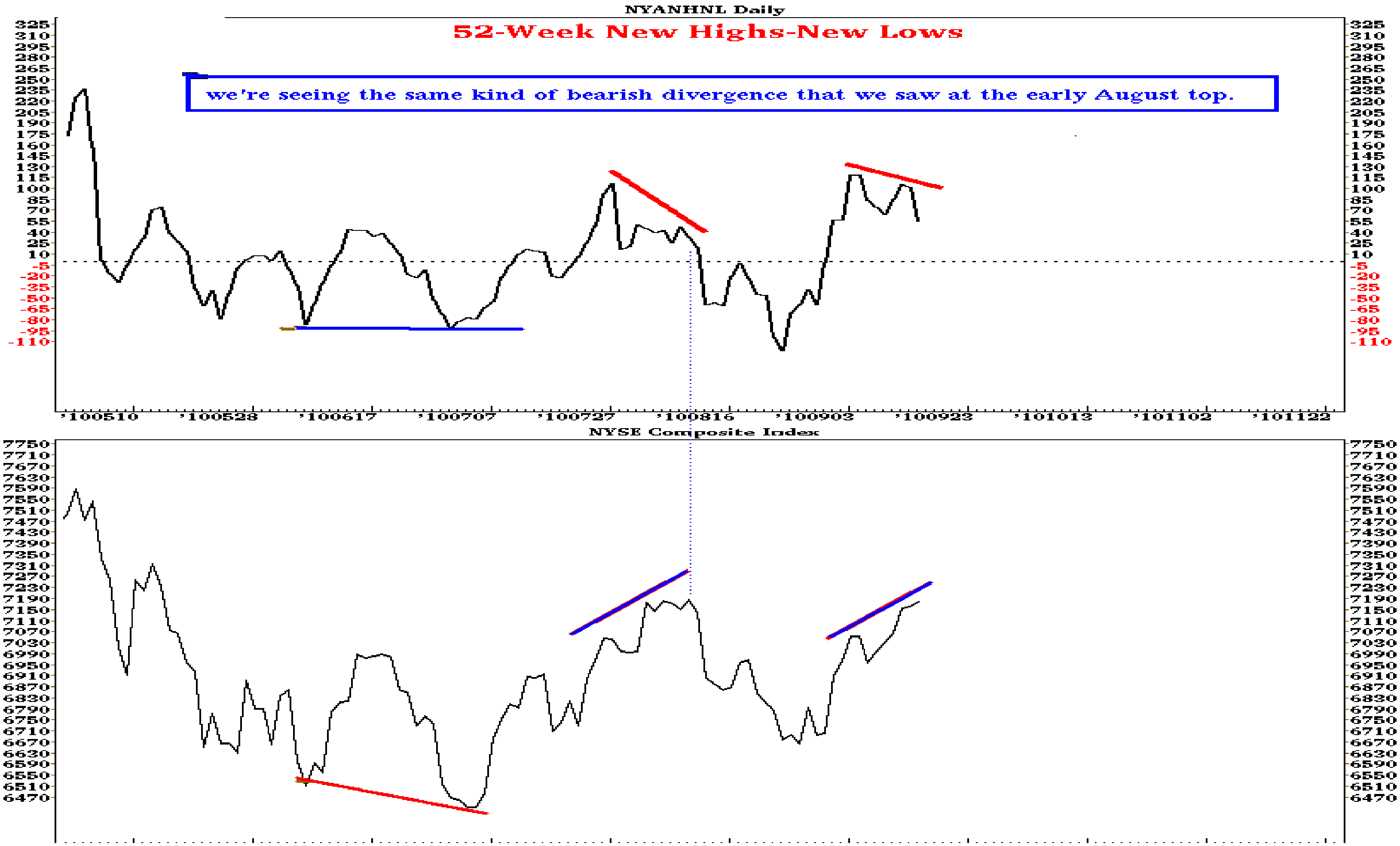
We have used this at POM 12, as well very effectively



A/D – Oscillator - NYA – H/L

There are 3 negative divergences in 3 different time frame - NYSE Breadth Indicators: Bearish Divergences

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: Nothing changed after Fridays move



- ## 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***

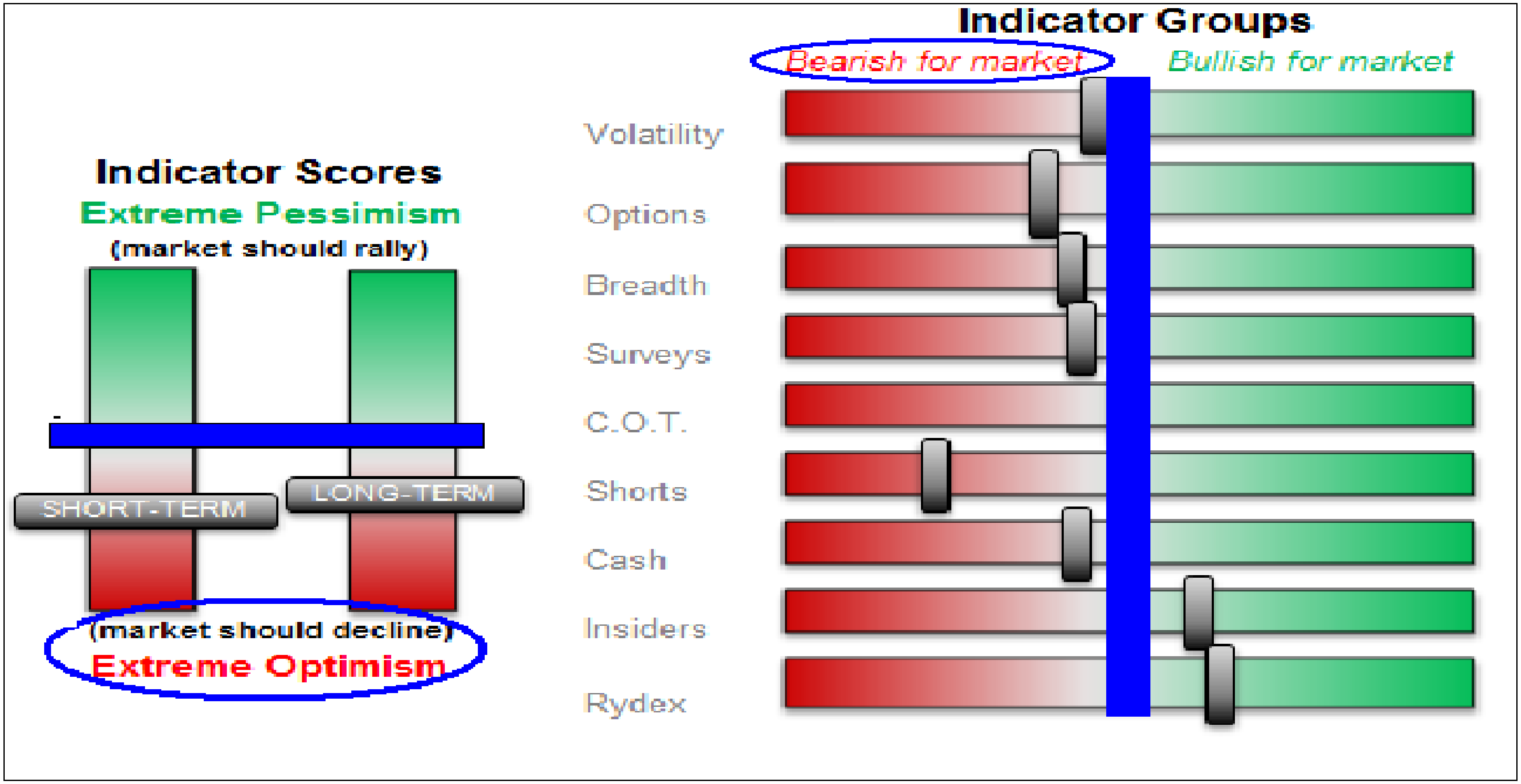
The Numerical we track are Tick, TRIN Arms, Put / call ratio, VIX Transform volatility (all 2nd / 3rd derivatives) , Rydex flow, Insiders activity. The Emotional / Survey sentiments we track Investors Intelligence sentiment Advisors sentiments. etc. All these are Integral part of POM composition ,

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 once again above 2.00 which often means signal a top and a reversal within 2-3 trading days
- The has been quite controlled and the 5-day ARMS Index reading of 1.5 shows the stock market bearish.
- Friday's rally triggered the Cumulative TICK. Those have consistently led to periods where stocks had trouble maintaining further short-term gains.
- 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.
- **8 – Sentiment Summary**
- **SPX v/s AAII**
- **SPX v/s IT Sentiments**

Sentiment Summary Indicator – Almost 6 our 8 shows Extreme Optimism

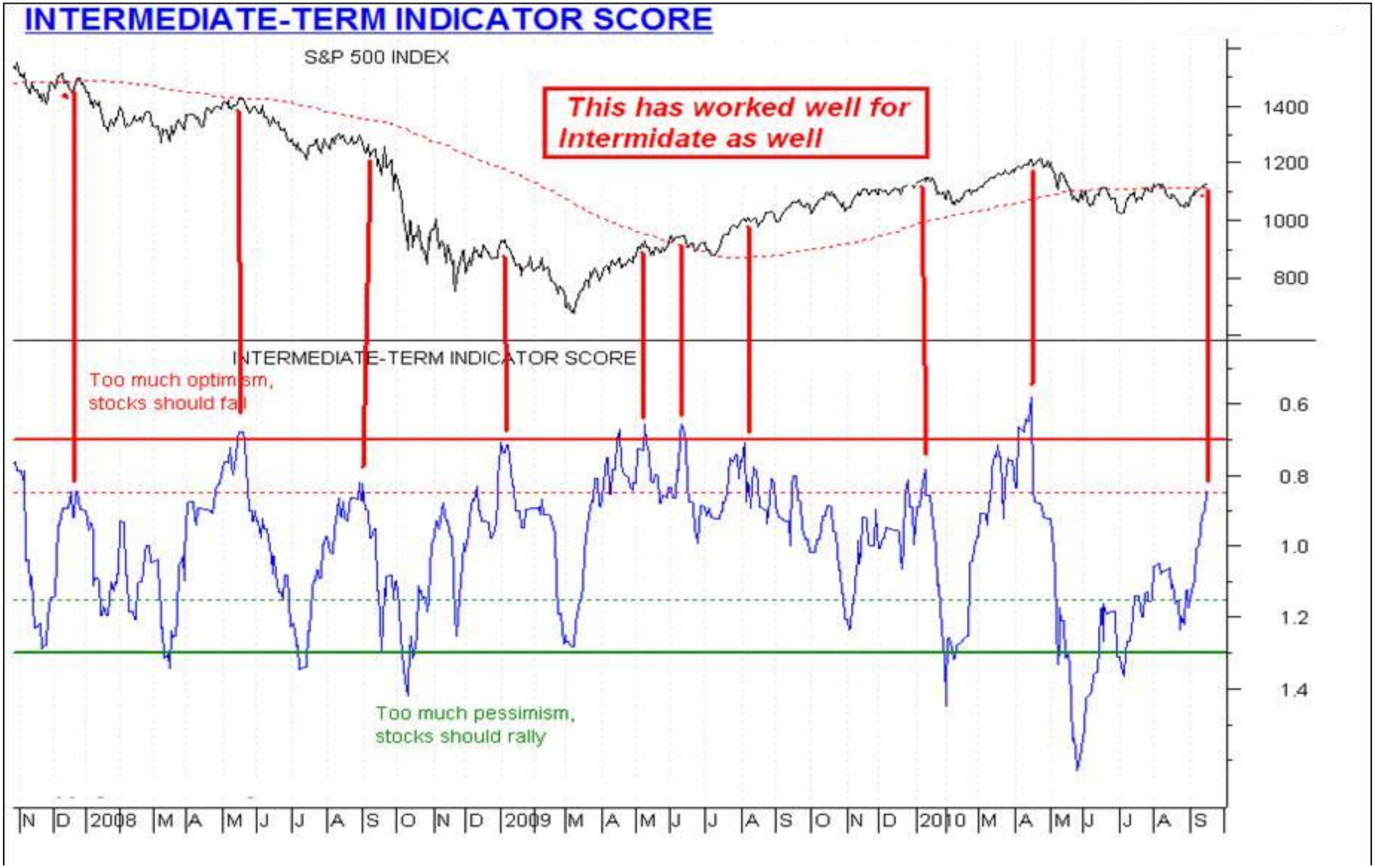


SPX v/s AAII

The AAII sentiment went further up from last week . Showed that the bulls had risen to 54%. Bearish investors are at 21%. 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.

SPX v/s IT - Sentiment

This is more intermediate sentiments



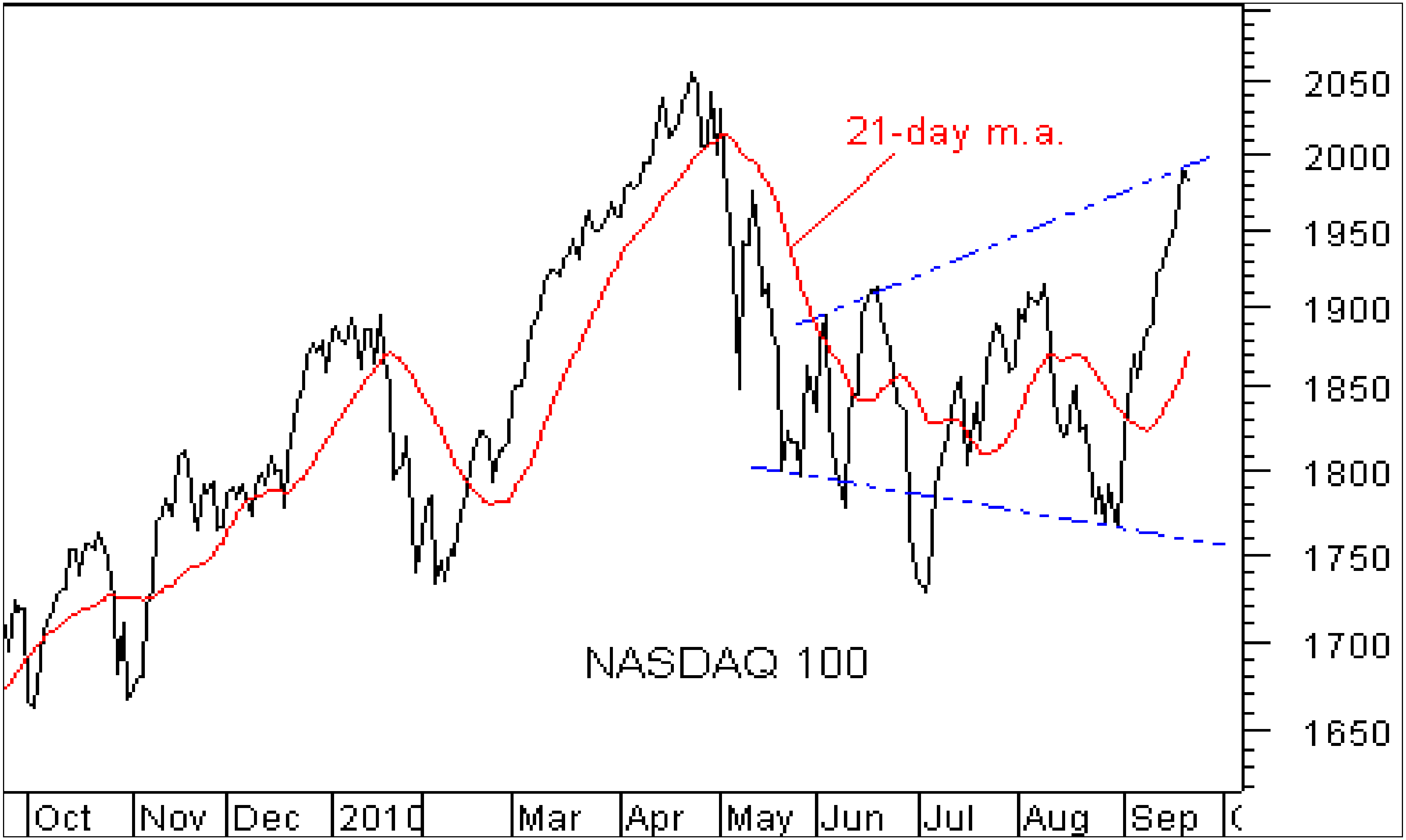
- **Secondary Market Analysis for SPX – POM clues - NYSE, NASD,RUSS**

NASD– Short term

Money flow is not conforming the NASD move. Dangerously setup

NASD– Short term

Above 21 Day extended, should Test min 21 day back even if one is Bull

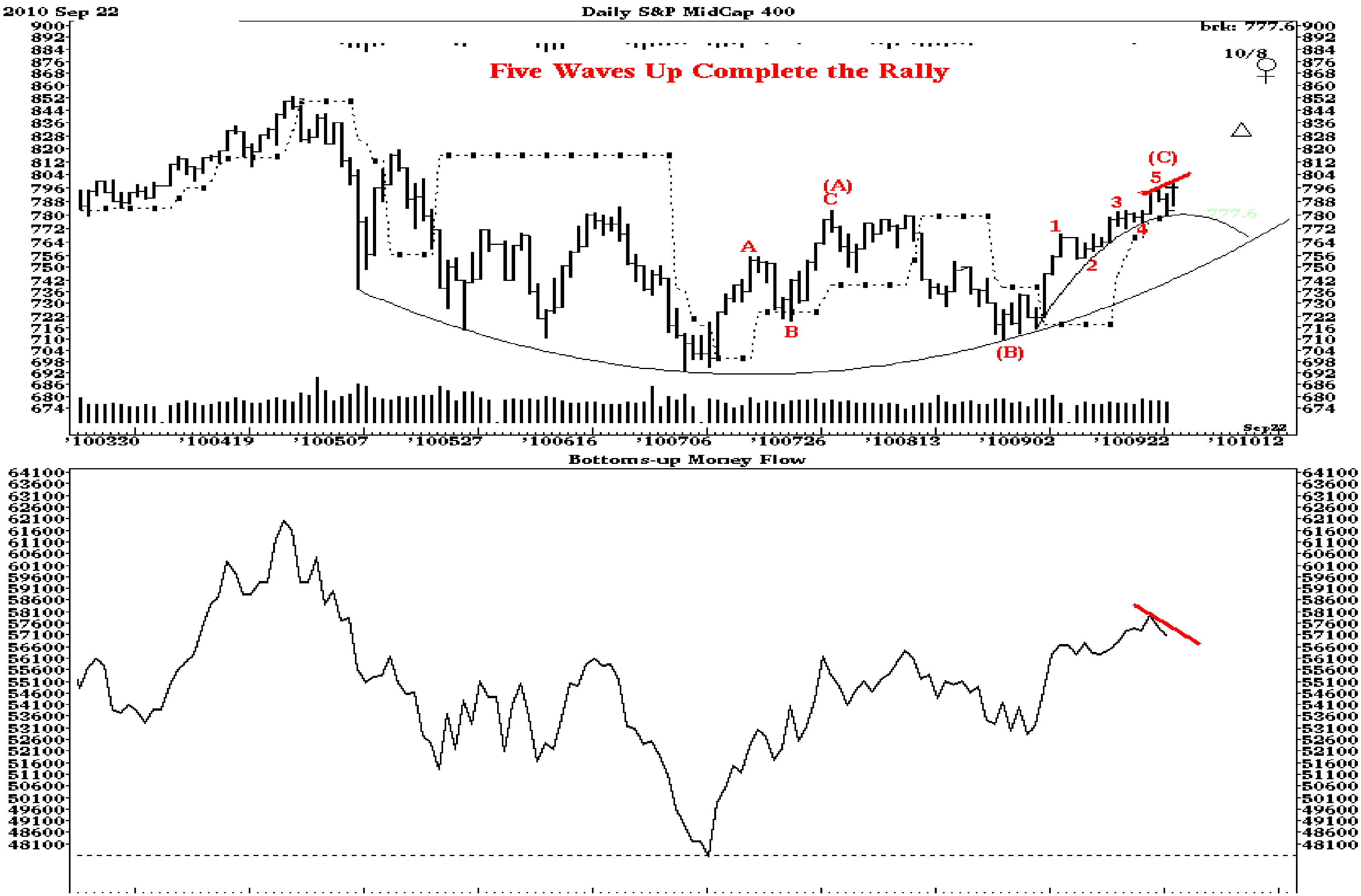


RUSS – Short term

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. We wonder why this hasn't broken out , just like at lows 1045 SPX it dint break down. Its been fooling us SPX followers

MID CAP – Short term

The T in mid cap is still intact , Is this holding the market above Poly trend , Last we indicated some room to move . It seem to have done it with Negative money flow , This was the strongest Index and now money flow is diverging on Friday as wave, especially with wave count 5 finished .

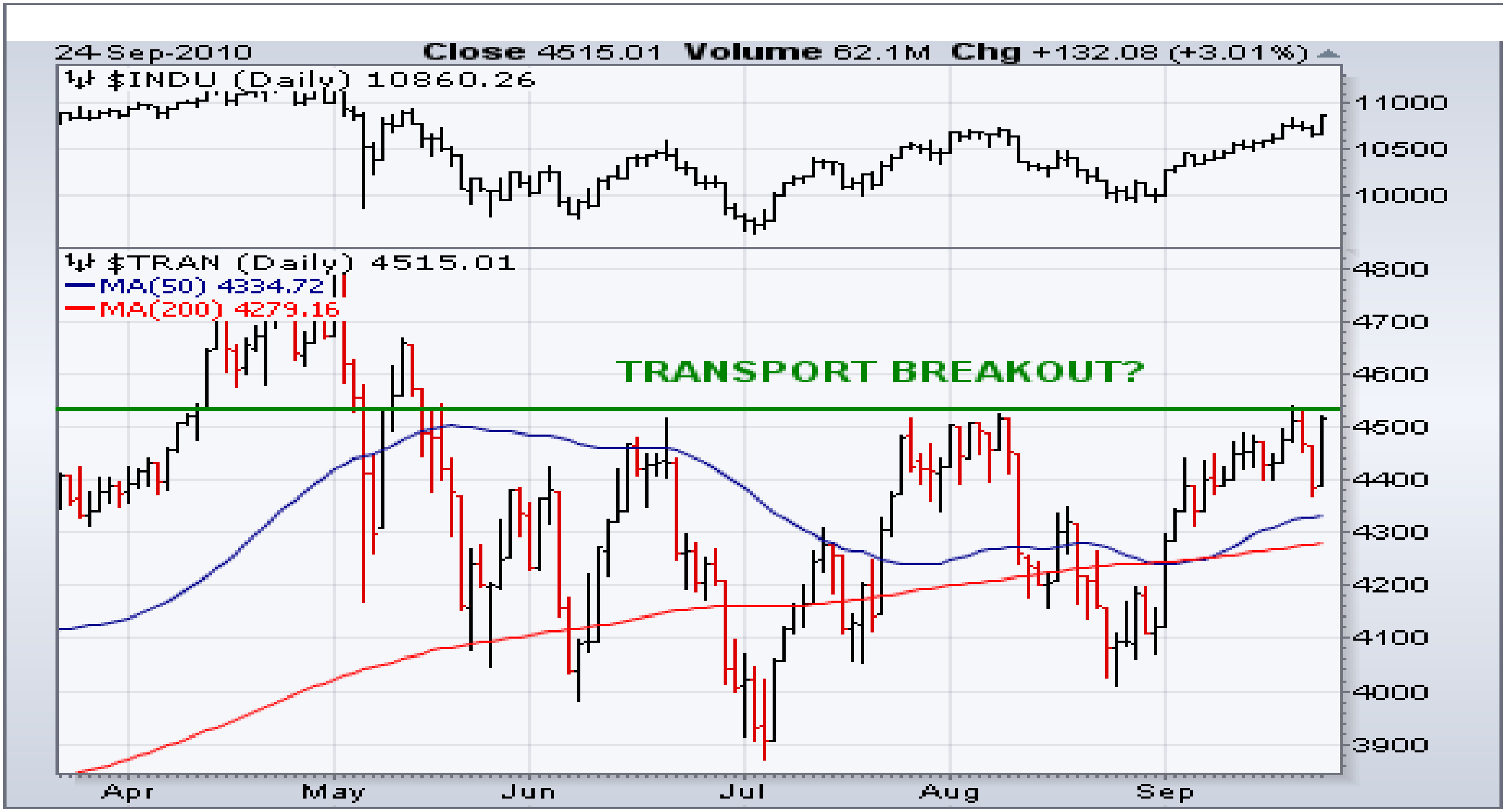


Sector Market Analysis for SPX – POM clues. (Section D – MEAG) -

- **TRANS,XLF,SMH**

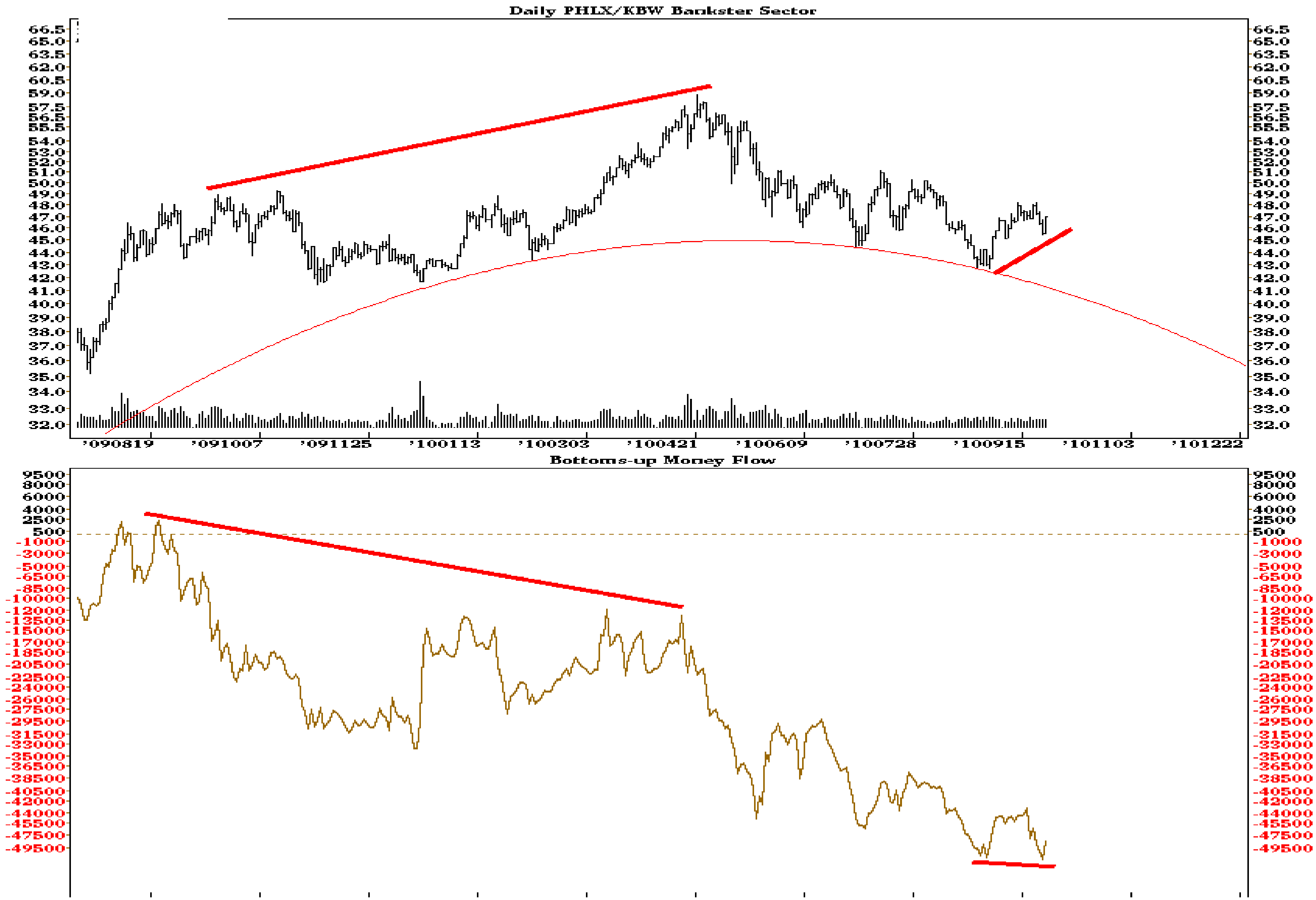
TRANS PORTS – Mid term

DOW TRANSPORTS HAVEN'T BROKEN - . One of the basic tenets of Dow Theory is that any breakout by Industrials or Transports must be confirmed by a similar breakout in the other (in either direction. the Dow Transports still testing its summer highs. Hence, no Dow Theory buy signal has been triggered. For that to happen, both Dow Averages must close above their August highs. Another divergence is showing up. .



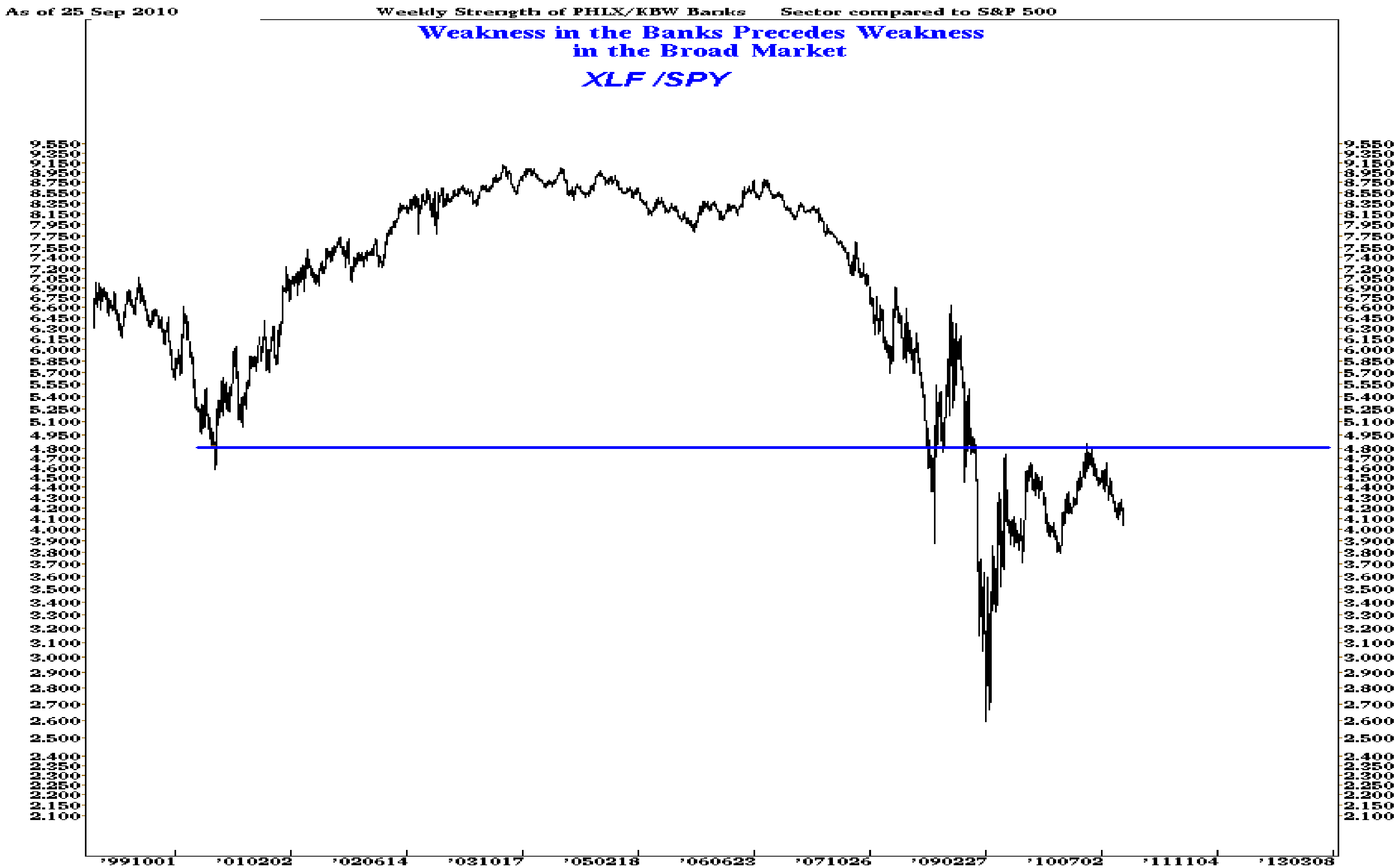
BKX – Short term

The best leading indicator going into the 2007 top was the Bank Index BKX. It was diverging substantially against the rest of the market at that time, showing a pattern of lower highs and lower lows while the SPX was making higher highs and higher lows. BKX is definitely showing a bearish pattern. And, the money flow chart of the index has been diverging bearishly as well:



BKX /SPX Ratio – Mid term

Here is a long term look at the ratio of BKX to SPX which illustrates that BKX weakness precedes big downturns in the broad market. The current bounce was large, but it has faded and the index is falling hard against the uptrend in the broad market. BKX is leading to the downside. The broad market should soon follow it lower. Bearish or what the chart below?



XLF – Short term (Our two horse men)

FINANCE & SEMIS SHOULD LEAD THE CHARGE… We just wonder why ? It not breaking out. With Fridays surge, the XLF is closer to resistance . Relative weakness with SPX is prominent

XLF – Short term (Our two horse men)

In spite of Fridays rally, Stochastics (bottom Window) is turning down. A close below 80 on Slow Stochastics on Friday. The MACD also appears to be rolling over.

SMH – Mid term (Our Second Horse men)

It's a last gasp, short covering rally before the next leg down. It is on right side of the hump , Money flow has been going down quick.

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

FTSE

The FTSE-100 Index shows massive bearish divergence in the volume oscillator as the final tee expired. The trend is down. This being the 2nd largest component of EEA, should follow SPX as well . T passed hence its terminal here.

EEA

The EEA – is not able to take the highs off along with SPX but volume is equal to previous highs of so it may go higher but FSE is very bearish. So its mixed signal but we think they all follow SPX eventually due to its ADR components

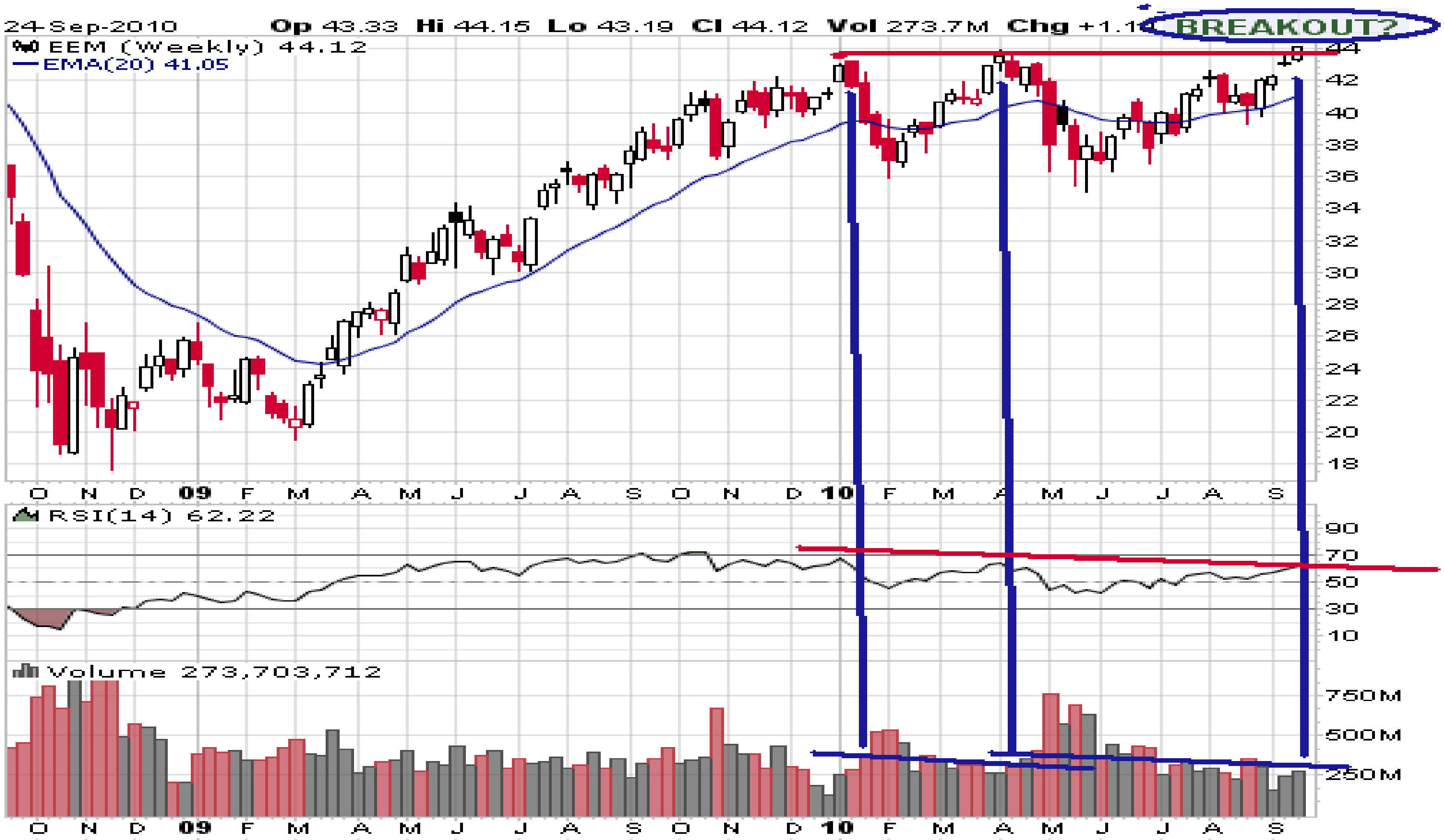
- **Global (EEM) Market Analysis for SPX – POM clues - EEM,CHINA**

CHINA

In spite of SPX breakout , The Shanghai Index has been moving lower even as many other markets are celebrating the recent pickup in buying activity in other markets. : **The wave V indicated in earlier note proved its merit under poly trend. We** suggested 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.

EEM

The EEM – As you can see in the chart below , is able to take the highs off with lesser volume and weaker Relative strength but it closed higher , which means it could go higher but its main component Shanghai is very bearish. So its mixed signal but we think they all follow SPX eventually. Although EEM could go little higher short term



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

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

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