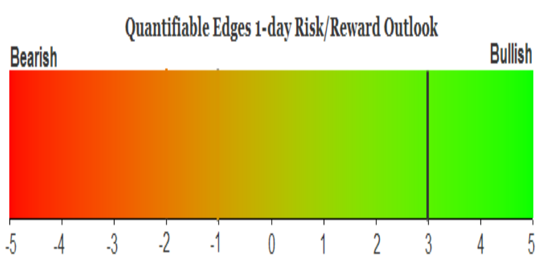
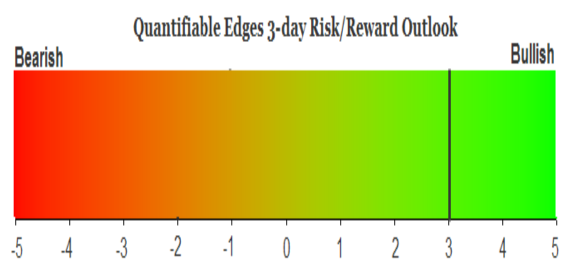
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 12, 2011 Volume 4 Issue 70

Market Overview





Tonight's Research Points

- The 3-day pullback in SPX contains characteristics of pullback that quickly bounce. These include volume and seasonality characteristics.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook
The Bottom Line

Monday's continued slide seems to have the market nearing a point where it should bounce. I'm continuing to scale in long to try and take advantage of the expected move.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 12, 2011	3 Down Days - declining vol / Tues	1-2 days	Bullish	2.00%
April 11, 2011	SPX 10-high and 5-low close	1-2 days	Bearish	-1.20%
April 11, 2011	SPY 5 low for 1st time in 2 weeks	1-4 days	Bullish	1.60%
April 11, 2011	April Op-Ex week	1-3 days	Bullish	1.90%
Active - Long Term				
April 11, 2011	QQQ 5 lower lows. Today worst day.	1-20 days	Bullish	13.00%
March 22, 2011	3 Days Up Issues % > 70%	int term	Bullish	19.00%
November 22, 2010	High number of POMO Days recently	int term	Bullish	
October 25, 2010	SPX Golden Cross	int term	Bullish	

If the avg max move is achieved the study will appear in ***bold italic blue*** and no longer be active.

The Evidence

A morning gap higher didn't stick and the market spent most of the day working its way gradually lower. When it was over the SPX and Nasdaq had each lost 0.3% and the Russell 2000 was down 0.9%. Breadth was weak as the NYSE Up Issues % came in at 30% and the Up Volume % was 32%. Total NYSE volume declined for the 3rd day in a row.

Pullbacks of 3 days will typically trigger some studies. On its own, there is very little edge in buying 3-day pullbacks, but when these pullbacks have certain characteristics they often become compelling buys. The current setup has some intriguing characteristics.

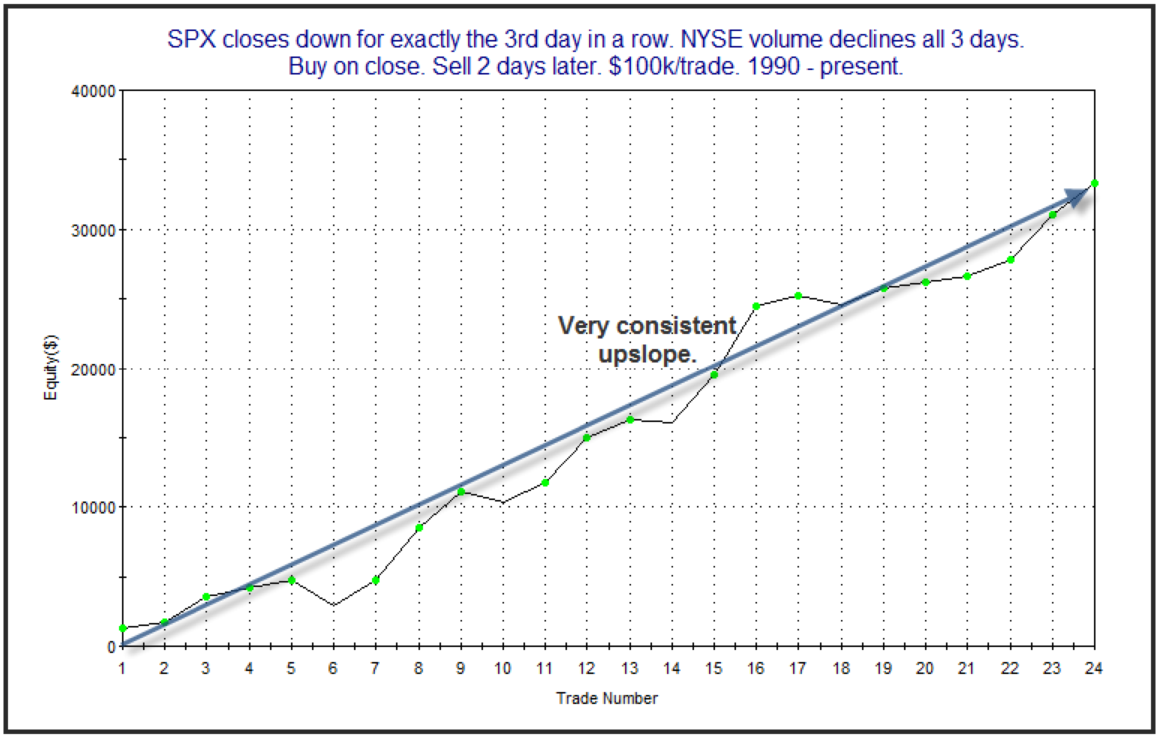
For one, the pullback has occurred on consistently declining NYSE volume. SPX has dropped 3 days in a row and every one of those days saw volume come in lower than the previous day. In the study below I examined this scenario going back to 1990.

SPX closes down for exactly the 3rd day in a row. NYSE volume declines all 3 days.
Buy on close. Sell X days later. $100k/trade. 1990 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	32,659.78	24	15	9	62.50	2,902.55	-1,208.72	2.40	4.00	1,360.82
4	28,426.37	24	16	8	66.67	2,497.81	-1,442.33	1.73	3.46	1,184.43
3	22,601.06	24	17	7	70.83	2,117.12	-1,912.86	1.11	2.69	941.71
2	33,332.70	24	20	4	83.33	1,831.60	-824.83	2.22	11.10	1,388.86
1	20,758.11	24	19	4	79.17	1,256.09	-776.91	1.62	7.68	864.92

23 of 24 instances (96%) closed above the entry price at some point in the next week. All 24 did within 6 days.

These stats appear to strongly suggest an upside edge. Not only is the consistency remarkable, but the strength of the move is also impressive. To see how the edge has played out over time I have included the equity curve below assuming a 2-day hold period.



The consistent upslope serves as confirmation of the bullish tendency.

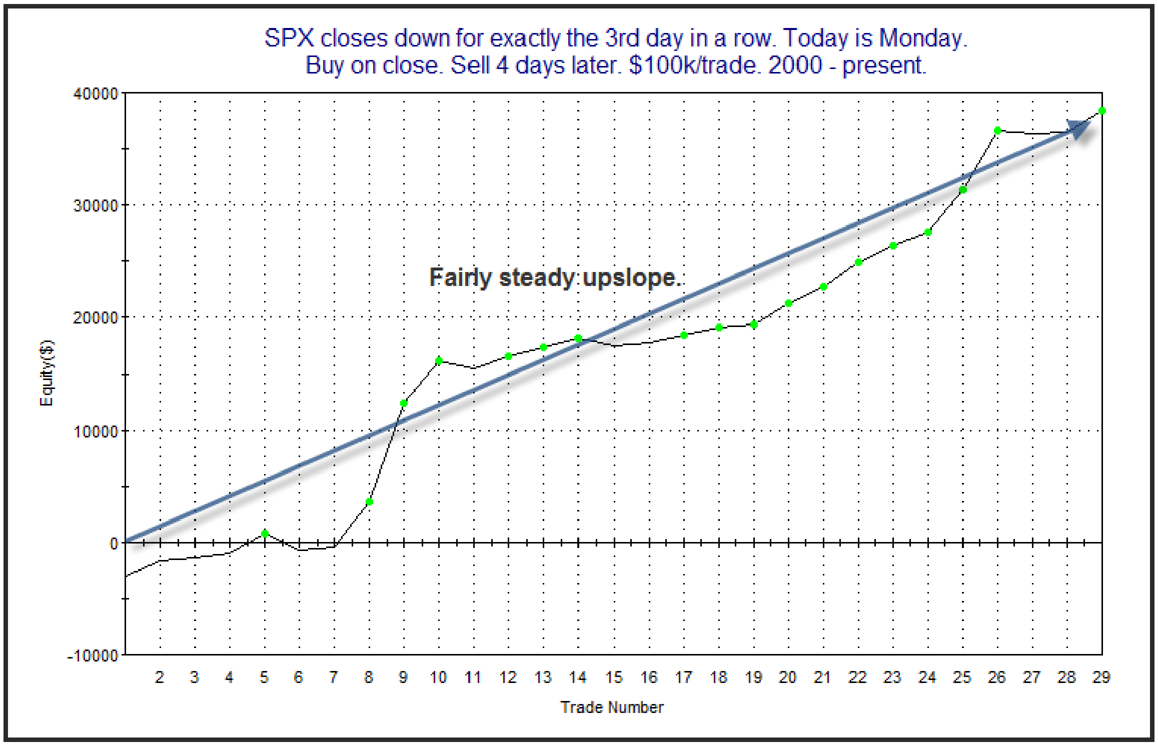
It is also notable that the pullback has reached this point and tomorrow is a Tuesday. I've shown before that of all days Tuesday has historically shown the highest propensity to halt a short-term pullback. The study below is one from the larger Turnaround Tuesday study. It was last published in the 1/11/11 Subscriber Letter.

SPX closes down for exactly the 3rd day in a row. Today is Monday.
Buy on close. Sell X days later. $100k/trade. 2000 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	55,846.72	28	22	6	78.57	3,014.84	-1,746.63	1.73	6.33	1,994.53
9	61,199.02	28	22	6	78.57	3,007.04	-825.98	3.64	13.35	2,185.68
8	56,993.64	28	22	5	78.57	2,854.05	-1,159.07	2.46	10.83	2,035.49
7	52,168.07	28	23	5	82.14	2,533.52	-1,220.59	2.08	9.55	1,863.15
6	42,353.36	28	21	7	75.00	2,308.21	-874.14	2.64	7.92	1,512.62
5	48,830.54	29	21	8	72.41	2,594.71	-707.31	3.67	9.63	1,683.81
4	38,336.38	29	24	5	82.76	1,855.61	-1,239.65	1.50	7.19	1,321.94
3	34,310.47	29	21	8	72.41	1,913.24	-733.44	2.61	6.85	1,183.12
2	27,179.98	29	23	6	79.31	1,396.77	-824.31	1.69	6.50	937.24
1	15,042.78	29	20	9	68.97	1,129.93	-839.53	1.35	2.99	518.72

27 of 29 instances (93%) closed aboe the entry price at some point in the next week. All 29 did within 7 days.

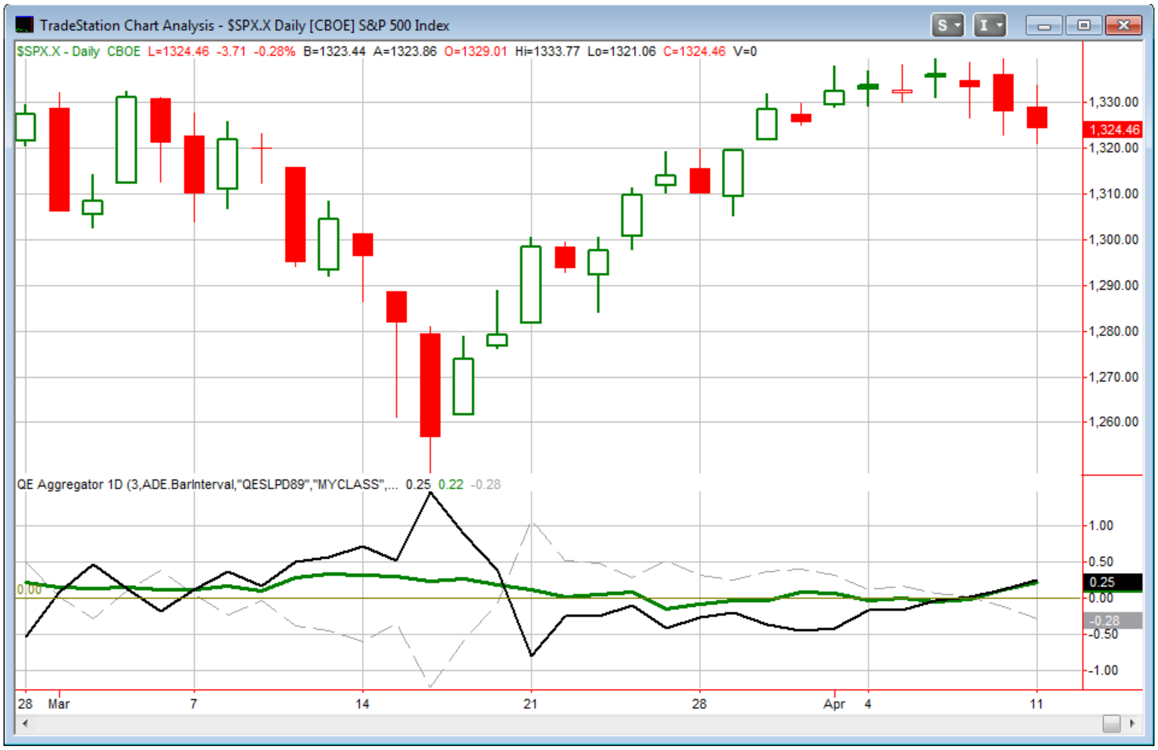
As you can see the market has strongly favored a quick move higher. And when that move hasn't happened on Tuesday it has often happened in the next few days. Below is an equity curve showing a 4-day exit strategy.



While the strength of the edge has oscillated some it has provided fairly consistent results over time. Certainly this study seems to suggest an upside edge.

So the price/volume combination over the last 3 days appears to favor the bulls going forward. And the fact that tomorrow happens to be a Tuesday appears to provide further confirmation of an upside edge.

I have updated the Aggregator chart below.



Thanks to tonight's studies the green Aggregator line rose a bit more. The positive value means the net expectation from the Active Studies List is for upside over the next few days. Meanwhile the black Differential line is also well above 0. Readings above 0 mean the SPX has underperformed expectations over the last few days. So net expectations are for upside and the SPX is relatively oversold. Historically, this configuration has provided a bullish edge. It can be seen on the chart whenever the green Aggregator and black Differential lines both close above zero. Due to this the Aggregator System remained long.

The green Aggregator line is currently set to remain above 0 on Tuesday. Of course this could change if bearish studies emerge. Meanwhile, the Differential Pivot will be 1,332.66. This is about 0.6% above Monday's close. This means it would take a rise of at least this much to turn the black Differential line negative.

I am already partially long. I will look to increase that exposure tomorrow to take advantage of a potential rebound. Details in the trade ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/11 – bullish

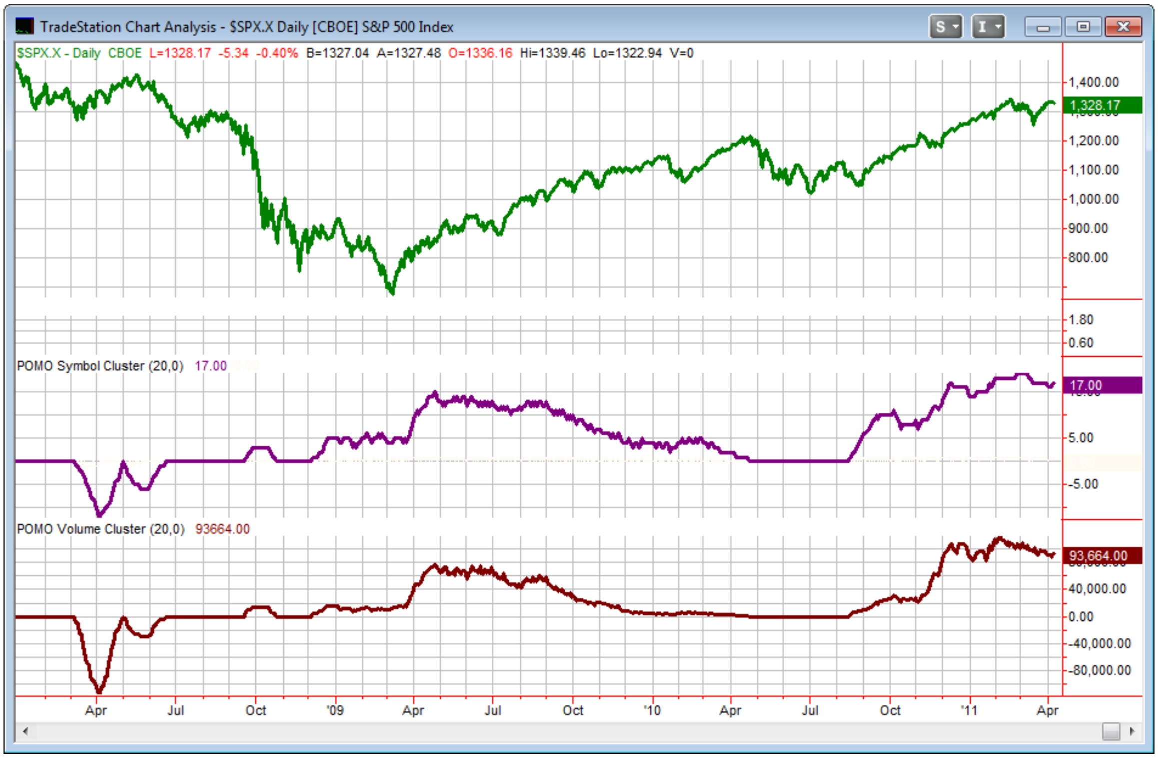
The market continues to bump against its February highs without breaking through. It has established a tight range over the last 8 days between the 3/30 gap higher and the Feb highs. A break in either direction could lead to a sharp move. Evidence at this point seems to suggest we should be seeing higher prices in the next few weeks.

The QQQ pullback study from the short-term section also has intermediate-term implications and I have added it to the intermediate-term Active List.

The Fed's current POMO activity remains a potential positive. I've been updating the POMO chart most weekends in the letter. For those who may not recall below is a brief refresher on POMO. Beneath that I have updated our POMO indicator chart.

POMO stands for Permanent Open Market Operations and it is how the Fed goes into the open market to buy securities. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A "POMO Day" is simply a day where these operations take place… The chart below (shows a couple of POMO indicators). The top pane is the S&P 500. The middle pane is the rolling number of days in the last 20 that have been POMO days. The bottom pane is the total amount of money infused into the system over the previous 20 days. Information on acquiring the data and constructing the chart can be found in the January 3rd POMO presentation linked below. (Not available for trial users.)

http://www.quantifiableedges.com/members/pomo.php



The POMO Days indicator ticked back up to 17. Additional buying is scheduled for Monday. Tuesday is an off-day, and the Fed is also set to release the new schedule on Tuesday. With buying slated to continue into June, I expect to see another busy slate. It certainly bears watching though and should provide insight into the Fed's immediate-plans and whether POMO is likely to continue to act as a wind at the markets back over the next month. For those that would like to view the upcoming schedule I have provided a link below. Checking this link on or after Tuesday should show the new schedule.

http://www.newyorkfed.org/markets/tot_operation_schedule.html

There is still a decided lack of intermediate-term bearish studies. Meanwhile, momentum, POMO activity, breadth, and now QQQ price action are all pointing higher. I remain intermediate-term bullish. For my own trading this means I will be more inclined to take bullish setups more aggressively and bearish setups more conservatively.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

None

Catapult for ETF's Trades

None

***Broad Market Large Cap CBI* – 0**

Additional New Trade Ideas

A full listing of system triggers can be found at the system triggers page each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

QQQ – buy ¼ index position @ $56.76 limit. Based on short-term outlook above, I will continue to scale in to my long index position.

IJK – buy @ $109.32 limit. Based on system 11111 this one is straight from the Systems Triggered spreadsheet. There were actually several ETF's that triggered 11111. I chose IJK because 1) it showed strength in breaking to new rally highs a few days ago, and 2) it has pulled back to a point where it is just above that base. The former base may now act as a support level.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QQQ(1/4)	4/11/2011	$56.95	$56.76	-0.33%		bought at limit