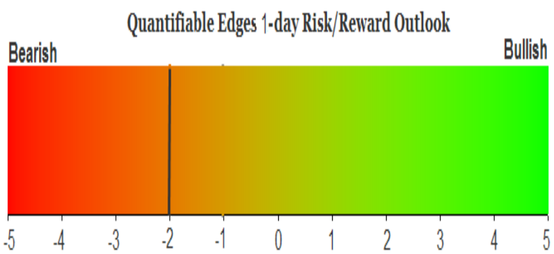
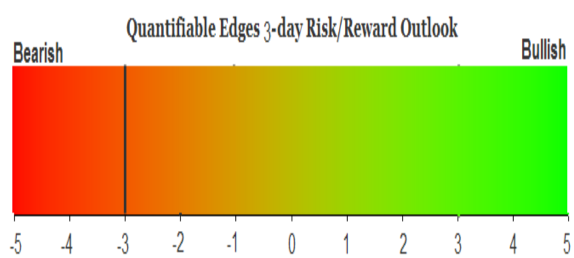
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 16, 2011 Volume 4 Issue 179

Market Overview





Signals Overview

Aggregator	Aggressive VIX	Conservative VIX	NDX Trend Timer
Short	75% Long VXX	100% Short SPY	Flat

Tonight's Research Points

- A low 3/10 Offset HV in a strongly overbought short-term market suggests a quick downside edge.
- 3 consecutive days of Up Issues > 70% appears bullish both short and long-term.

Short-term Outlook
The Bottom Line
I'm short and looking to get mildly shorter.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 16, 2011	3/10 HV < 0.25. RSI(2) > 90.	1-2 days	Bearish	-2.40%
September 16, 2011	3 70% Up Issue Days	1-2 days	Bullish	2.20%
September 15, 2011	3 up days. Today biggest. Close < 200	1-3 days	Bearish	-3.00%
September 15, 2011	SPY up 1% but 1% below high	1-2 days	Bullish	
September 13, 2011	SPX up. VIX up. Monday < 200ma	1-5 days	Bearish	-3.60%
Active - Long Term				
September 12, 2011	Nasdaq leading SPX	int term	Bullish	
September 6, 2011	1% drop prior to 3-day US weekend	1-20 days	Bearish	
August 24, 2011	IBD Follow Through Day strong breadth	int term	Bullish	
August 16, 2011	SPY up 3. Vol down 3 days.	1-20 days	Bearish	
July 5, 2011	QE2 Over	int term	Bearish	
March 22, 2011	3 Days Up Issues % > 70%	8 months	Bullish	19.00%
Dropped Tonight				
September 13, 2011	SPY gap down and reverse.	1-3 days	Bearish	-3.80%

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

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The Evidence

The bull stampede continued for a 4th day on Thursday. SPY gapped up and never filled. All the major indices finished strongly higher. The SPX rose 1.7%, the Nasdaq was up 1.3%, and the Russell 2000 gained 1.4%. Buying was again broad as the NYSE Up Issues % came in at 75% and the Up Volume % was 89%. Despite the broad participation, total NYSE volume was light.

The strong move up the last four days has the market in an extremely overbought short-term condition. Additionally, the steady move up has caused the 3/10 Offset HV to drop below 0.25. When levels this low are reached it typically means a sharp move is imminent. The study below looks at the combination of low 3/10 Offset HV, a short-term overbought market in a long-term downtrend. It was last seen in the 7/13/10 subscriber letter. I have updated all results.

SPX 3/10 Offset HV < 0.25. SPX 2-day RSI > 90. Close < 200ma.
Buy on close. Sell X days later. $100k/trade. 1999 - 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	-28,339.33	15	4	11	26.67	706.79	-2,833.32	0.25	0.09	-1,889.29
4	-24,625.53	15	3	12	20.00	1,004.61	-2,303.28	0.44	0.11	-1,641.70
3	-19,705.37	15	4	11	26.67	975.91	-2,146.27	0.45	0.17	-1,313.69
2	-21,356.09	15	1	14	6.67	1,510.64	-1,633.34	0.92	0.07	-1,423.74
1	-14,628.22	15	3	12	20.00	1,346.62	-1,555.67	0.87	0.22	-975.21

As you can see, the results are overwhelmingly bearish over the next couple of days. Below I have listed all 15 instances.

SPX 3/10 Offset HV < 0.25. SPX 2-day RSI > 90. Close < 200ma.
Buy on close. Sell 2 days later. $100k/trade. 1999 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/28/00	Buy	$1,334.19	(3.82%)	$437.34
01/02/01	Sell	$1,283.27		($4,302.36)
01/18/01	Buy	$1,347.97	(0.38%)	$486.92
01/22/01	Sell	$1,342.90		($1,045.62)
03/07/01	Buy	$1,261.89	(2.26%)	$364.19
03/09/01	Sell	$1,233.42		($2,644.13)
08/02/01	Buy	$1,220.75	(1.66%)	$0.00
08/06/01	Sell	$1,200.48		($1,895.40)
12/19/01	Buy	$1,149.56	(0.41%)	$159.96
12/21/01	Sell	$1,144.89		($828.18)
12/28/01	Buy	$1,161.02	(0.55%)	$12.04
01/02/02	Sell	$1,154.67		($2,131.94)
10/21/02	Buy	$899.72	(0.40%)	$0.00
10/23/02	Sell	$896.14		($2,867.13)
11/06/02	Buy	$923.76	(3.14%)	$3.24
11/08/02	Sell	$894.74		($3,466.80)
03/20/03	Buy	$875.84	(1.33%)	$2,286.84
03/24/03	Sell	$864.23		($1,575.48)
08/02/04	Buy	$1,106.62	(0.72%)	$0.00
08/04/04	Sell	$1,098.63		($1,279.80)
02/13/08	Buy	$1,367.20	(1.26%)	$70.08
02/15/08	Sell	$1,349.98		($2,122.11)
04/07/08	Buy	$1,372.53	(1.31%)	$0.00
04/09/08	Sell	$1,354.49		($1,624.32)
04/25/08	Buy	$1,397.85	(0.49%)	$358.55
04/29/08	Sell	$1,390.95		($791.65)
11/28/08	Buy	$896.24	(5.29%)	$0.00
12/02/08	Sell	$848.81		($8,941.05)
07/12/10	Buy	$1,078.75	1.52%	$1,905.32
07/14/10	Sell	$1,095.17		$0.00

The 7/12/10 instance sold off hard on Day 4 to close below the entry price. The Avg Drawdown (-2.4%) was larger than the Max Run-Up (2.3%) and almost 6x the size of the Avg Run-up

It was the last instance that failed to quickly sell off. Still, by day 4 even that was negative.

Of course there are times when overbought reaches such an extreme that the most likely course of action is for more upside. This is the case in the study below. It was last seen in the 3/22/11 subscriber letter. I have updated all results.

NYSE Up Issues % > 70% for exactly the 3rd day in a row. Buy SPX on close. Sell X days later. $100k/trade. 1967 - 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	29,308.43	18	14	4	77.78	3,219.27	-3,940.32	0.82	2.86	1,628.25
9	27,928.83	18	14	4	77.78	3,126.83	-3,961.70	0.79	2.76	1,551.60
8	23,934.10	18	12	6	66.67	3,157.91	-2,326.80	1.36	2.71	1,329.67
7	28,633.60	18	14	4	77.78	2,724.54	-2,377.48	1.15	4.01	1,590.76
6	31,358.50	18	13	5	72.22	3,170.32	-1,971.13	1.61	4.18	1,742.14
5	25,382.33	18	13	5	72.22	2,602.48	-1,689.99	1.54	4.00	1,410.13
4	20,059.37	18	12	6	66.67	2,131.88	-920.53	2.32	4.63	1,114.41
3	14,305.69	18	10	8	55.56	2,469.98	-1,299.26	1.90	2.38	794.76
2	17,718.85	18	16	2	88.89	1,160.87	-427.50	2.72	21.72	984.38
1	9,864.04	18	12	5	66.67	929.64	-258.34	3.60	8.64	548.00

All 18 instances posted a close above the entry price at some point in the next week.

Not only are the net results strong but the consistency has been outstanding with all 18 instances posting gains at some point during the next week. Below I have listed all 18 instances.

NYSE Up Issues % > 70% for exactly the 3rd day in a row. Buy SPX on close. Sell 2 days later. $100k/trade. 1967 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
01/09/67	Buy	$82.81	0.80%	$796.62
01/11/67	Sell	$83.47		$0.00
05/29/70	Buy	$76.55	1.69%	$1,684.74
06/02/70	Sell	$77.84		$0.00
10/11/74	Buy	$71.14	0.42%	$2,248.00
10/15/74	Sell	$71.44		$0.00
01/03/75	Buy	$70.71	0.44%	$509.04
01/07/75	Sell	$71.02		$0.00
01/05/76	Buy	$92.58	1.48%	$1,479.60
01/07/76	Sell	$93.95		$0.00
01/05/79	Buy	$99.13	0.20%	$836.64
01/09/79	Sell	$99.33		($1,310.40)
08/18/82	Buy	$108.52	4.15%	$4,577.37
08/20/82	Sell	$113.02		($1,077.57)
10/08/82	Buy	$131.05	2.59%	$4,555.11
10/12/82	Sell	$134.44		$0.00
03/03/83	Buy	$153.47	0.12%	$956.97
03/07/83	Sell	$153.66		($1,269.45)
08/03/84	Buy	$162.35	0.22%	$1,795.80
08/07/84	Sell	$162.71		($953.25)
12/26/91	Buy	$404.84	2.54%	$2,541.63
12/30/91	Sell	$415.13		($61.75)
03/21/07	Buy	$1,435.04	0.07%	$265.65
03/23/07	Sell	$1,436.11		($356.04)
01/02/09	Buy	$931.80	0.31%	$1,289.35
01/06/09	Sell	$934.70		($1,312.89)
04/02/09	Buy	$834.38	0.13%	$966.28
04/06/09	Sell	$835.48		($1,379.21)
09/08/09	Buy	$1,025.39	1.83%	$1,818.75
09/10/09	Sell	$1,044.14		($137.74)
07/09/10	Buy	$1,077.95	1.61%	$1,978.92
07/13/10	Sell	$1,095.34		($690.00)
07/26/10	Buy	$1,115.01	(0.80%)	$528.66
07/28/10	Sell	$1,106.13		($1,059.10)
03/21/11	Buy	$1,298.38	(0.06%)	$164.01
03/23/11	Sell	$1,297.54		($1,103.41)

The last 2 instances didn't rally immediately but it didn't take long.

Also interesting about this setup is that the market has performed exceptionally well over the intermediate-term as well. The results below have also been updated from the 3/22 letter.

NYSE Up Issues % > 70% for exactly the 3rd day in a row.
Buy SPX on close. Sell X days later. $100k/trade. 1967 - 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
200	189,454.67	11	9	2	81.82	21,290.18	-1,078.45	19.74	88.84	17,223.15
190	202,941.78	11	11	0	100.00	18,449.25	0.00	100.00	100.00	18,449.25
180	211,208.63	11	11	0	100.00	19,200.78	0.00	100.00	100.00	19,200.78
170	193,444.27	12	12	0	100.00	16,120.36	0.00	100.00	100.00	16,120.36
160	190,654.63	12	12	0	100.00	15,887.89	0.00	100.00	100.00	15,887.89
150	189,374.17	12	12	0	100.00	15,781.18	0.00	100.00	100.00	15,781.18
140	174,839.16	12	12	0	100.00	14,569.93	0.00	100.00	100.00	14,569.93
130	155,443.51	13	12	1	92.31	13,423.27	-5,635.69	2.38	28.58	11,957.19
120	113,065.79	14	11	3	78.57	11,457.94	-4,323.86	2.65	9.72	8,076.13
110	103,997.85	14	13	1	92.86	8,823.79	-10,711.47	0.82	10.71	7,428.42
100	99,235.46	14	11	3	78.57	10,146.31	-4,124.64	2.46	9.02	7,088.25
90	112,768.01	14	12	2	85.71	9,908.26	-3,065.58	3.23	19.39	8,054.86
80	107,007.12	14	13	1	92.86	8,710.02	-6,223.12	1.40	18.20	7,643.37
70	81,378.73	14	13	1	92.86	6,916.22	-8,532.18	0.81	10.54	5,812.77
60	79,636.48	15	12	3	80.00	8,170.87	-6,137.98	1.33	5.32	5,309.10
50	82,845.62	16	13	3	81.25	8,232.64	-8,059.59	1.02	4.43	5,177.85
40	59,218.37	16	13	3	81.25	7,175.85	-11,355.88	0.63	2.74	3,701.15
30	51,386.67	17	12	5	70.59	6,129.03	-4,432.34	1.38	3.32	3,022.75
20	55,813.17	17	14	3	82.35	5,110.66	-5,245.36	0.97	4.55	3,283.13
10	29,308.43	18	14	4	77.78	3,219.27	-3,940.32	0.82	2.86	1,628.25

We are currently between 120 and 130 days from the 3/21/11 instance when the SPX closed at 1,298.38.

It is rare to have two such powerful, consistent, and diametrically opposed studies both trigger. One of them is going to be right over the 2-day time span. To help determine expectations I put both studies into the Aggregator calculation.

I have updated the Aggregator chart below.

The green Aggregator line moved a little higher today but still closed negative. Levels below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile, the Differential Line fell again and is now strongly below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are negative and the SPX is strongly overbought versus recent expectations. Historically this combination has suggested a bearish edge. Bearish configurations can be seen on the chart whenever both lines close below 0. Due to this the Aggregator System remained short at the close.

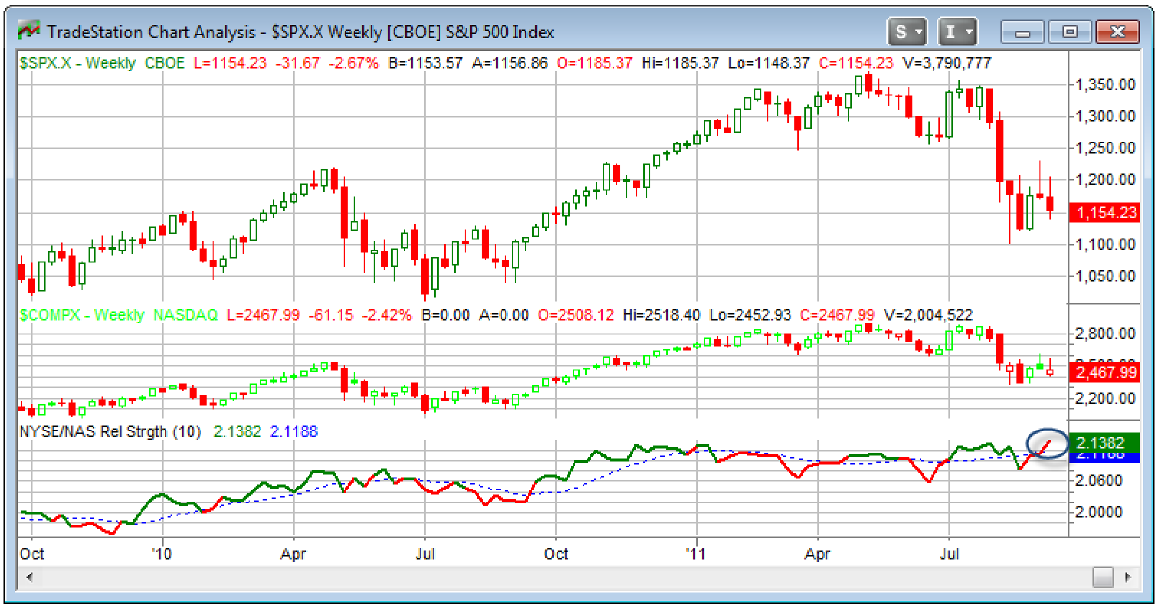
Based on the current active studies the green Aggregator line is poised to close below 0 again on Friday. Of course this could change if bullish studies emerge. Meanwhile, the Differential Pivot will be 1,169.71. This is 3.3% below Thursday's close. A drop this large is highly unlikely. A more likely scenario is a multi-day move lower.

I have a small short position at the moment. I considered adding 2 more lots to it but with the mixed evidence we have seen the last 2 nights I'm going to play it a little more conservatively and just add 1 lot. Details in the trade ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 9/12 – slightly bearish

The losses Thursday and Friday were steep, and likely a great disappointment to the bulls that rushed into the market between Tuesday's open and Wednesday's close. From a studies standpoint there wasn't much that appeared this week with intermediate-term consequences.

One potential positive for the bulls is that the Nasdaq is now outperforming the SPX. Below is the SPX/Nasdaq Weekly Relative Strength chart from the charts page.



I've circled the reading at the bottom of the chart. It is now appearing in green rather than red, indicating the line color is about to change because the Nasdaq has now taken over the lead from the SPX. This is important because since near the end of 1971 (which is the 1st possible new signal after the inception of the Nasdaq) the SPX generated over 100% of its positive performance when the Nasdaq has been leading. Over that time the SPX has gained 1,268.41 points when the Nasdaq has been in the lead. Since the SPX only sits at 1,154.23 today you can easily see how important a leading Nasdaq has been over the last 40 years. More details on this indicator can be found in the blog posts below.

http://quantifiableedges.blogspot.com/2009/05/simple-powerful-timing-indicator.html

http://quantifiableedges.blogspot.com/2009/06/tweaking-nasdaqs-leadlag-model.html

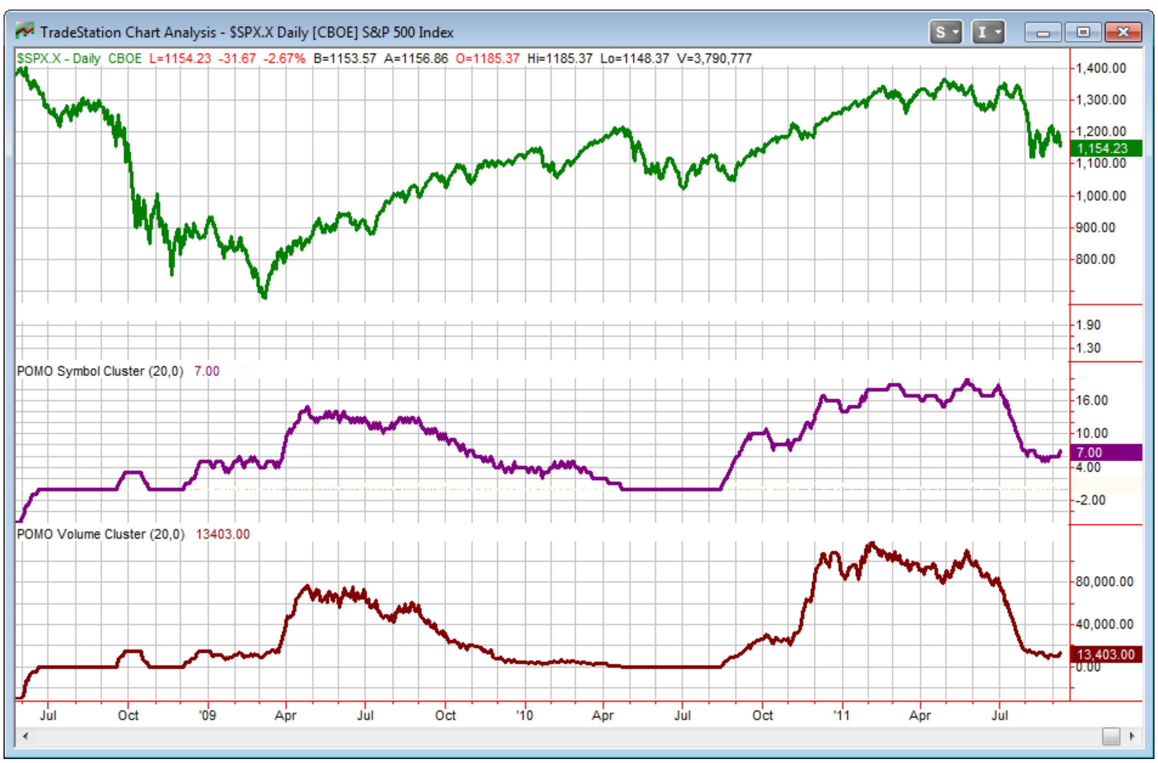
Additionally, for those subscribers that are interested in exploring this indicator more on their own, they may download the model in either Excel or Tradestation format from the downloads page of the members site at any time.

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

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



POMO indicators remain relatively low. After spending the last few weeks at levels quite a bit below the Fed's published schedule, purchases over the last month are extremely close to the $14billion number shown on the Fed's website. Stimulus still remains well below the levels that helped propel the market higher during QE1 and QE2. We keep waiting for the market to prove it can rally without substantial stimulus. So far it has not managed to do so.

While indicators remain mixed, I'm still inclined to slightly favor the short side. Bearish studies are associated with volume, liquidity (POMO), and seasonality. Bulls may find hope in the August FTD study, the breadth study from several months back, and now the leading position of the Nasdaq. Though I'm not wed to either direction I remain inclined to play the short side a little more aggressively and take a more conservative approach to longs.

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.

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SPY – short ¼ index position @ $121.43 LIMIT. Based on short-term outlook above.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	9/14/2011	$119.37	$121.43	-1.73%		shorted on close