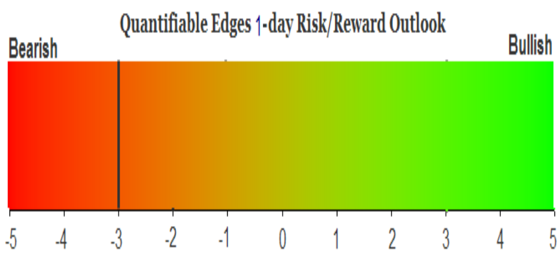
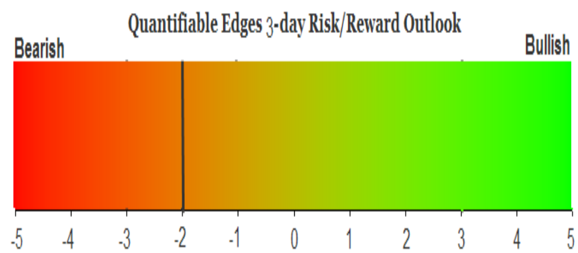
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 23, 2012 Volume 5 Issue 36

Market Overview





Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Long

Tonight's Research Points

- The October 18, 2011 Follow Through Day was a success, which was not surprising considering how it occurred.
- QE Buying power is working against us for the next few days but will turn positive on Tuesday afternoon.

Short-term Outlook
The Bottom Line

Evidence still suggests a short-term pullback, but that evidence is likely to turn net bullish on Thursday. I am short and looking for an opportunity to cover on Thursday.

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

Study Date	**Description**	**Time span**	**Bias**	**Avg Max Move**
Active				
February 22, 2012	SPX 50-day high. VIX up.	1-2 days	Bearish	
February 22, 2012	SPY gap up close < open & > yest > 200	1-5 days	Bullish	2.10%
February 21, 2012	SPX gains 1%-2% op-ex week. SPX > 200	1-5 days	Bearish	
February 17, 2012	Top 10% of 10-day range before opex	1-4 days	Bearish	
February 15, 2012	Unfill gap up. 20-high. Unfill gap dn.	1-6 days	Bearish	-1.40%
Active - Long Term				
February 6, 2012	Up Issues % > 75% 2 of 3. 10 high.	1-16 days	Bullish	4.70%
February 1, 2012	Golden Cross	int term	Bullish	
January 31, 2012	SPY 1st close < 10ma in over 25 days	1-20 days	Bullish	4.70%
January 17, 2012	Nasdaq leading SPX	int term	Bullish	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
Dropped Tonight				
February 22, 2012	***SPX 50 high. VIX:VXV < 0.85***	***1 day***	***Bearish***	
February 21, 2012	SPY 2 50-highs on lower volume	1-2 days	Bearish	
February 14, 2012	20-high. Gap down. Gap up.	1-6 days	Bearish	-1.90%
October 19, 2011	***FTD on strong breadth/20day higl***	***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

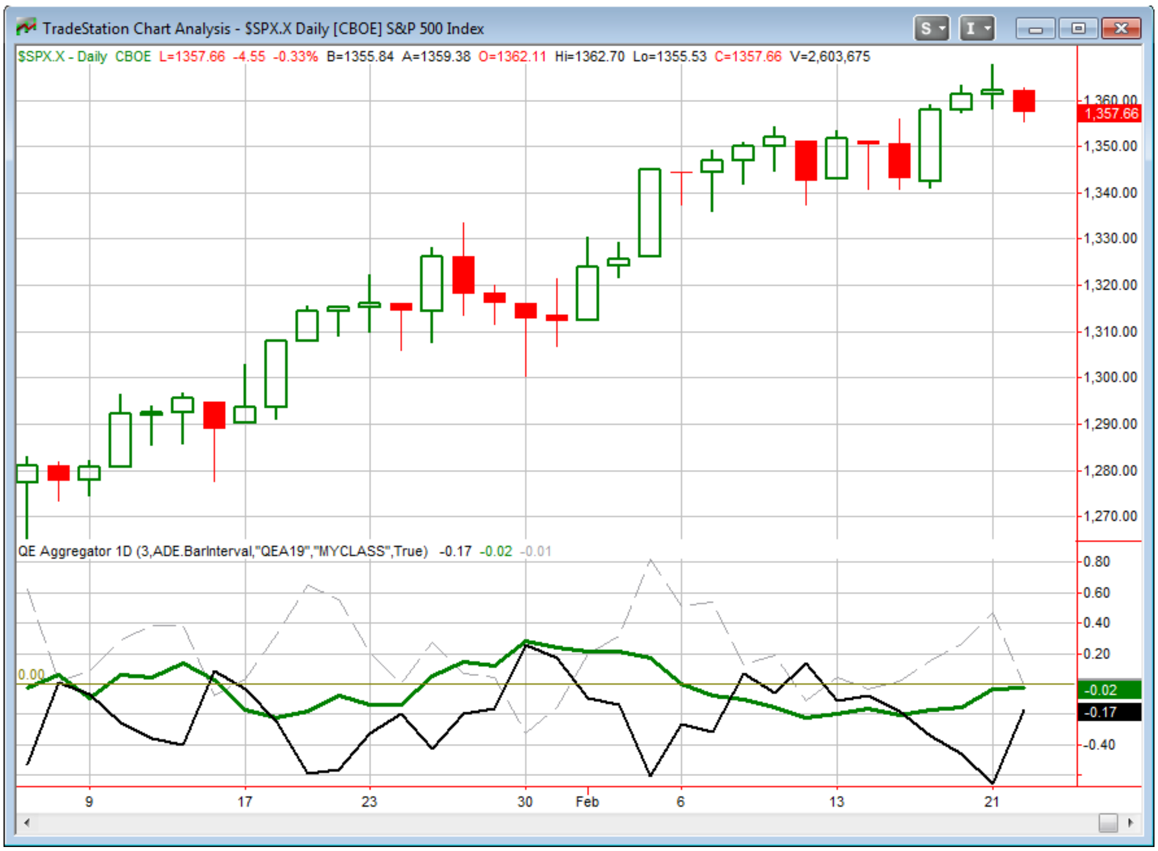
Modest selling came in to the market on Wednesday. The SPX fell 0.3%, the Nasdaq lost 0.5% and the Russell 2000 dropped 0.8%. Breadth was also modestly negative as the NYSE Up Issues % came in at 40.5% and the Up Volume % was 33%. Total NYSE volume fell a little from Tuesday's level.

The Quantifinder came up blank tonight. The market is just in one of those places where there are not extremes showing up and it is not providing short-term clues. I examined a few ideas and found nothing compelling. For instance, SPY made a lower high, low, and close today after closing at a 50-day high the last 3 days and making higher highs and higher lows each of those days. Looking back I found 16 other instances of this pattern. Results from day 1 – day 7 were basically dead even – from both a win % and a net gain standpoint.

Another note for tonight that I neglected to notice the other day is that when SPX hit a new 200-day high on Thursday, doing so deemed the 10/18/11 Follow-Through Day (FTD) "successful" according to the possible definitions of "success" I included in the FTD studies.

Based on the FTD studies, it is not a surprise to see this FTD turn into a successful rally. It had several strong positives going for it. For one, it occurred in conjunction with a 20-day high. Secondly, it was accompanied by strong breadth. And third, it occurred *after* the 10th day of the rally (which Investors Business Daily says is a negative but 8 of the 9 FTDs that have come after day 10 have now been successful). There were some mild negatives that this FTD had to overcome – namely the fact that it occurred under the 200ma, and the fact that it occurred after a substantial market decline. For those interested in learning more about FTDs, there is a bevy of information available on the blog under the "IBD Follow Through Day" label.

I have updated the Aggregator chart below.



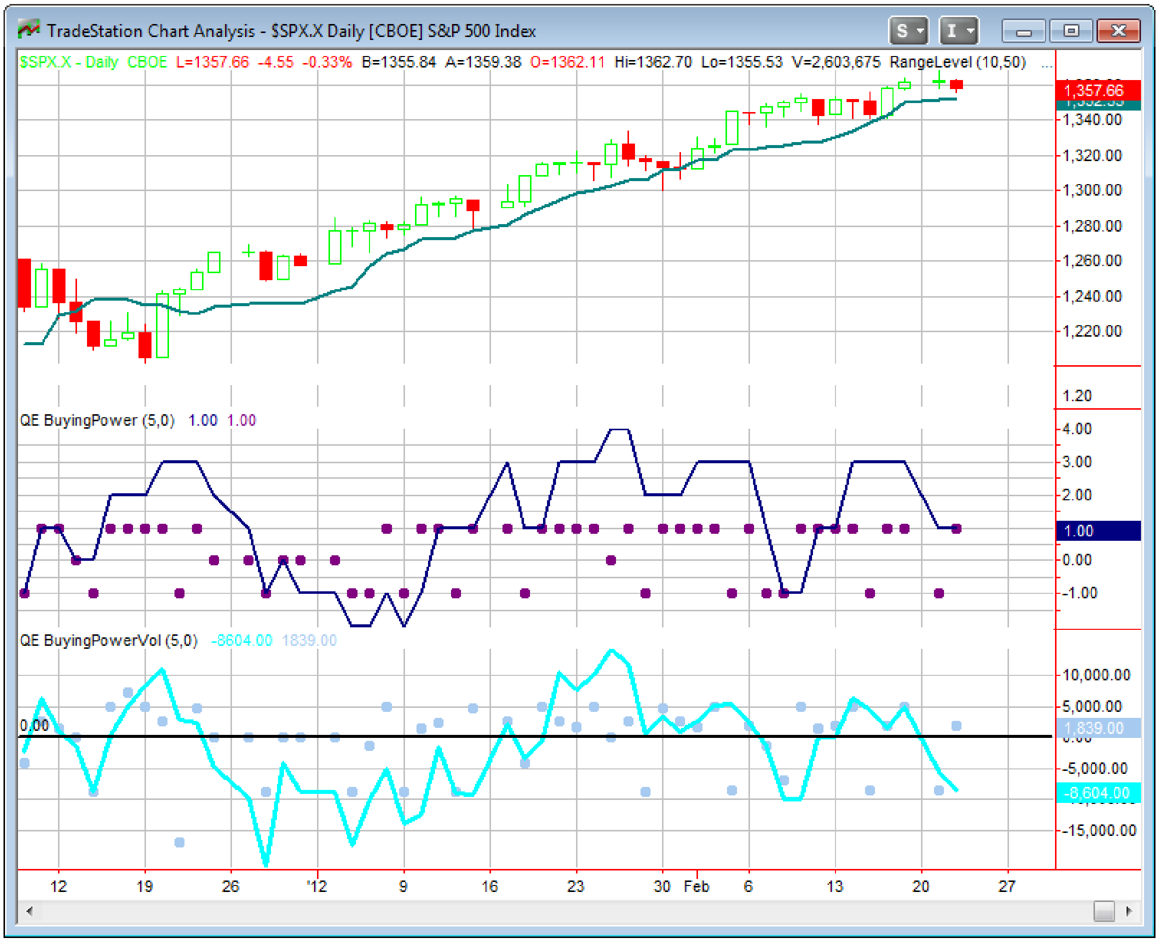
Without any new short-term studies tonight the green Aggregator line remains just slightly negative. Readings below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line rose but is still squarely below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are slightly bearish and the SPX is overbought versus recent expectations. This is considered a bearish configuration.

Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator System to remain short at the close. This was indicated on the Systems page before the bell.

Based on the current evidence, expectations are scheduled to flip to positive on Thursday. This is because a number of the bearish studies are expiring and the bullish SPY pattern from last night will be exerting more influence in the next few days. Of course expectations could remain negative if more bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,353.98 on Thursday. This is just 0.3% below Wednesday's close. So it won't take much for the SPX to move into oversold territory. A selloff on Thursday could actually cause the Aggregator to flip from short to long. I'll be keeping a close eye on the Quantifinder and the market throughout the day.

The shelf-life on my short position appears ready to expire. With expectations set to turn positive tomorrow I'll be looking for an opportunity to take profits (if we don't open with a large gap up against us). I'm not looking for a long entry in tonight's letter although we could get a signal near the close tomorrow. Sometimes I will aggressively anticipate entries. Evidence is not overwhelming in this case and I would rather re-examine all the evidence tomorrow night before looking to enter if we do close below the Differential Pivot.

One thing I would like to point out is that we really do not have QE Buying Power support right now. The QE Buying Power Index is at +1, and it is slated to stay there for the next few days. This is not a strong reading, though it does appear to be a positive reading. But if we look at actual POMO flows, rather than just "days" as I normally do, then you'll see that the flows over the last 5 days have actually been negative. This is due to the fact that selling days have been much larger than buying days. The chart below shows this.



The bottom indicator uses POMO volume, rather than just the simple day count shown in the standard indicator. The black line is 0. As you can see the blue line, representing the running 5-day volume total, is well below 0.

This suggests that even with a "+1" reading, QE buying power is actually negative. It is an odd divergence between the "days" and the "volume" that never occurred until Operation Twist began in October, but it is possible now and is probably worth noting when it happens. If we look at current and projected activity over the next several days, the QE Buying Power Volume Index is not scheduled to turn positive until Tuesday the 28th. This is also the same day that the standard QE Buying Power Index will move from +1 to +3.

So a bit more of a dip here could put us in a position where both the Aggregator and the intermediate-term are suggesting a long position. But the market won't have QE Buying Power winds at its back until Tuesday afternoon. If an Aggregator long triggers, I'll likely scale in some ahead of the increase in the QE Buying Power Index, but won't get too aggressive until Tuesday's close at the earliest.

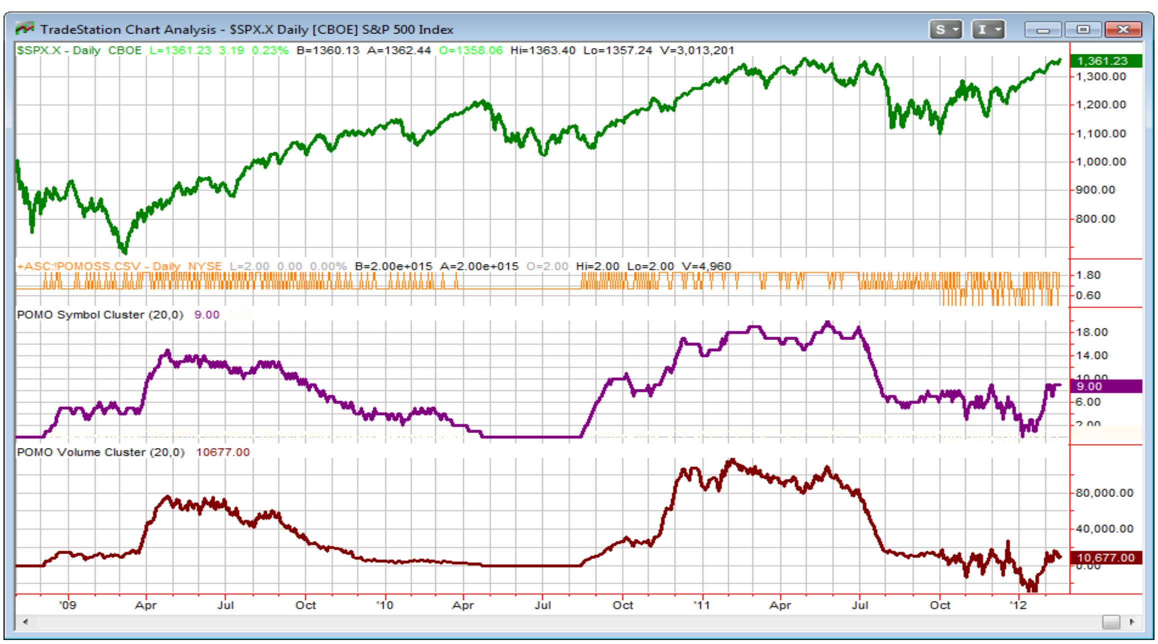
Intermediate-term Outlook (2 weeks – 2 months)– updated 2/21 – bullish

This past week saw the market post some solid gains and hit new highs. With new highs being reached on Friday the trend clearly remains up. And though the market looks susceptible to a short-term pullback there still appears to be ample evidence suggesting more upside over the intermediate-term. No new intermediate-term studies emerged in the last few days. The Active List here remains populated with studies seen in previous weeks.

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 (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) 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 numbers were strong this past week. There were 4 days of buying and 1 day of selling and the net over the week was about $5 billion in buying. This kept the POMO indicators fairly flat as a similar week fell off the back end of the equations.

Thus upcoming week is expected to see strong POMO selling. There are 2 small buying days and 2 large selling days schedule that will results in a net sale of over $14 billion in securities. This could have a negative short-term impact on the market. While the QE Buying Power Index is scheduled to post moderate values of "+1" all week, the strong selling days will actually mean negative volume. If there is an opportune time for the market to pull back with all the bearish studies already on board, this upcoming week would seem to be it.

So the intermediate-term still appears to be looking up. The SPX is in rally mode. We are still seeing studies related to momentum, trend, breadth, and Nasdaq leadership all point higher. Therefore, my outlook remains bullish. From a trading standpoint this simply means I will take a more aggressive approach with longs than with shorts.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

FCX – 1/3 position @ $42.40 limit ($42.17 fill)

GILD– 1/3 position @ $47.00 limit ($46.50 fill)

GILD– 1/3 position @ $44.69 limit ($44.21 fill)

New

GILD – buy 1/3 position @ $44.53 (3rd and final lot)

Catapult for ETF's Trades

None

***Broad Market Large Cap CBI* – 4/2(FCX, GILD-3)**

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.

GILD – buy 1/3 catapult position @ $44.53 limit. This is a Catapult trade idea from above. It is the final lot possible for this symbol.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
FCX(1/3)	2/16/2012	$42.17	$44.12	4.62%	$42.25	Catapult
SPY(1/4)(s)	2/17/2012	$136.52	$136.02	0.37%	see below	Aggregator
GILD(1/3)	2/21/2012	$46.50	$44.53	-4.24%		Catapult
GILD(1/3)	2/22/2012	$44.21	$44.53	0.72%		Catapult

FCX is very close to hitting its exit target. A small up day on Thursday would likely do it.

As long as SPY does not open above $136.30, I will place a stop at $136.40, which is just above the Wednesday afternoon highs. If the market moves lower or consolidates early below the stop level, then I will look to trail the stop lower throughout the day. I will send out intraday updates if action calls for moving the stop. If SPY opens above $136.30, then I will watch the morning action and will likely place a stop above the high of the first 30 minutes or so if we get a swing high or consolidation that could act as intraday resistance.

We have a small cluster of Catapult triggers now. Traders are encouraged to review the Catapult & CBI presentation available on the videos page, and the Catapult Exit Designer package available on the members downloads page for more Catapult info.