

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 7, 2012

Volume 5 Issue 45

Market Overview



Signals Overview

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

Tonight's Research Points

- The extremely low TICK Tomoscillator is suggesting a short-term bounce.
- 3 down days, a gap down, and a 10-day low have combined for a substantial upside edge in the past.

Short-term Outlook

The Bottom Line

Evidence is now more strongly bullish and the SPX is now very oversold. I'm bullish short-term and have begun to aggressively buy.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 7, 2012	3 donw. Unfilled gap. 10-low.	1-2 days	Bullish	
March 7, 2012	TIC Tom Oscillator extreme	1-2 days	Bullish	
March 6, 2012	SPY 5-day low 1st time in 10 days	1-4 days	Bullish	1.35%
February 29, 2012	Russell down 3 days. SPX 3-day high.	1-6 days	Bullish	3.95%
Active - Long Term				
March 5, 2012	Negative breadth divergences	int term	Bearish	
March 1, 2012	10-high then outside day down > 200	1-12 days	Bullish	2.70%
February 29, 2012	Russell dn 3 days. SPX 3-day high.	1-10 days	Bullish	5.10%
February 1, 2012	Golden Cross	int term	Bullish	
January 17, 2012	Nasdaq leading SPX	int term	Bullish	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
Dropped Tonight				
March 5, 2012	Small drop from 50-high on bad b	1-2 days	Bearish	

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

The Evidence

A big gap down led to the market's worst day so far of 2012. The SPX lost 1.5%, the Nasdaq declined 1.4%, and the Russell 2000 dropped 2.1%. Breadth was extremely negative as the NYSE Up Issues % came in at 9% and the Up Volume % was 4%. Total NYSE volume rose quite a bit from Monday's level.

There were a good number of studies that triggered tonight and appeared in the Quantifinder. I went through all of them and took the most interesting and compelling ones to discuss below. As you will see the upside edge is largely based on short-term oversold readings using several metrics. The one metric I did not cover tonight that did appear in the Quantifinder was the extremely negative breadth. There were a few studies that looked at days with Up Volume % < 5%. I found them marginal and decided to exclude them for tonight since the studies below that involve price action and the TICK were all more powerful and more compelling.

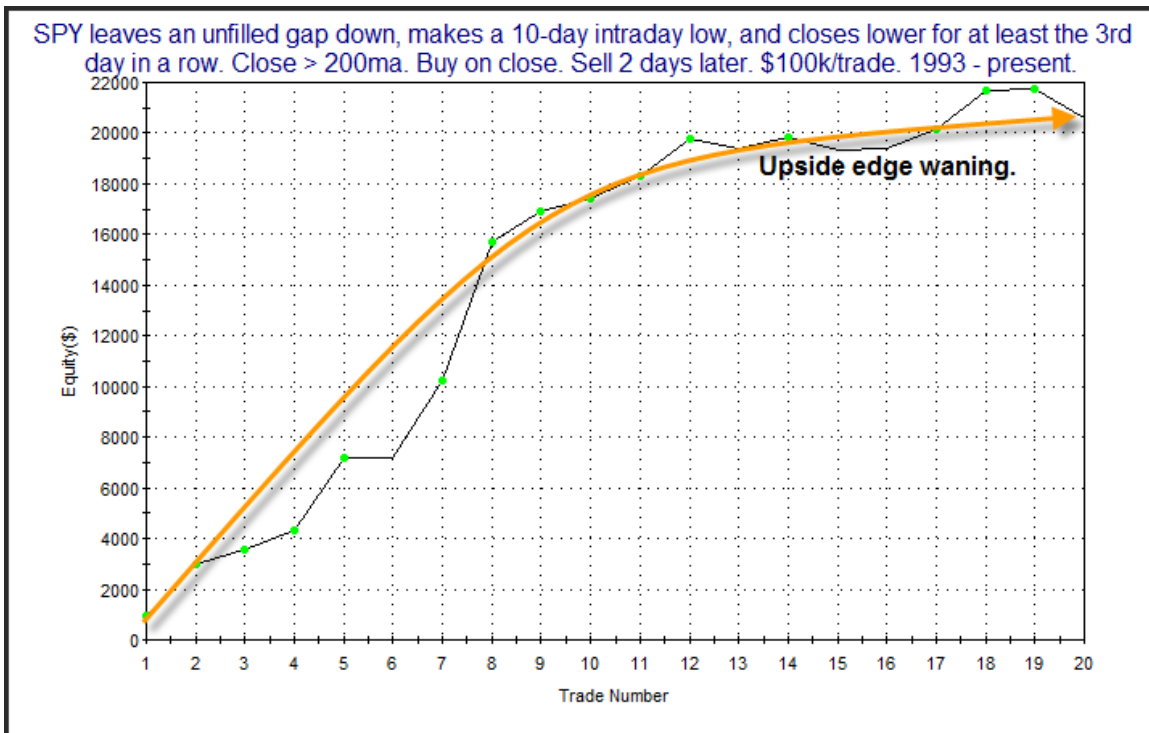
In the 6/6/11 subscriber letter I examined unfilled gaps and new lows that happened on at least the third down day in a row. I also included a long-term trend filter. The results table is updated below.

SPY leaves an unfilled gap down, makes a 10-day intraday low, and closes lower for at least the 3rd day in a row. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	12,609.60	20	14	6	70.00	1,634.45	8,239.74	-1,712.13	-4,770.78	0.95	2.23	630.48
4	11,453.12	20	13	7	65.00	1,764.31	5,581.02	-1,640.42	-4,430.01	1.08	2.00	572.66
3	18,015.85	20	15	5	75.00	1,494.80	4,249.44	-881.24	-1,847.47	1.70	5.09	900.79
2	20,602.79	20	16	3	80.00	1,412.60	5,477.88	-666.29	-1,118.36	2.12	11.31	1,030.14
1	13,800.68	21	16	5	76.19	973.03	5,764.38	-353.57	-1,057.08	2.75	8.81	657.18

The only instance not to close > the entry price on either Day 1 or Day 2 triggered on 6/3/11.

Twenty of twenty-one instances quickly bouncing is an impressive %. This suggests a very high probability of an almost immediate bounce. Below is the equity curve using a 2-day hold.



It appears that the upside edge remains in place, but perhaps it is not as powerful as it once was. It will be interesting to monitor this study going forward. For now I have decided to include it on the Active List.

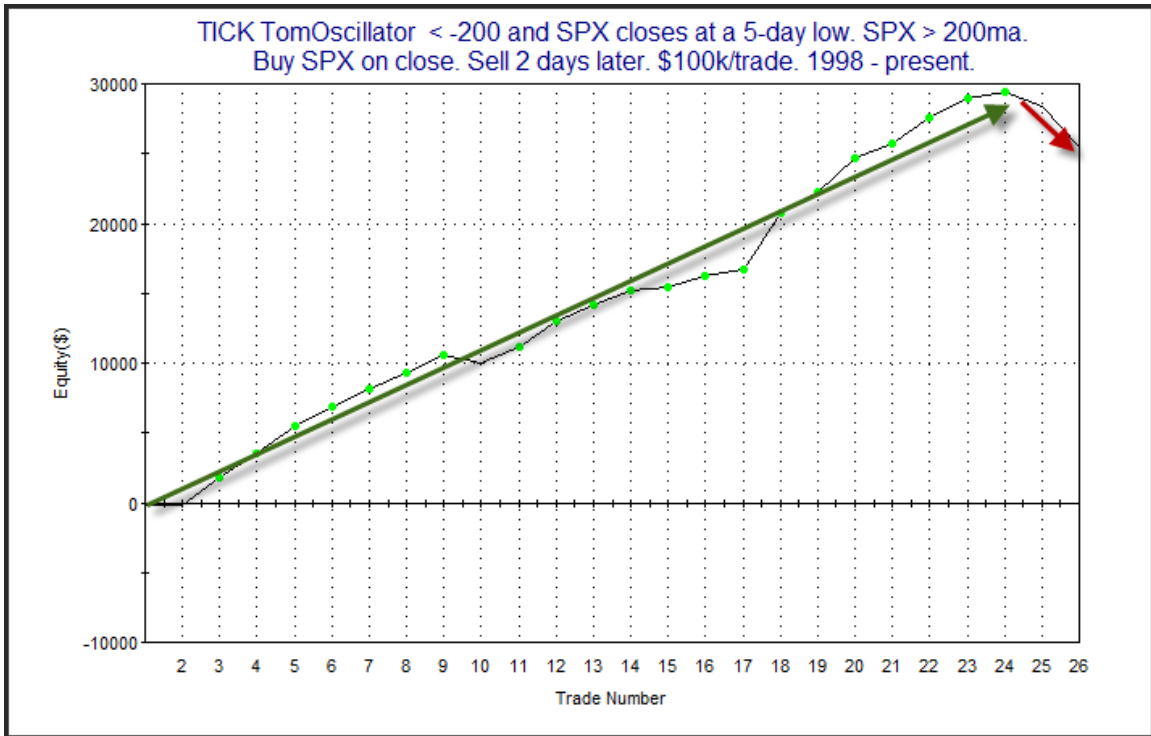
There was also a study that used the TICK TomOscillator. The TICK TomOscillator is an indicator that uses recent closing TICK values to determine buying and selling interest at the end of the day. It was developed by Tom McClellan, and I made a minor % Rank adjustment for 1 type of readings. For those who would like to learn more about the TICK TomOscillator, including exactly how to calculate it, the link below is a good place to start.

<http://quantifiableedges.blogspot.com/2011/05/how-nyse-closing-tick-can-be-utilized.html>

The study below looks for an extremely low reading in conjunction with a short-term oversold price condition during a long-term uptrend. It last appeared in the 8/1/11 letter. I have updated it below.

TICK TomOscillator < -200 and SPX closes at a 5-day low. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	18,004.03	21	16	5	76.19	2,301.32	4,119.18	-3,763.41	-13,993.88	0.61	1.96	857.33
9	22,648.71	21	17	4	80.95	2,223.54	4,262.08	-3,787.86	-10,059.36	0.59	2.49	1,078.51
8	20,464.68	21	17	4	80.95	2,188.86	4,443.72	-4,186.48	-14,092.68	0.52	2.22	974.51
7	19,250.93	21	16	5	76.19	2,011.61	4,205.84	-2,586.97	-8,018.76	0.78	2.49	916.71
6	15,368.98	22	17	5	77.27	1,903.75	4,945.06	-3,398.96	-7,966.32	0.56	1.90	698.59
5	16,807.55	22	15	7	68.18	1,871.87	3,456.11	-1,610.08	-3,385.80	1.16	2.49	763.98
4	15,556.79	22	15	7	68.18	1,732.32	4,190.40	-1,489.71	-3,863.84	1.16	2.49	707.13
3	26,241.69	25	19	6	76.00	1,812.79	5,471.10	-1,366.89	-2,558.68	1.33	4.20	1,049.67
2	25,486.65	26	22	4	84.62	1,372.89	4,041.90	-1,179.25	-2,943.71	1.16	6.40	980.26
1	20,407.44	32	23	9	71.88	1,186.99	4,396.50	-765.92	-1,953.32	1.55	3.96	637.73

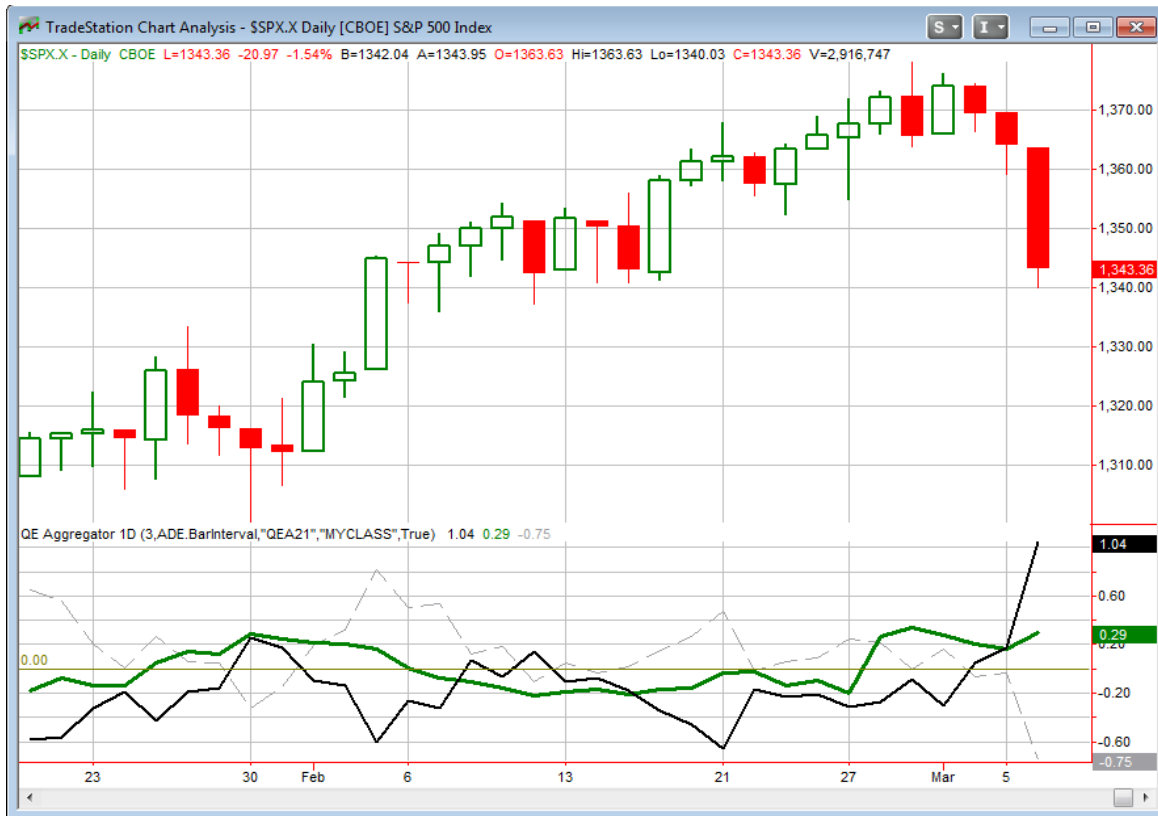
There has been a strong propensity for the market to bounce over the next 2 days. Below is an equity curve that shows how the edge has played out over time.



After an incredibly steady upslope, the last 2 instances have not fallen in line. I'm not inclined to get worked up about 2 instances, but of course I will continue to monitor the shape of this curve going forward.

Subscribers that are Tradestation users and would like to place the TICK TomOscillator on their own charts may find it among the [QE Indicators/Functions for Tradestation](#). [code](#).

I have updated the [Aggregator](#) chart below.



With tonight's bullish studies the green Aggregator line is now even more positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line is farther above 0 than it has been in some time. A positive Differential reading means the SPX has underperformed expectations over the last few days. So net expectations are bullish and the SPX is strongly oversold versus recent expectations. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator System to remain long at the close. This was indicated on the Systems page before the bell.

Based on the current evidence, expectations are scheduled to remain positive on Wednesday. Of course this could change if solid bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,380.31 on Wednesday. This is a whopping 2.75% above Tuesday's close. That is unlikely to be achieved in one day. For the oversold condition to be worked off it is likely going to take a multi-day bounce or consolidation.

I am glad I was able to exercise a little patience with this pullback. It now seems I may be in good position to take advantage of it. According to tonight's studies the probabilities of a quick bounce appear quite high. I feel it is time for me to start taking long index exposure, and because the edges appear very short-term I will do so a little more aggressively than usual. Details are in the Trade Ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)– *updated 3/5 – moderately bullish*

The intermediate-term outlook was last updated in the 3/5/12 letter. A link is below:

[2012-03-05 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

CAT – buy 1/3 position @ \$112.49 limit (filled at \$111.55)

CAT – buy 1/3 position @ \$110.09 limit (filled at \$106.57)

New

CAT – buy 1/3 position @ \$105.93 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3/1(CAT-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.

CAT – buy 1/3 position @ \$105.93 limit. This is 3rd and final entry for this Catapult.

SPY – buy ¼ index position @ \$134.95 limit. Based on the short-term outlook above. This limit price is a bit above the Tuesday closing high. This will give me a better chance at a fill if the SPY gaps up in the morning.

SPY – buy ¼ index position @ \$134.75 limit Based on the short-term outlook above. If I can get filled at Tuesday’s closing level then I will take this 2nd lot as well.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
CAT(1/3)	3/5/2012	\$111.55	\$105.93	-5.04%		Catapult
CAT(1/3)	3/6/2012	\$106.57	\$105.93	-0.60%		bought on open
XIV(1/2)	3/6/2012	\$8.48	\$8.35	-1.53%		bought on open

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